

City of Newport Beach General Fund Long Range Financial Forecast

Fiscal Years 2022-2041



**Finance
Committee**

February 18, 2021



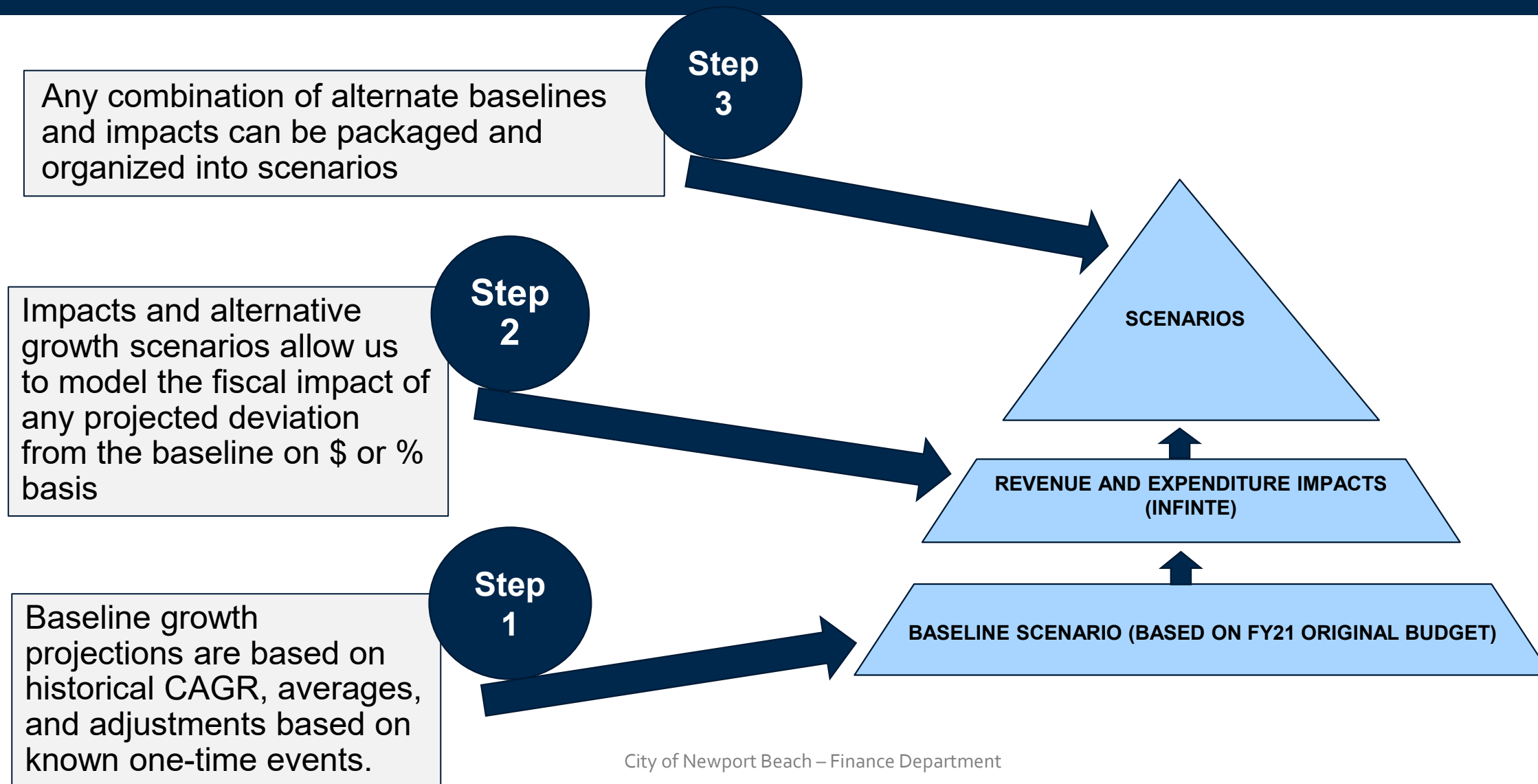
Modeling Platform

- Synario is SaaS-based financial modeling platform designed for mission-critical decision support
- Allows users to perform multi-dimensional projections using various assumptions simultaneously
- More stable than Excel - no more crashing
- It allows staff to validate projection logic, results, and manage model among multiple users
- Synario is owned by PFM
- Annual subscription fee is \$12,500





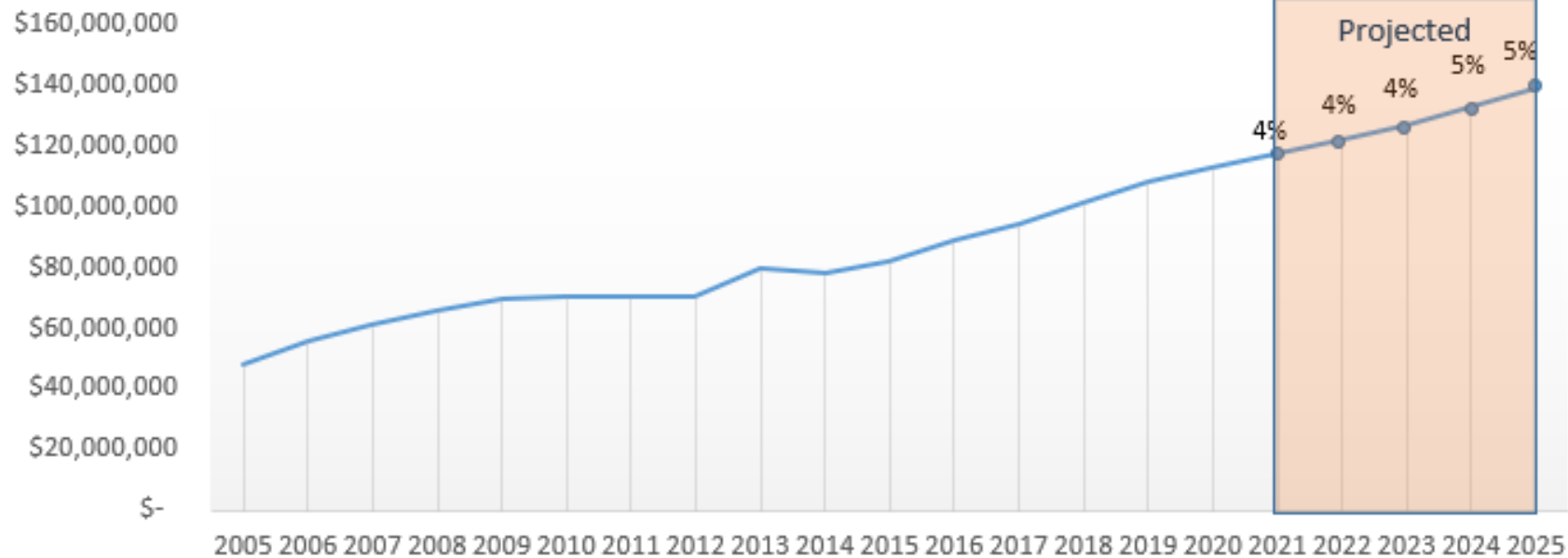
Model Hierarchy and Development





Property Tax Baseline Assumptions

Property Tax Revenue FY 2005-2025



Accounts/Groupings in This Category:

- Secured Property Tax
- Unsecured Property Tax
- Supplemental Taxes
- RDA Residual
- Prior Year Penalty/Interest

AVERAGE HISTORICAL GROWTH: 6.0%

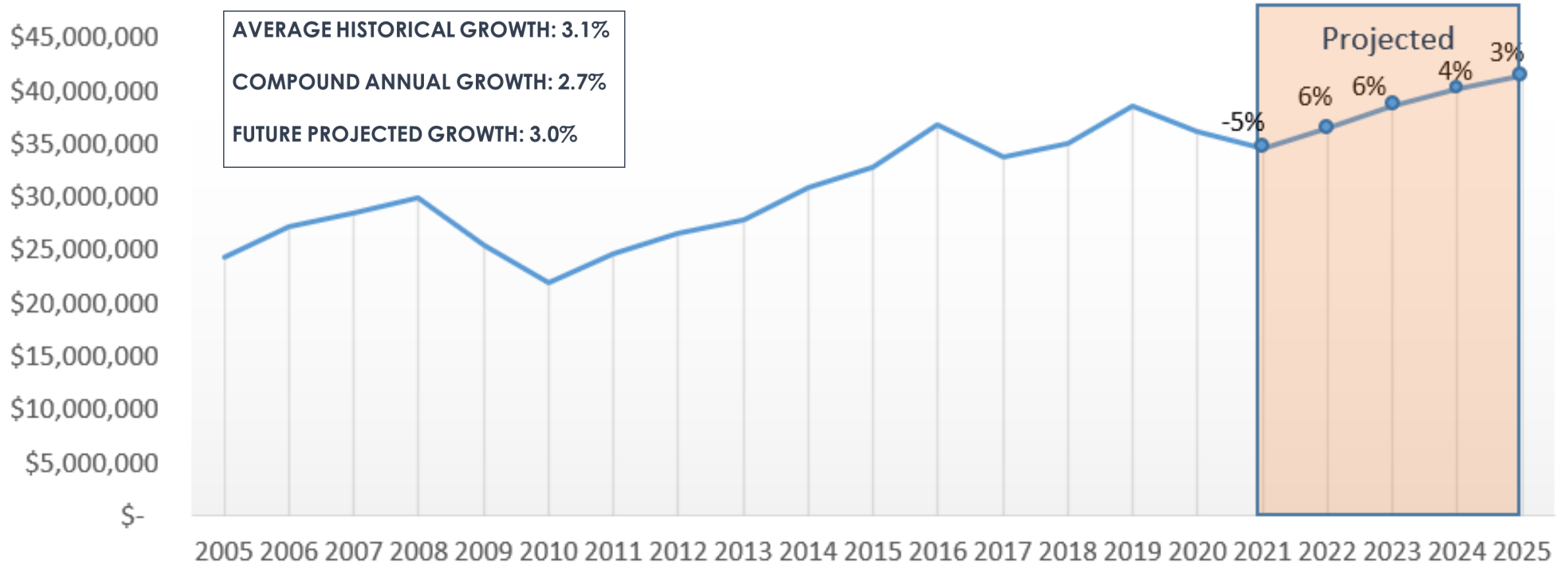
COMPOUND ANNUAL GROWTH: 5.9%

FUTURE PROJECTED GROWTH: 5.0%



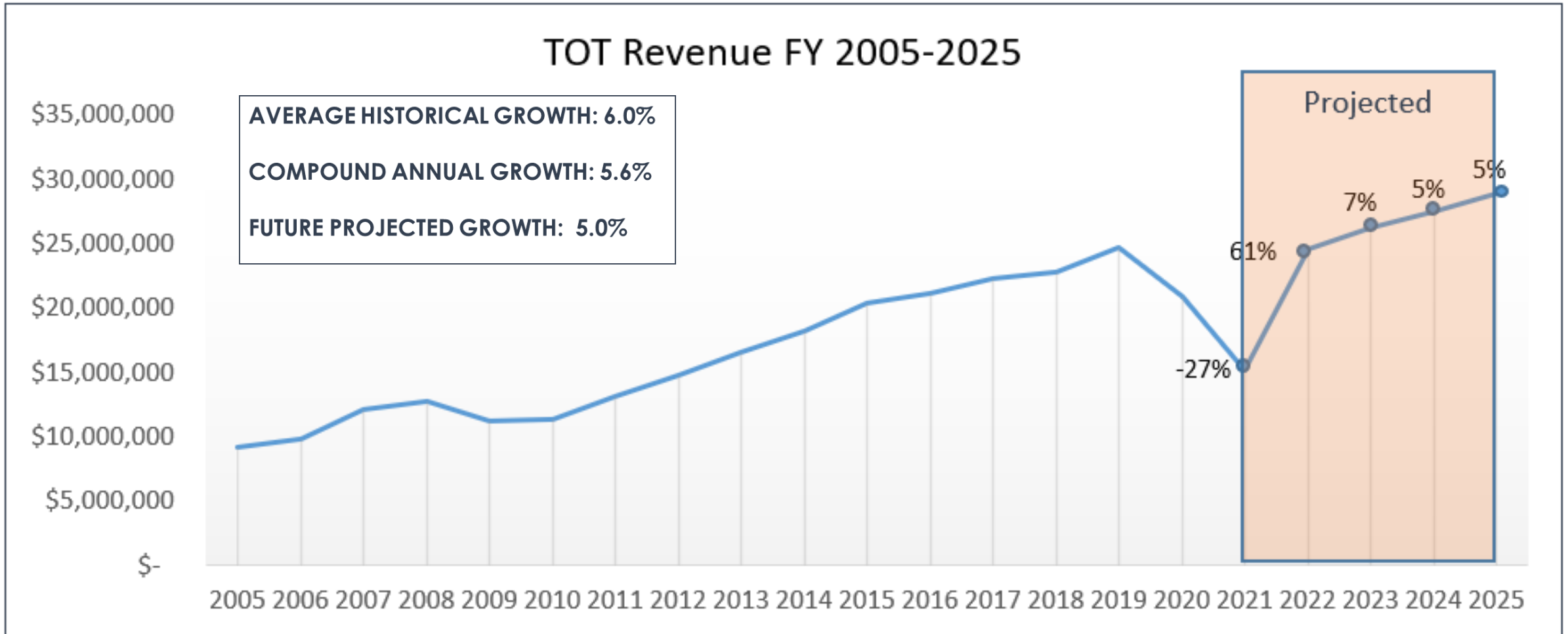
Sales Tax Baseline Assumptions

Sales Tax Revenue FY 2005-2025



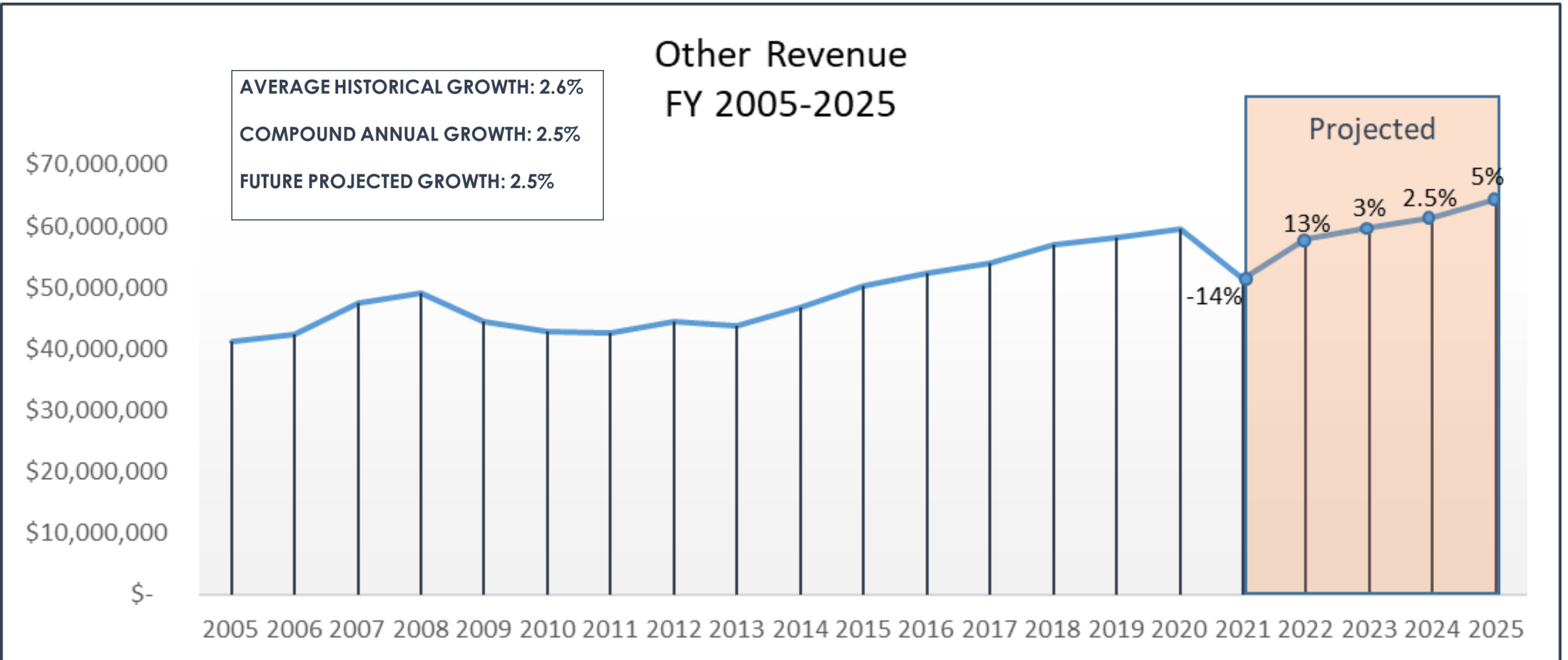


Transient Occupancy Tax Baseline Assumptions



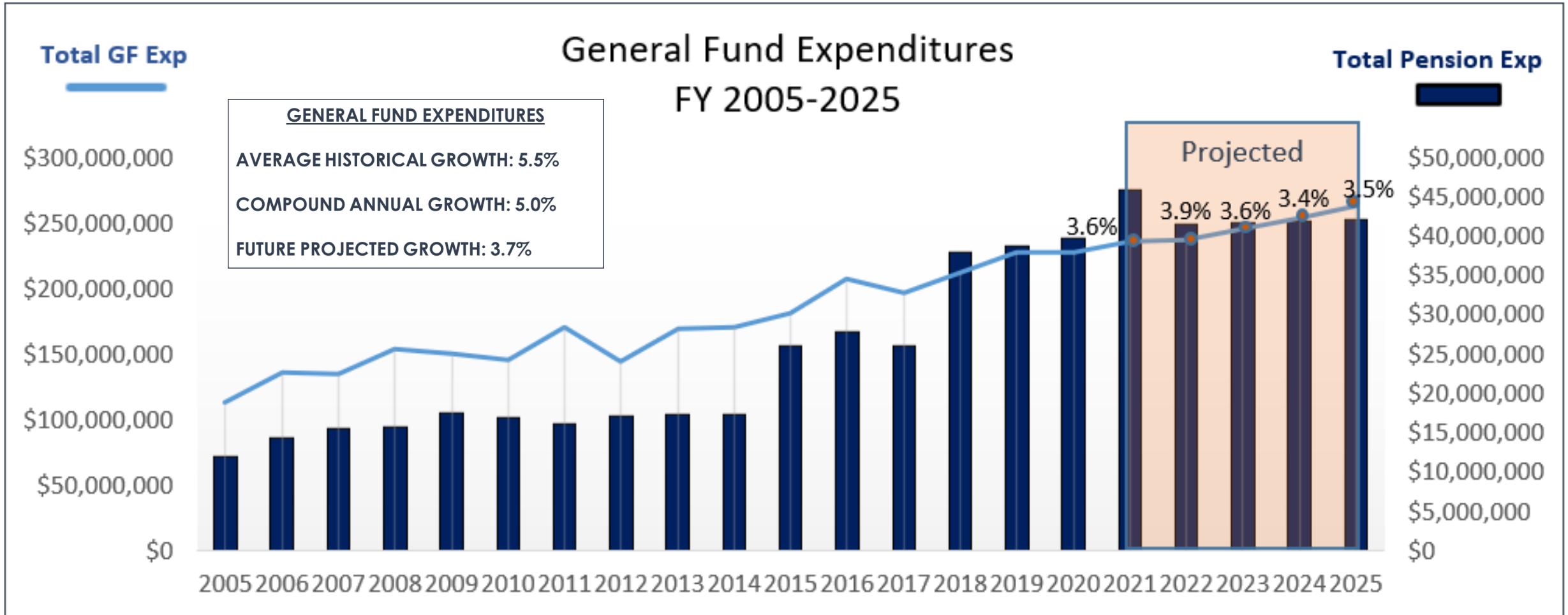


Other Revenue Baseline Assumptions





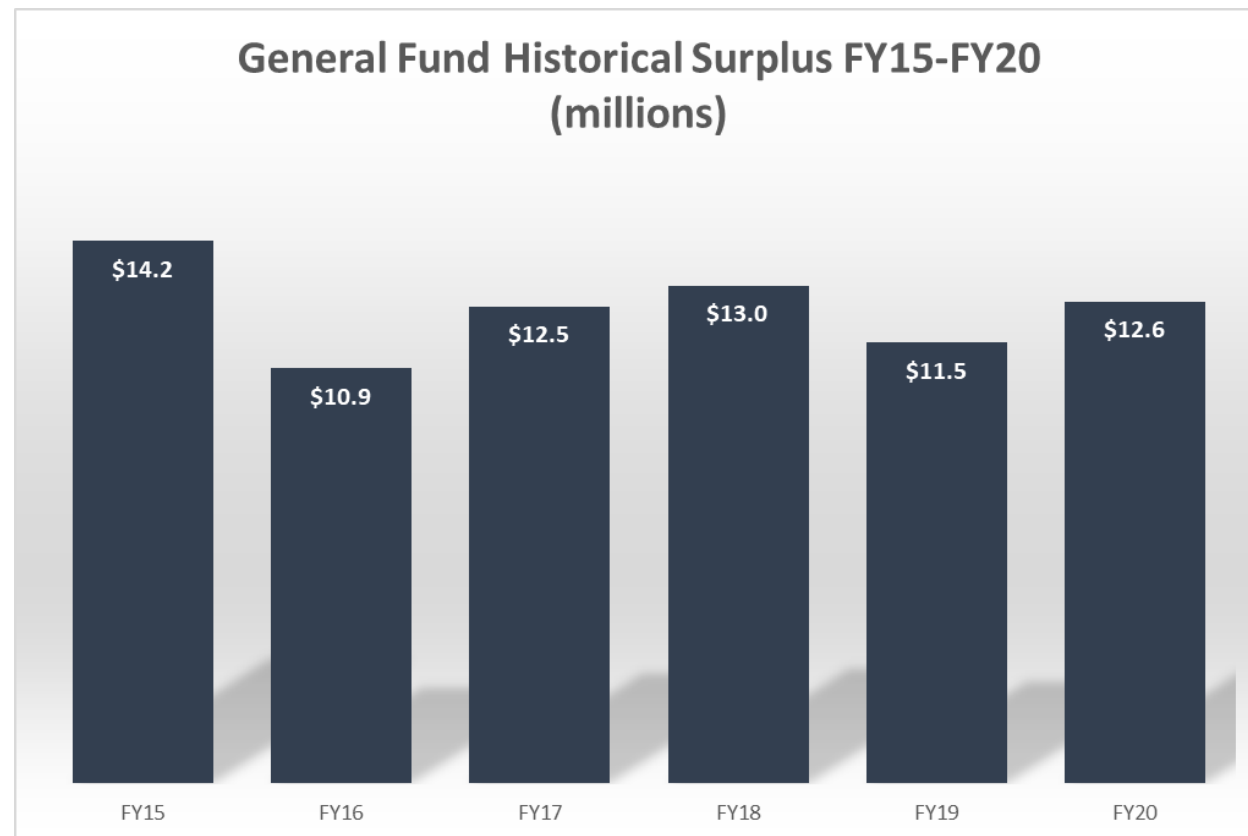
General Fund Expenditures Baseline Assumptions





Assumptions Common to All Scenarios

- All projections are based on the FY21 Original Budget with some adjustment for one-time items.
- Annual General Fund transfers in support of:
 - FFP - \$8.5m up to \$12m in out years
 - CIP - \$5m annually
 - Facilities Maintenance - \$1.5m
 - 800 Mhz Radio – \$0.5m
 - Tidelands Harbor Capital –\$4.5m annually
 - Contingency Reserve (25% of expenditures, less discretionary pension funding)
- No assumed surpluses or use of FY20 surplus





Funding for Homeless Strategies

Partnership with Costa Mesa on Permanent Homeless Shelter

- 20 beds allocated to Newport Beach, 5 Year Agreement
- Capital Contribution of \$1.6M, funded from Affordable Housing Reserve and Hoag Development Agreement
- Annual operating cost of \$1M to begin when Shelter opens, anticipated early April
 - Hoag contribution: \$300,000 annually for 10 years for homeless shelter costs

Permanent Supportive Housing Partnership with PSH Developers

- Proposed City Contribution - \$3,000,000
- Potential Funding sources: Development Agreements – Affordable Housing contributions, General Fund surplus

	2022	2023	2024	2025	2026	2027-2035	Total 2022-2041
Homeless Shelter	\$3,700,000	\$730,000	\$760,900	\$792,727	\$825,509	\$20,061,239	\$26,870,374



Refuse/Recycling Contract Increase

Additional Annual Costs

Alternative 1: Residential Refuse Collection – \$2,900,000 increase with 2% annual adjustment

Additional Revenue Opportunity

Citywide Recycling Fee Increase to fully recover current recycling costs – potential new revenue of \$1,361,000

- Public Hearing on March 23, 2021

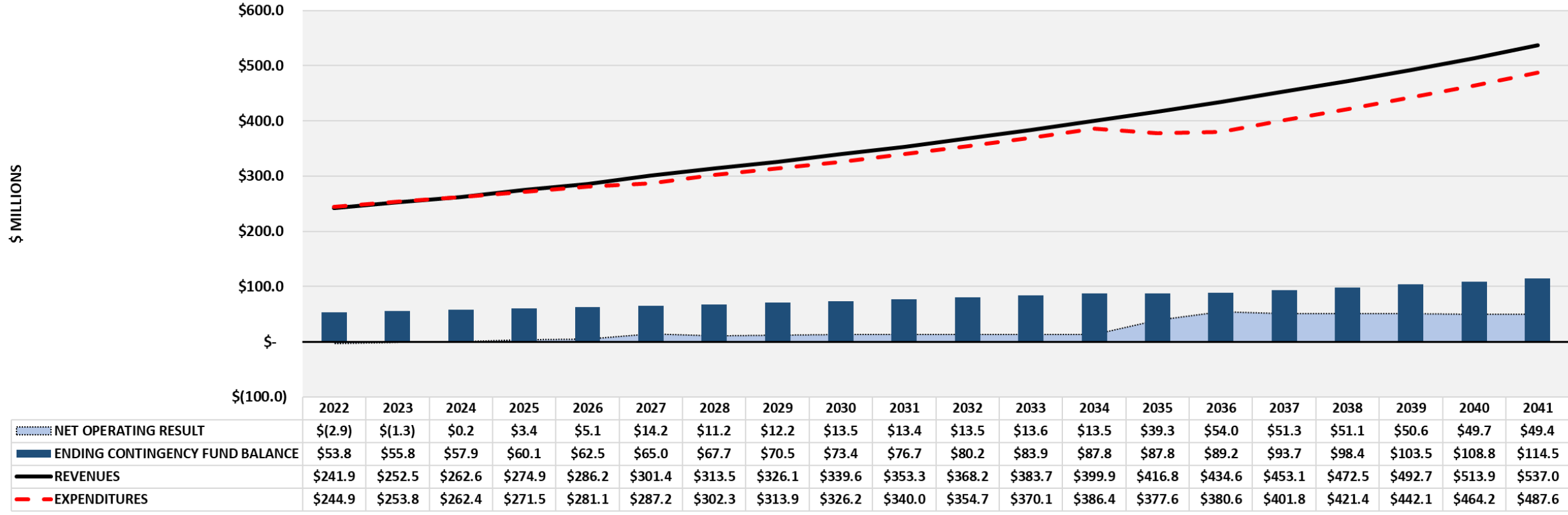
Alternative 2: Net Cost to the General Fund if fee approved - \$1,539,000

	2022	2023	2024	2025	2026	2027-2035	Total 2022-2041
Refuse Alt 1	\$2,900,000	\$2,958,000	\$3,017,160	\$3,077,503	\$3,139,053	\$55,370,656	\$70,462,372
Refuse Alt 2	\$1,539,000	\$1,569,780	\$1,601,176	\$1,633,199	\$1,665,863	\$29,384,634	\$37,393,652



Scenario 1: Baseline

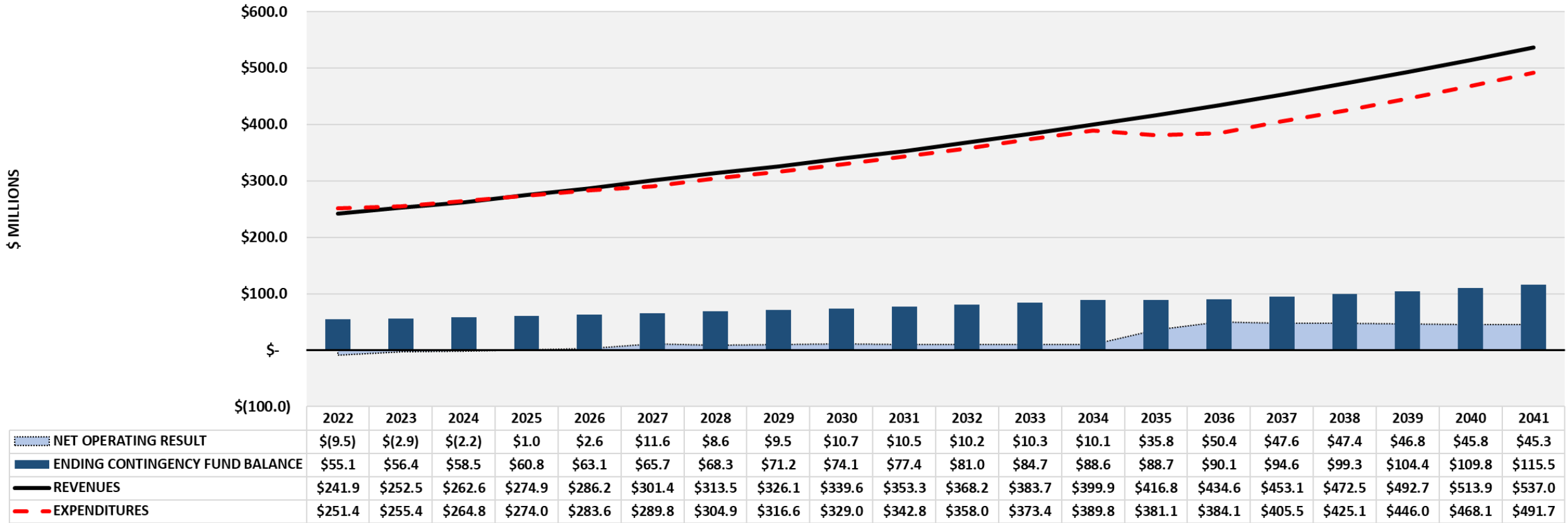
GENERAL FUND REVENUES, EXPENDITURES & NET OPERATING RESULT (SURPLUS/DEFICIT) - BASELINE





Scenario 2: Homeless Strategy and Refuse Opt 1

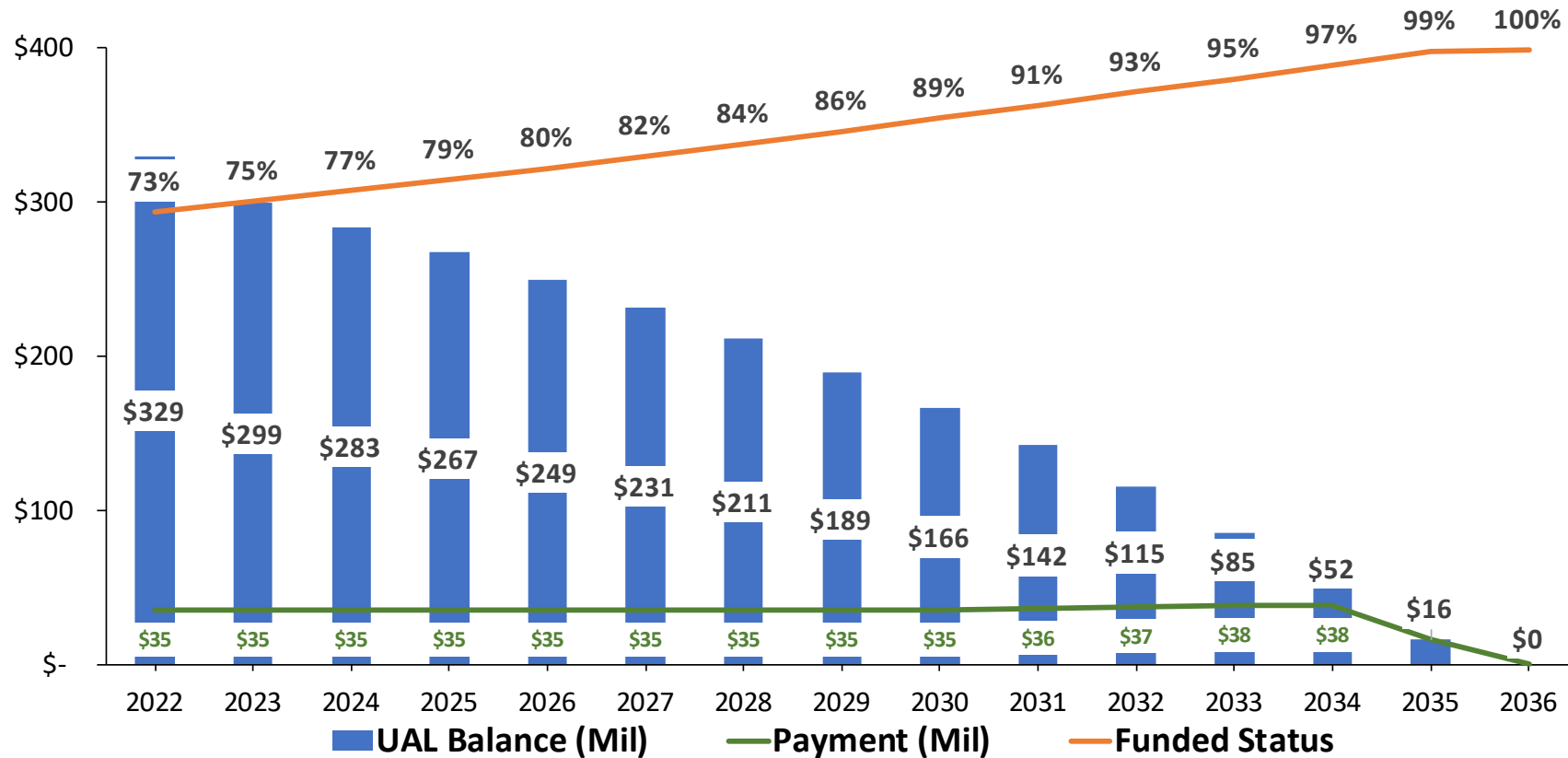
GENERAL FUND REVENUES, EXPENDITURES & NET OPERATING RESULT (SURPLUS/(DEFICIT) - HOMELESS STRATEGY, REFUSE OPTION 1



	2022	2023	2024	2025	2026	2027-2035	Total 2022-2041
Homeless Shelter	\$3,700,000	\$730,000	\$760,900	\$792,727	\$825,509	\$20,061,239	\$26,870,374
Refuse Alt 1	\$2,900,000	\$2,958,000	\$3,017,160	\$3,077,503	\$3,139,053	\$55,370,656	\$70,462,372
TOTAL	\$6,600,000	\$3,688,000	\$3,778,060	\$3,870,230	\$3,964,562	\$75,431,895	\$97,332,747



Impact of Continued \$35 Million Payments on Funded Status and UAL



Source: CalPERS Pension Outlook Overview tool
Assumed 7% investment return



Additional Discretionary Pension Funding Options 2022-2041

- Finance Committee and City Council reviewed several scenarios last year for addressing anticipated future CalPERS investment return challenges
- Current intention is to fund additional discretionary contributions from surplus
- Options available
 - Option 1: Move forward with an additional \$5 million contribution from surplus in FY22
 - Option 2: Additional \$5 million for five years (FY 21-25)
 - Option 3: Additional \$5 million for five years (FY 21-25) followed by a reduced \$2 million per year until UAL eliminated
 - Option 4: Return to the prior \$35 million per year contribution strategy (baseline)

General Fund 95% of Total Pension Contributions

	2022	2023	2024	2025	2026	2027-2035	Total 2022-2041
Pension Option 1	\$4,750,000						\$4,750,000
Pension Option 2	\$4,750,000	\$4,750,000	\$4,750,000	\$4,750,000			\$19,000,000
Pension Option 3	\$4,750,000	\$4,750,000	\$4,750,000	\$4,750,000	\$1,900,000	\$17,100,000	\$38,000,000



Conclusion and Other Considerations

- Any projected deficit in the model is not reflective of likely and typical budget performance (actual revenues higher than budgeted, expenditures less than budgeted)
- The General Fund is projected to be in a financially sound position over the next 20-year period
- Short term deficits can be absorbed without long-term reliance on Contingency Reserve – No structural deficit is apparent
- The City is not without its fiscal challenges. The City is facing financially impactful events in the near term. These include near-term revenue impacts related to COVID, the potential for significant increases to CalPERS pension plans, homelessness funding strategies, refuse/recycling mandates and the need to ramp-up savings to meet substantial near-term harbor improvements in accordance with the Harbor & Beaches Master Plan.



Recommended Action

Staff recommends that the Finance Committee:

- Review and discuss
- Provide any recommendations for consideration by the City Manager and the City Council



Questions?