

# Long Range Financial Forecast

**June 7, 2022**

**Study Session**

**Office of Management & Budget**



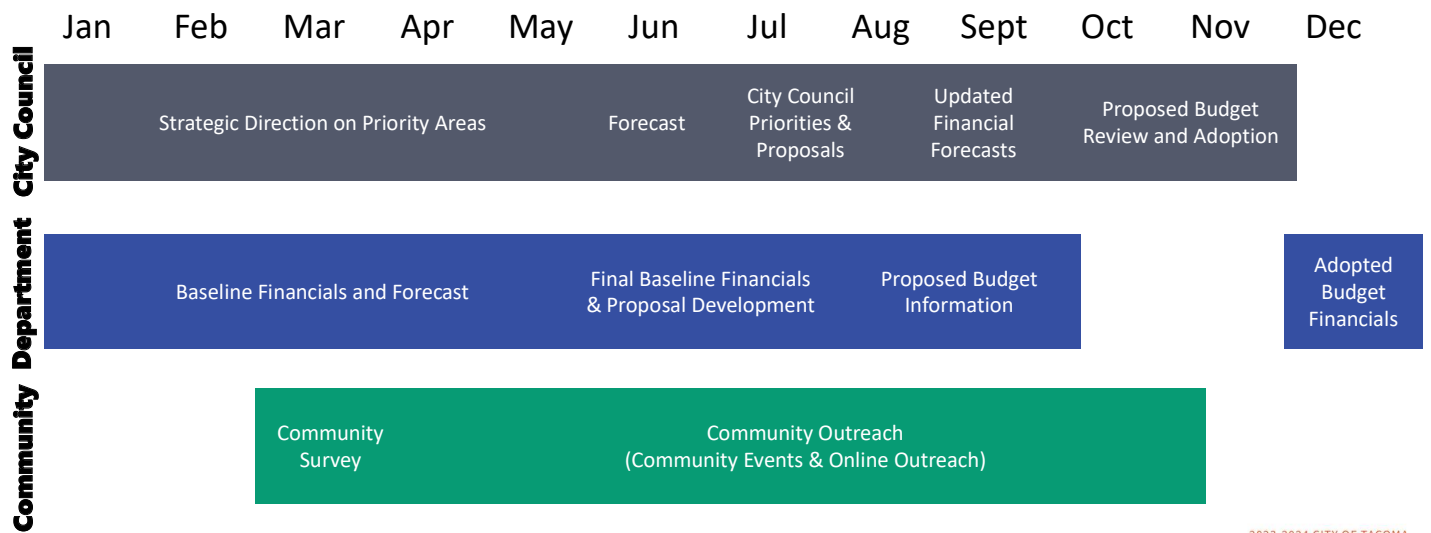
## Agenda

- Budget Process Overview
- Economic Conditions
- Financial Projections and Risks
- What issues are impacting the City's financial sustainability?
- What's next?
  - Options to address financial sustainability
  - Provide essential services while addressing priority areas and anti-racism goals

# Budget Process



## Budget Process



# Creating a Good Budget

## Creating a Good Budget

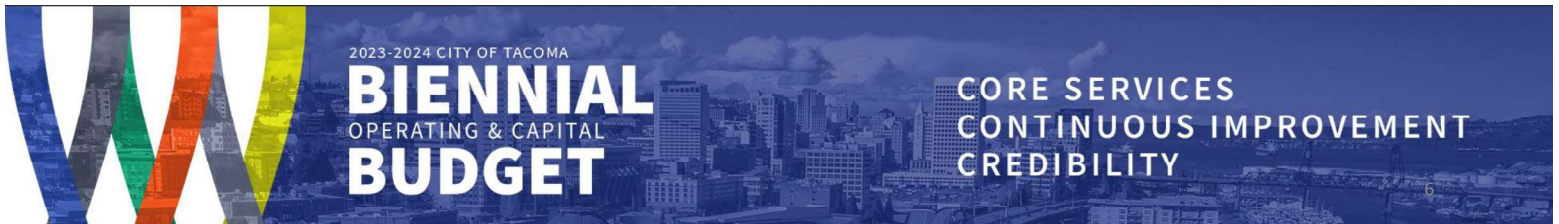
- Lead With Anti-Racism and Equity
- Incorporates a long-term perspective
- Establishes linkages to organizational goals
- Focuses on results and outcomes given available public resources
- Involves and promotes effective communication with stakeholders

## Long-Range Forecast

- 6-year basis
- Assumes status quo/current services and service levels continue
- Provides a snapshot of long-term structural sustainability of the City's tax base and expense base
- Facilitates discussions of long-term policies, such as infrastructure investments, labor and pension costs, and tax policies

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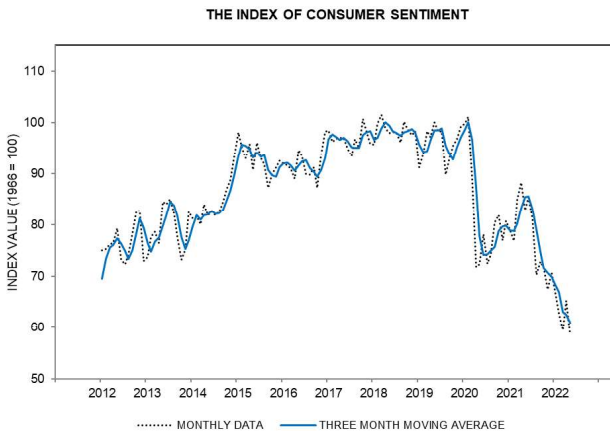
# Economic Conditions



# What's Good

- Unemployment - near record low
- Wage Growth - is back after years of no/slow growth
- Home Values - have been growing for multiple years in a row
- Consumer's Balance Sheets (as a whole) are still in good shape
  - Savings have increased
  - Real Estate values up
  - Stock Market Wealth (until recent trends)
- US Dollar – is strong
- Federal Reserve - raising interest rates from near 0%

# What's Not So Good?



# What's Not So Good

Gas Prices – are over \$4/gallon in all 50 states (first time)	Inflation – at a 40 year high	Consumer Confidence - dropping
War in Ukraine	Global Supply Chain Issues still impacting the economy	Interest Rates Increasing <ul style="list-style-type: none"><li>• Mortgage rates over 5%</li><li>• Rates on other Consumer Credit Raising</li></ul>
Wage Growth and the Wage Price Spiral	Home Values – growing at over 20% per year - unsustainable	Consumer's Balance Sheets – savings are falling, use of credit increasing
	Strong US Dollar – US exports are expensive for other countries	

## Future Risks

### Pro-longed War in Ukraine

- Will impact food prices, gas/fuel prices, energy prices, commodity prices

### COVID

- What will future spikes in COVID cases look like?
- Shutdowns or business as usual?

### China

- “Zero COVID” policy impacting global supply chains and
- Economic growth within China

### Recession?

- Can the Federal Reserve manage a “Soft Landing”?
  - 9 out of the last 11 times the Fed has raised interest to cool the economy they have caused a recession
  - Many major US banks are saying the chance of a recession is increasing

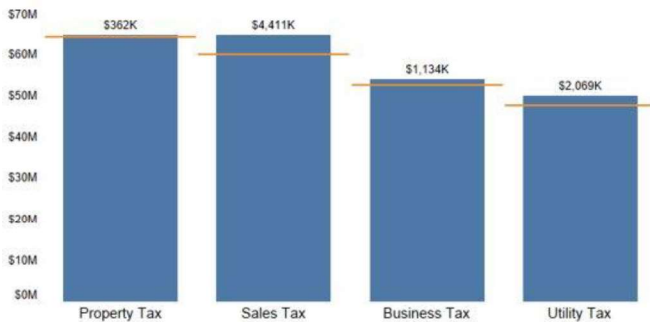
# Financial Projections



## Current Financials

### General Fund Position End of 2021

- Savings from Expenses \$2.9M
- Positive Revenues of \$8.3M



### General Fund Position as of April 2022

- Expenses \$5M Below Budget
  - Over \$2.8M in Non-Departmental due to transfer timing
  - Personnel has a 0.7% variance or approximately \$400K above budget
- Revenue \$8M Above Projection
  - Sales Tax up \$2.9M
  - Business Tax up \$1.1M
  - Utility Tax up \$1.6M

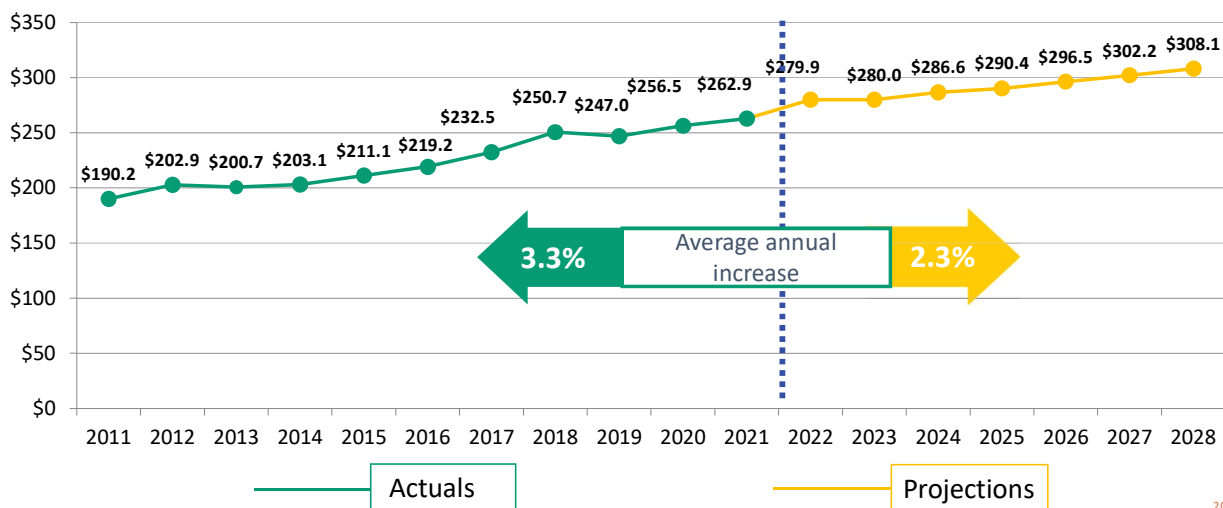
Positive Year End savings will add to cash balance for evaluation for use in the 2023-2024 Budget  
Trends in Revenues were used to update the revenue forecast for 2023-2028

# General Fund Revenues



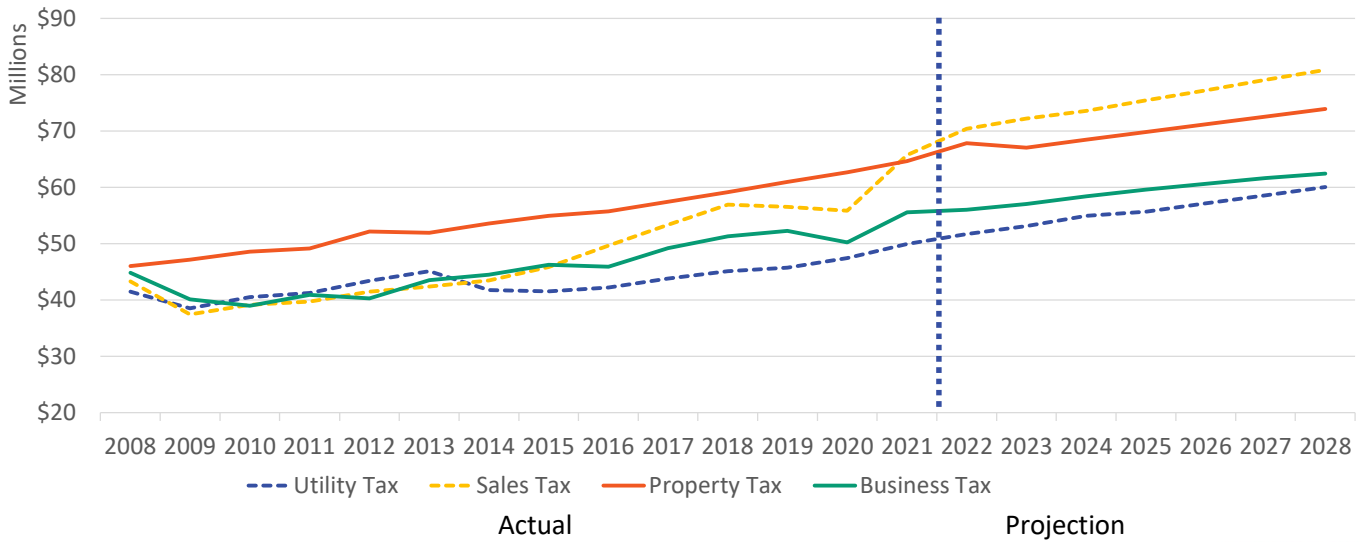
## All General Fund Revenues

(\$ in millions)



Note: Projection includes one-time revenues from ARPA to fund Fire Engine through 2024

# Major General Fund Revenues



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# General Fund Expenses

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CORE SERVICES  
 CONTINUOUS IMPROVEMENT  
 CREDIBILITY



# Expenditure Assumptions

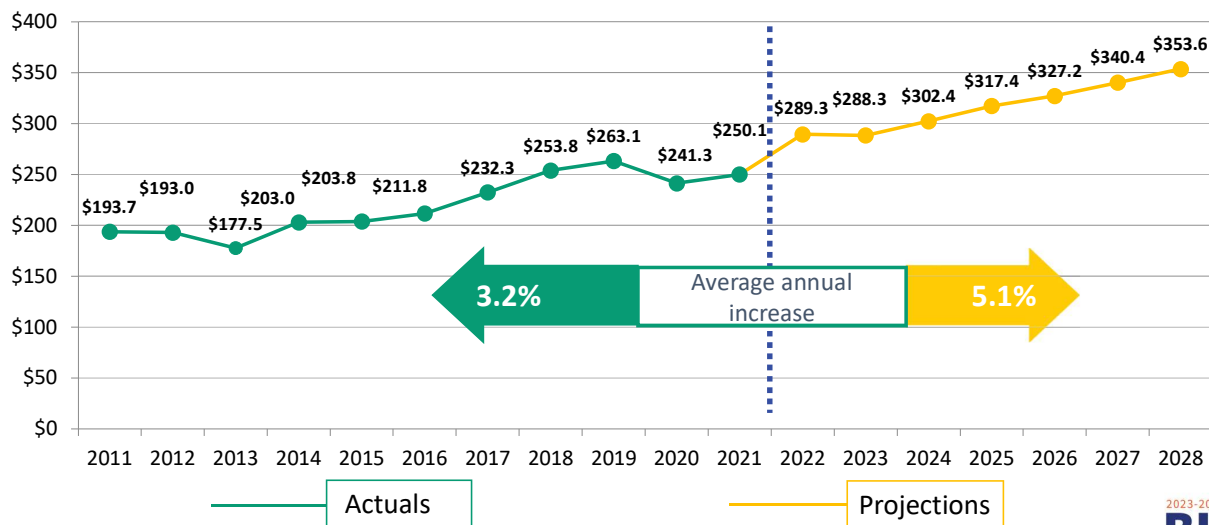
Reflects funding needed to provide ongoing City services

- Assumes salary and benefit increases based on contractual requirements and historical averages for represented and non-represented employees and includes projected increases in healthcare costs at 7-8%
- Forecasts fixed, operational, and maintenance costs which are highly uncertain given recent price inflation for fuel, construction, and services
- Contributes/transfers to the Streets fund (\$25M), Streets Initiative (\$6M), Parking (\$7.7M), Permitting (\$1.5M), and Traffic Enforcement, Engineering, and Engagement (\$0.5M)
- Removes temporary additions: one-time projects, studies and consultants, and technology upgrades. Restored one-time reductions: vacancy projections, fleet and street transfers
- Increases insurance costs and projections for risk related expenses (\$3M in Law Enforcement insurance and over \$1.4M in self-insurance)
- Baseline increases to NCS contracts, overtime for Public Safety, uniform and turnouts for Fire
- Incorporates \$8.8M in funding needs for Repair and Replacement (50% General Fund and 50% REET)

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# Total General Fund Expenses

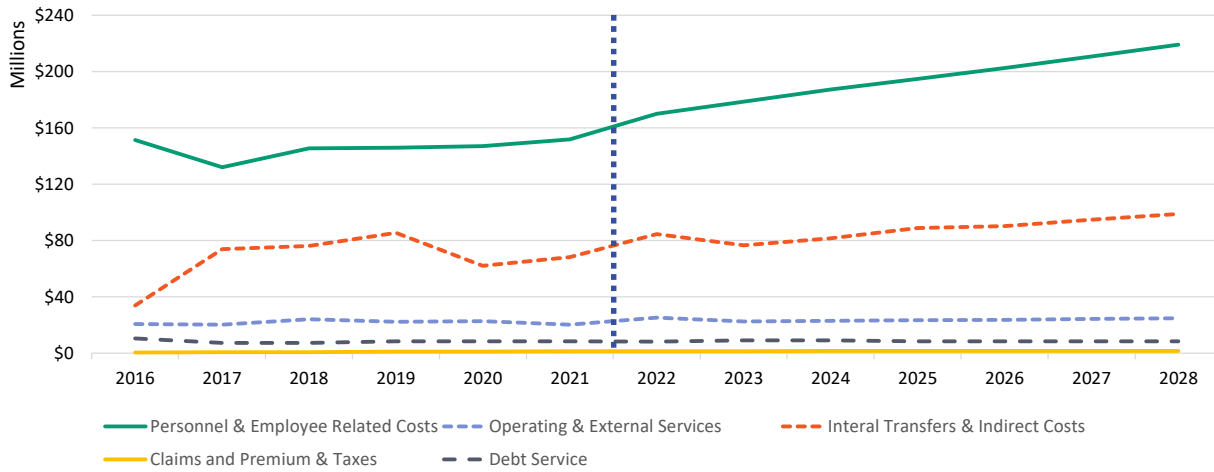
(\$ in millions)



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# General Fund Expenses by Cost Category

(\$ in millions)

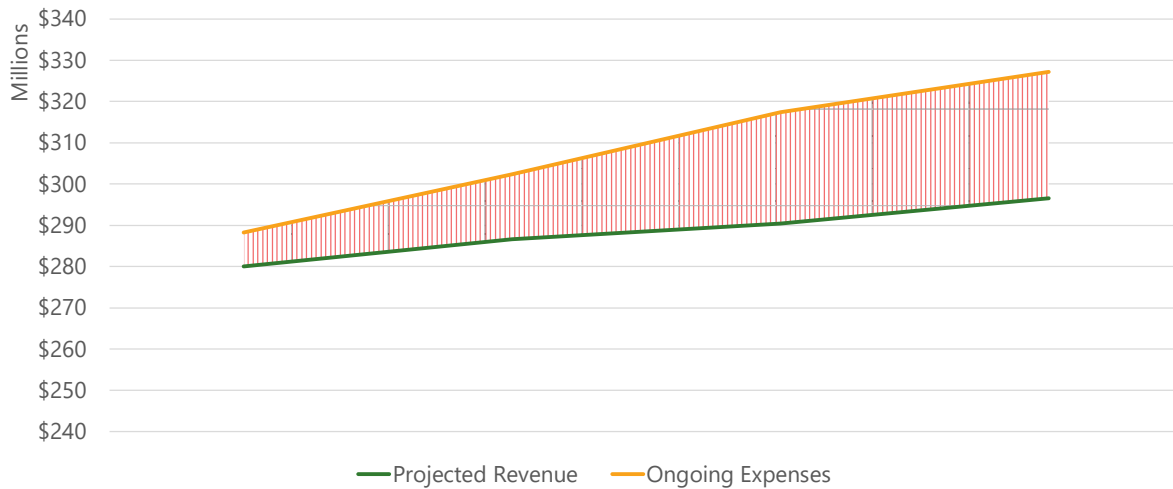


Actual

Projection

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# GENERAL FUND FINANCIAL FORECASTS

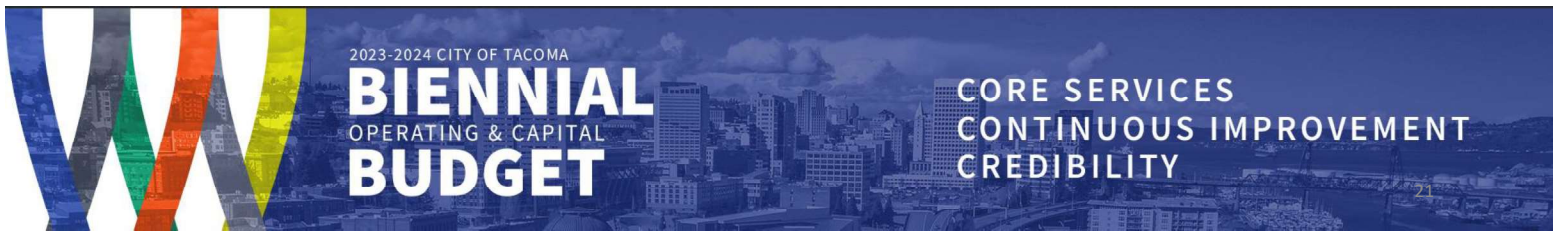


	2023	2024	2025	2026	2027	2028
Baseline Structural Gap	-\$8.3M	-\$15.7M	-\$27.0*	-\$30.7*	-\$38.2*	-\$45.4*

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\*Includes losing ARPA funding for Fire Engine Service in 2025

# Other Major Funds



## Related Special Revenue Trends

Federal Funds	Emergency Medical Services	Real Estate Excise Tax	Sales Tax Related Funds	Street Funding - Sales, Property, Utility Tax
<ul style="list-style-type: none"> <li>• City of Tacoma received Federal Funds totaling \$71.5M (ARPA, ERA, Shuttered Venues, CARES, ESG, &amp; CDBG) Related to Pandemic Aid in 2020-2021</li> <li>• City will receive \$30.5M from ARPA in 2022 for use through 2026</li> </ul>	<ul style="list-style-type: none"> <li>• Call volume and transport activity has significantly increased, along with operating costs of the EMS program.</li> <li>• Property tax has grown more slowly and the other consistent revenue that supports the program is related to transport activity and the patient payer mix</li> </ul>	<ul style="list-style-type: none"> <li>• Strong REET performance through the pandemic due to property sales volumes</li> <li>• 2021 actuals were up 60% compared to 2019</li> </ul>	<ul style="list-style-type: none"> <li>• Strong Sales Taxes benefit dedicated revenue funds such as the affordable housing, mental health and substance use disorder, Tacoma Creates and Streets Initiative</li> <li>• Volatility of Sales tax means that these funds and priorities bear risk if there is a drop</li> </ul>	<ul style="list-style-type: none"> <li>• Streets Initiative</li> <li>• Sales Tax</li> <li>• Property Tax</li> <li>• Utility Tax</li> <li>• Street Operations</li> <li>• Costs for street operations and services growing faster than revenues (bids received for paving streets have doubled in two years.)</li> </ul>

● ● ● Relative Fund Sustainability

# Enterprise Funds

Permitting	Environmental Services	Parking	Tacoma Venues and Event Funds
<ul style="list-style-type: none"> <li>Downward trend in permit volumes and revenues due to economic issues such as rising interest rates and inflationary pressures</li> <li>The Permit Fund has sufficient cash reserves to assist in bridging this period of declining revenues</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs due to construction inflation (25%+) in utility projects</li> <li>Wastewater commercial revenues remain \$1.5 M below pre-pandemic levels</li> <li>Other expenses increased beyond assumptions and are projected to increase further</li> </ul>	<ul style="list-style-type: none"> <li>Revenues are at 43% of pre-pandemic levels (2019)</li> <li>Must pay debt service of \$2.7M annually, debt service drops by 64% in 2025-2026</li> </ul>	<ul style="list-style-type: none"> <li>Federal funding has helped to offset revenue impacts of the past few years</li> <li>Projected to be able to cover expenses with revenues and strong sales tax (Convention Center)</li> <li>Will continue to have issues funding deferred maintenance needs (particularly at the Dome and Theaters)</li> </ul>

● ● ● Relative Fund Sustainability

## What issues are impacting the City's financial sustainability?

- Cyclical economic periods, inflationary pressures, and uncertainty
- Constraints on revenue options, such as State limits on property taxes
- Development and population growth drives demand for services
- Community need for new, different, and expanded services, especially in priority areas



# What's Next?



## Ways to Address the Gap & Reprioritize Services

### Reduce Expenses

- Update costs to reflect service level or demand
- Reduce services levels
- Stop offering a program
- Is a service duplicated or not achieving results in priority areas?

### Re-Structure Revenues or Costs

- Evaluate how programs are allocating current revenues or staff time

### Identify New Revenues or Update Revenues

### Propose Increased Service Levels or New Services

- Focus on Council and Community Priority Areas, Adopted Plans and Policies, and Community Feedback

# Revenue Options

	Authority	Revenue Generation	Notes
Gross Earnings Tax	Voter Approval	Up to approximately \$3M	Currently at 8% Max for all major utilities excluding Power and Natural Gas (7.5%). Maximum can be increased through charter change
Business and Occupation Tax	Councilmanic	Upwards of \$10M	Increasing to the maximum is almost double for some categories (with voter approval can go higher than maximum)
Property Taxes - Levy Lid Lift <ul style="list-style-type: none"> <li>• General</li> <li>• EMS</li> <li>• Affordable Housing Levy</li> </ul>	Voter Approval	<ul style="list-style-type: none"> <li>• Capacity above \$100M annually</li> <li>• EMS -\$7.9M Annually</li> <li>• Affordable Housing - \$18.6M Annually</li> </ul>	Can be permanent or temporary, can also be structured for bonding
Business Licenses Fees	Councilmanic	Upwards of \$3M annually	Adjusted regularly to reflect CPI changes. Hasn't been updated in 5 years. Can increase beyond this level.
Impact Fees	Councilmanic	Varies Significantly	No Impact Fees. Helps offset costs related to increased population and development pressures
Excise Taxes (for example Head Tax)	Councilmanic	Varies Significantly	Can be structured in a variety of ways
Other Fines and Fees	Councilmanic	Varies Significantly	Adjusted regularly to reflect CPI changes and cost of service

27 \*Bonding often comes up as a revenue source. Since it requires a revenue source to pay for debt service, it is not shown as a new revenue.

# ARPA Status Report

- **Aspen Court (\$5M)** - property is at capacity, housing 104 individuals
- **Emergency Sheltering (\$2M)** - 82nd & Pacific location is open and operational, 23rd and MLK has started construction
- **Food Insecurity (\$0.97M & 0.37M City Funds)** - 16 food banks supported, 58,350 individuals served, over 37M pounds of food distributed
- **Enhanced Encampment Response (\$0.3M)** - 1.5M pounds of debris removed
- **HIRE Program (\$0.24M)** - 32 individuals served
- **Small Business Support (\$2.4M)** - 176 grants awarded from over 400 applicants
- **Nonprofit Recovery Grants (\$0.85M ARPA & \$0.5M City Funds)** - 31 grants awarded from a total of 83 applications
- **Window Replacement (\$0.343M)** - 182 businesses served
- **Participatory Budgeting (\$2.5M)** - District 4 Community Leadership Team assembled and completed outreach manual, plan to begin idea collection and proposal phase in August

# Budget Process



Jan    Feb    Mar    Apr    May    Jun    Jul    Aug    Sept    Oct    Nov    Dec

**City Council**  
**Department**  
**Community**

Strategic Direction on Priority Areas	Forecast	City Council Priorities & Proposals	Updated Financial Forecasts	Proposed Budget Review and Adoption
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Baseline Financials and Forecast	Final Baseline Financials & Proposal Development	Proposed Budget Information	Adopted Budget Financials
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Community Survey	Community Outreach (Community Events & Online Outreach)
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