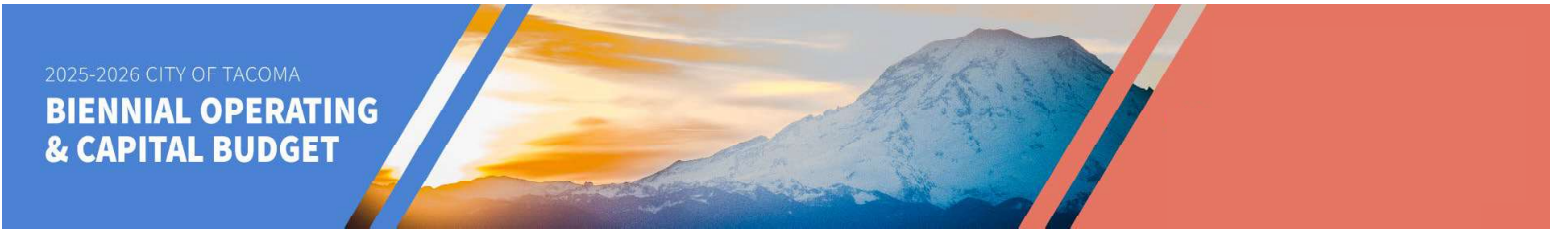


# Long Range Forecast

June 2024



## Agenda

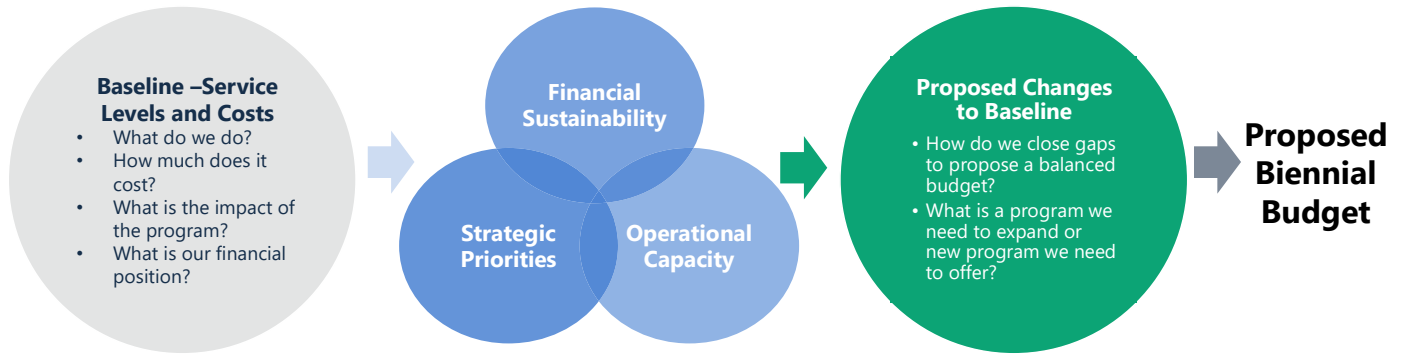
- Budget Process Overview
- Economic Conditions
- Financial Projections
- What's next?

## Building Public Trust



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# Budgeting Approach



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# Creating a Good Budget

## Creating a Good Budget

- Leads 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 polices

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# Economic Conditions

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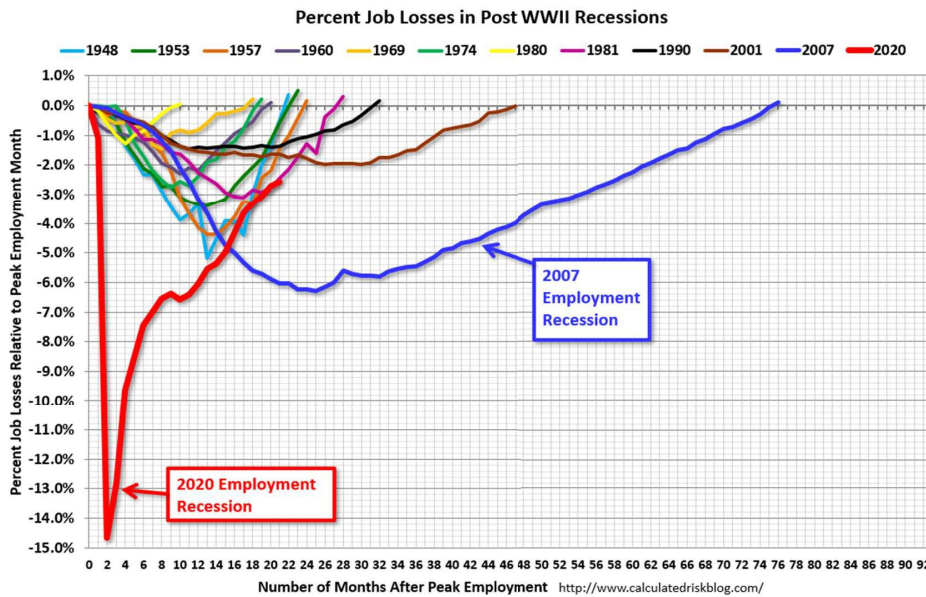
## Summary

- Consumer Spending is 60%-70% of economic activity (GDP)
- Consumers have spent down COVID savings
- Consumer Borrowing is reaching all-time highs
- Delinquency rates are increasing
- Wage growth is slowing down
- Consumer behavior is changing
- People on the lower end of the economic scale get hit first and hit hardest

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# COVID Recession



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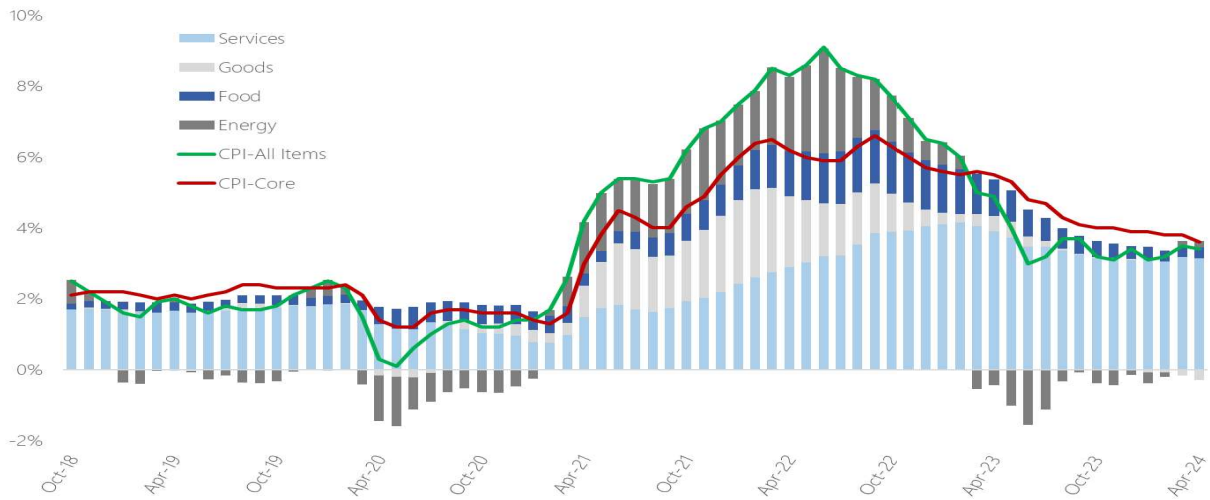
# Post-COVID

- Revenues in 2021-2022 were strong due to increased consumer spending
- Trillions in federal dollars boosted consumers balance sheets
  - \$400/wk in additional unemployment, tax credits (children, working families), student loan payment deferral, utility bill assistance, eviction moratoriums
- Supply chain issues impacted demand for goods
  - As COVID restrictions eased, people wanted to buy more stuff
  - The global supply chain could not keep up, causing prices to rise (inflation)
  - Inflation increased overall consumer spending numbers
- Labor Market recovered as demand for labor grew as consumers were demanding more goods and services
- Wages grew as the demand for labor grew

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# Inflation



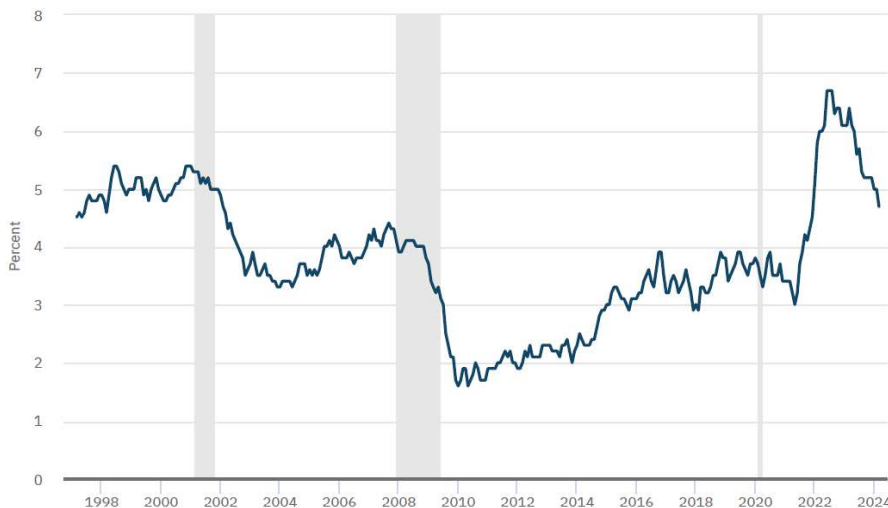
Source: Bureau of Labor Statistics, courtesy of Hilltop Securities

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# Wages

## Wage Growth Tracker

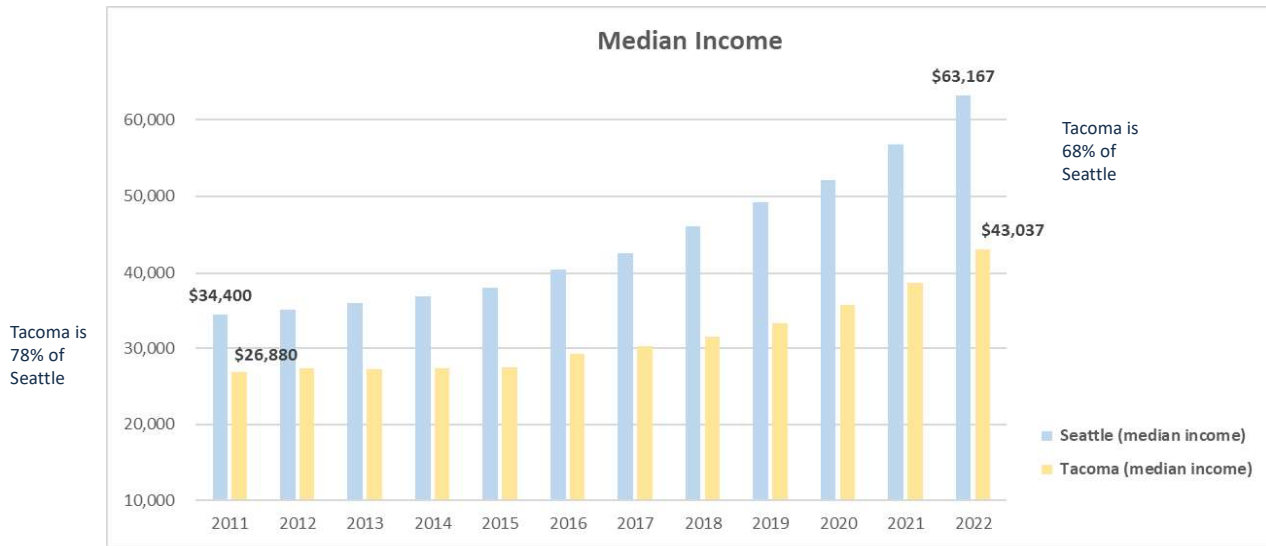
three-month moving average of median wage growth, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

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# Median Income



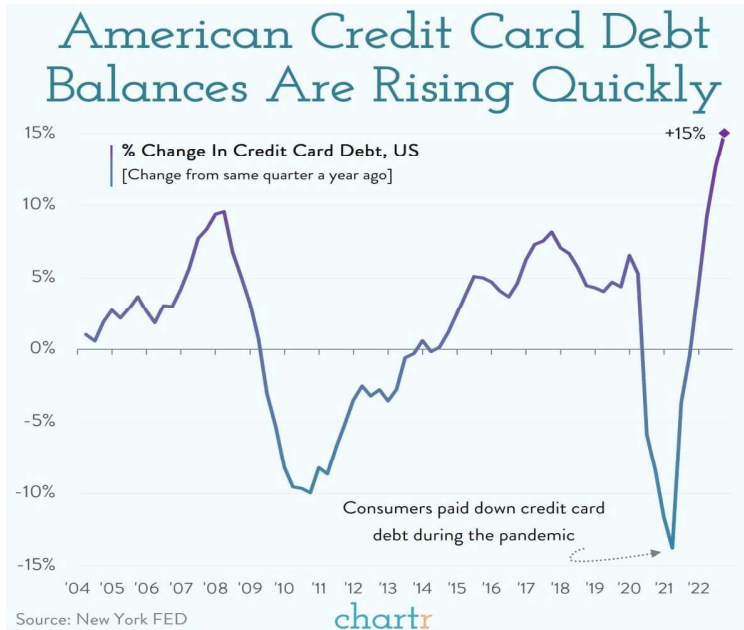
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# Savings



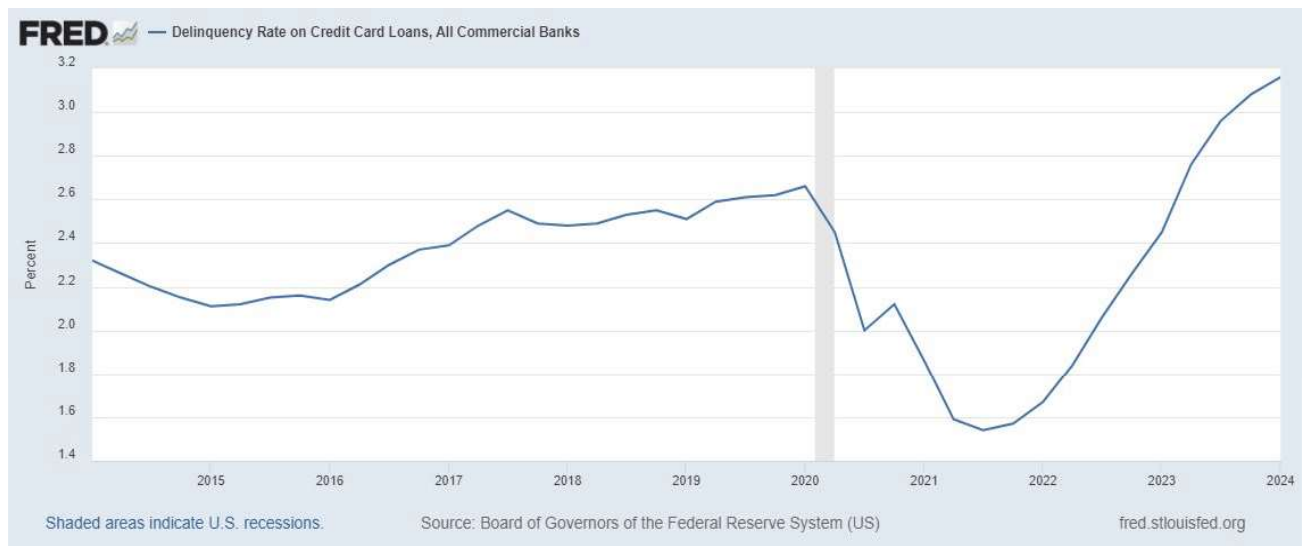
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# Credit Card Debt



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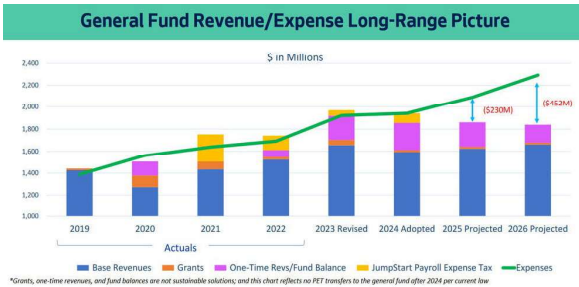
# Delinquencies



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# What is happening in US Cities?

## Seattle



## Spokane

- “One-time federal funds were used to pay for ongoing expenses. Projections of revenues from things like sales tax and utility rates”, which Mayor Lisa Brown says increase annually around three percent, “haven’t kept up with rocketing expenses”.
- “Expenses that have risen faster than that, more like 5 or 6% a year,” she explained. “That doesn’t sound like a lot in terms of percentage, but it opens up a gap of millions of dollars and that gap will just continue to grow.”

## San Francisco

- At the same time, the city’s revenues are projected to grow by just 2% to 3% over the next four years. By contrast, spending is expected to grow by 17% over the same period.

## Pittsburg – Deficit Projection and 13% loss in Sales Tax

- Staff is projecting an increase of revenue by 3%, however, expenditures are expected to increase by 10% — creating a 7% gap which the council will use a future meeting to reduce spending.

## San Diego, Chicago, and Madison

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# Summary

- Consumer Spending is 60%-70% of economic activity (GDP)
- Consumers have spent down COVID savings
- Consumer Borrowing is reaching all-time highs
- Delinquency rates are increasing
- Wages are beginning to level-off/drop
- Consumer behavior is changing
- People on the lower end of the economic scale get hit first and hit hardest

**Tacoma is not isolated from broader national and global economic trends**

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# General Fund Long Range Forecast: Revenues



## 2024 General Fund Revenues

### General Fund Position as of May 2024

#### Revenue is up \$6.6M BUT most is from one-time:

- 73% of the positive variance is one-time revenues including unspent ARPA funds (\$1.7M), Penalties (\$1.3M), and Private Solid Waste Tax (\$1.9M)
- Ongoing revenues are up \$1.7M or 1.2%
  - Stronger than expected revenues including Business Taxes (\$0.8M), Utility Taxes (\$0.6M) and Investment Earnings (\$1.3M)
  - Weaker than expected Sales Tax of -\$1.5M or 5% down which is largely due to natural gas trends

### 2024 Sales Tax Category through May

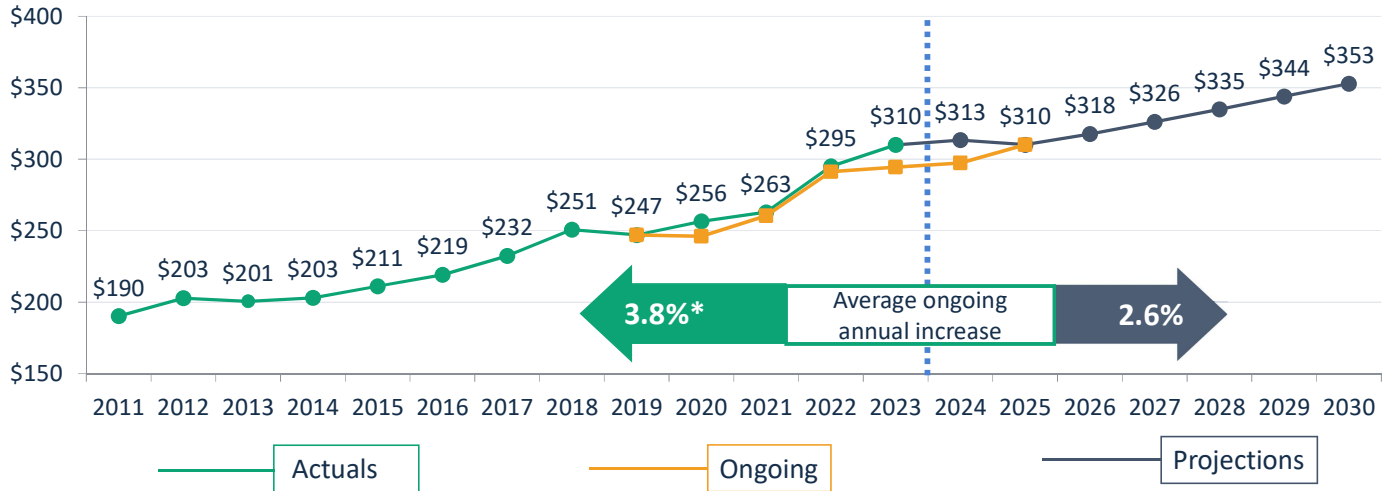


Positive Year End savings will add to cash balance for evaluation for use to address revenue shortfalls or as part of the 2025-2026 Budget process for one-time. Trends in Revenues were used to update the revenue forecast for 2025-2030

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# Total General Fund Revenues

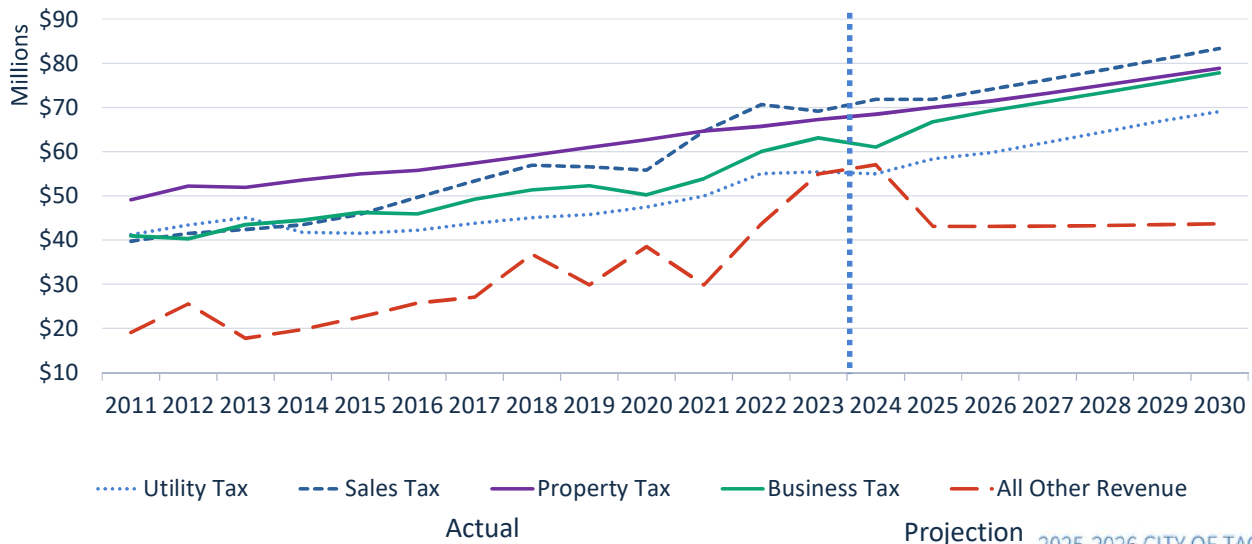
(\$ in millions)



\*Excludes one-times transfers, Federal Funds, and ARPA

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# Major General Fund Revenues



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# General Fund Long Range Forecast: Expenses

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## Baseline Expense Budget

*Costs of providing ongoing services*

### Baseline –Service Levels and Costs

- What do we do?
- How much does it cost?
- What is our financial position?
- What is the impact of the program?

### Expenses

- Start with the positions and maintenance and operations budget from 2023-2024 Adoption
- Remove one-time additions and reductions (projects, positions, etc.)
- Add ongoing programs from modification
- Increase costs to reflect trends in costs and contractual obligation

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# Departmental Examples

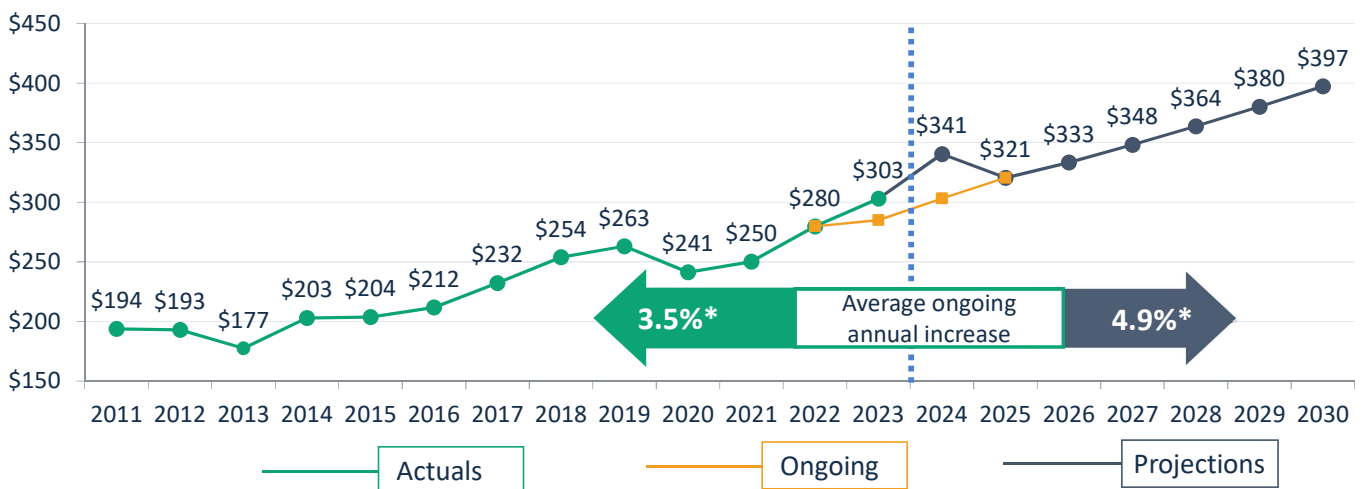
Neighborhood and Community Services	2023-2024 Adopted Budget	2023-2024 One-Time Expenses	2025-2026 Baseline Updates	2025-2026 Baseline Budget
Personnel Services and Employee Related Costs	\$9.6M		Add +\$0.3M growth in labor costs	\$9.9M
Maintenance and Operations Costs (External Services, Equipment and Supplies, etc.)	\$29.3M	Remove -\$16.5M in one-time sheltering costs funded through ARPA	Add +\$0.3M growth in contract costs and corrections	\$13.1M
Internal Services and Fixed Costs	\$3.4M	+\$0.08M one-time reduction in internal services	-\$0.2M in updated baseline distribution	\$3.2M
<b>Total</b>	<b>\$42.3M</b>	<b>-\$16.4M</b>	<b>+\$0.4M</b>	<b>\$26.2M</b>

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# Total General Fund Expenses

(\$ in millions)



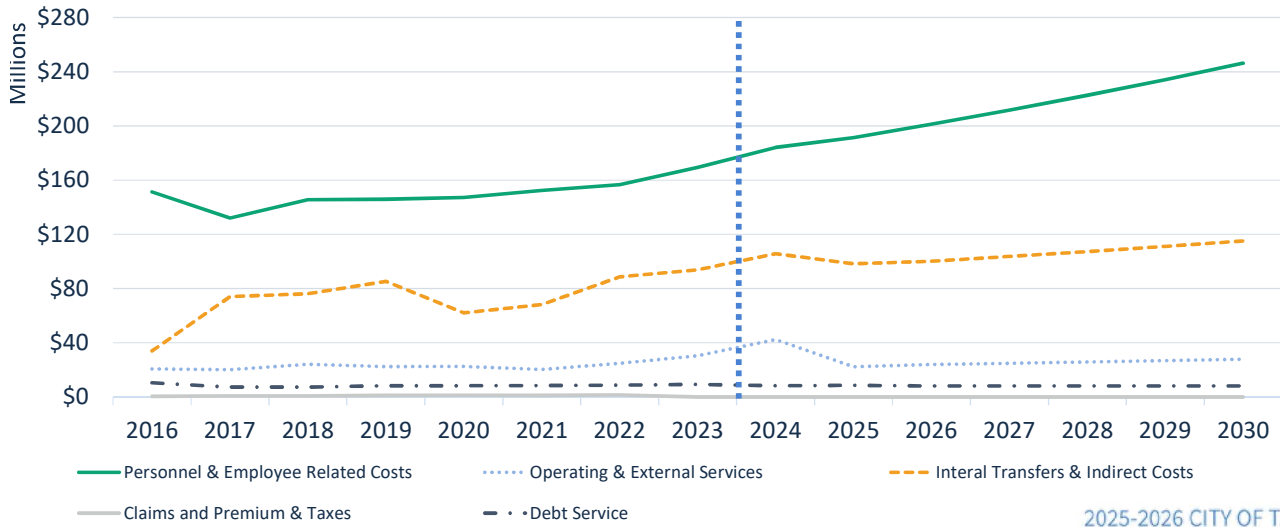
\*Excludes one-times in 2023 & 2024

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# General Fund Expenses by Cost Category

(\$ in millions)

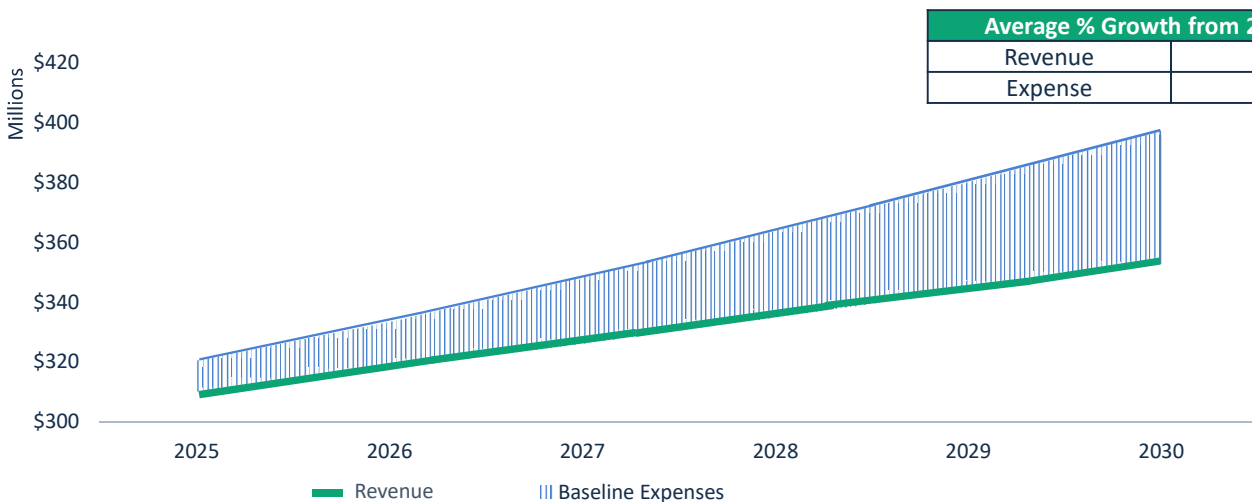


Actual

Projection

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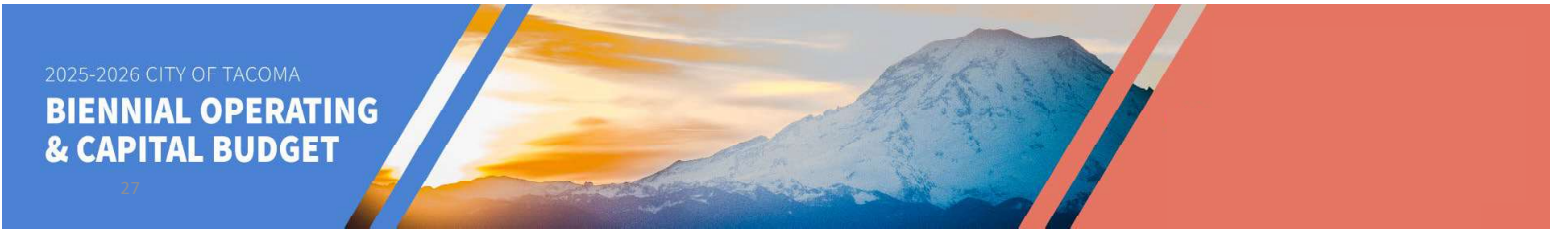
# General Fund Financial Forecast



	2025	2026	2027	2028	2029	2030
Baseline Structural Gap*	-\$10.4M	-\$15.8M	-\$22.2M	-\$29.0M	-\$36.4M	-\$44.6M

\*Does not include needs beyond baseline, including extensions of one-time projects such as the Temporary and Emergency shelter sites which need an additional \$9M to continue services through 2026






# Other Major Funds



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## 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>• ARPA and Pandemic Aid required to be expended by 2026</li> <li>• APRA funds in 2023-2024 provided \$31M in funding to support a general fund fire engine and homelessness and housing services</li> </ul>	<ul style="list-style-type: none"> <li>• 2023 Voter-approved multi-year levy lid lift added fiscal stability thru at least 2030</li> <li>• Long term projections show that property tax will not grow as fast as expenses</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>• REET collections slowed in 2023 due to slowing in the real estate sector</li> <li>• REET in 2023 was 42% below 2022</li> <li>• 2024 Jan. to May is 13% above 2023 Jan. to May</li> <li>• Revenues are forecasted at approx. \$7.5M per year in 2025-2026</li> </ul>	<ul style="list-style-type: none"> <li>• Slowing Sales Taxes is negatively impacting funds such as affordable housing, mental health and substance use disorder, Tacoma Creates and Streets Initiative</li> <li>• Uncertainty of sales tax means that these funds and priorities bear increasing risk, especially given rising cost and demand</li> <li>• Mental Health and Substance Use disorder funds has a gap in the baseline budget</li> </ul>	<ul style="list-style-type: none"> <li>• Streets Initiative – Revenues Projected to end in 2026</li> <li>• Staffing doing a detailed analysis of the projected cash flow and projected expenses</li> <li>• Street Operations               <ul style="list-style-type: none"> <li>• Supplies, equipment and fleet needs grew significantly in the past two years</li> <li>• Costs for street operations and services growing faster than revenues</li> </ul> </li> </ul>

   Relative Fund Sustainability

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# Enterprise Funds

Permitting	Environmental Services	Parking	Tacoma Venues and Events Funds
<ul style="list-style-type: none"> <li>From 2019 to 2023, the number of permits issued annually increased by a significant 43.44%.</li> <li>While permits issued Jan.-May in 2024 is slightly below 2023, it is higher than 2019, 2021, and 2022.</li> <li>Uncertain economic outlook and current interest rates represent a risk area (potential for interest rate reductions would be a positive sign for this fund)</li> <li>The Permit Fund has sufficient cash reserves</li> </ul>	<ul style="list-style-type: none"> <li>Increased construction costs due to new, higher 'normal' cost environment</li> <li>Need to address capital backlog from delays during pandemic with new higher costs</li> <li>Regulatory mandates both known (stormwater) and unknown (wastewater nutrients)</li> <li>Upcoming life-cycle asset replacements in future decades</li> <li>Does not include OEPS</li> </ul>	<ul style="list-style-type: none"> <li>Revenues are projected at 72% of pre-pandemic levels (2019)</li> <li>Debt service drops by 60% in 2025-2026</li> <li>Projected to have a gap between revenues and expenses</li> </ul>	<ul style="list-style-type: none"> <li>Strong event volumes and revenues provide strong financial foundation for Dome</li> <li>Strong performance of Convention Center and PFD and Hotel/Motel tax put it in strong financial position</li> <li>Continued capital funding needs that current revenues do not meet (particularly at the Dome and Theaters)</li> </ul>

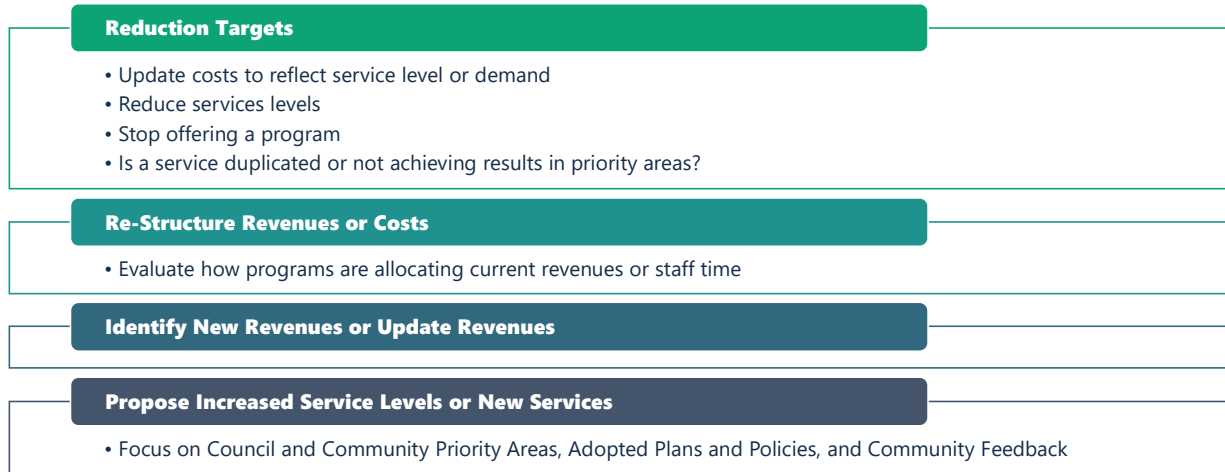
● ● ● Relative Fund Sustainability

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# What's Next?



# Evaluating the baseline to produce a BALANCED BUDGET



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## Revenue Strategy

	Item	Update	Timeline/Next Steps
	Fire Levy Lid Lift	Funding to support \$30M annually for Fire Department facilities, fleet, maintenance, and staffing to improve response capacity and firefighter safety	Study Session 6/11 and Council Meeting 6/18
In Progress	Other Facilities and Operational Levy Lid Lift	Support Library, Theater, People’s Community Center, and other facilities needs. Could also address operational needs.	Next steps planned for 2025
	Property Tax	Continue to prioritize removing or changing the 1% growth limit	Legislative priority
	Impact Fees	Staff provided an update in the first quarter of 2024 on the development of Traffic Impact Fees	Continue work on Framework Development in 2024
	Updates to Existing Measures	Staff will continue to work on benefits and needs related to renewing Tacoma Creates and Streets Initiative (potentially with Street Operations Facility)	Provided updates in first quarter of 2024, Next steps planned for 2025
Recently Updated	EMS Levy Lid Lift	Approved by voters in August 2023	
	Fees & Business Licenses	Updates Fees and Licenses in Fall 2022 with Budget Process	
	Excise Tax Options	Tidy Up Tacoma Solid Waste Excise Tax implemented in 2022 with Budget Process	



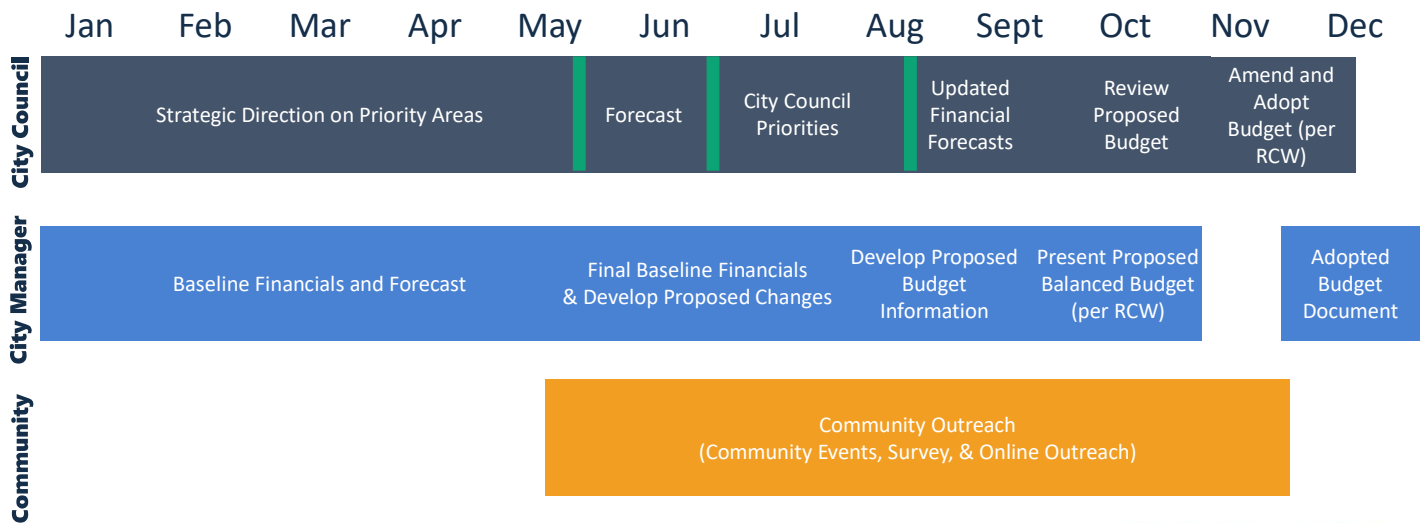
# Fire Levy Impacts

- Uncertainty ahead of election
- Fire Levy creates dedicated annual funding of \$30M
- Levy includes \$10M in existing support expenses for the Fire Department and Rover Positions that would move from the General Fund
  - This would create ongoing source for these costs, insulating them from the General Fund structural deficit, and ensure funding for these areas in future bienniums
  - Would address \$10M of the annual deficit

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# Budget Timeline



— Council Briefings

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# Long Range Forecast

June 2024

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