

Long Range Financial Forecast

June 7, 2022

Study Session

Office of Management & Budget

2023-2024 CITY OF TACOMA

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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

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Budget Process



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

City Council

Strategic Direction on Priority Areas	Forecast	City Council Priorities & Proposals	Updated Financial Forecasts	Proposed Budget Review and Adoption
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Department

Baseline Financials and Forecast	Final Baseline Financials & Proposal Development	Proposed Budget Information	Adopted Budget Financials
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Community

Community Survey	Community Outreach (Community Events & Online Outreach)
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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

Economic Conditions

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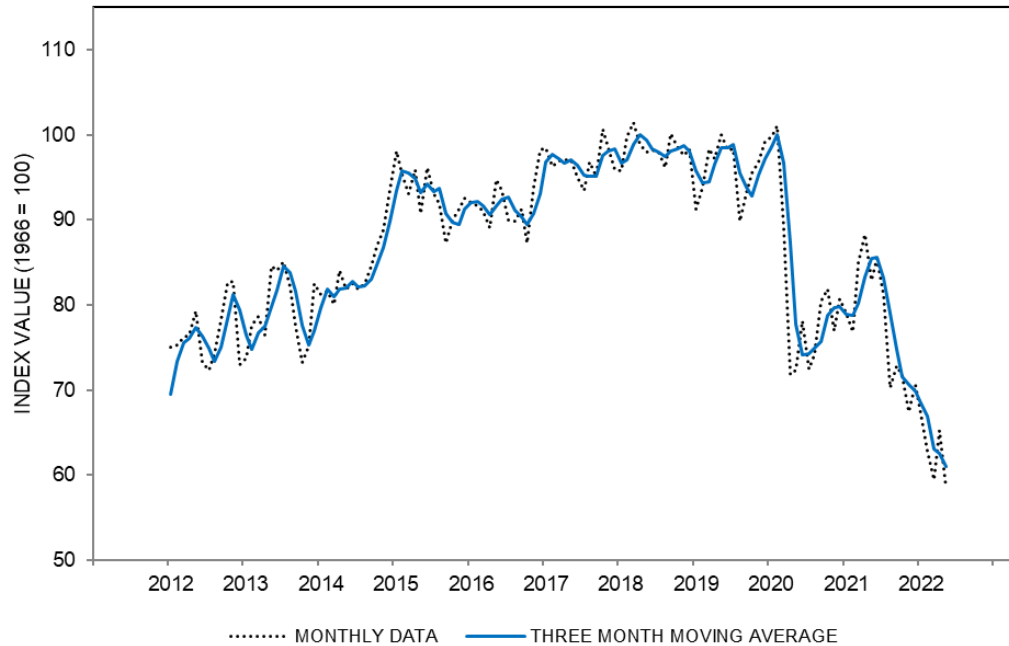
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What's Good

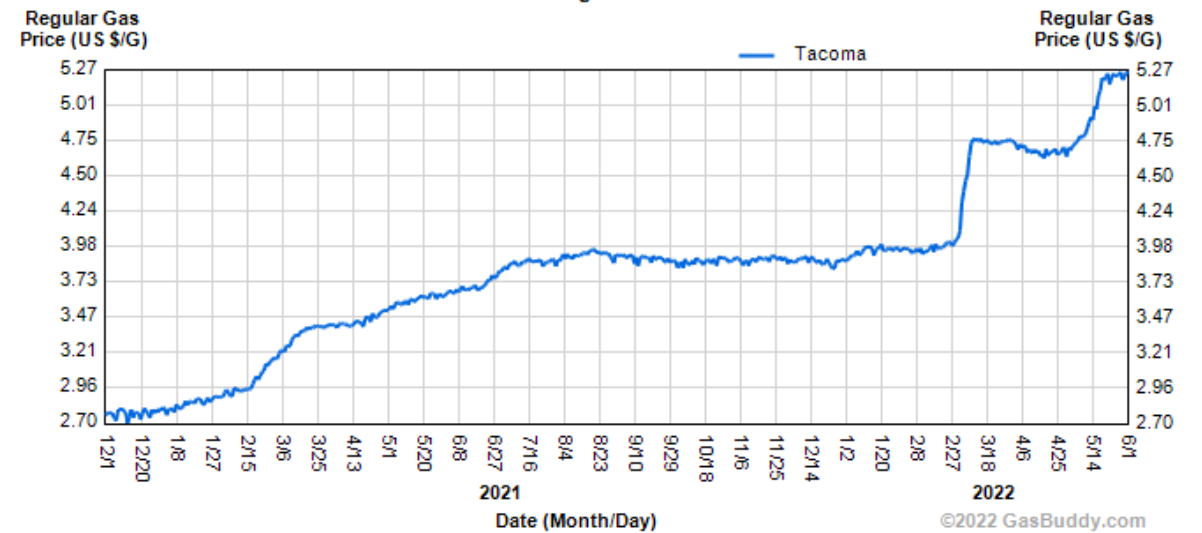
- Unemployment - near record low
- Wage Growth - is back after years of no/slow growth
- Home Values - have been growing for multiple years in a row
- Consumer's Balance Sheets (as a whole) are still in good shape
 - Savings have increased
 - Real Estate values up
 - Stock Market Wealth (until recent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

What's Not So Good?

THE INDEX OF CONSUMER SENTIMENT



18 Month Average Retail Price Chart



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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

- Mortgage rates over 5%
- Rates on other Consumer Credit Raising

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

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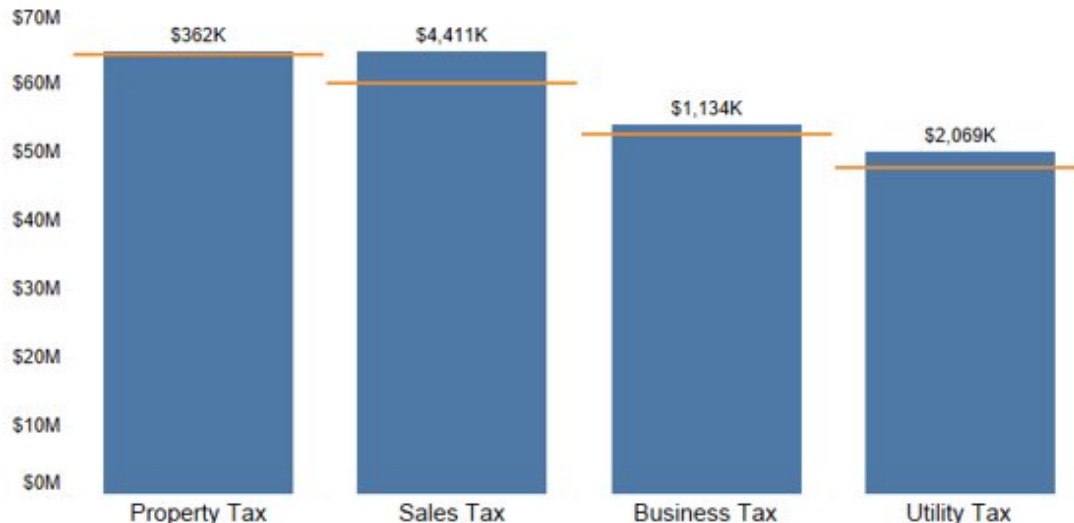
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Current Financials

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

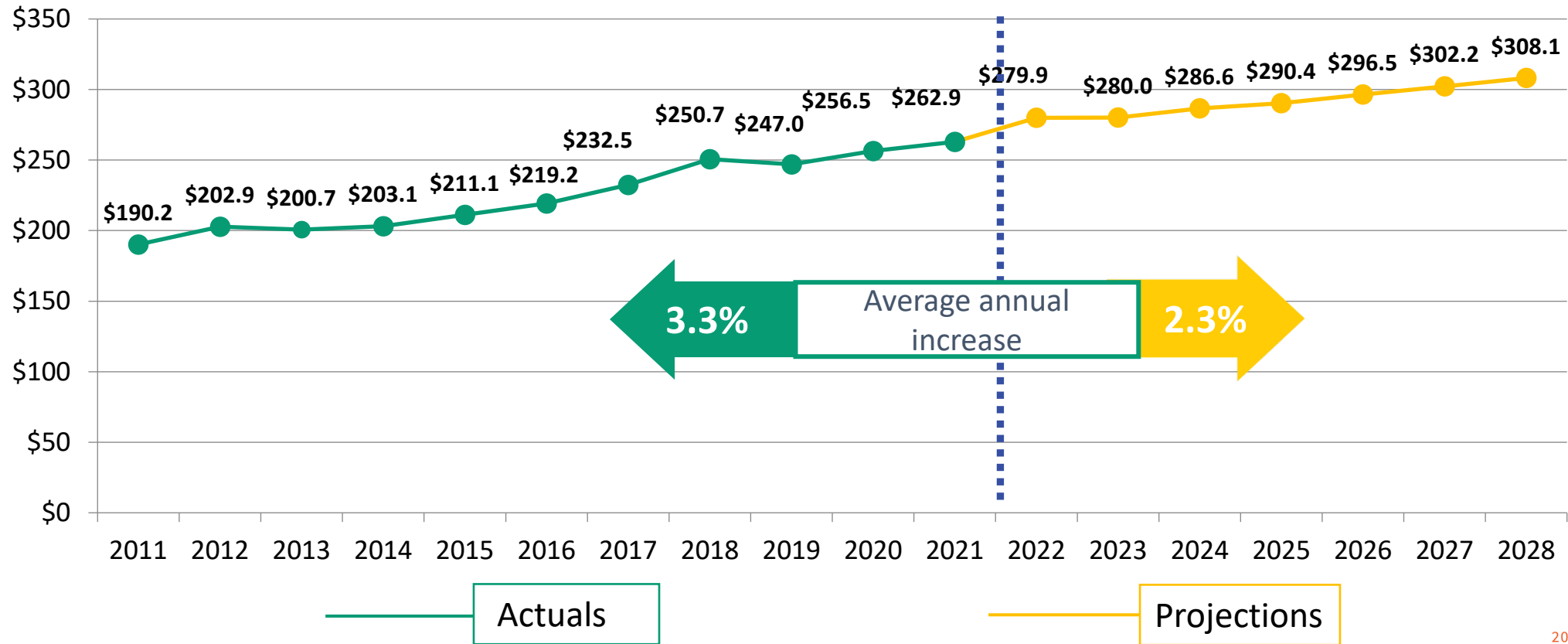
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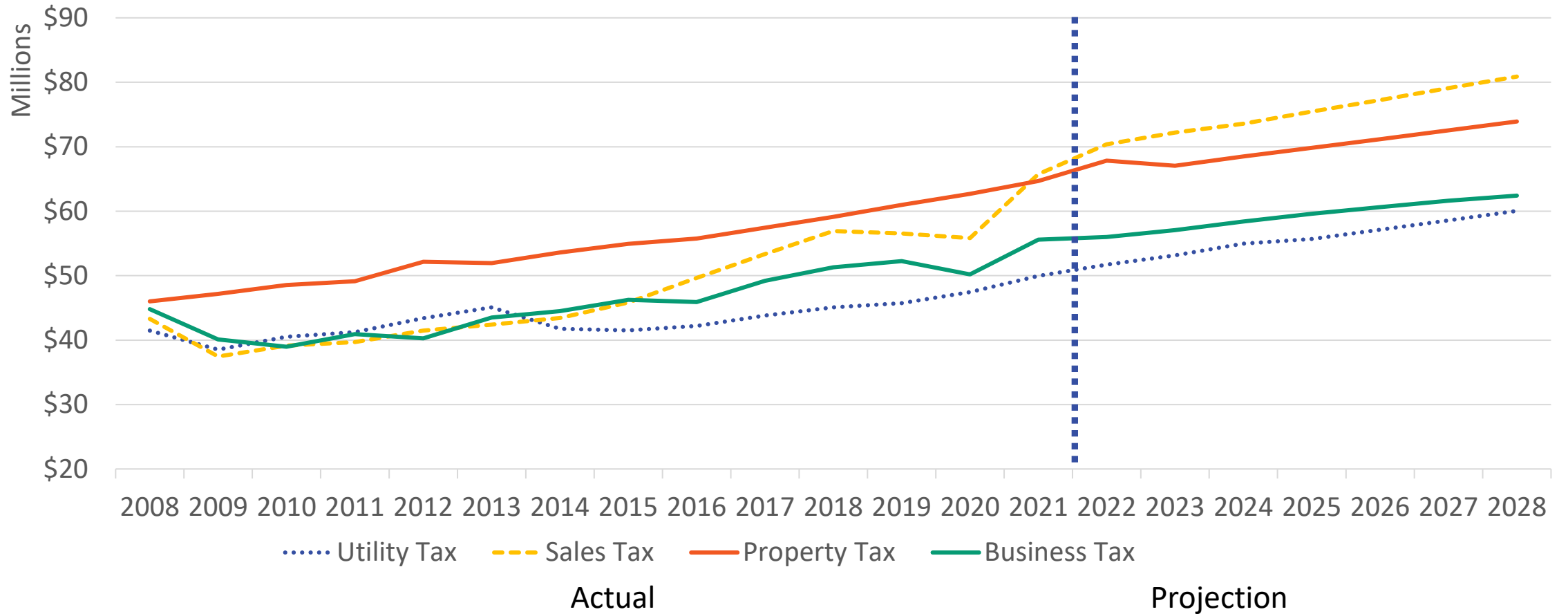
All General Fund Revenues

(\$ in millions)



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

Major General Fund Revenues



General Fund Expenses

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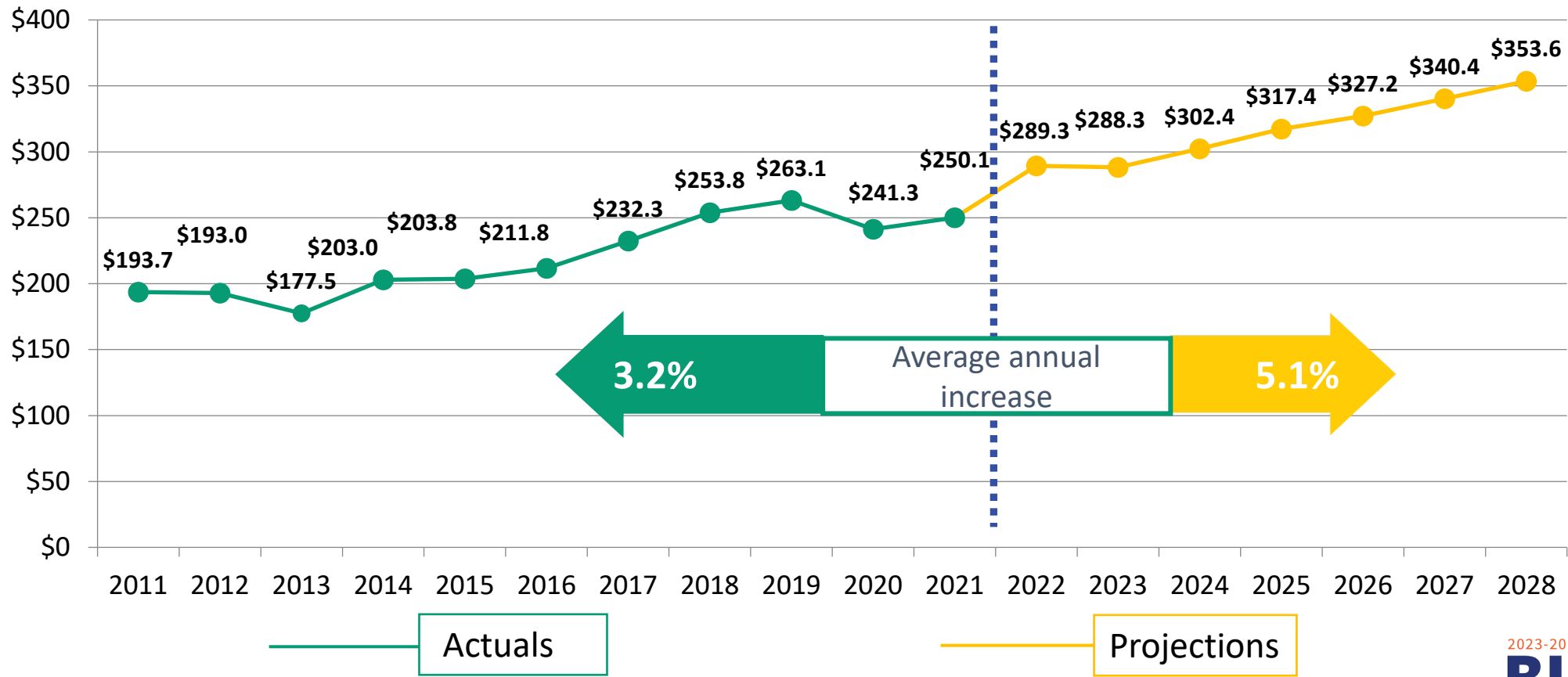
Expenditure Assumptions

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)

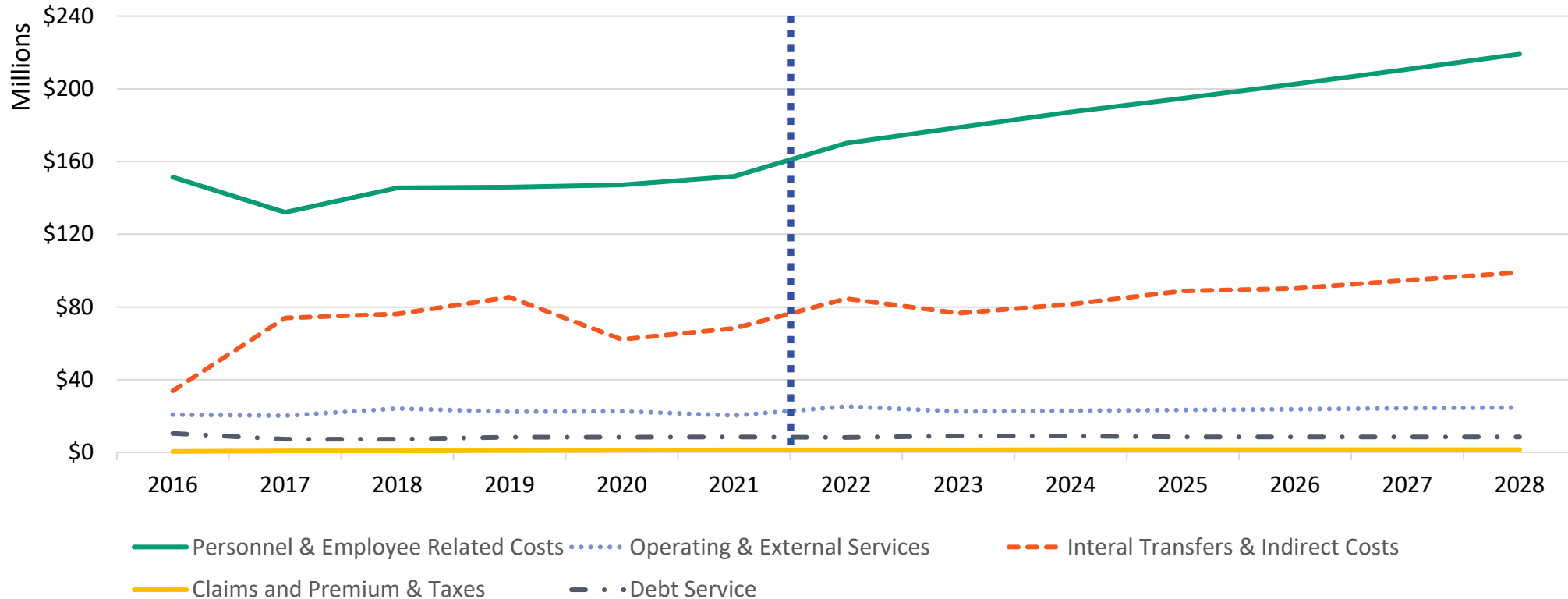
Total General Fund Expenses

(\$ in millions)



General Fund Expenses by Cost Category

(\$ in millions)



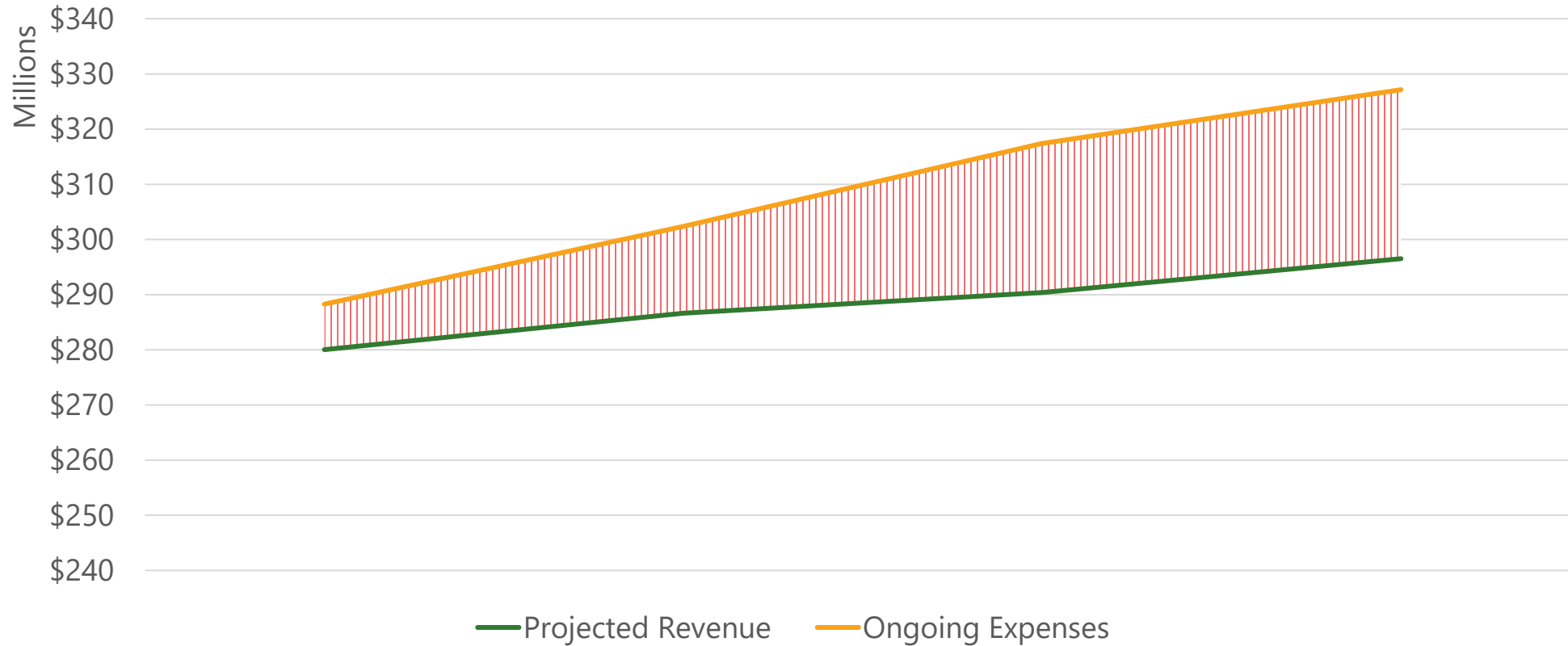
Actual

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*

*Includes losing ARPA funding for Fire Engine Service in 2025

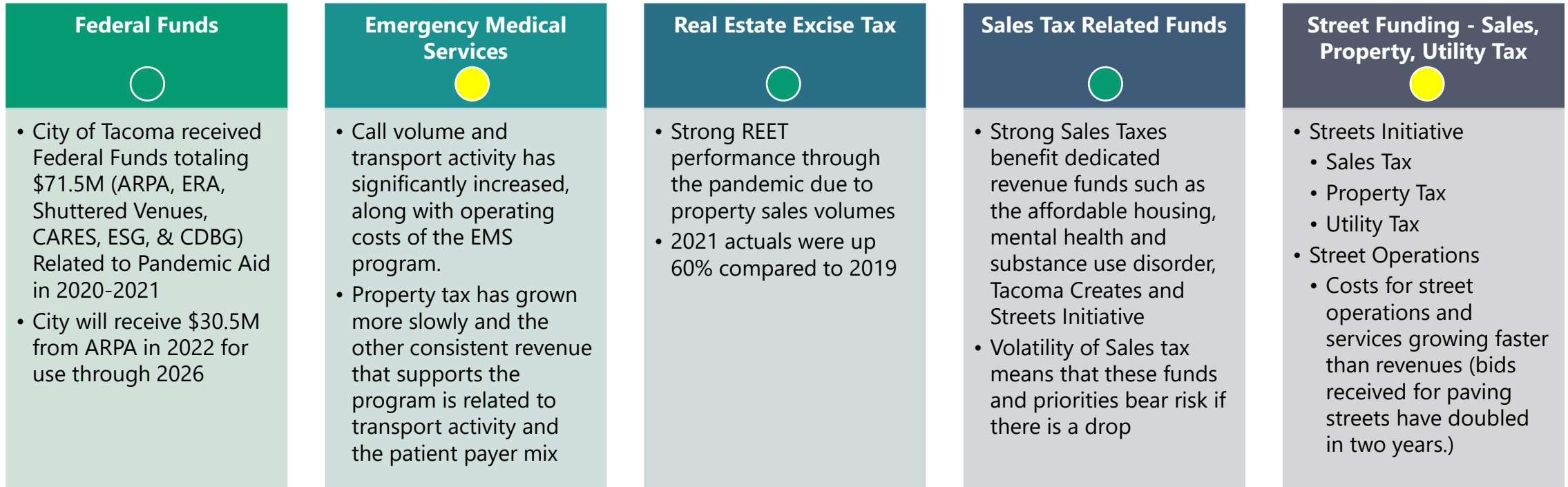
Other Major Funds

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Related Special Revenue Trends



   Relative Fund Sustainability

Enterprise Funds

Permitting



- Downward trend in permit volumes and revenues due to economic issues such as rising interest rates and inflationary pressures
- The Permit Fund has sufficient cash reserves to assist in bridging this period of declining revenues

Environmental Services



- Increased costs due to construction inflation (25%+) in utility projects
- Wastewater commercial revenues remain \$1.5 M below pre-pandemic levels
- Other expenses increased beyond assumptions and are projected to increase further

Parking



- Revenues are at 43% of pre-pandemic levels (2019)
- Must pay debt service of \$2.7M annually, debt service drops by 64% in 2025-2026

Tacoma Venues and Event Funds



- Federal funding has helped to offset revenue impacts of the past few years
- Projected to be able to cover expenses with revenues and strong sales tax (Convention Center)
- Will continue to have issues funding deferred maintenance needs (particularly at the Dome and Theaters)

   Relative Fund Sustainability

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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



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What's Next?



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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"> • General • EMS • Affordable Housing Levy 	Voter Approval	<ul style="list-style-type: none"> • Capacity above \$100M annually • EMS -\$7.9M Annually • Affordable Housing - \$18.6M Annually 	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

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

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