

City of Sebastopol Long-Range Forecast Update



March 4, 2025
City Council Presentation

Bob Leland, Special Advisor
Baker Tilly Advisory Group, LP



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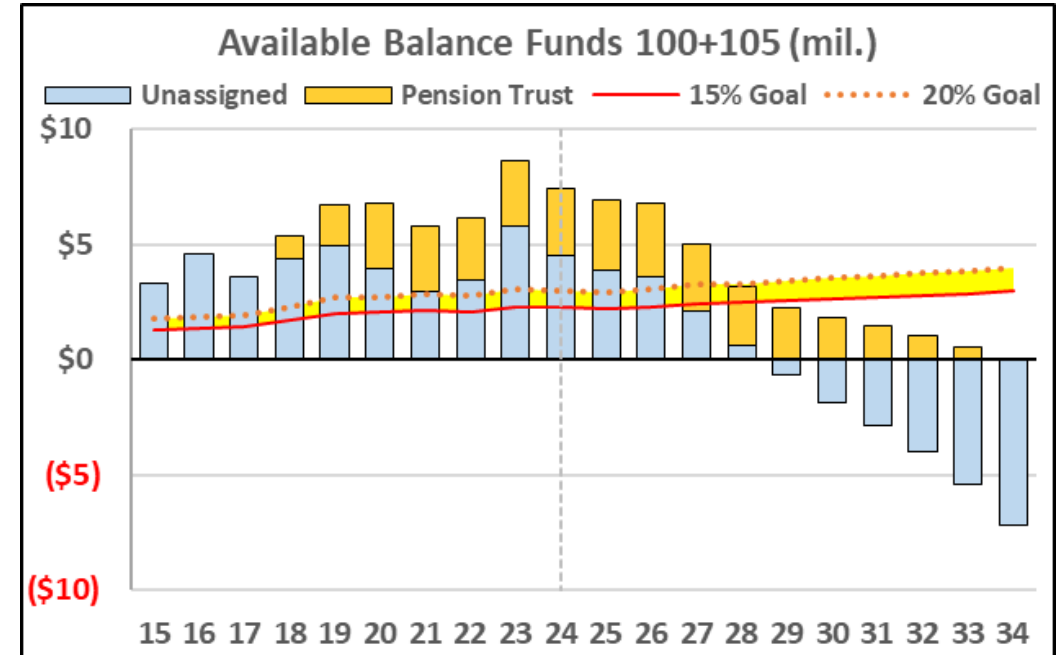
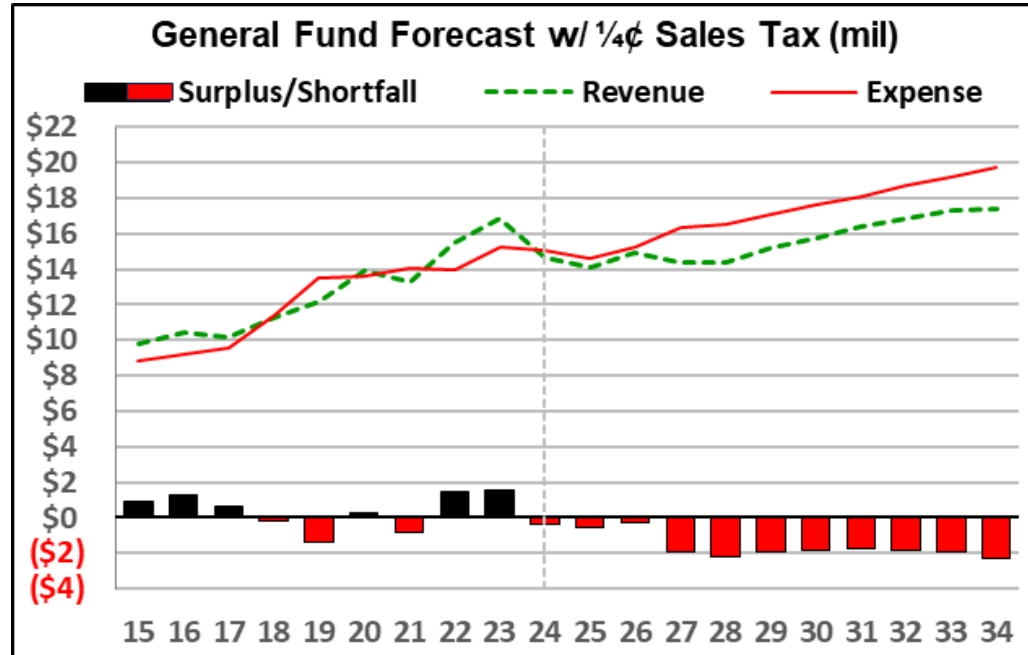
Original Baseline Forecast Assumptions Still Valid

- FY24 based on estimate and FY25 based on budget
- 3% COLAs plus 0.25% net merit increase offset by turnover savings
- 4% vacancy rate ongoing
- Maintain current FY25 staffing levels (does affect ability to respond to future workload increases)
- Pension scenarios per CalPERS Pension Outlook, assumes 6.8% discount rate but lower average return of 6.2% (more conservative than CalPERS actuarial assumptions)
- Assumes Pension Trust reimburses 20% of pension costs starting FY27 until balance is depleted
- O&M expense grows at 2.5%
- Interest is 1.5% return on fund balance, with 4.5% on Pension Trust portion
- Moderate recessions starting FY27 on 7-year cycle thereafter
- Property tax growth averages 3.9%, FY25 per County assessed values
- Sales tax growth averages 2.2%, FY25 per Avenu forecast
- Transfers In/Out from other funds grows from FY25 base
- Debt service per debt maturity schedules
- Capital outlay \$150K per year
- Asset preservation increases for building/park/street maintenance and vehicle replacement (first \$300K in FY25 budget, add \$300K ongoing in FY26 and another \$300K starting FY27)
- \$1.1M loan to Wastewater Fund in FY24 repaid over FY28-32

Revised Baseline Assumptions

- FY24 based on actuals; FY25 based on staff estimate
- Measure U Local Sales Tax
 - Voters approved a ½ cent rate for 12 years, but conflicts with Measure I, which together puts the total sales tax rate at 10.50%, which is over the 10.25% limit per state law
 - CA Dept of Tax and Fee Administration is seeking CA Attorney General's opinion, and as a backup, legislative remedies are being explored to allow the City to keep the full ½ cent rate approved by the voters
 - Temporary agreement between the City and County is expected to result in 6 months of revenue at a ½ cent rate level, followed by a ¼ cent tax for 11.5 years, assuming no legal or legislative remedy is obtained
 - Presentation will show the impact of both a ¼ cent rate and a ½ cent rate
- Fire Service
 - Consolidation of fire service with Gold Ridge Fire Protection District results in no City Fire expense starting FY26
 - \$1.11M direct payment to Gold Ridge starting FY26 (with 2.5% growth)
 - \$40K fire inspection fees paid to GRFPD starting FY26 (with 2.0% growth)
- Hotels
 - Hotel Barlow is moving faster toward development than Hotel Sebastopol, but neither hotel is included in the revised baseline assumptions

Result is Steady Decline in Unassigned Balance



- Structural shortfall averages \$2M per year
- Requires additional revenues or reduced spending to close gap

- Pension Trust use starts in FY27 and is depleted in FY34, but unassigned balance goes into deficit earlier in FY29
- Additional revenue or expense reductions required in 3 years

Summary Revised Baseline Forecast

Measure U at ½
cent for 6 months
and ¼ cent for 11.5
years

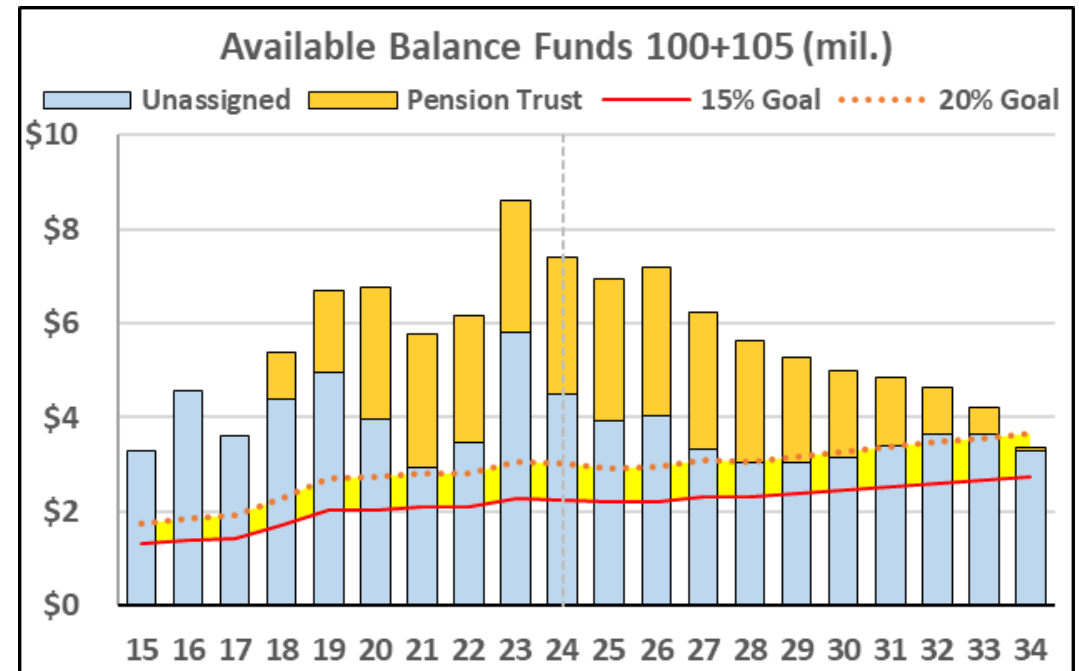
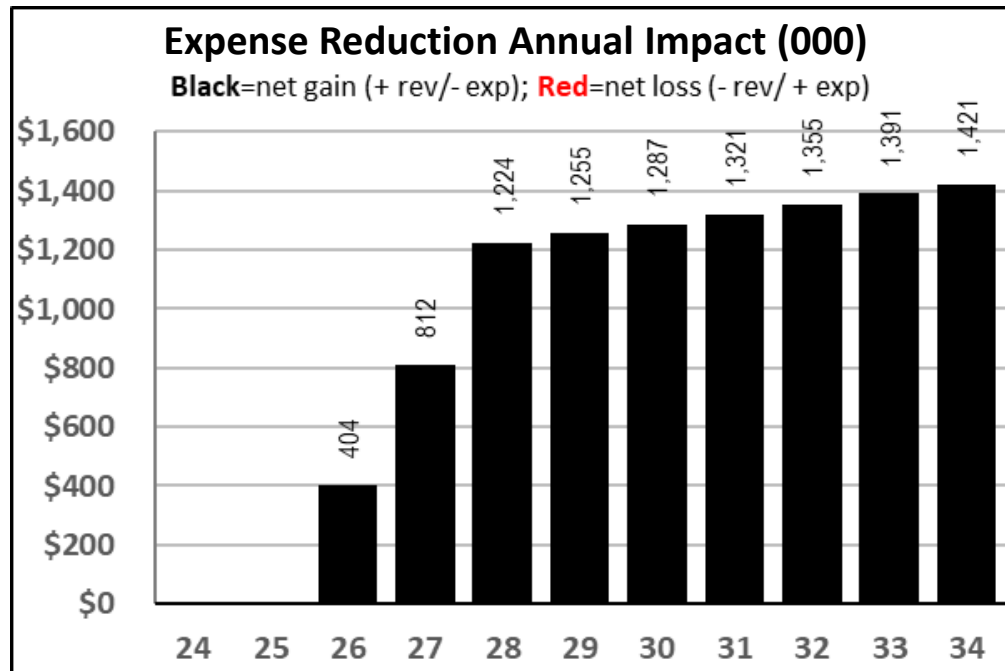
No Cuts, No Hotels
are Built

(\$ in 000)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Property Tax	3,293	\$3,444	\$3,620	\$3,664	\$3,813	\$3,891	\$4,009	\$4,211	\$4,422	\$4,644	\$4,830	\$5,023
Sales Tax	2,365	2,305	2,251	2,331	2,271	2,259	2,467	2,591	2,720	2,791	2,864	2,801
Local Sales Taxes	2,353	2,322	2,634	3,316	3,224	3,056	3,374	3,486	3,640	3,712	3,808	3,716
Utility Users Tax	851	863	877	924	949	975	1,002	1,030	1,058	1,087	1,117	1,148
Transient Occup Tax	544	519	519	549	537	565	610	627	644	646	664	649
Other Taxes	688	692	717	732	744	749	762	783	804	825	842	856
Intergovernmental	1,726	115	51	51	51	51	51	51	51	51	51	51
Building Permits	558	349	1,040	980	400	408	416	424	433	442	450	459
Fees & Charges	190	171	142	145	140	140	146	153	160	163	166	161
Interest	(31)	(3)	100	38	19	1	-	-	-	-	-	-
Other Revenues	1,228	673	179	266	269	272	275	278	281	285	288	291
Transfers In	103	102	188	125	126	127	128	130	131	132	133	135
Cost Allocation*	2,190	2,303	1,762	1,802	1,842	1,884	1,926	1,969	2,014	2,059	2,105	2,153
Total Revenue	16,058	13,855	14,080	14,922	14,384	14,379	15,167	15,732	16,359	16,837	17,319	17,443
Salaries	3,987	4,433	4,278	4,452	4,830	4,987	5,149	5,316	5,489	5,667	5,851	6,041
Part-time	415	67	102	104	106	108	110	113	115	117	120	122
Overtime	431	257	251	243	250	258	266	274	282	290	299	308
Pension	1,574	1,512	1,746	1,910	2,121	2,192	2,363	2,400	2,432	2,521	2,540	2,562
Health/OPEB	870	966	972	1,140	1,208	1,244	1,281	1,319	1,358	1,399	1,440	1,483
Other Personnel	888	1,051	977	983	1,009	1,036	1,063	1,091	1,120	1,149	1,180	1,211
Vacancy Savings	-	-	-	(353)	(381)	(393)	(409)	(420)	(432)	(446)	(457)	(469)
Subtotal Personnel	8,164	8,286	8,326	8,478	9,143	9,431	9,823	10,092	10,363	10,698	10,972	11,258
Services & Supplies	3,384	3,345	4,412	3,226	3,307	3,390	3,474	3,561	3,650	3,742	3,835	3,931
Liability Insurance	571	651	641	554	567	582	596	611	626	642	658	675
Utilities	341	354	553	550	564	578	592	607	622	638	654	670
Contributions	580	257	80	82	84	86	88	91	93	95	97	100
Fire District/Contract	-	-	-	1,150	1,220	1,292	1,366	1,444	1,524	1,607	1,693	1,783
Debt Service	254	300	208	446	389	111	86	86	86	86	86	86
Capital/Other Tftrs Out	1,176	1,074	433	432	442	453	465	476	488	500	513	526
Asset Preservation Adds	-	-	-	300	600	615	630	646	662	679	696	713
Total Expense	14,470	14,267	14,653	15,218	16,316	16,538	17,122	17,614	18,116	18,688	19,205	19,741
Net Annual	1,587	(412)	(573)	(296)	(1,932)	(2,159)	(1,955)	(1,882)	(1,757)	(1,851)	(1,886)	(2,298)
Pension Trust Contribs	-	-	-	-	424	438	473	480	486	504	508	512
Balance Sheet Adjusts	-	(1,039)	-	-	-	-	-	-	-	-	-	-
Wastewater Loan	-	(1,100)	-	-	-	220	220	220	220	220	-	-
Beginning Fund Balance	5,644	7,231	4,680	4,107	3,811	2,303	802	(460)	(1,642)	(2,693)	(3,819)	(5,197)
Ending Fund Balance	7,231	4,680	4,107	3,811	2,303	802	(460)	(1,642)	(2,693)	(3,819)	(5,197)	(6,983)
less: Commit/Assign	1,423	200	200	200	200	200	200	200	200	200	200	200
Unassigned Balance	5,809	4,480	3,907	3,611	2,103	602	(660)	(1,842)	(2,893)	(4,019)	(5,397)	(7,183)
Pension Trust (105)	2,781	2,906	3,037	3,173	2,892	2,584	2,227	1,848	1,444	1,005	542	54
Total Avail Balance	8,589	7,386	6,944	6,784	4,995	3,186	1,568	6	(1,448)	(3,014)	(4,855)	(7,129)
Unassign as % of Exp	40.1%	31.4%	26.7%	23.7%	12.9%	3.6%	-3.9%	-10.5%	-16.0%	-21.5%	-28.1%	-36.4%
<i>*net of G&A expense for FY18-24</i>												

Alternate Forecast Scenarios

A - ¼ cent Measure U + \$1.2M in Expense Cuts

- Assumes Measure U continues at ¼ cent rate and is not renewed by the voters
- Assumes \$1.2M of ongoing expense reductions (5.6% cut) are phased in over three years starting FY26; if cuts are delayed, the level of future cuts will need to be higher to compensate
- Balance continues to decline, making additional reductions likely in 10 years



Summary Forecast for Alternate Scenario A

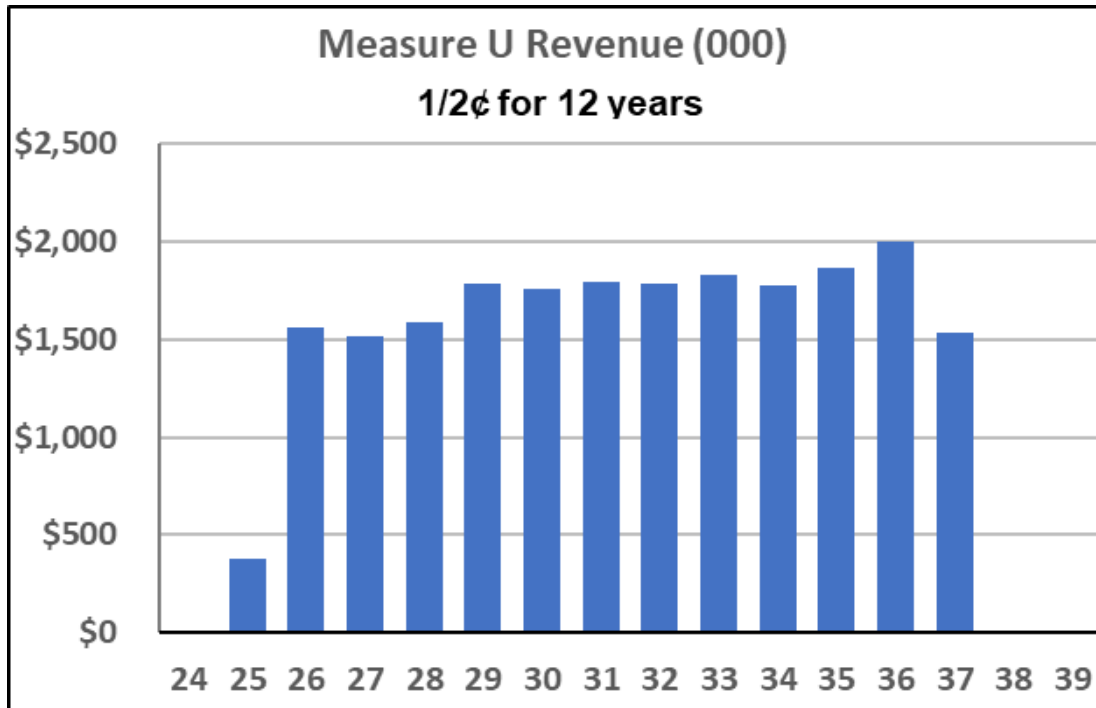
Measure U at ½ cent for 6 months and ¼ cent for 11.5 years

\$1.2M in Expense Cuts, No Hotels are Built

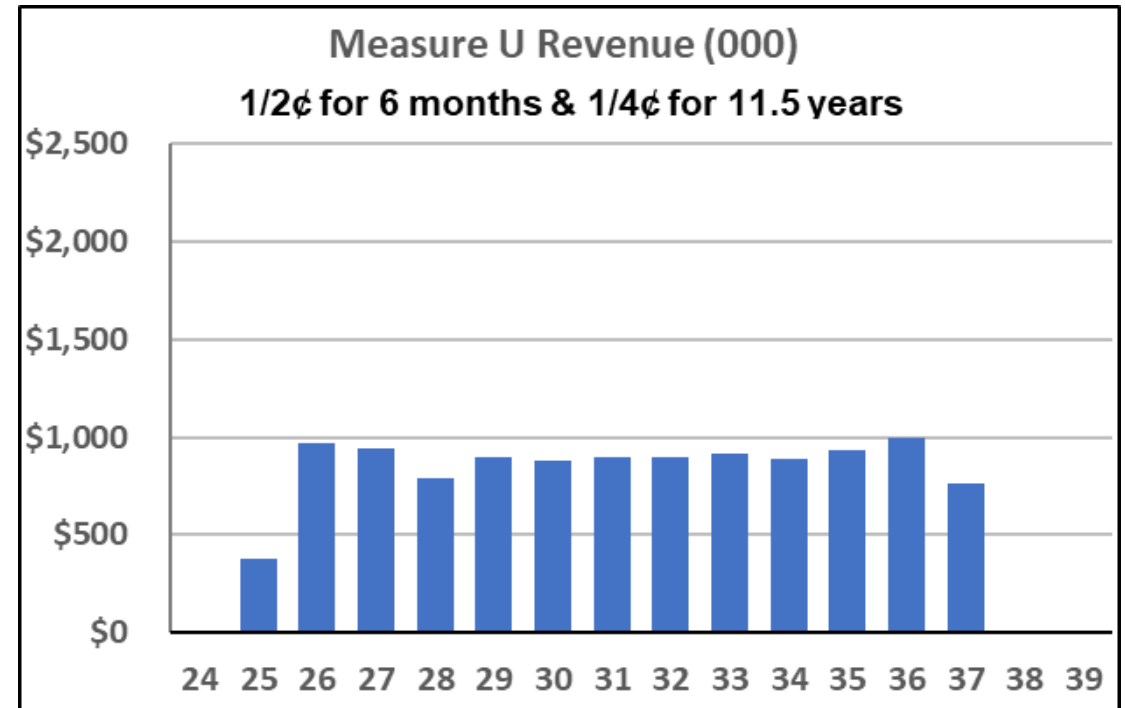
(\$ in 000)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Property Tax	3,293	\$3,444	\$3,620	\$3,664	\$3,813	\$3,891	\$4,009	\$4,211	\$4,422	\$4,644	\$4,830	\$5,023
Sales Tax	2,365	2,305	2,251	2,331	2,271	2,259	2,467	2,591	2,720	2,791	2,864	2,801
Local Sales Taxes	2,353	2,322	2,634	3,316	3,224	3,056	3,374	3,486	3,640	3,712	3,808	3,716
Utility Users Tax	851	863	877	924	949	975	1,002	1,030	1,058	1,087	1,117	1,148
Transient Occup Tax	544	519	519	549	537	565	610	627	644	646	664	649
Other Taxes	688	692	717	732	744	749	762	783	804	825	842	856
Intergovernmental	1,726	115	51	51	51	51	51	51	51	51	51	51
Building Permits	558	349	1,040	980	400	408	416	424	433	442	450	459
Fees & Charges	190	171	142	145	140	140	146	153	160	163	166	161
Interest	(31)	(3)	100	42	30	25	25	26	29	32	35	32
Other Revenues	1,228	673	179	266	269	272	275	278	281	285	288	291
Transfers In	103	102	188	125	126	127	128	130	131	132	133	135
Cost Allocation*	2,190	2,303	1,762	1,802	1,842	1,884	1,926	1,969	2,014	2,059	2,105	2,153
Total Revenue	16,058	13,855	14,080	14,926	14,396	14,402	15,192	15,758	16,388	16,869	17,354	17,475
Salaries	3,987	4,433	4,278	4,452	4,830	4,987	5,149	5,316	5,489	5,667	5,851	6,041
Part-time	415	67	102	104	106	108	110	113	115	117	120	122
Overtime	431	257	251	243	250	258	266	274	282	290	299	308
Pension	1,574	1,512	1,746	1,924	2,132	2,205	2,356	2,387	2,391	2,445	2,439	2,423
Health/OPEB	870	966	972	1,140	1,208	1,244	1,281	1,319	1,358	1,399	1,440	1,483
Other Personnel	888	1,051	977	983	1,009	1,036	1,063	1,091	1,120	1,149	1,180	1,211
Vacancy Savings	-	-	-	(354)	(381)	(393)	(409)	(420)	(430)	(443)	(453)	(464)
Subtotal Personnel	8,164	8,286	8,326	8,492	9,153	9,444	9,816	10,080	10,324	10,625	10,876	11,125
Services & Supplies	3,384	3,345	4,412	3,226	3,307	3,390	3,474	3,561	3,650	3,742	3,835	3,931
Liability Insurance	571	651	641	554	567	582	596	611	626	642	658	675
Utilities	341	354	553	550	564	578	592	607	622	638	654	670
Contributions	580	257	80	82	84	86	88	91	93	95	97	100
Fire District/Contract	-	-	-	1,150	1,220	1,292	1,366	1,444	1,524	1,607	1,693	1,783
Debt Service	254	300	208	446	389	111	86	86	86	86	86	86
Capital/Other Tfrs Out	1,176	1,074	433	432	442	453	465	476	488	500	513	526
Asset Preservation Adds	-	-	-	300	600	615	630	646	662	679	696	713
Total Expense	14,470	14,267	14,653	14,831	15,526	15,351	15,885	16,341	16,785	17,290	17,751	18,217
Net Annual	1,587	(412)	(573)	94	(1,130)	(948)	(693)	(584)	(397)	(421)	(398)	(741)
Pension Trust Contribs	-	-	-	-	426	441	471	477	478	489	488	485
Balance Sheet Adjusts	-	(1,039)	-	-	-	-	-	-	-	-	-	-
Wastewater Loan	-	(1,100)	-	-	-	220	220	220	220	220	-	-
Beginning Fund Balance	5,644	7,231	4,680	4,107	4,201	3,497	3,210	3,208	3,322	3,624	3,912	4,002
Ending Fund Balance	7,231	4,680	4,107	4,201	3,497	3,210	3,208	3,322	3,624	3,912	4,002	3,745
less: Commit/Assign	1,423	200	200	200	200	200	200	200	200	200	200	200
Unassigned Balance	5,809	4,480	3,907	4,001	3,297	3,010	3,008	3,122	3,424	3,712	3,802	3,545
Pension Trust (105)	2,781	2,906	3,037	3,173	2,890	2,579	2,223	1,846	1,451	1,027	586	127
Total Avail Balance	8,589	7,386	6,944	7,175	6,187	5,589	5,232	4,968	4,875	4,739	4,388	3,673
Unassign as % of Exp	40.1%	31.4%	26.7%	27.0%	21.2%	19.6%	18.9%	19.1%	20.4%	21.5%	21.4%	19.5%
<i>*net of G&A expense for FY18-24</i>												

B - ½ cent Measure U for 12 years + No Cuts

As Approved by Voters



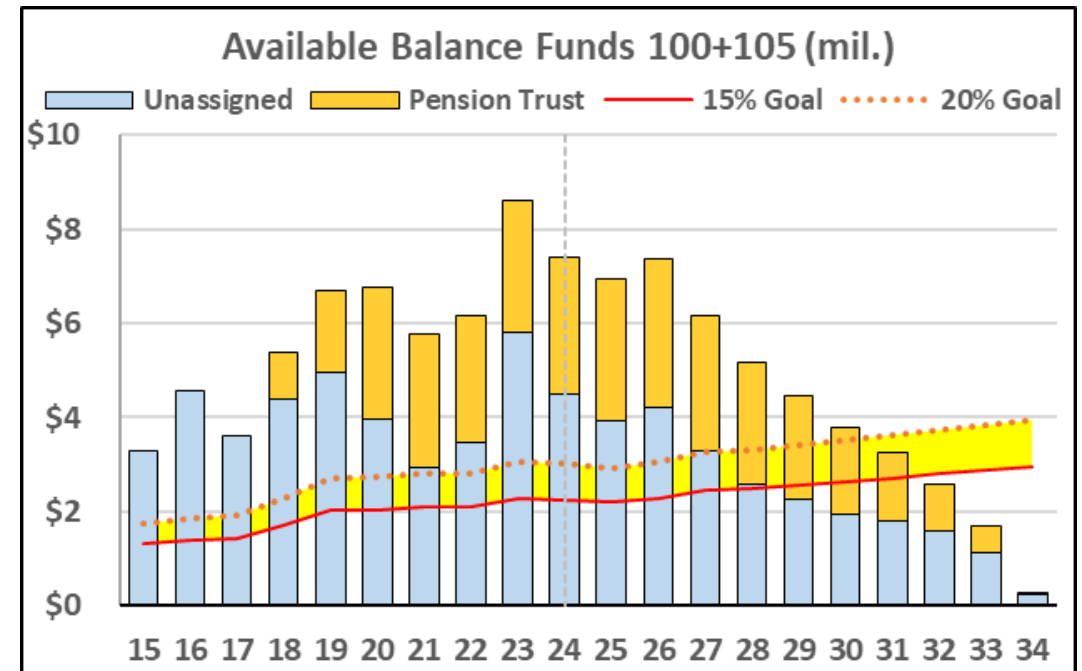
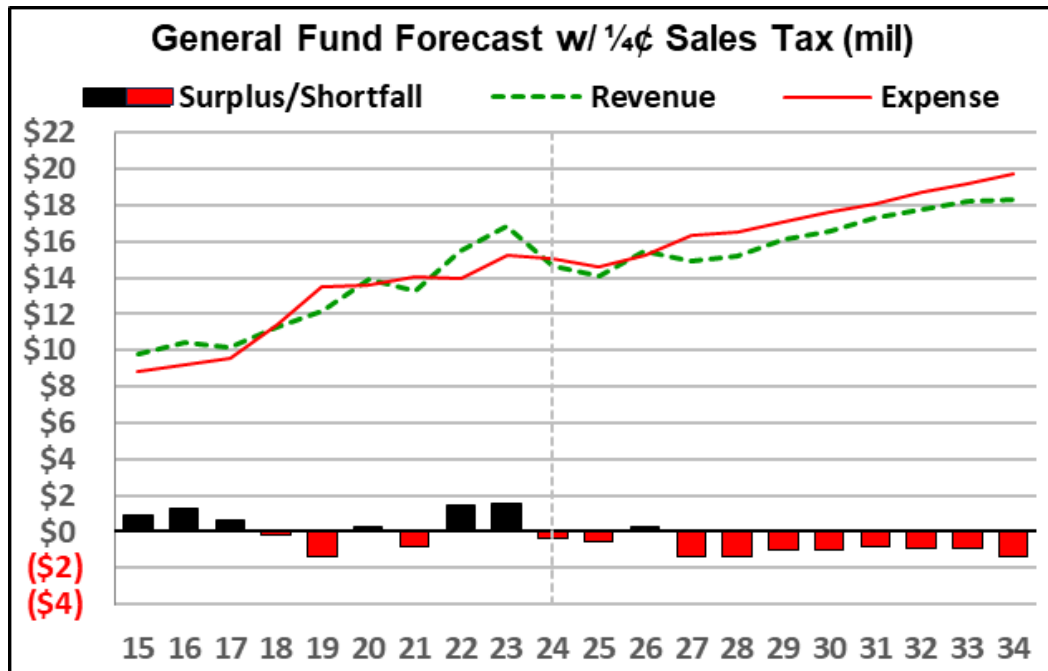
Limited by State Local Rate Cap



- Assumes tax not renewed by the voters
- Amounts include partial first and last year receipts
- Includes impact of economic cycles

B - ½ cent Measure U for 12 years + No Cuts

- Assumes Measure U continues at ½ cent for 12 years (legal issues with cap resolved in City's favor, but no voter renewal)
- Balance still declines over time (but more slowly), going negative in FY35
- Additional reductions likely required in 6 years



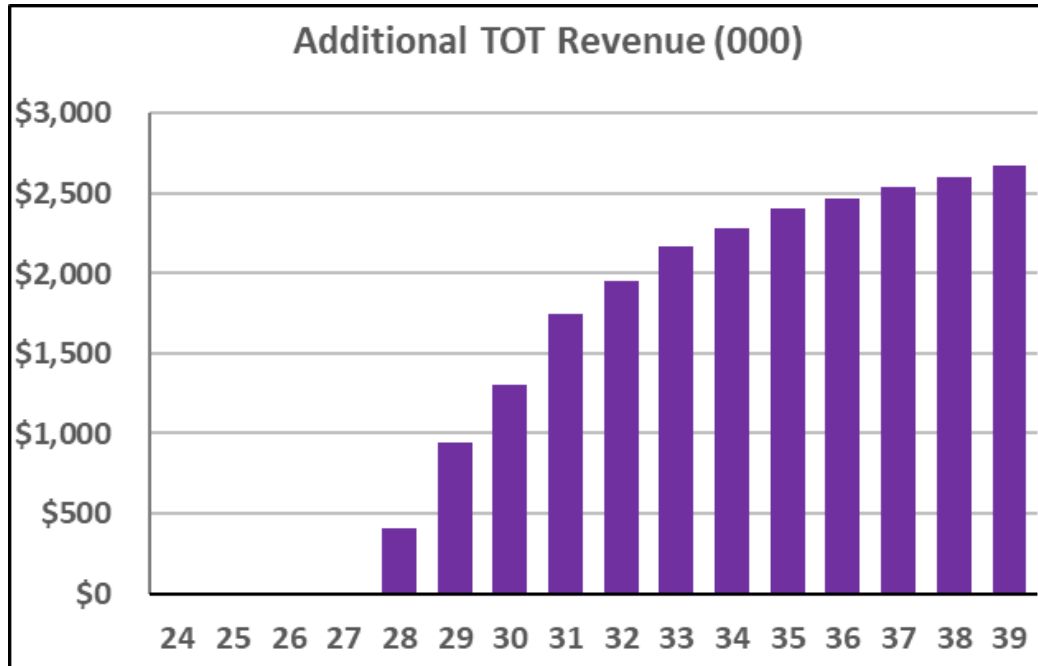
Summary Forecast for Alternate Scenario B

Measure U at ½ cent 12 years

No Cuts, No Hotels are Built

(\$ in 000)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Property Tax	3,293	\$3,444	\$3,620	\$3,664	\$3,813	\$3,891	\$4,009	\$4,211	\$4,422	\$4,644	\$4,830	\$5,023
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Local Sales Taxes	2,353	2,322	2,634	3,905	3,796	3,849	4,268	4,363	4,537	4,607	4,722	4,605
Utility Users Tax	851	863	877	924	949	975	1,002	1,030	1,058	1,087	1,117	1,148
Transient Occup Tax	544	519	519	549	537	565	610	627	644	646	664	649
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Intergovernmental	1,726	115	51	51	51	51	51	51	51	51	51	51
Building Permits	558	349	1,040	980	400	408	416	424	433	442	450	459
Fees & Charges	190	171	142	145	140	140	146	153	160	163	166	161
Interest	(31)	(3)	100	43	30	21	17	14	13	11	10	2
Other Revenues	1,228	673	179	266	269	272	275	278	281	285	288	291
Transfers In	103	102	188	125	126	127	128	130	131	132	133	135
Cost Allocation*	2,190	2,303	1,762	1,802	1,842	1,884	1,926	1,969	2,014	2,059	2,105	2,153
Total Revenue	16,058	13,855	14,080	15,516	14,968	15,191	16,078	16,623	17,268	17,743	18,243	18,334
Salaries	3,987	4,433	4,278	4,452	4,830	4,987	5,149	5,316	5,489	5,667	5,851	6,041
Part-time	415	67	102	104	106	108	110	113	115	117	120	122
Overtime	431	257	251	243	250	258	266	274	282	290	299	308
Pension	1,574	1,512	1,746	1,924	2,132	2,205	2,356	2,387	2,391	2,445	2,439	2,423
Health/OPEB	870	966	972	1,140	1,208	1,244	1,281	1,319	1,358	1,399	1,440	1,483
Other Personnel	888	1,051	977	983	1,009	1,036	1,063	1,091	1,120	1,149	1,180	1,211
Vacancy Savings	-	-	-	(354)	(381)	(393)	(409)	(420)	(430)	(443)	(453)	(464)
Subtotal Personnel	8,164	8,286	8,326	8,492	9,153	9,444	9,816	10,080	10,324	10,625	10,876	11,125
Services & Supplies	3,384	3,345	4,412	3,226	3,307	3,390	3,474	3,561	3,650	3,742	3,835	3,931
Liability Insurance	571	651	641	554	567	582	596	611	626	642	658	675
Utilities	341	354	553	550	564	578	592	607	622	638	654	670
Contributions	580	257	80	82	84	86	88	91	93	95	97	100
Fire District/Contract	-	-	-	1,150	1,220	1,292	1,366	1,444	1,524	1,607	1,693	1,783
Debt Service	254	300	208	446	389	111	86	86	86	86	86	86
Capital/Other Tfrs Out	1,176	1,074	433	432	442	453	465	476	488	500	513	526
Asset Preservation Adds	-	-	-	300	600	615	630	646	662	679	696	713
Total Expense	14,470	14,267	14,653	15,231	16,326	16,551	17,115	17,602	18,077	18,614	19,109	19,608
Net Annual	1,587	(412)	(573)	285	(1,359)	(1,360)	(1,037)	(979)	(808)	(872)	(866)	(1,274)
Pension Trust Contribs	-	-	-	-	426	441	471	477	478	489	488	485
Balance Sheet Adjusts	-	(1,039)	-	-	-	-	-	-	-	-	-	-
Wastewater Loan	-	(1,100)	-	-	-	220	220	220	220	220	-	-
Beginning Fund Balance	5,644	7,231	4,680	4,107	4,392	3,460	2,761	2,415	2,134	2,024	1,861	1,483
Ending Fund Balance	7,231	4,680	4,107	4,392	3,460	2,761	2,415	2,134	2,024	1,861	1,483	693
less: Commit/Assign	1,423	200	200	200	200	200	200	200	200	200	200	200
Unassigned Balance	5,809	4,480	3,907	4,192	3,260	2,561	2,215	1,934	1,824	1,661	1,283	493
Pension Trust (105)	2,781	2,906	3,037	3,173	2,890	2,579	2,223	1,846	1,451	1,027	586	127
Total Avail Balance	8,589	7,386	6,944	7,365	6,149	5,139	4,439	3,780	3,275	2,688	1,868	620
Unassign as % of Exp	40.1%	31.4%	26.7%	27.5%	20.0%	15.5%	12.9%	11.0%	10.1%	8.9%	6.7%	2.5%
<i>*net of G&A expense for FY18-24</i>												

C – Potential Impact of New Hotels

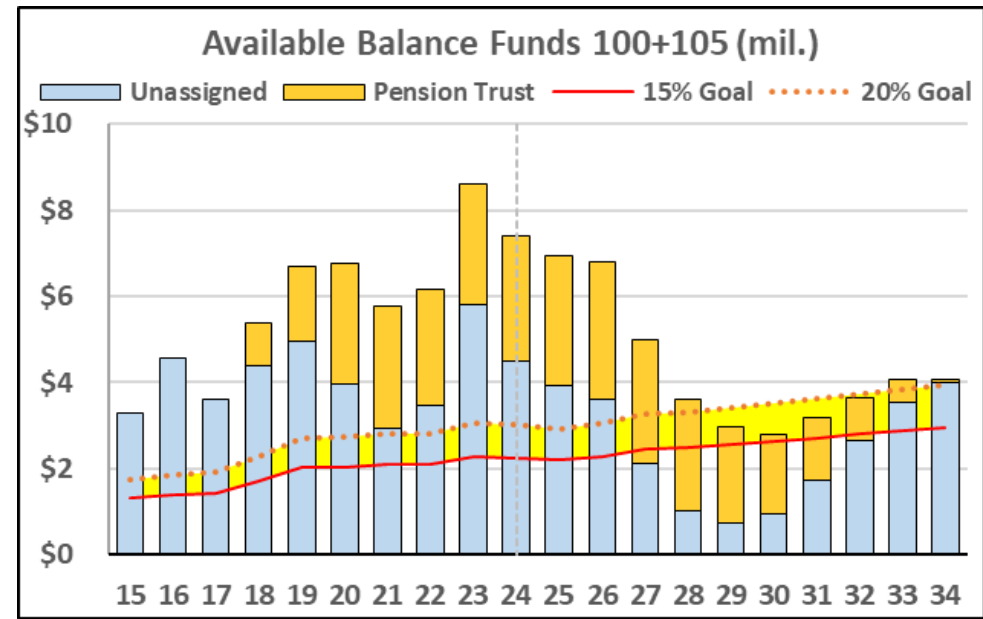
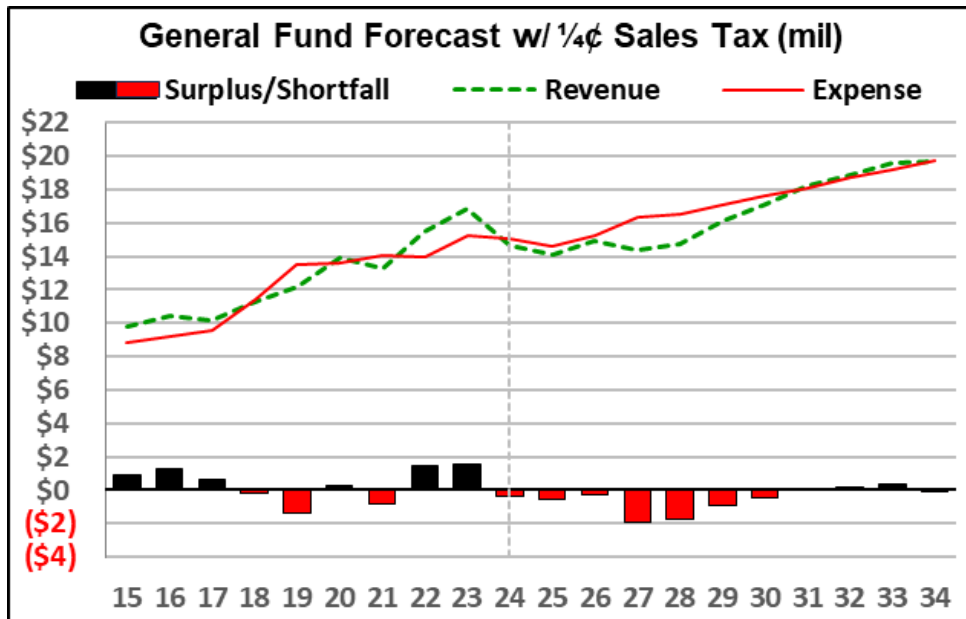


TOT=Transient Occupancy Tax at 12% of room receipts for stays of under 30 days

- Assumes both hotels currently in the planning stages are ultimately constructed
- Will they get built? Will market support ultimately two high-end hotels?
- Assumes Hotel Barlow at 80 rooms, \$550 average room rate, 70% occupancy rate, opens Jan 2028
- Assumes Hotel Sebastopol at 66 rooms, \$350 average room rate, 75% occupancy rate, opens Jan 2030
- To be conservative, assumes both hotels start at 60% of full revenue-generating level and phase into that full revenue level over 5 years

C - ¼ cent Measure U + Two New Hotels + No Cuts

- Assumes Measure U at ¼ cent rate expires after 12 years (no voter renewal)
- Assumes both hotels are built and phase into full expected revenue generating levels
- Balance (including Pension Trust) remains above 15% reserve goal
- Hotel revenues subject to wide variance depending on health of the economy; risk is associated with including revenues from two projects that are not yet completed



Summary Forecast for Alternate Scenario C

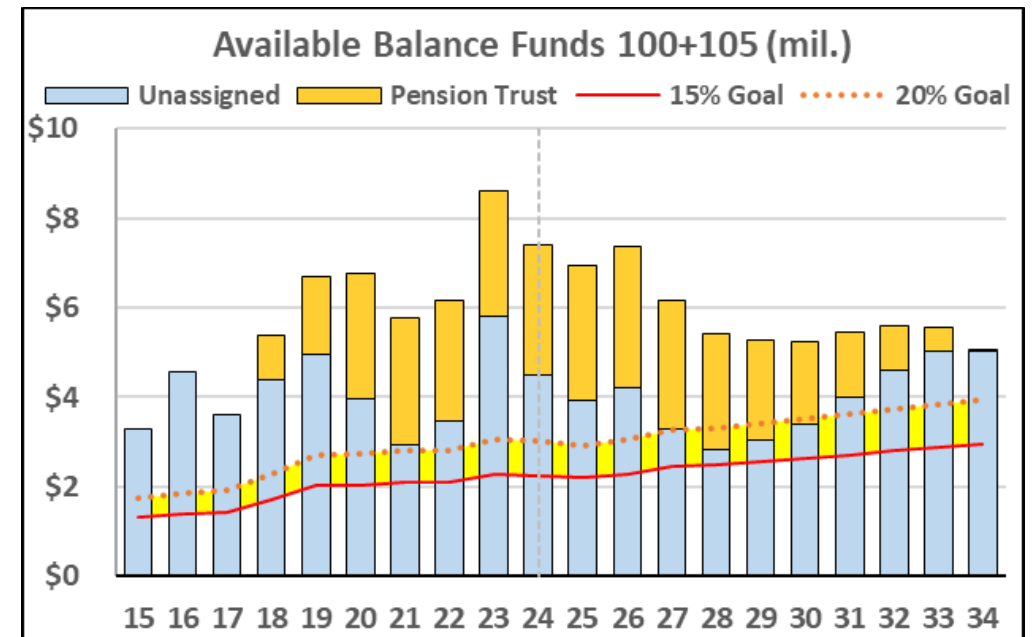
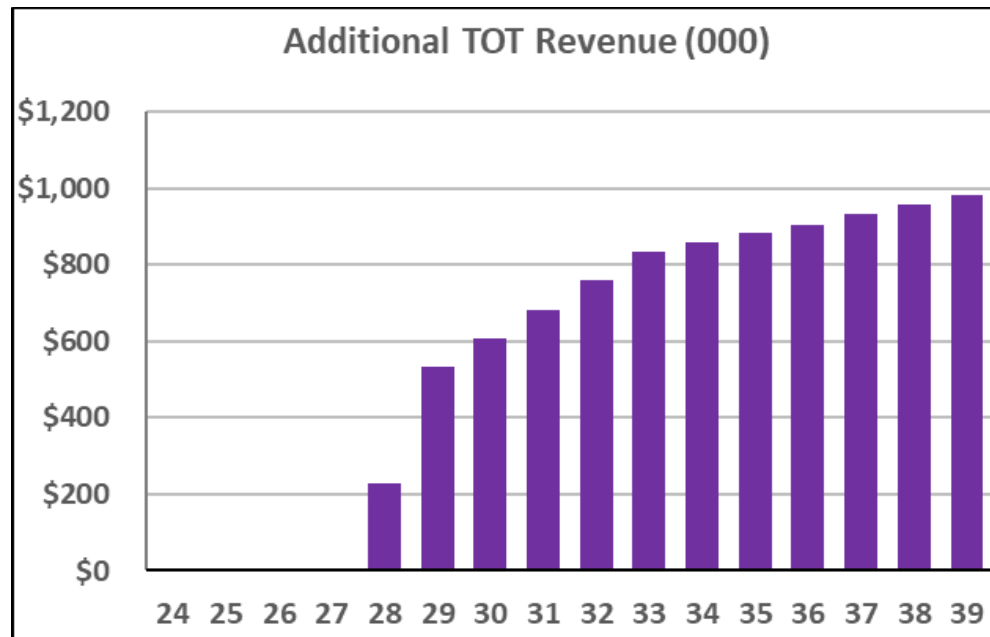
Measure U at ½ cent for 6 months and ¼ cent for 11.5 years

No Cuts, Both Hotels are Built

(\$ in 000)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Property Tax	3,293	\$3,444	\$3,620	\$3,664	\$3,813	\$3,891	\$4,009	\$4,211	\$4,422	\$4,644	\$4,830	\$5,023
Sales Tax	2,365	2,305	2,251	2,331	2,271	2,259	2,467	2,591	2,720	2,791	2,864	2,801
Local Sales Taxes	2,353	2,322	2,634	3,316	3,224	3,056	3,374	3,486	3,640	3,712	3,808	3,716
Utility Users Tax	851	863	877	924	949	975	1,002	1,030	1,058	1,087	1,117	1,148
Transient Occup Tax	544	519	519	549	537	971	1,604	2,002	2,481	2,656	2,890	2,881
Other Taxes	688	692	717	732	744	749	762	783	804	825	842	856
Intergovernmental	1,726	115	51	51	51	51	51	51	51	51	51	51
Building Permits	558	349	1,040	980	400	408	416	424	433	442	450	459
Fees & Charges	190	171	142	145	140	140	146	153	160	163	166	161
Interest	(31)	(3)	100	38	18	5	2	4	12	22	34	39
Other Revenues	1,228	673	179	266	269	272	275	278	281	285	288	291
Transfers In	103	102	188	125	126	127	128	130	131	132	133	135
Cost Allocation*	2,190	2,303	1,762	1,802	1,842	1,884	1,926	1,969	2,014	2,059	2,105	2,153
Total Revenue	16,058	13,855	14,080	14,922	14,384	14,788	16,163	17,111	18,208	18,869	19,579	19,715
Salaries	3,987	4,433	4,278	4,452	4,830	4,987	5,149	5,316	5,489	5,667	5,851	6,041
Part-time	415	67	102	104	106	108	110	113	115	117	120	122
Overtime	431	257	251	243	250	258	266	274	282	290	299	308
Pension	1,574	1,512	1,746	1,924	2,132	2,205	2,356	2,387	2,391	2,445	2,439	2,423
Health/OPEB	870	966	972	1,140	1,208	1,244	1,281	1,319	1,358	1,399	1,440	1,483
Other Personnel	888	1,051	977	983	1,009	1,036	1,063	1,091	1,120	1,149	1,180	1,211
Vacancy Savings	-	-	-	(354)	(381)	(393)	(409)	(420)	(430)	(443)	(453)	(464)
Subtotal Personnel	8,164	8,286	8,326	8,492	9,153	9,444	9,816	10,080	10,324	10,625	10,876	11,125
Services & Supplies	3,384	3,345	4,412	3,226	3,307	3,390	3,474	3,561	3,650	3,742	3,835	3,931
Liability Insurance	571	651	641	554	567	582	596	611	626	642	658	675
Utilities	341	354	553	550	564	578	592	607	622	638	654	670
Contributions	580	257	80	82	84	86	88	91	93	95	97	100
Fire District/Contract	-	-	-	1,150	1,220	1,292	1,366	1,444	1,524	1,607	1,693	1,783
Debt Service	254	300	208	446	389	111	86	86	86	86	86	86
Capital/Other Tftrs Out	1,176	1,074	433	432	442	453	465	476	488	500	513	526
Asset Preservation Adds	-	-	-	300	600	615	630	646	662	679	696	713
Total Expense	14,470	14,267	14,653	15,231	16,326	16,551	17,115	17,602	18,077	18,614	19,109	19,608
Net Annual	1,587	(412)	(573)	(310)	(1,942)	(1,763)	(952)	(491)	132	255	470	106
Pension Trust Contribs	-	-	-	-	426	441	471	477	478	489	488	485
Balance Sheet Adjusts	-	(1,039)	-	-	-	-	-	-	-	-	-	-
Wastewater Loan	-	(1,100)	-	-	-	220	220	220	220	220	-	-
Beginning Fund Balance	5,644	7,231	4,680	4,107	3,797	2,281	1,180	919	1,126	1,956	2,919	3,877
Ending Fund Balance	7,231	4,680	4,107	3,797	2,281	1,180	919	1,126	1,956	2,919	3,877	4,468
less: Commit/Assign	1,423	200	200	200	200	200	200	200	200	200	200	200
Unassigned Balance	5,809	4,480	3,907	3,597	2,081	980	719	926	1,756	2,719	3,677	4,268
Pension Trust (105)	2,781	2,906	3,037	3,173	2,890	2,579	2,223	1,846	1,451	1,027	586	127
Total Avail Balance	8,589	7,386	6,944	6,771	4,971	3,558	2,943	2,772	3,207	3,747	4,263	4,395
Unassign as % of Exp	40.1%	31.4%	26.7%	23.6%	12.7%	5.9%	4.2%	5.3%	9.7%	14.6%	19.2%	21.8%
<i>*net of G&A expense for FY18-24</i>												

D - ½ cent Measure U + One New Hotel + No Cuts

- Assumes Measure U at ½ cent rate expires after 12 years
- Assumes one hotel opens in Jan 2028 at lower revenue level, and the other is not built
- Balance (including Pension Trust) levels off above 15% reserve goal
- Requires resolution of local sales tax rate cap; there is still some risk of assuming new hotel TOT revenue, but includes only one, not two



Summary Forecast for Alternate Scenario D

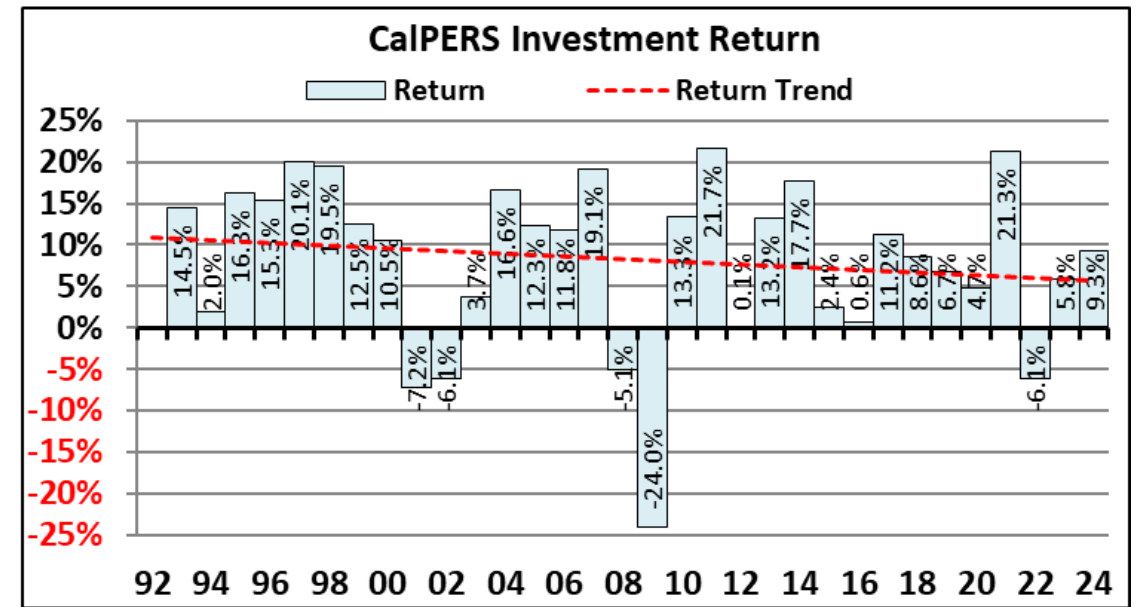
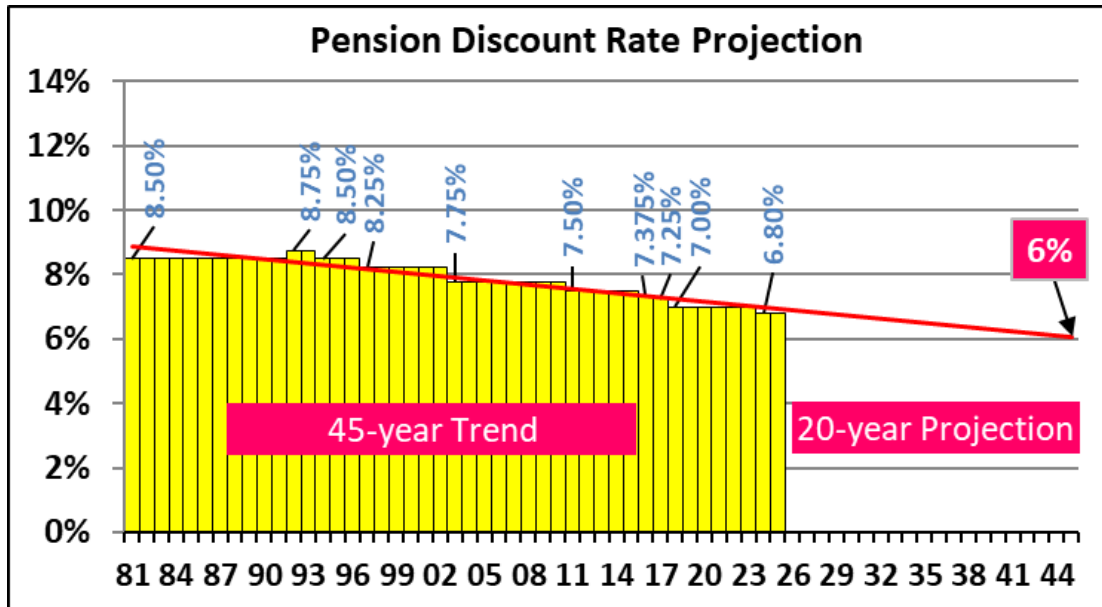
Measure U is ½ cent for 12 Years

No Cuts, One Hotel is Built

(\$ in 000)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Property Tax	3,293	\$3,444	\$3,620	\$3,664	\$3,813	\$3,891	\$4,009	\$4,211	\$4,422	\$4,644	\$4,830	\$5,023
Sales Tax	2,365	2,305	2,251	2,331	2,271	2,259	2,467	2,591	2,720	2,791	2,864	2,801
Local Sales Taxes	2,353	2,322	2,634	3,905	3,796	3,849	4,268	4,363	4,537	4,607	4,722	4,605
Utility Users Tax	851	863	877	924	949	975	1,002	1,030	1,058	1,087	1,117	1,148
Transient Occup Tax	544	519	519	549	537	794	1,169	1,266	1,363	1,426	1,521	1,487
Other Taxes	688	692	717	732	744	749	762	783	804	825	842	856
Intergovernmental	1,726	115	51	51	51	51	51	51	51	51	51	51
Building Permits	558	349	1,040	980	400	408	416	424	433	442	450	459
Fees & Charges	190	171	142	145	140	140	146	153	160	163	166	161
Interest	(31)	(3)	100	43	30	23	25	29	35	41	48	49
Other Revenues	1,228	673	179	266	269	272	275	278	281	285	288	291
Transfers In	103	102	188	125	126	127	128	130	131	132	133	135
Cost Allocation*	2,190	2,303	1,762	1,802	1,842	1,884	1,926	1,969	2,014	2,059	2,105	2,153
Total Revenue	16,058	13,855	14,080	15,516	14,968	15,421	16,645	17,276	18,009	18,552	19,139	19,219
Salaries	3,987	4,433	4,278	4,452	4,830	4,987	5,149	5,316	5,489	5,667	5,851	6,041
Part-time	415	67	102	104	106	108	110	113	115	117	120	122
Overtime	431	257	251	243	250	258	266	274	282	290	299	308
Pension	1,574	1,512	1,746	1,924	2,132	2,205	2,356	2,387	2,391	2,445	2,439	2,423
Health/OPEB	870	966	972	1,140	1,208	1,244	1,281	1,319	1,358	1,399	1,440	1,483
Other Personnel	888	1,051	977	983	1,009	1,036	1,063	1,091	1,120	1,149	1,180	1,211
Vacancy Savings	-	-	-	(354)	(381)	(393)	(409)	(420)	(430)	(443)	(453)	(464)
Subtotal Personnel	8,164	8,286	8,326	8,492	9,153	9,444	9,816	10,080	10,324	10,625	10,876	11,125
Services & Supplies	3,384	3,345	4,412	3,226	3,307	3,390	3,474	3,561	3,650	3,742	3,835	3,931
Liability Insurance	571	651	641	554	567	582	596	611	626	642	658	675
Utilities	341	354	553	550	564	578	592	607	622	638	654	670
Contributions	580	257	80	82	84	86	88	91	93	95	97	100
Fire District/Contract	-	-	-	1,150	1,220	1,292	1,366	1,444	1,524	1,607	1,693	1,783
Debt Service	254	300	208	446	389	111	86	86	86	86	86	86
Capital/Other Tfrs Out	1,176	1,074	433	432	442	453	465	476	488	500	513	526
Asset Preservation Adds	-	-	-	300	600	615	630	646	662	679	696	713
Total Expense	14,470	14,267	14,653	15,231	16,326	16,551	17,115	17,602	18,077	18,614	19,109	19,608
Net Annual	1,587	(412)	(573)	285	(1,359)	(1,129)	(470)	(326)	(68)	(62)	30	(389)
Pension Trust Contribs	-	-	-	-	426	441	471	477	478	489	488	485
Balance Sheet Adjusts	-	(1,039)	-	-	-	-	-	-	-	-	-	-
Wastewater Loan	-	(1,100)	-	-	-	220	220	220	220	220	-	-
Beginning Fund Balance	5,644	7,231	4,680	4,107	4,392	3,460	2,991	3,213	3,585	4,215	4,862	5,380
Ending Fund Balance	7,231	4,680	4,107	4,392	3,460	2,991	3,213	3,585	4,215	4,862	5,380	5,475
less: Commit/Assign	1,423	200	200	200	200	200	200	200	200	200	200	200
Unassigned Balance	5,809	4,480	3,907	4,192	3,260	2,791	3,013	3,385	4,015	4,662	5,180	5,275
Pension Trust (105)	2,781	2,906	3,037	3,173	2,890	2,579	2,223	1,846	1,451	1,027	586	127
Total Avail Balance	8,589	7,386	6,944	7,365	6,149	5,370	5,236	5,231	5,466	5,689	5,765	5,403
Unassign as % of Exp	40.1%	31.4%	26.7%	27.5%	20.0%	16.9%	17.6%	19.2%	22.2%	25.0%	27.1%	26.9%
<i>*net of G&A expense for FY18-24</i>												

Pension Cost Forecast

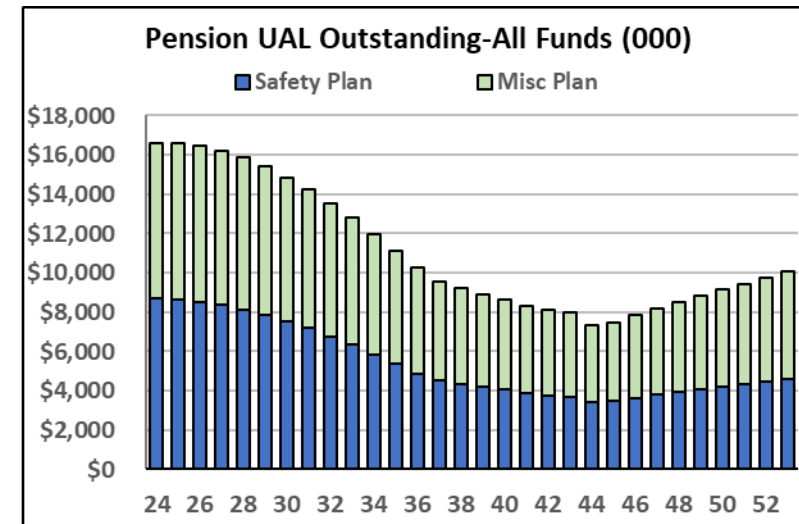
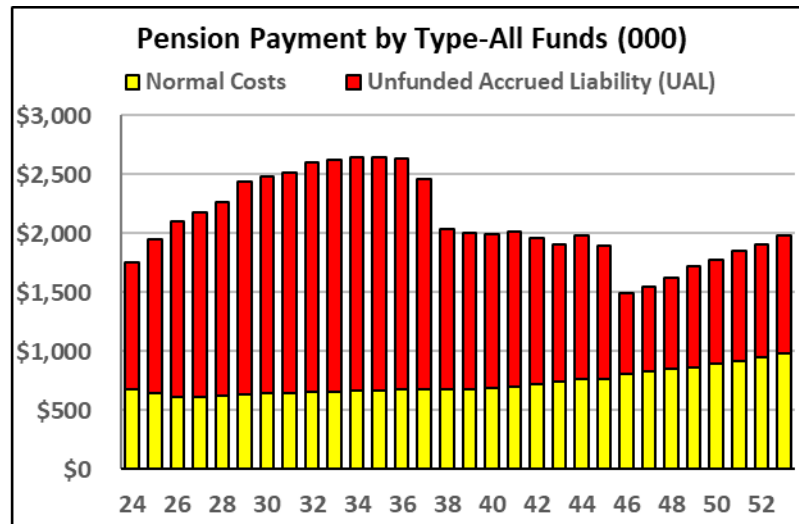
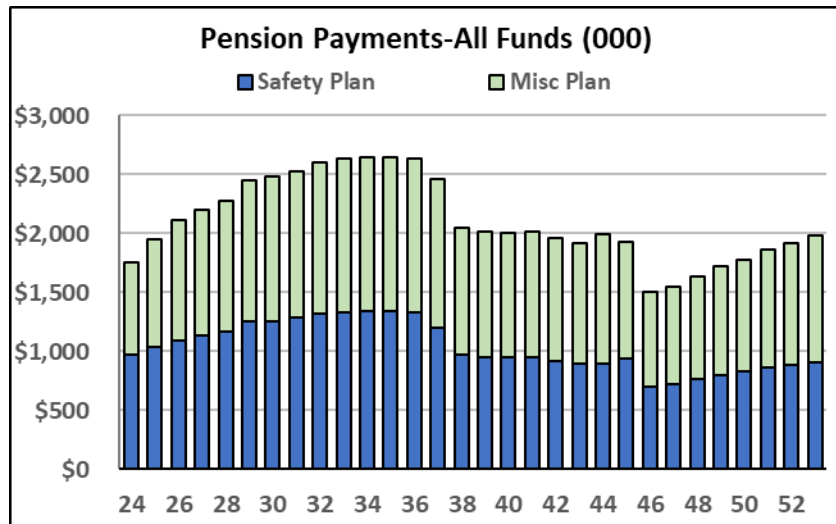
Basis for Lower CalPERS Investment Return Assumption



- Discount rate is investment rate of return assumed by CalPERS
- Discount rate has been lowered several times over past 45 years, from high of 8.75% to current 6.8%
- Following the 45-year linear trend of discount rates, in 20 years discount rate would theoretically be 6.0%
- However, **forecast assumes the current 6.8% discount rate is maintained**; if discount rate is lowered, City costs will be higher in near-term, and lower in long-term

- CalPERS investments are volatile, and have been on slow overall downward trend over past 30 years
- CalPERS plans to leverage its investments in private equity (carries greater risk and volatility of return) to achieve its 6.8% return target
- **Forecast assumes 6.2% average returns** to be conservative, given risks inherent in CalPERS' investment strategy

Summary of Pension Costs-Citywide



Source: CalPERS Pension Outlook Model

- Assumes 6.8% discount rate and 6.2% average return
- UAL shrinks significantly, but begins to grow again assuming returns average less than the discount rate; if discount rate drops, costs to City increase in near-term but UAL eventually is paid off
- If returns are higher, then UAL is paid down faster; at 6.8% returns and 6.8% discount rate UAL is (in theory) paid off completely in 2045