Long-Term Financial Forecast and Initial Analysis

February 16, 2021

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Initial Focus & Next Steps

- Initial Focus
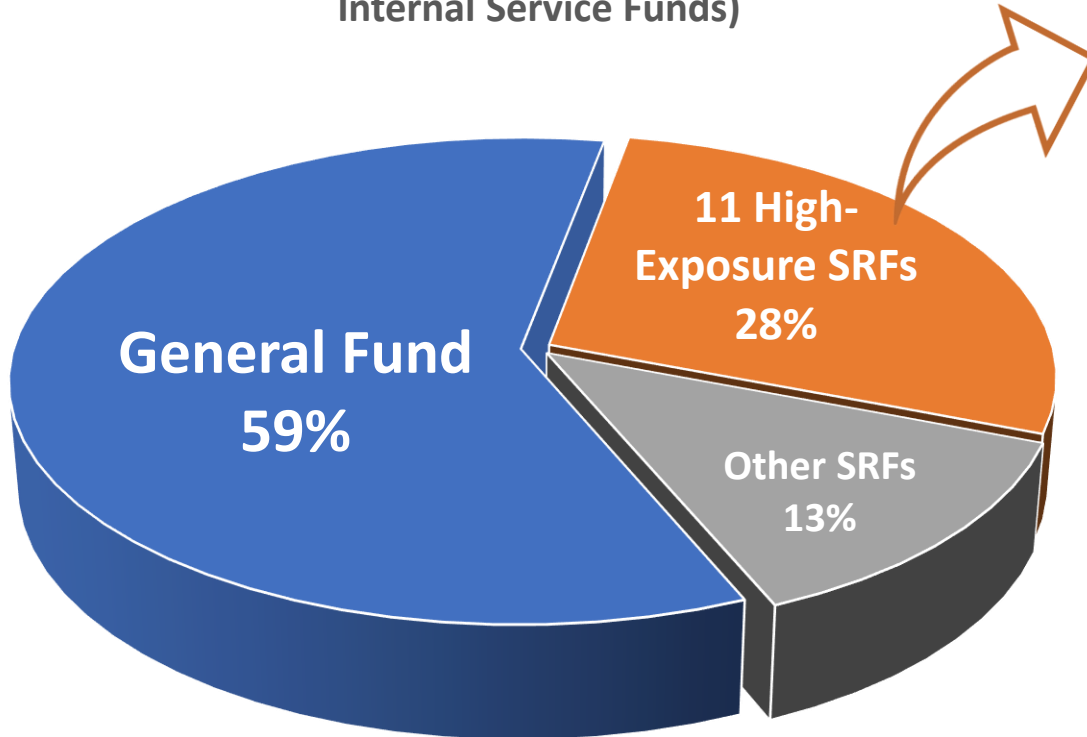- Structural Deficits in SRFs
- Next Steps

UFI
Financial Solutions

ALAMEDA

UNDERSTANDING CITY'S FORECAST MODEL

Alameda's Forecast Model – Special Revenue Funds

Alameda – General Municipal Operations $172 Million

(excludes Capital Projects, Debt, Enterprise & Internal Service Funds)

General Fund 59%

11 High-Exposure SRFs 28%

Other SRFs 13%

GENERAL FUND – EXPOSURE 11 Special Revenue Funds	
Salaries & Benefits	$22.1 million
Transfers In/Out with General Fund	$5.3 million
Cost Allocation Contributions	$5.3 million
TOTAL	$32.7 million

| NEAR-TERM RISKS	
Operating Deficits in last 3 fiscal years	6 of 11 Funds
Avg. # of years until Fund Balance at $0	2.1 Years

Alameda's Forecast Model – SRFs Risk Analysis

CITY OF ALAMEDA - SPECIAL REVENUE FUNDS - FINANCIAL POSITION & GENERAL FUND EXPOSURE (FY 2019-2021)									
								GENERAL FUND EXPOSURE		
Fund #	Special Revenue Fund*	FUND BALANCE FY 2019 (beginning)	FUND BALANCE FY 2020 (beginning)	FUND BALANCE FY 2021 (beginning)	Operating Surplus/(Deficit) FY 2021	FUND BALANCE FY 2022 (beginning)	Projected Depletion of Fund Balance (Years)	Net Transfers From/(To) General Fund FY 2021	Salaries & Benefits FY 2021	Net ISF and Cost Allocation Contrib./(Receipt) FY 2021
Funds with General Municipal Operations and/or High-Exposure Risk (included in Forecast Model)								$ 5,261,500	$ 22,147,007	$ 5,335,953
209	Community Development	615,958	987,132	1,445,956	11,539	1,457,495			4,135,324	780,267
210	Alameda Free Library	2,007,797	1,958,639	1,707,243	(517,995)	1,189,248	2.3	2,081,000	3,206,683	926,328
216	Tidelands	2,864,297	1,272,713	656,490	(316,621)	339,869	1.1		475,980	110,433
220	Fire Grants	326,558	331,232	249,006	(36,869)	212,137	5.8	650,000	2,060,610	
224 & 224.1	Parking Meter / Civic Center	2,124,099	1,645,330	1,010,275	(691,696)	318,579	0.5	(380,000)	213,054	159,807
256	FISC Lease Revenue	3,994,906	3,076,364	1,747,296	(1,278,197)	469,099	0.4	(93,000)	554,710	153,289
267	Human Services (First Five Grant)	10,616	3,484	33	63	96		192,500	165,719	24,108
280	Recreation	1,979,619	1,703,914	1,206,080	(365,781)	840,299	2.3	2,539,000	3,073,508	1,480,182
310.05	Public Works Admin. & Eng.*	572,390	583,466	545,288	(135,639)	409,649	3.0	405,000	4,829,635	(697,912)
351	Urban Runoff* (Stormwater)	1,100,310	(464,391)	109,243	81,434	190,677		67,000	2,162,196	1,275,985
858	Base Reuse	5,310,307	22,256,058	4,978,163	(1,995,064)	2,983,099	1.5	(200,000)	1,269,588	1,123,466
Other At-Risk Special Revenue Funds (deminimus or no general municipal operations/exposure)								$ -	$ 1,234,858	$ 324,629
Non At-Risk Special Revenue Funds								$ -	$ 422,500	$ 697,097

10-YEAR BASELINE FORECAST

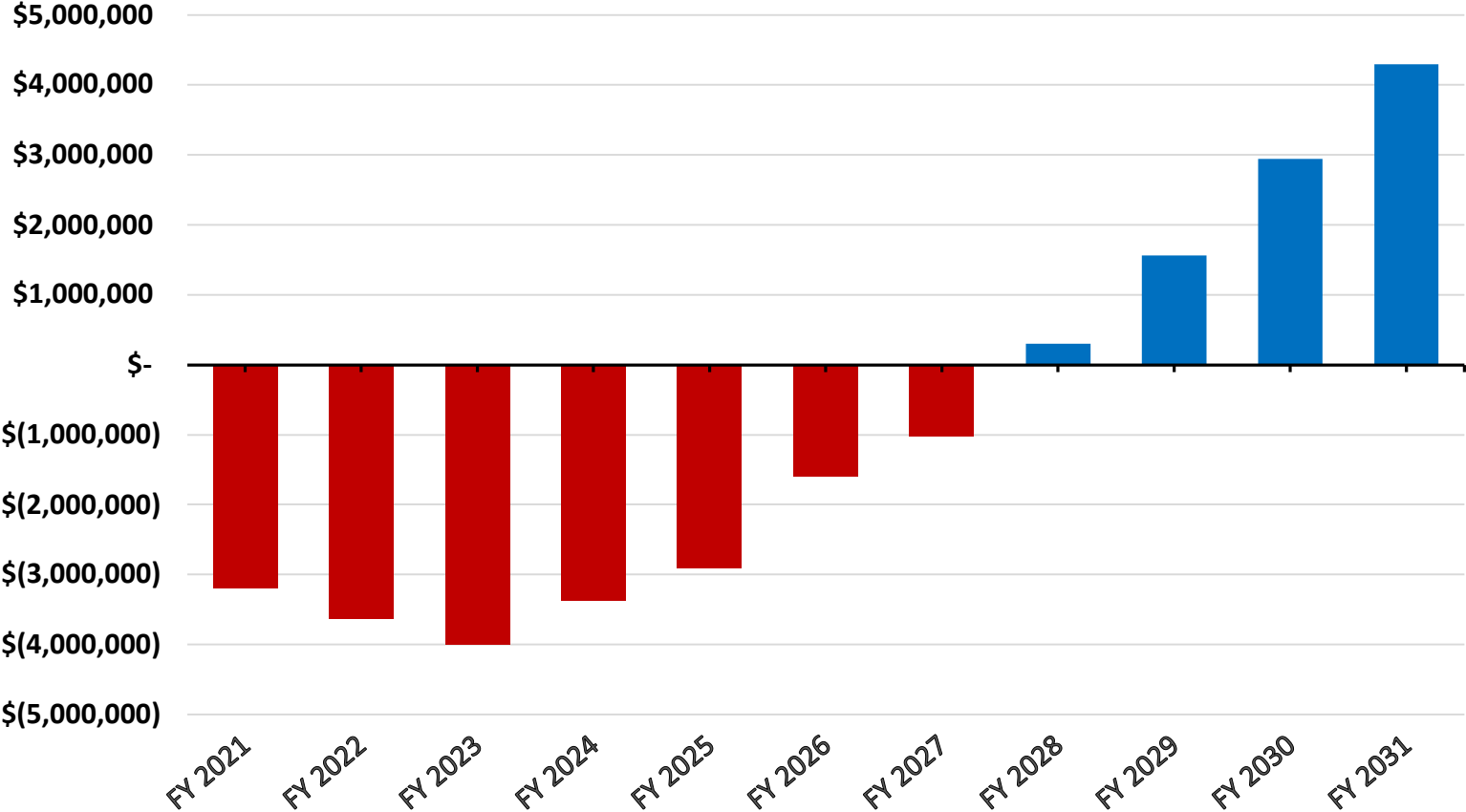Total Revenues & Expenses
10-Year Prior
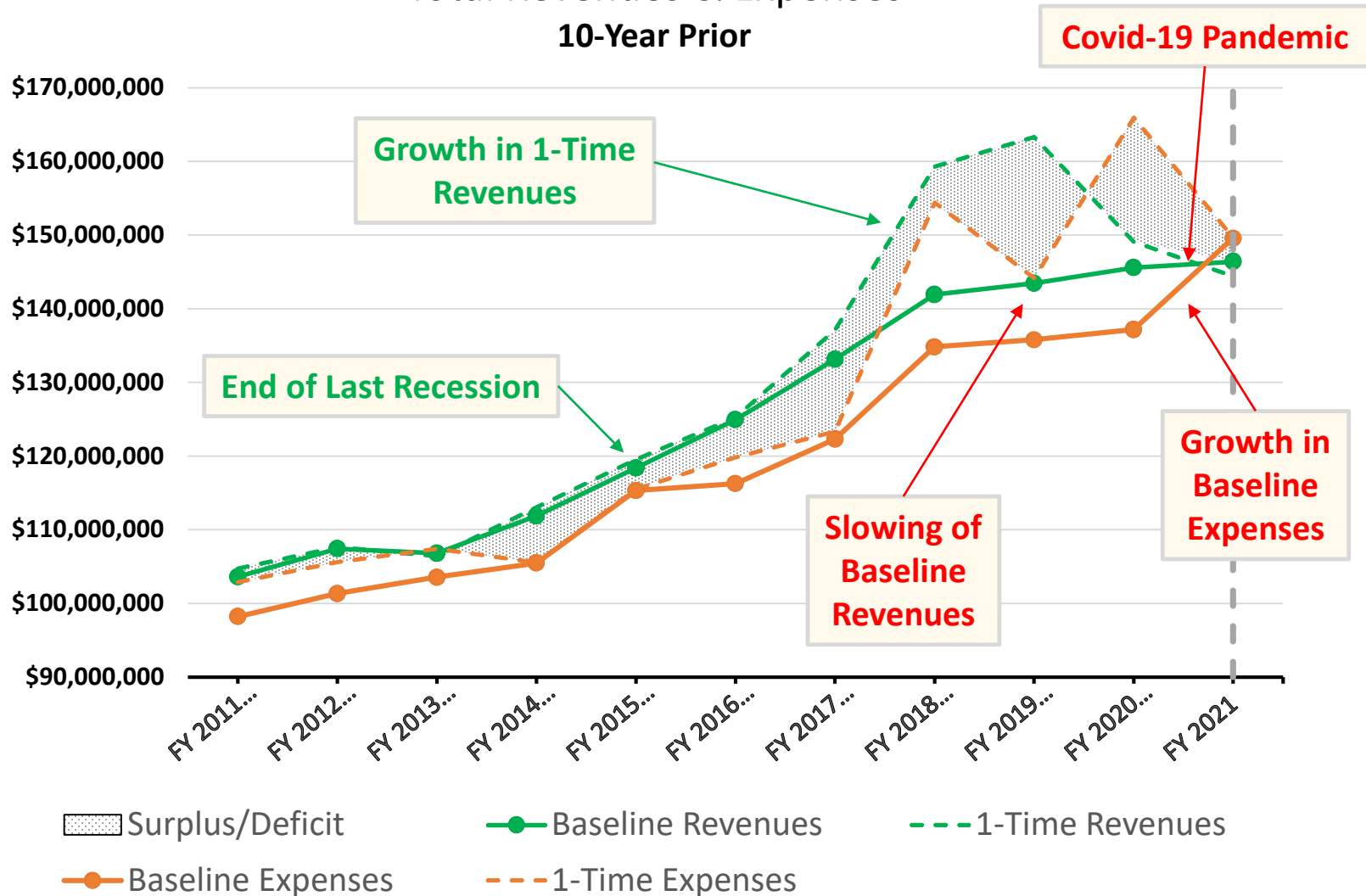
Baseline Forecast – 10-Year Projection (2021-31)

Total Revenues & Expenses
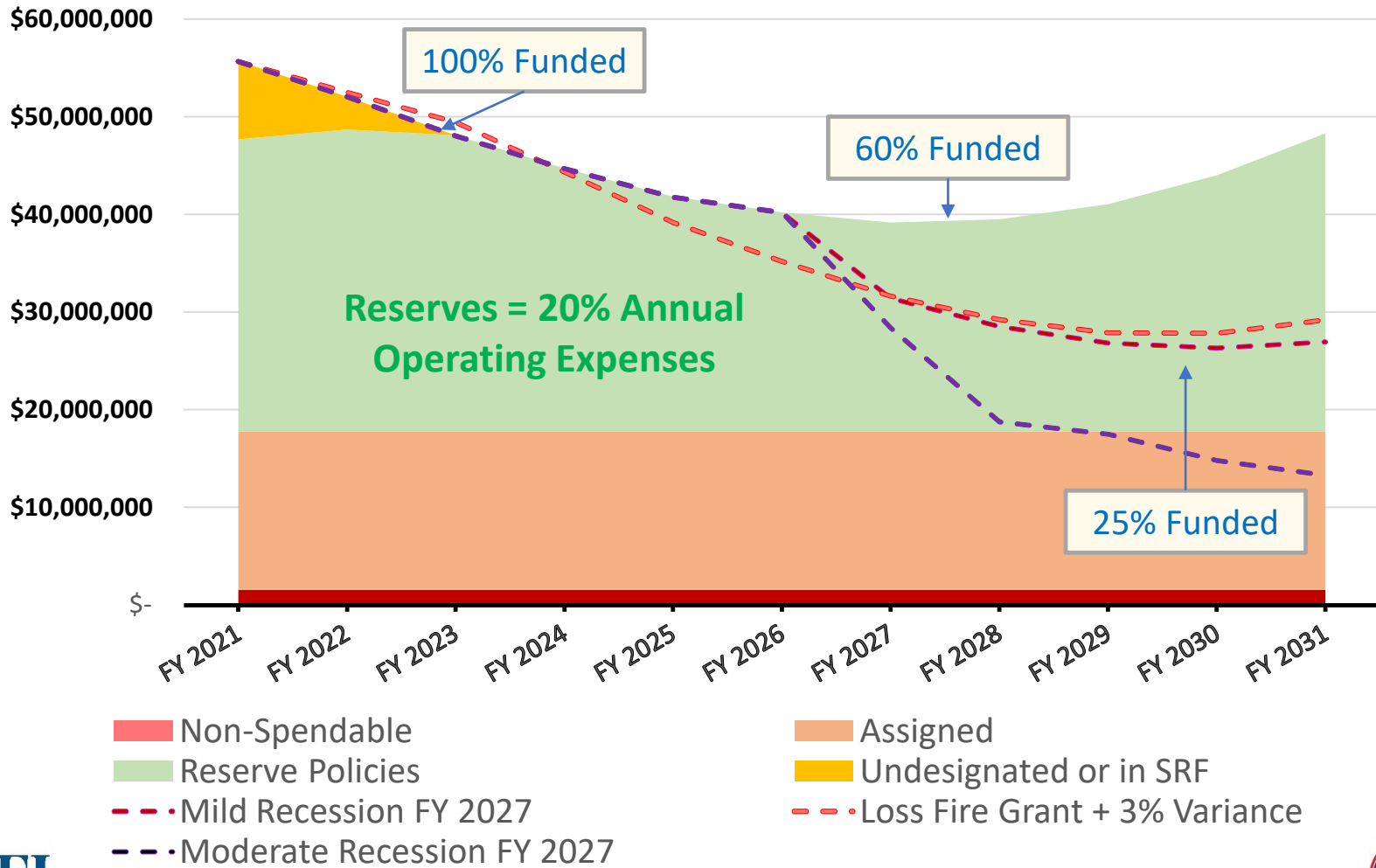**10-Year Prior and Baseline Forecast**
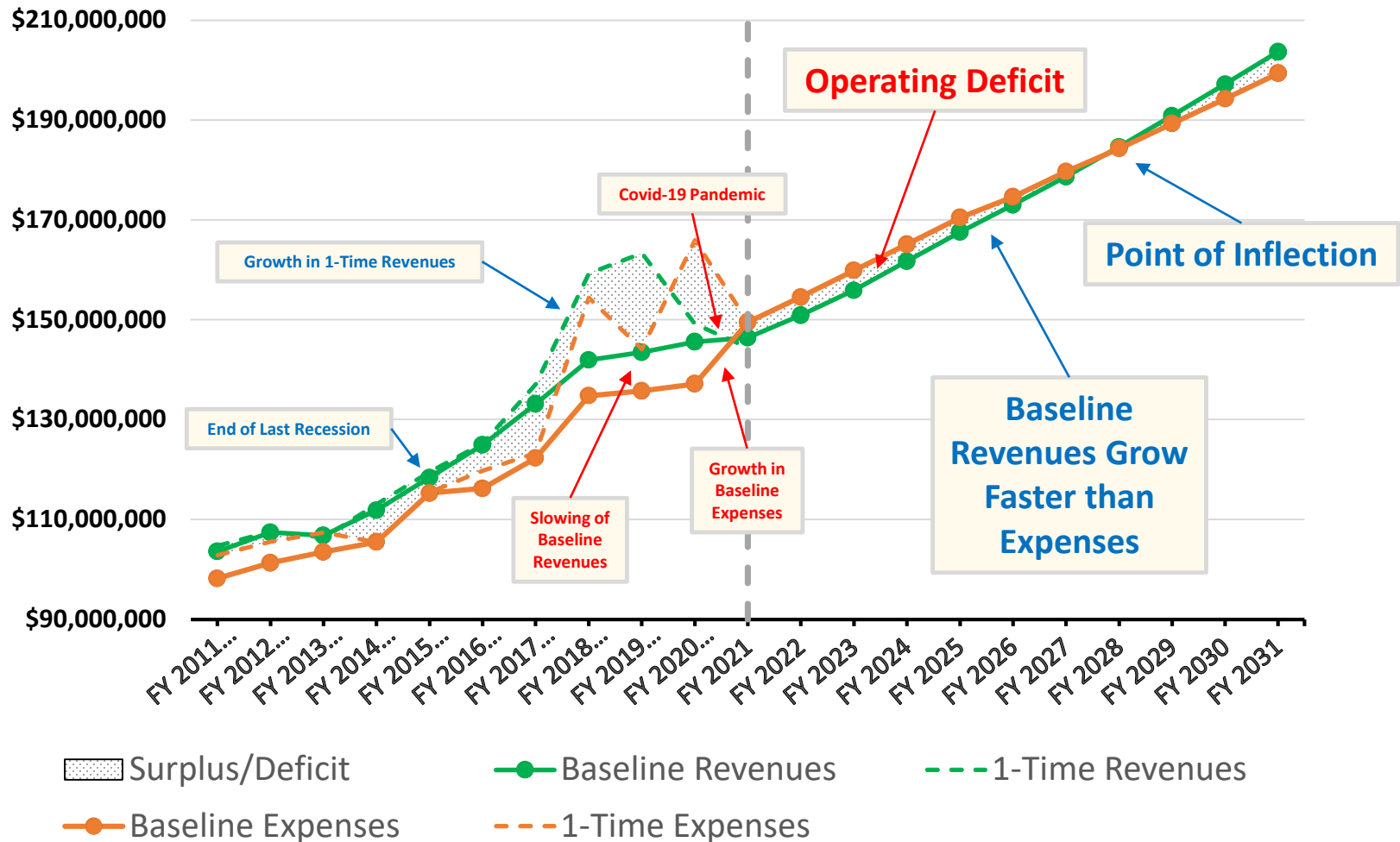
Baseline Forecast – Annual Surplus/(Deficit)

Annual Operating Surplus/(Deficit)
Baseline Forecast

Baseline Forecast – Fund Balance Impact

Year End Fund Balance, Reserves & Sensitivity

Baseline Forecast

100% Funded

60% Funded

25% Funded

Reserves = 20% Annual Operating Expenses

Legend:
- Non-Spendable
- Assigned
- Reserve Policies
- Undesignated or in SRF
- Mild Recession FY 2027
- Loss Fire Grant + 3% Variance
- Moderate Recession FY 2027

FORECAST – INITIAL FOCUS & NEXT STEPS

Initial Focus – Structural Deficits

$3 to $4 Million Annual Operating Deficit

General Fund

2 Special Revenue Funds

Structural Deficits FY 2021 $2.0 million

Tidelands (Fund 216)

FISC Lease Revenue (Fund 256)
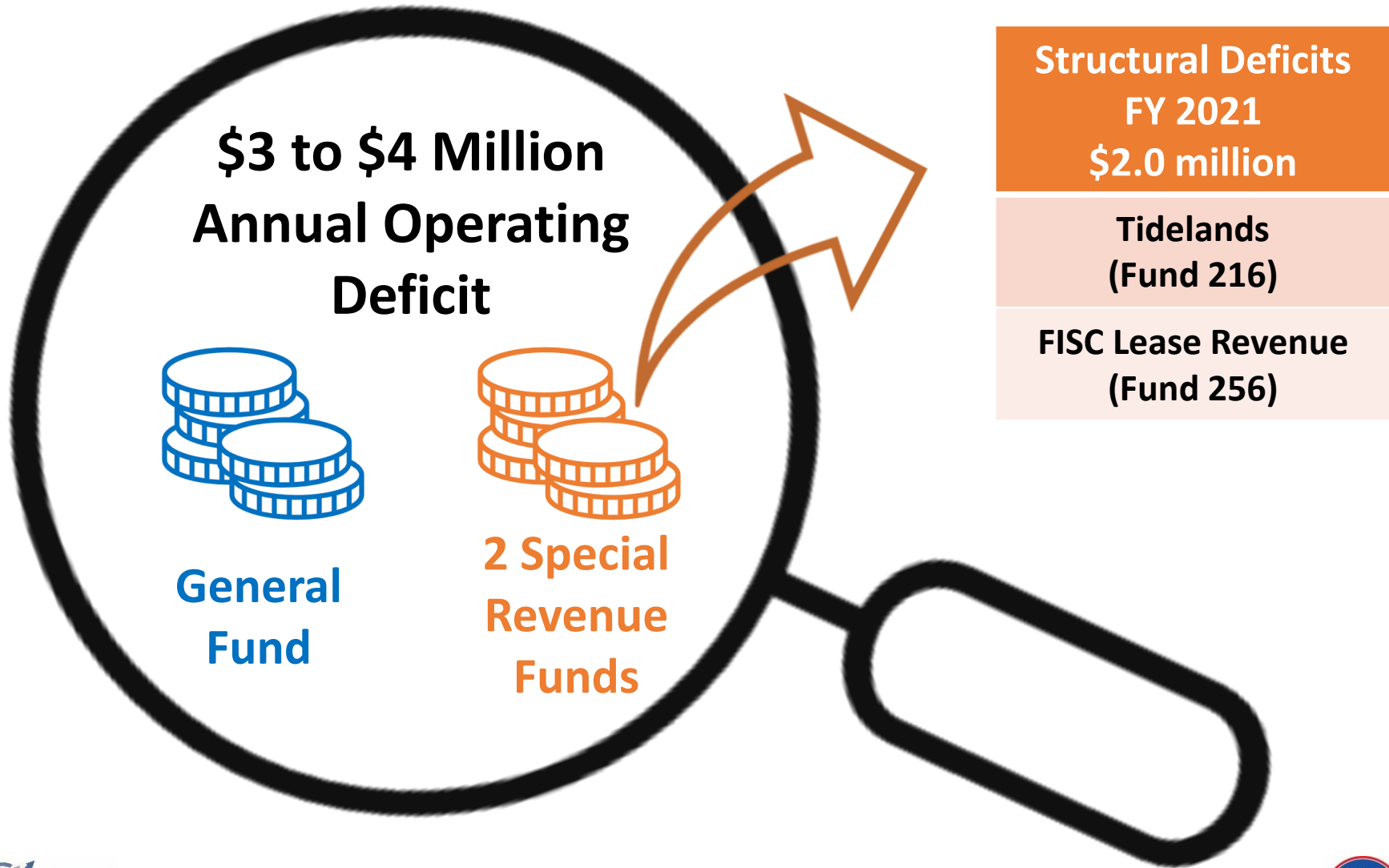
Initial Focus – Structural Deficit in Two SRFs

Annual Operating Surplus/(Deficit)
Baseline Forecast - Funds 216 and 256
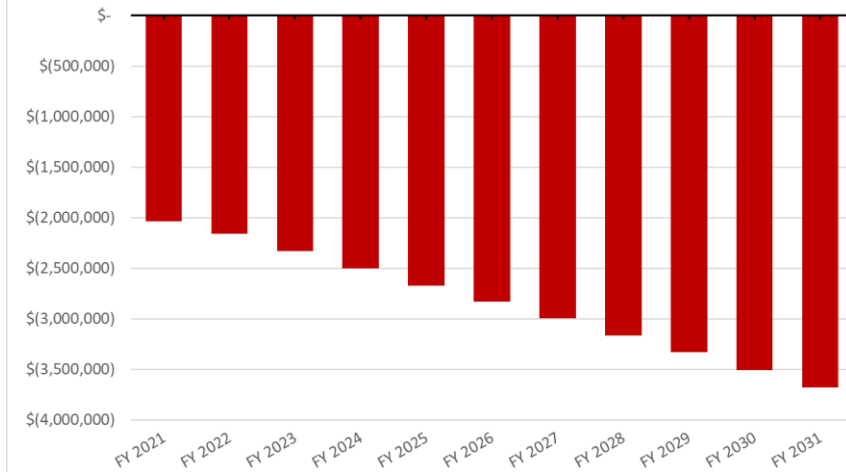
BUDGETED EXPENSES	FY 2021
Contractual Services	$1.0 million
Salaries, Wages & Benefits	$1.0 million
Transfers Out & Cost Allocation	$450,000

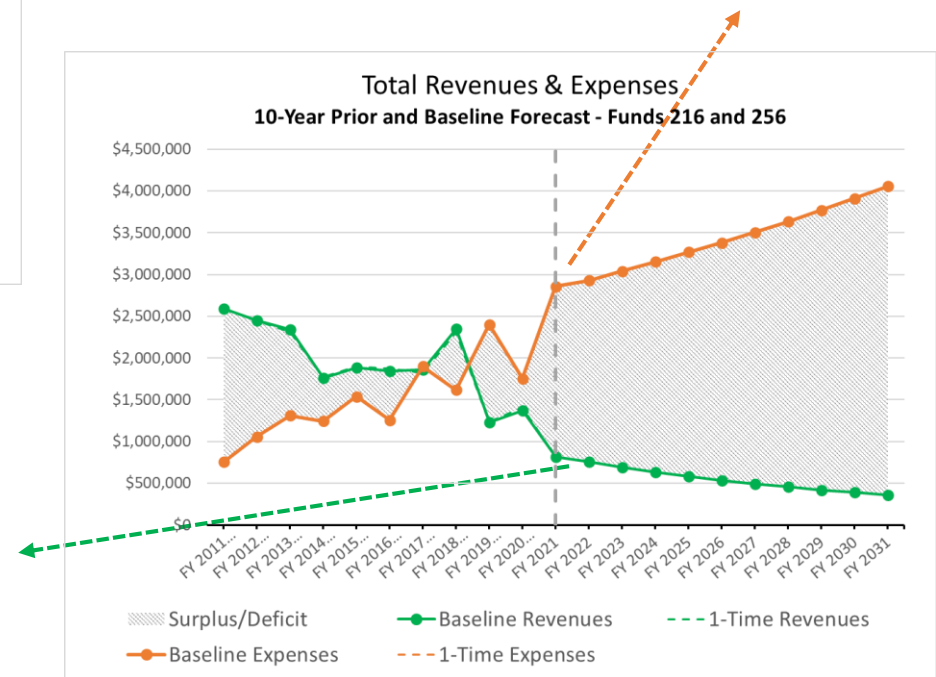| BUDGETED REVENUES	FY 2021
Rents – Tidelands	$800,000
Rents – FISC Facility	$0
(over 65% decline in revenues since 2018)	

Total Revenues & Expenses
10-Year Prior and Baseline Forecast - Funds 216 and 256

Legend: Surplus/Deficit, Baseline Revenues, 1-Time Revenues, Baseline Expenses, 1-Time Expenses

Forecast Model and Analysis – Next Steps

Identify City's prioritized needs and goals

Identify financial risks to City

Integrate priorities and risks into forecast model

Evaluate financial impact of City's priorities and risks

Develop financial strategies to achieve priorities and mitigate risks
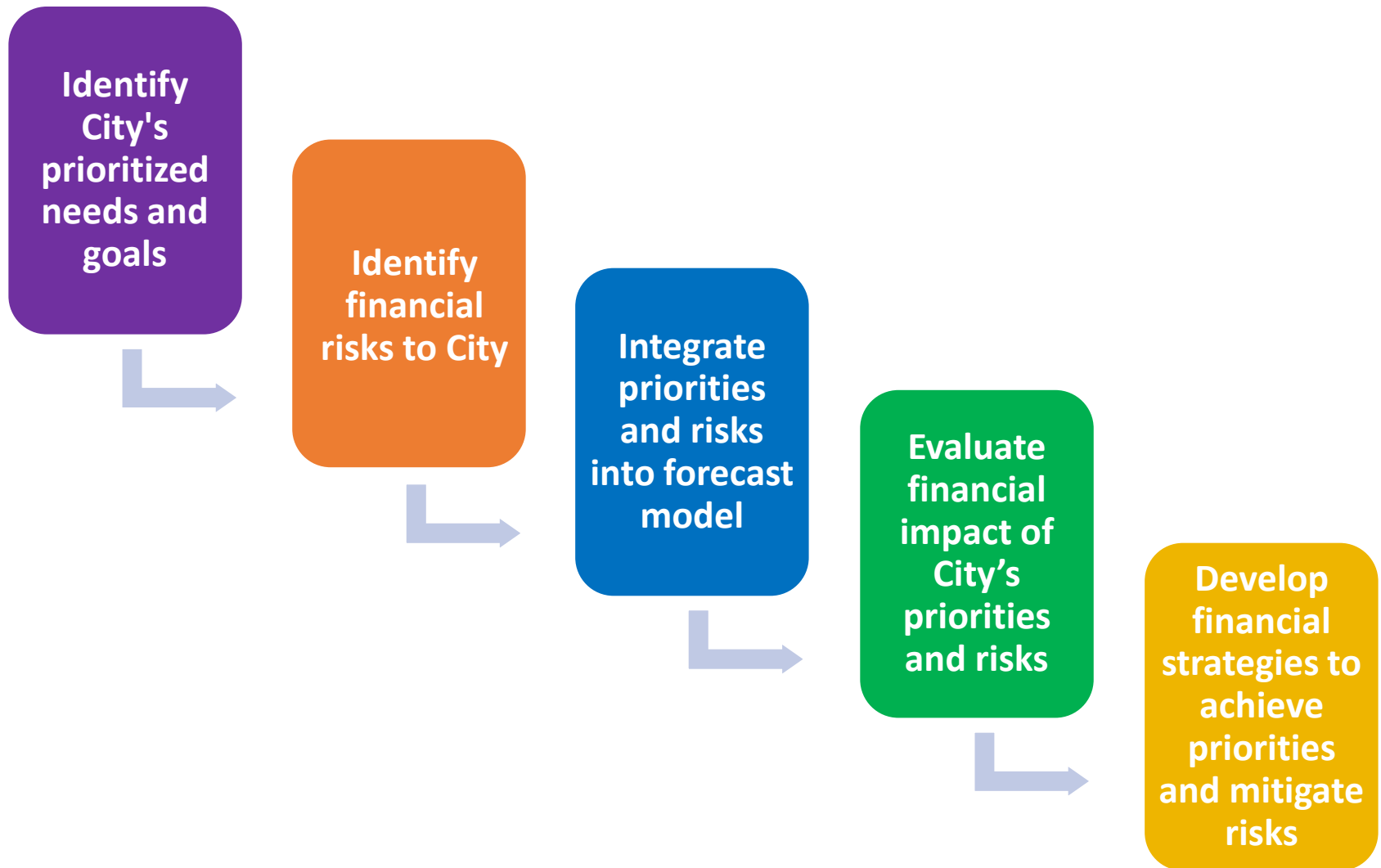
QUESTIONS?

APPENDIX – BACKGROUND & FORECAST DETAIL

UFI – Financial Advisors & Consultants

UFI Financial Solutions

Public Management Group

- •- Financial & Forecast Modeling
- •- Fiscal Sustainability Strategies
- •- Pension/OPEB Liabilities Solutions
- •- Local Revenue Measure Analytics

Public Finance Group

- - Municipal Advisory Services
- - Capital Improvement Planning
- - Alternative Financing Analysis
- - Post Issuance Compliance

Staffed with former city managers, chief financial officers, legal counsel and public finance investment bankers, UFI combines the practical aspects of public financial management with the technical fiscal expertise.

Why Do Cities Need a Long-Term Forecast?

	Annual Budget	**Forecast & "What If" Analysis**
Outlook	Current FY and two years prior	10 years; long-term trends
Design	Bottom-up development; budgets by dept. and service (siloed) with roll-up summary	Income statement approach; all revenues and expenses aggregated into economically uniform categories
Purpose	Allocate available funding by dept/service; adjust to known conditions	Proactively align city's goals & service objectives with long-term revenue capacity
Pros	Available funds = Current FY expenses	Fiscal stability & solvency; scenarios
Cons	Difficult to understand long-term impact of decisions & fiscal structure	Discipline & fiscally constrained decisions

Developing a Forecast Model

- ✓ **Ensure general level of reconciliation between the financial data in budget categories and CAFR**

- ✓ **Isolate and remove one-time revenues & expenses that obfuscate annual ongoing operational costs**

- ✓ **Disaggregate revenue & expense categories to ensure data driven by appropriate indexes**

- ✓ **Develop aggressive, average, moderate and conservative trends & apply appropriate index to drive each budget revenue and expense category *(utilize econometric/forecast data from multiple sources, historical trend/regression analysis of city's financial data, & other financial metrics)***

- ✓ **Create graphical outputs of measurements and metrics that facilitate understanding and insight about General Fund's projected financial condition over the forecast period**

What is a "Baseline" Forecast?

Neutral, fiscal assessment and decision-making tool that establishes a common understanding of the status quo:

"If the City makes no changes to its organization or operations, and there are no significant external economic impacts to the City (other than what's known today), what is the predicted financial condition of the General Fund over the next ten years?"

Alameda's Forecast Model – General Assumptions

- **City's baseline forecast built around FY 2020-21 budget adopted by the City Council.**

- **Includes 11 special revenue funds with high-exposure for General Fund (see separate slide with risk analysis summary).**

- **COVID-19 Recession Assumptions**

  - FY 2021 – continuing impact to revenues currently reflected in City's budget numbers; no additional adjustments yet made (may change as data comes in).

  - FY 2022 – assumes no further revenue decline; revenue growth returns to pre-COVID growth rate (slight bounce); if flat or declining revenues continue through calendar year, impacts understated.

Forecasts – Indexing the Drivers

Indexes primarily derived from local, regional and state economic indicators, adjusted where appropriate for:
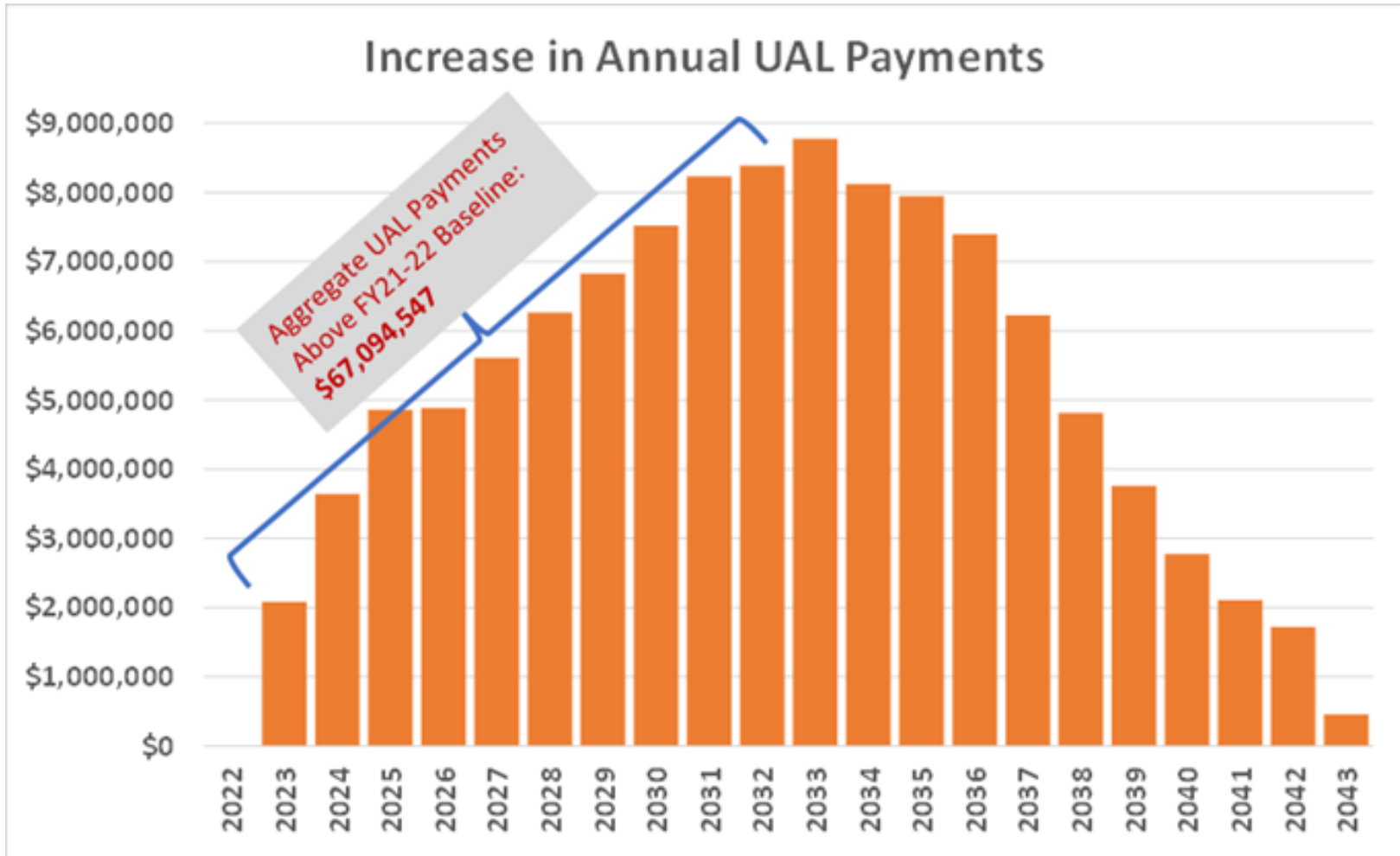
- City revenue and expense history (if strong correlation between data and trendline);

- Local economic or city operational particularities (e.g., sales tax base composition, development cycles, service delivery model (contract vs. in-house).

Under/over performance of regional, state or national economy affects these indexes and underlying assumptions.

Alameda's Forecast Model - Major Drivers & Indexes

Key Categories & % of Total	10-Year Avg. Annual Growth	
	Historical	Forecast
Revenues	**3.67%**	**3.36%**
Property Tax + VLF In-Lieu (34%)	*6.31%*	*4.25%*
Sales & Use Taxes (10%)	*9.45%*	*4.99%*
Interest, Notes & Rents (10%)	*2.54%*	*2.53%*
Property Transfer Tax (7%)	*13.20%*	*3.77%*
Expenses	**4.36%**	**2.96%**
Salaries & Wages (37%)	*3.16%*	*2.75%*
CalPERS UAL & OPEB (13%)	*10.86%*	*4.70%*
Contractual Services (13%)	*2.81%*	*2.92%*
Benefits (9%)	*2.35%*	*4.85%*

Alameda's Forecast – Growth in Pension UAL

Increase in Annual UAL Payments

Aggregate UAL Payments Above FY21-22 Baseline: $67,094,547

Alameda's Forecast – Cash Flow Summary

FORECAST			CURRENT FISCAL YEAR	FORECAST FISCAL YEARS										
			0	1	2	3	4	5	6	7	8	9	10
Category/Scenario	Trendline: FY 2020-2031	Forecast AAGR	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
REVENUES													
NET ANNUAL IMPACT - SCENARIOS REVENUES	*Total Annual Gain/(Loss) vs. Baseline Forecast*		**2,000,000**	**1,007,576**	**1,042,618**	**1,120,447**	**1,198,194**	**1,238,108**	**1,285,336**	**1,341,171**	**1,399,167**	**1,455,707**	**1,508,242**
SCENARIOS REVENUES													
1 Property Tax (incl. VLF In-Lieu)		4.25%	49,290,000	50,594,390	52,426,425	54,965,399	57,511,851	60,164,915	62,898,031	65,714,191	68,616,430	71,607,839	74,691,568
2 Sales & Use Taxes		4.99%	14,532,000	15,488,871	16,234,469	16,962,915	17,787,067	18,680,849	19,577,913	20,532,656	21,548,937	22,581,749	23,638,235
3 Utility User Tax (UUT)		0.64%	9,049,500	9,124,875	9,186,138	9,247,503	9,339,849	9,396,076	9,449,632	9,501,106	9,551,385	9,600,243	9,648,165
4 Transient Occupancy Tax (TOT)		5.22%	1,200,000	1,399,355	1,500,726	1,586,900	1,629,978	1,687,053	1,744,776	1,803,184	1,862,310	1,922,187	1,982,847
5 Business License/Operations Tax		2.39%	2,290,000	2,358,488	2,436,264	2,499,042	2,552,634	2,607,603	2,665,749	2,726,015	2,782,091	2,838,556	2,900,067
6 Other Taxes		3.43%	14,474,600	14,079,937	14,525,048	15,461,582	16,397,599	16,899,874	17,486,516	18,172,363	18,883,447	19,578,275	20,227,602
7 Franchise Fees		2.10%	5,575,000	5,648,601	5,745,945	5,842,737	5,978,578	6,118,735	6,261,730	6,407,637	6,556,528	6,708,479	6,863,566
8 Permits, Fees & Chrgs. for Service		4.24%	18,676,728	20,485,817	21,691,513	22,631,647	23,442,220	24,133,651	24,834,060	25,616,921	26,467,323	27,337,403	28,247,949
9 Cost Recovery, Earnings & Misc.		1.72%	22,371,779	22,792,066	23,207,204	23,600,751	23,998,376	24,402,395	24,812,581	25,230,719	25,657,904	26,091,717	26,531,991
10 Transfers In & One-Time Revenues		0.00%	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810	8,974,810
Prior FY Adjustments - One-Time Revenues/Transfers)			-										
TOTAL - SCENARIOS REVENUES		3.36%	$ 146,434,417	$ 150,947,208	$ 155,928,543	$ 161,773,285	$ 167,612,963	$ 173,065,961	$ 178,705,800	$ 184,679,601	$ 190,901,164	$ 197,241,259	$ 203,706,799
EXPENSES													
NET ANNUAL IMPACT - SCENARIOS EXPENSES	*Total Annual Gain/(Loss) vs. Baseline Forecast*		-	-	-	-	-	-	-	-	-	-	-
SCENARIOS EXPENSES													
11 Salaries & Wages		2.75%	56,146,314	57,690,338	59,276,822	60,906,935	62,581,875	64,302,877	66,071,206	67,888,164	69,755,089	71,673,354	73,644,371
12 Benefits		4.92%	13,651,972	14,359,736	15,070,241	15,834,815	16,628,392	17,442,019	18,284,057	19,171,992	20,110,928	21,076,392	22,070,369
13 Pension & OPEB		3.61%	27,433,404	28,849,818	30,939,159	32,399,401	33,905,336	34,105,811	35,153,050	36,081,317	36,998,825	37,998,976	39,057,055
14 Contractual Services (labor)		2.92%	19,396,742	19,984,182	20,575,107	21,187,809	21,813,323	22,448,902	23,097,519	23,764,621	24,451,469	25,150,762	25,863,116
15 Operating Supp. & Equip. (non-labor)		3.02%	9,280,238	9,574,545	9,844,305	10,124,998	10,440,684	10,761,541	11,089,435	11,427,984	11,778,086	12,134,738	12,498,420
16 Insurance & Liability			-	-	-	-	-	-	-	-	-	-	-
17 Debt Service		-8.63%	2,982,179	2,914,256	2,557,488	2,565,639	2,572,990	2,579,547	2,585,317	2,167,421	1,937,129	1,541,757	1,145,973
18 Capital Asset Invest. (non-CIP)		4.40%	317,500	333,431	349,316	366,544	384,337	401,863	419,222	436,575	453,976	471,252	488,501
19 Cost Allocation/Internal Charges		3.91%	9,035,948	9,492,280	9,927,032	10,374,251	10,811,407	11,233,298	11,645,169	12,056,953	12,470,724	12,872,266	13,262,660
20 Transfers Out & One-Time Expenses		0.00%	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861	11,382,861
Prior FY Adjustments - One-Time Expenses/Transfers)			(52,500)										
TOTAL - SCENARIO EXPENSES		2.92%	$ 149,574,658	$ 154,581,446	$ 159,922,332	$ 165,143,252	$ 170,521,204	$ 174,658,719	$ 179,727,837	$ 184,377,889	$ 189,339,086	$ 194,302,357	$ 199,413,325
Net Prior FY Transfers & One-Time Adjustments			(52,500)										
ANNUAL OPERATING SURPLUS/(DEFICIT)			$ (3,192,741)	$ (3,634,238)	$ (3,993,789)	$ (3,369,967)	$ (2,908,241)	$ (1,592,758)	$ (1,022,037)	$ 301,712	$ 1,562,078	$ 2,938,902	$ 4,293,474