

VISION 2025 & BEYOND: FISCAL SUSTAINABILITY

February 14, 2022

Kevin Woodhouse, City Manager

Yulia Carter, Chief Fiscal Sustainability Officer

Brian Moura, RGS





TONIGHT'S AGENDA

- Vision 2025 & Beyond: Where We Are in the Process
- 10 Year Financial Forecast and Projected Deficit
- Strategies to Address Pacifica's Multi-Year Budget Challenges
 - Potential Revenue Measures
 - Alternatives to Potential Measures
- City Council Discussion & Direction
- Next Steps

**VISION 2025:
WHERE WE ARE IN THE PROCESS**

Kevin Woodhouse

City Manager



VISION 2025 & BEYOND TIMELINE

- Spring 2019: Council affirmed need for Fiscal Sustainability Study
- Oct 2020: Council adopts Purpose Statement & Scope of Work

The Purpose of the Pacifica Vision 2025 & Beyond project is to tell Pacifica's story of the many priority infrastructure projects and enhanced programs and services envisioned for Pacifica's mid to long-term future that are equitable and inclusive and will help all Pacificans thrive, and to articulate the City's financial opportunities, challenges, and strategies to achieve this vision and resiliency.

- Winter-Spring 2020-21: CFSO Hired; Approach to Study & Scope Refined
- Dec 2021: Council direction - Econ Opportunities Study RFP & Marketing Plan
- Tonight's City Council Study Session – Fiscal Sustainability & Revenue Options



VISION 2025 & BEYOND MAJOR COMPONENTS

- 1. Financial Forecasting & Revenue Enhancement Strategies**
 - Detailed revenue and expense forecasting with outside expertise
- 2. Economic Opportunities Study**
 - Opportunities for Economic Development in 5 Business Geo Zones
- 3. Pacifica Marketing Study & Marketing Plan**
 - Program to improve merchant, hotel & business success in Pacifica
- 4. Public Engagement & Surveys**
 - Robust public engagement with tabletop, virtual & survey tools
- 5. Public Information Final Report**
 - Craft the story, refine the Council Vision, tell the story



FINANCIAL FORECASTING & REVENUE ENHANCEMENT

➤ **10 Year Financial Forecast**

- April 2021: Structural Financial Deficit in upcoming four years
- Current Budget: Balanced with American Rescue Plan Act funds

➤ **Tonight's Update**

- Review 10 Year Financial Forecast with updated projections
- Explore Revenue Enhancement Options
 - Restructure Utility Users Tax (UUT) to be on par with region
 - Adding a Local Option Sales Tax (Transactions & Use Tax)
 - Restructure Business License Tax to be on par with region
 - Increase Transient Occupancy Tax (TOT) to be on par with region
 - Other options identified by the City Council



WHERE WE ARE IN THE PROCESS

1. **Tonight's City Council Meeting**

- Council direction on revenue options for further assessment
- Council direction to proceed with RFP for ballot measure analysis and communication services

2. **Council Action on Moving Ahead with Revenue Measure(s)**

- Council review & action with detailed revenue option(s) in April

3. **Proposed Ordinance(s) & Ballot Measures**

- If Council moves ahead with revenue measure(s)
- Proposed Ordinance(s) & Ballot Measures developed
- Items return to Council in May or June to place on Nov 22 ballot

LONG TERM FINANCIAL FORECAST

Yulia Carter

Chief Financial Sustainability Officer



UPDATED 10 YEAR FINANCIAL FORECAST DEFICIT WITH CURRENT SERVICE LEVEL

- **10 Year Financial Forecast Projects Structural Deficit**
 - Not new: \$1.9M deficit was reported for the FY2021-22 Base Budget
 - Current budget balanced with American Rescue Plan Act (ARPA) funds
- **10 Year Structural Deficit ONLY Reflects Current Level of Services and does NOT Include:**
 - Any service enhancements or operational improvements
 - Improved staffing capacity and retention efforts
 - Investments in Capital Infrastructure



10 YEAR FINANCIAL FORECAST REVENUE ASSUMPTIONS

➤ **General Fund Revenues Assume:**

- Modest growth that averages at 2.8% per year (see Attachment A);
- Increase in Cannabis revenues to account for two new businesses
- VLF Reimbursements from the State in FY2022-23 (\$2m) and FY 2023-24 (\$2.6m)
- ARPA funds of \$5M for FY2022-23
- No changes in Grants, Inter-Fund Transfers or Excess ERAF



10 YEAR FINANCIAL FORECAST EXPENDITURE ASSUMPTIONS

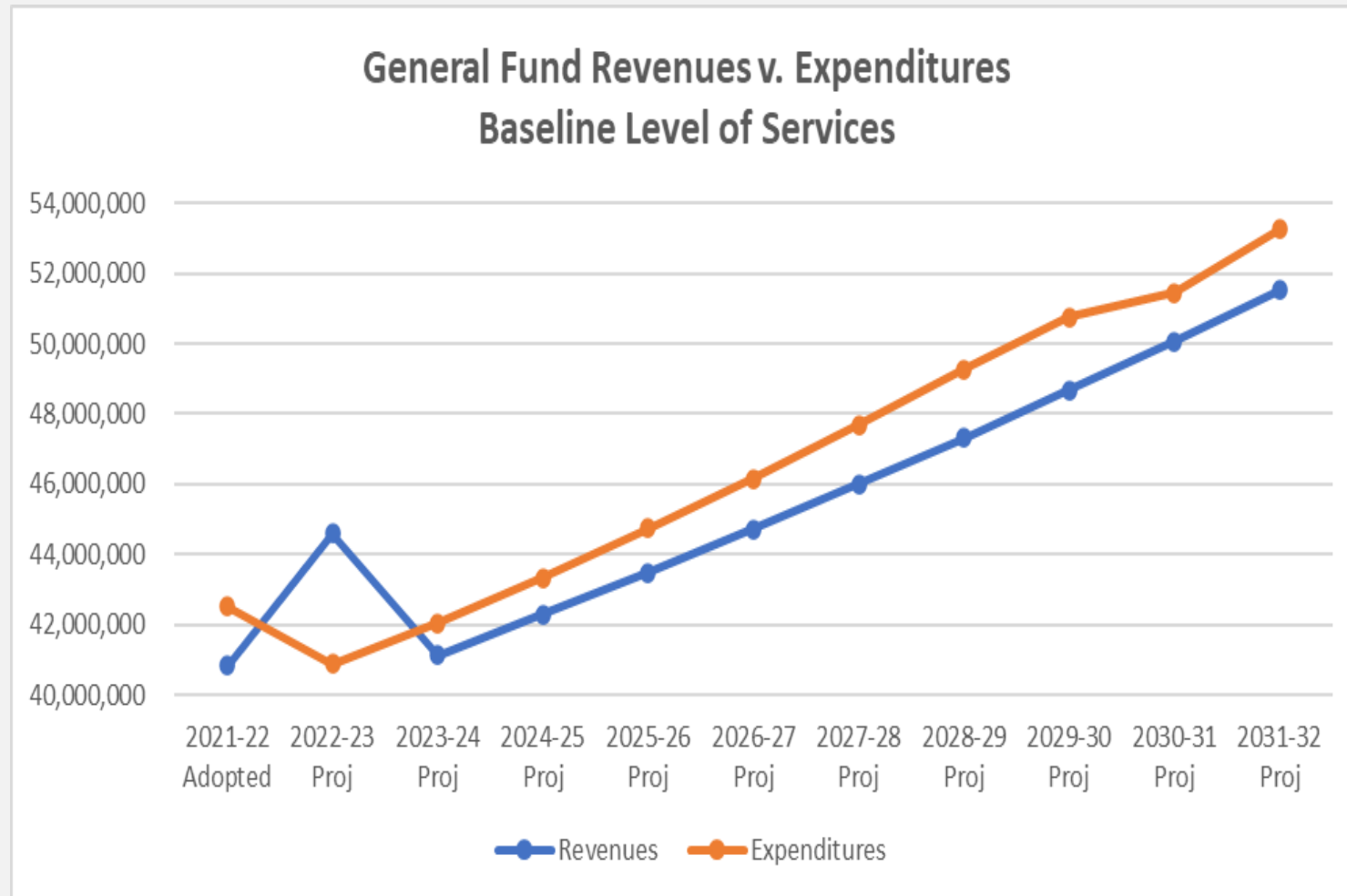
➤ **General Fund Expenditures Assume:**

- Conservative growth that averages at 3.1% per year (Attachment A);
- Increase in Salary & Benefit (S&B) projections per known MOU terms and anticipated spike in CalPERS unfunded liability obligations
- Removal of all Limited-Term Positions, and other one-time expenses paid by ARPA
- Debt Service Payments in accordance to updated debt service schedule that includes financing of a portion of the Civic Center renovation project
- No ongoing General Fund contribution towards Capital Projects budget



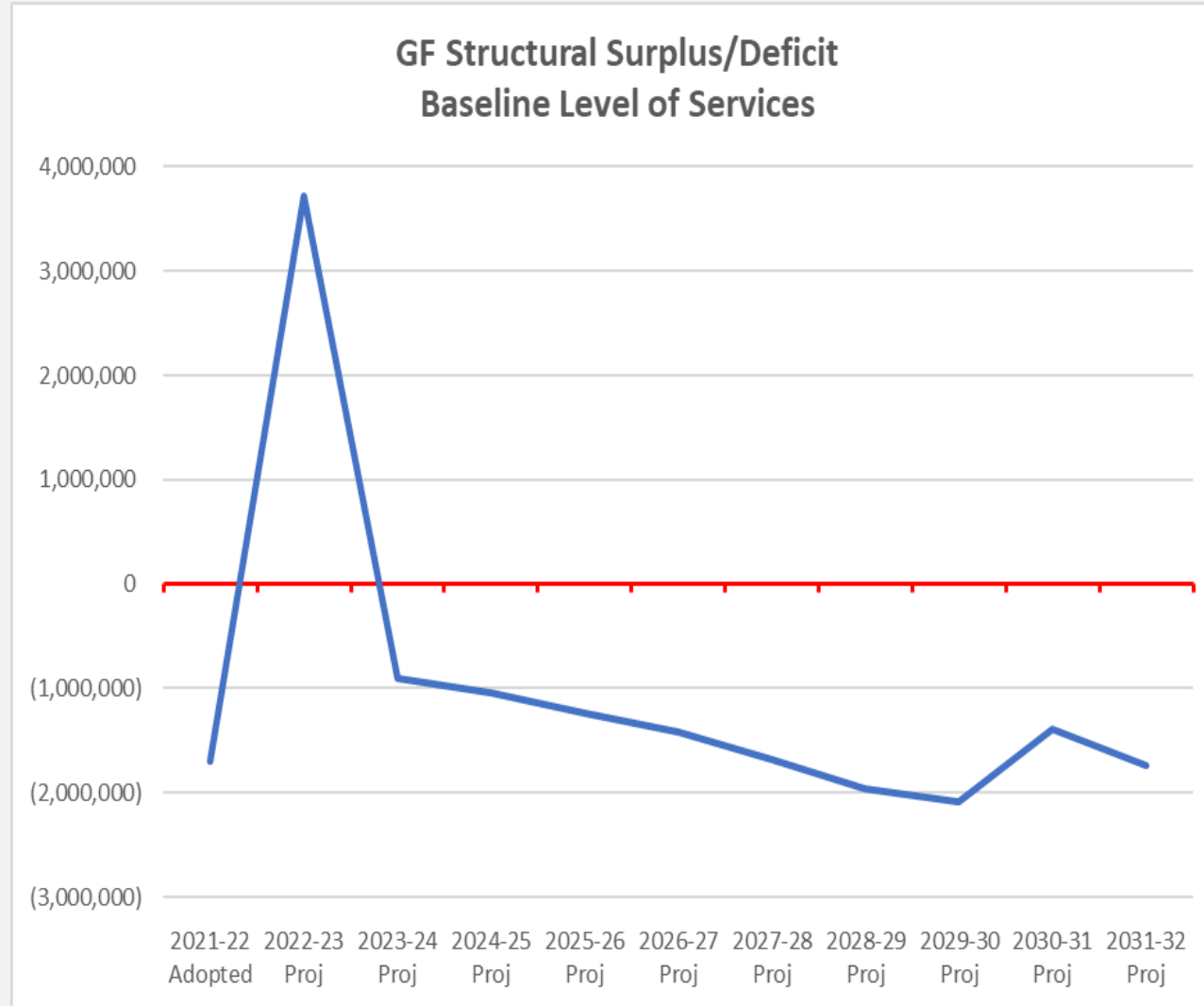
10 YEAR FINANCIAL FORECAST EXPENDITURES vs. REVENUES

General Fund Expenditures Projected to Outpace Revenues - Next 10 Years





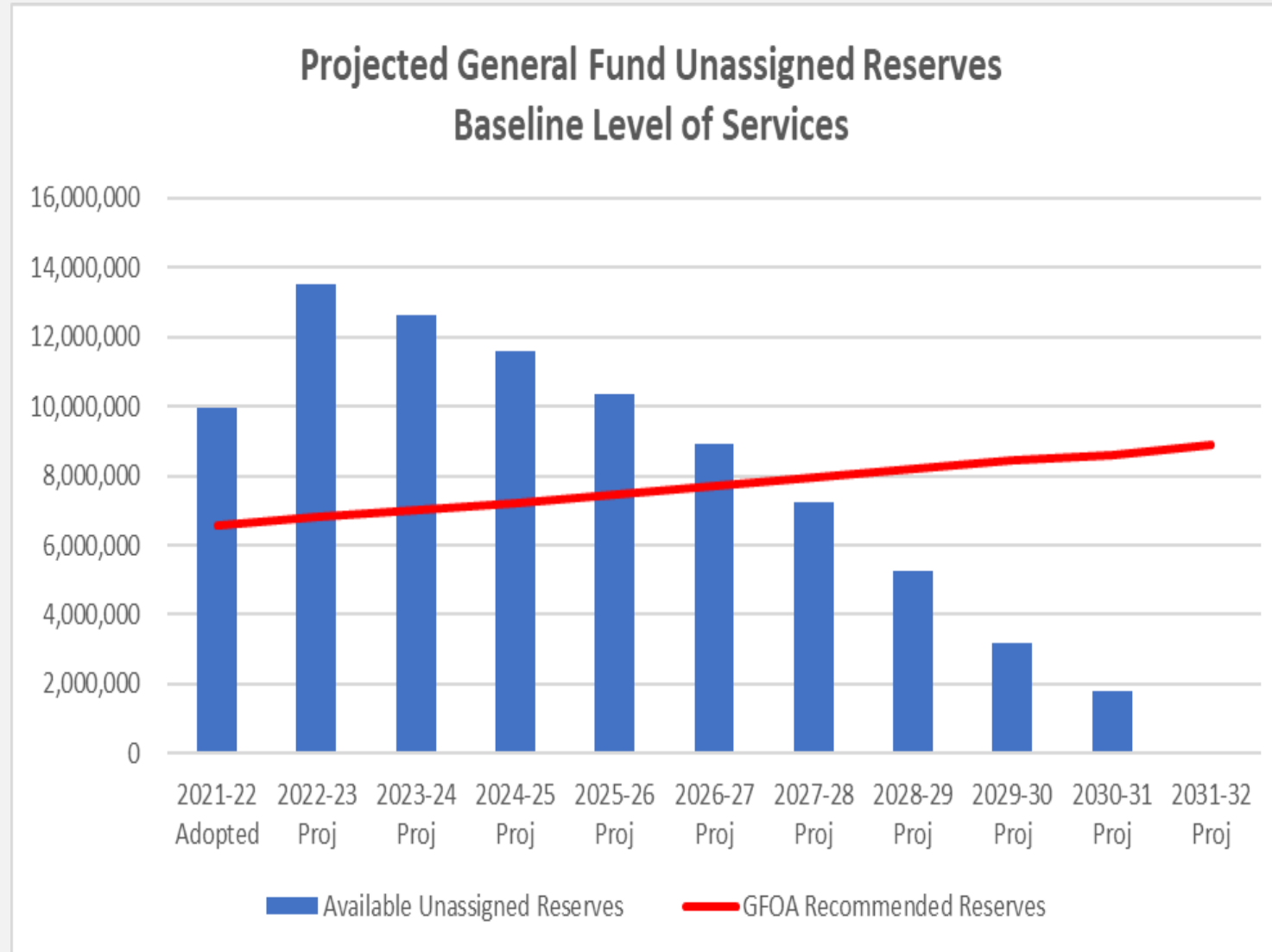
10 YEAR FINANCIAL FORECAST DEFICIT STARTING IN 2023-24



<u>Fiscal Year</u>	<u>Projected Deficit</u>
2023-24	905,502
2024-25	1,045,390
2025-26	1,238,878
2026-27	1,421,768
2027-28	1,688,929
2028-29	1,957,370
2029-30	2,082,106
2030-31	1,384,675
2031-32	1,742,239



10 YEAR FINANCIAL FORECAST RESERVES vs. RECOMMENDED LEVEL



REVENUE OPTIONS TO ADDRESS MULTI-YEAR BUDGET CHALLENGES

Brian Moura

Senior Advisor, RGS (Contract)



ADDRESSING BUDGET DEFICITS

➤ **Past Actions**

- City has worked to reduce expenditures to live within means
- Cutting positions and managing salary growth
- Organization & service capacity challenged to meet resident expectations

➤ **Non-Tax Components**

- Economic Development: marketing, added hotel capacity & visits
- Updating User Fees and Development Impact Fees

➤ **Multi-Year Budget Deficits**

- Even with these measures, Pacifica is facing a deficit starting in 23-24
- Revenue enhancements needed to 1) Maintain Current Service Level, 2) Organization Capacity & Retention, 3) Address Infrastructure



POTENTIAL REVENUE OPTIONS

Revenue Option	Annual Revenue
UUT – Broaden Base, Retain 6.5% Rate	\$3,100,000
UUT – Broaden Base, Cut Rate to 5%	\$2,000,000
Local Add-On Sales Tax at .50	\$2,600,000
Local Add-On Sales Tax at .25	\$1,300,000
Business License Tax Update	\$500,000
TOT – Increase from 12% to 15%	\$350,000
TOT – Increase from 12% to 14%	\$280,000



UTILITY USERS TAX (UUT)

- **Current Tax in Pacifica**
 - 6.5% charged on electricity and gas, not on other utilities
 - \$1.7 Million in revenue generated in the 2019-20 fiscal year
- **UUT in San Mateo County Cities**
 - 6 cities charge UUT in San Mateo County
 - Other 5 charge lower tax rate but on more utilities
- **Potential Revenue**
 - \$3.1 Million per year if base expanded and rate stays at 6.5%
 - \$2 Million per year if base expanded but rate lowered to 5%



UTILITY USERS TAX COMPARISON

City	Phone	Cellular	Electric	Gas	CATV	Water
Pacifica			6.5%	6.5%		
East Palo Alto	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Daly City	5.0%	5.0%	5.0%	5.0%	5.0%	
Redwood City	4.0%	4.0%	5.0%	5.0%	4.0%	
Portola Valley	4.5%	4.5%	4.5%	4.5%		4.5%
Menlo Park	2.5%	2.5%	3.5%	3.5%	3.5%	3.5%

Source: California City Finance from League of California Cities & UUTInfo.Org Survey – Feb. 2021



LOCAL SALES TAX ADD-ON

➤ **Sales Tax in Pacifica**

- Pacifica receives 1% “Bradley Burns” Sales Tax, No Local Add-On ST
- \$2.6 Million in revenue generated in the 2019-20 fiscal year

➤ **Local Transactions & Use Tax**

- Allocated to City where the taxed product is received
- Over 100 of 482 cities in California have, rates up to 1%

➤ **Local Sales Tax Add-On in San Mateo County Cities**

- 7 cities charge a Local Sales Tax Add-On in San Mateo County
- 3 of the taxes expire after terms of 30 to 38 years

➤ **Potential Revenue**

- \$2.4 Million per year if one-half cent
- \$1.2 Million per year if one-quarter cent



LOCAL SALES TAX COMPARISON

City	Rate	Adopted	Expires
Belmont	0.50	4/1/2017	3/31/2047
East Palo Alto	0.50	4/1/2017	
Redwood City	0.50	4/1/2019	
San Bruno	0.50	4/1/2020	
South San Francisco	0.50	4/1/2016	3/31/2046
Burlingame	0.25	4/1/2018	
San Mateo	0.25	4/1/2010	3/31/2048

Source: California Department of Tax and Fee Administration (CDTFA)



BUSINESS LICENSE TAX

➤ **Business License Tax in Pacifica**

- Required for all businesses operating in the City
- Approx. \$440,000 in revenue generated annually, over 2,100 licenses

➤ **Business License Taxes in California**

- Over 450 of 482 cities in California have a BLT

➤ **Proposed Changes to Pacifica BLT Program**

- Reduce categories from 7 to 4, update Ordinance language
- \$100 Minimum Tax (first \$25,000 in Gross Receipts)
- Tax rate of 0.002 x Gross Receipts – all except Service & Prof.
- Tax rate of 0.003 x Gross for Service & Professionals

➤ **Potential Revenue**

- \$500,000 per year in additional revenue



BUSINESS LICENSE TAX COMPARISON

City	Pop.	No of Businesses	Annual Revenue	Last Updated
San Bruno	42,807	4,060	2,176,473	2019
Foster City	33,693	3,714	1,764,875	2013
San Carlos	30,185	4,235	1,020,000	2003
Belmont	26,941	3,074	880,000	1993
Pacifica	38,894	2,100	442,853	1984
Millbrae	22,394	2,385	381,177	2004

Source: HdL Companies



TRANSIENT OCCUPANCY TAX

- **Transient Occupancy Tax (TOT) in Pacifica**
 - Charged as percentage of room rate to renters of hotel rooms
 - Pacifica rate of 12% generates \$1.7 Million per year
- **TOT Taxes in California**
 - Charged in 430 of 482 cities in California
 - 15 of 20 cities in SM County charge TOT (other 5 = no hotels)
- **TOT Trends**
 - In recent years, cities increasing rate to 14% to 15.5%
- **Potential Revenue**
 - \$350,000 per year in additional revenue if rate from 12% to 15%
 - \$280,000 per year in additional revenue if rate from 12% to 14%



TOT RATES IN SAN MATEO COUNTY CITIES

- **15%**
 - Half Moon Bay (increases from 14% to 15% on July 1, 2022)
- **14%**
 - Brisbane, San Bruno, San Mateo, South San Francisco
 - East Palo Alto & San Carlos (from 13% to 14% on Jan 1, 2023)
- **13%**
 - Daly City
- **12%**
 - Belmont, Burlingame, Colma, Foster City, Menlo Park
 - Millbrae, Pacifica, Redwood City



REVENUE MEASURES IN LOCAL CITIES

Belmont	Burlingame	San Mateo
CFD Special Tax - New Residential	Business License Tax – Update & Convert to Gross Receipts	Local Sales Tax – Increase from 0.25 to 0.50
	Cannabis Tax	Property Transfer Tax – Increase, Charter City
	Special Tax – Infrastructure Projects	Lease City Property for Hwy 101 Lighted Billboard Signs
	G.O. Bond or Parcel Tax	Business License Tax Update
	TOT Increase	Utility Users Tax Update
	Utility Users Tax Update	

Bolded items are under further consideration after City Council Review



GENERAL TAXES & SPECIAL TAXES

➤ **General Taxes**

- Requires majority approval by voters at a General Election
- Next General Election in Pacifica is November 2022

➤ **Special Taxes**

- Requires 2/3 approval by voters
- Used to earmark revenue for a restricted or specified purpose



OTHER CONSIDERATIONS

➤ **Additional Considerations**

- Revenues to restore prior year cuts or added services
- Revenues to address Capital Projects & Infrastructure needs
 - Street Rehabilitation, New Libraries
 - Beach Blvd Infrastructure Resiliency Project
 - Field Improvements in collaboration with Pacifica School District

➤ **Additional Revenue Options**

- General Obligation Bond
- Other revenue options from the Council

➤ **Restoring City Services & Capital Project Needs**

- Given the size of the financial shortfall to maintain Current Services, Staff has not yet analyzed the cost of restoring services or CIP needs

NEXT STEPS

Brian Moura

Senior Advisor, RGS (Contract)



REQUESTED ACTION BY THE COUNCIL

1. Tonight's City Council Meeting

- Council direction on revenue options for further assessment
- Council direction to proceed with RFP for ballot measure analysis and communication services

2. Council Action on Moving Ahead with Revenue Measure(s)

- Council review & action with detailed revenue option(s) in April

3. Proposed Ordinance(s) & Ballot Measures

- If Council moves ahead with revenue measure(s)
- Proposed Ordinance(s) & Ballot Measures developed
- Items return to Council in May or June to place on Nov 22 ballot

COUNCIL DISCUSSION AND DIRECTION

Kevin Woodhouse, City Manager

Yulia Carter, Chief Fiscal Sustainability Officer

Brian Moura, Senior Advisor, RGS (Contract)