



# Council Agenda Report

**From:** Thomas Frutchey, City Manager

**Subject:** General Fund Revenue Forecast

**Date:** October 3, 2017

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## Facts

1. The City develops a detailed fiscal forecast as part of the biennial budget process, and updates that forecast as needed. The last update for the General Fund was presented to the Council in March, 2017.
2. Given the half year since the last update, the City has updated information available relative to the General Fund's sources of revenue (including, for example) property taxes, sales taxes, and transient occupancy taxes.
3. The City Council has given conceptual approval to a major upgrade in the Emergency Services Department. Costs of the first phase of this upgrade will total \$595,400 for the remainder of this fiscal year (see a later item on this agenda).
4. The Council has requested an upgrade to the revenue forecast to ensure the City is able to afford the upgrade without depleting reserves, transferring resources from other programs, or excessively limiting future opportunities.

## Options

1. Take no action;
2. Receive the updated revenue forecast;
3. Provide alternative direction to staff;

## Analysis and Conclusions

A number of changes in forecasted General Fund revenues since March, 2017 are of note:

1. Several revenue sources are coming in at higher than forecast levels. For example, transient occupancy taxes (TOT) for FY 2016-17 were forecast to reach \$4.8 million, and are now estimated to have reached \$5.4M for the year. This is due, in part, to a good year for tourism, as well as the addition of a number of short term rentals that had not been previously paying TOT.
2. To minimize risk, the City's forecast explicitly excludes several types of projected additional revenues. For example, the City does not project any new revenues associated with new development until that development is under construction. New residential development generates property taxes (as well as sales taxes, to the extent that the City's resident population increases, and the new residents shop in Paso Robles). A new commercial development is likely to generate both property and sales taxes. And a new hotel generates additional property, sales, and transient occupancy taxes.
3. Thus, the March, 2017 forecast did not include any revenues associated with any of the new hotels and RV parks already entitled, as construction of none was underway in March. Construction on the Cava RV Park, however, is now well underway; opening is scheduled for spring 2018. The Cava RV Park will generate, conservatively, \$385,000 per year in TOT taxes alone. Oxford Suites, a 3+ star hotel, is currently grading, and is scheduled for opening in fall 2018. The Oxford Suites will generate, conservatively, \$290,000 per year in TOT taxes alone.
4. Sales and use tax revenues tend to track reasonably well with TOT revenues, as visitors contribute fully half of our annual sales tax revenues. Thus, sales taxes in the City have not been hit as hard as might have been expected by the competition from on-line retail.
5. The City Council adopted an updated master fee schedule in May, 2017. That schedule provides, among other fees, fees paid by the owners of properties receiving a periodic commercial fire inspection. The commercial fire inspection program is designed to ensure that:

- ❖ on-site protective systems are being maintained and functioning as designed;
- ❖ the means of egress are being maintained, fire department access is clear, good housekeeping is present, that the structure is not degrading (e.g. electrical, structural, and fire resistance components have not been altered such as to impose a significant fire risk); and
- ❖ occupancy practices (such as use of portable equipment drawing significant electrical power, lack of fresh batteries in smoke detectors, etc.) do not impose a significant fire protection risk.

This year, the Department has accelerated the pace and increased the rigor of the inspections. Fees can be charged to recover the full costs of the inspections. In recent years, no fees have been charged; this year fees are being charged to recover at least a portion of the costs. These inspections will generate approximately \$65,000 in fees for FY 2017-18, with a projected annual yield between \$170,000 and \$215,000 when the program is fully implemented (annual inspections with inspection fees based upon square footage).

The following table provides the results of the latest update in revenue projections for FY 2017-18 through FY 2021-22:

Fiscal Year	Mar. '17 Forecast	Sept. '17 Forecast	Increment
2017-18	\$ 38.8M	\$ 40.1M	\$ 1.3M
2018-19	39.7M	41.1M	1.5M
2019-20	40.7M	42.2M	1.5M
2020-21	41.6M	43.1M	1.6M
2021-22	42.4M	44.0M	1.6M

(Notes: 1. The figures for March 2017 were adjusted to reflect changes in what is being classified as the General Fund, due to fund consolidation. 2. The increment may be different due to rounding.)

Several changes have also occurred on the expenditure side, such as new contracts with employee groups and projected expenditure savings. For example, solar power projects now being constructed at Centennial Park, Sherwood Park, and the Airport are expected to generate \$450,000 in annual electricity savings that will accrue, both directly and indirectly, to the General Fund. These savings will begin over the next few months, as each project goes live. As a second example, the City is almost assuredly going to receive a major increase in its annual bill from CalPERS when the CalPERS Board reduces the projected investment earnings rate, as it is likely to do in November.

Most other City expenditures are dependent on the City's approaches to providing services, staffing levels, and the like. Thus, expenditures are best projected as part of a comprehensive review of City activities and the cost drivers of those activities. The City's expenditure forecast will next be updated as an initial step in the FY 2018-20 budget process, which will get underway in four months.

The primary purpose of this update to the revenue forecast is to ensure that, all other things being equal, there will be adequate revenues to support known upcoming expenditure increases as well as the major expansion to the Emergency Services Department that was conceptually approved by the Council at the Workshop on August 2.

As detailed in the following agenda item in this packet, incremental expenditures for FY 2017-18 to pay for the improvements in Emergency Services are \$595,400 for the remainder of this fiscal year. Full-year expenses for FY 2018-19 are projected to increase by approximately \$790,000. Thus, the incremental revenues are adequate to fund the proposed Phase I improvements in Emergency Services and other additional expenses, as well, both this year and into the future.

Two caveats need to be noted:

- ❖ The City does not limit specific General Fund revenues to specific uses (hence, the name, General Fund), nor should it. General Fund dollars are fungible. Thus, these identifiable incremental revenues are not being “dedicated” to the Emergency Services Department.
- ❖ This Council will have the ability next spring to determine the allocation of General Fund resources for all City programs. Similarly, future Councils retain the full right to adopt the budget as they see fit, consistent with their priorities. However, if the Council decides to approve the recommended upgrades to the Emergency Services Department, it should be done with the expectation that the City will continue with the upgrades, which are the first steps in a multi-phased plan to upgrade fire protection services in the City. A previous reduction in Emergency Services Department staffing had significant detrimental impacts.

**Fiscal Impact**

None.

**Recommendation**

Receive the updated revenue forecast.

**Attachments**

1. Projected General Fund Revenues, by Source

CITY OF PASO ROBLES

REVENUE HISTORY AND FORECAST  
Fiscal Year 2014-15 through 2022-23

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
x Property Taxes	\$ 10,825,719	\$ 11,009,178	\$ 9,734,032	\$ 10,167,000	\$ 10,575,000	\$ 10,976,000	\$ 11,395,000	\$ 11,824,000	\$ 12,272,000
x Sales Tax	11,212,292	12,538,443	14,499,567	14,681,000	14,819,000	15,017,000	15,218,000	15,422,000	15,629,000
x TOT	4,249,068	4,740,344	5,417,254	6,206,000	6,593,000	6,857,000	7,132,000	7,417,000	7,713,000
x Other Taxes	3,089,198	3,259,468	3,692,071	3,877,000	3,940,000	3,993,000	4,022,000	4,022,000	4,022,000
x Licenses & Permits	1,022,893	1,322,970	1,602,908	1,528,700	1,631,000	1,743,000	1,743,000	1,743,000	1,743,000
x Fines & Forfeiture	206,714	199,613	179,672	176,000	176,000	176,000	176,000	176,000	176,000
x Use of Money & Property	1,759,850	809,498	516,984	571,000	571,000	571,000	571,000	571,000	571,000
x Revenue from Other Agency	1,157,720	2,313,865	950,818	101,500	100,000	100,000	100,000	100,000	100,000
x Charges for Current Services	980,877	966,572	1,251,097	1,048,000	1,066,000	1,084,000	1,084,000	1,084,000	1,084,000
x Misc Revenue	928,817	1,543,717	1,025,000	999,500	996,000	996,000	996,000	996,000	996,000
x Transfers In	1,414,306	2,638,898	1,218,807	716,500	665,000	665,000	665,000	665,000	665,000
	36,847,454	41,342,565	40,088,211	40,072,200	41,132,000	42,178,000	43,102,000	44,020,000	44,971,000
		12%	-3%	0%	3%	3%	2%	2%	2%

