

Strategic Planning Session #2: Budget and General Fund Forecast Update

March 17, 2025

Background

- June 2023 – FY24 and FY25 Biennial Budget Adopted
- Since Adoption – Quarterly Financial Update Reports
- November 2024 – Preliminary FY24 Year-End Financial Update and Mid-Cycle Budget Adjustments
- February 2025 – Strategic Planning Session #1
- March 2025 – Strategic Planning Session #2: Budget and General Fund Forecast Update

Background (Cont'd)

- FY20 and FY21 Biennial Budget
 - Pandemic onset, economic downturn, and organizational realignment for sustainability
- FY22 and FY23 Biennial Budget
 - Economic recovery, American Rescue Plan Act (ARPA) funding, restoration of staffing and services, replenish reserves, investment in personnel (MOUs) and infrastructure
- FY24 and FY25 Biennial Budget
 - Focused on strategic uses of accumulated fund balances, and strategic staff augmentation and services
- History of being fiscally responsible and prudent

City's Major Fund Types and Services Funded

General Fund

- Public safety, public works, community development, economic development, and general governance

Special Revenue Funds

- Gas taxes, special grants, housing, CDBG, recreation, and CFDs

Capital/Development Funds

- Development impact fees (traffic, parks, utilities, public facilities), Citywide projects

Internal Service Funds

- Fleet, information technology, facilities, general liability, workers compensation

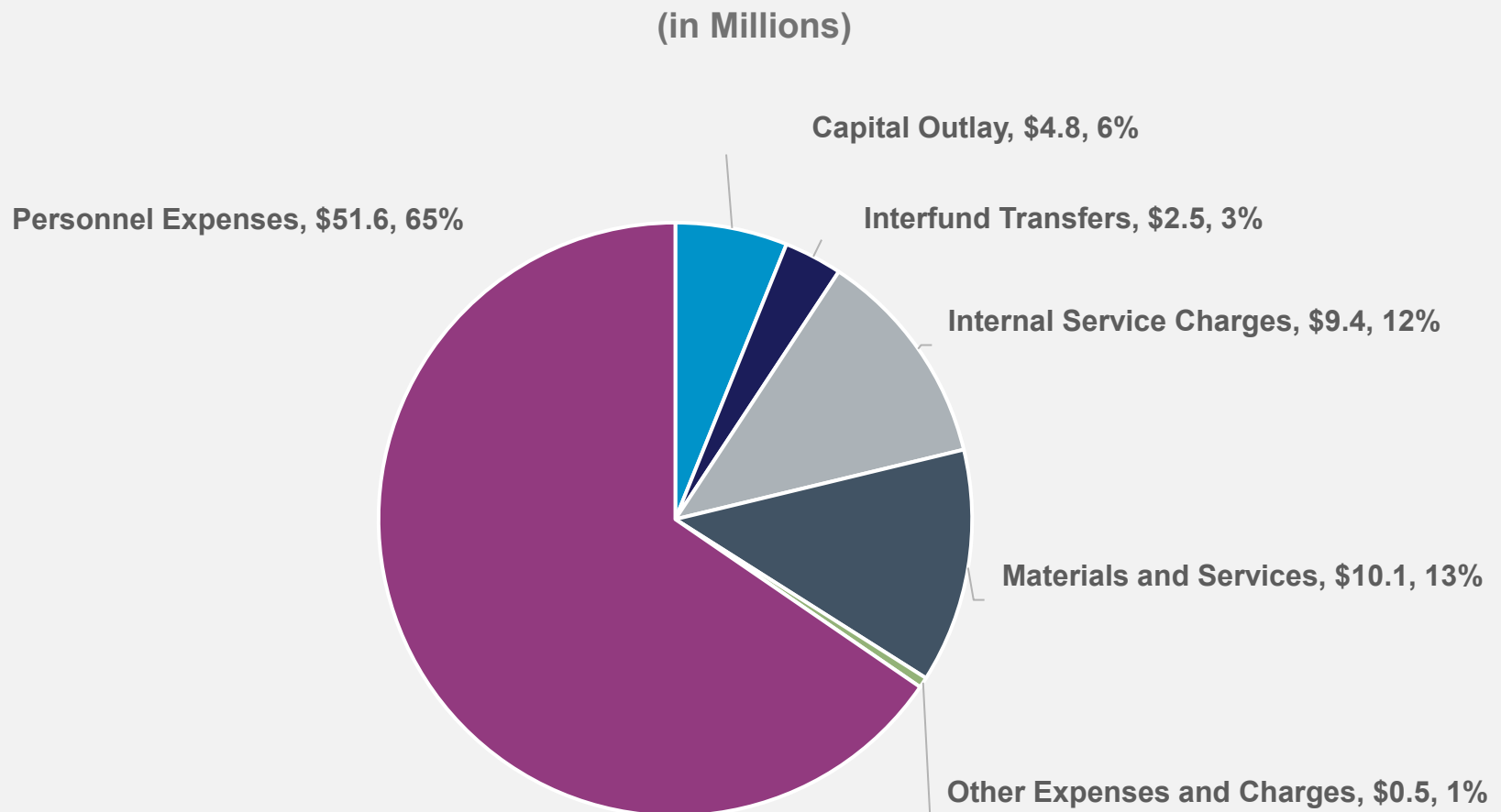
Enterprise Funds

- Water/Wastewater



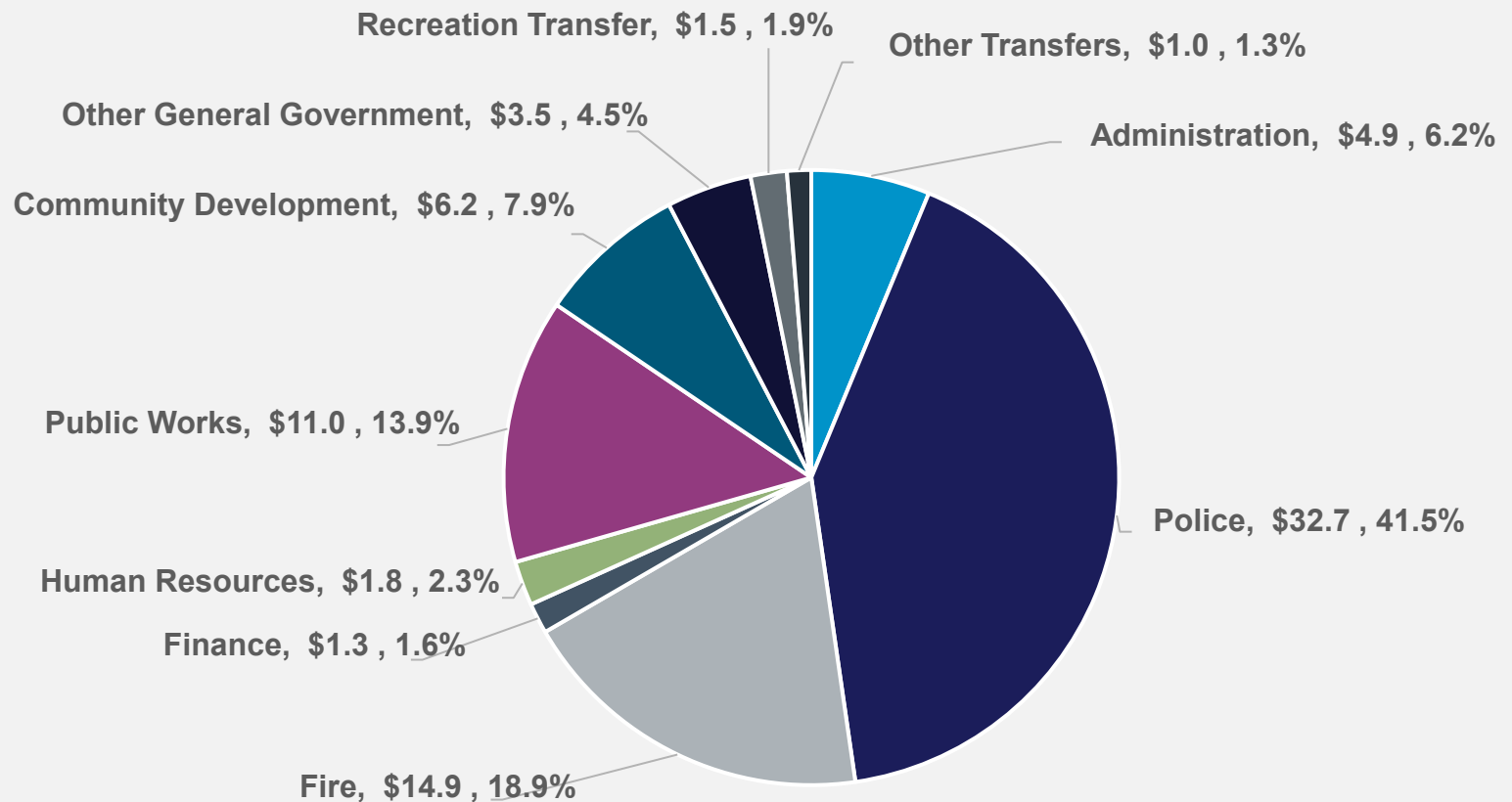
Most Discretionary

General Fund: Expenditures by Type (FY25)



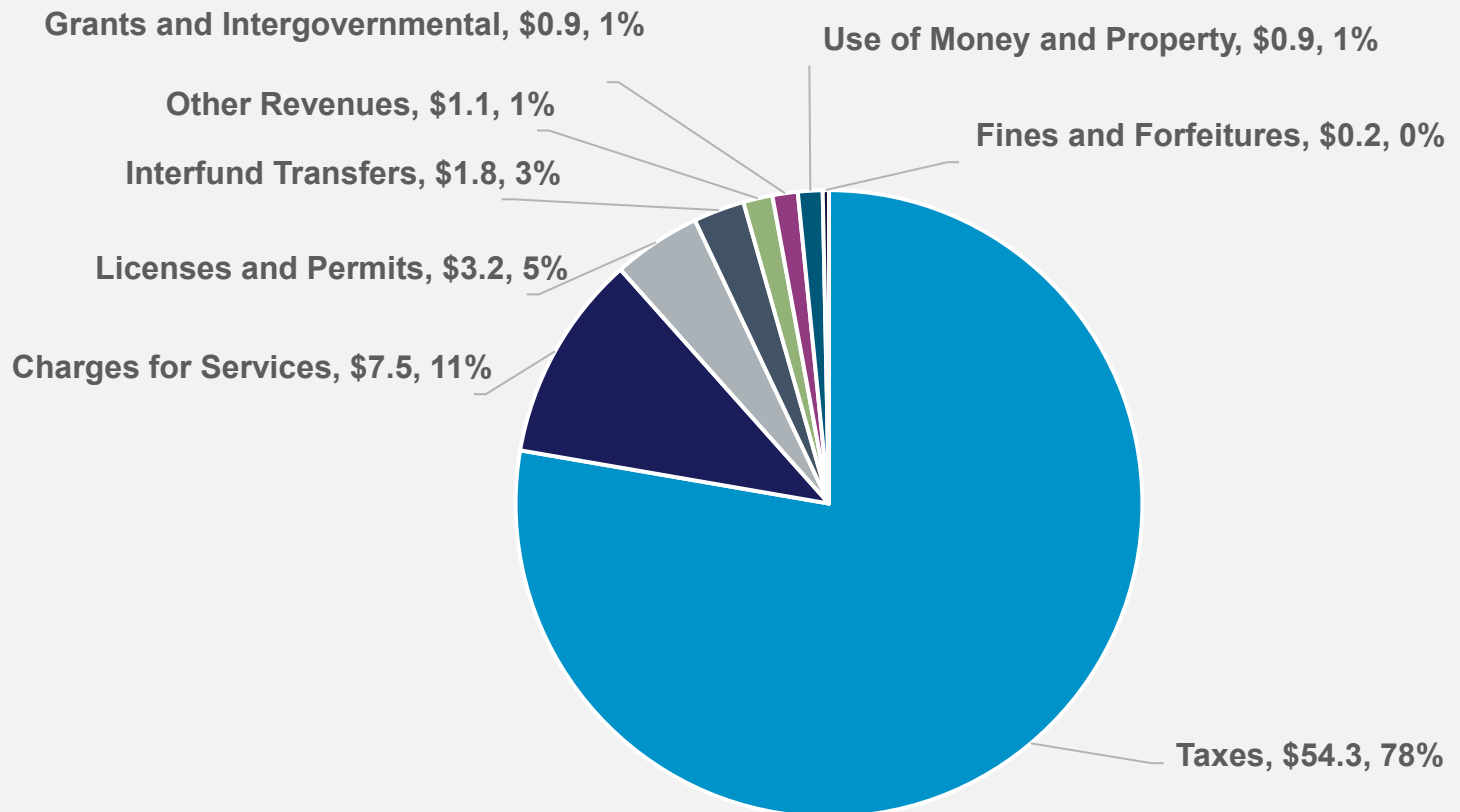
General Fund: Expenditure by Department/Function (FY25)

(in Millions)



General Fund: Revenues by Type (FY25)

(in Millions)



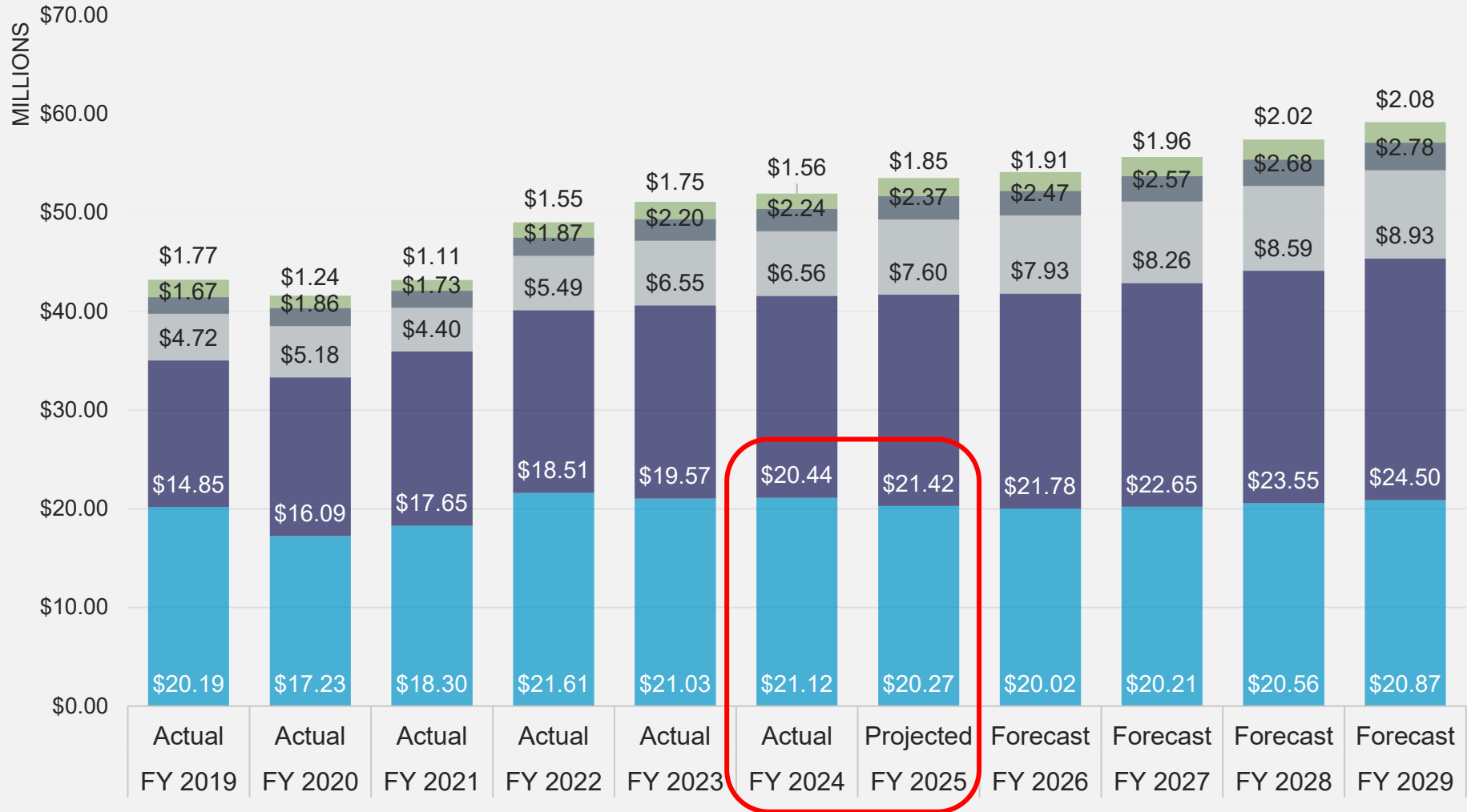
2025 Financial Realities (Cont'd)

- Sales Tax expected to remain flat (anticipated headwinds)
- Property Tax projected to have stable growth
- Utility User Tax projected to increase, notably in the energy segment, offset by declines in telecommunications segment
- Transient Occupancy Tax still recovering

2025 Financial Realities (Cont'd)

- Charges for Services (User fees) stable after 2022 comprehensive update and annual CPI adjustments
- Upward trend in Building Permit revenue
- Increased investment earnings

GENERAL FUND MAJOR TAX REVENUES FY19 THROUGH FY29 (IN MILLIONS)



2025 Financial Realities (Cont'd)

- Maintaining 20% General Fund and 10% Economic Uncertainty Reserves
- Structural Deficit Projected
- Economic Future (UCLA Anderson)
 - Inflation still a concern – 3.0% YoY as of January 2025, Core CPI (excluding food and energy) – 3.3%
 - Federal Reserve's monetary policy still in effect
 - New federal policies and related impact (i.e., Federal Funding Freeze, Tariffs, etc.)
- Investment in Personnel - Certain MOUs up for Renewal
- Elevated Interest Rates Environment
 - Impacts Housing and Capital Investments/Borrowing Costs

General Fund Forecast January 2025

General Fund Forecast (In Millions)	Actual FY24	Amended FY25	Forecast FY26	Forecast FY27	Forecast FY28	Forecast FY29
Beginning Fund Balance	\$ 38.3	\$ 36.0	\$ 27.4	\$ 25.7	\$ 23.3	\$ 20.7
Add: Revenues	68.1	69.3	69.1	71.1	73.3	75.3
Less: Expenditures	(63.8)	(67.9)	(70.8)	(73.5)	(75.9)	(78.9)
Operating Margin	\$ 4.3	\$ 1.5	\$ (1.7)	\$ (2.4)	\$ (2.6)	\$ (3.6)
One-time Use of Fund Balance	(6.6)	(10.1)	-	-	-	-
Ending Fund Balance (after one-time use)	\$ 36.0	\$ 27.4	\$ 25.7	\$ 23.3	\$ 20.7	\$ 17.0
Fund Balance as a % (min 30% per CC policy)	51%	35%	36%	32%	27%	22%

Reserves Status

	Actual FY24	Projected FY25
Expenditures (in Millions)	\$ 70.4	\$ 78.0
General Fund Reserve - 20%	14.1	15.6
Economic Uncertainty Reserve - 10%	7.0	7.8
<i>Required Total Reserve - 30%</i>	\$ 21.1	\$ 23.4
<i>Ending Fund Balance</i>	36.0	27.4
<i>Amount in Excess (Deficit)</i>	\$ 14.9	\$ 4.0

*March 17, 2025 Pending: Investment in Fire
 Personnel Structural Turnout Gear \$0.4 million

\$ 3.6

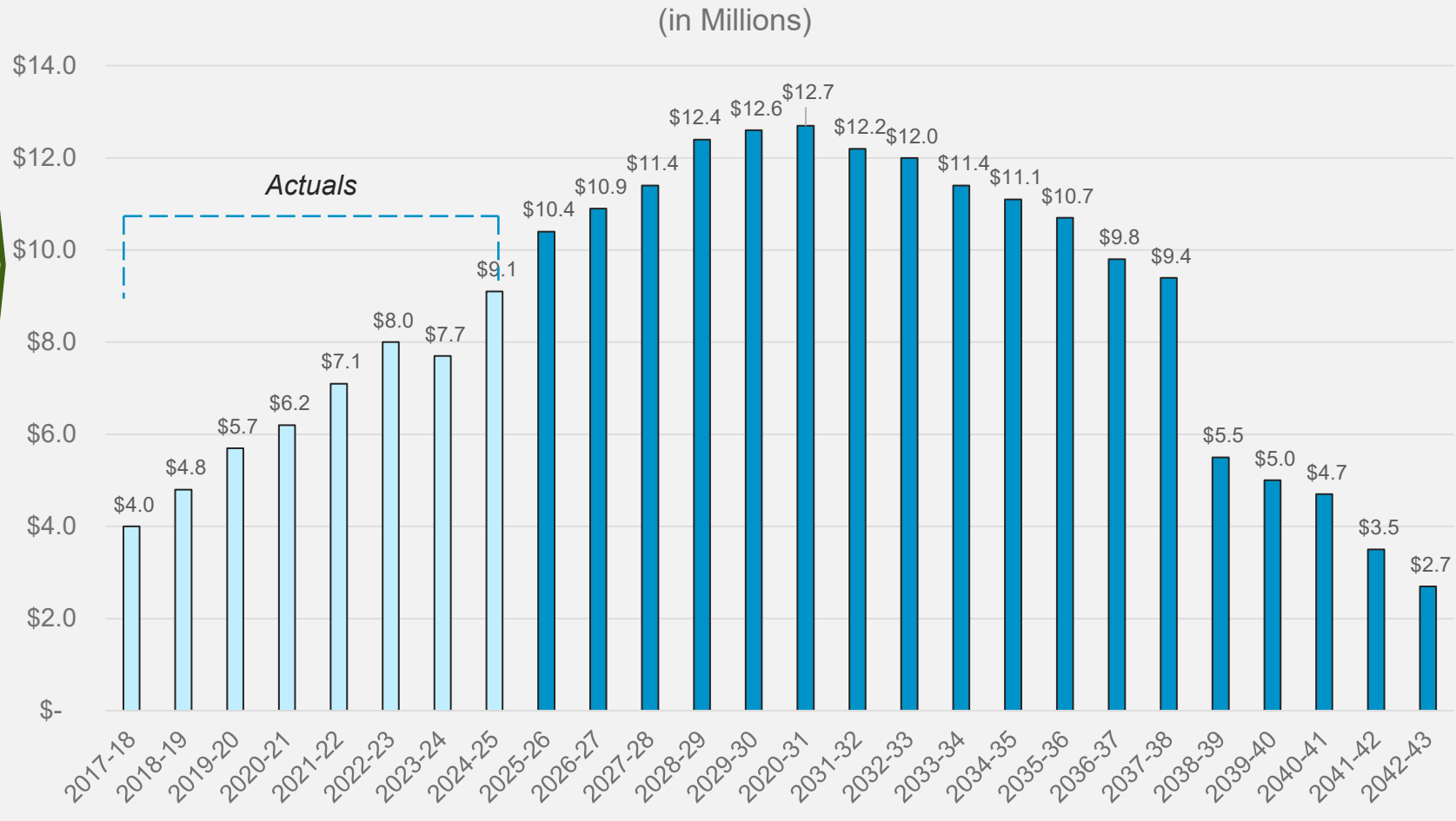
Reserves/Fund Balance Utilization Philosophy

- Ongoing revenues  ongoing expenditures
- One-time revenues  one-time expenditures
- Why?
 - Risk to City's credit rating - unfavorable
 - Unsustainable - leading to the future shortfalls
 - Difficulty adapting to future economic downturns
 - Opportunity cost for investing in long-term assets
 - Public perception – not prudent fiscal management

Current Unfunded Liabilities

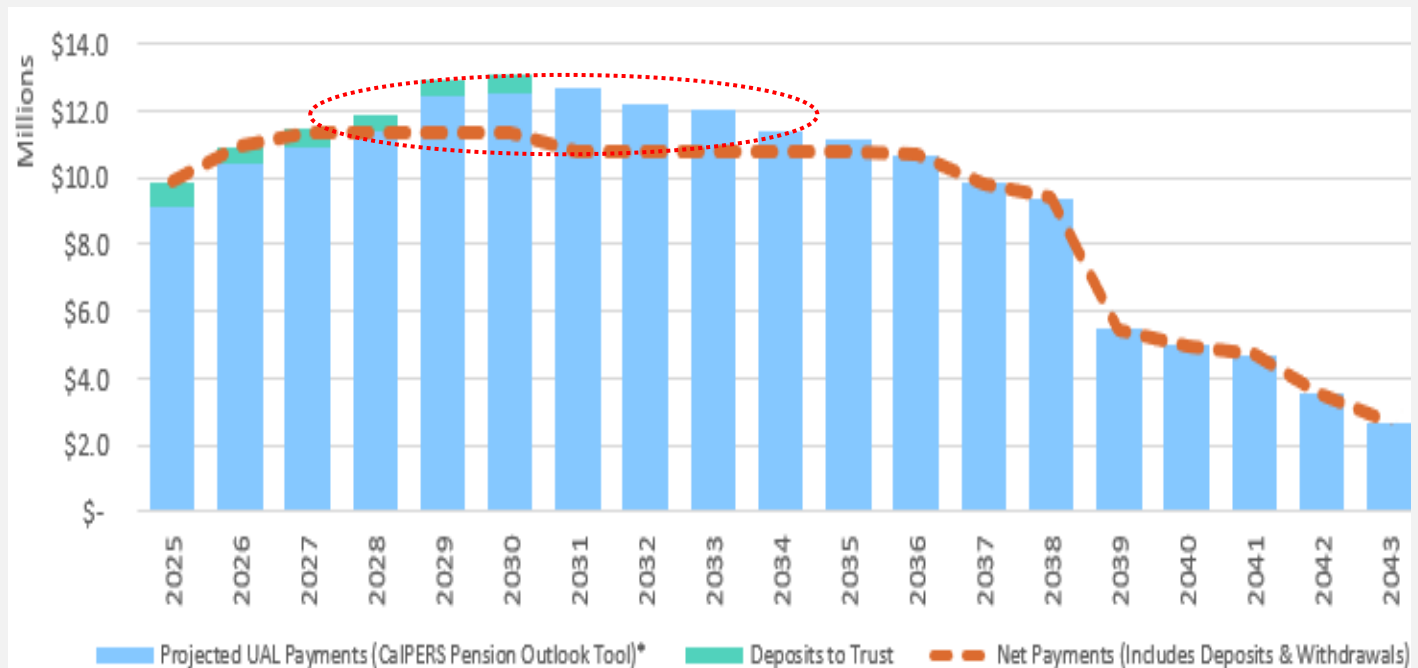
- CalPERS - Pension
 - Current Unfunded Accrued Liabilities (UAL) = \$117.4M
 - Funded Status = 68%
 - CalPERS Actual Rate of Return for FY24 = 9.3% (preliminary)
 - Assumed Rate of Return is 6.8% annually
 - UAL projected to decrease from \$117.4M → \$111.0M
 - Council adopted the Pension Funding Policy to aid through prepaying annual UAL and transferring 25% of General Fund year-end savings to the 115 Trust
 - Trust Balance: \$4.5M as of February 2025 – 11% Annualized Rate of Return

Historical and Projected UAL



Projected UAL Payments

- Given the year-over-year projected increases of the annual UAL payments, continuing to grow the Pension Trust through additional deposits and investment earnings is recommended
- Leveraging Pension Trust to Level Off UAL Payments



Current Unfunded Liabilities

- Other Post Employment Benefits (Retiree Medical Contributions) = \$15.7M
 - During FY24, Council established a separate 115 Trust to prefund OPEB and adopted the OPEB Funding Policy to aid through transferring 25% of General Fund year-end savings to the Trust
 - Trust Balance: \$1.0M as of February 2025 – 11% Annualized Rate of Return
- Worker's Compensation = \$3.0M
- General Liability = \$0.3M

Current Unfunded Liabilities (Cont'd)

- Infrastructure
 - Streets
 - Sidewalks
 - Civic Center/City Hall

Unfunded Liabilities Funding

- Any investment into addressing unfunded liabilities or fund new programs/initiatives will either come from:
 - Reducing expenditures or reallocating existing resources
 - New revenue source (Taxes, Grants)
 - Taking advantage of favorable market conditions
 - Financing/Leasing
 - Refinancing
 - Most all debts have been refinanced in the last five years

Key Takeaways

- General Fund is the most discretionary in nature, where Council and Community can decide the allocation or re-allocation of resources
- General Fund's discretionary revenues primarily consist of Taxes (Sales, Property, UUT, and TOT).
- General Fund discretionary expenditure primarily is for Public Safety
- Historically, Gilroy has demonstrated fiscal prudence by:
 - Leveraging one-time revenues/fund balance to one-time expenditures
 - Strategic incremental growth in staffing and services balanced with ongoing revenues
 - Adopted policies for reserves and to fund unfunded liabilities

Key Takeaways (Cont'd)

- Return to normalcy
- Tax revenues projected to grow slower, especially sales tax – some expected headwinds
- Some reserves available for strategic one-time investments and initiatives
- General Fund projected to have a negative operating margin from FY26 onwards, requiring adjustments to structurally balance

Questions?