COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL

(1) DEPARTMENT	(2) MEETING DATE	(3) CONTACT/PHONE
Administrative Office	11/5/2019	Guy Savage 805-781-5011

(4) SUBJECT
Consideration of a five-year financial planning outlook for the County of San Luis Obispo. All Districts.

(5) RECOMMENDED ACTION
It is recommended that the Board receive and file the five-year financial planning outlook for the County of San Luis Obispo.

(6) FUNDING SOURCE(S)	(7) CURRENT YEAR FINANCIAL IMPACT	(8) ANNUAL FINANCIAL IMPACT	(9) BUDGETED?
N/A	$0.00	$0.00	N/A

(10) AGENDA PLACEMENT
{ } Consent **{ }** Presentation **{ }** Hearing (Time Est. ______) **{X}** Board Business (Time Est. 15 mins.)

(11) EXECUTED DOCUMENTS
{ } Resolutions **{ }** Contracts **{ }** Ordinances **{ X }** N/A

(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR)	(13) BUDGET ADJUSTMENT REQUIRED?
N/A	BAR ID Number: N/A **{ }** 4/5th's Vote Required **{ X }** N/A

(14) LOCATION MAP	(15) BUSINESS IMPACT STATEMENT?	(16) AGENDA ITEM HISTORY
N/A	No	**{ }** N/A Date 10/22/2019

(17) ADMINISTRATIVE OFFICE REVIEW
This item was prepared by the Administrative Office.

(18) SUPERVISOR DISTRICT(S)
All Districts

COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: Administrative Office / Guy Savage
805-781-5071

DATE: 11/5/2019

SUBJECT: Consideration of a five-year financial planning outlook for the County of San Luis Obispo. All Districts.

RECOMMENDATION

It is recommended that the Board receive and file this report regarding a five-year financial planning outlook for the County of San Luis Obispo.

DISCUSSION

The purpose of this report is to provide a five-year financial planning outlook, beginning with Fiscal Year (FY) 2020-21, for the County of San Luis Obispo.

OVERVIEW

Development of the five-year financial planning outlook is one step in developing the budget for the coming year. The outlook provides a longer-term context for decision making and is therefore presented at the same time as priorities are developed for the coming year(s). As noted in the FY 2020-21 financial forecast, which was received and filed by your Board on October 22, 2019, the coming fiscal year is in line with prior years' expectations and reflects a General Fund budget that is increasing at a rate of 2-5% year-over-year. The FY 2020-21 financial forecast projects a budget gap (expenses exceeding revenues) of $0-$5 million. The anticipated growth is reflective of the County's disciplined approach to budgeting to ensure long-term financial stability. This five-year financial planning outlook (outlook) builds on the financial forecast and, using assumptions, provides potential views into the future (through FY 2024-25).

Like the financial forecast, the outlook is only focused upon the General Fund (e.g., does not include non-General Fund budgets such as Roads or Libraries). Also like the financial forecast, the outlook relies heavily on the concept of Status Quo budgeting. A Status Quo budget is generally defined as one that takes current year staffing and program levels and costs them out for the next year with no material changes (i.e. inflationary increases only, no increases or decreases to staffing levels, no negotiated salary increases, and existing grants continue to be received). The presented outlook relies on the FY 2020-21 financial forecast as a baseline and consistently applies a set of assumptions and parameters (deterministic approach) and therefore projects the future as a "straight line" of revenues and expenses. New to this year's outlook is the ability to input specific new revenue or expenses that only impact a single year. No stochastic modeling (use of random numbers or assumptions to determine multiple possible future financial outcomes based on single assumption changes) is performed as part of the outlook's development. Lastly, it should be noted that the outlook is neither a look backwards at what has happened, nor is it a budget that can be directly relied upon in future years. Instead, it is intended to provide a look at possible future financial outcomes based on a series of assumptions. Further, it sets the stage for discussions about what is possible and reasonable, from a financial perspective, in coming years.

The outlook examines several scenarios, both individually and in concert, including:

- Do nothing (Status Quo)
- Salary increases
- Programmatic increases
- Recession
- Changes in property taxes valuations

The modeling performed for the outlook suggests that any one of the individual scenarios does not create a situation where expenses outpace revenues, except for the Consumer Price Index (CPI) based salary increase scenario. Even in the case of CPI salary increases of 2.4%, the revenues "catch up" to expense amounts by FY 2022-23. However, many of the more complex or combined scenarios (e.g. CPI salary expenses coupled with a mild recession) result in annual deficits throughout the period presented in the outlook. Also worth noting is that unlike legal annual budgeting requirements, the outlook does not assume that balanced budget is struck at the beginning of each new fiscal year. Instead, deficits are carried from one year to the next.

ASSUMPTIONS

As noted, the outlook relies on several assumptions and uses them as factors for modeling subsequent years. There are four prime assumptions used:

1. Consumer Price Index (CPI)
2. Property tax revenues
3. Pension rate increases (County's portion)
4. Overall budget growth

The Consumer Price Index (CPI) used is based on California Department of Finance published numbers. A five-year average of the immediately preceding years is calculated. For the purposes of this outlook, 2014-2018 calendar years are used and the average is rounded to 2.44%. CPI is used both for non-property tax revenue increases, expense increases for services and supplies, and other non-salary expenses.

Similar to CPI, property tax revenues are calculated using an average of the previous five years. For this outlook, the historical average used is 4.5%. As the name suggests, the calculation is used to determine future property tax revenues.

Like CPI and property tax, a historically focused average pension rate increase is calculated. For the purposes of this outlook, the calculated figure of 1.3%, which is also used as part of the calculation for future salary and benefits costs.

Overall budget growth, like all other assumptions uses a five-year trend. However, while the others do not have a specific focus on General Fund versus non-General Fund, the overall budget growth factor only considers changes in the General Fund. For this outlook, the historical average used is 4.6%. The figure is used to estimate future General Fund revenue increases.

CALCULATIONS

As previously noted, the outlook is calculated by taking the numbers generated as part of the financial forecast and projecting them into future years. For this outlook, the starting point forecast numbers are:

$580,391,004	Total financing sources (revenues)
$582,411,258	Total financing uses (expenditures)
($2,020,255)	**Total forecast surplus/(gap)**

It is important to note the sensitivities of the forecast. For example, a 1% change to the various forecast elements could have the following impacts:

- $2.3 million Non-Departmental Revenue
- $3.2 million Departmental Revenue
- $3.1 million Salaries and Benefits
- $2.4 million Non-salary Costs

When making calculations about the future, only salary increases are assumed to be incurred in year one (FY 2020-21) of the outlook. This is done because salary increases take effect immediately after adoption by your Board.

SINGLE SCENARIOS (WHAT-IF THIS ONE THING HAPPENS?)

The table below describes the impact of making a single change on subsequent years' budgets. By providing these "what-if scenarios" one at a time, it is hoped that your Board and the public can better understand how an individual change, by itself, impacts future years. Charts, that reflect the information contained in the table below, are included in the presentation that is attached to this item. As shown in the table below, with the exception of CPI salary increases, any one future change results in a budget that is financially sustainable throughout the outlook.

What-if scenarios	FY 2020-21 Forecast	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
1% salary increase, each year (Status Quo PAL)	-5,164,847	4,543,004	14,974,859	26,171,056	38,173,980
CPI (2.4%) salary increase, each year (Status Quo PAL)	-9,687,380	-4,772,930	582,248	6,405,570	12,725,966
Program Changes are made (no salary increase)	-2,020,254	8,354,144	19,642,135	31,779,744	44,812,117
Sales & Property Tax increases drop (recession)	-2,020,254	6,432,982	15,108,008	24,010,329	33,145,584
Property Tax is 1% lower, or 4%	0	9,329,744	21,383,378	34,496,089	48,400,329
Property Tax is 1% higher, or 6%	0	11,962,999	26,913,214	43,205,844	60,594,724

COMBINED SCENARIOS (WHAT-IF MULTIPLE THINGS HAPPEN?)

The table below describes the impact of making multiple changes at the same time on subsequent years' budget. By providing these "combined what-if scenarios" together, it is hoped that your Board and the public can better understand how multiple changes interact and impact future years. Charts that reflect much of the information contained in the table below, are included in the presentation that is attached to this item. Not all the combined scenarios are charted, but the numbers are provided below for those interested in seeing how various scenarios might play out in the future. Unlike the single scenarios presented above, many of combined scenarios present a future outlook that will result in budget cuts. The CPI salary increases, program changes, and recession combined scenario suggests an increasing gap that could grow to $18 million by FY 2024-25.

Combined Scenarios	FY 2020-21 Forecast	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
1% salary + Program Changes	-5,164,847	2,250,777	10,481,864	19,141,307	28,575,667
1% salary + Recession	-5,164,847	329,615	5,947,737	11,371,892	16,909,134
1% salary + Program Changes + Recession	-5,164,847	-1,962,613	1,454,742	4,342,143	7,310,821
CPI (2.4%) Salary + Program Changes	-9,687,380	-7,065,158	-3,910,748	-624,179	3,127,653
CPI (2.4%) Salary + Recession	-9,687,380	-8,986,320	-8,444,874	-8,393,593	-8,538,880
CPI (2.4%) + Program Changes + Recession	-9,687,380	-11,278,547	-12,937,870	-15,423,342	-18,137,193
Program Changes + Recession	-2,020,254	4,140,754	10,615,013	16,980,580	23,547,271
Lower Property Tax + 1% Salary	-3,144,593	3,226,377	12,223,108	21,857,652	32,163,879
Lower Property Tax + CPI Salary	-7,667,126	-6,089,558	-2,169,504	2,092,166	6,715,865
Lower Property Tax + #1	-3,144,593	934,149	7,730,112	14,827,903	22,565,566
Lower Property Tax + #4	-7,667,126	-8,381,785	-6,662,499	-4,937,583	-2,882,448
Higher Property Tax + 1% Salary	-3,144,593	5,859,632	17,752,944	30,567,407	44,358,274
Higher Property Tax + CPI Salary	-7,667,126	-3,456,303	3,360,332	10,801,921	18,910,260
Higher Property Tax + #1	-3,144,593	3,567,405	13,259,948	23,537,658	34,759,960
Higher Property Tax + #4	-7,667,126	-5,748,530	-1,132,663	3,772,172	9,311,946

OTHER DATA POINTS AND INFERENCES

In prior years, your Board and others have asked about other, specific data points or what inferences can be taken from the data provided in the outlook. Based on those comments and requests, specific projections were made around property tax, sales tax, and transient occupancy tax rates. To make the projections, the data and assumptions previously provided, and specific additional data points were gathered. In order to present the information in a consistent fashion, each projection was structured to answer the question: "How much [xxx] would be required to generate an additional $1 million in revenue?"

PROPERTY TAX / HOUSING DEVELOPMENT

Calculating the County's revenues for each new home built in the unincorporated area of the county is a straight-forward exercise. Property tax is calculated at 1% per Proposition 13. The County reviews approximately 23% of the total property tax collected (or 23% of the 1%). The 2017 and 2018 Assessors valuation roll was used to calculate the average value of a new single-family dwelling in the unincorporated county of $753,501. The County's portion of the property tax collected on each new home would be $1,733 annually. Therefore, in order to generate an additional $1 million in property taxes, 577 additional new single-family dwellings would need to be built. This is in addition to continuing to build at the rates seen in 2018, of 292 new homes. Or, said another way, the County would have to build 869 single-family dwellings to see a $1 million in increased property tax revenue.

SALES TAXES

The current sales tax for the unincorporated area of San Luis Obispo County is 7.25%. Of this amount, 6% goes to the State of California, 0.25% goes to transportation, and the remaining 1% comes to the County. The forecasted County revenue from sales tax in FY 2020-21 is $13,874,000. Therefore, a roughly 7.32% rate (0.07% increase) would yield a $1 million increase in revenues to the County. However, a tax rate of 7.32% is likely unrealistic to pursue. Should your Board decide to pursue a sales tax increase, an increase of 0.25% (7.5% total rate) or 0.5% (7.75% total rate) would be more likely. These would generate approximately $3.5 million and $7 million, respectively. It is worth noting that the counties to the North and South of San Luis Obispo County, as well as all incorporated cities within the county all have sales tax rates of 7.75%.

TRANSIENT OCCUPANCY TAX (TOT)

The current TOT for the unincorporated areas of our county is 9%. The incorporated cities all have rate of 10% or higher. The forecasted County TOT revenue for FY 2020-21 are $12,400,000. Therefore, an increase of 0.73% in TOT would generate $1 million in addition revenues to the County. Like sales tax, a more likely approach would be to raise TOT by 1%, which would yield approximately $1.4 million in additional revenues and put the County at the current rate of most incorporated cities.

OTHER AGENCY INVOLVEMENT/IMPACT

Development of the five-year planning outlook is led by the County Administrative Office, with input from other departments as appropriate. The development of the FY 2020-21 financial forecast includes inputs from the Assessor, Auditor-Controller-Treasurer-Tax Collector, Human Resources, Clerk-Recorder, Planning and Building, Health Agency, and Social Services departments. The outlook further leverages these inputs and historic data.

FINANCIAL CONSIDERATIONS

There are no direct financial considerations created by this report. However, as discussed in the FY 2020-21 financial forecast report of October 22, 2019, the General Fund is facing a potential gap of $0-$5 million for FY 2020-21.

RESULTS

The County's financial outlook lays the groundwork for the budget process by identifying the fiscal capacity of the General Fund for the coming year and guiding the Board in establishing its priorities, budget goals and policies, and budget balancing strategies and approaches for the coming years.

ATTACHMENTS

1 Presentation