

Economic Analysis and Contingency Fiscal Plan

City Council Goals Meeting

March 12, 2019

**Presented by:
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Economic Context



The Start of the Next Downturn is Closer Than the End of the Last One

- According to JPMorgan Chase & Co., “*there is a 60 percent chance that an economic downturn will occur in two years, and an 80 percent chance that [one] will happen within three.*”
- The current expansion phase of the business cycle began more than six years ago, after the recession bottomed out in June 2009

116 months and counting as of February 2019

- Last five expansion phases (trough to peak):

Start/End	Duration
November 2001 – December 2007	73 months
March 1991 – March 2001	120 months
November 1982 – July 1990	92 months
July 1980 – July 1981	12 months
March 1975 – January 1980	58 months

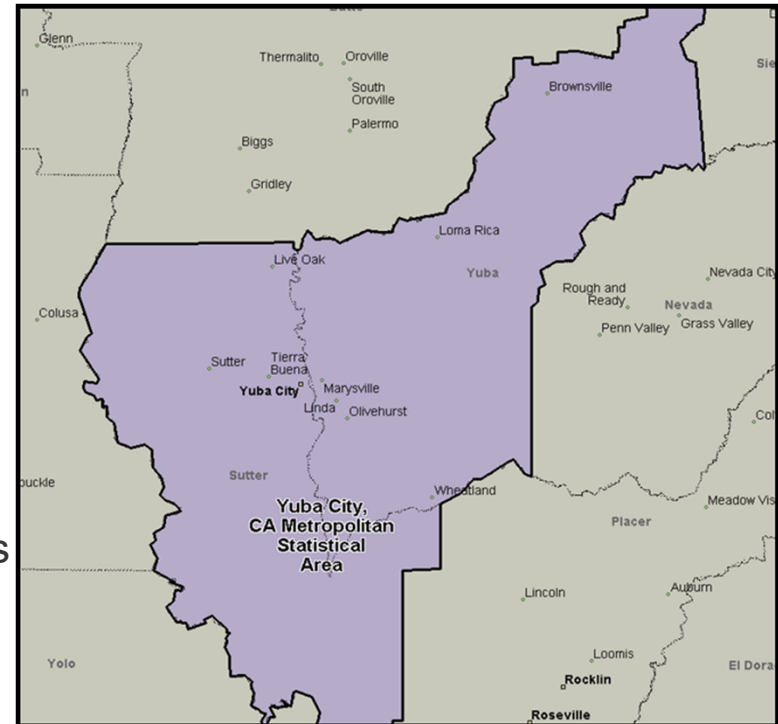
- Average 1945-2009 (11 cycles): **58.4 months**

Source: National Bureau of Economic Research (NBER)



Population

- ◆ Yuba City is the “urban core” of the Yuba City Metropolitan Statistical Area (MSA)
- ◆ As of 1/1/2018, Yuba City had an estimated population of **67,280**
 - From 1/1/2010 to 1/1/2018, Yuba City’s population grew an average of **0.66%** annually with a total increase of **3.63%**
- ◆ This low growth in population also impedes growth in the City’s sales tax and property tax bases
- ◆ Low population growth also limits demand in service growth



	1/1/2010 Population	1/1/2018 Population	% change
Sutter County	94,737	97,238	2.64%
Yuba City	64,925	67,280	3.63%
Yuba County	72,155	74,727	3.56%

Sources: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State



Comparability Context

- The City has historically used six cities for economic comparability
- The following slides present comparative data regarding localized economic and labor market considerations for Yuba City's historically comparable cities.

Comparable Cities	
Chico	Turlock
Lodi	West Sacramento
Rocklin	Woodland



Income Levels | Comparison to State

- ◆ Yuba City's median household income and per capita income significantly trail statewide levels
- ◆ In addition, Yuba City has a greater percentage of families with income below the poverty threshold relative to the State of California

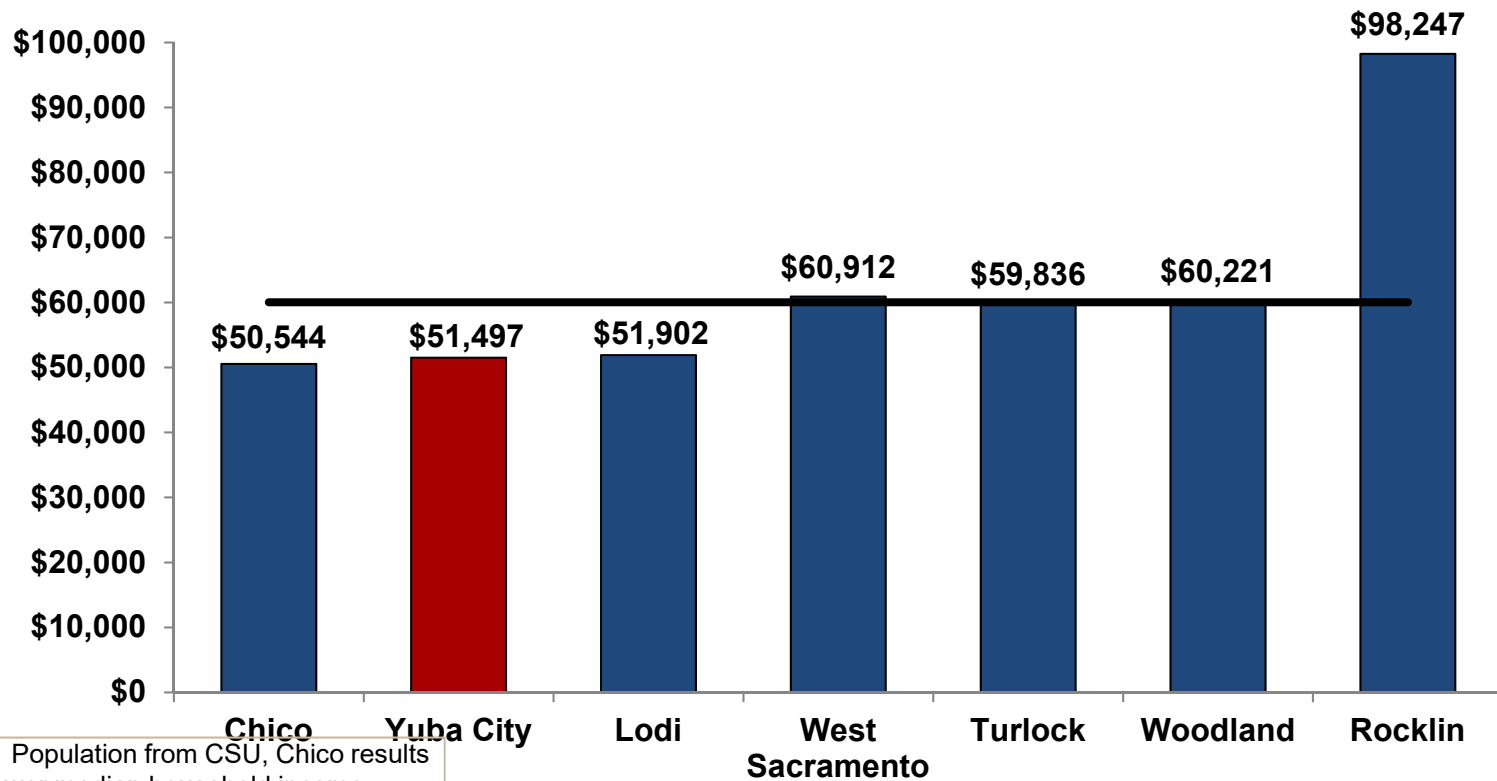
	Yuba City	State of California
Median Household Income (2017)	\$51,497	\$71,805
Per Capita Income (2017)	\$23,421	\$35,046
% of All Families with Income below the Poverty Level (2017)	12.6%	9.6%

Source: U.S. Census Bureau, 2017 American Community Survey, 1-Year Estimates



Median Household Income | Comparators

- ◆ Yuba City's median household income ranks 6th out of the 7 jurisdictions, trailing the multi-jurisdictional median of \$60,029 (excluding Yuba City) by (14.2%)

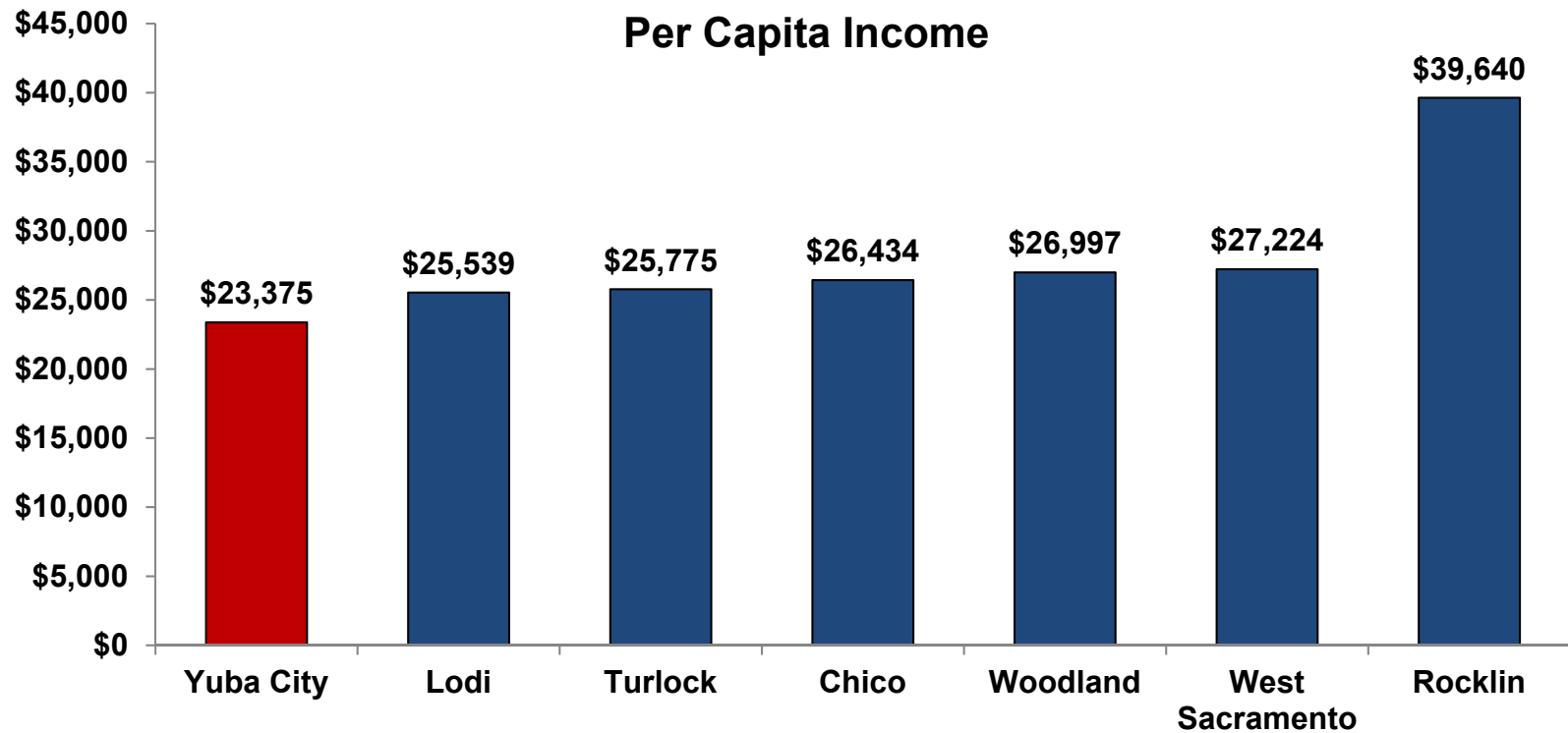


Source: U.S. Census Bureau, American Community Survey, 2017 1-Year Estimates; 1-Year Supplemental Estimates (West Sacramento, Woodland, Rocklin);



Per Capita Income | Comparators

- ◆ Yuba City's per capita income is lowest among the comparable cities.



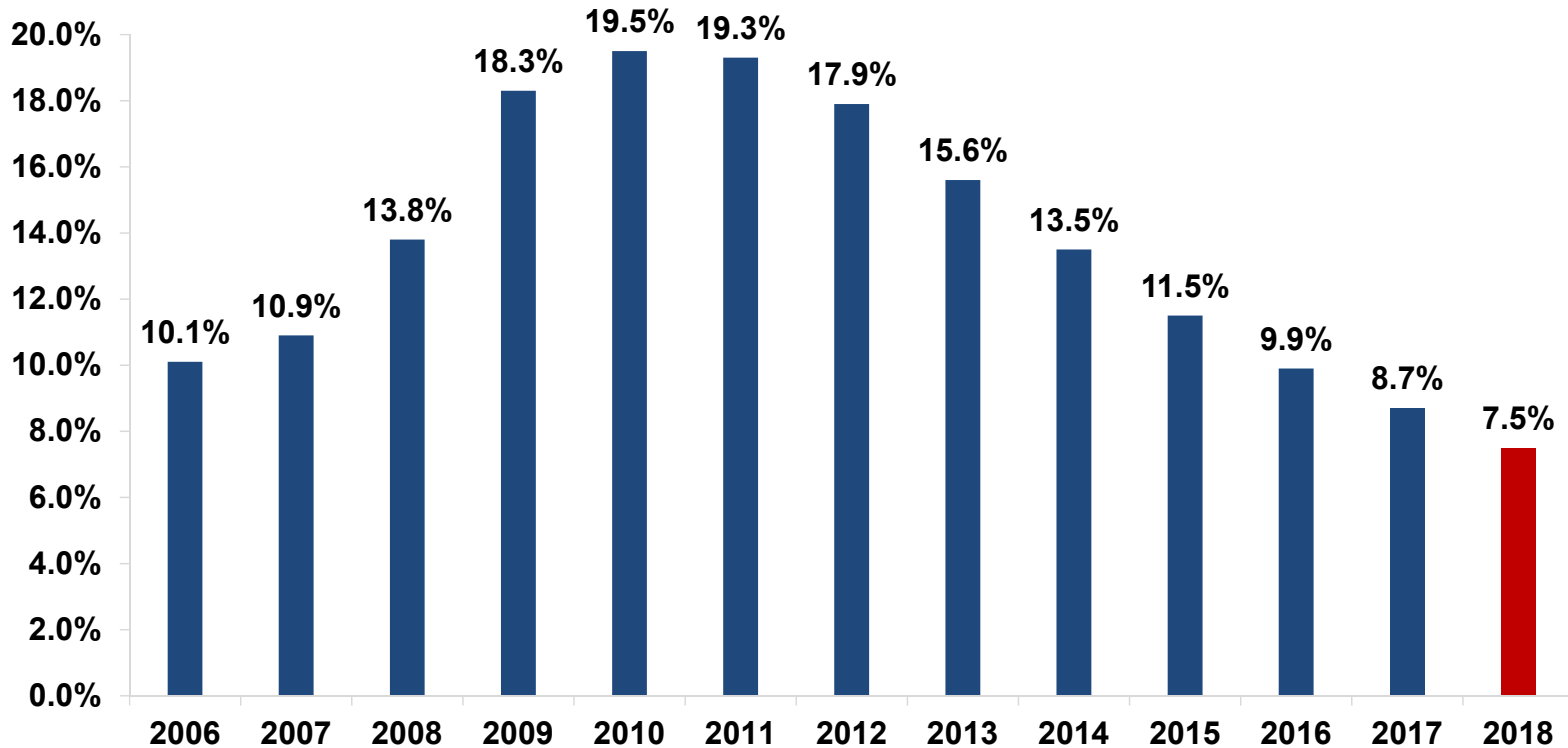
Source: U.S. Census Bureau, American Community Survey, 2017 1-Year Estimates



Unemployment | City Historical

- ◆ Yuba City's unemployment rate fell to **7.5% as of November 2018**
- ◆ Yuba City's unemployment rate is below pre-recession levels

Yuba City Average Unemployment Rate 2006-2018

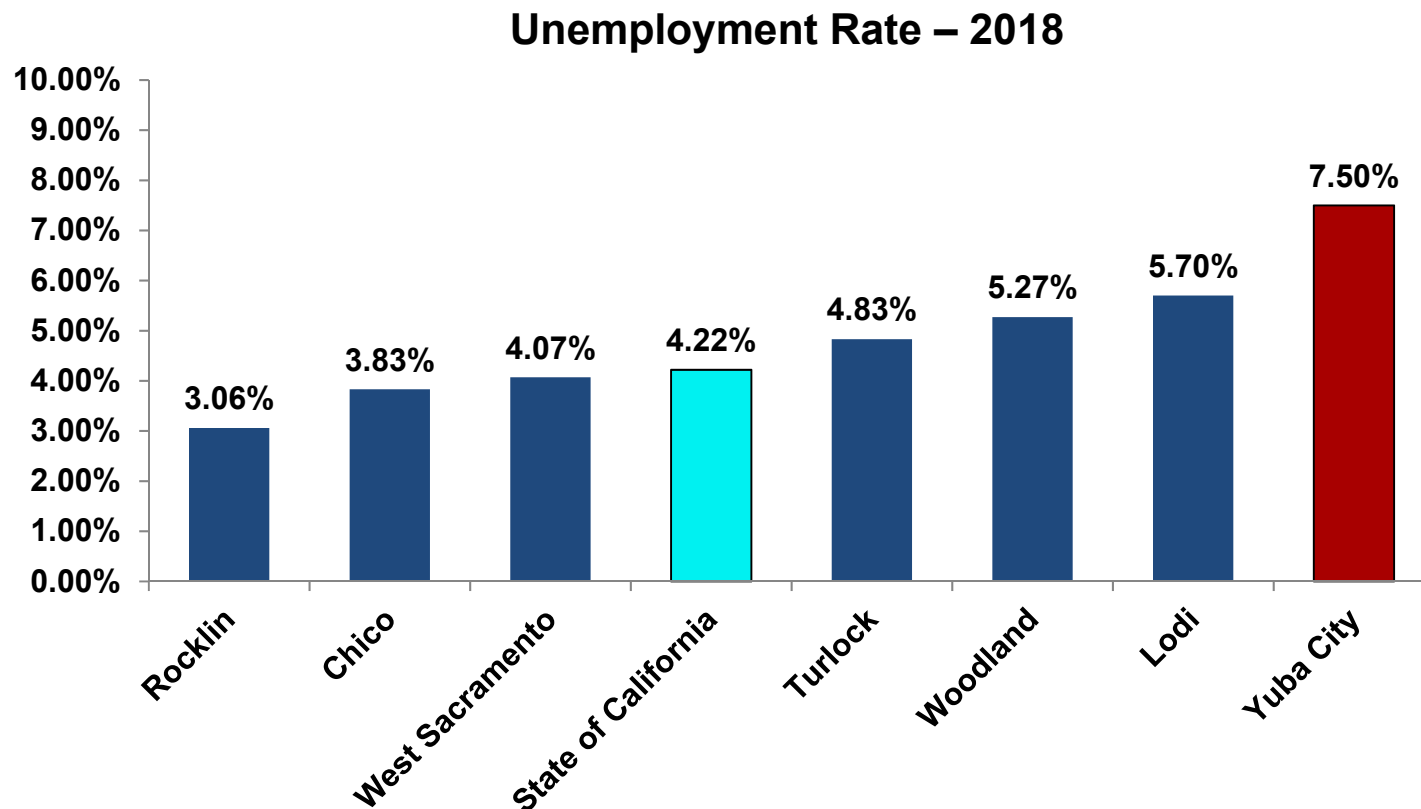


* Data available through November 2018 (preliminary) only. As such, the values shown for 2018 reflect the 10-month average.
Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, Not Seasonally Adjusted



Unemployment Rate | Comparators

- ◆ Among comparable public agencies, Yuba City has had the highest average unemployment rate in 2018, at 7.5%.

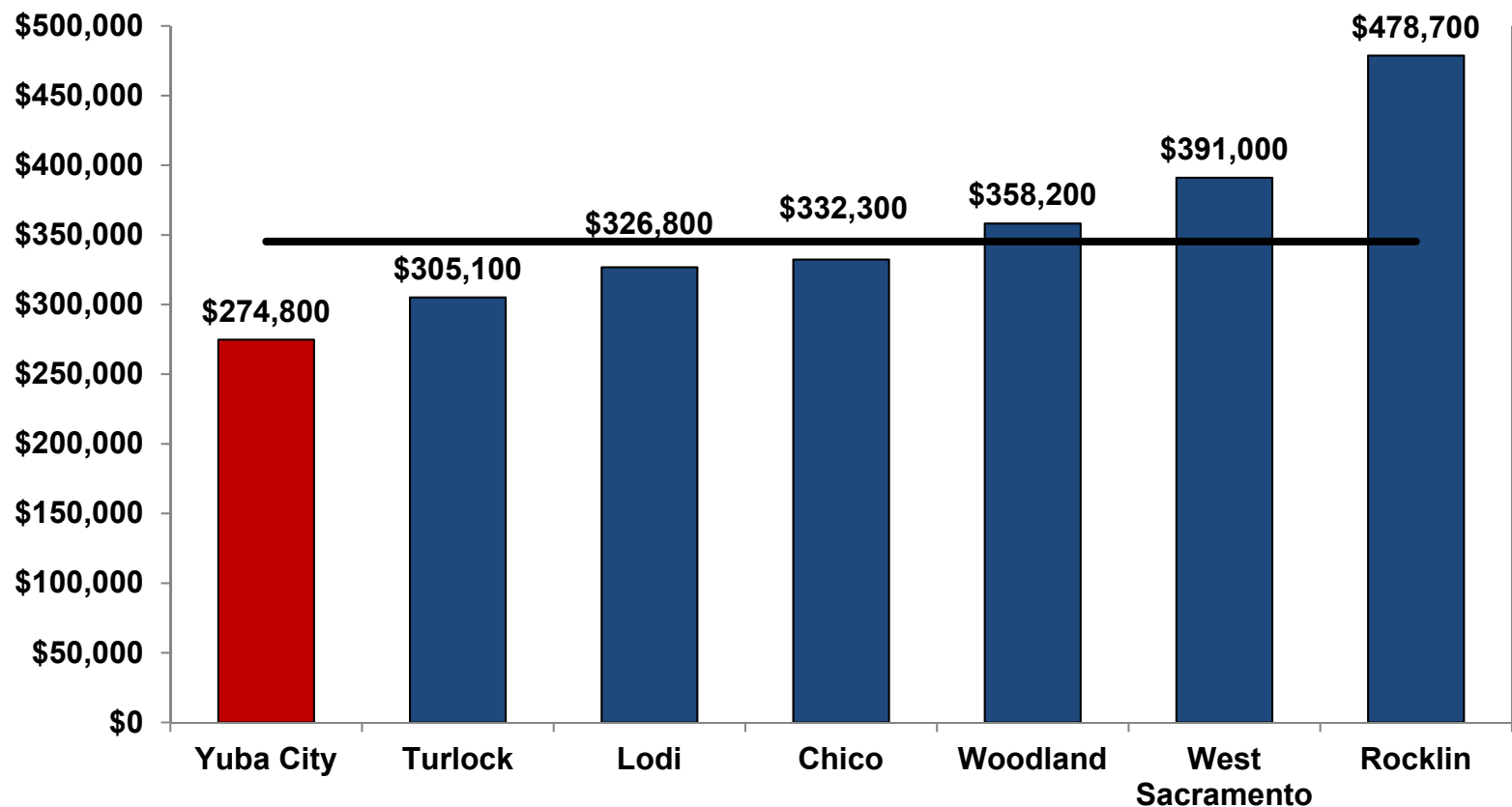


** Data available through November 2018 (preliminary) only. As such, the values shown for 2018 reflect the 11-month average.
Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, Not Seasonally Adjusted*



Median Home Values | Comparators

- Median home values in Yuba City are lowest among the cities, trailing the multi-jurisdictional median of \$345,250 (excluding Yuba City) by more 20%.



Source: U.S. Census Bureau, American Community Survey, 2017 1-Year Supplemental Estimates;



New Development Remains Consistently Low

- The number of permits issued by the city for construction have been consistently below pre-recession levels as shown in the table below for single family dwellings

Calendar Year	Permits Issued Single Family Dwellings
2003	750
2004	991
2005	869
2006	254
2007	158
2008	53
2009	31
2010	18
2011	12
2012	14
2013	50
2014	50
2015	41
2016	47
2017	38
2018	27

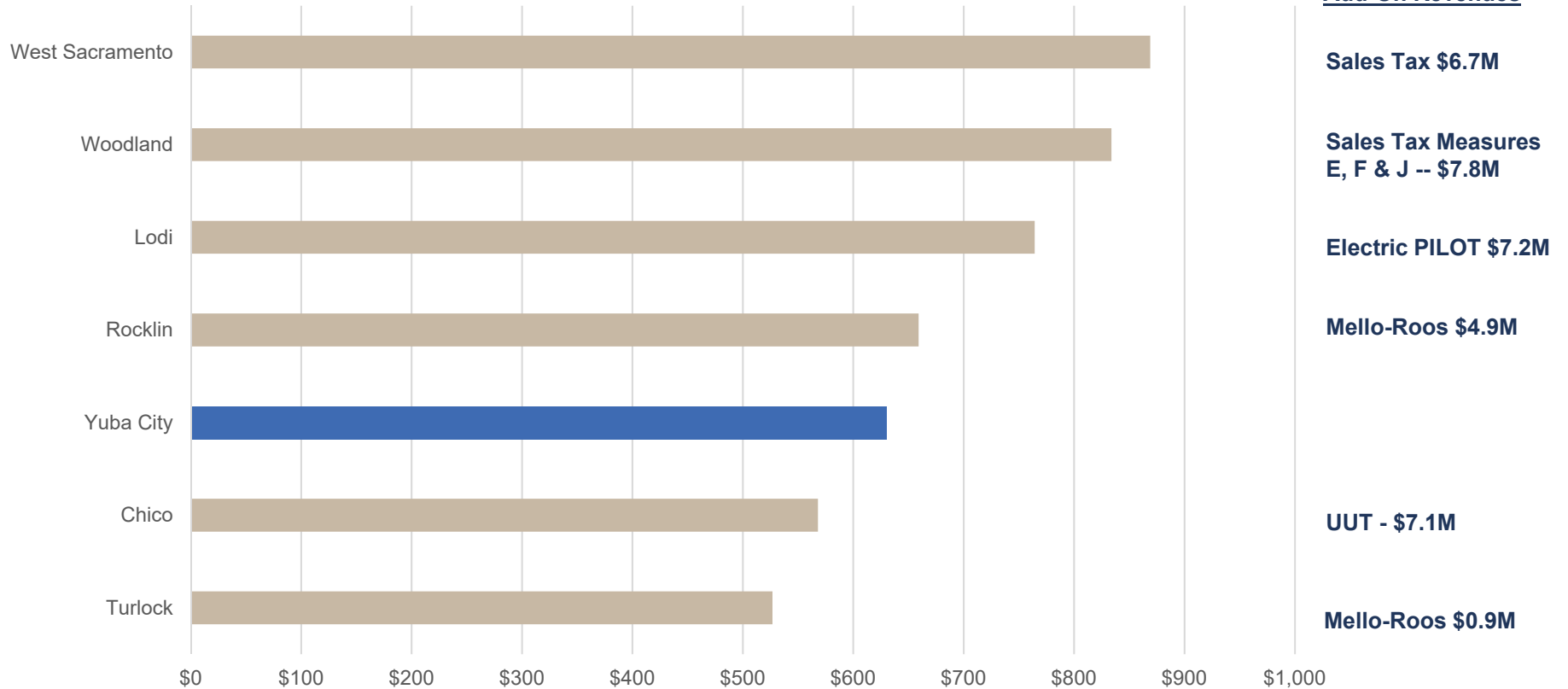
Source: Yuba City, Community Development Department



General Fund Revenues | Per Capita Comparisons

- On a per capital basis, the City ranks 5th of the 7 comparable cities
- This shows that the City has less to spend on services than 4 of the comps

FY19 Total GF Revenues Per Capita



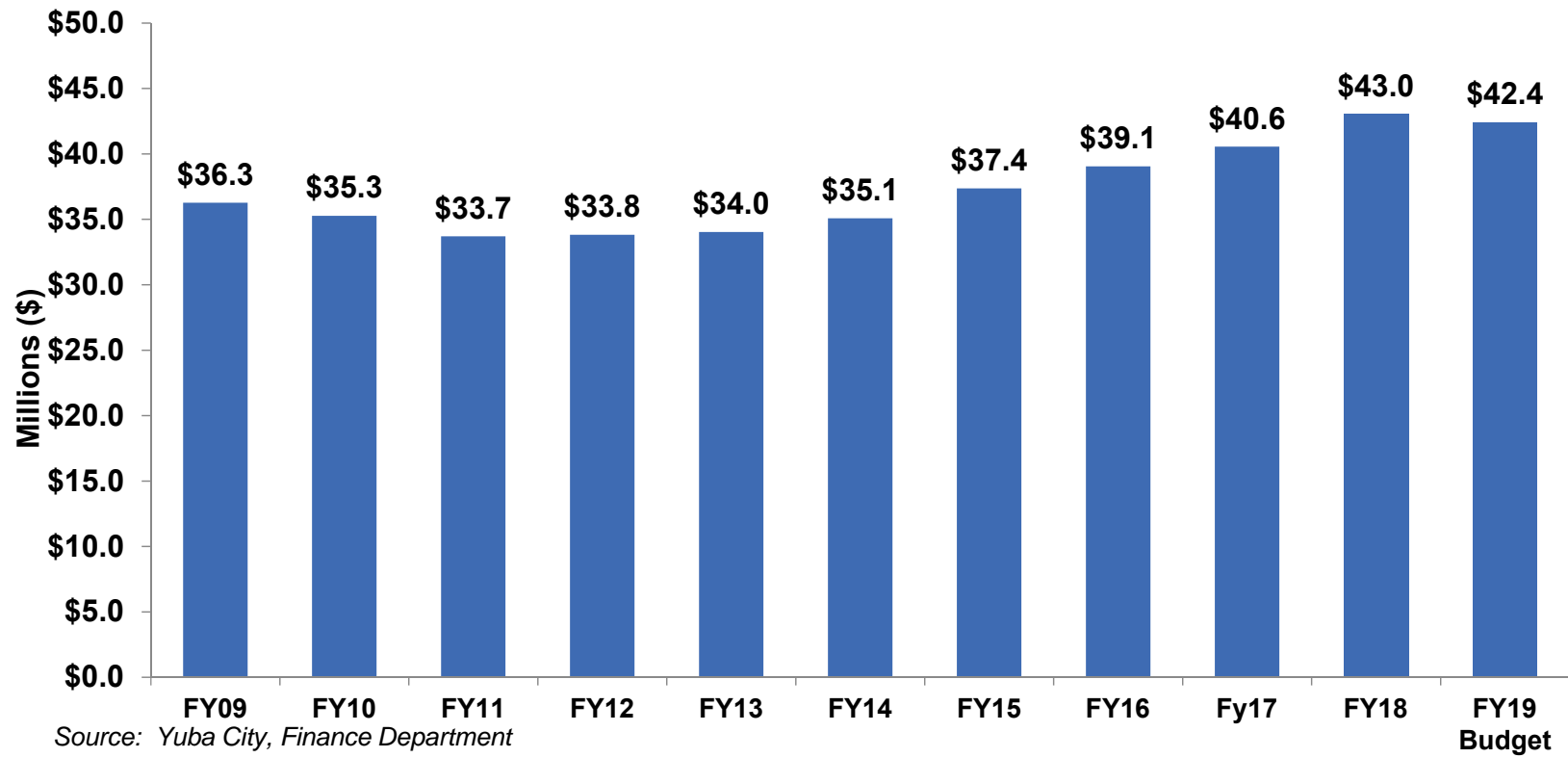


Financial Overview



General Fund Revenues | Lagging Inflation

- ◆ Compounded annual growth in revenues from FY09 through FY19 was less than 1.6% per year
- ◆ The major drivers of revenue growth in the FY18 and FY19 Budget were the property tax, the sales tax, and the General Fund allocations from the Water Fund and the Wastewater Fund.

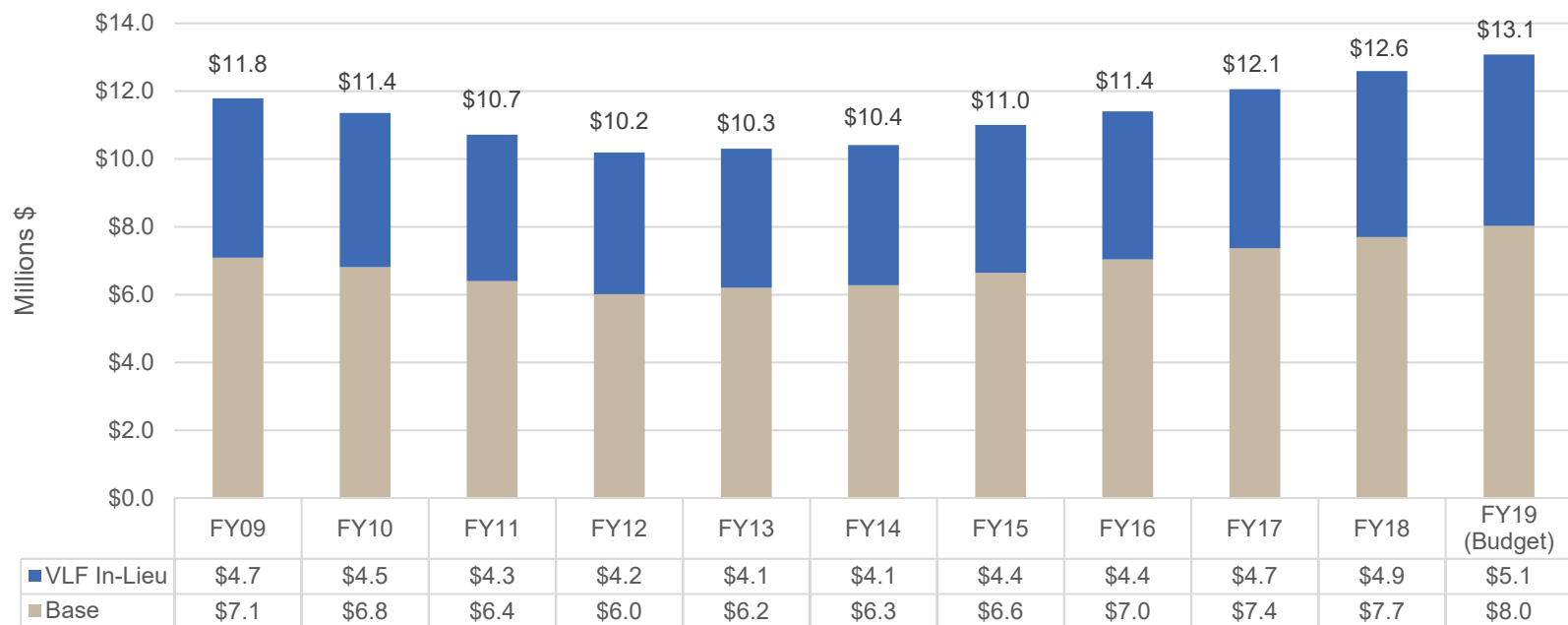




Property Tax Revenue | Yuba City Historical

- Property taxes finally exceeded FY09 levels in FY17, growing just 11.1%, approximately 1.0% per year compounded, over this 10-year period
- During this time, population grew 3.6% and consumer prices increased nearly 17% -- A combined total of over 20%.

Historical Property Tax Growth
FY09-FY19

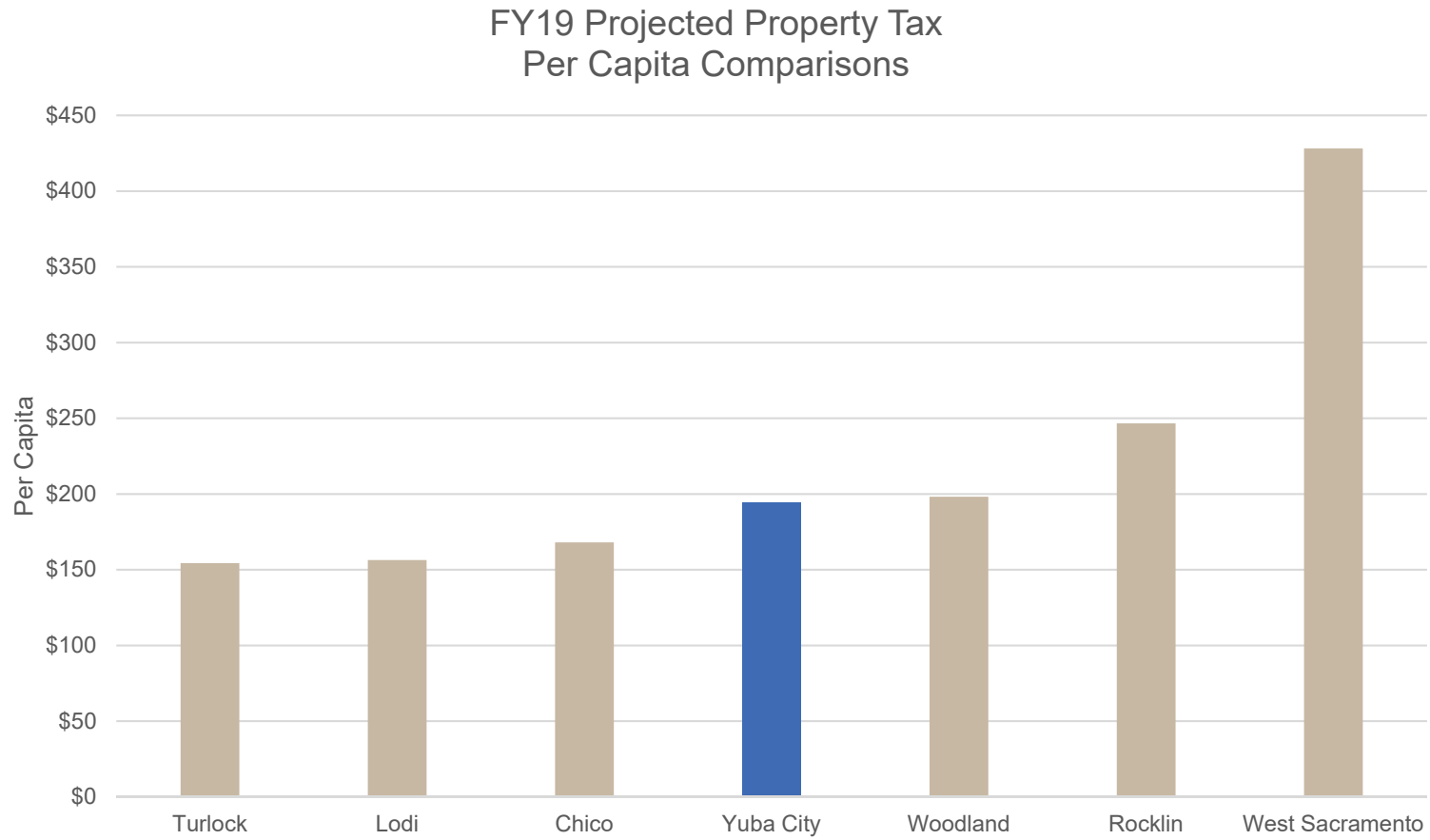


Source: BLS Consumer Price Index; State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State



Property Tax Revenue | Comparators

- Yuba City's property tax receipts rank 4th out of the 7 jurisdictions, exceeding the multi-jurisdictional median of \$183/capita (excluding Yuba City) by 6.2%

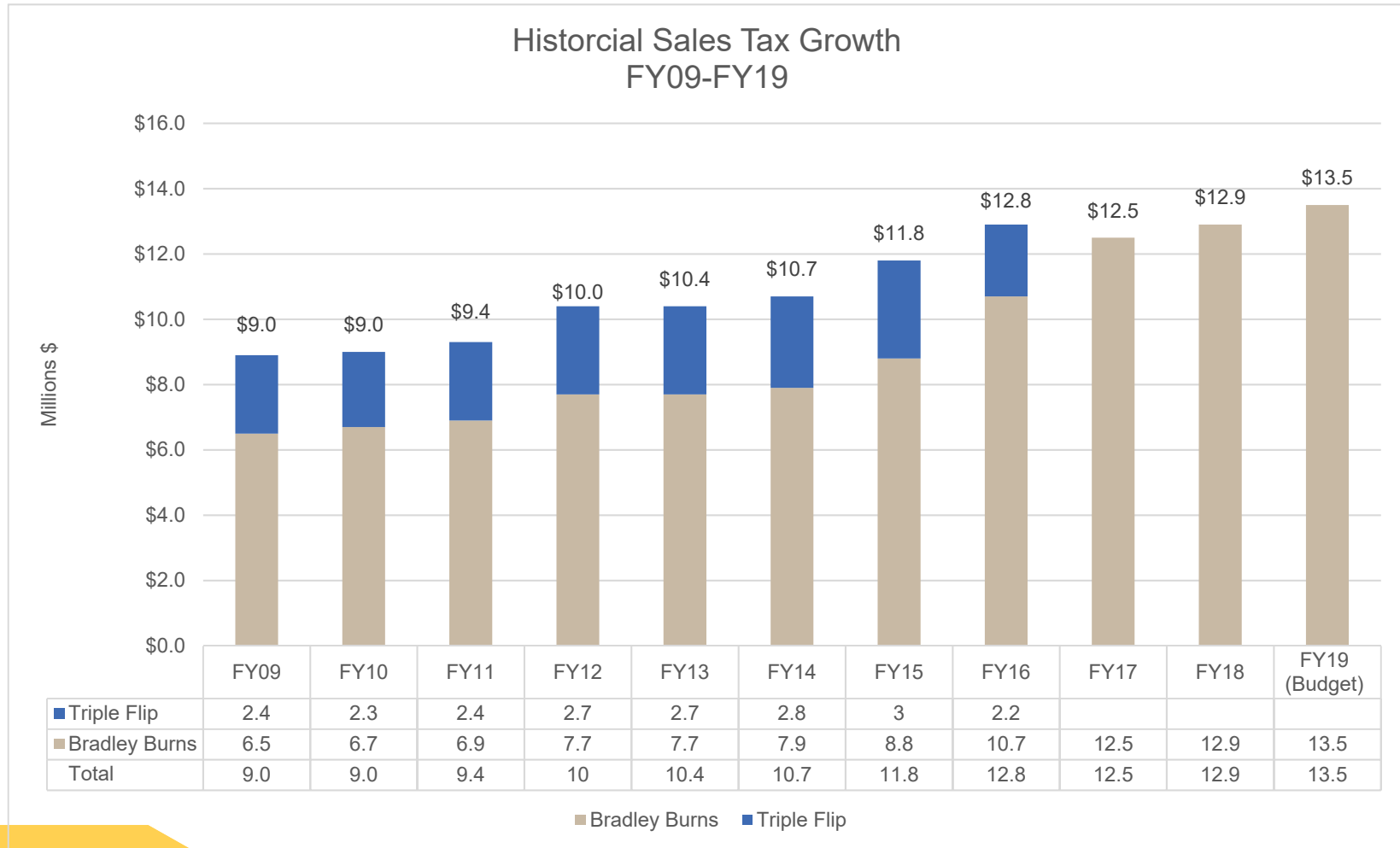


Source: City FY19 budget documents



Sales Tax Revenue | Consistent Growth

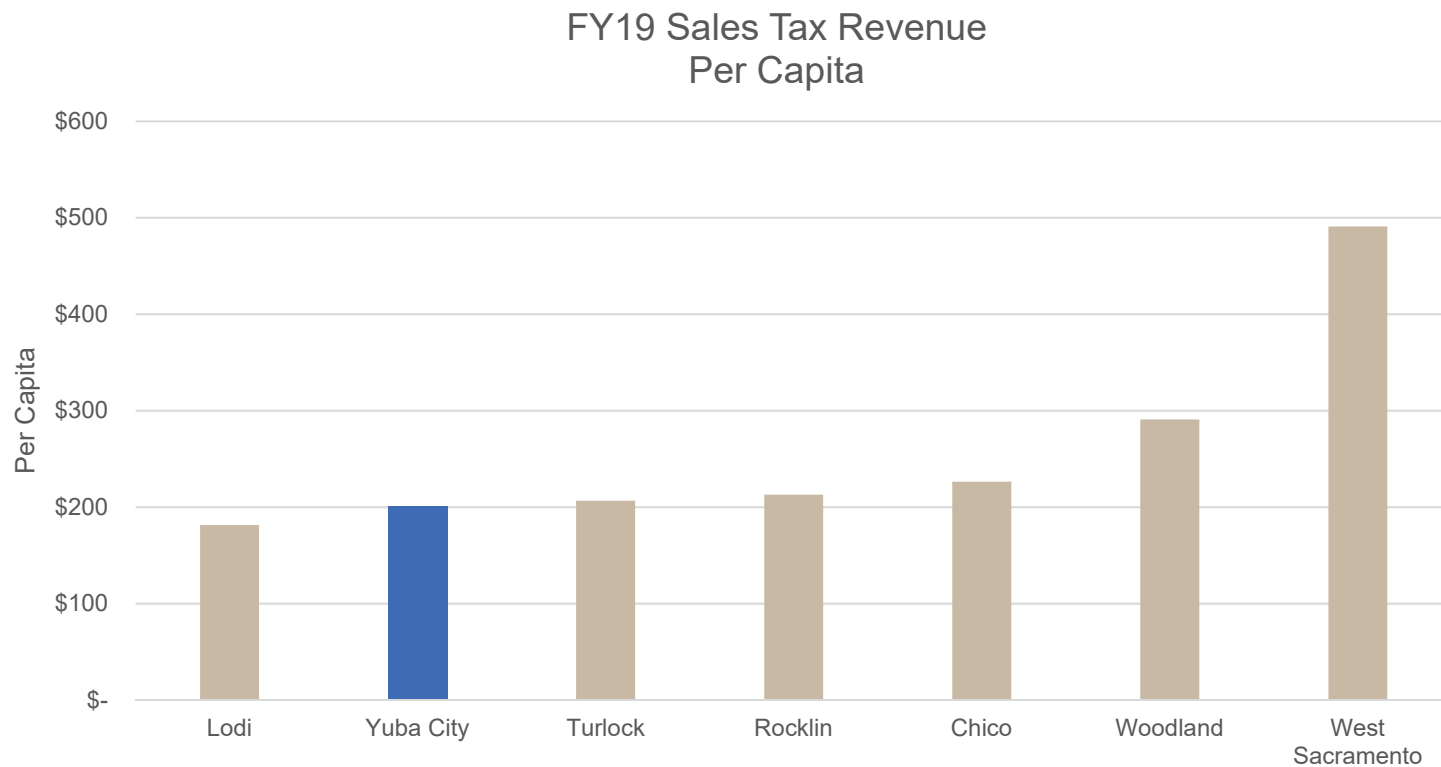
- ◆ Sales tax has increased 50% since FY09—greater than population and inflation growth combined—averaging over 4.1 % per year





Sales Tax Revenue | Comparable Agencies

- Yuba City's sales and use tax receipts per capita rank 6th out of the 7 jurisdictions, trailing the multi-jurisdictional median of \$226 (excluding Yuba City) by **-8.4%**

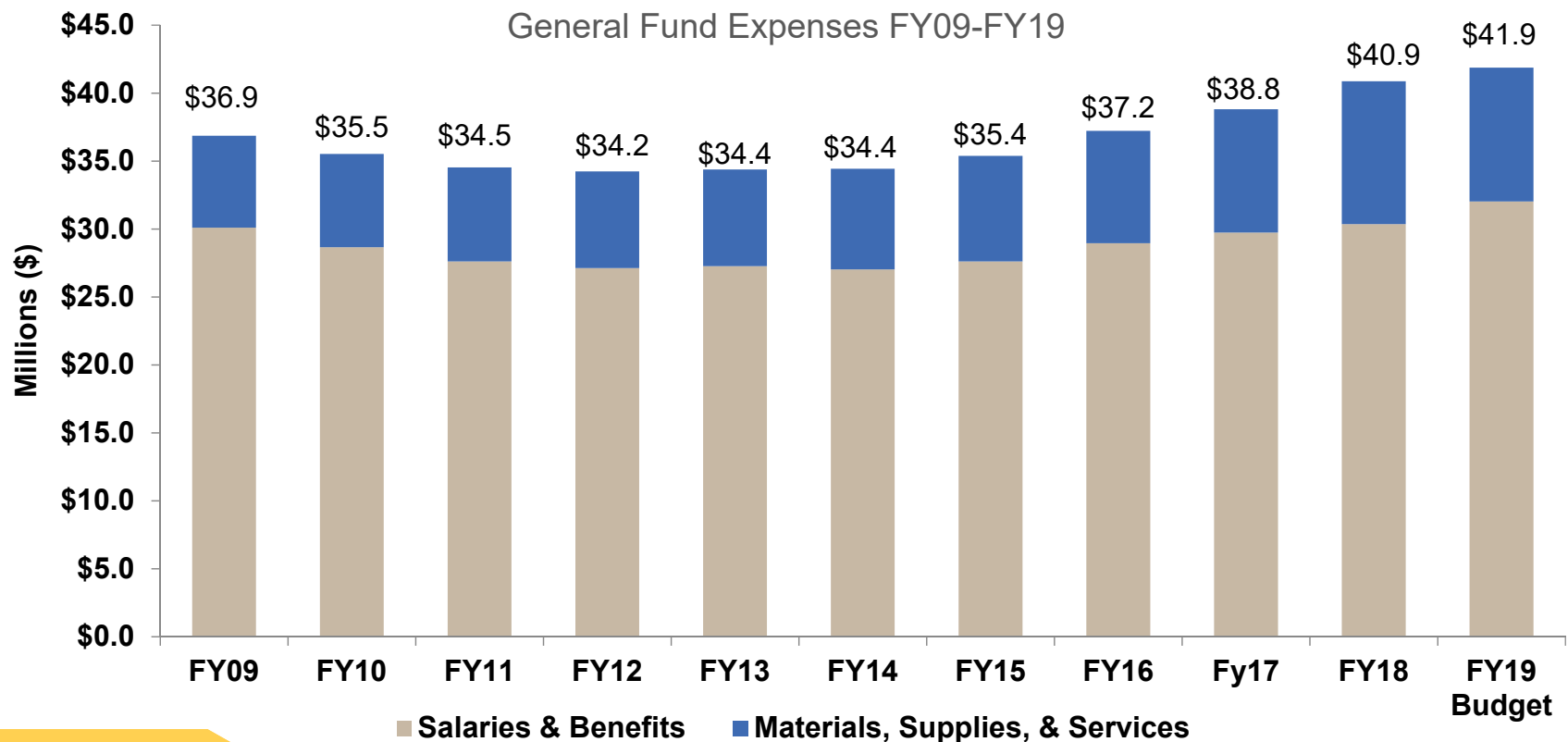


Source: City budgets and State DOF population estimates as of 1/118



Expenses | Historical General Fund

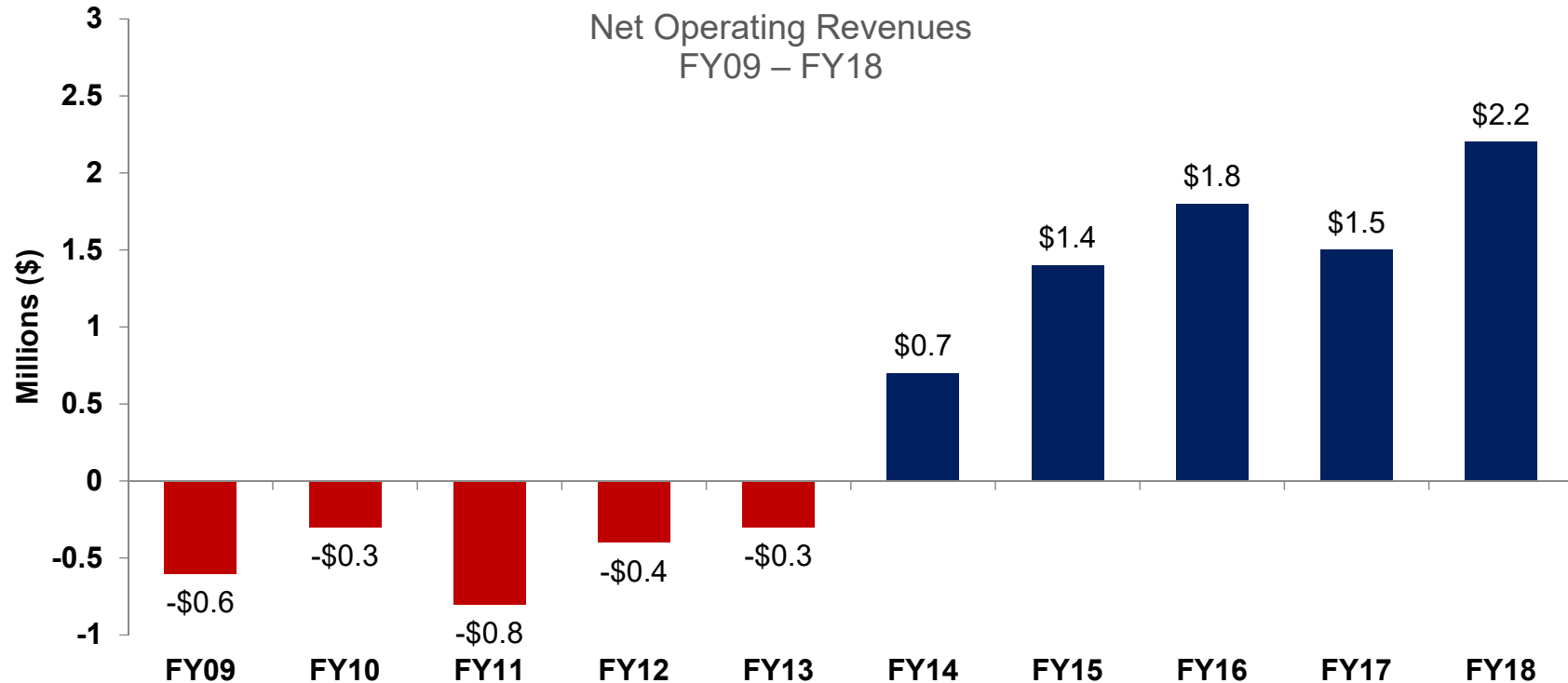
- ◆ Expenses dropped through FY13 and then started increasing again in FY15. They have grown 4.0% per year (compounded) since
- ◆ Expense increases have been concentrated in health, other benefit, and materials and supplies costs—leaving City salaries stagnant





Net Operating Revenues | General Fund

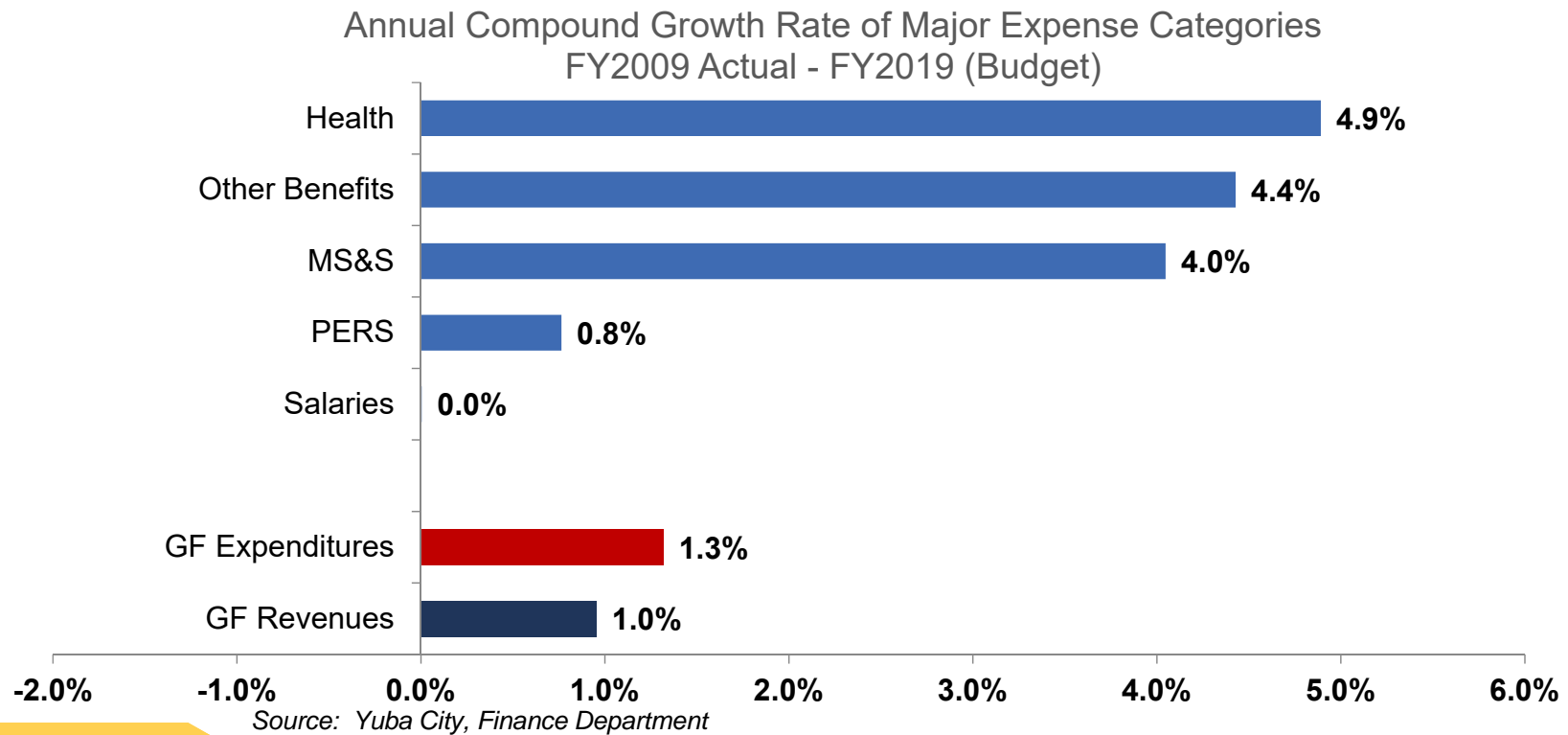
- The City's General Fund had negative operating revenues from FY09 - FY13
- Recent positive net revenue is due largely to actively holding down costs, including holding vacancies open for a period of time before filling





10-Year Growth Rates | by Category

- ◆ Even with extensive cost cutting throughout the City, expense growth—**1.3%/ year**—outpaced revenue growth— **1.0%/year** —over the last ten years
- ◆ Pension cost increases were relatively flat during this time period due to high staff vacancy rates



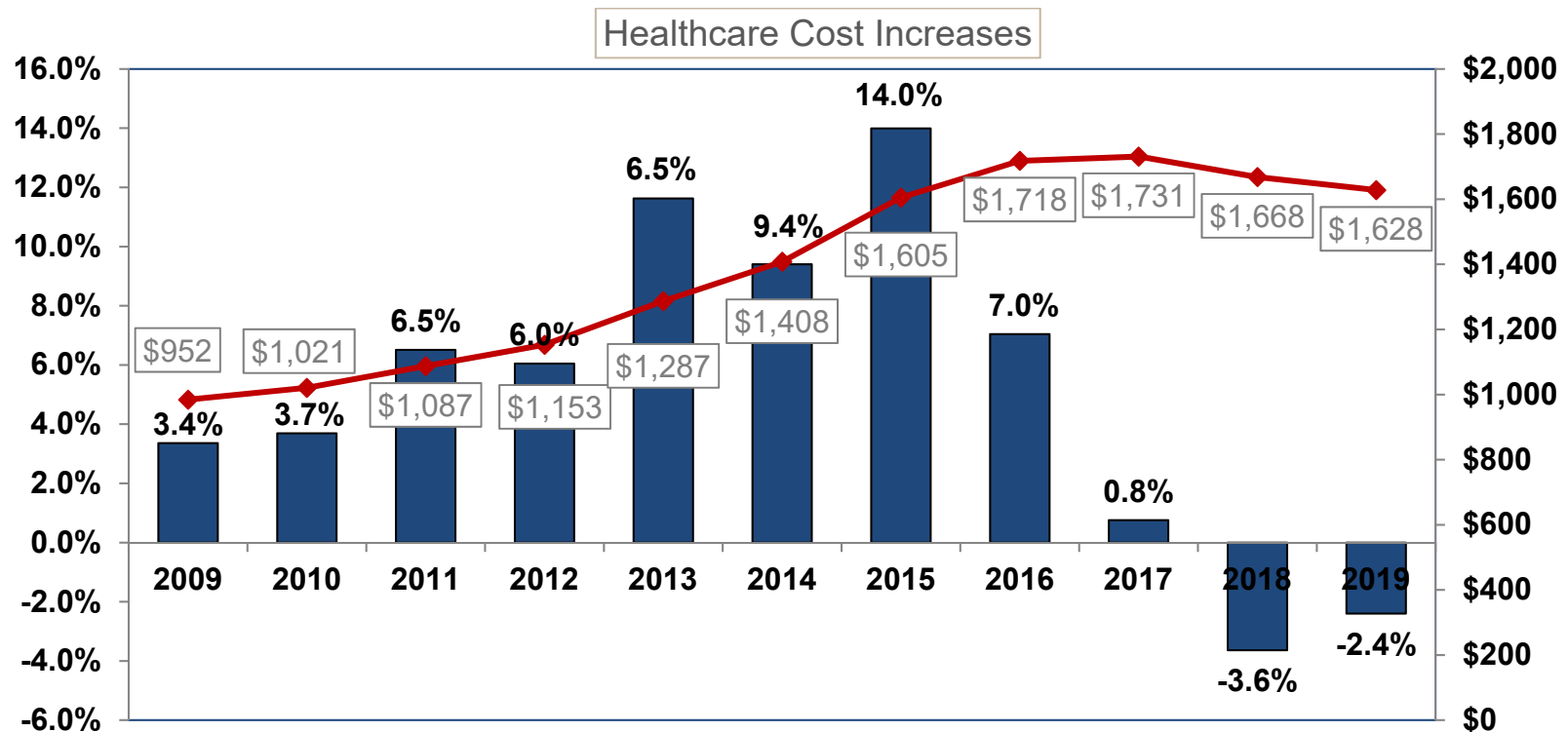


Budget Forecast



Health Expenses on the Rise

- ◆ **Health premiums** continue to pressure Yuba City's budget, growing faster than inflation—averaging 7.8% compounded annual growth between 2009 and 2017
- ◆ Recent premium decreases in 2018 and 2019 are not seen as a continuing trend
- ◆ Future growth is projected to occur at early-year growth levels, averaging 7% per year



■ Annual Percent Change

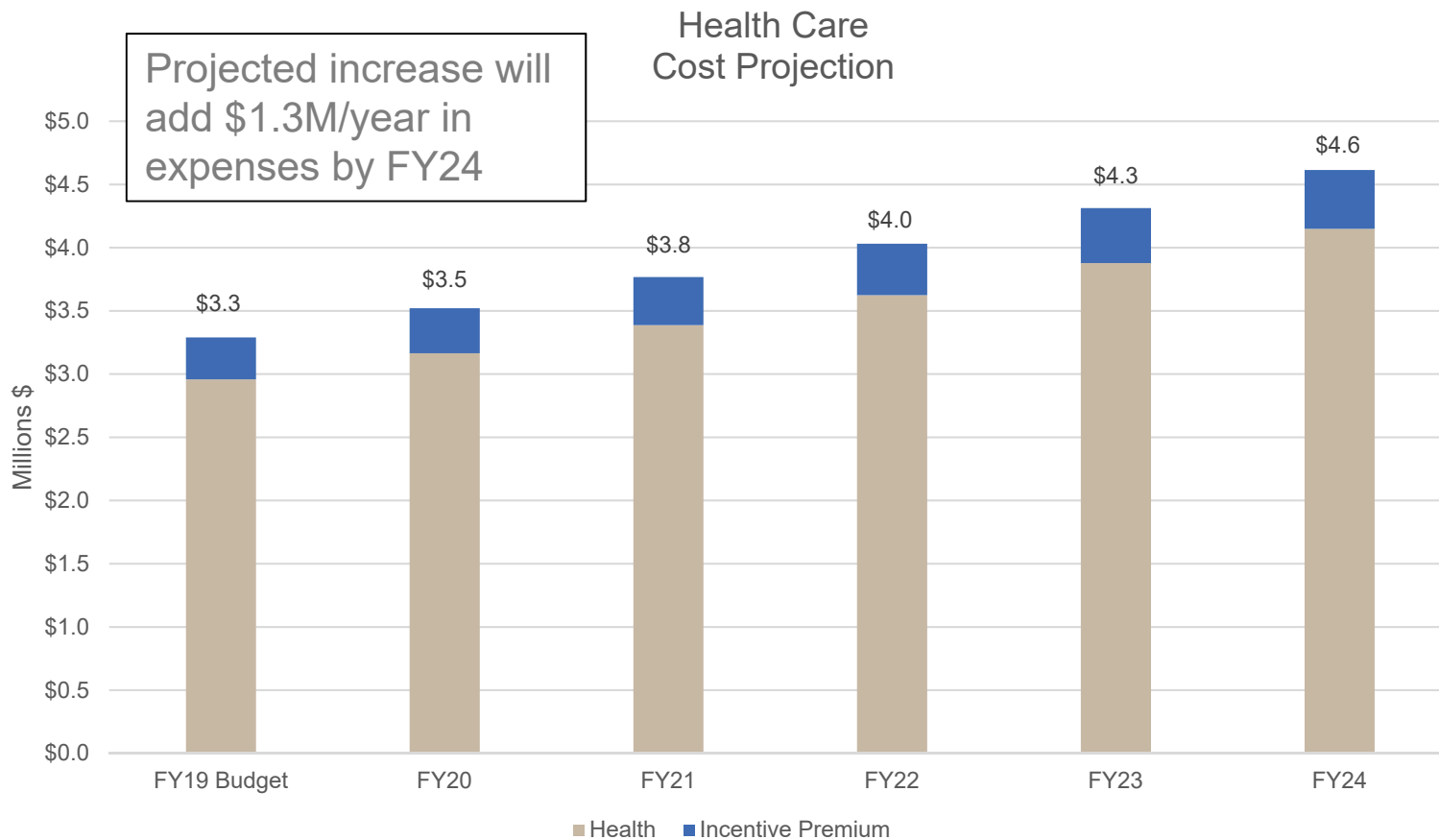
◆ Monthly Family Premium - Low Option BlueShield

Source: Yuba City, Human Resources Department



Health Cost Projection

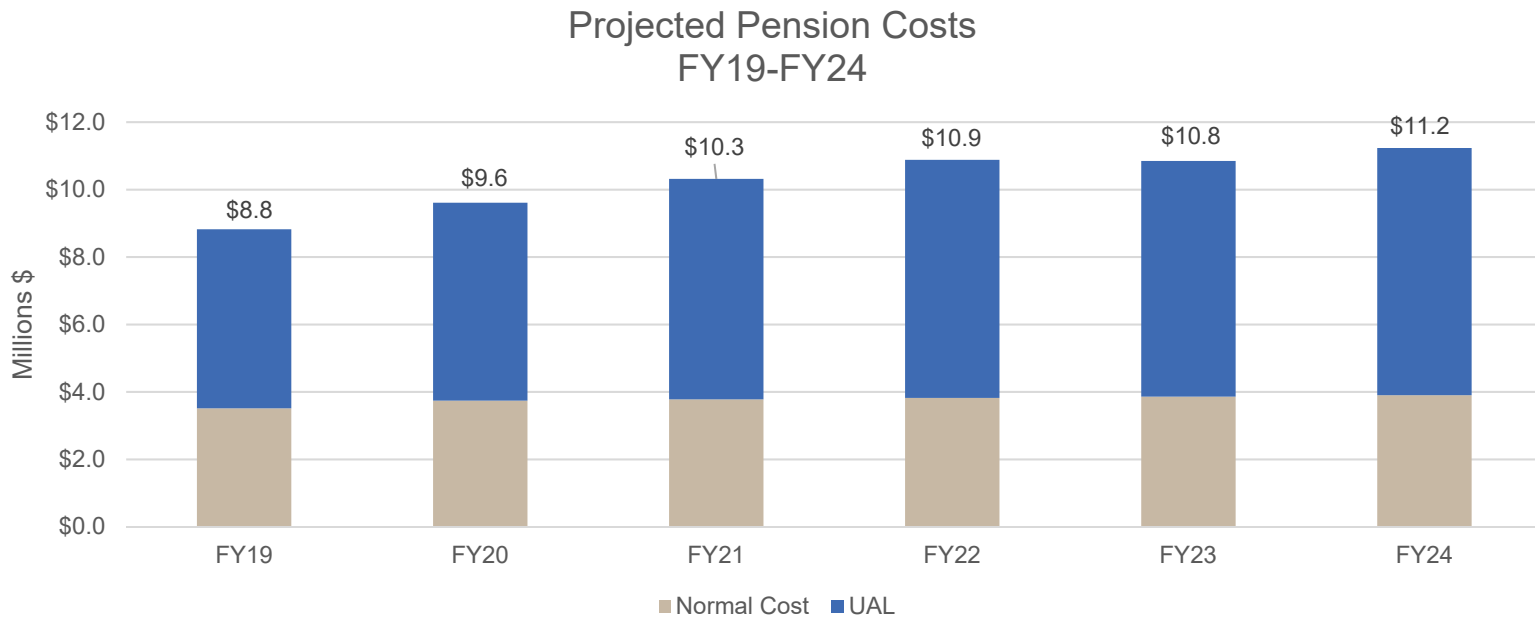
- Based on historical averages, healthcare expense is projected to rise 39.4% from FY19 to FY24—an average of 7% per year starting in FY19





Pension Expenses | Increasing

- ◆ Combined PERS costs are expected to increase by \$2.4M by FY24, an increase of 27%
- ◆ While lower than previously projected, this growth is over twice expected CPI per year

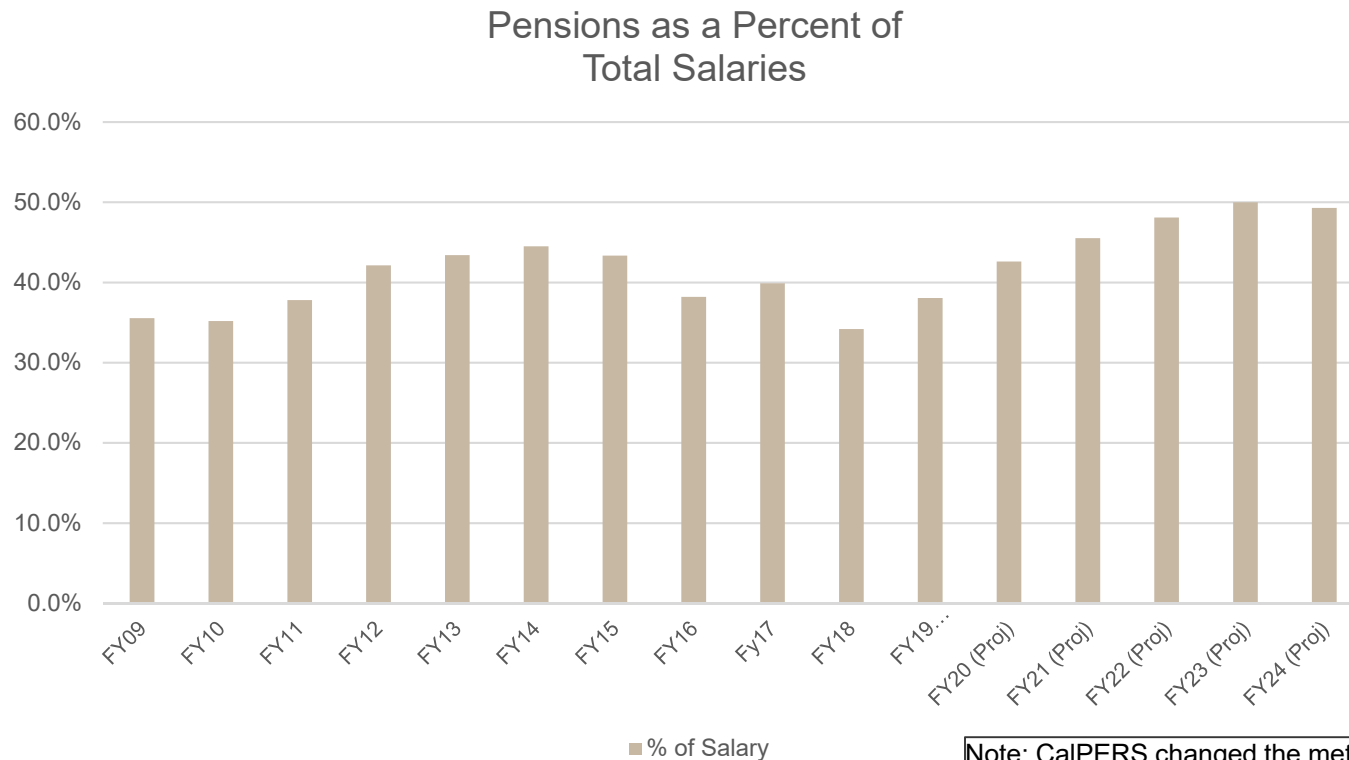


Source: City of Yuba City Finance Department, CalPERS actuarial analysis



Pension Cost | As Percent of Other Expenses

- ◆ Pension costs are becoming a bigger portion of salary costs, exceeding 50% in FY23



Note: CalPERS changed the methodology for payment of unfunded liabilities from a percent of salary to a dollar cost in FY17. This results in less volatility in year-to-year costs



Recession Scenario

- ◆ The City forecast assumes ongoing growth in revenues and continued economic expansion
- ◆ Based on ongoing obligations related to CalPERS and health increases, the City expects to have discretionary income over the next five years
- ◆ **The impact of a recession** would alter budget projection with potential revenue impacts of \$1-3 million per year.



Contingency Forecast Alternatives



City Budget Health Comes at a Cost

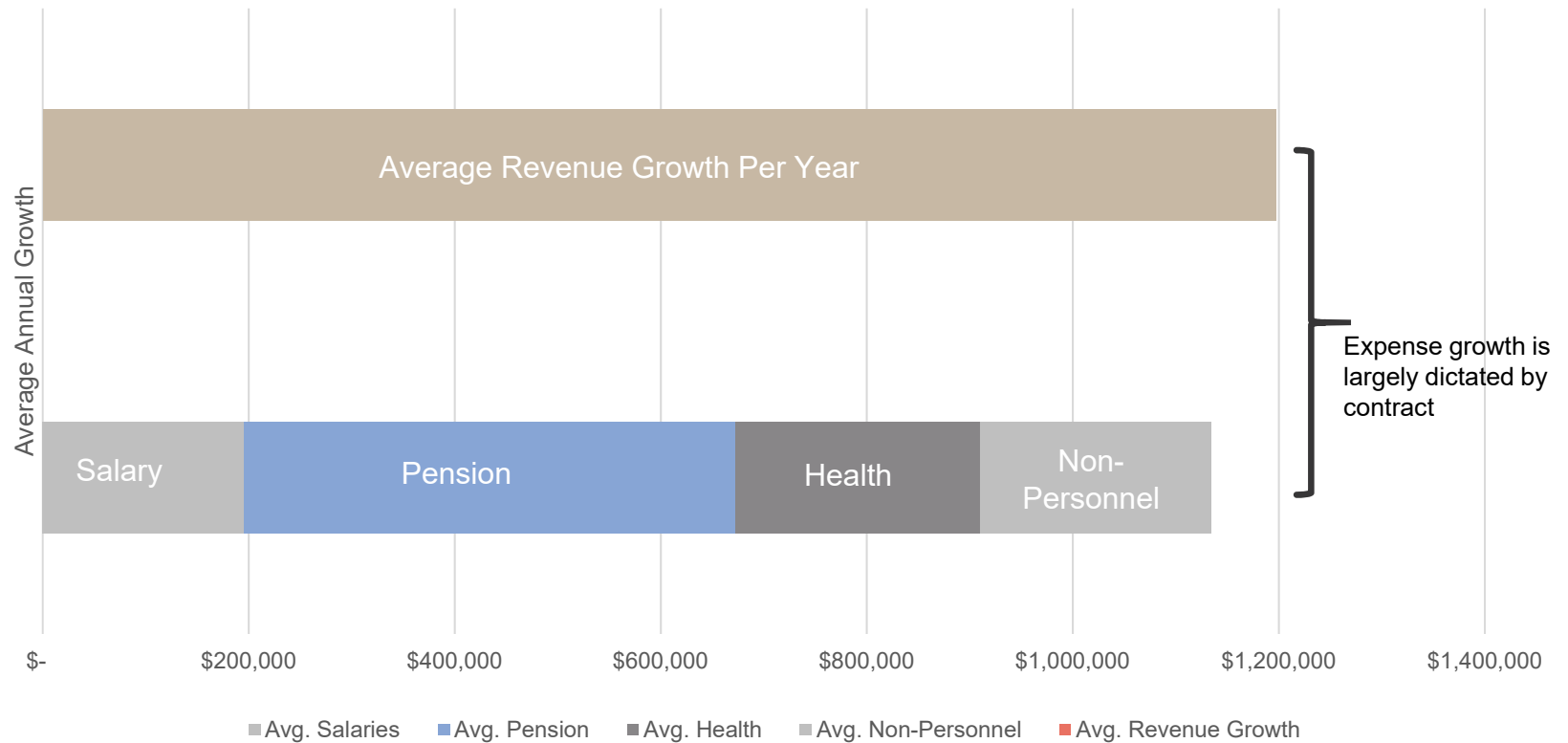
To maintain a positive net revenue over the next five years requires the City to keep expenses in check. The positive budget forecast assumes that the City will:

- ◆ Rely on net General Fund revenue (i.e., annual budget savings from employee turnover) to fund the adopted capital improvement plan
- ◆ Limit contributions to maintenance of City facilities and parks
- ◆ Limit total salary cost
 - No increased staffing
 - Employee wages lag expected CPI growth
- ◆ Keep Material, Supplies, and Services growth at historically low level



City Growth Rates

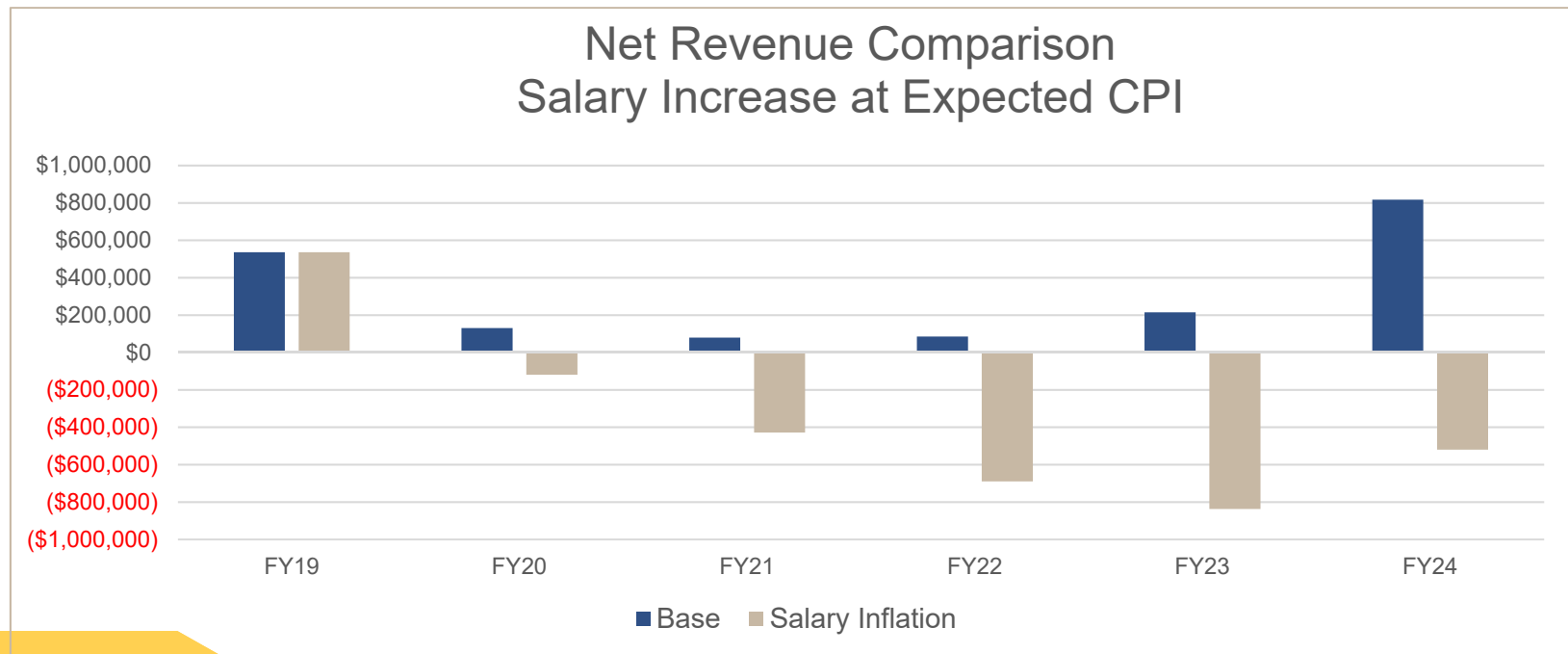
Comparison of Projected Revenue and Expense Growth
(Average over 5-year projection period)





Alternative Assumption #1 | Salary/Staffing Growth

- ◆ Maintaining competitive salaries is important to recruitment and retention
- ◆ Expanding services as the City grows, is important to maintaining service level standards – the City is still behind in staffing levels from ten years ago.
- ◆ The budget forecast assumes a **1% annual growth in salaries**—well behind expected inflation of 2.2% +-. **This alternative assumes overall salary growth of 2.2% per year**

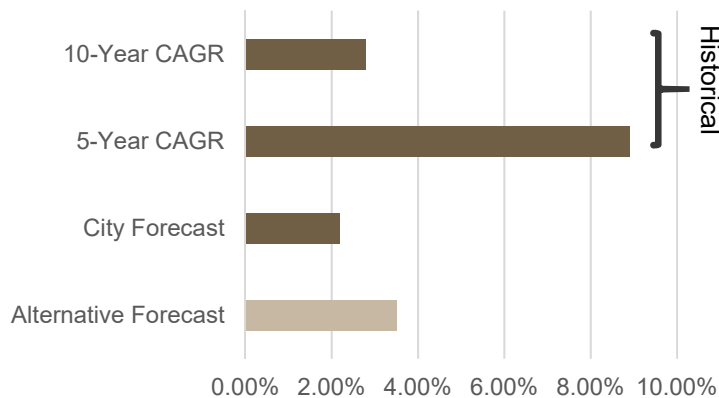




Alternative Assumption #2 | M,S&S Growth

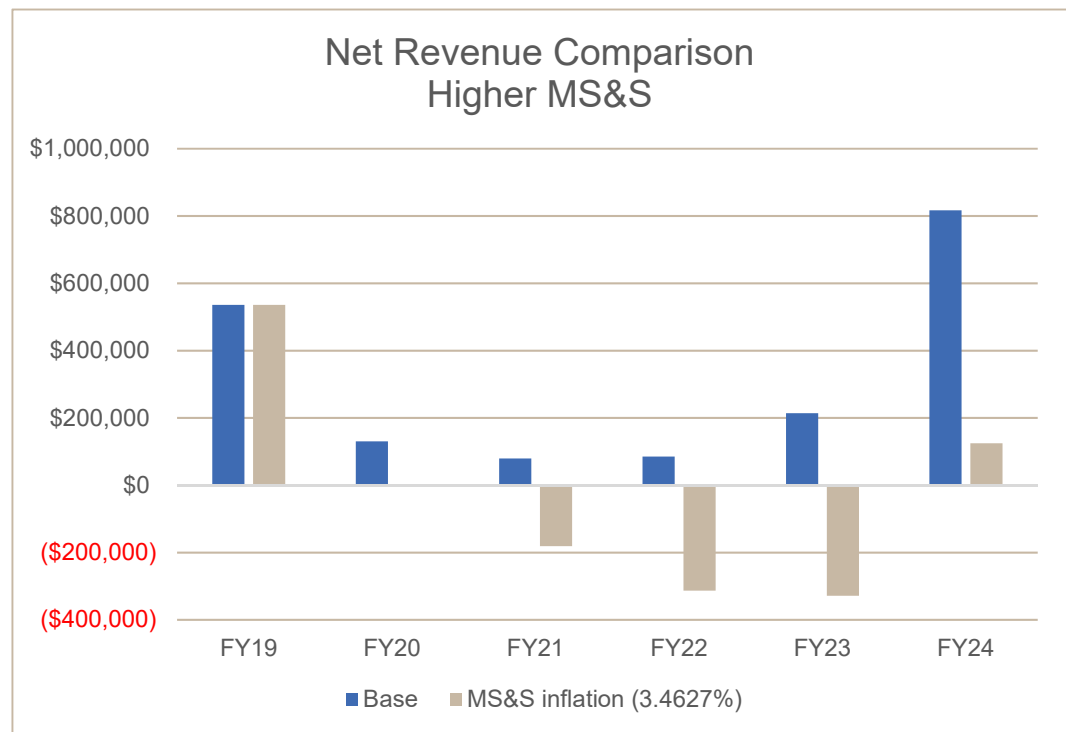
- ◆ The City's budget forecast assumes an ability to keep growth in material, supplies, and services down well below historical growth rates
- ◆ To do this, the City may need to pull back on annual maintenance of parks, streets, and facilities

Materials, Supplies & Services
Comparative Growth Rates -- FY08
to FY18



CAGR = Compounded Annual Growth Rate

Net Revenue Comparison
Higher MS&S





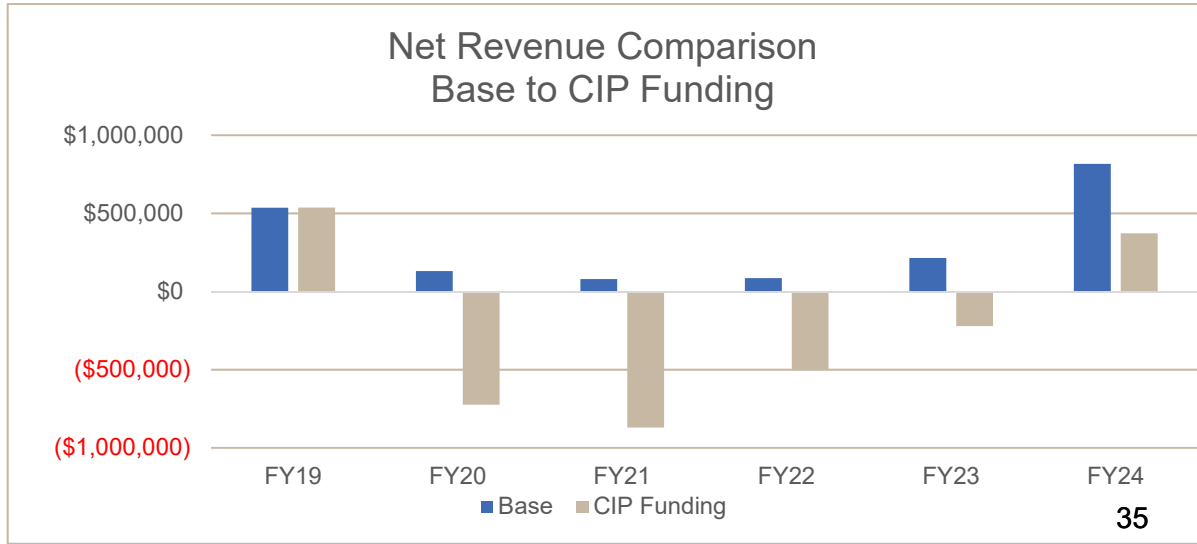
Alternative Assumption #3 | Capital Investment

- Funding the City's adopted CIP is not feasible under current budget projections

Project	Adopted 2018-19	2019-20	2020-21	2021-22	2022-23
Current General Projects	120,000	150,000	150,000	150,000	-
Current Facilities Projects	45,200	250,000	250,000	250,000	250,000
Current Community Services Projects	136,000	575,000	490,000	315,000	315,000
Current Public Safety Projects	(1,000)	-	183,000	-	-
Current Streets Projects	-	30,000	30,000	30,000	30,000
Current Water Projects	-	-	-	-	-
Current Wastewater Projects	-	-	-	-	-
Total	300,200	1,005,000	1,103,000	745,000	595,000

Adopted General Fund CIP costs average \$750,000 per year. City funds this through reserves and annual budget savings

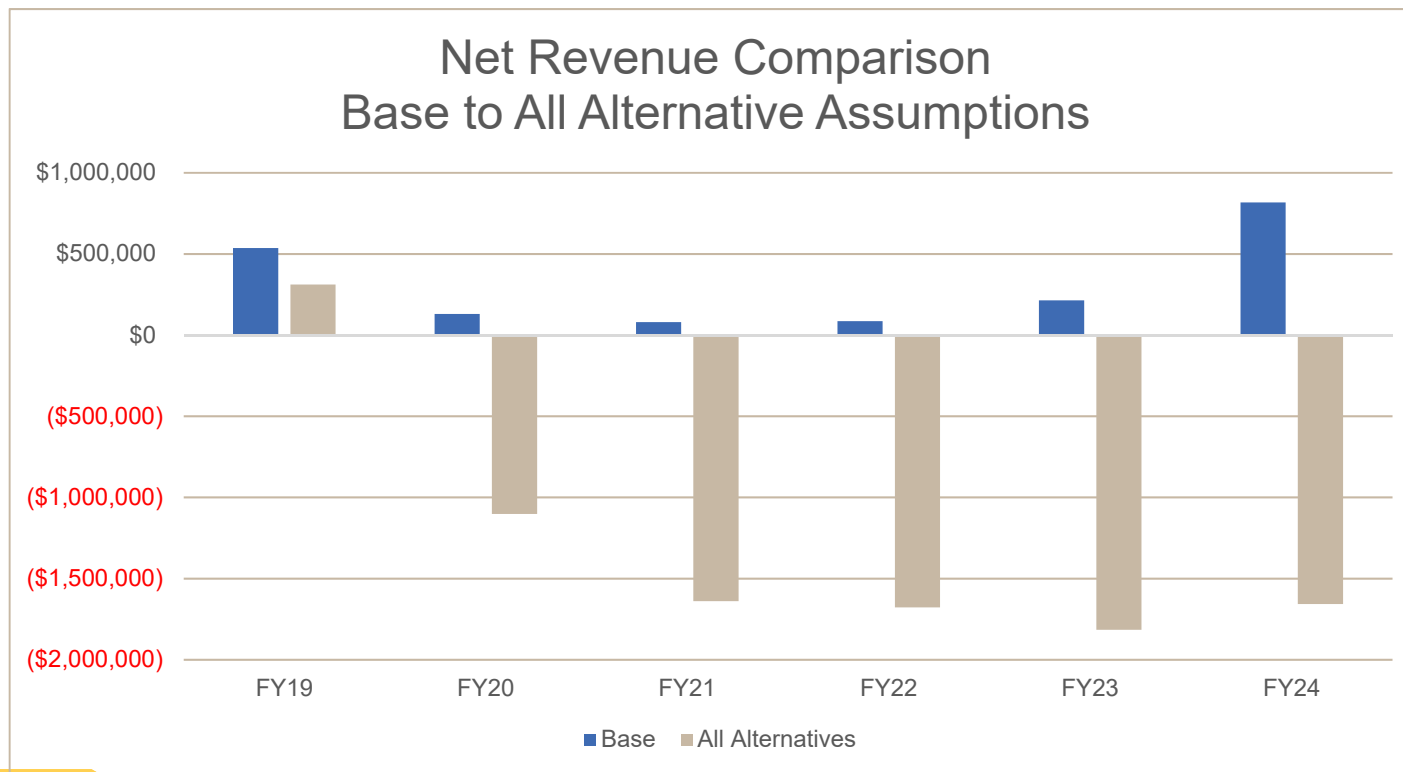
The City cannot fully fund the adopted CIP program costs without putting the budget in a negative position





Combined Assumptions | Limited Flexibility

- ◆ The City must continue to remain extremely careful on spending patterns
- ◆ There is limited capacity to fund capital improvements, keep salaries competitive, and maintain current maintenance investments under budget forecast expectations





Financial Sustainability Options



Options | Hold the Line on Spending

- ◆ Cut services to make room for overall salary growth, capital investment, or operating investment.
- ◆ City budget forecast is higher than last 10-year growth, but lower than expense growth rates in the last five years
- ◆ Maintaining a balanced budget will require ongoing constraint on future spending
- ◆ Without increases in revenues, the City may need to cut spending in some current areas in order to allow for growth in others
- ◆ Additionally, if a recession hits in the next several years, the City will need to strategically reduce expenses to maintain critical services

For example, to offset an increase in salaries at the CPI growth rate: ~2.2% would require a reduction in non-personnel expenses averaging over \$780,000 per year, nearly 8% of non-personnel expenses



Options | Increase General Fund Revenues

Increasing revenue is also an option to balance the budget. These are some measures other cities have taken:

- ◆ Increase user charges, licenses, and permits (within legal limits) – 8.2% of General Fund revenue
- ◆ Increase cost allocations – 12.1% of General Fund revenues
 - Allocation of costs from other department--based on annual study
- ◆ Other cities have Increased taxes with voter-approved ballot measures – 73.5% of General Fund revenue

In November 2018, 167 City general Tax measures were put before voters—153 of these passed. Local communities that passed sales tax measures this past November include:

- City of Roseville (1/2%) - City of Sacramento (1%) - City of West Sac. (1/4%)
- City of Folsom (1/2%) - City of Red Bluff (1/4%) - Town of Paradise (1/2%)

- ◆ The City has few options with other revenues (transfers, interest, etc.)



Conclusions

- ◆ The City has done a **good job of managing its financial condition** and is positioned to continue with a balanced budget
- ◆ **Increasing pension and health costs** leave little room for other increased expenses
- ◆ The City is **vulnerable to service reductions** if hit by a recession in the next few years
- ◆ Cities similar to Yuba City have **looked at other sources of revenue** in order to ensure the ability to:
 - Keep compensation competitive
 - Expand services as needed
 - Address deferred maintenance
 - Maintain parks, roads, and City facilities at high standards
 - Provide the City a buffer against a future recession

Questions?



pfm