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**TO:** THE CITY COUNCIL

**MEETING DATE:** APRIL 7, 2025

**FROM:** MASON PETERS, FINANCE SUPERVISOR, TOM DUBOIS, CITY MGR

**SUBJECT:** LONG RANGE FINANCIAL FORECAST: GENERAL FUND

**TYPE:** INFORMATION REPORT

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**RECOMMENDATION:**

Accept this report as input towards the 2025-2026 budget planning process.

**BACKGROUND:**

Similar to last year, we are utilizing our long-range financial forecast that looks forward five years to show whether the city's financials are sustainable in the long term. Previously, the budget might be balanced by tapping into reserves and deferring maintenance of capital and equipment, but this practice is prevents us from making required long term investments.

We are presenting only the general fund, without enterprise funds or capital projects to show the baseline forecast for city finances. Dedicated street funding and Wastewater funds are enterprise funds. Wastewater makes up a large portion of the total budget expenses but also has its own revenue generation. Legally, as an Enterprise Fund, it must exist separately from General Fund activities. ARSA activity rolls up into the Wastewater activity, and has its own budget as well.

The long range forecast is sensitive to the assumptions we make to project out five years. We have attempted to be conservative – estimating on the low side for revenue, and pragmatic side for expenses. We want to highlight several areas for council members that have significant influences on fiscal sustainability – revenue growth, insurance costs, wage and benefits costs, unfunded pension costs, and County (outside agency) costs.

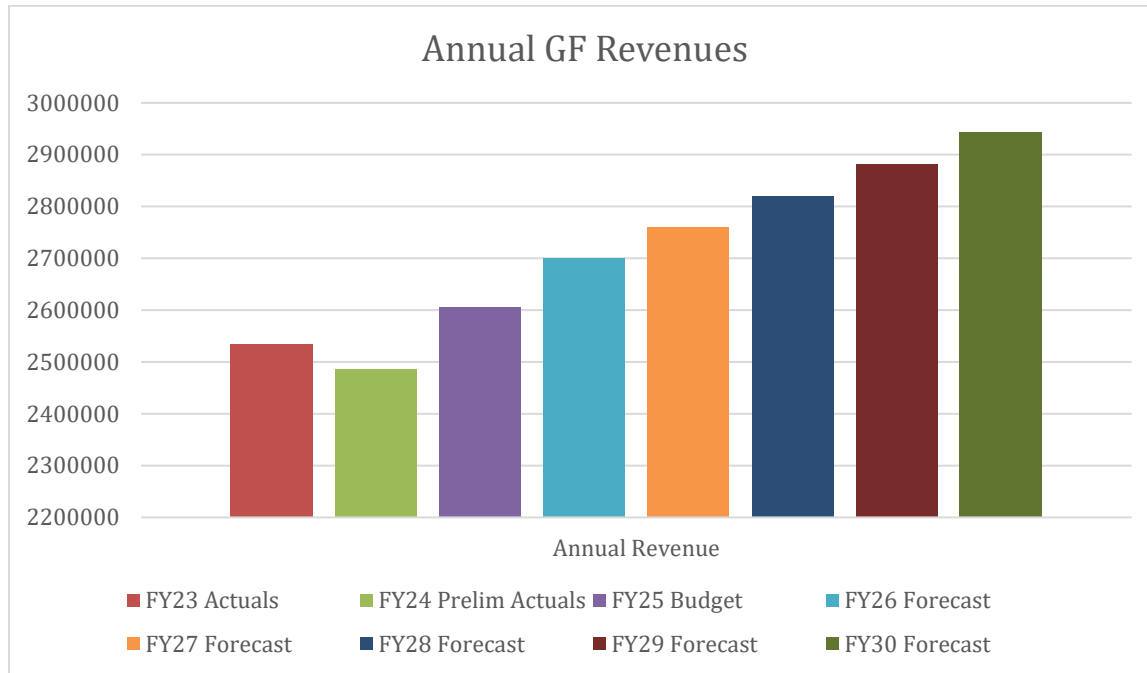
There is also a short discussion about Capital projects benefiting from the TUT and an update on our strategy for the new wastewater rate schedule and how it is impacting our sewer capital demands across the whole system.

**DISCUSSION:**

**Revenue Growth**

Starting with forecasted revenue, as our baseline scenario assumes modest growth in FY25; we are anticipating \$2.6 million in General Fund revenue this fiscal year and expect to see it grow to \$2.94

million by FY30. In this scenario, we are assuming a steady 3% property tax growth as property values in Sutter Creek are historically higher compared to other cities and areas in Amador County. We are also assuming a conservative, steady 2% growth rate on Transient Occupancy Taxes over the course of the next 5 years. Finally, of the big three revenue generators for us, we expect a 2% growth rate for the normal Bradley-Burns Sales Tax that we are already receiving. Other miscellaneous revenues are expecting small, consistent growth over the next 5 years, ranging from 2% - 5%.



FY 2021-22 to FY 2029-30 General Fund Forecast								
	<i>Actuals FY 2022-23</i>	<i>Prelim Actuals FY 2023-24</i>	<i>Budget FY 2024-25</i>	<i>Forecast FY 2025-26</i>	<i>Forecast FY 2026-27</i>	<i>Forecast FY 2027-28</i>	<i>Forecast FY 2028-29</i>	<i>Forecast FY 2029-30</i>
<b>Revenues</b>	\$2,535,317	\$2,485,630	\$2,605,642	\$2,700,648	\$2,760,522	\$2,820,503	\$2,881,551	\$2,943,909

### Insurance Costs

The other major exposure we are experiencing is our property, liability, and workers compensation insurance policies through Central San Joaquin Valley Risk Management Authority (CSJVRMA), a pooled municipal insurance agency that we have been a member of for many years. It is one of the biggest pooled insurance agencies for municipalities in the state of California, which is a benefit for us because the pool of participating cities is so large, we typically do not feel significant volatility in our premiums year-to-year, even if there are big losses in particular years. However, we do not feel much upside on good performance years either, since those good years are spread out among all members of CSJVRMA. Over the last few years, across all cities in the state, rates are increasing at an alarming rate due to increased litigious activity towards government agencies. Although the pooled insurance strategy helps mitigate the spikes in rates, we are still seeing 15% - 20% increases to our total policy costs year after year. In FY25, we budgeted \$541,000 for all coverage across the city, split between General Fund and Enterprise Fund. I do not advise that we leave CSJVRMA due to the helpful nature of being a participant

in such a large pool. The volatility we could potentially open ourselves up to if we went to a different pooled insurance agency is not worth the risk of short-term savings. We are communicating with representatives from CSJVRMA to see where we might be able to save money on annual premiums without losing any significant coverage.

### **Wage and Benefit Costs**

The City's largest costs are the people who do the work. Inflationary pressure continues to exert upward pressure on wages. Nearby cities, notably Jackson, recently completed a detailed salary survey across all of their positions, finding they are well below market on salary and above market on benefits. They are adjusting salary's upwards to compete on take home pay but are constrained on decreasing benefits. As we compete for the same labor pool, that will put pressures on Sutter Creek salaries.

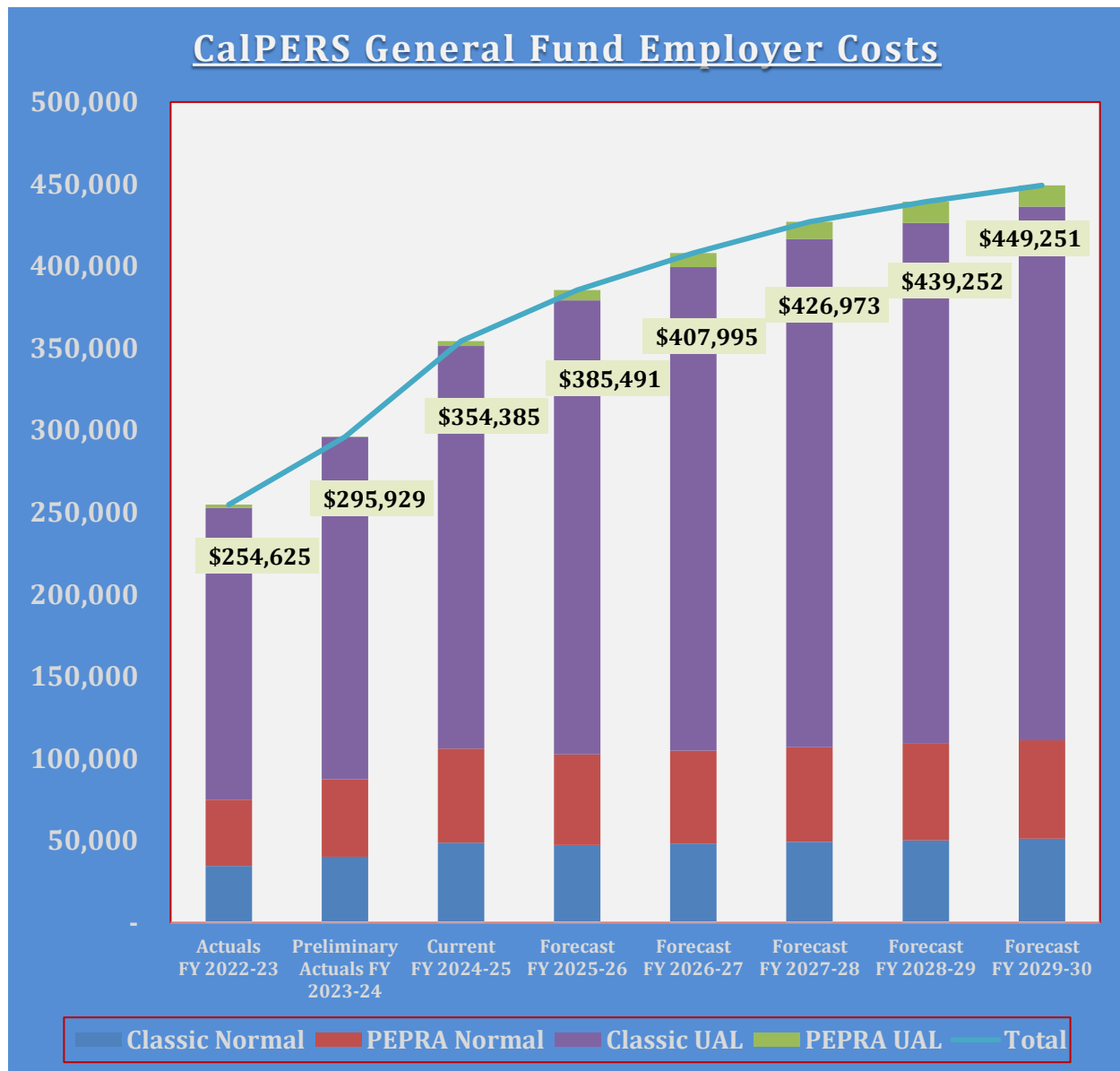
Benefit costs continue to go up. We saw an increase of 10% last year and expecting 5 – 10 % this coming year. The City provides a flexible cafeteria plan which caps the amount the city spends on expenses, but as the benefit amount fails to keep up with the costs of benefits, employees will be forced to pay for benefits using more and more of their paycheck. This is not sustainable as a responsible employer, the city needs to plan to increase benefit compensation.

### **Unfunded Pension Liability**

Unfunded Pension Accrued Liability or UAL can have a big impact on a city's budget. The Actual Determined Contribution by a City to employee pensions is the total of the Normal Cost and Unfunded Accrued Liability (UAL). The Normal Cost reflects the employer contribution for the plan retirement benefits provided to current employees based on CalPERS' current set of assumptions and is billed as a percentage of payroll. The UAL represents the employer amortization of CalPERS shortfall where it did not live up to its investment return targets. UAL is total unfunded accrued liability and is billed as a flat dollar rate. The CalPERS's annual payment is calculated to pay down the City's portion of the unfunded accrued pension liability over the amortization timeline. If all actuarial assumptions were realized through the amortization timeline, the City would eliminate its unfunded pension liability after making these annual payments. However, that is rarely the case.

You can think of this as a variable rate mortgage with the requirement to make additional payments dependent on the investment return that CalPERS achieves. CalPERS historically assumed high returns that have gotten harder and harder to achieve as the fund has grown. In Nov 2021, CalPERS dropped its discount rate from 7.0% to 6.8% - many experts consider even that rate too high. The impact on a city can mean that a growing proportion of the general fund is going to cover pension benefits. For a city to pay down that unfunded liability, some cities budget additional funds to save for pensions. By assuming a lower discount rate, say 5.3%, and putting that additional money in a pension reserve, a city can eliminate its unfunded liability over time, freeing up general fund money for city operations.

It takes incredible discipline by council and staff to achieve this. An appropriate analogy is a 30-year mortgage – by making extra mortgage payments, you are able to spend less money on interest and pay down the principle over many years. The challenge is that most of us will no longer be involved with the city, so it is tempting to use today's funds in other ways.



Sutter Creek's UAL continues to grow, though the curve is flattening. Ideally, we would see the curve start to decrease and the total to go down. UAL is currently about 2.5x the Normal cost, growing to 3x by FY29-30. We have opened a Section 115 trust to invest excess funds to help mitigate UAL costs. The 115 Trust can be invested more flexibly than the city's other funds. We budgeted \$50,000 this year. We suggest the Council consider a policy of investing 50% of excess funds each year into the 115 trust to build up funds that can be used to cover UAL, particularly in years where CalPERS has low returns to smooth out UAL payments.

### County Costs

We pay the county for police dispatch services and Animal control. These costs are largely out of our control and difficult to forecast. In fiscal year 2024-2025, we experienced a 50% increase in our county Dispatch services costs, and we are currently speaking with the Sheriff's Office about what we can expect for fiscal year 2025-2026. For FY25, we budgeted \$150,000 for these costs, and they will certainly continue to increase at a faster pace than we would like. Each year, we negotiate with the Sheriff's Office to reduce these costs as much as we can, and we will continue to do so moving forward. Animal control is currently capped at \$43,000 and we will push for a similar cap in upcoming fiscal year.

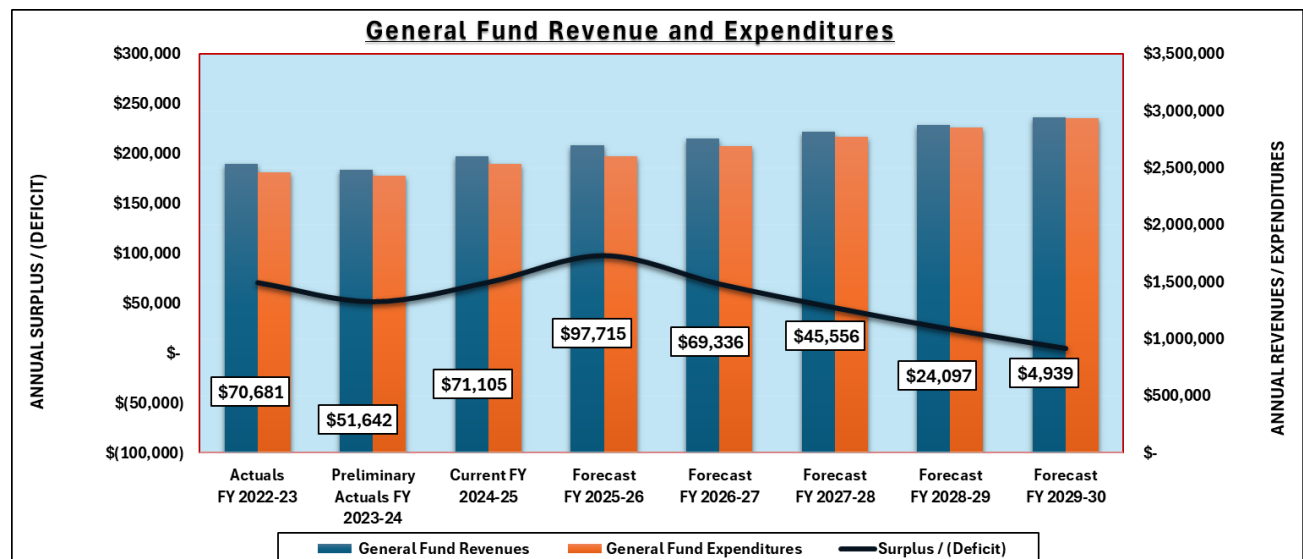
## Capital Improvement Plan

With our recently updated Capital Improvement Plan (CIP), we can take a more granular look at what project costs over the next 5 years will look like, which helps us make fiscally responsible decisions on what we feel is appropriate to prioritize on the financial level. There are other factors to consider when prioritizing capital projects – urgency, public impact, potential cost savings in long term, along with other criteria. The CIP and all these considerations will be discussed during budget development for FY26, and as mentioned previously, the inclusion of the 1% TUT tax revenue will make these discussions open to more possibilities. Also, potentially, we can coordinate with local agencies to share assets that are not necessarily used often, such as a street sweeper or boom truck. We do this to some capacity now, but this could be a good alternative to purchasing equipment or vehicles that we don't use on a regular basis.

## Wastewater Rate Schedule and Capital

After the updated sewer rate schedule that went into effect July 1, 2024, we have been at work repairing sections of the collection system to reduce infiltration and inflow (I&I), which reduces total water flow into our wastewater plant during the rainy season. Reducing the volatility of flows between dry and wet seasons gives us a better understanding of what a reasonable maximum capacity would be for the new wastewater treatment plant. Logically, reducing I&I will reduce the peaks in the system's treatment levels and lower the total max capacity we will need, which will reduce the total cost of the new plant. We are planning on going out to bid on a couple more collections system projects in the spring of 2025. As we can all recall, the reason the rate increase was implemented at this level was to tackle the myriad aging issues that we have been experiencing with the wastewater system, and we will continue to work on improving that system and using these additional revenues to their fullest potential. This rate schedule is in effect until June 30, 2029. The next rate increase based on this rate schedule is planned to start on July 1, 2025.

## CONCLUSION AND NEXT STEPS:



Our revenue growth rates are failing to keep up with the expected increases in expenses. We can balance the budget in future years by pulling from reserves, but the impact will be continuing to delay much needed capital projects.

As was discussed during the Capital Improvement Project (CIP) sessions, the City needs some growth to be able to fund both projects and ongoing operations. Growth will provide development impact fees for capital projects and new Community Service Districts to pay for operations. Without growth, we will need to consider major service cuts as well as deferred maintenance.

We have assumed slow but steady revenue growth. If we consider other scenarios, such as a major recession, we will likely be forced to make cuts in staff and services. Many pundits consider a recession

likely, they typically come every 6 – 10 years and we are due. We will need to closely monitor the macroeconomic market, and if revenue is not coming in as expected make quick adjustments to slow spending.

The important takeaway, is that while we should all take satisfaction in improving our financial outlook for much needed capital projects by passage of the TUT and increased wastewater rates, our general fund budget remains stretched very thin. With this recognition, we will continue to manage the budget closely, identify opportunities for reducing unnecessary expenses and boost revenues through alternative funding such as grants and debt.

We are currently working with a grant consultant firm that is identifying, applying, and managing grants for a variety of city needs – erosion control, equipment replacement, wastewater facilities repairs, and more. This work will continue going forward and we will start to see the benefits of this labor soon.

During the budget development for FY 2025-26, we expect for staffing to stay “as is”. Adding new services or projects will be very limited and only possible if we can leverage impact fees and grant funding, or make cuts elsewhere.