# City of La Palma
*Agenda Item No. 12*

MEETING DATE: February 17, 2015

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBMITTED BY: Ellen Volmert, City Manager
Laurie A. Murray, Administrative Services Director

AGENDA TITLE: Long Term Fiscal Planning and Projected Fiscal Year 2015-16 Revenues and Expenditures

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**RECOMMENDED ACTION:**

It is recommended that the City Council receive and file this report and provide any direction to staff regarding fiscal year 2015-16 revenue and expenditure projections or revisions to the Sustainable Financial Plan.

**BACKGROUND:**

On March 18, 2014, the City Council approved a Sustainable Financial Plan and General Fund Revenue Policy. The Plan provided a projection for fiscal year 2014-15 as well as an extrapolation of revenues and needs, both operating and capital, for an additional 10 years based on a number of assumptions. This effort was in response to the City Council's 2014 balanced budget goal and served as a kickoff to budget planning for the upcoming fiscal year. The Plan is to be updated each year as part of the annual budgeting process. It is Staff's intention to take any direction provided at this meeting and incorporate it into an updated Sustainable Financial Plan (SFP) to be presented to the City Council at its April 7 Council Meeting. A budget calendar showing how this fits into the budget process follows.

| Date | Topic | Comments |
|---|---|---|
| March 17, 2015 | Capital Improvement Plan | Regular City Council Meeting |
| April 7, 2015 | Study Session: Long-Term Financial Plan, Fiscal Status, and Budget Impacts | Regular City Council Meeting |
| May 5, 2015 | Proposed Budget Presented | Regular City Council Meeting |
| May 11, 2015 | Budget Workshop | Special Meeting at 6:30 p.m. |
| June 2, 2015 | Budget Adoption and Public Hearing | Regular City Council Meeting |

The City has embarked on a series of budget reductions and department reorganizations over the past few years and while it has made progress towards fiscal sustainability, there is still work to be done.

As Staff begins working on the FY 2015-16 Budget, many factors need to be considered. Preliminary revenue estimates show revenues projected at $10,065,000, down $105,000 from prior projections. However $223,000 of those revenues are one-time revenues, making the projection for ongoing revenues actually down by $328,000. Compared to the estimated FY 2015-16 expenditure projections last year, adjusted to reflect new California Public Employees Retirement Service (CalPERS) expenses, the forecasted deficit is $95,600 – and when adjusted to remove the $223,000 of one-time revenues, the actual deficit is $318,600.

The following factors, used in developing the FY 2014-15 Budget and FY 2015-16 Estimated Budget have changed as follows:

<u>Revenues</u>

($120,000) Billboard revenue for one billboard was forecast and is not now anticipated until FY 2016-17.

($300,000) Fuel-related Sales Tax revenues have declined and are not expected to recover fully until FY 2018-19. Forecasts include a 1/3 recovery per year beginning in FY 2016-17 through FY 2018-19.

($167,000) La Palma Intercommunity Hospital has indicated that it became a nonprofit facility as of January 1, 2015. This change is projected to reduce property tax by $159,000 and business license fees by another $8,000.

($54,000) Loan repayment made possible in FY 2014-15 by additional RPTTF tax increment will be eliminated with this change in the status of the La Palma Intercommunity Hospital property tax residual payment - $150,000.

($8,300) While offset by energy savings, interest revenue will be down due to the City's decision to self-fund the energy project in order to save the financing charges.

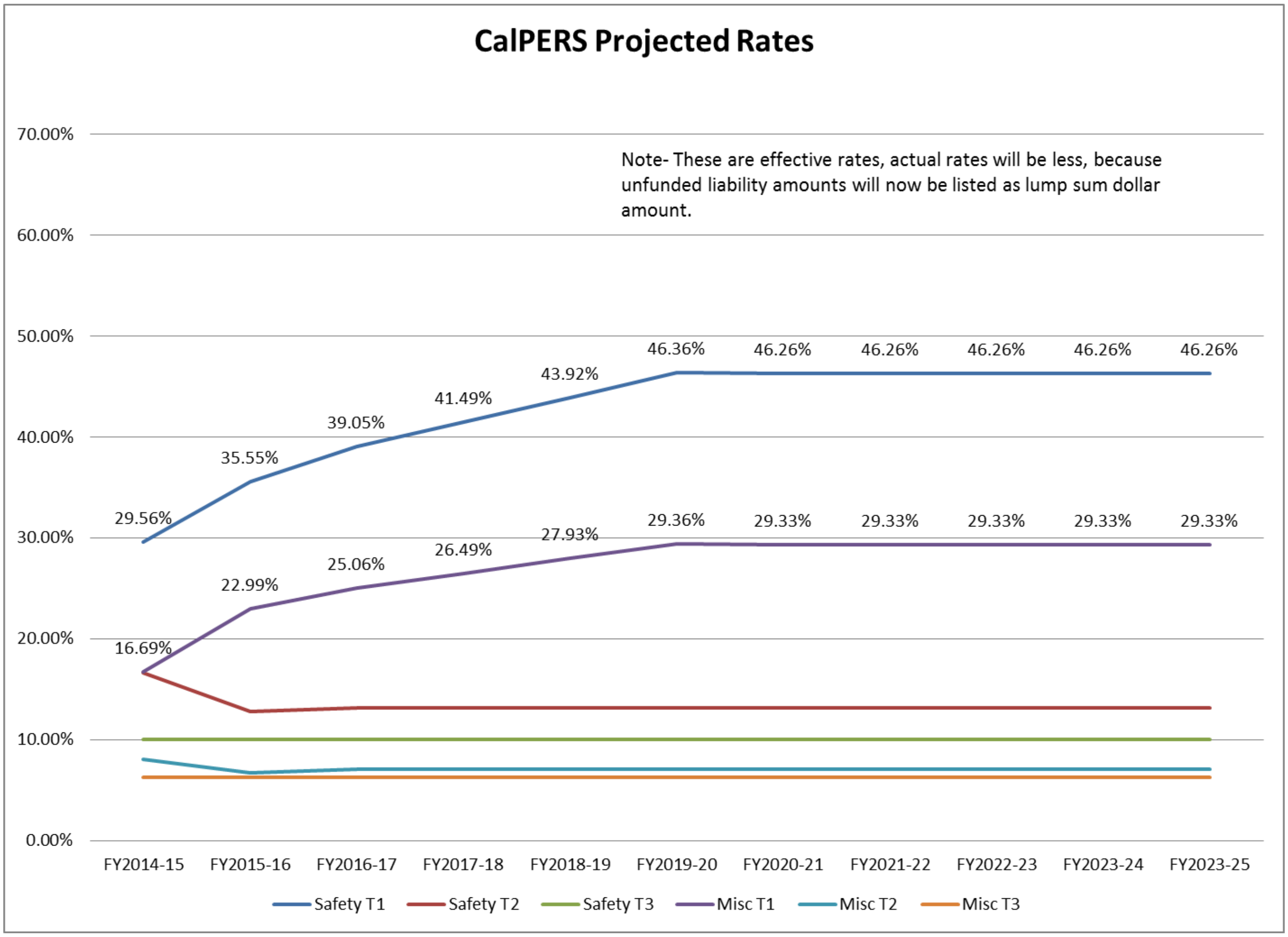
$51,000 If approved, rental income from 5410-14 La Palma was not anticipated for the first three years.

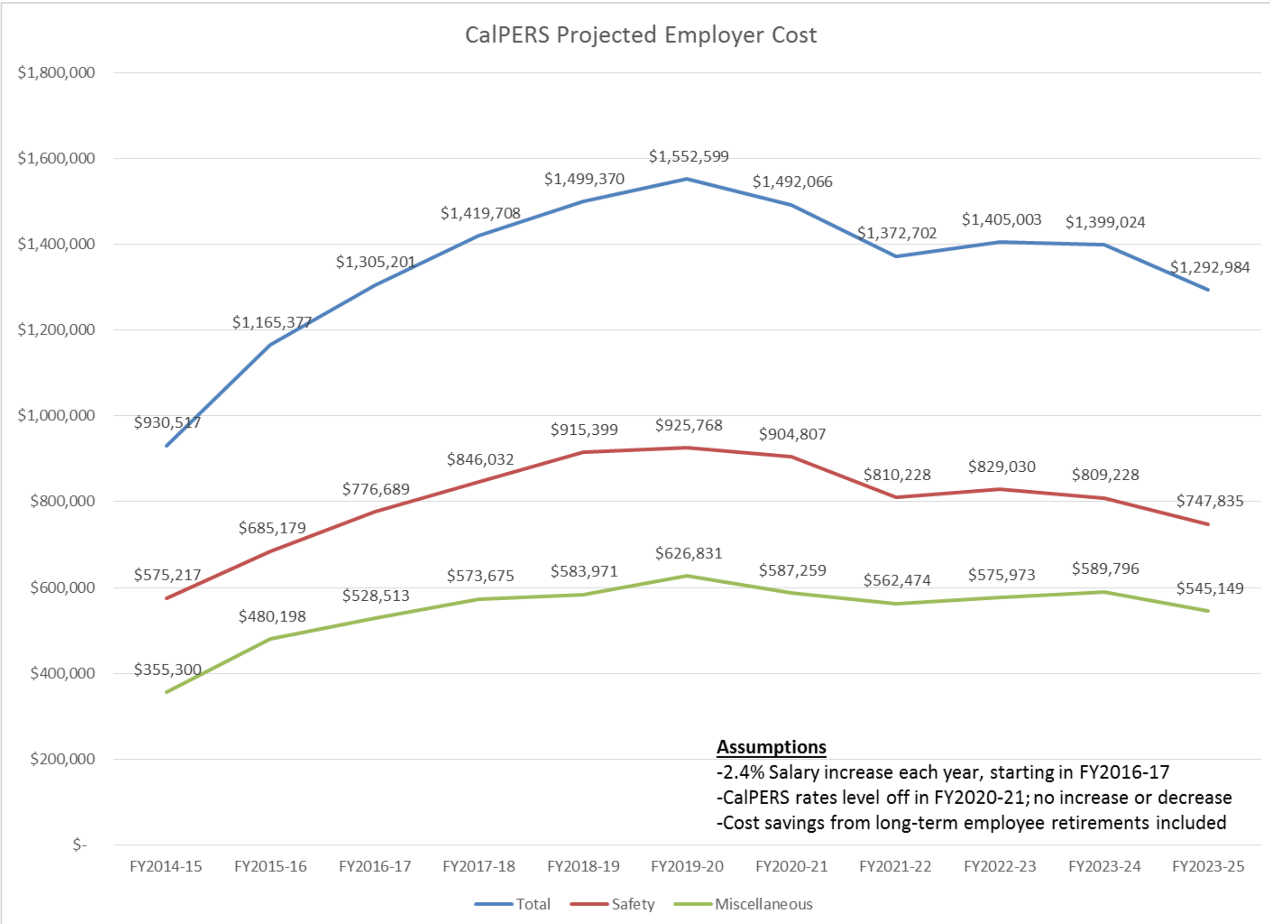
<u>Expenditures</u>

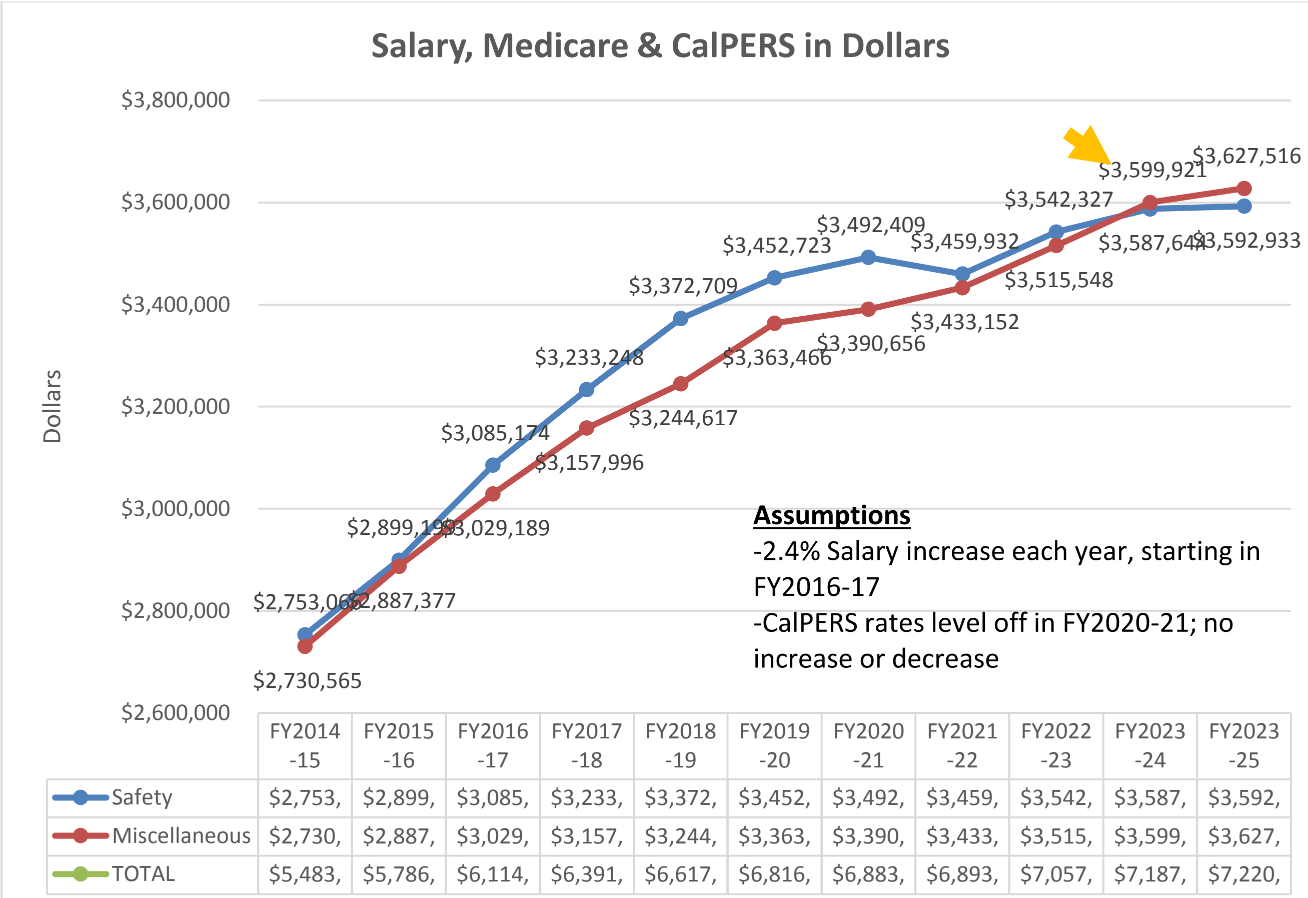
$8,000 Increased CalPERS costs (The City had projected increases in salaries and benefits, which are now not projected, that offset the impact of higher than anticipated CalPERS costs in FY 2015-16; however, the City will see increases of $115,000 to $135,000 over the next five years and then those expenses will grow by 3% per year thereafter to pay off its unfunded liability fully over 30 years). Options in dealing with these costs will be presented later in the budget process.

($53,540) Savings from Energy Project seen in FY 2015-16; one-half of savings from Street Light Project will not be seen until FY 2016-17, with the full savings in FY 2017-18.

The charts on the next two pages illustrate the CalPERS projected rates over the next ten years, Employer Costs by labor group; and the City's projected salary, Medicare, and CalPERS costs.

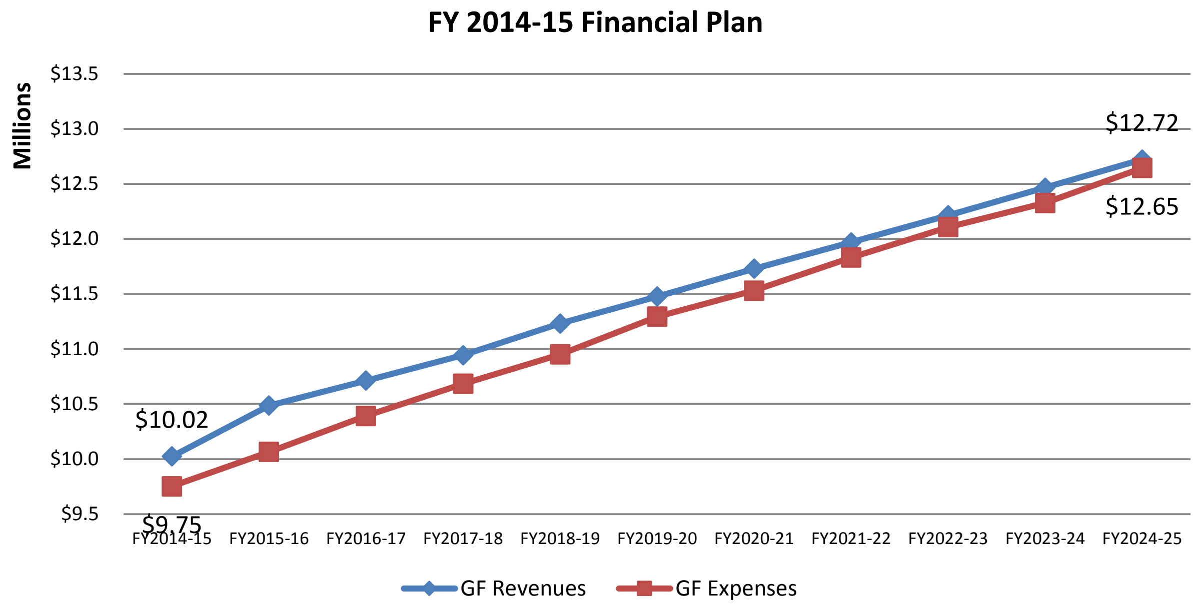

CalPERS Projected Rates
Note- These are effective rates, actual rates will be less, because unfunded liability amounts will now be listed as lump sum dollar amount.
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
29.56%
35.55%
39.05%
41.49%
43.92%
46.36%
46.26%
46.26%
46.26%
46.26%
46.26%
16.69%
22.99%
25.06%
26.49%
27.93%
29.36%
29.33%
29.33%
29.33%
29.33%
29.33%
FY2014-15
FY2015-16
FY2016-17
FY2017-18
FY2018-19
FY2019-20
FY2020-21
FY2021-22
FY2022-23
FY2023-24
FY2023-25
Safety T1
Safety T2
Safety T3
Misc T1
Misc T2
Misc T3

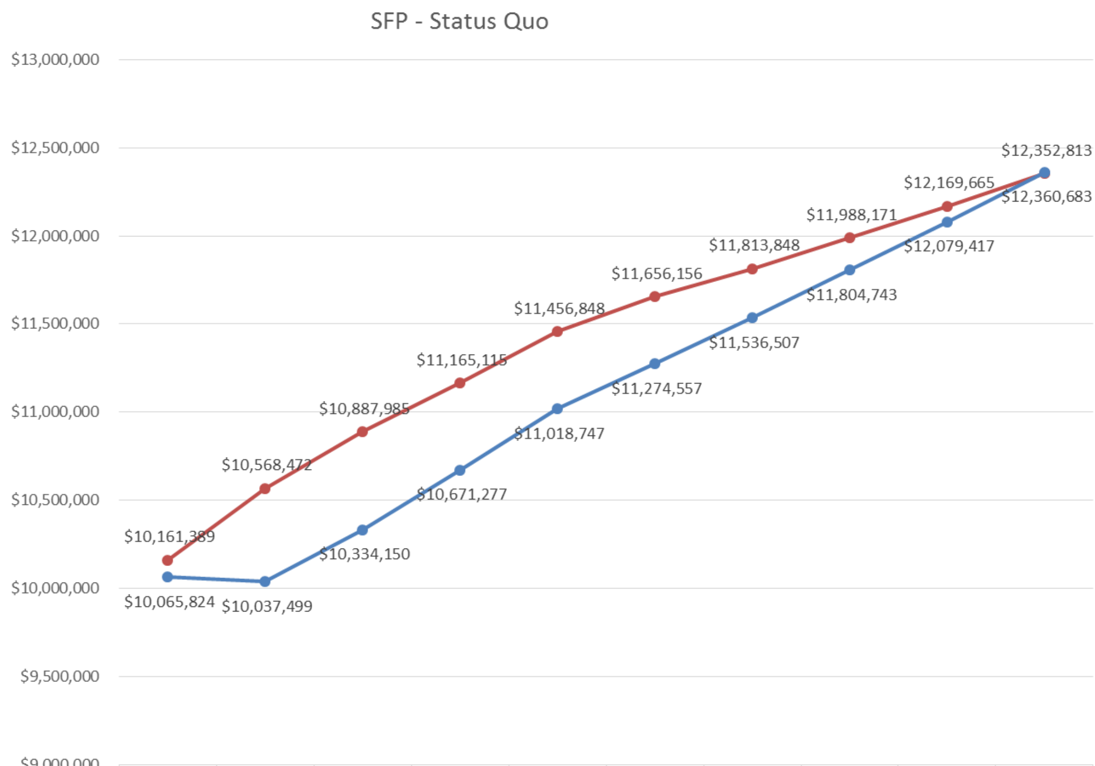

CalPERS Projected Employer Cost
$1,800,000
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
$930,517
$1,165,377
$1,305,201
$1,419,708
$1,499,370
$1,552,599
$1,492,066
$1,372,702
$1,405,003
$1,399,024
$1,292,984
$575,217
$685,179
$776,689
$846,032
$915,399
$925,768
$904,807
$810,228
$829,030
$809,228
$747,835
$355,300
$480,198
$528,513
$573,675
$583,971
$626,831
$587,259
$562,474
$575,973
$589,796
$545,149
Assumptions
-2.4% Salary increase each year, starting in FY2016-17
-CalPERS rates level off in FY2020-21; no increase or decrease
-Cost savings from long-term employee retirements included
FY2014-15
FY2015-16
FY2016-17
FY2017-18
FY2018-19
FY2019-20
FY2020-21
FY2021-22
FY2022-23
FY2023-24
FY2023-25
Total
Safety
Miscellaneous




Interesting to note is that Miscellaneous costs begin to exceed Safety costs in FY 2023-24 as more safety employees come onto lower retirement tiers (mostly due to safety employees retiring earlier than miscellaneous employees).

The charts on the next pages show the impact of these revenue losses and expenditure increases forecast over a ten year period should the City not make any changes to its revenue stream and/or expenditure levels (Status Quo Scenario). The first chart shows the SFP adopted last year and starting in FY 2014-15. The next chart shows the SFP based on the updated status quo assumptions shown above for both revenues and personnel costs as currently known. All known capital as well as operating costs are included with the only large unknown capital need being the Civic Center project.

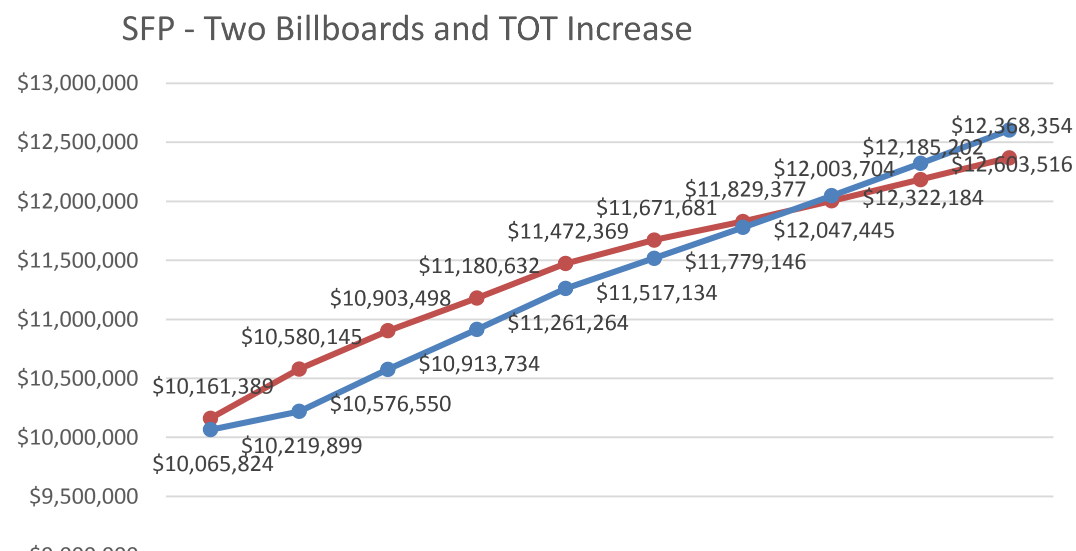



| | FY2015-16 | FY2016-17 | FY2017-18 | FY2018-19 | FY2019-20 | FY2020-21 | FY2021-22 | FY2022-23 | FY2023-24 | FY2024-25 |
|---|---|---|---|---|---|---|---|---|---|---|
| GF Expenditures Before Transfer | $9,517,176 | $9,926,072 | $10,226,599 | $10,482,153 | $10,751,648 | $10,934,584 | $11,075,511 | $11,232,667 | $11,396,582 | $11,561,729 |
| Transfer Out (6.4%) | $644,213 | $642,400 | $661,386 | $682,962 | $705,200 | $721,572 | $738,336 | $755,504 | $773,083 | $791,084 |
| Total GF Operating Expenses | $10,161,389 | $10,568,472 | $10,887,985 | $11,165,115 | $11,456,848 | $11,656,156 | $11,813,848 | $11,988,171 | $12,169,665 | $12,352,813 |
| GF Revenues | $10,065,824 | $10,037,499 | $10,334,150 | $10,671,277 | $11,018,747 | $11,274,557 | $11,536,507 | $11,804,743 | $12,079,417 | $12,360,683 |
| Fund Surplus/(Deficit) | $(95,565) | $(530,973) | $(553,835) | $(493,838) | $(438,100) | $(381,598) | $(277,341) | $(183,428) | $(90,248) | $7,870 |

As shown above, moving forward with the Revised Status Quo is not financially sustainable. The City does have options available to it, including continuing to reduce costs, (to date staff reductions from 65 full time employees to 55 full time employees and cuts to other expenses). For the current FY 2014-15 year, staff cut an additional $240,000 from the proposed budget in order to remain in balance given revenue shortfalls. Many of those reductions are not sustainable long term, and therefore are being restored in the FY 2015-16 preliminary budget estimates. Staff will be evaluating additional cuts as we proceed through the budget and labor negotiations processes.

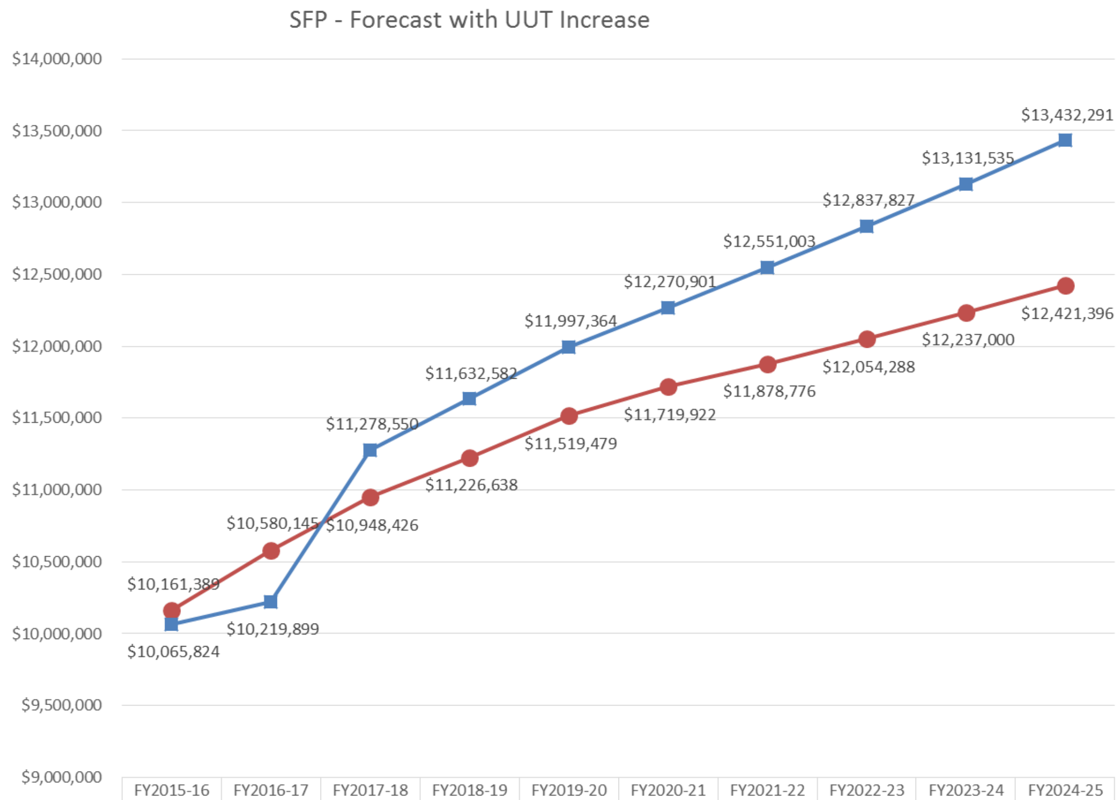
Looking long term for ways to diversify revenue, the City also has a number of options. The following enhanced scenarios have been prepared to show the City Council an example of what happens to the SFP with revenue changes. If two billboards are achieved instead of one and if the City were to be successful in passing a Transient Occupancy Tax (TOT) increase on the November 2016 ballot, for example, the SFP looks like the chart below. An increase from 8% to 11% was assumed in this model, which would put the City more in line with surrounding cities who have or are in the process of trying to increase their TOT's to 12%.




| | FY2015 -16 | FY2016 -17 | FY2017 -18 | FY2018 -19 | FY2019 -20 | FY2020 -21 | FY2021 -22 | FY2022 -23 | FY2023 -24 | FY2024 -25 |
|---|---|---|---|---|---|---|---|---|---|---|
| GF Expenditures Before Transfer | $9,517,1 | $9,926,0 | $10,226, | $10,482, | $10,751, | $10,934, | $11,075, | $11,232, | $11,396, | $11,561, |
| Transfer Out (6.4%) | $644,213 | $654,074 | $676,899 | $698,479 | $720,721 | $737,097 | $753,865 | $771,036 | $788,620 | $806,625 |
| Total GF Operating Expenses | $10,161, | $10,580, | $10,903, | $11,180, | $11,472, | $11,671, | $11,829, | $12,003, | $12,185, | $12,368, |
| GF Revenues | $10,065, | $10,219, | $10,576, | $10,913, | $11,261, | $11,517, | $11,779, | $12,047, | $12,322, | $12,603, |
| Fund Surplus/(Deficit) | $(95,565 | $(360,24 | $(326,94 | $(266,89 | $(211,10 | $(154,54 | $(50,231 | $43,741 | $136,982 | $235,162 |

In this scenario, revenues do not begin exceeding expenditures until FY 2022-23, when a majority of Tier 1 Retirement employees retire or leave the agency and more Tier 2 retirees are hired.

The next scenario shows what happens to the SFP if, in addition to the last scenario, the City were to be successful in passing a November 2016 ballot initiative modernizing and increasing the Utility Users Tax (UUT). Each one percent increase would provide the City an additional $234,000 in revenue per year. Passing a UUT initiative would give the City the ability to diversify its revenue stream while still giving future City Councils the ability to reduce the UUT when able.




| | FY2015-16 | FY2016-17 | FY2017-18 | FY2018-19 | FY2019-20 | FY2020-21 | FY2021-22 | FY2022-23 | FY2023-24 | FY2024-25 |
|---|---|---|---|---|---|---|---|---|---|---|
| GF Expenditures Before Transfer | $9,517,176 | $9,926,072 | $10,226,599 | $10,482,153 | $10,751,648 | $10,934,584 | $11,075,511 | $11,232,667 | $11,396,582 | $11,561,729 |
| Transfer Out (6.4%) | $644,213 | $654,074 | $721,827 | $744,485 | $767,831 | $785,338 | $803,264 | $821,621 | $840,418 | $859,667 |
| Total GF Operating Expenses | $10,161,389 | $10,580,145 | $10,948,426 | $11,226,638 | $11,519,479 | $11,719,922 | $11,878,776 | $12,054,288 | $12,237,000 | $12,421,396 |
| GF Revenues | $10,065,824 | $10,219,899 | $11,278,550 | $11,632,582 | $11,997,364 | $12,270,901 | $12,551,003 | $12,837,827 | $13,131,535 | $13,432,291 |
| Fund Surplus/(Deficit) | $(95,565) | $(360,247) | $330,124 | $405,944 | $477,885 | $550,980 | $672,227 | $783,538 | $894,534 | $1,010,896 |

In this scenario, the City moves more quickly from a deficit position to a surplus position. These scenarios are provided for information only to illustrate various non-exclusive options to address the City's fiscal problems. It is likely that the City will need to move forward with a combination of revenue and expenditure changes to continue forward on the path of fiscal sustainability.

This review also illustrates the difficulty in projecting revenues or expenditures out for the longer term. While essential for planning purposes, in reality trends and circumstances are very uncertain the farther out planning occurs. Major assumptions made last year based on the best available information have changed significantly including oil price generated sales tax and CalPERS cost estimates. The fragile nature of long term estimates are good to keep in mind in reviewing the evolving assumptions in the SFP.

## <u>FISCAL IMPACT</u>:

There is no fiscal impact associated with the discussion of the City's fiscal condition and sustainability. Any direction provided by the City Council will be incorporated into the City's budget planning for FY 2015-16 and for the updated Sustainable Financial Plan, which will be brought for City Council consideration on April 7.

**APPROVED:**

Administrative Services Director    City Manager