



LA PALMA FINANCE NEWS

Financial Situation Update

May/June 2015

La Palma's Financial Crossroads: Protecting the Future

The City of La Palma is facing a serious financial challenge to its ability to provide core services to the community. Decisions made at this crossroads will impact the City both in the short term and for the foreseeable future. Four drivers of General Fund (GF) lower revenues and higher expenses have created an unsustainable financial future. This is despite revising operations for increased efficiency, service reductions, efforts to both diversify and increase the City's revenue base, and limited use of reserves.

The City has survived a historic recession as well as the loss of redevelopment which had provided tools for both economic development and infrastructure financing. The recently revised General Plan and Zoning Code provide new opportunities for private investment, especially along the 91 freeway. However as a largely built out city, La Palma's options for growing its way to fiscal stability are very limited.

The City has cut, consolidated, and economized for the past four years and this still has not produced a sustainable financial future. City employees have taken reductions in their compensation and more reductions are being asked of them to contribute to closing the current gap. The community is also being asked to share the burden through reductions in services and events, even as the City works to retain strong core services.

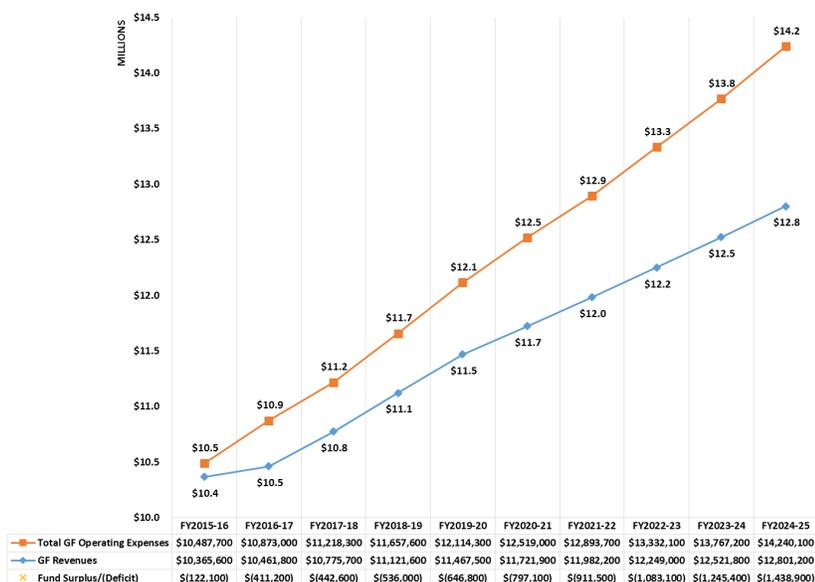
The City of La Palma is indeed at a crossroads for its future and this newsletter seeks to build understanding of the situation, what has already been done, and what options remain to preserve the City of La Palma.

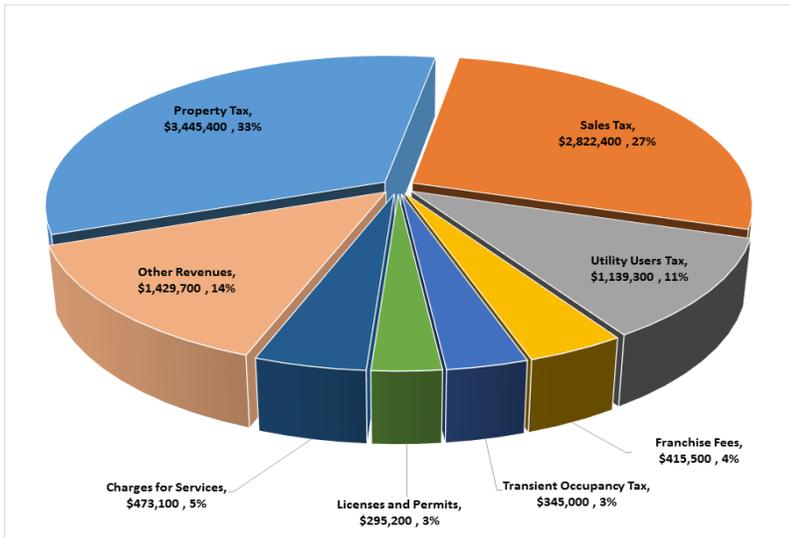
Since 2011, the City Council has reduced the City's full time workforce from 65 employees to 52, including the elimination of two department directors. In addition, the City Council has suspended our City's signature event, La Palma Days. Unfortunately, even these reductions are not nearly enough to achieve a balanced and sustainable budget for the City's future.

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10 YEAR FINANCIAL FORECAST - WITH ACTIONS TAKEN TO DATE





Sales and Property Taxes Make Up Almost 60% of La Palma's General Fund

Action Plan to Close the Gap—What Has Been Done To Date

The City of La Palma has taken fiscally responsible action over the last few years to address the budget and it has not been enough. A few of the actions taken include:

- ◇ Consolidated four City departments into two and eliminated management positions
- ◇ Reduced full time positions from 65 to 52 – a 20% reduction in workforce
- ◇ Suspended Police Canine program
- ◇ Revised General Plan and zoning code to allow billboards and diversify City revenues
- ◇ Reduced benefits and costs for employees
- ◇ Revised investment policy to increase the rate of return on existing reserves
- ◇ Invested in energy conservation in City facilities
- ◇ Invested in technology to improve services and productivity

Drivers of Lower Revenue

Two drivers of lower revenue are lower oil prices and the move of La Palma Intercommunity Hospital to non-profit status. These two drivers impact the largest sources of General Fund revenues, property tax and sales tax and they are changes over which the City has no control. Most core City services such as police, recreation, and maintenance are funded through these taxes.

These drivers add to long standing revenue issues such as the loss of redevelopment in 2011, which impacted funding for economic development, infrastructure, and loan repayments to the City.

Lower oil prices disproportionately impact La Palma due to our dependence upon oil-related sales and gas taxes. Sales tax accounts for about 27% of the General Fund. Over 12% of total General Fund revenue is associated in some way with oil. Beyond oil, the City has a small sales tax base and while it is working to increase, opportunities are limited. Oil prices are expected to rebound slowly, but a full recovery is expected to take five years.

The Hospital began moving to non-profit status in January. This will have several impacts on the City, chiefly lowering regular property taxes and residual property tax used to repay loans to the City. It also lowers the Hospital's business license tax. In total, these changes account for an estimated \$158,000 reduction to the General Fund annually.

Property tax is the number one General Fund revenue source accounting for over \$3.4 million or 33%. Tax growth in La Palma is generally slower than elsewhere in Orange County due to the low turnover of La Palma properties for reassessment. There are also limited options for new growth since the community is largely built out.

The City is experiencing increased growth through lower vacancy rates in existing commercial areas and in new commercial development on remaining vacant lots. However, this impacts a very small amount of the total property within the city.



Loss of Full Time Positions

Track the Budget's Progress

Please join in the conversation by attending upcoming City Council meetings on the budget including:

June 16, 2015 7:00 pm
City Council Chambers
Budget Hearing & Adoption

July 7, 2015
Deadline to Apply for the Citizen Committee (see article on the back)

August TBD
Citizen Committee meetings begin

You can also sign up for finance updates by clicking the Notify Me button on the City's homepage at www.cityoflapalma.org.

Proposed 2015-16 Budget Actions to Close the Gap

- ❖ Eliminate Motor Officer position in Police
- ❖ Eliminate Maintenance Worker in Community Services
- ❖ Reduce the full time Police Records Clerk to part time
- ❖ Suspend La Palma Days
- ❖ Eliminate Fit N Fun afterschool program
- ❖ Reduce two hours per weekday of part time staffing at Central Park
- ❖ Eliminate Police Interaction with Youth (PIY) program
- ❖ Lengthen street maintenance cycle from 7 to 9 years
- ❖ 5% salary cuts for the City Manager and management team
- ❖ Cost of living increases for some City fees
- ❖ Eliminate part time Cashier position
- ❖ Use one time project funds to pay down existing insurance liabilities

Proposed Actions in the FY 2015-16 Budget

Drivers of Higher Costs

There are two main drivers of higher expenditures: escalating pension costs and steeply rising liability and workers' compensation rates. Together, these two expenses represent almost \$2.6 million this next year. These drivers impact costs for all City services. As with revenues, there is little the City can do now to control these costs since they are legal obligations of the City.

Over the next ten years, insurance costs are projected to rise an average of 9.5% each year. This is due to the rising costs of liability claims and cost increases for workers' compensation. These costs are rising rapidly for higher risk services such as police, and impact all cities. La Palma has responded by using one time project monies to pay off prior claims and by participating in a risk sharing pool with other cities.

Several changes drive the City's unfunded liabilities for pension costs. Government accounting rules have changed, impacting how these liabilities are valued. The City negotiated with employees to provide increased retirement benefits in 2004 which also increased liabilities. Most importantly, the State retirement system has experienced investment losses through the recession, has revised its assumptions for earnings and longevity, and has set a goal to achieve full funding within 30 years.

La Palma anticipated some of these changes and implemented lower retirement benefits for new employees in 2011 and increased the amount employees pay into their own retirement. The City also established a Trust for retiree medical costs which greatly reduced that unfunded liability.

These factors will help decrease the cost trend in the long term. However, the City must still address the already accumulated unfunded retirement liability of over \$13 million. This liability represents an already incurred obligation for which the bill is just coming due.



Join the Citizen Committee—Be Part of a Sustainable Financial Future for La Palma!

The City Council has formed a Committee to review City operations and options for building a more sustainable future for La Palma. Applications are being accepted now through July 7, 2015, and are available on the City's website at www.cityoflapalma.org.

The Committee will meet through February 2016 with a mission to answer the following questions:

- What operational efficiencies can be achieved while maintaining critical services?
- Are current revenue sources sufficient and if not, what are the best options?

See Contact Us for more information.



About 11 cents of your property tax dollar goes to the City of La Palma

Contact Us

Call for more information or check out more City financial information on our website at:
www.cityoflapalma.org/2015budget

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