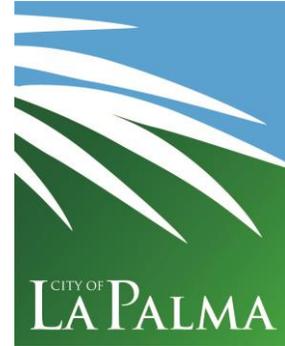


City of La Palma

Agenda Item No. 10



MEETING DATE: April 21, 2015

TO: CITY COUNCIL

FROM: CITY MANAGER

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

AGENDA TITLE: Study Session: Long Term Financial Plan Update/Fiscal
Status/Budget Discussion

RECOMMENDATION:

It is recommended that the City Council receive and file the Long Term Financial Plan Update; and discuss and provide preliminary direction to staff on the Financial Plan Update in preparation for drafting a Fiscal Year 2015-16 Budget.

BACKGROUND:

The City Council adopted a Sustainable Financial Plan for the General Fund on March 18, 2014, along with direction regarding target fund balances, a General Fund Volatility Reserve, and one of three potential strategies for dedicating a portion of ongoing General Fund revenues to capital and other one-time projects (6.4% of ongoing revenue).

Staff presented an update on the status of the Long Term Financial Plan on February 17, 2015, in connection with the presentation of the 2014-15 Mid-Year Budget Adjustment discussion. For a combination of reasons (as discussed below), that report indicated that the Fund's long term sustainability had been lost. This report incorporates more current and vetted financial information, including a plan for addressing the projected ongoing General Fund budget gap. The City Council also held a closed session on labor negotiations on March 30, 2015, which provided further direction regarding those negotiations and their financial implications.

SUMMARY:

Three main drivers have impacted the City's ability to sustain a balanced budget over the longer term (10 years). These include:

- A significant drop in sales tax projected to continue at least through the next 3-5 years, largely caused by a drop in the global price of oil and the City's dependence upon that source for most of its sales tax. Estimated loss in 2015-16 - \$300,000.

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- A significant rise in retirement costs over the next five years based on a number of policy changes at CalPERS aimed at eliminating unfunded liability over the next 30 years as well as the City's prior unfunded liabilities with the system. Estimated 2015-16 impact - \$313,600.
- Significant projected increases in insurance costs within the ten year period both due to increased costs and a transition in methodology from retrospective to prospective rating. These increases are both in liability and workers' compensation coverage. Estimated 2015-16 impact - \$210,200.

These three factors alone therefore account for \$823,800 negative impact to the General Fund in 2015-16 and, for PERS and insurance, continue to grow, especially over the next five years. For planning purposes these three factors are particularly problematic as they represent issues over which the City has little control. Other significant assumptions which are part of this long term forecast are:

Revenues

- One time additional sales tax in 2015-16 due to the wind down of the State's triple flip - \$223,000. The three year plan as presented assumes use of this revenue for operations in 2015-16.
- Interest earnings are assumed to continue at the higher rate of earnings from the investment policy but within a continued low interest environment.
- Property Tax is expected to be negatively affected due to the transition of La Palma Intercommunity Hospital to a nonprofit status, declining property taxes by approximately \$158,000 annually.
- Transient Occupancy Tax increased significantly during FY 2014-15 to \$335,000, and therefore is projected to remain flat over the next two years at this higher level.
- Utility User Taxes are assumed to increase 2% per year at the maximum 5% level.
- City property lease revenue is a new revenue in FY 2015-16 projected per the terms of the lease.
- Billboard revenue is assumed to begin in FY 2016-17 for two billboards at \$240,000.

Expenditures

- Expenditures are forecast as known for the next three years and then at a 2.4% increase, based on a 20 year CPI average.
- Insurance costs are forecast to increase at 9.5% per year
- CalPERS costs are forecast based on the unfunded liability payments and a 3% growth in costs each year from year 4 on.
- In years 1 – 3 Personnel costs are forecast with no added positions and no cost of living increases; Years 4-11 show a 2.4% increase annually.

Estimated Budget Gap

If the City were to take no action to address these impacts, the estimated budget gaps over the next three years are as follows:

<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
(\$718,600)	(\$987,500)	(\$893,200)

The projected ten year gap is shown on the chart in Attachment 1. As is seen, these gaps represent consistently unbalanced budgets throughout the period and is clearly not a sustainable path.

In the short term (3 years), there is little the City can do on the revenue side to address these issues. Even if the City Council were to place a revenue item on the 2016 ballot and the voters approve the measure, depending on the type of revenue, it would not likely have any impact until 2017-18 and potentially not full impact until 2018-19. Any major new economic development project would likewise take time to come to fruition. The proposed plan therefore looks to other strategies for closing the budget gap and maintaining core services and responsibilities at an acceptable level.

Actions to Date

To understand the proposed plan, it is necessary to look at what the City has already done to address its financial situation, increase revenues, revise operations for efficiency, and reduce services, as well as to establish appropriate reserves and a rainy day fund. Some significant changes over the last five years include:

- Significant changes in the 2011 labor agreements with all groups, which reduced costs and unfunded liabilities, including increased employee contributions towards retirement, lower retirement tiers, no cost of living adjustments in three of the four years, and no increases at all to contributions towards benefits cafeteria plan contributions despite significant medical premium cost increases.
- Proactive economic development efforts even as redevelopment was dissolved and a national recession were impacting opportunities. Results include the addition of Tesoro, Samsung, CJ Foods, Chase Bank, and Walmart Neighborhood Market. Soon to be realized results include Coffee Bean & Tea Leaf, 99 Cent Only Store, and two new office/retail buildings.
- Completing, despite the financial challenges, the seven year residential pavement plan and the upcoming completion of the arterials pavement plan. This results in long term cost savings.
- Return to full levy of the Utility Users' Tax at 5%.
- Change in investment policy which has increased interest earnings in a low interest environment.
- Creation of a Trust to fund retiree medical unfunded liabilities and a substantial reduction in those liabilities as a result.
- Reduction in staff strength to below 1986 levels.
- Restructuring throughout the organization to improve efficiencies and work distribution as well as reduce upper management while maintaining as many line positions as possible. This included consolidation of four departments into two, redistribution of work between departments and restructuring of a division within the City's largest department, Police.
- Significant investment in new technology to support the smaller staff, improve service to the public and management information, and improve efficiencies. This includes police records and communications systems, utility systems, phone system, public Wi-Fi throughout the Civic Center and Community Center, and the underway financial system conversion.
- Significant investment in other major expense line items to improve efficiency including Phase 1 of the energy conversation project and the upcoming purchase and retrofit of street lights.

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- Revision of the General Plan, adding new opportunities north of Orangethorpe including a new Freeway Overlay District to allow for digital billboards.

The City's financial situation is therefore not in response to inaction, but in spite of these significant actions already taken and based largely on factors outside of the City's control.

A summary of the recommended plan to close the budget gap over the next three years is presented below.

Chart of 3 Year Gap and Major Strategy Categories to Address the Gap

	2015/16	2016/17	2017/18
General Fund Projected Revenues (with transfers)	\$10,456,100	\$10,527,500	\$10,836,400
General Fund Projected Expenditures (before transfers)	\$10,560,100	\$10,880,200	\$11,057,900
Recommended 6.4% transfer for one-time costs/ COR contribution from Revenues	\$ 614,600	\$ 634,800	\$ 671,700
Deficit with 6.4% transfer	(\$ 718,600)	(\$ 987,500)	(\$ 893,200)
Use of Excess GF fund balance (over \$250k)	\$ 5,967	\$ 145,200	\$ 125,400
Temporary Use of non-COR portion of 6.4% (until sales tax recovery)	\$ 364,600	\$ 384,800	\$ 321,700**
Tier One Actions as described below	\$ 253,700	\$ 253,700	\$ 253,700
Additional undesignated revenue/reduction changes (Tiers 2 and 3, labor negotiations, other revenue increases or expenditure reductions not yet identified)	\$ 239,500	\$ 329,200	\$ 297,700
Net contingency/surplus based on strategies (becomes excess fund balance for next year)	\$ 145,200	\$ 125,400	\$ 105,300

- * Transfers in include OPEB Trust and Water and Sewer funds which are not included in the calculation of the 6.4% of ongoing revenues for one-time purposes. One-time revenue is also not included in the ongoing revenue number for purposes of calculating the 6.4%.
- ** FY 2017-18 non-COR temporary use is reduced by \$100,000 due to that portion of sales tax assumed to be returning.

Major elements of the plan for moving forward to a more sustainable future, based on what is known today include:

Temporary Suspension of On-going General Fund Revenues Transfers to Non-COR One-Time Projects Fund

The policy to reserve a set percentage of General Fund revenue for one-time projects, including capital expenses, addresses two City goals. One is to ensure an appropriate balance between ongoing service demands and longer term infrastructure investment so that one is not starved at the expense of the other. The other goal is to avoid a return to overdependence upon a single revenue source for core City services. The City Council initiated this policy last year based on

information at that time. The substantial reduction in sales tax, and the fact that it is anticipated to be a short term loss (three to five years) prompts Staff’s recommendation to smooth the impacts of that short term loss by using the non-COR portion of this transfer to bolster General Fund operating resources on a temporary basis. This would ensure full funding as identified for COR and that as sales tax revenues return, the use of the non-COR portion of this transfer would be phased out and more resources would be available for the One-Time Projects Fund or for additional contributions to COR. As shown above, this re-purposed revenue is between \$300,000-400,000 over the three year period with \$100,000 of the non-COR transfer in FY2017-18 retained as transfer to match the estimated increase in sales tax revenue that year. If gas prices return to prior levels within five years as projected, the use of any of the 6.4% transfer would be discontinued entirely at that time.

Service Reductions Tiers One Through Three with Tier One Recommended for Implementation

Staff has identified a number of areas, in addition to the actions already implemented, to contribute to eliminating the budget gap. None of these options are pleasant or preferable, they are simply, in Staff’s opinion, the least onerous of onerous options. Tier One recommendations are included in the Plan chart above. Tier Two and Three options are considered less desirable, but available options to consider. In establishing these priorities, Staff considered whether the programs were mandated either by others or by existing City policy, extent of cost recovery by the program, whether there has been a demand change relative to the program, how reliant the program is upon the City (i.e. could someone else deliver the program?) and to what extent the program contributes to a core City responsibility in comparison to other existing programs. Staff plans additional analysis to create such information for all City program areas in more detail to enhance future prioritization processes.

Plan strategies are briefly described below by tier including where available, estimated savings.

Tier One Recommended Actions to Close Gap	Department	\$ Value 15/16	Service Impact
Eliminate Fit N’ Fun or fund some marginal costs by charging fee for the service (est. @ \$100 year to cover estimated \$20,000 of costs)	Community Services	\$57,000	Loss of fitness after school program and a cooperative venture with the schools. Participation is 200.
Eliminate PIY Program	Police	\$4,500	Reduces interaction with youth but not eliminated. Still have Red Ribbon Week and Explorer Programs. Participation is 250.
Mosaic publication every 4 months vs. every 3 months	Community Services	\$8,500	May impact revenues and participation in programs. Longer lead time for general information so less useful as a community newsletter.
Reduce Summer Concerts from 6 to 5	Community Services	\$5,600	CAB highest priority program due to participation numbers. Additional concert reduction therefore not recommended,

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			but would have similar savings. Total attendance for series estimated at 4,100.
Increase Parking Fines from \$30 to \$35 to improve enforcement	Police	\$7,800	Enforcement should be improved. For reference, the estimated additional revenue is close to funding "the Source" (\$6000) and the Neighborhood Watch Banquet (\$3000)
Eliminate vacant Maintenance Worker position	Community Services	\$55,300	Deferment of more tree trimming to the contractor w/in budget and of block wall painting to property owners. Delays would be expected in facility maintenance, trash pickup, doggie bag refills, street sign repair, street tree watering, right of way lighting repairs, vine trimming, weed removal, sidewalk street cleaning(in-house) pot hole and street repairs, sidewalk inspection/repair, playground maintenance/repair/inspection, sports facility maintenance and irrigation repairs. Impact may be very slightly softened by potential to contract for bus stop maintenance.
Suspend Motor Officer Program – reduce Police Officer vacancies by one, surplus and sell motorcycle.	Police	\$115,000	Lowers traffic enforcement capacity as well as back up capacity for patrol when there are simultaneous incidents or a shift vacancy. Lowers fine revenue.
Total Gap Reduction from Tier One Recommendations		\$253,700	

Tier Two Recommended Actions to Close Gap	Department	\$ Value 15/16	Service Impact
Suspend July 4 th Run for Fun (estimated savings \$27,000 in 2016/17)	Community Services	\$0	Retain events that are highest priority to CAB and are lower cost. Run costs for 15/16 already largely incurred so the 2015 run would happen and suspension would be 2016

			and 2017 Run events. Participation last year was 828.
Comprehensive Fee Study (represents cost vs. savings with any future offsetting revenue TBD)	Citywide	\$ TBD	Staff committed to a future comprehensive fee study when fees were last adjusted, based on age of current study and concerns with current methodology. New fee study would be a one-time cost and would not include utilities being reviewed now. Any additional revenue would be determined by Council action in response to the survey and where to subsidize fee supported activities with other General Fund monies and to what extent. Cost unknown but 2009 study cost was \$16,500.
Eliminate Volunteer Recognition Event	Community Services	\$3,125	Follows CAB prioritization of their programs. Would still recognize volunteers at each event/program, but would not have one event where all volunteers are honored. Participation estimated at 100.
Cost of living increases to building and safety, planning fees	Community Development	\$49,000	Rather than conduct a fee study, simply apply a cost of living adjustment going forward for the CD fee area. Would not address any current subsidies, simply the growth of such subsidies. Revenues estimated based on 5 year history if we had had this in place. However, with growing activity, would likely be more and would grow over time.
Total Gap Reduction from Tier Two Recommendations		TBD	

Tier Three Recommended Actions to Close Gap	Department	\$ Value	Service Impact
Suspend La Palma Days	Community Services	\$25,000	Retain events that are higher priority to CAB and are lower cost. 2015, 2016, 2017 LPD covered, but the likelihood is that suspension would need to remain through 2019. Participation estimated at 9,000. Potential alternative to pursue a 3-day carnival that would make the event self-sustaining and would provide revenue for school groups to compensate for loss of game/food/other revenue of the past.
Consolidate or Contract for law enforcement services	Police	TBD	Option was presented last year in the 12.8% ongoing General Fund transfer for one-time cost scenario in the absence of a ballot measure to increase police funding or the failure of such a measure. Staff would consider this a last resort to achieve long term financial sustainability due to the priority given to a City police function. Last year's estimated savings from full contracting of all police functions was \$1 million. However, staff has had no discussions to determine what agencies might be interested in partial or full consolidation or contracting or what the actual savings may be.
Total Gap Reduction from Tier Three Recommendations		TBD	

Other To-Be-Identified Gap Reducing Measures

In addition to the Tier One measures identified in the 3 year chart, a separate line has been included in that chart to account for a target amount to be contributed towards the gap from as of yet undesignated revenue, reserve, service reductions or revised operations strategies. This may include items from Tiers Two or Three, especially those designated with a "to be determined" financial impact, other financial impacts such as some type of revenue ballot measure, or from upcoming labor negotiation contract changes. As these discussions have yet to begin outside of

preliminary discussions in closed session with the City Council, there are no specific proposals associated with this target, nor should there be an assumption about a ballot measure or other tier measures since the City Council has not acted upon any such measures.

Offsetting Costs for Unmet Needs

In addition to providing a plan for closing the existing General Fund gap between resources and demands, providing a sufficient contingency amount, and smoothing of revenue/expenditure balance over the three year period, Staff also recommends evaluating strategies that go beyond what is minimally required to meet these goals, to create additional capacity for currently unmet needs. Rather than assume everything currently being done is a higher priority than things we are not currently able to do; this allows discussion of whether some unmet needs are of sufficient value that additional measures under Tier Two or Three should be added to create capacity to address these needs. More analysis would need to be done on the costs associated with any of these identified options. Examples could include additional areas where one-time investments can yield long term operating savings such as additional energy and technology investments. They could also include service or efficiency improvements such as the planned but delayed web-site update, addition of a mobile web application to recognize that more of the community is accessing all information, including the City's, through smaller mobile devices, other public engagement technology, additional training/consulting capacity for GIS citywide, facilities security improvements, additional staff training for efficiencies, and additional efforts to bring disaster preparedness function and readiness up to required/advisable level. It is difficult to reduce or eliminate existing services and functions as demonstrated by the Tier lists above. However, the City should also be future-focused and be preparing strategically for the longer term which is the purpose of creating the ten-year forecast.

ALTERNATIVES:

The City is not required to have a ten year forecast of financial condition, however, having it is both prudent and consistent with existing City Council Policy. Direction at this stage regarding the difficult decisions presented in the plan is necessary for preparation of a long term strategy as well as the FY2015-16 Budget.

FISCAL IMPACT:

There is no fiscal impact to discussion of the financial situation or the elements presented in this plan. Direction given, however, will be incorporated into budget preparation, labor negotiations, and other financial processes, program prioritization, and community outreach and the results of these additional processes will have financial impacts both short and long term. Implementation of the recommended plan based on the assumptions presented in this report provides for balanced budgets in the near to midterm. However, that alone is not sufficient to create a ten year financially sustainable condition. Additional action will be required to achieve sustainability beyond the three year window.

APPROVED:



City Manager



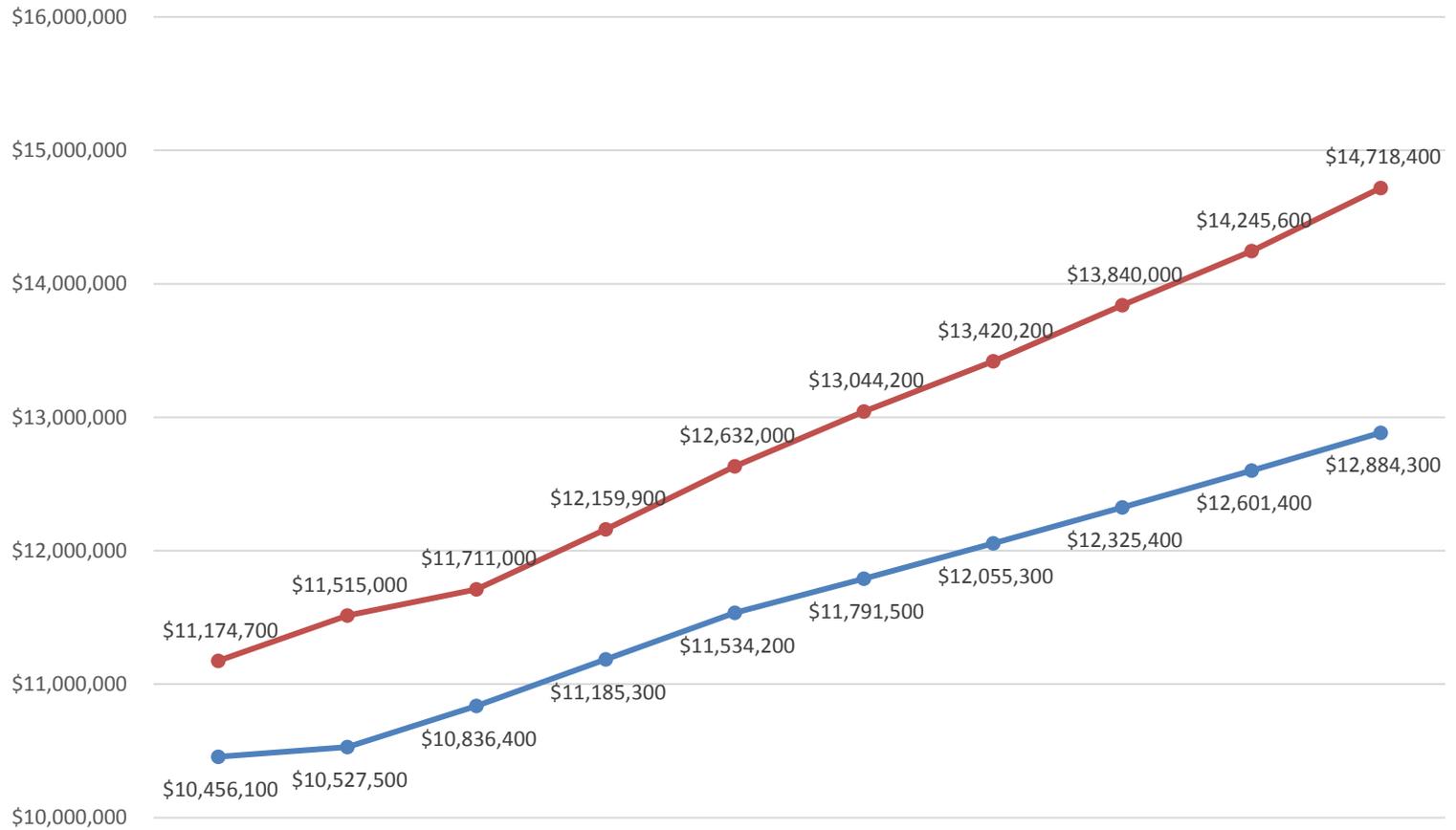
Administrative Services Director

- Attachments:
1. Three Year Budget Summary
 2. Ten Year Financial Forecast (Chart)

City of La Palma
Budget Summary

Acct Code	Department Name	FY2015-16	FY2016-17	FY2017-18
		Estimate	Estimate	Estimate
1-100-110	CITY COUNCIL	83,200	85,400	84,600
1-100-120	CITY MANAGER	230,700	232,100	233,900
1-100-130	Legal Services	138,600	129,000	129,000
1-100-140	Administrative Services	168,500	174,100	178,800
1-100-150	City Clerk	141,400	159,300	147,100
1-100-160	Fiscal Services	332,300	331,500	340,200
1-100-170	Human Resources (formerly Internal Service)	1,315,500	1,370,800	1,492,500
1-100-180	Technology & Communications	335,900	331,500	336,100
	Total >	2,746,100	2,813,700	2,942,200
1-200-210	POLICE ADMINISTRATION	567,800	575,100	584,000
1-200-220	OPERATIONS MANAGEMENT	312,400	324,100	327,200
1-200-235	PATROL	2,585,400	2,644,700	2,704,600
1-200-240	SERVICES DIVISION MANAGEMENT	256,600	268,300	275,800
1-200-250	COMMUNITY Education	73,200	70,800	71,900
1-200-260	INVESTIGATIONS	579,100	588,500	597,000
1-200-270	RECORDS & COMMUNICATIONS	677,600	692,700	706,800
	Total >	5,052,100	5,164,200	5,267,300
1-300-310	Com Svcs ADMINISTRATION	352,300	359,300	364,700
1-300-320	Health & Wellness	145,500	145,700	145,900
1-300-330	Recreation Facility Operations	241,400	245,700	251,000
1-300-340	Special Events	195,400	193,600	194,900
1-300-350	Youth & Family	318,800	322,600	329,300
1-300-370	City-Wide Maintenance	359,700	509,400	417,900
1-300-380	ENGINEERING	94,600	88,200	88,300
1-300-390	Parks & Medians	390,200	367,200	374,500
1-300-400	Streets	199,200	204,100	208,600
	Total >	2,297,100	2,435,800	2,375,100
1-500-510	COMMUNITY DEVELOPMENT ADMIN	107,100	108,200	109,400
1-500-520	BUILDING AND SAFETY	139,600	135,600	135,600
1-500-530	CODE ENFORCEMENT	99,700	103,200	107,500
1-500-540	PLANNING	118,400	119,500	120,800
	Total >	464,800	466,500	473,300
	Expenditure Subtotal Before Transfer Out >	10,560,100	10,880,200	11,057,900
	Adjusted for changes in			
	Transfer Out >	614,600	634,800	671,720
	EXPENDITURE GF TOTAL >	11,174,700	11,515,000	11,729,620
	Projected GF Revenues >	10,456,100	10,527,500	10,836,400
	Surplus(Deficit)	(718,600)	(987,500)	(893,220)

10 Year Financial Forecast - In No Action Taken



	FY2015-16	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25
GF Expenditures Before Transfer	\$10,560,100	\$10,880,200	\$11,057,800	\$11,484,800	\$11,934,900	\$12,331,100	\$12,690,600	\$13,093,500	\$13,481,900	\$13,937,000
Transfer Out (6.4%)	\$614,600	\$634,800	\$653,200	\$675,100	\$697,100	\$713,100	\$729,600	\$746,500	\$763,700	\$781,400
● Total GF Operating Expenses	\$11,174,700	\$11,515,000	\$11,711,000	\$12,159,900	\$12,632,000	\$13,044,200	\$13,420,200	\$13,840,000	\$14,245,600	\$14,718,400
● GF Revenues	\$10,456,100	\$10,527,500	\$10,836,400	\$11,185,300	\$11,534,200	\$11,791,500	\$12,055,300	\$12,325,400	\$12,601,400	\$12,884,300
Fund Surplus/(Deficit)	\$(718,600)	\$(987,500)	\$(874,600)	\$(974,600)	\$(1,097,800)	\$(1,252,700)	\$(1,364,900)	\$(1,514,600)	\$(1,644,200)	\$(1,834,100)