

CITY OF LA PALMA

Study Session: Long Term Financial Plan/Budget Discussion

April 21, 2015

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Recommendation

- Receive and file the Long Term Financial Plan Update
- Discuss and provide preliminary direction on the Update in preparation for drafting the FY 2015-16 Budget



Background

- Sustainable Financial Plan for the General Fund adopted on March 18, 2014
- 2014 - also adopted target fund balances & a General Fund Volatility Reserve
- Reviewed 3 potential strategies for use of ongoing General Fund revenues for one time projects, including capital improvements
- Chose the current policy of 6.4% reserved for one-time

Background – Target Fund Balances

Fund Balances					
Reserve	Target Balance	Balance (as of 6/30/14)	Portion that is Loan Balance	Cash Balance	
GF Cash Float Reserve	\$ 250,000	\$ 250,000	\$ -	\$ 250,000	
Revenue Volatility Reserve	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	
Emergency Reserve Fund	\$ 9,000,000	\$ 9,985,877	\$ 988,908	\$ 8,996,969	
Economic Development Fund	\$ 250,000	\$ 249,916	\$ -	\$ 249,916	
Capital Outlay Reserve	\$ 2,000,000	\$ 5,346,130	\$ 500,000	\$ 4,846,130	
Combined Water Funds	\$ 3,331,809	\$ 5,497,472	\$ 500,000	\$ 4,997,472	
Combined Sewer Funds	\$ 2,238,687	\$ 4,002,390	\$ 500,000	\$ 3,502,390	
Risk Management Fund	\$ 1,000,000	\$ 826,301	\$ 600,000	\$ 226,301	
Employee Benefits Fund	\$ 309,000	\$ 1,277,903	\$ 1,000,000	\$ 277,903	
Facilities Maintenance Fund*					
Balance over 550,000 transferred to COR	\$ 50,000	\$ 1,379,644	\$ 500,000	\$ 879,644	
Vehicle Replacement Fund	\$ 717,400	\$ 1,233,139	\$ 400,000	\$ 833,139	
Technology Replacement Fund	\$ 564,800	\$ 720,651	\$ -	\$ 720,651	



Summary

- 3 Main Drivers of change which have resulted in loss of sustainability
 - Significant drop in sales tax revenues associated with cheaper oil prices and demonstrating the City's reliance on this volatile commodity
 - Significant rise in CalPERS costs over the next five years due to both changes in PERS policy and the City's own prior unfunded liability
 - Significant rise in insurance costs over most of the ten year period associated with higher costs and with the move from a retrospective to a prospective methodology for payment



Other 3 Yr. Revenue Assumptions

- One time wind down of the triple flip will give a one-time bump to sales tax receipts in 2015-16 estimated at \$223,000 or about the amount estimated for billboard revenue anticipated to begin in 2016-17
- Interest earnings assumed to continue in a low interest environment
- Negative impacts to property tax and tax increment from La Palma Intercommunity Hospital's decision to become non-profit – estimated at \$158,000 annually
- Transient Occupancy Tax anticipated to remain flat at the 2014-15 higher level
- UUT continues to be levied at 5%
- La Palma Ave. property revenue per the lease agreement



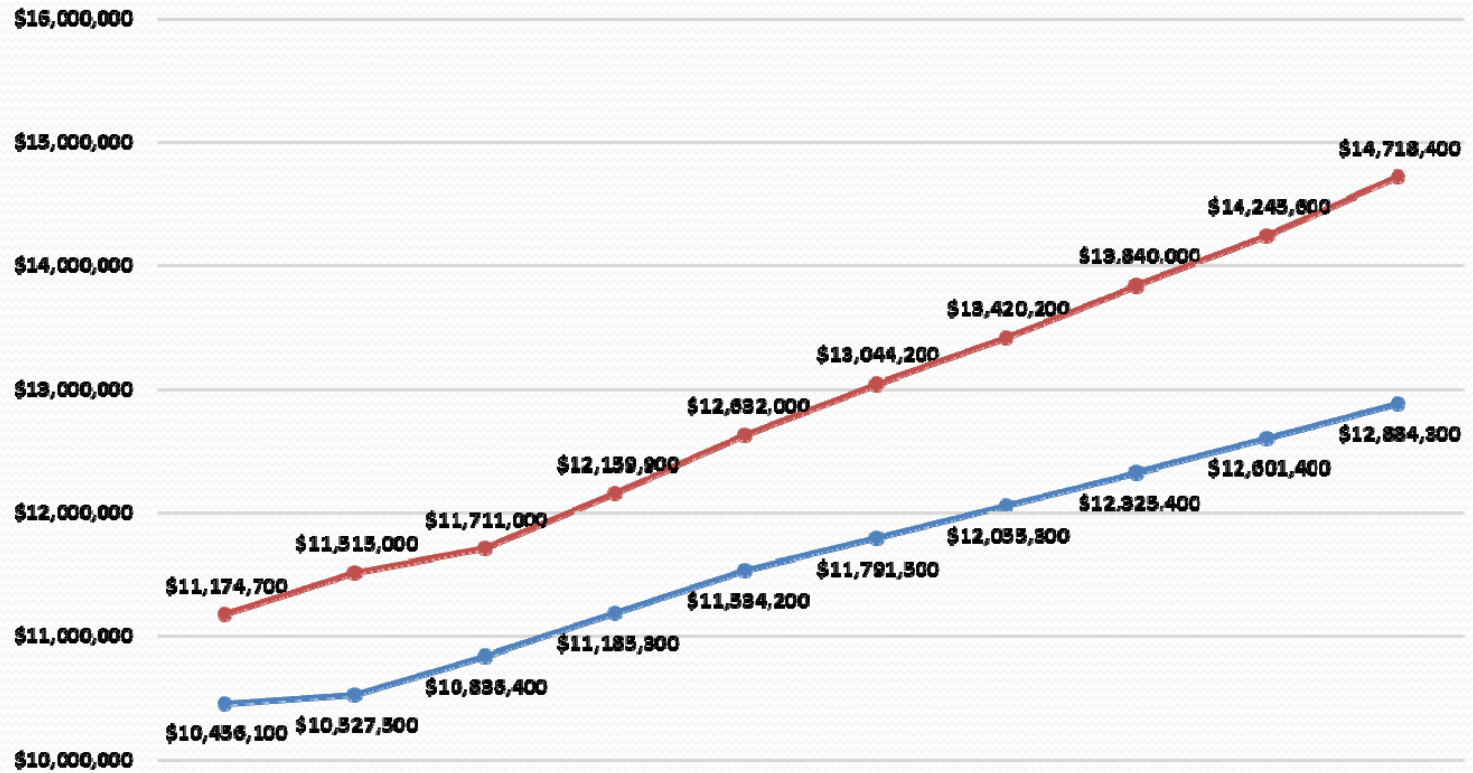
Other Expenditure Assumptions

- Expenditures are forecast as known for the next three years and then at a 2.4% increase (20 Yr. cost of living average)
- Insurance costs forecast to increase 9.5% annually
- CalPERS costs forecast based on unfunded liability payments and a 3% growth rate year 5 and thereafter
- Personnel costs are assumed with no added positions and no cost of living increases in years 1-3; 2.4% increase annually thereafter

Estimated No Action Budget Gap – 3 Yr. Deficits

- 2015-16 \$-718,800
- 2016-17 \$-987,500
- 2017-18 \$-874,700

10 Year Financial Forecast - If 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	\$11,037,800	\$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	\$673,100	\$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	\$12,139,900	\$12,632,000	\$13,044,200	\$13,420,200	\$13,840,000	\$14,245,600	\$14,718,400
GF Revenues	\$10,436,100	\$10,527,500	\$10,836,400	\$11,183,300	\$11,584,200	\$11,791,500	\$12,033,300	\$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)



Actions to Date

- 2011 Labor Contract Changes to reduce costs and unfunded liabilities including higher employee contributions and lower tier retirement benefits for new employees
- Proactive economic development even with the dissolution of redevelopment contributing to new businesses such as Tesoro, Samsung, CJ Foods, Walmart Neighborhood Market, Coffee Bean & Tea Leaf, 99 Cent Only Store



Actions to Date

- Completion of pavement rehabilitation throughout the city which will reduce future costs
- Return to full UUT levy of 5%
- Investment Policy changes for higher returns
- Creation of a post-employment benefits Trust to lower unfunded liability
- Reduction in staffing to pre—1986 levels
- Restructure of departments and divisions; lowering management staff and maintaining as many front line positions as possible



Actions to Date

- Significant investment in new technology to improve efficiency and service
- Significant investment in other systems such as energy conservation which brings down operating costs, including street light purchase
- Revision of the General Plan to create more economic opportunities north of Orangethorpe including the new Freeway Overlay Zone for digital billboards

3 Year Gap and Plan

- Use General Fund balance over the target balance at the end of each year to remain in the Fund and help smooth the differences between the years
- Temporarily use the Non-COR needed portion of the 6.4% for operations and taper the use off as sales tax receipts return due to increased oil prices

3 Year Gap and Plan

- Utilize Tier One strategies, as described, for program reduction, staff reduction, and increased fines
- Utilize other strategies and sources (Tiers 2 and 3, labor negotiations, other revenue increases or expenditure reductions) to close the remaining portion

3 Year Gap and Plan

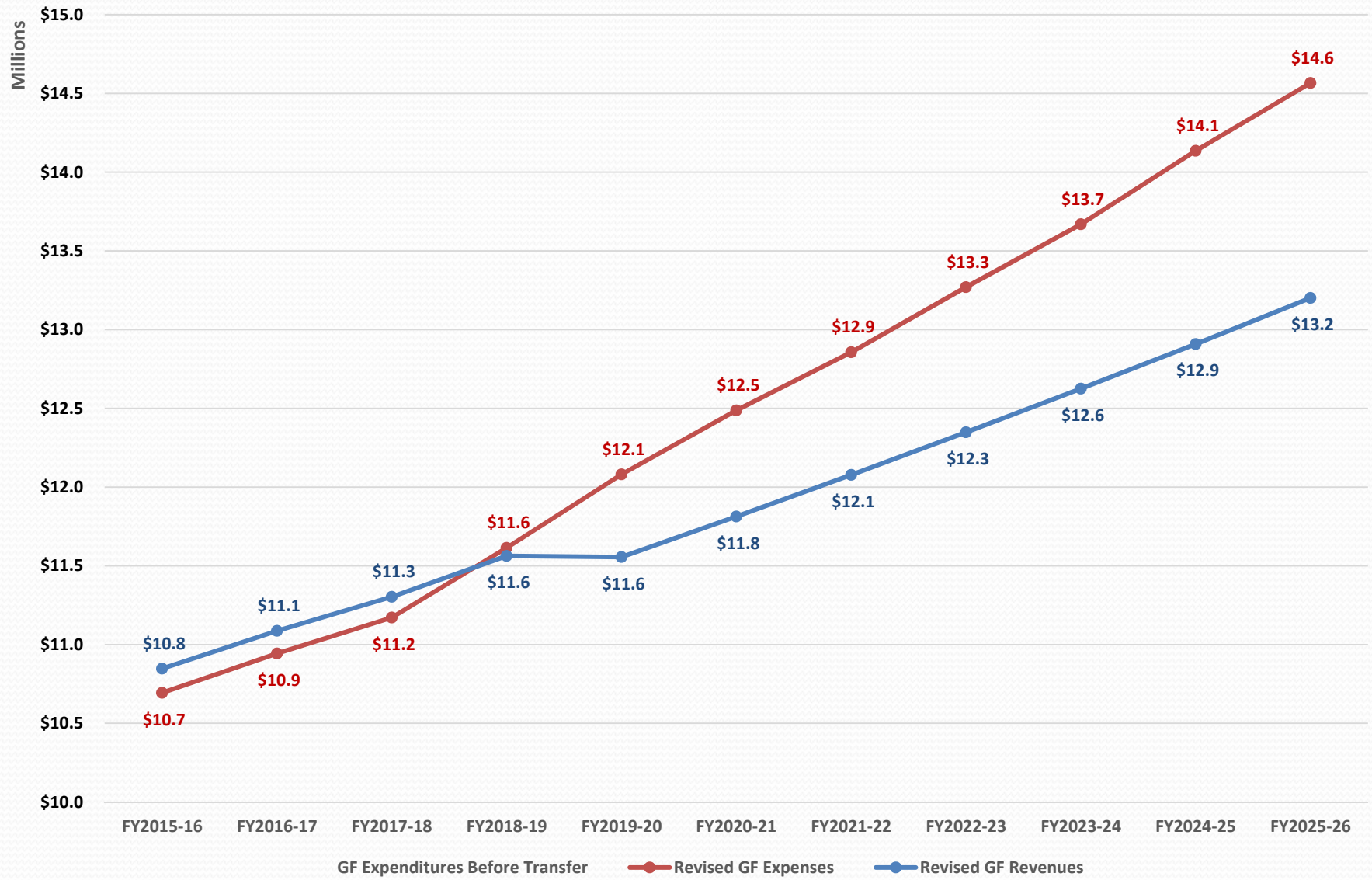
	2015/16	2016/17	2017/18
General Fund Projected Revenues (with transfers)	\$10,456,100	\$10,527,500	\$10,836,400
General Fund Projected Expenditures (before transfers)	\$10,560,100	\$10,880,200	\$11,057,900
Recommended 6.4% transfer for one-time costs/ COR contribution from Revenues	\$ 614,600	\$ 634,800	\$ 653,200
Deficit with 6.4% transfer	(\$ 718,600)	(\$ 987,500)	(\$ 874,700)
Use of Excess GF fund balance (over \$250k)	\$ 6,000	\$154,400	\$ 143,000
Temporary Use of non-COR portion of 6.4% (until sales tax recovery)	\$ 364,600	\$ 384,800	\$ 303,200**
Tier One Actions as described below	\$ 262,500	\$ 262,500	\$ 262,500
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)	\$154,400	\$ 143,000	\$ 131,700

** start of the tapering off based on oil prices beginning to increase

Tier 1

• Eliminate Fit N' Fun	\$ 57,000
• Eliminate PIY Program	\$ 4,500
• Move Mosaic from 3 mo. To 4 mo. Issues	\$ 8,500
• Reduce Summer Concerts from 6 to 5	\$ 1,900
• Increase Parking fines from \$30 to \$43 (County Average is \$43.5*)	\$ 20,300
• Eliminate Maintenance Worker (vacant)	\$ 55,300
• Suspend Motor Program (1 police officer)	\$115,000
• Total	\$262,500

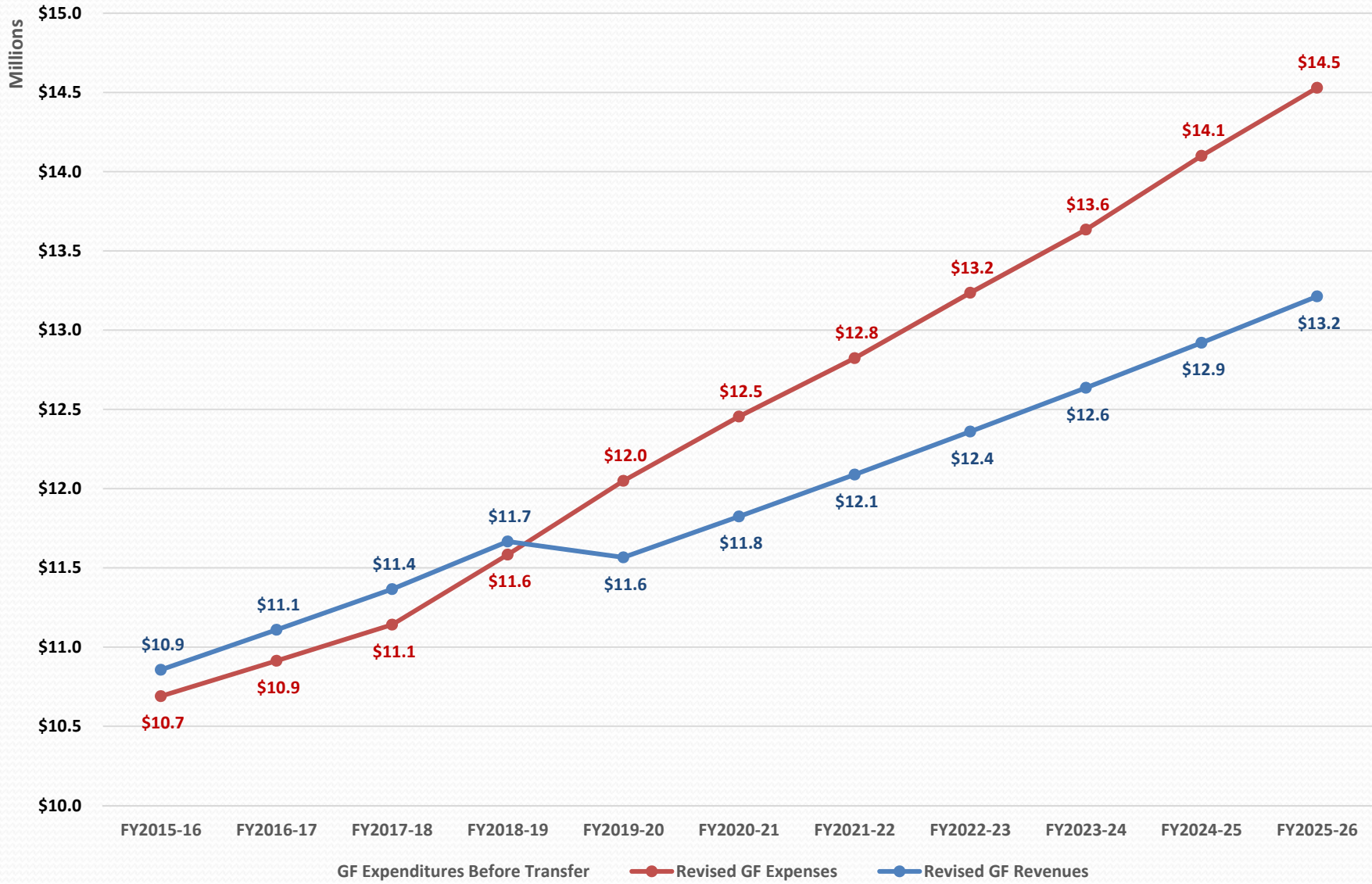
10 Year Financial Forecast - Tier 1 Cuts



Tier 2

- Suspend July 4th Run for Fun (2016) \$ 27,000
in 2016/17
 - Comprehensive Fee Study TBD
 - Eliminate Separate Volunteer Event \$ 3,125
 - In lieu of fee study, COLA on Comm. \$ 9,700
- Development fees

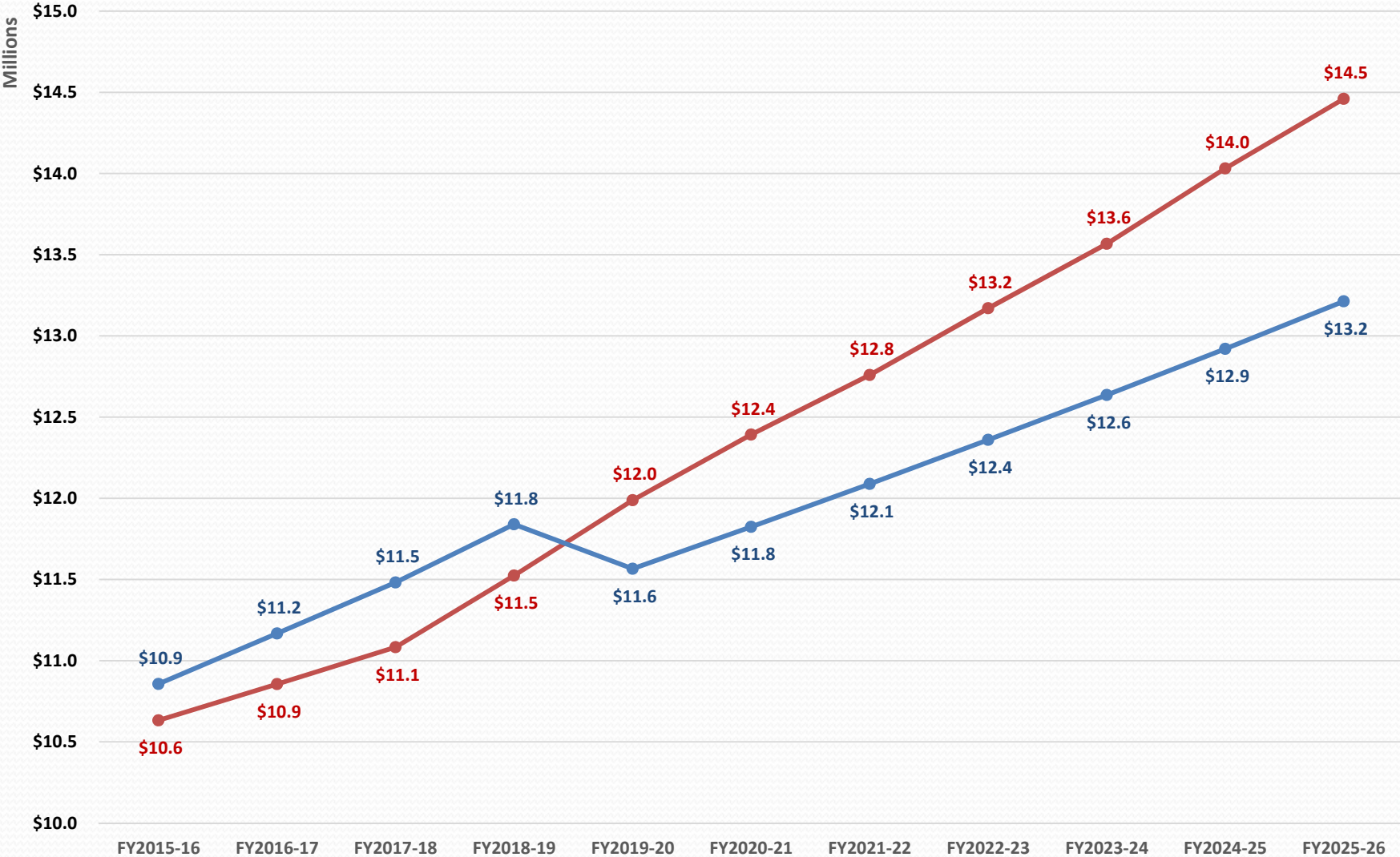
10 Year Financial Forecast - Tier 1&2 Cuts



Tier 3

- Suspend La Palma Days \$57,900
(Add a carnival to retain; savings reduced to \$25,000)
- Consolidate/Contract for law enforcement \$ TBD

10 Year Financial Forecast - Tier 1,2&3 Cuts



GF Expenditures Before Transfer Revised GF Expenses Revised GF Revenues



Summary of the Plan

- CIP is fully funded for 10 years with a target fund balance in COR at the end of that period.
- Uses General Fund ongoing revenues beyond COR needs to fill the temporary loss of sales tax, with more transfer available for other one-time projects once sales tax receipts begin to return i.e. only used towards the portion of the gap considered temporary. Fully phased out when sales tax receipts return.
- Closes a portion of the budget gap through targeted reductions or elimination of services/positions but does not involve layoffs.
- Closes the remaining portion of the budget gap using still undefined means which may include changes in labor contracts, other revenue changes such as a ballot measure, and/or additional service impacts shown in Tiers 2 and 3.



Summary of the Plan

- Allows for discussion of further changes to create capacity for new initiatives of highest priority.
- Allows Staff time to continue to explore ways to reduce costs associated with insurance and pension drivers as well as ways to increase revenues and revenue diversification.
- Does not in and of itself create a sustainable, balanced budget over the ten year period based on what we know today.



Alternatives

- 10 Year financial plan is not required. Annual balanced budget is required.
- 10 Year financial plan is consistent with Council policy and goals.
- City Council input is desired for preparation of the draft budget.
- If a revenue ballot measure is explored for 2016, substantial planning and communication time and expense is necessary. So while a decision on any ballot measure is not needed at this time, direction to add any research or communication expense for the 2015-16 budget would be needed as a part of the budget process.



Fiscal Impact

- No direct impact from this discussion
- Impact expected/desired from implementation of the direction in upcoming processes including the budget, labor negotiations, civic center planning, and financial policy updates

Questions, Discussion

