CITY OF LA PALMA

Sustainable Financial Plan

March 18, 2014

March 4 Plan - Unchanged

- More formal strategic plan format, but largely same components and information relative to goals, challenges, opportunities, assets and liabilities
- With few changes – same recommendations for improved fund structure and reserves
- With one major change – same General Fund Revenue Policy
- Same 11 year projections and largely the same assumptions (billboard revenue was added, as were projected retirements)

March 4 Plan - Changes

- Major change is formula for determining transfer of ongoing General Fund revenue for one-time uses
- Per City Council direction, the Plan will need to be completed based on direction to use one of three scenarios together with the Action Plan matching that scenario
- Some updates to projections based on refinement
- Chart of in-progress but not included potential one-time projects is added to the staff report for reference
- Recommendation added for preferred scenario and action plan

Plan Goals

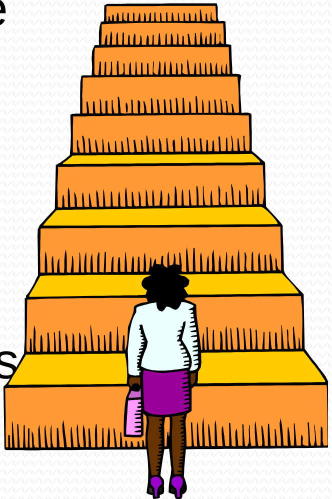
- Sustainable financial future
- Balanced program of services and facilities
- Allow for flexibility as times and circumstances demand
- Realistic based upon solid facts and realistic assumptions
- Transparent and understandable

Challenges and Opportunities

- La Palma's Strengths and Opportunities
  - Stable residential base with high community identification
  - High quality residential neighborhoods
  - High quality infrastructure
  - Safe low crime community
  - Located close to major attractions and employment centers
  - Stable employee base with most employees having 10 years service or more
  - Significant freeway frontage
  - Availability of high quality office space
  - Significant financial reserves accumulated over time
  - A small and responsive City government
  - Significant cluster of health facilities including an acute care hospital

Challenges and Opportunities

- La Palma’s Challenges
  - Small population to spread costs
  - Small and highly concentrated tax base
  - Largely built out community with limited development opportunities
  - Loss of major taxpayer whose replacement makes up only one-half the revenue loss and who is engaged in a highly volatile commodities market
  - Dissolution of Redevelopment and loss of significant infrastructure funding
  - Continuation of high quality services in a shrinking revenue environment
  - Aging housing stock
  - Tenuous economic recovery in the region and nation
  - Significant future fiscal challenges including increased retirement contribution rates.
  - Shrinking employee resources to meet continuing demands



Financial Projections

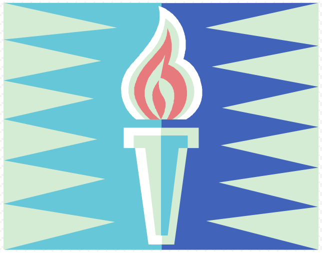
- An exercise in forward thinking to understand where we are headed financially speaking and to give us time to take corrective action where such action is shown to be required.
- Although a useful exercise it must be recognized that the farther such projections go out into the future the less reliable they become and the larger the margin of error.

Projection Assumptions

- Largely status quo budgets maintaining current services and operating methods.
- Known changes such as increases in retirement contribution rates, changes to the minimum wage laws, anticipated retirements within the eleven year period have been factored in (otherwise CPI of 2.6% for expenditures and avg. 2-2.5% yearly for revenue)
- Several one-time projects currently under consideration have not been included but could alter capital needs and operating costs (ex. street light purchase or future payments for unfunded PERS debt)

Projection Assumptions (continued)

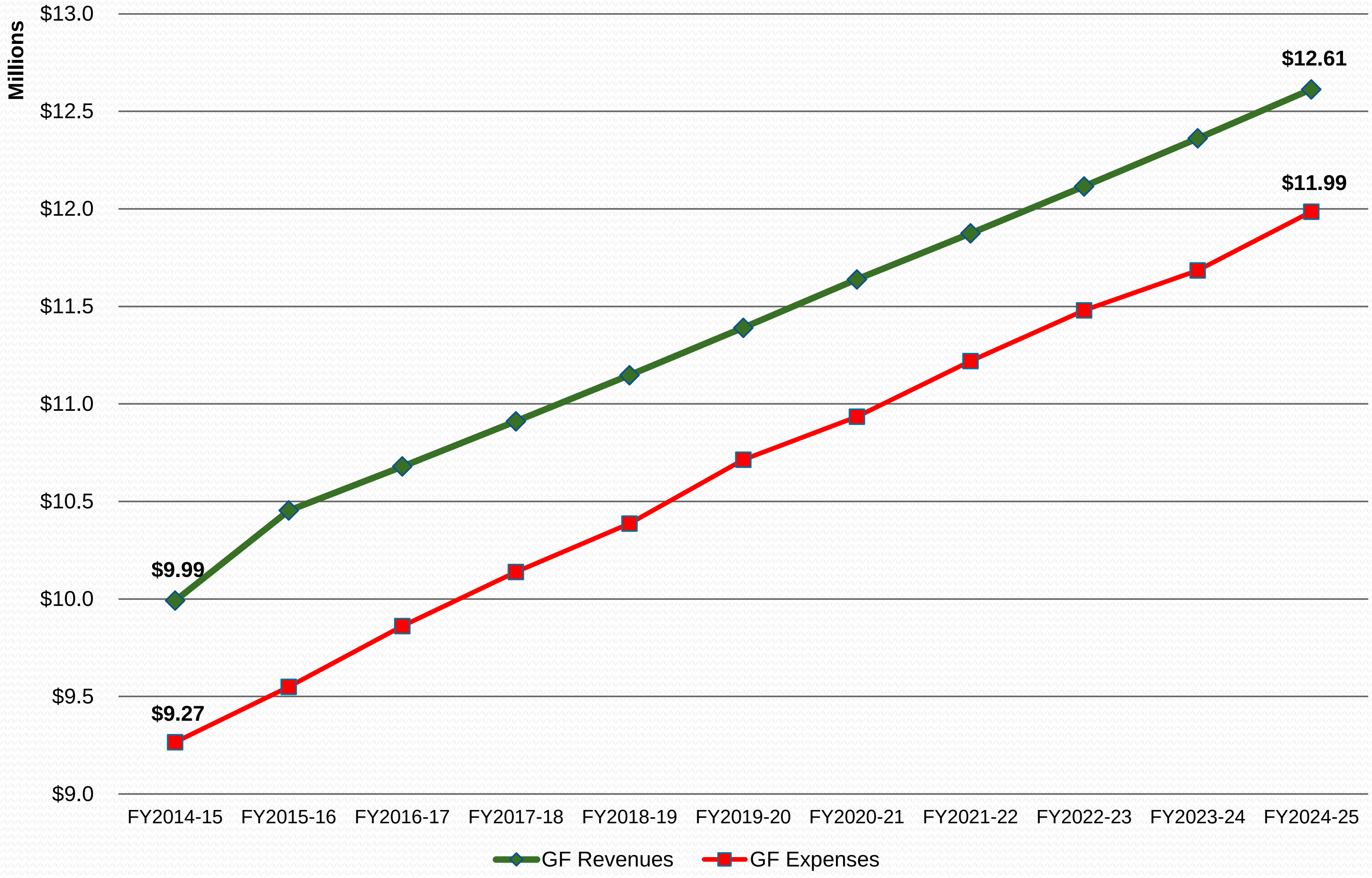
- Projections include full annual funding of the five internal service funds (a change from past practice)
- Continuation of the Police Captain and Code Enforcement Officer positions throughout the projection period with 25% of the Code Enforcement program to be picked up by the Housing Fund.
- The only new revenue source included is from billboard agreements given their current status of development.
- The current 5% UUT rate will be maintained throughout the projection period.
- No tax rate changes (ex. hotel tax).



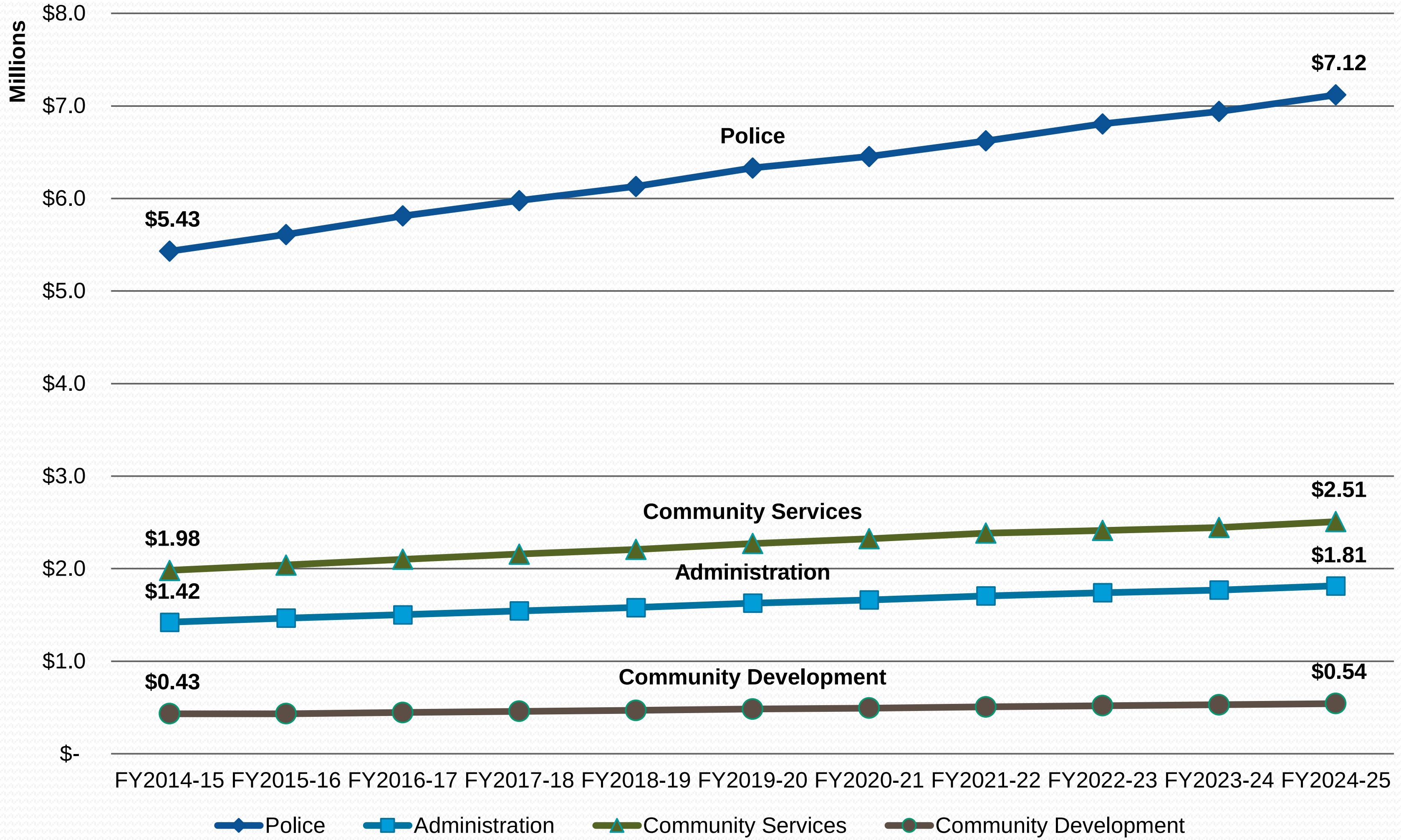
The Projections

- Using FY 2014-15 as the beginning point of the projection and assuming a baseline with full use of net Tesoro tax proceeds for operations and all the assumptions mentioned above:
  - General Fund begins with an operating surplus of $689,061
  - Finishes the 11 year projection period with an operating surplus of $627,202
  - Declining funds available for transfer to COR create a deficit in capital funding
  - Baseline, not a recommendation

General Fund Projected Revenues & Expenditures
No Transfers - Status Quo

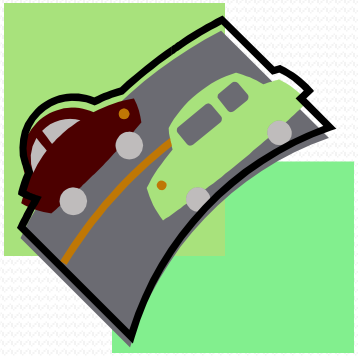


General Fund Projected Expenditures by Department

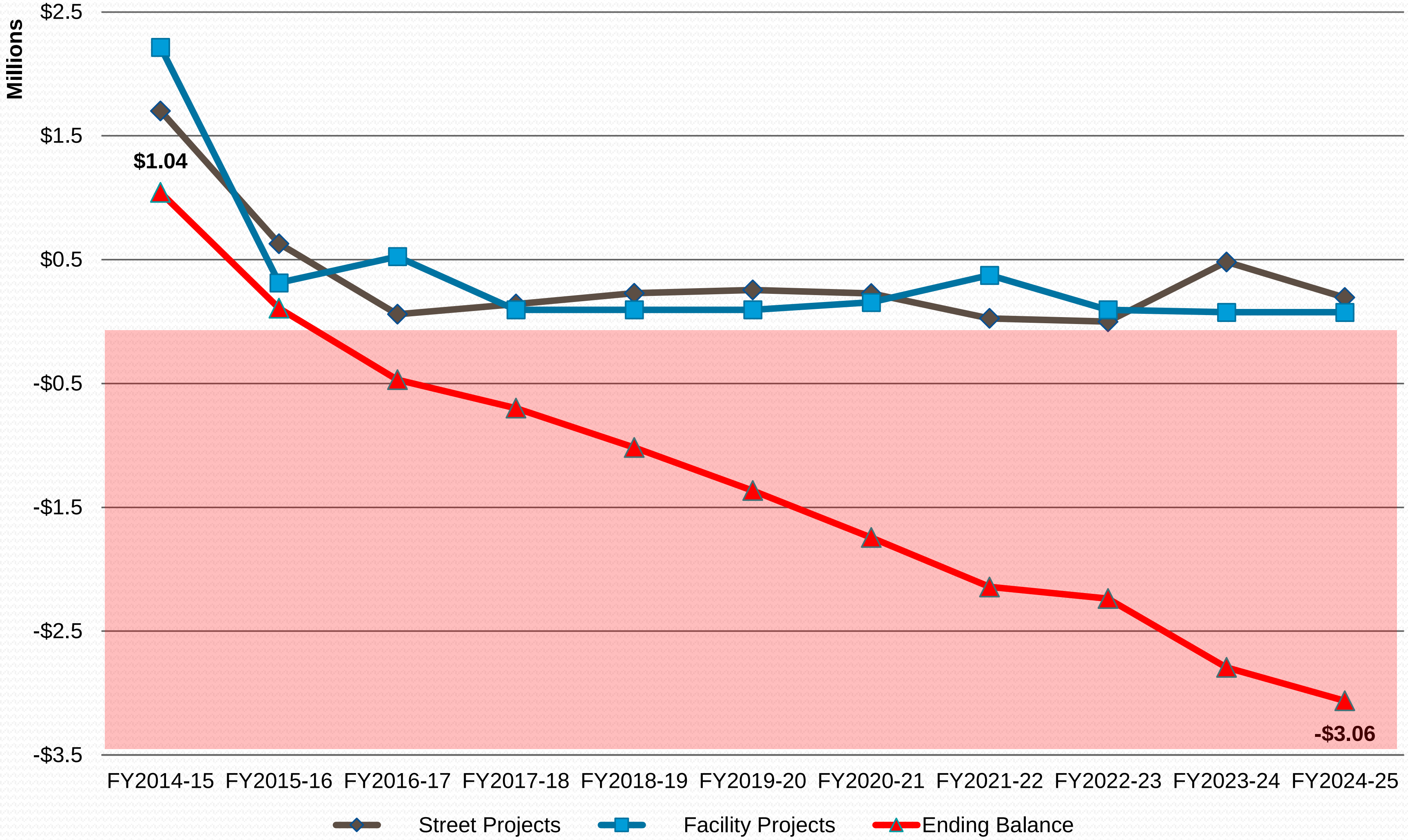


Capital Projections

- COR Fund
  - Central repository for non utility capital project funding
  - All net street project costs and all facility project costs in the new 10-year CIP are included as expenditures
  - COR fund would decline from $4,948,728 in FY15 to $(3,061,477) in FY 2025 without GF transfers. Does not maintain revised target fund balance of $2 million and is not sustainable.
  - Transfers from General Fund are required



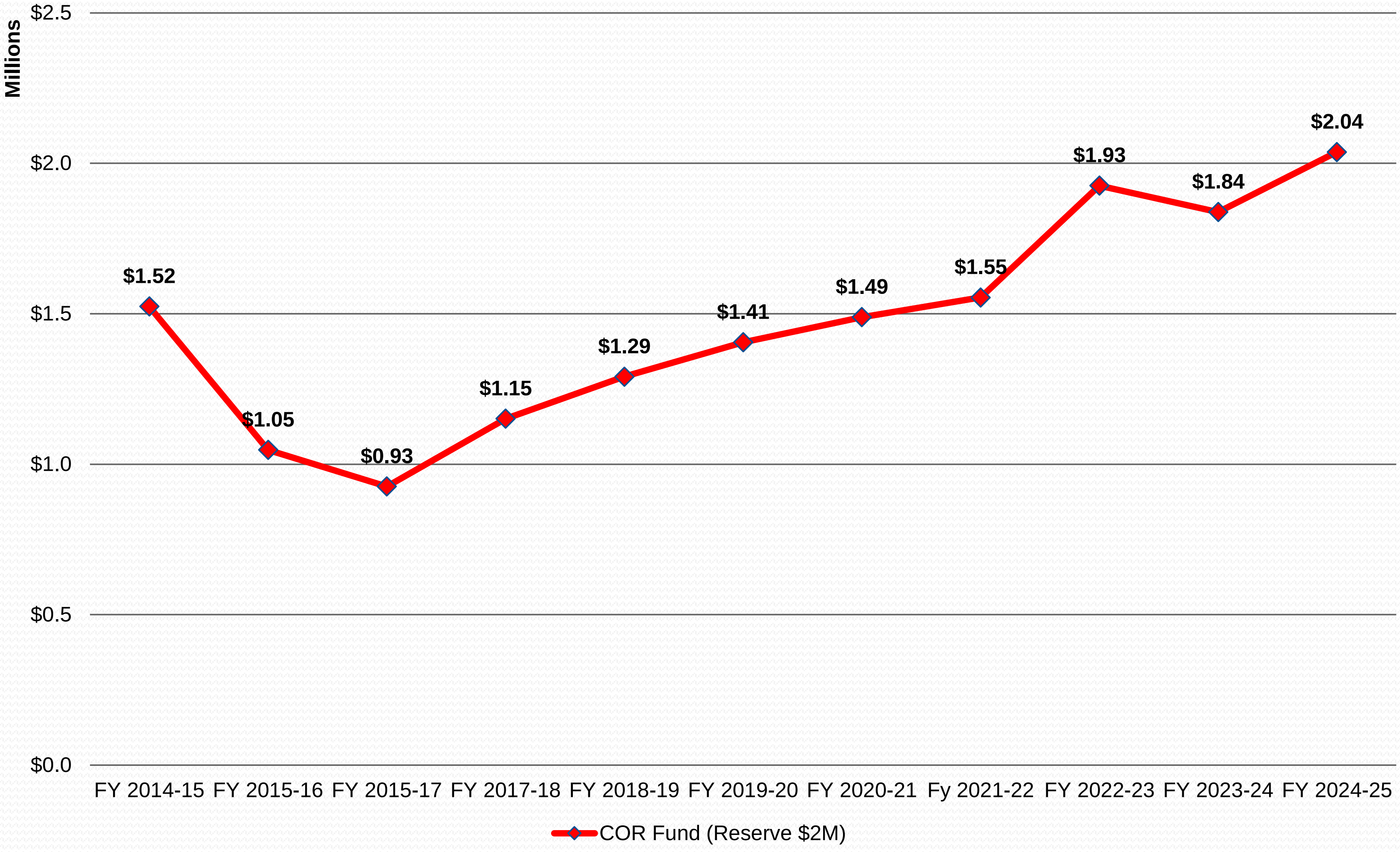
COR Fund – Without Transfers
Project Expenditures & Fund Balance



Projections Continued

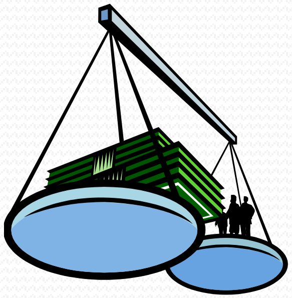
- Alternate COR Fund Scenario provided under General Fund Revenue Policy.
  - Transfer from General Fund to COR an even amount each year based on what is needed to fully fund the 11 year program and maintain $ 2 million fund balance
  - Currently = $455,000 annually
  - Draw down fund balance from $4,949,728 in FY 15 to $2 million FY 25, but balance was built in part for high street cost years which are winding down

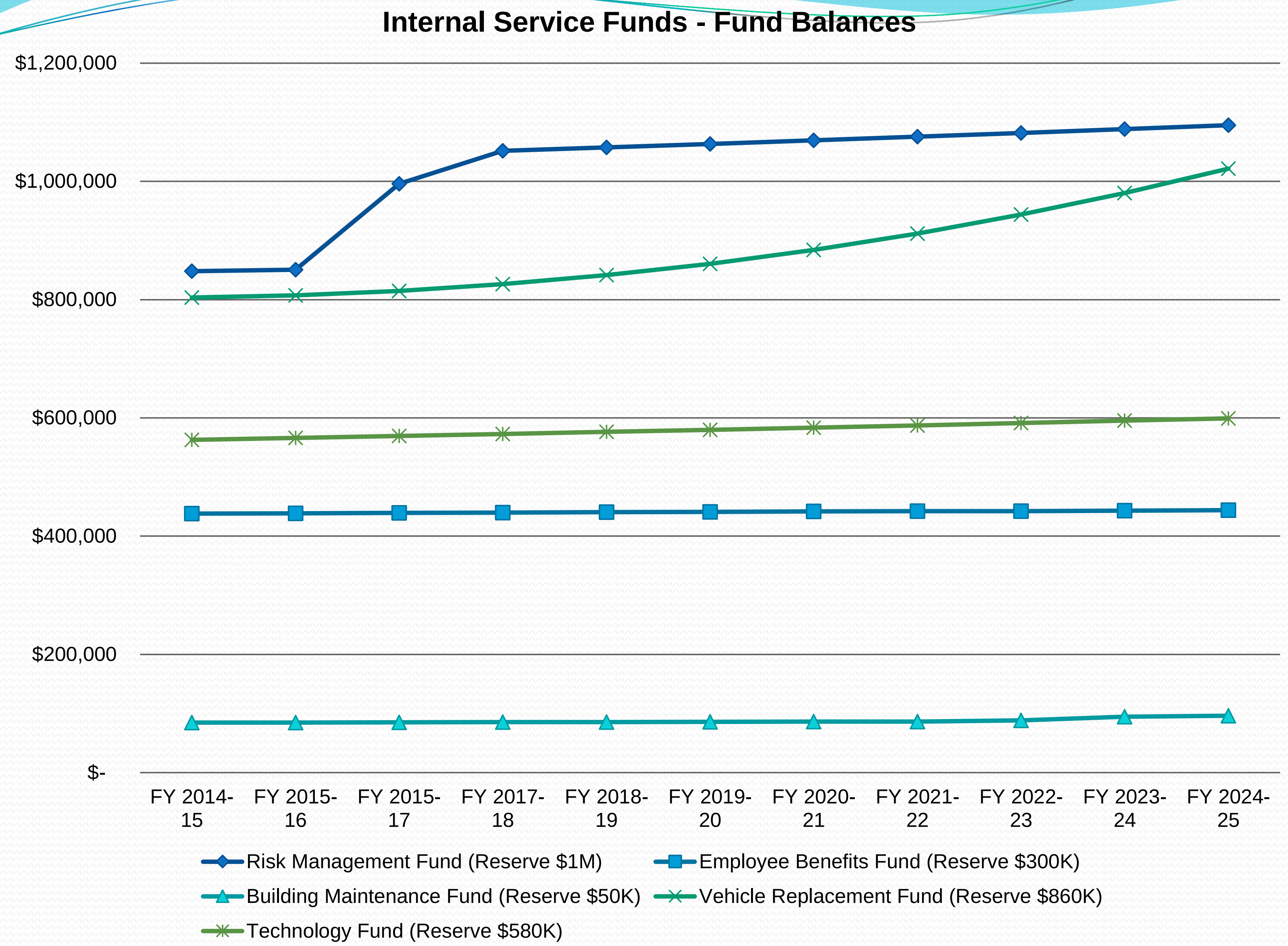
COR Fund Balance
Transferring $455K Annually



Internal Service Funds

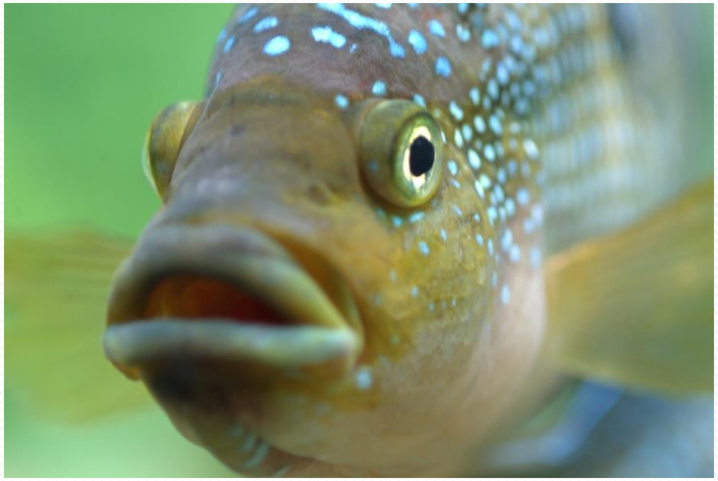
- Insurance Fund = Risk Management Fund, $ 1M target FB
- Employee Benefits Fund = ½ cumulative absences value FB
- Building Maintenance and Replacement Fund = Maintenance only and capital moves to COR, therefore lower FB target
- Vehicle Maintenance and Replacement Fund = just replacement and maintenance moves to department budgets
- Computer Maintenance and Replacement Fund = Technology fund with a recommended transfer this year of $261,000
- Repayment of Seasons loan means all ISF will meet or exceed target fund balances within a few years (assuming approval for new target levels)
- Commitment is maintaining full funding through allocations each year to maintain target levels
- Places additional pressure on General Fund




Internal Service Funds - Fund Balances
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
FY 2014-15
FY 2015-16
FY 2015-17
FY 2017-18
FY 2018-19
FY 2019-20
FY 2020-21
FY 2021-22
FY 2022-23
FY 2023-24
FY 2024-25
Risk Management Fund (Reserve $1M)
Employee Benefits Fund (Reserve $300K)
Building Maintenance Fund (Reserve $50K)
Vehicle Replacement Fund (Reserve $860K)
Technology Fund (Reserve $580K)

Utility Funds

- Water
  - Water Fund
  - ~~Water Replacement Fund~~
  - Water Capital Fund
- Sewer
  - Sewer Fund
  - ~~Sewer Replacement Fund~~
  - Sewer Capital Fund

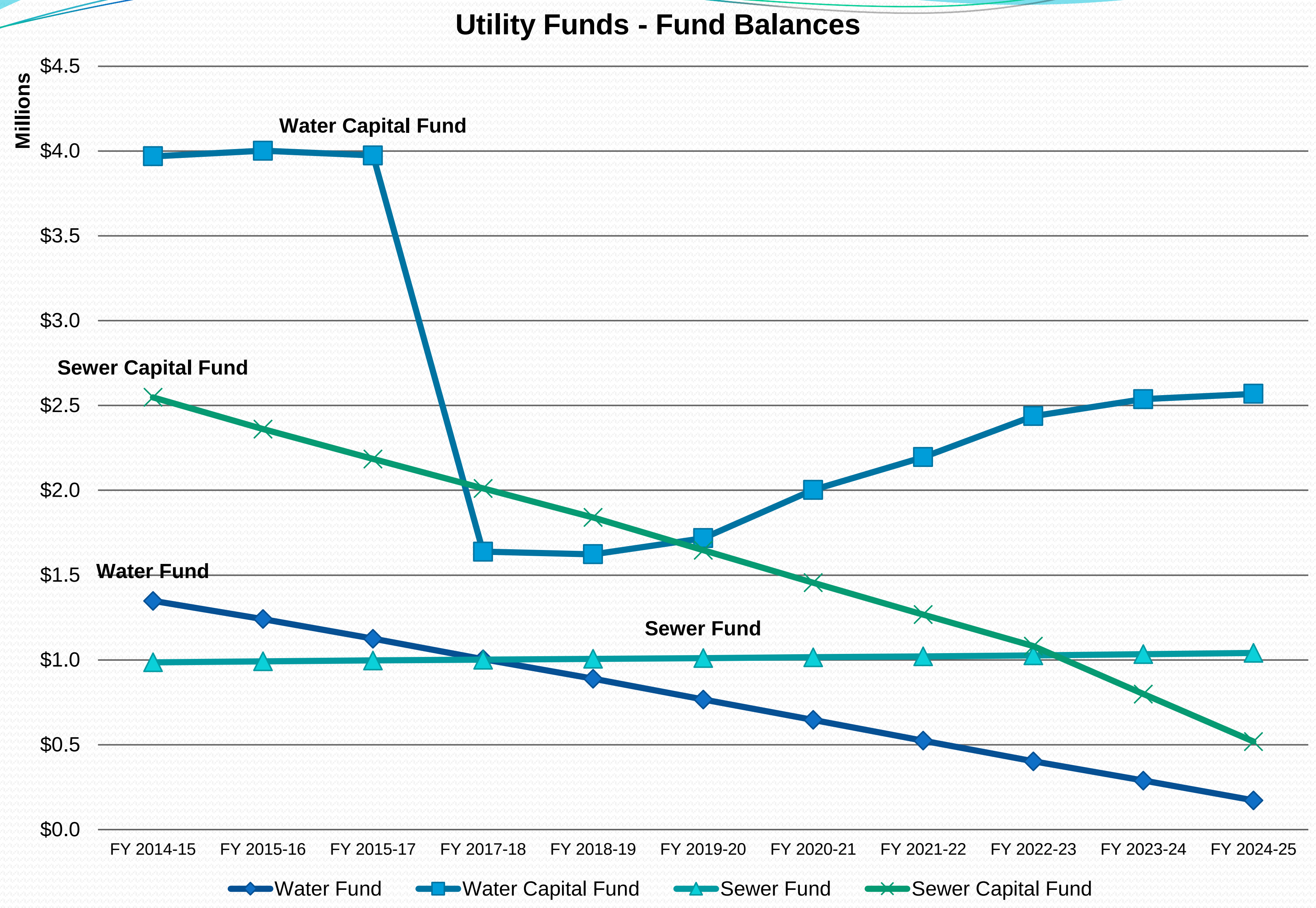


Water Funds

- Combined Water Operating and Capital Funds decline from $5,317,218 in 2015 to $2,740,894 in 2025.
- Means the combined water balance declines below the required reserve fund level ($3,300,000) in FY 25 without additional revenue or savings
- Includes a possible water treatment plant project to maintain quality – would add one-time and ongoing costs

Sewer Funds

- Sewer Combined Operating and Capital Funds balance declines from $3,534,315 in FY 2015 to a deficit balance of ($1,560,565) in FY 25 vs. target reserve level of $2,240,000
- Projections demonstrate the need for regular and gradual rate increases to maintain these systems and services
- Burden of these rate increases on ratepayers must be considered in crafting any new revenue measures for the General Fund


Utility Funds - Fund Balances
Millions
$4.5
$4.0
$3.5
$3.0
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
Water Capital Fund
Sewer Capital Fund
Water Fund
Sewer Fund
FY 2014-15
FY 2015-16
FY 2015-17
FY 2017-18
FY 2018-19
FY 2019-20
FY 2020-21
FY 2021-22
FY 2022-23
FY 2023-24
FY 2024-25
Water Fund
Water Capital Fund
Sewer Fund
Sewer Capital Fund

Other One-Time Projects

- In discussion or known, but not yet approved or finalized
- Items such as:
  - Energy Assessment/Street Light Purchase $2.7 M
  - Unfunded OPEB $393 K
  - Unfunded Retirement $7.2 M
  - Unfunded Compensated Absences $606 K
  - Tyler Technology $110 K
  - Civic Center Replacement $10 M?
  - Hdl Code Enforcement/Bus Lic $ 48 K
  - HUB improvements $200 K

Other Fund Structure Changes

- Spin the current 60%/40% committed reserves in the General Fund out to a new Emergency Reserve Fund but interest earned returns to the General Fund (reduced from two funds recommended March 4)
- General Fund target balance becomes $250,000 maintained for cash flow purposes
- Economic Development Fund created and $250,000 transferred in for seed funds. Some portion of the Unisource annual loan repayment to GF could be transferred here as well
- New Revenue Volatility Reserve Fund created with $1 million transfer from GF to be used for temporary but significant revenue drops to smooth operations support
- One-Time Projects Fund created for one-time expenditures that don't rise to capital level, including retained funds to be used to fund currently unfunded liabilities and includes a committed reserve for 800 MHz project

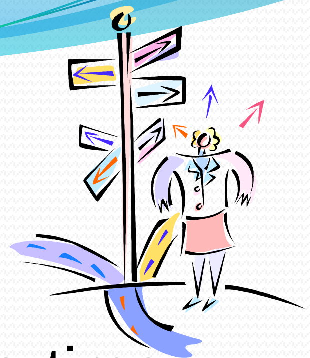
Impact to General Fund

General Fund		
Beginning 7/1/2013	$	14,465,168
Approved transfers to date		
To COR Fund	$	400,000
To OPEB Fund	$	1,500,000
To 800Mhz Fund	$	819,500
to SA Debt Service Fund	$	195,000
Subtotal	$	2,914,500
Additional recommended transfers		
to Emergency Reserves Fund	$	8,870,791
To Economic Development Fund	$	250,000
To Revenue Volatility Reserve	$	1,000,000
to COR or One-Time Projects Fund	$	1,179,877
Subtotal	$	11,300,668
General Fund Balance	**$**	**250,000**

General Fund Revenue Policy

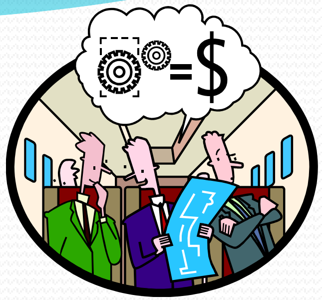
- Part of the Sustainable Financial Plan
- Creates a structure for balancing ongoing operations with longer term one-time needs and investments
- One time monies reserved for one time uses, including annual General Fund surpluses
- A specific percentage (TBD) of total ongoing revenues are to be transferred out to one-time uses as well. One time uses for those transfers could include:
  - COR to maintain the $455,000 annual transfer and provide additional funding that reduces annual contributions in the future
  - Maintain target fund balances in Emergency Reserves Fund or COR
  - Provide for other one time uses in the One-Time Project Fund, including non-capital expenses such as unfunded liabilities
  - Fund the new Revenue Volatility Reserve to its target $1 million level
    - RVR is only one-time money specifically set aside to be used for operations in years with significant ongoing revenue drops which are considered temporary
    - Provides for General Fund smoothing where significant <u>and</u> temporary drops in ongoing General Fund revenue occur

3 Planning Scenarios



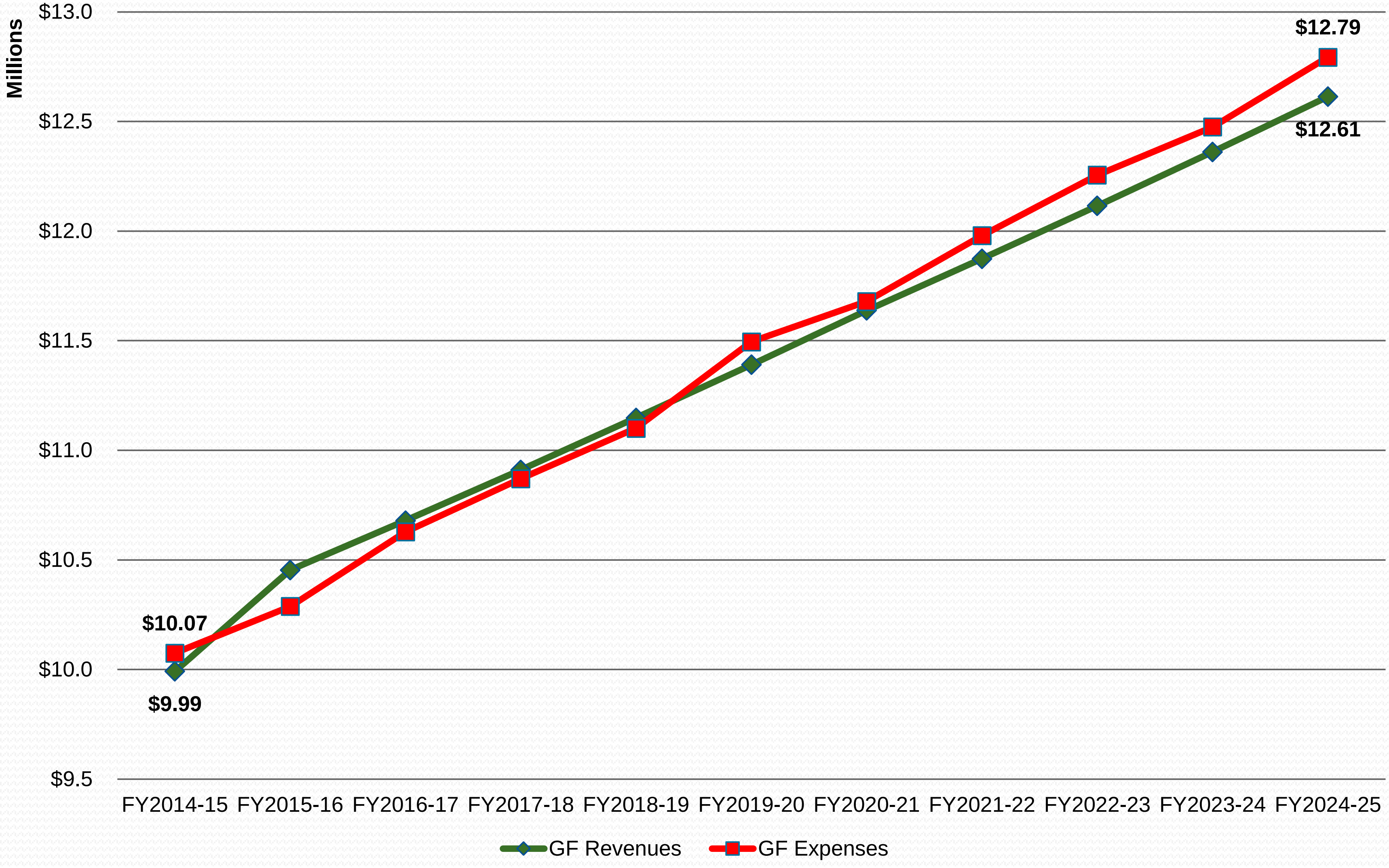
- City Council Direction - Base annual transfers for one-time uses on a specific percent of Tesoro revenue
- Show the impacts of 3 scenarios – transferring out 100% of that revenue, 75% or 50%
- Revenue Policy converts this to 3 percentages of total ongoing revenue to protect sales tax confidentiality. Converts to @ 12.8%, 9.6% and 6.4% of total GF ongoing revenue
- Show a staff recommended action plan addressing the impacts for each of the 3 scenarios (sustainable plan)
- Action Plans are combinations of the 4 R's strategies – revised operations, reductions in services, revenue increases, and use of reserves, especially for one-time costs with long term savings

Scenario 6.4%



- 6.4% of annual ongoing General Fund revenue is transferred out of the GF each year for one-time uses (= $639,470 in 2014-15; leaving $9,352,254 for operations)
- $455,000 must be transferred to COR each year to provide full funding throughout the period and result in a $2 million fund balance at the end of the period
- Leaves $184,470 remaining for other one-time uses, including retaining target fund balance in the Emergency Reserves Fund

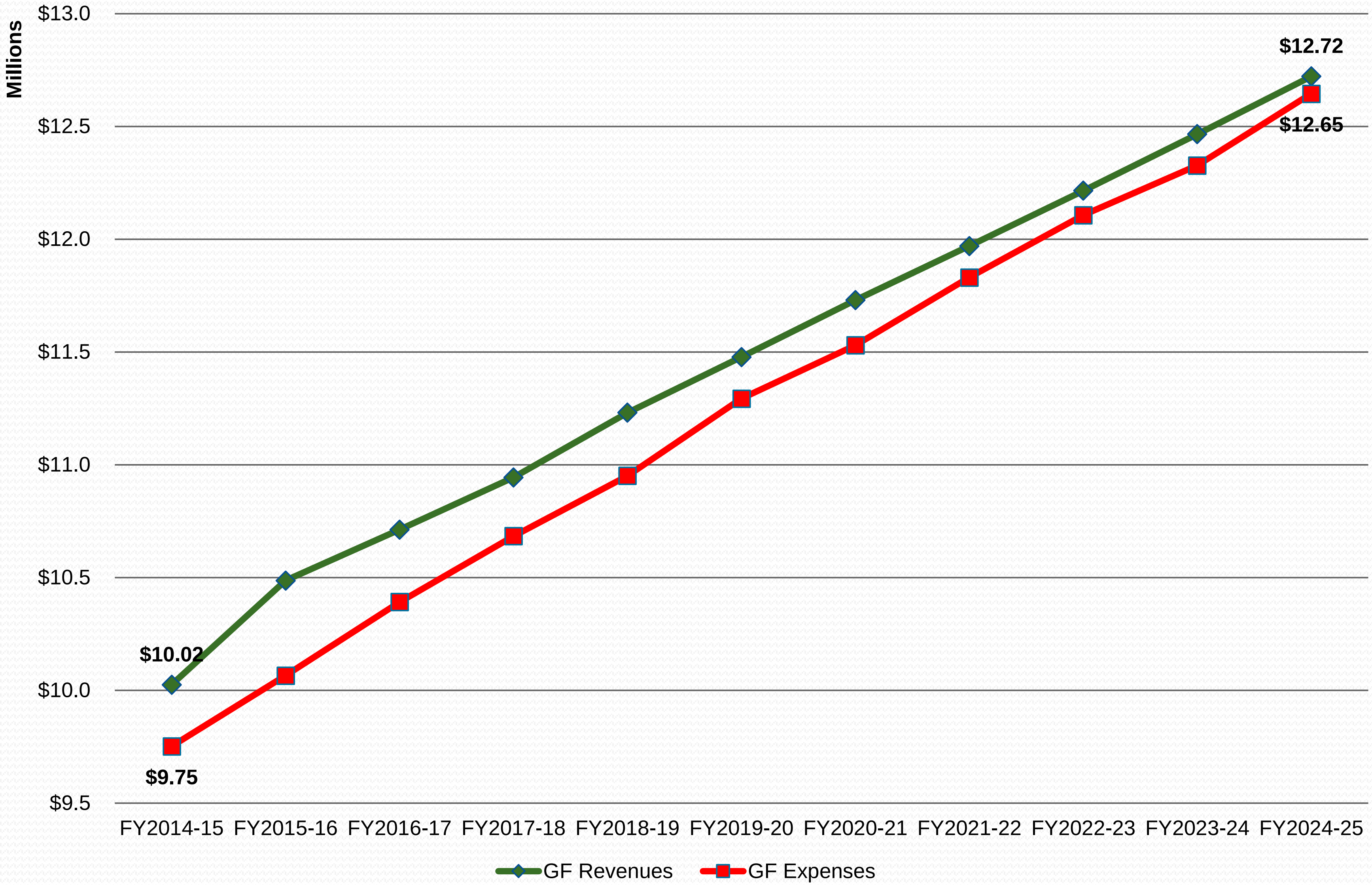
General Fund Projected Revenues & Expenditures
Transfer 6.4% of Revenues



6.4% Action Plan

- Revise the 60%/40% emergency reserves target to current dollar value and retain that dollar value (do not increase as expenditures rise) – frees up over $3 million for other one-time uses/needs over the 11 years and reduces the need for more revenue from the General Fund
- Include projected revenue for HUB lease - $50,000 to $62,000 estimated per year starting in year 5
- Assume one-time needs above the 6.4% transfer level will be funded through grants, financing or delay of projects and not additional $ transfers
- Reinstitute the half time Parking Enforcement Officer for a net revenue gain of $33,000 per year
- Hire or contract for a half time citywide Grants Coordinator with first year funding coming from the One-Time Projects Fund and funding in the future if sufficient additional revenues are generated (i.e. pays for itself or is eliminated)
- Assume Police restructuring to save $155,000 annually from a variety of changes (not fully determined) including not funding one FTE
- Adopt a Compensation Policy consistent with sustainable operations

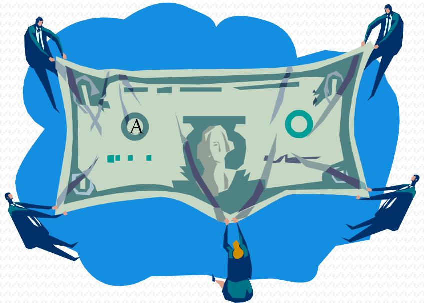
General Fund Projected Revenues & Expenditures
Transfer 6.4% of Revenues with Financial Plan



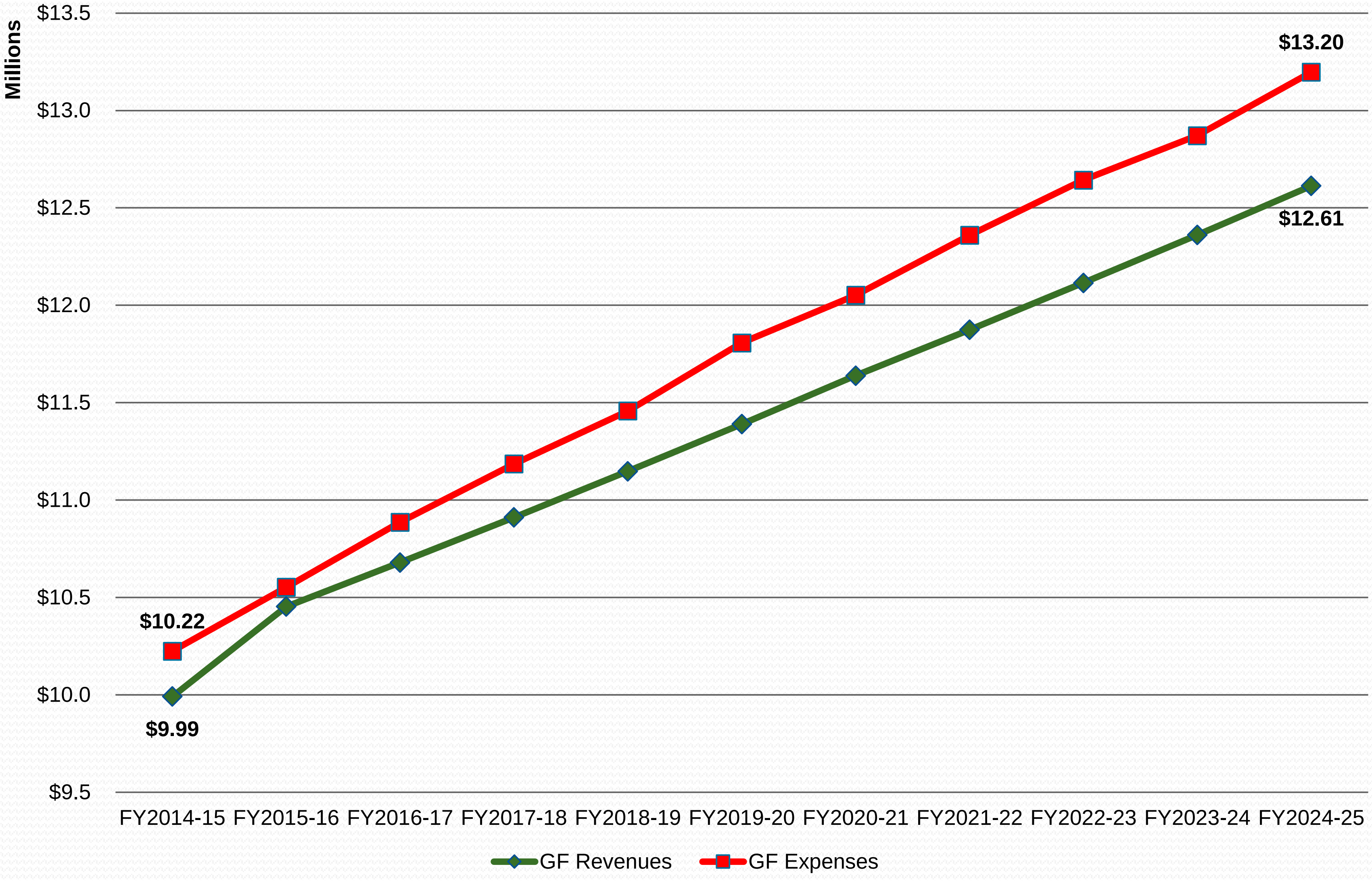
Scenario 9.6%

- 9.6% of annual ongoing General Fund revenue is transferred out of the GF for one-time uses

  (= $959,206 in 2014-15; leaving $9,032,518 for operations)
- $455,000 must be transferred to COR each year to provide full funding throughout the period and result in a $2 million fund balance at the end of the period
- Leaves $504,206 remaining for other one-time uses



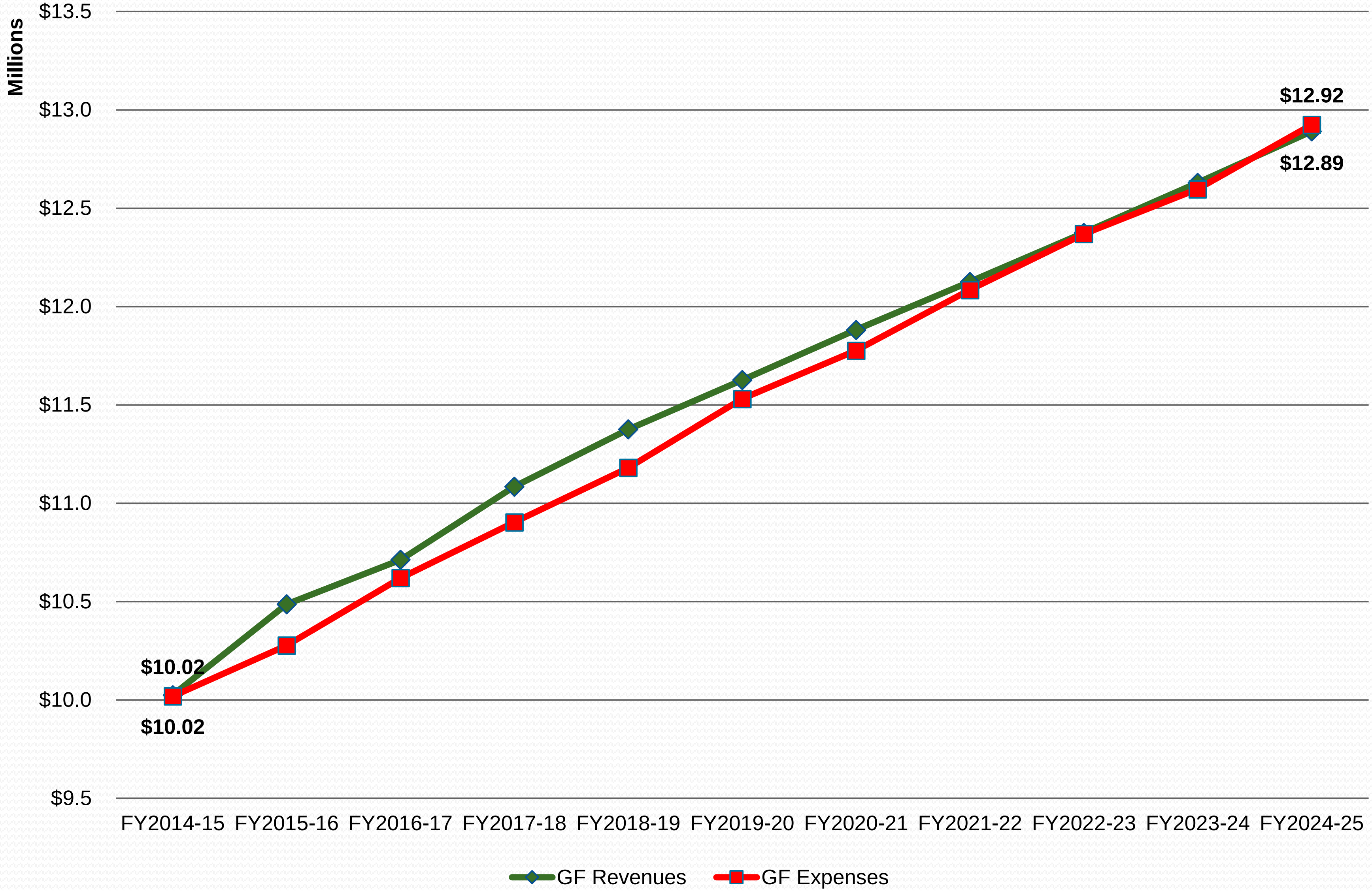
General Fund Projected Revenues & Expenditures
Transfer 9.6% of Revenues



9.6% Action Plan

- Everything in the 6.4% action plan plus:
  - Additional Police restructuring for an additional $40,000 in annual savings – eliminates PIY program and reduces crime prevention resources
  - Fit N Fun reduced from 3 to 2 days per week, or create fee support for the free program of equal value - $6,000 per year
  - Eliminate membership in ACC-OC - $7,800 per year
  - Contract for Police dispatch - $90,000 annually, plus $150,000 one-time savings
  - 2016 ballot measure to modernize the UUT. Account for new technologies which increases the base; eliminate the exemption for businesses generating $25,000 or more in sales tax - $115,000 annually from modernization (assumes no rate change) and $26,000 from eliminating the exemption. Also stabilizes UUT revenues for the future.

General Fund Projected Revenues & Expenditures
Transfer 9.6% of Revenues with Financial Plan



Scenario 12.8%

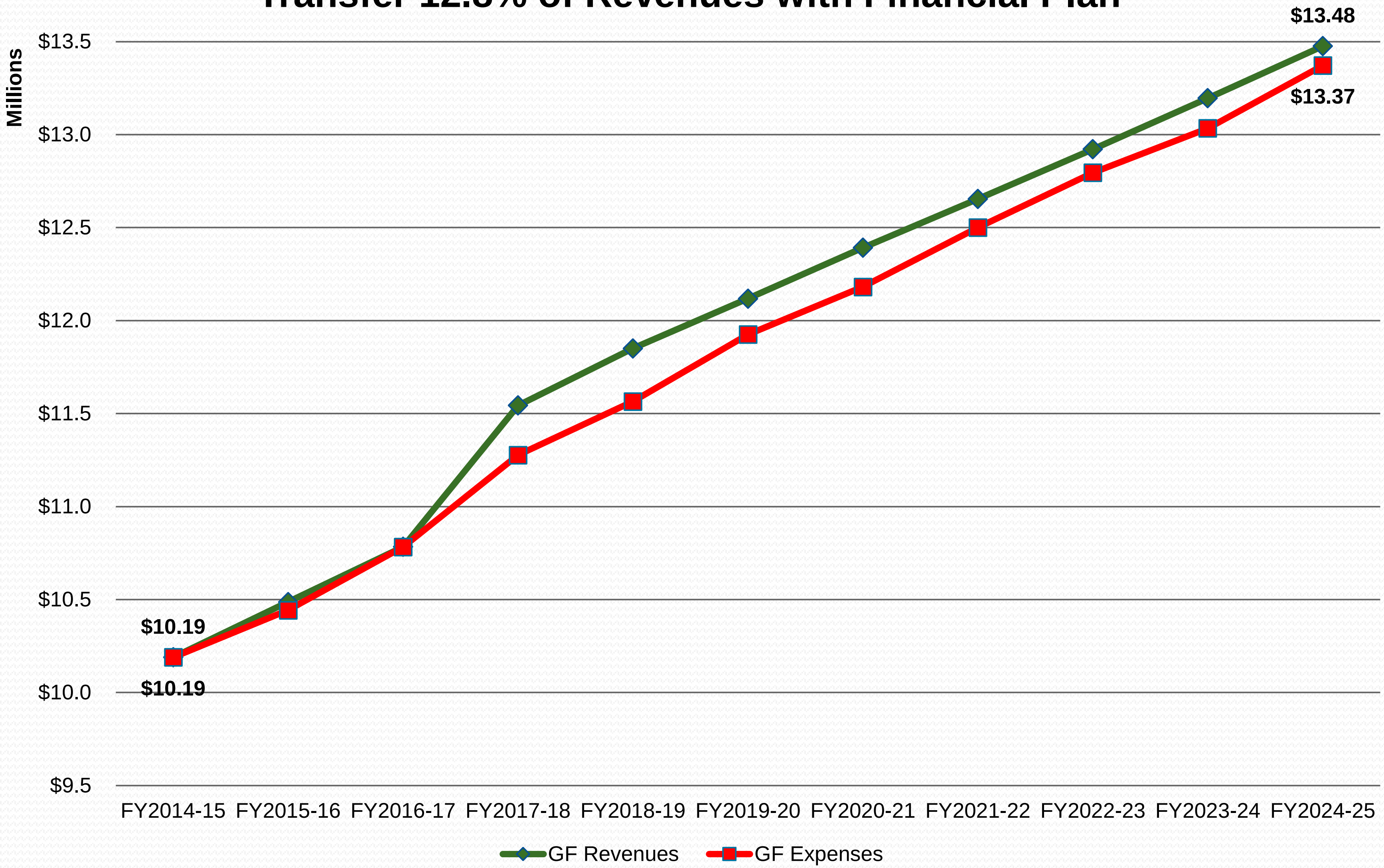
- 12.8% of annual ongoing General Fund revenue is transferred out of the GF for one-time uses = $1,278,941 in 2014-15; leaving $8,712,783 for operations
- $455,000 must be transferred to COR each year to provide full funding throughout the period and result in a $2 million fund balance at the end of the period
- Leaves $823,941 in 2014-15 remaining for other one-time uses

General Fund Projected Revenues & Expenditures
Transfer 12.8% of Revenues

12.8% Action Plan

- Everything in the 9.6% action plan except for the UUT ballot measure plus:
  - Retain any budget surplus in first three years to be used in the remaining years rather than transfer for one-time use
  - Eliminate or fully fee support Fit N Fun for annual savings of $46,000
  - Use $110,000 from the new Revenue Volatility Reserve each of the first 3 years to bridge to revenue measure funding
  - Five 8-hour furlough days for all employees (includes shift workers) for each of the first three years to bridge to the revenue ballot measure funding for savings of $110,000 each year
  - 2016 ballot measure to create a parcel tax to support law enforcement ($600,000 per year in new revenue)
  - If the parcel tax measure does not pass, contract police services for an estimated $1 million annual savings

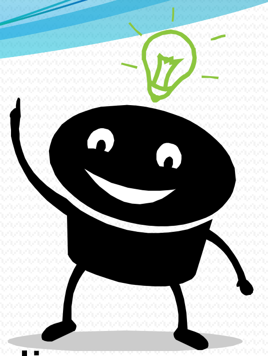
General Fund Projected Revenues & Expenditures Transfer 12.8% of Revenues with Financial Plan



Staff Recommendation

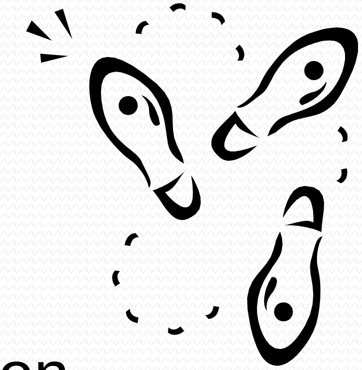
- Scenario 6.4% and accompanying Action Plan
- Finalize Financial Plan and Revenue Policy based on that
- Begin development of the proposed budget based on that
- Conduct public outreach on the Plan and update website to prepare for 2014-15 budget process
- Update Plan and Policy annually
- Continuously improve operations, service quality to improve estimates (ex. energy investments to lower costs are not included in any scenario)

We Will Continue To…



- Maintain a sustainably-sized organization properly staffed to deliver desired services in an efficient and effective manner
- Continue to review programs and services to validate their relevance
- Periodically review cost savings of outsourcing, insourcing or privatizing current City operations
- Review opportunities for using one-time monies to create long term cost savings. Ex. Purchase of street lights, energy conservation projects, buy down unfunded liability
- Continue review of water and sewer rates to insure they meet operating and capital requirements
- Develop and fund a cost effective economic development program
- In the future, consider bundling large capital projects and financing them on a tax exempt basis
- Consider pre-designing projects to take advantage of future funding opportunities such as economic stimulus programs

Next Steps



- March 18 introduction of Energy Assessment
- March 18 discussion of 10 year Capital Projection
- April 1 Council discussion of 5 year CIP
- April 1 Financial Enterprise, Code Enforcement & Business License Software
- April 15 Budget Work Session – Draft Budget, Revenue/Expenditure updates, Fees Resolution, CIP
- April 15 Energy Assessment Recommendation
- April 15 Police Restructuring
- May 6 Proposed Budget introduction
- May 20 Budget Hearing and Carryovers
- June 3 Budget Adoption

Questions, Discussion, Insights