City of El Segundo
City Council Budget Study Session

July 17, 2019 – 2nd Budget Study Session
Planning & Building Safety

Professional Technical Services:

- +$90,000 (one time money) – to maintain level of service. Back fill – design, process and implement new permit system.
- + $25,000 per year – take over - Police dept plan review and inspection functions.
Public Works Department Budget Discussions

Personnel Budget Proposals:
• Administrative Specialist (Water Division/Enterprise Fund) – increase P/T 30 hours to F/T 40 hours per week to meet daily service demands.
• May request additional funding for consultant firm and outreach/education needs to address CalRecycle’s Solid Waste Compliance Order and new Solid Waste Ordinance requirements.

Operational Budget:
• Savings of ~$30,000/year due to new EDCO contract and Prop 218 revenues
• New request to add $35,000 for Aquatics Center supplies and $10,000 for facilities maintenance supplies and contracting.
• Net reduction in PW General Fund budget of 9.7%
Public Works Department
Vacant General Fund Positions

• Street Maintenance Worker
  ▪ Vacancy due to resignation. Recommend filling to maintain current service levels.

• Facilities System Mechanic
  ▪ Vacancy due to promotion. Internal recruitment completed and expected to be filled in August. Recommend filling to maintain current service levels.

• Senior Engineering Associate
  ▪ Vacancy due to resignation. Recommend filling to maintain CIP delivery capacity, especially in light of the facilities capital improvement program needs as determined by the Citywide Facilities Condition Assessment. Unsuccessful open recruitment completed in March. Hopeful that the new compensation package will result in a quality hire.

• Public Works Inspector
  ▪ Vacancy due to resignation. Recommend filling, as current Engineering Technician has been doing double-duty and conducting inspections in the public right-of-way on non-CIP work. Unsuccessful open recruitment completed last November. Hiring environment is extremely competitive in the construction industry.

• Part-Time Custodian
  ▪ Vacancy due to promotion. Recommend filling to maintain service levels. Responsible for the Public Works Water Plant and City Yard and provides necessary backup resources for custodial and light-maintenance duties after hours at other facilities. One part-time position was eliminated years ago.
• Overview of the 3-year CIP model
Value of Forecasting
The Next Recession

- **CA Legislative Analyst** – review of FY19-20 State Budget includes “recession scenario” starting 3Q20, based on the “moderate” recession scenario of Moody’s Analytics

- **UCLA Anderson School of Management** – in March 2019 anticipated a slowing of national economy: “signs of its weakening will likely be everywhere by year’s end”

- **Business Economists** – 77% polled in February 2019 saw a recession starting by the end of 2021: by 2019 (10%), 2020 (42%), 2021 (25%), 2022 or later (23%)

- **Inverted Yield Curve** – past 7 recessions occurred after a full inversion of the yield curve (short-term yields higher than long-term), which occurred in March 2019 (the first since the Great Recession)

- **JPMorgan Chase** – in June predicted 45% chance of recession in 2020 (up from 20% at beginning of 2018)
• Recessions have occurred an average of every 6.8 years since 1927 so we may be overdue; budget impacts often lag official recessions

• Recession causes vary but key issues are timing and magnitude

• Impacts estimated using CA State Controller data on city taxes, permits/licenses
CAFR – looks backward and data late
- CAFR not always clear on factors contributing to fiscal distress (e.g. labor impacts, contingent liabilities)
- Shortfalls may not be evident due to aggregating funds, uncollectible receivables or loans
- Cash may look adequate because of sweeping resources from other funds and past cuts that are unsustainable long-term

Budget – looks forward but short-term
- Doesn’t reflect long-term trends from growing obligations (labor, debt, retiree medical, pension, deferred maintenance)
- Need longer-term perspective and ability to model alternate outcomes
Other Financial Planning Tools

- **ICMA’s “Financial Trend Monitoring System”**
  - Measures indicators that ICMA, credit rating agencies and others cite as most relevant in determining the financial condition of local governments

- **GFOA’s Long-Term Financial Planning Recommendations**
  - Best Practices include forecasting; “Fiscal First Aid”

- **“Financial Diagnostic Tool” (Michael Coleman, League of California Cities)**
  - 14-point report card that grades the near-term financial health of agency’s General Fund and other operations, including financial health indicators

- **Prepare long-range forecast model tailored to agency’s specific needs**
Long-Term Financial Planning is a GFOA Best Practice

- **Why is regular long-term financial planning important?**
  - To determine financial position and condition
  - To build the case for action
  - To develop a mix of strategies
  - To build trust with citizens
  - To comply with rating agency expectations

- **Pillars of a sound long-term financial planning process**
  - Long-term service vision
  - Financial policies
  - Accurate and credible analysis
  - Collaborative process
  - Connection to other plans

Source: GFOA website
Other Practical Advantages of Long-Range Forecasting

- **Fiscal Discipline** – realistic forecasting precludes wishful thinking about capacity for revenue growth to solve all problems
- **Credibility** – provides empirical basis for delivering bad (or good) budget news
- **Early Warning** – helps avoid crisis mode – time is your friend!
- **Promotes Sustainability** – identifies long-term impacts of policy decisions; encourages sustainable solutions rather than short-term fixes typically the focus of one or two-year budgets
- **Dynamic Process** – continuously update with new information (“the numbers never sleep”)
Building a Forecast Model
The Role of the Forecast Model

• **Long-Range Forecast**
  ▪ Identifies demand on resources over long-term (10-20 years), under given set of assumptions
    • Facilitates development of budget parameters
    • Not a replacement for budget, which sets detailed spending priorities

• **Forecast Model**
  ▪ Valuable tool for preparing forecasts – spreadsheet on steroids
    • Quickly produce alternate forecasts and “what-if” scenarios
    • Cost out labor negotiating proposals consistent with budget forecast
    • Flexible enough to use on-the-fly in public meetings
Forecasting Process

1. **Identify Factors Driving Forecast**
   - Pressures on agency revenues and spending levels

2. **Create Baseline Forecast**
   - Long-term projections under current service levels with reasonable growth assumptions and known increases, before corrective actions

3. **Test Alternative Outcomes**
   - Optimistic and pessimistic revenue scenarios, including recession
   - Build in costs that should be in baseline budget but aren’t (ISF, reserves, deferred maintenance) to make current level of service sustainable over time
   - Service level increases (tied to agency priorities/goals)

4. **Recommend Policies and Corrective Actions**
   - Impact of spending cut or revenue increase options needed to balance forecast
Budget Model Building Blocks

- Property Tax: Prop 13 inflator, Prop 8 recovery, transfers impact, new construction
- Sales Tax: growth by business sector
- Other Revenues: individual growth rates
- Recession: timing, cycle, magnitude of loss by revenue source, recovery period
- CAFR: available balance and assigned reserves

- Position Control & Costs by Fund/Unit
- Staffing Levels/Growth
- Salary COLAs
- Inflation
- Vacancy Savings
- Net Merit/Turnover Savings
- Pension: Normal Cost Rates & UAL
- Pension Discount Rate
- Health/OPEB Increase
- Capital Spending
- Expenditure Adds/Cuts
Data Hiding in Plain Sight

- **Historical revenues, expenditures, fund balances**
  - Source: CAFR, accounting system
- **Personnel projections** (position control, labor MOUs, PERS pickup/sharing)
  - Source: HR or Payroll
- **Pension rate forecast/actuarial valuation**
  - Source: CalPERS website
- **Major revenues** (property, sales, UUT/franchises)
  - Source: County, tax audit firm, Finance
- **Development forecast** (projects in pipeline)
  - Source: Community Development/Planning/Building
- **Potential unmet needs** (ISF, deferred maintenance, capital projects)
  - Source: Finance, Public Works, City Manager
## Alternative Forecast Outcomes

<table>
<thead>
<tr>
<th>Potential Outcomes that Would Improve Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Higher employee vacancy rates (more vacant positions and/or vacancies for longer periods of time)</td>
</tr>
<tr>
<td>• Delayed or weaker recessions</td>
</tr>
<tr>
<td>• PERS investment gains</td>
</tr>
<tr>
<td>• Local tax increase enacted with voter approval</td>
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<tr>
<td>• Stronger economic development than already included in forecast (but City cannot grow its way out of major structural shortfalls)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential Outcomes that Would Worsen Forecast</th>
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<tr>
<td>• PERS investment losses or additional discount rate cuts</td>
</tr>
<tr>
<td>• Weaker revenue growth or more severe recession losses</td>
</tr>
<tr>
<td>• Higher annual COLAs approved than the 2% in forecast</td>
</tr>
<tr>
<td>• Staffing level increases</td>
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<tr>
<td>• Higher capital costs</td>
</tr>
<tr>
<td>• Extreme events</td>
</tr>
</tbody>
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Upcoming Financial Decisions for FY 2019-20

✓ Continuing to allocate dollars for CalPERS unfunded liability and the pension trust
✓ Review of current business model for water and wastewater (sewer)
✓ Annual review of cost recovery policy and update the master fee study by CPI
✓ Negotiations with TopGolf
✓ Prioritizing and funding implementation of new technology
✓ Land use discussions
✓ Adoption of three-year CIP and infrastructure financing
✓ Support ongoing employee engagement program
✓ Update the code for Business License Tax and possible ballot measure
✓ Ongoing labor negotiations with two labor groups
## Estimated FY 2019 – 2020 Fund Balance

### GENERAL FUND

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Unassigned Fund Balance at October 1, 2018</strong> (based on FY 2017-18 audited CAFR)</td>
<td><strong>$21,064,124</strong></td>
</tr>
<tr>
<td>Plus revised year-end estimated revenues for FY 2018-19</td>
<td>75,472,984</td>
</tr>
<tr>
<td>Less revised estimated year-end expenditures for FY 2018-19 (includes transfers out)</td>
<td>(78,390,000)</td>
</tr>
<tr>
<td><strong>Beginning Fund Balance at October 1, 2019</strong></td>
<td>18,147,108</td>
</tr>
<tr>
<td>Plus estimated revenues for FY 2019-20</td>
<td>76,648,000</td>
</tr>
<tr>
<td>Less estimated expenditures for FY 2019-20</td>
<td>(76,637,574)</td>
</tr>
<tr>
<td><strong>Estimated Ending Unassigned Fund Balance at September 30, 2020</strong></td>
<td>18,157,534</td>
</tr>
<tr>
<td><strong>Required reserve of 19% per City Council fund balance policy</strong></td>
<td>14,561,139</td>
</tr>
<tr>
<td><strong>Over/(Under) reserve policy at September 30, 2020 (Undesignated Reserves)</strong></td>
<td><strong>$3,596,395</strong></td>
</tr>
</tbody>
</table>
Proposed GF Reserves for FY 2019 – 2020

Reserve Assumptions

- General Fund Reserve
  - Council’s Policy is to reach 20% of General Fund expenditures
  - Currently at 19%, or $13.7M in FY 2018-19
  - Staff is recommending to maintain the current reserve level of 19% in FY 2019-20
    - 19% = $14.6M (Staff recommendation)
    - Alternative of 20% = $15.3M
    - Alternative of 18% = $13.8M
    - Alternative of 17% = $13.0M
## Preliminary FY 2019-20 General Fund Reserve Policy Options

<table>
<thead>
<tr>
<th></th>
<th><strong>Option #1</strong> (Recommended)</th>
<th><strong>Option #2</strong></th>
<th><strong>Option #3</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>19% of Expenditures</strong></td>
<td>$18,147,108</td>
<td>$18,147,108</td>
<td>$18,147,108</td>
</tr>
<tr>
<td><strong>Beginning Fund Balance at 10/1/2019</strong></td>
<td>$18,147,108</td>
<td>$18,147,108</td>
<td>$18,147,108</td>
</tr>
<tr>
<td><strong>Projected Revenue</strong></td>
<td>$76,648,000</td>
<td>$76,648,000</td>
<td>$76,648,000</td>
</tr>
<tr>
<td><strong>Projected Expenditures</strong></td>
<td>76,637,574</td>
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</tr>
<tr>
<td><strong>Net +/-</strong></td>
<td>$10,426</td>
<td>$10,426</td>
<td>$10,426</td>
</tr>
<tr>
<td><strong>Ending Fund Balance at 9/30/2020</strong></td>
<td>$18,157,534</td>
<td>$18,157,534</td>
<td>$18,157,534</td>
</tr>
<tr>
<td><strong>Designated Reserve Requirement</strong></td>
<td>14,561,139</td>
<td>13,794,763</td>
<td>13,028,388</td>
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<tr>
<td><strong>Undesignated GF reserves</strong></td>
<td>$3,596,395</td>
<td>$4,362,771</td>
<td>$5,129,146</td>
</tr>
</tbody>
</table>
Feedback from Council on Allocating Undesignated General Fund Reserves

~$3.6 - $5.1M Million Available

- Capital & Facility Improvements
- Department Requests
- Employee Engagement
- Payment to section 115 Pension Trust Fund
  Pay down CalPERS unfunded pension liabilities
Additional Fiscal Policy Discussions

• Actively manage vacancies to help address deficits
• Continue Economic Development efforts
• Implementation of technology resulting in greater operational efficiencies
• Whether to seek new revenue sources and reevaluate existing revenue sources in subsequent years
  - Parking Tax, Business License Tax revision, UUT revision, Business Improvement Districts (BIDs), Landscape Improvement Districts (LMDs), City specific Property Transfer Tax, Local Use & Transaction Tax for Public Safety and/or Infrastructure
Next Steps on the Budget

• Prepare budget based on Council feedback from the Strategic Planning Session and two Budget Study Sessions (June and July)
• Present the City-wide proposed budget on August 20th
• September 3rd Public Hearing & Budget adoption