General Fund Five Year Fiscal Analysis and Long-Term Financial Plan: 2024-29

GENERAL FISCAL OUTLOOK AND KEY ASSUMPTIONS

September 2023

124 Cerro Romauldo Avenue
San Luis Obispo, CA 93405
805.544.5838 ■ Cell: 805.459.6326
bstatler@pacbell.net
www.bstatler.com

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

General Fiscal Outlook and Key Assumptions: 2024-2029

TABLE OF CONTENTS

General Fiscal Outlook and Key Assumptions

OVERVIEW

On November 1, 2023, the City will receive a General Fund five-year analysis and long-term financial plan (Plan) at a joint meeting of the Council and Finance Commission that assesses the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services, address long-term liabilities and achieve capital improvement plan (CIP) goals. If the forecast projects a negative gap between revenues and expenditures, the Plan will identify realistic options for the City's consideration in closing the gap.

The purpose of this "General Fiscal Outlook and Key Assumptions" is to preface the Plan with an outline of the key factors that are likely to affect the City's fiscal future, which will ultimately translate into key assumptions that drive forecast results. These include the following eight factors that are likely to shape the City's fiscal outlook over the next five years:

- General economic trends and outlook
- State budget situation
- Current financial condition
- Key revenue trends and assumptions
- Operating cost drivers, including unfunded liabilities for pensions and retiree health; insurance costs; and "operating budget "base." This section will address "balanced budget" concerns.
- General Fund subsidies
- Population growth and development
- Capital improvement plan (CIP)

BACKGROUND

Like virtually all other local governments in California, the City has been faced with major fiscal challenges over the past several years in the wake of the "Great Recession" and Covid-19.

Making good resource decisions in the short term as part of the budget process requires taking into account their impact on the City's fiscal condition down the road. Developing good solutions requires knowing the size of the problem the City is trying to solve: in short, the City cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead has the strong potential to misstate the size and nature of the fiscal challenges ahead of the City, especially when considering CIP goals and long-term liabilities such as pension obligations and retiree health care.

For those local agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer-term outlook; more closely define the size and duration of the fiscal challenges facing them; and then make better decisions accordingly for both the short and long run. This will be true for the City as well.

***It is important to stress that the forecast is not the budget*.**

General Fiscal Outlook and Key Assumptions

Budgets are based on program review, priorities and affordability, whereas the upcoming forecast and financial plan are based on assumptions. Accordingly, it doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the General Fund's ability to continue current service levels, address unfunded liabilities and achieve CIP goals.

> ***Can the City Afford New Initiatives?***
>
> **This is a basic question of priorities, not of financial capacity. But the forecast will help assess how difficult answering this question will be.**

Ultimately, the forecast cannot answer the question: "Can the City afford new initiatives and achieve CIP goals?" This is a basic question of priorities, not of financial capacity per se. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources. And by identifying and analyzing key factors affecting the City's long-term fiscal health, the Plan can help assess how difficult making these priority decisions will be. Stated simply, the forecast is not the budget. Rather, it sets forth the challenges ahead of the City in taking the actions needed to adopt a balanced budget – next year and beyond, while meeting community needs for essential day-to-day services as well as facility and infrastructure maintenance and improvements.

❶ GENERAL ECONOMIC TRENDS AND OUTLOOK

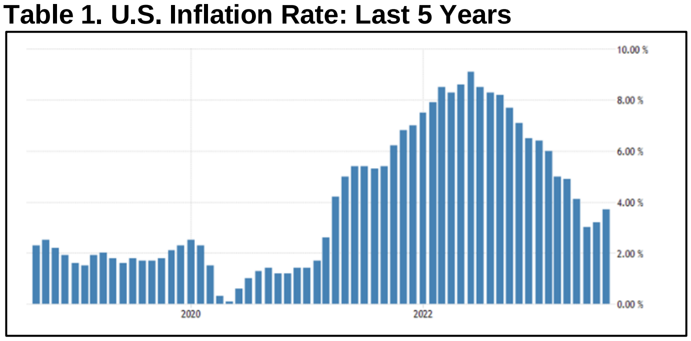
Where is the Recession?

The shut-down of the economy in the public health response to Covid-19 was immediate and severe, especially impacting employment and retail sales. However, even with continued peaks and valleys in some cases, the economy has seen significant improvements over the past two years in spite of rises in inflation.

With the Federal Reserve (Fed) raising its prime interest rate in combatting inflation, the general economist's consensus has been that we would experience a recession in responding to reduced demand. However, it appears that the hopeful "soft landing" is happening.

Taming Rising Inflation. While initially believed to be short-term by many leading economists, inflation peaked at an annual rate of 9.1% in May 2022 (the highest rate in forty years), following long-term trends of about 2% before Covid-19. This was largely due to high demand (bottled up during Covid-19) for limited supplies arising from supply chain shortages; and surging gasoline prices with limited supplies from the war in Ukraine. This in turn resulted in increasing interest rates by the Fed in

Table 1. U.S. Inflation Rate: Last 5 Years

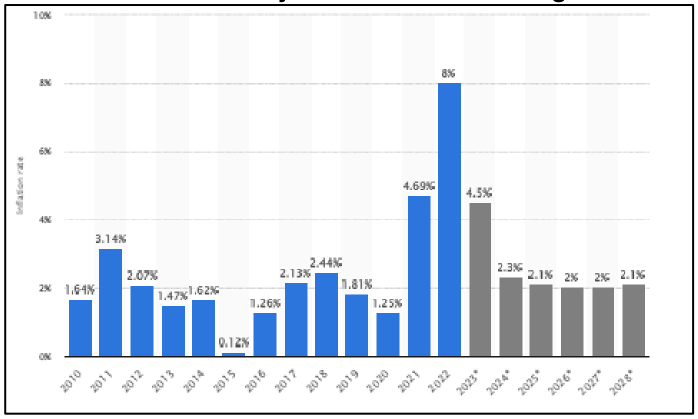


Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com addressing this. However, the rate has steadily declined, following to between 3.0% and 3.7% in the last three months (through August 2023).

Where is this headed? Many economists predict continuing declines. For example, Statista projects that inflation will decline to pre-Covid-19 levels of about 2% by 2024.

While the Fed continues to be concerned about inflation and is committed to returning to its target annual rate of 2%. However, after 11 hikes since March 2022, the Fed held the federal fund rates from its last meeting July 2023.

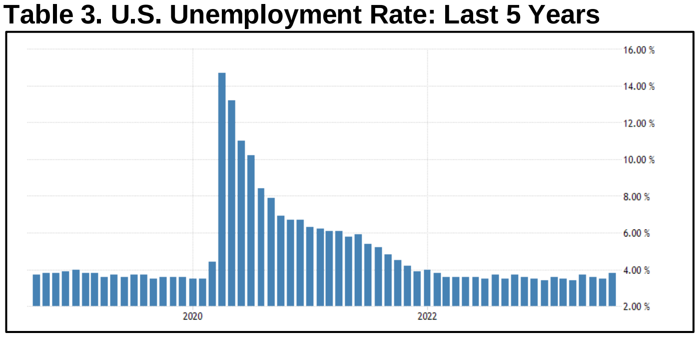
Table 2. Statistica Projected Inflation Through 2028



Source: Statistica.Com

U.S. Unemployment. Table 3 shows an immediate increase in the U.S. unemployment rate following the Covid-19 outbreak. At its peak (14.8% in April 2020), it exceeded the impact of the Great Recession (10.0% in October 2009). Since then, it has declined significantly, ranging from 3.4% to 3.8% in the last 19 months. This is the lowest consecutive rate since the 1960s. In short, while the increase in unemployment was steep, so was its decline.

Table 3. U.S. Unemployment Rate: Last 5 Years

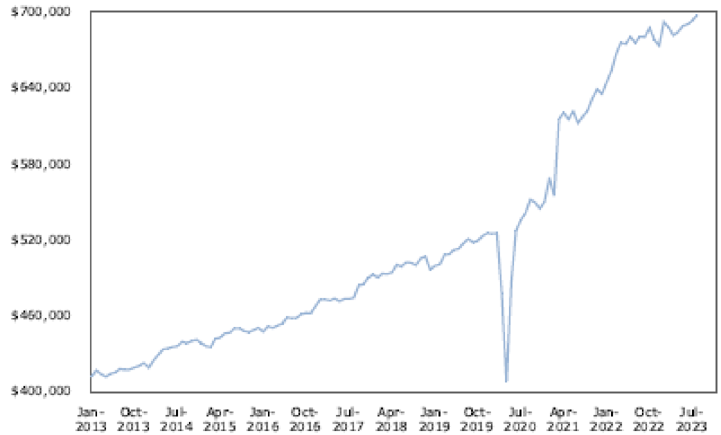


Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com

U.S. Retail Sales. Trends in retail sales tell a similar story: the sharp drop in retail sales beginning in February 2020 is deeper than the Great Recession; but its recovery from Covid-19 is also faster.

By August 2023, retail sales are at their highest level ever.

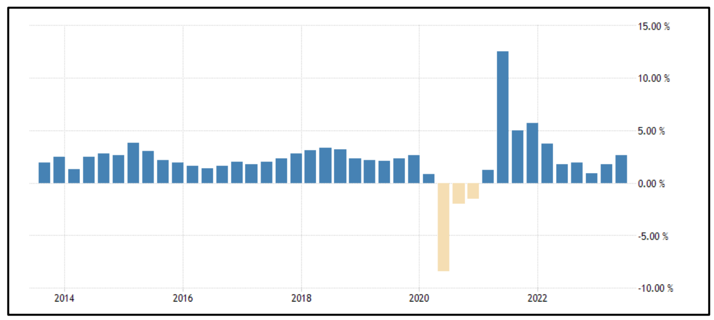
Table 4. U.S. Retail Sales



Source: U.S. Census Bureau

U.S. Gross Domestic Product (GDP). This has also shown consistent recovery since sharp declines during Covid-19. ***In short, where is the recession.***

Table 5. U.S. GDP



Standard & Poors (S&P) 500. As shown in Table 6, the S&P 500 Index (a widely accepted broad measure of stock performance) has been a ride coaster ride lately. However, it strongly recovered from its lowest point following Covid-19 impacts.

- Its peak before Covid-19 was 3,380.
- It fell to its lowest point of 2,305 in March 2020, increasing to its peak of 4,766 in December 2021.
- Mixed results since then.

However, at 4,320 as of September 22, 2023, it is still up by 28% since its pre-Covid peak.

Table 6. S&P 500 Index: Last 5 Years

General Fiscal Outlook and Key Assumptions

Where We're Headed. I won't pretend to have a better crystal ball or secret sauce than anyone else when it comes to predicting the direction of the national or state economy, especially given Covid-19 uncertainties and its impact on the recovery. That said, most economists foresee continued strengthening of the economy. The Congressional Budget Office (non-partisan and widely accepted, credible source) projects nominal (unadjusted for inflation) GDP growth rates of 3.8% in 2023, 3.9% in 2024 and 4.5% in 2025.

> **The long awaited recession in 2023 is postponed, and perhaps even cancelled.**
>
> **California Economic Forecast**
> **https://californiaforecast.com/september-2023**

How does this impact the City? The top three General Fund revenues – property tax, sales tax and utility users tax (UUT) are the top revenue generators, and are driven by the performance of the local economy – which in turn is driven by the interrelated performance of regional, state and national economies.

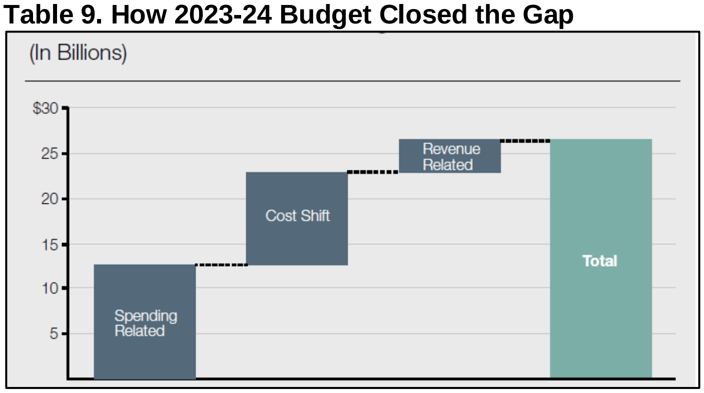
The forecast revenue and cost drivers reflect cautious optimism that these positive trends will continue.

❷ STATE BUDGET SITUATION

Over the past thirty five years, the greatest fiscal threat to cities in California has not been economic downturns, dotcom meltdowns, corporate scandals or Covid-19, but rather, State takeaways. These included 20% reductions in property tax revenues in transferring revenues to schools via the Education Revenue Augmentation Fund (which the State used to reduce its funding to schools by a corresponding amount); property tax administration fees; unfunded State mandates; and more recently dissolution of redevelopment agencies. These takeaways were on top of the fiscal challenges facing cities in light of their own revenue declines and cost pressures.

Fortunately, despite Covid-19 impacts, the State until 2023-24 was in its best financial condition in many years. However, for 2023-24, the State was facing a 27.0 billion General Fund gap. As shown in Table 9, the State resolved this gap through a combination of spending cuts, cost shifts and revenue increases.

Table 9. How 2023-24 Budget Closed the Gap



Source: California LAO, 2034 Budget Overview of the Spending Plan

In prior years, local government would have been a "usual suspect" for "cost shifts. However, that was not the case in 2023-24.

Table 10 shows the State with a balanced budget and ending reserves of $27 million. At this point, there are no further takeaways on the horizon (but neither are there any suggested restorations of past takeaways. That said, the next five years is a long time for the State to leave cities alone.

Table 10. 2023-24 State Budget

General Fund Condition Summary
(In Millions)

	2021-22 Revised	2022-23 Revised	2023-24 Enacted
Prior-year fund balance	$40,057	$55,810	$26,352
Revenues and transfers	232,537	205,134	208,688
Expenditures	216,785	234,592	225,928
Ending fund balance	$55,810	$26,352	$9,112
Encumbrances	$5,272	$5,272	$5,272
SFEU balance	**$50,538**	**$21,080**	**$3,840**
Reserves			
BSA	$21,708	$22,252	$22,252
SFEU	50,538	21,080	3,840
Safety net	900	900	900
Total Reserves	**$73,146**	**$44,232**	**$26,992**

SFEU = Special Fund for Economic Uncertainties and BSA = Budget Stabilization Account.

Source: California LAO, 2034 Budget Overview of the Spending Plan

❸ CURRENT FINANCIAL CONDITION

The City has established a clear and prudent General Fund reserve policy that sets the minimum target at an unassigned fund balance of 30% of revenues.

For context, under generally accepted accounting principles (GAAP), General Fund balances are organized into three main categories:

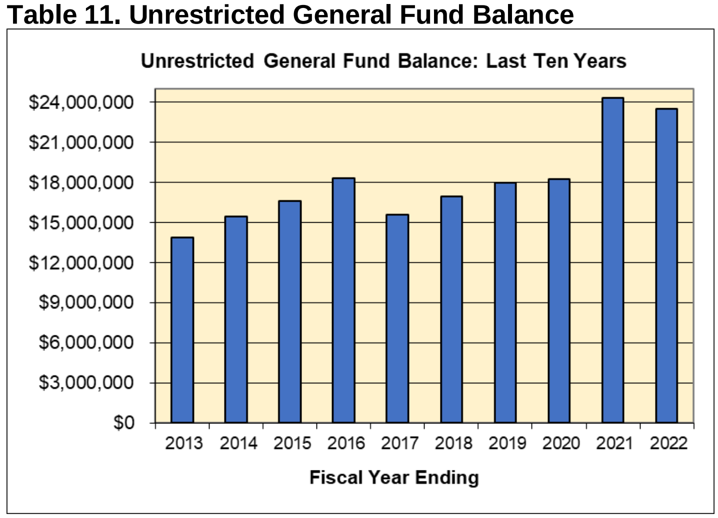
- **Nonspendable.** Not available for appropriation such as prepaid expenses, inventory, long-term advances to other funds.
- **Restricted**. Can only be used for externally restricted purposes and accordingly are not available for discretionary purposes.
- **Unrestricted.** Available for discretionary appropriation and fall into three policy-designated categories: committed, assigned and unassigned.

Since policy determinations of committed and assigned fund balance can change from year-to-year, the best measure of discretionary resource availability is unrestricted fund balance.

Table 11 shows unrestricted General Fund balance for the last ten years through 2020-21 (last completed audit).

As reflected in this chart, the City has maintained very strong balances over the last ten years, well in excess of the 30% target. As a percentage of revenues, they range from 60% (2012-13) to 69% (2015-16).

Table 11. Unrestricted General Fund Balance



General Fiscal Outlook and Key Assumptions

Based on the 2023-24 Budget (see note below), Table 12 shows projected ending fund balance of $22.7 million categorized by Committed/Assigned and Unassigned balance. With projected revenues of $39.6 million, the unassigned balance is 47% of revenues compared with the minimum policy target of 30%. This results in an unassigned fund balance that is $6.6 million above the policy minimum target.

Table 12. 2023-24 Projected Ending Fund Balance

General Fund Balance: June 30, 2034	Amount
Committed/Assigned	
Arroyo Golf Course/Bike Trail	600,000
Caltrans Vacant Lot Purchases	392,000
Legal Reserve	500,000
Library Expansion	200,000
Maintenance Yard/Community Center	267,067
Renewable Energy Sources Reserve	700,000
Financial Sustainability Reserve	900,000
Caltrans 626 Prospective Litigation	305,876
Vehicle Replacement Reserve	100,000
Stables CIP Reserve	62,998
Mental Health Reserve	200,000
Unassigned	18,478,145
Total General Fund Balance: June 30, 2023	$22,706,086

Note: The projected ending fund balance has been adjusted upwards from the 2023-24 Budget by $625,500 to account the General Fund share (58%) of the retro payment of $1,489,285 to the California Joint Powers Insurance Authority (CJPIA). The Budget shows all of this amount being charged to the General Fund. However, three other funds (Water, Sewer and Golf) are allocated 42% of insurance costs, and thus should pay their proportionate share of the retro payment.

Structurally Balanced Budget? Significant concerns surfaced early in this project regarding whether the City's General Fund is "structurally balanced." This can best be measured by the City's Budget policy regarding a balanced budget. Key excerpts are:

> *The City strives to maintain a balanced operating budget for all governmental funds (the General Fund is a "governmental" fund type), with total ongoing revenues equal to or greater than total on-going expenditure …*
>
> *Ongoing operations are funded by recurring revenues.*

With the focus appropriately on operations (all of the balanced budget policies I am familiar with have a similar "operating" focus), implicit in this policy is that beginning fund balance may be used to fund one-time costs and capital outlay.

A surface analysis shows that the 2023-24 is balanced. Projected revenues are $39.6 million and operating expenditures are $39.1 million, a favorable variance $500,000.

However, there are other factors that surface beyond these two measures.

Operating Transfers Out. These are composed of two main components: CIP projects and fund subsidies:

Table 13. Transfers Out

2023-24 General Fund Transfers Out	Amount
CIP Projects	
VoIP Phone System Installation	180,000
CD Permit Management Software	125,000
City/Civic EV Charging System	250,000
Agenda Management System	50,000
City web Site System and Design	60,000
City Hall Storm Water Project	300,000
Arroyo Seco San Rafael and San Pascual Projects	300,000
Library Master Plan	150,000
Total CIP Projects	1,415,000
Fund Subsidies	
Landscape and Lighting Maintenance Fund	774,171
Business Improvement Tax Fund	78,109
Total Fund Subsidies	852,280
Total Transfers Out	$2,267,280

CIP projects are appropriately excluded from operating costs. However, given past experiences, without a plan to reduce or eliminate them, these subsidies should be considered operating costs for the purpose of the balanced budget policy.

Prorated Costs for Vacancies. The City began 2023-24 with significant vacancies: with 135.3 authorized full-time positions in the General Fund, 34 of these were vacant (25%) when the Budget was prepared. (Five of these were new positions; even adjusting for this, this is a 19% vacancy factor.)

To account for recruitment and filling these vacancies, the cost of these positions was prorated from 12 to 4 months depending on the position. This resulted in General Fund costs that are $1.1 million less than if all positions were filled. In arriving at a “baseline” for the forecast, these costs should be added.

Insurance. For 2023-24, the City has budgeted $3.9 million for general liability and workers compensation costs. Based on past trends, this appears to be reasonable going forward. However, as discussed with the Finance Commission on August 24, it does not address the negative Insurance Fund balance of $2.7 million. At 58%, the General Fund’s share is $1.55 million. Since this negative balance is driven by long-term claims that will be paid over many years (the Fund has a positive cash balance is likely to maintain this going forward), City staff propose funding this negative balance over 10 years, for an annual General Fund cost of $155,000. The City’s auditor and actuary concur with this approach.

That said, as the Finance Commission is also aware, the Management Services Department has identified significant costs that have not been applied in the past to the City’s liability self-insurance retention. Based on extensive research, the City has submitted claims to its excess carrier (Prism) of $2.5 million. At this point, it is uncertain how much of this Prism will recognize as its responsibility or when any agreed amounts might be paid. However, keeping this caveat in mind, payment of this amount would almost fully fund the Insurance Fund deficit.

One-Time Costs. In arriving at ongoing costs, one-time costs should be omitted. As shown in Table 14, the 2023-24 Budget contains $1.5 million in one-time costs (about 4% of total operating expenditures).

Table 14. 2023-24 General Fund One-Time Costs

Description	Amount
Caltrans consultant - Civic Stone Jul - Oct 2022	30,464
Network hardware replacement	42,000
Temporary staffing services	25,000
End of live servers: rebuild and migrate to Azure Cloud	80,000
Shared command cehicle	132,500
Tenant protections programs analysis, development & implementation	400,000
Removal of racially restrictive covenants from City-owned properties	100,000
Cultural Heritage Ordinance update	200,000
IHO in-lieu fee study (EPS)	23,000
Ballot measure & height limit study	100,000
GP/DTSP Consultant (Rangwalla)	150,000
TruePoint electronic permit system implementation	151,000
New carpet and paint in teen room	6,000
Furniture for teen room	34,000
New exterior book drops	15,000
Mobile senior tables	4,900
Reception area furniture at Senior Center	4,500
Tables and chairs at War Memorial	2,000
Electrical panel at Garfield Park for events	2,500
Park signage	7,650
Painting of Camp Med	10,500
Total General Fund One-Time Appropriations	**$1,521,014**

Expenditure Savings. On the other hand, even if these positions were filled at the beginning of the year, some level of ongoing cost savings from the budget can be expected; and many cities budget for this. In the City's case, based on past trends, a 1% savings factor is reasonable ($390,000).

"Baseline" 2023-24 Forecast Operating Costs. Table 15 summarizes presents "baseline" operating costs for the forecast. Even with these adjustments, the 2023-24 operating Budget is structurally balanced, with revenues exceeding operating costs by about $300,000.

Table 15. Adjusted "Baseline" Operating Costs

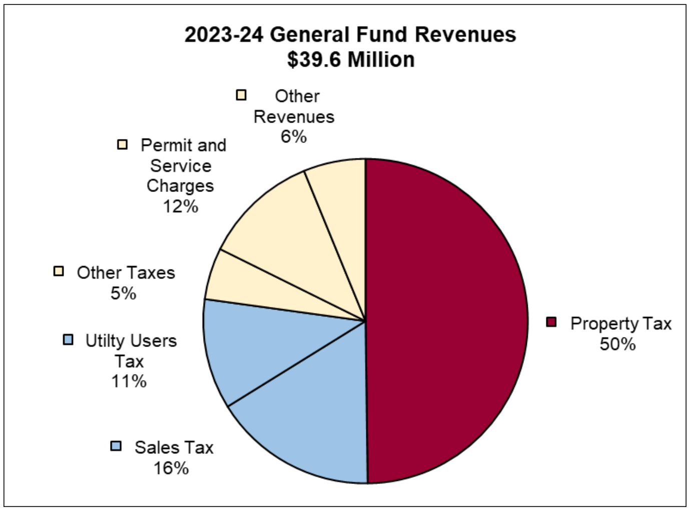
2023-24 Budget Operating Costs	39,147,992
Fund Subsidies	852,280
Prorated Vacancies	1,067,906
Insurance Fund Amortization	155,000
Estimated Expenditure Savings @ 1%	(391,480)
One-Time Costs	(1,521,014)
Total "Baseline" Costs	$39,310,684

❹ KEY REVENUE TRENDS

Top Revenues. As shown in Table 16, three revenues account for about 80% of General Fund revenues.

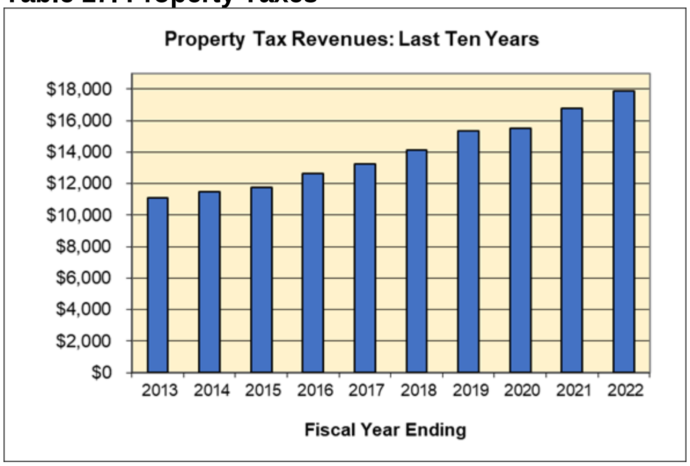
- Property Tax: $19.7 million (50%)
- Sales Tax: $6.5 million (20%)
- Utility Users Tax (UUT) $4.4 million (17%)

Table 16: General Fund Revenues



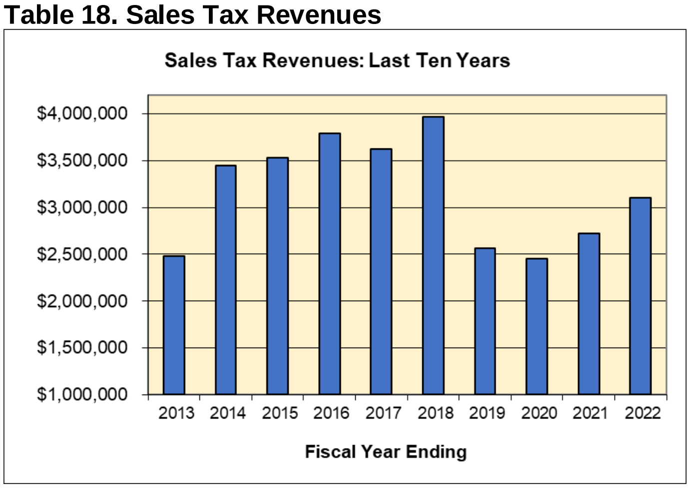
Property Tax Revenues. The State controls the allocation of general purpose property taxes between cities, counties, schools and special districts. Nonetheless, these apportionments have remained stable over the past ten years. As reflected in Table 17, this has been a very stable source of income for the City, growing by 8% in 2020-21 and 7% in 2021-22.

Table 17. Property Taxes



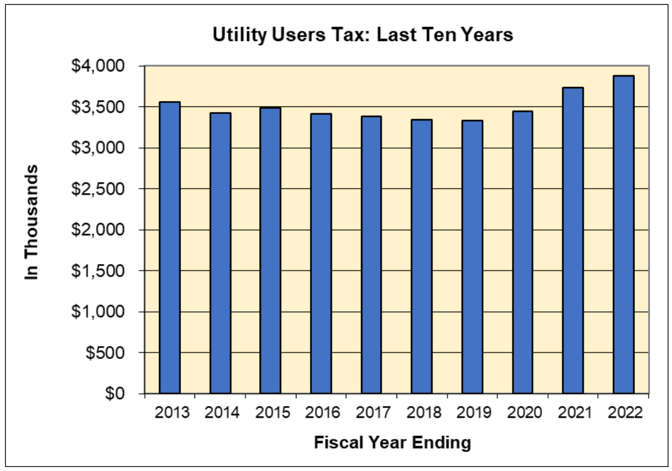
Sales Tax Revenues. Excluding Measure A revenues (which only began to be partially received in 2019-20 and not fully until 2020-21), the last completed audit years show the impact of Covid-19, where revenues plummet from $3.9 million in 2017-18 to $2.4 million in 2019-20 (39% decrease in two years), However, revenues recovered strongly in the next two years, growing by 11% in 2020-21 and 14% in 2021-22.

Table 18. Sales Tax Revenues



Utility Users Tax (UUT). As shown in Table 19, this has been a very stable revenue source. Though flat for most of the early years, it grew by 6.1% on annual basis in the last two years with rising energy costs.

Table 19. UUT



Key Revenue Assumptions. Based on past trends, general economic outlook and guidance from the City's tax advisor (HdL) for property tax and sales tax, the following are the growth assumptions for the top three revenues:

Table 20. Key Revenue Growth Assumptions

Fiscal Year	Property Tax	Sales Tax	UUT
2024-05	4.0%	0.3%	4.5%
2025-06	4.4%	2.8%	4.5%
2026-07	4.7%	2.9%	4.5%
2027-08	4.9%	2.9%	4.5%
2028-09	5.0%	3.0%	4.5%

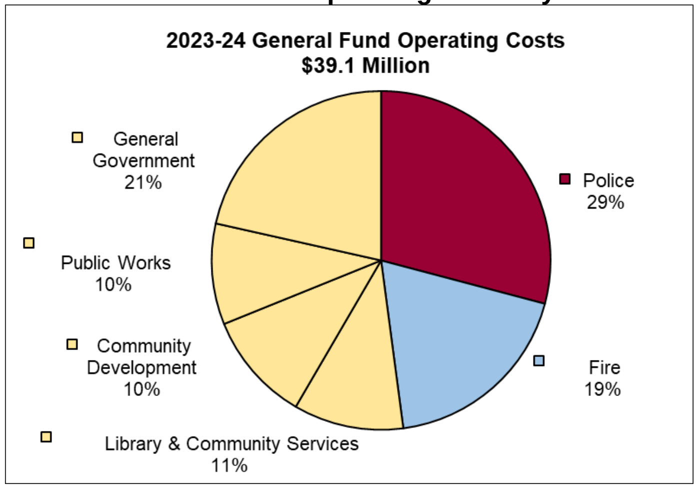
❺ OPERATING COST DRIVERS

There are three operating cost drivers that are likely to affect the General Fund's fiscal outlook over the next five years:

- Labor agreements (Memorandums of Understanding: MOUs)
- Insurance
- CalPERS pension costs

Operating Costs by Function. Table 21 shows 2023-24 General Fund operating costs by type. Not surprisingly, Police and Fire account for about 50% of operating costs.

Table 21. General Fund Operating Costs By Function

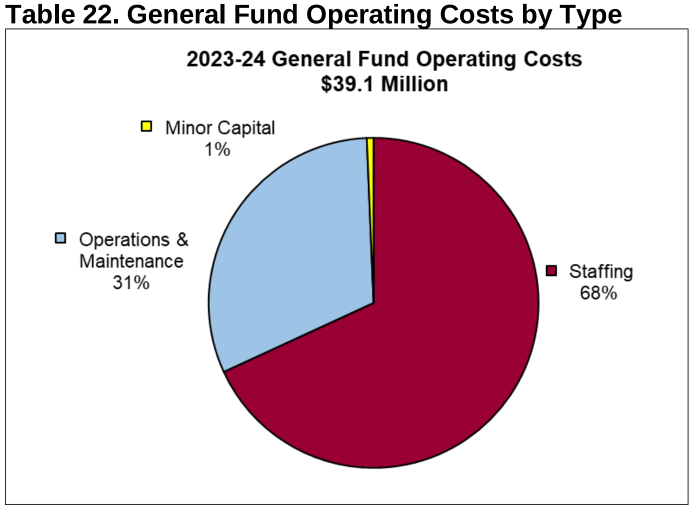


Operating Costs by Type. Table 22 shows operating costs by type:

- Staffing: 68%
- Operations and Maint: 31%
- Minor Capital: 1%

Given the significance of public safety costs, it is not surprising that staffing is the largest cost component by type, since it's police and fire employees arrest bad guys and put the wet stuff on the red stuff.

Table 22. General Fund Operating Costs by Type



MOU Costs

The City has multi-year agreements with its three major employee groups that cover 2022 through 2025: POA (Police), FFA (Fire) and PSEA (most other employees). The last year of the contract covers the first year of the forecast (2024-25), with salary increases as follows:

Table 23. 2024-05 Salary Increases

Group	% Increase
POA	
Sworn	4%
Non-sworn	3%
FFA	4%
PSEA	2%

Insurance Costs

As noted above, Insurance Fund costs appeared to have stabilized (albeit at high level). The "baseline" operating costs reflect this as well the General Fund's share of the amortized Insurance Fund deficit.

CalPERS Pension Costs

The City currently provides defined pension benefits to its regular employees through its contract with the California Public Employees Retirement System (CalPERS). Because the City has under 100 employees covered by each of its contracts with CalPERS, it is pooled with other local agencies that offer similar benefits.

The City has a two-tier retirement plan resulting from the Public Employees' Pension Reform Act of 2013 (PEPRA).

"New" (PEPRA) Employees. Under PEPRA, "new" system employees hired on January 1, 2013 or after are provided with the with the following plans:

- Police and Fire sworn employees: "2.7% at 57" plan. This means that "new" sworn retirees will receive 2% of their eligible compensation for each year worked if they retire at age 50. For example, an employee working for 30 years and retiring at age 50 would receive 60% of their eligible compensation (in this case, the average earnings or their three highest years, excluding any overtime pay)

- Miscellaneous (non-sworn) employees: "2% at 62%" plan. This means that "new" non-sworn retirees will receive 2% of their eligible compensation for each year worked if they retire at age 62.

"Classic" Employees. This includes employees who worked for the City before January 1, 2013 (CalPERS calls them "classic employees). It also includes new employees with the City who established CalPERS membership with another agency before January 1, 2013, with a break in service of six months or less. Classic employees receive benefits as follows:

- Police and Fire sworn employees: "2% at 50" plan.

- Miscellaneous (non-sworn) employees: "2% at 55%" plan.

Compared with many other agencies, PEPRA plans generally provided much lower benefits than "classic plans." Due to a number of factors, most public safety employees were provided "3% at 50" plans by their employers, under which employees would be eligible for 90% of their "PERSable" compensation after 30 years.

In the City's case, PEPRA safety benefits are actually better. Thus, relative to the market for "new" employees, the City is no longer at a competitive disadvantage for public safety employees.

This two-tier system by employee group results in five City plans:

Classic Employees	*PEPRA Employees*
Safety (Police and Fire sworn)	Safety: Police
Miscellaneous (non-sworn)	Safety: Fire
	Miscellaneous (non-sworn)

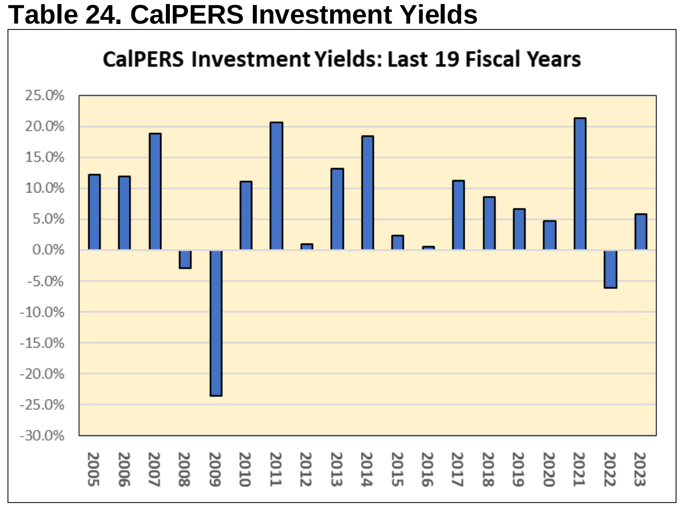
About CalPERS. While cities, counties, and special districts are free to create their own retirement systems, 460 of California's 482 cities are members of CalPERS. Dating back over 90 years, CalPERS is now the largest pension fund in the United States, providing services to about 2,900 state, city, county and special districts, with over 2 million members and managing $500 billion in assets.

Funding Pension Benefits. There are many actuarial factors that determine contribution rates, including inflation and life expectancy assumptions.

However, the assumption for the "discount rate" – the projected long-term yield on investments – is one of the most important. For example, only about one-third of CalPERS retirement benefits are funded by employee and employer contributions: the other two-thirds are funded from investment yields.

As of January 1, 2022, CalPERS current discount rate is 6.8%. Even small changes in this rate – up or down – can significantly affect funding.

Table 24. CalPERS Investment Yields



Source: CalPERS Facts at a Glance

By comparison, as of June 30, 2022, CalPERS net yield on returns has averaged 6.7% for the last five years; 7.7% for the last 10 years; 6.9% for the last 20 years; and 7.7% over the past 30 years. As reflected in Table 24, these highly variable results are due to significant swings in investment earnings from year-to-year, ranging from gains in 2021 of 21.3% and losses of 23.6% in 2009.

Member and City Contributions. Along with investment earnings, CalPERS pension benefits are funded by contributions from both employees and employers.

The employer share has two components:

- Normal cost: The rate needed to meet current actuarial obligations.
- Unfunded actuarial liability (UAL): Funding needed to amortize any outstanding unfunded liabilities (typically over 30 years). If there are adverse actuarial results, such as lower investment yields or changes in actuarial assumptions, this will be reflected in the UAL payment.

CalPERS Employer Contribution Rates. Over the past five years, CalPERS has phased-in increases in both the normal and UAL employer contribution rates due to actual assumption changes. As reflected in Tables 25 and 26, normal cost rates have stabilized but UAL payments continue to rise.

Tables 25 and 26 show actual employer contribution rates for the past three years (in blue) for the City's "classic" safety and miscellaneous employees along with projected rates for next five years (in red).

As discussed above, it shows how normal rates have generally stabilized.

(Note: Trends are provided for "classic" versus "new" (PEPRA) employees for "normal" and UAL costs, since they are a much larger group and better reflect cost trends. However, over time, PEPRA employees will be a larger share of the City's employees, and accordingly, overall costs will come down.)

Table 25. Safety "Normal" Contribution Rates

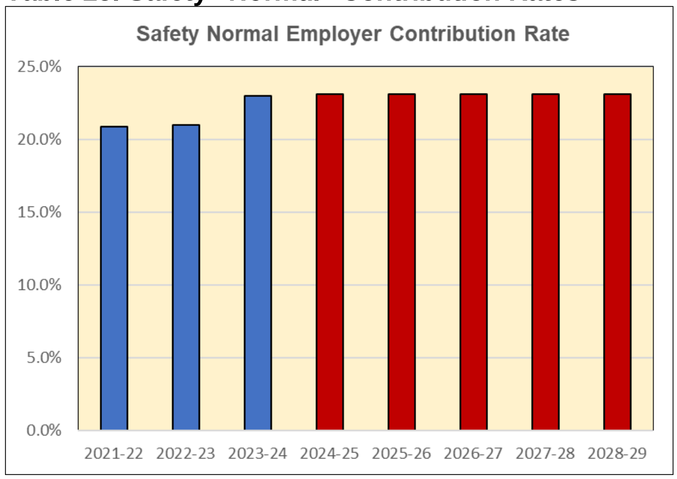
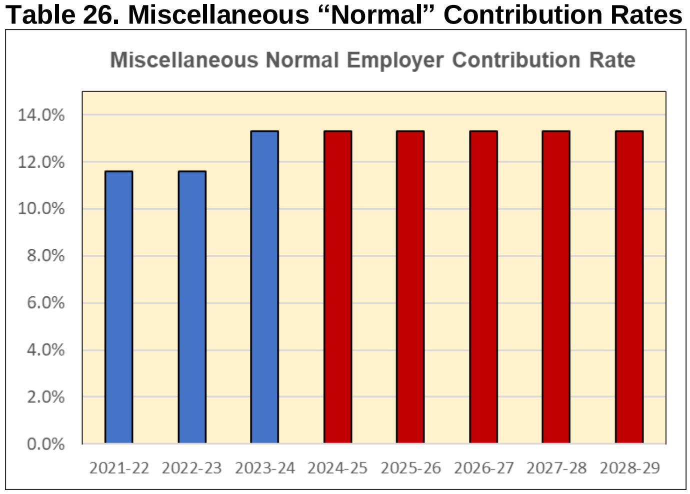
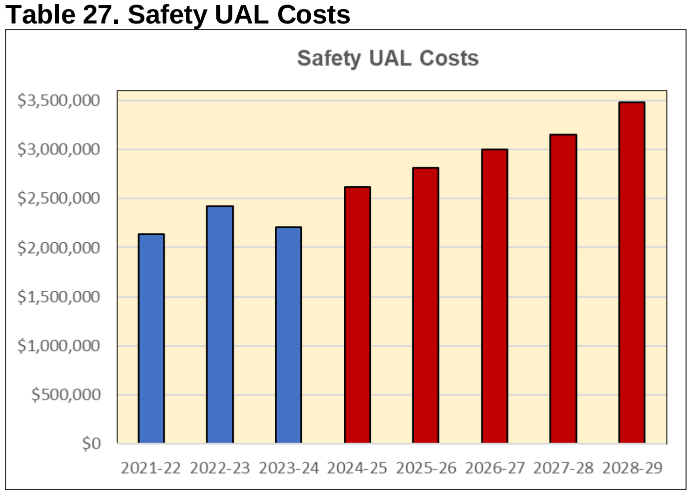


Table 26. Miscellaneous "Normal" Contribution Rates



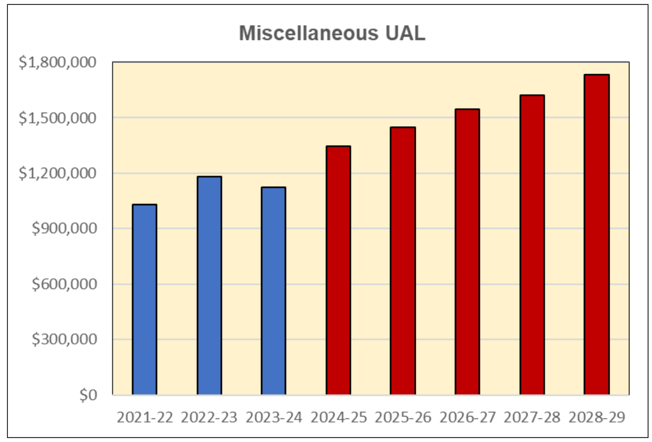
On the other hand, Tables 27 and 28 show how UAL costs for "classic" safety and miscellaneous employees are projected to rise significantly after appearing to stabilize in 2023-24 (actual UAL in blue).

Table 27. Safety UAL Costs



This increase was driven by the investment loss of 6.1% in 2021-22 compared with the target rate of 6.8% (projected costs for the next five years in red).

Table 28. Miscellaneous UAL Costs



Sources: July 2023, PERS Safety and Miscellaneous Plans of the City of South Pasadena, Annual Valuation Report as of June 30, 2022

Other Operating Costs

After accounting for the cost factors and adjusting for "baseline" costs as discussed above, above, remaining operating costs will be projected to grow by inflation as follows:

2024-25	3.5%
2025-26	2.5%
2026-27	2.0%
2027-28	2.0%
2028-29	2.0%

❻ GENERAL FUND SUBSIDIES

As summarized above, the General Fund provides significant subsidies to two funds:

Table 29. 2023-24 General Fund Subsidies

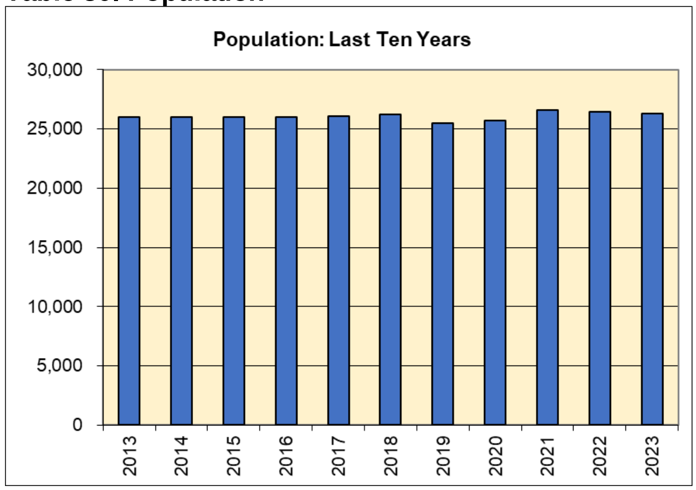
Fund Subsidies	Cost
Landscape and Lighting Maintenance Fund	774,171
Business Improvement Tax Fund	78,109
Total Fund Subsidies	$852,280

These subsidies are largely due to structural imbalances between revenues – which are largely fixed – while costs increase (even if modestly).

❼ POPULATION GROWTH AND DEVELOPMENT

Population growth is not likely to play a significant role in the five-year forecast. As reflected in Table 30, the City's population of about 26,000 has remained virtually unchanged over the past ten years.

Table 30. Population



Source: City Annual Comprehensive Financial Report; State of California, Department of Finance, Demographic Research Unit

❽ CAPITAL IMPROVEMENT PLAN

The forecast CIP assumption will be based on the General Fund component of the City's five-year CIP presented with the 2023-24 Budget, summarized as follows:

Project	Adopted 2023-24	Proposed 2024-25	Proposed 2025-26	Proposed 2026-27	Proposed 2027-28
General Buidlings & Facilities					
Citywide Facility Repair		500,000	500,000	500,000	500,000
War Memorial Audio/Vis. Equipm		50,000	-	-	-
Rec. Facilities Key System		75,000	-	-	-
Citywide Facilities Assessment/ Security Enh.		100,000	-	-	-
Information Technology					
VoiP Phone System Installation	180,000	250,000	-	-	-
CD Permit Management Software	125,000	-	-	-	-
Agenda Management System	50,000	-	-	-	-
City Website System & Design	60,000	-	-	-	-
Customer Care System	-	25,000	-	-	-
Library (General Fund Portion)					
Library ADA Ramp, Light. & Imp		11,414	-	-	-
Library Fire Alarm Control System	-	36,499	-	-	-
Library Electrical Distribution Equipment	-	21,726	-	-	-
Library Security & Safety Improvements	-	68,798	-	-	-
Library Exterior Paint and Protective Coatings	-	-	42,727	-	-
Library Master Plan	150,000	-	-	-	-
Storm Water					
City Hall Stormwater Project	300,000	-	-	-	-
Arroyo Seco San Rafael & San Pascual Projects	300,000	-	-	-	-
Streets (General Fund Portion)					
Street Repairs - 2023	-	1,428,278	1,428,278	1,428,278	1,428,278
Sustainability					
City/Civic EV Charging System	250,000	-	-	-	-
Arroyo Park EV Charging System	-	-	-	-	-
Transportation (General Fund Portion)					
North-South Corridor ITS Dploy		267,387	267,387	-	-
Total	$1,415,000	$2,834,102	$2,588,392	$2,428,278	$2,228,278

In several cases, project costs represent the General Fund's portion of a larger project cost.

No Project Funding Identified. In addition to projects funded from identified sources, such as General Fund, special revenue funds, grants and enterprise funds, the 2004-28 CIP includes the following projects for which no funding has been identified:

Library					
Radio Freq ID/Auto Mat Hndlng (AMH) Sys	-	160,000	-	-	-
Library Exterior Park Lighting	-	-	169,000	-	-
Library Public Restrooms Expansion/Remodel	-	-	-	450,000	-
Library Emergency Backup & Storage System	-	-	-	-	500,000
Community Services & Parks					
Garfield Park Fitness Equipment	-	100,000	-	-	-
Arroyo Park Fitness Equipment	-	100,000	-	-	-
Eddie Park Restrooms	-	100,000	-	-	-
Orange Grove Gazebo	-	-	150,000	-	-
Orange Grove Park Playground Replacement	-	-	200,000	-	-
Garfield Park Playground Replacement	-	-	200,000	150,000	-
Arroyo Walking Trail	-	-	-	200,000	-
Garfield Gazebo	-	-	-	200,000	-
Eddie Park Playground Replacement	-	-	-	150,000	-
Arroyo Park Sports Complex Renovations	-	-	-	-	750,000
Orange Grove Sports Complex Renovations	-	-	-	-	750,000
Eddie Park House Improvements	-	156,194	156,194	156,194	156,194
Storm Water					
Huntington Drive Green Street	-	595,000	5,570,500	5,570,500	-
Lower Arroyo Seco Projects	-	2,305,000	8,723,362	8,723,362	14,433,362
Camino Verde Pocket Park	-	100,000	600,000	900,000	900,000
Sustainability					
Urban Forest Master Plan	-	150,000	-	-	-
Transportation					
Mission-Merdian-El Centro Bollard System	-	-	50,000	200,000	-
Traffic Signal Controller & Cabinet Replacement	-	-	300,000	300,000	300,000

If these are high-priority projects, the General Fund might be a candidate funding source.

SUMMARY

The purpose of this General Fiscal Outlook and Key Assumptions is to highlight the key factors that are likely to affect the General Fund financially over the next five years and resulting assumptions that drive forecast results. These will be placed in a more "empirical" context in the forecast and financial plan, which is for presentation to the Council and Finance Commission on November 1, 2023.

That said, regardless of the specific Plan outcomes, the fundamental policy questions posed by the budget process remain ahead of the City in both good times and bad: of all the things the City wants to do in making the community an even better place to live, work and play, which are the most important? And what are the resource trade-offs the City will have to make to achieve them?