CITY OF SOUTH PASADENA
SPECIAL JOINT MEETING OF THE CITY COUNCIL AND THE FINANCE COMMISSION

AGENDA
WEDNESDAY, FEBRUARY 21, 2024, AT 5:00 P.M.

AMEDEE O. "DICK" RICHARDS JR. COUNCIL CHAMBERS
1424 MISSION STREET, SOUTH PASADENA, CA 91030

South Pasadena City Council Statement of Civility

As your elected governing board, we will treat each other, members of the public, and City employees with patience, civility, and courtesy as a model of the same behavior we wish to reflect in South Pasadena for the conduct of all City business and community participation. The decisions made tonight will be for the benefit of the South Pasadena community and not for personal gain.

NOTICE ON PUBLIC PARTICIPATION & ACCESSIBILITY

The South Pasadena City Council Meeting will be conducted in-person from the Amedee O. "Dick" Richards, Jr. Council Chambers, located at 1424 Mission Street, South Pasadena, CA 91030.

Public participation may be made as follows:

- In Person – Council Chambers, 1424 Mission Street, South Pasadena, CA 91030
- Live Broadcast via the City website – http://www.spectrumstream.com/streaming/south_pasadena/live.cfm
- Via Zoom – **Webinar ID: 825 9999 2830**
- Written Public Comment – written comment must be submitted by 12:00 p.m. the day of the meeting by emailing to ccpubliccomment@southpasadenaca.gov.
- Via Phone – +1-669-900-6833 and entering the Zoom Meeting ID listed above.

Meeting may be viewed at:

1. Go to the Zoom website, https://zoom.us/join and enter the Zoom Meeting information; or
2. Click on the following unique Zoom meeting link: https://us06web.zoom.us/j/82599992830 or
3. By calling: +1-669-900-6833 and entering the Zoom Meeting ID listed above; and viewing the meeting via http://www.spectrumstream.com/streaming/south_pasadena/live.cfm

CALL TO ORDER:	Mayor	Evelyn G. Zneimer
ROLL CALL OF CITY COUNCIL:	Mayor	Evelyn G. Zneimer
	Mayor Pro Tem	Jack Donovan
	Councilmember	Jon Primuth
	Councilmember	Michael A. Cacciotti
	Councilmember	Janet Braun
ROLL CALL OF FINANCE COMMISSION:	Chair	Peter Giulioni Jr.
	Vice Chair	Sheila Rossi
	Commissioner	Cynthia Quade
	Commissioner	Stephanie Hernandez
	Commissioner	Y-Le Ho

PUBLIC COMMENT GUIDELINES

The City Council welcomes public input. Members of the public may comment on the agendized items only. Members of the public will have three minutes to address the City Council, however, the Mayor and City Council may adjust the time allotted, as needed.

Public Comments received in writing will not be read aloud at the meeting, but will be part of the meeting record. Written public comments will be uploaded to the City website for public viewing under Additional Documents. When submitting a public comment, please make sure to include the following:
1) Name (optional), and
2) Agenda item you are submitting public comment on.
3) Submit by no later than 12:00 p.m., on the day of the City Council meeting. Correspondence received after this time will be distributed the following business day.

PLEASE NOTE: The Mayor may exercise the Chair's discretion, subject to the approval of the majority of the City Council, to adjust public comment time limit to less than three minutes, as needed.

Pursuant to State law, the City Council may not discuss or take action on issues not on the meeting agenda, except that members of the City Council or staff may briefly respond to statements made or questions posed by persons exercising public testimony rights (Government Code Section 54954.2). Staff may be asked to follow up on such items.

PUBLIC COMMENT

1. PUBLIC COMMENT

Public Comment will be limited to three minutes per speaker for the agendized items only.

ACTION/DISCUSSION

2. PRESENTATION BY NHA ADVISORS AND DISCUSSION OF THE CITY'S FIVE-YEAR FINANCIAL FORECAST

Recommendation

It is recommended that the City Council and Finance Commission receive and discuss the presentation of the Five-Year Financial Forecast.

3. CONSIDERATION OF A RESOLUTION APPROVING THE FISCAL YEAR 2023-24 MID-YEAR BUDGET REPORT AND ADJUSTMENTS AND CAPITAL IMPROVEMENT PROGRAM (CIP) CONTINUING APPROPRIATIONS

RESOLUTION

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOUTH PASADENA APPROVING FISCAL YEAR 2023-2024 MID-YEAR BUDGET ADJUSTMENTS

Recommendation

Staff recommends that the City Council:
1. Approve the Fiscal Year 2023-24 Mid-Year Budget Report and Adjustments;
2. Approve of Fiscal Year 2023-24 Capital Improvement Program (CIP) Continuing Appropriations; and
3. Adopt A Resolution of The City Council of The City of South Pasadena Approving Fiscal Year 2023-2024 Mid-Year Budget Amendments and Adjustments and Capital Improvement

Program Carryovers.

ADJOURNMENT

FOR YOUR INFORMATION

FUTURE CITY COUNCIL MEETINGS

February 26,2024	Special Joint City Council Meeting with the Public Safety Commission	6:00 P.M.
March 6, 2024	Regular City Council Meeting	7:00 P.M.
March 20, 2024	Regular City Council Meeting	7:00 P.M.

PUBLIC ACCESS TO AGENDA DOCUMENTS AND BROADCASTING OF MEETINGS
City Council meeting agenda packets, any agenda related documents, and additional documents are available online for public viewing on the City's website:
www.southpasadenaca.gov/CityCouncilMeetings2022

ACCOMMODATIONS

The City of South Pasadena wishes to make all of its public meetings accessible to the public. If special assistance is needed to participate in this meeting, please contact the City Clerk's Division at (626) 403-7230 or cityclerk@southpasadenaca.gov. Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities. Notification at least 48 hours prior to the meeting will assist staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting (28 CFR 35.102-35.104 ADA Title II).

CERTIFICATION OF POSTING

*I declare under penalty of perjury that I posted this notice of agenda for the meeting to be held on **February 21, 2024**, on the bulletin board in the courtyard of City Hall located at 1414 Mission Street, South Pasadena, CA 91030, and on the City website as required by law, on the date listed below.*

02/15/2024	/S/
Date	Mark Perez, Deputy City Clerk

City Council Agenda Report

ITEM NO. 2

DATE: February 21, 2024

FROM: Arminé Chaparyan, City Manager AC

PREPARED BY: John Downs, Finance Director

SUBJECT: **Presentation by NHA Advisors and Discussion of the City's Five-Year Financial Forecast**

Recommendation
It is recommended that the City Council and Finance Commission receive and discuss the presentation of the Five-Year Financial Forecast.

Executive Summary
NHA Advisors, LLC has been onboarded as a consultant to develop a Five-Year Financial Forecast and dynamic model.

Background
NHA Advisors, LLC has worked with numerous cities throughout California to assist in refining their financial forecasting. With specialties in infrastructure, utilities, pension, financial sustainability, etc., the Finance Department has eagerly worked with NHA to gather data needed to analyze and build the City's models.

Previously, Bill Statler was onboarded to create a baseline for the Five-Year Financial Forecast. A copy of this report is included as an attachment to this item.

NHA presented their procedures to the Finance Commission at a special meeting on November 8, 2023 and the City Council on February 7, 2024.

In this presentation, Craig Hill (Managing Principal at NHA), will present the financial models and findings in the form of a Five-Year Financial Forecast. These models are meant to be dynamic, allowing the organization to incorporate different scenarios that may need to be considered in the future.

Fiscal Impact
Bill Statler was contracted in an amount not to exceed $24,000. NHA Advisors LLC was contracted in an amount not to exceed $29,500. This is distributed among the general fund, water fund and sewer fund. These appropriations have been included in the mid-year report.

Key Performance Indicators and Strategic Plan
This item aligns with the City's strategic plan priority (A1).

Commission Review and Recommendation
This item will be presented to the City Council and Finance Commission simultaneously.

Attachments:
1. NHA Advisors LLC Memo on Five-Year Financial Forecast
2. Bill Statler Baseline Financial Report

ATTACHMENT 1

NHA Advisors LLC Memo on Five-Year Financial Forecast

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NHA | ADVISORS

4040 Civic Center Drive, Suite 200
San Rafael, CA 94903

Office: 415.785.2025
www.NHAadvisors.com

MEMORANDUM

Date: February 14, 2024

RE: City of South Pasadena – Five-Year Forecast Model Technical Memorandum

Introduction

The City of South Pasadena (the "City") engaged NHA Advisors, LLC ("NHA") to assist the City in developing a five-year financial forecasting model taking into consideration the general fund, special funds and enterprise funds (the "Model"). The Model is intended to assist City staff and the City Council in developing future budgets and evaluating changes in revenue or expenditure growth, including identifying current and future financial challenges. Additionally, the Model is dynamic so users can explore a myriad of "what if" scenarios with varying degree of precision.

The Model is populated with data through the current fiscal year (23/24) and is intended to support the FY 2024-25 budget process.

NHA reviewed the City's historical financials, budget documents, reserve policies, and other documents. Based on this review, NHA is developing the Model to project five years of operating results for the following ten City funds: (1) General Fund, (2) Prop A Sales Tax, (3) Prop C Sales Tax, (4) State Gas Tax, (5) Measure R, (6) Measure M, (7) Road Maintenance & Rehabilitation, (8) Water, (9) Sewer, and (10) Golf Course. NHA collaborated with City staff to gather relevant financial data, including general ledger data, and held several discussions with City staff to confirm validity of the data and ensure the type of output was meeting City staff objectives.

NHA pre-populated the Model to include two scenarios: a baseline scenario and a recession scenario. The baseline scenario reflects a continuation of the "status quo" and projects based on historical revenue and expense data. The recessionary scenario examines the impact of a recession similar to the Great Recession beginning in Fiscal Year 2024-25.

Modeling Overview

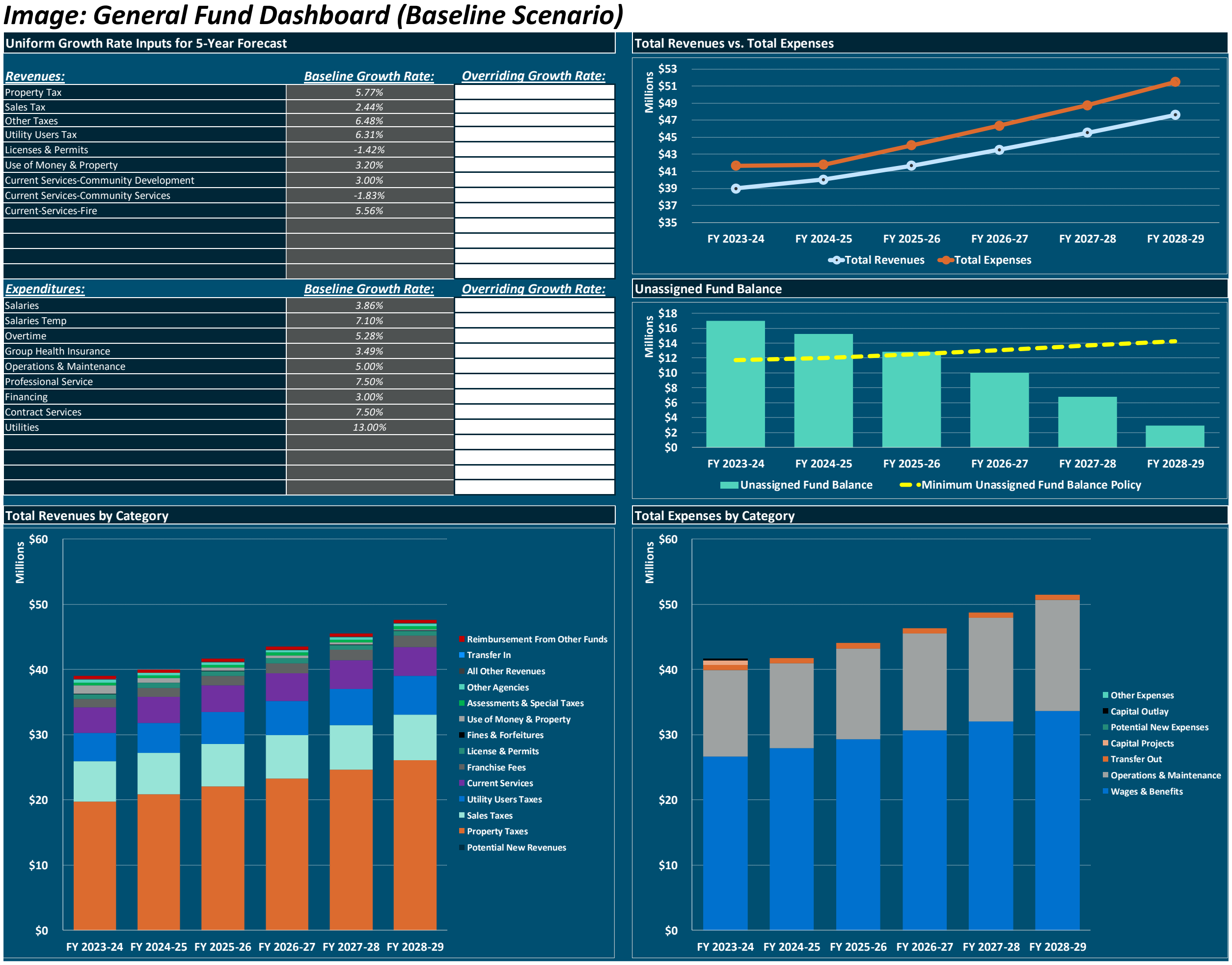
The Model is designed to be informative, accessible, interactive, and transparent. The model has clear areas for user inputs, both at a high level and detailed level, and these inputs will produce real-time updates, displayed on dashboards with dynamic charts and tables. All the data and assumptions used in the Model for the ten City funds are included on individual tabs within the worksheet and clearly labeled.

The Model is organized into four sections: (I) General Fund, (II) Special Revenue Funds, (III) Enterprise Funds, and (IV) Other Sheets. Sections I – III provide the "front end" of the Model and contain a user-friendly dashboard, as well as a detail sheet showing revenue and expense line-item detail. The other sheets provide a "back end" of the Model and contain future debt modeling capability, pension liability modeling, and historical financial data. Generally speaking, the user is able alter the inputs in the dashboard without any risk of “breaking” the Model. *However, overwriting formulas or making changes to the data on the supporting tabs can disconnect the historical data links and remove the integrity of the Model’s projections*.

Section I: General Fund

The dashboard tab serves as the hub for users to review the impact of revenue and expenditure assumptions through charts and tables. NHA believes most users will interact with the dashboard and use it to model impacts of growth assumption changes. The General Fund dashboard is the most detailed, given its prominent role in the City’s financials and contains charts illustrating key financial metrics, such as total revenues versus total expenses, unassigned General Fund balance versus the City’s Unassigned General Fund Balance policy, total revenues by category, and total expenses by category. Additionally, at the bottom of the General Fund dashboard, there is a set of tables that allows the user to easily view key revenue and expense line items and the annual change of those revenue and expenses for a chosen year of the 5-year projection.

Image: General Fund Dashboard (Baseline Scenario)



The General Fund dashboard allows the user to enter growth rates for key revenue and expense line items (see white boxes in the graphic above) thereby providing real-time updates to the graph. Entering a growth rate (positive, negative, or zero) applies that growth rate uniformly to each year of the projection, and the impact is then dynamically modeled in the surrounding charts on the dashboard. This allows a user to conduct quick impact analysis on key financial metrics for the City. For example, if salary growth was historically 4% annually, but a user wants to see the impact of a 5% increase (year-over-year), the Model's dashboard will quickly show the impact on expenses and unassigned fund balance. Growth rates assumptions can be applied to as few or as many line items as are listed in the table.

While the dashboard is likely the primary point of interaction for many users, the detail sheet is where a user can model discrete year-over-year revenue and expense growth assumptions to create a finely tuned output. In the example above regarding a user who wishes to analyze the impact of future salary increases, the detail sheet allows a user to model a scenario such as an 8% increase the first year, followed by two 3% annual increases the next two years, followed by 5% annual increases the remaining years. Changes to the detail sheet are reflected on the graphs and tables in the dashboard. On the detail sheet, the user will see much more revenue and expense detail for both historical and projected years, and also have access to year-by-year growth rates for revenue and expense line items. When the cells in the "Overriding Growth Rate" column on the dashboard are empty (white cells in the example image above), the year-by-year growth rates on the detail sheet will dictate the Model. However, when a user enters a value in the "Overriding Growth Rate" column on the dashboard, this value overrides the year-by-year growth rates on the detail sheet.

Sections II and III: Special Revenue Funds and Enterprise Funds

The dashboards for the Special Revenue Funds and Enterprise Funds are similar to the General Fund with respect to the operation of the "Overriding Growth Rates" cells on the dashboard. Users can see a chart of total revenues versus total expenses and will also have the functionality to easily apply growth rates on the dashboard that impact key revenue and expense line items in the projected years. Since the Water Fund and Sewer Fund has debt that is subject to debt service coverage rate covenants, the Enterprise Funds Dashboard has an additional chart showing debt service coverage (annual net revenue divided by annual debt service). The detail sheets for the Special Revenue Funds and Enterprise Funds will be similar to the General Fund, where a user can see more revenue and expense detail, as well as have the functionality to input year-by-year growth rates on a granular level.

Image: Water Fund and Sewer Fund Dashboard (Baseline Scenario)

Section IV: Other Sheets

Other sheets consist of five sheets that provide a functional "back-end" to the Model, including detail on the City's debt, pension costs, and the revenue and expenditure detail that will flow through the Model to create the historical and budget data.

The Debt sheet models existing City debt obligations and also allow users to input hypothetical future debt to visualize its impact on the City's funds. For example, if a user wanted to see the impact of issuing $20 million of water revenue bonds in 2 years, the user can enter these parameters, including estimated interest rate and length of debt, to see the impact to the Water Fund's debt service coverage. Note that the Debt sheet will be designed to provide a quick estimate of the long-term cost of funds, but it cannot perform more nuanced debt structuring analysis without additional inputs (e.g., wraparound structures, deferred or accelerated amortizations, etc.).

The Pension sheets detail pension cost assumptions from the City's latest CalPERS actuarial reports, and also provide the option of pasting in alternative CalPERS pension assumptions using the free CalPERS Pension Outlook Tool (https://www.calpers.ca.gov/page/employers/actuarial-resources/pension-outlook-overview). Having this functionality enables the user to see the impact of hypothetical future CalPERS investment performance and other assumptions on the City's unfunded accrued liability ("UAL") and normal cost payments.

The Revenue Detail and Expenditure Detail sheets contain the general ledger source data that is used to power the Model. These sheets should only be used when updating the Model to add an additional year of data and NHA can assist the City with updates to the Model as requested.

General Fund Assumptions, Scenarios, and Findings

Baseline Scenario Assumptions

While it is true that past performance does not promise future results, it is also true that historical performance provides useful context for financial planning purposes. As a result, NHA's Baseline scenario is heavily influenced by financial results from FY 2017-18 through FY 2022-23. We recognize that this period reflects the impacts that the COVID-19 pandemic had on the City's financials; however, we also recognize that extending the historical "lookback" to additional prior years is subject to the law of diminishing returns and the relevance of prior years' decreases as the historical review looks back further.

To control the impact of recent historical events on the City's financials, the Baseline scenario will assume revenue and expense growth diverge at times from the historical figures. This typically occurs when historical revenue or expense growth reflects some external driver (e.g., higher sales tax growth due to the passage of additional sales tax measures or due to establishment of additional point-of-sale businesses within the City). This also occurs when more recent historical revenue or expense figures are outside the historical range of these line items. The table below lists the historical performance of key General Fund revenue and expenses. Our review looks for anomalies in these growth rates – areas where the growth rates differ from "typical" growth rates and seeks to uncover the story below them. Often, this results in projecting a slightly different growth rate than the raw historical would imply. Several examples can be seen in the table below, including the City's "Financing" expense related to insurance liability and surety bonds, the City's professional services and contract services expense, and the City's sales tax revenues.

Baseline Scenario Assumptions – General Fund

Key General Fund Revenue & Expense Assumptions	FYE 2018 to FYE 2023 Compound Annual Growth Rate (CAGR)	Baseline Scenario Assumed Growth Rates	Discussion of Differences
Key Revenues			
Property Taxes	5.8%	5.8%	*No difference*
Sales Tax[1]	5.6%	2.4%	*We are using HdL's sales tax projections for the City to inform our projection.*
Utility Users Tax	6.3%	6.3%	*No difference*
Other Taxes	6.5%	6.5%	*No difference*
Use of Money & Property[2]	-11.6%	-30.7%	*The projected growth of this revenue line item is determined by the investment return the City earns on its fund balance. Because the City's fund balance is decreasing in the baseline projection, the interest earnings is also decreasing. Assumes 4% investment earnings in FY 2024-25 and 3% annually thereafter.*

Current Services: Community Development	14.9%	3.0%	*Assumed decrease in planning & plan check fees due to slow down in home sales.*
Current Services: Fire	5.6%	5.6%	*No difference*
Key Expenses			
Salaries	3.9%	3.9%	*No difference*
Salaries (Temp)	7.1%	7.1%	*No difference*
Overtime	5.3%	5.3%	*No difference*
CalPERS Retirement (Normal Cost)(3)	10.7%	2.0%	*Baseline growth rate is calculated based on the normal cost generated by the CalPERS Pension Outlook Tool, assuming CalPERS has 6.1% investment returns in FY 2022-23 (the money-weighted rate of return reported by CalPERS in its FY 2022-23 Annual Comprehensive Financial Report), and 6.80% investment returns thereafter.*
CalPERS Retirement (UAL Payment)(3)	10.7%	10.1%	*Baseline growth rate is calculated based on the UAL payment generated by the CalPERS Pension Outlook Tool, assuming CalPERS has 6.1% investment returns in FY 2022-23 (the money-weighted rate of return reported by CalPERS in its FY 2022-23 Annual Comprehensive Financial Report), and 6.80% investment returns thereafter.*
Health Insurance	3.5%	3.5%	*No difference*
Professional Services	15.8%	7.5%	*These numbers are all assumed to grow less than the historical average because we have already taken into consideration the step-up in the absolute value of these expenses prior to the projection period.*
Contract Services	14.3%	7.5%	
Utilities	27.1%	13.0%	
Financing (Liability & Surety Bonds)	49.8%	3.0%	
Capital Outlay	*Avg:* $1,200,000	$0	*We intentionally strip out General Fund capital to evaluate the fund's balance from a pure operational perspective.*

1) *Historical sales tax growth rates after controlling for the benefits of Measure A. Sales Tax projections use the long-term projections provided to the City by HdL.*
2) *Future Use of Money & Property revenues calculated assuming 4% interest earnings on the beginning year's General fund balance in FY 2024-25 and 3% annual interest earnings thereafter.*
3) *Historical City financials combine CalPERS normal cost with unfunded actuarial liability payment.*

Recessionary Scenario Assumptions

There are hundreds of possible recessionary scenarios to model. Since the City's historical financials from FY 2017-18 through FY 2022-23 incorporate the impact of the COVID-19 pandemic, we believe a realistic recessionary scenario examines the City's ability to withstand a future longer-term general market recession. As a result, we analyzed the impacts of the Great Recession on the City's financials from FY 2007-08 through FY 2011-12 and modeled those impacts on key revenue line items.

During the Great Recession and its aftermath (i.e., the period from 2007-2012), the City's property tax revenues slowed down significantly, going from 10% growth from FYE 2007 to FYE 2008 to 4% growth the subsequent year to averaging 0% growth for FYEs 2010 through 2012. By contrast, sales taxes grew 6% from FYE 2007 to FYE 2008 and then decreased 22% the next year. There was a strong recovery in FYE 2010, growing 17%, followed by a 3% reduction in FYE 2011 and then a 9% recovery in FYE 2012.

Recession Scenario Assumptions – General Fund

Key General Fund Assumptions	Recession Scenario Assumed Growth Rates				
Key Revenues	**FY 2024-25**	**FY 2025-26**	**FY 2026-27**	**FY 2027-28**	**FY 2028-29**
Property Taxes	3%	0%	2%	2%	4%
Sales Tax	-25%	10%	0%	10%	10%
Utility Users Tax	0%	0%	0%	0%	0%

On the expense side, if we assume that CalPERS experiences investment returns of *negative* 20% in FY 2024-25 but is able to achieve its investment target of 6.8% in the years thereafter, the *negative* 20% investment loss is projected to result in a 66% increase in the City's CalPERS UAL balance, from $49.5 million at FYE 2024 to $82.1 million at FYE 2025. The associated increase in the City's annual UAL payment would hit in FY 2027-28.

While NHA has provided two distinct modeling scenarios for the General Fund, the dynamic nature of the Model allows for more refined scenarios. The Model is designed for flexibility and ease of user input. In addition to modifying revenue and expense growth rates on-demand, there is functionality to run scenarios in any one of the modeled funds by utilizing the following features:

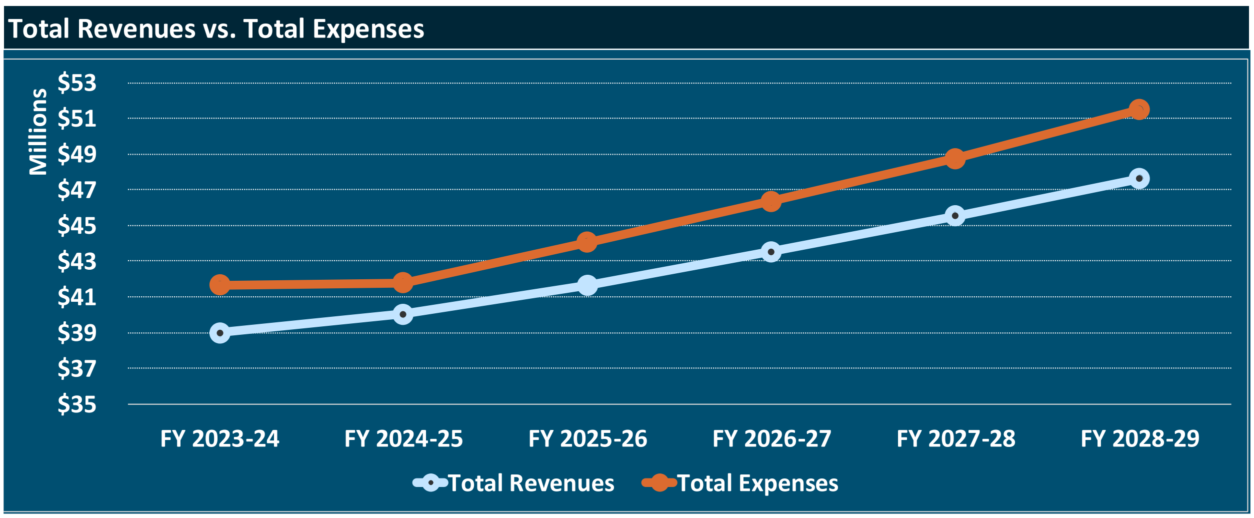
- Additional future debt
- Custom transfers in and transfers out
- Custom capital expenses: In line with the scope of services for this project, the Model is intended to focus on operating costs of the ten funds. There is a line item for CIP and transfers, but the Model does not identify specific projects and the cashflow impact and funding sources for these projects.
- Alternative CalPERS assumptions using the CalPERS Pension Outlook Tool

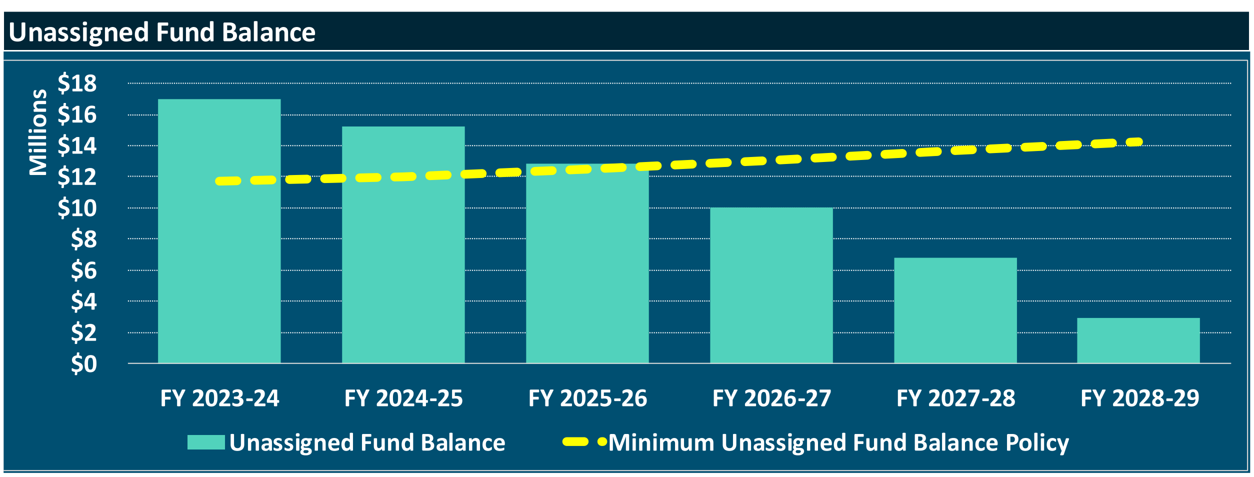
The Model will give the City the power to implement scenarios that it views as important and realistic. NHA will be on-call to advise on any scenarios, but the full power of the Model will be available to the user whether we are involved or not. This is part of the Model's mission to be fully transparent.

Findings & Observations

Using the Baseline Scenario assumptions, we project that expenses will outpace General Fund revenues each year of the five-year projection, with annual deficits ranging from $1.8 million in FY 2024-25 to $3.9 million in FY 2028-29. In this scenario, the General Fund balance is drawn down to fund continued operations. The General Fund unassigned fund balance is above the City's 30% reserve target in FY 2023-24 through FY 2025-26, but at the end of FY 2026-27 the unassigned fund balance dips to $10.0 million (23% of General Fund revenues), which is the first year in the projection that the unassigned fund balance falls below the 30% reserve policy. The unassigned fund balance continues to decrease to $6.8 million and $2.9 million by FYE 2028 and FYE 2029, respectively. Despite the annual deficits for the duration of the five-year projection, the General Fund unassigned fund balance remains positive through the term of the projection.

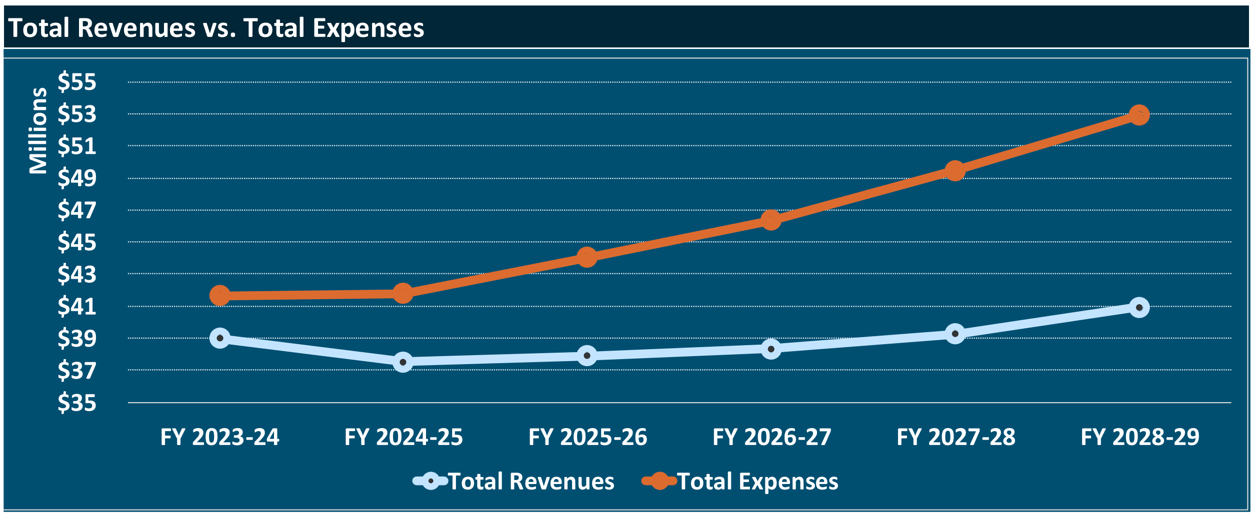
General Fund Revenues, Expenses, and Unassigned Fund Balance – Baseline Scenario

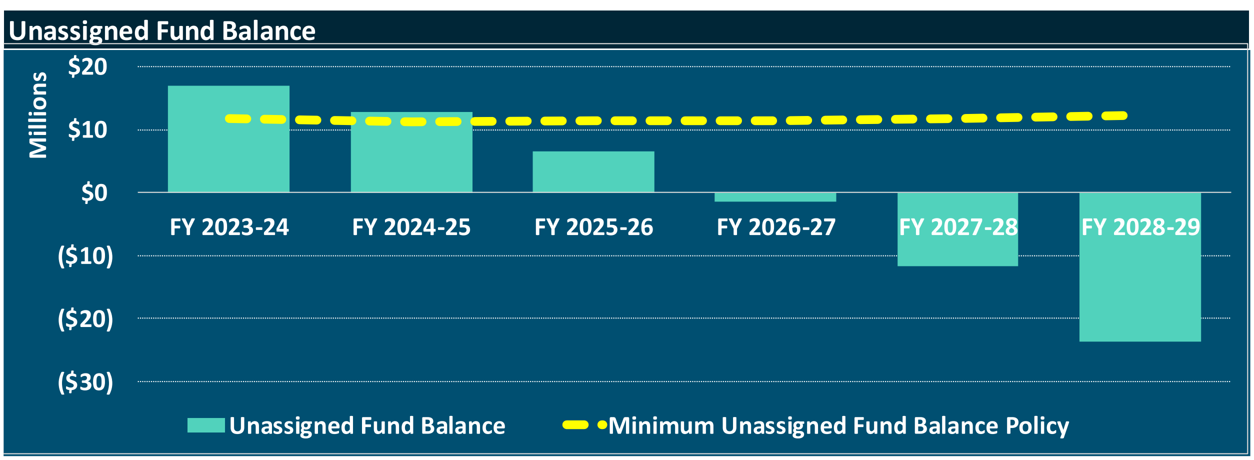




Based on the Recession Scenario assumptions above, it is projected that the City's property tax revenues will see lower growth compared to historical growth (3%, 0%, 2%, 2%, 4% from 2025-2029 compared to the 5.8% compound annual growth rate from 2018 to 2023) and sales tax revenues will see a significant decrease in 2025, followed by a year of recovery, a year of zero growth, and then recovery again. The impact to the General Fund revenues from these two important revenue sources leads to annual deficit in each year of the projection, ranging from $4.3 million in FY 2024-25 to $12.0 million in FY 2028-29. The annual deficits would cause the City's General Fund unassigned fund balance to be depleted as soon as FY 2026-27. Under this recessionary scenario, it would be expected that the City defer capital expenditures in order to preserve fund balance. Despite that, such a scenario would result in the need to reduce City services in order to remain financially solvent.

General Fund Revenues, Expenses, and Unassigned Fund Balance – Recession Scenario





Water Fund Assumptions, Scenarios, and Findings

The City's Water Fund (Fund 500) receives the majority of its revenues through rate revenues (Charges for Services). These revenues are a function of the City's established water rates, which were approved in November 2017 for a period from January 2018 – January 2022. These rates have two components – bi-monthly fixed charges and volumetric charges (cost per hundred cubic feet). The current rates are those authorized to be effective as of January 2022.

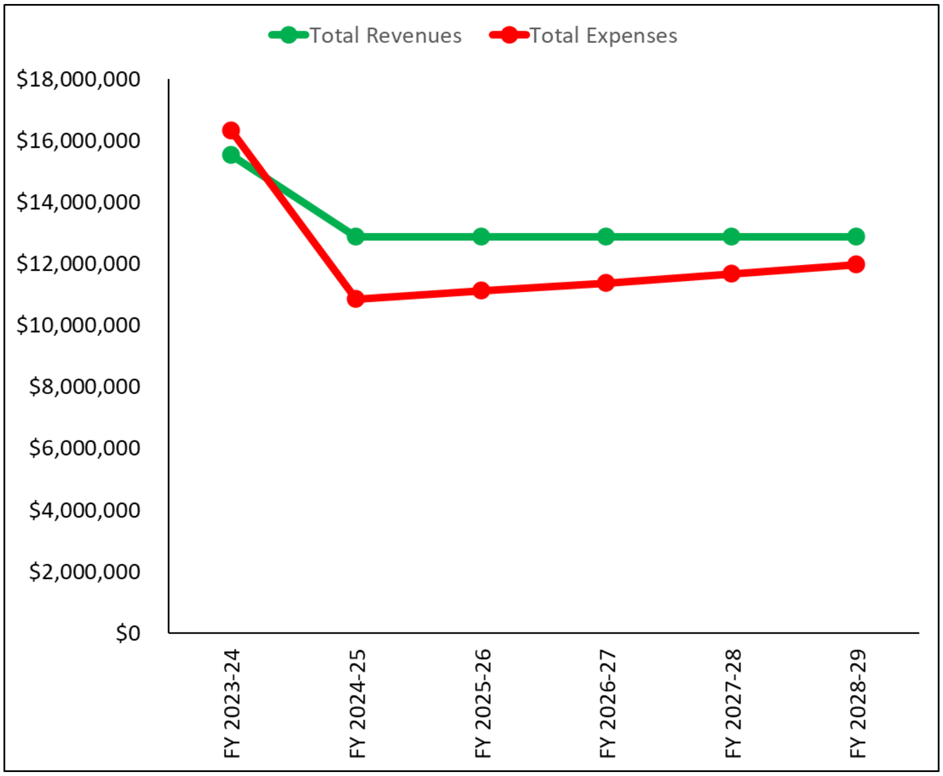
Staffing for the water fund includes a portion of indirect costs and payroll liabilities (CalPERS) that impact the City's general fund. A potential recession or market performance event affecting the CalPERS return on investment could impact the costs allocated to the water fund and create pressure to increase rates prematurely. NHA did not model other potential impacts (reduction in water use, drought or other environmental and economic affects).

Our modeling also looks at the projected debt service coverage for the Water Fund to ensure that the City is complying with the legal covenants on its outstanding debt. Debt service coverage is calculated as net revenues (gross revenues less operating costs) divided by the total debt service payments due in the fiscal year. The City has a legal covenant to maintain rates sufficient to generate revenues that will meet the operating costs and cover debt service on the 2013 Water Bond and 2016 Water Bond. The coverage requirement is that net revenues must be no less than 120% of annual debt service. To the extent that coverage dips below the required minimum of 120%, the City would need to raise rates (i.e. increase revenues) or decrease expenses to bring the coverage back up to required levels.

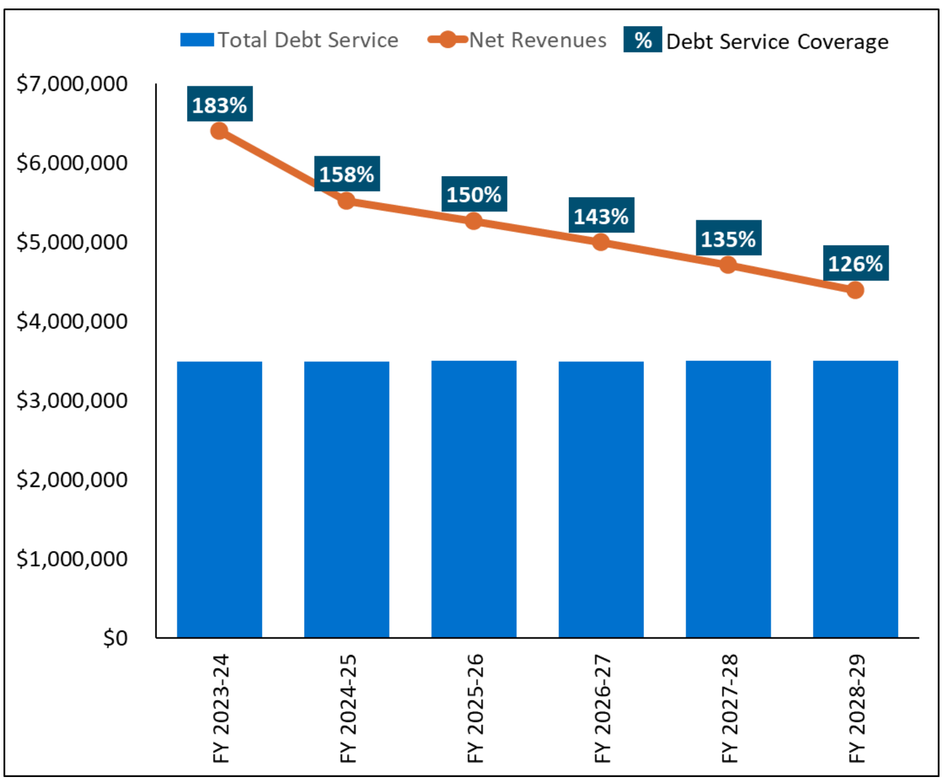
Our baseline projection indicates that the Water Fund's coverage may decrease to 126% by FYE 2029. We recommend that City staff review this coverage annually to ensure that the Water Fund has sufficient revenues to meet its required coverage and has sufficient revenues to address Water Fund's pay-go capital funding needs.

Key Revenue & Expense Assumptions	Projected Growth Rates (Relative to FY 2023-24 Budget Amounts)
Key Revenues	
Charges for Current Services	0.00%
Key Expenses	
Salaries	1.98%
Special Department Expense	0.00%
Professional Service	5.16%
Financing	-10.00%
Operations & Maintenance	1.77%
Utilities	10.34%
Water Production	0.00%

Water Fund Revenues and Expenses – Baseline Scenario



Water Fund Debt Service Coverage – Baseline Scenario



Sewer Fund Assumptions, Scenarios, and Findings

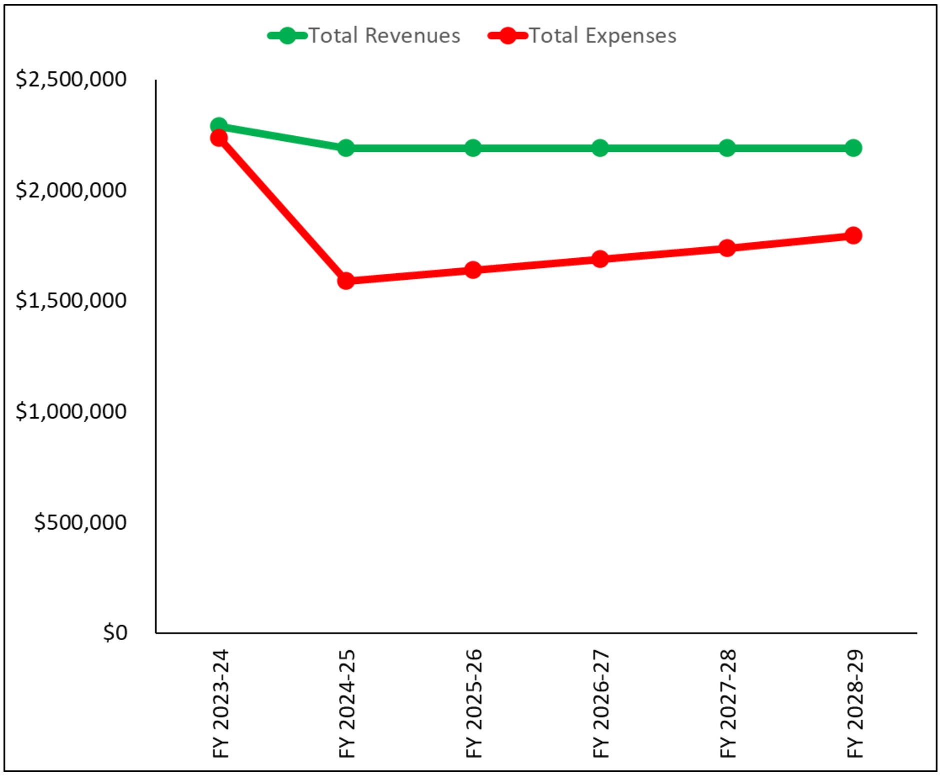
Similar to the Water Fund, the City's Sewer Fund (Fund 210)'s primary source of revenues are rate revenues. The City only charges a fixed fee for wastewater customers, with the fee based on the type of customer (e.g., single family, multi family, commercial, schools, nurseries, etc.). Sewer rates were last approved in November 2017 for a period from January 2018 – January 2022.

Given the fixed nature of the customer base and the fixed fee, the scenario includes level revenues (no assumption of a rate increase) and increasing operating costs (based on historical information). We do note that an economic market event affecting the CalPERS investment return rate could negatively impact the projected expenses.

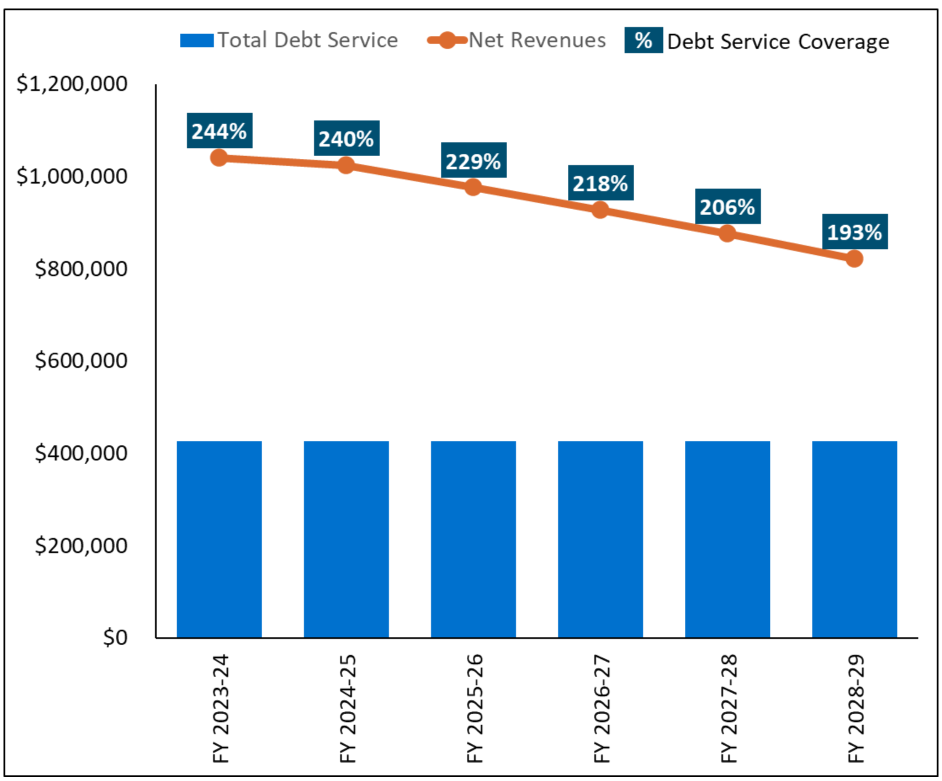
The Sewer Fund has one outstanding obligation – the 2012 State Water Resources Control Board State Revolving Fund ("SRF") loan. Similar to the outstanding Water Fund debt, this 2012 SRF Loan obligation has a covenant to maintain 120% minimum debt service coverage. The Sewer Fund's projected coverage is expected to remain well above that minimum for the term of the projection. Nevertheless, we recommend that the City continue to monitor and calculate this coverage each year.

Key Revenue & Expense Assumptions	Projected Growth Rates (Relative to FY 2023-24 Budget Amounts)
Key Revenues	
Charges for Current Services	0.00%
Key Expenses	
Salaries	5.22%
Operations & Maintenance	2.22%
Contract Services	-10.00%

Sewer Fund Revenues and Expenses – Baseline Scenario



Sewer Fund Debt Service Coverage – Baseline Scenario



Arroyo Seco Golf Course Fund Assumptions, Scenarios, and Findings

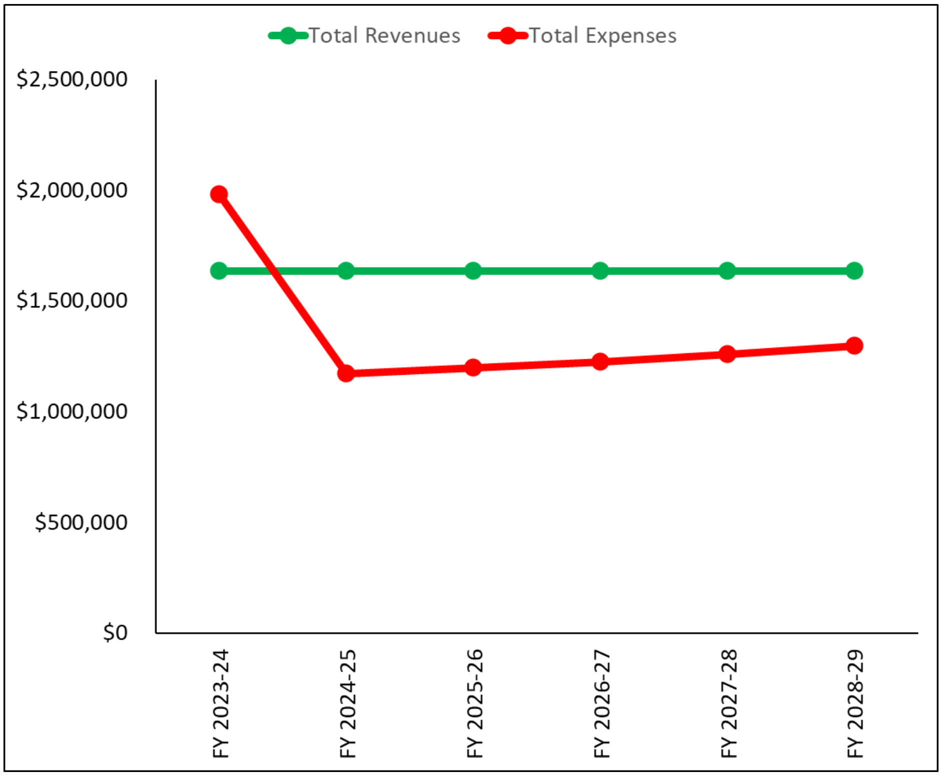
Like the Water and Sewer Funds, charges for services are the main source of revenue for the Arroyo Seco Golf Course Fund (Fund 295). As an enterprise fund, the City requires the Golf Course Fund to be self-supporting. We recognize that the Golf Course completed a Market Support and Financial Analysis exercise with an outside consultant who made recommendations for implementation in FY 2023-24.

In the baseline projections below, we assumed that revenues stay flat at FY 2023-24 budget levels and that overall operating expenses (excluding capital) grow at approximately 3% annually.

We also recognize that the Golf Fund has some significant repairs and capital needs that will stress the future budget. This scenario does not include capital expenses but the capacity for annual pay-go capital improvements is essentially the spread between the green and red lines below. We understand from the January 15, 2024, City Council meeting that the Council has asked City staff to evaluate the City's options for an interim golf fund fee as a strategy to raise more money to support this fund's operational and deferred capital needs.

Key Revenue & Expense Assumptions	Projected Growth Rates (Relative to FY 2023-24 Budget Amounts)
Key Revenues	
Charges for Current Services	0.00%
Key Expenses	
Contract Services	0.31%
Operations & Maintenance	16.50%

Arroyo Seco Golf Course Fund Revenues and Expenses – Baseline/Recession Scenario



Prop A Sales Tax Fund Assumptions, Scenarios, and Findings

Approved by voters in November 1980, Proposition A is a half-cent sales tax dedicated to transportation funding. As a condition of voter approval, 25 percent of the Proposition A tax revenues are earmarked for the Local Return Programs to be used by cities and the County of Los Angeles in developing and/or improving local public transit, paratransit and related transportation infrastructure. The City's Prop A Sales Tax Fund (Fund 205)'s primary source of revenues is therefore sales tax revenues. The primary source of expenses for the fund is salaries. In the baseline scenario for this fund, salaries are projected to increase 3.86% annually for the next five years, which is consistent with the compound annual growth rate of salaries in the City's General Fund. The sales tax revenues are projected to grow 2.0%, 2.5%, 2.5%, 2.6%, and 2.6% in FY 2024-25 to FY 2028-29, respectively. These projected sales tax growth rates are sourced from HdL's latest sales and use tax budget estimate for the City.

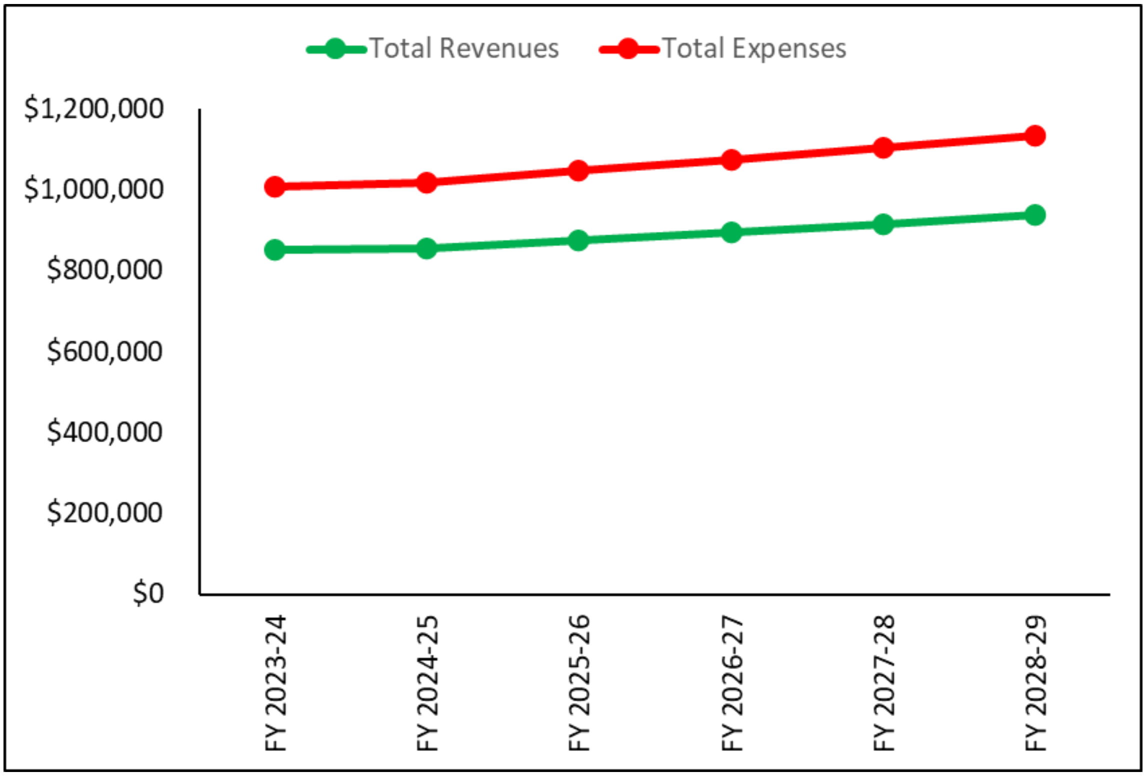
In the recession scenario, salaries are held at the same annual growth rate as the baseline scenario, but sales tax revenues are projected to mimic the sales tax revenue impacts seen in the General Fund recessionary scenario, in which revenue takes a large hit in FY 2024-25. As mentioned in the General Fund section, the sales tax growth rates for this scenario are derived from reviewing the City's sales tax revenues during and after the Great Recession.

In both the baseline and recessionary scenario there is a structural deficit in the Prop A Sales Tax Fund. In the baseline scenario, the annual deficit averages approximately $180,000 from FY 2024-25 to FY 2028-29. In the recessionary scenario, the annual deficit averages approximately $350,000 during the same period.

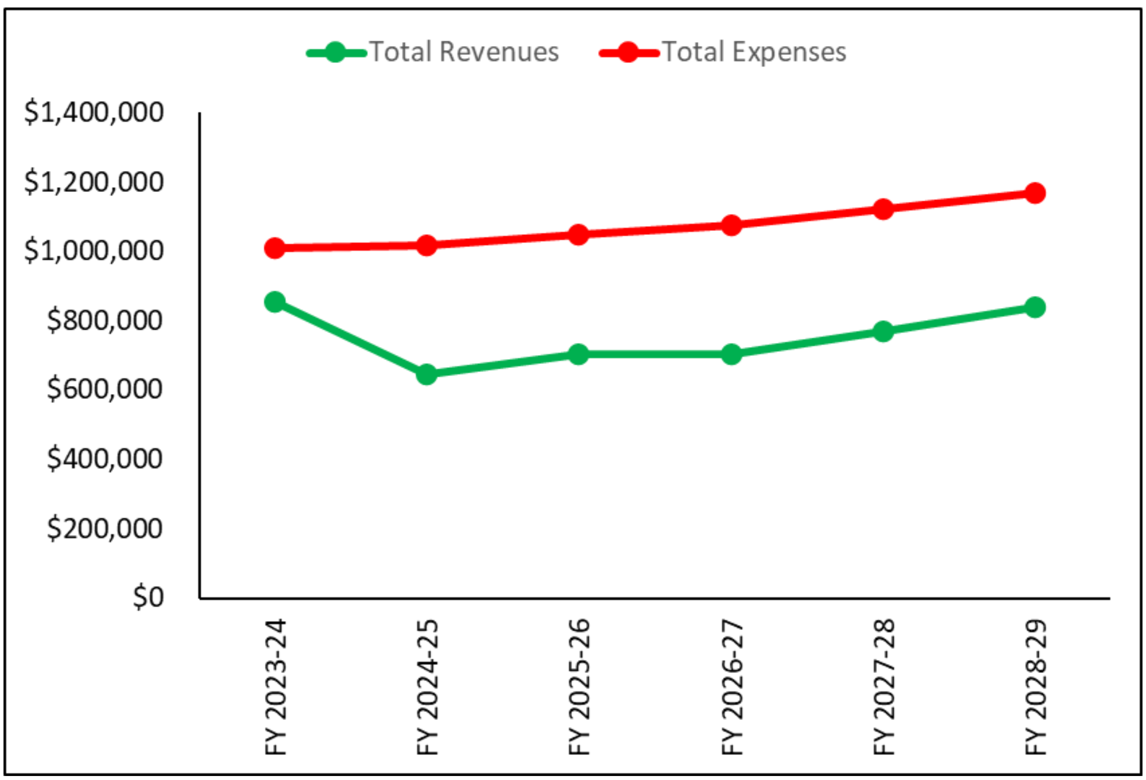
Note that the Prop A Sales Tax Fund has not historically operated at a deficit, but the 5-year projection is growing off the FY 2023-24 budget, which shows a deficit for the fund. The fund has a $1.9 million fund balance as of FYE 2023 that can be used to cover deficits; however, continued budget deficits fund could negatively impact fund balance.

Key Revenue & Expense Assumptions	Baseline Projected Growth Rates	Recession Projected Growth Rates
Key Revenues		
Sales Tax	2.44%	-25%, 10%, 0%, 10%, 10%
Key Expenses		
Salaries	3.86%	3.86%

Prop A Sales Tax Fund Revenues and Expenses – Baseline Scenario



Prop A Sales Tax Fund Revenues and Expenses -- Recession Scenario



Prop C Sales Tax Fund Assumptions, Scenarios, and Findings

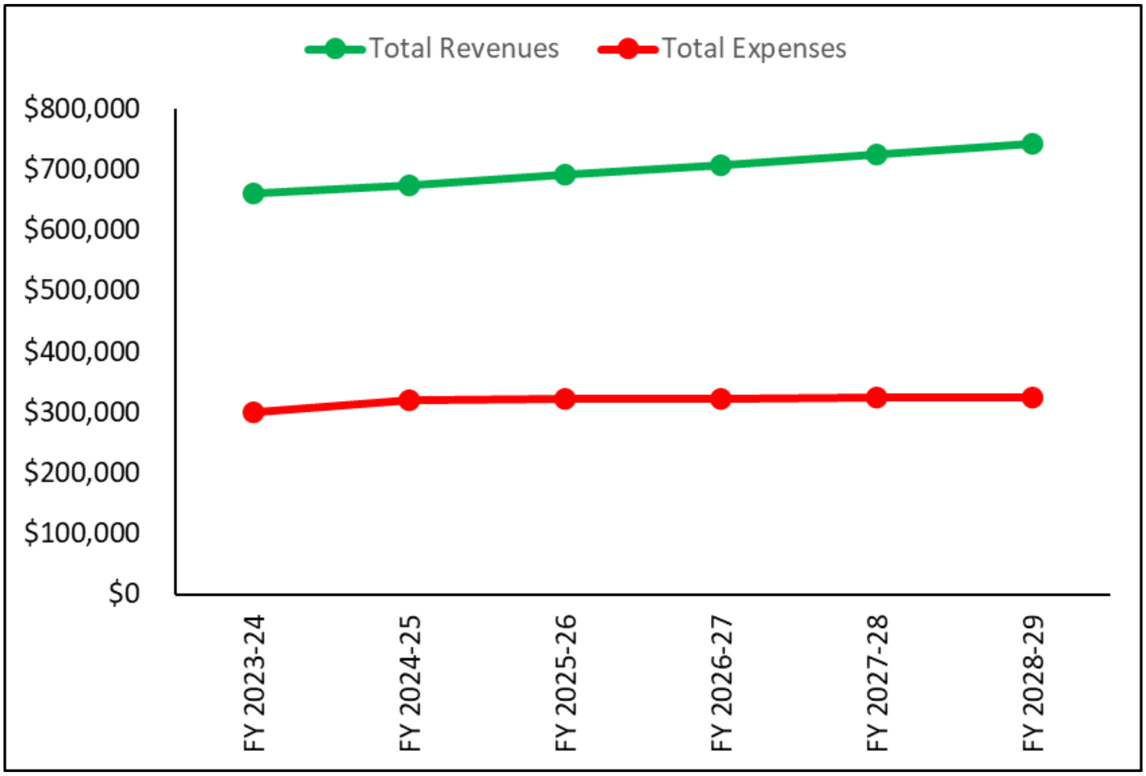
Approved by Los Angeles County voters in November 1990 Proposition C is a half-cent sales tax intended to support projects and programs developed with Proposition A funds and, in particular, provide funding to help improve and expand the rail system started with Proposition A funds. As a condition of voter approval 20 percent of the Proposition C tax revenues are earmarked for the Local Return Programs to be used by cities and the County of Los Angeles in developing and/or improving local public transit, paratransit and related transportation infrastructure. The City's Prop C Sales Tax Fund (Fund 207)'s primary source of revenues is therefore sales tax revenues. The largest expense line items for the fund have historically been salaries and capital projects. In the baseline scenario the sales tax revenues are projected to grow 2.0%, 2.5%, 2.5%, 2.6%, and 2.6% in FY 2024-25 to FY 2028-29, respectively. These projected sales tax growth rates are sourced from HdL's latest sales and use tax budget estimate for the City. In FY 2023-24, the only budgeted expense is $300,000 for street repairs. In the baseline scenario, it is assumed that the $300,000 capital expense continues annually.

In the recession scenario, the $300,000 annual capital expense for street repairs is held constant like in the baseline scenario. Sales tax revenues are projected to mimic the sales tax revenue impacts seen in the General Fund recessionary scenario, in which revenue takes a large hit in FY 2024-25.

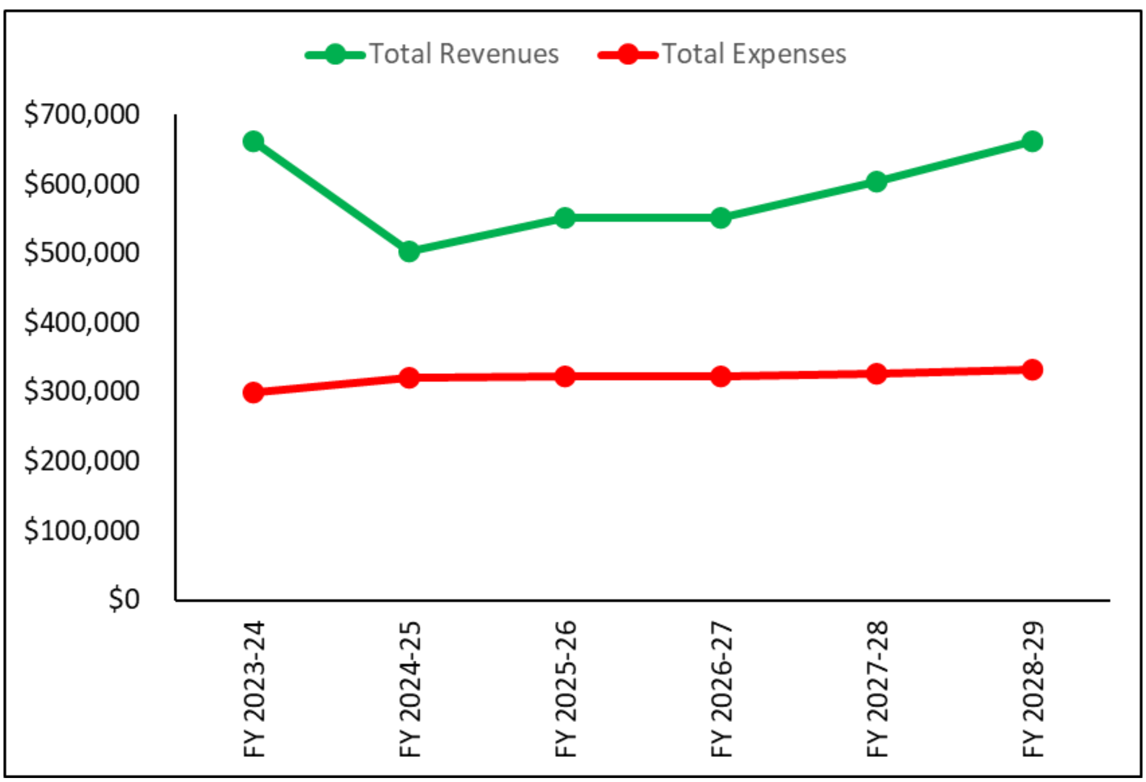
In both the baseline and recessionary scenario, fund revenues outpace the expenses, generating an average annual surplus of $385,000 in the baseline scenario and $249,000 in the recessionary scenario. Future differences in capital project expenses or other expenses within the fund will alter these surpluses.

Key Revenue & Expense Assumptions	Baseline Projected Growth Rates	Recession Projected Growth Rates
Key Revenues		
Sales Tax	2.44%	1.00%
Key Expenses		
Capital Expenditures	$300,000 annually	$300,000 annually

Prop C Sales Tax Fund Revenues and Expenses -- Baseline Scenario



Prop C Sales Tax Fund Revenues and Expenses -- Recession Scenario



Measure R Fund Assumptions, Scenarios, and Findings

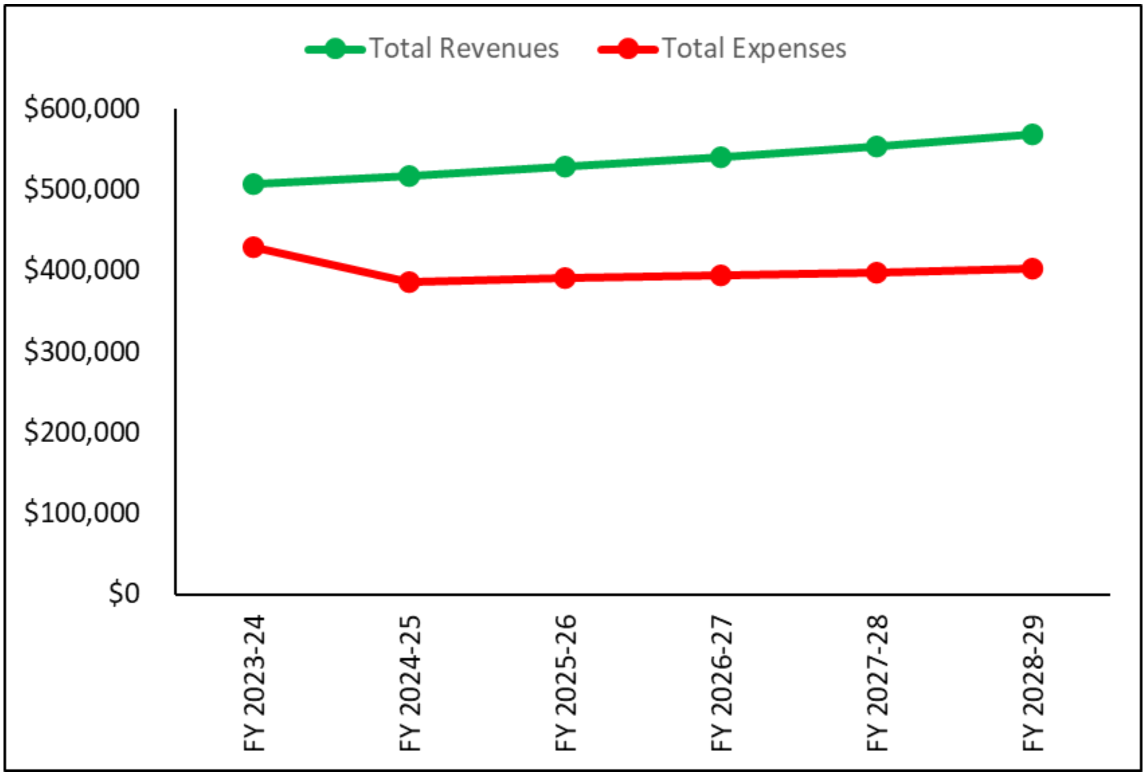
Measure R was approved by Los Angeles County Voters in the November 2008 election. Collection of Measure R revenues commenced on July 1, 2009, and sunsets on June 30, 2039. Measure R revenues are derived from a County-wide 0.5% retail transactions and use tax imposed. The California Department of Tax and Fee Administration is responsible for collecting these taxes and allocating portions of it to various local capital projects and programs. A portion (approximately 15%) of this collection is also earmarked for Local Return. The City's share of the local return is allocated monthly on a per capita basis (City's population as a percentage of the County's population, based on California Department of Finance population estimates).

We recognize that the City's Measure R Fund (Fund 233) has an express role to finance capital projects and, aside from a small administrative component, this Fund's primary expense is annual capital projects. Our Baseline scenario and Recession scenario assume that this fund continues in its pass-through role, spending approximately $300,000 annually on street-related capital projects.

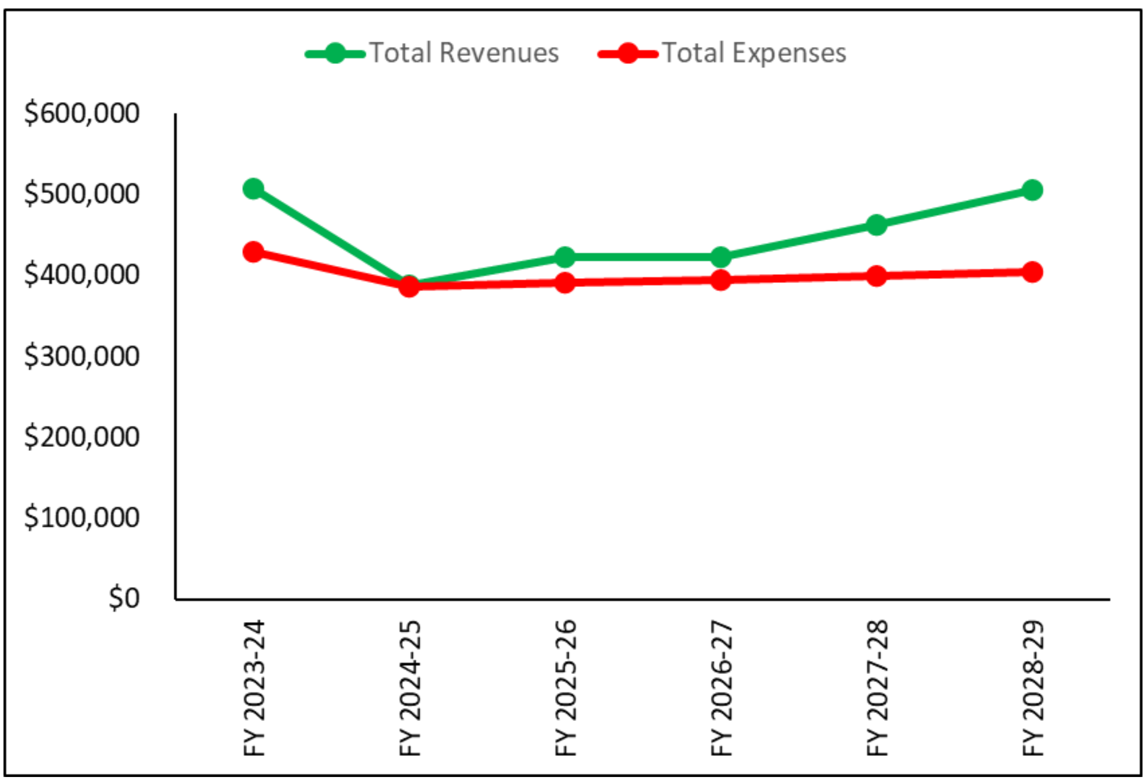
Because the Fund is essentially 100% dependent upon County-wide sales taxes, our baseline scenario conservatively assumes the Measure R Fund's revenues grow at just under 2.5%, while the recessionary growth scenario we assume a similar impact to sales taxes as we have assumed for other City funds (see table below).

Key Revenue & Expense Assumptions	Baseline Projected Growth Rates	Recession Projected Growth Rates
Key Revenues		
Sales Tax	2.44%	-25%, 10%, 0%, 10%,10%
Key Expenses		
Capital Expenditures	$300,000 annually	$300,000 annually

Measure R Fund Revenues and Expenses - Baseline Scenario



Measure R Fund Revenues and Expenses – Recession Scenario



Measure M Fund Assumptions, Scenarios, and Findings

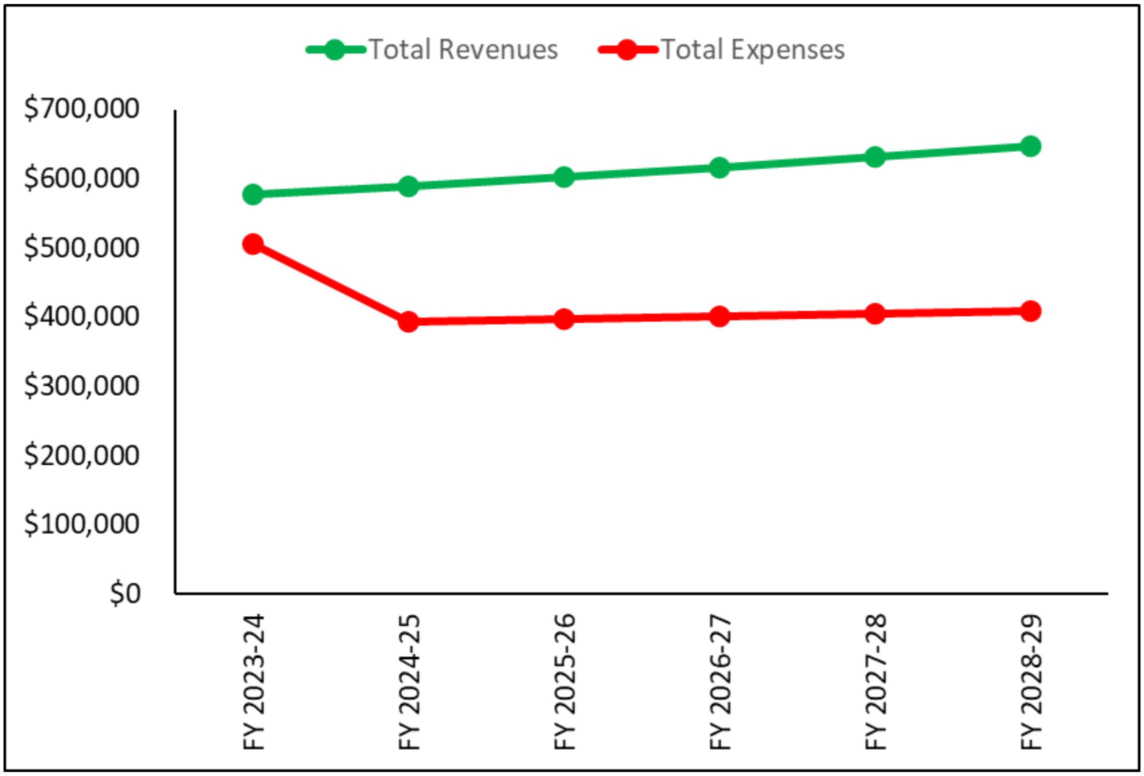
Similar to the Measure R fund, the Measure M Fund (Fund 236) is where the City records the receipts related to a County-wide sales tax revenue measure. Measure M was approved by Los Angeles County Voters in November 2016 as a 0.5% County-wide retail transactions and use tax. Unlike Measure R, Measure M has no sunset and, further, will increase to a 1% tax after Measure R sunsets in July 2039. Measure M is also allocated to a variety of programs, including rail capital projects & operations, highway construction, transit operations, and transit construction. A portion (approximately 17%) is allocated toward local return, which is also allocated to the City monthly on a per capita basis. It is worth noting that when Measure R sunsets in July 2039, the local return will increase from 17% up to 20% to partially offset the loss of Measure R revenues.

This fund has a similar role and operation to the City's Measure R Fund. Given its dependence on Sales taxes, we assume a 2.44% average annual growth under the Baseline Scenario while assuming the revenues take a drastic hit followed by a slow recovery under the Recession scenario.

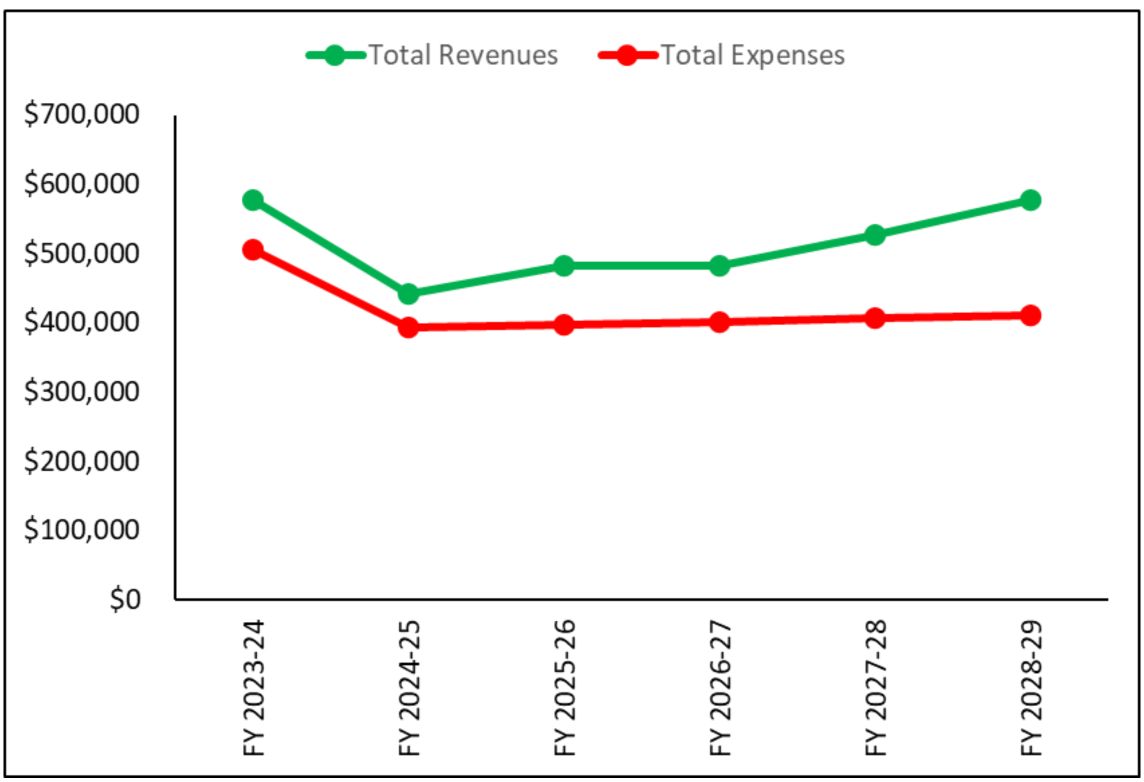
We recognize that this Fund's role is also to finance capital projects and, aside from a small administrative component, this Fund's primary expense is annual capital projects. Our Baseline scenario and Recession scenario assume that this fund continues in its pass-through role, spending approximately $275,000 annually on street-related capital projects.

Key Revenue & Expense Assumptions	Baseline Projected Growth Rates	Recession Projected Growth Rates
Key Revenues		
Sales Tax	2.44%	-25%, 10%, 0%, 10%,10%
Key Expenses		
Capital Expenditures	$275,000 annually	$275,000 annually

Measure M Fund Revenues and Expenses – Baseline Scenario



Measure M Fund Revenues and Expenses – Recession Scenario



Gas Tax Fund Assumptions, Scenarios, and Findings

The City's Gas Tax Fund (Fund 230) accounts for all state gas tax-related revenues and expenditures, including street repair, reconstruction and maintenance. These funds are spent on maintaining the City's' street and highway system in accordance with State law.

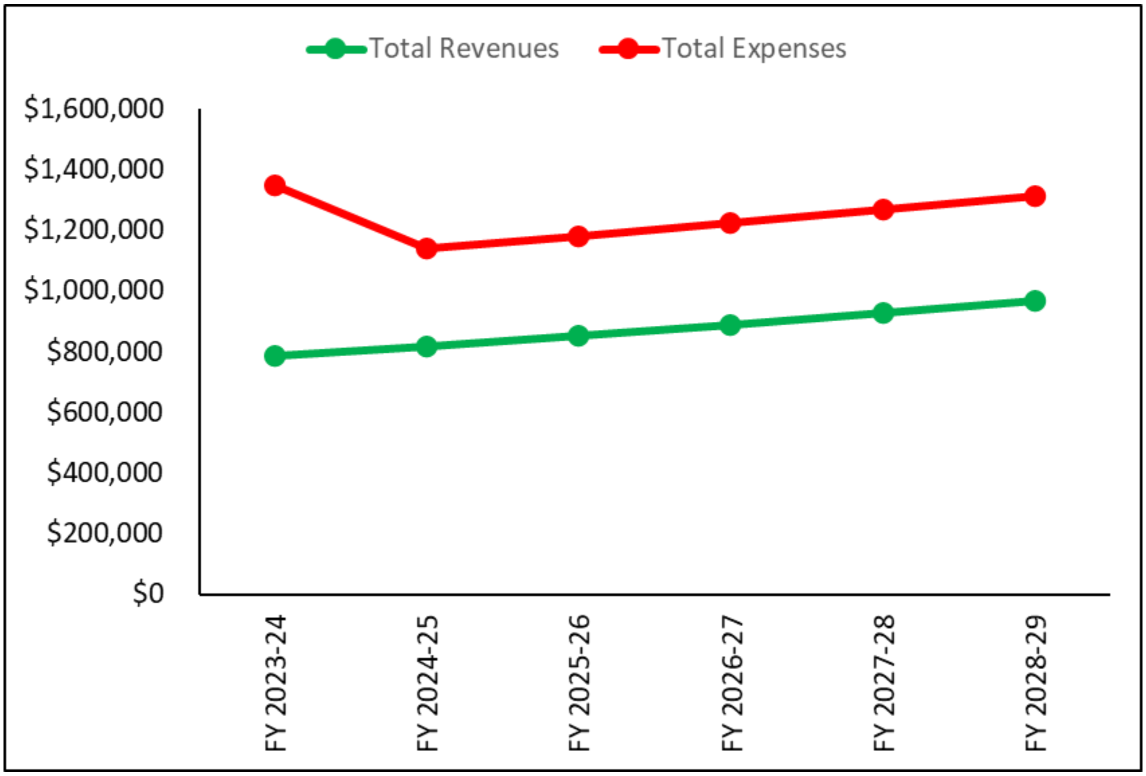
Historically this fund's only real source of revenues has been gas tax revenues received in accordance with Streets and Highways Code Sections 2103, 2105, 2106, 2107, and 2107.5 revenues. We understand that the California legislature has the discretion to change the population-driven gas tax distribution formulas as long as the equity of allocations is preserved. Based on precedent, such as what happened in 2008, it is possible that the State borrows fuel tax payments due to local agencies in future periods of financial stress. However, we also understand that the State's ability to divert these gas tax distributions is limited under Proposition 22, approved by voters in 2010. Nevertheless, an adverse state budget environment could cause the State to delay remitting payments to Cities.

Accordingly, we assume that both Baseline and Recession scenarios essentially have the same revenue profile. While gas consumption for discretionary purposes (like vacations) will most likely decrease under a Recession Scenario, we believe the City's population growth is likely the main driver of this revenue stream for the foreseeable future and that the distribution formulas governing the gas tax have been consistent historically.

On the expense side, we assume that salaries and health insurance expenses grow at just under 4% annually. Given the amount of personnel-related ongoing operating expenses paid out of this Fund, our projection below does not include future appropriations for capital projects. We also recognize that this Fund has historically spent less than the budgeted amounts on capital projects the past few years.

Key Revenue & Expense Assumptions	Baseline Projected Growth Rates	Recession Projected Growth Rates
Key Revenues		
Revenue from Other Agencies (Gas Tax Revenues)	4.34%	4.34%
Key Expenses		
Salaries	3.86%	3.86%
Group Health Insurance	3.49%	3.49%

Gas Tax Fund Revenues and Expenses – Baseline/Recession Scenario



Road Maintenance & Rehabilitation Fund Assumptions, Scenarios, and Findings

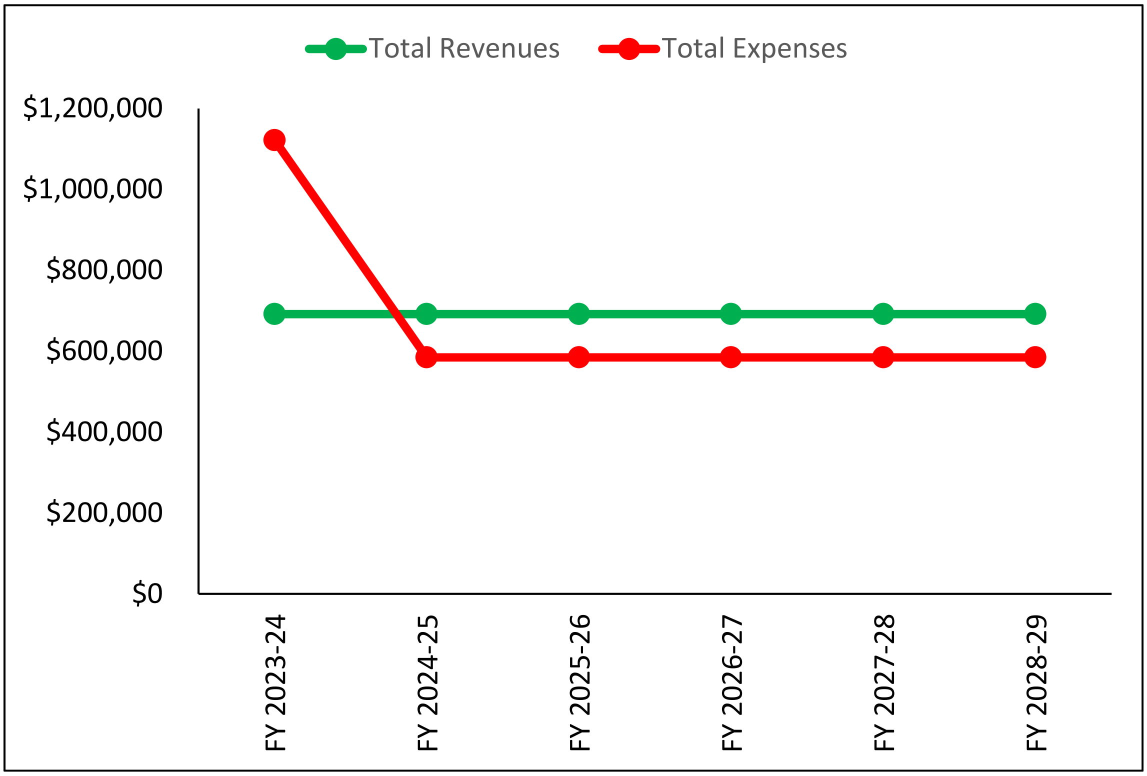
The City's Road Maintenance & Rehabilitation Fund (Fund 237) accounts for all revenues and expenditures associated with State Gas Tax SB1. Proposition 69 passed in June 2018. This constitutional amendment guaranteed that all revenue from SB1 would be used for transportation purposes. The formula by which SB1 money flows to the City is convoluted, but essentially, revenues from Transportation Improvement Fees, Diesel Excise Taxes, Gas Excise Taxes, and Zero Emissions Vehicle Fees flow into a Road Maintenance and Rehabilitation Account. The State takes a portion of these revenues "off the top" to use toward statewide capital projects. After the State's take, any excess remaining funds are split 50% toward State highway maintenance and rehabilitation and 50% toward local streets and roads maintenance and rehabilitation. Of that local streets 50% share, that amount is further split 50/50 between Counties and cities. The city allocations are then apportioned based on each city's population. It is this city allocation that flows into the City's Fund 237 – on average $500K annually (though that number has grown recently). One condition of receiving these funds is that the City must spend a certain amount of matching expense on transportation-related capital projects, known as the City's Maintenance of Effort ("MOE"). Our understanding is that the City's MOE is approximately $1.428 million, and that the City has historically struggled to spend that much on capital projects. It is also our understanding that the City has been notified by the State Controller's Office that a state audit identified that the City has fallen short of its MOE in the past and that the City is at risk of losing its eligibility for the SB1 Funds it received in FY 2021-22. Additionally, if the City does not meet its MOE in the future, it could lose eligibility for additional future SB1 funds. We understand that the City is exploring its options to 1) allow the City more time to spend the SB1 amounts from prior fiscal years and 2) reduce the City's MOE going forward.

Our forecast assumes that the City is not successful in preventing a claw-back of approximately $537,000 in SB1 Funds related to prior fiscal years, but that the City is successful in either reducing its MOE going forward or in increasing its rate of capital expenditure to make the City eligible to continue receiving these funds. We recognize the importance of these SB1 revenues to the City and recommend that the City make a concerted effort to address the issues raised by the State.

Similar to our modeling for the Gas Tax Fund, we kept a similar set of assumptions under the Baseline and Recession scenario, as detailed in the table below. Furthermore, we assume a one-time claw-back of $537,000 in SB1 money which is causing the temporary jump in expenditures over revenues in FY 2023-24.

Key Revenue & Expense Assumptions	Baseline Projected Growth Rates	Recession Projected Growth Rates
Key Revenues		
SB1 Revenues	0%	0%
Key Expenses		
Capital Projects	$585,000 annually	$585,000 annually

Road Maintenance & Rehabilitation Fund Revenues and Expenses – Baseline/Recession Scenario



Modeling Limitations

We recognize that financial modeling is limited by the underlying assumptions and model construction. At its core, financial modeling will attempt to project a future financial reality based on reasonable underlying assumptions. Aside from general cautions about the uncertainties regarding the forward-looking limitations of our modeling:

1. The Model will use the Fiscal Year 2023-24 Budget as a baseline and can diverge from reality to the extent that actual financials differ from the budget. We have also attempted to minimize the risk of large one-time expenses or revenues having undue impact on the results the projection term but note that future changes in how the City's 10 funds interact with each other or with other City funds will make the outputs of the Mode less meaningful.
2. Zeroing out a revenue or expense line item will require a user to manually enter a dollar amount in a subsequent fiscal year in order for that revenue or expense line item to function properly in the future years.
3. The Model will not incorporate every City fund but is focused on 10 key City funds. We recognize that the City's financial ecosystem reflects interconnections between all funds and we made some simplifying assumptions regarding future transfers out to those other funds. However, a full City-wide model could benefit from more precisely modeling key assumption changes and impacts on future transfers out to other funds. Doing a multi-year projection for all of the City's funds will come with a consultant cost to the City and would require an expansion upon the current scope of the project. While we believe that it is unlikely that modeling out all of the City's funds would result in a material change in the conclusions of this exercise, we stand ready to expand the Model upon the City's request
4. We will make some simplifying (though reasonable) assumptions regarding future expenses in some key areas like capital expenses and transfers out of the General Fund to support other funds. Model users should be careful to look for these entries and update or amend those entries as needed as key underlying assumptions change.
5. The Model will not be intended to serve as a backward-looking tool. As a result, revenues and expenses use budgetary categories and historical revenues and expenses will exclude many GASB-related non-cash adjustments (e.g., fair market value adjustment for interest revenues) that would show up in the City's audited financial statements. Total revenues and expenses from prior years will not exactly tie to the total revenues and expenses in the City's audited financial statements.
6. Given the complexities of scenario modeling, we recommend that a user interact with City staff or NHA to validate the output of additional scenarios.

Conclusion

Our hope is that this Model will inform future decisions, both operational and capital, by providing a dynamic resource that City staff and officials can use to model future financial scenarios. The Model will assist the user to identify the trends in net revenues under different growth assumptions on revenue and expenditure side. The dynamic nature of the Model allows City staff to stress test financial feasibility of the funds under a variety of scenarios.

We recognize that the City has a desire to begin addressing deferred capital and replacement needs. Accordingly, we expect that the City will need to develop a strategic funding and financing plan to start addressing its deferred capital needs and will need to explore additional revenue growth or expense containment strategies.

We recognize the City's efforts to diversify the revenue stream to reduce the City's revenue concentration risk, including the passage of Measure A (0.75% general sales tax) in 2019 and Measure U in November 2020 (extension of existing 7.5% UUT rate until repealed). The City's sales tax generating businesses are relatively unconcentrated. The City would see benefits from a large, new retail facility not only in terms of revenue generation, but also in terms of reduced reliance on property taxes due to diversification of the City's revenue profile.

If interest rates remain high and home sales remain low, we would expect annual growth in property tax revenues to align more closely to the 2% annual assessed value increases by Proposition 13. This is due to a reduced number of property sales and transfers, leading to fewer sales of properties that have a "pent up" assessed value (i.e. assessed value significantly below market value). A slowdown in development and home sales also leads to lower plan check and planning fee revenues at the City.

While the Federal Reserve Board controls the short end of the yield curve, long-term interest and mortgage rates are a function of investors' views on inflation. Accordingly, it is reasonable to assume that if the Fed reduces short term interest rates because inflation is under control, longer-term rates will also move down. As of the date of this memorandum, the market is pricing in an 8% chance of a reduction in the Fed rate by March, a 35% chance of a reduction in the Fed rate by May, and a 75% chance of a reduction in the Fed rate by June 2024. These probabilities change daily, but we believe they provide a reasonable basis for assuming that the Fed rate decreases in the next 12 months, which leads to lower mortgage rates and causes the rate of home sales to increase from current levels.

The City has controlled expense growth over the past several years, averaging just under 4% for salaries in the General Fund. We recognize that the City's FY 2023-24 budget incorporates approximately 11% vacancy savings. With recent inflationary pressures on California households, the negotiated salary increases in the next cycle may be key toward ensuring financial health.

Finally, the Model provides projections of the future at a certain point in time. We recognize that actual results may differ from projected results due to unanticipated events. Accordingly, it is very important to have options when modeling future revenues, expenditures, and other assumptions and the Model has significant flexibility built into it for this purpose. With the Model's transparency, interactive functionality, and accessibility, we hope that the Model can assist the City with determining strategic goals to further increase the fiscal fitness and resilience of the City.

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board ("MSRB"). As such, NHA Advisors, LLC has a Fiduciary duty to the public agency and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

Duty of Care

a) exercise due care in performing its municipal advisory activities;
b) possess the degree of knowledge and expertise needed to provide the public agency with informed advice;
c) make a reasonable inquiry as to the facts that are relevant to the public agency's determination as to whether to proceed with a course of action or that form the basis for any advice provided to the public agency; and
d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
    i. any advice provided to or on behalf of the public agency;
    ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by the public agency, any other party involved in the municipal securities transaction or municipal financial product, or investors in the public agency securities; and
    iii. any information provided to the public agency or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

Duty of Loyalty

NHA Advisors, LLC must deal honestly and with the utmost good faith with the public agency and act in the public agency's best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with the public agency as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in the public agency's best interests.

ATTACHMENT 2

Bill Statler Baseline Financial Report

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

January 2024

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William C. Statler

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

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INTRODUCTION

OVERVIEW

Background

This report is in response to the City of South Pasadena's interest in preparing a General Fund fiscal analysis and long-term financial plan (Plan) in assessing its ability over the next five years – on an "order of magnitude" basis – to:

- Continue current services in the aftermath of global pandemic (as well as other recently surfaced economic challenges).
- Address long-term liabilities.
- Achieve capital improvement plan (CIP) goals.
- And if the forecast projects a negative gap between revenues and expenditures, identify realistic options for the City's consideration in closing the gap.

Short and Long-Term Decision-Making Consequences. Making good resource decisions in the short term as part of the budget process requires considering 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 – and opportunities – ahead of the City.

For those local agencies that have prepared long-term forecasts and 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.

Forecast Purpose and Approach

The purpose of the forecast is to identify the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services in the aftermath of the global pandemic (as well as other recently surfaced economic challenges), address long-term liabilities and achieve CIP goals.

The forecast does this by projecting ongoing revenues and subtracting from them likely operating and CIP costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" such as implementing CIP goals, addressing unfunded liabilities or improving service levels. On the other hand, if negative, it shows the likely "forecast gap" if the City continues current service levels or funds CIP projects without corrective action.

The forecast builds on the *General Fiscal Outlook and Key Assumptions* report presented to the Finance Commission in September 2023. It prefaced this forecast report by discussing key economic, demographic and fiscal factors that are likely to affect the General Fund's fiscal future, which ultimately translate into key assumptions that drive forecast results.

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

Budgets are based on program review, priorities and affordability. The forecast on the other hand is based on assumptions. 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 and achieve CIP goals.

Can the City Afford New Initiatives?

This is a basic question of priorities, not of financial capacity per se. But the forecast assesses how difficult answering this question will be.

Ultimately, this forecast cannot answer the question: "Can the City afford new initiatives?" 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 forecast 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 – and opportunities – ahead of the City in adopting a balanced budget, next year and beyond.

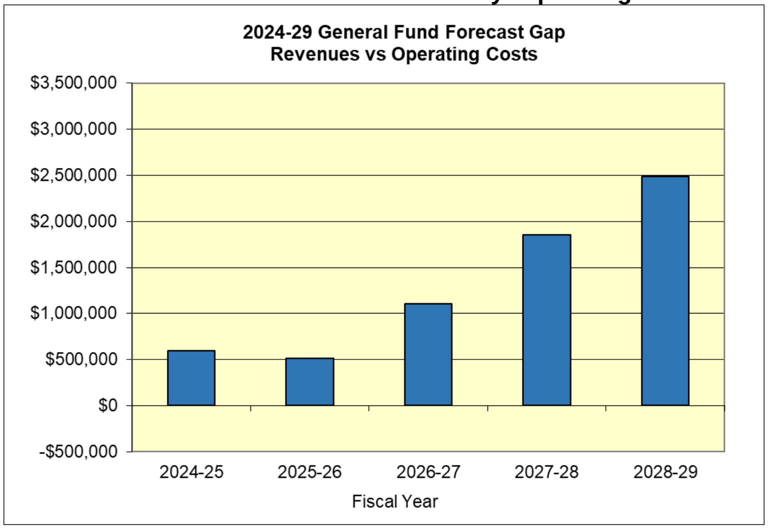
FORECAST FINDINGS

The Short Story

- The General Fund is in good shape in funding operating expenditures.
- However, subsidies to other funds also play a key role in funding day-to-day services. When these likely ongoing transfers are included, it appears that the General Fund will experience a small gap (about 0.7% of revenues) in 2024-25. However, after that for each of the next four years, General Fund revenues will exceed operating costs and subsidy transfers to other funds.
- On the other hand, challenges are ahead in funding CIP projects (let alone improving service levels or addressing long-term liabilities).

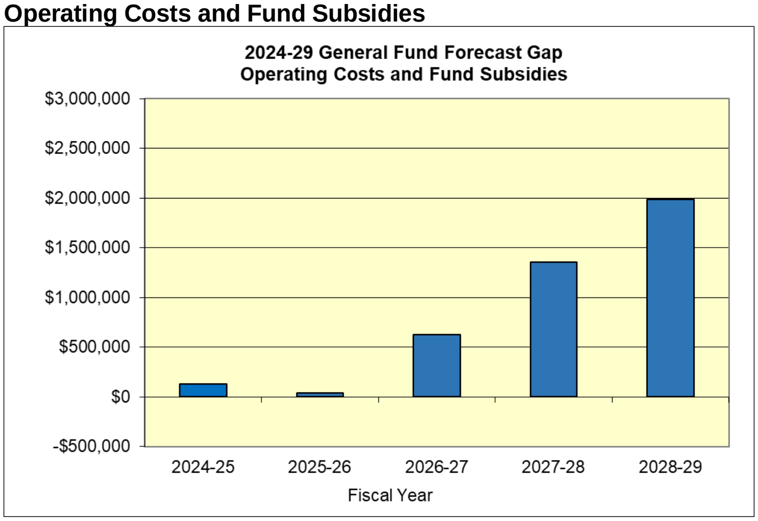
The following presents results for these three assessments.

Table 1. General Fund Resource Availability: Operating Costs



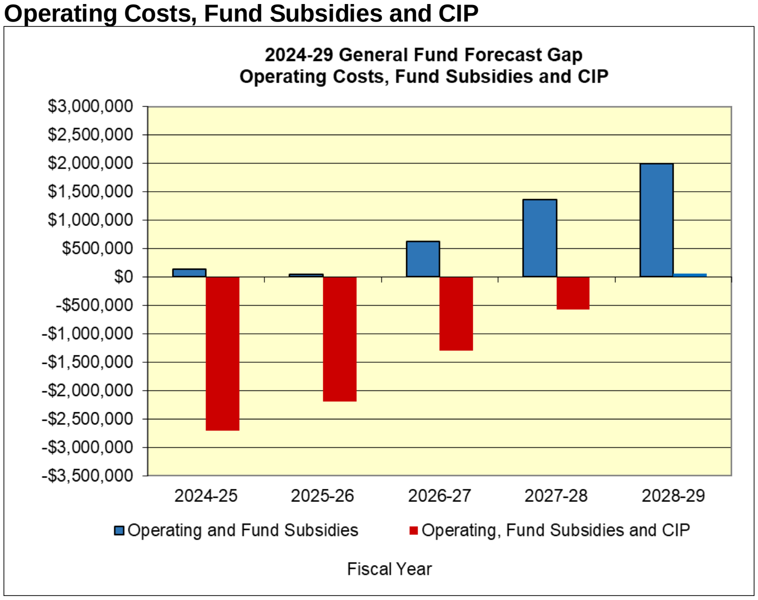
Funding Operating Costs. As shown in Table 1, forecast revenues exceed *operating expenditures* in every year. More importantly, resource availability stays stable or grows each year, rather than declining, with resource availability growing to $2.5 million in 2028-29.

Table 2. General Fund Resource Availability: Operating Costs and Fund Subsidies



Including Fund Subsidies. That said, subsidies to two funds (Lighting/Landscape Maintenance and Business Improvement) also play a key role in funding day-to-day services. When these likely ongoing transfers are included, Table 2 shows that that the General Fund will still show resource availability in each year, growing to $2.0 million 2028-29.

Table 3. General Fund Resource Availability: Operating Costs, Fund Subsidies and CIP



Funding with Transfers and CIP. Table 3 compares forecast results for operating costs and fund subsidies (Table 2) with what happens if CIP projects (five-year CIP of about $2.2 million annually) are included in the forecast. In this case, in the first four years, there are declining gaps. By year five (2028-29), the gap is eliminated, but by a very modest amount (just $60,600).

What does this mean and why does the General Fund's resource availability grow? As noted above, regardless of whether the gap is positive or negative, the most important finding is that resource availability stays stable or improves each year under either of the three assessments. As discussed in greater detail below regarding key forecast assumptions, this results because the General Fund's top revenues are projected to grow faster (albeit modestly) than operating costs and fund subsidies in each year of the forecast.

The Path Forward. As discussed below, there are several options available in funding CIP projects in all years while meeting minimum policy levels, including:

- Use reserves that are above policy target minimum.
- Scale back CIP projects.
- Reduce CalPERS unfunded actuarial liabilities (UAL).
- Consider focused revenue options and improved indirect cost recovery from enterprise funds.
- Combination of options.

Key Forecast Drivers

Assumptions drive the forecast results, which are detailed on pages 22 to 26. Simply stated, if the assumptions change, the results will change. As prefaced in the *General Fiscal Outlook and Key Assumptions* presented to the Finance Commission on September 28, 2023, there are eight key drivers underlying the forecast results:

- General economic trends and outlook
- State budget situation
- Current financial condition
- Key revenues
- Operating cost drivers, including approved Memorandums of Understanding (MOU's), insurance and pension costs
- General Fund subsidies to other funds
- Population growth and development
- Capital improvement plan

❶ *General Economic Trends and Outlook*

Where's the Recession? The shut-down of the economy in responding to the Covid-19 public health threat 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.

INTRODUCTION

With the Federal Reserve (Fed) raising its prime interest rate in combatting inflation, the consensus view of many leading economists was that we would experience a recession. However, it appears that the hopeful "soft landing" is happening.

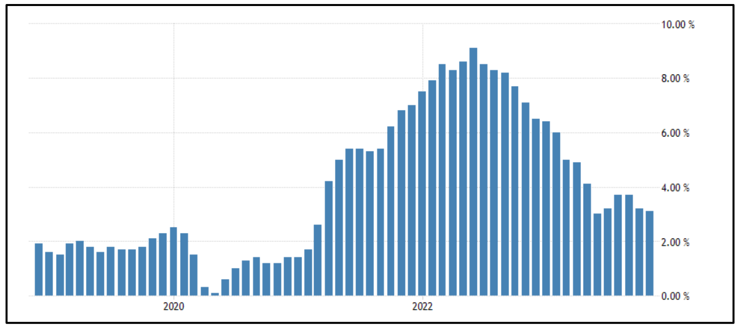
Taming Rising Inflation. While initially believed to be short-term by many leading economists, inflation peaked at an annual rate of 9.1% in June 2022 (the highest rate in forty years), following long-term trends of about 2% before Covid-19. This was largely due to high demand (bottled up during Covid-19)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

This in turn resulted in increasing interest rates by the Fed in addressing this. However, as shown in Table 4, the inflation rate has steadily declined, following to between 3.0% and 3.7% in the last six months (through November 2023), falling to 3.2% in October and 3.1% in November.

Where is this headed? Many economists predict continued inflationary declines. For example, Statista (will decline to pre-Covid-19 levels of about 2% by 2024 (Table 5). Given recent declines and Fed actions and signals as discussed below, these projections seem reasonable.

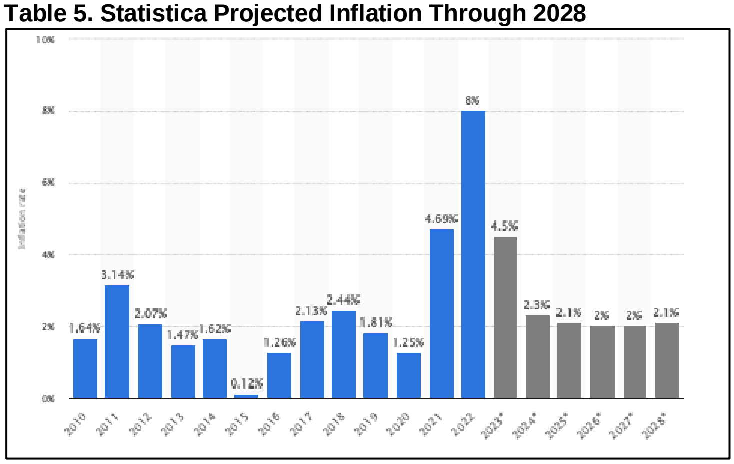
The Fed continues to be concerned about inflation and is committed to returning to its target annual rate of 2%. That said, after eleven consecutive hikes in, the Fed has held its key federal fund rates steady at its last three meetings. At its last meeting in December 2023, it signaled three modest rate cuts of one-quarter percent each in 2024.

Table 4. U.S. Inflation Rate: Last 5 Years



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

Table 5. Statistica Projected Inflation Through 2028

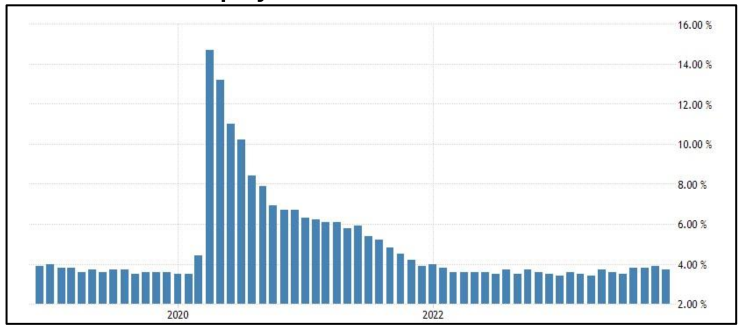


Source: Statistica.Com
Note: Statista is an international company with over 1,100 employes providing statistics and forecasts.

INTRODUCTION

U.S. Unemployment. Table 6 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 3.9% in the last 21 months through November 2023. This is the lowest consecutive rate since the 1960s. In short, while the increase in unemployment was steep, so was its decline.

Table 6. U.S. Unemployment Rate: Last 5 Years

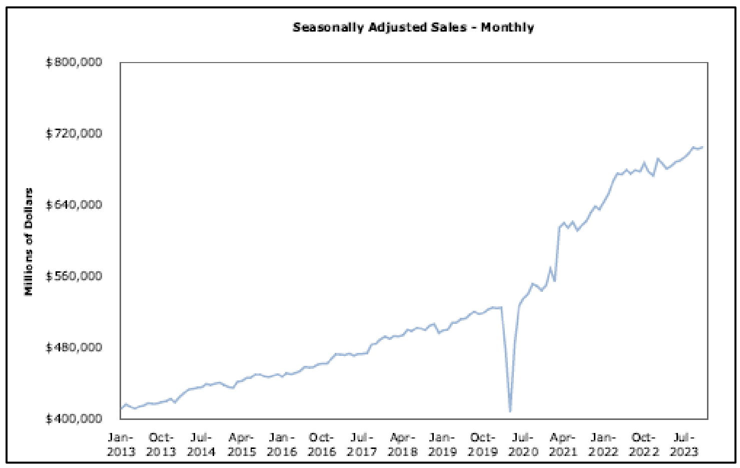


Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com

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 November 2023, retail sales are at their highest level ever (Table 7).

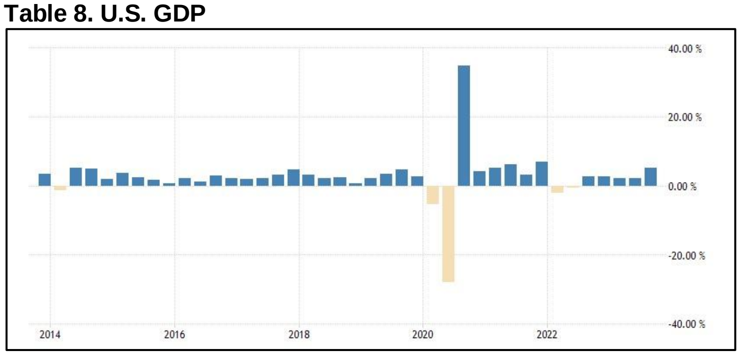
Table 7. U.S. Retail Sales



Source: U.S. Census Bureau

U.S. Gross Domestic Product (GDP). As reflected in Table 8, GDP has also shown consistent recovery since sharp declines during Covid-19, growing by 5.1% in the last (third) quarter of 2023. ***In short, where is the recession?***

Table 8. U.S. GDP



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

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Standard & Poors (S&P) 500. As shown in Table 9, the S&P 500 Index (a widely accepted broad measure of stock market performance) has been on a roller coaster ride lately. However, it has strongly recovered from its lowest point following Covid-19 impacts.

Table 9. S&P 500 Index: Last 5 Years

Source: Macrotrends.com

- 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.
- There have been mixed results since then. However, at 4,768 as of December 19, 2023, it has recovered from its pre-Covid peak.

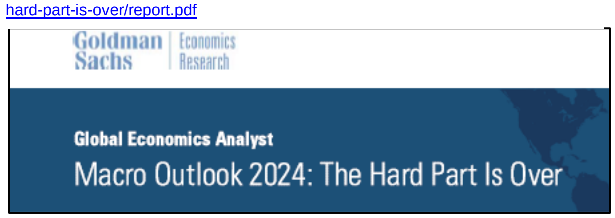
Where We're Headed. Most economists foresee continued strengthening of the economy. The Congressional Budget Office (non-partisan and widely accepted, credible source) projects nominal (unadjusted for inflation) GDP growth rates of 3.8% in 2023, 3.9% in 2024 and 4.5% in 2025.

The long awaited recession in 2023 is postponed, and perhaps even cancelled.

California Economic Forecast
https://californiaforecast.com/september-2023

What does this mean for the City? The top four General Fund revenues – property tax, sales tax, utility users tax (UUT) and franchise fees, which account for almost 80% of total revenues - are driven by the performance of the local economy, which in turn is driven by the interrelated performance of regional, state and national economies.

www.goldmansachs.com/intelligence/pages/gs-research/macro-outlook-2024-the-hard-part-is-over/report.pdf



The forecast revenue and cost drivers reflect cautious optimism that these positive trends will continue. This means that no significant economic downturns that will impact key General Fund revenues are projected in the forecast.

❷ *State Budget Outlook*

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.

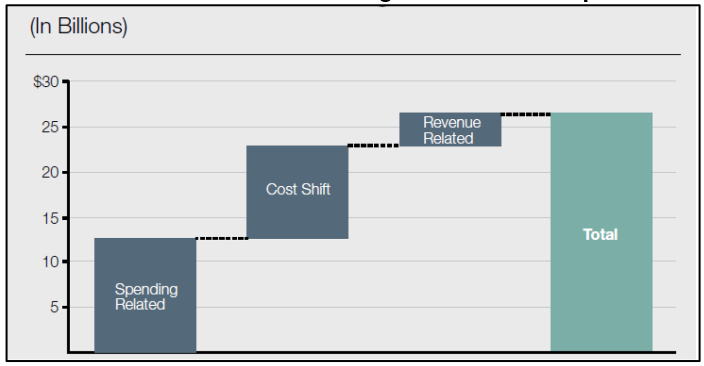
Fortunately, prior to Covid-19 impacts, the State was in its best financial condition in many years. However, for 2023-24, the State was facing a $27 billion General Fund gap. As shown in Table 10, the State resolved this gap through a combination of spending cuts, cost shifts and revenue increases.

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

Table 11 shows the State with a balanced budget and ending reserves of $27 billion. 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. How State 2023-24 Budget Closed the Gap



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

Table 11. 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 Strong 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 balance is organized into three main categories:

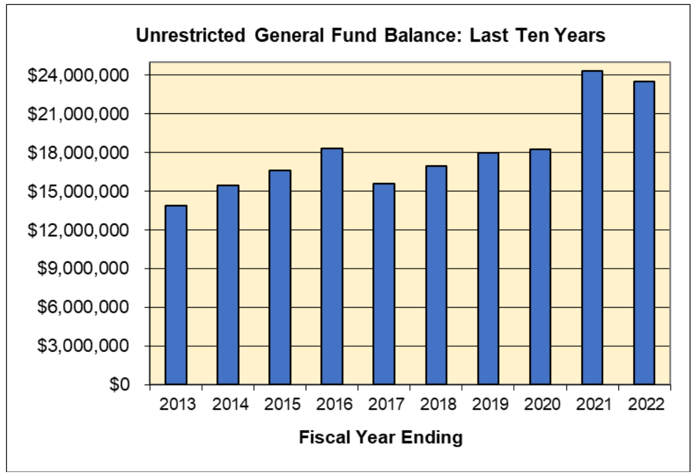
- **Nonspendable.** Not available for appropriation such as prepaid expenses, inventory and long-term advances to other funds.
- **Restricted**. Can only be used for externally restricted purposes and accordingly are not available for discretionary purposes.
- **Unrestricted.** Available for discretionary appropriation and fall into three City 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 12 shows unrestricted General Fund balance for the last ten years through 2021-22 (last completed audit).

As reflected in this chart, the City has maintained strong General Fund 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 12. Unrestricted General Fund Balance



Based on the 2023-24 Budget (with three adjustments: see notes below), Table 12 shows projected ending fund balance at June 30, 2024 of $22.1 million.

With projected revenues of $39.6 million, the unassigned balance of $16.8 million is 42% of revenues compared with the minimum policy target of 30%. This results in an unassigned fund balance that is $4.9 million above the policy minimum target.

Table 12. 2023-24 Projected Ending Fund Balance

General Fund Balance: June 30, 2024	Amount
Nonspendable/Restricted	1,150,800
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
Total Committed/Assingned	4,227,941
Unassigned	16,768,200
Total General Fund Balance: June 30, 2024	$22,146,941

Notes. *The projected ending fund balance at June 30, 2024 has been adjusted from the 2023-24 Budget as follows:*

1. *Upwards 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) in 2022-23. 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.*

2. *Upwards based on estimated results for 2022-23: transfers to the Lighting and Landscape Maintenance Fund are projected to be $370,300 less than budgeted in 2023-24 (see discussion below).*

3. *Downwards based on an assumed one-time transfer to the Mission Meridian Garage Fund of $386,200 in 2023-24 in addressing its negative fund balance (see discussion below).*

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 that 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.

Accordingly, a surface analysis shows that the 2023-24 is balanced. Projected revenues are $39.6 million and operating expenditures are $39.1 million. This is a favorable difference of over $400,000.

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

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 22% 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.

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 2% savings factor is reasonable ($391,000) for 2023-4 and 2024-25, given ramp-up from current vacancies; and 1% for 2025-29 thereafter.

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 initially discussed with the Finance Commission at its August 24, 2023 meeting, this does not address the negative Insurance Fund balance of $2.7 million when long-term liabilities are included. At 58%, the General Fund's share is $1.55 million.

That said, as the Finance Commission discussed at their September 28, 2023 meeting, 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, this has all been recovered from Prism in cash. This amount will be accrued to 2022-23. Along with cash balances in the Insurance Fund, this should fully fund the long-term obligations of the Insurance Fund and eliminate any deficits going forward.

Accordingly, while the *General Fiscal Outlook and Key Assumptions* report anticipated that covering this deficit would have General Fund operating impacts going forward, this is no longer the case.

One-Time Costs. In arriving at ongoing costs, one-time costs should be omitted. As shown in Table 13, the 2023-24 Budget includes $1.5 million in one-time costs (about 4% of total operating expenditures).

Table 13. 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**

Operating Transfers Out. As shown in Table 14, these total $2.3 million and are composed of two components: CIP projects and fund subsidies.

Table 14. 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 ($1.4 million). However, without a clear and committed plan to reduce or eliminate them, fund subsidies should also be considered operating costs for the purpose of the balanced budget policy.

However, estimated actual results for the difference between revenues and operating costs for the *Lighting and Landscape Fund* for 2022-23 show that transfers for 2023-24 can be significant reduced from budget estimates:

Table 15. Lighting and Landscape Maintenance Fund Subsidies

Lighting and Landscape Fund			
	2022-23	2023-24	
	Est Actual	Revised	Budget
Beginning Fund Balance			36,500
Revenues	902,100	905,100	905,100
Expenditures*	(1,258,700)	(1,309,000)	(1,715,700)
Balance Funded by Transfers	($356,600)	($403,900)	($774,100)

* 2023-24 increased from 2022-23 by 4%

This means that the "baseline" for transfers to this fund going forward will be $403,900.

For the *Business Improvement Fund*, the transfer of $78,100 includes covering a beginning deficit fund balance of $36,400. Accordingly, its "baseline" ongoing transfer is reduced to $41,700.

In total, this results in "baseline" fund subsidies of $445.600.

"Baseline" 2023-24 Forecast Operating Costs. Table 16 summarizes "baseline" operating costs for the forecast. Even with these adjustments, the 2023-24 operating Budget remains structurally balanced: $39.6 million in revenues exceed $38.4 million in "baseline" operating costs by about $1.2 million.

Table 16. Adjusted "Baseline" Operating Costs

2023-24 Budget Operating Costs	39,147,900
Expenditures Adjustments	
Prorated Vacancies	1,067,900
Estimated Expenditure Savings @ 2%*	(783,000)
One-Time Costs	(1,521,000)
Total Expenditure Adjustments	(1,236,100)
Fund Subsidies	445,600
Total "Baseline" Costs	$38,357,400

* Decreases to 1% in 2025-29

❹ *Key Revenues*

The City's top four economic related revenues – property tax, sales tax, UUT and franchise fees - account for 80% of General Fund revenues. The following are the forecast assumptions for these four revenues based on long and short-term trends for past ten years as detailed on pages 29 and 30; general economic outlook; and guidance from the City's tax advisor (HdL) for property and sales taxes:

Table 17. Key Revenue Growth Assumptions

Fiscal Year	Property Tax	Sales Tax	UUT	Franchise
2024-25	4.0%	0.3%	4.5%	4.5%
2025-26	4.4%	2.8%	4.5%	4.5%
2026-27	4.7%	2.9%	4.5%	4.5%
2027-28	4.9%	2.9%	4.5%	4.5%
2028-29	5.0%	3.0%	4.5%	4.5%

As reflected above, UUT and franchise fees are expected to closely mirror each other, since the utility revenue bases are similar.

❺ *Operating Cost Expenditures*

There are five key operating cost assumptions reflected in the forecast:

- Operating cost "baseline."
- Labor agreements in place for 2024-25 (Memorandums of Understanding: MOUs).
- Insurance costs.
- CalPERS pension costs
- Inflation assumption for all other costs.

Operating Cost "Baseline." The 2023-24 Budget is the "baseline" for the forecast, with adjustments for prorated vacancies, operating cost savings and one-time costs as discussed above.

MOU Costs. The City has multi-year agreements with its three major employee groups that cover 2022 to 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 18. 2024-25 Salary Increases

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

Insurance Costs. As noted above, insurance costs appear to have stabilized (albeit at high level). The "baseline" operating costs reflect this. (As noted above, no special provisions are required to account for past Insurance Fund deficits: these have been mitigated through cost recovery from the City's excess insurance carrier.)

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. Further information about the City's participation in CalPERS, factors that affect rates and unfunded actuarial liabilities (UAL) is detailed on pages 31 to 34. Stated simply, based on projections provided by

CalPERS, the City is facing significant increases in funding the City's UAL over the next five years.

Other Operating Costs. After accounting for the cost factors and adjusting for "baseline" costs as discussed above, remaining operating costs are projected to grow by inflation as follows:

Table 18. Inflation Assumtions

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

These assumptions reflect the recent reduction in the inflation rate (which has occurred without significant impacts on the economy in terms of employment, retail sales, gross domestic product (GDP) or the stock market); and likely continued downward trends given the Federal Reserve's actions and ongoing commitment to bringing the rate down to its 2% target.

❻ *General Fund Subsidies*

As summarized above, the General Fund provides significant subsidies to two funds. The following summarizes the "baseline" subsidies for 2023-24:

Table 19. 2023-24 General Fund Subsidies

Fund Subsidies	Cost
Landscape and Lighting Maintenance Fund	403,900
Business Improvement Tax Fund	41,700
Total Fund Subsidies	$445,600

These subsidies are largely due to structural imbalances between revenues – which are largely fixed – while costs increase (even if modestly). The forecast assumes the "baseline" grows by inflation.

Special Revenue Funds. The scope of work for the forecast is the General Fund. Accordingly, other than the three funds (Lighting and Landscape, Business Improvement and CIP) that directly impact the General Fund, other special revenue funds were not addressed in initial work. However, concern surfaced at the September 28 Finance Commission meeting that are several special revenue funds that are projected to have deficit fund balances at the end of 2023-24 (Table 20).

Table 20. Special Revenue Funds with Projected Deficits

MTA Pedestian Improvements	(29,900)
Mission Meridian Garage	(386,200)
County Park Bond	(210,500)
MSRC Grant	(157,500)
Measure W	(93,500)
Measure H	(51,200)
Proposition C Exchange	(181,900)
BTA Grants	(416,900)
Open Streets Grant	(311,800)
CDBG	(2,600)
Homeland Security Grant	(146,400)
HSIP Grant	(475,200)

This concern is a valid one: if these deficits are not otherwise mitigated, the General Fund will become responsible for them.

However, with one notable exception (the Mission Meridian Garage), these are grant-related funds. The Finance Department believes these deficits will be eliminated in most cases or significantly reduced as delayed billings are caught-up; and in other cases where supplemental information is provided as requested by the granting agency.

That said, there is no resolution of the Mission Meridian Garage deficit on the horizon. Accordingly, the forecast assumes that the General Fund will transfer $386,200 to this fund in 2023-24. (Given inactive operations at the garage, it is assumed that this will be a one-time transfer.)

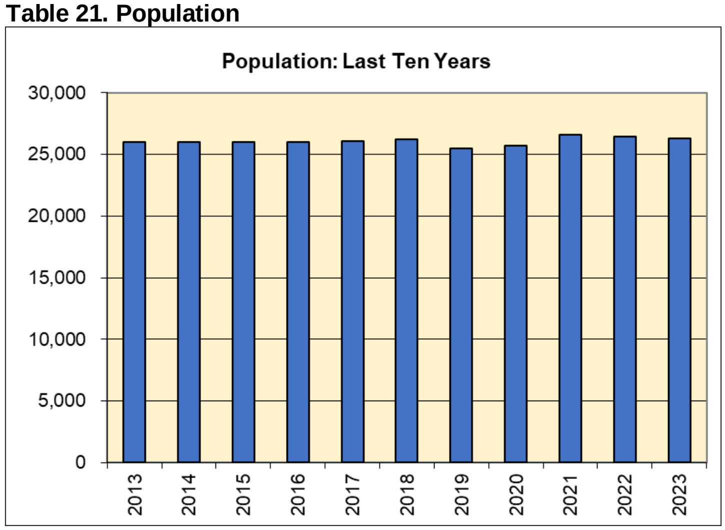
Since these are assumptions, not decisions, it is recommended that the Council consider this issue at the 2023-24 mid-year budget review, when better information about the status of grant billings, actual 2022-23 financial results and the future of the garage will be available.

❼ *Population Growth and Development*

Population growth is not likely to play a significant role in the five-year forecast. As reflected in Table 21, the City's population of about 26,000 has remained virtually unchanged over the past ten years.

However, the new Housing Element results in the potential for added units. But ultimately, the private sector determines this, not the City. Even if added units are possible, it takes time to obtain building permits and then to actually construct the units. Accordingly, a significant increase in population over the next five years is unlikely.

Table 21. Population



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

❽ *Capital Improvement Projects*

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

Table 22. General Fund Five-Year CIP

Project	Adopted 2023-24	Proposed 2024-25	Proposed 2025-26	Proposed 2026-27	Proposed 2027-28
General Buildings & Facilities					
Citywide Facility Repair		500,000	500,000	500,000	500,000
War Memorial Audio/Vis. Equip		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 Deployment		267,387	267,387	-	-
Total	$1,415,000	$2,834,102	$2,238,392	$1,928,278	$1,928,278

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

It should be noted that the four outyears (2024-25 to 2027-28) reflect a much more aggressive General Fund CIP than the past five years:

Table 23. General Fund Five-Year CIP

2023-24	1,415,000
2022-23	338,500
2021-22	130,700
2020-21	1,294,600
2019-20	1,790,000
Five-Year Average	$993,800

As reflected above, the average General Fund CIP over the past five years (including the adopted budget for 2023-24) is $993,800, compared with an average of $2.2 million in the forecast.

No Project Funding Identified. In addition to projects funded from identified sources, such as General Fund, special revenue funds, grants and enterprise funds, the 2024-28 CIP includes the following projects for which no funding has been identified:

Table 24. Five-Year CIP Projects with No Funding Identified

Project	Adopted 2023-24	Proposed 2024-25	Proposed 2025-26	Proposed 2026-27	Proposed 2027-28
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
Total	-	$3,766,194	$16,119,056	$17,000,056	$17,789,556

If any of these are high-priority projects, the General Fund is the likely funding source.

Forecast Gap vs Budget Deficit

In those years where expenditures are greater than revenues due to transfers or CIP projects, this forecast does not project a “budget deficit.” Stated simply, a projected “forecast gap” is different from a “budget deficit.” The City will have a budget deficit only if it does nothing to take corrective action. However, by looking ahead and making the choices necessary to close any potential *future* gaps, the City will avoid incurring real deficits.

FORECAST FRAMEWORK

Background

There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or preparing various “scenarios” based on a combination of possible assumptions for revenues and expenditures. This forecast uses the “one set of assumptions” approach as being the most useful for policy-making purposes. However, the financial model used in preparing this forecast can easily accommodate a broad range of other “what if” scenarios. And in fact, the forecast provides “what ifs” for including transfers and CIP projects.

Demographic and Financial Trends

The past doesn’t determine the future. However, if the future won’t look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City’s fiscal outlook? Accordingly, one of the first steps in preparing the forecast is to take a detailed look at key demographic, economic and fiscal trends over the past ten years.

A summary of key indicators is provided in the *Trends* section of this report beginning on page 27. Areas of particular focus included:

- ***Demographic and Economic Trends.*** Population and inflation as measured by changes in the consumer price index (CPI).

- ***Revenues Trends.*** Focused on the City’s top four General Fund revenues – property taxes, sales tax, UUT and franchise fees – which together account for 80% of total General Fund revenues.

- ***Expenditure Trends.*** Overall trends in key expenditure areas, including operating, public safety and pension costs.

Forecast Assumptions

As noted above, assumptions drive the forecast results. Sources used in developing forecast projections include:

- Long and short-term trends in key General Fund revenues and expenditures.

- Economic trends as reported in the national media.

- Statewide and regional economic forecasts prepared by the University of California, Los Angeles, California Economic Forecast and Beacon Economics.

- Economic and fiscal information developed by the State Legislative Analyst Office (LAO), State Department of Finance and State Controller.

- Fiscal and legislative analysis by the League of California Cities.

- Analysis by the City’s sales and property tax advisor (HdL Companies).

- Five-year employer contribution rate projections prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about performance of the local economy during the next five years, and how these will affect General Fund revenues and expenditure. A detailed description of the assumptions used in the forecast and the resulting projections are provided on pages 22 to 26.

What's Not in the Forecast

Grant Revenues. The forecast does not reflect the receipt of any "competitive" grant revenues over the next five years. However, based on past experience, it is likely that the City will be successful in obtaining grants for operating and CIP purposes. However, these are typically for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's. Moreover, experience shows given federal and state budget challenges, the amount of available grant funding is more likely to decline over the next five years than increase.

Operating Needs Not Funded in the 2023-24 Budget. It is likely that there are General Fund needs that are not reflected in the 2023-24 Budget.

One-Time Operating Costs. Since these are typically reflect significant policy issues, one-time cost assumptions have not been included in the operating cost "baseline." However, it is likely that some level of one-time operating costs in meeting high-priority needs will surface in budget considerations. In this case, as one-time costs, they are candidates for the use of reserves that are above the target policy minimum.

What's Most Likely to Change?

By necessity, the forecast is based on a number of assumptions. The following summarizes key areas where changes from forecast assumptions are most likely over the next five years:

Top Revenue Projections. These are directly tied to the performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. As noted above, no significant economic downturns that will impact key General Fund revenues are projected in the forecast.

Insurance Costs. The forecast assumes that general liability and workers' compensation insurance costs will grow by inflation. However, in the past this has been a volatile cost for many cities in California (and the City's experience has shown the potential for wide swings as well). While loss experience plays a role, higher costs can also be incurred resulting from volatility in the financial markets. This can often have a far greater impact on insurance costs than actuarial loss experience.

Retirement Costs. The forecast uses CalPERS' rate projections for the next five years. While this is a reasonable assumption, experience has shown the potential for even steeper increases in employer contribution costs.

THE PATH FORWARD

As discussed above, the City is in good fiscal shape in funding General Fund operating expenditures and subsidies to other funds. On the other hand, challenges are ahead in funding CIP projects (let alone improving service levels or addressing long-term liabilities).

As discussed below, there are several options available in closing the forecast gap and funding CIP projects (in full or part) that would result in a balanced budget and reserves at minimum policy levels, including:

Use Reserves Above Policy Target Minimum. The City does not exist to build large fund balances: it exists to make South Pasadena a good place to live, work and visit. Prudent reserves certainly play an important role in assuring adequate fiscal resources to do this. But once reserves achieve a reasonable level (such as the City target minimum of 30% of revenues), then *prudent* consideration of one-time uses of reserves to fund CIP projects and other one-time uses is a reasonable option.

Scale Back CIP Projects. The forecast includes an average annual cost for CIP projects of about $2.2 million. This is significantly higher than the prior five-year average of $993,000.

Reduce CalPERS Unfunded Actuarial Liabilities. The City's pension situation is described on pages 31 to 34. The short story: the City has seen significant increases in annual contributions in amortizing its unfunded actuarial liabilities. With reserves above policy target levels, there are several options available in strategically using these to reduce future costs. These include shortened amortization periods of 10 or 15 years; contributions to a Section 115 Trust; and other options. While these may require higher annual payments initially (which could appropriately be funded from reserves), the long-term cost savings are significant. This requires further analysis in consultation with the City's actuary to further assess the costs and benefits of this approach.

Focused Revenue Options: Higher Cost Recovery and Improved Indirect Cost Recovery from Enterprise Funds. This is one of the few remaining areas where the Council has discretion in balancing funding for the cost of services between general purpose revenues and fees. If fees are set lower than appropriate, this means fewer general purpose revenues are available for services that do not have significant user fee options, like police and fire protection, street maintenance, parks and libraries. Comprehensively analyzing service costs and revenues may present an opportunity for improved cost recovery, that in turn can assist in meeting the City's CIP goals or other service needs. The City has not prepared this type of analysis in many years (if ever). Doing this is on the Finance Department's radar and they plan to bring a proposal forward for the Council's consideration during 2023-24.

Similarly, annual reimbursements from the enterprise funds for support costs like finance, human resources and information technology have remained flat at $483,000 for many years. A comprehensive analysis of indirect cost allocations may also provide added General Fund resources.

Combination of Options. Rather than relying on only one option, the City could use a combination of them.

CONCLUSION

Favorable Outlook in Funding Operating Costs and Fund Subsidies. The City is in good fiscal shape in funding General Fund operating costs and fund subsidies.

Challenges in Funding CIP Projects. On the other hand, challenges are ahead in funding CIP projects (let alone improving service levels or addressing long-term liabilities). included.

The Path Ahead. This report identifies five basic options for funding an expanded CIP or improved services. All of them can be approved by the Council.

KEY ASSUMPTIONS

DEMOGRAPHIC TRENDS

Population. Based on recent trends, no population changes are projected to materially affect revenues or expenditures over the next five years.

Inflation. These assumptions reflect recent reductions in the inflation rate (which have occurred without significant impacts on the economy in terms of employment, retail sales, gross domestic product (GDP) or the stock market); and likely continued downward trends given Federal Reserve's past actions and continued commitment to bringing down inflation to its 2% target. As measured by the consumer price index (CPI), the following summarized inflation assumptions:

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

ECONOMIC OUTLOOK

Based on favorable economic trends, the forecast assumes "cautious optimism" and modest growth. Accordingly, it does not project any significant economic downturns that would impact key General Fund revenues.

EXPENDITURES

Operating Cost "Baseline." The 2023-24 Budget is the "baseline" for the forecast, with adjustments for prorated vacancies, operating cost savings and one-time costs as discussed in the Introduction.

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

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

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). Further information about the City's participation in CalPERS, factors that affect rates and unfunded actuarial liabilities (UAL) is detailed on pages 31 to 34. Stated simply, based on projections provided by CalPERS, the City is facing significant increases in funding the City's UAL over the next five years.

Other Operating Costs. After accounting for the cost factors above, remaining operating costs are projected to grow with inflation. These remaining costs are largely within the control of the City. For example, staffing costs account for about 70% of operating General Fund operating expenditures. Staffing costs rise (or fall) based on two factors: authorized staffing levels and compensation. Both are within the control of the City. Since this report is a forecast and not the Budget, CPI is a reasonable basis for projecting these other costs.

INTERFUND TRANSFERS OUT

Fund Subsidies. The General Fund provides significant subsidies to two funds: Lighting/Landscape Maintenance and Business Improvement. The following summarizes the "baseline" subsidies for 2023-24:

Fund Subsidies	Cost
Landscape and Lighting Maintenance Fund	403,900
Business Improvement Tax Fund	41,700
Total Fund Subsidies	$445,600

These subsidies are largely due to structural imbalances between revenues – which are largely fixed – while costs increase (even if modestly). The forecast assumes the "baseline" grows by inflation.

Capital Improvement Plan (CIP) Projects. Expenditure is based on funding and phasing assessments prepared by City staff. These are presented on page 16. These average about $2.2 million annually, which is significantly more than the prior five-year annual average of $993,000.

STATE BUDGET ACTIONS

The forecast assumes no added cuts nor restoration of past cuts to cities.

REVENUES

Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues.
- Economic trends as reported in the national media.
- State and regional economic forecasts prepared by the University of California, Los Angeles; California Economic Forecast; and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales and property tax advisor (HdL Companies).

Ultimately, however, in close consultation with City staff, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next five years and how these will affect General Fund revenues.

Top Four Revenues. The following summarizes forecast assumptions for the "Top Four" revenues, which account for 80% of total projected General Fund revenues.

Fiscal Year	Property Tax	Sales Tax	UUT	Franchise
2024-25	4.0%	0.3%	4.5%	4.5%
2025-26	4.4%	2.8%	4.5%	4.5%
2026-27	4.7%	2.9%	4.5%	4.5%
2027-28	4.9%	2.9%	4.5%	4.5%
2028-29	5.0%	3.0%	4.5%	4.5%

Other Revenues. These are projected to remain flat or grow modestly by inflation. The forecast "baseline" for most permit and service charges is the average of the three prior years, growing by inflation.

GENERAL FUND FIVE-YEAR FISCAL FORECAST: 2024-2029

	2021-22	2022-23	2023-24		FORECAST				
	Actual	Estimated	Budget	Baseline	2024-25	2025-26	2026-27	2027-28	2028-29
Revenues									
Property Tax	$17,906,100	$18,537,800	$19,700,400	$19,700,400	$20,488,400	$21,389,900	$22,395,200	$23,492,600	$24,667,200
Sales Tax	6,096,600	6,311,300	6,478,000	6,478,000	6,497,400	6,679,300	6,873,000	7,072,300	7,284,500
Utility Users Tax	3,875,300	4,063,100	4,352,500	4,352,500	4,548,400	4,753,100	4,967,000	5,190,500	5,424,100
Franchise Fees	1,289,500	1,217,000	1,271,500	1,271,500	1,328,700	1,388,500	1,451,000	1,516,300	1,584,500
Library Tax	364,200	360,000	375,100	375,100	392,000	409,600	428,000	447,300	467,400
Permit and Service Charges									
Business Licenses	381,400	381,500	391,000	391,000	404,700	414,800	423,100	431,600	440,200
Development Review	1,830,500	1,668,100	1,967,300	1,967,300	1,822,000	1,867,600	1,905,000	1,943,100	1,982,000
Public Safety	1,290,000	1,383,900	1,427,600	1,427,600	1,367,200	1,401,400	1,429,400	1,458,000	1,487,200
Community Services	710,200	601,200	754,900	754,900	688,800	706,000	723,700	741,800	760,300
Other Permit and Service Charges	438,100	354,400	396,900	396,900	396,500	406,400	414,500	422,800	431,300
Use of Money and Property	(495,400)	894,100	1,345,000	1,345,000	1,345,000	1,345,000	1,345,000	1,345,000	1,345,000
Reimbursements from Other Funds	483,400	483,400	483,400	483,400	500,300	512,800	523,100	533,600	544,300
Other Revenues	498,900	332,800	619,600	619,600	483,800	495,900	505,800	515,900	526,200
Total Revenues	**34,668,800**	**36,588,600**	**39,563,200**	**39,563,200**	**40,263,200**	**41,770,300**	**43,383,800**	**45,110,800**	**46,944,200**
Expenditures									
Operating Costs	34,221,500	35,681,200	39,147,900	37,911,800	39,669,900	41,257,900	42,277,000	43,260,500	44,453,600
Revenues Over Expenditures	***447,300***	***907,400***	***415,300***	***1,651,400***	***593,300***	***512,400***	***1,106,800***	***1,850,300***	***2,490,600***
Transfers In (Out)									
Transfers In	-	-	4,700	4,700	-	-	-	-	-
Transfers Out									
Fund Subsidies									
Insurance	-	(863,800)	-	-	-	-	-	-	-
Lighting and Landscape Maint	-	(383,100)	(774,200)	(403,900)	(418,000)	(428,500)	(437,100)	(445,800)	(454,700)
Business Improvement	-	-	(78,100)	(41,700)	(43,200)	(44,300)	(45,200)	(46,100)	(47,000)
Mission Meridian Garage*	-	-	(386,200)	-	-	-	-	-	-
Total Fund Subsidies	-	(1,246,900)	(852,300)	(445,600)	(461,200)	(472,800)	(482,300)	(491,900)	(501,700)
Capital Projects	(130,700)	(338,500)	(1,415,000)	(1,415,000)	(2,834,100)	(2,238,400)	(1,928,300)	(1,928,300)	(1,928,300)
Total Transfers Out	**(130,700)**	**(1,585,400)**	**(2,267,300)**	**(1,860,600)**	**(3,295,300)**	**(2,711,200)**	**(2,410,600)**	**(2,420,200)**	**(2,430,000)**
Sources Over (Under) Uses	***316,600***	***(678,000)***	***(1,847,300)***	***(204,500)***	***(2,702,000)***	***(2,198,800)***	***(1,303,800)***	***(569,900)***	***60,600***
Fund Balance, Beginning of Year	24,355,600	24,672,200	23,994,200		22,146,900	19,444,900	17,246,100	15,942,300	15,372,400
Fund Balance, End of Year	**24,672,200**	**23,994,200**	**22,146,900**		**19,444,900**	**17,246,100**	**15,942,300**	**15,372,400**	**15,433,000**
Nonspendable/Restricted	1,150,800	1,150,800	1,150,800		1,150,800	1,150,800	1,150,800	1,150,800	1,150,800
Available	23,521,400	22,843,400	20,996,100		18,294,100	16,095,300	14,791,500	14,221,600	14,282,200
Committed/Assigned	6,299,900	4,527,900	4,227,900		4,227,900	4,227,900	4,227,900	4,227,900	4,227,900
Unassigned	17,221,500	18,315,500	16,768,200		14,066,200	11,867,400	10,563,600	9,993,700	10,054,300

* This is not in the approved Budget. See page 15 for discussion of this assumption.

ASSUMPTIONS SUMMARY

		2024-25	2025-26	2026-27	2027-28	2028-29
Inflation		3.5%	2.5%	2.0%	2.0%	2.0%
REVENUES & OTHER SOURCES						
Property Tax		4.0%	4.4%	4.7%	4.9%	5.0%
Sales Tax		0.3%	2.8%	2.9%	2.9%	3.0%
Utility Users Tax		4.5%	4.5%	4.5%	4.5%	4.5%
Franchise Fees		4.5%	4.5%	4.5%	4.5%	4.5%
Library Tax		4.0%	4.4%	4.7%	4.9%	5.0%
Permit and Service Charges						
Business Licenses: Grows by inflation		3.5%	2.5%	2.0%	2.0%	2.0%
Development Review						
Average of 3 prior years (2021-22 to 2023-24) as baseline in 2024-25; grows by inflation thereafter		1,822,000	2.5%	2.0%	2.0%	2.0%
Public Safety						
Average of 3 prior years (2021-22 to 2023-24) as baseline in 2024-25; grows by inflation thereafter		1,367,200	2.5%	2.0%	2.0%	2.0%
Community Services						
Average of 3 prior years (2021-22 to 2023-24) as baseline in 2024-25; grows by inflation thereafter		688,800	2.5%	2.5%	2.5%	2.5%
Other Permits and Service Charges						
Average of 3 prior years (2021-22 to 2023-24) as baseline in 2024-25; grows by inflation thereafter		396,500	2.5%	2.0%	2.0%	2.0%
Use of Money and Property: Stays flat from 2023-24		1,345,000	1,345,000	1,345,000	1,345,000	1,345,000
Reimbursements from other funds: grows by inflation form 2023-24		3.5%	2.5%	2.0%	2.0%	2.0%
Other Revenues						
Average of 3 prior years (2021-22 to 2023-24) as baseline in 2024-25; grows by inflation thereafter		483,800	2.5%	2.0%	2.0%	2.0%
EXPENDITURES						
Operating Costs						
Baseline Adjustments						
2023-24 prorated vacancies, adjusted for full year	1,067,900					
Estimated expenditure savings at 2%: 2023-24 and 2024-25; 1% 2025-29 (See below)	(783,000)					
One-time costs	(1,521,000)					
Total Baseline Adjustments	(1,236,100)					
Forecast						
CalPERS Unfunded Actuarial Liability (UAL) Contributions						
Classic Safety Employees		2,617,700	2,810,000	2,997,000	3,148,000	3,478,000
Classic Miscellaneous Employees (65% of total: balance allocated to other funds)		873,300	939,900	1,004,300	1,054,900	1,125,800
PEPRA Police Safety		14,000	21,000	28,000	35,000	39,000
PEPRA Fire Safety		7,600	11,000	14,000	17,000	16,000
PEPRA Miscellaneous (65% of total: balance allocated to other funds)		9,700	16,200	22,800	29,200	35,700
Total CalPERS UAL	2,957,500	3,522,300	3,798,100	4,066,100	4,284,100	4,694,500

ASSUMPTIONS SUMMARY

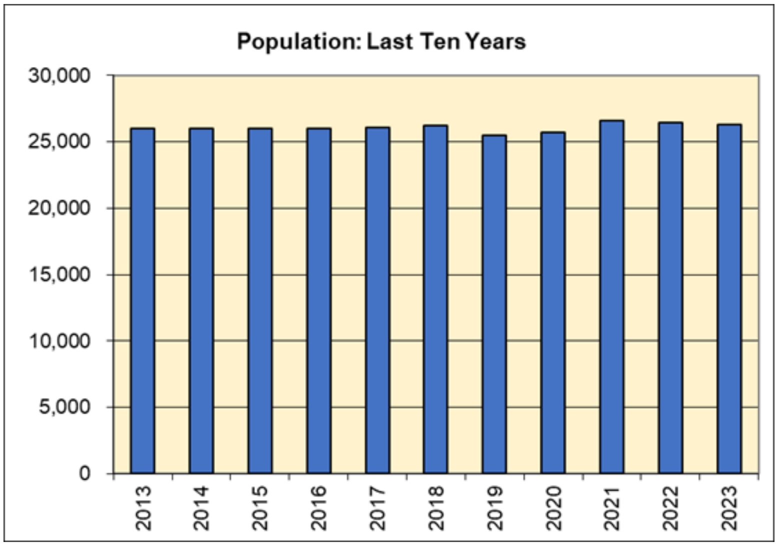
			2024-25	2025-26	2026-27	2027-28	2028-29
Negotiated Salary Increases (MOU)	% Increase	Comp Base					
POA (police)							
Sworn	4%	3,970,800	4,129,600				
Non-sworn	3%	1,111,900	1,145,300				
FFA (Fire)	4%	2,864,000	2,978,600				
Increases	2%	3,915,900	3,994,200				
Total Negotiated Salary		11,862,600	12,247,700	12,553,900	12,805,000	13,061,100	13,322,300
All other costs grow by inflation		23,091,700	23,899,900	24,497,400	24,987,300	25,487,000	25,996,700
Operating costs before 1% expenditure savings adjustment for 2025-29		37,911,800	39,669,900	40,849,400	41,858,400	42,832,200	44,013,500
Total Operating Costs			39,669,900	41,257,900	42,277,000	43,260,500	44,453,600
TRANSFERS OUT							
Mission Meridian Garage: See discussion on Page 15 for this assumption.	386,200						
Baseline Adjustment: Fund Subsidies							
	2022-23	2023-24					
Lighting and Landscape	Est Actual	Adjusted					
Revenues	902,100	905,100					
Expenditures (Adjusted in 2023-24 by 4%)	1,258,700	1,309,000					
Balance Covered by Transfers	(356,600)	(403,900)					
Business Improvement							
Adjust transfer for elimination of negative beginning fund balance		(36,400)					
Forecast							
Ongoing Fund Subsidies: Grow by Inflation			3.5%	2.5%	2.0%	2.0%	2.0%
Capital Projects							
Five-Year General Fund CIP (2028-29 based on prior year)			2,834,100	2,238,400	1,928,300	1,928,300	1,928,300

DEMOGRAPHIC AND ECONOMIC TRENDS

Population. The City's population has remained virtually unchanged at 26,000 for the past ten years.

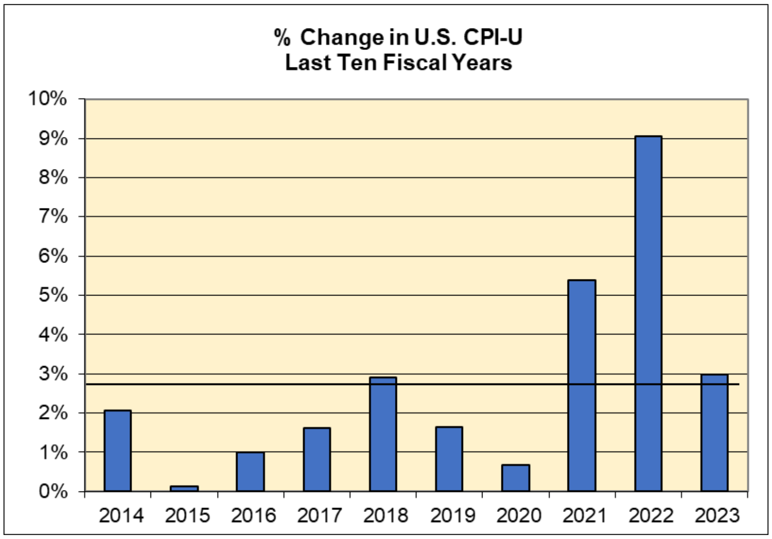
As of January 1 of each year.

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



Consumer Price Index. Changes in the U.S. Consumer Price Index for All Urban Consumers (CPI-U) averaged 1.4% for the seven years prior to Covid-19. However, it saw sharp increases in 2020-21 and 2021-22 in the wake of Covid-19, peaking at 9.1%. However, it saw an equally sharp decline to 3% by 2022-23. Even with the Covid-19 increases, the CPI-U averaged 2.7% over the last ten years.

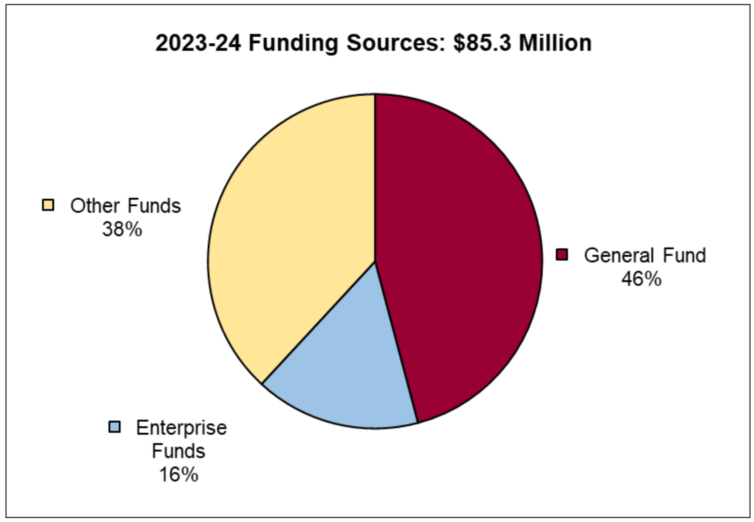
Source: U.S. Bureau of Labor Statistics



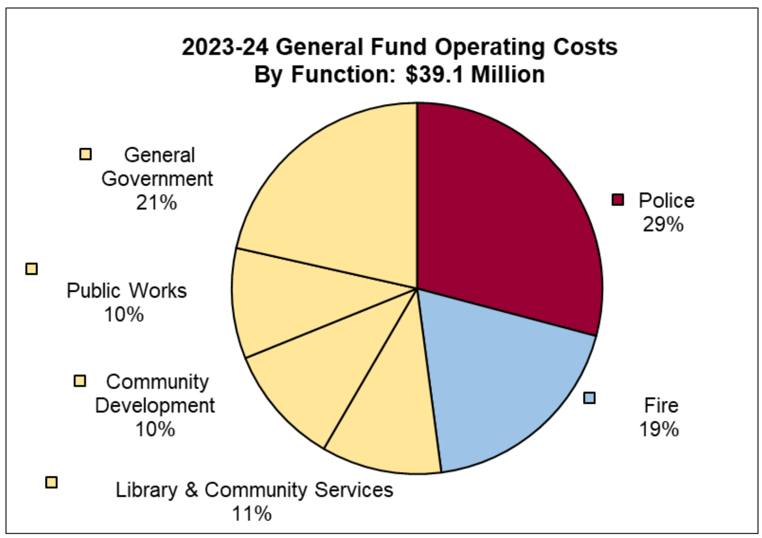
HISTORICAL TRENDS

2023-24 EXPENDITURE AND REVENUE SUMMARIES

Funding Sources. The General Fund – which is the focus of this forecast – accounts for about 50% of total City expenditures.



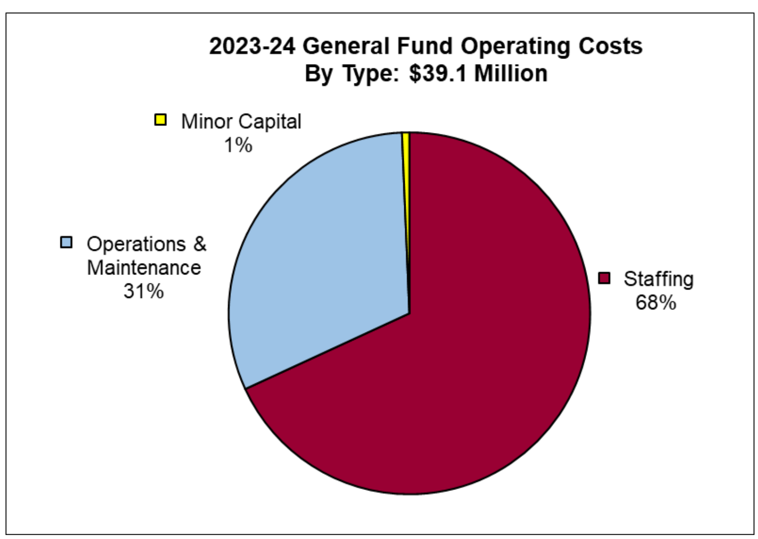
Operating Costs by Function. At about 50%, public safety (Police and Fire) is the largest use of General Fund operating resources.



Operating Costs by Type. This chart shows operating costs by type:

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

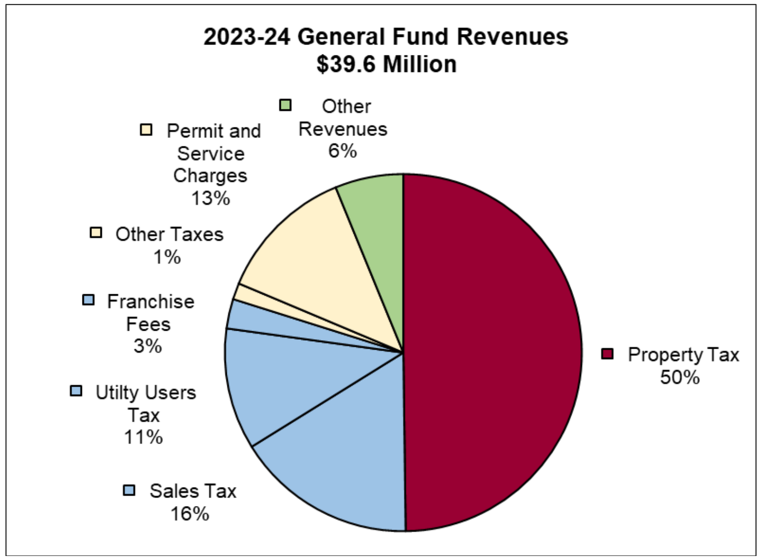
Given the significance of public safety costs, it is not surprising that staffing is the largest cost component by type, since it's police and fire employees that arrest bad guys and put the wet stuff on the red stuff.



HISTORICAL TRENDS

General Fund Revenues. Four revenues account for 80% of total General Fund sources.

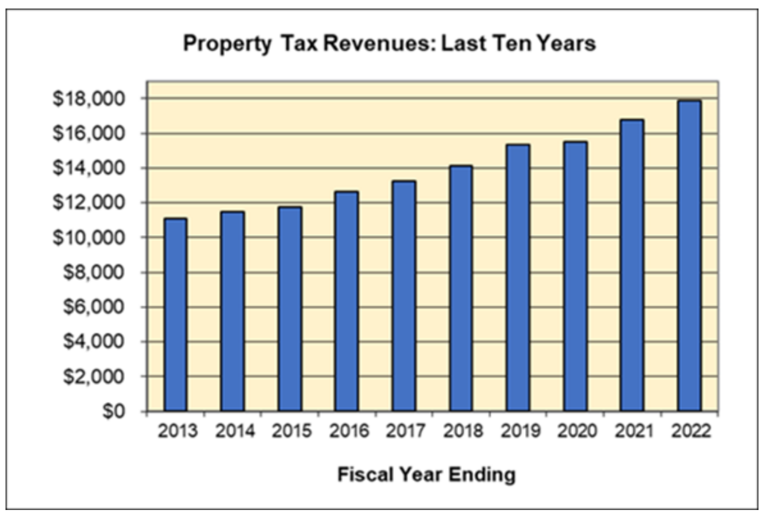
- Property Tax: $19.7 million (50%)
- Sales Tax: $6.5 million (16%)
- Utility Users Tax (UUT): $4.4 million (11%)
- Franchise Fees: $1.1 million (3%)



GENERAL FUND REVENUE TRENDS

The following tables and charts show long-term trends for the General Fund's "Top Four" revenues for the last ten years through 2021-22 (most recent audited year).

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. This has been a very stable source of income for the City, growing by 8% in 2020-21 and 7% in 2021-22.

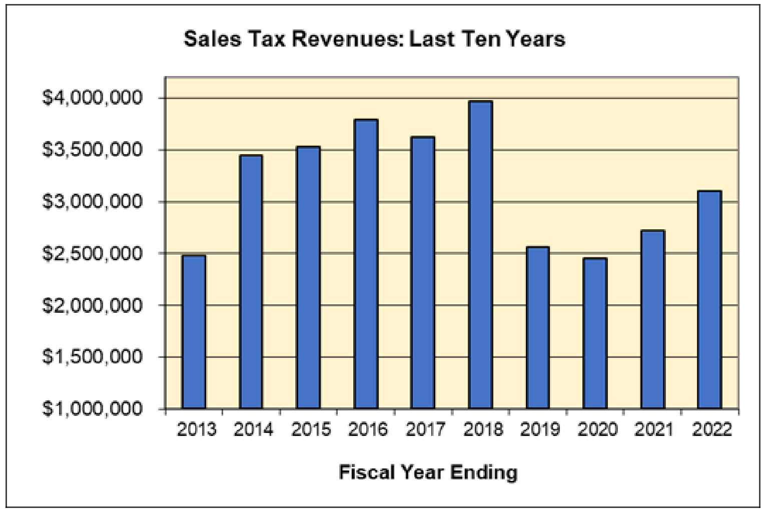


In Thousands

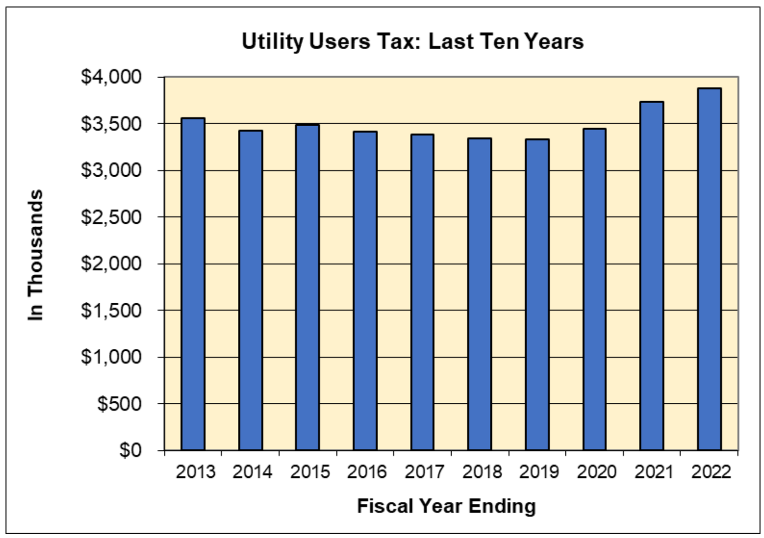
HISTORICAL TRENDS

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 plummeted 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.

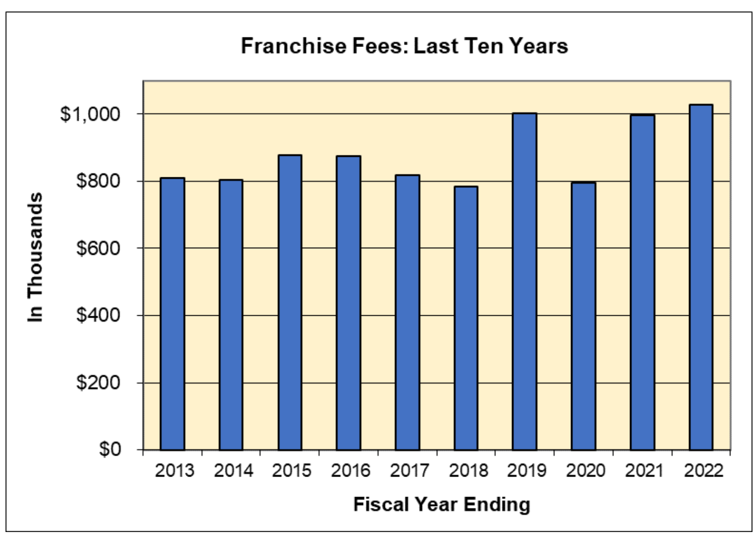
That said, they are 22% lower than the peak in 2017-18; and they are unlikely to recover to this level by the end of the forecast period.



Utility Users Tax. 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, largely due to rising energy costs.



Franchise Fees. These were relatively stable from 2012-13 through 2017-18, followed by "yoyoing" in 2018-19 and 2019-20. However, they have returned to 2018-19 levels in the last two years. They have grown by an annual average of 14% over the last two years; and 6% over the last five years.

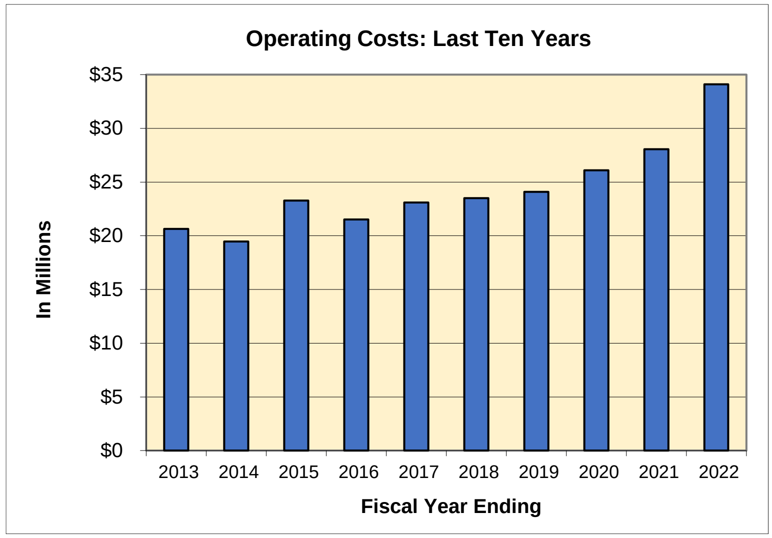


GENERAL FUND EXPENDITURE TRENDS

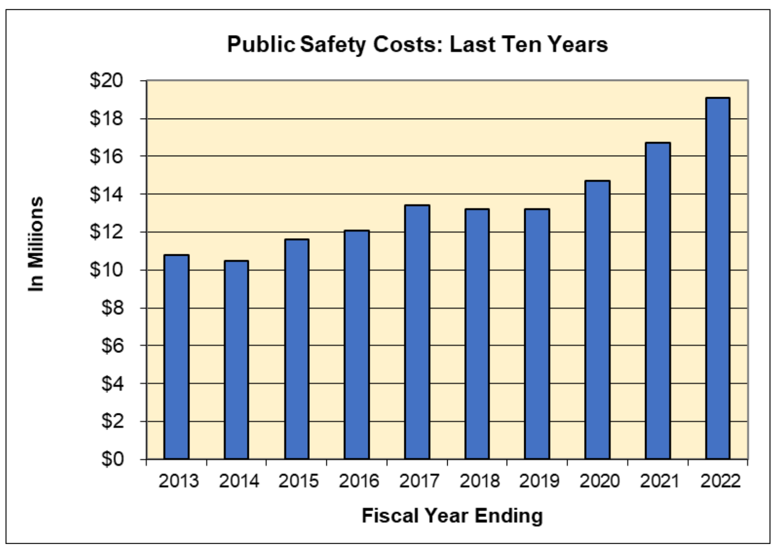
The following charts show long term trends in three key General Fund expenditures:

- Operating costs (last ten fiscal years through 2021-22, most recent audited year).
- Public safety costs (last ten fiscal years through 2021-22, most recent audited year).
- Employer retirement contribution rates to CalPERS as well as projected rates for the next five years.

Operating Costs. These were relatively stable until the onset of Covid-19 beginning in 2019-20. As reflected below, overall operating costs are affected by public safety costs, as they account for about 50% of operating costs.



Public Safey Operating Costs. Police and fire account for about 50% of operating costs, and as such, are a large driver of total operating costs. Again, these were relatively stable until the advent of Covid-19 in 2019-20.



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.

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.

HISTORICAL TRENDS

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 2.7% of their eligible compensation for each year worked if they retire at age 57. For example, an employee working for 30 years and retiring at age 57 would receive 81% of their eligible compensation (in this case, the average earnings from 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 provide lower benefits than "classic plans." Due to a number of factors, most public safety employees before PEPRA were provided "3% at 50" plans by their employers, under which employees would be eligible for 90% of their "PERSable" compensation at age 50 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)

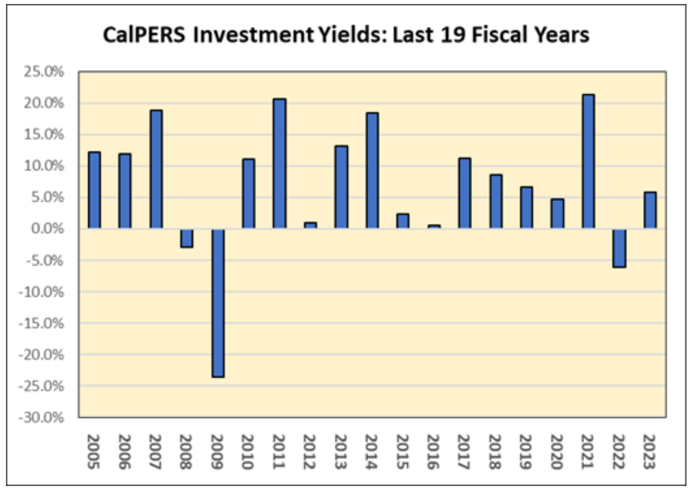
Funding Pension Benefits. There are many actuarial factors that determine contribution rates, including inflation and life expectancy assumptions. However, the assumption for the "discount rate" – the projected long-term yield on investments – is one of the most important. For example, only about one-third 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. 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 the chart below, these highly variable results are due to significant swings in investment earnings from year-to-year, ranging from losses of 23.6% in 2009 and gains in 2021 of 21.3%.

HISTORICAL TRENDS

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:

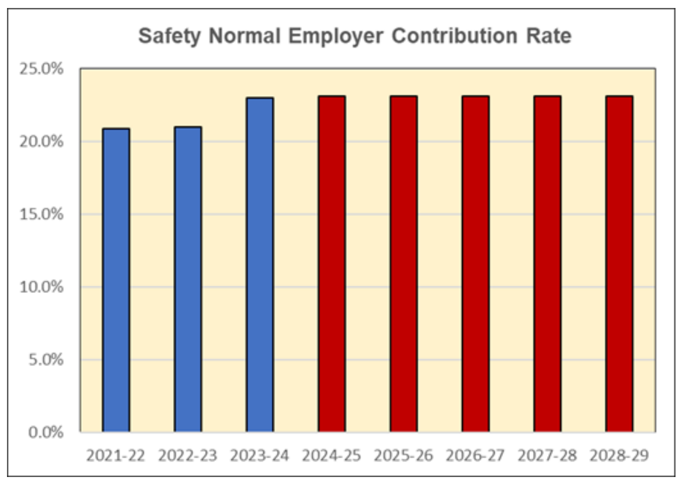
- Normal cost: The rate needed to meet current actuarial obligations.
- Unfunded actuarial liability (UAL): Funding needed to amortize any outstanding unfunded liabilities (typically over 30 years). If there are adverse actuarial results, such as lower investment yields or changes in actuarial assumptions,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

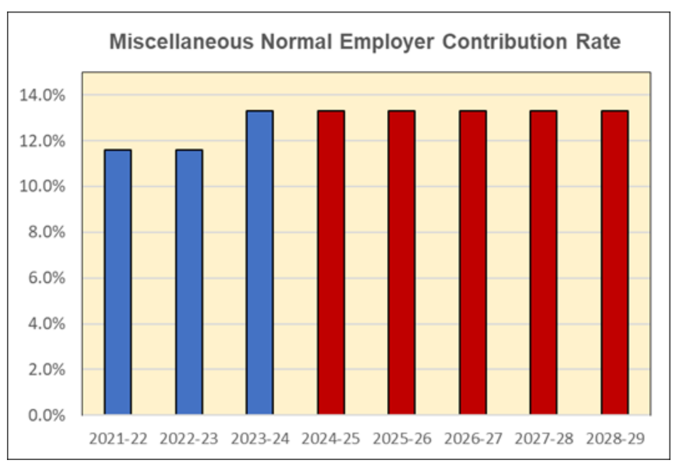
CalPERS Employer Contribution Rates. Over the past five years, CalPERS has phased-in increases in both the normal and UAL employer contribution rates due to actual assumption changes. As reflected in the charts below, normal cost rates have stabilized but UAL payments continue to rise.

The sidebar charts 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, they show 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.





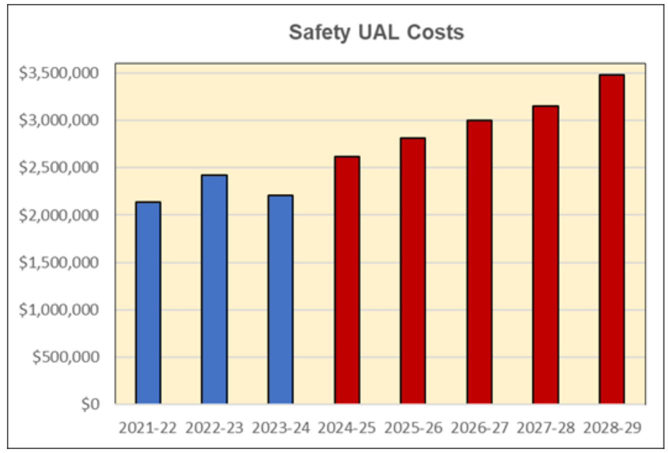
HISTORICAL TRENDS

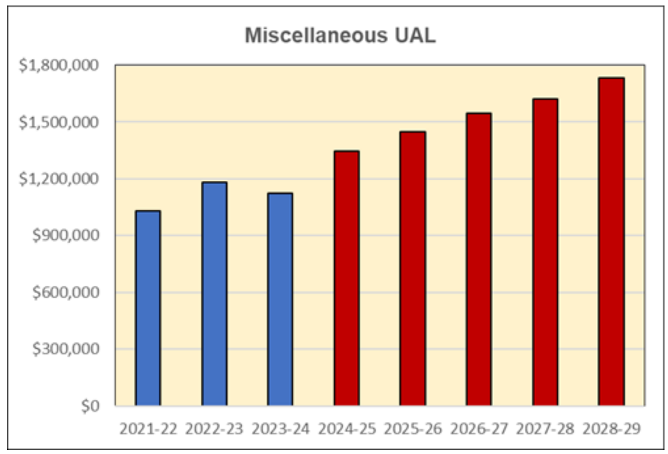
On the other hand, the sidebar charts show how UAL costs for “classic” safety and miscellaneous employees are projected to rise significantly after appearing to stabilize in 2023-24 (actual UAL in blue).

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).

Most Recent Investment Earnings. For 2022-23, CalPERS investment yield was 5.8%. While this is clearly a better result than the prior year’s loss of 6.1% (an improved yield of 11.9%), it is less than the actuarial assumption of 6.8%. This will result in an increase in the UAL and related annual contributions.

The impact will not be known until CalPERS’ next actuarial update in Fall 2024. However, the impact on contribution rates will be phased in over five years; and the first year of any increase will be 2025-26.





City Council Agenda Report

ITEM NO. 3

DATE: February 21, 2024

FROM: Arminé Chaparyan, City Manager AC

PREPARED BY: John Downs, Finance Director

SUBJECT: **Approval of FY 2023-24 Mid-Year Budget Report, Capital Improvement Program (CIP) Continuing Appropriations and Resolution**

Recommendation

Staff recommends that the City Council:

1. Approve the Fiscal Year 2023-24 Mid-Year Budget Report and Adjustments;
2. Approve of Fiscal Year 2023-24 Capital Improvement Program (CIP) Continuing Appropriations; and
3. Adopt A Resolution of The City Council of The City of South Pasadena Approving Fiscal Year 2023-2024 Mid-Year Budget Amendments and Adjustments and Capital Improvement Program Carryovers.

Background

On June 21, 2023, the City Council adopted the Fiscal Year (FY) 2023-24 Operating and Capital Improvement Program (CIP) budgets. The FY 2023-24 budget is the City's financial operating plans that establishes the City's goals, budget priorities, and desired service levels for the fiscal year, as well as identifies the fiscal resources necessary to achieve them. The adopted budget was based on certain assumptions and meeting expenditure and revenue projections. The Mid-Year Financial Review is presented to The City Council to provide an updated financial forecast for the current year.

The FY 2023-24 Mid-Year Financial Review reports on the City's fiscal performance through mid-year (July through December), comparing all revenues and expenditures incurred during the first two quarters of FY 2023-24 to the same period in FY 2022-23. The Mid-Year Financial Review also provides an updated FY 2023-24 Financial Forecast, as well as presents mid-year budget adjustments for Council's consideration to amend the FY 2023-24 Budget.

As customary, the Mid-Year Financial Review primarily focuses on the General Fund since this is the fund that supports traditional municipal services the City provides for residents, such as law enforcement, fire protection, public works services, parks, and recreation.

Analysis

FY 2022-23 Year End

At the end of each fiscal year, the Finance Department begins its process of closing out the year. This process includes trueing up the budget, and ensuring all capital improvement project carryovers are processed and reflected in the new fiscal year. In addition, to avoid possible budget inflation, at the year end of each fiscal year, all purchase orders and encumbrances are closed out, excluding multi-year capital projects.

Once the City's budget is adopted and committed in Springbrook, the City's financial system, the new fiscal year is open for activity. Staff from each department has the ability to review the general ledger, enter purchase orders for services, and track department revenues and expenditures.

FY 2022-23 General Fund Year-End Performance

The FY 2022-23 General Fund Budget included expenditures in the amount of $41.7 million offset by $42.2 million in projected revenues. Based on the audited figures for FY 2022-23, the City ended the year with $39.1 million in expenditures, offset by $39.4 million in revenue and the use of $1.3 million in net transfers. The FY 2022-23 ending fund balance is $23.6 million, however, only $19.0 million is spendable. In the table below, revenue and expenditure figures include transfers in/out.

TABLE 1
FY 2023 GENERAL FUND YEAR-END PERFORMANCE

	FY 2023 Adopted Budget	FY 2023 Year-End (Audited)
Beginning Fund Balance	$ 20,810,029	$ 24,672,171
Revenues	42,224,170	39,417,605
Expenditures	41,721,612	40,413,640
Operating Surplus (Deficit)	502,558	(996,035)
Ending Fund Balance	**$ 21,312,587**	**$ 23,676,136**
Required Reserve Balance	**$ 12,667,251**	**$ 11,825,282**

FY 2023-24 Changes from Original Approved Budget to Adopted Budget

When staff presented the FY 2023-24 budget to Council for consideration in June 2023, economists were still discussing concerns of inflation, a CPI increase of 4%, and interest rate adjustments by the Federal Reserve Bank. However, actual economic activity as measured by job gains, industrial production, and retail sales were still indicating growth. As mentioned in the FY 2024 budget message, the current climate was not as damaging as it has been to other cities due to the fact that the City of South Pasadena has a different revenue base including a heathy property tax base and a City's return of 24 cents to the property tax dollar.

- The measure A – 75 cents sales transaction tax is now out-performing its traditional counterpart of the Bradley Burns 1% sales tax.
- The American Rescue Plan Act of 2021 created the State and Local Fiscal Recovery Fund (SLFRF). The City received $6,059,235 of SLFRF funds, and City Council has prioritized key projects across the agency for use of these funds, offsetting the reliance on the general fund.
- The City developed a zero-based budget for FY 2023-24, developing a budget from the ground-up on each line-item across the document, rather than simply making adjustments to previously adopted versions of a long-standing budget.

The FY 2023-24 budget included significant impacts due to anticipated one-time cost related to the City's Housing Element, salary increases from prior approved labor agreements as well as support for the Lighting and Landscape Maintenance District (LLMD) fund. The proposed mid-year review and adjustments include additional measures to address the purchase of historic vacant homes from Caltrans as well as increased legal services. Revenues are adjusted lower by $581,331 to account for the projected decreases in sales tax revenues, rentals and charges for services. The total adjusted revenues for FY 2024 have changed from $39,567,924 to $38,986,593. Expenditures are adjusted from $41,415,272 to $42,703,191 for a net change of ($1,438,715).

Mid-Year General Fund appropriations adjustments are $844,384, broken down between ongoing adjustments of $494,086 and one-time adjustments of $350,298. The tables below reflect the FY 2022-23 General Fund Approved and Revised budgets.

TABLE2
FY 2024 GENERAL FUND BUDGET

	FY 2024 Approved Budget	FY 2024 Revised Budget
Beginning Fund Balance	$23,927,934	$23,676,136
Revenues	$39,567,924	$38,986,593
Expenditures	$41,415,272	$42,703,191
Operating Surplus (Deficit)	($1,847,348)	($3,716,598)
Ending Fund Balance	$22,080,586	$19,959,538

The ongoing adjustments are due to 4th of July events, increased legal services and higher than expected Department of Industrial Relations Assessments. The one-time adjustments in expenditures for the year are for unexpected and unbudgeted expenses occurring this FY 2023 including increased legal costs for special counsel, Caltrans property related acquisition costs, and temporary staffing cost due to vacancies. Details of these adjustments are shown in Attachment A.

FY 2022-23 Mid-Year Financial Report

The table below shows the City's revenues and expenditures incurred through the mid-year point of the two fiscal years (first two quarters), from July 1 through December 31 for both fiscal years 2023-24 and 2022-23 for comparison purposes.

TABLE 3
GENERAL FUND REVENUES & EXPENDITURES
JULY - DECEMBER

	FY 2024 Budget	FY 2024 July - December Actuals	FY 2023 July - December Actuals	Year over Year 6 Month Dollar Comparison	Year over Year 6 Month Comparison Percentage
Revenues					
Property Taxes	$ 20,075,533	$ 6,298,399	$ 5,951,107	$ 347,292	5.84%
Sales Taxes	6,478,033	2,011,402	2,166,057	(154,655)	-7.14%
Utility Users Taxes	4,352,462	1,907,961	1,872,305	35,656	1.90%
Business Licenses & Permits	796,200	473,059	434,766	38,293	8.81%
Charges for Current Services	4,141,520	2,222,581	2,267,899	(45,318)	-2.00%
Fines, Forfeitures & Penalties	58,000	46,205	35,602	10,603	29.78%
Other Taxes & Revenue	3,661,483	1,571,914	1,240,664	331,250	26.70%
Total Revenues	**$39,563,231**	**$14,531,521**	**$13,968,401**	**$563,120**	**4.03%**
Expenditures					
Wages & Benefits	$26,717,742	$14,826,789	$13,450,320	1,376,469	10.23%
Operations & Maintenance	$12,615,785	$4,892,902	$4,082,013	810,889	19.86%
Capital Outlay	$258,000	$94,327	$20,179	74,148	367.45%
Transfers Out	2,267,280	-	-	-	0.00%
Total Expenditures	**$41,858,807**	**$19,814,018**	**$17,552,512**	**$2,261,506**	12.88%

The table above shows the City's revenues and expenditures incurred through the mid-year point of the two fiscal years (first two quarters), from July 1 through December 31 for both fiscal years 2022-23 and 2023-24 for comparison purposes.

FY 2023-24 Mid-Year Revenue Performance

Overall, revenues for the City are up 4.0% ($563,120) for the first half of FY 2023-24 compared to FY 2022-23. Outlined below is a summary of the revenue performance for the City's major revenues:

Property Tax

Through the mid-year point in FY 2023-24, the City's largest revenue, Property Tax, was up 5.84% ($347,292) from FY 2022-23. The City has received 31% of the revenue and expects the largest amount to come in April 2024. For FY 2023-24, the City budgeted $20,075,533.

In respect to Secured Property Taxes, the City received its Property Tax installment in December 2023, representing 40% of what the State expects to receive for the whole year. Therefore, on an annualized basis, the City's estimated Secured Property Taxes are on track.

Please note, the City received $1,520,780 in Property Tax and $1,956,546 of Property Tax in Lieu of Vehicle License Fees (VLF) in January. These payments are not reflected in the December revenues. For FY 2023-24, it is anticipated that the City will receive a total $3,905,907 in Property Tax in Lieu of VLF revenue for the fiscal year.

Sales Taxes

Taxes (including Sales Tax Measure A) are down 7.14% ($154,655) through the first half of FY 2023-24 from last year. Sales Taxes makes up 16% of total General Fund revenues and is the City's second largest revenue stream. The City budgeted $6.5 million for FY 2023-24, however, we are updating this projection to reflect a forecast received from the City's sales tax consultant. The estimated budget will be decreased by $262,523 to $5.8 million.

Utility Users Tax (UUT)

UUT revenues are up 1.90% ($35,656) in FY 2023-24 from last year. UUT revenues for water, telephone and cable increased the first six months of the year while UUT revenues for electric and gas decreased. UUT - telephone is expected to decrease as people are no longer using landlines.

Business License & Permits

The revenue from Business Licenses and Permits saw an 8.81% increase ($38,293) compared to the previous year. Despite a reduction in filming permits, there was growth in revenues from business licenses and compliance efforts, parking permits, street/curb permits, Fats Oils and Grease (FOG), wastewater permits, and street closure permits.

Charges for Current Services

Revenue from Charges for Services decreased by 2.00% ($45,318) from last year. This category includes fees from Plan Check Fees, Paramedic Fees, Filming, Planning Fees, Building Permits, Inspection, and Recreation Fees. Notably, Building Permits and Paramedic Fees experienced the most significant increases, whereas Plan Check and Police and Fire Filming Permits saw the largest decreases compared to last year, given the high cost of construction and the film industry writers' strike.

Fines, Forfeits, & Penalties

Fines, Forfeitures, and Penalties increased by 29.78% ($10,603) from last year. The reason for this increase is due simply to increases in Vehicle Code Fines.

Other Revenues

Other Taxes and Revenue category saw an increase of 26.70% ($331,250) compared to the previous year. This group encompasses Franchise and Transfer Taxes, Use of Money & Property, Revenue from Other Agencies, and Other Miscellaneous Revenues. The largest contributor to this increase was Revenue from Other Agencies, followed by Other Taxes. The only segment to experience a decrease from the previous year was Use of Money & Property.

FY 2023-24 Mid-Year Expenditure Performance

The City expended 12.88% ($2,261,506) more than last year. The increase in expenditures can be attributed to increase in professional and contractual services, salary, liability insurance and legal services. The Finance Department will continue to monitor spending, address unanticipated needs for the current year, and help ensure that departments are adhering to the approved budget and planning appropriately for the future budget.

FY 2023-24 Financial Forecast

In addition to reporting on the fiscal condition of the City through the first half of the year, the FY 2023-24 Mid-Year Financial Review provides an updated FY 2023-24 Financial Forecast. Throughout the year, fiscal issues arise and budget adjustments may be required that may impact the FY 2023-24 Adopted Budget. When this happens, budget assumptions and year-end projections change. The Mid-Year Financial Review is usually a good time to present an updated FY 2023-24 Financial Forecast, as we become aware of new fiscal issues that arise subsequent to the budget adoption.

Refer to Table 4 below for an updated FY 2023-24 Financial Forecast:

The second column on Table 4 represents the FY 2023-24 Adjusted Budget, considering all unanticipated expenditures and proposed budget adjustments. Based on the second column, the new FY 2023-24 ending fund balance is projected to be $19,959,538. The new reserve level is above the minimum General Fund reserve level of 30% of the current-year operating budget.

TABLE4 GENERAL FUND ADJUSTEDFY2023-24 FINANCIAL FORECAST		
	FY2023-24 Budget	FY 2023-24 Adjusted Budget
Revenues		
Adopted Revenues (including Transfers In)	**$39,567,924**	**$39,567,924**
Bradley Burns 1% Local Sales and Use Tax		(196,523)
Measure A Sales Tax		(66,000)
Licenses & Permits		(25,000)
Fines, Forfeitures & Penalties		11,500
Charges for Current Services		(219,748)
Other Taxes & Revenues		(85,560)
Total Adjusted Revenues	**$39,567,924**	**$38,986,593**
Expenditures		
Adopted Expenditures (including Transfers Out)	**$41,415,272**	**$41,415,272**
1st Quarter Council Approved Budget Adjustments		193,513
2nd Quarter Council Approved Budget Adjustments		38,512
February Council Approved Budget Adjustments		211,510
City Manager Operational Budget (Proposed)		33,937
Community Development Operational Budget (Proposed)		249,854
Community Services Operational Budget Proposed		40,000
Finance & Administration Operational Budget (Proposed)		66,507
Fire Operational Budget (Proposed)		-
Library Operational Budget (Proposed)		-
Management Services Operational Budget (Proposed)		342,411
Transfer Out – Self Insurance Fund		111,675
Total Adjusted Expenditures	**$41,415,272**	**$42,703,191**
Operating(Deficit)/Surplus	**($1,847,348)**	**($3,716,598)**
Beginning Fund Balance	**$20,810,029**	**$23,676,136**
Ending Fund Balance	**$18,962,681**	**$19,959,538**
Minimum GF FB Reserve (30% of Revenues)	**$11,870,377**	**$11,695,978**

FY 2023-24 Mid-Year Budget Adjustments

Staff is presenting the following Mid-Year Budget Adjustments for Council's consideration to amend the FY 2023- 24 Budget:

General Fund:

- City Manager Operational Budget ($33,937 – All Funds) - An additional appropriation in the amount of $33,937 from General Fund reserves is needed to cover costs for Land Management survey and site analysis for Iron Works Museum facility site, Holiday Lighting and Décor (off-set by Chamber of Commerce deposit) and legal services for special counsel related to Caltrans Housing (from Slater Reserve).

- Community Development Operational Budget ($249,854 – All Funds) - An additional appropriation from General Fund reserves, $249,854 for activities related to the Caltrans properties including KMA financial analysis and acquisition of six historic homes (from Caltrans Vacant Lot Reserve), special counsel on legal services related to Holy Family, and reduction of appropriations related to Moffat St. litigation.

- Community Services Operational Budget ($40,000 – All Funds) - Additional appropriations from General Fund reserves, $40,000 to cover full cost of 4th of July event, less staffing costs.

- Finance & Administration Operational Budget ($85,679 – All Funds) - Additional appropriation from General Fund reserves, $66,507 for Consulting fees related to five-year financial forecast; PERS fees, Arbitrage additional contractors (due to vacancies), LA County Property tax administrative fees.

- Management Services Operational Budget ($342,411 – All Funds) - Additional appropriations from General Fund reserves, $342,411 to true up costs through end of fiscal year per Richards, Watson and Gershon (RGW) and Department of Industrial Relations Assessment increased annual fee.

Staff is also recommending Mid-Year Budget Adjustments for the City Council's consideration to amend the FY 2023-24 Budget for other funds. The proposed FY 2023-24 Mid-Year Budget adjustments are listed in Attachment A.

Other Funds:

- Finance & Administration Operational Budget ($19,172) - Additional appropriations from Sewer Fund ($7,189) for consulting fees related to 5-year financial forecast, Arbitrage additional contractors (due to vacancies), Water ($11,982) for consulting fees related to five-year financial forecast, Arbitrage additional contractors (due to vacancies).

- Public Works Operational Budget ($18,264)- Additional appropriation in the amount of ($9,990) from Open Streets Grants, Water Fund ($17,274) for Critical Water Treatment cost related to FY 2022-23 billed to the City very late.

- Public Works Capital Improvement Program (CIP) Carryovers from FY 2022-23 Capital Budget ($731,619) - Carryover FY 2023-24 CIP appropriations for the following funds:
  - Capital Improvement Program Fund $731,619
  - General Fund $111,675
  - Street Improvements Program $11,675
  - Facilities & Equipment Replacement $72,665
  - SR 110 General Fund Reserve $11,470
  - Sewer $70,000
  - Proposition A $19,378
  - Sewer $27,500
  - SB2 Planning Grant ($20,067)
  - Rogan HR 5294 $9,814
  - Measure M $72,435
  - Capital Growth ($8,782)
  - Community Development Block Grant (CDBG) $25,000
  - Park Impact Fees $14,968
  - Highway Safety Improvement Program (HSIP) $352,088
  - Arroyo Seco Golf $4,775
  - Water $27,500

Staff will plan for a separate study session with City Council and Finance Commission to focus on CIP projects and funds.

Special Reserve Funds
Staff requests the City Council's consideration of the use of special reserve funds for specific related uses:
- 626 Prospect Litigation (Slater) Reserve: $16,936.90 for special counsel on Caltrans properties. City Manager was given direction to onboard special counsel, and did so using City Manager's funds. City Council later approved the use of 626 Prospect Litigation (Slater) Reserve for subsequent invoices and costs related to this project.
- Caltrans Vacant Lot Purchases: $243,000 to cover the cost of acquisition on six vacant historic Caltrans homes.

The mid-year adjustment includes the assumption that the use of these reserves would be considered and approved (as shown above in the Department-specific narratives). Should City Council not approve these uses, other funds would need to be identified to account for these expenditures.

State & Local Fiscal Recovery Fund (SLFRF)

The City received its allocation of SLFRF funds in July 2021 and 2022 totaling $6,059,236. During FY 2022-23, following the City Council's direction, the City expended $1,118,655 to offset the first year of salary negotiations, Police Department replacement of Tasers and Body Cameras, Microsoft 365 software, Fire Department Breathing Apparatus and for CivicPlus recreation registration software.

According to FY 2023-24 Adopted Budget, the SLFRF Funds are programed as follows:

- $160,000 – Library Radio Frequency Identification (RFID) Automated system
- $600,000 for Fire Air Utility Apparatus
- $100,000 IT Master Plan
- $300,000 Public Works Automatic Asphalt Truck
- $2,338,717 for salaries and Capital Improvement Projects

The fund has $1,441,864 of unprogrammed funds available for future activities based on City Council direction as the City's begins the FY 2024-25 budget process.

Lighting and Landscaping Maintenance District (LLMD) Fund

The Lighting and Landscaping Maintenance District (LLMD) assessment provides annual funds for the maintenance and operation of traffic signals, streetlights, median landscaping, street tree trimming, and tree removals and replacements. Each year, the City Council establishes LLMD assessments which provide approximately $900,000 in revenue. The revenue is collected through the County Assessor's Office as part of the property tax rolls. However, for numerous annual budget cycles, the LLMD costs have exceeded the revenue, by upwards of $800,000. Therefore, each year, General Fund monies have been transferred into the LLMD fund to balance the budget.

As a result of Proposition 218 (Prop 218), the City cannot increase the proposed assessments without going through a public ballot process. The City has historically relied on an exemption of Prop 218 (passed in 1997), that allows the renewal of the LLMD assessments, provided the rates are not changed. If the assessment rates are changed, then the balloting requirements under Prop 218 must be fulfilled. In January 2017, a ballot to increase assessments was performed. The final tally of the vote was 60.9% opposed and 39.1% in favor of the new assessments. As a result, assessment rates have remained unchanged.

In considering alternatives to address the imbalance of revenue vs. expenditures in the LLMD fund, City staff are analyzing options, and will return to the City Council for robust discussion and brainstorming during the FY 2024-25 budget development process to identify options to reduce the reliance on the general fund, and how to make the fund whole.

Fiscal Impact
These adjustments will serve to keep the General Fund and Capital Improvement Program (CIP) projects in line with the estimated year-end actual. The overall fiscal impact is a decrease to the General Fund reserve of $3,716,598. During the remainder of the fiscal year, if any material deficiencies arise, they will be brought forward to the City Council for adjustment.

Key Performance Indicators and Strategic Plan
This item is in line with the Finance Department's Key Performance Indicator. The mid-year adjustment is being presented to provide a more transparent Budget process.

Commission Review and Recommendation
This matter will be reviewed in a Special Joint Meeting of the City Council and Finance Commission on February 21, 2024.

Attachments:
1) Attachment A – FY 2023-24 Mid-Year Expenditure and Revenue Adjustments
2) Attachment B – Capital Improvement Program (CIP) FY 2023-24 Continuing Appropriations
3) Resolution

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ATTACHMENT 1

Attachment A – FY 2023-24 Mid-Year Expenditure and Revenue Adjustments

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Fund	Acct #	Department	Fee Description	Adopted Budgeted	Mid Year Adj.	Requested Adj. Total	Comments
101	101-0000-0000-4820-001	COMMUNITY SERVICES	Rsv	$ 60,000.00	$ 12,000.00	$ 72,000.00	Trending upwards
101	101-0000-0000-4825-000	COMMUNITY SERVICES	Rental - Tennis	$ 108,000.00	$ (86,960.00)	$ 21,040.00	Contract Timing
101	101-0000-0000-4885-000	COMMUNITY SERVICES	Rental - Sr Citizen Ctr	$ 12,000.00	$ (4,000.00)	$ 8,000.00	Trending downwards
101	101-0000-0000-5265-002	COMMUNITY SERVICES	Sr. Citizens Classes	$ 14,000.00	$ (2,000.00)	$ 12,000.00	Class registration trending lower than expected; instructor changes, space needs to accommodate
101	101-0000-0000-5265-003	COMMUNITY SERVICES	Membership	$ 7,500.00	$ (500.00)	$ 7,000.00	Lower Registrations levels
101	101-0000-0000-5265-004	COMMUNITY SERVICES	Sr. Citizens Bus Trips	$ 4,500.00	$ 1,000.00	$ 5,500.00	Trending upwards
101	101-0000-0000-5265-005	COMMUNITY SERVICES	Programs	$ 1,500.00	$ 380.00	$ 1,880.00	Trending upwards
101	101-0000-0000-5265-006	COMMUNITY SERVICES	I.D.	$ 600.00	$ 100.00	$ 700.00	Trending upwards
101	101-0000-0000-5270-001	COMMUNITY SERVICES	Camp Med Fees	$ 300,000.00	$ (90,000.00)	$ 210,000.00	Lower Registrations levels
101	101-0000-0000-5270-002	COMMUNITY SERVICES	Recreation Classes	$ 170,000.00	$ (60,000.00)	$ 110,000.00	Class registration trending lower than expected; instructor changes, space needs to accommodate
101	101-0000-0000-5270-003	COMMUNITY SERVICES	Special Events	$ 40,000.00	$ 30,000.00	$ 70,000.00	Tickets sales in June rather than July; anticipate hitting target goals by July event date
101	101-0000-0000-5270-008	COMMUNITY SERVICES	Concerts in the Park	$ 25,000.00	$ (10,000.00)	$ 15,000.00	Last year did not max out events; looking for sponsors and donations. COVID sponsorship still low
101	101-0000-0000-5270-009	COMMUNITY SERVICES	War Memorial Kitchen	$ 2,500.00	$ (500.00)	$ 2,000.00	Closing the 4 week closure for elections; reservations cancelled- March date?
101	101-0000-0000-5501-003	COMMUNITY SERVICES	Donations - Senior Meals	$ 39,600.00	$ (11,600.00)	$ 28,000.00	CDBG funds delay; contract reimbursements -- Follow up with Terry
101	101-0000-0000-5260-000	LIBRARY	Library Fees	$ 700.00	$ 300.00	$ 1,000.00	Small increases expected; increase usage
101	101-0000-0000-5260-003	LIBRARY	Library Replacements	$ 6,200.00	$ 1,000.00	$ 7,200.00	Small increases expected; increase usage
101	101-0000-0000-5260-004	LIBRARY	Library Equip. Rental	$ 1,400.00	$ 1,472.00	$ 2,872.00	Small increases expected; increase usage
101	101-0000-0000-4860-000	LIBRARY	Rental - Library Comm Room	$ 20,000.00	$ 5,000.00	$ 25,000.00	Trending upwards
101	101-0000-0000-4600-000	FINANCE	Vehicle Code Fines	$ 18,500.00	$ 6,500.00	$ 25,000.00	Trending upwards
101	101-0000-0000-4620-000	FINANCE	Other Court Fines	$ 1,500.00	$ 5,000.00	$ 6,500.00	Trending upwards
101	101-0000-0000-4200-000	FINANCE	Sales & Use Tax	$ 2,972,321.00	$ (196,523.00)	$ 2,775,798.00	Based on HDL forecast; trending downward in both about $263K across the board
101	101-0000-0000-4200-002	FINANCE	Sales Tax - Measure A	$ 3,121,000.00	$ (66,000.00)	$ 3,055,000.00	Based on HDL forecast; trending downward in both about $263K across the board
101	101-0000-0000-4445-000	COMMUNITY DEVELOPMENT	Filming Permits	$ 85,000.00	$ (25,000.00)	$ 60,000.00	Impacts due to writers strikes
101	101-0000-0000-5200-002	COMMUNITY DEVELOPMENT	Planning Fees	$ 300,000.00	$ (155,000.00)	$ 145,000.00	Result of economy; anticipated larger projects with DTSP, slow development
101	101-0000-0000-5200-003	COMMUNITY DEVELOPMENT	Plan Check	$ 700,000.00	$ 40,000.00	$ 740,000.00	Trending upwards; SFR, additions, room remodels
101	101-0000-0000-5200-004	COMMUNITY DEVELOPMENT	Building Permits	$ 600,000.00	$ 40,000.00	$ 640,000.00	Trending upwards; SFR, additions, room remodels
101	101-0000-0000-5200-007	COMMUNITY DEVELOPMENT	Administrative Citations	$ 25,000.00	$ (10,000.00)	$ 15,000.00	Code enforcement, citations issued & no method to collecting
101	101-0000-0000-5200-008	COMMUNITY DEVELOPMENT	Design Review Fee	$ 38,000.00	$ (8,000.00)	$ 30,000.00	Result of economy; anticipated larger projects with DTSP, slow development
101	101-0000-0000-5200-009	COMMUNITY DEVELOPMENT	Cultural Heritage (CHC) Fee	$ 30,000.00	$ 2,000.00	$ 32,000.00	Historic resources evaluation; folks remodeling homes

Fund	Acct #	Department	Fee Description	Adopted Budgeted	Mid Year Adj.	Requested Adj. Total	Comments
106	106-0000-0000-5520-000	COMMUNITY DEVELOPMENT	Technology Surcharge	$ 32,000.00	$ (10,000.00)	$ 22,000.00	Planning fees down; surcharge is a fee charged with planning applications
205	205-0000-0000-5500-000	COMMUNITY SERVICES	Senior	$ 5,000.00	$ (5,000.00)	$ -	No longer selling MTA Bus Passes
205	205-0000-0000-5504-000	COMMUNITY SERVICES	Prop A - NTD Disc. Incentive	$ 12,000.00	$ 35,441.00	$ 47,441.00	Auditing incentive; past years revenue remitted this year
213	213-0000-0000-5071-021	COMMUNITY DEVELOPMENT	SB2 Grant	$ -	$ 160,000.00	$ 160,000.00	Grant for SB 2; received reimbursements
220	220-0000-0000-5412-001	COMMUNITY DEVELOPMENT	BIT - Filming Permits	$ 31,875.00	$ (5,875.00)	$ 26,000.00	Down due to filming permits down
232	232-0000-0000-5084-008	COMMUNITY SERVICES	County Park Bond - Maint	$ 65,000.00	$ 25,000.00	$ 90,000.00	Received funding
255	255-0000-0000-5215-000	COMMUNITY DEVELOPMENT	Growth Requirement - Resident	$ 50,000.00	$ 30,000.00	$ 80,000.00	Most projects being processed are residential projects
255	255-0000-0000-5216-000	COMMUNITY DEVELOPMENT	Growth Requiremnt - Comm/ Indus	$ 10,000.00	$ (9,000.00)	$ 1,000.00	Commercial projects are down
275	275-0000-0000-5200-008	COMMUNITY DEVELOPMENT	Park Impact Fees	$ 160,000.00	$ 40,000.00	$ 200,000.00	Assessed with building permits issued
295	295-0000-0000-5275-005	COMMUNITY SERVICES	Filming	$ 12,600.00	$ (7,600.00)	$ 5,000.00	Filming at the Golf Course; impacted by strike
296	*Being created…*	COMMUNITY DEVELOPMENT	Public Art Fee	$ -	$ 7,500.00	$ 7,500.00	NEW Fund for Public Art Program/Fees
296	295-0000-0000-5275-005	COMMUNITY SERVICES	Filming	$ 12,600.00	$ (7,600.00)	$ 5,000.00	Filming at the Golf Course; impacted by strike

Fund	Acct #	Department	Adopted Budget	Mid Year Adj.	Requested Adj. Total	Narratives
101	101-2010-2011-8170-000	City Manager	$ 40,000.00	$ 12,000.00	$ 52,000.00	Land management survey for Iron Works Museum
101	101-2020-2012-8190-000	City Manager	$ 20,000.00	$ 5,000.00	$ 25,000.00	To account for Chamber of Commerce 5k Deposit & Tree Lighting
101	101-7010-7011-xxxx-000	Community Development	$ -	$ 243,000.00	$ 243,000.00	Caltrans: KMA financial analysis ($7,930), deposits ($6,000), acquisition 6 historic ($228,200) ; Item 21, 2/7/2024
101	101-7010-7011-8160-000	Community Development	$ -	$ 30,000.00	$ 30,000.00	Rutan & Tucker
101	101-7010-7011-8165-000	Community Development	$ 29,146.00	$ (23,146.00)	$ 6,000.00	Moffat St Litigation is over and balance of deposit ($25,000) must be returned to Developer (TBD)
101	101-8030-8031-8264-000	CSD/Admin	$ 50,000.00	$ 40,000.00	$ 90,000.00	Start up funds for 2024 - 4th of July event. True cost of event - excluding staff
101	101-3010-3041-8170-000	Finance	$ 135,000.00	$ 41,380.00	$ 176,380.00	Financial Consultants Bill Statler & NHA & Arbitrage
101	101-3010-3041-8020-000	Finance	$ 9,600.00	$ 8,150.00	$ 17,750.00	PERS Late Fees
101	101-3010-3011-8180-000	Finance	$ 100,000.00	$ 4,359.82	$ 104,359.82	MV CHENG
101	101-3010-3041-8335-000	Finance	$ 177,069.00	$ 12,617.19	$ 189,686.19	True up for property Tax admin Fee
500	500-3010-3012-8180-000	Finance	$ -	$ 11,982.30	$ 11,982.30	MV CHENG & Financial Consultant Bill Statler & NHA
210	210-6010-6501-8180-000	Finance	$ 140,000.00	$ 7,189.38	$ 147,189.38	MV CHENG & Financial Consultant Bill Statler & NHA
101	101-2010-2501-8163-000	Finance / City Manager	$ 53,000.00	$ 16,936.90	$ 69,936.90	Amount not included on staff report on 08/16/2023, Item #9 - Consideration from council to utilize slater reserves
101	101-2010-2501-8160-000	Management Services	$ 420,000.00	$ 325,530.08	$ 745,530.08	To true up costs through end of fiscal year per RWG request
101	101-2030-2034-8020-000	Management Services	$ 34,500.00	$ 16,881.01	$ 51,381.01	Department of Industrial Relations Assessment; annual fee came in higher than expected
249	249-2010-2011-8170-000	Public Works	$ -	$ 9,990.00	$ 9,990.00	Slow Streets Recently paid invoice, recently received grant
500	500-6010-6711-8110-000	Public Works	$ 231,000.00	$ 17,273.74	$ 248,273.74	Critical Water Treatment Recently paid invoice from FY 2022-23
			TOTAL:	**$ 779,144.42**		

FUND	Amount
General Fund - 101	$ 732,709.00
Sewer Fund - 210	$ 7,189.38
Open Streets Grant Fund - 249	$ 9,990.00
Water Fund - 500	$ 29,256.04
TOTAL MID YEAR REQUEST:	**$ 779,144.42**

$ 259,936.90	**Consideration for Reserve Use**
$ 16,936.90	*626 Prospect Litigation (Slater) Reserve:*
$ 243,000.00	*CalTrans Vacant Lot Purchases:*

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ATTACHMENT 2

Attachment B – Capital Improvement Program (CIP)
FY 2023-24 Continuing Appropriations

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City of SOUTH PASADENA
FINANCE DEPARTMENT

City of South Pasadena
CIP Continuing Appropriations

Fund	Fund Name	Transfers - In	Transfers - Out
400	Capital Improvement Program	731,619	
101	General Fund		111,675
104	Street Improvement Program		11,200
105	Facility & Equipment Replacement		72,665
108	SR 110 General Fund Reserve		11,470
205	Prop A		19,378
210	Sewer		27,500
213	SB2 Planning Grant		(20,067)
214	Rogan HR 5294		9,814
236	Measure M		72,435
255	Capital Growth		(8,782)
260	CDBG		25,000
275	Park Impact Fees		14,968
277	HSIP Grant		352,088
295	Arroyo Seco Golf		4,775
500	Water		27,500
		$ 731,619	**$ 731,619**

City of SOUTH PASADENA
FINANCE DEPARTMENT

City of South Pasadena Continuing Appropriations Capital Improvement Program Projects		
Project No.	**Project Name**	**FY 2022-23 Carryover Balance**
9033	Grevalia & Berkshire Pocket Park	51,255
9149	VoiP Phone System Installation	20,000
9157	Golf Course Netting Replacement	4,775
9161	North-South Corridor ITS Deploy	12,502
9186	CD Permit Management Software	(47,590)
9188	City/Civic EV Charging System	69,198
9189	Arroyo Park EV Charging System	50,000
9192	Fair Oaks Traffic Signal Construction	381,516
9203	Street Repairs - 2023	72,435
9224	Citywide Facility Repair	7,381
9263	Pocket Park Construction	(36,288)
9264	ADA Sidewalk Repairs	25,000
9301	Library HVAC Repairs	5,000
9351	Rect. Rapid Flashing Beacons	1,150
9404	Citywide Facilities Assessment/ Security	60,284
9407	CMMS/Work Order System/GIS	5,000
9408	Sewer Sys. Rep., Rehab&Replace	25,000
9409	Westside Reservoir	25,000
		$ 731,619

ATTACHMENT 3
Resolution

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RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOUTH PASADENA APPROVING FISCAL YEAR 2023-2024 MID-YEAR BUDGET ADJUSTMENTS

WHEREAS, on June 21, 2023, the City Council adopted the Fiscal Year 2023-2024 Budget;

WHEREAS, the since the adoption in June 2023, City Council has taken action to adjust the general ledger of the Fiscal Year 2022-2023 Budget to fund various projects across the agency;

WHEREAS, at the February 21, 2024 Special City Council meeting, the City Council considered recommended Mid-Year Budget Adjustments to the Fiscal Year 2023-2024 Budget;

WHEREAS, the City Council considered amending the Fiscal Year 2023-2024 Budget to include Capital Improvement Program (CIP) appropriations,

WHEREAS, the City Council desires to amend the Fiscal Year 2023-2024 Budget;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SOUTH PASADENA, CALIFORNIA, DOES RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:

SECTION 1. The Fiscal Year 2023-2024 Budget is hereby amended to reflect those Adjusted Budget amounts for Fund Sources and Accounts as stated in the FY 2023-2024 Mid-Year Expenditure and Revenue Adjustments (Attachment A);

SECTION 2. All other terms of the Fiscal Year 2023-2024 Budget, and prior adjustments to the general ledger of the Fiscal Year 2023-2024 Budget, not amended herein shall remain unchanged; and

SECTION 3. The Fiscal Year 2023-2024 Budget is hereby amended to include the budgeted amounts for the Account Titles stated in the Funds indicated in the “Capital Improvement Program (CIP) Continuing Appropriations” (Attachment B);

SECTION 4. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED AND ADOPTED ON this 21th day of February, 2024.

____
Evelyn Zneimer, Mayor

ATTEST:	APPROVED AS TO FORM:
______________________________	______________________________
Mark Perez, Deputy City Clerk (seal)	Roxanne Diaz, City Attorney

I HEREBY CERTIFY the foregoing resolution was duly adopted by the City Council of the City of South Pasadena, California, at a regular meeting held on the 21st day of February, 2024, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINED:

____

Mark Perez, Deputy City Clerk
(seal)