

LA MESA

JEWEL OF THE HILLS

General Fund Financial Forecast
COVID-19 Update
2020-2031
April 28, 2020



CITY OF
LA MESA
JEWEL of the HILLS

General Fund Financial Forecast Update 2020-2031



- **Introduction**

- Long range projection of the City's General Fund revenues, expenditures, and reserves updated with the effects of the COVID-19 public health emergency
- Based on the most current information available at the time of original preparation (January 2020) and updated with current COVID-19 information (through March 2020)
- Council's direction will be incorporated into the 2020-2021 Mid-Biennium Budget Update to be presented to the City Council in June 2020

General Fund Financial Forecast Update 2020-2031



- Review economic factors and state actions to date
- Recap Financial Forecast presented in March
- Review General Fund revenues impacted by current COVID-19 public health emergency and ongoing economic impacts
- Provide updated General Fund expenditure and ending reserves estimates for the current fiscal year 2019-2020
- Base Forecast vs. Updated COVID-19 Forecast

General Fund Financial Forecast Update 2020-2031



- **Economy**

- Leading economic indicators (both national and local) declined in March with further declines expected in April
- March US unemployment rate increased to 4.4 percent and the state unemployment rate increased to 5.3 percent with new claims for unemployment reaching historic highs in April
- Consumer Price Index (CPI) for all items decreased 0.4 percent in March with the energy sectors experiencing the most dramatic declines
- Forecasts point to a shock to the economy that suggests a deep retraction in the immediate future with the likelihood of the start of a recession

General Fund Financial Forecast Update 2020-2031



- **Federal COVID-19 Funding and Reimbursement**
 - Community Development Block Grant (CDBG) funds through Housing & Urban Development
 - Department of Justice funds designated for public safety
 - Treasury Department for Families First Act paid sick leave reimbursement
 - Federal Emergency Management Agency (FEMA) for all other COVID-19 related expenses
 - Staff reviewing for other future opportunities

General Fund Financial Forecast Update 2020-2031



- **State of California Actions**

- The State took legislative and administrative action to allocate state funds to the COVID-19 public health emergency. These actions are ongoing and include:
 - SB89: passed March 16, 2020 and allocated up to \$1 billion for COVID-19 response
 - SB117: passed on March 16, 2020 and appropriated \$100 million of Prop 98 funds for school facilities
 - Transferred \$1.3 billion from the Special Fund for Economic Uncertainties to the Disaster Response Emergency Operations Account

General Fund Financial Forecast Update 2020-2031



- **State of California, cont.**
 - CalPERS Retirement Fund
 - As of March 31, 2020, current investment return was -4%
 - Better prepared than 2008 to mitigate risk
 - Healthy liquidity position
 - Diversified portfolio and risk
 - Total fund perspective
 - Investment losses at June 30, 2020 will be amortized over 20 years beginning with fiscal year 2022-2023

General Fund Financial Forecast Update 2020-2031



- Status of the Section 115 Retirement Trust Fund

| | Updated @ March 31 | Return information @ February 29 |
|-------------------------------------|-----------------------|--|
| Contributions to date: | \$5,702,505 | \$5,702,505 |
| Earnings through March/February: | \$760,758 | \$1,192,926 |
| Balance through March/February: | \$6,463,264 | \$6,895,431 |
| Investment return – 12 months: | 1.20% | 10.62% |
| Investment return – since inception | 5.27% | 8.34% |

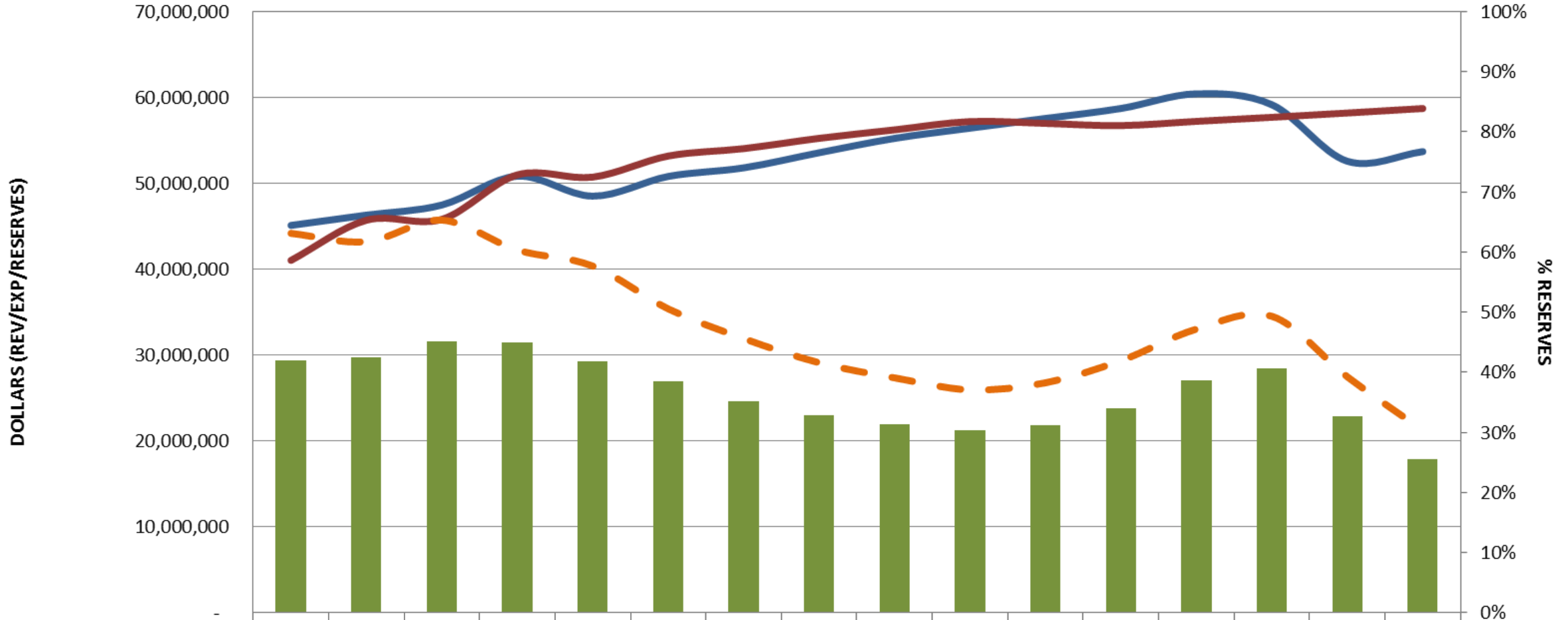
General Fund Financial Forecast Update 2020-2031



- **Previous Revenue/Expenditure/Interfund Transfer Assumptions**
 - Sales Tax and Prop L Sales Tax increases ~1.8%
 - Property Tax increase ~3.5%
 - All other revenues ~1% - 2%
 - Expenditures status quo with pension unfunded liability payment increases and minimal increases for all other operating expenses
 - Interfund Transfers included Gas Tax & Prop 172 Funds transfers
 - Reserves declining through 2024-2025 before beginning to recover

2020-2031 GENERAL FUND FINANCIAL FORECAST

BASE FORECAST W/\$1M SEC 115 TRUST FUNDS



| | FY 15-16 ACT | FY 16-17 ACT | FY 17-18 ACT | FY 18-19 ACT | FY 19-20 EST | FY 20-21 PROJ | FY 21-22 PROJ | FY 22-23 PROJ | FY 23-24 PROJ | FY 24-25 PROJ | FY 25-26 PROJ | FY 26-27 PROJ | FY 27-28 PROJ | FY 28-29 PROJ | FY 29-30 PROJ | FY 30-31 PROJ |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| ■ Reserves (dollars) | 29,395 | 29,696 | 31,578 | 31,481 | 29,263 | 26,888 | 24,653 | 22,978 | 21,978 | 21,215 | 21,799 | 23,797 | 27,005 | 28,460 | 22,840 | 17,817 |
| — Revenues/Transfers | 45,113 | 46,307 | 47,485 | 50,841 | 48,519 | 50,811 | 51,815 | 53,577 | 55,242 | 56,439 | 57,571 | 58,729 | 60,435 | 59,158 | 52,582 | 53,704 |
| — Expenditures | 41,039 | 45,715 | 45,817 | 50,996 | 50,737 | 53,186 | 54,051 | 55,252 | 56,241 | 57,202 | 56,986 | 56,731 | 57,228 | 57,702 | 58,202 | 58,727 |
| - - - % Reserves | 63% | 62% | 65% | 60% | 58% | 51% | 46% | 42% | 39% | 37% | 38% | 42% | 47% | 49% | 39% | 30% |

General Fund Financial Forecast Update 2020-2031



- **General Fund revenues immediately sensitive to current COVID-19 Shelter in Place and ongoing recession**
 - Sales Tax
 - Prop L Sales Tax
 - Transient Occupancy Tax (Hotel tax)
 - Community Services facility rentals, swimming pool admissions, recreation class fees, senior and sports activity fees
 - Gas Tax & Prop 172 Funds

Statewide Sales Tax Trends/Projections



| Autos/Transportation | Food/Drugs |
|---|---|
| 1Q20 -6.0% 2Q20 -55.0% 2020/2021 -6.0% | 1Q20 5.0% 2Q20 5.0% 2020/2021 2.0% |
| Building/Construction | General Consumer Goods |
| 1Q20 -7.0% 2Q20 -40.0% 2020/2021 21.0% | 1Q20 -15.0% 2Q20 -45.0% 2020/2021 -3.0% |
| Business/Industry | Restaurants/Hotels |
| 1Q20 -15.0% 2Q20 -30.0% 2020/2021 -5.0% | 1Q20 -10.0% 2Q20 -60.0% 2020/2021 -7.0% |
| Fuel/Service Stations | State/County Pools |
| 1Q20 -10.0% 2Q20 -50.0% 2020/2021 0.0% | 1Q20 15.0% 2Q20 10.0% 2020/2021 7.0% |

Base Sales Tax



| | FY 2019-2020 | FY 2020-2021 | FY 2021-2022 |
|--|---------------|---------------|--------------|
| <i>Base Sales Tax</i> | | | |
| Approved Budget | \$12,776,400 | \$12,956,400 | n/a |
| Five-year Forecast | \$13,015,330 | \$13,243,100 | \$13,474,860 |
| Revised Estimate per HdL ¹ | \$11,817,040 | \$12,095,370 | \$12,860,980 |
| \$ decrease from forecast | (\$1,198,290) | (\$1,147,730) | (\$619,880) |
| % decrease from forecast | -9.2% | -8.7% | -4.6% |
| ¹ Includes impact of Executive Order 90-Day Sales Tax Payment Ext & SB Relief Payment Plans | | | |

Prop L Transactions Tax



| | FY 2019-2020 | FY 2020-2021 | FY 2021-2022 |
|--|--------------|--------------|--------------|
| <i>Prop L Trans Tax</i> | | | |
| Approved Budget | \$8,673,000 | \$8,795,000 | n/a |
| Five-year Forecast | \$8,926,350 | \$9,005,310 | \$9,162,910 |
| Revised Estimate per HdL | \$8,255,000 | \$8,456,000 | \$8,991,000 |
| \$ decrease from forecast | (\$671,350) | (\$549,310) | (\$171,910) |
| % decrease from forecast | -7.5% | -6.1% | -1.9% |
| ¹ Includes impact of Executive Order 90-Day Sales Tax Payment Ext & SB Relief Payment Plans | | | |

Other revenue estimates



| | FY 2019-2020 | FY 2020-2021 | FY 2021-2022 |
|---|---------------------|---------------------|---------------------|
| <i>Transient Occupancy Tax</i> | (\$350,000) | (\$200,000) | \$0 |
| % decrease from forecast | -26.9% | -16.7% | 0.0% |
| <i>Community Services Revenues</i> | (\$332,200) | \$0 | \$0 |
| % decrease from forecast | -35.9% | 0.0% | 0.0% |

Interfund Transfers to General Fund



| | FY 2019-2020 | FY 2020-2021 | FY 2021-2022 |
|--|---------------------|---------------------|---------------------|
| Gas Tax for Street Maint Purposes | (\$62,940) | (\$160,740) | (\$53,750) |
| % decrease from forecast | -6.0% | -15.0% | -5.0% |
| Prop 172 Funds | (\$19,660) | (\$30,840) | (\$58,100) |
| % decrease from forecast | -5.0% | -10% | -17% |

Other General Fund Revenues



- Major revenues sensitive in the long term if effects of COVID-19 last for an extended time (past June 30) or if recession continues after current COVID-19 Shelter in Place ends (all revenues will have some impact)
 - Property tax
 - Property transfer tax
 - Development related fees (engineering, planning, & building fees)
 - Community Services Facility Rentals and Services

General Fund Expenditures 2019-2020 Estimates



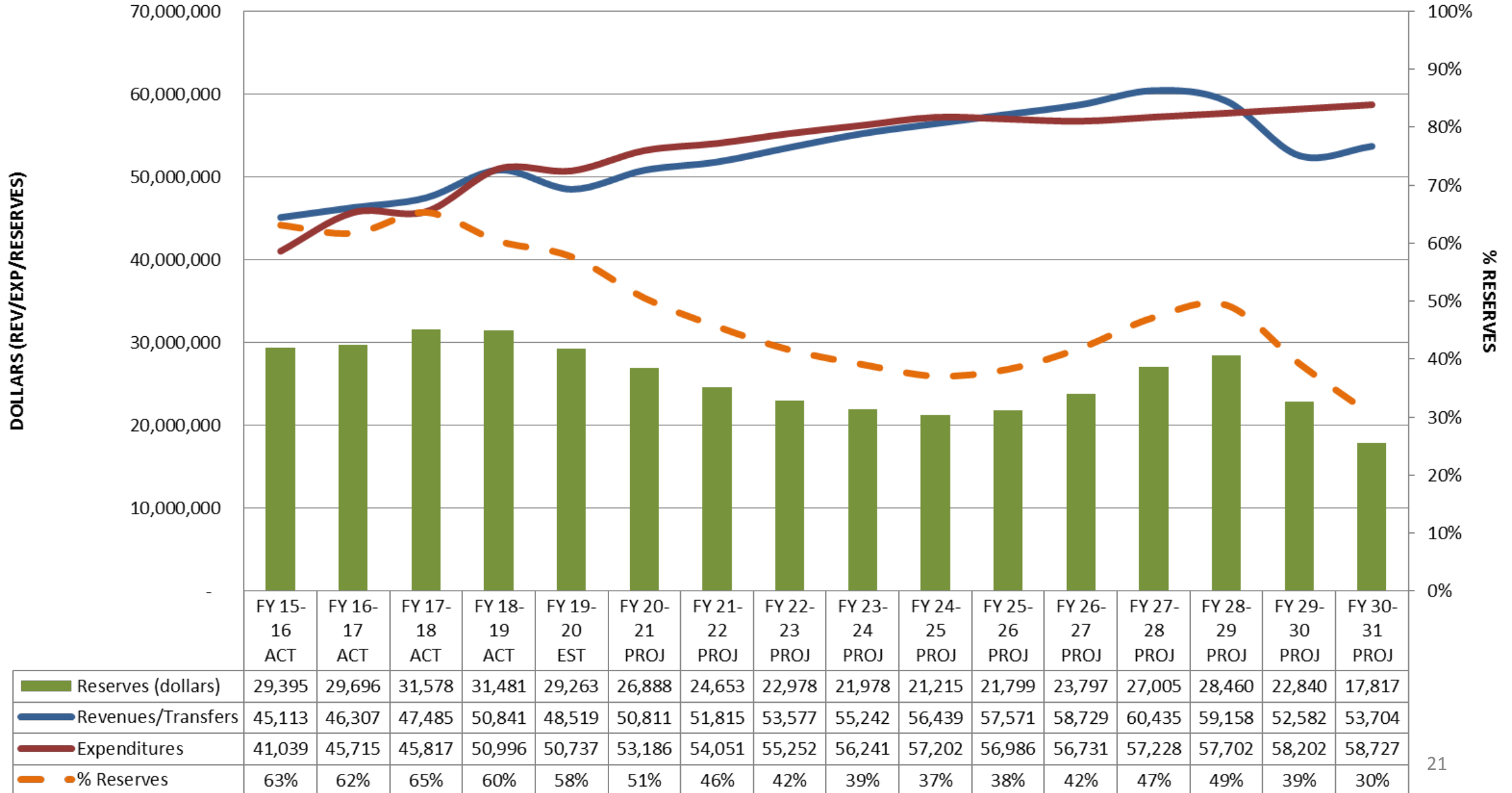
| General Fund Expenditures | Original Budget 2019-2020 | Forecast Estimate 2019-2020 | Revised Estimate 2019-2020 |
|----------------------------------|--------------------------------------|--|---------------------------------------|
| Salaries | \$23,980,760 | \$23,372,045 | \$22,983,957 |
| Benefits | \$14,938,920 | \$14,557,437 | \$14,497,219 |
| Personal expenses | \$963,780 | \$844,284 | \$669,284 |
| Materials, Svcs & Supplies | \$12,049,940 | \$11,848,175 | \$11,255,766 |
| Capital Equipment | \$122,340 | \$115,775 | \$105,775 |
| Total | \$52,055,740 | \$50,737,716 | \$49,512,002 |

| | | | | FY 19-20 | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|
| | FY 16-17 | FY 17-18 | FY 18-19 | Original Budget | Forecast Estimate | Revised Forecast Estimate |
| Available Reserves at June 30 | 29,696,208 | 31,578,785 | 31,481,239 | 27,919,539 | 29,263,033 | 27,874,007 |
| Reserves as % of Operating Expenditures | 60.7% | 65.3% | 60.3% | 54.1% | 58.0% | 56.0% |
| Source of Reserves: | | | | | | |
| Property Sale (Police Station) | 3,050,000 | 3,050,000 | 3,050,000 | 3,050,000 | 3,050,000 | 3,050,000 |
| Property Sale (Other land) | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| Proposition L Revenues | 8,406,483 | 8,916,466 | 8,940,142 | 8,673,000 | 8,926,350 | 8,255,000 |
| Reserves from Operations | 14,239,724 | 15,612,320 | 15,491,097 | 12,196,539 | 13,286,683 | 12,569,007 |
| Total Ending General Fund Reserves | 29,696,208 | 31,578,785 | 31,481,239 | 27,919,539 | 29,263,033 | 27,874,007 |

| General Fund Reserves at June 30 | Original Budget 2019-2020 | Forecast Estimate 2019-2020 | Revised Estimate 2019-2020 | Revised Estimate 2020-2021 | Revised Estimate 2021-2022 |
|---|----------------------------------|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Beginning Reserves | \$31,481,239 | \$31,481,239 | \$31,481,239 | \$27,874,007 | \$23,421,817 |
| Plus Revenues/Transfers | \$48,494,040 | \$48,519,510 | \$45,904,770 | \$48,734,080 | \$50,919,390 |
| Less: Expenditures | (\$52,055,740) | (\$50,737,716) | (\$49,512,002) | (\$53,186,270) | (\$54,051,090) |
| Ending Reserves | \$27,919,539 | \$29,263,033 | \$27,874,007 | \$23,421,817 | \$20,290,117 |
| Use of reserves | (\$3,561,700) | (\$2,218,206) | (\$3,607,232) | (\$4,452,190) | (\$3,131,700) |
| % of Expenditures | 54% | 58% | 56% | 44% | 38% |

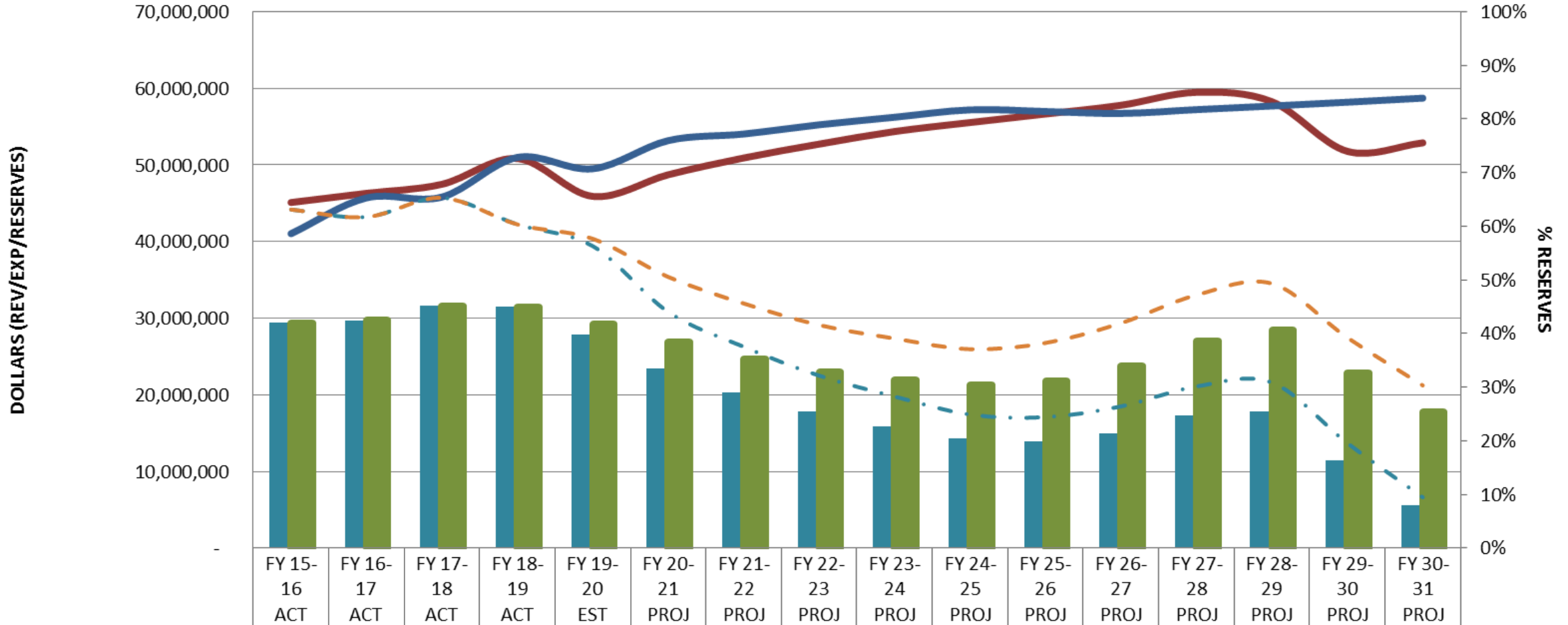
2020-2031 GENERAL FUND FINANCIAL FORECAST

BASE FORECAST W/\$1M SEC 115 TRUST FUNDS



2020-2031 GENERAL FUND FINANCIAL FORECAST

RECESSIONARY IMPACT WITH COVID-19



| | | | | | | | | | | | | | | | | |
|---------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Reserves (dollars) | 29,395 | 29,696 | 31,578 | 31,481 | 27,874 | 23,421 | 20,290 | 17,767 | 15,899 | 14,246 | 13,920 | 14,989 | 17,251 | 17,811 | 11,395 | 5,559, |
| Reserves (Forecast) | 29,395 | 29,696 | 31,578 | 31,481 | 29,263 | 26,888 | 24,653 | 22,978 | 21,978 | 21,215 | 21,799 | 23,797 | 27,005 | 28,460 | 22,840 | 17,817 |
| Revenues/Transfers | 45,113 | 46,307 | 47,485 | 50,841 | 45,904 | 48,734 | 50,919 | 52,730 | 54,373 | 55,549 | 56,661 | 57,800 | 59,490 | 58,262 | 51,786 | 52,892 |
| Expenditures | 41,039 | 45,715 | 45,817 | 50,996 | 49,512 | 53,186 | 54,051 | 55,252 | 56,241 | 57,202 | 56,986 | 56,731 | 57,228 | 57,702 | 58,202 | 58,727 |
| % Reserves | 63% | 62% | 65% | 60% | 56% | 44% | 38% | 32% | 28% | 25% | 24% | 26% | 30% | 31% | 20% | 9% |
| % Res (Forecast) | 63% | 62% | 65% | 60% | 58% | 51% | 46% | 42% | 39% | 37% | 38% | 42% | 47% | 49% | 39% | 30% |

General Fund Financial Forecast Update 2020-2031



Questions/Comments