Strategic Planning - FY 2014-2015

Phases in the planning, budgeting and reporting cycle

1. Strategic planning phase
2. High-level planning
3. Operational planning
4. Reporting, monitoring, forecasting and reprioritising
Agenda for Today

- OpenGov Demonstration
- Midyear/Yearend Fund Balance Update
- FY 2014-2015 Budget Assumptions
- Three-Year Forecast
- Policy Decisions
  - Update Credit Card Policy
  - Capital Improvement Funding
  - Facility Maintenance Funding
  - Equipment Replacement
  - Fund Policy to address instability of tax revenues
Current Economic Conditions

- Unemployment Rate - Improving as of April 2014
  - 7.8% in California - down from 9.3% (April 2013)
  - 6.3% Nationwide - down from 7.5% (April 2013)
    - Source: Bureau of Labor Statistics

- GDP - 3.8% increase expected for 2015
  - Source: Beacon Economics

- Commercial Property Vacancy Rate - 20%
  - 2 million vacant square feet
Current Economic Conditions

- Statewide Sales Tax Increase expected of about 3.7% for the next year
  - El Segundo increase is 3.4%
  - Lagging Restaurants and Hotels, Building/Construction
  - Allocation of County pool lagging
  - Tracking better than state average
    - Fuel and service stations
    - General Consumer goods

*Source: HdL Companies*
Current Economic Conditions

* Property Sales - California median home prices increased approx 8.5%

* El Segundo
  * Sale Value History-- Detached single Family residence
  * Over the last 5 quarters 113 homes have sold for an average price of $888,937.

* Manhattan Beach over the same period
  * 433 homes sold for an average price of $1,907,582.

* Hermosa Beach over the same period
  * 150 homes for an average price of $1,363,050.

* Redondo Beach over the same period
  * 391 homes sold for an average of $855,749.

*Source: HdL Companies*
Pension Contribution Rates

CalPERS Rates

% Contribution Rate

(PROJECTED RATES)

Miscellaneous
Safety
Linear (Miscellaneous)
Linear (Safety)
CalPERS Investments Earn 16.2 Percent in 2013

The CalPERS pension fund earned a 16.2 percent return for the 2013 calendar year. This return was led by strong gains in our global stock, private equity and real estate portfolios.

Global equity, made up of U.S. and foreign stocks, led with a 25.6 percent gain. Private equity, investments in private companies not listed on a stock exchange, returned 19.1 percent. Real assets, including real estate holdings such as apartment and office buildings, turned in an 11.1 percent return.

Even with these strong numbers, keep in mind that CalPERS is a long-term investor. That means that any one-year positive—or negative—investment return alone does not give an accurate snapshot of the long-term health of the Pension Fund.

To get a useful snapshot of investment performance, you must look at returns for longer time periods. CalPERS investments have grown by 10.9 percent during the past five calendar years and by 7.9 percent during the last 20 years. Our experts predict that we need a yearly return of 7.5 percent for the Pension Fund to be healthy. Clearly, 2013 was another step in the right direction.

Returns by Asset Class 2013 Calendar Year

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>24.4%</td>
</tr>
<tr>
<td>Global Equity</td>
<td>25.6%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>19.1%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>(4.0)%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>11.1%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>11.7%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>(1.5)%</td>
</tr>
<tr>
<td>Inflation-Linked Securities</td>
<td>(4.8)%</td>
</tr>
<tr>
<td>Absolute Return Strategies</td>
<td>9.2%</td>
</tr>
</tbody>
</table>
FY 2013-2014 Midyear Review
General Fund
Fiscal Year 2013-2014 - General Fund Midyear Revenues

Prior Year Through 3/31/2013

Current Year Through 3/31/2014

YTD: $29,394,800  YTD: $37,098,350
Fiscal Year 2013-2014 -
General Fund Midyear Expenditures

- Midyear 12/13: $8,939,676
  - YTD: $26,195,108
- Midyear 13/14: $7,382,742
  - YTD: $29,505,307

Bar chart showing expenditures for various departments.
Fiscal Year General Fund Yearend Revenue Estimates
- $59,118,375

11
Fiscal Year General Fund Yearend Revenue Estimates - $59,118,375
Fiscal Year General Fund Yearend Expenditures Estimates - $59,417,100
### Fiscal Year 2013/2014 General Fund
#### Yearend Estimated Results

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>56,743,600</td>
<td>59,118,375</td>
<td>2,374,775</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td>59,417,029</td>
<td>59,417,029</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(2,673,429)</td>
<td>(298,654)</td>
<td>2,374,775</td>
</tr>
</tbody>
</table>
Available Fund Balance: $11,400,220

FY 13/14 Estimated Revenues: $59,118,375

FY 13/14 Estimated Expenditures: 59,417,100

9/30/14 Projected Deficit: (298,725)

9/30/14 Unreserved, Undesignated Fund Balance: 11,101,495

Fund Balance Reserve Funded Level: 17%

Projected Expenditures 9/30/15: 61,637,833

Required Reserve: 10,478,432

Over (Under) Reserve: $623,063
## Fund Balance Reserve

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2013-2014 Forecasted Surplus, net:</td>
<td>623,063</td>
</tr>
<tr>
<td>FY 2014-2015 Forecasted Revenues:</td>
<td>60,349,930</td>
</tr>
<tr>
<td>FY 2014-2015 Forecasted Expenditures:</td>
<td>61,637,833</td>
</tr>
<tr>
<td>FY 2014-2015 Projected Decrease to Fund Balance:</td>
<td>(1,287,903)</td>
</tr>
<tr>
<td>FY 2014-2015 Estimated Shortfall:</td>
<td>(664,840)</td>
</tr>
</tbody>
</table>
FY 2014-2015 General Fund Assumptions - Expenditures

* Salaries - increase of $642,000 due to:
  * Expiring Concessions - $292,800
  * Increase in Overtime - $100,000
  * Increase in Special compensations and steps- $249,200

* California Public Employees’ Retirement System (CalPERS) Rate Increases - $822,000 increase in the discount rate, going from 7.75% return to 7.5%. This impacts both rates, safety and nonsafety:
  * Safety Rate Increase: $761,731
  * Misc Group Rate Increase: $60,269

* Increases to CalPERS costs due to Expiring Concessions - $729,865
FY 2014-2015 General Fund Assumptions

* Workers’ Compensation - The latest actuarial valuation of the City’s Workers’ Compensation Program reported a decrease in the estimated liability for FY 2014-2015 of approximately $1.2 million, as shown in the table below.

* An additional $475,000 has also been reserved in the Workers’ Compensation Fund to hedge for future losses based on the 70% confidence level.

<table>
<thead>
<tr>
<th>Probability Level</th>
<th>Undiscounted Losses</th>
<th>Discounted (2.0% interest) Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Estimate (55%)</td>
<td>$6,924,840</td>
<td>$5,941,513</td>
</tr>
<tr>
<td>70%</td>
<td>7,478,828</td>
<td>6,416,834</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Probability Level</th>
<th>Undiscounted Losses</th>
<th>Discounted (1.5% interest) Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Estimate (55%)</td>
<td>$7,982,574</td>
<td>$7,136,421</td>
</tr>
</tbody>
</table>
FY 2014-2015 General Fund Assumptions

* Health Benefits - $400,000 Increase
* OPEB - $400,000 Increase
* Non-Personnel Costs - Total increase of $297,000
  * Equipment Replacement Charge - 10% increase - $142,000
  * Increase in Utility Fees - 3% increase - $32,000
  * Contractual Services & Professional/Technical - Increase of $123,000
* All other Nonpersonnel Costs, such as Meetings & Travel, Training & Education, Supplies and Services have not been increased.

* ESUSD Funding -
  * $250,000 Cash Contribution
  * $80,000 Crossing Guard Services


# Fiscal Year 2014-2015 - General Fund Preliminary Estimates

<table>
<thead>
<tr>
<th></th>
<th>2013-2014 YE PROJECTION</th>
<th>2014-2015 ESTIMATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td>$ 59,118,375</td>
<td>60,349,930</td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td>59,417,029</td>
<td>61,637,833</td>
</tr>
<tr>
<td>SURPLUS (DEFICIT)</td>
<td>(298,654)</td>
<td>(1,287,903)</td>
</tr>
</tbody>
</table>

## Prior Year Fund Balance

<table>
<thead>
<tr>
<th>EXCESS (DEFICIT) RESERVES FROM PY:</th>
<th>298,654</th>
</tr>
</thead>
<tbody>
<tr>
<td>SURPLUS/(SHORTFALL):</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

Increase to Expenditures for:

- Funding for Capital Projects: $750,000
- Funding for Equipment Replacement: $200,000
- Funding for Facilities Maintenance: $80,000

Cumulative increase to 2013-2014 Estimate: $1,030,000

Cumulative increase to 2013-2014 Estimate: (1,694,768)
# Changes to FY 2014/2015 Estimates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>$ 57,685,585</td>
<td>60,349,930</td>
<td>2,664,345</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td>61,494,587</td>
<td>61,637,833</td>
<td>143,246</td>
</tr>
<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td>(3,809,002)</td>
<td>(1,287,903)</td>
<td>2,521,099</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>CHANGE IN REVENUE ESTIMATES DUE TO:</strong></th>
<th>2014-2015 FORECAST</th>
<th>2014-2015 REVISED</th>
<th>CHANGE IN ESTIMATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Gas UUT:</td>
<td>110,000</td>
<td>1,200,000</td>
<td>1,090,000</td>
</tr>
<tr>
<td>Increase in Sales and Use Tax &amp; Sales Tax in Lieu:</td>
<td>341,075</td>
<td>974,000</td>
<td>632,925</td>
</tr>
<tr>
<td>Increase in Franchise Tax:</td>
<td>2,346</td>
<td>620,000</td>
<td>617,654</td>
</tr>
<tr>
<td>Increase in Business License:</td>
<td>212,364</td>
<td>697,900</td>
<td>485,536</td>
</tr>
<tr>
<td>Increase in TOT:</td>
<td>25,500</td>
<td>334,200</td>
<td>308,700</td>
</tr>
<tr>
<td>Net decrease in all other revenues:</td>
<td>-</td>
<td>(470,470)</td>
<td>(470,470)</td>
</tr>
<tr>
<td><strong>TOTAL CHANGE IN REVENUE ESTIMATES:</strong></td>
<td>$ 691,285</td>
<td>3,355,630</td>
<td>2,664,345</td>
</tr>
</tbody>
</table>
Planning for the Future
**Three-Year Forecast Assumptions**

*Salaries - increase on average $130,000 annually due to:*
  * Normal Step/Longevity Increases - $30,000
  * Increase in Sick/Vacation Payouts - $100,000

*California Public Employees’ Retirement System (CalPERS) Rate Increases -*
  * FY 2016 - $479,500
  * FY 2017 - $600,000 (First Year of Change in Mortality Assumptions)
  * FY 2018 - $434,962 (Second Year of Change in Mortality Assumptions)

*Health Benefits - $200,000 annual increase*

*Increase in OPEB - $200,000 annual increase*

*Workers’ Compensation - $200,000 annual increase*
Three-Year Forecast Assumptions

* Non-Personnel Costs - Minimal Increases
  * Equipment Replacement Charge -10% annual increase.
  * Increase in Utility Fees -3% annual increase.
  * Contractual Services & Professional/Technical - 2% annual increase
  * New Pool - $300,000 annual costs beginning in FY 2015/2016

* All other Nonpersonnel Costs, such as Meetings & Travel, Training & Education, Supplies and Services have not been increased.

* ESUSD Funding -
  * $250,000 annual cash contribution
  * $ 80,000 annual cost to City for ESUSD crossing guard services
## General Fund Three-Year Forecast

<table>
<thead>
<tr>
<th></th>
<th>2015-2016 FORECAST</th>
<th>2016-2017 FORECAST</th>
<th>2017-2018 FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>62,037,919</td>
<td>63,334,003</td>
<td>64,377,096</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td>63,478,552</td>
<td>64,831,189</td>
<td>66,188,969</td>
</tr>
<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td>(1,440,634)</td>
<td>(1,497,186)</td>
<td>(1,811,873)</td>
</tr>
</tbody>
</table>

Increase to Expenditures for:

- Funding for Capital Projects: 500,000, 500,000, 500,000
- Funding for Equipment Replacement: 200,000, 200,000, 200,000
- Funding for Facilities Maintenance: 80,000, 150,000, 150,000

Cumulative increase to 2013-2014 Estimate: 780,000, 850,000, 850,000

**DEFICIT, AS ADJUSTED**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(2,220,634)</td>
<td>(2,347,186)</td>
<td>(2,661,873)</td>
</tr>
</tbody>
</table>
## General Fund Three-Year Forecast

### Alternate Scenario

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td>62,287,919</td>
<td>63,584,003</td>
<td>64,627,096</td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td>62,892,061</td>
<td>64,244,698</td>
<td>65,602,477</td>
</tr>
<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td>(604,142)</td>
<td>(660,695)</td>
<td>(975,381)</td>
</tr>
</tbody>
</table>

### Increase to Expenditures for:

- **Funding for Capital Projects**: $500,000, $500,000, $500,000
- **Funding for Equipment Replacement**: $200,000, $200,000, $200,000
- **Funding for Facilities Maintenance**: $80,000, $150,000, $150,000

**Cumulative increase to 2013-2014 Estimate:** $780,000, $850,000, $850,000

### DEFICIT, AS ADJUSTED

<table>
<thead>
<tr>
<th></th>
<th>2015-2016</th>
<th>2016-2017</th>
<th>2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1,040,557)</td>
<td>(2,153,931)</td>
<td>(1,825,381)</td>
</tr>
</tbody>
</table>
## Options for Consideration for a Balanced Budget

**SALARY & BENEFIT REDUCTIONS**

**COUNTY FIRE**

<table>
<thead>
<tr>
<th>Program Reductions</th>
<th>Estimated Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reorganization of Police Department</td>
<td>$500,000</td>
</tr>
<tr>
<td>Recovery of Trash Fees for 3 and 4 Units</td>
<td>$75,000</td>
</tr>
<tr>
<td>Recovery of Residential Trash Fees</td>
<td>$485,000</td>
</tr>
<tr>
<td>Reduce ESUSD Funding:</td>
<td></td>
</tr>
<tr>
<td>Cash Contribution</td>
<td>$250,000</td>
</tr>
<tr>
<td>Library School Resource</td>
<td>$190,000</td>
</tr>
<tr>
<td>Crossing Guard Contract</td>
<td>$80,000</td>
</tr>
</tbody>
</table>
The City of El Segundo implemented a merchant card program in FY 2000/01 to accept credit card payments for Recreation and Parks programs. The program was expanded the following year to accept credit cards for water payments and the following year approved the acceptance of online payments. The City currently accepts credit card payments for all city services. Currently, the City incurs annual credit card charges of approximately $120,000.
Convenience Fees

The City of El Segundo is permitted by California State Code as well as payment card industry standards to implement a convenience fee program.

Merchant Card Programs

Convenience fee programs vary by credit card processing company.
The City should examine the existing method for processing credit card payments

The City should first consider alternate methods for streamlining the process to accept credit card payments including a limit on the amount that can be charged for a single transaction.
Policy Decisions - Infrastructure

* Capital Improvement Funding

* Facility Maintenance Funding - Increase funding to restore adequate level of maintenance and repairs.

* Equipment Replacement - The funding level in the Equipment Replacement Fund is approximately 70%. Staff recommends increasing the funding level in each year of the forecast to ultimately get back to 100% funding level.
Fund Policy - Proposal
Economic Uncertainty

- Revenue instability for 5 core revenues
  - Sales and Use Tax
  - Sales Tax in lieu
  - Franchise Fees
  - Gas Utility User Tax
  - Electric Utility User Tax

Should the City adopt a fund policy to ensure revenue stability for these identified categories?
Fund Policy - Proposal Economic Uncertainty

- City is dependent on these revenue streams
  - Budgets are developed assuming these revenues will cover fixed costs into the future
- Extremely volatile
  - Not driven just by the economy
  - Commodity pricing
  - Supply and demand
  - Revenues misallocated to the City
FUND POLICY - PROPOSAL
ECONOMIC UNCERTAINTY

- Create a model
  - Establish an average performance/range for these revenues
  - Determine threshold amounts for under-performance and over-performance to budgeted targets
- The Economic Uncertainty Fund would be used to designate these funds for future shortfalls
Next Step

* Set meeting date for second Budget Planning Session - Staff to present Preliminary Budget
Outdoor Competition Pool
Joint Use Facility
City of El Segundo
& Wiseburn School District

Estimated Fiscal Impact
* Current Aquatics Operating Budget
  * $600,000 Expenses
  * $75,000 Projected Revenue
  * $525,000 Net Expense to the City

* Wiseburn 50-Meter Pool
  * $600,000 Estimated Expenses
  * $200,000 Estimated Revenue
  * $400,000 Net Expense to the City

* Total Estimated Aquatics Budget (w/ efficiencies)
  * $1,100,000 Estimated Expenses
  * $275,000 Estimated Revenue
  * $825,000 Net Expense to the City
  * $300,000 Net Increase to Current Aquatics Budget
* Cost Savings Methods

* Reduced/Limited Programming
  * $50,000-$75,000 Decrease in Expenses

* Cost-Recovery Pricing Structure

* Expanded Service Area

* Rental Income