



FY 2013-14 Mid-Year Update

City of Lompoc
March 25, 2014



FY 2013-14 Mid-Year Update

Overview

- Context and review – Finance Director
- General Fund
 - Review of prior years – Finance Director
 - Projected FY 13-14 – Accounting Supervisor
 - Long range (FY 2014-2021) model – Accounting Supervisor
- Utilities review
 - Projected FY 13-14 – Financial Services Manager
 - Long range (FY 2014-2021) model – Accounting Supervisor
- Principles and Reserves – Finance Director
- Follow-up and Questions



FY 2013-14 Mid-Year Update

Beacon Economics – 2-20-14 highlights

- On balance – 2014 will be better than 2013
- The nation is way behind on infrastructure investments
- Entitlement reform needed
- 30% population growth in Central Coast by 2060
- Home supply falling behind growth
- Economic cycle on an upswing – however we are due for a recession – on average one is due in 2016-17
- For governmental entities, the economy has reset to a lower starting point – a permanent reduction
- Many governmental revenues streams lag the general economy



FY 2013-14 Mid-Year Update

Chief Actuary – CalPERS – 2-21-14 highlights

- Implementation of PEPRA on 1-1-2013 has caused CalPERS to consider **significant** changes to their pooled plans
 - All pre-PEPRA pools are closed to new members **but**
 - Payroll growth is assumed in contribution rates
 - City safety plans are pooled



FY 2013-14 Mid-Year Update

Compensation

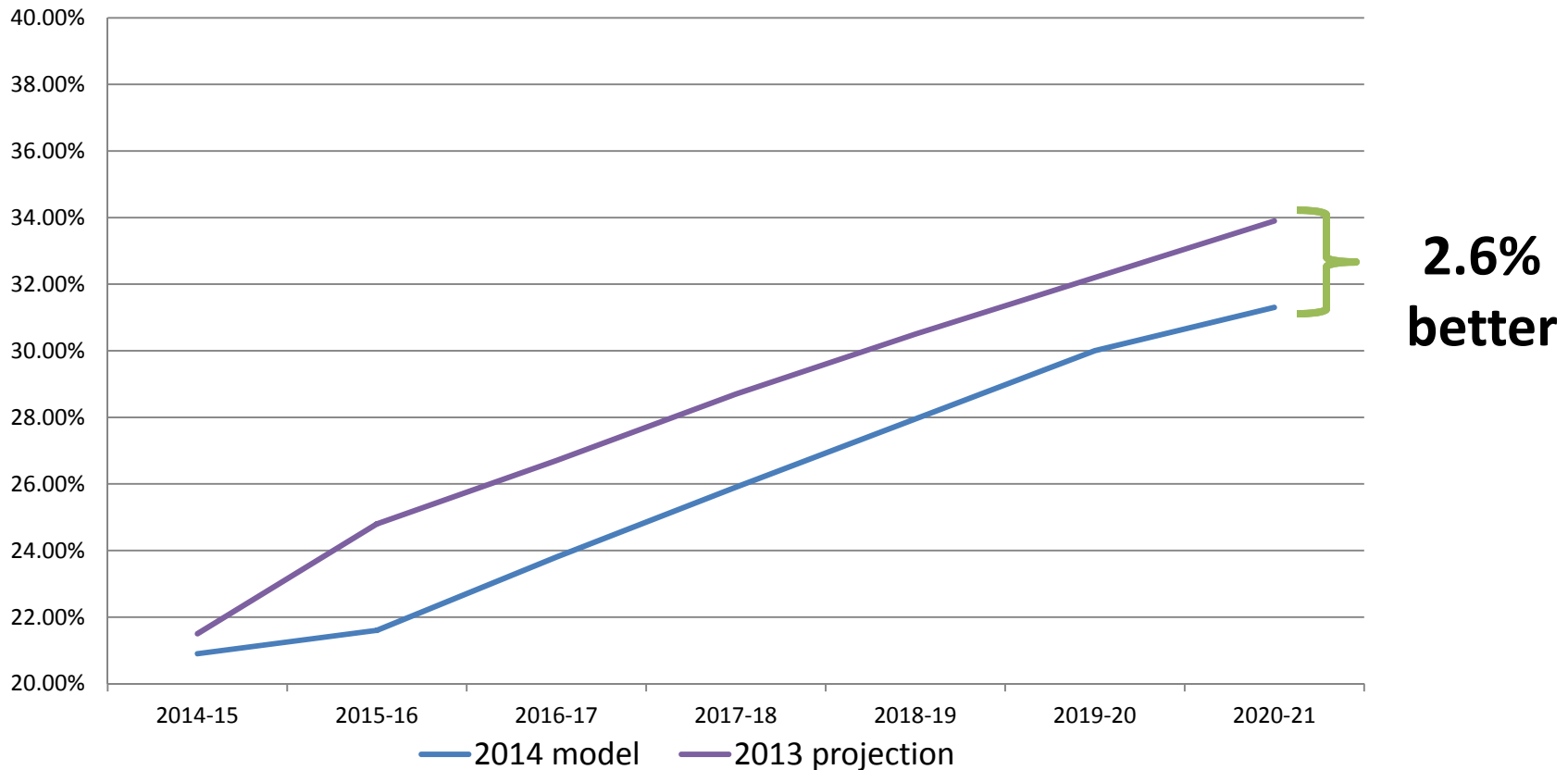
- Furloughs eliminated during 13/14
- 1% salary increase in 13/14
- Employee share of retirement
- 16% of workforce now in Tier 2 or 3
- 45% will be in Tier 2 or 3 by 2021
- CPI change 2006 to 2013 – 14%



FY 2013-14 Mid-Year Update

Employer contribution rates (as a % of salary)

<u>Miscellaneous</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
Base assumption	20.9%	21.6%	23.8%	25.9%	28.0%	30.0%	31.3%
Poor returns	20.9%	21.6%	24.5%	27.9%	31.7%	35.8%	39.2%
Good returns	20.9%	21.6%	23.1%	23.8%	23.9%	23.5%	21.7%



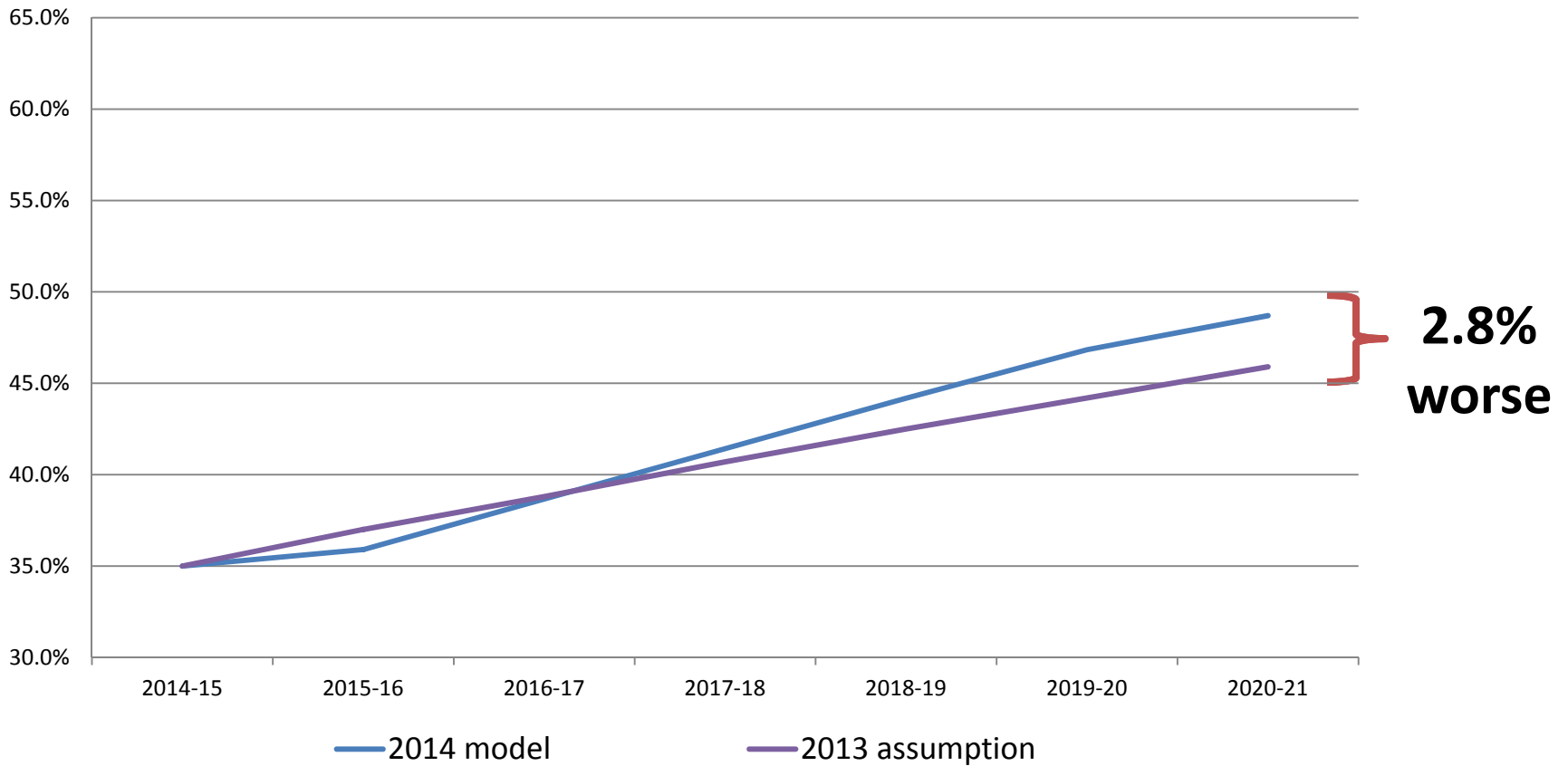


FY 2013-14 Mid-Year Update

Employer contribution rates (as a % of salary)

Safety

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Base assumption	35.0%	35.9%	38.7%	41.4%	44.2%	46.8%	48.7%
Poor returns	35.0%	35.9%	39.7%	44.1%	49.1%	54.4%	60.1%
Good returns	35.0%	35.9%	39.7%	38.7%	39.2%	38.9%	38.0%





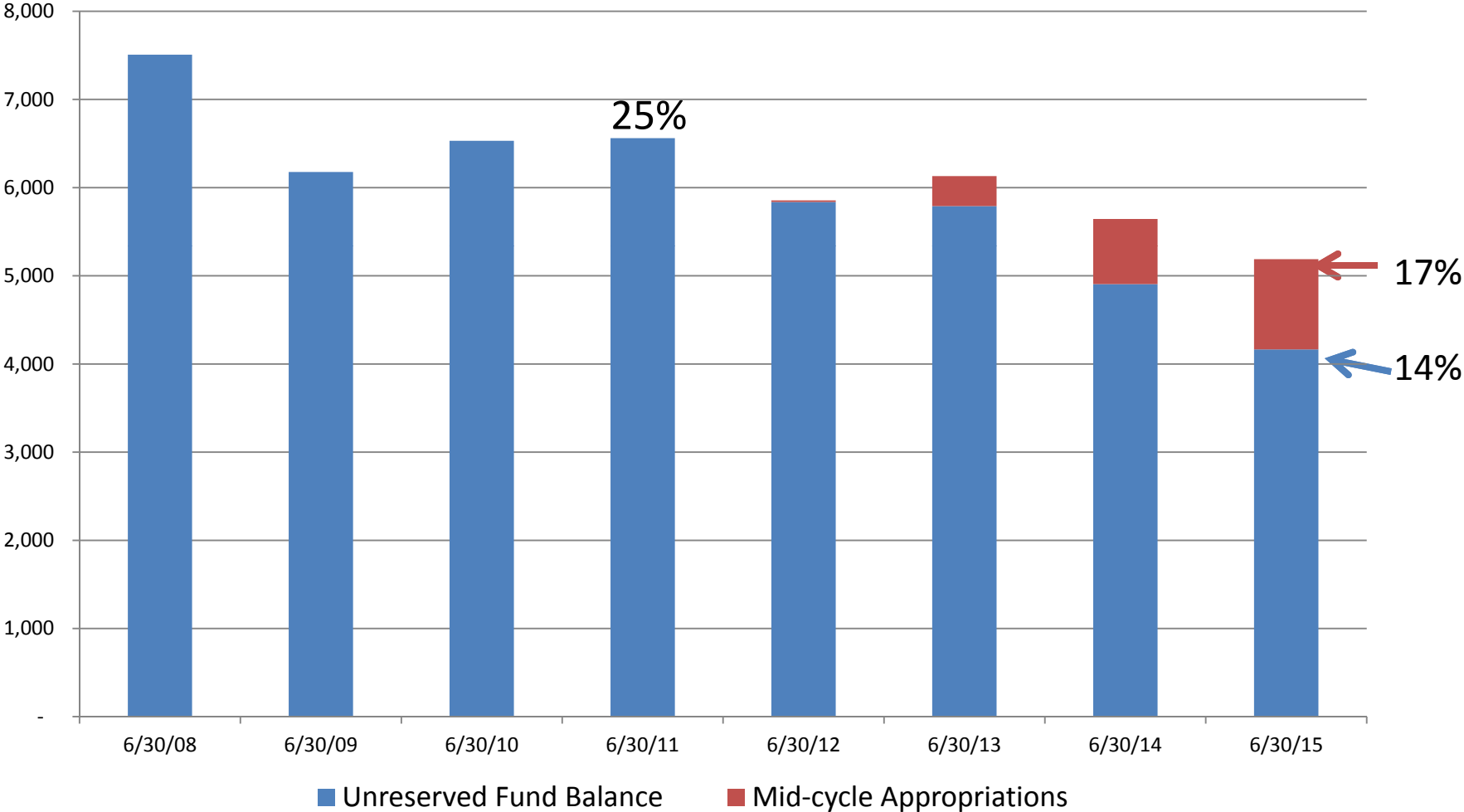
FY 2013-14 Mid-Year Update

General Fund



FY 2013-14 Mid-Year Update

General Fund – unrestricted available reserves





FY 2013-14 Mid-Year Update

General Fund FY 13-15 projections

General Fund – Fund Balance

	Projection 2013-14	Estimates 2014-15	Budget 2013-15
Revenues	29,815,939	29,896,762	59,712,702
Expenses	29,626,488	29,812,442	59,438,930
Net change in Fund Balance	<u>189,451</u>	<u>84,320</u>	<u>273,771</u>
Percentage of Overall Budget	0.64%	0.28%	0.46%



FY 2013-14 Mid-Year Update

General Fund FY 2015-2021 Model

Major Revenue Assumptions

Projection
2013-14

Estimates
2015-2021

Sales Tax

2.0%

2.0%

Property Taxes

2.0%

2.0%

Transient Occupancy Tax

13.6%

4.7%

Other Revenue Assumptions

The local Economy

Projected
2013-2014

Business Licenses

16.1%

Building Permits

42.0%

Baseline - Expense Assumptions

2015  2021

Rates - CalPERS Miscellaneous

20.9% 21.6% 23.8% 25.9% 28.0% 30.0% 31.3%

Rates - CalPERS Safety

35.0% 35.9% 38.7% 41.4% 44.2% 46.8% 48.7%

Rates - Retiree Healthcare Plan

6.3% 7.0% 8.0% 9.0% 9.0% 9.0% 9.0%

Operation and Maintenance

2.6% 2.4% 2.4% 2.4% 2.4% 2.4% 2.4%

- Baseline expenditure assumptions include only statutory or regulatory obligations such as known increases in PERS pension contribution rates.

Salaries Factor

.02

Increase Salaries 2015-16

.02

Increase Salaries 2016-17

.02

Increase Salaries 2017-2018

.02

Increase Salaries 2018-2019

.02

Increase Salaries 2019-2020

.02

Increase Salaries 2020-2021

Benefits

0

OPEB Rate

7.0

Insurance Benefits

Increase Benefits 2015-16

0

8.0

Increase Benefits 2016-17

0

9.0

Increase Benefits 2017-18

0

9.0

Increase Benefits 2018-19

0

9.0

Increase Benefits 2019-20

0

9.0

Increase Benefits 2020-21

GOTO

Goto GF Totals

Goto City Wide Totals

Expense Assumptions

Pull Budget

.024

Budget 2015-2016

.024

Budget 2016-2017

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Budget 2017-2018

.024

Budget 2018-2019

.024

Budget 2019-2020

.024

Budget 2020-2021

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PERS

Misc PERS Rates

Input 2014/15 Rate

21.5

21.6

CalPERS Rate 2015-16

23.8

CalPERS Rate 2016-17

25.9

CalPERS Rate 2017-2018

28.0

CalPERS Rate 2018-2019

30

CalPERS Rate 2019-2020

31.3

CalPERS Rate 2020-2021

Safety PERS Rates

Input 2014/15 Rate

35.00

35.9

CalPERS Rate 2015-16

38.7

CalPERS Rate 2016-17

41.4

CalPERS Rate 2017-2018

44.2

CalPERS Rate 2018-2019

46.8

CalPERS Rate 2019-2020

48.7

CalPERS Rate 2020-2021

Line Graphs

Goto Budget Line Graph

CalPERS Graphs

General Fund

General Fund

General Fund - Baseline



General Fund – COPS & SAFER Grants



General Fund – COPS & SAFER Grants Plus - Sales Tax Increase 4% vs 2%



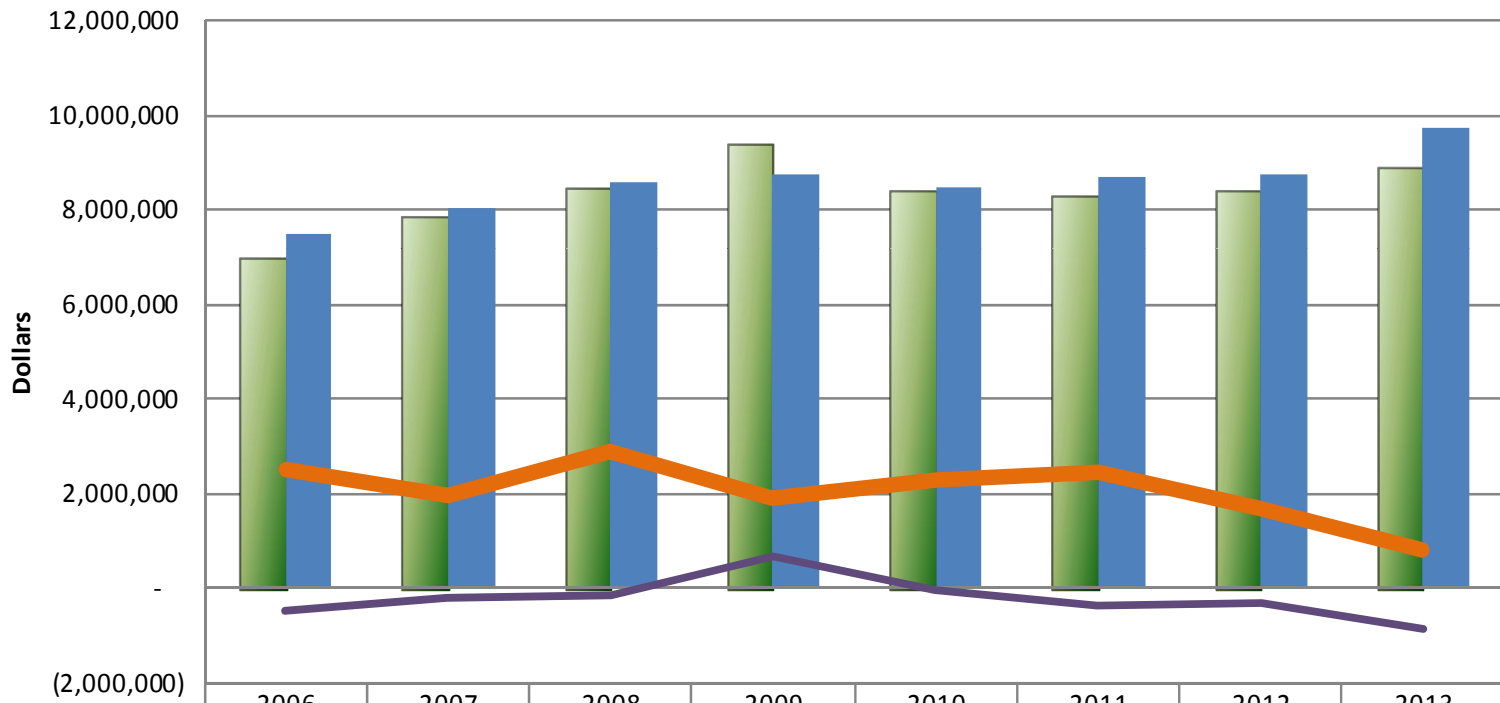


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Water
Wastewater
Electric and
Solid Waste

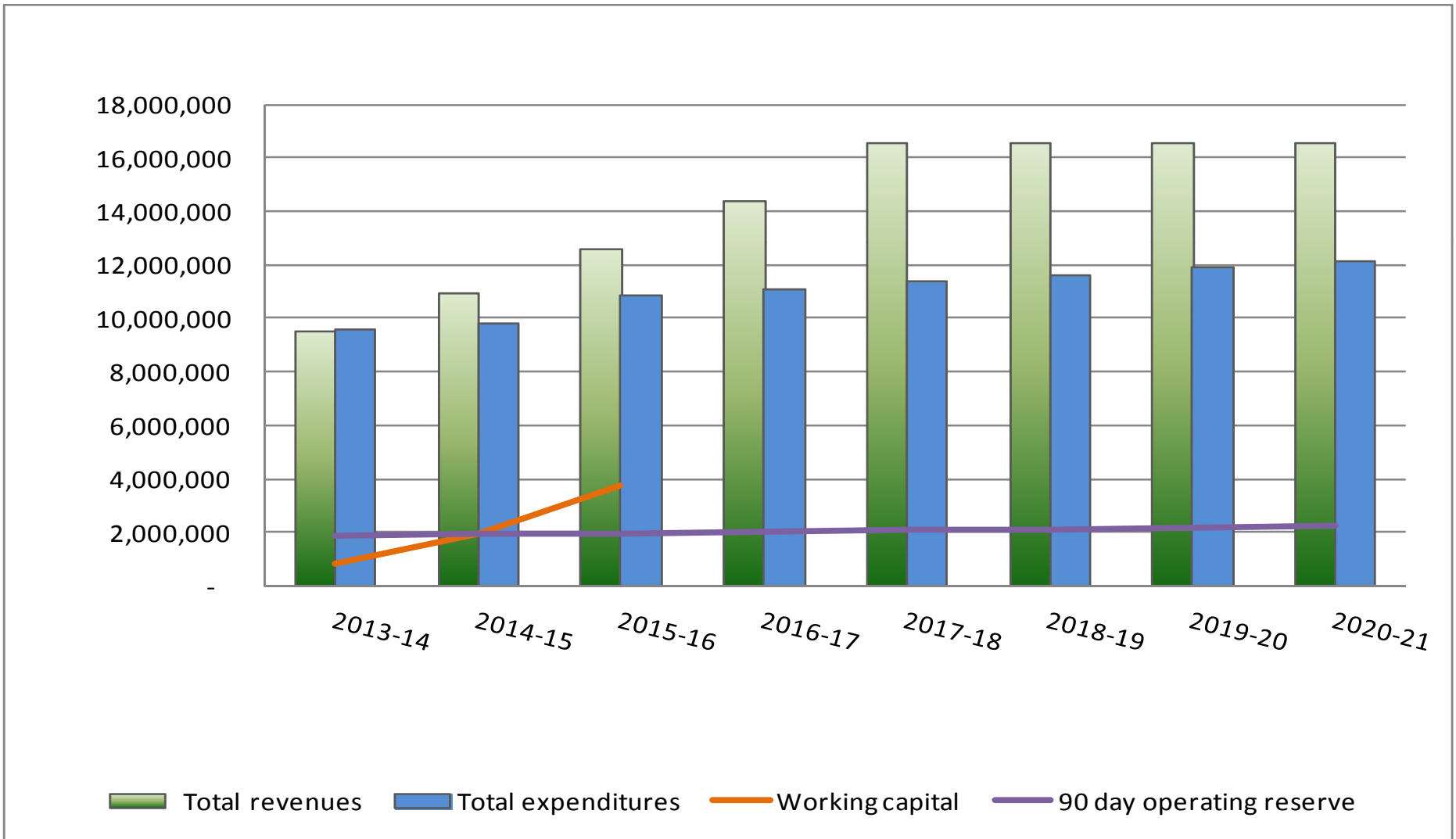
Review 2013-14
and
Projections 2014 thru 2021

Water Revenue & Expenditure History 2006 FY -2013 FY

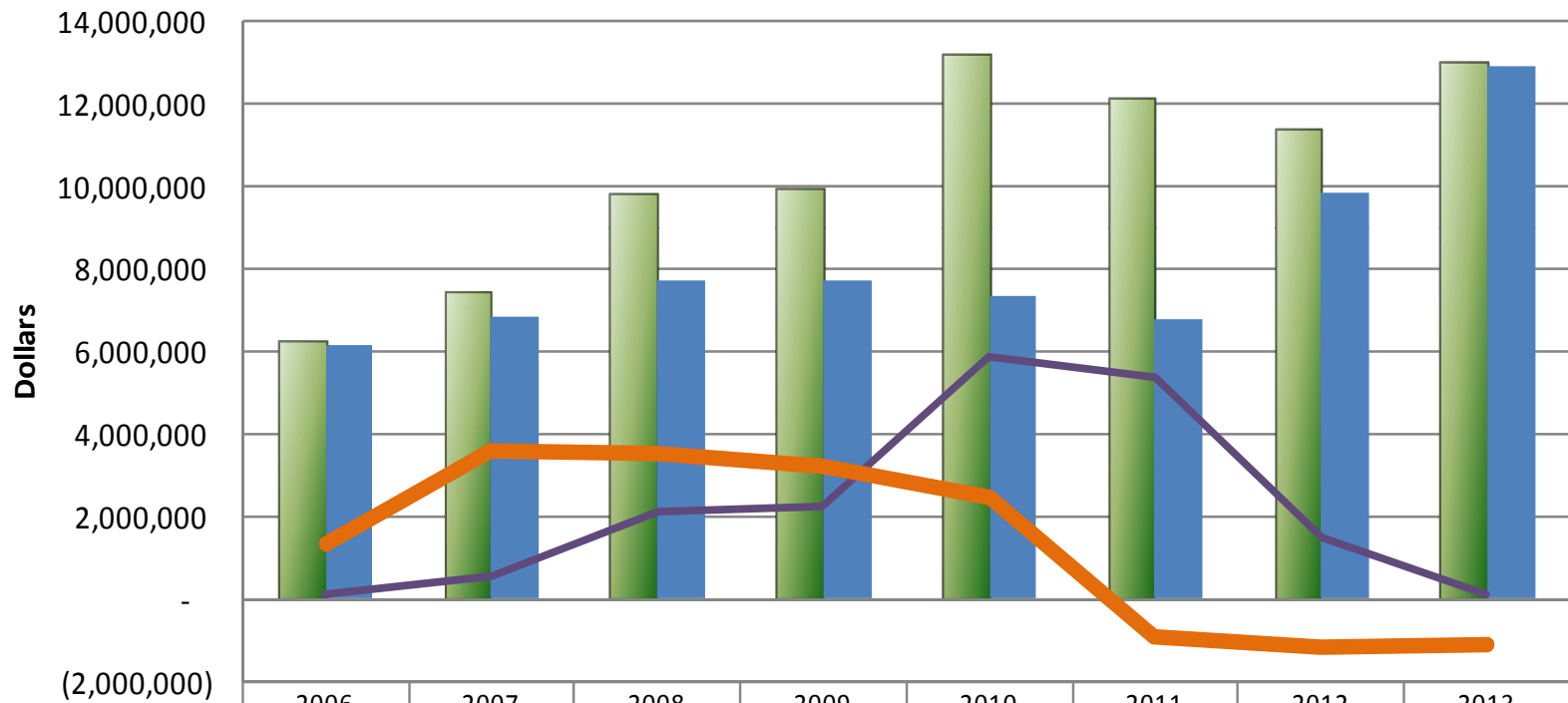


	2006	2007	2008	2009	2010	2011	2012	2013
Total revenues	7,012,071	7,865,019	8,446,658	9,382,986	8,434,234	8,315,637	8,431,527	8,885,285
Total expenditures	7,509,982	8,038,044	8,583,936	8,729,330	8,455,776	8,673,581	8,744,786	9,724,136
Net Income	\$(497,911)	\$(173,025)	\$(137,278)	\$653,656	\$(21,542)	\$(357,944)	\$(313,259)	\$(838,851)
Working Capital	2,490,883	1,987,744	2,888,922	1,906,663	2,264,469	2,431,973	1,690,056	784,843

Water Projections 2014 FY -2021FY

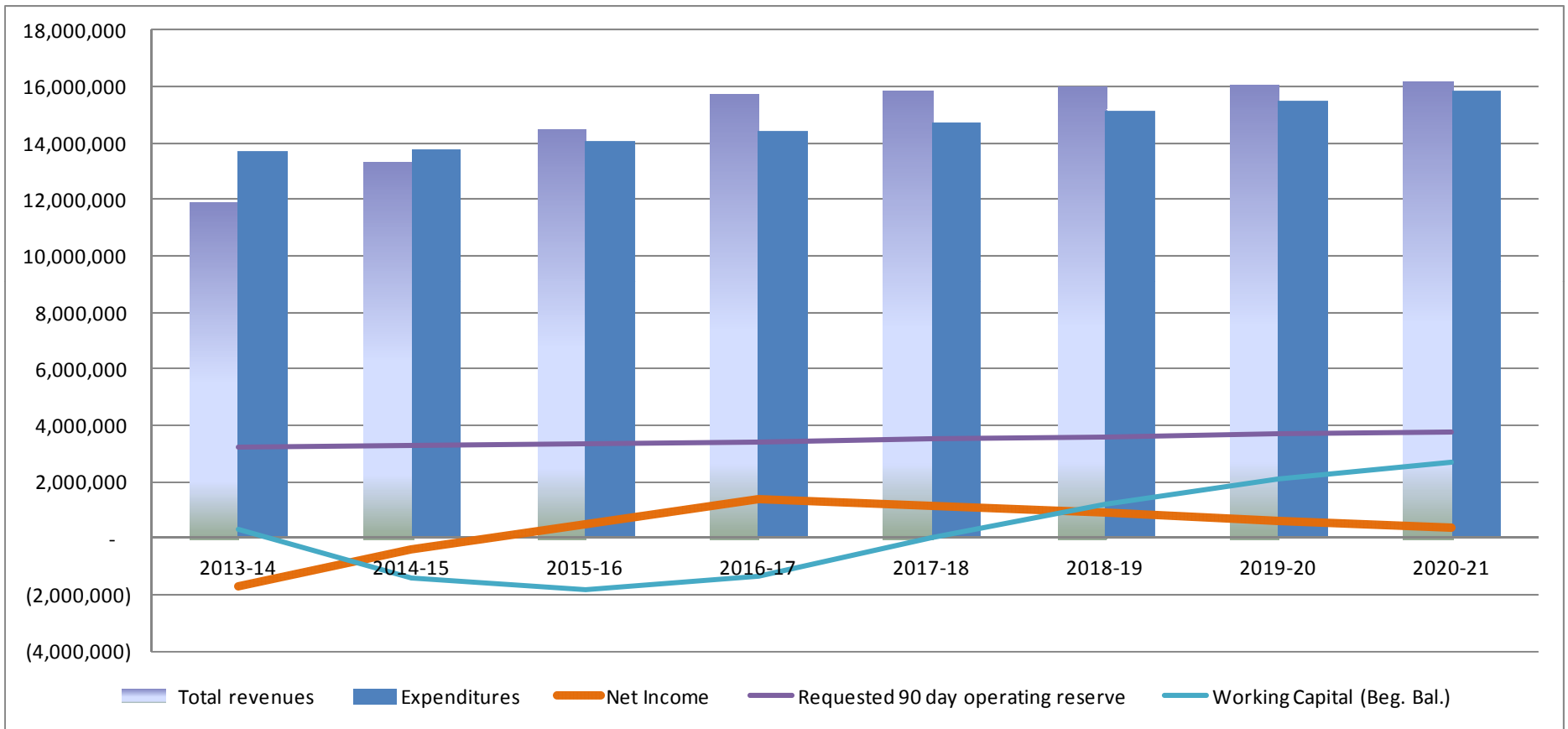


Wastewater Revenue & Expenditure History 2006 FY -2013 FY

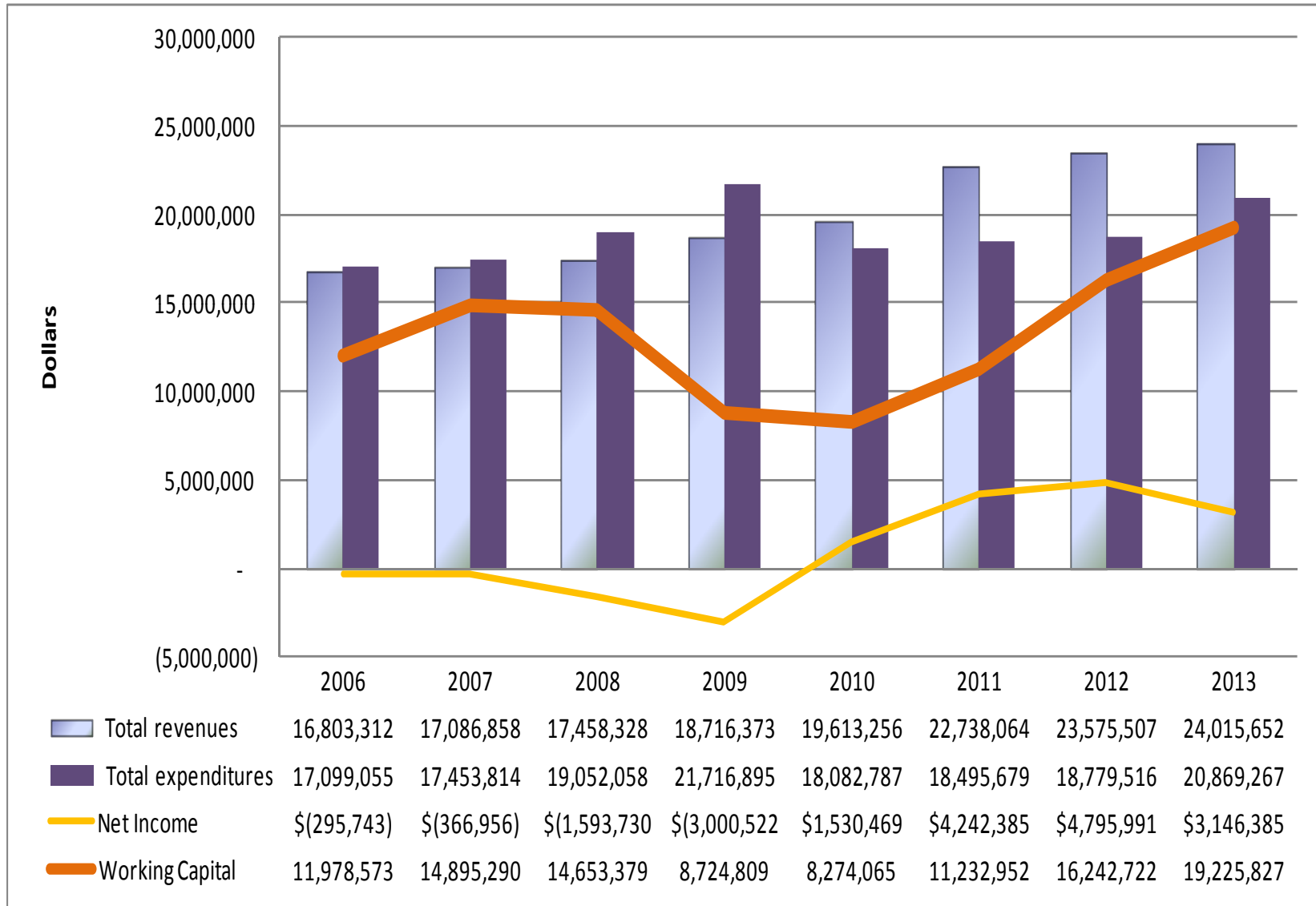


	2006	2007	2008	2009	2010	2011	2012	2013
Total revenues	6,249,638	7,450,650	9,824,619	9,952,356	13,206,843	12,128,690	11,385,067	13,034,325
Total expenditures	6,142,435	6,864,971	7,731,513	7,738,288	7,361,398	6,768,946	9,863,105	12,907,493
Net Income	\$107,203	\$585,679	\$2,093,106	\$2,214,068	\$5,845,445	\$5,359,744	\$1,521,962	\$126,832
Working Capital	1,331,037	3,619,308	3,510,506	3,201,085	2,442,620	(884,411)	(1,159,033)	(1,121,163)

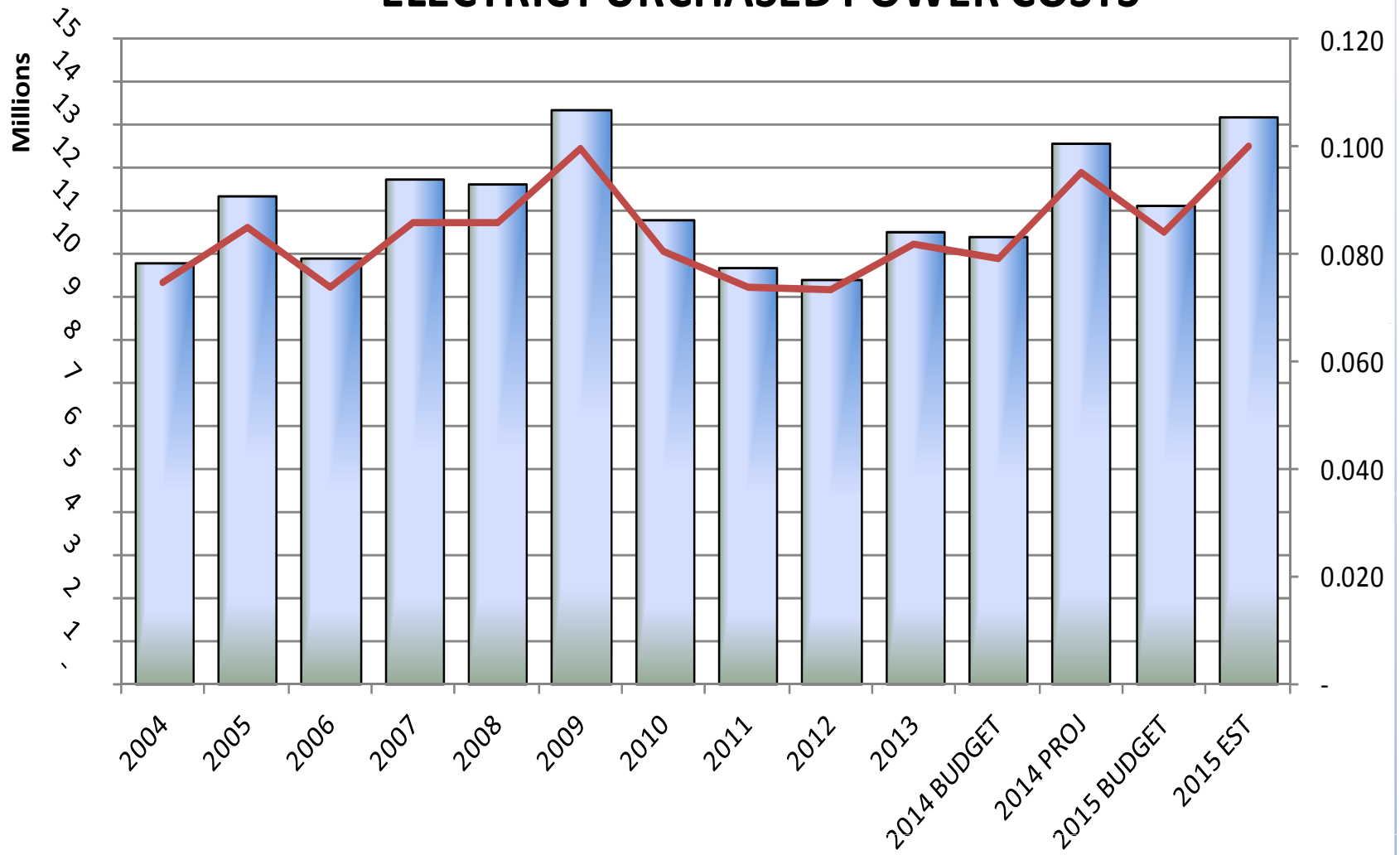
Wastewater Projections 2014 – 2021 FY



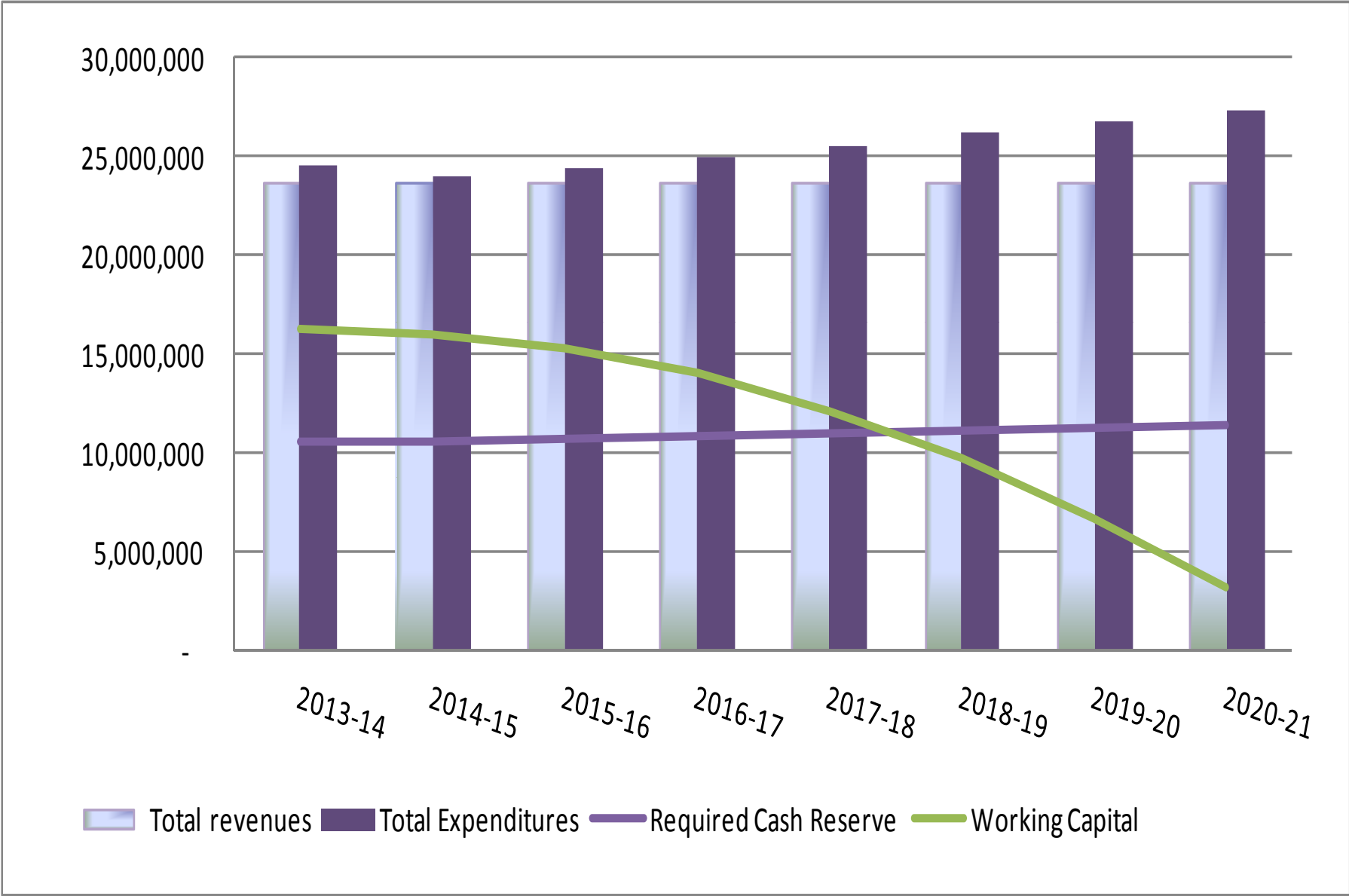
Electric Fund 2006 - 2013



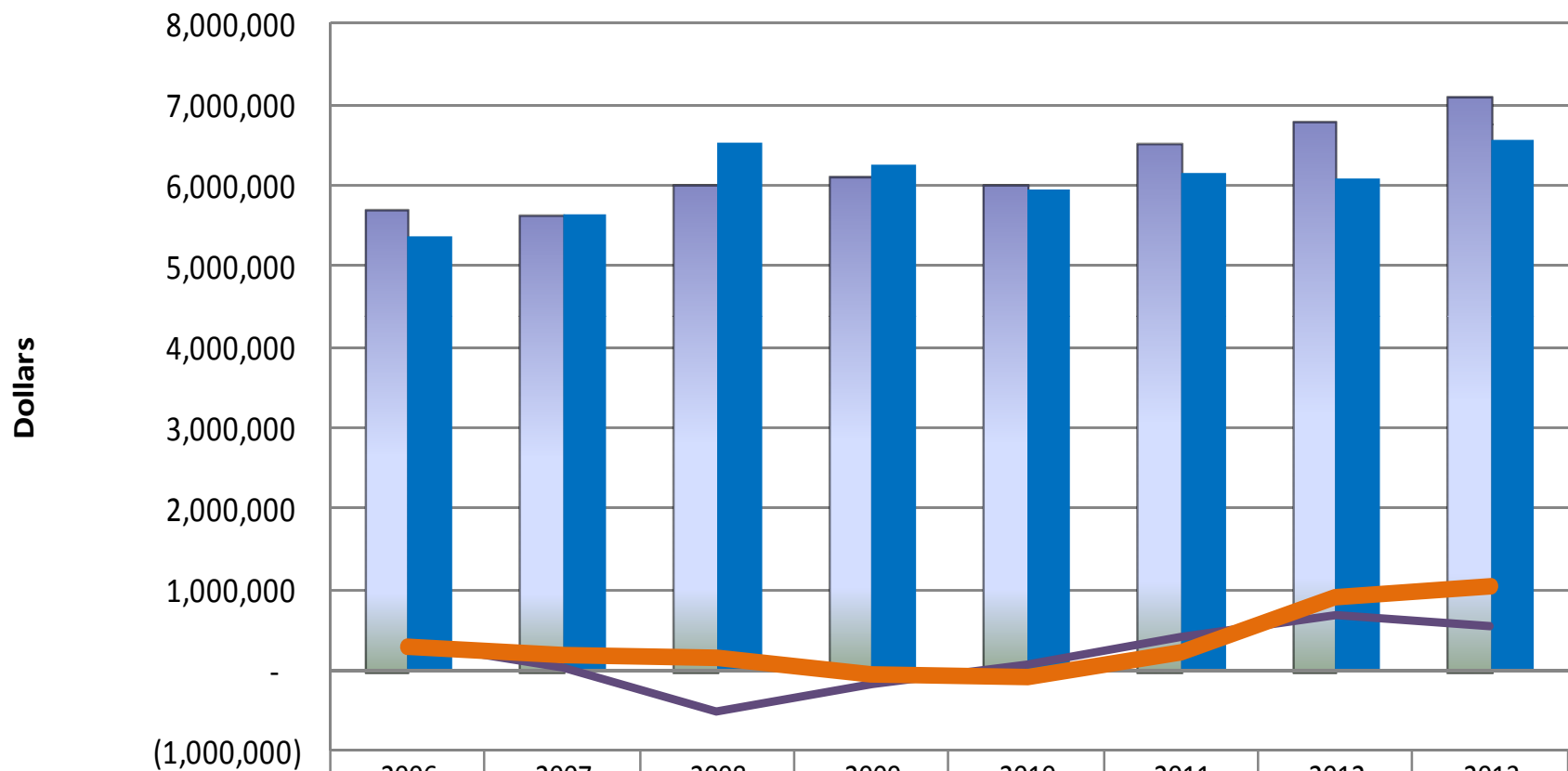
ELECTRIC PURCHASED POWER COSTS







Electric Fund 2014 – 2021



Solid Waste 2006 – 2013



	2006	2007	2008	2009	2010	2011	2012	2013
 Total revenues	5,710,833	5,653,490	6,006,726	6,104,590	6,030,737	6,541,720	6,798,696	7,118,835
 Total expenditures	5,372,226	5,627,231	6,516,603	6,262,589	5,959,283	6,138,593	6,100,414	6,562,959
 Net Income	\$338,607	\$26,259	\$(509,877)	\$(157,999)	\$71,454	\$403,127	\$698,282	\$555,876
 Working Capital	284,404	183,957	170,814	(63,390)	(68,653)	207,368	910,262	1,052,459

Solid Waste

- Future Rate discussion presented to Utility Commission on March 10, 2014 and approved by the Commission
- Consideration of Rate Proposal presented by Consultant to be presented to Council on April 1, 2014

Enterprise Funds Summary

- Enterprise Funds should be self-supporting
- Bond covenants are important obligations
- 90 day operating reserves should be a principle goal for Enterprise Funds
- Capital infrastructure is critical for Utilities

Enterprise Funds Summary

(continued)

Recommendations:

- Approved Water Utility rate increase of 15% should be implemented effective July 1, 2014
- Approved Wastewater Utility rate increase of 10.5% should be implemented effective July 1, 2014
- Recommend the 3% reduction in Electrical rates be evaluated in FY 2014-15 for possible adjustment
- Solid Waste Utility rate review is scheduled for April 1



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Principles and Reserve Targets

Guiding Financial Principles

How are principles different from policies?

Principle – a fundamental doctrine or general truth

Policy – a course of action or procedure
– typically a rule or regulation

Guiding Financial Principles (cont)

Policy vs. Principle

Policy – *Reserves shall never be depleted below a minimum level of 15% of revenues which shall be maintained as an ongoing reserve for emergencies.*

Principle – *Reserves and one-time revenues should be used first to invest in capital outlay items.*

The policy is the rule – don't break it!

The principle is guidance for developing plans (budgets!).



FY 2013-14 Mid-Year Update

Lompoc City Council Priorities

1. Economic Development and Jobs
2. Public Safety
3. Efficiencies
4. Accountability/Compliance/Transparency
5. Code Enforcement/Graffiti Abatement;
6. Miscellaneous



City of Lompoc – Suggested Financial and Budget Principles

1. Critical services should be maintained to the greatest extent possible.
2. Resources should be allocated to the highest priority services.
3. No city services or functions should be exempt from evaluation.
4. “Across the Board” approaches shall be avoided because they are not aligned with the Council’s and community’s priorities.



City of Lompoc – Suggested Financial and Budget Principles (cont)

5. Reductions in service should position the City to take advantage of economic recovery.
6. Budget cuts should be ongoing and not simply “one time only.”
7. Council should commit to support employees during the transition, and assist those who may be adversely impacted.
8. Employees and their recognized bargaining units should be actively involved in developing options and implementing the transition.



City of Lompoc – Suggested Financial and Budget Principles (cont)

9. The City should continue to invest in building organizational capacity by supporting training and employee development.
10. Community wide tax resources should be allocated first to support community wide services.
11. Special services designed for only a few should be paid for by user charges and fees.
12. Administrative and operational efficiencies should be maximized before pursuing new tax revenue.



City of Lompoc – Suggested Financial and Budget Principles (cont)

13. Reserves and one time revenues should be used first to invest in capital outlay items that could reduce long range operating costs and, thereafter, fund transition expenses.
14. New services should not be added nor existing services expanded unless they are highly valued by the community and there is a willingness to pay for them.



City of Lompoc – Suggested Financial and Budget Principles (cont)

15. There should be regular monitoring of financial performance and opportunities to make mid-course corrections as warranted.
16. City policies that may inhibit economic development, especially new retail development, should be reviewed regularly and modified.



City of Lompoc – Suggested Fiscal Policies and Interim Fiscal Policies

Establishing Interim Policies provides for:

- Provides a framework for the remainder of the FY 2013-15 budget cycle.
- Allows the City Administrator to weigh in on policy goals and to provide direction regarding budget policies for the FY 2015-17 budget cycle.
- Allows time for a more methodical approach to reserve policies for enterprise funds beyond Operating Reserves such as Debt Service, Rate Stabilization, Risk reserves and others on a fund by fund basis.



City of Lompoc – Suggested Fiscal Policies and Interim Fiscal Policies

Recommendation – adopt a minimum General Fund unrestricted fund balance policy using GFOA’s standards and best practices:

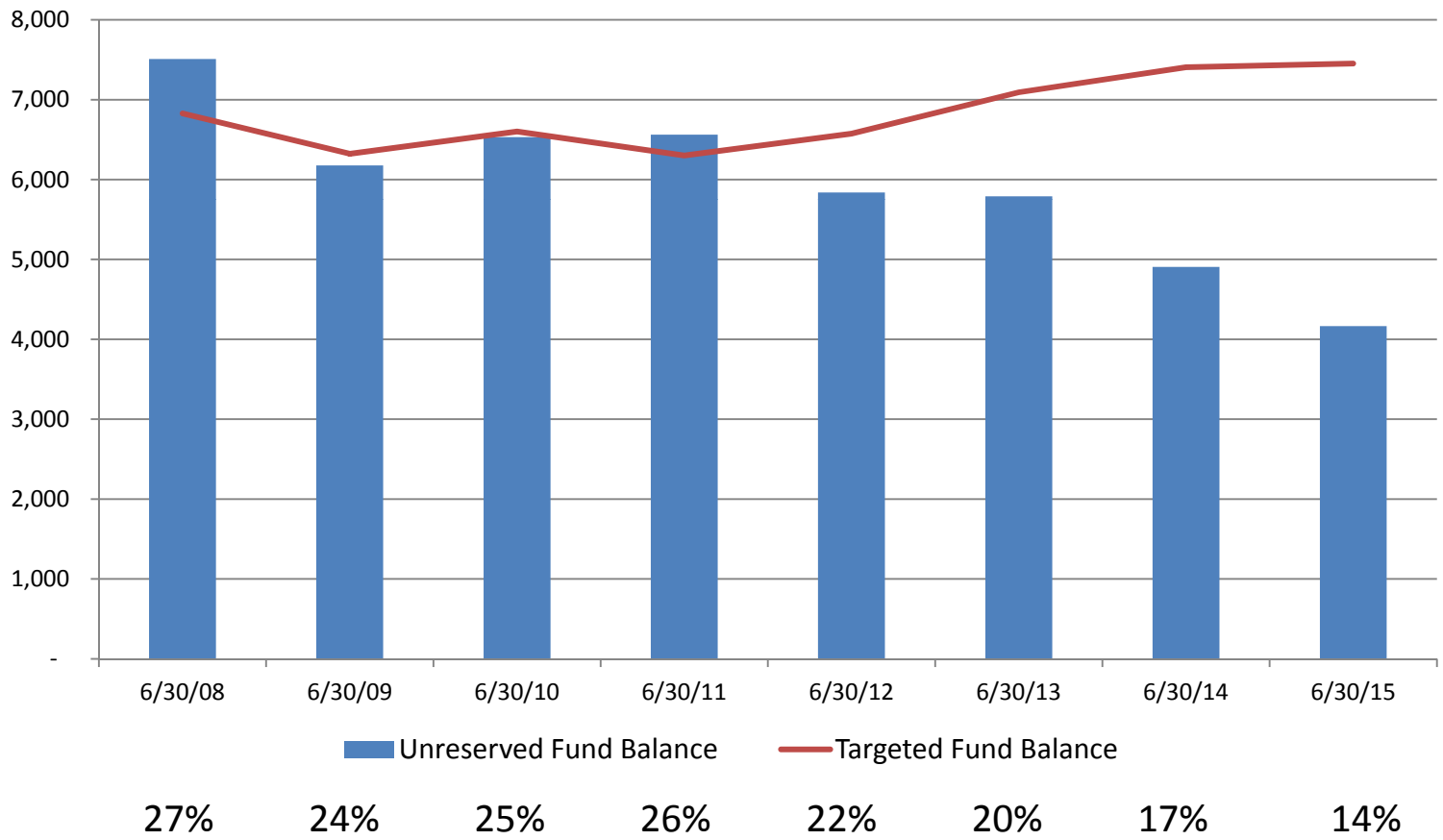
- The City will strive to maintain a minimum fund balance of at least 25% (90 days) of operating expenditures.
- Based on the methodology developed by the Government Finance Officers Association.



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General Fund – unrestricted available reserves

Including AB702 and one-time revenues (in \$1,000's)





City of Lompoc – Suggested Fiscal Policies and Interim Fiscal Policies

Recommendation - establish interim working capital policies for Water, Wastewater, and Solid Waste using GFOA's standards and best practices:

- The City will target a minimum working capital reserve of 25% (90 days) of operating expenditures in each of the three utilities.
- Permanent working capital reserve policies will be proposed over the remainder of the FY 2013-15 budget cycle.



City of Lompoc – Next Steps

- Previously approved actions with budgetary effects will need supplemental appropriations approved.
- Several departments and divisions have expressed interest in modifying programs prior to the FY2015-17 budget cycle.
- Program changes requested by Departments will be reviewed for possible implementation in the FY 2014-15 budget year.



City of Lompoc – Next Steps

- The Long term model is a tool to be used in planning for the future but also to project various scenarios to provide Council and management with feedback regarding possible alternatives available.
- While the projection provided here is a “Baseline”, assumptions and program levels can be adjusted for the audience in a reasonable number of “what-ifs”.
- Such “what if’s” could include:
 - What-if we added staffing
 - What-if we reduced staffing
 - What-if we increased/reduced service levels
 - What-if we added/increased revenue streams above base assumption levels



City of Lompoc

Questions?