

# Long-Range Financial Forecast

FISCAL YEARS ENDING 2023 TO 2027



City of West Covina

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**Overview**

The purpose of this forecast is to provide long-term context for annual decisions that will be made with the Fiscal Year Ending (FYE) 2023 Budget and FYE 2023-2027 Capital Improvement Plan. This forecast was developed to create a forward-looking, conservative baseline budgetary outlook for the City’s General Fund under a given set of revenue and expenditure growth assumptions.

The revenue and expenditure growth assumptions were originally developed in 2020 for the bond issuance and remain the same except for base salaries. These have been updated to reflect the average increase from the current memorandums of understandings. The base year for this forecast is FYE 2022 which is estimated to be close to pre-COVID conditions.

**Revenue**

The City’s major revenue sources include property taxes and sales tax. Each of these revenue sources are driven by the growth of the local economy and the City’s population. This is also true of several of the City’s other revenue sources including fees and charges for service, franchise taxes, and licenses and permits.

**Revenue Growth Assumptions**

- The growth assumptions were established by the 2020 forecast and have not been adjusted.
- Property tax is assumed to increase by 2%.
- The Vehicle License Fees component grows with estimated increase in assessed valuation.
- Sales tax is forecasted to increase moderately by 1.5%. While sales tax has spiked from the previous year due to the bounce back from the pandemic, it is projected to flatten in future years.
- The forecast also assumes that the Redevelopment Agency’s In-Lieu portion of the City’s 1% Local Sales and Use Tax will go back to the General Fund in FYE 2024.
- Transient Occupancy Tax is projected to grow by 2% each year.
- Development-related fees are assumed to be level throughout forecast.

Major Revenue Source	Forecasted Growth Assumptions				
	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027
Property Tax	2.0%	2.0%	2.0%	2.0%	2.0%
Sales Tax	1.5%	1.5%	1.5%	1.5%	1.5%
Franchise Fees	0.5%	0.5%	0.5%	0.5%	0.5%
Transient Occupancy Tax	2.0%	2.0%	2.0%	2.0%	2.0%
Business License Tax	1.0%	1.0%	1.0%	1.0%	1.0%
Rent	1.2%	1.2%	1.2%	1.2%	1.2%
Fines	0.0%	0.0%	0.0%	0.0%	0.0%
Ambulance Services	0.0%	0.0%	0.0%	0.0%	0.0%
Development Permits Fees	0.0%	0.0%	0.0%	0.0%	0.0%
Recreation Fees	0.0%	0.0%	0.0%	0.0%	0.0%



**Expenditure Overview**

Expenditures are forecasted for the City’s two major funds: General and Debt Service. The baseline forecast presented herein includes expenditures already approved by and/or committed to by the City Council. Rising costs due to inflation, and/or interest rates are also anticipated and included in this forecast through growth factors applied to each forecast category.

**Expenditure Growth Assumptions**

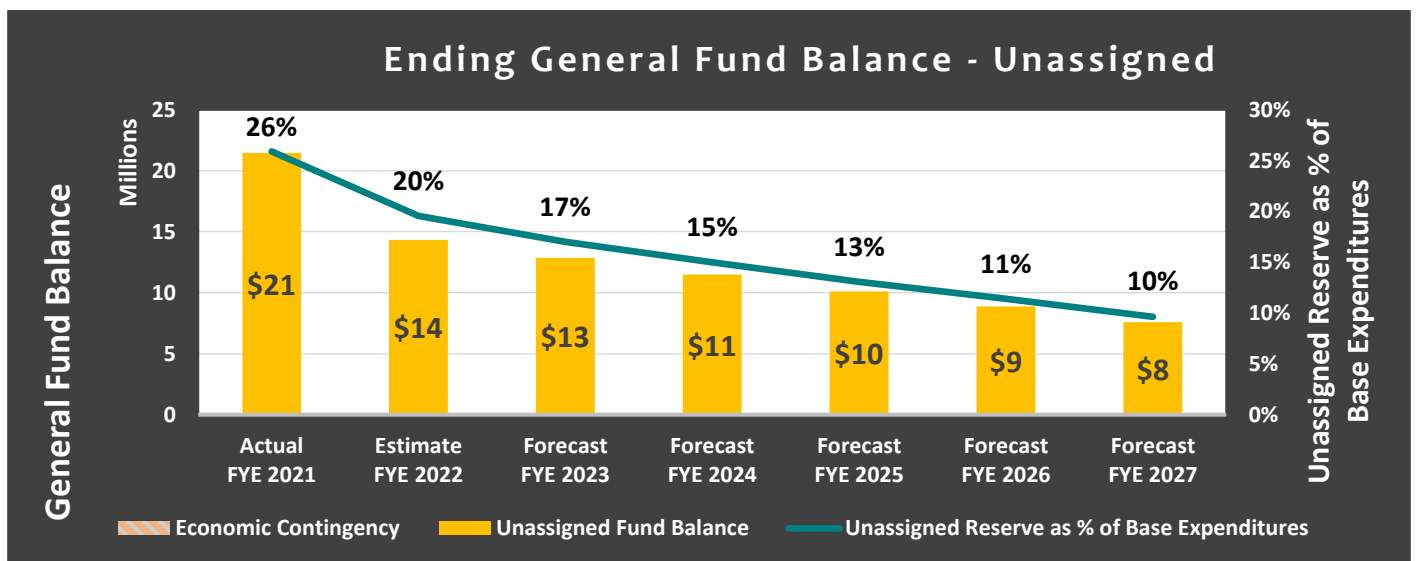
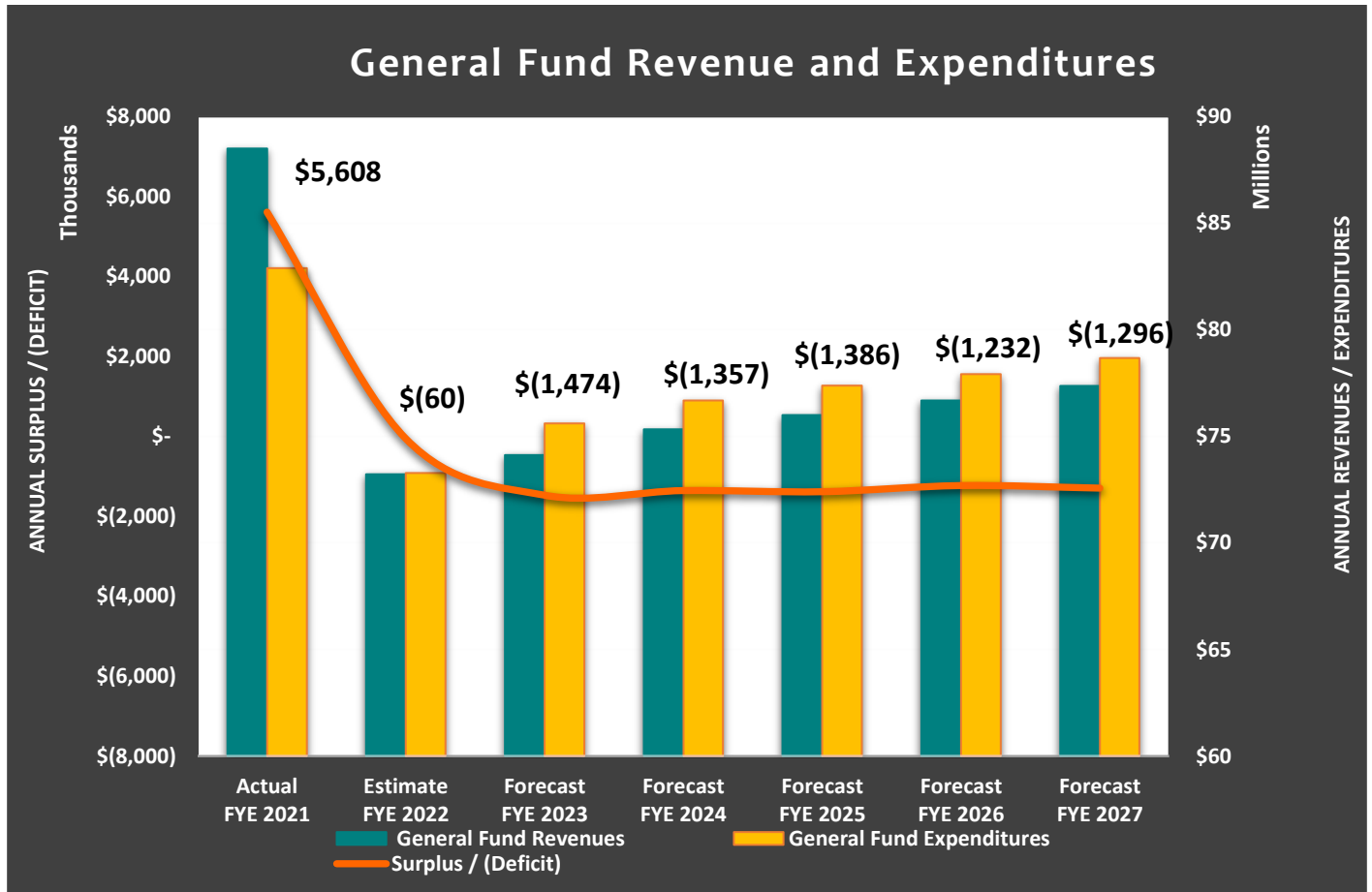
- Base salaries have been projected to reflect the average increase through FYE 2024 based on the current memorandums of understandings. No increases are assumed after the contracted period.
- The forecast assumes recruitment of all FYE 2022 Budgeted positions with an annual estimated vacancy savings within larger staffing groups.
- Modest increases to expenditures are forecasted for Materials & Services, Fuel, Utilities, etc.
- CalPERS costs have been included based on the August 2021 Actuarial Reports.
- Debt Service has been forecasted based on existing amortization schedules.

Expenditures	Forecasted Increase / (Decrease)				
	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027
<b>Personal Services Costs</b>					
Salary Increase	3.0%	3.0%	0%	0%	0%
Worker's Compensation	2.0%	2.0%	2.0%	2.0%	2.0%
Group Life	1.0%	1.0%	1.0%	1.0%	1.0%
Group LTD	1.0%	1.0%	1.0%	1.0%	1.0%
Health Plans	3.0%	3.0%	3.0%	3.0%	3.0%
Dental Plans	2.0%	2.0%	2.0%	2.0%	2.0%
Vision Plans	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Materials and Services Costs</b>					
Other Materials and Services	1.5%	1.5%	1.5%	1.5%	1.5%
Contract / Professional Services	1.0%	1.0%	1.0%	1.0%	1.0%
Capitalized Lease Payments	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	1.5%	1.5%	1.5%	1.5%	1.5%
Legal	2.0%	2.0%	2.0%	2.0%	2.0%
Utilities	1.5%	1.5%	1.5%	1.5%	1.5%
Information Technology	1.5%	1.5%	1.5%	1.5%	1.5%
Audit Costs	2.0%	2.0%	2.0%	2.0%	2.0%
Bank Fees	0.0%	0.0%	0.0%	0.0%	0.0%
Fuel Usage	2.0%	2.0%	2.0%	2.0%	2.0%
Animal Control Contract	0.0%	0.0%	0.0%	0.0%	0.0%



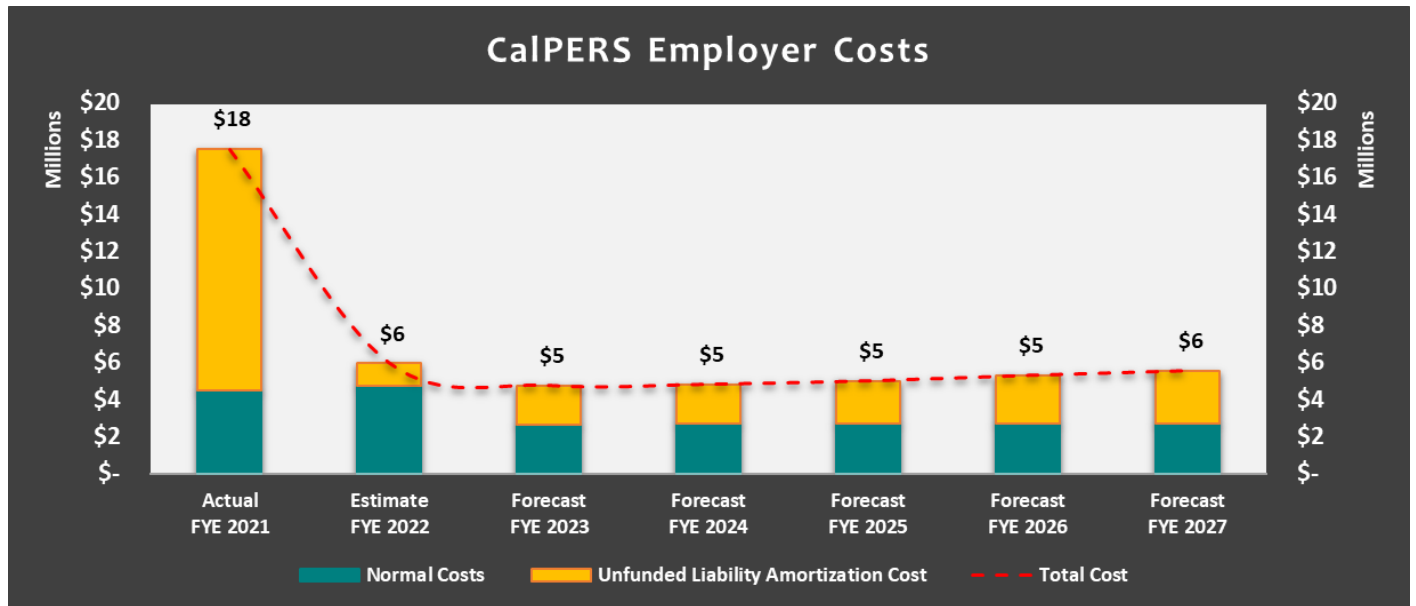
## General Fund Projections

Based on the revenue and expenditure assumptions previously noted, the General Fund is anticipated to have deficit revenue over expenditures for the forecasted period. Additionally, reserves are anticipated to be depleted to 10% or \$8 million by FYE 2027. Structural changes are necessary to increase revenues and/or decrease expenditures in future years.



### Future Pension Costs

The City’s pension contributions to CalPERS are a significant expense the City must incur. While the City lowered its unfunded liability through the sale of lease revenue bonds in FYE 2021, the unfunded liability payment in FYE 2023 is expected to spike per the July 2020 valuation. The City will experience a 73% increase in FYE 2023 which is offset by higher employee contributions as a result of recent labor negotiations.



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**Debt Service**

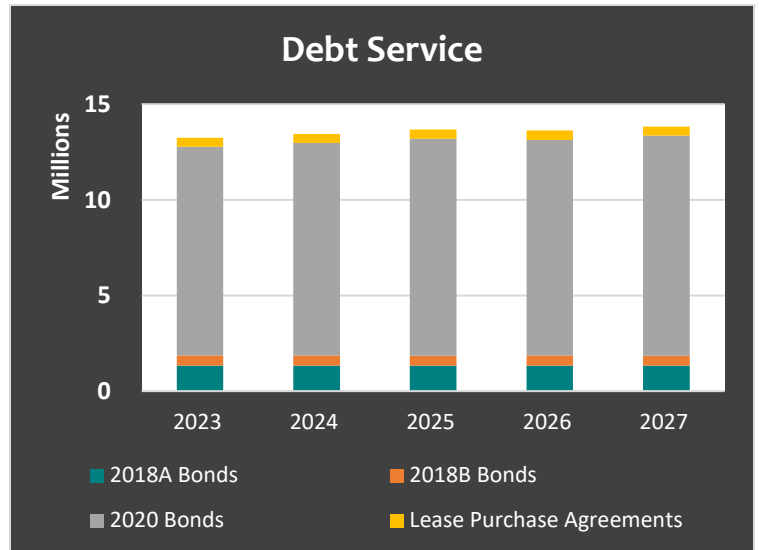
The General Fund will generally be responsible for funding the following debt service payments annually:

**2018 Lease Revenue Refunding Bonds, Series A and B**

On November 20, 2018, the City issued \$19,310,000 of Lease Revenue Bonds, Series A and \$4,855,000 of taxable Lease Revenue Bonds, Series B to provide financing for the advance refunding of the City's 2002 Lease Revenue Bonds Series A, 2004 Lease Revenue Bonds Series A&B, and the 2013 Lease Revenue Refunding Bonds Series A.

**2020 Lease Revenue Bonds, Series A**

On July 23, 2020, the City issued \$204,095,000 of Lease Revenue Bonds, Series A (taxable) to provide financing to pay the City's unfunded pension liabilities to CalPERS, to establish a reserve fund, and pay issuance costs.



**Energy Efficiency Loans Payable**

In May 2021, the City entered into two lease-purchase agreements for the acquisition and installation of certain energy conservation equipment and improvements (solar) and installation of certain energy conservation equipment including lighting and HVAC (non-solar) with an aggregate principal borrowing of \$6,602,048.

Debt Service (\$ Millions)	2023	2024	2025	2026	2027
Principal	5.10	5.42	5.80	5.90	6.29
Interest	8.15	8.02	7.87	7.72	7.54
<b>Total Debt Service</b>	<b>\$13.25</b>	<b>\$13.44</b>	<b>\$13.67</b>	<b>\$13.62</b>	<b>\$13.83</b>