

Long-Range Financial Forecast

FISCAL YEARS ENDING 2024 TO 2028



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) 2024 Budget and FYE 2024-2028 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 have been updated based on recent trends. Salaries and Benefits have been updated to reflect the average increase from the current memorandums of understandings. The base year for this forecast is FYE 2023 which is estimated to be back 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.
- Based on prior year actuals Property Tax is assumed to increase by 2.5%.
- The Property Tax in Lieu of Vehicle License Fee grows with estimated increase in assessed valuation.
- Sales Tax estimates are provided by HdL and are forecasted to decrease by 0.5% in FY2023-24 due to the anticipated recession but then rebound back to 2.7% in FYE 2025.
- The forecast 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 (including building permits) have spiked in recent years but are anticipated to subside in the upcoming year and are assumed to remain level throughout the forecast.

Table 1. Forecasted Revenue Growth Assumptions

Major Revenue Source	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Property Tax	2.5%	2.5%	2.5%	2.5%	2.5%
Sales Tax	-0.5%	2.7%	3.0%	3.2%	3.2%
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 increases per the current memorandums of understanding. 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.
- Projected employer contributions to California Public Employees’ Retirement System (CalPERS) are based on the latest Actuarial Valuation.
- Modest increases in expenditures are forecasted for Materials & Services, Fuel, Utilities, etc.
- The forecast does not assume increases in contributions to Other Post Employment Benefits (OPEB).

Table 2. Forecasted Expenditure Growth Assumptions

Expenditures	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Personnel Services Costs					
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%
CalPERS Miscellaneous	3.2%	-1.7%	-1.0%	-1.0%	-1.1%
CalPERS Safety	10.1%	-2.3%	-2.3%	-2.3%	-2.8%
Materials and Services Costs					
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, the General Fund is anticipated to have positive revenue over expenditures for the forecasted period. This positive excess is modest in FYE 2024 (\$344,000), as a recession is anticipated, but increases in the outer years to over \$5 million in FYE 2028. Additionally, reserves are anticipated to increase over the upcoming years from 26% in FYE 2022 to 36% in FYE 2028.

It is important to reiterate that the forecast does not include any increase in salaries in FYE 2025-2028, since it is outside the contracted period, or increase contributions to OPEB.

Figure 1. Forecasted General Fund Revenue and Expenditures

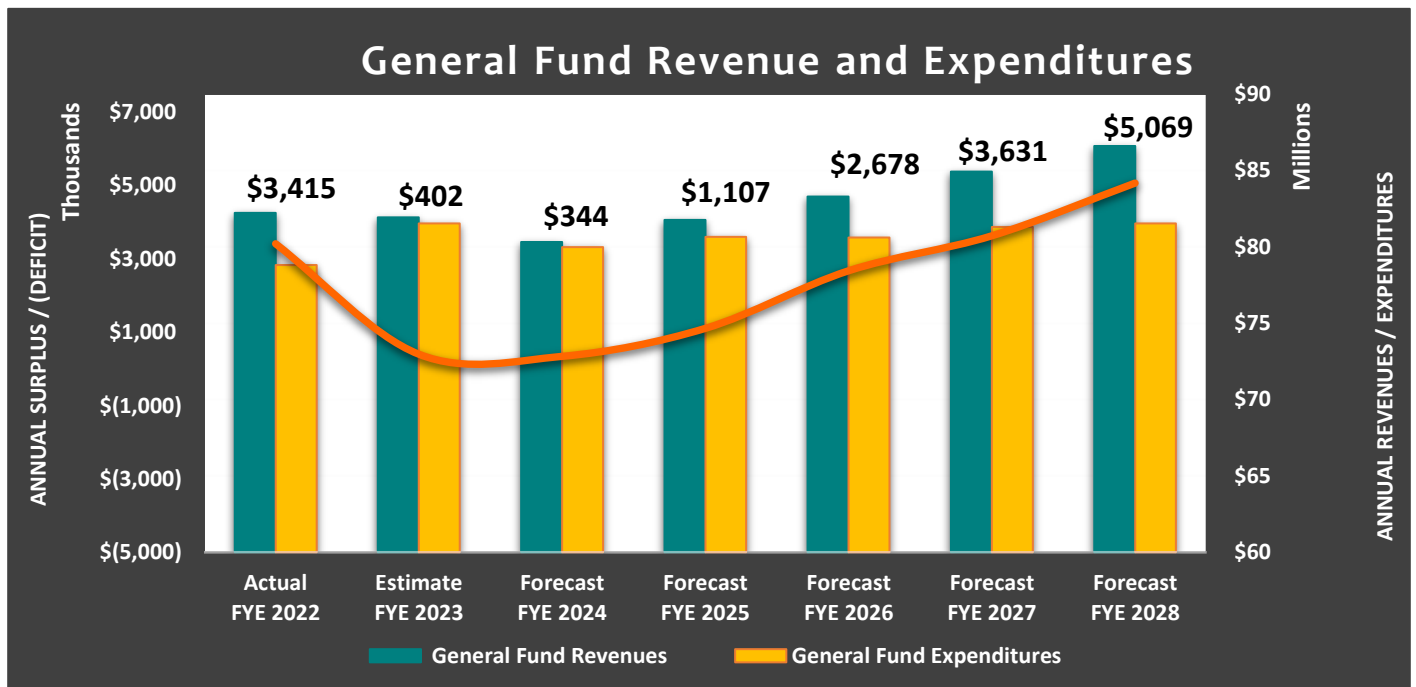
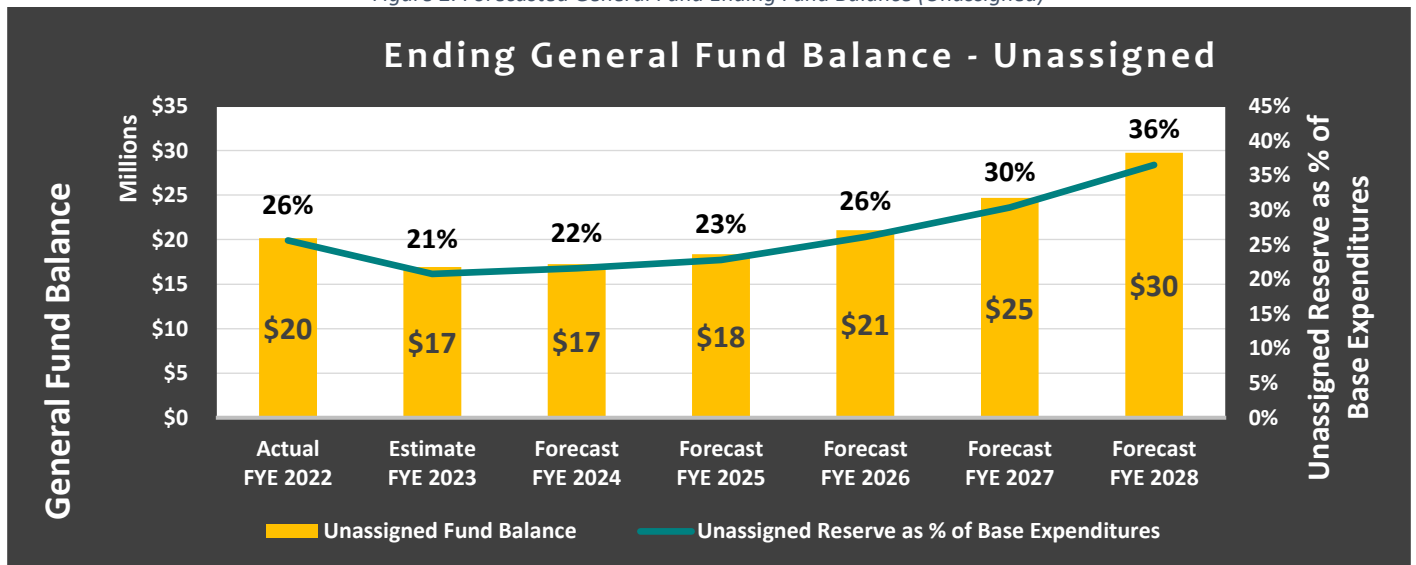


Figure 2. Forecasted General Fund Ending Fund Balance (Unassigned)



Future Pension Costs

The City currently has a total of two pension plans administered by CalPERS and two retirement enhancement plans administered by Public Agency Retirement System plans (PARS).

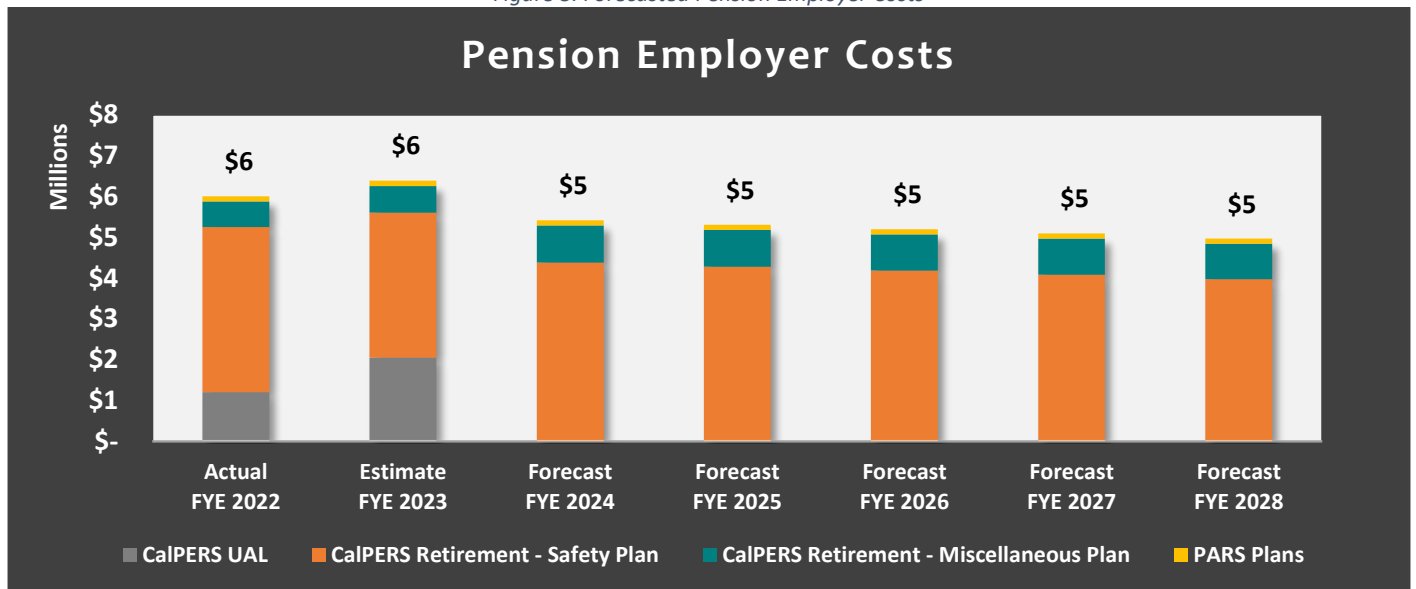
The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In 2020, the City issued taxable Lease Revenue Bonds to provide financing to pay the City’s unfunded pension liabilities to CalPERS. This replaced unfunded liability paid directly to CalPERS.

Table 3. Projected CalPERS Rates.

CalPERS Rates	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Miscellaneous	9.56%	9.87%	9.70%	9.60%	9.50%	9.40%
Safety	20.64%	22.72%	22.20%	21.70%	21.20%	20.60%

The PARS retirement enhancement plan consists of an EPMC replacement supplemental retirement plan and a supplemental retirement plan for executive staff and City Council. The City makes all contributions to these plans. Participants do not make any contributions. The City is currently only funding the benefit payments payable each year.

Figure 3. Forecasted Pension Employer Costs



Other Post Employment Benefits (OPEB)

The City administers a single-employer defined benefit plan which provides healthcare benefits to eligible retirees and their dependents in accordance with various labor agreements. The table below summarizes these costs over the forecast period.

Table 4. Retiree Benefits

Retiree Benefit (\$ Millions)	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Medical	2.15	2.22	2.28	2.35	2.42	2.50
Health Savings Plan	0.28	0.35	0.35	0.35	0.35	0.35
Total	\$2.43	\$2.57	\$2.63	\$2.70	\$2.77	\$2.85



Debt Service

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

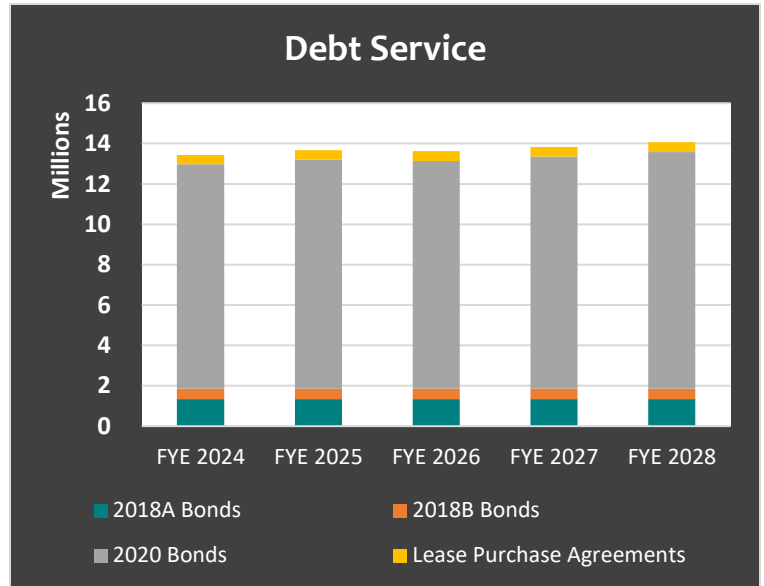
2018 Lease Revenue Refunding Bonds, Series A and B

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 taxable Lease Revenue Bonds to provide financing to pay the City's unfunded pension liabilities to CalPERS, to establish a reserve fund, and pay issuance costs. The bonds mature annually through August 1, 2044, in amounts ranging from \$3,645,000 to \$16,105,000, with interest rates that range from 1.747% to a maximum of 3.892% over the term of the bonds.

Figure 4. Debt Service Payments



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.

Table 5. Debt Service Payments

Debt Service (\$ Millions)	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Principal	5.42	5.80	5.90	6.29	6.71
Interest	8.02	7.87	7.72	7.54	7.35
Total Debt Service	\$13.44	\$13.67	\$13.62	\$13.83	\$14.06

