



# City of Wasco

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## General Fund Five Year Fiscal Forecast: 2022-26

April 2021

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# INTRODUCTION

## OVERVIEW

### Purpose

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This purpose of this report is to assess the General Fund’s ability over the next five years – on an “order of magnitude” basis – to sustain current service levels on an ongoing in the aftermath of the worst recession since the Great Depression and subsequent Covid-19 impacts.

***Past Fiscal Challenges and Those Ahead.*** Like virtually all other local governments in California, the City faced major fiscal challenges in the wake of the worst recession since the Great Depression. This was compounded by the dissolution of redevelopment agencies, which was a key funding source for community investments. As reflected in this forecast, the City’s revenues have improved since the Great Recession ended, albeit modestly. However, like all other members of the California Public Employees Retirement System (CalPERS), the City has experienced – and will continue to experience – increases in pension costs. Moreover, the economic and related fiscal effects of the Covid-19 pandemic have had significant adverse impacts on the General Fund.

***Role of the Fiscal Forecast.*** Making good resource decisions in the short term as part of the budget process requires considering their impact on the City’s fiscal condition down the road. Developing good solutions requires knowing the size of any problem the City is trying to solve. In short, the City cannot fix a problem it hasn’t defined. And in this economic and fiscal environment, looking only one year ahead has the strong potential to misstate the size and nature of the fiscal challenges – and opportunities – ahead of the City.

For those local agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer-term outlook, more closely define the size and duration of the fiscal challenges and opportunities facing them, and then make better decisions accordingly for both the short and long run. This will be true for the City as well.

### Economic and Public Health Challenge Outlook

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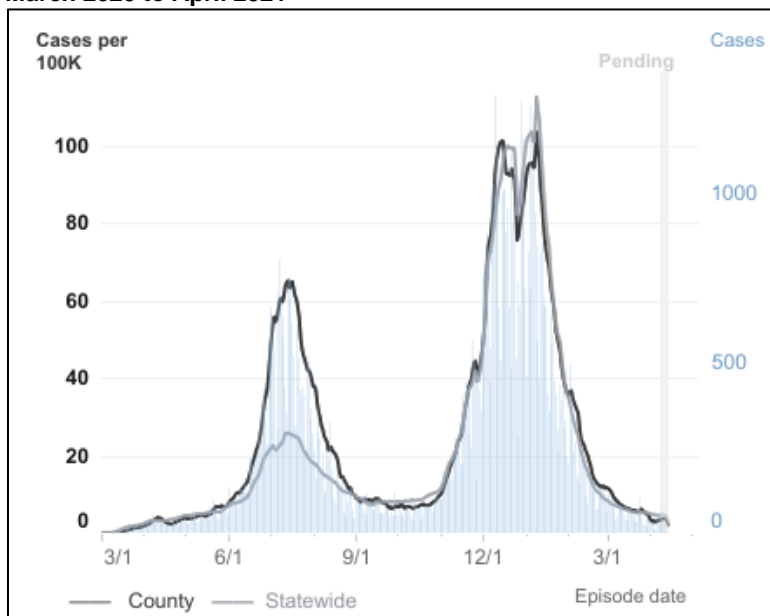
It is important to stress that the economic, fiscal and public health challenges facing the City are real. Stated simply, the City’s revenue outlook will not get better until the economy improves; and the economy won’t begin to improve until the public health crisis is over.

Fortunately, as reflected in the following chart showing trends in average daily Covid-19 cases since March 2020, it appears that the public health crisis in California and Kern County is abating. (The trends for Kern County and the State track closely together.)

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As reflected in this chart, cases peaked in Summer 2020 and peaked even larger in Winter 2020-21. However, since then there has been a dramatic decrease in average daily cases.

**Average Daily Cases: Kern County and State**  
**March 2020 to April 2021**



Source: State of California  
<https://covid19.ca.gov/state-dashboard>

However, given past surges, cautious optimism is warranted about the possibility that the pandemic crisis may soon be over.

**Economic Recovery.** The economic and fiscal downturns experienced during the Great Recession versus Covid-19 are fundamentally different:

Great Recession	Covid-19
<ul style="list-style-type: none"> <li>• Economic meltdown/financial system failure due to housing bubble and subprime mortgages</li> <li>• Slow recovery</li> <li>• <u>Systemic</u> problem</li> </ul>	<ul style="list-style-type: none"> <li>• Strong underlying economy.</li> <li>• Public health crisis causes downturn.</li> <li>• When public health recovers, economy will recover.</li> <li>• <u>One-time</u> problem.</li> </ul>

For this reason, virtually all economists believe that the economy will recover strongly and quickly once the public health crisis is over. (Of course, when this will happen is difficult to predict.)

The forecast reflects this consensus but is nonetheless cautious in projecting revenues.

## Forecast Framework and Approach

As noted above, the purpose of the forecast is to identify the General Fund’s ability over the next five years – on an “order of magnitude” basis – to continue current services in light of recovery from the Great Recession and Covid-19 impacts. The forecast does this by

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projecting ongoing revenues and subtracting from them likely operating and capital costs in continuing current service levels. If positive, the balance remaining is available to fund “new initiatives” such as implementing capital improvement plan (CIP) goals, addressing unfunded liabilities or improving service levels. On the other hand, if negative, it shows the likely “forecast gap” if the City continues current service levels without corrective action.

*It is important to stress that this forecast is not the budget.*

Budgets are based on program review, priorities and affordability. Forecasts, on the other hand, are based on assumptions. Accordingly, this forecast doesn’t make expenditure decisions; it doesn’t make revenue decisions. As noted above, its sole purpose is to provide an “order of magnitude” feel for the General Fund’s ability to continue current service levels.

Ultimately, this forecast cannot answer the question: “Can the City afford new initiatives?” This is a basic question of priorities, not of financial capacity per se. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City’s limited resources. And by identifying and analyzing key factors affecting the City’s long-term fiscal health, the forecast can help assess how difficult making these priority decisions will be.

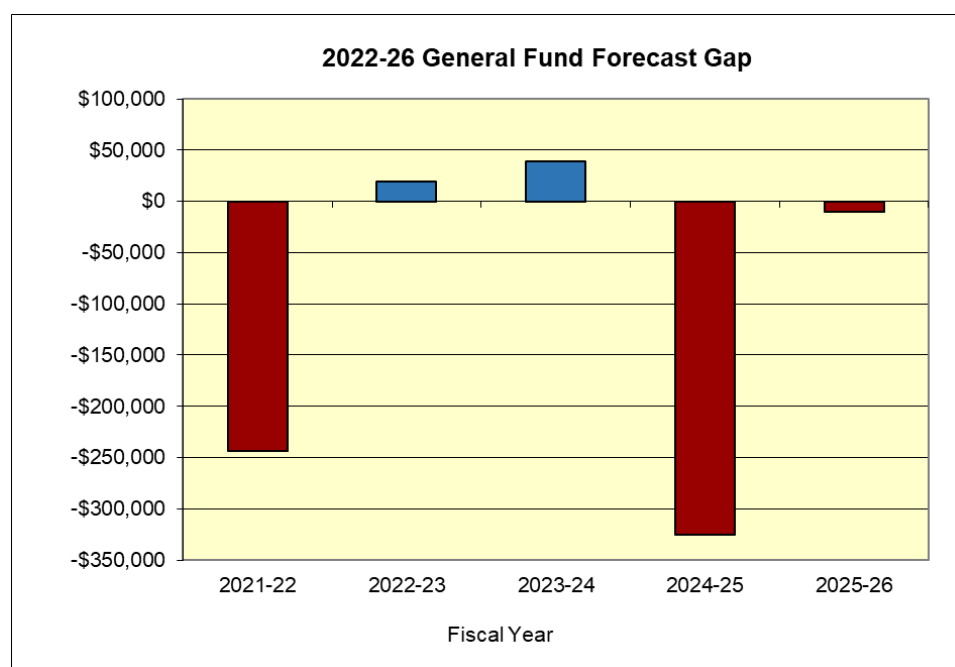
Stated simply, the forecast is not the budget. Rather, it sets forth the challenges – and opportunities – ahead of the City in adopting a balanced budget, next year and beyond.

## SUMMARY OF FORECAST FINDINGS

### The Short Story

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Based on current service levels and a very small CIP, the General Fund is facing a modest “forecast gap” over the next five years:



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While it “yoyos” from year-to-year, the average gap is about \$104,000 annually (or 1% of operating costs).

- The forecast gap in 2021-22 of \$243,000 is the most immediate concern. However, placed in context, this reflects a small percentage of operating costs (about 2%). While below target fund balance levels, General Fund reserves are available to fund the short-term gap in 2021-22.
- As the economy and revenues recover from Covid-19, the second two years of the forecast show positive (albeit small) results.
- The large gap in 2024-25 is due to “lumpy” CIP costs in that year.
- The last year shows costs and revenues in balance with a minor \$10,000 gap.

**Impact of Covid-19 on Revenues.** The following chart summarizes the impact of Covid-19 revenue decreases from 2018-19 (the last completed fiscal year before Covid-19 impacts):

Revenue Losses Due to Covid-19								
	2018-19	2019-20		2020-21		2021-22		Total
	Base Year	Amount	Variance*	Amount	Variance*	Amount	Variance*	Variance*
Sales Tax: General	1,607,600	1,470,400	(137,200)	1,588,000	(19,600)	1,545,000	(62,600)	(219,400)
Sales Tax: Measure X	2,800,400	2,506,800	(293,600)	2,360,000	(440,400)	2,336,400	(464,000)	(1,198,000)
TOT	210,800	166,700	(44,100)	74,500	(136,300)	120,000	(90,800)	(271,200)
Business License Tax	119,700	116,200	(3,500)	75,000	(44,700)	90,000	(29,700)	(77,900)
Total	4,738,500	4,260,100	(478,400)	4,097,500	(641,000)	4,091,400	(647,100)	(1,766,500)

\* Variance from base year.

As reflected above, total revenue losses through 2021-22 total \$1.7 million, with an annual revenue loss of \$647,100 in 2021-22.

## Key Forecast Drivers

Assumptions drive the forecast results, which are outlined on pages 9 to 11. Stated simply, if the assumptions change, the results will change. Key drivers underlying the forecast results include:

**Current Solid Financial Condition.** While the unassigned fund balance is below policy targets, overall fund balance (including the portion assigned for the labor housing complex) provides meaningful resiliency in addressing adverse fiscal circumstances. In short, the City starts with solid reserves compared with many other cities in the State, who have exhausted their reserves in mitigating service cuts in light of Covid-19 revenue losses.

**State Budget Outlook.** Over the past thirty years, the greatest fiscal threat to cities in California has not been economic downturns, dot.com meltdowns or corporate scandals, but rather, State takeaways. These included 20% reductions in property tax revenues in transferring revenues to schools via the Education Revenue Augmentation Fund (which in turn allowed the State to reduce its funding to schools by a commensurate amount), property tax administration fees, unfunded State mandates and more recently, dissolution of

## INTRODUCTION

redevelopment agencies. These takeaways were on top of the fiscal challenges facing cities in light of their own revenue declines and cost pressures.

Fortunately, there are no further State takeaways on the horizon – but neither are there any suggested restorations of past takeaways. That said, while there are added constitutional protections in place since the last State raids on local finances, five years is a long time for the State to leave cities alone.

**Revenues.** The forecast generally assumes recovery in all key General Fund revenues, albeit slowly in 2021-22 as Covid-19 impacts begin (hopefully) to abate. Revenue assumptions are provided on pages 10 and 11.

**Expenditures.** There are four key expenditure assumptions reflected in the forecast, which are described in greater detail on page 9.

- **“Baseline” operating costs.** The 2020-21 Budget is the “baseline” for the forecast. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding projected increases pension costs and public safety contract services.
- **Pension cost increases.** Increases in retirement costs for contributions to the City’s unfunded actuarial liabilities (UAL) are based on projection factors provided by CalPERS.
- **Public safety contract costs.** Significant increases are projected in contract Sheriff and Fire costs based on the factors presented at the Council’s goal-setting session on February 27, 2021.
- **CIP expenditures.** These are based on the current five-year CIP included in the 2020-21 Budget through 2024-25. After that, the forecast assumes the average of the prior four years. It should be noted that this results in very modest average annual CIP of \$184,000. To place this in perspective, the adopted General Fund CIP in 2020-21 was \$3.1 million.

## BASIC FORECAST FRAMEWORK

### Background

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There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or preparing various “scenarios” based on a combination of possible assumptions for revenues and expenditures. This forecast uses the “one set of assumptions” approach as being the most useful for policy-making purposes. However, the financial model used in preparing this forecast can easily accommodate a broad range of “what if” scenarios.

## **Economic, Fiscal and Demographic Trends**

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The past doesn't determine the future. However, if the future won't look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City's fiscal outlook? Accordingly, one of the first steps in preparing the forecast is to take a detailed look at key demographic, economic and fiscal trends over the past ten years.

A summary of key indicators is provided in the *Trends* section of this report beginning on page 14. Areas of focus included:

- ***Economic and Demographic Trends.*** Population and inflation as measured by changes in the consumer price index (CPI).
- ***Revenues Trends.*** Focused on the City's top four General Fund revenues: general property taxes, VLF swap property taxes, general sales taxes and Measure X sales taxes. Together, these account for about 65% of total General Fund revenues.
- ***Expenditure Trends.*** Overall trends in the City's top operating cost – public safety – which accounts for 50% of General Fund operating costs.

## **Forecast Assumptions**

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As noted above, assumptions drive the forecast results. Sources used in developing forecast projections include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.
- Statewide and regional economic forecasts prepared by the University of California, Los Angeles, California Economic Forecast and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst's Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales tax advisor (HdL).
- Employer contribution projections based on factors prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about the performance of the local economy during the next five years, and how these will affect General Fund revenues and expenditures. A summary of the assumptions used in the forecast begins on page 9.

## **What's Not in the Forecast**

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***Grant Revenues.*** The forecast does not reflect the receipt of any "competitive" grant revenues over the next five years. However, based on past experience, it is likely that the



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City will be successful in obtaining grants for either operating or capital purposes. That said, these are typically for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's.

Most notably, the forecast does not include American Rescue Plan Act (ARPA) funds. Uses of these funds will be considered as part of the budget process, pending further direction from the U.S. Treasury Department on availability, constraints and allowable uses.

***Operating Needs Not Funded in the 2020-21 Budget.*** It is likely that there are City needs that are not reflected in the 2020-21 Budget, which is the basis for the forecast.

***Development Impact Fee Revenues.*** These can only be used to fund the cost of facilities in meeting the needs of new development.

### **What's Most Likely to Change?**

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By necessity, the forecast is based on a number of assumptions. The following summarizes key areas where changes from forecast assumptions are most likely over the next five years:

- ***Top Revenue Projections.*** These are directly tied to the performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. While the forecast assumes recovery, this is not a sure thing.
- ***Insurance Costs.*** Consistent with the general forecast assumption of using the 2020-21 Budget as the "baseline," the forecast assumes that general liability, workers' compensation and property insurance costs will grow by inflation (2% annually). However, in the past this has been a volatile cost for many cities in California.
- ***Retirement Costs.*** The forecast uses CalPERS' rate projection factors for the next five years. While there are a number of actuarial factors that determine rates, investment yield assumptions are the main driver. The CalPERS actuarial yield assumption is 7%. Based on long-term trends, this is a reasonable assumption. While there have been significant year-to-year swings, the investment yield has averaged 8.5% over the past ten years. And most recently, the return for calendar year 2020 was 12%. However, experience has shown the potential for unexpected steep increases in employer contribution costs.

## CONCLUSION

The City's General Fund is facing a modest forecast gap over the next five years: about \$104,000 annually. For the upcoming Budget, the "forecast gap" is a modest \$243,000, about 2% of operating costs. However, this is based on a very modest CIP that is significantly smaller than the adopted CIP for 2021-21. Accordingly, the General Fund's greatest challenge will be in funding an adequate CIP.

Fortunately, while less than the policy target, the City has adequate reserves that are available to help fund the modest, short-term gap in 2021-22.

### Challenges Ahead but Begin with Key Strengths

While the City is facing challenges in preparing the 2021-22 Budget, especially in funding an adequate CIP, it does so with significant strengths compared with many other cities:

- ***“Clean” (unqualified) audited financial statements.*** The City has a long history of receiving clean audits. And the last one (2019-20), for the first time in many years, was prepared on a timely basis.
- ***No unfunded retiree health care obligations.*** This is a significant fiscal-health factor for the City. To put the potential impact of unfunded retiree health costs in perspective compared with other agencies, for the State of California, its unfunded retiree health care liabilities are larger than its unfunded pension obligations.
- ***No General Fund debt obligations.*** The City has no General Fund debt service obligations.
- ***Long-standing tradition of responsible financial management and stewardship of community assets.*** This core value will serve the City well in meeting the challenges ahead in a fiscally responsible way that preserves essential services.

# KEY ASSUMPTIONS

## DEMOGRAPHIC TRENDS

**Population.** Based on recent trends, no change in population (either up or down) is projected to materially affect revenues or expenditures over the next five years.

**Inflation.** Based on long-term trends and projections in recent statewide and regional forecasts, inflation – as measured by the consumer price index (CPI) – grows by 2% annually throughout the forecast period.

## ECONOMIC OUTLOOK

Stated simply, the City’s revenue outlook will not get better until the economy improves; and the economy won’t begin to improve until the Covid-19 public health crisis is over. Fortunately, based on the large drop daily cases, it appears that the public health crisis in California and Kern County is abating.

Virtually all economists believe that economy will recover strongly and quickly once the public health crisis is over. (Of course, when this will happen is difficult to predict.)

The forecast reflects this consensus but is nonetheless cautious in projecting revenues.

## EXPENDITURES

**Operating Costs.** The 2020-21 Budget is the “baseline” for the forecast operating expenditures. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding annual contributions for the unfunded actuarial liability (UAL) and projected increases in public safety contracts.

**UAL Increases.** The following shows UAL cost increases by plan based on projections provided by CalPERS.(see “Historical Trends” for a fuller description of the City’s different retirement plans).

UAL Contributions	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Classic Employees	292,800	337,400	340,600	395,900	421,200	433,600
Classic Employees: Second Tier	1,600	2,100	2,300	2,500	2,600	2,800
PEPRA Employees	1,100	1,900	2,800	3,700	4,500	4,700
Legacy Safety Plan	49,100	49,300	49,000	49,000	49,000	49,000

*Reflects General Fund portion (65%); balance is allocated to other funds.*

As reflected above, increases are primarily driven by classic employees.

**Public Safety Costs.** These are based on projected increases presented to the Council at its February 27, 2021 goal-setting session:

Public Safety	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Sheriff Contract	3,984,400	4,285,400	4,430,400	4,651,900	4,884,500	5,218,700
Fire Contract	529,100	1,037,300	1,058,000	1,079,200	1,100,800	1,122,800

**Capital Improvement Plan (CIP) Expenditures.** These are based on the five-year plan included in the 2020-21 Budget through 2024-25. After that, they increase by the average of the four prior years. This results in a very modest CIP.

# KEY ASSUMPTIONS

**INTERFUND TRANSFERS** Transfers reflect the City’s mainstream practice of transferring Gas Tax funds (except for SB 1 revenues, which are allocated for CIP projects) to the General Fund in offsetting street-related maintenance costs that are far in excess of Gas Tax revenues. This practice is projected to continue at the flat level of \$527,500 annually.

**STATE BUDGET ACTIONS** The forecast assumes no added cuts nor restoration of past cuts to cities.

**REVENUES** Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.
- State and regional economic forecasts prepared by the University of California, Los Angeles; California Economic Forecast; and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst’s Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City’s sales tax advisor (HdL).

Ultimately, however, in close consultation with City staff, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next five years and how these will affect General Fund revenues.

***Top Four Revenues***

The following describes the assumptions for the General Fund’s top four revenues, which account for about 65% of total revenues: general property taxes, VLF swap property tax revenues, general sales tax and Measure X sales tax.

**General and VLF Swap Property Tax.** These revenue sources are driven by changes in assessed value. The following growth assumptions reflect recovery from Covid-19, followed by increases based on past trends.

2021-22	2.0%
2022-23	7.0%
2023-24	6.0%
2024-25	5.0%
2025-26	5.0%

**General Sales Tax.** This is based on projections by the City’s sales tax advisor (HdL). 2021-22 reflects their assessment of the impact of the highspeed rail construction disruption.

2021-22	-2.7%
2022-23	3.5%
2023-24	3.5%
2024-25	3.7%
2025-26	3.7%

## KEY ASSUMPTIONS

**Measure X Sales Tax Revenues.** These projections were also developed by the City's sales tax advisor (HdL) and reflects their assessment in 2021-22 for the impact of the highspeed rail construction disruption.

2021-22	-1.0%
2022-23	2.4%
2023-24	3.8%
2024-25	3.7%
2025-26	3.7%

**Other Revenues.** These are projected to remain flat or grow modestly by inflation (2%) during the forecast period.

## GENERAL FUND FIVE YEAR FISCAL FORECAST: 2022-26

	2018-19 Actual	2019-20 Actual	2020-21 Esimated	FORECAST				
				2021-22	2022-23	2023-24	2024-25	2025-26
<b>REVENUES</b>								
Property Tax								
General	\$882,900	\$957,800	\$975,000	\$994,500	\$1,014,400	\$1,085,400	\$1,150,500	\$1,208,000
In Lieu of VLF	2,883,500	3,147,800	3,151,400	3,214,400	3,439,400	3,645,800	3,828,100	4,019,500
Sales Tax								
General	1,607,600	1,470,400	1,588,000	1,545,100	1,599,200	1,655,200	1,716,400	1,779,900
Measure X	2,800,400	2,506,800	2,360,000	2,336,400	2,392,500	2,483,400	2,575,300	2,670,600
Franchise Fees	368,100	351,900	350,000	357,000	364,100	371,400	378,800	386,400
Transient Occupancy Tax	210,800	166,900	74,500	120,000	165,500	210,800	215,000	219,300
Business License Tax	119,700	116,200	75,000	90,000	105,000	119,700	122,100	124,500
Permit and Service Charges								
Development Review	271,800	392,500	527,000	397,100	405,000	413,100	421,400	429,800
Other Charges	142,400	-	139,500	142,300	145,100	148,000	151,000	154,000
General & Admin Allocations	1,530,400	1,256,300	1,514,700	1,545,000	1,575,900	1,607,400	1,639,500	1,672,300
Grants	641,800	223,600	1,634,600	-	-	-	-	-
Other Revenues	1,164,900	1,099,400	140,600	140,600	140,600	140,600	140,600	140,600
<b>Total Revenues</b>	<b>12,624,300</b>	<b>11,689,600</b>	<b>12,530,300</b>	<b>10,882,400</b>	<b>11,346,700</b>	<b>11,880,800</b>	<b>12,338,700</b>	<b>12,804,900</b>
<b>EXPENDITURES</b>								
Operating Costs	8,459,600	8,899,700	10,588,500	11,558,400	11,845,000	12,263,300	12,665,300	13,158,400
CIP Projects	2,047,200	1,144,400	6,471,600	95,000	10,000	106,000	526,000	184,300
<b>Total Expenditures</b>	<b>10,506,800</b>	<b>10,044,100</b>	<b>17,060,100</b>	<b>11,653,400</b>	<b>11,855,000</b>	<b>12,369,300</b>	<b>13,191,300</b>	<b>13,342,700</b>
<b>OTHER SOURCES (USES)</b>								
Transfers In	1,769,900	1,895,500	2,303,300	527,500	527,500	527,500	527,500	527,500
Transfers Out	(644,600)	(403,300)	-	-	-	-	-	-
<b>Total Other Sources (Uses)</b>	<b>1,125,300</b>	<b>1,492,200</b>	<b>2,303,300</b>	<b>527,500</b>	<b>527,500</b>	<b>527,500</b>	<b>527,500</b>	<b>527,500</b>
<b>Sources Over (Under) Uses</b>	<b>3,242,800</b>	<b>3,137,700</b>	<b>(2,226,500)</b>	<b>(243,500)</b>	<b>19,200</b>	<b>39,000</b>	<b>(325,100)</b>	<b>(10,300)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>7,129,600</b>	<b>10,372,400</b>	<b>13,510,100</b>	<b>11,283,600</b>	<b>11,040,100</b>	<b>11,059,300</b>	<b>11,098,300</b>	<b>10,773,200</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>10,372,400</b>	<b>13,510,100</b>	<b>11,283,600</b>	<b>11,040,100</b>	<b>11,059,300</b>	<b>11,098,300</b>	<b>10,773,200</b>	<b>10,762,900</b>
Assigned: Labor Housing Complex Project			9,300,000	9,300,000	9,300,000	9,300,000	9,300,000	9,300,000
Unaassigned	10,372,400	13,510,100	1,983,600	1,740,100	1,759,300	1,798,300	1,473,200	1,462,900

2020-21 excludes Labor Housing Complex Demolition/Site Clean-up and Covid-19 project related costs and revenues.

## ASSUMPTIONS SUMMARY

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>REVENUES &amp; OTHER SOURCES</b>						
Property Tax (General and In-Lieu VLF)	4,126,400	2.0%	7.0%	6.0%	5.0%	5.0%
Sales Tax: HdL (Sales Tax Advisor) Projection						
General	1,588,000	-2.7%	3.5%	3.5%	3.7%	3.7%
Measure X	2,360,000	-1.0%	2.4%	3.8%	3.7%	3.7%
Franchise Fees (Inflation)	350,000	2.0%	2.0%	2.0%	2.0%	2.0%
Transient Occupancy Tax						
Recovers to 2018-19 "base year" by 2023-24; grows by inflation thereafter	74,500	120,000	165,500	210,800	2.0%	2.0%
Busnness License Tax						
Recovers to 2018-19 "base year" by 2023-24; grows by inflation thereafter	75,000	90,000	105,000	119,700	2.0%	2.0%
Development Review Fees Service Charges:						
Average of 2 Prior Year Actuals and 2020-21 Estimate as Base for 2021-22	527,000	397,100	2.0%	2.0%	2.0%	2.0%
Othe Service Charges: Grow by Inflation	139,500	2.0%	2.0%	2.0%	2.0%	2.0%
Gen & Admin Allocations: Grow by inflation	1,514,700	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenues	140,600	Flat	Flat	Flat	Flat	Flat
<b>EXPENDITURES</b>						
Operating Expenditures						
Sheriff Contract	3,984,400	4,285,400	4,430,400	4,651,900	4,884,500	5,218,700
Fire Contract	529,100	1,037,300	1,058,000	1,079,200	1,100,800	1,122,800
CalPERS Unfunded Acturial Liability (UAL) Contributions						
"Classic" Employees (65% of total UAL; balance in enterprise funds)	292,800	337,400	340,600	395,900	421,200	433,600
"Classic" Employees: Second Tier	1,600	2,100	2,300	2,500	2,600	2,800
PEPRA Employees	1,100	1,900	2,800	3,700	4,500	4,700
Legacy Safety Plan	49,100	49,300	49,000	49,000	49,000	49,000
Total CalPERS UAL	344,600	390,700	394,700	451,100	477,300	490,100
Other Operating Costs: Grow by Inflation (2%)	5,730,400	5,845,000	5,961,900	6,081,100	6,202,700	6,326,800
Total Operating Costs	10,588,500	11,558,400	11,845,000	12,263,300	12,665,300	13,158,400
Capital Improvement Program (CIP) Projects: 2021-25 Adopted CIP						
Server/Network Upgrade			20,000			
Munis Upgrade			16,800	16,800		
Survellance Security		5,000				
Keyless Access			10,000			
Courthouse Demolition					420,000	
Police Station Ro;of and HVAC		75,000				
Replacemnt Mower		15,000				
Road Rehabilitation: Central Avenbuie				106,000		
Road Rehabilitation: Filbum Avenbuie					106,000	
Four Year Average						
Total CIP	6,471,600	95,000	10,000	106,000	526,000	184,300
Other Sources (Uses): Transfers in from Gas Tax: 2020-21 Budget, stays flat	527,500	527,500	527,500	527,500	527,500	527,500

# HISTORICAL TRENDS

## ECONOMIC AND DEMOGRAPHIC TRENDS

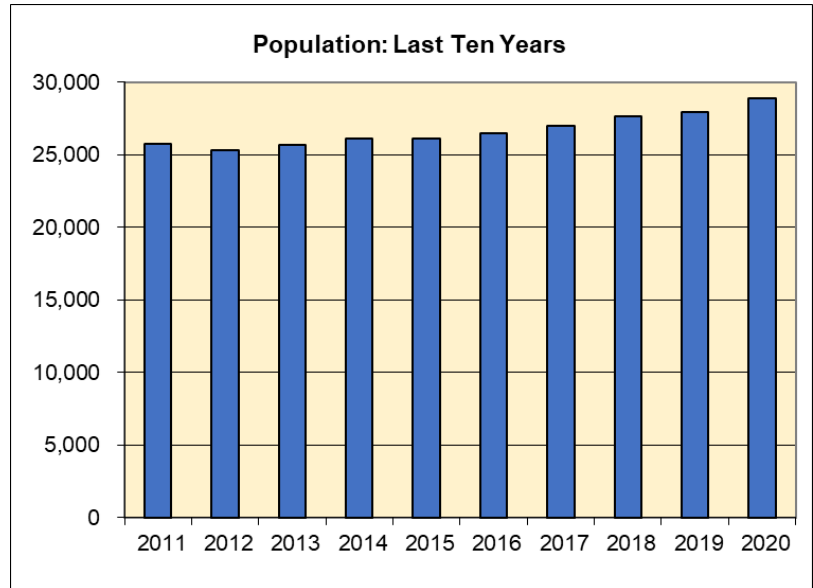
### Population

Population		
Fiscal Year Ending	Amount	% Change
2011	25,781	
2012	25,324	-1.8%
2013	25,710	1.5%
2014	26,159	1.7%
2015	26,130	-0.1%
2016	26,471	1.3%
2017	26,980	1.9%
2018	27,691	2.6%
2019	27,955	1.0%
2020	28,884	3.3%

January 1 of Each Year

Average Annual % Change	
Last 2 Years	2.1%
Last 5 Years	2.0%
Last 10 Years	1.3%

Source: State of California, Demographic Research Unit

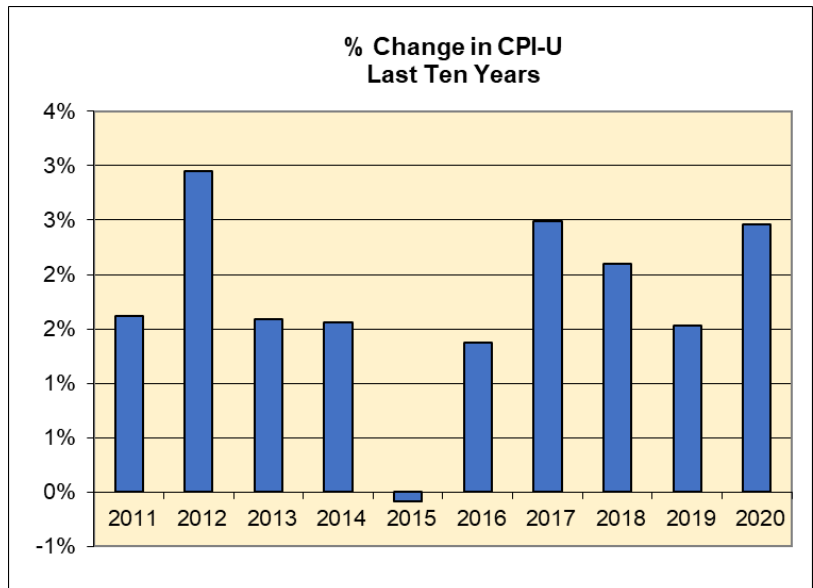


### Consumer Price Index

U.S. Consumer Price Index		
Fiscal Year Ending	Amount	% Change
2010	216.7	
2011	220.2	1.6%
2012	226.7	3.0%
2013	230.3	1.6%
2014	233.9	1.6%
2015	233.7	-0.1%
2016	236.9	1.4%
2017	242.8	2.5%
2018	247.9	2.1%
2019	251.7	1.5%
2020	257.9	2.5%

All Urban Consumers, January 1 of Each Year

Average Annual % Change	
Last 2 Years	2.0%
Last 5 Years	2.0%
Last 10 Years	1.8%

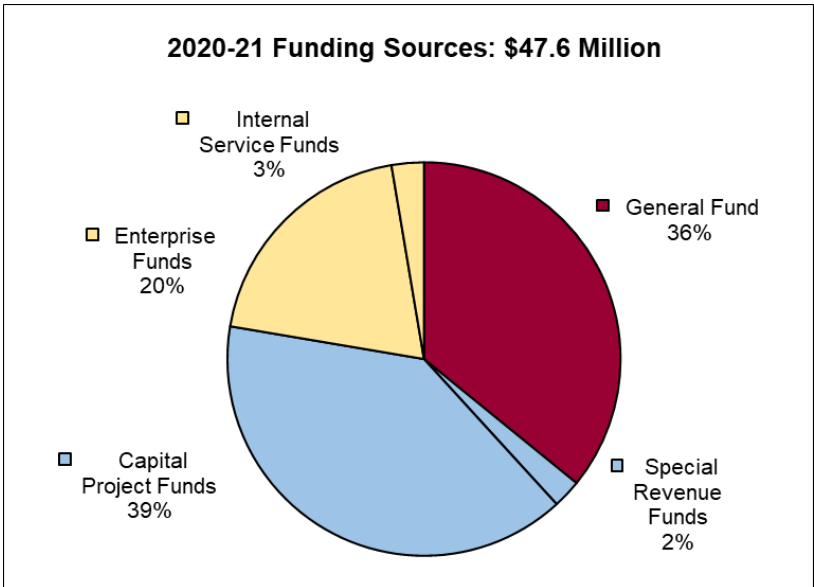




# HISTORICAL TRENDS

## EXPENDITURE AND REVENUE SUMMARIES

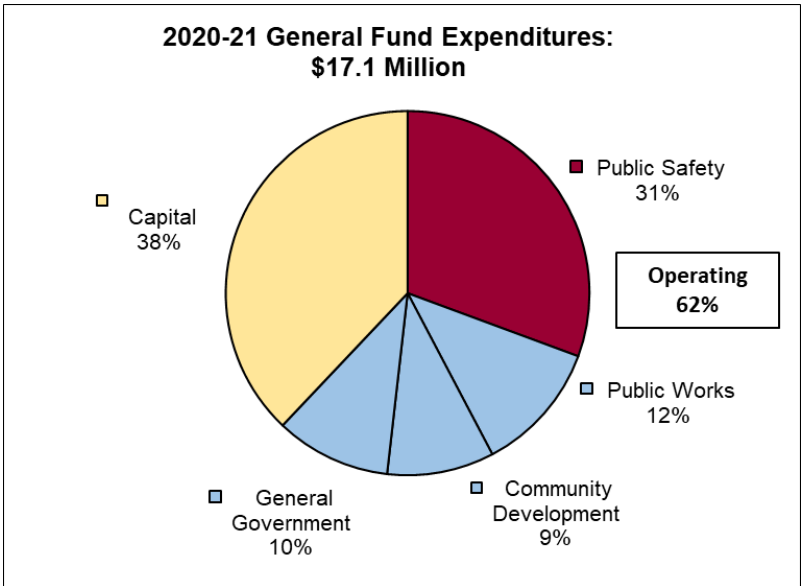
Funding Sources: 2020-21 Budget		
Source	Amount	% Total
General Fund	17,060	36%
Special Revenue Funds	1,115	2%
Capital Project Funds	18,769	39%
Enterprise Funds	9,363	20%
Internal Service Funds	1,262	3%
<b>Total</b>	<b>\$47,569</b>	<b>100%</b>



General Fund Expenditures: 2020-21 Budget		
Function	Amount	% Total
Operating		
Public Safety	5,225	31%
Public Works	1,989	12%
Community Development	1,624	10%
General Government	1,751	10%
Capital	6,471	38%
<b>Total</b>	<b>\$17,060</b>	<b>100%</b>

*In Thousands of Dollars*

2020-21 excludes Labor Housing Complex Demolition/Site Clean-up and Covid-19 project related costs and revenues.

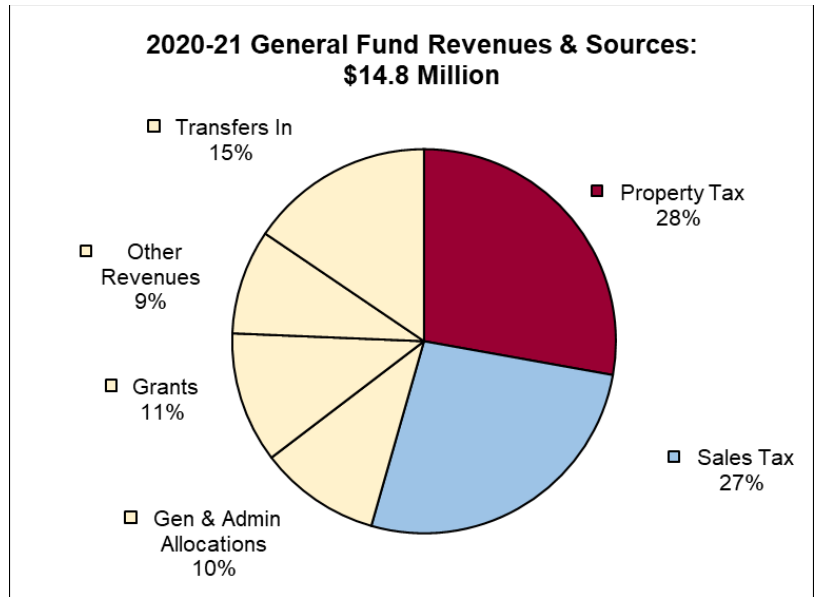


# HISTORICAL TRENDS

General Fund Revenues & Sources: 2020-21		
Source	Amount	% Total
Property Tax	4,126	28%
Sales Tax	3,948	27%
Gen & Admin Allocations	1,514	10%
Grants	1,634	11%
Other Revenues	1,308	9%
Transfers In	2,303	16%
<b>Total</b>	<b>\$14,833</b>	<b>100%</b>

*In Thousands of Dollars*

2020-21 excludes Labor Housing Complex Demolition/Site Clean-up and Covid-19 project related costs and revenues.



## GENERAL FUND REVENUE TRENDS

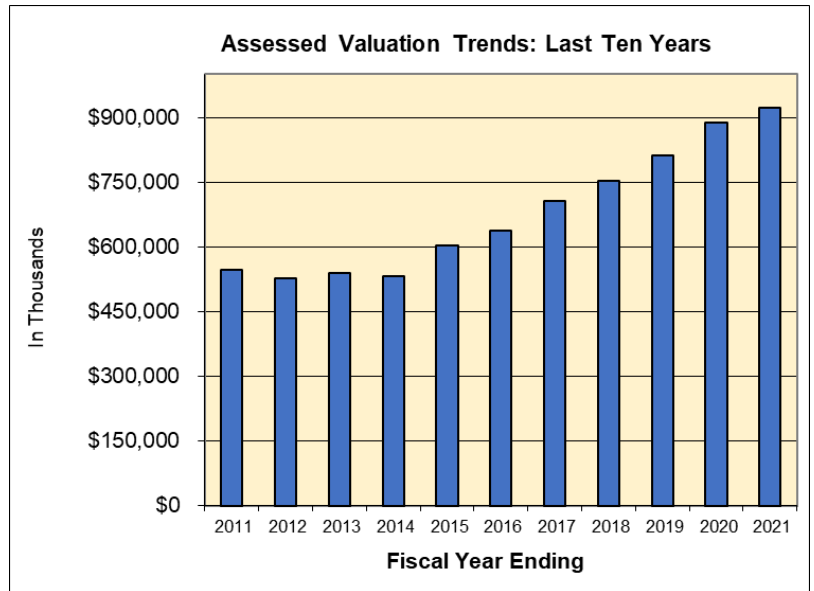
The following tables and charts show long and short-term General Fund trends for the “Top Two” revenue sources: property tax and sales tax related revenues. These two sources are projected to account for about 65% of total General Fund revenues in 2021-22.

Assessed Valuation Trends		
Fiscal Year Ending	Amount	% Change
2011	547,205	
2012	526,168	-3.8%
2013	540,050	2.6%
2014	532,502	-1.4%
2015	602,589	13.2%
2016	636,696	5.7%
2017	706,539	11.0%
2018	753,539	6.7%
2019	812,865	7.9%
2020	888,741	9.3%
2021	922,450	3.8%
Average Annual % Change		
Last 2 Years		6.6%
Last 5 Years		7.7%
Last 10 Years		5.5%

*In Thousands*

Property tax revenues, which are the top General Fund revenue source (accounting for about one-third of total General Fund sources) are driven by changes in assessed value as determined by the Kern County Assessor’s Office. The allocation of property tax revenues is determined by the State and are subject to change. Accordingly, changes in assessed value are the best long-term indicator for this revenue source.

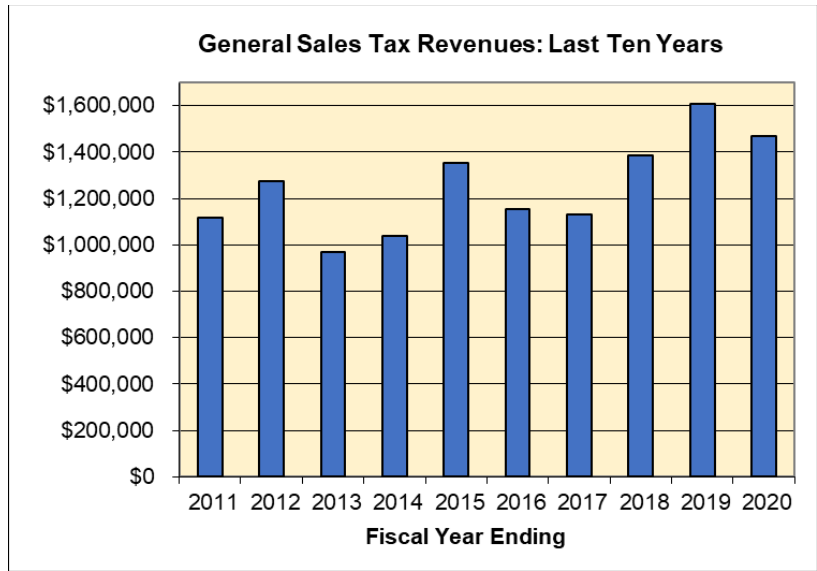
*Source: Kern County Auditor-Controller Office*



# HISTORICAL TRENDS

General Sales Tax Trends		
Fiscal Year Ending	Amount	% Change
2011	1,115,200	
2012	1,273,000	14.1%
2013	968,200	-23.9%
2014	1,036,900	7.1%
2015	1,350,900	30.3%
2016	1,155,800	-14.4%
2017	1,132,000	-2.1%
2018	1,385,400	22.4%
2019	1,607,600	16.0%
2020	1,470,400	-8.5%
Average Annual % Change		
Last 2 Years		3.8%
Last 5 Years		10.4%
Last 10 Years		6.2%

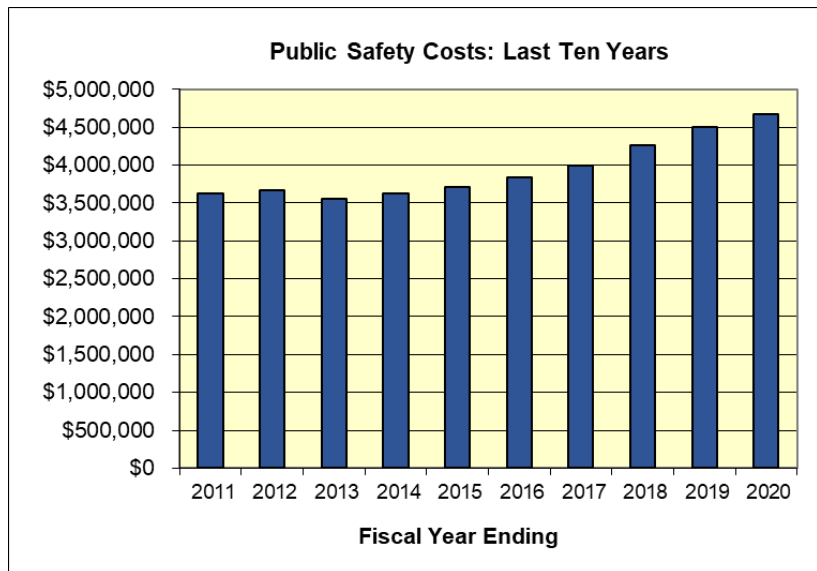
Sales tax revenues (including Measure X) are the General Fund’s second largest revenue source. Since 2017-18 was the first full year for Measure X collections, long-term trends are not available..



## GENERAL FUND EXPENDITURE TRENDS

The most significant General Fund operating cost is for public safety - police and fire – which account for 50% of total operating costs.

Public Safety		
Fiscal Year Ending	Amount	% Change
2011	3,630,800	
2012	3,669,200	1.1%
2013	3,551,100	-3.2%
2014	3,627,500	2.2%
2015	3,710,700	2.3%
2016	3,835,400	3.4%
2017	3,995,200	4.2%
2018	4,262,100	6.7%
2019	4,497,700	5.5%
2020	4,665,100	3.7%
Average Annual % Change		
Last 2 Years		5.4%
Last 5 Years		3.7%
Last 7 Years		2.4%



## CalPERS Pension Costs

The City currently provides defined pension benefits to its regular employees through its contract with the California Public Employees Retirement System (CalPERS).

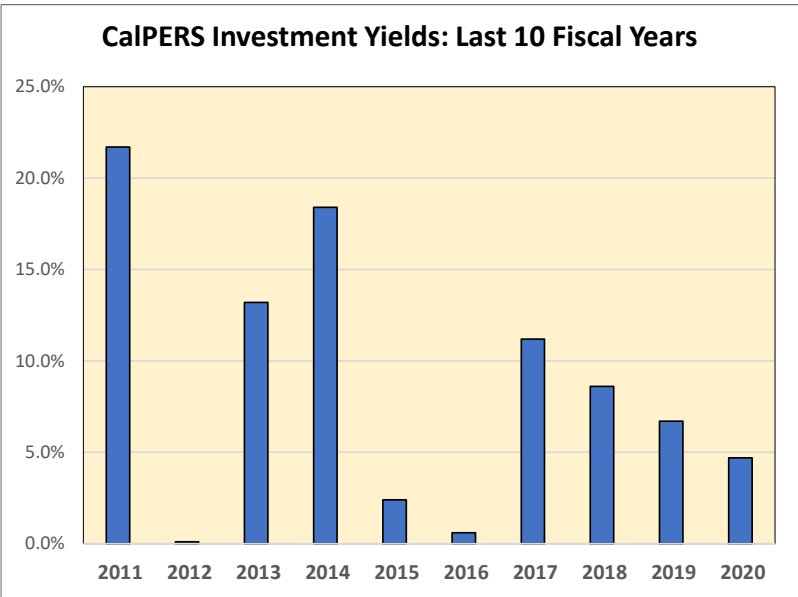
**About CalPERS.** While cities, counties, and special districts are free to create their own retirement systems, 460 of California’s 482 cities are members of CalPERS. Dating back eighty years, CalPERS is now the largest pension fund in the United States, providing services to about 2,900 state, city, county and special districts, with over 1.5 million members and managing \$393 billion in assets.

**Funding Pension Benefits.** There are many actuarial factors that determine contribution rates, including inflation, employee earnings and life expectancy assumptions. However, the assumption for the “discount rate” - the projected long-term yield on investments – is one of the most important. For example, only about one-third of CalPERS retirement benefits are funded

# HISTORICAL TRENDS

by employee and employer contributions: the other two-thirds are funded from investment yields. Small changes in this rate – up or down – can significantly affect funding. CalPERS actuarial assumption for investment earnings is 7.0%. For context, the following presents CalPERS investment earnings for the last ten years.

CalPERS Investment Yields		
Fiscal Year Ending	Amount	% Change
2011	21.7%	
2012	0.1%	-99.5%
2013	13.2%	13100.0%
2014	18.4%	39.4%
2015	2.4%	-87.0%
2016	0.6%	-75.0%
2017	11.2%	1766.7%
2018	8.6%	-23.2%
2019	6.7%	-22.1%
2020	4.7%	-29.9%
Average Net Return		
Last 5 Years		6.3%
Last 10 Years		8.5%
Last 20 Years		5.5%
Last 30 Years		8.0%



As reflected in this sidebar graph, there have been significant swings from year-to-year over the past ten years, ranging from gains of 21% in 2010-11 to 0.1% just one year later

## City Pension Plans

The City currently has four separate retirement plans with CalPERS:

- Classic" Employees: hired before 2013.
- Classic" Employees Second Tier: hired before 2013 but under a plan with lower benefits.
- PEPRAs Employees: hired after December 31, 2012.
- Legacy Safety Plan from when the City provided police services in-house before contracting with the County.

## Funding CalPERS Benefits

Along with investment earnings, CalPERS pension benefits are funded by contributions from both employees and employers.

The employer share has two components:

- **Normal cost:** The rate needed to meet current actuarial obligations.
- **Unfunded actuarial liability (UAL):** Funding needed to amortize any outstanding unfunded liabilities (typically over 30 years).

At this point, employer “normal” contributions have stabilized and are not expected to grow significantly in the future. However, if there are adverse actuarial results, such as lower investment yields, this will be reflected in the UAL payment.

Over the past five years, CalPERS has phased-in increases in both the normal and UAL employer contribution rates. As noted above, normal cost rates have stabilized, but UAL payments continue to rise.

**Public Employees' Pension Reform Act**

Effective January 1, 2013, the Public Employees' Pension Reform Act (PEPRA) created a “two-tier” retirement system under which benefits for “new” employees hired on or after January 1, 2013 are lower than those employees who were in the system before then.

**“PEPRA” Employees.** With the goal of reducing costs and future liabilities for state and local agency system members, major changes for “new” system (PEPRA) members include lower-cost pension formulas, increased retirement age requirements, use of “three years of highest average compensation” (rather than single highest year) in calculating pensionable pay and caps on maximum annual benefits.

**“Classic” Employees.** Retirement benefits for local agency employees hired before January 1, 2013 (“classic” employees) are not affected by these “rollbacks:” they only affect PEPRA employees hired after this date. “Classic” employees also include those hired after December 31, 2012 who had established CalPERS membership with another agency before then, as long as any break in service was six months or less. These employees will be eligible for the new agency’s benefit level that was in place as of December 31, 2012.