City of Rialto

General Fund
Five Year Fiscal Forecast: 2025-29

April 2024

124 Cerro Romauldo Avenue
San Luis Obispo, CA 93405
805.544.5838 ■ Cell: 805.459.6326
bstatler@pacbell.net
www.bstatler.com

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

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OVERVIEW

Purpose

This purpose of this report is to update the forecast prepared in 2021 in assessing the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current City service levels on an ongoing basis and achieve capital improvement plan (CIP) goals.

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 magnitude of any fiscal challenge the City could confront. <u>In short, the City cannot respond to a challenge it hasn't defined.</u> 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 California local agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear for they still had tough decisions to make. However, fiscal forecasts 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.

Forecast Framework and Approach

As noted above, the purpose of the forecast is to assess the General Fund's ability over the next five years – on an "order of magnitude" basis – to continue current services and achieve CIP goals. The forecast does this by projecting ongoing revenues and subtracting from them likely operating, debt service and CIP costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" such as implementing 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, and reasonable options for closing the gap.

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.

Can the City Afford New Initiatives?

This is a basic question of priorities, not of financial capacity per se. But the forecast assesses how difficult answering this question will be.

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

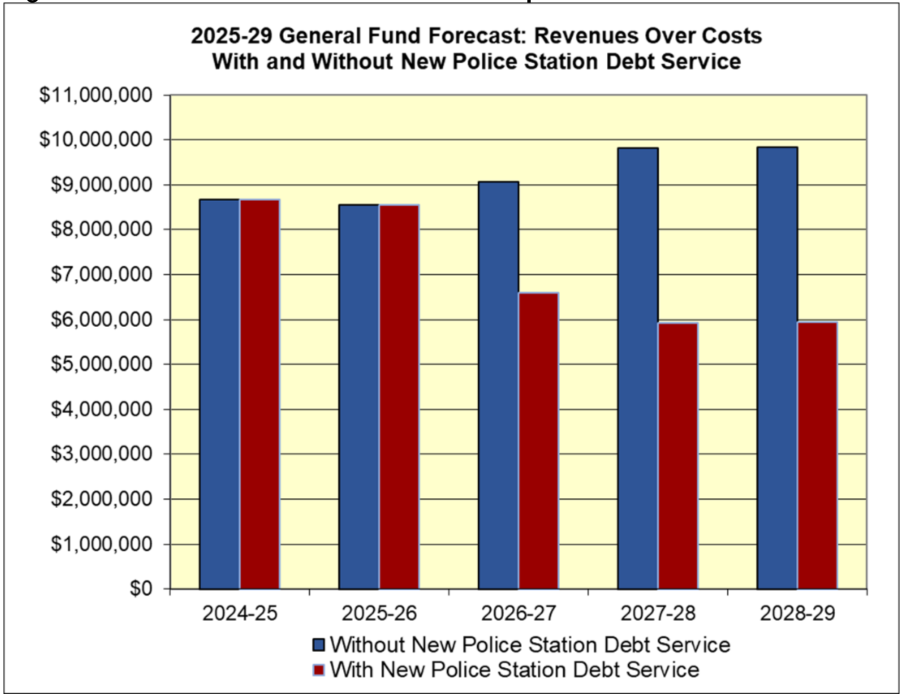
The General Fund in very good shape in funding operating costs, annual CIP projects and added debt service for the new Police Station.

Police Station Funding

The new Police Station is estimated to cost $78.9 million. Of this, $26 million will be funded with cash in 2023-24. The balance of $52.9 million will be debt financed.

As a baseline, Figure 1 compares projected revenues over costs without the added debt service for the new Police Station, with the revised situation with scheduled debt service beginning in 2026-27. (For this reason, the first two years are the same.)

Figure 1. Five-Year General Fund Forecast Gap



As reflected above, even with the added debt servce for the new Police Station, revenues over costs stabilize in 2027-28 at $5.9 million annually.

Why Such Strong Results?

As shown below, the City has experienced strong revenue growth in all five of its top General Fund revenues: sales tax, property tax (general and VLF swap), utility users tax, franchse fees and business licenses:

Figure 2. Top General Fund Revenues

	2021-22 Actual	2022-23 Est Actual	2023-24 Budget Adopted	Projected	Variance
Sales Tax	55,080,600	57,433,100	50,293,700	54,955,300	4,661,600
General Property Tax	15,906,700	18,030,300	14,505,600	18,751,500	4,245,900
VLF Swap Property Tax	17,273,500	18,946,800	17,449,500	19,704,700	2,255,200
Utility Users Tax	16,589,200	19,121,600	12,435,600	19,695,200	7,259,600
Franchise Fees	4,725,700	5,180,400	4,405,000	5,335,800	930,800
Business Licenses	3,738,400	3,649,500	3,500,000	3,759,000	259,000
Total	$113,314,100	$122,361,700	$102,589,400	$122,201,500	$19,612,100

For these top revenues, Figure 2 shows actual results for the last two completed fiscal years (2021-22 and 2022-23) and compares these with the adopted and updated projections for 2023-24. In total, these top revenues are estimated to be almost $20 million higher in 2023-24 than the adopted budget. This becomes the "baseline" for the forecast's revenue projections. On the other hand, except for the cash outlay for the new Police Station, baseline expenditure projections remain unchanged from the 2023-24 Budget.

The Path Forward. These results provide the City with excellent opportunities for a more aggressive CIP, improved service levels or reductions in unfunded pension and health care obligations.

KEY FORECAST DRIVERS

Assumptions drive the forecast results, which are detailed on pages 22 to 26. Simply put, if the assumptions change, the results will change. There are seven key drivers underlying the forecast results:

- General economic trends and outlook.
- State budget situation.
- Current financial condition.
- Key revenues.
- Operating cost drivers.
- Population growth and new development.
- Capital improvement plan (including new Police Station funding).

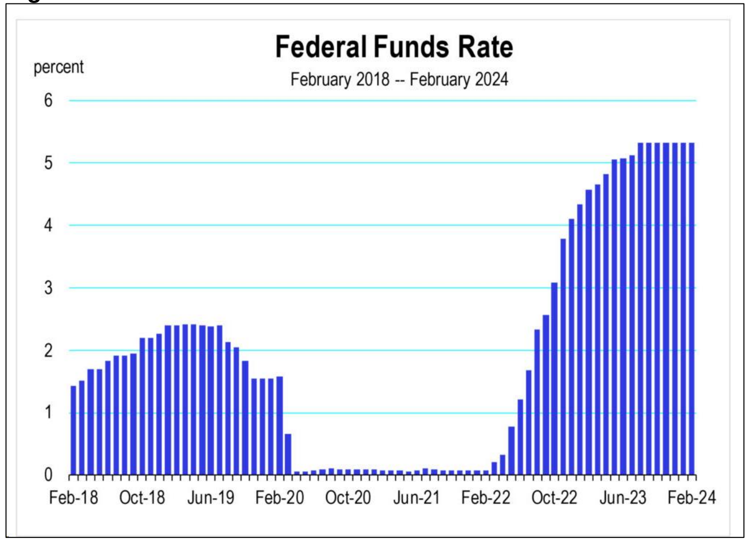
❶ *General Economic Trends and Outlook*

Where's the Recession? The shut-down of the economy in responding to the Covid-19 public health threat was immediate and severe, especially impacting employment and retail sales. However, even with continued peaks and valleys in some cases, the economy has seen significant improvements over the past two years in spite of rises in inflation.

With the Federal Reserve (Fed) raising its prime interest rate in combatting inflation, the consensus view of many leading economists was that we would experience a recession in responding to reduced demand. The only question was how deep and when - not if. However, it appears that the hopeful "soft landing" is happening. Virtually all economic indicators show positive trends.

Federal Funds Rate. As shown in Figure 3, following twenty-three months of essentially zero interest rates, the Fed steeply raised its prime rate in fighting inflation, to 5.5% by August 2023. At its most recent meeting in March 2024, the Fed again held the rate constant. If reductions in inflation continue, the Fed is expected to gradually reduce its funds rate later in 2024 and into 2025.

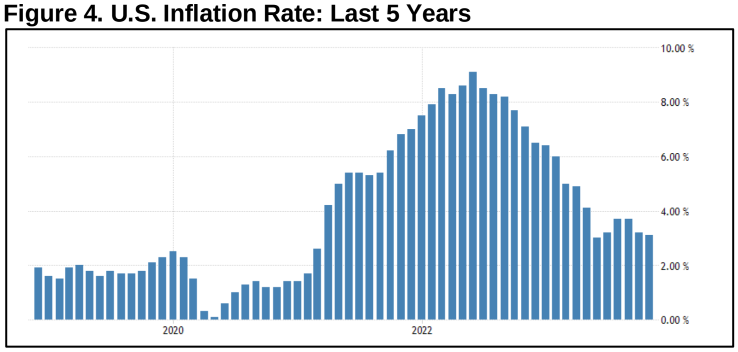
Figure 3. Federal Funds Rate



Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com

Taming Rising Inflation. While initially believed to be short-term by many leading economists, inflation peaked at an annual rate of 9.1% in June 2022 (the highest rate in forty years), following long-term trends of about 2% before Covid-19. This was largely due to high demand (bottled up during Covid-19) for limited supplies arising from supply chain shortages along with surging gasoline prices due to limited supplies, largely resulting from the war in Ukraine.

Figure 4. U.S. Inflation Rate: Last 5 Years



Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com

As discussed above, this in turn resulted in increasing interest rates by the Fed in addressing this. However, as shown in Figure 4, the inflation rate has steadily declined since its peak, falling to the "3%'s" since June 2023.

Where is this headed? The following are the forecast assumptions for inflation. These reflect recent reductions in the inflation rate (which as discussed below has occurred without significant impacts on the economy in terms of employment, retail sales, gross domestic product (GDP) or the stock market); and likely continued downward trends given the Federal Reserve's actions and its ongoing commitment to bringing the rate down to its 2% target.

Inflation	
2024-25	3.5%
2025-26	3.0%
2026-27	2.0%
2027-28	2.0%
2028-29	2.0%

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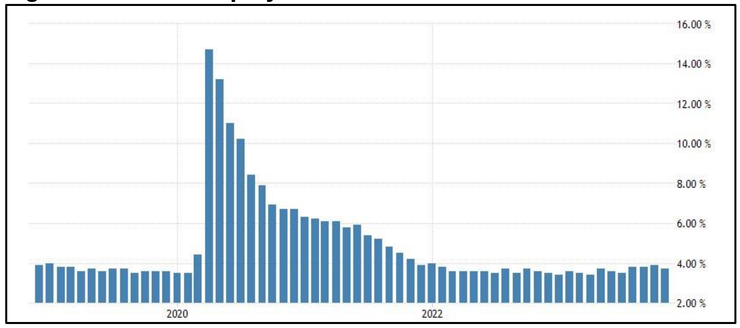
U.S. Unemployment. Figure 5 shows an immediate increase in the U.S. unemployment rate following the Covid-19 outbreak. At its peak (14.8% in April 2020), it exceeded the impact of the Great Recession (10.0% in October 2009). Since then, it has declined significantly, falling to the "3%'s" for the last 26 months. This is the lowest consecutive rate since the 1960s. In short, while the increase in unemployment was steep, so was its decline.

Figure 5. U.S. Unemployment Rate: Last 5 Years

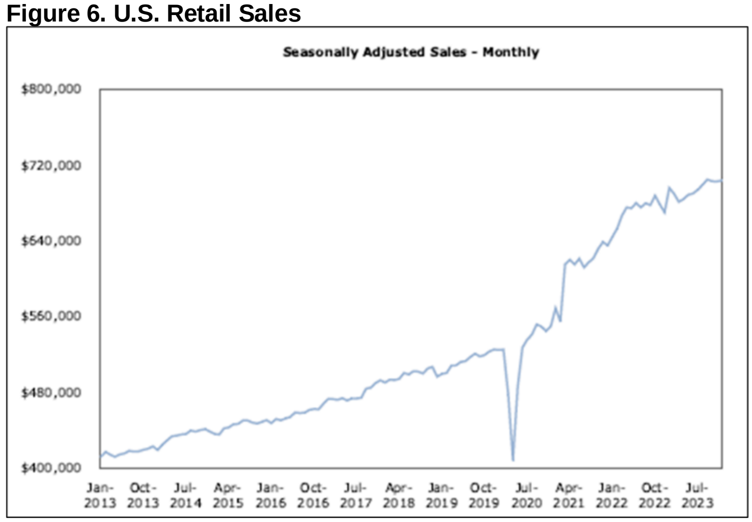


Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com

U.S. Retail Sales. Trends in retail sales tell a similar story: the sharp drop in retail sales beginning in February 2020 is deeper than the Great Recession; but its recovery from Covid-19 is also faster.

By March 2024, retail sales are at their highest level ever (Figure 6).

Figure 6. U.S. Retail Sales

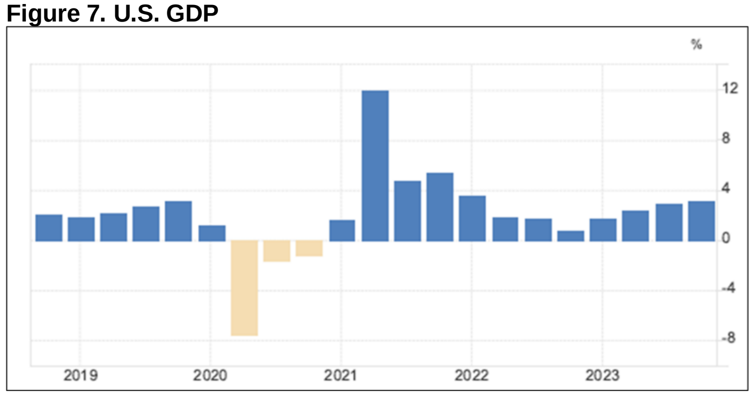


Source: U.S. Census Bureau

U.S. Gross Domestic Product (GDP). As reflected in Figure 7, GDP has also shown consistent growth since the sharp declines during Covid-19.

In short, where is the recession?

Figure 7. U.S. GDP



Source: U.S. Bureau of Labor Statistics/TradingEconomics.Com

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Standard & Poors (S&P) 500. As shown in Figure 8, the S&P 500 Index (a widely accepted broad measure of stock market performance) has strongly recovered from its lowest point resulting from Covid-19 impacts.

- Its peak before Covid-19 was 3,380.
- It fell to its lowest point of 2,305 in March 2020, and then increased to a new high of 5,243 by April 2024.

Figure 8. S&P 500 Index: Last 13 Years

Source: Macrotrends.com

Where We're Headed. Most economists foresee continued strengthening of the economy.

The long awaited recession in 2023 is postponed, and perhaps even cancelled.

California Economic Forecast
https://californiaforecast.com/september-2023

www.goldmansachs.com/intelligence/pages/gs-research/macro-outlook-2024-the-hard-part-is-over/report.pdf

What does this mean for the City? The top five General Fund revenues – sales tax, property tax, utility users tax (UUT), franchise fees and business licenses account for 80% of total revenues. These are driven by the performance of the local economy, which in turn is driven by the interrelated performance of regional, state and national economies.

The forecast revenue and cost drivers reflect cautious optimism that these positive trends will continue. This means that no significant economic downturns that will impact key General Fund revenues are projected in the forecast.

❷ *State Budget Outlook*

For almost forty years, the greatest fiscal threat to cities in California has not been economic downturns, dotcom meltdowns, corporate scandals or Covid-19, but rather, State takeaways. These included 20% reductions in property tax revenues in transferring revenues to schools via the Education Revenue Augmentation Fund (which the State used to reduce its funding to schools by a corresponding amount); property tax administration fees; unfunded State mandates; and dissolution of redevelopment agencies. These takeaways were on top of the fiscal challenges facing cities in light of their own revenue declines and cost pressures.

Despite deep State fiscal challenges (the Governor's Office projects a 2024-25 deficit of $38 billion while the Legislative Analyst's Office projects $68 to $73 billion), no local government takeaways are on the horizon. (In prior years, local government would have been a "usual suspect" for takeaways.) On the other hand, there are no suggested restorations of past takeaways.

That said, while added constitutional protections are in place than in the past, five years is a long time for the State to leave cities alone.

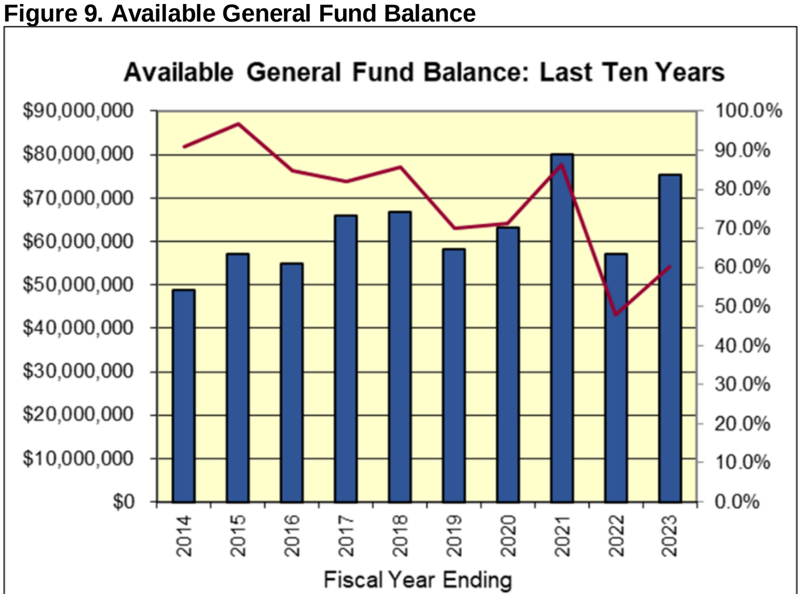
❸ *Current Strong Financial Condition*

The City begins the forecast with key strengths:

- "Clean" (unqualified) audited financial statements prepared in accordance with highest standards.
- Strong reserves.
- Diversified and resilient revenue base.
- Very limited General Fund debt obligations (even with new Police Station).
- Ability to fund capital improvements.
- Long-standing tradition of responsible financial management and stewardship of community assets.

As shown in Figure 9, even in the midst of Covid-19, the City maintained its strong reserve position.

Figure 9. Available General Fund Balance



Excludes non-spendable balances, largely advances to other funds.

In short, the City has maintained very strong available fund balances over the past ten years. The line graph shows fund balance as a percentage of operating costs. While fund balance also decreased, the drop in 2021-22 is largely due the transfer of building maintenance, vehicle maintenance and IT internal service funds and parks & recreation costs to the General Fund, which increased the "denominator" in calculating this ratio. It rebounded in 2022-23 as the operating cost base stabilized and available fund balance increased.

❹ *Key Revenues*

The General Fund's top five revenues – sales tax, property tax (general and VLF swap), UUT, franchise fees and business licenses - account for 80% of total revenues. The following are the forecast assumptions for these top revenues based on long and short-term trends for past ten years as detailed on pages 22 and 25; general economic outlook; and guidance from the City's tax advisor (HdL) for property and sales taxes:

Figure 10. Key Revenue Growth Assumptions

Fiscal Year	Sales Tax	Prop Tax	UUT	Franchise	Bus Lic
2024-25	Flat	4.9%	3.5%	3.5%	3.5%
2025-26	2.8%	4.9%	3.0%	3.0%	3.0%
2026-27	2.9%	3.9%	2.0%	2.0%	2.0%
2027-28	2.9%	3.9%	2.0%	2.0%	2.0%
2028-29	2.9%	3.9%	2.0%	2.0%	2.0%

As reflected above, UUT, franchise fees and business licenses are expected to closely mirror inflation.

❺ *Operating Costs*

There are four key operating cost assumptions reflected in the forecast:

- Operating cost "baseline."
- Insurance costs.
- CalPERS pension costs
- Inflation assumption for all other costs.

Operating Cost "Baseline." The 2023-24 Budget is the "baseline" for the forecast operating costs.

Insurance Costs. Insurance costs for both general liability and workers compensation have been highly volatile. Based on discussions with Finance staff, insurance costs appear to have stabilized (albeit at high levels). The "baseline" 2023-24 operating costs reflect this.

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). Further information about the City's participation in CalPERS, factors that affect rates and unfunded actuarial liabilities (UAL) is detailed on pages 28 to 31. Stated simply, based on projections provided by CalPERS, the City is facing significant increases in funding the City's UAL over the next five years.

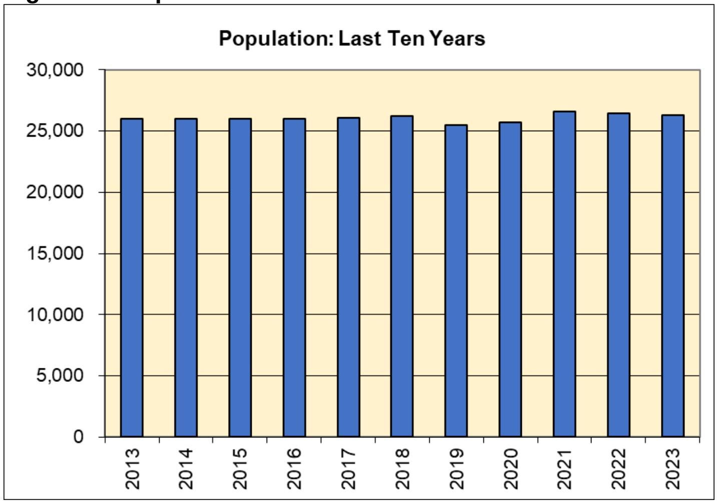
Other Operating Costs. Remaining operating costs are projected to grow by inflation. These are largely within the control of the City. For example, staffing costs account for about 70% of operating General Fund operating expenditures. These costs rise (or fall) based on two factors: authorized staffing levels and compensation. Both are within the control of the City. Since this report is a forecast and not the Budget, the consumer price index (CPI) is a reasonable basis for projecting these other costs.

❻ *Population Growth and New Development*

Population growth does not play a significant role in the five-year forecast. As reflected in Figure 11, the City's population of about 102,000 has remained virtually unchanged over the past ten years.

As outlined below, there are some new housing units on the horizon but they are unlikely to have a significant fiscal impact.

Figure 11. Population



Source: City Annual Comprehensive Financial Report; State of California, Department of Finance, Demographic Research Unit

New Projects on the Horizon. Based on information provided by Community Development, the following summarizes new development projects on the horizon:

Figure 12. Projects on the Horizon

Project	Use	Description	Comp Date
Non-Residential			
Santa Ana Truck Terminal Project	Terminal, Office/Maint Bldg	196,600 sq ft	2026
Locust Gateway Logistics Center	Industrial warehouse	665,400 sq ft	2026
Locust & Riverside Warehouse	Industrial warehouse	133,000 sq ft	2026
Newcastle Pepper Ave Development	Industrial warehouse	226,700 sq ft	2025
Pepper Avenue Industrial Development	Industrial warehouse	470,000 sq ft	2025
Olive Grove Industrial Development	Industrial warehouse	679,600 sq ft	2026
AIREF Rialto Commerce Center	Industrial warehouse	299,800 sq ft	2026
Casmalia & Linden Commerce Center	Industrial warehouse	386,300 sq ft	2025
Lilac/Santa Ana Ave Warehouse Proj	Industrial warehouse	301,000 sq ft	2025
Arco Gas Station & Convenience Store	Gas Station & Conv Store	4,900 sq ft	2027
Chick-Fil-A	Restaurant	4,800 sq ft	2026
Residential			
Rialto Renaissance	Single family residences	429 units	2026
Frontier Apartments: 5 Phases	Apartments	156 units	2026-2028

While the warehouse projects have the potential to generate significant new revenues (most notably sales and UUT), this depends on the specific tenant mix.

❼ *Capital Improvement Projects*

As presented in Figure 13, CIP costs have varied widely over the past 5 years.

Figure 13. Five-Year CIP Costs

CIP Projects	
2019-20	5,151,800
2020-21	1,803,600
2021-22	30,730,400
2022-23	8,960,400
2023-24	1,950,300
Five Year Average	$9,719,300

The forecast assumes $9.7 million in CIP costs annually based on the five-year average.

In addition, the forecast also reflects funding for the new Police Station, summarized as follows:

Figure 14-1. Police Station Funding

New Police Station Funding	
Pay-As-You Go	26,000,000
Debt Financing	52,918,600
Total	$78,918,600

The $26 million cash share will be paid in 2023-24. The balance of $52.9 million will be debt financed, with debt service payments beginning in 2026-27 as follows:

Figure 14-2. Police Station Debt Service

Annual Debt Service	
2026-27	$2,464,100
2027-28	3,901,500
2028-29	3,902,400

FORECAST FRAMEWORK

Background

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.

- 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 other "what if" scenarios. And in fact, the forecast includes one "what if" by providing a "baseline" for comparison that does not include added debt service costs for the new Police Station.

Financial Trends

The past doesn't determine the future. But if the future won't look like the past: 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 fiscal trends over the past ten years.

A summary of key indicators is provided in the *Current Fiscal Condition and Historical Trends* section of this report beginning on page 20. Areas of particular focus include:

- ***Revenues Trends.*** Focuses on the City's top five General Fund revenues – sales tax, property tax (general and VLT swap), UUT, franchise fees and business licenses– which together account for 80% of total General Fund revenues.

- ***Expenditure Trends.*** Overall trends in key expenditure areas, including operating, public safety, insurance and pension costs.

Forecast Assumptions

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

- Long and short-term trends in key General Fund 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 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 and property tax advisor (HdL Companies).

- Five-year employer contribution rate projections prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about performance of the local economy during the next five years, and how these will affect General Fund revenues and expenditure. Descriptions of the assumptions used in the forecast and the resulting projections are provided on pages 15 to 19.

What's Not in the Forecast

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 City will be successful in obtaining grants for operating and CIP purposes. However, these are typically for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's. Moreover, experience shows given federal and state budget challenges, the amount of available grant funding is more likely to decline over the next five years than increase.

Development Impact Fees. These can only be used to provide facilities needed to meet the needs of new development. Accordingly, these are not available to support General Fund services or CIP projects.

Operating Needs Not Funded in the 2023-24 Budget. It is likely that there are General Fund service needs that are not reflected in the 2023-24 Budget.

One-Time Operating Costs Above the Baseline. Since these typically reflect significant policy issues, one-time cost assumptions above the 2023-24 "baseline" are not included in the forecast. However, it is likely that some level of one-time operating costs in meeting high-priority needs will surface in budget considerations. In this case, as one-time costs, they are candidates for the use of reserves that are above the target policy minimum.

CIP Projects. The forecast assumption is based on a five-year CIP average of $9.7 million. As reflected above, there have been years where CIP expenditures have been significantly above this amount. Accordingly, there may be critical, high-priority project costs in excess of this average.

Sale of Property. In the past the City has strategically sold City-owned property. It is possible that similar opportunities may arise in the future.

New Development. As noted above, no significant new revenues (or costs) are reflected in the forecast from new development. However, depending on the tenant mix, there is the potential for added revenues.

What's Most Likely to Change?

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. As noted above, no significant economic downturns that will impact key General Fund revenues are projected in the forecast. This assumption of steady albeit modest growth is not a sure thing. Also, as noted above, depending on tenant mix, new warehouse developments may include significant business-to-business sales tax and UUT revenues.

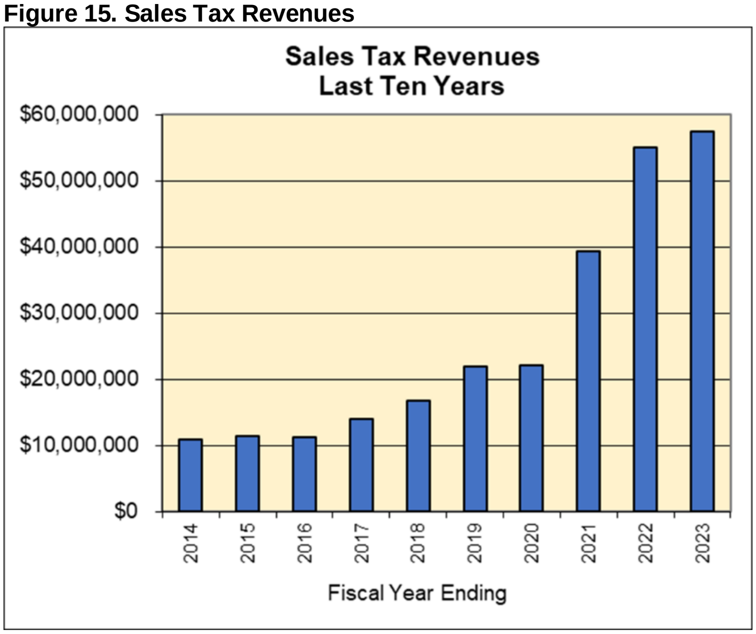
Insurance Costs. The forecast assumes that general liability and workers' compensation insurance costs will grow by inflation from the 2023-24 "baseline." However, in the past this has been a volatile cost for many cities in California (and the City's experience has shown the potential for wide swings as well). While loss of experience plays a role, higher costs can also be incurred resulting from volatility in the financial markets. With the investment of premiums, this can often have a far greater impact on insurance costs than actuarial loss experience.

Pension Costs. The forecast uses CalPERS' rate projections for the next five years. While this is a reasonable assumption, experience has shown the potential for even steeper increases in employer contribution costs.

APPROPRIATIONS LIMIT

The City is under its Appropriations Limit for 2023-24 by about $4.4 million. However, based on projected revenues subject to the Limit, this may be a challenge in the outyears. One example of the challenge facing the City is the growth in sales tax revenues over the past ten years (Figure 15):

Figure 15. Sales Tax Revenues



- Sales tax revenues have increased almost six-fold over the past ten years.
- Almost tripled in the last five years.
- And almost doubled in the last two years, leveling-off in 2022-23.

Similar growth has also been experienced in other top General Fund revenues. In short, not so long ago the City was well under its Appropriations Limit. But looking ahead, this is likely to no longer be the case.

However, there are several mitigation strategies available to the City:

Two-Year Rollover. If the City is over its limit in one year, it may rollover that excess into the second year.

Increases in the Limit. These are allowed with voter approval but sunset after four years. Another ballot measure would be required to adopt another four-year term with a higher Limit.

More Aggressive CIP. The excess will be mitigated in later years if the City exceeds its average $9.7 million CIP. (Qualified capital outlay is excluded from appropriations subject to the Limit.)

Use an Alternative Basis for Cost of Living. Like most cities, the City uses the increase in California personal income as the cost of living factor used in annually increasing its Appropriations Limit. However, there is an alternative: the City may use the increase in local non-residential assessed value due to new construction as its cost of living index. This factor may not be readily available and will require further research to assess its viability. However, if it yields a higher adjustment factor, the City can retroactively modify its Appropriations Limit.

CONCLUSION

Based on the forecast results, the City has excellent opportunities for more a more aggressive CIP, improved service levels or reductions in its unfunded pension and health care obligations. On the other hand, given its strong revenue growth, it will be facing challenges in staying under its Appropriations Limit. However, as outlined in this report, the City has several strategies it can pursue in mitigating this challenge.

KEY ASSUMPTIONS

DEMOGRAPHIC TRENDS

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

Inflation. As measured by the Consumer Price Index (CPI), inflation is projected to grow as follows.

Figure 16. Inflation

Inflation	
2024-25	3.5%
2025-26	3.0%
2026-27	2.0%
2027-28	2.0%
2028-29	2.0%

These reflect recent reductions in the inflation rate and likely continued downward trends given the Federal Reserve's actions and ongoing commitment to bringing the rate down to its 2% target.

ECONOMIC OUTLOOK

The City is in a unique situation compared with most cities in California: while its top revenues growth may have slowed in a few cases, it did not experience significant adverse results from Covid-19 impacts. In fact, as discussed in the *Introduction*, sales tax (the City's top General Fund revenue) increased significantly due to factors unique to the City.

Nonetheless, no community exists in a vacuum from the economics of its region and state. Based on key economic factors as discussed in the *Introduction,* steady, modest economic growth is reflected in the forecast.

EXPENDITURES

Operating Costs. There are four key operating cost assumptions reflected in the forecast:

- Operating cost "baseline."
- Insurance costs.
- CalPERS pension costs.
- Inflation assumption for all other costs.

Operating Cost "Baseline." The 2023-24 Budget is the operating cost "baseline" for the forecast.

Insurance Costs. Insurance costs for both general liability and workers' compensation have been highly volatile. Based on discussions with Finance staff, insurance costs appear to have stabilized (albeit at high levels). The "baseline" operating costs reflect this.

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). Further information about the City's participation in CalPERS, factors that affect rates and unfunded actuarial liabilities (UAL) is detailed on pages 28 to 31. Stated simply, based on projections provided by CalPERS, the City is facing significant increases in funding the City's UAL over the next five years, summarized as follows:

Figure 17. UAL Payments: Current (2023-24) and Projected

UAL Contributions			
Fiscal Year Ending	Safety	Miscellaneous	Total
2024	$7,547,600	$4,185,600	$11,733,200
2025	8,953,700	4,763,000	13,716,700
2026	9,674,000	5,087,000	14,761,000
2027	10,375,000	5,403,000	15,778,000
2028	10,952,000	5,664,000	16,616,000
2029	12,166,000	6,213,000	18,379,000

1. For miscellaneous employees, reflects General Fund portion (80%); balance is allocated to other funds.
2. Does not reflect possible savings if City prepays full cost at beginning of the year.

Other Operating Costs. Remaining operating costs are projected to grow by inflation. These are largely within the control of the City. For example, staffing costs account for about 70% of operating General Fund operating expenditures. Staffing costs rise (or fall) based on two factors: authorized staffing levels and compensation. Both are within the control of the City. Since this report is a forecast and not the Budget, CPI is a reasonable basis for projecting these other costs.

Debt Service. Current debt service of $545,700 annually remains plus added debt service for the new Police Station beginning in 2026-27 as follows:

Figure 18. Police Station Debt Service

Annual Debt Service	
2026-27	$2,464,100
2027-28	3,901,500
2028-29	3,902,400

Reflects $52.9 million debt financed portion of $78.9 million project.
$26 million cash financed portion was paid in 2023-24.

Capital Project Costs (Transfers Out). This is based on a five-year average of CIP expenditures:

Figure 19. CIP Five-Year Average

CIP Projects	
2019-20	5,151,800
2020-21	1,803,600
2021-22	30,730,400
2022-23	8,960,400
2023-24	1,950,300
Five Year Average	$9,719,300

OTHER INTERFUND TRANSFERS

- Transfers-in stay flat from the 2023-24 Budget.
- Other transfers-out grow by inflation from the 2023-24 Budget.

STATE BUDGET ACTIONS

The forecast assumes no added cuts nor restoration of past takeaways from cities.

KEY ASSUMPTIONS

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 and property 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 Five Revenues

Accounting for 80% of General Fund revenues, the following summarizes forecast assumptions:

Figure 20. Key Revenue Growth Assumptions

Fiscal Year	Sales Tax	Prop Tax	UUT	Franchise	Bus Lic
2024-25	Flat	4.9%	3.5%	3.5%	3.5%
2025-26	2.8%	4.9%	3.0%	3.0%	3.0%
2026-27	2.9%	3.9%	2.0%	2.0%	2.0%
2027-28	2.9%	3.9%	2.0%	2.0%	2.0%
2028-29	2.9%	3.9%	2.0%	2.0%	2.0%

Other Revenues

- Development review permits and fees: flat from 2023-24 ($7.9 million).
- County landfill tipping fees: flat from 2023-24 ($4.6 million).
- Rialto Utility Authority (RUA) lease/contract payments: flat from 2023-24 ($3.1 million).
- Other revenues: flat or grow by inflation (3.5% to 2%).

FORECAST DETAIL

The following two schedules of Revenues, Expenditures and Changes in Fund Balance (Figure 21-1) and Assumptions Summary (Figure 21-2) provide detail for the underlying forecast results.

Figure 21-1. General Fund Five-Year Fiscal Forecast: Revenues, Expenditures and Changes in Fund Balance

	2021-22	2022-23	2023-24 Budget		FORECAST				
	Actual	Est Actual	Adopted	Projected	2024-25	2025-26	2026-27	2027-28	2028-29
Revenues and Transfers									
Sales Tax	$55,080,600	$57,433,100	$50,293,700	$54,955,300	$54,955,300	$56,494,000	$58,132,300	$59,818,100	$61,552,800
General Property Tax	15,906,700	18,030,300	14,505,600	18,751,500	19,670,300	20,634,100	21,438,800	22,274,900	23,165,900
VLF Swap Property Tax	17,273,500	18,946,800	17,449,500	19,704,700	20,670,200	21,683,000	22,528,600	23,407,200	24,343,500
Utility Users Tax	16,589,200	19,121,600	12,435,600	19,695,200	20,384,500	20,996,000	21,415,900	21,844,200	22,281,100
Franchise Fees	4,725,700	5,180,400	4,405,000	5,335,800	5,522,600	5,688,300	5,802,100	5,918,100	6,036,500
Other Taxes	2,409,500	1,738,700	1,670,200	1,790,900	1,853,600	1,909,200	1,947,400	1,986,300	2,026,000
Permit and Service Charges									
Business Licenses	3,738,400	3,649,500	3,500,000	3,759,000	3,890,600	4,007,300	4,087,400	4,169,100	4,252,500
Development Review	8,123,200	10,115,000	7,865,100	7,865,100	7,865,100	7,865,100	7,865,100	7,865,100	7,865,100
Other Permit and Service Charges	3,022,600	8,052,000	5,356,500	5,356,500	5,356,500	5,356,500	5,356,500	5,356,500	5,356,500
From Other Agencies									
County Landfill Tipping	3,117,600	4,585,600	4,600,000	4,600,000	4,600,000	4,600,000	4,600,000	4,600,000	4,600,000
Other From Other Agencies	1,742,900	431,300	644,800	644,800	120,000	120,000	120,000	120,000	120,000
RUA Lease and Contract Payments	3,141,200	3,164,000	3,140,500	3,140,500	3,140,500	3,140,500	3,140,500	3,140,500	3,140,500
Other Revenues	1,419,400	4,910,400	3,386,500	3,386,500	3,386,500	3,386,500	3,386,500	3,386,500	3,386,500
Transfers In	9,950,400	838,500	228,000	228,000	228,000	228,000	228,000	228,000	228,000
Total Revenues	**146,240,900**	**156,197,200**	**129,481,000**	**149,213,800**	**151,643,700**	**156,108,500**	**160,049,100**	**164,114,500**	**168,354,900**
Expenditures									
Operating Costs	119,456,700	124,801,000	125,396,800	125,396,800	131,272,300	135,807,000	139,202,100	142,478,000	146,671,100
Debt Service	529,800	547,000	545,700	545,700	545,700	545,700	3,009,700	4,447,200	4,448,100
Transfers Out									
Capital Projects	30,730,400	8,960,400	1,950,300	1,950,300	9,719,300	9,719,300	9,719,300	9,719,300	9,719,300
New Police Station: Cash Share				26,000,000	-	-	-	-	-
Other Funds	18,442,800	3,806,600	1,398,000	1,398,000	1,446,900	1,490,300	1,520,100	1,550,500	1,581,500
Total Expenditures	**169,159,700**	**138,115,000**	**129,290,800**	**155,290,800**	**142,984,200**	**147,562,300**	**153,451,200**	**158,195,000**	**162,420,000**
Revenues Over (Under) Expenditures	**(22,918,800)**	**18,082,200**	**190,200**	**(6,077,000)**	**8,659,500**	**8,546,200**	**6,597,900**	**5,919,500**	**5,934,900**
Fund Balance, Beginning of Year	104,586,900	81,668,100	74,350,500	99,750,300	93,673,300	102,332,800	110,879,000	117,476,900	123,396,400
Fund Balance, End of Year	**81,668,100**	**99,750,300**	**74,540,700**	**93,673,300**	**102,332,800**	**110,879,000**	**117,476,900**	**123,396,400**	**129,331,300**
Unspendable	24,456,200	24,456,200	24,456,200	24,456,200	24,456,200	24,456,200	24,456,200	24,456,200	24,456,200
Available	57,211,900	75,294,100	50,084,500	69,217,100	77,876,600	86,422,800	93,020,700	98,940,200	104,875,100

Figure 21-2. Assumptions Summary

		2024-25	2025-26	2026-27	2027-28	2028-29
Inflation		3.5%	3.0%	2.0%	2.0%	2.0%
REVENUES & OTHER SOURCES						
Sales Tax		Flat	2.8%	2.9%	2.9%	2.9%
General Property Tax		4.9%	4.9%	3.9%	3.9%	4.0%
VLF Swap Property Tax		4.9%	4.9%	3.9%	3.9%	4.0%
Utility Users Tax		3.5%	3.0%	2.0%	2.0%	2.0%
Franchise Fees		3.5%	3.0%	2.0%	2.0%	2.0%
Other Taxes		3.5%	3.0%	2.0%	2.0%	2.0%
Business Licenses		3.5%	3.0%	2.0%	2.0%	2.0%
Development Review Service Charges: Stays flat from 2023-24 Baseline						
Other Permit and Service Charges: Stays flat from 2023-24 Baseline						
County Landfill Tipping						
Stays flat during forecast period		4,600,000	4,600,000	4,600,000	4,600,000	4,600,000
Revenues from other governments: Motor Vehicle in-Lieu (Flat fom 2023-24 Baseline		120,000	120,000	120,000	120,000	120,000
RUA Lease and Contract Payments						
Stays flat during forecast period		3,140,500	3,140,500	3,140,500	3,140,500	3,140,500
Other Revenues: Stay flat from 2023-24 baseline		3,506,500	3,506,500	3,506,500	3,506,500	3,506,500
Transfers In: Stay flat from 2023-24 Baseline		228,000	228,000	228,000	228,000	228,000
EXPENDITURES						
Operating Costs						
CalPERS Unfunded Actuarial Liability (UAL) Contributions						
Safety Employees	7,547,600	8,953,700	9,674,000	10,375,000	10,952,000	12,166,000
Miscellaneous Employees (80% of total: balance allocated to other funds)	3,348,500	3,810,400	4,069,600	4,322,400	4,531,200	4,970,400
Total CalPERS UAL	10,896,100	12,764,100	13,743,600	14,697,400	15,483,200	17,136,400
Other Operating Costs: grow by inflation from 2023-24 baseline	114,500,700	118,508,200	122,063,400	124,504,700	126,994,800	129,534,700
Total Operating Costs	125,396,800	131,272,300	135,807,000	139,202,100	142,478,000	146,671,100
Debt Service						
Current		545,700	545,700	545,700	545,700	545,700
Police Station Debt servivc on 30 year financed share of $78.9 miillion project: $52.9 million				2,464,000	3,901,500	3,902,400
Total Debt Service		545,700	545,700	3,009,700	4,447,200	4,448,100
Transfers Out						
Capital Projects: Average of 5 years: 2019-20 to 2023-24		9,719,300	9,719,300	9,719,300	9,719,300	9,719,300
New Police Station: Pay-as-you-go funding share of $78.9 million project	26,000,000					
Other Funds: Grow by inflation from 2023-24 baseline		1,446,900	1,490,300	1,520,100	1,550,500	1,581,500

CURRENT FISCAL CONDITION AND HISTORICAL TRENDS

Unless otherwise indicated, the source of data is the City of Rialto.

EXPENDITURE AND REVENUE SUMMARIES

The following presents summaries based on the 2023-24 Budget for: all City expenditures by funding source; General Fund expenditures by major category (operating, capital, debt service and transfers out); operating costs (day-to-day delivery of services) by type; and operating costs by Department. This is followed by 2023-24 General Fund revenues by source.

Figure 22. City Expenditure Funding Sources

Funding Sources: 2023-24 Budget		
Source	Amount	% Total
General Fund	129,291	57.2%
Rialto Utility Authority	54,633	24.2%
Special Revenue Funds	17,370	7.7%
Internal Service Funds	11,099	4.9%
Successor Agency	10,845	4.8%
Other Funds	2,763	1.2%
Total	**$226,001**	**100.0%**

In Thousands of Dollars

The General Fund accounts for almost 60% of total expenditures and is the focus of this forecast.

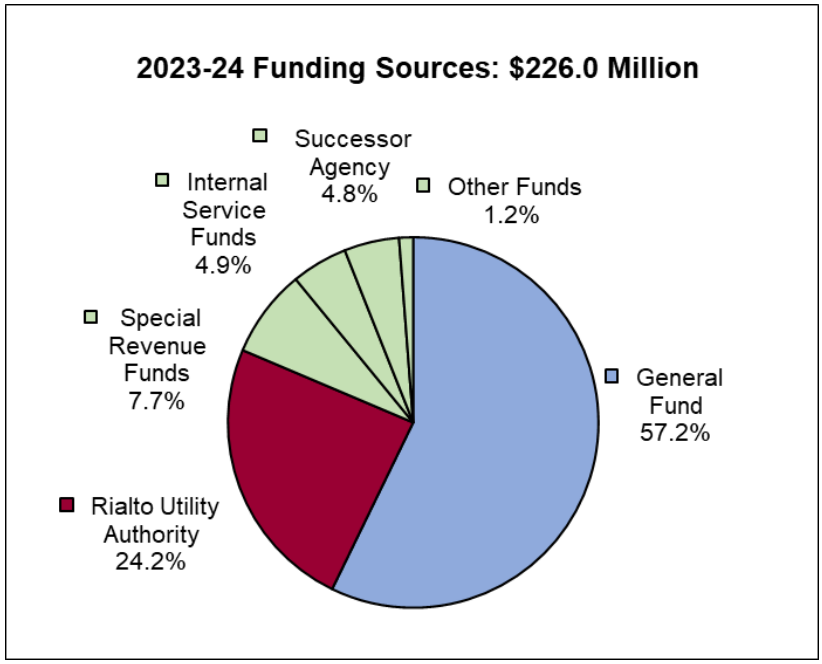


Figure 23. General Fund Expenditures

General Fund Expenditures: 2023-24 Budget		
Function	Amount	% Total
Operating	125,404	97.0%
Transfers Out: Capital Outlay	1,950	1.5%
Other Transfers Out	1,398	1.1%
Debt Service	539	0.4%
Total	**$129,291**	**100.0%**

In Thousands of Dollars

Day-to-day services – arresting bad guys, putting-out fires and patching streets (operating costs) account for over 95% of General Fund costs in the 2023-24 Budget.

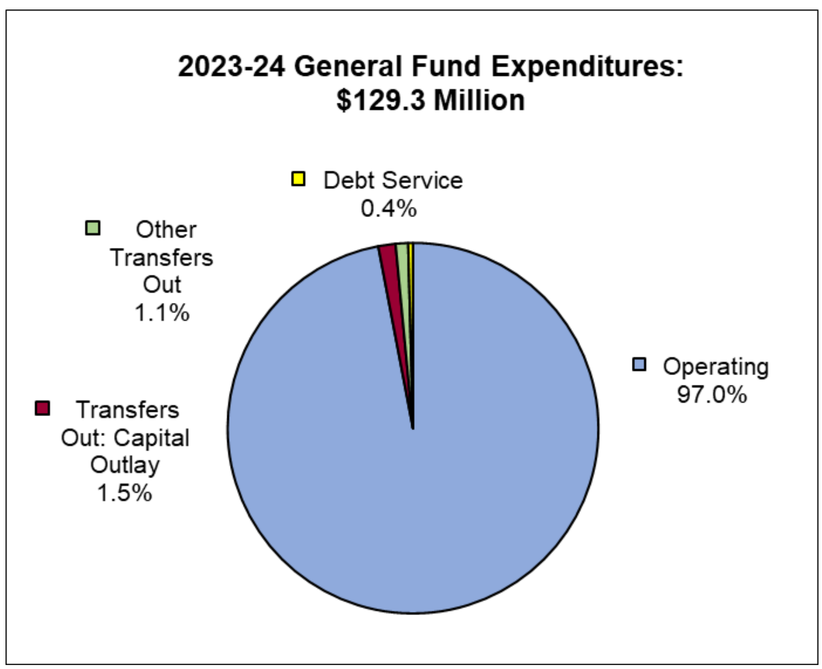


Figure 24. General Fund Operating Costs

General Fund Operating Costs: 2023-24 Budget		
Function	Amount	% Total
Staffing	85,303	68.0%
CalPERS UAL Payment	10,664	8.5%
Supplies and Services	29,437	23.5%
Total	**$125,404**	**100.0%**

In Thousands of Dollars

Staffing is the largest type of operating costs, accounting for 77% of costs, including payments to the California Public Employees Retirement System (CalPERS) for the amortization of unfunded actuarial liability (UAL) pension costs.

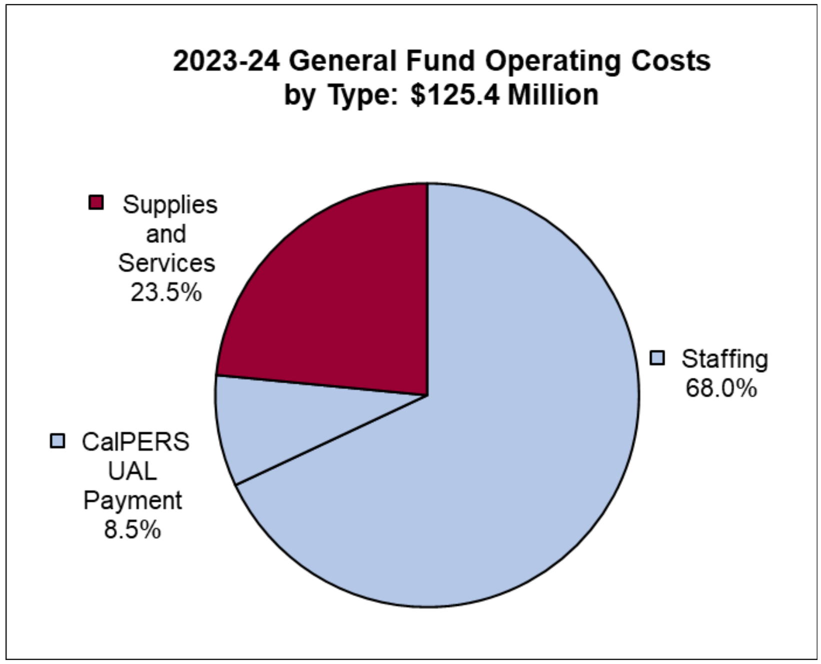


Figure 25. General Fund Operating Costs

General Fund Operating Costs: 2023-24 Budget		
Function	Amount	% Total
Public Safety	67,156	54%
Public Works	16,916	13%
Community Services	9,093	7%
Community Development	5,203	4%
CalPERS UAL Payment	10,664	9%
Support Services	16,372	13%
Total	**$125,404**	**100%**

Public Safety services – Police and Fire Departments – account for over 50% of General Fund operating costs.

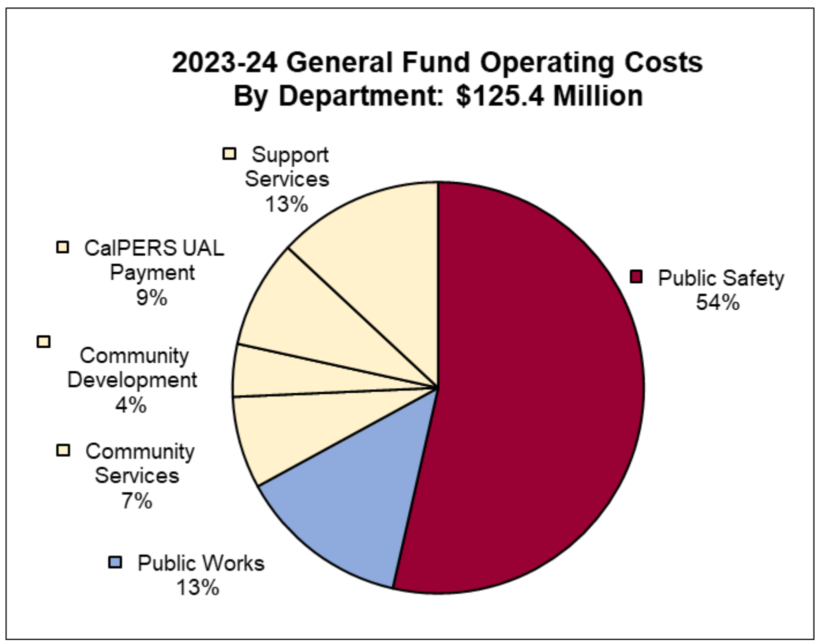
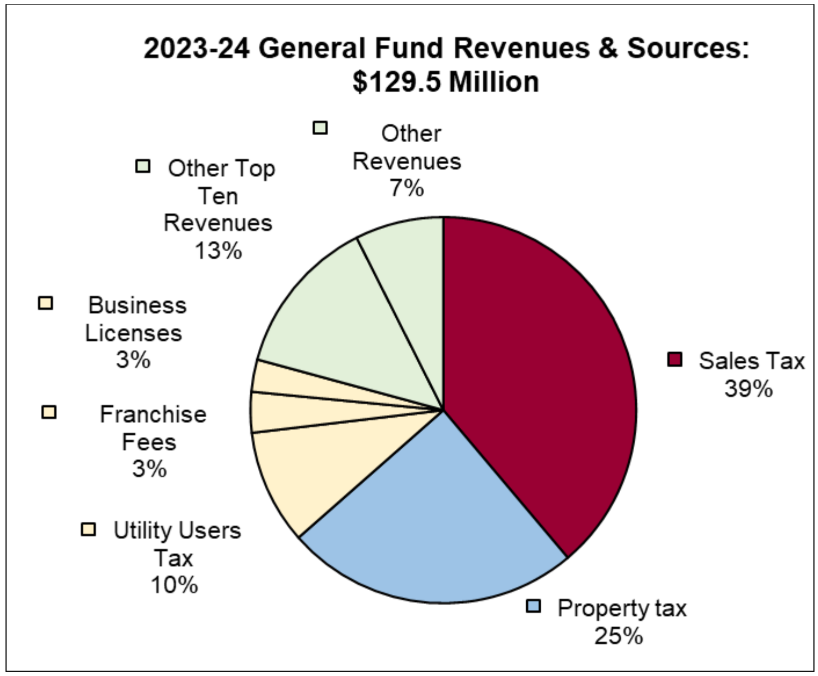


Figure 26. General Fund Revenues

General Fund Revenues: 2023-24 Budget		
Source	Amount	% Total
Sales Tax	50,294	39%
General Property Tax	14,506	11%
VLF Swap Property Tax	17,450	13%
Utility Users Tax	12,436	10%
Franchise Fees	4,405	3%
Business Licenses	3,500	3%
Development Review	7,865	6%
County Landfill Tipping	4,600	4%
RUA Lease/Contract Payments	3,141	2%
Other Taxes	1,670	1%
Total Top Ten Revenues	**119,867**	**93%**
Other Revenues	9,614	7%
Total	**$129,481**	**100%**

In Thousands of Dollars



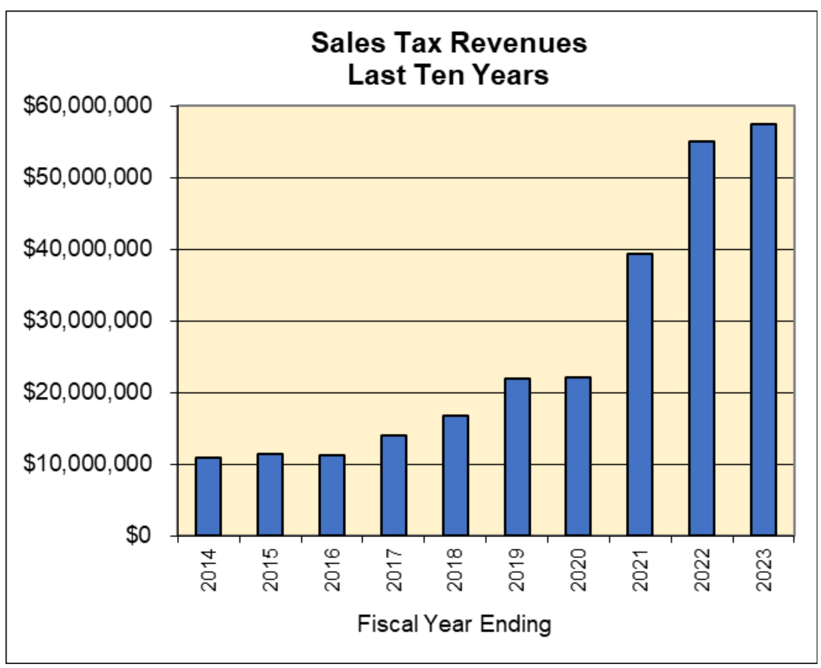
- Sales tax is the largest General Fund revenue, accounting for almost 40% of total sources.
- The "Top 5" revenues – sales tax, property tax (general and vehicle license fee swap), utility users tax, franchise fees and business licenses – account for 80% of total sources. These are the focus of the following revenue trends.
- Top 10 revenues account for 93% of total sources and are the focus of forecast revenue projections.

GENERAL FUND REVENUE TRENDS

The following tables and charts show long and short-term General Fund trends for the "Top Five" revenue sources (sales tax, property tax (general and VLF Swap), utility users tax, franchise fees and business licenses), which account for 80% of total sources.

Figure 27. Sales Tax Revenues

Sales Tax Trends		
Fiscal Year Ending	Amount	% Change
2014	11,007,200	
2015	11,471,800	4.2%
2016	11,336,300	-1.2%
2017	13,950,600	23.1%
2018	16,828,500	20.6%
2019	21,980,100	30.6%
2020	22,172,200	0.9%
2021	39,384,900	77.6%
2022	55,080,600	39.9%
2023	57,433,100	4.3%
Average Annual % Change		
Last 2 Years		22.1%
Last 5 Years		30.6%
Last 9 Years		22.2%



Especially in light of the Covid-19 downturn experienced by most California cities, the City has seen tremendous growth in sales tax revenues. For context:

CURRENT FISCAL CONDITION AND HISTORICAL TRENDS

- Sales tax revenues have increased almost six-fold over the past ten years.
- Almost tripled in the last five years.
- And almost doubled in the last two years, leveling-off in 2022-23.

As shown below, this is largely due to very strong business-to-business sales.

Figure 28. Sales Tax By Source

Sales Tax Revenues By Source		
Source	Amount	% Total
Business & Industry	34,833	70%
Fuel & Service Stations	4,087	8%
Restaurants & Hotels	2,749	6%
General Consumer Goods	2,667	5%
Building & Construction	2,576	5%
Autos & Transportation	1,533	3%
Food & Drugs	984	2%
Total	**$49,429**	**100%**

Excludes County and State Pool

The strength and resiliency of the City's sales tax revenues are reflected by the sources of these revenues, with "business and industy" (largely bsusiness-to-business sales) accounting for over 70% of total revenues (excluding the County and State pools).

Statewide, this source account for about 20% of sales tax revenues.

Source: HdL

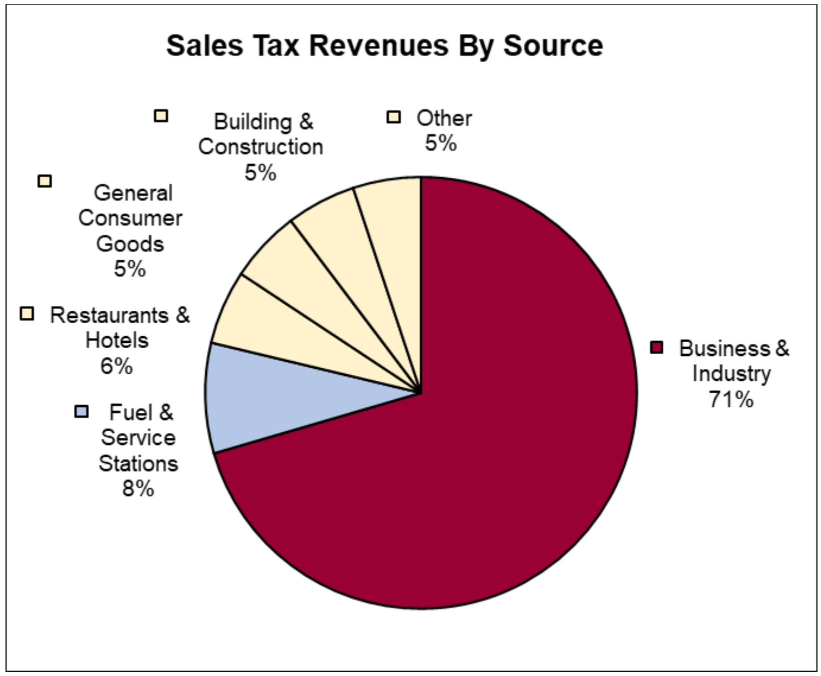


Figure 29. General Property Taxes

General Property Tax Trends		
Fiscal Year Ending	Amount	% Change
2014	6,353,100	
2015	7,796,200	22.7%
2016	8,437,400	8.2%
2017	9,150,900	8.5%
2018	11,044,300	20.7%
2019	13,135,600	18.9%
2020	12,527,500	-4.6%
2021	13,896,000	10.9%
2022	15,906,700	14.5%
2023	18,030,300	13.4%
Average Annual % Change		
Last 2 Years		13.9%
Last 5 Years		10.6%
Last 9 Years		12.6%

Along with the "VLF Swap," this revenue source is largely driven by changes in assessed value along with complicated State property tax apportionment procedures. (The City does not set its own rate: apportionments of the 1% levy among local agencies are determined by the State.)

Except for a modest decrease in 2019-20, this revenue source has shown steady growth over the past ten years.

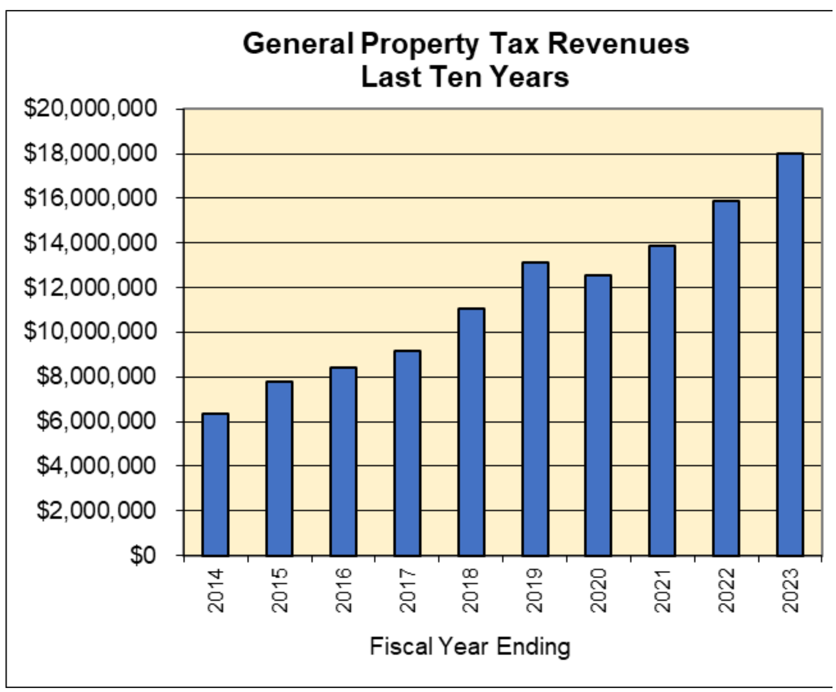
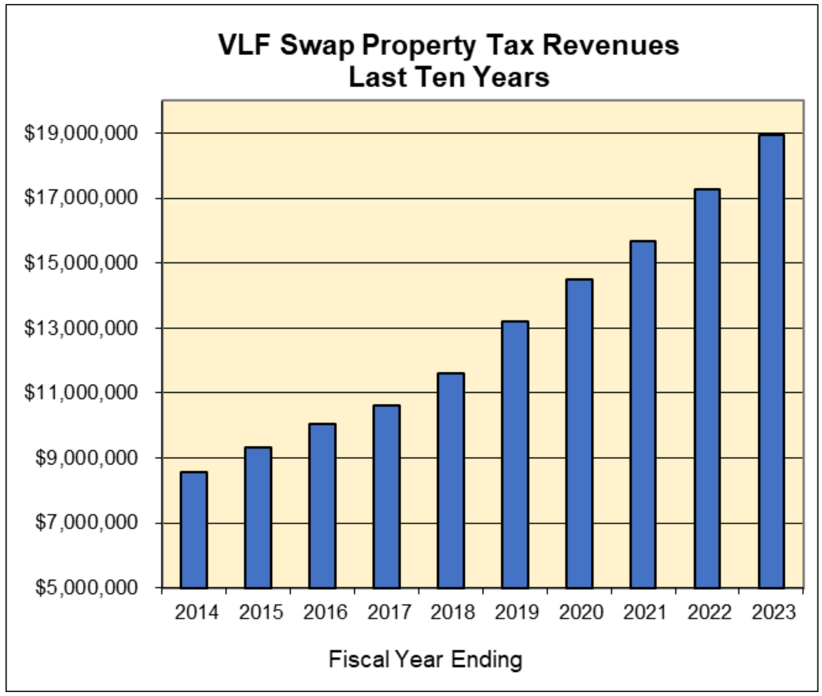


Figure 30. VLF Swap Property Taxes

VLF Swap Property Tax Revenue Trends		
Fiscal Year Ending	Amount	% Change
2014	8,561,100	
2015	9,340,300	9.1%
2016	10,043,400	7.5%
2017	10,622,300	5.8%
2018	11,625,900	9.4%
2019	13,212,700	13.6%
2020	14,478,100	9.6%
2021	15,656,200	8.1%
2022	17,273,200	10.3%
2023	18,946,800	9.7%
Average Annual % Change		
Last 2 Years		10.0%
Last 5 Years		10.3%
Last 9 Years		9.2%

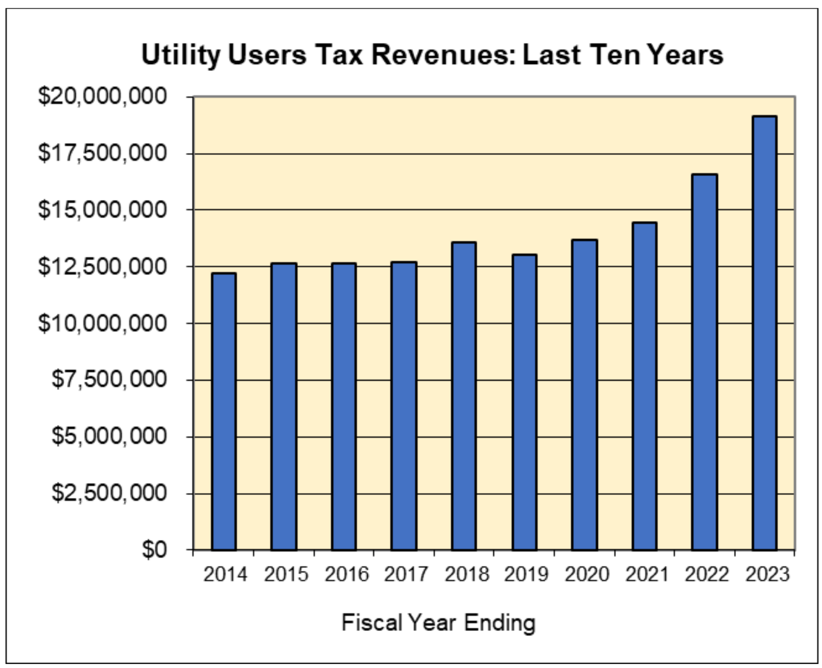


"VLF swap" property tax revenues result from a "swap" of vehicle license fee subventions from the State for a commensurate share of property tax revenues in 2004.

Along with general property taxes, this revenue source is largely driven by changes in assessed value along with complicated State property tax apportionment procedures. It has also shown steady growth over the past ten years.

Figure 31. Utility User Taxes

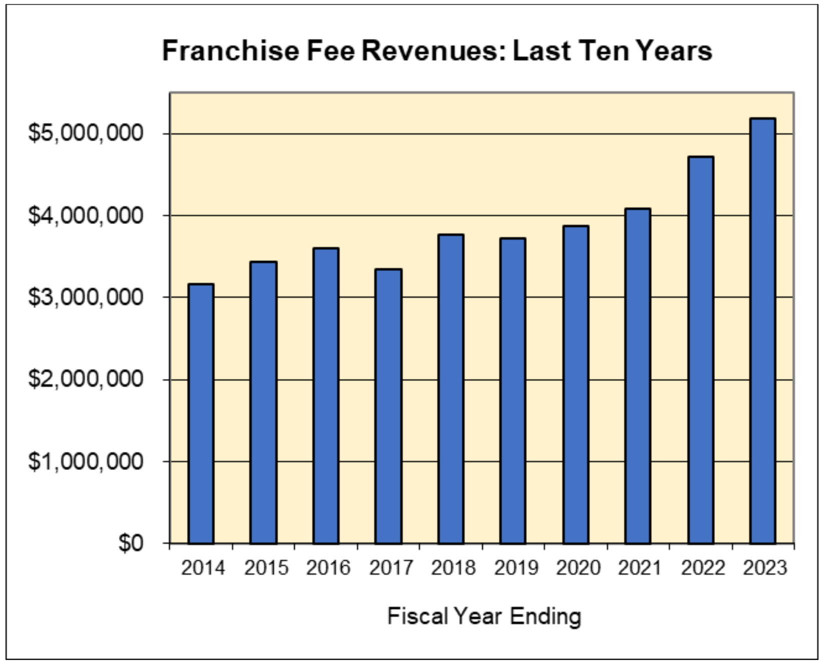
Utility Users Tax Trends		
Fiscal Year Ending	Amount	% Change
2014	12,191,900	
2015	12,634,000	3.6%
2016	12,670,500	0.3%
2017	12,731,100	0.5%
2018	13,592,500	6.8%
2019	13,035,900	-4.1%
2020	13,664,200	4.8%
2021	14,470,400	5.9%
2022	16,589,200	14.6%
2023	19,121,600	15.3%
Average Annual % Change		
Last 2 Years		15.0%
Last 5 Years		7.3%
Last 9 Years		5.3%



This revenue source was stable through 2020-21. However, it has grown significantly over the past two years. This is largely due to increased electicity sales at new non-residential developments.

Figure 32. Franchise Fees

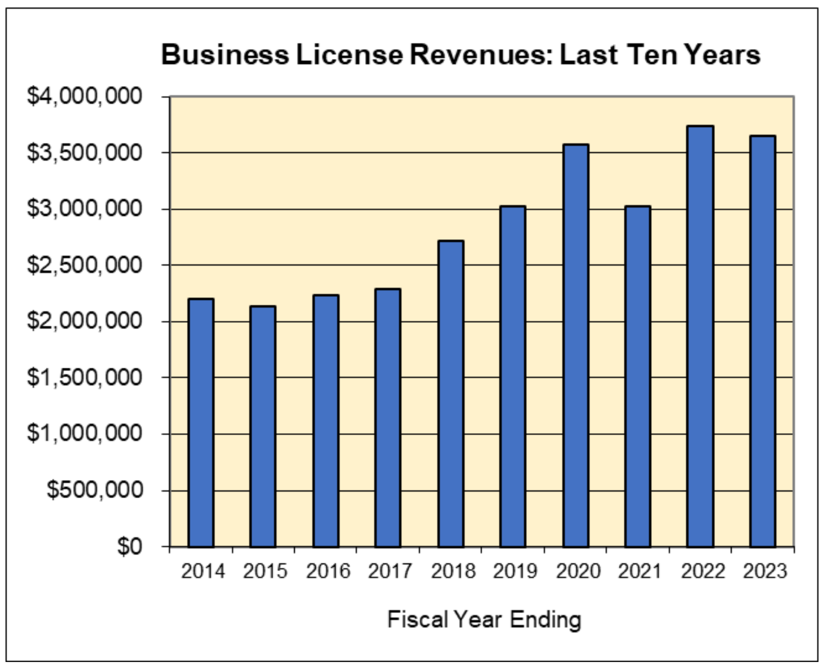
Franchise Fee Revenue Trends		
Fiscal Year Ending	Amount	% Change
2014	3,158,000	
2015	3,429,900	8.6%
2016	3,602,000	5.0%
2017	3,349,600	-7.0%
2018	3,764,400	12.4%
2019	3,725,400	-1.0%
2020	3,871,000	3.9%
2021	4,092,900	5.7%
2022	4,725,700	15.5%
2023	5,180,400	9.6%
Average Annual % Change		
Last 2 Years		12.5%
Last 5 Years		6.7%
Last 9 Years		5.9%



Changes in this revenue source over the past ten years closely mirror utility users taxes, since the underlying revenue base (notably electricity and natural gas sales) are similar.

Figure 33. Business Licenses

Business License Revenue Trends		
Fiscal Year Ending	Amount	% Change
2014	2,196,800	
2015	2,131,600	-3.0%
2016	2,237,100	4.9%
2017	2,290,400	2.4%
2018	2,713,700	18.5%
2019	3,024,800	11.5%
2020	3,570,300	18.0%
2021	3,028,000	-15.2%
2022	3,738,400	23.5%
2023	3,649,500	-2.4%
Average Annual % Change		
Last 2 Years		10.5%
Last 5 Years		7.1%
Last 9 Years		6.5%



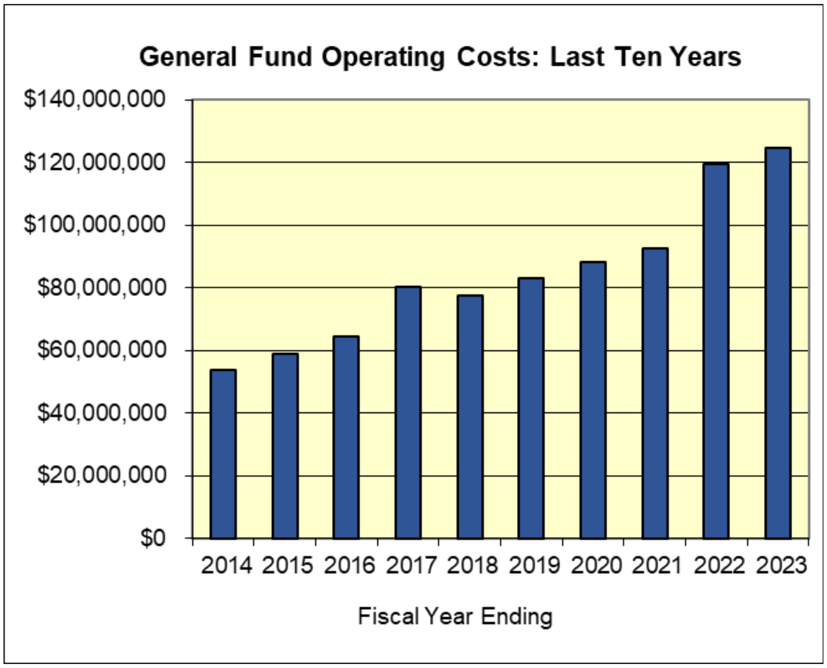
Revenues remained flat for four years from 2013-14 to 2016-17. They then rose sharply for the next three years (2017-18 to 2019-20). However, revenues decreased in 2020-21 due to Covid-19 impacts. Revenues recovered in 2021-22 and have stable since then.

GENERAL FUND EXPENDITURE TRENDS

The following presents General Fund total operating costs and for public safety – Police and Fire, which account for over 50% of total operating costs. It also presents City-wide general liability and workers compensation insurance costs, which have been volatile and significant cost drivers for many cities in California. As shown below, it has also been a volatile cost area for the City as well.

Figure 34. General Fund Operating Costs

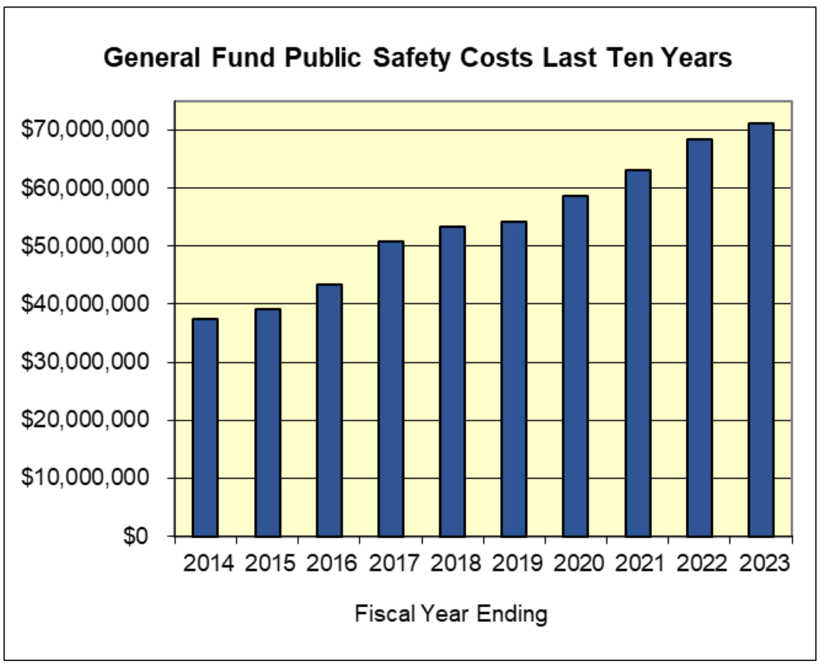
Operating Costs		
Fiscal Year Ending	Amount	% Change
2014	53,806,200	
2015	59,056,800	9.8%
2016	64,680,200	9.5%
2017	80,265,300	24.1%
2018	77,740,300	-3.1%
2019	83,044,600	6.8%
2020	88,391,600	6.4%
2021	92,738,300	4.9%
2022	119,456,700	28.8%
2023	124,801,000	4.5%
Average Annual % Change		
Last 2 Years		16.6%
Last 5 Years		11.2%
Last 9 Years		10.2%



In the middle five years (2016-17 to 2020-21), costs were stable, increasing by an average of 3.8% per year. The significant increase in 2021-22 is skewed by the close-out of the building maintenance, vehicle maintenance and IT internal service funds and parks & recreation fund in 2021-22, and the transfer of costs to General Fund. After this transfer, costs again stabilized.

Figure 35. General Fund Public Safety Costs

General Fund Public Safety Costs		
Fiscal Year Ending	Amount	% Change
2014	37,422,700	
2015	39,075,600	4.4%
2016	43,306,100	10.8%
2017	50,864,900	17.5%
2018	53,280,000	4.7%
2019	54,270,100	1.9%
2020	58,704,100	8.2%
2021	63,068,200	7.4%
2022	68,319,600	8.3%
2023	71,081,900	4.0%
Average Annual % Change		
Last 2 Years		6.2%
Last 5 Years		6.0%
Last 9 Years		7.5%

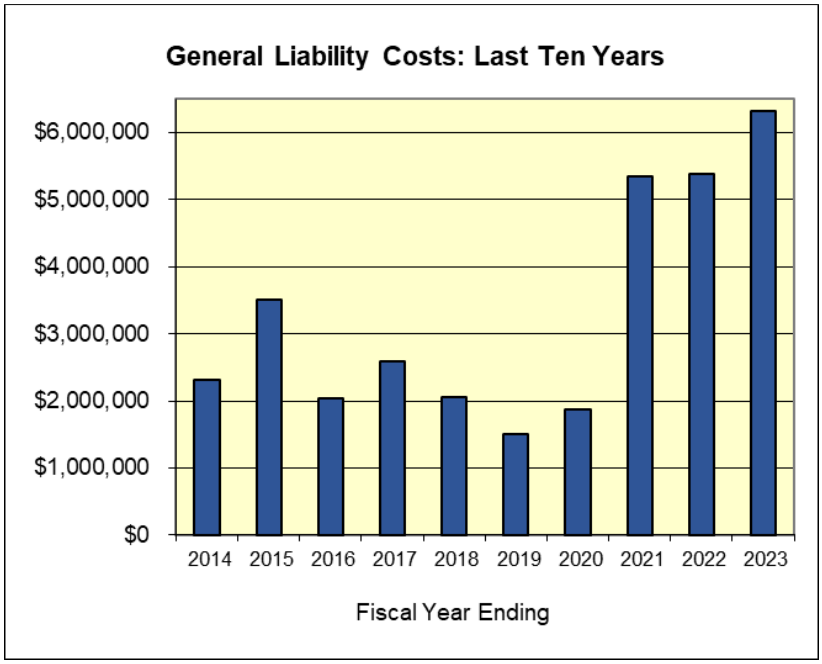


Public Safety costs (Police and Fire) are unaffected by these transfers and have risen steadily over the past ten years.

Figure 36. General Liability Costs

General Liability Cost Trends		
Fiscal Year Ending	Amount	% Change
2014	2,311,700	
2015	3,498,600	51.3%
2016	2,043,800	-41.6%
2017	2,582,400	26.4%
2018	2,052,600	-20.5%
2019	1,506,300	-26.6%
2020	1,866,300	23.9%
2021	5,343,900	186.3%
2022	5,388,800	0.8%
2023	6,323,900	17.4%
Average Annual % Change		
Last 2 Years		9.1%
Last 5 Years		40.4%
Last 9 Years		24.2%

City-Wide: All Funds Combined

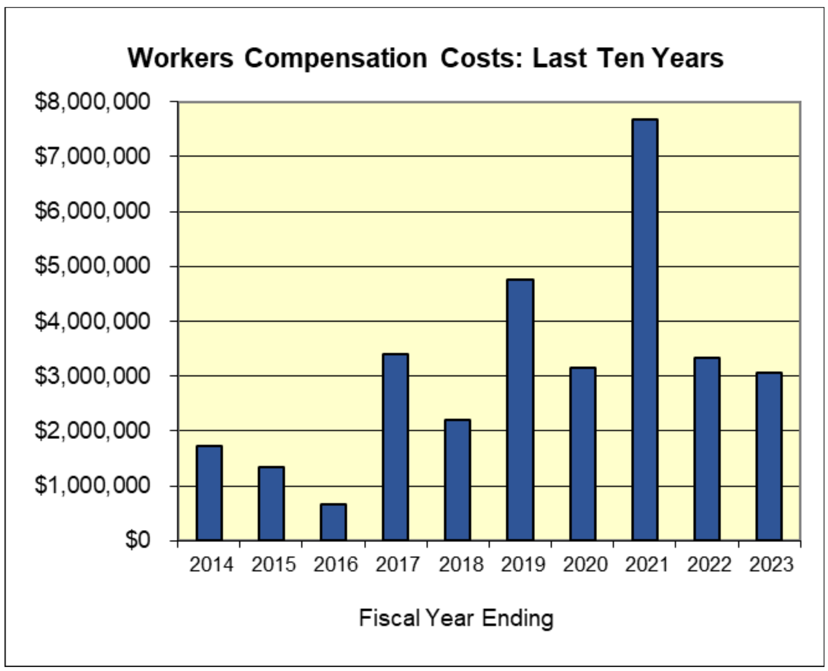


These have been among the City's most volatile costs, growing significantly in 2020-21 and again in 2022-23. Moreover, the 2023-24 Budget projects this cost to further grow to $8.1 million. With this increase, Finance staff believe that liability costs have stabilized.

Figure 37. Workers Compensation Costs

Workers Compensation Cost Trends		
Fiscal Year Ending	Amount	% Change
2014	1,728,700	
2015	1,350,200	-21.9%
2016	670,300	-50.4%
2017	3,391,900	406.0%
2018	2,198,900	-35.2%
2019	4,766,300	116.8%
2020	3,150,500	-33.9%
2021	7,683,500	143.9%
2022	3,321,800	-56.8%
2023	3,052,300	-8.1%
Average Annual % Change		
Last 2 Years		-32.4%
Last 5 Years		32.4%
Last 9 Years		51.2%

City-Wide: All Funds Combined



These have also been among the City's most volatile costs but appear to have stabilized.

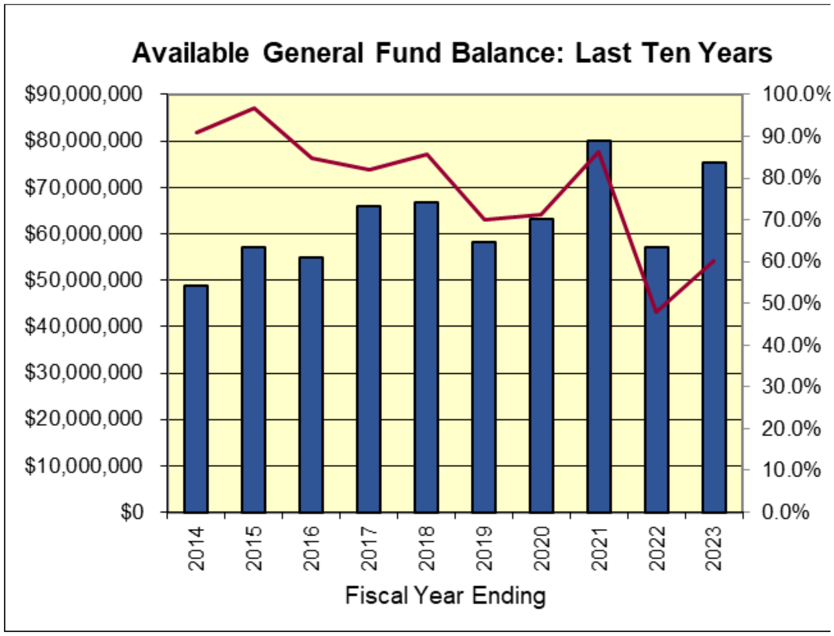
GENERAL FUND BALANCE

As reflected below, the City has maintained very strong reserves over the past ten years. Past draw drowns have been for one-time purposes such as capital projects. Even so, available fund balance (excluding non-spendable balances, largely advances to other funds) estimated reserves on June 30, 2023 were about 60% of operating costs, compared with target minimum fund balance of 30%.

Figure 38. Available General Fund Balance

Available General Fund Balance		
Fiscal Year Ending	Amount	% Operating Costs
2014	48,861,900	90.8%
2015	57,071,900	96.6%
2016	54,750,000	84.6%
2017	65,844,100	82.0%
2018	66,728,700	85.8%
2019	58,246,800	70.1%
2020	63,122,000	71.4%
2021	80,151,042	86.4%
2022	57,211,900	47.9%
2023	75,294,100	60.3%

Excludes non-spendable balances, largely advances to other funds.



The City has maintained very strong available fund balances over the past ten years. The line graph shows fund balance as a percentage of operating costs. While fund balance also decreased, the drop in 2021-22 is largely due the transfer of building maintenance, vehicle maintenance and IT internal service funds and parks & recreation costs to the General Fund as discussed above, which increased the "denominator" in calculating this ratio. It rebounded in 2022-23 as the base stabilized and available fund balance increased.

CALPERS PENSION COSTS

Overview

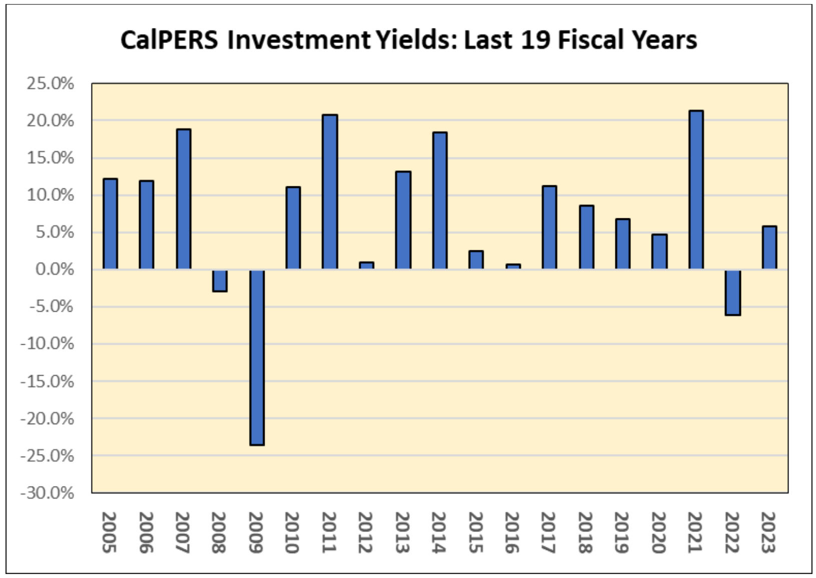
The City currently provides defined pension benefits to its regular employees through its contract with the California Public Employees Retirement System (CalPERS), which serves as the "Plan Administrator."

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 over 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 2.2 million members and managing $465 billion in assets as of June 2023.

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, over the past 20 years, about 40% of CalPERS retirement benefit payments were funded by employee and employer contributions: the other 60% was funded from investment yields. Small changes in this rate – up or down – can significantly affect funding. CalPERS current actuarial assumption for investment earnings is 6.8%. For context, the following presents CalPERS investment earnings for the last nineteen years.

Figure 39. CalPERS Investment Yields

CalPERS Investment Yields		
Fiscal Year Ending	Yield	Change
2005	12.2%	
2006	11.9%	-0.3%
2007	18.8%	6.9%
2008	-2.9%	-21.7%
2009	-23.6%	-20.7%
2010	11.1%	34.7%
2011	20.7%	9.6%
2012	1.0%	-19.7%
2013	13.2%	12.2%
2014	18.4%	5.2%
2015	2.4%	-16.0%
2016	0.6%	-1.8%
2017	11.2%	10.6%
2018	8.6%	-2.6%
2019	6.7%	-1.9%
2020	4.7%	-2.0%
2021	21.3%	16.6%
2022	-6.1%	-27.4%
2023	5.8%	11.9%
Average Net Return (as of June 30, 2023)		
Last 5 Years		6.7%
Last 10 Years		7.7%
Last 20 Years		6.9%
Last 30 Years		7.7%



Source: CalPERS, https://www.calpers.ca.gov/docs/forms-publications/facts-investments.pdf

As reflected in this sidebar graph, there have been significant swings from year-to-year over the past nineteen years, ranging from gains of 20+% in 2010-11 and 2021-22, to a negative 23.6% in 2008-09 (the "Great Recession").

City Pension Plans

The City currently has two basic retirement plans with CalPERS:

- ***Safety.*** Sworn employees like police officers and firefighters.
- ***Miscellaneous.*** All other regular employees.

Within each group, there are "classic employees" hired before 2013; and "PEPRA employees" hired after December 31, 2012 (see sidebar chart for a description of these two employee types).

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 (amounts due to employees when they retire that are greater than plan assets).

At this point, the City's "normal" contributions have largely stabilized and are not expected to grow significantly in the future.

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 vested 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.

However, if there are adverse actuarial results, such as lower investment yields, this will be reflected in the UAL payment. As noted above, while normal cost rates have stabilized, UAL payments continue to rise.
The following summarizes City-wide trends in normal cost rates and the UAL (all funds combined).

Normal Cost Contribution Rates. For "normal costs," contributions are based on rates applied against actual payroll costs. (Payroll costs are based on "regular" wages, and as such, exclude earnings such as overtime.) The following summarizes actual "normal cost" employer payroll contribution rates for Safety and Miscellaneous employees) for the last ten years (2014-15 through 2023-24); and projected rates for 2024-25 through 2028-29. (Employees also make contributions in addition to these rates). As noted above, these rates have stabilized; and CalPERS projects that they will decline slightly beginning in 2024-25.

Figure 40. City Normal Rate: Safety

Employer Normal Cost Rate: Safety	
Fiscal Year Ending	Rate
2015	22.1%
2016	22.1%
2017	22.2%
2018	22.6%
2019	23.1%
2020	23.4%
2021	24.7%
2022	25.2%
2023	24.5%
2024	26.4%
2025*	25.3%
2026*	24.5%
2027*	23.8%
2028*	23.1%
2029*	22.5%

** Projected*

Source: CalPERS Actuarial Valuation, July 2023

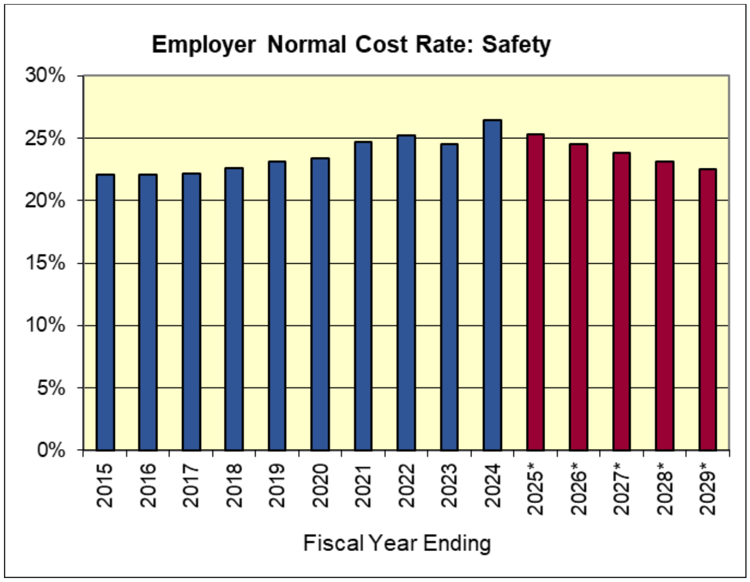
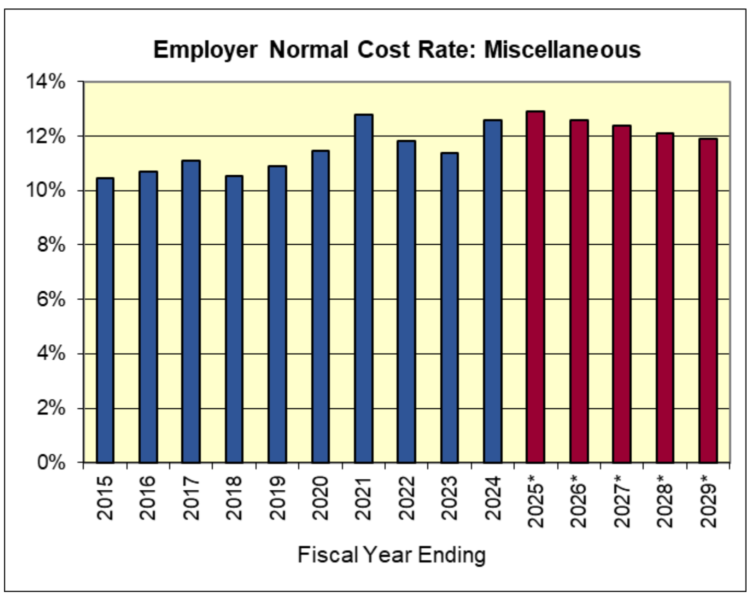


Figure 41. City Normal Rate: Miscellaneous

Employer Normal Cost Rate: Miscellaneous	
Fiscal Year Ending	Rate
2015	10.4%
2016	10.7%
2017	11.1%
2018	10.5%
2019	10.9%
2020	11.5%
2021	12.8%
2022	11.8%
2023	11.4%
2024	12.6%
2025*	12.9%
2026*	12.6%
2027*	12.4%
2028*	12.1%
2029*	11.9%

** Projected*

Source: CalPERS Actuarial Valuation, July 2023



UAL Costs. The annual UAL cost in amortizing unfunded liabilities is a fixed cost, The following summarizes actual UAL costs for 2017-18 through 2023-24; and projections for 2024-25 through 2028-29.

CURRENT FISCAL CONDITION AND HISTORICAL TRENDS

As reflected in Figures 42 and 43 below, while normal costs have stabilized, UAL costs have not: they have risen significantly since phased-in rate increases began in 2017-18; and in accordance with CalPERS' phase-in plan, will continue to rise through 2028-29 and then stabilize.

Figure 42. UAL Costs: Safety

UAL Costs: Safety		
Fiscal Year Ending	Safety	% Increase
2018	5,136,900	
2019	5,852,300	13.9%
2020	6,584,800	12.5%
2021	6,971,100	5.9%
2022	7,787,900	11.7%
2023	8,666,700	11.3%
2024	7,547,600	-12.9%
2025*	8,953,700	18.6%
2026*	9,674,000	8.0%
2027*	10,375,000	7.2%
2028*	10,952,000	5.6%
2029*	12,166,000	11.1%

** Projected*

Percent Increase: Current (2023-24) to 2028-29 | 61%

Source: CalPERS Actuarial Valuation, July 2023

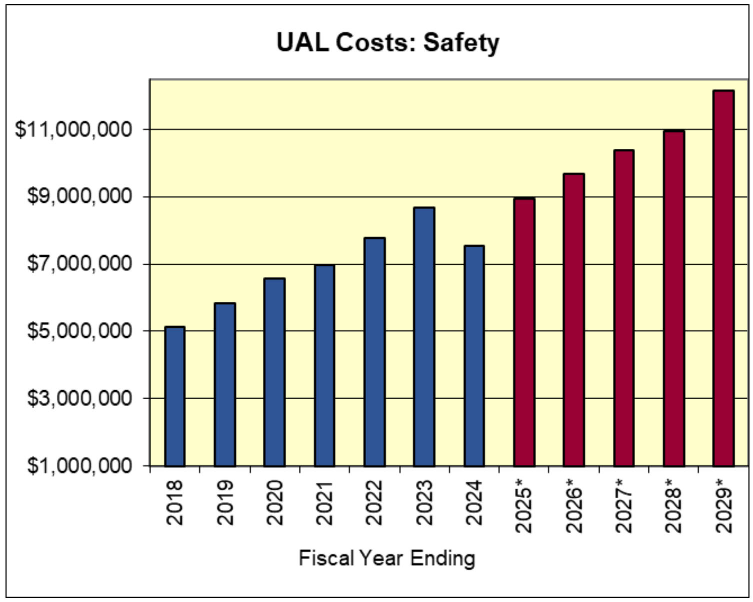


Figure 43. UAL Costs: Miscellaneous

UAL Costs: Miscellaneous		
Fiscal Year Ending	Amount	% Increase
2018	2,361,000	
2019	2,701,900	14.4%
2020	3,065,900	13.5%
2021	3,303,800	7.8%
2022	3,824,400	15.8%
2023	4,120,000	7.7%
2024	4,309,000	4.6%
2025*	4,763,000	10.5%
2026*	5,087,000	6.8%
2027*	5,403,000	6.2%
2028*	5,664,000	4.8%
2029*	6,213,000	9.7%

** Projected*

Percent Increase: Current (2023-24) to 2028-29 | 44%

Source: CalPERS Actuarial Valuation, July 2023