

Long-Range Financial Forecast

FISCAL YEARS ENDING 2025 TO 2029



City of West Covina

WWW.WESTCOVINA.ORG | 1444 W GARVEY AVE, WEST COVINA CA, 91790

Overview

The purpose of this forecast is to provide long-term context for annual decisions that will be made with the Fiscal Year Ending (FYE) 2025 Budget and FYE 2025-2029 Capital Improvement Plan. This forecast was developed to create a forward-looking, conservative baseline budgetary outlook for the City’s General Fund under a given set of revenue and expenditure growth assumptions.

The revenue and expenditure growth assumptions have been updated based on historical trends, actuarial reports, and CPI trends. The base year for this forecast is FYE 2024.

Revenue

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

Revenue Growth Assumptions

- Based on historical prior year actuals Property Tax is assumed to increase by 3%.
- The Property Tax in Lieu of Vehicle License Fee grows with estimated increase in assessed valuation.
- Sales Tax estimates are provided by the City’s sales tax consultant, HdL, and are forecasted to increase by 2.1% in FYE 2025 to 3% by FYE 2029.
- Business License Tax is assumed to grow with CPI which has averaged around 3%.
- Transient Occupancy Tax is projected to grow by 3% each year.
- Franchise Fees are assumed to grow with CPI which has averaged around 3%.
- Development-related fees (including building permits) have spiked in recent years but are anticipated to subside in the upcoming year and are assumed to remain level throughout the forecast.
- Rental Income is expected to grow by 1.2%.

Table 1. Forecasted Revenue Growth Assumptions

Major Revenue Source	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Property Taxes	3.00%	3.00%	3.00%	3.00%	3.00%
Sales And Use Taxes	2.10%	2.80%	3.00%	3.00%	3.00%
Business License Tax	3.00%	3.00%	3.00%	3.00%	3.00%
Transient Occupancy Tax	3.00%	3.00%	3.00%	3.00%	3.00%
Other Taxes	0.00%	0.00%	0.00%	0.00%	0.00%
Charges For Services	0.00%	0.00%	0.00%	0.00%	0.00%
Fines And Forfeits	0.00%	0.00%	0.00%	0.00%	0.00%
Franchise	3.00%	3.00%	3.00%	3.00%	3.00%
Licenses & Permits	0.00%	0.00%	0.00%	0.00%	0.00%
Use Of Money/Prop	0.00%	0.00%	0.00%	0.00%	0.00%
Other Revenues	0.00%	0.00%	0.00%	0.00%	0.00%
Rental Income	1.20%	1.20%	1.20%	1.20%	1.20%



Expenditure Overview

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

Expenditure Growth Assumptions

- Base salaries have been projected to reflect the annual merit step increase. Except for the Firefighter’s Association memorandum of understanding increase in FYE2025, no other increases are assumed.
- The forecast assumes recruitment of all FYE 2024 Budgeted positions with annual estimated vacancy savings within larger staffing groups.
- Projected employer contributions to California Public Employees’ Retirement System (CalPERS) are based on the latest Actuarial Valuation.
- Increases in expenditures are based on historical actuals and CPI which has averaged around 3%.
- Insurance claims have been based on recent actuarial study and increase by 2% thereafter.
- The forecast does not assume increases in contributions to Other Post Employment Benefits (OPEB).

Table 2. Forecasted Expenditure Growth Assumptions

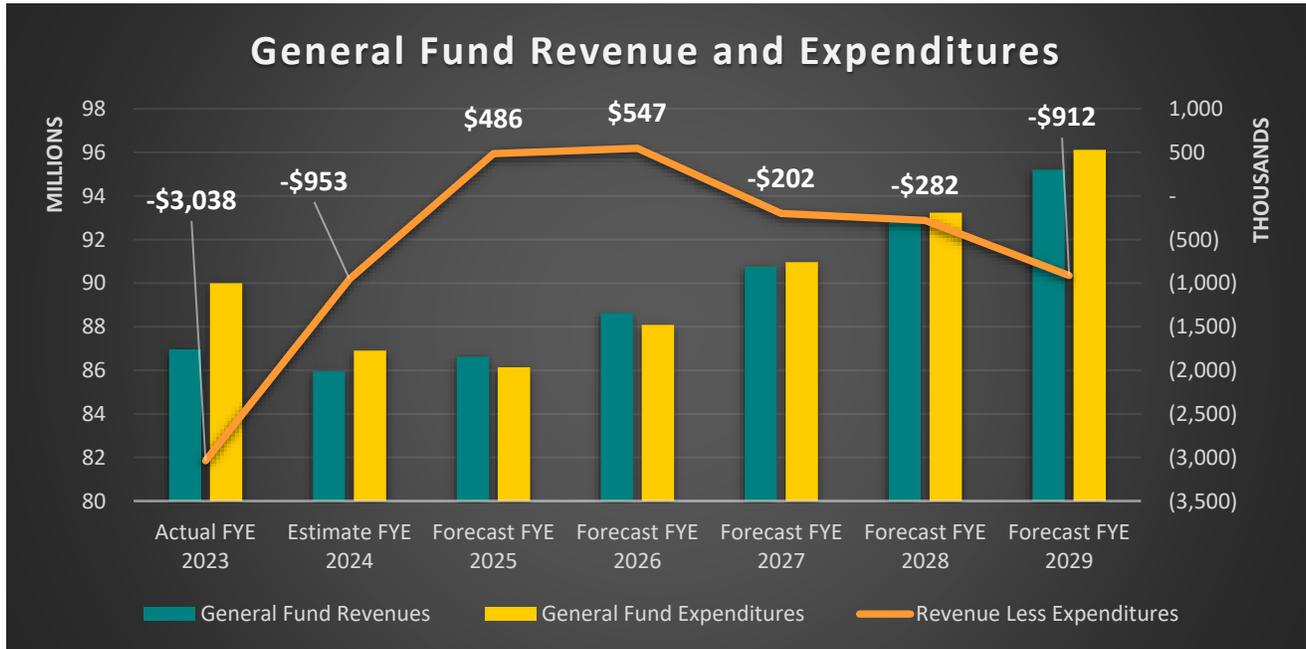
Expenditures	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Salaries & Benefits					
Base Salaries	2.00%	2.00%	2.00%	2.00%	2.00%
Health Plans	5.00%	5.00%	5.00%	5.00%	5.00%
Overtime	2.33%	2.33%	2.33%	2.33%	2.33%
Dental/Vision/Life Plans	2.00%	2.00%	2.00%	2.00%	2.00%
Deferred Compensation	0.00%	0.00%	0.00%	0.00%	0.00%
Medicare	2.00%	2.00%	2.00%	2.00%	2.00%
Special Pays	1.13%	1.13%	1.13%	1.13%	1.13%
Worker's Compensation	2.00%	2.00%	2.00%	2.00%	2.00%
CalPERS Miscellaneous	3.85%	-1.91%	-2.56%	-1.25%	-1.27%
CalPERS Safety	-2.92%	-2.43%	-1.99%	-2.54%	-3.65%
PERS UAL Payment	100.00%	61.18%	37.98%	27.53%	21.58%
Materials & Services					
Contract/Professional Services	2.00%	2.00%	2.00%	2.00%	2.00%
Fuel	3.00%	3.00%	3.00%	3.00%	3.00%
Legal Services	2.00%	2.00%	2.00%	2.00%	2.00%
Materials & Services	1.50%	1.50%	1.50%	1.50%	1.50%
Miscellaneous	0.00%	0.00%	0.00%	0.00%	0.00%
Repair & Maintenance	3.00%	3.00%	3.00%	3.00%	3.00%
Supplies & Materials	1.50%	1.50%	1.50%	1.50%	1.29%
Training/Conferences/Meetings	0.00%	0.00%	0.00%	0.00%	0.00%
Utilities	3.00%	3.00%	3.00%	3.00%	3.00%
Claim Paid	2.00%	2.00%	2.00%	2.00%	2.00%



General Fund Projections

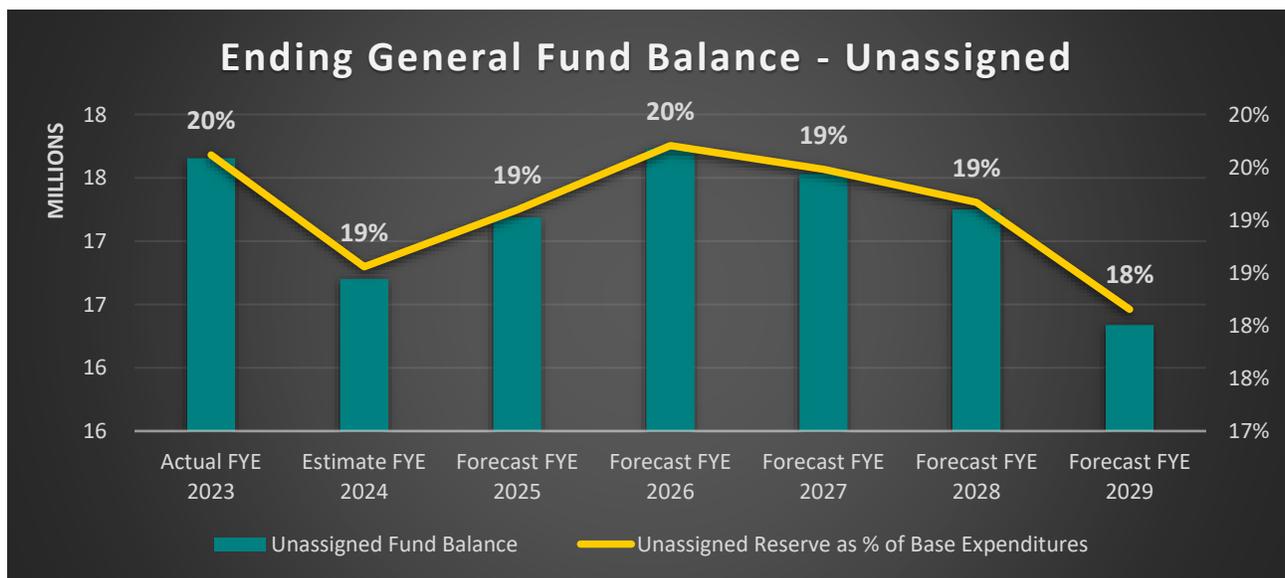
Based on the revenue and expenditure assumptions, the General Fund is anticipated to have positive revenue over expenditures in FYE 2025 (486k) and FYE 2026 (\$547k) before it goes negative from FYE 2027 to FYE 2029 (-\$912k). It is important to reiterate that the forecast does not include any increase in salaries in FYE 2025-2028, since it is outside the contracted period.

Figure 1. Forecasted General Fund Revenue and Expenditures



Fund balance reserves are anticipated to increase over the upcoming years from 19% in FYE 2024 to 20% in FYE 2026. Fund balance is forecasted to decrease from FYE 2026 to FYE 2029 to 18%.

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



Future Pension Costs

The City currently has a total of two pension plans administered by CalPERS and two retirement enhancement plans administered by PARS. The pension plans consist of a miscellaneous agent plan and a safety agent plan. The retirement enhancement plan consists of an EPMC replacement supplemental retirement plan and a supplemental retirement plan for executive staff and City Council.

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

However, as of the latest actuarial report received in 2023, the City’s net pension related liability will be over \$39.7 million for the miscellaneous and safety plans – meaning the city will report a liability as of June 30, 2023. This is a net change of over \$105 million or -160%. This is primarily due to a negative net investment income and benefit payments.

Table 3. Projected CalPERS Rates.

CalPERS Rates	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Miscellaneous	9.56%	9.87%	9.71%	9.50%	9.40%	9.30%	9.10%
Safety	20.64%	22.72%	22.10%	21.60%	21.20%	20.70%	20.00%
UAL Payment	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Miscellaneous	735,584	0	586,778	906,000	1,226,000	1,546,000	1,866,000
Safety	1,282,822	0	1,273,821	2,093,000	2,912,000	3,731,000	4,550,000
Total UAL	\$2,018,406	\$0	\$1,860,599	\$2,999,000	\$4,138,000	\$5,277,000	\$6,416,000

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

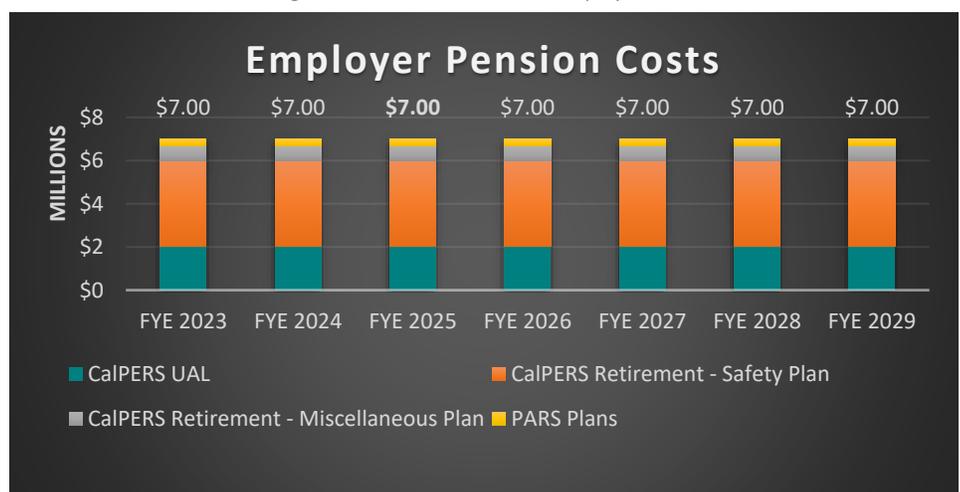
Other Post Employment Benefits (OPEB)

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

Table 4. Retiree Benefits

Retiree Benefit (\$ Millions)	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Medical	2.16	2.16	2.16	2.16	2.16	2.16	2.16
Health Savings Plan	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Total	\$2.42						

Figure 3. Forecasted Pension Employer Costs



Debt Service

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

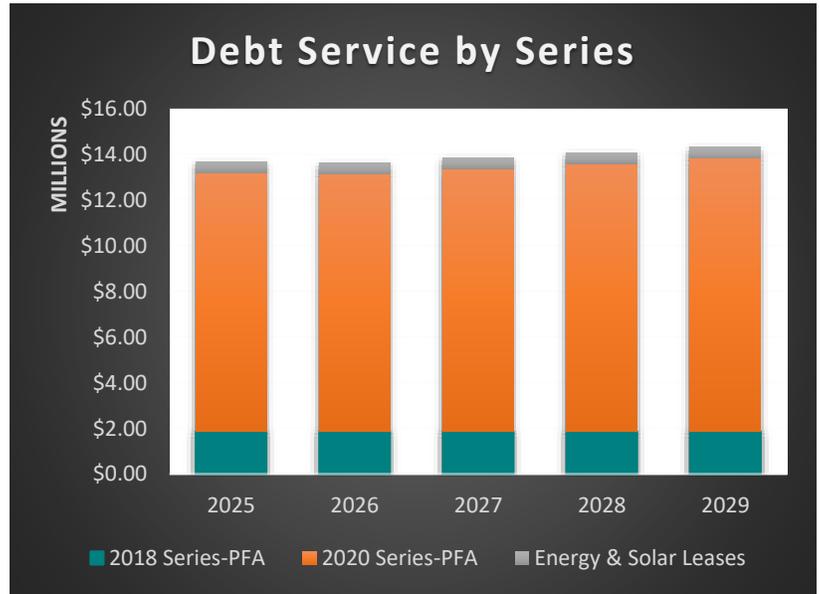
2018 Lease Revenue Refunding Bonds, Series A and B

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

2020 Lease Revenue Bonds, Series A

On July 23, 2020, the City issued \$204,095,000 of taxable Lease Revenue Bonds to provide financing to pay the City's unfunded pension liabilities to CalPERS, to establish a reserve fund, and pay issuance costs. The bonds mature annually through August 1, 2044, in amounts ranging from \$3,645,000 to \$16,105,000, with interest rates that range from 1.747% to a maximum of 3.892% over the term of the bonds.

Figure 4. Debt Service Payments



Energy Efficiency Loans Payable

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

Table 5. Debt Service Payments

Debt Service (\$ Millions)	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
Principal	5,798,681	5,907,696	6,295,249	6,717,502	7,168,788
Interest	7,871,548	7,714,385	7,540,661	7,345,261	7,127,764
Total Debt Service	\$13,670,230	\$13,622,081	\$13,835,910	\$14,062,763	\$14,296,552

Self-Insured Workers Compensation and Liability

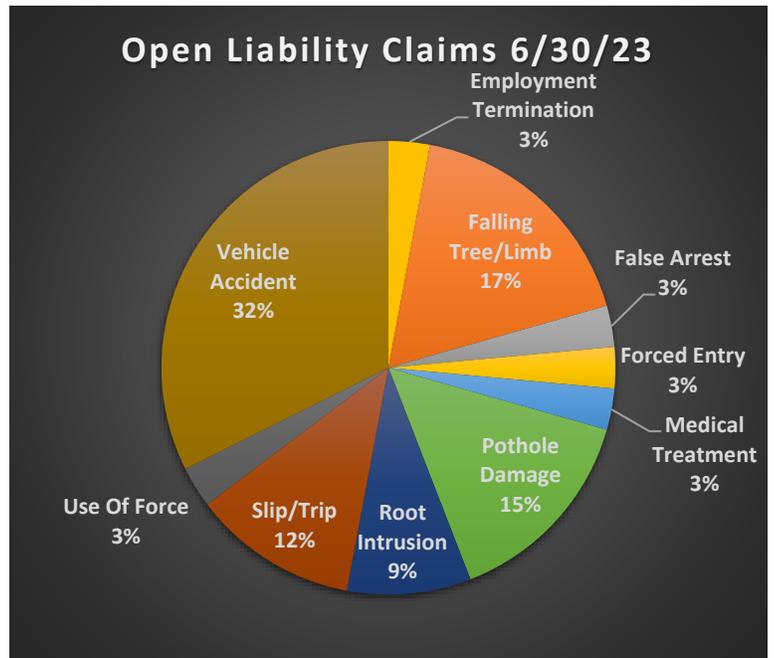
The City is self-insured for workers compensation and liability (automobile, general, and public officials). The City has always purchased excess insurances for workers compensation and liability. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 10, the City has an actuarial study completed every two years.

Based on the latest actuarial study, the estimated outstanding workers compensations losses increased by \$7.6 million from the prior actuarial estimate of \$6.4 million as of June 30, 2021 to \$14.1 as of June 30, 2023. The change consists of:

- + \$6.5 million from the additional years (2021/22 and 2022/23) of exposure,
- \$4.3 million for claim payments made during FYE 2022 and FYE 2023, and
- + \$5.4 million due to a change in projected ultimate losses for 2021/22 and prior.

Additionally, the estimated outstanding liability losses increased by \$0.9 million from the prior actuarial estimate of \$7.1 million as of June 30, 2021 to \$8.0 million as of June 30, 2023. The change consists of:

- + \$5.1 million from the additional years (2021/22 and 2022/23) of exposure,
- \$4.1 million from the claim payments made during 2021/22 and 2022/23, and
- \$0.2 million due to a change in projected ultimate losses for 2021/22 and prior.



The chart on the right shows the type of open claims as of June 30, 2023. The actuarial study also projected losses over \$7 million in FYE 2024 and \$6.7 million in FYE 2025. The table below outlines these losses.

