



LA MESA CITY COUNCIL AGENDA

A Special Meeting

Date: Tuesday, April 23, 2024, 4:00 p.m.
Location: City Council Chambers, 8130 Allison Avenue
La Mesa, California

Elected Officials: Mayor Mark Arapostathis
Vice Mayor Laura Lothian
Councilmember Patricia N. Dillard
Councilmember Colin Parent
Councilmember Jack Shu
City Treasurer Matthew Strabone

Staff: City Manager Greg Humora
City Attorney Glenn Sabine
City Clerk Megan Wiegelman

The City Council meeting may be viewed in-person or using the following Zoom Webinar options:

The public may view the meeting live using the following remote options:

Teleconference Meeting Webinar

<https://us06web.zoom.us/j/85776801682>

Telephone (Audio only)

(669) 900-6833 or (253) 215-8782 Webinar ID: 857 7680 1682

Copy and paste the webinar link into your internet browser if the webinar link does not work directly from the agenda.

PUBLIC COMMENTS

- **In-Person comments during the meeting:** Join us for the City Council meeting at the time and location specified on this agenda to make your comments. Please complete a

“Request to Speak” card and submit it to the Council Hostess. When the Mayor calls your name, step to the podium and state your name for the record. Comments will be limited to three (3) minutes.

- **How to submit eComments:** eComments are available once an agenda is published. Locate the meeting in "upcoming meetings" and click the comment bubble icon. Click on the item you wish to comment on. eComments can be submitted when the agenda is published and until **2 hours prior** to the meeting. eComments are limited to 3700 characters (approximately 500 words). eComments may be viewed by the City Council and members of the public following the close of the eComment submission period (2 hours prior to the meeting). Email your comment to cityclrk@cityoflamesa.us if you have difficulty submitting an eComment. eComments will not be read aloud as a regular meeting item; however any member of the Council or member of the public may do so during their respective comment time.

PLEASE NOTE: Public Comment will be limited to 3 minutes per item. The timer begins when the participant begins speaking. Time cannot be combined or yielded to another speaker.

***Live Remote Public Comment ONLY permitted during Councilmember teleconferencing pursuant to California Government Code Section 54953 (AB 2449).**

- ***Zoom Audio Comments:** To provide oral public comments during the meeting, join the Zoom meeting by computer, mobile phone, or dial in number. On Zoom video conference by computer or mobile phone, use the “Raise Hand” feature. This will notify the moderator that you wish to speak during a specific item on the agenda or during non-agenda Public Comment. Members of the public will not be shown on video but will be able to speak when called upon. If joining the meeting using the Zoom dial-in number, you may raise your hand by pressing *9. Comments will be limited to three (3) minutes. No further comments will be entertained after the Mayor closes public comment.

Citizens who wish to make an audio/visual presentation pertaining to an item on the agenda, or during Public Comments, should contact the City Clerk’s office at 619.667.1120, no later than 12:00 p.m., the Monday prior to the meeting day. Advance notification will ensure compatibility with City equipment and allow Council meeting presentations to progress smoothly and in a consistent and equitable manner. Please note that all presentations/digital materials are considered part of the maximum time limit provided to speakers.

Agenda reports for items on this agenda are available for public review at the City Clerk's Office, 8130 Allison Avenue, during normal business hours.

Materials related to an item on this agenda submitted to the Council after distribution of the agenda packet are available for public inspection in the City Clerk’s Office, 8130 Allison Avenue, during normal business hours.

ACCESSIBILITY: The City of La Mesa encourages the participation of disabled individuals in the services, activities and programs provided by the City. Individuals with disabilities, who require reasonable accommodation in order to participate in the City Council meetings, should contact the Administrative Services Department 48 hours prior to the meeting at 619.667.1175, fax 619.667.1163, or GSpaniol@cityoflamesa.us.

Hearing assisted devices are available for the hearing impaired. A City staff member is available to provide these devices upon entry to City Council meetings, commission meetings or public hearings held in the City Council Chambers. A photo i.d. or signature will be required to secure a device for the meeting.

Pages

1.	<u>CALL TO ORDER</u>	
1.1	PLEDGE OF ALLEGIANCE	
2.	<u>PUBLIC COMMENTS</u>	
	NOTE: In accordance with state law, an item not scheduled on the agenda may be brought forward by the general public for comment; however, the City Council will not be able to discuss or take any action on the item at this meeting. If appropriate, the item will be referred to Staff or placed on a future agenda.	
3.	<u>SPECIAL MEETING</u>	
3.1	REVIEW AND DISCUSS THE PROPOSITION L RENEWAL SURVEY RESULTS	
	Staff Reference: Mr. Humora	
3.2	REVIEW AND DISCUSS THE 2024-2035 GENERAL FUND FINANCIAL FORECAST	4
	Staff Reference: Ms. Royales	
4.	<u>ADJOURNMENT</u>	



DATE: April 23, 2024

TO: Mayor and Members of the City Council

FROM: Tammi Royales, Director of Finance

VIA: Greg Humora, City Manager *GH*

SUBJECT: REVIEW AND DISCUSS THE 2024-2035 GENERAL FUND FINANCIAL FORECAST

The 2024-2035 General Fund Forecast Report is attached.



2024 CITY COUNCIL
FINANCIAL FORECAST
GENERAL FUND FINANCIAL
FORECAST
2024-2034

INTRODUCTION

The City of La Mesa prepares a ten-year forecast in order to evaluate the City's fiscal condition and to guide policy and programmatic conditions. The development of a financial forecast as part of the budget process is identified as a best practice by the Government Officers Finance Association (GFOA). GFOA recognized a financial forecast as a "fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This will help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services."

Included in this report is the base forecast prepared using the most current information available at the time.

FINANCIAL FORECAST BACKGROUND

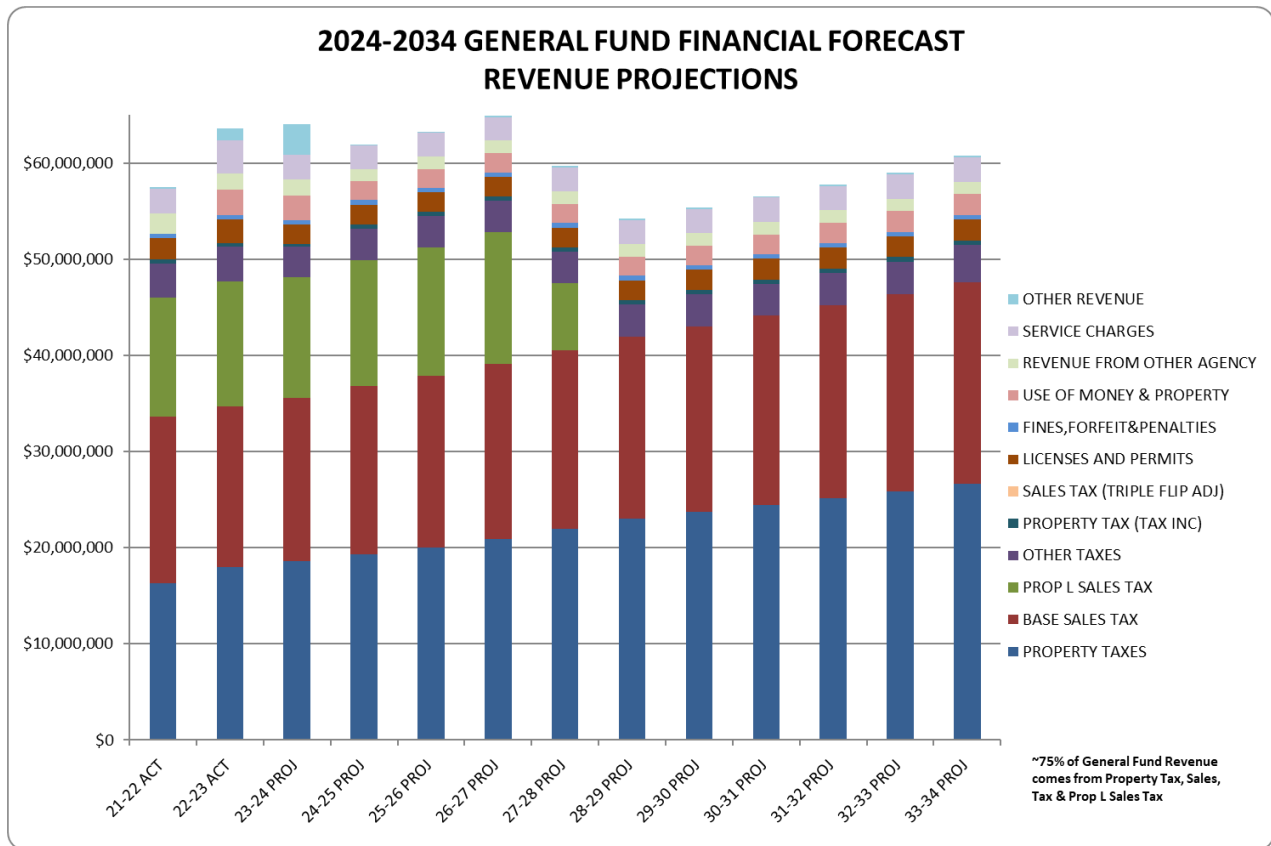
The General Fund Financial Forecast is a tool that focuses attention on the longer-term impacts of policy decisions on the City's primary operating fund. The General Fund is the City's largest fund and provides funding for the majority of the day-to-day services of the City to its residents. The "forecast" is not intended to be a prediction of a particular outcome but rather to be used as a model to test reasonable scenarios the City could expect in the coming years. These scenarios are intended to assist in setting realistic expectations in matching revenues with programs and projects that will meet Council objectives.

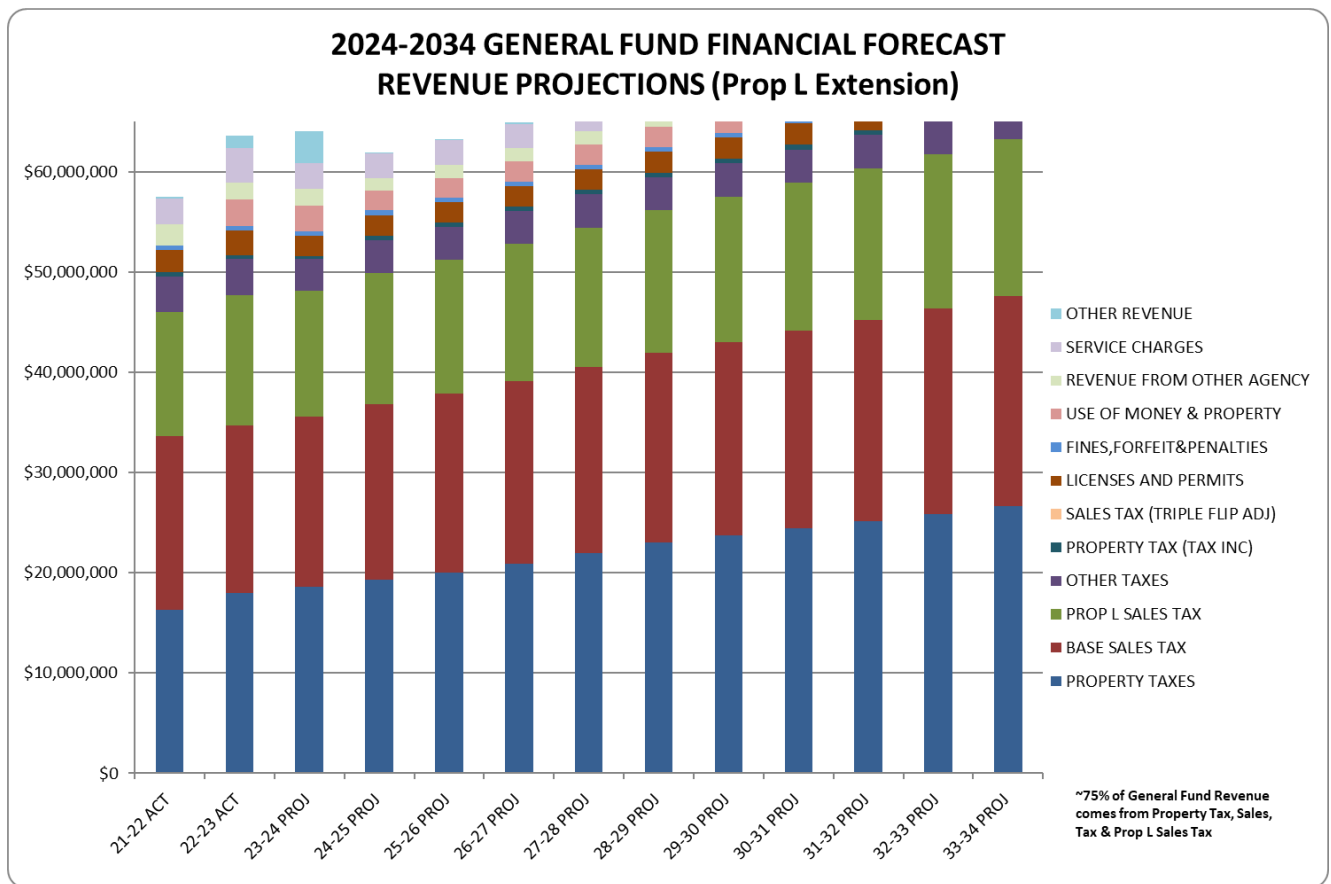
The Forecast Model is a spreadsheet-based model that projects the City's current mix of revenues and expenditures through the upcoming budget year and then ten years into the future. The forecasting model uses a variety of information and techniques, including historical trend analysis, projections from local and regional sources, and various economic data. The Financial Forecast builds off the actual prior fiscal years' revenues, expenditures, and ending reserves, projects the estimated 2024 revenues, expenditures, and ending reserves, and incorporates known factors (such as the increase in pension costs) into the 2034 projections. Revenues, expenditures, and ending reserves are then projected using the base assumptions as detailed below.

GENERAL FORECASTING ASSUMPTIONS

The Financial Forecast assumptions are based on the most current information available. Revenue assumptions are generally moderate with particular attention given to the top three revenues that represent approximately 75 percent of total revenues. Expenditure assumptions are based on maintaining current service levels while estimating cost increases where possible. Two Forecast assumption models are shown with the continuation of Council adopted fee cost recovery policies. The first model assumes the sunset of Prop L in FY29 and the second shows its extension.

BASE REVENUE ASSUMPTIONS

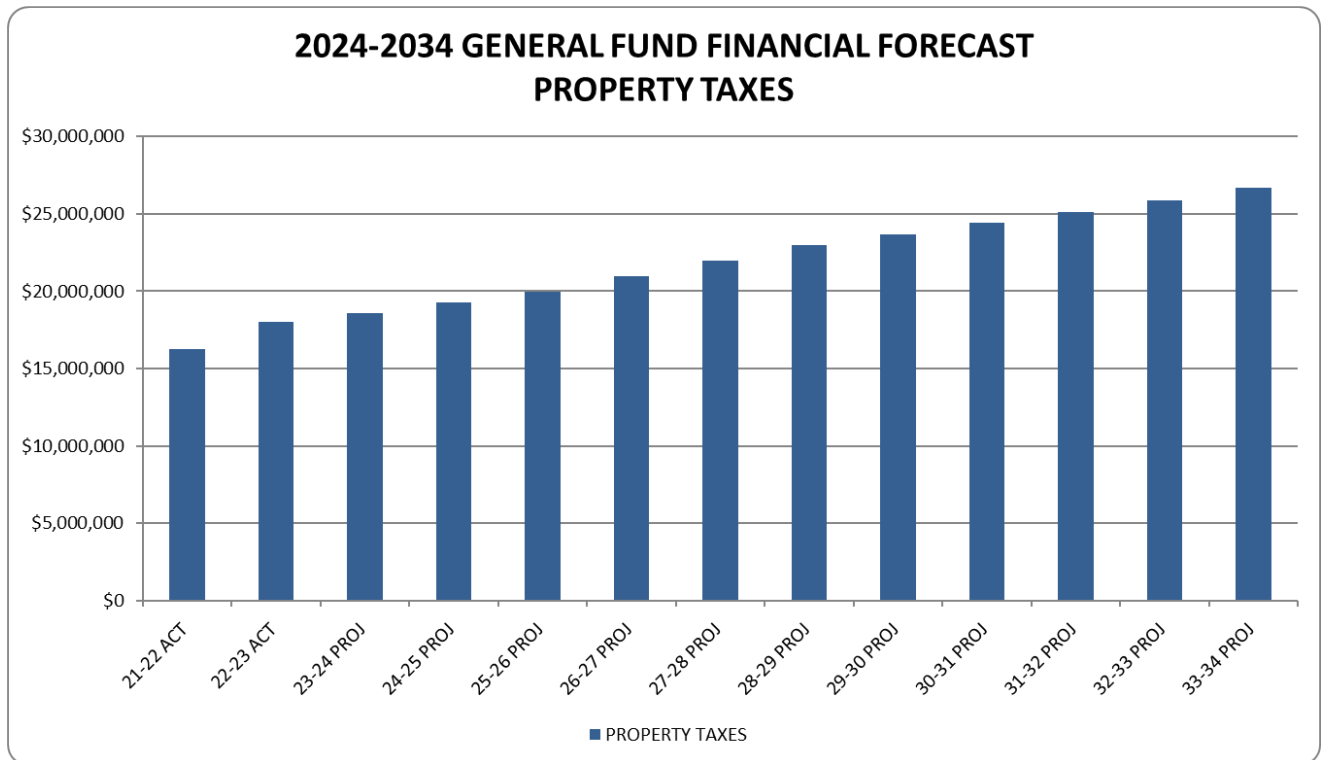




PROPERTY TAX

Property tax has traditionally been the General Fund's most stable and consistent revenue and now accounts for roughly 27 percent of the total General Fund revenues. After a robust valuation increase from 2020 through 2022, assessed home values slightly decreased in 2023 only to show a rebound going into 2024. Our consultant, HdL Coren & Cone forecasts the expected 2024/25 assessed values will increase but overall be at 2 percent over the previous year due to other valuations within the formula, including the sale of properties previously valued under Prop 13. Sales are expected to remain steady due to the continued high mortgage rates and low inventory. La Mesa currently has a 30-unit planned residential project under construction and other housing projects entitled and ready for construction permits. In 2022, a total of 579 units were sold with a value of \$439.6 million. In 2023, a total of 454 units were sold, with a value of \$349 million. While the number of units sold decreased, the overall per unit valuation increased \$9400 per unit in value from 2022 to 2023. The current median home price in La Mesa as of January 2024 stands at \$888,810. While forecasts maintain a 2 percent increase in the next year, San Diego County is far outpacing expectations. Home prices have risen 7.3 percent

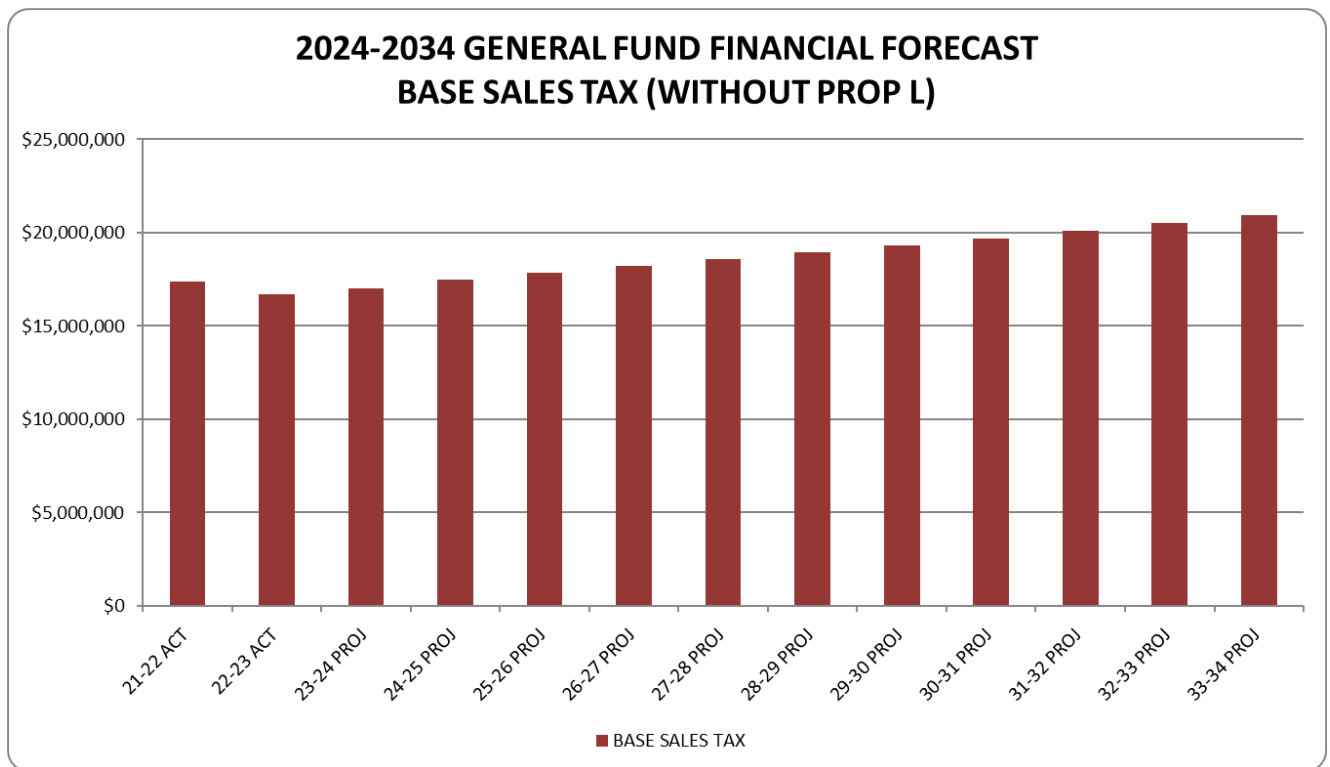
from this time last year. While sales are lagging, prices are not dropping mainly due to lack of inventory.



BASE SALES TAX

Fiscal year ending 2023 saw a slight decrease from fiscal year 2022. Bases sales tax account for approximately 25 percent of the revenue budget and at times exceeded property tax revenue. Current market conditions including inflation and high interest rates have caused the consumer to cut back on discretionary spending which impacts sales tax revenues. Restaurant and Hotel and Food and Drug have maintained positive growth in La Mesa while General Consumer Goods and Building and Construction have leveled off. The assumed annual property tax increase used in this forecast is 2 percent growth beginning in fiscal year 2026.

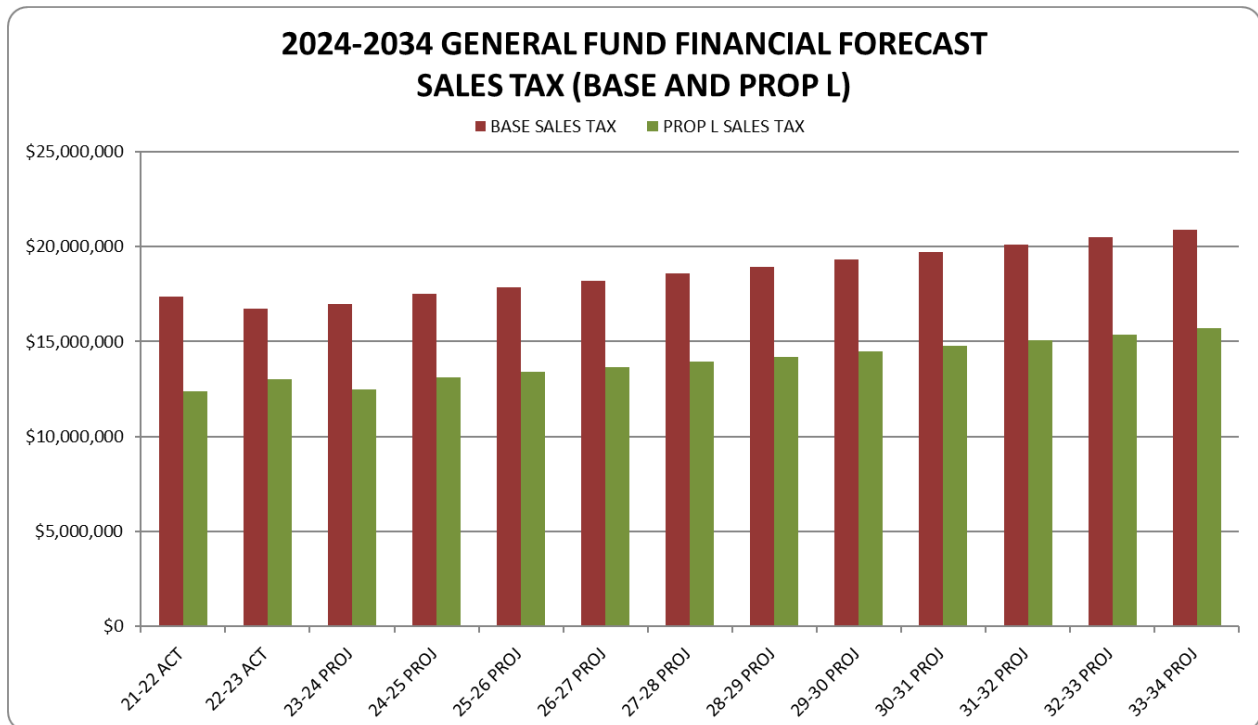
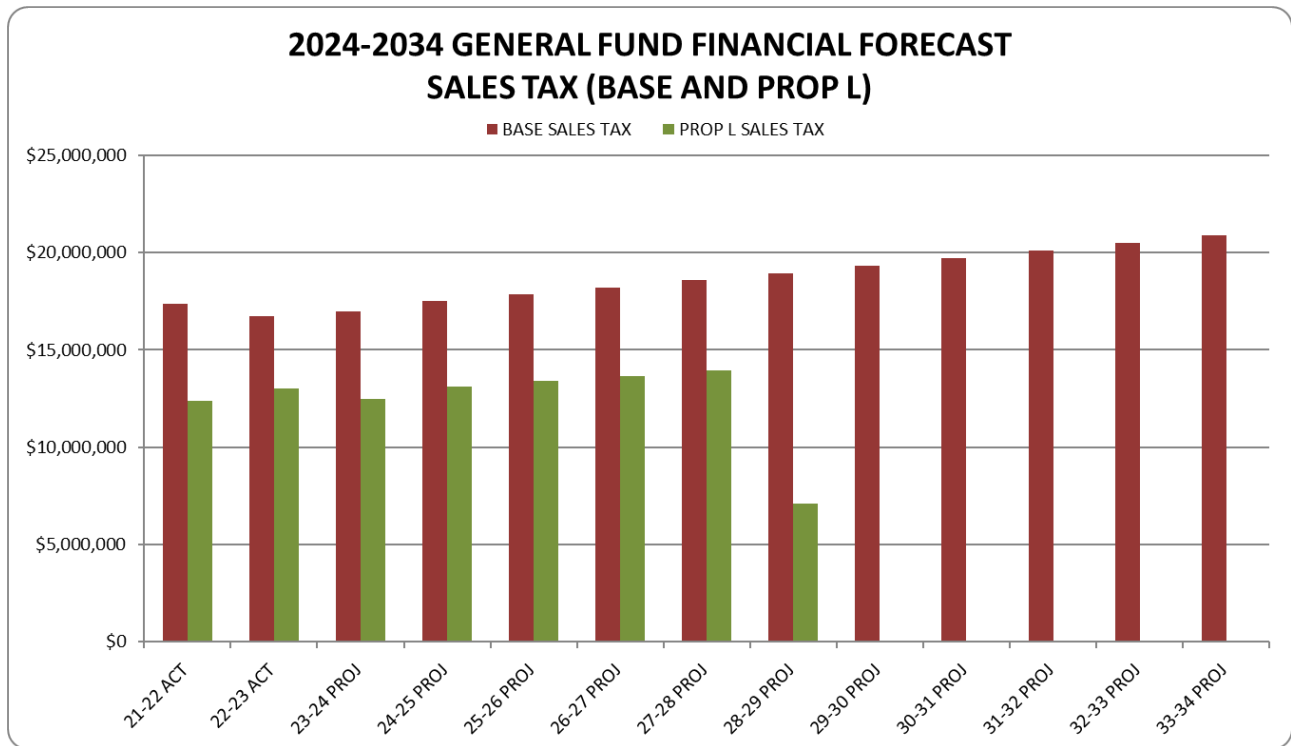
The allocation to La Mesa from the County Pool decreased when a new distribution center opened in San Diego County at the end of 2021 that negatively affected the allocation to all cities in the county. La Mesa experienced a 7.9 percent decline in the last quarter from the County Pool.



PROPOSITION L SALES TAX

In November 2008, the voters of La Mesa approved the $\frac{3}{4}$ cent (0.75%) Proposition L transactions and use tax (commonly referred to as a sales tax) which became effective on April 1, 2009. The City began receiving payments from the State Board of Equalization in fourth quarter 2009.

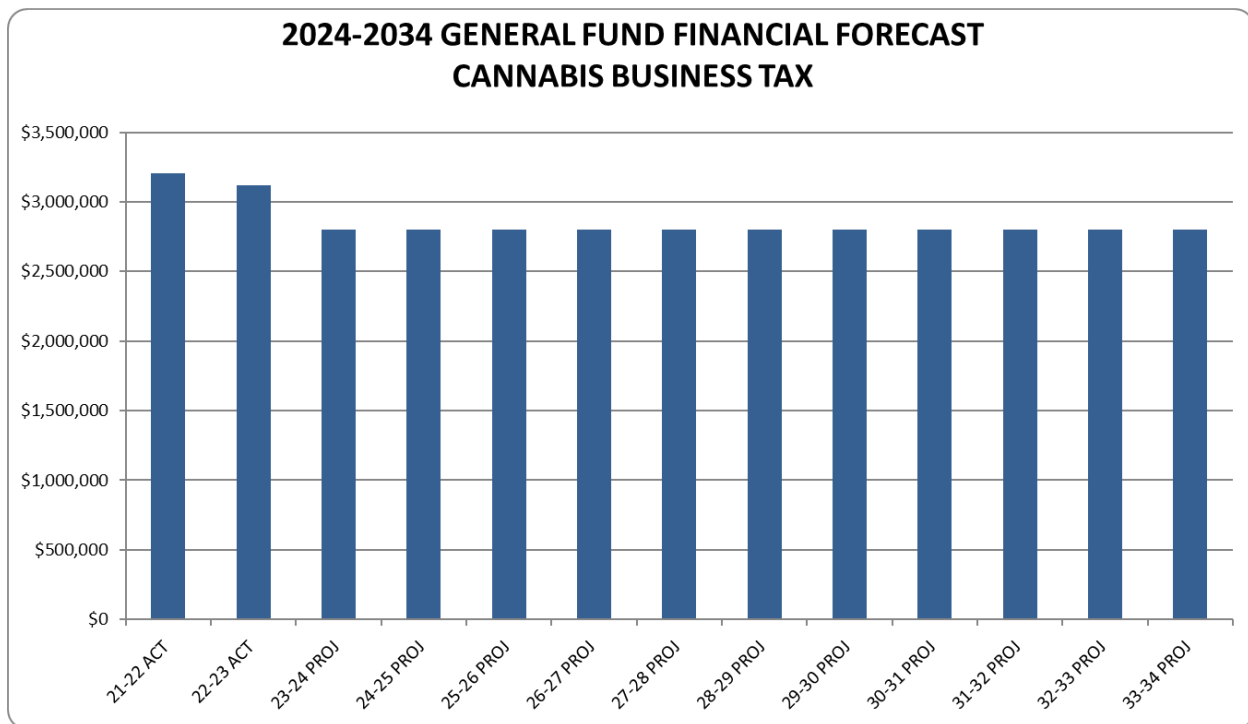
Since 2009, Prop L Sales Tax revenue growth has consistently followed the Base Sales Tax growth trends and has been received at 71 to 78 percent of the Base Sales Tax receipts. Prop L tax revenues now account for roughly 20 percent of the total General Fund revenues. The annual increase in projected Prop L sales tax revenue is tied to assumptions of sales tax revenue minus the County Pool allocation. Taxes received from Prop L are based on sales within the city limits. Proposition L is set to sunset in Fiscal Year 2029, when the City will receive the remaining three quarters (roughly \$10 million) of tax revenues and then absent any further action by the City Council and voters, cease receiving any revenues. The two forecast models assume the same factors as the Base Sales Tax through Fiscal Year 2034, with one showing the sunset of Prop L in 2028 and the other showing its extension.



CANNABIS TAX

Measure U was passed by the voters of the City of La Mesa in November 2016. Measure U requires a conditional use permit for medicinal retail sales, cultivation, and manufacturing. Chapter 6.11 was adopted by the La Mesa City Council in October 2019 and regulates adult-use cannabis businesses. The City collected \$500,000 in FY20 with three retail dispensaries operating within City limits.

Cannabis business tax revenue was \$3.1 million in FY23 and makes up 5 percent the City's revenue. The City currently has twelve (12) operational dispensaries. The City collects a 4 percent cannabis business tax on a quarterly basis on all cannabis related sales with the exception of medicinal sales and merchandise. As surrounding cities allow for dispensaries to operate, we are seeing market adjustments that are affecting sales tax allocations for FY24. We remain conservative in our budget estimates as most of our cannabis businesses opened during the pandemic which may have influenced consumer spending. The consensus is that five full years post pandemic figures are necessary to gain the correct data to forecast accurately.



ALL OTHER REVENUES

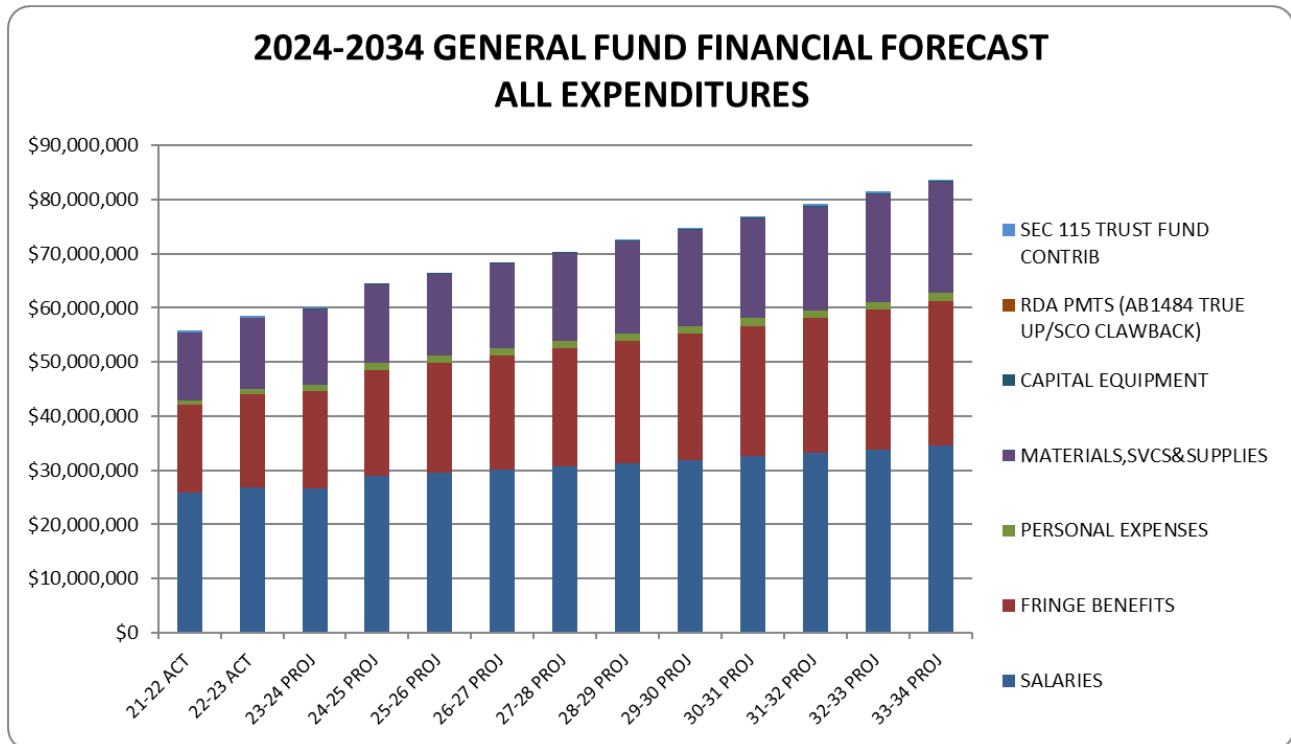
All other revenues combined constitute approximately 23 percent of total General Fund revenues. The largest components of all other revenues include Other Taxes, Licenses & Permits, and Service Charges. Other sources include Property Tax (Tax Increment), Revenue from Other Governmental Agencies, and Use of Money & Property.

Licenses and Permits represent roughly 4 percent of total General Fund revenues and are very sensitive to fluctuations in economic conditions. There was a significant uptick in this category for FY23 as home improvement projects increased. Categories such as engineering fees and public improvement inspection fees increased dramatically. Some slowing is expected in the upcoming fiscal years as inflation cuts into discretionary spending.

Revenue from other agencies comprises roughly 2 percent of total General Fund revenues. Ongoing revenues from other agencies include reimbursements for costs related to the Heartland Fire JPA consolidation and funding to cover expenses incurred as a result of public safety realignment (AB109 R3 public safety realignment funds). The AB109 R3 public safety realignment funds and reimbursement for costs related to the Heartland JPA are now ongoing revenues and included in the future years forecast.

Service Charges represent roughly 5 percent of total General Fund revenues and include recreation activities. The Community Center showed a significant increase in registration of classes. Paramedic services, engineering, zoning, and other inspection fees increased in FY23. We expect these fees to level off to pre-pandemic numbers and stay consistent going forward.

Use of Money & Property includes revenue to be received from the long-term land use lease at Briercrest Park. Beginning in Fiscal Year 2021, the City began receiving ongoing revenues of approximately \$415,000 per year as ground rent and park maintenance revenues to help offset the cost of maintaining Briercrest Park. These revenues will be received annually throughout the 55-year agreement. Additional revenue sources are rents of buildings owned by the City and interest earned in Local Agency Investment Fund and other investments.

BASE EXPENDITURE ASSUMPTIONS

When developing the expenditure assumptions, as with the revenue assumptions, historical data, projections from outside sources, and economic trends are all considered. Salaries and fringe benefits comprise the majority of General Fund expenditures at roughly 76 percent. All adjustments by CalPERS are valued two years out and spread over the course of twenty (20) years as an added or deducted layer of future payments.

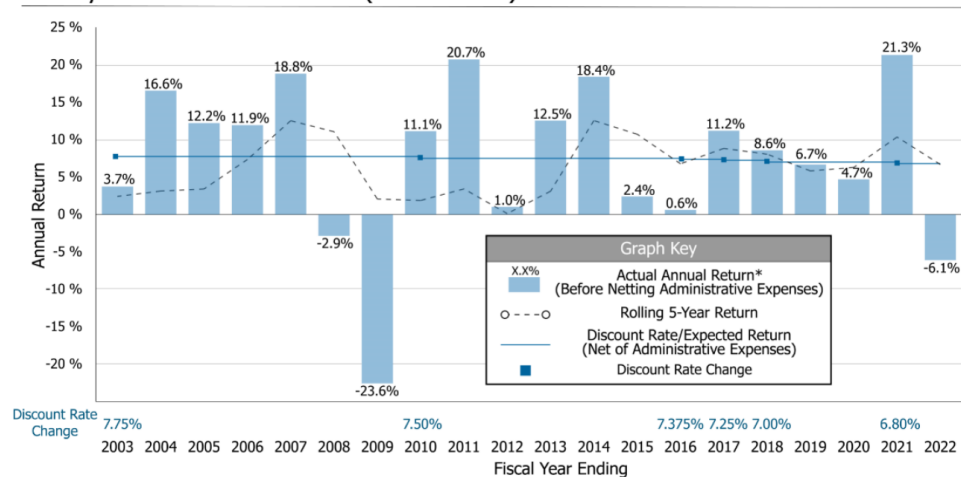
Staffing levels have increased slightly recently as the City evaluates its need to serve the public. In June 2023, the City entered into a three-year contract with the Firefighters Association and this contract is reflected in the expenditure assumptions for future years. We are currently in the final year with the Police Officers Association and have begun negotiations on a new contract. The La Mesa City Employees Association begins their third and final year of their contract and will begin negotiations in the Spring of 2025. Fringe benefits include retirement contributions for the normal cost and unfunded liability, contributions to the Section 115 Pension Trust Fund, health insurance contributions, workers' compensation, social security, and other types of benefits. Fringe benefits not related to pension are assumed to increase slightly with increases tied to merit increases or inflation. Pension benefits have increased in FY24 as expected and will be budgeted accordingly. Materials, Services & Supplies, Personal Expenses, and Capital Equipment have increased significantly in the past year due to high inflation. Due to the continuation

of inflationary market changes, we will be continuing to adjust per grouping as opposed to a straight 3 percent assumption as in years past.

CALPERS RETIREMENT COSTS AND OTHER BENEFITS

As noted earlier, the fastest growing category of the General Fund's expenditures continues to be fringe benefits, specifically pension costs. FY23 saw a gain of 5.8 percent which helps after a loss the previous year. CalPERS actuarial assumptions are based differing factors including the discount rate of 6.85 percent, and inflation assumption of 2.3 percent and a payroll growth assumption of 2.8 percent. Recent and current increases in the Consumer Price Index (CPI) are expected to have an impact on the pension liabilities in future actuarial valuation reports.

History of Investment Returns (2003 - 2022)

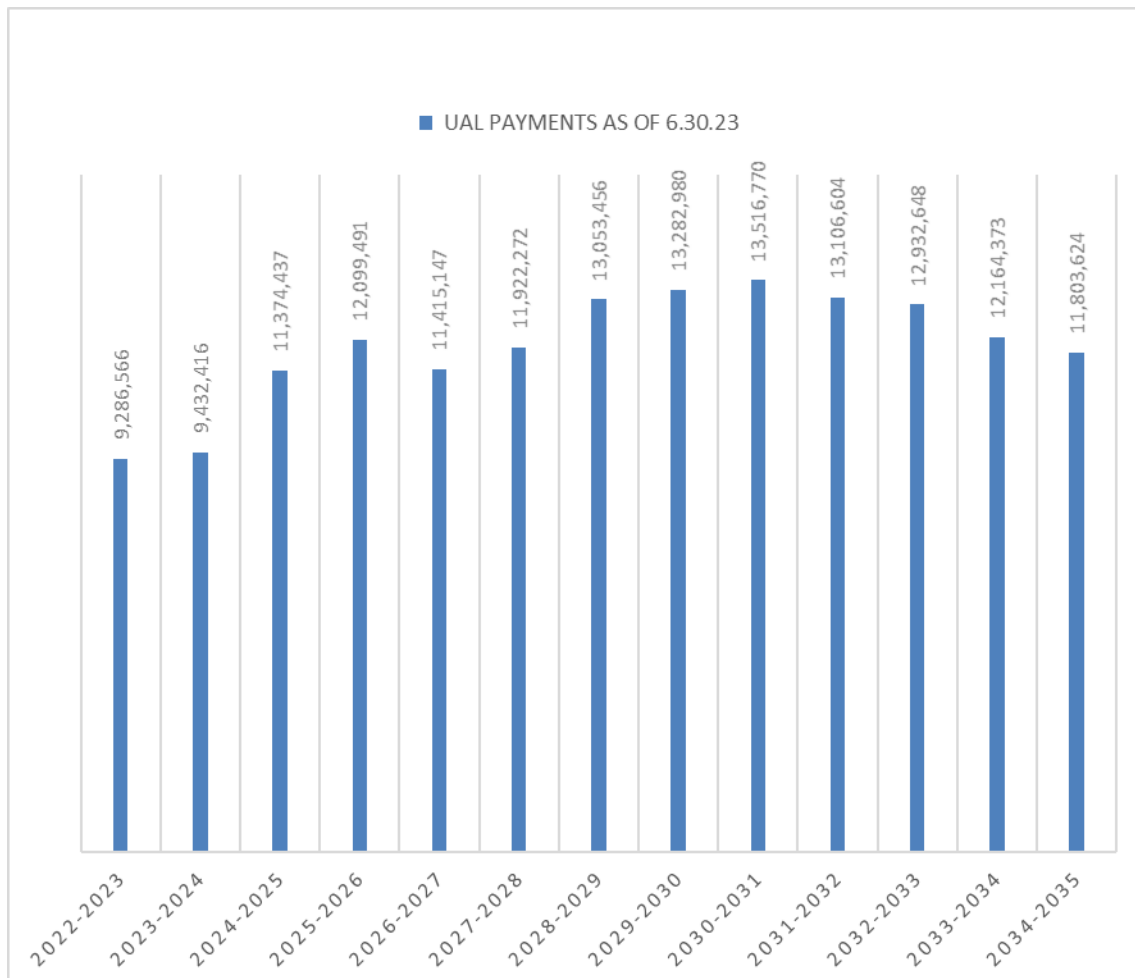
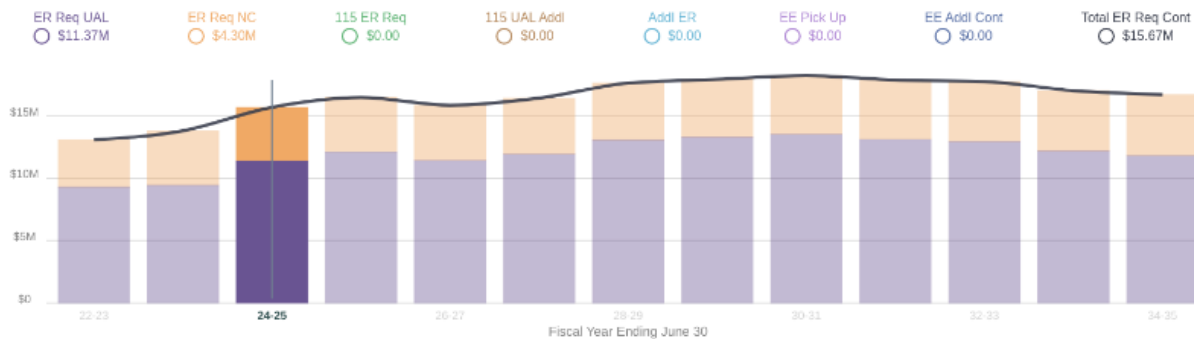


The City currently has 244 CalPERS enrolled full time employees, of which 143 are in the California Public Employee's Pension Reform Act (PEPRA) and 101 are Classic members. PEPRA employees make up 59 percent of the enrolled members, up from 46 percent the previous year and increasing annually as classic service members retire. All newly eligible CalPERS employees are automatically enrolled in PEPRA effective January 2013.

The City receives an annual actuarial valuation report for both miscellaneous and safety employees. This report gives the required contribution in the upcoming fiscal year and the projected payment for the next fiscal year which allows the City to budget appropriately and to anticipate future payments.

The two graphs below show the current payment to CalPERS and the anticipated payments in both graph and monetary form. These numbers will continue to change as

investment returns come in annually. Due to the 21.3 percent gain in 2021, we start to see a lowering of the payments in FY27 but the loss in 2022 brings the balance due back up again in FY29. The City begins to see a lowering of the unfunded pension liability (UAL) payment in FY32.



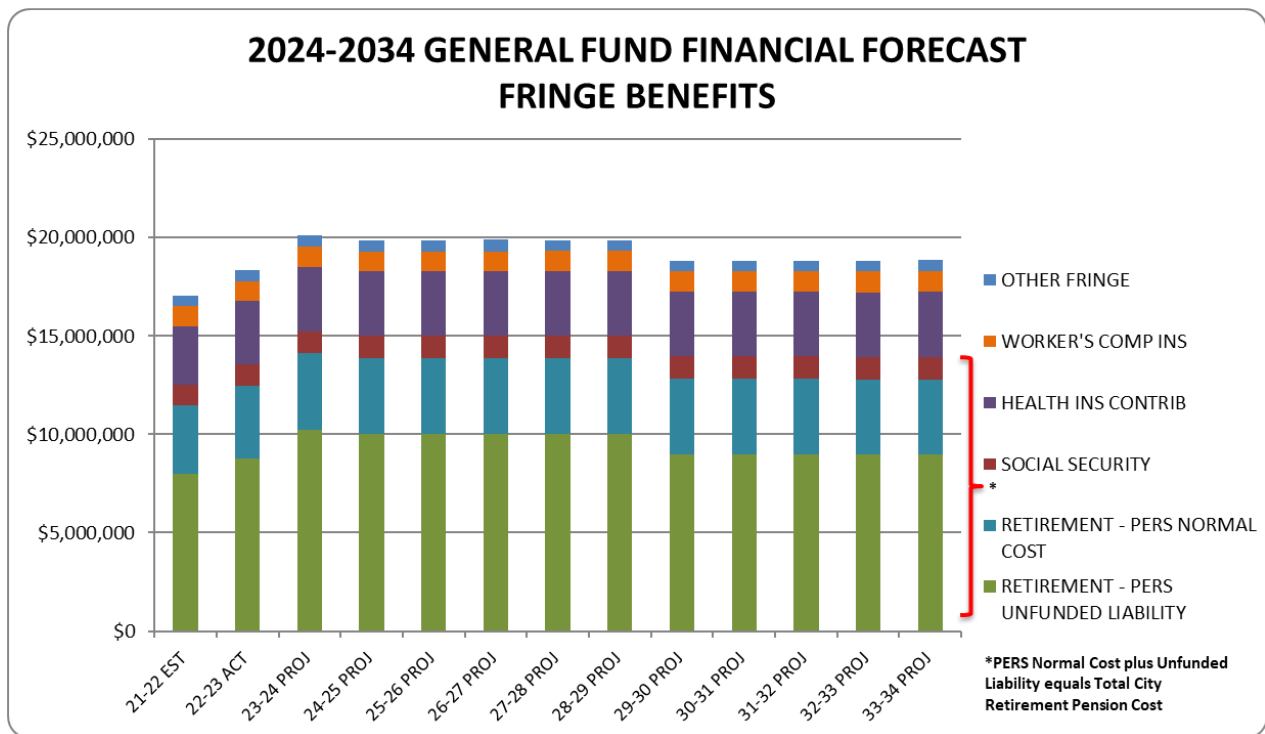
Beginning in Fiscal Year 2016, the City Council approved the establishment of a Section 115 Pension Trust Account and authorized an initial contribution of \$1.5 million. Additional one-time contributions were authorized in 2017 (\$600,000) and 2019 (\$3 million). Ongoing contributions of approximately \$275,000 to \$325,000 each fiscal year through 2034 are included in the forecast. City Council approved these contributions with the expectation that these would offset future unfunded liability contributions. In FY25, we will be using the annual savings plus \$2 million from the Section 115 Pension Trust to supplement the budgeted amount of \$9 million for the UAL payment. Once CalPERS updates the pension payment for FY26/27 in July the use of the Section 115 funds will be re-evaluated for the next budget.

Also reflected as an offset to the City's pension costs are negotiated cost-sharing agreements with City employees. These cost sharing agreements were agreed upon by the City and the employees in 2018 and updated in 2022 that provide the City an annual savings of just over \$350,000 in City pension costs.

City contributions to health insurance are the second largest segment of Fringe Benefits. Historically, these costs would have been increasing due to the increase in employee premium costs. The City is currently looking into other options in health care costs outside of MOU agreements.

ALL OTHER NON-PERSONNEL OPERATING COSTS

Other non-personnel operating costs include personal expenses such as memberships, training, conferences, and uniform/boot allowance as well as material, services, and supplies needed to maintain the city. Most materials, services & supplies are assumed to increase 3 percent due to inflation. Consistent with prior years' forecasts, exceptions to these assumptions are in Maintenance of Buildings & Grounds, Contributions to Other Agencies, Equipment Replacement Expense, and all Utilities, including gas, electric and water. Increases in maintenance of buildings and grounds are estimated to increase 5 percent throughout the forecast period in order to maintain and replace as needed the City's public spaces. Increases in Equipment Replacement Fund Expense are necessary to maintain the city's replacement of equipment, vehicles and technology and satisfy the CAP requirements.



GENERAL FUND RESERVES

Below we are showing two reserve charts; one with Prop L retiring and the other with Prop L extending. Reserves at the end of FY24 anticipate our reserves to be at 97 percent of expenditures. This number is bolstered by payroll savings due to open positions. This has an additional cause and effect savings as projects or purchases that were budgeted have not started or spent due to staff shortages and will be carried over into the new fiscal year. The FY25 projection does not take these carryovers into consideration and will impact the overall expenses once the final mid-biennium budget is completed.

The City Council's current reserve policies are to establish a "Rainy Day Reserve" of 15 percent of budgeted expenditures and a "Cash Flow Reserve" of 25 percent of budgeted expenditures.

