



Overview of Financial Forecast Model and Fiscal Outlook

March 19, 2024



Presentation – Table of Contents

Understanding the City's Forecast Model

- Purpose of a Forecast Model
- Baseline Forecast & Model Assumptions
- Major Drivers & Indexes

10-Year Baseline Forecast

- Revenue & Expense Trends
- Annual Operating Surplus/Deficit
- Fund Balance

Scenario Forecast

- Changed Assumptions
- Baseline vs. Scenario Comparison

Fiscal Outlook

- Strengths & Opportunities
- Challenges & Concerns

UFI – Financial Advisors & Consultants



Financial Forecast Modeling

- Forecast modeling for California municipalities since 2012.
- UFI currently provides active forecasting services to fifteen municipalities, including the following:
 - City of Alameda
 - City of Corona
 - City of Culver City
 - City of Menifee
 - City of Ontario
 - City of Pomona
 - City of South San Francisco

Financial Advisory Services

- UFI is a full-service financial advisory firm that has served California municipalities since 1972.
- The leading municipal advisor since 2011 based on number financings

**Top Municipal Advisors for CA Municipal Bonds
2018 - 2022**

Rank	Firm	No. of Issues	Par (\$MM)
1	Urban Futures Inc	687	\$15,632.3
2	Fieldman Rolapp & Associates	454	16,621.9
3	KNN Public Finance	348	37,123.4
4	PFM Financial Advisors LLC	309	31,395.9
5	Public Resources Advisory Group	208	64,907.3

UNDERSTANDING CITY'S FORECAST MODEL

Developing a Forecast Model

- ✓ **Standardized Revenue & Expense Categories.** Model uses standardized revenue and expense categories that correlate with available economic data, projections, and variables appropriate for driving municipal forecasts.
- ✓ **Integration of City's Historical Financial Data.** Model integrates 10 years of annual financial data from the City's general ledger.
- ✓ **Baseline Forecast with Fund Balance Allocation.** Model produces a 10-year baseline forecast of revenues, expenses, cash flows and fund balance for purposes of analysis and comparison with "what-if" scenario forecasts.
- ✓ **"What-if" Scenario Forecasts, Including Built-in Modules.** Model enables the City to create "what-if" scenario forecasts to compare against the baseline, allowing the City to make more informed and fiscally sustainable financial decisions.

Tailored Forecasting Algorithms

UFI uses econometric data from Moody's Analytics, U.S. Précis® Metro forecast service, combined with a variety of city, regional and state financial projections and indicators to create forecasting algorithms that drive each revenue and expense category in the City's baseline forecast.

The econometric data is statistically correlated with outputs from the City's historical financial data to create four custom forecast trendlines (aggressive, average, conservative and pessimistic).

El Segundo Forecast Model – General Assumptions

- City's baseline forecast built around FY 2024 General Fund budget adopted by the City Council.
- General Fund transfer to CIP only \$1 million annually (prior 10-year average).
- Includes revenues and expenses associated with Topgolf development.
- Chevron Tax Resolution Agreement (TRA) set at prior 10-year average + CPI.
- Incorporates CalPERS UAL amortized loss basis from FY22 -6.2% return.

What is a “Baseline” Forecast?

Neutral, fiscal assessment and decision-making tool that establishes a common understanding of the City's status quo fiscal outlook:

“If the City makes no changes to its organization, operations or service levels, and there are no significant external economic impacts to the City (other than what's known today), what is the predicted condition of the City's finances over the next ten years?”

El Segundo Forecast Model - Major Drivers & Indexes

Key Categories & % of Total	Historical AAGR	Forecast Trendline	Forecast AAGR
Revenues	4.37%		3.07%
<i>Sales & Use Tax (17%)</i>	5.41%	<i>average</i>	3.96%
<i>Business License/Ops. Tax (16%)</i>	1.78%	<i>average</i>	1.66%
<i>TOT (14%)</i>	11.07%	<i>average</i>	4.06%
<i>Property Taxes & VLF (in-lieu) (14%)</i>	5.41%	<i>average</i>	3.96%
<i>Utility User Tax (12%)</i>	4.50%	<i>average</i>	2.39%
Expenses	5.54%		2.46%
<i>Salaries & Wages (38%)</i>	2.33%	<i>fixed @ 2.75%</i>	2.75%
<i>Benefits (excl. pension) (10%)</i>	4.74%	<i>2 x CPI</i>	3.76%
<i>Contractual Services (14%)</i>	7.47%	<i>average</i>	3.36%
<i>Pension (Normal & UAL) (10%)</i>	-6.63%	--	8.91%

10-YEAR BASELINE FORECAST

Baseline Forecast – 10-Year Projections (2024-34)

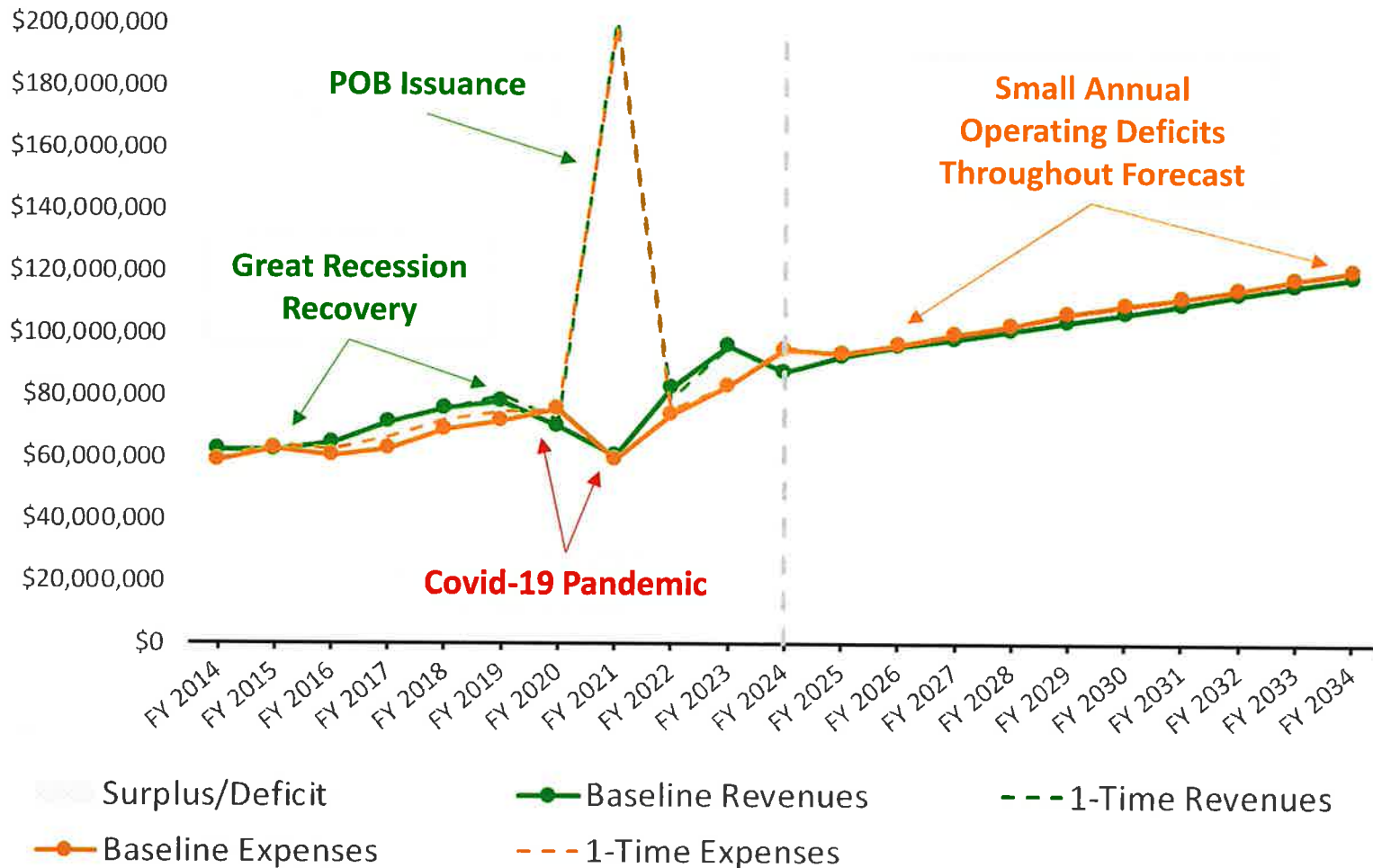
CITY OF EL SEGUNDO- FINANCIAL FORECAST MODEL - BASELINE FORECAST & PRIOR FYS
GENERAL FUND (001)

BASELINE FORECAST			CURRENT FISCAL YEAR 0 FORECAST FISCAL YEARS												
Category/Type	Trendline (expand columns to include prior fiscal years)	Forecast AAGR	-1 FY 2023	0 FY 2024	1 FY 2025	2 FY 2026	3 FY 2027	4 FY 2028	5 FY 2029	6 FY 2030	7 FY 2031	8 FY 2032	9 FY 2033	10 FY 2034	
REVENUES															
1	Property Taxes (incl. VLF In-Lieu)	3.96%	\$ 12,611,051	\$ 12,539,805	\$ 13,073,156	\$ 13,625,035	\$ 14,174,186	\$ 14,756,070	\$ 15,338,609	\$ 15,933,117	\$ 16,540,369	\$ 17,182,216	\$ 17,813,172	\$ 18,484,652	
2	Sales & Use Taxes	2.77%	17,424,472	14,750,000	15,168,045	15,626,260	16,064,894	16,520,724	16,981,615	17,444,363	17,910,177	18,397,900	18,882,466	19,393,561	
3	Utility User Tax (UUT)	2.39%	11,972,721	10,634,000	10,869,508	11,219,579	11,517,481	11,812,566	12,073,350	12,339,482	12,610,837	12,896,315	13,174,662	13,468,629	
4	Transient Occupancy Tax (TOT)	4.06%	14,143,605	12,750,000	13,492,073	14,086,049	14,610,408	15,153,423	15,751,592	16,362,053	16,985,599	17,644,673	18,292,561	18,982,064	
5	Business License/Operations Tax	1.66%	12,748,377	14,256,000	14,526,732	14,823,471	15,103,938	15,379,607	15,620,553	15,866,281	16,096,737	16,328,247	16,564,941	16,807,803	
6	Other Taxes or Assessments	1.97%	206,741	300,000	289,639	317,482	331,612	349,587	355,565	358,878	360,424	361,397	361,996	362,567	
7	Franchise Fees	3.14%	5,738,792	4,200,000	4,315,110	4,431,062	4,536,952	4,644,603	4,812,085	4,983,204	5,158,180	5,343,805	5,525,866	5,720,336	
8	Permits, Fees & Chrgs. for Service	1.62%	9,194,326	7,598,311	7,821,502	8,045,966	8,201,608	8,356,130	8,439,546	8,524,864	8,618,393	8,708,424	8,810,444	8,917,390	
9	Cost Recovery, Earnings & Misc.	3.41%	6,200,272	5,545,008	5,754,541	5,966,042	6,157,777	6,357,783	6,571,313	6,790,725	7,015,834	7,256,518	7,494,166	7,750,361	
10	Variable Revenues & Annual Transfers In	5.81%	6,058,577	5,590,386	7,955,668	8,109,311	8,241,090	8,377,223	8,522,295	8,669,943	8,820,404	8,983,164	9,138,178	9,307,545	
11	One-Time Revenues & Adjustments (Less One-Time Revenues & Adjustments)		48,636 (48,636)	132,000 (132,000)	-	-	-	-	-	-	-	-	-	-	
TOTAL BASELINE REVENUES			3.07%	\$ 96,299,113	\$ 88,163,510	\$ 93,265,975	\$ 96,250,256	\$ 98,939,947	\$ 101,707,717	\$ 104,466,524	\$ 107,272,910	\$ 110,116,955	\$ 113,102,660	\$ 116,058,387	
EXPENSES															
12	Salaries & Wages	2.75%	\$ 32,022,757	\$ 36,481,220	\$ 37,484,453	\$ 38,515,276	\$ 39,574,446	\$ 40,662,743	\$ 41,780,969	\$ 42,929,945	\$ 44,110,519	\$ 45,323,558	\$ 46,569,956	\$ 47,850,630	
13	Benefits	3.76%	12,380,135	12,914,394	13,574,036	14,100,947	14,584,217	15,088,945	15,628,736	16,187,657	16,766,878	17,393,535	18,012,022	18,686,094	
14	Pension & OPEB	8.91%	4,947,753	4,565,554	5,846,602	6,805,725	7,536,773	8,270,709	9,711,012	9,839,936	9,969,759	10,104,397	10,242,509	10,384,177	
15	Contractual Services (labor)	3.36%	10,504,676	13,207,921	13,726,437	14,238,668	14,703,909	15,182,668	15,684,961	16,196,290	16,717,368	17,270,194	17,808,610	18,384,337	
16	Operating Supp. & Equip. (non-labor)	2.87%	6,267,880	6,391,013	6,595,021	6,798,131	6,982,689	7,174,392	7,375,535	7,581,999	7,794,136	8,020,501	8,241,922	8,479,125	
17	Insurance & Liability	2.15%	1,884,002	1,820,000	1,865,389	1,909,391	1,946,947	1,985,733	2,027,167	2,069,361	2,112,383	2,158,987	2,203,292	2,251,773	
18	Debt Service	0.03%	9,799,943	9,807,706	9,813,206	9,813,345	9,811,290	9,819,222	9,823,837	9,824,632	9,822,549	9,826,156	9,834,172	9,835,532	
19	Capital Asset Investments (non-CIP)		-	-	-	-	-	-	-	-	-	-	-	-	
20	Cost Allocation/Internal Charges	0.16%	1,634,336	2,349,623	2,358,081	2,365,107	2,368,612	2,371,891	2,375,477	2,378,549	2,381,102	2,384,154	2,385,404	2,387,264	
21	Variable Expenses & Annual Transfers Out	-5.40%	4,145,420	7,632,500	2,630,000	2,654,939	2,679,116	2,751,751	2,773,062	2,795,828	2,819,012	2,842,650	2,925,457	2,949,800	
22	One-Time Expenses & Adjustments (Less One-Time Expenses & Adjustments)		(57,620) 57,620	1,104,947 (1,104,947)	-	-	-	-	-	-	-	-	-	-	
TOTAL BASELINE EXPENSES			2.46%	\$ 83,586,903	\$ 95,169,930	\$ 93,893,227	\$ 97,201,532	\$ 100,188,000	\$ 103,308,056	\$ 107,180,755	\$ 109,804,199	\$ 112,493,705	\$ 115,324,133	\$ 118,223,344	
Net One-Time & Adjustments + Encumbrances				106,256	(972,947)	-	-	-	-	-	-	-	-	-	
ANNUAL OPERATING SURPLUS/(DEFICIT)				\$ 12,818,467	\$ (7,979,367)	\$ (627,252)	\$ (951,276)	\$ (1,248,054)	\$ (1,600,339)	\$ (2,714,231)	\$ (2,531,289)	\$ (2,376,750)	\$ (2,221,473)	\$ (2,164,957)	\$ (2,013,825)
<i>Adjustment - Audited Net Change in Fund Balance</i>				-	-	-	-	-	-	-	-	-	-	-	
FUND(S) BALANCE - END OF FY				\$ 53,868,816	\$ 45,889,448	\$ 45,262,197	\$ 44,310,921	\$ 43,062,808	\$ 41,462,529	\$ 38,748,297	\$ 36,217,008	\$ 33,840,259	\$ 31,618,786	\$ 29,453,829	\$ 27,440,004
Non-spendable				310,048	310,048	310,048	310,048	310,048	310,048	310,048	310,048	310,048	310,048	310,048	
Restricted				4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	4,543,265	
Committed				-	-	-	-	-	-	-	-	-	-	-	
Assigned				1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	1,397,494	
Economic Uncertainty Reserve (fixed amount)				2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	
General Fund Unassigned Reserve (% of Total Expenses)				20,886,726	23,792,483	23,473,307	24,300,383	25,047,000	25,827,014	26,795,189	27,451,050	25,589,452	23,367,979	21,203,022	19,189,197
UNDESIGNATED FUND BALANCE				\$ 24,721,283	\$ 13,846,159	\$ 13,538,083	\$ 11,759,731	\$ 9,765,060	\$ 7,384,708	\$ 3,702,302	\$ 515,152	\$ -	\$ -	\$ -	\$ -



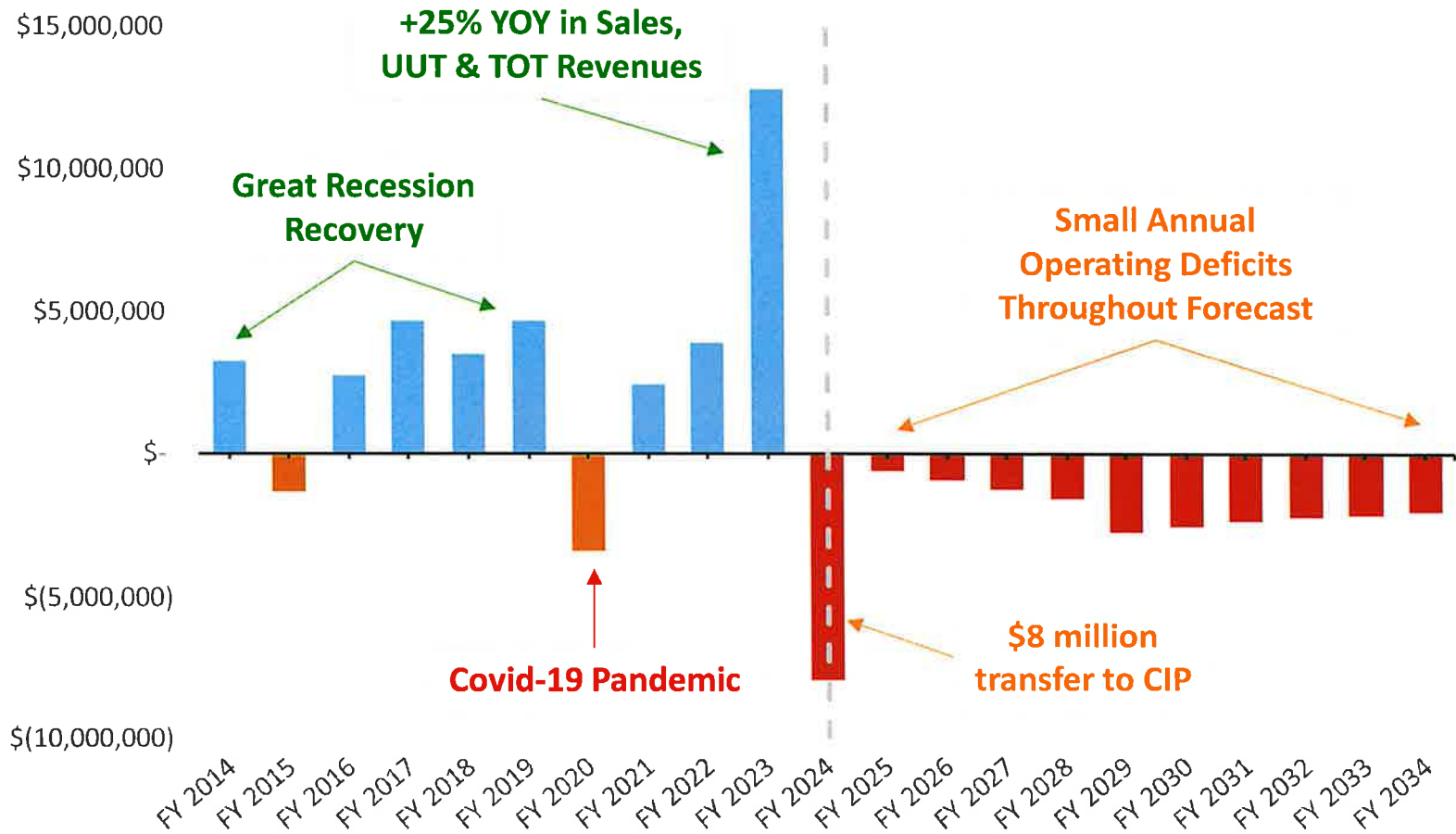
Baseline Forecast – Revenue & Expenses Trends

Total Revenues & Expenses
10-Year Prior and Baseline Forecast



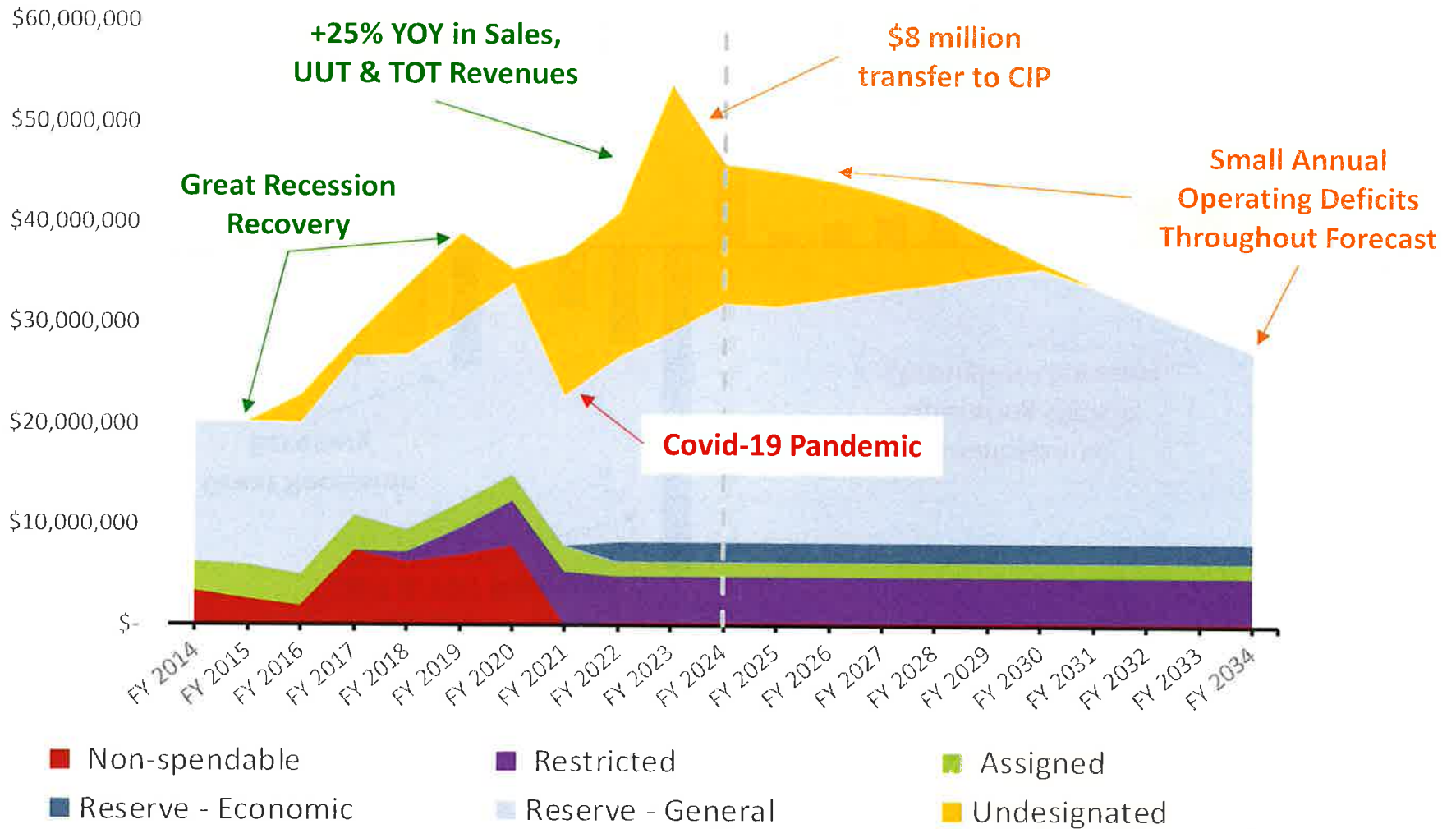
Baseline Forecast – Annual Surplus/(Deficit)

Annual Operating Surplus/(Deficit)
10-Year Prior and Baseline Forecast



Baseline Forecast – Fund Balance Impact

Year End Fund Balance & Allocation
10-Year Prior and Baseline Forecast



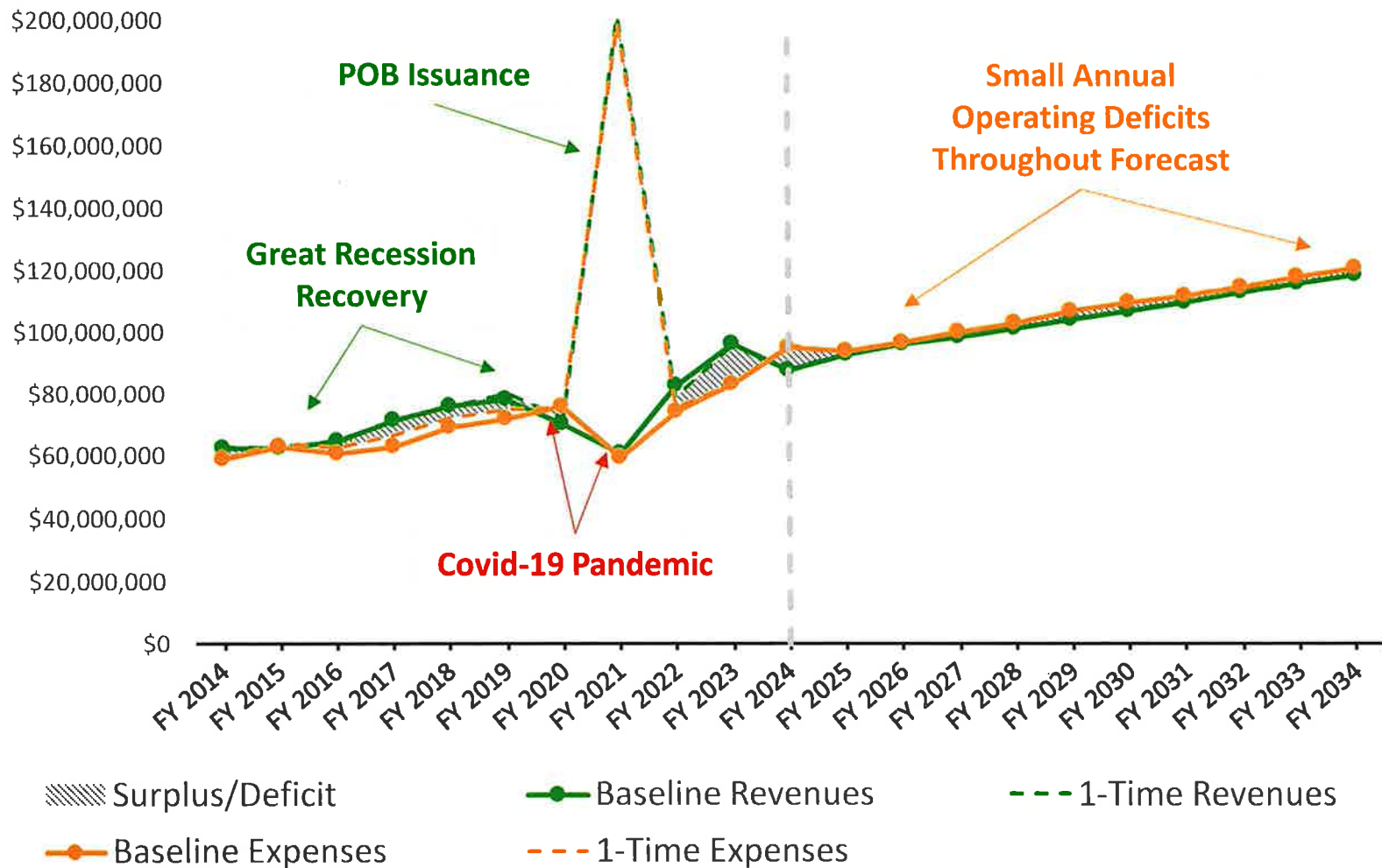
SCENARIO FORECAST

Scenario Forecast – Changed Assumptions

1. Property Tax Revenue. Recent update from HdL indicates the City may receive an additional \$992,000 in Property Tax and VLF revenue than projected currently in FY24 Budget numbers.
2. Pension (UAL) Management. Include annual ADP to CalPERS of \$910,000 to prepay/reduce City's new UAL. Amount is equivalent to Topgolf lease revenue designated for Pension 115 Trust.

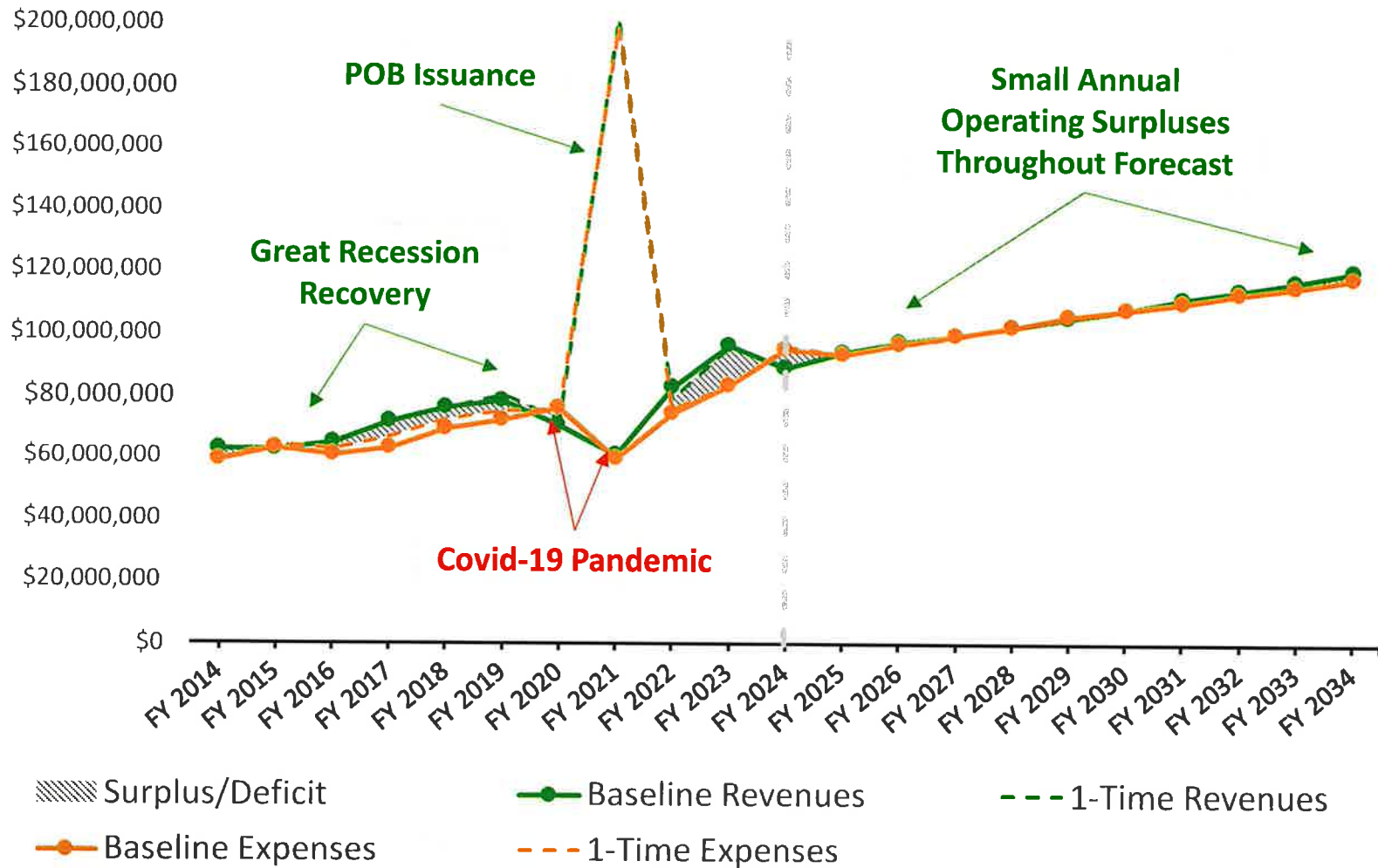
Baseline Forecast – Revenue & Expenses Trends

Total Revenues & Expenses
Baseline Forecast



Scenario Forecast – Revenue & Expenses Trends

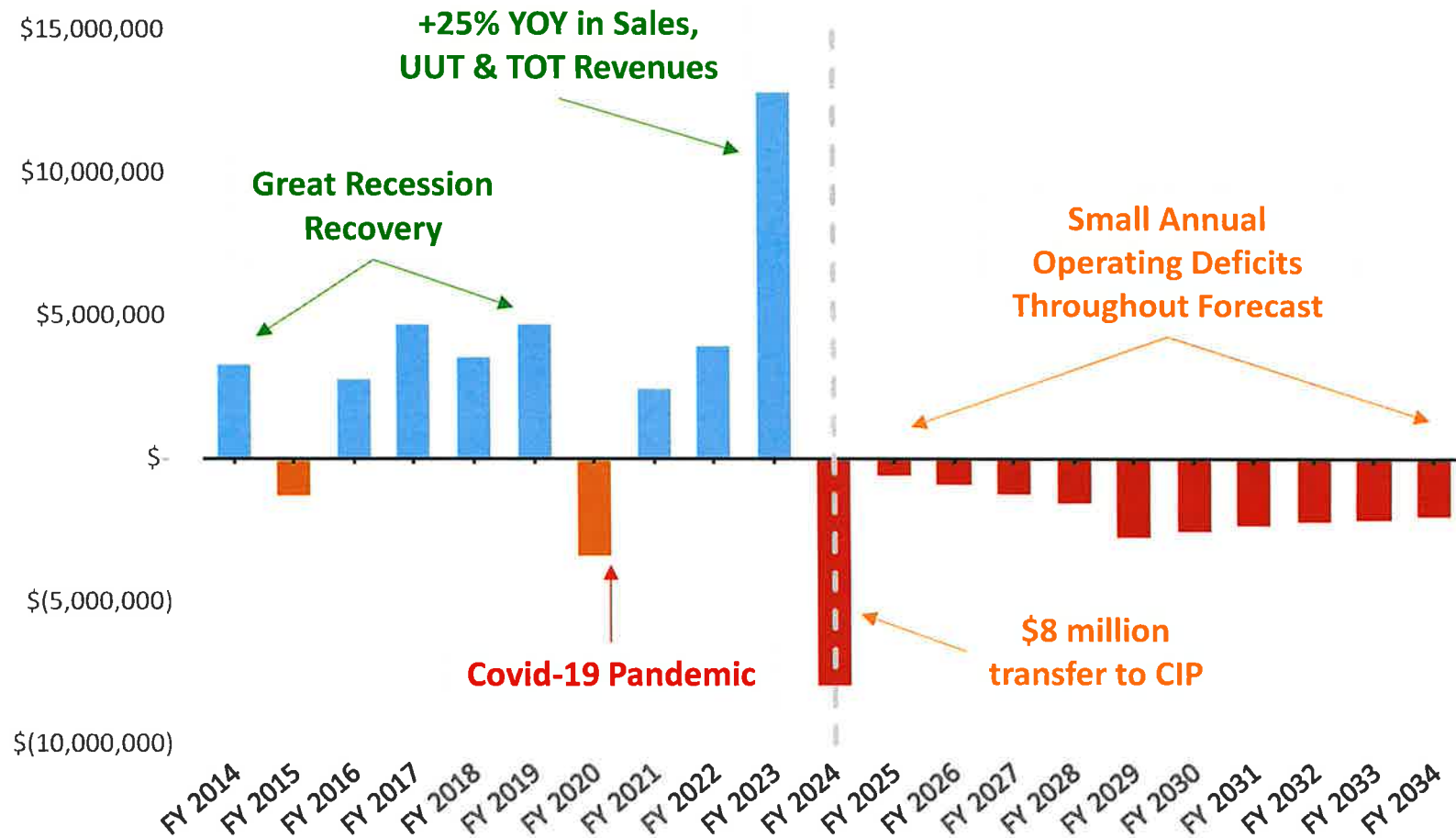
Total Revenues & Expenses Scenario Forecast



Baseline Forecast – Annual Surplus/(Deficit)

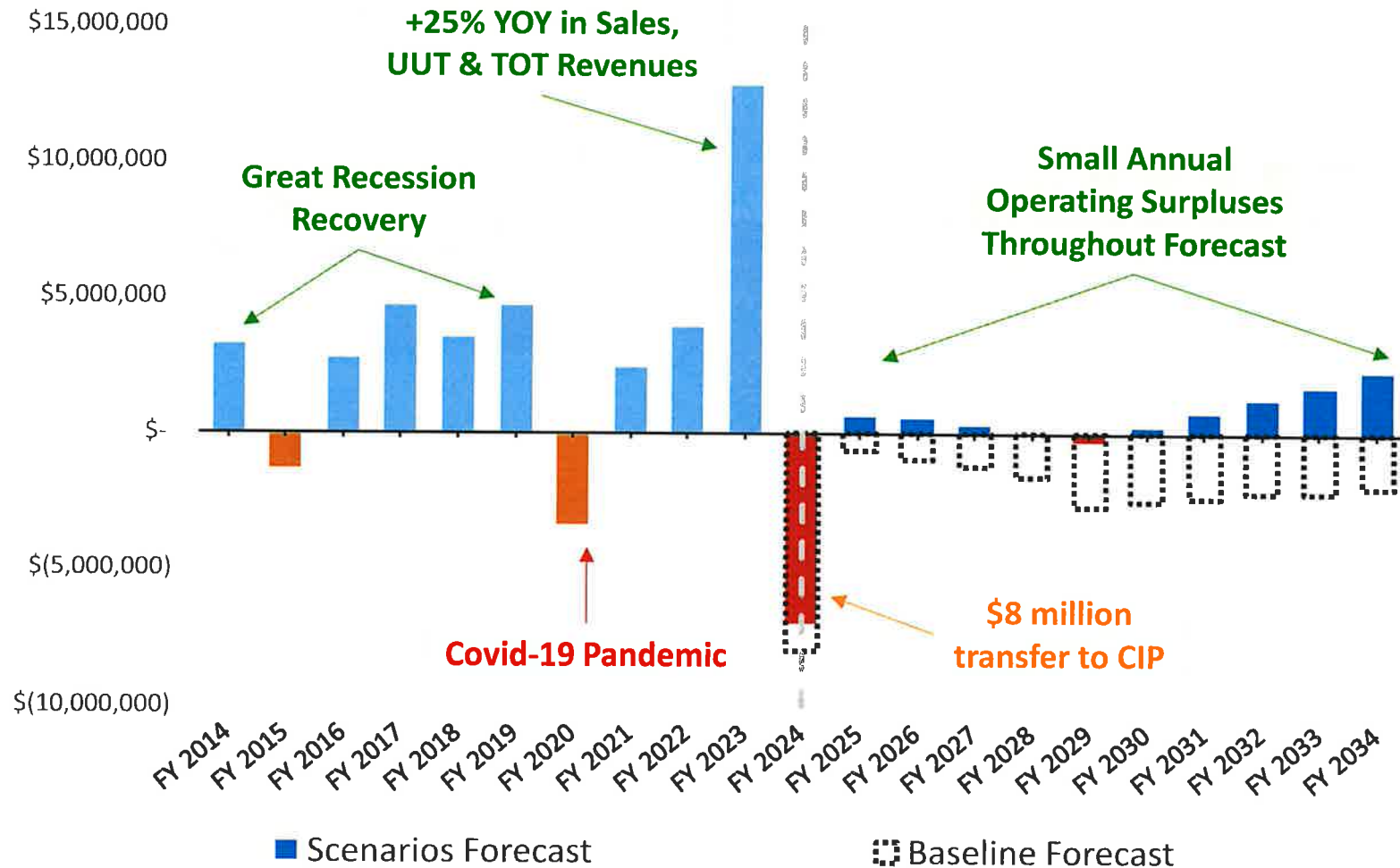
Annual Operating Surplus/(Deficit)

Baseline Forecast



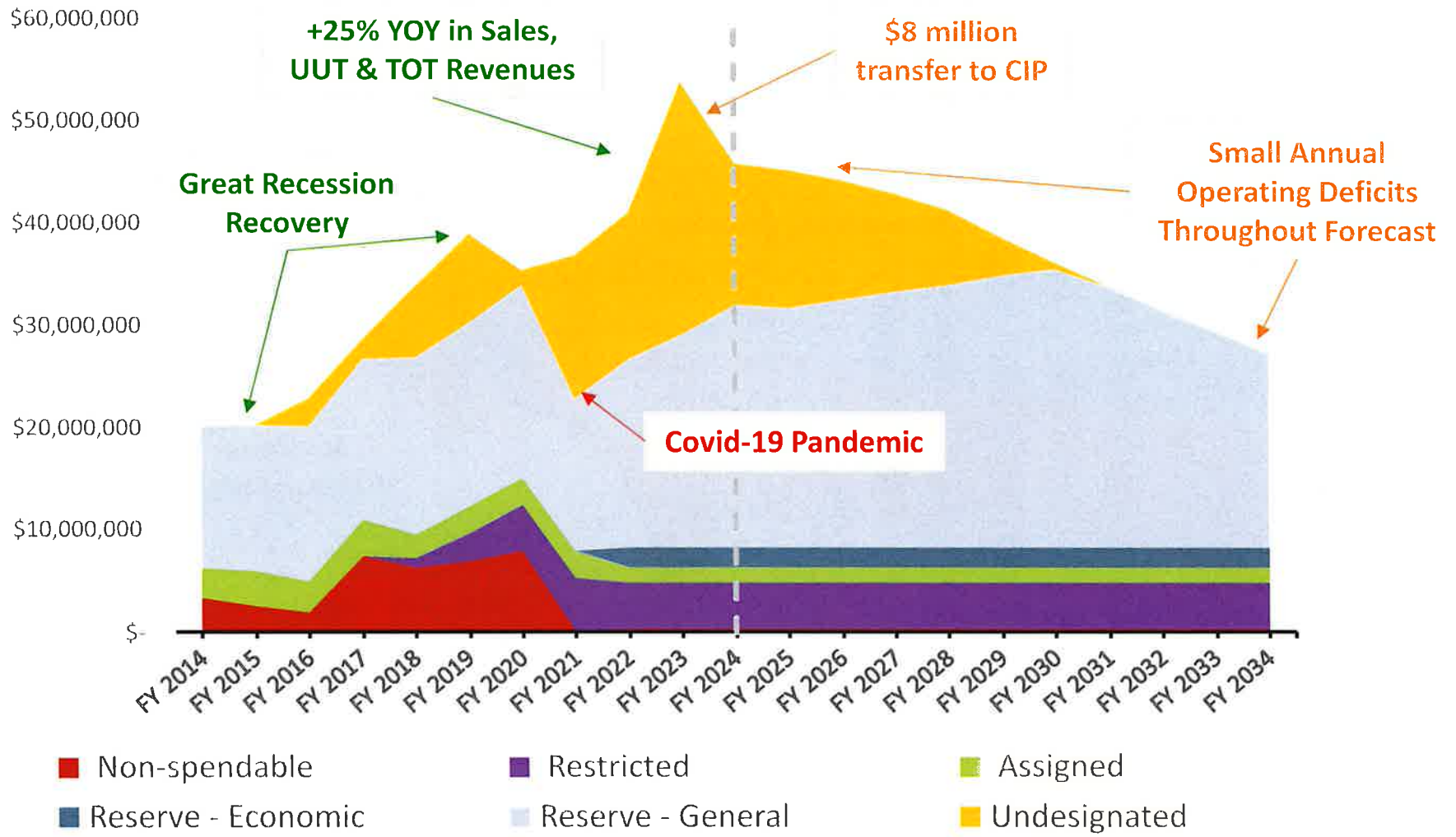
Scenario Forecast – Annual Surplus/(Deficit)

Annual Operating Surplus/(Deficit)
Scenario Forecast

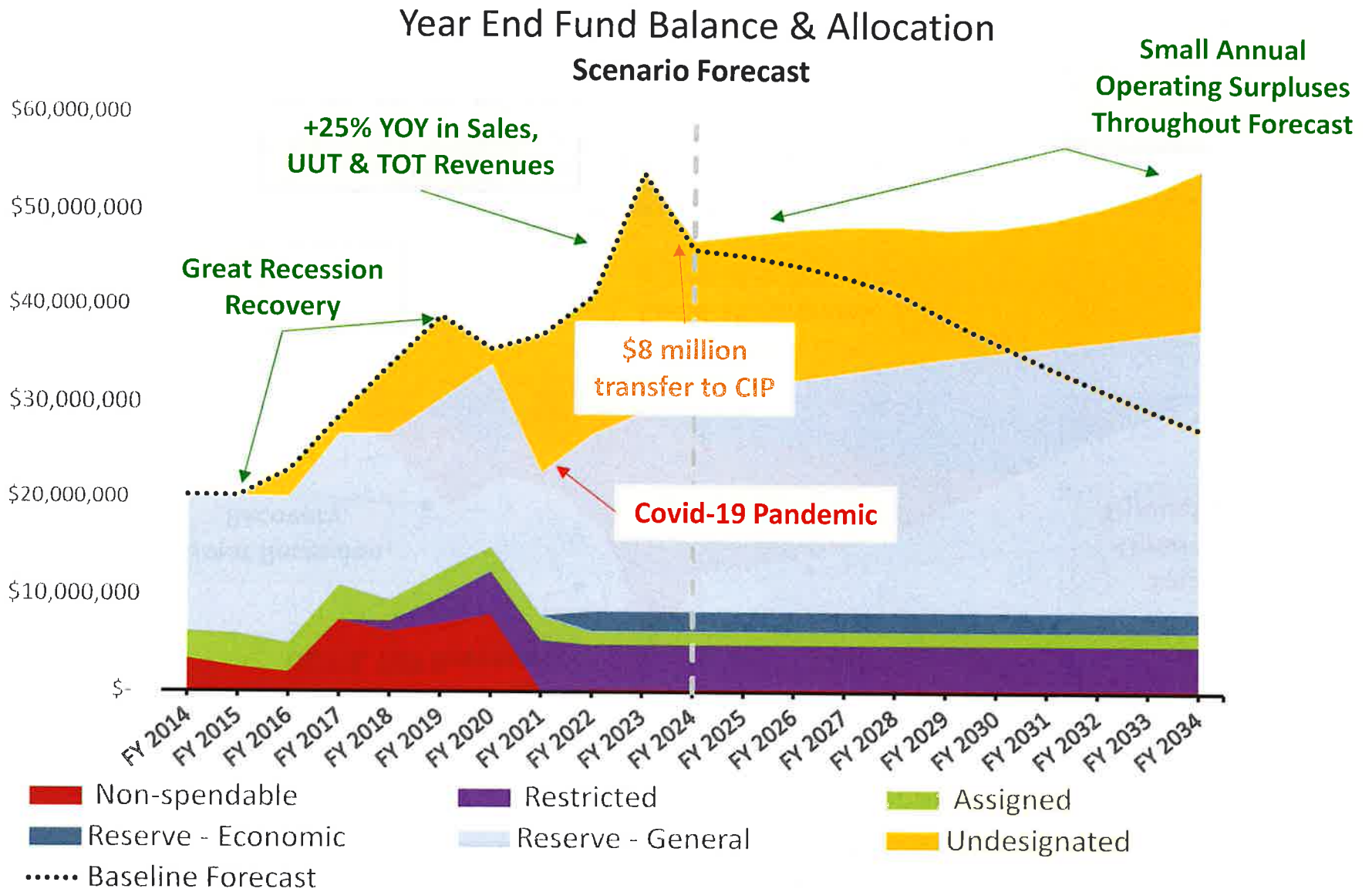


Baseline Forecast – Fund Balance Impact

Year End Fund Balance & Allocation
Baseline Forecast



Baseline Forecast – Fund Balance Impact



FISCAL OUTLOOK

Fiscal Outlook – Strengths & Opportunities



Revenue Diversity

- Good diversity of tax base and not overly reliant on any single-source of revenue.
- Still unused local sales tax capacity.
- **Baseline revenues projected to grow slightly faster than baseline costs.**
- **Business license tax revenue**



Reserves

- Reserves currently fully funded with undesignated fund balance available for some limited one-time expenses.
- **See next slide for challenge of changing annual operating deficits to surpluses to maintain reserves with funding for new initiatives.**



Labor Costs

- City's historical labor cost growth has been moderate.
 - Salaries & Wages 2.3% prior and forecasted at 2.75%.
- **Continued good management of labor/benefit costs critical to sustain fiscal health (almost 50% of expenses).**

Fiscal Outlook – Challenges & Concerns



Contractual Services

- 14% of city expenses.
- 7.5% AAGR over past ten years with most significant growth post-pandemic.
- **Adequate control of contractual services growth rate will be important to long-term fiscal health.**



Pension Management

- Rising UAL converted to level debt service with POB.
- CalPERS -6.2% FY22 returns created significant new unfunded liability.
- **Annual amount (\$910k) designated for proactive UAL cost management.**



Annual Operating Deficits

- Slight but consistent annual operating deficits in Baseline Forecast, driven by new UAL.
- **Some additional cost management or revenue would help solidify surpluses for long-term fiscal stability and new initiatives.**

QUESTIONS?