The City of Mission Viejo has prepared a Master Financial Plan (MFP) as part of its budget development process since 1993. City Council policy currently calls for the MFP to be updated every two years.

This long-range forecasting model is an integral part of the City’s budget process. It is used to project General Fund revenue, expenditures, transfers and capital outlay for the upcoming two-year budget cycle and an additional five years out. The MFP allows for a deeper analysis of how past and current spending decisions will affect future operating costs.

This MFP was prepared as part of the 2019-2021 budget process and focuses on General Fund revenue and expenditures for 2019-2021 plus an additional five years of projections, out to FY 2025/26.

The MFP is not only used to help develop a balanced budget, it provides essential information on projected General Fund reserves and allows for analysis of the amount of resources available to fund equipment replacement as well as asset rehabilitation and repair. The long-range nature of the MFP also allows management and staff to be more proactive in budget planning, using the seven years of projections to plan for anticipated swings in revenue or expenditures. This forecast sets the stage for financial planning but it does not represent formally adopted revenues and expenditures. It provides context for considering the City’s ability to continue current services, maintain existing assets and/or fund new initiatives.

The Value of “The Longer Look”

The two-year budget document focuses on the upcoming two-year fiscal period in detail. It is comprehensive and presents information for all City departments and all City funds on a program basis and at an expenditure category level. Programmatic accomplishments and goals as well as financial results and estimates to accomplish the goals are presented. Historical data is presented for both revenue and expenditures, along with information for the current budget year and the upcoming two years.

The MFP on the other hand takes a longer look, both in retrospect and prospectively. The longer look back provides greater historical context and helps to substantiate the estimates and projections going forward. The longer planning horizon going forward better illustrates the impact of current decisions and assumptions on future financial positions. For example, the impact of seemingly small differences in current growth rates will magnify over time and their impact will be seen more clearly in a plan with a longer horizon than that of a two-year budget.

Methodology/Assumptions

Mission Viejo’s financial forecasting method is based on assessments made by local economists of the local, regional and national economies. These assessments and assumptions set the baseline for projecting the rates of change of Mission Viejo’s revenues and expenditures. The City utilizes Chapman University and California State University Fullerton’s (CSUF) local economic forecast presentations and publications.

The MFP projects revenues, expenditures and reserves in the General Fund, which finances the bulk of the City’s major operations. The period of the revenue forecast and expenditure plan includes the two years of the 2019-21 adopted budget, and then five additional years through FY 2025/26. Each major individual area of revenue and expenditure is accompanied by five years of historical data in order to provide context for the forecasts and related discussions.
Many of the revenue and expenditure forecasts in the plan are driven by key assumptions about inflation rates and projected changes to the City’s population. Given the timing of the 2019-2026 MFP update, and its use in developing the 2019-2021 budget, the December 2018 Chapman University economic update was utilized as the primary basis for the revenue and expenditure projections contained herein. The basic tenets of that forecast, along with additional research conducted by Finance staff were utilized for the current master financial plan update. Chapman University forecast projects U.S. current year inflation to be 2.90%. CSUF projects current year CPI to be 2.70%. According to the Department of Finance, CPI grew an average of 2.2% between 2000 and 2018 in the U.S. During this same period California CPI grew an average of 2.6%, and the CPI for the Los Angeles area grew an average of 2.5%. The MFP uses the historical average growth rate of 2.5% for the Los Angeles area between 2000 and 2018 to develop projections. By using historical average growth rate that includes economic conditions which are often cyclical, there is no single year in which a downturn is depicted in the projection.

Orange County has been a leader among California counties in generating jobs. According to the Employment Development Department (EDD), unemployment rate in Orange County was 3.2% in March 2019, below the state and national rates of 4.6% and 3.9%, respectively. According to the most recent data from EDD, Orange County’s largest industries in terms of employment include Trade, Transportation & Utilities, Professional & Business Services, Educational & Health Services, and Leisure & Hospitality. The Chapman forecast projects Orange County job growth of 1.7% in 2019. Projected job growth and better prospects for income and wages will have a positive impact on consumer spending. Although Chapman and CSUF projects taxable sales in Orange County to increase in 2019 by 3.2% and 4.8%, respectively, sales tax consultant HdL Companies projects no growth in each of the next two fiscal years for Mission Viejo. Historically, sales tax revenue for Mission Viejo has been relatively flat the last several fiscal years.

The City’s population was 96,434 as of January 1, 2019, per the State Department of Finance, slightly down from 96,856 in January 1, 2018. Population is projected to increase in the near term based on the development of Site A and Site C. These developments are not expected to require a significant increase in services. The current city limits are essentially built-out, with only limited capability of increases in population.

Other assumptions in this forecast are based on historical trends of revenues and expenditures, and/or on information from other agencies or consulting groups, including the County of Orange (property values), the Public Employees Retirement System (retirement rates), HdL Companies (sales and property tax data), and data provided to the Orange County Fire Authority (OCFA) by the Rosenow Spevacek Group, Inc (property tax growth estimates).

**General Fund Revenue**

General Fund revenues are comprised of various individual revenue sources, the most significant being property tax and sales tax, which comprise about 82% of all General Fund revenue. The City has been fortunate to have a very strong revenue base. However, the City does have vulnerability due to a lack of revenue diversity.
The seven-year forecast – which includes the 2019-21 adopted budget – presents a conservative growth outlook. As with the two-year budget, the General Fund revenue forecast forms the foundation of the MFP. The average rate of change for the prior five-year period is 2.95%, however, the projections are predicated on the assumption that the economy will continue to expand at a slower pace. While the forecast period does not include the effects of a potential recession, the likelihood of a recession occurring in the next two to three years is increasing and readers should keep that possibility in mind when reviewing the MFP. The 2019-21 adopted budget projects revenues to grow an average of 1.93%, when compared to the FY 2018/19 amended budget. For the five years of the MFP forecast beyond the two-year budget cycle (FY 2021/22 to FY 2025/26), average annual revenue growth is projected to be approximately 1.71%. Overall, the revenue forecast is positive with total General Fund revenue projected to grow an average of 1.77% over the seven-year forecasting period (FY 2019/20 through FY 2025/26).

Within total General Fund revenues, the five most significant revenue sources to watch are: (1) property tax revenue; (2) sales tax revenue; (3) franchise tax revenue; (4) licenses and permits, and (5) charges for services. These revenue streams will be discussed in greater detail in the following sections.

**Property Tax Revenue**

Property tax revenue accounts for approximately 56% of total General Fund revenues, representing the City’s largest single revenue source. The strength of the City’s underlying property tax base has been a prime factor in the City’s financial stability over the years. Assessed values in Orange County have been increasing since the end of the recession. The City’s total assessed value of property (secured and unsecured) is approximately $17.36 billion (as recorded by the Orange County Auditor/Controller and updated for FY 2018/19, which began July 1, 2018). This amount represents an increase in assessed value of 4.99% over the prior fiscal year.
Property tax revenue is projected to increase 4.00% in FY 2019/20 over the amended FY 2018/19 budget and increase 2.84% in FY 2020/21. This category has had an average annual growth rate of 5.01% between FY 2013/14 and FY 2017/18. Current median home values are slightly above pre-recession peaks in 2006, however, economists report that home price appreciation has slowed down both locally and nationally. While the forecast reflects anticipated growth in assessed valuation during this period, it is at a slower pace than prior year average. The 2021-26 MFP forecasts General Fund property tax revenue to increase an average of 2.61% annually.

Sales Tax Revenue

Sales and use tax is the second largest revenue source for the City, behind property tax revenue. Sales tax represents about 26% of total General Fund revenue in the two-year 2019-21 budget cycle. The sales tax recorded in the General Fund includes the sales tax generated by all retail and other sales tax producers in the City, except for the share of the sales tax generated at the Shops at Mission Viejo that is dedicated for the repayment of the bonds issued in 1999 to finance parking improvements. It is important to remember that through 2028 part of City sales tax revenue generated at the Shops of Mission Viejo is diverted to partially pay debt service on the Mission Viejo Mall bonds. After 2028, those funds will revert back to the General Fund. Sales tax growth has leveled off and have been relatively flat in the past several years with the exception of a one-time spike in FY 2015/16. FY 2015/16 receipts were impacted by the elimination of the “triple flip” sales tax exchange resulting in a one-time catch up payment of approximately $1.1 million.
The recent Supreme Court decision in the Wayfair case and recently adopted State legislation in response to that decision should have some effect on our sales tax revenue. HdL Companies estimate the City will see an increase of $1 per capita as a result from the Wayfair case. This increase in revenue of $100,000 is reflected in the FY 2021/22 projection. A growth of 0.05% is projected from FY 2021/22 through FY 2025/26 based on anticipated increase and growth to the County’s pool revenues. The projection assumes the economy will continue to expand at a slower rate and does not enter another recession. It is important to note that if a recession does occur, the City is very vulnerable to sales tax revenue decline. During the Great Recession, the City’s sales tax base declined $3.6 million over a 2-year period. The City has still not returned to its pre-recession peak in 2007. In the event of another recession, a loss in the magnitude of $3.6 million will have a significant effect on current program and service levels provided by the City.

It should be noted that sales taxes are usually generated on a “situs” basis (city or area where the sale takes place). There are a variety of retail transactions that are allocated on a “pool” basis because the California Department of Tax and Fee Administration believes that it would be too difficult to do otherwise. These are generally known as “use taxes.” A portion of the City’s sales tax revenue comes from the pool. Allocations from the pool are made in proportion to a city’s or county’s share of situs revenues; as such, the City receives slightly less than 3% of County pool revenues. Pool taxes are increasing due to online sales and are expected to continue to increase. The graph below captures point of sale sales tax receipts for general consumer goods by retailers with a physical location in town (brick and mortar locations) versus online sales for the calendar years 2000 through 2018 for the State of California. This graph shows brick and mortar sales declining from a high in 2006 and 2007 to a low in 2009 due to the Great Recession. Since 2012, brick and mortar sales have increased 12.2% whereas online activity has grown 143.8% in that same time period.
Franchise Tax

Franchise taxes are imposed by the City on gas, electric, cable television and refuse collection companies for the privilege of using City rights-of-way. Each company is assessed a rate of between one and five percent of their gross receipts. Franchise taxes account for about 4.4% of the City’s General Fund revenues in the 2019-21 budget.

This revenue source has been experiencing stagnant growth, in part because the City’s growth in population has slowed and partly because consumers have been canceling their cable subscriptions and switching to streaming services such as Amazon Prime Video, Hulu, Netflix, and YouTube TV which is not taxed. The City has traditionally diverted 10% of cable franchise revenues received from Cox Communications and AT&T to the Mission Viejo Television Fund. In FY 2015/16 and FY 2017/18, this allocation was increased to supplement Mission Viejo Television Fund activity. With the expected development of Site A and Site C, population is expected to slightly grow, therefore, there will be an increase to gas, electric, and refuse collection service needs. Franchise tax revenue is projected to grow by 0.50% in FY 2021/22 and FY 2022/23, with no growth in the following years.
**Licenses & Permits**

The majority of Licenses & Permits revenue is comprised of building, plumbing, mechanical, electrical and encroachment permits. It should be noted that much of the staff work associated with development activity is contracted out to a private firm and the firm is compensated on a percentage-of-revenue basis. Accordingly, changes – whether positive or negative – in development-related revenue included in this forecast will be primarily reflected in changes to the Community Development Department’s expenditures, since an average of 60% of the revenues are paid to contract staff and inspectors.

This revenue source has averaged about $2.06 million annually between FY 2013/14 and FY 2017/18, or 3.69% of total General Fund revenue. Revenues fluctuate with the amount of building construction projects in the City. Without any anticipated large commercial project, the 2019-21 budget revenue is expected to decrease compared to the amended FY 2018/19 budget. This source of revenue is projected to grow 1% annually thereafter.

**Charges for Services**

Charges for Services is primarily comprised of recreation and tennis center fees, and plan check fees. About 70% of this category’s revenues are recreation and tennis center fees. Recreation fees revenues have remained relatively flat over the last five years. There was a slight decrease during FY 2017/18 compared to FY 2016/17 due to a new software implementation, however, revenues have recovered and are expected to grow 1% annually for FY 2021/22 through FY 2025/26. Continued improvements to our recreational class offerings and recreational amenities should gradually increase consumption of these resources by residents.
Operating Budget Expenditures

Staff has developed a seven-year expenditure plan that can assist the City with successfully navigating the challenging economic times which lie ahead. The MFP compares ongoing expenditures versus revenue that is one-time in nature or of a limited duration. This metric would indicate that the City is relying on short-term revenue to balance the budget.

Expenditures are carefully controlled every year of the plan within available resources. Public safety is given priority and continues to be the program area receiving the greatest portion of General Fund resources over the next seven years. Personnel expenditures are tightly managed and there is no increase to current staffing levels.

The City Council has taken steps to address the rapidly escalating cost of retirement and insurance programs by making large one-time payments to reduce unfunded liabilities in both programs, including the establishment of a Section 115 pension trust fund. Other pension plan reform measures such as the establishment of a second and third tier of pension benefits will further reduce the City’s long-term pension plan obligations. About 46% of the City’s workforce is now covered by the second and third tier benefits program. Finally, 1.5% of the City’s annual normal pension cost was shifted to employees effective January 1, 2018. Despite these efforts, retirement rates are scheduled to increase over this MFP cycle.

For the purposes of budget planning and updating the MFP, certain expenditures are classified as “non-discretionary,” or ongoing. That is, in order to maintain the levels of service Mission Viejo residents have come to enjoy as well as meet the City’s contractual, State and Federal obligations, a set “menu” of expenditures occurs every fiscal year. Non-discretionary expenditures include personnel costs, operating expenditures, debt service on the Library and City Hall bonds, and the subsidies to the animal services and library operations. Capital outlay and capital projects are not included in operating expenditures, but instead are listed on the MFP as “discretionary” or one-time expenditures. (Even though they may be considered discretionary, they are still included in all bottom-line analyses of ending fund balance.)

Since incorporation, the City has provided a very high level of service while providing a wide variety of services. Over the MFP forecast period, there has been a major renovation of the Marguerite Aquatics Center and Felipe Tennis Center, lighting renovations at Cordova Park, and park and playground renovations. In addition, there has been an increased focus on facility maintenance, landscape maintenance, slope rehabilitation, and other infrastructure upgrades.

The expanded and improved facilities along with increased utility costs and minimum wages and our emphasis on increased levels of maintenance and rehabilitation have impacted operating costs. As a result, from FY 2013/14 through FY 2018/19, operating expenditures (excludes personnel) have increased at an annual average rate of 4.99%.

The following graph shows the four components of the operating budget - personnel, operating expenditures, debt service and non-discretionary transfers out. The largest single component continues to be operating expenditures, representing about 74% of total adopted General Fund operating budget expenditures in the 2019-21 two-year budget cycle. Operating expenditures include professional and maintenance contractual services, supplies, insurance, utilities, etc. required to conduct normal business operations. Given the degree to which Mission Viejo relies on contract services, this high percentage is to be expected. Personnel costs account for 23% of total operating budget expenditures in 2019-21.
The following graph shows operating expenditures by department. The two largest areas of spending within operating expenditures are Public Safety and the Infrastructure Maintenance program area. The majority of the Public Safety budget is the contract with the Orange County Sheriff’s Department.
Police Services Contract

The General Fund portion of the Sheriff’s contract for FY 2019/20 is $19.9 million, which represents almost 44% of operating expenditures, or approximately 33% of total adopted General Fund operating budget. The average annual growth rate of 5.36% for police services contract costs from FY 2013/14 to FY 2018/19 for the most part represents the impact of labor contract renewals and the resulting higher costs for salaries and benefits. There were also steady increases resulting from higher costs for services and supplies, transportation and overhead. From FY 2021/22 through FY 2025/26, it’s projected that the police services contract will grow at the rate of 4.0%.

Infrastructure Maintenance

Infrastructure maintenance programs, which include the parks, medians and parkways, trees, street, landscape, facilities, and fleet maintenance programs, totals $16.2 million in FY 2019/20, and represents 36% of operating expenditures, or 27% of the total General Fund operating budget. Since FY 2013/14 this program area has increased at an average of 4.12% due to increasing materials costs, minimum wage and prevailing wage rates. There will be three additional state mandated minimum wage increases during this forecast period. It’s anticipated that expenditures will continue to grow at an average of 2.8% from FY 2021/22 through FY 2025/26.

Personnel Costs

For most cities, personnel costs comprise the largest part of their operating budgets. But for “contract cities,” those that rely significantly on contracts with private entities or other public agencies to provide municipal services, personnel costs make up a much smaller portion of the budget. Because personnel costs are often very difficult to control, contract cities are generally better positioned to respond to economic slowdowns than their “full-service” counterparts.

Personnel costs are driven by the number of authorized positions as well as the cost per position. The latter has increased over time due to the need to maintain a competitive compensation level for attracting and retaining employees, coupled with increasing benefit and retirement costs. The City Council’s policy for many years has been to pay at or above average total compensation in order to attract and retain the best individuals.

In an ongoing effort to decrease the cost per position, the City Council implemented a plan in which employees pay the full 8% share of their retirement by the end of FY 2014/15. This decreased the City’s retirement costs by shifting a greater burden directly onto the employees. The City Council has also implemented a second-tier retirement program for all new employees hired after July 9, 2011. A third retirement tier was enacted by State action in 2013. In January 2018, 1.5% of the City’s PERS employer share pension normal cost was shifted to employees. These changes will decrease costs over the long-run, hence placing Mission Viejo on even stronger financial footing for several decades into the future. 46% of the City’s workforce now falls under these second and third tier retirement programs.

From FY 2013/14 through FY 2018/19, total General Fund personnel costs have grown on average at a rate of 3.04% per year due to increases in salaries, healthcare costs, normal pension cost, and unfunded pension liability. Between FY 2013/14 and FY 2018/19 salaries increased an average of 2.59% due to merit increases. In FY 2016/17 and FY 2017/18 the City increased the fixed monthly employer contribution towards health insurance. As a result, healthcare contributions increased an average of 4.45% between FY 2013/14 and FY 2018/19. (This forecast addresses personnel costs funded from the General Fund. A number of City staff positions are funded from other sources, most notably the Library Fund and the Animal Services Fund.)
Between FY 2019/20 and FY 2025/26 personnel costs will increase by an average of 2.98%. To remain competitive in the Orange County job market and in an effort to maintain our workforce and remunerate employees fairly, the continuation of merit increases is included representing average annual increases in salaries of 3.0%. The forecast reflects no plans to further reduce staffing levels. However, management is always looking at ways to increase efficiency throughout the organization and future reductions in staffing could occur.

The City’s retirement plan is with the California Public Employee Retirement Systems (PERS). The City Council authorized a one-time payment in the amount of $1.5 million against the City’s unfunded liability in June 2015. In FY 2015/16, the Council approved a $3.0 million payment to a Section 115 Pension Trust to reduce the pension unfunded liability by that same amount. In FY 2018/19 the City contributed another $221,000 to the Section 115 Pension Trust and this same contribution is included in both FY 2019/20 and FY 2020/21 budgets. Since 2013, PERS has taken several important steps to reduce risks to the retirement fund and ensure long-term stability including: changing amortization and smoothing policies that spread rate increases or decreases over a five-year period; adopting new demographic assumptions that show retirees are living longer; and approving a new funding risk mitigation policy to incrementally lower the discount rate during good economic times. In December 2016, PERS lowered the investment return estimate to 7% from 7.5%. The lower discount rate was phased in over three years with the final change in FY 2019/20. The lower discount rate increases the average “normal cost” (current year pension cost) employer rate for most miscellaneous plans and all changes have increased the City’s pension unfunded liability.

Normal costs represent the value of the benefits earned by current employees. The table below estimates the portion of annual required retirement contributions that have been and will be directed toward normal costs compared to the unfunded accrued liability (UAL). This table provides a clear indication that the growth in cost is attributable to the unfunded liability. The spikes in fiscal years 2015 and 2016 reflect one-time payments discussed previously. Over the next five fiscal years, the PERS cost is projected to reach $2.67 million by FY 2025/26. The positive impact of the Section 115 Trust Fund is not factored in this chart.
The City maintains a retiree health benefit program in accordance with the requirements of the PERS Health Benefit Program. The City pays a fixed amount for each eligible retired employee to purchase health coverage through the City’s program with PERS Health Benefit Program. This program provides retirees who qualify with a fixed monthly benefit toward the cost of their health insurance premiums. The retiree healthcare funded status became fully funded during FY 2016/17. As of June 30, 2018, the City’s total Other Post-Employment Benefit (OPEB) liability was $9,248,549, however, fiduciary net position was $10,289,258. The retiree healthcare valuation for June 30, 2018 reflected a funded status of 111%.

**Operating Transfers**

General Fund subsidies represent annual transfers to the Animal Services and Library Services functions. These two operations record their revenue and expenditures in separate funds. However, given the high priority of these functions, and their importance to the residents of Mission Viejo, additional support is needed from the General Fund.

**Animal Services Subsidy**

The Animal Services program, part of the public safety program area and organizationally a division within the Public Services department, operates as an enterprise function. That is, all revenue and expenditures are recorded in a fund separate from the General Fund. The City of Mission Viejo currently provides animal services support to the cities of Aliso Viejo, Laguna Hills, Laguna Niguel, and Rancho Santa Margarita. These contract cities in turn provide pro-rata support based on the ratio of their populations to the total population of the five cities combined.

Even with this support, as well as revenue from animal licensing, impound and adoption fees, it is still necessary for the General Fund to subsidize animal services operations. For each two-year budget cycle, the General Fund subsidy is calculated as the net difference between revenue, which includes the support from the four contract cities, and expenditures.

From FY 2013/14 to FY 2018/19, the General Fund transfer to the Animal Services fund averaged $604,109 including a payment to PERS related to retirement costs in FY 2015/16. The 2019-21 adopted budget has the General Fund subsidy at an average cost of $587,151. In FY 2020/21 there is a one-time decrease of the subsidy to $561,125 to use $100,000 of Animal Services Fund reserves. The subsidy is projected to grow between FY 2021/22 and FY 2025/26 by 2.5% annually based on the FY 2020/21 normal subsidy amount. The average subsidy between FY 2021/22 and FY 2025/26 is $712,393.

**Library Services Subsidy**

The subsidy to the Library Services department represents the amount of General Fund support provided to the Mission Viejo Library. Most library related costs are paid from the Library Fund (Fund 201), in which revenue from property tax earmarked for library services, State subventions for library services and the various library fees and charges are recorded.

The Library Services Department provides one of most popular services to residents and usage remains high. While the Library Services Department receives revenue from various sources (passport processing, passport photos, library fees & fines, etc.), property tax remains the largest, single source of revenue. From FY 2013/14 through FY 2018/19, the General Fund transfer to the Library fund averaged $553,710 including a payment to PERS related to retirement costs in FY 2015/16. For FY 2019/20, the General Fund transfer to the Library Fund will be $439,412. In FY 2020/21 there is a one-time decrease of the subsidy to $294,367 to use $150,000 of Library Fund reserves. The subsidy is projected to grow
between FY 2021/22 and FY 2025/26 by 2.5% annually based on the FY 2020/21 normal subsidy amount, which averages $478,826 annually.

City Hall Bond Debt Service

Lease Revenue Bonds were issued to fund construction of City Hall and expansion of the library. These bonds were refunded in 2016 to take advantage of low interest rates in order to reduce annual and total debt service costs. Debt service on the 2016 bonds is $1,136,063 in FY 2019/20, and $1,131,913 in FY 2020/21. These payments comprise approximately 2% of General Fund revenue in each fiscal year. From FY 2021/22 until the loan is paid off in FY 2030/31, debt service payments are approximately $1.06 million annually (these are fixed amounts per the amortization schedule).

Revenue Less Ongoing Expenditures and Non-Discretionary Transfers

The difference between General Fund revenues and the sum of General Fund personnel, operating expenditures, debt service, and non-discretionary transfer expenditures is an important figure. This amount represents the difference (surplus or deficit) between ongoing revenue and ongoing (non-discretionary) expenditures. This variance presents a good indication of whether the City’s day to day operations are costing more than the ongoing, expected revenue. The graph below illustrates revenue, not including one-time revenues, less mandatory expenditures. The 2019-21 budget relies on the one-time revenue from the release of the Mall Bond Rolling Reserve to maintain a balanced budget. Given the revenue and expenditure projections included in this MFP update, draws against reserves will be needed to fund ongoing expenditures and balance the budget if the City were to keep all programs and services at current levels. It is important to note that the MFP projections do not include any capital improvement spending from the General Fund from FY 2021/22 through FY 2025/26.

*Ongoing expenditures include Personnel (salary and benefits), Operating Expenditures, Debt Service, and Non-discretionary transfers out (e.g., Animal Services and Library Fund subsidies).
Other Transfer: Mall Bond Rolling Reserve Release

The Mall Bond Rolling Reserve Release represents the portion of sales tax revenue generated by the Shops at Mission Viejo mall not needed to pay the debt service on the Mall Series A bonds. These funds are held for a year to provide extra security for payment of annual debt service. After the year holding period, the excess funds are released and used either to pay the Series B mall bond debt service or to be returned to the City’s General Fund.

The size of the rolling reserve release that is kept by the City each year and the amount of funds repaid to the City by the mall owner are dependent on the level of sales tax generated by the Shops at Mission Viejo. All of these variables make the amounts “released” in any given year subject to wide fluctuations and are an unpredictable source of General Fund revenue. That is why this source of revenue is not included as part of “ongoing revenue.” In an effort to get a better grasp of one-time vs. ongoing revenue, this update of the MFP places a greater focus on identifying items such as the rolling reserve release revenue that can fluctuate widely and which should not be part of the baseline MFP forecast.

The Mall bonds mature in 2028 after which all sales tax generated at the Shops of Mission Viejo will flow to the General Fund. Through 2028, because of the unpredictability of this revenue source, it is most appropriate to consider it useful for funding only one-time expenditures, such as capital items or transfers to other reserve funds. For FY 2019/20 through FY 2025/26, annual rolling reserve release revenue ranging from $0.76 million to $1.70 million is included as discretionary/one-time revenue. The FY 2019/20 amount of $1.70 million is based on sales tax resources currently being retained by the bond trustee and is expected to be returned to the City. Rolling reserve release projections for FY 2020/21 and beyond are based on an analysis of sales tax projections and amounts needed for debt service payments on the Mall Series A bonds. The amount available in the rolling reserve release is known one year before it is released which provides an opportunity to adjust plans if necessary.

A Discussion of Reserves

The City’s reserves are intended to provide a substantial cushion for absorbing unforeseen events. These reserves are an essential first line of defense against unexpected economic emergencies or natural disaster. Reserves are comprised of the fund balances set aside in the General Fund. One of the reasons for developing and regularly updating the MFP is to have an analytic tool that assists management in making decisions aimed at maintaining reserves at City Council established levels. Based on the 2019 biennial risk analysis, the target level for General Fund reserves established by City Council action is $29.0 million, or 49% of FY 2018/19 estimated General Fund revenue of $59 million. The minimum reserve level is set at $26.0 million, or 44% of FY 2018/19 estimated General Fund revenue. For the 2019-21 adopted budget, the levels are projected to be 46% for both fiscal years. The following graph shows what would happen to reserves if the City chose to continue to fund operations at current levels and to utilize General Fund reserves to fund the operating expenditures projected in this MFP out to FY 2025/26. It will be the intention of Staff, based on City financial management policies and responsible fiscal management, to prepare and present only balanced budgets to the City Council for adoption, so we do not anticipate the following reduction in reserves to occur.
Closing Observations and Recommendations

As with any forecast, many of the projections are outdated the moment they are printed. While this MFP update does not deem itself perfect, it is useful in plotting out future budget decisions based on a “big picture” view of the City’s projected revenue and expenditures. The dynamic nature of this MFP allows management to make near-term and long-term decisions and immediately see their projected impact on expenditures, revenue, and ultimately fund balances.

Whether it is increasing equipment replacement or facility repairs, shifting funds from one program area to another, further pension funding issues, or contemplating changes to staffing levels, this MFP can forecast the ripple effects on the bottom line. Keeping the City Council target reserve level in sight is much easier when a useful analytic tool such as this MFP is available. Furthermore, depending on what might happen to the economy during the two-year budget cycle, any changes related to revenue the City receives (property and sales tax for example) can immediately be placed in the MFP and the effects on future fiscal years analyzed in detail.

Although economists say there are no signs of an imminent recession, one is pending and will happen at some point. Should the nation slip back into another recession then the revenue projections contained in this updated MFP will need to be re-evaluated. Staff will continue to work diligently to monitor ongoing revenue and expenditures and make whatever budgetary changes are necessary in order to maintain a balanced budget while keeping General Fund reserves at or above the City Council determined target level.
# MASTER FINANCIAL PLAN - GENERAL FUND

## GENERAL FUND

### REVENUES:
- **Taxes:**
  - **Property Tax:** 25,327,081
  - **Sales Tax:** 9,206,300
  - **Sales Tax in Lieu:** 4,316,288
  - **Sales Tax - Mall:** 1,955,391
  - **Franchise Tax:** 2,908,188
  - **Transitory Occupancy Tax:** 749,316
  - **Real Property Transfer Tax:** 522,333

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<td>13,386,945</td>
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<tr>
<td><strong>Sales Tax in Lieu</strong></td>
<td>4,316,288</td>
<td>4,211,353</td>
<td>3,324,689</td>
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<td>-</td>
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</tr>
<tr>
<td><strong>Sales Tax - Mall</strong></td>
<td>1,955,391</td>
<td>2,314,230</td>
<td>1,971,181</td>
<td>2,116,435</td>
<td>2,090,510</td>
<td>2,057,000</td>
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<td>2,057,000</td>
<td>2,057,000</td>
<td>2,058,029</td>
<td>2,059,058</td>
<td>2,060,087</td>
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<tr>
<td><strong>Franchise Tax</strong></td>
<td>2,908,188</td>
<td>3,045,717</td>
<td>2,877,953</td>
<td>2,608,129</td>
<td>2,704,182</td>
<td>2,500,000</td>
<td>2,700,000</td>
<td>2,675,250</td>
<td>2,688,626</td>
<td>2,702,069</td>
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<td><strong>Transitory Occupancy Tax</strong></td>
<td>749,316</td>
<td>826,242</td>
<td>862,409</td>
<td>882,265</td>
<td>1,062,423</td>
<td>1,100,000</td>
<td>1,206,000</td>
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<td>1,206,000</td>
<td>1,206,000</td>
<td>1,297,817</td>
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<tr>
<td><strong>Real Property Transfer Tax</strong></td>
<td>522,333</td>
<td>615,641</td>
<td>593,415</td>
<td>671,752</td>
<td>736,109</td>
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**Subtotal, Taxes:** 44,966,897

- **Licenses & Permits:** 2,123,226
- **Intergovernmental Revenues:** 353,039
- **Charges for Services:** 2,429,323
- **Licenses & Permits:** 838,582
- **Use of Money & Property:** 1,090,636
- **Miscellaneous Revenues:** 1,066,324

**TOTAL REVENUES:** 52,888,027

### OPERATING BUDGET EXPENDITURES:

#### PERSONNEL
- **Salaries:** 8,168,739
- **Benefits:** 786,063
- **Charges for Services:** 2,429,323
- **Licenses & Permits:** 838,582
- **Use of Money & Property:** 1,090,636
- **Miscellaneous Revenues:** 1,066,324

**TOTAL PERSONNEL:** 12,261,549

#### OPERATING EXPENDITURES
- **Sales Tax:** 9,208,300
- **Sales Tax in Lieu:** 4,316,288
- **2009 Bond Refinance Debt Service:** 1,358,886
- **Sales Tax - Mall:** 1,955,391
- **Franchise Tax:** 2,908,188
- **Real Property Transfer Tax:** 522,333

**TOTAL, OPERATING EXPENDITURES:** 35,737,303

#### TOTAL, CAPITAL OUTLAY
- **General Government/Admin Svcs:** 2,972,720
- **Public Safety:** 14,979,608
- **Subtotal Police Services:** 15,309,572
- **Public Services/Infrastructure Maintenance:** 12,905,126
- **Public Works:** 1,164,805
- **Community Development:** 1,282,256
- **Recreation and Community Services:** 2,021,823
- **Library Services:** 81,001

**TOTAL, CAPITAL OUTLAY:** 563,982

#### EXISTING DEBT SERVICE:
- **Computer & Data Domain Lease:** -
- **Proceeds From Debt Issuance:** (420,000)
- **2016 Lease Revenue Refunding:** -
- **2009 Bond Refinance Debt Service:** 1,358,886

**TOTAL, DEBT SERVICE COSTS:** 1,358,886

**TOTAL OPERATING BUDGET EXPENDITURES:** 49,921,719
### Master Financial Plan - General Fund

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>REVENUES LESS OPERATING EXPENDITURES:</td>
<td>2,966,308</td>
<td>(452,933)</td>
<td>855,440</td>
<td>989,832</td>
<td>961,604</td>
<td>(1,200,354)</td>
<td>(558,020)</td>
<td>(23,000)</td>
<td>(1,062,290)</td>
<td>(2,030,669)</td>
<td>(2,867,096)</td>
<td>(3,829,402)</td>
<td>(4,835,923)</td>
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<td>NON-DISCRETIONARY TRANSFERS OUT:</td>
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<tr>
<td>Other Misc Fund Transfers</td>
<td>(102,249)</td>
<td></td>
<td>(105,046)</td>
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<tr>
<td>TOTAL, TRANSFERS OUT</td>
<td>(1,400,114)</td>
<td>(1,126,046)</td>
<td>(2,108,928)</td>
<td>(1,004,585)</td>
<td>(826,350)</td>
<td>(802,787)</td>
<td>(1,052,588)</td>
<td>(855,492)</td>
<td>(1,133,129)</td>
<td>(1,161,458)</td>
<td>(1,190,494)</td>
<td>(1,220,256)</td>
<td>(1,250,763)</td>
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<td>REVENUES LESS MANDATORY EXPENDITURES</td>
<td>1,566,195</td>
<td>(1,578,979)</td>
<td>(1,253,488)</td>
<td>(14,753)</td>
<td>135,254</td>
<td>(2,003,141)</td>
<td>(1,610,608)</td>
<td>(878,492)</td>
<td>(2,195,419)</td>
<td>(3,192,126)</td>
<td>(4,057,590)</td>
<td>(5,049,659)</td>
<td>(6,086,686)</td>
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<td>TRANSFERS IN:</td>
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<td></td>
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<tr>
<td>Mall Bond Rolling Reserve Release</td>
<td>603,061</td>
<td>794,573</td>
<td>565,918</td>
<td>1,956,599</td>
<td>1,592,416</td>
<td>1,053,295</td>
<td>1,695,142</td>
<td>1,341,827</td>
<td>878,747</td>
<td>762,715</td>
<td>775,599</td>
<td>793,053</td>
<td>811,483</td>
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<tr>
<td>TOTAL, TRANSFERS IN</td>
<td>603,061</td>
<td>794,573</td>
<td>565,918</td>
<td>1,956,599</td>
<td>1,592,416</td>
<td>1,053,295</td>
<td>1,695,142</td>
<td>1,341,827</td>
<td>878,747</td>
<td>762,715</td>
<td>775,599</td>
<td>793,053</td>
<td>811,483</td>
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<tr>
<td>NET, TRANSFERS</td>
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<td>(331,473)</td>
<td>(1,543,010)</td>
<td>952,014</td>
<td>766,066</td>
<td>250,508</td>
<td>642,554</td>
<td>486,335</td>
<td>(254,382)</td>
<td>(398,743)</td>
<td>(414,895)</td>
<td>(427,203)</td>
<td>(439,280)</td>
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<td>276,465</td>
<td>1,791,021</td>
<td>135,175</td>
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<td>60,000</td>
<td>20,000</td>
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<td>CAPITAL PROJECTS</td>
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<td>32,414</td>
<td>98,494</td>
<td>4,787,565</td>
<td>3,845,251</td>
<td>749,291</td>
<td>140,000</td>
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<tr>
<td>Net Available Resources</td>
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<td>1,810,962</td>
<td>(509,599)</td>
<td>(1,054,698)</td>
<td>(1,962,406)</td>
<td>(1,699,137)</td>
<td>4,534</td>
<td>483,335</td>
<td>(1,316,672)</td>
<td>(2,429,411)</td>
<td>(3,281,991)</td>
<td>(4,256,606)</td>
<td>(5,275,203)</td>
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</table>

| Reserves ($ millions) | 27.4 | 29.4 | 27.4 | 27.2 | 27.8 | 27.9 | 27.9 | 28.4 | 27.1 | 24.6 | 21.4 | 17.1 | 11.8 |
| Percent of General Fund Revenue | 52% | 54% | 48% | 47% | 48% | 47% | 46% | 46% | 43% | 39% | 33% | 26% | 18% |
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