



LEAGUE OF
**CALIFORNIA
CITIES**

The Fallacy of Recovery

Understanding Key Revenue Drivers and How it Impacts your Economic Resiliency



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- Inflation & Revenue Volatility
- Leverage, Pensions & Operational Flexibility and Establishing Reserves
- The Point of Convergence
- Importance of Long-Term Forecasting
- Labor Forecasting vs. Costing
- Pension Cost Trends
- Facing Uncertainty
- Measures to Ensure Economic Resiliency
- Staff Composition (contracting / part-time)
- Revenue Measures & Sunset Dates
- City Manager's Perspective
- Strategic Thinking / Role of CFO

Q&A

Impact of Inflation

Impact of Inflation

The Federal Reserve

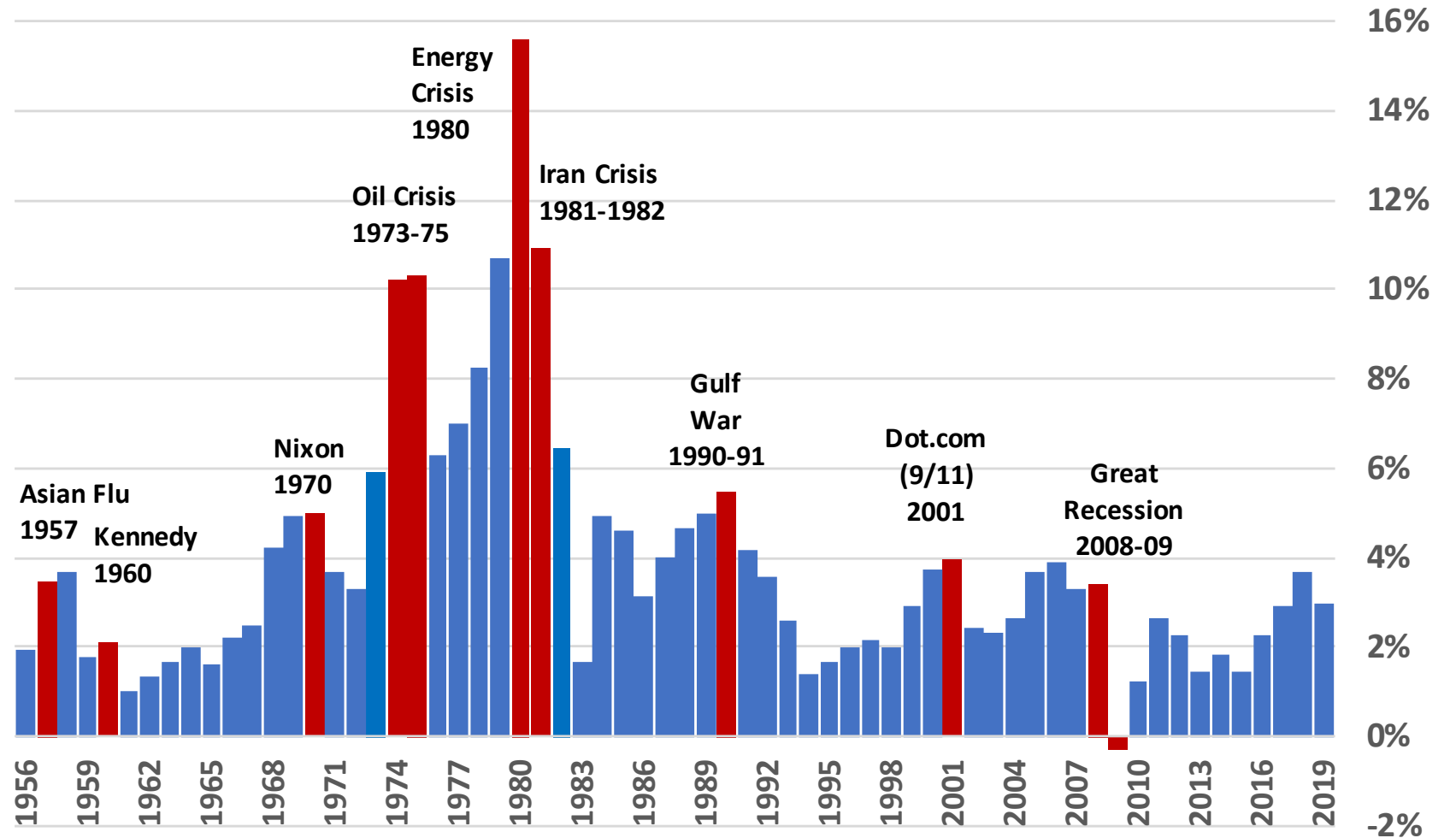
Inflation is the increase in the prices of goods and services over time. Inflation cannot be measured by an increase in the cost of one product or service, or even several products or services. Rather, inflation is a general increase in the overall price level of the goods and services in the economy.

Things Costs More

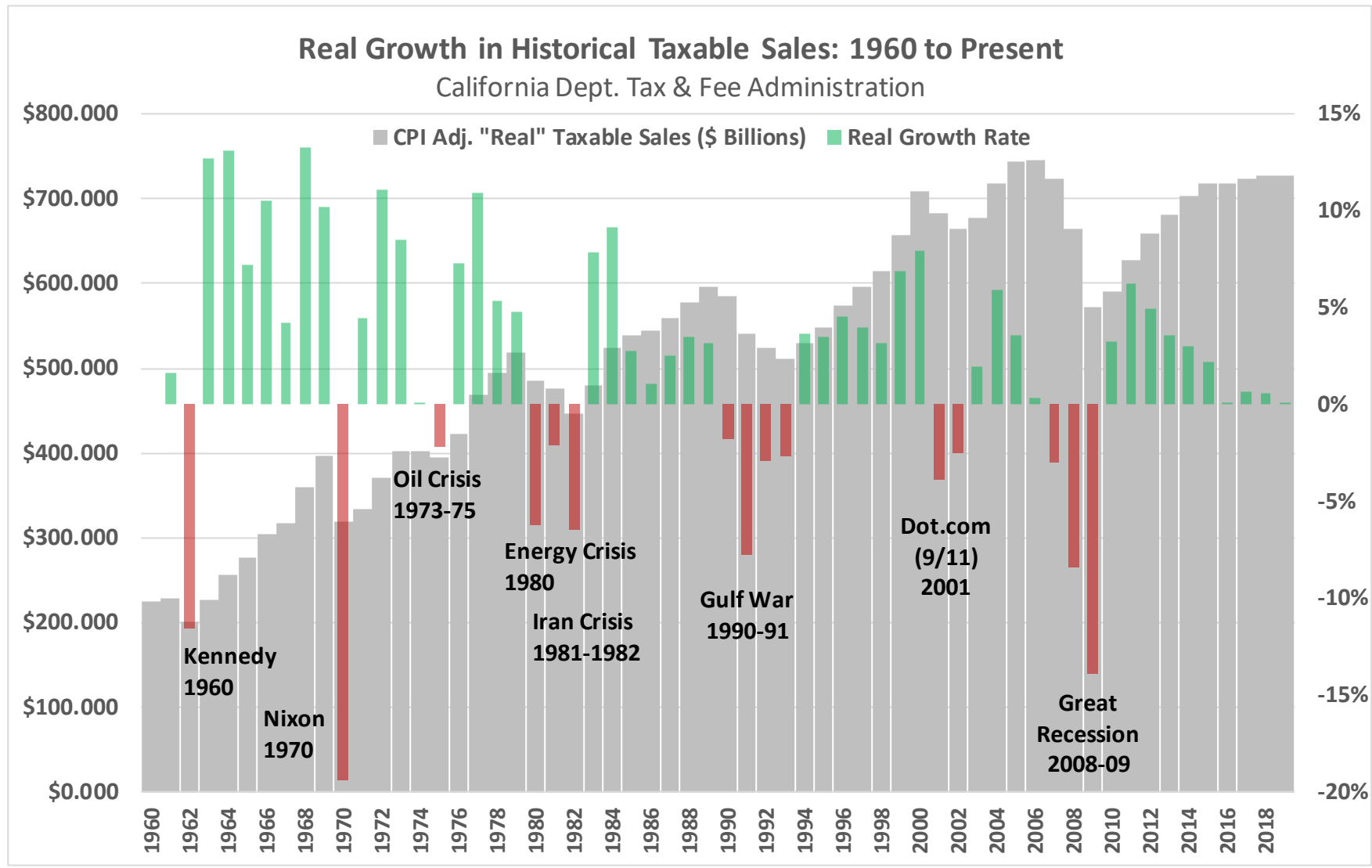
You get less for the Same Amount

Inflation and Recession Highly Correlated

California CPI: 1955 to 2019







Taxable Sales



Revenue Volatility

Revenues Based on Volatility

Revenue Elasticity
Brookings Institute (LAECD)

-  Highest Elasticity
-  High Elasticity
-  Unit Elastic
-  Inelastic

Diversity & Stability provides Economic Resiliency

PROPERTY TAX



35%

\$3.5 million

Stable Revenues

Steady growth projected

SALES TAX & TOT



25%

\$2.5 million

Volatile Revenues

Rebound & then flatten

COST RECOVERY (user fees)



13%

\$1.3 million

Cost Recovery

Indexed to Wage/Salary Growth

FRANCHISE FEES (UUT)



20%

\$2.0 million

Utility-based, consistent

Slower projected growth

DEVELOPMENT-RELATED FEES



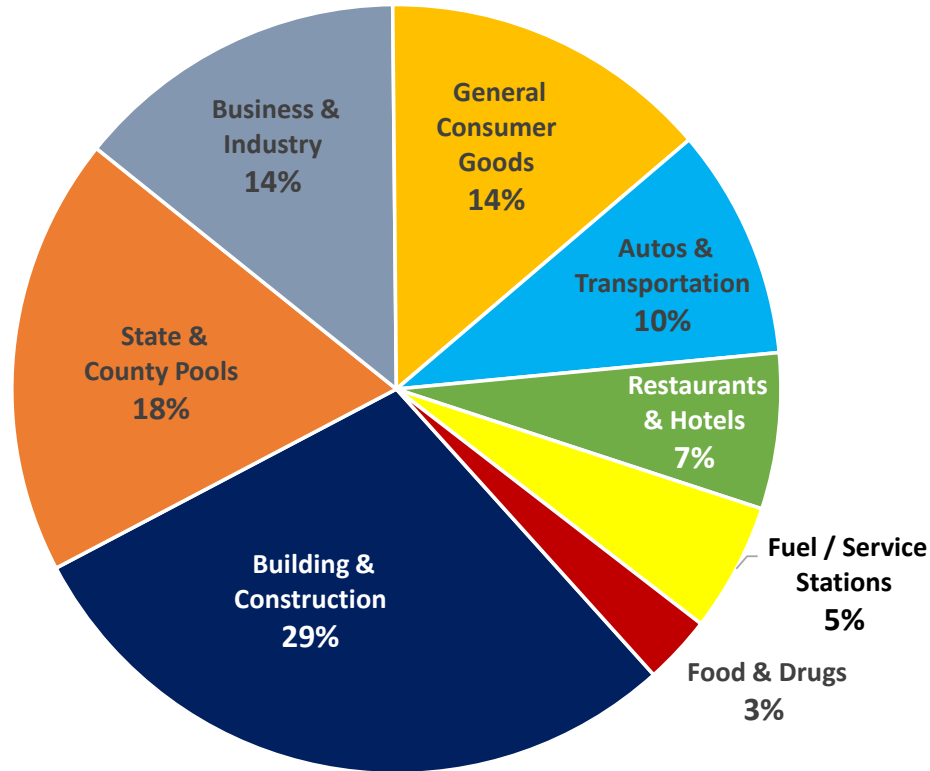
7%

\$700,000

Volatile Revenues

Sales Tax Volatility by Category

Sales Tax by HdL Major Industry Group



Sales Tax Volatility

Pew Charitable Trust

Name	StDev	% Dist.	Score
1 All Other Outlets	3.7%	44.7%	1.7%
2 Building Material and Garden	3.6%	5.6%	0.2%
3 Clothing & Accessories	2.8%	2.5%	0.1%
4 Food and Beverage Stores	1.9%	2.7%	0.1%
5 Food Service / Drinking Places	2.8%	8.7%	0.2%
6 Gasoline Stations	13.0%	9.1%	1.2%
7 General Merchandise Stores	1.9%	10.1%	0.2%
8 Home Furnishings & Appliances	9.0%	3.5%	0.3%
9 Motor Vehicle & Parts Dealers	8.9%	9.3%	0.8%
10 Other Retail Group	2.4%	3.8%	0.1%
11 Total All Outlets	3.3%	100%	4.8%

10-Year Sales Tax Data by Category provided by California Department of Tax and Fee Administration

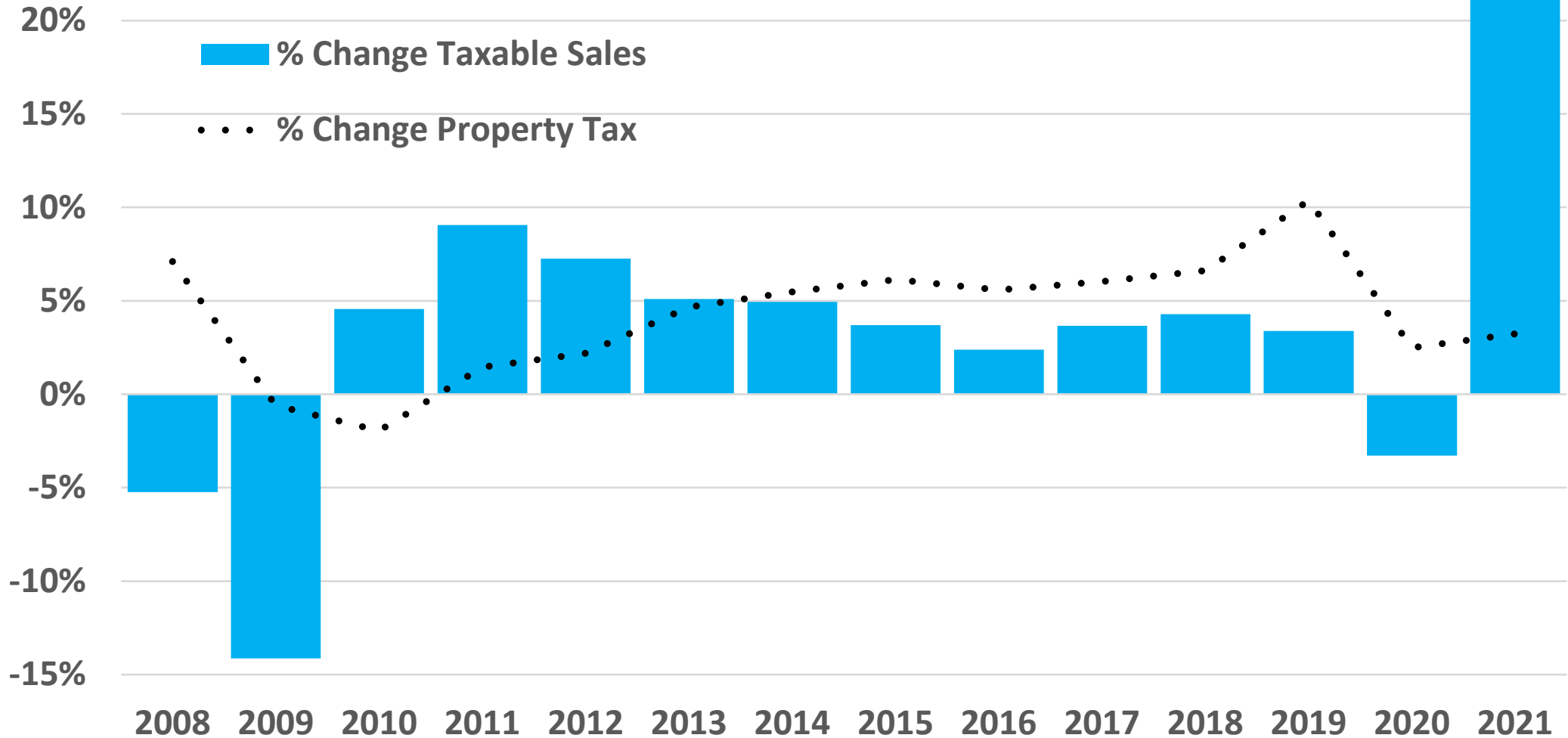
Sales Tax Volatility Depends on your Retail Mix

2019 Statewide Volatility Score = 4.4%

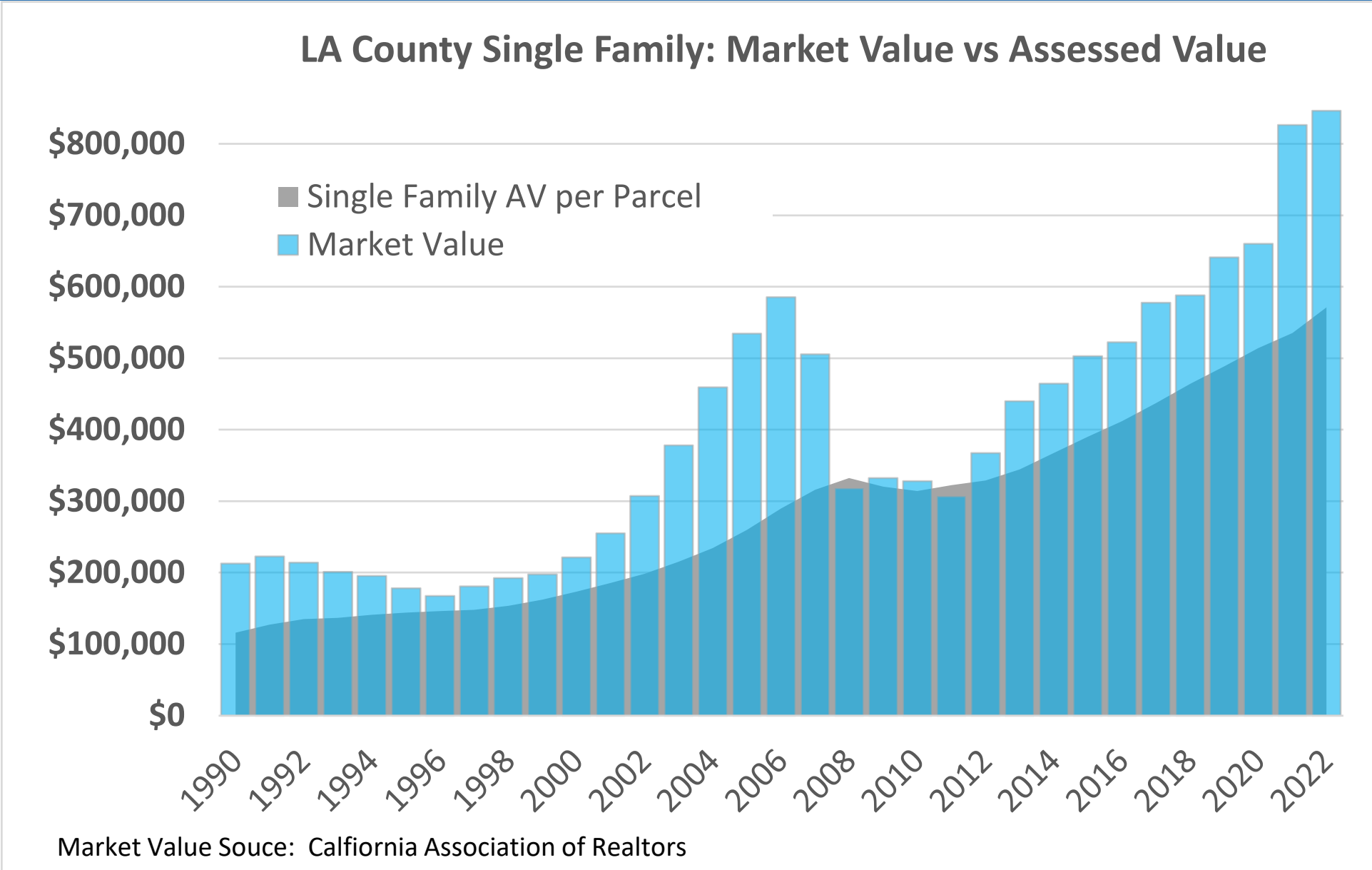
2021 Statewide Volatility Score = 6.0%

Property Tax Provide Stability

Revenue Volatility: Property Tax vs Sales Tax



Market Value vs Assessed Value



Leverage, Pensions Impact on Operational Flexibility and Establishing Reserves

Limited Operational Flexibility

SALARIES

45%



\$4.5 million

Stable
Expense

CPI Index

**MEDICAL BENEFITS
CalPERS & OPEB**

20%



\$2.0 million

Dynamic
Liability

250% CPI

**CONTRACTS
MATERIALS &
SUPPLIES**

15%



\$1.5 million

Projected
growth

**ADMIN &
OVERHEAD**

10%



\$1.0 Million

Consistent

**LIABILITY / RISK
MANAGEMENT**

7%



\$700,000

Unpredictable

**CAPITAL / REPAIRS
& REPLACEMENT**

8%



\$800,000

Consistent

GFOA Guidelines for Establishing Reserves

1. Economic Uncertainty

- Revenue Volatility (based on past recession)
- If your revenue based in highly reliant on volatile revenue sources (TOT, sales tax, user fees).
 - You should have a greater level of reserves.

2. Working Capital Requirement

- Are your revenues consistent, seasonal
- Internal liquidity to support temporary cash flow deficits

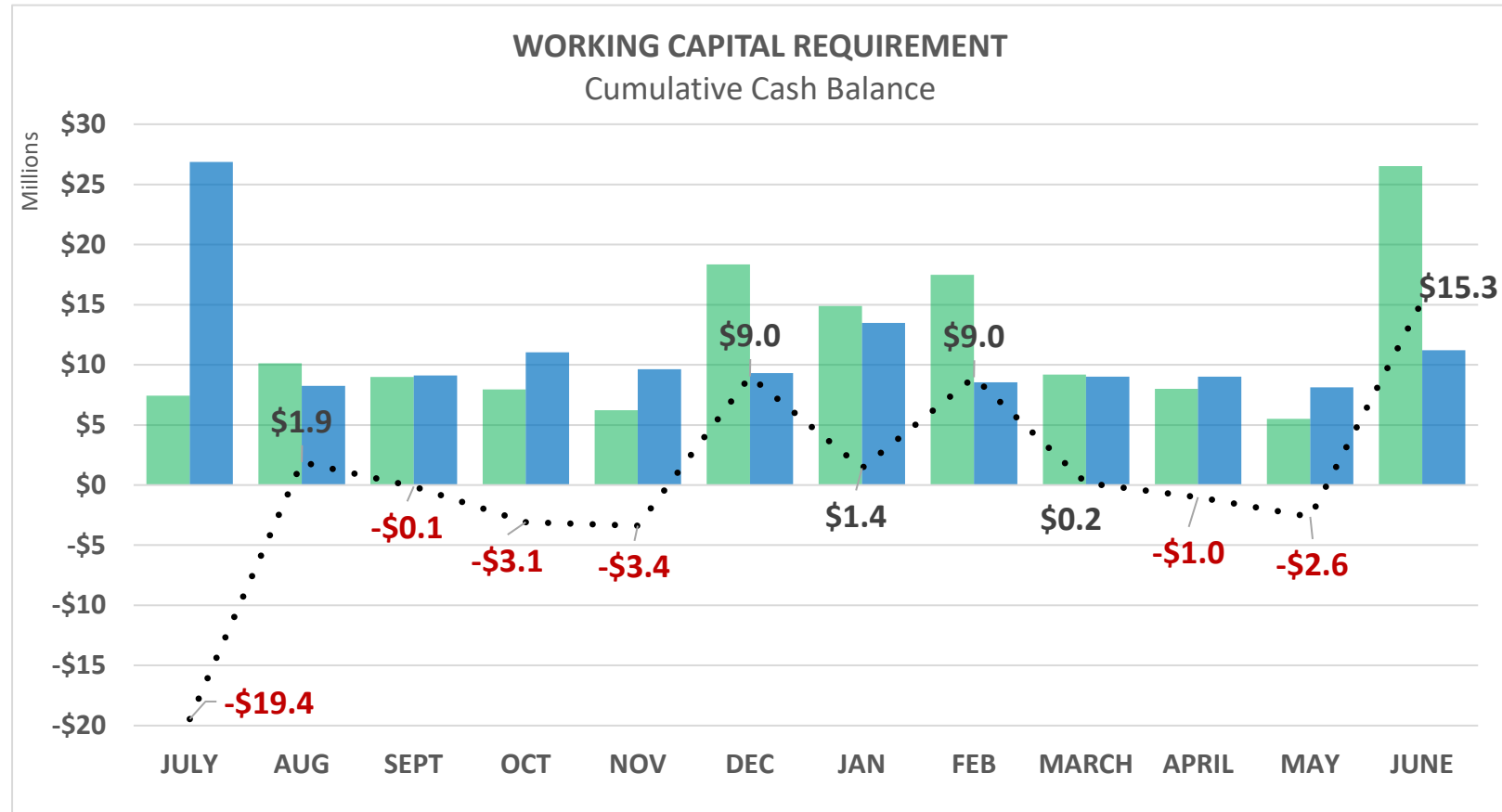
3. Emergency Events

- Are you in a flood-prone area or have frequent fires?
- Social unrest
- Reserves should be set aside based on historical events

FEMA

- Requires declaration of Emergency
- FEMA focus on compliance and eligibility with Federal contracting requirements
- 75% of certain costs / insurer of last resort
 - Average Homeowner (2019) - \$52,000 for flood damage

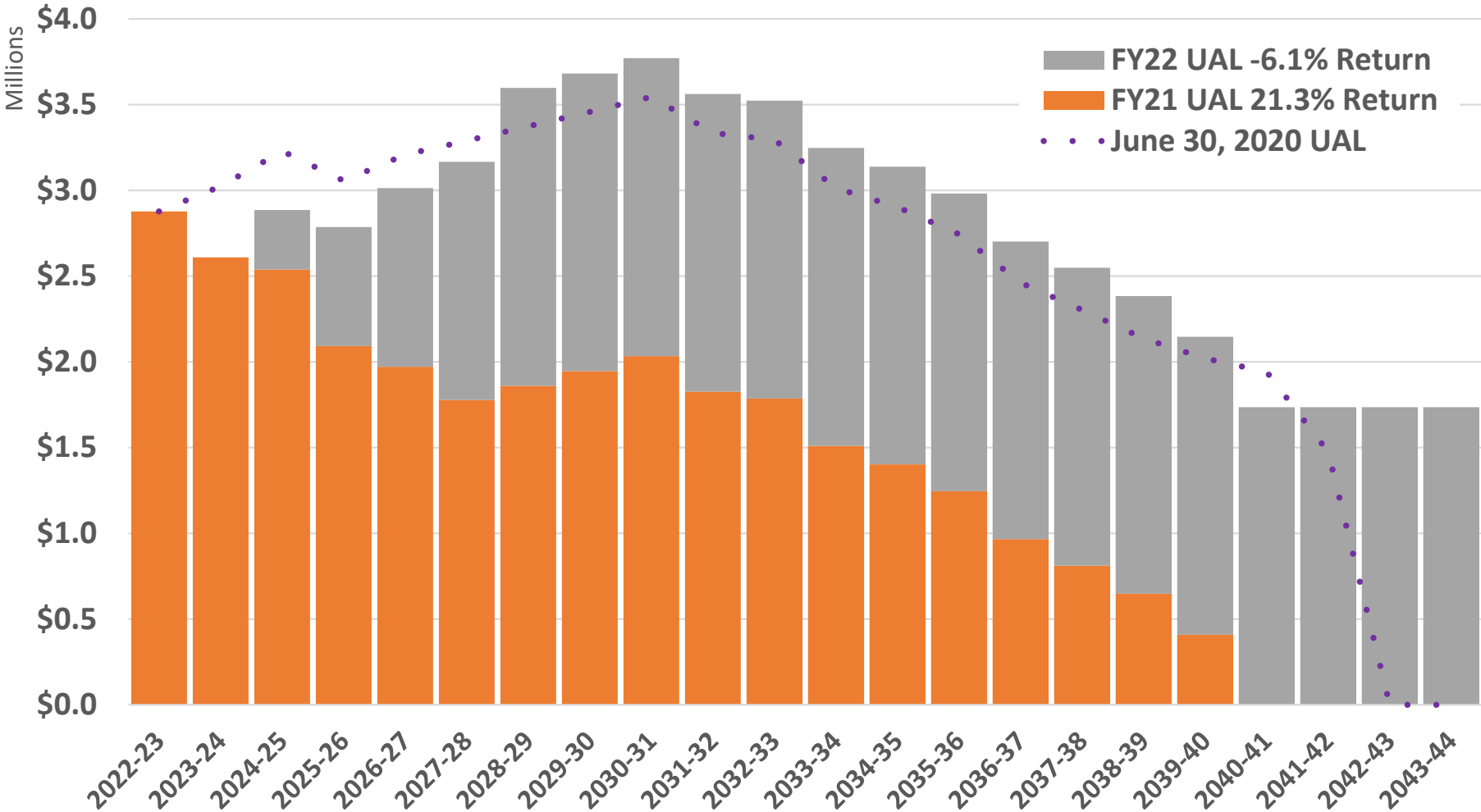
Working Capital Requirement



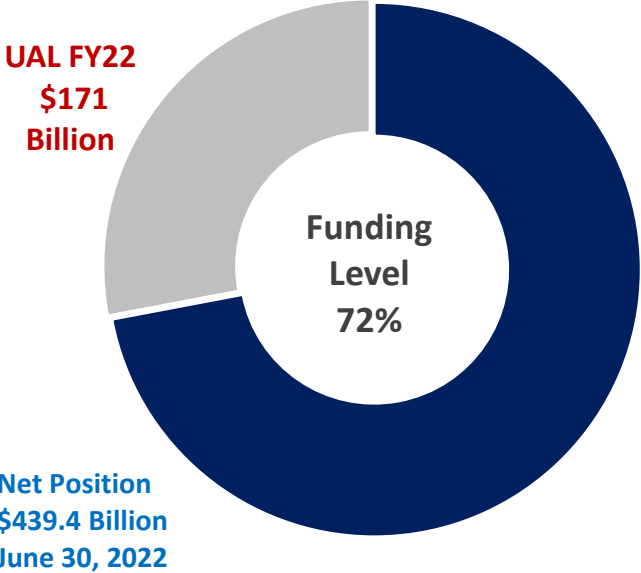
	May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	TOTAL
Revenues	\$ 7.4	\$ 10.1	\$ 9.0	\$ 8.0	\$ 6.2	\$ 18.3	\$ 14.9	\$ 17.5	\$ 9.2	\$ 8.0	\$ 5.5	\$ 26.5	\$ 140.7
Expenses	26.9	8.2	9.1	11.0	9.6	9.3	13.5	8.5	9.0	9.0	8.1	11.2	133.6
Net Income	\$ (19.4)	\$ 1.9	\$ (0.1)	\$ (3.1)	\$ (3.4)	\$ 9.0	\$ 1.4	\$ 9.0	\$ 0.2	\$ (1.0)	\$ (2.6)	\$ 15.3	\$ 7.1
Cash Balance	(\$19.4)	\$1.9	(\$0.1)	(\$3.1)	(\$3.4)	\$9.0	\$1.4	\$9.0	\$0.2	(\$1.0)	(\$2.6)	\$15.3	

FY22 12.9% Loss – Return of “Peak”

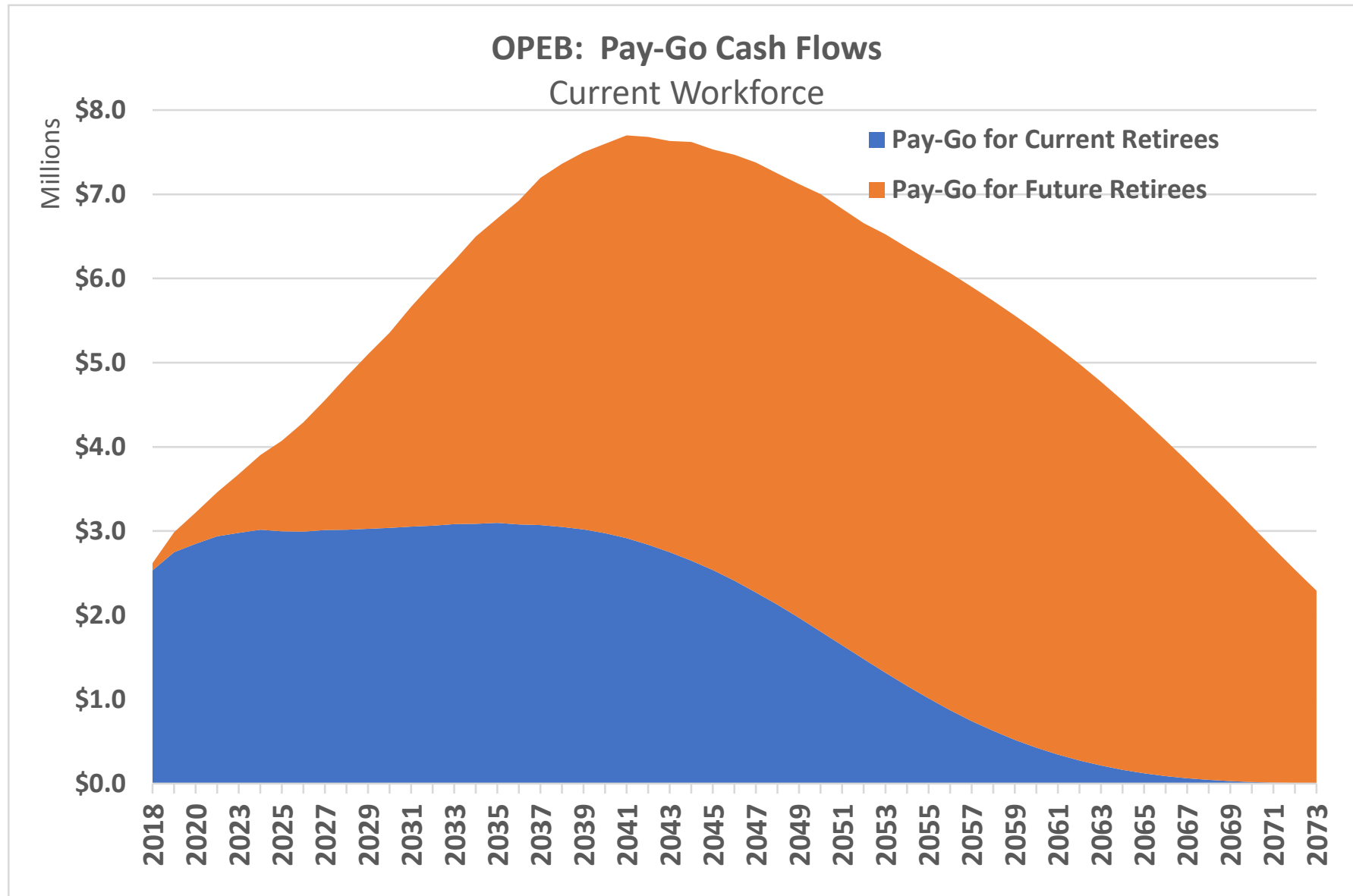
Projected UAL Payment Schedule After FY22 Loss



CalPERS Funding Status

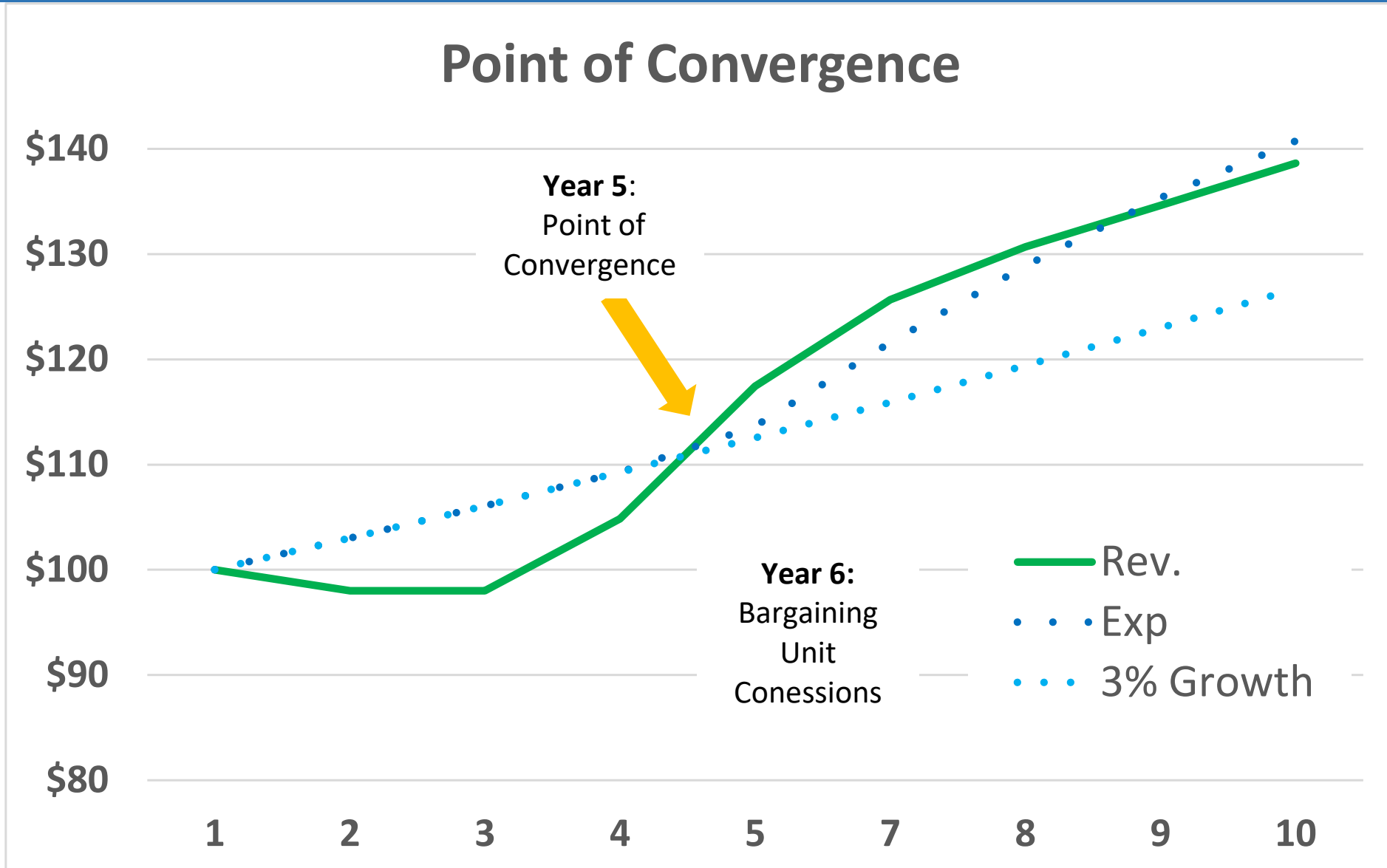


OPEB - The Second Wave

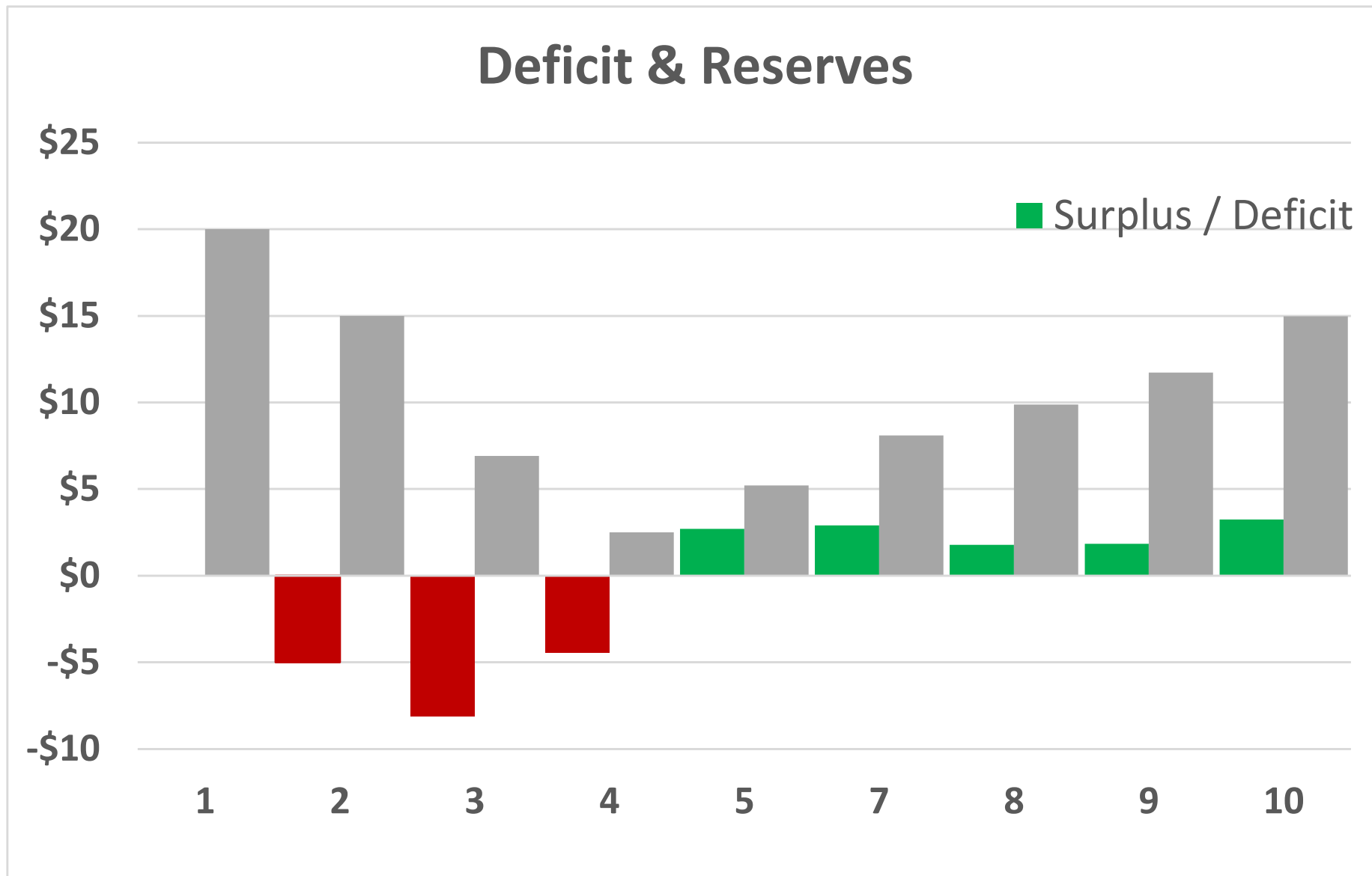


The Point of Convergence

The Point of Convergence



The Fallacy of Recovery



The Fallacy of Recovery

	% Rev	% Exp	Rev.	Exp	Surplus / Deficit	Reserves
1	-	-	100	100	0	20
2	-2%	3.0%	98	103	-5	15
3	0%	3.0%	98	106	-8	7
4	7%	3.0%	105	109	-4	2
5	12%	5.0%	117	115	3	5
7	7%	7.0%	126	123	3	8
8	4%	5.0%	131	129	2	10
9	3%	3.0%	135	133	2	12
10	4%	3.0%	140	137	3	15



	% Rev	% Exp	Rev.	Exp	Surplus / Deficit	Reserves
1	-	-	100	100	0	20
2	-2%	3.0%	98	103	-5	15
3	0%	3.0%	98	106	-8	7
4	7%	3.0%	105	109	-4	2
5	10%	4.0%	115	114	2	4
7	7%	7.0%	123	122	2	6
8	4%	6.0%	128	129	-1	5
9	3%	5.0%	132	135	-3	2
10	3%	4.0%	136	141	-5	-2

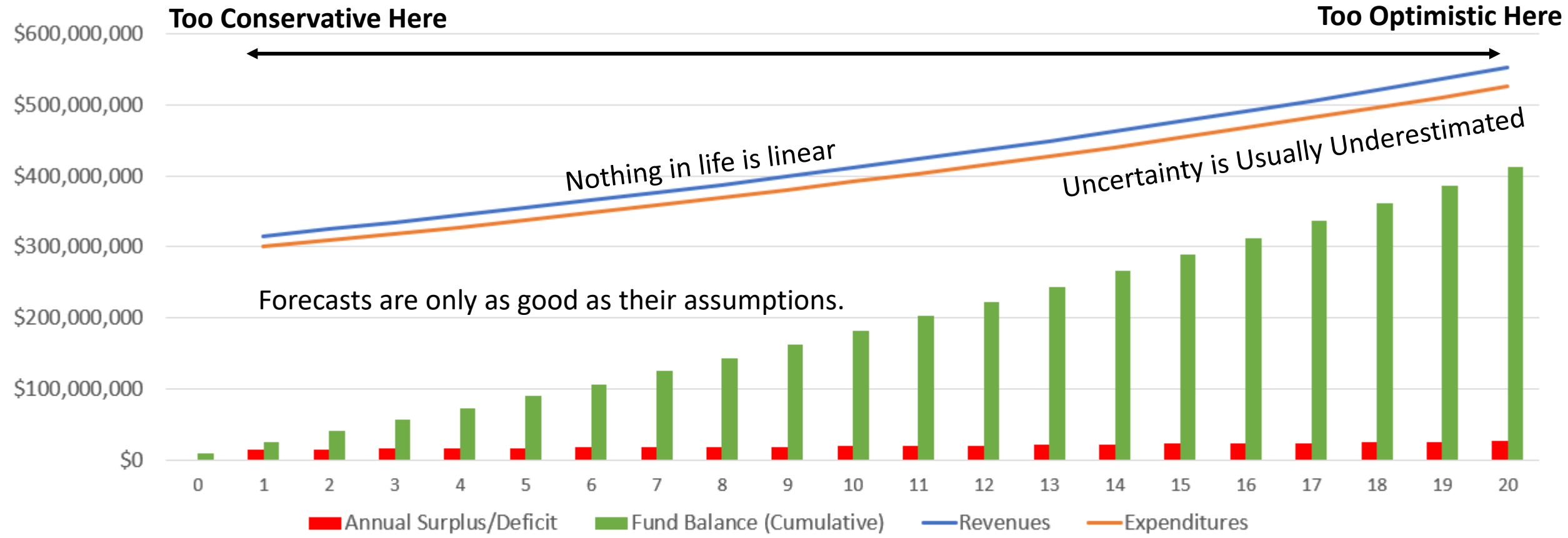
What happens during the next economic cycle?

The Importance of Long-Term Forecasting

Look For Icebergs and Fiscal Cliffs Ahead

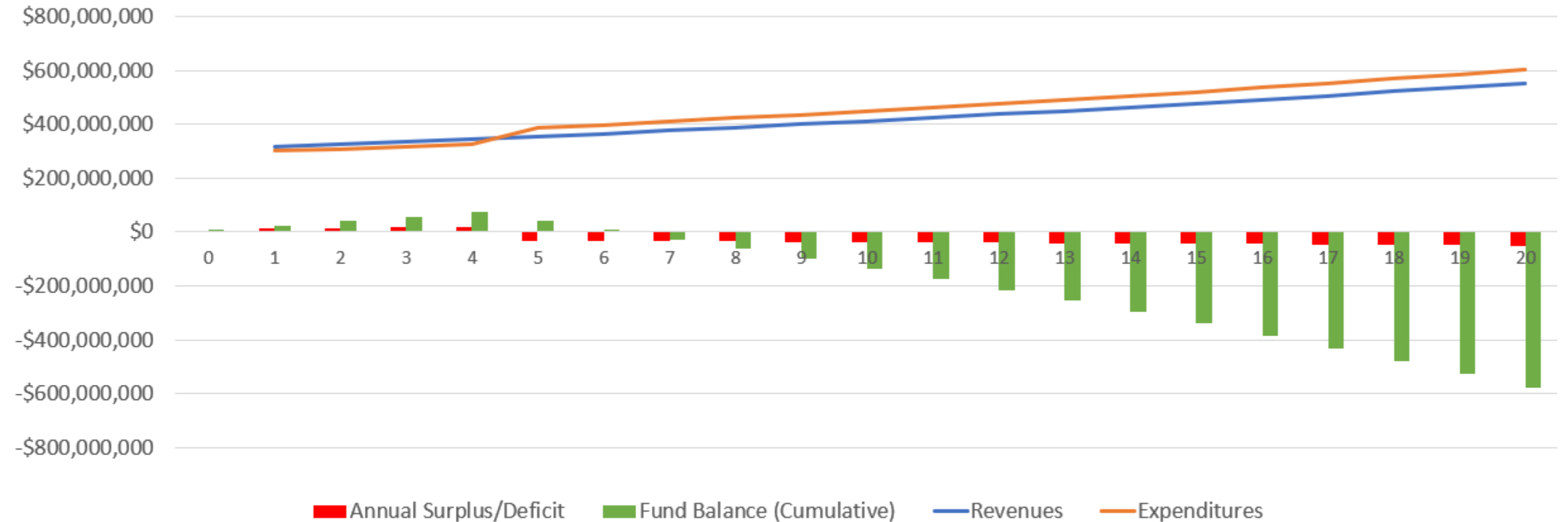
Look Forward, Not Back!

Long Term Forecasting Deficiencies



Forecast Year	0	1	2	3	4	5	6	7	8	9	10
Revenues		315,000,000	324,450,000	334,183,500	344,209,005	354,535,275	365,171,333	376,126,473	387,410,268	399,032,576	411,003,553
Expenditures		300,000,000	309,000,000	318,270,000	327,818,100	337,652,643	347,782,222	358,215,689	368,962,160	380,031,024	391,431,955
Annual Surplus/Deficit		15,000,000	15,450,000	15,913,500	16,390,905	16,882,632	17,389,111	17,910,784	18,448,108	19,001,551	19,571,598
Fund Balance (Cumulative)	10,000,000	25,000,000	40,450,000	56,363,500	72,754,405	89,637,037	107,026,148	124,936,933	143,385,041	162,386,592	181,958,190

One Assumption Change Was Enough to Upend Forecast



Forecast Year	0	1	2	3	4	5	6	7	8	9	10
Revenues		315,000,000	324,450,000	334,183,500	344,209,005	354,535,275	365,171,333	376,126,473	387,410,268	399,032,576	411,003,553
Expenditures		300,000,000	309,000,000	318,270,000	327,818,100	386,825,358	398,430,119	410,383,022	422,694,513	435,375,348	448,436,609
Annual Surplus/Deficit		15,000,000	15,450,000	15,913,500	16,390,905	(32,290,083)	(33,258,785)	(34,256,549)	(35,284,245)	(36,342,773)	(37,433,056)
Fund Balance (Cumulative)	10,000,000	25,000,000	40,450,000	56,363,500	72,754,405	40,464,322	7,205,537	(27,051,012)	(62,335,257)	(98,678,030)	(136,111,086)

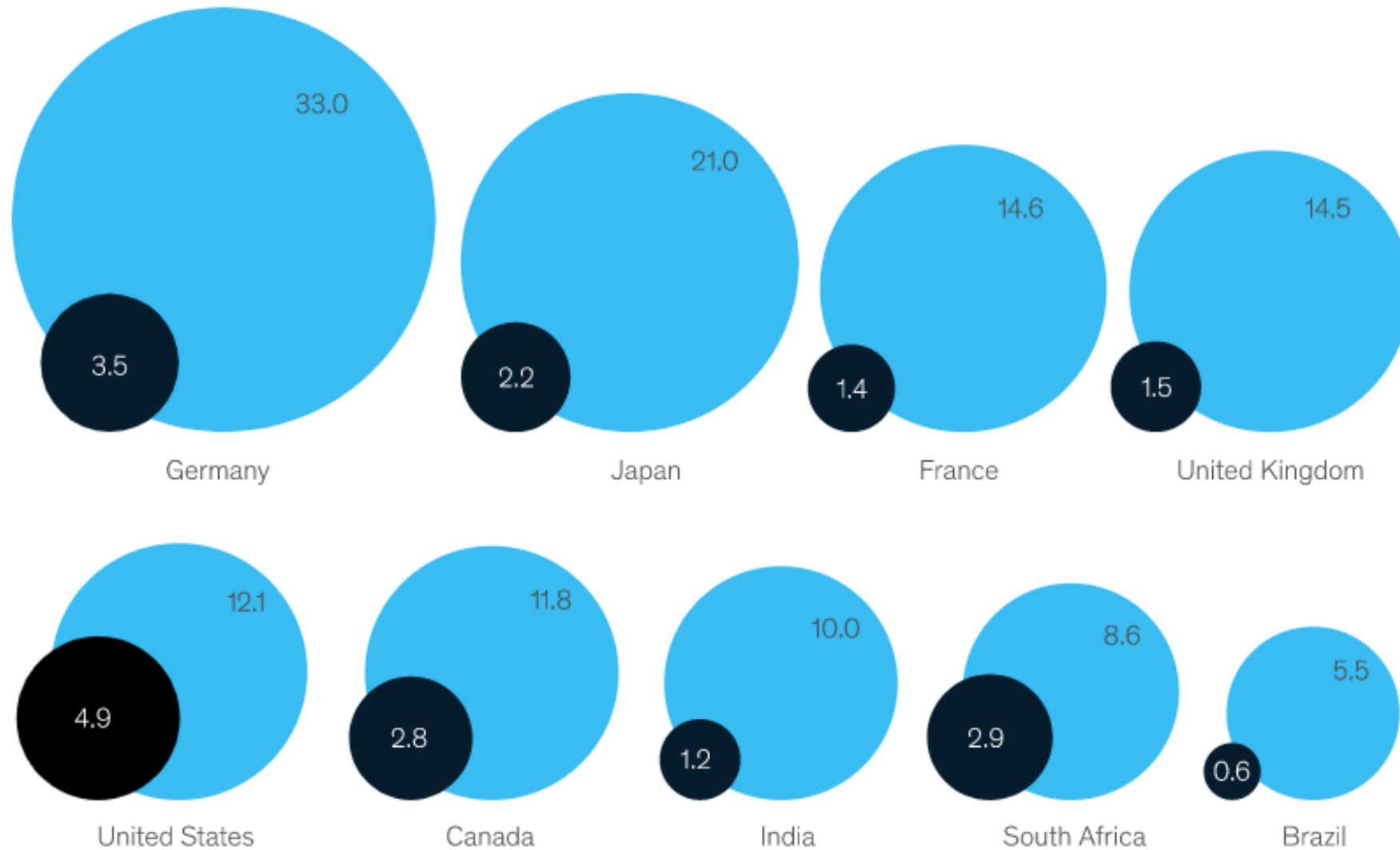
COVID brought lots of disruptions that could not be predicted from recent historical trends
(Regression Analysis)

Look forward, not back!

Across countries, economic-stimulus responses to the COVID-19 crisis outsize those to the 2008 financial crisis.

Economic-stimulus crisis response, % of GDP¹

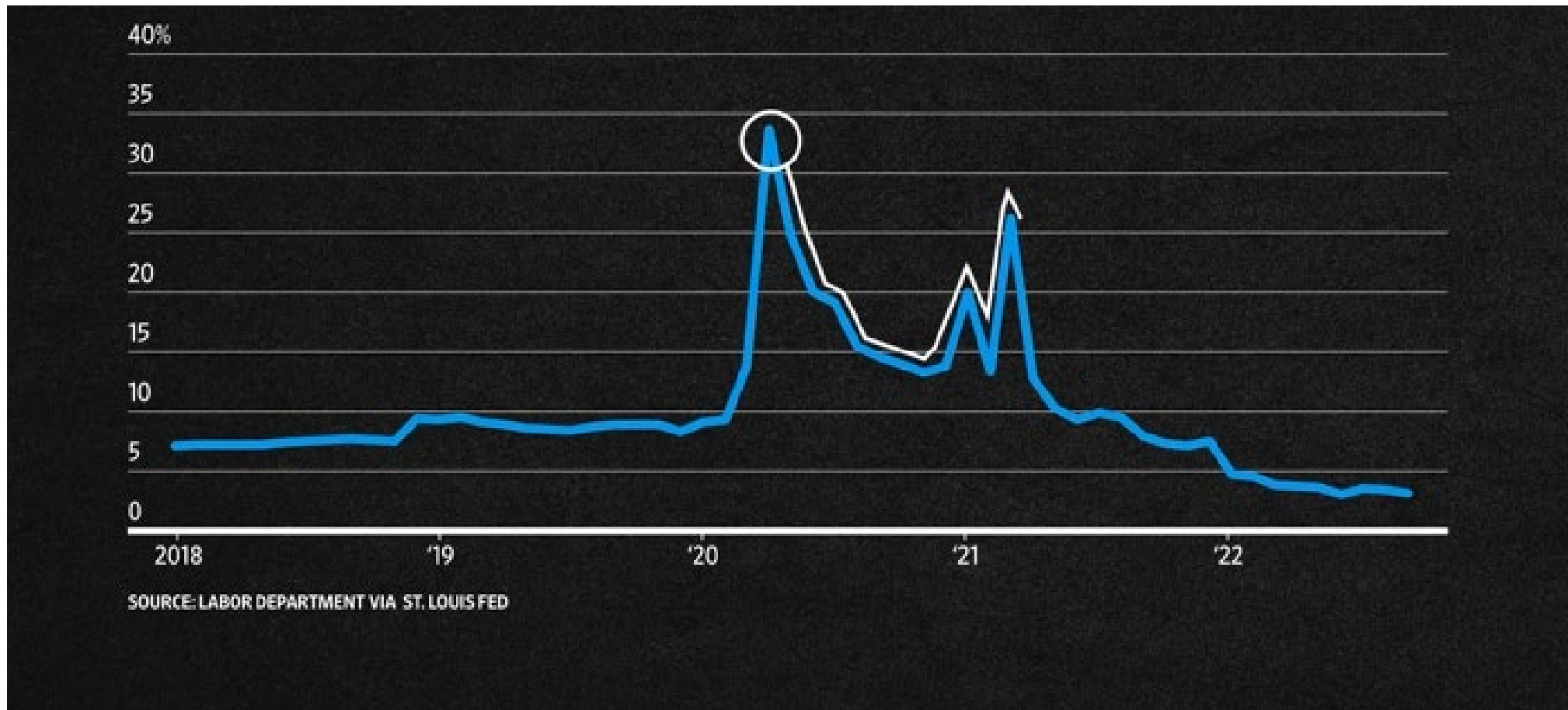
● 2008 financial crisis² ● COVID-19 crisis



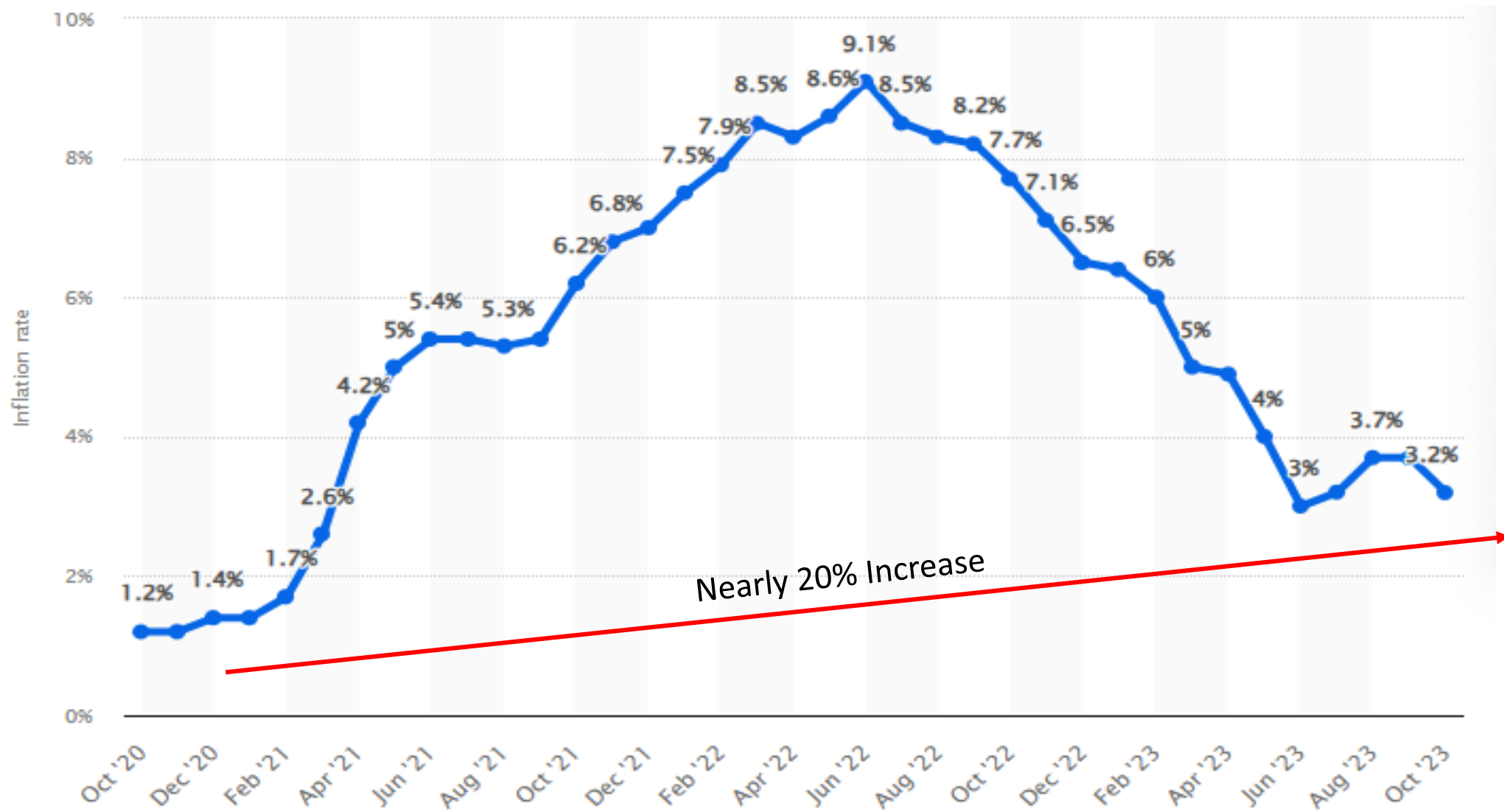
McKinsey
& Company

Personal Savings Rate

\$2.3 Trillion in Extra Savings due to Direct Stimulus, Loan Pauses and other measures



Inflation



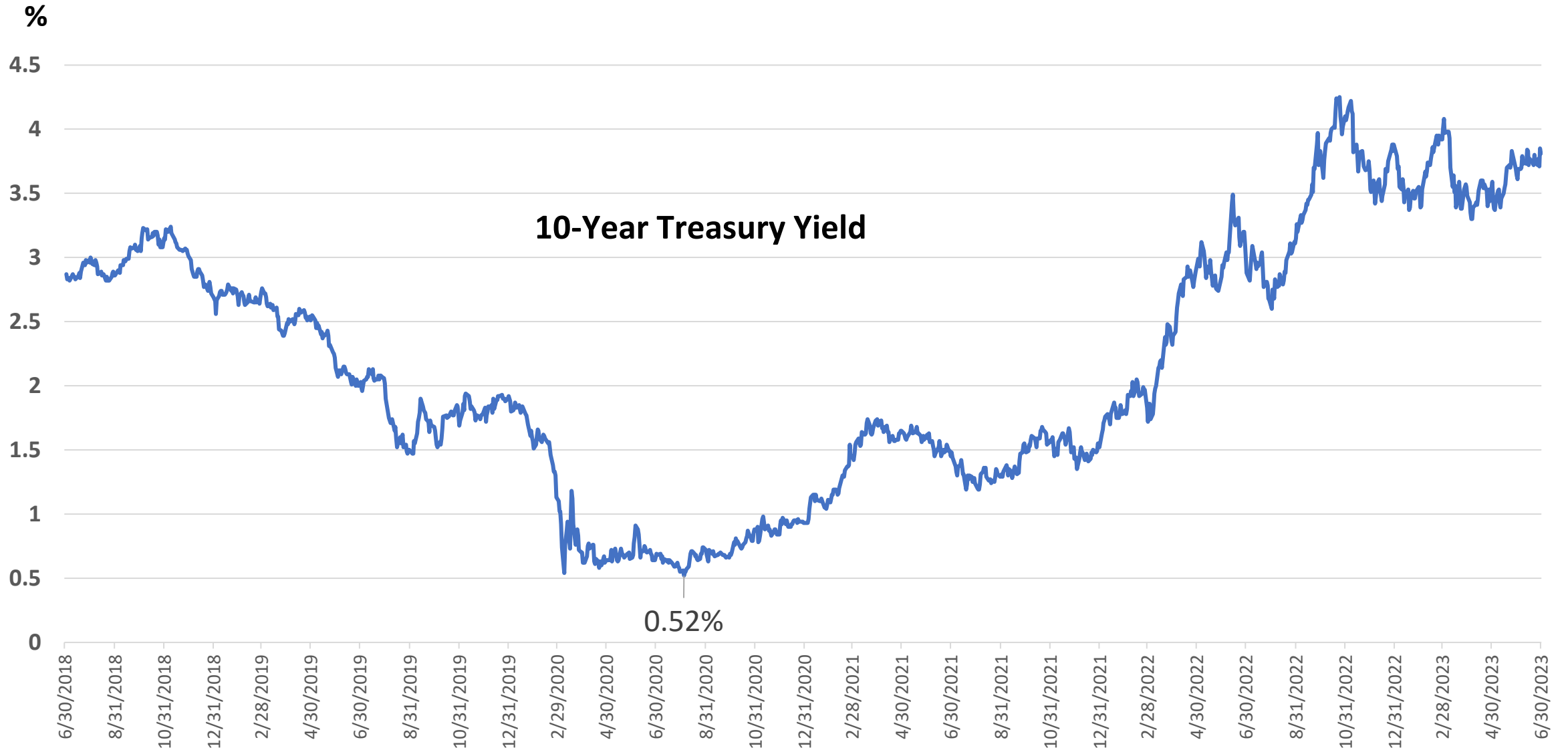
Fed Funds Rate: Taming Inflation

Forbes ADVISOR

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
July 26, 2023	+25	5.25% to 5.50%
May 3, 2023	+25	5.00% to 5.25%
March 22, 2023	+25	4.75% to 5.00%
Feb 1, 2023	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Cumulative rate hike now stands at 525 bps since March 2022

Fixed Income was Problematic



Forbes

Top Business Risks in 2024, according to Forbes:

- 1) Geopolitical Uncertainty
- 2) Elevated Inflation
- 3) Failure to Invest
- 4) Talent Shortages
- 5) AI Influenced Cyber Attacks
- 6) Climate Change
- 7) Inability to Connect With Others

The Economist

Finance and economics | Ask again later

How will America's economy fare in 2024? Don't ask a forecaster

The consensus is that there is no consensus

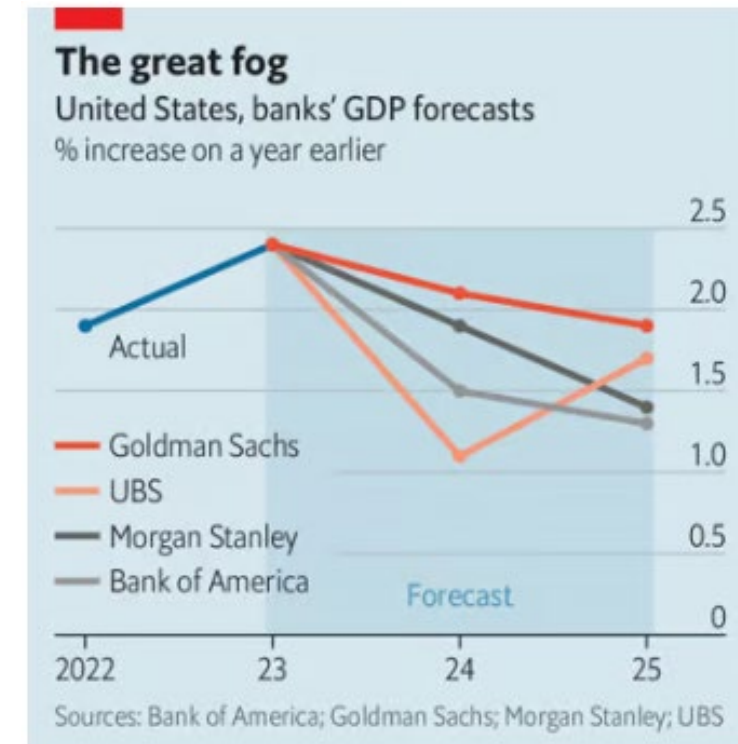


IMAGE: THE ECONOMIST

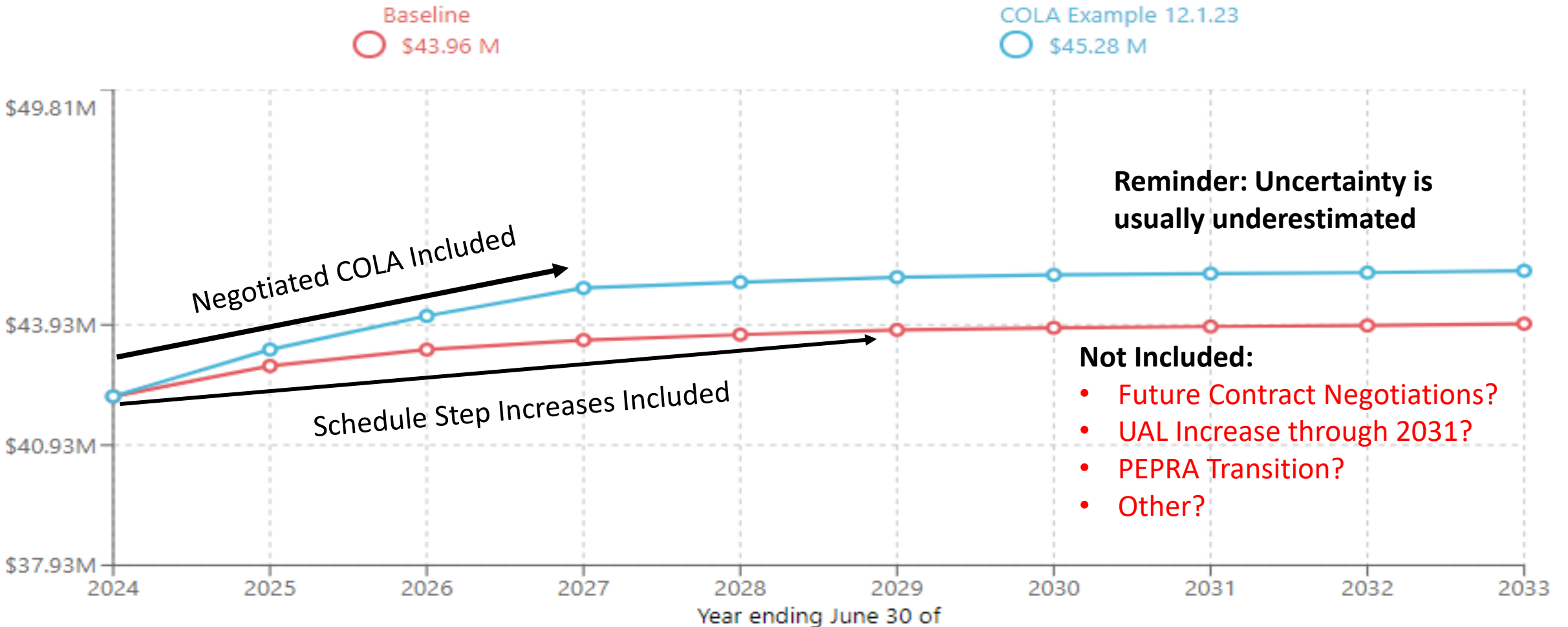
Labor Forecasting vs Costing

Balance Big Picture Trends vs Insignificant Details

Forecasts are only as good at their assumptions. What's Notable about this Labor Forecast?

COLA Example 12.1.23 - Total Cost (Annual)

The annual cost of all pay, benefits, and expenses



Example 1 – Lots of Thought When COLA Change Occurs but...

Project Setup

Projects List

A - Salary					
COLA January (%)					
2022	2023	2024	2025	2026	
0	5	5	5	0	
2027	2028				
0	0				
COLA July (%)					
2022	2023	2024	2025	2026	
2	2	2	2	2	
2027	2028				
2	2				
COLA March (%)					
2022	2023	2024	2025	2026	
0	5	5	5	0	
2027	2028				
0	0				
COLA November (%)					
2022	2023	2024	2025	2026	
0	5	5	5	0	
2027	2028				
0	0				

B - Special Pay					
Car Allowance (\$)					
per month					
2022	2023	2024	2025	2026	
300.00	300.00	300.00	300.00	300.00	
2027	2028				
300.00	300.00				

RIMS - 2.5 pct (%)					
2022	2023	2024	2025	2026	
2.5	2.5	2.5	2.5	2.5	
2027	2028				
2.5	2.5				

PERS Platinum (Basic) Employee-Only Premiums (\$)					
per month					
2022	2023	2024	2025	2026	
1,084.00	1,138.20	1,195.11	1,254.87	1,317.61	
2027	2028				
1,383.49	1,452.66				

M1 Employee Contrib. (%)					
2022	2023	2024	2025	2026	
0	0	0	0	0	
2027	2028				
0	0				

S1 (%)					
2022	2023	2024	2025	2026	
23.71	23.75	23.8	23.8	23.8	
2027	2028				
23.8	23.8				

Detective Pay (%)					
2022	2023	2024	2025	2026	
5	5	5	5	5	
2027	2028				
5	5				

RIMS - 5 pct (%)					
2022	2023	2024	2025	2026	
5	5	5	5	5	
2027	2028				
5	5				

PERS Platinum (Basic) Family Contrib. (%)					
2022	2023	2024	2025	2026	
100	100	100	100	100	
2027	2028				
100	100				

M2 (%)					
2022	2023	2024	2025	2026	
8.65	8.63	8.6	8.6	8.6	
2027	2028				
8.6	8.6				

S1 Employee Contrib. (%)					
2022	2023	2024	2025	2026	
0	0	0	0	0	
2027	2028				
0	0				

Holiday Pay (%)					
2022	2023	2024	2025	2026	
5	5	5	5	5	
2027	2028				
5	5				

Special Pay - 5 pct (%)					
2022	2023	2024	2025	2026	
5	5	5	5	5	
2027	2028				
5	5				

PERS Platinum (Basic) Family Premiums (\$)					
per month					
2022	2023	2024	2025	2026	
2,817.00	2,957.85	3,105.74	3,261.03	3,424.08	
2027	2028				
3,595.28	3,775.04				

M2 Employee Contrib. (%)					
2022	2023	2024	2025	2026	
0	0	0	0	0	
2027	2028				
0	0				

S2 (%)					
2022	2023	2024	2025	2026	
20.64	20.64	20.6	20.6	20.6	
2027	2028				
20.6	20.6				

Retention Pay 10 (%)					
2022	2023	2024	2025	2026	
2.5	2.5	2.5	2.5	2.5	
2027	2028				
2.5	2.5				

Standby (PWs) (\$)					
bi-weekly					
2022	2023	2024	2025	2026	
120.00	120.00	120.00	120.00	120.00	
2027	2028				
120.00	120.00				

D - Retirement					
M1 (%)					
2022	2023	2024	2025	2026	
12.2	12.21	12.2	12.2	12.2	
2027	2028				
12.2	12.2				

M3 (%)					
2022	2023	2024	2025	2026	
7.59	7.47	7.5	7.5	7.5	
2027	2028				
7.5	7.5				

S2 Employee Contrib. (%)					
2022	2023	2024	2025	2026	
0	0	0	0	0	
2027	2028				
0	0				

Retention Pay 20 (%)					
2022	2023	2024	2025	2026	
5	5	5	5	5	
2027	2028				
5	5				

Uniform Allowance - POA Non-PERS (\$)					
bi-weekly					
2022	2023	2024	2025	2026	
39.43	39.43	39.43	39.43	39.43	
2027	2028				
39.43	39.43				

M3 Employee Contrib. (%)					
2022	2023	2024	2025	2026	
0	0	0	0	0	
2027	2028				
0	0				

S3 (%)					
2022	2023	2024	2025	2026	
13.13	12.78	12.8	12.8	12.8	
2027	2028				
12.8	12.8				

Example 2 – Trending Costs to Accommodate UAL & PEPRA Transition

Project Setup

Projects List

A Salary

Longevity Pay (Exec) 10 (%)				
2025	2026	2027	2028	2029
0	0	0	0	0
2030	2031	2032	2033	2034
0	0	0	0	0

Longevity Pay 10 (%)				
2025	2026	2027	2028	2029
4	4	4	4	4
2030	2031	2032	2033	2034
4	4	4	4	4

Salary Increase - ATB (%)				
2025	2026	2027	2028	2029
5	5	5	0	0
2030	2031	2032	2033	2034
0	0	0	0	0

B Pension

PERS Lump Sum Misc (\$)				
per year				
2025	2026	2027	2028	2029
2,031,271	2,378,021	2,668,501	2,891,791	3,490,521
2030	2031	2032	2033	2034
3,519,411	3,546,331	3,572,821	3,599,731	3,627,781

PERS Lump Sum Safety PEPRA (\$)				
per year				
2025	2026	2027	2028	2029
47,340.01	63,574.01	79,809.01	96,043.01	88,763.01
2030	2031	2032	2033	2034
0.00	0.00	0.00	0.00	0.00

PERS Lump Sum Safety Tier 1 (\$)				
per year				
2025	2026	2027	2028	2029
1,241,751	1,409,321	1,570,141	1,694,171	2,007,661
2030	2031	2032	2033	2034
2,037,861	2,068,901	2,100,811	2,133,621	2,167,341

PERS Lump Sum Safety Tier 2 (\$)				
per year				
2025	2026	2027	2028	2029
20,059.01	33,388.01	46,717.01	60,046.01	73,376.01
2030	2031	2032	2033	2034
73,376.01	73,376.01	73,376.01	73,376.01	73,376.01

PERS Miscellaneous (%)				
2025	2026	2027	2028	2029
19.26	19.11	18.89	18.63	18.41
2030	2031	2032	2033	2034
18.13	17.86	17.59	17.29	17.02

PERS Miscellaneous Employee Contrib. (%)				
2025	2026	2027	2028	2029
7.57	7.66	7.65	7.63	7.61
2030	2031	2032	2033	2034
7.57	7.52	7.47	7.42	7.36

PERS Safety PEPRA (%)				
2025	2026	2027	2028	2029
33.57	33	32.31	31.58	30.98
2030	2031	2032	2033	2034
30.31	29.57	28.88	28.24	27.51

PERS Safety PEPRA Employee Contrib. (%)				
2025	2026	2027	2028	2029
11.23	11.44	11.63	11.81	12.01
2030	2031	2032	2033	2034
12.2	12.37	12.55	12.75	12.9

PERS Safety Tier 1 (%)				
2025	2026	2027	2028	2029
33.57	33	32.31	31.58	30.98
2030	2031	2032	2033	2034
30.31	29.57	28.88	28.24	27.51

PERS Safety Tier 1 Employee Contrib. (%)				
2025	2026	2027	2028	2029
11.23	11.44	11.63	11.81	12.01
2030	2031	2032	2033	2034
12.2	12.37	12.55	12.75	12.9

PERS Safety Tier 2 (%)				
2025	2026	2027	2028	2029
33.57	33	32.31	31.58	30.98
2030	2031	2032	2033	2034
30.31	29.57	28.88	28.24	27.51

PERS Safety Tier 2 Employee Contrib. (%)				
2025	2026	2027	2028	2029
11.23	11.44	11.63	11.81	12.01
2030	2031	2032	2033	2034
12.2	12.37	12.55	12.75	12.9

C Healthcare

Dental - Delta Dental 50% Employee+1 Contrib. (%)				
2025	2026	2027	2028	2029
100	100	100	100	100
2030	2031	2032	2033	2034
100	100	100	100	100

Dental - Delta Dental 50% Employee+1 Premiums (\$)				
per month				
2025	2026	2027	2028	2029
46.10	47.02	47.96	48.92	49.90
2030	2031	2032	2033	2034
50.90	51.92	52.96	54.02	55.10

Dental - Delta Dental 50% Employee-Only Contrib. (%)				
2025	2026	2027	2028	2029
100	100	100	100	100
2030	2031	2032	2033	2034
100	100	100	100	100

Dental - Delta Dental 50% Employee-Only Premiums (\$)				
per month				
2025	2026	2027	2028	2029
24.81	25.31	25.82	26.34	26.87
2030	2031	2032	2033	2034
27.41	27.96	28.52	29.09	29.67

Dental - Delta Dental 50% Family Contrib. (%)				
2025	2026	2027	2028	2029
100	100	100	100	100
2030	2031	2032	2033	2034
100	100	100	100	100

Dental - Delta Dental 50% Family Premiums (\$)				
per month				
2025	2026	2027	2028	2029
74.89	76.39	77.92	79.48	81.07
2030	2031	2032	2033	2034
82.69	84.34	86.03	87.75	89.51

Dental - Delta Dental Employee+1 Contrib. (%)				
2025	2026	2027	2028	2029
100	100	100	100	100
2030	2031	2032	2033	2034
100	100	100	100	100

Dental - Delta Dental Employee+1 Premiums (\$)				
per month				
2025	2026	2027	2028	2029
92.19	94.03	95.91	97.83	99.79
2030	2031	2032	2033	2034
101.79	103.83	105.91	108.03	110.19

Dental - Delta Dental Employee-Only Contrib. (%)				
2025	2026	2027	2028	2029
100	100	100	100	100
2030	2031	2032	2033	2034
100	100	100	100	100

Dental - Delta Dental Employee-Only Premiums (\$)				
per month				
2025	2026	2027	2028	2029
49.62	50.61	51.62	52.65	53.70
2030	2031	2032	2033	2034
54.77	55.87	56.99	58.13	59.29

OK to Compare Compensation to Remain Competitive... But Don't Race Competitors to the Bottom

Job Title or Classification
311 Director

Steps
Min Mid Max
Longevity 1

Update

Scenarios
Current Scenario
Default Comparators

Comparators
 Select All / Deselect All
 Anaheim, CA
 Finance Director
 Human Resources Director
 Deputy Finance Director
 Deputy Community Services Director
 Deputy Director of Administration & Operations

Overview

This classification's total compensation, overall, in comparison to the market median is 15% below the market.

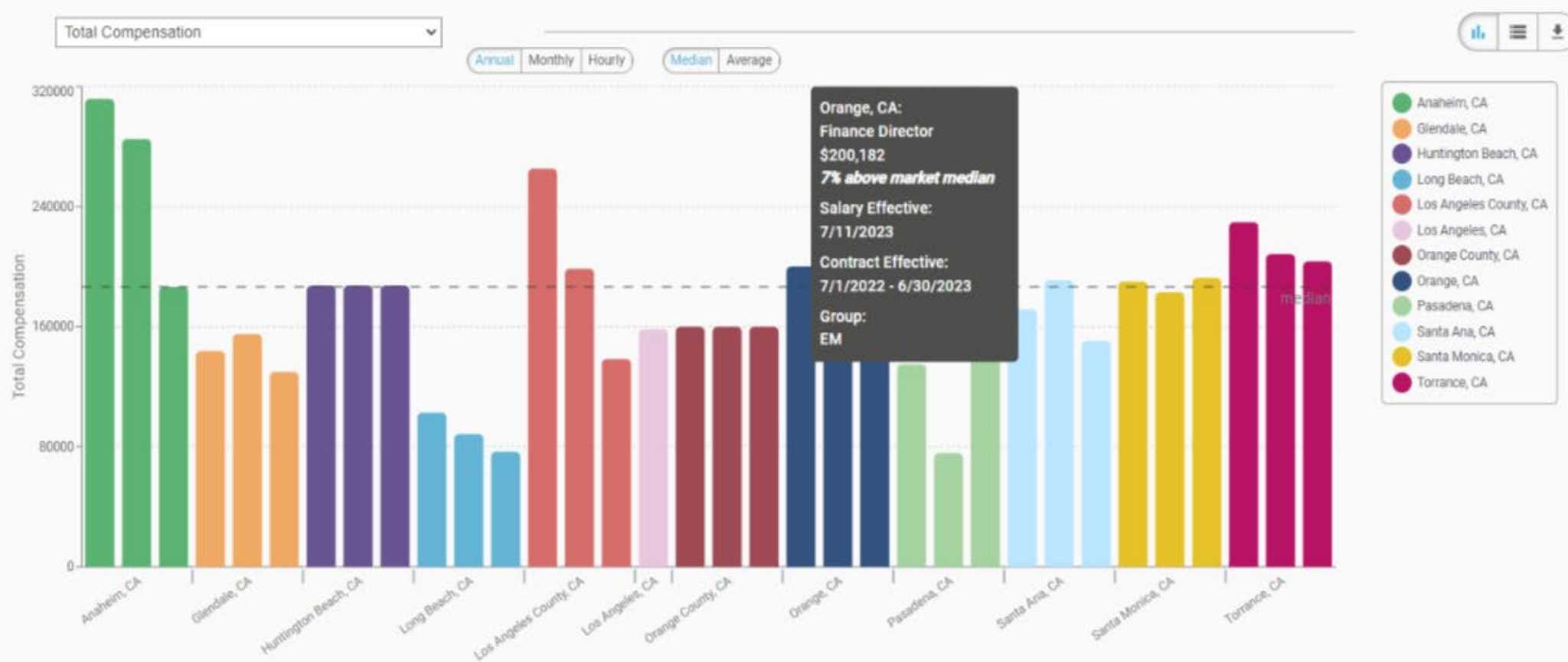
- Ranking (Total Compensation)**
- | | |
|---------------------------|----------------------|
| 1. Anaheim, CA | 7. Santa Ana, CA |
| 2. Torrance, CA | 8. Orange County, CA |
| 3. Los Angeles County, CA | 9. Los Angeles, CA |
| 4. Orange, CA | 10. Glendale, CA |
| 5. Santa Monica, CA | 11. Pasadena, CA |
| 6. Huntington Beach, CA | 12. Long Beach, CA |

Market Summary

75th percentile: \$198,655

Median: \$186,570

25th percentile: \$150,563

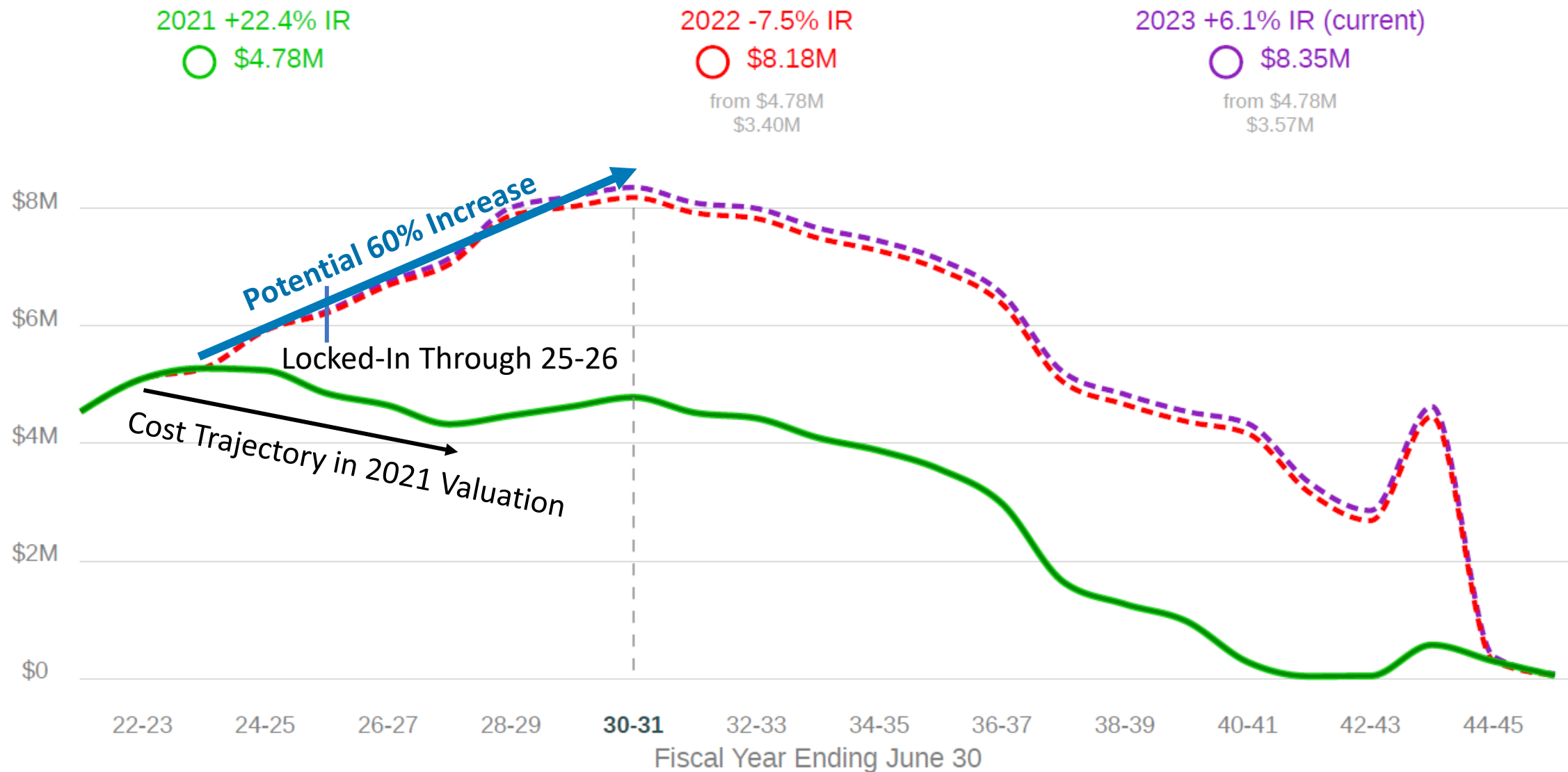


Pension Cost Trends

Opportunity Cost of Investing

- 1) 2023 Final Investment Return came in at 6.1% cementing the upward trajectory through FY 25-26
- 2) 2022 Investment Experience Loss was significant!
 - a) -7.5% market loss equate to 15.3% Experience Loss
 - b) Negatively Amortizes 23%
 - c) 0% of principal loss paid for more than 10 years under default payment schedule
- 3) UAL Component of minimum required employer contribution may increase 40-60% over FY 23-24 if CalPERS earns no more than 6.8%
- 4) Larger than normal liability loss due retirees receiving larger than normal COLAs due to surging inflation and COLA banks
- 5) Normal Costs has a % of pay increasing in the near term but decreasing over time as Classics transition out of the workforce.

Impact on Annual Amortization Payment

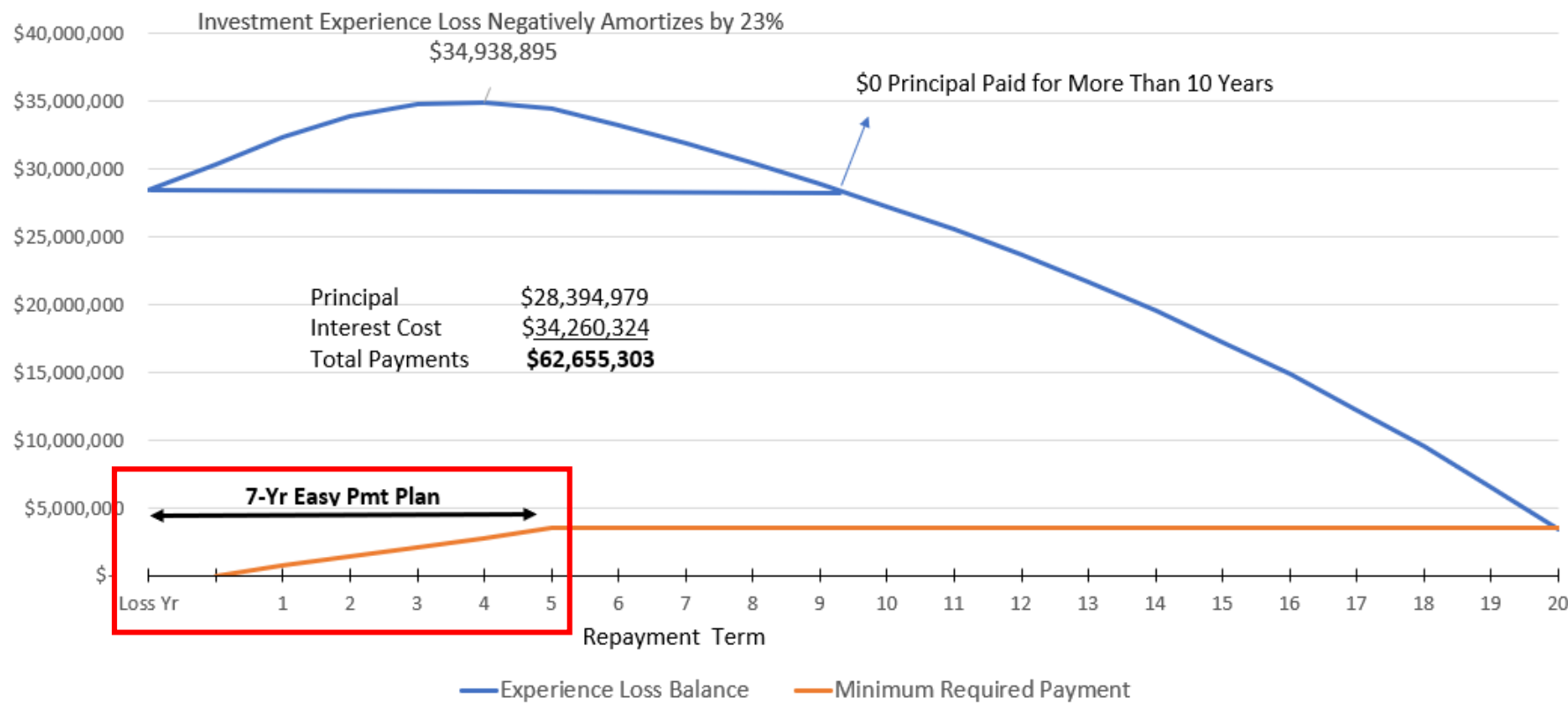


2022 Investment Experience Loss Amortization

Don't Take the Accomodation If Not Needed

		Option A - Default	
		Level \$ 5Yr Ramp Up	
		Start Paying in 24-25	
Count	Bud FY	Balance	Payment
			20
Loss Yr		\$ 28,394,979	
		\$ 30,325,838	\$ -
1	24-25	\$ 32,387,995	\$ 696,170
2	25-26	\$ 33,870,928	\$ 1,392,340
3	26-27	\$ 34,735,250	\$ 2,088,510
4	27-28	\$ 34,938,895	\$ 2,784,680
5	28-29	\$ 34,436,937	\$ 3,480,850
6	29-30	\$ 33,181,396	\$ 3,480,850
7	30-31	\$ 31,840,479	\$ 3,480,850
8	31-32	\$ 30,408,378	\$ 3,480,850
9	32-33	\$ 28,878,895	\$ 3,480,850
10	33-34	\$ 27,245,407	\$ 3,480,850
11	34-35	\$ 25,500,842	\$ 3,480,850
12	35-36	\$ 23,637,647	\$ 3,480,850
13	36-37	\$ 21,647,754	\$ 3,480,850
14	37-38	\$ 19,522,548	\$ 3,480,850
15	38-39	\$ 17,252,829	\$ 3,480,850
16	39-40	\$ 14,828,768	\$ 3,480,850
17	40-41	\$ 12,239,872	\$ 3,480,850
18	41-42	\$ 9,474,930	\$ 3,480,850
19	42-43	\$ 6,521,973	\$ 3,480,850
20	43-44	\$ 3,368,214	\$ 3,480,850

No Principal Paid for 10 Years



Payment Total	\$ 62,655,303
Interest Cost	\$ 34,260,324
Payment Savings	NA

Reduce Interest Costs 13% to 24% by Starting Early and Bi-passing Ramp

Minimum Required Contribution Schedule Could Be Costly

		2022 Estimated Investment Experience Loss												Cash Flow Diff		
Count	Bud FY	Option A - Default		Option B		Option C		Option D (Dec 31)								
		Level \$ 5Yr Ramp Up Start Paying in 24-25		Level Dollar No Ramp Start Paying in 24-25		Level Dollar No Ramp Start Paying in 23-24		Level Dollar No Ramp Start Paying in 23-24		Option B vs A	Option C vs A	Option D vs A				
		20		20		20		19								
		Balance	Payment	Balance	Payment	Balance	Payment	Balance	Payment							
Loss Yr		\$ 28,394,979		\$ 28,394,979		\$ 28,394,979		\$ 28,394,979								
1 24-25		\$ 30,325,838	\$ -	\$ 30,325,838	\$ -	\$ 30,325,838	\$ 2,727,007	\$ 30,325,838	\$ 1,500,000	\$ -	\$ (2,727,007)	\$ (1,500,000)				
2 25-26		\$ 32,387,995	\$ 696,170	\$ 32,387,995	\$ 2,912,444	\$ 29,569,794	\$ 2,727,007	\$ 30,837,833	\$ 2,843,949	\$ (2,216,274)	\$ (2,030,837)	\$ (2,147,779)				
3 26-27		\$ 33,870,928	\$ 1,392,340	\$ 31,580,540	\$ 2,912,444	\$ 28,762,339	\$ 2,727,007	\$ 29,995,753	\$ 2,843,949	\$ (1,520,104)	\$ (1,334,667)	\$ (1,451,609)				
4 27-28		\$ 34,735,250	\$ 2,088,510	\$ 30,718,178	\$ 2,912,444	\$ 27,899,978	\$ 2,727,007	\$ 29,096,411	\$ 2,843,949	\$ (823,933)	\$ (638,497)	\$ (755,439)				
5 28-29		\$ 34,938,895	\$ 2,784,680	\$ 29,797,176	\$ 2,912,444	\$ 26,978,976	\$ 2,727,007	\$ 28,135,913	\$ 2,843,949	\$ (127,763)	\$ 57,673	\$ (59,269)				
6 29-30		\$ 34,436,937	\$ 3,480,850	\$ 28,813,546	\$ 2,912,444	\$ 25,995,346	\$ 2,727,007	\$ 27,110,102	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
7 30-31		\$ 33,181,396	\$ 3,480,850	\$ 27,763,029	\$ 2,912,444	\$ 24,944,829	\$ 2,727,007	\$ 26,014,536	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
8 31-32		\$ 31,840,479	\$ 3,480,850	\$ 26,641,077	\$ 2,912,444	\$ 23,822,876	\$ 2,727,007	\$ 24,844,471	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
9 32-33		\$ 30,408,378	\$ 3,480,850	\$ 25,442,832	\$ 2,912,444	\$ 22,624,631	\$ 2,727,007	\$ 23,594,842	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
10 33-34		\$ 28,878,895	\$ 3,480,850	\$ 24,163,106	\$ 2,912,444	\$ 21,344,906	\$ 2,727,007	\$ 22,260,238	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
11 34-35		\$ 27,245,407	\$ 3,480,850	\$ 22,796,359	\$ 2,912,444	\$ 19,978,159	\$ 2,727,007	\$ 20,834,881	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
12 35-36		\$ 25,500,842	\$ 3,480,850	\$ 21,336,674	\$ 2,912,444	\$ 18,518,473	\$ 2,727,007	\$ 19,312,599	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
13 36-37		\$ 23,637,647	\$ 3,480,850	\$ 19,777,729	\$ 2,912,444	\$ 16,959,529	\$ 2,727,007	\$ 17,686,803	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
14 37-38		\$ 21,647,754	\$ 3,480,850	\$ 18,112,777	\$ 2,912,444	\$ 15,294,576	\$ 2,727,007	\$ 15,950,452	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
15 38-39		\$ 19,522,548	\$ 3,480,850	\$ 16,334,607	\$ 2,912,444	\$ 13,516,407	\$ 2,727,007	\$ 14,096,030	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
16 39-40		\$ 17,252,829	\$ 3,480,850	\$ 14,435,522	\$ 2,912,444	\$ 11,617,322	\$ 2,727,007	\$ 12,115,507	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
17 40-41		\$ 14,828,768	\$ 3,480,850	\$ 12,407,300	\$ 2,912,444	\$ 9,589,099	\$ 2,727,007	\$ 10,000,308	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
18 41-42		\$ 12,239,872	\$ 3,480,850	\$ 10,241,158	\$ 2,912,444	\$ 7,422,957	\$ 2,727,007	\$ 7,741,275	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
19 42-43		\$ 9,474,930	\$ 3,480,850	\$ 7,927,718	\$ 2,912,444	\$ 5,109,518	\$ 2,727,007	\$ 5,328,629	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
20 43-44		\$ 6,521,973	\$ 3,480,850	\$ 5,456,965	\$ 2,912,444	\$ 2,638,765	\$ 2,727,007	\$ 2,751,923	\$ 2,843,949	\$ 568,407	\$ 753,843	\$ 636,901				
		\$ 3,368,214	\$ 3,480,850	\$ 2,818,201	\$ 2,912,444			\$ -		\$ 568,407	\$ 3,480,850	\$ 3,480,850				
Payment Total		\$ 62,655,303		\$ 58,248,872		\$ 54,540,142		\$ 55,535,034								
Interest Cost		\$ 34,260,324		\$ 29,853,893		\$ 26,145,163										
Interest Savings		NA		\$ 4,406,432 13%		\$ 8,115,161 24%		\$ 7,120,270 21%		\$ 4,406,432 6.80%	\$ 8,115,161 6.80%	\$ 7,120,270 6.80%				

No Principal Paid for 10 Years



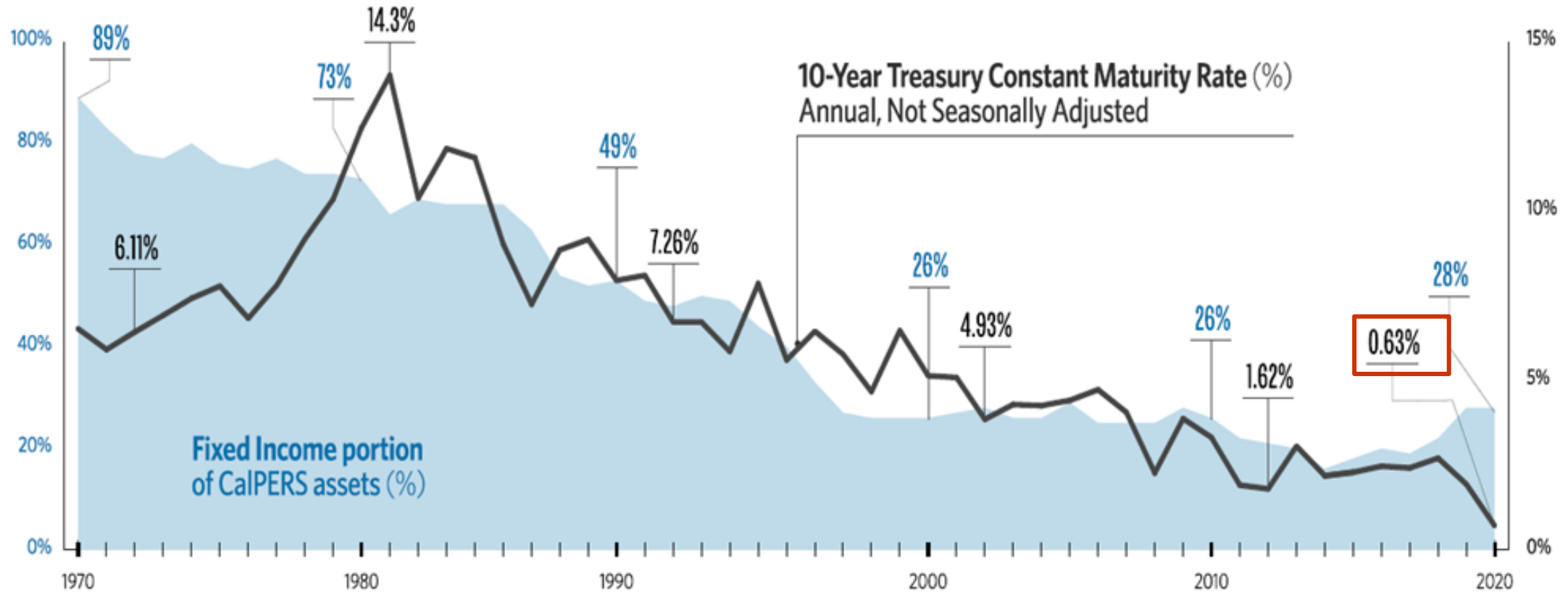
Mid-Cycle CalPERS Review

- Monitoring higher inflation; Current Assumption 2.3% - Some retirees received COLAS up to 4.7%
- Monitoring pay increases exceeding expectations; Current Assumption 2.8% - Anecdotally, Agency COLAS have been significantly higher.
- Performing Mid-Cycle Strategic Asset Allocation (SAA) review
 - Investment Office Continues to lean into Private Equity and Retreat From Private Equity (-13% Since 2020)
 - Long-term Rate of return may increase to 7% but no change to discount rate seems imminent
 - Next Review March 2024

Challenges to Achieving Target Returns

US Treasury Yields Reduced to Near Zero

We Need to Take Risks to Achieve Returns



Rising Interest Rates and Inflation – Time to Reassess Investment Strategies

The
Economist



The new rules of investment

When the tide turns

Rising interest rates and inflation have upended the world of investing

“If you can get 4% on government bonds, is 7% on **private assets** enough?”

Raj Mody of PWC Consulting

Candidate Portfolios

(Portfolio "A" Appears to be the Staff Recommendation)

- Portfolio A mirrors the risk profile of the current Policy portfolio but offers higher expected returns
- Portfolios B and C deliver expected returns akin to the Policy portfolio while providing lower risk profiles
- The Simple Portfolio requires unrealistic leverage to align with the expected return of the Policy Portfolio

CalPERS continues to lean into Private Assets and retreat from Public Equity

Asset Class	Current Policy	70/30	Policy Target Return: Simple	Candidate Portfolio		
				A	B	C
				Policy Target CDaR: 21.5%	Policy Target Return: 6.9%	Target Return: 6.8%
Public Equity	42%	70%	89%	37%	33%	31%
Private Equity	13%			17%	17%	17%
Fixed Income	30%	30%	48%	28%	32%	34%
Private Debt	5%			8%	8%	8%
Real Assets	15%			15%	15%	15%
Leverage	5%	0%	37%	5%	5%	5%
Geo Return	6.9%	6.3%	6.9%	7.0%	6.9%	6.8%
Survey Return Range	5.6%-7.7%	4.7%-7.0%	5.0%-7.9%	5.7%-7.7%	5.7%-7.7%	5.6%-7.6%
CDaR	21.5%	26.0%	34.6%	21.4%	20.1%	19.5%
Volatility	11.2%	12.6%	16.4%	11.3%	10.9%	10.6%

Asset Liability Management (ALM) Timeline

Mid-Cycle Review

2021 November	2022 July*	2023 February	2024 March	2025 February	June	July*	September	November
Experience study results	Effective date for strategic asset allocation	Educational sessions: concepts, framework, timeline	Discussion of mid-cycle review	Educational session: concepts, framework, timeline	Capital Market Assumptions	Educational sessions:	Discussion of candidate portfolios with proposed discount rates	Experience study results
Discussion of candidate portfolios with discount rates			Final approval of mid-cycle review asset allocation		Economic Assumptions	ALM process & framework		Discussion of candidate portfolios with discount rates
Final approval of discount rate						Investment funds risk assessment		Final approval of discount rate
Final approval of strategic asset allocation						Gauging the funds' ability to tolerate market risk		Final approval of strategic asset allocation

Long-Term Forecasting Facing Gobs of Uncertainty

“We always overestimate the change that will occur in the short term and underestimate the change that will occur in the long term.”

Bill Gates

“Under uncertainty, traditional approaches to strategic planning can be downright dangerous”

**Harvard
Business
Review**

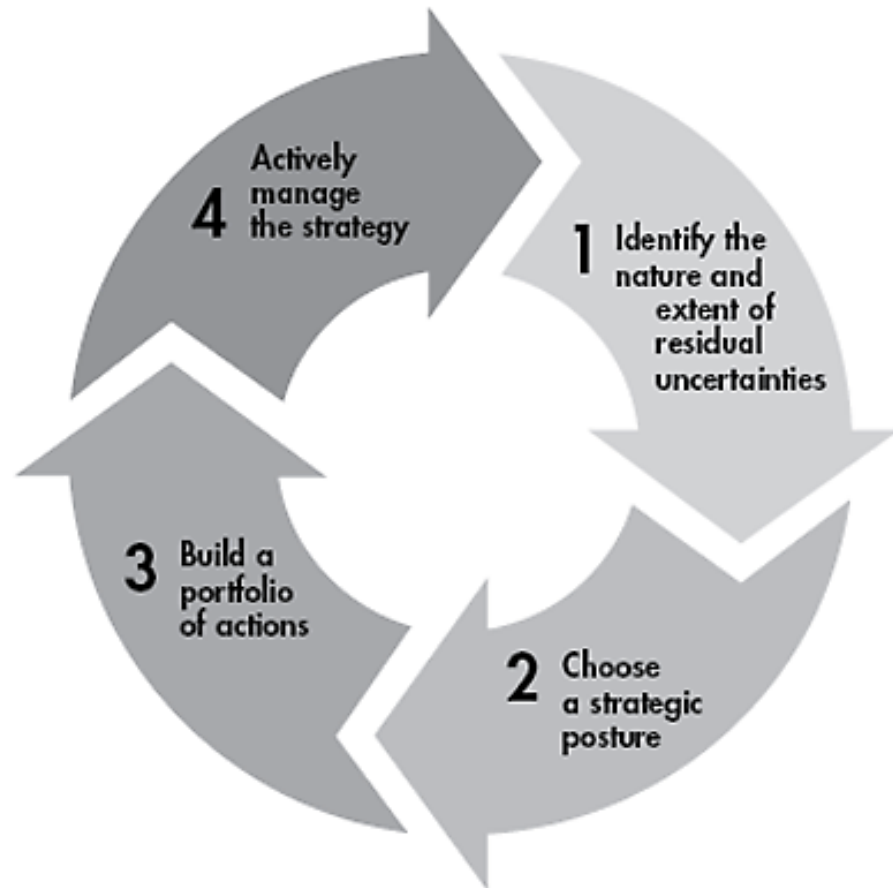
	A Clear-Enough Future	Alternate Futures	A Range of Futures	True Ambiguity
What Can Be Known?	<ul style="list-style-type: none">• A single forecast precise enough for determining strategy	<ul style="list-style-type: none">• A few discrete outcomes that define the future	<ul style="list-style-type: none">• A range of possible outcomes, but no natural scenarios	<ul style="list-style-type: none">• No basis to forecast the future
Analytic Tools	<ul style="list-style-type: none">• “Traditional” strategy tool kit	<ul style="list-style-type: none">• Decision analysis• Option valuation models• Game theory	<ul style="list-style-type: none">• Latent-demand research• Technology forecasting• Scenario planning	<ul style="list-style-type: none">• Analogies and pattern recognition• Nonlinear dynamic models

Source: Harvard Business Review

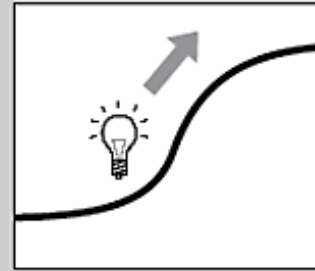
Strategy Under Uncertainty

Harvard
Business
Review

Under uncertainty, traditional approaches to strategic planning can be downright dangerous.



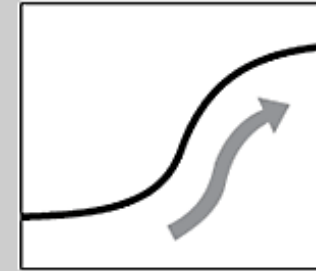
The Three Strategic Postures



Shape the future

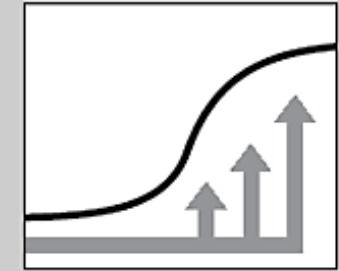
Play a leadership role in establishing how the industry operates, for example:

- setting standards
- creating demand



Adapt to the future

Win through speed, agility, and flexibility in recognizing and capturing opportunities in existing markets



Reserve the right to play

Invest sufficiently to stay in the game but avoid premature commitments

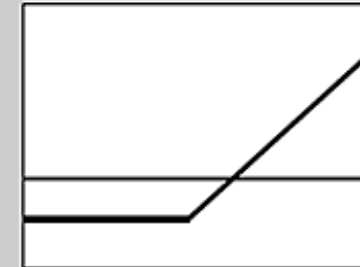
What's in a Portfolio of Actions?

These building blocks are distinguished by three payoff profiles—that is, the amount of investment required up front and the conditions under which the investment will yield a positive return.

Scenario	Value
1.	+
2.	+
3.	+
4.	+

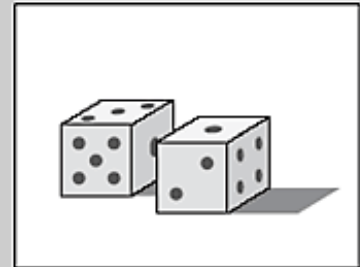
No-regrets moves

Strategic decisions that have positive payoffs in any scenario



Options

Decisions that yield a significant positive payoff in some outcomes and a (small) negative effect in others



Big bets

Focused strategies with positive payoffs in one or more scenarios but a negative effect in others

Challenge Yourself Beyond What You See Today

*Talent hits a target no one else can hit;
Genius hits a target no one else can see.*

Arthur Schopenhauer



Measures to Ensure Economic Resiliency

What's Next?

1. Balance the Budget with One-Time Fixes

- *Don't ignore a structural deficit*
- *Take decisive action - early*

2. Ignoring Long-Term Consequences of a Deal

- *Long-term financial planning and financial projections critical*
- *Understand the financial costs (and operating costs) of every decision/program/raise*

3. Taking on Too Much

- *Is the scale/scope of the project affordable if things don't go as planned or are delayed*
- *Understand the economic drivers of a project*

4. Misapplying a Temporary Windfall

- *Understand where you are in an economic cycle/ discipline during boom times*

5. Shortchanging Pension Obligations

- *Pension/OBEP is often largest liability and most challenging financial issue government faces*

6. Making Unrealistic Projections About Rate of Return

- *Projections are only as good as the assumptions*

7. Ignoring Financial Checks & Balances

- *Pay attention to special revenue funds and grant programs*

Staff Composition

What's Next?

- Multiple options for how to fulfill work:
 - Full-time
 - Part-Time
 - Contract
- Each has benefits and drawbacks.
- Union pressures
- Community expectations

Revenue Measures & Sunset Dates

- Many jurisdictions face or will be facing a fiscal cliff, as revenue growth lags expenditure growth for existing revenue sources.
- Need to be able to tell the story of WHAT is happening and WHY it is happening.
- Consider new revenue measures and the relative benefits of different revenue streams.
- Bring community into the planning process for potential ballot items.
- Often potential ballot measures will poll better if a Sunset Date is included. However, this can perpetuate the problem of a structural imbalance, pushing the cliff farther off, but not eliminating it.

City Manager's Perspective

- Act Like a CFO
- Partner to develop key messages
- Be able to tell the story about opportunities and potential pitfalls
- Provide data-driven recommendations

- Understand key revenue & expenses drivers
- Establish reserves based on your economic and risk profile
- Pay attention to economic assumptions
- Pay attention to Pension & OPEB Costs

Strategic Thinking – Role of the CFO

What's Next?

Primary Financial Objectives:

- Provide / Deliver Essential Services
- Pay Employees
- Fund Maintenance & Repair of Infrastructure
- Pay Debt Service / Meet Financial Obligations
- Fund Capital Projects
- Maintain Adequate Reserves
- Cost/benefit analysis for projects

Finance Director as CFO:

- Beyond budget & ACFR: How to add value & economic development
- Seek investments that add revenue or change/diversifies
- Zoning & Revitalization – Entitlement & Density (FAR) Add Value
- Creative financing mechanisms
- Leverage Resources: Grants/ TOD & Green monies / OPM / P3s

Strong financial management results in opportunities

Financial Goals Align with Economic Development Objectives

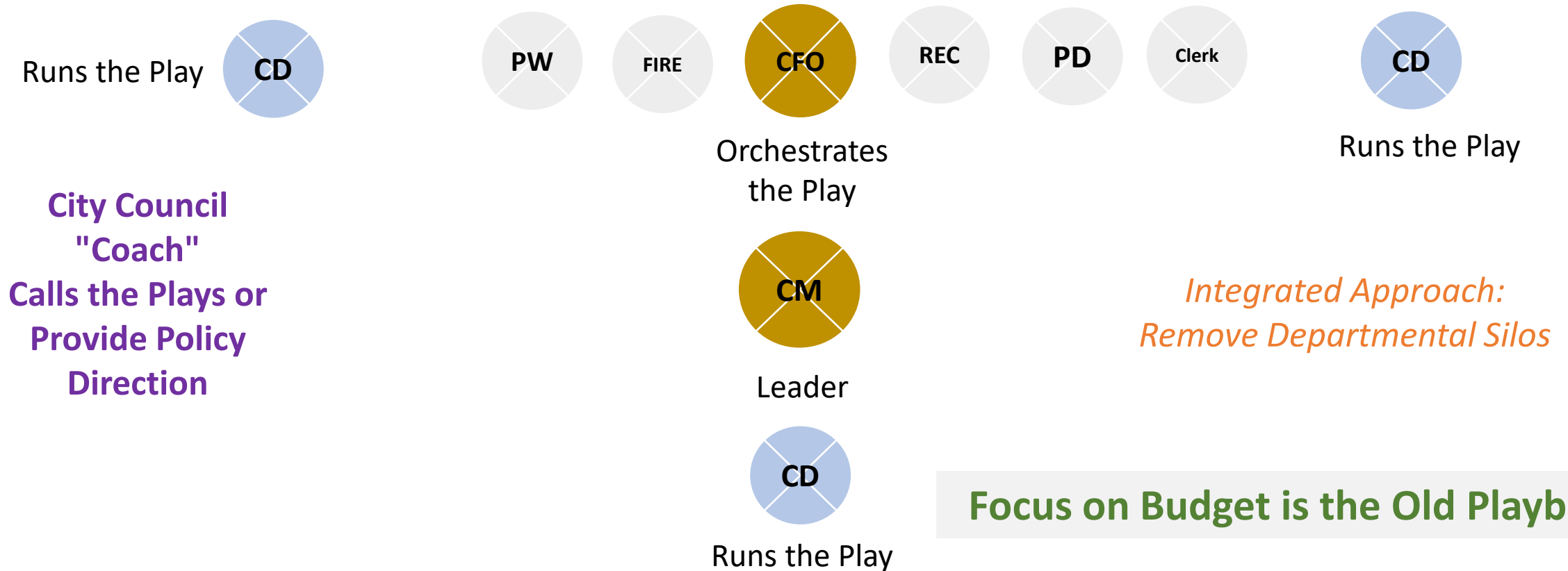


Integrated Approach: Remove Departmental Silos

“West Coast Offense” – Innovation & Speed

Economic Development Promotes Economic Resiliency

Must be ahead or keep up with competitors or opportunities will pass you by



Questions



LEAGUE OF
**CALIFORNIA
CITIES**

The Fallacy of Recovery

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