Council Agenda Report

From: Deanne Purcell, Interim Administrative Services Director

Subject: 2018-2022 Financial Forecast – General Fund

Date: March 7, 2017

Facts

1. The City Council adopted a two-year budget in June 2016. Regardless of the two-year budget process, it is important to prepare a detailed financial forecast annually, in
2. The City's General Fund is benefiting from the economic recovery.
3. The budget process this year can be abbreviated or comprehensive, based on the results of the forecast and the nature and scope of Council goals, and information not available last year.
4. CalPERS recently approved lowering its discount rate assumption from 7.5% to 7% over the next three years.
5. Due to the lowering of the discount rate, the City will be facing significant increases in employer contribution rates beginning in FY 2018-19.

Options

1. Take no action;
2. Receive and file March 2017 financial forecast; or
3. Provide alternative direction to staff.

Analysis and Conclusions

Revenues. The City's General Fund continues to see increases in revenue mainly due to the continued recovering economy. Projected revenues for FY 2016-17 are $2.8 million higher than the adopted FY 2016-17 budget. The City's main revenue source is taxes, which include property, sales, and transient occupancy taxes, are projecting to end the year over a million higher than budgeted. Property tax estimates received by the County Tax Collector's Office are $352,000 higher than the budgeted amount for FY 2016-17 and $361,000 higher than budgeted for FY 2017-18. Sales tax for the City is approximately $150,000 higher than budgeted for FY 2016-17 mainly due to the surge in new car sales, which defied the slow down generally seen elsewhere through the State. Transient occupancy taxes (TOT) are projected to be $500,000 higher than budgeted for FY 2016-17, primarily due to the updated Transient Occupancy Tax Ordinance, an increase in vacation rentals, higher rates, new hotels, and marketing through Travel Paso Robles Alliance.

An in-depth review and analysis of General Fund revenue was prepared using historical trends, current year revenue received and average annual rate of growth. In addition, the projection used for property tax was obtained from the County Tax Collector's Office and the sales tax projections were based on the updated Consensus Forecast prepared by the City's sales tax consultants, HDL Companies. The assumption for sales tax growth assumes that the spike in auto sales that the City is currently experiencing will decrease in the following years. The City's TOT has seen, on average, an annual increase of 10% over the past five years. The assumption for TOT growth for the future is 4% per year, since the new hotels are in full operation, travel to the mountains for skiing vacations are increasing again, due to the end of the drought, and the increase in vacation rentals will likely soon level off. In keeping with past practice, no revenues are assumed from entitled hotels that have not yet broken ground.

In summary, overall General Fund revenue increases will average 2.1 percent throughout the forecast period, which is in keeping only with the most current (January 2017) Consumer Price Index (CPI) for Los Angeles, Riverside, and Orange Counties. Thus, any expenditure increases that exceed the CPI must, by definition, either limit City services or require a reduction in Reserves.

Expenditures. The City's pension benefits are the main focus of change and concern in operating costs. In December of 2016, the CalPERS Board of Administration approved lowering the discount rate from 7.5% to 7% over the next three years. The Board decided to do a three-year phase-in of the discount rate change as follows:

Valuation Date	Fiscal Year	Discount Rate
June 30,2016	2018-19	7.38%
June 30,2017	2019-20	7.25%
June 30,2018	2020-21	7.00%

Lowering the discount rate means plans will see increases in both the normal costs that are paid each year and the accrued liabilities, beginning in FY 2018-19. The City has been proactive in looking for ways to reduce the unfunded pension liability, which include paying down the liability and setting up a Section 115 Trust, but this cannot reduce the majority of the contribution increases.

Employer contribution increases resulting from the discount rate changes are estimated below for the General Fund for the five years projected in this report and include the normal cost and the paydown of the accrued liabilities as follows:

Comparing Discount Rate

7.50%	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Normal & UAL	$ 3,896,456	$4,307,822	$4,742,707	$5,021,112	$5,315,306
REVISED DISCOUNT RATE	**7.50% FY 2017-18**	**7.375% FY 2018-19**	**7.25% FY 2019-20**	**7.00% FY 2020-21**	**7.00% FY 2021-22**
Normal & UAL	$ 3,897,000	$4,443,000	$5,035,000	$5,710,000	$6,228,000
Increase $	$ 544	$ 135,178	$ 292,293	$ 688,888	$ 912,694
Increase %		3.14%	6.16%	13.72%	17.17%

Operating expenditures, internal service charges, capital outlays, and capital expenditures were projected using the most current CPI of 2.1%. Debt service projections are based on current debt using the amortization schedules used for payment. An analysis of the replacement funds for IT, vehicles, and equipment is in process and will help better determine the current need in the capital outlay accounts.

Fiscal Impact

The latest forecast projects a surplus from FY 2017-19 through FY 2019-22. As the discount rate change phases in, the General Fund surplus is reduced with the concern that in time as the employer contribution costs continue to rise, there will be a need to use reserves to cover the increasing pension costs.

Not included in the forecast are the potential savings or additional costs for the following:

1. Paying down the unfunded liability using General Fund Reserves

2. Negotiated adjustments in employee compensation
3. Further reductions by CalPERS in the discount rate

Recommendation

Receive and file the financial forecast for fiscal years 2017-18 through 2021-22, providing any desired direction.

Attachments

1. General Fund Financial Forecast

GENERAL FUND FINANCIAL FORECAST

		FY 2015-16 ACTUAL	FY 2016-17 PROJECTED	FY 2017-18 PROJECTED	FY 2018-19 PROJECTED	FY 2019-20 PROJECTED	FY 2020-21 PROJECTED	FY 2021-22 PROJECTED
REVENUE:								
Property Taxes		$ 9,131,339	$ 9,163,000	$ 9,550,000	$ 9,911,000	$10,286,000	$10,676,000	$ 11,081,000
Sales Tax		14,416,282	14,538,000	14,681,000	14,819,000	15,017,000	15,218,000	15,422,000
Transient Occupancy Tax		4,730,925	5,300,000	5,565,000	5,788,000	6,020,000	6,261,000	6,511,000
Other Taxes		3,259,468	3,772,000	3,877,000	3,940,000	3,993,000	4,022,000	4,022,000
Licenses and Permits		1,322,970	1,317,000	1,528,700	1,631,000	1,743,000	1,743,000	1,743,000
Fines and Forfeiture		189,439	176,000	176,000	176,000	176,000	176,000	176,000
Use of Money & Property		841,674	571,000	571,000	571,000	571,000	571,000	571,000
Revenue from Other Agency		157,969	100,000	100,000	100,000	100,000	100,000	100,000
Charges for Current Services		966,572	1,022,000	1,048,000	1,066,000	1,084,000	1,084,000	1,084,000
Misc Revenue/Transfers In	1	10,866,712	2,117,000	1,716,000	1,661,000	1,661,000	1,661,000	1,661,000
TOTAL REVENUE		45,883,350	38,076,000	38,812,700	39,663,000	40,651,000	41,512,000	42,371,000
Percentage Change		29.86%	-17.02%	1.93%	2.19%	2.49%	2.12%	2.07%
Grant Revenue		2,155,896	2,481,000	1,500	0	0	0	0
TOTAL REVENUE AND GRANT REVENUE		48,039,246	40,557,000	38,814,200	39,663,000	40,651,000	41,512,000	42,371,000

GENERAL FUND FINANCIAL FORECAST

		FY 2015-16 ACTUAL	FY 2016-17 PROJECTED	FY 2017-18 PROJECTED	FY 2018-19 PROJECTED	FY 2019-20 PROJECTED	FY 2020-21 PROJECTED	FY 2021-22 PROJECTED
EXPENDITURES:								
Personnel Services		18,445,663	19,800,000	20,406,000	$ 20,881,000	$21,384,000	$21,732,000	$ 21,860,000
PERS discount rate change					135,000	292,000	689,000	1,151,000
Total Personnel after rate change		18,445,663	19,800,000	20,406,000	21,016,000	21,676,000	22,421,000	23,011,000
Operating Expenses		9,957,579	10,473,000	11,009,000	10,869,000	11,097,000	11,330,000	11,568,000
Internal Service Charges		(2,427,755)	(2,188,000)	(2,188,000)	(2,234,000)	(2,281,000)	(2,329,000)	(2,378,000)
Debt Service		592,719	588,000	486,000	389,000	389,000	218,000	149,000
Capital Outlay		961,467	589,000	1,069,000	1,091,000	1,114,000	1,137,000	1,161,000
Misc Exp/Transfers Out	2	7,728,538	182,000	331,000	331,000	331,000	331,000	331,000
TOTAL EXPENDITURES		35,258,211	29,444,000	31,113,000	31,462,000	32,326,000	33,108,000	33,842,000
Percentage Change		1.28%	-16.49%	5.67%	1.12%	2.75%	2.42%	2.22%
Capital Expenditures		8,853,608	13,463,000	7,744,000	7,905,000	8,069,000	8,237,000	8,408,000
TOTAL EXPENDITURES AND CAPITAL EXPENDITURES		44,111,819	42,907,000	38,857,000	39,367,000	40,395,000	41,345,000	42,250,000
OPERATING BALANCE/(DEFICIT)	3	$ 3,927,426	$ (2,350,000)	$ (42,800)	$ 296,000	$ 256,000	$ 167,000	$ 121,000
FUND BALANCE START OF YEAR		24,804,706	28,732,132	27,193,684	27,150,884	27,446,884	27,702,884	27,869,884
FUND BALANCE END OF YEAR		$ 28,732,132	$26,382,132	$27,150,884	$ 27,446,884	$27,702,884	$27,869,884	$ 27,990,884

1-GF Consolidation - $6.3 million to GF
2-GF Consolidation - $6.3 million from other funds
3-Capital Expenditures (in process) C/O to FY 2016-17- $3.7 million