



CITY OF PACIFIC GROVE
300 Forest Avenue, Pacific Grove, California 93950

AGENDA REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Patty Maitland, Finance Director

MEETING DATE: February 17, 2016

SUBJECT: Fiscal Year 2016-17 Budget Schedule and Five-Year Forecast

CEQA: Does not constitute a “project” under California Environmental Quality Act (CEQA) guidelines.

RECOMMENDATION

1. Receive the 2016-2021 Five-Year Fiscal Forecast
2. Receive the Fiscal Year 2016-17 Budget Schedule
3. Receive an Updated Fiscal Analysis and Diagnostic
4. Provide any desired direction or requests for additional information

DISCUSSION

Pursuant to Council Policy 400-6, this report presents the Five Year Forecast and budget schedule for Fiscal Year 2016-17 (FY 2016-17). Both the schedule and the forecast provide a foundation on which the Council may base its discussion and direction for the FY 2016-17 budget. Subsequently, the Finance Director and the Interim City Manager will coordinate with Department Heads and program managers to develop the FY 2016-17 budget consistent with Council goals.

Five-Year Forecast. The Five-Year forecast attempts to quantify the City’s fiscal status over the next five years by projecting expenditures and revenues. The forecast reflects current year statutes, policies, operations, and authorized positions. The salary and benefits costs that are included in the operations forecast are based on CalPERS retirement agreements, Memorandums of Understanding, and other personnel policies. The forecast does not anticipate the impact of future Council policies or decisions.

Table 1 provides a summary of the forecast on a status quo basis (i.e., no new revenue sources, with a continuation of existing trends and the continuation of existing levels of service). The detailed forecast can be found in Attachment 1. The forecast projects a positive net result of operations in FY 2016-17 of \$103,000. This projection assumes the current level of service with no significant increase in appropriations over the current fiscal year and no new revenue sources.

Table 1. Five-Year Forecast for Status Quo Revenues and Service Levels

	2014-15 Actual	2015-16 Estimate	FY 2016-17 Projection	FY 2017-18 Projection	FY 2018-19 Projection	FY 2019-20 Projection	FY 2020-21 Projection
Beginning Fund Balance	\$6,094,823	\$8,223,737	\$8,352,846	\$8,455,810	\$8,289,409	\$8,426,329	\$8,236,241
Revenues and Transfers Total	19,192,238	19,569,000	20,101,000	20,648,000	21,209,000	21,788,000	22,384,000
Expenditures and Transfers Total	16,760,323	19,439,891	19,998,036	20,814,401	21,072,080	21,978,088	22,713,416
Net Results of Operations	2,431,915	129,109	102,964	(166,401)	136,920	(190,088)	(329,416)
Ending Fund Balance	\$8,223,737	\$8,352,846	\$8,455,810	\$8,289,409	\$8,426,329	\$8,236,241	\$7,906,825

The following provides additional information with regard to the trends, information, and data utilized to derive specific revenue and expenditure figures included in the forecast.

REVENUES

Property Tax – Pursuant to the County Assessor’s report to the Monterey County Budget Committee on January 26, 2016, the Assessor anticipates an increase of 5.425% in the countywide assessment roll. As the City’s primary revenue source, property taxes have historically been conservatively forecasted based on the prior year actual receipts. This forecast continues this approach anticipating a modest increase of 3% for the upcoming fiscal year.

Transient Occupancy Tax (TOT) – TOT is the 2nd highest revenue source for the City. The following chart shows the gross TOT revenues attributed to both commercial and residential (Short Term Transient Use) properties over the past five years.

Transient Occupancy Tax	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Commercial	\$ 2,709,165	\$ 2,889,126	\$ 3,015,919	\$ 3,278,458	\$ 3,730,897
Residential	\$ 181,955	\$ 252,675	\$ 343,764	\$ 453,048	\$ 707,468
TOTAL	\$ 2,891,120	\$ 3,141,801	\$ 3,359,684	\$ 3,731,506	\$ 4,438,365

The City is currently in the process of evaluating whether or not to place a revenue measure on an upcoming ballot that would increase TOT from 10% to 12%. Based on the FY 2014-15 TOT revenues, if the Council places the measure on the ballot and it is approved by voters, the 2% increase in TOT is projected to yield over \$800,000 annually in additional TOT revenue (commercial and residential combined).

Council and Staff continue to review and revise the policies associated with Short Term Transient Uses which could potentially reduce the number of transient uses in the City and thereby reduce TOT revenues. In FY 2014-15, transient use TOT generated \$708,000 in revenue to the City.

YTD 2015-16 TOT	Budget	YTD Actual	% of Budget
Commercial	\$ 3,224,700	\$ 2,157,747	66.91%
Residential	\$ 606,900	\$ 528,462	87.08%

In the current year, residential TOT is currently at 87% of budget. If residential TOT continues this trend (barring any significant changes to the program) FY 2015-16 revenues could be as high as \$900,000. However, the forecasted TOT figures presented in this report do not project the occurrence or outcomes of any future policy decisions the Council may make. The TOT revenues have been projected to conservatively increase over the five year forecast period (consistent with the City’s prior years trend methodology).

Sales & Use Tax – Sales and use taxes continue to show modest growth notwithstanding lower gasoline prices. The City’s restaurants generate the highest sales and use taxes (33%), with Building Materials (14%) and Food Markets (12%) the next two highest contributors. California’s overall inflation rate of 1.5% includes two items that increasingly consume more residents’ disposable income and generally do not generate sales tax revenues: Housing and Medical Care. However, retail sales during the holiday season grew by 7.9% and double digit furniture sales appear to indicate consumers have more disposable income.

Utility Users Tax – The City collects utility users tax for wired telecom, wireless telecom, electricity, natural gas, cable television, and water. The City’s tax compliance vendor, Muni Services, projects that the City’s utility users tax will, overall, have modest growth. However, the following market events have impacted overall utility user tax collections:

- Wired telecom services have increased overall, despite a reduction in the residential service contracts.
- Competition among wireless carriers has driven prices down in wireless service subscriptions.
- Electrical taxes decreased due to a shift from coal to natural gas to generate electricity.
- Notwithstanding the shift from electricity to natural gas, natural gas taxes decreased due to reduced prices from increased supply.

Charges for Services – Council Policy 400-4 provides a guideline for the recovery of fees for services. However, fees for services have not kept pace with the costs of providing such services. For the current fiscal year, Council directed full cost recovery, with certain exemptions, in the Master Fee schedule. It is anticipated that the fees for services will experience moderate but sustained growth over the forecast period as the fees move closer in line with actual expenditures.

EXPENDITURES

The forecast for FY 2016-17 reflects the growth in General Fund balance that was stated in the independent auditor’s report for the prior fiscal year. The following are significant factors with regard to projected operating expenditures.

CalPERS – The forecast includes the unfunded and projected unfunded liability amounts CalPERS projects in the City’s annual valuation reports. The unfunded liability expense for FY 2016-17 is \$1,379,024. This payment does not include the payroll contribution percentages paid by the employees or the City, the latter of which is included in the departmental operating budgets. The percentages CalPERS has set for FY 2016-17 are as follows:

	FY 2016-17		FY 2017-18 (Projected)	
	Employer Rate	Unfunded Liability	Employer Rate	Unfunded Liability
Classic Miscellaneous	8.88%	\$ 498,741	8.90%	\$ 625,822
Classic Safety	19.54%	\$ 880,155	19.50%	\$ 1,072,244
PEPRA Miscellaneous	6.56%	\$ 60	6.60%	\$ 151
PEPRA Safety	12.08%	\$ 68	12.10%	\$ 176

Some employees currently pay a portion of the employer rate pursuant to Memorandums of Understanding: General Employee Association (GEA) members, Management Employees Association (MEA) members, and Management staff pay 12% (7% employee share and 5% employer share). Classic Police Officers Association (POA) members pay 9% employee share and PEPRA POA members pay 11.5% employee share. The City currently pays the employer rates of 18.524% for Classic Safety members and 11.153% for PEPRA Safety members.

Pension Obligation Bond (POB) – The POBs were issues in 2006 to pre-fund CalPERS pension plans. The debt will not be retired until July 2028.

Other Debt – Note that while the forecast predicts a negative net result in FY 2017-18, other debt that is retired in that year results in a positive net of operations and capital in FY 2018-19. The Butterfly Bond debt will be retired in August 2017 and the Next Generation (NGen) radio equipment financing lease final payment will be made September 2017.

Operations – One time budget modifications in the current year are not carried forward in the out years. One-time expenses that have been authorized by Council but not included in the out years of the operating budgets are: personnel recruitments, police chief vehicle, General Fund contributions to the Local Water Project, and Project Bella reimbursements.

Budget Schedule. The Budget Schedule for FY 2016-17 is included as Attachment 2 to this report. The budget schedule indicates the dates on which the Council is scheduled to hear input and take action on items related to the City's budget preparation and adoption.

Fiscal Analysis. On October 7, 2015, Council received a preliminary fiscal health analysis report that utilized the prior year audit and forecast. The analysis was a diagnostic tool that assessed current and future financial commitments. At that time, Staff committed to returning with an updated analysis upon completion of the FY 2014-15 audit and the February 2016 forecast. Attachment 3 is the updated fiscal health analysis report utilizing this forecast and the June 30, 2015 audit findings compared to the October 2015 version. Note the improvement in three major areas: net operations, fund balance, and fixed costs.

Although the forecast and the fiscal analysis indicate a positive trend in the upcoming fiscal year, the year over year increase in General Fund balance has been due to salary savings (unfilled personnel vacancies), reduced service levels, and deferred maintenance as estimated in the chart below.

Under-Funded Services					
Street Maintenance	\$	600,000	Code Compliance	\$	100,000
Sidewalk Maintenance	\$	85,000	Police Services	\$	200,000
Park Maintenance	\$	150,000	Recreation	\$	200,000
Library Hours & Materials	\$	250,000	Long-Range Land Use Planning	\$	200,000
Tree and Turf Removal	\$	200,000	Capital Replacement Fund	\$	300,000
Total Estimate Annual Cost = \$2,285,000					

FISCAL IMPACT

Receipt of this forecast, budget schedule, and fiscal analysis do not impact the General Fund. Actions by the Council in its consideration and adoption of the FY 2016-17 Budget will impact the General Fund and other funds.

ATTACHMENTS

- Attachment 1: Detailed Five-Year Fiscal Forecast
- Attachment 2: Budget Schedule
- Attachment 3: Comparative Fiscal Health Analysis
- Attachment 4: PowerPoint Presentation

RESPECTFULLY SUBMITTED:

Patty Maitland

Patty Maitland, Finance Director

Ben Harvey

Ben Harvey, Interim City Manager

	2014-5 Actual	2015-6 Estimate	FY 2016-7 Projection	FY 2017-8 Projection	FY 2018-9 Projection	FY 2019-20 Projection	FY 2020-21 Projection
<u>REVENUES AND TRANSFERS IN</u>							
Property Tax	5,750,806	5,837,000	6,012,000	6,192,000	6,378,000	6,569,000	6,766,000
Transient Occupancy Tax	4,468,965	4,558,000	4,695,000	4,836,000	4,981,000	5,130,000	5,284,000
Sales and Use Tax - Taxes	3,534,495	3,605,000	3,677,000	3,751,000	3,826,000	3,903,000	3,981,000
Utility User Taxes	1,428,360	1,457,000	1,501,000	1,546,000	1,592,000	1,640,000	1,689,000
Franchise Taxes	919,377	929,000	938,000	947,000	956,000	966,000	976,000
Business License Tax	327,463	337,000	347,000	357,000	368,000	379,000	390,000
Other Taxes	102,627	106,000	109,000	112,000	115,000	118,000	122,000
Intergovernmental Revenues	163,543	168,000	173,000	178,000	183,000	188,000	194,000
License, Permits & Impact Fees	440,403	454,000	468,000	482,000	496,000	511,000	526,000
Fines & Forfeitures	49,714	51,000	53,000	55,000	57,000	59,000	61,000
Charges for services	983,061	1,013,000	1,043,000	1,074,000	1,106,000	1,139,000	1,173,000
Interest, Rents & Concessions	433,491	446,000	459,000	473,000	487,000	502,000	517,000
Other Revenues	589,932	608,000	626,000	645,000	664,000	684,000	705,000
Revenues and Transfers Total	19,192,238	19,569,000	20,101,000	20,648,000	21,209,000	21,788,000	22,384,000
<u>EXPENDITURES AND TRANSFERS OUT</u>							
General Government	2,317,231	2,654,629	2,734,000	2,816,000	2,900,000	2,987,000	3,077,000
Police and Disaster Preparedness	4,192,928	3,717,860	3,779,000	3,892,000	4,009,000	4,129,000	4,253,000
Fire and Emergency Medical Services	2,291,201	2,028,131	2,089,000	2,152,000	2,217,000	2,284,000	2,353,000
Public Works Operations	2,641,550	2,937,030	2,625,000	2,704,000	2,785,000	2,869,000	2,955,000
Community Development	1,324,672	1,415,506	1,158,000	1,193,000	1,229,000	1,266,000	1,304,000
Library	676,271	644,569	664,000	684,000	705,000	726,000	748,000
Recreation	393,761	294,637	303,000	312,000	321,000	331,000	341,000
Museum	188,938	163,458	168,000	173,000	178,000	183,000	188,000
Capital Outlay	795,432	170,000	175,000	180,000	185,000	191,000	197,000
Debt Principal	1,185,874	1,418,492	1,337,790	1,323,275	1,192,972	1,154,473	1,137,334
Debt Interest	752,465	900,066	1,651,222	1,686,733	1,249,424	1,335,931	1,422,879
POB	Incl in Ops	1,875,000	1,935,000	2,000,000	2,065,000	2,130,000	2,200,000
CalPERS Unfunded Liability	-	1,220,513	1,379,024	1,698,393	2,035,684	2,391,684	2,537,203
Expenditures and Transfers Subtotal	16,760,323	19,439,891	19,998,036	20,814,401	21,072,080	21,978,088	22,713,416
NET RESULTS OF OPERATIONS & CAPITAL	2,431,915	129,109	102,964	(166,401)	136,920	(190,088)	(329,416)
Beginning Fund Balance	6,094,823	8,223,737	8,352,846	8,455,810	8,289,409	8,426,329	8,236,241
Ending Fund Balance	8,223,737	8,352,846	8,455,810	8,289,409	8,426,329	8,236,241	7,906,825

Budget Schedule	
Forecast/YE Estimate	February 17, 2016
Capital Improvement Plan	April 6, 2016
Master Fee Schedule	April 6, 2016
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Operating Budget 1 st Reading	May 4, 2016
Operating Budget 2 nd Reading	May 18, 2016

The California Municipal Financial Health Diagnostic Financial Health Indicators Summary					
Indicator	Rating Using June 30, 2014 Audit & 2015 Forecast		Rating Using June 30, 2015 Audit & 2016 Forecast		Description
1. Net Operating deficit / surplus		Warning		Caution	1. The city has recurring general fund operating deficits.
2. Fund balance		Warning		Caution	2. General fund reserves are decreasing over multiple consecutive years.
3. Liquidity		Healthy		Healthy	3. General fund current liabilities (including short-term debt and accounts payable within 60 days) are increasing. Cash and short-term investments are decreasing.
4. Fixed costs & labor costs		Warning		Caution	4. General fund fixed costs, salaries and benefits are increasing over multiple years at a rate faster than recurring revenue growth.
5. General fund subsidies of other funds		Caution		Caution	5. The general fund is subsidizing other enterprises or special funds.
6. Constraints on budgetary discretion		Caution		Caution	6. The city council's authority to make changes is constrained by charter, contract, or law. (e.g. binding arbitration, minimum spending, minimum staffing or compensation formulas, etc.)
7. Balancing the budget with temporary funds		Caution		Caution	7. The general fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.
8. Balancing the budget with borrowing		Caution		Caution	8. The general fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.
9. Balancing the budget by deferring employee compensation costs		Warning		Warning	9. General fund pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarially funded.
10. Balancing the budget with backloaded debt service payments		Healthy		Healthy	10. General fund debt service payments have been "backloaded" into future years.
11. Funding operating costs with non-recurring development revenues		Healthy		Healthy	11. Ongoing general fund operating costs are being funded with temporary development revenues.
12. Timeliness and accuracy of financial reports		Caution		Caution	12. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)
13. Service level solvency		Caution		Caution	13. Public service levels are far below standards needed in this community.

Mayor
Bill Kampe

Council Members

Robert Huitt
Ken Cuneo
Rudy Fischer
Casey Lucius
Daniel Miller
Bill Peake

Interim City Manager
Ben Harvey

Finance Director
Patty Maitland



CITY OF PACIFIC GROVE FIVE YEAR FORECAST AND FY 2016-17 BUDGET PREPARATION SCHEDULE

February 17, 2016



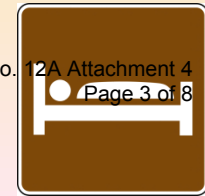
Revenue Detail (Extract)

	2014-5 Actual	2015-6 Estimate	FY 2016-7 Projection	FY 2017-8 Projection	FY 2018-9 Projection	FY 2019-20 Projection	FY 2020-21 Projection
Revenues							
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Charges for services	983,061	1,013,000	1,043,000	1,074,000	1,106,000	1,139,000	1,173,000
Interest, Rents & Concessions	433,491	446,000	459,000	473,000	487,000	502,000	517,000
Other Revenues	589,932	608,000	626,000	645,000	664,000	684,000	705,000
Total	19,192,238	19,569,000	20,101,000	20,648,000	21,209,000	21,788,000	22,384,000

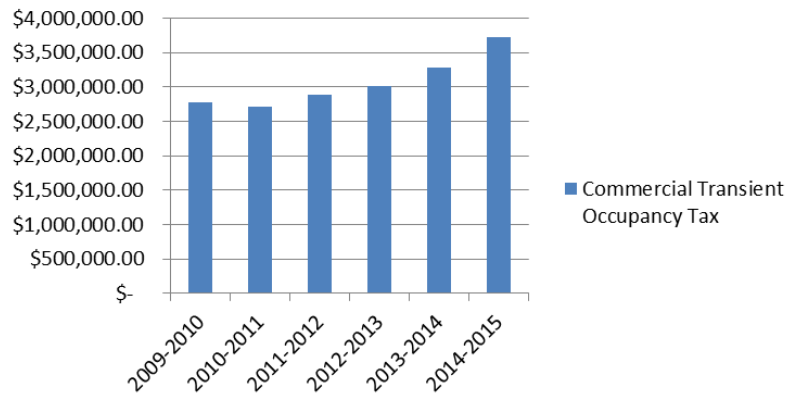
Transient Occupancy Tax Trends

Agenda No. 12A Attachment 4

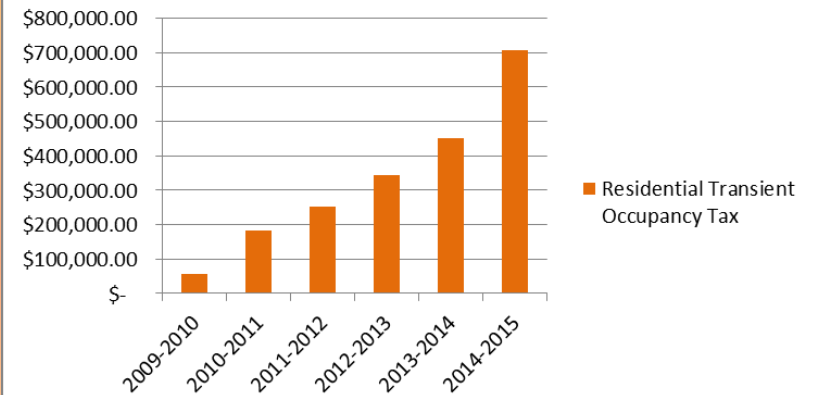
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Commercial Transient Occupancy Tax



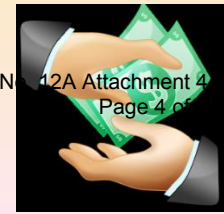
Residential Transient Occupancy Tax



Expenditure Detail (Extract)

Agenda N 12A Attachment 4

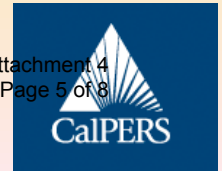
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Public Works Operations	2,641,550	2,937,030	2,625,000	2,704,000	2,785,000	2,869,000	2,955,000
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CalPERS: FY 2016-17 Actual Costs FY 2017-18 Projected Costs

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	FY 2016-17		FY 2017-18 (Projected)	
	Employer Rate	Unfunded Liability	Employer Rate	Unfunded Liability
Classic Miscellaneous	8.88%	\$ 498,741	8.90%	\$ 625,822
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PEPRA Safety	12.08%	\$ 68	12.10%	\$ 176
Total		\$ 1,379,024		\$ 1,698,393

Under-Funded Services



Under-Funded Services					
Street Maintenance	\$	600,000		Code Compliance	\$ 100,000
Sidewalk Maintenance	\$	85,000		Police Services	\$ 200,000
Park Maintenance	\$	150,000		Recreation	\$ 200,000
Library Hours & Materials	\$	250,000		Long-Range Land Use Planning	\$ 200,000
Tree and Turf Removal	\$	200,000		Capital Replacement Fund	\$ 300,000
Total Estimate Annual Cost = \$2,285,000					

FY 2016-17 Budget Schedule

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Budget Schedule	
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Master Fee Schedule	April 6, 2016
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Summary



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