City of Pacific Grove

FY 2017-18 Proposed Operating & Capital Budget

Bill Kampe, Mayor

Robert Huitt, Mayor Pro Tempore

Ken Cuneo, Council Member

Rudy Fischer, Council Member

Cynthia Garfield, Council Member

Bill Peake, Council Member

Nick Smith, Council Member

June 7, 2017

Presented by: Dave Culver, Interim Administrative Services Director

Ben Harvey, City Manager

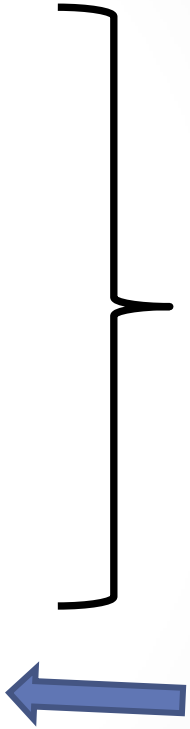
Budget Workshop Topics

- **FY 2017-18 Recommended Budget**
  - Budget Adoption Calendar
  - Total Operating & Capital Budget Overview
  - FY 2017-18 Department Summary
  - Changes in FTEs
  - Capital Improvement Program
- **Future Pressures**
  - Increasing Pension costs
  - Deferred Infrastructure Maintenance
- **Five Year Forecast – Revisit**
  - Baseline & Alternative Scenarios
- **Next Steps**

FY 2017-18 Recommended Budget

Budget Adoption Calendar

Budget Adoption Calendar	
Forecast/YE Estimate	January 18, 2017
Capital Improvement Plan	April 19, 2017
Master Fee Schedule	April 19, 2017
Departmental Budget Preparation	April 2016
Gann Limit	May 17, 2017
Operating Budget Workshop	May 31, 2017
Operating Budget 1st Reading	June 7, 2017
Operating Budget 2nd Reading & Adoption	June 21, 2017

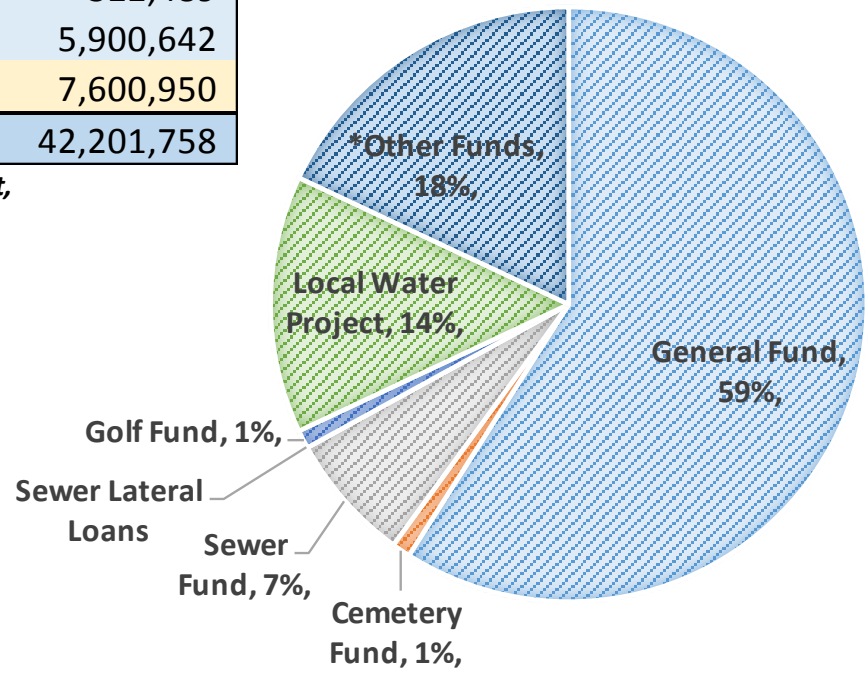


Completed

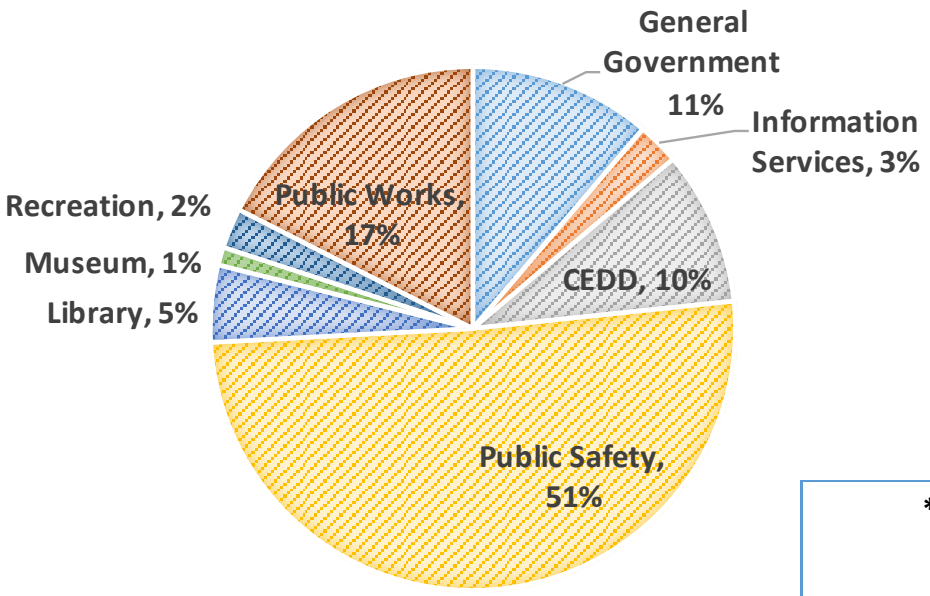
TOTAL EXPENDITURE RECOMMENDED BUDGET SUMMARY

Fund	Expenditure
General Fund	24,094,684
Enterprise Funds	
Cemetery Fund	418,737
Sewer Fund	2,862,741
Sewer Lateral Loans	1,515
Golf Fund	322,489
Local Water Project	5,900,642
*Other Funds	7,600,950
TOTAL ALL FUNDS	42,201,758

**Other Funds include Special Revenue, Capital Project, Debt Service, and Trust/Permanent Funds*



GENERAL FUND FUNCTIONAL SUMMARY



*General Government	$	2,700,980	11%
Information Services	$	623,294	3%
CEDD	$	2,294,758	10%
Public Safety	$	12,241,221	51%
Library	$	1,155,387	5%
Museum	$	268,501	1%
Recreation	$	596,134	2%
Public Works	$	4,214,409	17%
Total General Fund	$	24,094,684	

**General Government includes City Council, City Manager, City Attorney & Finance*

CAPITAL IMPROVEMENT PLAN (CIP)

Capital Improvement Program (CIP)	
General Fund	
Information Services	120,000
CEDD	200,000
Police	280,000
Public Works	1,295,000
Other Funds	8,575,000
TOTAL CIP	10,470,000

General Fund $1,895,000

- Other Funds top 3 projects = $7M
  - Local Water Project = $5.9M
  - Library Renewal = $736K
  - Measure X street overlay = $410K

WORK PLAN DEVELOPMENT

- Based on the approved budget a companion work plan will be presented to City Council in the next few months

GENERAL FUND BUDGET TAKE-AWAYS

- **2017-18 General Fund budget is balanced;**
  - With exception of $2.0M planned draw of fund balance reserves for capital projects and other one-time costs
  - Funds all ongoing costs with ongoing revenues
- **Includes significant increase in capital project funding compared to recent years**
- **No significant increase in total personnel complement**
  - FTE changes allows staff to move City Council goals forward more effectively
- **Need to plan now to address future pressures on General Fund**

FUTURE PRESSURES

- INCREASING PENSION COSTS
- DEFERRERD INFRASTRUCTURE MAINTENANCE
  - Forestry, Shoreline, Streets

PENSION FUNDING BASICS

- **Pension Funding comes from**
  - Employer Contributions
  - Employee Contributions
  - Investment Returns
- **Factors Driving Funding Increases**
  - Plan Demographics (make-up of employees)
  - Market return assumptions (Discount Rate)
    - **Historically assumed 7.5%**
      - **CalPERS to slowly reduce assumption to 7.0% over next 7 years**
    - 10 year average = less than 6%
    - FY 2015-16 was 0.61%
    - Next 10 years – 6.4% expected

The lower (more conservative) the assumed future investment earnings rate will result in higher contributions from either employer or employee

ANNUAL PENSION COST

Cost of current benefits being earned by active employees

Cost of past service credits for retirees, survivors & active employees

	2015-16 Actual	2016-17 Estimated	2017-18 Budget	Change over Prior Year
Normal Cost				
Classic Miscellaneous	324,999	255,880	275,530	19,650
Classic Safety	337,848	301,712	276,861	(24,851)
PEPRA Miscellaneous	4,848	26,363	60,585	34,222
PEPRA Safety	-	26,921	78,733	51,812
Sub total	**667,695**	**610,876**	**691,709**	**80,833**
Unfunded Liability				
Classic Miscellaneous	465,812	498,741	641,228	142,487
Classic Safety	793,797	880,155	1,073,121	192,966
PEPRA Miscellaneous	-	60	249	189
PEPRA Safety	-	68	229	161
Sub total	**1,259,609**	**1,379,024**	**1,714,827**	**335,803**
Total	**1,927,304**	**1,989,900**	**2,406,536**	**416,636**

PENSION UNFUNDED LIABILITY

- **Pension Liability Forecast to increase $1.8M over next 5 years**
  - This is in addition to the “normal cost” of benefits being earned annually by working employees
  - Liability projection does not reflect reduction assumed future investment earnings rate (will receive updated projection in next valuation report)

Fiscal Year	Unfunded Liability	Annual Increase	Change from 2016-17
2016-17	1,379,024		
2017-18	1,714,827	335,803	
2018-19	2,168,680	453,853	
2019-20	2,648,220	479,540	
2020-21	2,924,572	276,352	
2021-22	3,232,686	308,114	**1,853,662**

DEFERRED INFRASTRUCTURE MAINTENANCE

Forestry

- **2015 Report noted 7,394 Public Trees**
  - Need additional $500K to address only Priority 1 trees: Does not include routine maintenance and priority clearance: Additional $500K

Shoreline

- **Complete plan needs to be put in place**
  - Coastline protection
  - Maintenance and monitoring of existing protection
  - Address trail condition
  - Shoreline parks and landscaping

Feasibility study would be necessary to determine long term cost
Estimation would be in millions for study and associated construction

STREET IMPROVEMENT FUNDING VS. DEFERRED STREET MAINTENANCE

- **Total Street Improvement Funding 2017-18** = **$817K**
  - General Fund = $200K
  - Measure X street overlay = $410K
  - SB1 = $86K (new state funding bill effective November 2017)
  - RSTP = $121K One time amount for next three FY (initially will be used for a complete needs assessment)

Estimated cost needed to rehabilitate all road ways in the City

- 129 Lane Miles
  - 50% of Roads Slurry Seal at a cost of **$5.6 Million**
  - 50% overlay or repave at a cost of **$55 Million**

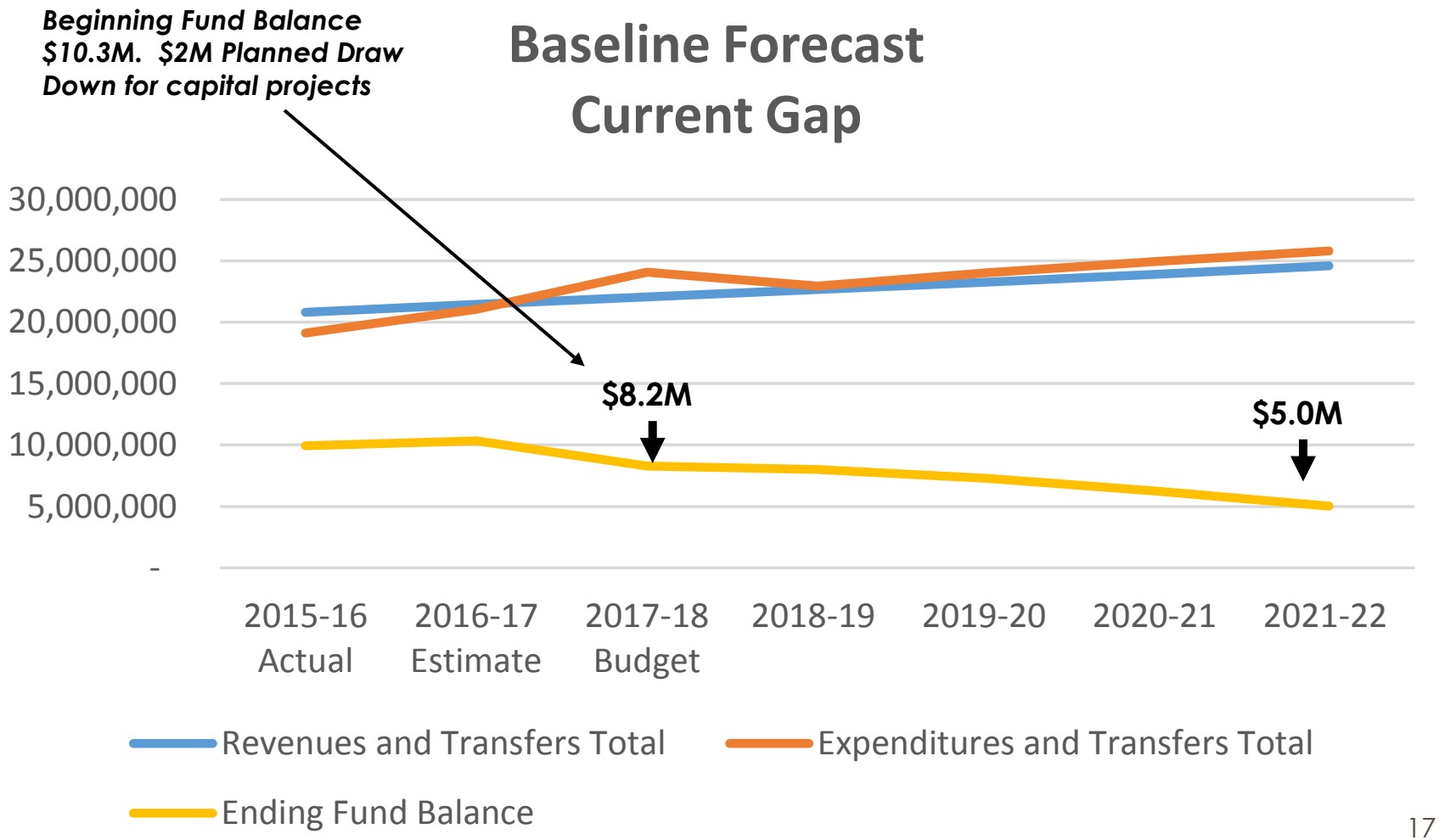
Bottom Line – would need $3M annually just for streets

FIVE YEAR FORECAST – REVISIT

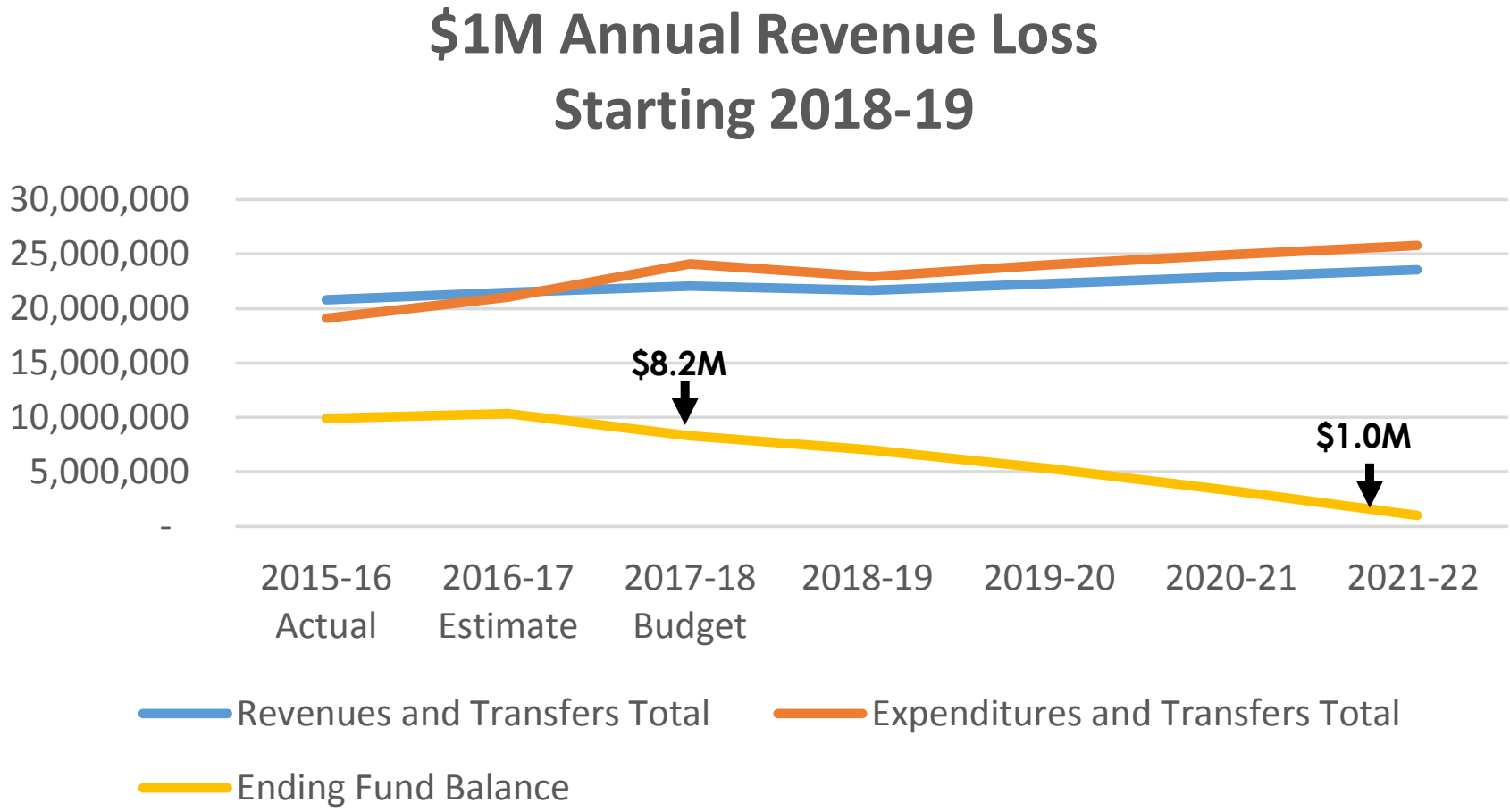
- **Baseline & Alternative Scenarios**
  - Baseline Forecast Current Gap
    - Current Gap = $2.0M planned draw on Fund Balance for capital projects and other one-time costs
  - #1 - $1M Annual Revenue Loss starting 2018-19
  - #2 - Current Gap (includes existing revenues) + Additional Annual $1.5M for Maintenance
  - #3 - $1M New Revenue Source + Additional Annual $1.5 Maintenance

In Baseline and all Alternative Scenarios expenditures exceed annual revenues every year

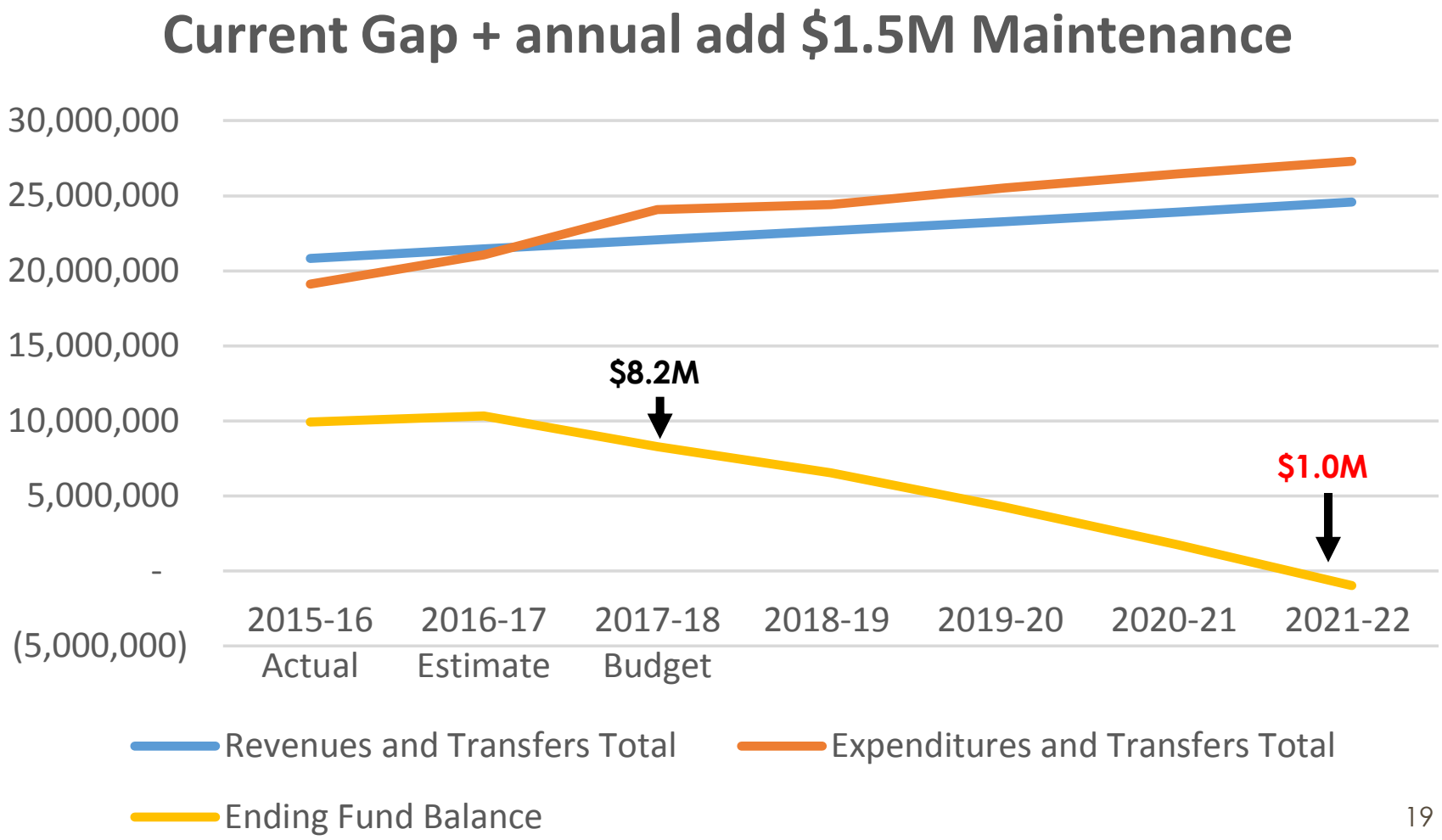
BASELINE FORECAST



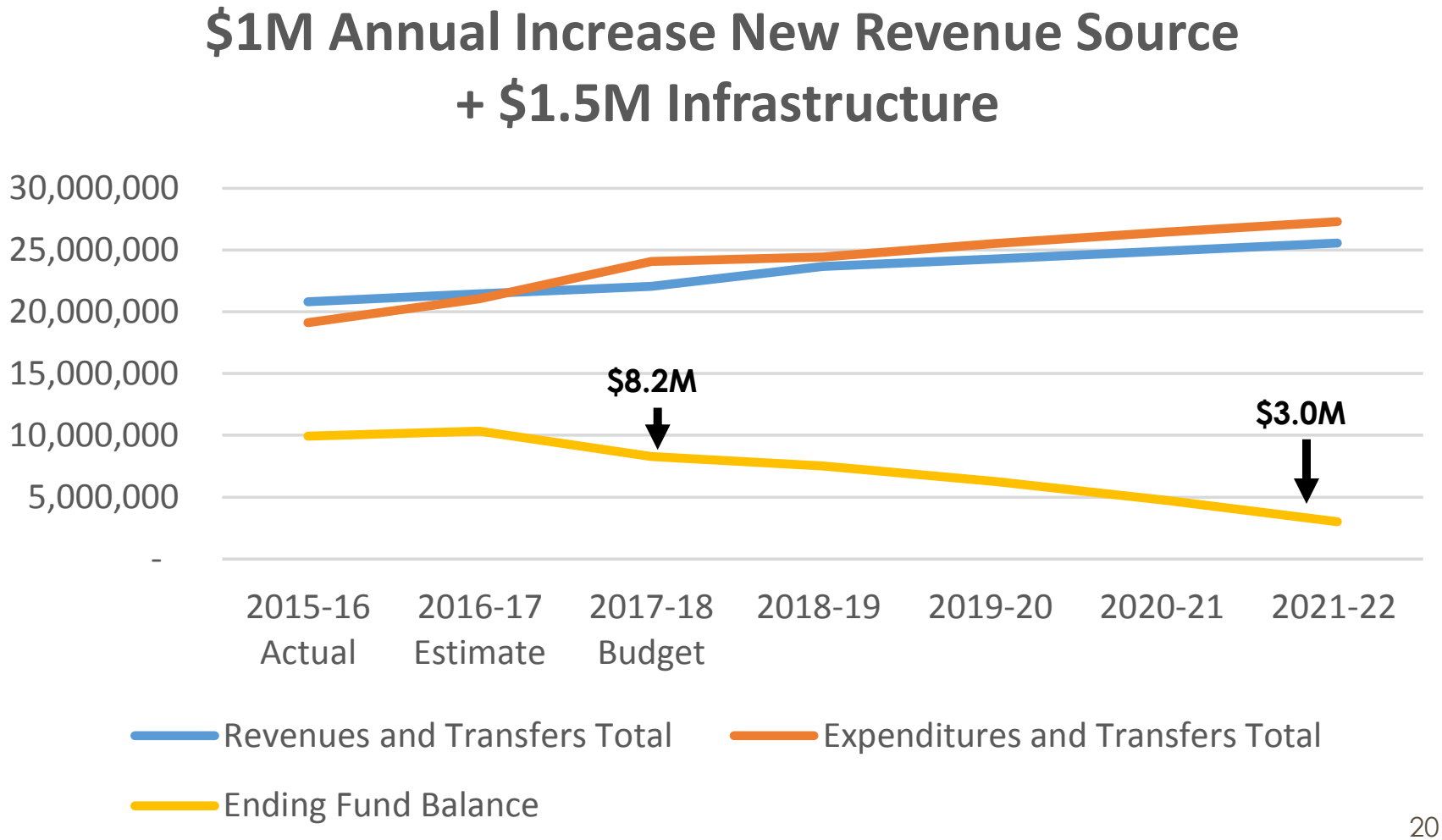
ALTERNATIVE SCENARIO #1



ALTERNATIVE SCENARIO #2



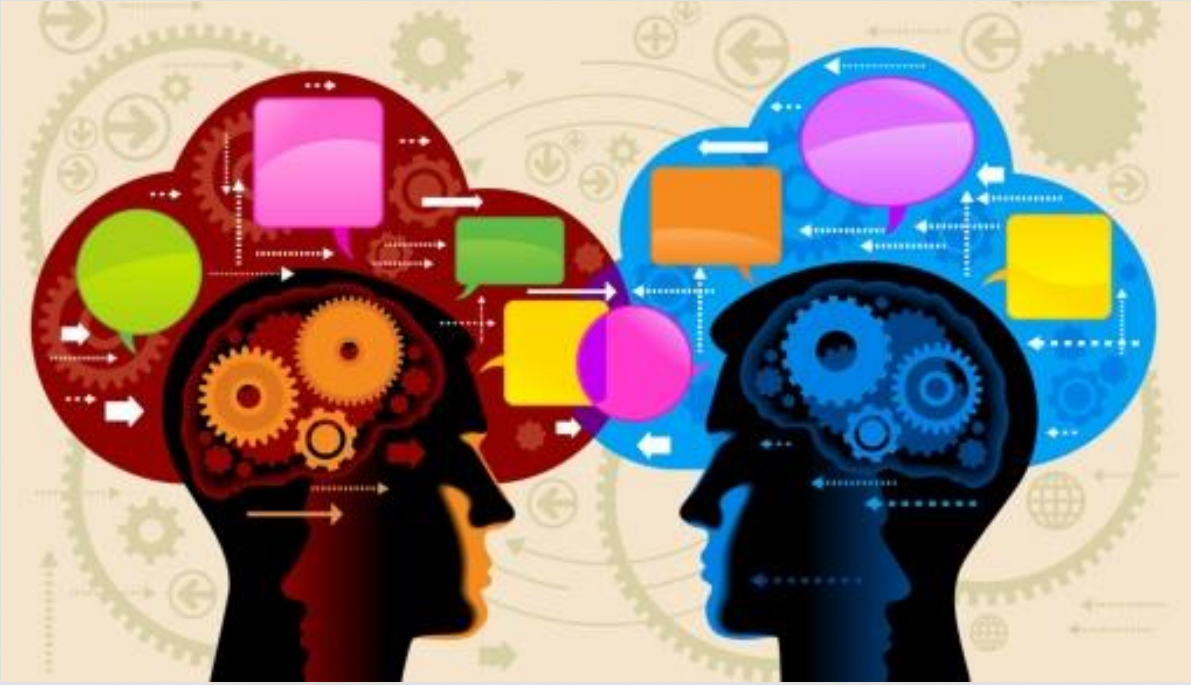
ALTERNATIVE SCENARIO #3



ALTERNATIVE SCENARIOS FORECAST SUMMARY

	Forecast Scenarios	Ending Fund Balance FY 2021-22
	FY 2017-18 Beginning Fund Balance $10.3M	
	Baseline Forecast - Current Gap	$5.0M
#1	$1M Annual Revenue Loss starting 2018-19	$1.0M
#2	Current Gap + Addl Annual $1.5M Maintenance	($1.0M) Deficit
#3	$1M New Revenue Source + Addl Annual $1.5 Maintenance	$3.0M

NEXT STEPS

- Update polling results to assess community support for tax measure for new revenue source
- Any new revenue source needs voter approval
  - Ballot measure can only be at an election where City Council is elected (November 2018)
- Would need lead time to conduct updated survey & plan for 218 process

PUBLIC COMMENT/DISCUSSION/QUESTIONS