



AGENDA REPORT

TO: Honorable Mayor and Members of the City Council
FROM: Patty Maitland, Finance Director
MEETING DATE: January 18, 2017
SUBJECT: Current Year Estimate and Five-Year Fiscal Forecast
CEQA: Does not constitute a “project” under California Environmental Quality Act (CEQA) guidelines.

RECOMMENDATION

1. Receive the 2017-2022 Current Year Estimate and Five-Year Fiscal Forecast
2. Receive the Fiscal Year 2017-18 Budget Schedule
3. Provide any desired direction or requests for additional information

DISCUSSION

Pursuant to Council Policy 400-6, this report presents the Current Year Estimate, Five Year Forecast and budget schedule for Fiscal Year 2017-18 (FY 2017-18). Both the schedule and the forecast provide a foundation on which the Council may base its discussion and direction for the FY 2017-18 budget. Subsequently, the Finance Director and the City Manager will coordinate with Department Heads and program managers to develop the FY 2017-18 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 assuming a continuation of existing trends and service levels with no significant increase in appropriations over the current fiscal year and no new revenue sources. The forecast projects a positive net result of operations in FY 2017-18 of \$167,244. See Attachment 1 for the detailed forecast.

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

	2015-16 Actual	2016-17 Estimate	FY 2017-18 Projection	FY 2018-19 Projection	FY 2019-20 Projection	FY 2020-21 Projection	FY 2021-22 Projection
Beginning Fund Balance	\$8,223,737	\$9,922,524	\$10,328,939	\$10,496,183	\$10,221,503	\$9,466,283	\$8,425,711
Revenues and Transfers Total	20,814,062	21,460,000	22,051,000	22,656,000	23,281,000	23,922,000	24,581,000
Expenditures and Transfers Total	18,766,527	21,053,584	21,883,756	22,930,680	24,036,220	24,962,572	25,794,686
Net Results of Operations	1,698,787	406,416	167,244	(274,680)	(755,220)	(1,040,572)	(1,213,686)
Ending Fund Balance	\$9,922,524	\$10,328,939	\$10,496,183	\$10,221,503	\$9,466,283	\$8,425,711	\$7,212,025

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 – The Monterey County Assessor anticipates an increase of 4.5% in the countywide assessment roll and indicates this is a reasonable projection for Pacific Grove to use for forecast purposes. As the City’s primary revenue source, property taxes have historically been conservatively forecasted based on the prior year actual receipts. While the 4.5% is used for the FY 2017-18 projection, the out years are forecasted utilizing the more conservative methodology of prior years.

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	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Commercial	\$ 2,889,126	\$ 3,015,919	\$3,278,458	\$3,730,897	\$ 3,786,439
Residential	\$ 252,675	\$ 343,764	\$ 453,048	\$ 707,468	\$ 992,986
TOTAL	\$ 3,141,801	\$ 3,359,684	\$3,731,506	\$4,438,365	\$ 4,779,425

In the current year, commercial TOT is slightly above target and residential TOT is currently at 39.98% of budget (July through November collections). While the budgeted residential TOT collections are performing below target, the forecasted TOT figures presented in this report are projected on the basis of prior year actuals and 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 year’s trend methodology).

YTD 2016-17 TOT	Budget	YTD Actual	% of Budget
Commercial	\$ 3,200,475	\$ 1,864,927	58.27%
Residential	\$ 1,470,300	\$ 587,760	39.98%

The City has engaged Hinderliter de Llamas (HdL) to administer its tax collection services for TOT (in addition to Business License and Sales Tax administration). HdL will be offering a fully automated and online payment system for TOT collection.

Sales & Use Tax – Sales and use taxes are slightly down consistent with the upward trend of online sales displacing traditional bricks and mortar purchases. While the City still receives online sales tax, as a member of the pool, the amount of sales tax does not directly correlate to the amount of taxable goods and services actually purchased on line. The City’s restaurants generate the highest sales and use taxes (35%), with Building Materials (16%) and Food Markets (12%) as the next two highest contributors. California’s temporary ¼ percent tax under Proposition 30 (2012) expired on December 31, 2016 which could further impact sales tax revenues.

Charges for Services – Council Policy 400-4 provides a guideline for the recovery of fees for services. In the prior fiscal year, the Council directed full cost recovery, with certain exemptions, in the Master Fee schedule. This strategy is proving to be effective in bringing the fees for City services in line with actual expenditures. In FY 2014-15, charges for services yielded \$984K in revenues. In FY 2015-16, that amount increased to \$1.4M.

EXPENDITURES

The forecast for FY 2017-18 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 2017-18 is \$1,714,827. 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 2017-18 are as follows:

	FY 2017-18		FY 2018-19 (Projected)	
	Employer Rate	Unfunded Liability	Employer Rate	Unfunded Liability
Classic Miscellaneous	8.92%	\$ 641,228	8.90%	\$ 825,602
Classic Safety	19.72%	\$ 1,073,121	19.70%	\$ 1,341,921
PEPRA Miscellaneous	6.53%	\$ 249	6.50%	\$ 636
PEPRA Safety	11.99%	\$ 229	12.00%	\$ 521
Total		\$ 1,714,827		\$ 2,168,680

General Employee Association (GEA) members and Management Employees Association (MEA) members make standard contributions to PERS, and the Police Officer Association (POA) members make PERS contributions pursuant to a Memorandum of Understanding. Certain classic PERS management employees (7) currently pay a portion of the employer rate.

	Classic		PEPRA	
	Employee	City	Employee	City
GEA	7.0%	8.888%	6.250%	6.555%
MEA	7.0%	8.888%	6.250%	6.555%
POA	10.0%	18.536%	11.500%	12.082%
Management	12%	3.888%	-	-

Pension Obligation Bond (POB) – The POBs were issued in 2006 to pre-fund CalPERS pension plans. The debt will not be retired until July 2028. The principal and interest payment for FY 2017-18 totals \$1,935,000.

Other Debt – Note that the forecast predicts a negative net result in FY 2018-19 although the Next Generation (NGen) radio equipment financing lease debt will be retired in FY 2017-18.

Operations – One time budget modifications in the current year are not carried forward in the out years. One-time expenses (capital, developer reimbursements) that have been authorized by Council for the current fiscal year, and prior year budget overruns are not carried through to the out years.

Budget Schedule. The Budget Schedule for FY 2017-18 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 IMPACT

Receipt of this estimate, forecast, and budget schedule 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, Enterprise Funds, Internal Service Funds, and Special Revenue Funds.

ATTACHMENTS

- Attachment 1: Detailed Five-Year Fiscal Forecast
- Attachment 2: Budget Schedule

RESPECTFULLY SUBMITTED:



Patty Maitland
Finance Director

REVIEWED BY:



Ben Harvey
City Manager

ATTACHMENT 1

**CITY OF PACIFIC GROVE FY 2017 – 22
CURRENT YEAR ESTIMATE AND
FIVE YEAR FORECAST**

	2015-6 Actual	2016-7 Estimate	FY 2017-8 Projection	FY 2018-9 Projection	FY 2019-20 Projection	FY 2020-21 Projection	FY 2021-22 Projection
REVENUES AND TRANSFERS IN							
Property Tax	6,107,498	6,382,000	6,573,000	6,770,000	6,973,000	7,182,000	7,397,000
Transient Occupancy Tax	4,875,922	5,022,000	5,173,000	5,328,000	5,488,000	5,653,000	5,823,000
Sales and Use Tax - Taxes	3,325,809	3,392,000	3,460,000	3,529,000	3,600,000	3,672,000	3,745,000
Utility User Taxes	1,594,143	1,626,000	1,675,000	1,725,000	1,777,000	1,830,000	1,885,000
Franchise Taxes	995,540	1,005,000	1,015,000	1,025,000	1,035,000	1,045,000	1,055,000
Business License Tax	313,057	322,000	332,000	342,000	352,000	363,000	374,000
Other Taxes	146,945	151,000	156,000	161,000	166,000	171,000	176,000
Intergovernmental Revenues	229,671	237,000	244,000	251,000	259,000	267,000	275,000
License, Permits & Impact Fees	481,304	496,000	511,000	526,000	542,000	558,000	575,000
Fines & Forfeitures	127,740	132,000	136,000	140,000	144,000	148,000	152,000
Charges for services	1,367,494	1,409,000	1,451,000	1,495,000	1,540,000	1,586,000	1,634,000
Interest, Rents & Concessions	355,293	366,000	377,000	388,000	400,000	412,000	424,000
Other Revenues	893,646	920,000	948,000	976,000	1,005,000	1,035,000	1,066,000
Revenues and Transfers Total	20,814,062	21,460,000	22,051,000	22,656,000	23,281,000	23,922,000	24,581,000
EXPENDITURES AND TRANSFERS OUT							
General Government	2,364,008	2,792,996	2,877,000	2,963,000	3,052,000	3,144,000	3,238,000
Police and Disaster Preparedness	4,183,524	5,188,484	5,294,000	5,453,000	5,617,000	5,786,000	5,960,000
Fire and Emergency Medical Services	2,254,310	2,778,586	2,862,000	2,948,000	3,036,000	3,127,000	3,221,000
Public Works Operations	2,942,576	3,129,496	3,223,000	3,320,000	3,420,000	3,523,000	3,629,000
Community Development	1,786,223	1,488,707	1,533,000	1,579,000	1,626,000	1,675,000	1,725,000
Library	674,226	872,486	899,000	926,000	954,000	983,000	1,012,000
Recreation	443,398	450,296	464,000	478,000	492,000	507,000	522,000
Museum	211,583	250,367	258,000	266,000	274,000	282,000	290,000
Capital Outlay	693,171	720,424	742,000	764,000	787,000	811,000	835,000
Debt Principal	111,961	65,748	16,787	0	0	0	0
Debt Interest	6,034	1,970	142	0	0	0	0
POB (Principal and Interest)	1,875,000	1,935,000	2,000,000	2,065,000	2,130,000	2,200,000	2,130,000
CalPERS Unfunded Liability	1,220,513	1,379,024	1,714,827	2,168,680	2,648,220	2,924,572	3,232,686
Expenditures and Transfers Subtotal	18,766,527	21,053,584	21,883,756	22,930,680	24,036,220	24,962,572	25,794,686
NET RESULTS OF OPERATIONS & CAPITAL	1,698,787	406,416	167,244	(274,680)	(755,220)	(1,040,572)	(1,213,686)
Beginning Fund Balance	8,223,737	9,922,524	10,328,939	10,496,183	10,221,503	9,466,283	8,425,711
Ending Fund Balance	9,922,524	10,328,939	10,496,183	10,221,503	9,466,283	8,425,711	7,212,025

ATTACHMENT 2

FY 2017-18 BUDGET SCHEDULE

December 21, 2016	FY 2015-16 Audit Results
January 11, 2017	Mid-Year Budget Mod
January 18, 2017	Forecast & YE Estimate
January 28, 2017	Council Strategic Initiatives Workshop
March 1, 2017	Staff Budget Recommendations
April 5, 2017	Master Fee Schedule
April 19, 2017	Preliminary Budget and Master Capital Improvement Plan
May 3, 2017	GANN Limit (by resolution, must precede the 1 st Read of the budget)
May 3, 2017	1 st Reading of Budget
May 17, 2017	2 nd Reading of Budget