



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

May 31, 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 FTE's
 - Capital Improvement Program
- **Future Pressures**
 - Increasing Pension costs
 - Deferred Infrastructure Maintenance
- **Five Year Forecast – Revisit**
 - Baseline & Alternative Scenarios

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 1 st Reading	June 7, 2017
Operating Budget 2 nd Reading & Adoption	June 21, 2017



Completed

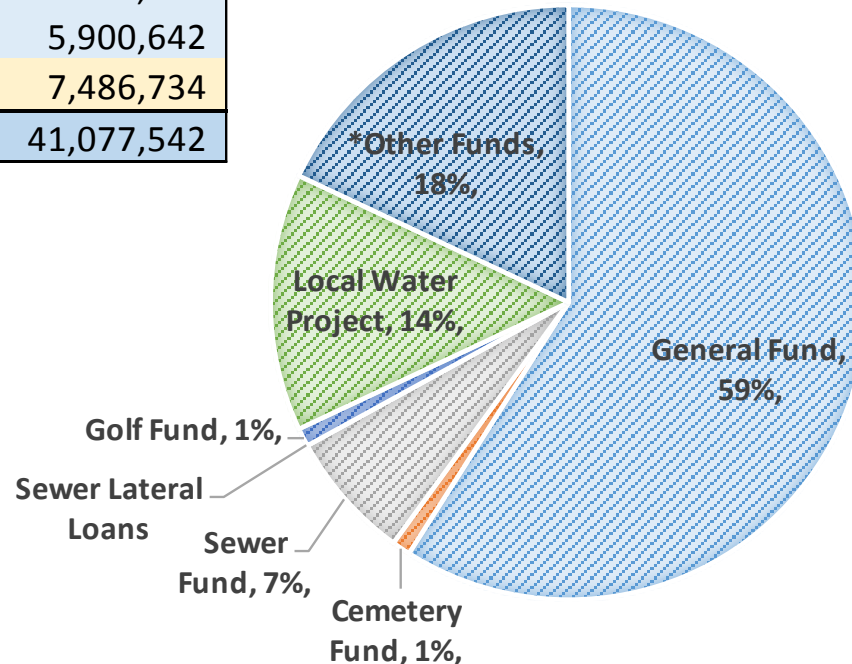
Organizational Chart of Funds

General Fund		Internal Service Funds		Special Revenue Funds	
<ul style="list-style-type: none"> • General Fund Operating • Hyperbaric Chamber • DARE (Drug Awareness) • Asset Seizure • Lovers Point Pool • Recreation Donation • Operating Donations • Storm Water • Koo Donation 		<ul style="list-style-type: none"> • Employee Benefits • Workers Compensation • Liability Insurance • Other Post Employment Benefits (OPEB) 		<ul style="list-style-type: none"> • Carillon • State Franchise PEG • Library Building & Equipment • Museum Improvement • Downtown Business District • Hospitality Improvement District • Library Book • Fire Dept Emergency Equipment • McIndoo Donations • State Gas Tax • RSTP - TAMC • Coastal Parks Grant • Chautauqua Hall Preservation • Lighthouse Maintenance • Senior Housing Fund • Housing Program - Funds 15, 28, 34, 36, and 37 • Yount Trust Income • Public Safety Augmentation • Supplemental Law Enforcement • Poetry Promotion • ASBS Grant • Clean Beach Prop 84 • Greening Grant • Strong Trust Disbursements 	
Enterprise Funds	Capital Projects	Debt Service	Permanent		
<ul style="list-style-type: none"> • Cemetery • Golf Course • Sewer Operating • Sewer Lateral Loans • Local Water Project 	<ul style="list-style-type: none"> • Buildings & Facilities Improvement 	<ul style="list-style-type: none"> • Butterfly Habitat Bond • Pension Obligation Bond 	<ul style="list-style-type: none"> • Library Endowment Trust • Cemetery Endowment Trust • Yount Trust 		

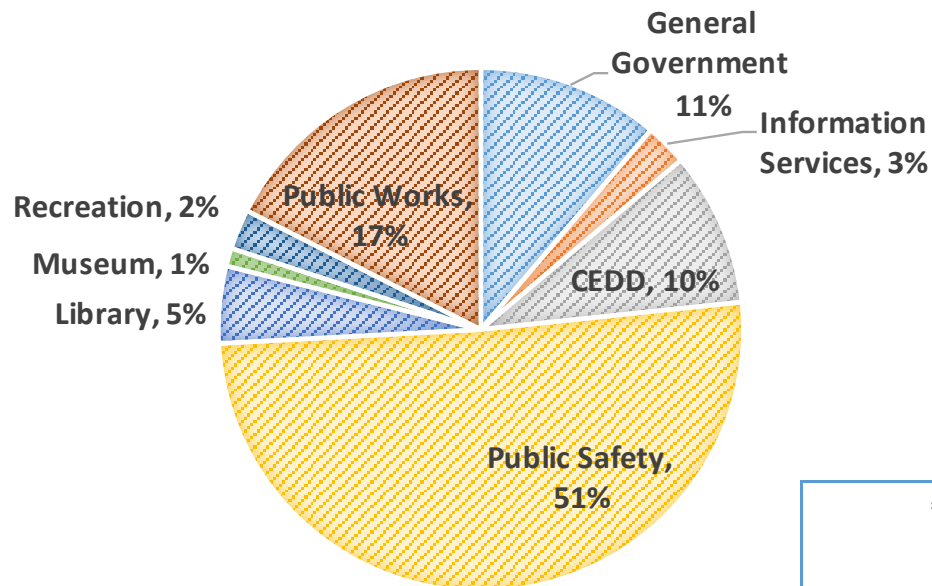
TOTAL EXPENDITURE RECOMMENDED BUDGET SUMMARY

Fund	Expenditure
General Fund	24,084,684
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	7,486,734
TOTAL ALL FUNDS	41,077,542

**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	\$ 1,145,387	5%
Museum	\$ 268,501	1%
Recreation	\$ 596,134	2%
Public Works	\$ 4,214,409	17%
Total General Fund	\$ 24,084,684	

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

OVERALL POSITION SUMMARY FULL TIME EQUIVALENTS (FTE'S)

	FY 2015-16	FY 2016-17	FY 2017-18	Change over Prior Yr
TOTAL FULL TIME EMPLOYEES	76.48	79.00	82.75	3.75
TOTAL PART TIME EMPLOYEES	31.35	31.50	28.50	-3.00
GRAND TOTAL ALL DEPARTMENTS	107.83	110.50	111.25	0.75

Many adds/deletes/changes result in 0.75 FTE overall increase

Department Expenditures

DEPARTMENT	FY 2016-17 Budget	OPERATING REQUESTS	CAPITAL REQUESTS	TOTAL	% CHANGE OVER 2016-17 Budget	\$ CHANGE OVER 2016-17 Budget
CITY COUNCIL	391,659	\$393,659		\$393,659	0.5%	2,000
CITY ATTORNEY	294,756	\$297,704		\$297,704	1.0%	2,948
CITY MANAGER	889,557	\$922,046		\$922,046	3.7%	32,489
FINANCE	1,075,735	\$1,087,571		\$1,087,571	1.1%	11,836
INFORMATION SERVICES	383,113	\$503,294	\$120,000	\$623,294	62.7%	240,181
COMMUNITY DEVELOPMENT	1,581,407	\$2,038,198	\$200,000	\$2,238,198	41.5%	656,791
HOTEL DURRELL	56,000	\$ 56,560		\$56,560	1.0%	560
POLICE OPERATIONS	7,797,073	\$7,806,258	\$280,000	\$8,086,258	3.7%	289,185
FIRE OPERATIONS	3,690,929	\$4,154,963		\$4,154,963	12.6%	464,034
LIBRARY OPERATIONS	1,088,585	\$1,145,387		\$1,145,387	5.2%	56,802
MUSEUM OPERATIONS	266,778	\$268,501		\$268,501	0.6%	1,723
RECREATION OPERATIONS	511,829	\$596,134		\$596,134	16.5%	84,305
PUBLIC WORKS	3,430,053	2,919,409	1,295,000	4,214,409	22.9%	784,356
						-
ADMIN	441,566	\$454,681		\$454,681	3.0%	13,115
MECHANICAL	317,098	\$294,912	\$15,000	\$309,912	-2.3%	(7,186)
BUILDINGS & GROUNDS	1,316,000	\$1,260,138	\$650,000	\$1,910,138	45.1%	594,138
STREET CLEANING	118,170	\$119,352		\$119,352	1.0%	1,182
STREET MAINTENANCE	1,031,212	\$511,077	\$630,000	\$1,141,077	10.7%	109,865
FORESTRY	206,007	\$279,249		\$279,249	35.6%	73,242
PUBLIC WORKS SUBTOTAL	3,430,053	2,919,409	1,295,000	4,214,409	22.9%	784,356
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TOTAL GENERAL FUND DIVISIONS	\$21,457,474	\$22,189,684	\$1,895,000	\$24,084,684	12.2%	2,627,210
FY 2017-18 Revenue				\$ 22,051,000		
Surplus/(Deficit)				(\$2,033,684)		

DEPARTMENT EXPENDITURES

MAJOR BUDGET CHANGES

- **City Manager** – Add .50 FTE part-time Volunteer Coordinator, Delete .25 FTE Rec Coordinator, \$40K Library & ASD recruitments, \$10K ergonomic desks for staff
- **Admin Services/Finance** – Move .25 FTE Admin Svc Dir & Admin Tech to Information Svc, 10% salary differential from Finance Director to Admin Svc Dir
- **Admin Services/Info Svc** – \$226K Contract with Monterey for shared svc & IT support
- **Community Development** - \$20K Reclassify 3 positions, \$103K increased bldg. activity (offset by revenue), \$200K Lighthouse Streetscape Improvement Program, \$200K consultant services & \$25K tribute catalog items
- **Police** – COLA & Medical increases, \$22K CALEA, \$111K increase in Interfund Transfers (Liability, OPEB, Workers Comp)
- **Fire** – Contract increase 6.1% or \$133K also \$371K increase in unfunded pension liability
- **Building & Grounds** – \$54K add 1 Maintenance Wkr, \$8K add PT Maintenance Wkr for trails, \$42K increase in CalAM H2O rates, \$32 general aging bldg. repairs, \$650K general building improvements
- **Street Maintenance** - \$54K add 1 Maintenance Wkr, \$15K upgrade existing position to Construction Supervisor (50% Sewer/50% Admin, Street Maintenance, Bldg. & Grounds)
- **Forestry** - \$11K Admin Tech moved from CEDD, \$46K increase in tree & arborist services

LONG-TERM DEBT OBLIGATIONS

2017-18

Long-Term Debt Obligations			
<i>Taxable Bonds</i>	<i>General Obligation Bonds</i>	<i>Revenue Refunding Loan</i>	<i>Certificates of Participation (COP's)</i>
Pension Obligation Bond	*Butterfly Habitat Bond	Wastewater Bond Refunding	Golf Course COP Refunding Project
General Fund 01	Butterfly Fund 54	Sewer Fund 76	Golf Fund 77
\$2,000,000	\$91,179	\$88,254	\$272,097
2017-18 Total Long-Term Debt Obligation Payments			\$2,451,530

**Butterfly Habitat GO debt retired 8/2017*

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

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

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 expectations (Discount Rate)
 - Historically assumed 7.5% (recent decision to reduce assumption)
 - 10 year average = less than 6%
 - FY 2015-16 was 0.61%
 - Next 10 years – 6.4% expected

MAJOR PENSION MILESTONES AFFECTING ANNUAL CONTRIBUTION RATES


- **Public Employee Pension Reform Act of 2013 (PEPRA)**
 - Created new tier for employees not previously in CalPERS or reciprocal system (PEPRA employees) and many other changes to reform pension benefits
- **CalPERS Board of Administration actions affecting employer contribution to reduce risks to the Fund and ensure long-term stability:**
 - 2013: Changing amortization and smoothing policies that spread rate increases or decreases over a five-year period
 - 2014: Adopting new demographic assumptions that show retirees are living longer
 - 2015: Approving a new funding risk mitigation policy to incrementally lower the discount rate during good economic times (gradual annual reduction & spread over 5 years)

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
<u>Normal Cost</u>				
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
<u>Unfunded Liability</u>				
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

CALPERS DISCOUNT RATE CHANGES

Valuation Date	Discount Rate (expected investment earnings)	Fiscal Year Impact
June 30, 2016	7.375%	2018-19
June 30, 2017	7.250%	2019-20
June 30, 2018	7.000%	2020-21

Each decrease in assumed earnings is phased in over 5 years

So, for example, only 1/5th of the decrease from 7.5% to 7.375% will be recognized in 2018-19 rates.

MOST RECENT PENSION NORMAL COST & UNFUNDED LIABILITY FROM CALPERS

- CalPERS Projection for 2018-19 Employer rates did not include reduction in discount rate. Expect 2018-19 rates to be higher in next annual valuation.
- Unfunded Liability also expected to see significant increase

	FY 2017-18		FY 2018-19 (Projected)	
	Employer Rate	Unfunded Liability	Employer Rate	Unfunded Liability
Classic Miscellaneous	8.92%	\$ 641,228	8.9%	\$ 825,602
Classic Safety	19.72%	\$1,073,121	19.7%	\$1,341,921
PEPRA Miscellaneous	6.53%	\$ 249	6.5%	\$ 636
PEPRA Safety	11.99%	\$ 229	12.0%	\$ 521

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

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



EXPECTED CONTRIBUTION RATE CHANGES

		Unfunded Actuarial Liability			
		Normal Cost		UAL Payments	
Valuation Date	FY Impact	Misc. Plans	Safety Plans	Misc. Plans	Safety Plans
6/30/2016	2018-19	0.25% - 0.75%	0.5% - 1.25%	2% - 3%	2% - 3%
6/30/2017	2019-20	0.5% - 1.5%	1.0% - 2.5%	4% - 6%	4% - 6%
6/30/2018	2020-21	1.0% - 3.0%	2.0% - 5.0%	10% - 15%	10% - 15%
6/30/2019	2021-22	1.0% - 3.0%	2.0% - 5.0%	15% - 20%	15% - 20%
6/30/2020	2022-23	1.0% - 3.0%	2.0% - 5.0%	20% - 25%	20% - 25%
6/30/2021	2023-24	1.0% - 3.0%	2.0% - 5.0%	25% - 30%	25% - 30%
6/30/2022	2024-25	1.0% - 3.0%	2.0% - 5.0%	30% - 40%	30% - 40%

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 multiple 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***

*Cost based on current engineers estimates

FIVE YEAR FORECAST – REVISIT

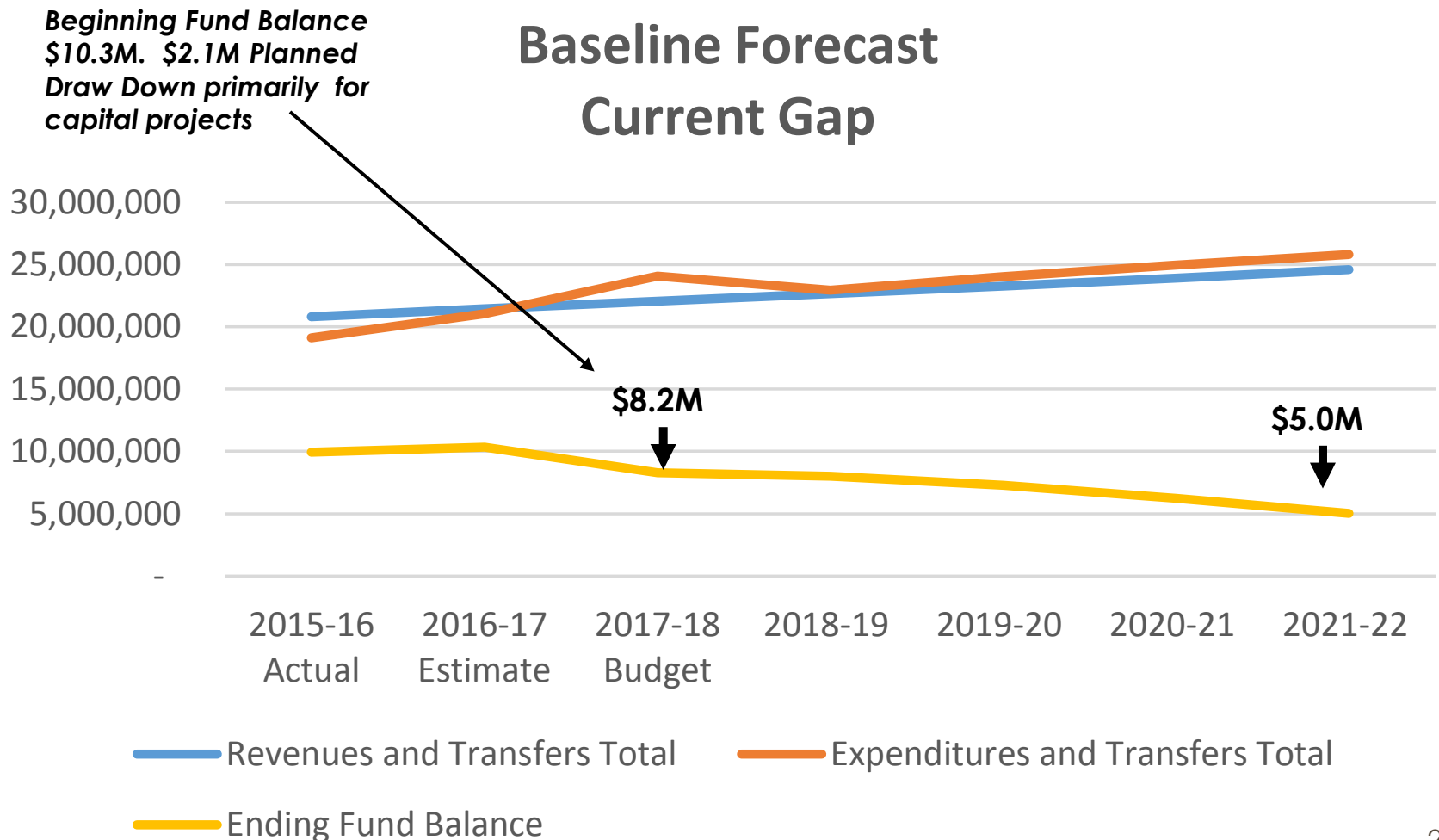
- **Baseline & Alternative Scenarios**

- Baseline Forecast Current Gap
- #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



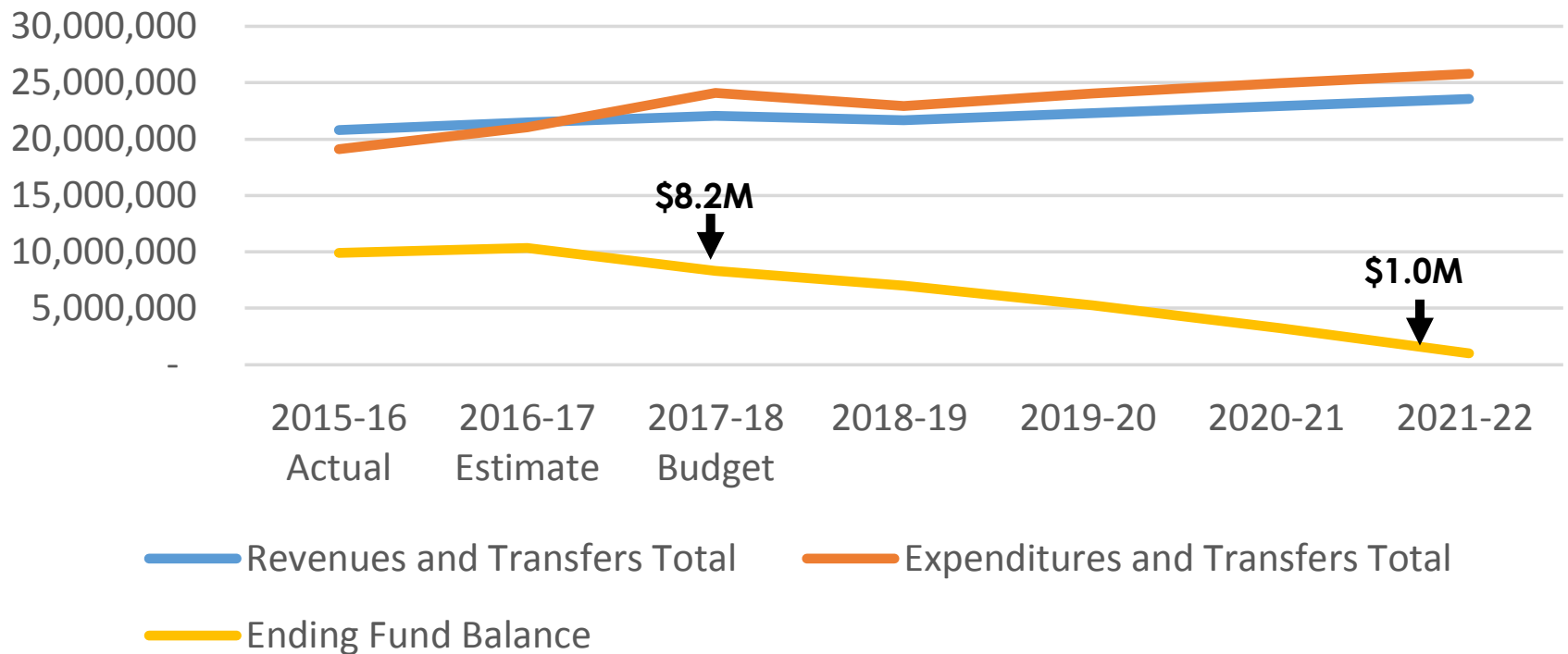
***In Baseline
and all
Alternative
Scenarios
expenditures
exceed
annual
revenues
every year***

BASELINE FORECAST



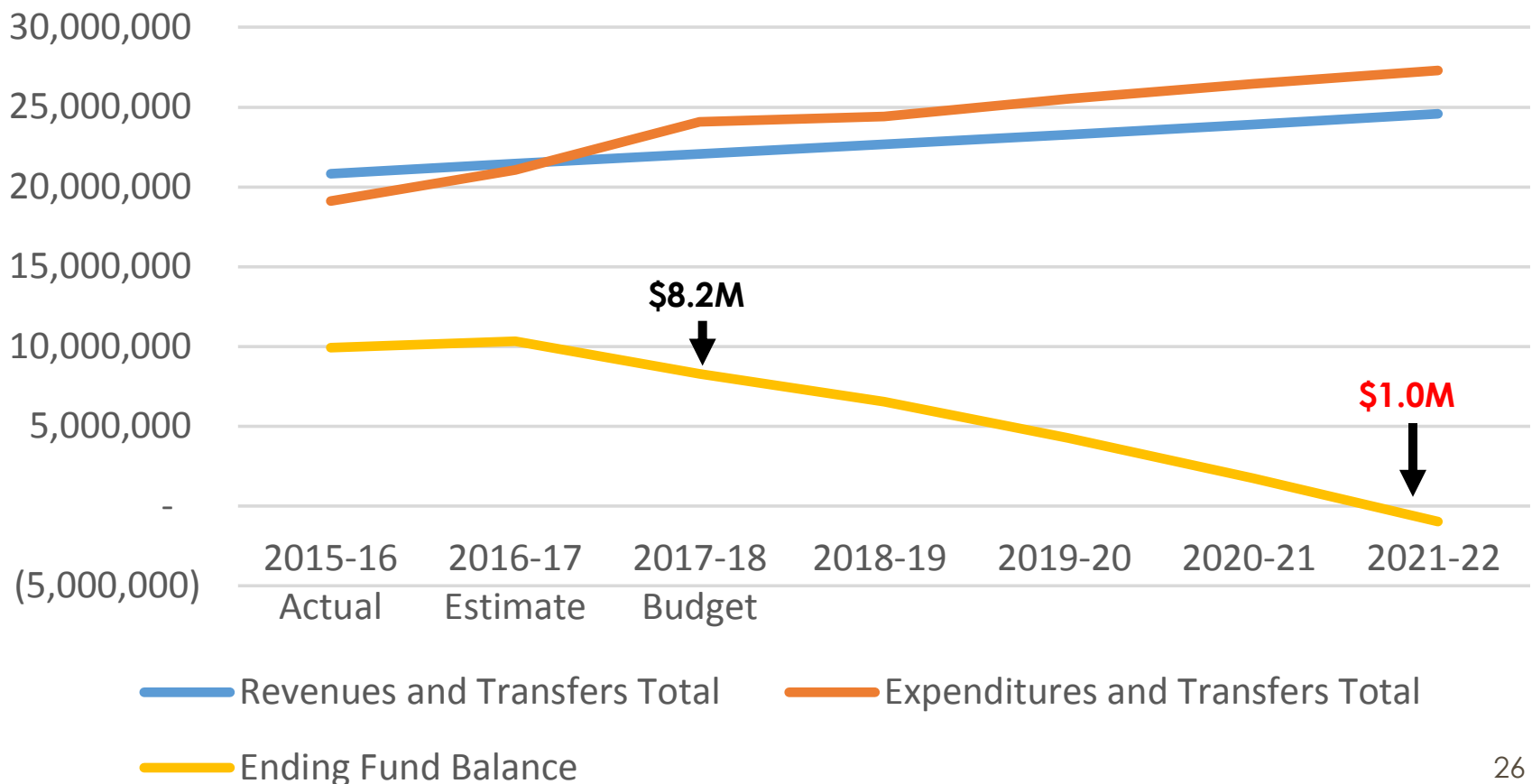
ALTERNATIVE SCENARIO #1

\$1M Annual Revenue Loss Starting 2018-19



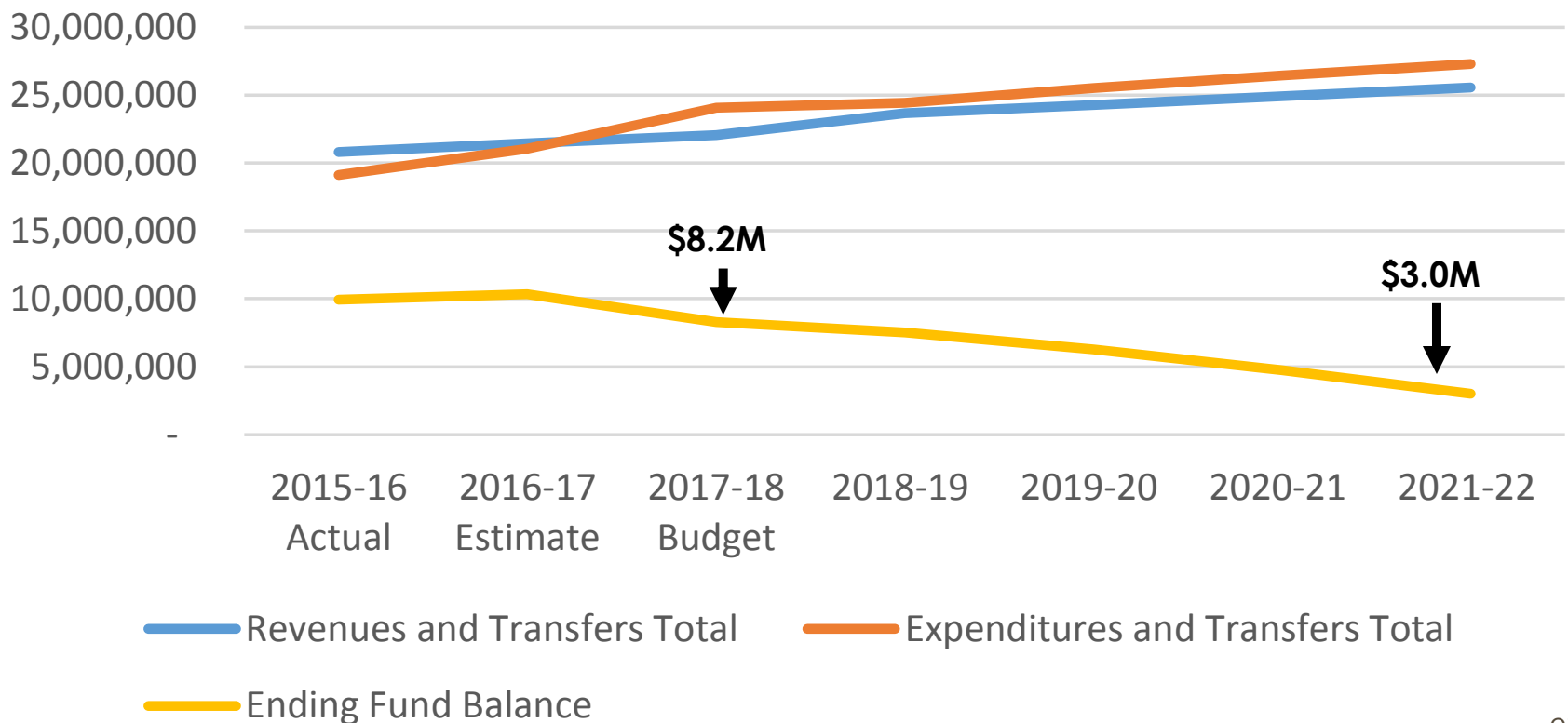
ALTERNATIVE SCENARIO #2

Current Gap + annual add \$1.5M Maintenance



ALTERNATIVE SCENARIO #3

\$1M Annual Increase New Revenue Source + \$1.5M Infrastructure



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

PUBLIC COMMENT/DISCUSSION/QUESTIONS

