Ten-Year Financial Forecast
General Fund

2018-19 to 2027-28

City of Pacific Grove, CA
Forecast Agenda

- Forecast Background
- Baseline Forecast Outlook & Key Findings
- Update on Pension Cost Projections
- Alternate “What If” Scenarios
Forecast Background

- Updated Forecast – What’s New?
  - Estimated actual numbers for how we ended 2016-17 prior fiscal year
  - Most recent pension cost projections from 2016 CalPERS Annual Valuation
  - Extends the Five-Year Forecast to a Ten-Year Period

- Forecast is not a Budget - What it does try to do is;
  - Reveal revenue & expenditure trends over time
    - Assuming no other events intervene
    - Economic recession, natural disaster, change in state law, loss of major taxpayers, unanticipated expenses
  - Identify outcomes if nothing changes
  - Provide an "Order of Magnitude" feel for General Fund’s ability to continue services and preserve fiscal sustainability
  - Should be viewed as a “Work in Progress” as new information becomes available (quarterly or semi-annual)
Baseline Forecast Outlook & Key Findings

• **Outlook** = Moderate Fiscal Stress, Declining Fund Balance Reserve

  • **Bottom Line**
    • While 2008 Measure U 1% sales tax measure major “shot in the arm”, expenses continue to outpace revenues during forecast period
    • Average annual expenses grow 3.1% & revenues grow 2.7%
    • Results in moderate but persistent fiscal stress degrading fund balance reserves each year

• **Pensions**
  • Major cost driver increasing $2.6 million over next seven years unless CalPERS investment returns consistently exceed expectations

• **Infrastructure**
  • Limited funding for capital investment in city facilities, equipment, police vehicles and deferred maintenance of streets, sidewalks, storm water, and parks facilities
Most recent 2016 CalPERS valuation reports are important;

- FY 2018-19 employer rates and annual liability payment
- “Projection” for Contribution Rates and UAL for 2019-20 and 2020-21 (assumes all actuarial assumptions will be realized)
  - Consulting actuary will provide full 10 year projections and discuss pension funding issues
  - Workshop to be scheduled
- Reflects initial impact of recent CalPERS Board decision to reducing the 7.50% discount rate/interest earning assumption over three years; however, each reduction will be phased in over 5 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Valuation</th>
<th>Initial Impact</th>
<th>Full Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Valuation</td>
<td>7.375%</td>
<td>2018-19</td>
<td>2022-23</td>
</tr>
<tr>
<td>2017 Valuation</td>
<td>7.25%</td>
<td>2019-20</td>
<td>2023-24</td>
</tr>
<tr>
<td>2018 Valuation</td>
<td>7.00%</td>
<td>2020-21</td>
<td>2024-25</td>
</tr>
</tbody>
</table>
Updated Pension Cost Projections

Why is Discount Rate Important

- Discount Rate = Investment Return
  - Gains and losses amortized over 30 year period – Long term horizon
- Only 3 ways to pay for pensions
  - Employer Contributions
  - Employee Contributions
  - Investment Returns
- Higher than assumed investment returns = lower employer contribution rates and unfunded liability payments
- Lower than assumed investment returns = higher employer contribution rates and unfunded liability payments

*CalPERS reported preliminary 11.2% Investment return for 2016-17. This brings Total Fund performance to 8.8 percent for the five-year time period, 4.4 percent for the 10-year time period, and 6.6 percent for the 20-year time period.*
Alternative “What If” Scenarios

– Baseline & Alternative Scenarios
  • **Baseline Forecast** starts with 2017-18 Budget (current gap)

  • #1 - **$1M Annual Revenue Loss** starting 2018-19

  • #2 - **Current Gap** reflected in 2017-18 Adopted Budget
    – with an **additional $1.5M in spending** for infrastructure

  • #3 - **$1M New Revenue Source**
    – with an **additional $1.5M in spending** for infrastructure
Alternative “What If” Scenarios

Baseline Forecast
Current Gap

<table>
<thead>
<tr>
<th>Years</th>
<th>Revenues and Transfers Total</th>
<th>Expenditures and Transfers Total</th>
<th>Ending Fund Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>$10.5M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016-17</td>
<td>$730K</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td>$15M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018-19</td>
<td>$25M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-20</td>
<td>$35M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020-21</td>
<td>$45M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021-22</td>
<td>$55M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022-23</td>
<td>$65M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023-24</td>
<td>$75M</td>
<td></td>
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<tr>
<td>2024-25</td>
<td>$85M</td>
<td></td>
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<tr>
<td>2025-26</td>
<td>$95M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2026-27</td>
<td>$105M</td>
<td></td>
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</tr>
<tr>
<td>2027-28</td>
<td>$115M</td>
<td></td>
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</tr>
</tbody>
</table>

Legend:
- Blue: Revenues and Transfers Total
- Red: Expenditures and Transfers Total
- Yellow: Ending Fund Balance
Alternative “What If” Scenarios

$1M Annual Revenue Loss
Starting 2018-19

 Millions


Revenues and Transfers Total
Expenditures and Transfers Total
Ending Fund Balance

$10.5M
 Reserve Exhausted
($8.7M)
Alternative “What If” Scenarios

Current Gap + annual add $1.5M Maintenance

- Revenues and Transfers Total
- Expenditures and Transfers Total
- Ending Fund Balance
Alternative “What If” Scenarios

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

- Millions
- Reserve Exhausted
- ($4.0M)

- $10.5M

- Revenues and Transfers Total
- Expenditures and Transfers Total
- Ending Fund Balance
## Summary of Alternative Scenario Forecasts

<table>
<thead>
<tr>
<th>Forecast Scenarios</th>
<th>Ending Fund Balance in FY 2027-28</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016-17 Ending Fund Balance = $10.5M</td>
<td></td>
</tr>
<tr>
<td>Baseline Forecast - Current Gap</td>
<td>$730,000</td>
</tr>
<tr>
<td>#1 $1M Annual Revenue Loss starting 2018-19</td>
<td>($8.7M)</td>
</tr>
<tr>
<td>#2 Current Gap + Add Annual $1.5M Infrastructure</td>
<td>($13.5M)</td>
</tr>
<tr>
<td>#3 $1M New Revenue Source + Add Annual $1.5M Infrastructure</td>
<td>($4.0M)</td>
</tr>
</tbody>
</table>
Questions/Comments/Discussion
Capital Projects, Bldgs, Equipment

FY 2017-18 Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>EQUIPMENT</td>
<td>300,000</td>
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<tr>
<td>POLICE VEHICLES-PRINCIPAL</td>
<td>60,000</td>
</tr>
<tr>
<td>GENERAL BLDG IMP</td>
<td>800,000</td>
</tr>
<tr>
<td>POLICE BLDG IMP</td>
<td>175,000</td>
</tr>
<tr>
<td>STREETS, SIDEWALK, IMPROV</td>
<td>535,000</td>
</tr>
</tbody>
</table>

Included in Forecast

- Equipment - $50K every 3 years
- Police Vehicles - $60K every 2 years
- General Bldg Improvements – none
- Police Bldg Improvements – none
- Streets, Sidewalk Improvements - $200K annually