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

Key Findings

- 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

CITY OF PACIFIC GROVE, CA
INC. 1889

Updated Pension Cost Projections

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

NEW

		Initial Impact	Full Impact
2016 Valuation	**7.375%**	**2018-19**	**2022-23**
2017 Valuation	**7.25%**	**2019-20**	**2023-24**
2018 Valuation	**7.00%**	**2020-21**	**2024-25**

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

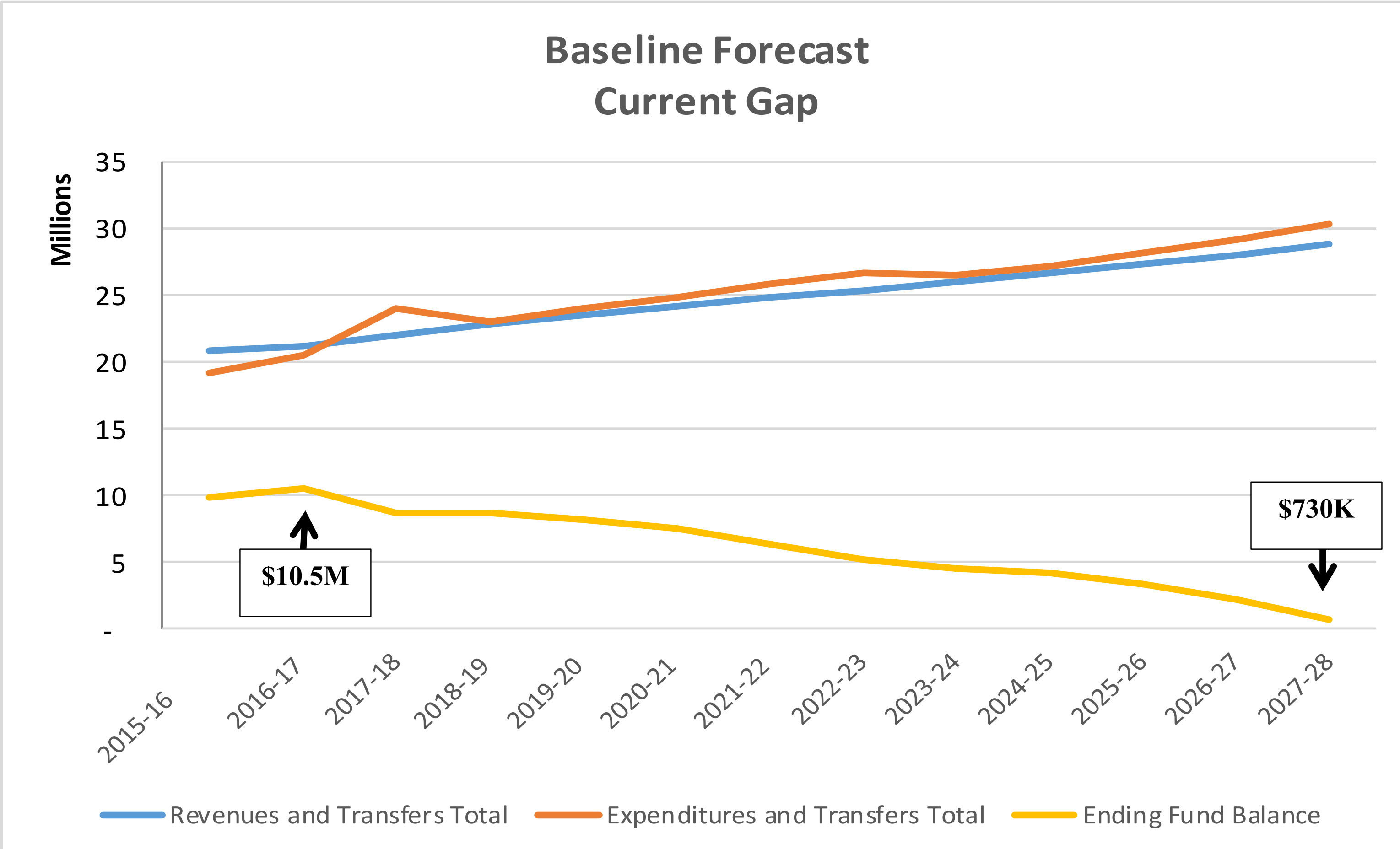
CalPERS reported preliminary 11.2% Investment return for 2016-17. This brings Total Fund performance to 8.8 percent for the five-year time period, 4.4 percent for the 10-year time period, and 6.6 percent for the 20-year time period.

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



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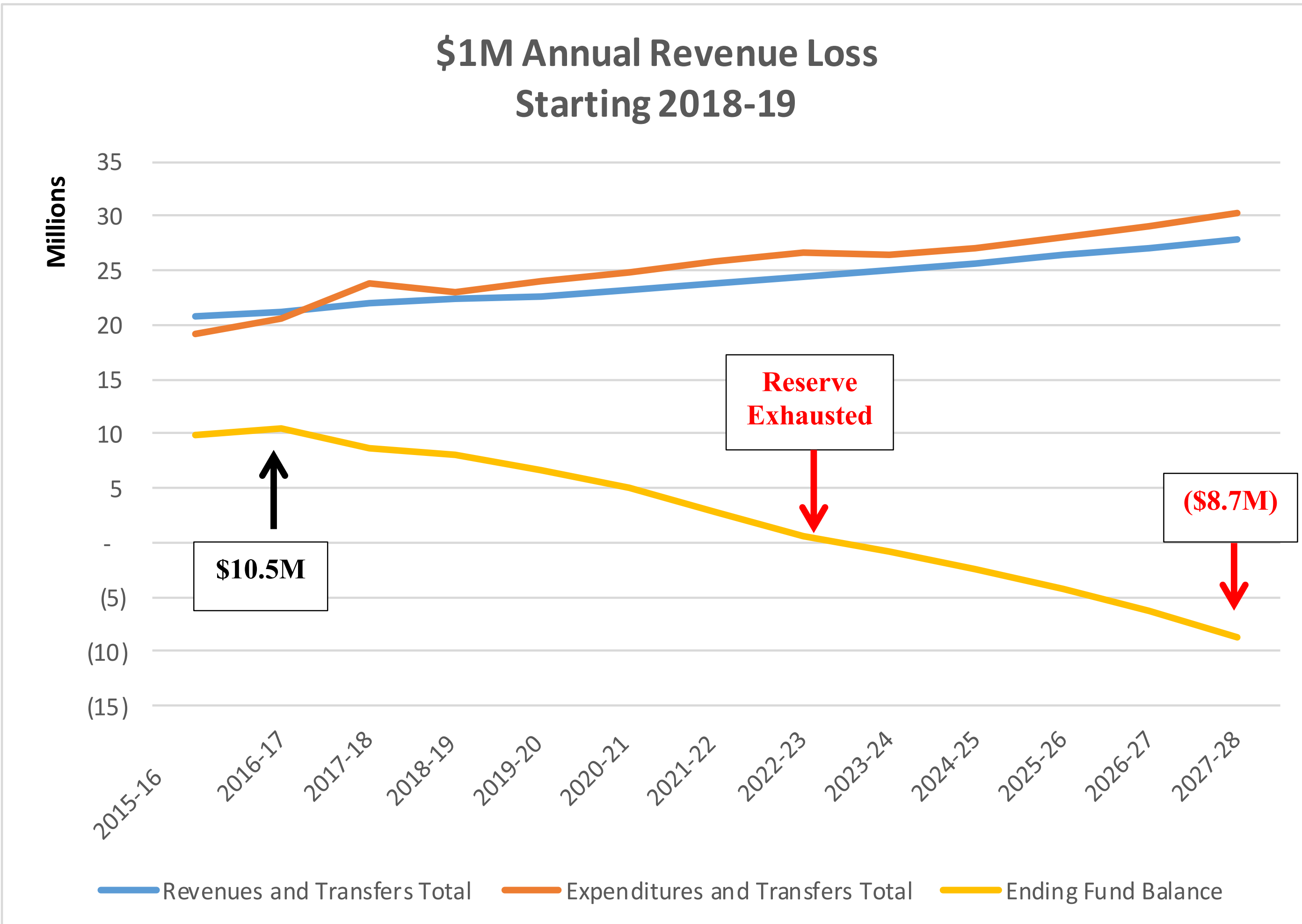

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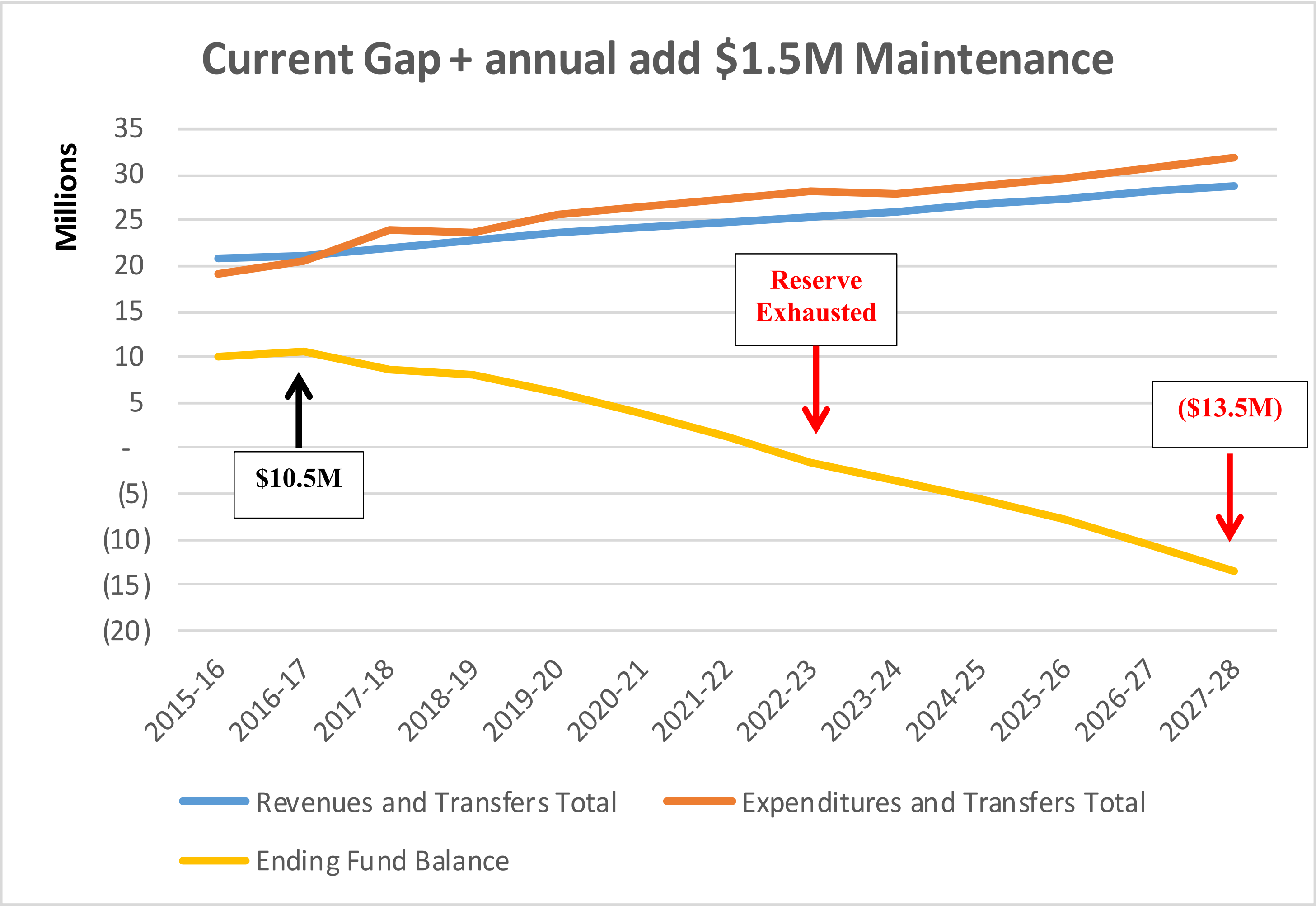

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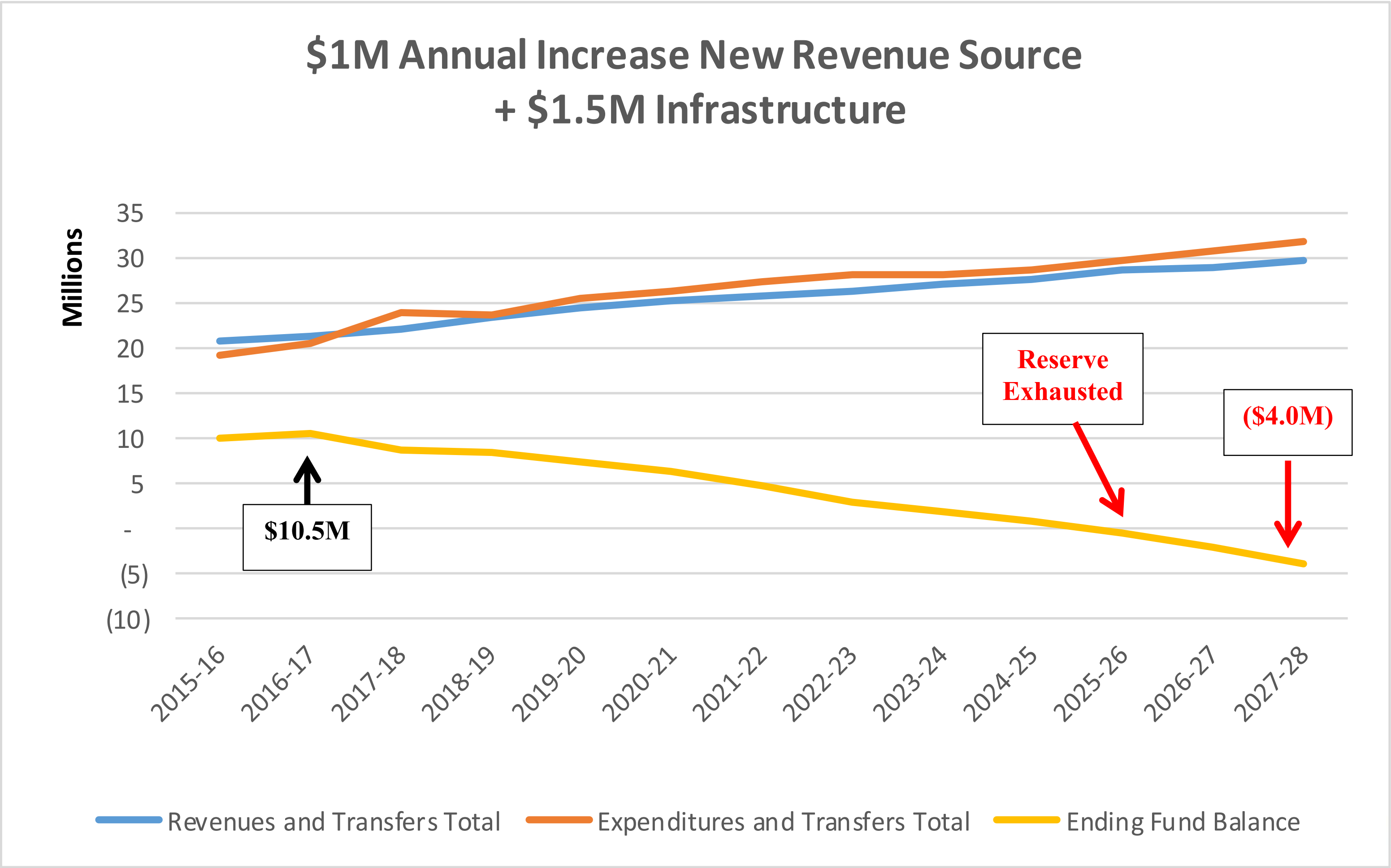

Summary of Alternative Scenario Forecasts

	Forecast Scenarios	Ending Fund Balance in FY 2027-28
	FY 2016-17 Ending Fund Balance = $10.5M	
	Baseline Forecast - Current Gap	$730,000
#1	$1M Annual Revenue Loss starting 2018-19	($8.7M)
#2	Current Gap + Add Annual $1.5M Infrastructure	($13.5M)
#3	$1M New Revenue Source + Add Annual $1.5M Infrastructure	($4.0M)

Questions/Comments/
Discussion

Capital Projects, Bldgs, Equipment

- FY 2017-18 Budget

EQUIPMENT	300,000
POLICE VEHICLES-PRINCIPAL	60,000
GENERAL BLDG IMP	800,000
POLICE BLDG IMP	175,000
STREETS, SIDEWALK, IMPROV	535,000

- 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