



The title slide features a teal header bar at the top. Below it, the City of Grover Beach logo is positioned to the left of the main title, "General Fund 10-Year Fiscal Forecast", which is written in a large, teal, serif font. A red horizontal line is placed below the title. The date "February 5, 2018" is centered below the line. At the bottom center, there is a circular graphic containing the name "William C. Statler" and a horizontal bar with the text "Fiscal Policy • Financial Planning • Analysis • Training • Organizational Review". A small teal box with the number "1" is located in the bottom-left corner.

The overview slide has a teal header bar at the top with the word "Overview" in a large, teal, serif font. A red horizontal line is placed below the header. The main content is a bulleted list with red square markers for the main items and blue circular markers for sub-items. The list includes: "Forecast framework and purpose", "Forecast results", "Forecast review" (with sub-points: "Where the City is today", "Where it's been", "Where it's headed"), "Conclusion: Where to from here?", and "Questions". A small teal box with the number "2" is located in the bottom-left corner.



Forecast Framework

- Builds on 2017 forecast
 - Extended to ten-year period, primarily to account for CalPERS cost increases
 - Updates assumptions
 - ❖ Grover Beach Lodge project
 - ❖ CalPERS pensions

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Forecast Purpose

- Identify General Fund's "order of magnitude" ability over the next ten years (2018-28) to:
 - Continue current services
 - Achieve major City goals
- Approach
 - Project revenues.
 - Subtract operating, debt service and CIP costs.
 - Remaining balance is available for "New Initiatives:" capital projects, unfunded liabilities or improving service levels.
 - Or if negative, shows the "Forecast Gap."

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Forecast is not the Budget

- Budget based on program review and priorities and affordability.
- Forecast based on assumptions.
 - It doesn't make expenditure decisions.
 - It doesn't make revenue decisions.
 - It doesn't answer the question: can we afford "x"?
 - This is a question of priorities, not fiscal capacity.

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So what does the forecast do?

- Identifies key factors that affect the City's fiscal outlook.
- Assesses how difficult balancing the budget will be.
- Helps understand the fiscal challenges facing the City in making trade-offs between funding priorities.
- *Which is what the budget is all about: determining the highest priority uses of limited resources.*

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Forecast Results: The Short Story

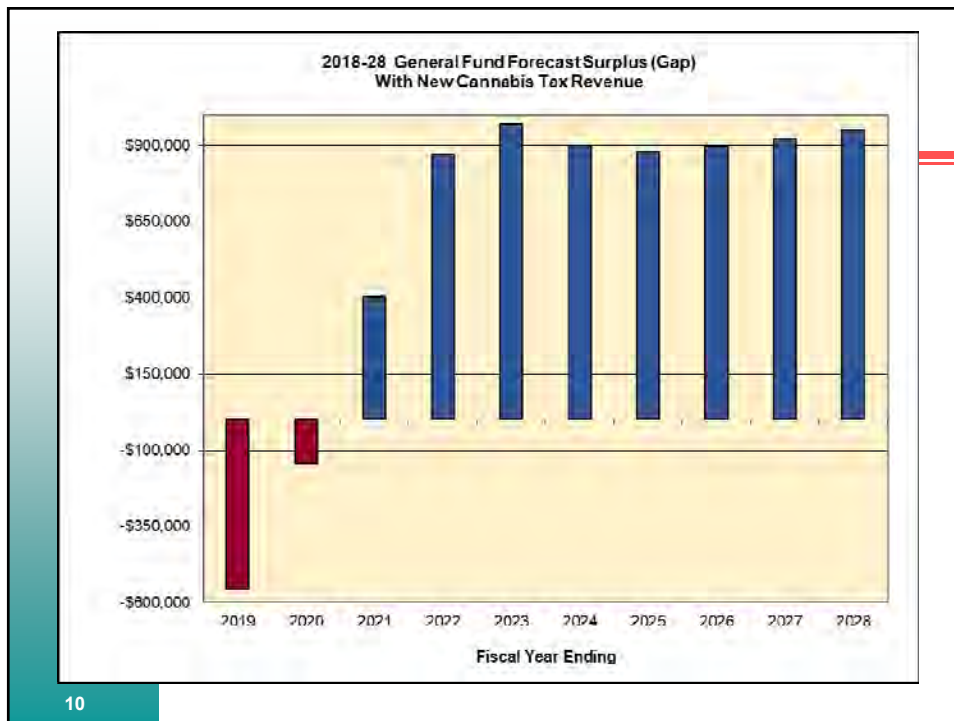
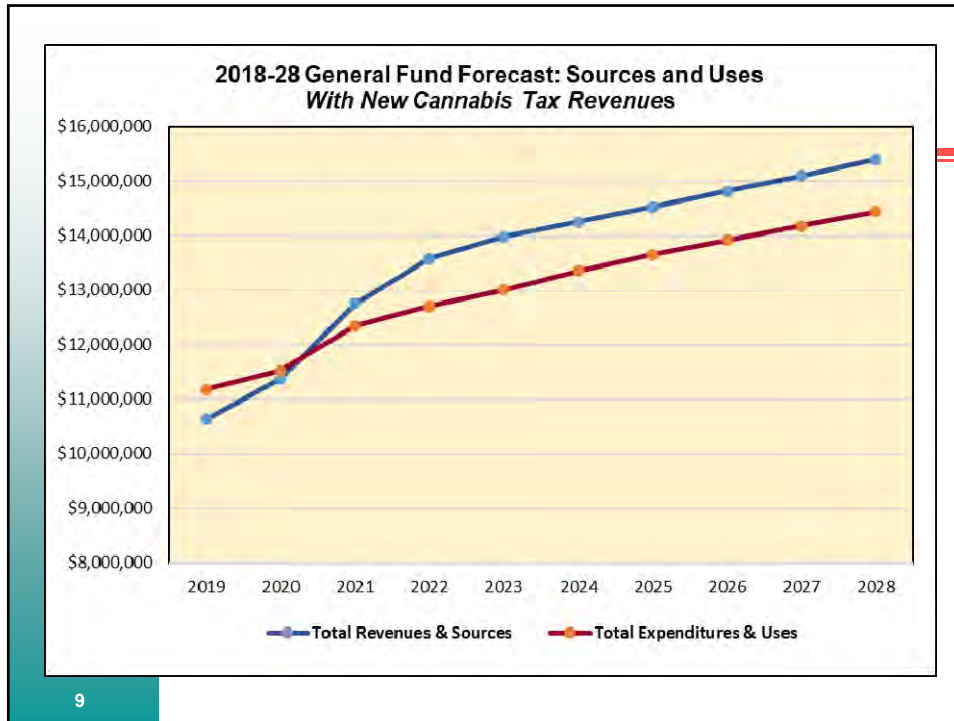
- With cannabis tax at projected levels (\$2.0 million by 2021-22), you're in good shape.
- Without it, you have challenges.

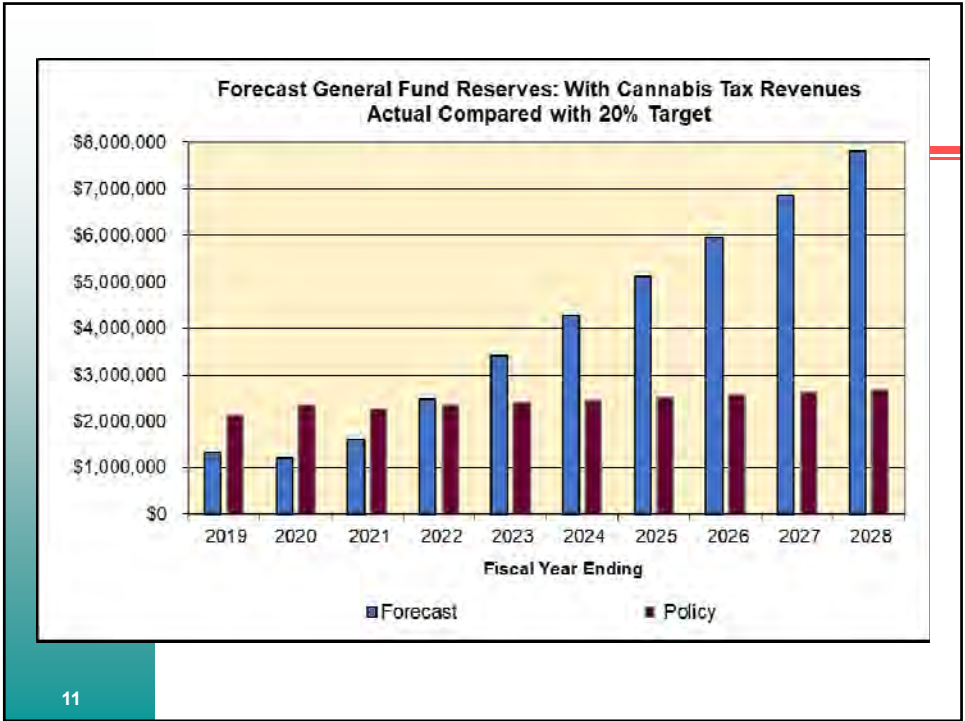
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Results Driven by Assumptions

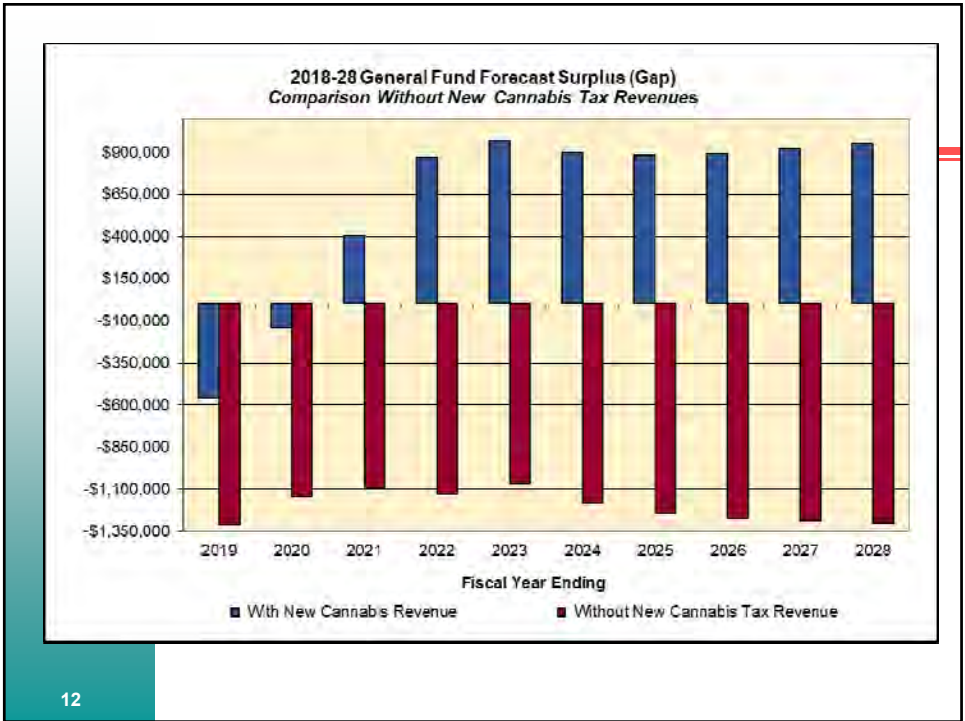
- Three key actors in City's fiscal story
 - Pensions
 - New hotel developments
 - Cannabis tax revenues

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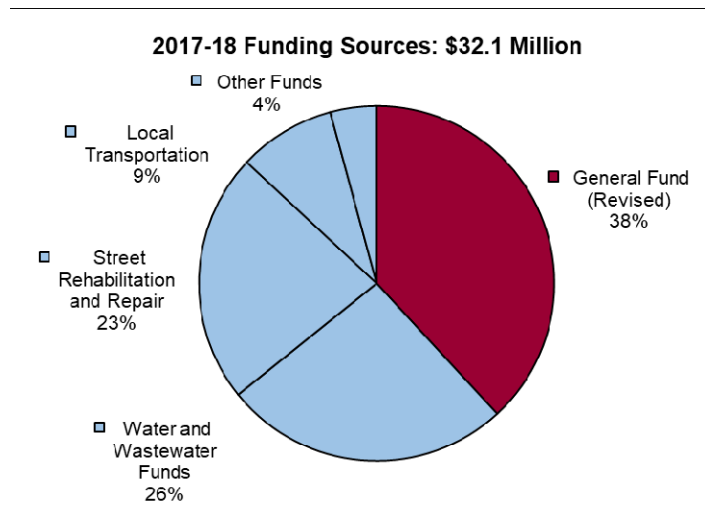


What's this mean?

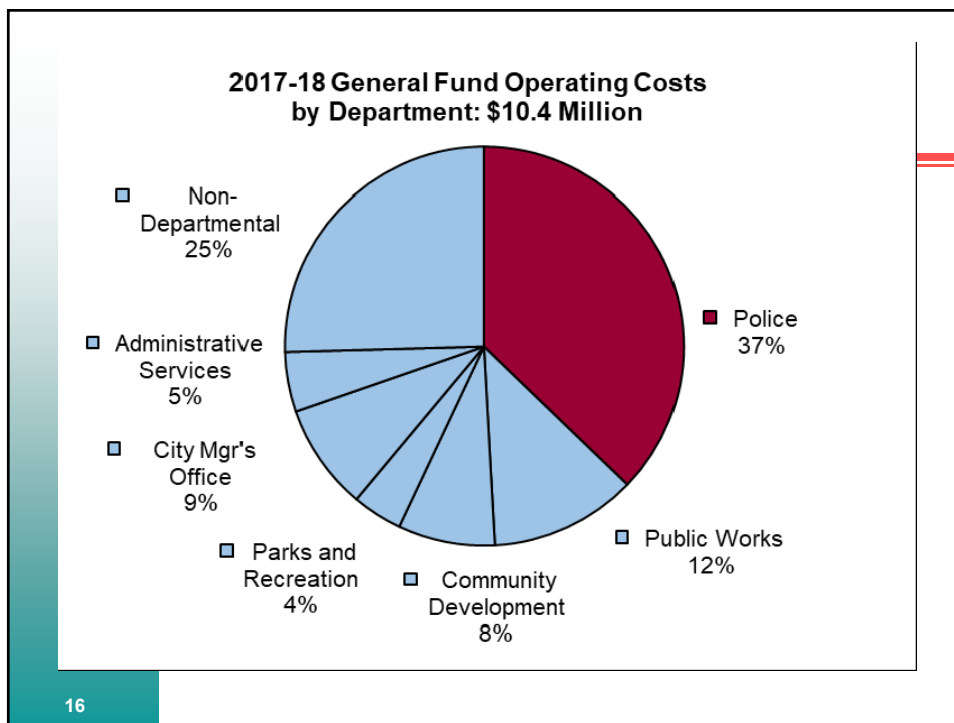
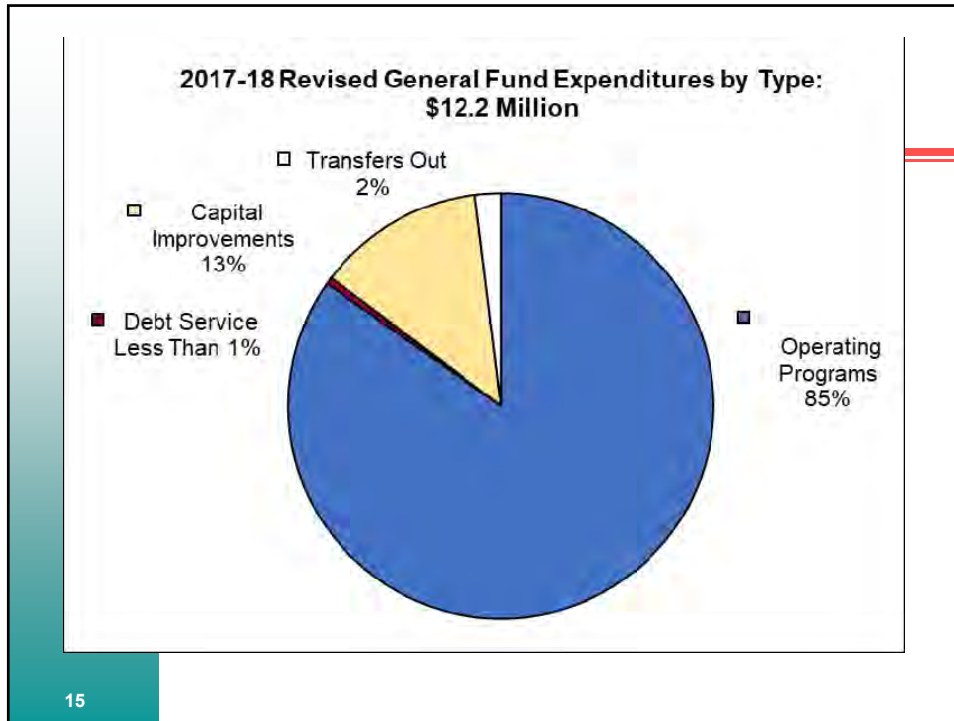
- There are many uncertainties ahead
 - Economy
 - Cannabis tax revenues
- Use favorable results for one-time purposes
 - Fund CIP projects
 - Address unfunded liabilities

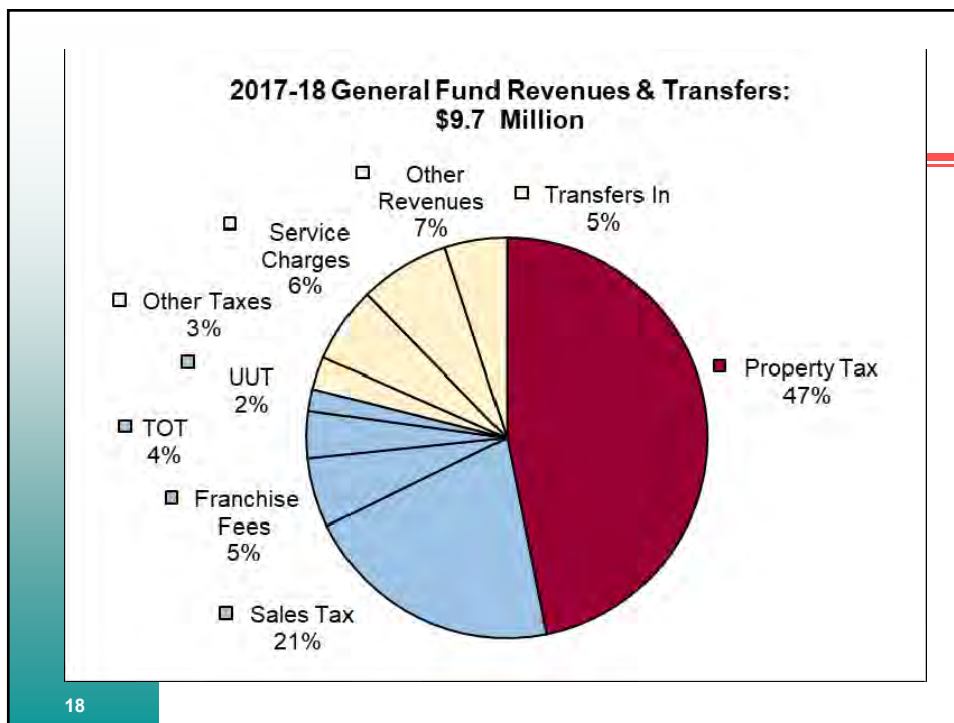
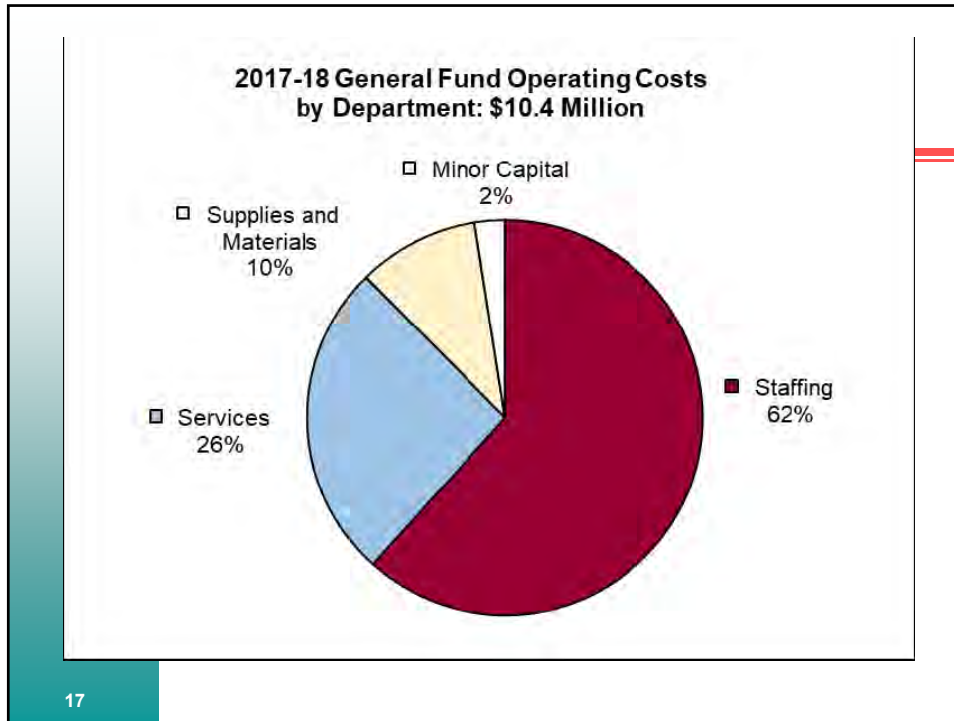
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Where the City is today



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Where the City's been

- About the Past
 - The past does not determine the future.
 - But if the future is going to be different than the past *why?*

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Long and Short Term Trends

- | | |
|---|--|
| <ul style="list-style-type: none">■ Environment<ul style="list-style-type: none">● National and state and economic trends● City economic indicators● Population● Inflation | <ul style="list-style-type: none">■ Fiscal Factors<ul style="list-style-type: none">● Revenue trends<ul style="list-style-type: none">❖ Top 5 revenues● Operating cost trends<ul style="list-style-type: none">❖ Operating costs, police, insurance, pensions● Debt service● Fund balance |
|---|--|

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Where the City's Headed

■ Sources

- Budget and audited financial statements
- Long and short-term fiscal trends
- CalPERS rate projections
- State and regional economic forecasts
- Economic trends reported in national media
- Fiscal and economic data developed by the LAO, State Department of Finance and State Controller
- Fiscal and legislative analysis by the League of California Cities
- Analysis by the City's sales tax advisor (MuniServices).
- Ultimately, best judgment about economic and fiscal outlook for the next ten years

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Forecast Drivers

■ Key Assumptions

- General economic trends and outlook
- State budget situation
- Current financial condition
- Key revenues: top five
- Operating cost drivers: pensions
- Population growth and new development
- Debt service/repayments
- Capital improvement plan

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1 General Economic Trends and Outlook

■ Where We've Been

- Worst recession since Great Depression begins in December 2007
- GDP fell 4.3%
- Longest recession in post WWII era
- Civilian employment down 8.5 million jobs
- U.S. unemployment rate doubled from 5.0% to 9.5%
 - ❖ Peaked at 10.0% October 2009
- Impact worse in California: unemployment rate increased from 5.0% to 12.2% by October 2010.

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Where We Are Today

■ Consistent growth for over eight years.

- National unemployment: 4.1% down from peak of 10.0%.
- California unemployment: 4.2%, down from peak of 12.2%.
- Stock market has rebounded strongly
 - ❖ Dow Jones increased from low in March 2009 low of 6,500 to historic highs in excess of over 26,800.
 - ❖ At over 2,800, S&P 500 also at historically high levels.
- Corporate earnings are up: record highs nationally.
- Banking system is healthier.
- Interest rates continue to be low by historic standards.
 - ❖ But access to credit is tougher.
- Housing prices have recovered.
 - ❖ Although this has resulted in affordability challenges.

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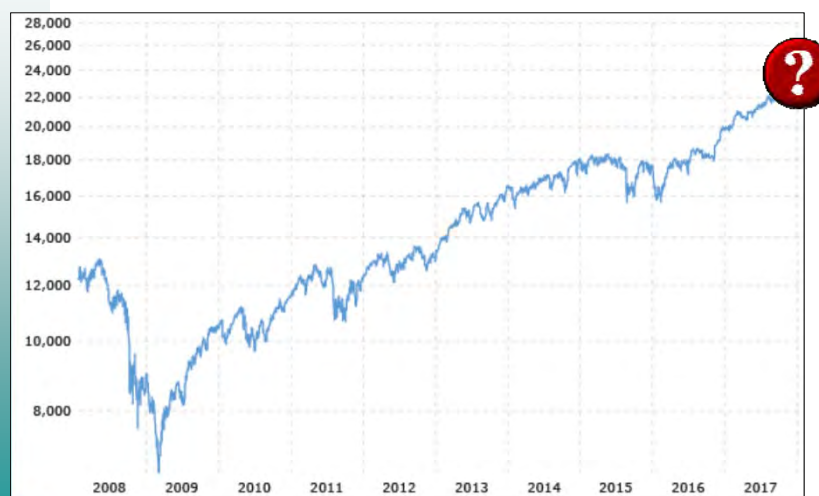


U.S. Unemployment Rate: Last 10 Years



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Dow Jones – Last Ten Years



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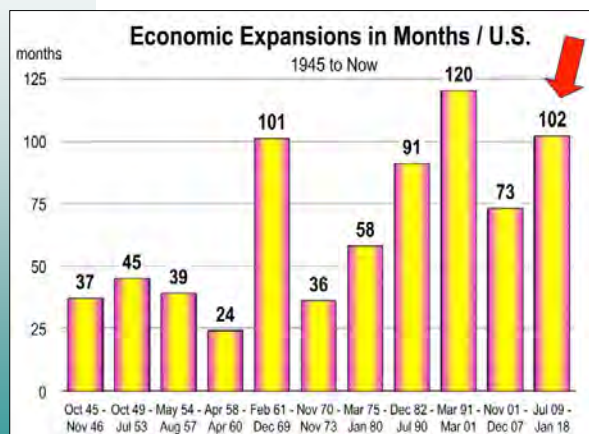


Where We're Headed

- While there is uncertainty, most economists don't see significant economic storm clouds on horizon for nation or state.
 - LAO, Beacon Economics and California Economic Forecast all see continued growth in the near term.

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But ...



- At 102 months, now in second longest period of economic expansion in 75 years.
- And closing in on the other one:
 - 120 months: 1991 to 2001.

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What this means for the economy

- Based on long-term trends, reasonable likelihood that we will experience some level of economic downturn over the next five years.
 - Let alone 10 years.
- Avoiding this would mean setting new post-Great Depression record for economic expansion.

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What this means for the City

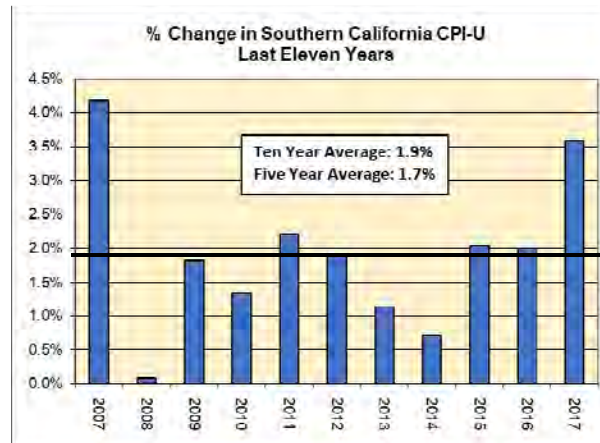
- Three General Fund revenues – property tax, sales tax and transient occupancy tax – account for about 80% of total sources.
- Driven by performance of the local economy.
- Which in turn is driven by interrelated performance of the regional, state and national economies.

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Economic Assumption

- No significant economic downturns that will impact key City revenues.



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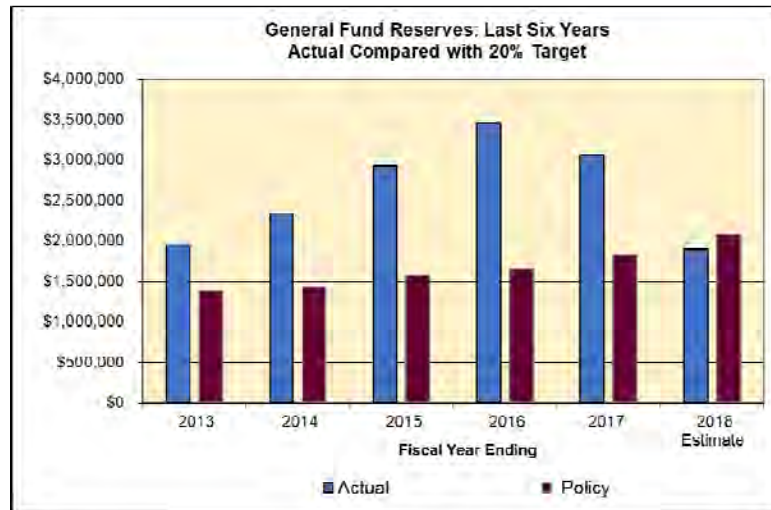
② State Budget Situation

- Over the past 25 years, greatest fiscal threat to cities in California has not been economic downturns, dot.com meltdowns or corporate scandals, but rather, State takeaways.
- Fortunately, State in best financial condition in many years: no further takeaways on the horizon
 - But neither are there any suggested restorations of past takeaways.
- While there are added constitutional protections in place since last State raids, ten years is a long time for the State to leave cities alone.

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3 Current Financial Condition



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Forecast Starting Point

- 2017-18 Mid-Year Budget Review
 - Revisions based on prior-year actuals and year-to-date trends as of December 31, 2017.

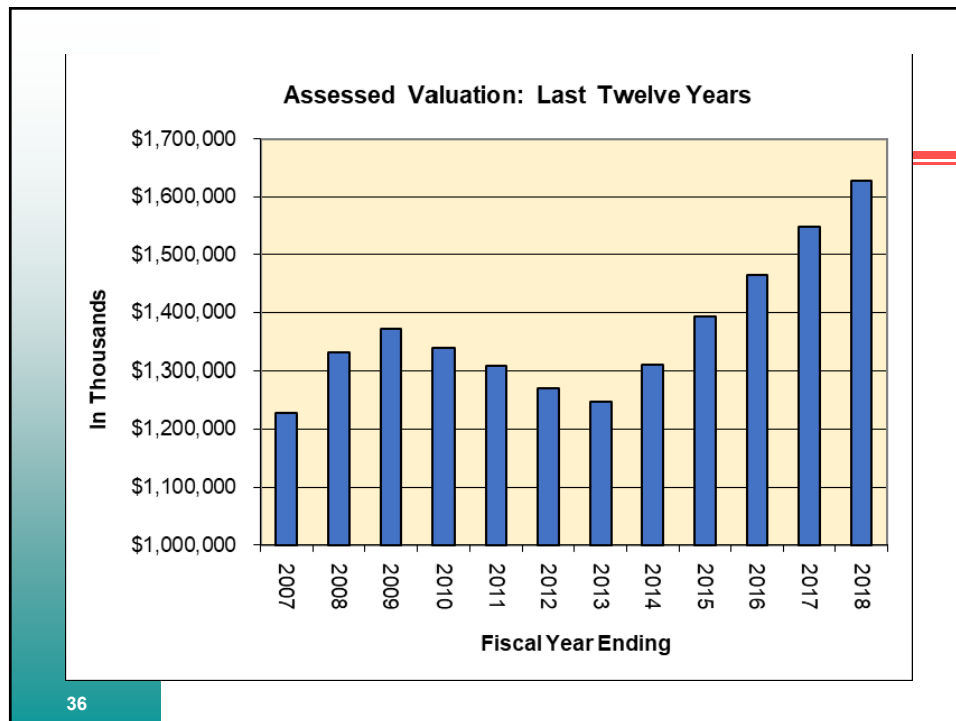
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4 Revenue Trends and Assumptions

- Top 5 revenues account for about 80% of General Fund revenues.

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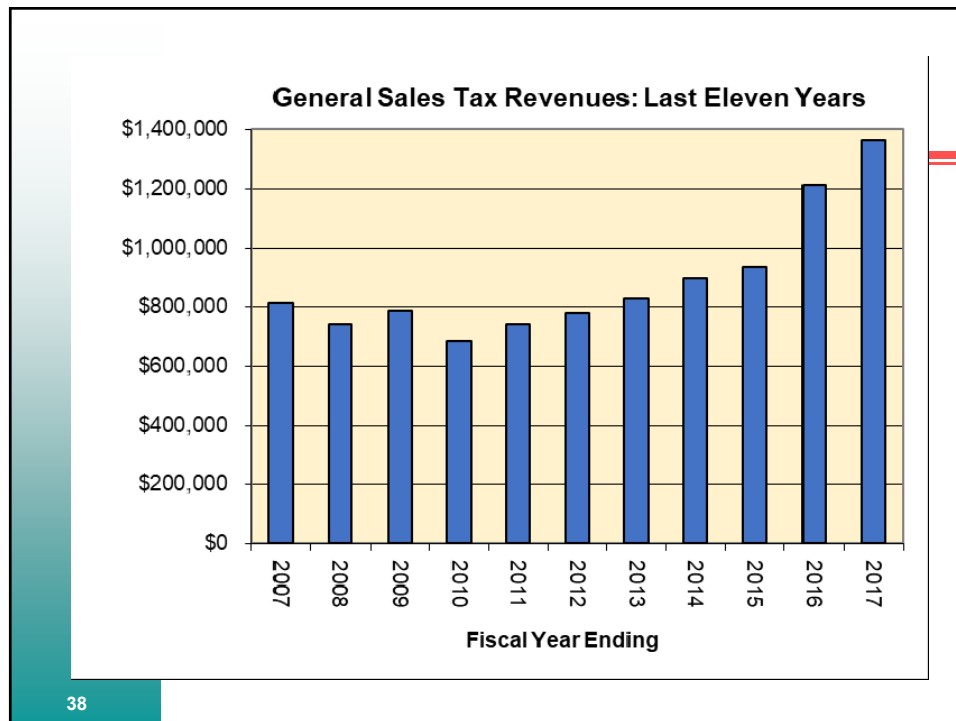
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“Baseline” Property Tax Assumption

- Forecast
 - 2018-19 3.0%
 - 2019-20 3.0%
 - 2020-21 3.0%
 - 2021-28 2.0%

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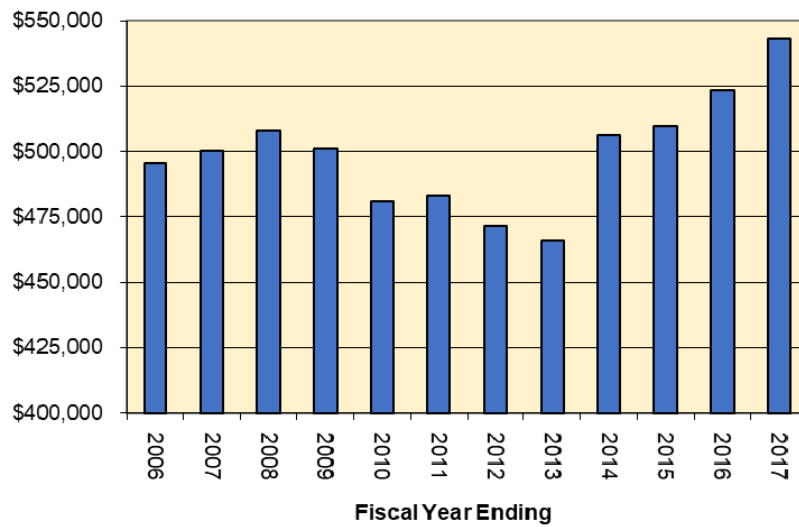


“Baseline” Sales Tax Assumption

- Forecast
 - 2018-28 2%

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Franchise Fee Revenues: Last Twelve Years



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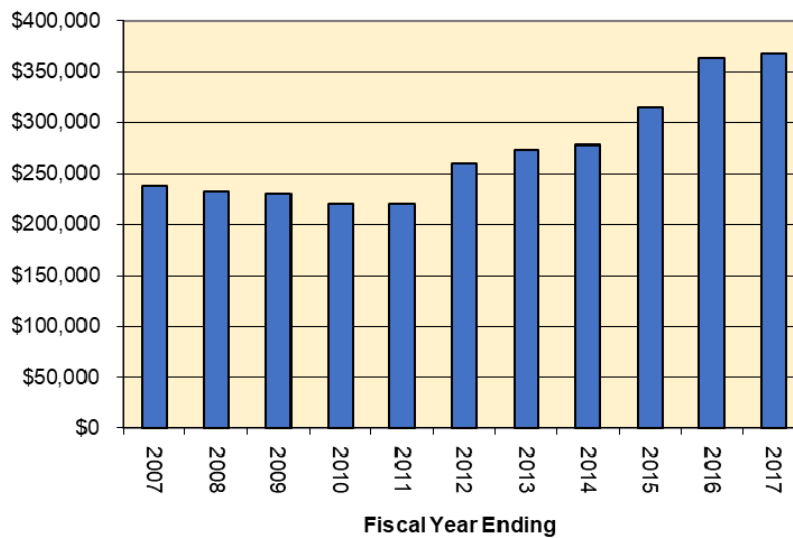


Franchise Fees Assumption

- Forecast
 - 2018-19 3%
 - 2019-28 2%

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Transient Occupancy Tax Revenues: Last Eleven Years



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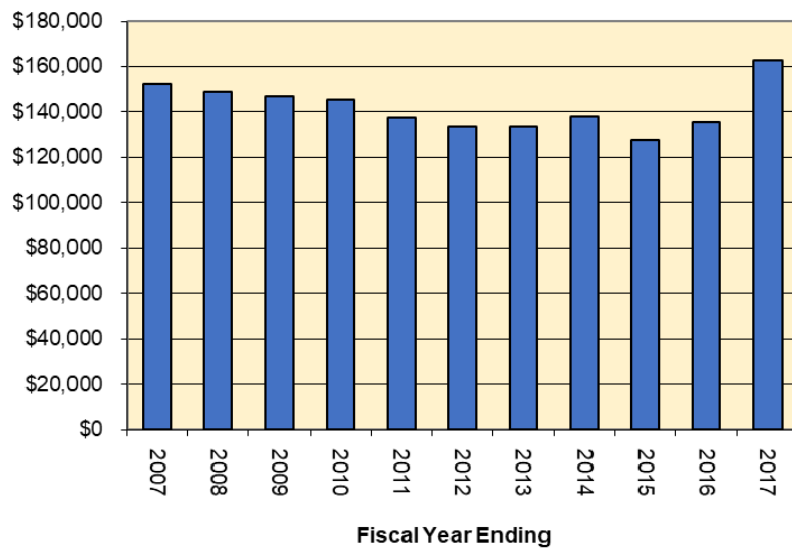


“Baseline” TOT Assumption

- Forecast
 - 2018-28 2%

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Utility Users Tax Revenues: Last Ten Years



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Utility Users Tax Assumption

- Forecast
 - 2018-28 2%

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New Revenue: Cannabis Tax

- Current Year
 - 2017-18 \$100,000
- Forecast
 - 2018-19 \$750,000
 - 2019-20 \$1,000,000
 - 2020-21 \$1,500,000
 - 2021-22 \$2,000,000
 - 2022-28 2% Annual Growth

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5 Operating Cost Trends and Drivers

- Operating costs
- Police costs
- Insurance
- CalPERS pension costs

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CalPERS Pension Costs

- Background
 - Two tiers
 - ❖ “New” employees (PEPRA)
 - ◆ Police Sworn: 2.7% @ 57
 - ◆ Non-Sworn (“Miscellaneous”): 2% @ 62
 - ❖ “Classic” Employees
 - ◆ Sworn: 3.0% @ 55
 - ◆ Non-Sworn: 2.0% @ 55
 - Legacy fund for Fire sworn

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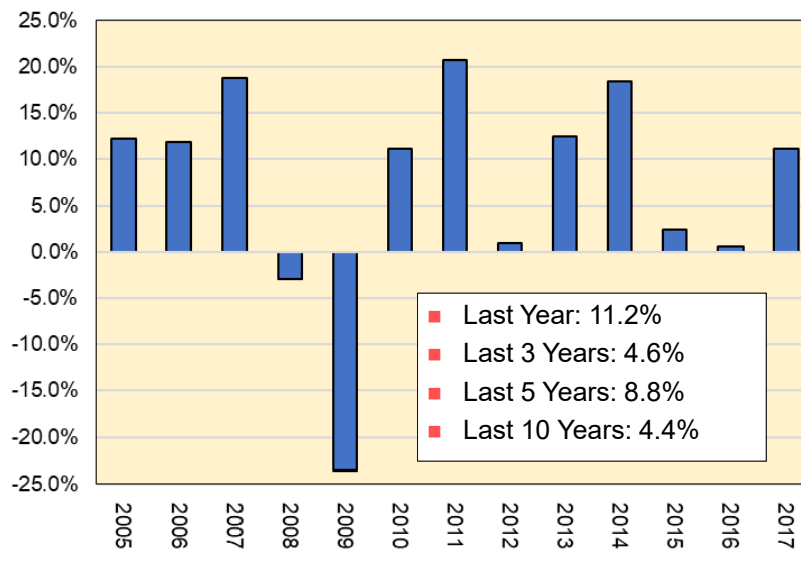


CalPERS Pensions: Setting Rates

- Actuarial assumptions drive rates
 - Inflation
 - Earnings
 - Disability retirements
 - Life expectancy
 - Discount rate (investment yield)
 - ❖ Small changes make large differences

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CalPERS Investment Yields: Last 13 Fiscal Years



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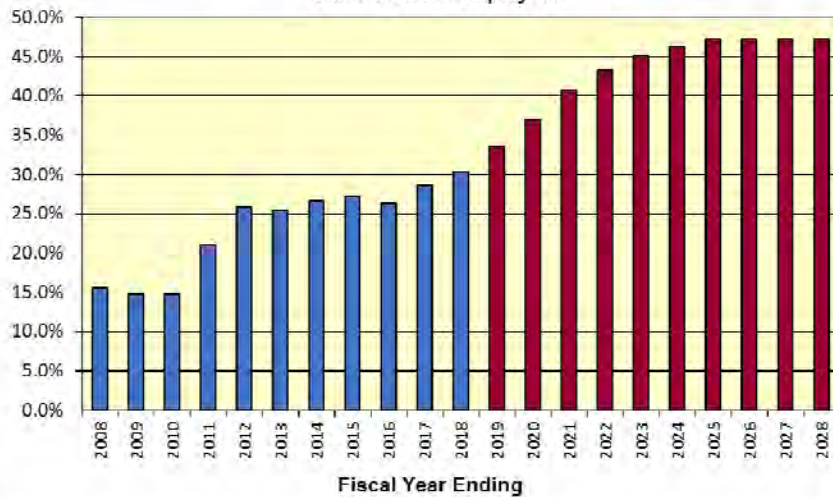


CalPERS Discount Assumption Change

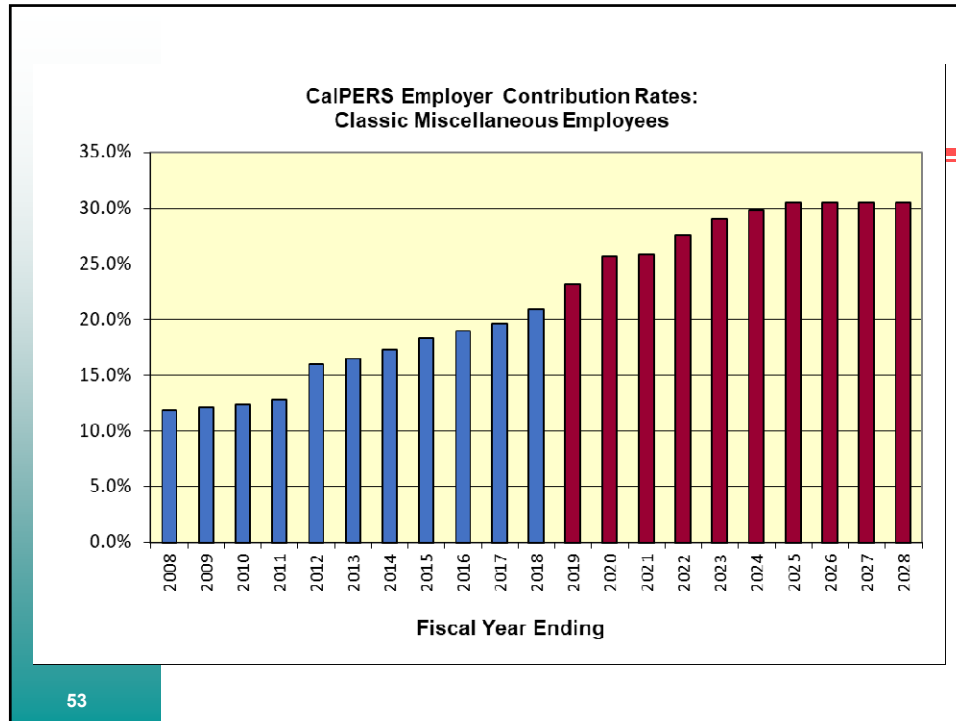
- Decrease in discount rate from 7.5% to:
 - 2018-19 7.375%
 - 2019-20 7.250%
 - 2020-21 7.000%
- Rate impacts phased over five years
 - *Eight years for full impact*
- Long-Term Impact
 - 1% to 3% increase in normal rate
 - 30% to 40% in unfunded accrued liability payments

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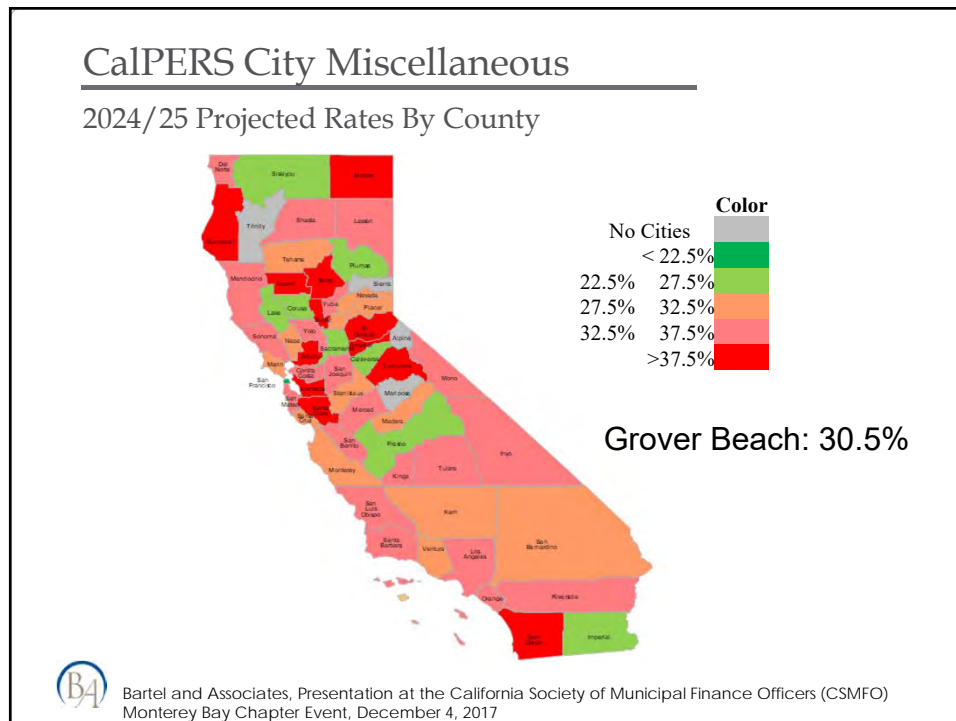
CalPERS Employer Contribution Rates:
Classic Sworn Employees



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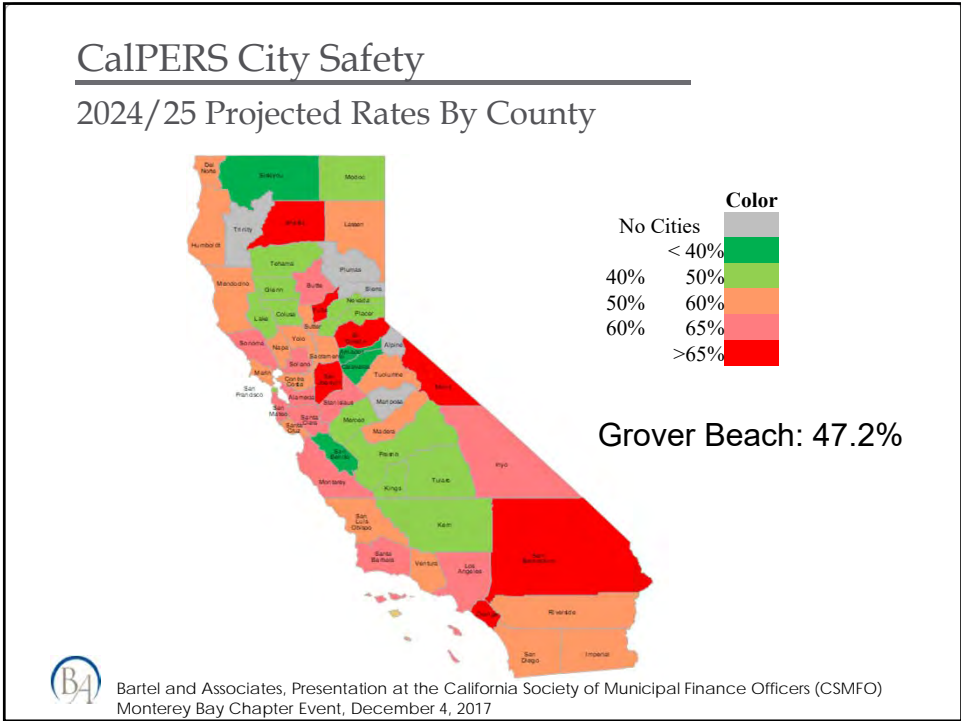
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CalPERS City Safety

2024/25 Projected Rates By County

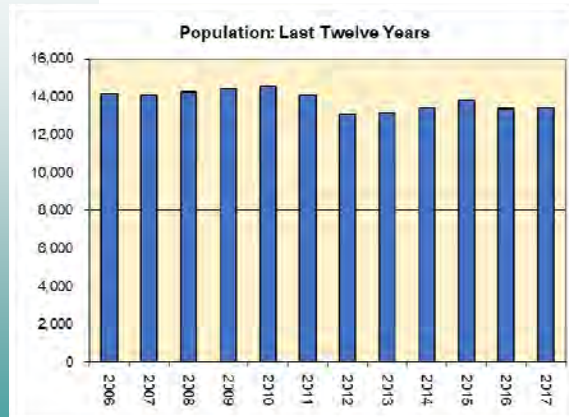


Other Operating Costs

- Animal shelter contract: \$25,000 per year, next 25 years
- Other operating costs increase by inflation: 2%



6 Population Growth and New Development



- Population growth not a factor in five-year forecast.
- But two hotels with significant impacts on the horizon
 - Holiday Inn
 - Grover Beach Lodge

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Holiday Inn

- Assumption
 - 2019-20 \$387,000
 - 2020-21 405,000
 - 2021-22 422,000
 - 2022-23 432,100
 - 2023-24 2% annual growth

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Grover Beach Lodge

- Assumption: net new revenues starting in 2020-21
 - TOT \$430,000
 - Property tax 60,000
 - Sales tax 30,000
 - **Total \$520,000**
 - Annual growth thereafter of about 2%

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Revised Contribution

Revised Grover Lodge Project: General Fund 2017-18		
Funding Sources	Original	Revised
Bond Proceeds	5,000,000	-
Transfer Station Reimbursement	445,000	-
General Fund	873,000	700,000
Total	\$6,318,000	\$700,000

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7 Debt Service/Repayments

- Current debt service \$63,900
 - State loan for energy saving projects 25,600
 - ❖ Last payment in 2026-27
 - Police radios lease-purchase 38,300
 - ❖ Last payment in 2022-23
- Broadband project repayment \$144,700
 - Starts in 2018-19: Five Years
- Development review repayment \$177,600
 - Starts in 2023-24: Five Years

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8 Capital Improvement Plan

- 2017-18 Mid-Year Budget Review
 - Adjusted downward for Grover Beach Lodge: maximum contribution of \$700,000
- 2018-20
 - \$100,000 per year
 - 2020-28: 5% of revenues per year

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What's not here ...

- Grant revenues
- Unmet operating and capital needs
- Development impact fees
- Hotel proposal: 1598 El Camino Real
- New fire service contract

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What's Most Likely to Change

- Top 5 revenue projections
 - Assumption for no economic downturns not a sure thing
- New development
 - Holiday Inn and Grover Beach Lodge revenues may be different than projected
- Insurance
- Pensions
- Retiree health care

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What's Most Likely to Change

- Cannabis Tax
 - Ramp-up may take longer
 - May be different than projected
 - Might not be allowed



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Conclusion: Where to From Here

- Lots of uncertainties ahead
- Strongly consider using favorable results for one-time purposes
 - Fund CIP projects
 - Address unfunded liabilities

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Questions?



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