



**GENERAL FUND
LONG TERM FINANCIAL PLAN
FISCAL YEARS 2020 - 2029**



Long-Term Financial Plan FY 2020 - 2029

Long-Term Financial Plan (LTFP) serves as a long-range fiscal planning tool

- Identify financial trends
- Projects budgetary surpluses/shortfalls
- Encourage discussion to proactively address the City's long-range needs

The LTFP is not a budget

- Highlights the need to prioritize the allocation of City resources to ensure the continuation of delivering core services
- Intended to look beyond the annual budget cycle



National and State Economies

National and California economies are growing at a steady rate

- Economic growth projected to continue into 2019 and 2020, albeit at slower rates than 2018

Potential threats to both the National and California economic outlooks

- Possible trade war with one or more U.S. trade partners
- Rise in inflation
- Increasing interest rates and higher home prices play key roles in housing growth

LTFP Projections

Development of the LTFP projections

- Historical budgeted and actual figures
- Current data
- Current financial trends

Continued growth in revenues and expenditures throughout the LTFP period

- Staff utilizes conservative projections due to uncertainty in the economy

Any economic downturn during the term of the LTFP would negatively impact projections



LTFP Revenue Assumptions

Major Revenues growth assumptions

- Property Tax and MVLF (Motor Vehicle License Fee) - Average of 3% per year
- All Sales Tax (General Fund, Measure P, Measure A) - Average of 1% per year
- Transient Occupancy Tax (TOT) - Average of 2% per year
- Franchise Fees - Approximately 2% per year
- UUT - Approximately 1% per year

Major Expenditure growth assumptions

- Personnel Services - Includes an annual 2% wage inflation
- Retirement Benefits – PERS Costs based on CalPERS Valuation Report as of June 30, 2017
- Health Insurance - Potential savings due to anticipated lower costs in FY 2020
- Measure A Sales Tax - Includes projected revenue and expenditures for recently approved tax measure
- Transfers/Debt Service - Debt service payments and transfers from the General Fund to other funds (i.e., Measure P Fund)



Fiscal Projections Summary

FY 2020 – 2029

Description	Proposed FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Revenue Projections (millions)											
Property Taxes	\$ 35.30	\$ 36.36	\$ 37.45	\$ 38.57	\$ 39.72	\$ 40.91	\$ 42.13	\$ 43.39	\$ 44.69	\$ 46.03	\$ 47.40
Sales Tax	\$ 33.70	\$ 34.04	\$ 34.38	\$ 34.72	\$ 35.07	\$ 35.42	\$ 35.77	\$ 36.13	\$ 36.49	\$ 36.86	\$ 37.22
Measure P Sales Tax	\$ 18.09	\$ 18.27	\$ 18.45	\$ 18.63	\$ 18.82	\$ 19.01	\$ 19.20	\$ 19.39	\$ 14.69	\$ -	\$ -
Measure A Sales Tax	\$ 8.00	\$ 16.40	\$ 16.73	\$ 17.06	\$ 17.40	\$ 17.75	\$ 18.11	\$ 18.47	\$ 18.84	\$ 19.22	\$ 19.60
Franchise Fees	\$ 11.69	\$ 11.93	\$ 12.16	\$ 12.41	\$ 12.66	\$ 12.91	\$ 13.17	\$ 13.43	\$ 13.70	\$ 13.97	\$ 14.25
Utility Users Taxes	\$ 5.61	\$ 5.63	\$ 5.66	\$ 5.69	\$ 5.72	\$ 5.75	\$ 5.78	\$ 5.81	\$ 5.83	\$ 5.86	\$ 5.89
Transient Occupancy Taxes	\$ 4.10	\$ 4.19	\$ 4.27	\$ 4.35	\$ 4.44	\$ 4.53	\$ 4.62	\$ 4.71	\$ 4.81	\$ 4.90	\$ 5.00
Motor Vehicle License Fees	\$ 21.89	\$ 22.54	\$ 23.22	\$ 23.92	\$ 24.63	\$ 25.37	\$ 26.13	\$ 26.92	\$ 27.73	\$ 28.56	\$ 29.41
MAJOR DISCRETIONARY REVENUES	\$ 138.37	\$ 149.35	\$ 152.31	\$ 155.35	\$ 158.45	\$ 161.64	\$ 164.90	\$ 168.24	\$ 166.77	\$ 155.39	\$ 158.78
OTHER REVENUES	\$ 44.30	\$ 43.28	\$ 43.54	\$ 43.37	\$ 43.65	\$ 43.92	\$ 44.20	\$ 44.48	\$ 44.77	\$ 45.06	\$ 45.35
NEW DEVELOPMENT REVENUES	\$ -	\$ 2.97	\$ 4.08	\$ 5.07	\$ 6.05	\$ 7.02	\$ 7.95	\$ 8.94	\$ 9.48	\$ 9.60	\$ 9.71
TOTAL REVENUES	\$ 182.68	\$ 195.59	\$ 199.94	\$ 203.78	\$ 208.15	\$ 212.58	\$ 217.05	\$ 221.66	\$ 221.02	\$ 210.04	\$ 213.84
Expenditure Projections (millions)											
Personnel Services	\$ 88.01	\$ 92.42	\$ 94.17	\$ 95.97	\$ 97.80	\$ 99.66	\$ 101.57	\$ 103.51	\$ 105.50	\$ 107.52	\$ 109.58
Retirement - PERS	\$ 27.59	\$ 31.24	\$ 34.44	\$ 37.12	\$ 39.43	\$ 40.95	\$ 42.69	\$ 44.44	\$ 46.25	\$ 48.15	\$ 50.13
Health Insurance	\$ 13.53	\$ 12.42	\$ 12.46	\$ 13.02	\$ 13.60	\$ 14.20	\$ 14.84	\$ 15.50	\$ 16.19	\$ 16.91	\$ 17.67
Salary Savings (On Going)	\$ (0.90)	\$ (1.75)	\$ (1.77)	\$ (1.79)	\$ (1.81)	\$ (1.83)	\$ (1.85)	\$ (1.87)	\$ (1.89)	\$ (1.91)	\$ (1.93)
PERSONNEL SERVICES EXPENDITURES	\$ 128.23	\$ 134.32	\$ 139.31	\$ 144.31	\$ 149.01	\$ 152.98	\$ 157.25	\$ 161.58	\$ 166.05	\$ 170.67	\$ 175.45
OTHER EXPENDITURES	\$ 54.45	\$ 64.75	\$ 65.78	\$ 67.68	\$ 66.94	\$ 68.30	\$ 69.19	\$ 70.27	\$ 66.47	\$ 53.05	\$ 53.37
NEW DEVELOPMENT EXPENDITURES	\$ -	\$ 2.01	\$ 2.14	\$ 2.88	\$ 2.99	\$ 3.11	\$ 3.23	\$ 3.34	\$ 3.47	\$ 3.57	\$ 3.62
TOTAL EXPENDITURES	\$ 182.68	\$ 201.08	\$ 207.23	\$ 214.87	\$ 218.94	\$ 224.38	\$ 229.67	\$ 235.19	\$ 235.99	\$ 227.29	\$ 232.44
TOTAL GENERAL FUND SURPLUS/(DEFICIT)	\$ (0.00)	\$ (5.49)	\$ (7.30)	\$ (11.09)	\$ (10.79)	\$ (11.80)	\$ (12.62)	\$ (13.53)	\$ (14.97)	\$ (17.25)	\$ (18.60)
HIGH PRIORITY PROGRAMS											
Peace Officer Funding	\$ -	\$ 1.63	\$ 2.58	\$ 3.62	\$ 4.75	\$ 5.96	\$ 7.28	\$ 8.67	\$ 10.19	\$ 11.68	\$ 13.18
TOTAL GENERAL FUND SURPLUS/(DEFICIT)	\$ (0.00)	\$ (7.12)	\$ (9.87)	\$ (14.70)	\$ (15.54)	\$ (17.75)	\$ (19.90)	\$ (22.20)	\$ (25.15)	\$ (28.93)	\$ (31.78)

Key points from LTFP projections

- Annual increase in expenditures outpace revenues
 - Imbalance creates structural deficit each year
- Projections include funding from Measure P and Measure A
 - Funding dedicated to repair and replacement of City assets, and addressing additional public safety needs
- Retirement Benefits – PERS payments increase from \$31.2 million in FY 2020 to \$50.1 million in FY 2029

Comparison of Projections

Third Quarter Report (April 2018)

Description	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Total Revenues	\$177.40	\$181.12	\$184.20	\$188.04	\$191.01	\$194.98	\$199.06	\$202.77	\$206.13	
Total Expenditures	\$187.98	\$196.71	\$206.37	\$214.15	\$221.28	\$228.31	\$235.60	\$242.98	\$250.90	
Surplus/(Deficit)	(\$10.58)	(\$15.59)	(\$22.17)	(\$26.11)	(\$30.27)	(\$33.33)	(\$36.54)	(\$40.21)	(\$44.77)	

Beginning of FY 2019 (September 2018)

Description	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Total Revenues	\$195.59	\$199.94	\$203.78	\$208.15	\$212.58	\$217.05	\$221.66	\$221.02	\$210.04	\$213.84
Total Expenditures	\$202.71	\$209.81	\$218.49	\$223.69	\$230.34	\$236.95	\$243.86	\$246.18	\$238.97	\$245.62
Surplus/(Deficit)	(\$7.12)	(\$9.87)	(\$14.71)	(\$15.54)	(\$17.76)	(\$19.90)	(\$22.20)	(\$25.16)	(\$28.93)	(\$31.78)

Significant changes since the April 2018 LTFP Report

- Slight increase in certain revenue projections (Prop. Tax, MVLF, TOT)
- Inclusion of Measure A revenues and expenses
- Reduced pension costs due to higher investment returns
- Reduced Health Insurance costs beginning in FY 2020

General Fund Reserves

City Council Policy No. 220-03 established three General Fund reserve funds

General Fund Reserve - FY 2019 (millions)

	Operating Reserve	Contingency Reserve	Catastrophic Reserve
General Fund Expenditures ¹	\$156.6	\$156.6	\$156.6
Reserve Amount ²	\$20.4	\$3.6	\$0.0
Percentage of GF Expenditures	13.0%	2.3%	0.0%
Policy Target Percentage	15.0%	5.0%	3.0%
Policy Target Amount	\$23.5	\$7.8	\$4.7
Reserve Amount ²	\$20.4	\$3.6	\$0.0
Variance	(\$3.1)	(\$4.2)	(\$4.7)

(1) General Fund Operating expenses does not include the \$18.1 million in Measure P transfers, and \$8.0 million in Measure A expenditures/encumbrances.

(2) Projected balance for beginning of FY 2019



PENSION

Pension Costs

City's contribution to pensions costs made up of two parts:

- (1) Unfunded Accrued Liability (UAL) contributions – for pension benefits already earned
- (2) Normal Cost contribution (percentage of payroll) – for pensions benefits of active employees

The combination of the both costs create the City's total annual pension costs

Pension – UAL Costs

UAL contributions are calculated by CalPERS and are impacted by multiple factors including:

- Amortization (pay off) schedule
- Assumed interest return/discount rate on investment portfolio
 - FY2019 (7.375%), FY2020 (7.250%), FY2021 (7.00%)
- Actual interest return on investment portfolio

UAL can be prepaid at beginning of fiscal year for discount savings



Comparison of Pension Projections

April 2018 Long-Term Financial Plan - General Fund

Description	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Normal Cost	12.90	14.45	14.88	15.33	15.79	16.26	16.75	17.25	17.77	-
UAL Cost	18.78	21.14	24.01	26.57	28.38	29.93	31.56	33.28	35.09	-
Pension Cost	31.68	35.59	38.89	41.90	44.17	46.19	48.31	50.53	52.86	-

September 2018 Long-Term Financial Plan - General Fund

Description	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029
Normal Cost	12.86	14.07	14.45	14.85	15.26	15.68	16.11	16.55	17.01	17.48
UAL Cost	18.37	20.38	22.66	24.57	25.69	27.01	28.32	29.70	31.14	32.65
Pension Cost	31.24	34.44	37.12	39.43	40.95	42.69	44.44	46.25	48.15	50.13
Change between April & Sept, 2018	(0.44)	(1.14)	(1.78)	(2.47)	(3.23)	(3.50)	(3.88)	(4.28)	(4.71)	(50.13)

Significant changes to the CalPERS Projections

- Release of FY 2020 Actuarial Valuation Report in July 2018
- Investment returns of 11.2% positive impact on pension costs in FY 2020

Pension – UAL Costs

UAL Balance, Fund Ratio and Payment*

	FY 2019	FY 2020	Est. FY 2021
UAL Balance	\$321,599,399	\$311,917,303	\$336,870,687
Funded Ratio	66.5%	69.2%	69.3%
UAL Pre-Payment	\$18,293,245	\$21,520,293	\$23,814,894

* Based on CalPERS Actuarial Valuation Reports as of June 30, 2017. MISC and SAFETY plans combined for illustrative purposes.

Drivers	FY 2019	FY 2020	Est. FY 2021
Change in Discount Rate	7.375%	7.250%	7.00%
Change in UAL due to Discount Rate (millions)	(\$27.8)	(\$17.9)	(\$35.9)
Investment Performance**	0.60%	11.20%	8.60%
UAL impact due to Investment Performance (millions)	(\$32.6)	\$27.6	\$12.1

** UAL payment impacted by investment returns two years in arrears. Figures shown represent investment performance to impact payment year.



Pension – Normal Costs

Normal Cost contributions are calculated as a percentage of the current payroll, and are impacted by multiple factors including:

- Retirement contribution rates for City and employees
- CalPERS Payroll growth rate assumptions
- Future investment earnings (discount rate)

City and employees contribute to Normal Costs

- Total Normal Cost – Employees Contribution = City’s Cost

Estimated Total City Contribution Based on Projected Payroll (MISC and SAFETY Plan)

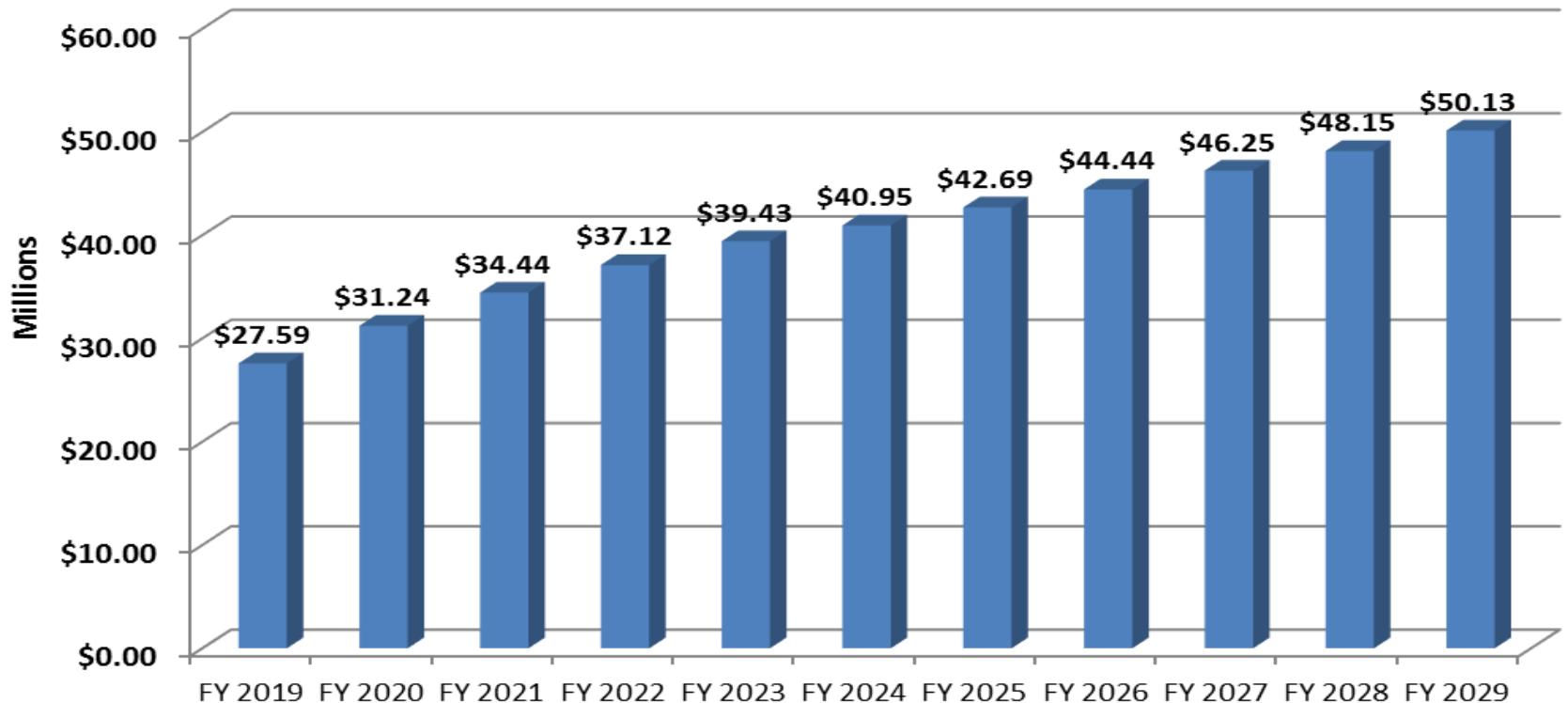
Citywide	FY 2019	FY 2020	Increase	% Increase
Total Normal Cost*	21,123,716	22,163,846	1,040,130	4.9%
Employee Contribution*	7,532,988	7,709,201	176,213	2.3%
City's Normal Cost**	13,590,728	14,454,645	863,917	6.4%

* Source: CalPERS Actuarial Valuation Report as of June 30, 2017.

** Does not include current ratified MOU's cost sharing agreements.

General Fund Pension Contribution

Projected Annual General Fund Pension Contribution

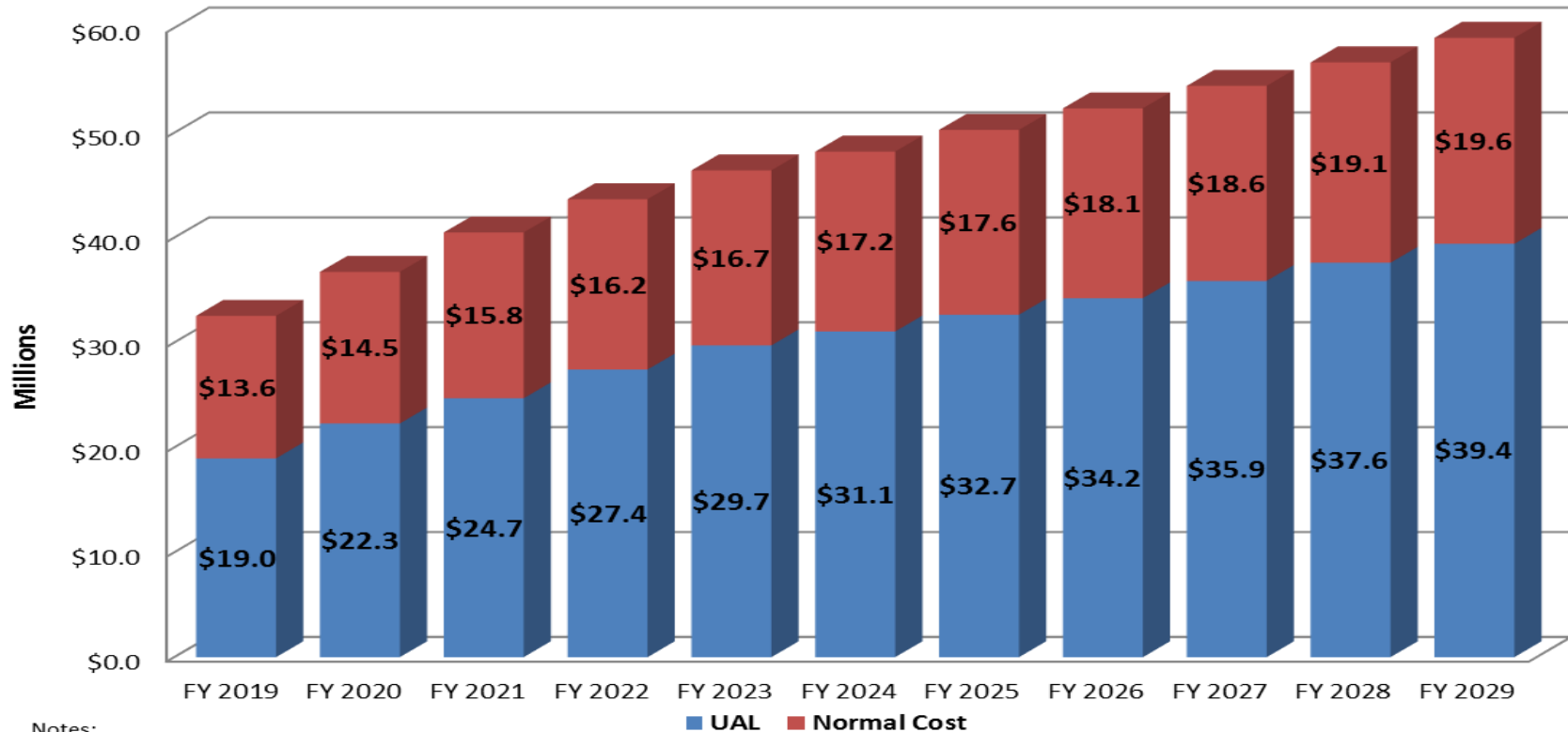


Note: Based on CalPERS Actuarial Valuation Report as of June 30, 2017.

FY 2026 - 2029 projected determined by continuing assumptions used in Valuations Report.

All Funds Pension Contribution

Projected All Funds Pension Contribution



	Fiscal Year FY 2019	Fiscal Year FY 2020	Fiscal Year FY 2021	Fiscal Year FY 2022	Fiscal Year FY 2023	Fiscal Year FY 2024	Fiscal Year FY 2025	Fiscal Year FY 2026	Fiscal Year FY 2027	Fiscal Year FY 2028	Fiscal Year FY 2029
Total Projected Pension Cost	\$32.6	\$36.7	\$40.5	\$43.7	\$46.4	\$48.2	\$50.3	\$52.3	\$54.5	\$56.7	\$59.1

Potential Actions

The LTFP projects future structural deficits throughout the Plan period

Potential actions to mitigate future deficits

- Technology
- Operational Efficiency
- Policies for use of One-Time Funds
- Use of Public Private Partnerships
- Internship/Volunteer Programs
- Contract Services



Potential Solutions (cont.)

- Service Levels
- Changing Service Delivery Model
- Fees/Cost Recovery
- Priority Based Budgeting
- Competitive Purchasing
- Municipal Code/Charter Updates
- Cannabis Sales Tax Measure

Next Steps

- Staff will continue refining the LTFP
- Based upon discussion, staff will further develop potential budget mitigation actions for implementation
- Fiscal Year 2019 Budget Monitoring
- Development of the Fiscal Year 2019-20 Proposed Budget
- April budget workshop with refined Fiscal Year 2019-2020 Baseline numbers

QUESTIONS?