

CITY OF LAGUNA BEACH

LONG-TERM FINANCIAL ASSESSMENT

APRIL 16, 2019

LONG-TERM FINANCIAL ASSESSMENT

PURPOSE

- ✓ Prepare five year forecast of revenues and expenditures as a tool for financial sustainability.
- ✓ Should compliment other planning processes that the City uses such as strategic planning, capital improvement planning, and budgeting.
- ✓ Helps to identify significant future expenses, liabilities, problems and resources that are not included or fully addressed in the two-year budget (like the long-term impact of pension costs).
- ✓ Forecast is not a budget and a projected budget gap (shortfall) is not the same thing as a budget deficit.
- ✓ A budget gap can be eliminated through strategies that will achieve long-term sustainability to City's services, meet capital improvement objectives and address other financial challenges.
- ✓ Financial Assessment and presentation incorporate items based on City Council feedback.

LONG-TERM FINANCIAL ASSESSMENT

PLANNING STEPS ALREADY BEING DONE

- ✓ Fiscal Policies
 - 20% General Fund Reserve
 - 10% Disaster Fund Reserve
 - Strategy to reduce CalPERS unfunded liability
- ✓ Budget reviews every six months
- ✓ Two-year budget
- ✓ Ten year Capital Improvement Program
- ✓ Twelve year Wastewater Financial and Capital Improvement Plan
- ✓ Long-Term Financial Assessment

KEY TOPICS

FORECAST

PENSIONS

RECOMMENDATIONS





**FORECAST
GENERAL FUND**

FORECAST

PENSION

RECOMMENDATION

GENERAL FUND FORECAST FY 2019-20 THROUGH 2023-24

PRESENTATION

General Fund Forecast will present three scenarios:

- Optimistic (O): The best case scenario, when everything goes right
- Most Likely (ML): Tries to find the middle ground given normal problems and opportunities
- Pessimistic: (P) The recession scenario, when everything goes wrong

A forecast is not a budget. Shortfalls can be eliminated through strategic planning and decision making.

GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES

FORECAST

PENSION

RECOMMENDATION

GENERAL FUND FORECAST FOR FY 2019-20 THROUGH 2023-24

REVENUE ASSUMPTIONS

Most likely forecast assumes:

- Property taxes = 4%-5.5%
- Sales taxes = 0%-5%
- TOT taxes = 2%-5.5%
- Community Development Fees
- No new tax or fee increases
- Assumes mild recession

Average GF revenue growth = 3.4% year

EXPENDITURES ASSUMPTIONS

All forecast assume:

- No new positions
- Moderate salary and benefit adjustments
- CalPERS increases included
- Healthcare = 10% a year
- Maintenance and Operations = 1.5% a year
- Special Programs = 1.5% a year
- Insurance increase = \$200,000 a year
- Average GF expenditure growth = 3.4% year

GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES

FORECAST

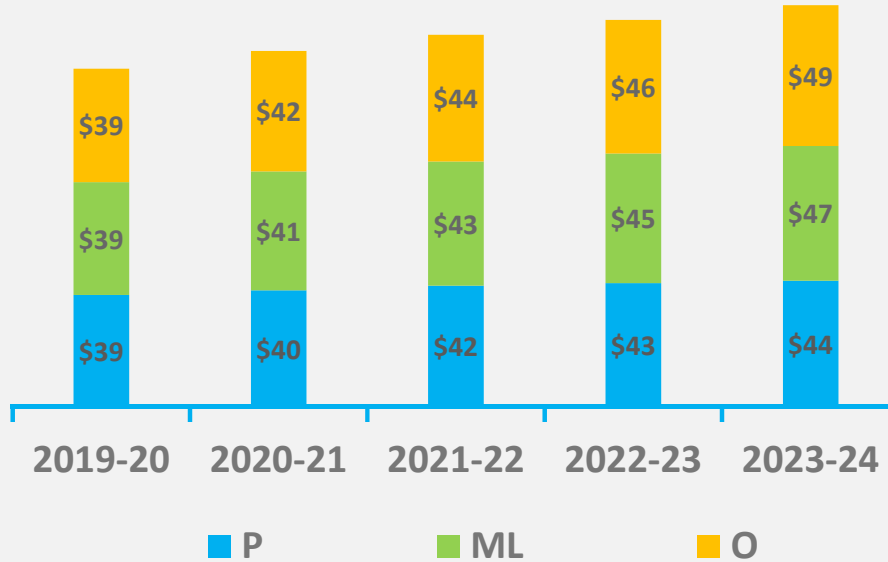
PENSION

RECOMMENDATION

Assessed Value Last Ten Years

YEAR	GROWTH
2009-10	4.0%
2010-11	1.9%
2011-12	1.3%
2012-13	2.0%
2013-14	4.7%
2014-15	6.7%
2015-16	6.8%
2016-17	6.9%
2017-18	6.1%
2018-19	5.9%

PROPERTY TAX IN MILLIONS



Property Tax Forecast

YEAR	O	ML	P
2019-20	6.0%	5.5%	5.0%
2020-21	6.0%	5.5%	4.0%
2021-22	5.5%	4.5%	4.0%
2022-23	5.5%	4.0%	2.0%
2023-24	5.5%	4.0%	2.0%

1% GROWTH = \$330,000

GF ASSUMPTIONS

GF REVENUES

GF EXPENDITURES

FORECAST

PENSION

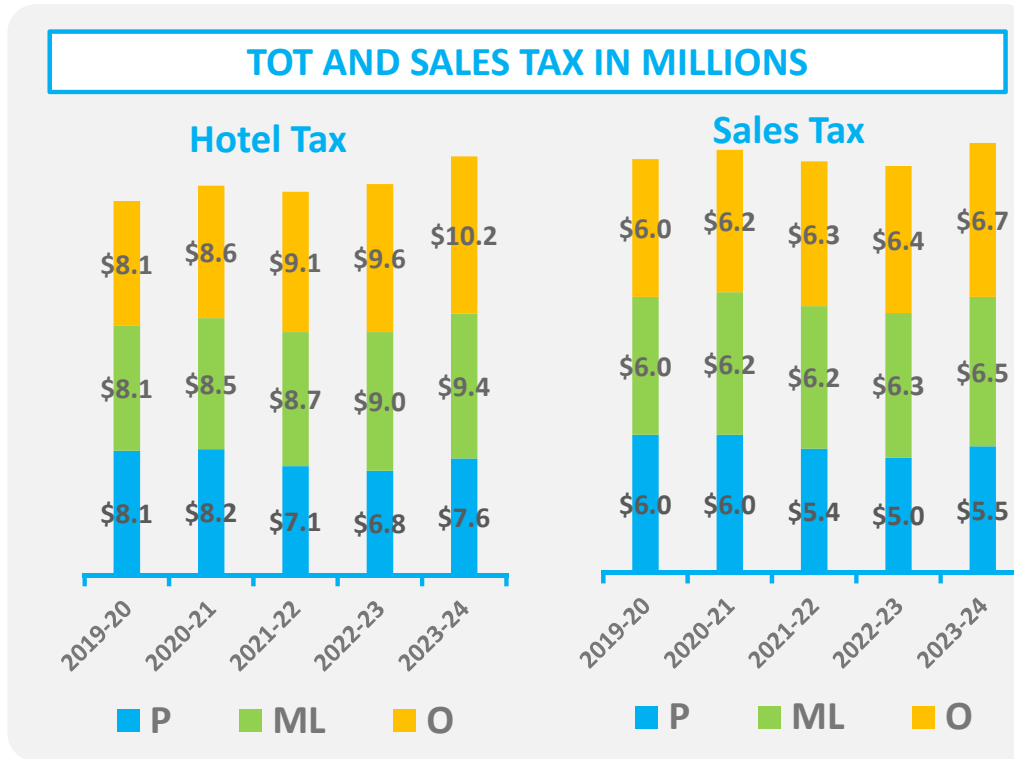
RECOMMENDATION

TOT and Sales Tax Last Ten Years

YEAR	TOT	Sales
2008-09	-5.6%	-15.4%
2009-10	-16.1%	-8.7%
2010-11	5.8%	8.3%
2011-12	10.2%	8.9%
2012-13	3.4%	6.8%
2013-14	11.8%	6.1%
2014-15	3.4%	6.7%
2015-16	8.9%	9.8%
2016-17	7.8%	1.5%
2017-18	9.0%	2.1%

1% GROWTH TOT = \$85,000
 1% GROWTH SALES = \$60,000

TOT AND SALES TAX IN MILLIONS



TOT Tax

YEAR	O	ML	P
2019-20	6.0%	5.5%	5.0%
2020-21	6.0%	5.5%	2.0%
2021-22	6.0%	2.0%	-10.0%
2022-23	6.0%	4.0%	-5.0%
2023-24	6.0%	4.0%	12.0%

Sales Tax

YEAR	O	ML	P
2019-20	2.0%	2.0%	2.0%
2020-21	2.0%	2.0%	0.0%
2021-22	2.0%	0.0%	-10.0%
2022-23	2.0%	2.0%	-5.0%
2023-24	5.0%	5.0%	10.0%

GF ASSUMPTIONS

GF REVENUES

GF EXPENDITURES

FORECAST

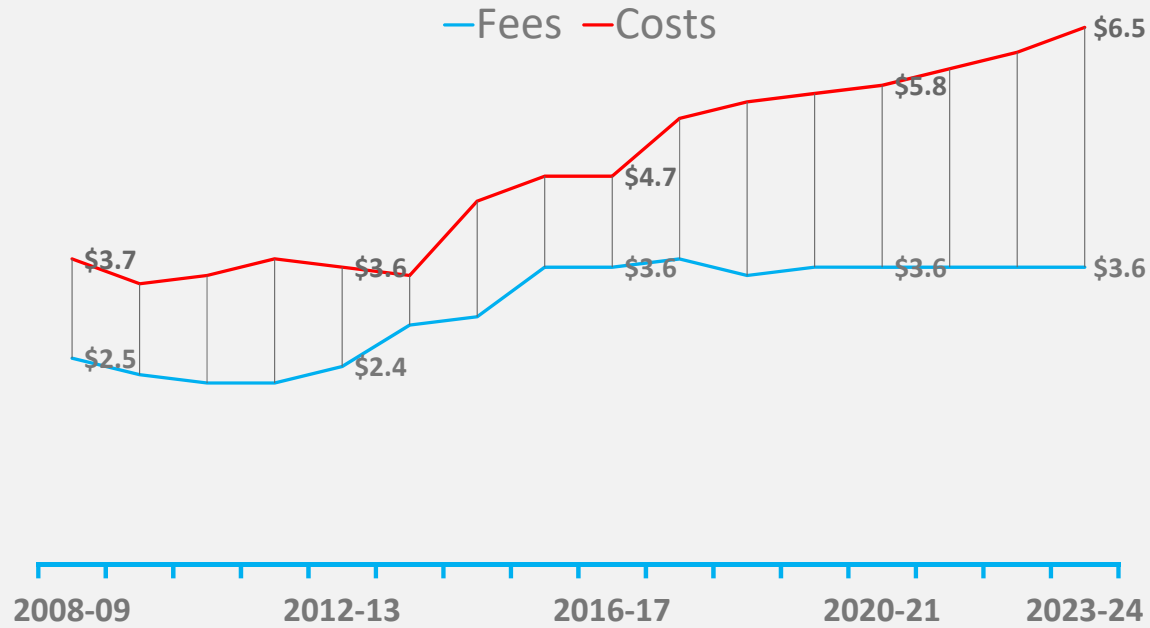
PENSION

RECOMMENDATION

**Revenue
Increases**

YEAR	Total Fees In Millions
2019-20	\$3.6
2020-21	\$3.6
2021-22	\$3.6
2022-23	\$3.6
2023-24	\$3.6

COMMUNITY DEVELOPMENT FEES IN MILLIONS



**Coverage
Percentage**

YEAR	Coverage %
2014-15	68%
2015-16	74%
2016-17	77%
2017-18	64%
2018-19	64%
2019-20	62%
2020-21	60%
2021-22	57%
2022-23	55%
2023-24	52%

GF ASSUMPTIONS

GF REVENUES

GF EXPENDITURES

FORECAST

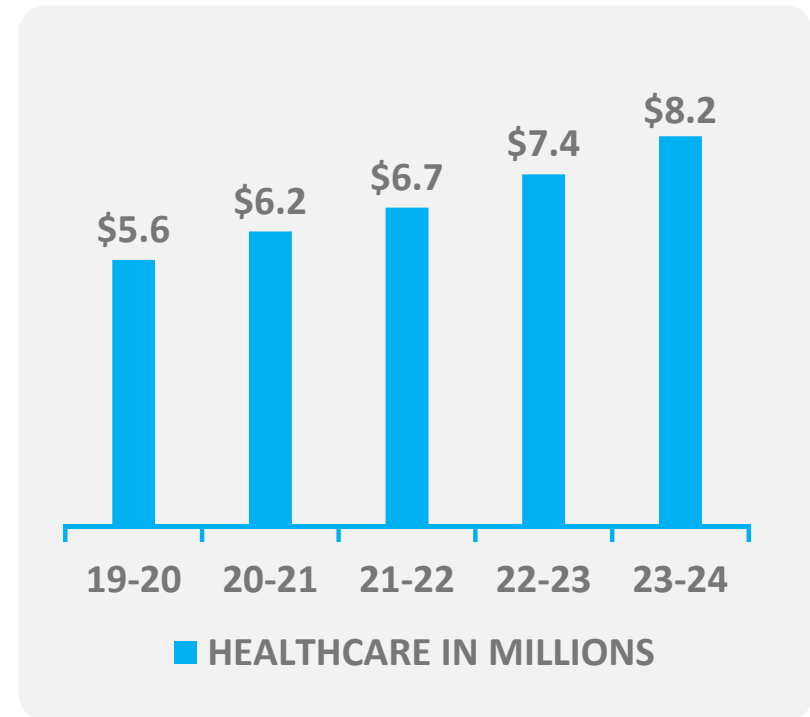
HEALTHCARE PREMIUMS % INCREASE BY YEAR

YEAR	INCREASE
2014-15	5.0%
2015-16	2.0%
2016-17	18.7%
2017-18	11.0%
2018-19	3.0%

- Average Increase past five years = 8%
- Forecast assumes 10% annual increase
- Increase in 2016-17 due to large number of high claims

PENSION

RECOMMENDATION



GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES

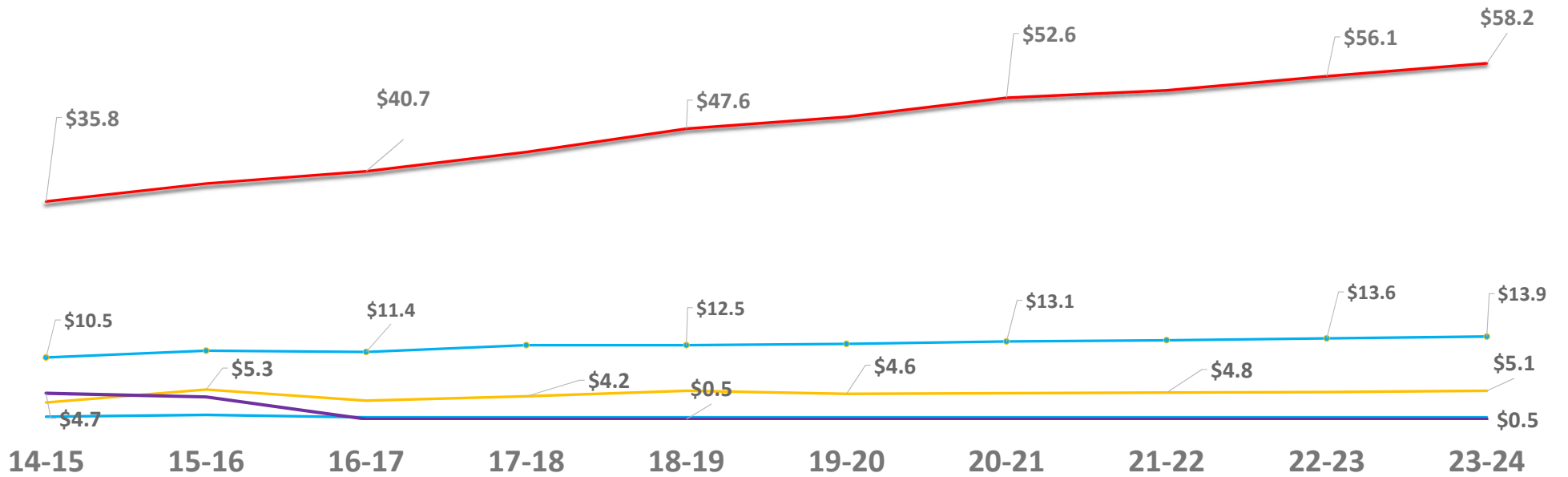
FORECAST

PENSION

RECOMMENDATION

FORECAST: MOST LIKELY SCENARIO

SALARY AND BENEFITS M & O SPECIAL PROGRAMS EQUIPMENT TRANSFERS



GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES

FORECAST

PENSION

RECOMMENDATION

GENERAL FUND FORECAST OPERATING INCOME (IN THOUSANDS)

Fiscal Year	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Total
Optimistic	\$1,200	\$1,600	\$2,300	\$2,700	\$3,700	\$11,500
Most Likely	\$700	\$800	\$400	\$300	\$400	\$2,600
Pessimistic	\$700	(\$100)	(\$3,000)	(\$5,400)	(\$5,100)	(\$12,900)

GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES

FORECAST

PENSION

RECOMMENDATION

MOST LIKELY SCENARIO GENERAL FUND REVENUE AND EXPENDITURES

Fiscal Year	Revenues +Transfers	Expenditures	Surplus (Deficit)
2019-20	\$69.3M	\$68.6M	\$0.7M
2020-21	\$72.2M	\$71.4M	\$0.8M
2021-22	\$74.0M	\$73.6M	\$0.4M
2022-23	\$76.1M	\$75.8M	\$0.3M
2023-24	\$78.7M	\$78.3M	\$0.4M

GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES

FORECAST

PENSION

RECOMMENDATION

REQUESTS FOR ADDITIONAL GENERAL FUNDS

- Administrative Analyst Finance \$118,000
- Administrative Analyst HR/Risk \$118,000
- Administrative Analyst PW \$118,000
- Senior Operations Supervisor PW \$135,000
- Planning Technician \$108,000 (Added)
- Senior Principal Planner \$180,000 (Added)
- Permit Services Supervisor \$115,000 (Added)
- Tree Maintenance Worker PW \$94,000
- IT Improvements \$250,000-\$1,000,000
- Other Requests \$?

Total Impact could be \$1.2 million to \$2.2 Million

GF ASSUMPTIONS

GF REVENUE

GF EXPENDITURES



**FORECAST
OTHER FUNDS**

FORECAST

PENSION

RECOMMENDATION

CAPITAL IMPROVEMENT FUND

POTENTIAL LARGE PROJECTS	ESTIMATED COST
FIRE STATION #4	\$10M
PARKING STRUCTURES	\$?
UTILITY UNDERGROUNDING	\$135M
OTHER	<u>\$??</u>
TOTAL	\$145M

COMMENTS

- Construction cost continue to rise
- Is the City Council willing to issue debt with no new fees or taxes for large projects or postpone projects until cash is available to proceed?
- Debt Policy is required

- \$6.6M in revenue annually for CIP projects
- 10-Year CIP is being updated as part of two-year budget
- Future Facilities Funding \$10.5M over 5 year
- Adding large projects could create deficits unless debt financed

CAPITAL IMPROVEMENT

PARKING

WASTEWATER

MEASURE LL

OTHER

FORECAST

PENSION

RECOMMENDATION

PARKING FUND

- Current balance about \$3.0M
- Presently, revenue exceeds expenditures by roughly \$800,000 annually
- Contribution to Transit system \$1.5M, Trolley replacements at \$300,000
- The Project V Grant expires in FY 2020-21, if not renewed this will require an additional contribution to the Transit Fund of roughly \$800,000 annually
- Future funding for parking projects (needs to be determined)
- Assumes no increase in parking rates
- Currently transfer \$525,000 annually to support General Fund services

CAPITAL
IMPROVEMENT

PARKING

WASTEWATER

MEASURE LL

OTHER

FORECAST

PENSION

RECOMMENDATION

PARKING REVENUE AND EXPENDITURES FORECAST

Fiscal Year	Revenue	Expenditures +Transfers	Surplus (Deficit)	Available Fund Balance
2019-20	\$6.8M	\$6.2M	\$0.6M	\$3.6M
2021-22	\$7.8M	\$6.4M	\$1.4M	\$5.0M
2022-23	\$6.8M	\$6.3M	\$0.5M	\$5.5M
2023-24	\$7.8M	\$6.4M	\$1.4M	\$6.9M
2024-25	\$6.8M	\$6.6M	\$0.2M	\$7.1M

- \$1 dollar increase system wide (parking meters and parking lots) = \$2.4 million
- \$1 dollar increase in parking meters and parking lots outside of downtown = \$1.0 million
- Increases implemented over a three-year period

**CAPITAL
IMPROVEMENT**

PARKING

WASTEWATER

OTHER

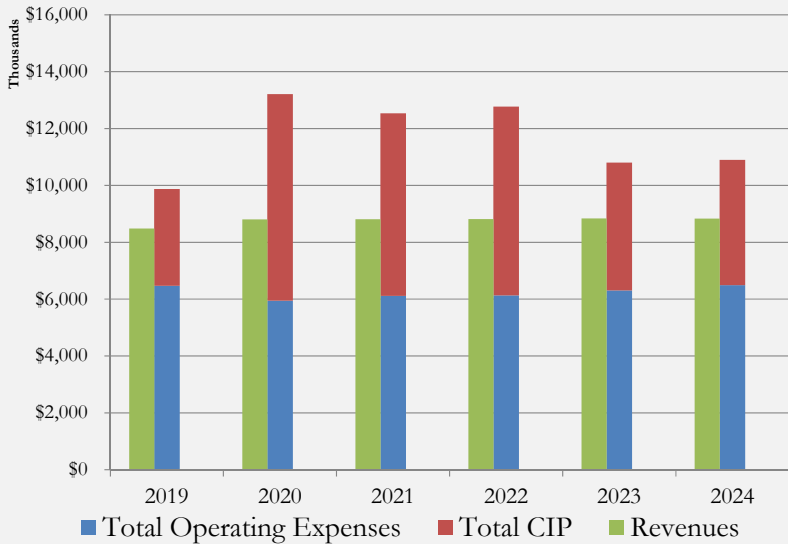
FORECAST

PENSION

RECOMMENDATION

WASTEWATER FUND

Projected Revenues, Operating Expenses & CIP - FY 2019-2024



- Rate increases end in FY 2019-20, more needed to keep pace with CIP projects
- \$100,000 toward reserve annually
- Future Concerns:
 - State-Mandated Regulations
 - Changes at SOCWA could impact projects schedule
 - Necessary repairs to sewer lining will need to be incorporated into the plan
 - Setting aside funding for reserve is difficult

FISCAL YEAR	RATE INCREASE
2016-17	4.75%
2017-18	4.75%
2018-19	4.75%
2019-20	4.0%
2020-21	TBD
2021-22	TBD
2022-23	TBD
2023-24	TBD
2024-25	TBD

CAPITAL IMPROVEMENT

PARKING

WASTEWATER

MEASURE LL

OTHER

FORECAST

PENSION

RECOMMENDATION

MEASURE LL (2% TOT, \$2.4M ANNUALLY)

**PUBLIC SAFETY
\$1,035,000**

- 2 Beach Patrol Officers
- 1 Community Outreach Officer
- Civilian Fire Marshal
- Upgrade 3 Paramedic Positions
- 2 Year-Round Marine Safety Officers
- 200 Lifeguard Tower Shifts
- Additional Patrols at Main Beach and Heisler Park

**PUBLIC WORKS
\$380,000**

- Lead Worker for Enhanced Cleaning
- Beach Cleaning and Kelp Removal
- Summer Main Beach Restroom Cleaning
- Enhanced Sidewalk Steam Cleaning and Detailed Cleaning and Daily Maintenance

**UTILITY UNDERGROUNDING
\$1M**

- Utility Undergrounding

CAPITAL IMPROVEMENT

PARKING

WASTEWATER

MEASURE LL

OTHER

FORECAST

PENSION

RECOMMENDATION

OTHER FUNDS OVER NEXT FIVE YEARS

STREET LIGHTING FUND

- \$1.5M annually
- Acquire and maintain street lights
- Converting Street Lights to LED lights
- Used for Laguna Canyon Road Master Plan and Undergrounding Utilities

GAS TAX FUND

- \$1.4M annually
- Used to slurry seal all streets over 10 years

INFRASTRUCTURE REPLACEMENT FUND

- \$100,000 available
- Likely \$4M available over the next five years
- Probably needed for Laguna Canyon Road

CAPITAL IMPROVEMENT

PARKING

WASTEWATER

MEASURE LL

OTHER

FORECAST

PENSION

RECOMMENDATION

RESERVES

GENERAL FUND

20%
(\$12.7M)

- Provides for major decline in revenue coverage, natural disasters and catastrophic events
- Provides a minimum of 3 months' operating expenses.

DISASTER CONTINGENCY

10% GF
(\$6.3M)

- Exclusively for emergencies
- Equal to 10% of General Fund Operating Expenditures
- Must be repaid in 3 years if borrowed

VEHICLE REPLACEMENT

\$8.0M

- Maintained for replacement of vehicles
- Funded by charge back to General Fund of roughly \$1.5 annually
- Fully funded based on current assumptions (vehicle useful life)

INSURANCE

\$10.0M

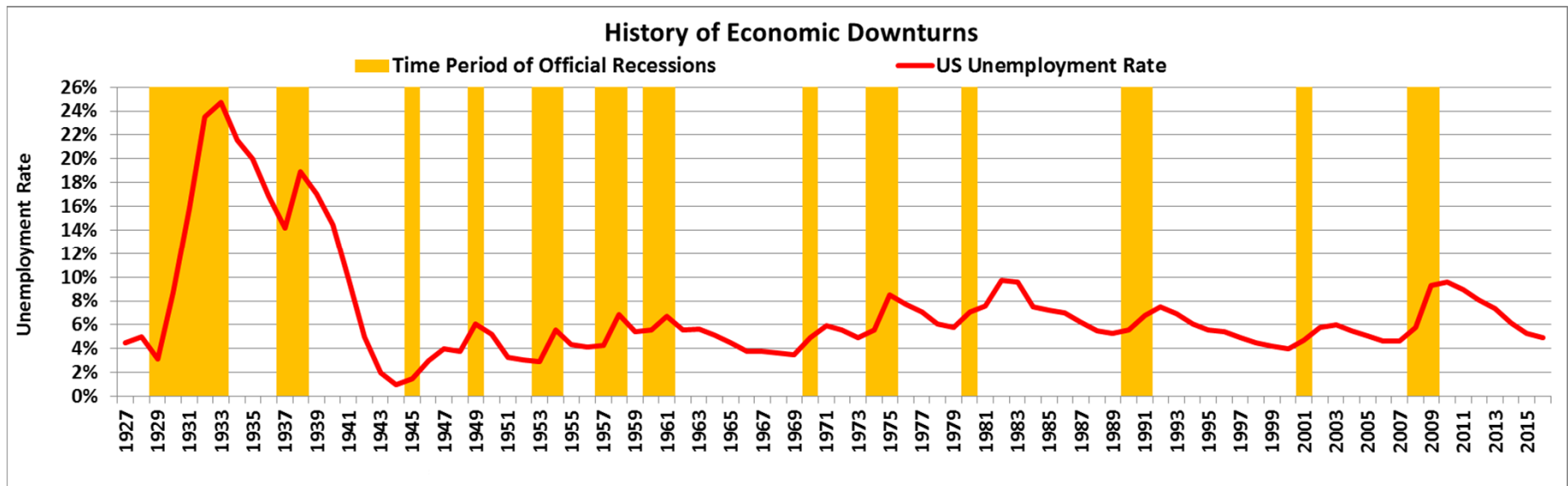
- General Liability and Workers' Compensations for City self-insurance retention levels
- Claims
- Reserve for employee vacation and sick leave balances (payouts at separation)
- Funding for City medical plan

FORECAST

PENSION

RECOMMENDATION

ANOTHER RECESSION IS INEVITABLE



Source: Bureau of Labor Statistics, National Bureau of Economic Research

- Since 1927, 13 recessions have occurred on average every 6.8 years; Now 10 years since “official” end of Great Recession
- Last recession, General Fund revenues decrease \$1.2 million over 12 months, roughly 5 years to recover

Source:

FORECAST

PENSION

RECOMMENDATION

TAKEAWAYS

- Good reserves
- Slight economic expansion or recession have huge implications
- Many demands for new resources
- Could have to curtail programs to support core services
- Ability to add new programs and services is questionable

PENSION

FORECAST

PENSION

RECOMMENDATION

BACKGROUND CALPERS

- City has contracted with CalPERS since 1945
- Approximately 277 active and 386 retired employees in CalPERS system
- The City has five retirement plans with CalPERS
 - 2% at 62 (PEPRA), 2.5% at 55, 2.7% at 57 (PEPRA), 3% at 55 and 3% at 50
- Employees earn a retirement allowance (defined benefit) based on
 - Years of Service
 - Final Compensation
 - Age at Retirement
- City and employees share in the normal cost (annual cost of service)
- Unfunded liability occurs when projected benefits payable to members exceed the projected funds available to pay those benefits (\$64M)
- Cost to leave is over \$498M and is financially prohibitive
- Not being a member of CalPERS is at a competitive disadvantage to recruit and retain employees

HISTORY

IMPACT DISCOUNT RATE

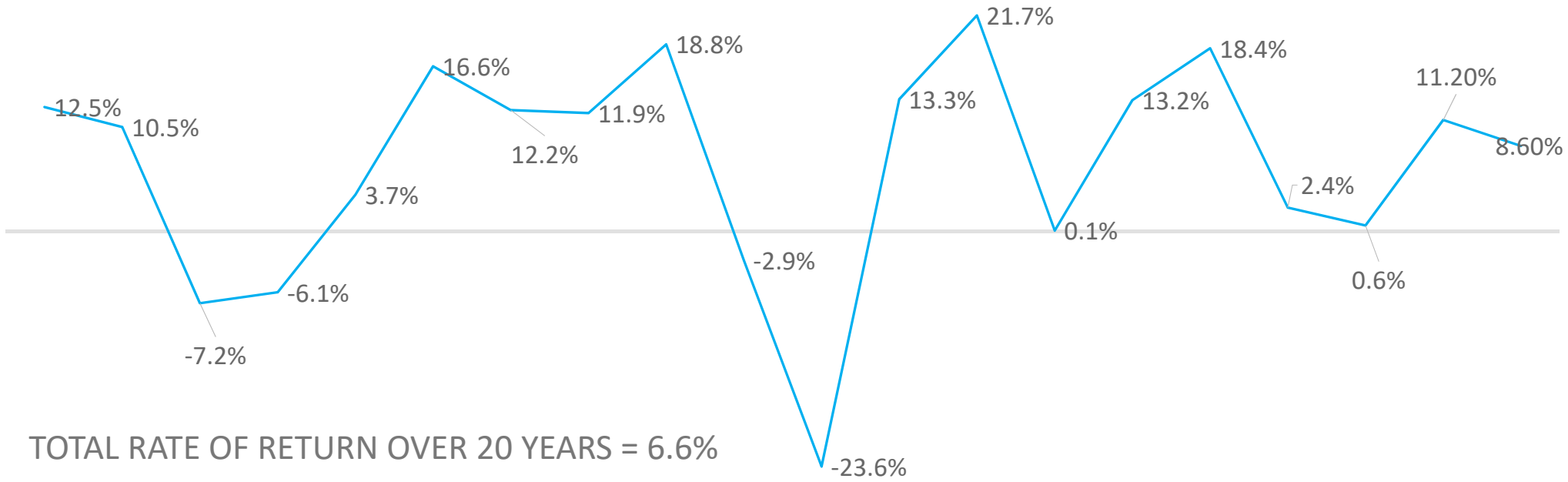
STRATEGIES

FORECAST

PENSION

RECOMMENDATION

CALPERS INVESTMENT RETURNS LAST 20 YEARS



1998-99

2002-03

2005-06

2008-09

2011-12

2013-14

2015-16

2017-18

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

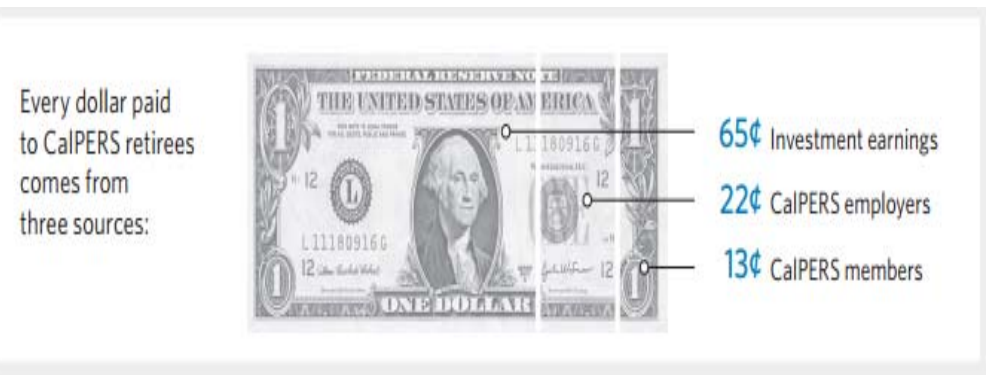
FORECAST

PENSION

RECOMMENDATION

CALPERS PLAN

- CalPERS 71% funded as of June 30, 2018 (City of Laguna Beach 75%)
- CalPERS is working to be fully funded over 20 years
- Higher contributions short-term
- Lower contributions long-term
- Lower the discount rate (expected investment rate of return) from 7.5% to 7.0%
- Could lower discount rate if investment returns are above expected return



HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

Strategies to Pay Down City Unfunded Pension Liabilities

Additional Payments to Pension Unfunded Liability By Fiscal Year

Fiscal Year	Misc	Safety	Total
FY 2009-10		10,000,000	10,000,000
FY 2014-15	1,400,000		1,400,000
FY 2015-16	1,300,000	1,300,000	2,600,000
FY 2016-17	1,200,000	1,200,000	2,400,000
FY 2017-18	1,000,000	1,042,000	2,042,000
FY 2018-19	700,000	700,000	1,400,000
Total	5,600,000	14,242,000	19,842,000

- ✓ \$10M to payoff Side Fund
- ✓ \$10M discretionary payments,
- ✓ Starting in 2013, employees agreed to contribute 8%-12% of salary to CalPERS
- ✓ Saving \$31 million over 30 years

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

CITY STRATEGY SIDE FUND

- Approved in 2010
- General Fund refinanced \$10 million, repaid over 15 years
- Paid off existing unfunded liability when safety plans joined risk pool

Year	General		Parking Auth Principal	Insurance Principal	Comp Abs Principal	Vehicle Rplc Principal	Street Light Principal	Total Principal
	Principal	Interest						
1 2009-10	195,154.89	90,537.66						195,154.89
2 2010-11	596,301.33	260,776.31						596,301.33
3 2011-12	612,907.89	244,169.75						612,907.89
4 2012-13	545,514.90	227,100.71	84,462.03					629,976.93
5 2013-14		209,556.30	647,521.33					647,521.33
6 2014-15		191,523.30	568,016.64	97,537.68				665,554.33
7 2015-16		172,988.10		684,089.54				684,089.54
8 2016-17		153,936.70		703,140.93				703,140.93
9 2017-18		134,354.73		515,231.85	207,491.05			722,722.90
10 2018-19		114,227.42			742,850.21			742,850.21
11 2019-20		93,539.58			763,538.05			763,538.05
12 2020-21		72,275.60			784,802.03			784,802.03
13 2021-22		50,419.43			1,318.66	700,000.00	105,339.54	806,658.20
14 2022-23		27,954.59					829,123.05	829,123.05
15 2023-24		5,847.68					565,537.41	565,537.41
	1,949,879	2,049,208	1,300,000	2,000,000	2,500,000	700,000	1,500,000	9,949,879

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

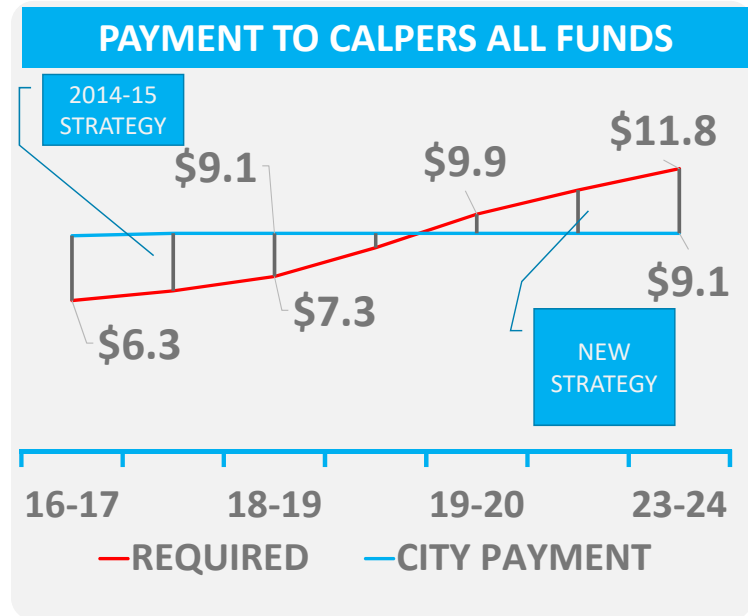
FORECAST

PENSION

RECOMMENDATION

CITY STRATEGY ACCELERATED FUNDING

- Additional discretionary payments above required amount
- Have paid \$10 million to date over required amount
- Payments made **only** benefit City Plans
- Additional payment in 2018-19 was \$1.4 million
- No additional payments scheduled
- This strategy assumed:
 - CalPERS earnings would average 7.0% over 30 years.
 - No changes in CalPERS assumptions
- Each \$1 million payment is estimated to save \$1.7 million over 20 years



HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

Valuation Date	Fiscal Year for Required Contribution	Discount Rate	Additional Required City Payment to CalPERS
June 30, 2015	FY 2017-18	7.500%	\$0
June 30, 2016	FY 2018-19	7.375%	\$300,000*
June 30, 2017	FY 2019-20	7.250%	\$700,000*
June 30, 2018	FY 2020-21	7.000%	\$1,200,000*
June 30, 2019	FY 2021-22	7.000%	\$1,900,000
June 30, 2020	FY 2022-23	7.000%	\$2,400,000
June 30, 2021	FY 2023-24	7.000%	\$2,800,000
June 30, 2022	FY 2024-25	7.000%	\$3,100,000

* Already programmed into the budget

CalPERS: Changes in the Discount Rates

1. Discount Rate from 7.5% to 7%
2. Permanent Increase in Normal Cost (2%-3%)
3. Increase in payment to unfunded liability

CalPERS changed Amortization Policy

- Gains/Losses amortized over 20 years instead of 30 years
- Higher payments in short-term
- Long-term savings

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

	FISCAL YEAR							
	2017-18*	2018-19*	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Beginning Balance Pension Smoothing	300,000	850,000	1,910,000	1,720,000	1,490,000	910,000	500,000	-
Ongoing Revenue over estimates (1%/Year)	450,000	900,000	1,350,000	1,800,000	1,800,000	1,800,000	1,800,000	2,050,000
Savings Prepay Required Pension Liability	100,000	160,000	160,000	170,000	180,000	190,000	200,000	200,000
Reprogram Side Fund Loan							300,000	850,000
Total Sources	550,000	1,060,000	1,510,000	1,970,000	1,980,000	1,990,000	2,300,000	3,100,000
Increase in CalPERS Costs			(700,000)	(1,200,000)	(1,900,000)	(2,400,000)	(2,800,000)	(3,100,000)
Additional One-Time Payments			(1,000,000)	(1,000,000)	(660,000)			
Ending Balance Pension Smoothing	850,000	1,910,000	1,720,000	1,490,000	910,000	500,000	-	-

* Milestone Met

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

ADDITIONAL STRATEGIES

1. Phase in future pension increase as soon as possible, use difference between required payment and budgeted payment to pay down unfunded liability (**COMPLETED**)
2. Use mid-year savings for one-time payment toward unfunded pension liability.
3. If feasible, use existing cash:
 - Lower General Fund Reserve requirement, use cash toward payment
 - Use Insurance or Vehicle Replacement reserves repaid with future pension cost savings
 - Disaster Contingency Fund, temporarily replace with Bank Line of Credit, repaid with cost savings
 - Parking Fund contribution repaid with future savings

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

POSSIBLE PENSION STRATEGIES

4. Alternative to paying CalPERS is payments to a Section 115 Trust
 - Can only be used to pay pension obligations
 - Investment strategy tailored to City's risk tolerance
 - Pay pension cost in a given year free up funds for other obligations

HISTORY

IMPACT DISCOUNT RATE

STRATEGIES

FORECAST

PENSION

RECOMMENDATION

PENSION STRATEGIES NOT RECOMMENDED

1. Pension Obligations Bonds (POB): In 2015, Government Finance Officers Association issued an advisory recommending state and local governments ***do not*** issue pension obligation bonds and listing 5 reasons including:
 1. The investing POB proceeds might fail to earn more than the interest rate owed on the term of the bonds, leading to increasing overall liabilities
 2. POBs are complex instruments carrying considerable risk
 3. Issuing taxable debt increases bonded debt burden and potentially uses up debt capacity
 4. POBs are frequently structure in a manner that defers principal payments or extends repayment period
 5. Rating agencies may not view issuance of POBs as credit positive
2. Alternative pension plans; currently require terminating contact with CalPERS at a cost of \$498 million.

RECOMMENDATIONS

FORECAST

PENSION

RECOMMENDATION

RECOMMENDATIONS

It is recommended that the City Council approve the following policies to help guide the City Manager and staff in preparing and managing future budgets.

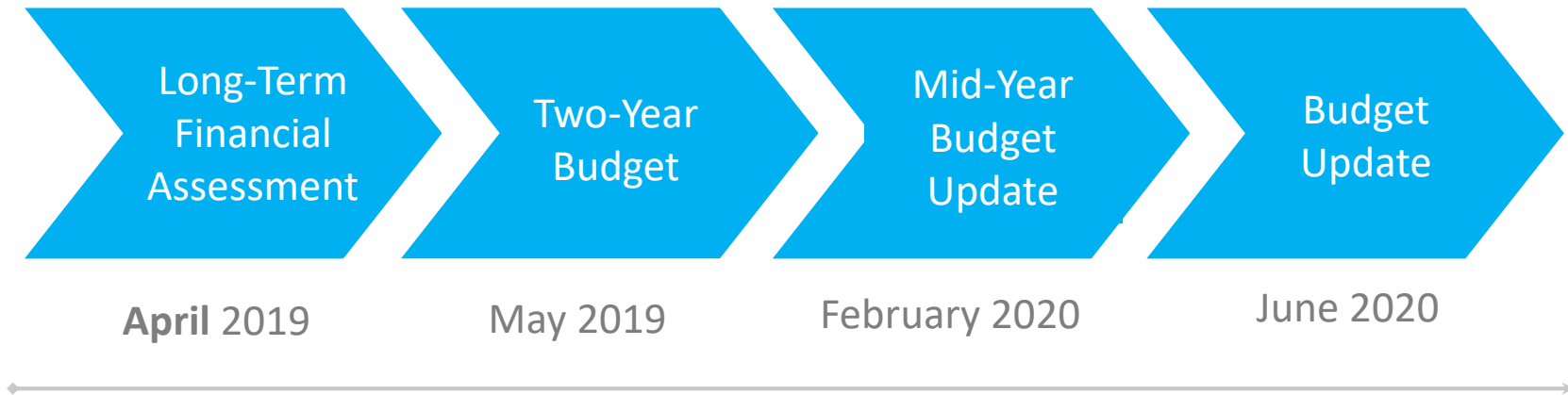
1. Review and consider increasing Community Development Fees every two years to keep pace with inflation and account for changes in services;
2. Review and consider increasing other City fees every four years;
3. Consider establishing an Information Technology reserve for the replacement and repair of critical IT infrastructure;
4. Review existing cash reserves for possible internal refinancing of pension liabilities; and
5. Incorporate items in future Five-Year Financial Assessment presentations based on feedback from the City Council.

FORECAST

PENSION

RECOMMENDATION

TIMELINE



QUESTIONS?