City of Morro Bay
Ten-Year Budget Forecast

City Council Workshop

March 31, 2015

Management Partners

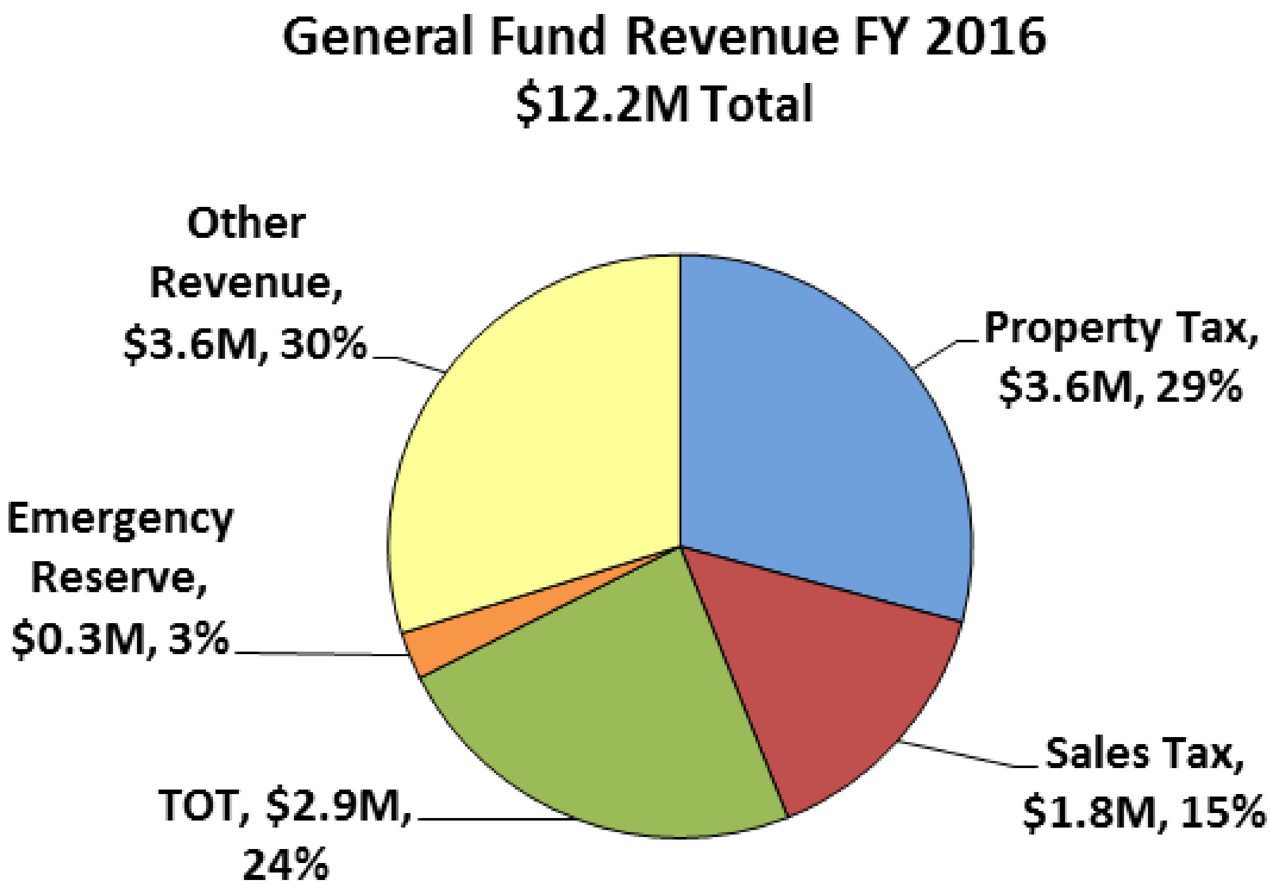
Project Purpose

- Review the City's current and projected financial condition and identify structural imbalances
  - Pension and pent-up labor demands common to most cities
- Discuss the implications of the long-term forecast on Morro Bay's ability to maintain financial sustainability
  - Unfunded replacement costs and deferred maintenance must be added to current spending levels
- Prepare a ten-year budget forecast to provide long-term perspective during the budget process
  - Must maintain adequate reserve over time, handle recessions
- Provide a budget model that an be updated periodically by staff to show progress toward the City's financial goals

Advantages of Long-Term Forecast

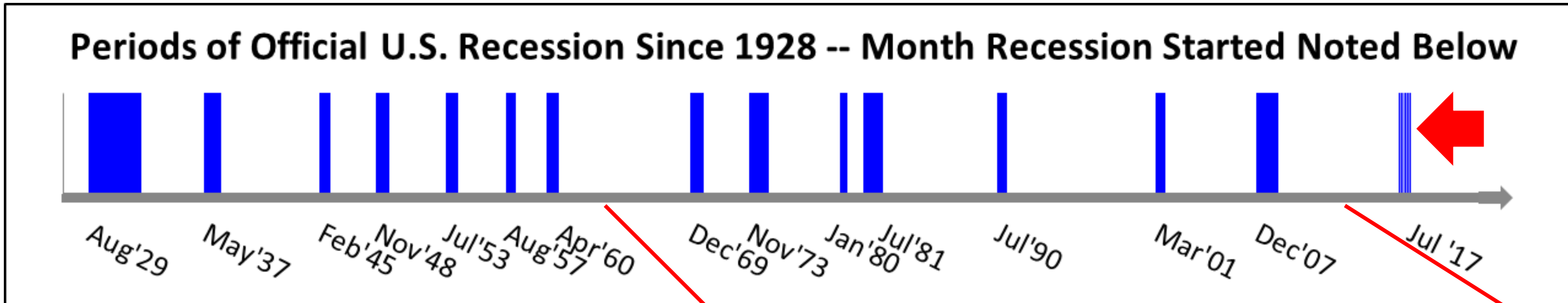
- Transparent about assumptions – forecast is realistic, not conservative
- Disciplined approach avoids wishful thinking about capacity for revenue growth
- Avoids perils of short-term focus by identifying long-term impacts of policy decisions
- Evaluates impact of alternative policies and economic outcomes
- Fiscal tool to help staff and Council make informed, prudent and timely fiscal decisions

Revenue Overview:
Top 3 Sources = 68% of Revenue

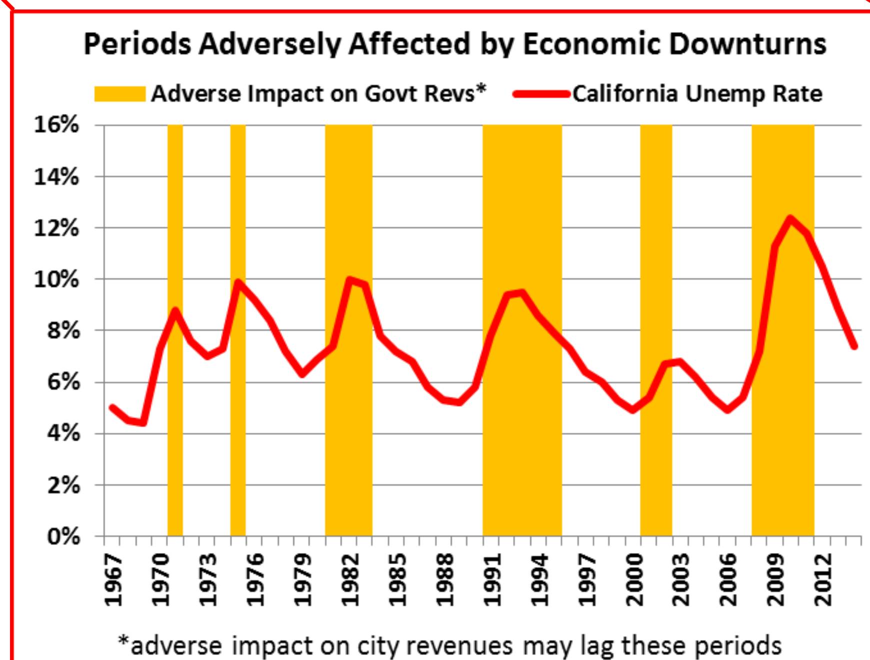


Long-Term Forecast Must Consider Impact of Next Recession

National



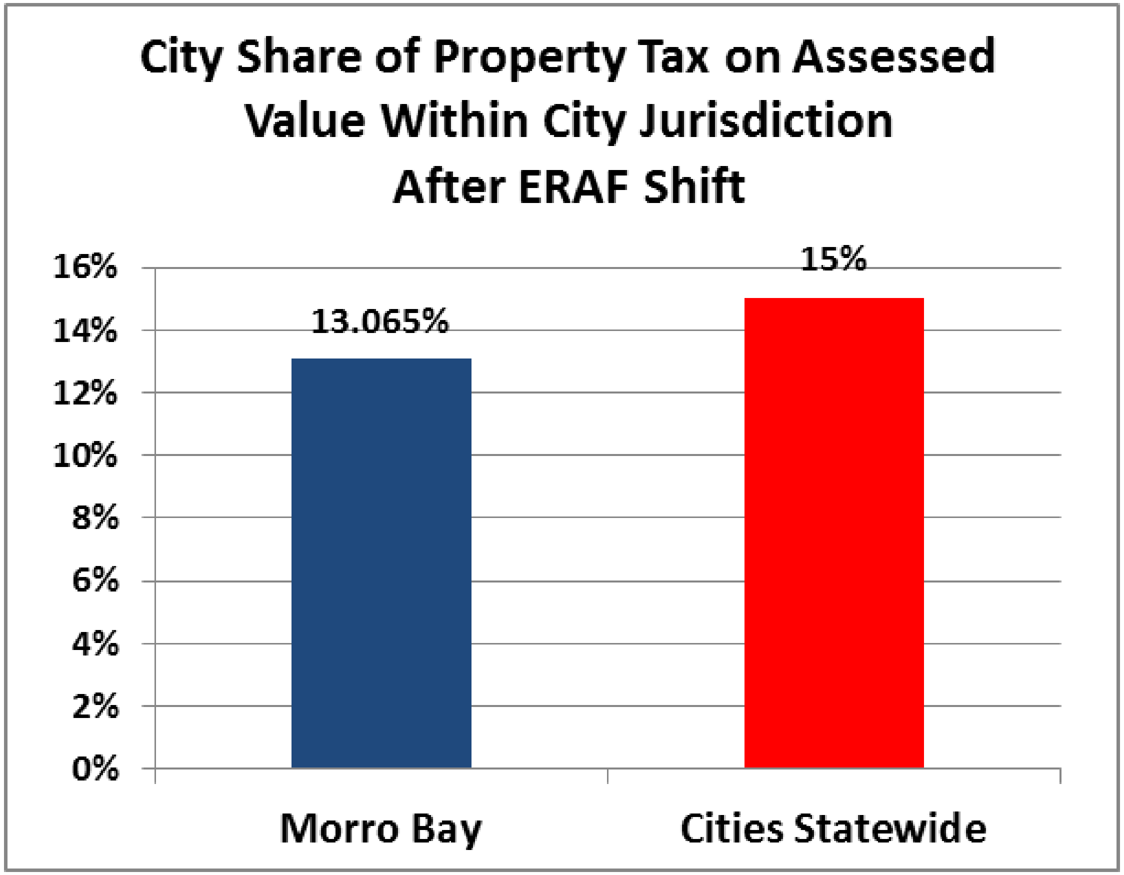
California



- Recessions have occurred on average every 6.5 years since 1928
- Severity and duration are difficult to predict
- Prudent to assume a modest recession during forecast period

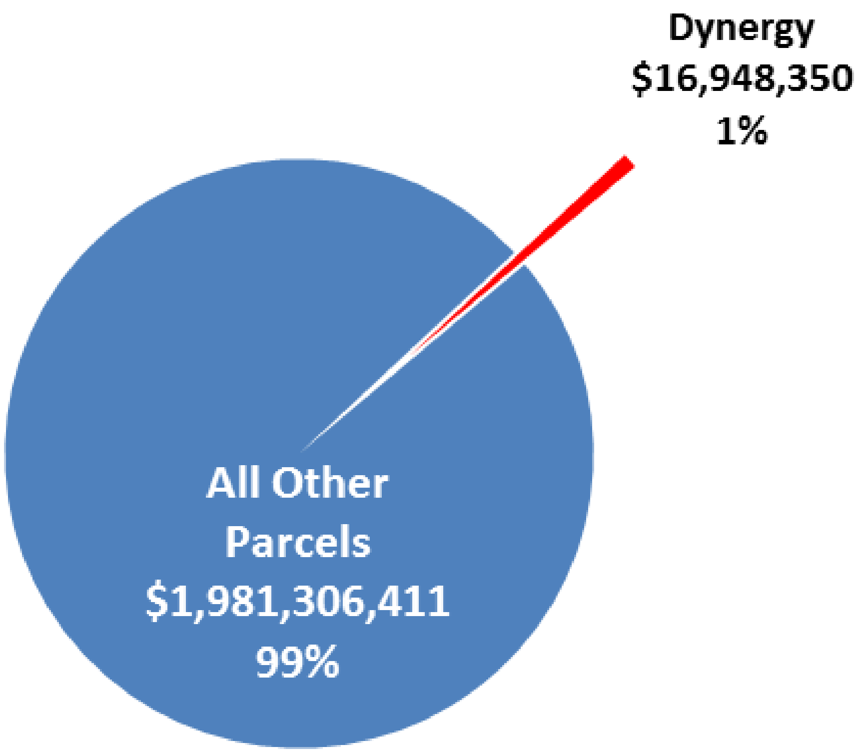
Property Tax: Comparison of Tax Share

- Local agencies receive share of 1% property tax rate levied on assessed value in various tax rate areas within their jurisdiction
- Morro Bay is below estimated statewide average
- Share not subject to change by City



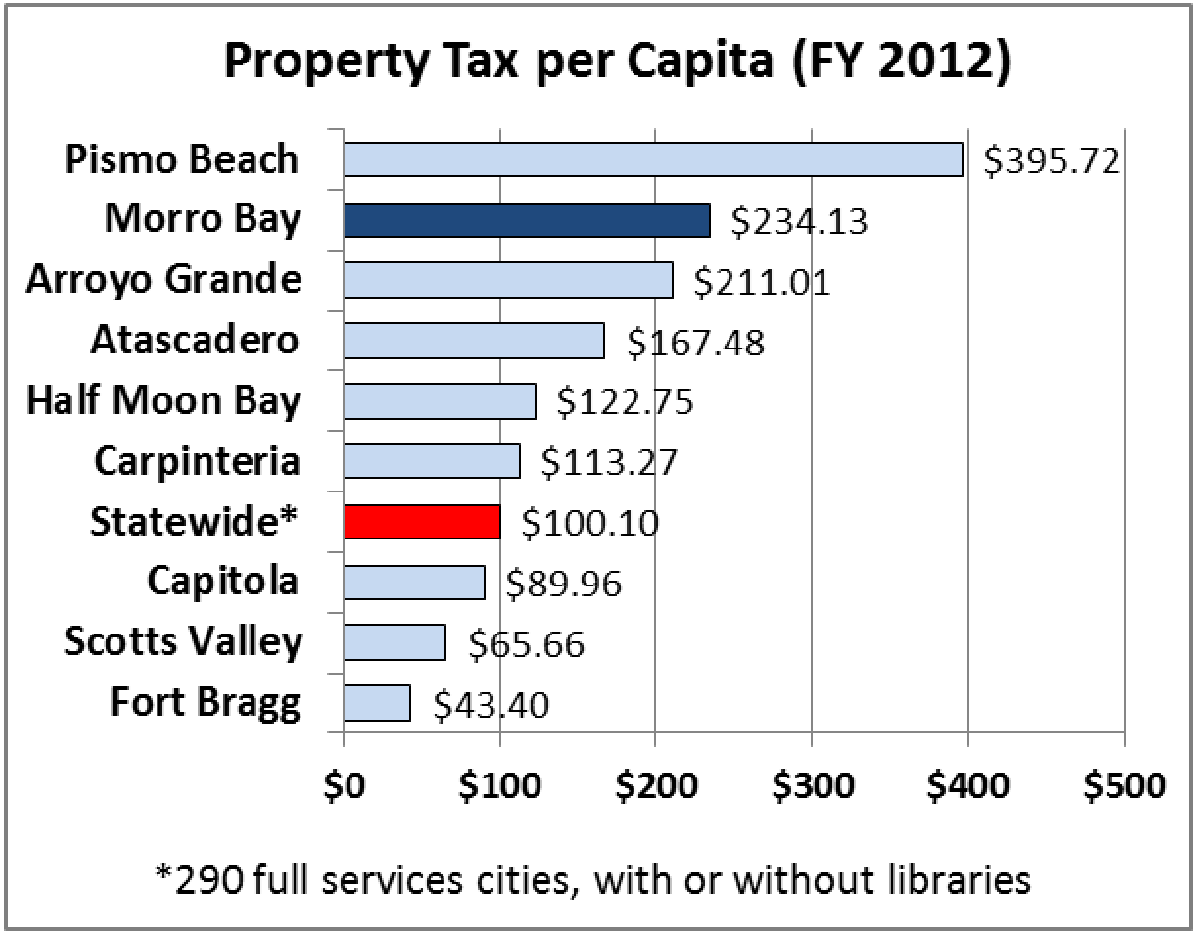
Property Tax:
Putting Dynergy Parcel in Context

- Dynergy a major planning issue for City, but
- It's only 1% of Morro Bay's total $2 Billion in assessed value
- Forecast assumes continuation of present value
- Budget model allows varying phase-outs or increases in Dynergy parcel value



Property Tax:
Revenue per Capita

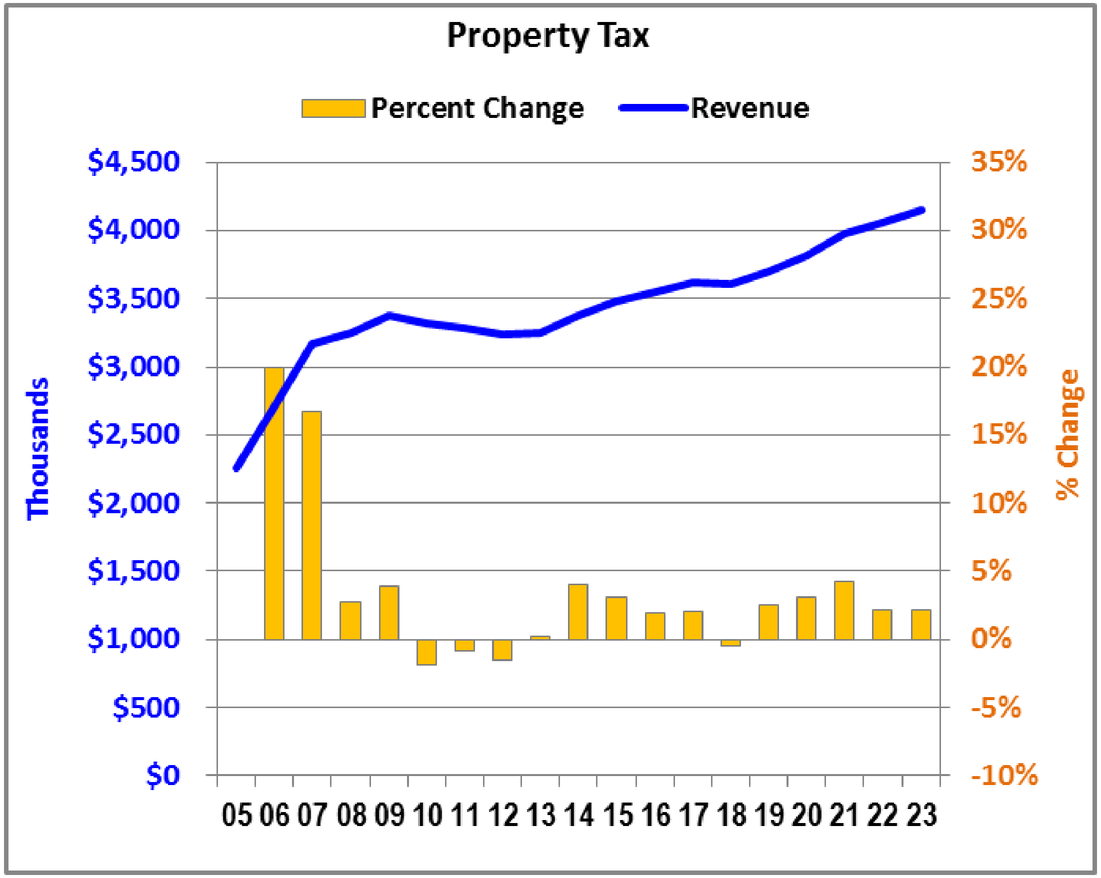
- Morro Bay is well above statewide median revenue per capita for full service cities
- Also well above median for benchmark cities



Source: California Local Government Finance Almanac

Property Tax: Revenue Trends and Forecast

- Moderate recession impact 2010-13
- Projection model uses SLO County data
- FY 2015 uses projection ($3.48M) vs. budget ($3.35M)
- Recession impact in FY 2018 (1-year lag)
- Overall 2.1% average growth rate

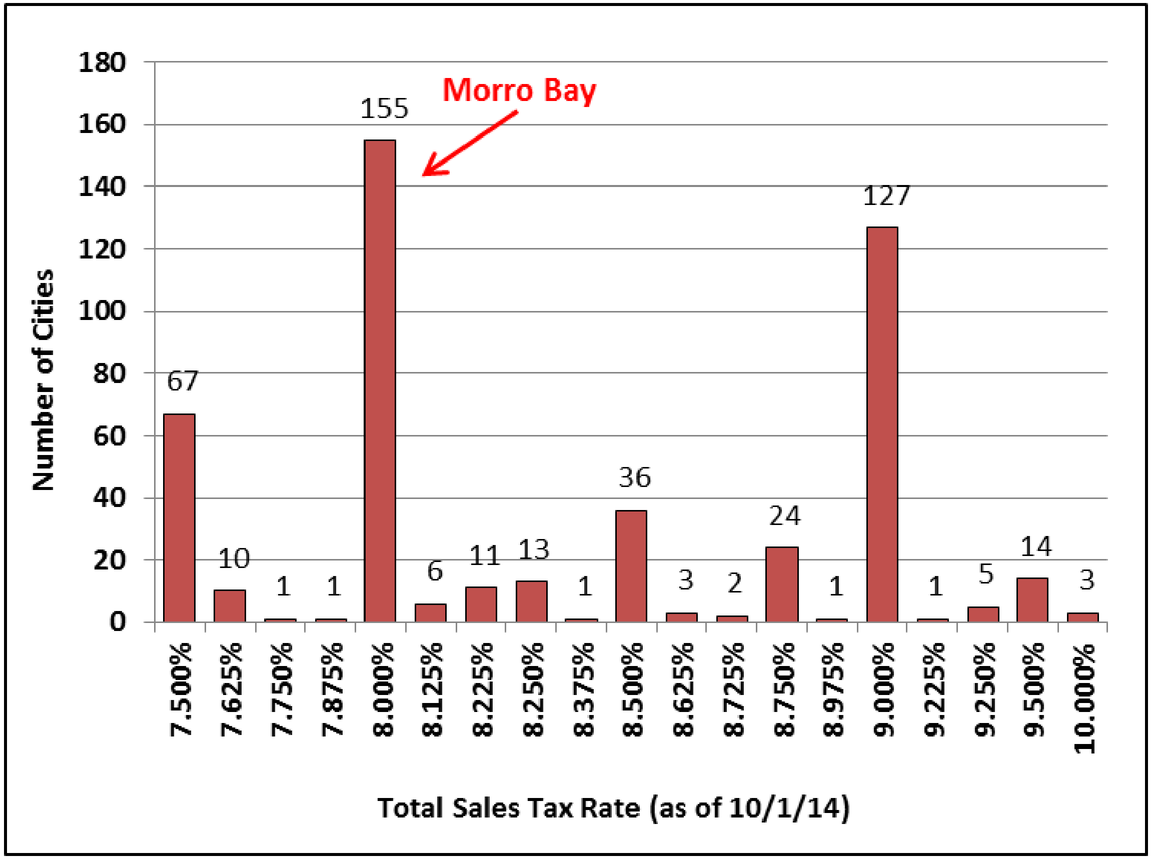


FY 2015 = 29% of Total Revenue

Sales Tax:
Comparison of Total Tax Rate

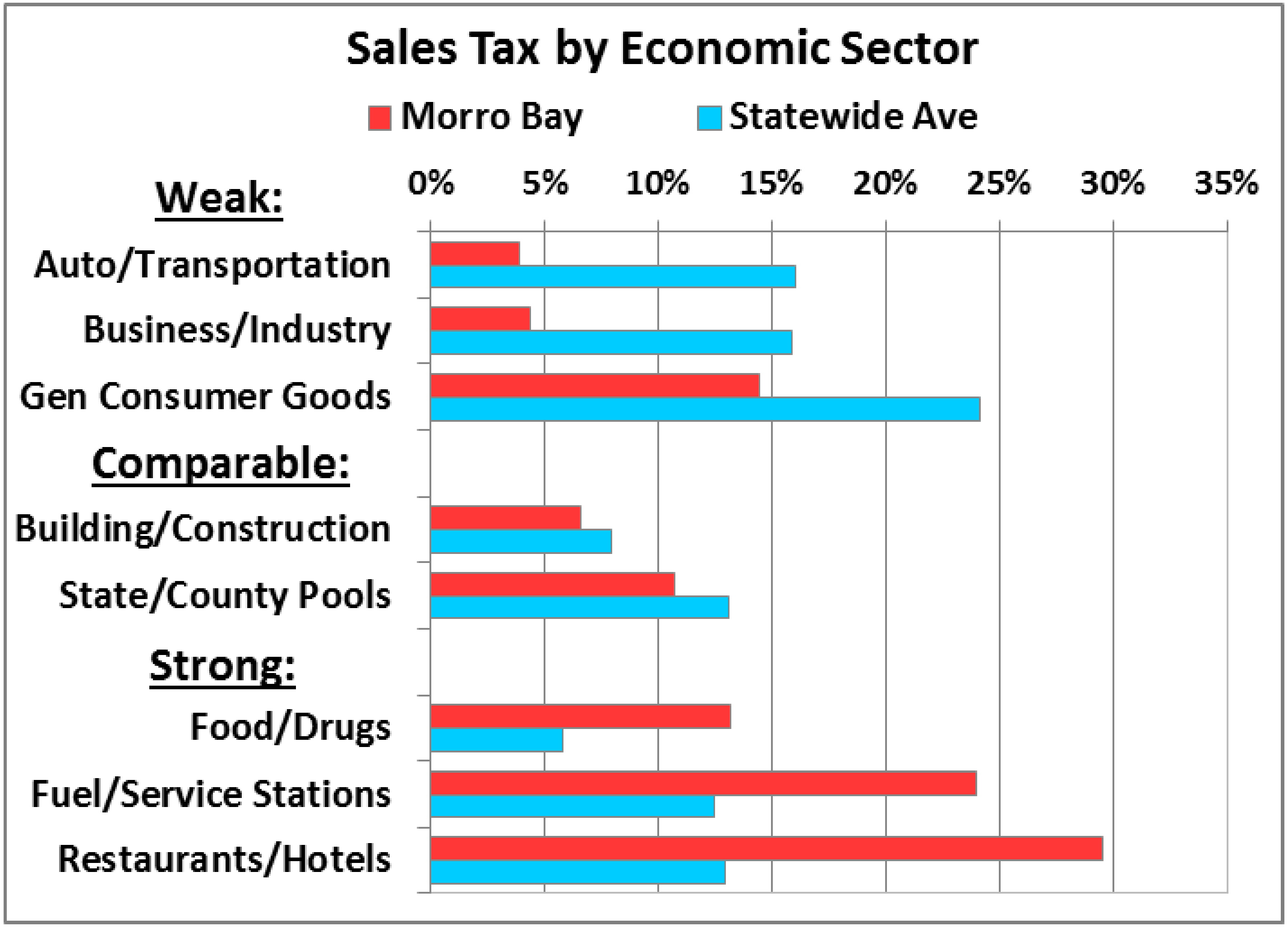
- 8.00% total rate:
  - 0.75% City
  - 0.25% State*
  - 0.50% Measure Q
  - 0.25% Co. Transp
  - 6.25% State
- Total rate at 49th percentile statewide

0.50% local voter-approved sales taxes also levied by:
- San Luis Obispo
- Arroyo Grande
- Pismo Beach
- Grover Beach
- Paso Robles



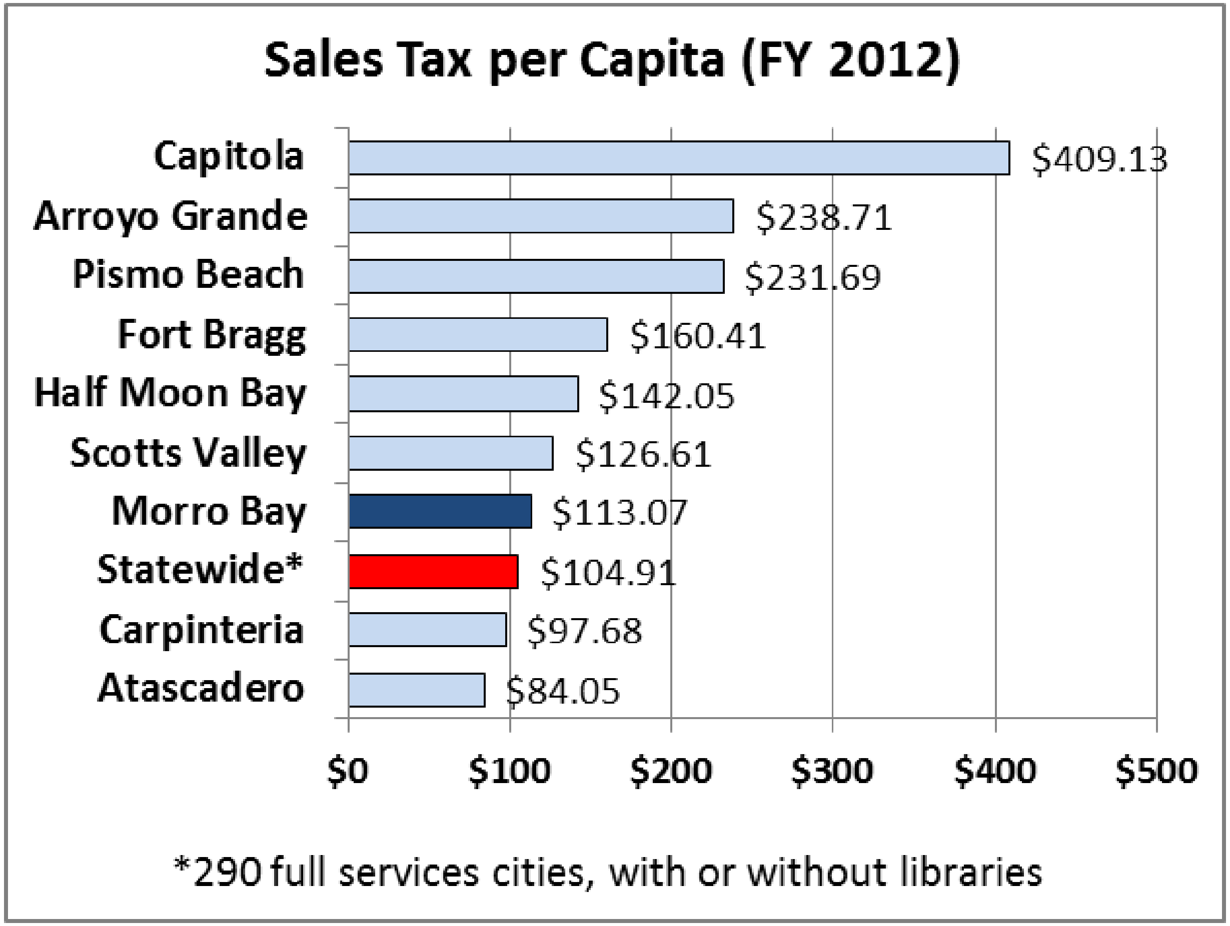
*0.25% State rate ("triple-flip" funding swap from sale of state deficit bonds) projected to revert to city in FY 2017

Sales Tax:
Local Economy Reflects Impact of Tourism



Sales Tax:
Revenue per Capita

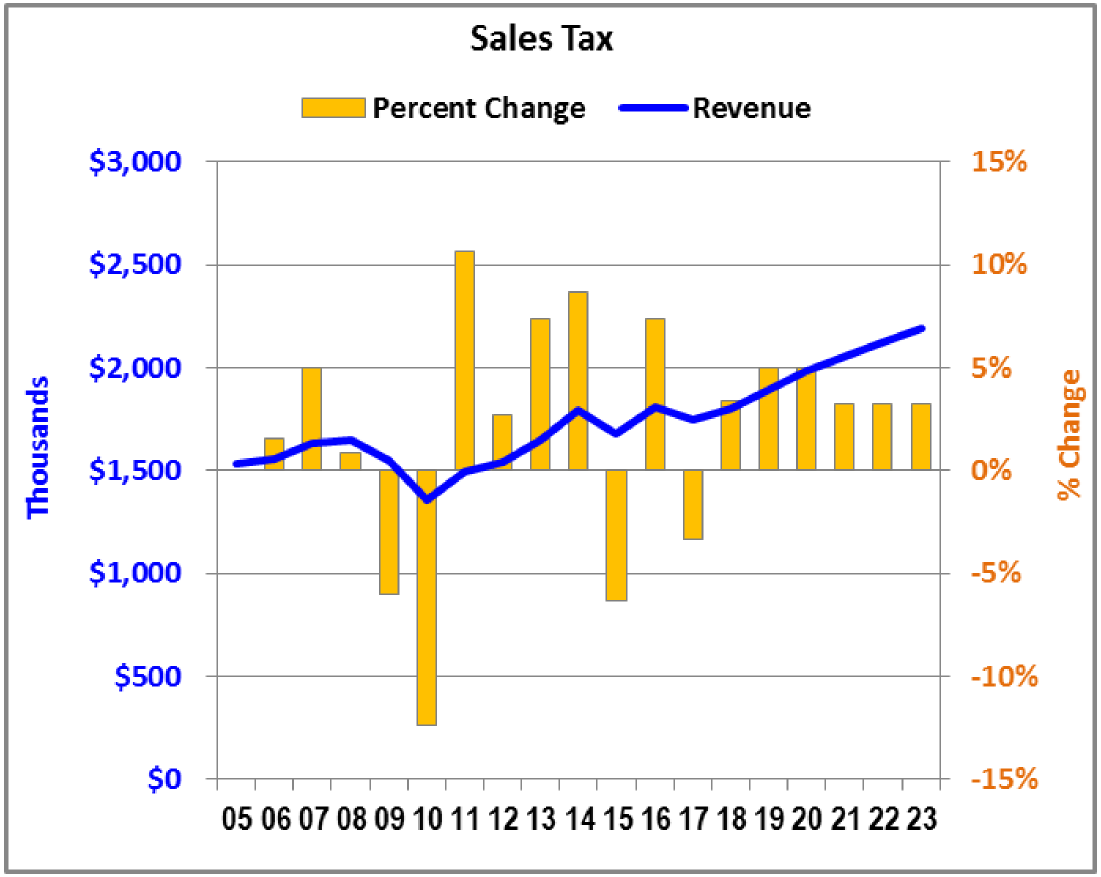
- Morro Bay is just above statewide median revenue per capita for full service cities
- Below the median for benchmark cities



Source: California Local Government Finance Almanac

Sales Tax:
Revenue Trends and Forecast

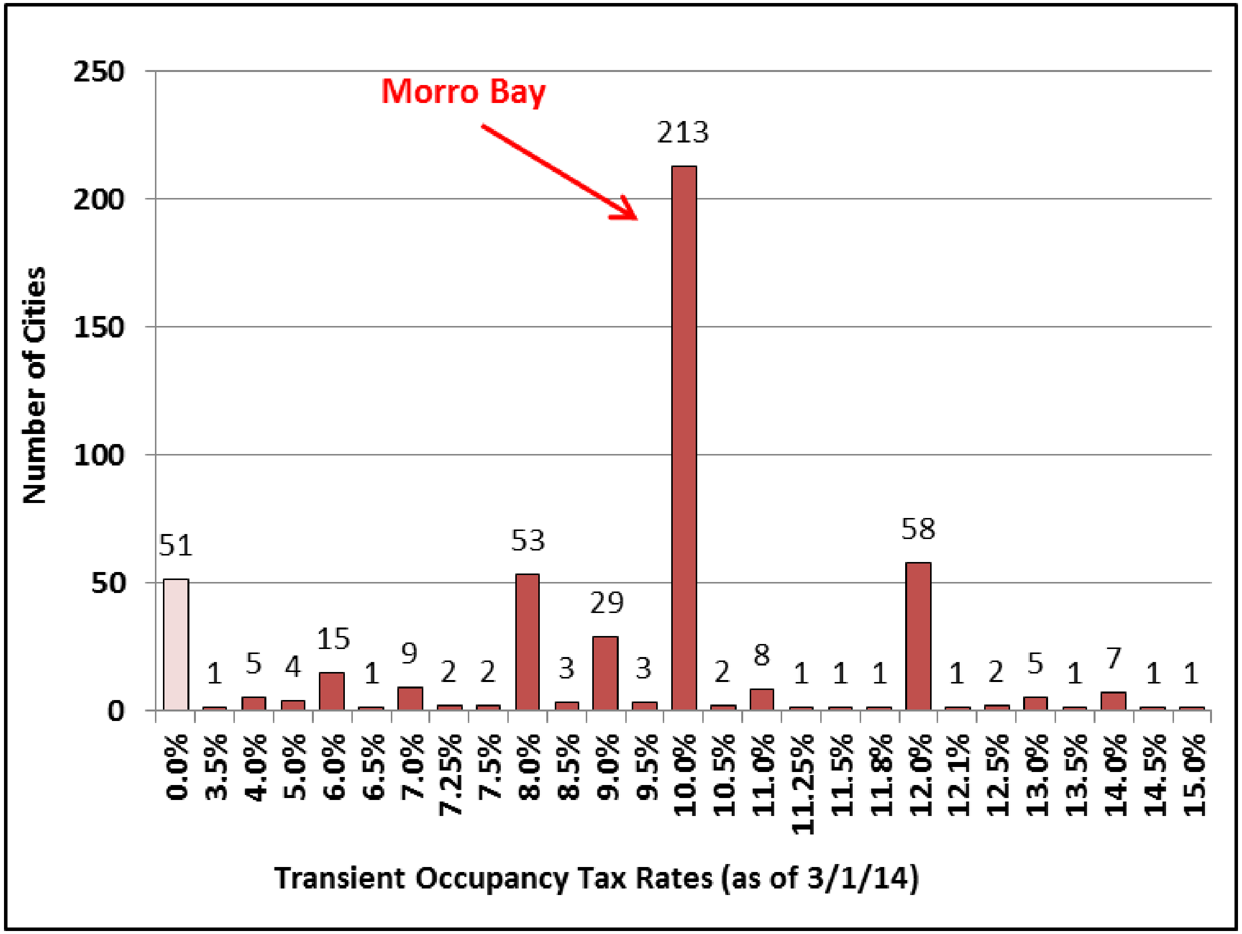
- Severe recession impact FY 2008-10; strong recovery follows in 2011-14
- Fuel impact in FY 2015
- Cash flow affected by triple-flip phase-out in FY 2016 (one-time payment); 2017 drops by comparison
- Assumes recession impact in FY 2017
- Long-term growth of 3.3% per HdL sales tax auditor



FY 2016 = 15% of Total Revenue

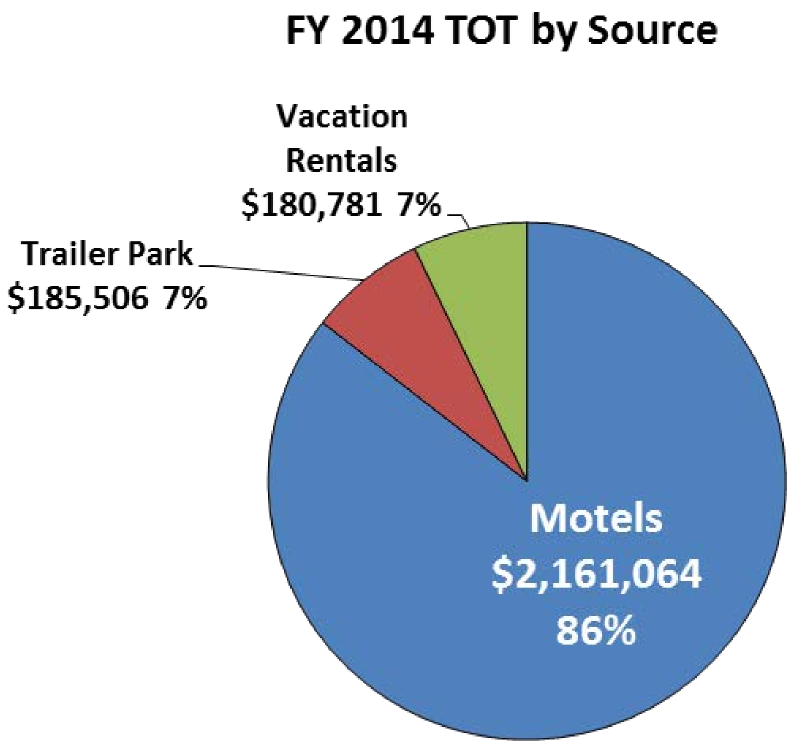
Transient Occupancy Tax: Tax Rate Comparison

- City's 10% TOT is equal to 10% statewide median rate of cities with TOT
- Every city in San Luis Obispo County levies 10% TOT rate



Source: California Local Government Finance Almanac

Transient Occupancy Tax: Revenue and Growth by Source

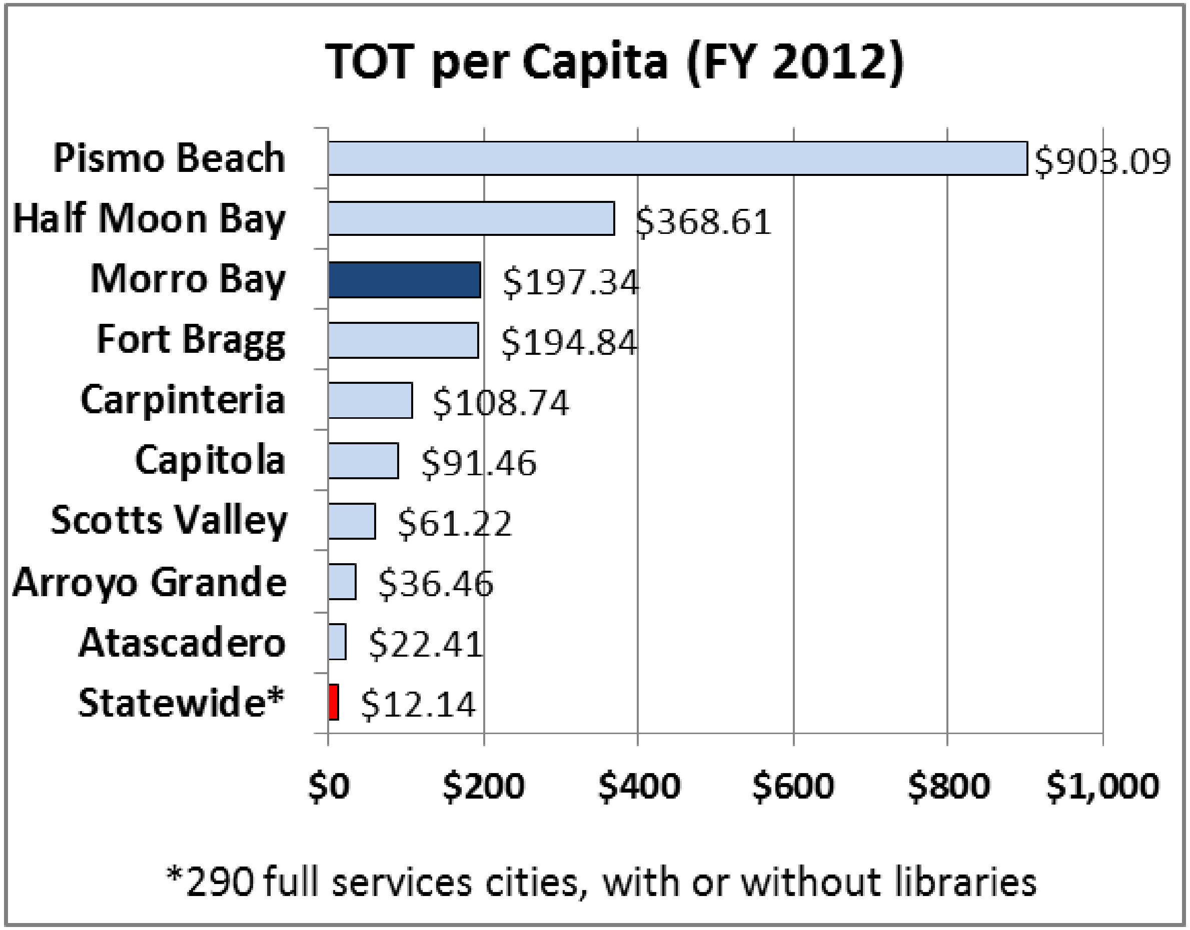


Average Annual TOT Growth Rate				
Months	Motel	Trailer	Vacation	Total
Last 5 yrs.	8.7%	4.2%	18.8%	8.6%
Last 4 yrs.	10.9%	5.3%	11.3%	10.4%
Last 2 yrs.	14.0%	8.5%	16.1%	13.5%
Last 5 mo.	13.9%	0.7%	33.0%	14.4%

- Can't count on continuing increase in occupancy and room rates
- Assumes 3% ongoing growth rate (vs. 2% CPI)

Transient Occupancy Tax: Revenue per Capita

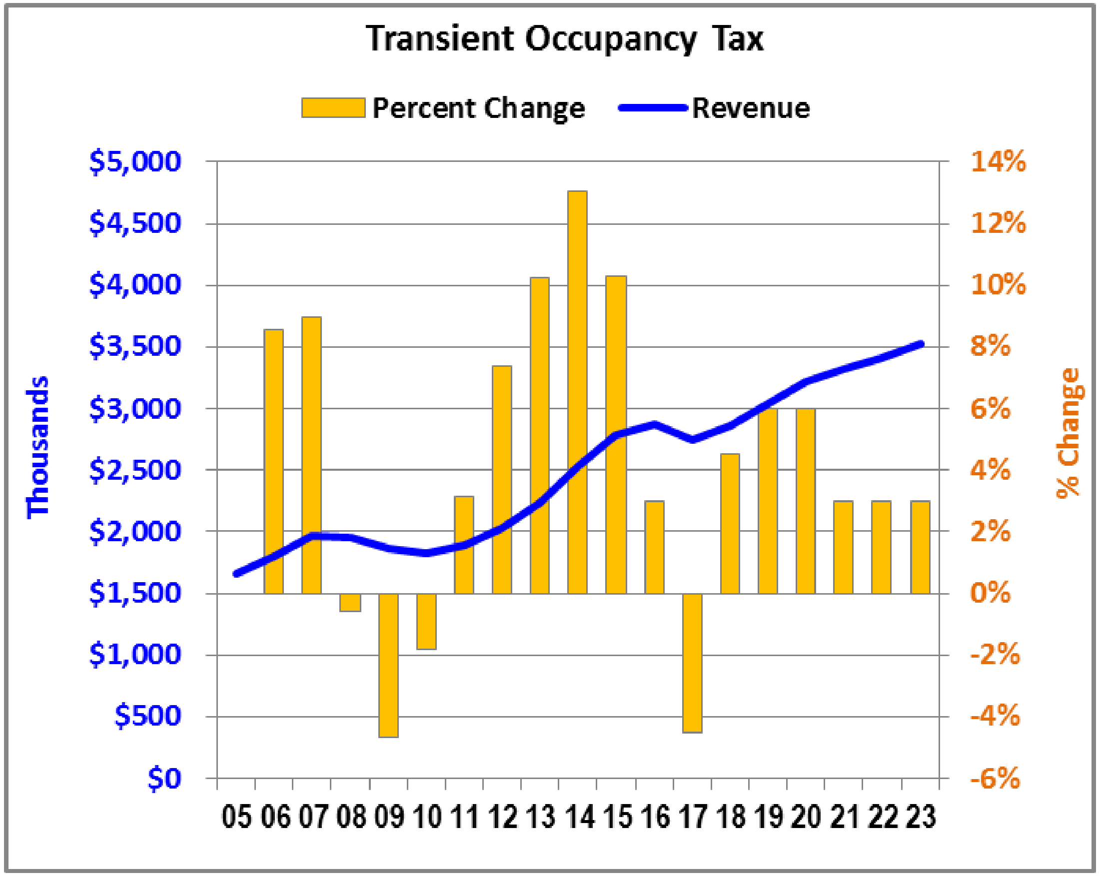
- Morro Bay is far above statewide median revenue per capita for full service cities
- Above median for benchmark cities



Source: California Local Government Finance Almanac

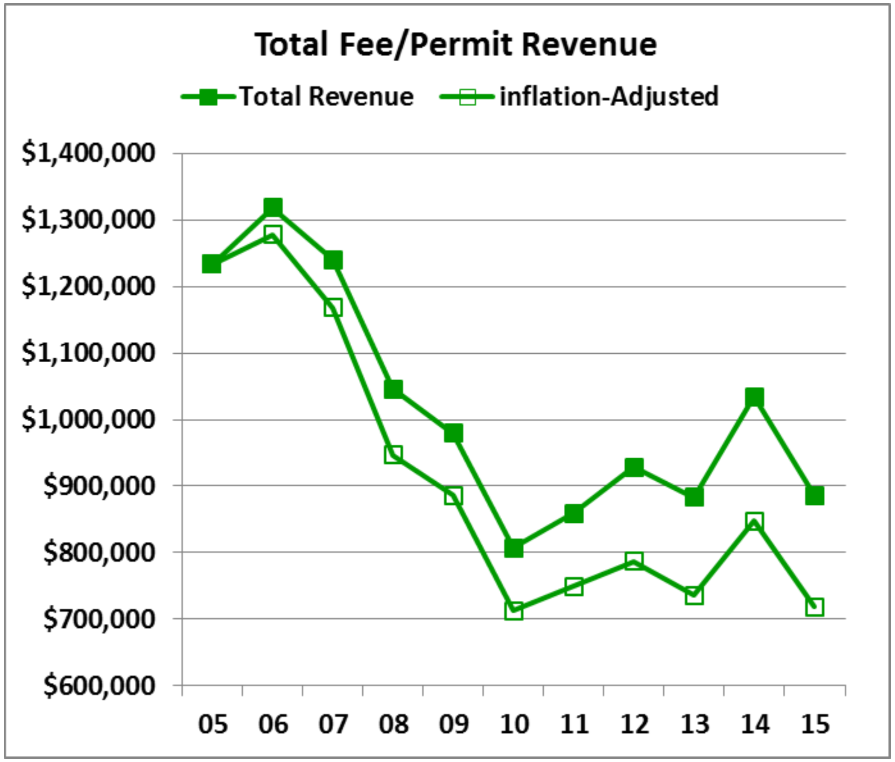
Transient Occupancy Tax: Revenue Trends and Forecast

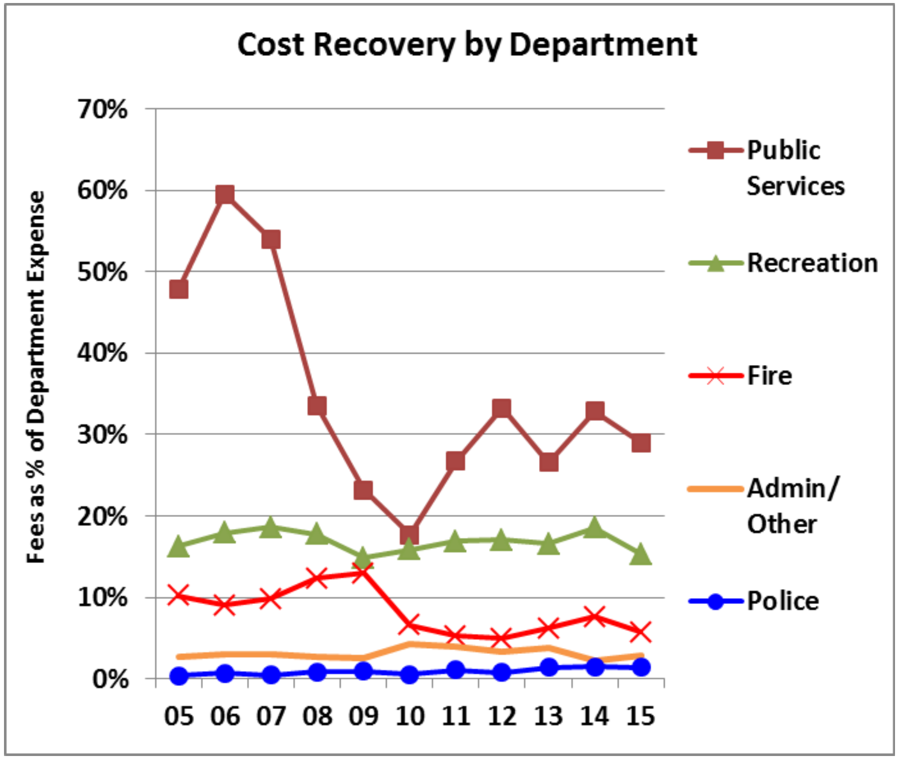
- Moderate recession impact 2008-10
- Average 10% annual growth since 2011
- FY 2015 uses projection ($2.79M) vs. budget ($2.25M)
- Assumes recession impact in FY 2017, with recovery thereafter
- Assumes 3% future growth; recent trend of higher rates and occupancy flattens out



FY 2015 = 24% of Total Revenue

Other Revenues: Fees and Permit Collections Lagging

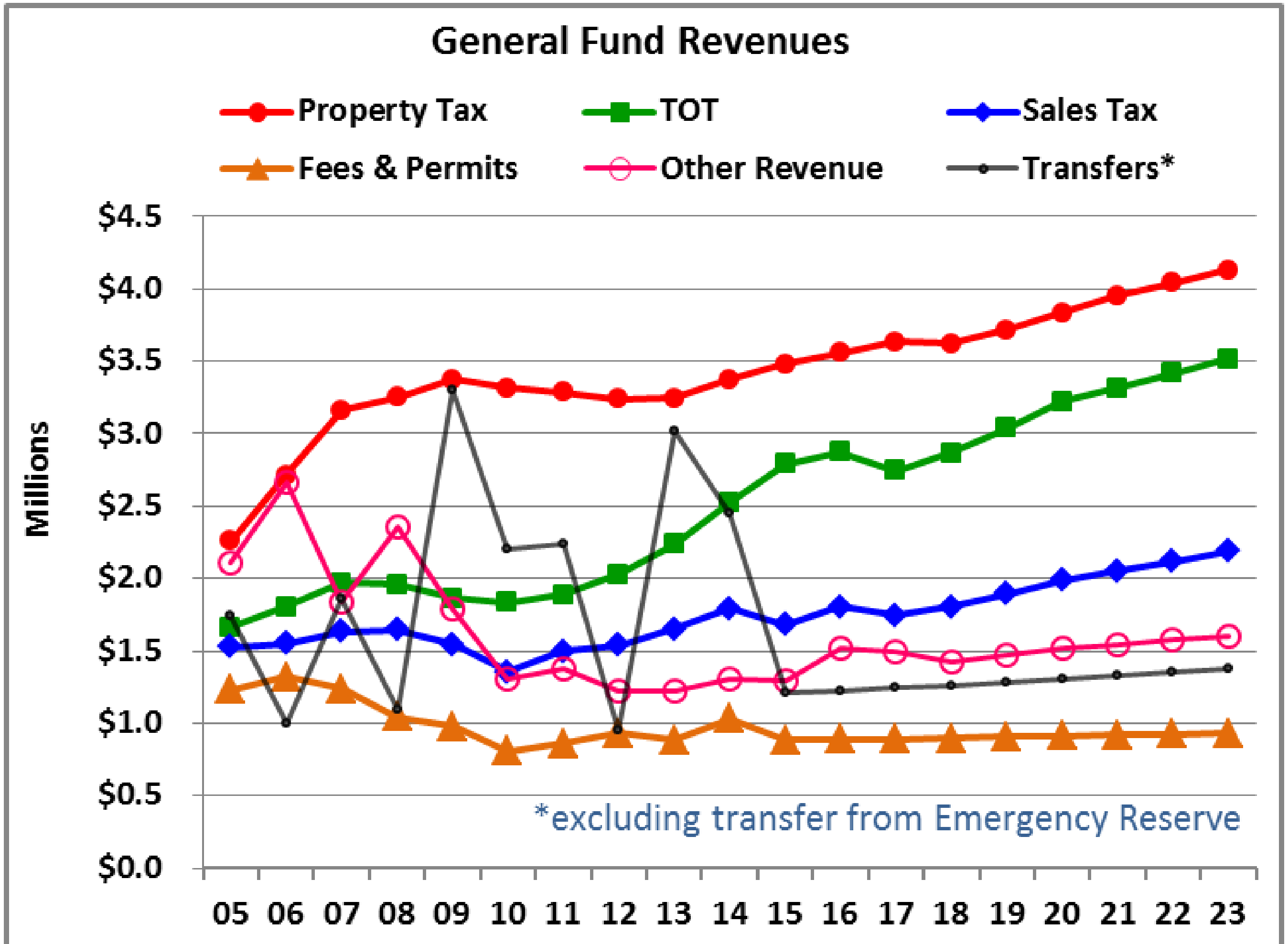




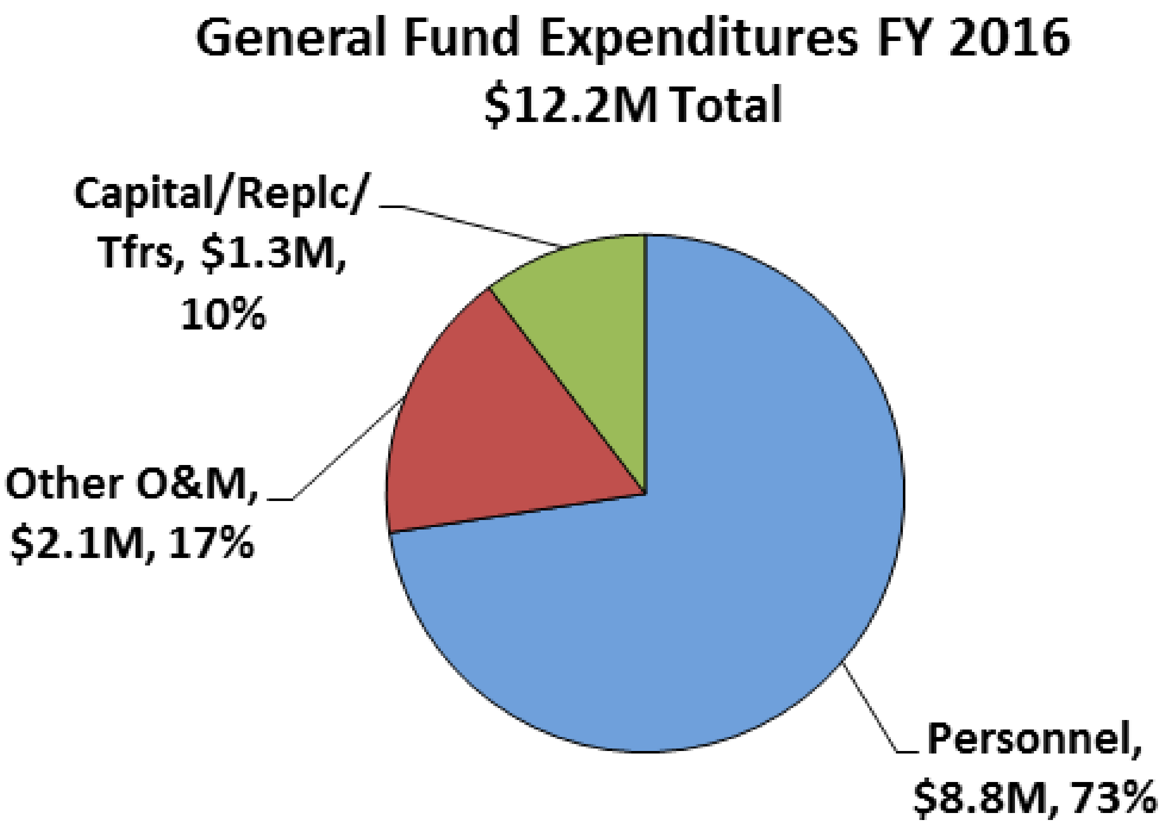
- Fees have lost 23.5% of purchasing power to inflation since 2005
- Significant subsidies of user-fee supported activities by general taxpayers

- Fees/permits only recovering 30% of Public Services total cost
- Rec fees average 17% of total cost; compares to 34% nationally

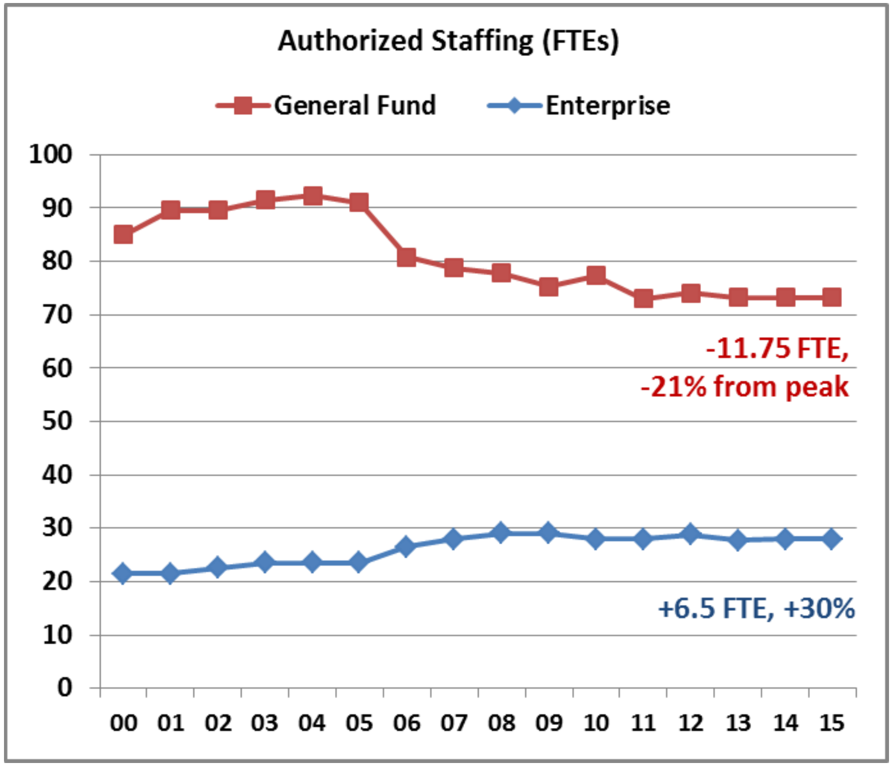
Revenue Forecast by Major Source

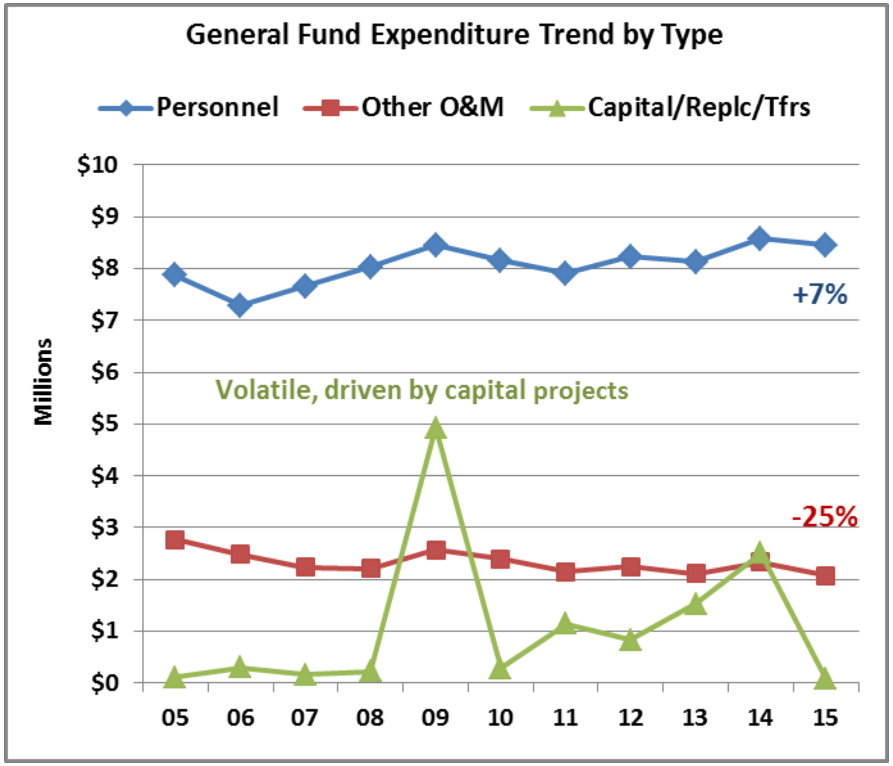


Expenditure Overview: Personnel = 73% of Total



Expenditure Overview:
Recent Staffing and Spending Trends





- Staffing levels a function of resources:
  - General Fund staffing declined 21% from peak in 2004
  - Enterprise staffing increased 30%

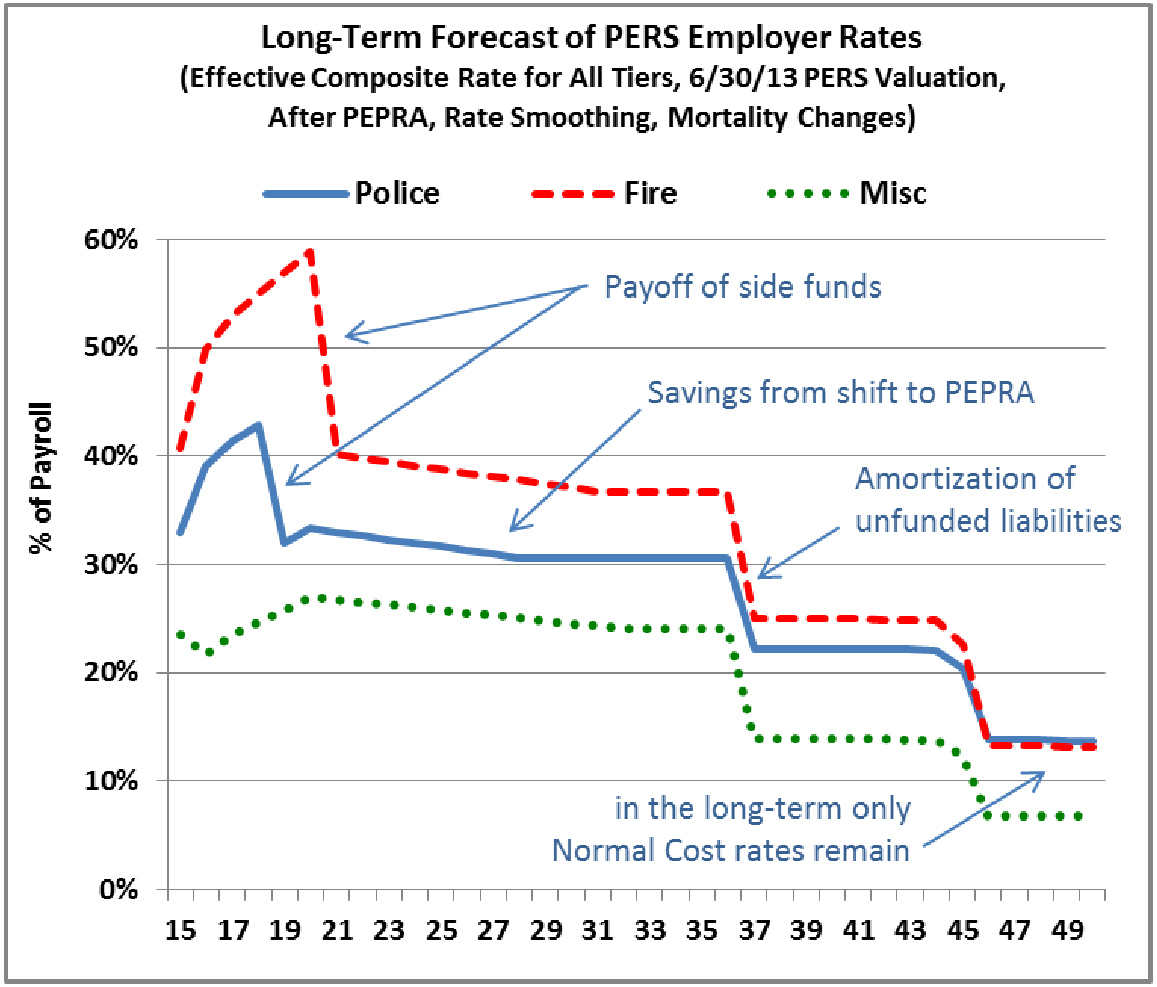
- Despite FTE cuts, personnel costs up 7%
- O&M costs down 25% overall
  - Contracts -42%, Insurance -44%, Utilities +42%, Other Services & Supplies -18%

Personnel Cost Assumptions

- No change in FY 2015 budgeted staffing levels
  - City payroll projections for FY 2015 updated with MOU changes
  - Continuation of merit/step increases
- Competition with labor market will eventually drive up costs; unrealistic to expect no change over time; subject to meet and confer
  - 2% inflationary growth (same as CPI) is reasonable assumption
  - Assumes 2% health contribution increases, but no other benefit changes
  - Higher increases to compensate for past years of no increases would force budget cuts
- Overall salary growth (including merits) averages 3.5%
  - Compares to general CalPERS assumption of 3.0% net payroll growth
- Vacancy savings budgeted at 3%
  - More realistic outcome to account for inevitable net savings from vacancies
- Special forecast of employer rates for all PERS plans and tiers

Pension Rate Forecast: Side Fund Payoffs Help Offset PERS Rate Hikes

- Projections based on the CalPERS 2013 valuation, including:
  - Rate smoothing/ amortization
  - Discount rate @7.5%
  - Mortality improvements
  - PEPRA impact with employee turnover
- 2015 to peak year growth in tier 1 plan rates:
  - Police: 30%
  - Fire: 44%
  - Misc: 22%



Forecast Builds in Costs of Items in CIP Not Currently Funded

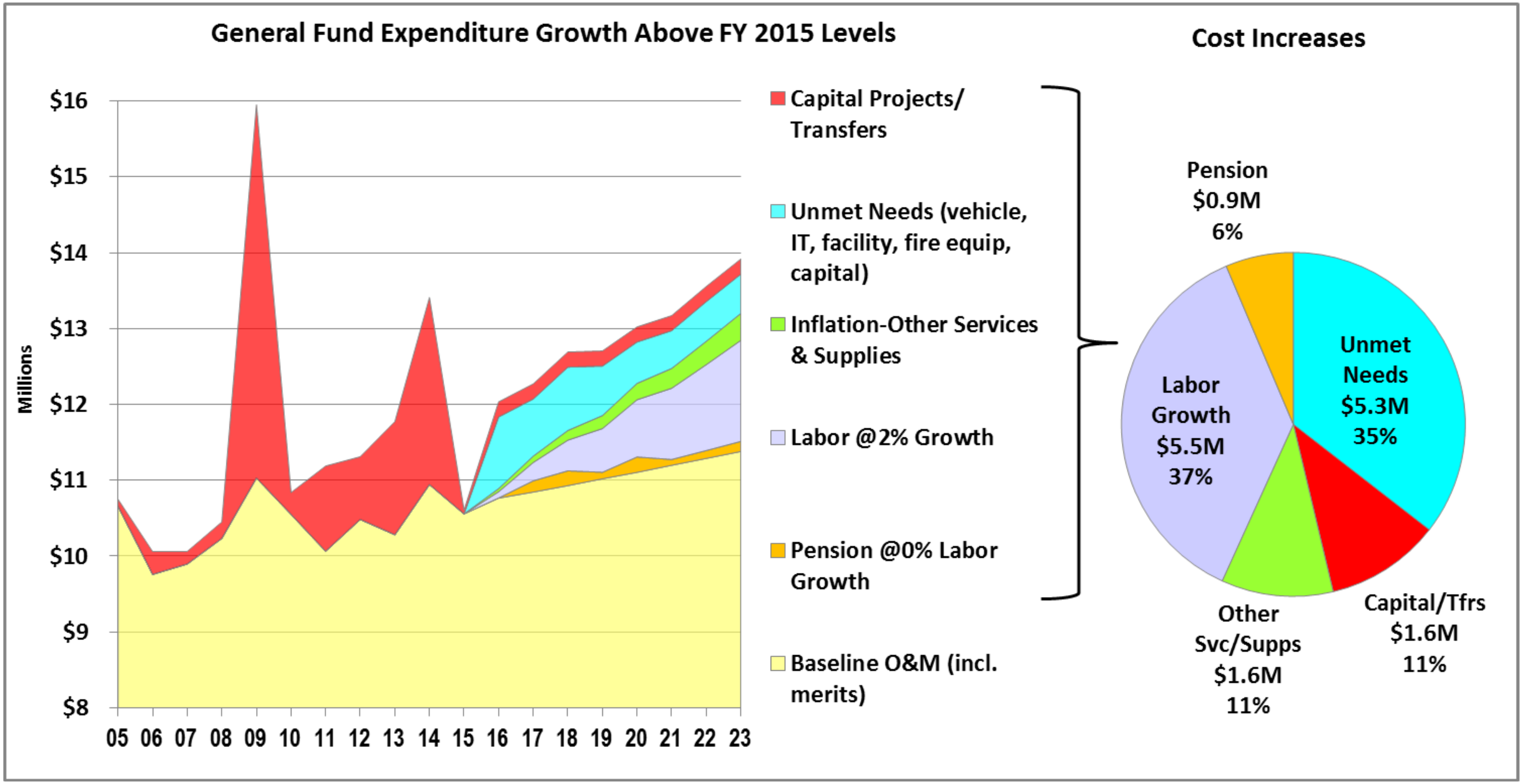
Amounts Funded in Long-Range Forecast

($ in 000)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total
Vehicles	$45	$732	$300	$190	$500	$250	$250	$250	$250	$2,768
IT	18	33	20	25	26	26	27	27	28	228
Fire Equip	29	45	91	39	67	56	0	18	4	348
Facilities	50	370	338	575	50	200	204	208	212	2,208
CIP Transfers	51	200	200	200	200	200	200	200	200	1,651
Added Service	0	100	103	106	109	113	116	119	123	889
Totals	193	1,480	1,052	1,135	952	845	796	823	817	8,092

identified in CIP but not funded

- General Fund makes up any shortfall in Vehicle and Facility funds
- $7.1M of the added $8.1M paid by General Fund
- Added Service is small allowance for addressing high priorities
- Required: IT needs assessment, long-term vehicle and facility replacement plans

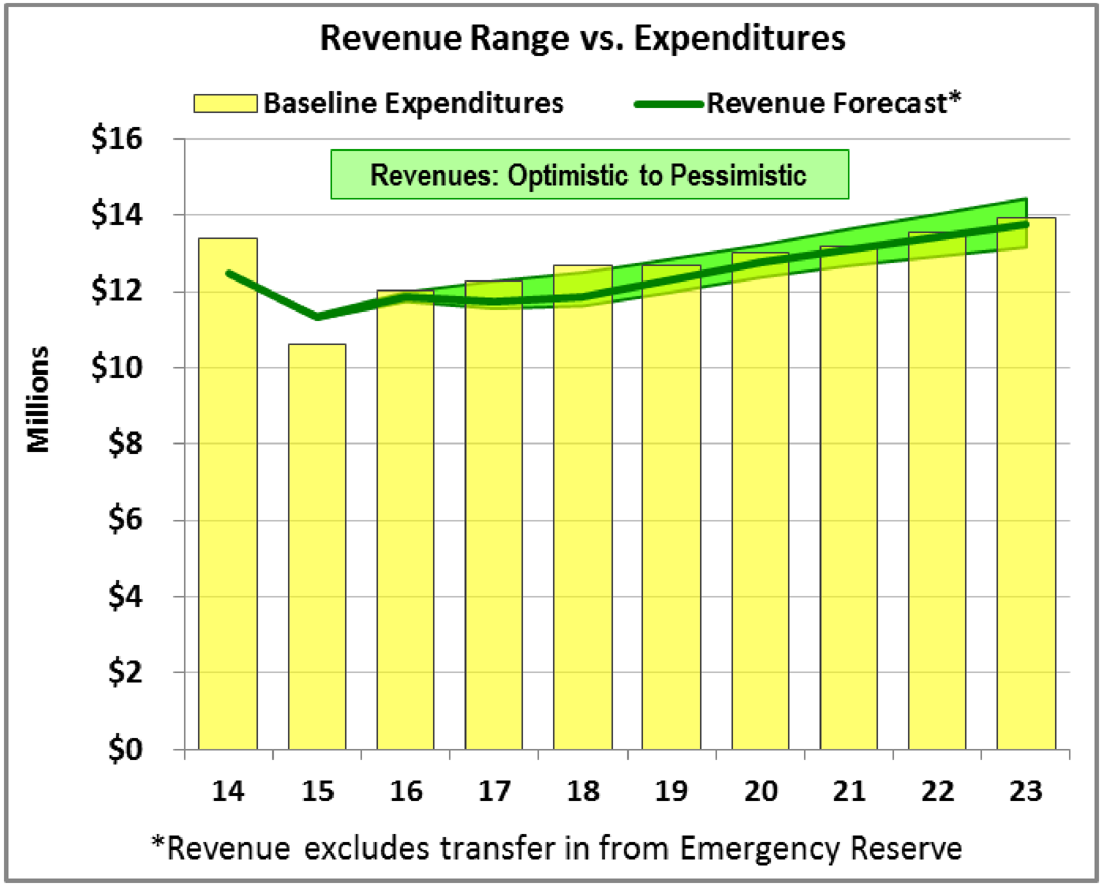
Major Cost Drivers



Unmet needs = vehicle, IT, facilities, fire equipment costs in excess resources for Funds 050 and 052, and allowance for added services

Revenue Range vs. Expenditures

- Revenue range is plus/minus 0.5% from Most Likely forecast
  - Compounding results in wider variance over time
- Revenues $800K higher than budget in FY 2015
- Revenues lower than expenditures during FY 2016-2020
  - Recession slows revenues in 2017-2018
  - Unmet needs & PERS boost spending
- Can't rely on optimistic revenue outlook



Must Combine General Fund and Emergency Reserve to See True Impact

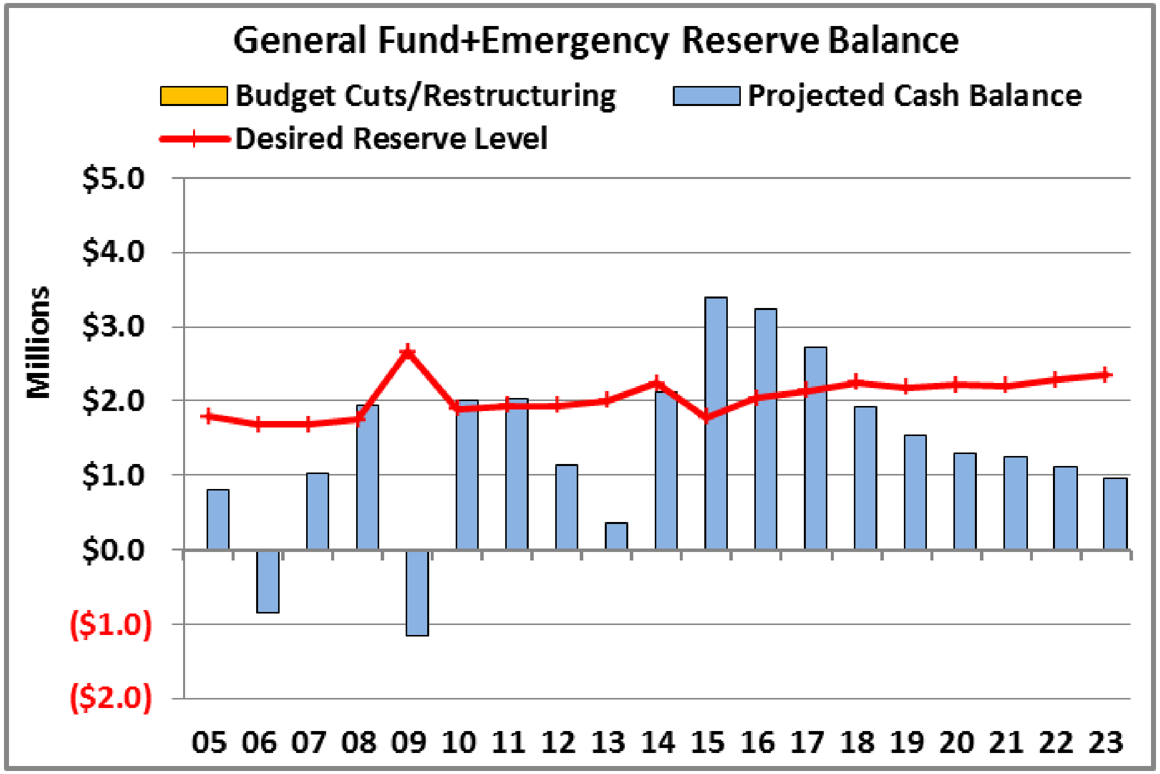
Ending Cash Balance

($ in Millions)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
General Fund	$0.53	($1.13)	$0.54	$1.44	($1.64)	($0.88)	($0.96)	($1.93)	($2.50)	($0.80)	$0.00
Emergency Res	0.29	0.28	0.48	0.50	0.48	2.88	3.00	3.06	2.85	2.91	3.39
Total	0.81	(0.85)	1.02	1.94	(1.17)	2.01	2.04	1.13	0.35	2.11	3.39
% of Total Exp	7.5%	-8.5%	10.1%	18.6%	-7.3%	18.5%	18.2%	9.9%	2.9%	15.7%	31.9%

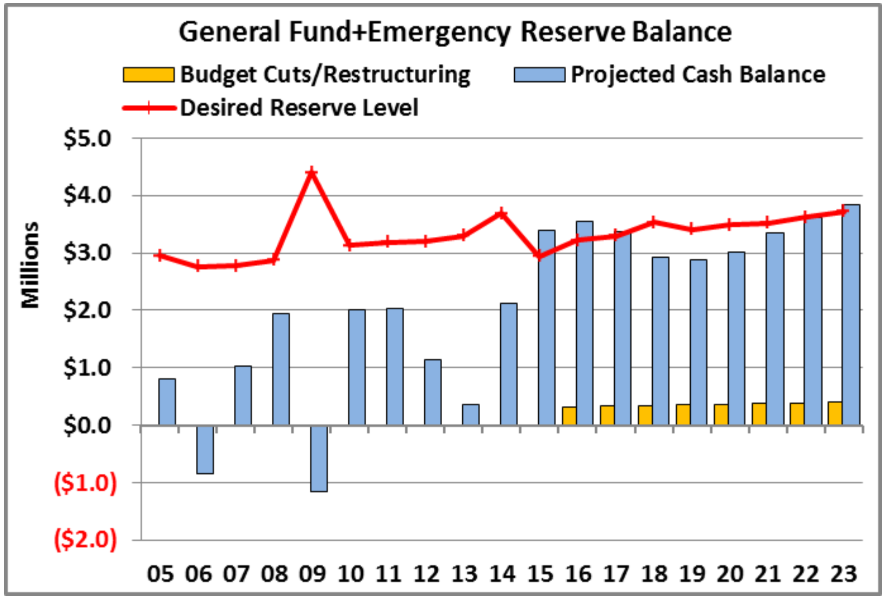
- Council goal is 27.5% reserve
- Should meet goal for first time in FY 2015
- Reserve boosted by additional $525K Dynergy payment in FY 2015
- Government Finance Officers Association recommends minimum reserve equal to 2 months of operating expenditures (16.67%)
- Forecast builds in transfer from Emergency Reserve to General Fund in any year needed to maintain minimum zero GF balance, starting FY 2015

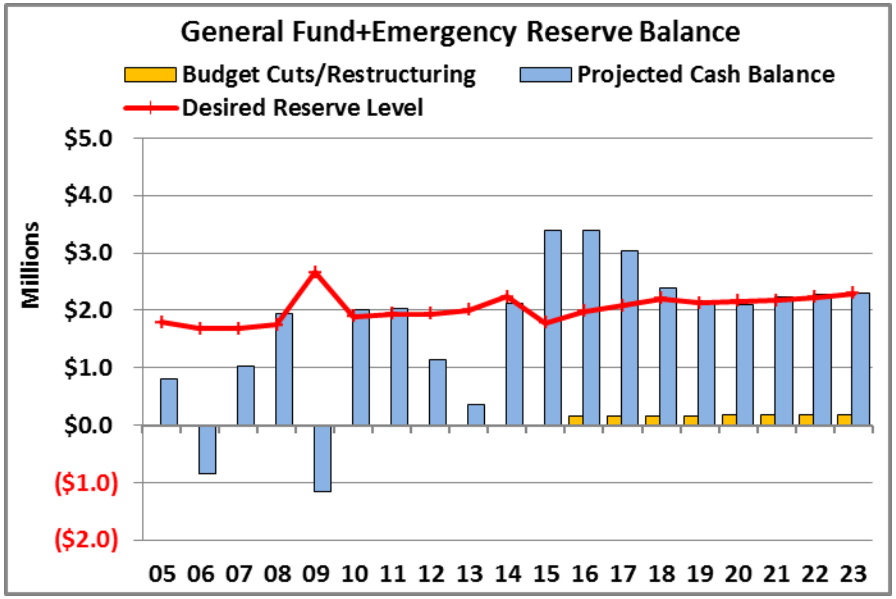
Forecasted Balance Avoids Deficit But Lower Than Reserve Goal

- Compares balance in combined General Fund and Emergency Reserve to 27.5% Council reserve goal
- Balance declines rapidly to FY 2019, and more slowly thereafter
- By FY 2023 only one-fifth of the amount required from a 27.5% reserve goal



Impact of Achieving Reserve Goal Under Baseline Forecast





- Current Goal: Ramping up to 27.5% reserve goal by FY 2023 requires $300,000 in ongoing cost savings or added resources starting FY 2016
- Alternative Goal: Meeting GFOA's lower reserve goal of 16.67% requires $150,000 in ongoing cost savings or added resources

Assumes 3% growth in value of added resources or avoided costs over time

Measure Q ½ cent Sales Tax

- Tax is 81.8% of 1% Bradley-Burns (excluding pools)
  - Different tax base, auto sales based on residency
- Personnel costs, Fire overtime, capital outlay can continue from FY 2015 levels, growth per General Fund rates
  - Capital outlay has varied from $0 to $485K in past
- Includes 2011 Fire Station project debt service
- Contracts at $450,000 and repairs/maintenance at $25,000 in FY 2016, both with 3% growth
  - Highly volatile in past: contracts in from $57K to $1.4M, repairs/maint from $0 to $105K
- Allows slow growth in balance to acceptable margin for reserve (average 14%)
- Many competing needs, must carefully monitor over time to retain sustainable spending levels

Baseline Forecast Summary-I: General Fund & Emergency Reserve

City of Morro Bay Summary Budget Forecast ($ in 000)

General Fund	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Property Tax	$3,377	$3,483	$3,556	$3,633	$3,620	$3,717	$3,834	$3,955	$4,041	$4,128
Sales Tax	1,794	1,681	1,805	1,744	1,804	1,894	1,988	2,053	2,120	2,189
TOT	2,527	2,788	2,871	2,742	2,865	3,037	3,220	3,316	3,416	3,518
Other Revenue	2,341	2,182	2,413	2,381	2,326	2,377	2,429	2,465	2,501	2,537
Transfers	2,451	1,272	1,389	1,771	2,076	1,681	1,551	1,382	1,478	1,545
Total Revenue	12,491	11,405	12,034	12,271	12,692	12,705	13,022	13,171	13,555	13,917
Personnel	8,574	8,454	8,747	9,133	9,427	9,579	9,959	10,111	10,422	10,743
Other O&M	2,370	2,102	2,144	2,186	2,229	2,273	2,318	2,363	2,410	2,457
Transfers/Svc Adds	2,467	51	1,143	953	1,035	853	745	697	724	717
Future Budget Cuts	0	0	0	0	0	0	0	0	0	0
Total Expenditures	13,411	10,608	12,034	12,271	12,692	12,705	13,022	13,171	13,555	13,917
Net Annual	(920)	797	0	0	0	0	0	0	0	0
Beginning Balance	(2,503)	(797)	0	0	0	0	0	0	0	0
Cash Adjustments	2,626	0	0	0	0	0	0	0	0	0
Ending Balance	(797)	0	0	0	0	0	0	0	0	0

Emergency Reserve	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	$56	$538	$17	$16	$14	$10	$8	$6	$6	$6
Transfers Out	1	62	168	530	814	398	247	57	130	173
Net Annual	56	476	(151)	(514)	(801)	(389)	(240)	(50)	(124)	(168)
Beginning Balance	2,853	2,909	3,385	3,234	2,721	1,920	1,532	1,292	1,242	1,118
Ending Balance	2,909	3,385	3,234	2,721	1,920	1,532	1,292	1,242	1,118	950
Total GF+ER Balance	$2,112	$3,385	$3,234	$2,721	$1,920	$1,532	$1,292	$1,242	$1,118	$950
% of GF Exp	15.7%	31.9%	26.9%	22.2%	15.1%	12.1%	9.9%	9.4%	8.2%	6.8%

Baseline Forecast Summary-II: Vehicles, Facilities & Measure Q

City of Morro Bay Summary Budget Forecast ($ in 000)

Vehicle Replace	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	$20	$195	$579	$300	$190	$500	$250	$250	$250	$250
Expenditures	26	45	732	300	190	500	250	250	250	250
Net Annual	(6)	150	(153)	0	0	0	0	0	0	0
Beginning Balance	9	3	153	0	0	0	0	0	0	0
Ending Balance	3	153	0	0	0	0	0	0	0	0

Facility Maint	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	$1,312	$99	$363	$449	$639	$143	$282	$231	$253	$244
Expenditures	54	97	448	449	639	143	282	231	253	244
Net Annual	1,258	3	(84)	0	0	0	0	0	0	0
Cash Adjustments	(1,216)	0	0	0	0	0	0	0	0	0
Beginning Balance	40	81	84	0	0	0	0	0	0	0
Ending Balance	81	84	0	0	0	0	0	0	0	0

Measure Q	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenue	$924	$919	$924	$920	$916	$951	$997	$1,046	$1,078	$1,112
Expenditures	1,306	930	876	902	929	952	980	1,005	1,033	1,063
Net Annual	(383)	(11)	48	17	(13)	(1)	17	40	45	49
Beginning Balance	447	64	53	101	118	106	105	122	162	207
Ending Balance	64	53	101	118	106	105	122	162	207	255

Key Assumptions:

Revenue Scenario	Baseline	Budget Cuts	$0K	Health Contribution	2.00%	Facility Maint-2020	$200K
Recession	2017	Annual COLAs	2.00%	Inflation (CPI)	2.00%	Technology-2018	$25K
Recession Impact	**-5%**	Merits (composite)	1.50%	PERS Disc Rate Chng	0.00%	Service Increase-2016	$100K
FY 2015 Amounts	Adjusted	Vacancy Savings Rate	3.00%	Vehicle Replace-2020	$250K	Transfers Out-2017	$200K

Discussion & Questions

Management Partners