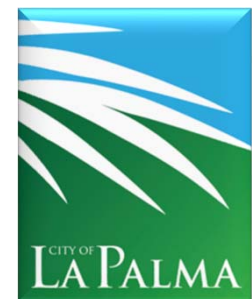

Fiscal Year 2017-18 Proposed Budget

CITY COUNCIL
MAY 16, 2017

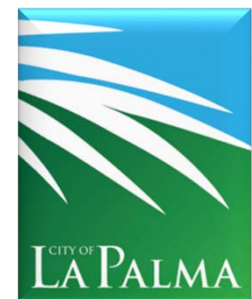




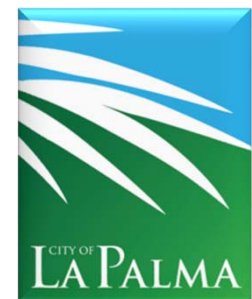
FY 2017-18 BUDGET DISCUSSION

- **Budget Questions & Answers**
- **Financial Policy Updates**
- **FY 2016-17 Budget Amendment for First \$2.5 million to CalPERS**

FY 2017-18 Proposed Budget Questions & Discussion



Fund Balances and Financial Policies





GENERAL FUND UNASSIGNED FUND BALANCE

- **Estimated Beginning FY 2017-18 Unassigned Fund Balance - \$3.4 Million**
- **\$250,000 to Civic Center Replacement Fund**
- **Second \$2.5 Million to CalPERS**
- **Fully Fund Other Post Employment Benefits (OPEB) Trust**



FUND BALANCE RESERVE POLICY UPDATES

- **General Fund**
 - **Eliminate Revenue Volatility Reserve**
 - **Modify Emergency Reserve Fund**
 - ❖ **Minimum 50% of General Fund Expenditures**
 - ❖ **25% of year-end operating surplus back to Emergency Reserve**



FUND BALANCE RESERVE POLICY UPDATES

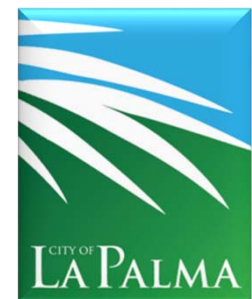
- **Civic Center Replacement Fund**
 - **Establish funding for a new Civic Center in 20 Years**
 - **Annual transfer amount to be determined during budget process**
 - **Allocate Dissolved Community Development Commission Loan Balances – Approx. \$4M**



FUND BALANCE RESERVE POLICY UPDATES

- **Technology Replacement**
 - **Value of 800 MHz system to be added to target balance over 20 year period – percentage to increase by 10% each year until reach 100%**

Unfunded Pension Obligation

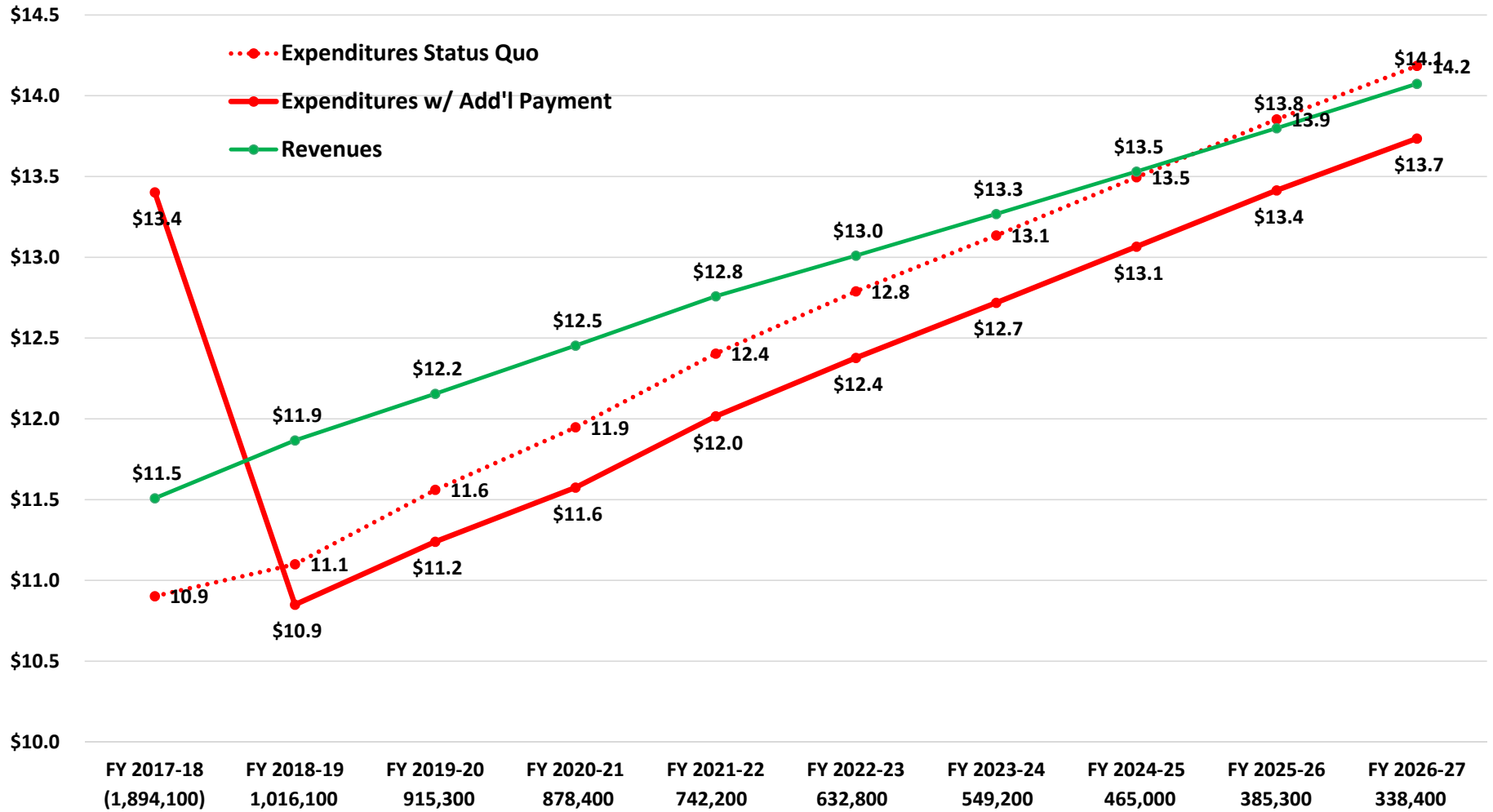




UNFUNDED PENSION OBLIGATION

- **Estimated Unfunded Pension Obligation as of June 30, 2016 – \$20.5 million**
- **\$2.5M to CalPERS in FY 16-17**
- **\$2.5M to CalPERS in FY 17-18**

10 Year General Fund Financial Forecast



FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
(1,894,100)	1,016,100	915,300	878,400	742,200	632,800	549,200	465,000	385,300	338,400



UNFUNDED PENSION OBLIGATION

- **Section 115 Pension Stabilization Trust**
 - **Similar to OPEB Trust**
 - **Set up to pre-fund retirement plan obligations**
 - **Trust assets can be transferred to CalPERS at City's Direction to offset future unexpected rate increases (i.e. pension rate stabilization)**



PAYING DOWN THE UNFUNDED PENSION OBLIGATION

SCENARIO #1	SCENARIO #2
\$ 2.5M ADP Year 1	\$5M in 115 Trust
\$ 2.5M ADP Year 2	4% Rate of Return
	\$ 290,000 ADP 18 Years



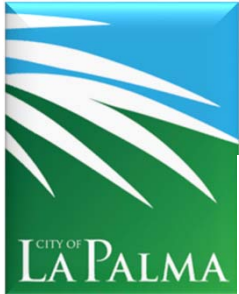
PAYING DOWN THE UNFUNDED PENSION OBLIGATION

SCENARIO #1		SCENARIO #2
\$ 22,140,060	Reg UAL Payments	\$ 24,473,379
5,000,000	Add'l Payments	5,510,000
27,140,060	TOTAL PAYMENTS	29,983,379
34,313,967	PAYMENTS W/O ADP	34,313,967
7,173,907	Payment Savings	4,330,587
-	Trust Balance	2,188,603
\$ 7,173,907	TOTAL SAVINGS	6,519,191
21 Year Payoff		18 Year Payoff



PAYING DOWN THE UNFUNDED PENSION OBLIGATION

SCENARIO #1		SCENARIO #2
\$ 22,140,060	Reg UAL Payments	\$ 24,473,379
5,000,000	Add'l Payments	5,510,000
27,140,060	TOTAL PAYMENTS	29,983,379
SCENERIO #2 Add'l Payments over SCENERIO #1		2,843,320
SCENERIO #2 Net Investment Income		2,698,603



SECTION 115 TRUST

PROS:

- Potential greater interest earnings than achievable through City's general investments
- Provides budget flexibility and ability to adapt to changes in the economic conditions

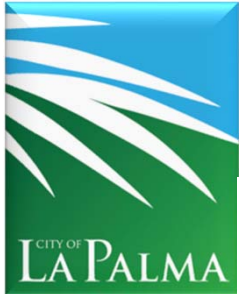
CONS:

- Does not achieve the savings obtained through paying off existing liabilities
- Cannot use funds for other purposes
- Investment earnings will not approximate carrying cost of unfunded liabilities



CARRYING COST EXAMPLE

Safety Liability as of 6/30/16	\$ 12,200,000	\$ 1,250,000	\$ 10,950,000
CalPERS Discount Rate for FY 15-16	7.35%		7.35%
Annual Carrying Cost	896,700		804,825
		SAVINGS:	\$91,875
Invest in 115 Trust	\$1,250,000		
Rate of Return	5.00%		
Interest Earnings	\$62,500		



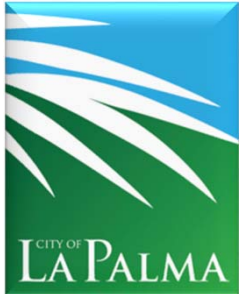
LUMP SUM PAYMENTS TO CALPERS

PROS:

- Reduce interest cost of carrying unfunded liabilities
- Reduces on-going annual pension contributions providing relief to the General Fund
- Greater surpluses to ensure frontline services are maintained and allow for replenishment of reserves

CONS:

- Reduces budget flexibility by reducing available cash in the short term



Paying Down the Unfunded Pension Obligation

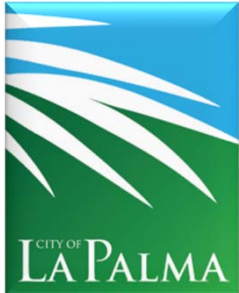
FISCAL YR	16-17	17-18	18-19	19-20	20-21	21-22
Status Quo	766,000	927,000	1,164,000	1,405,000	1,585,000	1,840,000
\$5M	-	657,000	843,000	1,032,000	1,197,000	1,428,000
Savings		270,000	321,000	373,000	388,000	412,000

FISCAL YR	22-23	23-24	24-25	25-26	26-27	27-28
Status Quo	2,050,000	2,193,000	2,371,000	2,521,000	2,671,000	2,827,000
\$5M	1,633,000	1,763,000	1,931,000	2,071,000	2,211,000	2,360,000
Savings	417,000	430,000	440,000	450,000	460,000	467,000



LA PALMA RESERVE LEVELS

FUND	EST 2017-18 ENDING BALANCE
General Fund Reserve	\$5,080,000
General Fund Unassigned	1,530,100
Special Revenue Funds	1,746,600
Project Funds	4,070,400
Enterprise Funds	5,971,200
Internal Service Funds	2,929,500
TOTAL	21,327,800



Recommended Council Actions

- **Adopt Resolution approving revisions to the City's Fund Balance Reserve Policy**
- **Adopt Resolution amending FY 2016-17 Budget authorizing first \$2.5 million lump sum payment to CalPERS**
 - **Second \$2.5 million payment included in FY 2017-18 Budget but will not be spent until after mid-year review**

