



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of October 10, 2017

TO: Members of the City Council

SUBMITTED BY: David Biggs, City Manager
Annie To, Finance Director

SUBJECT: Long-Term Financial Projection for the General Fund

RECOMMENDATION: Review and discuss the long-term financial projection for the General Fund.

COMMISSION/SUBCOMMITTEE ACTION AND RECOMMENDATION: The report will be presented to the Finance Commission at their Special meeting on Thursday, October 19, 2017.

FISCAL IMPACT OF RECOMMENDATION: There is no direct impact from the preparation and review of an updated long-term forecast. It is a planning tool that can be used to guide future fiscal decisions.

DISCUSSION: The City's finances are managed through four major efforts each year. The development and adoption of a budget for each fiscal which starts July 1st is generally considered the first point in the annual cycle. This is generally followed by the completion and the acceptance of the audit for the prior fiscal year with the goal of having that completed by December 31st or earlier. The completion of the annual audit typically sets the stage for the mid-year budget review in February or March and can include some adjustments or additional appropriations or designations of reserves. The preparation of an update to the long-term forecast would also be done in the March/April timeframe to set the stage for the development of the budget for the next fiscal year. Given transitions in staffing and other high priority work, the annual update of the long-range forecast has just now been completed.

It is anticipated that this version of the long-term forecast will be updated in March or April based upon any new or changed assumptions and in part based upon the feedback from this initial review.

A long-term forecast was prepared for the General Fund for the time period from FY 2017-18 through FY 2022-23 using assumptions as shown in Attachment 2.

REVENUE PROJECTION AND ASSUPTIONS USED:

A 2% revenue increase from year-to-year except for the Franchise Fee Revenue, Utility Users tax revenue, Vehicle License Fee revenue, and Sales and Use Tax revenue. Please refer to Attachment 1 for additional information regarding the assumptions used in projecting the long-term revenues.

EXPENDITURE PROJECTION AND ASSUMPTIONS USED:

1. Salaries & Benefit – Cost of living (COLA) increase by 3% per year.
2. PERS Miscellaneous and Public Safety Normal Cost – Increase by 2.3% per year
3. PERS Unfunded Accrued Liability (UAL) contribution increase for Miscellaneous - Employees and Public Safety employees – The projected rate increases are based on PERS Circular letter dated January 13, 2017. It is calculated by using a weighted average mid-range rate increase for the following years:
 - 17.5% in FY18-19
 - 22.5% in FY19-20
 - 27.5% in FY20-21
 - 35.0% in FY21-22
 - 40.0% in FY22-23
2. The CalHFA loans repayment per agreed upon payment plan by the City Council on November 12, 2013 is as follows:
 - HELP Loan: \$1,907,987 - \$100,000 due from 4/11/18 to 4/11/26
Balance \$807,987 due on 4/11/27
 - RDLP Loan \$4,190,759 - \$100,000 due from 8/15/17 to 8/15/25
Balance \$3,090,759 due on 8/15/26

DISCUSSION: The result of the Long-Term Financial Forecast using the above assumptions is that there will be forecasted deficits starting in FY 2018-19. Please refer to Attachment 1.

A summary of the forecasted deficits are as follows:

FORECAST	FORECAST FY 2018-19	FORECAST FY 2019-20	FORECAST FY 2020-21	FORECAST FY 2021-22	FORECAST FY 2022-23
PROJECTED DEFICIT	(360,211)	(219,78)	99,591	(53,646)	(129,095)

The most significant increases in personnel benefits is the PERS Unfunded Accrued Liability (UAL) rate increases starting in FY18-19. The weighted average rate will increase from 17.5% in FY18-19 to 40% in FY22-23. Medical, dental, vision costs are projected to increase 3% per year but it could be more. These projected deficits for the next five (5) fiscal years are manageable as there is approximately \$2.2 million in the Fiscal Neutrality Funds to cover the projected deficits if needed.

ATTACHMENTS:

1. City of Hercules – General Fund Long-Term Financial Forecast
2. Assumptions Used for the General Fund Long-Term Financial Forecast