



City of Watsonville

Budget Outlook

Finance Department

May 22, 2018



Upcoming Finance Presentations

- Today: Budget Outlook
- June 12: First Hearing on Budget and Capital Improvement Plan
- June 26: Second Hearing on Budget and Capital Improvement Plan

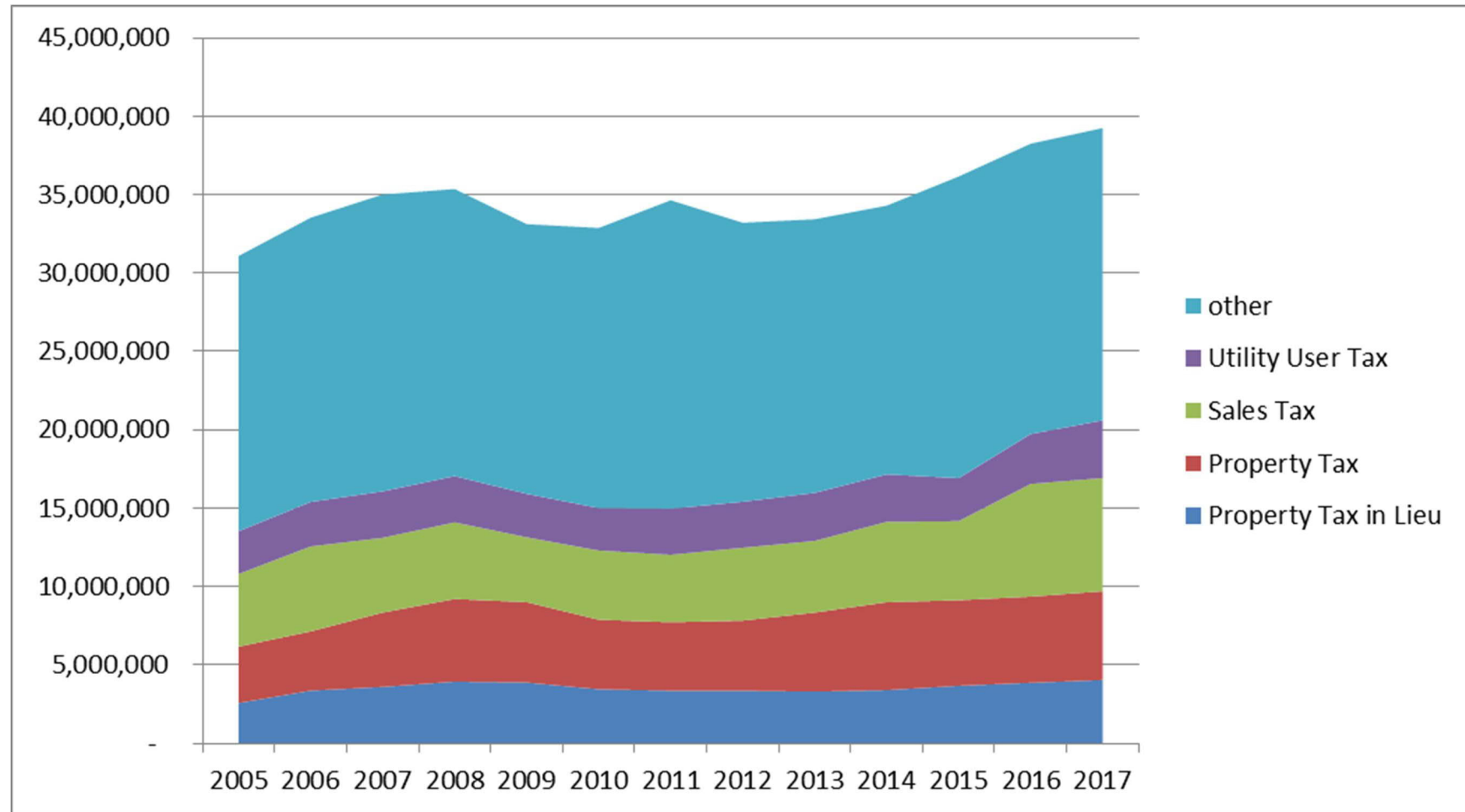


Budget Outlook

- Where we've been
- Where we're going
- Major Risks
 - Measure G
 - Unfunded Capital Needs
 - Economic slowdown
 - CalPERS
- Steps to Mitigate



General Fund Revenues History





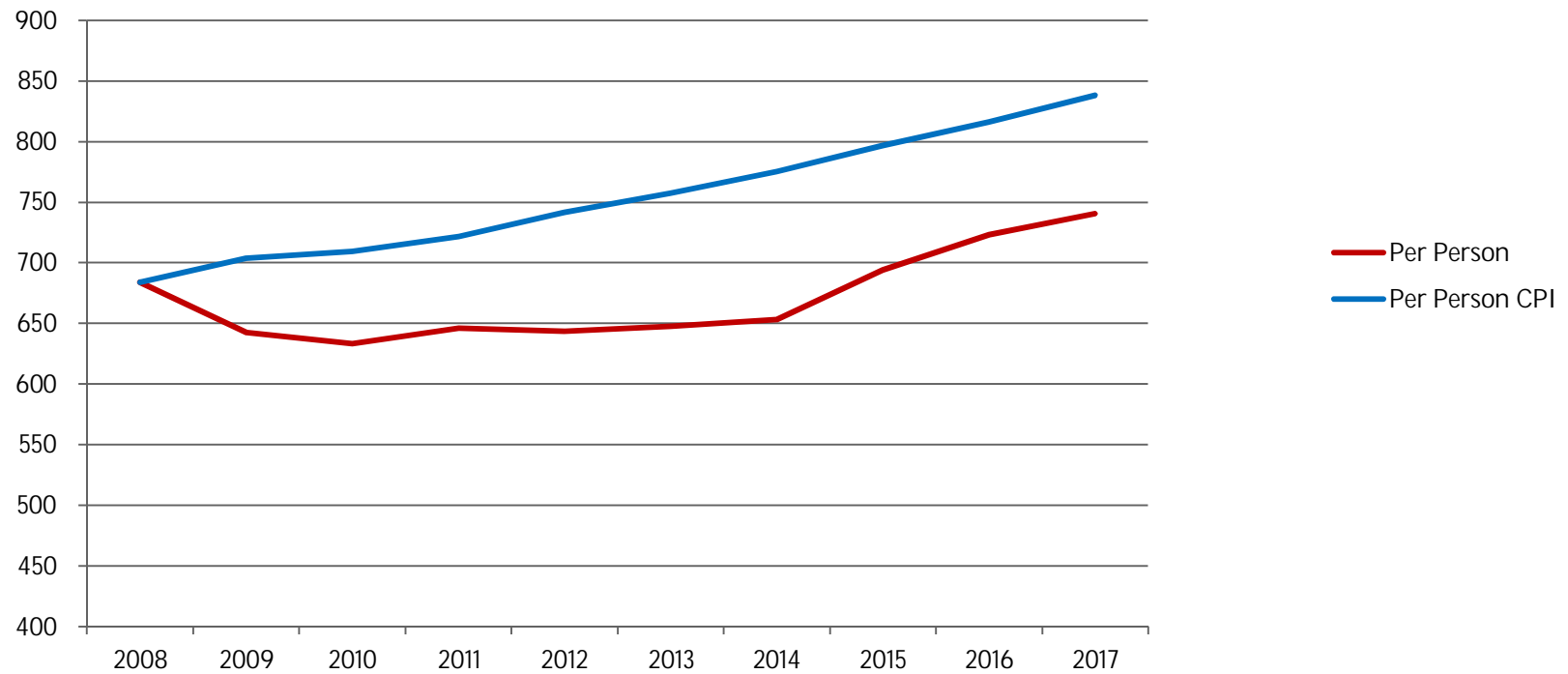
Comparison

		Watsonville	Santa Cruz
	Year surpassed 2008 revenues	2015	2014
	% Revenues Up Since 2008	11%	21%
	Sales Tax		
	Lowest Year	2009	2010
	Amount Decrease	-15.3%	-13.6%
	Year surpassed 2008 levels	2014	2013
	Property Tax		
	Lowest Year	2011	NA
	Amount Decrease	-17.3%	
	Year surpassed 2008 levels	2013	



Revenue Per Person

General Fund Revenue Per Person





5 year Outlook

	FY 19	FY 20	FY 21	FY 22	FY 23
Total GF Revenue	44,064,983	44,396,074	45,061,033	45,733,230	46,418,220
Total Expenditures	44,064,983	45,382,652	46,989,367	48,514,606	49,973,939
Revenue - Expenditures	0	986,578	1,928,334	2,781,376	3,555,719
Est Ending FB	9,099,812	8,113,234	6,184,901	3,403,524	152,194
Target 20% FB	8,647,580	8,976,530	9,297,873	9,602,921	9,894,788



Expenditure Outlook

	FY 19 Proposed	FY 20	FY 21	FY 22	FY 23
Salaries	23,771,025	24,211,293	24,650,365	25,108,420	25,575,635
Retirement	6,255,119	7,358,000	8,277,210	9,083,541	9,801,761
Health	4,732,047	4,968,649	5,217,081	5,477,935	5,751,832
Other Personnel	1,042,960	1,042,960	1,042,960	1,042,960	1,042,960
Non Personnel	7,123,936	6,988,936	6,988,936	6,988,936	6,988,936
Operating Transfer Out	312,814	312,814	312,814	312,814	312,814
CIP	571,333	500,000	500,000	500,000	500,000
CIP Carryforward	255,749				
Total Expenditures	44,064,983	45,382,652	46,989,367	48,514,606	49,973,939



Risks: Measure G

- Scheduled to sunset in FY 2020-21
- In FY 2018-19 estimated to supplement Police and Fire services by \$3.9 million
- Operationally Provides for 6 Firefighters and over 9 positions in the Police department
- Additionally has allowed both departments to replace and invest in new equipment and technology
- If it is not renewed, General Fund cannot absorb these costs without major restructuring.



Unfunded Capital Needs

	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	Total
Funded	571,333	550,000	552,000	575,000	600,000	2,848,333
Unfunded	1,177,474	5,362,379	5,428,047	6,723,015	700,000	19,390,915

- Mid-year Appropriated \$393,000
- FY 2018-19 Budget recommends \$571,333
- However, over next 5 years we have unfunded needs of over \$19 million



Economic Recession / Slow Down

- Right now, projections do not include a slow down
- Sales tax risk
 - Highest drivers of sales tax increase are cars and construction / building materials
 - Retail sales tax declining elsewhere
- Property Tax – building phase, but will reach saturation
- A recession would compound our CalPERS problem



CalPERS

	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23
Misc	1,799,795	2,117,837	2,398,264	2,657,514	2,894,902
Police	2,840,293	3,268,176	3,689,985	4,043,508	4,353,742
Fire	1,734,950	1,971,986	2,188,961	2,382,519	2,553,117
Total	6,375,038	7,358,000	8,277,210	9,083,541	9,801,761
Increase		982,962	919,210	806,331	718,220
		15.4%	12.5%	9.7%	7.9%

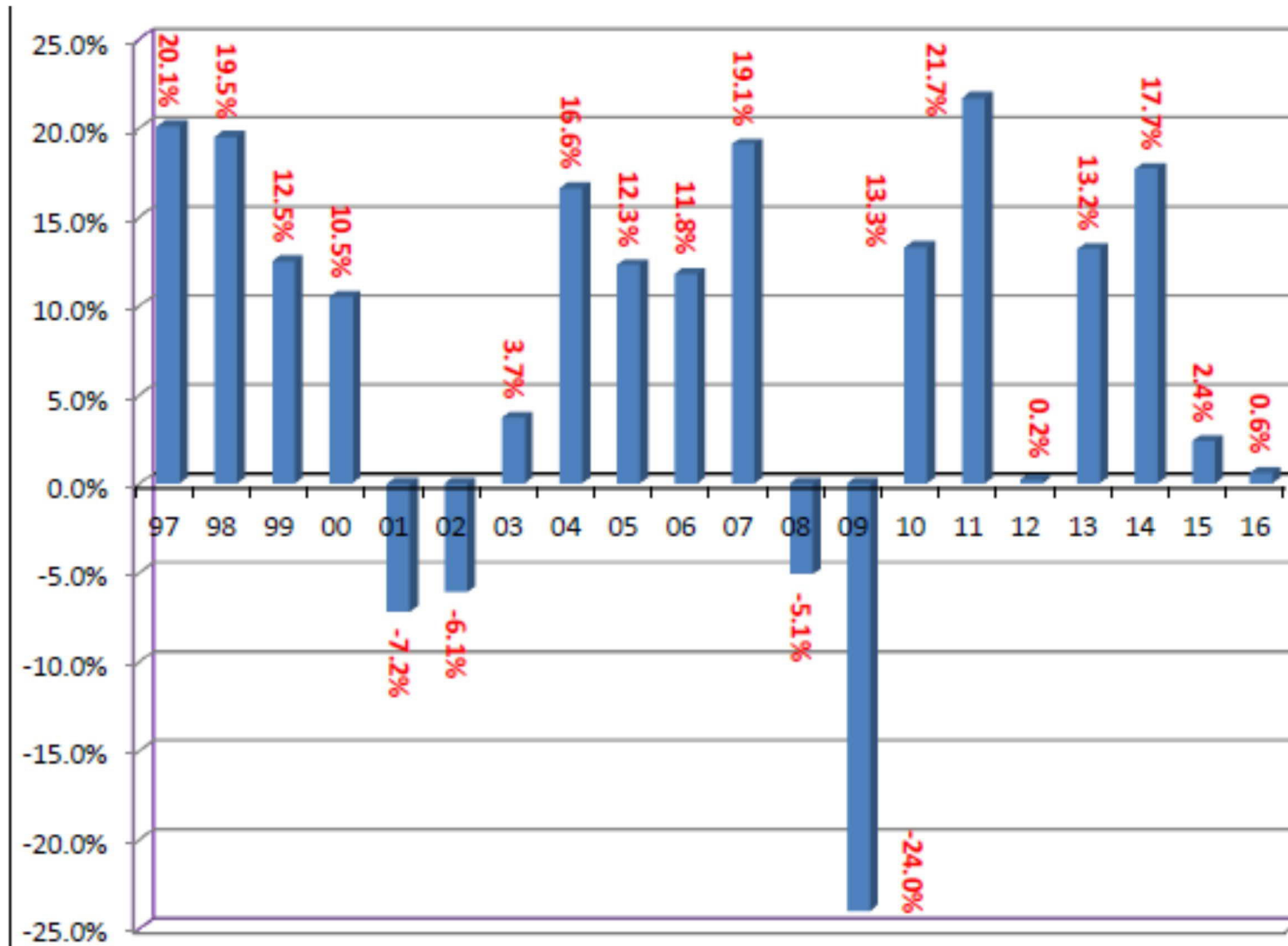


Drivers of CalPERS Increases

- CalPERS change to reduce discount rate from 7.5% to 7.0% over 3 year phase in
 - Our normal cost in each group is increasing in each of the next 3 years
- Unfunded Liability



CALPers Historical Performance





Unfunded Liability

Reason for Base	Date Established	Amortization Period	Balance 6/30/16	Expected Payment 2016-17	Balance 6/30/17	Expected Payment 2017-18	Balance 6/30/18	Scheduled Payment for 2018-19
ASSUMPTION CHANGE	06/30/03	7	\$3,080,415	\$418,516	\$2,873,921	\$431,071	\$2,639,189	\$441,083
METHOD CHANGE	06/30/04	8	\$(222,406)	\$(27,743)	\$(210,061)	\$(28,575)	\$(195,943)	\$(29,225)
ASSUMPTION CHANGE	06/30/09	13	\$2,235,768	\$204,952	\$2,188,281	\$211,100	\$2,130,921	\$215,389
SPECIAL (GAIN)/LOSS	06/30/09	23	\$2,629,858	\$173,819	\$2,643,695	\$179,034	\$2,653,150	\$181,887
SPECIAL (GAIN)/LOSS	06/30/10	24	\$(432,982)	\$(28,005)	\$(435,895)	\$(28,845)	\$(438,153)	\$(29,293)
ASSUMPTION CHANGE	06/30/11	15	\$2,302,616	\$193,446	\$2,271,981	\$199,249	\$2,233,075	\$203,111
SPECIAL (GAIN)/LOSS	06/30/11	25	\$(689,225)	\$(43,682)	\$(694,791)	\$(44,992)	\$(699,411)	\$(45,674)
PAYMENT (GAIN)/LOSS	06/30/12	26	\$54,157	\$3,367	\$54,662	\$3,468	\$55,100	\$3,520
(GAIN)/LOSS	06/30/12	26	\$4,495,829	\$279,552	\$4,537,719	\$287,938	\$4,574,009	\$292,190
(GAIN)/LOSS	06/30/13	27	\$15,929,479	\$435,244	\$16,653,270	\$672,452	\$17,184,641	\$910,108
ASSUMPTION CHANGE	06/30/14	18	\$5,908,410	\$112,542	\$6,227,537	\$231,836	\$6,446,585	\$354,234
(GAIN)/LOSS	06/30/14	28	\$(10,048,369)	\$(141,331)	\$(10,642,986)	\$(291,141)	\$(11,126,221)	\$(443,007)
(GAIN)/LOSS	06/30/15	29	\$4,330,771	\$6,608	\$4,643,318	\$65,385	\$4,918,010	\$132,550
ASSUMPTION CHANGE	06/30/16	20	\$2,016,283	\$(70,897)	\$2,238,449	\$(73,023)	\$2,479,202	\$46,730
(GAIN)/LOSS	06/30/16	30	\$6,669,941	\$22,030	\$7,139,021	\$0	\$7,665,524	\$106,248
TOTAL			\$38,260,545	\$1,538,418	\$39,488,122	\$1,814,957	\$40,519,678	\$2,339,851



Unfunded Liability

Date	<u>Current Amortization</u> <u>Schedule*</u>	
	Balance	Payment
6/30/2018	40,519,679	2,339,851
6/30/2019	41,083,408	2,839,753
6/30/2020	41,170,703	3,126,157
6/30/2021	40,967,659	3,459,525
6/30/2022	40,404,199	3,735,492
6/30/2023	39,513,222	3,847,554
6/30/2024	38,440,413	3,962,981
6/30/2025	37,168,876	3,539,395
6/30/2026	36,242,493	3,682,596
6/30/2027	35,099,400	3,793,077
6/30/2028	33,757,522	3,906,867
6/30/2029	32,198,768	4,024,074
6/30/2030	30,403,603	4,144,795
6/30/2031	28,350,954	3,952,835
6/30/2032	26,345,834	3,892,815



Steps to Mitigate

- Prepaying Annual UAL Cost
- Actively paying down our unfunded liability using several sources
- Focusing on investing in one-time projects
- Controlling operational growth
- Looking for long-term operational efficiencies



Questions?