City of Los Altos, CA

10-Year Budget Forecast Model – 2017 Update

Russ Branson, Director, PFM

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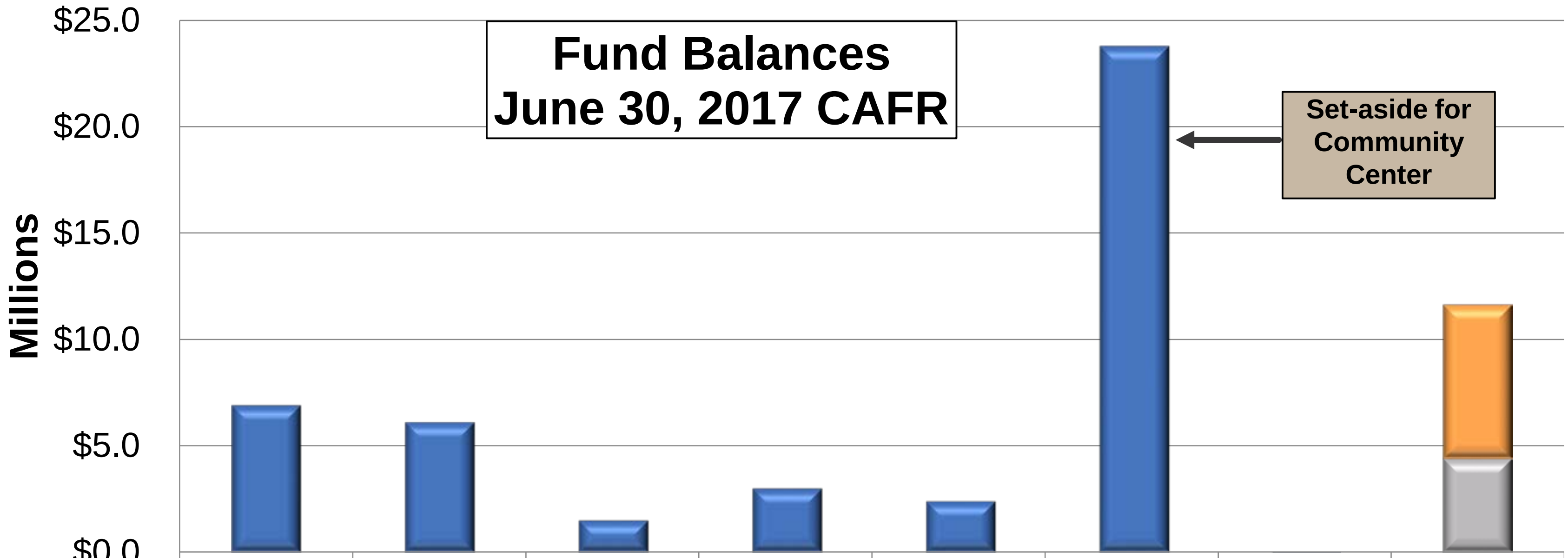
PFM group consulting, LLC

50 California Street
Suite 2300
San Francisco, CA 94111

415-393-7249 (direct)
916-747-7834 (cell)

Total Fund Balances

- As documented in the FY17 Comprehensive Annual Financial Report (CAFR), the City has several categories of reserves, including $23.8 million set-aside for the proposed community center

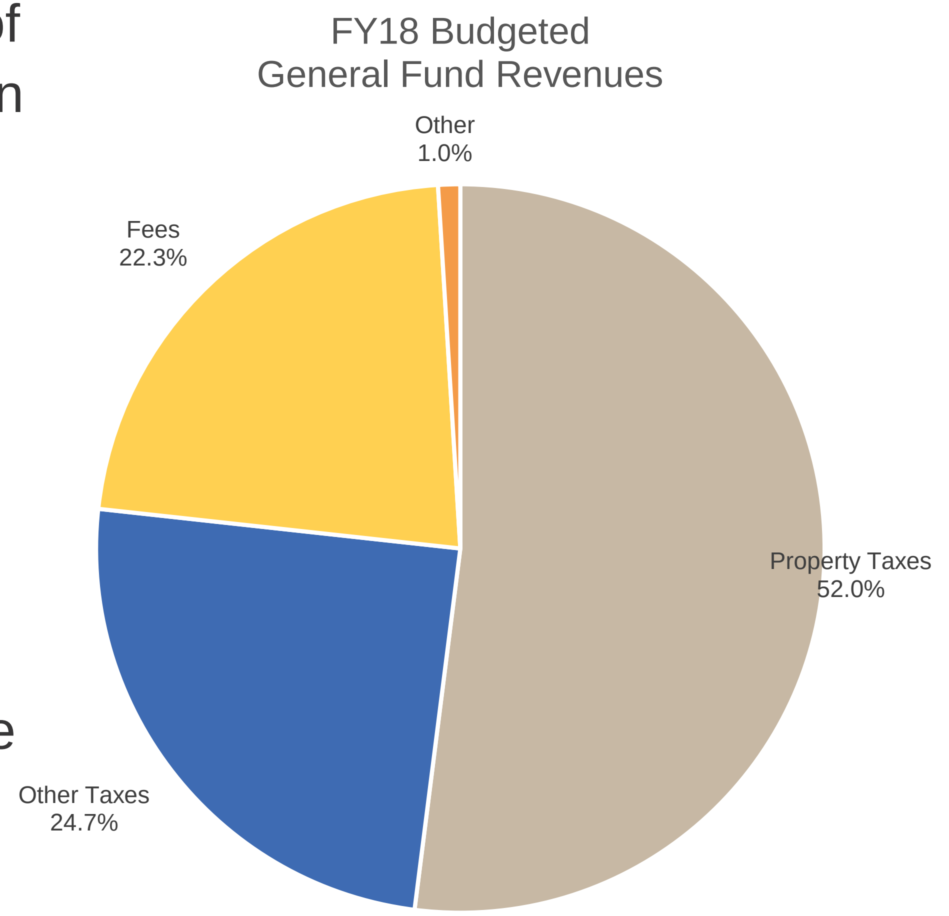


	20% Policy Reserve	Unassigned	OPEB (Retiree Health)	PERS Reserve	Technology Reserve	Capital Projects	Non-Spendable	Non-GF
Nonmajor								$7.25
Non-GF Capital								
Park In-Lieu								$4.40
General Fund	$6.9	$6.1	$1.5	$3.0	$2.4	$23.8	$0.0	

Source: City of Los Altos 2017 CAFR

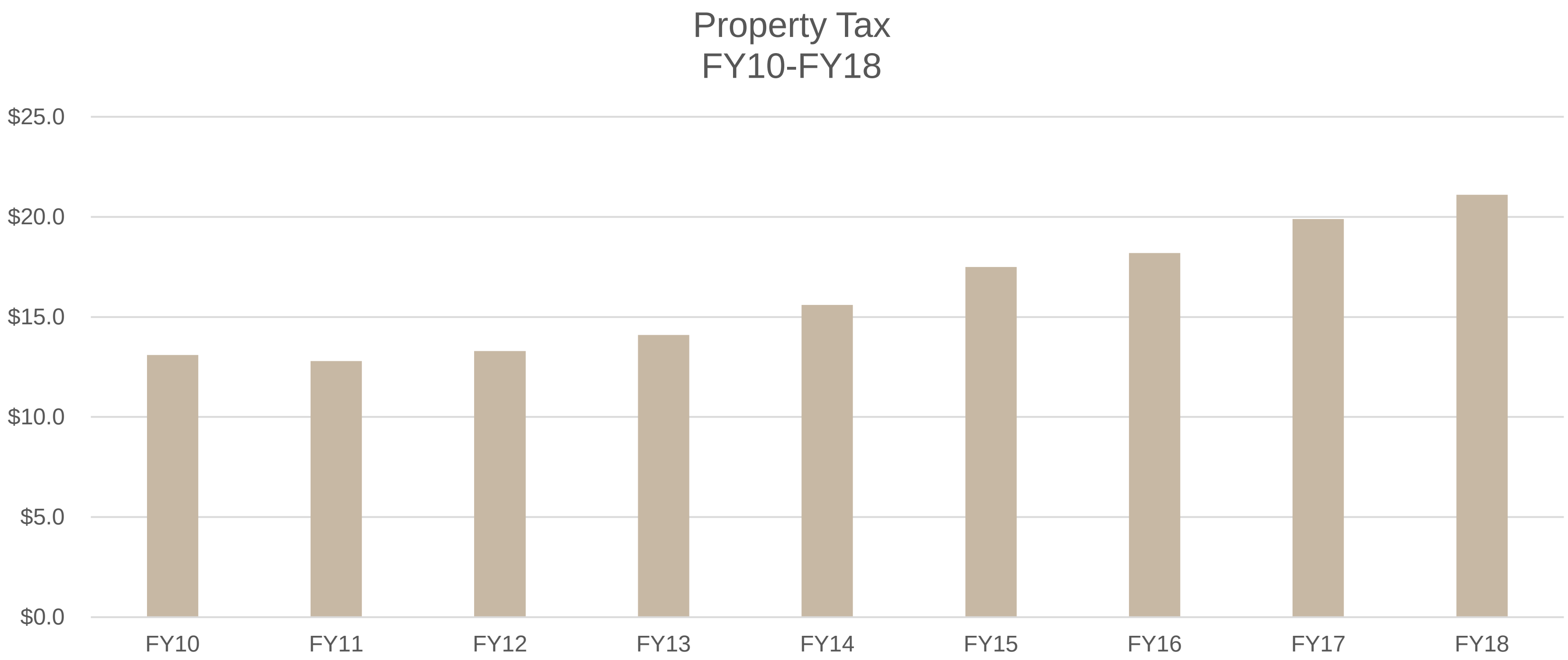
General Fund Revenues
Fiscal Year 2018 Budget

- Property taxes account for **52.0%** of total FY18 revenues of $38.7 million
- Other taxes make up the next largest revenue sources at **24.7%**
- Fees comprise **22.3%** of total revenue
- Collectively, these three revenue sources, which are also linked to broader economic conditions, make up **99.0%** of total General Fund revenues



General Fund Revenues | Property Taxes

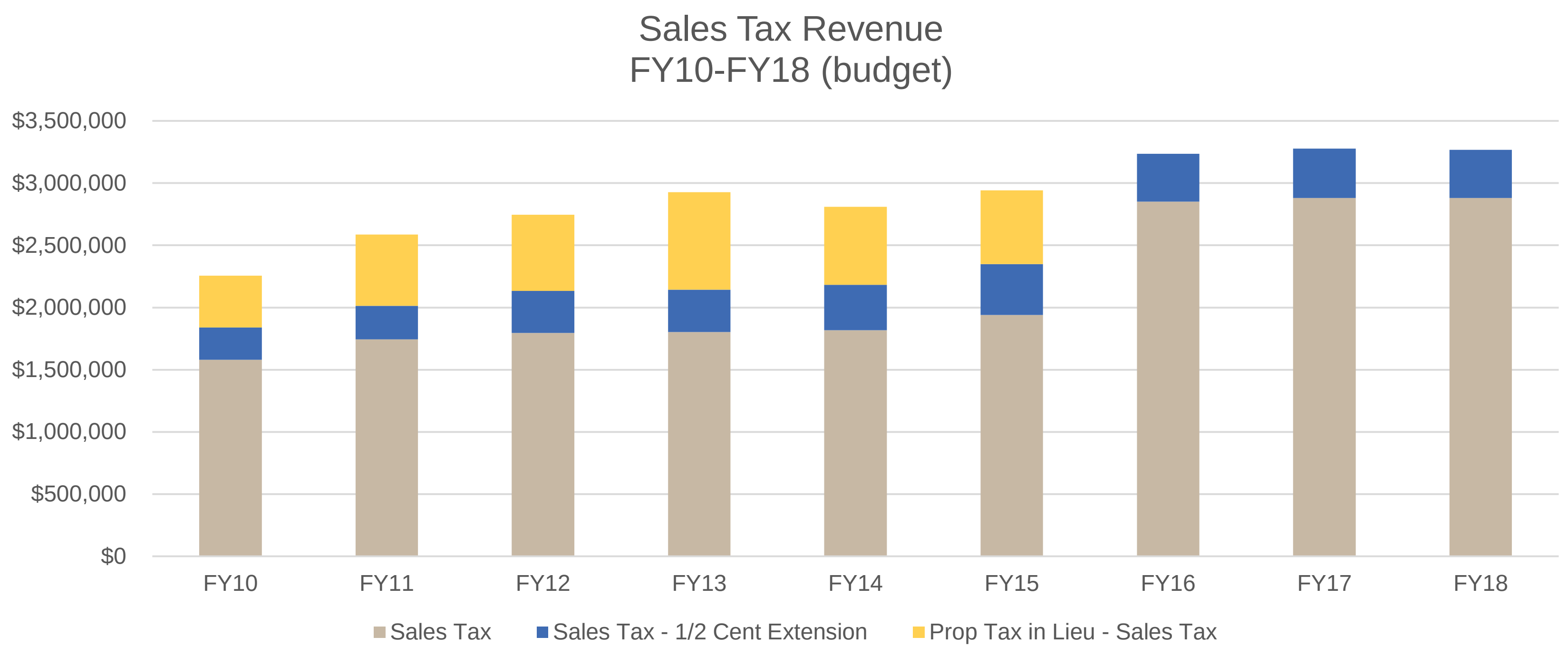
- Total Property taxes had a compound annual growth rate of 6.1% from FY10 to FY18
- Property taxes comprise over 50% of the City General Fund revenues



Source: City of Los Altos; *Note:* Includes current secured, unsecured, and supplemental and in-lieu of VLF

General Fund Revenues | Sales Taxes

- Sales taxes increased over 4.7% per year from FY10 through FY18
- However, sales taxes remained flat in FY16 and FY17 and projected flat in FY18



Source: City of Los Altos

The "property tax in-lieu" ended in FY16

Baseline Revenue | *Forecast Assumptions*

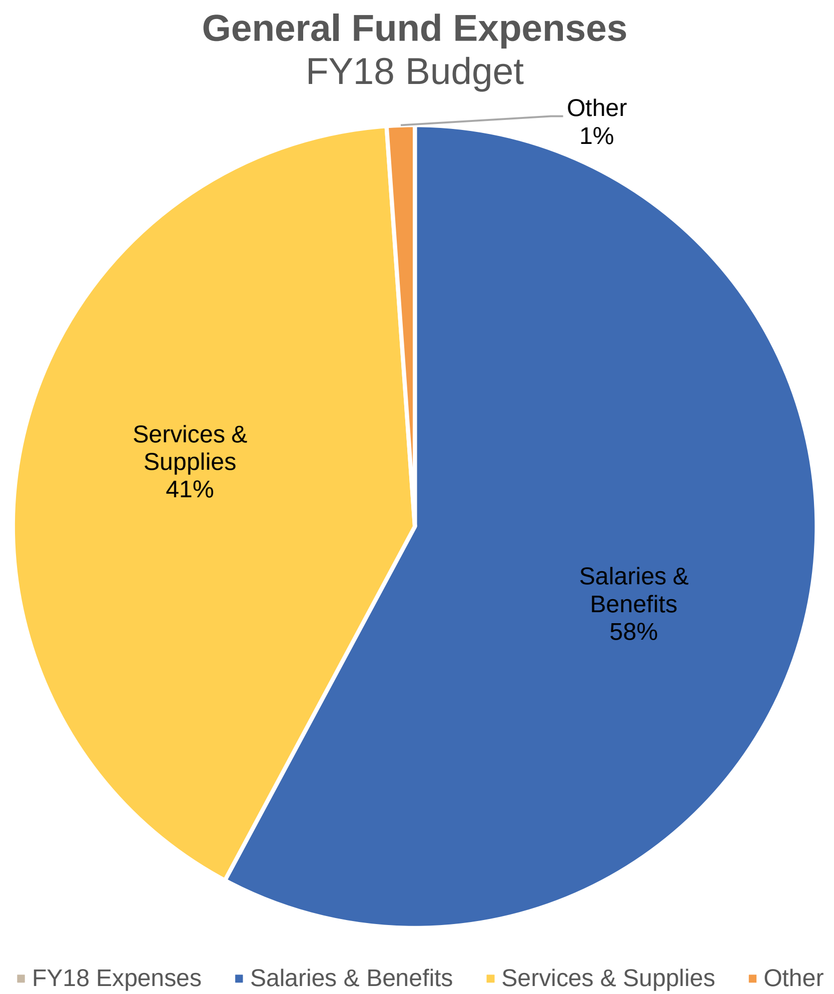
- **Overall Revenue Grows** at rate of **3.72% per year** for FY18-FY28
- **Secured Property Taxes:** 6.0% annually—compound growth rate over last eight years
- **Sales Taxes:** 1.0% annually, conservative projection based on recent growth trends
- **UUT and TOT:** Rates vary between 0% and 2% per year based on recent growth rates and expectations for expansion. TOT has grown recently with the addition of hotel rooms, but is held constant for the near future.
- **User Charges**: Recreation fees are projected to grow at 2% per year; however, planning and building fees have been held constant.

General Fund Expenses
Fiscal Year 2018 Budget

- Salaries and benefits account for **58%** of total General Fund expenditures in FY18 *(Note: Fire service is provided by contract and is included in Services & Supplies)*

- Services and Supplies expenses ranging from professional services to liability insurance—comprised **41%** of the FY18 budget

- Remaining expenses for other and capital vary significantly from year-to-year



Baseline Expense | Forecast Assumptions

- **Overall Expense Growth** of **3.32% per year** FY18-FY28
- **Salaries:** Includes known contracted raises through FY20, then 2% annually
- **PERS Normal Cost:** Grows an average of 4.6% (Miscellaneous) to 5.33% (Police) per year based on changes in salaries early-year PERS employer rate increases (FY18 - FY28)
- **PERS Unfunded Liabilities Cost:** Grows 10.74% per year for miscellaneous employees and 9.08% per year for Police (FY18-FY28) *(Note: subject to increase as CalPERS implements its full discount-rate change)*
- **Group Health Insurance:** Increase 7.5% per year based current MOUs and expected medical inflation (average growth FY10-FY18 was 10.5%)
- **Fire contract:** Increases at 3% per year, could range from 2% to 5%
- **Other revenue and expense items** include conservative estimates from 0% to 2%

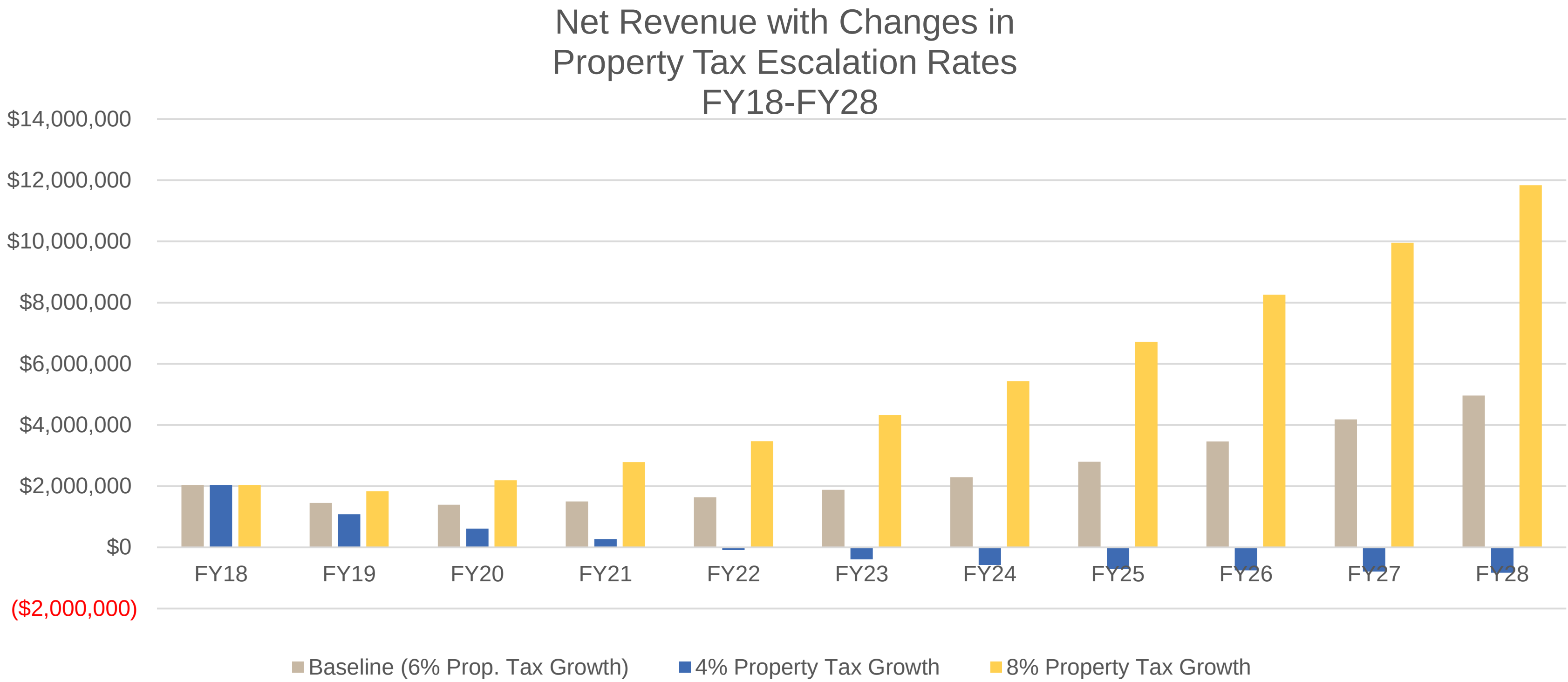
10-Year Forecast

10-Year Forecast

- The following slides summarize the "baseline" forecast, reflecting:
  - The City's financial position on a carry-forward basis over the next ten years inclusive of the City's proposed FY18 budget amounts
  - The baseline assumes continuation of current programs and financial policies
- It is important to note that while the City's budget is balanced in the short term, it **does not** reflect the impact of setting aside revenue for long-term unfunded liabilities
  - Future building and parks recapitalization costs
  - Potential increases in CalPERS rates beyond current actuarial forecast
  - Additional set-asides for pension unfunded liabilities

Net Revenue Impact from Property Tax Escalation | Key to Future Fiscal Health

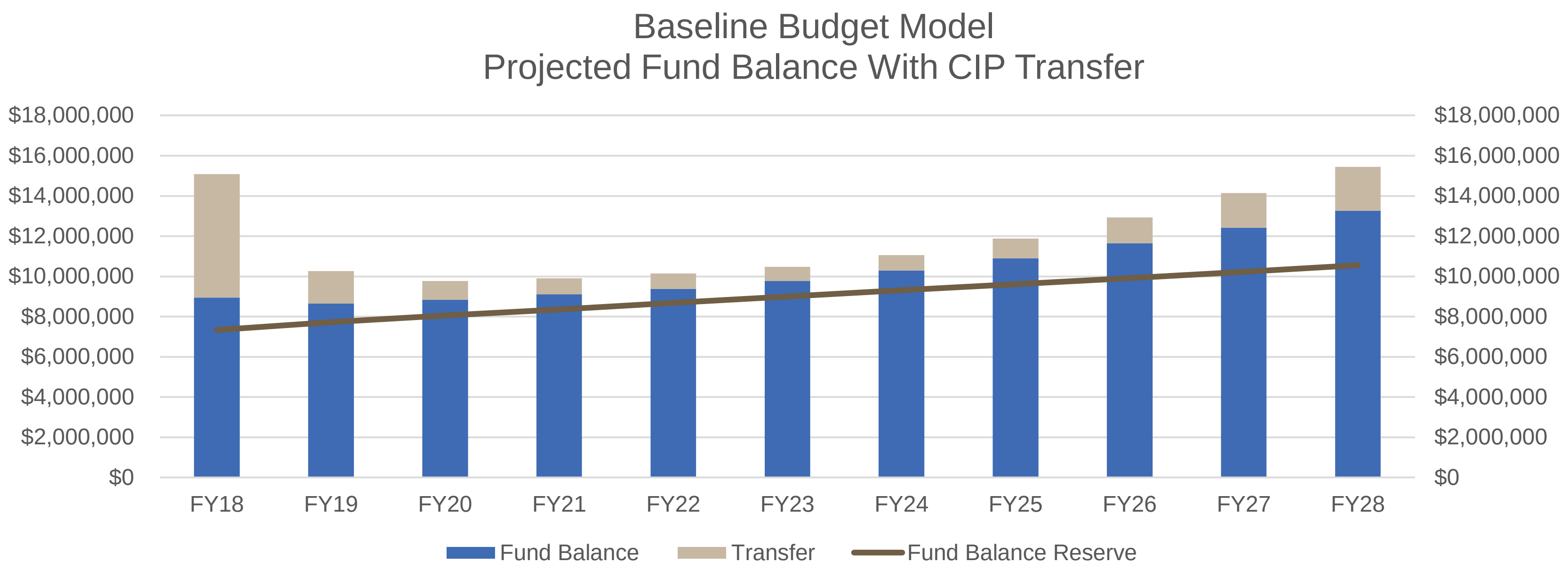
- Property tax escalation has a major impact on the financial future of the City
  - ➢ Recent average growth of 6% per year meets City's basic financial needs (Baseline Forecast)
  - ➢ Growth of 4% per year will lead to deficit net revenue by FY23
  - ➢ Growth of 8% will provide the City increasing positive net revenue



Note: General Fund net revenues are before any transfers to Capital Fund

Baseline Forecast
CIP Transfer

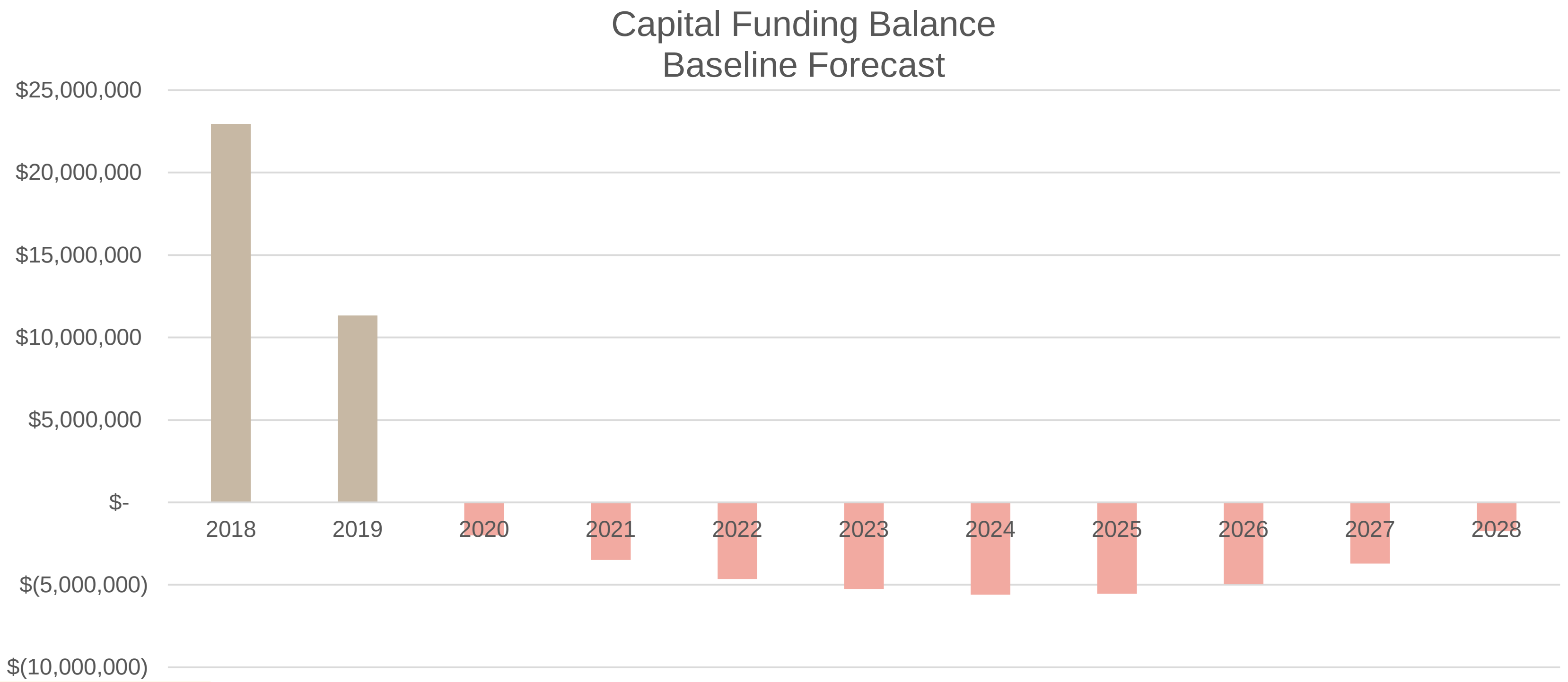
- The City can retain a 20% operating reserve and transfer surplus reserves to the Capital Improvement Fund starting in FY18
- Cumulative revenues available for CIP transfer total $25.8 million from FY18 to FY28



Note: FY18 transfer includes unassigned General Fund amounts from FY17. Transfers are assumed to trail net revenue by one year.

Capital Funding is Insufficient | Under Baseline Assumptions

- Even with continued strong property tax growth of 6% per year, the City is not projected to be able to fund 100% of its capital program
  - Assumes $25M community center plus FY18 Budget General Fund Capital Expenditures
  - By FY22 (end of 5-year CIP), City will be $4.6M short of meeting its capital project needs
  - Funding after FY23 assumes $1.9 million per year CIP investment



Capital Funding Comparison | With and Without Debt Service

- The City has two primary sources of funding general fund capital projects
  - Pay-Go from accumulated reserves and future general fund net revenues
  - Debt secured by the City's general fund revenues
- The cost of debt necessarily reduces the net GF revenue transfer to capital, eroding the value of debt
- One positive of debt is that is erases early year deficits which would like result in delays in capital projects

Funding Source	Baseline Forecast	With $10M in Debt	With $5M in Debt
Reserves	$23.7M	$23.7M	$23.7M
Net GF Revenue	$25.8M	$18.1M	$22.1M
Debt	$0	$10.0M	$5.0M
Total Available for Capital (FY18-FY28)	**$49.5M**	**$51.8M**	**$50.8M**
Difference to Baseline	*n/a*	*$2.3M*	*$1.3M*

Capital Funding Comparison| Based on Property Tax Escalation

- The rate of property tax escalation will have a major impact on the City's ability to fund its capital plan
- The historical 6% rate of escalation will allow the City to mostly meet its capital funding goals
- Property tax escalation of 4% will severely limit the City's ability to fund capital over the next ten years

Funding Source	Baseline Forecast	4% Prop. Tax Escalation	8% Prop. Tax Escalation
Reserves	$23.7M	$23.8M	$23.8M
Net GF Revenue	$25.8M	$8.8M	$50.1M
Total Available for Capital (FY18-FY28)	**$49.5M**	**$32.5M**	**$73.8M**
Capital Program Costs*	$51.2M	$51.2M	$51.2M
Over/(Under) Funded	*($1.7M)*	*($18.7M)*	*$22.6M*

* Includes programmed costs plus estimate of $1.9M per year in FY23-FY28

What Will Change the Forecast?

The economy
• Changes to revenues (either up or down) will change the City's budget future
• PERS rates and the impacts of future market returns and actuarial assumptions

Council decisions on spending
• Total compensation (salaries, active and retiree health care, pension, leave, etc.)
• The number of staff needed to maintain service levels
• Long-term facilities rehabilitation (asset recapitalization)
• Spending on new Citywide facilities
• Addition of long-term debt to City's General Fund

Voter-approved taxes or assessments
• Local-option taxes must be approved by voters, and could include sales tax, hotel tax, utility users tax, or business license tax
• Assessments must be property-related and are subject to Prop. 218

Attraction of new or expanded businesses and retention of existing
• Expansion of retail sales outlets or hotels