

FY 2018/19 Mid-Year Budget Update



Overview

- ▶ **FY 2017/18 Audit and Year-End Results**
- ▶ **FY 2018/19 Mid Year Budget Update**
- ▶ **FY 2019/20 Budget Outlook**
- ▶ **Pensions and Unfunded Liabilities**
- ▶ **FY 2019/20 Budget Development Calendar**

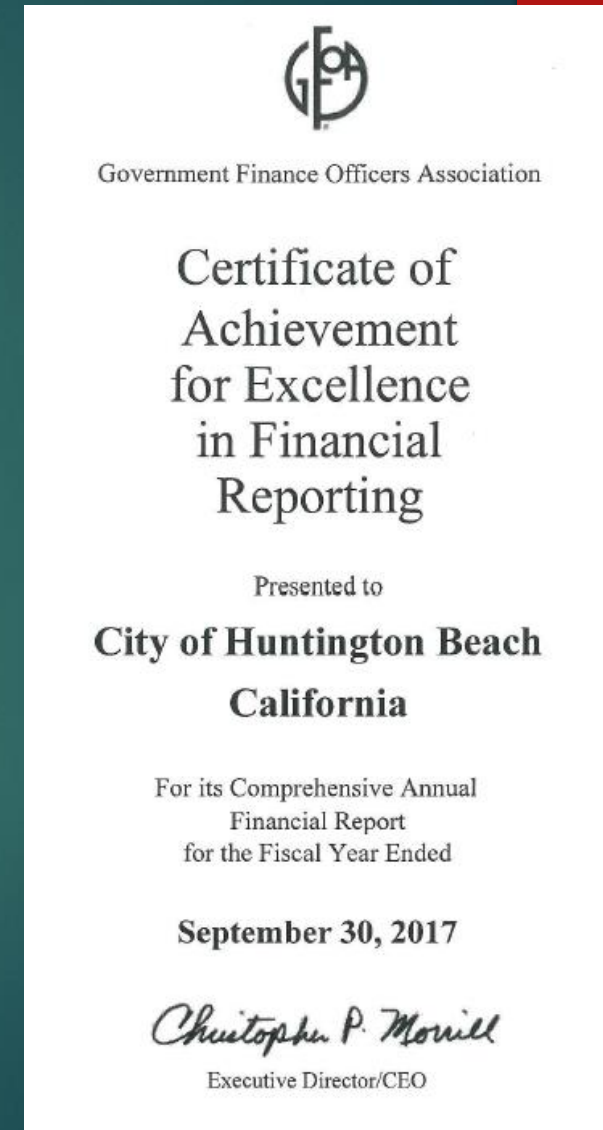
FY 2017/18 Financial Results Audit and Year-End Overview

Audit and Year-End Overview



FY 2017/18 Audit Results

- Auditing firm of Davis Farr LLP audited the City's financial statements and internal controls
- FY 2017/18 Comprehensive Annual Financial Report (CAFR) received an Unmodified (Clean) Audit Opinion
- The City's CAFR is award winning – received the Government Finance Officers Association's (GFOA) Excellence in Financial Reporting Award for 32 years



Audit Results

Reports issued:

- ▶ Comprehensive Annual Financial Report
 - ▶ Issued “unmodified” opinion on December 18, 2018
 - ▶ Emphasis of Matter Paragraph in Opinion:
 - ▶ Change in fiscal year
 - ▶ Implementation of GASB 75: OPEB
 - ▶ Prior period adjustments (footnote 16 and 17)
- ▶ AU-C 260 Letter: Auditor Communications
- ▶ AU-C 265 Letter: Internal Control Recommendations
- ▶ Appropriations Limit Agreed-Upon Procedures
- ▶ AQMD Report
- ▶ Single Audit Report (in progress)

Internal Controls

- ▶ Evaluated controls over key accounting cycles:
 - ▶ Billing and Cash Receipting
 - ▶ Purchasing and Cash Disbursements
 - ▶ Payroll
 - ▶ Banking
 - ▶ Grant Management
- ▶ Recommendation related to audit adjustments detected during the audit process
- ▶ Recommendation to continue to evaluate strategies to improve the City's net position

Areas of Audit Focus in FY 17/18

**Pension
Obligations**

**OPEB
Obligations**

**Testing of offsite
cash receipting
at Senior Center**

**Confirmed loans
receivable with
outside parties**

**Testing of Capital
Asset activities**

**Testing of Federal
Highway Planning
Grant**

Upcoming Auditing Standards

- ▶ FY 18/19 – no major changes
- ▶ FY 19/20 – GASB 84: Fiduciary activities
- ▶ FY 20/21 – Changes accounting for capital and operating leases
- ▶ On the horizon – change in the government financial reporting model

FY 2017/18 Performance (Audited)

Government-Wide Highlights:

All Funds

Description	In Millions
<u>ASSETS</u>	
Current and Other Assets	\$301.0
Capital Assets	842.7
Total Assets	1,143.7
Deferred Outflows - Pensions	100.1
<u>LIABILITIES</u>	
Current and Other Liabilities	25.2
Long-Term Obligations*	549.6
Total Liabilities	574.8
Deferred Inflows - Pensions	17.2
TOTAL NET POSITION	\$651.8

* Reflects GASB 68 recording of Net Pension Liability of \$429.6 million and GASB 75 recording of Net OPEB Liability \$8.8 million

FY 2017/18 General Fund

(Audited)

Description	Amount (in millions)	Total
<u>Expenditures</u>		
•Actual Citywide Departmental Expenditures	\$180.3	
•Transfer to Section 115 Trust	\$1.0	
•Increase in Workers' Compensation Claims and Legal Costs	\$1.2	
•Increase in General Liability Claims and Costs	\$0.4	
Total Estimated Expenditures		\$182.9
General Fund Recurring Revenue	\$182.1	
General Fund One-Time Revenue	\$2.7	
Total General Fund Revenue		\$184.8
Available Year-End Fund Balance		\$1.9

General Fund Balance

FY 2017/18 Audited (In Thousands)

Fund Balance Category	FY 15/16 Audited	FY 16/17 Audited	FY 17/18 Audited
Total Nonspendable, Restricted, Committed, and Assigned Fund Balances	62,847	61,180	61,004
Unassigned	-	-	2,734
Total Fund Balance	62,847	61,180	63,738
Section 115 Trust Bank Balance	-	-	4,896
Total with GASB Reporting Implementation for Section 115 Trust	\$ 62,847	\$61,180	\$68,634

FY 2017/18 Budget Recap

Adjusted 9-month fiscal year; October 1 to June 30th

- ▶ Aligned future fiscal years with the State, County of Orange, majority of California cities, granting agencies and CalPERS;
- ▶ Allowed for the prepayment option of CalPERS unfunded liability; thereby saving \$900K and to \$1M+ in succeeding years;
- ▶ Transitioned the most expensive quarter (July to Sept) from FY 2017/18 into FY 2018/19; which
- ▶ Resulted in significant FY 2017/18 budgetary savings, particularly for the Safety departments.

FY 2018/19 General Fund Budget Overview

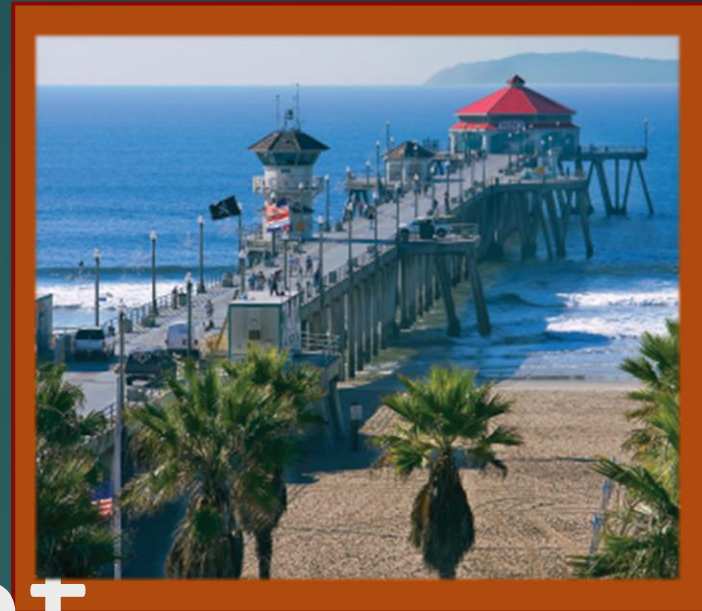


FY 2018/19 Budget Update

- ▶ First year of the new July to June Fiscal Year Period
- ▶ Transition Year
 - ▶ Expenditure trend in first half of the year
 - ▶ Historically, summer months reflects higher spending
- ▶ Fiscal Prudence
 - ▶ Active monitoring and control to ensure balanced budget
 - ▶ 1% reduction targets requested (does not include personnel costs)
- ▶ Projected revenues & expenditures = \$227.3 million
 - ▶ Includes 1% target reductions requested for FY 2018/19

FY 2019/20

Budget Development



FY 2019/20 Challenges

- ▶ Rising CalPERS costs will continue to strain annual budgets
- ▶ CalPERS investment earnings
- ▶ Impending BICEP dissolution
- ▶ Police Facility Modernization Project
- ▶ Expiration of majority of labor bargaining group agreements
 - ▶ Going on three years since last wage increase
- ▶ Macro economy
- ▶ Significant capital and infrastructure needs
- ▶ Minimum wage adjustments and associated salary compaction

Economic Indicators

- ▶ The Dow Jones is down 5.95% this year, S&P down 6.89% , and NASDAQ down 4.87%, which is indicative of an economic slowdown.
- ▶ The CPI for the Los Angeles and Orange County in December 2018 declined 0.3% from last year.
- ▶ On a positive note, 3rd Quarter GDP increased 3.5% compared to 4.2% for the 2nd Quarter of 2018.
- ▶ New Home Sales for November 2018 were 7.7% below the revised November 2017 estimate.

FY 2019/20 Budget Development

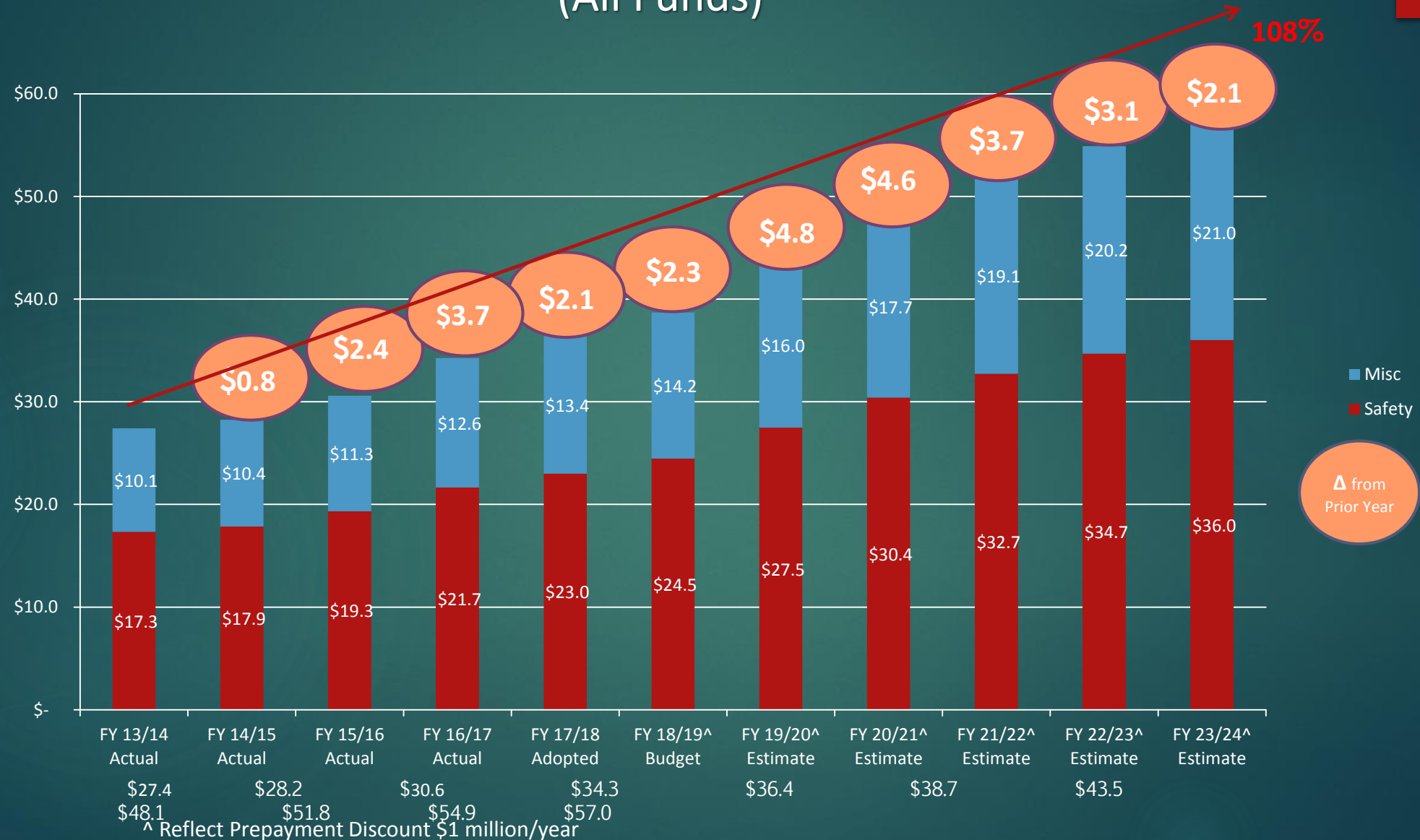
- ▶ Baseline budget is flat
 - No new FTEs
 - Does not include employee compensation changes beyond what has already been negotiated
- ▶ 1% (total General Fund budget) reduction targets requested

Pensions and Unfunded Liabilities



Projected Increases to City CalPERS Costs

(All Funds)



Net Pension Liabilities Overview

as of 6/30/18

Type of Liability	Amount* (000)	% Funded	Plan to Eliminate Liability	Timeline
CalPERS (Safety)	256,808	64.8%	"1=5" Plan	20 Years
CalPERS (Misc)	<u>163,278</u>	<u>70.7%</u>	Standard PERS Plan	29 Years
Subtotal	420,086	67.3%		
Retiree Medical (Safety)	8,803	63.0%	"25 to 10" Plan	4 Years
Retiree Medical (Misc)	-	100%	COMPLETE	DONE
Retiree Supplemental (w/Section 115)	3,660	94.4%	"16 to 10" Plan	4 Years
TOTAL	438,445			

**Net Pension and/or Unfunded Liability amounts are not constant and are subject to annual change for market conditions, demographics and actuarial methodology. The Net Pension Liability is based on GASB 68 actuarial valuations as of June 30, 2018.*

Long Term Financial Planning

Five-Year Financial Plan – General Fund

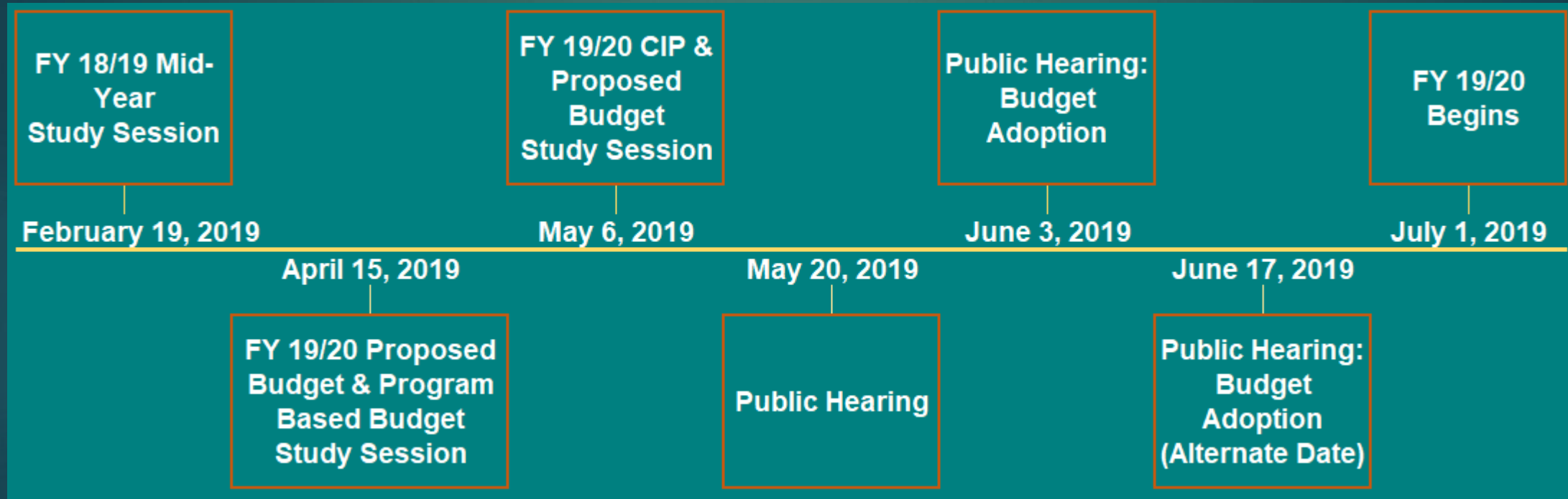
(in thousands)

Category	Adopted FY 18/19	Projected FY 19/20	Projected FY 20/21	Projected FY 21/22	Projected FY 22/23	Projected FY 23/24	Projected FY 24/25
Salaries	101,353	102,583	103,482	104,390	105,260	106,278	106,833
CalPERS Cost	36,338	40,787	44,999	48,426	51,322	53,303	56,240
Prepayment Discount	(900)	(1,000)	(1,070)	(1,110)	(1,150)	(1,190)	(1,230)
<i>YOY CalPERS Growth</i>		4,349	4,142	3,387	2,856	1,941	2,897
Other Benefits	28,528	29,887	30,176	30,545	30,910	31,426	31,977
Operating	41,972	41,264	41,790	42,328	42,879	43,302	43,729
Infrastructure	5,208	4,250	4,750	5,250	5,750	6,250	6,250
Equipment	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Debt Service/Transfers	10,873	12,928	12,133	12,140	11,927	11,929	11,876
Total Expenditures	228,372	235,699	241,260	246,969	251,898	256,298	260,675
GR Recurring Revenue	228,372	232,757	237,751	242,877	248,177	253,483	258,376
(Challenge)/Surplus	-	(2,942)	(3,509)	(4,092)	(3,721)	(2,815)	(2,299)
YOY Revenue \$		4,385	5,561	5,709	4,929	4,400	4,377
YOY Revenue %		1.9%	2.1%	2.2%	2.2%	2.1%	1.9%

FY 2019/20 Budget

- ▶ Potential uses of one-time funds in FY 2019/20
 - ▶ Strategic Plan Initiatives
 - ▶ Section 115 Trust
 - ▶ Technology projects

FY 2019/20 Proposed Budget Calendar



Questions

