CITY OF EL CAJON MID-YEAR REPORT
FISCAL YEAR 2017-18

This report is intended to evaluate the status of revenues and expenditures at the halfway point of the fiscal year, as well as communicate anticipated year-end results. In evaluating mid-year performance, current year activity is compared to that of previous years and budgeted expectations. This analysis has been conducted for the City of El Cajon's five major funds: the General Fund, the Wastewater enterprise fund, the Low-Moderate Income Housing Asset Fund special revenue fund, the City Capital Improvement Program fund, and the Public Safety Facilities Projects capital improvement fund. This report is useful for both managing operations for the remainder of this fiscal year, as well as contributing information necessary for the Five-Year Business Plan and developing the Fiscal Year 2018-19 Annual Budget.

Note: The following analysis was prepared solely for the purpose of determining how revenues and expenditures are performing as related to the budget. Consequently, the information contained herein may not be presented in accordance with generally accepted accounting principles.

GENERAL FUND

Overview

As of December 31, 2017, General Fund Revenues and Sources of Funds totaled $26.2 million, an increase of 8.9% ($2.1 million) from the same point last year. Expenditures and Uses of Funds totaled $32.1 million, which is up approximately 2.8% ($885,910) from last year's midway point.

For this period, July through December 2017, Expenditures and Uses of Funds exceeded Revenues and Sources of Funds by approximately $5.9 million. Several of the General Fund's larger revenue streams, such as Property Taxes) are received in the latter half of the fiscal year. During the first six months of the fiscal year, the General Fund cash flow needs are reliant upon the City's 20% Operating Reserve which prevents the City from having to borrow funds (i.e. issue tax and revenue anticipation notes), thereby avoiding additional interest and issuance expenses.

The table below summarizes this activity for the current year, as well as the two previous years.

	FY17-18 Budget*	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Revenues and Sources of Funds	$69,754,105	$26,173,956	37.5	$24,039,570	$25,797,535
Expenditures and Uses of Funds	71,525,532	32,083,154	44.9	31,197,243	32,086,077

*The adopted Fiscal Year 2017-18 budget included the planned use of reserves following an operating surplus in the previous year.

By fiscal year end, Revenues and Sources of Funds are projected to total $71.9 million, which is $2.1 million above budget and represents a 2.4% increase from last year. The majority of this increase is attributable to growth in sales taxes. Expenditures and Uses of Funds are estimated to be $67.5 million at fiscal year-end. This is 1.3% higher than last year, but is $3.8 million under budget. Together, this activity is expected to increase fund balance by an estimated $4.4 million. Additionally, given this performance, it is unlikely that the use of reserves planned in the Fiscal Year 2017-18 Annual Budget will be necessary. Further analysis of selected revenues and expenditures follows.

Revenue and Sources of Funds

While the General Fund has many sources of revenue, three major categories account for 84.1% of total budgeted revenue. These categories are: Sales Taxes, Property Taxes, and Franchise Fees. Each of these will be discussed separate of all remaining sources.

Sales Taxes- Sales tax revenue is comprised of two components: the City's share of the State sales tax rate and a voter approved 0.5% general sales tax (Proposition J). A controversial State driven revenue swap arrangement, known as the Triple Flip, came to an end in fiscal year 2016. This arrangement withheld one quarter of the City's Sales Tax proceeds, and replaced it with a similar amount of Property Tax. For the sake of comparison, property taxes received in lieu of sales tax have been included in the discussion of this category.

At the mid-year point of the fiscal year, sales tax receipts are up $1.0 million from the same point last year. The primary reason for this growth is the result of the continued expansion of the economy. The table below summarizes these balances, as well as those of the two previous years.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Sales Taxes	$25,693,314	$11,789,725	45.9	$10,831,971	$9,178,966
Sales Taxes (Proposition J)	9,726,267	4,414,801	45.4	4,023,924	4,615,339

Sales Taxes are expected to exceed budgeted amounts by approximately $1.1 million by fiscal year end.

Property Taxes- Property tax revenue is comprised of three major components: regular property taxes, property tax received in lieu of Vehicle License Fees, and the residual distribution from the Redevelopment Property Tax Trust Fund. Property taxes are up approximately 8.1% ($252,727) from this point last year.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Property Taxes (PT)	$8,229,721	$3,356,157	40.8	$3,103,430	$3,078,434
PT – In Lieu VLF	8,680,990	0	0.0	0	0
PT – RPTTF Residual Distribution	900,000	0	0.0	0	0

The majority of this revenue is received in the second half of the fiscal year, and projections indicate that year-end results will exceed budgets for this category by approximately $640,000.

Franchise Fees- Franchise fees are collected from San Diego Gas & Electric, Waste Management, Cox Communications, and Pacific Bell. At the midpoint of the fiscal year, current year Franchise Fees are up 3.5% ($35,422) from last year. The table below illustrates Franchise Fees for the current year, as well as the two previous years.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Franchise Fees	$5,407,262	$1,054,148	19.5	$1,018,726	$2,019,370

Other Revenue Categories- The remaining revenue categories represent 15.9% of total General Fund Revenues and Sources of Funds. The following table details the mid-year performance of each category for the current year, as well as the two most recent years.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Transient Occupancy Tax	$1,400,332	$453,873	32.4	$416,608	$437,621
Business Licenses	867,427	490,407	56.5	521,176	493,917
Real Property Transfer Tax	300,000	130,170	43.4	112,620	152,582
Ambulance/Paramedic Tax	378,000	53,139	14.1	-	-
Licenses and Permits	1,222,200	645,092	52.8	543,084	854,987
Intergovernmental Revenues	621,536	495,069	79.7	299,210	76,970
Charges for Services	2,818,760	1,585,879	56.3	1,422,315	1,448,323
Investment Earnings	300,000	153,895	51.3	34,237	249,901
Fines and Forfeitures	558,500	348,254	62.4	270,432	293,991
Other Revenue & Reimbursement	2,438,881	1,177,890	48.3	1,212,256	1,301,760
Other Financing Sources	210,915	25,458	12.1	240,581	1,595,372

By year end, these categories in total are projected to exceed budgeted amounts. Projected results for each major revenue category is shown in the following table.

	FY17-18 Budget	FY17-18 Projected	% of Budget
Sales Taxes	$35,419,581	36,510,130	103.1
Property Taxes	17,810,711	18,449,162	103.6
Franchise Fees	5,407,262	5,175,415	95.7
All Other Categories	11,116,551	11,736,570	105.6
Total General Fund Revenue	$69,754,105	$71,871,277	103.0

Expenditures and Uses of Funds

Expenditures and Uses of Funds are $32.1 million or 44.9% of budget at mid-year. This represents a 2.8% ($885,910) increase from the same point last year. The following table shows mid-year expenditures organized by function for the current year, as well as the two preceding years.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
General Government	$6,916,523	$2,768,310	40.0	$3,131,343	$3,050,488
Public Safety- Police	33,717,784	15,540,276	46.1	14,500,008	14,034,647
Public Safety- Fire	15,282,372	7,169,174	46.9	5,329,098	5,708,693
Public Works	9,522,855	3,886,426	40.8	3,370,522	3,619,337
Recreation	3,005,130	1,321,217	44.0	1,197,396	1,156,210
Community Development	3,080,868	1,397,751	45.4	1,209,453	1,134,073
Other Financing Uses	-	-	100.0	2,462,528	3,382,629
Total Expenditures	$71,525,532	$32,083,154	44.9	$31,200,348	$32,086,077

General Fund expenditures are also shown by category in the following table.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Salaries and Benefits	$54,061,210	$25,027,433	46.3	$23,188,254	$22,274,198
Materials, Services, and Supplies	17,348,445	6,996,845	40.3	5,922,390	6,987,989
Capital Outlay	115,877	58,876	50.8	2,176	38,127
Other Financing Uses	-	-	100.0	2,087,528	2,785,763
Total Expenditures	$71,525,532	$32,083,154	44.9	$31,200,348	32,086,077

General Fund expenditures are higher than last year, with the largest impacts due to negotiated salary and benefit increases, CalPERS contribution rate increases, as well as general inflationary pressure. Projected year end results anticipate the General Fund closing the year under budget.

Fund Balance

Fund balance is comprised of reserves and designations for specific operating needs or purposes. The 20% Operating Reserve is used to provide sufficient cash flow during the first half of the fiscal year, primarily resulting from the timing differences between expenditures and revenues. The Economic Uncertainty Reserve is established for the purpose of stabilizing delivery of City services during periods of budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures. The Reserve for Unfunded Retirement Obligation was established to address increasing unfunded liabilities and higher employer contribution rates. Any remaining fund balance creates a Carryover Reserve.

The fund balance at the start of the fiscal year was $39.1 million. Taking into consideration projected revenues and expenditures at fiscal year-end, fund balance is expected to total approximately $43.4 million. The following table illustrates projected reserve balances at year-end.

Projected General Fund Balance

	07/01/17 Fund Balance	06/30/2018 Estimated Fund Balance
20% Operating Reserve	$13,052,990	$13,500,667
Economic Uncertainty Reserve	6,500,000	6,500,000
Reserve for Unfunded Retirement Obligation	8,000,000	8,000,000
Carryover Reserve **	11,500,369	15,420,632
Total Fund Balance	$39,053,359	$43,421,299

** *Carryover Reserve is available to bridge any imbalance of expenditures exceeding revenues.*

WASTEWATER ENTERPRISE FUND

Revenues at the midpoint of the fiscal year total $11.3 million, which is up 10.9% from the same point last year. The chart below illustrates mid-year performance for the current year, as well as the two preceding years.

Wastewater Revenues	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Sewer Service Fee	$18,000,000	$9,620,690	53.5	$9,198,448	$8,806,560
Septic Tank Disposal Fee	1,000,000	1,286,907	128.7	723,807	500,280
All Other Revenue	222,500	391,060	175.8	264,879	426,329
Total Revenue	$19,222,500	$11,298,657	58.8	$10,187,134	$9,733,169

Expenditures of $11.2 million are 35.1% higher than the same period last year, largely as a result of the timing of capital expenditures. It is anticipated that the Wastewater Fund expenditures will be below budget at year end.

Wastewater Expenditures	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Salaries & Benefits	$3,987,783	$1,485,443	37.3	$1,447,411	$1,415,975
Materials, Services, and Supplies	17,737,658	6,807,514	38.4	6,241,231	6,120,253
Debt Service	500,000	36,559	7.3	25,086	-
Capital Outlay and Projects	13,149,144	2,891,900	22.0	561,412	1,210,452
Other Financing Uses	150,999	-	-	28,628	2,840
Total Expenditures	$35,525,584	$11,221,416	25.7	$8,303,768	$8,749,520

LOW-MODERATE INCOME HOUSING ASSET FUND

The Low-Moderate Income Housing Asset Fund (LMIHAF) is a special revenue fund used to manage the housing programs and projects to increase affordable housing opportunities for the City's lower income households. The fund is administered by the City's Community Development Department, and is funded primarily by revenues generated from the housing assets transferred from the former redevelopment agency.

	FY17-18 Budget	FY17-18 Mid-Year	% of Budget	FY16-17 Mid-Year	FY15-16 Mid-Year
Expenditures	$4,040,661	$37,339	0.9	$56,876	$59,349
Revenues	1,594,421	303,313	19.0	255,132	28,100

The activity in this fund is largely project based, and therefore highly impacted by timing differences. However, it is anticipated that year-end results will be within budget.

CITY CAPITAL IMPROVEMENT PROGRAM FUND

This capital fund includes capital projects primarily funded by general tax revenues. However, some projects include additional funding sources. While many projects are multi-year in nature, each project has an annual budget for anticipated activity in the current fiscal year. The following table illustrates the annual budget and expenditures through the half-way point in the year for each capital project in this fund.

PROJECT DESCRIPTION	PROJECT NUMBER	FY 2017-18 BUDGET	FY 2017-18 YTD EXPENDITURE	% of BUDGET
ECPAC Improvements	IFM3471	3,446,456	8,419	0.2%
City Hall and Council Chambers HVAC	IFM3389	1,470,529	1,916	0.1%
Public Works Operations Generators	IFM3527	301,997	-	0.0%
Elevator Improvements	IFM3469	109,770	7,414	6.8%
City Council Chambers Audio Visual Improvements	IFM3524	90,000	-	0.0%
Fire Station Extractors	IFM3551	70,000	-	0.0%
Security Improvements	IFM3621	60,000	-	0.0%
Fire Station 7 Generator	IFM3619	22,000	-	0.0%
Transfer out to other capital project funds		177,353	57,859	32.6%
TOTAL		**5,748,105**	**75,608**	1.3%

PUBLIC SAFETY FACILITIES PROJECTS FUND

The voters approved Proposition O in 2004, a one-half cent sales tax which is dedicated to the construction and/or improvement of public safety facilities. The Public Safety Facilities Citizen's Oversight Committee receives periodic updates on the collection and use of Proposition O sales taxes and submits an annual report to the City Council. Proposition O expired on March 31, 2015. The following table shows the actual revenues and expenditures through December 31, 2017.

SUMMARY OF REVENUES

Account Name/Description	Inception to June 30, 2016	July 1, 2016 to December 31, 2017	Received To Date
Sales Tax Revenue	$81,063,628.35	$8,872.97	$81,072,501.32
Investment Earnings	2,886,050.48	29,533.00	2,915,583.48
Investment Earnings - Fiscal Agent	123,027.10	0.00	123,027.10
Sale of Property to Redevelopment Agency	2,955,856.89	0.00	2,955,856.89
Rental Income	77,905.37	0.00	77,905.37
Miscellaneous Reimbursement	594,379.34	0.00	594,379.34
Bond Proceeds	25,195,000.00	0.00	25,195,000.00
Premium on Bond Issuance	769,982.80	0.00	769,982.80
Total Revenues	**$113,665,830.33**	**$38,405.97**	**$113,704,236.30**

SUMMARY OF EXPENDITURES BY ACTIVITY/PROJECT

Activity/Project Name	Activity/ Project #	Inception to June 30, 2016	July 1, 2016 to December 31, 2017	Total to Date
Program Support	502000	$1,349,712.53	3,280.79	$1,352,993.32
Debt Service	502000	30,025,245.41	0.00	30,025,245.41
Projects:				
Public Safety Center	PS0010	62,625,814.29	0.00	62,625,814.29
Animal Shelter	PS0020	2,232,192.76	2,679,609.15	4,911,801.91
Fire Station 8	PS0030	1,659,969.25	0.00	1,659,969.25
Fire Station 6 - Roof & HVAC	PS0040	1,071,387.03	0.00	1,071,387.03
Fire Station 6 - Kitchen Remodel	PS0041	95,440.47	0.00	95,440.47
Fire Station 6 - Add'l Improv	PS0042	156,219.99	0.00	156,219.99
Fire Station 7	PS0050	71,583.68	0.00	71,583.68
Fire Station 9	PS0060	1,581,118.66	0.00	1,581,118.66
Fire Station 6 - Renovation	PS1502	182,790.29	0.00	182,790.29
Projects Subtotal		69,676,516.42	2,679,609.15	72,356,125.57
Total Expenditures		**$101,051,474.36**	**$2,682,889.94**	**$103,734,364.30**

CITY OF EL CAJON FIVE-YEAR BUSINESS PLAN
FISCAL YEAR 2017-18 UPDATE

The Five-Year Business Plan is used to evaluate and update revenue and expenditure assumptions for the General Fund and other funds based on current economic conditions. Long-range forecasting can reveal imbalances not apparent today, providing time to take corrective action in a proactive way. Accordingly, financial planning is central to how the City is governed and managed. This long-range financial forecast is not intended as a budget, but as a decision-making tool.

The purpose of the plan is to assist City staff in making better business decisions by assessing mid-term and long-term financial implications of current economic conditions and proposed obligations, policies, programs, and assumptions. As such, the Five-Year Business Plan is an important tool in preparation of the upcoming budget. The plan represents the opportunity to take a broad view of the City's operating finances before considering the details of the Annual Budget.

Economic Outlook

The economic outlook for the county, state, and nation are taken into consideration when updating the Five-Year Business Plan. The economy continued to improve during 2016, and growth is expected to continue at a steady pace.

University of San Diego Professor Alan Gin publishes a highly respected monthly index that measures and reflects on the direction of the San Diego economy. The most recent report was issued on February 7, 2017. In this report, he summarizes:

> The strength and breadth of the increase [in the index] was impressive and may eventually lead to a readjustment of the outlook for the local economy. For now, the forecast remains for slower growth in 2017 than in 2016. A number of factors could adversely affect the local economy in the coming year. First, the Federal Reserve is expected to continue increasing interest rates. An increase of at least 50 basis points is expected for the year, which could have negative ramifications for the local housing market.

The UCLA Anderson Forecast, in a September, 2016 release, made the following comments regarding California's economy.

> Total employment growth for the state will be 2.0%, and the forecast for 2017 and 2018 is 1.7% and 1.1%, respectively. Payrolls will grow more at about the same rate over the forecast horizon. Real personal income growth is estimated to be 2.6% in 2016 and is forecast to be 3.7% and 3.6% in 2017 and 2018, respectively. Home building will continue in California at about 120,000 units per year in 2017. In spite of the Governor's policy to ease building restrictions, one million new homes in California are not in the offing and home prices will remain at a premium.

And:

> Steady gains in employment are expected through 2018, while the unemployment rate in the state is expected to decrease during the next two years. California's unemployment rate is expected to be insignificantly different from the U.S. rate at 5.4% by the end of the forecast period.

In that same release, the UCLA Anderson Forecast addressed the national economy with the following comments.

> The national economy foresees real gross domestic product growth in the 2.0% to 2.5% range throughout 2017 and 2018, where it has been for the past seven years. With the economy approaching full employment, employment growth is expected to slow from what has been a consistent 200,000 jobs per month to about 150,000 per month in 2017 and 125,000 per month the following year. The national unemployment rate is predicted to be in the 4.8% to 5.0% range throughout the forecast period.

The Federal Open Market Committee made the following comments February 1, 2017.

> Information received since the Federal Open Market Committee met in December indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace. Job gains remained solid and the unemployment rate stayed near its recent low. Household spending has continued to rise moderately while business fixed investment has remained soft. Measures of consumer and business sentiment have improved of late. Inflation increased in recent quarters but is still below the Committee's 2 percent longer-run objective. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance.

Other Sources of economic information, such as the Bureau of Labor Statistics and the Bureau of Economic Analysis, support the anticipation that the economy should continue to grow at a modest pace.

Employee Retirement – CalPERS

The City is a member of the California Public Employees' Retirement System (CalPERS). All City employees who work at least 1,000 hours per fiscal year are eligible to participate in CalPERS. Participants in the plan vest after five years of employment.

Over the past few years the CalPERS Board approved significant changes to actuarial policies and assumptions to enhance the long-term stability of the fund. As a result of these changes, along with poor investment performance, employer retirement contribution rates have increased, and are expected to continue to grow. The largest portion of this rate increase is attributed to the unfunded liability of the miscellaneous and safety plans. The following table shows the actual employer contribution rates for a five-year period.

CALPERS EMPLOYER CONTRIBUTION RATES

Miscellaneous Members	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Normal Cost	9.321%	10.096%	10.042%	10.012%	10.575%
Unfunded Rate	16.759%	17.310%	20.103%	23.749%	27.185%
Total Miscellaneous Rate	**26.080%**	**27.406%**	**30.145%**	**33.761%**	**37.760%**

Safety Members	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Normal Cost	17.418%	17.939%	18.029%	18.188%	18.933%
Unfunded Rate	19.705%	19.589%	24.028%	29.271%	30.878%
Total Safety Rate	**37.123%**	**37.528%**	**42.057%**	**47.459%**	**49.811%**

*The rates stated above are employer rates only; employee rates apply in addition to the above rates.

As of the most recent actuarial valuation date, June 30, 2015, the City's combined plans cover 1,530 current and former employees, of which 722 are retired. Safety plan retirees receive an average annual benefit of $53,427, while miscellaneous plan members receives an average annual benefit of $23,179. The combined unfunded retirement liability was $157.0 million, and the combined plans were funded to 67.6%. In Fiscal Year 2016-17, total citywide CalPERS contributions for both plans total $13.7 million.

CalPERS annual investment goal has been 7.5% for the past several years, but the system has significantly underperformed that goal (on average). The result of these poor returns has been an annual underfunding of most CalPERS plans by greatly reducing the plans' primary funding mechanism: investment returns. After several years of underperformance, the unfunded retirement liability and contribution rate have grown, and the plans' funded status have shrunk.

In December 2016 CalPERS voted to reduce the annual investment return assumption from 7.5% to 7.0% over a three year period. While this is a somber move to recognize a significant problem, this is still short of CalPERS investment earnings expectation for the next ten years.

Although the most recent valuation report included projected contribution amounts, the vote to decrease the investment return assumption will have a significant impact on these rates. Presented below are the projected employer contributions provided by CalPERS which have been updated to included expected increases as a result of this change.

CALPERS PROJECTED TOTAL EMPLOYER CONTRIBUTION RATES

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Miscellaneous Plan	39.7%	44.7%	50.3%	56.6%	61.1%
Safety Plan	55.1%	62.7%	70.7%	79.5%	85.6%

*The rates stated above are employer rates only; employee rates apply in addition to the above rates.

CalPERS employer contributions, and the City's unfunded pension liability, continue to represent one of the biggest challenges for many years to come. Pension cost increases will result in millions of dollars in additional costs for the City each year, which will significantly offset anticipated revenue growth.

Assumptions Utilized in the Five-Year Business Plan

The Five-Year Business Plan is based on a number of assumptions regarding the future. These assumptions are detailed below.

General Fund Revenue Assumptions

1. Revenue projections are based on the anticipated Fiscal Year 2016-17 revenues as determined by mid-year analysis, as well as the most recent data available.
2. Sales tax revenue projections are based on estimates provided by the City's sales tax consultant/analyst. These estimates were updated based on information from the 3rd quarter sales tax information.
3. Property tax revenues are projected to grow by 4.0% annually.
4. Franchise fees from SDG&E, Waste Management, Cox Communication, and AT&T are projected to increase 2.0% annually.
5. Ongoing residual revenue distribution resulting from the dissolution of the redevelopment agency, net of expenses, is conservatively projected based on experience.
6. Assumes most other revenues to grow 2.0% annually.
7. Anticipates *no* revenue reductions to aid in balancing the State's budget.

General Fund Expenditure Assumptions

1. Salary and wages are projected using negotiated rates where available, and assumes 2.0% growth where applicable.
2. Pension related costs are projected based on rates provided by CalPERS as part of the actuarial valuations.
3. Assumes Workers Compensation Insurance rates increase slightly higher than the inflation assumptions.
4. Contributions to the Vehicle/Equipment Replacement Fund, and Capital Improvement Project Fund projected based on anticipated needs.
5. Maintains the Council contingency at $100,000 per year.
6. Materials and Supplies expenditure growth is projected at 1.0% annually.

Projection Limitations

Projections are designed to anticipate future performance based on past results, but unforeseen events can dramatically impact anticipated results. Projections should therefore be used as a planning tool and to identify structural flaws. The mitigation of these unforeseen events takes place during the annual budget process and the daily operation of the organization.

General Fund Projection Results

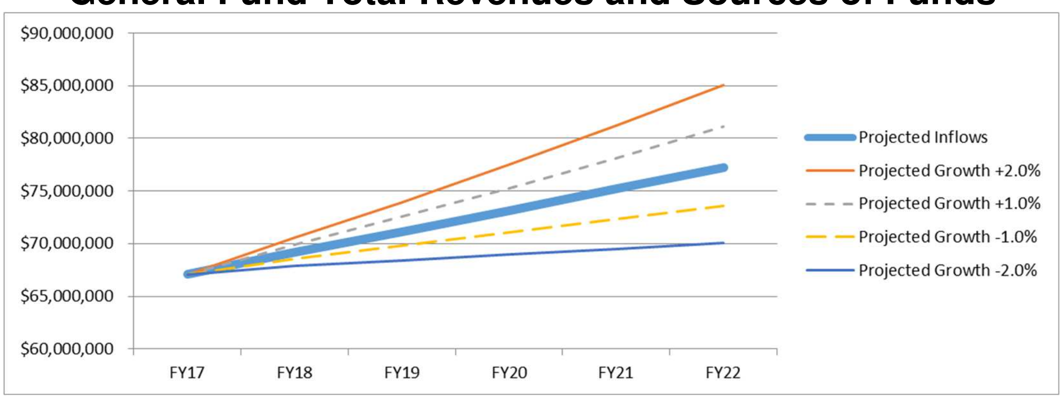
Once these assumptions are taken into account, and weighed alongside objective information, a picture of anticipated results emerges. The overall conclusion is that revenue growth is anticipated to be slow and steady over the next five years, and offset by expenditure growth. The impact of unforeseen events may have much bigger impacts than what is anticipated here. The information presented below indicates the starting point from which adjustments can be made during the annual budget process to ensure balanced budgets going forward.

Summary of Projected General Fund Activity

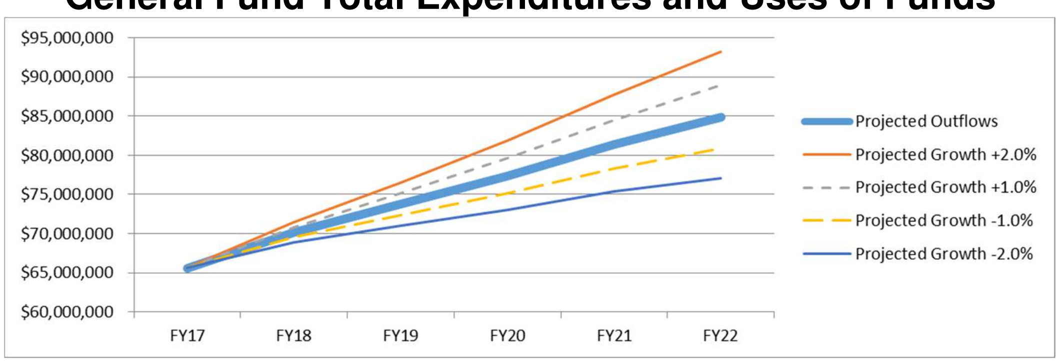
Fiscal Year	Projected Inflows	Projected Outflows	Change in Fund Balance
FY 2016-17	$67,067,343	$65,587,177	$ 1,480,166
FY 2017-18	69,203,399	70,189,788	(986,389)
FY 2018-19	71,148,531	73,746,880	(2,598,349)
FY 2019-20	73,142,137	77,385,281	(4,243,144)
FY 2020-21	75,177,695	81,391,532	(6,213,837)
FY 2021-22	77,254,093	84,834,008	(7,579,915)

The two following tables are intended to demonstrate the impact on results from relatively minor deviations from expectations

General Fund Total Revenues and Sources of Funds



General Fund Total Expenditures and Uses of Funds



Fund Balance

City Council Policy B-12, Fund Balance, establishes a policy that will ensure the City maintains adequate fund balance and reserves to provide sufficient cash flow for daily needs, secure and maintain investment grade bond ratings, offset significant economic downturns and revenue shortfalls, and provide funds for unforeseen expenditures related to emergencies.

In accordance with the Policy, the General Fund, Fund Balance is currently segregated into an operating reserve, an economic uncertainty reserve, an unfunded pension obligation reserve, and a carryover reserve. The purpose for each of these reserves is discussed more fully below.

Operating Reserve – The Operating Reserve is recomputed annually at 20% of expenditures and is maintained each year. The Operating Reserve serves the following essential purposes:

1. Provides cash flow to avoid borrowing (tax and revenue anticipation notes) during low cash periods (typically the first six-months of the fiscal year).
2. Provides interest-earning revenues to benefit the General Fund.
3. Serves as the single most important practice evaluated by credit rating agencies when rating a municipality.
4. Protects the City from unforeseeable circumstances such as:
    - Unexpected costs resulting from a national or local disaster.
    - A sudden worsening in the economy, such as the recent prolonged recession and existing effects.
    - Unanticipated external factors, such as litigation or negative actions of other governments.

Economic Uncertainty Reserve – This reserve is established for the purpose of stabilizing delivery of City services during periods of structural budget deficits and to mitigate the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

Unfunded Retirement Obligation Reserve - This reserve was established to address the increasing unfunded liability and higher employer contribution rates. CalPERS conducts periodic evaluations of the actuarial assumptions and, after due consideration by its Board, modifies the assumptions based on actual experience.

Carryover Reserve – The Carryover Reserve is available for the following purposes, and, without mitigation, is expected to be significantly reduced over the course of the Five-Year Business Plan:

1. Allocating additional contributions to vehicle/equipment replacement, information technology replacement, and capital improvement projects for long-term fiscal sustainability.
2. Stabilizing delivery of City services during periods of operational budget deficits.

3. Mitigating the effects of major economic uncertainties resulting from unforeseen changes in revenues and/or expenditures.

Based on projections, and without mitigation, the table below summarizes the impact on fund balance of anticipated activity over the next five years.

GENERAL FUND	FY2017-18	FY2018-19	FY2019-20	FY2020-21	FY2021-22
Projected Total Ending Fund Balance	$36,995,629	$36,009,240	$33,410,891	$26,167,747	$15,373,995

Guidelines for Fiscal Year 2017-18 Budget Development

Personnel changes (additions and/or reclassifications), if needed, must be offset by cost reductions or revenue enhancements.

Overtime must be limited to only covering vacancies and other staffing shortfalls.

Contain material, supplies, and services growth allowing for only inflation/cost increases where applicable.

Non-General Fund resources should be utilized as a first priority for capital needs.