City of
Grover Beach

General Fund
Ten-Year Fiscal Forecast: 2019-29

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124 Cerro Romauldo Avenue
San Luis Obispo, CA 93405
805.544.5838 ■ Cell: 805.459.6326
bstatler@pacbell.net
www.bstatler.com

William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

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INTRODUCTION

OVERVIEW

Background

Purpose. This report is in response to the City of Grover Beach's interest in preparing an updated General Fund fiscal forecast that assesses its ability to sustain current service levels on an ongoing basis and achieve major City goals. As it did two years ago, the City plans to begin the 2019-20 Budget process with Council goal-setting in linking the most important, highest priority things for the City to achieve in the near term with the resources needed to do so. The forecast will provide important context about the City's fiscal condition and outlook in conjunction with the goal-setting and budget process.

While this update builds on the framework used in the 2017 and 2018 forecasts, it revisits key assumptions, most notably:

- Projected pension cost increases, which will be phased-in by the California Public Employees Retirement System (CalPERS), of which the City is a member for all of its regular employees, through 2024-25.

- New hotel projects: Grover Beach Lodge and Urban Commons projects; and an increase in the transient occupancy tax (TOT) rate of 10% to 12%, which was approved by the voters in November 2018. This strengthens current "base" TOT revenues as well revenues from these two new hotels.

- Cannabis tax revenues resulting from the establishment of the commercial cannabis industry in Grover Beach.

- Phase-in through 2022-23 of approved increases in contributions to the Five Cities Fire Authority (FCFA) to ensure consistent and responsive fire and emergency services.

The forecast continues to cover a ten-year period. Compared with a five-year forecast, which was the timeframe used in 2017, this extended timeframe is largely driven by the need to assess the impact of projected CalPERS increases, which will be phased-in through 2024-25.

Past Fiscal Challenges and Those Ahead. Like virtually all other local governments in California, the City faced major fiscal challenges in the wake of the worst recession since the Great Depression. This was compounded by the dissolution of redevelopment agencies, which was a key funding source for community investments. As reflected in this forecast, the City's revenues have improved over the past six years, albeit modestly. However, like all other CalPERS members, it has experienced – and will continue to experience – steep increases in pension costs.

Making good resource decisions in the short term as part of the budget process requires considering their impact on the City's fiscal condition down the road. Developing good solutions requires knowing the size of any problem the City is trying to solve. In short, the City cannot fix a problem it hasn't defined. And in this economic and fiscal environment, looking only one year ahead has the strong potential to misstate the size and nature of the fiscal challenges – and opportunities – ahead of the City.

For those local agencies that have prepared longer-term forecasts and follow-on financial plans, this did not magically make their fiscal problems disappear: they still had tough decisions to make. However, it allowed them to better assess their longer-term outlook, more closely define the size and duration of the fiscal challenges and opportunities facing them, and then make better decisions accordingly for both the short and long run. This will be true for the City as well.

Forecast Framework and Approach

The purpose of the forecast is to identify the General Fund's ability over the next ten years – on an "order of magnitude" basis – to continue current services and achieve major City goals. The forecast does this by projecting ongoing revenues and subtracting from them likely operating, debt service and capital costs in continuing current service levels. If positive, the balance remaining is available to fund "new initiatives" such as implementing capital improvement plan (CIP) goals, addressing unfunded liabilities or improving service levels. On the other hand, if negative, it shows the likely "forecast gap" if the City continues current service levels without corrective action.

***It is important to stress that this forecast is not the budget*.**

Budgets are based on program review, priorities and affordability. Forecasts, on the other hand, are based on assumptions. Accordingly, this forecast doesn't make expenditure decisions; it doesn't make revenue decisions. As noted above, its sole purpose is to provide an "order of magnitude" feel for the General Fund's ability to continue current service levels and achieve major City goals.

Ultimately, this forecast cannot answer the question: "Can the City afford new initiatives?" This is a basic question of priorities, not of financial capacity per se. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources. And by identifying and analyzing key factors affecting the City's long-term fiscal heath, the forecast can help assess how difficult making these priority decisions will be.

Stated simply, the forecast is not the budget. Rather, it sets forth the challenges – and opportunities – ahead of the City in adopting a balanced budget, next year and beyond.

SUMMARY OF FORECAST FINDINGS

The Short Story

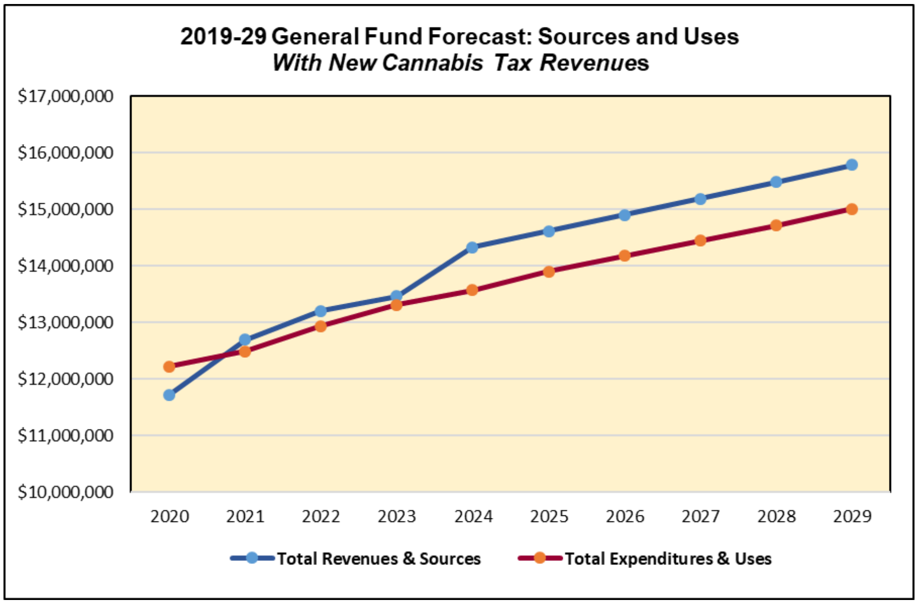
- With the cannabis tax at projected levels ($1.75 million by 2021-22), combined with the City's solid fiscal condition, the General Fund is in good shape.

- However, without this new revenue source, the General Fund will face significant challenges over the next ten years.

What's this mean for the future? While the City is poised for a positive fiscal outlook beginning in 2020-21, there are many uncertainties ahead, not the least of which are the economy and cannabis tax revenues. As such, the City should use any favorable results for one-time purposes, such as funding CIP projects and addressing unfunded pension and retiree health care liabilities; and conversely, containing operating cost increases.

With New Cannabis Revenues: Favorable Fiscal Outlook

As shown in the chart below comparing projected sources and uses over the next ten years, beginning in 2020-21, revenues exceed expenditures in every year, increasing to an anuual "surplus" of about $750,000 by 2026-27 – and continuing at about this level annually thereafter.

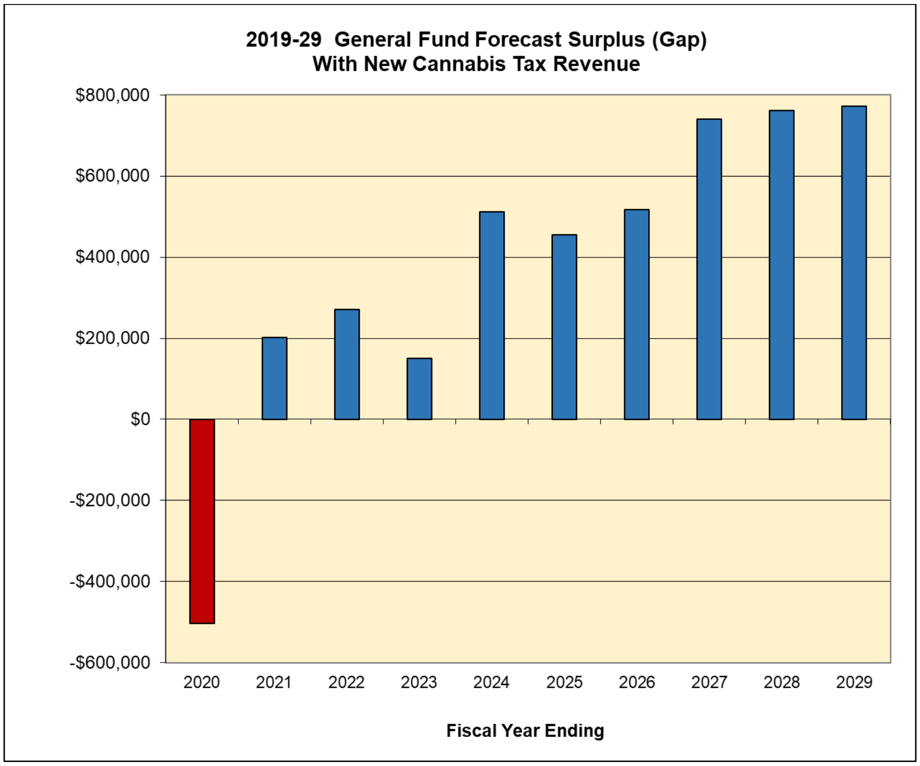


While partially offset by pension and FCFA cost increases as well finanical assistance to the Grover Beach Lodge project in 2023-26, this outlook is based on two major factors:

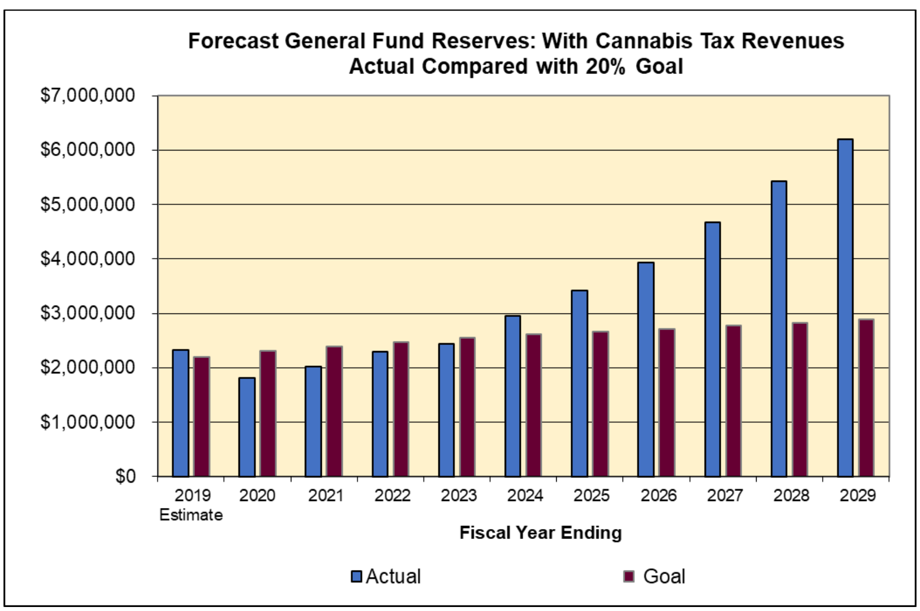
- ***New Hotel-Related Revenues***. Increased TOT revenues of $428,000 in 2020-21 from the new Urban Commons hotel; and increases in TOT, property tax and sales tax of $606,000 from the Grover Beach Lodge project beginning in 2023-24. These projections also reflect an increase in the TOT rate from 10% to 12%, which was approved by the voters in November 2018. This strengthens current "base" revenues as well revenues from these two new hotels.

- ***New Cannabis Tax Revenues.*** These increase from $16,300 in 2017-18 to estimates of $750,000 in 2018-19, growing to $1.75 million by 2021-22.

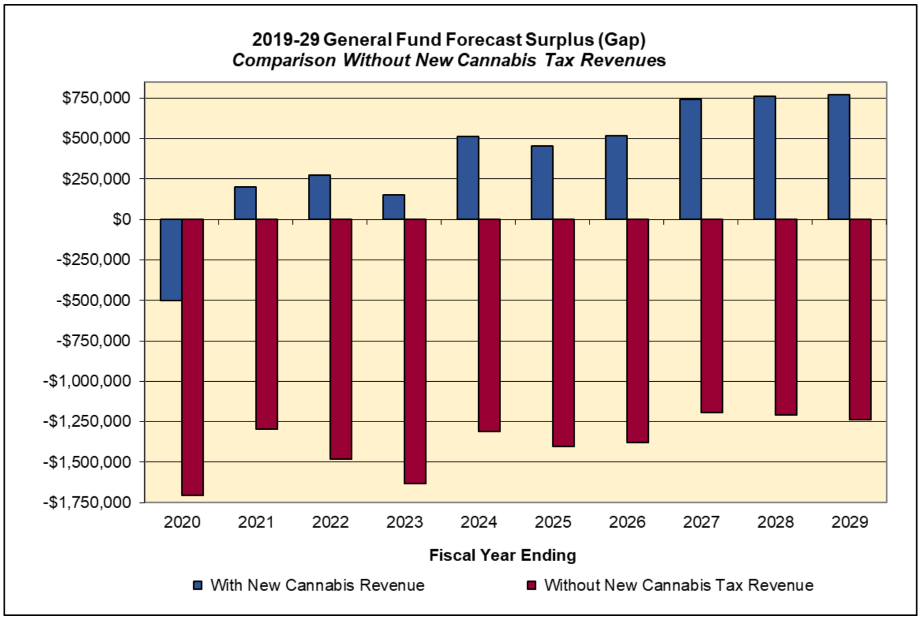
As shown in the chart below, which focuses on the annual "surplus/(gap)," the forecast projects that there will be a "gap" between sources and uses of $503,600 in 2019-20, growing to a surplus the next year (2020-21) of $202,300; and to about $750,000 annually thereafter beginning in 2026-27.



General Fund reserves are available to fund this short-term gap. The forecast projects that reserves will be at 21% of operating expenditures at the end of 2018-19; and fall slightly below this at the end of 2019-20 (to 16%). However, reserves will begin to recover the following year, growing to 43% by the end of the forecast period. This compares with the City's policy of maintaining reserves that are at least 15% of operating expenditures, with the goal of 20%.



Without New Cannabis Revenues: Challenging. The following chart compares the forecast "surplus/(gap)" results with what happens if the new cannabis revenues do not materialize as projected.



Instead of projecting an annual "surplus" of about $750,000 at the end of ten years, the forecast shows an annual gap of about $1.2 million by 2028-29 without new cannabis tax revenues.

Caveat: The Forecast Reflects Cautious Optimism. A*s* discussed in more detail later in this report, the continued growth in the economy (and related growth in City revenues) is not a sure thing. At 115 months, the nation is now in its second longest period of economic expansion in 75 years. And it is quickly closing in on the other one: 120 months of sustained growth from 1991 to 2001. In short, avoiding a downturn over the next five years – let alone ten years – would mean setting a new post-Great Depression record for economic expansion.

Accordingly, as noted above, with the prospect of a favorable fiscal outlook, the City should strongly consider using those resources to fund one-time costs, such as addressing its unfunded pension and retiree health liabilities along with needed infrastructure and facility improvements.

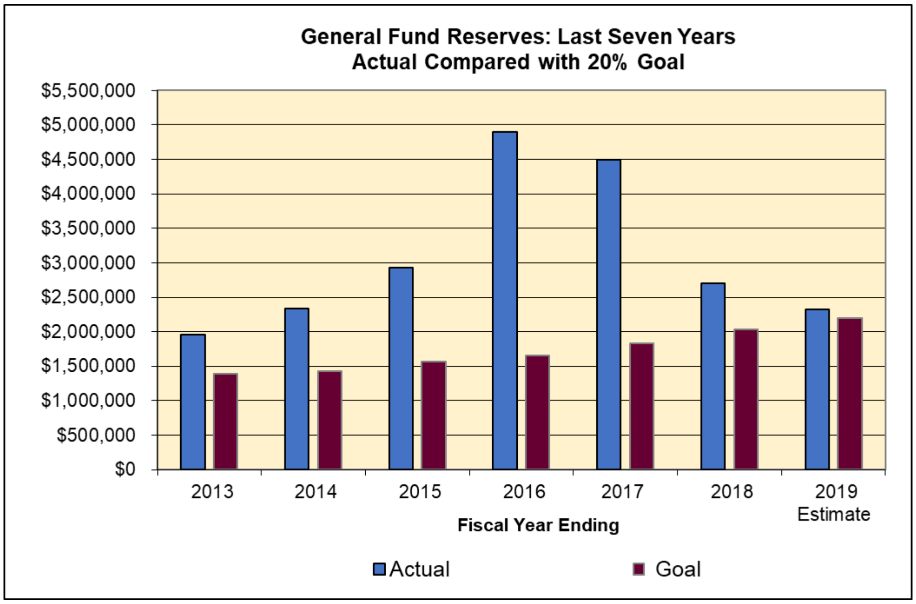
- In the case of unfunded pension and retiree health liabilities, using funds for this purpose will reduce future year costs and reflects an implied 7.0% return on funds compared with current yields of about 2% from investments in the Local Agency Investment Fund.

- Allocating funds for one-time CIP project costs has the advantage of addressing infrastructure and facility needs, while positioning the City for the next downturn. Stated simply, it is much easier to reduce CIP expenditures than it is to cut operating programs and staff.

Key Forecast Drivers

Assumptions drive the forecast results, which are detailed on pages 12 to 15. Stated simply, if the assumptions change, the results will change. Key drivers underlying the forecast results include:

Current Solid Financial Condition. The following chart shows the City's General Fund reserve balance for the past six years compared with the City's goal of 20% of operating expenditures.



As reflected in this chart, the General Fund ending balance meets or exceeds the goal in all six of the last completed years; and is projected to be at 21% at the end of 2018-19. This is especially notable in 2017-18 and 2018-19, since they include significant CIP expenditures.

State Budget Outlook. Over the past twenty-five years, the greatest fiscal threat to cities in California has not been economic downturns, dot.com meltdowns or corporate scandals, but rather, State takeaways. These included 20% reductions in property tax revenues in transferring revenues to schools via the Education Revenue Augmentation Fund (which in turn allowed the State to reduce its funding to schools by a commensurate amount), property tax administration fees, unfunded State mandates and most recently, dissolution of redevelopment agencies. These takeaways were on top of the fiscal challenges facing cities in light of their own revenue declines and cost pressures.

Fortunately, due to an improving economy combined with tax increases, constrained spending and more prudent fiscal policies (including required contributions to reserves), the State is in its best financial condition in many years. Accordingly, there are no further takeaways on the horizon – but neither are there any suggested restorations of past takeaways.

That said, while there are added constitutional protections in place since the last State raids on local finances, ten years is a long time for the State to leave cities alone.

Revenues. Based on trends for the past five years (detailed on pages 25 to 28, it is clear the City has recovered from the Great Recession. The forecast generally assumes continued growth in the City's "historically" five revenues (excluding cannabis taxes, which did not begin collection until 2017-18) – property tax, sales tax, franchise fees, TOT and utility users tax. Together with cannabis taxes, these five sources account for over 80% of General Fund revenues and sources.

Additionally, the City's base for these revenues is projected to grow from five new sources during the next ten years:

- New cannabis tax revenues (growing from $16,300 in 2017-18 to estimates of $750,000 in 2018-19, increasing to $1.75 million by 2021-22.).

- New TOT revenues from the 130-room Urban Commons hotel (starting at $428,000 in 2020-21).

- New revenues beginning in 2023-24 of $606,000 from the 144-unit Grover Beach Lodge: $516,000 from TOT; $60,000 from property tax; and $30,000 from sales tax. However, as discussed below, there is a General Fund commitment for financial assistance of $700,000 for this project spread over three years in 2023-26.

- Increase in the TOT rate from 10% to 12%, which was approved by the voters in November 2018. This strengthens current "base" revenues as well revenues from these two new hotels.

- Increase in business tax revenues of $90,000 annually beginning in 2018-19, resulting from a revised tax structure approved by voters in November 2018.

It should be noted that there is also a new hotel proposed at 1598 El Camino Real, which the Council is likely to consider in 2019. However, given its early stage in the development process, no revenues are projected from this hotel in the forecast.

Expenditures. There are six key expenditure assumptions reflected in the forecast, which are described in greater detail on pages 12 and 13.

- **"Baseline" operating costs.** The 2018-19 Budget as revised slightly at the Mid-Year Budget Review is the "baseline" for the forecast. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding pension costs and scheduled increases in the City's contribution to the FCFA.

- **Penson cost increases.** Significant increases in retirement costs are assumed based on projection factors provided by CalPERS.

- **Scheduled increases to the FCFA**. Beginning with an increase of $306,000 in 2018-19, an added $475,000 in City contributions through 2022-23 is reflected in the forecast ($781,000 in total from 2018-19 through 2022-23).

- **CIP expenditures.** These are based on the five-year CIP included in the 2018-19 Budget through 2022-23. After that, they increase by inflation (2%) from the 2022-23 level of $200,000.

- **Wastewater fund advance repayments**. The forecast assumes the start of annual repayments to the Wastewater Fund for its advance of $670,000 for the broadband project over five years, beginning in 2019-20 in the amount of $144,700. Following that, the forecast assumes repaying the Wastewater Fund for advances it made in providing start-up funds in the mid-2000's for what was intended to be a self-supporting fund to cover development review costs (planning and building) through permit fees and service charges. Unfortunately, this did not occur. The General Fund is responsible for repaying $765,000 advanced to this fund (all development review costs and revenues have since been accounted for in the General Fund). Annual repayment is assumed over five-years beginning in 2024-25 in the amount of $177,600.

- **Grover Beach Lodge financial assistance.** As noted above, financial assistance to this project of $700,000 is planned to be spread over three years in 2023-26.

GENERAL FISCAL OUTLOOK

Economic Overview

Where We Are Today. We have seen consistent growth nationally and in the State for more than nine years.

- National unemployment is 3.9%, down from its peak of 10.0% in October 2009.
- California unemployment is 4.1%, down from its peak of 12.2% in October 2010.
- The stock market has rebounded strongly: the Dow Jones Industrial Average has increased from a low in March 2009 of 6,500 to more than 24,000 in January 2019.
- Corporate earnings are up, with record highs nationally.
- The banking system is healthier.
- Interest rates continue to be low by historic standards (although access to credit is tougher).
- Housing prices have recovered (although this has resulted in renewed affordability challenges).

Where We're Headed. While there is uncertainty, many economists do not see significant economic storm clouds on the horizon for the nation or the State. Three highly trusted sources on the California economy – the Legislative Analyst's Office (one of the most credible sources on State fiscal issues), Beacon Economics and the California Economic Forecast – all see continued growth in the near term.

However, as noted above, at 115 months, we are now in the second longest period of economic expansion since the end of World War II, almost 75 years ago; and closing in on the other one: 120 months from 1991 to 2001. It is also worth noting that there have been ten recessions between 1948 and today.

Stated simply, we're due for a downturn. Based on long-term trends, there is reasonable likelihood that we will experience some level of economic downturn over the next five years (let alone ten years). Avoiding this would mean setting a new post-Great Depression record for economic expansion.

What this means for the City. Property tax, sales tax and TOT revenues account for about 80% of General Fund revenues (excluding transfers). These are driven by performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. While no significant economic downturns that will impact key General Fund revenues are projected in the forecast, this is not a sure thing.

BASIC FORECAST FRAMEWORK

Background

There are two basic approaches that can be used in preparing and presenting forecasts: developing one forecast based on one set of assumptions about what is believed to be the most likely outcome; or preparing various "scenarios" based on a combination of possible assumptions for revenues and expenditures. This forecast uses the "one set of assumptions" approach as being the most useful for policy-making purposes. However, the financial model used in preparing this forecast can easily accommodate a broad range of "what if" scenarios. As noted earlier, this report includes an analysis of "what if" the new cannabis tax revenues do not materialize beyond 2018-19 levels.

Economic, Fiscal and Demographic Trends

The past doesn't determine the future. However, if the future won't look like the past, we need to ask ourselves: why not? How will the future be different than the past, and how will that affect the City's fiscal outlook? Accordingly, one of the first steps in preparing the forecast is to take a detailed look at key demographic, economic and fiscal trends over the past ten years (and in some cases slightly longer).

A summary of key indicators is provided in the *Trends* section of this report beginning on page 20. Areas of focus included:

- ***Economic and Demographic Trends.*** Economic trends, housing, population and inflation as measured by changes in the consumer price index (CPI).

- ***Revenues Trends.*** Focused on the City's top five General Fund revenues (excluding cannabis tax revenues, which began in 2017-18 and were only $16,300): property taxes, sales taxes, franchise fees, TOT and utility user taxes, which together account for about 80% of total General Fund revenues (including interfund transfers).

- ***Expenditure Trends.*** Overall trends in key expenditure areas, including police costs, insurance, pensions and debt service.

Forecast Assumptions

As noted above, assumptions drive the forecast results. Sources used in developing forecast projections include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.
- Statewide and regional economic forecasts prepared by the University of California, Los Angeles, California Economic Forecast and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst's Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales tax advisor (MuniServices).
- Employer contribution projections based on factors prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about the performance of the local economy during the next ten years, and how these will affect General Fund revenues and expenditures. A detailed discussion of the assumptions used in the forecast begins on page 12.

What's Not in the Forecast

Grant Revenues. The forecast does not reflect the receipt of any "competitive" grant revenues over the next ten years. However, based on past experience, it is likely that the City will be successful in obtaining grants for either operating or capital purposes. That said, these are typically for restricted purposes that meet the priorities of the granting agency, which are not necessarily the same as the City's. Moreover, experience shows given federal and state budget challenges, the amount of available grant funding is more likely to decline over the next ten years than increase.

Operating or CIP Needs Not Funded in the 2018-19 Budget. It is likely that there are City needs that are not reflected in the 2018-19 Budget, which is the basis for the forecast.

Development Impact Fee Revenues. These can only be used to fund the cost of facilities in meeting the needs of new development.

Short-Term Rentals. While changes in the treatment of short-term vacation rentals is under consideration, the forecast assumes the status quo of voluntary payment by some short-term rental hosts until citywide regulations, including revenue collection, are adopted.

What's Most Likely to Change?

By necessity, the forecast is based on a number of assumptions. The following summarizes key areas where changes from forecast assumptions are most likely over the next ten years:

- ***Top Revenue Projections.*** These are directly tied to the performance of the local economy, which in turn is driven by the interrelated performance of the regional, state and national economies. As noted above, no significant economic downturns that will impact key General Fund revenues are projected in the forecast. However, it bears repeating that this is not a sure thing.

- ***Revenue Projections from New Hotels.*** Stated simply, these may be different than projected.

- ***New Cannabis Tax Revenues.*** The favorable fiscal outlook reflected in the forecast is largely based on projected revenues from this voter-approved source. It may take longer to ramp-up than projected; and even when fully implemented, revenues may be more or less than estimated. Lastly, this revenue source depends on the continuation of the past Administration's policy of allowing the sale of marijuana in States that adopt reasonable regulatory measures.

- ***Insurance Costs.*** Consistent with the general forecast assumption of using the 2018-19 Budget as the "baseline," the forecast assumes that general liability, workers' compensation and property insurance costs will grow by inflation (2% annually). However, in the past this has been a volatile cost for many cities in California (and the City's experience has shown the potential for wide swings as well). While loss experience plays a role, higher costs can also be incurred resulting from volatility in the financial markets. This can often have a far greater impact on insurance costs than actuarial loss experience.

- ***Retirement Costs.*** The forecast uses CalPERS' rate projection factors for the next ten years. While this is a reasonable assumption, experience has shown the potential for unexpected steep increases in employer contribution costs.

- ***Unfunded Retiree Health Care Benefits.*** At this point, it appears that the City has modest retiree health care benefits, which it currently funds on a pay-as-you-go (cash) basis. However, staff plans to contract in the near future with an independent actuary to better assess its retiree health care obligations. After this assessment is completed, the City will have a better understanding of its long-term obligations and whether it makes sense to pre-fund these costs on an actuarial basis.

CONCLUSION

The forecast shows that largely due to the new revenues generated from cannabis taxes, the City's fiscal outlook is favorable. This is the case even with increasing pension costs and contributions to the FCFA . On the other hand, there are challenges ahead if this new revenue does not materialize as projected.

Accordingly, given the uncertainties ahead, it is recommended that the City strongly consider using any favorable resources for "one-time" purposes, such as addressing its unfunded pension and retiree health liabilities as well as needed infrastructure and facility needs.

KEY ASSUMPTIONS

DEMOGRAPHIC TRENDS

Population. Based on recent trends, no change in population (either up or down) is projected to materially affect revenues or expenditures over the next ten years.

Inflation. Based on long-term trends and projections in recent statewide and regional forecasts, inflation – as measured by the consumer price index (CPI) – grows by 2% annually throughout the forecast period.

ECONOMIC OUTLOOK

At 115 months, the nation is now in its second longest period of economic expansion in almost 75 years. And it is quickly closing in on the other one: 120 months from 1991 to 2001. In short, avoiding a downturn over the next five years – let alone ten years – would mean setting a new post-Great Depression record for economic expansion. Nonetheless, most economists do not see significant economic storm clouds on horizon for the nation or the State. Accordingly, no significant economic downturns that will impact key General Fund revenues are projected in the forecast. However, this is far from a sure thing.

EXPENDITURES

Operating Costs. The 2018 Budget as slightly revised at the Mid-Year Budget Review is the "baseline" for the forecast operating expenditures. From this, operating costs are projected to increase by inflation (projected at 2% annually), excluding retirement costs and scheduled contribution increases to the Five Cities Fire Authority (FCFA).

- ***Pensions***. Based on projection factors provided by CalPERS, pension costs are projected to rise significantly over the next six years. Accordingly, detailed cost projections based on factors provided by CalPERS have been separately calculated. The underlying factors driving the increases are described in the *Trends* section of this report beginning on page 30. Based on these factors, the detail calculations for projecting retirement costs are provided on page 18.

- ***FCFA Contributions.*** Beginning with an increase of $306,000 in 2018-19, an added $475,000 in City contributions through 2022-23 are reflected in the forecast ($781,000 in total from 2018-19 through 2022-23).

The forecast assumption of 2% for operating cost increases (aside from pension and FCFA cost increases) based on CPI is lower than past trends. This is based on the following factors:

- In preparing and reviewing expenditure trends, special attention was focused separately on key "external" drivers like insurance and CalPERS retirement costs. Based on past trends for general liability and workers' compensation insurance costs (pages 29 and 30), these expenditures appeared to have stabilized and are not projected to exceed the CPI assumption.

- In the case of retirement costs, as noted above, these were prepared separately based on rate and cost information provided by CalPERS.

- After accounting for these two key external drivers and the increase in FCFA contributions, the remaining costs are largely within the control of the City. Staffing costs account for about two-thirds of operating expenditures. Setting aside retirement and insurance costs, which are accounted for separately as discussed above, other staffing costs rise (or fall) based on one of two factors: authorized staffing levels and compensation. Both are within the control of the City. Since this report is a forecast and not the Budget, CPI is a reasonable basis for projecting costs.

Capital Improvement Plan (CIP) Expenditures. These are based on the five-year plan included in the 2018-19 Budget through 2022-23. After that, they increase by inflation (2%) from the 2022-23 level of $200,000.

Debt Service/Repayments. Debt service costs/repayments cost assumptions include:

- Current annual debt service obligations of $60,200: $25,600 for repayment of State loan to fund energy saving projects (these payments end in 2026-27); and $34,600 for the lease-purchase of police radios (these payments end in 2022-23).

- Repayments to the Wastewater Fund for its advance of $670,000 for the broadband project over five years, beginning in 2019-20 in the annual amount of $144,700.

- Repayments to the Wastewater Fund for advances it made in providing start-up funds in the mid-2000's for what was intended to be a self-supporting fund to cover development costs (planning and building) through permit fees and service charges. Unfortunately, this did not occur. The General Fund is responsible for repaying $765,000 advanced to this fund. (All development review costs and revenues have since been accounted for in the General Fund). Repayment is assumed over five-years beginning in 2024-25, in the annual amount of $177,600.

Grover Beach Lodge Financial Assistance. Financial assistance to this project of $700,000 is planned to be spread over three years:

2023-24	$250,000
2024-25	$250,000
2025-26	$200,000

INTERFUND TRANSFERS

Transfers in and out are based on the 2018-19 Budget and increase annually based on changes in the CPI (2% per year).

STATE BUDGET ACTIONS

The forecast assumes no added cuts nor restoration of past cuts to cities.

REVENUES

Sources used in developing revenue projections for the forecast include:

- Long and short-term trends in key City revenues and expenditures.
- Economic trends as reported in the national media.

- State and regional economic forecasts prepared by the University of California, Los Angeles; California Economic Forecast; and Beacon Economics.
- Economic and fiscal information developed by the State Legislative Analyst's Office (LAO), State Department of Finance and State Controller.
- Fiscal and legislative analysis by the League of California Cities.
- Analysis by the City's sales tax advisor (MuniServices).

Ultimately, however, in close consultation with City staff, the forecast projections reflect our best judgment about the State budget process and the performance of the local economy during the next ten years and how these will affect General Fund revenues.

Top Five Historic Revenues and Cannabis Taxes

The following describes the assumptions for the historic "Top Five" General Fund revenues as well as cannabis taxes, which did not begin collection until 2017-18, with modest revenues of $16,300. Together, these six sources account for over 80% of total projected General Fund revenues.

Property Tax. This revenue source is driven by changes in assessed value. Following strong growth for the past five years, the forecast assumes modest "baseline" growth throughout the forecast period as follows:

Current Year	
2018-19	6.4%
Forecast	
2019-20	4.0%
2020-21	3.0%
2021-22	3.0%
2022-29	2.0%

Compared with trends over the past five years, this reflects a slow-down in annual growth due to two factors: maturation of the recovery from the Great Recession; and the very strong supplemental assessments received year-to-date are not likely to continue at this pace.

In addition, the forecast assumes $60,000 in added property tax revenues starting in 2023-24 from the Grover Beach Lodge project.

Sales Tax. Following very strong growth in the "1%" general sales tax in 2015-16 and 2016-17 (which is believed to be due to the phase-out of the "Triple Flip" and the return to "normal" collections), "baseline" sales tax revenues are projected to increase modestly by inflation (2% annually) throughout the forecast period.

In addition, the forecast assumes $30,000 in added sales tax revenues starting in 2023-24 from the Grover Beach Lodge project.

Franchise Fees. Based on long-term trends, these are projected to increase by inflation (2% annually) throughout the forecast period.

Transient Occupancy Tax. Following strong growth in 2014-15 (13%) and 2015-16 (16%), TOT revenues flattened in 2016-17 and 2017-18. However, based on year-to-date results, "baseline" TOT revenues are projected to increase by 10% in 2018-19. Moreover, the TOT rate increased from 10% to 12% effective January 1, 2019. This means that about 50% of this increase will be reflected in 2018-19, with the first full year of the increase in 2019-20. "Baseline" TOT revenues are projected to increase annually by inflation (2%) for the ten-year forecast period.

In addition, the forecast assumes new growth in TOT revenues from two new hotel projects:

- 130-room Urban Commons: $428,000 in 2020-21 and growing by inflation (2%) annually thereafter.

- 144-room Grover Beach Lodge: $516,000 in 2023-24 and growing by inflation (2%) annually thereafter.

Utility User Taxes. Based on long-term trends, these are projected to increase modestly by inflation (2% annually) throughout the forecast period.

Cannabis Tax Revenues. These are projected to generate new revenues as follows:

2017-18 Actual and 2018-19 Projected	
2017-18	$16,300
2018-19	$750,000

Forecast	
2019-20	$1,200,000
2020-21	$1,500,000
2021-22	$1,750,000
2022-29	2% Annual Growth

Other Revenues

These are projected to remain flat or grow modestly by inflation (2%) during the forecast period.

GENERAL FUND TEN YEAR FISCAL FORECAST: 2019-2029

	2016-17	2017-18	2018-19		FORECAST									
	Actual	Actual	Budget	Revised	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
REVENUES														
Taxes and Franchise Fees														
Property Tax	4,074,300	4,247,500	4,523,300	4,519,300	4,700,100	4,841,100	4,986,300	5,086,000	5,247,700	5,354,800	5,464,100	5,573,400	5,684,900	5,798,600
Sales Tax														
General: 1%	1,364,900	1,345,900	1,356,300	1,379,500	1,407,100	1,435,200	1,463,900	1,493,200	1,553,100	1,584,200	1,615,900	1,648,200	1,681,200	1,714,800
Measure X: 1/2%	771,500	770,200	800,500	789,500	805,300	821,400	837,800	854,600	871,700	889,100	906,900	925,000	943,500	962,400
Franchise Fees	542,900	529,200	548,900	539,800	550,600	561,600	572,800	584,300	596,000	607,900	620,100	632,500	645,200	658,100
Transient Occupancy Tax	368,700	371,200	387,600	449,200	504,000	942,100	960,900	980,100	1,515,700	1,546,000	1,576,900	1,608,400	1,640,600	1,673,400
Utility Users Tax	163,000	162,600	174,600	165,900	169,200	172,600	176,100	179,600	183,200	186,900	190,600	194,400	198,300	202,300
Cannabis Tax	-	16,300	700,000	750,000	1,200,000	1,500,000	1,750,000	1,785,000	1,820,700	1,857,100	1,894,200	1,932,100	1,970,700	2,010,100
Business Tax	86,700	88,400	86,000	176,000	179,500	183,100	186,800	190,500	194,300	198,200	202,200	206,200	210,300	214,500
Other Taxes	167,500	133,300	170,000	170,000	173,400	176,900	180,400	184,000	187,700	191,500	195,300	199,200	203,200	207,300
Total Taxes and Franchises	7,539,500	7,664,600	8,747,200	8,939,200	9,689,200	10,634,000	11,115,000	11,337,300	12,170,100	12,415,700	12,666,200	12,919,400	13,177,900	13,441,500
From Other Governments	43,600	40,700	107,300	107,300	107,300	107,300	107,300	107,300	107,300	107,300	107,300	107,300	107,300	107,300
Licenses and Permits	171,500	207,300	206,800	206,800	210,900	215,100	219,400	223,800	228,300	232,900	237,600	242,400	247,200	252,100
Service Charges	555,300	696,000	791,200	791,200	807,000	823,100	839,600	856,400	873,500	891,000	908,800	927,000	945,500	964,400
Use of Money and Property	274,900	267,800	278,700	278,700	278,700	278,700	278,700	278,700	278,700	278,700	278,700	278,700	278,700	278,700
RDA Loan Repayment	240,700	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenues	79,400	71,600	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500
Total Revenues	8,904,900	8,948,000	10,207,700	10,399,700	11,169,600	12,134,700	12,636,500	12,880,000	13,734,400	14,002,100	14,275,100	14,551,300	14,833,100	15,120,500
EXPENDITURES														
Operating Programs	9,129,900	10,148,600	11,081,100	11,019,600	11,557,100	11,919,400	12,379,900	12,753,600	13,038,600	13,328,600	13,594,500	13,865,900	14,142,600	14,424,800
Debt Service	25,600	25,600	60,200	60,200	60,200	60,200	60,200	60,200	25,600	25,600	25,600	12,900	-	-
Capital Improvement Plan	639,800	904,600	88,700	88,700	312,500	218,700	200,000	200,000	204,000	208,100	212,300	216,500	220,800	225,200
Total Expenditures	9,795,300	11,078,800	11,230,000	11,168,500	11,929,800	12,198,300	12,640,100	13,013,800	13,268,200	13,562,300	13,832,400	14,095,300	14,363,400	14,650,000
OTHER SOURCES (USES)														
Transfers In														
Cost Allocation Transfers	431,700	440,200	453,200	453,200	462,300	471,500	480,900	490,500	500,300	510,300	520,500	530,900	541,500	552,300
Other Transfers In	135,300	41,400	87,300	87,300	89,000	90,800	92,600	94,500	96,400	98,300	100,300	102,300	104,300	106,400
Transfers Out	(80,000)	(140,000)	(150,000)	(150,000)	(150,000)	(153,000)	(156,100)	(159,200)	(162,400)	(165,600)	(168,900)	(172,300)	(175,700)	(179,200)
Wastewater Fund Repayment					(144,700)	(143,400)	(142,100)	(140,800)	(139,400)	(177,600)	(177,600)	(177,600)	(177,600)	(177,600)
Grover Beach Lodge Assistance									(250,000)	(250,000)	(200,000)			
Total Other Sources (Uses)	487,000	341,600	390,500	390,500	256,600	265,900	275,300	285,000	44,900	15,400	74,300	283,300	292,500	301,900
Sources Over (Under) Uses	(403,400)	(1,789,200)	(631,800)	(378,300)	(503,600)	202,300	271,700	151,200	511,100	455,200	517,000	739,300	762,200	772,400
Fund Balance, Start of Year *	4,894,200	4,490,800	2,820,700	2,701,600	2,323,300	1,819,700	2,022,000	2,293,700	2,444,900	2,956,000	3,411,200	3,928,200	4,667,500	5,429,700
Fund Balance, End of Year	4,490,800	2,701,600	2,188,900	2,323,300	1,819,700	2,022,000	2,293,700	2,444,900	2,956,000	3,411,200	3,928,200	4,667,500	5,429,700	6,202,100

* 2016-17 fund balance at start of the year is net of the advance payable to Wastewater Fund of $1,435,700.

Fund Balance % Operating Costs	49%	27%	20%	21%	16%	17%	19%	19%	23%	26%	29%	34%	38%	43%

Minimum reserve policy is 15% of operating costs, with a goal of 20%.

ASSUMPTIONS SUMMARY

		2018-19 Revised	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Population			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Inflation			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
REVENUES & OTHER SOURCES		Mid-Year Budget Review										
Property Tax	Current Base	6.4%	4.0%	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Grover Beach Lodge Project						60,000	2,100	2,200	2.0%	2.0%	2.0%
								(3.5%)	(3.5%)			
Sales Tax	Current Base	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Grover Beach Lodge Project						30,000	1,100	1,000	2.0%	2.0%	2.0%
								(3.5%)	(3.5%)			
Franchise Fees		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
TOT	Current Base											
	Percent Increase	10.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Rate Increase: 10% to 12%, voter approval in November 2018, effective 1-1-19 (prorated for half-years in 2019-21)	10.0%	10.0%									
	Grover Beach Lodge Project						516,000	2.0%	2.0%	2.0%	2.0%	2.0%
	Urban Commons Project			428,000	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Utility Users Tax		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cannabis Tax		750,000	1,200,000	1,500,000	1,750,000	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Business Tax	Increase of $90,000 in 2018-19 due to voter approval of new tax structure in November 2018; increases by inflation annually thereafter	90,000	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Taxes		2018-19 Budget	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Licenses & Permits/Service Charges		2018-19 Budget	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
All Other Revenues		2018-19 Budget	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat
Transfers In		2018-19 Budget	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

ASSUMPTIONS SUMMARY

EXPENDITURES & OTHER USES		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Operating Expenditures												
CalPERS Payroll Base:	Miscellaneous Classic Employees	1,772,700	1,808,200	1,844,400	1,881,300	1,918,900	1,957,300	1,996,400	2,036,300	2,077,000	2,118,500	2,160,900
Grows by Inflation	Miscellaneous PEPRA Employees	592,500	604,400	616,500	628,800	641,400	654,200	667,300	680,600	694,200	708,100	722,300
	Police Safety Classic Employees	1,397,600	1,425,600	1,454,100	1,483,200	1,512,900	1,543,200	1,574,100	1,605,600	1,637,700	1,670,500	1,703,900
Payroll Base Excludes	Police Safety PEPRA Employees	514,900	525,200	535,700	546,400	557,300	568,400	579,800	591,400	603,200	615,300	627,600
Special Funds	Total CalPERS Payroll Base	4,277,700	4,363,400	4,450,700	4,539,700	4,630,500	4,723,100	4,817,600	4,913,900	5,012,100	5,112,400	5,214,700
Normal Contribution Rate	Miscellaneous Classic Employees	10.609%	11.432%	12.200%	12.200%	12.200%	12.200%	12.200%	12.200%	12.200%	12.200%	12.200%
	Miscellaneous PEPRA Employees	6.842%	6.985%	7.500%	7.500%	7.500%	7.500%	7.500%	7.500%	7.500%	7.500%	7.500%
	Police Safety Classic Employees	18.667%	20.073%	21.300%	21.300%	21.300%	21.300%	21.300%	21.300%	21.300%	21.300%	21.300%
	Police Safety PEPRA Employees	12.141%	13.034%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%
Normal Contribution Costs	Miscellaneous Classic Employees	188,100	206,700	225,000	229,500	234,100	238,800	243,600	248,400	253,400	258,500	263,600
	Miscellaneous PEPRA Employees	40,500	42,200	46,200	47,200	48,100	49,100	50,000	51,000	52,100	53,100	54,200
	Police Safety Classic Employees	260,900	286,200	309,700	315,900	322,200	328,700	335,300	342,000	348,800	355,800	362,900
	Police Safety PEPRA Employees	62,500	68,500	70,200	71,600	73,000	74,500	76,000	77,500	79,000	80,600	82,200
	Total Normal Contribution	552,000	603,600	651,100	664,200	677,400	691,100	704,900	718,900	733,300	748,000	762,900
Unfunded Accrued	Miscellaneous Classic Employees	264,700	311,900	294,600	333,400	366,000	384,600	405,000	413,100	421,400	429,800	438,400
Liability Costs	Miscellaneous PEPRA Employees	300	700	1,300	2,000	2,600	3,100	3,500	3,600	3,700	3,800	3,900
	Police Safety Classic Employees	300,100	358,900	405,000	459,000	504,000	532,000	559,000	570,200	581,600	593,200	605,100
	Police Safety PEPRA Employees	500	1,000	1,900	2,900	3,800	4,500	5,000	5,100	5,200	5,300	5,400
	Legacy Fire Safety	22,600	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500
	Total UAL Costs	588,200	701,000	731,300	825,800	904,900	952,700	1,001,000	1,020,500	1,040,400	1,060,600	1,081,300
	Percent Increase		19.2%	4.3%	12.9%	9.6%	5.3%	5.1%	1.9%	2.0%	1.9%	2.0%
	Total CalPERS Costs	1,140,200	1,304,600	1,382,400	1,490,000	1,582,300	1,643,800	1,705,900	1,739,400	1,773,700	1,808,600	1,844,200
Fire Cities Fire Authority Contract Increases After 2018-19			175,500	258,500	405,800	477,500	487,100	496,800	506,700	516,800	527,100	537,600
2018-19: $306,000 increase												
(Increases by Inflation after 2022-23)												
		Mid-Year Budget Review										
All Other Operating Costs: Increase by Inflation		9,879,400	10,077,000	10,278,500	10,484,100	10,693,800	10,907,700	11,125,900	11,348,400	11,575,400	11,806,900	12,043,000
Total Operating Costs		11,019,600	11,557,100	11,919,400	12,379,900	12,753,600	13,038,600	13,328,600	13,594,500	13,865,900	14,142,600	14,424,800

ASSUMPTIONS SUMMARY

EXPENDITURES & OTHER USES		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Debt Service	Current Debt Service	25,600	25,600	25,600	25,600	25,600	25,600	25,600	25,600	12,900	-	-
	Police Radios	34,600	34,600	34,600	34,600	34,600	-	-	-	-	-	-
	Total Debt Service	60,200	60,200	60,200	60,200	60,200	25,600	25,600	25,600	12,900	-	-
Wastewater Fund	Broadband Proj Advance Repayment		144,700	143,400	142,100	140,800	139,400					
Advance Repayments	Development Review Fund Repayment							177,600	177,600	177,600	177,600	177,600
	Total Wastewater Fund Repayments		144,700	143,400	142,100	140,800	139,400	177,600	177,600	177,600	177,600	177,600
Capital Improvement Plan	2018-19 to 2022-23: Budget	88,700	312,500	218,700	200,000	200,000	204,000	208,100	212,300	216,500	220,800	225,200
	Grows by Inflation Thereafter											
Transfers Out		Budget	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

HISTORICAL TRENDS

ECONOMIC AND DEMOGRAPHIC TRENDS

General Economic Outlook

Where We've Been. The worst recession since the Great Depression officially began in December 2007 and ended in June 2009, which makes it the longest recession since World War II. Beyond its duration, the Great Recession was notably severe in several respects. Real gross domestic product (GDP) fell 4.3% from its peak in in the fourth quarter of 2007 to its trough in the second quarter of 2009, the largest decline in the postwar era.

The following highlights the key impacts of the "Great Recession" in the United States and California:

Employment

- The national civilian labor force plummeted: civilian employment dropped by 8.5 million jobs.

- The national unemployment rate doubled from 5.0%, where it was at or below this rate for 30 months before the start of the Great Recession, to 9.5% at its end (and peaking at 10.0% in October 2009).

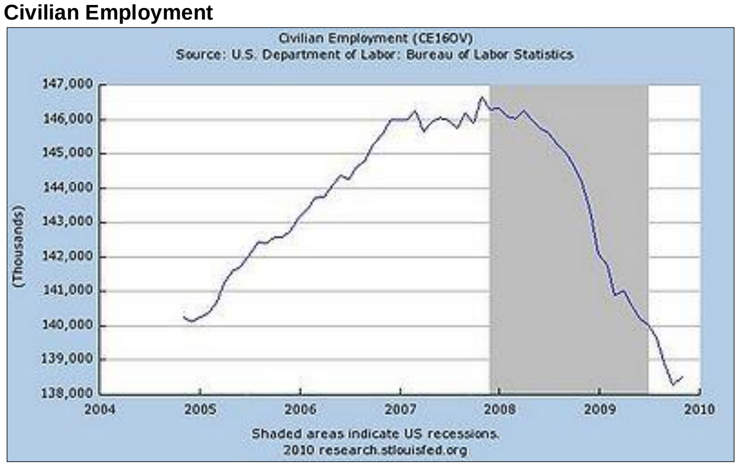
- In California, the impact on unemployment was even worse. The unemployment rate increased from 5.0% at the start of the Great Recession and peaked at 12.2% in October 2010.

Stock Market

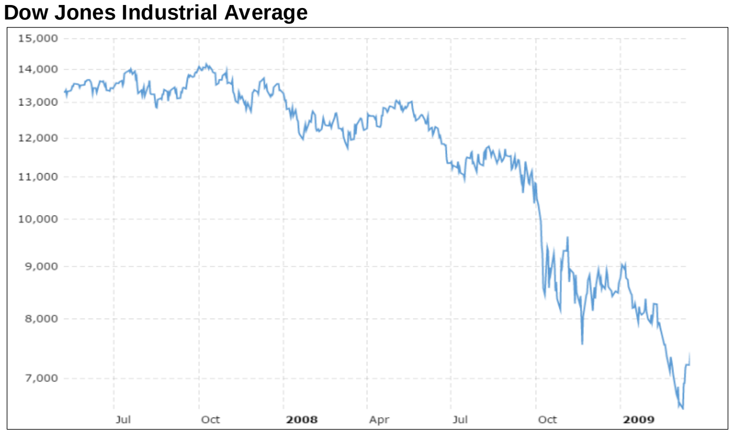
- The Dow Jones Industrial Average lost 46% of its value, falling from 14,100 in October 2007 to 6,500 in March 2009.

- The nation experienced its largest bank failure ever when Washington Mutual collapsed in September 2008.

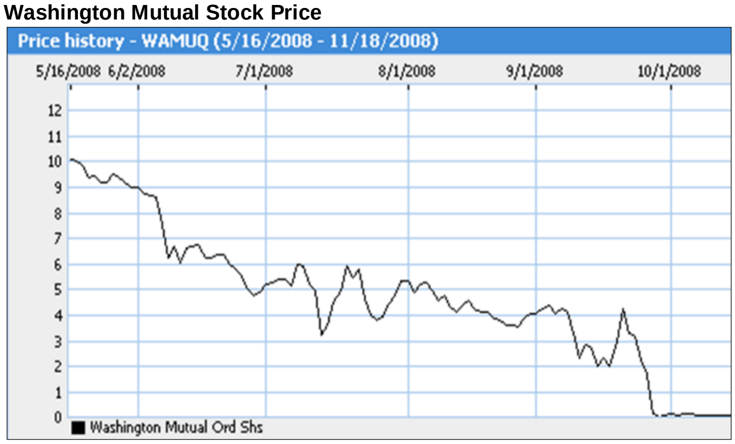
Civilian Employment



Dow Jones Industrial Average



Washington Mutual Stock Price



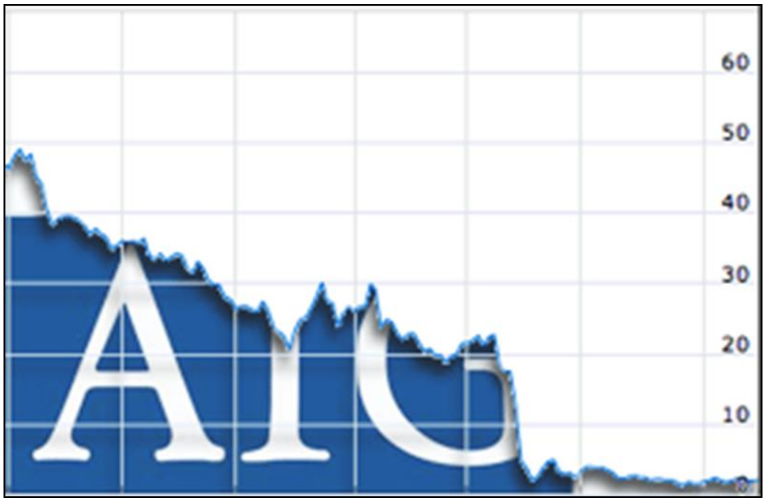
HISTORICAL TRENDS

- The failure of Lehman Brothers in October 2008 was a major precursor to the subsequent meltdown in the nation's financial markets.

Lehman Brothers Stock Price

- The bankruptcy of AIG, the largest insurance company in the world, reflects financial markets spinning out of control as collateralized default swaps and their other insured financial obligations failed.

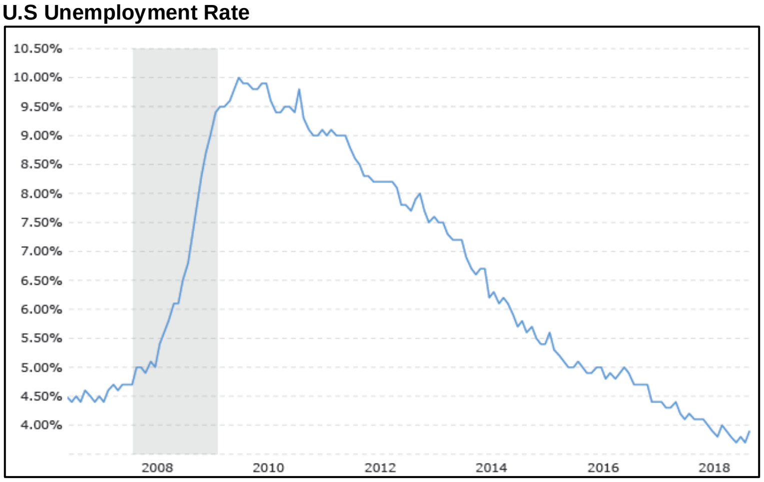
AIG Stock Price



Where We Are Today. While the recovery has often seemed tepid, the reality is that the national and state economies have been consistently growing for over nine years.

- Nationally, the unemployment rate is 3.9% compared with its peak of 10.0%.
- In California, the unemployment rate is 4.1%, down from its peak of 12.2%.
- The stock market has rebounded strongly, with the Dow Jones Industrial Average increasing from its low of 6,500 in March 2009 to historic highs of more than 24,000 by January 2019.
- The banking system is healthier.
- Interest rates continue to be low by historic standards (although access to credit is tougher).

U.S Unemployment Rate



- And housing prices have recovered (although this has resulted in renew affordability challenges).

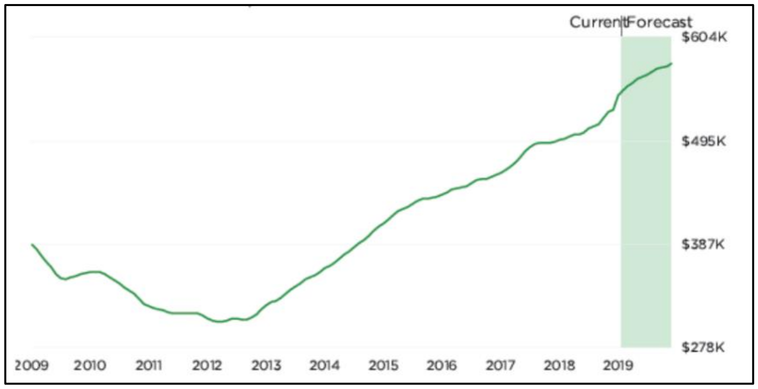
HISTORICAL TRENDS

Grover Beach Economic and Demographic Indicators

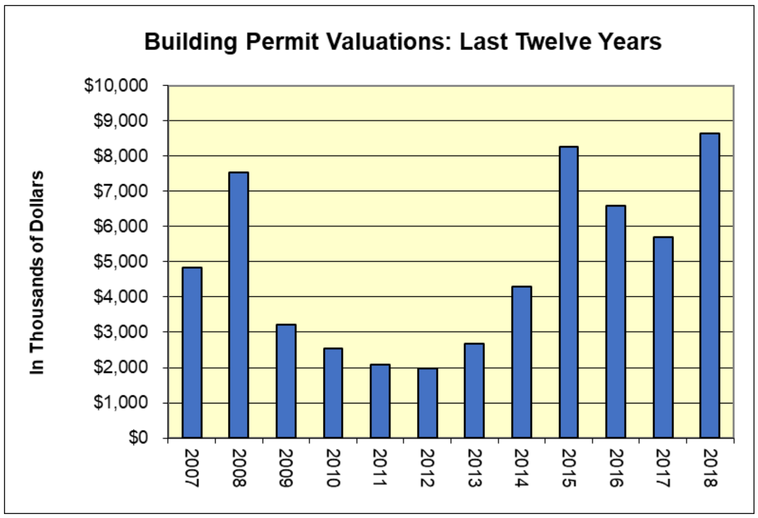
The City's economic performance of deep downturns during the Great Recession, followed by recovery, mirrors the national and state experience.

Grover Beach Median Housing Prices. This chart shows the impact of the Great Recession, with a huge drop in median housing prices in Grover Beach from $467,000 in February 2007 to a low of $305,000 in July 2012 – a decrease of 35%. However, solid recovery followed, with median housing prices rising to $528,000 by December 2018.

Source: Zillow.Com



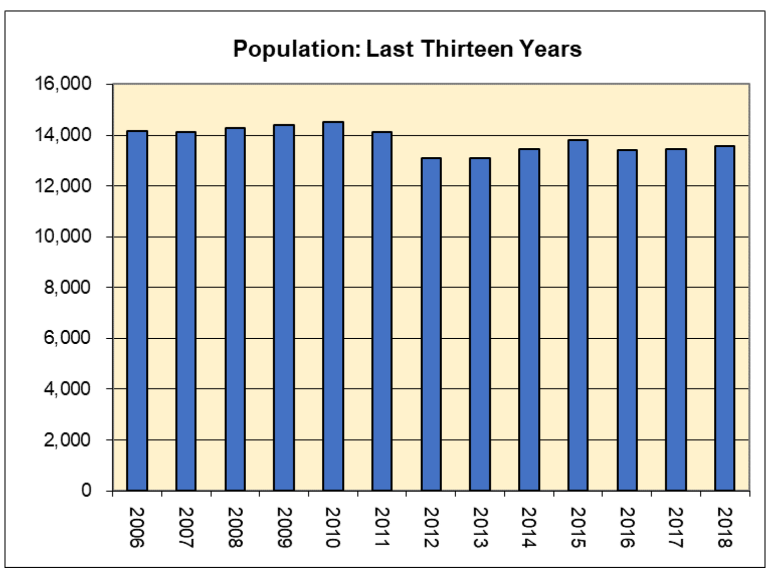
Building Permit Valuations: Last Eleven Years		
Calendar Year	Value	% Change
2007	$4,823	
2008	7,526	56.0%
2009	3,222	-57.2%
2010	2,535	-21.3%
2011	2,090	-17.6%
2012	1,985	-5.0%
2013	2,668	34.4%
2014	4,283	60.5%
2015	8,261	92.9%
2016	6,585	-20.3%
2017	5,685	-13.7%
2018	8,647	52.1%



Building permits valuations in Grover Beach also reflect the impact of the Great Recession, with recovery beginning in 2013.

Source: City of Grover Beach, Community Development Department

Population		
January 1 of Each Year	Amount	% Change
2006	14,172	
2007	14,123	-0.3%
2008	14,271	1.0%
2009	14,409	1.0%
2010	14,528	0.8%
2011	14,103	-2.9%
2012	13,076	-7.3%
2013	13,099	0.2%
2014	13,442	2.6%
2015	13,798	2.6%
2016	13,391	-2.9%
2017	13,438	0.4%
2018	13,560	0.9%
Average Annual % Change		
Last 2 Years		0.6%
Last 5 Years		0.7%
Last 10 Years		-0.5%



The City's population has remained virtually unchanged for the past thirteen years.

Source: State of California, Demographic Research Unit

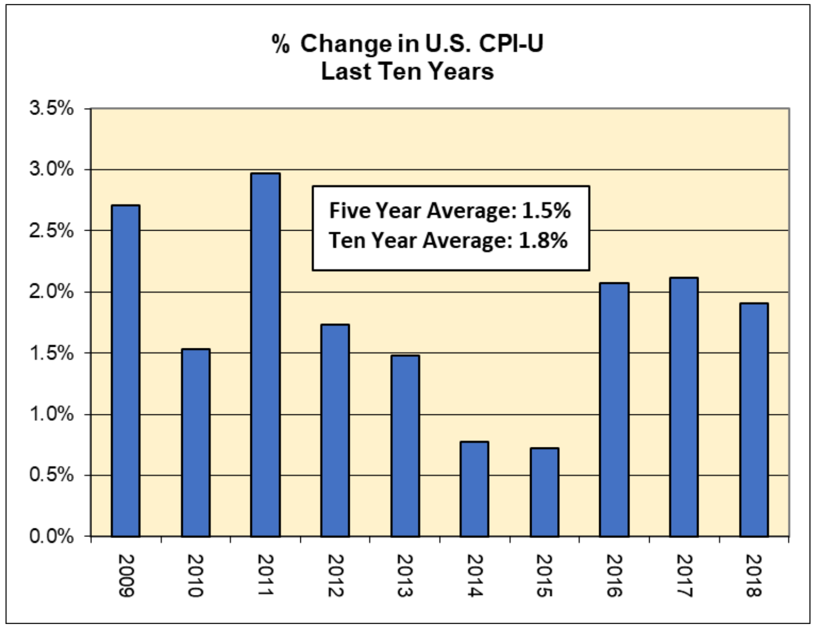
HISTORICAL TRENDS

Consumer Price Index

The following show changes for both the national and southern California Consumer Price Index for all urban consumers (CPI-U). Both show short and long-term inflation trends of about 2% annually.

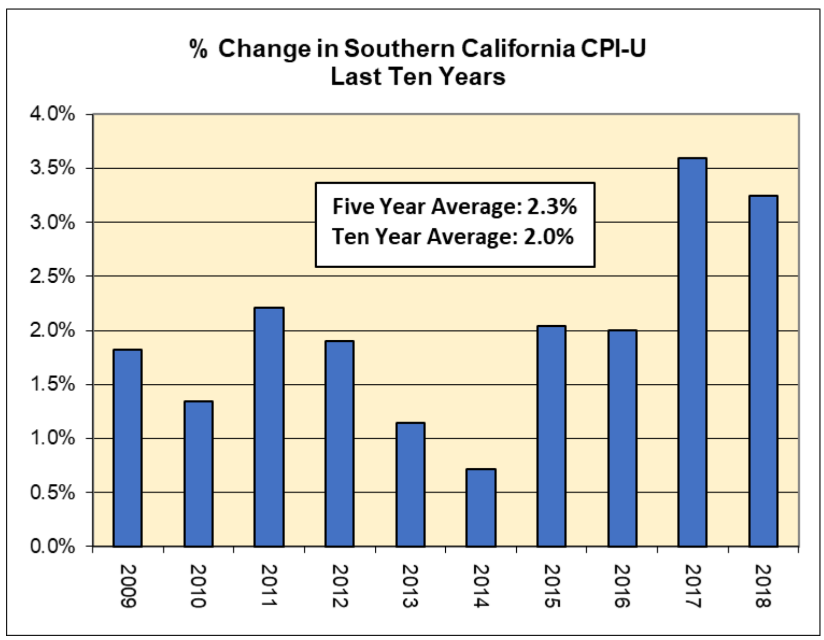
Consumer Price Index: National		
Calendar Year	Amount	% Change
2008	210.2	
2009	215.9	2.7%
2010	219.2	1.5%
2011	225.7	3.0%
2012	229.6	1.7%
2013	233.0	1.5%
2014	234.8	0.8%
2015	236.5	0.7%
2016	241.4	2.1%
2017	246.5	2.1%
2018	251.2	1.9%
Average Annual % Change		
Last 2 Years		2.0%
Last 5 Years		1.5%
Last 10 Years		1.8%

U.S. All Urban Consumers, December 31 of Each Year



Consumer Price Index: Southern California		
Calendar Year	Amount	% Change
2008	219.6	
2009	223.6	1.8%
2010	226.6	1.3%
2011	231.6	2.2%
2012	236.0	1.9%
2013	238.7	1.1%
2014	240.4	0.7%
2015	245.3	2.0%
2016	250.2	2.0%
2017	259.2	3.6%
2018	267.6	3.2%
Average Annual % Change		
Last 2 Years		3.4%
Last 5 Years		2.3%
Last 10 Years		2.0%

Los Angeles-Riverside-Orange
All Urban Consumers, December 31 of Each Year



HISTORICAL TRENDS

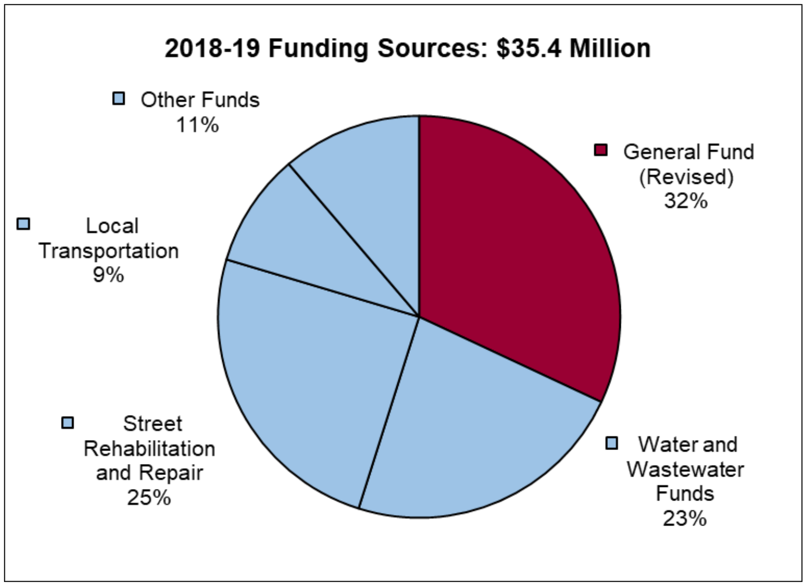
EXPENDITURE AND REVENUE SUMMARIES: 2018-19 REVISED BUDGET

Funding Sources: 2018-19 Budget		
Source	Amount	% Total
General Fund (Revised)	11,319	32%
Water and Wastewater Funds	8,109	23%
Street Rehabilitation and Repair	8,760	25%
Local Transportation	3,239	9%
Other Funds	3,980	11%
Total	**$35,407**	**100%**

In Thousands of Dollars

The General Fund – which is the focus of this forecast – accounts for about one-third of total City expenditures.

Source: City of Grover Beach 2018-19 Adopted Budget; 2018-19 Mid-Year Budget Review for the General Fund

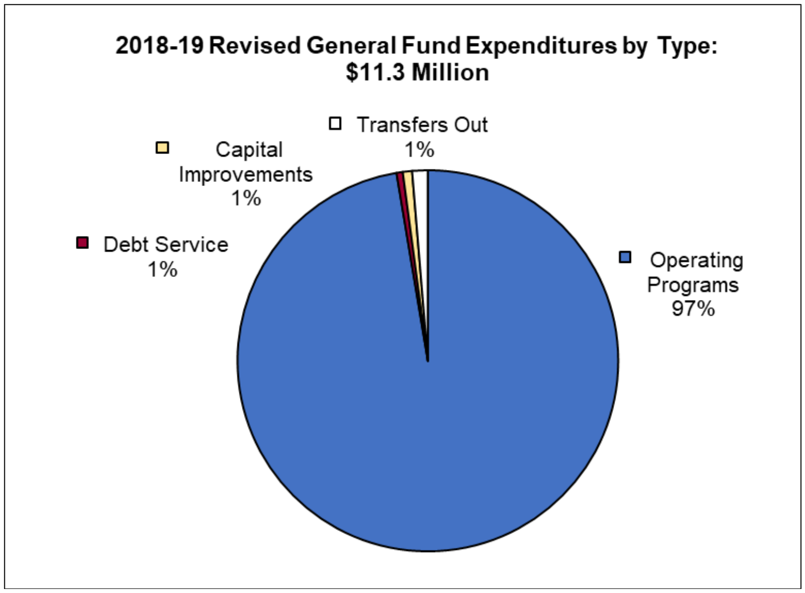


General Fund Expenditures: 2018-19 Budget		
Function	Amount	% Total
Operating Programs	11,019	97%
Debt Service	60	1%
Capital Improvements	89	1%
Transfers Out	150	1%
Total	**$11,318**	**100%**

In Thousands of Dollars

Operating expenditures account for over 95% of General Fund expenditures and transfers out.

Source: City of Grover Beach 2018-19 Adopted Budget; 2018-19 Mid-Year Budget Review for the General Fund

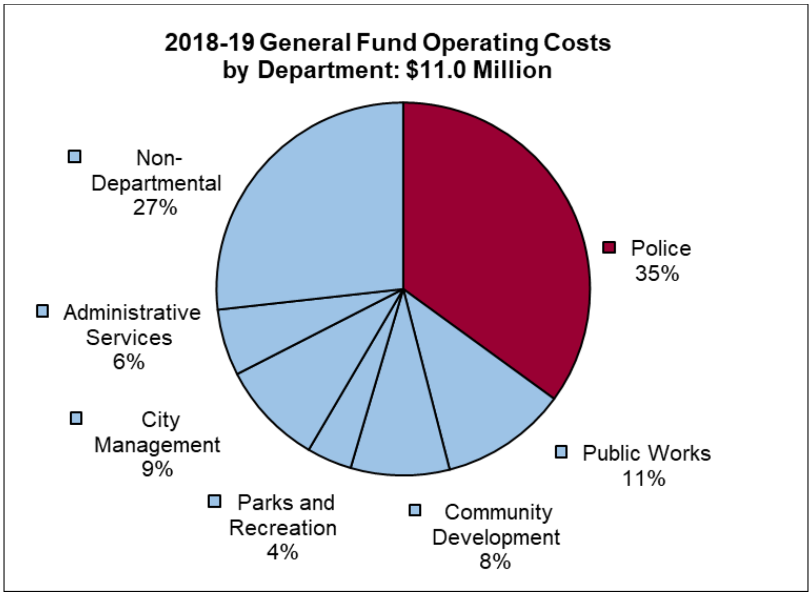


HISTORICAL TRENDS

General Fund Operating Costs: 2018-19 Budget		
Department	Amount	% Total
Police	3,859	35%
Public Works	1,210	11%
Community Development	942	9%
Parks and Recreation	430	4%
City Management	993	9%
Administrative Services	635	6%
Non-Departmental	2,950	27%
Total	**$11,019**	**100%**

Police costs are the largest General Fund operating expenditure, accounting for 35% of total operating costs.

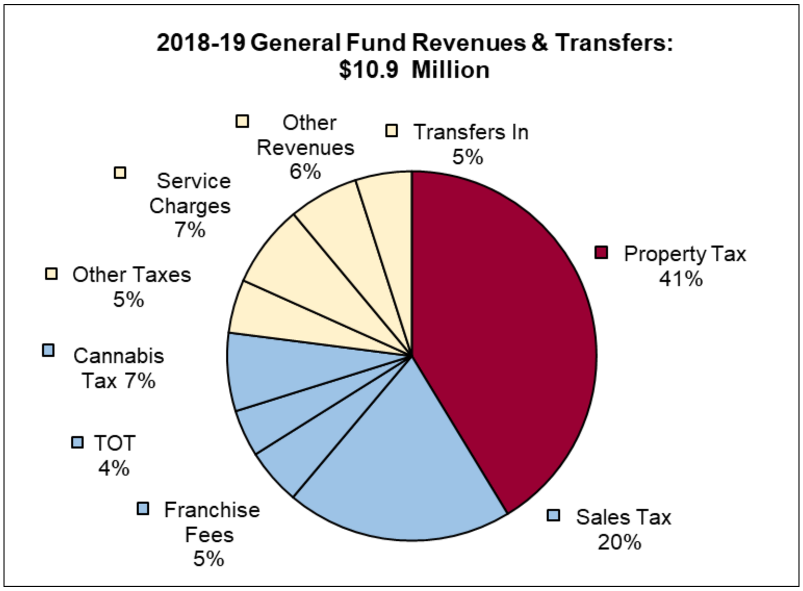
Source: City of Grover Beach 2018-19 Adopted Budget; 2018-19 Mid-Year Budget Review for the General Fund



Revised General Fund Revenues & Sources: 2018-19		
Source	Amount	% Total
Property Tax	4,519	41%
Sales Tax	2,169	20%
Franchise Fees	540	5%
Transient Occupancy Tax (TOT)	449	4%
Cannabis Tax	750	7%
Other Taxes	512	5%
Service Charges	791	7%
Other Revenues	670	6%
Transfers In	540	5%
Total	**$10,940**	**100%**

In Thousands of Dollars

Five revenue sources account for about 80% of total General Fund sources: property taxes are the top revenue (41%), followed by sales tax (20%, including the general rate of 1% and the Measure X rate of ½%); franchise fees (5%); TOT (4%); and the relatively new cannabis tax (7%).



Service charges account for 7%; and all other revenues account for only 6% of total General Fund sources. Transfers in, primarily reimbursements for administrative services from the Water and Wastewater Funds ($453,200) account for 5% of General Fund sources.

Source: City of Grover Beach 2018-19 Adopted Budget; 2018-19 Mid-Year Budget Review for the General Fund

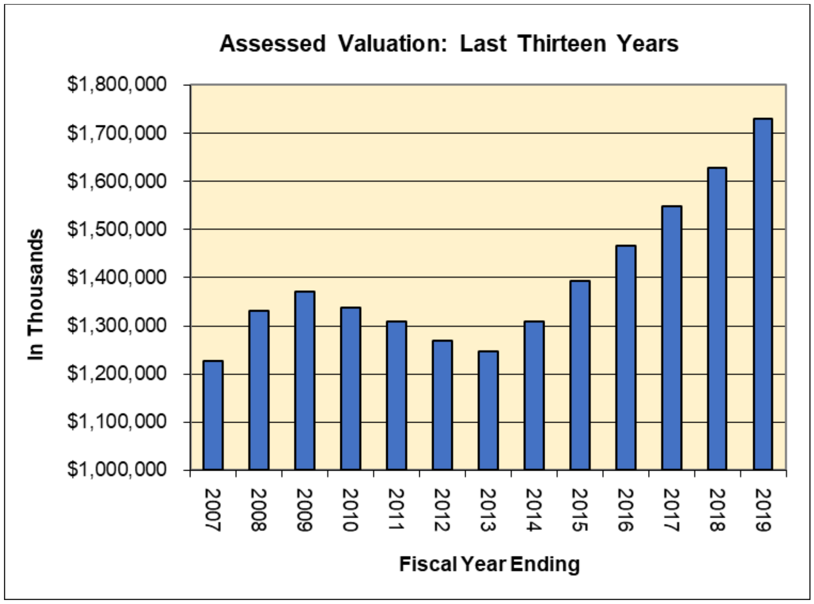
GENERAL FUND REVENUE TRENDS

The following tables and charts show long and short-term General Fund trends for the historic "Top Five" revenue sources (excluding cannabis tax revenues, which the City only began receiving last year (2017-18) in the minor amount of $16,300; the first full year of collections will be 2018-19, where revenues are estimated to be $750,000).

HISTORICAL TRENDS

Assessed Valuation Trends		
Fiscal Year Ending	Amount	% Change
2007	1,227,880	
2008	1,330,305	8.3%
2009	1,371,849	3.1%
2010	1,337,662	-2.5%
2011	1,308,132	-2.2%
2012	1,269,692	-2.9%
2013	1,247,859	-1.7%
2014	1,309,746	5.0%
2015	1,392,728	6.3%
2016	1,465,324	5.2%
2017	1,548,746	5.7%
2018	1,627,338	5.1%
2019	1,730,926	6.4%
Average Annual % Change		
Last 2 Years		5.7%
Last 5 Years		5.7%
Last 10 Years		2.4%

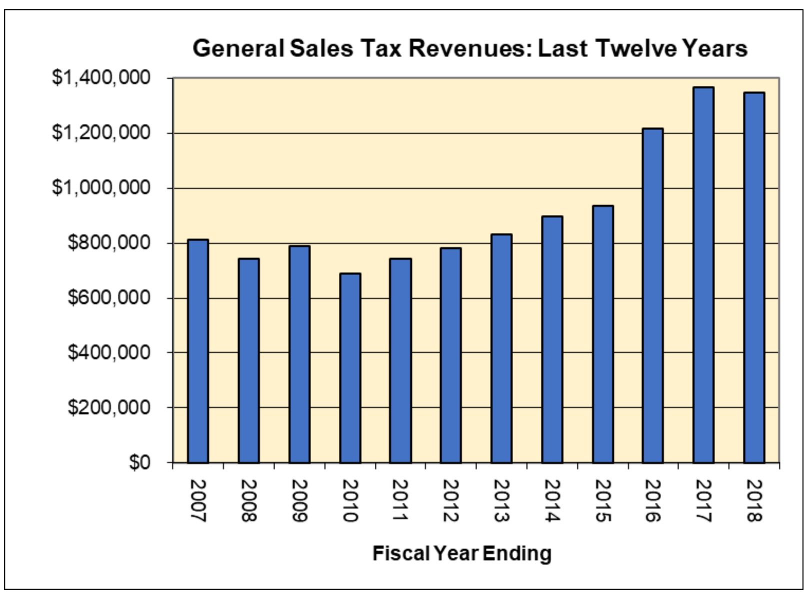
In Thousands



Property tax revenues, which are the top General Fund revenue source (accounting for over 40% of total General Fund sources) are driven by changes in assessed value as determined by the San Luis Obispo County Assessor's Office. Assessed value began dropping in 2009-10, albeit modestly compared with other cities in California, through 2012-13. Recovery has been strong since then, averaging 5.6% annually.

Source: San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector's Office

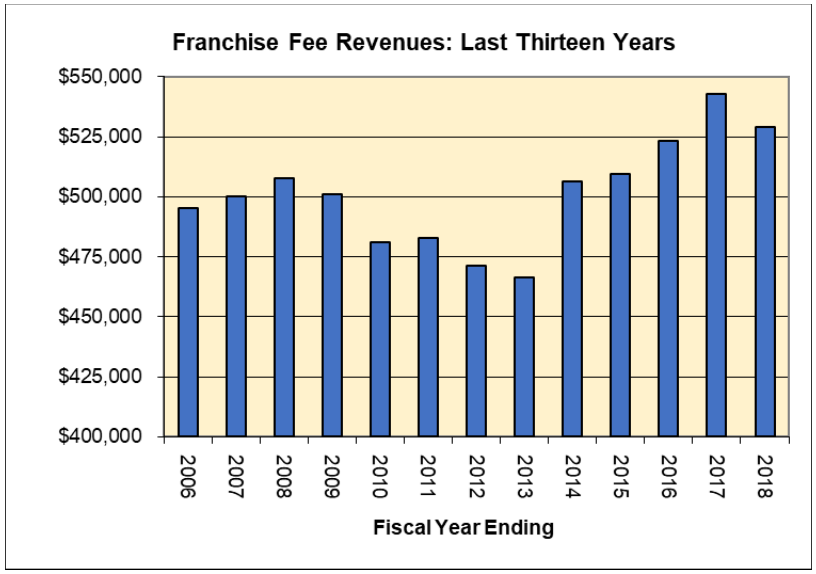
General Sales Tax Trends		
Fiscal Year Ending	Amount	% Change
2007	812,100	
2008	743,500	-8.4%
2009	787,200	5.9%
2010	687,100	-12.7%
2011	743,600	8.2%
2012	779,100	4.8%
2013	829,900	6.5%
2014	897,700	8.2%
2015	935,800	4.2%
2016	1,215,000	29.8%
2017	1,364,900	12.3%
2018	1,345,900	-1.4%
Average Annual % Change		
Last 2 Years		5.5%
Last 5 Years		10.6%
Last 10 Years		6.6%



General sales tax revenues – the statewide 1% revenue source – were relatively stable during the Great Recession compaared to many other cities in California, and began recovering in 2010-11. The strong increases in 2015-16 and 2016-17 are believed to be due to the phase-out of the "Triple Flip" and the return to "normal" collections.

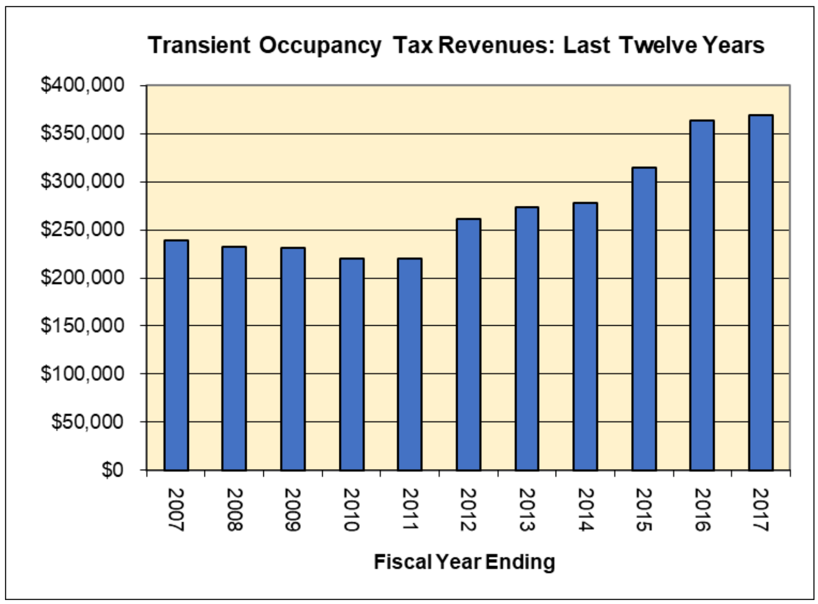
HISTORICAL TRENDS

Franchise Fees		
Fiscal Year Ending	Amount	% Change
2006	$495,200	
2007	500,100	1.0%
2008	507,800	1.5%
2009	501,200	-1.3%
2010	480,900	-4.1%
2011	483,000	0.4%
2012	471,400	-2.4%
2013	466,200	-1.1%
2014	506,200	8.6%
2015	509,600	0.7%
2016	523,300	2.7%
2017	542,900	3.7%
2018	529,200	-2.5%
Average Annual % Change		
Last 2 Years		0.6%
Last 5 Years		2.6%
Last 10 Years		0.5%



Franchise fees have been relatively stable over the past thirteen years, averaging about 3% over the last five years.

Transient Occupancy Tax Revenues		
Fiscal Year Ending	Amount	% Change
2007	238,500	
2008	232,900	-2.3%
2009	230,800	-0.9%
2010	220,400	-4.5%
2011	220,300	0.0%
2012	260,800	18.4%
2013	273,400	4.8%
2014	278,500	1.9%
2015	314,300	12.9%
2016	363,400	15.6%
2017	368,700	1.5%
2018	371,200	0.7%
Average Annual % Change		
Last 2 Years		1.1%
Last 5 Years		6.5%
Last 10 Years		5.0%

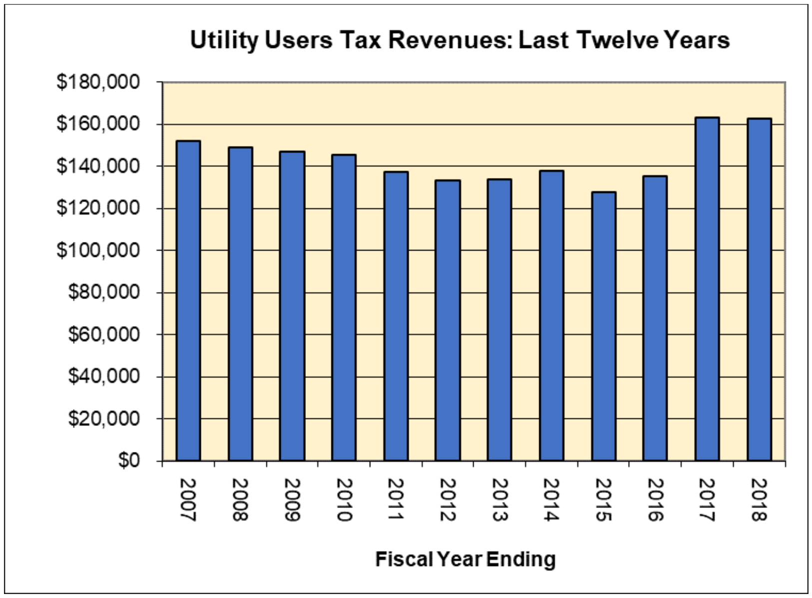


Transient occupancy taxes were largely stable during the Great Recession, with growth beginning 2011-12. There was especially strong growth in 2014-15 (13%) and 2015-16 (16%), followed by flattening in 2016-18.

HISTORICAL TRENDS

Utility Users Tax Revenues		
Fiscal Year Ending	Amount	% Change
2007	151,900	
2008	149,200	-1.8%
2009	146,900	-1.5%
2010	145,600	-0.9%
2011	137,600	-5.5%
2012	133,500	-3.0%
2013	133,600	0.1%
2014	137,700	3.1%
2015	127,900	-7.1%
2016	135,200	5.7%
2017	163,000	20.6%
2018	162,700	-0.2%
Average Annual % Change		
Last 2 Years		10.2%
Last 5 Years		4.4%
Last 10 Years		1.1%

With some peaks and valleys, utility user taxes have been relatively stable over the past twelve years.



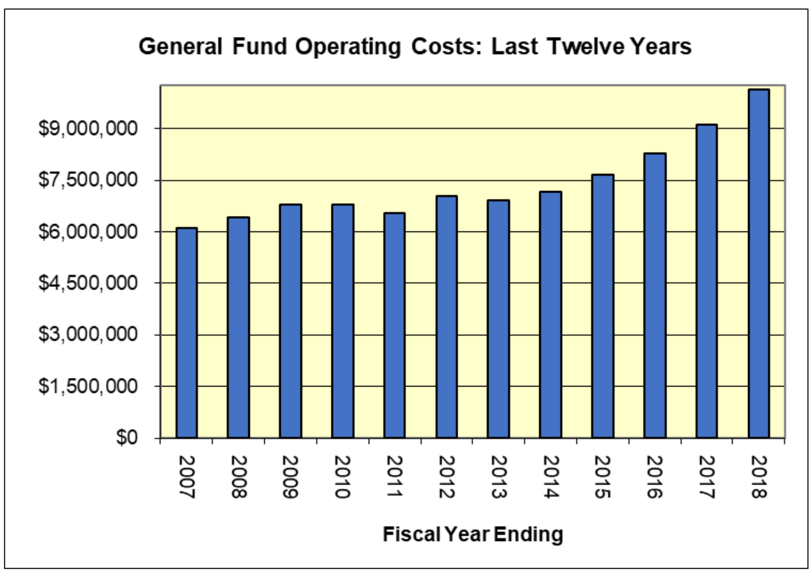
GENERAL FUND EXPENDITURE TRENDS

The following tables and charts show long-term trends in the General Fund operating expenditures, as well as for three key operating expenditure areas that have been significant cost drivers in other California communities:

- Public safety costs.
- Insurance: general liability and workers' compensation.
- Employer retirement contribution rates to CalPERS as well as projected rates for the next ten years.

Debt service ratios compared with revenues are also shown for the last five years.

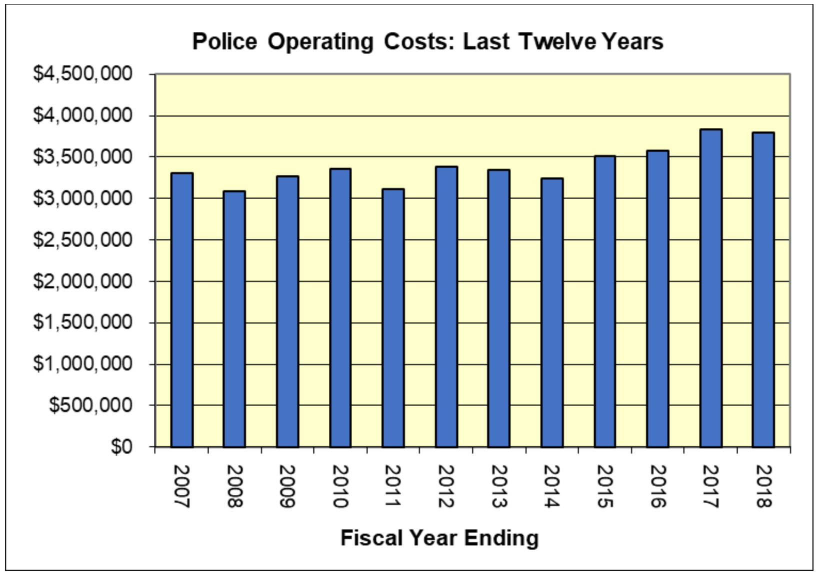
General Fund Operating Expenditures		
Fiscal Year Ending	Amount	% Change
2007	$6,112,500	
2008	6,421,600	5.1%
2009	6,776,100	5.5%
2010	6,794,200	0.3%
2011	6,552,900	-3.6%
2012	7,026,400	7.2%
2013	6,929,700	-1.4%
2014	7,170,300	3.5%
2015	7,670,500	7.0%
2016	8,270,000	7.8%
2017	9,129,900	10.4%
2018	10,148,600	11.2%
Average Annual % Change		
Last 2 Years		10.8%
Last 5 Years		8.0%
Last 10 Years		4.8%



HISTORICAL TRENDS

General Fund Police Operating Costs		
Fiscal Year Ending	Amount	% Change
2007	3,304,700	
2008	3,086,400	-6.6%
2009	3,270,100	6.0%
2010	3,360,900	2.8%
2011	3,118,600	-7.2%
2012	3,379,600	8.4%
2013	3,348,600	-0.9%
2014	3,240,900	-3.2%
2015	3,514,000	8.4%
2016	3,576,600	1.8%
2017	3,830,300	7.1%
2018	3,790,100	-1.0%
Average Annual % Change		
Last 2 Years		3.0%
Last 5 Years		2.6%
Last 10 Years		2.2%

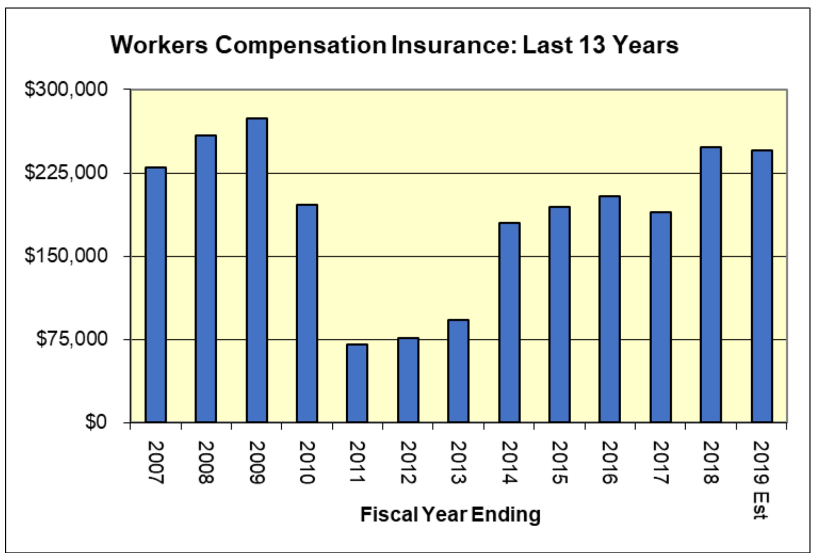
Police operating costs have remained relatively stable over the past twelve years.



Insurance Costs. Insurance costs have historically been a major concern for many agencies throughout the State. As reflected in the following charts for workers' compensation and general liability costs, the City has been on a roller coaster ride over the last ten years. However, insurance costs appear to have stabilized and are not projected to be a significant factor in the forecast. (Insurance costs are city-wide for all funds).

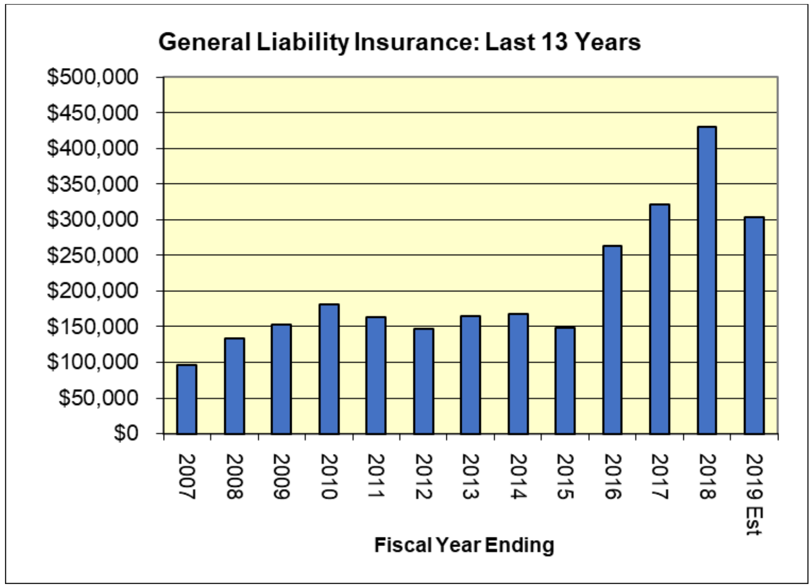
Workers Compensation Costs		
Fiscal Year Ending	Amount	% Change
2007	$229,800	
2008	258,900	12.7%
2009	274,400	6.0%
2010	196,700	-28.3%
2011	70,600	-64.1%
2012	76,300	8.1%
2013	92,500	21.2%
2014	179,800	94.4%
2015	194,200	8.0%
2016	204,400	5.3%
2017	189,600	-7.2%
2018	248,200	30.9%
2019 Est	245,500	-1.1%
Average Annual % Change		
Last 2 Years		14.9%
Last 5 Years		7.2%
Last 10 Years		6.7%

All Funds



HISTORICAL TRENDS

General Liability Costs		
Fiscal Year Ending	Amount	% Change
2007	$96,400	
2008	134,200	39.2%
2009	153,600	14.5%
2010	181,100	17.9%
2011	163,500	-9.7%
2012	146,600	-10.3%
2013	164,300	12.1%
2014	167,900	2.2%
2015	148,200	-11.7%
2016	263,100	77.5%
2017	321,800	22.3%
2018	430,200	33.7%
2019 Est	302,800	-29.6%
Average Annual % Change		
Last 2 Years		2.0%
Last 5 Years		18.4%
Last 10 Years		10.4%



CalPERS Pension Costs

The City currently provides defined pension benefits to its regular employees through its contract with CalPERS.

About CalPERS. While cities, counties, and special districts are free to create their own retirement systems, 460 of California's 482 cities are members of CalPERS. Dating back eighty years, CalPERS is now the largest pension fund in the United States, providing services to about 2,900 state, city, county and special districts, with over 1.9 million members and managing $354 billion in assets.

Funding Pension Benefits. There are many actuarial factors that determine contribution rates, including inflation, employee earnings and life expectancy assumptions. However, the assumption for the "discount rate" - the projected long-term yield on investments – is one of the most important. For example, only about one-third of CalPERS retirement benefits are funded by employee and employer contributions: the other two-thirds are funded from investment yields. Small changes in this rate – up or down – can significantly affect funding.

Reductions from the discount rate of 7.5% in 2017-18 are being phased-in over three years as follows:

- 2018-19: 7.375%
- 2019-20: 7.250%
- 2020-21: 7.000%

Moreover, the impact of the reduced discount rates on annual employer contributions will be phased-in over five years. As such, it will take seven years (from 2018-19 to 2024-25) to feel the full annual impact of this change.

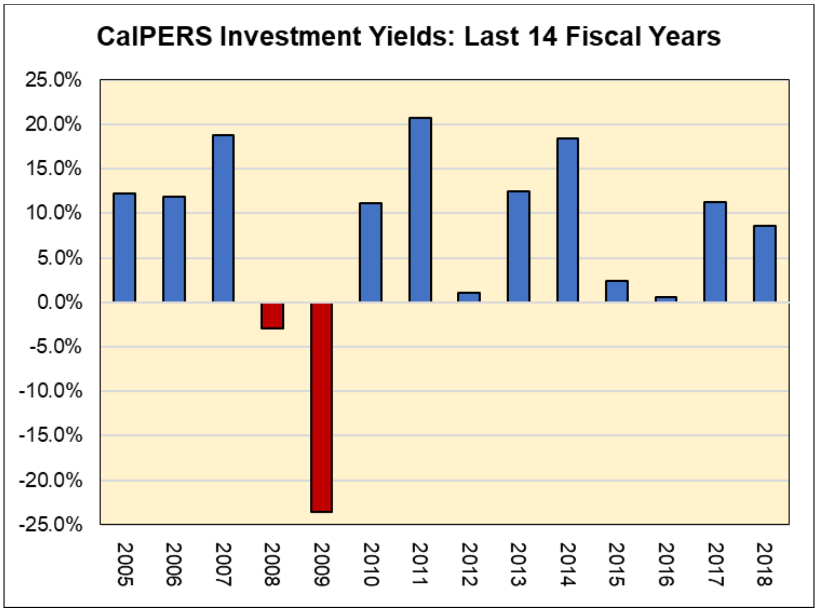
HISTORICAL TRENDS

For context, the following are average yields over the past ten years:

Average Net Return as of June 30, 2018	
Last Year	8.6%
Last 3 Years	6.7%
Last 5 Years	8.1%
Last 10 Years	5.6%
Last 30 Years	8.4%

Source: CalPERS

As reflected in this sidebar graph, there have been significant swings from year-to-year over the past fourteen years, ranging from gains of 21% in 2010-11 to losses at the deepest point of the Great Recession of 24% in 2008-09. The most recent yield is 8.6% for 2017-18.



City Pension Plans

The City currently has five separate retirement plans with CalPERS:

Sworn Police Employees

As discussed in the sidebar, there are two separate plans for sworn police employees:

- ***Classic Sworn Police Employees.*** For its Classic "sworn" employees, the City has a "3% at 55" plan, under which sworn police employees retiring at age 55 will receive 3% of their single highest year of regular pay for each year of service. ("Regular" pay includes ongoing compensation as part of an employee's normal duties; as such, it does not include earnings like overtime.) For example, a Police Officer with 25 years of service and "base" earnings of $78,300 (the top of the salary range) retiring at age 55 would receive a pension of $58,725 annually.

- ***PEPRA Sworn Police Employees.*** For its PEPRA sworn employees, the City has a "2.7% at 55" plan, under which sworn police employees retiring at age 57 will receive 2.7% of the average of their three highest years of regular pay for each year of service.

Non-Sworn ("Miscellaneous") Employees

- ***Classic Miscellaneous Employees.*** For its Classic "miscellaneous" (non-sworn) employees, the City has a "2.5% at 55" plan, under which non-sworn employees retiring at age 55 will receive 2.5% of their single highest year of "regular" pay for each year of service. (Like sworn employees, regular pay does not include earnings like overtime.) For example, a Maintenance Worker II with 25 years of service and "base" earnings of $57,000 (top of the salary range) retiring at age 55 would receive a pension of $35,625 annually.

Public Employees' Pension Reform Act

Effective January 1, 2013, the Public Employees' Pension Reform Act (PEPRA) created a "two-tier" retirement system under which benefits for "new" employees hired on or after January 1, 2013 are lower than those employees who were in the system before then.

"PEPRA" Employees. With the goal of reducing costs and future liabilities for state and local agency system members, major changes for "new" system (PEPRA) members include lower-cost pension formulas, increased retirement age requirements, use of "three years of highest average compensation" (rather than single highest year) in calculating pensionable pay and caps on maximum annual benefits.

"Classic" Employees. Retirement benefits for local agency employees hired before January 1, 2013 ("classic" employees) are not affected by these "rollbacks:" they only affect PEPRA employees hired after this date. "Classic" employees also include those hired after December 31, 2012 who had established CalPERS membership with another agency before then, as long as any break in service was six months or less. These employees will be eligible for the new agency's benefit level that was in place as of December 31, 2012.

- ***PEPRA Miscellaneous Employees.*** For PEPRA non-sworn employees, the City has a "2% at 62" plan, under which non-sworn employees retiring at age 62 will receive 2.0% of the average of their three highest years of regular pay for each year of service.

Legacy Fire Sworn Plan

While there are no active employees, the City has pension obligations for former sworn fire members.

Funding CalPERS Benefits

Along with investment earnings, CalPERS pension benefits are funded by contributions from both employees and employers. The most significant of these is the employer share, which is determined actuarially and can vary significantly – both up and down – based on changes in actuarial assets and liabilities.

The employer share has two components:

- **Normal cost:** The rate needed to meet current actuarial obligations.
- **Unfunded liability**: Funding needed to amortize any outstanding unfunded liabilities (typically over 30 years).

Because it is the employer contribution that is subject to variation, it is the best indicator of retirement cost drivers. The following charts show employer rates for "classic" employees for the past twelve years as well as projected rates for the next ten years.

Note: Beginning in 2015-16, CalPERS discontinued including the amortization of unfunded actuarial liabilities (UAL) as part of the employer contribution rate: only the "normal" contribution rate is stated this way, with the UAL stated separately as a fixed amount. For comparison purposes, the fixed UAL amount is converted to a percent based on projected payrolls in the tables below.

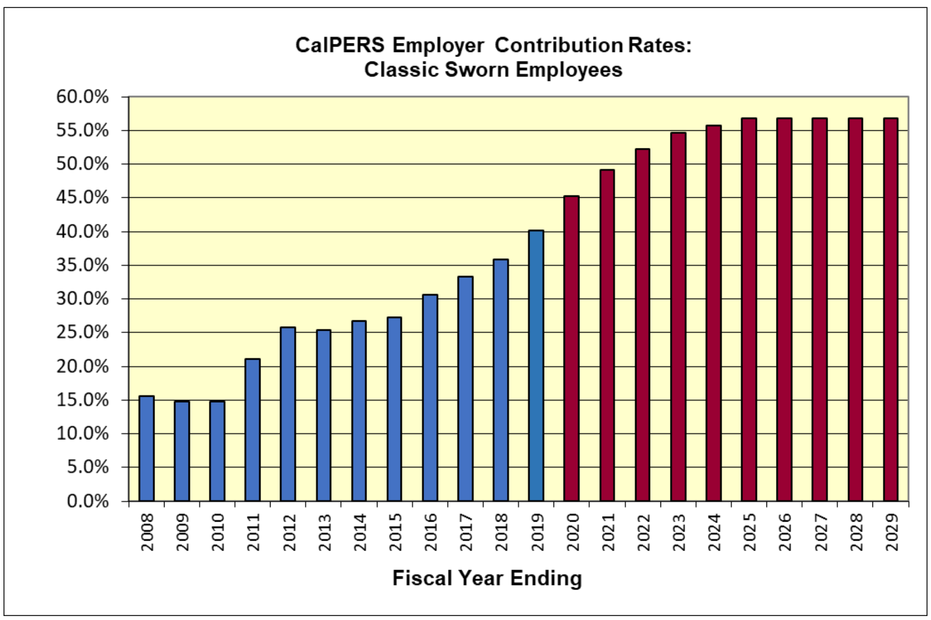
The projected rates below are based on the projections provided by CalPERS in their most recent actuarial report (August 2018).

Classic Sworn Police Employees

After stabilizing from 2011-12 through 2014-15, employer rates began increasing in 2015-16 through 2018-19.

The significantly increase beginning in 2018-19, from about 35% of payroll in 2017-18 to 40%, reflects the phase-in of the reduced discount rate as well as other assumption changes. These rates will continue to increase annually until they reach about 57% in 2024-25 and continue at this level for the foreseeable future.

This reflects a 62% increase in employer contribution rates from 2017-18 to 2024-25.

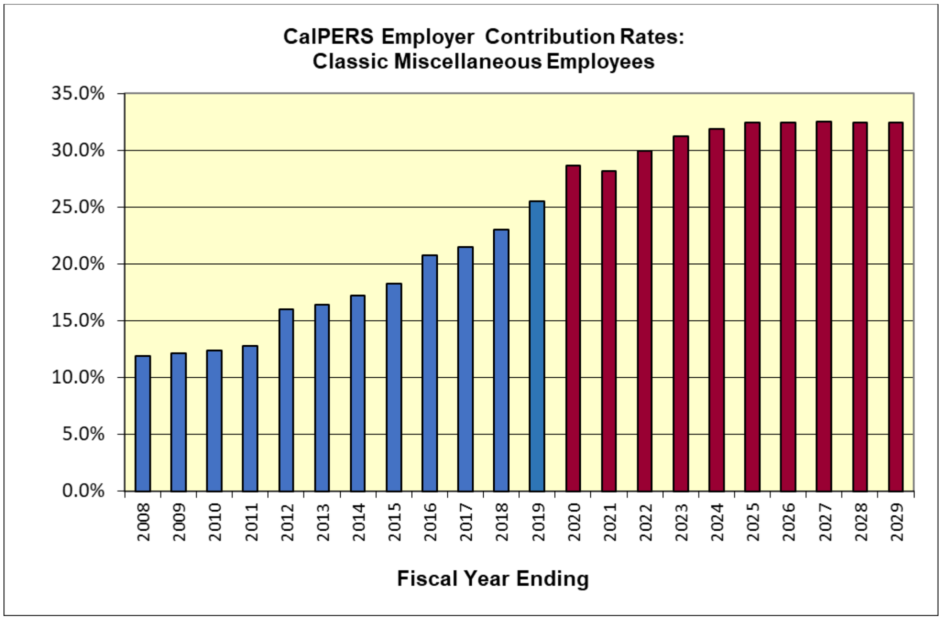


Classic Miscellaneous Employees

Employer contribution rates for classic "non-sworn" employees show similar increases through 2024-25 as sworn (safety) employees (with a slight decrease in 2020-21).

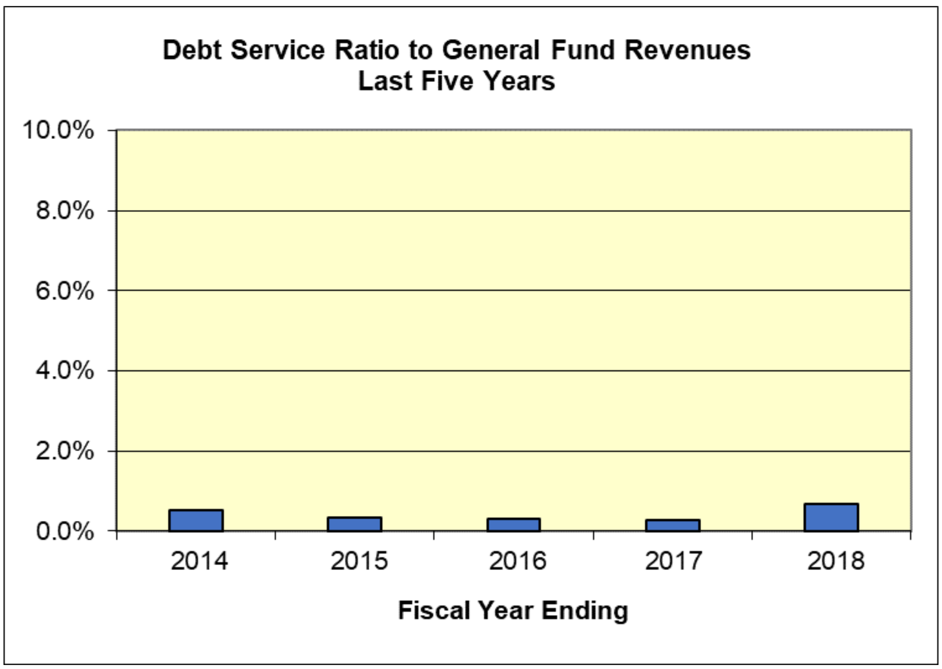
From 23% of payroll in 2017-18, rates will increase to about 32% of payroll by 2024-25 and continue at this level for the foreseeable future.

This reflects a 39% increase in employer contribution rates from 2017-18 to 2024-25.



Debt Service Costs

The City has very low General Fund debt service obligations: even with the lease-purchase of police radios in 2017-18, debt service is less than 1% of revenues. For context, major rating agencies do not get concerned unless this ratio exceeds 10%.



CONSULTANT QUALIFICATIONS

SENIOR FINANCIAL MANAGEMENT

Bill Statler has over 30 years of senior municipal financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as the Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. ***San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.***
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, ***San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.***
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City's comprehensive annual financial reports.
- Recognition of the City's financial management policies as "best practices" by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City's long-term fiscal health.

CONSULTING AND INTERIM DIRECTOR ASSIGNMENTS

Fiscal Forecasts and Long-Term Financial Plans

- City of Grover Beach
- City of Salinas
- City of Camarillo
- City of Carpinteria
- City of Twentynine Palms
- City of Pismo Beach
- Bear Valley Community Services District

Strategic Plans and Council Goal-Setting
In collaboration with HSM Team

- City of Monrovia
- City of Sanger
- City of Pismo Beach
- City of Willits
- City of Bell (Pro Bono)

Organizational Analysis and Policy Advice

- Financial Management Advice, Finance Director Transition: City of Monterey
- Organizational Review (Plans/Public Works and Community Services): City of Monterey
- Finance Organizational Review: Ventura Regional Sanitation District

- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)
- General Fund Reserve Policy: Town of Los Gatos
- General Fund Reserve Policy: City of Pacific Grove
- General Fund Reserve Policy: City of Lompoc
- General Fund Reserve Policy: City of Twentynine Palms
- General Fund Reserve Policy: City of Willits
- Reserve Policy: State Bar of California
- Budget and Fiscal Policies: City of Santa Fe Springs
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Financial Management Transition Team and Policy Advice: City of Bell
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Fund Accounting Review: State Bar of California
- Construction Project Contracting Review: Central Contra Costa Sanitary District
- Focused Financial Review: City of Watsonville
- Financial Assessment: City of Guadalupe
- Financial Condition Assessment: City of Grover Beach

Interim Finance Director

- City of Monterey
- San Diego County Water Authority
- City of Capitola

Other Financial Management Services

- Revenue Options Study: Santa Clara Valley Water District
- Revenue Options Study: City of Greenfield
- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Greenfield
- Cost Allocation Plan: City of Guadalupe
- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Cost Allocation Plan Review: State Bar of California
- Cost Allocation Plan Review: City of Ukiah
- Disciplinary Proceedings Cost Recovery Review: State Bar of California
- Water and Sewer Rate Reviews: Avila Beach Community Services District
- Water and Sewer Rate Reviews: City of Grover Beach
- Solid Waste Rate Review: County of San Luis Obispo, Los Osos and North County Areas
- Joint Solid Waste Rate Review: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

PROFESSIONAL LEADERSHIP

- Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- President, League Fiscal Officers Department: 2002 and 2003
- President, CSMFO: 2001
- Board of Directors, CSMFO: 1997 to 2001
- Member, GFOA Budget and Fiscal Policy Committee: 2004 to 2009
- Chair, CSMFO Task Force on “GASB 34” Implementation

- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Debt, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter Chair: 1994 to 1996

TRAINER

Provided highly-rated training for the following organizations:

- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- National Federation of Municipal Analysts
- Probation Business Manager's Association
- California Association of Local Agency Formation Commissions
- Humboldt County
- American Planning Association

Topics included:

- Long-Term Financial Planning
- The Power of Fiscal Policies
- Fiscal Health Contingency Planning
- Financial Analysis and Reporting
- Effective Project Management
- Providing Great Customer Service in Internal Service Organizations: The Strategic Edge
- Strategies for Downsizing Finance Departments in Tough Fiscal Times
- Top-Ten Skills for Finance Officers
- Telling Your Fiscal Story: Tips on Making Effective Presentations
- What Happened in the City of Bell and What We Can Learn from It
- Debt Management
- Top Challenges Facing Local Government Finance Officers
- Transparency in Financial Management: Meaningful Community Engagement in the Budget Process
- Financial Management for Non-Financial Managers
- Preparing for Successful Revenue Ballot Measures
- Multi-Year Budgeting
- Integrating Goal-Setting and the Budget Process
- 12-Step Program for Recovery from Fiscal Distress
- Strategies for Strengthening Organizational Effectiveness
- Financial Management for Elected Officials
- Budgeting for Success Among Uncertainty: Preparing for the Next Downturn
- Fiscalization of Land Use
- Setting Fees and Charges

CONSULTANT QUALIFICATIONS

PUBLICATIONS

- *Guide to Local Government Finance in California*, Solano Press, Second Edition, 2017 (Co-Author)
- *Setting Reserve Policies – and Living Within Them*, CSMFO Magazine, May 2017
- *Presenting the Budget to Your Constituents*, CSMFO Magazine, July 2016
- *Planning for Fiscal Recovery*, Government Finance Review, February 2014
- *Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health*, Government Finance Review, August 2011
- *Fees in a Post-Proposition 218 World, League of California Cites, City Attorney's Department Spring Conference, May 2010*
- *Municipal Fiscal Health Contingency Planning*, Western City Magazine, November 2009
- *Understanding the Basics of County and City Revenue*, Institute for Local Government, 2008 (Contributor)
- *Financial Management for Elected Officials*, Institute for Local Government, 2007 (Contributor)
- *Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Citie*s, Western City Magazine, November 2003
- *Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability*, Institute for Local Government, November 2002 (Co-Author)
- *Why Is GASB 34 Such a Big Deal?*, Western City Magazine, November 2000
- *Understanding Sales Tax Issues*, Western City Magazine, June 1997
- *Proposition 218 Implementation Guide*, League of California Cities, 1997 (Contributor)

HONORS AND AWARDS

- Cal-ICMA Ethical Hero Award (for service to the City of Bell)
- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Polices: User Fee Cost
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device Recovery)
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting
- National Management Association Silver Knight Award for Leadership and Management Excellence
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors: University of California, Santa Barbara