City of Grover Beach

General Fund
Ten-Year Fiscal Forecast: 2018-28

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General Fund Ten-Year Fiscal Forecast: 2018-28

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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. The update builds on the 2017 forecast, with two key changes:

- It covers a ten-year period rather than five years. This extended timeframe is largely driven by the need to assess the longer-term impact of 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 full-time employees, through 2024-25.

- Forecast assumptions are updated, most notably for the Grover Beach Lodge project, Wastewater Fund repayments and CalPERS costs.

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 five 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 the 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 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 ($2 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 challenges over the next ten years.

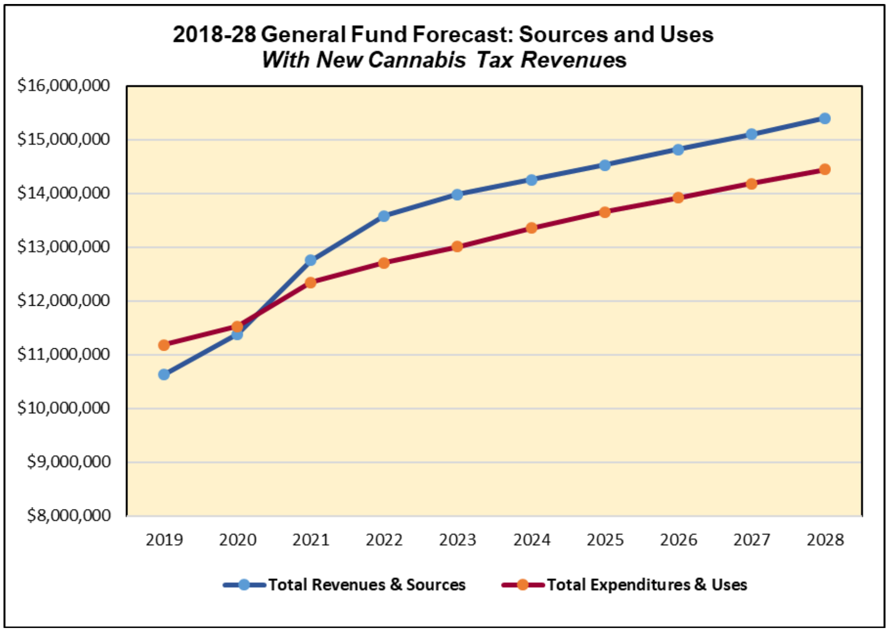
What's this mean for the future? While the City is poised for a positive fiscal outlook beginning in 2020-21, there are many uncertainties ahead, not the least of which are the economy and cannabis tax revenues. As such, the City should use any favorable results for one-time purposes, such as funding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

With New Cannabis Revenues: Favorable Fiscal Outlook

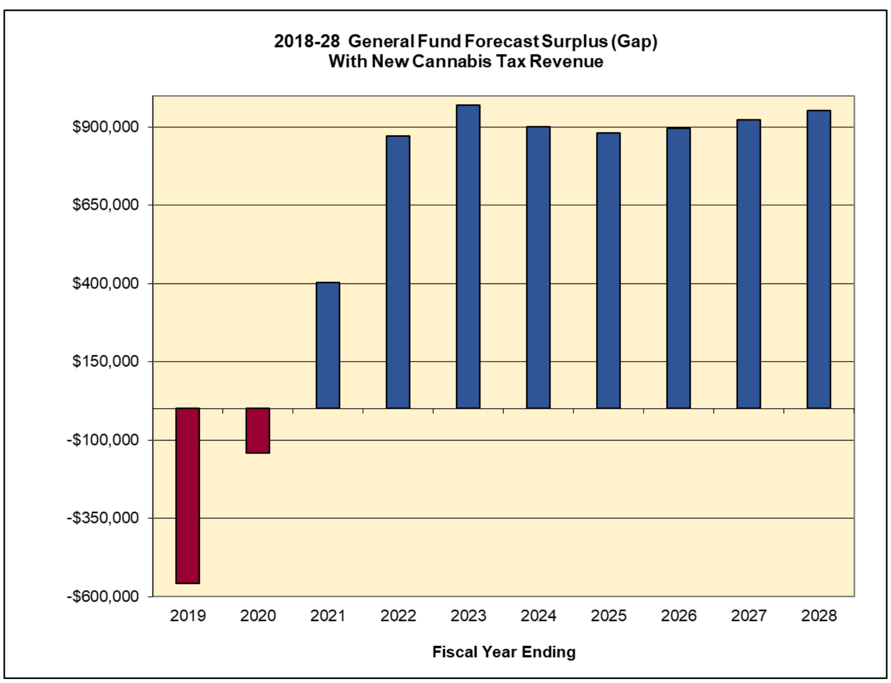
As shown in the chart below comparing projected sources and uses over the next ten years, beginning in 2020-21, revenues exceed expenditures in every year, increasing to an anuual "surplus" of about $900,000 by 2021-22 – and continuing at around this level annually thereafter. This is based on two major factors:

- ***New Hotel-Related Revenues***. Increased transient occupancy taxes (TOT) of $387,000 in 2019-20 from a new Holiday Inn; and increases in TOT, property tax and sales tax of $520,000 from the Grover Beach Lodge project beginning in 2020-21.

- ***New Cannabis Tax Revenues.*** These increase from $100,000 in 2017-18 to $2 million by 2021-22.

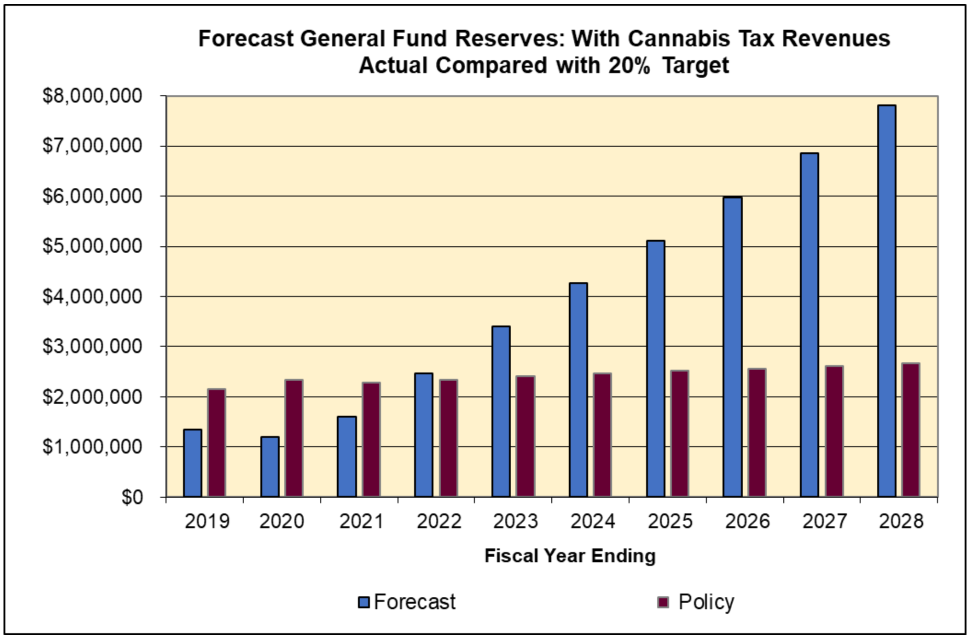


As shown in the chart below, which focuses on the annual "surplus/(gap)," the forecast projects that there will be a "gap" between sources and uses of $558,000 in 2018-19, narrowing to $142,000 in 2019-20; and as noted above, growing to a surplus of about $900,000 annually beginning in 2021-22.

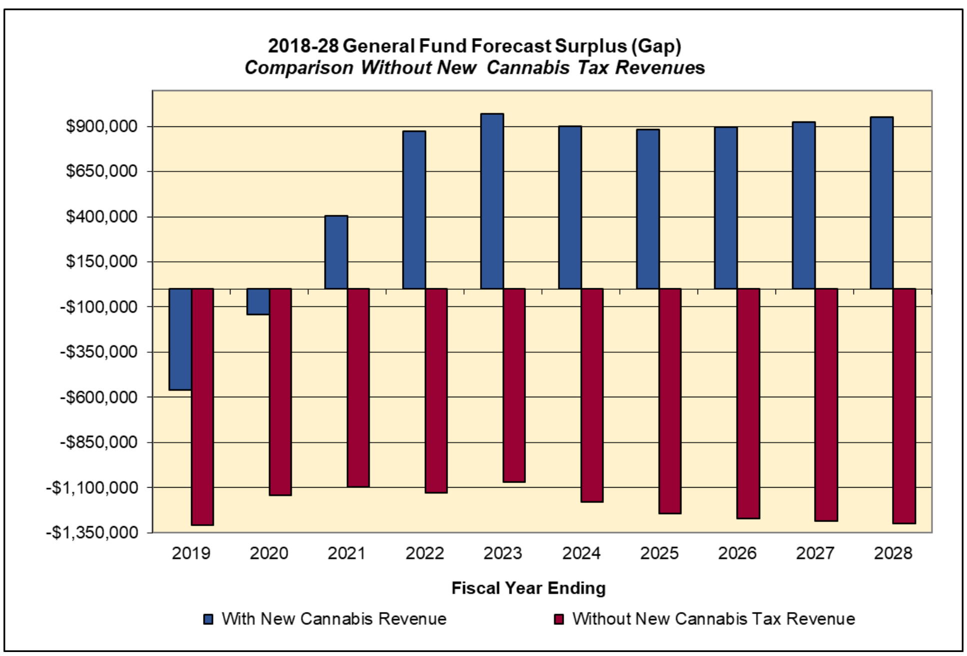


INTRODUCTION

General Fund reserves are available to fund this short-term gap. The forecast projects that reserves will fall to 13% of operating expenditures in 2018-19, recovering to 21% by 2021-22; and growing to 60% by the end of the forecast period. This compares with the City's target of maintaining reserves that are 20% of operarting expenditures.



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" by 2021-22 of about $900,000, the forecast shows an annual gap of about $1.3 million by 2027-28 without new cannabis tax revenues.

Caveat: The Forecast Reflects Cautious Optimism. As 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 102 months, the nation is now in its second longest period of economic expansion in over 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.

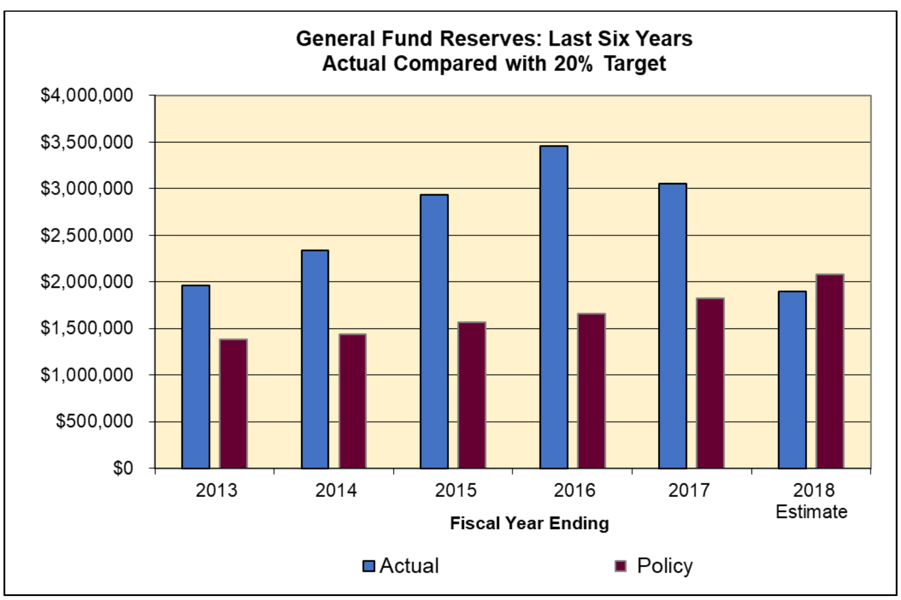
- In the case of unfunded pension and retiree health liabilities, using funds for this purpose will reduce future year costs and reflects an implied 7.0% return on funds compared with current yields of 0.75% from investments in the Local Agency Investment Fund.

- 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 target reserve policy of 20% of operating expenditures.



As reflected in this chart, the General Fund ending balance meets or exceeds the target in all five of the last completed years; and is projected to be at 18% at the end of 2017-18. This is especially notable in 2017-18, since it reflects a planned drawdown on reserves in funding an unusually large General Fund CIP program (primarily due to the Grover Beach Lodge project).

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 top five revenues – property tax, sales tax, franchise fees, TOT and utility users tax. Together, these five sources account for about 80% of General Fund revenues (including interfund transfers).

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

- New cannabis tax revenues (growing to $2.0 million annually by 2021-22).
- New TOT revenues from the 130-room Holiday Inn (starting at $387,000 in 2019-20).
- Net new revenues beginning in 2020-21 of $520,000 from the 144-unit Grover Beach Lodge: $430,000 from TOT; $60,000 from property tax; and $30,000 from sales tax. This is net of rent deferred payments from the tenant (Pacifica) that will not be received during the ten-year forecast period but will be received in the future. However, as discussed below, there is a General Fund commitment of up to $700,000 for this project (funded in 2017-18).

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 2018. However, given its very early stage in the review process, no revenues are projected from this hotel.

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

- The 2017-18 Budget as revised 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 retirement costs and scheduled payments to the County for a new animal shelter ($25,000 annually for the next 25 years).

- Significant increases in retirement costs are assumed based on projections provided by CalPERS.

- The City is in the process of developing a comprehensive, multi-year CIP. In the interim, the forecast assumes $100,000 annually for 2018-19 and 2019-20; and as revenues strengthen, a modest 5% of revenues for 2020-28.

  Beginning in 2017-18, the forecast assumes a change in scope for the Grover Beach Lodge project at Pismo State Beach. This change includes a reduction in the initial project scope in consultation with California State Parks and the concessionaire, as the project will now consist of a 144-room hotel with 4,000 square feet of meeting space with a standalone conference center as a potential future project. The City's financial contribution shown below is now projected to be approximately $700,000 consisting of direct funding support of a de minimus amount to the concessionaire pursuant to the Council's economic development assistance framework. Additional financial support proposed for the project such as installation of public improvements and construction of a standalone conference center will not be expended.

Revised Grover Lodge Project: General Fund 2017-18		
Funding Sources	Original	Revised
Bond Proceeds	5,000,000	-
Transfer Station Reimbursement	445,000	-
General Fund	873,000	700,000
Total	$6,318,000	$700,000

- The forecast assumes the start of repayments to the Wastewater Fund for its advance of $670,000 for the broadband project over five years, beginning in 2018-19 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 2023-24 in the amount of $177,600.

GENERAL FISCAL OUTLOOK

Economic Overview

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

- National unemployment is 4.1%, down from its peak of 10.0% in October 2009.
- California unemployment is 4.2%, 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 historic highs of more than 26,000 in January 2018; and at over 2,800, the S&P 500 is also at historically high levels.
- 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 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 102 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 (including 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 does include "what if" the new cannabis tax revenues do not materialize.

Demographic and Financial 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:

- ***Demographic and Economic 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 – 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).
- Eight-year employer contribution rate projections prepared by CalPERS.

Ultimately, working closely with City staff, the forecast projections reflect our best judgment about 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 2017-18 Budget. It is likely that there are City needs that are not reflected in the 2017-18 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.

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. Based on recent direction from the U.S. Attorney General, there is a strong possibility that this policy may not be continued by the Trump Administration.


The Washington Post

National Security

Use of legalized marijuana threatened as Sessions rescinds Obama-era directive that eased federal enforcement

By Matt Zapotosky, Sari Horwitz and Joel Achenbach January 4

Insurance Costs. Consistent with the general forecast assumption of using the 2017-18 Budget as the "baseline," the forecast assumes that general liability and 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 projections 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. 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 102 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 2017-18 Budget as 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 payments to the County for a new animal shelter ($25,000 annually for the next 25 years). Based on projections provided CalPERS, these costs are projected to rise significantly over the next seven 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.

The forecast assumption of 2% for operating cost increases (aside from retirement and animal shelter costs) 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 expected 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, 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. The City is in the process of developing a comprehensive, multi-year CIP. In the interim, the forecast assumes $100,000 annually for 2018-19 and 2019-20; and as revenues strengthen, a modest 5% of revenues for 2020-28.

Beginning in 2017-18, the forecast assumes a change in scope for the Grover Beach Lodge project at Pismo State Beach. This change includes a reduction in the initial project scope in consultation with California State Parks and the concessionaire, as the project will now consist of a 144-room hotel with 4,000 square feet of meeting space with a standalone conference center as a potential future project. The City's financial contribution shown below is now projected to be approximately $700,000 consisting of direct funding support of a de minimus amount to the concessionaire pursuant to the Council's economic development assistance framework. Additional financial support proposed for the project such as installation of public improvements and construction of a standalone conference center will not be expended.

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Bond Proceeds	5,000,000	-
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Total	$6,318,000	$700,000

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

- Current annual debt service obligations of $63,900: $25,600 for repayment of State loan to fund energy saving projects (these payments end in 2026-27); and $38,300 for the lease-purchase of police radios (these payments end in 2022-22).

- Repayments to the Wastewater Fund for its advance of $670,000 for the broadband project over five years, beginning in 2018-19 in the 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 2023-24, in the annual amount of $177,600.

INTERFUND TRANSFERS

Transfers in and out are based on the 2017-18 Budget and increase annually based on changes in the CPI (2% per year).

KEY ASSUMPTIONS

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 Revenues

The following describes the assumptions for the "Top Five" revenues in the forecast, which account for about 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:

2018-19	3.0%
2019-20	3.0%
2020-21	3.0%
2021-28	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 receive 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 2020-21 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 2020-21 from the Grover Beach Lodge project.

Franchise Fees. Based on long-term trends, these are projected to increase by 3.0% in 2018-19; and by inflation (2% annually) throughout the rest of the forecast period.

Transient Occupancy Tax. Following strong growth in 2014-15 (13%) and 2015-16 (16%), TOT revenues flattened in 2016-17. "Baseline" TOT revenues are projected to increase by inflation (2%) for the next ten years.

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

- TOT revenues from the 130-room Holiday Inn: starting at $387,000 in 2019-20, growing to $432,100 by 2022-23 and by 2% annually thereafter.

- TOT revenues of $430,000 from the 144-room Grover Beach Lodge beginning in 2020-21, growing to $460,600 by 2022-23 and by 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.

New Cannabis Tax Revenues

Based on initial analyses, these are projected to generate new revenues as follows:

Current Year	
2017-18	$100,000
Forecast	
2018-19	$750,000
2019-20	$1,000,000
2020-21	$1,500,000
2021-22	$2,000,000
2022-28	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: 2018-2028

	2015-16	2016-17	2017-18		FORECAST									
	Actual	Actual	Budget	Revised	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
REVENUES														
Taxes and Franchise Fees														
Property Tax	4,131,000	4,074,300	4,398,700	4,524,400	4,660,100	4,799,900	5,003,900	5,166,100	5,333,700	5,440,400	5,549,200	5,660,200	5,773,400	5,888,900
Sales Tax														
General: 1%	1,215,000	1,364,900	1,382,100	1,250,000	1,275,000	1,300,500	1,356,500	1,414,700	1,475,100	1,504,600	1,534,700	1,565,400	1,596,700	1,628,600
Measure X: 1/2%	747,000	771,500	781,500	770,000	785,400	801,100	865,100	882,400	900,000	918,000	936,400	955,100	974,200	993,700
Franchise Fees	523,300	542,900	540,000	540,000	556,200	567,300	578,600	590,200	602,000	614,000	626,300	638,800	651,600	664,600
Transient Occupancy Tax	363,400	368,700	387,600	367,400	374,700	739,200	1,232,000	1,279,700	1,339,900	1,366,700	1,394,000	1,421,900	1,450,300	1,479,300
Utility Users Tax	151,700	163,000	160,700	169,900	173,300	176,800	180,300	183,900	187,600	191,400	195,200	199,100	203,100	207,200
Cannabis Tax	-	-	200,000	100,000	750,000	1,000,000	1,500,000	2,000,000	2,040,000	2,080,800	2,122,400	2,164,800	2,208,100	2,252,300
Other Taxes	135,200	167,500	147,000	155,000	158,100	161,300	164,500	167,800	171,200	174,600	178,100	181,700	185,300	189,000
Total Taxes and Franchises	7,266,600	7,452,800	7,997,600	7,876,700	8,732,800	9,546,100	10,880,900	11,684,800	12,049,500	12,290,500	12,536,300	12,787,000	13,042,700	13,303,600
From Other Governments	65,800	43,600	27,000	25,500	25,500	25,500	25,500	25,500	25,500	25,500	25,500	25,500	25,500	25,500
Licenses and Permits	302,000	258,200	356,300	340,300	347,100	354,000	361,100	368,300	375,700	383,200	390,900	398,700	406,700	414,800
Service Charges	465,800	555,300	1,064,600	590,000	601,800	613,800	626,100	638,600	651,400	664,400	677,700	691,300	705,100	719,200
Use of Money and Property	296,000	274,900	298,400	270,200	270,200	270,200	270,200	270,200	270,200	270,200	270,200	270,200	270,200	270,200
RDA Loan Repayment	-	240,700	-	-	80,000	-	-	-	-	-	-	-	-	-
Other Revenues	187,600	79,400	71,400	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Total Revenues	8,583,800	8,904,900	9,815,300	9,172,700	10,127,400	10,879,600	12,233,800	13,057,400	13,442,300	13,703,800	13,970,600	14,242,700	14,520,200	14,803,300
EXPENDITURES				-										
Operating Programs	8,270,000	9,129,900	10,434,900	10,381,100	10,731,500	11,076,200	11,381,900	11,704,500	12,019,100	12,306,600	12,588,000	12,839,200	13,095,800	13,357,200
Debt Service	25,600	25,600	25,600	63,900	63,900	63,900	63,900	63,900	25,600	25,600	25,600	25,600	12,900	-
Capital Improvement Plan	245,000	639,800	7,065,500	1,563,700	100,000	100,000	611,700	652,900	672,100	685,200	698,500	712,100	726,000	740,200
Total Expenditures	8,540,600	9,795,300	17,526,000	12,008,700	10,895,400	11,240,100	12,057,500	12,421,300	12,716,800	13,017,400	13,312,100	13,576,900	13,834,700	14,097,400
OTHER SOURCES (USES)														
Transfers In														
Cost Allocation Transfers	430,600	431,700	440,200	440,200	449,000	458,000	467,200	476,500	486,000	495,700	505,600	515,700	526,000	536,500
Bond Proceeds	-	-	5,000,000	-	-	-	-	-	-	-	-	-	-	-
Other Transfers In	119,500	135,300	51,500	45,000	45,900	46,800	47,700	48,700	49,700	50,700	51,700	52,700	53,800	54,900
Transfers Out	(65,000)	(80,000)	(140,000)	(240,000)	(140,000)	(142,800)	(145,700)	(148,600)	(151,600)	(154,600)	(157,700)	(160,900)	(164,100)	(167,400)
Wastewater Fund Repayment					(144,700)	(143,400)	(142,100)	(140,800)	(139,400)	(177,600)	(177,600)	(177,600)	(177,600)	(177,600)
Total Other Sources (Uses)	485,100	487,000	5,351,700	245,200	210,200	218,600	227,100	235,800	244,700	214,200	222,000	229,900	238,100	246,400
Sources Over (Under) Uses	528,300	(403,400)	(2,359,000)	(2,590,800)	(557,800)	(141,900)	403,400	871,900	970,200	900,600	880,500	895,700	923,600	952,300
Fund Balance, Start of Year *	2,930,200	3,458,500	4,431,100	4,490,800	1,900,000	1,342,200	1,200,300	1,603,700	2,475,600	3,445,800	4,346,400	5,226,900	6,122,600	7,046,200
Fund Balance, End of Year	3,458,500	3,055,100	2,072,100	1,900,000	1,342,200	1,200,300	1,603,700	2,475,600	3,445,800	4,346,400	5,226,900	6,122,600	7,046,200	7,998,500

* 2017-18 fund balance at start of the year is net of the advance payable to Wastewater Fund of $1,435,700 at June 30, 2017.

Fund Balance % Operating Costs	42%	33%	20%	18%	13%	11%	14%	21%	29%	35%	42%	48%	54%	60%

Target Reserve Policy Goal: 20% of Operating Costs

ASSUMPTIONS SUMMARY

		2017-18 Revised	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
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												
Property Tax	Current Base	All revenues and other	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Grover Beach Lodge Project	sources for 2017-18 are			60,000	62,100	64,300	2.0%	2.0%	2.0%	2.0%	2.0%
		based on revised										
Sales Tax	Current Base: Mid-Year Budget Review	estimates per the Mid-	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Grover Beach Lodge Project	Year Budget Review.			30,000	31,100	32,100	2.0%	2.0%	2.0%	2.0%	2.0%
Franchise Fees		These revisions are based	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
		on prior-year actuals and										
TOT	Current Base	year-to-date trends as of	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Grover Beach Lodge Project	December 31, 2017.			430,000	15,000	15,600	2.0%	2.0%	2.0%	2.0%	2.0%
	Holiday Inn Project			357,000	48,000	8,100	19,000	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%
Cannabis Tax			750,000	1,000,000	1,500,000	2,000,000	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Taxes			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Licenses & Permits/Service Charges			2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
All Other Revenues			Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat
Transfers In			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		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Operating Expenditures												
CalPERS Payroll Base:	Miscellaneous Classic Employees	2,078,900	2,120,500	2,162,900	2,206,200	2,250,300	2,295,300	2,341,200	2,388,000	2,435,800	2,484,500	2,534,200
Grows by Inflation	Miscellaneous PEPRA Employees	220,000	224,400	228,900	233,500	238,200	243,000	247,900	252,900	258,000	263,200	268,500
	Police Safety Classic Employees	1,971,800	2,011,200	2,051,400	2,092,400	2,134,200	2,176,900	2,220,400	2,264,800	2,310,100	2,356,300	2,403,400
Payroll Base Excludes	Police Safety PEPRA Employees	180,000	183,600	187,300	191,000	194,800	198,700	202,700	206,800	210,900	215,100	219,400
Special Funds	Total CalPERS Payroll Base	4,450,700	4,539,700	4,630,500	4,723,100	4,817,500	4,913,900	5,012,200	5,112,500	5,214,800	5,319,100	5,425,500
Normal Contribution Rate	Miscellaneous Classic Employees	10.110%	10.609%	11.100%	12.100%	12.100%	12.100%	12.100%	12.100%	12.100%	12.100%	12.100%
	Miscellaneous PEPRA Employees	6.533%	6.842%	6.800%	7.100%	7.100%	7.100%	7.100%	7.100%	7.100%	7.100%	7.100%
	Police Safety Classic Employees	17.875%	18.677%	19.500%	21.100%	21.100%	21.100%	21.100%	21.100%	21.100%	21.100%	21.100%
	Police Safety PEPRA Employees	11.990%	12.141%	12.400%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%	13.100%
Normal Contribution Costs	Miscellaneous Classic Employees	210,200	225,000	240,100	267,000	272,300	277,700	283,300	288,900	294,700	300,600	306,600
	Miscellaneous PEPRA Employees	14,400	15,400	15,600	16,600	16,900	17,300	17,600	18,000	18,300	18,700	19,100
	Police Safety Classic Employees	352,500	375,600	400,000	441,500	450,300	459,300	468,500	477,900	487,400	497,200	507,100
	Police Safety PEPRA Employees	21,600	22,300	23,200	25,000	25,500	26,000	26,600	27,100	27,600	28,200	28,700
	Total Normal Contribution	598,700	638,300	678,900	750,100	765,000	780,300	796,000	811,900	828,000	844,700	861,500
Unfunded Accrued	Miscellaneous Classic Employees	224,300	266,500	315,000	301,800	348,000	388,800	416,400	439,800	448,600	457,600	466,800
Liability Costs	Miscellaneous PEPRA Employees	100	300	600	1,100	1,600	2,100	2,500	2,800	2,900	3,000	3,100
	Police Safety Classic Employees	247,100	300,100	361,000	411,000	471,000	524,000	561,000	592,000	603,800	615,900	628,200
	Police Safety PEPRA Employees	100	500	900	1,700	2,500	3,300	3,900	4,400	4,500	4,600	4,700
	Legacy Fire Safety	18,400	22,600	27,000	30,000	33,000	36,000	37,000	38,000	38,800	39,600	40,400
	Total UAL Costs	490,000	590,000	704,500	745,600	856,100	954,200	1,020,800	1,077,000	1,098,600	1,120,700	1,143,200
	Total CalPERS Costs	1,088,700	1,228,300	1,383,400	1,495,700	1,621,100	1,734,500	1,816,800	1,888,900	1,926,600	1,965,400	2,004,700
Share of Animal Shelter Costs: $25.000 for 25 years			25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
All Other Operating Costs: Increase by Inflation		9,292,400	9,478,200	9,667,800	9,861,200	10,058,400	10,259,600	10,464,800	10,674,100	10,887,600	11,105,400	11,327,500

ASSUMPTIONS SUMMARY

EXPENDITURES & OTHER USES			2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Debt Service	Current Debt Service		25,600	25,600	25,600	25,600	25,600	25,600	25,600	25,600	25,600	12,900	-
	Police Radios		38,300	38,300	38,300	38,300	38,300						-
	Total Debt Service		63,900	63,900	63,900	63,900	63,900	25,600	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	2017-18 Budget and Revised												
	Grover Beach Lodge	6,318,000	700,000										
	Broadband Network	670,000	700,000										
	Ramona Sq Prkng Lot	50,000											
	City Hall Imprvmnts	27,500	25,700										
	Other Projects		138,000										
	Total	7,065,500	1,563,700										
	2018-20: $100,000 Annually			100,000	100,000								
	2020-28: 5% of Revenues					5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
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

DEMOGRAPHIC AND ECONOMIC 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:

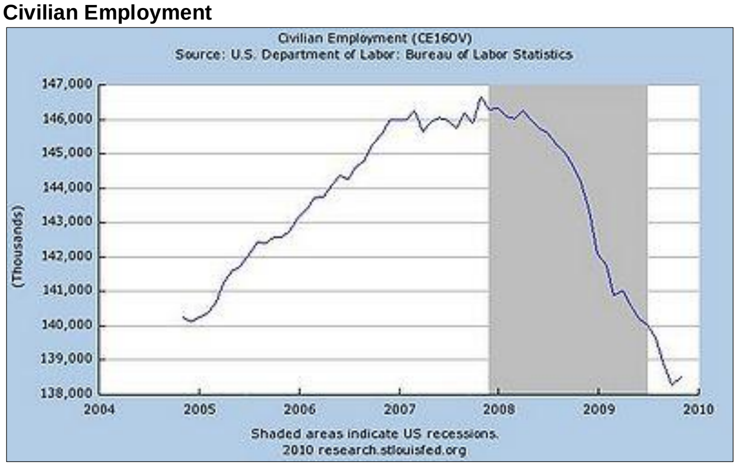
Employment

- 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.

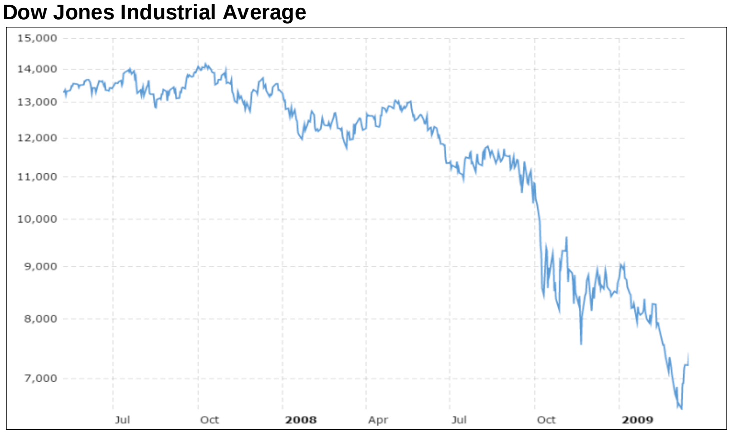
Stock Market

- 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.

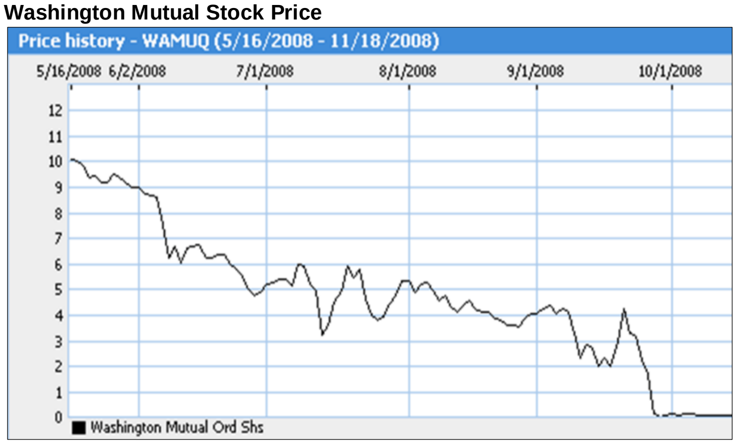
Civilian Employment



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 been tepid, the reality is that the national and state economies have been consistently growing for over eight years.

- Nationally, the unemployment rate is 4.1% compared with its peak of 10.0%.
- In California, the unemployment rate is 4.2%, 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 26,000 by January 2018. And at over 2,800, the S&P 500 index is also at historically high levels.

- The banking system is healthier.
- Interest rates continue to be low by historic standards (although access to credit is tougher).
- And housing prices have recovered (although this has resulted in renew affordability challenges).

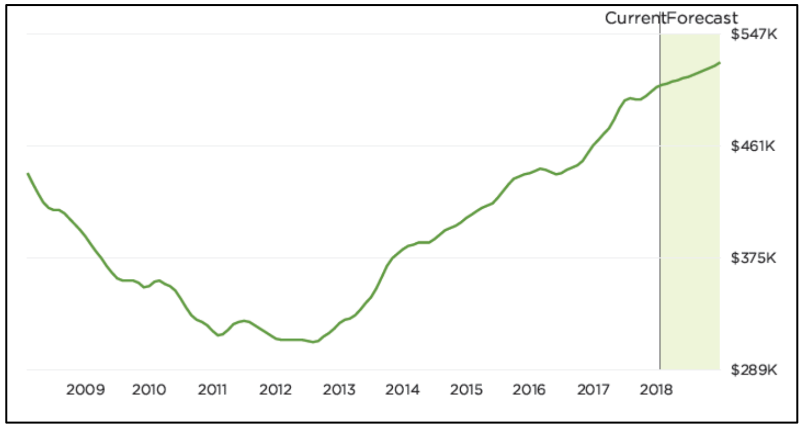
HISTORICAL TRENDS

Grover Beach Economic Indicators

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

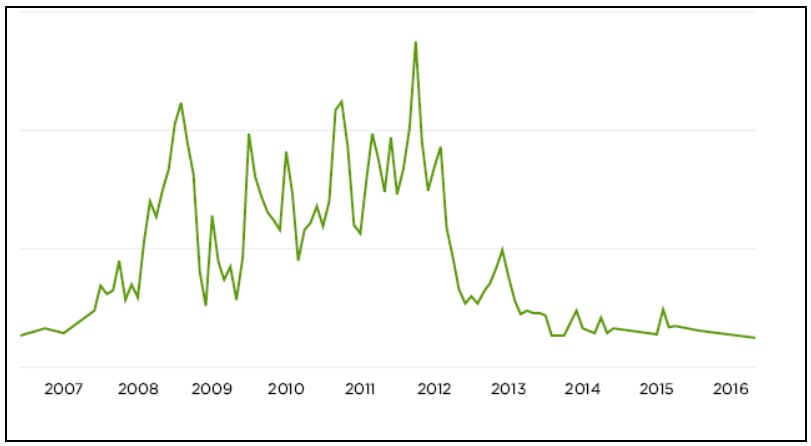
Grover Beach Median Housing Prices. This chart shows the impact of the Great Recession, with a huge drop in median housing prices in Grover Beach from $467,000 in February 2007 to a low of $311,000 in July 2012 – a decrease of 33%. However, solid recovery followed, with housing prices recovering by January 2017.

Source: Zillow.Com



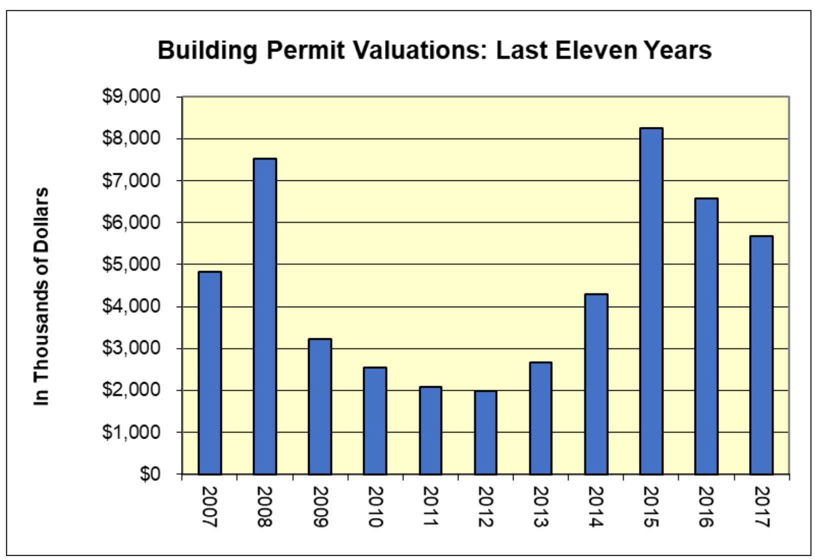
Grover Beach Mortgage Foreclosures. The Great Recession impact on housing is also reflected by the increase in monthly foreclosures, which peaked at 26 per month in September 2011. This has dropped to pre-recession levels of about one per month.

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%

In Thousands of Dollars



Building permits valuations in Grover Beach also reflect the impact of the Great Recession and recovery beginning in 2013. While valuations of $5.7 million were lower in 2017 compared with 2016, this nonetheless shows marked recovery from 2012, when permit valuations were less than $2.0 million.

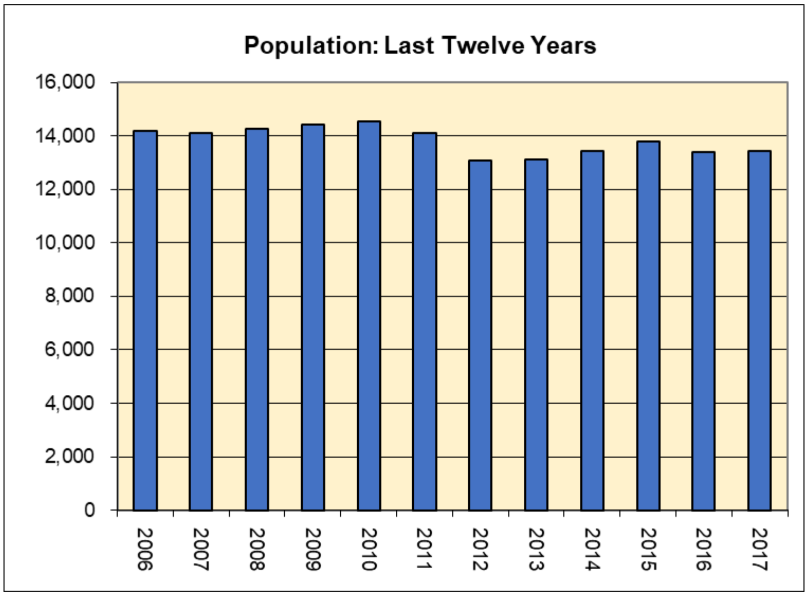
Source: City of Grover Beach, Community Development Department

HISTORICAL TRENDS

Population and Inflation

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%

Average Annual % Change	
Last 2 Years	-1.3%
Last 5 Years	0.6%
Last 10 Years	-0.5%



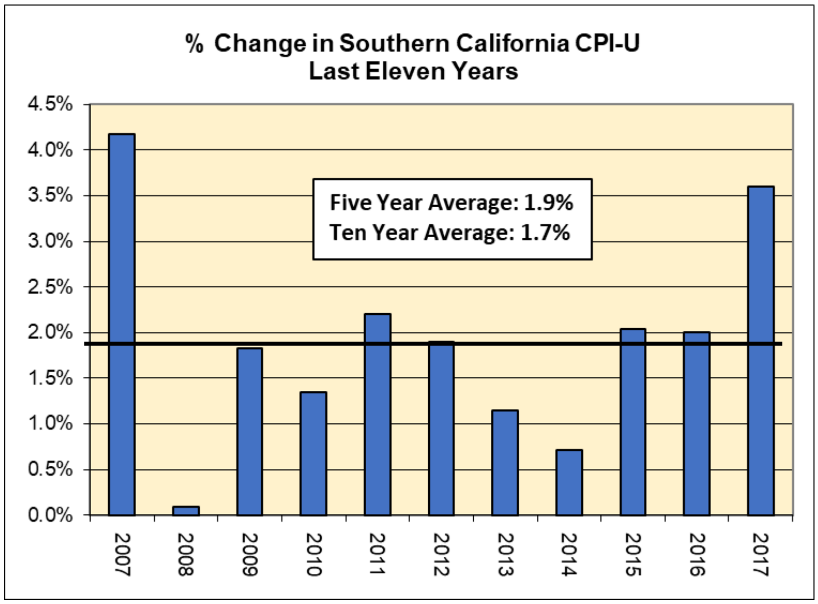
The City's population has remained virtually unchanged for the past twelve years.

Source: State of California, Demographic Research Unit

Consumer Price Index: Southern California		
Calendar Year	Amount	% Change
2006	210.6	
2007	219.4	4.2%
2008	219.6	0.1%
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%

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

Average Annual % Change	
Last 2 Years	2.8%
Last 5 Years	1.9%
Last 10 Years	1.7%



Consumer Price Index. While there is a spike in 2017 the Consumer Price Index for All Urban Consumers (CPI-U) for the Southern California area, the five-year average increase has been 1.9% and 1.7% for the last ten years. Moreover, the national CPI-U for 2017 increased by just 2.1%.

Source: U.S. Bureau of Labor Statistics

EXPENDITURE AND REVENUE SUMMARIES: 2017-18 REVISED BUDGET

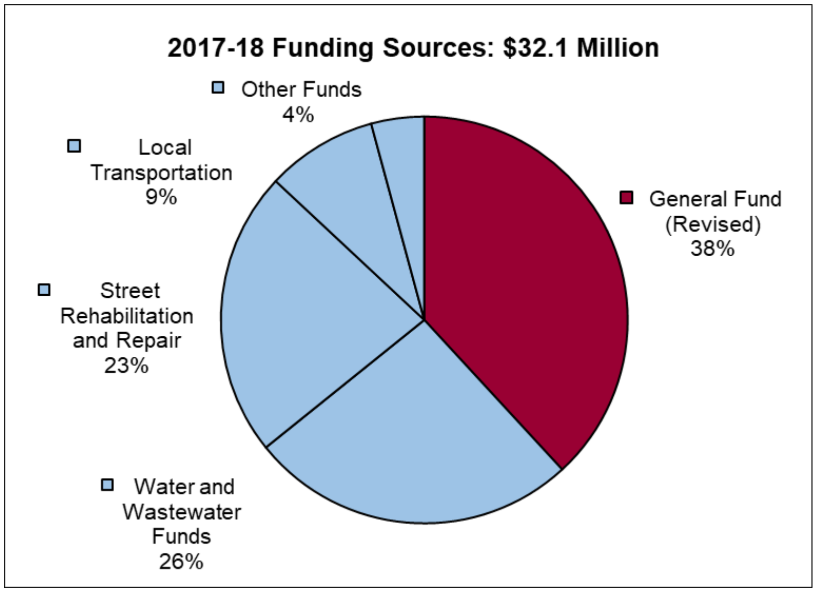
Funding Sources: 2017-18 Budget

Source	Amount	% Total
General Fund (Revised)	12,249	38%
Water and Wastewater Funds	8,371	26%
Street Rehabilitation and Repair	7,303	23%
Local Transportation	2,835	9%
Other Funds	1,352	4%
Total	**$32,110**	**100%**

In Thousands of Dollars

The General Fund – which is the focus of this forecast – accounts for about 40% of total City expenditures.

Source: City of Grover Beach 2017-18 Adopted Budget; 2017-18 Mid-Year Budget Review for the General Fund



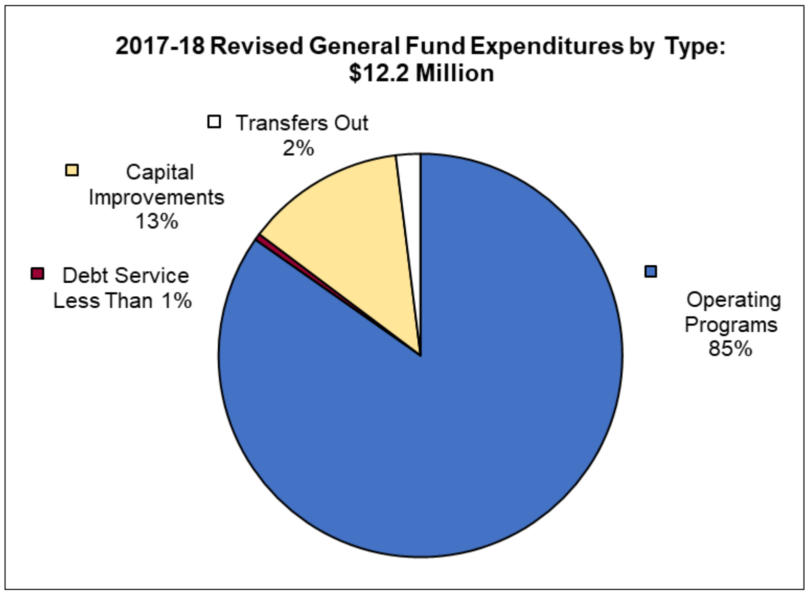
General Fund Expenditures: 2017-18 Budget

Function	Amount	% Total
Operating Programs	10,381	85%
Debt Service	64	0%
Capital Improvements	1,564	13%
Transfers Out	240	2%
Total	**12,249**	**100%**

In Thousands of Dollars

Operating expenditures account for 858% of General Fund expenditures.

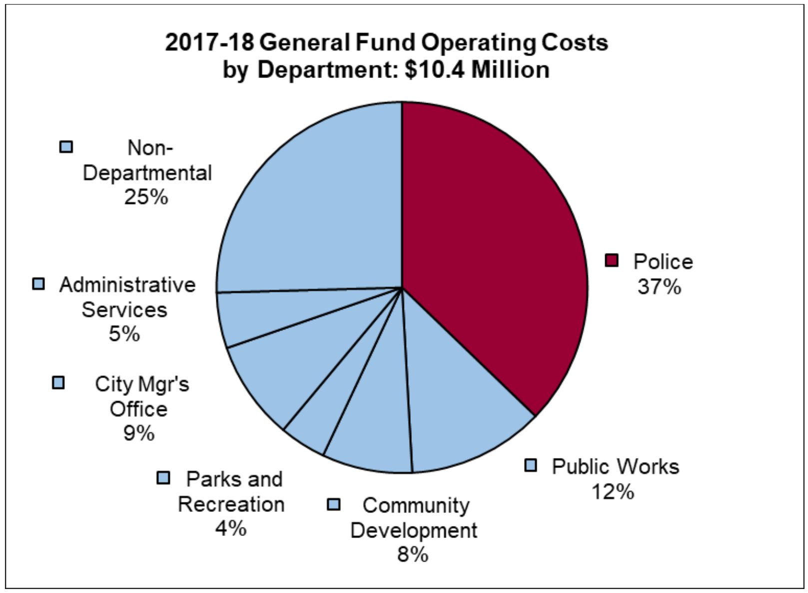
Source: 2017-18 Mid-Year Budget Review



HISTORICAL TRENDS

General Fund Operating Costs: 2017-18 Budget		
Department	Amount	% Total
Police	3,862	37%
Public Works	1,237	12%
Community Development	818	8%
Parks and Recreation	423	4%
City Mgr's Office	897	9%
Administrative Services	504	5%
Non-Departmental	2,640	25%
Total	**$10,381**	**100%**

In Thousands of Dollars

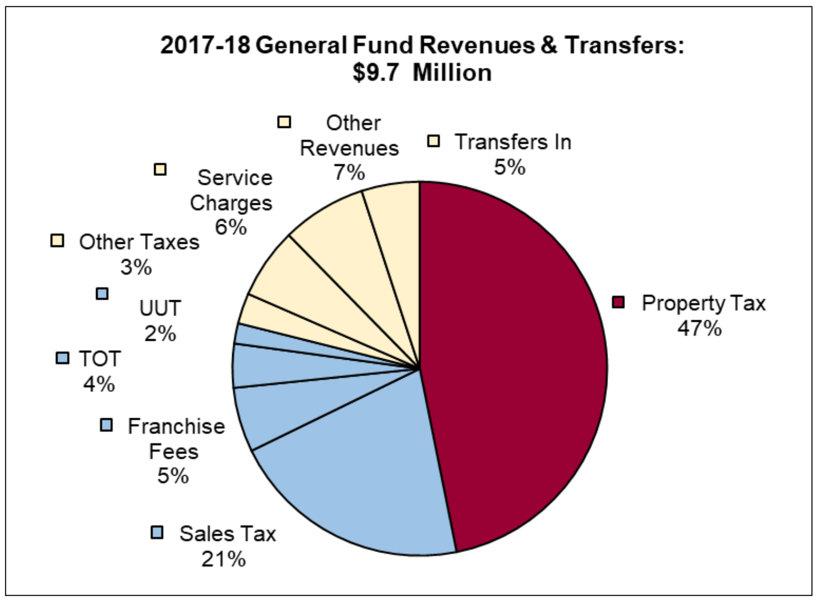


Police costs are the largest General Fund operating expenditure, accounting for almost 40% of total operating costs.

Source: 2017-18 Mid-Year Budget Review

Revised General Fund Revenues & Sources: 2017-18		
Source	Amount	% Total
Property Tax	4,524	47%
Sales Tax	2,020	21%
Franchise Fees	540	6%
Transient Occupancy Tax (TOT)	367	4%
Utility Users Tax (UUT)	170	2%
Other Taxes	255	3%
Service Charges	590	6%
Other Revenues	706	7%
Transfers In	485	5%
Total	**$9,657**	**100%**

In Thousands of Dollars



Five revenue sources account for about 80% of total General Fund sources: property taxes are the top revenue (47%), followed by sales tax (21%, including the general rate of 1% and the Measure X voter-approved rate of ½%); franchise fees (5%); TOT (4%); and utility users tax (2%).

Service charges account for 6%; and all other revenues account for only 7% of total General Fund sources. Transfers in, primarily reimbursements for administrative services from the Water and Wastewater Funds ($440,200) account for 5% of General Fund sources.

Source: 2017-18 Mid-Year Budget Review

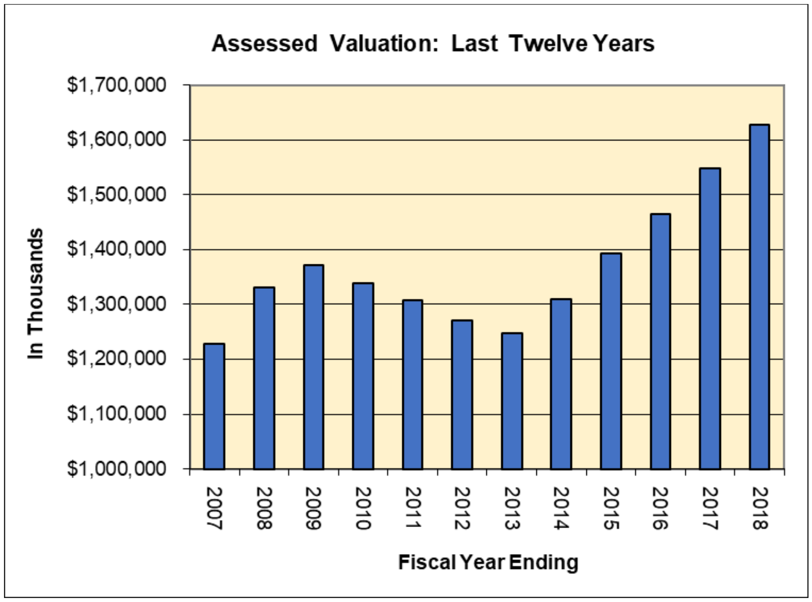
GENERAL FUND REVENUE TRENDS

The following tables and charts show long and short-term trends in General Fund for the “Top Five” revenue sources, which account for about 80% of total General Fund revenues (including transfers in).

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%
Average Annual % Change		
Last 2 Years		5.4%
Last 5 Years		5.5%
Last 10 Years		2.1%

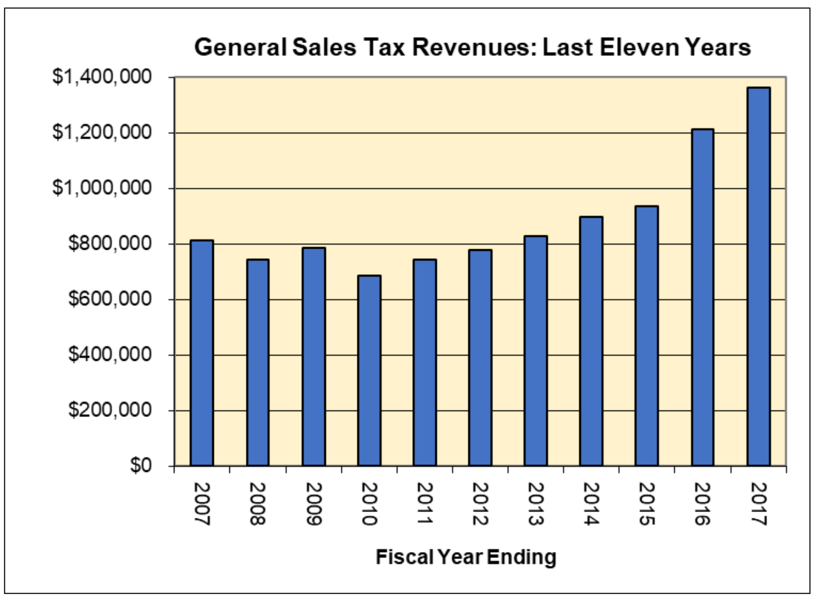
In Thousands



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 5.5% 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%
Average Annual % Change		
Last 2 Years		21.1%
Last 5 Years		12.2%
Last 10 Years		5.9%

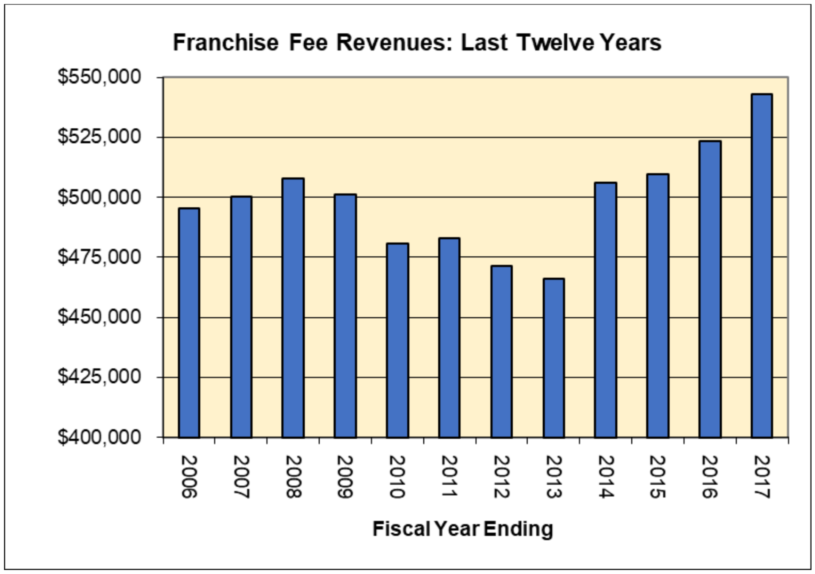


General sales tax revenues – the statewide 1% revenue source – were relatively stable during the Great Recession, and began recovering in 2010-11. The strong increases in 2015-16 and 2016-17 are believed to be due to the phase-out of the "Triple Flip" and the return to "normal" collections.

HISTORICAL TRENDS

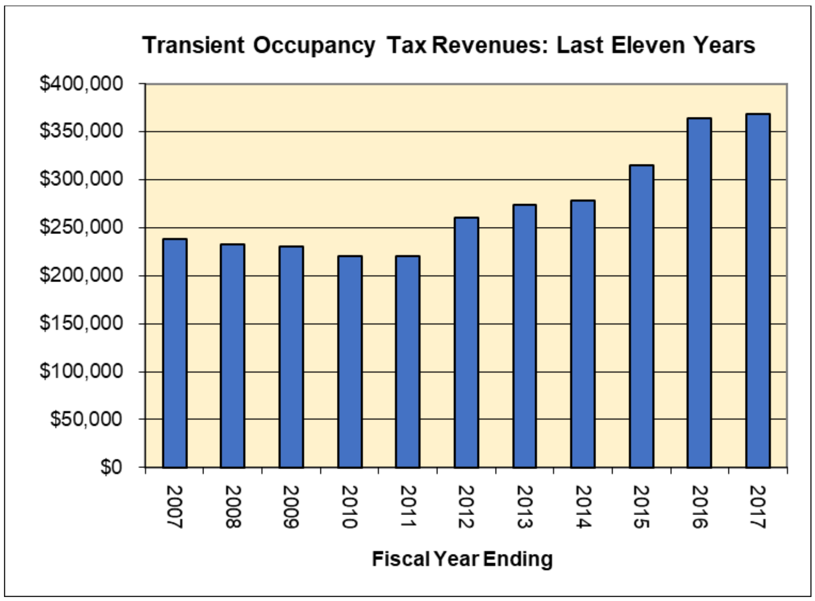
Franchise Fees		
Fiscal Year Ending	Amount	% Change
2006	$495,200	
2007	500,100	1.0%
2008	507,800	1.5%
2009	501,200	-1.3%
2010	480,900	-4.1%
2011	483,000	0.4%
2012	471,400	-2.4%
2013	466,200	-1.1%
2014	506,200	8.6%
2015	509,600	0.7%
2016	523,300	2.7%
2017	542,900	3.7%
Average Annual % Change		
Last 2 Years		3.2%
Last 5 Years		1.7%
Last 10 Years		0.6%

Franchise fees have been relatively stable over the past twelve years, averaging about 3% over the last two 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%
Average Annual % Change		
Last 2 Years		8.5%
Last 5 Years		7.3%
Last 10 Years		4.7%

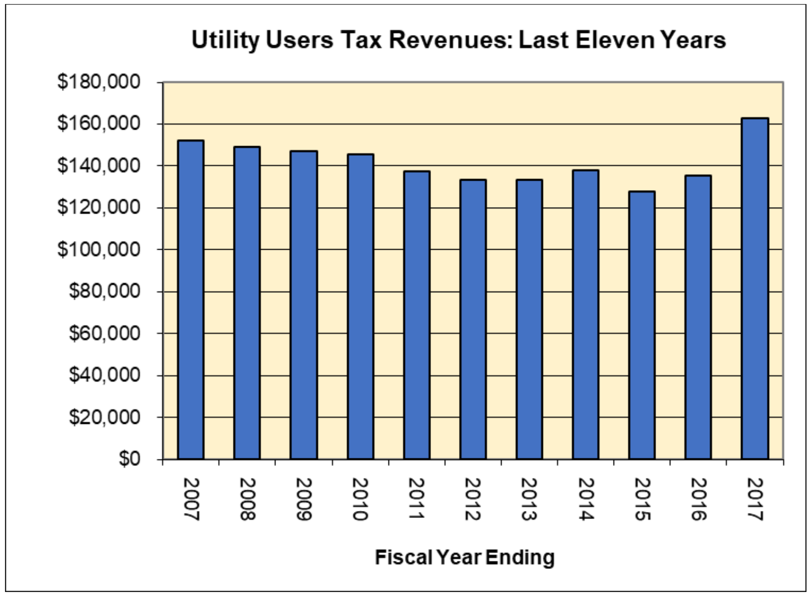
Transient occupancy taxes were largely stable during the Great Recession, with growth beginning 2011-12. There was especially strong growth in 2014-15 (13%) and 2015-16 (16%), followed by flattening in 2016-17.



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%
Average Annual % Change		
Last 2 Years		13.1%
Last 5 Years		4.5%
Last 10 Years		1.0%

Utility user taxes have been relatively stable over the past eleven years.



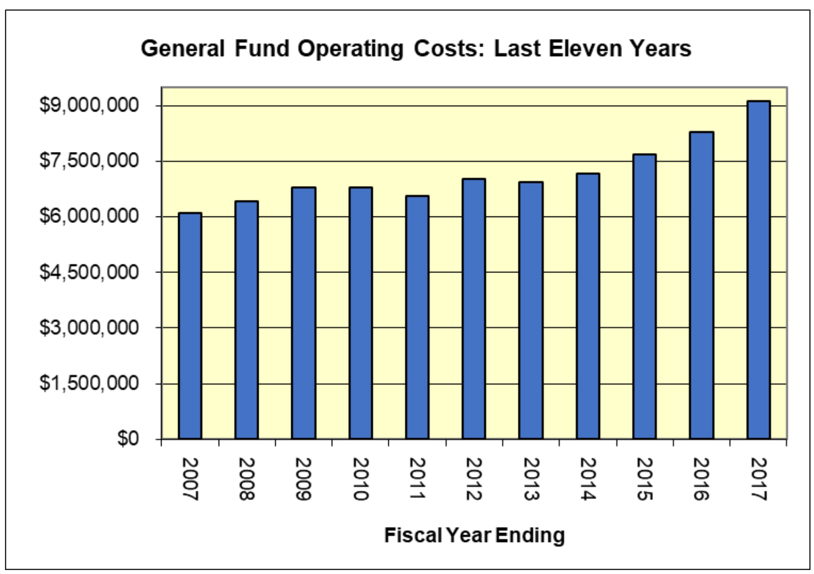
GENERAL FUND EXPENDITURE TRENDS

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.

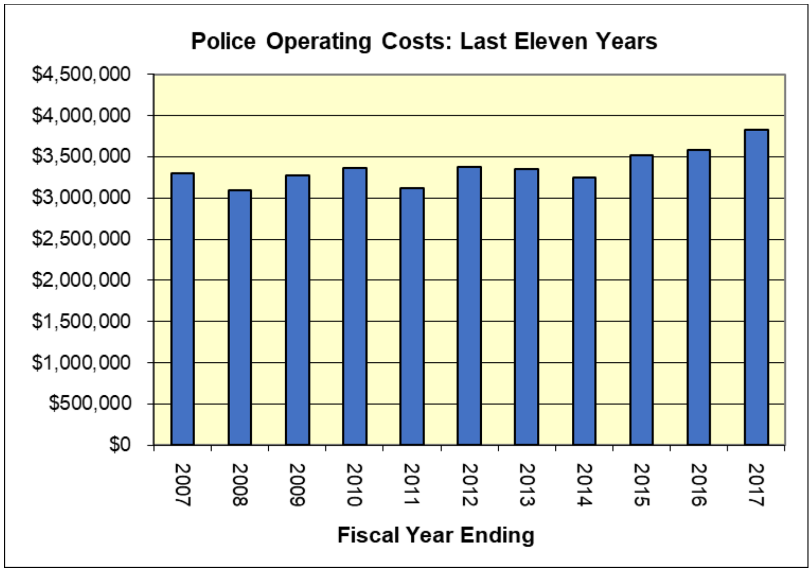
Debt service ratios compared with revenues are also shown for the last four years.

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%
Average Annual % Change		
Last 2 Years		9.1%
Last 5 Years		5.5%
Last 10 Years		4.2%



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%
Average Annual % Change		
Last 2 Years		4.4%
Last 5 Years		2.9%
Last 10 Years		1.0%

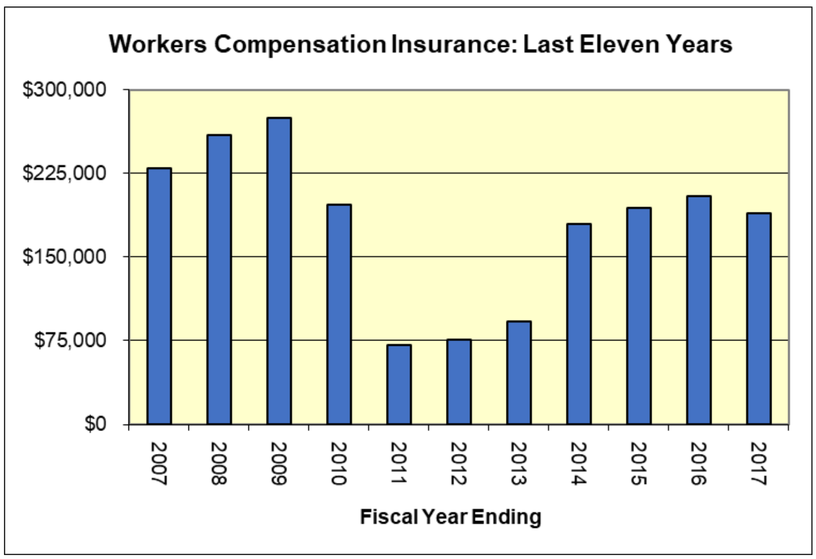


Police operating costs have remained relatively stable over the past eleven years.

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%
Average Annual % Change		
Last 2 Years		-1.0%
Last 5 Years		24.3%
Last 10 Years		7.0%

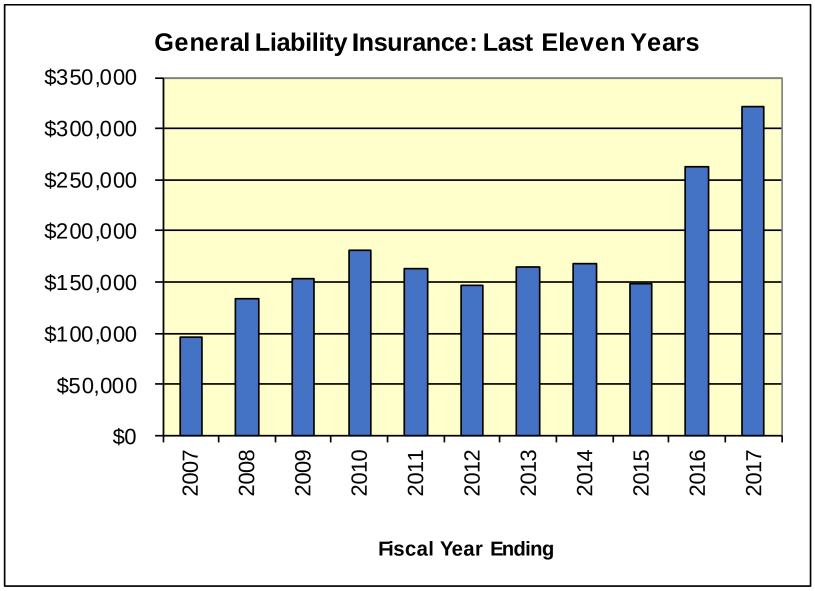
All Funds



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%
Average Annual % Change		
Last 2 Years		49.9%
Last 5 Years		20.5%
Last 10 Years		15.4%

All Funds



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, serving over 1.9 million members and managing $323 billion in assets. Members include state, city, county and special district employees.

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.

While the current discount rate is 7.25%, reductions in this rate to 7.0% are being phased-in over the next three years as follows:

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

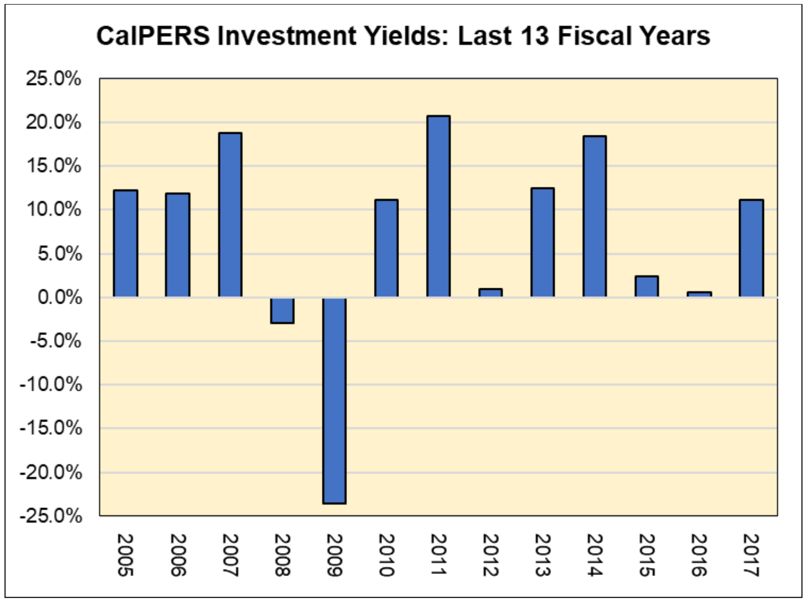
Moreover, the impact of the reduced discount rates on annual employer contributions will be phased-in over five years. As such, it will take seven years (from 2018-19 to 2024-25) to feel the full annual impact of this change.

HISTORICAL TRENDS

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

Average Net Return as of June 30, 2017	
Last Year	11.2%
Last 3 Years	4.6%
Last 5 Years	8.8%
Last 10 Years	4.4%

As reflected in this sidebar graph, there have been significant swings from year-to-year over the past thirteen 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 11% for 2016-17.



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 $76,000 (the top of the salary range) retiring at age 55 would receive a pension of $57,000 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 include those who established CalPERS membership before January 1, 2013 and were hired by a different CalPERS agency with a break in service of 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 eleven 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.

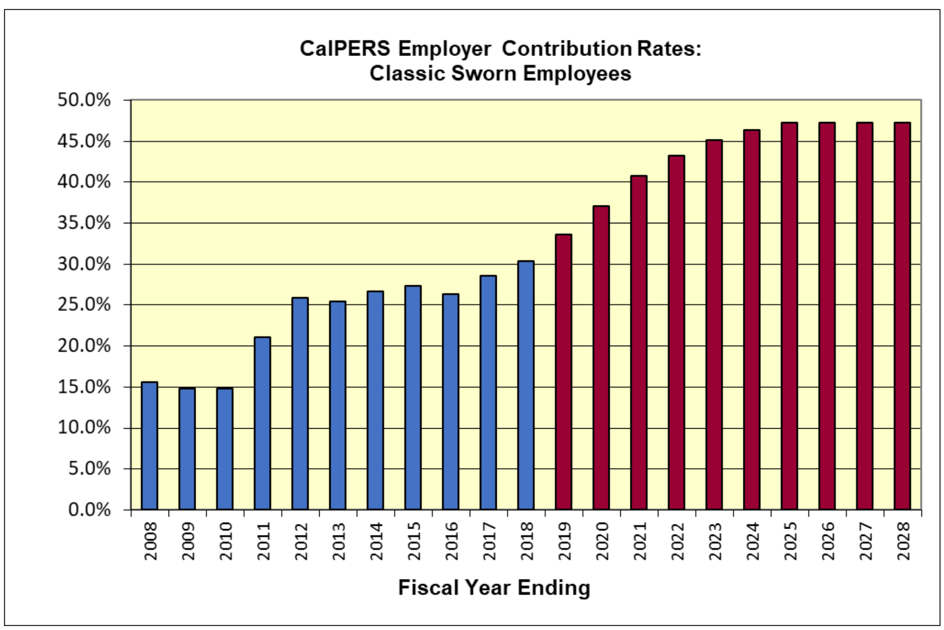
The projected rates below are based on the projections provided by CalPERS in their most recent actuarial report (August 2017).

Classic Sworn Police Employees

After stabilizing from 2011-12 through 2015-16, employer rates began increasing in 2016-17 and 2017-18.

They are projected to rise significantly beginning in 2018-19, from about 30% of payroll in 2017-18 to 47% by 2024-25 (and continuing at this rate for the next three years through 2027-28).

This reflects a 57% increase in employer contribution rates over the next seven years.

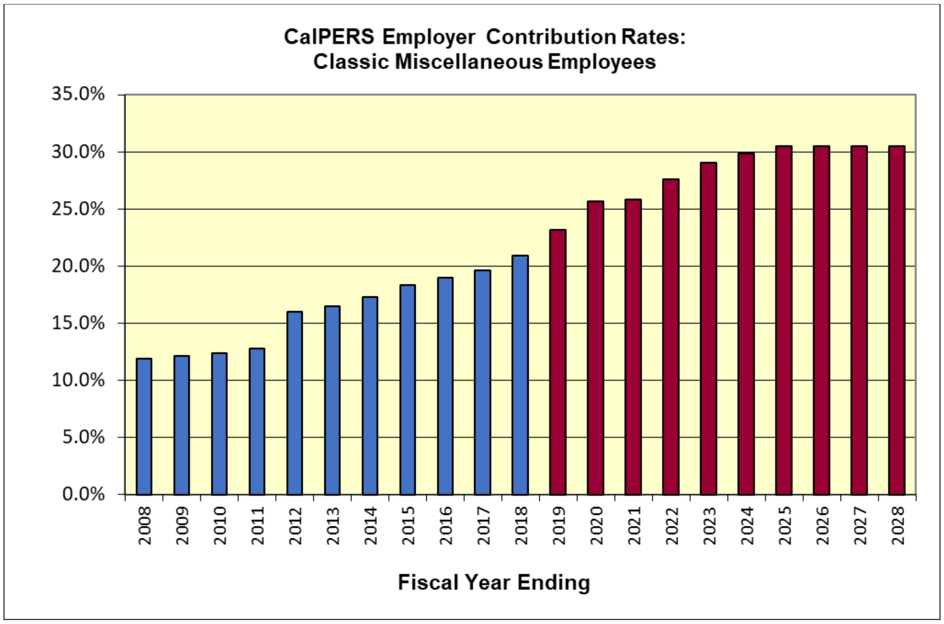


HISTORICAL TRENDS

Classic Miscellaneous Employees

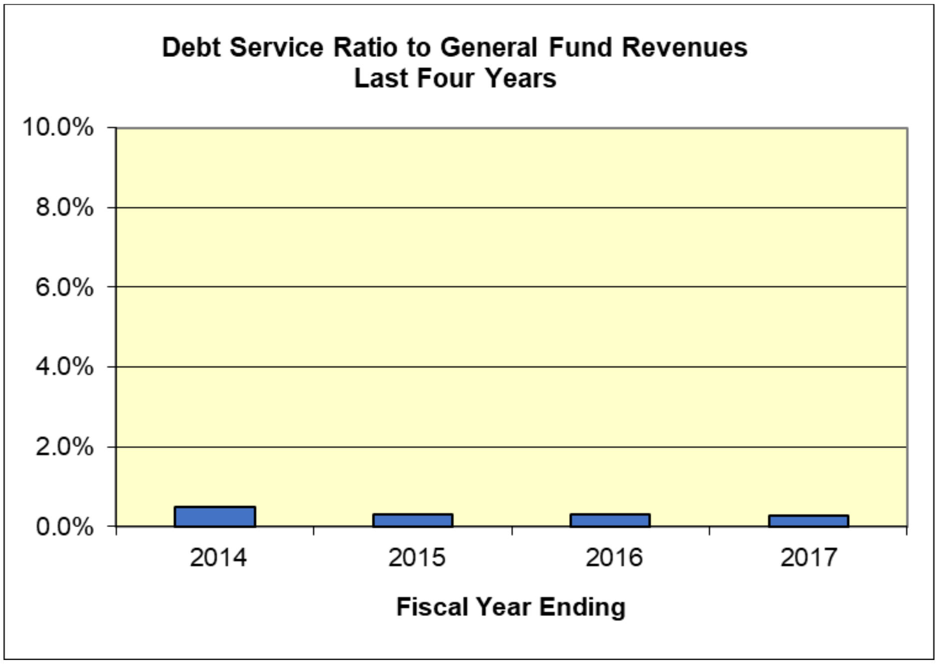
Employer contribution rates will rise significantly for classic miscellaneous employees, from about 21% in 2017-18 to 31% by 2024-25 (and continuing at this rate for the next three years through 2027-28).

This reflects a 48% increase in employer contribution rates over the next seven years.



Debt Service Costs

The City has very low General Fund debt service obligations: less than 1% of revenues. For context, major rating agencies do not get concerned unless this ratio exceeds 10%.



Debt Service Ratio to General Fund Revenues		
Fiscal Year Ending	Debt Service	Gen Fund Rev Ratio
2014	$36,900	0.5%
2015	25,600	0.3%
2016	25,600	0.3%
2017	25,600	0.3%

General Fund Revenues	
2014	$7,275,800
2015	7,999,100
2016	8,583,800
2017	8,904,900

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 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

- Organizational Review (Plans/Public Works and Community Services): City of Monterey
- Finance Organizational Review: Ventura Regional Sanitation District
- Finance Organizational Review: Ventura Regional Sanitation District

- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with national consulting firm)
- 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
- General Fund Reserve Policy: City of Lompoc
- General Fund Reserve Policy: City of Willits
- Reserve Policy: State Bar of California
- Budget and Fiscal Policies: City of Santa Fe Springs

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