

City of Costa Mesa 5-Year Financial Plan

Pension Oversight Committee Meeting January 13, 2016

A new financial plan model has been developed to focus on the City's general fund. It begins with account level detail, and incorporates both percentage increase factors based on economic forecasts and historical trend data and the ability to add absolute dollar amounts where needed. This feature makes it possible to plan steps up or down from projected trends and add or delete one-time items. Two levels of summary data are also provided.

The financial plan process started approximately one year ago in meetings with each department head for input specific to their department and programs. In addition, the CEO provided a corporate perspective on the next five years. More recently, work continued with reviewing economic forecasts; using CalPERS pension cost rate forecasts; and analyzing the City's historical revenue and spending trends based on eleven years of data through FY 14-15 actuals, as well as the FY 15-16 adopted budget amounts.

Revenues

The projection for each revenue account is generally based on its own base level or historical growth pattern:

- Property Tax is projected at a 3 percent annual growth rate plus the impact of the recently annexed Santa Ana/Colleen area and the additional property tax generated by 29 planned new development projects over the next three years.
- Sales Tax is based on HdL (the City's sales tax monitoring consultant) projections including the end of the State's triple flip program. Sales tax is projected at a 3.7 percent growth rate tapering off to 2.8 percent by FY 20-21.
- Transient Occupancy Tax revenue is projected at a 3.5 percent annual growth rate. (The tax rate is projected to remain the same.)
- Building & electrical permits reflect a historical cycle that suggests they begin declining slightly in FY 17-18.
- Development Services and Parks & Community Services provided input on revenues associated with their service and program activity levels.
- Costa Mesa Country Club golf course fees are assumed to remain the same.

The results of the revenue forecast is that general fund revenues would be \$129,509,138 by FY 20-21.

Employee Costs

Regular salaries are projected in three major categories: sworn Fire, sworn Police and non-sworn Miscellaneous (general) employees. These categories reflect the three primary bargaining groups, and facilitates the separate calculation of pension costs for each group. The current budgeted vacancy factor of 4 percent is used in all five years. For forecasting purposes only, some inflationary growth on salaries is forecasted for all groups. Position growth is held to one new full-time position per year. Part-time costs are forecasted to gradually decline as regular positions are filled. The impact of a possible \$1 per hour minimum wage increase each year is also included. Overtime is held at current levels (but could decline as vacant positions are filled). Pension costs are based on rates forecasted by CalPERS with the rates leveling off in year five. Pension costs also include the continuation of an annual additional \$500,000 payment. Other employee costs are based on historical trends, or grow at the same rate as salaries in the case of smaller accounts.

It should be noted that CalPERS recently implemented their “Funding Risk and Risk Mitigation” strategy. Part of this strategy involves the use of greater than expected returns in a given year to help stabilize employer rates and reduce the discount rate over time from 7.5 percent to 6.5 percent. As stated in a previous CalPERS presentation, “There is a cost to reduce risk.” This could take the form of increased employer normal cost rates by up to 1.82 percent of payroll for the miscellaneous plan, and up to 3.20 percent of payroll for the safety plans. With this plan in place, rates could be affected as early as FY 18-19. This cost is included in the forecast of pension costs.

Debt

In FY 18-19 the final payment on the 2003 Certificates of Participation will be made, which will result in \$1,259,272 available for other purposes. A separate Library Funding Options report recommends these funds be dedicated to the Library/NCC/Park project which is now in the planning stages. Therefore, debt principal and interest costs continue at similar levels beyond FY 18-19.

Pension debt as reported in the most recent CalPERS annual valuation reports (June 30, 2014) is \$215,667,950. The City currently is paying this over a 30-year amortization period plus making additional annual payments of \$500,000 plus \$241,000 from the annual prepayment savings. Additional funding sources that would enable the City to pay down this debt faster could include increased employee contributions including safety employees, increased transient occupancy tax, Fire or other service fees.

Contingency

The contingency account is held level at \$1,000,000 annually.

Reserves

Reserves as reported in the February 2015 reserves study were \$42,770,222. According to the reserves policy, annual additions of up to \$1,500,000 would be made based on the existence of a sufficient surplus at the end of each fiscal year. This plan indicates that reserves would remain at current levels for the entire five-year period.

Conclusion

The five-year plan provides the City with an extended planning horizon and a basis for dialogue and planning. The plan reveals two key issues for the next five years. First, there are no large amounts of funding for new initiatives without replacing current services, waiting for existing debt to be paid off or issuing new debt. Second, with modest revenue growth from a good, stable economy, the City can continue current operations at budgeted service levels, pay for projected pension costs, pay for current debt obligations, continue to dedicate 6.5 percent of general fund revenues to capital improvements and capital facilities projects, and maintain current levels of reserves. Small revenue-to-expense deficits are forecasted in all five years and will be dealt with during the annual budget process.

CITY OF COSTA MESA - FIVE YEAR FINANCIAL PLAN
 General Fund
 High-Level Summary

	FY 10-11 Actual	FY 11-12 Actual	FY 12-13 Actual	FY 13-14 Actual	FY 14-15 Actual	FY 15-16 Adopted	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast
Total Revenues	\$ 93,241,711	\$ 95,662,928	\$ 106,020,685	\$ 107,400,989	\$ 112,983,274	\$ 113,638,900	\$ 116,152,300	\$ 120,395,176	\$ 123,580,092	\$ 126,779,247	\$ 129,509,138
Employee Cost	72,194,266	69,282,219	69,489,916	71,676,835	74,138,746	78,892,688	82,134,184	84,828,191	88,773,701	91,840,720	94,308,795
Maintenance & Operations	12,878,937	15,969,918	20,170,385	19,808,025	19,907,748	21,624,333	22,168,967	22,713,567	23,275,593	23,855,745	24,419,749
Debt Service	5,456,820	5,372,777	3,832,025	3,521,623	3,514,579	3,738,618	3,735,493	3,720,865	3,715,384	3,696,362	3,699,464
Contingency	-	-	193,717	20,113	-	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Transfers	482,873	33,804	2,684,946	5,572,511	10,814,636	1,752,604	300,000	300,000	300,000	300,000	300,000
Fixed Assets/Equipment/IT Replacement	277,773	2,272,639	1,503,897	2,031,336	782,089	931,121	1,115,138	1,151,335	1,189,342	1,229,249	1,271,151
Capital Improvements	-	-	-	-	-	5,587,335	5,807,615	6,019,759	6,179,005	6,338,962	6,475,457
City Facilities Improvement	-	-	-	-	-	1,676,201	1,742,285	1,805,928	1,853,701	1,901,689	1,942,637
Total Expenditures	\$ 91,290,668	\$ 92,931,356	\$ 97,874,886	\$ 102,630,442	\$ 109,157,798	\$ 115,202,900	\$ 118,003,681	\$ 121,539,644	\$ 126,286,726	\$ 130,162,727	\$ 133,417,253
Surplus/(Deficit)	\$ 1,951,043	\$ 2,731,572	\$ 8,145,799	\$ 4,770,547	\$ 3,825,476	\$ (1,564,000)	\$ (1,851,381)	\$ (1,144,467)	\$ (2,706,634)	\$ (3,383,480)	\$ (3,908,115)

CITY OF COSTA MESA - FIVE YEAR FINANCIAL PLAN

General Fund
Summary

	FY 10-11 Actual	FY 11-12 Actual	FY 12-13 Actual	FY 13-14 Actual	FY 14-15 Actual	FY 15-16 Adopted	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast
Sales & Use Tax	\$ 40,173,715	\$ 42,234,307	\$ 45,830,110	\$ 49,264,633	\$ 51,115,064	\$ 52,862,000	\$ 54,336,992	\$ 56,347,461	\$ 58,150,579	\$ 59,895,097	\$ 61,572,160
Property Tax	20,748,997	20,591,798	23,172,595	22,821,008	24,058,820	24,673,600	25,405,154	26,862,161	27,587,917	28,336,550	29,108,711
Transient Occupancy Tax	5,344,968	6,524,510	7,257,695	7,676,090	7,995,155	8,107,500	8,391,263	8,684,957	8,988,930	9,303,543	9,629,167
Franchise Fee's	4,240,255	4,471,325	4,818,970	4,891,465	4,885,926	5,039,600	4,961,156	5,030,196	5,101,143	5,174,054	5,248,987
Licenses & Permits	1,292,796	1,630,901	1,723,297	1,778,622	1,970,946	2,481,500	2,431,233	2,357,879	2,289,474	2,225,557	2,165,716
Fines & Forfeitures	1,743,742	1,544,335	1,506,940	1,216,018	1,204,868	1,190,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000
Use of Money & Property	4,399,972	3,412,897	2,888,003	4,228,621	4,392,138	3,144,700	3,134,228	3,156,860	3,180,131	3,204,067	3,228,698
Vehicle License Fee Swap - Property Tax	9,112,000	8,594,278	8,814,644	9,229,059	9,481,340	9,615,500	9,854,688	10,099,855	10,351,151	10,608,730	10,872,748
Fee's & Charges for Services	3,542,656	3,823,258	3,783,376	3,710,792	3,832,961	3,796,000	3,811,809	3,849,262	3,888,168	3,928,602	3,970,642
All Other Revenue's	2,642,610	2,835,319	6,225,055	2,584,679	4,046,056	2,728,500	2,675,778	2,856,547	2,892,598	2,953,048	2,562,311
Total Revenues	\$ 93,241,711	\$ 95,662,928	\$ 106,020,685	\$ 107,400,989	\$ 112,983,274	\$ 113,638,900	\$ 116,152,300	\$ 120,395,176	\$ 123,580,092	\$ 126,779,247	\$ 129,509,138
Budgeted Positions Count	498.00	497.00	465.00	466.00	477.00	478	479	480	481	482	483
Filled Positions					408.00	459	460	461	462	463	464
Regular Salaries	\$ 40,668,844	\$ 38,380,113	\$ 36,964,019	\$ 37,450,971	\$ 37,727,587	\$ 41,425,917	\$ 42,803,579	\$ 43,509,518	\$ 44,286,676	\$ 45,201,590	\$ 46,256,014
Retirement	13,713,683	13,876,454	14,084,805	15,599,620	16,928,366	20,005,902	21,188,713	22,762,997	25,507,135	27,224,315	28,192,041
Other Pay & Benefits	17,811,740	17,025,652	18,441,092	18,626,243	19,482,793	17,460,869	18,141,891	18,555,676	18,979,890	19,414,815	19,860,739
Maintenance & Operations	12,878,937	15,969,918	20,170,385	19,808,025	19,907,748	21,624,333	22,168,967	22,713,567	23,275,593	23,855,745	24,419,749
Debt Service	5,456,820	5,372,777	3,832,025	3,521,623	3,514,579	3,738,618	3,735,493	3,720,865	3,715,384	3,696,362	3,699,464
Contingency	-	-	193,717	20,113	-	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Operating Expenses	\$ 90,530,023	\$ 90,624,913	\$ 93,686,044	\$ 95,026,595	\$ 97,561,073	\$ 105,255,639	\$ 109,038,643	\$ 112,262,622	\$ 116,764,678	\$ 120,392,827	\$ 123,428,008
Transfers - Non-Capital	\$ 482,873	\$ 33,804	\$ 2,684,946	\$ 5,572,511	\$ 10,814,636	\$ 1,752,604	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
Surplus/(Deficit)	\$ 2,228,816	\$ 5,004,211	\$ 9,649,696	\$ 6,801,883	\$ 4,607,565	\$ 6,630,657	\$ 6,813,657	\$ 7,832,554	\$ 6,515,414	\$ 6,086,420	\$ 5,781,130
Capital:											
Fixed Assets	\$ 277,773	\$ 579,391	\$ 520,297	\$ 800,292	\$ 428,858	\$ 91,654	\$ 191,200	\$ 191,200	\$ 191,200	\$ 191,200	\$ 191,200
Equipment Replacement Cost	-	1,693,248	983,600	1,231,044	253,231	689,465	723,938	760,135	798,142	838,049	879,951
IT Replacement Cost	-	-	-	-	100,000	150,002	200,000	200,000	200,000	200,000	200,000
Capital Improvement Project	-	-	-	-	-	5,587,335	5,807,615	6,019,759	6,179,005	6,338,962	6,475,457
City Facilities Improvement	-	-	-	-	-	1,676,201	1,742,285	1,805,928	1,853,701	1,901,689	1,942,637
Total Needs	\$ 277,773	\$ 2,272,639	\$ 1,503,897	\$ 2,031,336	\$ 782,089	\$ 8,194,657	\$ 8,665,038	\$ 8,977,022	\$ 9,222,048	\$ 9,469,900	\$ 9,689,245
Additional Capital Financing											
Total Operating & Capital Surplus/(Deficit)	\$ 1,951,043	\$ 2,731,572	\$ 8,145,799	\$ 4,770,547	\$ 3,825,476	\$ (1,564,000)	\$ (1,851,381)	\$ (1,144,467)	\$ (2,706,634)	\$ (3,383,480)	\$ (3,908,115)
Surplus/Deficit as percentage of Revenue						-1.38%	-1.59%	-0.95%	-2.19%	-2.67%	-3.02%

APPROPRIATIONS BY ACCOUNT - GENERAL FUND ONLY
FROM FISCAL YEAR 2009-2010 THROUGH FISCAL YEAR 2020-2021

Account	Description	FY 10-11 Actual	FY 11-12 Actual	FY 12-13 Actual	FY 13-14 Actual	FY 14-15 Actual	FY 15-16 Adopted	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast							
501100	Regular Salaries - Sworn	22,093,218	20,740,975	19,329,282	18,915,834	18,320,595	21,539,829	22,401,422	22,849,451	23,306,440	23,772,568	24,248,020							
	Sworn Fire	N/A	N/A	N/A	7,566,671	7,532,647	8,032,519	8,353,820	8,520,896	8,691,314	8,865,140	9,042,443							
	Sworn Police	N/A	N/A	N/A	11,349,163	10,788,948	13,507,310	14,047,602	14,328,554	14,615,126	14,907,428	15,205,577							
501200	Regular Salaries - Non-Sworn	16,905,250	15,156,975	14,611,958	15,014,359	15,314,727	15,877,777	16,587,888	16,994,646	17,409,539	17,832,730	18,264,384							
501300	Regular Salaries - Part-Time	1,670,376	2,482,163	3,022,779	3,520,779	4,092,264	4,008,311	3,814,269	3,665,421	3,570,697	3,596,292	3,743,611							
501400	Overtime	4,968,573	5,212,886	6,046,162	6,283,939	6,617,025	4,259,053	4,429,415	4,518,003	4,608,363	4,700,531	4,794,541							
501500	Accrual Payoff - Excess Max.	258,121	245,627	257,415	242,643	168,807	219,868	228,663	233,236	237,901	242,659	247,512							
501600	Vacation/Comp. Time Cash Out	344,665	215,516	174,652	175,380	265,353	162,612	169,116	172,499	175,949	179,468	183,057							
501700	Holiday Allowance	600,149	490,541	575,871	649,758	733,383	417,042	433,724	442,398	451,246	460,271	469,476							
501800	Separation Pay-Off	821,265	309,140	659,159	623,470	374,201	-	-	-	-	-	-							
501900	Other Compensation	2,359,982	2,362,602	2,247,201	2,147,803	2,076,036	2,187,405	2,274,901	2,320,399	2,366,807	2,414,143	2,462,426							
505100	Cafeteria Plan	3,794,473	3,586,013	3,464,654	3,542,899	3,887,212	4,693,161	4,787,024	4,882,765	4,980,420	5,080,028	5,181,629							
505200	Medicare	653,080	638,794	641,349	668,019	688,814	609,770	753,112	779,471	806,752	834,989	864,213							
505300	Retirement	13,713,683	13,876,454	14,084,805	15,599,620	16,928,366	20,005,902	21,188,713	22,762,997	25,507,135	27,224,315	28,192,041							
	Retirement - Fire	N/A	N/A	N/A	4,731,036	4,443,522	5,104,935	5,972,514	6,496,756	7,056,158	7,643,501	7,976,261	0.589901804	0.635534	0.714944	0.76245	0.811863	0.862197	0.882091
	Retirement - Police	N/A	N/A	N/A	7,563,439	7,446,772	9,847,521	9,076,296	9,872,374	10,683,657	11,538,349	12,012,406	0.690222246	0.729051	0.64611	0.689	0.731	0.774	0.79
	Retirement - Miscellaneous	N/A	N/A	N/A	3,305,146	5,038,072	5,053,446	4,343,903	4,597,867	4,863,320	5,138,465	5,299,375	0.328969077	0.318272	0.261872	0.270548	0.279348	0.288148	0.290148
505400	Longevity	2,052	2,268	2,268	2,510	2,568	2,268	2,268	2,268	2,268	2,268	2,268							
505500	Professional Development	188,270	223,482	276,307	362,170	412,175	614,729	633,171	633,171	633,171	633,171	633,171							
505600	Auto Allowance	21,704	22,951	18,713	23,431	30,696	22,138	22,138	22,138	22,138	22,138	22,138							
505700	Clothing Allowance	-	-	-	-	-	1,000	-	-	-	-	-							
505800	Unemployment	45,280	40,235	39,440	45,919	41,811	41,811	41,811	41,811	41,811	41,811	41,811							
505900	Workers' Compensation	1,956,816	1,915,209	2,284,000	2,089,555	2,304,484	2,302,938	2,372,026	2,443,187	2,516,483	2,591,977	2,669,736							
506100	Employer Contr.Retirees' Med.	1,797,310	1,760,388	1,753,902	1,768,746	1,880,229	1,927,074	1,994,522	2,064,330	2,136,581	2,211,362	2,288,759							
	Salaries & Benefits	72,194,266	69,282,219	69,489,916	71,676,835	74,138,746	78,892,688	82,134,184	84,828,191	88,773,701	91,840,720	94,308,795							

APPROPRIATIONS BY ACCOUNT - GENERAL FUND ONLY
FROM FISCAL YEAR 2011-2012 THROUGH FISCAL YEAR 2019-2020

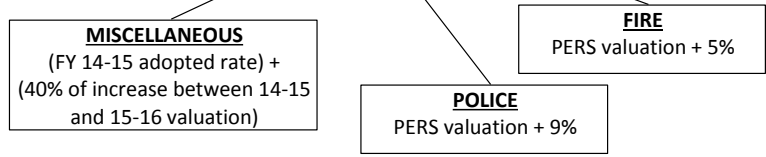
Account	Description	FY 14-15 Adopted	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast	
501100	Regular Salaries - Sworn	-3%							
	Sworn Fire								Begin COLA in FY 17-18
	Sworn Police								Begin COLA in FY 17-18
501200	Regular Salaries - Non-Sworn	2%							Begin COLA in FY 17-18
501300	Regular Salaries - Part-Time	16%	-5%	-5%	-5%	-5%	-5%	-5%	Ramp down as positions are filled
501400	Overtime	5%	0%						
501500	Accrual Payoff - Excess Max.	-30%	0%						
501600	Vacation/Comp. Time Cash Out	51%	0%						
501700	Holiday Allowance	13%	0%						
501800	Separation Pay-Off	-40%	0%						
501900	Other Compensation	-3%	0%						
505100	Cafeteria Plan	10%	0%	2%	2%	2%	2%	2%	
505200	Medicare	3%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	Historical growth
505300	Retirement	9%							
	Retirement - Fire		25.230%	26.300%	26.200%	26.200%	26.200%	26.200%	See rate tables below
	Retirement - Police		55.591%	64.611%	68.900%	73.100%	77.400%	79.000%	See rate tables below
	Retirement - Miscellaneous		25.218%	26.187%	27.055%	27.935%	28.815%	29.015%	See rate tables below
505400	Longevity	2%	0%	0%	0%	0%	0%	0%	
505500	Professional Development	14%	3%	3%	0%	0%	0%	0%	Cap at historical high
505600	Auto Allowance	31%	0%	0%	0%	0%	0%	0%	
505700	Clothing Allowance	N/A							
505800	Unemployment	-9%	0%	0%	0%	0%	0%	0%	
505900	Workers' Compensation	10%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	Historical growth
506100	Employer Contr. Retirees' Med.	6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	
	Salaries & Benefits	3%	6%	4%	3%	5%	3%	3%	

Retirement rates--PERS Valuation reports

505300	Retirement								
	Retirement - Fire	47.452%	20.230%	21.300%	21.200%	21.200%	21.200%	21.200%	Pooled plan now % + \$
	Retirement - Police	41.456%	46.591%	55.611%	59.900%	64.100%	68.400%	70.000%	June 30, 2014 valuation issued Nov. 2015
	Retirement - Miscellaneous	29.783%	32.808%	35.231%	37.400%	39.600%	41.800%	42.300%	June 30, 2014 valuation issued Nov. 2015

Retirement rates--City Cost Classic Members

505300	Retirement								
	Retirement - Fire	51.292%	25.230%	26.300%	26.200%	26.200%	26.200%	26.200%	Pooled plan now % + \$
	Retirement - Police	45.456%	55.591%	64.611%	68.900%	73.100%	77.400%	79.000%	Assumes ER continues 5% contrib.
	Retirement - Miscellaneous	24.008%	25.218%	26.187%	27.055%	27.935%	28.815%	29.015%	Reduced for EE cost sharing



APPROPRIATIONS BY ACCOUNT - GENERAL FUND ONLY
 FROM FISCAL YEAR 2011-2012 THROUGH FISCAL YEAR 2019-2020

Account	Description	FY 12-13 Actual	FY 13-14 Actual	FY 14-15 Adopted	FY 15-16 Forecast	FY 16-17 Forecast	FY 17-18 Forecast	FY 18-19 Forecast	FY 19-20 Forecast	FY 20-21 Forecast	
501100	Regular Salaries - Sworn	(1,411,694)	(413,448)	(595,239)							
	Sworn Fire	N/A	N/A								
	Sworn Police	N/A	N/A								
501200	Regular Salaries - Non-Sworn	(545,016)	402,400	300,369	75,000	75,000	75,000	75,000	75,000	75,000	One additional employee per year
501300	Regular Salaries - Part-Time	540,616	498,000	571,486		6,373	41,866	88,547	204,129	327,133	\$1 per year minimum wage increase
501400	Overtime	833,275	237,778	333,086							
501500	Accrual Payoff - Excess Max.	11,787	(14,772)	(73,836)							
501600	Vacation/Comp. Time Cash Out	(40,863)	728	89,973	12,000						
501700	Holiday Allowance	85,330	73,887	83,625	6,000						
501800	Separation Pay-Off	350,019	(35,689)	(249,269)							
501900	Other Compensation	(115,401)	(99,397)	(71,767)							
505100	Cafeteria Plan	(121,359)	78,245	344,312							
505200	Medicare	2,555	26,670	20,795		122,000					Correction for PT positions & OT
505300	Retirement	208,351	1,514,815	1,328,746		1,796,000	1,796,000	2,904,000	2,904,000	2,904,000	Additional pymt, prepayment savings, PT retirement, risk mitigation plan
	Retirement - Fire	N/A	N/A		3,395,605	3,775,459	4,264,281	4,779,034	5,320,834	5,607,141	Fire UAL \$ payment
	Retirement - Police	N/A	N/A								
	Retirement - Miscellaneous	N/A	N/A								
505400	Longevity	-	242	58							
505500	Professional Development	52,825	85,863	50,005							
505600	Auto Allowance	(4,238)	4,718	7,265							
505700	Clothing Allowance	-	-	-							
505800	Unemployment	(795)	6,479	(4,108)							
505900	Workers' Compensation	368,791	(194,445)	214,929							
506100	Employer Contr.Retirees' Med.	(6,486)	14,844	111,483							
	Salaries & Benefits	207,698	2,186,918	2,461,912	3,488,605	5,774,833	6,177,147	7,846,581	8,503,963	8,913,274	