



Budget Forecast / Overview



Budget Forecast Overview

Purpose

The purpose of this presentation is to provide a brief summary of our 10-year budget forecast.

- This update attempts to synthesize a 3 ½ hour discussion into 10 minutes.
- We are serious about making realistic assessments of where we are, and where we need to go.



Budget Forecast Overview

BLUF

BLUF = Bottomline Up Front.

Here is is:

We are up “the” creek But, we have a paddle.

- The Scottish slang term to be “up ‘the’ creek without a paddle” means . . . to be in an ***undesirable situation***
- While we may be in an *undesirable situation*, we do have a way to get out of it. Ie, we have a paddle.
- To be clear-eyed: our long term fiscal / economic situation is **not rosy**, but **neither is it catastrophic**.



Budget Forecast Overview

Budget Forecast

- The Management Partners budget forecast has given us a very good view of who we are - we can “see ourselves”.
- We have two major issues:
 1. Long Term - today’s revenues fund less than 75% of the requirement for a full service city. (an economic / structural problem)
 2. Medium Term - We anticipate two mid-term (5-year) challenges – a recession and a pension contribution spike. (a fiscal concern)
- While this all sounds terrible . . . We are not on the verge of insolvency and and we have a paddle.
- We need to 1) plan, and 2) diversify.



Cash vs Requirements Based

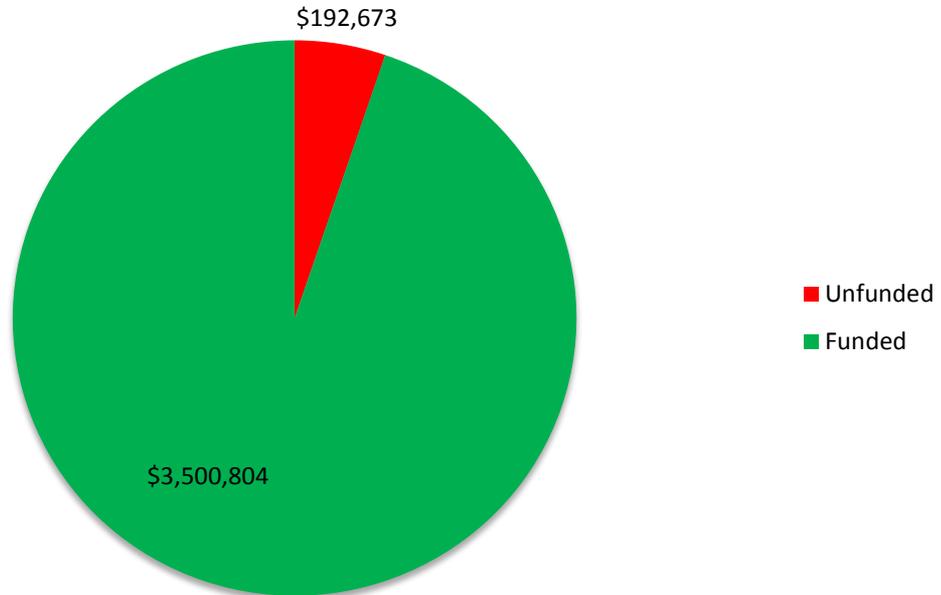
- Like most cities, MB is has operated on a **cash-based budget**. We divvy up the revenues with little thought for what we are, or are not, funding.
- A **requirements-based budget** identifies what we require to be fully funded in most / all areas, and then we are able to more effectively prioritize.
- We must do a lot more work on our requirements, but here are four areas of concern:
 - Police Operations
 - Fire Operations
 - Streets
 - Capital Replacement



Budget Forecast Overview

Police Department

- The Police Department **budget vs requirement** looks like this:



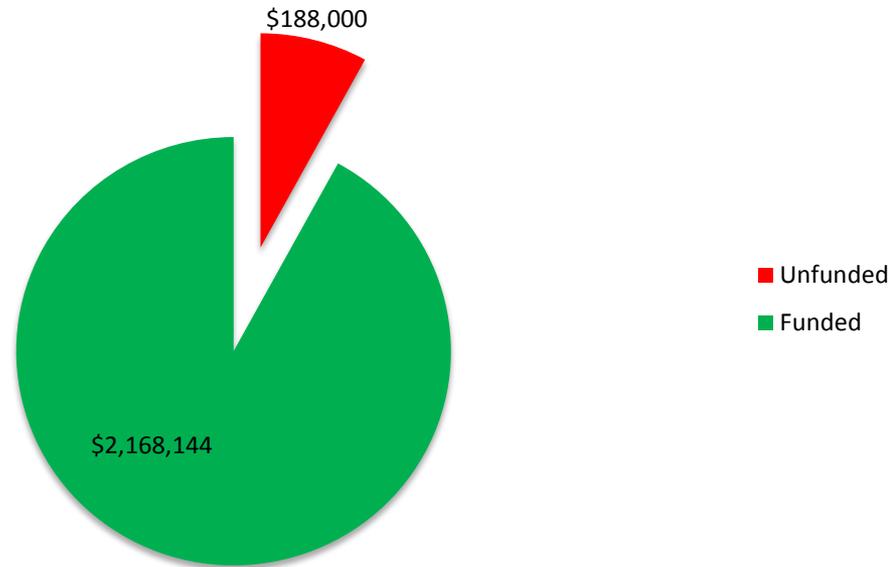
- The PD is ~95% Funded.
- This only addresses number of officers, not equipment or admin staff.



Budget Forecast Overview

Fire Department

- The Fire Department budget vs requirement looks like this:



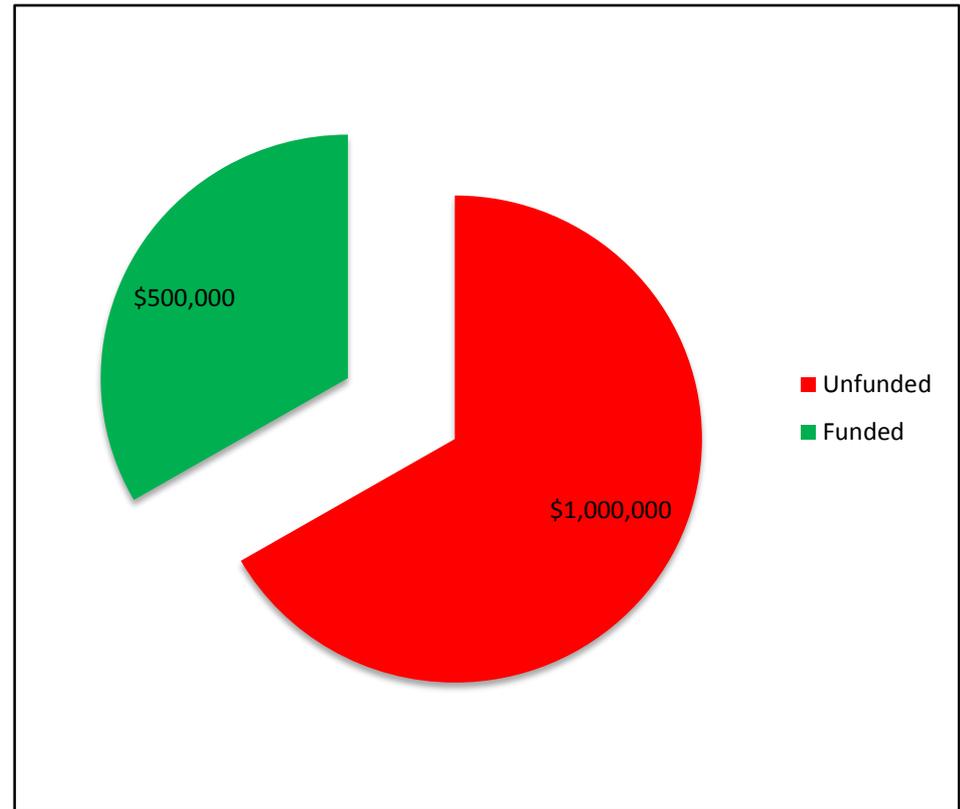
- The FD is ~92% Funded.
- This only addresses number of firefighters, not equipment or admin staff/fire marshal.



Budget Forecast Overview

Streets

- Streets spending looks like this . . .
 - Streets are ~33% funded.
 - We do not have adequate funding to make streets progressively better. They are getting *progressively worse*.

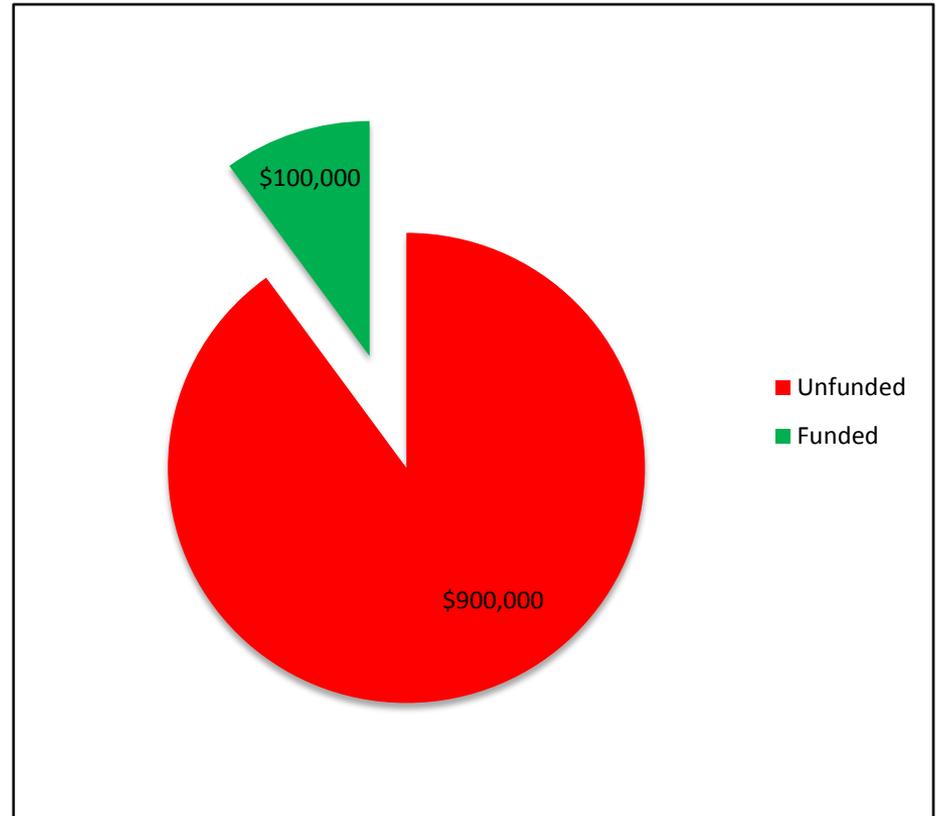




Budget Forecast Overview

Capital Replacement

- Capital Improvement budget vs requirement looks like this:
 - Capital Replacement is ~10% funded.
 - This is “if” we keep \$100,000 in the FY16 budget to replace facilities like park bathrooms and police station when they must be replaced.

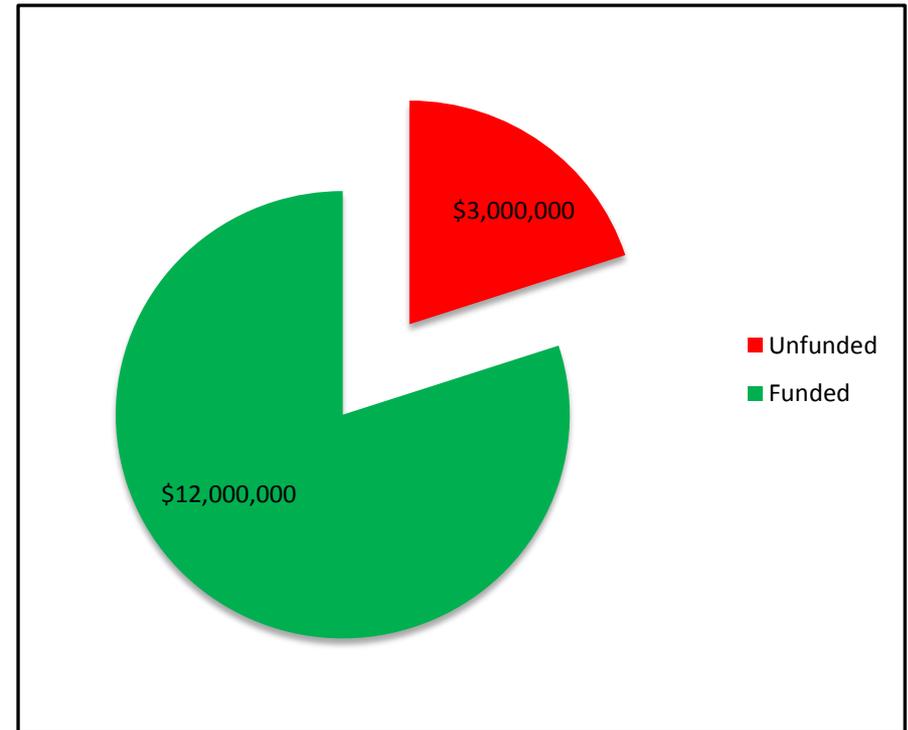




Budget Forecast Overview

Requirement Gap

- Considering only the four previous areas, we are are \$2.5M upside down.
- Our General Fund Revenues are about \$12M.
- We need GF revenues of about \$15M to fully fund basic services such as Police, Fire, Streets and Capital Replacement





Budget Forecast Overview

Closing the Gap

- We are \$3M short on the revenues we require.
- Increasing taxes and / or fees is not the answer.
- Our forecast includes modest increased revenues from TOT, but TOT will not close the gap.
- To close the gap, we need economic revitalization and diversity:
 - Attract businesses that produce multiple head of household jobs
 - Attract businesses that provide higher end products and services
 - Revitalize the downtown business district and other business districts



Budget Forecast Overview

Medium Term Challenges

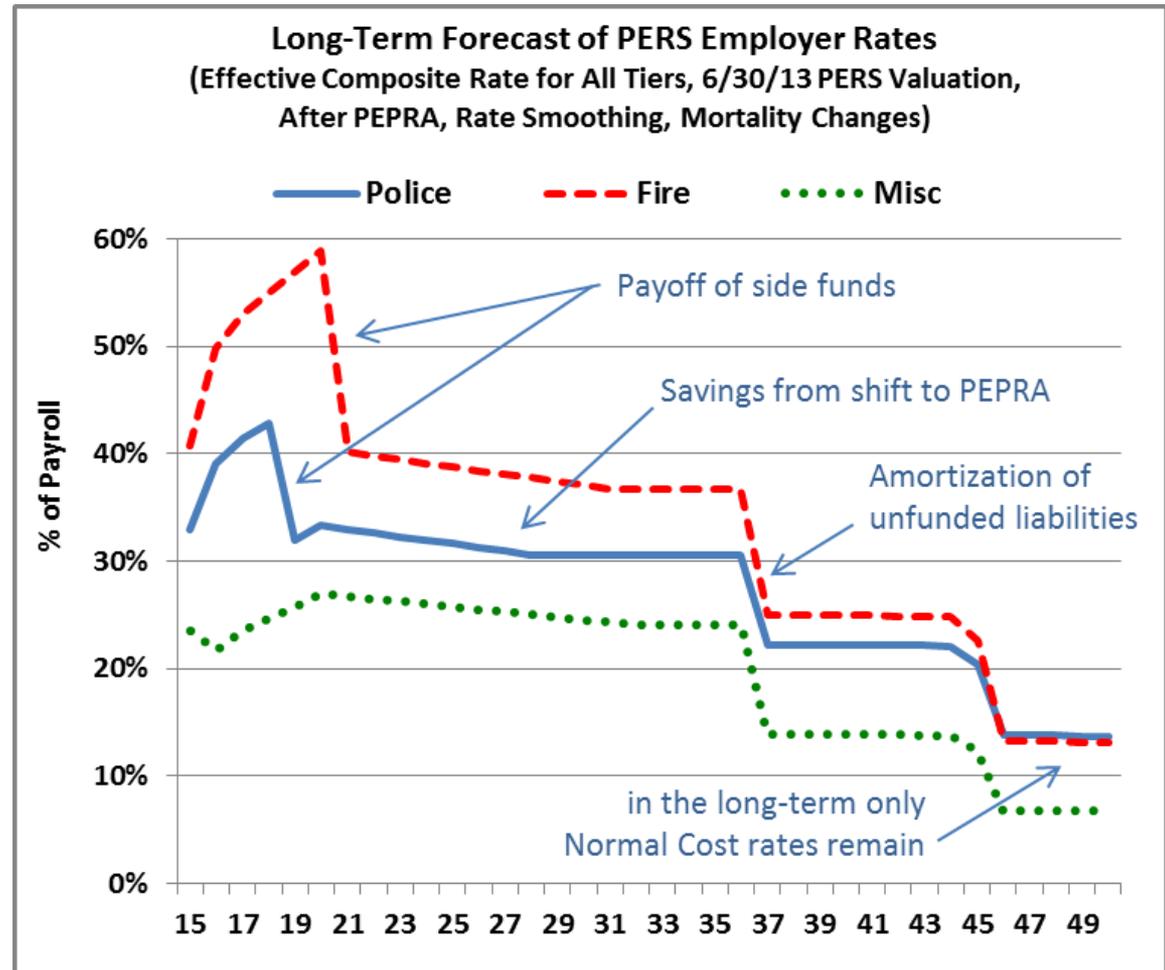
- In the next 5 years we are projecting two measurable impacts to our fiscal health:
 - A California-wide pension contribution spike
 - A moderate recession
- Bad news – they affect our budget.
- Good news – we see them coming and can prepare effectively.



Budget Forecast Overview

CALPERS Contribution Spike

- We tied ourselves to CALPERS many years ago.
- The system is reforming, somewhat, but there are bumps in the road.
- Morro Bay will see a significant increase in contribution rates for 4 years.
- Unlike the rest of the state, those increases fall back to current level quickly.
- We need to prepare for 5 years of higher labor costs.

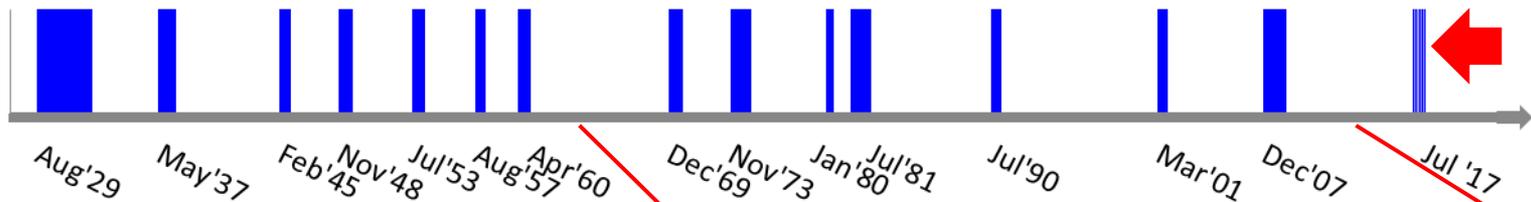




Budget Forecast Overview

2017 Recession

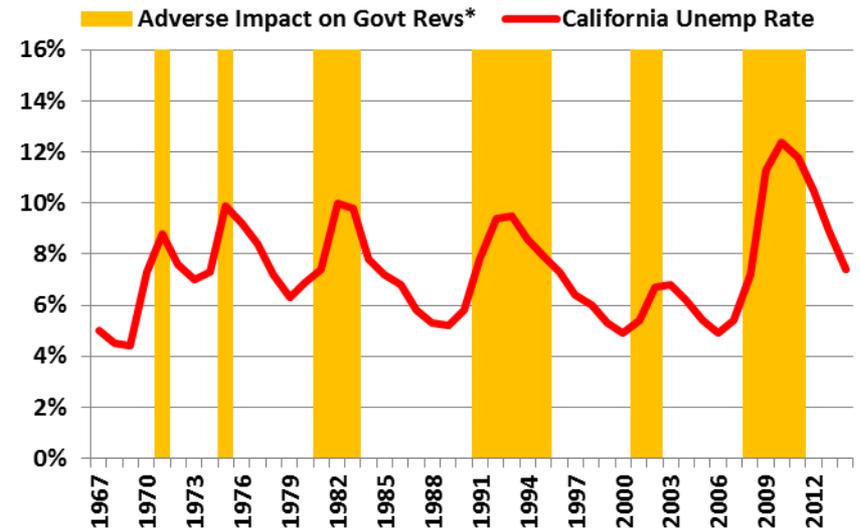
Periods of Official U.S. Recession Since 1928 -- Month Recession Started Noted Below



- On average, recessions have occurred **every 6.5 years** since 1928.
- We are planning for a **moderate 5%** recession in 2017.
- This **sits on top** of the CALPERS rate spike period.
- The timing and severity are **guesses**.
- Good news – we are **planning** as if we'll get hit with a 2017 recession.

California

Periods Adversely Affected by Economic Downturns



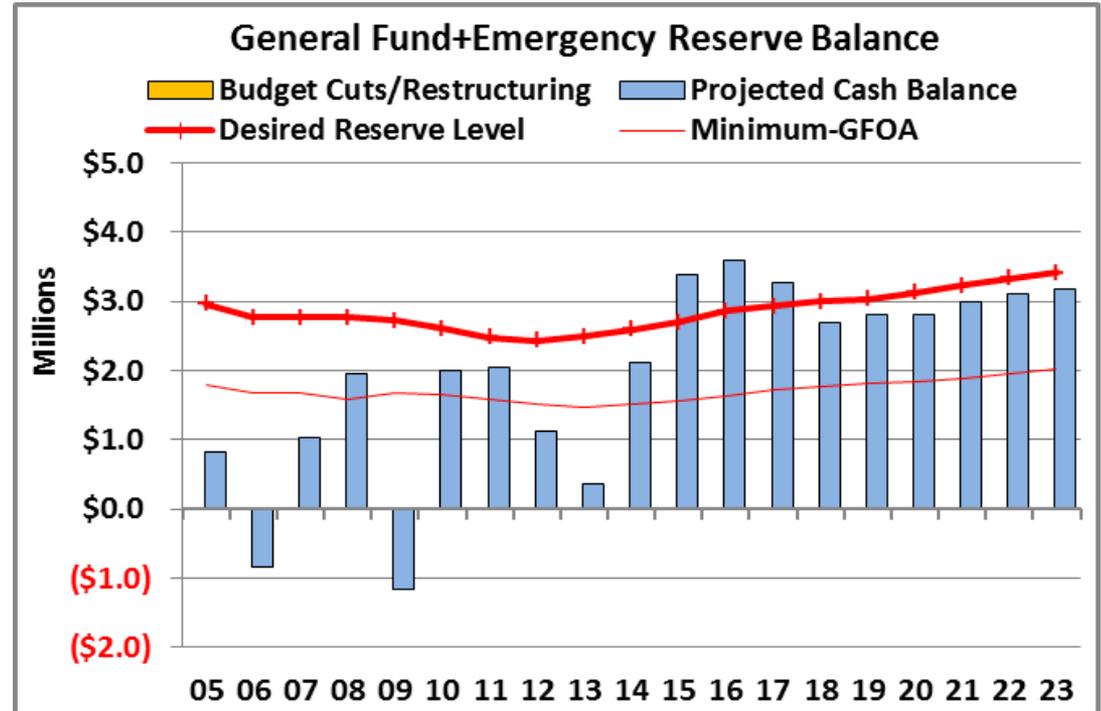
*adverse impact on city revenues may lag these periods



Budget Forecast Overview

Budget Forecast

- This is our **most likely** budget picture for the coming 8 years.
- Blue is our General Fund Emergency Reserve.
- Top red line is our policy reserve requirement.
- Bottom red line is the GFOA recommended reserve requirement.
- The blue bar hits the top red line in 2024



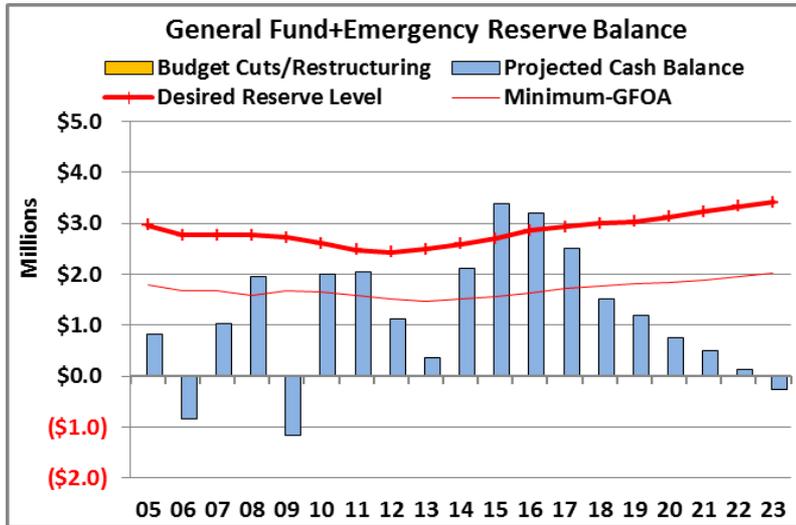
This is not bad.

But, it does not fund our real requirements.

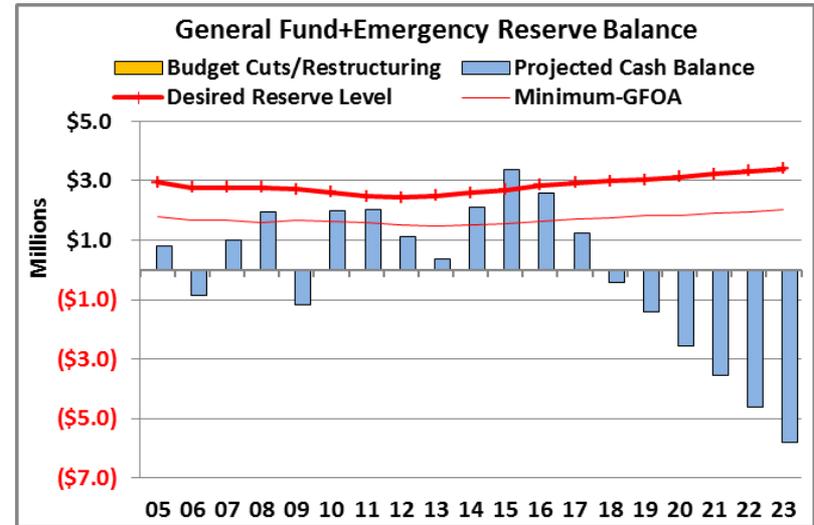


Budget Forecast Overview

Requirement Forecast



- This is the picture if we funded Police and Fire operations – only - at the required level.



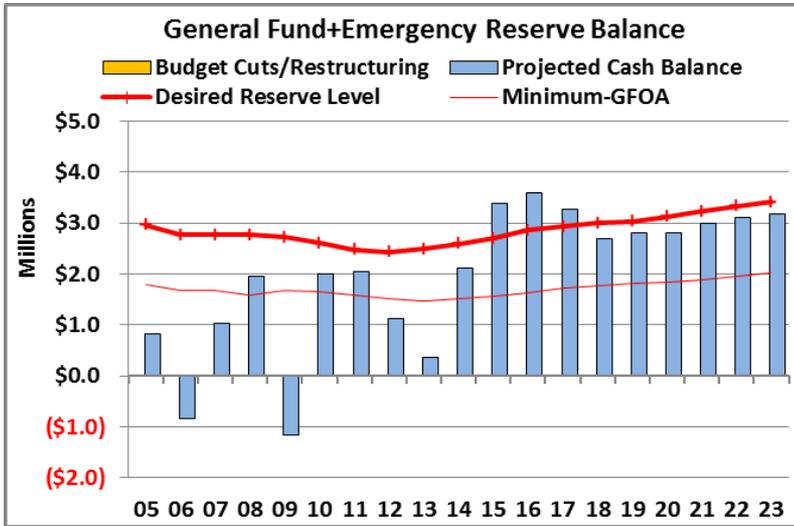
- This is the picture if we funded our streets, only, at the required level.

This is why we must revitalize and diversify our economy!

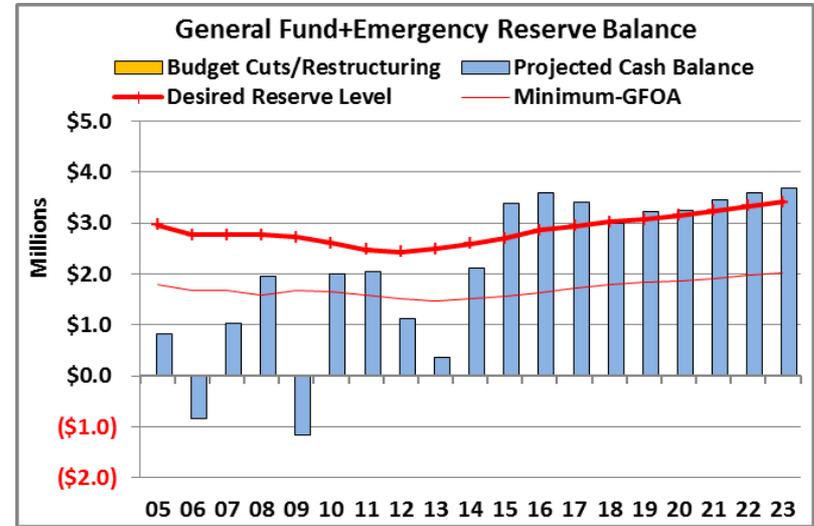


Budget Forecast Overview

What ifs . . .



Current Forecast

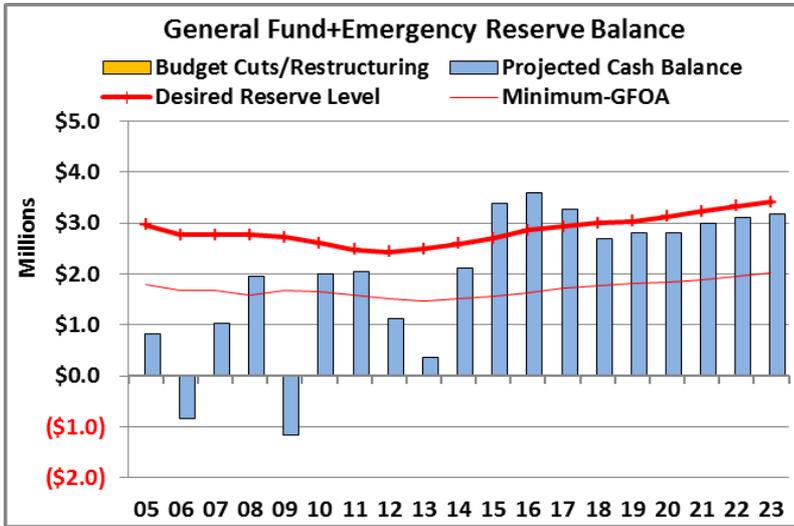


Recession is 2.5%, not 5%.

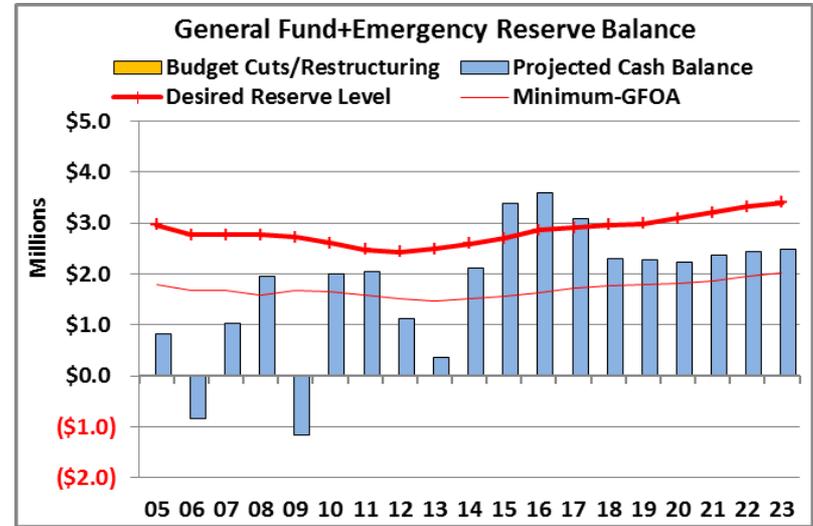


Budget Forecast Overview

What ifs . . .



Current Forecast

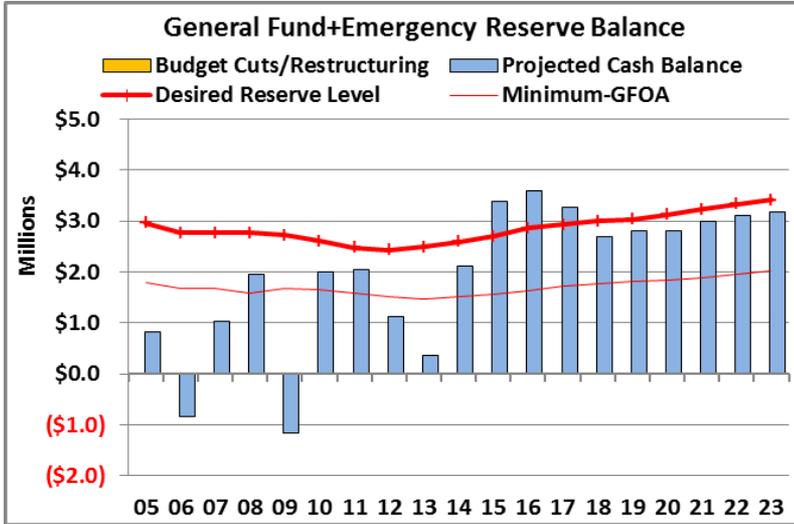


Recession is 7.5%, not 5%.

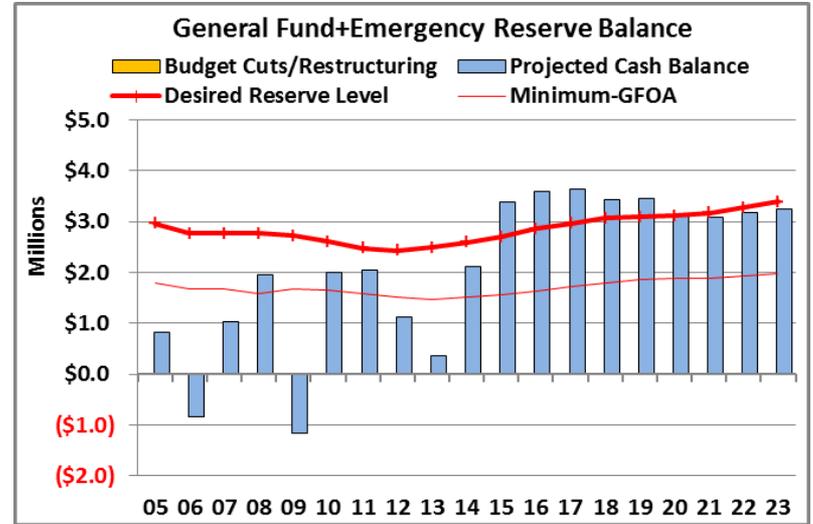


Budget Forecast Overview

What ifs . . .



Current Forecast



Recession in 2019, not 2017



Budget Forecast Overview

Conclusion

- We are looking well ahead and can sustain our current services over the 5 lean years ahead.
- However, our current services do not meet our requirements.
- To put the missing red piece into the pie, we must change.
- Change needs to include **revitalization** and **diversification** of our local economy / businesses

