

CITY OF CORONA

YEAR-END UPDATE

FY 2016 -17

DECEMBER 20, 2017





Comprehensive Annual Financial Report

Fiscal Year 2016-17

What's included in the CAFR:

- ▣ Independent Auditors' Report
 - ◆ Financial audit conducted by independent audit firm (Lance, Soll, Lunghard)
 - ◆ Clean opinion on financial statements and testing of internal controls
- ▣ Management's Discussion and Analysis
 - ◆ Financial Highlights – citywide
 - ◆ Overview of Financial Statements
 - ◆ General Fund Financial Analysis
 - ◆ General Fund Budgetary Highlights
- ▣ Basic Financial Statements
- ▣ Notes to Basic Financial Statements
- ▣ Supplementary Information
- ▣ Statistical Section



Financial Terms used in CAFR

Terms that are used to demonstrate the fiscal health for year-end reporting purposes:

- Fund Balance and Net Position: difference between assets (cash, investments, streets, facilities, etc.) and debt
 - ◆ Similar to equity
- Change in Fund Balance: change in fund balance when compared to prior fiscal year

CHANGE IN FUND BALANCE	
	Actual Revenue & Transfers In
-	Actual Expenditures & Transfers Out
+/-	Restatements (if needed)
=	CHANGE IN FUND BALANCE



Financial Terms used in CAFR – cont'd

- **Budget Variance:** difference between cumulative budget and actual revenue and expense
 - ◆ Variance occurs as new information becomes available, economic conditions change, processes are streamlined, efficiencies achieved, and for multi-year capital projects
 - ◆ Variances may occur in revenues, expenses, and transfers
- **Reserves:** ‘savings’ and ‘roll over’ funds in fund balance

Examples:

- ◆ Emergency Contingency Reserve
- ◆ Budget Balancing Measures
- ◆ Continuing Appropriations
- ◆ City Equipment



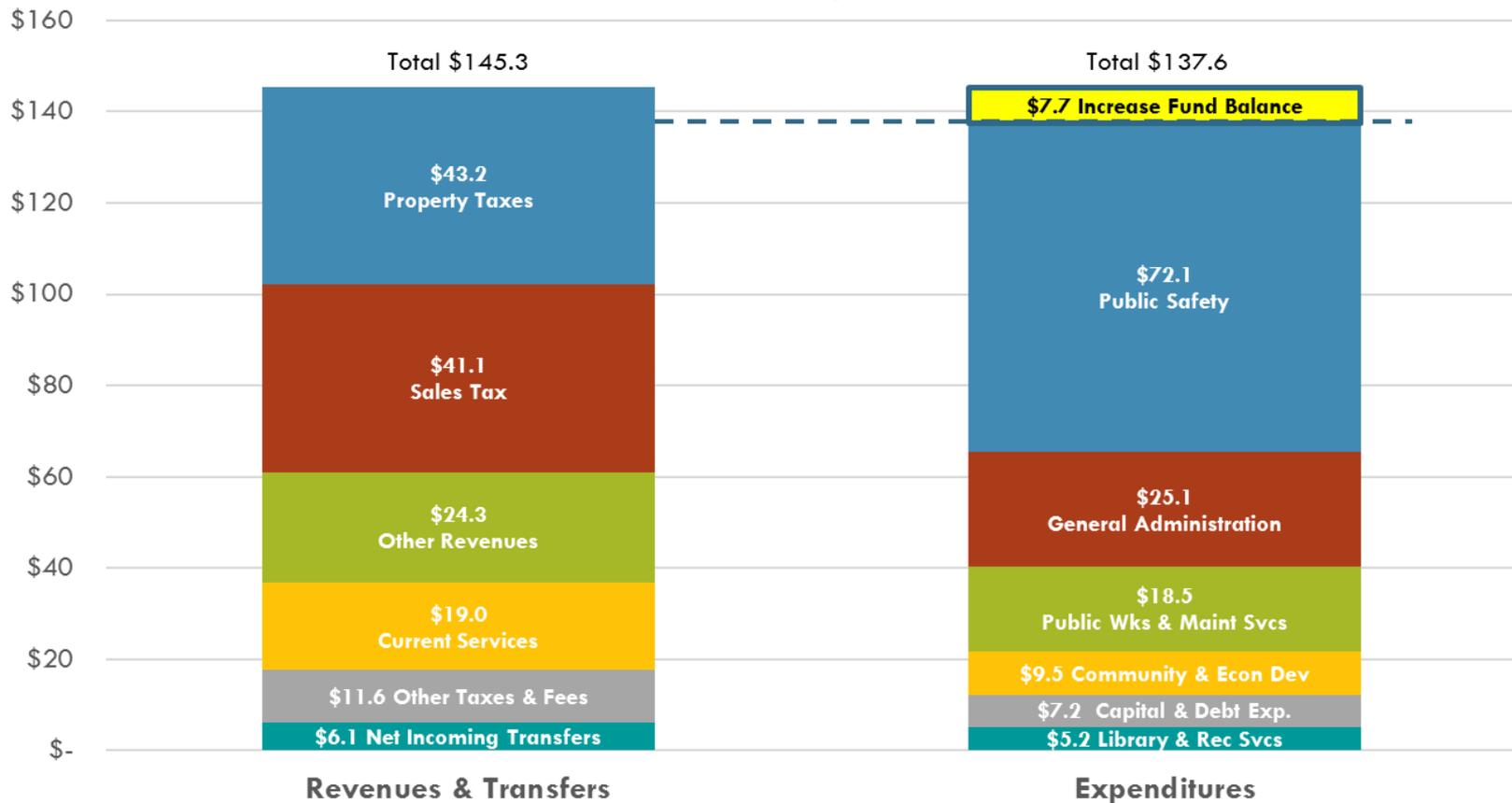
What is the General Fund?

- The General Fund is similar to your primary checking account, it handles the day to day activities of the City, with the exception of utilities, such as water, water reclamation, electric, etc.
- General tax revenues are collected in the General Fund, and most of the essential services are funded by the revenues collected in the General Fund. These services include police and fire protection, library, recreation, parks, planning, zoning and so on.



How did the General Fund perform in Fiscal Year 2016-17?

General Fund Revenue and Expenditures (in millions)





General Fund's Fund Balance at a glance

FY 2016-17 CHANGE IN FUND BALANCE (in millions)	
\$ 145.3	Actual Revenue & Transfers In
\$(137.6)	Actual Expenditures & Transfers Out
\$ 0.6	Restatement of prior activity
\$ 8.3	CHANGE IN FUND BALANCE

GF Fund Balance compared to last year:

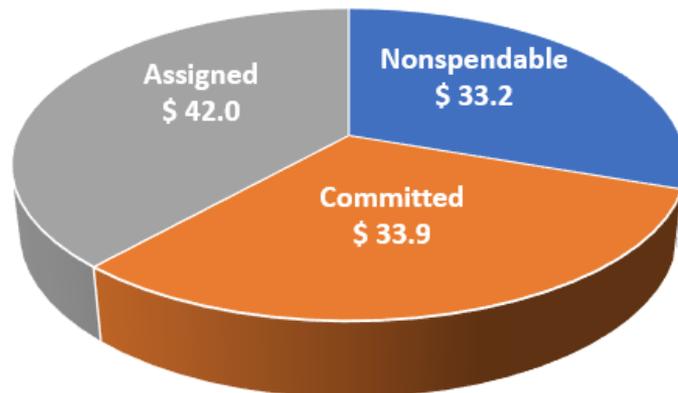
(in millions)

	FY2016-17	FY2015-16
Beginning Balance	\$ 100.8	\$ 98.8
Current Year Change	7.7	2.0
Restatement	0.6	-
Ending Balance	<u>\$ 109.1</u>	<u>\$ 100.8</u>

Is the \$109.1 million in Fund Balance spendable?

Only \$59.0 million is, which is intended to offset future structural budgetary deficit.

General Fund's Fund Balance
(in millions)



Nonspendable			
Long-term Receivables	\$	8.0	
Interfund Advances		24.9	
Inventories & Prepayments		0.3	\$ 33.2
Committed			
Emergency Contingency	\$	30.0	
Designated Revenues		3.9	\$ 33.9
Assigned			
Budget Balancing Measures	\$	29.0	
Continuing Appropriations		12.0	
Equipment & Other		1.0	\$ 42.0



General Fund's operational results

What could have we accomplished?

- With the benefit of 20/20 hindsight, additional requested (but deferred) capital expenditures could have been funded in FY 2016-17, such as:
 - ◆ Technical rescue tools and fire equipment including fire hoses, cylinder replacements for respiratory program, air lifting bags, and vehicle stabilization tools
 - ◆ Aging fire trucks
 - ◆ Information technology needed to update network equipment
 - ◆ Animal control facility capital improvements
 - ◆ Additional funding for citywide ADA improvements
 - For example, plaintiffs in a pending ADA lawsuit just sent us a 197 page long list of alleged access barriers at 31 parks

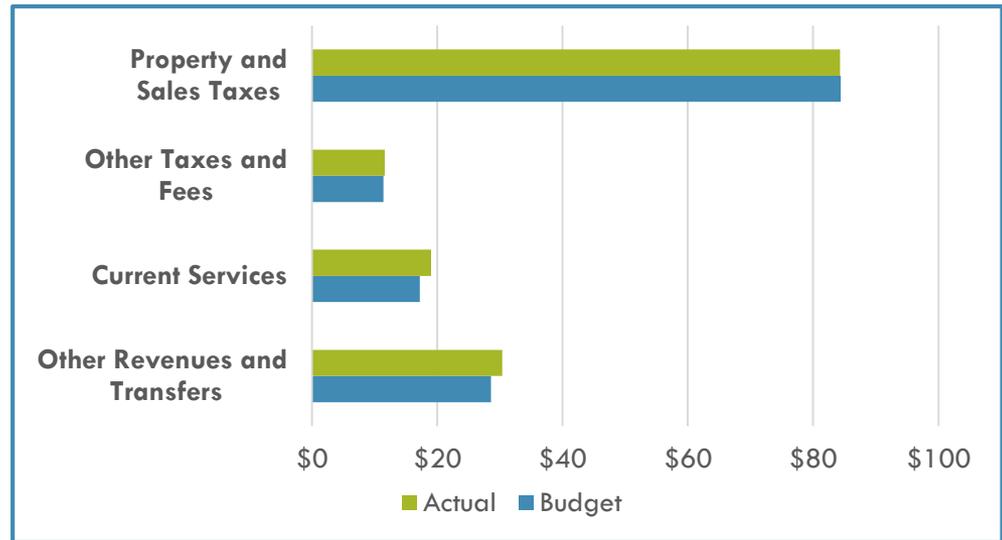


Budget Variance - Revenues

General Fund

Comparing revenue estimates to actual (amount in millions):

Revenue Category	Budget	Actual	Variance
Property and Sales Taxes	\$ 84.4	\$ 84.3	\$ (0.1)
Other Taxes and Fees	11.4	11.6	0.2
Current Services	17.2	19.0	1.8
Other Revenues and Transfers	28.6	30.4	1.8
Total Revenues and Transfers	\$ 141.6	\$ 145.3	\$ 3.7



- ▣ \$3.7 million variance, or 2.5%
- ▣ Includes one-time money, \$2.4 million – refunding of bond
 - ◆ Without this one-time money, the variance is \$1.3 million, or 0.9%

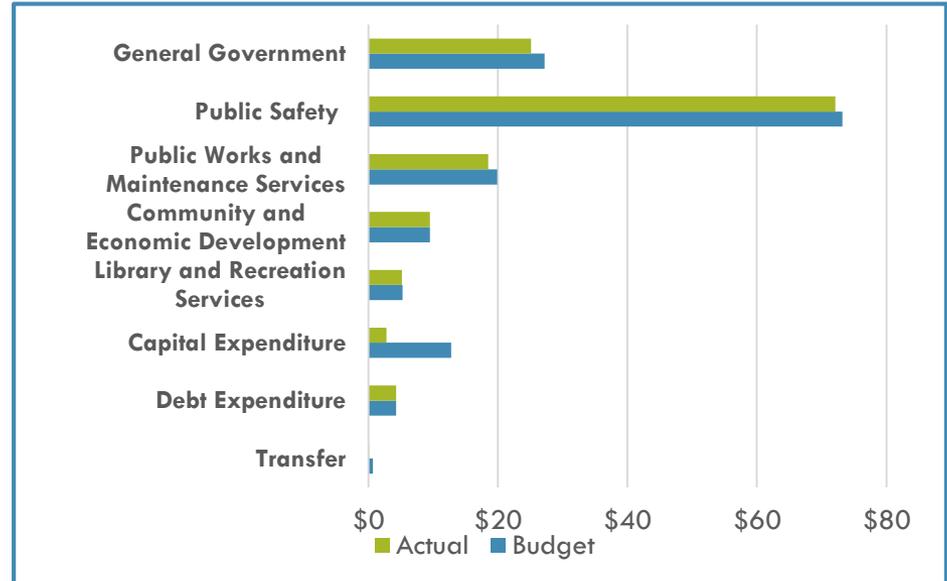


Budget Variance - Expenditures

General Fund

Comparing expenditure estimates to actual (amount in millions):

Expenditure Category	Budget	Actual	Variance
General Government	\$ 27.2	\$ 25.1	\$ (2.1)
Public Safety	73.2	72.1	(1.1)
Public Works and Maintenance Services	19.9	18.5	(1.4)
Community and Economic Development	9.5	9.5	-
Library and Recreation Services	5.3	5.2	(0.1)
Capital Expenditure	12.8	2.8	(10.0)
Debt Expenditure	4.3	4.3	-
Transfer	0.7	0.1	(0.6)
Total Expenditures and Transfers	\$ 152.9	\$ 137.6	\$ (15.3)



- \$15.3 million variance, includes \$11.8 in unused budget that will 'roll over' into next fiscal year:
 - ◆ \$10.0 million in multi-year capital projects
 - ◆ \$1.5 million in encumbered purchase orders
 - ◆ \$0.3 million in operating grants
- Excluding the \$11.8 million in 'roll over,' the variance is \$3.5 million, or 2.3%
 - ◆ Most of that \$3.5 million is personnel vacancies, which we now account for in current year budget



Budget Variance - Expenditures

General Fund

What generated the budget variance?

	(In Millions)		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
	\$ 152.9	\$ 137.6	\$ 15.3
Capital Expenditures, balance forwards to FY 2017-18			(10.0)
Operating Grants, balance forwards to FY 2017-18			(0.3)
Encumbered purchase orders, forwards to FY 2017-18			(1.5)
Total Operating Variance			<u>\$ 3.5</u>
Salaries-Benefits			\$ 1.9
Item addressed through vacancy factor applied to FY 2017-18 budget			
Transfers to Other Funds			0.6
Transfer to supplement other funds reduced, based on year end actuals			
Other - professional/contractual services, utilities usage, equipment purchases and maintenance, building maintenance, maintenance contracts, and refuse disposal			<u>1.0</u>
Total Operating Variance			<u>\$ 3.5</u>



Key Takeaways

- FY 2016-17 was the first year under newly implemented Zero Based Budget process
- Our largest revenue sources, property and sales taxes, combined had almost no variance from budget to actual revenue received
 - ◆ In other words, our projections were extremely accurate in the most important categories that provide the vast majority of our recurring revenue
- Most of the upside surprise in revenue came from a one-time savings from a bond refinancing
- The rest came from underestimated fees for current services
 - ◆ After school recreation, paramedic program, facility rentals, plan check activity, Fire's mutual aid, and passport activity



Key Takeaways – cont'd

- On the expense side, most of the upside surprise came from personnel savings due to unplanned vacancies (\$1.9 million)
 - ◆ FY 2017-18 budget incorporated personnel vacancy factor of \$2.0 million to eliminate this budget variance going forward
- Delay in implementation of outsourcing business license activity along with unused professional services in HR accounted for over \$0.5 million in one-time expense savings
- Maintenance services had a budget savings of over \$1.0 million
 - ◆ Primarily in building maintenance, maintenance and operating services, and professional services



Key Takeaways – cont'd

- In summary, the vast majority of the upside surprise in both revenue and expense is attributable to non-recurring one-time monies
- Zero Based Budget appears to be working very well already
 - ◆ FY 2017-18 projected \$2.0 million vacancy factor is almost identical to FY 2016-17 \$1.9 million budget savings in personnel
- Information from this first Zero Based Budget provides additional analysis tools for next budget preparation and forecast



Key Takeaways – cont'd

- Even with a few million dollars in favorable variance (which we cannot responsibly assume going forward), we still have a large structural budget deficit
 - ◆ Primarily due to out-of-control CalPERS annual contribution increases
- The main reason why our CalPERS contribution amount is sky-rocketing is because we have a \$253.5 million unfunded pension liability
 - ◆ Paying only the minimum annual contribution amount is like making the minimum payment on a credit card; you pay a lot of interest and you never pay off the balance
 - ◆ We need to pay more than the minimum to pay down the unfunded liability
 - ◆ Only by paying down the unfunded liability will the CalPERS pension obligation become manageable and forge a path to sustainability



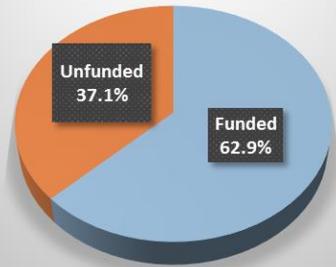
Unfunded CalPERS Liability – July 2017

Plan	June 30, 2014		June 30, 2015		June 30, 2016	
	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio
Misc.	103,681,862	65.6%	113,765,363	63.6%	129,480,665	60.1%
Police	61,102,806	68.7%	67,952,480	67.0%	81,779,726	62.9%
Fire	27,846,968	80.0%	33,516,570	77.0%	42,249,164	72.6%
Fire PEPR	(34)	104.2%	2,994	91.0%	13,439	89.2%
Total	\$192,631,602		\$215,237,407		\$253,522,994	

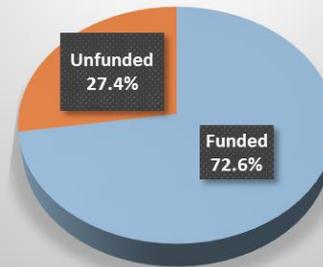
Misc. - June 30, 2016



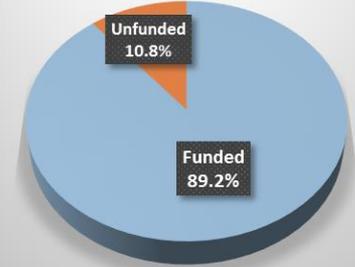
Police - June 30, 2016



Fire - June 30, 2016

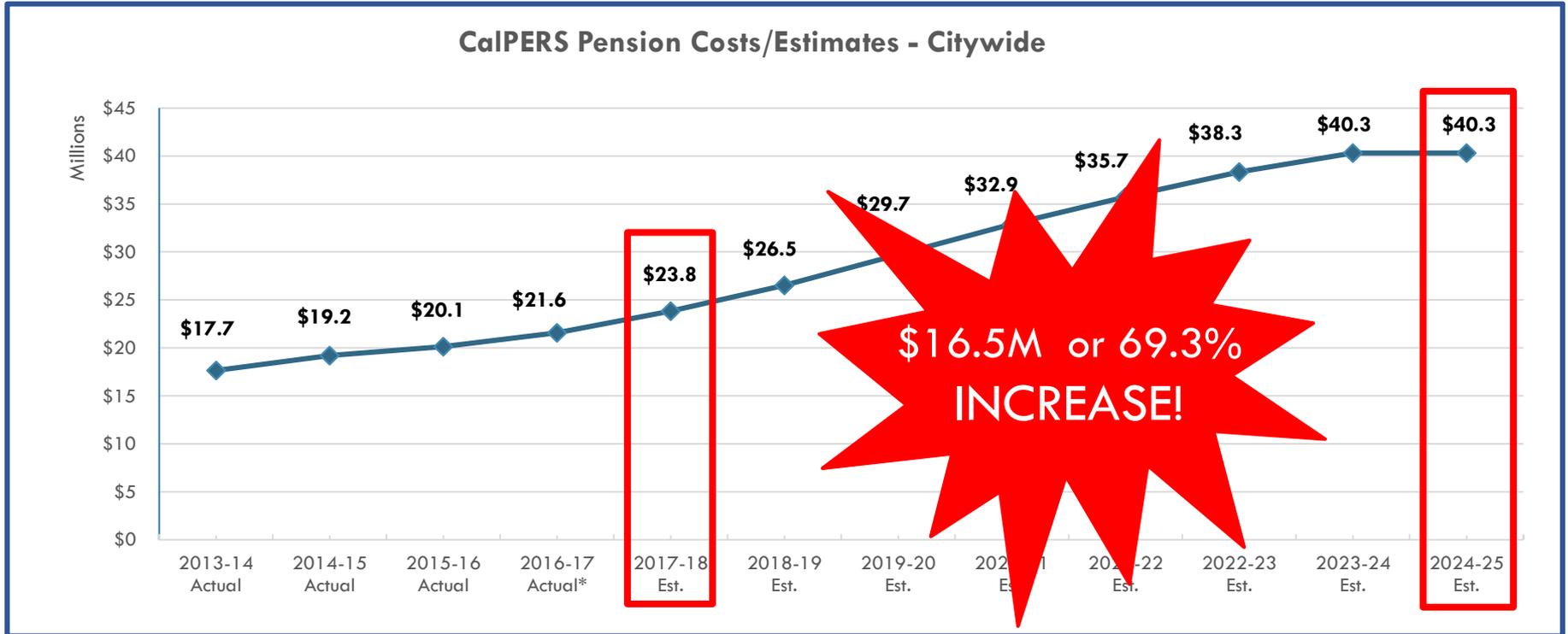


Fire PEPR - June 30, 2016



Note: Data obtained from the most recent CalPERS actuarial valuation dated July 2017

CalPERS Pension Costs - Citywide



- Based on CalPERS June 2016 actuarial reports received July 2017
- Each time we receive a new valuation report from CalPERS, the annual contribution amount gets worse



Recommended Action

- Total Change in Fund Balance for General Fund = \$8.3 million

ALLOCATION OF FY 2016-17 CHANGE IN FUND BALANCE (in millions)	
\$2.6	Increase Emergency Contingency Reserve
\$1.5	Increase City Equipment Reserve
\$4.2	Apply towards unfunded pension obligations
\$8.3	TOTAL CHANGE IN FUND BALANCE

- Budget resolution being updated to dedicate positive fund balance changes to future pension obligations



Updates to the financial forecast

▣ Revenues

- ◆ Projections include increase in property taxes and sales tax based on current development projects
- ◆ Based on timeline provided from Public Works and Community Development
- ◆ ***Any project delays or changes to the timeline would alter the revenue projections***

▣ Expenditures

- ◆ Personnel expenses updated to include changes to non-sworn personnel based on imposition terms approved Nov. 14, 2017

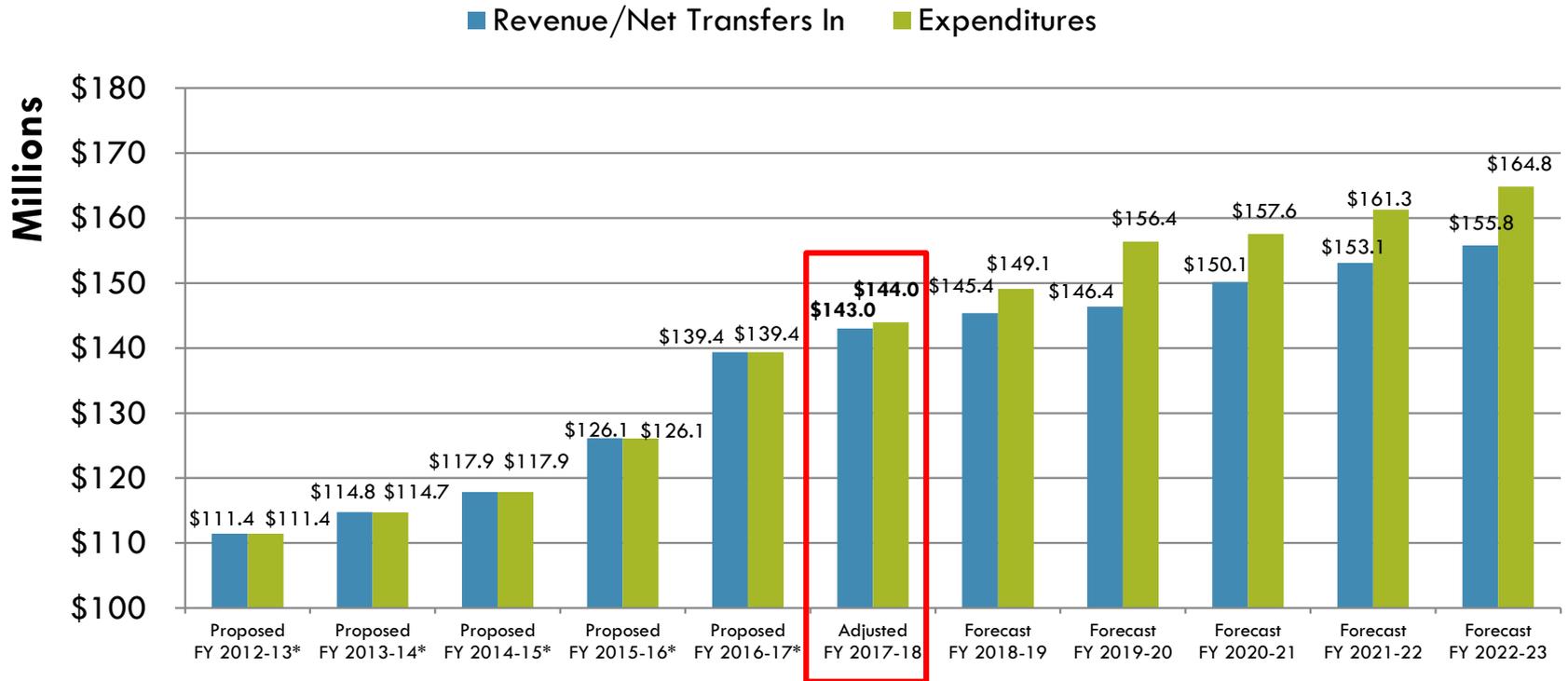
▣ Reserves

- ◆ Updated based on FY 2016-17 ending balances and 12/20/17 recommended actions for allocation of change in fund balance (\$8.3 million)



General Fund

Revenue and Expenditure Overview

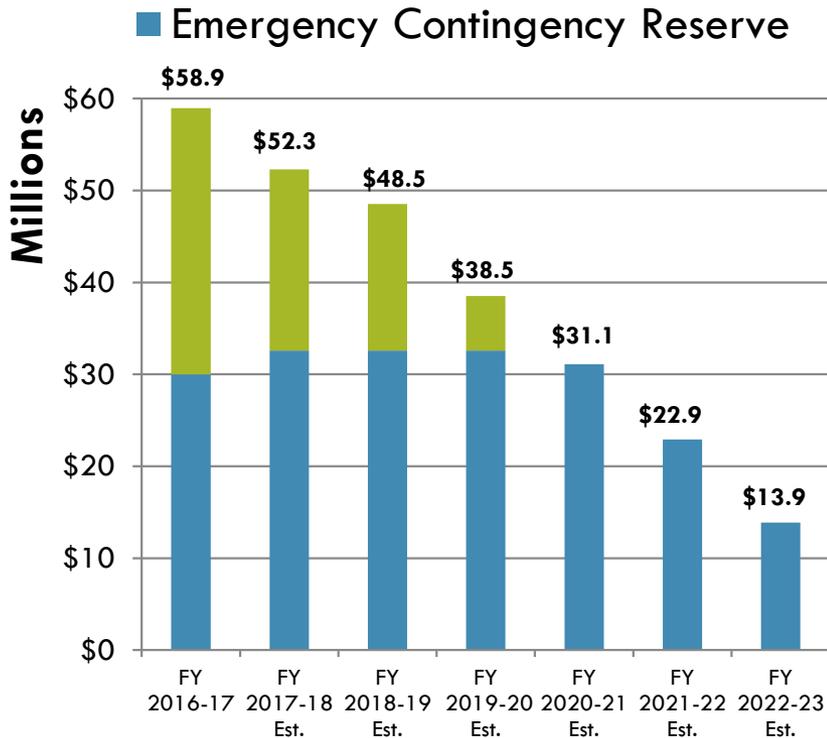


* As presented at the Budget Workshop for each year.

Growing gap between revenue and expenditures.
 Revised to \$1.0 Million in FY 2017-18 to \$9.1 Million in FY 2022-23.



General Fund - Reserve Balances



	Budget Balancing Measures Reserve	Emergency Contingency Reserve	Reserves Running Total
FY 2016-17	\$ 28,945,252	\$ 30,000,000	\$ 58,945,252
FY 2017-18 Est.	(9,254,788)	2,600,000	52,290,464
FY 2018-19 Est.	(3,742,414)		48,548,050
FY 2019-20 Est.	(10,018,711)	-	38,529,339
FY 2020-21 Est.	(5,929,339)	(1,493,289)	31,106,711
FY 2021-22 Est.		(8,193,926)	22,912,785
FY 2022-23 Est.		(9,052,580)	13,860,205
Reserve Balance	\$ -	\$ 13,860,205	

FY 2022-23 Estimated Emergency Contingency Reserve - \$13.9 million is equal to 1.0 month of estimated operating costs.



Reclassify 3% Off-Salary-Schedule Pay and Ratify Resolutions

- Recent CalPERS Circular Letter indicates 3% Off-Salary-Schedule Pay for Tier I Employees will not be reportable PERS compensation in any year in which pay increase is given
- Reclassify 3% Off-Salary-Schedule Pay for Tier I Employees to be 3% Longevity Pay to ensure it continues to be reportable PERS compensation
- Ratify, effective 11/14/17, Management/Confidential and Executive Group Employee Resolutions to include above reclassification and following terms considered on 11/14/17:
 - ◆ redefine overtime in accordance with FLSA standards
 - ◆ reduce medical allowance and medical difference benefits and increase medical opt-out benefit
 - ◆ create new Tier IV with reduced benefits
 - ◆ eliminate flex spending allowance, create tuition reimbursement cap, & convert certain special compensation benefits to a flat dollar amount
 - ◆ reduce auto allowance for Executive Group employees
 - ◆ provide 2% Cost of Living increase



Ratify City Manager and City Attorney Employment Contracts

- Ratify, effective 11/14/17, 2nd Amendment to City Manager Employment Agreement to refer to and incorporate terms of ratified Executive Group Employee Resolution, to clarify CM not entitled to reclassified 3% Tier 1 Longevity Pay, and to ratify following terms considered on 11/14/17:
 - ◆ removal of the cap on accumulated annual leave & limitation of 240 annual leave hours to delay voluntary retirement
 - ◆ extension of the term to a rolling 24-month period
 - ◆ provision allowing City Manager to elect to receive 1600 hours of annual leave in lieu of a severance payment

- Ratify, effective 11/14/17, 4th Amendment to City Attorney Employment Agreement to refer to and incorporate terms of ratified Executive Group Employee Resolution and to ratify following terms considered on 11/14/17:
 - ◆ eliminate increase in annual leave accrual authorized under original agreement
 - ◆ eliminate \$1,000 per month deferred compensation match

Elected Officials Health & Welfare Benefits



- Elected officials only receive medical, life insurance, deferred compensation, Medicare contribution and retirement benefits
- Update elected official benefit resolution to be consistent with terms imposed on non-sworn employees and cross-reference City CalPERS Contract
- Resolution No. 2017-133 makes the following revisions to health and welfare benefits for elected officials:
 - ◆ Reduces the medical allowance amount to be consistent with terms imposed on non-sworn employees on 11/14/17
 - ◆ For elected officials who have own health insurance coverage, the amount is automatically contributed to the official's deferred compensation plan account, similar to the employee "opt-out" provisions; however the amount will **not** be increased like it was for the employees
 - ◆ Elected officials have never been entitled to medical difference, so no change is needed in this regard.
 - ◆ No \$1,900 deferred comp match for officials elected on or after 11/14/17
 - ◆ No \$150 quarterly contribution in deferred comp plan for officials elected on or after 11/14/17
 - ◆ Documents retirement formula to be applied to officials elected prior to 1/1/13 (2.7% @ 55) and officials elected on or after 1/1/13 (2% @ 62)
 - ◆ Documents contribution rate for officials elected prior to 1/1/13 (official pays 8% employee contribution) and officials elected on or after 1/1/13 (official pays mandatory employee contribution as determined by CalPERS)
 - ◆ Removes the descriptive list of additional CalPERS benefits provided to elected officials and instead cross-references to the applicable CalPERS contract
 - ◆ Documents other changes made applicable with the adoption of PEPRA