REQUEST FOR FINANCE COMMISSION ACTION

MEETING DATE: JANUARY 7, 2019

TITLE: ASSUMPTIONS AND BASELINE PROJECTIONS FOR FISCAL YEAR 2019-21 TWO-YEAR BUDGET AND FISCAL YEAR 2019-24 FIVE-YEAR PLAN

K Griffith

Director of Administrative Services

RECOMMENDED ACTION

Receive and provide input on the assumptions and resulting baseline projections for the Fiscal Year 2019-21 Two-Year Budget and Fiscal Year 2019-24 Five-Year Financial Plan, for the City's major funds including the General Fund, and the largest Community Development and Public Works funds.

EXECUTIVE SUMMARY

On November 27, 2018 the City Council adopted a two-year budget cycle, beginning with Fiscal Year (FY) 2019-20. The two-year budget is developed in the context of a comprehensive five-year financial plan.

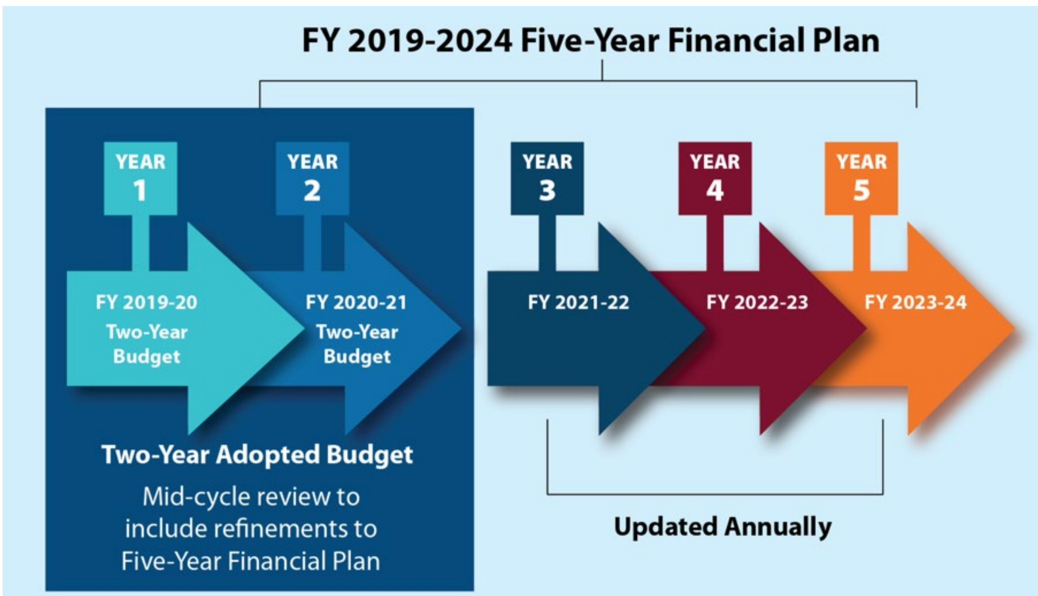
The development of a baseline budget starts with detailed five-year financial plans prepared by each City department for their respective funds, including revenues, expenditures and staffing. The baseline five-year projections are based on certain assumptions about revenue and expenditure growth, taking into account the anticipated increase in development, changes in population and resulting increases in service demands. This report discusses the **assumptions** utilized to prepare the baseline financial projections for revenues and expenditures, including staffing, for the City's major funds.

Based on these assumptions, financial **projections** for the next five years are presented along with **balancing principles** in cases where shortfalls are projected.

This report provides details on the following major City funds:

Major Fund	FY 2019-20 Annual Baseline Expenditure	Five-Year Outlook
General Fund	$216.5 million	Annual baseline shortfalls are projected, as high as 8.4 percent of the baseline budget and ranging from $11-16 million over the five-year period. The deficits are a reflection of flattening revenues (particularly sales tax) that are no longer sufficient to cover the increasing expenses, primarily personnel costs and contracted services. Balancing measures will focus on revenue enhancements, fee updates, shifting costs to special funds, and minimizing service impacts through reduction of vacancies and under-utilized positions.
Special Funds		
Development Services Fund	$3.1 million	The five-year outlook for development case processing for activities such as General Plan amendments, zone changes, master plans, and transportation impacts projects a steady decline of revenues due to anticipated lower development as the City approaches build out. Balancing measures include implementation of the recommended fee increase proposed by the recently completed Citywide cost analysis and the careful reduction of contract labor used to meet customer service goals and the elimination of a vacant extended part time assistant planner position.
Gas Tax	$3.3 million	State law requires Gas Tax funds to be utilized solely for street-related purposes. Revenues are expected to grow at a steady rate over the next five years; however, Gas Tax is subject to changes from the State.
Development Engineering Fund	$1.5 million	Development activity is steadily declining as the City approaches build out. Based on current projections, revenues and expenditures during the 5 year outlook are projecting an 11 percent decrease in years FY 2019-21 remaining flat the remainder of the baseline forecast.
Building and Safety Fund	$13.7 million	The five year outlook for development processing for activities such as plan check, inspection and permit issuance, projects a steady decline of revenues due to anticipated lower development as the City approaches build out. Balancing measures include implementation of the recommended fee increase proposed by the recently completed Citywide cost analysis and the careful reduction of contract labor used to meet customer service goals.
Special Funds include baseline operating expenditures and exclude transfers.		

The City's baseline Five-Year Financial Plan forms the foundation for the two-year budget. Once the assumptions, projections, funding priorities and balancing guidelines are discussed with the Finance Commission and City Council, and presented to the residential and business community, a balanced budget will be developed and presented in April. Orange County Great Park baseline assumptions will be presented separately in March. Upon approval in June, the two-year budget will go into effect on July 1, 2019, with quarterly financial updates each year and budget revisions as necessary every year. FY 2019-24 General Fund Baseline Assumptions Fiscal Summary and the Two-Year Budget Development Cycle are included as attachments.



COMMISSION/BOARD/COMMITTEE RECOMMENDATION

Not Applicable.

ANALYSIS

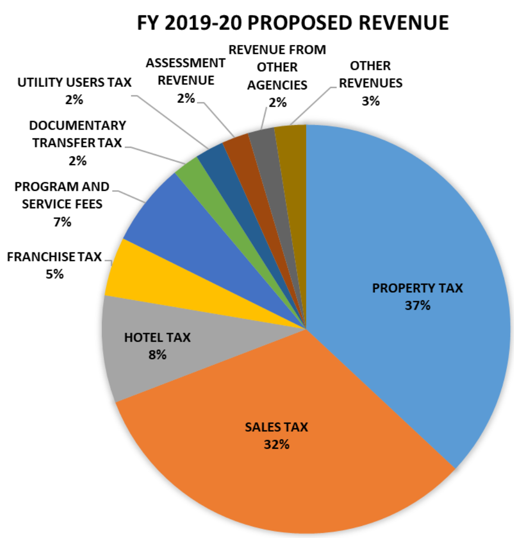
Although revenues are continuing to grow at approximately 3 percent with the development and expansion of the City, staff projects that expenditure growth will continue to outpace revenue growth. The FY 2019-24 General Fund Baseline Assumptions Fiscal Summary with historical data and the five-year outlook are provided in Attachment 1.

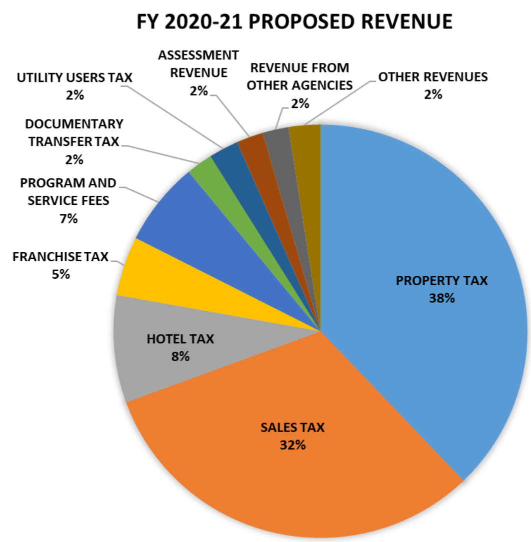
A. <u>GENERAL FUND FORECAST</u>

Revenues

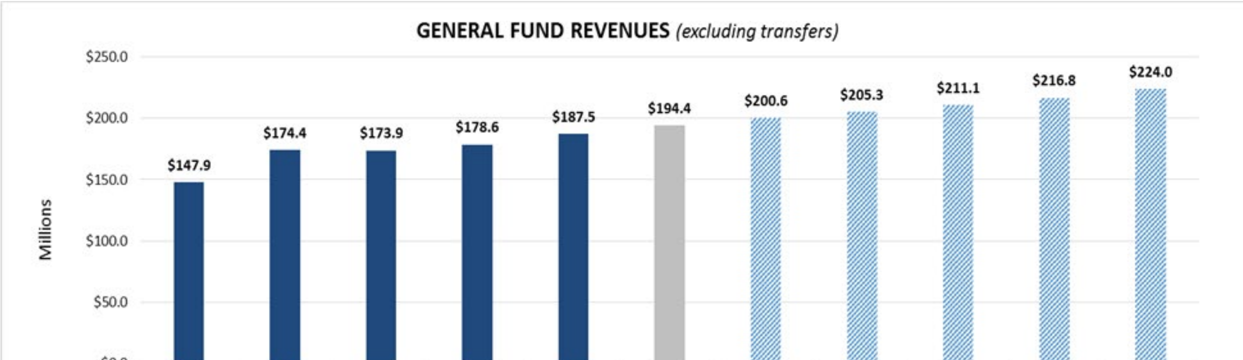
Revenue estimates are developed by the City's central budget office with input from departmental budget experts using a variety of techniques, including trend analysis, judgmental forecasting, and expert opinion. Trend analyses utilized in these forecasts take into account historical revenue performance modified for known anomalies. Staff relies on outside expert opinion from a variety of sources that include the Chapman Economic & Business Review, the UCLA Anderson Economic Outlook, the Los Angeles Economic Development Corporation (LAEDC), the City's sales tax and property tax consultants HdL Coren & Cone (HdL), and reports from various state and federal agencies. The baseline assumptions incorporate these various information sources and analytical methods, and take into account national, state, and local economic conditions as well as legislative and development factors.

Three major revenue sources (property tax, sales tax, and hotel tax) make up approximately 77 percent in FY 2019-20 and 78 percent in FY 2020-21 of General Fund revenues.





Overall General Fund revenues, excluding transfers-in, are anticipated to grow at a moderate rate of 2-3 percent in the next five fiscal years. In comparison, these revenues grew by approximately 5 percent in FY 2017-18. The increase in operating revenue is due primarily to growth in property tax, hotel tax, and program and service fees. The chart below displays the five-year historical and projected trends of revenue sources in the General Fund, excluding transfers.



	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Revenues ($)	147,867,657	174,390,233	173,851,809	178,607,186	187,528,134	194,379,400	200,629,362	205,264,276	211,143,402	216,760,032	224,000,079
% Change	7.1%	17.9%	-0.3%	2.7%	5.0%	3.7%	3.2%	2.3%	2.9%	2.7%	3.3%

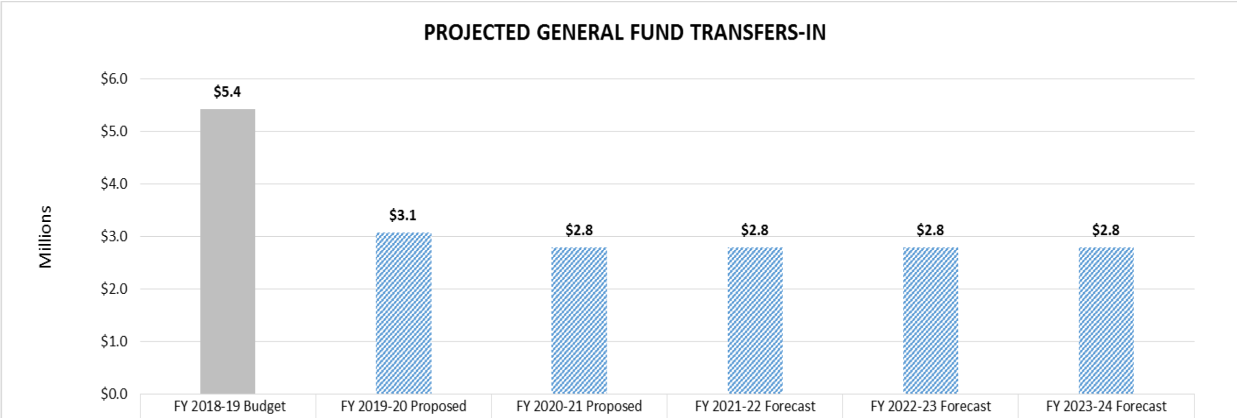
- *Transfers*

Transfers-in for FY 2019-20 include revenues and reimbursements, which consist of a share of the development revenues collected for development case processing and reimbursement for services and special events. Total transfers-in to the General Fund of $3.1 million is lower than the prior year due to the one-time transfer from the Contingency Reserve Fund to balance the FY 2018-19 budget and anticipated decreases in development revenues. Baseline transfers-in include:

- Overhead and operating reimbursements which are direct costs of development related services that are budgeted in special funds. A portion of the fee revenues attributable to overhead support costs are shown as a transfer-in to the General Fund to reimburse the City for general overhead support. As per the most recent citywide cost study, 13.5 percent of all revenue in the Development Services and Building and Safety Funds, and 20 percent of all revenue in the Development Engineering Fund, is transferred to the General Fund to fund citywide overhead costs. In FY 2019-20, the overhead reimbursement transfer-in baseline estimate is $2.8 million. This is lower than the previous year by $228,997 due to lower development activity.

- A $100,000 transfer to the General Fund from the Orange County Great Park Fund to reimburse for the time Council Executive Assistants work on Orange County Great Park matters. This practice was established in FY 2007-08 to promote administrative efficiency.

- The transfers-in category also includes a $87,500 transfer (or 25 percent of the anticipated net cost) of the Irvine Global Village Festival (IGVF) from the Great Park Fund to the General Fund to cover the Great Park's share of the IGVF costs.



	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Transfers-Out ($)	5,420,097	3,074,100	2,790,280	2,790,280	2,790,280	2,790,280
% Change	-27.9%	-43.3%	-9.2%	0.0%	0.0%	0.0%

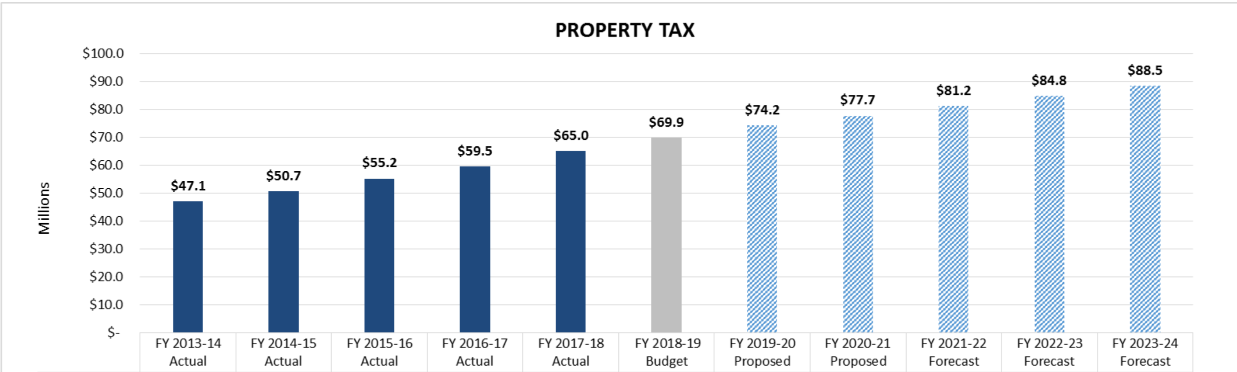
- *Property Tax*

Property tax is a tax imposed on the value of real property, such as land and buildings. Property tax revenue is collected by the County and allocated according to state law among cities, counties, school districts and special districts. Irvine property owners pay a basic tax equal to 1 percent of the assessed value on real property. The City's General Fund receives approximately 2.7 percent of these 1 percent tax payments, with larger shares going to local schools, community colleges and the Orange County Fire Authority. As part of the State Budget Act of 2004, the legislature reduced motor vehicle license fee (VLF) revenue allocations to cities, replacing this funding with additional property tax allocations that change proportionately with the City's annual assessed valuation ("property tax in-lieu of VLF" revenue). The City also receives "no-low" property tax payments that provides a "floor" for the City's share of overall property tax payments. Including all these sources, Irvine receives approximately 9 cents of every dollar of property tax collected.

The City's property tax revenue has grown exponentially reflecting both new development and increasing property values in Irvine. After the recession, growth began in FY 2012-13 and is expected to continue through FY 2023-24. Home prices continue to increase and housing demand, especially in the new home market, remains healthy. Although prices remain strong, assessed values are anticipated to soften to 4 percent, in comparison to the 8 to 9 percent growth seen in previous years.

The City, working with its property tax consultant, HdL, forecasts property tax revenue using four factors: property turnover, pricing and appeals exposure, new construction activity, and Proposition 13's annual inflation adjustment. Property turnover occurs due to transfer of ownership with an assessed value change. Proposition 8 allows homeowners to appeal their assessed value when the property has a decline in value. Under Proposition 13 tax reform, property tax value were rolled back and frozen at the 1976 assessed value level and increases on any given property are limited to no more than 2 percent per year as long as the property is not sold. Based on these factors, the

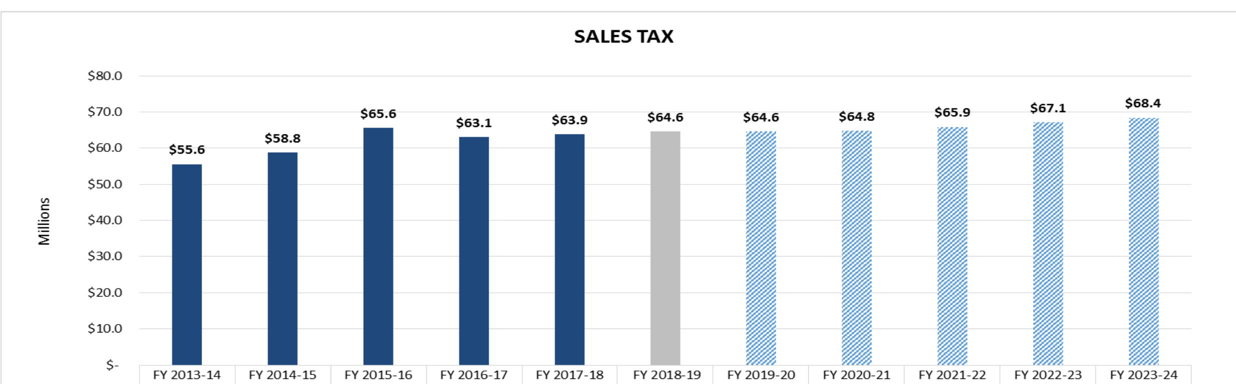
City's property tax revenues are projected to increase 6.1 percent in FY 2019-20, 4.8 percent in FY 2020-21, and 4.4 percent annually in the last three years.



	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Property Tax ($)	47,081,024	50,719,953	55,204,528	59,469,593	65,049,200	69,902,446	74,162,141	77,731,638	81,179,993	84,765,584	88,493,274
% Change	6.2%	7.7%	8.8%	7.7%	9.4%	7.5%	6.1%	4.8%	4.4%	4.4%	4.4%

- *Sales Tax*

Sales tax is imposed on the total retail price of tangible personal property (excluding a variety of state mandated exemptions), while use tax is imposed on the purchaser for eligible transactions when sales tax has not been collected. The sales and use tax rate in Orange County is 7.75 percent. Irvine receives 1 percent from the California Board of Equalization of all taxable sales occurring within the City. The City works closely with its sales tax consultant, HdL, in forecasting sales tax revenue. Based on HdL's analysis of the trend in year-to-date tax receipts, macroeconomic conditions (done in collaboration with HdL's partner Beacon Economics) and an examination of local business data, HdL anticipates the City's sales tax revenue flattening in the next two years, and growing only slightly, at less than 2 percent, in the last five years. The moderate growth in the latter part of the forecast reflects the anticipated addition of the Lamborghini and McLaren auto dealers, growth in the Irvine Business Center and Spectrum, and positive influences of the Shop Irvine initiative.



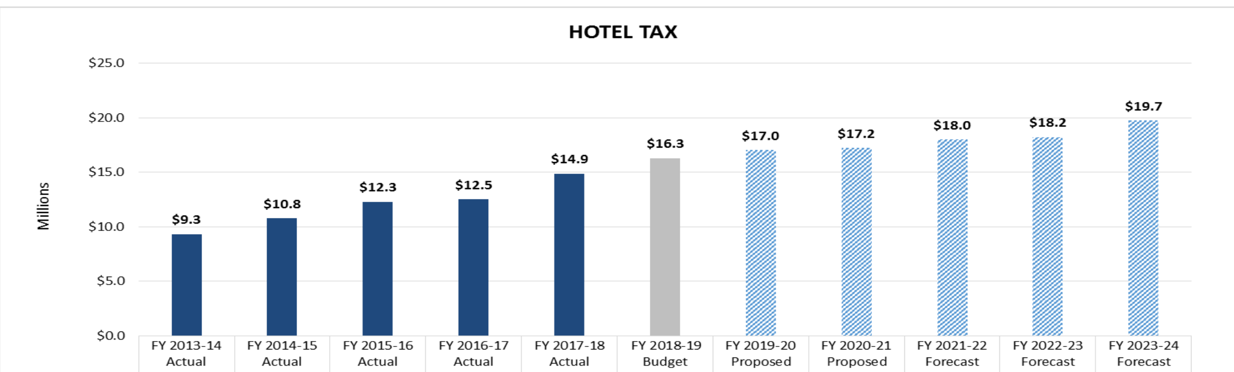
	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Sales Tax ($)	55,579,512	58,766,632	65,619,926	63,063,463	63,853,447	64,609,782	64,618,770	64,750,396	65,859,566	67,124,462	68,426,649
% Change	8.8%	5.7%	11.7%	-3.9%	1.3%	1.2%	0.0%	0.2%	1.7%	1.9%	1.9%

- *Hotel Tax*

Hotel tax (also known as transient occupancy tax or TOT) is an 8 percent tax applied to the cost of hotel or other lodging stays of less than 30 days and is entirely accounted for in the General Fund. In addition to the City's base 8 percent hotel tax, the City's hotel improvement district (HID) collects a 2 percent assessment, also applied to hotel or other lodging stays of less than 30 days. The HID tax is recorded in a special revenue fund with 75 percent of the proceeds designated for the Irvine Chamber of Commerce and the remaining 25 percent used to support City cultural activities.

The City's hotel revenues have increased over the past five years with the opening of seven new hotels. The Courtyard by Marriott (Spectrum) opened in FY 2014-15, Hilton Garden Inn opened in FY 2015-16, the Homewood Suites and AC Hotel opened in FY 2016-17, and the Hyatt House, Hampton Inn, and Marriott Irvine Spectrum opened in FY 2017-18.

Additional future growth is expected as a result of three new hotels. The Stay Bridge, Townplace and Landmark hotels are anticipated to open in FY 2019-20, FY 2021-22, and FY 2023-24, respectively. The anticipated increase in the number of passengers traveling through the John Wayne Airport (from 10.8 million to 11.8 million by 2021) will further support this projected growth.



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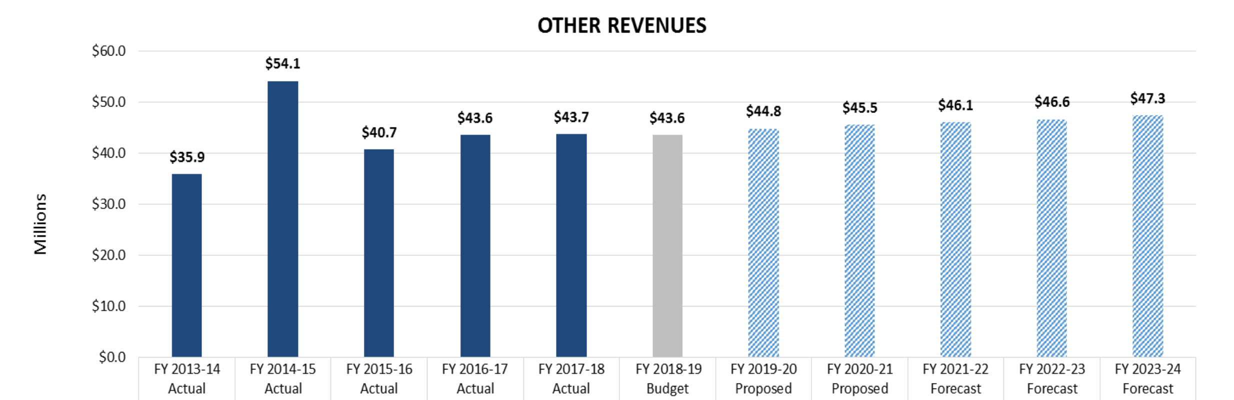
Hotel Tax ($)	9,331,273	10,772,089	12,294,312	12,520,113	14,883,338	16,293,000	17,027,255	17,239,986	18,002,879	18,232,661	19,745,747
% Change	3.6%	15.4%	14.1%	1.8%	18.9%	9.5%	4.5%	1.2%	4.4%	1.3%	8.3%

- *Other General Fund Revenues*

Other revenues account for approximately 22 percent of General Fund income and include documentary transfer tax (2.1 percent), utility users tax (2.3 percent), franchise tax (4.7 percent), licenses and permits (0.2 percent), fines and forfeitures (0.7 percent), revenues from other agencies (2.1 percent), program and service fees (6.6 percent), fees for services (0.8 percent), Hotel Improvement District assessment revenue (2.1 percent) and other miscellaneous items. FY 2014-15 revenues were augmented due to the sale of a property, located in Orange County Great Park, to OCTA, which generated an additional $14 million. Historical growth rates were used to calculate the revenues for the next five years on many of the revenue categories in this group.

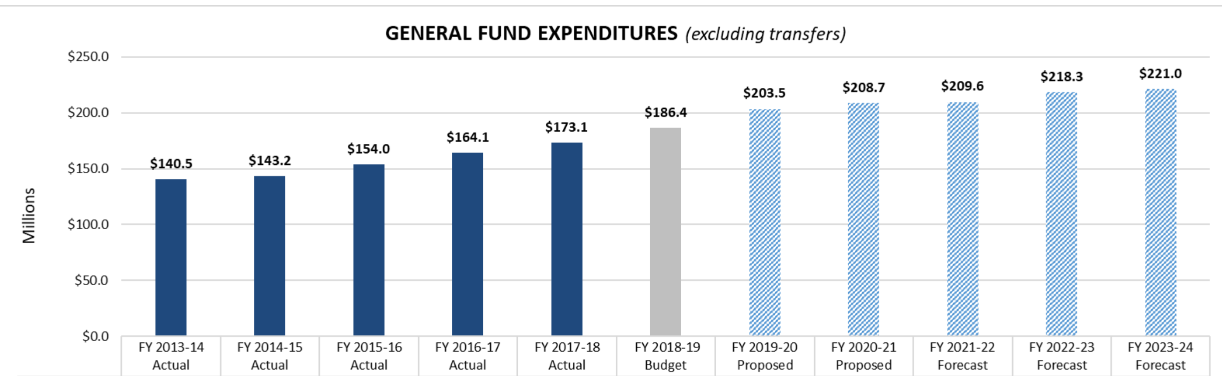


	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Other Revenues ($)	35,875,849	54,131,560	40,733,043	43,554,018	43,742,148	43,574,172	44,821,196	45,542,255	46,100,964	46,637,325	47,334,409
% Change	6.6%	50.9%	-24.8%	6.9%	0.4%	-0.4%	2.9%	1.6%	1.2%	1.2%	1.5%

Expenditures

Irvine continues to grow and mature, resulting in an increasing demand for City services, infrastructure maintenance, and repair needs. The five-year expenditure forecast, with input from individual departments, takes into consideration these anticipated needs.

Overall, General Fund expenditures, excluding transfers-out, are anticipated to increase 9.2 percent in FY 2019-20, 2.6 percent in FY 2020-21, 0.4 percent in FY 2021-22, 4.1 percent in FY 2022-23, and 1.2 percent in FY 2023-24. The increase in operating expenditures is primarily due to growth in retirement, contract services, and internal service costs such as information technology, mail and print services, fleet and facility maintenance. The lower rate of growth in FY 2021-22 is due to the anticipated CalPERS pay down plan savings. The chart below displays the five-year historical and projected trend of expenditures in the General Fund, excluding transfers.



	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Expenditures ($)	140,503,131	143,231,412	153,986,528	164,113,232	173,140,219	186,367,909	203,453,422	208,722,023	209,644,720	218,266,988	220,952,001
% Change	4.3%	1.9%	7.5%	6.6%	5.5%	7.6%	9.2%	2.6%	0.4%	4.1%	1.2%

Transfers-out include additional funding of $2 million for the pension pay down plan to continue reducing the unfunded liabilities and help stabilize and mitigate future pension costs.

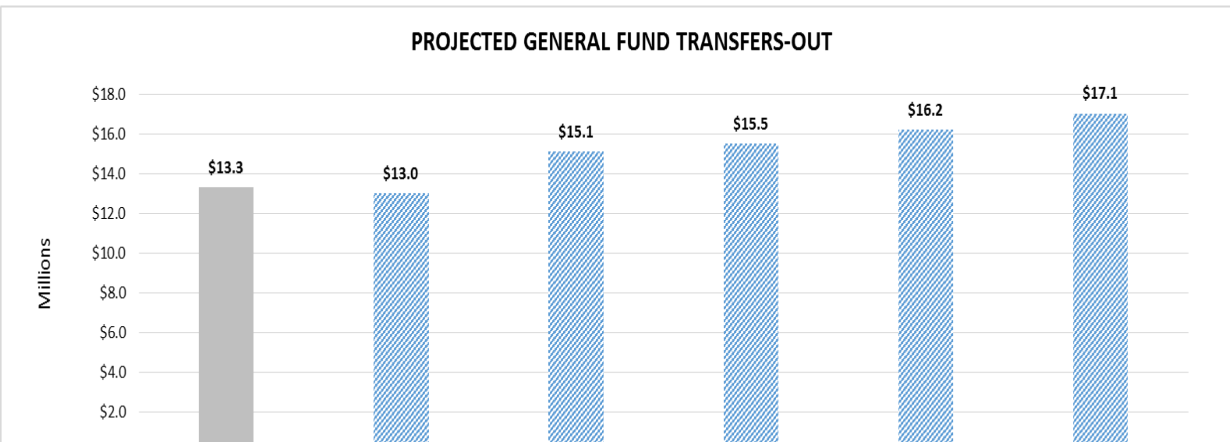
Baseline assumptions for transfers-out also include:

- $4 million in direct support to Irvine's schools based on the 2016 City Council adopted Partnership for Educational Excellence program.

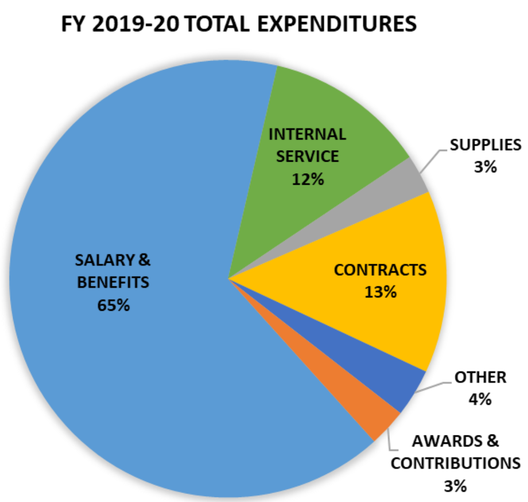
- Approximately $5 million a year for landscape, lighting, and park maintenance at neighborhood and community parks citywide from the General Fund. The remaining program cost (approximately $13.9 million) is funded by assessments to property owners, property tax, and miscellaneous revenues.

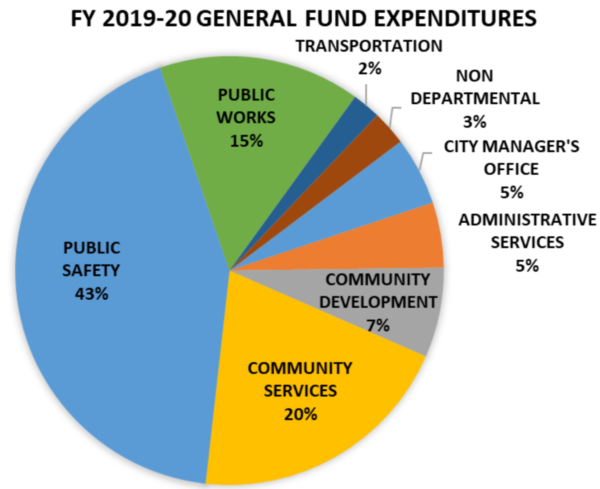
- Set asides for workers compensation and general claim payouts and associated insurance, based on the 70 percent funding policy. These set asides increased from $1.4 million in FY 2019-20 to $5.4 million in FY 2023-24.

- Approximately $500,000 annually to support senior programs such as the home delivered meal program, nutrition transportation, and in-home services.



	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Transfers-Out ($)	13,334,460	13,030,904	15,145,910	15,517,659	16,226,917	17,050,802
% Change	-16.8%	-2.3%	16.2%	2.5%	4.6%	5.1%



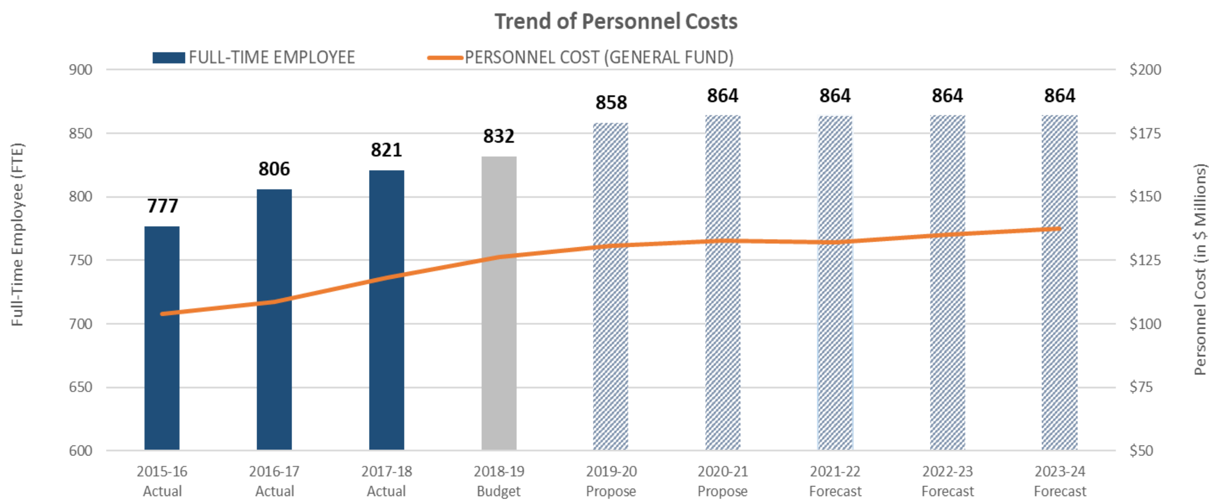


- *Personnel*

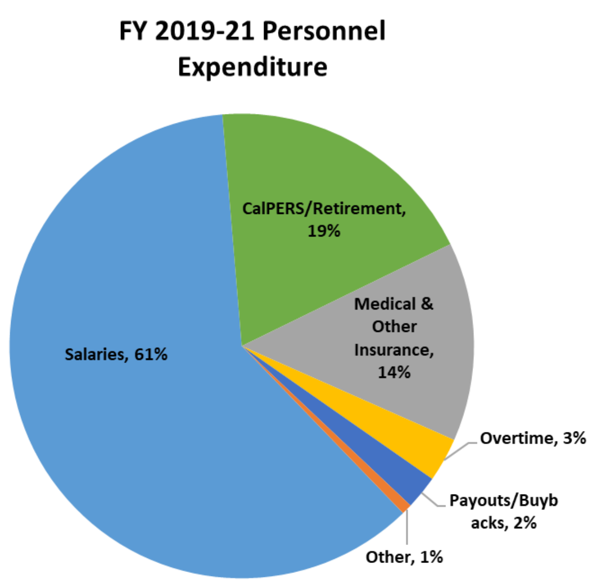
Personnel costs represent 65 percent of the City's General Fund expenditure in FY 2019-21. Mindful of the increasing costs of California Public Employees Retirement System (CalPERS), City Council implemented a plan in 2013 to pay down the City's unfunded pension liabilities and help stabilize future pension costs. The results of this prudent fiscal initiative is a substantial drop in pension costs beginning in FY 2021-22, from $27.6 million to $25.0 million or a 9.3 percent decrease compared to the prior year.

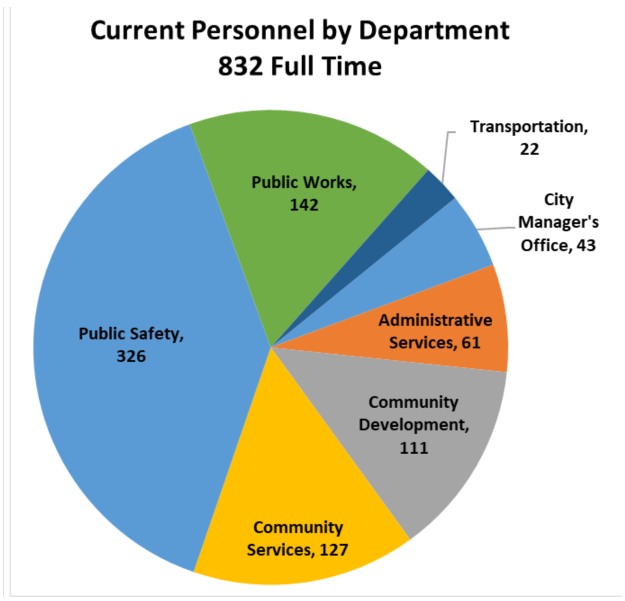
Overall, personnel costs are projected to increase an estimated 2.2 percent over the next five years.

- Baseline assumptions include merit increases mandated by labor agreements.
- Historically, City positions have stayed vacant for a period of time while recruitments are conducted, a vacancy rate of 3 percent is assumed for sworn positions and 5 percent for civilians.
- Retirement assumptions have been provided by CalPERS and are discussed in detail below.
- **No cost-of-living adjustments have been factored in at this time.**
- Given growth in City population and developed structures, and the addition of new recreation facilities, staffing is anticipated to increase, especially in Public Safety and Community Services, to meet the needs of the community and ensure the provision of essential services is met.
- The City's health insurance costs related to employees and dependents are projected to increase less than 3 percent compared to historical averages of 6 percent.



Public Safety accounts for 52 percent of General Fund personnel costs in FY 2019-21. Operating departments, including Community Services, Community Development, Public Works, and Transportation makeup 38 percent of General Fund personnel costs in FY 2019-21. The balance of 10 percent is in City Manager's Office and Administrative Services.





The last five years reflect a steady growth in staffing. The City has added 94 full-time positions and over 97 full-time equivalent part-time positions across all funds.

Full-time Personnel	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Budget	5 Year FTE Growth
City Manager's Office	40	39	39	41	42	43	3
Administrative Services [1]	48	50	53	53	61	61	13
Community Development	102	108	109	113	114	111	9
Community Services	108	106	118	125	127	127	19
Public Safety	298	302	308	319	322	326	28
Public Works [2]	142	143	150	155	139	142	0
Transportation					16	22	22
Total	**738**	**748**	**777**	**806**	**821**	**832**	**94**

1. GIS transfer of 4 positions from Community Development to Administratives Services in FY 2018-19.
2. Public Works transferred 15.75 positions to create new Transportation Department in FY 2017-18 and Community Development transferred 6 positions in FY 2018-19.

Part-time Personnel	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Actual	2018-19 Budget	5 Year FTE Growth
City Manager's Office	7.2	10.1	10.1	10.1	7.6	9.5	2.3
Administrative Services	5.3	5.8	4.5	4.5	4.4	4.9	(0.4)
Community Development	1.8	1.8	2.8	2.8	3.3	2.8	1.0
Community Services	197.7	211.8	250.4	262.3	274.8	282.7	85.0
Public Safety	31.0	31.4	33.4	32.9	38.3	38.6	7.7
Public Works	4.3	7.2	6.5	5.2	5.2	5.3	1.0
Transportation					0.0	0.5	0.5
Total	**247.3**	**268.1**	**307.7**	**317.9**	**333.6**	**344.3**	**97.1**

- Of the 94 new full-time positions, **23 positions,** or 24 percent are Police Officers. For the last five years, Irvine's population increased by an average of 3 percent annually. Correspondingly, calls for service increased by that same average of 3 percent per year, while staffing increased by only 1.8 percent. In 2010, the City's Public Safety Department employed 0.97 officers per 1,000 residents. Today, the ratio is approximately 0.84 officers per 1000 residents. In order to maintain our current service levels, and our response times within reasonable timeframes, it is important to minimally maintain a ratio of 0.85 officers per 1,000 residents. The requests for new sworn positions will maintain this ratio based on the projected population for future years. In addition, the current ratio of Public Safety full-time civilian staff per 1,000 residents is approximately 0.34. Requests for civilian positions seeks to maintain a ratio of 0.35. To maintain the targeted services levels, five police officers, one police sergeant, and three civilian positions are included in the FY 2019-20 baseline assumptions. Additionally, four police officers and one public safety assistant are included in the baseline for FY 2020-21.

- The Community Services Department has increased by **19 full-time employees and 85 part-time employees** over the past five years to staff programs and services for five new multi-use community centers, four new parks and seven new schools. This increase is directly tied to the City's growth in population and residential development and serves to maintain programming and service levels across 22 community parks, 18 multi-use community centers, and 41 schools. The staffing increase also includes the relocation of full-time staff from Community Development to Community Services for park planning, and additional part-time staff, as required by industry standards and service initiatives, for aquatic safety and animal care. In FY 2019-20, Community Services is requesting an exchange of two extended part-time positions for one full-time position for community facility reservations. This exchange results in a net savings of $9,973 and a 0.6 full-time equivalent (FTE) reduction. Community Services is also requesting part-time hours totaling 12.02 FTE to support: two new community facilities and parks at Portola Springs and Los Olivos; a new Disability Services center at Sweet Shade Community Park; new camp and after-school programs at Cypress Community Park; increased swim lessons at William Woollett Aquatics Center; and increased customer service coverage at the Fine Arts Center. The total part-time cost is $436,117 and is completely offset from revenues generated by these new facilities and programs.

- The Community Development Department added **21 new employees and transferred out 12** over the past five years, for a net increase of 9 full-time positions. Growth in development within the City made it necessary to add staff to maintain the highest quality of service levels and meet the demands of the increased workload. A majority of the additional staff were hands-on positions providing services directly to the community, such as inspectors, permit specialists and plan checkers. Twelve positions were transferred out due to the re-organization of City departments, Community Development staff was reduced by 5.5 positions when the Geographic Information Systems (GIS) function was transferred out to Administrative Services, and 6.5 positions were transferred to the Transportation Department.

- The Transportation Department was established in FY 2017-18 to address the City Council's priority of reducing traffic congestion by way of improving the flow of traffic and enhancing alternative transit options throughout the community. The department is currently staffed by transfers of sixteen positions from Public Works and six positions from Community Development. The department develops and implements the City's transportation initiatives, as set by the City Council, including the Active Transportation Plan promoting increased pedestrian and bicycling activities.

- Over the past 5 years, the Public Works Department has added **5 dedicated full time staff members** to oversee the Landscape and Facility maintenance efforts at the Orange County Great Park to include the hangar, palm court, reflection pond and the recently completed sports complex along with the Upper Bee and Bosque areas. During that same period, the department upgraded four extended part-time (EPT) positions to full-time without increasing the overall number of personnel, and added five additional positions to assist with the increased inventory (new Community Centers, Neighborhood and Community Parks, bike trails, roadways, medians, streetscapes, signalized intersections and other infrastructure elements maintained by the Public Works department).

- The Administrative Services Department has **added 13 positions** due to the integration of the Information Technology (IT) Division, GIS, and staff support. With four positions, the IT Division administers all citywide technology including providing technology leadership, long range planning, infrastructure maintenance, purchasing and contract management, duplicating and print management support to over 1,200 employees and contractors. In addition, four GIS positions were moved from Community Development to Administrative Services in FY 2017-18. Three Human Resource positions, an accountant and one Buyer position were added after a workload assessment showed insufficient staffing in the areas of labor and employee relations and purchasing.

- *Retirement*

The City participates in the California Public Employees Retirement System (CalPERS) to provide retirement benefits to its employees. CalPERS is a defined benefit plan where the participant and the employer contribute to the plan. CalPERS offers benefits for miscellaneous members (those who are not involved in law enforcement) and Safety members (involved in law enforcement, the protection of public safety, or designated by law as local safety). CalPERS establishes an employer rate, which the City must pay for each participating employee, as well an employee rate. The information below represents rates paid by employees and the City.

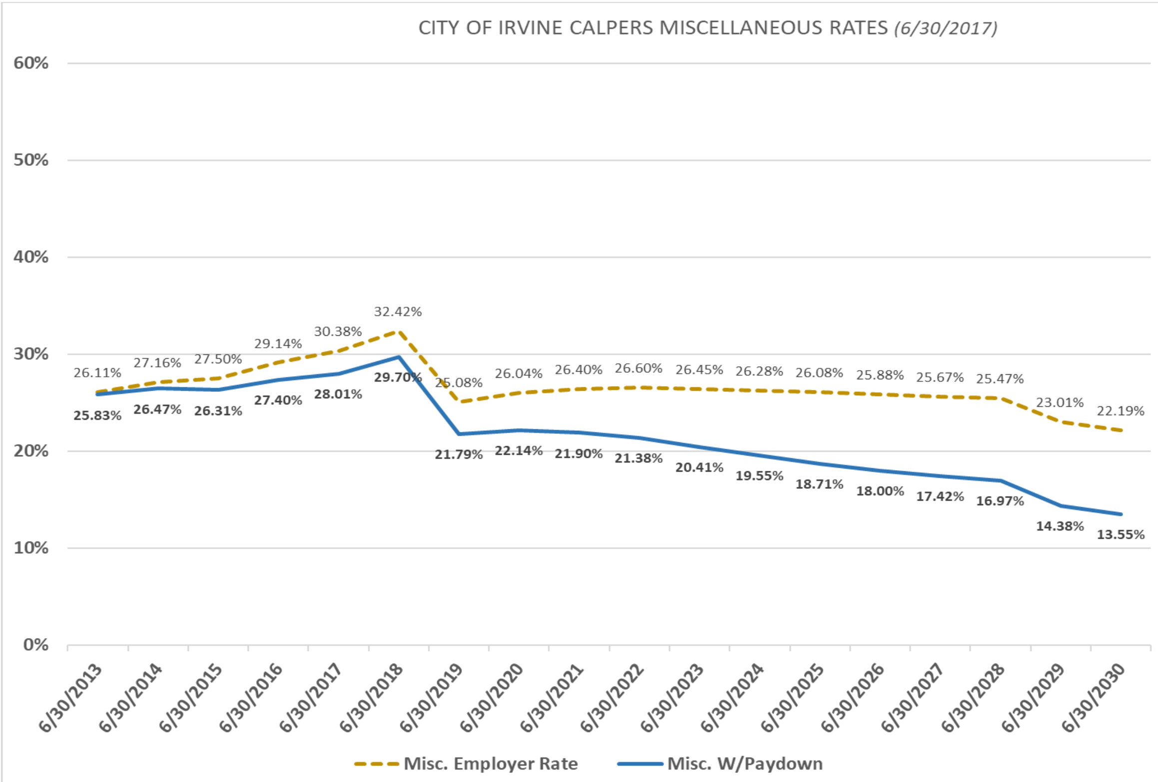
NON-SAFETY	TIER 1	TIER 2	TIER 3
Hire Date	Hired prior to 4/14/2012	Hired on or after 4/14/2012	Hired on or after 1/1/2013
Defined Benefit Plan Formula	2.7% at 55	2% at 55	2% at 62
Required Employee Contribution	7.535%	7.535%	6.750%
Required Employer Contribution*	11.044%	11.044%	11.044%
Employer Paid UAL Payment	16.96%	16.96%	16.96%

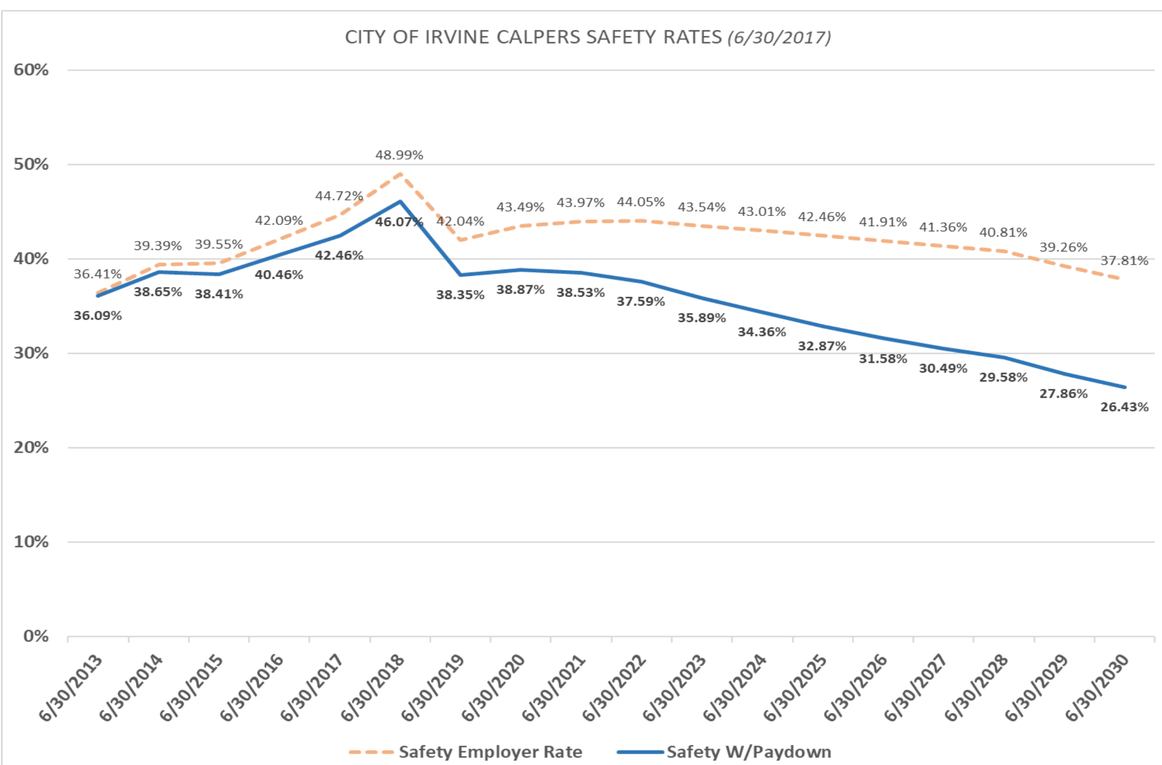
SAFETY	TIER 1		TIER 3
Hire Date	Hired prior to 1/1/2013		Hired on or after 1/1/2013
Defined Benefit Plan Formula	3% at 50		2.7% at 57
Required Employee Contribution	9.333%		12.000%
Additional Employee Contribution	3.000%		
Required Employer Contribution*	19.427%		22.427%
Employer Paid UAL Payment	20.032%		20.032%

* Required Employer Contribution is a blended rate for all benefit groups in the plan. Safety Tier 1 pays 3.0 percent of the employer contribution.

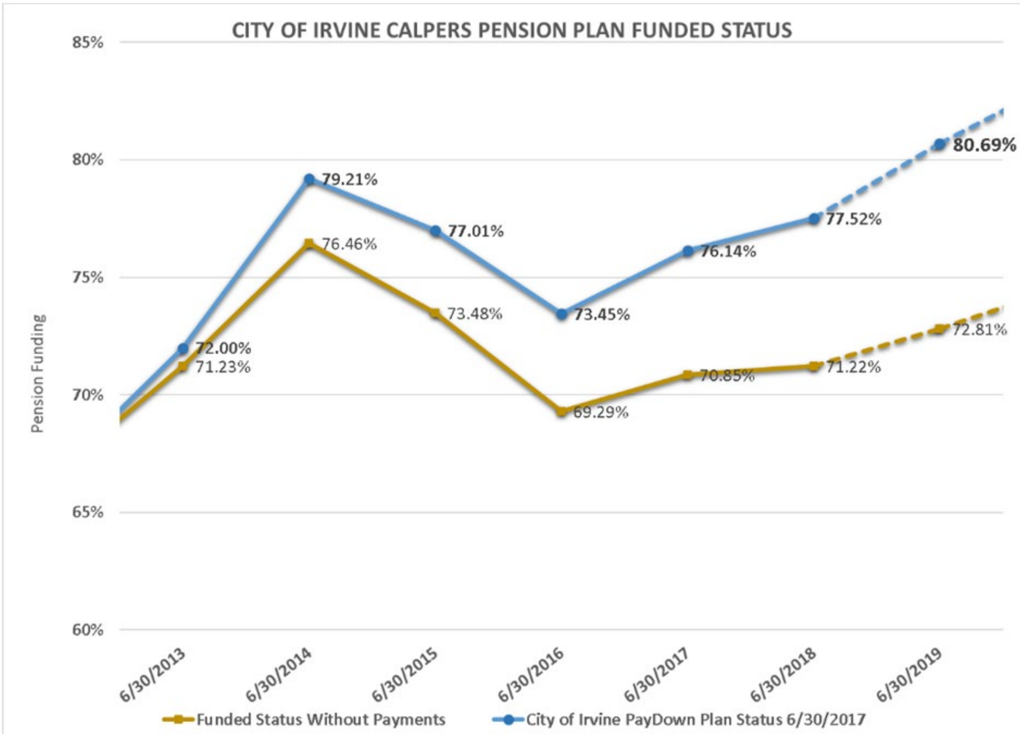
Irvine employees pay their full employee rate. Classic Tier I Safety employees also pay 3 percent of the employer rate to offset the disparity of the California Public Employees' Pension Reform Act of 2013. The Act made several changes to the pension benefits that may be offered to employees hired after January 1, 2013, including setting a new maximum benefit and a lower-cost pension formula for new employees.

The employer rate is an actuarial calculation provided to the City by CalPERS each year. The total is comprised of two factors: the estimated percentage of salary based on employee demographics such as age and salary, the second is a lump sum payment due to pay down an unfunded accrued liability. The charts below show the City's estimated rate payments over the long-term with and without the City's Pay Down Plan for Miscellaneous and Safety.


CITY OF IRVINE CALPERS MISCELLANEOUS RATES (6/30/2017)
60%
50%
40%
30%
20%
10%
0%
26.11% 27.16% 27.50% 29.14% 30.38% 32.42% 25.08% 26.04% 26.40% 26.60% 26.45% 26.28% 26.08% 25.88% 25.67% 25.47% 23.01% 22.19%
25.83% 26.47% 26.31% 27.40% 28.01% 29.70% 21.79% 22.14% 21.90% 21.38% 20.41% 19.55% 18.71% 18.00% 17.42% 16.97% 14.38% 13.55%
6/30/2013 6/30/2014 6/30/2015 6/30/2016 6/30/2017 6/30/2018 6/30/2019 6/30/2020 6/30/2021 6/30/2022 6/30/2023 6/30/2024 6/30/2025 6/30/2026 6/30/2027 6/30/2028 6/30/2029 6/30/2030
Misc. Employer Rate
Misc. W/Paydown


CITY OF IRVINE CALPERS SAFETY RATES (6/30/2017)
60%
50%
40%
30%
20%
10%
0%
36.41% 39.39% 39.55% 42.09% 44.72% 48.99% 42.04% 43.49% 43.97% 44.05% 43.54% 43.01% 42.46% 41.91% 41.36% 40.81% 39.26% 37.81%
36.09% 38.65% 38.41% 40.46% 42.46% 46.07% 38.35% 38.87% 38.53% 37.59% 35.89% 34.36% 32.87% 31.58% 30.49% 29.58% 27.86% 26.43%
6/30/2013 6/30/2014 6/30/2015 6/30/2016 6/30/2017 6/30/2018 6/30/2019 6/30/2020 6/30/2021 6/30/2022 6/30/2023 6/30/2024 6/30/2025 6/30/2026 6/30/2027 6/30/2028 6/30/2029 6/30/2030
Safety Employer Rate
Safety W/Paydown

An unfunded actuarial liability (UAL) is the difference between the estimated amount of a pension plan’s obligations and the current value of its assets. The disparity can be caused by differences in rates of termination, retirement, mortality, salary growth and difference in investment returns compared to plan assumptions.



To address the unfunded pension liability, the City of Irvine adopted an accelerated payment plan (Paydown Plan). The goal is to attain a funding level of 98 percent utilizing reserve funds from the City’s Asset Management Plan (AMP) of $5 million per year to make additional funding payments. Since the plan was enacted CalPERS has adopted a number of policy and assumption changes including: lowering the discount rate from 7.5 percent to 7.0 percent; accelerating the amortization period for gains and losses; and updating actuarial assumptions to better align with mortality, salary scales, and inflation. These changes negatively affect the planned timing of the Paydown Plan and have increased the City’s UAL, pushing out planned timing of 98 percent funding to approximately 2028.

Since adoption of the Paydown Plan in 2013, $48.2 million in additional payments have been made to pay down the pension UAL with CalPERS. This includes a one-time additional $4.2 million payment from FY 2017-18 year-end savings and the planned payment of $7 million from the FY 2018-19 Adopted Budget. The UAL portion of the employer contribution can be prepaid. Prepaying allows the City a discount of a half year of interest savings. These savings, rate savings, and $1 million a year from year-end carryover, when available, are utilized to pay back the loan from the AMP. $16.2 million has been paid back to the AMP to date.

PENSION PAY DOWN HISTORY			
	From AMP to CalPERS	General Fund to CalPERS	AMP Repayment
FY 2012-13	$5M	$3M	$1M
FY 2013-14	$5M		$1.5M
FY 2014-15	$5M		$2.1M
FY 2015-16	$5M	$2M	$2.8M
FY 2016-17	$5M		$4.3M
FY 2017-18	$5M	$6.2M	$4.5M
FY 2018-19	$5M	$2M	
TOTALS	**$35M**	**$13.2M**	**$16.2M**

Although changes implemented by CalPERS, such as the discount rate, have negatively impacted the Pay Down Plan despite the City making substantial payments to reduce the UAL to offset this, changes in salaries and benefits have exacerbated the issue. Over the past five years, 94 full-time positions and over 97 full-time equivalent part-time positions have been added throughout the City. PERS-able wages in Safety have grown 23 percent over five years adding nearly $10.1 million in increased unfunded liabilities due to salary increases growing faster than CalPERS assumed planned growth. Miscellaneous PERs-able wages have increased 12 percent, with $3.5 million in increased liabilities.

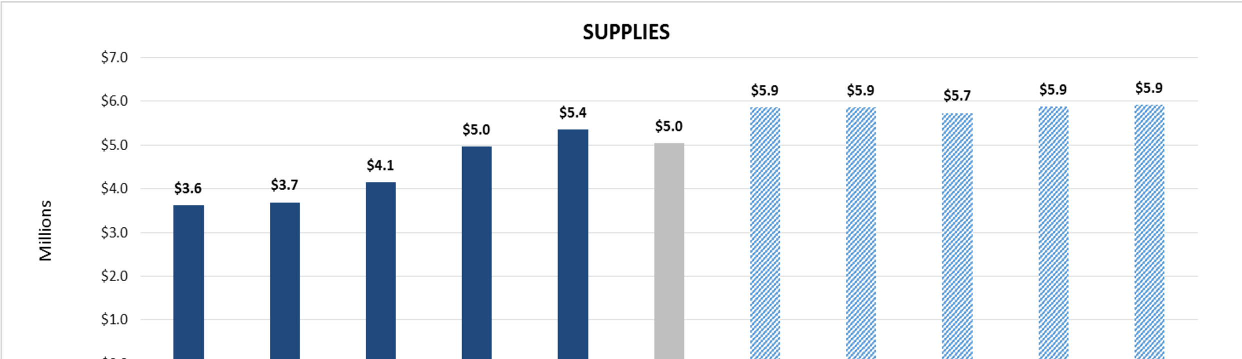
Safety	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**	**FY 2015-16**	**FY 2016-17**
Full-time Equivalent (FTE)	191	190	198	207	212
Average Pay	$105,195	$107,657	$116,647	$120,468	$129,056
% Increase	2.14%	2.34%	8.35%	3.28%	7.13%
Unfunded Liability Impact	($1,585,000)	$814,000	$4,508,000	$849,000	$3,918,000

Miscellaneous	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**	**FY 2015-16**	**FY 2016-17**
Full-time Equivalent (FTE)	653	658	681	706	739
Average Pay	$68,268	$69,121	$70,945	$71,612	$74,789
% Increase	2.56%	1.25%	2.64%	0.94%	4.44%
Unfunded Liability Impact	($1,957,000)	($1,314,000)	$193,000	$(716,000)	$3,293,000

Source: CalPERS

- *Supplies*

Supplies include purchases of consumable items which commonly have a short life span, such as, office supplies, forms, postage, small tools, minor vehicle and office equipment, and Public Safety supplies. General Fund supplies have increased $806,100 in the FY 2019-20 baseline assumptions from the prior year. Public Safety comprises a majority of the growth in supplies, with an increase of $717,079. The increase is related to various equipment and supplies needs throughout the Public Safety Department, ranging from training and duty equipment to technology related supplies and equipment. Additionally, a large portion of the increase is for the costs of outfitting the proposed twelve new vehicles requested over the two-year budget cycle.

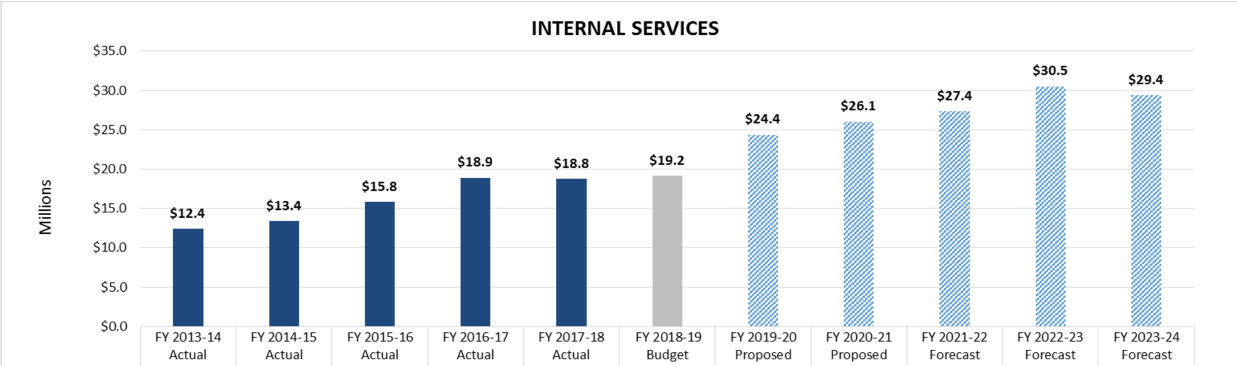


	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Expenditures ($)	3,615,436	3,690,943	4,139,946	4,956,942	5,351,236	5,047,947	5,854,047	5,865,618	5,734,006	5,885,027	5,913,419
% Change	-1.5%	2.1%	12.2%	19.7%	8.0%	-5.7%	16.0%	0.2%	-2.2%	2.6%	0.5%

- *Internal Service Charges*

The City of Irvine uses internal service funds to provide services to the operating departments on a cost reimbursement basis. These services are funded by Internal Service Charges, which are collected from the operating departments. Costs are allocated to departments for compensated absences, information technology, Civic Center maintenance, telephone, mail, print services, and equipment rent based on usage and consumption.

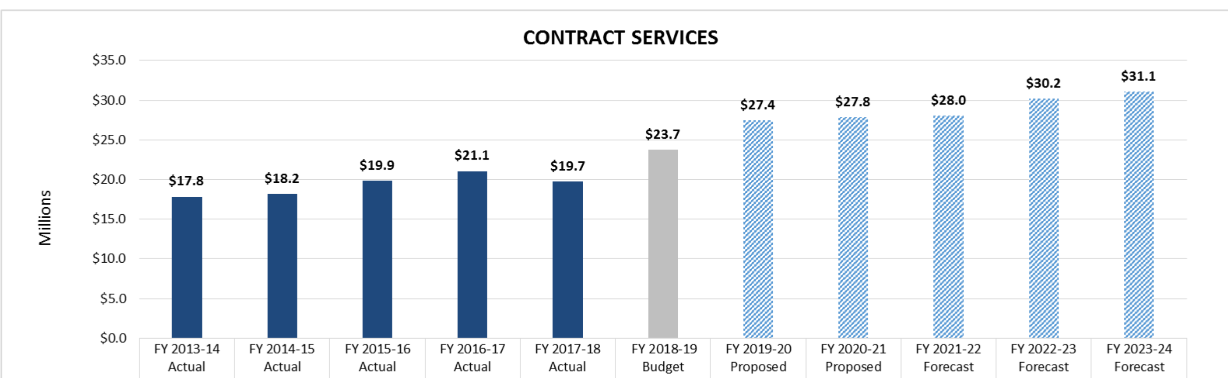
Approximately 80 percent of the increases in internal service charges are from changes in equipment rent and department related technology charges. Equipment rent is designed to recover the maintenance, replacement and fuel cost of City vehicles and equipment. The FY 2019-20 internal service charge to the departments for equipment rent was increased to reflect the full cost recovery method of services provided and replacement schedules. Charges also increased in FY 2019-20 due to larger on-going projects, such as the Public Safety computer aided dispatch and records management system, and the upgrade of the City's Enterprise Resource Program (ERP) system. Additionally, the replacement of the City's building and safety permitting system, which is anticipated to cost $6 million over the five-year period.



	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Expenditures ($)	12,417,803	13,422,918	15,839,210	18,908,686	18,775,335	19,160,928	24,385,335	26,055,550	27,369,464	30,543,116	29,378,959
% Change	6.3%	8.1%	18.0%	19.4%	-0.7%	2.1%	27.3%	6.8%	5.0%	11.6%	-3.8%

- *Contract Services*

The City of Irvine contracts with vendors to provide services to the City, such as specialized consulting, legal, financial, landscape and facility maintenance and program support services are provided on a contract basis. The Baseline Budget reflects an in-depth review of contracts by staff and adjustments for contractual agreements. The top five highest contract expenditures for FY 2019-20 are $5,320,359 for Annual Landscape Maintenance Contracts for all Street Landscape and Greenbelts Citywide, $2,528,960 for Contract Instructors, $2,000,000 for Annual Contracts for City's Urban Forestry, $1,565,227 for Open Space Land Management, and $600,000 for Consultant Support for General Plan Update. Increases to contract costs are primarily due to State mandated prevailing and/or minimum wage increases and the inclusion of additional city infrastructure (streets, trees, community centers, signalized intersections, bike trails, etc.) into the City's inventory.

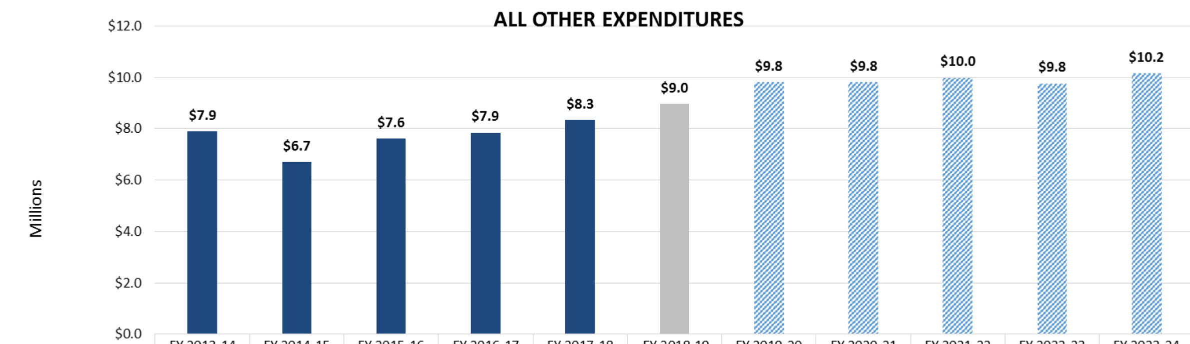


	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Expenditures ($)	17,837,060	18,164,044	19,863,216	21,061,520	19,712,485	23,734,126	27,427,547	27,838,028	28,043,667	30,168,442	31,097,593
% Change	6.2%	1.8%	9.4%	6.0%	-6.4%	20.4%	15.6%	1.5%	0.7%	7.6%	3.1%

- *Other Expenditures*

All other expenditures represent less than 5 percent and include: training & business expenses, utilities, capital equipment, repairs & maintenance, and miscellaneous. Of these expenditures, the three largest for FY 2019-20 are $4,911,710 in miscellaneous

(miscellaneous expenditures include the Hotel Assessment District, awards and contributions and bank fees), $2,578,544 in utilities, and $1,451,110 of training & business expenses. Historical average growth rates are used for many of the expenditures categories in this group.



	FY 2013-14 Actual	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Other Expenditures ($)	7,893,806	6,712,179	7,614,787	7,853,607	8,335,804	8,968,800	9,810,941	9,821,753	9,982,185	9,768,561	10,169,708
% Change	3.9%	-15.0%	13.4%	3.1%	6.1%	7.6%	9.4%	0.1%	1.6%	-2.1%	4.1%

- *Awards/Contributions*

The FY 2019-24 baseline assumptions includes expenditures for community support and grants, including the $958,300 to the Barclay Theatre that increases yearly with the consumer price index and an additional $397,500 funding for the second year of the Barclay Theatre heating, ventilating, and air conditioning (HVAC) expenses. Also, there are $100,000 to the Legal Aid Society, $25,000 to the Task Force for Drowning Prevention, $10,000 to the OC Human Relations Commission, a $50,000 Community Impact Grant and $120,000 to support the Irvine Adult Day Care center, of which $20,000 is a matching sponsorship. Additionally, $50,000 has been budgeted for awards to various community groups ($10,000 per councilmember). The Baseline Budget includes over $10.2 million in continued support for direct and indirect funding to Irvine's schools.

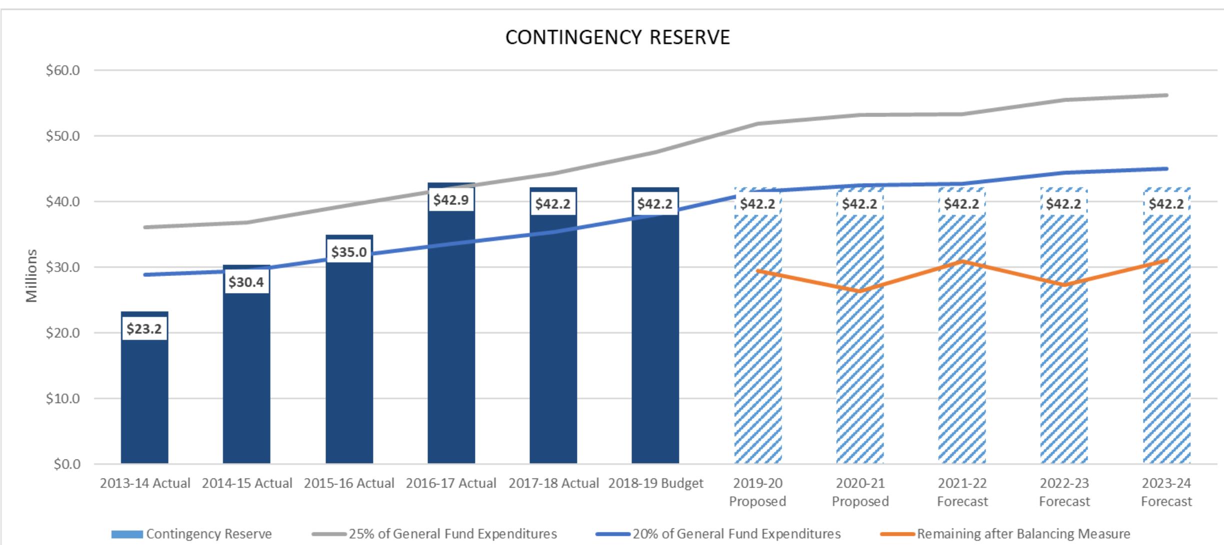
CITY AWARDS AND CONTRIBUTIONS	FY 2015-16 Actual	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Educational Partnership (Does not include over $6.2M in City Funded Indirect support)	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000
Irvine Barclay ($925 contractually obligated)	$ 925,000	$ 1,088,880	$ 925,000	$ 925,000	$ 958,300	$ 992,800	$ 1,022,584	$ 1,053,261	$ 1,084,859
Barclay HVAC				$ 412,000	$ 397,500	$ 397,500			
Irvine Adult Day Care Center (includes $20,000 matching)	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000
Legal Aid Society	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Community Awards ($10,000 per councilmember)	$ 31,850	$ 50,000	$ 36,750	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Community Impact Grant				$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Task Force for Drowning Prevention		$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Discovery Science Center		$ 10,000	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ -
OC Human Relations Commission	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Contributions/Awards from prior year		$ 53,400							
Total Awards And Contributions	**$ 5,186,850**	**$ 5,457,280**	**$ 5,226,750**	**$ 5,692,000**	**$ 5,710,800**	**$ 5,745,300**	**$ 5,377,584**	**$ 5,408,261**	**$ 5,439,859**
Hotel Improvement District (Of the 2% assesment, 0.5% to City Awards & Contributions)	**$ 768,395**	**$ 782,507**	**$ 930,209**	**$ 1,018,313**	**$ 1,064,204**	**$ 1,077,499**	**$ 1,125,180**	**$ 1,139,541**	**$ 1,234,109**
General Fund Support to Awards & Contributions	**$ (4,418,455)**	**$ (4,674,773)**	**$ (4,296,541)**	**$ (4,673,688)**	**$ (4,646,597)**	**$ (4,667,801)**	**$ (4,252,404)**	**$ (4,268,720)**	**$ (4,205,750)**

The Hotel Improvement District (HID) is a 2 percent assessment upon all hotel room rentals. HID assessment revenues are distributed 1.5 percent to fund the Irvine Chamber of Commerce's Destination Irvine Program to attract and recruit businesses and tourism to Irvine. The remaining 0.5 percent are to fund City cultural programs and activities. Excluding the $4 million Educational Partnership support, the City has on average allocated $0.5 million per year to fund awards and contributions.

- *Contingency Reserve*

At the close of FY 2011-12, the City Council adopted a policy goal of increasing the Contingency Reserve Fund balance to 20 percent. In December 2015, the balance in the Contingency Reserve Fund reached the 20 percent goal. Additionally, the City Council set a new goal of bringing the reserve fund up to 25 percent of its adopted General Fund appropriations budget.

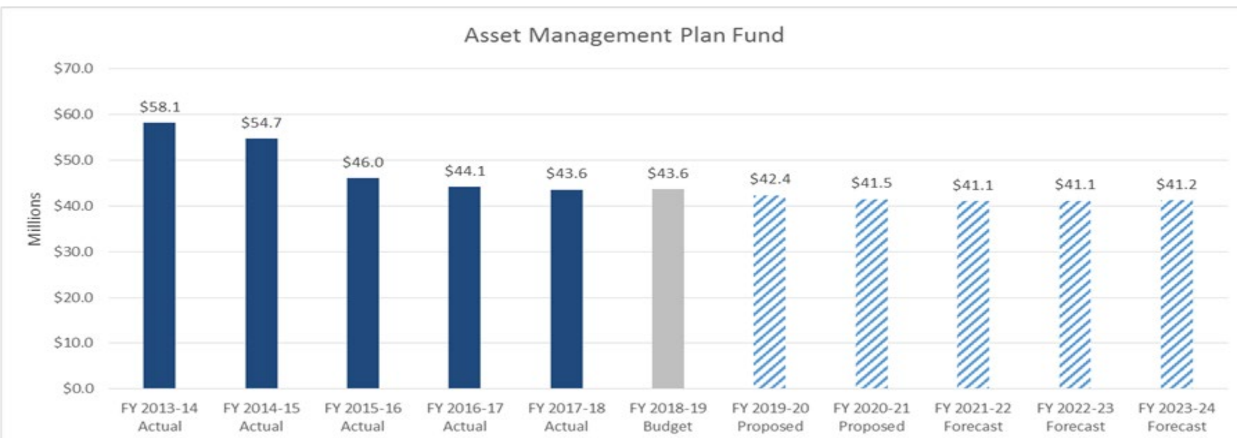
The Contingency Reserve Fund Balance is $42.2 million. Based on the projected balance, the contingency percentage for FY 2019-20 and FY 2020-21 would be 20.4 percent, and 19.7 percent, respectively. The baseline projections for Contingency Reserve would require an additional $9.6 million in fund balance to meet the 25 percent contingency goal in FY 2019-20, and if no additional funding is added until FY 2020-21, $11.4 million would be necessary to meet the 25 percent goal. If the contingency reserve were to be utilized as a balancing measure, the Contingency Reserve Fund balance would be reduced to $29.4 million in FY 2019-20 and $26.4 million in FY 2020-21, respectively. The graph below shows the amount necessary to meet the 20 and 25 percent goal through the five-year period, as well as if the contingency reserve was utilized as a balancing measure.



B. OTHER KEY FUNDS FORECAST

- *Asset Management Plan (AMP)*

The City's Asset Management Plan (AMP) has a fundamental purpose similar to an endowment to provide a long-term funding source for rehabilitation of City infrastructure while preserving the Fund's principal balance. Additionally, the City Council adopted a plan to reduce the City's unfunded actuarial accrued liability (UAAL) with CalPERS by designating the loan from the AMP as a funding source. The AMP earns investment returns of approximately 1 percent, while CalPERS charges the City 7.25 percent for the unfunded liability. Paying the unfunded liability results in a substantial savings to the City. Commencing FY 2012-13 the AMP will make annual payments of $5 million over a 10-12 year period. The City Council approved repayment to the AMP fund through General Fund year end allocations and annual pension rate savings. $16.2 million has been paid back to the AMP to date. Further analysis is provided in this report under “retirement.”

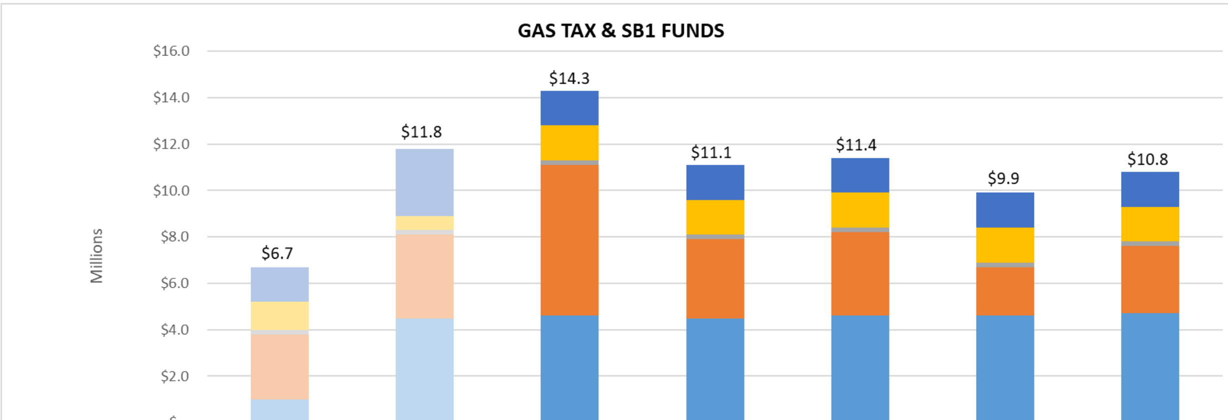


Gas Tax Fund

The City receives two major Gas Tax related funding allocations to care for the City’s roadway maintenance and infrastructure needs: Highway Users Tax Act (HUTA) commonly known as Gas Tax and the newly established Senate Bill 1 (SB1) State Transportation fund. Senate Bill 1 funds are more restrictive (e.g. cannot be used for landscape maintenance) and designed to provide cities with additional funding to address basic road maintenance, rehabilitation, and critical safety needs for both the state highway and local streets road systems. Revenue projections for the first year on Gas Tax and SB1 are provided by the State, while a rate of change based on trend and analysis is factored in for the remaining years.

The City is considering utilizing additional Gas Tax funding to support landscape maintenance efforts along City roadways and medians as deemed eligible per the California State Controllers guidelines. Through this effort, some of the proposed Capital Improvement Projects over the next five years will be deferred until funding becomes available. The impact to the City's average PCI index of 86 is unknown at this time until we determine which projects are deferred and if those projects will directly affect the longevity of city streets.

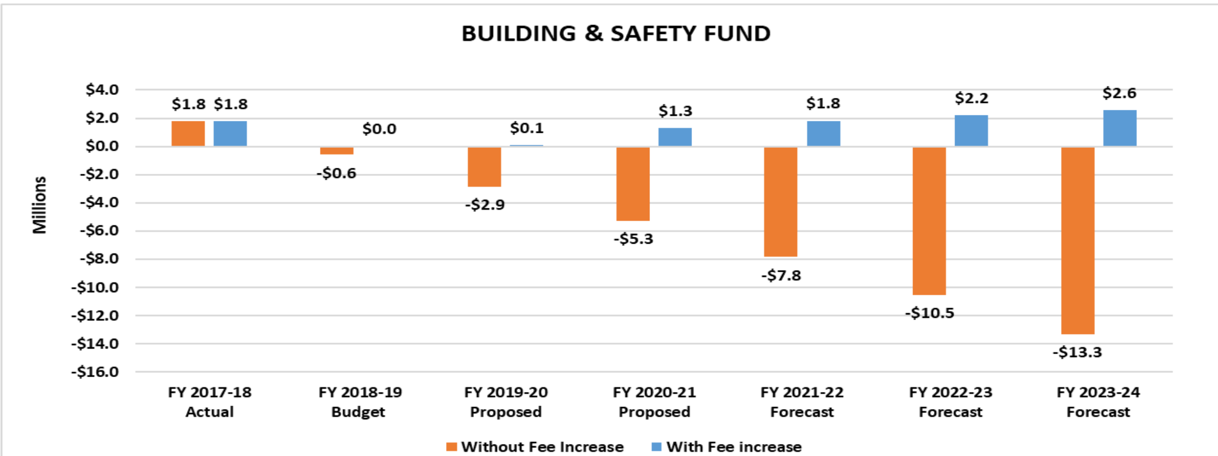
During the next five years we are allocating approximately $18.5 million in Gas Tax funds and $23 million in SB1 funds for capital improvement projects (CIPs) to further enhance and improve the City's roadway system. Additionally, $16 million in Gas Tax funds are allocated for contract services to maintain city streets.



	FY 2017-18 Actual	FY 2018-19 Budget	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Gas Tax - Operations (Landscape)	$1.5	$2.9	$1.5	$1.5	$1.5	$1.5	$1.5
Gas Tax - Operations (Streets)	$1.2	$0.6	$1.5	$1.5	$1.5	$1.5	$1.5
Gas Tax - Operations (Signals)	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2
Gas Tax - CIP	$2.8	$3.6	$6.5	$3.4	$3.6	$2.1	$2.9
SB1 - CIP	$1.0	$4.5	$4.6	$4.5	$4.6	$4.6	$4.7

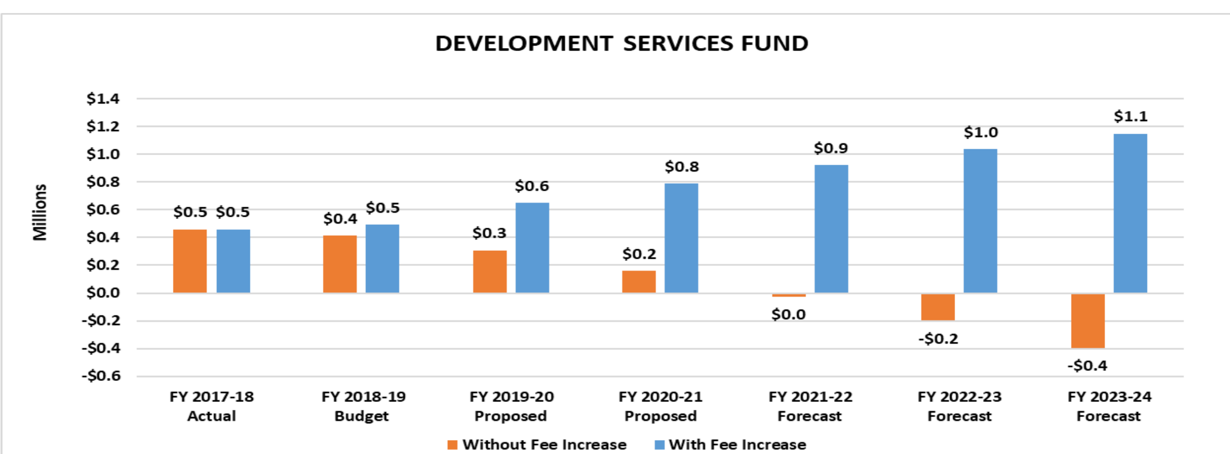
Building and Safety Fund

The Building and Safety Fund collects permit fees associated with development in the City and pays for the associated salaries and services for permitting, plan check, and inspection personnel. Permit fees have not been increased since 2007, during which time the consumer price index has gone up by over 30 percent. As a result, fees have remained flat for all fee supported activities while the costs of these activities, such as salaries and benefits, have continued to increase. Preliminary projections for the Building and Safety Fund show a negative fund balance by the end of FY 2018-19 which will decline steadily over the next five years. To close this gap and eliminate the need for a General Fund subsidy, the department proposes a 20 percent increase for all Building and Safety Development fees. This increase is based on the recommendation of a recently completed study of the City's overhead cost structure. Projections indicate that this increase would result in a positive fund balance for the next five years. Although 20 percent appears to be a substantial one-time increase, comparisons indicate that Irvine's development fees would remain at or below average amongst other similar municipalities in the region.



Development Services Fund

The Development Services Fund collects fees for development application processing in the City and pays for the associated salaries and services for planning staff. As with the Building and Safety fund, Development fees have not increased since 2007. Preliminary projections for the Developer Deposit Fund show a decline in fund balance that becomes negative by the end of FY 2021-22. To close this gap and eliminate the need for a General Fund subsidy, the department proposes a 10 percent increase for all development application fees. This increase is based on the recommendation of a recently completed study of the City's overhead cost structure. Projections indicate that this increase would result in a positive fund balance for the next five years. Although 10 percent appears to be a substantial one-time increase, comparisons indicate that Irvine's development fees would remain at or below average amongst other similar municipalities in the region.



C. BALANCING PRINCIPLES

In developing the baseline revenue and expenditure assumptions gaps were projected in the City's major funds, including the General Fund. Departments were tasked with addressing these gaps by utilizing the following balancing principles:

- Minimal changes to service levels and staffing impacts
- Reviewing potential revenue enhancements
- Reducing contracts and discretionary spending

Examples of potential balancing principles and the fiscal impacts for the funds included in this report are below.

GENERAL FUND	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
General Fund Baseline Assumptions	$ (12,780,864)	$ (15,813,377)	$ (11,228,697)	$ (14,943,592)	$ (11,212,444)
Examples of Balancing Principles:					
Reinstate Business License Fee	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000
FY 2018-19 Estimated Vacancy Freeze	$ 3,476,147	$ 3,604,764	$ 3,648,021	$ 3,804,886	$ 3,945,667
Gas Tax Offset New Landscape Contracts	$ 2,175,329	$ 2,257,373	$ 2,450,051	$ 3,647,006	$ 4,584,302

BUILDING AND SAFETY FUND	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Building and Safety Fund - Fund Balance	$ (2,860,276)	$ (5,288,054)	$ (7,847,184)	$ (10,523,804)	$ (13,304,975)
Examples of Balancing Principles:					
Increase Fees by 20 Percent Per Cost Study	$ 2,310,249	$ 3,661,248	$ 3,060,178	$ 3,099,440	$ 3,131,434

DEVELOPMENT SERVICES FUND	FY 2019-20 Proposed	FY 2020-21 Proposed	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast
Development Services Fund - Fund Balance	$ 307,333	$ 157,540	$ (25,372)	$ (198,718)	$ (395,262)
Examples of Balancing Principles:					
Increase Fees by 10 Percent Per Cost Study	$ 262,440	$ 291,367	$ 312,877	$ 292,653	$ 306,069

D. BUDGET DEVELOPMENT TIMELINE

A new timeline of events has been implemented with the recently adopted City Council Two-Year Budget and Five-Year Financial Plan. The creation of the City's two-year budget begins with the Finance Commission reviewing the initial baseline budget, followed by the City Council. The Orange County Great Park baseline budget will be discussed separately in March. After receiving input from business, the community, Finance Commission and City Council, departments will present detailed and balanced budgets, along with longer-term plans to the Finance Commission in April. Following

Commission input, the citywide two-year budget and five-year plan will be presented to the City Council in May for adoption in June 2019.

January 7 – Baseline budget projections presented to the Finance Commission
January 22 – Baseline budget projections presented to the City Council
February-March – Community Budget Neighborhood Meetings
March – Great Park Baseline Budget
April – Department budget presentations to the Finance Commission
May – Proposed Budget presented to the City Council
June – Final budget submitted to City Council for approval

ALTERNATIVES CONSIDERED

Not applicable.

FINANCIAL IMPACT

There is not a direct fiscal impact from the baseline assumptions. The FY 2019-24 Five-Year General Fund projects increasing shortfalls each of the next five years. The City is working in partnerships to collaboratively and effectively determine balancing measures to provide the City with the best fiscal plan for long term sustainability.

REPORT PREPARED BY Barbara Arenado, Budget Officer

ATTACHMENT
1. FY 2019-24 General Fund Baseline Assumptions
2. Two-Year Budget Development Cycle

GENERAL FUND - SUMMARY

FY 19-24 BASELINE ASSUMPTIONS

	FY17-18 Actual	Y/Y	FY18-19 Adjusted	Y/Y	FY19-20 Proposed	Y/Y	FY20-21 Proposed	Y/Y	FY21-22 Forecast	Y/Y	FY22-23 Forecast	Y/Y	FY23-24 Forecast	Y/Y
REVENUES:														
PROPERTY TAX	65,049,200	17.8%	69,902,446	7.5%	74,162,141	6.1%	77,731,639	4.8%	81,179,993	4.4%	84,765,584	4.4%	88,493,274	4.4%
SALES TAX	63,853,447	-2.7%	64,609,782	1.2%	64,618,770	0.0%	64,750,396	0.2%	65,859,566	1.7%	67,124,462	1.9%	68,426,649	1.9%
HOTEL TAX	14,883,338	21.1%	16,293,000	9.5%	17,027,255	4.5%	17,239,986	1.2%	18,002,879	4.4%	18,232,661	1.3%	19,745,747	8.3%
OTHER REVENUE	43,742,148	7.4%	43,574,172	-0.4%	44,821,196	2.9%	45,542,255	1.6%	46,100,964	1.2%	46,637,325	1.2%	47,334,409	1.5%
TOTAL REVENUES	**187,528,134**	7.9%	**194,379,400**	3.7%	**200,629,362**	3.2%	**205,264,276**	2.3%	**211,143,402**	2.9%	**216,760,032**	2.7%	**224,000,079**	3.3%
TRANSFERS-IN:	7,512,617	144.1%	5,420,097	-27.9%	3,074,100	-43.3%	2,790,280	-9.2%	2,790,280	0.0%	2,790,280	0.0%	2,790,280	0.0%
TOTAL REVENUES AND TRANSFERS-IN	**195,040,750**	7.4%	**199,799,497**	2.4%	**203,703,462**	2.0%	**208,054,556**	2.1%	**213,933,682**	2.8%	**219,550,312**	2.6%	**226,790,359**	3.3%
EXPENDITURES:														
SALARIES & BENEFITS	117,999,364	13.6%	126,409,773	7.1%	132,850,466	5.1%	135,923,288	2.3%	135,203,327	-0.5%	138,502,650	2.4%	140,992,178	1.8%
OVERTIME	2,965,995	13.1%	3,046,336	2.7%	3,125,086	2.6%	3,217,786	3.0%	3,312,071	2.9%	3,399,193	2.6%	3,400,144	0.0%
SUPPLIES	5,351,236	29.3%	5,047,947	-5.7%	5,854,047	16.0%	5,865,618	0.2%	5,734,006	-2.2%	5,885,027	2.6%	5,913,419	0.5%
INTERNAL SERVICE	18,775,335	18.5%	19,160,928	2.1%	24,385,335	27.3%	26,055,550	6.8%	27,369,464	5.0%	30,543,116	11.6%	29,378,959	-3.8%
CONTRACT SERVICES	19,712,485	-0.8%	23,734,126	20.4%	27,427,547	15.6%	27,838,028	1.5%	28,043,667	0.7%	30,168,442	7.6%	31,097,593	3.1%
OTHER EXPENDITURES	8,335,804	9.5%	8,968,800	7.6%	9,810,941	9.4%	9,821,753	0.1%	9,982,185	1.6%	9,768,561	-2.1%	10,169,708	4.1%
TOTAL EXPENDITURES	**173,140,219**	12.4%	**186,367,909**	7.6%	**203,453,422**	9.2%	**208,722,023**	2.6%	**209,644,720**	0.4%	**218,266,988**	4.1%	**220,952,001**	1.2%
TRANSFERS-OUT:	16,021,924	-55.0%	13,334,460	-48.5%	13,030,904	-18.7%	15,145,910	13.6%	15,517,659	19.1%	16,226,917	7.1%	17,050,802	9.9%
TOTAL EXPENDITURES AND TRANSFERS-OUT	**189,162,143**	-0.2%	**199,702,369**	5.6%	**216,484,326**	8.4%	**223,867,933**	3.4%	**225,162,379**	0.6%	**234,493,905**	4.1%	**238,002,803**	1.5%
NET REVENUES AND EXPENDITURES (GAP)	**5,878,608**		**97,128**		**(12,780,864)**		**(15,813,377)**		**(11,228,697)**		**(14,943,592)**		**(11,212,444)**	

ATTACHMENT 1

12/20/2018

Irvine Transitions to a Two-Year Budget

Developed in the Context of a Five-Year Plan

Join the City of Irvine in 2019 on its journey to enhance long-term financial planning by transitioning to a two-year budget developed in the context of a comprehensive five-year financial plan.

Why Change the Budget Cycle?

Multi-year financial planning, ongoing monitoring, frequent reporting, and prompt corrective actions when necessary are central elements of sound financial management.

The two-year budget process allows for a more stringent approach to analyzing data, tracking trends and potential problems, and calling for corrective budget action much earlier than in years past. This new enhanced financial planning approach will improve the City's long-term financial management, while also strengthening community engagement.

How Will It Work?

The City currently utilizes a multi-year forecast through the preparation of the five-year Strategic Business Plan and updates the forecast annually as part of the City's budget process. The forecast will be enhanced with greater department details and will continue to provide a long-term look at the City's financial condition and guidance for the two-year budget.

The two-year budget will be developed within the longer-term context of the five-year Strategic Business Plan. During the first year of the two-year cycle, the City Council will receive quarterly revenue and expenditure updates, bringing forward any areas of concern. At the conclusion of the first year of the two-year cycle, the City Council will receive a mid-cycle review of year-end financials. The mid-cycle review process will provide the mechanism to:

1. Ensure that revenue and expenses forecasted at the beginning of the first year remain accurate;
2. Amend the budget to address any significant revenue shortages and/or unknown and unforeseeable expenses; and
3. Allow departments to carryover first-year balances from discretionary savings.

Who Will Review the Budget?

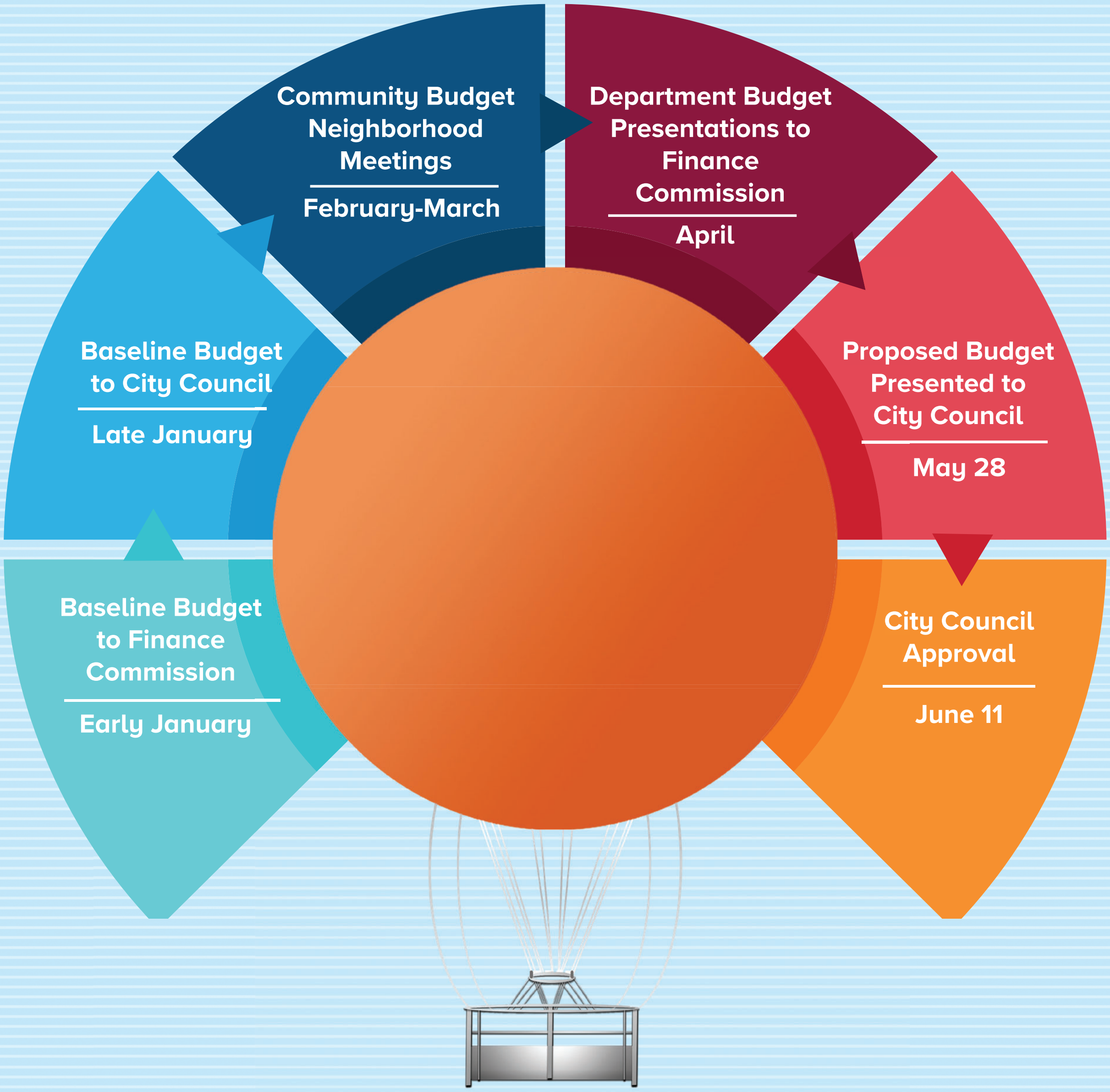
The creation of the City's two-year budget will begin with the Finance Commission reviewing the initial baseline budget in January, followed by the City Council. After receiving input from the community, departments will present detailed and balanced budgets, along with longer-term plans to the Finance Commission in April. Following Commission input, the citywide two-year budget and five-year plan will be presented to the City Council in May for adoption in June 2019.

How Can I Get Involved?

1. Engage with us at a Community Budget Neighborhood Meeting. Please view the back page.
2. Visit **cityofirvine.org/budget** to view additional materials, including an informational budget development video.
3. Contact the Budget Office with questions at **budget@cityofirvine.org**.
4. Learn more about the City's continued efforts of fiscal responsibility at our Transparency Portal, **cityofirvine.org/transparency**.

ATTACHMENT 2

Budget Development Cycle



For more information about the City's budget, join us at Community Budget Neighborhood Meetings.

Community Budget Neighborhood Meetings		
March 5	Lakeview Senior Center	4–5 p.m.
March 6	Orange County Great Park	6–7 p.m.
March 13	Quail Hill Community Center	6–7 p.m.
March 20	Portola Springs Community Center	6–7 p.m.

Visit **cityofirvine.org/budget** for additional details and to view our budget video.