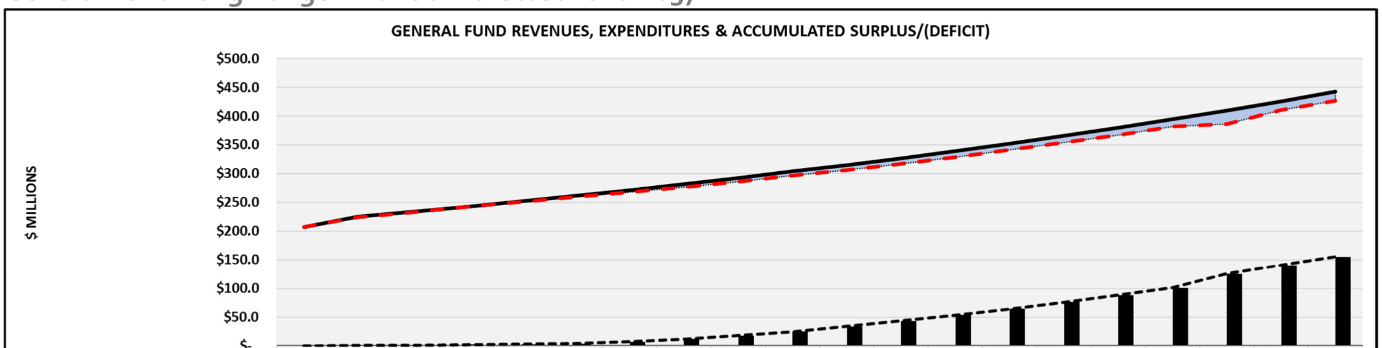
GENERAL FUND LONG RANGE FINANCIAL FORECAST

FISCAL YEARS 2018 to 2037

EXECUTIVE SUMMARY

The forecast methodology used for calculating changes from FY 2018 to FY 2037 is based on historical trends or using a Compounded Annual Growth Rate (CAGR) from FY 2005 to FY 2016. This rate is then adjusted based on staff's knowledge of known one-time events and fiscal conservatism. By using the historical average growth rate that incorporates the up and down cycles over the past 11 years, there are no up or down cycles depicted in the base model. The CAGR approach provides an overview of the general trend where revenues and expenditures are grown in a linear fashion. In reality, year over year changes may deviate significantly positively or negatively. The Fiscal Year 2018 to 2037 General Fund Long Range Financial Forecast (LRFF) conservatively projects a modest surplus balance of $0.3 million in FY 2018. Surpluses are projected for the remaining years of the model. The City maintains a contingency reserve of over $47 million or 25% of operating expenditures to contend with normal and unexpected deviations in operating trends. Historically, the City has not utilized its contingency reserve to balance its annual budgets due to conservative forecasts, but aggressive new plans may necessitate a minor use of reserves in the near term.

General Fund Long Range Financial Forecast 2018-2037



	2017	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
ANNUAL SURPLUS/(DEFICIT)	$0.0	$0.8	$0.5	$0.7	$0.6	$1.4	$3.1	$4.9	$5.9	$6.9	$8.9	$9.3	$10.3	$10.7	$11.5	$12.3	$13.1	$24.1	$14.9	$15.4
CUMULATIVE DEFICIENCY	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
SURPLUS BALANCE	$0.0	$1.1	$1.6	$2.2	$2.8	$4.2	$7.3	$12.2	$18.1	$25.0	$33.9	$43.2	$53.5	$64.1	$75.7	$88.0	$101.1	$125.2	$140.2	$155.6
REVENUES	$207.4	$225.1	$233.8	$242.7	$251.9	$261.5	$271.4	$281.8	$292.5	$303.7	$315.1	$326.8	$339.4	$352.0	$365.7	$379.9	$394.6	$410.0	$426.0	$442.7
EXPENDITURES	$207.4	$224.3	$233.4	$242.0	$251.3	$260.0	$268.3	$276.9	$286.7	$296.8	$306.1	$317.5	$329.1	$341.3	$354.1	$367.5	$381.6	$385.9	$411.1	$427.3
CUM. SURPLUS/DEFICIENCY TREND	$0.0	$1.1	$1.6	$2.2	$2.8	$4.2	$7.3	$12.2	$18.1	$25.0	$33.9	$43.2	$53.5	$64.1	$75.7	$88.0	$101.1	$125.2	$140.2	$155.6

The City is in excellent financial position relative to most other local agencies with a revenue base and reserves unparalleled by any similar size City in the County. However, the City is not without its fiscal challenges. The City is confronting two significant financial hurdles in the near term. These include significant contribution increases to its CalPERS pension plans and the need to ramp-up savings to meet substantial near-term harbor improvements in accordance with a new and long overdue Harbor & Beaches master plan.

The FY 2017-18 Capital Improvement Plan (CIP) consists of over $25 million in new appropriations ($5.4 million of which comes from the General Fund) and an estimated $38.6 million in re-budgeted funds to be carried forward from the current fiscal year for a total CIP budget of just over $63.6 million. An ongoing challenge is to avoid the "crowd-out" – where pension costs cause us to under-invest in roads, buildings, parks, community safety, and other community amenities.

The FY 2018 Proposed Budget includes an additional $8.9 million to pay down the City's unfunded pension liability faster. The proposed 20-year level-dollar payment schedule results in a net economic benefit to the City of $5.4 million and pays the obligation 10 years faster compared to the default 30 year CalPERS payment plan. In addition, as the City's revenues grow, the level-dollar payment plan would result in pension expenditures representing a declining percent of the budget each year, assuming all future actuarial assumptions are met.

Through a several year process, a new Harbor & Beaches Master plan was developed with input from the Harbor and Finance Committees. Since this plan is long overdue and has sizable near-term needs, the forecast assumes a $5 million contribution from the prior year surplus as well a $1 million allocation of General Fund revenues in FY 2017-18. To meet the need of the Harbor & Beaches master plan, General Fund contributions are ramped-up to $6 million over the next five fiscal years.

The City continues to explore new opportunities to deliver services more efficiently. Having healthy reserves provides additional budget flexibility to meet its budget challenges and allow for a reorganization period should a drastic change in revenue or expenditure patterns emerge.

FORECAST

Major Assumptions

- An additional $8.9 million to pay down the City's unfunded pension liability faster.
- Annual regular full-time salary savings of 3.0% ($2.4 million in FY 2019) due to normal hiring and separation timing, as is typical every year.
- General Fund annual transfers in support of:
  - CIP – approximately $5.4 million
  - Facilities Financial Plan – $8.5 million
  - Facilities Maintenance Plan - $1.0 million
  - The public safety 800 Mhz communication program – $0.5 million
  - Contingency Reserve contribution of $1 million – which reflects maintaining a contingency of 25% of operating expenditures, less any accelerated unfunded liability pension funding and transfers out
  - Harbor and Beaches Capital Plan – one-time transfer of $5 million in FY 2018 (from prior year surplus), plus an additional $1.0 M. In the next 10 years, General Fund contributions will be as follows and $4.5 million annually starting in 2028:

2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
$2.5m	$3.5m	$4.5m	$5.5m	$6.0m	$6.0m	$5.5m	$5.5m	$5.5m	$4.5m

- Annual growth rate assumptions for all the major revenue and expenditure categories as indicated in the sections that follow.

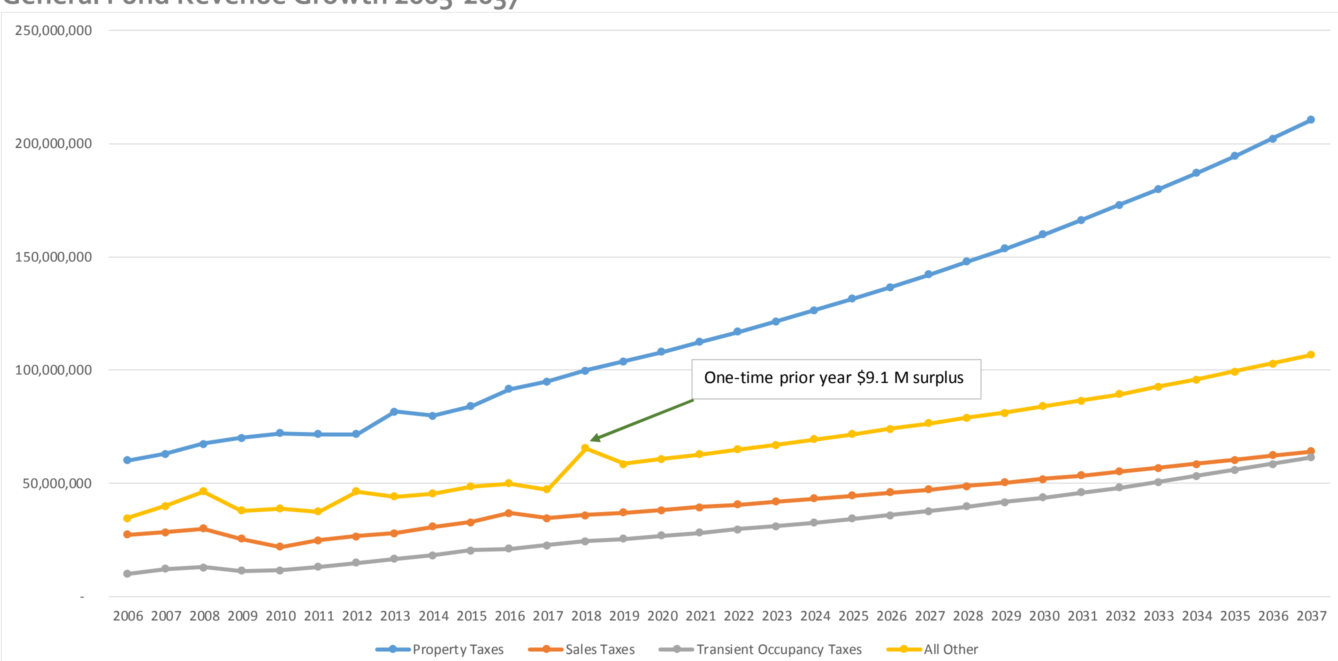
Revenues

The methodology used for calculating changes from FY 2018 to FY 2037 is initially based on historical trends or using a Compounded Annual Growth Rate (CAGR) from FY 2005 to FY 2016. This methodology is adjusted (as indicated in the table to the right) based on staff's knowledge of known one-time events and fiscal conservatism. By using the historical average growth rate that incorporates the up and down cycles over the past 11 years, there is no single year in which a downturn is depicted in the base model. Instead, past downturns (mainly the Great Recession), have been factored into the CAGR used to forecast future revenue streams. The CAGR approach provides an outlook of the general trend versus a specific annual forecast since revenues and expenditures are grown in a linear fashion, where in reality, year over year changes may deviate significantly positively or negatively.

Annual Growth Rate Assumptions

Compound Annual Growth Rate 2005-2016	ORIGINAL CAGR	ADJUSTED CAGR
PROPERTY TAXES	5.0%	4.0%
SALES TAXES	3.1%	3.1%
TRANSIENT OCCUPANCY TAX	7.8%	5.0%
OTHER TAXES	2.0%	2.2%
CHARGES FOR SERVICES	4.3%	4.0%
PROPERTY INCOME	8.0%	5.0%
LICENSES, PERMITS & FEES	4.2%	4.0%
FINES, FORFEITURES & PENALTIES	2.2%	2.4%
INTERGOVERNMENTAL TRANSFERS	0.5%	0.5%
PROPERTY INCOME AND INVESTMENT EARNINGS	0.1%	0.1%
MISCELLANEOUS REVENUES	FLAT	FLAT
DONATIONS & CONTRIBUTIONS	3.3%	3.3%
SALE OF PROPERTY, EQUIPMENT AND MATERIALS	5.4%	5.4%

General Fund Revenue Growth 2005-2037



General Fund Revenues

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Property Taxes	**$53.2**	**$60.2**	**$63.0**	**$67.4**	**$70.1**	**$72.0**	**$71.6**	**$71.5**	**$81.6**	**$79.9**	**$84.1**
		13.1%	*4.7%*	*7.0%*	*4.1%*	*2.7%*	*-0.5%*	*-0.1%*	*14.1%*	*-2.1%*	*5.3%*
Sales Taxes	**$24.3**	**$27.2**	**$28.4**	**$29.9**	**$25.4**	**$22.0**	**$24.7**	**$26.6**	**$27.9**	**$30.9**	**$32.9**
		11.8%	*4.6%*	*5.1%*	*-14.9%*	*-13.6%*	*12.6%*	*7.6%*	*4.6%*	*10.8%*	*6.5%*
Transient Occupancy Taxes	**$9.2**	**$9.8**	**$12.1**	**$12.8**	**$11.2**	**$11.4**	**$13.1**	**$14.8**	**$16.5**	**$18.2**	**$20.4**
		6.7%	*22.6%*	*5.7%*	*-12.4%*	*2.1%*	*14.8%*	*13.1%*	*11.5%*	*10.2%*	*12.1%*
All Other	**$33.5**	**$34.6**	**$39.9**	**$46.3**	**$37.8**	**$38.9**	**$37.4**	**$46.3**	**$44.1**	**$45.5**	**$48.5**
		3.2%	*15.4%*	*16.1%*	*-18.3%*	*2.7%*	*-3.8%*	*23.8%*	*-4.6%*	*3.1%*	*6.5%*
Total	**$120.2**	**$131.8**	**$143.4**	**$156.4**	**$144.6**	**$144.3**	**$146.9**	**$159.3**	**$170.1**	**$174.4**	**$185.8**
		9.6%	*8.8%*	*9.0%*	*-7.5%*	*-0.2%*	*1.8%*	*8.5%*	*6.8%*	*2.5%*	*6.5%*
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Property Taxes	**$91.5**	**$94.9**	**$99.9**	**$103.9**	**$108.0**	**$112.3**	**$116.8**	**$121.5**	**$126.4**	**$131.4**	**$136.7**
	8.8%	*3.7%*	*5.3%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Sales Taxes	**$36.8**	**$34.6**	**$35.9**	**$37.0**	**$38.2**	**$39.4**	**$40.6**	**$41.9**	**$43.2**	**$44.5**	**$45.9**
	12.0%	*-6.0%*	*3.8%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*
Transient Occupancy Taxes	**$21.1**	**$22.6**	**$24.3**	**$25.5**	**$26.8**	**$28.2**	**$29.6**	**$31.0**	**$32.6**	**$34.2**	**$35.9**
	3.5%	*7.1%*	*7.7%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
All Other	**$49.8**	**$47.1**	**$65.5**	**$58.6**	**$60.8**	**$62.8**	**$64.9**	**$67.0**	**$69.3**	**$71.6**	**$74.0**
	2.8%	*-5.4%*	*38.9%*	*-10.5%*	*3.7%*	*3.3%*	*3.3%*	*3.3%*	*3.3%*	*3.4%*	*3.4%*
Total	**$199.2**	**$199.2**	**$225.6**	**$225.1**	**$233.8**	**$242.7**	**$251.9**	**$261.5**	**$271.4**	**$281.8**	**$292.5**
	7.2%	*0.0%*	*13.3%*	*-0.2%*	*3.9%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
	2027	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Property Taxes	**$142.2**	**$147.8**	**$153.8**	**$159.9**	**$166.3**	**$173.0**	**$179.9**	**$187.1**	**$194.6**	**$202.3**	**$210.4**
	4.0%	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Sales Taxes	**$47.3**	**$48.8**	**$50.3**	**$51.8**	**$53.4**	**$55.1**	**$56.8**	**$58.6**	**$60.4**	**$62.3**	**$64.2**
	3.1%	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*
Transient Occupancy Taxes	**$37.7**	**$39.6**	**$41.6**	**$43.7**	**$45.9**	**$48.2**	**$50.6**	**$53.1**	**$55.8**	**$58.5**	**$61.5**
	5.0%	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
All Other	**$76.6**	**$78.8**	**$81.1**	**$84.0**	**$86.4**	**$89.4**	**$92.6**	**$95.9**	**$99.3**	**$102.9**	**$106.6**
	3.4%	*3.0%*	*2.9%*	*3.5%*	*2.9%*	*3.5%*	*3.5%*	*3.6%*	*3.6%*	*3.6%*	*3.6%*
Total	**$303.7**	**$315.1**	**$326.8**	**$339.4**	**$352.0**	**$365.7**	**$379.9**	**$394.6**	**$410.0**	**$426.0**	**$442.7**
	3.8%	*3.7%*	*3.7%*	*3.9%*	*3.7%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*

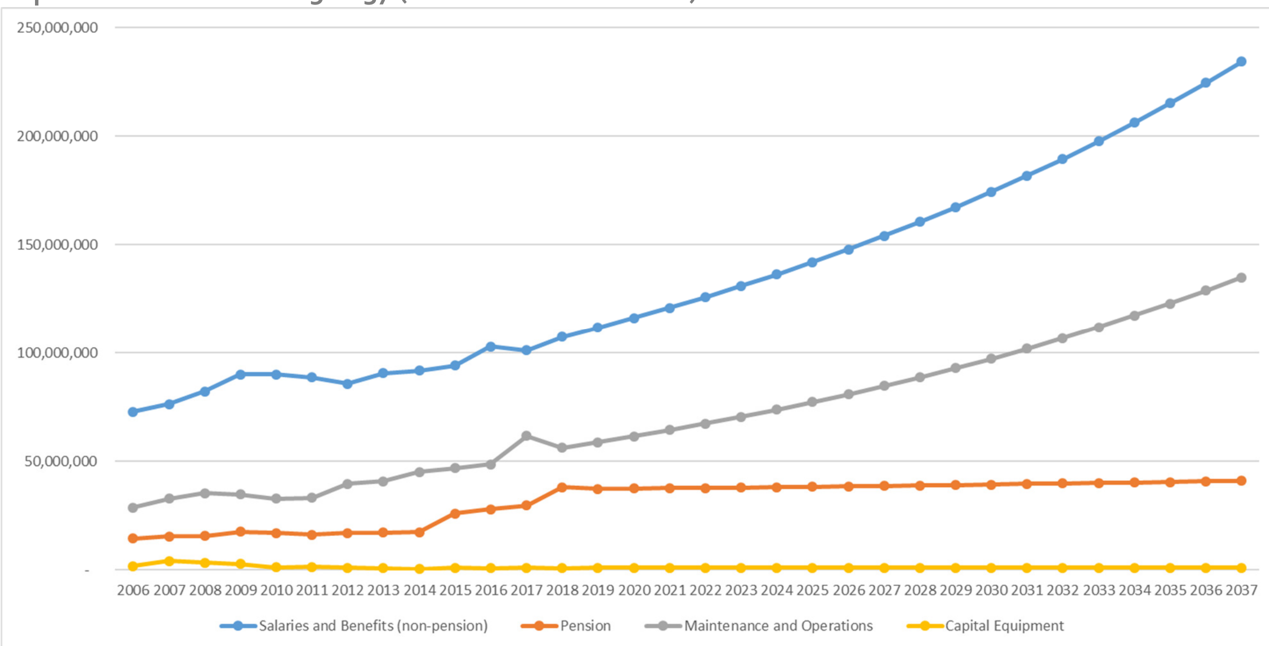
Expenditures

Annual Growth Rate Assumptions

Compound Annual Growth Rate 2005-2016	ORIGINAL CAGR	ADJUSTED CAGR
REGULAR SALARIES - MISCELLANEOUS	3.1%	3.5%
REGULAR SALARIES - PUBLIC SAFETY	3.4%	4.0%
PENSION - ALL	*	*
HEALTH/DENTAL/VISION	7.8%	7.0%
OVERTIME PAYS	5.0%	4.0%
PERSONNEL INTERNAL SERVICE PREMIUMS	0.9%	0.9%
RETIREE HEALTH PROGRAM	0.4%	2.0%
OTHER BENEFITS	11.8%	3.0%
OTHER PAYS	0.9%	0.9%
PROFESSIONAL & CONTRACT SERVICES	5.7%	5.0%
O&M INTERNAL SERVICE PREMIUMS	7.9%	5.0%
MAINTENANCE & REPAIR	9.7%	5.0%
SUPPLIES & MATERIALS	FLAT	1.0%
INSURANCE, CLAIMS, JUDGMENTS AND LEGAL DEFE	10.3%	5.0%
UTILITIES	5.7%	5.7%
GENERAL EXPENSES	6.5%	5.0%
TRAVEL & TRAINING	3.0%	2.0%
GRANT OPERATING EXPENSES	FLAT	1.0%
CAPITAL OUTLAY	FLAT	1.0%

*Future pension projection based on normal cost growth of 3% and UAL based on 7% discount rate and level $ of pay.

Expenditure Growth 2005-2037 (excludes transfers-out)



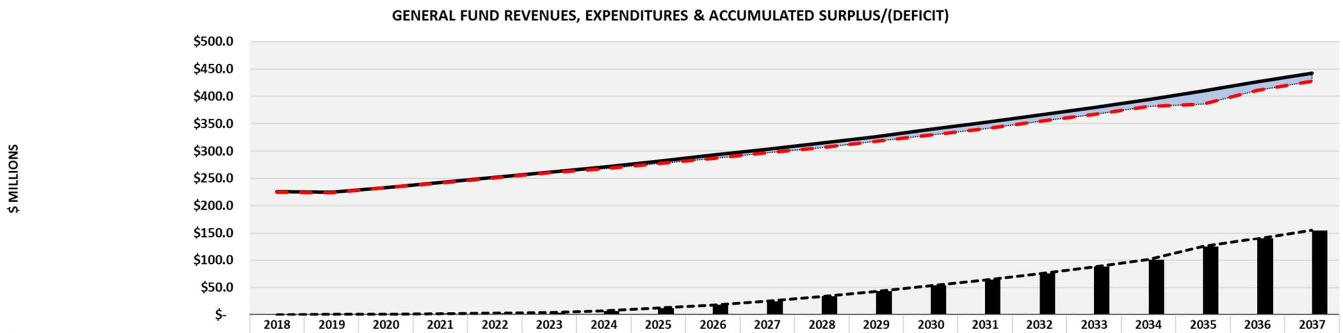
General Fund Expenditures

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Salaries and Benefits (non-pension)	**$66.1**	**$72.9**	**$76.4**	**$82.2**	**$90.1**	**$90.1**	**$88.6**	**$85.8**	**$90.6**	**$91.8**	**$94.1**
		10.2%	*4.8%*	*7.6%*	*9.6%*	*0.0%*	*-1.6%*	*-3.2%*	*5.6%*	*1.3%*	*2.5%*
Pension	**$12.0**	**$14.5**	**$15.5**	**$15.7**	**$17.6**	**$17.0**	**$16.2**	**$17.1**	**$17.3**	**$17.4**	**$26.1**
		20.4%	*7.2%*	*1.4%*	*12.2%*	*-3.5%*	*-4.6%*	*5.3%*	*1.2%*	*0.6%*	*49.9%*
Maintenance and Operations	**$26.3**	**$28.8**	**$32.8**	**$35.5**	**$34.8**	**$32.9**	**$33.2**	**$39.7**	**$40.9**	**$45.1**	**$46.8**
		9.6%	*13.6%*	*8.3%*	*-2.0%*	*-5.3%*	*0.8%*	*19.9%*	*2.8%*	*10.4%*	*3.8%*
Capital Equipment	**$1.0**	**$1.9**	**$4.1**	**$3.4**	**$2.8**	**$1.3**	**$1.3**	**$1.1**	**$0.9**	**$0.4**	**$1.1**
		83.6%	*119.9%*	*-16.9%*	*-17.5%*	*-55.2%*	*5.3%*	*-16.9%*	*-18.9%*	*-60.0%*	*196.1%*
Total	**$105.5**	**$118.0**	**$128.8**	**$136.8**	**$145.3**	**$141.2**	**$139.3**	**$143.7**	**$149.6**	**$154.6**	**$168.1**
		11.9%	*9.1%*	*6.3%*	*6.2%*	*-2.8%*	*-1.3%*	*3.1%*	*4.1%*	*3.3%*	*8.7%*
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Salaries and Benefits (non-pension)	**$103.0**	**$101.1**	**$107.4**	**$111.7**	**$116.2**	**$120.9**	**$125.8**	**$131.0**	**$136.4**	**$142.0**	**$147.9**
	9.4%	*-1.8%*	*6.2%*	*4.0%*	*4.0%*	*4.1%*	*4.1%*	*4.1%*	*4.1%*	*4.1%*	*4.2%*
Pension	**$27.9**	**$29.7**	**$38.0**	**$37.3**	**$37.5**	**$37.6**	**$37.8**	**$38.0**	**$38.2**	**$38.4**	**$38.5**
	7.1%	*6.4%*	*28.1%*	*-1.9%*	*0.4%*	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Maintenance and Operations	**$48.7**	**$61.7**	**$56.3**	**$58.8**	**$61.5**	**$64.4**	**$67.4**	**$70.5**	**$73.8**	**$77.3**	**$80.9**
	4.0%	*26.6%*	*-8.8%*	*4.5%*	*4.6%*	*4.6%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*	*4.7%*
Capital Equipment	**$0.7**	**$1.0**	**$0.8**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**
	-31.6%	*41.8%*	*-19.3%*	*20.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total	**$180.4**	**$193.6**	**$202.5**	**$208.8**	**$216.2**	**$224.0**	**$232.0**	**$240.5**	**$249.4**	**$258.7**	**$268.4**
	7.3%	*7.3%*	*4.6%*	*3.1%*	*3.5%*	*3.6%*	*3.6%*	*3.7%*	*3.7%*	*3.7%*	*3.8%*
	2027	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Salaries and Benefits (non-pension)	**$154.1**	**$160.5**	**$167.3**	**$174.4**	**$181.8**	**$189.6**	**$197.7**	**$206.2**	**$215.2**	**$224.6**	**$234.4**
	4.2%	*4.2%*	*4.2%*	*4.2%*	*4.3%*	*4.3%*	*4.3%*	*4.3%*	*4.3%*	*4.4%*	*4.4%*
Pension	**$38.7**	**$38.9**	**$39.2**	**$39.4**	**$39.6**	**$39.8**	**$40.1**	**$40.3**	**$40.6**	**$40.8**	**$41.1**
	0.5%	*0.5%*	*0.5%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.6%*	*0.7%*
Maintenance and Operations	**$84.7**	**$88.8**	**$93.0**	**$97.4**	**$102.0**	**$106.9**	**$112.0**	**$117.3**	**$123.0**	**$128.9**	**$135.1**
	4.7%	*4.7%*	*4.7%*	*4.7%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
Capital Equipment	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**
	0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total	**$278.6**	**$289.2**	**$300.4**	**$312.1**	**$324.4**	**$337.3**	**$350.8**	**$364.9**	**$379.7**	**$395.3**	**$411.6**
	3.8%	*3.8%*	*3.9%*	*3.9%*	*3.9%*	*4.0%*	*4.0%*	*4.0%*	*4.1%*	*4.1%*	*4.1%*

General Fund Revenues, Expenditures and Accumulated Surplus/(Deficit)

The Fiscal Year 2018 to 2037 General Fund Long Range Financial Forecast (LRFF) projects a surplus balance of $0.3 million in FY 2018. Surpluses are projected for the remaining years of the model.

General Fund Long Range Financial Forecast 2018-2037

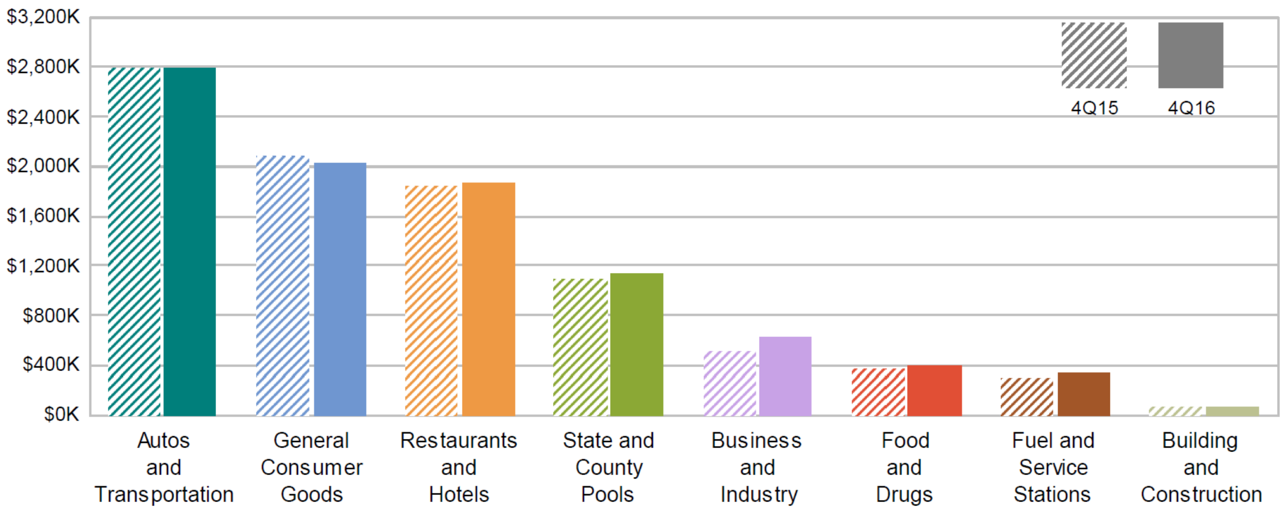


	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
ANNUAL SURPLUS/(DEFICIT)	$0.3	$0.8	$0.5	$0.7	$0.6	$1.4	$3.1	$4.9	$5.9	$6.9	$8.9	$9.3	$10.3	$10.7	$11.5	$12.3	$13.1	$24.1	$14.9	$15.4
CUMMULATIVE DEFICIENCY	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
SURPLUS BALANCE	$0.3	$1.1	$1.6	$2.2	$2.8	$4.2	$7.3	$12.2	$18.1	$25.0	$33.9	$43.2	$53.5	$64.1	$75.7	$88.0	$101.1	$125.2	$140.2	$155.6
REVENUES	$225.6	$225.1	$233.8	$242.7	$251.9	$261.5	$271.4	$281.8	$292.5	$303.7	$315.1	$326.8	$339.4	$352.0	$365.7	$379.9	$394.6	$410.0	$426.0	$442.7
EXPENDITURES	$225.3	$224.3	$233.4	$242.0	$251.3	$260.0	$268.3	$276.9	$286.7	$296.8	$306.1	$317.5	$329.1	$341.3	$354.1	$367.5	$381.6	$385.9	$411.1	$427.3
CUMM SURPLUS/DEFICIENCY TREND	$0.3	$1.1	$1.6	$2.2	$2.8	$4.2	$7.3	$12.2	$18.1	$25.0	$33.9	$43.2	$53.5	$64.1	$75.7	$88.0	$101.1	$125.2	$140.2	$155.6

RISKS TO CONSIDER AND CONCLUSION

Although revenue receipts have improved considerably since the Great Recession, future recessions or shifts in consumer habits (such as retail purchases or hotel stays) may alter the course of revenues and new patterns may emerge that differ significantly from our past results. Agencies dependent on traditional brick-and-mortar retail stores for a major portion of their sales tax will be facing new challenges in the coming year as merchants retrench and downsize to cope with a rapidly changing environment. Generational preferences for experiences over merchandise, plus the growing costs of health care, education and housing, are reducing discretionary spending for taxable goods while time challenged consumers are opting for the convenience of online shopping. Online sales accounted for 13.0% of all general consumer goods purchased in 2016 with a 9.2 % gain over calendar year 2015, while the growth in tax receipts from brick-and-mortar stores only grew 0.6%.

City of Newport Beach Sales Tax Receipts Q4 2015 Compared to Q4 2016



Source: HdL

Newport Beach transient occupancy tax receipts may also suffer as the result of the new administration's proposed travel ban. The latest data show that flight bookings, travel searches and other indicators of interest in U.S. travel have dropped, said Adam Sacks, president of Tourism Economics. "All of these together are painting this picture of a shift in travel patterns away from the U.S.," he said. The strong U.S. dollar is one potential reason for slowing interest in international travel to the U.S. But Sacks said the political environment is a bigger issue.

The assets necessary to fulfill our pension obligation are considerable so any shortfall in investment returns or change in assumed investment return can result in significant impact on the City's unfunded pension obligation. Lower than expected investment results and CalPERS' recent action to lower the annual expected investment rate of return increased the unfunded liability, but painted a truer picture of our net pension obligation. Consensus analysis by the investment community believes that CalPERS will continue to have difficulty achieving a 7.0 percent investment return in the near term so future losses may continue. For FY 2017 (July 1, 2016 – June 30, 2017) CalPERS is currently on track to beat its investment target.