



DATE: October 17, 2016

AGENDA ITEM # 2

TO: Financial Commission
FROM: Jon Maginot, Interim Administrative Services Director
SUBJECT: Review of ten-year financial forecast

BACKGROUND

For calendar year 2016, the City Council set as one of its priorities to develop a plan related to addressing the needs of City facilities. This included looking at the actual condition of the facilities as well as how to fund needed improvements. Staff will be presenting to the City Council on October 25, 2016 a look at the City's current and future financial state. Staff requests that the Financial Commission review the financial numbers and assumptions to be presented to Council and provide feedback as needed.

DISCUSSION

The City's financial state includes two parts: current fund balances and projected General Fund surpluses (or deficits). While the most current audited fund balances are from 2014/15, we can closely estimate what the fund balances were as of June 30, 2016. These numbers are currently being audited but should be fairly accurate.

General Fund

Funds in the General Fund are non-restricted and are typically used for operational costs. Surplus funds are typically transferred to the City's Capital Improvement Fund. The City has established several funds within the General Fund.

Fund	2014/15 (Actual)	2015/16 (Estimated)
Unassigned	\$4,789,162	\$7,789,162
20% Operating budget reserve	\$6,705,000	\$6,705,000
OPEB	\$2,000,000	\$2,000,000
PERS Reserve	\$600,000	\$600,000
Technology Reserve	\$1,500,000	\$1,375,000
Real Property/Community Facilities	\$18,760,241	\$18,920,159
Total	\$34,354,403	\$37,389,321

Non-General Fund

The City maintains a number of restricted funds. Dollars in these funds are restricted in how they can be used and are part of the City's Capital Improvement Program (CIP).



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Fund	2014/15 (Actual)	2015/16 (Estimated)
Capital Improvement Fund	\$4,713,620	\$431,097
Park In-Lieu	\$5,907,033	\$4,237,843
Equipment Replacement	\$2,509,734	\$2,085,318
PEG	\$526,942	\$526,942
Transportation Development Act	\$13,478	\$13,478
Estate Donation	\$18,181	\$13,145
Traffic Impact Fee	\$1,939,010	\$1,339,757
Downtown Parking	\$598,886	\$508,940
Community Development Block Grant	\$88,501	\$10,491
Storm Drain	\$56,086	\$0
Proposition 1B	\$40,410	\$40,410
Gas Tax	\$1,014,166	\$471,800
Supplemental Law Enforcement	\$57,062	\$22,897
Total	\$17,483,109	\$9,702,118

As part of the 2016/17 budget, the Council authorized the transfer of \$2.7 million of 2016/17 General Fund dollars to the CIP.

Enterprise Funds

The City has two enterprise funds: Sewer and Solid Waste. Dollars in these funds are restricted in their use.

Fund	2014/15 (Actual)	2015/16 (Estimated)
Sewer	\$7,567,980	\$5,732,861
Solid Waste	\$2,882,473	\$3,157,102

10-year financial forecast

On September 27, 2016, the City Council received a presentation on the City's ten-year financial forecast. This forecast was based on a number of assumptions and resulted in the City anticipating being able to transfer approximately \$21 million from the General Fund to the Capital Improvement Fund over a ten-year period.

The Council felt that some of the assumptions in the forecast were too conservative and requested that staff look at additional scenarios for the ten-year period.

Three scenarios were evaluated: Cautious growth, Moderate growth, and Aggressive growth. Each of these scenarios used the September 27, 2016 forecast as a baseline and changed certain factors.

Review of ten-year financial forecast



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Building and Planning Fees

The baseline case assumed that Building and Planning fees would not increase over the ten-year period, while the expenses related to those fees would. Building and Planning fees are intended to recover all costs associated with administering the permits. As such, each of the three scenarios assumes that Building and Planning fee revenues will increase each year. Because revenue from these fees is dependent upon the development market, each scenario assumes a 2.7% increase to match CPI.

Property Tax

Property Tax accounts for the majority of City revenues. The baseline case provided a 4.5% increase in Property Tax revenue each year. To develop the new scenarios, staff looked at the seven-, ten- and 12-year averages for Property Tax revenue.

Forecast	10-year average Prop. Tax increase	Amount transferred to CIP over 10 years
Baseline	4.5%	\$21.1 million
Cautious growth	5.0%	\$33.6 million
Moderate growth	5.8%	\$38.6 million
Aggressive growth	6.9%	\$48.5 million

While each of the scenarios represent possible outcomes for the next ten years, it is important to remember that any number of factors or situations could greatly impact the forecasts. As such, Council and staff should periodically update the forecasts with actual dollars and projections to continue making informed decisions in future years.

Current financial outlook

Between the various City funds, staff estimates a total of approximately \$27 million in unrestricted funds which could be used on capital projects. In addition, there are other funds that could be used depending upon the project. Over the next ten years, the City could safely assume \$30-35 million dollars can be transferred to the CIP, giving the City rough \$60 million of General Fund dollars to be used toward address capital needs.