



DISCUSSION ITEMS

Agenda Item # 5

AGENDA REPORT SUMMARY

Meeting Date: January 9, 2018

Subject: 10-year Budget Forecast Model – 2017 Update

Prepared by: Sharif Etman, Administrative Services Director

Approved by: Chris Jordan, City Manager

Attachment(s): None

Initiated by:
City Manager

Previous Council Consideration:

September 27, 2016, November 15, 2016, November 14, 2017

Fiscal Impact:

The model reflects current anticipated revenues and expenses.

Environmental Review:

Not applicable

Policy Questions for Council Consideration:

- Does the City Council want to increase the allocation for the Community Center above the current amount of \$25M?

Summary:

- The Financial Forecast Model was prepared by a consultant from PFM Group Consulting
- This forecast is an updated version of the one used for the financial forecast provided to the City Council in 2016
- Included in this model is the City's 5-year Capital Improvement Plan, including an allocation of \$25M for the new Community Center
- The most significant revenue growth is in property taxes which is estimated at an aggressive 6% annually
- Anticipated expenses include the current estimate for the CalPERS unfunded liability payments. These estimates are likely optimistic and may increase in the future
- Other assumptions are outlined in the staff report or will be discussed as part of the presentation

Staff Recommendation:

Receive the presentation from PFM Group Consulting on the 10-year forecast and direct staff regarding the financial forecast and decide on the total project budget for the new Community Center



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Purpose

This financial forecast (and model) is presented for informational purposes to assist the City Council to understand current funds available and to help project what future funds may be available. This model is intended to help inform the Council's decision on the final budget allocation for the Community Center project. It is anticipated that the City Council will provide direction to staff regarding the project budget and prioritize any enhanced features above the original \$25M allocation. It is also intended for the model to be periodically updated and used for consideration when planning future General Fund projects.

Background

The 10-year Financial Forecast was last presented at the November 14, 2017 Study Session. The forecast provided a high-level analysis showing the current General Fund availability of approximately \$24M and the projected cash flow (operating surplus) for the following ten fiscal years. The projection included different options regarding the Community Center total budget and future major increases such as the CalPERS increase in Unfunded Liability Payments over time.

An operating surplus of \$6.1M is currently available as Unassigned Fund Balance from FY 2016/17. Staff recommended utilizing this Fund Balance by allocating funds towards the 20% Operating Reserve, allocating \$1M to the existing CalPERS reserve, and the remaining amount towards the Community Center project and / or CIP reserves. Given the approximately \$24M in General Fund reserves currently available, plus the staff recommended surplus allocation from FY 2016/17 – the staff recommendation on November 14, 2017 was to set a total project budget of \$30M for the new Community Center.

The Council reviewed the report and requested further detail regarding the assumptions and the forecast moving forward for the 10-year forecast. The PFM Group had prepared a 10-year forecast (model) in the past for the City and has prepared an updated model for discussion with Council. This updated model incorporates the current adopted budget, all known financial information and certain assumptions.

Discussion/Analysis

The 10-year Financial Forecast is limited to the City's General Fund monies and uses the most recent CAFR and audited balances of June 30, 2017 as a starting point. In developing projections, historical trends have been taken into consideration and the following assumptions were built into the model:

- Revenue forecasts includes an overall annual growth rate of 4.15%
- Property tax growth was set at 6% per year (Note: this is more aggressive than the moderate growth project of 5.8% favored by the Council when the model was reviewed in 2016)
- Sales tax growth is projected at 1%



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- All other revenues remained flat or had slight increases year over year (TOT, UUT, Department specific fees, etc....)
- Salary expenditure forecasts include the latest adopted personnel agreements through FY 2020 and then 2% growth annually
- Anticipated increases in benefit costs including future PERS costs Unfunded Accrued Liability (UAL) are included
- The Adopted 5-year CIP Budget is included with expenditure assumptions included for years 6-10

The 10-year Forecast Model is an interactive tool and assumptions can be changed in which the impact on the City's General Fund can be shown. For presentation purposes – the model begins with the approved \$25M Community Center Budget and the above assumptions built in.

Options

- 1) Receive the PFM Group presentation on the 10-year forecast. Maintain the allocation for the new Community Center at \$25M, and direct staff to work with the design team to modify the project

Advantages: This is a fiscally cautious approach that may allow the City to make improvements to other facilities over the next several years. This option is preferred by the City's Financial Commission

Disadvantages: The proposed concept for the new Community Center will need to be redesigned and will be significantly smaller than recommended by the Community Center Task Force. The project will need to be delayed while this happens

- 2) Receive the PFM Group Consulting presentation on the 10-year forecast. Increase the allocation for the new Community Center to \$34.7M

Advantages: The preferred concept developed by the Community Center Task Force (including approximately 24,500 sq. ft.) should be able to be constructed within this budget allocation

Disadvantages: It is likely the City will need to take on debt to complete the project. It is unlikely that other City facilities will be improved for the foreseeable future, unless private funding is secured



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- 3) Receive the PFM Group Consulting presentation on the 10-year forecast. Increase the allocation for the new Community Center to \$30M

Advantages: Some of the enhanced features for the new Community Center will have to be eliminated or scaled back, but the design team should be able to prepare a plan that meets most of the community's needs within this budget. Although the City may need to take on some debt, it will be a small amount. More fiscally prudent than option 2

Disadvantages: The new Community Center will be smaller and will not have all the features in the preferred concept developed by the Community Center Task Force

Recommendation

Staff recommends option 3.