



Agenda Report

DATE: July 18, 2017
TO: CITY COUNCIL
FROM: ADMINISTRATIVE SERVICES DEPARTMENT – FINANCE DIVISION
SUBJECT: 2018-2027 GENERAL FUND LONG TERM FINANCIAL FORECAST

STATEMENT OF ISSUE:

The Finance Division has updated the General Fund Long Term Financial Forecast (LTFF) to cover the period from FY 2018 through FY 2027. This update provides a conservative forecast of anticipated revenues and expenditures over the forecast period to assist the City Council with long term financial planning and near term budgeting.

RECOMMENDED ACTION:

Staff and the Finance Committee recommend the City Council adopt the 2018-27 General LTFF.

OVERVIEW AND BACKGROUND

The City Council has used the General Fund long term financial forecast as a tool to assist in managing financial resources. The LTFF provides some guidance to the Council about anticipated revenues and expenditures.

Historically, the Council has taken a conservative approach to financial forecasting. This has helped the City to avoid having to make cost reductions and has helped to provide year end surpluses that have assisted the City in maintaining its infrastructure.

It is important to note that the nature of a financial forecast is that reliability of the projected results lessens over time. As a result, the accuracy of the forecast in the later years of the forecast is likely less than the first years of the forecast.

The Finance Committee met three times over the past four months to review and, following some adjustments, ultimately recommend approval of the LTFF.

LONG TERM FINANCIAL FORECAST - PROCESS AND ASSUMPTIONS

The LTFF uses the FY 2016 actual results and FY 2017 estimated results to form a baseline of revenues and expenditures. Assumptions are then used to project revenues and expenditures for the remaining years of the forecast. As a result, the assumptions used in the LTFF process are the building blocks and key to understanding how the forecast is developed.

The Finance Committee focused very directly on the assumptions. The Committee provided direction and agreed with the assumptions used.

Key decisions made by the Committee were as follows:

- Continue to use a 10 Year forecast
- Staff was directed to develop a Conservative Revenue Model – this was the model recommended for Council consideration, see **Attachment 1**.
- Staff was directed to provide a Recession Model for Council information as a demonstration of the potential impacts of a moderate recession. This is presented for information purposes only, see **Attachment 2**.
- Include no new positions beyond those already approved by City Council
- No changes in service delivery
- Include Capital infrastructure costs necessary to maintain facilities at or near current levels but NOT to include costs to upgrade or replace facilities. These are computed as a percentage of operating costs.
- Include IT related costs to maintain and upgrade systems and programs. This is computed as a percentage of operating costs.
- Increasing pension costs are broken out separately to demonstrate the impact on our financial results. Additional pension costs are included in **Attachment 4**.

A list of all the assumptions used to build the LTFF is included as **Attachment 5**

RESULTS OF THE LONG TERM FINANCIAL FORECAST

The Conservative Revenue Model, including contributions to the CIP - Asset Management Program and IT strategic expenditures demonstrates operating surpluses through FY 2020-21. It then predicts operating deficits that grow through the remainder of the forecast period. The deficit is most directly created by the large increase in pension costs. It is also contributed to by the fact that the model demonstrates the growth in operating expenses outpacing the growth of operating revenues over the course of the forecast. Forecasted surpluses or (deficits) are demonstrated below:

FY 2017-18	\$ 2,861,000
FY 2018-19	\$ 1,350,000
FY 2019-20	\$ 1,958,000
FY 2020-21	\$ 350,000
FY 2021-22	(\$ 1,147,000)
FY 2022-23	(\$ 2,533,000)
FY 2023-24	(\$ 3,665,000)
FY 2024-25	(\$ 4,971,000)
FY 2025-26	(\$ 5,250,000)
FY 2026-27	(\$ 6,495,000)

Note: Staff believes it is important to consider the General Fund contribution to the Asset Management Program in evaluating the projected surplus/ (deficit) as it is the primary source of funding for the maintenance of our facilities.

FINANCIAL IMPACTS:

The Council action will have no direct financial impacts.

ALTERNATIVE ACTION:

The Council could make modifications to the LTFF or elect not to take action on the forecast at this time.

DOCUMENTS:

- Attachment 1: Conservative Revenue Model
- Attachment 2: Recession Model
- Attachment 3: Departmental Expense Computations
- Attachment 4: Additional Pension Costs
- Attachment 5: Listing of Assumption used to build the LTFF

CITY COUNCIL ACTION RECOMMENDED:

Move to adopt the 2018-2027 General Fund Long Term Financial Forecast

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