

# General Fund Five-Year Financial Forecast FY2020-2024

City Council Discussion Only Meeting

February 19, 2019

# Five-Year Financial Forecast

- ▶ Layout of Document
  - ▶ Risks, uncertainties and vulnerabilities - pages 1-2
  - ▶ Noteworthy items - pages 3-4
  - ▶ Assumption tables - pages 5-7
  - ▶ Five-year forecast - page 8
  - ▶ Taxable value analysis - pages 9-13
  - ▶ General Fund revenue detail - pages 14-17
  - ▶ General Fund expenditure detail - page 18
- ▶ This is for the General Fund only
  - ▶ New income tax will be recorded in its own fund
    - ▶ Transfer from the Income Tax Fund for reduction in property taxes and the 20% public safety allocation

# Five-Year Financial Forecast

- ▶ Focus on page 8 - shows revenues and expenses, as well as the fund balance amount and percent of expenditures
- ▶ Columns included
  - ▶ FY2018 actual
  - ▶ FY2019 budget - includes any budget amendments made to this point
  - ▶ FY2019 expectation - each department has estimated where we will finish the fiscal year
  - ▶ FY2020 forecast - some categories are based on preliminary calculations, while others are increased by factors found in the assumption table
  - ▶ FY2021 through FY2024 forecast - based on assumption factors shown in the assumptions table
- ▶ We will continue to refine FY2020 amounts as we work through the budget process

# Revenue - Property Taxes

- ▶ Operating millage rate reduced to 12.5362 (a full 5 mills from the FY19 rate)
- ▶ Still the largest source of general fund revenues - approximately 35%
- ▶ Includes operating millage, administration fees, tax penalties and PILOT's
- ▶ Amounts are net of any captured taxes or 425 sharing arrangements
- ▶ FY20 amounts are based on the preliminary taxable value analysis
  - ▶ Inflation rate multiplier of 2.4%
  - ▶ Overall taxable value increasing approximately 2.8%, or \$27.8 million
  - ▶ \$4.8 million reduction in revenue
- ▶ FY21 and outer years are also based on the preliminary taxable value analysis
  - ▶ Assumes 1.5% inflation rate multiplier and estimated amounts for new construction
  - ▶ Forecasted revenue increases range from 1.7% to 3.6%

# Revenue - Transfer from Income Tax Fund

- ▶ New General Fund line item in FY20 - actual income tax revenue will be recorded in a separate fund
- ▶ Includes approximately \$5 million to account for the 5 mill reduction in property tax revenue using taxable value subject to the City's operating millage rate
- ▶ Using the Plante & Moran study assuming net income tax revenue of approximately \$10 million - resulting in \$1 million public safety allocation
- ▶ Limited income tax information at this point
  - ▶ Only one month of collections before needing to finalize the budget
  - ▶ Unknown compliance percentage
  - ▶ Unknown refund percentage

# Revenue - State Sources

## ▶ State Shared Revenue

- ▶ FY19 expectation is based on the estimates published by the State in January, approximately \$117 thousand more than budgeted
- ▶ Constitutional revenue sharing for FY20 assumes a 2.8% increase
  - ▶ Outer years assume increases ranging from 2.0% to 2.8%
- ▶ Statutory revenue sharing - unknown if the State will continue the supplemental amount we have received in FY18 and FY19
  - ▶ FY20 removes the supplemental amount of approximately \$40,000 with outer years remaining flat

## ▶ PA289 Fire Protection

- ▶ FY19 received \$242 thousand more than the prior year, and \$108 thousand more than budget
- ▶ Recently legislation passed resulting in reports of this being fully funded in FY20
  - ▶ This would result in twice the amount being received, or an additional \$1.6 million
  - ▶ Based on conversations with the State, this is still subject to appropriations so forecast assumes a 50% increase
  - ▶ If the City does receive full funding, an additional pension payment could be made

# Revenue - Other Intergovernmental

- ▶ FY19 expectation exceeds budget due to small taxpayer exemption loss reimbursement that was not expected
  - ▶ Outer years continue this stream of revenue
  - ▶ Subject to an annual calculation and State appropriations
- ▶ Approximately \$20,000 for the 54B District Court drunk driving/drug case assistance
- ▶ \$19,000 from Meridian Twp and MSU each year resulting from the 911 dispatch consolidation (final payment is in FY22)

# Revenue - Licenses and Permits

- ▶ Building permits and engineering permits can fluctuate significantly depending on the construction activity in any given year
  - ▶ FY19 estimates are coming in better than budgeted by \$145 thousand
  - ▶ With significant developments in the current year, FY20 is expected to see a decline
  - ▶ Outer years assume continued decline with the possibility of another recession
- ▶ Housing licenses
  - ▶ Historically, a line item with minimal fluctuation
  - ▶ Given the number of rental units currently under construction or planned for the near future, larger than normal increases are included in the forecast for FY20 and FY21, with an 8.0% increase over the two years
- ▶ Business and restaurant licenses assume no change in the number of licenses or the fee schedule

# Revenue - Fines and Forfeitures

- ▶ Sources of revenue dependent on the number of tickets issued and amounts paid to the Court
- ▶ Parking fines
  - ▶ Declined significantly in last five years; FY15 included \$1.6 million of revenue, whereas FY17 and FY18 came in closer to \$1.0 million
  - ▶ Hopeful FY19 and outer years will continue near the \$1.0 million amount
  - ▶ Changes over the years that could explain some of this decrease
    - ▶ Elimination of payment due notices in the parking lots (gates in operation 24 hours a day)
    - ▶ Changes to the hours of street meters and ability to pay with credit card/phone app
- ▶ Ordinance fines
  - ▶ Has been decreasing since FY12 high of approximately \$2 million
  - ▶ FY19 expected to come in \$200,000 under budget, but consistent with the FY18 actual amount
  - ▶ Hoping this has plateaued and forecasted to increase with CPI in outer years

# Revenue - Charges for Services

- ▶ The two largest items in this category:
  - ▶ Court cost recovery fees - approximately \$600 thousand
    - ▶ Large decline expected in FY19 (\$100 thousand or 14.3% less than FY18)
    - ▶ \$200 thousand less than budgeted
    - ▶ Marihuana offenses are now only civil infractions, no costs authorized
  - ▶ Ambulance fees - approximately \$1.3 million
    - ▶ FY18 experienced a dip in revenue, however FY19 is expected to be consistent with the budgeted amount
- ▶ Other large items included:
  - ▶ MSU fire cost sharing - \$326 thousand
  - ▶ MEP inspection services for Meridian Township - \$250 thousand
  - ▶ Fire and Police services to MSU and others - \$203 thousand

# Revenue - Other and Grants

## ▶ Other Revenues

- ▶ BWL franchise fees - \$1.35 million expected in FY19 (\$250 thousand more than budget)
- ▶ Cable franchise fees - \$320 thousand expected in FY19 (\$50 thousand less than budget)
- ▶ Indirect rent charges to internal customers - \$347 thousand
- ▶ FY18 includes a \$1.0 million transfer from the Insurance Fund which was used for a supplemental pension payment; FY19 and future years do not include a corresponding transfer
- ▶ FY20 includes the first year of the Center City ground lease, \$200 thousand

## ▶ Grant Revenues

- ▶ court related grants - Veterans, Sobriety, Drug - \$234 thousand
- ▶ CDBG sidewalk grant of \$350 thousand in FY19 with nothing forecasted in outer years (expenses were eliminated as well)
- ▶ Fire grants of \$539 thousand in FY19 and nothing expected in outer years

# Expenditures - Personnel Services

- ▶ Accounts for approximately 75% of total expenditures
- ▶ Salaries and wages assume 2.0% cost of living adjustment in FY20 and outer years
  - ▶ FY20 uses preliminary position budgeting amounts and outer years rely on COLA plus a 1.0% factor for step increases
  - ▶ FY20 allows for certain positions reinstated, specifically two police officers and two firefighter/paramedics, leading to a larger than normal increase in this line
- ▶ Retirement and supplemental pension payments made by the General Fund
  - ▶ With over \$6.6 million of supplemental pension payments since FY16, the City is experiencing a lower increase than projected by the MERS 20-year analysis
  - ▶ FY20 retirement costs uses the 12/31/17 valuation and results in a 4.9% increase
  - ▶ FY20 & FY21 assumes a \$2.0 million supplemental payment (taking advantage of increased revenue from the income tax public safety allocation and PA289 expected increase)
  - ▶ FY22 forecasts a larger increase in retirement costs, assuming MERS will adopt the State's uniform assumptions, and only a \$1.0 million supplemental payment

# Expenditures - Personnel Services continued

- ▶ Retiree health varies based on population of retirees, as well as insurance and Medicare rates experienced
  - ▶ Represents the annual pay-as-you-go piece
  - ▶ FY20 expects a decrease based on changes in retirees and rates expected
- ▶ Supplemental retiree health - required starting in FY19
  - ▶ Required under PA202 to fund the normal cost of any employee receiving post employment health care and hired after June 30, 2018
    - ▶ Applicable to the City's police and fire employees only
  - ▶ The normal cost will be calculated by the actuary during our next OPEB valuation - planning to contribute \$100 thousand to the trust each year
- ▶ Health insurance for actives assumes 4.0% increase as the health care task force has been successful in controlling costs
- ▶ Other fringes include FICA, dental, health care savings plan, life insurance, long-term disability, and workers compensation

# Expenditures - Operating Expenses

- ▶ Includes all other expenditures outside of personnel and capital - such as contract services, utilities, garage and computer fees, etc.
- ▶ FY19 expectation is consistent with the prior year, but approximately \$393 thousand less than the budget
  - ▶ Accounting for solar panels - expense to be amortized over the 25 years
  - ▶ Specialty courts less than expected - corresponding variance in grant revenue
- ▶ FY20 and outer years assume a CPI factor for all categories except garage and computer fees - total increase approximately \$348 thousand
  - ▶ Garage fees account for \$156 thousand as the full replacement and maintenance fee is now being charged (this has been discounted historically)
  - ▶ Computer fees are increasing \$87 thousand as Office 365 and other enhancements are implemented
- ▶ All of these expenditures will be further refined as we complete the budget process

# Expenditures - Net Indirect Charges

- ▶ During the Fall of 2018, the general government indirect cost study was updated with the assistance of a consultant, and is used for FY20 budget
  - ▶ Allows us to better understand the cost of city functions
  - ▶ General government includes City Council, City Manager, City Attorney, Finance, HR, Clerk, Communications, and Gov't Buildings
  - ▶ Charged to all funds including Parks & Recreation and other subsidized programs, as well as within the General Fund
  - ▶ Amount shown on this line is the net impact to the General Fund
- ▶ We plan to have this cost allocation analysis completed every other year
  - ▶ Future years are unknown as it is based on usage counts, employee counts, etc as well as the actual cost of each general government division
  - ▶ Forecast assumes a CPI factor for all outer years

# Expenditures - Sidewalk Program

- ▶ FY18 and FY19 had significant investment in City sidewalks
  - ▶ Total cost to the City is offset by charges to property owners as well as CDBG funding
- ▶ FY20 and future years includes only \$50 thousand for emergency repairs to hazardous sidewalks
- ▶ Opportunity to expand this program through additional CDBG grants and potentially income tax dollars (20% capital improvement allocation)

# Expenditures - Capital Outlay

- ▶ General Fund generally has limited investment in capital outlay
  - ▶ Facility improvements are completed in the CIP Fund, and any General Fund subsidy would be shown as a transfer to that fund
- ▶ FY19 expectation is approximately \$1.1 million
  - ▶ \$553 thousand of Fire Department grant expenditures
  - ▶ \$480 thousand to assist in the purchase of a platform fire truck (not in the budget amount - will require a budget amendment)
- ▶ FY20 includes \$250 thousand for a Fire Department quick response vehicle and \$20 thousand for minor projects or equipment within individual departments
- ▶ Outer years only allow for \$20 thousand of minor projects or equipment within individual departments

# Expenditures - Transfers Out

- ▶ Parks and Recreation Fund
  - ▶ Increases based on the CPI factor used throughout the document
  - ▶ This fund has a smaller fund balance, so a significant shortage in any one year will likely have to be covered by the General Fund
- ▶ Capital Improvement Fund
  - ▶ FY18 included \$395 thousand for facility improvements and \$107 thousand for engineering and design cost for the trails and bridges improvements
  - ▶ FY19 expectation includes \$141 thousand for facility improvements, \$99 thousand for Avondale Square, and \$45 thousand for trails and bridges expenditures not covered by grants
  - ▶ FY20 only allows for support of the Avondale Square development based on the expected variance between the TIF capture and the debt payments
  - ▶ Future facility improvements are expected to be funded with income tax dollars
- ▶ All others include amounts for the Seniors Program, Art Festival, debt service on previous facility improvements, and the Public Art Fund

# Use of Fund Balance

- ▶ FY19 amended budget allows for \$402 thousand of fund balance to be used
- ▶ FY19 expected outcome is to use \$363 thousand
  - ▶ Resulting in a 15.9% total fund balance as a percentage of expenditures
- ▶ FY20 is forecasted to basically break even
  - ▶ Two large revenue sources with a lot of uncertainty - PA289 and the public safety income tax allocation
  - ▶ Amounts will be refined as we finalize the FY20 budget request
  - ▶ Includes a \$2.0 million supplemental pension payment
  - ▶ Includes a \$100 thousand OPEB prefunding payment
- ▶ Outer years show that it will be difficult to continue to make supplemental pension payments, unless additional revenue is identified and recognized
  - ▶ Perhaps PA289 and income tax amounts will be higher and aid in this goal