

# Council Business Meeting

March 6, 2018

**Title:** Financial Forecast Update

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## **Summary:**

This items will provide an update on the financial forecast that are included in the Budget Document. The BN 2017/19 Budget and corresponding appropriation limits are not at question. The current biennium budget does not have any errors.

## **Actions, Options, or Potential Motions:**

Receive an update on the Financial Forecast included in the Budget Document and recommend the item be referred to the Study Session on March 19<sup>th</sup> for further discussions.

## **Resource Requirements:**

None

## **Policies, Plans and Goals Supported:**

39. Ensure on-going fiscal ability to provide desired and required services at an acceptable level.

## **Background and Additional Information:**

The long range financial plan in the Budget Document was presented with methodology estimation errors as it relates to the General Fund, Central Services and Parks. The other funds were not presented with the same error.

As you may recall, several members of the Budget Committee, and myself, commented during the Budget process that the projections appeared not be accurate. Being new to the position, I commented that it would not be possible to update before the budget was adopted. Since the Budget Committee would not review any revised projections, the decision was made to not change the existing projections in the budget book.

The Budget Process Ad-Hoc Committee scheduled an update to the long range financial plan for the Fall of this year. The Parks and Recreations Commission stated recently that the current forecast has major errors and did not agree with the \$6 million looming deficit. Through communications with the Ashland Tidings, I confirmed that the statement was accurate in that the financial forecast was presented with a calculation error.

A financial model is important for the Finance Department to maintain to ensure potential financial issues can be addressed in a timely manner. The financial model has been in place since July and is updated as new information becomes available.

### Expenditure Projections

In reviewing the materials used to develop the long range estimates, it was determined that there was a misunderstanding with previous staff. The direction was to increase health care ten percent and PERS two percent. Instead of increasing those line items, the full 12 percent was increased on the overall Personal Services category. For example, Police Department Personal Services were projected to increase from \$5 million in BN 2017/19 to \$7.5 million in BN21/23. This was an error that was missed due to the turnover of staff at the time.

While clearly an unfortunate error, in reviewing the projections on a line item basis, the Personal Services should actually increase about 3 percent annually in the future. With an estimated ten percent health care increase, along with a seven percent PERS and COLA increase, the Personal Services budget is projected to grow 3.16% annually. It is staff's intention for the health care line item to be less than ten percent and with the recent positive PERS investment returns, we are also optimistic that the PERS increase will be less than seven percent.

The General Fund Salary and Wages has a 7.56% increase in FY 20 and 6.57% in FY 21. It is then anticipated the annual increase will decrease to 2%, largely due to the police staffing increase in the first two years. The average increase for the forecasted six years is 3.66%. The model can be changed as new information become available. It is a working forecast until we include during the budget process. Significant changes are anticipated once we have more information relating to the future of health benefits and potential changes to PERS.

The forecast also includes a ten percent increase in Central Service Fees for the General Fund with the other internal charges remaining flat. The City recently advertised for a consultant service contract to assist staff in updating our Cost Allocation Plan (CAP). The CAP will insure that we are accurately reflecting the cost of Central Services provided to each department and fund. Once the report is complete, we will update the forecast with the actual numbers.

### Revenue Projections

The revenue projections were extremely conservative as well. We have experienced greater than 3.5% growth in our assessed valuation, yet only forecasted a three percent property tax collections. Adjusting anticipated revenues at a still conservative 3.5% assessed valuation growth, our property tax collections should increase over four percent, which has been used in the most recent model. For reference, the assessed valuation growth for the last three years has been:

FY2016 – 104.15%

FY2017 – 103.74%

FY2018 – 103.78%

### Adjusted Forecast

The updates show a potential for a General Fund deficit of approximately \$2.3 million in BN 2021/23, and \$585,752 for Parks. These projections forecast conservative revenue growth, and potentially larger expenditures increases. The Finance Department will continue to monitor actual performance and update projections as new data points are received.

The adjusted forecast improves the long term financial viewpoint, but the deficit does indicate financial challenges for the City in future bienniums. The use of the now developed financial model will assist staff in communicating both short and long term forecasts, as well as in developing strategies for the Budget Committee and Council to use in future decision making to maintain the high level of service the community has come to expect from the City of Ashland. The earlier the impacts of new financial information can be anticipated, the earlier and more prepared we can collectively be to respond.

To further assist in the community understanding of the City's financial status, the Finance Department has created an interactive spreadsheet that allows anyone to input their own assumptions and calculates the impacts. This tool, along with OpenGov ([AshlandOR.OpenGov.com](http://AshlandOR.OpenGov.com)), provides a wealth of tools for financial understanding. The interactive spreadsheet has been emailed to members of the Budget Committee and provided on the Administrative Services section of the City's website.

### **Attachments**

General Fund Current Financial Model

Parks and Recreation Commission Current Financial Model

# City of Ashland General Fund Projections

## Revenues

Fiscal Year	FY 2019/20		FY 2020/21		FY 2021/22		FY 2022/23		FY 2023/24		FY 2024/25	
	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection
Property Taxes	4.00%	11,368,448	4.00%	11,823,186	4.00%	12,296,113	4.00%	12,787,958	4.00%	13,299,476	4.00%	13,831,455
All Other Taxes	10.00%	7,866,639	3.00%	8,102,638	3.00%	8,345,717	3.00%	8,596,089	3.00%	8,853,971	3.00%	9,119,591
Franchise Fees	1.74%	3,622,809	2.54%	3,714,828	2.55%	3,809,556	2.56%	3,907,081	2.56%	4,007,102	2.57%	4,110,085
Charges for Services	6.35%	1,824,434	5.67%	1,927,880	5.75%	2,038,733	5.83%	2,157,591	5.90%	2,284,889	5.98%	2,421,525
Licenses and Permits	14.07%	1,232,697	0.00%	1,232,697	0.00%	1,232,697	0.00%	1,232,697	0.00%	1,232,697	0.00%	1,232,697
Intergovernmental Revenue	6.60%	694,501	0.00%	694,501	0.00%	694,501	0.00%	694,501	0.00%	694,501	0.00%	694,501
Fines and Forfeitures	0.90%	445,877	0.65%	448,775	0.66%	451,737	0.66%	454,719	0.66%	457,720	0.66%	460,741
Miscellaneous Revenues	0.00%	188,000	0.00%	188,000	0.00%	188,000	0.00%	188,000	0.00%	188,000	0.00%	188,000
Operating Transfers In	0.00%	256,500	0.00%	256,500	0.00%	256,500	0.00%	256,500	0.00%	256,500	0.00%	256,500
Interest on Pooled Investments	50.00%	60,000	0.00%	60,000	0.00%	60,000	0.00%	60,000	0.00%	60,000	0.00%	60,000
<b>Total Revenues</b>		<b>27,559,905</b>		<b>28,449,005</b>		<b>29,373,555</b>		<b>30,335,135</b>		<b>31,334,857</b>		<b>32,375,095</b>

## Expenses

Salaries & Wages	7.56%	9,528,168	6.57%	10,154,169	1.95%	10,352,175	1.95%	10,554,043	1.95%	10,759,846	1.95%	10,969,663
Contractual Services	2.00%	7,362,784	2.00%	7,510,040	2.00%	7,660,241	2.00%	7,813,446	2.00%	7,969,715	2.00%	8,129,109
Group Health Insurance	5.00%	2,194,668	5.00%	2,304,401	5.00%	2,419,621	5.00%	2,540,603	5.00%	2,667,633	5.00%	2,801,014
PERS	10.66%	2,737,995	10.85%	3,035,068	7.00%	3,247,522	7.00%	3,474,849	7.00%	3,718,088	7.00%	3,978,354
All Other Benefits	2.00%	1,106,213	2.00%	1,128,338	2.00%	1,150,904	2.00%	1,173,923	2.00%	1,197,401	2.00%	1,221,349
Internal Charges & Fees	4.22%	2,740,433	6.14%	2,908,695	1.56%	2,954,071	1.59%	3,001,041	1.59%	3,048,757	1.57%	3,096,623
Grants	13.25%	1,060,943	2.34%	1,085,769	2.35%	1,111,285	2.37%	1,137,622	2.38%	1,164,697	2.40%	1,192,650
Rental, Repair, Maintenance	-9.60%	300,666	1.08%	303,907	1.11%	307,280	1.15%	310,802	1.18%	314,469	1.22%	318,293
Supplies	2.00%	313,092	2.00%	319,354	2.00%	325,741	2.00%	332,256	2.00%	338,901	2.00%	345,679
Other Purchased Svcs	2.53%	265,614	0.54%	267,049	0.55%	268,517	0.57%	270,048	0.58%	271,614	0.60%	273,244
Communications	4.43%	176,910	0.00%	176,910	0.00%	176,910	0.00%	176,910	0.00%	176,910	0.00%	176,910
Operation Transfers Out	0.00%	105,500	0.00%	105,500	0.00%	105,500	0.00%	105,500	0.00%	105,500	0.00%	105,500
Programs	13.85%	109,450	0.00%	109,450	0.00%	109,450	0.00%	109,450	0.00%	109,450	0.00%	109,450
Commission	0.00%	2,371	0.00%	2,371	0.00%	2,371	0.00%	2,371	0.00%	2,371	0.00%	2,371
<b>Total Expenses</b>		<b>28,419,807</b>		<b>29,826,020</b>		<b>30,606,589</b>		<b>31,417,861</b>		<b>32,260,352</b>		<b>33,135,209</b>

	BN 2019/21	BN 2021/23	BN 2023/25
Revenue	56,008,911	59,708,691	63,709,951
Expenditures	58,245,827	62,024,449	65,395,561
Difference	-2,236,916	-2,315,759	-1,685,610

# Ashland Park Commission Parks General Fund Projections

## Revenues

Fiscal Year	FY 2019/20		FY 2020/21		FY 2021/22		FY 2022/23		FY 2023/24		FY 2024/25	
	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection	Growth(%)	Projection
Charges for Services	3.00%	6,710,862	3.00%	6,912,188	3.00%	7,119,553	3.00%	7,333,140	3.00%	7,553,134	3.00%	7,779,728
Miscellaneous Revenues	3.00%	30,900	3.00%	31,827	3.00%	32,782	3.00%	33,765	3.00%	34,778	3.00%	35,822
Interest on Pooled Investments	5.00%	7,350	5.00%	7,718	5.00%	8,103	5.00%	8,509	5.00%	8,934	5.00%	9,381
Operating Transfers In	0.00%	85,000	0.00%	85,000	0.00%	85,000	0.00%	85,000	0.00%	85,000	0.00%	85,000
Intergovernmental Revenue	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0
<b>Total Revenues</b>		<b>6,834,112</b>		<b>7,036,732</b>		<b>7,245,439</b>		<b>7,460,414</b>		<b>7,681,846</b>		<b>7,909,931</b>

## Expenses

Salaries & Wages	2.50%	2,565,421	2.50%	2,629,557	2.50%	2,695,296	2.50%	2,762,678	2.50%	2,831,745	2.50%	2,902,539
Group Health Insurance	5.00%	874,566	5.00%	918,294	5.00%	964,209	5.00%	1,012,419	5.00%	1,063,040	5.00%	1,116,192
PERS	7.00%	638,955	7.00%	683,682	7.00%	731,539	7.00%	782,747	7.00%	837,539	7.00%	896,167
All Other Benefits	3.00%	340,548	3.00%	350,764	3.00%	361,287	3.00%	372,126	3.00%	383,290	3.00%	394,788
Rental, Repair, Maintenance	2.50%	928,409	2.50%	951,619	2.50%	975,410	2.50%	999,795	2.50%	1,024,790	2.50%	1,050,410
Internal Charges & Fees	0.00%	739,046	0.00%	739,046	0.00%	739,046	0.00%	739,046	0.00%	739,046	0.00%	739,046
Contractual Services	2.00%	356,045	2.00%	363,166	2.00%	370,430	2.00%	377,838	2.00%	385,395	2.00%	393,103
Equipment	2.00%	229,500	2.00%	234,090	2.00%	238,772	2.00%	243,547	2.00%	248,418	2.00%	253,387
Supplies	2.00%	127,358	2.00%	129,905	2.00%	132,503	2.00%	135,154	2.00%	137,857	2.00%	140,614
Other Purchased Svcs	2.50%	87,720	2.50%	89,912	2.50%	92,160	2.50%	94,464	2.50%	96,826	2.50%	99,247
Communications	1.00%	39,769	1.00%	40,166	1.00%	40,568	1.00%	40,974	1.00%	41,384	1.00%	41,797
Improvements Other than Bldgs	3.00%	10,300	3.00%	10,609	3.00%	10,927	3.00%	11,255	3.00%	11,593	3.00%	11,941
Programs	2.50%	68,983	2.50%	70,707	2.50%	72,475	2.50%	74,287	2.50%	76,144	2.50%	78,047
Contingency	0.00%	98,000	0.00%	98,000	0.00%	98,000	0.00%	98,000	0.00%	98,000	0.00%	98,000
Insurance	2.00%	11,730	2.00%	11,965	2.00%	12,204	2.00%	12,448	2.00%	12,697	2.00%	12,951
<b>Total Expenses</b>		<b>7,116,349</b>		<b>7,321,484</b>		<b>7,534,826</b>		<b>7,756,778</b>		<b>7,987,763</b>		<b>8,228,228</b>

	BN 2019/21	BN 2021/23	BN 2023/25
Revenue	13,870,844	14,705,853	15,591,777
Expenditures	14,437,833	15,291,604	16,215,991
Difference	-566,988	-585,752	-624,214