Five Year Forecast

DEPARTMENT OF BUDGET & STRATEGIC PLANNING

So, what do we know?

“There are two kinds of forecasters: those who don’t know, and those who don’t know they don’t know.”

— John Kenneth Galbraith

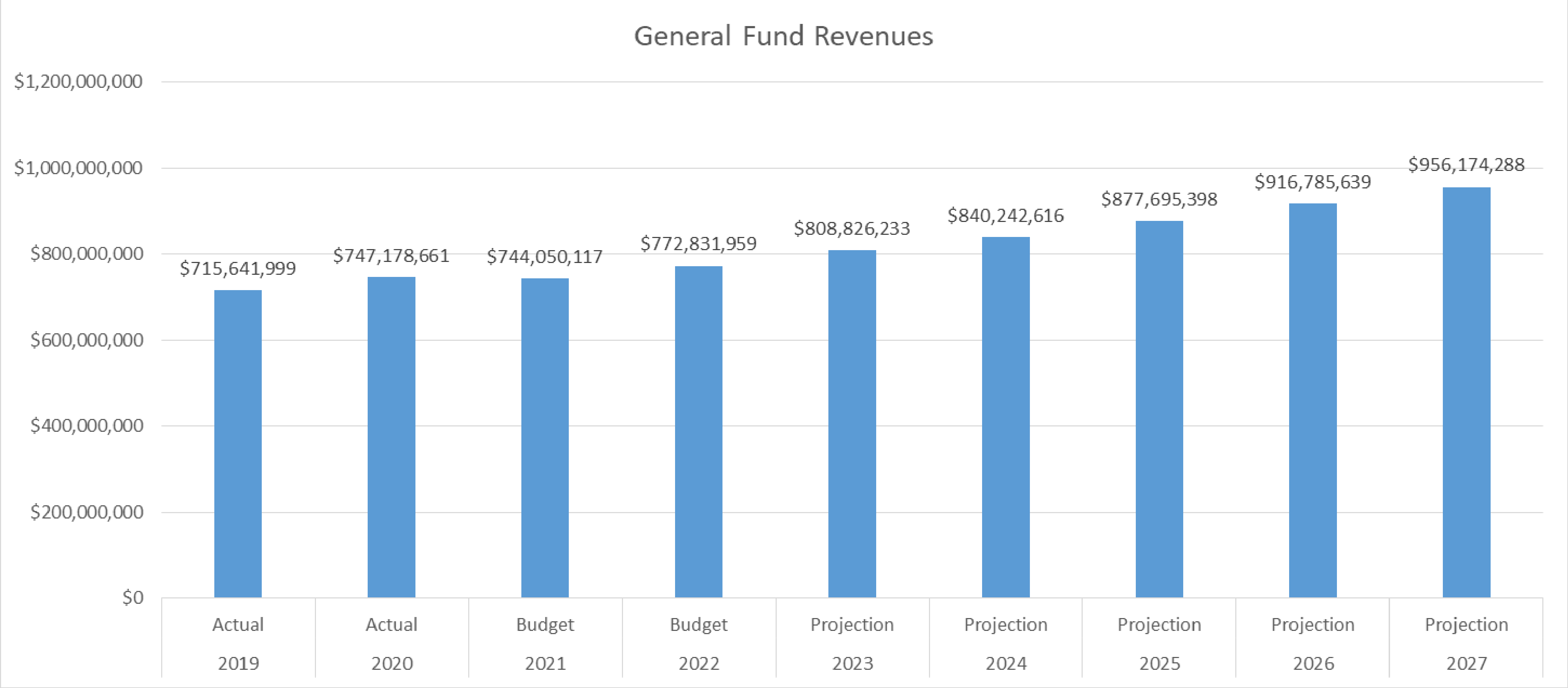
Multi-Year Forecast

- City Code requires staff to present a five-year revenue forecast to Council by Jan 31st
- GFOA Best Financial Practice
- The estimates reflect known items at a point in time
- ***Projections serve as a best estimate to help guide decision making***

What Trends are we seeing?

- Property values are increasing at a record pace; low inventory, large demand, and record low interest rates have created a sellers market
- Sales Taxes are increasing both due to inflation and a strong consumer market
- Labor costs are rising; with nearly 4 million less people participating in the labor force; retirees are staying retired; “Power has shifted to labor”
- Inflation is at 40 year highs of nearly 7%; this affects contracts, costs of goods and services, and almost everything the city does

Revenue Overview



Revenue Highlights

- Real Estate – Large increases are being seen and projected; low inventory, high demand, and low interest rates
- Sales Taxes – receipts through December are over 60% more than at this time in FY 21; over 65% more than FY 20 (last period with no COVID)
- Prepared Meals – receipts through December are over 30% more than at this time in FY 21; still 15% lower than FY 20 (last period with no COVID

Sounds good, right?

But, if

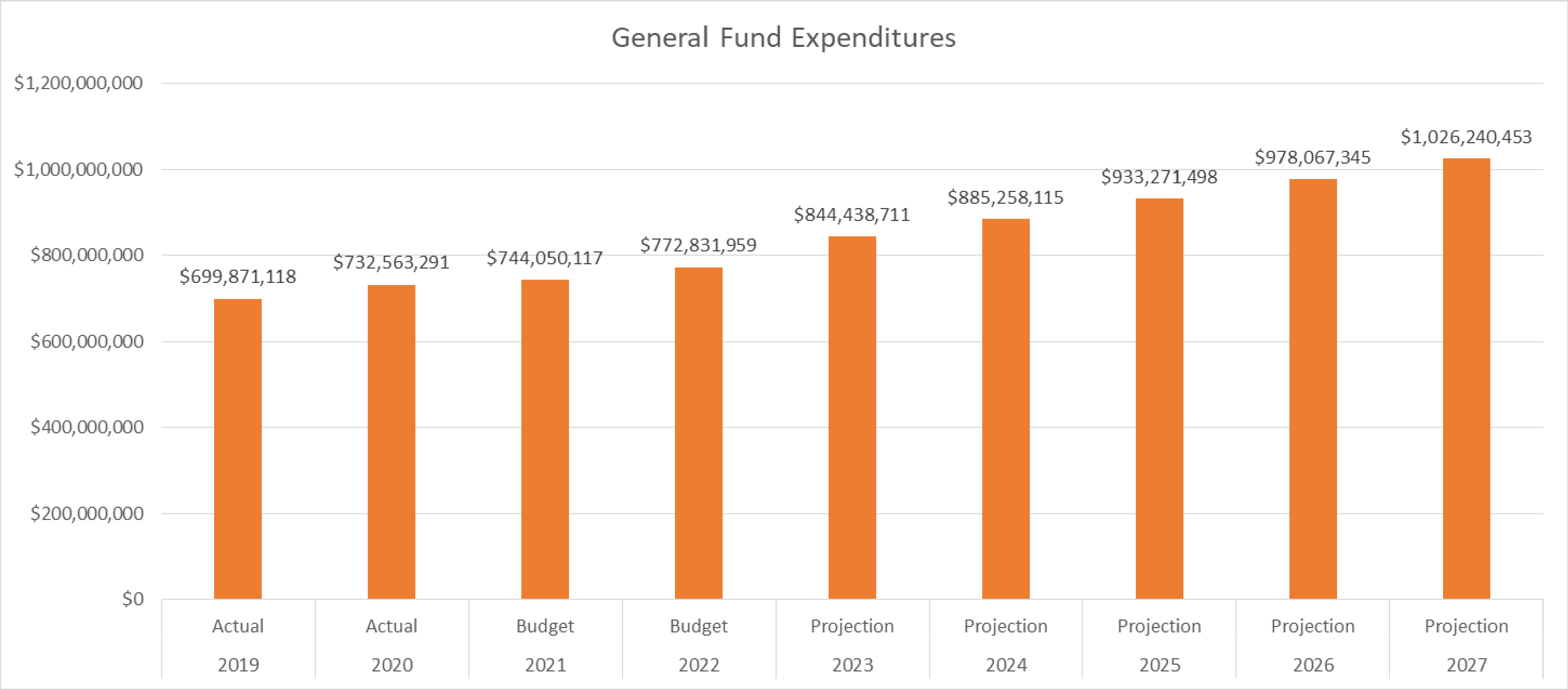
we only look

at the revenues,

the picture is

only half complete

Expenditure Overview



Expenditure Highlights

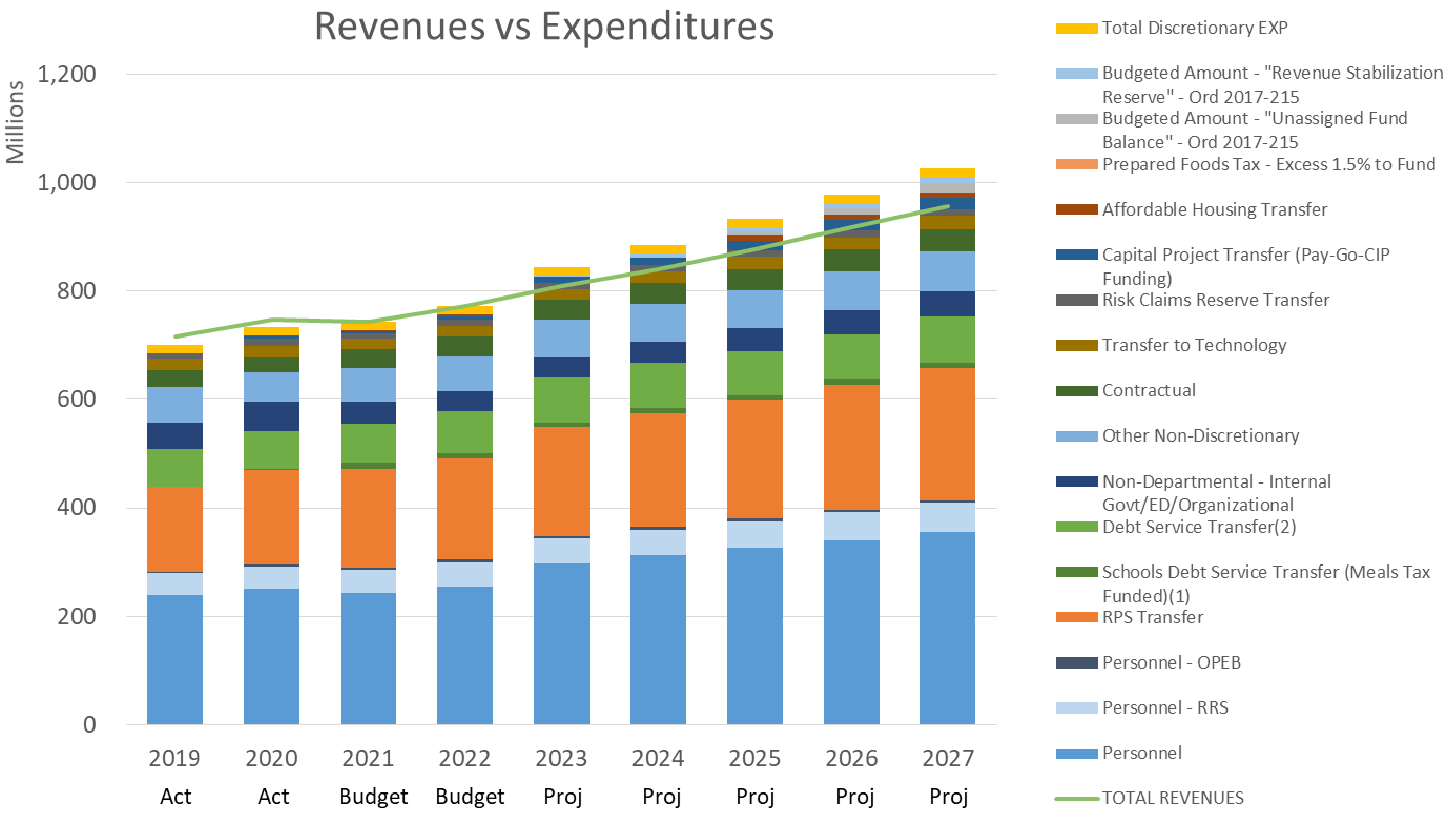
- Inflation at nearly 7% - inflation has not been this high since 1982; this affects everything from groceries to used cars to contracts
- Unemployment is at 3.1% - Unemployment is only a half percent higher than February of 2019, last month before the pandemic; hiring the same person for the same position is more costly and more difficult to find quality applicants
- Supply Chain Issues – not only have the cost of getting goods and services increased but the difficulty to obtain has increased as well

Areas for focus and attention

- Cost of living adjustments – inflation will be over 7%, COLAs are usually tied to the Cost Price Index; maintaining a class and comp will require a COLA
- City Annual Required Contribution to Retirement
  - General Employee Contribution Rate Increases from 84.74% to 87.37%
  - Police and Fire Contribution Rate Increases from 39.47% to 42.81%
- Health Insurance - 3% est. increase in every year of forecast
  - HR rate adjustment to be received in late Jan/early Feb
  - $885k increase (from FY21 to FY22)

Areas for focus and attention

- Debt - increase in FY 23 and in each subsequent year; projected increases for CIP projects to include the construction of schools
- RPS Contribution – over $7 Million of lost revenue from the state; combined with salary increases and other economic indicators affected costs
- Contracts – increases in Departments for lease agreements, security upgrades, software fees, etc.;
- Internal Service Funds – Risk, IT, and Fleet will have increases to the cost of business and these increases are passed on to the customer, the general fund
- Retiree Health Insurance – ARC funding was an internal audit recommendation and part of best financial practices


Revenues vs Expenditures
Millions
1,200
1,000
800
600
400
200
0
2019 Act
2020 Act
2021 Budget
2022 Budget
2023 Proj
2024 Proj
2025 Proj
2026 Proj
2027 Proj
Total Discretionary EXP
Budgeted Amount - "Revenue Stabilization Reserve" - Ord 2017-215
Budgeted Amount - "Unassigned Fund Balance" - Ord 2017-215
Prepared Foods Tax - Excess 1.5% to Fund
Affordable Housing Transfer
Capital Project Transfer (Pay-Go-CIP Funding)
Risk Claims Reserve Transfer
Transfer to Technology
Contractual
Other Non-Discretionary
Non-Departmental - Internal Govt/ED/Organizational
Debt Service Transfer(2)
Schools Debt Service Transfer (Meals Tax Funded)(1)
RPS Transfer
Personnel - OPEB
Personnel - RRS
Personnel
TOTAL REVENUES

Final Thoughts

- Current path shows deficit of $35.6M before addressing many important needs in the City
- Increases in Revenues hide issues lurking in the background with regards to Expenditures
- Real estate taxes continue to show healthy growth throughout the 5 year forecast
- Forecast includes Non-Discretionary expense drivers of designated revenues, debt, and personnel benefit requirements

Questions?