Greenville
NORTH CAROLINA

GENERAL FUND FINANCIAL FORECAST

Current Fiscal Year 2017 & Fiscal Years 2018–2022

January 2017

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GENERAL FUND FINANCIAL FORECAST FISCAL YEARS 2017 - 2022

INTRODUCTION

The purpose of developing the five-year financial forecast is to assist in the financial planning of the City's General Fund. The financial forecast is not to be viewed as a multi-year budget. The forecast projects gaps between projected revenues and expenses that cannot exist in the preparation and presentation of the formal budget. Projections assume that revenue and expense practices and policies currently in place run their course uninfluenced by management intervention. In developing operating budgets for each fiscal year, financial gaps must be closed by intervening to reduce expenses and/or increase revenues to balance expenses to available resources.

Economic conditions affect both revenues and expenses as evidenced by the economic downturn of the late 2000s. Funding gaps presented within the confines of the financial forecast will require careful planning from management to ensure a sound financial environment for future years. The five-year forecast is a tool to plan for the City's continued financial health by facilitating the development of strategies to deal with issues facing the City of Greenville within the framework of available resources.

FORECAST ASSUMPTIONS

Numerous assumptions are required to develop a financial forecast for five years into the future (including the current year). The list below highlights significant assumptions that impact the projected revenues and expenses for the General Fund.

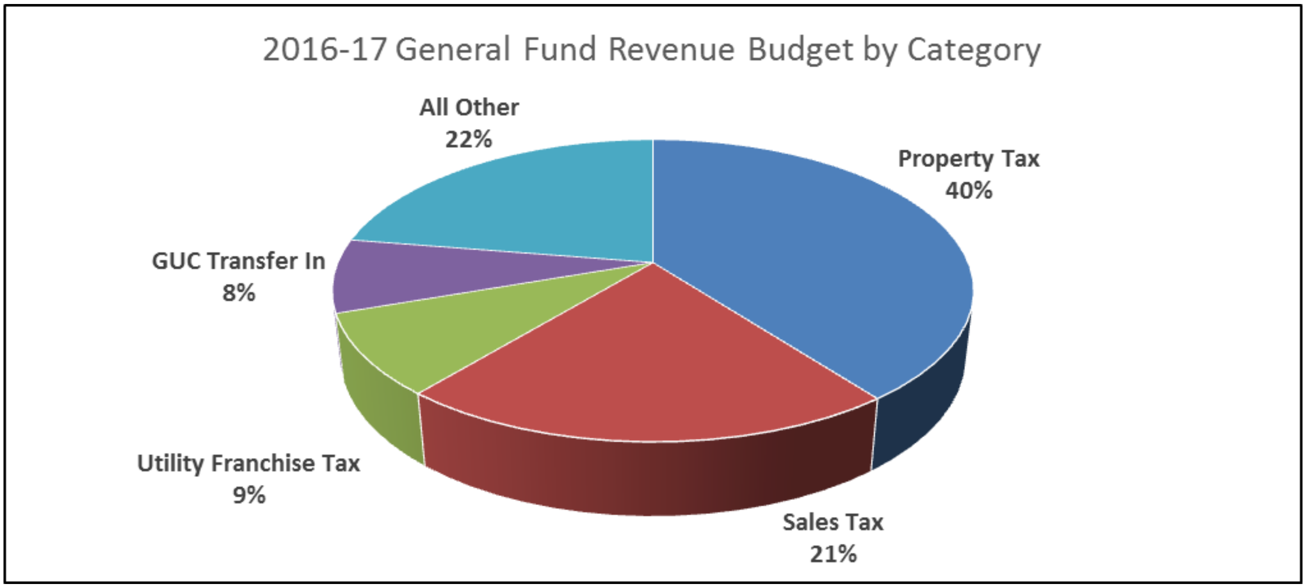
- Projections include revenues and expenses for the General Fund only, and do not include the Internal Service or Enterprise Funds that are reported with the General Fund for audit purposes.

- Revenue projections do not include impacts of any future City-initiated annexations, potential fee increases, or bond referendums/issuances. Additionally, the time frame projected does not include amounts to "catch-up" on matters such as replacement of equipment beyond historic trends. Therefore, this should be viewed as a living document that will be updated annually and monitored.

- The Aquatics and Fitness Center was added to the General Fund in fiscal year 2009, and Bradford Creek Public Golf Course was added in 2013. All historical revenues and expenses have been adjusted to include these changes.

GENERAL FUND REVENUE FINANCIAL FORECAST FISCAL YEARS 2017 - 2022

The following graph shows the fiscal year 2017 General Fund budget revenues by major funding source:



Approximately 80% of the General Fund budget revenue is receipted from ad valorem property tax, local option sales tax, the utility franchise tax, and the Transfer In from Greenville Utilities Commission (GUC).

The following is a summary of the projected revenues for current fiscal year 2017 compared to the amended budget for fiscal year 2017:

Revenue Source	Budget FY2017	Projected FY2017	Increase/ Decrease
Ad Valorem Taxes	$ 32,444,935	$ 32,322,514	$ (122,421)
Governmental Revenues	31,442,367	31,544,001	101,634
Other Functional Revenues	10,238,254	10,484,643	246,389
Investment Earnings	500,000	500,000	-
GUC Transfers In	6,459,112	6,675,407	216,295
Total Excluding Fund Balance Appr	$ 81,084,668	$ 81,526,565	$ 441,897
Fund Balance Appropriated	4,132,556	-	(4,132,556)
Total Including Fund Balance Appr	$ 85,217,224	$ 81,526,565	$ (3,690,659)

Total General Fund revenues for current fiscal year 2017 are projected to exceed the 2017 Budget revenues by approximately $441,897, excluding fund balance appropriated. The difference in revenue for 2017 compared to budget is being driven by the following:

- .5% reduction in Ad Valorem Property Tax revenues as compared to budget ($122,421 decrease)
- 2.8% increase in Local Option Sales Tax as compared to budget ($350,000 increase)
- 4.2% reduction in Utility Franchise Taxes as compared to budget ($297,752 decrease)
- 11.4% increase in Restricted Intergovernmental revenues as compared to budget ($358,782 increase)
- 6.8% reduction in Recreation and Parks revenue as compared to budget ($135,121 decrease)
- 2.7% increase in the Transfer In from GUC ($216,295 increase)

The following is a summary of projected General Fund revenues for fiscal years 2018 - 2022 compared to the current fiscal year 2017 projected revenues:

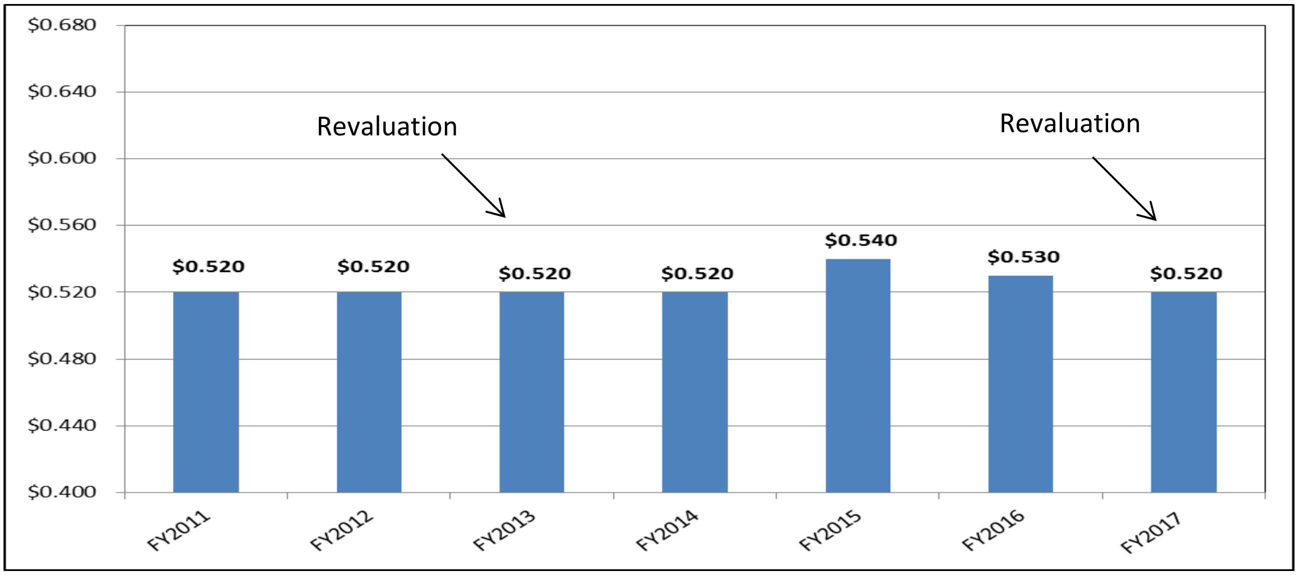
Revenue Source	Budget FY2017	Projected FY2017	Projected FY2018	Projected FY2019	Projected FY2020	Projected FY2021	Projected FY2022
Ad Valorem Taxes	$ 32,444,935	$ 32,322,514	$ 32,968,965	$ 33,628,344	$ 34,300,911	$ 34,986,929	$ 35,686,668
Governmental Revenues	31,442,367	31,544,001	31,804,764	32,583,770	33,383,564	34,204,727	35,047,858
Other Functional Revenues	10,238,254	10,484,643	8,974,080	9,117,847	9,264,921	9,415,395	9,569,360
Investment Earnings	500,000	500,000	502,500	505,013	507,538	510,075	512,626
GUC Transfers In	6,459,112	6,675,407	6,651,919	6,718,438	6,785,623	6,853,479	6,922,014
Total Excluding Fund Balance Appr	$ 81,084,668	$ 81,526,565	$ 80,902,228	$ 82,553,411	$ 84,242,557	$ 85,970,606	$ 87,738,525
Fund Balance Appropriated	4,132,556	-	1,178,344	150,000	200,000	150,000	200,000
Total Including Fund Balance Appr	$ 85,217,224	$ 81,526,565	$ 82,080,572	$ 82,703,411	$ 84,442,557	$ 86,120,606	$ 87,938,525

Per the forecast, General Fund revenues are projected to increase approximately 2% each year for the next four years beyond 2018, which equates to an overall increase of approximately $1.6 million each year. The only exception is from FY 2017 to FY 2018, which is projected to be a reduction in revenue of $624,338. FY 2017 revenue includes the sale of the Police / Fire parking lot for $1.5 million. This amount is not included in FY 2018, which translates into the projected reduction in overall revenue from FY 2017.

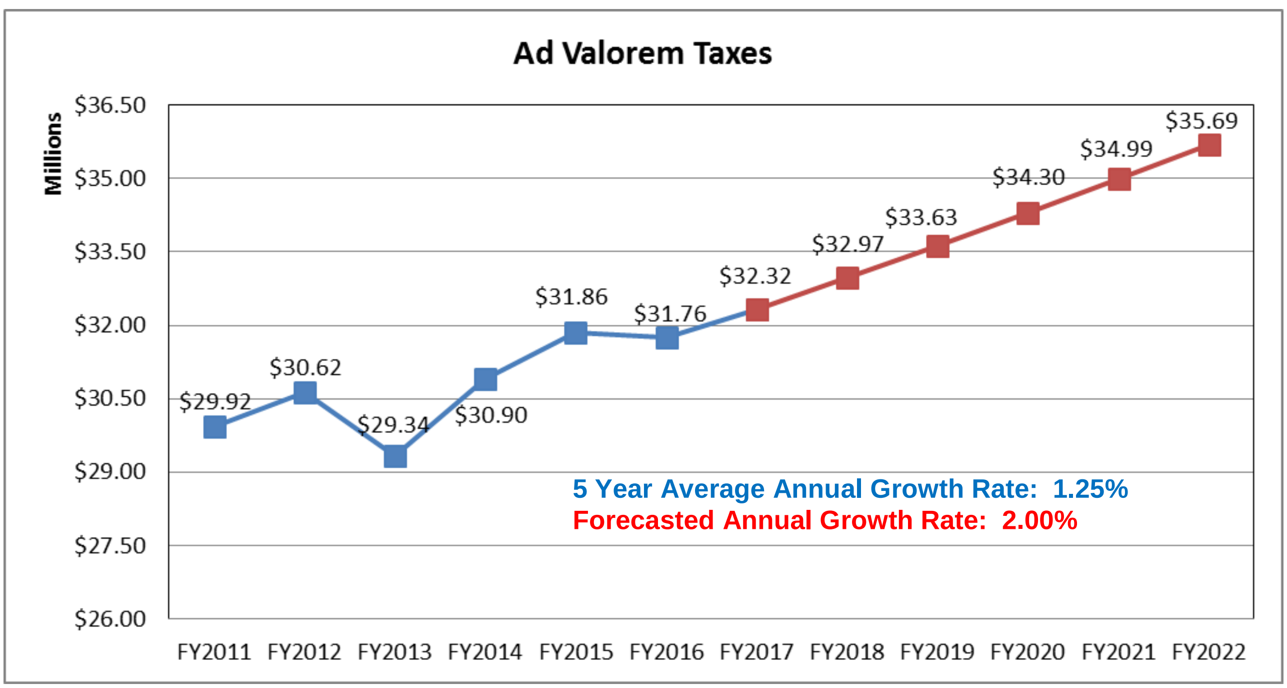
The following is an analysis of those revenues that are considered key contributors to the City's overall performance and an examination of the assumptions surrounding future growth rates in those revenues:

Ad Valorem Property Taxes

The following is the property tax rate for the City of Greenville for fiscal year 2011 through fiscal year 2017:



The following graph shows actual property tax revenues for the prior five-year period, as depicted by the blue line, and projected property tax revenues for current fiscal year 2017 through 2022, as depicted by the red line:



Overall, ad valorem property tax revenues grew at an average annual rate of approximately 1.25% between fiscal years 2011 and 2016. For the purpose of the financial forecast, property tax revenues are projected to grow on average 2.0% each year for fiscal years 2017 through 2022.

The trend in property taxes has been heavily affected by re-valuations. The decrease in property values resulted in a revenue reduction of 5.9%, or $4.4 million, for fiscal year 2013. The normal growth rate is 2% when the adjustments for revaluation are not considered. In the years leading up to the “great recession”, property valuation in the City of Greenville had averaged a consistent growth rate of approximately 6%.

The next county-wide property revaluation is scheduled for calendar year 2021 with financial impact in fiscal year 2022. The City’s projection is based on maintaining revenue-neutral property tax receipts based on a revised revenue-neutral property tax rate that would become effective July 1, 2022. Therefore, revenues are projected forward for the current fiscal year 2017 through 2022 at a steady growth rate of 2% compounded in each of the outlying years.

<u>Governmental Revenues</u>

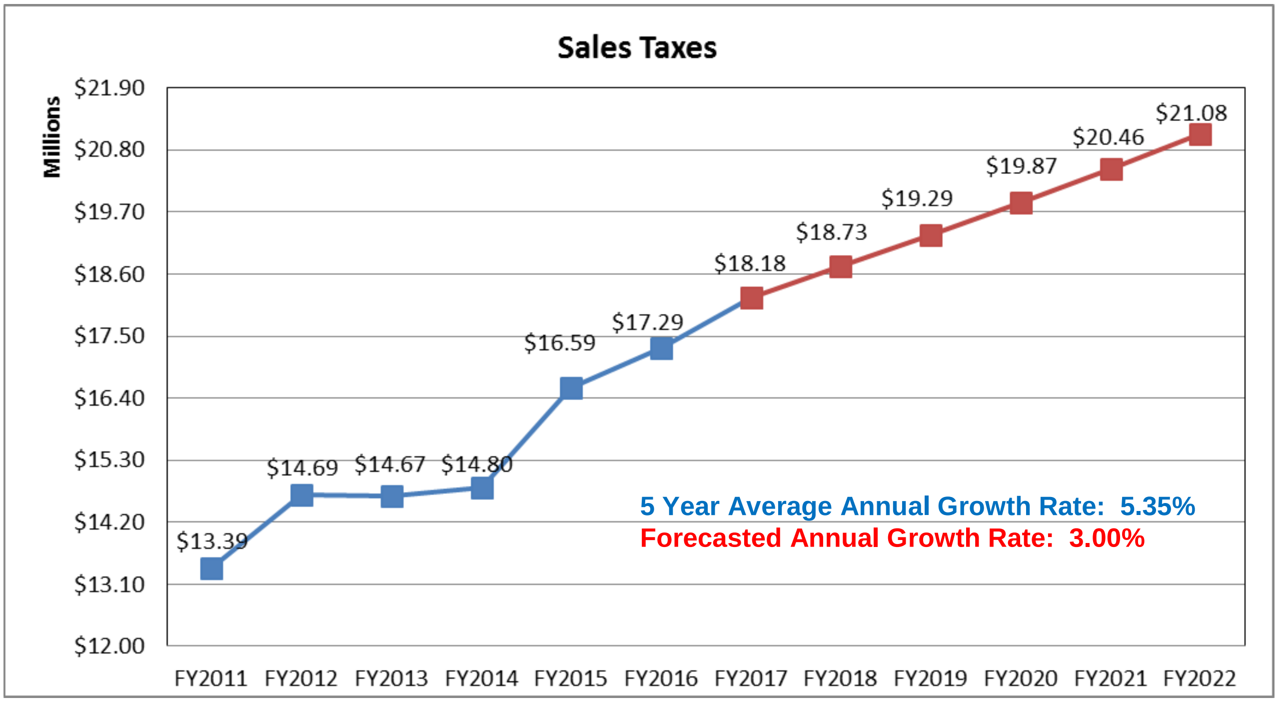
- **Sales Taxes**

Greenville receives a total sales tax distribution of 2.5% of applicable sales. The first 1% of the sales tax, referred to as Article 39, is distributed to the City based on sales tax monies originating within Pitt County, which is the point of sale, and distributed back to each municipality based on population. The 1% made up by the Article 40 and Article 42 distributions is returned to Greenville based on a statewide per capita distribution of 0.50% and a distribution based on point of sale for the remaining 0.50%. The last 0.50% is the Hold Harmless provision that replaced the 2002 Article 44 sales tax. This is distributed to Greenville based on a 50/50 distribution of both per capita and point of sale.

The General Assembly passed a number of exchanges, or swaps, involving sales tax revenues during the 2013 legislative session. Changes in sales tax beginning in late fiscal year 2014, and fully impacting fiscal years 2015 and 2016, include sales taxes on service contracts for maintenance and repair of automobiles and goods, expansion of the sales tax to cover admissions to movies, live entertainment and museums, the elimination of the exemption from sales tax for nutritional supplements sold by chiropractors, food sold in public and private college dining rooms, and most newspaper sales.

In addition, recent legislation eliminated the annual sales tax holiday, the Energy Star sales tax holiday, the exemption for bakery items sold in bakery thrift shops, and the exemption for certain items sold to farmers with gross receipts under $10,000. The new legislation also swapped the currently received Utilities Franchise Tax for sales tax on electricity and natural gas.

The following graph shows actual sales tax revenues for the prior five-year period, as depicted by the blue line, and projected sales tax revenues for current fiscal year 2017 through 2022, as depicted by the red line:



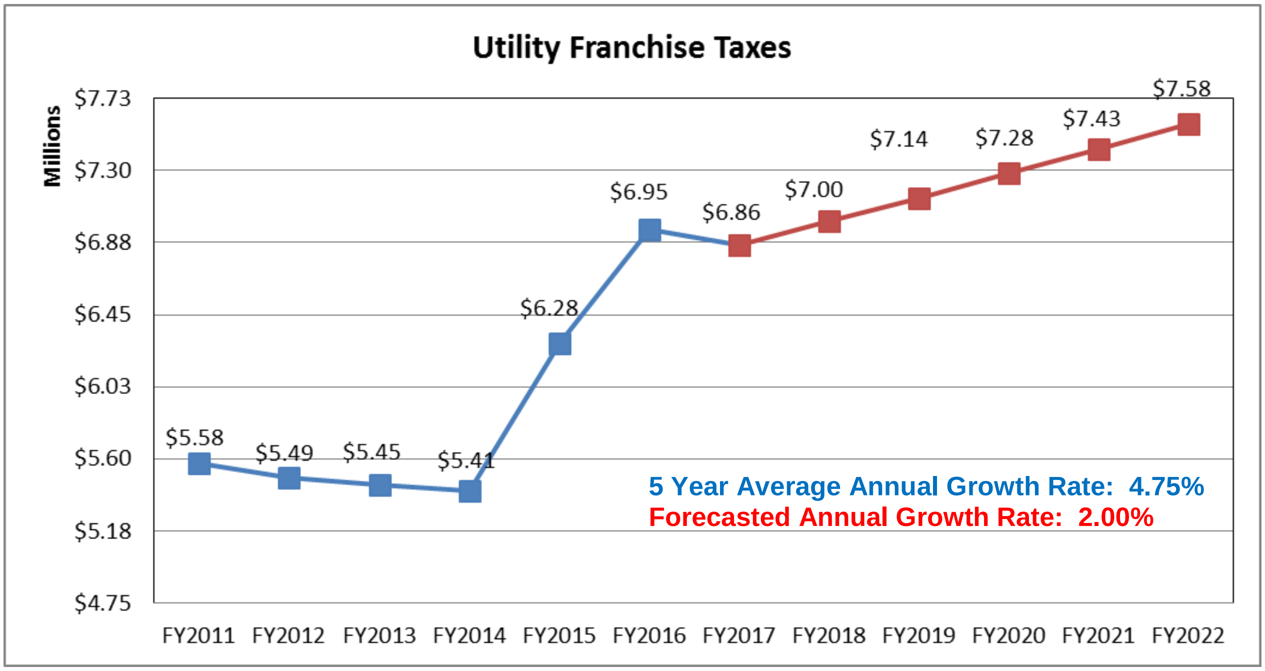
The City's five-year growth rate for sales tax is approximately 5.35% each year. However, for a three-year period between fiscal years 2012 and 2014, sales tax remained flat with an average of approximately $14.72 million. This three-year period of no growth in sales tax was a reflection of the slow rebound of the local economy following the recession.

Given the vulnerability with concerns to sales tax relative to the state and local economy, sales tax revenue growth for fiscal years 2017 through 2022 is estimated at 3%, compounded annually. Unknowns that could affect the sales tax revenue stream include any further changes made by the General Assembly. Tax reform discussions have occurred during previous legislative sessions and such discussions are anticipated to continue in the future.

- **Utility Franchise Taxes**

The 2013 Tax Reform law eliminated the state and local franchise taxes on electricity and natural gas and applied the combined general sales tax rate of 7% of sales to both. The legislation provides municipalities with 44% of the State sales tax on electricity and 20% of the State sales tax on natural gas. Each municipality gets a quarterly distribution equal to the amount of electricity and natural gas franchise taxes it received for the same quarter during fiscal year 2014. After such distribution, any remaining money is divided among cities and towns on a percentage of ad valorem tax base.

The following graph shows the actual Utility Franchise Tax revenues for the prior five-year period, as depicted by the blue line, and projected Utility Franchise Tax revenues for current fiscal year 2017 through 2022, as depicted by the red line:



The five-year average annual growth rate was approximately 4.75% between fiscal year 2011 and 2016. Growth is projected to remain steady at an annual growth rate of approximately 2.0% between fiscal years 2017 and 2022.

For fiscal year 2016, Utility Franchise revenues increased approximately 11% compared to fiscal year 2015 due to the change in the allocation of the quarterly distribution as a result of the reclassification as a sales tax.

- **Restricted Intergovernmental Revenues Federal, State, and Local (Including Powell Bill)**

Restricted Intergovernmental revenues consist generally of the following:

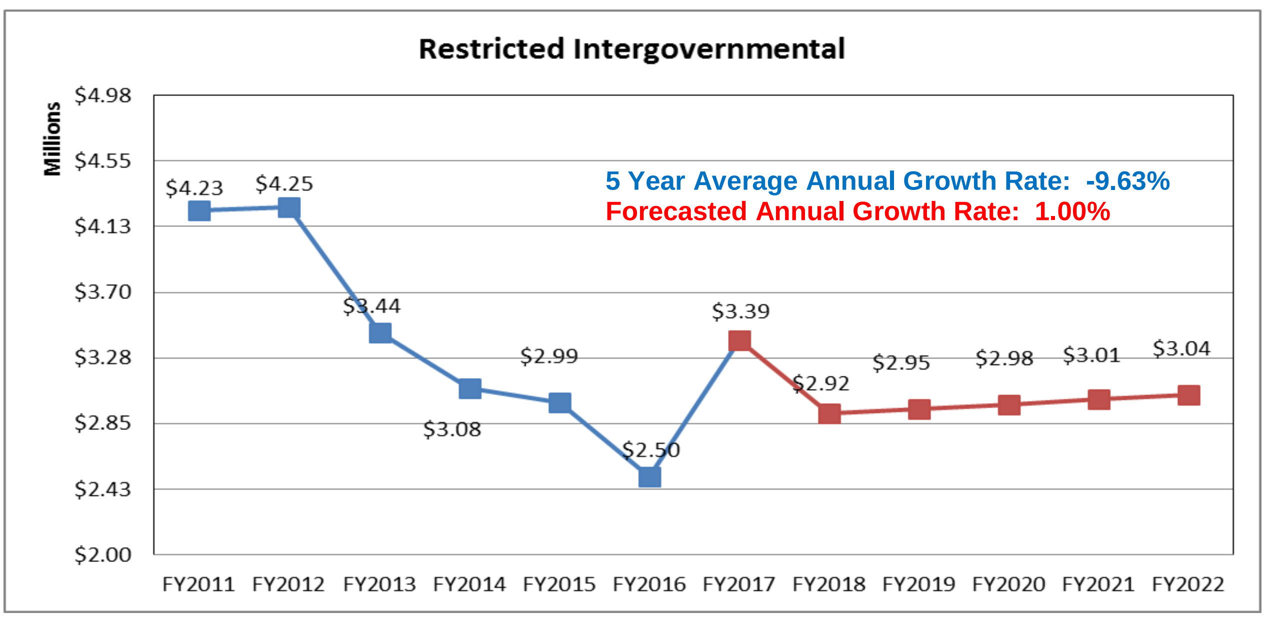
  - Federal Forfeiture and Controlled Substance
  - Police and Fire/Rescue Grants
  - State Maintenance Agreements

- State and Local Planning Grants
- Powell Bill Distribution

Intergovernmental restricted revenues vary greatly from year to year depending upon the specific grants and special funds that are available. During the past five years, revenues of this type have ranged from a 23% increase to a 19% decrease. Therefore, other than Powell Bill, these revenues cannot successfully be projected any further than what is known at this point.

Monies available for distribution from the State Powell Bill allocation are based upon tax collections on motor vehicle fuels and motor vehicle sales. In prior years, North Carolina has allowed increases in the State tax per gallon of gas. The State gas tax is currently capped; therefore, gas tax collections are expected to remain flat or even decline due to newer vehicles having greater fuel efficiency. The State's budget predicts the highway use tax on car sales to continue to show modest growth. The distribution to municipalities is based on a formula that uses population as 75% of the allocation and the number of city-maintained street miles as the other 25%. The mileage rate and the per capita distribution rate change annually. For 2017, these rates are $20.38 per capita and $1,637 per street mile. Even with the growth in motor vehicle sales and previous increases in the gas tax rate, revenues for the past five years have been flat. As such, Powell Bill revenues are projected to remain flat for future years.

The following graph shows the actual Restricted Intergovernmental revenues for the prior five-year period, as depicted by the blue line, and projected revenues for current fiscal year 2017 through 2022, as depicted by the red line:

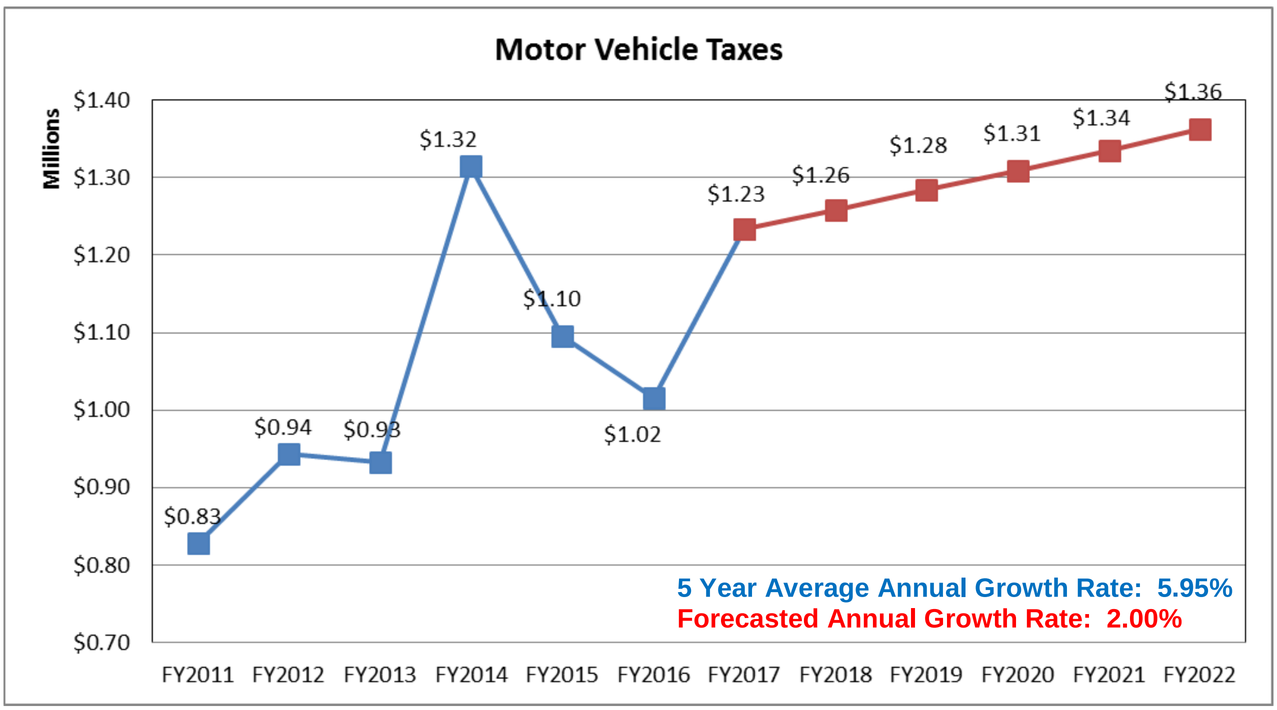


Restricted Intergovernmental revenue reduced approximately 9.63% on average each year for the past five fiscal years. Restricted Intergovernmental revenue is projected to have a modest growth rate of 1% in future years. The increase in 2017 is due to a one-time $503,000 received from the State for sidewalks under the Safe Routes to School program.

- **Motor Vehicle Taxes**

Continued improvement in the collection rate of property taxes on motor vehicles is expected as a result of the implementation of the State of North Carolina's Tax and Tag System. Fiscal year 2015 was the first full year of implementation. For FY 2017, the City's Motor Vehicle Fee was increased from $20 to $30 as part of the approved budget.

The following graph shows the Motor Vehicle Tax revenues for the prior five-year period, as depicted by the blue line, and projected Motor Vehicle Tax revenues for current fiscal year 2017 through 2022, as depicted by the red line:

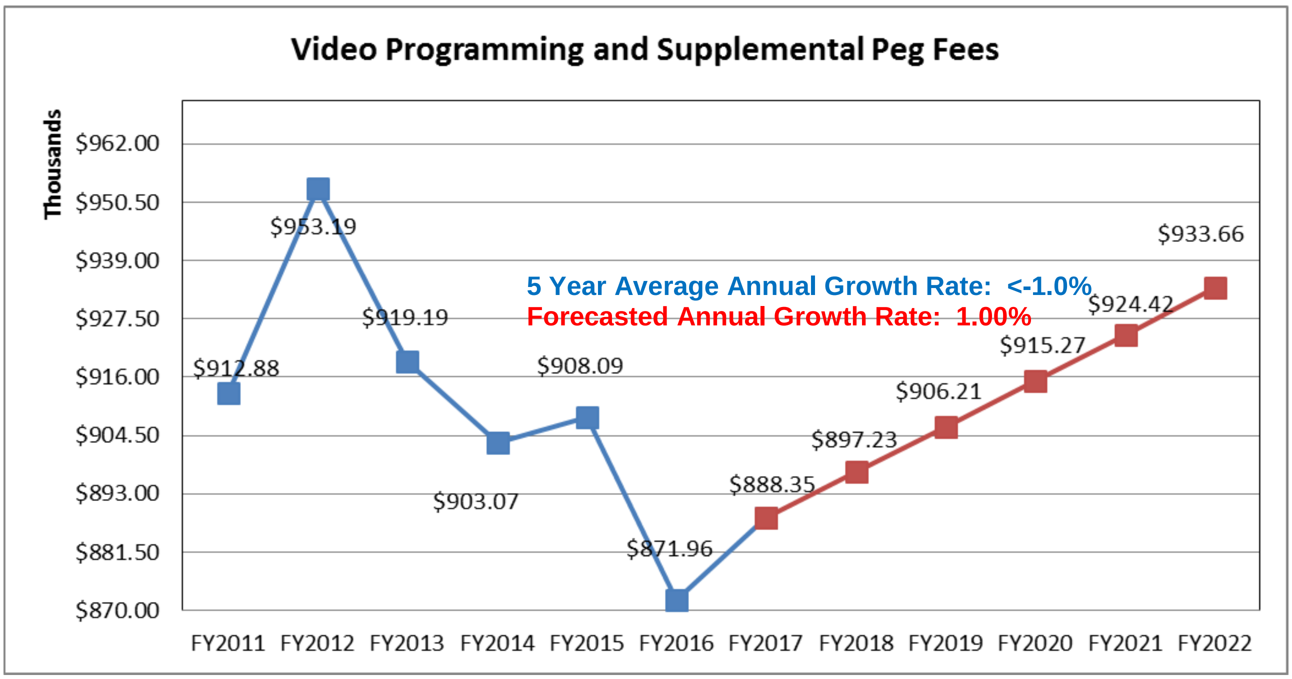


Current year Motor Vehicle Tax collections have a five-year average growth rate of 5.95%. This amount is skewed due to the implementation of the DMV Tax and Tag program that became effective in fiscal year 2014. Isolating out this one-time increase, an adjusted five-year average rate would be closer to 2%. This revenue is projected to continue its growth at 2% compounded each year in the outlying years.

- **Video Programming and Supplemental PEG Fees**

Video Programming has decreased on average 6.45% for the past five years. As such, growth in revenues for fiscal year 2017 and beyond is expected to be approximately 1%. These revenues are based on the taxes collected for communication services such as cell phones, satellite, and cable. The Supplemental PEG is a distribution of the taxes collected to provide assistance to public information channels. Greenville has two channels receiving PEG support (GTV-9 and GPAT). As additional municipalities add public information channels, the Supplemental PEG may flatten or even show slight decreases over time.

The following graph shows the Video Programming and Supplemental PEG Fees for the prior five-year period, as depicted by the blue line, and projected revenues for the current fiscal year 2017 through 2022, as depicted by the red line:



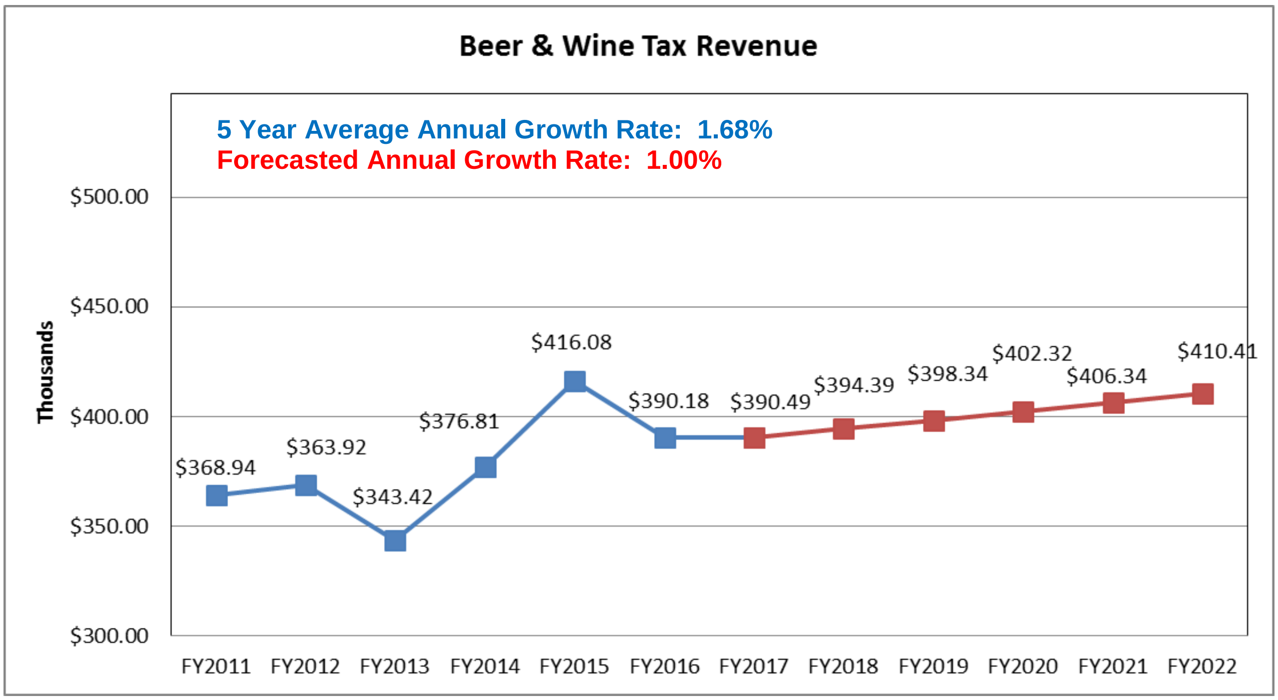
- **Privilege License Taxes**

The review of the statutes that govern the collection of Privilege License taxes initiated by the NC State Legislature was resumed in 2014. The outcome/impact of the State's review eliminated the ability of municipalities to bill for local privilege licenses. Therefore, this source of revenue has not been included in the financial forecast. Prior to its elimination, Privilege License revenue ranged from $500,000 to $600,000 annually.

- **Beer & Wine Taxes**

Municipalities share in Beer and Wine Tax revenue based on their population. Beer and Wine collections are made at the State level and distributed back to cities annually. The Beer and Wine Tax distribution to the City of Greenville has been erratic over the past five years creating ups and downs in the averaging.

The following graph shows the Beer and Wine revenues for the prior five-year period, as depicted by the blue line, and projected revenues for current fiscal year 2017 through 2022, as depicted by the red line:

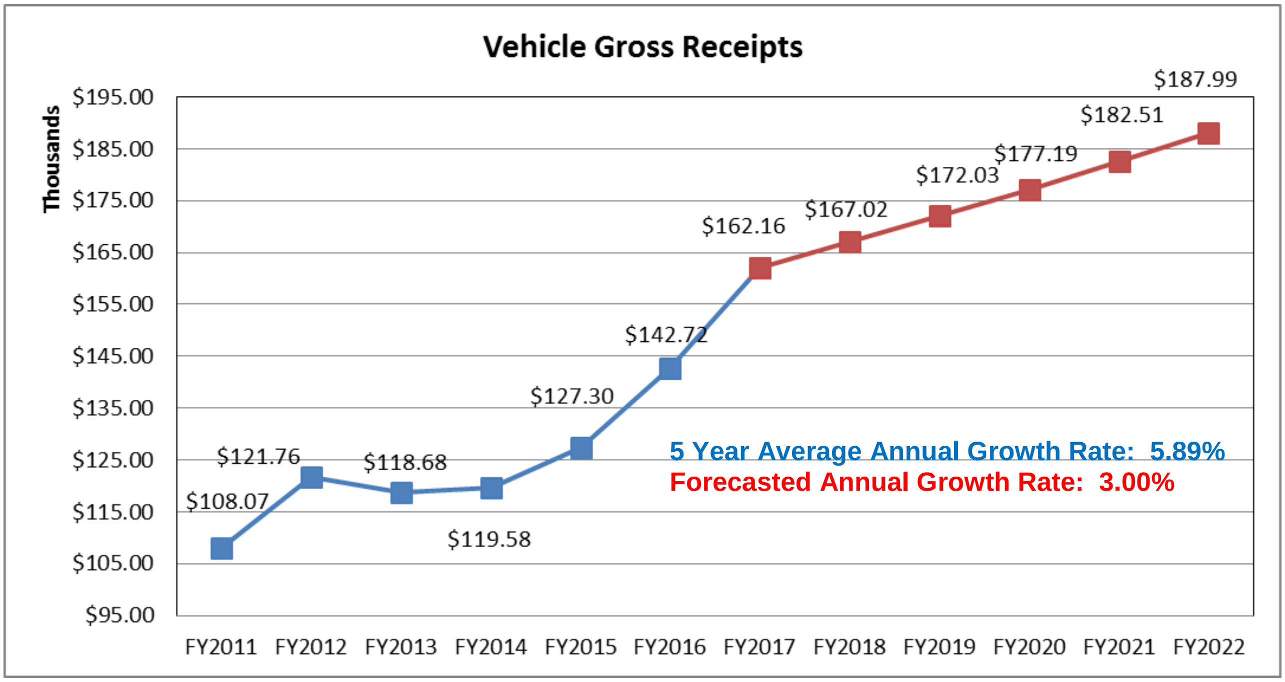


A growth rate of 1% is projected for the current fiscal year and outlying years for Beer and Wine taxes.

- **Vehicle Gross Receipts Taxes**

Vehicle Gross Receipts have a five-year average annual growth rate of 5.89%. However, the revenue stream has been erratic with an increase in revenues in 2011 and 2012, and a decline in 2013. Rental Vehicle Gross Receipts revenue is somewhat tied to economic activity within the city, airport passengers requiring local transportation, and vehicle accidents. Revenues for fiscal years 2017 through 2022 are expected to show some growth, which has been calculated at 3% compounded in each of the outlying years. The 3% growth is to adjust for the erratic trend that has been the pattern over the last five years.

The following graph shows the Vehicle Gross Receipt taxes for the prior five-year period, as depicted by the blue line, and projected revenues for current fiscal year 2017 through 2022, as depicted by the red line:

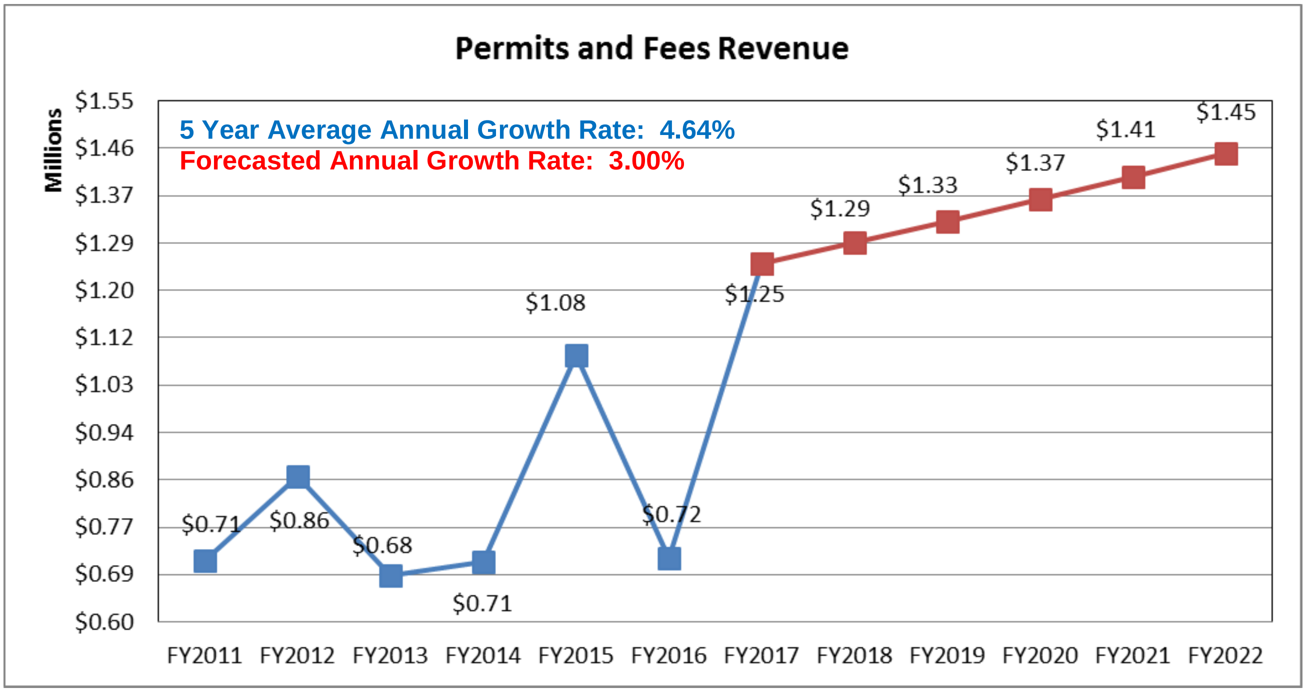


Fees, Services, and Other Revenue

- **Permits and Fees**

Prior to the 2008 economic recession and the collapse of the housing market, Inspection permits and fees experienced high growth. Fiscal year 2009 displayed a reduction in revenues generated by permitting fees by more than 50% over the prior year. In the years since 2009, growth has been sporadic. Permitting revenues were up in 2012 over 2011 by 21% only to drop again in 2013 below 2012 by 21%. Over the last five-year period from fiscal year 2011 to 2016, the average annual revenue growth was approximately 4.64%. For fiscal year 2017, fees are projected to be up by 75% due to a significant increase in major construction projects around the City. With marginal increases in construction expected to continue, permit and fee revenues are projected to retain modest growth of 3% annually for fiscal years 2018 through 2022.

The following graph shows the Permit and Fee revenue for the prior five-year period, as depicted with the blue line, and projected revenues for current fiscal year 2017 through 2022, as depicted by the red line:



- **Police**

Increases for Police revenues should remain at no more than 2% for outlying years. Revenues from Police fees, permits, citations, and miscellaneous services have seen an average annual increase of 3.86% over the past five years.

- **Fire/Rescue**

Revenues from Fire/Rescue have averaged .50% annual growth each year over the past five years. The bulk of the revenue is from EMS Rescue Service Transports.

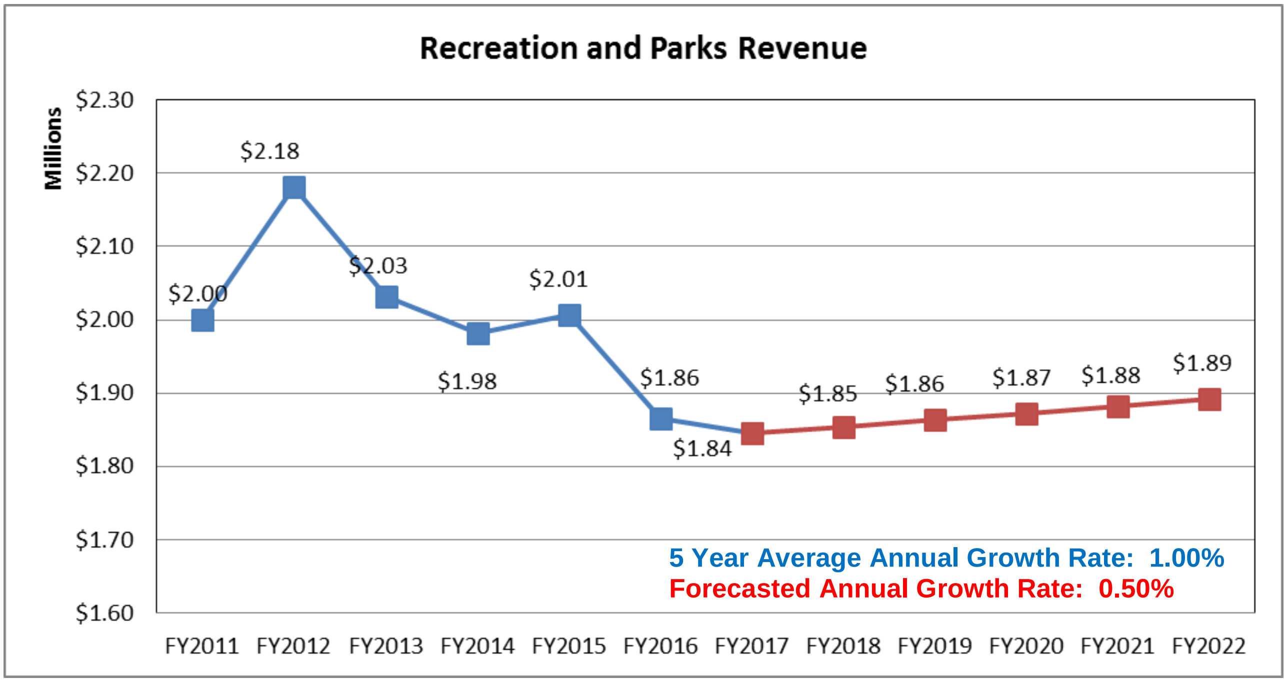
A projected growth rate of 1% is used for EMS Rescue Service Transports for outlying years. EMS Rescue Service Transports have a five-year annual average growth of .60%. Anticipated general growth is based on projected increases in the City's population.

- **Public Works**

Public Works revenues have remained flat over the prior five years. Growth is projected at a modest .50% for the outlying years. The primary sources of revenues are utility street cuts and repairs, and cemetery sales and services, which are fairly constant from year to year.

- **Recreation and Parks**

These revenues come from general recreation and parks services, recreation and athletic programs and rentals, Bradford Creek Public Golf Course, and the Aquatics and Fitness Center. The following graph shows the Recreation and Parks revenue for the prior five-year period, as depicted with the blue line, and projected revenues for current fiscal year 2017 through 2022, as depicted by the red line:



A nominal growth of 0.50% for Recreation and Parks is projected for fiscal years 2017 through 2022. The five-year average annual growth from fiscal year 2011 to 2016 was -1.2%. The largest sources of revenue within the Recreation and Parks area are Bradford Creek Public Golf Course and Aquatics and Fitness Center revenues.

A revenue reduction is projected for fiscal year 2017, as compared to fiscal year 2016. In projecting 2018 and beyond, considerations affecting revenues are the general growth in the population, resulting in additional utilization of the parks and recreational opportunities, and an increase in the marketing efforts for Bradford Creek Public Golf Course. The Aquatics and Fitness Center was added to the General fund in 2009, and Bradford Creek Golf Course was added in 2013.

- **Other Fees & Services**

Miscellaneous revenues, which are typically derived from such services as sale of property, rentals, donations, and reimbursements for miscellaneous services, vary greatly from year to year. Revenues for outlying years are projected at less than 2% growth.

Parking revenues include parking tickets, leased parking, and meter monies. Leased parking and meter monies have a five-year average annual increase of 13.04%, partially due to the completion of the 4th Street Parking Garage. Revenues are projected to increase in fiscal year 2018 and beyond by 3% per year compounded in each of the outlying years.

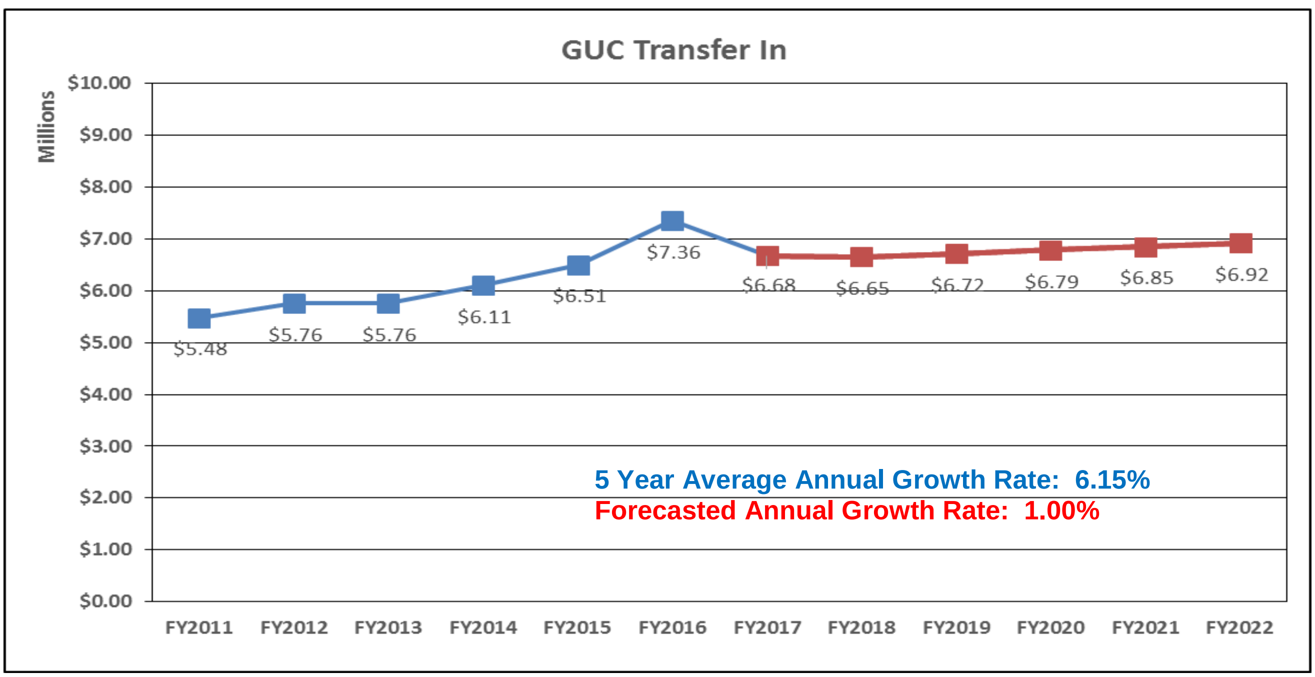
Investment Income

This revenue stream has been very volatile since the economic downturn in 2008. Until rates are more stabilized, projections include 0.50% growth for outlying years. This category reflects all interest earned within the General Fund from coupon payments on investments to adjustments that are required based on the market rates as of the end of the fiscal year.

Transfers In

Transfers In consists of a predetermined formula that includes GUC's fixed assets net their debt obligations and transfers from other funds based on the closing of projects.

The GUC transfer in is expected to be approximately $6.67 million for fiscal year 2017. For fiscal year 2017, there is a projected 9.28% decrease, as compared to the prior year, due to incomplete capital projects. A new methodology to administer the current formula, using a three-year average of actual audits, has been discussed with GUC. This change is intended to alleviate any difference between budget and actual moving forward. The change is also intended to better stabilize the transfer amount from year to year. However, there will continue to be fluctuations in the actual annual calculation given the structure of the current formula. An average annual increase of 1.0% has been included within the projection for outlying years:



Revenue Summary The following is a detail by line-item of the projected revenues for current fiscal year 2017, and a forecast of revenues for fiscal year 2018 through 2022 based on the above assumptions:

Revenue Source	Projected FY2017	Projected FY2018	Projected FY2019	Projected FY2020	Projected FY2021	Projected FY2022
Current Year Taxes	$ 29,503,086	$ 30,093,148	$ 30,695,011	$ 31,308,911	$ 31,935,089	$ 32,573,791
DMV Tax Collections	2,997,801	3,057,757	3,118,912	3,181,290	3,244,916	3,309,814
Prior Years Taxes	243,198	248,062	253,023	258,083	263,245	268,510
Penalties and Interest	147,691	150,645	153,658	156,731	159,865	163,063
Discounts and Refunds	(569,261)	(580,646)	(592,259)	(604,104)	(616,186)	(628,510)
Ad Valorem Taxes	**32,322,514**	**32,968,965**	**33,628,344**	**34,300,911**	**34,986,929**	**35,686,668**
Sales Tax	18,181,023	18,726,454	19,288,247	19,866,895	20,462,902	21,076,789
Utility Franchise Tax	6,861,147	6,998,370	7,138,338	7,281,105	7,426,727	7,575,261
Motor Vehicle Taxes	1,233,757	1,258,432	1,283,600	1,309,272	1,335,458	1,362,167
Business License	-	-	-	-	-	-
Video Programming	832,791	841,119	849,531	858,026	866,606	875,272
Supplemental PEG	55,558	56,114	56,675	57,242	57,814	58,392
Payment In Lieu of Taxes	51,075	52,097	53,138	54,201	55,285	56,391
Vehicle Gross Receipts	162,158	167,023	172,033	177,194	182,510	187,985
Wine and Beer	390,487	394,392	398,336	402,319	406,342	410,406
State Fire Protection	390,000	393,900	397,839	401,817	405,836	409,894
Restricted Intergovernmental	3,386,004	2,916,864	2,946,033	2,975,493	3,005,248	3,035,300
Governmental Revenues	**31,544,001**	**31,804,764**	**32,583,770**	**33,383,564**	**34,204,727**	**35,047,858**
Inspections Division Permits	1,250,782	1,288,305	1,326,954	1,366,763	1,407,766	1,449,999
Recreation and Parks Fees	1,844,569	1,853,792	1,863,061	1,872,376	1,881,738	1,891,147
Planning Fees	122,720	125,174	127,678	130,231	132,836	135,493
Police Fees, Fines and Citations	1,290,349	1,329,059	1,368,931	1,409,999	1,452,299	1,495,868
Engineering Fees	17,410	17,584	17,760	17,938	18,117	18,298
Fire Rescue Fees	253,804	261,418	269,260	277,338	285,658	294,228
Rescue Service Transports	3,096,519	3,127,484	3,158,759	3,190,347	3,222,250	3,254,473
Parking Tickets	191,187	193,099	195,030	196,980	198,950	200,940
Leased Parking and Meter Fees	229,583	236,470	243,564	250,871	258,397	266,149
Public Works Sales and Services	376,736	378,619	380,512	382,415	384,327	386,249
Miscellaneous Revenues	1,810,986	163,075	166,337	169,663	173,056	176,518
Other Functional Revenues	**10,484,644**	**8,974,080**	**9,117,847**	**9,264,921**	**9,415,395**	**9,569,360**
Investment Earnings	500,000	502,500	505,013	507,538	510,075	512,626
GUC Transfers In	6,675,407	6,651,919	6,718,438	6,785,623	6,853,479	6,922,014
All Other Financing Sources	-	-	-	-	-	-
Total Excluding Fund Balance Appr	**$ 81,526,566**	**$ 80,902,228**	**$ 82,553,411**	**$ 84,242,557**	**$ 85,970,606**	**$ 87,738,525**
Fund Balance Appropriated	-	1,178,344	150,000	200,000	150,000	200,000
Total Including Fund Balance Appr	**$ 81,526,566**	**$ 82,080,572**	**$ 82,703,411**	**$ 84,442,557**	**$ 86,120,606**	**$ 87,938,525**

GENERAL FUND EXPENSE FINANCIAL FORECAST FISCAL YEARS 2017 - 2022

The following are those expenses that are considered key contributors to the City's overall performance. In order to make historical patterns comparable, adjustments have been made for the Fleet and Bradford Creek funds. Staff has outlined expenses by category (i.e. personnel, operating, etc.) based on historical patterns. However, in some cases no predictable trend can be derived when generating projections. During the past five years, management has worked to respond to the economic downturn in an effort to continue business at current service levels.

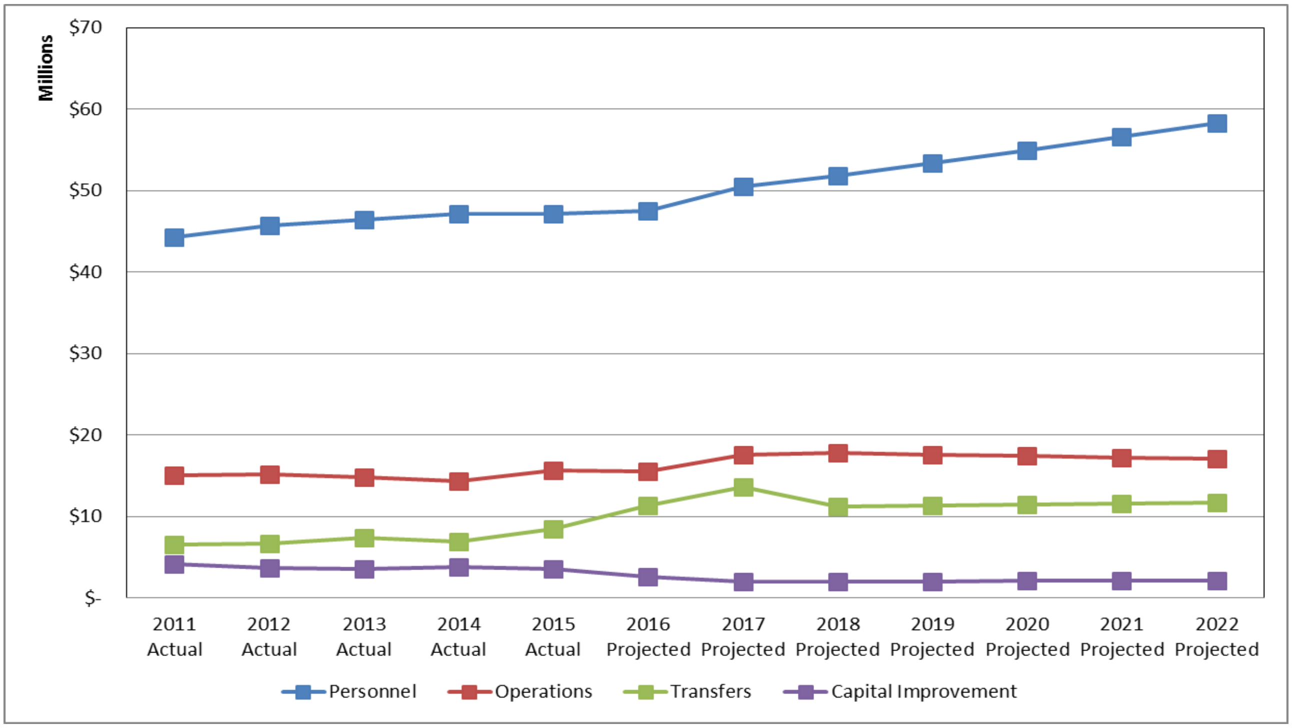
In FY 2010, in response to the economic downturn, departments were asked to reduce their discretionary operational requests by 10% in order to mitigate costs. Additionally, there was a heightened review of the Capital Improvements activity. The reduction from FY 2009 to 2010 resulted in a significant decrease within the expense category and the delaying of Capital Improvement activity. The majority of that decline resulted from the timing of "transfers out" of the General Fund. Since then, direction to the departments has been to monitor their budgets for efficiencies in an effort to keep costs down, while maintaining the quality of the City's services. In doing so, the City's expenses have remained relatively flat, within a 2-3% margin from year to year.

Projections for the current year were calculated using a five-year average. Five-year projections are based on a percentage of historical performance when compared to the prior year, if such conclusions can be made. Another method that had to be considered while creating the five-year projections are when no trends can be generalized, the projections are based on rolling averages (depending on any patterns that can be identified). The information below will highlight those significant categories that play a major role in this five-year forecast.

The next several pages provide an understanding of the projection parameters used to formulate the General Fund expense financial forecast for fiscal years 2017 through 2022.

EXPENSE BY CATEGORY

Expenses over the past five years have remained relatively flat from year to year, fluctuating on average of no more than 1.8%.



The following is a summary of projected General Fund expense by category for fiscal year 2018 through 2022 compared to the current fiscal year 2017 projected expense:

Expense	Budget FY2017	Projected FY2017	Projected FY2018	Projected FY2019	Projected FY2020	Projected FY2021	Projected FY2022
Personnel	50,659,031	50,509,031	51,819,211	53,373,788	54,975,001	56,624,251	58,322,979
Operations	17,653,111	17,606,370	17,793,740	17,583,797	17,941,569	18,172,904	18,666,205
OPEB	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Contingency	150,000	-	200,000	150,000	200,000	150,000	200,000
Indirect Costs	(1,432,859)	(1,432,859)	(1,432,859)	(1,432,859)	(1,432,859)	(1,432,859)	(1,432,859)
Transfers Out	13,656,441	13,656,441	11,247,433	11,359,907	11,473,507	11,588,242	11,704,124
Capital Improvement	4,031,500	2,015,750	2,035,908	2,056,267	2,076,829	2,097,598	2,118,574
Total	85,217,224	82,854,733	82,163,432	83,590,900	85,734,047	87,700,135	90,079,023

The following is a commentary related to the various General Fund expense categories and the projection parameters used to develop the expense forecast for fiscal years 2018 through 2022:

Personnel

There are several components that make up personnel. Over the past five years, this category has grown on average approximately 1.3% each year. The major items that trigger fluctuations in this category are pay increases, health insurance, and retirement costs. Within the past five years, across-the-board pay increases have been distributed four times (fiscal years 2013, 2015, 2016, 2017). Health Insurance has seen annual increases between 7% and 16%.

It should be noted that the largest component of this category, salaries, has historically remained relatively stagnant due to the decision to hold positions vacant in response to challenging economic conditions. For fiscal years 2018 through 2022, personnel is projected with an increase of 3.0% each year.

Below are some expenses that have additional explanation:

- Regular Salaries - This category alone can account for between 40% and 42% of overall expenses. In an attempt to keep employee salaries in line with the market, an adjustment of 3% has been included per year in the projection for regular salaries. The rationale for this increase was based on the Capital Associated Industry Index (CAI) of 2.7% for fiscal year 2015.

- Health Insurance - Currently, there is an increase of 3% in the projection for employer contributions for fiscal years 2018 through 2022. This is based on plan changes. The employer's contributions have increased an average of 4.9% annually over the past five years.

Operating

This category houses several items that are necessary to complete all administrative operations and maintenance within the City. Over the past five years, this category has grown by 2.63%. For the next several years, the average growth is projected to fluctuate between 0% - 1%. The annual projections, for all of the subcategories, are based on the historical averages. If a consistent trend cannot be assessed, a modest flat rate increase was used for projection purposes (i.e. 1%). In most cases, there was no consistent trend from year to year. Below are some expenses that require additional explanation:

- Street Lighting - This is a cost that is provided for appropriation by GUC. As expected, there is no natural trend in these costs and variances have fluctuated year to year based on usage and fees that are charged by GUC.

- Utilities - This is another expense that does not have a predictable trend. This category is dependent on usage and the fees that are charged to the City by GUC. The City has entered into an energy savings contract, which will assist in reducing the City's utility costs, leading to a projection of a .5% increase each year for fiscal years 2018 through 2022.

- Fuel – Fuel fluctuates simultaneously with the market. During the past five years, this cost has decreased on an average of 6.2%. Outlying years include a 1-2% increase depending on the estimated use of hybrids and other fuel efficient vehicles.

- Fleet Service Costs Fixed - This is an expense that will fluctuate based on the number and type of vehicles a department has within their fleet. Historically, this cost has changed on average by -2.5%. Based on this history and knowing that the biennial calculation included an amount for inflation, generally around 2%, the projections for the next few years are based on a 1-2% growth factor to be included every year.

Other Post Employment Benefit (OPEB)

This cost and its projection are consistent with City Council's decision to increase this payment by $50,000 annually to the State Treasurer Trust Fund to meet $500,000 by fiscal year 2017.

Transfers

The main annual transfers include:

- Transfers to the Debt Service fund to cover all debt owed by the City
- Transfers to the Housing and Transit Funds to cover the General Fund's share of grant funding that has been federally approved
- Transfers to the Library that has been agreed upon via a local agreement to cover two-thirds of the operational costs.

Overall, transfer growth is projected at 1%. From time to time, an additional amount is approved to the library to cover capital costs.

- *Debt Service* - The City has done a good job in recent years of paying down its debt service without any new significant debt being issued. As such, the debt service projection is based on the following:
    - Debt that the City currently has outstanding.
    - New debt service was included for the debt payment on the Fourth Street Parking Garage.

- o Additional debt service payments related to the General Obligation Bond Street and Pedestrian Improvement projects taken on in the current year.

- *Housing* - This transfer is contingent on the City's share of the Home Consortium and Community Development Block Grant (CDBG) funding that is approved annually. This funding depends on the activity that is expected to be completed in any given year and the associated approval by the Federal Government.

  In reviewing the last five years, the percentages of growth have been unpredictable. As such, projections are based on a five-year rolling average to cover the likelihood for any increases or decreases.

- *Transit* - This is another transfer that is contingent on Federal Funding and activity by the operation. These annual amounts can be heavily skewed in any given year if equipment and/or buses are being purchased. The amount estimated within the General Fund represents its share of the Federal Grant, whether operating or capital. Consistent with the rationale used for the Housing Fund, Transit's projections have also been based on a five-year rolling average amount.

- *Library* - The City is responsible for two-thirds of the Library's operational costs. Historically, this transfer has grown on average between 1% and 2%. The five years moving forward are based on increasing annual amounts by 1%.

Reimbursement for Indirect Costs

This is an amount that is based on a calculation completed by a third-party consultant. The City strives to have these calculations completed every three years. This amount has been incorporated into the City's biennial budget process at 75% cost recovery. Based on other projections that have been modeled and approved, in particular for the Sanitation and Stormwater Funds, staff deems it appropriate to phase in this type of reimbursement and has therefore used the 75% for the cost recovery over the two years.

Capital Improvements

Capital Improvements is another category that does not provide a reliable historical trend to use for projections. The expense type is contingent on City Council goals and objectives and the affordability of the projects needed. Based on the unknown nature of capital improvements, a 1% increase has been embedded as an annual increase.

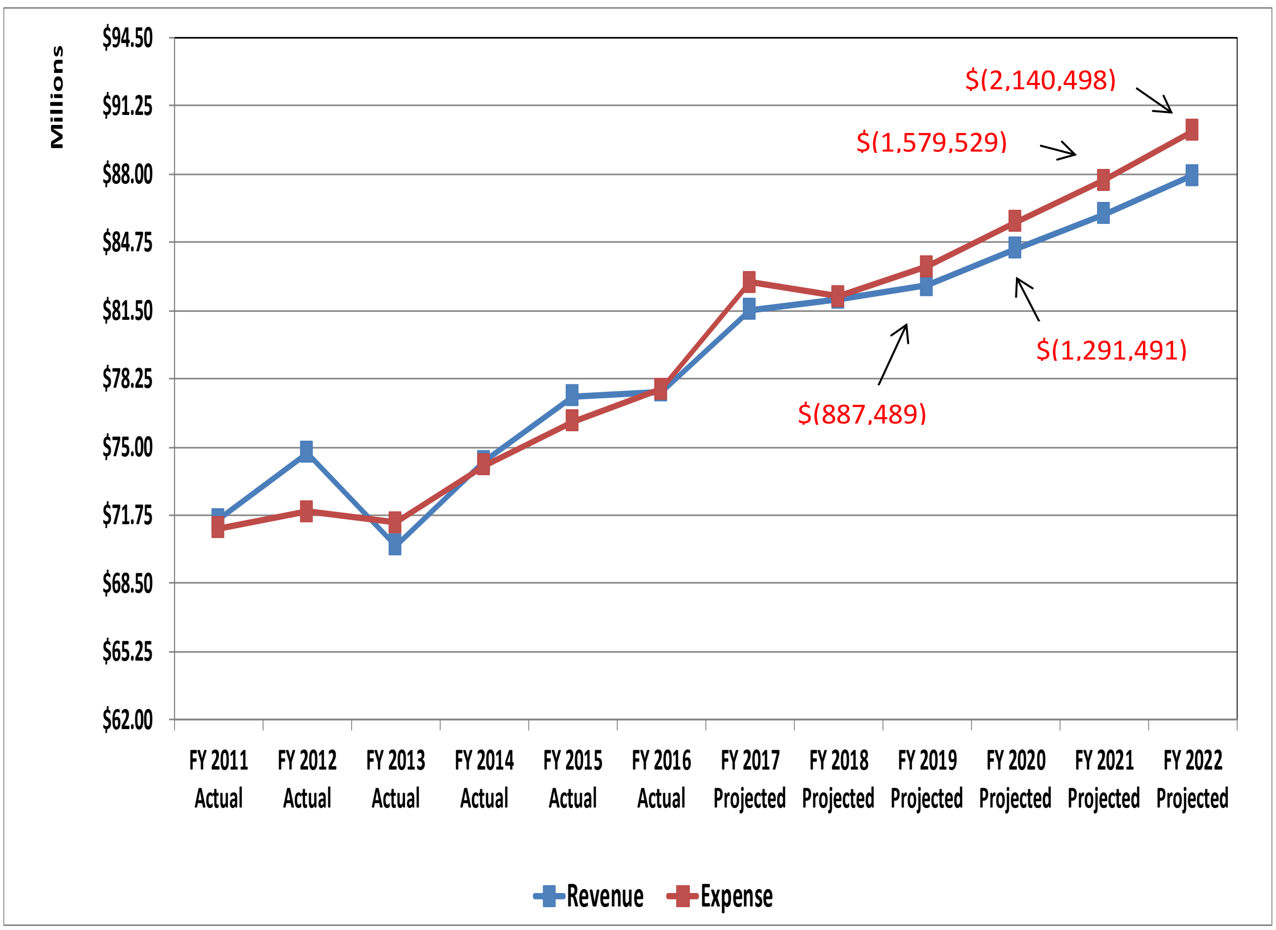
<u>Expense Summary</u> The following is a detail by line-item of the projected expenses for current fiscal year 2017, and a forecast of expenses for fiscal year 2018 through 2022:

Expense Category	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022
Regular Salaries	$ 31,909,735	$ 32,847,930	$ 33,833,367	$ 34,848,368	$ 35,893,820	$ 36,970,634
Overtime	1,961,557	2,000,788	2,060,812	2,122,636	2,186,315	2,251,905
OFF-DUTY	310,539	316,750	326,252	336,040	346,121	356,505
Car Allowance/ Uniform Allow	419,203	427,587	440,414	453,627	467,235	481,253
FICA Expense	2,765,998	2,821,318	2,905,958	2,993,136	3,082,930	3,175,418
Group Life	121,390	123,818	127,533	131,359	135,299	139,358
Retirement	2,618,434	2,670,802	2,750,926	2,833,454	2,918,458	3,006,011
Health Insurance	8,717,916	8,892,274	9,159,042	9,433,813	9,716,828	10,008,333
Workers Comp	659,158	672,342	692,512	713,287	734,686	756,726
Educ/Train Assist Prog	37,715	38,470	39,624	40,812	42,037	43,298
401K	886,025	903,746	930,858	958,784	987,547	1,017,174
Other Personnel	101,361	103,388	106,490	109,685	112,975	116,364
PERSONNEL Total	**$ 50,509,031**	**$ 51,819,211**	**$ 53,373,788**	**$ 54,975,001**	**$ 56,624,251**	**$ 58,322,979**
Printing	42,417	42,841	43,698	44,135	44,577	45,022
Travel / Training	376,841	380,610	388,222	395,986	403,906	411,984
Professional Services	14,057	14,198	14,340	13,336	12,403	12,527
Equipment Maintenance	107,609	108,685	110,859	113,076	115,338	118,798
Vehicle Maintenance	689,930	696,829	710,766	724,981	739,481	761,665
Building Maintenance	181,840	183,658	187,331	191,078	194,899	200,746
Fleet Labor	769,358	777,052	792,593	808,445	824,614	849,352
Supplies and Materials	1,312,002	1,325,122	1,351,624	1,378,657	1,406,230	1,448,417
Street Lighting	1,454,071	1,468,611	1,497,983	1,527,943	1,558,502	1,605,257
Fire/Rescue General Expenses	274,775	277,523	283,073	288,735	294,509	303,345
Grants/Donations	119,898	121,097	123,519	125,990	128,510	132,365
Computer Software	335,813	339,171	345,954	352,873	359,931	370,729
Computer Hardware	271,778	274,495	279,985	285,585	291,297	300,035
Contracted Services	2,640,789	2,667,197	2,720,541	2,774,951	2,830,451	2,915,364
Radio Maint - Citywide	179,691	181,488	185,118	188,820	192,596	198,374
Copier Maintenance - Citywide	41,819	42,238	43,082	43,944	44,823	46,168
Dues and Subscriptions	221,758	223,975	228,455	233,024	237,684	244,815
Elections	-	64,629	-	65,922	-	67,240
Advertising	97,863	98,841	100,818	102,834	104,891	108,038
Postage	26,851	27,120	27,662	28,215	28,779	29,643
Telephone	219,923	222,122	226,564	231,096	235,718	242,789
Utilities	848,220	852,461	856,723	861,007	865,312	869,639
Fuel	533,064	538,395	543,779	554,654	565,747	582,720
Laundry and Cleaning	24,296	24,539	25,030	25,530	26,041	26,822
General Insurance Liab.	544,871	550,319	561,326	572,552	584,003	601,523
Uniforms	187,405	189,279	193,064	196,926	200,864	206,890
Property & Casualty Loss	214,214	216,356	220,683	225,097	229,599	236,487
Fleet Service Cost Fixed	967,040	976,710	996,245	1,016,170	1,036,493	1,067,588
Other Expenses	4,908,179	4,908,179	4,524,760	4,570,008	4,615,708	4,661,865
OPERATIONS Total	**$ 17,606,370**	**$ 17,793,740**	**$ 17,583,797**	**$ 17,941,569**	**$ 18,172,904**	**$ 18,666,205**
OPEB	**$ 500,000**	**$ 500,000**	**$ 500,000**	**$ 500,000**	**$ 500,000**	**$ 500,000**
CONTINGENCY	**-**	**200,000**	**150,000**	**200,000**	**150,000**	**200,000**
INDIRECT COSTS	**$ (1,432,859)**	**$ (1,432,859)**	**$ (1,432,859)**	**$ (1,432,859)**	**$ (1,432,859)**	**$ (1,432,859)**
TOTAL GF/PB TRANSFER OUT	**$ 13,656,441**	**$ 11,247,433**	**$ 11,359,907**	**$ 11,473,507**	**$ 11,588,242**	**$ 11,704,124**
TOTAL GF/PB CAP. IMPR.	**$ 2,015,750**	**$ 2,035,908**	**$ 2,056,267**	**$ 2,076,829**	**$ 2,097,598**	**$ 2,118,574**
TOTAL EXPENSE	**82,854,733**	**82,163,432**	**83,590,900**	**85,734,047**	**87,700,135**	**90,079,023**

GENERAL FUND FINANCIAL FORECAST SUMMARY

As a recap of the data analyzed, the information presented is an estimate of the results for fiscal year 2017 and projected fiscal years 2018 through 2022, based on continuing operations at existing levels, with a few outliers. Overall, actual revenues for the General Fund have been flat the last five years. It should be recognized that these projections depict net annual performance and are independent of Fund Balance. The City's adopted Financial Policy Guidelines states that 14% will be maintained as Unassigned Fund Balance, a threshold that the City is currently meeting.

The table below shows a net summary for revenues as compared to expenses for the past six years and projects the same through fiscal year 2022:



	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Projected	FY2018 Projected	FY2019 Projected	FY2020 Projected	FY2021 Projected	FY2022 Projected
Revenue	$ 71,546,079	$ 74,729,491	$ 70,315,112	$ 74,311,462	$ 77,407,670	$ 77,638,278	$ 81,526,566	$ 82,080,572	$ 82,703,411	$ 84,442,557	$ 86,120,606	$ 87,938,525
Expense	$ 71,121,677	$ 71,921,355	$ 71,407,348	$ 74,127,719	$ 76,242,206	$ 77,775,706	$ 82,854,733	$ 82,163,432	$ 83,590,900	$ 85,734,047	$ 87,700,135	$ 90,079,023
Net	$ 424,402	$ 2,808,136	$ (1,092,236)	$ 183,743	$ 1,165,464	$ (137,428)	$ (1,328,167)	$ (82,860)	$ (887,489)	$ (1,291,491)	$ (1,579,529)	$ (2,140,498)

It should be recognized that the forecast shows essentially a breakeven for FY 2018, but significant deficit spending for FY 2020-22. This is primarily due to the fact that operating expense categories such as personnel are growing at a higher annual rate than the City's projected operating revenues. The budgeting process for each fiscal year will close the gap between revenues and expenses through a combination of Council and Leadership intervention. All things held constant, any projected gap between revenue and expense in the future can be bridged as follows:

- Strategically redirect / reduce operating expense along the various service-line departments: This will be very difficult to do and maintain the current level of services provided give the departmental reductions that have already been taken over the last eight years as a result of the economic downturn.
- Increase General Fund revenues in addition to normal growth: This could be done through a combination of new revenue sources, increases in fees, or an increase in property tax rate. Such decisions will have to be made in light of the City's overall economic condition.
- Reduce the projected increase in such operating expense categories as personnel: This will be difficult in that a certain level of annual increase will be needed each year to keep up with market and to keep the City competitive in the recruitment process. In addition, the routine, inflationary increase in employee benefits (such as health insurance) will range between 3% and 5% each year.
- Use fund balance to cover the deficit: This is not a practical, long-term solution in that fund balance represents a one-time funding source that will no longer exist once exhausted. In addition, the City's financial guidelines state that the City will strive to maintain an Unassigned Fund Balance of at least 14% of the total annual operating budget.

It should be further recognized that the forecast does not include any additional funding, beyond traditional allocations in-line with trends, for the following:

- New facility needs
- Significant increase in capital spending on a pay-as-you-go basis
- Staffing for new or increased levels of service
- Increase in the amount appropriated to fund debt service (i.e. future debt projects would be funded through the existing debt service appropriation using the Long-Term Debt Strategy)
- Increases in expenses receipted back to cover the operational costs of the Fleet Fund
- Increase in the amount funding the Vehicle Replacement Fund

Increases to the budget to fund any of the above line-items would increase the forecasted deficit between revenues and expenses.