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City Hall
541-664-3321**

City Council

Mayor

Hank Williams

Ward I

Bruce Dinger

Ward II

Michael Quilty

Ward III

Brandon Thueson

Ward IV

Allen Broderick

At Large

Rick Samuelson

Vacant

Administration

Chris Clayton, City
Manager

Deanna Casey, City
Recorder

**Community
Development**

Tom Humphrey,
Director

Finance

Bev Adams, Director

Human Resources

Barb Robson, Director

**Parks and Public
Works**

Matt Samitore,
Director
Jennifer Boardman,
Manager

Police

Kris Allison Chief

**CITY OF CENTRAL POINT
Study Session
January 27, 2015**

- I. **REGULAR MEETING CALLED TO ORDER – 6:00 P.M.**

- II. **DISCUSSION ITEMS**
 - A. Long Term Financial Plan

- III. **ADJOURNMENT**

WORK SESSIONS ARE INTENDED FOR DISCUSSION. NO ACTION WILL BE TAKEN ON THE AGENDA ITEMS AND NO DECISIONS WILL BE MADE. NO ORAL OR WRITTEN TESTIMONY WILL BE HEARD OR RECEIVED FROM THE PUBLIC.



City of Central Point

Long Term Financial Plan

DRAFT



January 2015

FCS GROUP

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This entire report is made of readily recyclable materials, including the bronze wire binding and the front and back cover, which are made from post-consumer recycled plastic bottles.

January 26, 2015

Bev Adams, Finance Director
City of Central Point
140 South Third Street
Central Point, Oregon 97502

Subject: Draft Long Term Financial Plan

Dear Ms. Adams:

Attached is our draft report on the results of our Long Term Financial Plan. Please review the draft, and once you, the other project team members, and the elected officials have completed the review, we can set a time to discuss any changes or clarifications that are needed. We want to thank you and all the City staff for their assistance and participation in helping us gather information for the study. If you have any questions, please feel free to contact me at (425) 867-1802 extension 228.

Sincerely,



Peter Moy
Principal

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CHAPTER I: INTRODUCTION

Although the City of Central Point has successfully navigated the recent recession by utilizing a variety of tools and techniques common to short-term reduced revenue situations, the City believes that it can be less reactive and more strategic in its financial planning. To help it improve decision making and be more strategic, the City initiated a process to develop a long range financial model and plan that will help it be more strategic, resilient, and sustainable. To assist the City with this effort, it engaged FCS GROUP to help create a financial modeling tool for the City's major activities that includes five major City funds: General Fund, Street Fund, Building Fund, Water Fund, and Stormwater Fund.

As part of developing the financial model and plan, FCS GROUP's approach included the following:

- ◆ Meeting with City management to discuss the financial model elements and plan,
- ◆ Interviewing each department head about the department's future program and financial issues,
- ◆ Identifying best financial practices,
- ◆ Reviewing preliminary forecast results with the City Manager and Finance Director,
- ◆ Providing a financial forecasting model, training, and model documentation, and
- ◆ Making presentations to City management and the City Council.

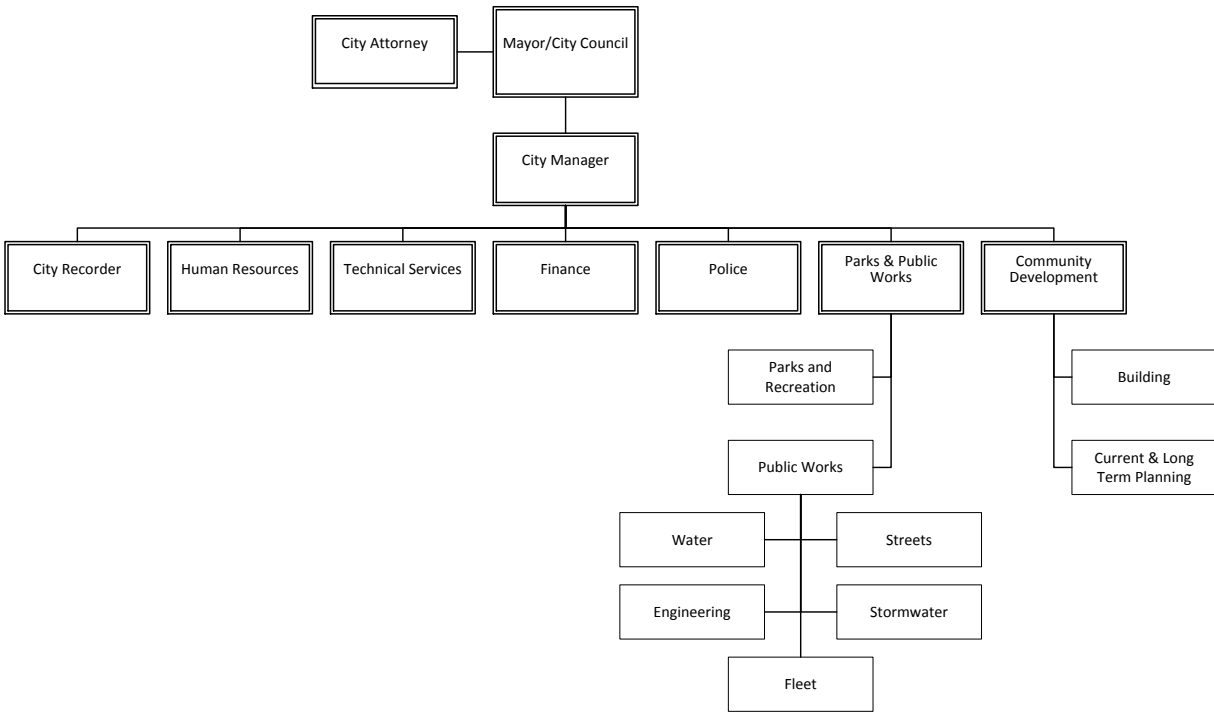
We want to acknowledge the staff assistance and support from City department managers, especially the City's Finance Director Bev Adams. This financial forecast and plan identifies best practices, the City's use of such practices, General Fund trends, and different forecast scenarios.

CITY BACKGROUND

The City of Central Point was incorporated in 1889 and currently includes an area of 3.52 square miles and has a population of over 17,000. The City is located in the northwest part of Jackson County and borders Medford, the largest city in the county. According to the City, the City's physical development has been relatively slow and has for many years retained a rural community atmosphere. However, a building boom in Southern Oregon significantly altered the landscape of the community with housing and commercial projects creating population growth and impacting the need for services that accompany growth. The national economic recession resulted in no significant growth in either population or residential and commercial projects. The regional economic base is tied to agricultural tourism healthcare transportation, and manufacturing.

The City provides a range of services including police protection, construction and maintenance of the City's streets, storm drains, water facilities, building inspection, planning, economic development, parks, and recreation. The City operates under a council-manager form of government, and the City Council consists of a mayor and six council members. The mayor serves as the ceremonial head of the City, a voting member of the Council, and the presiding officer of the meetings. An organizational chart of the City's government is shown in Exhibit 1.

Exhibit 1 City Organizational Chart



The FY 2015 Budget

The basis for the financial forecasts is the FY 2015 budget, and different scenarios have been created based on this budget. In FY 2015, the five funds analyzed as part of this financial plan represent 73% of the City’s financial resources and support almost all the services provided by the City. Other City funds include the debt service fund revenues, reserve fund, the HTCTF fund, capital improvements fund revenues, and internal services fund revenues. Exhibits 2 through 6 show a summary of the adopted FY 2015 budgets for the five funds included in this plan. It should be noted that all of the FY 2015 budgets show that expenditures exceed revenues and fund balances are being used to compensate for the gap.

**Exhibit 2
General Fund**

Revenue Category	Budget
Taxes*	\$6,239,942
Licenses & Fees	59,500
Intergovernmental	497,100
Charges for Service	994,500
Fines & Forfeitures	105,000
Interest	32,500
Miscellaneous	137,000
Use of Fund Balance*	419,158
Total Revenues*	\$8,484,700

*Revised Estimate

Expenditure Category	Budget
Administration	\$701,100
City Enhancement	198,500
Technical Services	548,400
Mayor & Council	61,250
Finance	775,600
Parks*	793,350
Recreation	522,740
Planning	403,850
Police*	4,180,910
Interdepartmental	95,000
Transfers	44,000
Contingency	160,000
Total Expenditures*	\$8,484,700

*Revised Estimate

**Exhibit 3
Building**

Revenue Category	Budget
Permit Fees	\$144,500
Interest Income	1,500
Use of Fund Balance	29,600
Total Building Fund Revenues	\$175,600

Expenditure Category	Budget
Personnel Services	\$156,300
Total Materials & Services	16,300
Contingency	3,000
Total Building Fund Requirements	\$175,600

**Exhibit 4
Street Fund**

Revenue Category	Budget
Taxes	\$240,000
Intergovernmental	990,000
Charges for Services	550,000
Interest Income	11,000
Miscellaneous	5,000
Use of Fund Balance	329,200
Total Street Revenues	\$2,125,200

Expenditure Category	Budget
Personnel Services	\$406,700
Materials & Services	1,078,500
Capital Projects	255,000
Transfers Out	32,000
Street SDC Capital Projects	253,000
Contingency	100,000
Total Street Fund Requirements	\$2,125,200

**Exhibit 5
Water Fund**

Revenue Category	Budget
Total Charges for Service	2,885,500
Interest Income	6,000
Miscellaneous Revenue	10,000
Use of Fund Balance	297,800
Total Water Revenues	3,199,300

Expenditure Category	Budget
Personnel Services	\$664,900
Materials & Services	1,770,800
Capital Projects	210,000
Debt Service	392,600
Water Operations/Capital Projects	3,038,300
Water SDC Capital Projects	16,000
Contingency	145,000
Total Water Fund Requirements	\$3,199,300

Exhibit 6
Stormwater Fund

Revenue Category	Budget
Total Charges for Services	\$841,150
Interest Income	4,000
Use of Fund Balance	49,500
Total Stormwater Revenues	\$894,650

Expenditure Category	Budget
Stormwater Operations	
Personnel Services	\$239,550
Materials & Services	404,100
Capital Projects	62,000
Debt Service	9,000
Stormwater Quality	
Materials & Services	62,000
Capital Projects	50,000
Stormwater SDC Capital Projects	25,000
Contingency	43,000
Total Stormwater Requirements	\$894,650

CHAPTER II: BEST PRACTICES

As part of this financial plan, best practices for local government financial planning and budgeting were identified to find opportunities for enhancing and adding to the City's long range financial health and policy framework. As resources become more limited and demands for continuing quality City services remain constant or increasing, the City might need to take steps to improve its budget policy framework, process, and the information needed to make budget and financial decisions for the long term, especially for the General Fund.

The Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting are primary organizations that have identified best practices for improving governmental finance and budgeting. The GFOA's mission is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and practices and by promoting them through education, training, and leadership. The National Advisory Council has recommended budget practices that provide a framework for improving local government budgeting.

GFOA recommends that all governments regularly engage in long term financial planning, and GFOA identified the following planning elements and essential steps for long term financial planning.

- ◆ Long term financial planning combines financial forecasting with strategizing. It is a highly collaborative process that considers future scenarios and helps governments navigate challenges. Long term financial planning works best as part of an overall plan.
- ◆ Long term financial planning is the process of aligning financial capacity with long term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long term sustainability in light of the government's service objectives and financial challenges.
- ◆ Many governments have a comprehensive long term planning process because it stimulates discussion and engenders a long range perspective for decision makers. It can be used as a tool to prevent financial challenges, stimulate long term and strategic thinking, develop consensus on long term financial directions, and communicate with internal and external stakeholders.
- ◆ Time horizon – A plan should look at least 5 to 10 years into the future. Governments may elect to extend their planning horizon further if conditions warrant or out.
- ◆ Scope - A plan should consider all appropriated funds, but especially those funds that are used to account for the issues of concern to elected officials in the community.
- ◆ Frequency - Governments should update long term planning activities as needed in order to provide direction to the budget process, though not every element of the long range plan must be repeated.
- ◆ Content - A plan should include an analysis of the financial environment, revenue and expenditure forecast, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and plan monitoring mechanisms such as scorecard or key indicators of financial help.

- ◆ Visibility - The public and elected officials should be able to easily learn about long-term financial prospects of the government and strategies for financial balance. Hence governments should devise an effective means for communicating this information through either separate plan documents or by integrating it with existing communication devices.

GFOA also recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting thereby establishing links between authorized spending and broad organizational goals. The City adopted a strategic plan, *Forward, Fair City Vision 2020*, in 2007. GFOA noted that an important complement to the strategic planning process is the preparation of a long term financial plan, ideally prepared concurrently with the strategic plan. For the best practices, this chapter's focus is on budgeting practices, financial policies, capital planning, and performance measures.

BEST BUDGETING PRACTICES

The Government Finance Officers Association and seven other state and local government associations created the National Advisory Council on State and Local Budgeting (NACSLB) in 1995. The Council's charge was to develop a set of recommended practices in the area of state and local budgeting. The NACSLB developed a comprehensive set of processes and procedures in 1997 that define an acceptable budget process. The recommended practices advocate a goal-driven approach to budgeting that spans the planning, development, adoption, and execution phases of the budget. The GFOA continues to support these practices and has issued several other long range planning practices. According to the NACSLB, a good overall budget process does the following:

- ◆ Incorporates a long term perspective,
- ◆ Establishes linkages to broad organizational goals,
- ◆ Focuses budget decisions on results and outcomes,
- ◆ Involves and promotes effective communication with stakeholders, and
- ◆ Provides incentives to government management and employees.

The NACSLB's overall framework consists of four principles and twelve budgetary elements. Within each element, specific budget practices are identified and recommended, and overall there are more than 50 budget practices identified. The following shows just the principles and budgetary elements.

Principle A. Establish broad goals to guide government decision making.

- ◆ Element 1 - Assess community needs, priorities, challenges and opportunities,
- ◆ Element 2 - Identify opportunities and challenges for government services, capital assets, and management, and
- ◆ Element 3 - Develop and disseminate broad goals.

Principle B. Develop approaches to achieve goals.

- ◆ Element 4 - Adopt financial policies,
- ◆ Element 5 - Develop programmatic, operating, and capital policies and plans,
- ◆ Element 6 - Develop programs and services that are consistent with policies and plans, and
- ◆ Element 7 - Develop management strategies.

Principle C. Develop a budget consistent with approaches to achieve goals.

- ◆ Element 8 - Develop a process for preparing and adopting a budget,
- ◆ Element 9 - Develop and evaluate financial options, and
- ◆ Element 10 - Make choices necessary to adopt a budget.

Principle D. Evaluate performance and make adjustments.

- ◆ Element 11 - Monitor, measure, and evaluate performance, and
- ◆ Element 12 - Make adjustments as needed.

Based on a self-assessment of all the above practices, the City could make improvements to its budget policies, process, and document by refining some of its current practices and by instituting new practices with regard to its financial policies (see the Financial Policies section). Appendix A includes the City's self-assessment. There are three areas that may be important to the City in the near future:

- ◆ Adopting financial policies,
- ◆ Capital planning, and
- ◆ Monitoring, measuring and evaluating performance.

Besides the NACSLB's best practices for budgeting, the Government Finance Officers Association has a Distinguished Budget Presentation Awards program to recognize governmental agencies that utilize their budget documents as an effective communication tool to meet the needs of their constituents, media, and policymakers. The program is designed to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting and to recognize individual governments that succeed in achieving that goal. The program has 31 evaluation criteria that measure the information in and presentation of the document according to four key areas: policy document, financial plan, operations guide, and communications device. The goal of these criteria is to define standards for a budget that presents comprehensive financial information to the public in simple, non-technical language. The City currently shows in its budget its GFOA Financial Reporting Award, which is associated with its Comprehensive Annual Financial Report and not its budget.

The GFOA criteria present a multi-year, quantifiable, and goal-oriented budget structure. According to the criteria, information should not be limited to the upcoming budget period, but should also reflect on past and current performance to provide adequate context to the reader. Descriptions of objectives, issues, initiatives, and program alterations should, when possible, be quantified to identify impacts to the budget presented. Goals for departments, divisions, programs, and activities should be expressed as both quantified short-term plans and long-term objectives, and they should be linked to overall City goals. Performance measures illustrating both workload demands and goal achievement should be included where possible and applicable.

As a policy document, GFOA believes that the budget should describe the priorities and issues that drive the direction for the coming year. Overall goals for the City should be referenced throughout departmental plans to demonstrate consistent execution of stated objectives in all departments, divisions, programs, and activities provided. Goals should be both short and long-term plans, with short-term goals that have quantifiable objectives.

To fulfill GFOA's criteria as a financial plan, the budget must describe key financial data in understandable, summary level formats, covering all funds. Comparing budget projections to past and current periods is mandated in nearly all criteria. The document must strike a balance between maintaining a "budget in brief" format and providing enough information to be complete without dwelling on technical detail.

The operations guide aspect of budgeting requires the City to clearly describe and quantify performance for departments, divisions, programs, and activities. Budget figures, objectives, budget issues and changes, and performance measures should be provided for the major services of each department and/or division. Information at the program or activity levels should relate not only to department goals but also to Citywide objectives defined within the budget document.

Finally, the budget, as a communications device, should be presented in a manner designed to speak to a public audience interested in the management of the City. The document should strive for a clean, simple layout and professional look. Information should be readily available and easy to find. Most importantly, it should focus on the needs of the intended audience and speak to their requirements, excluding technical detail but providing complete, consistent information.

FINANCIAL POLICIES

One of the initial steps in a long term financial plan is to adopt financial policies that establish the framework for the City's overall approach to its financial practices and management. For the past several years, the City has developed financial policies as part of its budget process, and these financial policies have provided the foundation for the City's budget decisions and related financial practices.

As part of the annual budget process, the City's department heads, the Mayor, and City Council adopt budget goals and policies in January and based on these policies and priorities, the various City department directors prepare their budgets. Once the budget is prepared by the end of April, the budget is then submitted to the City's Budget Committee for review, modification, and recommendation. The Budget Committee consists of the Mayor, City Council members, and seven citizens. The City includes its financial management policies with the budget.

The City's FY 2015 budget, the financial policies provided guidance on the following broad categories:

- ◆ Cash Management,
- ◆ Accounting,
- ◆ Operating Budgetary Policy, and
- ◆ Fund Structure and Fund Balance.

From an overall policy framework, the City's policies generally address many of those identified by the Government Finance Officers Association. In 2002, GFOA recommended developing financial policies that it considered fundamental to the budget process. These fundamental policies include financial planning, revenue, and expenditure policies. For financial planning policies, GFOA recommended that, at a minimum, such policies should address defining balanced operating budgets and disclosing when a balanced budget is not planned or will not occur. Another key element is having long range planning policies that support a financial planning process that assesses the long term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs, and assumptions. The third financial planning policy area is an asset inventory that inventories and assesses the condition of all major capital assets.

For revenue policies, GFOA policy recommendations seek to provide stability and to avoid potential service disruptions caused by revenue shortfalls. At a minimum GFOA recommends that jurisdictions should (1) encourage revenue diversification to handle fluctuations in individual revenue sources, (2) identify the manner in which fees and charges are set and the extent to which they cover the cost of service provided, (3) discourage the use of one-time revenues for ongoing expenditures, and (4) address the collection and use of major revenue sources that a jurisdiction considers unpredictable.

For expenditure policies, GFOA recommended that jurisdictions adopt policies that (1) specify the appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time, (2) establish a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures, and (3) compare actual expenditures to budget periodically and take action to bring the budget into balance, when necessary.

The City has recognized the importance of adopting financial policies and has for the most part developed financial policies recommended as part of the NACSLB's budget practices. Under the "adopt financial policies" element there are several types of policies recommended by the NACSLB. The financial policies include the following:

- ◆ stabilization funds,
- ◆ fees and charges,
- ◆ debt issuance and management,
- ◆ debt level and capacity,
- ◆ use of one-time revenues,
- ◆ use of unpredictable revenues,
- ◆ balancing the operating budget,
- ◆ revenue diversification, and
- ◆ contingency planning.

Of the above types of policies, the City has not yet developed policies regarding stabilization funds, use of one-time revenues, use of unpredictable revenues, and revenue diversity. The City's debt management policies could also be supplemented. There are two recommended practices for establishing debt policies. The first practice is to adopt policies that guide the issuance and management of debt. The types of policies should include the purposes for which debt may be issued, the matching of the useful life of an asset with the maturity of the debt, limitations on the amount of outstanding debt, types of permissible debt, structural features, including payment of debt service and any limitations resulting from legal provisions or financial constraints, refunding of debt, and investment of bond proceeds.

The second practice is to adopt a policy on the maximum amount of debt and debt service that should be outstanding at any one-time. These policies should provide for different policies for general obligation debt, debt supported by government enterprises, and other types of debt such as special assessment bonds, short-term debt, variable rate debt, and leases.

Examples of the NACSLB's practices are provided on the GFOA's website. For example, a debt management policy established limits on the amounts of unlimited tax general obligation debt and limited tax general obligation debt. The policy was to have no more than .75% of the City's taxable assessed valuation as unlimited tax general obligation debt. For the limited tax general obligation debt, the total limit is 1% of the city's taxable assessed valuation, and annual debt service cannot be greater than 10% of the annual General Fund revenues.

CAPITAL PLANNING

Besides general budgeting best practices, capital planning is also an important area to address and was mentioned by several City departments as a key future issue. There are two GFOA best practices that apply to the City: capital planning policies and coordinating economic development and capital planning.

GFOA believes that policies designed to guide capital planning help assure that a jurisdiction's unique needs are fully considered in the capital planning process and that effective policies can also help a government assure the sustainability of its infrastructure by establishing a process for

addressing maintenance, replacement, and proper fixed asset accounting over the full life of capital assets. According to GFOA, capital planning policies should provide, at a minimum the following:

- ◆ A description of how an organizations will approach capital planning,
- ◆ A clear definition of what constitutes a capital improvement project,
- ◆ Establishment of a capital improvement program review committee,
- ◆ A description of the role of the public and external stakeholders in the process,
- ◆ Identification of how decisions will be made in the process including a structured process for prioritizing need and allocating limited resources,
- ◆ A requirement that the planning process includes an assessment of the government's fiscal capacity so the capital plan is based on what can be realistically funded rather than being simply a wish list,
- ◆ A procedure for accumulating necessary capital reserves for both new and replacement purchases,
- ◆ A policy linking funding strategies with useful life of the asset including when debt can be issued,
- ◆ A requirement that a multi-year capital improvement plan be developed and that it include long term financing considerations and strategies,
- ◆ A process for funding to ensure that capital project funding is consistent with legal requirements,
- ◆ A requirement that the plan include significant capital maintenance projects, and
- ◆ Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.

As part of the City's strategic plan, there are several areas where capital planning is critical to implementing several goals in the plan concerning downtown revitalization and beautification, managing growth and infrastructure, recreation, and transportation elements. GFOA identified best practices concerning economic development and capital planning and include the following elements:

- ◆ Alignment with the organization's goals and objectives,
- ◆ Timing of economic development and capital planning projects,
- ◆ Value public infrastructure as an economic development strategy,
- ◆ Opportunities for having developers fund capital assets,
- ◆ Impact of development on existing assets and ongoing maintenance,
- ◆ Use of economic development tools to fund capital projects (e.g. redevelopment districts),
- ◆ Debt resulting from either economic development or the capital improvement program,
- ◆ Administrative aspects of economic development agreements, and Coordinating economic development strategies with other initiatives (e.g. master plans, the City's comprehensive plan, long term financial plan).

The NACSLB's best practices for capital planning include the following.

- ◆ Adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement,
- ◆ Develop a capital improvement plan that identifies its priorities and time frame for undertaking capital projects and provides a financing plan for those projects. The plan, including both capital

and operating costs should project at least five years into the future and should be fully integrated into the overall financial plan, and

- ◆ Monitor, measure, and evaluate capital program implementation.

PERFORMANCE MEASURES

GFOA recommends that program and service performance measures be developed and used as an important component of the long term strategic planning and decision making. GFOA encourages all governments to use performance measures as an integral part of the budget process. GFOA believes that when used in the long term planning and goal setting process and when linked to an organization's mission, goals, and objectives, meaningful performance measures assist government officials and citizens identify financial and program results, evaluate past resource decisions, and facilitate qualitative improvements in future decisions regarding resource allocation and service delivery. The NACSLB's budget practices for performance measures are:

- ◆ Develop and utilize performance measures for functions, programs, and/or activities,
- ◆ Periodically evaluate the performance of the programs and services it provides, and
- ◆ Performance measures, including efficiency and effectiveness measures, should be presented in basic budget materials, including the operating budget document.

Although the current budget identifies key objectives, performance measures and goals, it is difficult to determine the level of service provided, the effectiveness of the City's use of resources, and the demand for services. The measures are more oriented toward processes, tasks, activities, and outputs rather than service levels. To understand the balance between efficiency and effectiveness, more quantitative performance and workload measures are necessary to identify and determine the cost and level of service and to increase accountability. For example, the Police performance measures involve reduced liability, increased efficiency, and accuracy of records, evidence control, and timesheets. GFOA recommends the following for performance measures:

- ◆ be based on program goals and objectives that tie to a statement of program mission or purpose,
- ◆ measure program outcomes,
- ◆ provide for resource allocation comparisons over time,
- ◆ measure efficiency and effectiveness for continuous improvement,
- ◆ be verifiable, understandable, and timely,
- ◆ be consistent throughout the strategic plan, budget, accounting and reporting systems and to the extent practical, be consistent over time,
- ◆ be reported internally and externally,
- ◆ be monitored and used in managerial decision-making processes,
- ◆ be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs, and
- ◆ be designed in such a way to motivate staff at all levels to contribute toward organizational improvement.

CONCLUSIONS AND RECOMMENDATIONS

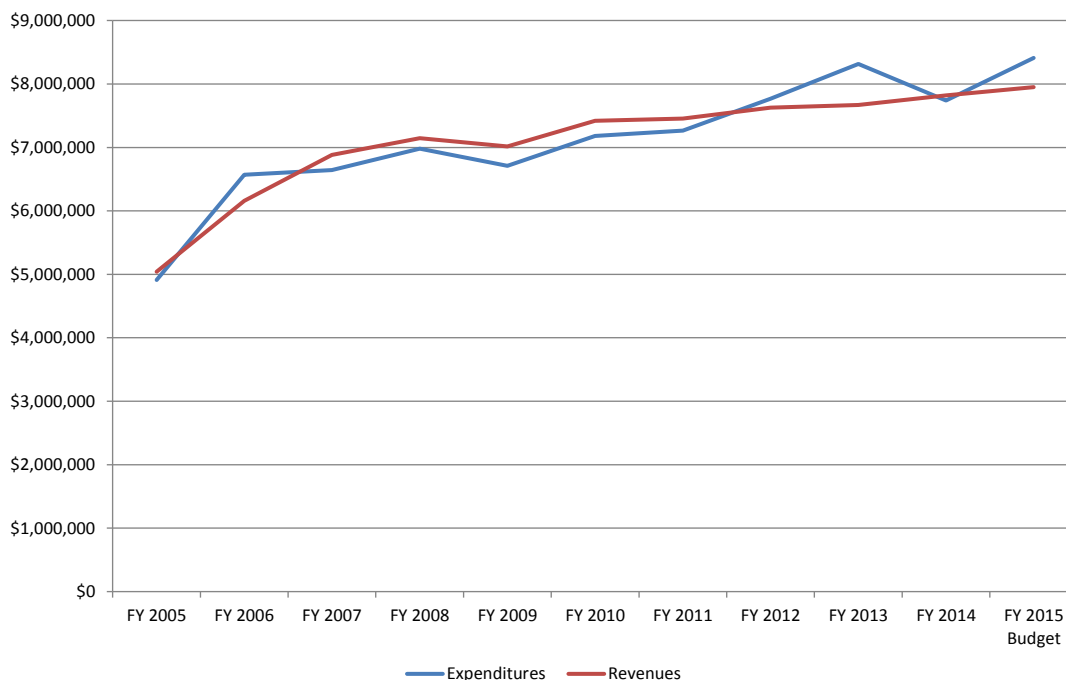
Compared to policies and practices recommended by the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting, the City has established a good policy framework that has helped guide the City through some difficult economic times. The future challenge for the City is to address its capital needs in a comprehensive manner, to develop the information needed to refine its operating budget decisions, and to monitor performance. To complete its policy framework and meet best practices, we recommend the following:

- ◆ Refine existing financial policies and develop additional financial policies concerning revenues as needed according to best practices,
- ◆ Establish more specific debt issuance and management policies as well as policies concerning debt level and capacity,
- ◆ Adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement,
- ◆ Develop an overall capital improvement plan that identifies priorities and time frames for implementing capital projects and provides a financing plan for those projects. The plan, including both capital and related operating costs, should project at least five years into the future and should be fully integrated into the overall financial plan,
- ◆ Identify cost effective opportunities where performance, efficiency, and effectiveness measures can be developed and included as part of the basic budget materials and budget document, and
- ◆ Improve the budget document, where appropriate with best practices, and consider applying for the GFOA's budget award in the future.

CHAPTER III: HISTORICAL FINANCIAL TRENDS

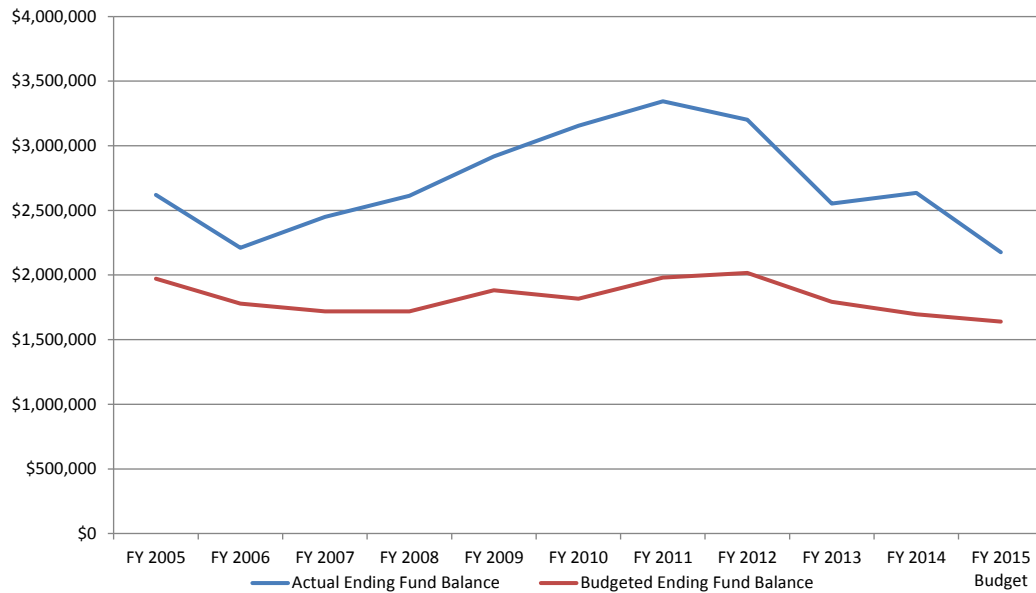
To provide a perspective about the City’s past financial performance, an analysis of the City’s financial trends was conducted for the City’s General Fund by reviewing the past ten fiscal years plus the FY 2015 budget. The General Fund is the City’s largest fund and supports many of the City’s basic services such as police, parks, recreation, planning, and the City’s administrative and support services. Between FY 2005 and FY 2012, the City’s annual General Fund revenues exceeded expenditures except for FY 2006, but since 2012, the City has operated at a deficit in 2012 and 2013 and had a slight surplus in 2014. FY 2015’s budget also includes a planned deficit where estimated revenues are less than the budgeted expenditures. Exhibit 7 shows the trends since FY 2005.

Exhibit 7
11 Year History of General Fund Revenues and Expenditures



With the surpluses before FY 2012, the City increased its fund balance before having to rely on its General Fund balance to maintain services since FY 2012. According to the City staff, the City has been working over the years to stabilize the General Fund balance during its budget deliberations. Compared to the budgeted ending fund balances, the City has, however, managed to increase the fund balance in several years and achieve higher actual fund balances. As shown in Exhibit 8, the budgeted ending fund balance has been between about \$1.7 million to \$2 million, while actual ending fund balances have been between \$2.2 million to \$3.3 million.

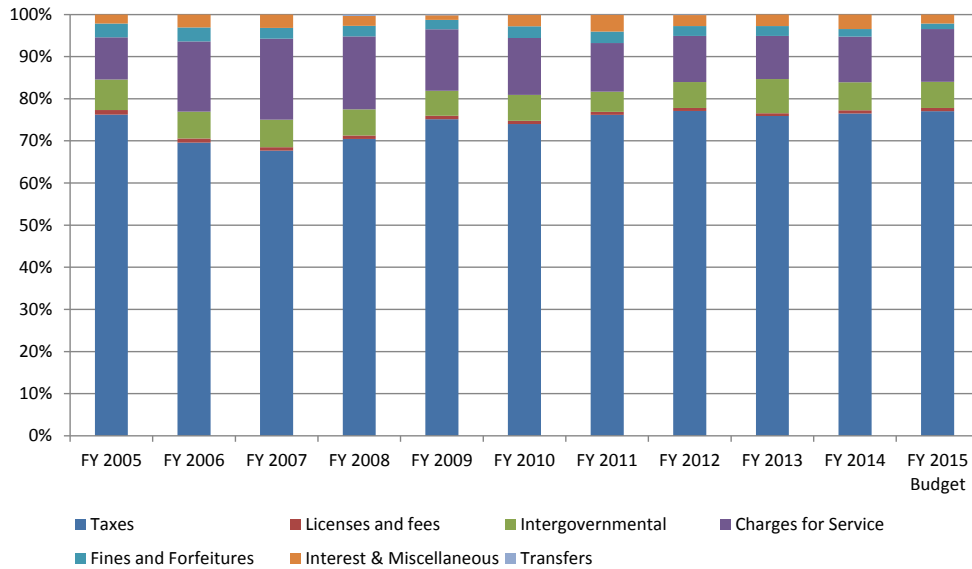
Exhibit 8 FY 2005-2015 General Fund Balances



Over the past 11 years the following revenue and expenditure trends have occurred:

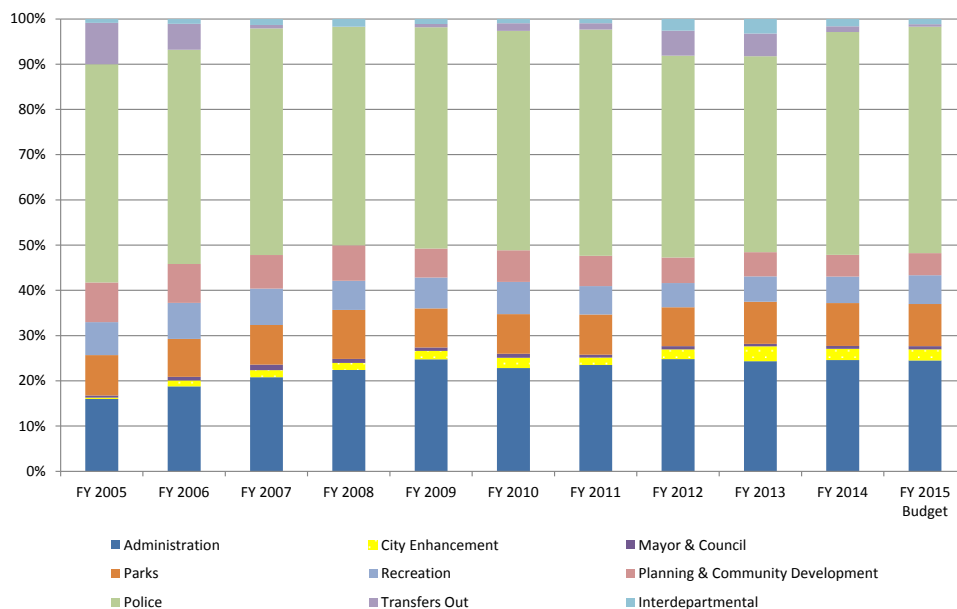
- ◆ Compared to total General Fund revenues in FY 2005, the FY 2015 budgeted revenues are almost 58% higher (\$5,0410,771 compared to \$7,950,600). Over the past ten years the average annual growth rate in General Fund revenues was 4.9%, but most of the growth occurred between FY 2005 and 2008 before the economic recession. The average growth during this period was about 13% per year, while from FY 2009 to 2015, the average annual growth rate was about 2% per year.
- ◆ Besides a 9% average revenue growth in taxes between FY 2005 and 2008, charges for services grew at an average of 42% per year during the same period. The revenue growth was caused by large revenue increases from overhead charges to other funds, planning fees, and recreation fees. Since FY 2008, the fee revenues in these categories started to significantly decrease. The average annual revenue growth in taxes decreased to about 3%, while the average annual growth in charges for services averaged -2%. For example, planning fees were about \$59,000 in FY 2005, peaked at \$122,300 in FY 2007 and were at \$5,500 in FY 2013. Recreation fees were at \$168,000 in FY 2005, peaked at \$220,600 in FY 2008, and dropped to \$63,200 in FY 2013.
- ◆ Overall, taxes have represented an average of 74% of all General Fund revenues, while charges for services averaged about 14%. Intergovernmental revenues averaged 6%. Exhibit 9 shows the proportion of revenues by category.

Exhibit 9
Percentage of General Fund Revenues by Category



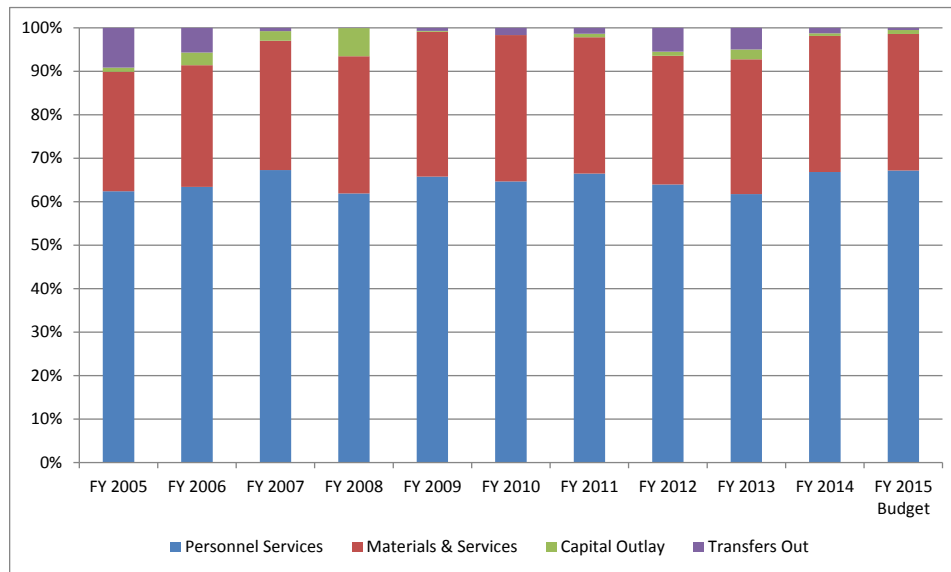
- Overall, compared to FY 2005 General Fund expenditures are 71% higher in FY 2015 (\$4,910,950 compared to \$8,409,700). The average annual increase in expenditures during the period was about 6%. About 50% of the increase in total General Fund expenditures has been related to the Police Department which has also averaged about 49% of the annual General Fund expenditures. Other areas that have increased compared to FY 2005 involve Technical Services, Finance, Parks, and Recreation. Technical Services and Finance did not exist in FY 2005 and were established as separate units in FY 2006. Exhibit 10 shows the percentage of annual expenditures by service over the past eleven years.

Exhibit 10
Percentage of General Fund Expenditures by Service



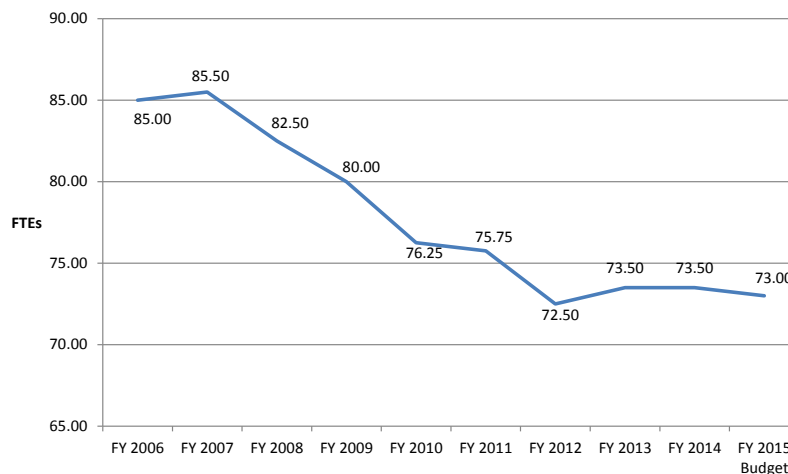
- ◆ Most General Fund expenditures are for personnel services, which have averaged about 65% of annual expenditures during the past 11 years. Materials and services have averaged about 31% of annual expenditures. Exhibit 11 shows the percentage of expenditures by category over the past 11 years.

Exhibit 11
Percentage of Expenditures by Cost Category



- ◆ As previously mentioned, the City’s General Fund had only one deficit year prior to FY2012, but since then, it has had two actual years and currently has a budget where expenditures exceeded revenues. Overall, during the eleven year period, General Fund revenues have increased at an average of about 5% per year, while General Fund expenditures have increased at an average of 6% per year. However, the City has avoided deficits because it has been reducing its overall staffing levels for all funds, including the General Fund. Since the FY 2007 peak in staffing, the City has reduced its staffing level by 15%. Exhibit 12 shows the total City FTEs for the past ten years.

Exhibit 12
Total FTEs FY 2006-2015



OBSERVATIONS

As previously mentioned, the City had an economic growth spurt between 2005 and 2008, but when the recession occurred and revenues associated with the economic growth were lost, the City survived by reducing its staffing levels. Because of those reductions and other budget management strategies, the City was able to generate surpluses between FY 2007 and FY 2012 that has allowed it to offset deficits in the past few years. Other trends show the following:

- ◆ The City is more dependent on property taxes now than during the economic growth period when charges for services were increasing primarily because of planning fees, overhead charges, and recreation fees,
- ◆ Personnel costs continue to represent the largest expenditure category,
- ◆ Funding deficits are becoming more common in recent years even though the national economy has improved, and
- ◆ It appears that after all the staff reductions following the recession, the City might now be at a point where the staffing levels are at the minimum levels to support the City's desired levels of service. The current budget, however, still shows an imbalance between revenues and expenditures, which indicates that a systemic problem might exist.

CHAPTER IV: LONG TERM FINANCIAL FORECASTS

To help the City understand whether its General, Building, Street, Water, and Stormwater Funds can be sustainable in the future, long term financial forecasts were developed for the next ten years. As part of the forecasts, primarily for the General Fund, several different scenarios were forecast to help the City understand the impacts different strategies might have on the City's financial future and sustainability. Although the financial model can be used to forecast many different scenarios, the City identified four different scenarios. The scenarios include a baseline scenario and three scenarios that modify revenues to match expenditures. Scenario descriptions are the following:

The Baseline Scenario - No change in property tax rate or fees, includes the 3% Measure 50 assessed value increase, no new expenditures from FY 2015 except for an added police officer and Parks Master Plan, no utility rate increases except Water's recently adopted increase, and no capital improvement funding in future years.

Fee and Rate Increase Scenario - No change in property tax rate, includes the 3% Measure 50 assessed value increase, new public safety and parks fees, Water, Street, and Stormwater rate increases based on CPI, and includes future capital improvements over the next four years.

Baseline Economic Growth Scenario – Needed increase in assessed value without the Measure 50 limitations to avoid General Fund deficits, Water, Street, and Stormwater rate increases based on CPI, and includes future capital improvements.

Baseline Property Tax Rate Increase Scenario – An increase in the property tax rate to avoid General Fund deficits, includes the 3% Measure 50 assessed value increase, Water, Street, and Stormwater rate increases based on CPI, and includes future capital improvements.

CITY FINANCIAL CHALLENGES

As part of developing this financial plan, the City's management staff was interviewed to discuss their perspectives about future financial issues and challenges related to their departments. From those discussions, the following general themes emerged:

- ◆ City revenues are not keeping up with inflationary costs,
- ◆ The City is facing new or increased costs in areas such as communications and dispatch and health insurance, and
- ◆ Investments in new equipment and City infrastructure are needed, but funding is not available.

KEY ASSUMPTIONS

The scenario forecasts include several basic assumptions that generally apply to all the scenarios. The following describes the assumptions.

- ◆ The baseline revenues and expenditures are based on the FY 2015 revised budget where that property taxes are based on more recent estimates after the budget was adopted.
- ◆ Starting fund balances for the FY 2015 budget are based on the actual balances from the audited financial statements as of June 30, 2014.
- ◆ No new or additional costs, services, or staffing are added to any of the scenarios. Where departments have indicated potential or desired additions, they have been noted in the scenario discussions.
- ◆ All the scenarios include the following annexations, their development, and the timing when they will start adding to the property tax base: White Hawk (FY 2017), North Village 1 (FY 2018), North Village 2 (FY 2018), North Village 4 (FY 2016), Beebe Woods (FY 2016), Dairy Queen (FY 2016), Walgreens (FY 2016), and Cardmoore Annex (FY 2016). Estimated new utility accounts are added to the base with each annexation. No additional costs to provide services to these areas have been identified at this time.
- ◆ The Consumer Price Index (CPI) increases are based on a 10-year sample of CPI-U for smaller western cities from the Bureau of Labor Statistics. All personal services costs increase by the CPI of 2.17%.
- ◆ Benefit increases are based on a 10-year sample of the ECI (Employment Cost Index) for benefits from the Bureau of Labor Statistics. All benefit costs increase by the ECI of 4.34%.
- ◆ The baseline property tax rate is \$4.47 per \$1,000 of assessed value. Property tax revenues are based on the Measure 50 limit (3%) and all other General Fund revenues are assumed to be the same as estimated for the FY 2015 budget. Interest income for all funds is based on the average return from the Oregon Short Term Fund managed by the State Treasurer's Office.
- ◆ Except for property taxes, all other General Fund revenues remain constant over the ten year period.
- ◆ Building Fund revenues increase by the CPI.
- ◆ City overhead charges are based on the FY 2015 charges to the Street, Water, and Stormwater Funds and are increased annually by the percentage increase in the expenditures of the overhead departments.
- ◆ Utility rate revenues are based on the average revenue per account. The recent Water Fund rate increase is included in the revenues starting FY 2016 as is the cost increase in Medford water purchases.
- ◆ Capital projects for the Street, Water, and Stormwater Funds for the next four years were provided by Public Works. Capital costs have been inflated by the Engineering News Record Construction Cost Index. Project funding is based on an assumption that system development charges will pay for 20% of the Street Fund projects and 15% for the Water and Stormwater Fund projects.

THE BASELINE SCENARIO

The Baseline Scenario represents a financial future with constrained revenues because there are no changes in the property tax rate, General Fund fees, and utility rates. At the same time, personnel costs are increasing at inflationary rates, and there are no capital projects. It is assumed that annexations help to add additional revenues, but have no currently identified costs. In this scenario, the forecasts show the following:

- ◆ Because the General Fund was already budgeted at a deficit for FY 2015, the General Fund continues to operate at a deficit requiring the use of its fund balance to offset the difference between revenues and expenditures. As soon as FY 2017, the minimum fund balance will begin to drop below the 20% of revenues policy level. At the end of the ten year period, the General Fund will have used all of its fund balance and will have a negative fund balance.
- ◆ Like the General Fund, the Building Fund will also continue to operate at a deficit requiring the use of its fund balance to offset the difference between revenues and expenditures. This still occurs even though fee revenues are assumed to increase by the CPI. By FY 2019, the minimum fund balance will begin to drop below the 25% of revenues policy level, and by FY 2021 all of its fund balance will be used resulting in a negative fund balance. This assumes that building activity is not increasing.
- ◆ For the Street and Stormwater Funds, they can support their operations at the current rates and will generate a surplus that could be used to support capital improvements.
- ◆ For the Water Fund, the baseline scenario includes the recent rate increase as well as the 5% increase in Medford water purchase. The fund can support its operations, but with the debt service for the reservoir, the Water Fund will start operating at a deficit in FY 2023.

Exhibits 13-17 show the revenue and expenditure summaries for the different funds.

Exhibit 13 General Fund Baseline Scenario

General Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues:											
Taxes	\$ 6,239,942	\$ 6,420,812	\$ 6,587,875	\$ 6,786,483	\$ 6,991,697	\$ 7,195,735	\$ 7,382,734	\$ 7,566,567	\$ 7,750,994	\$ 7,940,954	\$ 8,136,612
Licenses and fees	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500
Intergovernmental	497,100	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000
Charges for services	994,500	1,010,694	1,027,415	1,044,681	1,062,513	1,080,930	1,099,954	1,119,607	1,139,912	1,160,893	1,182,574
Fines and forfeitures	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000
Interest income	32,500	12,745	10,854	9,012	7,362	5,912	4,602	3,191	1,788	346	(1,138)
Miscellaneous	137,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Total revenues	8,065,542	8,167,751	8,349,644	8,563,676	8,785,072	9,006,078	9,210,790	9,412,865	9,616,194	9,825,693	10,041,548
Expenditures:											
Administration	701,100	715,723	730,820	746,407	762,503	779,124	796,291	814,024	832,342	851,268	870,824
City Enhancement	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500
Technical Services	548,400	557,747	567,403	577,379	587,687	598,338	609,344	620,720	632,477	644,629	657,192
Mayor and Council	61,250	61,602	61,962	62,331	62,710	63,098	63,496	63,904	64,322	64,751	65,191
Finance	775,600	791,838	808,603	825,916	843,796	862,264	881,341	901,049	921,412	942,453	964,198
Parks	793,350	774,706	786,439	798,563	811,094	824,045	837,433	851,273	865,583	880,380	895,682
Recreation	522,740	528,561	534,570	540,774	547,180	553,795	560,626	567,682	574,971	582,501	590,280
Planning	403,850	412,847	422,126	431,698	441,572	451,759	462,270	473,116	484,311	495,865	507,792
Police	4,180,910	4,331,437	4,435,302	4,542,627	4,653,539	4,768,171	4,886,660	5,009,150	5,135,790	5,266,733	5,402,141
Interdepartmental	139,000	145,000	145,000	145,000	145,000	149,717	176,143	173,206	173,533	173,496	173,500
Total expenditures	8,324,700	8,517,961	8,690,726	8,869,196	9,053,580	9,248,810	9,472,104	9,672,625	9,883,240	10,100,577	10,325,301
Net change in fund balance	(259,158)	(350,210)	(341,082)	(305,520)	(268,508)	(242,732)	(261,314)	(259,760)	(267,045)	(274,884)	(283,753)
Beginning fund balance	2,619,382	2,360,225	2,010,015	1,668,932	1,363,412	1,094,904	852,172	590,858	331,098	64,053	(210,831)
Ending fund balance	\$ 2,360,225	\$ 2,010,015	\$ 1,668,932	\$ 1,363,412	\$ 1,094,904	\$ 852,172	\$ 590,858	\$ 331,098	\$ 64,053	\$ (210,831)	\$ (494,585)

Exhibit 14 Building Fund Baseline Scenario

Building Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 145,584	\$ 148,477	\$ 151,527	\$ 154,638	\$ 157,811	\$ 161,046	\$ 164,345	\$ 167,709	\$ 171,139	\$ 174,636	\$ 178,201
Expenditures	172,600	177,133	181,815	186,649	191,643	196,801	202,129	207,634	213,323	219,202	225,278
Net change in fund balance	(27,017)	(28,656)	(30,288)	(32,011)	(33,832)	(35,755)	(37,784)	(39,925)	(42,184)	(44,566)	(47,077)
Beginning fund balance	182,632	155,616	126,959	96,671	64,660	30,828	(4,927)	(42,711)	(82,636)	(124,820)	(169,386)
Ending fund balance	\$ 155,616	\$ 126,959	\$ 96,671	\$ 64,660	\$ 30,828	\$ (4,927)	\$ (42,711)	\$ (82,636)	\$ (124,820)	\$ (169,386)	\$ (216,463)

Exhibit 15 Street Fund Baseline Scenario

Street Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 1,818,656	\$ 1,818,109	\$ 1,825,591	\$ 1,833,964	\$ 1,843,062	\$ 1,849,169	\$ 1,854,215	\$ 1,857,277	\$ 1,860,291	\$ 1,863,253	\$ 1,866,160
Expenditures	2,025,200	1,500,385	1,516,080	1,532,304	1,549,077	1,566,420	1,584,353	1,602,898	1,622,080	1,641,921	1,662,446
Net change in fund balance	(206,544)	317,725	309,511	301,660	293,985	282,750	269,863	254,379	238,211	221,332	203,714
Beginning fund balance	1,737,201	1,530,657	1,848,382	2,157,893	2,459,554	2,753,539	3,036,288	3,306,151	3,569,536	3,798,741	4,020,073
Ending fund balance	\$ 1,530,657	\$ 1,848,382	\$ 2,157,893	\$ 2,459,554	\$ 2,753,539	\$ 3,036,288	\$ 3,306,151	\$ 3,569,536	\$ 3,798,741	\$ 4,020,073	\$ 4,223,787

Exhibit 16 Water Fund Baseline Scenario

Water Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 2,899,500	\$ 2,956,697	\$ 2,980,848	\$ 3,017,796	\$ 3,058,556	\$ 3,084,045	\$ 3,097,589	\$ 3,099,672	\$ 3,099,994	\$ 3,100,126	\$ 3,100,061
Expenditures	3,054,300	2,891,675	2,921,570	2,952,465	2,984,398	3,017,405	3,051,527	3,086,806	3,123,285	3,161,007	3,200,020
Net change in fund balance	(154,800)	65,022	59,278	65,330	74,159	66,640	46,062	12,866	(23,290)	(60,881)	(99,960)
Beginning fund balance	1,791,381	1,636,581	1,701,603	1,760,880	1,826,211	1,900,369	1,967,009	2,013,070	2,025,937	2,002,646	1,941,765
Ending fund balance	\$ 1,636,581	\$ 1,701,603	\$ 1,760,880	\$ 1,826,211	\$ 1,900,369	\$ 1,967,009	\$ 2,013,070	\$ 2,025,937	\$ 2,002,646	\$ 1,941,765	\$ 1,841,806

Exhibit 17 Stormwater Fund Baseline Scenario

Stormwater Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 845,150	\$ 847,439	\$ 855,236	\$ 866,876	\$ 879,658	\$ 887,850	\$ 892,450	\$ 893,605	\$ 894,226	\$ 894,787	\$ 895,285
Expenditures	851,650	715,050	724,764	734,804	745,183	755,913	767,007	778,478	790,341	802,610	815,301
Net change in fund balance	(6,500)	132,389	130,473	132,072	134,475	131,937	125,444	115,127	103,886	92,177	79,984
Beginning fund balance	850,205	843,705	976,094	1,106,567	1,238,638	1,373,113	1,505,050	1,630,494	1,745,620	1,849,506	1,941,683
Ending fund balance	\$ 843,705	\$ 976,094	\$ 1,106,567	\$ 1,238,638	\$ 1,373,113	\$ 1,505,050	\$ 1,630,494	\$ 1,745,620	\$ 1,849,506	\$ 1,941,683	\$ 2,021,668

FEE AND RATE INCREASE SCENARIO

The Fee and Rate Increase Scenario represents a financial future with no change in the property tax rate, but increases in General Fund revenues because the City will charge \$3 more for its parks and recreation and public safety fees. The City estimates that these fees will annually generate \$456,000 in additional General Fund revenue. The Street, Water, and Stormwater Funds also slightly increase their revenue by increasing their rates by the CPI. At the same time, personnel costs are increasing at inflationary rates, and capital projects are now included over the next four years for the Street, Water, and Stormwater Funds. Again annexations are assumed to help add additional revenues without any currently identified costs. There are no changes to the forecast for the Building Fund in this scenario, and it is not included. The forecasts for the General Fund and the Street, Water, and Stormwater Funds show the following:

- ◆ In contrast to the Baseline Scenario, the forecast shows that with the additional fee revenue the General Fund can avoid future deficits and maintain and increase the desired fund balance. However, any capital improvements as a result of the Parks Master Plan are not included.
- ◆ The Street Fund shows positive operating results even with the capital projects, but the costs for resolving deferred street maintenance at about \$250,000 per year are not included. With the inflationary increase in the rate, there is not enough money to fund the street maintenance costs in the next four years.
- ◆ For the Water Fund, rates are increased by the CPI after FY 2016 and the recent rate increase. The increases will initially not be enough to support both the anticipated capital projects and the Fund's existing debt service during the next four years.
- ◆ The Stormwater Fund's forecast is similar to the Water Fund where CPI rate increases will initially not be enough to fund all of its capital projects during the next four years.

Exhibit 18 General Fund Fee Increase Scenario

General Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues:											
Taxes	\$ 6,239,942	\$ 6,420,812	\$ 6,587,875	\$ 6,786,483	\$ 6,991,697	\$ 7,195,735	\$ 7,382,734	\$ 7,566,567	\$ 7,750,994	\$ 7,940,954	\$ 8,136,612
Licenses and fees	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500
Intergovernmental	497,100	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000
Charges for services	994,500	1,010,694	1,027,415	1,044,681	1,062,513	1,080,930	1,099,954	1,119,607	1,139,912	1,160,893	1,182,574
Fines and forfeitures	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000
Interest income	32,500	12,745	13,181	13,815	14,653	15,705	16,909	18,027	19,167	20,281	21,367
Miscellaneous	137,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Parks and recreation fee increase	-	228,000	228,000	228,000	228,000	228,000	228,000	228,000	228,000	228,000	228,000
Public safety fee increase	-	228,000	228,000	228,000	228,000	228,000	228,000	228,000	228,000	228,000	228,000
Total revenues	8,065,542	8,623,751	8,807,971	9,024,479	9,248,363	9,471,870	9,679,098	9,883,702	10,089,573	10,301,628	10,520,054
Expenditures:											
Administration	701,100	715,723	730,820	746,407	762,503	779,124	796,291	814,024	832,342	851,268	870,824
City Enhancement	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500
Technical Services	548,400	557,747	567,403	577,379	587,687	598,338	609,344	620,720	632,477	644,629	657,192
Mayor and Council	61,250	61,602	61,962	62,331	62,710	63,098	63,496	63,904	64,322	64,751	65,191
Finance	775,600	791,838	808,603	825,916	843,796	862,264	881,341	901,049	921,412	942,453	964,198
Parks	793,350	799,706	786,439	798,563	811,094	824,045	837,433	851,273	865,583	880,380	895,682
Recreation	522,740	528,561	534,570	540,774	547,180	553,795	560,626	567,682	574,971	582,501	590,280
Planning	403,850	412,847	422,126	431,698	441,572	451,759	462,270	473,116	484,311	495,865	507,792
Police	4,180,910	4,331,437	4,435,302	4,542,627	4,653,539	4,768,171	4,886,660	5,009,150	5,135,790	5,266,733	5,402,141
Interdepartmental	139,000	145,000	145,000	145,000	145,000	149,717	176,143	173,206	173,533	173,496	173,500
Total expenditures	8,324,700	8,542,961	8,690,726	8,869,196	9,053,580	9,248,810	9,472,104	9,672,625	9,883,240	10,100,577	10,325,301
Net change in fund balance	(259,158)	80,790	117,245	155,282	194,783	223,060	206,993	211,077	206,334	201,051	194,752
Beginning fund balance	2,619,382	2,360,224	2,441,014	2,558,259	2,713,541	2,908,324	3,131,384	3,338,378	3,549,455	3,755,788	3,956,840
Ending fund balance	\$ 2,360,224	\$ 2,441,014	\$ 2,558,259	\$ 2,713,541	\$ 2,908,324	\$ 3,131,384	\$ 3,338,378	\$ 3,549,455	\$ 3,755,788	\$ 3,956,840	\$ 4,151,592

Exhibit 19 Street Fund Rate Increase Scenario

Street Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 1,818,656	\$ 1,829,255	\$ 1,847,143	\$ 1,866,034	\$ 1,886,550	\$ 1,904,343	\$ 1,922,811	\$ 1,939,426	\$ 1,956,352	\$ 1,973,594	\$ 1,991,157
Expenditures	2,025,200	1,728,324	1,826,906	1,791,326	1,808,099	1,566,420	1,584,353	1,602,898	1,622,080	1,641,921	1,662,446
Net change in fund balance	(206,544)	100,931	20,236	74,708	78,451	337,923	338,458	336,528	334,273	331,674	328,712
Beginning fund balance	1,737,201	1,530,657	1,631,588	1,651,824	1,726,532	1,804,983	2,142,906	2,481,364	2,817,892	3,152,165	3,483,838
Ending fund balance	\$ 1,530,657	\$ 1,631,588	\$ 1,651,824	\$ 1,726,532	\$ 1,804,983	\$ 2,142,906	\$ 2,481,364	\$ 2,817,892	\$ 3,152,165	\$ 3,483,838	\$ 3,812,550

Exhibit 20 Water Fund Rate Increase Scenario

Water Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 2,899,500	\$ 2,960,724	\$ 3,047,040	\$ 3,149,124	\$ 3,258,319	\$ 3,354,479	\$ 3,442,267	\$ 3,519,604	\$ 3,596,990	\$ 3,676,222	\$ 3,757,338
Expenditures	3,054,300	3,098,893	3,190,656	3,287,579	3,332,300	3,020,364	3,055,267	3,091,343	3,128,636	3,167,190	3,207,054
Net change in fund balance	(154,800)	(138,169)	(143,616)	(138,455)	(73,982)	334,115	387,000	428,261	468,355	509,032	550,284
Beginning fund balance	1,791,381	1,636,581	1,498,412	1,354,795	1,216,340	1,142,358	1,476,473	1,863,474	2,291,735	2,760,089	3,269,121
Ending fund balance	\$ 1,636,581	\$ 1,498,412	\$ 1,354,795	\$ 1,216,340	\$ 1,142,358	\$ 1,476,473	\$ 1,863,474	\$ 2,291,735	\$ 2,760,089	\$ 3,269,121	\$ 3,819,406

Exhibit 21 Stormwater Fund Rate Increase Scenario

Stormwater Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues	\$ 845,150	\$ 865,062	\$ 890,378	\$ 920,043	\$ 951,907	\$ 979,447	\$ 1,005,606	\$ 1,028,520	\$ 1,051,410	\$ 1,074,828	\$ 1,098,783
Expenditures	851,650	880,824	993,134	1,012,859	1,079,367	755,913	767,007	778,478	790,341	802,610	815,301
Net change in fund balance	(6,500)	(15,761)	(102,756)	(92,816)	(127,460)	223,534	238,600	250,042	261,069	272,218	283,483
Beginning fund balance	850,205	843,705	827,944	725,188	632,372	504,912	728,446	967,046	1,217,088	1,478,157	1,750,375
Ending fund balance	\$ 843,705	\$ 827,944	\$ 725,188	\$ 632,372	\$ 504,912	\$ 728,446	\$ 967,046	\$ 1,217,088	\$ 1,478,157	\$ 1,750,375	\$ 2,033,858

ECONOMIC GROWTH SCENARIO

In working with City management, an economic growth scenario was developed to help the City understand what type of growth is necessary to help the City make its General Fund sustainable. Because the City's major General Fund revenue source is property tax, economic growth must translate into higher assessed value growth for the City to benefit. Such economic growth might generate additional revenues from other sources, but it can also result in demand for more or

improved public services. One aspect of City growth that has already been accounted for in the previous forecasts is annexation. The Baseline Scenario already includes eight annexations that add small increases to the City’s assessed value and property tax revenues, but do not have any currently identified costs.

Because the Baseline Scenario begins with a budget where expenditures exceed revenues, the initial growth must be higher to compensate for the deficit and the impacts of inflation. Using the Baseline Scenario without Measure 50 increases (3%), Exhibit 22 shows the needed percentage increases in the City’s assessed value to make the City’s General Fund sustainable. Exhibit 23 shows the forecast based on percentage changes in the assessed value needed to avoid deficits.

**Exhibit 22
Percentage Assessed Value Growth Needed for a Balanced Budget**

FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
10.26%	2.63%	2.17%	2.19%	2.42%	3.19%	2.85%	2.99%	3.00%	3.01%

**Exhibit 23
Baseline Economic Growth Scenario**

General Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues:											
Taxes	\$ 6,239,942	\$ 6,771,022	\$ 6,928,957	\$ 7,092,003	\$ 7,260,205	\$ 7,438,468	\$ 7,644,048	\$ 7,826,327	\$ 8,018,039	\$ 8,215,838	\$ 8,420,366
Licenses and fees	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500
Intergovernmental	497,100	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000
Charges for services	994,500	1,010,694	1,027,415	1,044,681	1,062,513	1,080,930	1,099,954	1,119,607	1,139,912	1,160,893	1,182,574
Fines and forfeitures	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000
Interest income	32,500	12,745	12,745	12,755	12,776	12,805	12,842	12,887	12,939	12,999	13,067
Miscellaneous	137,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Total revenues	8,065,542	8,517,961	8,692,617	8,872,940	9,058,993	9,255,702	9,480,344	9,682,321	9,894,391	10,113,230	10,339,507
Expenditures:											
Administration	701,100	715,723	730,820	746,407	762,503	779,124	796,291	814,024	832,342	851,268	870,824
City Enhancement	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500
Technical Services	548,400	557,747	567,403	577,379	587,687	598,338	609,344	620,720	632,477	644,629	657,192
Mayor and Council	61,250	61,602	61,962	62,331	62,710	63,098	63,496	63,904	64,322	64,751	65,191
Finance	775,600	791,838	808,603	825,916	843,796	862,264	881,341	901,049	921,412	942,453	964,198
Parks	793,350	774,706	786,439	798,563	811,094	824,045	837,433	851,273	865,583	880,380	895,682
Recreation	522,740	528,561	534,570	540,774	547,180	553,795	560,626	567,682	574,971	582,501	590,280
Planning	403,850	412,847	422,126	431,698	441,572	451,759	462,270	473,116	484,311	495,865	507,792
Police	4,180,910	4,331,437	4,435,302	4,542,627	4,653,539	4,768,171	4,886,660	5,009,150	5,135,790	5,266,733	5,402,141
Interdepartmental	139,000	145,000	145,000	145,000	145,000	149,717	176,143	173,206	173,533	173,496	173,500
Total expenditures	8,324,700	8,517,961	8,690,726	8,869,196	9,053,580	9,248,810	9,472,104	9,672,625	9,883,240	10,100,577	10,325,301
Net change in fund balance	(259,158)	-	1,891	3,743	5,413	6,892	8,240	9,696	11,151	12,653	14,206
Beginning fund balance	2,619,382	2,360,225	2,360,225	2,362,116	2,365,859	2,371,272	2,378,165	2,386,405	2,396,101	2,407,252	2,419,905
Ending fund balance	\$ 2,360,225	\$ 2,360,225	\$ 2,362,116	\$ 2,365,859	\$ 2,371,272	\$ 2,378,165	\$ 2,386,405	\$ 2,396,101	\$ 2,407,252	\$ 2,419,905	\$ 2,434,111

PROPERTY TAX RATE INCREASE SCENARIO

An alternative to economic growth and an increase in the General Fund fees is to increase the property tax levy rate. The property tax rate is currently \$4.47 per \$1,000 in assessed value, and according to the City, the maximum rate is \$5.28. Like the Economic Growth Scenario, the financial model calculates the property tax rate needed to balance the budget if there are deficits. Based on the Baseline Scenario, Exhibit 24 shows what the property tax rate needs to be for the City to have a sustainable General Fund if property tax is the only revenue source to increase. As shown in the Exhibit 24, the FY 2016 rate is the highest rate because it must compensate for the current budget year’s deficit, but as the annexations occur, the rate needed is lower, and by FY 2020 the rate needed is stabilized. It should also be noted that the Measure 50 increase is included as part of the assessed value increase. Exhibit 25 shows the General Fund summary based on this scenario.

**Exhibit 24
Baseline Property Tax Rate Increases**

FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
\$4.78	\$4.76	\$4.72	\$4.68	\$4.65	\$4.66	\$4.65	\$4.65	\$4.65	\$4.65

**Exhibit 25
Baseline Property Tax Rate Increase Scenario**

General Fund Summary	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Revenues:											
Taxes	\$ 6,239,942	\$ 6,771,022	\$ 6,928,298	\$ 7,090,736	\$ 7,258,525	\$ 7,436,580	\$ 7,642,098	\$ 7,824,220	\$ 8,015,790	\$ 8,213,412	\$ 8,417,728
Licenses and fees	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500	59,500
Intergovernmental	497,100	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000	424,000
Charges for services	994,500	1,010,694	1,027,415	1,044,681	1,062,513	1,080,930	1,099,954	1,119,607	1,139,912	1,160,893	1,182,574
Fines and forfeitures	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000	105,000
Interest income	32,500	12,745	12,745	12,752	12,765	12,785	12,812	12,846	12,887	12,935	12,989
Miscellaneous	137,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Total revenues	8,065,542	8,517,961	8,691,957	8,871,669	9,057,303	9,253,795	9,478,364	9,680,173	9,892,089	10,110,740	10,336,792
Expenditures:											
Administration	701,100	715,723	730,820	746,407	762,503	779,124	796,291	814,024	832,342	851,268	870,824
City Enhancement	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500	198,500
Technical Services	548,400	557,747	567,403	577,379	587,687	598,338	609,344	620,720	632,477	644,629	657,192
Mayor and Council	61,250	61,602	61,962	62,331	62,710	63,098	63,496	63,904	64,322	64,751	65,191
Finance	775,600	791,838	808,603	825,916	843,796	862,264	881,341	901,049	921,412	942,453	964,198
Parks	793,350	774,706	786,439	798,563	811,094	824,045	837,433	851,273	865,583	880,380	895,682
Recreation	522,740	528,561	534,570	540,774	547,180	553,795	560,626	567,682	574,971	582,501	590,280
Planning	403,850	412,847	422,126	431,698	441,572	451,759	462,270	473,116	484,311	495,865	507,792
Police	4,180,910	4,331,437	4,435,302	4,542,627	4,653,539	4,768,171	4,886,660	5,009,150	5,135,790	5,266,733	5,402,141
Interdepartmental	139,000	145,000	145,000	145,000	145,000	149,717	176,143	173,206	173,533	173,496	173,500
Total expenditures	8,324,700	8,517,961	8,690,726	8,869,196	9,053,580	9,248,810	9,472,104	9,672,625	9,883,240	10,100,577	10,325,301
Net change in fund balance	(259,158)	-	1,231	2,472	3,723	4,985	6,260	7,548	8,849	10,163	11,491
Beginning fund balance	2,619,382	2,360,225	2,360,225	2,361,456	2,363,928	2,367,651	2,372,637	2,378,897	2,386,445	2,395,294	2,405,458
Ending fund balance	\$ 2,360,225	\$ 2,360,225	\$ 2,361,456	\$ 2,363,928	\$ 2,367,651	\$ 2,372,637	\$ 2,378,897	\$ 2,386,445	\$ 2,395,294	\$ 2,405,458	\$ 2,416,948

CONCLUSIONS AND RECOMMENDATIONS

As identified in the previous chapter, the current budget situation appears to have a systemic imbalance between the revenues and expenditures needed to provide the services. The forecasts show that the Baseline Scenario for the five funds is generally not sustainable over the next ten years except for the Street Fund. However, the Baseline Scenario also assumes that there will be few or no capital projects and infrastructure investments. The Fee and Rate Increase Scenario shows that the General Fund and Street Fund remain sustainable without any new or additional capital costs. The Building Fund is not sustainable unless building activity begins to increase. The Water and Street Funds are not sustainable in the near future with the currently identified capital program.

The Economic Growth Scenario shows that a large increase in this coming year needs to occur to help offset the initial gap between FY 2015's revenues and expenditures. Subsequent growth in future years is more modest and closer to the allowed Measure 50 growth. The Property Tax Rate Increase Scenario is faced with the same challenge as the Economic Growth Scenario where a large increase must occur in FY 2015 and more stable rates are needed in the future.

Overall, the different scenarios show that for the General Fund some action must be taken for it to be sustainable over the next ten years. Given the region's current economy, it is unlikely that economic growth can resolve the deficits in the near term. Consequently, fee increases or a property tax rate increase seem to be the most viable options for achieving sustainability unless the City determines that it should be providing lower levels of service in the future.

For the Street, Water, and Stormwater Funds, inflationary rate increases will support the operational costs and some capital projects. To accomplish the capital improvement programs for these funds as provided for this plan, additional rate increases beyond inflation are needed, especially in the near future. For these

three funds, capital investments are critical because the City's infrastructure are long term investments that benefit not just the City's current population, but also future generations. Delays in maintenance and repairs can result in higher future repair and replacement costs. In addition, the City should also consider how such improvements will assist the City in its economic development efforts and how projects can be coordinated and funded with the Urban Renewal Plan.

Based on these scenarios and the best practices, the following actions are recommended to achieve a more sustainable financial future.

- ◆ Because the City has a strategic plan, the City should assess the City's progress in implementing the plan and then determine whether the current budget reflects the City's desired progress and strategies. At that time, the City should determine if the long term financial plan reflects the strategic plan initiatives and needs to be revised.
- ◆ At a minimum, the City should take action to increase its General Fund revenues if the City wants to keep the current service levels and have a sustainable budget over time. To help diversify the City's General Fund revenues, the City should consider implementing a combination of fee increases as well as increasing its property tax rate. This combination provides some stability and equity in helping provide funding for all services that benefit the overall community and in charging for specific services. Every \$.10 in the property tax rate generates \$107,800, and every \$1 in either a parks or public safety fee generates \$76,000.
- ◆ The City might want to consider increasing building fees to help initially offset the Building Fund's deficits and determine whether building activity will be sufficient in future years. Another alternative is to partially subsidize the Fund's activities with General Fund and include an amount in the fee and rate increases for that purpose.
- ◆ For the Street, Water, and Stormwater Funds, the City should consider increasing rates, reviewing the timing of the capital projects, identifying any additional costs such as the deferred street maintenance costs, and incorporating these items in the next rate study for each fund. The capital projects should be incorporated as part of the City's overall Capital Improvement Plan and process as previously identified in the best practices recommendations.
- ◆ The City should update the long term financial analyses and scenarios every three to five years as part of its financial planning process.

APPENDIX A: NACSLB BEST BUDGETING PRACTICES SELF-ASSESSMENT

Summary of City Self-Assessment on NACSLB Best Budgeting Practices

Principle 1	Establish Broad Goals to Guide Government Decision Making	City Status	Notes
<i>Element 1</i>	<i>Assess Community Needs, Priorities, Challenges, and Opportunities</i>		
1.1	Identify stakeholder concerns, needs, and priorities	Yes	City's strategic plan
1.2	Evaluate community condition, external factors, opportunities, and challenges	Yes	Ongoing and annually in b
<i>Element 2</i>	<i>Identify Opportunities and Challenges for Government Services, Capital Assets, and Management</i>		
2.1	Assess services and programs, and identify issues, opportunities, and challenges	Yes	Mgt staff during annual budgeting process
2.2	Assess capital assets, and identify issues, opportunities, and challenges	Yes	
2.3	Assess governmental management systems, and identify issues, opportunities, and challenges	Yes	
<i>Element 3</i>	<i>Develop and Disseminate Broad Goals</i>		
3.1	Identify broad goals	Yes	Council's annual goal
3.2	Disseminate goals and review with stakeholders		

Principle 2	Develop Approaches to Achieve Goals	City Status	Notes
<i>Element 4</i>	<i>Adopt Financial Policies</i>	Yes	Financial policy in place, addresses some of the practices listed below, not all of them.
4.1	Develop policy on stabilization funds		
4.2	Develop policy on fees and charges	Yes	
4.3	Develop policy on debt issuance and management	Yes	
4.3a	Develop policy on debt level and capacity	Yes	
4.4	Develop policy on use of one-time revenues		

4.4a	Evaluate the use of unpredictable revenues		
4.5	Develop policy on balancing the operating budget	Yes	
4.6	Develop policy on revenue diversification		
4.7	Develop policy on contingency planning	Yes	
<i>Element 5</i>	<i>Develop Programmatic, Operating and Capital Policies and Plans</i>		
5.1	Prepare policies and plans to guide the design of programs and services		
5.2	Prepare policies and plans for capital asset acquisition, maintenance, replacement, and retirement	Yes	City's CIP plan
<i>Element 6</i>	<i>Develop Programs and Services that are Consistent with Policies and Plans</i>		
6.1	Develop programs and evaluate delivery mechanisms	Yes	
6.2	Develop options for meeting capital needs and evaluate acquisition alternatives	Yes	Water rate plan addresses this for that utility
6.3	Identify functions, programs, and/or activities of organizational units	Yes	
6.4	Develop performance measures	Yes	
6.4a	Develop performance benchmarks	Yes	
<i>Element 7</i>	<i>Develop Management Strategies</i>		
Practices			
7.1	Develop strategies to facilitate attainment of program and financial goals	Yes	
7.2	Develop mechanisms for budgetary compliance	Yes	
7.3	Develop the type, presentation, and time period of the budget	Yes	

Principle 3	Develop a Budget Consistent with Approaches to Achieve Goals	City Status	Notes
<i>Element 8</i>	<i>Develop a Process for Preparing and Adopting a Budget</i>		
8.1	Develop a budget calendar	Yes	

8.2	Develop budget guidelines and instruction	Yes	
8.3	Develop mechanisms for coordinating budget preparation and review	Yes	
8.4	Develop procedures to facilitate budget review, discussion, modification, and adoption	Yes	
8.5	Identify opportunities for stakeholder input	Yes	
<i>Element 9</i>	<i>Develop and Evaluate Financial Options</i>		
9.1	Conduct long-range financial planning	In process	
9.2	Prepare revenue projections	Yes	
9.2a	Analyze major revenues	Yes	
9.2b	Evaluate the effect of changes to revenue source rates and bases	Yes	
9.2c	Analyze tax and fee exemptions		
9.2d	Achieve consensus on a revenue forecast	Yes	

		City Status	Notes
<i>Element 10</i>	<i>Make Choices Necessary to Adopt a Budget</i>		
10.1	Prepare and present a recommended budget	Yes	
10.1a	Describe key policies, plans and goals	Yes	
10.1b	Identify key issues	Yes	
10.1c	Provide a financial overview	Yes	
10.1d	Provide a guide to operations (budget documents should include information that provides the reader with a guide to programs and org structure to provide those programs)	?	
10.1e	Explain the budgetary basis of accounting	Yes	
10.1f	Prepare a budget summary	Yes	
10.1g	Present the budget in a clear, easy-to-use format	Yes	

10.2	Adopt the budget	Yes	
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Principle 4	Evaluate Performance and Make Adjustments	City Status	Notes
<i>Element 11</i>	<i>Monitor, Measure, and Evaluate Performance</i>		
11.1	Monitor, measure, and evaluate program performance	Yes	
11.1a	Monitor, measure, and evaluate stakeholder satisfaction	Yes	Occasional citizen survey's done
11.2	Monitor, measure, and evaluate budgetary performance	Yes	
11.3	Monitor, measure, and evaluate financial condition	Yes	
11.4	Monitor, measure, and evaluate external factors	Yes	
11.5	Monitor, measure, and evaluate capital program implementation	Yes	
<i>Element 12</i>	<i>Make Adjustments as Needed</i>		
12.1	Adjust the budget	Yes	
12.2	Adjust policies, plans, programs, and management strategies	Yes	
12.3	Adjust broad goals, if appropriate	Yes	