MEMORANDUM

Council Meeting Date: City Council Retreat March 13, 2020
Subject: Updated Five-Year General Fund Forecast

**Background**

In preparation for the City Council Retreat, Budget staff has completed an update of the City's Five-Year General Fund Forecast. A multi-year forecast is a recommended best practice by the Government Finance Officers Association (GFOA) and is a component of the financial review the City receives from debt rating agencies such as Moody's and Standard & Poor's. The forecast is designed to provide a transparent decision-making tool based on comprehensive information that clearly shows long-term financial impacts.

**Forecasting Techniques**

The forecast was developed primarily by analysis of prior year trends, but also anticipates future changes in spending. Specific key components of the analysis include:

- Five-year trend analysis of revenues and expenditures.
- Reviewed existing plans to identify known future expenditures.
- Impact of potential economic changes.
- Researched financial trends for significant City cost drivers.

As with most multi-year forecasting, confidence in the accuracy of the projections decreases with each succeeding year.

**Updated Forecast - March 2020**

The current forecast model was first presented at the March 8, 2019 City Council Retreat, and then updated based on FY20 budget decisions and published in the Adopted Budget Document (Pages B-33 and B-34). A subsequent update was made to the model after completion of the FY 19 Comprehensive Annual Financial Report (CAFR). That updated model was presented to the Finance & Human Resources Committee at their October 22, 2019 meeting.

It should be noted that the forecast is a baseline only projection, defined as a continuation of current trends in revenues and operating costs assuming no significant changes in economic conditions or service delivery. The current five-year projection of General Fund revenues and expenditures is provided below. The following table provides a high level summary of the projection.

**General Fund Actual Expenditures and Revenues (in Millions) by Fiscal Year (FY)**

| | Actual | Projected | | | | | |
|---|---|---|---|---|---|---|---|
| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 |
| Revenues | $ 128.35 | $ 133.42 | $ 138.89 | $ 142.11 | $ 145.42 | $ 148.81 | $ 152.28 |
| Expenditures | $ 126.63 | $ 132.82 | $ 139.13 | $ 145.27 | $ 150.97 | $ 156.29 | $ 161.91 |

**This is a projection of actual revenues and expenditures, not budgeted amounts. Budgeting higher than anticipated expenditures and lower than anticipated revenues ensures that the City remains in compliance with legal spending limits established by the budget ordinance and that expenditures do not exceed revenues in a given year.*

***Expense Drivers:***

The baseline forecast assumes ongoing increases in employee compensation, healthcare, and retirement costs based on historical trends. The increase in compensation assumes that the City continues to provide modest salary increases for current employees and adds additional staff to maintain existing levels of service in a growing community. The baseline forecast also includes the estimated cost of adopting a $31,200 annual salary minimum.

Other significant non-personnel expenditures are mainly held at the current funding levels, including the following:

- Housing Trust Fund Contribution.
- Civic Center operating and capital support.
- Strategic Partnership and other external support.
- Economic Incentives (amount varies year-to-year, projection includes only agreements that have already been approved by Council).

The baseline forecast also includes the following:

- Full funding for Transit enhancements that began January in 2020, as well as projected increases in the cost of paratransit services.
- Maintenance costs for the new infrastructure associated with the RADTIP project.
- Capital funding, which is assumed to follow the debt cash flow model provided by our financial advisors.
- Funding for staffing and operations of Fire Station 13 beginning in FY22.

The baseline forecast does not include any new or enhanced services that are being considered by City Council as part of the current budget process. This list includes:

- Further implementation of the Transit Master Plan.
- Employee market adjustments from the class and compensation study.
- Sustainability initiatives.

Other near-term issues likely to impact the General Fund budget but not included in the baseline forecast include:

- Deferred capital maintenance needs and funding to cover the operational impact of all planned capital improvements.
- Increasing costs for recycling.
- Technology infrastructure improvements.
- Continuing impacts of climate change.

***Revenue Drivers:***
Property taxes and sales taxes are the two largest General Fund revenue sources, providing over 70% of total General Fund revenue. Since the five-year forecast was presented at the Finance and Human Resources Committee meeting in October, staff has received updated assessed valuation information from Buncombe County that indicates property taxes will likely exceed budget estimates in the current year by approximately $500,000. Staff, however, has lowered its forecast for sales tax revenue in the current year based on trend data through the first five months of the fiscal year and increased concerns about an economic recession. Overall, the total General Fund revenue estimate for the current year remains unchanged from the October forecast.

The City will receive its second influx of property tax revenue from the HCA/Mission merger in FY21 ($1.5M), and this revenue is included in the forecast. After next fiscal year, property tax growth is expected to return to normal growth patterns, therefore staff is projecting moderate increases in property tax revenue (2.2% per year) over the next five years. Although Buncombe County will revalue all real property within the City next fiscal year (FY22), the forecast assumes City Council will adopt a revenue neutral tax rate, therefore no significant revenue change will occur.

As noted above, staff has lowered sales tax projections in the current year based on rising recession probabilities. Staff has also lowered the sales tax revenue forecast for next fiscal year and the following four years (3% per year). The FY21 sales tax revenue projection does include approximately $700,000 in additional sales tax revenue from the HCA/Mission merger.

Staff has also lowered projections for development fee revenue since it is also heavily dependent on economic conditions. Staff has also lowered projections for investment earning revenue to reflect the recent decline in the one-year treasury yield. All other revenue projections are maintained at the same level as the October forecast.

Although the state legislature continues to discuss changes to the local sales tax distribution method (among other possible changes), the forecast continues to assume no positive or negative impacts to this revenue source or any other City revenue throughout the forecast period.

Additional detail is provided on the following pages.

| | FY18 Actuals | FY19 Actuals | FY20 Proj. | FY21 Proj. | FY22 Proj. | FY23 Proj. | FY24 Proj. | FY25 Proj. |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Property Taxes | $ 62,959,727 | $ 65,295,336 | $ 69,462,597 | $ 72,569,546 | $ 74,167,620 | $ 75,801,650 | $ 77,472,447 | $ 79,180,836 |
| Sales & Other Taxes | $ 24,909,586 | $ 27,078,855 | $ 28,838,434 | $ 30,403,587 | $ 31,315,695 | $ 32,255,165 | $ 33,222,820 | $ 34,219,505 |
| Permits/Sales/Services | $ 17,111,721 | $ 18,306,301 | $ 18,835,485 | $ 18,640,020 | $ 19,199,221 | $ 19,775,197 | $ 20,368,453 | $ 20,979,507 |
| Intergovernmental | $ 11,904,943 | $ 11,807,699 | $ 12,078,755 | $ 12,984,661 | $ 13,114,508 | $ 13,245,653 | $ 13,378,109 | $ 13,511,890 |
| Other Revenues | $ 3,578,452 | $ 5,861,680 | $ 4,274,712 | $ 4,295,913 | $ 4,317,750 | $ 4,340,243 | $ 4,363,410 | $ 4,387,272 |
| **Total Revenue** | **$ 120,464,429** | **$ 128,349,871** | **$ 133,489,983** | **$ 138,893,727** | **$ 142,114,793** | **$ 145,417,909** | **$ 148,805,240** | **$ 152,279,010** |
| **Expenses** | | | | | | | | |
| Personnel | $ 72,591,022 | $ 75,153,141 | $ 80,823,808 | $ 84,259,164 | $ 89,281,868 | $ 93,800,079 | $ 98,063,998 | $ 102,544,341 |
| Operating | $ 29,827,139 | $ 28,660,106 | $ 29,927,693 | $ 30,237,663 | $ 31,156,644 | $ 32,130,694 | $ 32,972,484 | $ 33,891,597 |
| Capital | $ 15,871,277 | $ 19,294,062 | $ 16,986,758 | $ 17,825,106 | $ 18,029,878 | $ 18,238,745 | $ 18,451,789 | $ 18,669,094 |
| Transit | $ 4,239,480 | $ 3,525,017 | $ 5,084,113 | $ 6,804,233 | $ 6,804,233 | $ 6,804,233 | $ 6,804,233 | $ 6,804,233 |
| **Total Expense** | **$ 122,528,918** | **$ 126,632,325** | **$ 132,822,372** | **$ 139,126,166** | **$ 145,272,623** | **$ 150,973,751** | **$ 156,292,504** | **$ 161,909,265** |
| **Revenues - Expenses** | **$ (2,064,489)** | **$ 1,717,545** | **$ 667,611** | **$ (232,439)** | **$ (3,157,830)** | **$ (5,555,842)** | **$ (7,487,264)** | **$ (9,630,255)** |