

Long Term Financial Planning Process Update

24 Nov 2014

**Confirm scope of model and understanding
of scenarios being utilized in
Long Term Financial Planning (LTFP).**

**LTFP is meant to be used as a directional tool to
highlight potential issues.
Not a forecast.**

- Provide base case 10 year high-level view of revenue and expenditures based on key assumptions
- Provide directional understanding of the gaps between various revenue and expenditure assumptions
- Provide ability to evaluate the impact and magnitude of various scenarios from the base case

Total City View: Includes all funds and charges excluding Utilities

Primary Funds Discretely Modeled & Included in Total City View:

- General Fund
- KFCG
- Natural Areas
- Transportation
- Transit
- Cultural Services
- Recreation
- Golf
- Museum

Secondary Funds Costs Included in Total City View:

- Capital Expansion
- General Improvement District
- Neighborhood Parkland
- Conservation Trust
- Cemeteries
- Perpetual Care
- Community Development Block Grant
- Street Oversizing
- Debt Service
- Capital Leasing
- Capital Projects
- URA – No College
- URA – Prospect South
- URA – Debt Service

Charges Included in Total City View:

Benefits Fund Self Insurance Fund Equipment Fund Data & Communications Fund

Funds Not Included: Utilities

Historical Data:

- 13 years of history at the individual account level
- 30 years of Sales and Use tax revenue

Transfers & Intra-fund Transactions:

Fund-to-fund transfers are isolated enabling consolidated city-wide analysis to be viewed with, or without transfer data.

Unique Data Sets:

Data sets created for ad hoc analysis:

- Capital Improvement Plans
- Debt Service projections
- FTE – Headcount.

Forecast Time Horizon: 10 years

Timeline: First review February 2015 for council work session, continued dialogue may yield additional iterations

Results: Incorporated into Strategic Planning Cycle

Revenue Detail Being Analyzed:

- City organization chart of accounts has 533 active revenue accounts
- 533 revenue accounts are summarized into 32 revenue line items that are each forecasted individually

Majority of \$265M 2013 revenue is driven by following accounts :

- Sales & Use Tax
- Capital Grants / Contributions
- Property Taxes
- Proceeds of Debt Issuance
- Contributions & Donations
- Cultural, Parks, Recreation, Natural Areas Fees
- Shared Revenues (County & State Distribution – transportation, fuel, etc.)

7 summary accounts make up 80% of total revenue.

Expense Detail Being Analyzed:

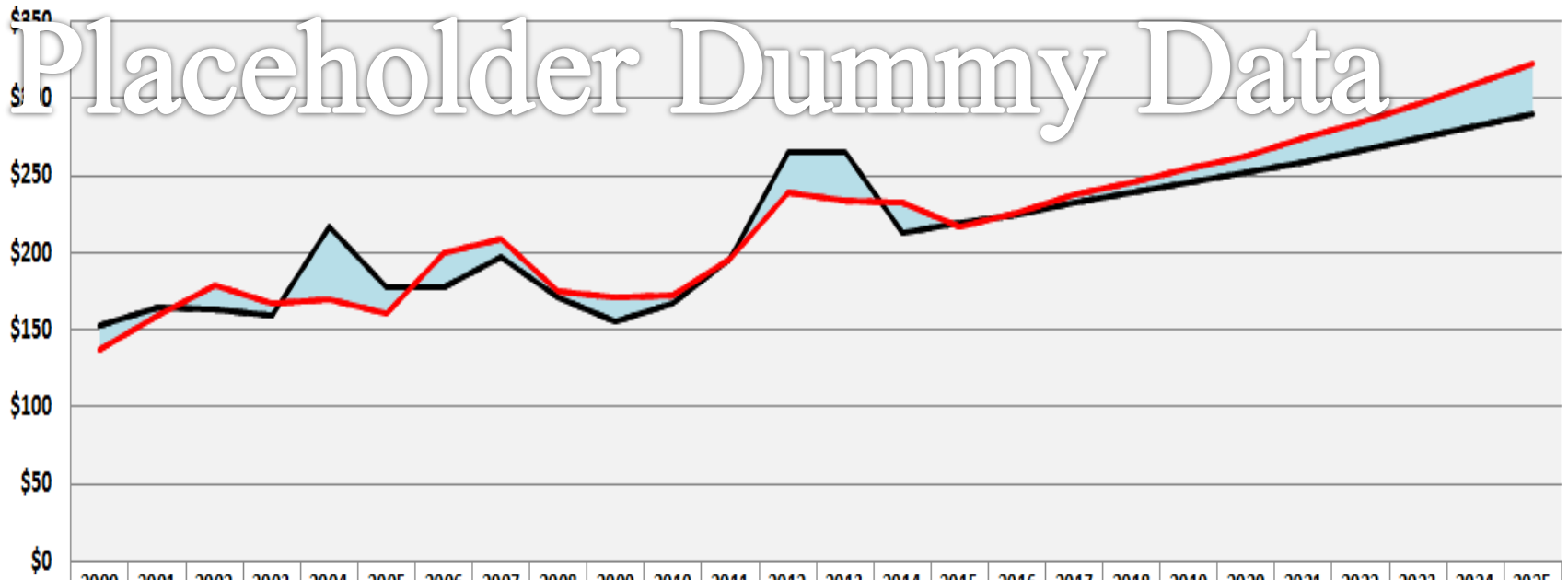
- City organization chart of accounts has 346 active expense accounts
- 346 expense accounts are summarized into 39 expense line items that are each forecasted individually

Majority of 2013 \$234M expenses is driven by following accounts:

- Salaries & Wages
- Governmental Services
- Benefits
- Repair & Maintenance
- Infrastructure
- Professional & Technical
- Vehicles & Equipment
- Land
- Construction Services
- Debt Service

10 summary accounts make up ~80% of total expenses.

REVENUES & EXPENDITURES - ALL FUNDGROUPS - WITHOUT TRANSFERS



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
VARIANCE	4	5	(3)	5	(3)	3	6	5	(3)	(8)	3	(1)	15	5	(10)	(8)	(9)	(11)	(12)	(14)	(16)	(18)	(20)	(22)	(25)	(27)
BASELINE REV	152	165	163	159	217	178	177	197	171	155	168	195	265	266	213	219	225	232	238	245	252	259	266	274	282	290
REVENUES	152	165	163	159	217	178	177	197	171	155	168	195	265	266	213	219	225	232	238	245	252	259	266	274	282	290
BASELINE EXP	137	159	179	167	170	160	200	209	175	170	172	195	239	234	232	216	225	237	245	254	263	274	285	297	309	322
EXPENDITURES	137	159	179	167	170	160	200	209	175	170	172	195	239	234	232	216	225	237	245	254	263	274	285	297	309	322

Macro View of Revenue & Expenses:

- 5%, 10%, 20% Favorable
- 5%, 10%, 20% Unfavorable
- Simulate recession-type economy or “100 year flood” depression economics
- Combinations or specific question analysis “How much could the City save if....?” – ex. 10% favorable revenue growth with only 5% increase in expense growth

Capital Projects & Debt:

- Fully fund Capital Improvement wish list
- City Hall – ex. \$60M in 2025
- Police Training Facility – ex. \$10M in 2016
- Debt Policy Max without risk to credit rating

Revenue Sources at Risk:

- KFCG 2020 expire
- Streets 2015 expire
- BOB 2015 expire

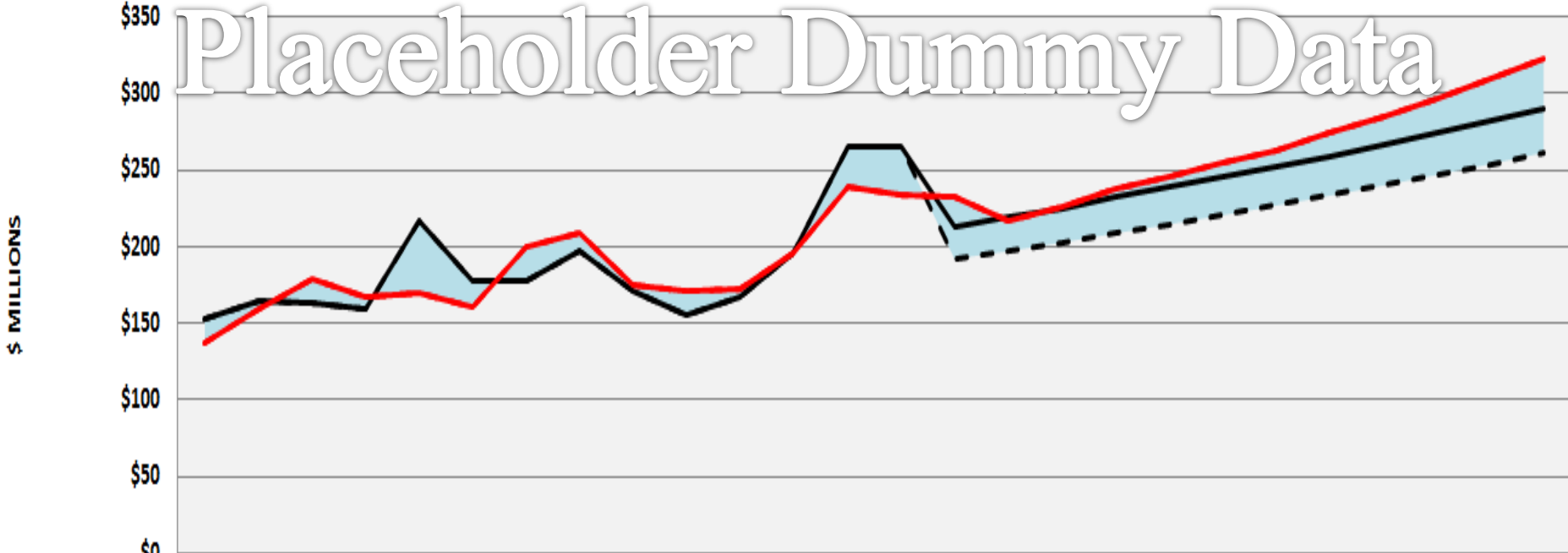
Expense Uncertainty:

- Healthcare – ex. 10 years of 12% growth per year
- Headcount assumptions – ex. 25 FTE added per year
- Climate Action Plan spending – ex. \$50M expenditure in next 50 years
- East Mulberry annexation – ex. 20 police officers added, training starts 3 years in advance of revenue

Example Scenario Analysis

REVENUES & EXPENDITURES - ALL FUNDGROUPS - WITHOUT TRANSFERS

Placeholder Dummy Data



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
VARIANCE	15	6	(16)	(8)	47	17	(23)	(12)	(4)	(15)	(4)	(0)	25	32	(40)	(19)	(23)	(29)	(31)	(34)	(36)	(41)	(45)	(50)	(55)	(61)
BASILINE REV	152	165	163	159	217	178	177	197	171	155	168	195	265	266	213	219	225	232	238	245	252	259	266	274	282	290
REVENUES	152	165	163	159	217	178	177	197	171	155	168	195	265	266	192	197	203	209	214	220	227	233	240	247	254	261
BASILINE EXP	137	159	179	167	170	160	200	209	175	170	172	195	239	234	232	216	225	237	245	254	263	274	285	297	309	322
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Service Area visits:

- Accumulate Area Capital Improvement Plans
- Verify expense driver methodology with budget owners
- Specific fund issue verification

Scenarios:

- Futures committee review
- Verify assumptions
- Programming into model

Analysis:

- Data review and verification
- Issue identification and highlights

Back-Up

Correlation Matrix - Revenue

Revenue	Summary Account	Correlation	Forecast Formula	Resulting Baseline Forecast Rate
	Sales & Use Tax	Sales & Use Tax strongly correlated with building material sales (.942), but building sub group only accounts for <7% of sales. Use Tax very erratic and low correlation with any data sets.	Sales Tax forecasted using last 15 years average growth rate (normalized for changing tax rates) equates to avg 3.23%. Use Tax projected to grow conservatively at 15 yr historical growth rate of 3.57%.	3.30%
	Capital Grants / Contributions (includes MAX)	No correlation useful for predictions.	Default assumption is to grow base amount at CPI excluding large extraordinary grants.	2.80%
	Property Taxes	Highly correlates to Population and Inflation Index (.965)	Utilize Population and Inflation Index. Population is driven by Advanced Planning assumption of 1.9% growth (based on 10 yr history). Inflation is tied to CPI 2.8%.	4.65%
	Proceeds of Debt Issuance	None. Dependent on projects.	Scenario forecasting dependent on debt issuance - case by case basis.	Scenario based
	Cultural, Parks, Recreation, Natural Area Fees	Low correlation with existing data sets.	Default rate based on 14 year historical rate of 3% Possible to tie a portion of forecast formula to participation rates.	3.00%
	Shared Revenues, County & State distribution (auto owners tax, highway users, open space, etc.)	Low correlation with existing data sets.	Default rate based on 14 year historical rate of 0.7%	0.70%

Correlation Matrix- Expenses

Expenses	Summary Account	Correlation	Forecast Formula	Resulting Baseline Forecast Rate
	Salaries & Wages	Highly correlates with Population and Inflation Index (.937)	Currently using Population and Inflation Index to forecast at 4.65%. Alternative is to use scenarios to forecast.	4.65%
	Government Services (Poudre Fire Authority, Larimer County, etc.)	90% PFA RAF formula driven	Custom formula that takes into account Revenue Allocation Formula (including escalation through 2018) and then ties to combination of Sales and Property Tax revenue growth.	3.90%
	Benefits	Moderate correlation with Population and Personal Income, but recent escalation in healthcare costs reduce viability.	60% based on wages (retirement, social security, medicare) 40% driven by healthcare and assumed 8% yearly rate increases	6.00%
	Repair and Maintenance (street, bridge, vehicle, etc.)	KFCG impact to street and bridge repair render historical rates unreliable.	Majority of individual accounts averaged 4% growth.	4.00%
	Infrastructure (construction contracts)	No correlation to data sets. Driven by large capital projects; Police building, Max, etc.	Utilize Capital Improvement Plan data set when assembled. Placeholder formula will utilize average amount for 2000-2014 of \$13.9M increasing at CPI 2.8%	2.80%
	Professional and Technical	Moderate correction with population, but changes to chart of accounts and project driven expenses make trend analysis unreliable.	Utilize Population and CPI Index.	4.65%