City Council Policy Session

City of Phoenix

City Council Report

**Agenda Date:** 2/27/2018, **Item No.** 2

# Five-Year General Fund Forecast

This report transmits the preliminary status for the General Fund (GF) fiscal year (FY) 2018-19 budget and a five-year GF forecast through FY 2022-23 (**Attachment A**). The five-year forecast is being presented to the Mayor and City Council for the seventh consecutive year and provides an essential tool in long-term budget discussions and decision making. The forecast currently shows a balanced budget for FY 2018-19.

## THIS ITEM IS FOR INFORMATION ONLY.

## Summary

The February 2017 Five-Year Forecast projected that without any action, the City of Phoenix would have a GF budget deficit of ($43M) to ($64M) for 2018-19. With sustained effort, several steps have led to a projected balanced budget for FY 2018-19 (this assumes no actions by the State to change revenue from existing projections). These include accumulating one-time savings of $14.4 million in FY 2016-17 and proactive steps in 2017-18 to reduce ongoing costs and to defer and reduce spending wherever possible.

Over the last few years the City Council has taken necessary actions to protect City services while facing very challenging financial conditions. The City Council has led important fiscal reform measures, including:

- $134 million in innovation and efficiency savings to date since 2010
- Elimination of approximately 2,700 positions since FY 2007-08; resulting in the smallest government per capita since 1970-71
- Consistently raising the contingency fund to its highest level in our history
- Balancing the deficit in the Public Safety funds without sworn layoffs and the planned hiring of more than 465 Police Officers and 79 Firefighters between now and the end of FY 2018-19.

With this strong fiscal planning and early action, the projected funding gap for 2018-19 has been eliminated. Over the next few weeks, staff will continue to refine both revenue and expenditure estimates until we have a final status in March for the City Manager's Trial Budget.

FY 2018-19

The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks, however at this time the preliminary FY 2018-19 GF expenditures are projected to be $1.296 billion. This compares to the adopted GF expenditure budget of $1.278 billion for FY 2017-18. The increase is due to slightly increased costs, primarily resulting from employee concession restorations, and additional expenditures for capital projects and vehicle replacements.

Total COPERS pension costs are expected to increase next year. However, the GF portion is expected to decrease by about $8 million as compared to the current year budget due to a structural change in the budget for the Street Transportation Department. Positions for which costs had previously been directly charged to the GF and subsequently transferred to the Arizona Highway User Fund are now being directly charged to that fund. There is no adverse impact to the Street Transportation Department budget as a result of this accounting change. GF COPERS costs are expected to increase slightly throughout the remainder of the forecast period. However, the increases are projected to be less than what was projected in the 2017 Five-Year Forecast due to the continued impact of pension reform and strong plan performance last year.

GF costs for sworn Police and Fire (PSPRS) pension costs are expected to decrease by about $4 million compared to the current year budget due to strong plan performance and the change from a 20-year to a 25-year amortization period. If a 20-year amortization period were used, the GF public safety pension costs would be projected to increase about $25 million next year and by a total of approximately $158 million for the forecast period. This would have not only impacted our ability to balance next fiscal year without either additional revenue or difficult cuts to existing programs, but would have increased the likelihood for projected deficits throughout the forecast period.

As the five-year forecast shows, pension costs will continue to add significant pressure to the GF budget going forward. However, the pension reform measures for COPERS and PSPRS enacted by the State Legislature, City Council and approved by Phoenix voters mean these short-term increases are anticipated to slow over time and are expected to result in significant savings over the next two decades.

There are also other cost increases not within our control including:

- State charges for the implementation of Transaction Privilege Tax (TPT) Reform are expected to increase from approximately $3 million this year to $3.9 million in FY 2018-19.

- The jail per diem rates charged by the Maricopa County Sherriff's Office (MCSO) for the incarceration of Phoenix prisoners will result in an increase of approximately $1.5 million in FY 18-19. Next year's booking rate is $341.57 per inmate, an increase of 4.9 percent, and the housing rate is $100.04 per day, a decrease of 1.6 percent.

Overall, non-pension costs have been stable and manageable.

FY 2019-20 and Beyond

This year's forecast shows considerable improvement over last year's forecast. The baseline (midpoint) forecast for each year from FY 19-20 through the end of the forecast period reflects a balanced budget. As we look ahead the areas of concern for the GF budget are service costs, service levels, capital needs, and revenue. Service costs include employee compensation levels, use of technology and other ways to do our existing work more efficiently, and capital needs. Service levels involve the amount of services, hours and the number of facilities we keep open to serve the public. Revenues consider taxes, fees, economic growth, and the impact that the 2020 Census may have on the City's relative population share. The current forecast assumes no changes to existing labor contracts. These contracts expire at the end of FY 2018-19 and contract negotiations will begin in the Fall of 2018. Any changes to these contracts would impact FY 2019-20 and beyond. Additionally, the current forecast assumes no changes to existing service levels.

The Phoenix City Charter requires a balanced budget each year. On March 20, a balanced City Manager's Trial Budget will be presented for Council and Community discussion along with the Preliminary Five-Year Capital Improvement Program (CIP). The budget will present options for debt service payments and one-time capital requests. Community Budget Hearings will begin in April.

**Responsible Department**

This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.

**Attachment A**

City of Phoenix

| RESEARCH REPORT<br>BUDGET AND RESEARCH DEPARTMENT | B.R. REPORT NUMBER<br>**2018-08**<br>DATE ISSUED<br>February 22, 2018 |
|---|---|
| TO:<br>**ED ZUERCHER**<br>CITY MANAGER | FOR THE BUDGET AND RESEARCH DIRECTOR BY:<br>**JEFF BARTON**<br>BUDGET AND RESEARCH DIRECTOR |

SUBJECT

**FIVE-YEAR FORECAST AND PRELIMINARY GENERAL FUND STATUS FOR FY 2018-19**

## BACKGROUND

Development and presentation of the five-year forecast is an important step in the City's budget process. Evaluating projected available resources and identifying potential ongoing budget surpluses or funding gaps will allow City Management and Council to develop strategic plans to ensure the continuation of city operations and optimize services to the community.

The Five-Year Forecast estimates future revenues and expenditures of the General Fund for the current fiscal year through fiscal year 2022-23. The purpose of this forecast is to identify key trends in revenues and expenditures and to provide information about the financial landscape anticipated over the next few years. The information contained in this forecast is based on data available through January 2018.

The General Fund five-year forecast (**Attachment A**) is provided to the City Council and the community for consideration and provides city policy-makers:

- A strategic financial management best practice
- A framework for strategic decision-making
- The opportunity to make policy changes to maximize city resources and service delivery
- A roadmap to continued fiscal health and award-winning budgetary and financial reporting

The forecast is not an official policy or legal budget document and does not enact any budgetary allocations. The forecast is also not intended to set or precisely predict future revenues or expenditures. Rather, the forecast presents current estimates based on several economic and financial assumptions of the future direction and ranges of growth rates for both resources and expenditures. The economic, revenue, and expenditures assumptions are provided in **Attachment B**.

The forecast is built on several assumptions outlined in Attachment B regarding:

- The national, state and local economy
- Population and job growth
- Revenue growth
- Impacts of anticipated increasing pension liabilities
- Cost management practices
- Future year expenses

All of these factors are subject to change and are detailed further in this report.

Projecting future available resources and expenses over multiple years is complex and involves several assumptions concerning how revenue and expenditures will grow over time. In order to model potential future budgetary scenarios under varying economic conditions, a range is provided for resources and expenditures. The differences between the upper and lower ends of the ranges increase slightly in the later years of the forecast reflecting additional economic uncertainty. The top of each range represents the “optimistic” forecast, while the bottom of the range represents the “pessimistic” forecast. All of the ranges are based upon the assumptions described in this report.

It is important to note, if any of these assumptions as described were to change or modeled differently, the ranges of amounts presented in the forecast would need to be revised. Unexpected economic shocks, recessions, legislative mandates or other risks to the forecast can also adversely affect projections.

Additionally, even slight variances in the revenue and expenditure growth rates in the initial years of the forecast result in substantial changes to the later years due to the compounding effect of the changes. For example, a variance in revenue growth in FY 2018-19 of only 1%, can result in a variance of $11.6M to the ending balance, which would impact the ending fund balances in the subsequent forecast years. Long term forecasts become less reliable the further they are from development because of the many underlying assumptions subject to frequent fluctuations.

Projections are formulated in the first six months of the fiscal year and are based on a current projection of where staff believes resources and expenditures will be for the current fiscal year and the subsequent five years. In order to create the most reliable revenue and expenditure projections, staff relies on several economic sources, months of actual collections and extensive technical reviews before recommending estimates to City management and ultimately the City Council for final consideration.

## OTHER INFORMATION

It is important to note that the preliminary FY 2018-19 budget is based on existing state-shared revenue models and statutory obligations. Any changes to state shared revenue formulas or other revenue sources proposed in the Governor's budget or in legislative bills that would negatively impact the GF budget are not reflected and would need to be solved, if adopted by the State.

### Preliminary Status of 2018-19 General Fund Budget

2018-19 Resources- The chart below shows the preliminary resources projection:

| **GF Resource Category** | **2018-19 Preliminary Estimate** (in millions) | **2018-19 Preliminary Projected Annual Growth Rate %** |
|---|---|---|
| Local Sales & Excise Taxes | $465 | 3.4% |
| State-Shared Revenue [1] | $428 | 1.8% |
| Primary Property Tax [2] | $161 | 4.2% |
| User Fees and Other [3] | $128 | -7.3% |
| Beginning Balance [4] | $105 | N/A |
| Transfers/Recoveries [4] | $9 | N/A |
| **Total GF Resources** | **$1,296** | **-0.3%** |

[1] This does not reflect any negative impact to State-Shared Revenue resulting from the FY 2018-19 State budget, nor legislative changes that have recently been proposed or discussed during the current legislative session.

[2] Assumes the continuation of City Council's adopted policy to maximize the primary levy in order to preserve GF services. Any deviation from this policy would require an ongoing reduction to GF programs.

[3] Estimates for 2018-19 decreased significantly from 2017-18 due to one-time revenues from insurance proceeds for the Burton Barr Central Library, sales of surplus property, and rental income in 2017-18.

[4] Estimates for beginning balance and transfers/recoveries are not derived from annual growth rate projections or broader economic factors.

*Revenue Forecasting Model*- In the fall of 2014, Budget and Research consulted with the University of Arizona's Eller College of Management, Economic and Business Research Center (EBRC) to enhance the City's sales tax revenue forecasting process. Dr. George Hammond, EBRC Director, and Dr. Alberta Charney, Senior Research Economist, spent several months working with City staff to develop an enhanced econometric sales tax forecasting model for all categories of City sales tax. In the Summer of 2017, staff worked with EBRC to update the tax forecasting model. The EBRC leads the State of Arizona Forecasting Project, which provides in-depth economic forecast analysis and databases on a subscription basis to businesses, organizations, and government via membership. The additional consulting with Drs. Hammond and Charney has provided the City with solid, independent economic and statistical expertise used to develop a statistically valid forecasting model specifically for the City of Phoenix. The projected growth rates in each category of sales tax for the FY 2018-19 estimate and five-year forecast are based on projections developed with the enhanced econometric forecasting model.

2018-19 Expenditures- The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks. At this time, the preliminary FY 2018-19 General Fund expenditures are projected to be $1.296 billion. This compares to the adopted GF expenditure budget of $1.278 billion for FY 2017-18. The increase is due to slightly increased costs, primarily resulting from employee concession restorations, and additional expenditures for capital projects and vehicle replacements.

*Pension Costs* - Expected changes in COPERS and PSPRS pension costs are as follows:

- COPERS: Total COPERS pension costs are expected to increase next year. However, the GF portion is expected to decrease by about $8 million as compared to the current year budget due to a structural change in the budget for the Street Transportation Department. Positions for which costs had previously been directly charged to the GF and subsequently transferred to the Arizona Highway User Fund are now being directly charged to that fund.

  GF COPERS pension costs are expected to increase slightly throughout the remainder of the forecast period. However, the increases are projected to be less than what was projected in the last Five-Year Forecast due to the continued impact of pension reform and strong plan performance over the last year.

- PSPRS: The GF costs for sworn Police and Fire are expected to decrease by about $4 million compared to the current year budget due to strong plan performance and the change from a 20-year to a 25-year amortization period. While a change to a 30-year amortization was requested and approved by the State as allowed by passage of HB 2485 in 2017, the Council adopted the plan to use a 25-year amortization period.

  If a 20-year amortization period were used, the GF public safety pension costs would be projected to increase about $25 million next year and by a total of almost $158 million for the forecast period. This would have not only impacted our ability to balance next fiscal year without either additional revenue or difficult cuts to existing programs, but would have increased the likelihood for projected deficits throughout the forecast horizon.

*Contingency* – The contingency fund is assumed to increase from $50 million $52 million, remaining on track to grow to recommended levels. The growth in the contingency fund reflects an increase of approximately $2 million per year going forward. FY 2018-19 also reflects a one-time set-aside of $5 million for Policy body cameras and $5.8 million for a Fire SAFER grant match.

Detailed preliminary estimates with multiple year-to-year comparisons are included in the Zero-Based Budget Inventory of Programs document, which was presented to the Council on February 8, 2018 and is available online at phoenix.gov/budget. Revenue and expense estimates continue to be developed, and more definitive estimates will be presented along with the City Manager's Trial Budget in March.

## RECOMMENDATION

The General Fund preliminary 2018-19 budget status and Five-Year Forecast are provided for information and discussion.

## ATTACHMENTS

Attachment A- Five-Year General Fund Forecast

Attachment B- Forecast Assumption

# ATTACHMENT A
## 5-Year General Fund Forecast ($Millions)

| | 2017-18 Adopted Budget | 2018-19 Preliminary Budget Estimate | For Planning Purposes Only 2019-20 Forecast | 2020-21 Forecast | 2021-22 Forecast | 2022-23 Forecast |
|---|---|---|---|---|---|---|
| **Resources** | | | | | | |
| Local Taxes | $458 | $465 | $480 - $487 | $499 - $513 | $518 - $541 | $537 - $571 |
| State Shared Revenues | 408 | 428 | 442 - 449 | 453 - 467 | 470 - 492 | 487 - 518 |
| Primary Property Tax | 154 | 161 | 168 - 170 | 174 - 180 | 181 - 189 | 188 - 200 |
| User Fees and Other | 120 | 128 | 130 - 132 | 132 - 136 | 134 - 141 | 137 - 145 |
| Other (Carryover Balance, Transfers, Recoveries) | 90 | 64 | 8 | 14 | 17 | 20 |
| Unused Contingency from Prior Year | 48 | 50 | 63 | 54 | 56 | 58 |
| **Total Resources** | **$1,278** | **$1,296** | **$1,291 - $1,309** | **$1,326 - $1,364** | **$1,376 - $1,436** | **$1,427 - $1,512** |
| **Expenditures** | | | | | | |
| Operating Expenditures | $910 | $923 | $932 - $927 | $945 - $939 | $979 - $972 | $1,028 - $1,020 |
| Civilian Pension | 87 | 79 | 86 | 89 | 89 | 91 |
| Sworn Public Safety Pension | 207 | 203 | 209 | 216 | 224 | 232 |
| Contingency | 50 | 52 | 54 | 56 | 58 | 60 |
| Set-Asides | 6 | 11 | 0 | 0 | 0 | 0 |
| Pay-As-You-Go Capital (Includes Technology Plan) | 10 | 15 | 10 | 11 | 13 | 13 |
| Minimum Vehicles | 8 | 13 | 13 | 13 | 13 | 13 |
| **Total Expenditures** | **$1,278** | **$1,296** | **$1,304 - $1,299** | **$1,330 - $1,324** | **$1,376 - $1,369** | **$1,437 - $1,429** |
| **PROJECTED (DEFICIT)/SURPLUS:** | **$ -** | **$ -** | **$(13) - $10** | **$(4) - $40** | **$0 - $67** | **$(10) - $83** |

**Key Resource Forecast Assumptions:**

* The forecast assumes modest revenue growth with no recession, no fee increases or decreases and no new revenue sources.

* No changes to current revenue base as provided in state and city laws or to state shared revenue formulas.

* Relative population share used in calculating state shared revenues in 2018-19 was based on the 2016 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.

**Other Forecast Notes:**

* Ranges provided for revenues and operating expenditures. Upper & lower ends of ranges increase slightly in later years of forecast reflecting additional economic uncertainty in the later years.

* Ranges include pessimistic and optimistic scenario within assumptions provided by the primary sources of economic information mentioned in this report.

* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

**Key Expenditure Forecast Assumptions:**

* The contingency fund increases annually $2M through the forecast period.

* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.

* 2018-19 employee costs based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations.

* Pension costs based on required and projected contribution rates provided by the respective pension system actuaries. Sworn Police and Fire public safety pension assumes 25-year amortization.

* Non-personnel related expenditures for 2019-20 and beyond assumes expenditure growth is in line with recent historical averages.

* Expenses for public safety mandated radio conversion and new phone system conversion included in forecast.

## ATTACHMENT B

## Forecast Assumptions

**Economic Sources** - Budget and Research staff relies on several different sources for economic data and forecasts to assist with developing revenue and expenditure projections.

The list below includes the primary sources of information:

- State Finance Advisory Committee (FAC) which includes several economists and finance professionals from the private and public sectors
- State Joint Legislative Budget Committee (JLBC)
- University of Arizona (U of A), Economic Business Research Center
- Global Insight, IHS
- Arizona State University (ASU) – WP Carey School of Business, and Western Blue Chip
- Arizona Department of Administration (ADOA) - Employment and Population Statistics Office
- JP Morgan Chase Economic Outlook Center
- Blue Chip Economic Indicators – National Level
- U.S. Bureau of Labor Statistics
- U.S. Census Bureau
- Phoenix Business Journal
- University of Arizona (U of A) Forecasting Project – A community-sponsored research program within the Economic and Business Research Center providing project members with economic forecasts for Arizona, the Phoenix-Mesa metro area, and the Tucson metro area. City staff attends the Forecasting Project quarterly meetings and receives quarterly reports and data/projections used to assist in developing our forecasts. Forecasting Project data relies on Global Insight, IHS which is a well-known economics organization that provides comprehensive economic and financial information. The data from this project is incorporated into an econometric software program used to forecast sales tax.

Economic Outlook

The overall consensus from these trusted sources is Arizona and the Phoenix Metro area are generating solid economic growth outpacing the nation, however the growth is slower than previous recoveries. They predict the state will continue to grind out solid gains assuming the national economy avoids recession. However, it is worth noting that since 1945, the average length of a U.S. economic expansion has been approximately 5 years and the longest has been 10 years. The current expansion has lasted over 8 years, which makes it the third longest expansion. While there is no natural length of time for sustained periods of economic activity, if historical averages were to hold true, the U.S. economic expansion will end at some point within the forecast range.

At the national level, the National Blue Chip of Economic Indicators forecast GDP growth of 2.7 % in 2018, which indicates the economy will register another year of above-trend growth. A variety of factors account for the optimism in the 2018 economy: better-than-expected monthly reports on economic activity, the acceleration in domestic demand as well as export growth, the rebound in residential investment, and Congressional passage of the tax reform package in mid-December last year. However, a sharper-than-expected rise in interest rates could be the biggest threat to continued U.S. economic growth in 2018 (Blue Chip Economic Indicators, Vol. 43, No. 1 January 2018).

Arizona had regained the jobs lost during the Great Recession in 2016, however, job growth lost momentum in 2017, with over-the-year gains gradually decelerating throughout the year. The 2017 third quarter job growth rate for Arizona was 1.5%. It was slightly above the U.S. rate of 1.4%, but well below state job gains in the third quarter of 2016 of 2.8% (Economic Outlook, 2017 4th Quarter

Report). The slower job gains might be offset by the increased hourly wages and recovered housing market. The economist at Arizona State University forecasts average hourly wages will increase by about 4.5% in 2018, and the housing industry will continue to recover with a 15% increase in the number of single-family home permits forecast, although the boom in multifamily construction is projected to start to cooling down (Economic Forecasting Luncheon, November 2017).

The State's FAC indicated in January 2018 that Arizona ranks 14th in economic momentum, which is the same rank as last year. The rankings for major economic factors are listed below:

| | AZ Rate | AZ Rank |
|---|---|---|
| Change in Personal Income (Sept) | 3.8% | 20 |
| Change in Population (July) | 1.7% | 6 |
| Change in Employment (Nov) | 1.1% | 18 |
| Unemployment Rate (Nov) | 5.0% | 29 |

Although Arizona still ranks behind half of the U.S. in unemployment rate, there is positive news. The ranking of change in employment has improved from 29 to 18. Furthermore, according to the U of A Economic Business Research Center, "Arizona is well positioned to continue to generate growth at a pace that exceeds the national average" (Economic Outlook, 2017 4th Quarter Report).

Other significant economic assumptions from trusted sources built into this forecast include the following:

- Personal income for the Phoenix Metro area is projected to grow an average of 6.4% for the forecast and range from 6.1% to 6.7% (UA/Global Insight).
- Growth in population is expected to continue, but at lower rates than historical growth. Phoenix Metro population is projected to grow 1.8% in 2018 up from 1.7% in 2017 (U of A Economic Research Center/FAC).
- Non-farm employment in metro Phoenix is estimated to grow 2.7% in 2018, flat from 2.7% in 2017 (U of A Economic Research Center).
- Arizona unemployment is estimated to fall to 4.5% in 2018, compared to 4.9% in 2017 (U of A Economic Research Center).
- The near term outlook for real estate in Greater Phoenix remains bullish. Single family residential building is projected to increase by 15% in 2018, which will be the best year for single family housing since 2007 (ASU W.P. Carey School of Business- Greater Phoenix Blue Chip Forecast).
- Inflation is expected to increase during the forecast period with the Consumer Price Index-All Urban Consumers (CPI-U) rising by 2.0% in FY 2018-19. (UA Economic Research Center). In the past 50 years, CPI-U has ranged from negative 0.4% in 2009, to a high of 13.5% in 1980 (U.S. Department of Labor Bureau of Labor Statistics).

**Resource Assumptions**- Revenue growth rates are determined using information from our above mentioned trusted sources, analyzing actual revenue trends and averages, and factoring in any known policy or legislative changes.

Revenue assumptions beyond the broader economic considerations are described below:

- No further period of recession with modest revenue growth for the forecast horizon.
- Annual revenue growth rates range from 1.6% to 4.4% during the forecast period.

- No impact to current revenue tax base, as provided in applicable state statutes and City ordinances.
- No future impact to state shared revenue formulas or legislation or action that could impact city revenue sources.
- Phoenix's relative population share, which impacts state shared revenue collections, was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.
- No future fee increases or decreases and no new sources of revenue.
- Potential increases to revenue resulting from economic development efforts and further innovation and efficiency savings are not included in the forecast.
- Ranges provided for revenues: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

**Expenditure Assumptions**- Assumptions regarding forecasted expenditures are described below:

- Annual operating expenditure growth rates, except for pension, are based on the historical averages.
- The forecast assumes a change from a 20-year to a 25-year amortization period for PSPRS and reflects changes in COPERS costs resulting from a structural change in budgeted positions for the Street Transportation Department. Additional assumptions about pension costs are based on historical actuals and information provided by the COPERS and PSPRS actuaries. The forecast does not attempt to predict future pension liabilities, assets or other plan assumptions, but rather to account for the currently anticipated costs of pension system.
- The impact of pension reform measures approved by voters and the costs for PSPRS resulting from the ruling in the Hall vs. Elected Officials Retirement Plan have been included in the forecast based on projections provided by the plan's actuary.
- The forecast does not include the impact of additional potential reform measures for COPERS or PSPRS or the impact of pending litigation.
- The forecast includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- Pay-as-you-go capital costs are based on the preliminary estimates in the five-year Capital Improvement Program.
- The forecast includes projected debt service for the mandated Regional Wireless Cooperative radio replacements and the replacement of the city phone system and associated technology infrastructure.
- The contingency fund is assumed to increase annually $2 million through the forecast period.
- The 2018-19 total compensation costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts.
- No other financial impact from changes to labor unit contracts resulting from future negotiations is assumed.
- In forecast years with a projected baseline deficit or surplus, the next year's operating expenses are assumed to decrease or increase by the baseline deficit/surplus amount prior to applying the assumed annual growth projection, as the City is required by Charter to balance the budget each year.

- Ranges provided for operating expenditures: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

Other Items that Could Impact the Base Budget or the Five-Year Forecast- The costs below are items and needs that do not currently have a funding source or will likely require additional funding and therefore could have an adverse impact on the five-year forecast as it's currently presented. These costs may need to be ultimately borne, in part or in whole, by the General Fund if no other funding source is identified by the time these costs are imminent.

- The forecast reflects increased funding of approximately $7 million per year that will be used address aging City infrastructure, critical equipment, and other technology needs. Examples of these projects include replacing fire life safety systems in City facilities and replacing the Access and Badging Control System. The Access and Badging Control System used by Public Works to limit access to City facilities will reach end of life in 2018. At that time the badging system will be completely unsupported by the manufacturer and parts may become obsolete. Staff is currently working to identify the scope, cost and timing of these and other capital projects. Under the direction of the City Manager staff is also working to identify critical needs in all City facilities. It is likely that this endeavor will require the work of an external firm that specializes in facility assessments. It is estimated that these assessments could cost as much as $5 million and take as long as three years to complete.

- While the forecast shows increased funding for vehicle replacements, the citywide need is much greater than the funding that is available. In the Fire Department additional funding is needed to replace apparatus equipment including pumpers, ambulances and ladders, which were originally purchased with voter approved General Obligation Bond funds. Of the 88 fire pumper trucks in the fleet, over half will be due for replacement in the next five years. With limited funding available, a lease/purchase program was approved by Council to authorize the purchase of 15 fire pumper trucks at a cost of $1.2 million per year starting in FY 2014-15, and these costs have been included in the forecast. Additionally, over 1,500 other GF city vehicles will come due for replacement throughout the forecast period. These include vehicles used by all city departments including police patrol cars. We are currently working with Public Works and Finance to develop a funding strategy that could address this need.

- The Police Department has a fleet of six helicopters. Five of these helicopters are used to support daily patrol operations and one is used for mountain rescue. All of these helicopters are over ten years old and require a significant amount of annual maintenance to keep them operational and safe according to FAA standards. Given the age, maintenance and number of hours these helicopters are used annually it is likely that they will need to be replaced in the near future. The estimated cost of a replacement helicopter is between $4 - $5 million.

- The Police Department requires additional funding to implement a body camera program. A fully functional and operational body camera program will require approximately 2,000 cameras and between 40 and 50 additional staff in the Police and Law Departments. There is also a significant cost to maintain and store the video footage. Storage costs are expected to increase year over year as the amount of required storage increases exponentially. At this time, the annual cost of a fully operational body camera program is estimated at between $5 and $12 million. The 2018-19 preliminary budget reflects $5 million in GF set-aside to assist with this project.