

# 2015 to 2020 Six Year Financial Forecast

Andy Cherullo, Finance Director

Tadd Wille, Budget Officer

June 10, 2014

# Overview

- › Economic Conditions
  - Presented by Andy Cherullo, Finance Director
- › General Fund Financial Forecast (2015 – 2020)
  - Presented by Tadd Wille, Budget Officer



# Economic Conditions

# Tacoma Economic Overview

Tacoma's economy benefits from large, stable employers in healthcare, education, and government, coupled with strong focus on economic development

## Higher Education

UW Tacoma, University of Puget Sound, Pacific Lutheran University, strong community & technical college system

## Healthcare

Multi-Care, Franciscan, Group Health, Community Health Care

## Professional & Financial Services

State Farm, Columbia Bank, BNY Mellon

## Retail Trade

Costco, Bass Pro Shop, Walmart, Auto Dealers

## Transportation

Port of Tacoma, Marine Terminals Corp., Washington United (Targa), Olympic Container

## Government

Federal, Military, State, County, & Local

## Diverse Corporate Headquarters

Umpqua Bank, Tacoma News Tribune, Neil Walter Company, Brown and Haley, Roman Meal, Franciscan Health System, Multi-Care Health System, Simpson Investment Company, McFarland Cascade

# Tacoma Economic Overview

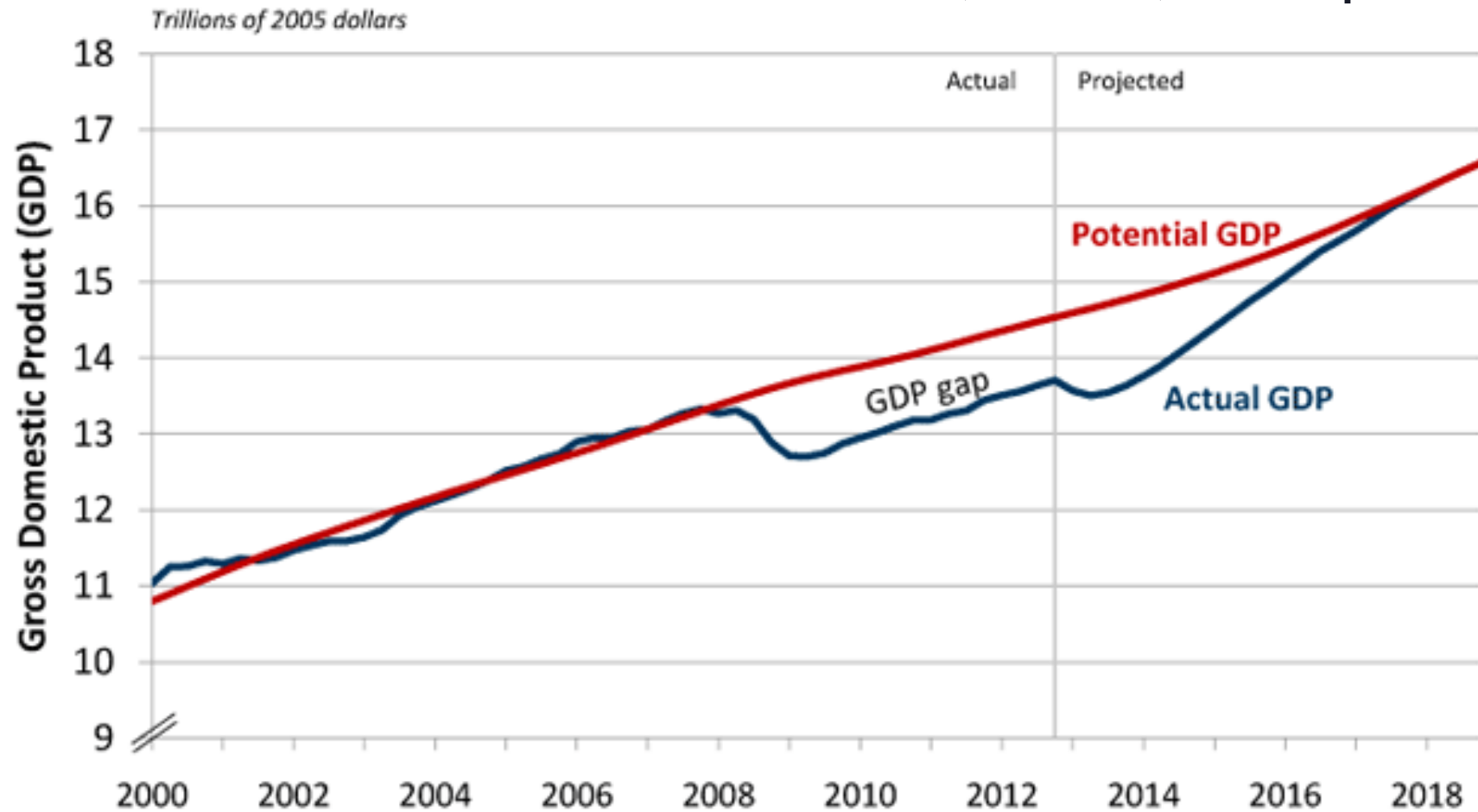
## **On the Positive Side**

- › Unemployment down, job growth across most sectors positive
- › Housing prices and home sales rebounding from low points
- › Personal income up
- › Inflation low
- › Interest rates near historic lows

## **BUT...**

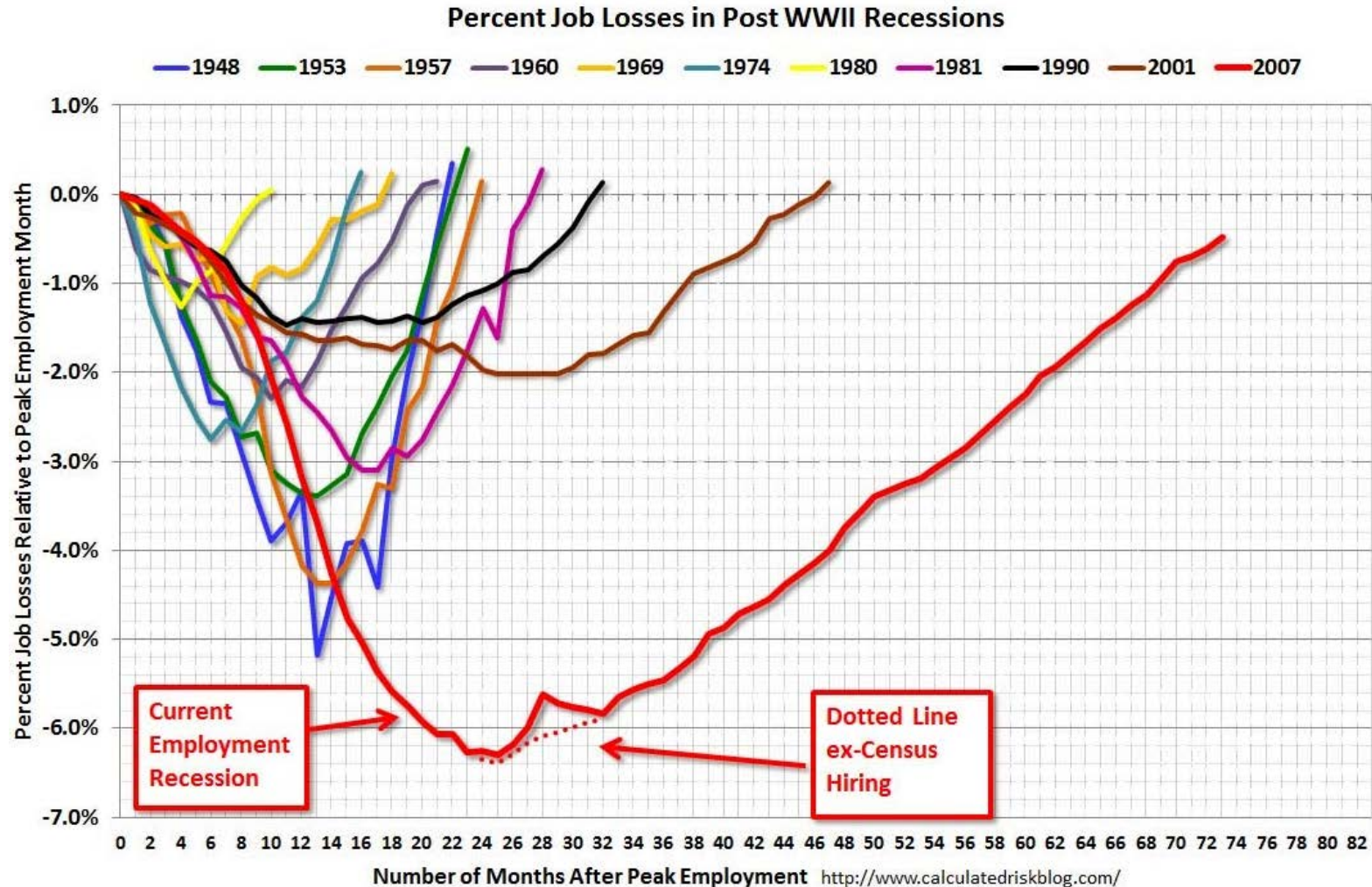
- › Still many discouraged workers (not counted in workforce) or under-employed
- › Housing prices up, but still below their pre-recession values.
- › Access to credit to buy a home is still restrictive
- › Consumer confidence still volatile

# Gross Domestic Product (GDP) Gap

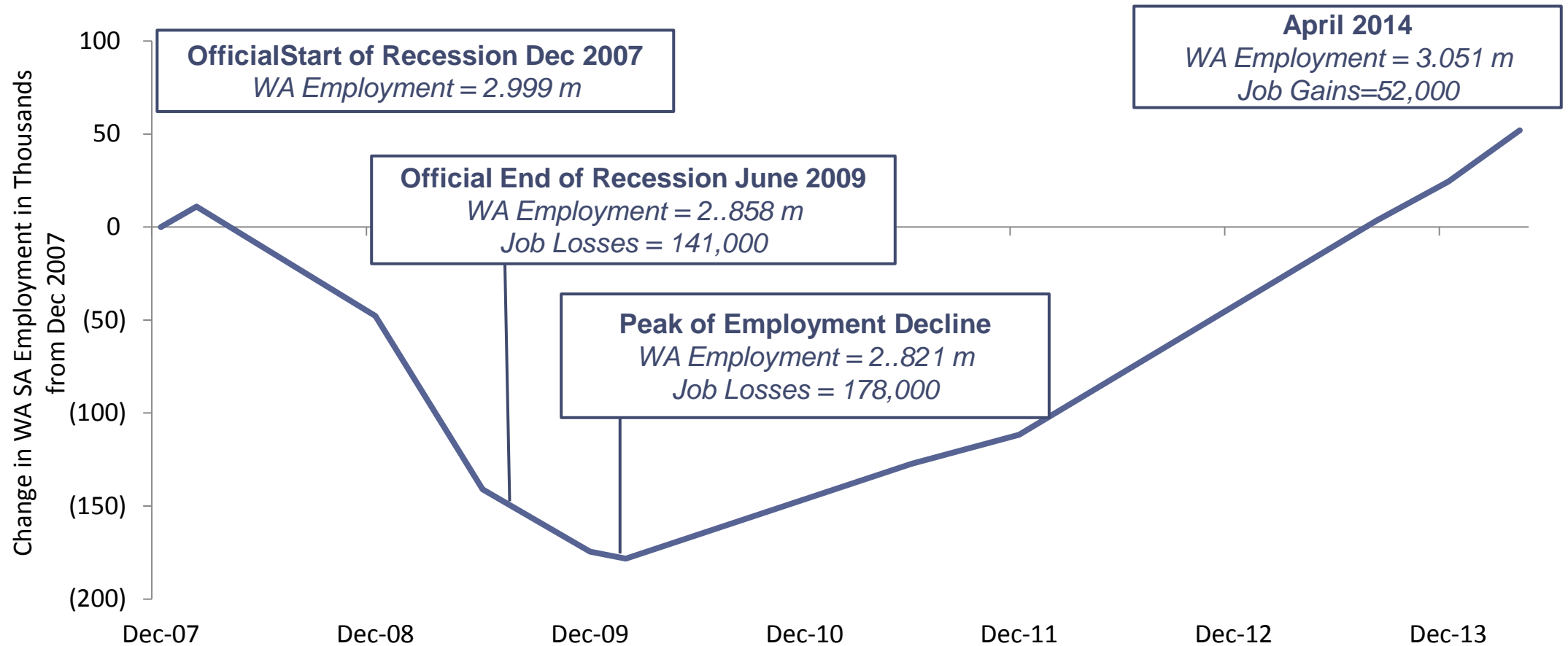


SOURCE: PETER G. PETERSON FOUNDATION

# National Percent Job Loss in Post WWII Recessions

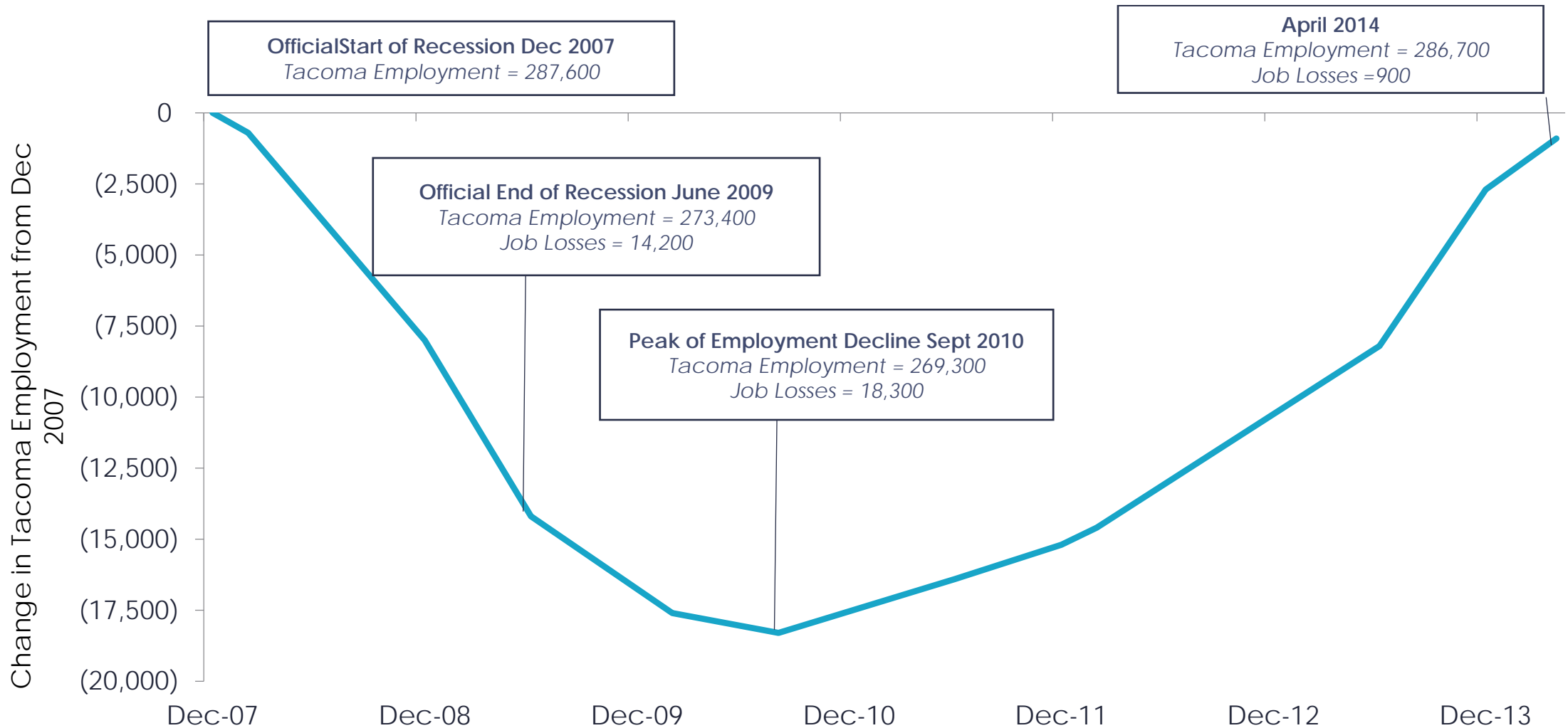


# WA State Employment - Recovered



SOURCE: WA EMPLOYMENT SECURITY

# Tacoma Job Losses – Almost Back to Pre-Recession Levels



SOURCE: WA EMPLOYMENT SECURITY

# Tacoma Job Losses by Category

Category	Peak 2007	Low 2010	May-14	Change 2007-2014
Mining and Logging	400	300	300	(100)
Construction	25,200	17,300	18,600	(6,600)
Manufacturing	20,700	16,200	17,400	(3,300)
Wholesale Trade	11,500	10,800	12,400	900
Retail - Food & Beverage Stores	5,500	5,500	5,800	300
Retail - General Merchandise Stores	7,900	7,900	8,400	500
Retail - All Other	20,100	17,800	19,100	(1,000)
Transportation, Warehousing, and Utilities	11,900	11,200	13,600	1,700
Information	3,600	3,000	2,900	(700)
Financial Activities	13,600	11,900	14,100	500
Professional and Business Services	25,600	23,400	24,800	(800)
Education & Health Services - Ambulatory Care Services	13,400	14,100	14,800	1,400
Education & Health Services - Hospitals	9,300	10,600	12,400	3,100
Education & Health Services - Other	22,000	24,500	25,000	3,000
Leisure and Hospitality	28,100	25,200	28,400	300
Other Services	13,000	12,500	13,100	100
Federal Government	10,400	13,200	11,700	1,300
State Government	11,600	11,200	10,700	(900)
Local Government	33,800	32,700	33,200	(600)
<b>Total</b>	<b>287,600</b>	<b>269,300</b>	<b>286,700</b>	<b>(900)</b>

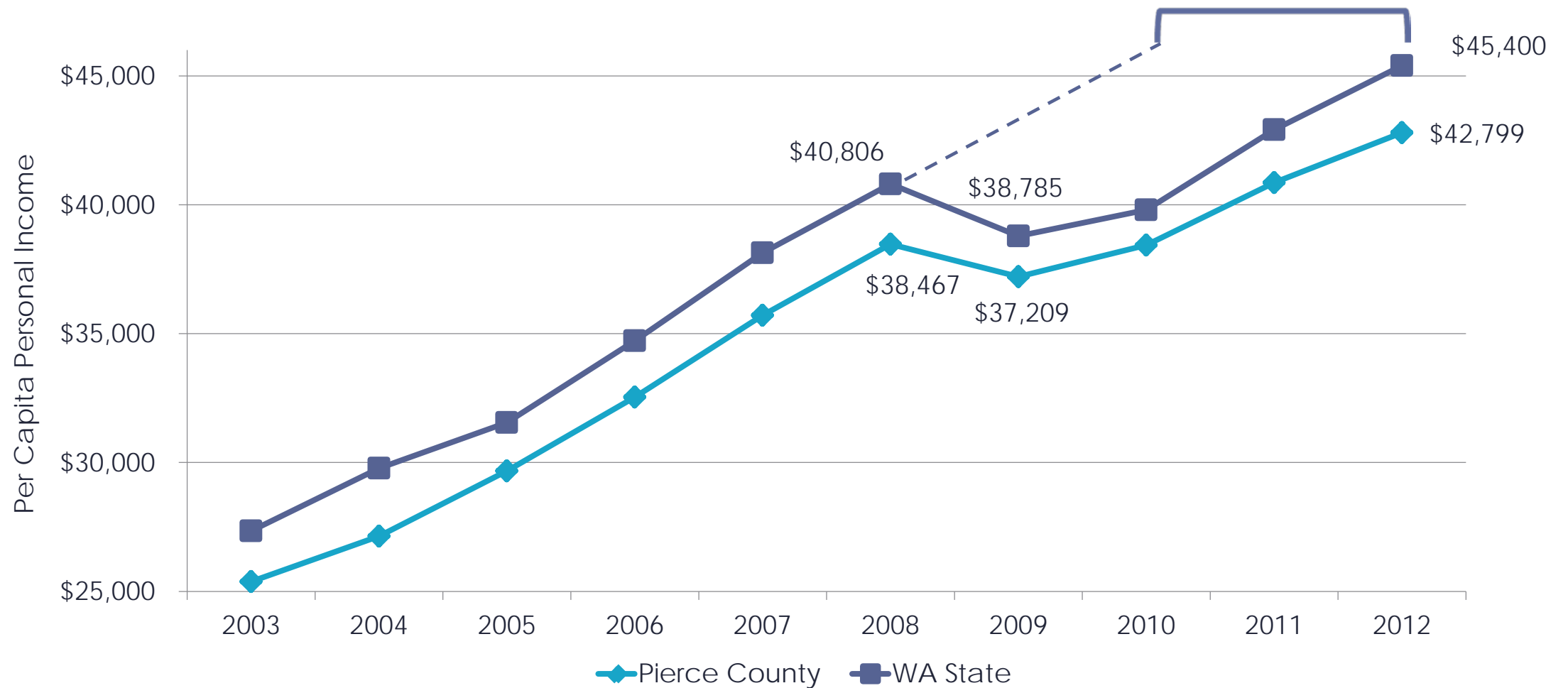
Source: US Bureau of Labor Statistics

# Unemployment



SOURCE: US BUREAU OF LABOR STATISTICS

# Personal Income



SOURCE: US BUREAU OF ECONOMIC ANALYSIS

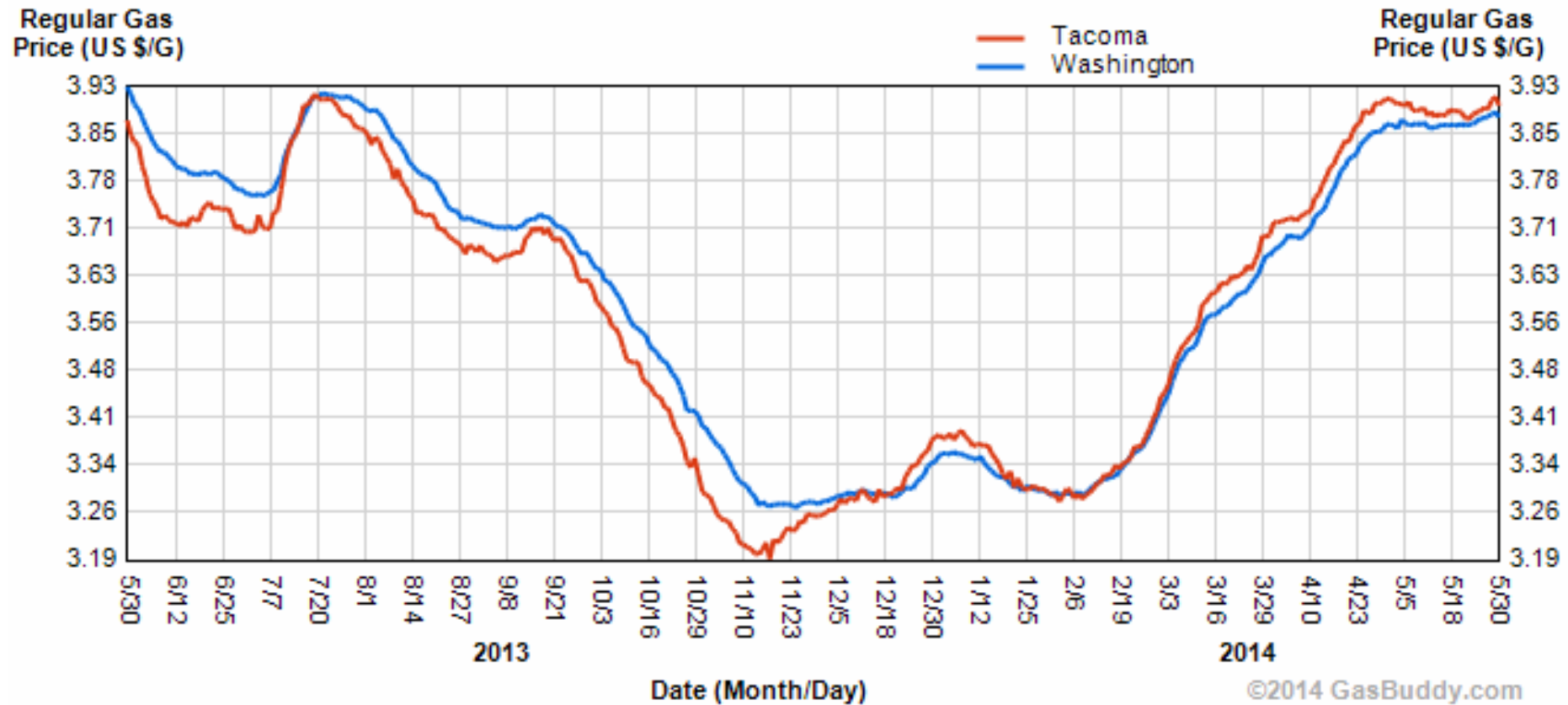
# Pierce County Personal Income & Retail Sales



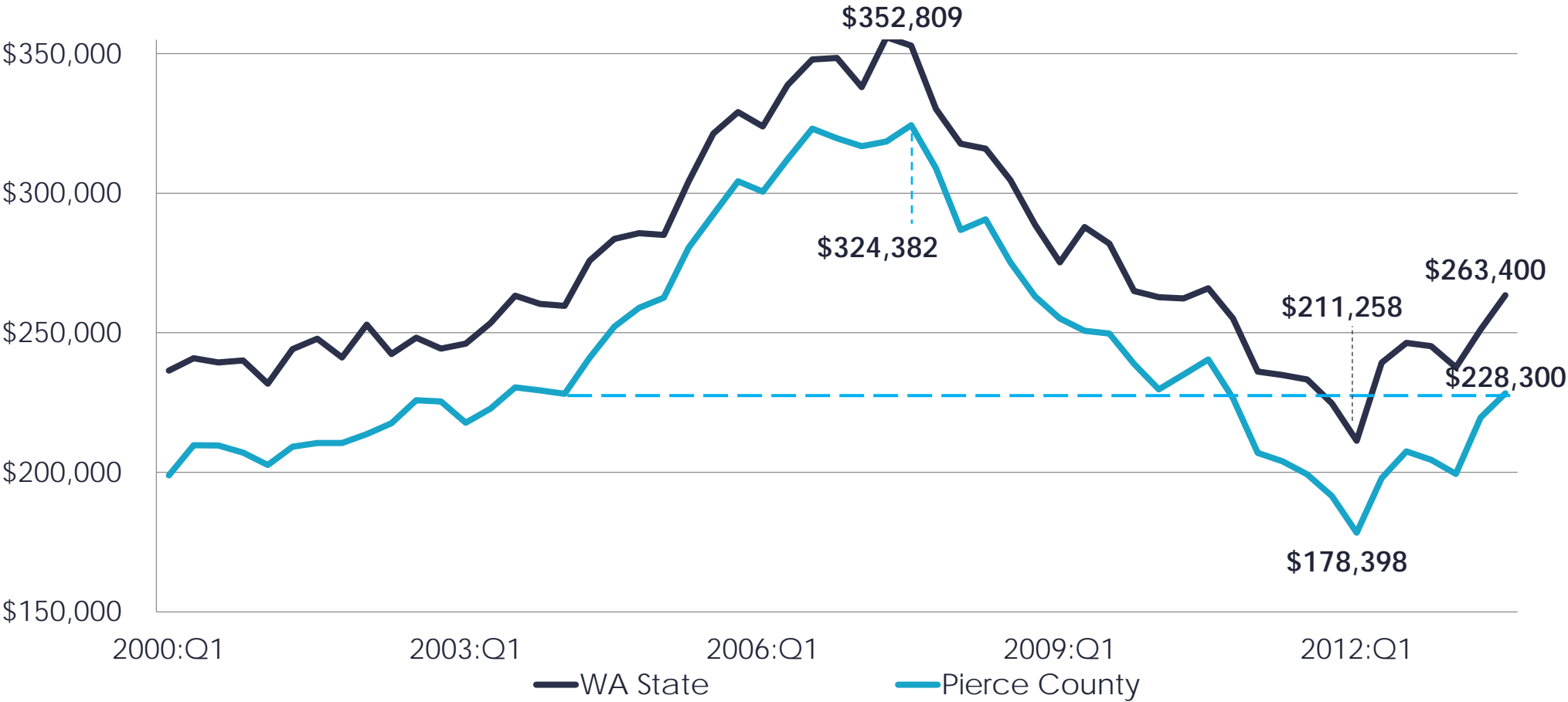
SOURCE: PUGET SOUND ECONOMIC FORECASTER

# Average Gas Prices

12 Month Average Retail Price Chart

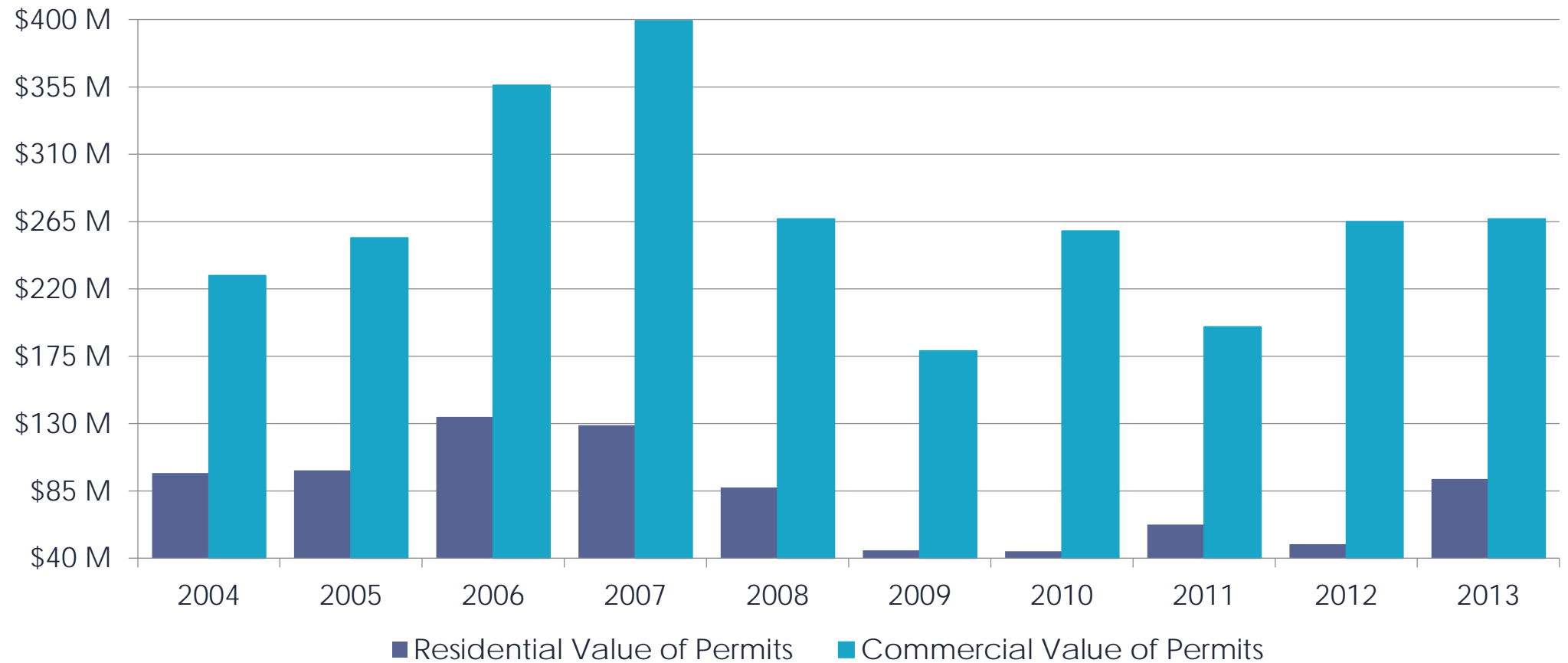


# Median Home Prices



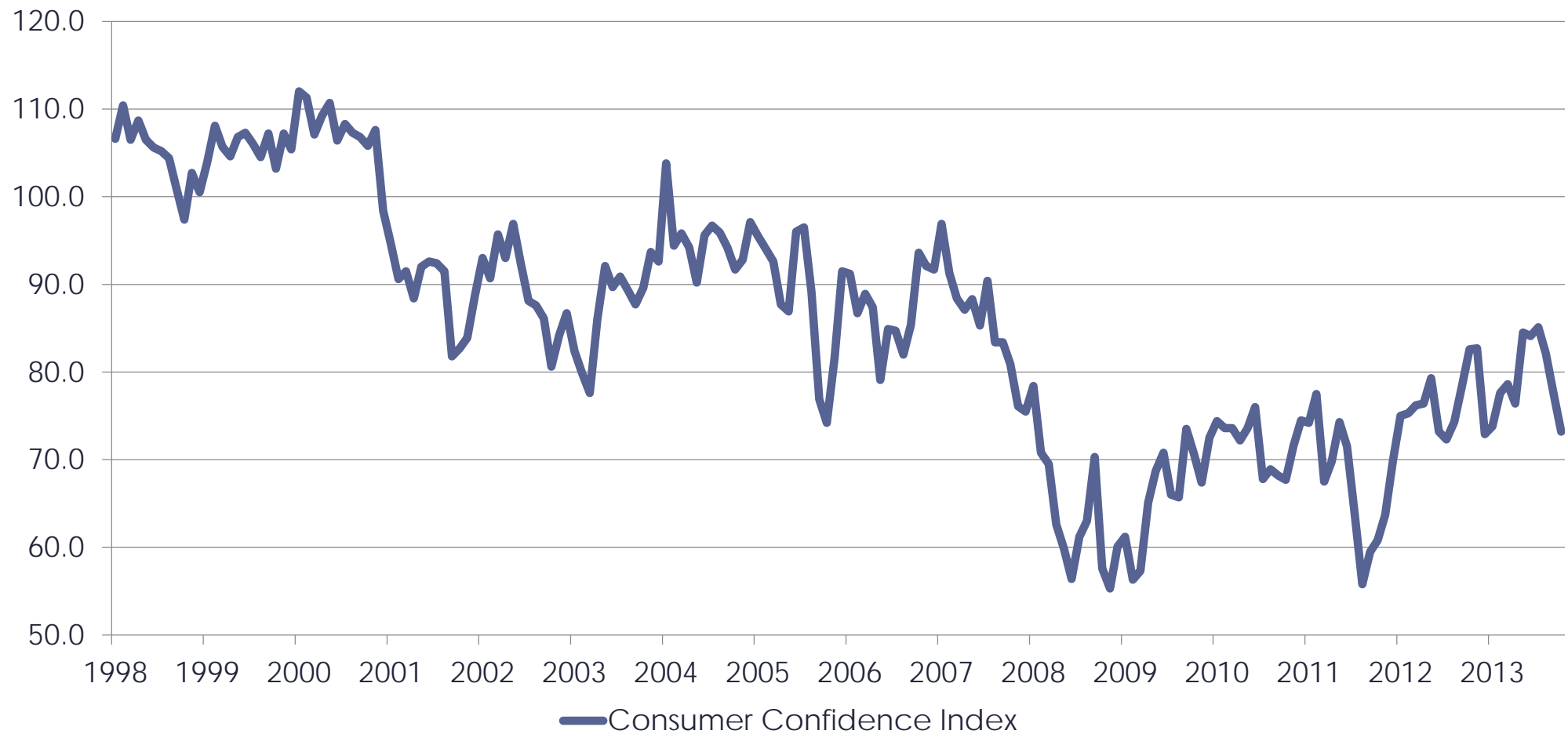
SOURCE: WASHINGTON CENTER FOR REAL ESTATE RESEARCH

# Tacoma - Building Permits



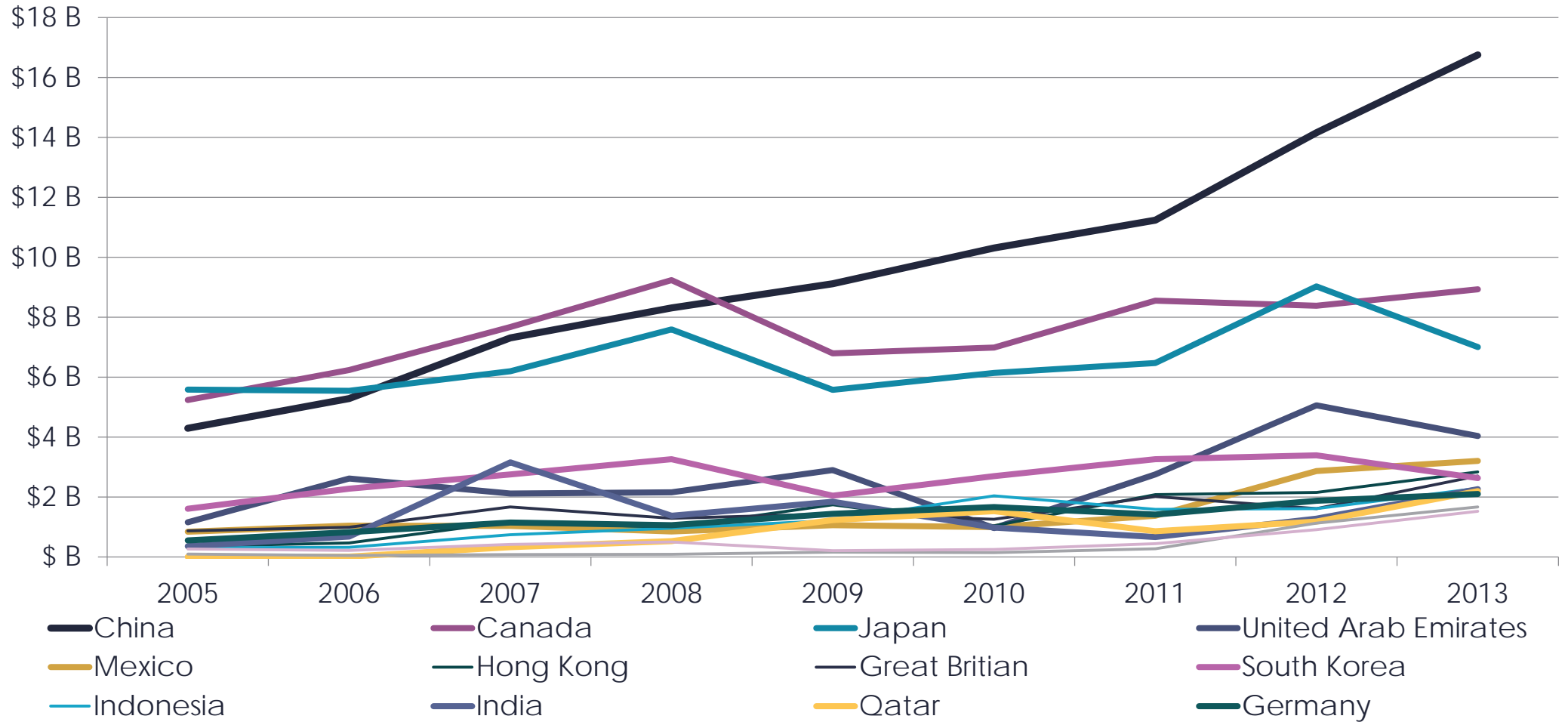
SOURCE: PLANNING AND DEVELOPMENT SERVICES

# Consumer Confidence



Source: St. Louis Federal Reserve/ University of Michigan Consumer Sentiment

# WA State Exports



SOURCE: INTERNATIONAL TRADE ADMINISTRATION - US DEPT. OF COMMERCE

# Economic Overview Summary

- › Economic recovery continues at slow pace
- › Level of uncertainty about economy remains high and downside risks outweigh upside risks
- › Slow growth in
  - Job creation
  - Personal income
  - Consumer & business confidence
  - Housing market



# General Fund Financial Forecast 2015 – 2020

# General Fund Forecast

- › Forecast reflects funding to provide today's level of City services
- › \$6.4 Million structural gap for FY 2015/2016 Biennium
- › General Fund expenditures are growing at a faster rate than revenues

# General Fund Forecast (Structural Outlook)

	2013 Actual	2014 Estimate	2015 Projection	2016 Projection	2017 Projection	2018 Projection	2019 Projection	2020 Projection
Revenues	\$200.7	\$198.1	\$201.9	\$206.2	\$210.3	\$214.8	\$219.3	\$223.9
Expenditures	177.5	207.1	202.7	211.7	215.5	222.8	227.47	235.2
Structural Balance	\$23.2	(\$9.0)	(\$0.8)	(\$5.6)	(\$5.2)	(\$8.0)	(\$8.2)	(\$11.3)



\$14.2



(\$6.4)



(\$13.2)

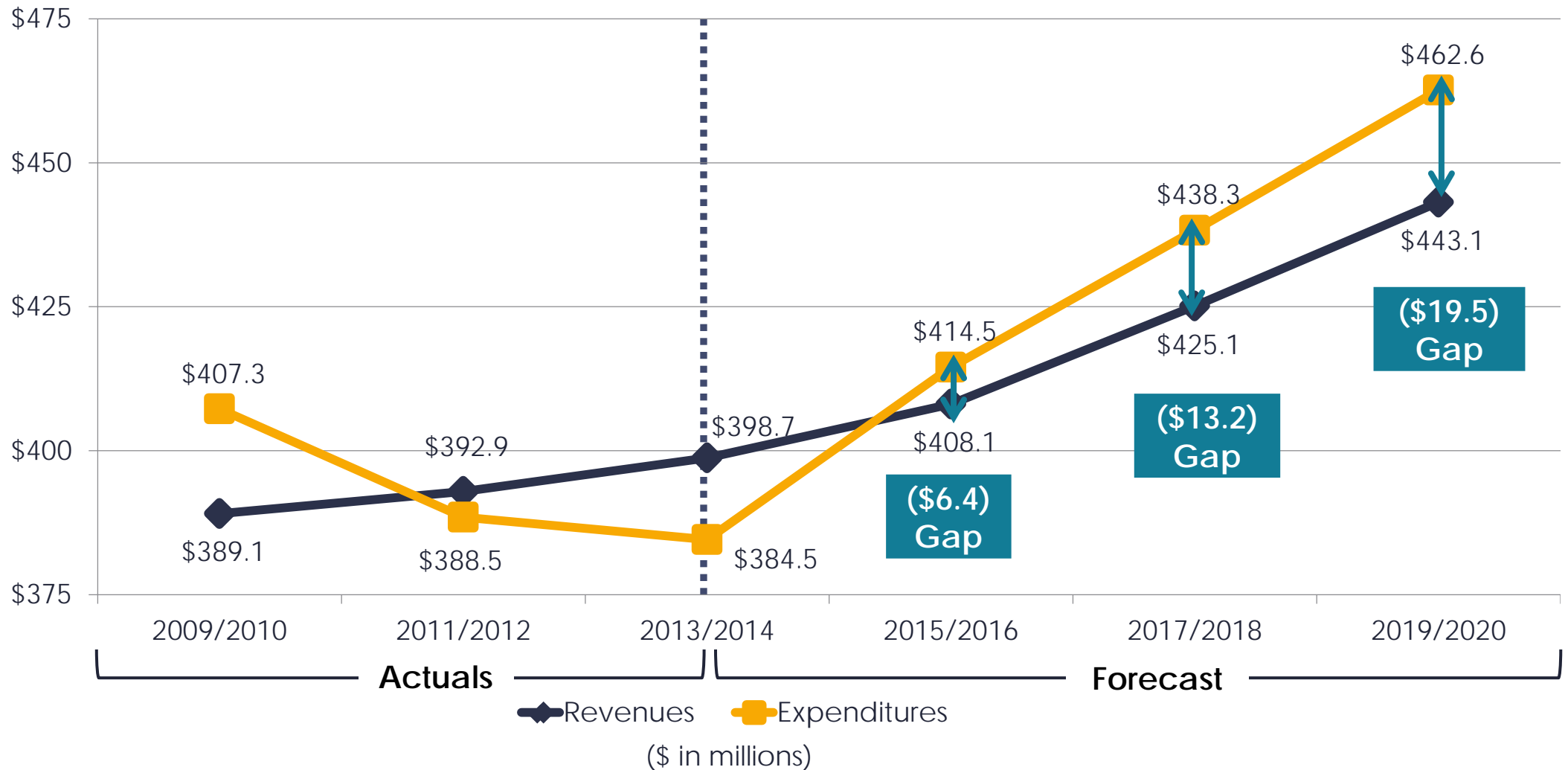


(\$19.5)

(\$ in millions)

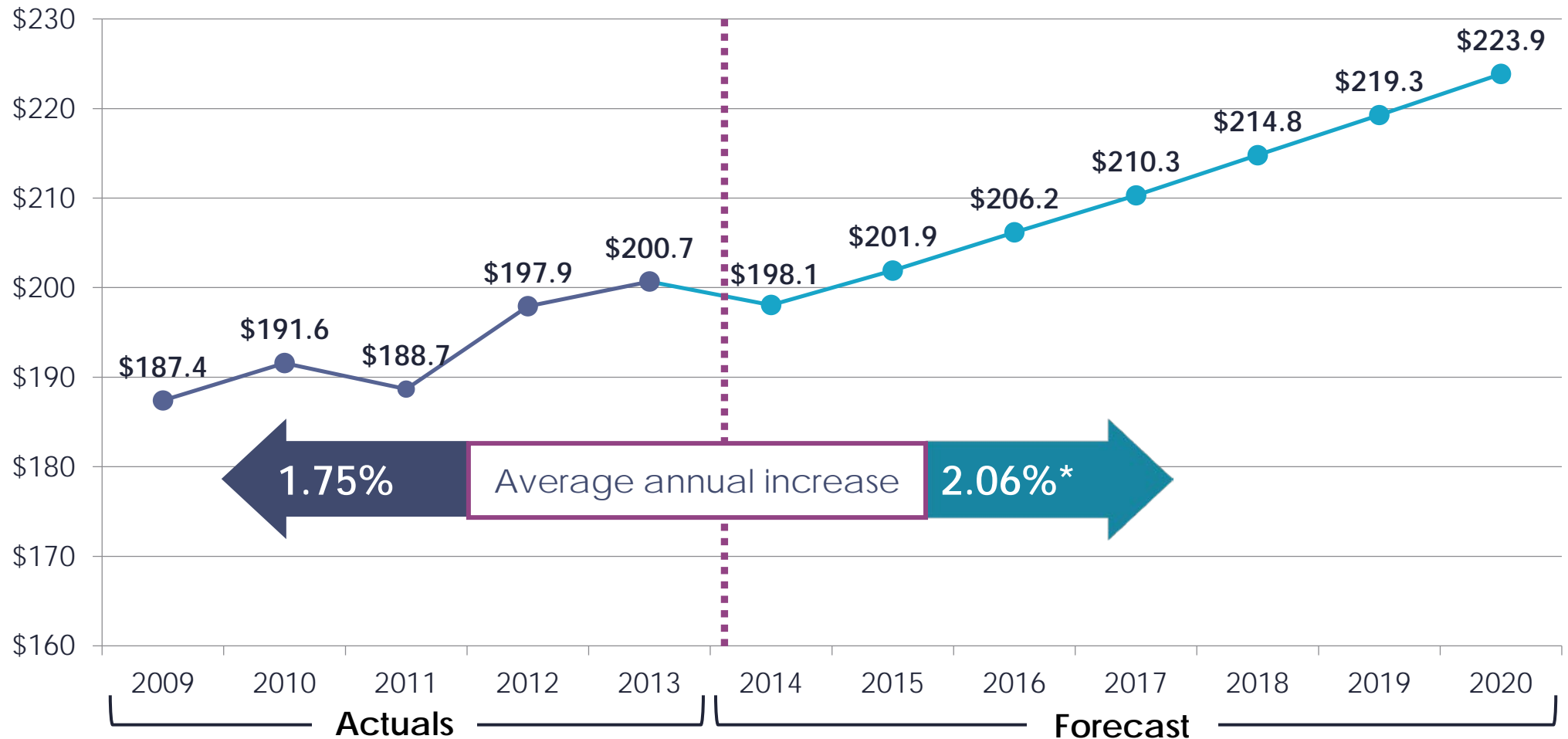
# General Fund Forecast

(Biennial Structural outlook)



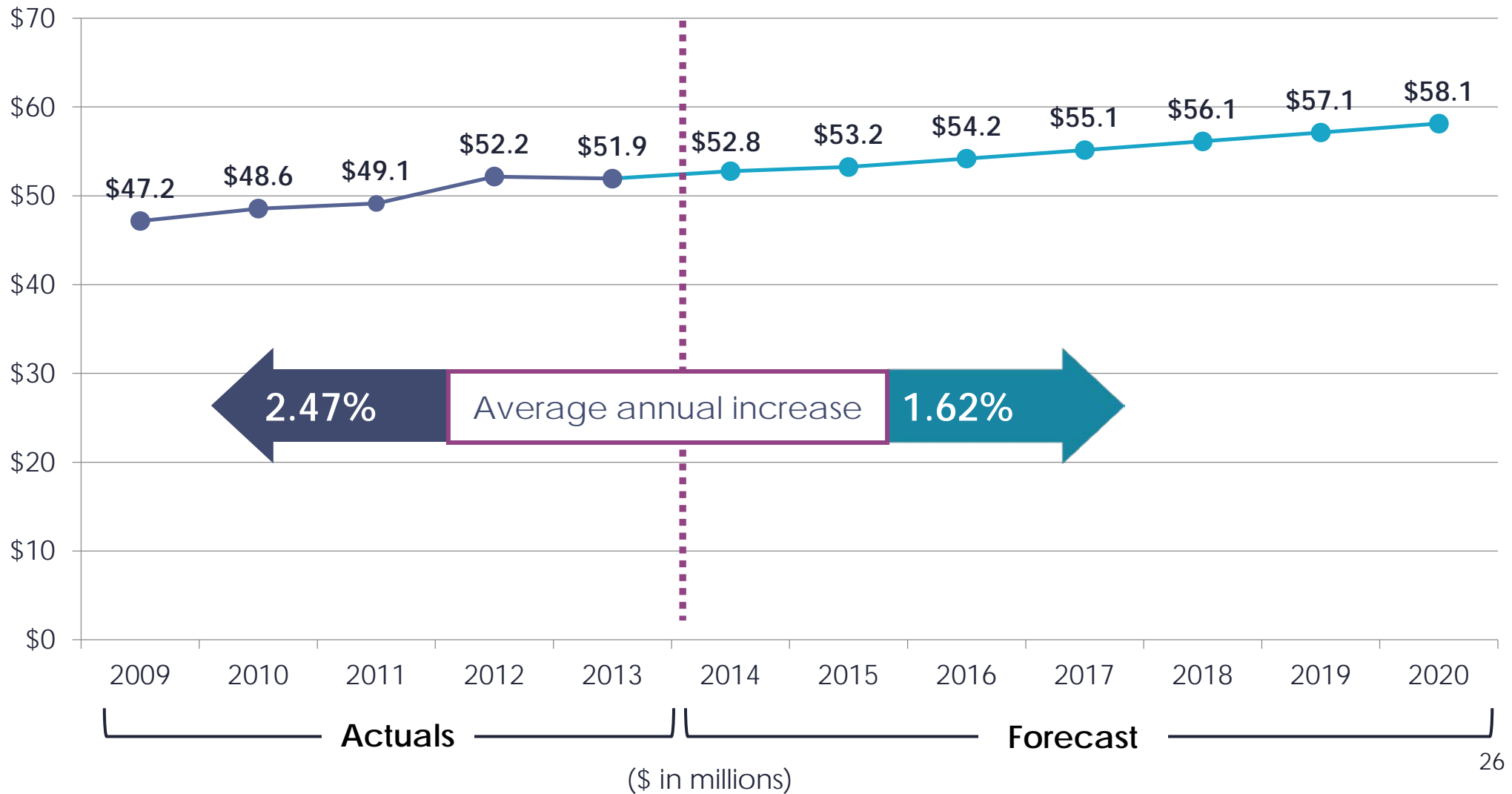
# General Fund Revenues

# All General Fund Revenues

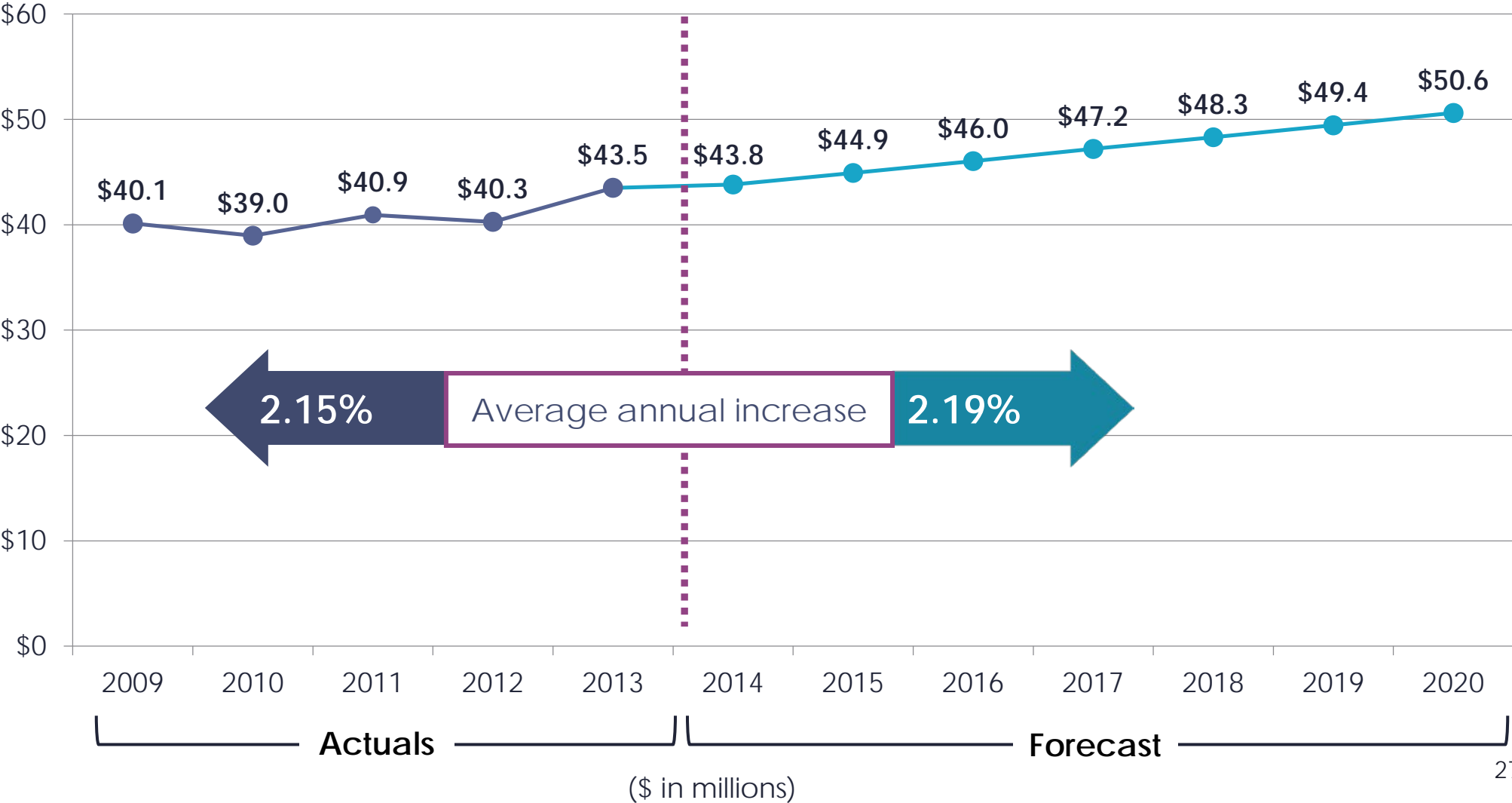


\* In 2014, 2% of certain Utility Tax revenues were redirected for dedicated street maintenance and deposited directly into the Street Fund. The forecasted annual increase including 2014 is 1.58%. (\$ in millions)

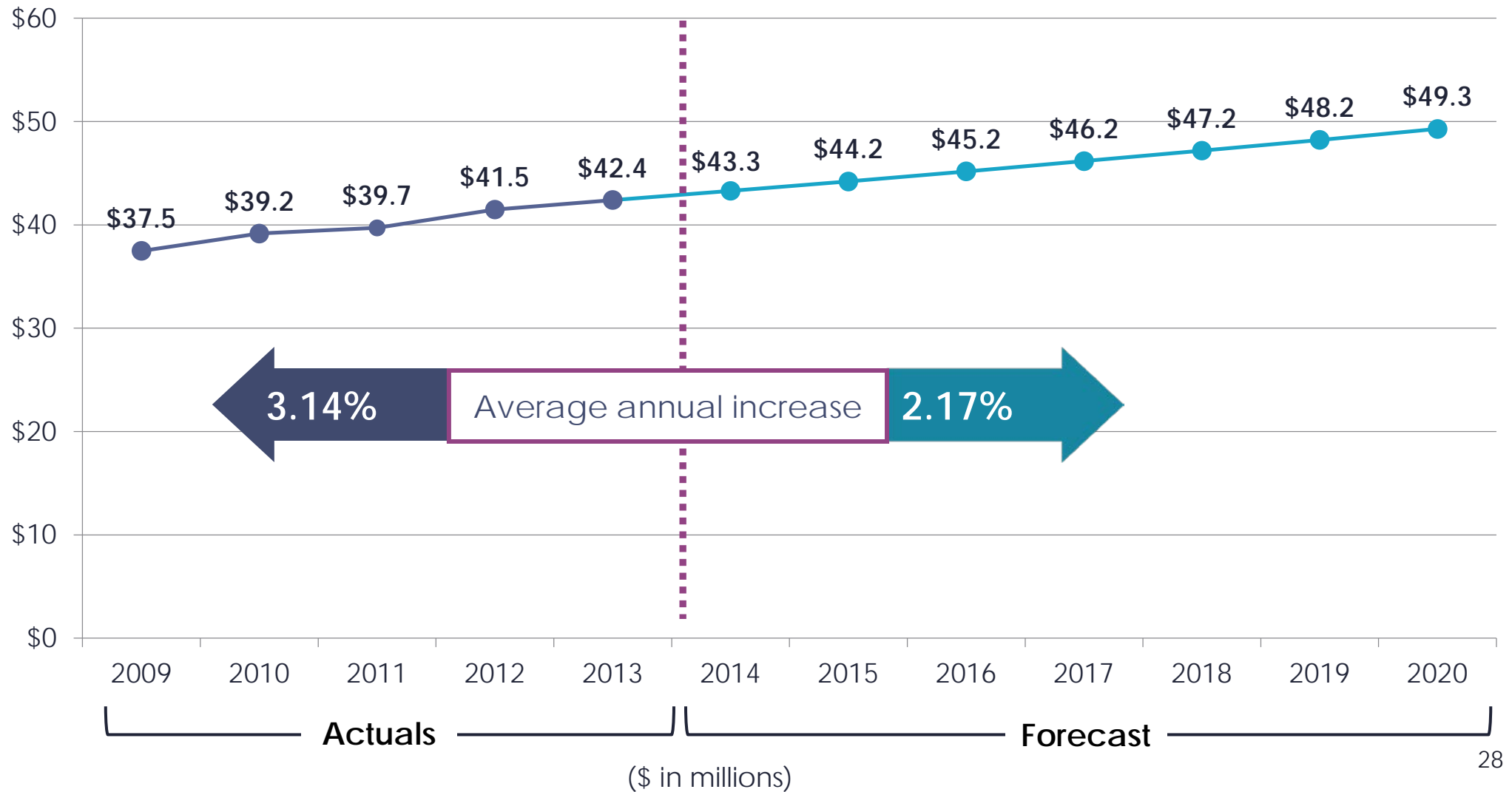
# Property Tax



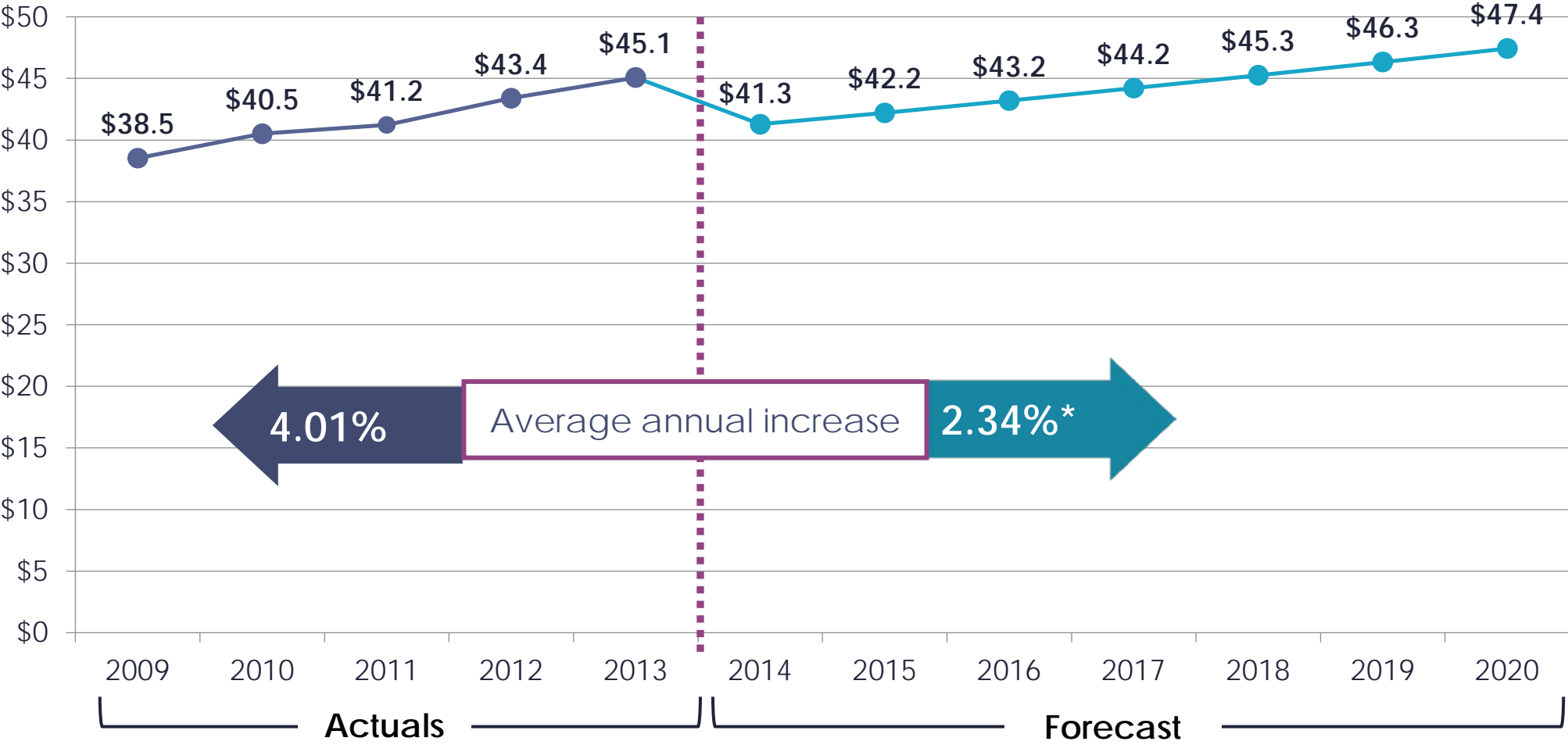
# Business Tax



# Sales Tax



# Utility Tax



\* In 2014, 2% of several Utility Tax revenues began to be directly deposited into the streets fund for dedicated street maintenance. The forecasted annual increase including 2014 is 0.80%.

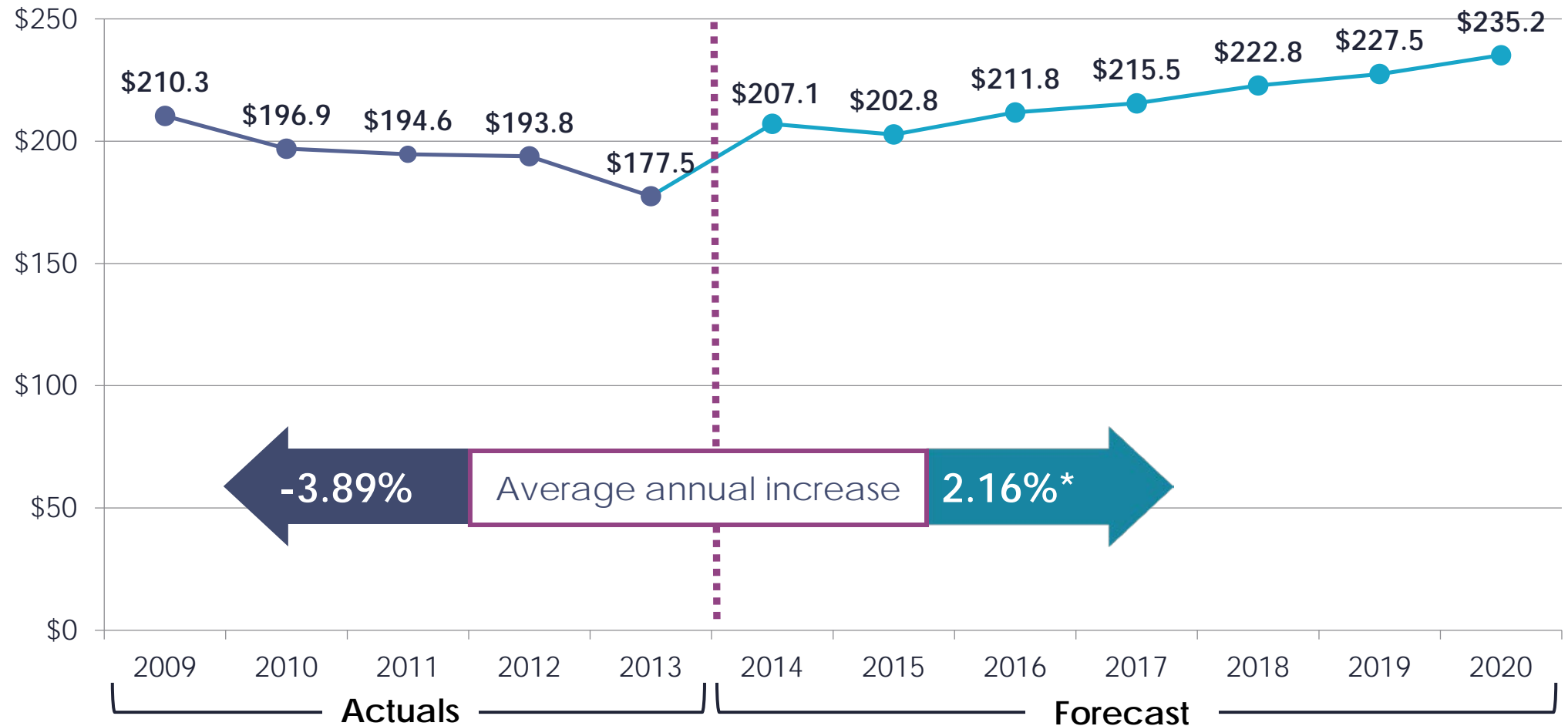
(\$ in millions)

# General Fund Expenditures

# Expenditure Assumptions in Forecast

- › Reflects funding needed to provide today's level of City services
- › Includes adjustments for medical inflation for employee healthcare
- › Assumes salary increases based on contractual requirements and historical averages for represented and non-represented employees
- › Includes inflators for fixed, operational, and maintenance cost increases
- › Adjusts for impacts of expiring police and fire grants
- › Includes projected transfers needed to support other funds: Streets, Traffic Enforcement, Permitting, Convention Center, and Tacoma Dome

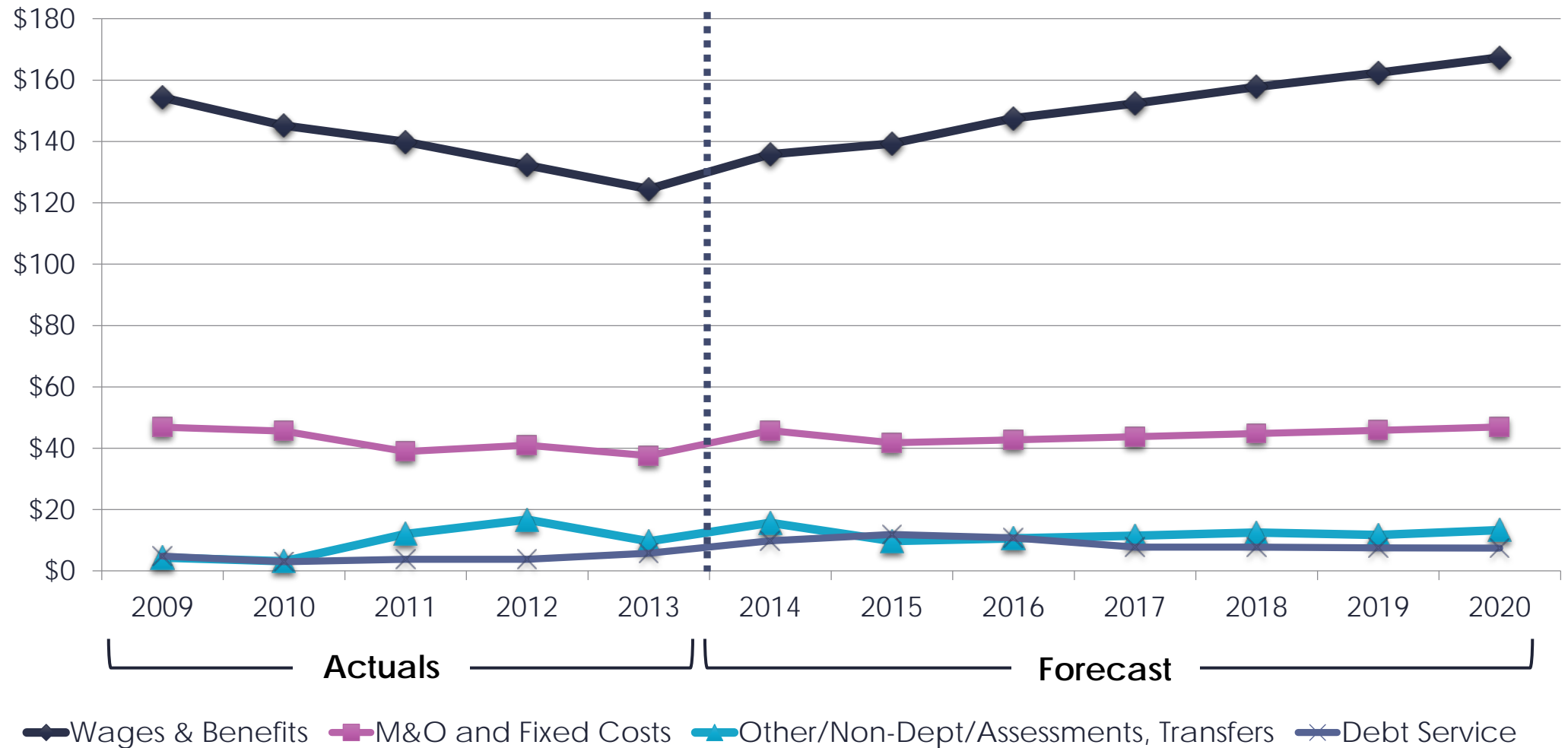
# Total General Fund Expenses



\* In 2014, the General Fund funded several one-time expenses using savings and additional revenues realized in 2013. The forecasted annual average increase including 2014 is 4.24%.

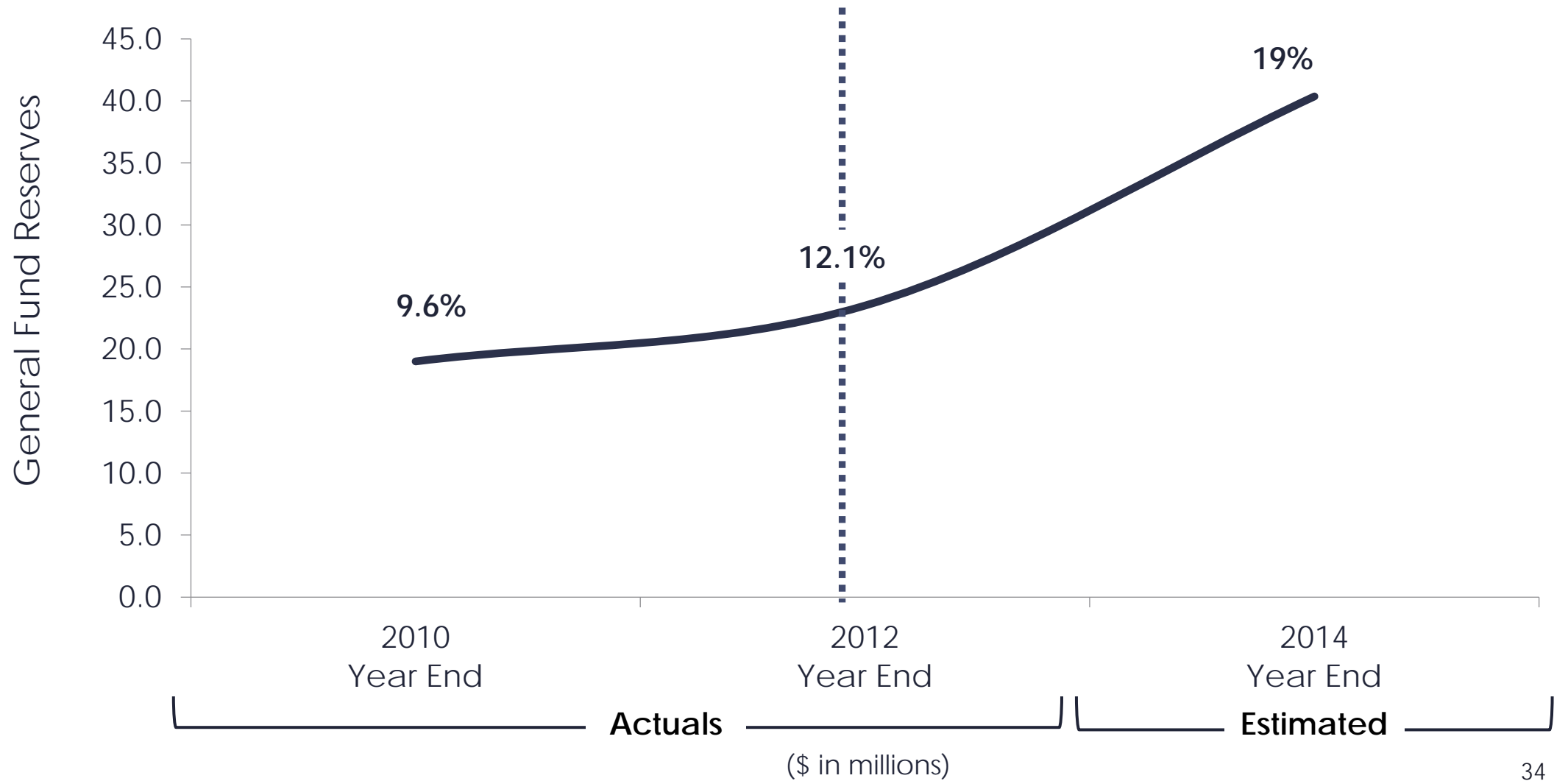
(\$ in millions)

# Wages, Benefits, Maintenance and Operations, Fixed Costs, Debt, and Other



(\$ in millions)

# General Fund Reserves as % of Expenses

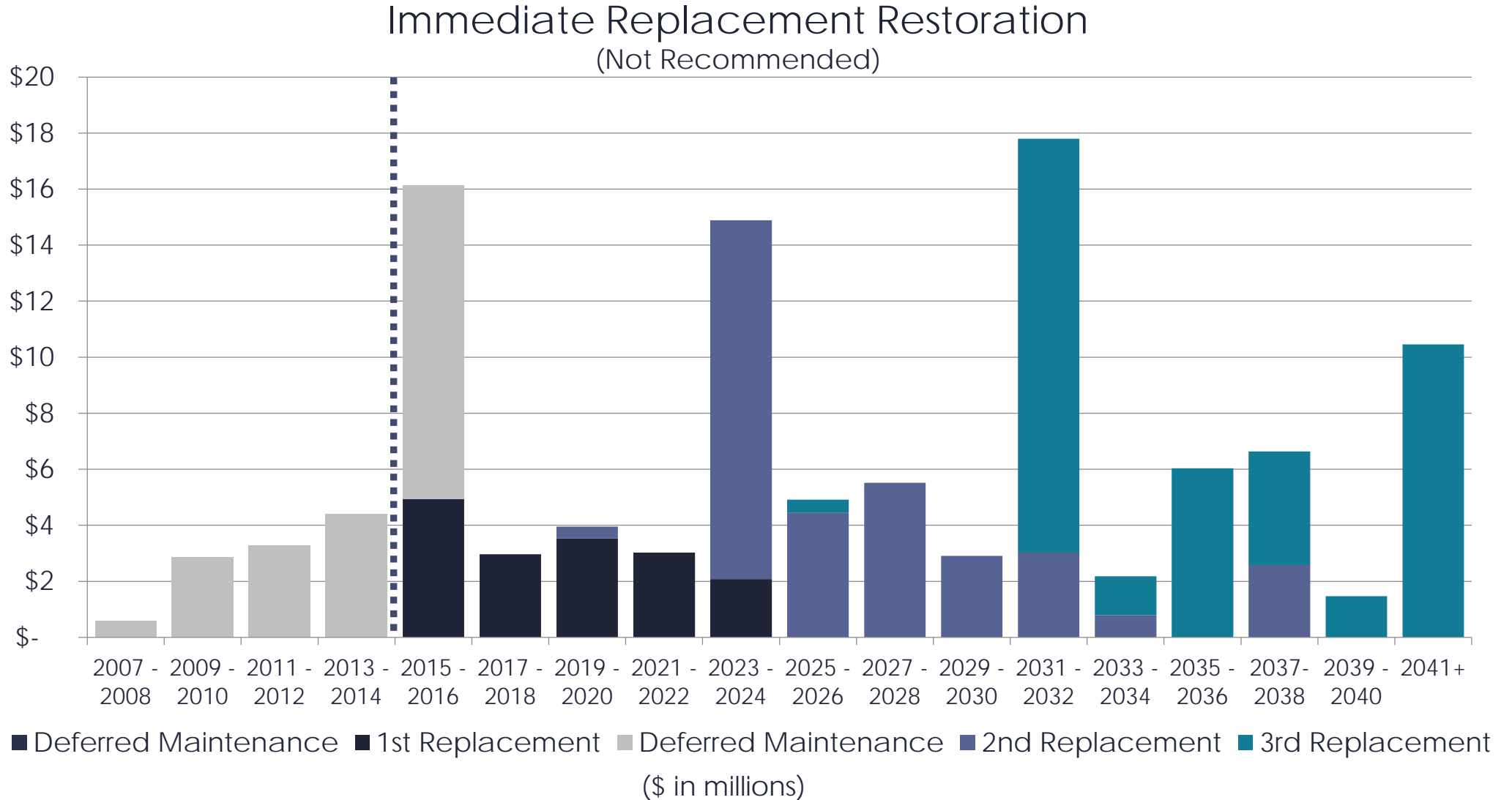


# Deferred Maintenance & Replacement

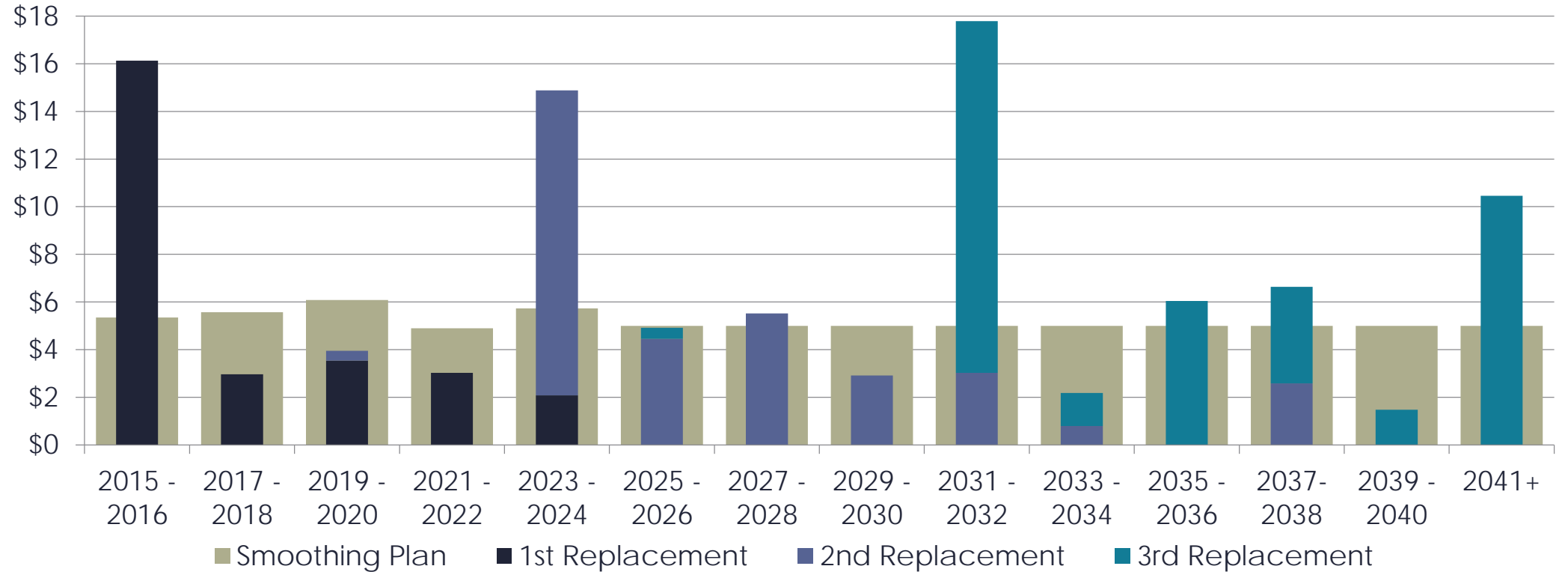
# Deferred Maintenance & Replacement

- › With the economic downturn, increased pressure to reduce spending to meet revenue shortfalls resulted in deferment of:
  - Fleet Vehicle Replacement
  - Facility Maintenance
  - Street Maintenance
  - Information Technology Maintenance and Upgrades

# Deferment of Vehicle Replacements



# Replacement Smoothing Plan



	2015-16	2017-18	2019-20
Police	\$3.52	\$3.24	\$3.54
Fire	\$1.34	\$1.24	\$1.4
PW 1065 and other GF	\$.49	\$1.09	\$1.14
<b>Total</b>	<b>\$5.35 M</b>	<b>\$5.57 M</b>	<b>\$6.08 M</b>

# Facilities Maintenance

- › September 2009 – Assessment of city owned buildings managed by Facilities Management
  - 49 buildings assessed
  - Determined Backlog of Maintenance & Repairs (BMAR) - Included 10 year cost projection
  - Did not include costs for programmatic changes, tenant improvements, modernization/renovation or improvements
  
- › Staff recommends completing updated assessment
  - As best practice, should be updated every 5 years

# Facility Maintenance Backlog

## Present Value/Current estimates

Department Facilities	#	2009 BMAR	Work Completed / No Longer Required	Escalation Factor	Outstanding Deferred Maintenance (in Current \$)
CED Department (Hilltop)	0	3.68	(3.68)	0	0
Fire Department	25	11.59	(2.37)	1.20	10.42
NCSD Department	5	3.60	(0.98)	0.34	2.96
MCO (MSC)	1	0.28	(0.05)	0.03	0.26
MPT Maintained Facilities	1	5.02	(4.02)	0.13	1.13
Municipal Complex	2	8.03	(1.68)	0.83	7.18
Police Department	7	2.79	(0.25)	0.33	2.87
Public Works	3	3.68	(2.20)	0.19	1.67
Total	44	\$38.67	\$(15.23)	\$3.05	\$26.49

(\$ in millions)

# Tacoma Dome & Convention Center Maintenance

## › Dome Seating

- Current seating consists of mobile bleachers as well as built in seating
- Mobile bleachers purchased 31 years ago
- Stored with exposure to outside elements when not in use

## › Ongoing Maintenance

- City Staff currently developing comprehensive maintenance needs analysis and maintenance funding strategies for both Tacoma Dome and Convention Center



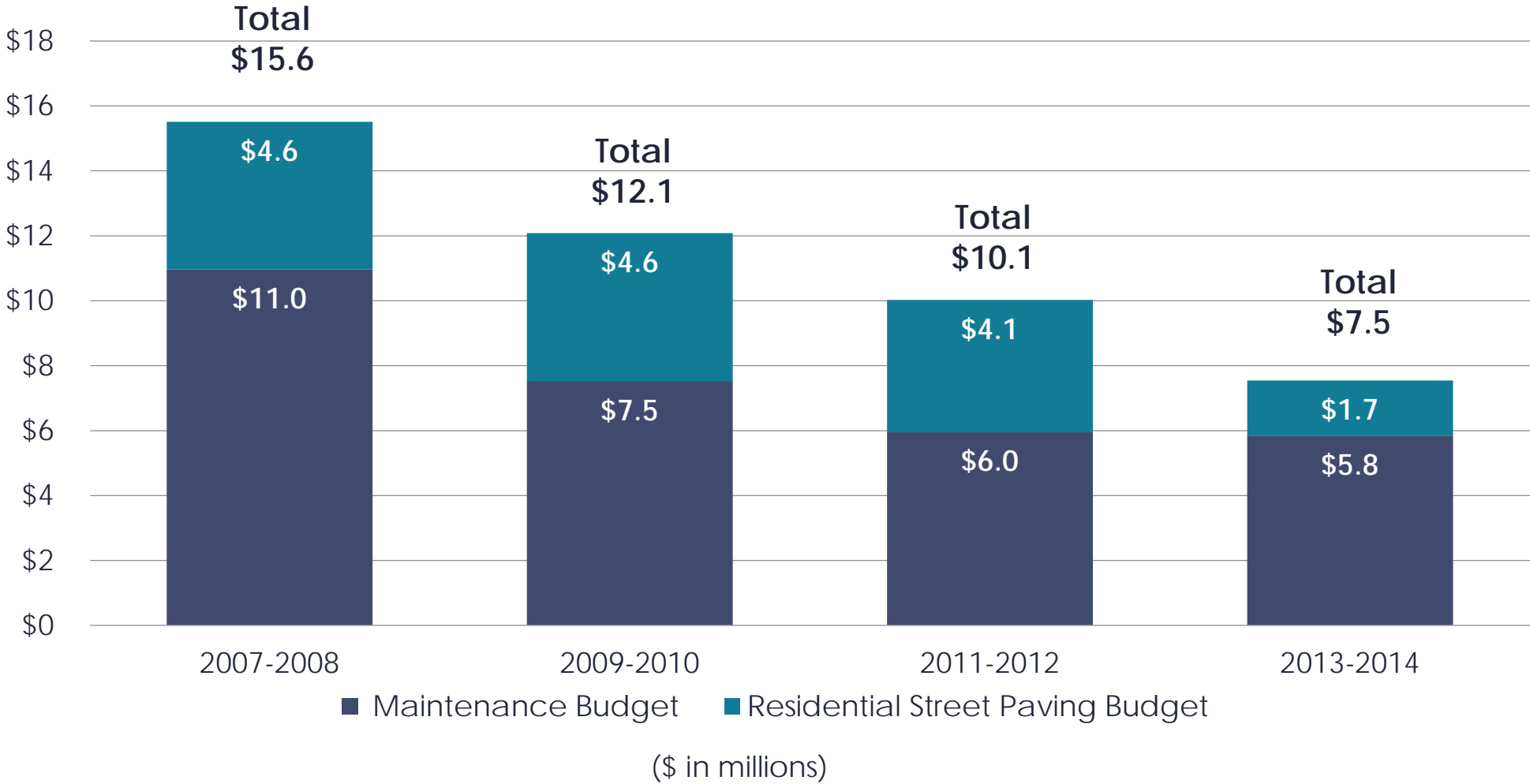
# Information Technology

- › Deferred Maintenance
  - Data Center Relocation
  - Data Storage and Server Consolidation
  - Wi-Fi Modernization
  - Network Modernization
  - PC Replacements
- › SAP Updates (SAGE Recommendations)
  - Finance
  - Procurement
  - Human Resources
  - Work Management
  - Business Intelligence

# Street Maintenance

Pavement Condition Index (PCI) Rating	Lane Miles	Percent	Lane Miles	Percent
	Arterial Streets		Residential Streets	
Failed	218	25%	392	30%
Poor	165	19%	259	20%
Fair	193	23%	250	19%
Good	205	24%	215	16%
Excellent	76	9%	195	15%
	<b>857</b>	<b>100%</b>	<b>1,311</b>	<b>100%</b>

# Historical Budget for Street Maintenance

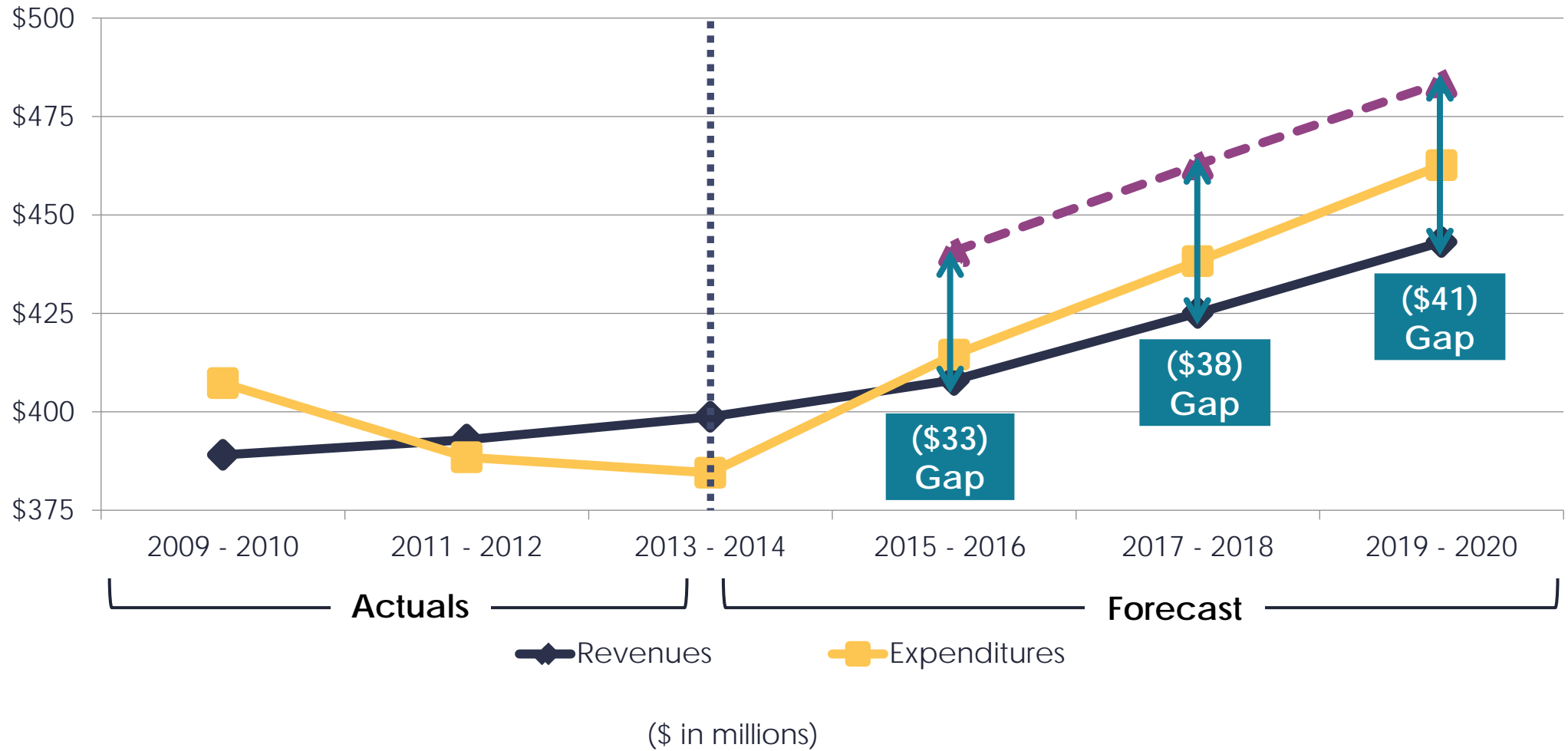


# Deferred Maintenance & Replacement Impact on Forecast

- › Below figures provide estimates to begin addressing aspects of City's deferred maintenance
  - Fleet Vehicle Replacement
    - › \$5-6 M per biennium (ongoing)
  - Facility Maintenance
    - › \$6-7 M per biennium (ongoing)
  - Dome Seating
    - › \$10 M spread over three years (2015-2017)
  - Information Technology Maintenance and Upgrades
    - › \$2-3 M per biennium (ongoing)
  - Street Maintenance
    - › \$6 M per biennium (ongoing)

# General Fund Forecast

## (Biennial Structural Outlook)

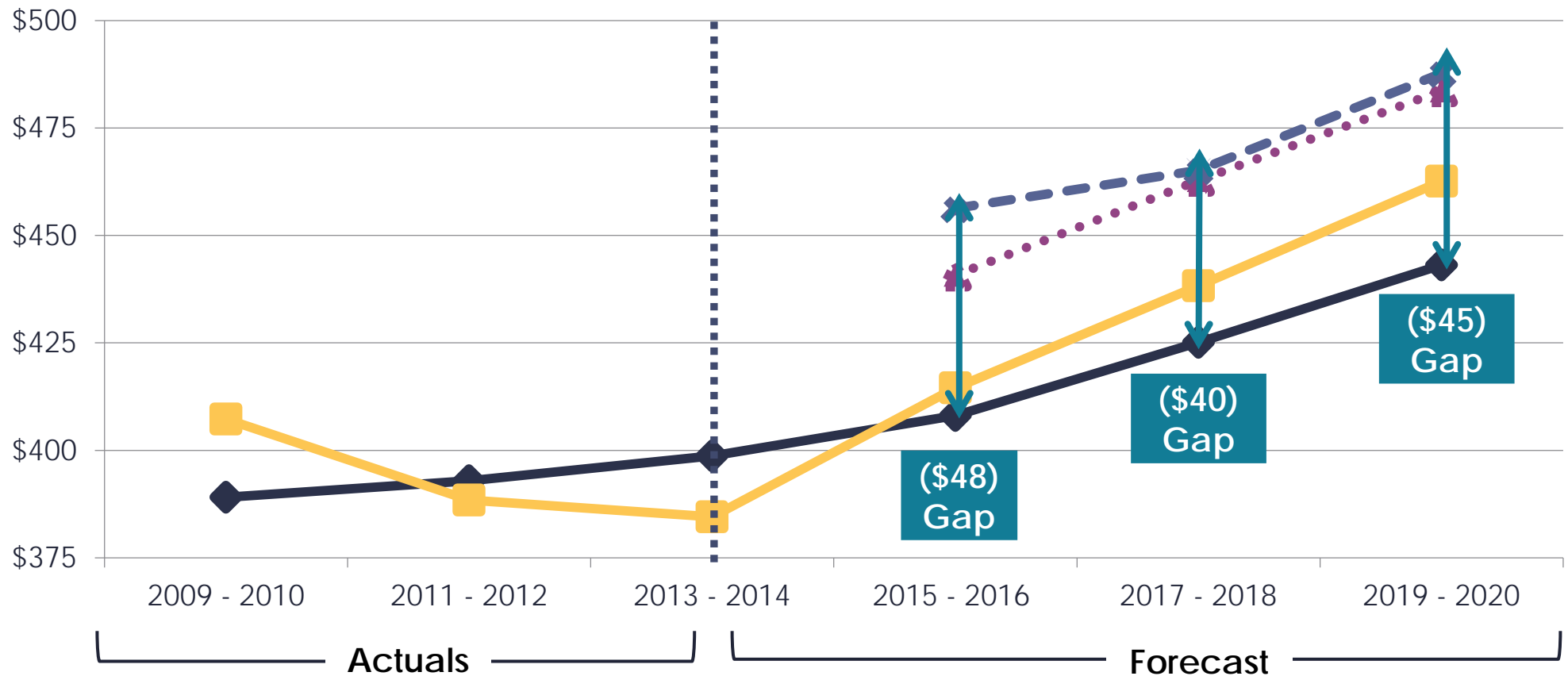


# Other Unfunded Capital and Services

# Other Unfunded Capital Items and Services

- › Eastside Community Center Construction
  - \$5 M in 2015/2016 biennium (one-time)
- › Library
  - Restoration of Library Materials Budget
    - › \$1 M per biennium (ongoing)
  - Radio Frequency Identification (RFID)
    - › \$1.5 M (one-time)
- › Neighborhood Council Innovative Grants
  - \$0.4 M per biennium (ongoing)
- › Broadway Center for the Performing Arts (BCPA)
  - \$8 M (one-time)
- › Link Light Rail (\$ - Undetermined)

# General Fund Forecast (Biennial Structural Outlook)



Revenues
  Expenditures
  Deferred Maintenance
  New or Enhanced Services

(\$ in millions)

# Forecast Summary

# Summary

- › Economic Conditions
  - Although some positive economic signs, effects of the 2008 recession still lingering
  - Risks remain that could impact recovery
- › General Fund Fiscal Outlook (2015-2020)
  - Projected expenditure growth greater than revenue growth (creating structural gaps)
  - Deferred maintenance and new/expanded services further increase the revenue and expenditure imbalance
  - Structural imbalances must be addressed with recurring savings, efficiencies, and/or new/enhanced recurring revenues
  - One-time savings/revenues utilized for one-time expenses

# Going Forward

- › Forecast based on history, economic indicators, and four (4) months of actual data through 2014
- › City staff to monitor revenues and expenditures for changes in trends compared to forecasted estimates
- › Labor and benefit trends to be closely monitored and analyzed
- › 2013/2014 Budget is currently balanced and will be balanced by biennium end – with added reserves
- › 2015/2016 Proposed Budget will provide recommendations for a continued balanced budget

# Next Steps

# 2015/2016 Budget Development Calendar of Events

Date	Action
June	<ul style="list-style-type: none"> <li>• General Fund Six-Year Financial Forecast</li> <li>• Budget work session with City Council</li> <li>• Departments Begin to Develop Budget Recommendations</li> </ul>
July	<ul style="list-style-type: none"> <li>• Departments meet with Budget Office to Review Recommendations</li> <li>• Community Budget Engagement</li> </ul>
August	<ul style="list-style-type: none"> <li>• Departments and Budget Office meet with City Manager</li> <li>• Community Budget Engagement</li> </ul>
September	<ul style="list-style-type: none"> <li>• 2015/2016 Preliminary Budget Developed</li> </ul>
October	<ul style="list-style-type: none"> <li>• 2015/2016 Preliminary Budget Presented to City Council</li> <li>• Community Budget Hearings and City Council Budget Work Sessions</li> </ul>
November	<ul style="list-style-type: none"> <li>• City Council Budget Work Sessions &amp; Community Budget Hearings</li> </ul>
December	<ul style="list-style-type: none"> <li>• 2015/2016 Balanced Budget Adoption</li> </ul>

# June 17<sup>th</sup> Budget Work Session

- › Purpose - To provide input regarding:
  - Quality and importance of City programs and services
  - Establishment of funding priorities
- › Results intended to give preliminary direction for development of policy and service delivery options

# Rating of City Services – Step 1

## Rate City Services

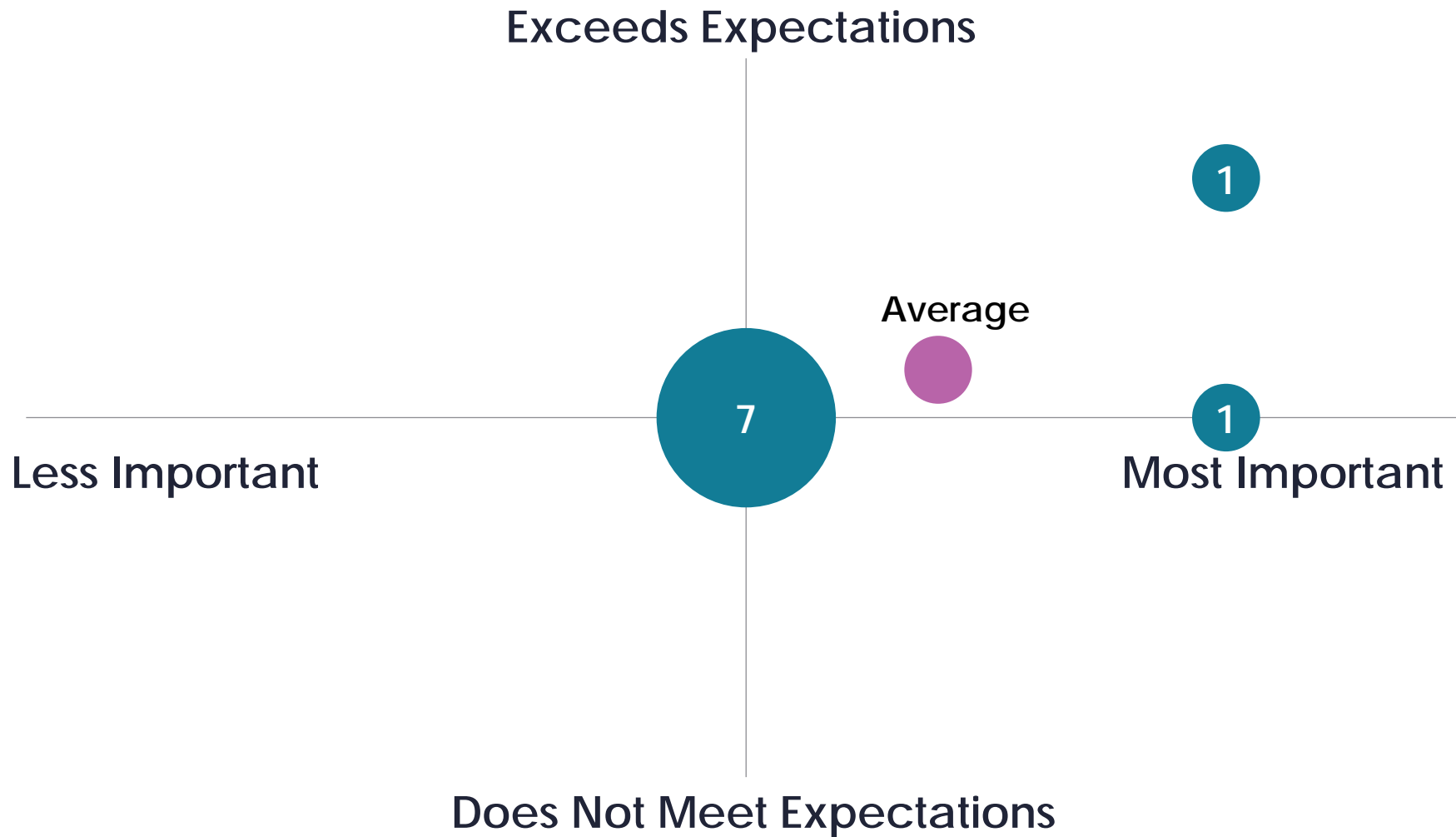
- Evaluate 24 City services and programs by rating the level of service currently provided and its importance

1. Does the City's current service level meet the community's expectations?

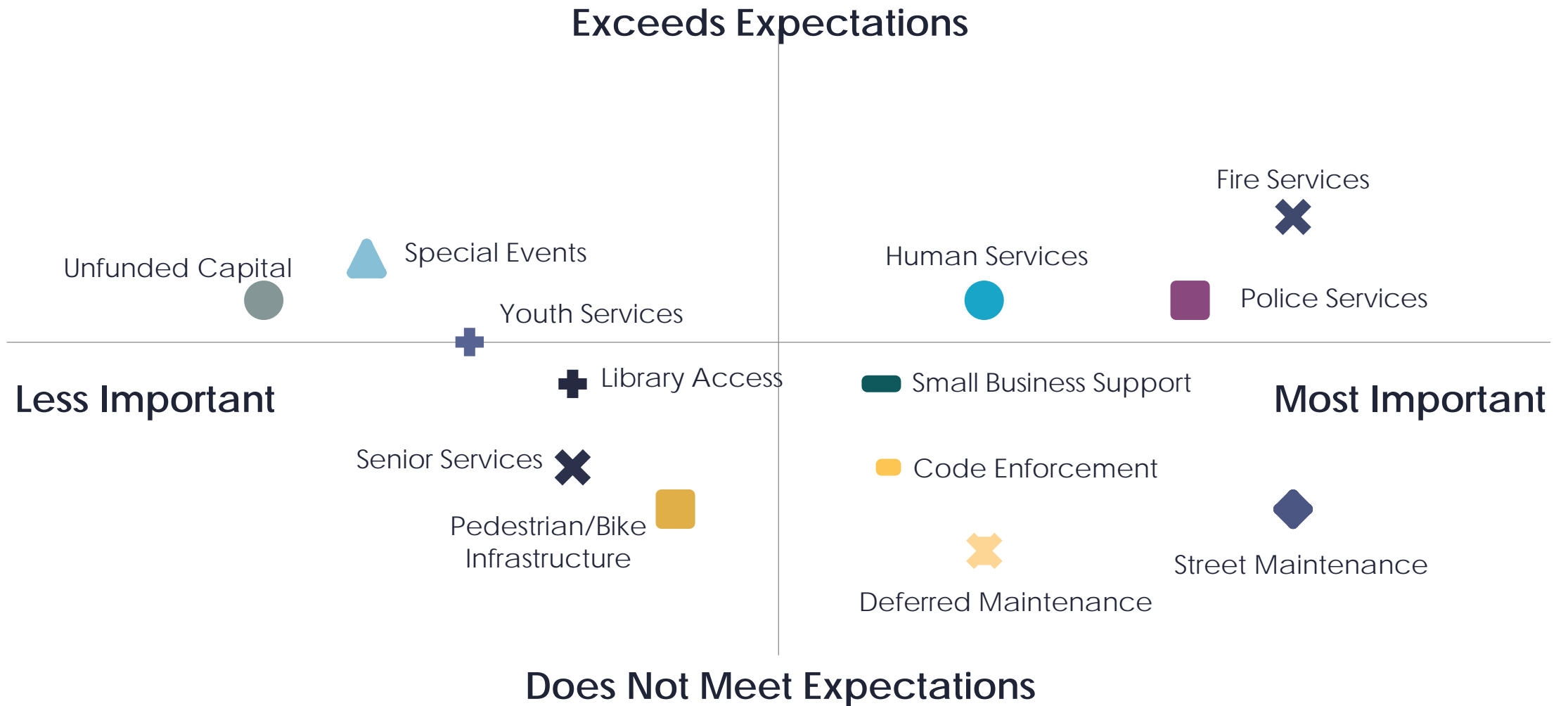
2. Please rate the importance of the following services.  
(Assign each importance rating to 8 services)

Exceeds	Meets	Does Not Meet	Services	Most Important	Important	Less Important
			Crime prevention (community policing)			
			Police services (emergency and non-emergency response)			
			Traffic enforcement (including DUI)			

# Example Rating - Crime Prevention



# Example - Rating of City Services



# Rating of City Services – Step 2

## Funding for City Services

– Part I - Build your Budget

Services	Adopted Budget	Your Budget
Police services	\$4.71	
Fire services	\$2.96	
Library	\$0.74	
Public Works (PW) (including street maintenance)	\$0.73	
Neighborhood and Community Services (NCS)	\$0.49	
Community and Economic Development (CED)	\$0.24	
Planning and Development Services (PDS)	\$0.13	
Deferred Maintenance (buildings, fleet, technology)	\$0.00	
Unfunded Capital Items and Services(Theaters, Eastside Community Center, Link Light Rail, etc.)	\$0.00	
Total	\$10.00	\$10.00

# Rating of City Services – Step 2

## Step 2 – Funding for City Services

– Part II – Increase, Maintain, or Reduce Service

Services		Increase	Maintain	Reduce
Police	Crime prevention (Community policing)			
	Police services (Emergency and non-emergency response)			
	Traffic enforcement (Including DUI)			
Fire	Fire services (Suppression)			
	Ambulance or emergency medical services			
	Fire prevention, education, and emergency management			

# Rating of City Services

- › Surveys due by noon on Friday, June 13, 2014
  - Completed surveys can be submitted
    - › In box marked "Rating of City Services" on the 12th Floor, City Manager's Office, or
    - › Through interoffice mail to Tadd Wille, 4th Floor, TMB
- › All survey results will be anonymous

# 2015 to 2020 Six Year Financial Forecast

Andy Cherullo, Finance Director

Tadd Wille, Budget Officer

June 10, 2014