

Long-term Financial Issues

{ FY2018 Budget



What are the Issues?

1. Police & Fire Pension Funding
2. Investment in Infrastructure Maintenance
3. State Budget Crisis
4. Structural Deficit

Police & Fire Pension Funding

What's the problem?

The current practice of funding the minimum required by State law will lead to significantly higher future costs. Those costs would ultimately require reductions in services in order to fund even the minimum requirement.

Police & Fire Pension Funding

How did we get here?

- Through the 2013 levy, the City paid based on goal of 100% funded by 2032
- Beginning in 2014, the levy amount was reduced over two years to the minimum required by State law, in order to avoid budget reductions and pay wage increases.

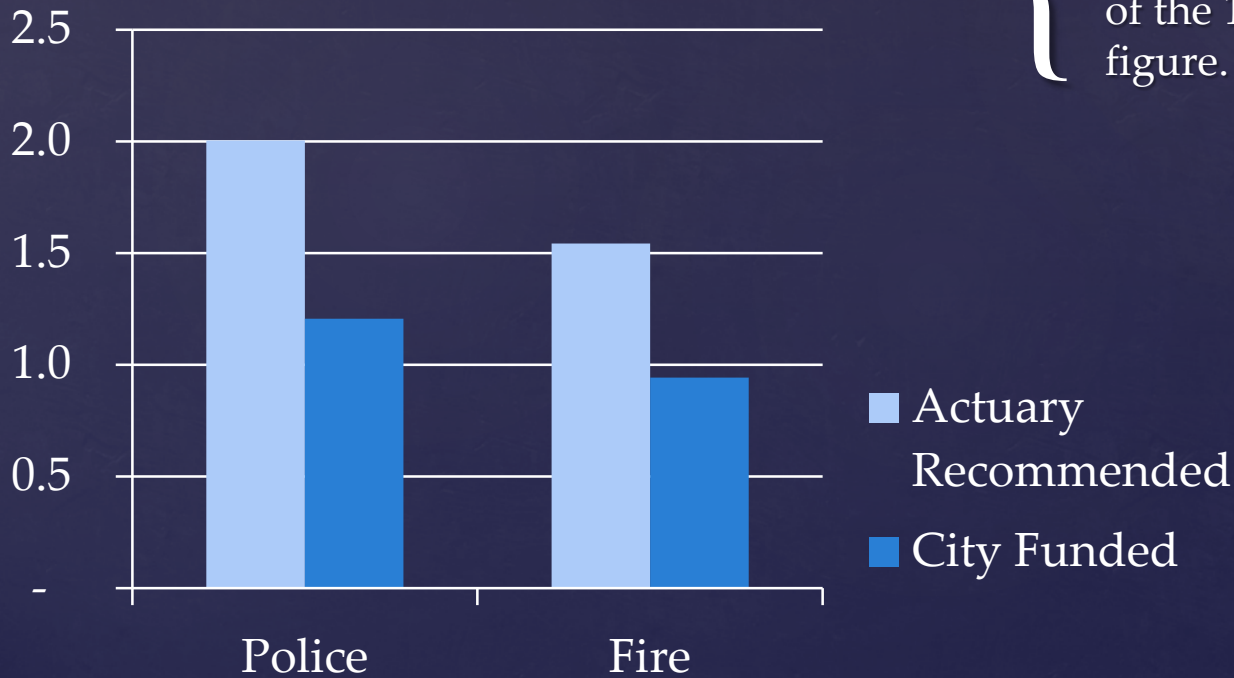
Police & Fire Pension Funding

How did we get here?

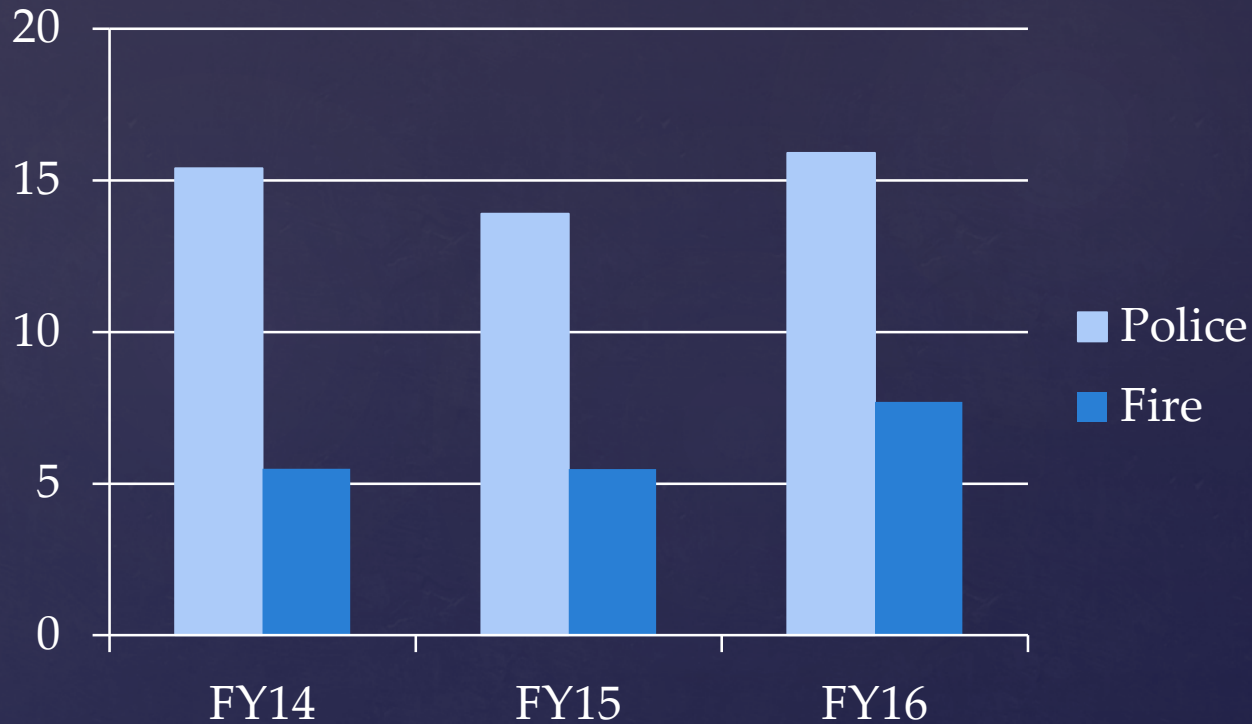
- State Legislature approved numerous benefit increases for both Police and Fire Pension funds over the years
- Changes in assumptions about investment returns, mortality rates, disability rates, etc.

Police & Fire Pension Funding 2016 Tax Levy

Total funded for 2016 tax levy is \$1.4 million short of the 100% by 2032 figure.



Police & Fire Pension Funding Unfunded Liability



Police & Fire Pension Funding

Pay Now vs. Pay Much More Later

- Funds we contribute now earn investment income until needed to pay benefits in the future
- If we do not pay now, we pay the initial contribution, plus investment income that was not earned because the money was not in the pension funds

Police & Fire Pension Funding

GFOA Best Practice

- Target 100% funding
- Use a closed period for amortization of unfunded liability (ideally 15 – 20 years)
- Prior to 2014, goal was consistent with best practice – 100% funded by 2032
- State law requires 90% funded by 2040 (not consistent with best practice)

Police & Fire Pension Funding

Next Steps

- Continue to work with pension boards and actuary to identify funding plan
- Identify interim steps to increase funding to desired level
- Any significant one-time revenue should be considered for allocation to pension funds to reduce future contributions

Investment in Infrastructure Maintenance

What's the problem?

Deferring needed rehabilitation allows the condition of infrastructure to deteriorate to the point where more extensive reconstruction will be required earlier. This will be more costly in the long run than making an adequate investment now.

Investment in Infrastructure Maintenance

How did we get here?

- Not adequately funded in the past
- No recurring increases in funding for transportation improvements
- Regulations (e.g., ADA requirements) have increased costs

Investment in Infrastructure Maintenance

Current Replacement Cycle for Streets

Type of Street	Current Cycle
Arterial / Collector	60+ years estimated
Local	90+ years estimated

Investment in Infrastructure Maintenance

Next Steps

- Understanding the funding gap for each infrastructure system
- Public Works to look at transportation system this year
- Identify appropriate funding sources to address the shortfall

Investment in Infrastructure Maintenance

Options

- Increase existing sources of revenue (e.g., local motor fuel tax)
- Accelerate improvements by issuing debt, with appropriate source for repayment
- Consider allocating 1x revenue to capital improvements

State Budget Crisis

How will the State budget crisis affect us?

In an effort to balance the State budget, various bills in the State Legislature propose to divert local government revenue to the State. In addition, property tax caps may be used to “soften the blow” of an increase in State revenues. Because the outcome is unpredictable, it is difficult to plan for this.

State Budget Crisis

How big is the problem?

- A 50% reduction in State-shared income tax would reduce revenues by \$2M annually
- Property tax freeze proposals vary – inability to tap growth in assessed value, could mean a loss of \$330K in the 2017 levy (primarily General Fund)

State Budget Crisis

What can we do?

- Need to be prepared by setting aside additional reserves to allow time to adjust expenditures
- Prepare for additional budget reductions

Structural Deficit

What is a structural deficit?

A structural deficit occurs when recurring expenditures are growing faster than recurring revenues. When this happens, it is extremely difficult to maintain a balanced budget from year-to-year without revenue increases or reductions in service levels.

Structural Deficit

How do we fix the problem?

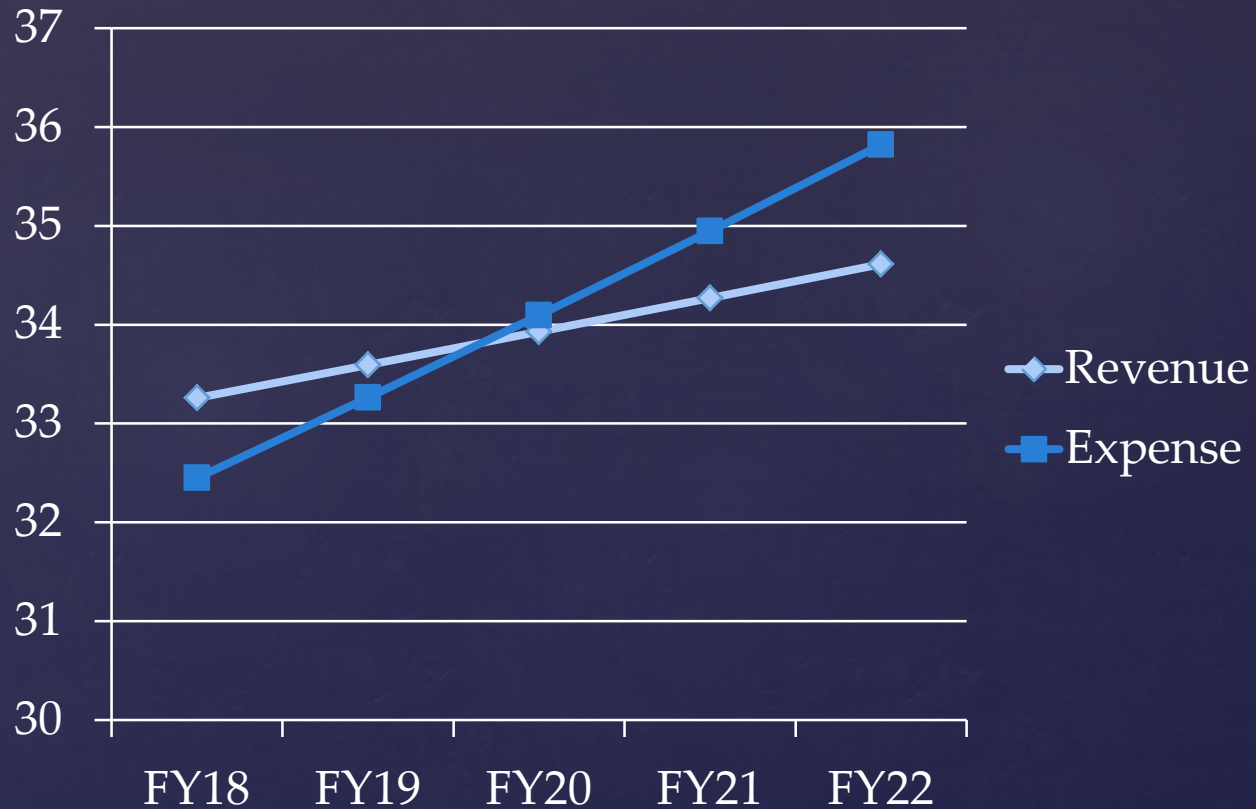
- Change the mix of revenues, over time, so that revenue growth keeps pace with growing expenditures
- Keep expenditure growth for current services relatively low
- Reduce service levels and staffing
- Or, a combination of these strategies

Structural Deficit

Some Specific Concerns

- Sales tax revenue will decrease by 2.5% in FY17, and is expected to grow by only 1% in FY18
- sales tax is not a stable revenue source, but is 28% of General Fund
- Reductions in State-shared revenues or a property tax freeze may make the problem much worse

Structural Deficit General Operating Fund



Structural Deficit

Next Steps

- Focus on economic development – grow the tax base
- Avoid dependence on unpredictable sources of revenue – give preference to revenues that will grow with costs

Structural Deficit

Next Steps

- Ensure that user fees grow with cost of associated programs
- Diversify sources of revenue as new revenues are added over time
- Consider revising policy on budgeting recurring expenditures at level of recurring revenues

Recommended Actions

1. Implement VSIP and plan for additional budget reductions
2. City Council presentation from actuary on pension funding before 2017 levy
3. Revise Financial Policies –
 - recurring expenditures – budget at 97.5% of recurring revenues
 - Pension funding

Recommended Actions

4. Public Works will evaluate funding gap for transportation infrastructure
5. State budget crisis is a critical priority – build reserves as soon as possible (avoid mid-year increases in budget)
6. Structural deficit should be addressed as we make decisions about new revenues and new expenses

