ATTACHMENT 5

Walnut Creek

2018-2027 Long Term Financial Forecast

List of Assumptions used to develop the Forecast

<u>General Assumptions</u>

- Continue with a 10-year forecast
- Develop both a conservative revenue model and a recession model (information only)
- Uses FY 2015-16 (actual) and FY 2016-17 (estimate) as the baseline
- No new positions beyond those already budgeted for in FY 2017-18 (includes all positions added by the Council to the date of this report)
- No changes to service delivery
- Separate the Capital Project funding from the General Fund (only include costs to maintain facilities at or near existing levels)
- Model funding of the Capital Project and IT infrastructure using a formula - percentage of operating expenses.
- Pension cost increases – demonstrate impacts of increased costs and use of a trust to fund anticipated operating deficits
- Includes TOT from the new Marriot hotel under construction, no other new hotel or sales tax generating projects included.

<u>Revenue Assumptions</u>

Conservative Revenue Model

- Sales Tax – narrowing increases for FY 2017-18 through FY 2020-21 then conservative increases for the remainder -2.2%
- Property Tax – moderate increases through FY 2018-19, then conservative increases for the remainder - 2.4%
- Other Taxes – conservative forecast – 2.4%
- Department Revenues – small increase -0.4% for FY 2017-18 and FY 2018-19 to reflect reduced growth in economic development, then conservative for the remainder – 2.2%

Recession Model – (for informational purposes only)

- Recession hits in FY 2019-20, resulting in direct reductions to sales tax and some reductions in property tax, other taxes and department revenues.
- Recession lasts for 18 to 24 months, initial recovery is slow then more robust
- Revenues in NON recession years are higher than the conservative model – reflecting higher growth in non-recession years.

<u>Operating Expense Assumptions</u>

Expense assumptions are the same for both LTFF models.

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Personnel Costs

- Wages – for FY 2017-18 – 2.9% (accommodates existing MOU's) – for remainder use Bay Area 10-Year CIP average (2.6%)
- Retirement – follows PERS scheduled adjustments through FY 2017-18, then tracks with wages for remainder
- Medical – use estimate from our insurance broker and validated with Kaiser Foundation projections – 6%
- Other Benefits – use Bay Area 10-Year CIP (2.6%)

Non Personnel Costs

- Generally use Bay Area 10-Year CIP (2.6%)
- Evaluate any specific expense categories for other recommended changes. Staff has identified Utilities -3.3% annually, and Repairs and Maintenance – 3.0% annually, as areas that warrant projected expense increases different than the CPI rate.

Pension Cost Increases

- Provides an estimate of the difference between pension costs that track to wages and the estimate prepared by Bartel and Associates, LLC.
- This is demonstrated separately to allow for a clear understanding of the impact of the significant rise in pension costs and impact on the General Fund forecast

Capital Budget, IT Strategic Funding and Reserve Allocations

- Transfers to the Capital Investment Program (CIP) are 2% of total operating expenses. This level of funding is needed to maintain buildings at or near current levels. No other CIP costs are included – such as replacement or upgrade of facilities.
- Transfers to the IT Strategic Fund are .4% of total operating expenses. This would allow for continued modernization and upgrade of IT capabilities to keep pace with changes in the IT environment.
- Reserve allocations are in compliance with existing Council policy – Catastrophic – 10% of operating expense change, Fiscal Emergency – 5% of revenue change + 5% of pension and medical cost changes.