City of Takoma Park, MD

General Fund Financial Sustainability Analysis

Presentation of Results to the City Council

November 13, 2023

RAFTELIS

Michael Burton
Executive Vice President

Will Kerr
Manager

Raftelis Team

Mike Burton, Raftelis

Specializes in local government and utility finance. More than 35 years of experience, including a number of general fund financial sustainability studies. Based in St. Augustine, FL serving clients across the country

Will Kerr, CPA, Raftelis

Specializes in utility and local government finance and accounting. 10 years of experience, including general fund financial sustainability studies working with Mr. Burton Based in Charlotte, NC working with clients across the Southeast

Agenda

- Section 1: Planning for Financial Sustainability
- Section 2: Financial Sustainability Modeling
- Section 3: Review of Your Interactive Financial Sustainability Model
- Section 4: Results

Section 1:
Planning for Financial Sustainability

Introduction

- The General Fund must generate sufficient revenues each year to be financially sustainable.

- However, today there is a great deal of uncertainty in the US and world economies as we are experiencing…

Record inflation

Supply chain shortages

Local government funding limitations

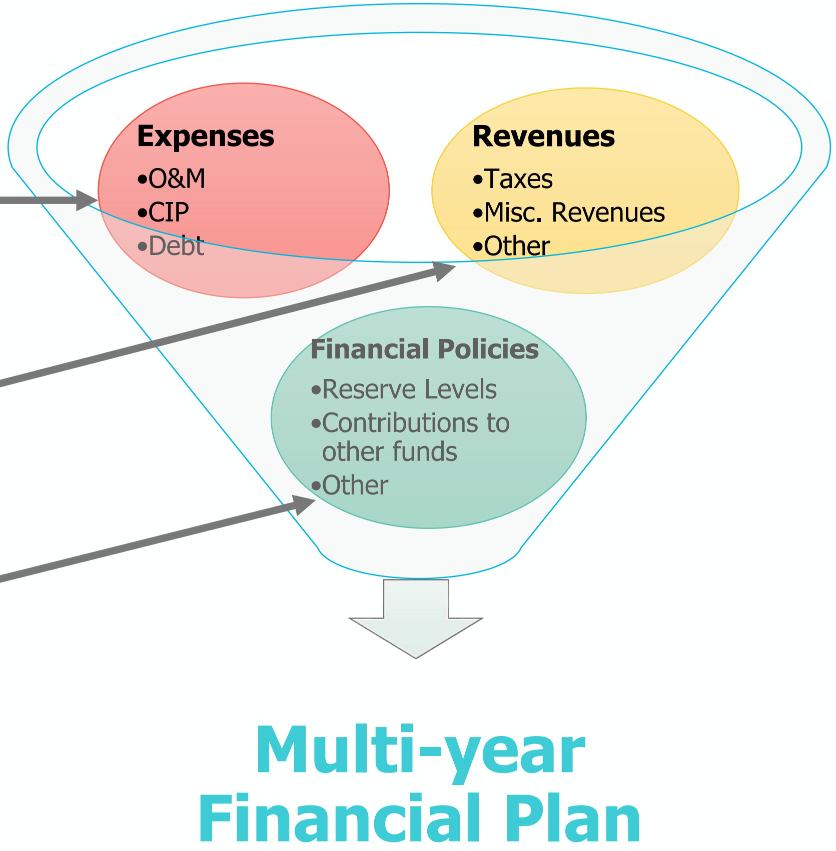
General Fund Financial Planning

- The General Fund must run like a self-supporting business.
- Financial Sustainability Forecasting…
  - Is a cash-based analysis, all revenues and costs included in the analysis are cash,
  - It overlays your annual budgeting process with a long-term vision as to the consequences of current budget decisions

Objective: Provide the level of service that your community expects while ensuring that your General Fund is financially sustainable into the future

Developing a Financial Plan

- Cost increases are primarily driven by staffing needs, inflationary cost increases, and capital project costs
- Revenues are based on taxes, and other revenues of the General Fund
- Financial policies help guide the balancing process



What is Financial Sustainability

- The primary measure of financial sustainability is unassigned fund balance,
- If cash-out exceeds cash-in (deficit spending) the deficit must come from unassigned fund balance,
- As long as the unassigned fund balance is high enough, the cash flow deficit can be funded, but it will decrease the fund balance by the amount of the deficit spending,
- However, if the deficit spending continues, the unassigned fund balance may ultimately fall below your minimum fund balance target and could be depleted completely if the cumulative annual deficit spending is large enough.
  - This projected condition will require actions to ensure that the fund balance is kept at the minimum target level,
- In the financial sustainability model that we developed during this project we identified such trends and evaluated actions to be taken to ensure that unassigned fund balance is at, or above, the minimum fund balance target throughout the projection period.

Section 2:
Financial Sustainability Modeling

Modeling to Plan for Financial Sustainability

The interactive modeling tool and evaluation process that we used during this project allowed us to…

- Provide transparency with stakeholders,
- Paint the full picture of your General Fund's financial situation over a five-year forecast and ten-year projection,
- Evaluate potential changes to your current situation such as staffing needs, capital projects, regulatory compliance, etc.,
- Identify needed annual tax rate adjustments,
- Gain employee and constituent acceptance of the financial sustainability plan, and
- Obtain the approval of you, the City's governing body.

Section 3:
Review of Your Interactive Financial Sustainability Model

Financial Sustainability Modeling

- What is included and what is excluded from the model
  - Included:
    - General Fund
    - Equipment Reserve Fund
      - Contributions from the General Fund:
        - FY24 = $550,000
        - FY25 – FY33 = $600,000 per year
  - Not Included:
    - Facility Maintenance Reserve – No scheduled contributions for the General Fund
    - Debt Proceeds on Hand – Any Excess Capital Needs will be Funded from ARPA funds
    - Self contained funds with no regular interaction with General Fund:
      - Federal ARPA Fund
      - Speed Camera Fund
      - Special Revenue Fund
      - Stormwater Fund

Major Assumptions in the Model

Global Assumptions for All Scenarios Evaluated:

		FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
1		FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
2	**Property Tax Revenues - Growth Rates:**										
3	Growth in Assessed Values	4.10%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
4	Additional Real Property Growth	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5	Total Growth in Taxable Property Value	4.10%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
6	**Other Revenues - Escalation Rates:**										
7	Growth in Income Tax Revenues	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
8	Growth in Intergovernment in Lieu of Police	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
9	Growth in Intergovernmental -Cable Fees	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%
10	Growth in in all Other Intergovernmental	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
11	Average Annual Growth in all Intergovernmental	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%	0.34%
12	Growth in Real Property Taxes	7.13%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
13	Overall Assumed Growth in Other Revenues (Primarily Fees and Licenses and Permits)	-2.57%	2.21%	2.22%	2.22%	2.23%	2.23%	2.23%	2.23%	2.23%	2.24%
14	**Operating Expenses -Escalation Rates:**										
15	Personnel	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
16	All Other Operating Expenses	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.50%
17	**Capital Projects - Escalation Rates**	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Major Assumptions in the Model (Cont'd)

Specific Assumptions for the Recommended Scenario

		FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
1	**The Property Tax Rate per $100 of Taxable Value**	0.5397	0.5522	0.5522	0.5522	0.5522	0.5522	0.5522	0.5522	0.5522	0.5522	0.5522
2	The City has been maintaining a minimum Unassigned Reserve Fund Balance of $3.0 million, which is below the Governmental Finance Officers Associations (GFOAs) recommendation and industry practice. Therefore, in order to come into compliance with the GFOA and industry practice, the minimum Unassigned Reserve Fund Balance is ramped up from 10% of Revenues in FY24 to 17% of revenues in FY33.											
3	It is assumed that the execution rate for the CIP will be 100% in FY23 and FY24 and 80% in each subsequent year of the projection period. This is something that is typically realized by most governmental organizations and is typically caused by a number of factors including permitting delays, weather delays, procurement delays, staff shortages, etc.											
4	It was determined that a reduction in FY27 and FY28 of -2.60% from the projected budgets for FY27 and FY28 and a reduction of -0.61% from the projected budgets in each year from FY29 - FY33 will 1) maintain the Unassigned Reserve Fund balance at or above the minimum target level in each year of the projection period, and 2) avoid the need for borrowing to fund the CIP in each year of the projection period. These adjustments will remain throughout the projection period.											

Section 4: Results

Recommendations

- Continue with the property tax rate for Real Property of 0.5522 per $100 of property value that was adopted for FY2023-24 and maintain that tax rate in each year of the forecast period.
- Adopt a policy to ramp up the minimum unassigned fund balance from $3.0 million in FY24 to 17% of revenues in FY33 (to comply with the Governmental Finance Officers Association (GFOA) recommendation).
- Adjust the capital expenditures as follows:
  - Execute the capital budget at 100% of budget in FY2023-24,
  - Reduce execution of the capital budget to 80% of budget in FY2025-26 through FY2027-28,
- Adjust the Operations and Maintenance (O&M) expenses to 94% of the projected budget amount in each year of the forecast period (as projected based upon the adopted FY2023-24 budget amount) for all years of the forecast period.

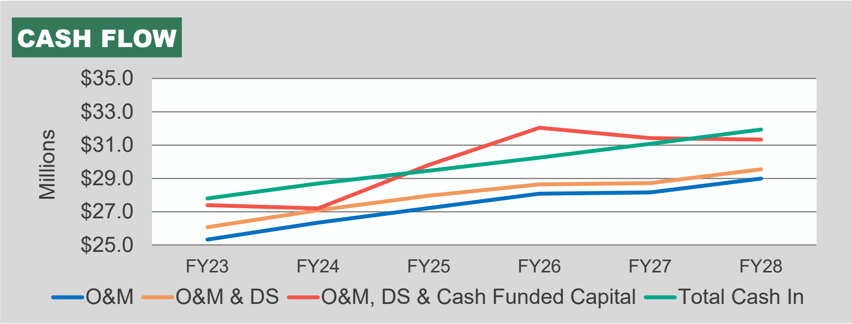
Recommendations (Cont’d)

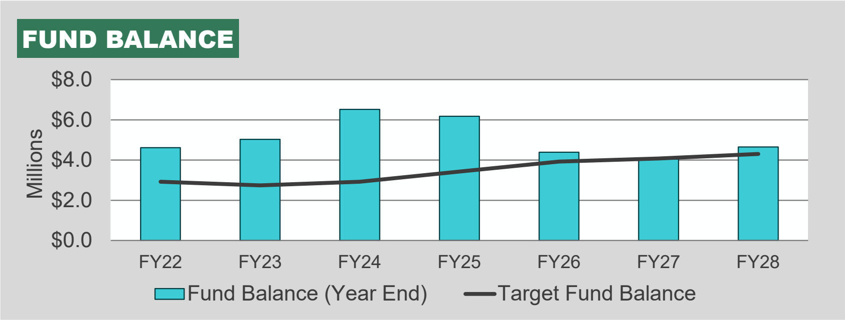
- Reduce the O&M expense by 2.6%, or $752,000 and $775,000 in FY2026-27 and FY 2027-28 respectively in order to avoid the need to borrow funds for capital projects. In FY2027-28, re-examine the potential to increase the O&M expense from this reduced level to a higher level in FY2028-29.
- Review this financial sustainability analysis every three (3) years to make adjustments to the financial plan as events may occur differently from projected.
  - However, because the analysis presented in this report indicates that to avoid borrowing the City’s operations and maintenance (O&M) budget will need to be reduced by 2.6% from the projected budget at 94% execution in FY27, we recommend that this analysis be updated in FY26 to determine in such a reduction will still be warranted at that time based upon how actual events occur compared to the projections in this analysis.

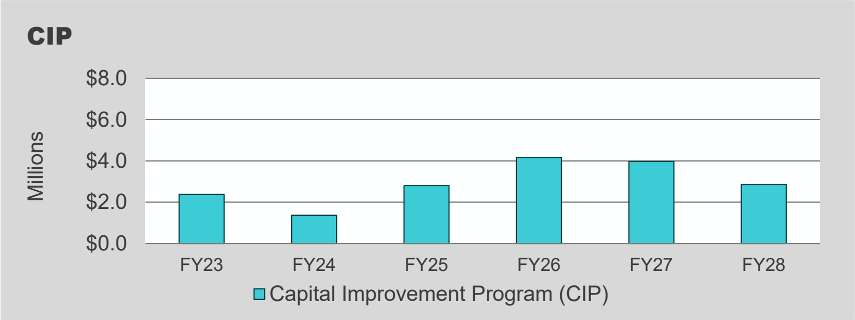
Results

- Although the modeling that we performed included a ten-year projection of revenues, expenses and fund balance, we provided a Financial Forecast that included the first five years of those projections.
    - Five years is representative of a planning period, whereas projections for years 6 – 10 are less reliable as actual results can vary from projections that far into the future.
- A Graphical Representation of the Forecast Results is presented on the following page:

Results (Cont'd)







- The upper left graph shows that the cash flow is positive for FY24, which is reflected in an increase in the fund balance in FY24 in the upper right graph.
- The upper left graph shows a negative cash flow after the cash funding of a number of capital projects in FY26, which is reflected in a reduction in fund balance in FY26 in the upper right graph.
- The upper left graph shows that cash flow turns positive in FY28, which is reflected in an increasing fund balance in FY in the upper right graph.

Forecast Summary (Includes Recommended Adjustments, in Millions)

		FY 2022-23 Budget	FY 2023-24 Budget	FY 2024-25 Forecast	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast
1	Revenues:						
2	Operating Revenue	$14.816	$15.874	$16.492	$17.135	$17.804	$18.499
3	Intergovernmental Revenue	$6.480	$6.480	$6.484	$6.491	$6.502	$6.516
4	Other Operating Revenue	$6.503	$6.336	$6.476	$6.620	$6.767	$6.918
5	Plus Interest on Average Fund Balance	$0.005	$0.006	$0.006	$0.005	$0.004	$0.004
6	Total Revenue	$27.804	$28.696	$29.458	$30.251	$31.077	$31.937
8	Expenditures:						
9	Operations & Maintenance Expenses Before Debt Service and Cash Funded Capital	$25.331	$26.343	$27.221	$28.086	$28.161	$28.987
10	Debt Service	$0.741	$0.742	$0.740	$0.555	$0.557	$0.559
11	Cash Funded Capital	1.319	0.117	1.847	3.397	2.697	1.788
12	Total Expenditures	$27.391	$27.202	$29.808	$32.038	$31.415	$31.334
13	Net Income	$0.413	$1.494	-$0.350	-$1.787	-$0.338	$0.603
14							
15	Beginning Year Unassigned Fund Balance	$4.619	$5.032	$6.526	$6.176	$4.389	$4.051
16	Plus Net Income	0.413	1.494	-0.350	-1.787	-0.338	0.603
17	Ending Year Unassigned Fund Balance	$5.032	$6.526	$6.176	$4.389	$4.051	$4.654
19	Minimum Unassigned Fund Balance Requirement	$2.739	$2.924	$3.428	$3.925	$4.084	$4.308
20	Excess(Deficit) Unassigned Fund Balance	$2.293	$3.602	$2.748	$0.464	-$0.033	$0.346

Q&A

RAFTELIS

Thank you!

Contacts: Michael Burton – (904) 923-1466 – mburton@raftelis.com
Will Kerr – (704) 373-1199 – wkerr@raftelis.com