Takoma Park City Council Meeting – November 13, 2023
Agenda Item 3

Presentation
Briefing presentation of a Ten-Year Financial Forecast, including a review of the project background.

Recommended Council Action
Receive and review the presentation.

Context with Key Issues
The purpose of the financial forecast is to evaluate current and future fiscal conditions to guide policy and program decisions. A financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This will help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services. Long-term financial forecasts are not absolute predictions of the future, but projections of possible future states based on known assumptions. The forecasting horizons can reveal structural imbalances, giving the City time to act in a proactive way, thus optimizing the use of public funds over the long term.

GFOA recommends that governments at all levels forecast major revenues and expenditures. The forecast should extend several years into the future. In October 2022, the City signed a contract with Raftelis, a Financial Consulting Firm. The firm worked with the City's Finance Director, began developing a task plan for General fund Financial Planning Model. The key steps in a sound forecasting process include the following:

- Define Assumptions
- Gather Information
- Preliminary Analysis
- Select and Implement Methods
- Use Forecasts

This presentation will provide the final results of the study, including background on the project, a summary of the analysis, and the use of forecast in the budget process. The forecast analysis is included in the appendix of the FY24 Adopted Budget. The purpose of this presentation is to make the Councilmembers aware of the current and future financial condition of the City.

Raftelis Executive Vice President, Mike Burton will give the presentation and he will be available for questions.

Prepared by: Susan Cheung, Finance Director | Posted: 11/10/2023
Approved by: David Eubanks, Acting City Manager

Council Priority
Fiscally Sustainable Government
Engaged, Responsive & Service-oriented Government
Environmentally Sustainable Community
Community Development for an Improved & Equitable Quality of Life

Environmental Considerations
None.

Fiscal Considerations
Financial Forecast does not have an immediate fiscal impact on the City but it is an integral part of the annual budget process. An effective forecast allows for improved decision-making in maintaining fiscal discipline and delivering essential community services.

Racial Equity Considerations
None.

Attachments and Links
Presentation

RAFTELIS

City of Takoma Park, MD

General Government Financial Sustainability Study and Financial Forecast

FINAL REPORT

August 17, 2023

RAFTELIS

RAFTELIS

August 17, 2023

Mr. David Eubanks
Acting Deputy City Manager
City of Takoma Park
7500 Maple Avenue
Takoma Park, MD 20912

Subject: Financial Sustainability Modeling Study – Final Draft Report

Dear Mr. Eubanks,

Raftelis Financial Consultants, Inc. (Raftelis) is pleased to provide this General Government Financial Sustainability Study (Study) Final Report, and the accompanying Financial Forecast in the Appendix of this Report, for the City of Takoma Park, MD (City). The report and the accompanying Financial Forecast describe our analyses and discusses the key findings and recommendations that support the City's core values and objectives.

It has been a pleasure working with you and Susan Cheung on this Study, and we thank you, City staff and the City Council for the support provided during this study.

Sincerely,

Michael Burton
Executive Vice President
(904) 923-1466
mburton@raftelis.com

Table of Contents

1. Introduction

Raftelis Financial Consultants, Inc (Raftelis) was engaged by the City of Takoma Park, MD (City) to perform a General Government Financial Sustainability Study (Study) for a ten-year projection period beginning in fiscal year (FY) 2023-24 (FY24). This report provides a summary of the results and findings of the Study and provides a recommended financial forecast to support the City's long-term financial sustainability.

This Report and the accompanying Forecast are based upon data and information provided to us by the City. Our analysis included such procedures as we considered necessary to evaluate the assumptions and data provided by the City. Based upon our examination, nothing came to our attention to indicate that the underlying assumptions used and data provided are anything other than reasonable. However, there will usually be differences between a projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. Therefore, we recommend that this analysis be updated at a minimum of every three (3) years. 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. We have no responsibility to update this Report or the accompanying Forecast for events and circumstances occurring after the date of this report.

2. Study Objectives

The primary objective of the Study was to prepare a financial projection for the City to evaluate the long-term financial sustainability of the City's projected financial operations. The work plan included the following major components:

- Create a ten-year financial plan to ensure long-term financial sustainability and compliance with internal financial policies for the General Fund;
- Define a base scenario of the "Status Quo" for the General Fund (no change from the FY2022-2023 property tax rate of 0.5397), which will provide a clear diagnostic picture of the financial health of the General Fund over a ten-year planning period under baseline assumptions;
- Evaluate alterative scenarios to measure the sensitivity of the City's financial projections to key assumptions including growth in developed property and property values, cost escalation rates, and any other variables prioritized by City staff; and
- Develop a financial sustainability model (Model) constructed specifically to the City's financial operation and using the Model to analyze scenarios and produce visual outputs for City staff's use in supporting budget discussions with City Council.

3. Financial Plan – General Fund

The first step in the Study was to gather financial data for the City's General Fund which was provided to us by City staff. We then entered the data into our interactive General Fund Financial Sustainability Model (Model). The model consists of a ten-year cash flow projection of all of the revenues, operations expenses and capital expenses of the General Fund over a ten-year projection period.

The next step was the development of a financial plan for the General Fund. This included identifying any potential revenue shortfalls under a "Status Quo" scenario, described in Section 3.2, and then to evaluate several scenarios of property tax rate increases and/or capital costs escalation percentages and operations and maintenance

(O&M) cost reductions to generate sufficient revenues to fund the assumed O&M costs and capital costs (with no borrowing) in each year of the projection period and ensure the Unassigned Fund Balance remains at or above the target balance in each year of the projection period. The final recommended scenario incorporating the adopted FY24 Budget is presented in this report.

3.1. Minimum Unassigned Fund Balance

The City has an adopted policy to maintain the Unassigned Fund Balance at 17% of revenues, (which equates to approximately 2 months of revenues). However, due to budgetary issues, in the past several years the City has maintained a minimum fund balance of approximately $3.000 million each year. Although it varies from city to city, most cities use 2 months (or about 17%) of O&M expense or revenues as a minimum unassigned reserve fund balance.

Also, the Governmental Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Therefore, in all of the scenarios presented herein, we have ramped up the minimum Unassigned Fund Balance from $3.0 million in FY24 to 17% of revenues in FY33 and we recommend that the City adopt such a plan and at such time as the Unassigned Fund Balance reaches 17% of revenue to maintain it at that level going forward.

3.2. Status Quo Scenario

The Status Quo Scenario is the projection of revenues and expenses assuming the following:

1. No changes are made to the FY23 property tax rate of 0.5397 per $100 of taxable property value throughout the projection period,
2. Operating expenses are escalated from the adopted FY24 budget at inflationary rates, and
3. The City's capital plan is executed at the adopted FY24 budget amount each year of the projection period.

The Status Quo Scenario is effectively a diagnostic evaluation of the financial condition of the General Fund over a ten-year projection period.

The first step in developing a long-term financial plan is to understand what the projection of revenues and expenses would be if no changes are made to the FY23 property tax rate of 0.5397 per $100 of taxable property value, and if operating expenses are escalated at inflationary rates from the adopted FY24 budget, and the City's capital plan for FY23 – FY33 is executed as budgeted. Therefore, we first developed a Status Quo Scenario based upon the above assumptions. It is effectively a diagnostic evaluation of the financial condition of the General Fund over a ten-year projection period.

This analysis showed that if no action is taken in FY24 to adjust the property tax rate from the FY23 rate of 0.5397 per $100 of taxable property value, the General Fund will have a negative cash flow resulting in declining unassigned fund balance. In fact, the unassigned fund balance will go below the minimum fund balance target in FY26 and will be depleted completely by FY29. Therefore, it is imperative for the City to take action to ensure that the General Fund will be financially sustainable throughout the ten-tear projection period.

3.3. Alternative Scenarios

We then developed a number of alternative scenarios suggested by individual City Council members that would provide sufficient revenue to cover all of the General Fund's expenses in every year of the projection period, and that would maintain the unassigned fund balance at or above the minimum fund balance target.

The scenarios differed in the following variable assumptions:

- Property tax rate,
- Capital projects execution percentage, and
- Timing and amount of required reduction in operations and maintenance expense in order to avoid borrowing to fund capital projects

The alternative scenarios evaluated were based upon combinations of the above referenced variables that were suggested by individual City Council members.

During the development of the alternative scenarios, we discussed with City staff other objectives of the analysis that included the following:

1. There will not be any borrowing to fund capital projects in any year of the projection period.
2. We discussed the fact that typically, only from 70% to 80% of capital budgets are executed by most cities. This can be caused by a number of factors, including permitting delays, procurement delays, weather delays, etc. Therefore, for all scenarios considered, we assumed an 80% execution rate for the CIP over the projection period.
3. We evaluated the City's historical actual versus budgeted expenses and determined that actual expenses in recent years have typically been in the range of 94% of budgeted expenses. Therefore, for all scenarios evaluated, we assumed a 94% execution rate for operating expenses as compared to budgeted operating expenses over the projection period.
4. We reviewed the increase in taxable property value for the past several years and determined that taxable property value should be increased by 4% annually throughout the projection period.

The results of the Status Quo Scenario and the Alternative Scenarios considered were delivered to the City during the project and are not included in this report.

3.4. Recommended Scenario

After consideration of the alternative scenarios evaluated, City staff informed us of the specific assumptions to be included in the Recommended Scenario. We developed the Recommended Scenario in two (2) steps. First, we developed an Initial Scenario with the following assumptions:

1. The recommended scenario includes the adopted FY24 budget.
2. The FY24 adopted property tax rate of $0.5522 per $100 of taxable property value was assumed in each year of the projection period,
3. O&M costs were assumed to be executed at 94% of budget in all years of the projection period, and
4. The Capital Improvement Program (CIP) is assumed to be escalated by 3% per year in all years of the projection period and executed at 100% in FY24 and 80% in all subsequent years of the projection period.

The graphical results of this Initial Scenario are presented on the following page:

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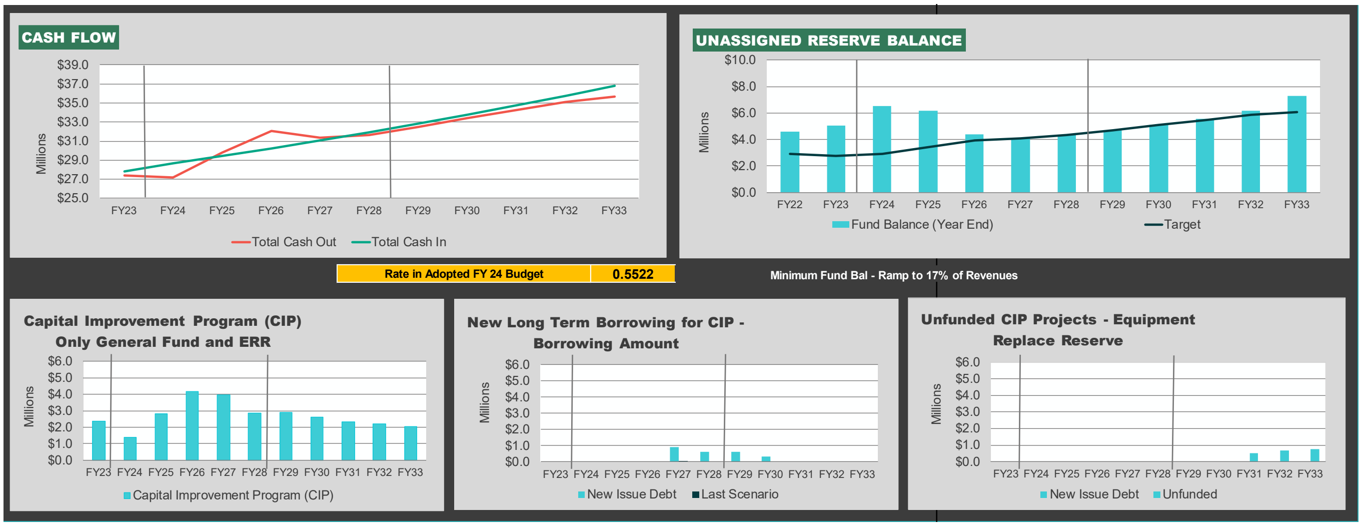
Initial Scenario (included need for new borrowing in FY 27 – FY30)



The upper left graph shows that after the cash funding of a number of capital projects in FY26, the cash flow is positive for FY27 – FY33 (Cash in is higher than Total Cash Out). This is reflected in the Fund Balance graphs in the upper right by the relatively constant increase in fund balance from FY27 – FY33.

However, as can be seen in the middle bottom graph, borrowing will be required to fund capital projects in FY27 – FY30. Also, the lower right graph shows some unfunded Equipment Replacement Reserve projects in FY31 – FY33. However, the unfunded amounts are relatively small and far in the future. If by FY29 those projects are still projected to not be fundable with the ERR reserve, the City can increase the contribution from the General Fund to the ERR reserve to provide sufficient funding for those projects.

Because the City desired a financial plan that does not require borrowing to fund capital projects, we determined that:

1. If O&M costs can be reduced by 2.60% of the projected budgets at 94% execution in FY27 and FY28 (or a reduction of $752,000 and $775,00 respectively), and
2. And if O&M costs can then be reduced by 0.61% of the projected budgets at 94% execution each fiscal year from FY29 through FY33 (or a reduction of $186,000, $192,000, $198,000, $204,000, and $204,000 in those years respectively), then
3. The borrowing can be eliminated while preserving Unassigned Fund Balance at or above the minimum target balance throughout the projection period.

Therefore, the results for the Recommended Scenario are presented graphically below, followed by the Global Assumptions for all Scenarios Evaluated, which is followed by specific Assumptions for the Recommended Scenario on the following page.

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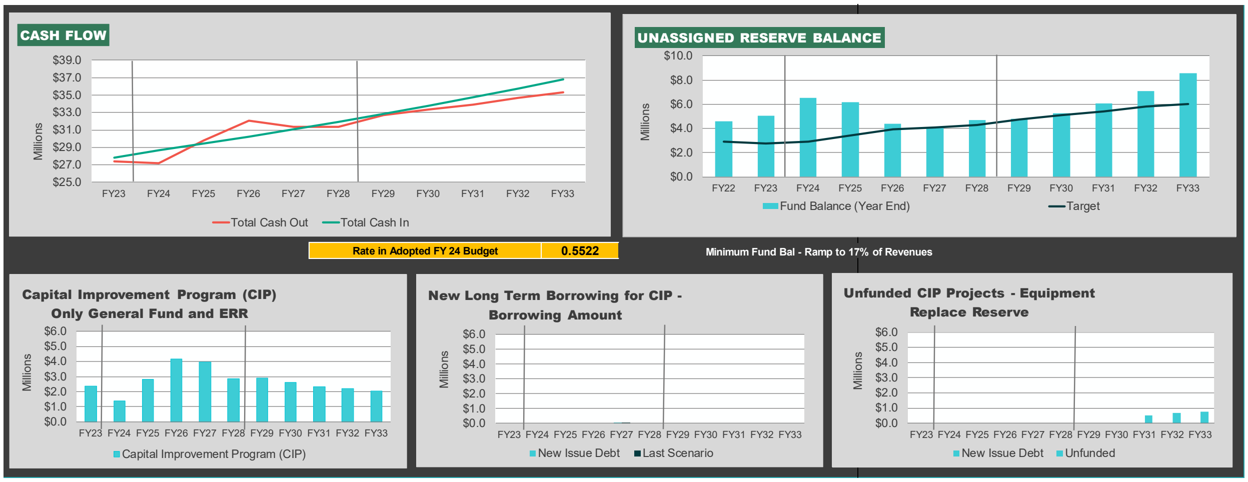
Recommended Scenario



Note: This Study was completed during FY23, therefore it started with the audited unassigned fund balance at the end of FY22, which is the beginning unassigned fund balance at the beginning of FY23. Therefore, revenues and expenses during FY23 are included in the analysis, and the FY23 budget for revenues and expenses were assumed for FY23.

Following are Global Assumptions for All Scenarios Evaluated (determined in consultation with City staff):

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	-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%

Following are Specific Assumptions for the Recommended Scenario:

Specific Assumptions for the Recommended Scenario

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.										
	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.										
4	Results: The results of this scenario are presented in the graphical output of our Financial Sustainability Model above and the table below presents the key results of this analysis in numerical format.										

A Summary of Results for the Recommended Scenario is presented below, followed by a Pro-forma projection of revenues and expenses for the General Fund for FY24 – FY33 (in millions).

Summary of Results for the Recommended Scenario:

	Fiscal Years ---->	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
1	Property Tax Revenue	14.816	$15.874	$16.492	$17.135	$17.804	$18.499	$19.222	$19.974	$20.757	$21.570	$22.416
2	Annual Percentage Increase	NA	7.14%	3.89%	3.90%	3.90%	3.90%	3.91%	3.91%	3.92%	3.92%	3.92%
3	Intergovernmental Revenue	$6.480	$6.480	$6.484	$6.491	$6.502	$6.516	$6.532	$6.551	$6.572	$6.596	$6.622
4	Annual Percentage Increase	NA	0.00%	0.06%	0.11%	0.17%	0.22%	0.25%	0.29%	0.32%	0.37%	0.39%
5	Other Revenue	$6.508	$6.342	$6.482	$6.625	$6.771	$6.922	$7.077	$7.235	$7.397	$7.563	$7.733
6	**Total Revenue**	**$27.804**	**$28.696**	**$29.458**	**$30.251**	**$31.077**	**$31.937**	**$32.831**	**$33.760**	**$34.726**	**$35.729**	**$36.771**
7	**Annual Percentage Increase in Revenue**	**NA**	**3.21%**	**2.66%**	**2.69%**	**2.73%**	**2.77%**	**2.80%**	**2.83%**	**2.86%**	**2.89%**	**2.92%**
8	Baseline CIP @ 100% Execution	$2.387	$1.372	$3.399	$4.918	$4.553	$3.426	$3.431	$3.038	$2.632	$2.421	$2.152
9	Escalated CIP @ 100% Execution	$2.387	$1.372	$3.501	$5.218	$4.975	$3.576	$3.643	$3.283	$2.931	$2.761	$2.544
10	Active CIP Execution % in the Model	100%	100%	80%	80%	80%	80%	80%	80%	80%	80%	80%
11	**Active CIP in the Model**	**$2.387**	**$1.372**	**$2.801**	**$4.174**	**$3.980**	**$2.861**	**$2.914**	**$2.626**	**$2.345**	**$2.209**	**$2.035**
12	**Reduction in Total Escalated CIP (FY24 - FY33)**	**$0.000**	**$0.000**	**-$0.700**	**-$1.044**	**-$0.995**	**-$0.715**	**-$0.729**	**-$0.657**	**-$0.586**	**-$0.552**	**-$0.509**
13	Total Baseline O&M Expenses at 100% execution	$26.948	$28.024	$28.959	$29.879	$30.758	$31.662	$32.593	$33.553	$34.542	$35.557	$36.808
14	O&M Expenses at 94% of Budget	$25.331	$26.343	$27.221	$28.086	$28.913	$29.762	$30.637	$31.540	$32.469	$33.424	$34.600
15	Percent Reduction in O&M Expense from Budget	0.00%	0.00%	0.00%	0.00%	-2.60%	-2.60%	-0.61%	-0.61%	-0.61%	-0.61%	-0.61%
16	**Reduction in O&M Expense from budget in FY27 & FY29 that are maintained into future years**	**$0.000**	**$0.000**	**$0.000**	**$0.000**	**-$0.752**	**-$0.775**	**-$0.186**	**-$0.192**	**-$0.198**	**-$0.204**	**-$0.211**
17	**Total O&M Expense**	**$25.331**	**$26.343**	**$27.221**	**$28.086**	**$28.161**	**$28.987**	**$30.451**	**$31.348**	**$32.271**	**$33.220**	**$34.389**
18	Annual Percentage Increase in O&M Expense	NA	4.00%	3.33%	3.18%	0.27%	2.93%	5.05%	2.95%	2.94%	2.94%	3.52%
19	Debt Service	$0.741	$0.742	$0.740	$0.555	$0.557	$0.559	$0.559	$0.557	$0.555	$0.558	$0.390
20	Cash Funded Capital	$1.319	$0.117	$1.847	$3.397	$2.697	$1.788	$1.681	$1.422	$1.070	$0.915	$0.693
21	**Total Expenditures, including Debt Service and Cash Funded Capital**	**$27.391**	**$27.202**	**$29.808**	**$32.038**	**$31.415**	**$31.334**	**$32.691**	**$33.327**	**$33.896**	**$34.693**	**$35.472**
22	**Annual Percentage Increase in Overall O&M Expenses**	**NA**	**-0.69%**	**9.58%**	**7.48%**	**-1.94%**	**-0.26%**	**4.33%**	**1.95%**	**1.71%**	**2.35%**	**2.25%**
23	**Total Reduction in O&M and Capital from Annual Budget in Each Fiscal Year of the Projection Period (Row 12 + Row 16)**	**$0.000**	**$0.000**	**-$0.700**	**-$1.044**	**-$1.747**	**-$1.490**	**-$0.915**	**-$0.849**	**-$0.784**	**-$0.756**	**-$0.720**

A Pro-forma Projection of Revenues and Expenses for the General Fund for FY24 – FY33 is presented on the following page:

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Pro-forma Projection of Revenues and Expenses (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	FY 2028-29 Forecast	FY 2029-30 Forecast	FY 2030-31 Forecast	FY 2031-32 Forecast	FY 2032-33 Forecast
1	**Revenues:**											
2	**Operating Revenues**											
3	Property Tax Revenues	$14.816	$15.874	$16.492	$17.135	$17.804	$18.499	$19.222	$19.974	$20.757	$21.570	$22.416
4	**Total Operating Revenues**	**$14.816**	**$15.874**	**$16.492**	**$17.135**	**$17.804**	**$18.499**	**$19.222**	**$19.974**	**$20.757**	**$21.570**	**$22.416**
5	**Other Operating Revenues**											
6	Intergovernmental Revenue	$6.480	$6.480	$6.484	$6.491	$6.502	$6.516	$6.532	$6.551	$6.572	$6.596	$6.622
7	Other Operating Revenues	6.503	6.336	6.476	6.620	6.767	6.918	7.072	7.230	7.391	7.556	7.725
8	**Total Other Operating Revenues**	**$12.983**	**$12.816**	**$12.960**	**$13.111**	**$13.269**	**$13.434**	**$13.604**	**$13.781**	**$13.963**	**$14.152**	**$14.347**
9	Plus: Interest Earnings of Average Fund Balance	0.005	0.006	0.006	0.005	0.004	0.004	0.005	0.005	0.006	0.007	0.008
10	**Total Revenues**	**$27.804**	**$28.696**	**$29.458**	**$30.251**	**$31.077**	**$31.937**	**$32.831**	**$33.760**	**$34.726**	**$35.729**	**$36.771**
11	**Expenditures:**											
12	**O&M Expenses (Budget)**	**$26.948**	**$28.024**	**$28.959**	**$29.879**	**$30.758**	**$31.662**	**$32.593**	**$33.553**	**$34.542**	**$35.557**	**$36.808**
13	**O&M Expenses (at 94% of Budget)**	**$25.331**	**$26.343**	**$27.221**	**$28.086**	**$28.913**	**$29.762**	**$30.637**	**$31.540**	**$32.469**	**$33.424**	**$34.600**
14	Reduction in O&M Expenses per Financial Plan	0.000	0.000	0.000	0.000	-0.752	-0.775	-0.186	-0.192	-0.198	-0.204	-0.211
15	**O&M Expenses After Reduction per Financial Plan**	**$25.331**	**$26.343**	**$27.221**	**$28.086**	**$28.161**	**$28.987**	**$30.451**	**$31.348**	**$32.271**	**$33.220**	**$34.389**
16	Plus: Cash Funded Capital	1.319	0.117	1.847	3.397	2.697	1.788	1.681	1.422	1.070	0.915	0.693
17	Plus: Debt Service	0.741	0.742	0.740	0.555	0.557	0.559	0.559	0.557	0.555	0.558	0.390
18	**Total Expenditures**	**$27.391**	**$27.202**	**$29.808**	**$32.038**	**$31.415**	**$31.334**	**$32.691**	**$33.327**	**$33.896**	**$34.693**	**$35.472**
19	**Net Income**	**$0.413**	**$1.494**	**-$0.350**	**-$1.787**	**-$0.338**	**$0.603**	**$0.140**	**$0.433**	**$0.830**	**$1.036**	**$1.299**
20	**Fund Balance (Beginning Year)**	**$4.619**	**$5.032**	**$6.526**	**$6.176**	**$4.389**	**$4.051**	**$4.654**	**$4.794**	**$5.227**	**$6.057**	**$7.093**
21	Plus: Net Income	0.413	1.494	-0.350	-1.787	-0.338	0.603	0.140	0.433	0.830	1.036	1.299
22	**Fund Balance (Year End)**	**$5.032**	**$6.526**	**$6.176**	**$4.389**	**$4.051**	**$4.654**	**$4.794**	**$5.227**	**$6.057**	**$7.093**	**$8.392**
23	**Minimum Unassigned Fund Balance**	$2.739	$2.924	$3.428	$3.925	$4.084	$4.308	$4.740	$5.082	$5.423	$5.811	$6.030
24	**Excess(Deficit) Unassigned Fund Balance**	**$2.293**	**$3.602**	**$2.748**	**$0.464**	**-$0.033**	**$0.346**	**$0.054**	**$0.145**	**$0.634**	**$1.282**	**$2.362**

4. Conclusion and Recommendations

After reviewing the Status Quo Scenario, all of the alternative scenarios considered and the Recommended Scenario we have drawn the following conclusion and make the following recommendations:

1. **Conclusion:**
   a. The Status Quo Scenario projections show that the FY23 property tax rate of 0.5397 per $100 of taxable property value will not generate sufficient revenue to fund all of the General Fund's projected operating expenses and capital projects over the ten-year projection period while maintaining the unassigned fund balance at or above the minimum fund balance target throughout the projection period.

2. **Recommendations:**
   a. In order for the City's General Fund to be sustainable over the ten-year projection period, we recommend the following:
      i. Adopt a policy to ramp up the minimum unassigned fund balance from $3.0 million in FY24 to 17% of revenues in FY33 as discussed in Section 3.1,
      ii. Continue the FY24 adopted Property Tax Rate of 0.5522 per $100 of taxable property value for all subsequent years in the projection period,
      iii. Execute the O&M Budget at 94% of budget for all years in the projection period,
      iv. Execute the CIP at 100% of the budgeted amount for FY24 and at 80% of the budgeted amounts (as escalated at 3% per year) for all subsequent years in the projection period.

v. Reduce O&M expense by 2.60% of the projected budgets (at 94% execution) in FY27 and FY28 (or a reduction of $752,000 and $775,00 respectively), and then reduce O&M expenses by 0.61% of the projected budgets (at 94% execution) each fiscal year from FY29 through FY33 (or a reduction of $186,000, $192,000, $198,000, $204,000, and $204,000 in those years respectively), then

vi. 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.

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5. APPENDIX – FINANCIAL FORECAST

August 17, 2023

This Forecast is based upon data and information provided to us by the City. Our analysis included such procedures as we considered necessary to evaluate the assumptions and data provided by the City to be used in the presentation of the forecast. Based upon our examination, nothing came to our attention to indicate that the underlying assumptions used and data provided are anything other than reasonable. However, there will usually be differences between a forecast and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this Forecast for events and circumstances occurring after the date of this Forecast.

5.1. Purpose

The Five-Year Financial Forecast (Forecast) for the City of Takoma Park (City) spans from Fiscal Years (FY) 2023-24 to FY 2027-28. The purpose of the Forecast is to help make informed budgetary and operational decisions by anticipating future revenues and expenditures and highlighting anticipated fiscal risks and opportunities. The Forecast surfaces major known fiscal conditions and projected future conditions to support informed long-term planning and decision making regarding operational and capital improvement resources. The Forecast is not only a necessary strategic planning tool for financial sustainability, but also ensures the City's compliance with current best practices across other local governmental entities.

By developing this Forecast and planning to update it every three (3) years, the City is beginning the process to implement sound financial policies to weather any unforeseen economic downturns. The City is required to adopt a balanced budget each fiscal year, and this Forecast should be updated periodically in conjunction with the preparation of the Budget to make adjustments to the financial plan as events may occur differently from projected. For the development of the budget for FY 2023-24, the City developed strategies to address shortfalls projected in the Forecast.

The Forecast is not a budget and does not include any change in current service levels. Instead, it is a planning tool to identify the opportunities and challenges over a longer time frame and take appropriate measures to address those challenges and opportunities, which will include enhanced revenue resulting from continued economic growth and cost control initiatives.

5.2. Methodology and Assumptions

The FY 2023-24 Adopted Budget was used as the basis to forecast revenues and expenditures five-years forward. Revenues were forecasted based upon assumptions for growth in taxable property values as the basis for projected property tax revenues. Other revenues were projected based upon consultation with City staff as to expected growth by category of revenue. Expenses were projected based upon application of cost escalation factors, determined in consultation with City staff, for each category of expense. Capital costs were based upon a schedule of capital projects provided by City staff in current year dollar values and escalated in future years based upon escalation factors determined in consultation with City staff.

It is important to note that the scope of this financial forecast was limited to the General Fund including the Equipment Replacement Reserve and Unassigned Reserve and did not include the following funds:

1. Facility Maintenance Reserve
2. Debt Proceeds on Hand
3. Special Revenue Fund

4. Federal ARPA Fund
5. Speed Camera Fund
6. Special Revenue Fund, or the
7. Stormwater Fund

Note: This Study was completed during FY23, therefore it started with the audited unassigned fund balance at the end of FY22, which is the beginning unassigned fund balance at the beginning of FY23. Therefore, revenues and expenses during FY23 are included in the analysis, and the FY23 budget for revenues and expenses were assumed for FY23.

5.3. Key Findings

Current Property Tax Rate - In our evaluation of the forecast without any adjustments to 1) the FY 2022-23 property tax rate of 0.5397 per $100 of taxable property value, or 2) FY 2023-24 budgeted operations and maintenance (O&M) costs, or 3) capital costs (the Status Quo Forecast), the forecast showed that the current property tax rate will not generate sufficient revenue to fund all of the General Fund's operating expenses and capital projects and maintain the Unassigned Fund Balance at or above the minimum fund balance target throughout the forecast period.

Minimum Unassigned Fund Balance - We also observed that the City has an adopted policy to maintain the Unassigned Fund Balance at 17% of revenues, (which equates to approximately 2 months of revenues). However, due to budgetary issues, in the past several years the City has maintained a minimum fund balance of approximately $3.000 million each year. Although it varies from city to city, most cities use two (2) months (or about 17%) of O&M expense or revenues as a target minimum unassigned reserve fund balance.

Also, the Governmental Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Therefore, we have ramped up the minimum Unassigned Fund Balance from $3.0 million in FY24 to 17% of revenues in FY 2032-33 and we recommend that the City adopt such a plan; and at such time as the Unassigned Fund Balance reaches 17% of revenue to maintain it at that level going forward.

No Borrowing for Capital Projects - It was the desire of the City that no borrowing be required during the term of the forecast. Therefore, after evaluating the Status Quo Forecast, we made adjustments to the adopted FY2023-24 budget as follows to achieve financial sustainability throughout the forecast period and to avoid the need to borrow fund for capital projects. Those adjustments were as follows:

1. Continue the FY24 adopted Property Tax Rate of 0.5522 per $100 of taxable property value for all subsequent years in the projection period,
2. Assumed execution of the capital improvement program (CIP) at 100% of the budgeted amount for FY24 and at 80% of the budgeted amounts (as escalated at 3% per year) for all subsequent years in the projection period,
3. Based all O&M projections on the adopted FY24 Budget,
4. Adjusted the O&M expenses to 94% of the budget amount for each year in the forecast. This was done based upon an analysis of the City's Actual vs Budgeted expenses for the General Fund for the past several years, during which time the actual expenses was in the range of 94%,

1. Reduced O&M expense of 2.60% of the projected O&M budgets (at 94% execution) in FY27 and FY28 (or a reduction of $752,000 and $775,00 respectively), in order to free up cash to fund capital projects that otherwise would require new debt to fund.

The results of the Forecast, Based upon those adjustments are presented in the following sections.

5.3.1. Revenues

The first task in the development of a Financial Forecast is to develop a projection of revenues. The forecast includes the following assumptions:

1. Modest growth in property values of 4.1% in FY 2023-24 and 4.0% each year for the remainder of the forecast period based upon an analysis of recent history.
2. An increase in the Real Property Tax rate per $100 of taxable property value from 0.5397 in FY 2022-23 to the adopted rate of 0.5522 in FY 2023-24 and that property tax rate is held constant for the remaining years in the forecast period.
3. Personal Property and Rr & Public Utilities tax rates were 1.55 and 1.57 per $100 of property value in FY 2022- 23 and were held at those levels in FY 2023- 24 and in all remaining years of the forecast period.
4. Property tax revenue is projected by applying the applicable property tax rate per $100 of taxable property value to the projected taxable property value in each year of the forecast period.
5. The forecast includes growth in other revenues as follows, based upon consultation with City staff:

Other Taxes:	Annual Escalation Rate
Penalties & Interest - Delinquent	2.6%
Admission & Amusement	2.6%
Additions & Abatements[1]	2.6%
Highway	2.6%
Income Tax	2.6%
Other Operating Revenues:	
Licenses and Permits	1.0%
Intergovernmental in Lieu Of Police	0.0%
Intergovernmental -Cable Fees	-7.0%
Other Intergovernmental	2.0%
Fines & Forfeitures	1.0%
Miscellaneous – Other	1.0%

A projection of revenues over the forecast period is presented in Table 1 on the following page, followed by Section 5.3.2, which discusses the projection of expenditures:

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[1] Additions & Abatements are property tax refunds to homeowners and as such have the effect of actually reducing the overall increase in revenue.

Table 1 – General Fund Revenue by Category (in millions)

	Revenue Category	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	Property Tax	$14.816	$15.874	$16.492	$17.135	$17.804	$18.499
2	Penalties & Interest - Delinquent	0.045	0.075	0.077	0.079	0.081	0.083
3	Admission & Amusement	0.075	0.095	0.097	0.100	0.103	0.106
4	Additions & Abatements	-0.030	-0.020	-0.021	-0.022	-0.023	-0.024
5	Highway	0.510	0.635	0.652	0.669	0.686	0.704
6	Income Tax	3.900	4.000	4.104	4.211	4.320	4.432
7	Licenses and Permits	0.074	0.066	0.067	0.068	0.069	0.070
8	Intergovernmental in Lieu Of Police	4.021	4.021	4.021	4.021	4.021	4.021
9	Intergovernmental -Cable Fees	0.540	0.502	0.467	0.434	0.404	0.376
10	Other Intergovernmental	1.919	1.957	1.996	2.036	2.077	2.119
11	Fees	1.162	0.935	0.944	0.953	0.963	0.973
12	Fines & Forfeitures	0.164	0.164	0.166	0.168	0.170	0.172
13	Interest Earnings	0.005	0.006	0.006	0.005	0.004	0.004
14	Miscellaneous - Other	0.603	0.386	0.390	0.394	0.398	0.402
15	Total	$27.804	$28.696	$29.458	$30.251	$31.077	$31.937
16	Overall Growth Rate		3.21%	2.66%	2.69%	2.73%	2.77%

5.3.2. Expenditures

When the forecast was computed at 100% of O&M costs and 100% of Capital Costs, the results were that the revenues produced (as documented in the prior section) were not sufficient to cover all of the projected O&M costs, cash funded capital costs and existing debt service, and to maintain the Unassigned Fund Balance at or greater than the minimum fund balance requirement.

Therefore, in order to develop a financial forecast that is sustainable over the forecast period, we determined that

2. Capital projects would need to be funded at an execution rate of 100% in FY2023-24 and at 80% in FY 2024-25 and in each of the remaining years of the forecast period, and
3. Expenses would need to be funded at 94% of budgeted expenses.
4. Because the City desired to have no borrowing in the forecast, it was determined that a reduction of 2.60% of the projected O&M budgets (at 94% execution) in FY27 and FY28 (or a reduction of $752,000 and $775,00 respectively), would free up cash to fund capital projects that otherwise would require new debt to fund.

The adjustments to capital costs are consistent with common experience of many cities in terms of the percent of capital projects that are actually funded compared to budget, and based upon our evaluation of the City's recent historical actual versus budgeted operating expenses we determined that actual operating expenses have historically been in the range of 94% of budgeted operating expenses, which is expected because of vacancies and more efficient execution of tasks associated with the budget. Therefore, we assumed a 94% execution rate for operating expenses as compared to budgeted operating expenses in each year of the forecast period.

After making the above referenced adjustments for execution percentages for Capital and O&M costs, when the forecast was calculated, borrowing was required in FY 2026-27 and FY 2027-28. However, the City desired a financial plan with no borrowing. So, we determined that a reduction of 2.60% of the projected O&M budgets (at 94% execution) in FY 2026-27 and FY2027-28 (or a reduction of $752,000 and $775,00 respectively) would result in a sustainable financial plan throughout the forecast period that will cover all O&M expenses, capital costs without the need to borrow, and will maintain fund balance at or above the minimum fund balance target.

Table 2 below presents the expenditures based upon the adjustments discussed above.

Table 2. Expenditures (in millions)

	Expense Category	FY 2022-23 Budget	FY 2023-24 Budget	FY 2024-25 Projection	FY 2025-26 Projection	FY 2026-27 Projection	FY 2027-28 Projection
1	1000 General Government	$4.255	$4.500	$4.650	$4.805	$4.950	$5.098
2	2000 Police	8.795	9.300	9.584	9.876	10.173	10.478
3	3000 Public Works	5.837	5.904	6.103	6.308	6.498	6.693
4	4000 Recreation	2.021	2.117	2.186	2.257	2.325	2.395
5	5000 Community Development	2.061	2.593	2.679	2.769	2.852	2.937
6	6000 Communication / Media	0.800	0.821	0.848	0.876	0.902	0.929
7	7000 Library	1.429	1.491	1.538	1.586	1.633	1.682
8	9000 General Government-Inter-Departmental	1.150	1.360	1.407	1.457	1.500	1.545
9	Transfer to Equipment Replacement Reserve	0.600	0.550	0.600	0.600	0.600	0.600
10	Adjustment to Reconcile to Adopted FY24 Budget	0.000	-0.612	-0.636	-0.655	-0.675	-0.695
11	Total Expenses Before Debt Service & Cash Funded Capital	$26.948	$28.024	$28.959	$29.879	$30.758	$31.662
12	O&M Expenses at 94% Execution	25.331	26.343	27.221	28.086	28.913	29.762
13	Reduction in O&M Expenses per Financial Plan	0.000	0.000	0.000	0.000	-0.752	-0.775
14	O&M Expenses After Reduction per Financial Plan	$25.331	$26.343	$27.221	$28.086	$28.161	$28.987
15	8000 Debt Service	0.741	0.742	0.740	0.555	0.557	0.559
16	Total O&M Expenditures (Including Debt Service)	$26.072	$27.085	$27.961	$28.641	$28.718	$29.546
17	Overall Escalation in O&M Expenses		NA	3.23%	2.43%	0.27%	2.88%
19	Capital Projects:						
20	General Fund Projects -CIP	$1.319	$0.117	$2.242	$4.003	$3.085	$2.235
21	Percent Execution	100%	100%	80%	80%	80%	80%
22	Percent Escalation from FY24 (3% compounded per year)	NA	0.00%	3.00%	6.09%	9.27%	12.55%
23	General Fund Projects - CIP @ Aplicable Execution % and Esc	$1.319	$0.117	$1.847	$3.397	$2.697	$1.788
24	Cash Funded General Fund Projects	$1.319	$0.117	$1.847	$3.397	$2.697	$1.788
25	Equipment Replacement Reserve (ERR) Projects (1)	$1.068	$1.255	$0.954	$0.777	$1.283	$1.073
26	Cash Funded ERR Projects from ERR Reserve	1.068	1.255	0.954	0.777	1.283	1.073
27	Unfunded ERR Projects	0.000	0.000	0.000	0.000	0.000	0.000
28	Capital Projects Funded with Debt	0.000	0.000	0.000	0.000	0.000	0.000
29	New Debt Service for Capital Projects Funded with Debt	0.000	0.000	0.000	0.000	0.000	0.000
30	Total Capital Expenditures from the General Fund	$1.319	$0.117	$1.847	$3.397	$2.697	$1.788
31	Total General Fund Expenditures	$27.391	$27.202	$29.808	$32.038	$31.415	$31.334
32	Overall Escalation in Total General Fund Expenditures		-0.69%	9.58%	7.48%	-1.94%	-0.26%

(1) Equipment Replacement Reserve (ERR) Projects funded from the ERR Fund, not the General Fund

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5.3.3. Forecast Results

Based upon the discussion in the preceding sections, we have developed a recommended forecast which is described in this section. Our recommendations are as follows:

1. 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.
2. Adopt a policy to ramp up the minimum unassigned fund balance from $3.0 million in FY24 to 17% of revenues in FY33 as discussed in Section 3.1.
3. Adjust the capital expenditures as follows:
    a. Execute the capital budget at 100% of budget in FY2023-24,
    b. Reduce execution of the capital budget to 80% of budget in FY2025-26 through FY2027-28,
4. 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.
5. 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.

A presentation of the forecast summary with these adjustments is presented in Table 3 below.

Table 3. Forecast Summary with 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

A graphical representation of the forecast results is presented in Table 4 on the following page:

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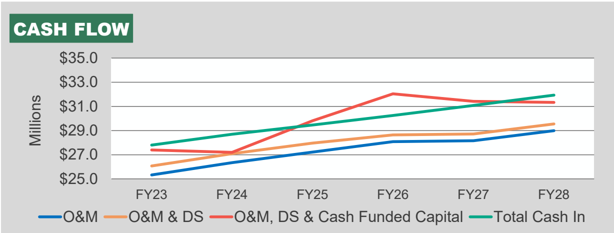
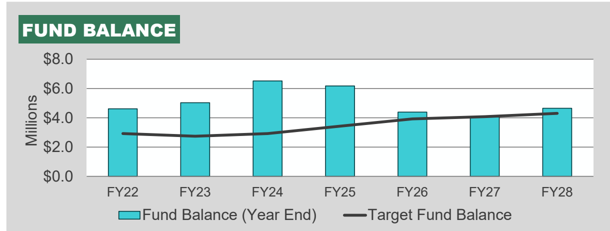
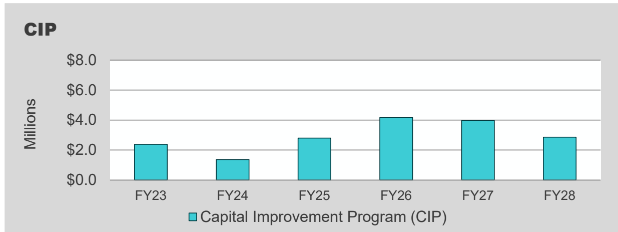
Table 4. Graphical Representation of the Forecast Results







Notes:

1. 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.
2. 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.
3. 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.

End of the Forecast