

City of Takoma Park, MD

General Fund Financial Sustainability Analysis

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Agenda

- **Section 1: Planning for Financial Sustainability**
- **Section 2: Financial Sustainability Modeling**
- **Section 3: Review of Your Interactive Financial Sustainability Model**
- **Q&A**

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

In this presentation we will:

- Review your financial forecast in our interactive model that allows us to...
 - Prepare a ten-year forecast of your status quo, and to
 - Evaluate alternative assumptions regarding key factors such as cost escalation factors, growth, tax rates, etc.
- We will help you understand your choices, and their consequences, and how to develop strategies to result in a long-term financially sustainable plan.

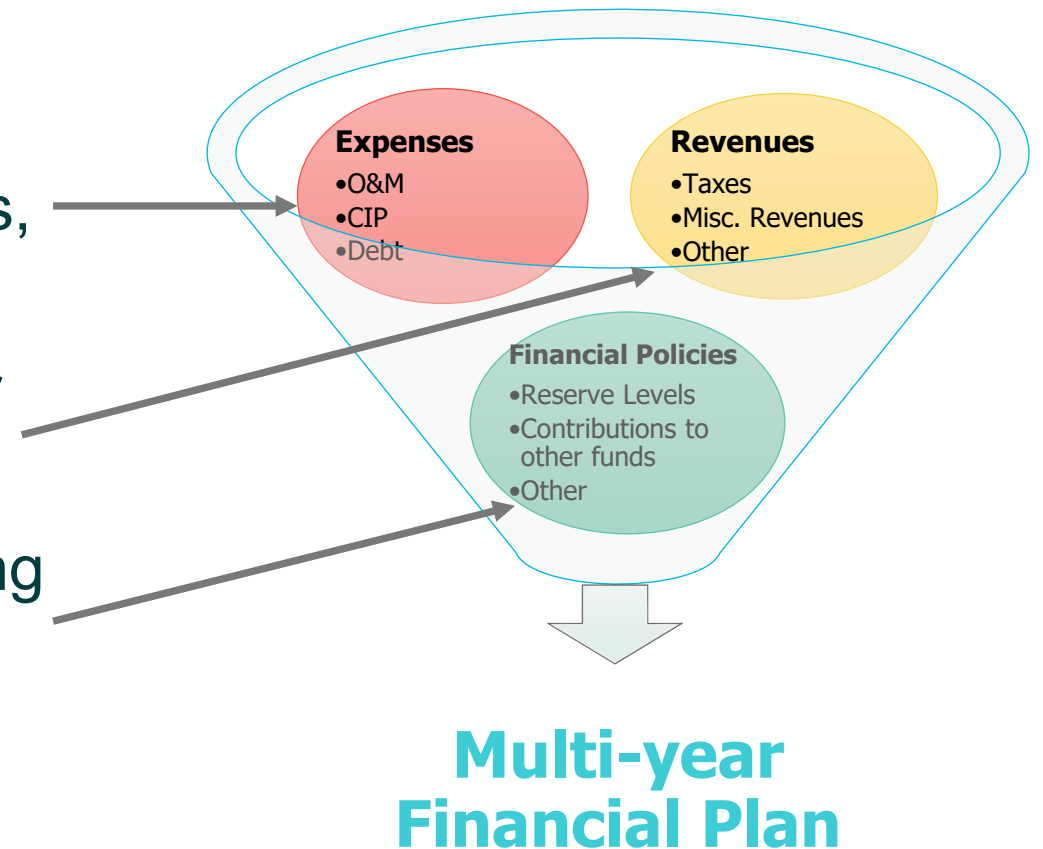
General Fund Financial Planning

- 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 will review with you today we will identify such trends and evaluate actions that can be taken to ensure that unassigned fund balance is at, or above, the minimum fund balance target throughout the ten-year projection period.

Section 2: Financial Sustainability Modeling



Modeling to Plan for Financial Sustainability

Using the interactive modeling tool and evaluation process that you will see today makes this a valuable process to...

- Provide transparency with stakeholders,
- Paint the full picture of your General Fund's financial situation over a ten-year forecast period,
- 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 Demonstration

- 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

Financial Sustainability Modeling Demonstration

- Major Assumptions in the model (all assumptions can be adjusted during our interactive review of the model later in this presentation):

- › Growth – Source: Maryland Department of Assessment and Taxation, FY25 – FY33 Estimates

FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
4.10%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

- › Operation & Maintenance Expense (O%M) Escalation Rate - Source: Estimates in light of current inflation, decreasing in out years assuming inflation will lessen. Execution assumption = 95% of Operating Budget

4.00%	4.00%	4.00%	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
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- › Unassigned Fund Balance Target - Source: 17% of revenue, City policy, \$3.0 million per year - City practice

17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
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- › of revenue, or

\$3.000	\$3.000	\$3.000	\$3.000	\$3.000	\$3.000	\$3.000	\$3.000	\$3.000	\$3.000
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- › in millions (used in the baseline model)

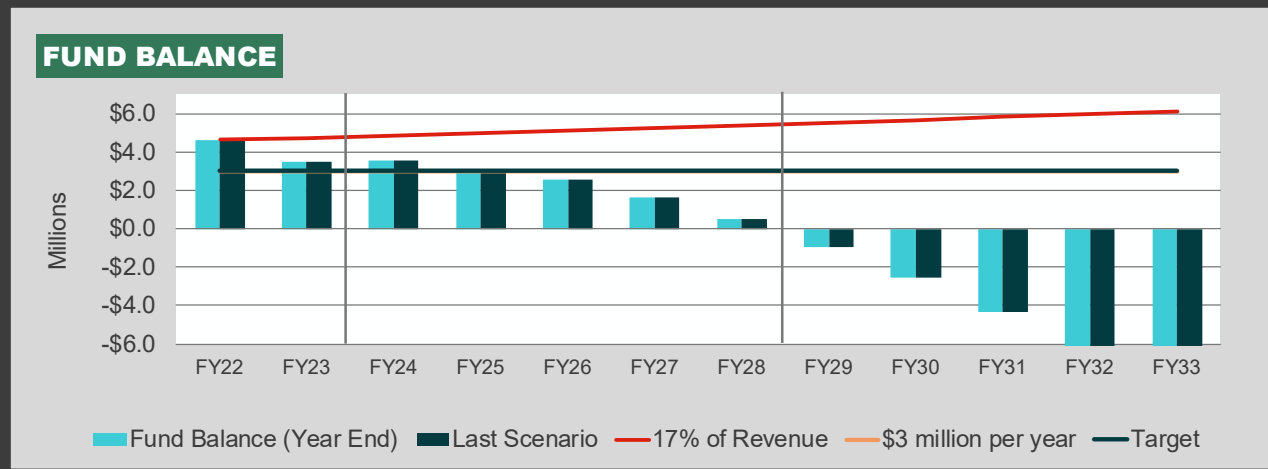
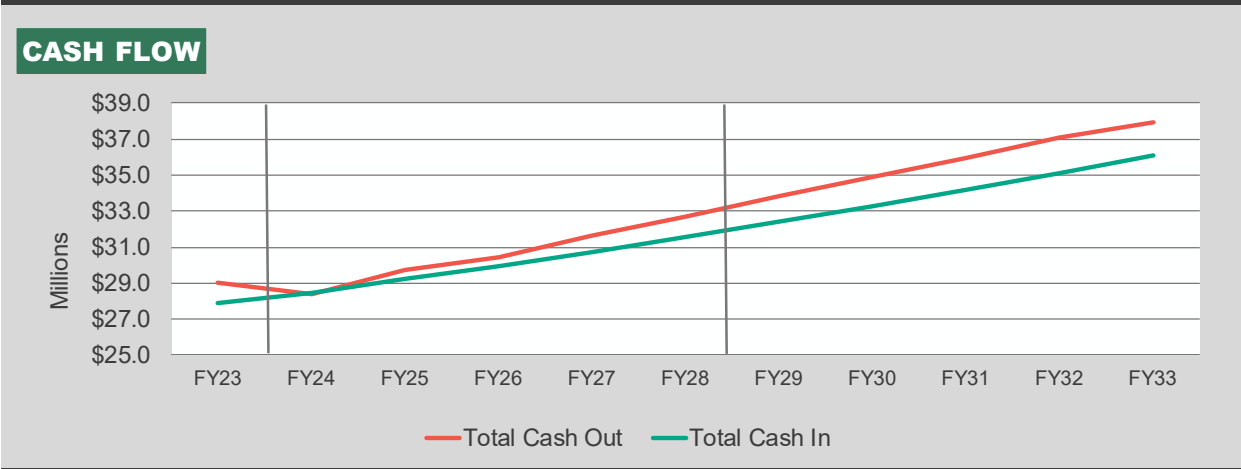
Interactive Demonstration of the Modeling Process



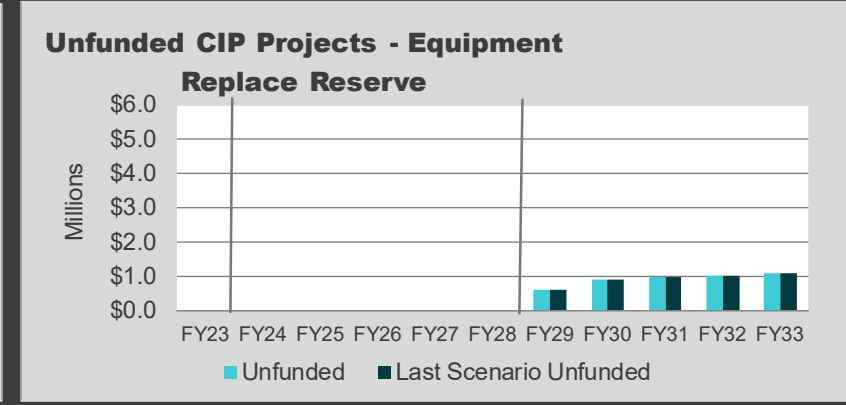
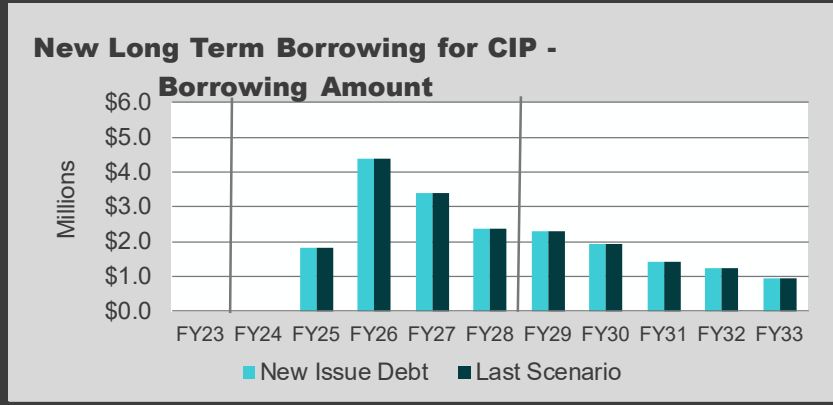
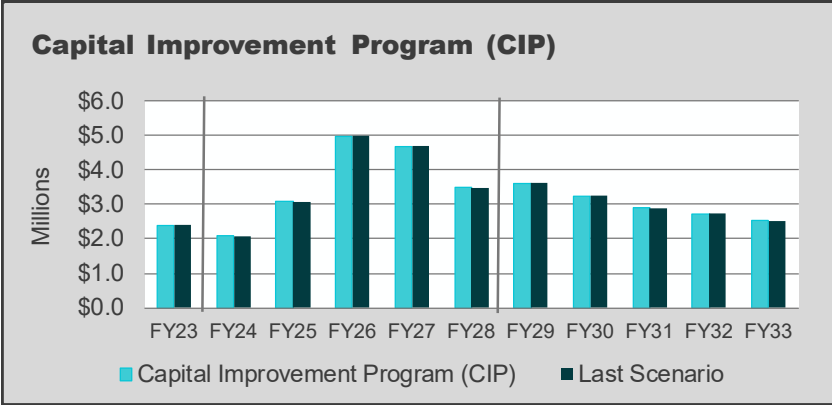
Scenario 1 – Status Quo

- Scenario 1 – Status Quo
 - › No change to current tax rate of 0.5397
 - › Annual CIP execution over the forecast period = 100%
 - › When Unassigned Fund Balance falls below target – FY26
 - › When Unassigned Fund Balance falls below zero – FY29
 - › When borrowing is first required to fund CIP – FY25
 - › Total borrowing required over the forecast period - \$19.737 million
 - › When the City's ERR fund has unfunded projects – FY29 – FY33 = \$4.601 million

Scenario 1 – Status Quo



Cash Flow FY24	\$69,201	Current Rate	0.5397
CIP FY24-FY25 =	\$33.322	Avg Exec for Forecast =	100%



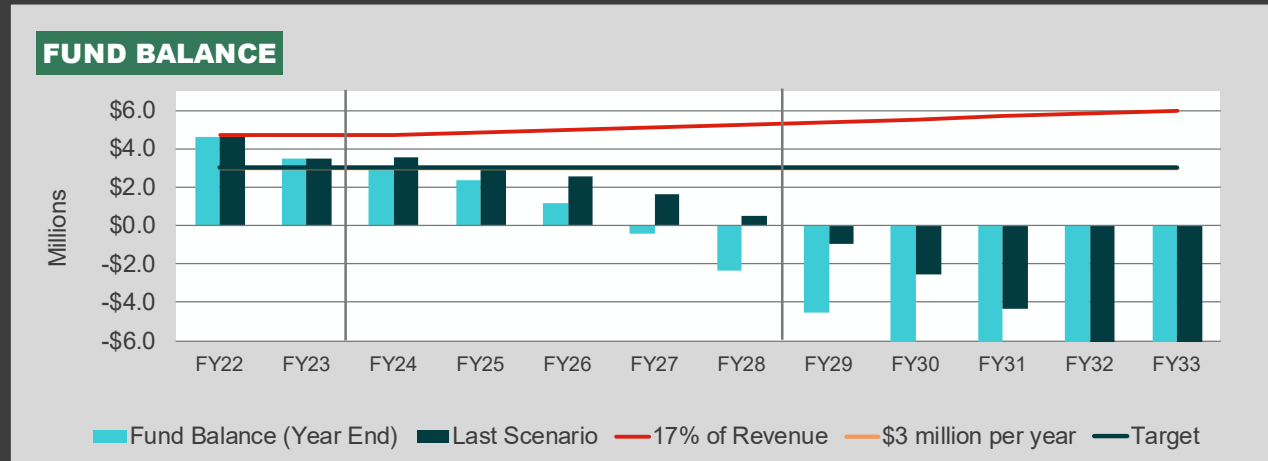
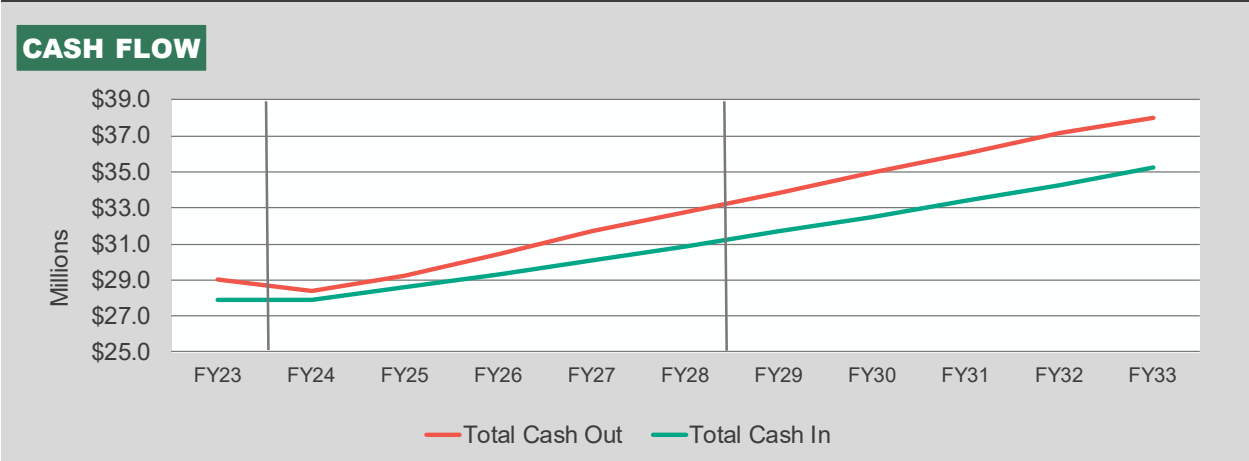
Blue Bars = Current Scenario and are dynamic

Black Bars = Last Scenario and are static

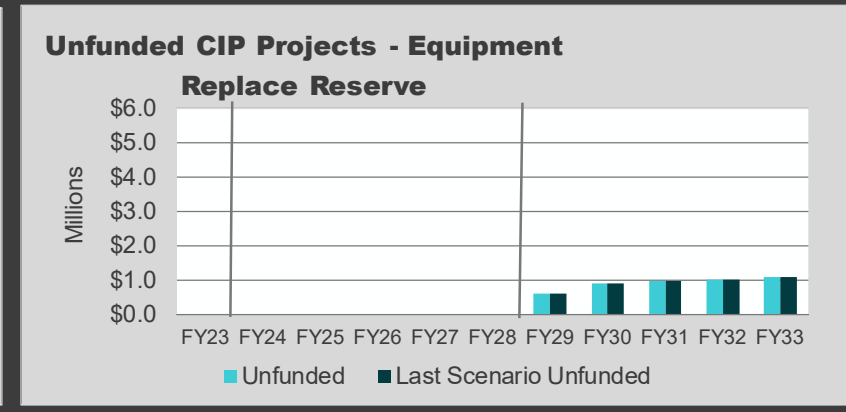
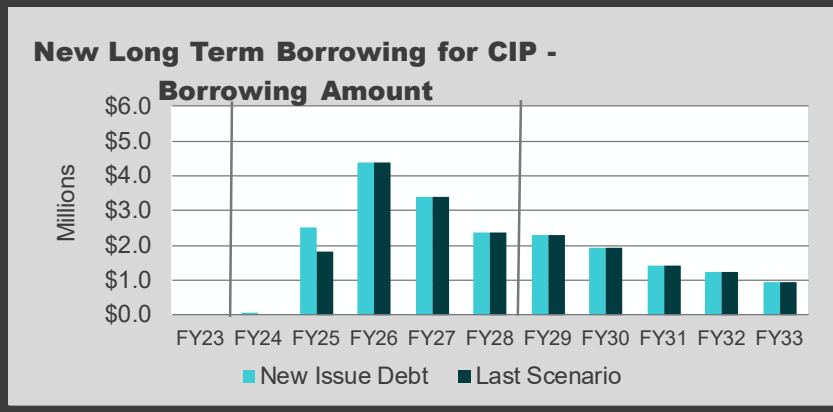
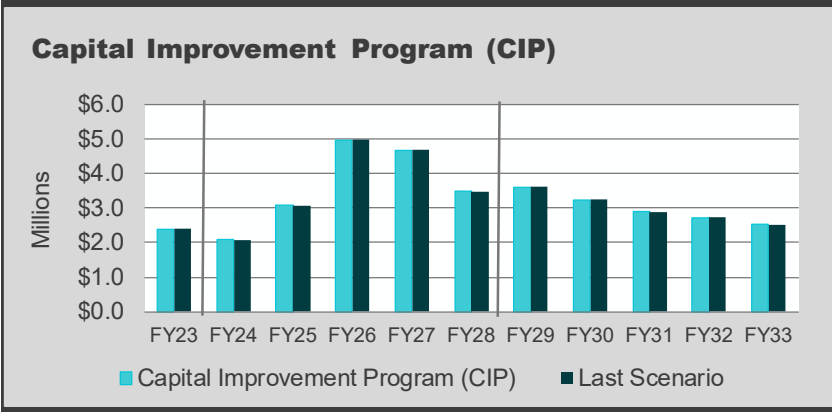
Scenario 2 – Constant Yield Rate

- Scenario 2 – Constant Yield Rate
 - › Constant Yield rate of 0.5185 compared to current rate of 0.5397
 - › Annual CIP execution over the forecast period = 100%
 - › When Unassigned Fund Balance falls below target – FY25
 - › When Unassigned Fund Balance falls below zero – FY27
 - › When borrowing is first required to fund CIP – FY25
 - › Total borrowing required over the forecast period - \$20.489 million
 - › When the City's ERR fund has unfunded projects – FY29 – FY33 = \$4.601 million

Scenario 2 – Constant Yield Rate



Cash Flow FY24	-\$476,277	Constant Yield Rate	0.5183
CIP FY24-FY25 =	\$33.322	Avg Exec for Forecast =	100%



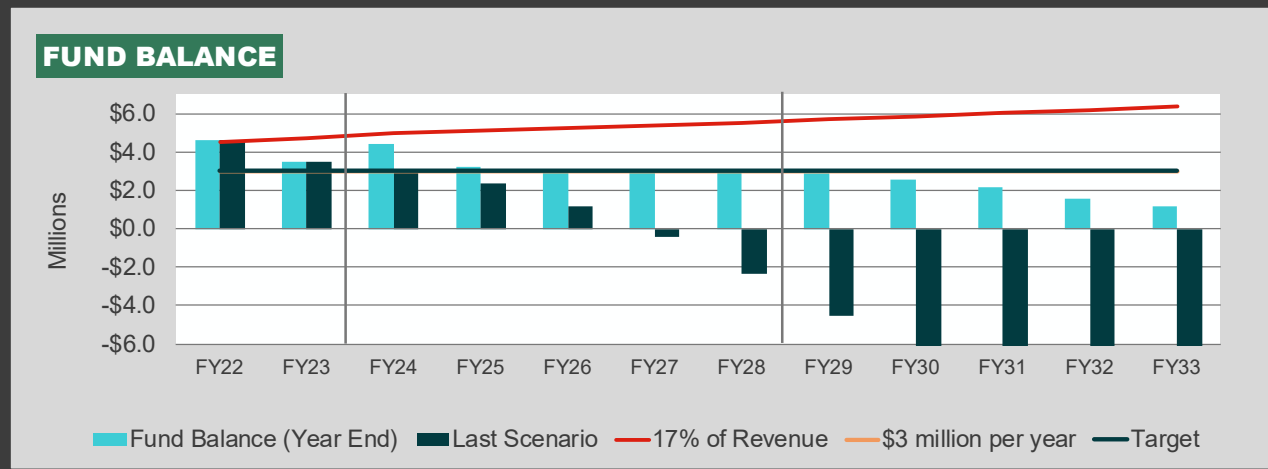
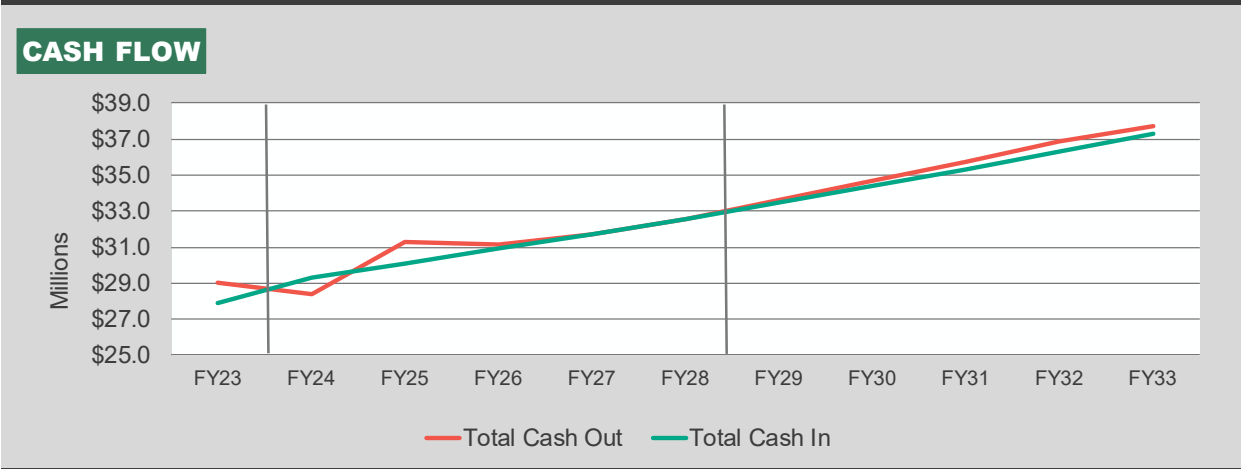
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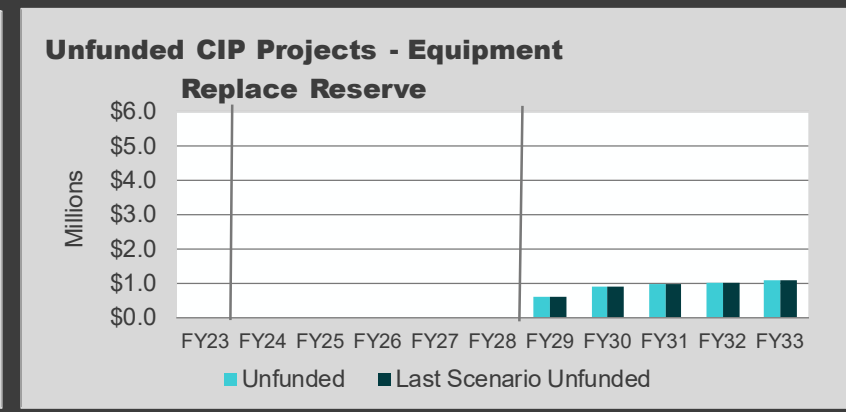
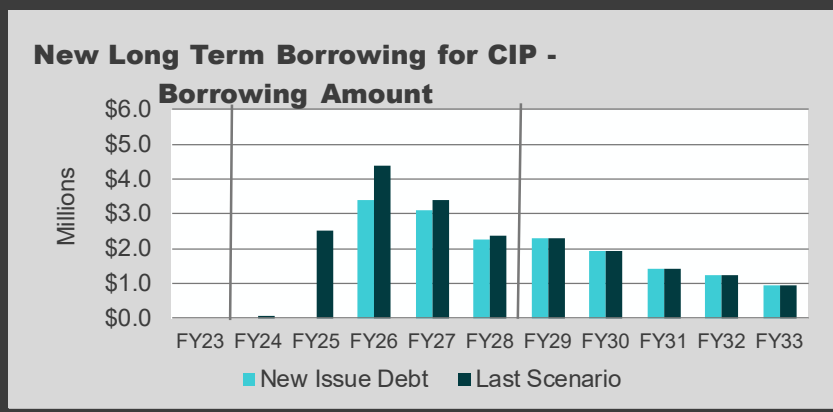
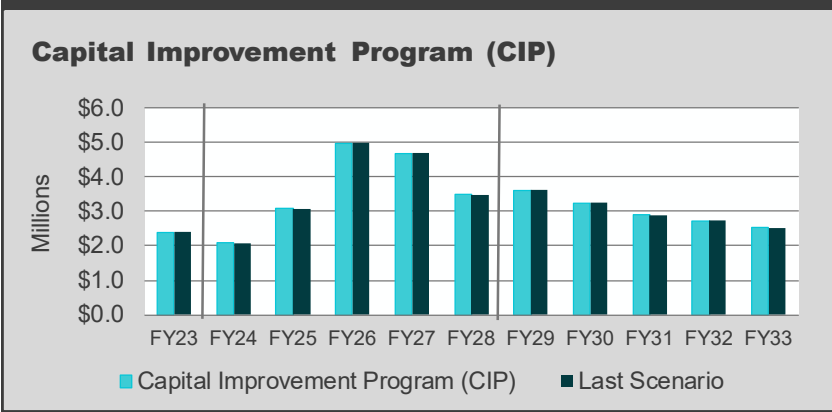
Scenario 3 – City Manager’s Recommended Rate

- Scenario 3 – City Manager’s Recommended Rate
 - › City Manager’s Recommended rate of 0.5705 compared to current rate of 0.5397
 - › Annual CIP execution over the forecast period = 100%
 - › When Unassigned Fund Balance falls below target – FY30
 - › When Unassigned Fund Balance falls below zero – Never
 - › When borrowing is first required to fund CIP – FY26
 - › Total borrowing required over the forecast period - \$16.539 million
 - › When the City’s ERR fund has unfunded projects – FY29 – FY33 = \$4.601 million

Scenario 3 – City Manager’s Recommended Rate



Cash Flow FY24	\$931,619	City Manager's Proposed Rate	0.5705
CIP FY24-FY25 =	\$33.322	Avg Exec for Forecast =	100%



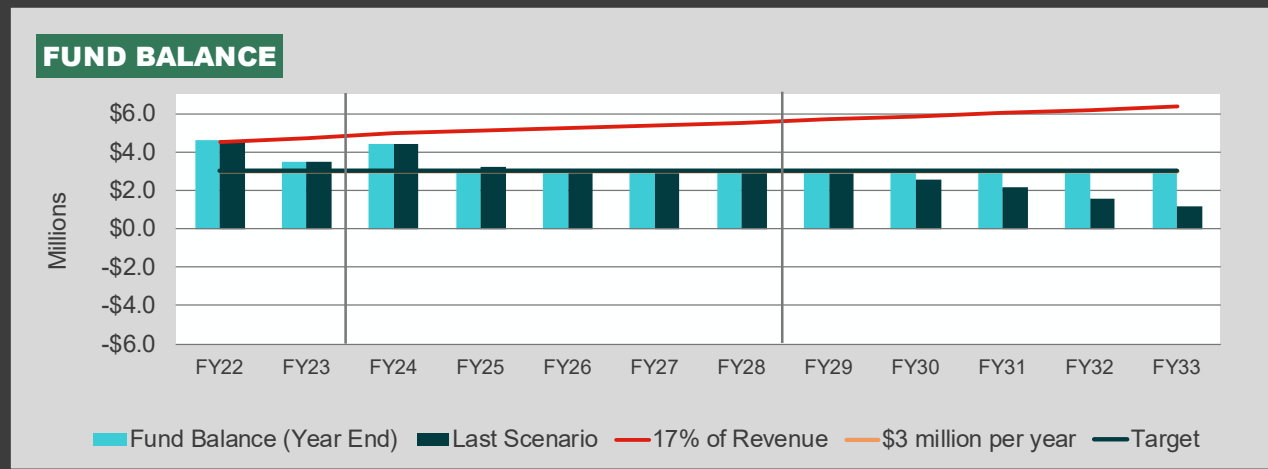
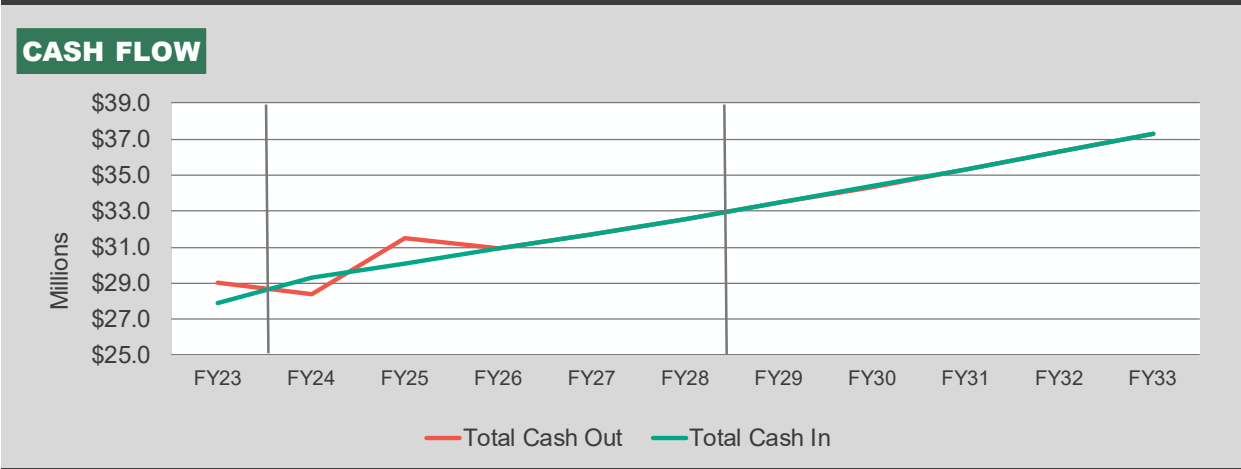
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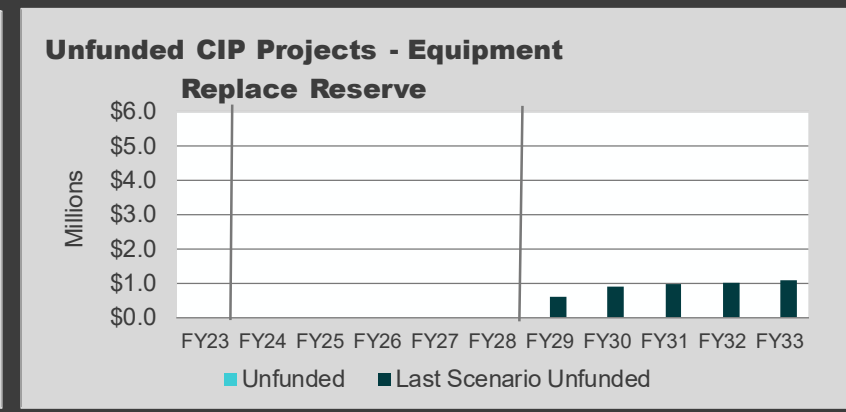
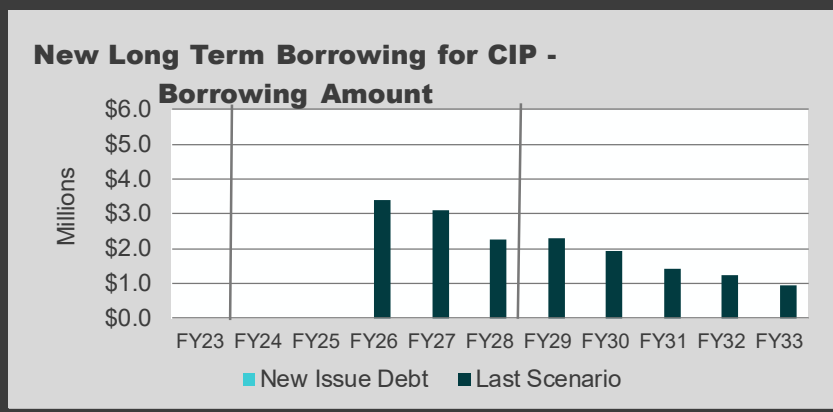
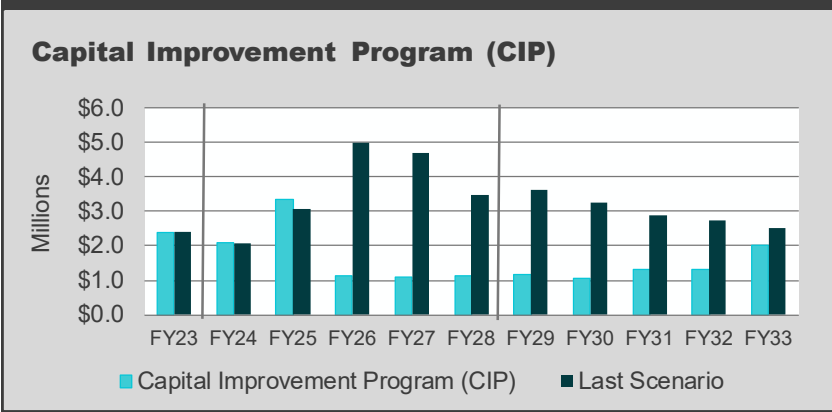
Scenario 4 – City Manager’s Recommended Rate with Reduced CIP to Avoid Borrowing

- Scenario 4 – City Manager’s Recommended Rate with Reduced CIP to Avoid Borrowing
 - › City Manager’s Recommended rate of 0.5705 compared to current rate of 0.5397
 - › Average annual CIP execution over the forecast period = 57%
 - › When Unassigned Fund Balance falls below target – Never
 - › When Unassigned Fund Balance falls below zero – Never
 - › When borrowing is first required to fund CIP – Never
 - › Total borrowing required over the forecast period - \$0.0 million
 - › When the City’s ERR fund has unfunded projects – Never

Scenario 4 – City Manager’s Recommended Rate with Reduced CIP to Avoid Borrowing



Cash Flow FY24	\$931,619	City Manager's Proposed Rate	0.5705
CIP FY24-FY25 =	\$15.664	Avg Exec for Forecast =	57%



Blue Bars = Current Scenario and are dynamic

Black Bars = Last Scenario and are static

Side-by-Side Summary of Scenarios

	Status Quo	Constant Yield Rate	City Manager's Recommended Rate	City Manager's Recommended Rate with Reduced CIP to Avoid Borrowing
Tax Rate - FY24	0.5397	0.5183	0.5705	0.5705
Annual CIP execution over the forecast period	100%	100%	100%	57%
CIP amount funded over forecast period - millions	\$33.322	\$33.322	\$33.322	\$15.664
When Unassigned Fund Balance falls below target	FY26	FY25	FY30	Never
When Unassigned Fund Balance falls below zero	FY29	FY27	Never	Never
When borrowing is first required to fund CIP	FY25	FY25	FY26	Never
Total borrowing required over the forecast period - millions	\$19.737	\$20.489	\$16.539	\$0.000
When the City's ERR fund has unfunded projects	FY29 - FY33	FY29 - FY33	FY29 - FY33	Never
Amount of unfunded ERR projects - millions	\$4.601	\$4.601	\$4.601	\$0.000
Impact to Single Family Home:				
Taxable Property Value	\$450,000	\$450,000	\$450,000	\$450,000
Tax Rate in FY23	0.5397	0.5397	0.5397	0.5397
Tax Rate in FY24	0.5397	0.5183	0.5705	0.5705
Annual Property Tax in FY23	\$2,429	\$2,429	\$2,429	\$2,429
Annual Property Tax in FY24	\$2,429	\$2,332	\$2,567	\$2,567
Annual Increase	\$0	-\$97	\$138	\$138
Percent Annual Increase in Property Tax	0.0%	-4.0%	5.7%	5.7%

Q&A



Thank you!

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