

**City of Clearwater
General Fund
Five-Year Forecast
September 2003**

FIVE-YEAR FORECAST

PURPOSE

The Five-Year forecast was designed as a management tool to provide an enhanced level of financial planning for the City's General Fund.

Financial planning expands a government's awareness of options, potential problems, and opportunities. The long-term revenue, expenditure, and service implications of continuing or ending existing programs or adding new programs, services, and debt can be identified. The financial planning process helps shape decisions and permits necessary and corrective action to be taken before problems become more severe.

A financial plan is not a forecast of what is certain to happen but rather a device to highlight significant issues or problems that must be addressed if goals are to be achieved.

The City of Clearwater's General Fund projections are based upon current projected levels of service and staffing in the 2003/04 adopted budget, other than where noted below.

GENERAL FUND

The General Fund is the general operating fund of the City. This fund was established to account for revenues and expenditures involved in operating general functions of a non-proprietary nature. Major revenue sources include property and other taxes, franchise and utility fees, licenses and permits, fees for services, and charges to enterprise operations for administrative or specific services. The major operating activities supported by the General Fund include most traditional tax-supported municipal services such as police and fire services, transportation, economic development, parks and recreation, libraries, administrative offices, planning services and public works operations.

Growth and Inflation

The rate of inflation is projected at 2.5% in fiscal year 2004/05. This is based upon current trends on the average Consumer Price Index (CPI) for All Urban Consumers provided by the Bureau of Labor Statistics. Forecasted inflation for fiscal years 2006 through 2009 is also projected at a rate of 2.5%.

Revenue Projections

Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisitions. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances a government's understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.

Revenue forecasts for the City of Clearwater are based upon trend analysis, reviewing the previous five-year's history of actual receipts. This methodology has proven quite accurate in the last several years, with actual revenue receipts reflecting a 98% to 99% accuracy rate. Analysis of actual receipts to forecast for the year ending September 30, 2002 reflected better than a 98% accuracy level in the forecast of routine General Fund revenue sources.

Property Tax Revenue

Property tax revenues are the largest source of revenue for the General Fund representing 35% of the total anticipated General Fund revenues in the 2003/04 annual budgets.

The City of Clearwater is basically "built out". Therefore, the City will not see much increase in taxable values from major new residential development. Still, the results of economic development, and redevelopment within our community in the last several years is readily apparent in our growing taxable values, with increases of almost 6.4% and 9.6% respectively, in each of the last two fiscal years.

Property tax revenues are forecasted to increase at a more conservative rate of 4% for the fiscal year 2004/05 reflecting new receipts of \$1.4 million, and then slow to a more conservative 3% increase thereafter.

Communications Services and Sales Tax

The new local communication services tax became effective October 1, 2001. This tax replaces the City revenue sources for municipal public service tax on telecommunications, as well as franchise fees on cable and telecommunications service providers.

The anticipated revenues from this source is estimated to provide over \$8.1 million of the total \$99.2 million, or 8% of General Fund revenues in fiscal 2003/04.

This is revenue source is difficult to forecast due to the large variances in month-to-month receipts, and the fact that there are not yet two full years of annual receipt data on the books.

Revenue growth from sales tax receipts stalled in the latter part of 2001, with the impact of the September 11th terrorist attack, and has slowly recovered over the last few years. With the current economic conditions reflecting a slowly improving economy, sales tax projections for the period of this forecast reflect a growth factor of 4% annually.

Utility & Franchise Fees

Franchise fees in the City of Clearwater are levied on companies in exchange for the right to operate franchises for the purpose of maintaining and operating an electrical or gas distribution system in the City. Utility taxes are fees levied on the purchase of electrical, gas, water, oil, or propane within the City.

Overall, receipts from utility and franchise fees from Florida Power represent the majority of this revenue category. In the overall category, these revenues have reflected little growth in the past five years and are forecasted to increase at rates approximating 2% to 3% annually throughout the forecast period.

Other Revenue Sources

The three revenue sources detailed above account for over 67% of the total General Fund revenues. All other revenue sources are forecasted individually on a line item basis based upon historical revenue trends.

Projections of Expenditures

Assumptions for expenditure projections should be consistent with related revenue and program performance assumptions. A review of expenditure projections for individual programs, particularly those with significant unexpected increases or decreases, is critical.

Expenditure projections are reflected by Department within the General Fund assuming all current programs continue into future fiscal years.

Salary and Benefits

Salary and benefit costs approximate 68.5% of all General Fund expenditures, approaching \$68 million. Salary projections are forecasted for budget approved 2003/04 full-time equivalent positions only. Funding for union employees are projected within the limits of outstanding contracts in fiscal year 2003/04 and similar increases thereafter. Funding for SAMP (Supervisory, Administrative, Managerial, and Professional) employees allows for a 4% merit increase. The attrition rate, or salary savings, is assumed to be 1% for all five years. Medical insurance, the City's fastest growing cost, is projected to increase 19% in fiscal year 2004/05 and 10% in each of the years thereafter. Medical insurance costs for all employees are approximately \$6.3 million of the City's total General Fund expenditures in the approved 2003/04 General Fund operating budget.

Operating Expenditures

Operating expenditures include numerous costs including basic operating supplies, travel, training, etc. These costs as a whole represent approximately 16% of the total General Fund expenditures. Significant expenditures in the operating expenditure category include utility costs for public facilities such as City Hall, the Municipal Services Building, our libraries and recreational facilities, and contributions to agencies discussed below. Other significant costs include our property and liability insurance on these same properties.

These expenditures are forecasted to increase in line with the consumer price index, which is estimated at 2.5% in the fiscal year 2003/04 and each of the years thereafter.

Contributions to Other Agencies

Contributions to Other Agencies in the General Fund remain as currently budgeted to include such contributions as the annual contribution to Ruth Eckerd Hall of \$437,090 and the contribution to the African American Leadership program in the amount of \$100,000.

Internal Service Costs

This category of expenditures reflects the reimbursement to our Internal Service Funds for services. Again, a major portion of this category of expenditures is directly tied to Salary and Benefit increases. Internal Service Costs are projected to increase at the rate of 3.5% annually in each of the next five years.

Operating Capital

Operating capital, recognizes those capital purchases that are less than \$25,000 and not accounted for in the Capital Improvement Fund. These costs represent an insignificant portion of the General Fund total expenditures at just under \$200,000 annually. These costs are forecast to increase at the same rate as operating expenditures, 2.5% in fiscal 2004/05 and 2.5% in years thereafter.

Debt Service Costs

Debt service costs are projected taking into account all lease purchase contracts anticipated to be outstanding at the end of fiscal year 2003/04 and reflect the impact of current outstanding public service tax bond commitments. Debt service costs are forecasted as remaining relatively stable throughout the five-year period, and do not reflect any major new bond commitments during this period.

Transfers to the Capital Improvement Fund

Transfers to the Capital Improvement Fund are forecasted as proposed in the current six-year Commission adopted capital improvement plan.

Forecast Summary Analysis

In summary, ***the impact of combining projected revenues and projected current service expenditures produces a shortfall of more than \$2.6 million in fiscal year 2004/05.*** Almost \$1.1 million of this shortfall is directly attributable to the 19% anticipated increase in medical insurance costs. In addition, two programs were recently approved with temporary financing in fiscal year 2003/04. Funding for the Beach Library is estimated in the 2004/05 budget at approximately \$210,000 in 2004/05, and funding for the Downtown Community Patrol is estimated at approximately \$315,000. Both of these programs were not budgeted as part of the 2003/04 adopted budget, but are anticipated programs in the five-year forecast based upon recent City Commission action. The balance of the projected increase in the new fiscal year is primarily due to routine forecasted salary increases for current employees and cost index increases for other supplies and services.

Based upon these early projections, the shortfall will either necessitate a reduction in services of a like amount in the new year, or a tax increase of more than 4/10 mill in 2004/05, and a similar increases in each of the next four years.