

**City of Clearwater
General Fund
Five-Year Forecast
September 2004**

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 2004/05 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 3% in fiscal year 2005/06. 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 2007 through 2010 is also projected at an annual rate of 3%.

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, 2004 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 38% of the total anticipated General Fund revenues in the 2004/05 annual budget.

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 9.6% and 11.7% respectively, in each of the last two fiscal years.

Property tax revenues are forecasted to increase at a rate of 7.3% for the fiscal year 2005/06. In addition, \$500,000 is included for new construction. New receipts are estimated at \$2.7 million in 2005/06, and then slow to a more conservative 3% increase thereafter.

Communications Services and Sales Tax

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

The anticipated revenue from this source is estimated to provide almost \$ 7 million of the total \$102.5 million budget, or 7% of General Fund revenues in fiscal 2004/05.

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. Economic conditions reflect a slowly improving economy. Sales tax projections for the period of this forecast reflect a growth factor of 3.5% in fiscal 2005/06 and 3% annually thereafter.

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 Progress Energy 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 68% of the total General Fund revenues. All other revenue sources are forecasted individually on a line item basis based upon historical revenue trends.

Expenditure Projections

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.

The expenditure projections are presented for each Department, and projections assume all current programs continue into future fiscal years.

Salary and Benefits

Salary and benefit costs approximate 68% of all General Fund expenditures, slightly more than \$70 million. Salary projections are forecasted for budget approved 2004/05 full-time equivalent positions only. Funding for union employees are projected within the limits of current union contracts and similar increases thereafter. Funding for SAMP (Supervisory, Administrative, Managerial, and Professional) employees allows for a 3% to 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 15% in fiscal year 2005/06 and 10% in each of the years thereafter. Medical insurance costs for all employees are approximately \$7.1 million of the City's total General Fund expenditures in the approved 2004/05 General Fund operating budget.

A positive note regarding the funding of the Old Fire Pension is evident in the Fire Department forecasted budget for fiscal year 2007/08. Full funding of the Old Fire Pension plan is expected by the end of fiscal year 2006/07. This forecast reflects the savings of approximately \$1.5 million starting in 2007/08 in the Fire Department operating budget. This forecast assumes that these savings will not be diverted to other programs, and will be reflected as a reduction in General Fund expenditures starting in fiscal year 2007/08.

Operating Expenditures

Operating expenditures include numerous costs including basic operating supplies, travel, training, etc. These costs as a whole represent approximately 15% 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 3% in the fiscal year 2005/06 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 \$450,200 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

The operating capital category 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 over \$200,000 annually. These costs are forecast to increase at the same rate as operating expenditures, 3% in fiscal 2005/06 and 3% in each year 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 2004/05 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 slight surplus of approximately \$332,420 in fiscal year 2005/06.*** 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, it appears that the current millage rate may be sufficient to carry the City through the next few years, assuming revenues meet expectations, and expenditures are in line with forecasted projections.

Still, this forecast does not factor in the impacts of any new programs or extraordinary issues during the forecast period. At least one pending issue on the horizon that will most likely impact the results of this forecast is the impact of budgeting for post employee benefits under GASB #45.