



Five Year Financial Planning Model Updated

MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

Five-Year Financial Planning Model

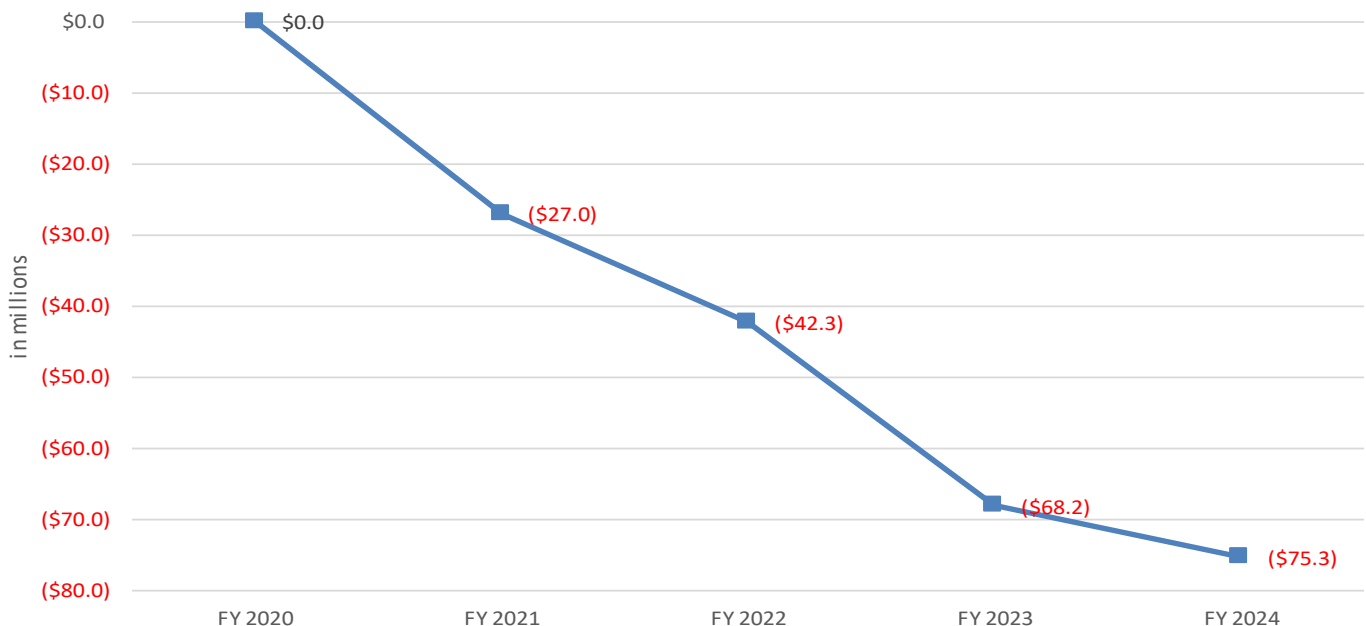
The City has long used multi-year financial forecasting as a planning and communication tool. Staff updated the model for the FY 2019 budget and again for the November 2018 City Council annual budget retreat. The revenue and expenditure assumptions have since been updated to reflect the FY 2020 proposed budget and capital improvement program. The updated five year financial planning model combines projections of future revenues and expenditures based on historical analysis with planned or expected changes such as the approved Capital Improvement Program (CIP) out-year funding.

Since the November 2018 City Council Retreat, the model has been updated to reflect the FY 2020 Proposed Operating Budget and Proposed FY 2020—FY 2029 CIP. This includes \$4.8 million in expenditure savings identified by City departments, \$1.3 million of in revenue from increased cost recovery and collections, and \$4.5 million of service enhancements, new initiatives and contingency funds that are included as part of the City Manager’s Proposed Operating Budget. As a result of these changes, among others, the budget gap projected in last year’s Five Year Financial Planning model and in the model presented at the November 2018 City Council Retreat has been eliminated.

Five Year Forecast for FY 2020 to FY 2024

The chart below displays the anticipated future surpluses or shortfalls resulting from expenditures and budgets in the FY 2020 budget growing at forecasted rates. This forecast also includes the additional operating impacts of capital projects identified for projects included in the Proposed FY 2020—FY 2029 Capital Improvement Program (CIP). In particular, of the \$75.3 million FY 2024 gap cited below, \$36.9 million relates to debt service due to School and City capital projects.

Forecasted Surplus/(Shortfall)





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FORECASTED BUDGET IMBALANCE

As has been seen in previous years with low revenue growth, the City's revenue and expenditure growth rates are projected to be structurally out of balance starting in FY 2021. Debt service, particularly School debt service, drives nearly 50% of the projected budget gap by FY 2024. The City's revenues at current tax rates are not expected to keep up with projected expenditures going forward, resulting in a fiscal imbalance. The structural imbalance is estimated to be \$27.0 million in FY 2021, growing to \$75.3 million by FY 2024. However, since each year's budget will be balanced when the budget for that year is adopted, these deficits will be eliminated before they occur.

Revenues	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Real Estate Tax	462,848,143	475,391,328	488,274,433	501,506,670	515,097,501
Personal Property	53,094,910	54,674,168	56,300,399	57,975,001	59,699,412
Sales Tax	28,700,000	29,905,837	31,162,338	32,471,631	33,835,934
Utility Tax	12,000,000	12,156,335	12,314,708	12,475,143	12,637,668
Business License Tax	34,878,000	35,479,094	36,090,547	36,712,538	37,345,249
Recordation Tax	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Transient Lodging	12,400,000	12,983,030	13,593,474	14,232,620	14,901,818
Restaurant Food	24,000,000	24,297,479	24,598,645	24,903,545	25,212,223
Communication Sales Tax	9,300,000	9,080,649	8,866,471	8,657,346	8,453,152
Other Local Taxes	12,126,090	12,265,512	12,406,537	12,549,184	12,693,470
Federal Revenue	9,067,000	9,009,774	8,952,909	8,896,402	8,840,253
State Revenue	48,113,568	48,241,983	48,370,740	48,499,841	48,629,287
Other Revenue	48,522,485	51,225,187	54,078,430	57,090,599	60,270,545
Total Revenue	761,050,196	780,710,376	801,009,632	821,970,520	843,616,513
Expenditures	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
City Personnel	233,581,872	241,225,261	248,961,959	257,156,166	265,925,933
City Non-Personnel	153,918,293	157,918,880	161,849,728	169,707,006	174,029,224
Debt Service	65,975,326	83,898,786	91,867,042	102,890,478	102,854,596
Cash Capital	40,353,393	40,086,100	40,033,200	42,308,700	42,963,600
Transit Subsidies	34,920,671	37,265,302	39,539,397	41,743,839	42,979,536
Schools	232,300,641	243,915,673	256,111,457	268,917,030	282,362,881
Total Expenditures	761,050,196	804,310,002	838,362,783	882,723,218	911,115,770
Operating Impact from CIP	-	3,379,400	4,924,400	7,491,900	7,789,400
Total Expenditures	761,050,196	807,689,402	843,287,183	890,215,118	918,905,170
Shortfall/Surplus \$ (Millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	\$761.1	\$780.7	\$801.0	\$822.0	\$843.6
Expenditures	\$761.1	\$807.7	\$843.3	\$890.2	\$918.9
Annual Deficit	\$0.0	(\$27.0)	(\$42.3)	(\$68.2)	(\$75.3)



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REVENUE GROWTH ASSUMPTIONS

The revenue growth assumptions are based off of the City's revenue performance over the last five completed fiscal years, FY 2014—FY 2018. Using the City's recent historical revenue collection, a compounded annual growth rate can then be calculated, reviewed to correct for any outlying phenomena, and used to forecast revenues for the coming fiscal years. The table below outlines the forecasted growth rate used for the next five years.

Revenue Assumptions	
Category	Rate
Real Estate Assessments	2.7%
Personal Property	3.0%
Sales Tax	4.2%
Utility Tax	1.3%
Business License Tax	1.7%
Recordation Tax	0.0%
Transient Lodging	4.7%
Restaurant Food	1.2%
Communications Sales Tax	-2.4%
Other Local Taxes	1.2%
Federal Revenue	-0.6%
State Revenue	0.3%
Other Revenue	3.5%
Total Weighted Growth Rate	1.6%



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EXPENDITURE GROWTH ASSUMPTIONS

The general expenditure growth rates assumes that City programs and services will continue mostly unchanged over the next five years. City operations excluding the ACPS transfer, CIP funding and transit subsidies comprise 50.9% of the FY 2020 Proposed General Fund budget and are largely driven by personnel costs. The baseline forecast assumes the City workforce is unchanged in the next five years, and that salaries and benefit costs will continue to grow at a rate consistent with recent history.

Expenditure Assumptions	
Category	Rate
City Personnel	3.3%
City Non-Personnel	2.5%
Cash Capital	1.6%
Debt Service	11.7%
Transit Subsidies	2.9%
Schools	5.0%
Total Weighted Growth Rate	4.8%
Growth Rate Excluding CIP	4.0%

Expenditure growth is generally based on historic rates of growth in the various categories from FY 2014 to FY 2018, the last year for which a full year’s data is available, as well as on the best information available regarding future growth in costs.

City Personnel includes salary and benefits. Due to policy changes in recent years, increases in the City’s personnel costs have slowed. The City consults with outside advisers to project future projections in benefit categories such as health care and pension costs. Inflation in health care costs has slowed slightly, and the increase in stock prices and other asset classes has slowed growth in pension costs.

City Non-Personnel: In recent years, inflation has slowed, which has allowed the City to reduce its assumptions for increases in non-personnel costs.

Cash Capital and Debt Service: Cash Capital and Debt Service reflect the City and School capital investments included in the CIP budget.

Transit Subsidies: Includes subsidies to DASH and WMATA. In recent years, these have grown more than the rate of inflation.

Schools: The Schools growth rate is currently based on historic rates of growth. As better information on school initiatives (both operating and capital) to address student enrollment growth pressures becomes available, the school expenditure growth rate will be adjusted to reflect these increased costs.

CIP Impacts: Through the CIP, the City is now modelling the long-term impacts of Capital Budget decisions on the operating budget. By FY 2024, the CIP impact on operating expenditures adds approximately \$7.8 million to total general fund expenditures. Information regarding the additional operating budget impact of specific projects is included in the CIP budget document.