



Five Year Financial Planning Model

MULTI-YEAR REVENUE AND EXPENDITURE PROJECTIONS

Five-Year Financial Planning Model

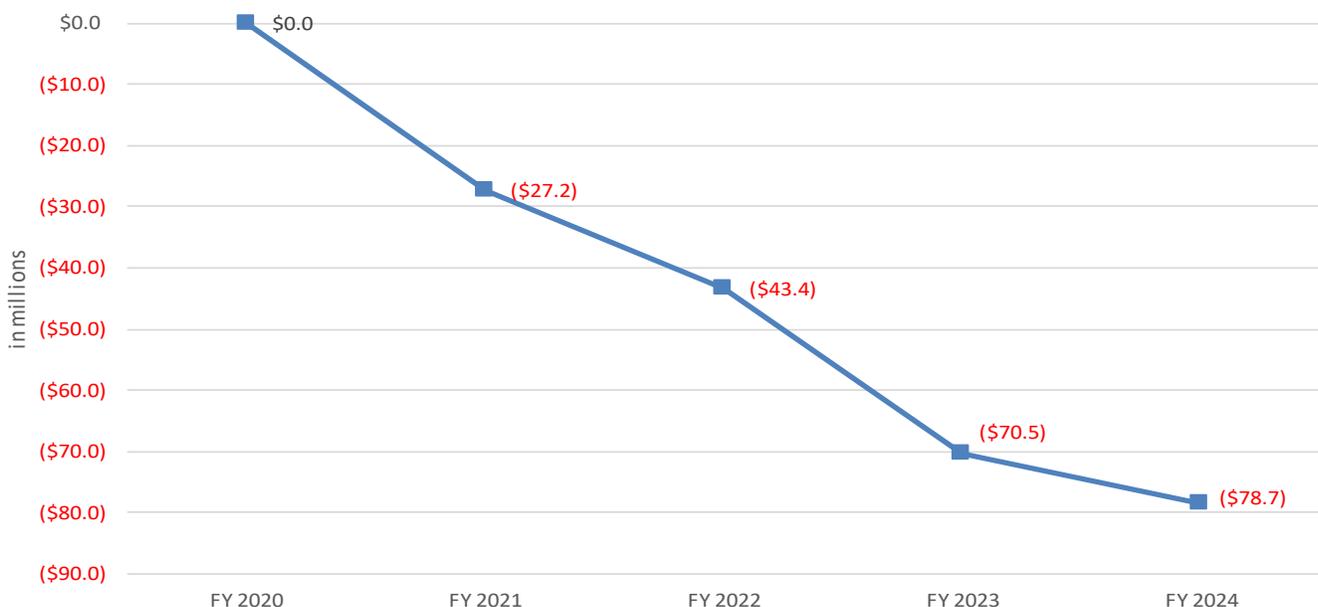
The City has long used multi-year financial forecasting as a planning and communication tool. Staff updated the model for the FY 2019 budget and again for the November 2018 City Council annual budget retreat. The revenue and expenditure assumptions have since been updated to reflect the FY 2020 approved 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 Approved Operating Budget and Approved 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. Additionally, this includes the \$0.5 million of revenue enhancements and the \$0.5 million in new expenditures that were identified as part of the Add/Delete process for the City Council Approved FY 2020 Operating Budget and Approved FY 2020—2024 CIP. 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 Approved FY 2020—FY 2029 Capital Improvement Program (CIP). In particular, of the \$78.7 million FY 2020 - 2024 gap cited below, \$36.9 million relates to the increase in 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 \$27.2 million in FY 2021, growing to \$78.7 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	56,944,910	58,638,682	60,382,834	62,178,864	64,028,315
Sales Tax	28,800,000	30,010,039	31,270,918	32,584,773	33,953,830
Utility Tax	12,000,000	12,156,335	12,314,708	12,475,143	12,637,668
Business License Tax	34,378,000	34,970,477	35,573,165	36,186,239	36,809,879
Recordation Tax	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Transient Lodging	12,800,000	13,401,838	14,031,973	14,691,737	15,382,521
Restaurant Food	24,231,000	24,531,342	24,835,407	25,143,241	25,454,891
Communication Sales Tax	9,200,000	8,983,008	8,771,133	8,564,256	8,362,258
Other Local Taxes	8,079,090	8,171,981	8,265,940	8,360,979	8,457,111
Federal Revenue	9,397,000	9,337,691	9,278,756	9,220,193	9,162,000
State Revenue	48,143,046	48,271,539	48,400,376	48,529,556	48,659,081
Other Revenue	48,721,079	50,426,317	52,191,238	54,017,931	55,908,559
Total Revenue	761,542,268	780,290,577	799,590,880	819,459,582	839,913,615
Expenditures	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
City Personnel	233,429,058	241,074,587	248,813,296	257,009,364	265,780,820
City Non-Personnel	154,485,574	158,500,883	162,447,131	170,320,524	174,659,617
Debt Service	65,975,326	83,898,786	91,867,042	102,890,478	102,854,596
Cash Capital	41,062,143	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	231,669,496	243,252,971	255,415,619	268,186,400	281,595,720
Total Expenditures	761,542,268	804,078,629	838,115,685	882,459,305	910,833,889
Operating Impact from CIP	-	3,379,400	4,924,400	7,491,900	7,789,400
Total Expenditures	761,542,268	807,458,029	843,040,085	889,951,205	918,623,289
Shortfall/Surplus \$ (Millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	\$761.5	\$780.3	\$799.6	\$819.5	\$839.9
Expenditures	\$761.5	\$807.5	\$843.0	\$890.0	\$918.6
Annual Deficit	\$0.0	(\$27.2)	(\$43.4)	(\$70.5)	(\$78.7)

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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	1.1%
Federal Revenue	-0.6%
State Revenue	0.3%
Other Revenue	3.5%
Total Weighted Growth Rate	2.5%



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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 51.2% of the FY 2020 Approved 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	3.1%
Cash Capital	1.6%
Debt Service	11.7%
Transit Subsidies	5.3%
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.