

The City of Sunset Valley's

Long Range Financial Plan

# 2016 Report

Prepared by the Budget, Finance and Administrative  
Committee

Recommended for approval: 5/26/16  
Approved by City Council: 6/7/16

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## PROJECT HISTORY

In June 2011, the Long Range Financial Planning Committee was appointed for the purpose of reviewing historical financial data and developing a long range financial plan to assist the Mayor and City Council in financial decision making for the City of Sunset Valley. The Committee held its first meeting in July 2011 and developed the following mission statement:

***The mission of the LongRange Financial Planning Committee is to:***

- ***Review existing and five years of historical financial data using Generally Accepted Accounting Principles (GAAP) standards***
- ***Coordinate with city staff in compiling any additional financial data***
- ***Provide direction to city staff in preparing and analyzing financial projections***
- ***Prepare a financial projection through 2020 for city revenues and expenditures***
- ***Identify any potential shortfalls or financial issues for further City Council consideration***
- ***Set a goal to achieve these projections by June 2012***

As a small government that relies heavily on sales taxes to support government operations, the City has had a history of ensuring adequate reserves to protect against the volatility of this revenue source; however, projecting both revenue and expenditures into the future has been an area of concern. The City also operates a number of programs as well as utility operations that would benefit from long range planning to ensure stability and continuity of service for residents and commercial customers.

The Final Report of the Committee was adopted by the City Council in July 2012.

In each of the subsequent budget years, the proposed budget was compared against the plan as recommended by the Committee. Recommendations of the Committee which required amendments to the City's Financial Policies were adopted.

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## FINDINGS OF THE 2012 ORIGINAL REPORT

- **The City of Sunset Valley is currently in excellent financial condition.**

Sales tax collections have increased from the same month in the previous year in eleven of the last twelve months. The combination of improved sales by retailers and filling of most vacant retail lease spaces have resulted in increased collections by the city. The retail centers are managed well and are in good physical condition. The city has a balanced budget and reserve funds have been increased during the most recent budget year.

- **Past City Councils have maintained reserve funds.**

The “18 month reserve” has been established by policy and has become “institutionalized” which has helped ensure that reserve funds are maintained. Given that the city’s primary revenue source (sales tax) is more volatile than other forms of tax revenue, this is a cornerstone of the city’s financial planning.

- **Operating Budget expenditures.**

While the city has financed some capital improvements and purchased land from the operating budget, we were not as concerned about one-time purchases that might skew the financial analysis; however increases in operating expenses do need to be evaluated each year. There was a significant level of growth in operating expenditures over the past decade; however, most operating expenditures appear to have leveled off in the past few years. Since there is not a significant amount of residential or commercial growth that can occur, there does not seem to be a need for further significant increases in operating expenditures.

- **Sales Tax is a desirable local revenue source.**

Due to the significant amount of revenue from sales taxes generated by the city’s retail establishments, city property taxes were eliminated which reduces the tax burden for both residential and commercial property owners.

- **Sales Tax can be less stable than other revenue sources.**

The amount of sales tax collections can fluctuate more than other local revenue sources, so the city must be prepared for both short term and long term changes in revenue.

- **The City of Sunset Valley provides a high level of services to residents.**

As revenue increased to the city, a number of programs and services have been initiated to provide a high level of service to residents.

- **Residential Utility rates have remained low, but this has contributed to an increase in the transfer from the General Fund to subsidize utility costs.**

The city has attempted to absorb much of the cost increases in utility services (water, wastewater, and solid waste) but over time the amount of the transfer from the general fund to subsidize residential utility service has increased.

- **Budgeting/Accounting practices have been adjusted in the past.**

In reviewing historical expenditure data, there had been changes in how the budget was organized which made comparisons difficult until adjustments in the data were made. Changes in budgeting or accounting practices may have hindered past financial decisions.

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## **FINANCIAL PROJECTIONS**

The projections in the 2012 report showed a projection of both Revenues and Expenditures through 2020. This updated report extends the projections an additional four years (eight years from the current fiscal year, as was done in the original report). The following assumptions were included in the projections:

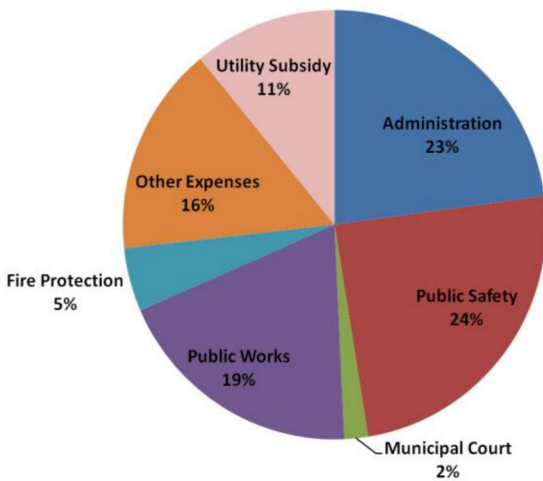
### **Expenditures**

No adjustments were made in the level of service to be provided. It was assumed that service levels would remain constant and that adjustments for salary, benefits, utilities, and other items of expenditure would increase at similar levels as had been the case in the historical analysis. If the current or future City Councils wanted to change the level of service provided by the city, then expenditure data could be adjusted accordingly. These were the same assumptions that were included in the 2012 report. There is one significant change in the assumptions based on City Council action in the past three years. In the 2012 report, the transfer from the General Fund to the Utility Fund was projected to grow at its historical rate. It has grown to be 13% of the total General Fund Budget, but based on changes to residential utility rates, the transfer to the Utility Fund is projected not to increase. During the past three years, the City Council has set residential utility rates to offset any wholesale rate increases so as to keep the transfer at a constant level. This has a significant positive impact on the expenditure projections over time.

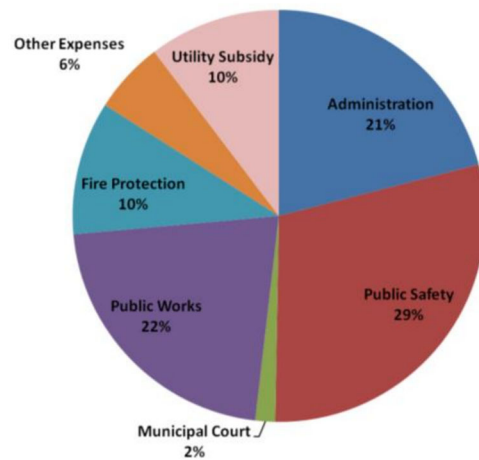
Historical and Proposed ratio of General Fund Expenditures:

**FROM THE 2012 REPORT**

*Based on FY 2005-2006 (without Capital Outlay)*

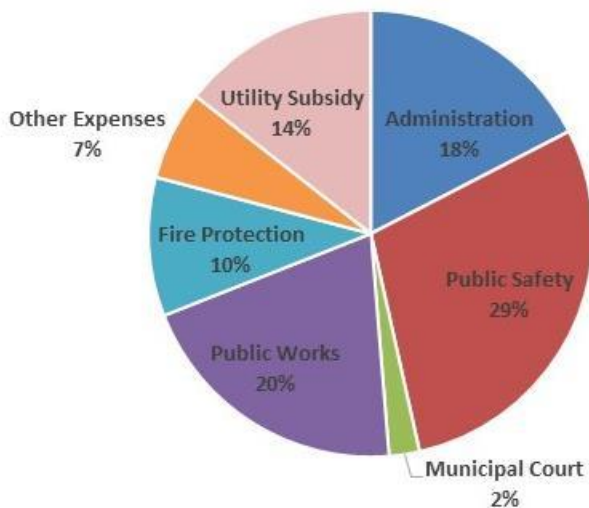


*Based on Current FY 12-13 Projections*

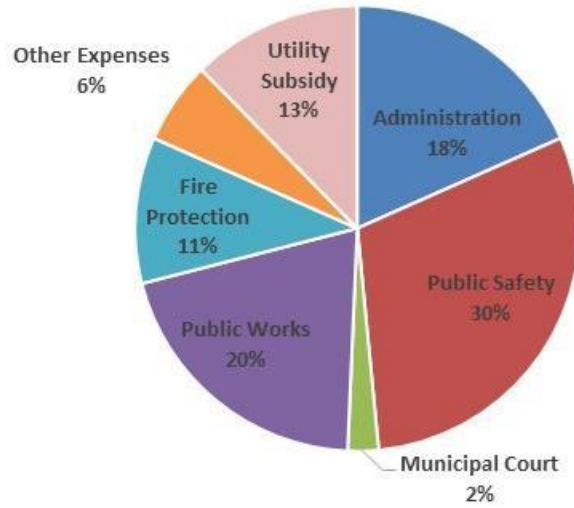


**BASED ON THE 2016 UPDATED DATA**

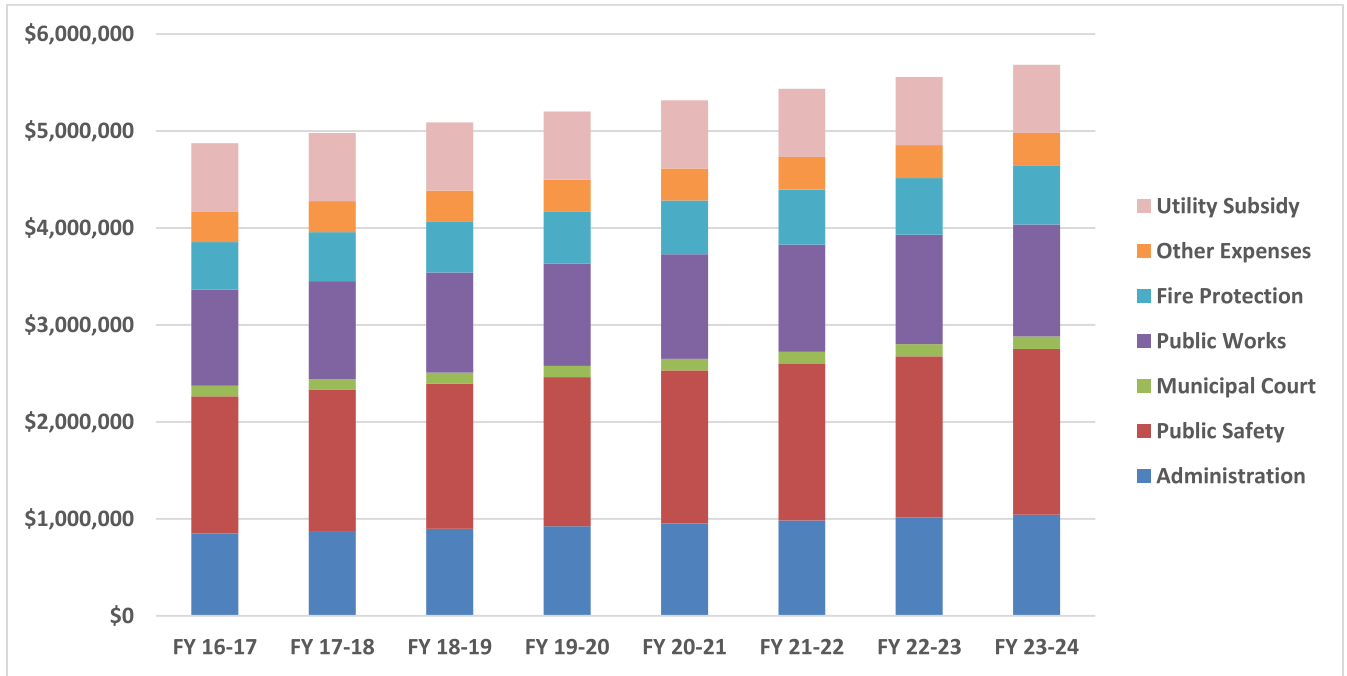
*Based on FY 2016-2017 (without Capital Outlay)*



*Based on Current FY 23-24 Projections*



## Projection of General Fund Expenditures:



## Revenue

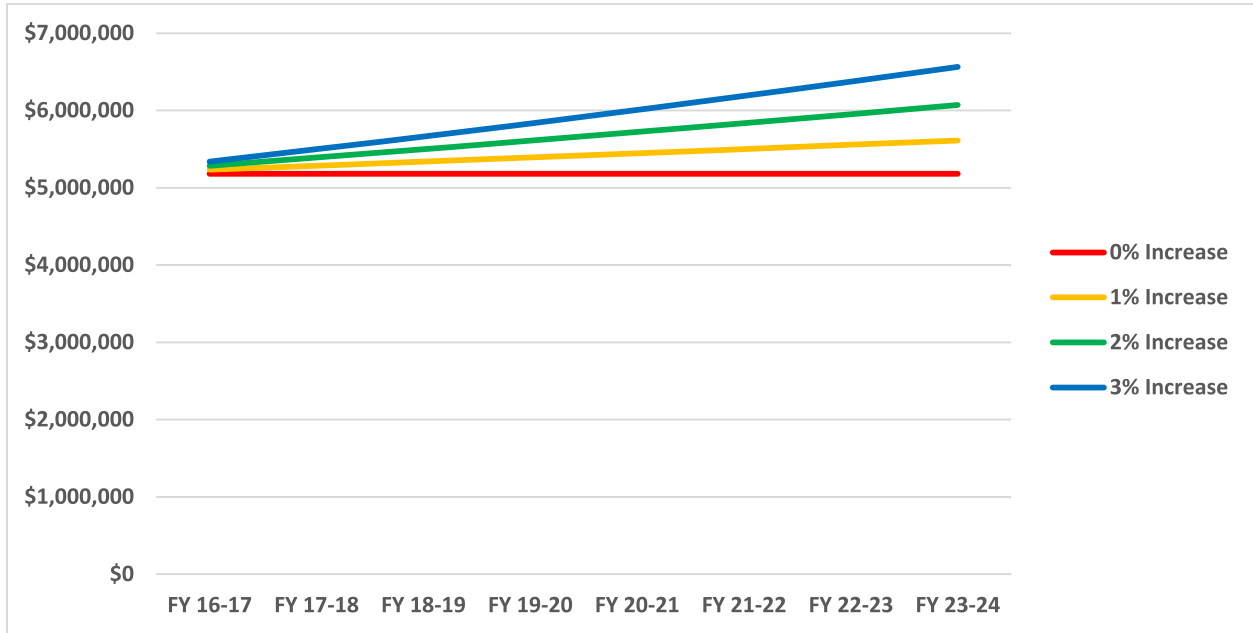
Over the original six year historical period, there was a 1.5% annual growth rate in General Fund Revenue; although this included a significant recession during which revenue dropped for 2 of the 6 years. In the most recent six year period, there was a 5.2% average annual growth rate.

Four different Revenue Scenarios in the projections as follows:

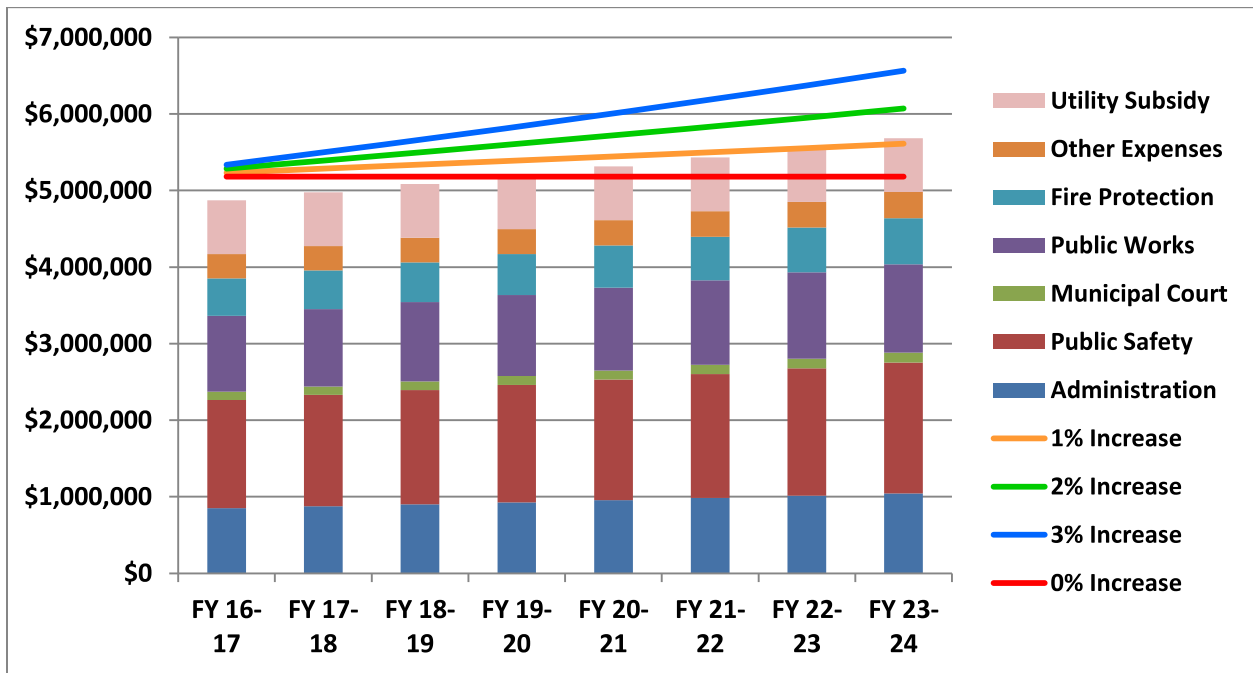
- Scenario 1: 3% annual increase in General Fund Revenue
- Scenario 2: 2% annual increase in General Fund Revenue
- Scenario 3: 1% annual increase in General Fund Revenue
- Scenario 4: no change in annual General Fund Revenue

While all of these are lower than recent revenue growth, a more conservative projection will allow for this analysis to be valid over time, even when a future recessionary period results in a year or two of revenue decline.

The following chart depicts the four revenue scenarios:



The following chart overlays the four revenue scenarios with the expenditure projection:



(see following page for numerical data)

Fiscal Year	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Administration	\$849,334	\$874,232	\$900,024	\$926,746	\$954,436	\$983,133	\$1,012,878	\$1,043,713
Public Safety	\$1,416,376	\$1,454,833	\$1,494,403	\$1,535,119	\$1,577,016	\$1,620,128	\$1,664,492	\$1,710,144
Municipal Court	\$107,486	\$110,021	\$112,626	\$115,303	\$118,052	\$120,877	\$123,779	\$126,761
Public Works	\$990,590	\$1,012,280	\$1,034,541	\$1,057,388	\$1,080,839	\$1,104,839	\$1,129,620	\$1,154,987
Fire Protection	\$490,000	\$504,700	\$519,841	\$535,436	\$551,499	\$568,044	\$585,086	\$602,638
Other Expenses	\$316,488	\$319,886	\$323,325	\$326,805	\$330,328	\$333,893	\$337,501	\$341,155
Utility Subsidy	\$702,978	\$702,978	\$702,978	\$702,978	\$702,978	\$702,978	\$702,978	\$702,978
0% Increase	\$5,181,953	\$5,181,953	\$5,181,953	\$5,181,953	\$5,181,953	\$5,181,953	\$5,181,953	\$5,181,953
1% Increase	\$5,233,773	\$5,286,111	\$5,338,972	\$5,392,361	\$5,446,285	\$5,500,748	\$5,555,755	\$5,611,313
2% Increase	\$5,285,592	\$5,391,304	\$5,499,130	\$5,609,113	\$5,721,295	\$5,835,721	\$5,952,436	\$6,071,484
3% Increase	\$5,337,412	\$5,497,534	\$5,662,460	\$5,832,334	\$6,007,304	\$6,187,523	\$6,373,149	\$6,564,343

Unlike the 2012 projections where it was projected that the city would experience a gap between projected expenditures and current revenue in each of the four scenarios, the updated projections show that with the 1% growth scenario, revenues would exceed current expenditures until Fiscal Year 2023-24. With 2% annual revenue growth, Revenue will continue to exceed expenditures.

**RECOMENDATIONS – This section remains the same from the original 2012 Report. Although the recommendations have been implemented, most of them require an ongoing effort, so they are retained in this updated report.**

Implementing and maintaining these recommendations will help to ensure consistency in the budgeting process and in turn will address the future financial needs of the city.

- 1. Maintain transparency with budgets and financial reports.**  
 Budget documents and financial reports should be prepared in a consistent manner from year to year and presented in an easy to read format that is in a format similar to the long range financial plan.
- 2. Provide for an annual update of the long range financial plan by the Finance Committee.**  
 As a part of the annual budget review, a comparison of the proposed budget to the long range financial plan should be prepared.
- 3. Establish a policy that requires the City Council to include written justification in the budget when there are deviations from the long range financial plan**  
 As a part of approval of the annual budget, any deviations from the long range plan should be explained in writing as a part of the budget document. The City’s financial policies should be amended to include this as a requirement.
- 4. Establish operating ratios and targets for major categories of revenue and expenditure for inclusion in financial reports.**



The long range plan includes current and projected ratios for each major category in the operating budget. To the extent possible, these ratios should be maintained to ensure that the city's budget remains balanced and sustainable.

**5. Simplify the calculation and description of the city's reserve funds.**

The level of reserves that have been maintained by the City appears to be sufficient, but the calculation has become overly complex. An easy and simple-to-calculate method is recommended.

**6. Develop a policy to guide how reserve funds could be used.**

There is no policy that governs how and when reserve funds should be utilized. A policy should be developed which restricts the use of reserve funds to dire or emergency situations and safeguards for adequate public notice should be included.