



2017-2018 Preliminary Budget Overview and Revenue Forecast

Presented by Jessica Platt, Finance Director
September 27, 2016



Financial Forecasting

The City's six-year financial forecast estimates resources and expenditure behavior for the two bienniums beyond the current budget period.

Forecast goals:

- Ensuring a financially sustainable future
- Preservation of the City's core services
- Addressing Strategic Plan priorities

Financial Forecasting

The City uses the Government Finance Officers Association's (GFOA) Forecasting Best Practices:

- Define Assumptions
- Gather Information
- Preliminary/Exploratory Analysis
- Select Methods
- Implement Methods
- Use Forecasts

Financial Forecasting

- ✓ West Richland Historic Trends
- ✓ State of Washington Economic and Revenue Forecast Council
- ✓ MRSC Budget Suggestions
- ✓ Board of Governors of the Federal Reserve System
- ✓ The Conference Board U.S. Leading Cycle Indicators
- ✓ U.S. Bureau of Labor Statistics
- ✓ Bureau of Economic Analysis
- ✓ Asking Others (department heads, business leaders, other jurisdictions, etc.)

Financial Forecasting

Underlying Assumptions:

- Most major revenue streams anticipated to experience growth based on local, state and national economic indicators, although not at the 2015-2016 levels
- Growth in 2017-2018 is forecasted conservatively, especially for those revenue sources considered to be unpredictable (e.g. building permits/sales tax/real estate excise tax)
- Where relationships between revenues and expenditures or between two revenue streams exist, revenue forecasts are based on those relationships (e.g. utility taxes, interfund financial services)
- Where relationships between economic or other events and revenues exist, attempts were made to conservatively forecast impact of events on revenue stream
- Revenues, especially grant revenues, are not forecasted unless there is certainty of potential receipt of those revenues

Financial Forecasting

Underlying Assumptions:

- Most forecasts in 2019/2020 and 2021/2022 reflect minimal growth
- State shared revenue forecasts are based on guidance provided in the MRSC budget suggestions which incorporates state forecasts
- Unpredictable revenue streams such as building permits and sales & use taxes are forecasted with minimal growth so as not to place too much reliance on them for balancing the budget.
- 2017-2018 forecasts are based on projected ending 2015/2016 totals not 2015/2016 budget
- Historical trends were one of the major drivers of forecasted revenues

Budgeting Challenges

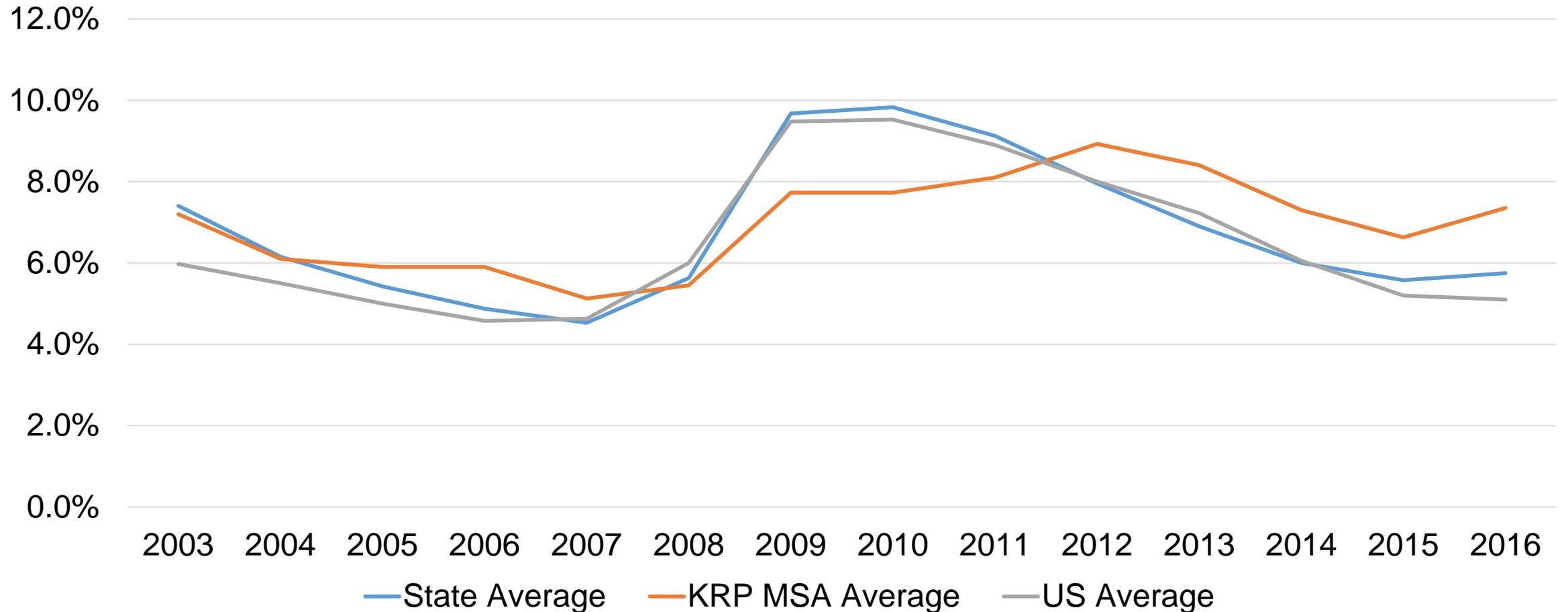
- State and Federal Legislative Actions
- Revenue growth limitations & unpredictability
- Economic Influences
- Cost Increases – Employee and Service/Intergovernmental Costs
- Increasing Service Level Needs
- Increasing Regulatory Requirements
- Deferred Maintenance Issues

Other Activities to Consider in the Budgeting Process

- Water/Sewer/Storm/Irrigation Rate Model Review ~ More to come in the near future
- Police Negotiations
- Library Levy Lid Lift
- Salary Commission
- Multi-Year Capital Projects

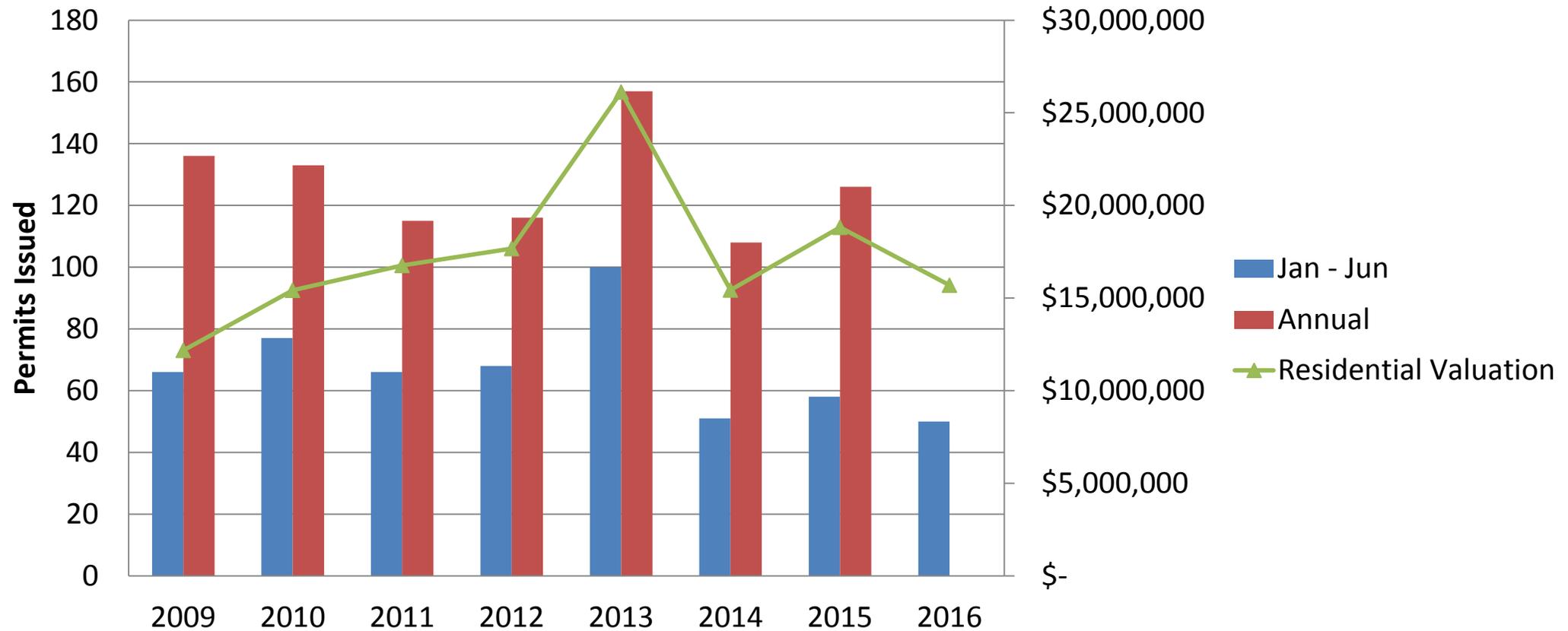
Economic Conditions

Unemployment Rates, Not Seasonally Adjusted, Quarterly Average

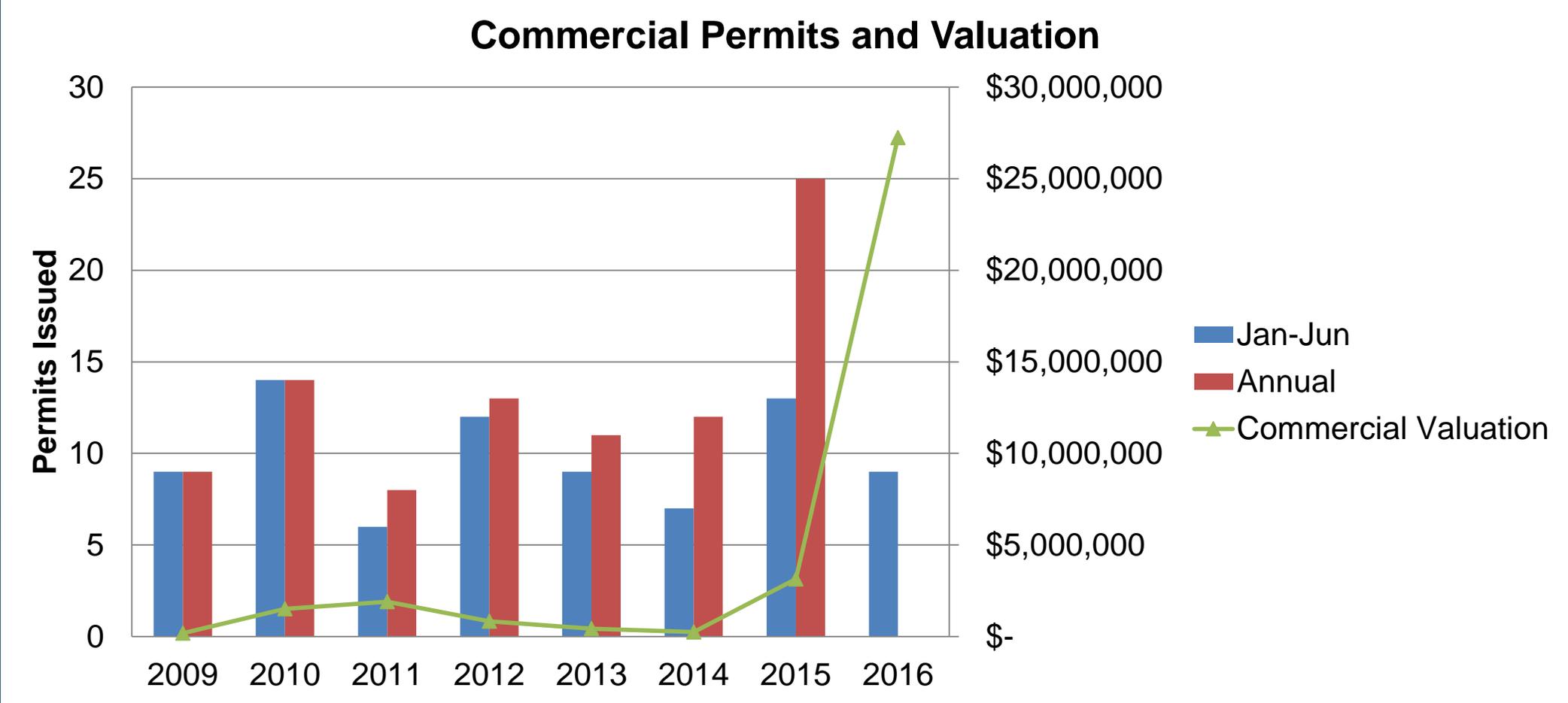


Building Activity – West Richland

SF Residential Permits and Valuation



Building Activity – West Richland



Note: Valuation increase in 2016 due to new middle school.

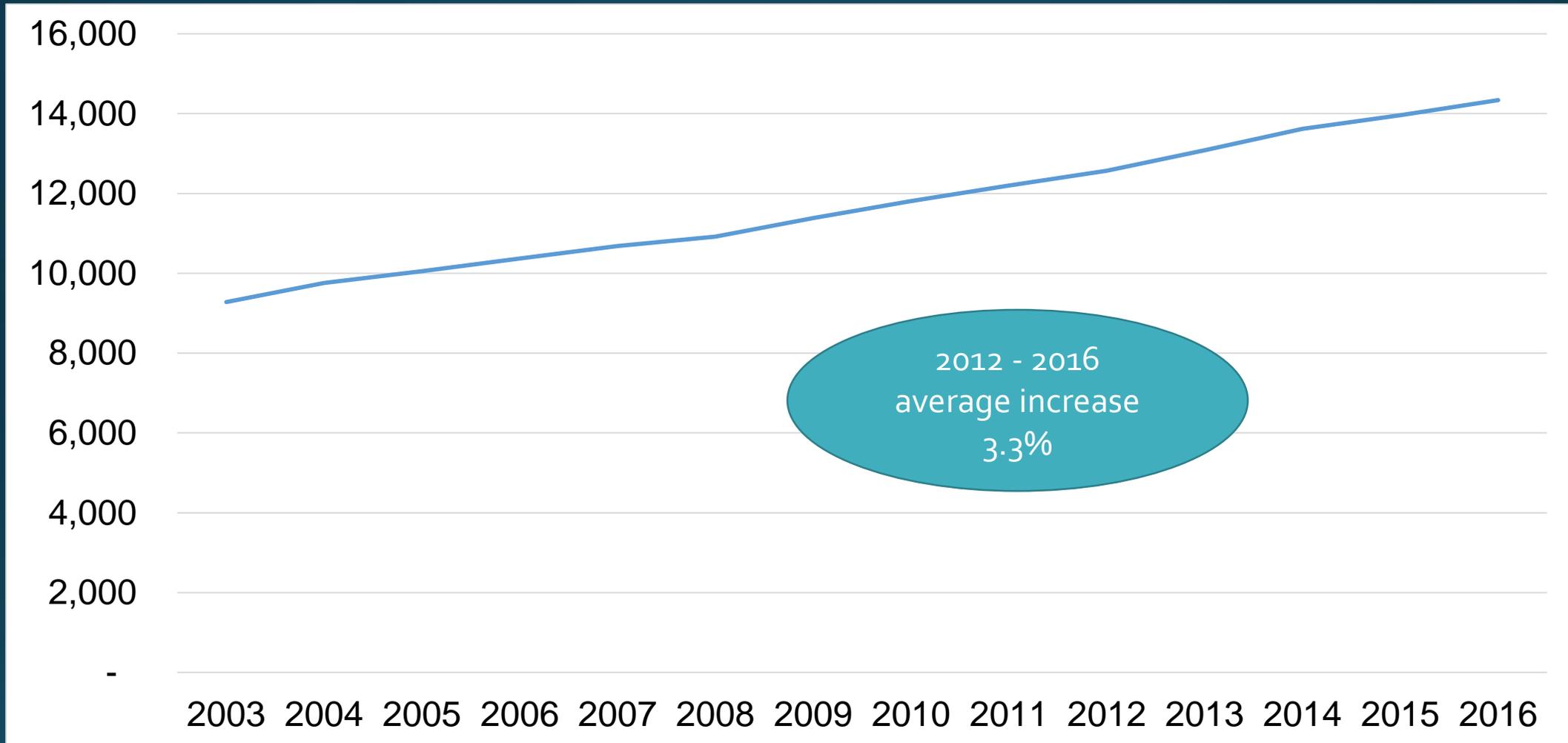
Building Activity

West Richland

- ❑ Single family building activity has recently experienced a decline compared to the prior year
 - Single Family Residential Lots
 - 204 preliminary platted lots
 - 117 preliminary platted lots under construction/in design
 - 30 approved lots (ready to construct a home on)
- ❑ Anticipate residential building activity will pick up in the spring of 2017

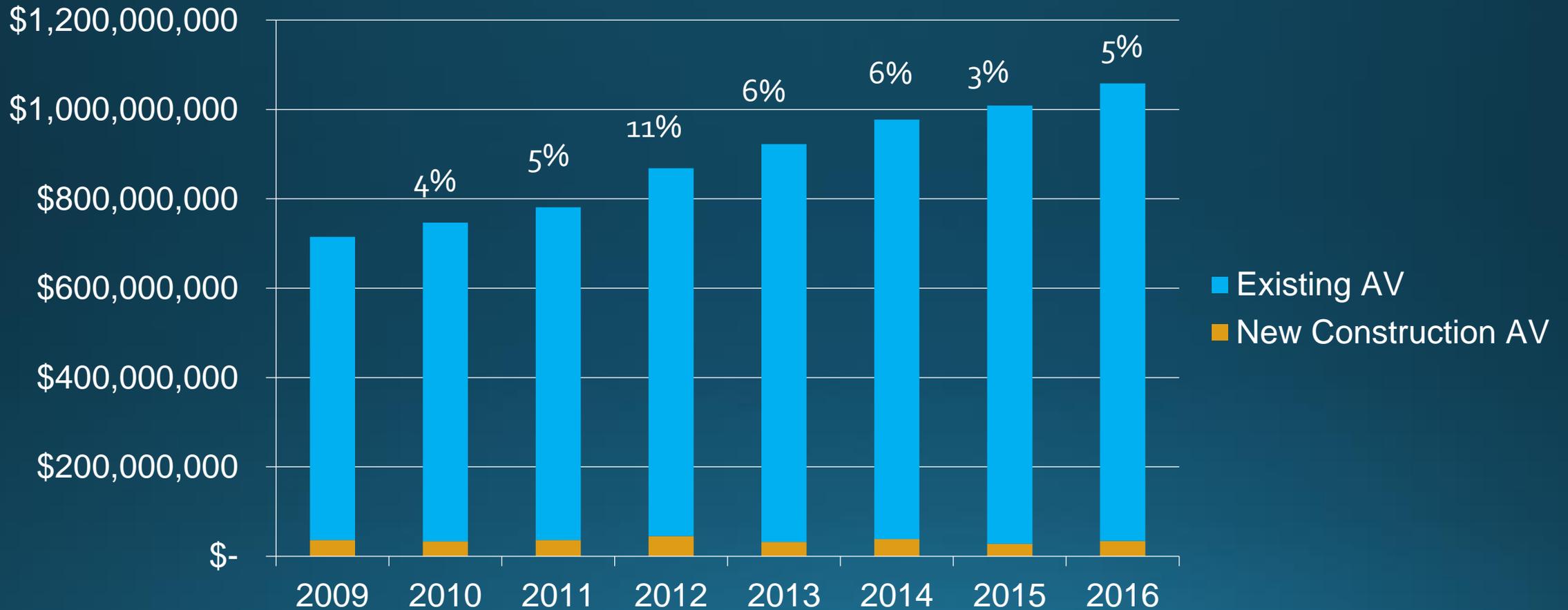


Population



Anticipate 3% annual population increase in the 2017-2022 forecast

West Richland Assessed Value



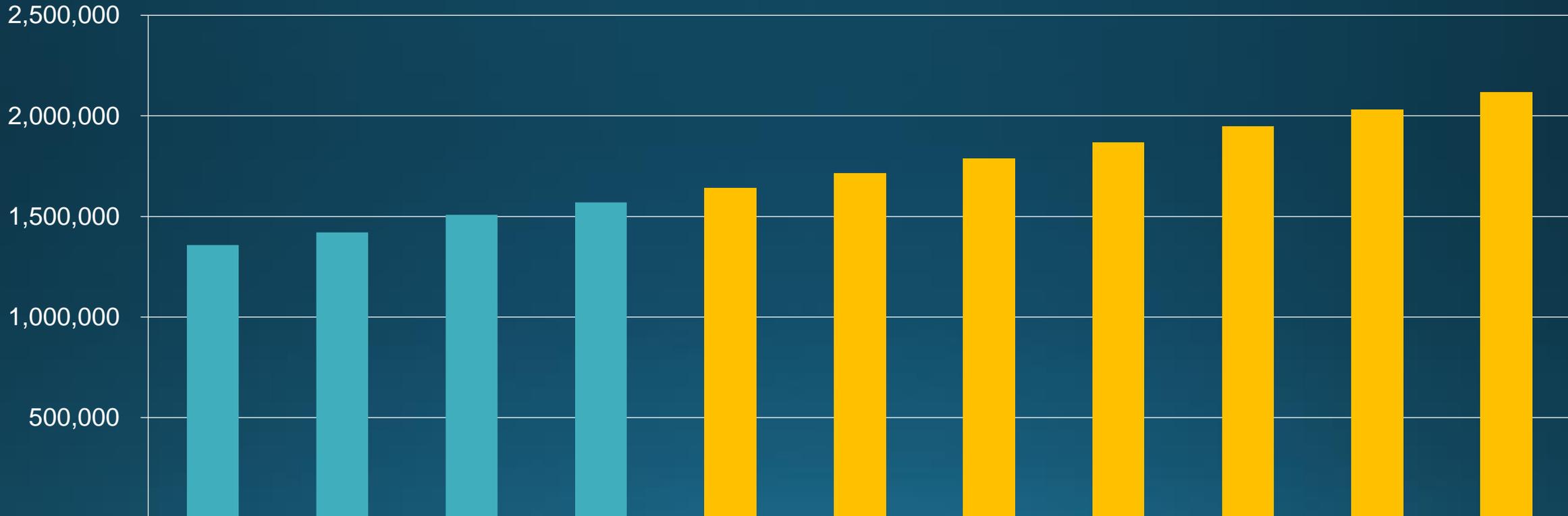
General Fund Revenue

Property Tax Revenue Forecast Assumptions

- Council approves the 1% regular property tax increase which is approximately \$15,000 annual and is less than 1% of all general fund revenue
- Anticipate 3% annual increase in new construction and 4.4% annual increase in existing assessed value
- Benton County Assessor's Office anticipates sending out estimates for existing assessed value and new construction later this week

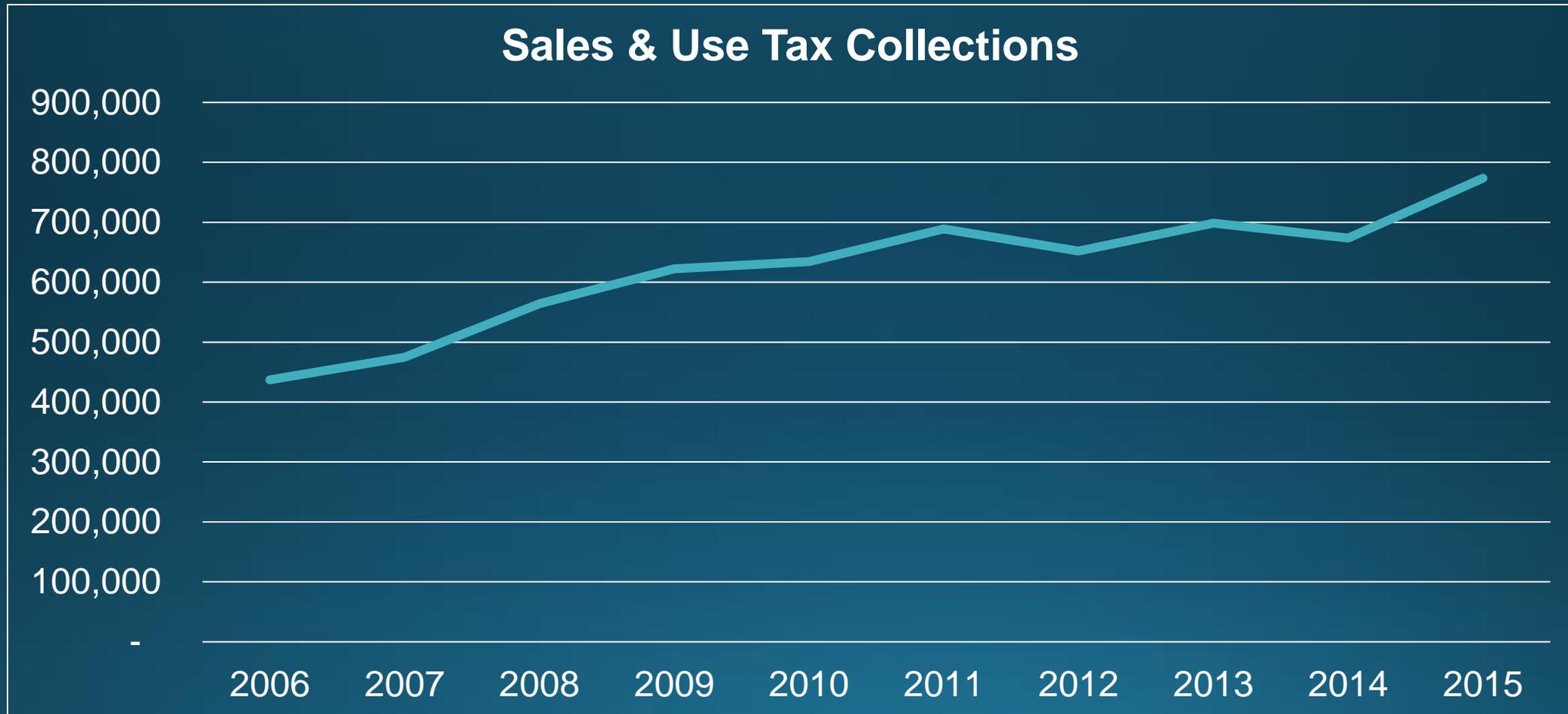
General Fund Revenue

Property Tax Collections



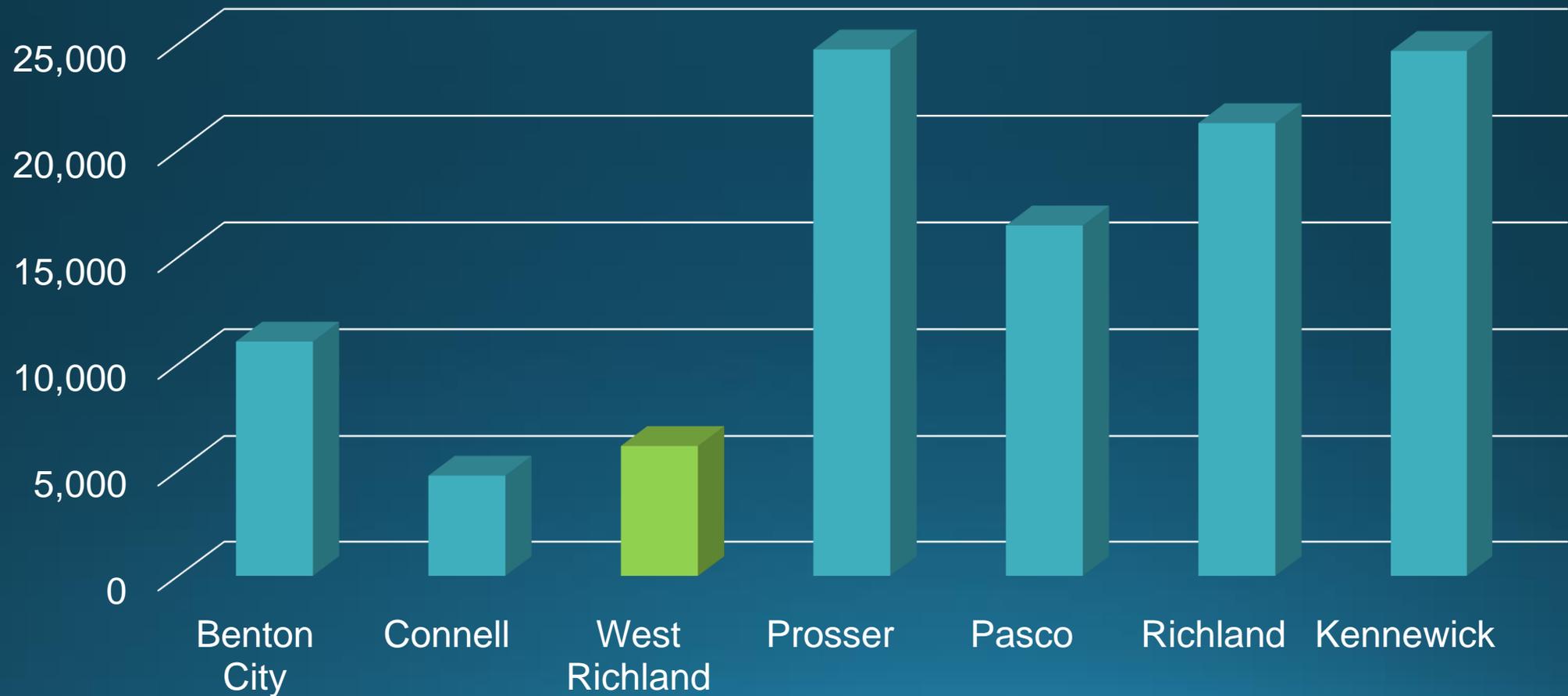
	2012	2013	2014	2015	2016 Est	2017 Est	2018 Est	2019 Est	2020 Est	2021 Est	2022 Est
Property Tax Collections	1,358,141	1,421,267	1,508,090	1,569,405	1,640,568	1,713,617	1,789,106	1,867,082	1,947,598	2,030,704	2,116,449

General Fund Revenue



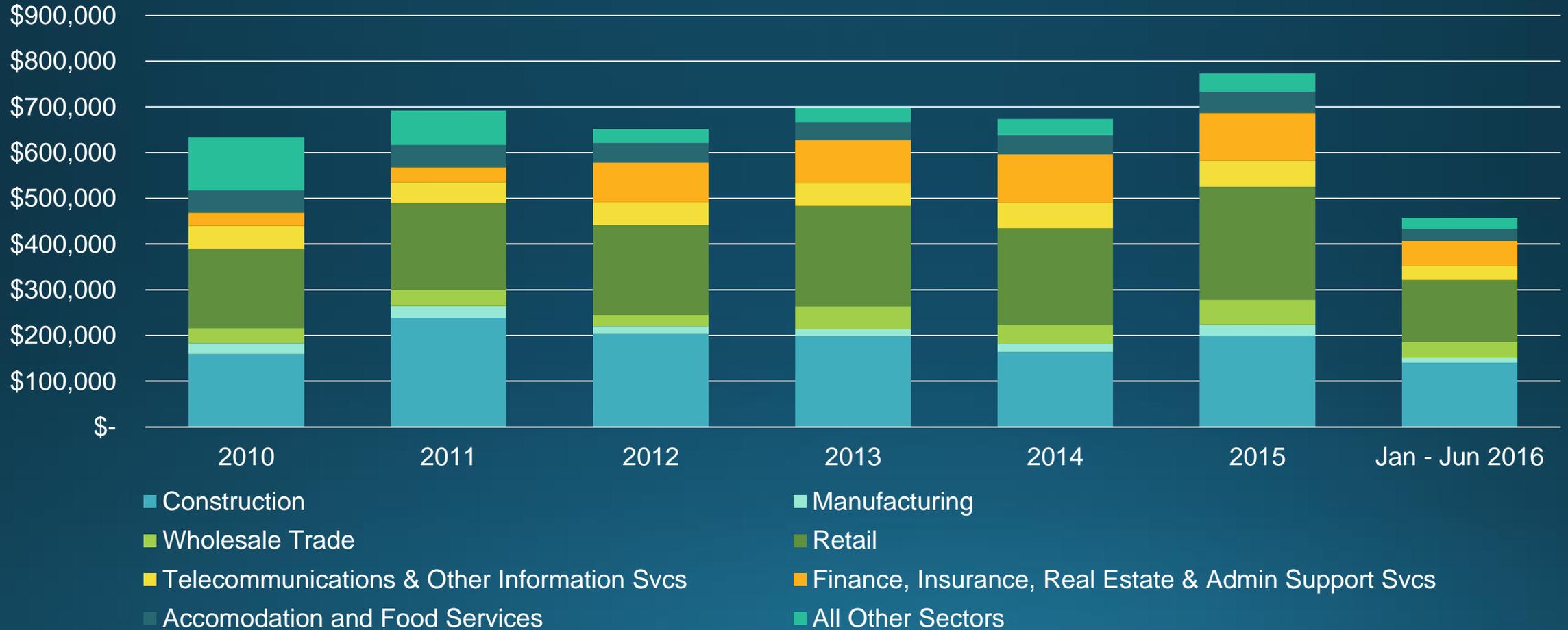
General Fund Revenue

2015 Taxable Retail Sales Per Capita



General Fund Revenue

Retail Sales Tax Collections by Business Sector



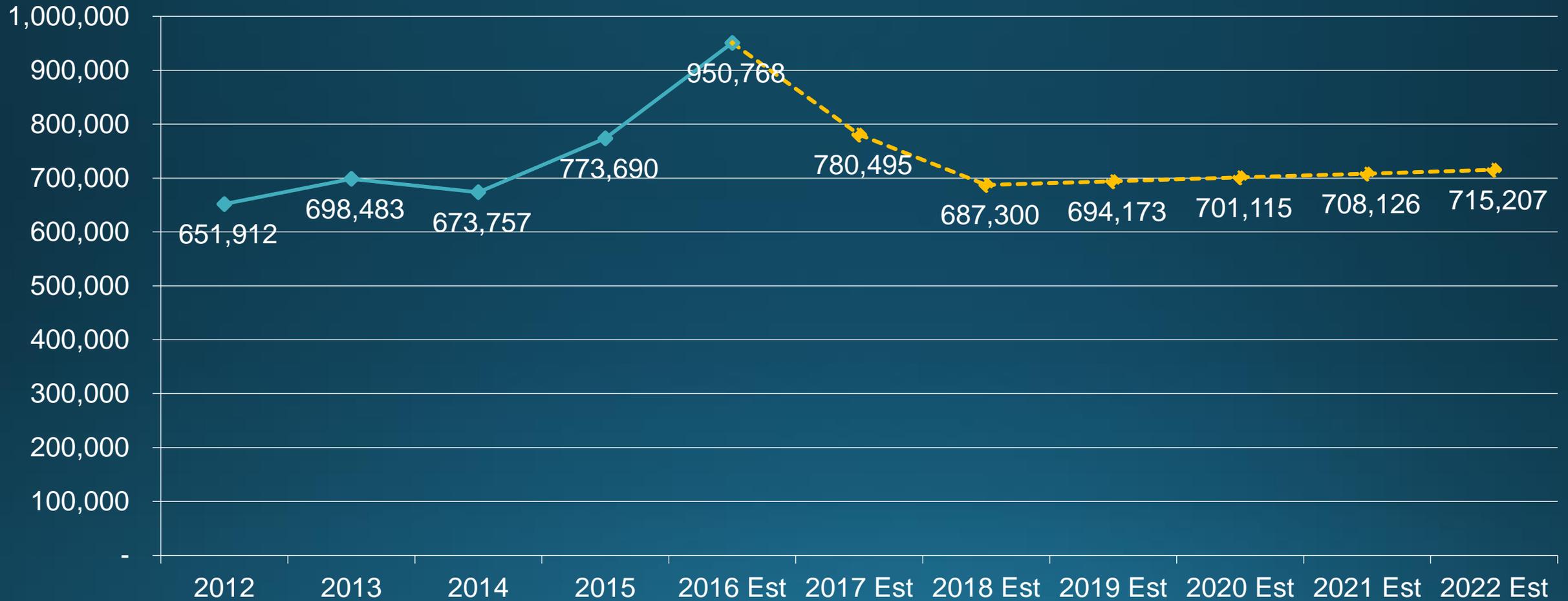
General Fund Revenue

Sales and Use Tax Revenue Forecast Assumptions

- Highly volatile revenue stream with many influencing factors
- City experienced significant growth in sales tax revenue in 2015 and 2016 due to increased construction activity (one-time revenues)
- The City anticipates receiving approximately \$217,600 in sales tax revenue from the construction of the new middle school in 2016 and 2017, approximately \$110,000 is anticipated to be received in 2017.
- Sales tax projected at 2014 levels with 1% annual increase

General Fund Revenue

Sales and Use Tax Collections



General Fund Revenue

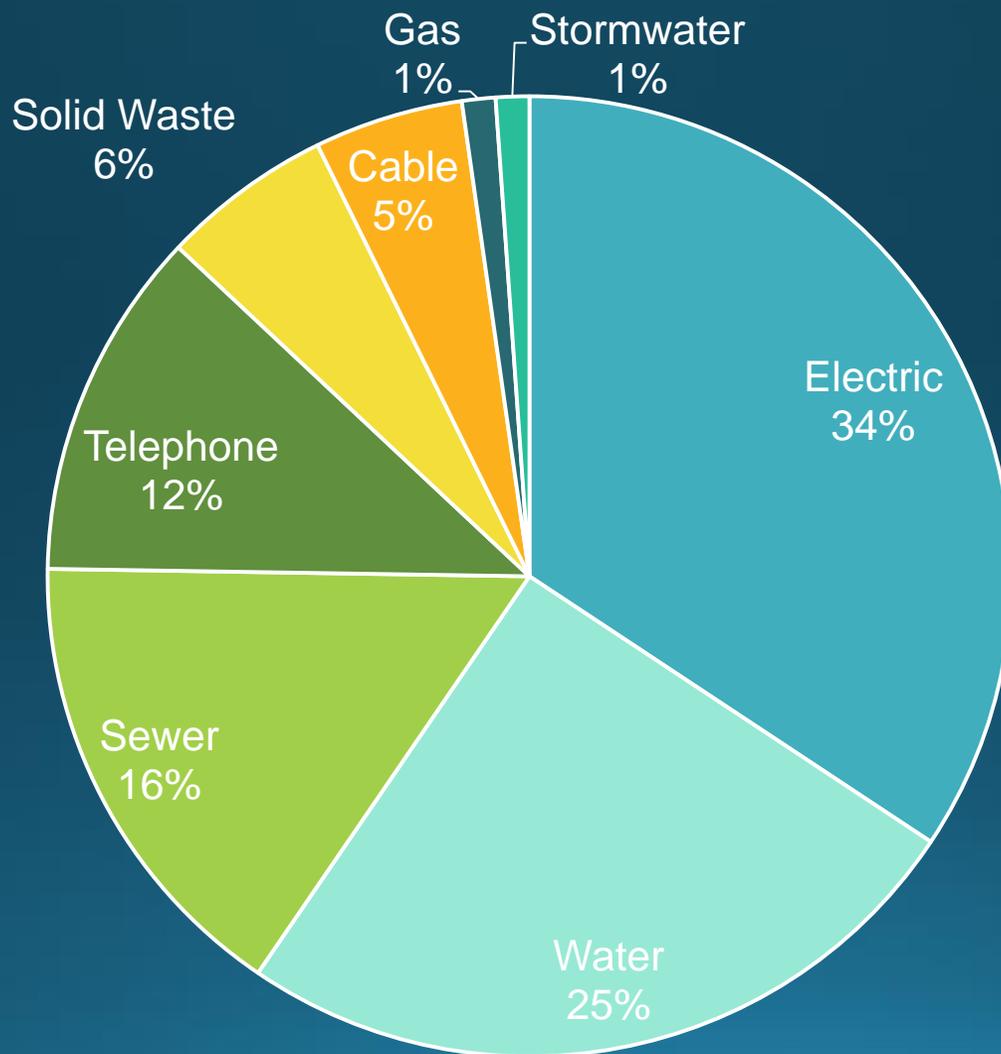
Utility Tax Revenues

The City collects internal and external utility taxes

- **Water:** 14% General Fund (w/ 1.5% to the GF Fire Hydrant Maintenance Program) and 1% Street Fund
- **Sewer:** 12.5% General Fund and 1% Street Fund
- **Storm Water:** 6% General Fund
- **Solid Waste:** 8.5% General Fund
- **Electric:** 6% General Fund and 2.5% Library Fund
- **Gas:** 6% General Fund and 2.5% Library Fund
- **Telephone:** 6% General Fund and 2.5% Library Fund

General Fund Revenue

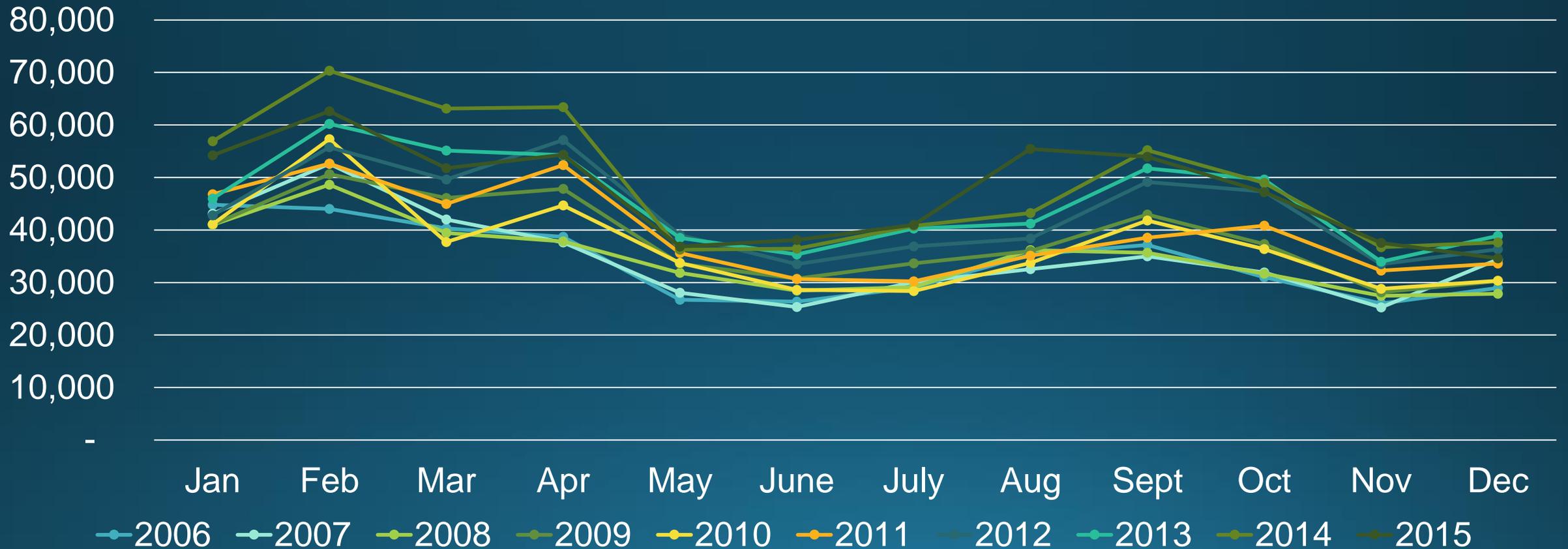
2017-2018 Estimated Utility Tax Revenues \$3.9 Million



General Fund Revenue

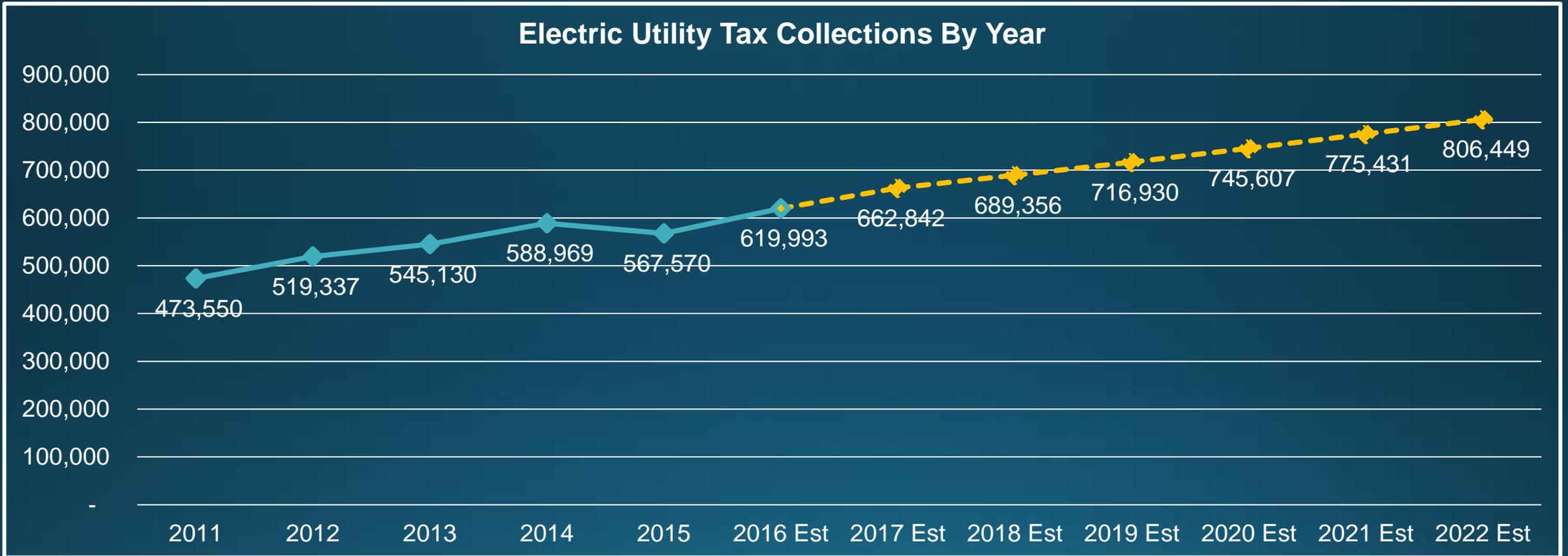
Utility Tax Revenues

Electric Utility Tax Collections By Month



General Fund Revenue

Utility Tax Revenues

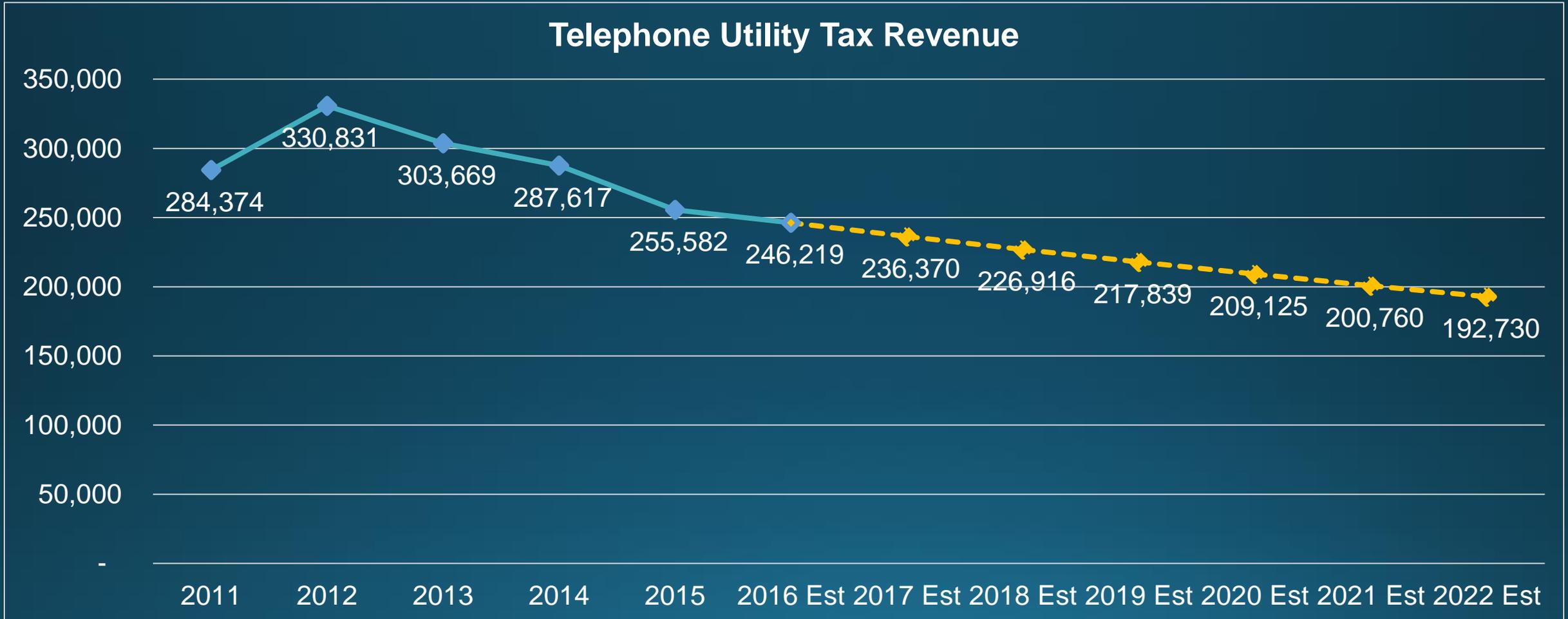


Estimate 4% annual increase in electric utility tax revenues

General Fund Revenue

Utility Tax Revenues

Telephone Utility Tax Revenue

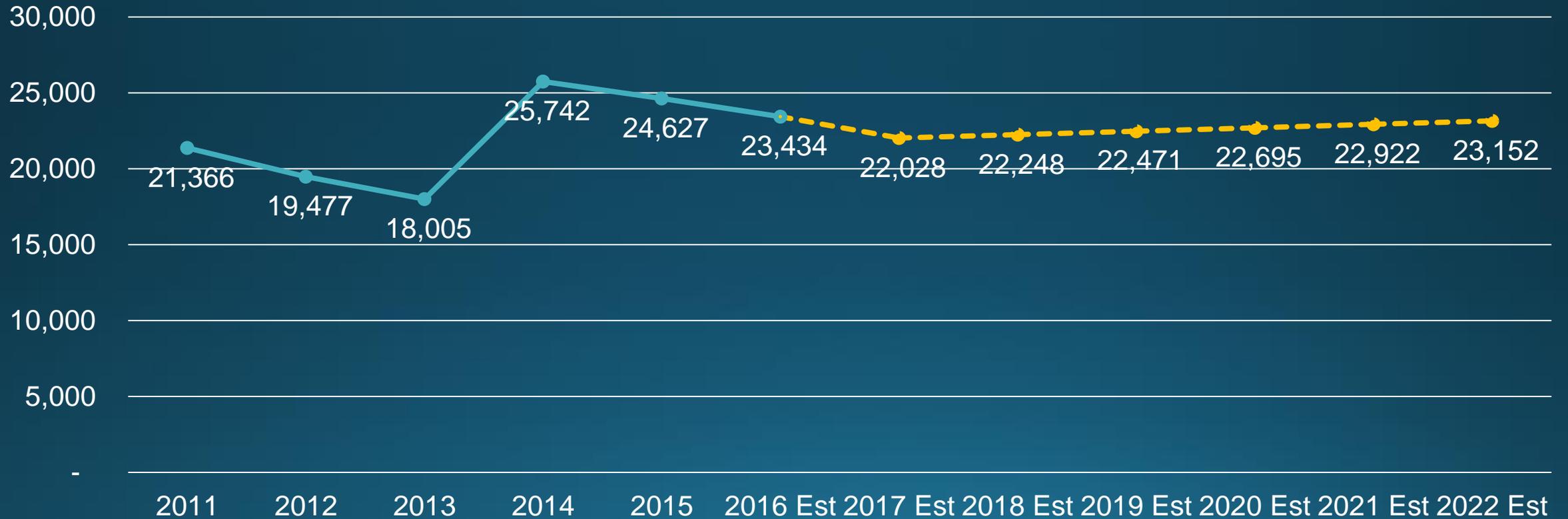


Estimate 4% annual decrease in telephone utility tax revenues

General Fund Revenue

Utility Tax Revenues

Gas Utility Tax Collections



Estimate 1% annual increase in gas utility tax revenues

General Fund Revenue

Utility Tax Revenues

Cable Utility Tax Collections



Estimate 3.5% annual increase in cable utility tax revenue

General Fund Revenue

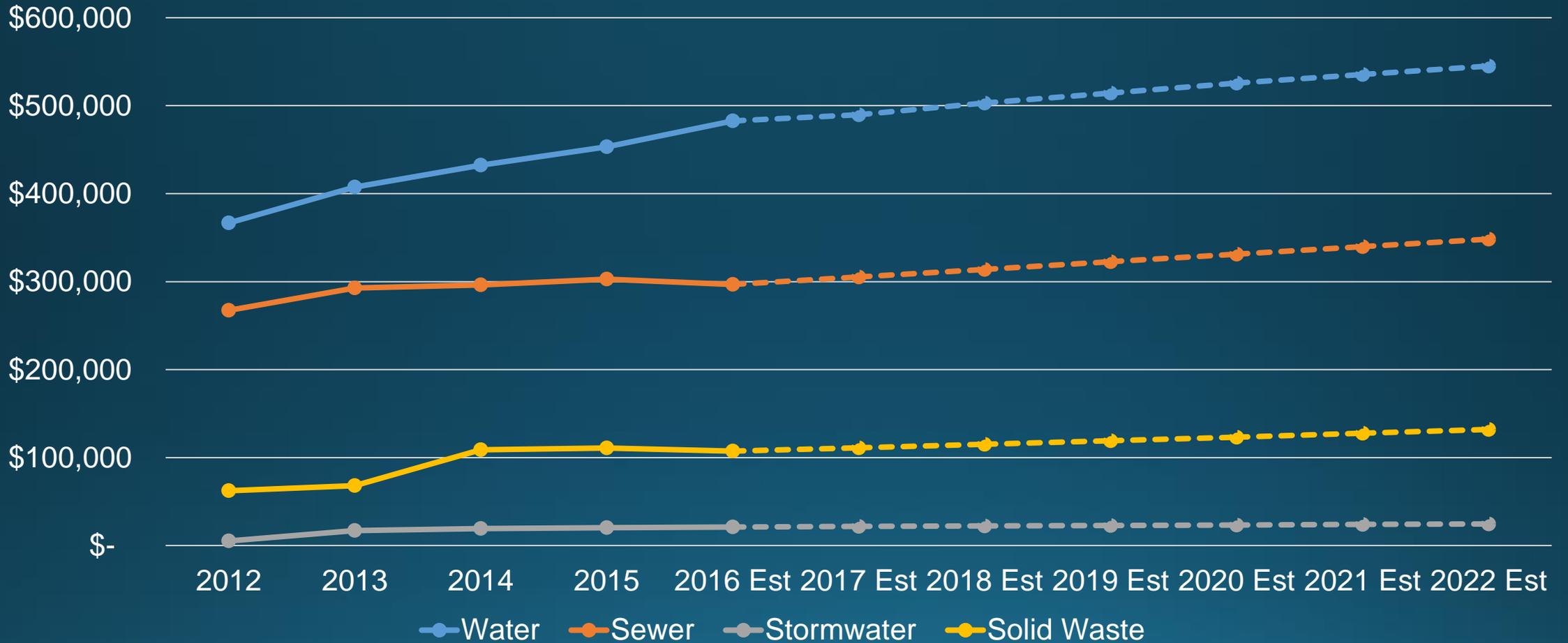
Utility Tax Revenues

Internal Utility Tax Revenue Forecast Assumptions

- Based on current rate models, which are under review
- Estimate based on 140 new customers annually
- Water Utility Tax Revenue: 2%-2.5% annual increase
- Sewer Utility Tax Revenue: 2%-2.7% annual increase
- Stormwater Utility Tax Revenue: 2.5% annual increase
- Garbage Utility Tax Revenue: 3.5% annual increase

General Fund Revenue

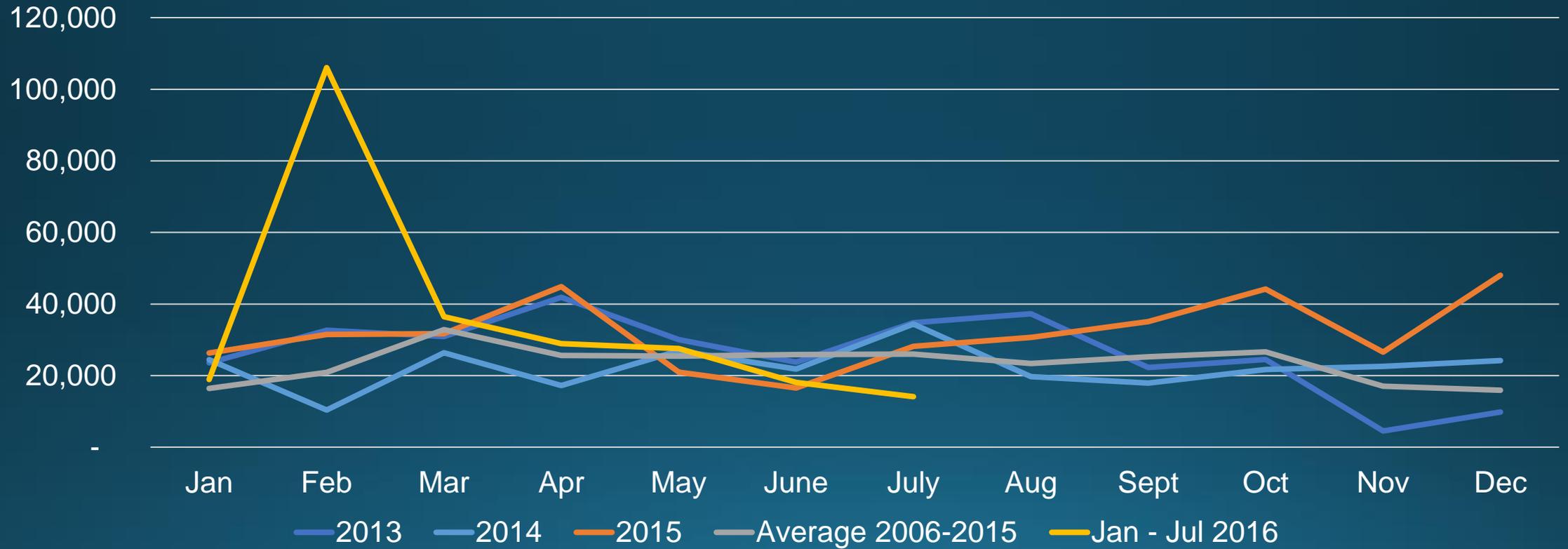
Utility Tax Revenues



General Fund Revenue

Building Permit Revenues

Building Revenue Permits (by month)



Note: February 2016 increase due to permit issued to Richland School District for the new middle school

General Fund Revenue

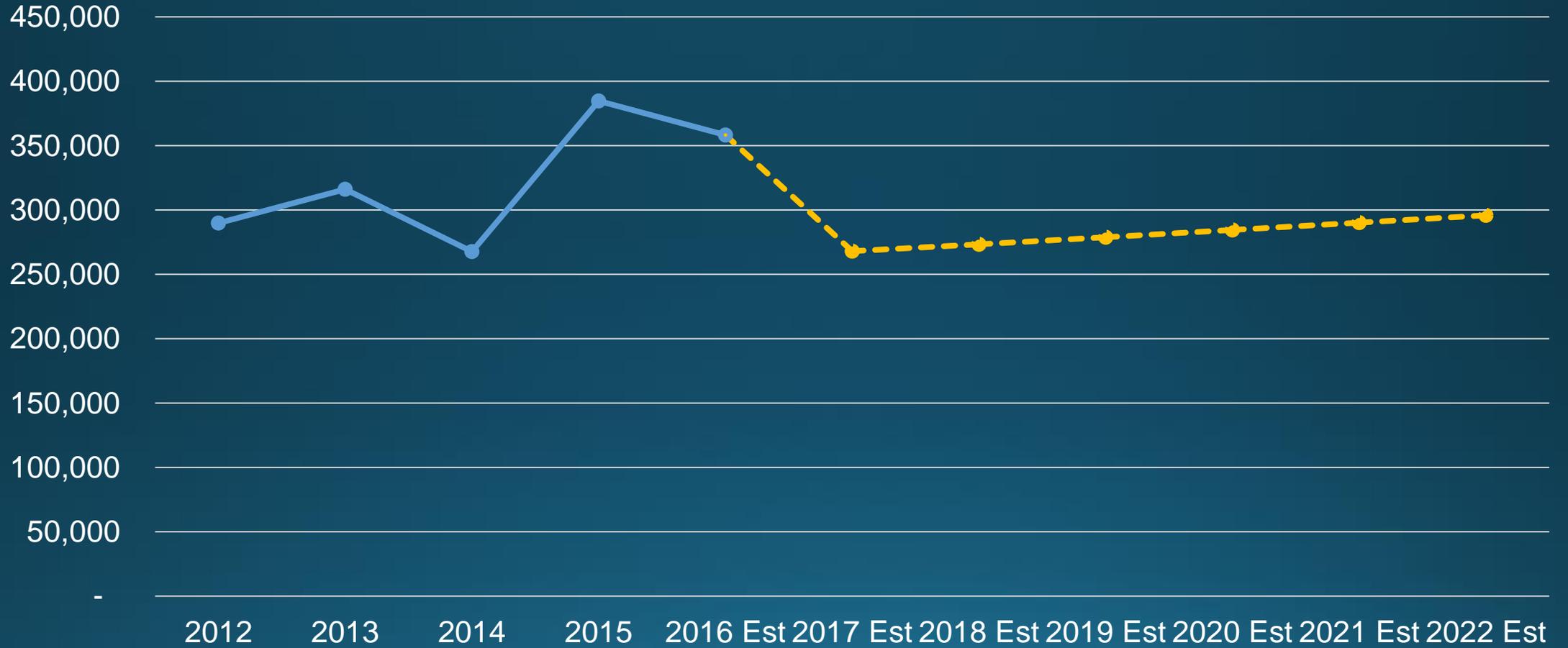
Building Permit Revenues

Building Permit Revenue Forecast Assumptions

- The City experienced a spike in building permit revenue due to an increase in residential and commercial building activity
- Assume building activity will return to 2013-2014 levels in 2017 through 2022 and forecast estimates a 2% annual increase

General Fund Revenue

Building Permit Revenues



General Fund Revenue

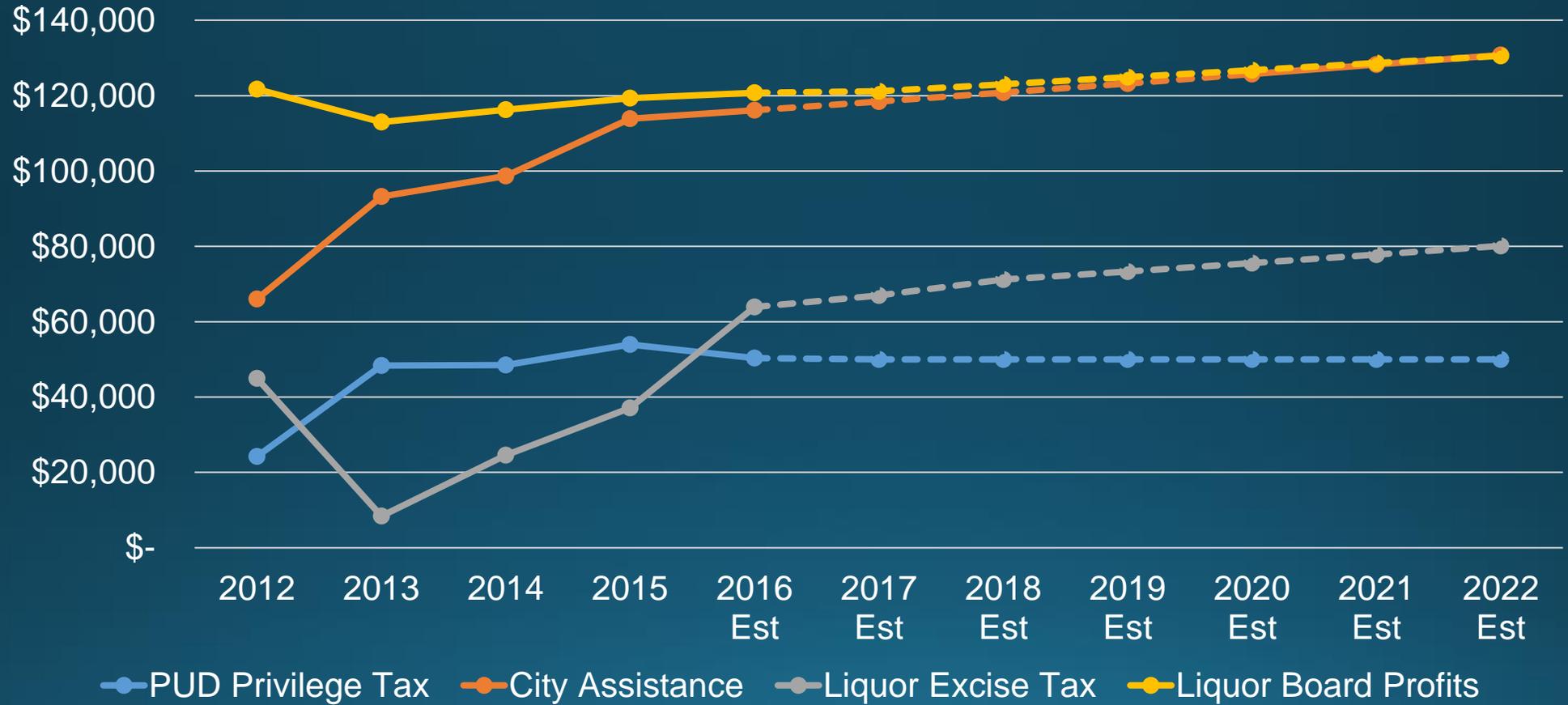
Intergovernmental Revenues

Intergovernmental Revenue Forecast Assumptions

- Assume no reduction or elimination of state shared revenues in 2017 and beyond, although this could change during the 2017 legislative session
- PUD Privilege Tax revenue estimated to be flat in 2017 - 2022
- City Assistance revenue estimated at 2% annual increase
- Liquor Excise Taxes estimated at 3% annual increase
- Liquor Board Profits estimated at 1.5% annual increase

General Fund Revenue

Intergovernmental Revenues



2017-2018 Preliminary Budget Overview

Department Request Summary

General Fund ~ Budget requests exceeded revenues by \$2.1 million

In an effort to balance the General Fund budget:

- Most requested new positions were eliminated
- Capital requests were removed
- Some office/operating, service, and staffing requests were reduced and or eliminated
- Approx. \$400,000 in proposed police department expenditures were moved from the General Fund Budget to Criminal Justice Fund 105

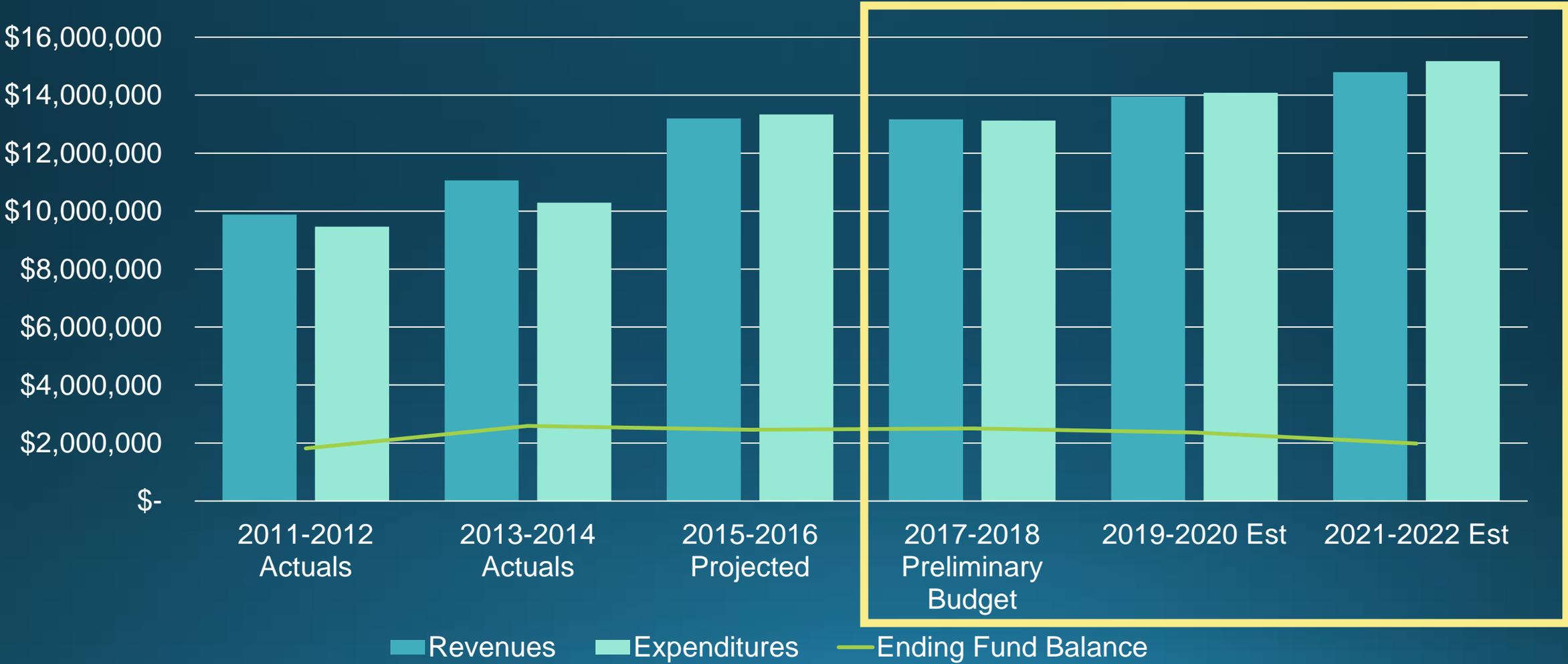
2017-2018 Preliminary Budget Overview

Salary/Benefit Assumptions:

- Public Employees' Retirement System (PERS) rate increase effective July 1, 2017 from 11.18% to 12.52%
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) rate increase effective July 1, 2017 from 5.23% to 5.25%
- Medical/Dental/Vision/Life/LTD increases estimated at 10% increase per year
- The current AWC health plan for non-represented employees will no longer be available in 2018. Assume employees move to the AWC 250 Plan with HRA VEBA due to new plans higher deductibles and out of pocket expenses

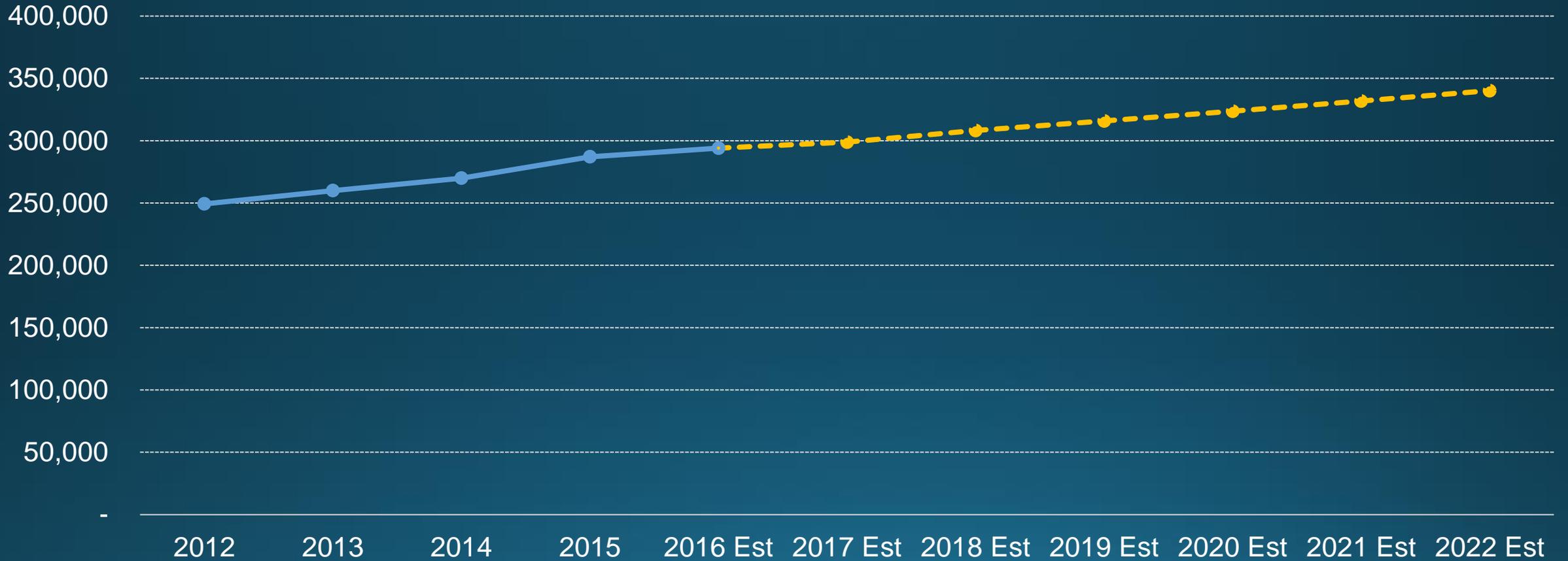
2017-2018 Preliminary Budget Overview

General Fund Financial Forecast



Street Fund Revenues

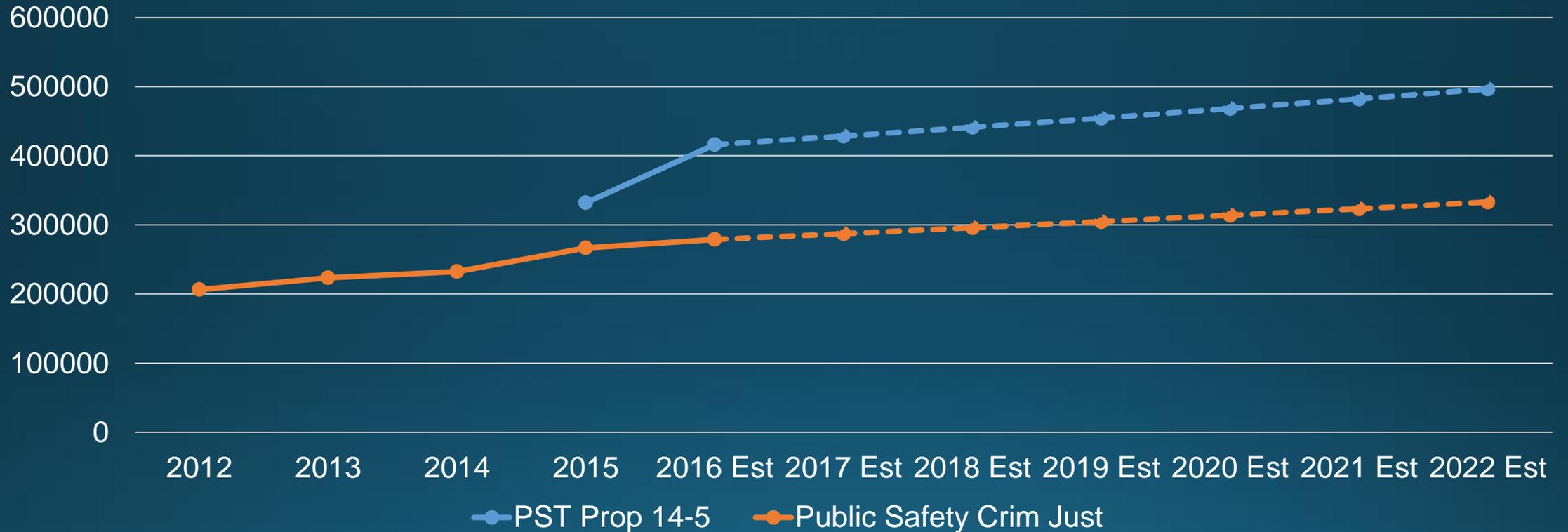
Fuel Tax Revenue Collections



Estimate 2.5% annual increase in fuel tax revenue

Criminal Justice Fund Revenues

Major Criminal Justice Revenues



Public Safety and Public Safety Criminal Justice Taxes estimated at 3% annual increase

Real Estate Excise Tax Revenues

REET 1 & 2 Revenue Collections



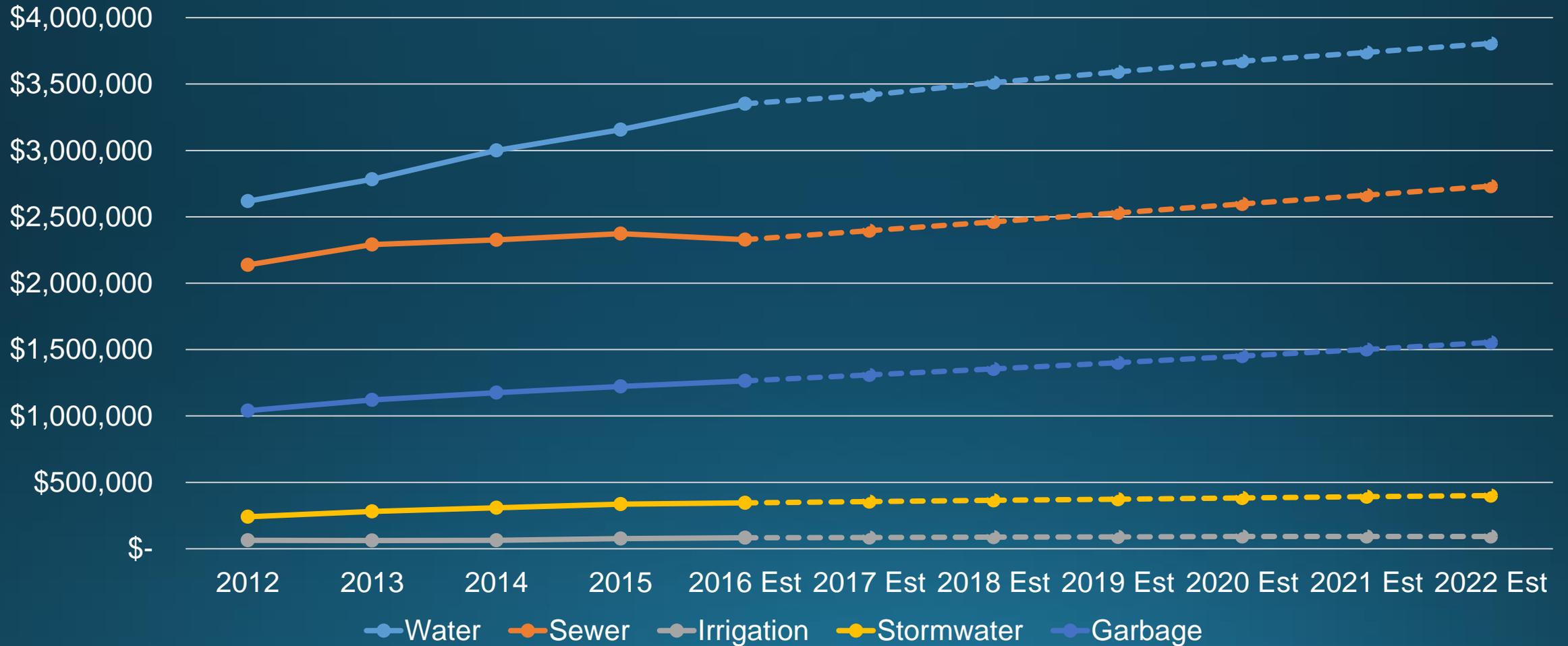
REET estimates based on 2014 activity levels and anticipated to remain flat

Utility Collection Revenues

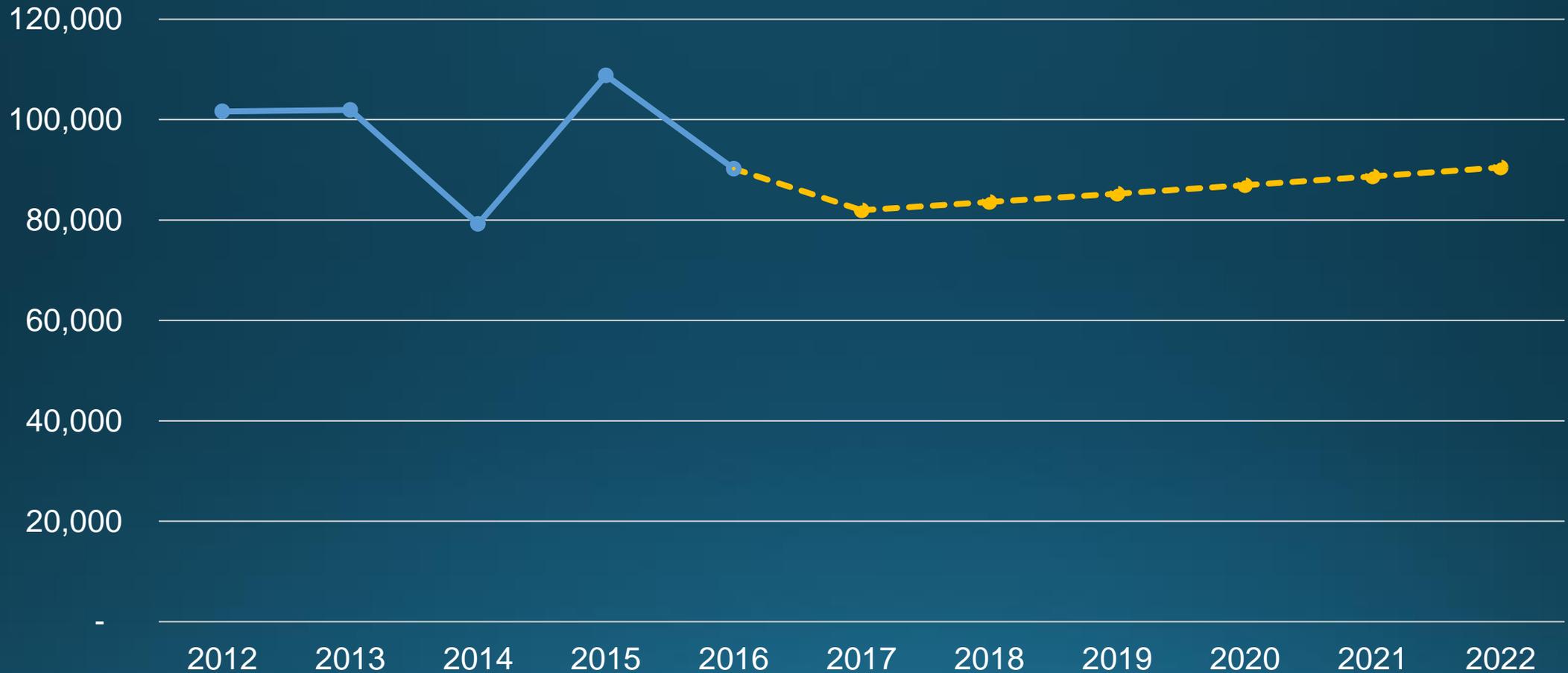
Utility Collection Revenue Forecast Assumptions

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- Estimate based on 140 new customers annually
- Water Collection Revenue: 2%-2.5% annual increase
- Sewer Collection Revenue: 2%-2.7% annual increase
- Irrigation Collection Revenue: 3% annual increase and then flat in 2021 and 2022
- Stormwater Collection Revenue: 2.5% annual increase
- Solid Waste Collection Revenue: 3.5% annual increase

Utility Collection Revenues

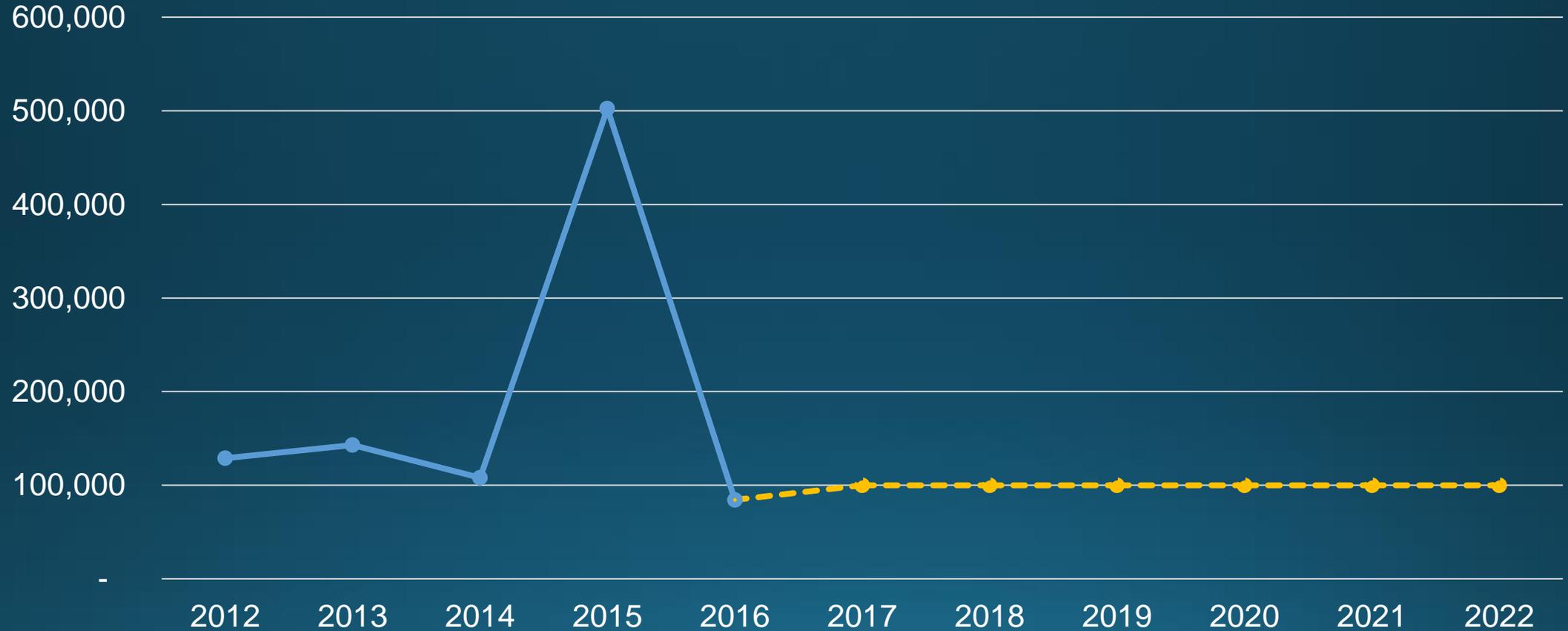


Park Impact Fee Revenues



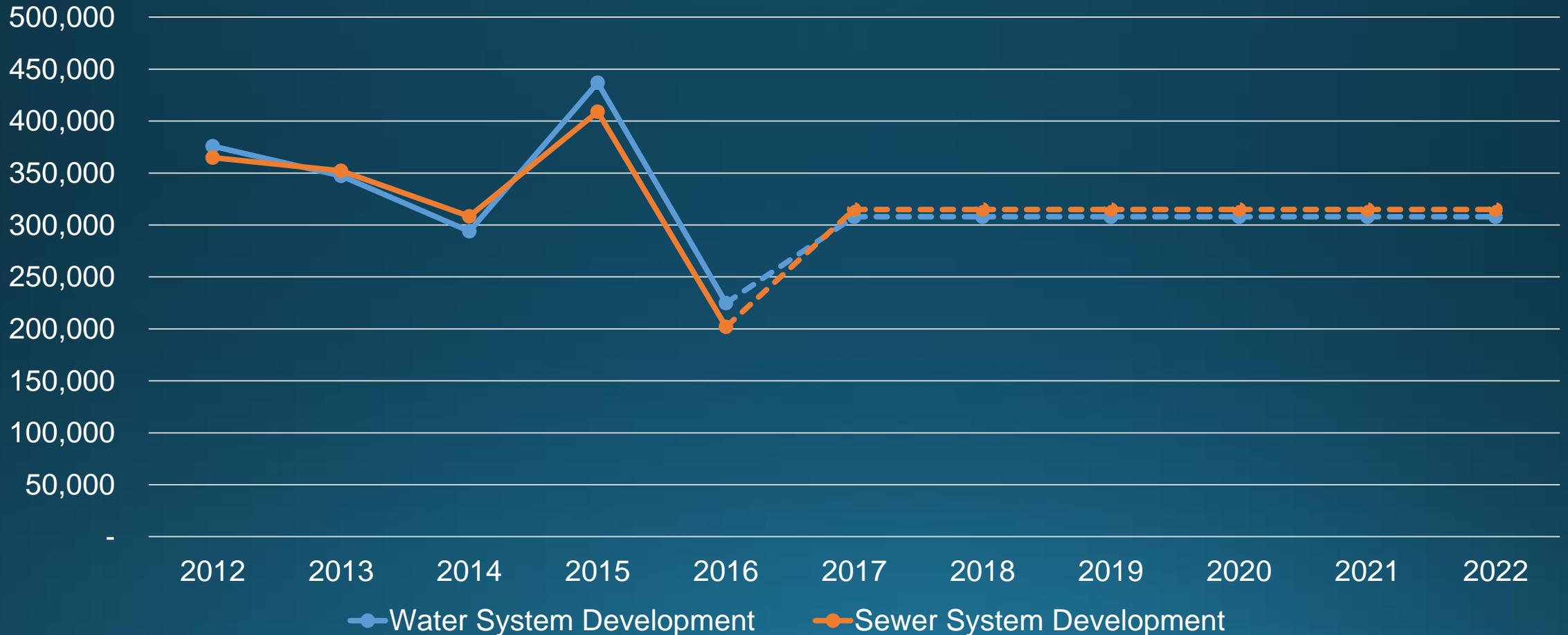
Estimates based on 2014 activity levels and anticipated to increase 2%

Transportation Impact Fee Revenues



Estimates based on 2014 activity levels and anticipated to remain flat

Water/Sewer System Development Fee Revenues



Estimates based on 2014 activity levels and anticipated to remain flat

Summary

- Anticipate continued job growth in the region
- West Richland population increase estimated at 3% per year
- Anticipate building activity to return to 2013-2014 levels
- State shared revenues are currently in the forecast, however they could be reduced or eliminated during the 2017 legislative session
- Several unknowns to be considered in the future including impacts of salary commission determination, police bargaining contract, utility rate model updates
- Mayor's Proposed Budget anticipated to be distributed to Council October 18, 2016