SUBJECT: Update of the District’s Financial Projection Model

Background

In August of last year, the District’s Financial Advisor, Richard Arrow, completed development of a Financial Projection Model, which the Board can now use as a tool for decision making going forward. The Model was presented to the Board on September 13, 2017.

The model developed is dynamic. That is to say, it can be updated anytime with historical, current actual, and projected fund balances. A separate, connected, worksheet of assumptions was created that can be modified to visualize the effect of changes in these assumptions on fund balances. Hence, the application of those assumptions will automatically update the balances of revenue, expenditures, and fund balances in the current and future years.

Description of the Model as presented last Fall:

The model has two scenarios, a moderate scenario and a conservative one. The difference between these lies in estimates of Secured and Unsecured ad valorem property tax revenue, retirement contribution rates and increases in employee health care costs.

Under the Moderate Scenario,

1. Secured ad valorem property tax revenues were estimated based on actuals for 2017-18 with increases projected by the contract firm HDL and range from 4.4% to 4.5% through FY 21-22. We are estimating an annual increase of 4% thereafter.

2. Increases in Unsecured Ad valorem Taxes is estimated at 3.5 % annually through FY 21-22 then 3% annually thereafter.

3. Employer share of pension costs (SamCERA) are based on rates projected by the SamCERA actuarial report.

Under the Conservative Scenario,

1. Secured ad valorem property taxes were estimated at 0.5% less of an increase than estimated by the HDL projection.

2. Unsecured ad valorem taxes were assumed to increase 3 % annually through FY 21-22, then 2.5% annually thereafter.

3. Pension costs are estimated at an additional 15% of rates estimated by SamCERA (for example: if pension expense is 24% of payroll, then 24% + 3.6% of payroll = new rate of 27.5% of payroll).
Under both scenarios the following assumptions are made:

1. Benefit Assessment to increase annually by CPI (3%). The District has an additional 13.22% stored CPI which can be applied if additional revenue is needed in the future. These are CPI adjustments for prior years that have not been levied.

2. No change in Special Tax. This tax does not have a cost of living provision and is at the cap.

3. Full time Salaries increase by 5% through FY 19-20 (as per current MOU with employee association) and 3% per year thereafter. For the purpose of this model, annual increases to the salaries for seasonal employees are also estimated at 3%. However, any increase to salaries would require Board action.

4. Long Term Disability, Social Security, Workers Compensation, Unemployment, & payment for Accrued Compensated Absences are based on percentage of salary.

5. Health Care Costs to increase 12% per year.

6. Most other expenses increase by Dept. of Finance CPI tables attached to the model.

7. Employer share of pension costs drops by 40% in FY 24-25, when current unfunded liability is paid off. However, this may change as new actuarial studies are completed and needs to be monitored.

Additional information has been incorporated into the model as follows:

1. The District staff has completed a draft two-year budget for FY 2018-19 and FY 2019-20. This proposed budget is balanced for both years and has been incorporated into the model.

2. We now have a good estimate of what the revenues for the current fiscal year will be (FY 2017-18). Revenues are higher than was estimated at the time the model was first presented to the Board and these numbers have been incorporated into the model.

Discussion:

After updating the model with current year revenues and a proposed two-year budget, the District’s fiscal outlook is currently following the “Moderate” scenario and additional revenues are not needed to maintain current levels of service. If we begin to be in the scenario described in the “conservative” model, we will begin to go into deficit spending in FY 2020-2021.

Recommendation:

It is the staff recommendation that the Board update the model, continue enacting 2 year budgets, and monitor the District’s financial status annually through the next 5 years.

Enclosures

1. What If Projections – Moderate
2. What If Projections - Conservative