



City of Sparks

Financial Review

City Council Workshop

October 20, 2014

City of Sparks Financial Review



Executive Summary

- ❖ Sparks follows a policy driven budget process
- ❖ FY '14 General Fund ending fund balance = \$4.9M, or 9.3% of expenditures (*\$574K more than projected last Spring*)
 - Revenues were 0.8% higher than projected
 - Expenditures were 0.2% lower than projected
- ❖ With the extra fund balance from FY'14, the FY '15 General Fund ending fund balance is now on track to equal 7.4% of expenditures (*balance in the Final Budget was 6.4%*)
- ❖ General Fund subsidy of Development Services Fund has been paid back in full

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Executive Summary *(Cont'd)*

- ❖ No subsidy of RDA areas #1 or #2 are expected in FY '15
- ❖ Benefit liabilities continue to grow *(I/t solutions are needed)*
 - Net OPEB liability = \$6.7M, growing by ~\$600K/yr.
 - Heart/Lung/Cancer Long-Term Liability = \$9.3M, with a negative fund balance of \$4.0M in the Worker's Compensation Fund
- ❖ Health insurance costs continue to be a major concern
 - Self-Insurance Fund had a "net loss" of \$2.0M in FY '14 leading to a 25% premium rate increase beginning July 2014
- ❖ PERS contribution rates are expected to rise in FY '16

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Executive Summary (Cont'd)

- ❖ Most bargaining group contracts expire at the end of FY '15
 - Potential fiscal impact to FY '16 and beyond exists
 - 1% across-the-board pay increase = ~\$320K increased G.F. costs

- ❖ The “Tesla Effect” -- regional economic modeling is underway, but won't be completed until sometime in 2015
 - Fiscal impact to the FY '16 budget is unknown but not expected at this time

- ❖ **Direction being sought today:** Any changes to the fiscal policies staff should include in the FY '16 budget process?
 - Final direction will be sought at a workshop in February

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Executive Summary (Cont'd)

- ❖ Example: FY '16 Possible Budget Goal to Consider.....
G.F. Rev's \geq Exp's + Transfers-Out & a Fund Balance $>$ 7.0% of Exp's.

One way to accomplish this goal:

- FY '16 G.F. Exp's Remain Flat = \$55.2M as Budgeted in FY '15;
- FY '16 G.F. Transfers = \$2.7M (*\$700K for Parks; \$730K for Debt; \$1.3M for CIP*);
- FY '16 G.F. Revenue would need to rise by an average of 2.9% in both FY '15 and FY '16 -- Too early to tell, but that's certainly a reasonable potential outcome.

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Fiscal Policy #1 -- *GF Ending Fund Balance*

- ❖ FY '14 Unaudited EFB = \$4.9M or 9.3% of Expenditures;
\$574K higher than projected
- ❖ FY '15 Fund balance is budgeted to be reduced by \$766K,
with a revised projected EFB of approx. 7.4%
- ❖ City's final FY '15 budgeted EFB is 6.4%

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Fiscal Policy #2 -- *GF Contingency Budget*

- ❖ Contingency budget not used in FY '14
- ❖ FY '15 budget includes a Contingency amount of \$1M that is offset by an equal transfer-in from the Vehicle Fund
- ❖ The transfer-in from the Vehicle Fund is intended to be used in situations when the General Fund has insufficient resources to pay Contingent expenditures -- likely of an emergency nature
- ❖ However, the availability of this offsetting transfer-in may change pending vehicle replacement needs

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Fiscal Policy #3 -- *Capital Projects Transfer*

- ❖ Transfer to the Capital Projects Fund from the General Fund totaled \$1.7M in FY '14
 - Including \$411K resulting from a late year refund from TMWA resulting from multi-year overbilling at LDJ Community Center
- ❖ FY '15 budget includes a transfer of \$902K from the General Fund
 - Including \$662K for technology needs and \$240K for other capital needs as outlined in the 5 year CIP
- ❖ Policy target is to establish a minimum transfer of 2.5% of G.F. revenues, but may change pending capital needs as identified in any year

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Fiscal Policy #4 -- *Committing Business License Revenue to the Stabilization Fund*

- ❖ This is a process in compliance with GASB Statement #54 whereby City Council may “commit” business license revenue to the Stabilization Fund that would otherwise be General Fund revenue
- ❖ Stabilization Fund current balance = \$229K
- ❖ No revenue commitment was made in FY '14; and the FY '15 budget also includes \$0 revenue commitment
- ❖ City Council has previously indicated that committing additional revenue to the Stabilization Fund is not desirable until G.F. revenues are expected to exceed expenditures

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Fiscal Policy #5 -- *G.F. Personnel Costs <= 78% of Total Revenues*

- ❖ FY '14 unaudited results = 77.2%
- ❖ FY '15 budget = 80.5%
- ❖ FY '15 budgeted increase is expected primarily due to an increase in health insurance contribution rates of 25%

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Fiscal Policy #6 -- *Determination of OPEB Funding*

- ❖ Currently under a “pay-as-you-go” funding model
- ❖ FY '14 Net OPEB liability = \$6.7M
- ❖ Liability has been increasing by ~\$600K per year
- ❖ No changes to the funding model are being recommended at this time

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Other Items to Consider

- ❖ No subsidy of RDA #1 or RDA #2 is expected in FY '15
(Assuming pending RDA #2 land sale is successful -- if sale is unsuccessful, a subsidy of \$800K+ would be expected)
- ❖ The \$1.1M subsidy of the Dev. Services Fund by the General Fund that occurred in FY '10 & FY '11 has been completely paid back to the G.F. *(Final repayment transfer was made in the first month of FY '15)*
- ❖ High cost of health insurance continues to pressure the fiscal health of the City *(25% rate increase implemented in FY '15)*
 - Group Health Self-Insurance Fund FY '14 EFB = \$819K *(about 5 weeks of expenditures)*; and had a net loss of about \$2.0M

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Other Items to Consider *(Cont'd)*

- ❖ FY '13 & FY '14 saw a sharp rise in Workers Compensation Liabilities related to heart/lung/cancer benefits
 - L/T Liabilities within the W.C. Self Insurance Fund total \$9.3M in FY '14 based on claims that are expected to be paid over several years or even decades
 - Total L/T liabilities have resulted in an est. negative EFB of <\$4.0M> in the Workers Compensation Insurance Fund
 - A negative fund balance does not mean there are immediate funding concerns -- in fact, current resources in the Fund are likely sufficient to pay claims for several years
 - However, long-term funding options will need to be explored

City of Sparks Financial Review



FY '14 General Fund Summary *(Unaudited Results)*

- ❖ Total revenue increased by 4.5% -- the first increase of total revenue in 6 years
 - \$437K, or 0.8% higher than projections presented last Spring
- ❖ Expenditures & transfers-out increased by 4.4%
 - \$137K, or 0.2% lower than projections presented last Spring
- ❖ Fund balance was reduced by \$943K (*i.e., net "loss"*)
- ❖ E.F.B. was \$4.9M, or 9.3% of expenditures
 - \$574K higher than projections presented last Spring
- ❖ Subsidy of RDA #2 = \$862K

City of Sparks Financial Review



FY '15 General Fund Budget Review

- ❖ Total budgeted revenue of \$55.3M (*excl. transfers*) represents a 2.4% increase over FY '14 results
 - Property Tax Revenue = 3.6% increase
 - CTAX & Fair Share Revenue = 3.2% increase
 - License & Permit Revenue = 2.6% increase
- ❖ Transfer of \$704K from the Development Services Fund to fully repay the FY '10 & FY '11 subsidy
- ❖ Total budgeted expenditures of \$55.2M (*excl. transfers*) represents a 5.4% increase over FY '14 results
 - Personnel costs, up \$2.5M or 6.0%
 - Services, Supplies, & Cap. Outlay, up \$344K or 3.3%

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FY '15 General Fund Budget Review *(Cont'd)*

- ❖ Transfers-Out to Other Funds = \$1.6M: Parks & Recreation (\$734K) and Capital Projects (\$902K)
- ❖ Utilize unspent CTAX bond proceeds of ~\$730K to pay for G.F. CTAX debt service costs *(approx. \$170K remains that could be used for help pay FY '16 debt service costs or immediate City Hall capital needs)*
- ❖ Contingency Budget of \$1M is available potentially coupled with a budgeted transfer-in from the Motor Vehicle Internal Service Fund *(transfer would only be utilized should General Fund resources be insufficient to meet the need at hand)*

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FY '15 General Fund Budget Review *(Cont'd)*

- ❖ Budgeted Fund Balance reduction of \$766K would reduce the fund balance from \$4.9M to \$4.1M
- ❖ Ending Fund Balance would equal 7.4% of expenditures *(including the benefit of the beginning fund balance being \$574K higher than what's listed in the FY '15 Final Budget -- the FY '15 Final Budget included an ending fund balance of 6.4%)*
- ❖ **NO BUDGET REDUCTIONS ARE BEING RECOMMENDED FOR FY '15 AT THIS TIME**

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Looking Forward *(FY '16 & beyond)*

- ❖ **Biggest FY '16 Unknown:** Outcome of bargaining unit negotiations *(Most agreements are currently set to expire at the end of FY '15)*
 - City-Wide 1% wage increase = ~\$320K increased G.F. costs

- ❖ **Other FY '16 Unknowns**
 - PERS contribution rates are expected to increase, but we won't know the actuarially recommended change for a few months yet *(rates will ultimately be approved by the 2015 Legislature)*
 - Health insurance costs are expected to rise, but again, it's too early to determine the potential FY '16 fiscal impact

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Looking Forward *(FY '16 & beyond)*

- ❖ Other FY '16 Unknowns *(Cont'd)*
 - 2015 Legislative session fiscal impacts, if any
 - The “Tesla Effect” -- regional economic modeling is underway, but won't likely be completed until the end of FY '15. However, no significant fiscal impacts are expected in FY '16 at this time.

- ❖ During FY '16, the Financial Services Department is recommending that a strategy be developed to reduce the long-term liabilities related to OPEB and Heart/Lung/Cancer implementation sometime after FY '16.

City of Sparks & Redevelopment Agency Outstanding L/T Debt As of June 30, 2014



- ❑ **General Obligation Bonds** *(Total of \$46.6M)*
 - \$3.0M, Matures in 2017 *(Secured and payable from all available resources of the City)*
 - Sewer Revenue Bonds & Notes: \$43.6M, Var. Maturity Dates *(Secured & payable from pledged sewer revenues)*

- ❑ **Revenue Bonds** *(Total of \$177.4M, payable from identified pledged revenue source)*
 - CTAX Bonds: \$10.2M, Matures 2026
 - STAR Bonds: \$110.0M, Matures 2028 *(Secured & payable solely from 75% of sales taxes generated within the Tourism Improvement District known as Legends)*
 - Redevelopment Agency Prop. Tax Increment Bonds: \$34.6M, Var. Maturity Dates
 - Local Improvement District Special Assessment Bonds: \$22.6M, Matures 2027

- ❑ **Other Debt & Obligations** *(Total of \$29.4M, paid from various sources)*
 - Fire Equipment Capital Leases: \$744K, Matures 2015
 - Compensated Leave & Benefits Payable: \$17.7M, No Maturity Date
 - Other Post Employment Benefits (Net OPEB Obligation): \$6.7M, No Maturity Date *(OPEB is funded on a pay-as-you-go method)*
 - Public Safety Heart/Lung/Cancer Liability: \$9.3M *(The full actuarially determined liability, which includes a presumptive amount that is not "booked" as a liability of the City, has a total nominal value of \$37.6M that is expected to be incurred over a period of several decades)*

**City of Sparks General Fund
FY '14 Preliminary (Unaudited) Results**

(Amounts Shown in \$000's)

October 2014

General Fund Resources, Uses, & Fund Balance	FY '14 Actuals (Unaudited)
Resources:	
Total Revenues	\$54,042
TMWA Reimbursement (PY Alf Overbilling)	\$373
Transfer-In For Contingency Use	\$0
Transfers-In, Other	\$352
Total Resources	\$54,768
Uses:	
Total Expenditures	\$52,341
TMWA Reimbursement (CY Alf Overbilling)	(\$38)
Contingency Use	\$0
Transfers-Out, RDA #2 Subsidy	\$862
Transfers-Out, Alf Overbilling to Cap Proj.	\$411
Transfers-Out, Other	\$2,135
Total Uses	\$55,711
Net Resources/(Uses)	(\$943)
Fund Balance:	
Beginning	\$5,808
Ending	\$4,864
Ending as a % of Exp's	9.3%

FY '14 Actual Results Compared to Final Budget		Act. Vs. Bdgt. Var.
FY '14 Final Budget		
\$52,333	\$1,709	
\$0	\$373	
\$1,000	(\$1,000)	
\$352	\$0	
\$53,685	\$1,083	
\$51,166	(\$1,175)	
\$0	\$38	
\$1,000	\$1,000	
\$750	(\$112)	
\$0	(\$411)	
\$2,135	\$0	
\$55,051	(\$660)	
(\$1,366)	\$423	
\$4,762	\$1,045	
\$3,396	\$1,468	
6.6%	n/a	

FY '14 Actual Results Compared to Final Projections			% Var. Vs. Projections
FY '14 Projections **	\$ Var. vs. Projections		
\$53,606	\$437		0.8%
\$0	\$373		n/a
\$0	\$0		n/a
\$352	\$0		n/a
\$53,958	\$810		1.5%
\$52,706	(\$365)		-0.7%
\$0	(\$38)		n/a
\$0	\$0		n/a
\$786	\$76		9.6%
\$0	\$411		n/a
\$1,983	\$152		7.7%
\$55,475	\$236		0.4%
(\$1,517)	\$574		
\$5,808	\$0		
\$4,290	\$574		
8.2%	n/a		

** FY '14 Projections shown as filed with the FY '15 Final Budget and presented in April 2014

- FY '14 Projections vs. Actual Results -- Summary**
- Revenues within 0.8% of projections
 - Exp's & Transfers-Out within 0.2% of projections
 - EFB = \$574K greater than projected

Cause of Change -- Ending Fund Balance Projected vs. Actual Results	
Actual EFB	\$4,864
Projected EFB	\$4,290
Actual Vs. Projected Variance	\$574
Cause of Change	
Wash: TMWA Overbilling - Alf **	\$0
Higher Revenues	\$437
Lower Expenditures	\$365
Higher Trans.-Out, RDA Subsidy	(\$76)
Higher Trans.-Out, Other	(\$152)
Actual Vs. Projected Variance	\$574
** TMWA refund of \$411k transferred to Cap. Proj. Fund	
Summarized Cause of Change	
Higher Rev's	\$437
Lower Exp's & Trans	\$137
Actual Vs. Projected Variance	\$574

**Sparks Redevelopment Area #1
Financial Overview**

	<u>FY '13 Actuals</u>	<u>FY '14 Actuals (Unaudited)</u>	<u>FY '15 Budget w/Actual Beg. Fund Bal.</u>	<u>FY '16 Est.</u>	<u>FY '17 Est.</u>
Revenues (Assumes 1% Increase in FY '16 & FY '17)	\$2,955,234	\$2,486,392	\$2,453,906	\$2,511,256	\$2,536,368
Transfer-In From G.F.	\$0	\$0	\$0	\$0	\$0
Expenditures	<u>(\$3,013,923)</u>	<u>(\$2,635,694)</u>	<u>(\$2,649,461)</u>	<u>(\$2,612,036)</u>	<u>(\$2,608,361)</u>
Net Revenues/(Expenses)	<u>(\$58,689)</u>	<u>(\$149,302)</u>	<u>(\$195,555)</u>	<u>(\$100,780)</u>	<u>(\$71,993)</u>
Beginning Fund Balance	\$3,670,978	\$3,612,289	\$3,462,987	\$3,267,432	\$3,166,652
Ending Fund Balance	\$3,612,289	\$3,462,987	\$3,267,432	\$3,166,652	\$3,094,659
Less: Restricted for Debt Service	<u>(\$2,924,800)</u>	<u>(\$3,034,413)</u>	<u>(\$3,058,303)</u>	<u>(\$3,058,303)</u>	<u>(\$3,058,303)</u>
Unrestricted Ending Fund Balance	<u>\$687,489</u>	<u>\$428,574</u>	<u>\$209,129</u>	<u>\$108,349</u>	<u>\$36,356</u>

Victorian Sq. Room Tax Cumulative Resources	<u>\$1,295,947</u>	<u>\$1,912,682</u>	<u>\$2,512,682</u>	<u>\$3,112,682</u>	<u>\$3,712,682</u>
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Note: V.S. Room Tax Fund is a City Resource, but Available for V.S. CIP Needs (Cumulative Resources Assume \$0 Exp's & \$600K of Annual Revenue)

RDA #1 Debt Information	Tax Increment Refunding Bonds	** City Issued Debt Partially Paid by RDA #1		Total RDA #1 Debt Service
		2011 CTAX Refunding Bonds	2014 CTAX Refunding Bonds	
Original Issue Amount	\$22,165,000	\$4,180,000	\$7,330,000	
Issue Date	5/11/2010	5/12/2011	8/14/2014	
Maturity Date	1/15/2023	5/1/2018	5/1/2026	
Interest Rate	4.0% - 5.375%	3.05%	3.09%	
FY '15 Principal Payment	\$1,520,000	\$685,000	\$17,000	
FY '15 Interest Payment	\$770,681	\$82,045	\$232,023	
Total FY '15 Debt Service	\$2,290,681	\$767,045	\$249,023	
Total FY '15 Debt Service Paid by RDA	\$2,290,681	\$220,443	\$71,567	\$2,582,691
6/30/15 Debt Outstanding	\$14,825,000	\$2,175,000	\$7,313,000	
FY '16 Principal Payment	\$1,580,000	\$705,000	\$23,000	
FY '16 Interest Payment	\$709,881	\$61,000	\$225,972	
Total FY '16 Debt Service	\$2,289,881	\$766,000	\$248,972	
Total FY '16 Debt Service Paid by RDA	\$2,289,881	\$220,142	\$71,552	\$2,581,576
6/30/16 Debt Outstanding	\$13,245,000	\$1,470,000	\$7,290,000	
		FY '16 D.S. from RDA-Issued Debt =	\$2,289,881	
		FY '16 D.S. from City-Issued Debt =	\$291,695	
		Total FY '16 RDA Debt Service =	\$2,581,576	

** Both CTAX bonds were issued by the City, but about 29% (\$292,010 in FY '15) is allocated to RDA #1 for the V.S. portion of the original bonding project.

Sparks Redevelopment Area #2 Financial Overview

	<u>FY '13 Actuals</u>	<u>FY '14 Actuals (Unaudited)</u>	<u>FY '15 Budget w/Actual Beg. Fund Bal.</u>	<u>FY '16 Est.</u>	<u>FY '17 Est.</u>
Revenues (Assuming 5% increase in FY '16 & '17)	\$2,406,228	\$2,365,910	\$2,649,475	\$2,781,949	\$2,921,046
Land Sale Proceeds	\$0	\$100,000	\$595,660	\$359,000	\$347,000
Transfer-In From G.F.	\$250,000	\$861,580	\$0	\$0	\$0
Expenditures	<u>(\$3,185,037)</u>	<u>(\$3,201,003)</u>	<u>(\$3,142,332)</u>	<u>(\$3,097,237)</u>	<u>(\$3,093,999)</u>
Net Revenues/(Expenses)	<u>(\$528,809)</u>	<u>\$126,487</u>	<u>\$102,803</u>	<u>\$43,712</u>	<u>\$174,047</u>
Beginning Fund Balance	\$2,813,011	\$2,284,202	\$2,410,689	\$2,513,492	\$2,557,204
Ending Fund Balance	\$2,284,202	\$2,410,689	\$2,513,492	\$2,557,204	\$2,731,251
Less: Restricted for Debt Service	<u>(\$2,165,814)</u>	<u>(\$2,268,993)</u>	<u>(\$2,286,172)</u>	<u>(\$2,286,172)</u>	<u>(\$2,286,172)</u>
Unrestricted Ending Fund Balance	<u>\$118,388</u>	<u>\$141,696</u>	<u>\$227,320</u>	<u>\$271,032</u>	<u>\$445,079</u>

RDA #2 Debt Information	Redevelopment Area #2 Debt		** City Issued Debt Paid by RDA #2		Total RDA #2 Debt Service
	2008 Tax Increment Bonds	2014 Tax Increment Bonds	2007A Ad Valorem Refunding Bonds	2007B Ad Valorem Refunding Bonds	
Original Issue Amount	\$12,700,000	\$7,285,000	\$7,090,000	\$1,315,000	
Issue Date	7/30/2008	8/14/2014	3/29/2007	3/29/2007	
Maturity Date	6/1/2028	6/1/2029	3/1/2017	3/1/2017	
Interest Rate	6.4% - 6.70%	3.25%	3.78%	5.65%	
FY '15 Principal Payment	\$505,000	\$450,000	\$775,000	\$175,000	
FY '15 Interest Payment	\$724,020	\$188,694	\$91,287	\$31,612	
Total FY '15 Debt Service	<u>\$1,229,020</u>	<u>\$638,694</u>	<u>\$866,287</u>	<u>\$206,612</u>	<u>\$2,940,613</u>
6/30/15 Debt Outstanding	<u>\$10,460,000</u>	<u>\$6,835,000</u>	<u>\$1,640,000</u>	<u>\$385,000</u>	
FY '16 Principal Payment	\$535,000	\$380,000	\$805,000	\$185,000	
FY '16 Interest Payment	\$691,700	\$222,069	\$61,992	\$21,733	
Total FY '16 Debt Service	<u>\$1,226,700</u>	<u>\$602,069</u>	<u>\$866,992</u>	<u>\$206,733</u>	<u>\$2,902,494</u>
6/30/16 Debt Outstanding	<u>\$9,925,000</u>	<u>\$6,455,000</u>	<u>\$835,000</u>	<u>\$200,000</u>	

FY '16 D.S. from RDA-Issued Debt =	<u>\$1,828,769</u>
FY '16 D.S. from City-Issued Debt =	<u>\$1,073,725</u>
Total FY '16 RDA Debt Service =	<u>\$2,902,494</u>

** The 2007 debt issued by the City is scheduled to mature in FY '17, removing \$1.1M of debt service costs.