



February 26, 2018 Budget Workshop

Fiscal Review and Policy Discussion

FY '19 Budget Preparation



February 26, 2018 Council Budget Workshop Agenda Item Topics

General Fund Fiscal Review

- Fiscal Summary
- FY18 & FY19 Assumptions & Expectations
- FY19 Key Budget Items

Fiscal Policy Review

- Current Fiscal Policies
- Contributions to Other Governments
- Fiscal Policy Considerations & Direction for FY19 Budget

Other Fiscal Items for Reference

- General Fund FY18 Budget Risks & Opportunities
- FY19 New Needs Summary of City Manager Recommendations
- Redevelopment Agency Fiscal Summary
- Debt Overview



General Fund Fiscal Review

City of Sparks General Fund Overview (amounts listed in \$000's)
FY16 Results Through FY19 Budget

| | FY '16 Actuals | FY '17 Actuals | FY '18 Budget | FY '18 Estimates | FY '19 Budget |
|---|---------------------------|---------------------------|--------------------------|-----------------------------|--------------------------|
| <u>Resources (excluding beginning fund balance)</u> | | | | | |
| Total Revenues | \$60,368 | \$61,658 | \$65,390 | \$67,849 | \$70,802 |
| Transfer-In From Vehicle Fund (Assume No Usage, Budget Matches Contingency) | \$0 | \$0 | \$1,000 | \$0 | \$1,000 |
| Transfers-In, Other | \$0 | \$306 | \$0 | \$0 | \$0 |
| Total Resources | \$60,368 | \$61,964 | \$66,390 | \$67,849 | \$71,802 |
| <i>% Change in Total Revenues (excl. transfers) =</i> | 5.8% | 2.1% | 6.1% | 10.0% | 4.4% |
| <i>% Change in Total Resources =</i> | 4.5% | 2.6% | 7.1% | 9.5% | 5.8% |
| <u>Uses</u> | | | | | |
| Total Expenditures | \$57,021 | \$61,260 | \$62,874 | \$62,795 | \$66,644 |
| Total Transfers-Out | \$3,786 | \$3,997 | \$2,622 | \$2,777 | \$5,159 |
| Contingency (FY18 Assume No Usage; Budget Matches Trans-In from Vehicle Fund) | \$0 | \$0 | \$1,000 | \$0 | \$1,000 |
| Total Uses | \$60,807 | \$65,258 | \$66,496 | \$65,572 | \$72,803 |
| <i>% Change in Total Expenditures (excl. transfers & contingency) =</i> | 5.2% | 7.4% | 2.6% | 2.5% | 6.1% |
| <i>% Change in Total Uses =</i> | 8.2% | 7.3% | 1.9% | 0.5% | 11.0% |
| Net Resources/(Uses) | (\$439) | (\$3,293) | (\$107) | \$2,277 | (\$1,002) |
| <u>Fund Balance</u> | | | | | |
| Unrestricted Beginning Fund Balance | \$6,447 | \$6,007 | \$3,894 | \$2,714 | \$4,991 |
| Less: Prior Period Adjustment | \$0 | \$0 | \$0 | \$0 | \$0 |
| Unrestricted Adjusted Beginning Fund Balance | \$6,007 | \$6,007 | \$3,788 | \$4,991 | \$3,989 |
| Unrestricted Ending Fund Balance | \$6,007 | \$2,714 | \$3,788 | \$4,991 | \$3,989 |
| Unrestricted Ending Fund Balance as a % of Exp's (Less Cap. Outlay) | 10.5% | 4.4% | 6.0% | 8.0% | 6.0% |
| Unrestricted Ending Fund Balance Amount Over/(Short) of 8.3% | \$1,200 | (\$2,200) | (\$1,300) | (\$200) | (\$1,400) |

NOTE: Excluding the one time item of a \$1.1M sales tax refund in FY17, Ending Fund Balance would equal 6.2%, 9.7%, and 7.6% for FY17, FY18, and FY19 respectively

Major Assumptions in FY18 Estimates and the FY19 Tentative Budget - General Fund

FY18 Estimates

FY19 Tentative Budget

Revenues

| | | |
|---------------------------------------|---|-----------------------------------|
| CTAX & Fair Share (42% of total rev) | 8.7% increase over FY17 | 5.3% increase over FY18 Estimates |
| Property Taxes (33% of total rev) | 5.4% increase over FY17 | 5.3% increase over FY18 Estimates |
| Licenses & Permits (18% of total rev) | 14.3% increase over FY17 mainly due to Marijuana Licenses | 0.7% increase over FY18 Estimates |

Transfers-In & Contingency Usage

| | | |
|-------------------------------------|-----|------|
| Transfer-In from Motor Vehicle Fund | \$0 | \$1M |
| Contingency Budget | \$0 | \$1M |

Expenditures & Transfers-Out

| | | |
|--|---|---|
| Staffing Vacancies | Captures savings from all vacancies already realized thru December 2017 and assumes similar vacancy savings will be achieved in the remainder of FY18 for a total FY18 vacancy savings of \$1.1M. | Assumes no vacancies |
| New Needs | No General Fund New Needs were approved for FY18 | The City Manager is recommending 4 New Needs with a total General Fund impact of \$297K |
| Salaries | Includes all negotiated contract changes with all employee groups | Includes all negotiated contract changes for employee groups who agreed to multi-year contracts for FY18-FY20. Assumes no contract changes for the groups who currently have one-year contracts for FY18 (Muni Court Admin, Confidential, City Manager, International Association of Fire Fighters, Operating Engineers and Operating Engineer Supervisors) |
| Health Insurance | No rate increase in FY18 | No rate increase in FY19 |
| PERS Contribution Rates | Public Safety 40.5%; Regular 28.0% (no change) | Public Safety 40.5%; Regular 28.0% (no change) |
| Fire Apparatus & Equipment Replacement Plans | Assumes full funding (\$840K) of contribution to Motor Vehicle Fund | Assumes full funding (\$850K) of contribution to Motor Vehicle Fund |

Major Assumptions in FY18 Estimates and the FY19 Tentative Budget - General Fund

FY18 Estimates

FY19 Tentative Budget

Expenditures & Transfers-Out, continued...

| | | |
|---|---|---|
| Contributions to Workers Compensation Self-Insurance Fund | Funding level set at \$315K (\$285K General Fund). This level of funding adds to the funds deficit in net position. | Total funding increased to \$940K (General Fund \$863K) to begin to slow the growth of the deficit |
| Contributions to Municipal Liability Self-Insurance Fund | The General Fund will make a full contribution of \$671K in FY18. However, due to several years of underfunding, there are no reserves in the Fund. | To remain solvent in FY19, this fund requires the full General Fund contribution of \$578K plus an extra \$300K to replenish for past years of underfunding. Even with the increased contribution, this will be the second year of having no reserves budgeted. |
| Common Service Charges for Central Services | \$2.6M recovered from other funds representing 24% of total central service costs of \$10.9M | \$2.7M recovered from other funds representing 23% of total central service costs of \$12.0M |
| Travel & Training | Assumes budget will be spent (\$438K) | All travel and training requests included (\$591K) |
| Professional Services | Assumes \$1.7M of \$2.1M budget will be spent. | All professional service requests included (\$1.9M) |
| Transfers-Out to Capital Projects Fund for CIP Needs | 0.7% of total revenues for General CIP + identified IT hardware needs (Excludes \$429K for IT software needs which was eliminated as part of City Manager's budget cut recommendations) | 2.3% of total revenues for General CIP + identified IT needs |
| Transfer-Out to Parks & Rec. Fund (1221) | Subsidy of FY18 Recreation Programs | Subsidy of FY19 Recreation Programs |
| Debt Service | Debt service fully funded (\$693K) | Debt service fully funded (\$709K) |

Key FY19 Budget Items

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Employee Contracts

- FY19 will be Year #2 of 3 year contracts for most employee groups, and the FY19 tentative budget contains a 2.7% COLA for those groups.
- FY19's tentative budget does not contain pay increases for International Association of Fire Fighters, Operating Engineers, Operating Engineer Supervisors, Muni Court Admin or Confidential groups, as these groups' contracts were for one year only (FY18).
- Settled contract costs are expected to total approximately \$750K (General Fund impact \$634K) in FY19.

Health Insurance

- No contribution/premium increases anticipated in FY19.
- Total Plan costs expected to be \$12M with \$10.8 or 90% representing claims costs.
- FY19 ending fund balance is projected to be \$2.2M, equating to approximately 2 months of expenses, whereas a fund balance approximately equivalent to 3 months of expenses is needed for fiscal stability.
- POSITIVE NEWS! If FY18 estimates are realized, we will have experienced claims cost increases averaging just 2.7% over the past three fiscal years.

Workers Compensation

- Tripled the contributions to this Fund in FY19 to \$940K (General Fund impact \$863K), yet still not enough to stop the cash drain.
- Cash reserves at the end of FY17 were \$2.9M. Reserves are expected to drop to \$1.6M by the end of FY18. With the increased contribution in FY19, the reserves will drop by \$823K in FY19, leaving an ending cash balance of \$757K. If contributions to the fund don't increase, cash reserves will likely be exhausted in FY20.
- Long-term solutions are needed to cover this liability for future Heart, Lung, and Cancer (HLC) claims; however, the HLC benefits are driven by State Legislature.
- Due to the long-term liabilities, there was a *negative ending fund balance of \$2.9M* at the end of FY17
- On 1/30/18, we received a notice of non-renewal from our reinsurance provider. We will be looking for a new provider, and the cost of this policy is almost certain to increase. \$200K is included in the FY19 tentative budget compared to \$92K in FY18, but the actual cost increase is unknown at this time.

General Liability

- Cash reserves in this fund are down to critically low levels, necessitating an extra contribution in FY19 of \$300K from the General Fund to remain solvent. Additional funding will likely be needed in FY20 to secure the financial health of this fund, but simply maintaining solvency is the initial goal for FY19.

GERP Turf Replacement

- Per Council direction for the FY18 Budget, approximately \$983K of Electric and Gas Franchise fees were re-directed from road maintenance to fund turf replacement at GERP. We are seeking Council direction on whether to redirect these revenues again in FY19 or let them revert back to the Road Fund as originally allocated in FY17 and prior years.
- The table below shows how the 5% Electric and Gas Franchise fees will be distributed without further Council direction:

| | FY17 | FY18 | FY19 |
|---------------------------------|-----------|-----------|-----------|
| General Fund | 2% | 2% | 2% |
| Road Fund | 2% | 1% | 2% |
| Parks & Rec Project Fund | 1% | 1% | 1% |
| Parks & Rec Project Fund - GERP | 0% | 1% | 0% |
| TOTAL | 5% | 5% | 5% |

- The City Manager is currently recommending that FY19 **Marijuana revenues**, projected to be \$1.4M, be designated for non-operational uses. The FY19 tentative budget transfers \$500K of these revenues to the Parks and Rec Project Fund for GERP turf replacement and designates the remaining \$900K to fund the IT Hardware and Software Replacement Plans

CIP Deferral

- In order to file a FY18 budget with an ending fund balance of 6%, cuts were made to the Capital Improvement Plan (CIP) totaling \$1.8M.
- To “catch up” on the deferred capital needs, a transfer of \$2.6M is needed in FY19. This is in addition to the \$500K transfer for GERP turf replacement mentioned above.

Sewer Rate Study

- The final 8.25% increase to sewer user fees from the last rate study went into effect in FY18. A new sewer rate study is in progress.
- It’s anticipated that the new rate study will not be presented to Council before the FY19 Budget is finalized. Therefore, no rate increase is expected to be included in the FY19 Budget.
- Connection fees continue to index annually to the Engineering News Record Construction Cost Index per Sparks Municipal Code 13.24. Per the latest cost index, connection fees increased 4.1% on January 1, 2018.

Grants Expiring

- COPS Grant, which was funding 40% of 2 police officers, expires 6/30/18. The Police Department has requested an extension to use approximately \$48K of unspent grant funds in FY19.
- The Victim Advocate Grant expires 6/30/18. A FY19 New Need is being recommended by the City Manager as submitted by the Police Department to retain the Victim Advocate position.

| | FY16 | FY17 | FY18 Estimates | FY19 Tentative Budget |
|--|---------------|----------------|-------------------|-----------------------------|
| Total cost of 2 officers – COPS Grant | 90,500 | 202,958 | 204,383 | 214,839 |
| Total cost of 1 Victim Advocate – Violence Against Women Grant | 32,584 | 84,344 | 95,503 | 100,099 |
| Grant funding (assuming extension granted for COPS) | <72,796> | <149,931> | <138,127> | <48,469> |
| City Match | 50,288 | 137,371 | 161,759 | 266,470 |



Fiscal Policy Review

CITY OF SPARKS FISCAL POLICIES

The City of Sparks Fiscal Policies are as follows:

1 General Fund unrestricted ending fund balance equal to 8.3% of expenditures

| | Policy Target | RESULTS | AMOUNT OVER/ (UNDER) Target | STATUS |
|----------------|---------------|---------|--------------------------------|--------|
| FY17 Actuals | 8.3% | 4.4% | (\$2,200,000) | ⊗ |
| FY18 Estimates | 8.3% | 8.0% | (\$200,000) | ⚠ |
| FY19 BUDGET | 8.3% | 6.0% | (\$1,400,000) | ⊗ |

| City Targets | | Statutory Targets | |
|----------------------------|---------------------------------|--|--|
| Budget Target | Cash Flow Target | Must provide corrective action plan to State if go below per NAC 354.650 | Removed From Negotiations per NRS 354.6241 |
| 6.0% | 12.5% | 4.0% | 25.0% |
| FY19 Budget matches Target | FY19 Budget \$3.9M Under Target | FY19 Budget \$1.3M Over Target | FY19 Budget \$10.1M Under Target |

Purpose of this Fiscal Policy

The purpose of this policy is to help maintain fiscal stability throughout each fiscal year (as stated in Organization-Wide Strategy #1).

Policy Target

City of Sparks formally adopted a policy of an 8.3% minimum ending fund balance in 2011.

Budget Target

In past discussions, Council has stated the minimum budgeted ending fund balance should be no lower than 5% in order to avoid State intervention which begins with a budgeted ending fund balance below 4%. For FY18, Council provided direction to prepare a budget with an ending fund balance of 6% which provides for flexibility in spending throughout the year.

Cash Flow Target

For fiscal health and to meet cash flow needs throughout the year, the City Manager recommends achieving a 12.5% ending fund balance at the end of each year. The purpose of this target is to maintain positive cash balances throughout each fiscal year.

Statutory Targets

There are two statutory targets that should also be mentioned:

- Per NAC 354.650, a budgeted ending fund balance of less than 4% requires a the local government to provide a written explanation to the Department of Taxation that includes the reason for the low ending fund balance and a plan to increase the fund balance.
- NRS 354.6241 excludes a portion of ending fund balance from negotiations, equal to 25.0% of expenditures.

CITY OF SPARKS FISCAL POLICIES

2 Establish a General Fund Contingency amount up to 3% of total expenditures in the annual budget

| | GOAL | BUDGET | Contingency Amount | STATUS |
|-------------|----------|--------|--------------------|--------|
| FY17 BUDGET | up to 3% | 1.6% | 1,000,000 | ✓ |
| FY18 BUDGET | up to 3% | 1.6% | 1,000,000 | ✓ |
| FY19 BUDGET | up to 3% | 1.5% | 1,000,000 | ✓ |

Purpose of this Fiscal Policy

The contingency budget was established using the guidelines set forth in NRS 354.608 to provide for expenditures that are one-time, unexpected, and may be of an emergency nature. Utilization of the contingency budget requires the approval of City Council, and is distinguished from the Stabilization Fund in that the Stabilization Fund is much more restrictive in nature and may only be used for two specific reasons (see details in Policy #4). In order to maximize flexibility and the City's ability to respond to emergency needs, a transfer into the General Fund from the Motor Vehicle Internal Service Fund will also be included in the budget matching the amount established as the contingency budget. This is only expected to be utilized if General Fund resources are insufficient to meet any contingency budget usage. *It must be recognized that a transfer from the Motor Vehicle Fund would damage the fiscal stability of that Fund and should be made only as a measure of last resort.*

Per NRS 354.608, contingency and transfers-out are excluded from the calculation of total expenditures .

CITY OF SPARKS FISCAL POLICIES

3 Transfer a minimum of 2.5% of total General Fund revenues plus full funding of IT Hardware & Software Replacement Plans from the General Fund to the Capital Projects Fund

| | GOAL | % RESULTS | Transfer Amount | STATUS |
|-----------------------|---|-----------|-----------------|--------|
| FY17 Actuals | 2.5% of revenues + full funding of IT hardware & software replacement plans = \$2,655,240 | 4.0% | \$ 2,455,240 | 🟡 |
| FY18 Estimates | 2.5% of revenues + full funding of IT hardware & software replacement plans = \$2,348,108 | 1.1% | \$ 754,108 | 🔴 |
| FY19 BUDGET | 2.5% of revenues + full funding of IT hardware & software replacement plans = \$2,650,000 | 3.6% | \$ 2,550,000 | 🟡 |

Purpose of this Fiscal Policy

This policy ensures that the City continues to invest in infrastructure and technology needs as detailed in the City's 5 Year Capital Improvement Plan.

The current goal for the FY19 Budget is 2.5% of total revenues (\$1.75M) plus full funding of both the IT Hardware (\$399K) and IT Software (\$501K) Replacement Plans.

The FY18 full funding goal fell short due to a \$1.2M reduction in the general capital projects transfer and the elimination of funding of the IT Software Replacement (\$429K). FY17, while originally budgeted at full funding, the general capital projects transfer was reduced mid-year by \$200K. These reductions were recommended by the City Manager to ensure a minimum level of Fund balance was preserved as outlined in fiscal policy #1.

The tentative FY19 Budget includes 2.3% of revenues plus full funding of the FY19 IT hardware and software needs. This small reduction is recommended by the City Manager to ensure a minimum level of Fund balance is preserved as outlined in fiscal policy #1.

GERP Turf Funding Plan

Per Council direction for the FY18 Budget, approximately \$983K of Electric and Gas Franchise fees were re-directed from road maintenance to fund turf replacement at GERP. We are seeking Council direction on whether to redirect these revenues again in FY19 or let them revert back to the Road Fund as originally allocated in FY17 and prior years.

The table below shows how the 5% Electric and Gas Franchise fees will be distributed without further Council direction:

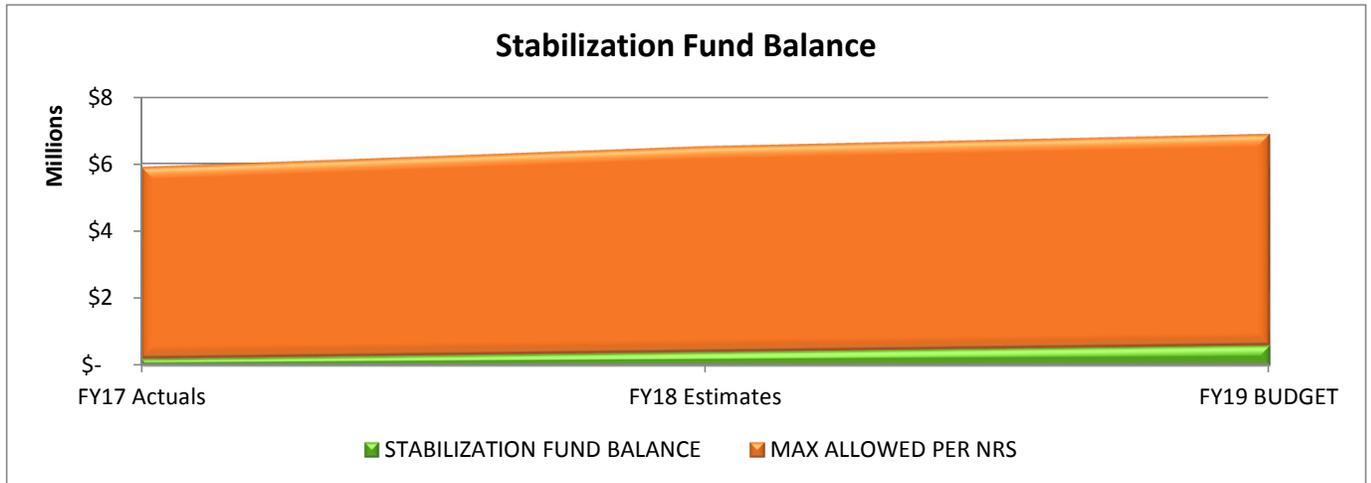
| | FY17 | FY18 | FY19 |
|---------------------------------|-----------|-----------|-----------|
| General Fund | 2% | 2% | 2% |
| Road Fund | 2% | 1% | 2% |
| Parks & Rec Project Fund | 1% | 1% | 1% |
| Parks & Rec Project Fund - GERP | 0% | 1% | 0% |
| TOTAL | 5% | 5% | 5% |

The City Manager is currently recommending that FY19 Marijuana revenues, projected to be \$1.4M, be designated for non-operational uses. The FY19 tentative budget transfers \$500K of these revenues to the Parks and Rec Project Fund for GERP turf replacement and designates the remaining \$900K to fund the IT Hardware and Software Replacement Plans

CITY OF SPARKS FISCAL POLICIES

4 Commit a portion of annual business license receipts to the Stabilization Fund up to the maximum fund balance allowed within NRS 354.6115

| | MAX ALLOWED PER NRS | STABILIZATION FUND BALANCE | AMOUNT COMMITTED | STATUS |
|----------------|---------------------|----------------------------|------------------|--------|
| FY17 Actuals | \$ 5,702,092 | \$ 185,647 | \$ 200,000 | ✔ |
| FY18 Estimates | \$ 6,126,043 | \$ 388,147 | \$ 200,000 | ✔ |
| FY19 BUDGET | \$ 6,287,422 | \$ 590,647 | \$ 200,000 | ✔ |



Purpose of this Fiscal Policy

The stabilization fund was established in accordance with NRS 354.6115 to stabilize operation of local government and mitigate effects of natural disasters. Per NRS 354.6115: *"The balance in the fund must not exceed 10 percent of the expenditures from the general fund for the previous fiscal year, excluding any federal funds expended by the local government."*

In June 2011, the City Council adopted the following Stabilization policy in compliance with GASB 54: *"The Council will authorize the use of the Stabilization Fund's resources only if A) the total actual General Fund revenues decrease by 4% or more from the previous year; or B) to pay for expenses incurred to mitigate the effects of a natural disaster (upon formal declaration by the City)."*

In 2009, the City transferred \$625,000 from the Stabilization Fund to the General Fund in order to help mitigate the steep revenue decline brought about from the effects of the Great Recession. In 2011 and 2012, the City Council established a fiscal policy goal of re-establishing the Stabilization Fund by gradually committing a portion of the City's business license revenues to the Stabilization Fund.

A transfer out of the Stabilization Fund of \$252K was required in FY17 to defray the costs of the 2017 Flood Emergency. While this transfer more than negated the FY17 revenue commitment, the FY18 and FY19 commitments are expected to grow the Fund balance to \$591K by the end of FY19.

CITY OF SPARKS FISCAL POLICIES

5 General Fund personnel costs do not exceed 78% of General Fund total revenues

| | GOAL | RESULTS | STATUS |
|----------------|-------|---------|--------|
| FY17 Actuals | <=78% | 80.0% | ✘ |
| FY18 Estimates | <=78% | 74.2% | ✔ |
| FY19 BUDGET | <=78% | 74.9% | ✔ |

Purpose of this Fiscal Policy

The purpose of this policy is to achieve a balanced, sustainable expenditure model.

Expanded Dashboard for historical comparison

| TOTAL USES AS % OF TOTAL REVENUES BY EXPENSE CATEGORY | 2 Year Historical Average | FY17 Actuals | FY18 Estimates | FY19 BUDGET |
|---|---------------------------|--------------|----------------|-------------|
| PERSONNEL COSTS | 77% | 80% | 74% | 75% |
| SERVICES & SUPPLIES & CAP. OUTLAY | 18% | 19% | 18% | 19% |
| TRANSFERS-OUT | 5% | 6% | 4% | 7% |
| TOTAL | 100% | 106% | 97% | 101% |

| TOTAL USES AS % OF TOTAL REVENUES BY DEPARTMENT | 2 Year Historical Average | FY17 Actuals | FY18 Estimates | FY19 BUDGET |
|---|---------------------------|--------------|----------------|-------------|
| POLICE | 39% | 41% | 38% | 40% |
| FIRE | 26% | 26% | 24% | 24% |
| TOTAL PUBLIC SAFETY | 65% | 67% | 62% | 64% |
| MANAGEMENT SERVICES | 8% | 10% | 9% | 9% |
| FINANCIAL SERVICES | 5% | 5% | 5% | 5% |
| LEGAL SERVICES | 3% | 3% | 2% | 2% |
| MAYOR & COUNCIL | 1% | 1% | 1% | 1% |
| TOTAL CENTRAL SERVICE DEPTS | 16% | 19% | 18% | 17% |
| COMMUNITY SERVICES | 10% | 11% | 10% | 10% |
| MUNICIPAL COURT | 3% | 3% | 3% | 3% |
| TRANSFERS-OUT | 5% | 6% | 4% | 7% |
| TOTAL | 100% | 106% | 97% | 101% |

CITY OF SPARKS FISCAL POLICIES

6 Report the annual Other Post Employment Benefit (OPEB) and Workers Compensation liabilities and annually determine strategies to reduce or fund these liabilities

| | NET OPEB OBLIGATION | Workers Comp L/T Liability | FUNDING STATUS |
|--------------|---------------------|-------------------------------|----------------|
| FY09 ACTUALS | \$2,025,422 | \$2,252,767 | Pay-As-You-Go |
| FY10 ACTUALS | \$4,566,159 | \$2,321,000 | Pay-As-You-Go |
| FY11 ACTUALS | \$4,958,920 | \$3,414,452 | Pay-As-You-Go |
| FY12 ACTUALS | \$5,473,423 | \$3,206,012 | Pay-As-You-Go |
| FY13 ACTUALS | \$6,018,434 | \$6,749,369 | Pay-As-You-Go |
| FY14 ACTUALS | \$6,680,705 | \$9,258,452 | Pay-As-You-Go |
| FY15 ACTUALS | \$7,414,353 | \$5,068,496 | Pay-As-You-Go |
| FY16 ACTUALS | \$8,058,889 | \$6,190,050 | Pay-As-You-Go |
| FY17 ACTUALS | \$9,087,068 | \$5,528,459 | Pay-As-You-Go |

Purpose of this Fiscal Policy

OPEB and Workers Comp Heart, Lung and Cancer (HLC) obligations have been identified by Financial Services as two of the greatest financial risks threatening the City's short and long-term fiscal sustainability.

Under the current Pay-As-You-Go funding model, the Net OPEB Obligation is expected to grow an estimated \$600,000 to \$900,000 per year. However, GASB 75, which will be implemented in FY18, will change how the City will report the OPEB liability by requiring the entire unfunded liability to be reported on the City's annual financial statements. **It is expected that implementing GASB 75 will result in recognizing an OPEB liability exceeding \$30M in FY18.**

The workers compensation liability grew dramatically from in the years leading up to FY14. This is due to the increasing number of expected Heart/Lung/Cancer claims from Police and Fire personnel and the benefits that were added recently by the Nevada Legislature.

The 2015 Legislative session, however, brought changes that actually reduced this liability. This change limited the amount of time that a retiree has to make a claim, resulting in a \$4.2M reduction to the long-term portion of the HLC liability in FY15. The increase in FY16 is due to new information provided by a complete actuarial valuation on all Workers Compensation claims. Past actuarial valuations had only considered HLC claims. FY17's workers compensation long-term liability decreased by \$662K due to a reduction in the retained case reserves as set by our claims administrator. One claim in particular drove this reduction as it neared the \$1M retention limit where our stop-loss insurance policy would kick in.

Reserves:

There are currently no reserves in the City's Health Insurance Fund designated to mitigate our future health care liability (OPEB).

As of June 30, 2017, The Workers Compensation Fund had cash reserves of \$2.9M. We had been seeing cash balance drop by about \$500K per year in FY12 through FY14; however, FY15 saw a \$900K drop, and FY16 cash balance dropped \$1.1M and FY17 dropped by \$1.0M. We expect that cash balance to decrease more dramatically as more heart and lung claims begin to be paid. Due to the potential large dollars associated with heart and lung claims, we are uncertain how long these reserves will last, but current trends show that resources will likely run out by FY20.

Alternate OPEB Funding Option:

Primarily due to 1) the healthcare industry is still very much in a state of flux; 2) GASB 75, which will be implemented by the City in FY18 will change the way the City's OPEB liability will be accounted for; and 3) the inflexible nature of an irrevocable trust, the City Council has decided to not establish an irrevocable trust to fund the City's OPEB liability at this time. However, an irrevocable trust may be considered to be a viable tool in subsequent years.

Annual Contributions to Other Governments & Non-Profits

Interlocal agreements for services received, cost sharing arrangements or Council approved subsidies

General Fund - Interlocal Agreements with Other Government Agencies

| | FY17 Actuals | FY18 Estimates | FY19 Budget |
|---|------------------|------------------|------------------|
| Washoe County - Regional EOC | 14,562 | 15,986 | 15,986 |
| Washoe County - Regional Training Center | 145,911 | 154,935 | 164,200 |
| Washoe County - Regional Planning | 215,420 | 250,160 | 250,160 |
| Washoe County - 800 MHZ Radio | 118,459 | 118,883 | 124,827 |
| Washoe County - Senior Center | 21,500 | 21,500 | 21,500 |
| Washoe County - Forensic Services | 389,500 | 439,500 | 489,500 |
| Washoe County - Registrar of Voters | 15,513 | 0 | 35,000 |
| Washoe County - Sheriff's Work Crew (park maintenance & weed abatement) | 0 | 62,856 | 70,000 |
| City of Reno - Fire TRIAD | 16,000 | 16,000 | 16,000 |
| Nevada Commission on Ethics | 12,042 | 17,841 | 17,841 |
| Nevada Division of Forestry (paid FY17-FY19 in FY17) | 30,000 | 0 | 0 |
| *City of Reno - Community Assistance Center (amounts over the 15% CDBG public services cap) | 138,248 | 191,250 | 236,200 |
| Total General Fund Interlocals | 1,117,154 | 1,288,911 | 1,441,214 |

General Fund - Contributions to Non-Profits & Other Agencies

| | FY17 Actuals | FY18 Estimates | FY19 Budget |
|--|----------------|----------------|----------------|
| Economic Development Authority of Nevada (EDAWN) | 100,000 | 100,000 | 100,000 |
| Keep Truckee Meadows Beautiful | 10,000 | 10,000 | 10,000 |
| Nevada League of Cities & Municipalities (NLC&M) | 20,403 | 20,419 | 20,435 |
| National League of Cities | 0 | 7,816 | 7,816 |
| Western Nevada Development District (WNDD) | 5,000 | 5,000 | 5,000 |
| Alliance for Innovation | 5,100 | 5,100 | 5,100 |
| The Chamber | 1,362 | 1,362 | 1,365 |
| Total General Fund contributions to Non-Profits | 141,865 | 149,697 | 149,716 |

Other Funds - Interlocal Agreements with Other Government Agencies

| | FY17 Actuals | FY18 Estimates | FY18 Budget |
|---|----------------|----------------|---------------|
| *CDBG Fund - City of Reno Community Assistance Center (amounts within the 15% CDBG public services cap) | 108,556 | 99,153 | 93,800 |
| Total Other Fund Interlocals | 108,556 | 99,153 | 93,800 |

| | FY16 Actuals | FY18 Estimates | FY18 Budget |
|---|----------------|----------------|----------------|
| *Community Assistance Center Total Expense | 246,803 | 290,403 | 330,000 |



Other Fiscal Items for Reference

FY18 General Fund **Budget Risks** & Savings Opportunities

| | YTD thru 1/31/18 | Projected thru 06/30/2018 |
|---|---------------------|------------------------------|
| Vacancy saving (netted with term pays) | 517,000 | 1,100,000 |
| Marijuana Licenses | 770,000 | 1,297,000 |
| CTAX (thru November) | 437,500 | 1,050,000 |
| Electric & Gas Franchise Fees | 68,000 | 136,000 |
| Employee contracts - FY18 settled contract changes only | (550,000) | (1,060,000) |
| Sales Tax One-Time Refund (<i>reflected as an adjustment to Beginning Fund Balance</i>) | (1,100,000) | (1,100,000) |
| Overtime, Callback, Worked Holiday | (140,000) | (252,000) |
| Increased transfer to Parks & Rec | (62,500) | (155,000) |
| Net <Risks>/Savings Opportunities | (60,000) | 1,016,000 |

FY18 Ending Fund Balance as a % of Expenses *IF* this projection materializes

8.0%

Sparks Redevelopment Agency Financial Overview

Sparks Redevelopment Area #1

(City Manager's FY '19 Budget Recommendations)

| | FY '15 Actuals | FY '16 Actuals | FY '17 Actuals | FY '18 Estimates | FY '19 Tentative Budget |
|---|--------------------|------------------|--------------------|--------------------|-------------------------|
| Revenues | \$2,498,451 | \$2,600,692 | \$2,666,289 | \$3,048,170 | \$3,131,344 |
| Land Sale Proceeds | \$0 | \$934,000 | \$1,096,000 | \$0 | \$0 |
| Transfer-In From G.F. | \$0 | \$0 | \$0 | \$0 | \$0 |
| Expenditures | (\$2,660,412) | (\$2,818,415) | (\$2,668,724) | (\$3,462,260) | (\$2,759,047) |
| Net Revenues/(Expenses) | (\$161,961) | \$716,277 | \$1,093,564 | (\$414,090) | \$372,297 |
| Beginning Fund Balance | \$3,462,987 | \$3,301,026 | \$4,017,303 | \$5,110,868 | \$4,696,778 |
| Ending Fund Balance | \$3,301,026 | \$4,017,303 | \$5,110,868 | \$4,696,778 | \$5,069,075 |
| Less: Restricted for Debt Service | (\$3,064,526) | (\$3,134,459) | (\$3,224,870) | (\$2,902,259) | (\$2,590,300) |
| Unrestricted Ending Fund Balance | \$236,501 | \$882,844 | \$1,885,998 | \$1,794,519 | \$2,478,775 |

| | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| Victorian Sq. Room Tax Cumulative Resources | \$2,622,451 | \$3,439,848 | \$4,373,983 | \$3,785,483 | \$4,746,983 |
| <i>Note: The Victorian Square Room Tax Fund is a City Resource, but Available for Victorian Square CIP Needs</i> | | | | | |

** City Issued Debt Partially Paid by RDA #1

| RDA #1 Debt Information | Tax Increment Refunding Bonds | 2011 CTAX Refunding Bonds | 2014 CTAX Refunding Bonds | Total RDA #1 Debt Service |
|---------------------------------------|----------------------------------|------------------------------|------------------------------|------------------------------|
| 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 '18 Principal Payment | \$1,710,000 | \$745,000 | \$24,000 | |
| FY '18 Interest Payment | \$576,981 | \$17,080 | \$224,550 | |
| Total FY '18 Debt Service | \$2,286,981 | \$762,080 | \$248,550 | |
| Total FY '18 Debt Service Paid by RDA | \$2,286,981 | \$219,016 | \$71,431 | \$2,577,428 |
| 6/30/18 Debt Outstanding | \$9,895,000 | \$0 | \$7,243,000 | |
| FY '19 Principal Payment | \$1,790,000 | \$0 | \$810,000 | |
| FY '19 Interest Payment | \$500,031 | \$0 | \$223,809 | |
| Total FY '19 Debt Service | \$2,290,031 | \$0 | \$1,033,809 | |
| Total FY '19 Debt Service Paid by RDA | \$2,290,031 | \$0 | \$297,108 | \$2,587,140 |
| 6/30/19 Debt Outstanding | \$8,105,000 | \$0 | \$6,433,000 | |

** Both CTAX bonds were issued by the City, but about 29% (\$297,108 in FY '19) is allocated to RDA #1 for the V.S. portion of the original bonding project.

Sparks Redevelopment Agency Financial Overview

Sparks Redevelopment Area #2

(City Manager's FY '19 Budget Recommendations)

| | FY '15 Actuals | FY '16 Actuals | FY '17 Actuals | FY '18 Estimates | FY '19 Tentative Budget |
|---|--------------------|--------------------|----------------------|--------------------|-------------------------|
| Revenues | \$2,783,471 | \$2,738,444 | \$1,317,638 | \$2,900,784 | \$3,082,267 |
| Land Sale Proceeds (Recorded as a Note Receivable) | \$2,150,000 | \$0 | \$0 | \$0 | \$0 |
| Transfer-In From G.F. | \$0 | \$0 | \$0 | \$0 | \$0 |
| Expenditures | (\$3,172,719) | (\$2,921,639) | (\$2,415,095) | (\$1,615,063) | (\$1,729,478) |
| Net Revenues/(Expenses) | \$1,760,752 | (\$183,195) | (\$1,097,457) | \$1,285,721 | \$1,352,789 |
| Beginning Fund Balance | \$2,410,690 | \$4,171,442 | \$3,988,247 | \$2,890,790 | \$4,176,511 |
| Ending Fund Balance | \$4,171,442 | \$3,988,247 | \$2,890,790 | \$4,176,511 | \$5,529,300 |
| Less: Restricted for Debt Service & Note Receivable | (\$4,002,342) | (\$3,763,728) | (\$1,565,857) | (\$2,226,262) | (\$2,757,881) |
| Unrestricted Ending Fund Balance | \$169,100 | \$224,519 | \$1,324,933 | \$1,950,249 | \$2,771,418 |

RDA #2 Debt Information

| | 2016 TIF Refunding Bonds | 2014 Tax Increment Bonds | Total RDA #2 Debt Service |
|---------------------------|-----------------------------|-----------------------------|------------------------------|
| Original Issue Amount | \$9,660,000 | \$7,285,000 | |
| Issue Date | 9/26/2016 | 8/14/2014 | |
| Maturity Date | 6/1/2028 | 6/1/2029 | |
| Interest Rate | 2.33% | 3.25% | |
| FY '18 Principal Payment | \$740,000 | \$390,000 | |
| FY '18 Interest Payment | \$213,917 | \$197,377 | |
| Total FY '18 Debt Service | \$953,917 | \$587,377 | \$1,541,294 |
| 6/30/18 Debt Outstanding | \$8,441,000 | \$5,685,000 | |
| FY '19 Principal Payment | \$759,000 | \$405,000 | |
| FY '19 Interest Payment | \$196,675 | \$184,706 | |
| Total FY '19 Debt Service | \$955,675 | \$589,706 | \$1,545,381 |
| 6/30/19 Debt Outstanding | \$7,682,000 | \$5,280,000 | |

City of Sparks & Redevelopment Debt and Long-Term Employee Benefit Liabilities

City of Sparks & Redevelopment Agency Debt

| NAME OF BOND OR LOAN | Term (years) | Original Amount of Issue | Final Payment Date | Interest Rate | Outstanding Principal Balance 7/1/18 | Outstanding Principal Balance 6/30/19 | FY19 Interest Due | FY19 Principal Due | FY19 Debt Service (P&I) |
|----------------------|--------------|--------------------------|--------------------|---------------|--------------------------------------|---------------------------------------|-------------------|--------------------|-------------------------|
|----------------------|--------------|--------------------------|--------------------|---------------|--------------------------------------|---------------------------------------|-------------------|--------------------|-------------------------|

City General Obligation (G.O) Bonds and Notes Payable

| | | | | | | | | | |
|---|-----|------|-----|-----|------|------|------|------|------|
| <i>The City currently has no General Obligation debt outstanding with the exception of the Sewer and Effluent G.O. debt shown below</i> | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | 0 |
| Subtotal City G.O Bonds & Notes Payable | | \$ - | | | \$ - | \$ - | \$ - | \$ - | \$ - |

City Issued Revenue Bonds

| | | | | | | | | | |
|--|----|----------------|------------|------------|----------------|----------------|--------------|--------------|---------------|
| CTAX Bonds Series 2014 (partially funded (29%) by RDA1) | 12 | 7,330,000 | 05/01/2026 | 3.09% | 7,243,000 | 6,433,000 | 223,809 | 810,000 | 1,033,809 |
| Sr. Sales Tax Anticipation Revenue Bonds Series 2008A | 20 | 83,290,000 | 06/15/2028 | 6.5%-6.75% | 66,940,000 | 63,425,000 | 4,499,825 | 3,515,000 | 8,014,825 |
| Subordinate Sales Tax Anticipation Revenue Bonds Series 2008A | 20 | 36,600,000 | 06/15/2028 | 5.75% | 32,716,045 | 32,716,045 | 3,500,000 | 0 | 3,500,000 |
| Subtotal City Issue Revenue Bonds | | \$ 127,220,000 | | | \$ 106,899,045 | \$ 102,574,045 | \$ 8,223,634 | \$ 4,325,000 | \$ 12,548,634 |

Tax Allocation Bonds

| | | | | | | | | | |
|---|----|---------------|------------|--------|---------------|---------------|------------|------------|--------------|
| Local Improvement District #3, Ltd Obligation Improvement Bonds (refinanced in FY2017 for lower interest rate) | 10 | 13,498,290 | 09/01/2027 | 3.830% | 12,701,969 | 12,010,658 | 466,092 | 691,311 | 1,157,403 |
| Subtotal Tax Allocation Bonds | | \$ 13,498,290 | | | \$ 12,701,969 | \$ 12,010,658 | \$ 466,092 | \$ 691,311 | \$ 1,157,403 |

City of Sparks & Redevelopment Debt and Long-Term Employee Benefit Liabilities

City of Sparks & Redevelopment Agency Debt

| NAME OF BOND OR LOAN | Term (years) | Original Amount of Issue | Final Payment Date | Interest Rate | Outstanding Principal Balance 7/1/18 | Principal Balance 6/30/19 | FY19 Interest Due | FY19 Principal Due | FY19 Debt Service (P&I) |
|----------------------|--------------|--------------------------|--------------------|---------------|--------------------------------------|---------------------------|-------------------|--------------------|-------------------------|
|----------------------|--------------|--------------------------|--------------------|---------------|--------------------------------------|---------------------------|-------------------|--------------------|-------------------------|

Sewer & Effluent G.O. Bonds - SRF Loans

| | | | | | | | | | |
|--|----|----------------------|------------|-----------|----------------------|----------------------|-------------------|---------------------|---------------------|
| Enterprise Debt SRF 2016B (refinance of the 1996 - 2010A SRF loans) | 13 | 27,099,691 | 07/01/2029 | 1.250% | 22,611,649 | 19,508,338 | 273,019 | 3,103,311 | 3,376,330 |
| Sparks portion of SRF Water Pollution bonds, Series 2004 & 2005 issued by City of Reno for TMWRF Expansion (12/16 Reno refi for lower interest rate) | 8 | 12,029,831 | 01/01/2024 | 1.604% | 4,937,392 | 4,210,112 | 76,732 | 727,280 | 804,012 |
| Flood Control Bonds Series 2016 | 10 | 18,010,000 | 03/01/2026 | 2.0%-5.0% | 14,955,000 | 13,330,000 | 473,000 | 1,625,000 | 2,098,000 |
| Subtotal Sewer & Effluent G.O. Bonds - SRF Loans | | \$ 57,139,522 | | | \$ 42,504,041 | \$ 37,048,450 | \$ 822,751 | \$ 5,455,591 | \$ 6,278,342 |

Redevelopment Issued Debt

| | | | | | | | | | |
|---|----|-----------------------|------------|-----------|-----------------------|-----------------------|----------------------|----------------------|----------------------|
| Redevelopment Agency #1 Tax Increment Refunding Revenue Bonds, Series 2010 | 14 | 22,165,000 | 01/15/2023 | 4%-5.375% | 9,895,000 | 8,105,000 | 500,031 | 1,790,000 | 2,290,031 |
| Redevelopment Agency #2 Tax Increment Revenue Bonds, Series 2014 | 15 | 7,285,000 | 06/01/2029 | 3.249% | 5,685,000 | 5,280,000 | 184,706 | 405,000 | 589,706 |
| Redevelopment Agency #2 Tax Increment Revenue Bonds, Series 2016 (refinance of 2008 Series for lower interest rate) | 12 | 9,660,000 | 06/01/2028 | 2.33% | 8,441,000 | 7,682,000 | 196,675 | 759,000 | 955,675 |
| Subtotal Redevelopment Issued Debt | | \$ 39,110,000 | | | \$ 24,021,000 | \$ 21,067,000 | \$ 881,412 | \$ 2,954,000 | \$ 3,835,412 |
| TOTAL CITY & REDEVELOPMENT ISSUED DEBT | | \$ 478,115,624 | | | \$ 186,126,055 | \$ 172,700,153 | \$ 10,393,889 | \$ 13,425,902 | \$ 23,819,791 |

Long-Term Employee Benefit Liabilities as of 6/30/17

| | |
|---|-----------------------|
| Sick Leave Conversion | 5,143,950 |
| Compensated Absences | 13,905,438 |
| Workers Compensation | 5,528,459 |
| Other Post Employment Benefits (Net OPEB) | 9,087,068 |
| Net Pension Liability (PERS) | 87,624,211 |
| Total | \$ 121,289,126 |

Note: These balances are determined at end of audit each year