Modeling the City Finances Post Sale

- Assumes 1/1/14 closing date; $111.5M FPL/COVB PSA
- No set of numbers or calculations can be absolutely accurate, but work with this model suggests it should reflect results within 95%.
- The model requires direction from City Council to establish the variables.
- Variables
  - Revenue growth / interest rates from Wells Fargo, Economist & CBO
  - Pension Plan data from Actuary
  - Budget expense reduction
  - Salary increases

“Gorry” Model (revision 9b 2/18/13)

- The model is designed so that the annual assumed changes in the top eight blue lines drive the summary in the colored areas below the blue. But each line of detail changes if that variable affects it.
- Line 9 represents Draw Down of Sale proceeds to Fund Pension at 90% as a starting assumption.
- The Model defaults to reflect the short fall/overage (last orange line) into a new tax rate.
- Revenue / Expense data is from Cindy’s 1/17/13 Memo; except Fiber Optics income.

The Drivers

- Interest rates
- Transfer rate from enterprise funds
- Starting cash balance from the sale – the $33.3
- Inflation rates
- Salaries
- Arbitrary tax increase as starting point (note rate adjusts for default surplus or deficit)
- Sale Cash Proceeds pull down
- Arbitrary expense reductions
- Any change in Pension plan from 7.5% total
- The model will not accept an unbalance budget

Pension Revision to DC Plan

- Pension is the Biggest Opportunity to Adjust for the reduced revenue caused by the use of the Loss of the Electric Transfer.
- This is true both in the short term and for all the years ahead as we will not again build up a 35% unfunded balance.
- But of the $3.5m annual savings $2.1 is in the Enterprise Funds.
- Meaning the Model starts with filling the Post-Sale $3.0-$3.5 gap with only $1.4 flowing into the General Fund.
- The Model contemplates the Transfer Rate could move from 6% to move funds from/to the Enterprise funds from the General Fund.
- There are other approaches discussed later.

Pre / Post Sale Alternatives

- Staff restructure / Streamline span control
- Certain Charter Officers / CC / other executive levels have reduced responsibilities with loss of Electric. Salaries/organization should be reviewed.
- Utility costs for enterprise funds reduced; primarily W/S ($300 - $500k); similarly for W/S($794M) Pension Funding. W/S moves from extremely profitable to excessively profitable. Rate Reductions significantly below the County or moving the plant should be considered.
- Salary increases 2014-18.
- Assumes Power Plant lease for 3 years.
- Airport T&D rental is stranded in Airport Fund.
- Certain operations could be outsourced, all or in part (e.g. fleet management, customer service, solid waste (contract manager & present employees), recreation (contract manager & present employees), grounds maintenance, police dispatch.)

Pre / Post Sale Alternatives (continued)

- Sale of surplus assets would provide lower maintenance costs; infusion of onetime cash; some could be leased at market rates.
- Unknown future/cost of cleared Power Plant acreage for contamination.
- Services reduced; e.g., Solid Waste, cut back to 1 per week during off season.
- Use reserve funds to cover part of the short fall .
- Raise taxes.
- Increase Enterprise Fund transfer to GF from 6% to 8%
- Potential Recreation fee increases – Can easily be put in the model if we have % of Transfer vs. Cost from Council for each year forward. Gradually making Recreation a bit less dependent on the GF.

Further Comment

- Need not wait until transaction is complete to begin expense reduction.
- Operating expenses 2012-13 are $2.58m annually in a $19.5m total budget; salaries / benefits $15.2m. Dollar Savings have to largely come from staff reductions.
- Messrs Gorry and Winger suggest a 15% GF reduction in operations is untenable if we are to maintain life guards, police, parks, roads, etc. These will be additional: GF personnel exit costs; sick / vacations, unemployment. Certain functions; CC, Attorney, City Manager, Clerk, City Hall ($1.35m) are essentially Fixed Costs.
- There are Issues/concerns with FMPA/OUC/FPL closing extension to 12/31/17. A Revised Model could be done beginning in 2016-17, if City Council so Directs.

Direction From Council

- Gorry/Winger/Lawson Will Make a Final Model(s).
- BUT WE NEED COUNCIL DIRECTION on the variables and Model structure.