CITY OF GALVESTON

1839

TEXAS

Long Range Financial Forecast

FY 2016 - FY 2020

City of Galveston

P. O. Box 779 / Galveston, Texas 77553

June 11, 2015

Honorable Mayor James D. Yarborough and Members of Council

This is to provide you with a draft of the FY 2016-2020 Long Range Financial Forecast. The scope is limited to the General Fund and General Debt Service Fund, with the primary purpose being the need to highlight major funding issues and needs as we begin the FY 2016 Budget process. For that reason, I urge that this be used as the starting point for discussing those issues with policy makers, city staff and elected officials.

The baseline forecast considers how General Fund revenue is likely to perform given current economic and growth conditions in Galveston, and across the region as well. General Fund expenditures are projected using the FY 2015 Budget as the starting point that are then adjusted to remove one-time expenditures. Baseline revenue growth does not cover baseline growth in expenditures without making expenditure cuts and/or identifying new revenue.

Significant funding needs are being considered that are also identified in the Forecast in a cursory manner along with potential means of addressing them. Significant new revenue sources will have to be identified in order to address even some of these needs.

The Debt Service Fund forecast uses existing tax-supported debt as the baseline. The Forecast then goes further to demonstrate how a bond program beginning in FY 2017 (after voter approval is obtained) can be sustained using the existing debt service property tax rate along with strategic use of the Infrastructure and Debt Service Fund.

Please let me know if I can provide further information.

Brian Maxwell, City Manager

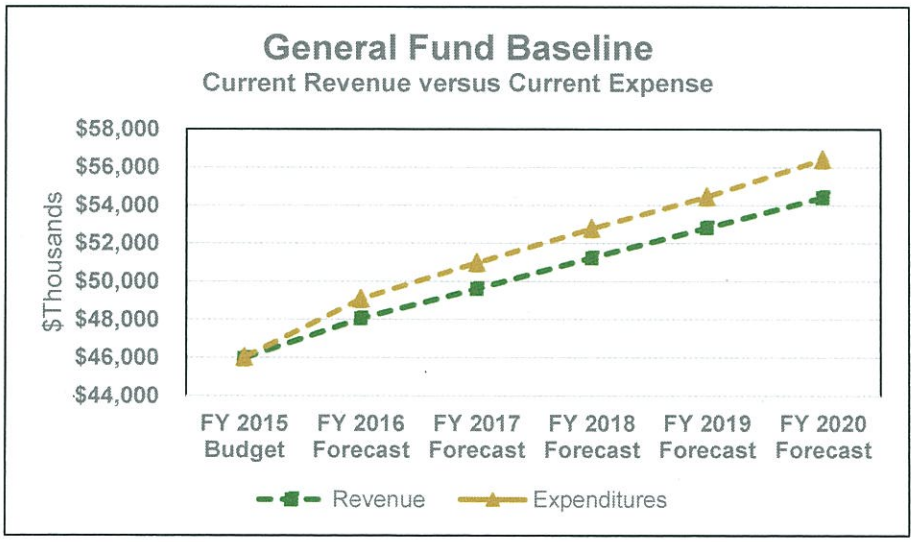
LONG RANGE FINANCIAL FORECAST
GENERAL FUND SUMMARY

Baseline Forecast

General Fund baseline expenditures exceed projected revenue in every fiscal year of the Forecast period. This includes 2% per year for employee compensation increases, allowances in other accounts for 2% inflation, and eliminates funding for one-time items included in the FY 2015 Budget. General Fund revenue is projected here to receive a significant boost from a 7% increase in property tax revenue as the result of a booming housing market and increases in property appraisals.

FORECAST SUMMARY
GENERAL FUND BASELINE PROJECTIONS
($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Beginning Balance	$16,881	$12,209	$17,378	$16,344	$14,979	$13,446	$11,827
Revenue	$45,977	$46,062	$48,057	$49,614	$51,243	$52,826	$54,426
Expenditures	$46,020	$48,549	$49,091	$50,979	$52,776	$54,445	$56,410
Revenues Over/(Under) Expenditures	($43)	($2,487)	($1,034)	($1,365)	($1,533)	($1,619)	($1,984)
Subtotal	$16,838	$9,722	$16,344	$14,979	$13,446	$11,827	$9,843
Transfer to One-Time Projects	$4,629	$0	$0	$0	$0	$0	$0
Ending Balance	$12,209	$9,722	$16,344	$14,979	$13,446	$11,827	$9,843
Policy Goal - 90 Days of Working Capital	$11,347	$11,971	$12,105	$12,570	$13,013	$13,425	$13,909



The General Fund Budget will be balanced each fiscal year, but the gap of baseline expenditures over revenues can be addressed each fiscal year by increasing revenues or reducing expenditures. The gap occurs because all expenditures respond to growth in the City and/or inflation while only some of the revenues perform in similar fashion.

Baseline Cost Growth

The chart below captures the change in baseline costs built into the Forecast.

GENERAL FUND FORECAST CUMULATIVE CHANGE IN BASELINE COST ($000'S)					
	FY 2016 Forecast	**FY 2017 Forecast**	**FY 2018 Forecast**	**FY 2019 Forecast**	**FY 2020 Forecast**
Inflation/Growth					
Annual Salary and Benefits Cost Increases	$977	$1,813	$2,489	$3,193	$3,900
New positions funded for part of FY 2015	$146	$149	$152	$155	$158
Loss of grant reimbursements	$330	$374	$415	$436	$456
Inflation on supply, services and equipment	$454	$736	$1,206	$1,449	$1,947
Increase in electrical cost for street lights	$404	$404	$404	$462	$523
Increase in inmate housing	$198	$209	$222	$235	$248
Transfer to Capital Improvement and/or Debt Service Account	$543	$1,102	$1,693	$2,317	$2,974
Subtotal Inflation/Growth	**$3,052**	**$4,787**	**$6,581**	**$8,247**	**$10,206**
New Facilities M&O Costs					
Public Works Facility	$0	$154	$158	$161	$165
Subtotal New Facilities	**$0**	**$154**	**$158**	**$161**	**$165**
Total Cumulative Baseline Increase	**$3,052**	**$4,941**	**$6,739**	**$8,408**	**$10,371**

Personnel costs (salary and benefits, added cost in FY2016 of new positions funded for part of FY2015, and loss of grant reimbursements for personnel) comprise $1.46 million or 48 percent of the total increase. The increases in street light electrical costs and inmate housing cost total $602,000 over the FY 2015 Budget, or 20 percent of the total increase. Inflation on non-personnel accounts provides the balance of the increase over the FY 2015 Budget at $454,000 or approximately 15 percent of the increase. The transfer to the infrastructure and debt service set aside will increase to four percent of the total General Fund budget in FY 2016, and the $543,000 increase includes the effect of growth in the Budget as represented by revenue growth as well as the increased percentage transferred.

How to address the Shortfall of Revenue versus Expense

Eliminating the shortfall ($1,034,000 in FY 2016) can be addressed as follows:

- Minimize the inflation allowance for supplies, services, and equipment (reduce by two-thirds - $286,000 savings).
- Budget salaries and benefits assuming some vacancy rate (1-5%) in all but the smallest departments reducing the budget by as much as $500,000 or more. This is a department by department determination that must be used without hampering the department's ability to fill budgeted positions. It is also a means of capturing "vacancy lapse" at the start of the fiscal year through more careful preparation of the Proposed Budget.
- Examine accounts throughout the General Fund, eliminating budget balances in non-personnel accounts used as contingencies at the Department level saving perhaps $200,000-300,000. (Note: This would require that the City Manager's contingency be increased.)

- Utilize special funds and what are currently off-budget funds for recurring and one-time costs to a greater extent.

These and similar measures applied by management can address the expenditure-revenue gap and perhaps create a surplus to allocate for priority programs.

Priority Programs Not Addressed

The chart below is not intended to be an exhaustive listing of priority programs for the General Fund operating budget nor is it shown in any kind of priority order. But it is intended to give an idea of the potential additional funding needed over the next five years if ideas being discussed find their way into the budget.

The Debt Service Forecast anticipates new bonds issued beginning in FY2017 as the result of an election after currently available funds for locally funded projects are gone. The chart below also does not include potential closeout funding for Hurricane Ike projects as the result of final audits by FEMA and the State.

GENERAL FUND FORECAST PRIORITY PROGRAMS NOT IN BASELINE ($000S) IN NO PARTICULAR ORDER					
	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Implement Minimum Adjustments over time in anticipated response to Compensation Study (Additional 1% of Payroll Annually)	$489	$907	$1,245	$1,597	$1,950
Fire classified Personnel and firefighting equipment (for ISO rating)	$350	$357	$364	$371	$379
Fire ladder truck (additional for ISO rating)	$1,500	$0	$0	$0	$0
Fire ladder truck staffing (9 FF's fo ISO rating)	$0	$655	$668	$681	$695
Fire pumper (replacement)	$0	$600	$0	$0	$0
Police Department Personnel (including civilians and officers)and technology (estimate, not a request)	$500	$1,000	$1,000	$1,000	$1,000
Sidewalks, curb and gutter crew (includes equipment in first year)	$417	$267	$272	$278	$283
Vehicle Replacement (General Fund $1M Base - Five Year average annual need $1.3M)	$300	$300	$300	$300	$300
Island Transit cumulative Local Funding Increase ($750K Base in FY2015)	$200	$300	$450	$450	$450
Total Cumulative Baseline Increase	**$3,756**	**$4,385**	**$4,299**	**$4,677**	**$5,057**

- The Compensation Study is not finished but preliminary results indicate that an additional increase in employee salaries beyond the 2 percent baseline increase may be necessary to bring the City of Galveston up to market. This presentation simply anticipates the need to phase in the additional pay required over time.
- Public Safety funding needs are shown here in the most general of terms that will be fleshed out in some detail when the actual budget process begins.

- The sidewalks, curb and gutter crew is being discussed as a part of a comprehensive approach to this key infrastructure area that would include property owners providing funding for materials necessary to build improvements abutting their property.
- The preliminary vehicle replacement funding need for General Fund departments for the next five years is approximately $6.5 million or $1.3 million per fiscal year.
- The Island Transit local funding increase is based on a comprehensive five year forecast for Island Transit. It may be possible to address a portion of this by tightening the way salaries and benefits are calculated as well as securing greater federal and state funding for Island Transit.

Funding for these programs could come from the following sources:

GENERAL FUND FORECAST POTENTIAL FUNDING FOR PRIORITY PROGRAMS ($000S)					
	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Implement a one cent Property Tax Increase in FY 2016 and maintain it through FY2020	$414	$426	$439	$452	$466
Close TIRZ 11 and Maintain Current Tax Rate	$900	$927	$955	$983	$1,013
Sales tax revenue increase from one percent higher employment growth for region for each year of the forecast	$125	$437	$655	$887	$1,133
Dedicate half of the Growth in the Infrastructure and Debt Service set aside to Existing Debt Service Payments	$272	$551	$847	$1,159	$1,487
OR					
Dedicate half of the Infrastructure and Debt Service set aside to Existing Debt Service Payments	$961	$1,240	$1,537	$1,848	$2,176
OR					
Dedicate an amount of the Infrastructure and Debt Service set aside equal to new debt service tied to voter-approved bonds	$0	$610	$1,242	$1,892	$2,580

The Debt Service Fund forecast addresses the Infrastructure and Debt Service set aside above and demonstrates how it can be used to finance a steady investment in the City's infrastructure.

GENERAL FUND FORECAST POTENTIAL FUNDING FOR PRIORITY PROGRAMS ($000S) EXPLANATION OF INFRASTRUCTURE AND DEBT SETASIDE AMOUNTS					
	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
General Fund Revenue	$48,057	$49,614	$51,243	$52,826	$54,426
Setaside Percentage	4%	5%	6%	7%	8%
Setaside Amount	$1,922	$2,481	$3,075	$3,698	$4,354
Cumulative Growth in Setaside	$543	$1,102	$1,696	$2,319	$2,975
Dedicate half of the Growth in the Infrastructure and Debt Service set aside to Existing Debt Service Payments ***	$272	$551	$848	$1,160	$1,488
OR					
Dedicate half of the Infrastructure and Debt Service set aside to Existing Debt Service Payments	$961	$1,241	$1,538	$1,849	$2,177
OR					
Dedicate an amount of the Infrastructure and Debt Service set aside equal to new debt service tied to voter-approved bonds****	$0	$610	$1,242	$1,892	$2,580

***** Slightly differing amounts from Long Range Financial Forecast document.**
****** See Debt Service Fund Forecast, page 8, line titled, "Subtotal Future Bonds Debt Service"**

GENERAL FUND BASELINE FORECAST
FUND BALANCE, REVENUE AND EXPENDITURES
FY 2016 - FY2020
($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Beginning Balance	**$16,881**	**$17,378**	**$17,378**	**$16,344**	**$14,979**	**$13,446**	**$11,827**
Revenue							
Property Taxes	$18,547	$18,884	$20,206	$20,812	$21,436	$22,079	$22,741
Sales Taxes	14,608	14,800	15,262	15,996	16,776	17,485	18,184
Other Taxes	715	798	830	863	898	934	971
Franchise Taxes	5,324	5,272	5,378	5,486	5,596	5,708	5,822
Licenses and Permits	1,044	1,171	1,183	1,195	1,207	1,219	1,231
Intergovernmental	725	750	750	750	750	750	750
Charges for Services	1,825	1,722	1,739	1,756	1,774	1,792	1,810
Fines and Forfeits	2,212	1,713	1,747	1,782	1,818	1,854	1,891
Investment Earnings	69	50	60	72	86	103	124
Miscellaneous	908	902	902	902	902	902	902
Total Revenue	**$45,977**	**$46,062**	**$48,057**	**$49,614**	**$51,243**	**$52,826**	**$54,426**
Expenditures by Department							
General Government	$3,967	$4,143	$4,229	$4,220	$4,433	$4,417	$4,640
Finance	1,581	1,834	1,872	1,923	1,979	2,036	2,096
Public Safety	27,661	28,702	28,824	29,658	30,307	30,975	31,652
Public Works	3,387	3,837	3,890	3,999	4,089	4,222	4,361
Parks and Recreation	2,317	2,400	2,442	2,500	2,553	2,614	2,677
Planning & Comm. Development	2,267	2,282	2,326	2,380	2,434	2,488	2,543
Non-Departmental	3,461	3,509	3,587	3,819	3,908	3,997	4,089
Capital Improvement and/or Debt Service Account	1,379	1,842	1,921	2,480	3,073	3,696	4,352
Total Expenditures	**$46,020**	**$48,549**	**$49,091**	**$50,979**	**$52,776**	**$54,445**	**$56,410**
Revenues Over/(Under) Expenditures	**($43)**	**($2,487)**	**($1,034)**	**($1,365)**	**($1,533)**	**($1,619)**	**($1,984)**
Subtotal	**$16,838**	**$14,891**	**$16,344**	**$14,979**	**$13,446**	**$11,827**	**$9,843**
Transfer to One-Time Projects	**$4,629**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Ending Balance	**$12,209**	**$14,891**	**$16,344**	**$14,979**	**$13,446**	**$11,827**	**$9,843**
Policy Goal - 90 Days of Working Capital	**$11,347**	**$11,971**	**$12,105**	**$12,570**	**$13,013**	**$13,425**	**$13,909**

GENERAL FUND BASELINE FORECAST
EXPENDITURES BY DEPARTMENT
FY 2016 - FY2020 ($THOUSANDS)

	FY 2015 Budget	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
General Government							
City Secretary	$402	$521	$529	$417	$549	$435	$571
Municipal Court	675	679	693	710	727	745	763
City Manager	687	712	729	746	763	781	800
City Auditor	246	281	286	292	297	303	309
Legal	770	778	794	831	846	874	889
Human Resources	337	322	329	336	343	350	358
Transportation	850	850	869	888	908	929	950
Subtotal - General Government	**$3,967**	**$4,143**	**$4,229**	**$4,220**	**$4,433**	**$4,417**	**$4,640**
Finance							
Administration	$283	$279	$285	$291	$297	$303	$310
Accounting	1,022	1,096	1,119	1,154	1,194	1,235	1,277
Purchasing	160	221	226	230	235	240	245
Budget	116	238	242	248	253	258	264
Subtotal - Finance	**$1,581**	**$1,834**	**$1,872**	**$1,923**	**$1,979**	**$2,036**	**$2,096**
Public Safety							
Police	$16,884	$17,662	$17,735	$18,164	$18,564	$18,975	$19,395
Fire	10,001	10,258	10,289	10,665	10,885	11,112	11,344
Emergency Management	210	216	221	237	253	269	280
Emergency Medical Service	566	566	579	592	605	619	633
Subtotal - Public Safety	**$27,661**	**$28,702**	**$28,824**	**$29,658**	**$30,307**	**$30,975**	**$31,652**
Public Works							
Streets	$1,895	$1,911	$1,945	$2,026	$2,091	$2,140	$2,191
Traffic	1,492	1,926	1,945	1,973	1,998	2,082	2,170
Subtotal - Public Works	**$3,387**	**$3,837**	**$3,890**	**$3,999**	**$4,089**	**$4,222**	**$4,361**
Parks and Recreation							
Administration	$651	$685	$697	$709	$721	$740	$760
Parks and Parkways	1,666	1,715	1,745	1,791	1,832	1,874	1,917
Subtotal - Parks and Recreation	**$2,317**	**$2,400**	**$2,442**	**$2,500**	**$2,553**	**$2,614**	**$2,677**
Planning & Comm. Development							
Planning	$1,114	$1,124	$1,147	$1,172	$1,198	$1,225	$1,252
Code Enforcement	589	591	602	617	632	646	661
Building Inspection	564	567	577	591	604	617	630
Subtotal - Planning & Comm. Development	**$2,267**	**$2,282**	**$2,326**	**$2,380**	**$2,434**	**$2,488**	**$2,543**
Non-Departmental							
Vehicle Purchases	$1,000	$1,000	$1,022	$1,044	$1,069	$1,093	$1,118
Govermental Expenditures	213	213	218	223	228	233	238
Facility Maintenance	1,848	1,888	1,930	2,126	2,175	2,225	2,277
Transfer to Separation Pay Fund	400	408	417	426	436	446	456
Capital Improvement and/or Debt Service Account	1,379	1,842	1,921	2,480	3,073	3,696	4,352
Subtotal - Non-Departmental	**$4,840**	**$5,351**	**$5,508**	**$6,299**	**$6,981**	**$7,693**	**$8,441**
Total General Fund	**$46,020**	**$48,549**	**$49,091**	**$50,979**	**$52,776**	**$54,445**	**$56,410**

LONG RANGE FINANCIAL FORECAST
GENERAL DEBT SERVICE FUND

Overview

The General Debt Service Fund Forecast focuses on the portion of the City's debt that is supported with the property tax levy that supports the payment of debt service. This forecast offers a single scenario to demonstrate how the City can afford a long-term, tax-supported bond financed improvement program at the current tax rate. The underlying assumptions that make this possible are:

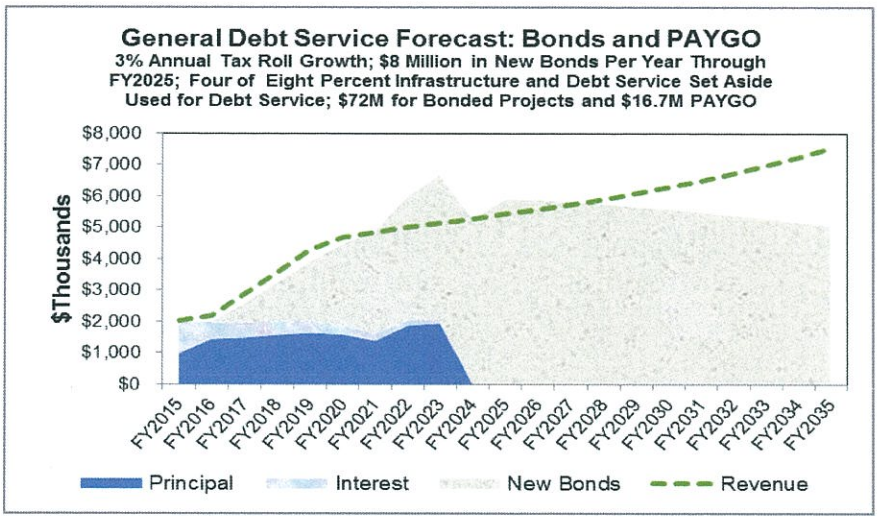
1. Annual property tax roll growth of 3% per year;
2. The General Fund's contribution to the Infrastructure and Debt Service Fund tops out at 8 percent of the General Fund in FY 2020. This forecast assumes that the set aside funds debt service on new bonds issued beginning in FY 2017. As debt service on new bonds reaches an amount equal to 4 percent of the 8 percent set aside amount, the Debt Service Fund share of the set aside remains at half of the total thereafter;
3. Infrastructure and Debt Service Fund set aside increases by 3 percent each year;
4. Interest rates increase slowly from the current historically low level; and
5. A conservative amortization approach to principal payments on new debt is used that schedules more principal than the average, level payment, consumer-type loan.

GENERAL DEBT SERVICE FORECAST
FY 2016-2020 ($THOUSANDS)

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
REVENUE						
Property Taxes	$2,008	$2,145	$2,209	$2,275	$2,344	$2,414
Infrastructure & Debt Service Fund Transfer	$0	$0	$610	$1,242	$1,892	$2,176
Interest Income	$23	$55	$60	$65	$70	$82
TOTAL REVENUE	**$2,031**	**$2,200**	**$2,879**	**$3,582**	**$4,306**	**$4,672**
EXPENSE						
Current Debt Service						
Principal	$987	$1,446	$1,486	$1,578	$1,648	$1,594
Interest	$1,013	$524	$480	$430	$367	$297
Paying Agent Fees	$5	$5	$5	$5	$5	$5
Subtotal Current Debt Service	**$2,005**	**$1,975**	**$1,971**	**$2,013**	**$2,020**	**$1,896**
Projected Future Bonds Debt Service						
Interest	$0	$0	$349	$703	$1,061	$1,423
Principal	$0	$0	$261	$539	$831	$1,157
Subtotal Future Bonds Debt Service	**$0**	**$0**	**$610**	**$1,242**	**$1,892**	**$2,580**
TOTAL EXPENSE	**$2,005**	**$1,975**	**$2,581**	**$3,255**	**$3,912**	**$4,476**
Revenue Over/(Under) Expense	**$26**	**$225**	**$298**	**$327**	**$394**	**$196**
Beginning Fund Balance	**$4,117**	**$4,203**	**$4,428**	**$4,726**	**$5,053**	**$5,447**
Ending Fund Balance	**$4,203**	**$4,428**	**$4,726**	**$5,053**	**$5,447**	**$5,643**
	FY2015	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Taxable Value ($millions)	**$4,760.8**	**$5,094.1**	**$5,246.9**	**$5,404.3**	**$5,566.4**	**$5,733.4**
Debt Service Tax Rate	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**
Property Tax Growth		**7.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Investment Pool Earnings Rate	**0.2%**	**0.2%**	**0.3%**	**0.5%**	**1.0%**	**1.5%**
Future Bond Issue ($000's)		**$0**	**$8,000**	**$8,000**	**$8,000**	**$8,000**
Overall Interest Rate		**3.50%**	**4.00%**	**4.25%**	**4.50%**	**5.00%**
Interest Rate Diff with FY15 Rates		**0.00%**	**0.50%**	**0.75%**	**1.00%**	**1.50%**

As provided by the City Charter, the issuance of General Obligation bonds requires prior approval by the voters before this scenario could take place. This approach is sustainable (see graph) over a longer period of time and is a key feature of an overall annual capital improvement planning and budgeting process including the following:

1. Specific projects are scheduled by phase (design, acquisition and construction) and by fiscal year;
2. Existing cash balances for capital construction are allocated to projects as legally and financially allowed prior to a decision on issuance of new bonds;
3. The economy is evaluated and potential revenue availability is assessed annually; and
4. A decision is made one year at a time on how many and what type of bond-financed projects are affordable, including the potential sale of new voter-approved debt as might be deemed prudent.



Notable in the graph above are the following:

- The City's current tax-supported debt will be paid off in FY 2024.
- The combined effect of growth in the tax roll and a ramping up in an annual contribution from the Infrastructure and Debt Service Fund provides $72 million for bond funded projects and $16.7 million for pay-as-you-go projects (PAYGO) over a nine year period.
- The increase in currently existing current debt service payments in FY 2023 and 2024 turns into a spike when uniform debt service allocations for a series of annual bond sales are layered on top of the existing debt service payment in those same fiscal years. This can be smoothed rather easily through future bond sales if desired from a policy standpoint.
- This forecast includes no new bond sales beyond FY 2025 and features how annual debt service payments decline over time, providing an annual opportunity to reduce costs or issue bonds for additional project financing needs.

Not shown in the graph is the Debt Service Fund balance that remains at healthy levels ($2.26 million minimum) throughout the twenty year forecast period. As presented in the General Fund Forecast, the General Fund contribution to the Infrastructure and Debt Service Fund will reach its charter-mandated eight percent of Budget level in FY 2020. In that fiscal year, the contribution will be $4.35 million. The contribution of the I&DS Fund to the General Debt Service Fund in FY 2020 of $2.2 million would be fifty percent of the total allocation by the

General Fund equivalent to 4 of the 8 percent set aside as previously discussed. As General Fund revenue could be expected to grow after FY 2020 by 3% per year, the eight percent set aside for Infrastructure and Debt Service is also expected to grow over time.

The City's outstanding tax supported debt would grow over time as a result of implementing a bond election and issuing $8 million in new bonds per year. However, because of the payoff of other bonds, the total amount outstanding would reach $59.1 million in FY 2025 using the assumptions shown in these tables.

GENERAL DEBT SERVICE FUND FORECAST
FY2016-2035 ($THOUSANDS)

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
REVENUE											
Property Taxes	$2,008	$2,145	$2,209	$2,275	$2,344	$2,414	$2,486	$2,561	$2,638	$2,717	$2,798
Infrastructure & Debt Service Fund Transfer	$0	$0	$610	$1,242	$1,892	$2,176	$2,242	$2,309	$2,378	$2,450	$2,523
Interest Income	$23	$55	$60	$65	$70	$82	$113	$140	$138	$109	$124
TOTAL REVENUE	**$2,031**	**$2,200**	**$2,879**	**$3,582**	**$4,306**	**$4,672**	**$4,841**	**$5,010**	**$5,154**	**$5,276**	**$5,445**
EXPENSE											
Current Debt Service											
Principal	$987	$1,446	$1,486	$1,578	$1,648	$1,594	$1,393	$1,875	$1,960	$0	$0
Interest	$1,013	$524	$480	$430	$367	$297	$230	$173	$89	$0	$0
Paying Agent Fees	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Subtotal Current Debt Service	**$2,005**	**$1,975**	**$1,971**	**$2,013**	**$2,020**	**$1,896**	**$1,628**	**$2,053**	**$2,054**	**$5**	**$5**
Projected Future Bonds Debt Service											
Interest	$0	$0	$349	$703	$1,061	$1,423	$1,791	$2,164	$2,542	$2,925	$3,314
Principal	$0	$0	$261	$539	$831	$1,157	$1,472	$1,776	$2,067	$2,344	$2,606
Subtotal Future Bonds Debt Service	**$0**	**$0**	**$610**	**$1,242**	**$1,892**	**$2,580**	**$3,263**	**$3,940**	**$4,609**	**$5,269**	**$5,920**
TOTAL EXPENSE	**$2,005**	**$1,975**	**$2,581**	**$3,255**	**$3,912**	**$4,476**	**$4,891**	**$5,993**	**$6,663**	**$5,274**	**$5,925**
Revenue Over/(Under) Expense	**$26**	**$225**	**$298**	**$327**	**$394**	**$196**	**($50)**	**($983)**	**($1,509)**	**$2**	**($480)**
Beginning Fund Balance	**$4,117**	**$4,203**	**$4,428**	**$4,726**	**$5,053**	**$5,447**	**$5,643**	**$5,593**	**$4,610**	**$3,101**	**$3,103**
Ending Fund Balance	**$4,203**	**$4,428**	**$4,726**	**$5,053**	**$5,447**	**$5,643**	**$5,593**	**$4,610**	**$3,101**	**$3,103**	**$2,623**
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Taxable Value ($millions)	**$4,760.8**	**$5,094.1**	**$5,246.9**	**$5,404.3**	**$5,566.4**	**$5,733.4**	**$5,905.4**	**$6,082.6**	**$6,265.1**	**$6,453.1**	**$6,646.7**
Debt Service Tax Rate	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**
Property Tax Growth		**7.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Investment Pool Earnings Rate	**0.2%**	**0.2%**	**0.3%**	**0.5%**	**1.0%**	**1.5%**	**2.0%**	**2.5%**	**3.0%**	**3.5%**	**4.0%**
Future Bond Issue ($000's)		**$0**	**$8,000**	**$8,000**	**$8,000**	**$8,000**	**$8,000**	**$8,000**	**$8,000**	**$8,000**	**$8,000**
Overall Interest Rate		**3.50%**	**4.00%**	**4.25%**	**4.50%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**
Interest Rate Diff with FY15 Rates		**0.00%**	**0.50%**	**0.75%**	**1.00%**	**1.50%**	**1.50%**	**1.50%**	**1.50%**	**1.50%**	**1.50%**
Future Debt Service Schedules	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
Principal											
FY2016		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FY2017			$349	$354	$358	$362	$368	$373	$378	$383	$389
FY2018				$349	$354	$358	$362	$368	$373	$378	$383
FY2019					$349	$354	$358	$362	$368	$373	$378
FY2020						$349	$354	$358	$362	$368	$373
FY2021							$349	$354	$358	$362	$368
FY2022								$349	$354	$358	$362
FY2023									$349	$354	$358
FY2024										$349	$354
FY2025											$349
Subtotal Interest	**$0**	**$0**	**$349**	**$703**	**$1,061**	**$1,423**	**$1,791**	**$2,164**	**$2,542**	**$2,925**	**$3,314**
Interest											
FY2016		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FY2017			$261	$258	$253	$247	$240	$232	$223	$213	$202
FY2018				$281	$277	$271	$264	$256	$247	$237	$226
FY2019					$301	$296	$289	$281	$272	$262	$251
FY2020						$343	$336	$328	$318	$307	$295
FY2021							$343	$336	$328	$318	$307
FY2022								$343	$336	$328	$318
FY2023									$343	$336	$328
FY2024										$343	$336
FY2025											$343
Subtotal Principal	**$0**	**$0**	**$261**	**$539**	**$831**	**$1,157**	**$1,472**	**$1,776**	**$2,067**	**$2,344**	**$2,606**
Total by Year											
FY2016		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FY2017			$610	$612	$611	$609	$608	$605	$601	$596	$591
FY2018				$630	$631	$629	$626	$624	$620	$615	$609
FY2019					$650	$650	$647	$643	$640	$635	$629
FY2020						$692	$690	$686	$680	$675	$668
FY2021							$692	$690	$686	$680	$675
FY2022								$692	$690	$686	$680
FY2023									$692	$690	$686
FY2024										$692	$690
FY2025											$692
Subtotal by Year	**$0**	**$0**	**$610**	**$1,242**	**$1,892**	**$2,580**	**$3,263**	**$3,940**	**$4,609**	**$5,269**	**$5,920**

THIS PRESENTATION ASSUMES THAT VOTER AUTHORIZATION WILL BE REQUIRED TO ISSUE THE $8 MILLION ANNUAL DEBT THAT WOULD BE USED FOR STREET, DRAINAGE, PUBLIC SAFETY, PUBLIC FACILITIES AND OTHER TAX SUPPORTED CAPITAL PROJECTS.

GENERAL DEBT SERVICE FUND FORECAST
FY2016-2035 ($THOUSANDS)

	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
REVENUE										
Property Taxes	$2,882	$2,969	$3,058	$3,150	$3,244	$3,341	$3,442	$3,545	$3,651	$3,761
Infrastructure & Debt Service Fund Transfer	$2,599	$2,677	$2,757	$2,840	$2,925	$3,012	$3,103	$3,196	$3,292	$3,390
Interest Income	$105	$93	$91	$97	$114	$142	$182	$235	$303	$386
TOTAL REVENUE	**$5,586**	**$5,739**	**$5,906**	**$6,087**	**$6,283**	**$6,495**	**$6,727**	**$6,976**	**$7,246**	**$7,537**
EXPENSE										
Current Debt Service										
Principal	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Paying Agent Fees	$5	$5	$5	$5	$5	$5	$5	$5	$5	$0
Subtotal Current Debt Service	**$5**	**$5**	**$5**	**$5**	**$5**	**$5**	**$5**	**$5**	**$5**	**$0**
Projected Future Bonds Debt Service										
Interest	$3,359	$3,405	$3,453	$3,503	$3,553	$3,606	$3,660	$3,716	$3,773	$3,833
Principal	$2,509	$2,402	$2,285	$2,159	$2,024	$1,880	$1,727	$1,566	$1,397	$1,221
Subtotal Future Bonds Debt Service	**$5,868**	**$5,807**	**$5,738**	**$5,662**	**$5,577**	**$5,486**	**$5,387**	**$5,282**	**$5,170**	**$5,054**
TOTAL EXPENSE	**$5,873**	**$5,812**	**$5,743**	**$5,667**	**$5,582**	**$5,491**	**$5,392**	**$5,287**	**$5,175**	**$5,054**
Revenue Over/(Under) Expense	**($287)**	**($73)**	**$163**	**$420**	**$701**	**$1,004**	**$1,335**	**$1,689**	**$2,071**	**$2,483**
Beginning Fund Balance	**$2,623**	**$2,336**	**$2,263**	**$2,426**	**$2,846**	**$3,547**	**$4,551**	**$5,886**	**$7,575**	**$9,646**
Ending Fund Balance	**$2,336**	**$2,263**	**$2,426**	**$2,846**	**$3,547**	**$4,551**	**$5,886**	**$7,575**	**$9,646**	**$12,129**

	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Taxable Value ($millions)	**$6,846.1**	**$7,051.5**	**$7,263.0**	**$7,480.9**	**$7,705.3**	**$7,936.5**	**$8,174.6**	**$8,419.8**	**$8,672.4**	**$8,932.6**
Debt Service Tax Rate	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**	**$0.047306**
Property Tax Growth	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Investment Pool Earnings Rate	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
Future Bond Issue ($000's)										
Overall Interest Rate										
Interest Rate Diff with FY15 Rates										

Future Debt Service Schedules	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Principal										
FY2016	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FY2017	$394	$400	$406	$412	$418	$426	$432	$439	$446	$454
FY2018	$389	$394	$400	$406	$412	$418	$426	$432	$439	$446
FY2019	$383	$389	$394	$400	$406	$412	$418	$426	$432	$439
FY2020	$378	$383	$389	$394	$400	$406	$412	$418	$426	$432
FY2021	$373	$378	$383	$389	$394	$400	$406	$412	$418	$426
FY2022	$368	$373	$378	$383	$389	$394	$400	$406	$412	$418
FY2023	$362	$368	$373	$378	$383	$389	$394	$400	$406	$412
FY2024	$358	$362	$368	$373	$378	$383	$389	$394	$400	$406
FY2025	$354	$358	$362	$368	$373	$378	$383	$389	$394	$400
Subtotal Interest	**$3,359**	**$3,405**	**$3,453**	**$3,503**	**$3,553**	**$3,606**	**$3,660**	**$3,716**	**$3,773**	**$3,833**
Interest										
FY2016	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FY2017	$190	$177	$163	$148	$132	$115	$97	$79	$60	$41
FY2018	$214	$201	$187	$172	$156	$139	$121	$102	$83	$63
FY2019	$239	$226	$212	$197	$181	$164	$146	$127	$107	$87
FY2020	$282	$268	$253	$237	$220	$202	$183	$163	$142	$120
FY2021	$295	$282	$268	$253	$237	$220	$202	$183	$163	$142
FY2022	$307	$295	$282	$268	$253	$237	$220	$202	$183	$163
FY2023	$318	$307	$295	$282	$268	$253	$237	$220	$202	$183
FY2024	$328	$318	$307	$295	$282	$268	$253	$237	$220	$202
FY2025	$336	$328	$318	$307	$295	$282	$268	$253	$237	$220
Subtotal Principal	**$2,509**	**$2,402**	**$2,285**	**$2,159**	**$2,024**	**$1,880**	**$1,727**	**$1,566**	**$1,397**	**$1,221**
Total by Year										
FY2016	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FY2017	$584	$577	$569	$560	$550	$541	$529	$518	$506	$495
FY2018	$603	$595	$587	$578	$568	$557	$547	$534	$522	$509
FY2019	$622	$615	$606	$597	$587	$576	$564	$553	$539	$526
FY2020	$660	$651	$642	$631	$620	$608	$595	$581	$568	$552
FY2021	$668	$660	$651	$642	$631	$620	$608	$595	$581	$568
FY2022	$675	$668	$660	$651	$642	$631	$620	$608	$595	$581
FY2023	$680	$675	$668	$660	$651	$642	$631	$620	$608	$595
FY2024	$686	$680	$675	$668	$660	$651	$642	$631	$620	$608
FY2025	$690	$686	$680	$675	$668	$660	$651	$642	$631	$620
Subtotal by Year	**$5,868**	**$5,807**	**$5,738**	**$5,662**	**$5,577**	**$5,486**	**$5,387**	**$5,282**	**$5,170**	**$5,054**

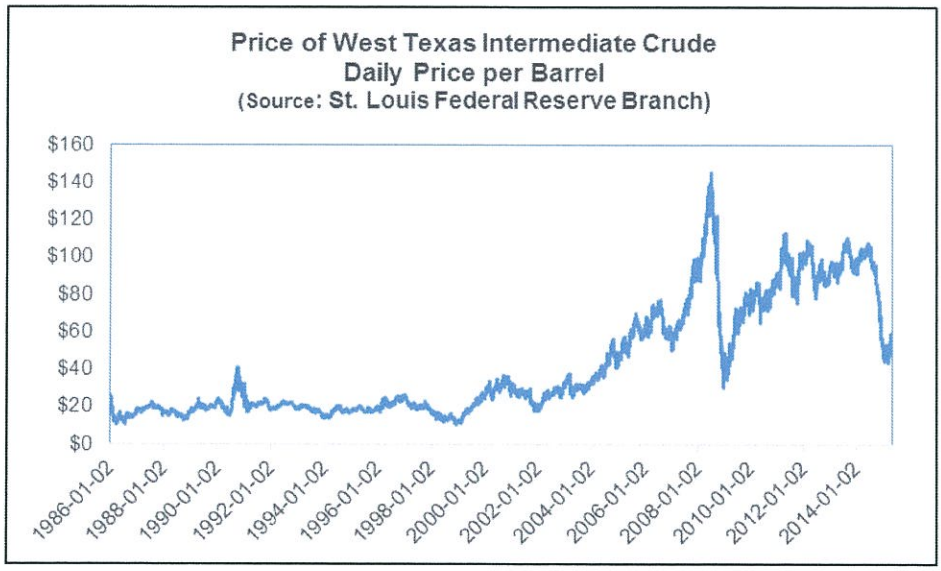
THIS PRESENTATION ASSUMES THAT VOTER AUTHORIZATION WILL BE REQUIRED TO ISSUE THE $8 MILLION ANNUAL DEBT THAT WOULD BE USED FOR STREET, DRAINAGE, PUBLIC SAFETY, PUBLIC FACILITIES AND OTHER TAX SUPPORTED CAPITAL PROJECTS.

LONG RANGE FINANCIAL FORECAST
ECONOMIC OUTLOOK AND
GENERAL FUND REVENUE FORECAST

Economic Overview

Texas and the Gulf Coast region have experienced rapid growth since the financial services downturn and the "Great Recession" of 2009. Employment growth rates have been the highest in the nation as most of the nation's employment growth has come from the state of Texas. The energy sector, long the bell cow of the Texas economy, has been a key driver of this growth pattern. Worldwide growth has led to increased demand for oil during this time driving oil prices to all-time highs. Coupled with the boom in horizontal drilling and domestic oil production, the demand for more oil has helped to create a prosperous economic climate for Texas. Energy jobs are our economic base as a state and region, leading to the creation of thousands of "spinoff" jobs that benefit the state and the area.

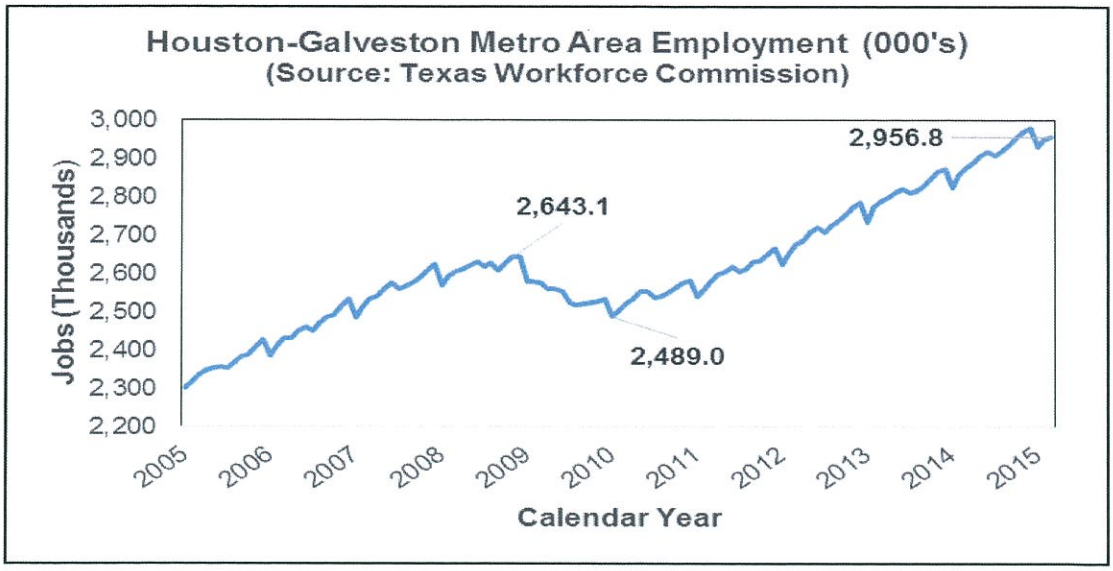
So it is with this understanding that the drops in oil prices and in the active drilling rig count are a source of concern for the local economy. Beginning in the summer of 2014, the energy sector experienced a slowdown that has resulted in oil prices dropping to levels not seen since 2010 when the economic downturn hit its lowest point. As a result, local economists are projecting a slowdown in the regional employment that will undoubtedly impact Galveston to some extent.



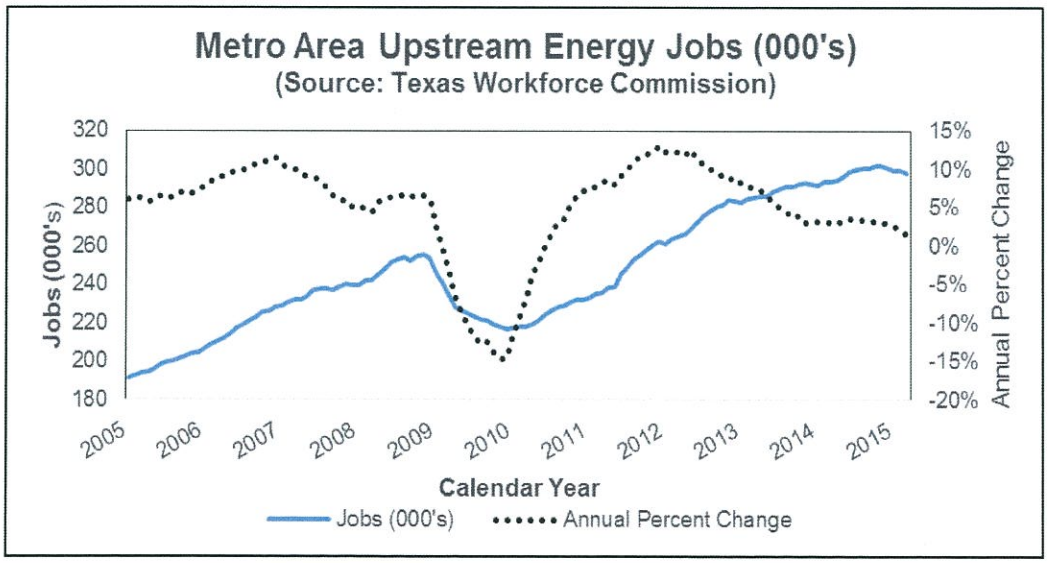
Regional and Local Indicators

Like the state and region, Galveston has seen a strong recovery since suffering the combined effects of the financial services downturn and Hurricane Ike. Taxable property value, retail sales, and a continued high level of tourism are signs that our recovery is continuing. The connection between the ten year growth-decline and then growth again patterns among these

key areas is striking. Employment peaked at 2,643,200 jobs in November of 2008 and bottomed out in January 2010 at 2,489,000 jobs. Today, 468,000 jobs later, the metropolitan area has shown the strongest rebound of any major metropolitan area from the Great Recession of 2009-2010. However, the total employment picture fails to show the underlying trend with upstream energy jobs.

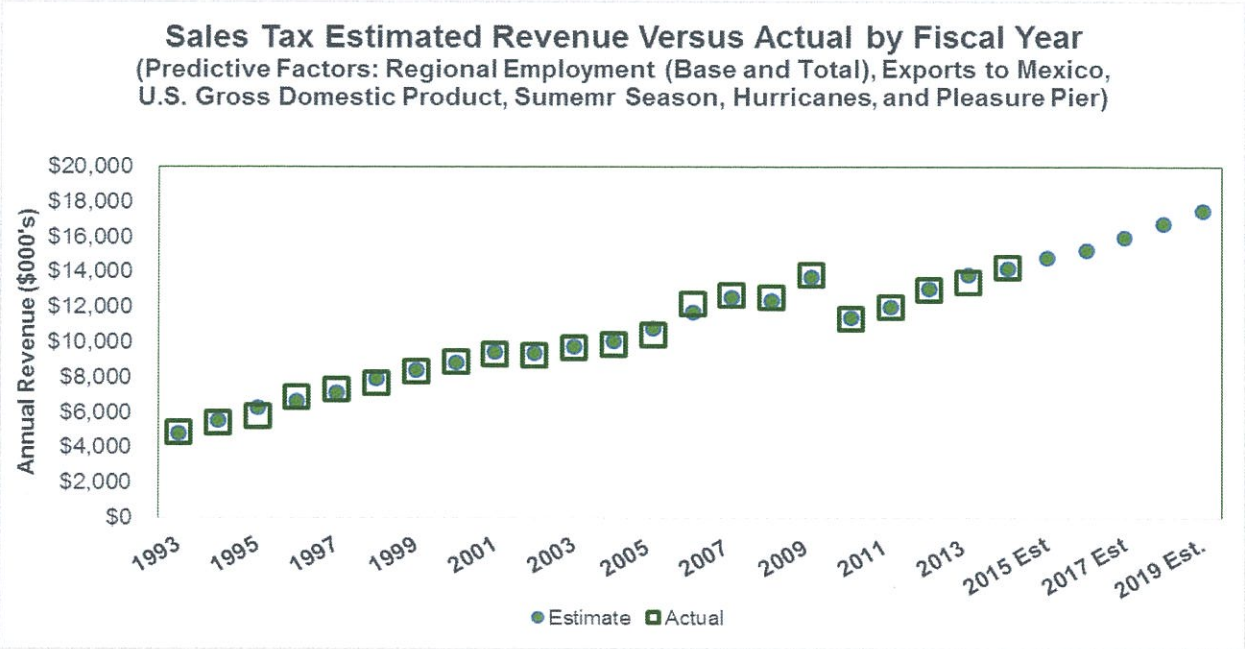


As shown below, the absolute number of upstream energy jobs (energy exploration and development) has shown some decline in recent months. The year over year percent change in this important category of employment tells a visually more dramatic story. The layoffs announced over the several months are starting to cause a clear downward trend in upstream energy jobs, and this can be expected to cause, at the very least a lower growth rate in total employment that will persist through the oil price-upstream energy downturn.

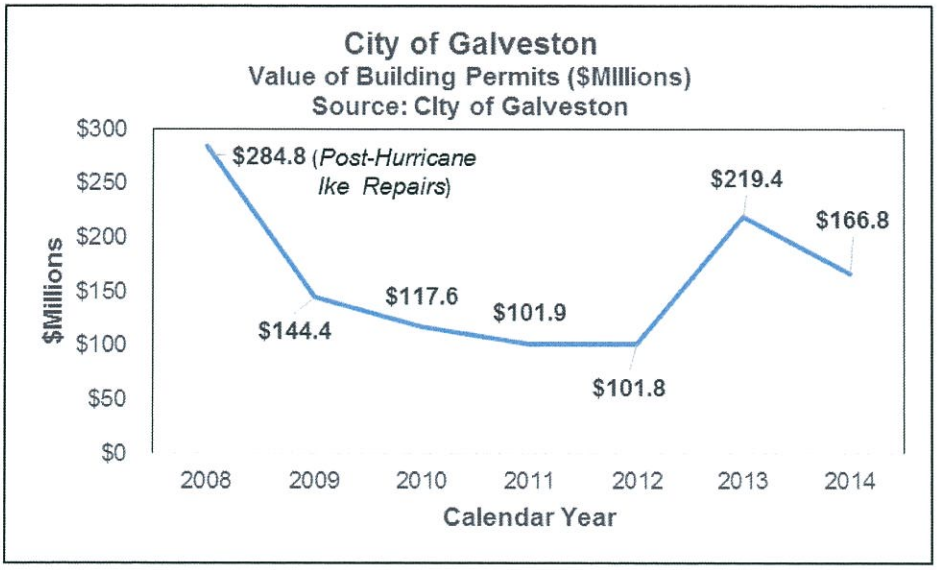


Sales tax is the most likely place that Galveston will see an impact from the slowdown in regional employment. Testing that shows 98.5% of the growth and/or decline in Galveston sales tax revenue is explained by the following variables adjusted as described.

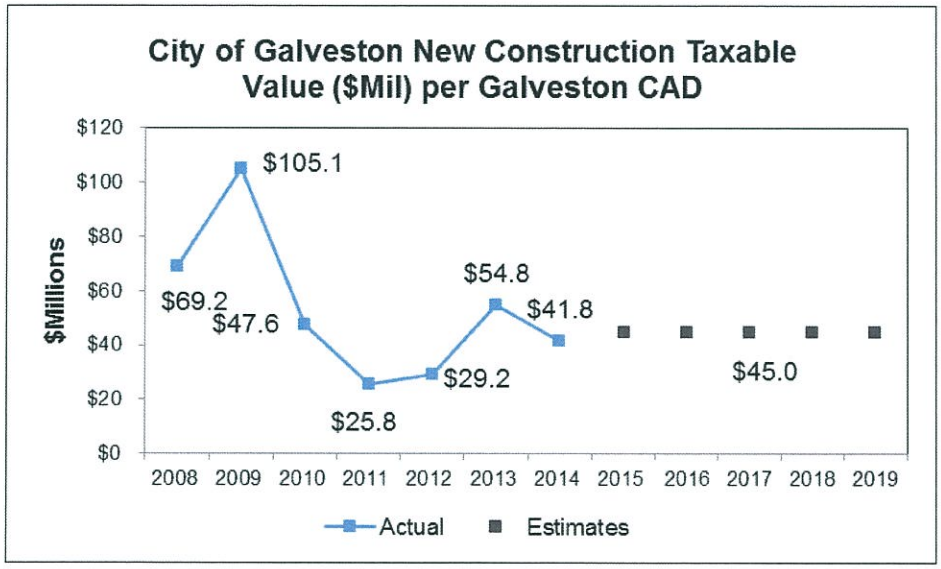
- Houston Metro Area Employment – This is the total jobs for the area as reported by the Bureau of Labor Statistics and adjusted by Dr. Ron Welch for local municipalities. The model utilizes a two quarter moving average of this series. Fully 88% of the variation in sales tax revenue is explained by this single economic variable.
- Houston Metro Area Base Employment – This is the total number of base jobs in the region, including primarily energy, medicine and space. This series is lagged four quarters to measure its greatest effect on revenue.
- U.S. Exports to Mexico – This is the value of exports as reported by the Federal Reserve Bank of St. Louis. The previous quarter's export values are used to explain sales tax revenues in the model.
- U.S. Real Gross Domestic Product – Also provided through the Federal Reserve Bank of St. Louis, this series is lagged three quarters and measured on a two month moving average to gauge the most effect on Galveston's revenue.
- Summer Season Adjustment Variable – Based on historical observation, this series applies weighted factors to the third (April to June) and fourth (July through September) fiscal quarters to explain the increased revenue during tourist season. Houston area inflation is used to adjust the series over time.
- Galveston Storm Variable – Based on historical observation, this series applies weighted factors to explain the effect of Hurricane Ike on sales tax revenues from immediately prior and following the storm.
- Pleasure Pier Adjustment – Based on historical observation, this series helps explain the large variation between revenue during tourist season and winter since 2012 when the Pier opened.



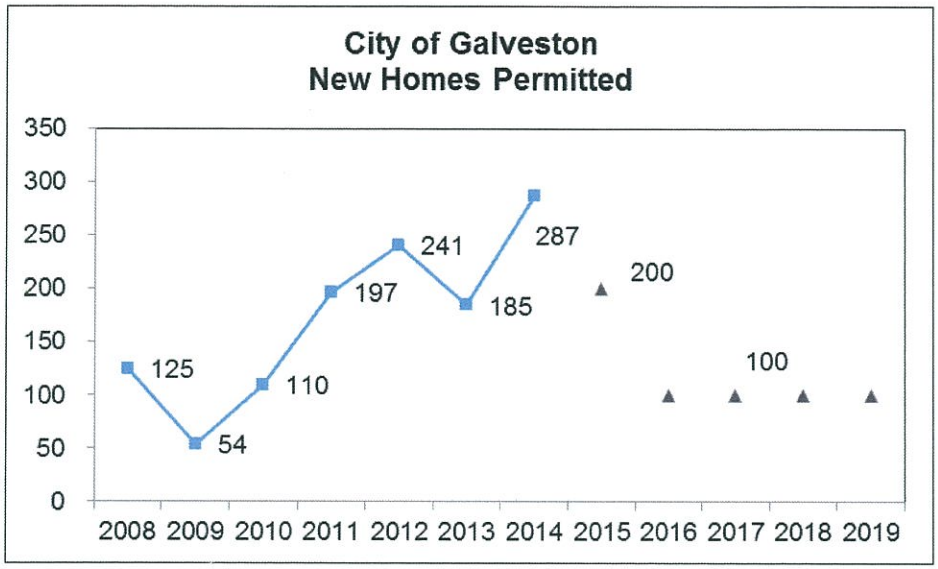
Property taxes are driven by taxable values which in turn are derived from updated valuations of the current property tax base with the annual addition of new construction and improvements. The value of building permits issued by the City of Galveston for each of the last several calendar years have added to taxable value with 2013 and 2014 beating all recent years except 2008 when reconstruction after Hurricane Ike caused a spike in permits.



There is a direct relationship between building permits issued for new construction (not shown above) and new construction as added to the rolls through the property appraisal process and reported by the Galveston County Appraisal District.



The number of new homes built in each of these years undoubtedly contributed to the growth in the tax roll. The current rate of growth is expected to slow after the current calendar year (2015) for purposes of this financial forecast.



The preliminary tax roll for Tax Year 2015 and Fiscal Year 2016 is 15.2% higher than the current roll for Tax Year 2014 and FY 2015. Additional information is being obtained from the Galveston County Appraisal District, but this $721 million increase in taxable value is largely due not to new construction but to adjusted value on existing properties.

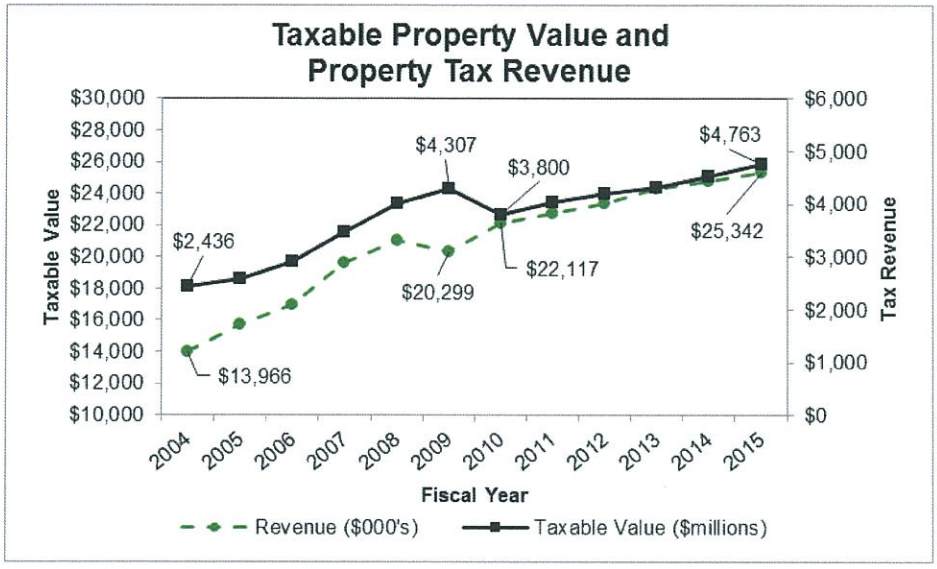
CITY OF GALVESTON PROPERTY TAX ROLLS
PRE-PROTEST AND FINAL TAXABLE VALUE

Tax Year	Fiscal Year	Initial Value	Value Lost in Protests	Net taxable Value	Percent Loss in Protests	Net Increase	Initial Increase
2007	2008	$4,173,803,003	($153,530,255)	$4,020,272,748	-3.7%		
2008	2009	$4,397,647,451	($90,707,745)	$4,306,939,706	-2.1%	7.1%	9.4%
2009	2010	$3,867,916,387	($172,881,661)	$3,695,034,726	-4.5%	-14.2%	-10.2%
2010	2011	$4,339,578,504	($295,077,791)	$4,044,500,713	-6.8%	9.5%	17.4%
2011	2012	$4,312,300,922	($118,014,116)	$4,194,286,806	-2.7%	3.7%	6.6%
2012	2013	$4,510,802,981	($187,955,326)	$4,322,847,655	-4.2%	3.1%	7.5%
2013	2014	$4,686,443,571	($151,378,426)	$4,535,065,145	-3.2%	4.9%	8.4%
2014	2015	$4,901,091,851	($138,178,611)	$4,762,913,240	-2.8%	5.0%	8.1%
2015 Prelim	2016 Prelim	$5,484,694,099	***($388,694,099)***	***$5,096,000,000***	***-7.1%***	***7.0%***	15.2%

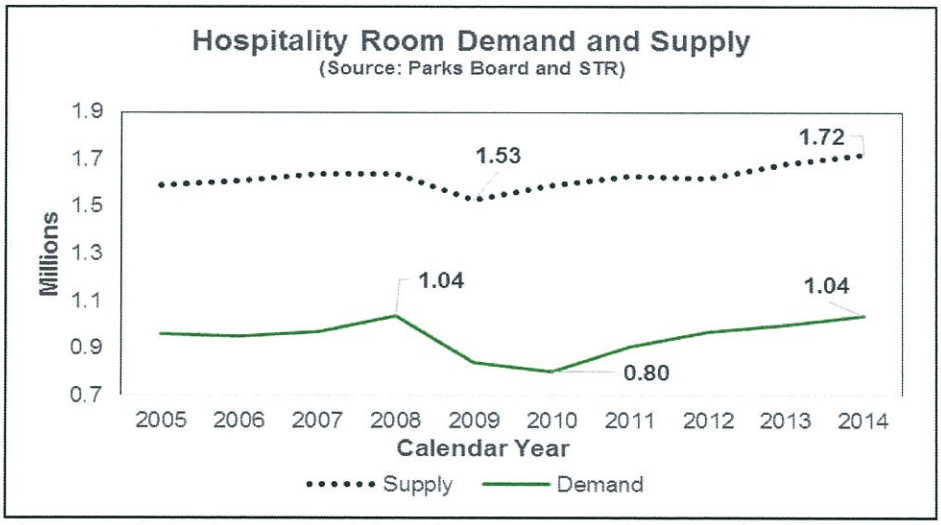
Estimates shown in bold and italics

As shown above, the value lost in protests each year has been proportional to the overall increase in preliminary values. This year, a significantly larger amount of value can be expected to be challenged by property owners through the protest process than has been the case in prior years. However, it can also be projected that a larger amount of the preliminary increase

will be retained after the protest process is through. For this forecast, it is expected that the net increase in the certified tax roll will be in the 7% range as a reflection of the vibrant housing market and higher prices currently being experienced on Galveston Island.



Hospitality industry statistics tell a similar economic story of Galveston's resurgence since the 2009-2010 Hurricane Ike/Great Recession experience. The demand for hotel rooms because of Galveston's tourist industry reached a high in 2008 of 1.04 million room days and returned to that level in 2014 after dropping off more than twenty percent to 0.8 million room/days in 2010.



This steady increase in tourism as the Island has recovered from Hurricane Ike has pushed hotel revenue to its all-time high of $134.2 million in 2014. Local hotel tax revenue in FY2015 through March is $5.2 million, or 9.9% ahead of last fiscal year. Based on prior years' trends through March, FY 2015 is projected to end with $15.7 million or 16% more than last fiscal year's total of $13.6 million.

Economic and Growth Assumptions

The expectation is for gradual, continued growth of the City and the Houston-Galveston area, as well as a low inflation environment and a healthy national economy.

BASELINE ECONOMIC ASSUMPTIONS

Area/Indicator	FY 2015 Est.	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Metropolitan Area						
(1) Employment Annual Growth Rate	2.2%	1.9%	2.0%	2.2%	2.3%	2.3%
(2) Inflation Rate	1.9%	2.2%	2.2%	2.3%	2.3%	2.3%
(3) Fuel Prices	-15.0%	10.0%	5.0%	5.0%	5.0%	5.0%
(2) Health Care Inflation	1.9%	2.2%	2.2%	2.3%	2.3%	2.3%
(2) Investment Pool Earnings Rate	0.3%	0.5%	1.0%	1.5%	2.0%	2.0%
City of Galveston						
Population Growth	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
City Water Customers Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
(4) Population	48,733	49,220	49,713	50,210	50,712	51,219
(5) New Homes (Prior CY)	260	100	100	100	100	100
(5) New Construction ($Thousands - Prior CY)	$67,797	$45,000	$45,000	$45,000	$45,000	$45,000

NOTES:

(1) Bauer College of Business (U of H)

(2) Congressional Budget Office

(3) COG Department of Finance

(4) www.quickfacts.census.gov (FY2015)

(5) COG Departments of Planning and Finance

Revenue Forecast

The long range forecast for revenue begins with an FY 2016 "Base" that is equal to the estimated revenue for FY2015 (see chart on the next page). The baseline economic assumptions form the basis for the growth assumption tied to each major category of General Fund revenue.

Property Tax – FY 2016 is based on retaining 7% out of 15.2% or approximately half of the preliminary roll increase in taxable value.
Sales Tax – Based on economic assumptions and their application through the Sales Tax Model.
Other Taxes – Includes mixed drink taxes; based on historical trend.
Franchise Taxes – Based on historical trend.
Licenses and Permits and Charges for Service – Based on population growth trend.
Intergovernmental and Miscellaneous – No growth assumed.
Fines and Forfeits – Assumes annual increase based on twice twice the rate of population growth to recover from historically low FY 2015 level.
Investment Earnings – Slow rise in interest rates from 0.25-0.35% net earnings on city portfolio.

GENERAL FUND REVENUE FORECAST
FY 2016-2020

REVENUE SOURCE	FY 2016 Base	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Property Taxes	$18,834,000	$20,152,000	$20,757,000	$21,380,000	$22,021,000	$22,682,000
Sales Taxes	$14,800,000	$15,262,000	$15,996,000	$16,776,000	$17,485,000	$18,184,000
Other Taxes	$750,000	$780,000	$811,000	$843,000	$877,000	$912,000
Franchise Taxes	$5,272,000	$5,377,000	$5,485,000	$5,595,000	$5,707,000	$5,821,000
Licenses and Permits	$1,086,000	$1,097,000	$1,108,000	$1,119,000	$1,130,000	$1,141,000
Intergovernmental	$725,000	$725,000	$725,000	$725,000	$725,000	$725,000
Charges for Services	$1,825,000	$1,843,000	$1,861,000	$1,880,000	$1,899,000	$1,918,000
Fines and Forfeits	$1,800,000	$1,836,000	$1,873,000	$1,910,000	$1,948,000	$1,987,000
Investment Earnings	$50,000	$60,000	$72,000	$86,000	$103,000	$124,000
Miscellaneous	$902,000	$902,000	$902,000	$902,000	$902,000	$902,000
Total Revenue	**$46,044,000**	**$48,034,000**	**$49,590,000**	**$51,216,000**	**$52,797,000**	**$54,396,000**
Revenue Sources		GROWTH RATE ASSUMPTIONS				
Property Tax		7.0%	3.0%	3.0%	3.0%	3.0%
Sales Tax		3.1%	4.8%	4.9%	4.2%	4.0%
Other Taxes		4.0%	4.0%	4.0%	4.0%	4.0%
Franchise Taxes		2.0%	2.0%	2.0%	2.0%	2.0%
Licenses and Permits		1.0%	1.0%	1.0%	1.0%	1.0%
Intergovernmental		0.0%	0.0%	0.0%	0.0%	0.0%
Charges for Services		1.0%	1.0%	1.0%	1.0%	1.0%
Fines and Forfeits		2.0%	2.0%	2.0%	2.0%	2.0%
Investment Earnings		20.0%	20.0%	20.0%	20.0%	20.0%
Miscellaneous		0.0%	0.0%	0.0%	0.0%	0.0%

LONG RANGE FINANCIAL FORECAST
EXPENDITURE GROWTH ASSUMPTIONS

Expenditure Forecast Approach

Like the revenue forecast, expenditures begin with a base for FY 2016 that is the FY 2015 Budget adjusted for increases in ongoing costs and deductions for one-time costs in the FY 2015 Budget.

FY 2015 Budget to FY 2016 Base

- Increase payroll for leap year (26.2 pay periods)
- Police and Fire 2% CBA increase
- Decreases in salary reimbursements for all Departments (Largest is Police Grant @ $260K)
- Two Elections ($120,000)
- Additional expenses for City Auditor-$10,000
- Decrease for Pension Consultant - $100,000
- Decrease for Data Processing Software - $200,000
- Decrease for Phone System - $250,000

FY 2016 Base adjusted to FY 2016 Forecast includes:

- 2% Civilian increase
- Increase for street lighting electricity cost - $404,000
- Increase for inmate housing - $198,000
- Expenditures increased using the growth assumptions

Expenditure Growth Assumptions

General Fund expenditures are increased in this forecast using the percent change assumptions shown on the next page. They are based on the idea that inflationary effects on supplies and services are largely beyond the City's control. The core Consumer Price Index increase is the basis for the general inflationary increase, and the Congressional Budget Office's CPI assumption has been used here. Other key assumptions are:

- The City's contributions to the three employee pension funds will continue to be based on the same percentage of payroll as they are today.
- The City's electricity contract freezes prices at the current level through October, 2018.
- Gasoline prices will be somewhat below FY2015 budgeted levels through the next fiscal year, growing thereafter at a rate faster than core inflation.
- Health and life insurance costs will continue to grow more slowly than other major employers' plans.

EXPENDITURE GROWTH ASSUMPTIONS

EXPENDITURE CATEGORY	EXPLANATION	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast	FY 2020 Forecast
Personnel Services						
Salaries						
Police	Collective Bargaining Agreement	2.0%	2.0%	2.0%	2.0%	2.0%
Fire	Collective Bargaining Agreement	2.0%	2.0%	2.0%	2.0%	2.0%
Civilians	Policy issue for City Council's consideration	2.0%	2.0%	2.0%	2.0%	2.0%
Other Pay		2.0%	2.0%	2.0%	2.0%	2.0%
Social Security	Required by federal law (FICA)	2.0%	2.0%	2.0%	2.0%	2.0%
Pension and Social Security						
Civilians (9% of payroll)	Required by state law and Collective Bargaining Contracts with Police and Fire	2.0%	2.0%	2.0%	2.0%	2.0%
Police (12% of payroll)		2.0%	2.0%	2.0%	2.0%	2.0%
Fire (14% of payroll)		2.0%	2.0%	2.0%	2.0%	2.0%
Health and Life Insurance	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Supplies						
Energy Supplies	Core CPI	-15.0%	10.0%	5.0%	5.0%	5.0%
General Supplies	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Maintenance Supplies	Influenced by energy CPI	5.5%	5.5%	5.5%	5.5%	5.5%
Small Capital	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Services						
Maintenance Services	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Vehicle Maintenance	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Office Services	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Other Services	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Professional Services	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Utilities	Electricity contract price	0.0%	0.0%	0.0%	6.6%	6.6%
Utilities for water services	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Refuse Disposal	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Capital Outlay						
Motor Pool Replacement	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Vehicles and Equipment	Core CPI	2.2%	2.2%	2.3%	2.3%	2.3%
Transfers						
General Fund to Infrastructure Fund	1% of General Fund Budget increase per year as required by City Charter	4% of Budget	5% of Budget	6% of Budget	7% of Budget	8% of Budget