



CITY OF
Yakima



2019 5-Year Financial Plan





CITY OF *Yakima*

2019 5-YEAR FINANCIAL PLAN

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INTRODUCTION AND EXECUTIVE SUMMARY

The purpose of the 5-Year Financial Plan is to help the City of Yakima make informed financial and operational decisions by carefully anticipating estimated future revenues and expenditures. This document reflects analysis and forecasts future revenue and expenditure trends and their impact on the City's financial reserves. A primary purpose of the document is to provide context for present and future budget decisions and to understand the long-term financial impacts. Only by assessing the longer-term financial impacts of current revenue and expenditure decisions can the Council determine the feasibility of such actions.

This projection addresses the fiscal position of the General Fund including revenue and expenditure trends and the status of reserves. Other funds are discussed insofar as they receive necessary support from the General Fund or may influence General Fund operations. Events and circumstances will be discussed that allowed reserves to fall below the policy level target of 16.7%, a nationally recognized standard. The document will explore potential strategies to continue rebuilding General Fund reserves as quickly as practicable.

Conservative Revenue and Expenditure Projections

Although the future is unpredictable, the City can plan for its financial future through reasonable assumptions about future events and careful decision making. Much like the weather, the farther out in time predicting goes, the less precise predictions become. For financial projections, the prudent course is to be conservative, meaning revenues should be projected at the lower end of the likely range of outcomes and expenditures should be projected at the upper end of the likely range of outcomes. This conservative approach can result in projected deficits in future years. Deficit means that expenditures exceed revenues (that year), thus requiring the use of reserves to balance the budget. Whether the deficit is manageable depends on the City's financial flexibility and how rapidly the City begins to address the possible deficit. If revenues increase and expenditures can be managed through conservative approaches, then financial stability is a realistic outcome.

Conditions Affecting Financial Flexibility

Financial planning for the City is impacted by several structural conditions that limit financial flexibility. The purchasing power of city residents, median income and general demographics affect the residents' ability to absorb the impact of inflation and rising cost of municipal services¹. Property tax, a major component of General Fund revenues, has been limited in growth to the lesser of two indicators: 1% or the Implicit Price Deflator, which has been, as a general rule, less than the rate of inflation. Additionally, two recent Charter amendments, while reflective of community priorities, mandate specific spending targets without the creation of new revenue sources to offset that spending. These Charter amendments significantly limit Council's ability to respond to spending priorities. The Charter amendments are discussed in detail later in this document.

¹ Yakima's median household income in 2016 was \$45,700. Per capita income the past 12 months is \$20,653 and 18.2% of the population live in poverty. Census.gov

Executive Summary

For a variety of reasons discussed throughout this document, the City has needed to use reserves to maintain service levels. Reserves are now below the City's policy level requirement of 16.7% (2 months of expenditures) and this 5-year forecast shows that, absent some intervention, reserves will remain below the policy level requirement for the forecasted 5-year period. This exposes the City to risks that it will not have sufficient resources to maintain City services should an emergency or other unforeseen circumstances put additional strains on City resources.

Current expenditure levels, with conservative revenue predictions, indicate a steady decline of reserves. This is a direct outcome of structural problems that have resulted in expenses exceeding revenues. Yet it is important to point out the levels of services (expenses) are negatively impacted by historical funding reductions. The City is currently challenged to provide service levels expected by the community.

FINANCIAL HEALTH/FUND BALANCE

Reserve Policy and Assumptions

The Governmental Financial Officer Association (GFOA) recommends best practices for municipal finance. GFOA recommends that general-purpose governments like the City of Yakima, regardless of size, maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular General Fund operating expenditures (or 16.7% of expenditures). The City has adopted this recommendation into policy. Up to 2013, the City's fund balance/reserve had been consistently above the reserve policy level, and although it had declined modestly throughout the Recession, it continued to be above 16.7% of expenditures until 2014. A series of decisions created a post-Recession dependence on the use of reserves to meet ordinary operating obligations causing a decline in total reserves to a point below the required policy level. The issues that affected reserves have been analyzed and steps have been taken to mitigate and reverse this dependence.

Current and Projected Reserves

Over the next five years, the City's revenues and expenditures are forecasted to be structurally out of balance. Given the pressure created by the Charter amendments of 2013 and 2014, and the inflationary impact of collective bargaining agreements with the City's ten (nine beginning 2019) bargaining units, absent strategic redirection, the City's revenues are not expected to keep up with the maintenance cost of current service levels, resulting in a fiscal imbalance. The table below depicts the projected ending fund balance for years 2018 through 2023.

GENERAL FUND PROJECTED RESERVES

Adopted Policy Level Reserves is 16.7%

	2017	2018	2019	2020	2021	2022	2023
	Actual	Revised Estimate	Forecast	Forecast	Forecast	Forecast	Forecast
Beginning Fund Balance	\$ 8,266,909	\$ 8,464,925	\$ 8,750,829	\$ 7,755,817	\$ 7,578,175	\$ 7,219,713	\$ 6,693,727
Revenues	66,210,691	69,426,438	69,789,987	71,766,858	73,567,238	75,419,614	77,325,604
Expenditures	66,012,675	69,140,533	70,785,000	71,944,500	73,925,700	75,945,600	78,094,800
Ending Fund Balance	\$ 8,464,925	\$ 8,750,829	\$ 7,755,817	\$ 7,578,175	\$ 7,219,713	\$ 6,693,727	\$ 5,924,531
Fund Balance as % of Expenditures	12.8%	12.7%	11.0%	10.5%	9.8%	8.8%	7.6%

GENERAL FUND RESERVE FORECAST VS POLICY LEVEL REQUIREMENTS

	2017	2018	2019	2020	2021	2022	2023
	Actual	Revised Estimate	Forecast	Forecast	Forecast	Forecast	Forecast
General Fund Reserve Forecast	\$ 8,464,925	\$ 8,750,829	\$ 7,755,817	\$ 7,578,175	\$ 7,219,713	\$ 6,693,727	\$ 5,924,531
Policy Level Requirements @ 16.7%	11,024,117	11,546,469	11,821,095	12,014,732	12,345,592	12,682,915	13,041,832
Net Increase or Deficit	\$ (2,559,192)	\$ (2,795,640)	\$ (4,065,278)	\$ (4,436,557)	\$ (5,125,879)	\$ (5,989,188)	\$ (7,117,300)

The difference between the annual forecasted reserve and the policy level requirement increases over time because revenues are not expected to grow at the rate needed to fund operating expenditures as well as the required reserves.

GENERAL FUND OPERATING INCOME/LOSS ANALYSIS

	2017	2018	2019	2020	2021	2022	2023
	Actual	Revised Estimate	Forecast	Forecast	Forecast	Forecast	Forecast
Operating Revenues	\$ 66,210,691	\$ 69,426,438	\$ 69,789,987	\$ 71,766,858	\$ 73,567,238	\$ 75,419,614	\$ 77,325,604
Operating Expenditures	66,012,675	69,140,533	70,785,000	71,944,500	73,925,700	75,945,600	78,094,800
Net Operating (Loss)	\$ 198,016	\$ 285,905	\$ (995,013)	\$ (177,642)	\$ (358,462)	\$ (525,986)	\$ (769,196)

The 2019 Forecast assumes that all vacant positions would be filled. The forecast does not assume any growth in staffing as a result of increases in population or levels of service. So, the current authorized level of staffing would need to be filled in order to provide ongoing services. In 2020, annual debt service of nearly \$1 million is eliminated as a result of the debt being paid off. The forecast does not assume any new issuance of debt. Instead, this analysis uses the reduction of debt to offset the increase in the cost of operations.

Historical Trends

The following table illustrates the historical data and background of the City’s ending General Fund balance from 2013 through 2017. The table demonstrates that the fund balance fell below the 16.7% target during 2014 and has continued to be below that target since then.

GENERAL FUND RESERVE HISTORY

	2013	2014	2015	2016	2017
	Actual	Actual	Actual	Actual	Actual
Beginning Fund Balance	\$10,138,453	\$10,071,272	\$ 8,848,302	\$ 6,887,225	\$ 8,266,909
Revenues	55,285,271	59,520,257	60,680,228	64,791,138	66,210,691
Expenditures	55,352,452	60,743,227	62,641,305	63,411,453	66,012,675
Ending Fund Balance	\$10,071,272	\$ 8,848,302	\$ 6,887,225	\$ 8,266,909	\$ 8,464,925
Fund Balance as % of Expenditures	18.2%	14.6%	11.0%	13.0%	12.8%

Conditions Causing the Use of Reserves

The City’s adopted financial policies state that reserves will not be used for ongoing operations. Rather, they are intended to enable the City to react to emergencies, to respond to unpredictable economic events and/or to provide for special needs or programs that may or may not have been planned in advance. Reserves may also be used for one-time investments that are forecasted to produce near-term returns to replenish the initial cost of the investment. When conditions require the use of reserves, plans should be implemented to replenish reserves as quickly as practicable to ensure the long-term fiscal health of the City. On the other hand, when the total fund balance exceeds the policy reserve level, the amount in

excess of the policy level reserve may be included in the budget to meet other strategic priorities with or without a plan for replenishment. It is common to purposely build the reserve balance in anticipation of a special project and leverage that cash position with debt to achieve optimal efficiency in balancing growth and fiscal position.

Like many other local governments, the City chose to use some portion of its reserves to maintain service levels during the Recession. However, there was an expectation that economic recovery alone would rebuild reserves so that the City could continue to commit large-scale future resources to pursue new projects. This expectation has proven to be overly optimistic. These commitments are now part of the challenging budget reality with a reserve that continues to be inadequately funded. A summary of the use of reserves in previous years is at the top of the next page.

GENERAL FUND RESERVE HISTORY ANALYSIS

Year and Annual Change			Factors Impacting Reduction in Fund Balance Reserves						
			Increased Expenditures			Revenue Reductions			
Policy Level Reserve	Actual Reserve	Over (Under) Funded	(1)	(2)	(3)	(4)	(5)	Total Impact on Reserve	
			Charter Amendment Funding	Property Investment Acquisition	Settlements and Claims	Sales Tax Revenue Estimate Shortfall	Fire Bond Levy Expired No Replacement Funding		
2013	\$ 9,243,859	\$ 10,071,272	\$ 827,413	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2014	10,144,119	8,848,302	(1,295,817)	2,000,000	1,100,857	-	-	250,000	3,350,857
2015	10,461,098	6,887,225	(3,573,873)	2,782,586	-	-	1,000,000	250,000	4,032,586
2016	10,589,713	8,266,909	(2,322,804)	2,823,023	(684,079)	1,846,014	-	250,000	4,234,958
2017	11,024,117	8,464,924	(2,559,193)	2,867,892	-	1,250,000	-	250,000	4,367,892

In 2014 and 2015, General Fund expenditures exceeded revenues, requiring the use of a portion of reserves to balance the budget. The following conditions in 2013, 2014 and 2015 further contributed to the use of reserves. The narrative below further describes the Factors Impacting Reduction in Fund Balance Reserves in the table above.

#1 - Charter Amendment Funding

The voter approved Charter amendments in 2013 and 2014 requiring general tax revenues beginning at \$2,000,000 be dedicated to fund capital improvements for street reconstruction and renovation and \$750,000 to fund capital improvements for City parks and parks facilities, respectively. These amendments included an aggressive annual growth factor (described below). By the end of 2018, over \$13.3 million will have been appropriated and spent from general revenues since 2014, most of that going to fund the debt service payments related to several large capital projects undertaken to improve City streets and parks facilities.

Each of these amendments has a built-in inflation factor based on the West Region Consumer Price Index (CPI), which is typically higher than the regional rate of inflation. Property tax revenues are limited to

grow each year by the lower of 1% or the Implicit Price Deflator (IPD)². Thus the City's property tax revenue, which is used to fund the financial obligation, is restricted to a rate that is currently lower than the rate by which the Charter amendment funds are growing. It is important to remember Property taxes are approximately 19% of General Fund revenues and that other general revenues will grow only at the regional rate of inflation, at best.

The Charter funding for streets is being used to pay debt service on large projects completed in 2014 while the funding for parks covers debt incurred to develop SOZO and the YMCA Aquatic Center. Although part of that debt will be retired in 2024 and the remainder in 2028, from 2018 to 2023 all of the Charter funding is obligated to the long-term debt service for these projects.

As a result, the City's current and future ability to fund parks and streets maintenance has been curtailed. It is important to recognize that by using the charter contributions to pay debt (for streets, SOZO and the YMCA), the charter negatively impacts all general fund departments including parks and streets by placing revenue intended for operations and maintenance, into debt payments. The intended goal behind these amendments was to ensure funding for parks and streets; however, by using the yearly funds for debt, the result is the opposite: a dearth of resources for parks and streets and a decrease of general operation revenues for all. As indicated above, the General Fund's limited growth precludes it from replenishing the funds taken out by the Charter Amendment.

#2 - Property Investment Acquisition

The City Council authorized the use of about \$1.1 million of reserves in 2014 to purchase four Tiger Oil properties. In making this investment, the City expected that revenues from the sale of these properties would replenish the reserves. These sites were an eyesore to the community and the State Department of Ecology encouraged the City to make the investment by agreeing to assist with the cleanup of the polluted sites. As of 2018, two of the sites have been sold and \$684,000 has been recovered. Two additional sites are still in inventory. The City has prioritized the sale of the Tiger Mart site on Nob Hill and 24th Avenue in 2019. If that sale occurs, \$300,000-\$400,000 will be added to the General Fund. The site on North First Street is currently going through environmental monitoring. This is a good example of how the use of reserves can support the well-being of the community and leverage the City's position to achieve economic growth. While two of the sites have been problematic, the others have generated tax revenues that would not have been realized if left in their former state.

#3 - Unforeseen Financial Obligations: Settlements and Claims

There have been a number of unanticipated events that have required the use of reserves in recent years:

² The IPD, as compared to the CPI, does not include technology or health care inflation which tend to arbitrarily inflate the CPI.

- City was impacted by settlements and claims in 2016-2017. In 2017, the City encountered an unprecedented number of outlier medical claims requiring additional contributions from all operating funds. These costs added to \$500K.
- The City's health plan was restored to a recognized PPO as part of a settlement with a local provider. A backlog of claims was paid out, partially by the General Fund at a cost of \$750,000. Another \$300,000 is committed to the settlement for 2018 and 2019. The funding for the City's health plan is generated from operating funds with payroll activities through monthly assessments made for each covered employee. Employer/employee contributions are collectively bargained. Employees contribute monthly from payroll and retirees pay the full cost of coverage monthly from their pension checks.
- The ACLU lawsuit was an uninsured loss and required the use of reserves to pay the judgment of \$1,846,014 in 2016. This further exacerbated the difficulty in restoring the reserve balance to policy level.

#4 - Revenue Shortfalls

- The City of Yakima is located in an agricultural area. The City has seen a correlation between annual production by farms and sales tax revenues. For this reason, drought conditions affected sales tax revenues in 2015 by approximately \$1 million.
- Revenue projections for 2015 were overly optimistic. While the economy as a whole was recovering from the Recession, City revenues actually declined due to the drought that negatively affected local sales tax revenues. Also negatively affecting revenues was the drop in energy prices that caused a decline in gas tax revenues that support street maintenance. The decline in gas tax revenues required a larger contribution from General Fund property tax revenues to fully fund street maintenance costs. The City did not amend its budgeted expenditures in 2015 to fully accommodate lagging revenues.
- Negotiated salary increases for 2012, 2013 and 2014 were based on post-recession optimism even though fund balances were barely above the minimum policy level. When anticipated revenues did not materialize to support contracted amounts, expenditures were paid from reserves.
- Relying on an optimistic outlook, the City pursued unbudgeted initiatives in 2015 that further raised expenditures above normal levels with no offsetting revenues. Among these were the repaving of Tahoma Cemetery roads, financial support of celebrations sponsored by other agencies, and extended hours at Franklin Pool.

#5 - Other Decisions Contributing to the Use of Reserves: Fire Bond Levy

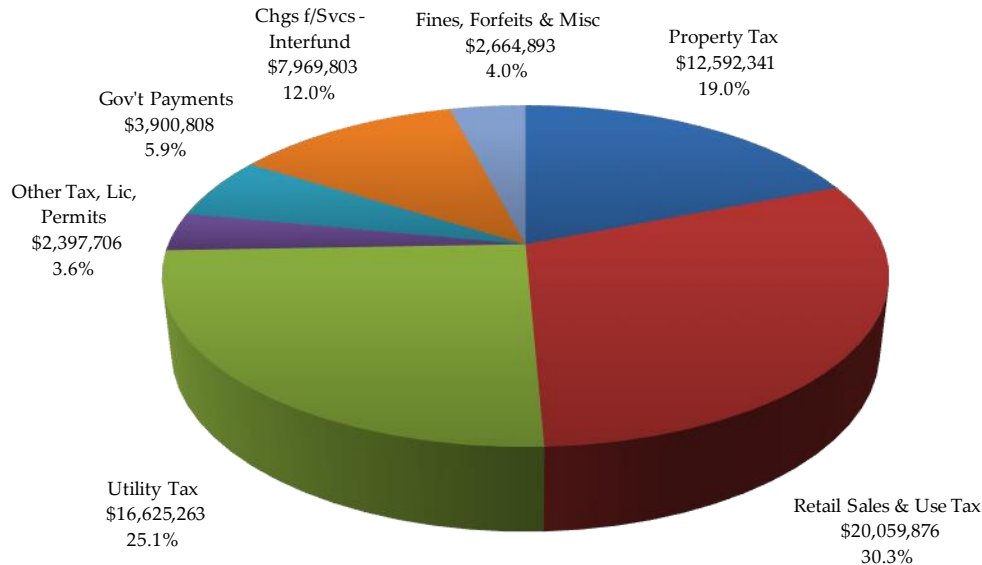
- The voter approved bond to support Fire Department capital needs expired in 2014 and it was decided not to place a renewal option before the voters. Previously, an excess property tax levy was approved by voters to finance needed equipment and building improvements for the Fire Department. These ongoing capital needs are now entirely funded within the City's base tax revenues. The levy supplied over \$250,000 in additional annual property tax revenues until mid-2014.

GENERAL FUND REVENUES

Revenues are supported by four main revenue streams each represent roughly a quarter of the total General Fund revenues: Property Taxes, Retail Sales & Use Taxes, Utility Taxes, and Other Revenue (business licenses, gambling taxes, and fines and forfeitures).

2017 GENERAL FUND REVENUES

Generalized Categories



Current Economic Outlook

The City's core General Fund revenues are directly affected by the local economy. The global and national economies have been recording synchronous gains in the past few years. The State of Washington has recorded similar growth. Although the local economy lags behind the state and national economies, the valley economy has shown growth activity. Regional employment rates are at all-time highs. However, the stability of international trade is uncertain and this uncertainty directly influences the region's agriculturally based economy. Revenue assumptions are based on the following:

- The average annual unemployment rate for Yakima County has fallen dramatically. The rate in July 2018 was 4.9%. The rate has continued to decline month over month since the beginning of 2018 as reported by the Washington State Employment Security Department.
- The federal government has placed tariffs on a number of imported products. Other governments have responded in-kind. A trade war could affect the State of Washington, which is highly dependent on foreign trade, and especially on the Yakima Valley with its dependence on agriculture- 28.1% of employments are in this sector. Although a conservative approach has been used in developing revenue projections, this plan does not include the potential impact of a trade war.

- Annual property tax increase is limited to the greater of 1% or the Implicit Price Deflator (IPD). The forecast assumes that property taxes are increased by the maximum authorized level for each year. Increases resulting from new construction are assumed to be moderate in 2018 at 1.2% and growing in the latter part of the forecast due to several major developments being completed.
- This year’s mild winter dampened the financial growth that was forecasted due to the elimination of the utility tax cap. On the other hand, retail sales are robust and tax revenues are on track with budget.

GENERAL FUND REVENUE FORECAST

	2017	2018	2019	2020	2021	2022	2023
	Actual	Revised Estimate	Forecast	Forecast	Forecast	Forecast	Forecast
Property Tax	\$ 12,592,341	\$ 12,873,497	\$ 13,182,461	\$ 13,485,657	\$ 13,782,342	\$ 14,085,553	\$ 14,395,435
% Change	3.9%	2.2%	2.4%	2.3%	2.2%	2.2%	2.2%
Retail Sales & Use Tax	\$ 20,059,876	\$ 21,776,746	\$ 22,865,583	\$ 23,780,207	\$ 24,493,613	\$ 25,228,421	\$ 25,985,274
% Change	0.9%	8.6%	5.0%	4.0%	3.0%	3.0%	3.0%
Utility Tax	\$ 16,625,263	\$ 17,456,527	\$ 17,858,027	\$ 18,286,619	\$ 18,725,498	\$ 19,174,910	\$ 19,635,108
% Change	3.5%	5.0%	2.3%	2.4%	2.4%	2.4%	2.4%
Other Tax, Lic, Permits	\$ 2,397,706	\$ 2,445,660	\$ 2,494,573	\$ 2,544,465	\$ 2,595,354	\$ 2,647,261	\$ 2,700,207
% Change	4.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Gov't Payments	\$ 3,900,808	\$ 3,978,825	\$ 4,038,507	\$ 4,099,085	\$ 4,168,769	\$ 4,239,638	\$ 4,311,712
% Change	6.3%	2.0%	1.5%	1.5%	1.7%	1.7%	1.7%
Chgs f/Svcs - Interfund	\$ 7,969,803	\$ 8,184,988	\$ 6,594,567	\$ 6,759,431	\$ 6,928,417	\$ 7,101,627	\$ 7,279,168
% Change	5.8%	2.7%	(19.4%)	2.5%	2.5%	2.5%	2.5%
Fines, Forfeits & Misc	\$ 2,664,893	\$ 2,710,196	\$ 2,756,269	\$ 2,811,395	\$ 2,873,245	\$ 2,942,203	\$ 3,018,700
% Change	32.3%	1.7%	1.7%	2.0%	2.2%	2.4%	2.6%
	<u>\$ 66,210,691</u>	<u>\$ 69,426,438</u>	<u>\$ 69,789,987</u>	<u>\$ 71,766,858</u>	<u>\$ 73,567,238</u>	<u>\$ 75,419,614</u>	<u>\$ 77,325,604</u>
	2.2%	4.9%	0.5%	2.8%	2.5%	2.5%	2.5%

Property taxes

This source represents nearly 19% of the City’s general revenues. Property taxes are considered a stable source of revenue, although the growth rate varies from year to year due to the impact of new construction. New construction varies with the economy but tends to lag behind it somewhat due to the timing of project implementation versus completion. The City has seen a significant number of building permits issued during 2018. The forecast assumes that the projects will be completed over an 18-month period and that construction will begin to slow in future periods. The forecast also assumes that the City will continue to increase property taxes each year by the 1% allowed by state law to pay for services that are also increasing.

PROPERTY TAX LEVY PROJECTION

	2018	2019	2020	2021	2022	2023
Projected Property Tax Levy Collections	\$ 18,812,140	\$ 19,263,632	\$ 19,687,431	\$ 20,081,180	\$ 20,482,804	\$ 20,892,460
% change from prior year	2.8%	2.4%	2.3%	2.2%	2.2%	2.2%
Projected Distribution of Property Taxes						
General Fund	\$ 10,743,628	\$ 11,001,475	\$ 11,254,509	\$ 11,502,108	\$ 11,755,154	\$ 12,013,768
Streets Capital Charter Amendment	2,129,869	2,180,986	2,231,149	2,280,234	2,330,399	2,381,668
Total received by General Fund	12,873,497	13,182,461	13,485,657	13,782,342	14,085,553	14,395,435
Property Tax Directly Allocated to Other Funds:						
Parks & Recreation	1,952,227	1,999,080	2,025,796	2,030,988	2,035,508	2,039,323
Streets Operations & Maintenance	3,202,315	3,279,171	3,354,592	3,428,393	3,503,818	3,580,902
Parks Capital - Charter Amendment	784,101	802,919	821,387	839,457	857,925	876,799
Total Projected Distribution	<u>\$ 18,812,140</u>	<u>\$ 19,263,632</u>	<u>\$ 19,687,431</u>	<u>\$ 20,081,180</u>	<u>\$ 20,482,804</u>	<u>\$ 20,892,460</u>

PROPERTY TAX LEVY HISTORY

	2012	2013	2014	2015	2016	2017
Annual Property Tax Levy Collections	\$ 16,649,646	\$ 16,892,067	\$ 17,209,981	\$ 17,627,347	\$ 18,013,573	\$ 18,292,210
% change from prior year	2.5%	1.5%	1.9%	2.4%	2.2%	1.5%
Historical Distribution of Property Taxes						
General Fund:						
Operations	\$ 11,250,939	\$ 11,392,671	\$ 10,230,373	\$ 9,078,414	\$ 10,074,276	\$ 10,512,356
Streets Capital Charter Amendment	-	-	2,000,000	2,018,116	2,047,443	2,079,985
Total received by General Fund	11,250,939	11,392,671	12,230,373	11,096,530	12,121,719	12,592,341
Property Tax Directly Allocated to Other Funds:						
Parks & Recreation	1,683,000	1,920,107	1,875,098	2,206,085	1,861,153	1,817,524
Parks Capital Charter Amendment	-	-	-	750,000	753,756	765,736
Streets Operations & Maintenance	3,716,000	3,580,360	3,103,441	3,574,732	3,276,945	3,116,609
Total Property Tax Distributed	<u>\$ 16,649,939</u>	<u>\$ 16,893,138</u>	<u>\$ 17,208,912</u>	<u>\$ 17,627,347</u>	<u>\$ 18,013,573</u>	<u>\$ 18,292,210</u>

Retail Sales and Use Tax

This is the largest and most volatile of the four revenue categories, comprising about 30% of General Fund revenues in 2017. Sales taxes are heavily dependent on the performance of the local economy and can be driven by environmental forces such as the drought of 2015. Revenue collections in this category have recorded fluctuating gains year after year since 2012. This trend is expected to continue. Additionally, City initiatives will drive construction costs in several projects including the aquatic center, the pending mill site and possible plaza development and other initiatives such as Safe Routes to Schools. All these will add sales tax during the construction, which is one time money received by the City as each project is being constructed. This forecast projects a moderate growth of 3.6%, reducing in the latter years of the forecast.

Utility and Franchise Taxes

This category represents one quarter of General Fund revenues. In 2017, the cap limiting utility taxes for larger consumers was raised and in 2018 was eliminated altogether. The full 6.0% tax is now being charged on gross revenues of companies providing electrical service, natural gas, telephone and cellular telephone services. The removal of the cap is estimated to bring in an additional \$550,000 annually. However, utility revenues are greatly impacted by the weather. A mild winter and/or a cool summer can significantly reduce consumer usage and the City's resulting tax revenues in any given year. The mild winter experienced in the Valley in 2018 is likely to dampen the effect of this change unless it is followed by a hot summer. 2018 utility tax revenue is projected to increase 3.5% for outside utilities and 2.5% for City-owned utilities over 2017 due to the removal of the cap. After 2018, utility taxes are expected to keep pace with inflationary utility price trends at 3% and 2.5% from outside and internal sources respectively. A portion of these revenues has been earmarked by adopted Council action to support parks operations and police capital. Transfers to those funds are recorded as Transfer to Other Funds (expenditures) of the General Fund.

Other Revenue

This category includes sources such as business licenses, gambling taxes, and fines and forfeitures. This revenue source has experienced little growth in previous years and is expected to increase very slowly in future years. Expected increases are projected based on prior year trends at an annual rate between 1.0% and 3.0%.

Excise taxes and other state shared revenue is subject to legislative priorities and has been volatile. This category includes liquor profits and marijuana excise taxes. It also includes violent crime revenues, which can quickly disappear, or increase based on the City's crime rate relative to other municipalities in the state. History of this category has been volatile with year-over-year changes of no growth to over 7%. It is conservatively projected to increase at a rate of 1.5% to 3%.

ADDITIONAL CHALLENGE - REVENUES

Not unique to Yakima, there is a challenge that the City may have to address in the short and long term: economic diversification. Economic diversity is important to build resilience against external economic shocks such as recession. A better understanding of the region's sectors and their concentration levels and corresponding vulnerabilities to shocks, may lead policymakers to adopt buffering policies. It is unlikely that the Yakima Valley region would quickly alter its sector diversity in the short term, and it may also be difficult to attract and retain firms in more peripheral industries. Best practices indicate that consideration of larger rainy day funds (reserves) for less diverse counties may be warranted. Leaders in less diverse economies may seek a more stable tax base that varies less with the overall economy than those in counties with a more diverse industrial mix.

A desired larger reserve is ideal; yet the very nature of our limited economy poses obstacles towards this goal. The Employment Security Department of the State of Washington reports that in the Yakima Valley, agriculture is king providing 31,361 or 28% of total covered employment as of 2016 statistics. In

comparison, the second and third sectors: health and government, provide 15,252 and 13,350 jobs respectively. These three sectors account for 53.8% of the total covered employment.

The Employment Security Department report that the top five Yakima County sectors in 2016 in terms of employment were:

Sector	Number of Jobs	Share of Employment
1. Agriculture, forestry and fishing	31,361	28.1%
2. Health services	15,252	13.7%
3. Local government	13,350	12.0%
4. Retail trade	10,732	9.6%
5. Manufacturing	8,369	7.5%
All other industries	32,474	29.1%
Total covered payrolls	111,538	100%

Although the region has seen an upper trend in the creation of non-Ag jobs, such trend has not affected the overall sector ranking.

Per the Employment Security Department, the total covered payroll in 2016 in Yakima County was approximately \$4.09 billion. The average annual wage was \$36,648 or 62.0 percent of the state average of \$59,073.

The top five Yakima County industries in 2016 in terms of payrolls were:

Sector	Payroll	Share of Payrolls
1. Agriculture, forestry and fishing	\$ 892,087,169	21.8%
2. Health services	661,025,674	16.2%
3. Local government	583,924,263	14.3%
4. Manufacturing	374,505,886	9.2%
5. Retail trade	310,729,591	7.6%
All other industries	1,265,400,263	31.0%
Total covered payrolls	4,087,672,846	100%

To offer a point of comparison, this report also shows the economic diversity of Benton County. The following table - also from the Employment Security Department - shows a more diversified economy with 10 defined sectors and greater balance of size per sector.

TOP 10 INDUSTRIES IN BENTON COUNTY

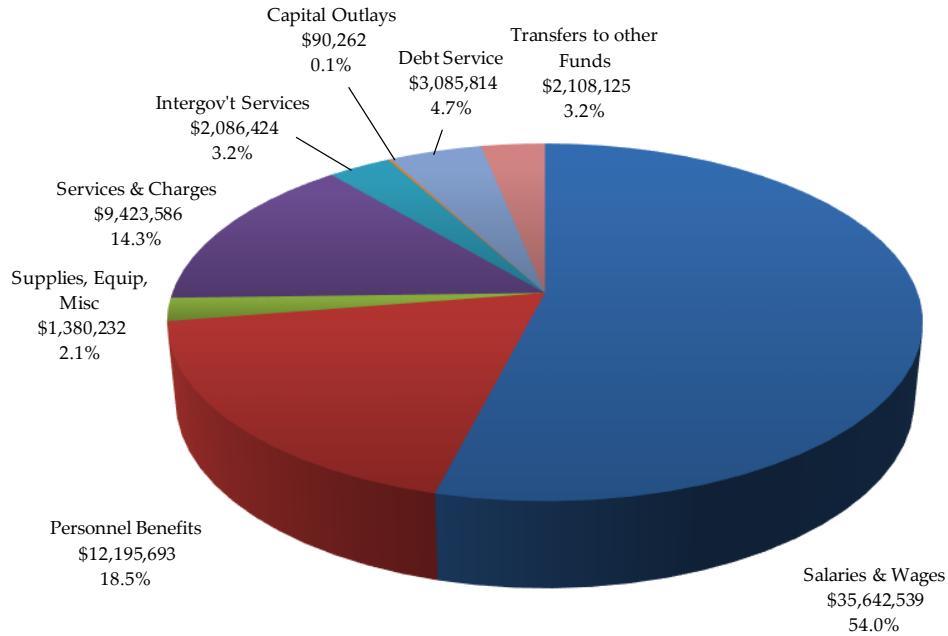
(Source: Employment Security Department, QCEW)

Rank	Industry	% of Total
1	Government	15.2%
2	Health care and social assistance	13.0%
3	Professional and technical services	11.3%
4	Administrative and waste services	11.5%
5	Retail trade	11.4%
6	Accommodation and food services	8.4%
7	Agriculture	6.9%
8	Construction	6.0%
9	Manufacturing	4.7%
10	Finance and insurance	2.1%

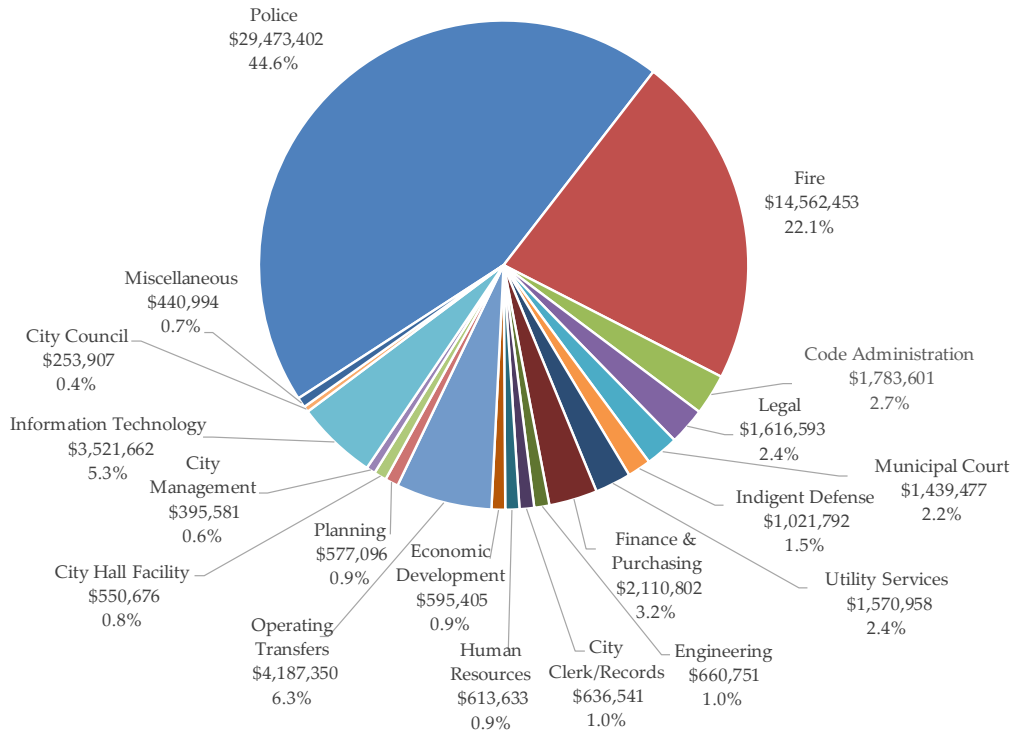
Note that five sectors are balanced in their importance and contribution to the County. There is no one dominant sector in comparison to Yakima.

GENERAL FUND EXPENDITURES

2017 GENERAL FUND EXPENDITURES Generalized Categories



EXPENDITURES BY OPERATIONS



Expenditure by Operating Department

Public Safety (fire and police) represents nearly 76% of total expenditures for the General Fund. The second highest category is operating transfers. This includes transfers for debt service and transfers to Parks and Recreation and Street Maintenance as required by the Charter amendments. For purposes of discussing forecasted expenditures, this document separates discussions for debt service and Charter amendment transfers.

Expenditure Outlook

The overall economic outlook for the City is discussed in the revenues section of this document. As it pertains to the City's expenditures, cost categories other than salaries and benefits are expected to keep pace with inflation. The Federal Reserve aims to keep the inflation rate at approximately 2% by balancing economic growth with the cost of borrowing funds. While inflationary growth dampens purchasing power, a small growth factor helps cushion against damaging deflation when the economy weakens.

GENERAL FUND EXPENDITURE FORECAST

	2017	2018	2019	2020	2021	2022	2023
	Actual	Revised Estimate	Forecast	Forecast	Forecast	Forecast	Forecast
Salaries & Wages	\$ 35,642,539	\$ 37,156,201	\$ 37,824,800	\$ 38,769,500	\$ 39,737,900	\$ 40,731,300	\$ 41,738,700
% Change	3.3%	4.2%	1.8%	2.5%	2.5%	2.5%	2.5%
Personnel Benefits	\$ 12,195,693	\$ 12,684,310	\$ 13,695,400	\$ 14,447,300	\$ 15,171,000	\$ 15,931,000	\$ 16,728,800
% Change	7.1%	4.0%	8.0%	5.5%	5.0%	5.0%	5.0%
Supplies, Equip, Misc	\$ 1,380,232	\$ 1,368,551	\$ 1,384,000	\$ 1,411,700	\$ 1,439,900	\$ 1,468,700	\$ 1,498,100
% Change	7.9%	(0.8%)	1.1%	2.0%	2.0%	2.0%	2.0%
Services & Charges	\$ 9,423,586	\$ 10,228,319	\$ 9,819,000	\$ 10,015,300	\$ 10,215,700	\$ 10,420,000	\$ 10,628,400
% Change	14.1%	8.5%	(4.0%)	2.0%	2.0%	2.0%	2.0%
Intergov't Services	\$ 2,086,424	\$ 2,008,965	\$ 2,311,600	\$ 2,357,900	\$ 2,405,000	\$ 2,453,100	\$ 2,502,200
% Change	6.7%	(3.7%)	15.1%	2.5%	2.0%	2.0%	2.0%
Capital Outlays	\$ 90,262	\$ 308,500	\$ 165,000	\$ 175,000	\$ 200,000	\$ 200,000	\$ 200,000
% Change	(44.0%)	241.8%	(46.5%)	6.1%	14.3%	0.0%	0.0%
Debt Service	\$ 3,085,814	\$ 3,211,147	\$ 3,356,300	\$ 2,483,200	\$ 2,414,500	\$ 2,341,200	\$ 2,338,300
% Change	(4.4%)	4.1%	4.5%	(26.0%)	(2.8%)	(3.0%)	(0.1%)
Transfers to other Funds	\$ 2,108,125	\$ 2,174,540	\$ 2,228,900	\$ 2,284,600	\$ 2,341,700	\$ 2,400,300	\$ 2,460,300
% Change	(20.5%)	3.2%	2.5%	2.5%	2.5%	2.5%	2.5%
Total General Fund	\$ 66,012,675	\$ 69,140,533	\$ 70,785,000	\$ 71,944,500	\$ 73,925,700	\$ 75,945,600	\$ 78,094,800
% Change	4.1%	4.7%	2.4%	1.6%	2.8%	2.7%	2.8%

General Note:

Beginning in 2019, following best practice accounting guidelines, costs associated with Utility Customer Services and billing will be directly charged to the utility funds. Other associated costs will be accounted for in the Water Fund and reimbursed by other utility funds. This provides management with more timely information to manage operations of the utilities. As a result of this accounting change in 2019, percentages shown are decreased since the costs for this division change has been removed.

Salaries and related personnel benefits

This category represents the largest expenditure category for the General Fund. General Fund operations are primarily service-based and 75% of the total expenditures are personnel related.

The City currently has ten negotiated bargaining unit contracts. Six contracts are settled through 2019 or beyond. Future salaries and wages have been calculated to reflect estimates for recently negotiated increases. Four contracts expire at the end of 2019, including the Yakima Police and Patrolman's Association (YPPA) contract. Economic drivers such as low rates of unemployment and increasing inflationary trends will put pressure on the City's salaries and benefits (the annual estimated increases for salaries includes funding for contractually required annual salary increases, merit increases, overtime, longevity and retirement payouts). Due to the relative size of this category, a small increase can have a large impact on the overall budget.

This projection assumes no new positions are added to the budgeted General Fund FTEs (Full Time Equivalents) for the five year period. Currently, there are a number of vacant positions citywide, particularly in police. Police staffing is expected to increase within current authorized FTE levels without the addition of new positions over the next several years. The forecast includes all authorized positions at fully-funded levels.

Benefits are projected at a much higher rate due to health care inflation and are projected to increase approximately 6% per year over the next five years.

Supplies and Minor Equipment

This includes various types of supplies, furniture and equipment that have a unit cost of less than \$5,000 and/or have a useful life of a year or less.

Services and Charges

This include all professional and contracted services, including indigent defense fees of over \$1 million, which is partially offset by a modest State of Washington contribution of \$82,000. Utility and insurance costs of over \$800,000 are included in this category. In addition, training and transportation costs and ordinary repairs and maintenance are included in this category. Public safety dispatch service costs of about \$1 million are also included here. Software license fee and software support are over \$800,000.

Intergovernmental Services

This category includes contracts with other governments for governmental types of services. The City maintains a contract with Yakima County to house inmates in the County jail. The jail service contract comprises the majority of costs for this category and is expected to keep pace with inflation. City inmate medical services costs can affect this category and vary from year to year.

Capital Outlay

This includes the cost of equipment, furniture and improvements for items with a unit cost of \$5,000 or more and that is expected to have a useful life of more than a year. Miscellaneous items such as office furniture or minor improvements are purchased directly out of the General Fund. However, in the past,

the majority of expenditures have been related to purchases of hardware and/or software exceeding the capitalization cost threshold. For future years, these types of purchases are funded from the Technology Capital Fund.

Debt Service

Debt service is paid directly from the General Fund (lease/purchase agreements) or funds are transferred to a Debt Service fund for the payment of principal and interest payment (bonds and other long-term debt). For this projection, all debt service that is paid using the general revenues of the City are included in this category. For budget and accounting purposes, funds transferred to debt service funds to make debt payments are categorized as transfers. There will be a significant reduction in annual debt service payments starting in 2020 when police vehicles are paid off. This will result in revenue being freed up to pay for the annual increase in operating costs.

GENERAL FUND DEBT SERVICE

	2018	2019	2020	2021	2022	2023	
	Projected	Projected	Projected	Projected	Projected	Projected	Matures
2013 - 74 Police Vehicles	\$ 789,037	\$ 789,037	\$ -	\$ -	\$ -	\$ -	2019
2011 - Fire Apparatus	69,959	69,959	69,959	-	-	-	2020
2013 - Fire Apparatus	39,216	39,216	39,216	39,216	39,216	39,216	2023
2013 - Fire Air Packs	86,898	86,898	-	-	-	-	2019
2017 - Fire Aerial and Pumper	20,472	132,489	132,371	132,248	132,119	131,983	2027
2008 - Ladder Truck	75,800	73,200	75,600	72,800	-	-	2021
2014 Streets Improvements	1,647,450	1,646,650	1,648,750	1,650,750	1,648,375	1,648,750	2024
2013 Streets Improvements	360,366	399,664	399,664	399,664	399,664	399,664	2028
2014 SunComm Relocation	121,950	119,150	117,663	119,863	121,863	118,663	2034
Total General Fund Debt Service	\$ 3,211,147	\$ 3,356,262	\$ 2,483,222	\$ 2,414,541	\$ 2,341,236	\$ 2,338,275	

Transfers to Other Funds

This category represents transfers of General Fund revenues to other funds for capital accumulation/purchase, for debt service, and to subsidize the operations of non-self-supporting funds. For this projection, all debt service transfers are included in the debt service line. Remaining transfers are expected to increase at 2% each year as follows:

- Support to the Parks and Recreation fund - \$1.5 million per year from utility tax revenues.
- Capital accumulation to the Law & Justice Capital fund – \$220,000 per year, from utility tax revenues. A 2012 budget initiative paired an internal utility tax increase to the City’s own utilities, earmarked for police capital needs.
- Capital accumulation to the Technology Capital fund - \$275,000 per year, from sales tax revenues for ongoing hardware and software upgrades needed to maintain and/or replace the General Fund’s share of systems, networks and connected equipment.

RECOMMENDATIONS

There are significant challenges before the City; the regional economy and demographics provide limited growth. Expenses are conservative and levels of services are already impacted. In summary:

- The City needs to develop an approach to meet policy reserve requirements for the General Fund.
- Zero to little growth in maintenance and operation annual allocations can be done in the short term, but it is not a long-term solution unless levels of services are changed. There are some cases in which the level of service may not be able to be reduced. An example would be contracts for maintenance of computer software.
- The City should have sufficient reserves to meet emergencies.
- There is a long term structural deficit in the General Fund. The effect of which is estimated revenues do not cover estimated expenditures.

Similarly, the City has implemented revenue expansion and expenditure containment strategies in the past. Some of the strategies are not sustainable long term unless there is a corresponding decrease in levels of service. The items include:

- Elimination of the utility tax cap, resulting in increased revenue to the General Fund.
- Implementation of fees for Transportation Benefit District (TBD) projects.
- Identification of \$900,000 of cost reductions in 2016 and 2017. (The actual savings accepted by Council was \$600,000 with \$300,000 in new appropriations.)
- No increase in authorized staffing levels. Zero growth in FTE's, except if positions are grant-funded.
- No growth in maintenance and operations budgets.

Recommendations to be evaluated for the next three to five years include:

Expenses

- Use of a Cost Allocation Plan to appropriately reimburse the General Fund.
- Salary and or benefit reductions.
- Elimination of vacant position.
- Examination of pension plans and contracts.

Revenues

- Adoption of cost recovery fees each year.
- Reinstatement of Fire Bond Levy.
- Institute a franchise fee for commercial refuse collection.
- Promote high-tax-revenue producing ventures and housing development.
- Adopt a fee/levy/tax to fund public safety emergency communication technical infrastructure.
- Develop a strategy to finance public facilities repairs and upgrades.