

City of
East Wenatchee,
Washington
2011 Annual Financial
Plan

Includes the Budget Year of 2011

and

**Forecast Cash Flow Statements for
each of the years 2012 thru 2016**

City of East Wenatchee, Washington
2011 Annual Financial Plan
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City of East Wenatchee, Washington **2011 Annual Financial Plan**

Introduction:

The City of East Wenatchee was incorporated in 1935 and has grown organically along with the population of the region to its current population of 13,000 residents, and through a series of annexations of adjoining areas of Douglas County. Beginning with an original site of 50 acres, the City completed 28 annexations between 1954 and 2006 which increased the City's area to its current size of 1,852 acres, with 56.0 road miles of streets.

At the same time, the City has regularly been active in capital projects to improve its downtown business and retail district, as well as road construction and pavement projects throughout the City. The City has also constructed storm water infrastructure facilities in conjunction with the Greater East Wenatchee Storm Water Utility, which also comprises significant portions of adjoining Douglas County. Capital projects were managed by the City if solely inside City limits, and in some cases were managed by Douglas County or the Washington State Department of Transportation (WSDOT) when road projects extended into or through the City.

Over the last ten years, the City has been particularly active in street improvements and road construction, having completed new or improved streets and sidewalks in its downtown core business and retail sector. Other projects included the rebuild of a major portion of Eastmont Avenue in conjunction with the Badger Mountain Road Project with Douglas County, and the rebuild of Rock Island Road, a project which came by way of the Kentucky Avenue Annexation in 2006. This most recent annexation was the City's largest in area and population, adding 583 acres, 3,350 residents and 17.3 road miles.

By mid to late 2008, the City found that financial reserves had been depleted for two primary reasons: 1) the City's share of costs of this string of

street construction projects, most of which exceeded the original cost estimates; and 2) the acquisition costs of the Kentucky Annexation. This annexation involved payments to Douglas County for the unamortized costs of recent infrastructure, assumption of debt associated with certain capital projects, and a five year sales tax revenue sharing agreement for sales taxes generated by businesses in the annexed area. The City also found that the costs of its current level of operations had risen to exceed its existing regular revenue stream, because of a combination of costs to support the infrastructure and services of recent annexations, and the increasing costs of services provided by other agencies to the City. And, like all other governmental entities, lower revenues from sales taxes were forecast and expected because of the overall economic downturn in the region, State and in the US.

In its budget deliberations in 2008 for its 2009 budget year, the City passed utility taxes at the rate of 6% on electricity, natural gas and telephone/cellular services. This action was in direct response to the City's lack of any financial reserves in late 2008, and the forecasted negative cash flow that would result in 2009 either without the new revenue or comparable reductions in operating expenses. The electricity and natural gas utility taxes had been previously instituted in 1997 in response to financial resource concerns at that time, and subsequently repealed in 2001 by the City Council. In general, similar utility taxes are and have been a regular and significant portion of City funding for well over 90% of Washington State Cities, according to studies by the Association of Washington Cities.

In addition to the recognition that the City needed additional revenue for funding support for normal operations, the City also recognized that funding for capital projects for street improvements, intersection signal lighting and street re-construction projects would be necessary in the short to medium term according to its Transportation Improvement Plan (TIP). This situation occurred at a time when financial support through grants from the State of Washington or the Federal Government were declining, and for the next two to three years, would decline significantly because of the current economic recession. It became clearer to the City that better, regular and more consistent financial planning beyond the normal next year budgeting cycle

was required to anticipate the future funding impacts of these capital projects and avoid another inadvertent depletion of reserves.

In response, the City passed a “Finance & Budget Policy” thru Resolution No. 2009-06 in May of 2009 to provide the framework and process to accomplish improved financial planning, including development of an Annual Financial Plan each year. 2009 was the inaugural year for the process and development of the City’s first Annual Financial Plan (2010).

Current Financial and Operational Condition

As of this date in March 2011, the City has weathered the economic storm of the last two plus years of recession very well, particularly in comparison to other cities and counties in the region and the State. City services have been maintained at the same levels for public safety, street maintenance, and all administrative functions. Staffing levels are essentially the same as in 2008, with a reduction in the Community Development Department because of significantly reduced activity in building and development permitting, offset by increases in administrative support for the Municipal Court and the Legal Department. The Police Department has seen an increase of one officer funded through a 3-year Department of Justice Grant (2010 thru 2012). The City hired a City Engineer to replace the cost of outside engineering services, manage the Street Department and provide leadership in project management and grant applications. Street Department staffing has remained essentially the same, with a decrease in one full-time employee and increase in one part-time employee since mid-2008.

Expenditure budgeting and control during 2009 and 2010 were very conservative and purposeful. Except for police department personnel who were under union agreements for wage increases of 6% in 2009 and 6% again in 2010, very modest increases were allowed in 2009 and none in 2010 for all other non-contract employees. Travel expenditures were limited and operating capital was limited to only those assets that were necessary to maintain current levels of service. Consequently, costs of operations rose only

in those areas that were beyond City direct control, including Rivercom, detention costs, public defender costs, storm water utility fees, etc.

Revenue grew during 2009 and 2010 primarily due to the implementation of 6% utility taxes on electricity, telephone/cell phone service and natural gas mentioned previously. These receipts totaled approximately \$562,000 in 2009, \$744,000 in 2010 and are estimated to be \$769,000 in 2011. Sales taxes increased in 2009 to \$2,866,000 from the 2008 level of \$2,766,000, but then dropped to \$2,680,000 in 2010. Sales taxes are estimated to decline modestly again in 2011, and begin modest annual growth thereafter. Real Estate Excise Taxes were at a high of \$214,000 in 2008, dropped to \$114,000 in 2009 and have recovered to the \$170,000 level in 2010. Obviously the overall local, regional, state and national economic conditions have led to some of these changes in realization of revenue for the City. Another example of the decline of real estate development is the decline in fees for building permits, plan fees and review fees. From a high of \$226,000 in 2007, these fees have dropped to \$134,000 in 2008, \$103,000 in 2009, and \$66,000 in 2010, with no indication of rebounding.

The impact on the City's year-end cash balances has been dramatic because of the revenue and expenditure dynamics described above. At the end of 2008, the City reported \$200,000 in cash. By the end of 2009, including receipt of \$238,000 in grant receipts for 2008, the City's cash balances had grown to \$1,261,000. By year-end 2010, the City's operating cash balance was \$1,674,000. This increase in cash resources has allowed the City much more flexibility in obtaining grant funding on capital projects that require some level of matching, as well as confidence in future capital and street improvement planning. Capital projects are described later in this Plan at pages 18 thru 21, and provided for financially on the 6 year funding Plan at page 28.

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Basis of Presentation:

The Finance & Budget Policy of the City, included herein by reference, reflects the requirement for Cash Flow Forecasts covering seven (7) periods of time, including: 1) Forecast for the most recent year completed, in this Plan 2010; 2) Budget for next year, in this Plan 2011; and 3) Five forecast years beyond the budget year, in this case the years 2012 thru 2016.

The City keeps its books and financial records on the “Cash Basis”, meets the financial requirements of the Washington State Auditor, and follows the revenue and expenditure classifications contained in the Auditors BARS manual (Budgeting, Accounting and Reporting System). The only real complexities reside in the scope and extent of the City’s revenue sources, about 35 to 45 sources depending upon the month of the year. For expenditures, payroll and benefit costs are widely distributed because of the Mayor and City Council desire for regular and consistent cost accountability of labor and benefits by department.

In order to achieve some common sense summarized level of regular financial reporting, the City views its revenues from the three primary receipt sources; State of Washington, Douglas County and City derived sources. About seven to ten State revenue sources include sales taxes, hotel/motel taxes, liquor taxes/profits, street fuel excise taxes, and criminal justice taxes. Businesses in the City account for, report and remit these taxes to the State, which are subsequently paid to the City. The two County sources include property taxes, real estate excise taxes on property sales transactions and PUD Privilege Tax paid in lieu of property tax. Because property taxes are due at two deadlines during the year (April and October), about 75% combined are received by the City in May and November. City derived sources are the most numerous, but generally fall into three categories: taxes on activities within the City, including utilities, gambling, franchise fees, etc.; fees on business licenses, building/structure permits, building plan and checking fees,

municipal court fines and penalties, etc.; and reimbursements for work done on behalf of other entities, primarily the Greater East Wenatchee Storm Water Utility for maintenance of storm water ponds and drains, small construction projects, and large projects for extension of infrastructure within the City limits.

Expenditures are classified by their nature or character for financial reporting purposes. Payroll and benefits account for approximately 65% of normal recurring operating costs of the City. Other significant cost categories include debt service principal & interest, department capital costs, jail detention services, RiverCom 9-1-1 charges, and reimbursed costs to support the Storm Water Utility mentioned above in the revenue discussion above.

Non-Revenues and Non-Expenditures are unique to the governmental accounting environment, and generally include “pass through” funds. In the City of East Wenatchee for example, the largest category is the State’s portion of municipal court fines (approximately 46.5% of total Court receipts) receipted as non-revenue and expended as a non-expenditure (they do not necessarily match up month-to-month because of timing of the months lag between receipt and subsequent payment).

The reader will note these revenue and expenditure captions when you review the Cash Flow Statements and Forecasts later in this Plan. A significantly greater level of detail of revenues and expenditures is included in the 2011 Annual Financial Budget, available at the City or on the City’s web site.

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Financial Plan Elements:

<u>Plan Element</u>	<u>Purpose</u>
Financial Forecast Assumptions	Find out how the numbers were determined
Annual Operating Cash Flows	Provides revenue and expense projections & Annual Cash Flow – Comments & Variance Analysis
Capital Projects	Gives details of the City’s Capital Project plans
Grant Sourcing Strategies	Existing funding & process to get more
Debt Funding Strategies	Debt Sources and Process
Reserve Development Strategy	How much do we need and for what
Consolidated Cash Flow	Depicts the “real” overall cash flow - Operating Cash Flow, Street/Capital Project Revenue & Cost, and Cash Carryforward from year to year.

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Financial Forecast Assumptions:

Remember that the Plan forecast periods include the final results for 2010, the budget year of 2011, and the five forecast years of 2012 thru 2016. The guidelines for the budget year 2011 were developed and included in the budget plan for revenues, expenditures and capital in the normal course. See the details of the 2011 Budget document included herein by reference and available on the City's web site at www.east-wenatchee.com.

Revenue Assumptions for the budget year 2011 and the five forecast years of 2012 thru 2016 include the following:

Operating Revenues: As described previously, the City views its revenues by individual source (approximately 40 or so sources), summarized for reporting purposes by City Sources, County Sources and State Sources. Each individual revenue source has been evaluated by the Finance Director based upon the previous five years history. Future annual increases or changes are either based upon specific trends or known circumstances. The City's Budget Committee reviews and signs off on these forecasts. Since twelve revenue sources comprise nearly 83% of the City's budgeted 2011 operating revenue, their scope and primary forecast assumptions are as follows:

Sales and Use Tax (32.7%): 2011 Sales tax revenues are budgeted at \$2,520,000, slightly less than 2010, after considering non-recurring activity. 2012 is forecast to increase 7.5% to \$2,710,000 due to additions of retail businesses, and about 3% annually thereafter thru 2016.

Property Tax (19.6%): Base property taxes are forecast at \$1,512,000 for 2011, with increases each year representing an allowance for new construction. The forecast does not include the allowable 1% annual increase in property taxes because the Council has only approved this increase twice

over the last dozen years. Annual lost revenue resulting from this choice is about \$15,120 to \$16,900 each year on a compounded basis, totaling approximately \$329,000 for the six years of this Plan. If approved by the Council annually, by 2016, the last year of this plan, property tax revenue would be nearly \$80,000 greater.

Municipal Court Fines & Penalties (5.7%) or \$437,800 for 2011. The City's share of Court revenue has more than doubled over the last 5 years, but has reached a plateau over the last 18 months or so. Forecast increases are very modest over the 2012-2016 annual forecast periods.

Utility Tax – Telephone/Cellular (5.6%) or \$435,000 for 2011. Forecasts include very modest increases thereafter, based upon monthly trends of major carriers usage history.

Utility Tax – Electricity (3.8%) or \$294,000 for 2011. Douglas PUD implemented 6% increases in electric rates for 2010 and again in 2011. 2011 reflects the increase in this tax, with modest annual increases thereafter.

Gambling Tax (3.4%) or \$260,000 for 2011. Represents tax at 8% of gross proceeds on four gaming establishments in the City. These taxes have decreased modestly because of the recent economic downturn and forecast flat over the next 5 years.

Street Fuel Excise Tax (3.2%) or \$245,000 for 2011. Currently at 2007 levels, our forecast for 2012 thru 2016 includes very modest annual increases.

Criminal Justice Taxes (2.2%) or \$169,900 for 2011. Forecast modest annual increases for the years 2012 thru 2016.

Real Estate Excise Tax (1.9%) or \$145,000 for 2011. REET reached a plateau in 2007, doubled in 2008 because of sale of the Mall, and back down in 2009 because of the economic recession. Because of a recent surge in real estate transactions, our forecast reflects modest levels of increase from 2012 to 2016.

Liquor Taxes & Profits (1.9%) or \$143,000 for 2011. Forecast modest annual increases 2012 thru 2016.

Hotel/Motel Taxes (1.8%) or \$135,500 for 2011. The City has three hotel/motel properties which reflect modest historical increases in collected taxes, forecast comparably for the future. The City retains approximately \$85,000 of these funds to support the Events Fund. The remainder “passes thru” the City to the Wenatchee Valley Visitors Bureau to support regional tourism.

Franchise Fees (1.2%) or \$93,000. This annual forecast is flat for future years based upon history.

Business licenses have been forecasted essentially flat for 2011 at \$53,000, with significant increases in 2013 thru 2015 from a proposed rate increase that was deferred by the Council this year. Building permits, plan checking fees, and development fees which have fallen dramatically over 200% since 2007 due to the real estate demise portion of the overall economic recession, have been budgeted at the same levels for 2011 and the future periods.

Expenditure (Cost) Assumptions for the budget year 2011 and the five forecast years of 2012 thru 2016 include the following:

Operating Expenditures: As with the concentration of revenue sources, the City’s expenditures are concentrated in a relatively small number of categories. Using the 2011 Budget, these cost categories and their relative percentages include: labor cost (41.9%); payroll taxes (7.3%); health insurance (11.0%); State share of Municipal Court revenue (4.8%); RiverCom 9-1-1 (3.8%); court detention costs (3.1%); department capital costs (2.7%); debt service (2.7%); Storm Water Utility annual charge (2.0%); and annexation costs (0.9%). These categories total over 80% of total City expenditures.

Labor staffing: The City staff comprises 46 full time, 4 part-time and 2 seasonal employees. The police department has 25, street department 7 plus 2

seasonal, community development 4, municipal court 4 plus 1 part-time, finance 2, city clerk 1 plus 1 part-time, events department 1 plus 1 part-time, city engineer 2, and the city attorney 1 plus 1 part-time. 23 police department employees are in two union bargaining units; 16 hourly employees are in another union bargaining unit; the city attorney, city engineer and municipal court judge are under contract; and the remaining 10 employees are non-union.

Labor cost (41.9%): The three union bargaining units covering 39 City employees are in the final process of contract negotiations, proposed to cover the three year periods, 2011, 2012 and 2013. Very modest increases in payroll costs have been budgeted for 2011. For the forecast years of 2012 thru 2016, payroll cost increases have been estimated in the range of 3% to 4% per year.

Payroll taxes (7.3%): These taxes include the usual employment related taxes and contributions to pension plans. Generally, these taxes average 16% to 17 % of payroll costs. Because of State and Federal funding challenges, the City expects these costs to rise over the period covered by this plan. Consequently, payroll tax costs for 2013 thru 2016 have been forecast at 18%.

Health insurance (11.0%): The City provides health insurance for employees including medical, dental, and vision coverage. A life insurance benefit was added beginning in 2011. Employees share in the medical premium costs beyond their own coverage and one dependent. The City changed its medical plan beginning in 2011, resulting in no premium cost increases. Premiums had increased 10% for 2010, following a 9% increase in 2009. Increases are forecast at 8% for 2012 and 7% for the years 2013 thru 2016.

State share of Municipal Court revenue (4.8%): Washington State Judicial regulations require that a portion of fines and penalties imposed in the City's Municipal Court be remitted to the State. This amount was approximately \$393,000 or 46.5% total court receipts during 2010.

RiverCom 9-1-1 (3.8%): This cost represents the City of East Wenatchee's share of the debt service on bonds issued to establish this regional emergency

call center and an allocated share of its operating costs. The City's budgeted annual cost for 2011 is \$285,900, an increase of 11.2% over 2010. Costs for 2012 to 2016 are estimated to increase 5.0% annually.

Court detention costs (3.1%): The City does not have a jail and consequently contracts on a per-day charge with the Chelan County Regional Justice Center to house detainees from the City of East Wenatchee. These costs are expected to increase substantially in the future.

Department capital costs (2.7%): This budgeted cost of \$202,900 for 2011 represents capital equipment purchases to support the normal operating activities of each department in the City, including car payments for police vehicles, computer hardware/software costs, printers/fax/copy machines, etc.

Debt service costs (2.7%): These costs include principal and interest on the 2000 general bond issue for street improvements, in the original amount of \$1,545,000 with a current balance of \$710,000. This debt will be fully paid in 2015. These budgeted costs also include the debt service for the 2001 \$500,000 Public Works Trust Fund loan for 11th street improvements, the balance of which is currently \$326,800. Because this project also included storm water improvements, the Greater East Wenatchee Storm Water Utility reimburses the City approximately \$13,000 each year to help satisfy the annual loan payments of approximately \$33,000. This loan will be fully paid in 2020.

Storm Water Utility charge (2.0%): This utility charge is paid to the Greater East Wenatchee Storm Water Utility for the City's share of storm water accumulation and discharge. The 2011 budgeted fee of \$149,400 has increased from \$130,400 in 2010 and \$114,000 in 2009 to offset the unfunded mandates of compliance with NPDES pollution control regulations established by our Federal Government and regulated by the State of Washington.

Kentucky annexation costs (0.9%): This cost represents the sharing with Douglas County of sales taxes generated in the annexed area and the debt service on a loan for street improvements made by the County in the annexed area prior to the 2006 annexation. The sales tax sharing will be completed in

early 2011 and the last debt service payment will be made in mid-2011. The 2011 budgeted sales tax sharing cost is estimated at \$10,000, a small portion of the approximate \$790,000 of sales taxes that has been paid to Douglas County since early 2006. The 2011 budgeted debt cost of \$56,000 is a portion of the total assumed debt of approximately \$282,000.

Balance of operating costs for 2011 (16.6%): These costs include the remaining normal and usual operating costs of the City such as commercial insurance, fuel costs for City vehicles, utility costs, maintenance of vehicles & equipment, snow removal costs, supplies for maintenance of City streets, monthly compensation for the Mayor and City Council, etc.

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Introduction to the Operating Cash Flow Forecasts:

Note: The following Operating Cash Flow Schedule is critical in understanding the City's expected capacity to generate cash flow to support street or capital improvements, or to support debt service costs if the City decides to borrow.

The following cash flow schedule reflects the culmination of incorporating information for the year 2010 (budget and actual), the Council approved budget for 2011, and forecasts for each of the years 2012 thru 2016. As you review the schedule, please note the following:

This schedule is developed in the traditional format of a profit and loss statement, with revenues at the top in the categories described previously in the revenue assumptions portion of this Plan, eg. City Revenue Sources, County Revenue Sources and State Revenue Sources. City Non- Revenue is then added to result in "Total Annual Revenue", highlighted in yellow.

Expenditures are then listed in the categories labeled on the report, beginning with "Payroll, Taxes and Benefits". Expenditures are accumulated to result in the "Grand Total Expenditures" caption, also highlighted in yellow.

The result of subtracting the "Grand Total Expenditures" from "Total Annual Revenue" is the caption at the bottom of the schedule labeled "Annual Cash Flow for Each Year", highlighted in **green**.

Please note the comments and variance analysis on the pages following the Operating Cash Flow Schedule.

ANNUAL OPERATING CASH FLOW FORECASTS 2010 THRU 2016

City of East Wenatchee, Washington Financial Planning Cash Flow Forecasts		2010 BUDGET	2010 ACTUAL	2011 BUDGET	2012 FORECAST	2013 FORECAST	2014 FORECAST	2015 FORECAST	2016 FORECAST
Revenue:									
City Revenue Sources		2,300,500	2,071,200	2,393,600	2,440,700	2,388,500	2,427,600	2,463,200	2,489,400
County Revenue Sources		1,658,900	1,701,100	1,694,100	1,729,000	1,761,000	1,799,000	1,841,000	1,882,000
State Revenue Sources		3,185,200	3,398,300	3,217,400	3,435,000	3,525,500	3,608,400	3,691,500	3,780,900
Sub-Total		7,144,600	7,170,600	7,305,100	7,604,700	7,675,000	7,835,000	7,995,700	8,152,300
City Non-Revenue		405,500	410,200	405,350	410,000	414,000	418,000	422,000	426,000
Total Annual Revenue		7,550,100	7,580,800	7,710,450	8,014,700	8,089,000	8,253,000	8,417,700	8,578,300
Expenditures:									
Payroll, Taxes and Benefits		4,380,800	4,221,400	4,484,700	4,555,600	4,735,500	4,951,600	5,146,400	5,346,200
Recurring Monthly Payables		1,969,100	1,650,500	1,830,800	1,859,400	1,926,300	1,967,000	2,043,300	2,110,700
Other Expenses (Annual Payments)		556,000	591,900	484,100	488,300	495,500	507,900	515,100	382,600
Operating Capital (Dept Budgets)		162,800	164,100	200,900	195,900	197,900	196,900	196,400	196,400
Total Operating Expenditures		7,068,700	6,627,900	7,000,500	7,099,200	7,355,200	7,623,400	7,901,200	8,015,900
Non-Expenditures:									
State Court Remittances		330,000	364,300	360,000	365,400	370,900	376,400	382,100	387,800
Annexation Sales Tax & Debt Svc		117,000	121,000	66,000	23,000	23,000	23,000	23,000	23,000
Other		30,250	12,300	22,400					
Grand Total Expenditures		7,545,950	7,125,500	7,448,900	7,487,606	7,749,100	8,022,800	8,306,300	8,426,700
Annual Cash Flow for Each Year		4,150	455,300	261,550	527,100	339,900	230,200	111,400	151,600

Note: See the following pages for Comments on the Operating Cash Flow Statements and Annual Variance Analysis

City of East Wenatchee, Washington
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Operating Cash Flow Forecasts
Comments and Variance Analysis

Please Note:

Cash balances at the end of the year 2010 of \$1,673,600 are considered sufficient to support recurring operations and the scheduled and known capital projects for the budget year 2011 and the forecast years 2012 thru 2014 (accompanying overall cash flow analysis with capital projects follows later in this Plan). In addition, capital project planning beyond the known and scheduled projects indicates the need for additional cash flow beyond the cash flow reflected in the aforementioned and scheduled Operating Cash Flow Forecasts. Consequently, the City's ability to provide supplementary cash flow through grants, debt, and reserves will be critical in more completely satisfying street improvement and capital projects in the future.

Forecasted Cash Flow for the Years 2012 thru 2016

In general, the City is projected to produce a more substantial level of cash flow than in the previous 2010 Plan. This factor will allow the City to be more pro-active in applying for grants and approaching project development with better assurance that having resources available to satisfy grant matching fund responsibilities. This factor may also allow the City to "look longer" in approaching future funding issues for capital. Other factors may include:

Revenue:

The City has developed specific approaches in revenue budgeting and forecasting by revenue source, as reflected in revenue analysis on pages 8 thru 10 where the City discusses sources that comprise nearly 83% of recurring revenue. In fact, over 52% of City revenue is derived from sales and

property taxes. In addition, after the 2009 addition of utility taxes on electricity, natural gas and phones/cellular phones, the Council has not discussed adding new classifications of taxes. Consequently, the only real opportunity for additional revenue to improve or add to the operating cash flow results on the schedule at page 15, is for the Council to change its historical approach in approving the allowable 1% increase in property taxes. The other opportunity is to experience higher actual receipts from improvements in the overall economic climate that would exceed the assumptions the City has already included in its forecasts.

Costs and Expenses:

As reflected on pages 10 thru 13, the City has communicated its approaches in budgeting and forecasting more than 83% of its recurring expenses. As noted in those comments, labor, payroll taxes and benefits account for more than 60% of the total recurring costs of City operations. Consequently, the only real opportunity for reductions in those costs may be for the City to re-evaluate or re-align its staffing levels that might result in reductions in the number of employees, thus reducing costs. Also note that over 13% of total City recurring costs are paid to vendors or other governmental entities related to municipal court support and public safety, including the State share of court revenue, public defender costs, the costs of the RiverCom 9-1-1 regional system, and prisoner detention costs paid to the regional justice center. The City has very little influence over these costs and their associated rate of annual increases.

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Capital Projects Introduction:

Capital projects for the six year period 2011 thru 2016, for the most part have been derived from City's annual Transportation Improvement Plan (TIP), developed and provided each year in June to the Washington State Department of Transportation (WSDOT). Certain projects have been scheduled and have associated funding plans. These projects will be included in the Annual Cash Flow Forecasts that follow later in this Plan and will be listed first. Other projects that do not have specific funding and have not been scheduled will be listed second. In this Plan, projects are classified as street preservation, street re-construction, intersection signal lighting, enhancement and non-transportation.

Funded and Scheduled Projects

The Grant Road Overlay Project is the highest priority street preservation project, and is scheduled to be completed in 2011. The upper portion of Grant Road from Georgia Avenue to Kentucky Avenue was completed in 2010 in conjunction with WSDOT's SR 28 paving project. The lower portion from SR 28 to Georgia Avenue is being administered by WSDOT in conjunction with the SR 28/Sellar Bridge bypass project. Funding for this project includes an STP Federal Grant which will fund 86.5% of the cost. The current estimate for the work scheduled for 2011 is \$900,000, consisting of federal funds of \$779,000 and City funds of \$121,000.

The 9th Street Preservation Project is the City's second highest priority street preservation project. The proposed project includes pavement repair, crack sealing, sidewalk ramp updates and full width grinding and resurfacing with asphalt concrete pavement. Funding for this project includes an STP Federal Grant which was received early in 2011 and will fund 86.5% of the cost. It is anticipated that construction will occur in 2012. The current estimate for the

work is \$616,000, consisting of federal funds of \$500,000 and City funds of \$116,000.

This Plan includes only one street re-construction project during its six-year scope. That project is the Eastmont Avenue span between Grant Road and 9th Street Northeast. The City was awarded a grant from the Transportation Improvement Board (TIB) in late 2010 for the Grant Road to 3rd Street Northeast section of this project. The funds for this project include \$1,980,550 in TIB funds and City matching funds of \$349,500 for a total funding package of \$2,330,000. The remaining section of this project is estimated to cost about \$4.5 million, and the City will continue to look for future TIB or other grant source opportunities to leverage local funds. At the TIB current minimum matching rate of 15%, the City would need to commit matching funds of \$750,000 for the remaining section of Eastmont Avenue.

The City and Douglas County worked cooperatively on, and were successful at acquiring an Enhancement Grant from the North Central Regional Transportation Planning Organization (NCRTPPO) for improvements to the loop trail. The City's portion of the work includes beautification improvements to the east terminus of the pipeline bridge at the foot of 9th Street, and also provides for the installation of some trail mile markers and signage improvements. The City's 2011 budget includes \$151,000 for this improvements of which \$20,000 are anticipated to be City funds.

The City purchased a house adjacent to its City Hall property in late 2005, rented it out for income for a time, and began remodeling it in 2010 to create additional office space for the Police Department. The project will be completed 2011. The total cost of the remodel project is estimated at \$200,000 and is 100% funded with City money.

The City is also a partner with Douglas County in managing the funding and activities of storm water utility operations within the City and extending into portions of Douglas County in the valley. The largest single storm water utility project is the Canyon A project that originates in Douglas County and extends thru the City to terminate at or near the Columbia River. The last

large section of this project is scheduled for completion in 2012. Storm water utility operations in the City also include other smaller capital projects, in addition to infrastructure maintenance and environmental compliance. These activities are funded by the Greater Storm Water Utility thru its financial sources including storm water utility fees paid by residents and businesses in the serviced area and loans for capital projects. Consequently, other than its own utility fee for City property and streets, the City is reimbursed its costs by the Greater Storm Water Utility for capital and maintenance.

Unfunded and Unscheduled Projects

The 15th Street Preservation Project is the next priority street project from Eastmont Avenue to Baker Avenue. This is an asphalt overlay project at an estimated cost of \$240,000, currently does not have supporting grant funding, and is not yet scheduled.

The Highline Drive Sidewalk and Overlay Project is the next priority street project from Eastmont Avenue to 3rd Street SE. This project includes an asphalt overlay and a small section of sidewalk. The estimated cost is \$530,000, currently does not have supporting grant funding, and is not yet scheduled.

The Valley Mall Preservation Project is the next highest priority street project from Grant road to 9th Street. As with the 9th Street Project, this is expected to include micro-surfacing after pre-surfacing preparation. The estimated cost of this project is \$600,000, currently does not have supporting grant funding, and is not yet scheduled.

The Eastmont Avenue Preservation Project is the next priority street project from 9th Street to 15th Street. As with 9th Street and Valley Mall Parkway, this is a micro-surfacing after pre-preparation project. The estimated cost is \$400,000, currently does not have supporting grant funding, and is not yet scheduled.

Unfunded and Unscheduled Intersection Signal Lighting Projects

Three intersection signal lighting projects have been identified and prioritized as needed over the next six-year period. These projects have not been scheduled because of lack of specific funding. The intersection locations and project costs, listed in priority order, include:

Rock Island Road and 3 rd Street SE	\$375,000
Highline Drive and 3 rd Street SE	\$420,000
9 th Street NE and Valley Mall Parkway	\$375,000

Please note that our 2010 Financial Plan included a fourth intersection signal lighting project at Eastmont Avenue and 3rd Street NE with an estimated cost of \$465,000. For pedestrian and traffic safety purposes, the City Engineer recommended, and the Council approved a four-way stop at that intersection in late 2010. As noted earlier, the City has received a TIB Grant for re-construction of Eastmont Avenue from Grant Road past 3rd Street NE. That re-construction project will include the intersection lighting at 3rd and Eastmont.

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Grant Sourcing Strategies

As reflected in the introduction to this Plan, the City has been historically active in capital projects that have either been partially funded by grants from the Federal Government Surface Transportation Planning Department (STP) and/or the State of Washington Transportation Improvement Board (TIB). STP funding is typically calculated at a maximum of 86.5% of capital project costs, with the City's share at 13.5%. TIB State money could be funded as high as approximately 85% of project costs, or lower depending upon the rating of the project, with the City's share at a minimum of 15%. In some cases, these two funding sources have been used in conjunction with each other, using STP funds to supplement the City's share in a TIB funded project. The City has obtained STP funding thru the Wenatchee Valley Transportation Council to help fund the Grant Road Overlay Project and the 9th Street Preservation Project, the City's two highest priority preservation projects (See the earlier section on "Capital Projects", pages 18 & 19).

In both of these grant funding sources, the City competes against other entities to gain a portion of a larger pool of allocated or appropriated funds, depending upon the relative rating or scoring of a capital project in relation to others. It is currently unknown how soon or how much STP funding will be provided in the future beyond 2011, and how the City's projects will rate for funding consideration in relation to other entities in the region.

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Debt Funding Strategies

The City has also historically provided funding for capital projects by borrowing money through two sources; issuing/selling bonds to the public and borrowing via a Public Works Trust Fund Loan from a State of Washington program.

Bonded debt generally involves borrowing a higher amount, has higher transaction costs, generally gives the City more flexibility on use of the funds, and could be for a longer pay-back period. For example, the City has issued bonds to support funding of a number of capital projects over an extended period to time. The City also issued bonds for the funding to build its current City Hall. The financial requirements for reserves and the responsibility for the City to show bond underwriters the future availability of funding to support debt service are pre-cursors in considering bonds as a means to fund capital projects. This Plan currently may reflect the financial capacity to borrow through the use of bonded debt.

A Public Works Trust Fund Loan (PWTF) is used for a specific project that fits this program. The City has a PWTF loan that was used to make 11th Street and Storm Water Improvements. Because of funding challenges at the State of Washington, during 2009 the Legislature redirected \$368 million in local government low-interest loan funds to the State's general fund. Consequently there are currently no funds available for projects and no indication if or when any level of funding will be restored for this program. Reasonable assurance of the availability of funds for debt service is also required for this type of borrowing.

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Reserve Development & Funding Strategies

The City currently and historically creates and accounts for certain reserved funds, and has actively evaluated the need for reserves on a de-facto basis whenever grant funding and/or debt funding has been planned or accomplished. In certain and regular fund accounting, the City is required to segregate revenue that can only be used for specific purposes. In some cases, the segregated revenue is used for operational purposes (motor vehicle fuel tax for street maintenance, local criminal justice funds for law enforcement, etc.), and in the case of real estate excise tax, the funds are generally specified for use in street improvements, so they are receipted into a specified fund used for that purpose. The City also has evaluated and discussed its need for an “operating cash reserve” to insure that it can cover the ebb and flow of revenue receipt and contingencies for unexpected financial obligations. This was particularly important in late 2008 when the City had nearly exhausted its funds in completing capital projects that had exceeded original estimates. The City has also entered into transactions on the sale of property where the Council has designated a specific purpose for the proceeds. The recent example was the sale of the Colorado Avenue property when the Council designated the proceeds for use in the building improvements of the house on the southeast corner of the City Hall property for conversion to offices and storage for the Police Department.

Based upon this “varied” City history, and now that the City has embraced a formal financial planning process, we will be better prepared to evaluate, develop and formalize reserve strategies for specific purposes. Even though the financial forecasts in this Plan may not reflect significant levels of operating cash flow, the following reserve strategies are expected to be considered in 2011 by the City’s Budget Committee, and perhaps to the City Council as strategies are developed:

Operating Cash Flow Reserve: This reserve is probably the most common sense issue in managing the City's normal and usual month to month cash flow. Most cities nail this reserve down because they do not want to risk missing a payroll or not meeting a regular known obligation. There are differences of opinion about how to measure this reserve, whether it is a percentage of cash flow or an absolute amount. For example, the City of Wenatchee defines it as 14% of budgeted annual cash flow in their General Fund. Other cities measure it as "two months cash flow" (16.7%) or even "three months cash flow" (25%). At the current level of annual recurring expenditures in the City's General Fund and Street Fund (approximately \$6,275,000) for 2011, the City's operating reserve at the 14% level could be approximately \$875,000. Once an annual City budget is conformed to a monthly cash flow plan, the appropriate amount or level of this reserve becomes clearer. In addition, given the fact that cash balances at the beginning of 2011 of \$1,675,000, and a spending plan that indicates a cash net use of \$25,000, the City has approximately \$775,000 that could be viewed as funds that could be committed.
(\$1675,000 less \$25,000 less \$875,000 equals \$775,000).

Street Preservation Reserves: The City has asked the City Engineer to develop an approach for a "Pavement Management Program" for preservation of the city streets. When developed, this approach would identify the amount of funds that would be required to support the program, both initially and over time. Later in 2011, the Budget Committee and perhaps the Council will be better prepared to address a street preservation reserve program.

Debt Service Reserve: The City would establish this reserve if and when the decision was made that the City would be borrowing for satisfaction of funding for street preservation, street re-construction or other capital projects. Essentially, bond underwriters frequently require that a reserve be funded prior to a financing to reflect the ability of the City to make debt payments without the necessity to fund payments out of current revenues. The amount of this reserve generally amounts to two to three year debt service payments.

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Introduction to All-Inclusive Summary Cash Flow Forecasts

The following schedule is similar to the previous “Operating Cash Flow Schedule” (page 15), except the following information is added:

1. Beginning and ending cash balances and
2. Capital Project funding and costs are included on a following page.

These additional factors create a complete Summary Cash Flow Forecast for the years 2011 thru 2016.

As you review the Forecasts, please note the following:

Cash balances have been recorded at the beginning of each year’s cash flow, and carry-forward to ending year’s cash balances.

Annual Cash flow from Operations for each year is the same as the Annual Operating Cash Flow Schedule provided earlier in this Plan at page 15.

Capital Projects included in this Forecast have been explained in the Capital Projects section on pages 18 thru 21 in the “Funded and Scheduled Projects” section.

No other Capital Projects have been scheduled in this Forecast because supportive funding through grants or operating cash flow are either not sufficient, or the Council has not yet approved the funding.

OPERATING CASH FLOW FORECASTS 2010 THRU 2016

City of East Wenatchee, Washington Financial Planning Cash Flow Forecasts		2010 BUDGET	2010 ACTUAL	2011 BUDGET	2012 FORECAST	2013 FORECAST	2014 FORECAST	2015 FORECAST	2016 FORECAST
<u>Beginning Balance of Cash:</u> (Note Below)		\$ 1,261,000	\$ 1,261,100	\$ 1,673,600	\$ 1,648,150	\$ 2,031,250	\$ 2,341,150	\$ 2,269,850	\$ 2,381,250
City Revenue Sources		2,300,500	2,071,200	2,393,600	2,440,700	2,388,500	2,427,600	2,463,200	2,489,400
County Revenue Sources		1,658,900	1,701,100	1,694,100	1,729,000	1,761,000	1,799,000	1,841,000	1,882,000
State Revenue Sources		3,185,200	3,398,300	3,217,400	3,435,000	3,525,500	3,608,400	3,691,500	3,780,900
Sub-Total		7,144,600	7,170,600	7,305,100	7,604,700	7,675,000	7,835,000	7,995,700	8,152,300
City Non-Revenue		405,500	410,200	405,350	410,000	414,000	418,000	422,000	426,000
Total Annual Revenue		7,550,100	7,580,800	7,710,450	8,014,700	8,089,000	8,253,000	8,417,700	8,578,300
<u>Expenditures:</u>									
Payroll, Taxes and Benefits		4,380,800	4,221,400	4,484,700	4,555,600	4,735,500	4,951,600	5,146,400	5,346,200
Recurring Monthly Payables		1,969,100	1,650,500	1,830,800	1,859,400	1,926,300	1,967,000	2,043,300	2,110,700
Other Expenses (Annual Payments)		556,000	591,900	484,100	488,300	495,500	507,900	515,100	362,600
Operating Capital		162,800	164,100	200,900	195,900	197,900	196,900	196,400	196,400
Total Operating Expenditures		7,068,700	6,627,900	7,000,500	7,099,200	7,355,200	7,623,400	7,901,200	8,015,900
<u>Non-Expenditures:</u>									
State Court Remittances		330,000	364,300	360,000	365,400	370,900	376,400	382,100	387,800
Annexation Sales Tax & Debt Svc		117,000	121,000	66,000	-	-	376,400	382,100	387,800
Other		30,250	12,300	22,400	23,000	23,000	23,000	23,000	23,000
Grand Total Expenditures		7,545,950	7,125,500	7,448,900	7,487,600	7,749,100	8,022,800	8,306,300	8,426,700
Annual Cash Flow for Each Year		4,150	455,300	261,550	527,100	339,900	230,200	111,400	151,600
Funds Available from Operations		1,265,150	1,716,400	1,935,150	2,175,250	2,371,150	2,571,350	2,381,250	2,532,850

Note: Cash Balance does not include a deposit of \$370,000 from WSPOT made to the City in 2009 in lieu of a future negotiated transaction with the City.

City of East Wenatchee, Washington

Financial Planning Cash Flow Forecasts

CAPITAL CASH FLOW FORECASTS 2010 THRU 2016

	2010 BUDGET	2010 ACTUAL	2011 BUDGET	2012 FORECAST	2013 FORECAST	2014 FORECAST	2015 FORECAST	2016 FORECAST
Funds Available from Operations	1,265,150	1,716,400	1,935,150	2,175,250	2,371,150	2,571,350	2,381,250	2,532,850
Street Improvements & Capital Projects:								
Revenue:								
Audible Pedestrian Crossings	37,500	-						
Grant Road Overlay - Phase 1	123,000	102,900						
Grant Road Overlay - Phase 2	532,000	-	422,000	500,000	200,000	2,010,000		
9th Street Overlay	-	-	15,000	120,000				
Eastmont Rebuild - Grant Road to 3rd	-	-						
SWU Canyon A Project	433,000	58,101	1,487,000					
SWU Improvement Projects	70,000	35,832	100,000	100,000	100,000	100,000	100,000	100,000
SWU Retrofit Projects			420,300					
Loop Trail Enhancement			151,000					
Revenue Capital Projects	1,195,500	196,833	2,595,300	720,000	300,000	2,110,000	100,000	100,000
Expenditures:								
Audible Pedestrian Crossings	41,000	-						
Grant Road Overlay - Phase 1 & 2	495,000	94,433	430,000					
Georgia Avenue Pedestrian	62,000	13,868		616,000	230,000	2,311,500		
9th Street Overlay			15,000	148,000				
Eastmont Rebuild Grant Road to 3rd								
Police Admin Building (revised)	143,000	13,097	187,000					
SWU Canyon A Project	433,000	104,019	1,487,000					
SWU Improvement Projects	70,000	14,216	100,000	100,000	100,000	100,000	100,000	100,000
SWU Retrofit Projects			420,300					
Loop Trail Enhancement			151,000					
Other - Transfers	125,450		92,000					
Expenditures - Capital Projects	1,369,450	239,633	2,882,300	864,000	330,000	2,411,500	100,000	100,000
Net Cash Flow from Capital Projects	(173,950)	(42,800)	(287,000)	(144,000)	(30,000)	(301,500)	-	-
Funds Available - After Capital Projects	1,091,200	1,673,600	1,648,150	2,031,250	2,341,150	2,269,850	2,381,250	2,532,850

City of East Wenatchee, Washington
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Risk Assessment – Possible Limiting Factors

This Plan includes many financial and operational assumptions about the future that the City believes are well-reasoned and have a high probability of occurring within the short-term period of this Plan. Nevertheless, the Plan should also address those areas of risk that could either limit or prohibit the financial success or progress over its six year term.

Revenues:

As noted earlier in this Plan, the City's largest revenue source is sales tax, constituting an average of 34% of operating revenue annually. Ten retail establishments in the City produce more than 40% of the City's sales tax revenue. If any one of the top three would either go out of business or leave the City, operational adjustments to costs would need to occur. Even though the City has not lost a significant business during this recession, the recession has extended much longer than any federal or state administration forecasts. In addition, economic factors have not improved sufficiently and do not currently reflect any consistent improvement trends. Consequently, it is difficult to predict if and when the recession will end, creating a higher probability of business failures.

Property tax revenue is the next largest revenue source for the City at more than 19% of total City revenue. The City Council has chosen to not raise the City's portion by the allowable 1% annually in recent memory. In addition, the economic recession over the last several years has resulted in the continuing decline in property values nationally, and currently 13% of residential homes are vacant in the U.S. This means that property tax revenue will likely continue to fall as a percentage of total City revenue because of these factors. Coupled with the decreases in building permit and development revenues, the City will need to look to other revenue sources to offset these

negative financial impacts from declining property values and the depressed real estate market.

Grant revenue from either the State (Transportation Improvement Board) or the Feds (Surface Transportation Planning) have been the historical mainstays for the City in providing funds for street improvements and capital projects. Another State source has been the ability to borrow thru the Public Works Trust Fund. The current size and scope of budget deficits at the State and Federal levels have led to a reduced expectation that these traditional funding sources will continue to be available. These factors will require the City to look to other available funding sources. If alternative funding sources are not available, projects will continue to be deferred, requiring higher maintenance and repair costs, and perhaps negative impacts on public safety.

Expenditures:

The City's highest costs of operations are employee compensation, payroll taxes and benefits, totaling over 60% of total operating costs. The City manages the compensation portion of these costs through administration of bargaining unit contracts and salary administration for non-contract employees. The areas of cost which the City has little or no control over are with certain payroll related taxes and pension costs. These costs are now more subject to regulatory changes (increases), particularly because of the current scope of budget deficits at the State and Federal levels, mentioned previously. We have allowed for a certain level of increase in our forecasts, but have no assurance that they will not increase over historical standards. The City also has cost factors which have been unexpectedly high in certain years because of use. An example has been tuition reimbursement costs, established prior to internet universities with significantly higher tuition costs, but with the availability of more convenient remote learning accessibility. Recently, the City has chosen to sponsor and manage a fee-based event which requires a significant level of attendance ("gate") in order to be financially successful, a change in scope than other City sponsored events. After initial start-up costs and lack of adequate attendance of the first event in 2010, the City is hopeful that future events will meet the attendance targets.

Other Risk Factors:

Annexation Growth: As noted in the introduction to this Plan, the City has a history of growth through annexations. Typically, each annexation is unique in the sense that each may be different in overall size, mix of residential and commercial components, population and street miles. In addition, the financial elements of each annexation may also be different depending upon the expectations of the County, particularly in the area of previous street reconstruction, overlay preservation and their associated costs. As you review the City's financial history and forecast of operating results through 2016, two factors could be considered. First, the revenue of the City is not growing as fast or as ratable as its costs. This has been particularly true with property tax revenue mentioned previously, which is nearly 20% of the City's revenue base. Secondly, the City's operating costs have grown to consume the bulk of available revenue. Even after adding utility taxes in 2009 which are expected to contribute \$769,000 in budgeted revenue in 2011, costs had risen previously to require these taxes and have continued to rise. One strategy that could address both of these issues would be to develop an annexation plan that may provide the long-term contributions to revenue, while at the same time not including the same or greater level of operating costs.

LEOFF 1 Medical Costs: The City is responsible for the continuing lifetime costs of medical care for four retirees covered under the Law Enforcement Officers and Firefighters Plan 1 (LEOFF 1). The City pays for medical insurance, as well as reimbursement to these employees for medical costs which may not be allowed or exceed policy limitations. This reimbursement process also includes retirees who may be insured thru Medicare. The medical insurance and reimbursement costs currently total approximately \$60,000 to \$70,000 per year. The insurance does not extend to the costs of long-term care for these retirees, and fortunately, none of them currently require, or are currently accessing that type of care. The City has found that certain of these retirees who are on disability are not insurable under available long-term care policies, and that premiums to cover the other retirees are cost prohibitive. According to a 2010 study by Pacific Life, a leading insurer,

average annual costs of nursing home care exceed \$61,000 annually and are steadily increasing. Consequently, the City is “self-insured” for these potential future costs of long-term care for these retirees. Currently, the City has not established a reserve or set aside funds beyond the current budget year appropriation for the specific purpose of pre-funding a portion of these potential future costs which could be substantial.

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Concluding Remarks

Based upon the estimates and forecasts included in this Plan, and fruition of the underlying assumptions, the City:

1. Is in a reasonably good financial position to carryout its services and operations over the forecast period of 2011 thru 2016;
2. Has the funds available in the form of grants and supporting City monies to complete its scheduled Capital Projects thru 2014;
3. Does not have sufficient funds, either internally or through grants, to satisfy its unscheduled capital projects, including the 2nd phase of the Eastmont re-construction from 3rd Street to 9th Street at an estimated cost of \$4.5 million, four unscheduled street preservation projects at an estimated cost of nearly \$1.8 million, and three intersection lighting projects at an estimated cost of nearly \$1.2 million.
4. Has and will generate funds to address and make some further choices about a portion of the projects listed in #3 above. This assumes that some level of grant monies become available, and/or the City develops and approves a debt funding plan to satisfy a portion of these street related capital projects.

As the legislative body of the City, the City Council has the power and authority to raise additional revenue through fees or taxes, approve borrowing transactions including bonded debt, reserve funds by ordinance to support completion of capital projects, and reduce costs through its budgetary controls in limiting appropriations. The City Council also has the authority to prompt City public voting initiatives to increase utility fees above the current 6% level to raise additional revenue. If the Council does not choose alternatives within its power and authority to either raise additional revenue and/or reduce operating expenditure levels, it is extremely unlikely that the City will generate and accumulate the required resources to satisfy its known and identified transportation system requirements over the term of this Plan.

This is the City's second year in completing a Financial Plan that provides a future financial vision for the City. The vision allows the City Council to consider and act upon choices that have financial consequences which extend significantly beyond its traditional one-year annual budgeting process. Therein lies the primary purpose for this multi-year financial planning tool, providing a reasoned perspective to evaluate and make financial decisions.

