

MEMORANDUM

To: Mayor and City Councilmembers
Steve Parker, City Manager

From: Susan Caddell
Director of Finance

Subject: Five Year Capital Improvement Plan and Financial Forecast

Date: January 14, 2021

Attached you will find the City of Seguin's Proposed Five Year Capital Improvement Plan and Financial Forecast for Fiscal Years 2021-2025. In FY2016, City Council approved the initial Five Year Plan. According to the City of Seguin's Financial Policy, this plan shall be updated and reviewed with City Council by January 31.

In the past, when City staff has been participating in rating agency presentations, we were being asked if the City prepared and maintained a long-term financial plan. The rating agencies indicated that such a plan is a positive indicator for cities with the higher credit ratings. A long-term financial plan helps demonstrate the City's dedication to sound financial management to the bond rating agencies. In January of 2018, Standard and Poor reviewed our ratings, and upgraded our rating from AA- to AA. One of the factors they pointed out in upgrading our rating was the fact that City Council had approved a Five-year Plan.

Long-term financial planning identifies future challenges and opportunities, which might lie ahead of the City. Once these challenges and opportunities have been identified, financial forecasting and strategizing can take place, which considers future scenarios and the financial consequences of those scenarios. From there, appropriate policies and strategies can be developed.

Long-term financial plans help governments to plan for a consistent level of essential services over a multi-year period, while reinforcing the needs to follow sound financial management practices. These plans stimulate long-term thinking within the City. The City Council can see how decisions made today might affect the future years. City departments can also take a long-term look within their service planning in order to ensure their department's interests are better reflected in financial plans. Citizens can also see how tax increases or cuts, debt issuance or other revenues or expenditures might

affect the long-term outlook. Overall, everyone gains a better understanding of the strengths and weaknesses of the City's financial structure.

The City's proposed plan presents long-term revenue and expenditure projections for the General and Utility Funds. While preparing these projections staff analyzed service-level, staffing, debt position and capital needs. Within the financial section of each of the funds, comments have been added to elaborate on some of the assumptions. Included within the forecast are also some requested positions. These have been described throughout the financial section and also summarized at the end of each fund section. In addition, you will find a summary of how these positions effect the net revenues or expenditures for each fund.

At the end of the Utility Fund section, you will find the Debt Service Coverage Analysis. The utility revenue bond covenants require a 1.2 debt service coverage. You can see that each year, we are achieving that. When we have our rate consultants review our rates each budget process, they review any current and future debt service issues to make sure we are meeting that coverage.

At the back of the plan, you will find the Five-Year Capital Improvement Plan. It includes any projected equipment purchases or capital projects that we are currently aware of or are planning for.

You will find losses at the end of some fiscal years for the funds, and this is not unusual for such plans. The losses do not mean that is where we intend to be and where we want to be, they just indicate the areas we need to be aware of and that we will need to plan for in the future. These are some of the challenges the City will face in future years.

The Five Year Capital Improvements Plan and Financial Forecast is a dynamic plan, one that is reviewed and revised every year. As we go through the years, staff and City Council will be aware of these challenges and can make adjustments in the future as the assumptions and facts change. Each year, during the budget process, City staff and Council will review these challenges in more detail, review the strategies we have implemented and present an annual balanced budget. We review these challenges and see what is financially feasible for operating expenditures, including new positions as well as capital needs. Because of this process, we have been able to finish each year better than what was forecasted.

I will be doing a presentation during the City Council meeting. If you would like to review this with me before the meeting or have any questions, please feel free to contact me.