CITY OF LEESBURG

FIVE-YEAR FORECAST
FY 2015-2019

THE LAKEFRONT CITY
LEESBURG
EST. 1857

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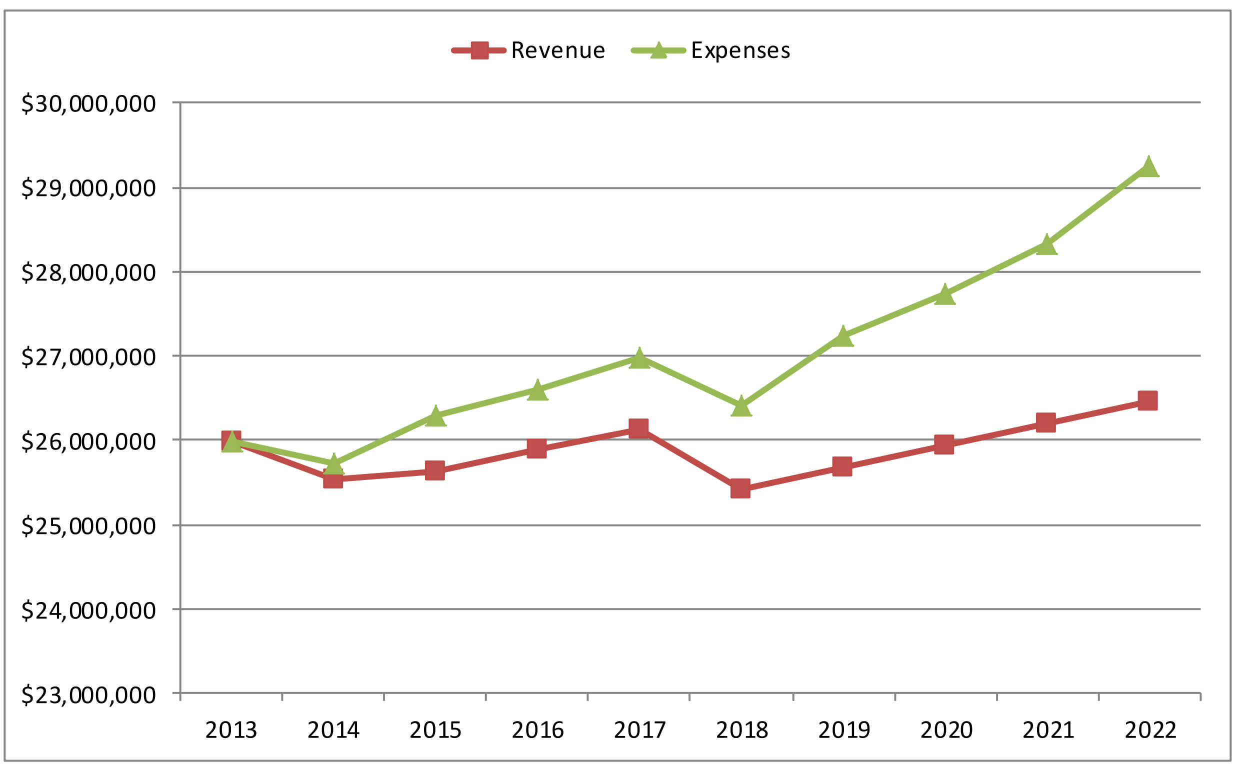
EXECUTIVE SUMMARY

The city continues to manage its resources in a fiscally prudent manner and has made changes in service delivery as needed to work our way out of the prolonged recession. The forecast projected for FY 2015-2019 shows the city must increase general fund revenues in order to keep pace with escalating operating costs to the General Fund. The city has been fiscally conservative with spending and maintains an adequate ending working capital balance up to FY 2014. Highlights of this forecast include:

- Current revenue growth does not keep pace with the growth in operations costs.
- FY 14-15 budget deficit is expected to be $414,306, which will grow to a high of $1,319,809 in FY 2019.
- General Fund employees have not had a raise since FY 2008, and this model does not project any salary adjustments going forward. Personnel costs account for approximately 63% of the General Fund expenditures.
- General Fund capital improvements have been kept at a bare minimum, which is not a prudent way to move forward for the General Fund. The City needs to invest in maintaining the capital infrastructure. This model does not project any required capital maintenance plan for the General Fund capital assets.

Projected Revenues and Expenses Fiscal Years 2013-2022



Projected General Fund Deficits for FY2015-FY2019

	Final Budget	Final Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget
Description	2013	2014	2015	2016	2017	2018	2019
Revenue	$ 25,974,759	$ 25,729,336	$ 25,888,382	$ 26,135,144	$ 26,383,232	$ 25,663,253	$ 25,924,400
Expenses	25,974,760	25,729,337	26,302,689	26,603,687	26,972,106	26,640,241	27,238,209
General Fund (Deficit)	$ (0)	$ (0)	$ (414,306)	$ (468,543)	$ (588,874)	$ (976,988)	$ (1,313,809)

Purpose

The goal of the Five-Year Financial Forecast is to assess the City's ability over the next five years to continue current service levels based on projected growth, preserve our long-term fiscal health by aligning operating revenues and costs, and maintain the reserves to the City Commission policy level of 20%. The General Fund Five Year Forecast serves as a tool to identify financial trends, shortfalls, and issues so the City can proactively address them.

This long-term financial outlook continues to identify structural challenges to the City's General Fund that are primarily due to the continued decline in property values and increased operating costs. The City's General Fund employees have not received a raise since 2008 which has minimized the use of general fund reserves. Specific recommendations to achieve a balanced budget going forward will be presented as part of future budget workshops.

Over the course of the most recent City Commission budget workshops, there has been increased focus on the sensitivity of the budget forecast to the major underlying revenue and expenditure assumptions. The uncertainty that characterizes the current economic climate not only argues for prudent long-term financial planning, but also suggests that being prepared for a range of outcomes is perhaps more appropriate than focusing on any single predicted outcome. As such, the five-year budget model truly serves more as a planning tool rather than a forecasting tool.

It is important to stress that this forecast is not a budget. It doesn't make expenditure decisions but does assess the need to prioritize the allocation of City resources. The purpose of the forecast is to provide an overview of the City's fiscal health base on various assumptions over the next five years and to provide the City Commission, management and the citizens of Leesburg with a "heads up" on the financial outlook beyond the annual budget cycle. The five-year forecast is intended to serve as a planning tool to bring a long-term perspective to the budget process.

The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and expenditures into a single financial forecast. The GFOA also recommends that a government should have a financial planning process that assesses long-term financial implications of current and proposed polices, programs, and assumptions that develop appropriate strategies to achieve its goals.

Financial Focus

The General Fund is the City's operating fund, which pays for public safety, library, parks, streets, recreation and administration. All the major discretionary revenues such as property taxes, sales taxes, communication service taxes and license fees are accounted for within the General Fund. The forecast reflects final budget figures for fiscal years 2012-14, forecasted figures for fiscal years 2015-19.

The General Fund is the primary focus of the forecast report. In order to provide a broader review of funds which play into the City's financial health, Leesburg's three community redevelopment agencies were added to the forecast report.

Fiscal Health Plan

The City of Leesburg Fiscal Health Plan comprises four major parts and is an outline designed to move the City back to strong financial standing on a long-term basis.

- Expenditure Cuts
- Revenues
- Economic Development
- Budget and Fiscal Reforms

Expenditure Cuts - The City began making significant expenditure cuts in fiscal year 2007-08 and continued to do so through FY 2013-2014 in an attempt to avoid deficit spending. The total staff reductions range from a high of 449 general fund employees in 2006-2007, to only 326 general fund employees in FY 2012-13, which is a 27.3% decrease in full-time employees.

Revenues - A comprehensive review of the Master Fee Schedule is underway to ensure that City fees are set at appropriate levels. In August 2013, the City Commission revised the Parks and Recreation and Building Permit fee structures, which will bring in additional revenues for the General Fund in future years.

Economic Development - A critical element towards the City's long-term fiscal health is the continued development and diversification of the City's revenue base. Potential future growth areas include new and expanded development of a downtown medical campus and Leesburg's planned Industry and Technology Park at County Road 470 and Florida's Turnpike. Leesburg International Airport is expected to contribute towards the City's long-term fiscal stability by providing high paying local jobs. The City is developing an economic development master plan to promote growth of existing businesses and to attract new businesses and jobs. Part of that plan includes a new position for an economic development manager to implement that master plan, which is funded in fiscal year 2103-2014.

Budget and Fiscal Reforms - In addition to securing additional revenues, the Fiscal Health Plan recommends implementation of a number of budget reforms. The specific actions recommended included the following:

- Detailed fiscal impact analysis of the short-term and long-term impacts of Commission actions in staff reports;
- Cross-departmental analyst support;.
- Full utilization of zero-based budgeting ;
- Development of a City of Leesburg Long-Term Strategy for Financial Sustainability.

Fiscal Years 2009-13

The severity of the recession, which began in the fourth quarter of calendar year 2008 and continued through 2010, placed significant financial pressures on every municipality in the State but particularly cities like Leesburg. The City did not waste any time trying to avoid significant impacts to the City's reserves and implemented cost cutting measures which included freezing the General Fund employees' pension plan, reduced staffing, reduced operating hours for the library and recreation centers, overall reduced public hours at all City facilities and an overall administrative freeze on any discretionary spending.

As a result of all these efforts, the fiscal year 2011-12 General Fund reserve balance ended at $9,271,110. The City ended the year without impacting the reserves, which is a significant accomplishment considering the magnitude of the economic recession experienced during that period.

On October 1, 2013 the City created the Fleet Internal Service Fund (ISF). The City Commission approved a $1 million fund balance transfer for the new Fleet ISF. The continual increase of General Fund balance (see below) from 9/30/09 to 9/30/12 was due to the deferment of purchases of vehicles during that same time period. The City's General Fund balance activity was artificially inflated from the Fleet services activities.

General Fund Cash Balance for Fiscal Years 2009-2013

	Audited	Audited	Audited	Audited	Projected
Description	**Sep-09**	**Sep-10**	**Sep-11**	**Sep-12**	**Sep-13**
Cash Balance	$ 7,134,142	$ 7,498,847	$ 8,631,994	$ 9,271,110	$ 8,515,003
Less					
20% Reserve Requirement	4,941,208	4,816,451	4,566,132	4,492,520	4,797,905
General Fund Excess Fund Balance	$ 2,192,934	$ 2,682,396	$ 4,065,862	$ 4,778,590	$ 3,717,098

Forecast Summary

This long-term financial outlook continues to identify structural challenges to the City's General Fund. Specific recommendations to achieve a balanced budget for fiscal year 2014-15 will be presented as part of the budget workshops.

During these transitional times and environment of economic uncertainty, financial planning is always a prudent activity. Development of a long-term financial plan is essential to sound fiscal management. The plan cannot predict with certainty the City's fiscal future, but rather, it will serve as a tool to highlight significant issues or problems that must be addressed if the City's goal of maintaining fiscal sustainability over the long term is to be achieved.

It should be noted that this report has focused on the City's ability to provide for operating service programs that are currently in effect using existing sources of revenue. As the City continues to grow in population, additional parks, public safety, public facilities and roads will need to be added in order to maintain service levels. Based on the five-year forecast report, funding for any new programs or other major initiatives will require tradeoffs during the budget process.

Future Budget Balancing Strategies

As reflected in the financial forecast, the City likely will continue to experience financial strain due to the severity of the recent recession and overall economic meltdown.

City Departments are researching various options that could assist in closing the projected ongoing structural imbalance.

Included below is a list of the various options being reviewed for further consideration in the fiscal year 2014-15 proposed budget.

- Master Fee Schedule Update - Currently in progress
- Building Permit Fees - Finalized
- Fire Inspection Fees - Finalized
- Recreation Fees – Reviewed and updated
- Pension Reform - Options to be reviewed
- Debt restructuring options for U.S. Highways 441/27 Debt- Options to be reviewed
- Fire Assessment Fees - Option failed at Commission
- Additional service reductions - Options to be reviewed

These options will be reviewed as part of the City's Long Term Financial Strategy, which will include a 5-year outlook of the City's General Fund.

ECONOMIC OUTLOOK

National

Economic growth, as measured by Gross Domestic Product (GDP), will drop to an anemic 1.4% rate in 2013, predicts the Congressional Budget Office (CBO). This is worse than 2012's lackluster 1.9% growth rate. By2014, economic growth will return to a healthy 3.4% rate, as the economic recovery finally goes into full swing. It will accelerate to a robust 3.6% growth rate by 2018, setting back into moderate 2.2% rate by 2023. (Source: CBO) The budget and Economic Outlook: FY 2013-2023, Summary table 2)

The CBO forecasts that the unemployment rate will drop from 7.8% in 2012 to 5.3% by 2023. However, the Fed is slightly more optimistic in the short run. It forecasts unemployment dropping slightly in 2013, somewhere between 6.4% and 6.8%. In 2015, the rate will drop even further, within a range of 5.9% and 6.2%. (Source: FOMC Committee, Economic Projections of Federal Reserve Board Members and Bank Presidents, September 18, 2013)

Higher food prices are part of a long-term trend. They've risen 2%-3% annually since 1990, and are expected to increase 3%-4% in 2013. There are two policy shifts that drive up corn prices, which affect feedstock. The U.S. government takes some corn out of production for bio-fuels, while the World Trade Organization (WTO) limits the corn and wheat stockpiles that the U.S. and European Union are allowed to subsidize. A third reason is higher oil, gas and transportation prices, which are a large component of food costs. Fourth, as the global standard of living improves, more people can afford more meat, taking even more grains out of production.

Many states have worked through the shadow inventory of homes headed for the foreclosure pipeline. As a result, the housing market recovered first in "non-judicial process" states. This is occurring in other states as they catch up. It might take 10 years, but eventually home prices will recover to their 2006 levels.

The only hiccup to this rebound will be in 2015, when the Fed reverses quantitative easing and a zero-bound Fed funds rate. As mortgage rates rise, housing prices will drop to offset the higher cost to homebuyers.

Florida

The University of Central Florida Institute for Economic Competitiveness April 2013 report highlights for 2013-2016 include:

- Florida's housing market continues to improve, restoring wealth and triggering job creation in the construction sector. Housing finance remains hamstrung. As of February, 51% of single family and 77% of townhomes and condominiums transactions are cash sales. This is a threat to a sustained housing recovery.

- Housing starts jumped higher in 2012. Total starts will be over 125,000 in 2014, just over 160,000 in 2015, and then hit 171,500 in 2016. This is the highest level since 2006, but still nearly 32,000 fewer starts than that in that final year of the housing boom.

- Upwardly revised payroll job growth year-over-year should average 1.8% in 2012, 1.6% in 2013, 2.5% in 2014, 2.8% in 2015, and 2.4% in 2016. It will be the 1st quarter of 2016 before payroll recovers to their pre-recession levels.

- Unemployment rates have fallen from their peaks, in part due to a low labor force participation rate, and they will continue to decline through 2016. The pace of decline will moderate when labor force growth picks up. Despite this headwind, the unemployment rate should hit 6% in the second half of 2016.

- Real personal income growth for 2012 slowed to 1.3%. From 2013-2016, real personal income growth will average 3.4%, and will accelerate to 4.1% in 2015.

- Florida's population growth for 2012 slowed to 1.3%. The growth rate will be 3.2% during 2013-2016 compared to average growth of 0.6% over the preceding four years.

Orlando (nearest major metropolitan area)

According to the Wells Fargo Securities Economic Group report dated May 8, 2013:

- Orlando's employment growth is outpacing that of the state and nation, thanks to strong growth across private services. The metro area added about 20,000 jobs from a year ago, an increase of more than 2 percent. Orlando's most important industry, tourism, is thriving. In addition, healthcare and professional and business services are posting solid employment gains, bringing the unemployment rate down to 7 %, slightly below the state and nation.

- Fortunately, leisure and hospitality payrolls are surging, and tax revenue from hotels is rising solidly. Air travel from abroad jumped 8.3% in 2012, though passengers from domestic origins dipped 1.7% in the same period.

- The development of Medical City, a community of hospitals, medical universities, and research centers, is diversifying the economy and pushing education and health services employment to record highs. Nemours Children's hospital opened in late 2012 and the VA Medical Center will open in phases beginning this year, adding more to local payrolls. In addition, Orlando is home to Florida Hospital, one of the Country's largest and busiest, further solidifying the metro area's role as a regional healthcare hub.

Leesburg

The City and Lake County, as a whole, have transitioned from agricultural roots to a growth-driven economy that is heavily centered in real estate, retail, personal services, and healthcare.

With the economic slowdown, many businesses have become creative in luring customers into their doors. Lake County has emerged as Greater Orlando's new suburban frontier. New residents have been attracted to its subdivisions because of easy access to Orlando, rolling landscape, multiple lakes, and plentiful outdoor recreational opportunities.

Leesburg’s top private sector employer is Leesburg Regional Medical Center, boasting a labor force of 1,770. Other principal employers within the City include Lifestream Behavioral Center, the City of Leesburg, Lake County School District and Lake-Sumter State College. These employers account for almost 3% of all employment in Lake County. Health care, social assistance and construction are the sectors with the highest employment levels in Lake County. The County is striving to overcome a lack of higher-wage jobs that could improve the local economy. One factor in the County's difficulty in attracting such employers could be related to the education attainment of other suburban counties in Sun Belt locations. Typically, higher-wage employers place cities and counties on their site selection lists who exceed 30% of adults having higher educational degrees. Education should be a focal point for additional improvements, as Lake County statistics show only 17% of adults have attained these higher educational degrees

The population in Lake County nearly doubled from 1980 to 2000 (210,508 persons). Lake County’s population is 313,914 and is projected by the State Demographer to again double over the next 25 years and reach a population of 500,000 persons by 2030. Growth in the City of Leesburg has retreated from the peak experienced prior to 2006. The overall upward trend is expected to resume once the economy recovers, due to the declining inventory of available land in West Orange and South Lake counties.

The Leesburg area is positioned at the crossroads of geographic expansion, as the retirement market continues to push from the north and family households sustain the market segment to the south. This area has embraced both market segments and, as a result, has become one of the emerging economic submarkets in all of Central Florida.

GENERAL FUND REVENUE & EXPENDITURE ASSUMPTIONS

Projected General Fund Revenues Fiscal Years 2013-2019

	Final Budget	Final Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget
Description	2013	2014	2015	2016	2017	2018	2019
Utility Transfers	$ 10,600,199	$ 10,591,947	$ 10,597,777	$ 10,741,415	$ 10,887,712	$ 11,036,565	$ 11,188,077
Taxes - Property	4,576,367	4,535,596	4,623,388	4,669,622	4,716,318	4,763,481	4,811,116
Taxes - Utility Service	3,157,500	3,162,500	3,219,000	3,277,000	3,337,000	3,398,000	3,460,000
Taxes - Communication Services	1,092,447	1,118,503	1,118,503	1,118,503	1,118,503	1,118,503	1,118,503
Taxes - Half Cents	935,000	1,007,311	1,007,311	1,007,311	1,007,311	1,007,311	1,007,311
Intergovernmental Revenues	1,134,251	985,125	968,513	968,513	968,513	968,513	968,513
Charges for Services	1,886,302	1,981,838	1,960,655	1,960,655	1,960,655	1,960,655	1,960,655
Debt Service Funding	2,137,200	1,950,516	1,997,235	1,996,125	1,991,220	1,014,225	1,014,225
Miscellaneous Revenues	455,493	396,000	396,000	396,000	396,000	396,000	396,000
Total Summary	$ 25,974,759	$ 25,729,336	$ 25,888,382	$ 26,135,144	$ 26,383,232	$ 25,663,253	$ 25,924,400

The amount of money available to fund services and programs through the General Fund is determined by the dollars generated by the City's economic base and the City's revenue structure (i.e., the fees and rates applied like business licenses). The General Fund provides the only fully discretionary revenue available to the Commission and citizens to directly support changing local priorities. The General Fund provides funding for such services as police and fire protection, parks, recreation, library services, community development, as well as most of the administrative and support functions of City government.

While there are numerous contributions to overall General Fund revenues, there are six primary sources that the City uses throughout the year as key indicators of the health of overall General Fund revenues. The City received approximately $26 million in operating revenues for FY 2013. Over 89% of that total is accounted for in six revenue types with key assumptions provided below.

General Fund Major Revenue Sources

The projection of revenues into the future is based on past performance and analysis of actual current private and public sector activity. This includes such private sector activities as housing trends, employment, property turnover and business growth, and public sector developments such as policy shifts at the local, state and federal levels.

Revenue projections are inherently dependent on a number of assumptions, which vary from revenue source to revenue source. The assumptions used to project the General Fund Revenues in the Five-Year Plan are as follows:

Utility Transfers

Utility transfers represent the single major source of funding in the General Fund. The amount of transfer is determined by applying the percentage reflected in the table below against charges for services excluding surcharge revenue, gross receipts tax and franchise fees.

There is a corresponding increase in the utility transfer amount to the general fund with each increase from the annual GDPI utility rate. Starting in FY 2014, the City increased the electric utility rate 5% for the next three years.

Interfund transfers for the FY 2013-14 utility funds are reflected below:

Fund	Percent	Amount
Electric	8.75%	$5,288,993
Gas	10.00%	656,854
Water	8.75%	624,600
Wastewater	8.25%	861,770
Communications	10.00%	185,351
Solid Waste	10.00%	361,779
Total		$7,979,347

The City's current utility transfer policy has a 10% utility transfer cap.

Property Tax

Taxes are based on assessed values, which are determined by the County Appraiser. Generally, assessed values grow by 3% per year as allowed by the State Constitution plus new construction. There is no correlation between real market value and assessed value. The City's tax rate remains stable at 4.3179 mills per $1000 of assessed value.

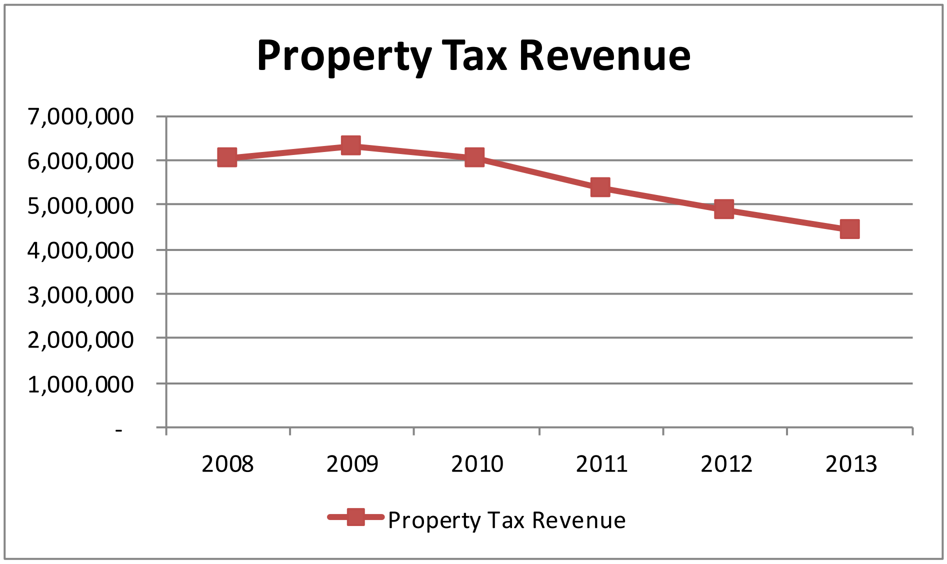
Since FY 2007-08, three major factors have impacted ad valorem revenue:

1. Implementation of property tax reform by the 2007 legislature.
2. Voter approved Amendment 1 exemptions, effective January 1, 2008.
3. Declining property values resulting from the recession and housing market crisis.

Throughout this period the City has annually adopted, in aggregate, there has been a property tax decrease for the City's taxing districts resulting in $ 1.8 million in savings to City property owners.

Assuming economic recovery, property values are expected to stabilize with a slight decrease in FY 2013-14 and return to a moderate 1% increase in FY 2014-15 and beyond.

Real market value is projected to be down 1 percent in FY 2014. New construction is anticipated to have small growth in many areas of the community over the five-year period. The City does not see any significant growth in the next couple of years.



Utility (Public) Service Tax

Public service tax is a tax on the purchase of electricity, metered natural gas and water service. The tax is levied upon purchases within the City limits and shall not exceed 10 percent of the payments received by the City of the taxable item from the purchaser for the purchase of such service. The forecast assumes a 1% increase for FY 2013-14 and an average annual increase of 2% for the remaining forecast period.

Communication Services Tax

The local communication services tax became effective October 1, 2001. Communication services tax applies to telecommunications, video, direct-to-home satellite, and related services. The tax is comprised of two parts: the Florida communications services tax and local communications services tax. The City held this revenue stream flat for the five-year forecast. For the last couple of years the Florida Legislature has been trying to revamp the Communication Service Tax, so there can be changes in this revenue stream in the near future.

Intergovernmental Revenues

Intergovernmental revenue comprises money from other governments, including grants, shared taxes, and contingent loans and advances for support of particular functions or for general financial support;

any significant and identifiable amounts received as reimbursement for performance of governmental services for other governments; and any other form of revenue representing the sharing by other governments in the financing of activities administered by the receiving government.

Discretionary Tax- Discretionary sales surtax, also called a county tax, is imposed by most Florida counties and applies to most transactions subject to sales tax. The selling dealer must collect the surtax in addition to Florida's general sales tax. The discretionary sales surtax is based on the rate in the county where taxable goods or services are delivered.

Gas Taxes- Florida gas taxes are based on gallons sold and not the price at the pump, therefore rising fuel costs adversely impact gas tax revenues. The economic recession and increased cost of gasoline at the pump has caused motorists to be more conservative with gasoline usage. Gas prices have increased and gas tax revenue decreased annually since 2005 as the dollar began to weaken against foreign currencies.

The County levies taxes of 6 cents on every gallon of motor and diesel fuel sold within the County. The revenue is restricted to transportation related expenditures. The City receives a fixed percentage of revenue collected and the remainder is distributed among the County and the municipalities within the County. The proceeds are used to fund transportation expenditures.

The 6 cents is a locally imposed tax distributed pursuant to an inter-local agreement with the municipalities that will expire in the near future. Two cents will expire in 2014, another two cents in 2015 and two cents in 2016. This forecast assumes the continuation of the 6 cents throughout the forecast period at a $250,000 estimated reduction by year 2016.

Charges for Services

Several City programs are funded through fees charged to participants and users of city services. These range from fees for recreation programs to fees for building permits. The bulk of the operating revenues include airport fees, business tax receipts, franchise fees, library fees, recreation fees, grants, marina fees, fines and forfeitures, and county and state shared revenues. For this five-year projection, fee revenues are assumed to remain flat throughout the five-year plan.

Debt Service Funding

The City's general fund is responsible for the following debt obligations:

Description	Years To Maturity	GF Debt Outstanding	Other Funds Debt Outstanding*	Total Debt Outstanding	Funding Source
2013 Capital Improvement bonds	2035	$ -	$ 23,189,111	$ 23,191,146	Discretionary Tax
2009 Capital Improvement Note	2029	8,241,610	-	8,243,639	General Fund
441/27 CRA Revenue Bond	2018	-	6,004,544	6,006,562	CRA
441/27 CRA Revenue Bond	2018-2036	19,970,544	-	19,970,544	General Fund
Mine Safety Applicances	2017	225,098	-	227,115	General Fund
Magnolia Townhome	2017	-	4,841,130	4,843,147	Gas
2008 Carver Heights Revenue Note	2016	-	903,869	905,885	CRA
		$ 28,437,252	$ 34,938,654	$ 63,388,038	
*- Debt Service Fund Revenue Stream					

GENERAL FUND EXPENDITURES

Description	Final Budget 2013	Final Budget 2014	Forecasted Budget 2015	Forecasted Budget 2016	Forecasted Budget 2017	Forecasted Budget 2018	Forecasted Budget 2019
Personal Services - Salaries and Wages	$ 14,575,984	$ 14,527,094	$ 14,480,756	$ 14,483,074	$ 14,485,571	$ 14,488,257	$ 14,491,143
Personal Services - Retirement	2,235,995	2,381,997	2,429,637	2,478,230	2,527,794	2,578,350	2,629,917
Personal Services - All other benefits	3,448,181	3,170,018	3,391,234	3,630,147	3,888,173	4,166,842	4,467,804
Operating Expenses	8,416,077	8,581,789	8,838,976	9,104,099	9,377,087	9,658,177	9,947,611
Capital Outlay	712,766	213,671	484,500	403,000	376,125	411,500	530,000
Transfers	377,332	276,665	284,965	293,514	302,319	311,389	320,731
Debt Service	2,495,639	2,531,664	2,524,781	2,527,319	2,520,352	1,725,901	1,751,434
Total Expenses	32,261,974	31,682,898	32,434,849	32,919,382	33,477,422	33,340,416	34,138,640
Less							
Utility Allocation	6,287,214	5,953,561	6,132,160	6,315,695	6,505,316	6,700,175	6,900,430
Net General Fund Expenses	$ 25,974,760	$ 25,729,337	$ 26,302,689	$ 26,603,687	$ 26,972,106	$ 26,640,241	$ 27,238,209

Personal Services

Personal services compose 65% of total operating expenditures. Key components of this category are wages, retirement and health insurance. The model assumes continuation of current wage and benefits practices and reflects the union contracts. In the past three years, total personal services have decreased about 5% per year.

The City General Fund employees have not had a pay raise since FY 2008. No salary adjustments are anticipated throughout the five-year plan. The City does not believe it can continue not to give the general employees pay raises.

Retirement

The City contributes to the following pension plans:

1) Police
2) Fire
3) General Employee (Has been Frozen since FY 2008)

The City used a 2% per year increase for the forecast.

All Other Benefits

Health Care Costs- The forecast assumes that health care costs will increase by 8% each year of the forecast, which is lower than the national standard, but still within industry trends. The City's rates are developed annually based on a formal analysis with the assistance of a consultant knowledgeable in the industry. Rates are set based on a review of national and state-wide health care cost trends, legislative health care reforms and primarily from the City's claims activity from previous years. The forecast includes the Patient Protection and Affordable Care Act program for transitional reinsurance.

This program requires the collection of a fee from health insurance issuers for three calendar years (2014-2016) to fund a reinsurance premium stabilization fund. The fee is estimated at $63 per "covered lives," which equates to a cost of about $73,000 per year for the General Fund.

Operating Expenses

Operating expenditures include numerous costs including basic operating supplies, travel, training, etc. These costs as a whole represent approximately 27% of the total General Fund expenditures. Significant expenditures in the operating expenditure category include utility costs for public facilities such as City Hall, the Municipal Services Buildings, our library and recreational facilities. Other significant costs include our property and liability insurance on these same properties.

These expenditures are forecasted to increase in line with the consumer price index, which is estimated at 3% in fiscal year 2014 and each of the years thereafter.

Debt Service Costs

Debt service costs reflect the impact of current outstanding bond commitments. Debt service costs are forecasted as remaining stable throughout the five-year period, and do not reflect any major new bond commitments during this period.

FINANCIAL FORECAST RISKS

Risks to Revenue Forecast

The forecast acknowledges that there are risks associated with sustaining the resources needed to fund current and future city services. Each identified risk is evaluated on the degree it will impact service delivery and assists in determining courses of action to be taken over the five-year period.

The identified risks to the general fund's resources are summarized below:

- Property Tax Limitation Measures and Collections
- State Shared Revenues
- Utility Transfers
- Recession

The largest driver of the current revenue shortfall is the continued slow growth in property tax revenues. Falling property values are expected to limit property tax revenue growth to 1 percent over the five-year forecast period - well below historical revenue growth rates experienced prior to 2008.

The continuing slump in housing and commercial real estate markets, a challenging lending environment and sluggish population growth have had a significant impact on the City's taxable value. FY2008 saw the peak of the City's property values at $1.625 billion; subsequently the taxable value decreased 32% to this year's value of $1.113 billion. This decrease in the City's taxable value, coupled with property tax reform, has resulted in corresponding decreases in property tax revenues. Since FY2008, the City has seen the annual property tax revenues decrease from $6.5 million to $4.5 million. The taxable value is projected to decrease over the next year, but the rate of decline is not anticipated to be as drastic as it has been the past few years.

The City of Leesburg created the U.S. Highway 441/27 Community Redevelopment Agency on February 13, 2006 pursuant to Section 163.512 Florida Statutes. The agency determined the existence of blighted areas and is part of the City's plan to improve the corridor areas. The base year was established in 2006 with an assessed taxable value of $352,255,087. The agency has not been able to generate any significant income due to the taxable value falling to $327,303,789 as of July 2013. As noted in the debt section on page 13, the General Fund will assume approximately $20 million in debt due to the CRA's inability to bring the taxable value above the 2006 base amount. Starting in Fiscal 2019 the General Fund will be required to pay the CRA's $1 million annual debt payments.

Conclusion

The function of local government is ultimately limited by its ability to pay for services. The challenge is to continue to identify the most critical priorities and direct resources to those areas; maintaining a budget reflects an appropriate and responsible plan for meeting the core services and requirements of the community.

Long range cost saving strategies implemented since the beginning of property tax reform and the economic recession have enabled the City to maintain a structurally balanced budget through FY 2012-13.

The financial strategy employed to achieve long-term financial stability was to rebalance operations through a blend of expenditure reductions, revenue stabilization and reserve offset. The City has continued to implement service level reductions and operational efficiencies through review and evaluation of all essential services and programs.

Appendix A

Description	Final Budget 2013	Final Budget 2014	Forecasted Budget 2015	Forecasted Budget 2016	Forecasted Budget 2017	Forecasted Budget 2018	Forecasted Budget 2019
Utility Transfers	$ 10,600,199	$ 10,591,947	$ 10,597,777	$ 10,741,415	$ 10,887,712	$ 11,036,565	$ 11,188,077
Taxes - Property	4,576,367	4,535,596	4,623,388	4,669,622	4,716,318	4,763,481	4,811,116
Taxes - Utility Service	3,157,500	3,162,500	3,219,000	3,277,000	3,337,000	3,398,000	3,460,000
Taxes - Communication Services	1,092,447	1,118,503	1,118,503	1,118,503	1,118,503	1,118,503	1,118,503
Taxes - Half Cents	935,000	1,007,311	1,007,311	1,007,311	1,007,311	1,007,311	1,007,311
Intergovernmental Revenues	1,134,251	985,125	968,513	968,513	968,513	968,513	968,513
Charges for Services	1,886,302	1,981,838	1,960,655	1,960,655	1,960,655	1,960,655	1,960,655
Debt Service Funding	2,137,200	1,950,516	1,997,235	1,996,125	1,991,220	1,014,225	1,014,225
Miscellaneous Revenues	455,493	396,000	396,000	396,000	396,000	396,000	396,000
Total Summary	$ 25,974,759	$ 25,729,336	$ 25,888,382	$ 26,135,144	$ 26,383,232	$ 25,663,253	$ 25,924,400

Description	Final Budget 2013	Final Budget 2014	Forecasted Budget 2015	Forecasted Budget 2016	Forecasted Budget 2017	Forecasted Budget 2018	Forecasted Budget 2019
Personal Services - Salaries and Wages	$ 14,575,984	$ 14,527,094	$ 14,480,756	$ 14,483,074	$ 14,485,571	$ 14,488,257	$ 14,491,143
Personal Services - Retirement	2,235,995	2,381,997	2,429,637	2,478,230	2,527,794	2,578,350	2,629,917
Personal Services - All other benefits	3,448,181	3,170,018	3,391,234	3,630,147	3,888,173	4,166,842	4,467,804
Operating Expenses	8,416,077	8,581,789	8,838,976	9,104,099	9,377,087	9,658,177	9,947,611
Capital Outlay	712,766	213,671	484,500	403,000	376,125	411,500	530,000
Transfers	377,332	276,665	284,965	293,514	302,319	311,389	320,731
Debt Service	2,495,639	2,531,664	2,524,781	2,527,319	2,520,352	1,725,901	1,751,434
Total Expenses	32,261,974	31,682,898	32,434,849	32,919,382	33,477,422	33,340,416	34,138,640
Less							
Utility Allocation	6,287,214	5,953,561	6,132,160	6,315,695	6,505,316	6,700,175	6,900,430
Net General Fund Expenses	$ 25,974,760	$ 25,729,337	$ 26,302,689	$ 26,603,687	$ 26,972,106	$ 26,640,241	$ 27,238,209

Description	Final Budget 2013	Final Budget 2014	Forecasted Budget 2015	Forecasted Budget 2016	Forecasted Budget 2017	Forecasted Budget 2018	Forecasted Budget 2019
Revenue	$ 25,974,759	$ 25,729,336	$ 25,888,382	$ 26,135,144	$ 26,383,232	$ 25,663,253	$ 25,924,400
Expenses	25,974,760	25,729,337	26,302,689	26,603,687	26,972,106	26,640,241	27,238,209
General Fund (Deficit)	$ (0)	$ (0)	$ (414,306)	$ (468,543)	$ (588,874)	$ (976,988)	$ (1,313,809)

Appendix B

	Final Budget	Final Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget
Description	2013	2014	2015	2016	2017	2018	2019
Utility Transfers	41%	41%	41%	41%	41%	43%	43%
Taxes - Property	18%	18%	18%	18%	18%	19%	19%
Taxes - Utility Service	12%	12%	12%	13%	13%	13%	13%
Taxes - Communication Services	4%	4%	4%	4%	4%	4%	4%
Taxes - Half Cents	4%	4%	4%	4%	4%	4%	4%
Intergovernmental Revenues	4%	4%	4%	4%	4%	4%	4%
Charges for Services	7%	8%	8%	8%	7%	8%	8%
Debt Service Funding	8%	8%	8%	8%	8%	4%	4%
Miscellaneous Revenues	2%	2%	2%	2%	2%	2%	2%
Total Summary	100%	100%	100%	100%	100%	100%	100%

	Final Budget	Final Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget	Forecasted Budget
Description	2013	2014	2015	2016	2017	2018	2019
Personal Costs - Salaries and Wages	45%	46%	45%	44%	43%	43%	42%
Personal Costs - Retirement	7%	8%	7%	8%	8%	8%	8%
Personal Costs - All other benefits	11%	10%	10%	11%	12%	12%	13%
Operating Expenses	26%	27%	27%	28%	28%	29%	29%
Capital Outlay	2%	1%	1%	1%	1%	1%	2%
Transfers	1%	1%	1%	1%	1%	1%	1%
Debt Service	8%	8%	8%	8%	8%	5%	5%
Total Expenses	100%	100%	100%	100%	100%	100%	100%
Percentage of total Personal Costs	63%	63%	63%	63%	62%	64%	63%