Item No: 15

Report to the City Council
Council Meeting of February 24, 2015

Agenda Section: Regular Business

Subject: 2015-2025 Long Range Financial Forecast

CEQA Status: Not a CEQA Project

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DISCUSSION

The City's first Long Range Financial Forecast (LRFF) has been developed to help the City of St. Helena plan a path of stability. This begins with the principle that the City must operate with a long-term structurally balanced budget and strong reserves to have an effective role in sustaining the vitality of our community.

This plan is centered on the City's General Fund because it is the primary operating budget for tax supported municipal services. Long range financial forecasting assists the City in making decisions that lead to our ability to sustain core services to the community.

The City has weathered the Great Recession through budget cuts that included reduction of staff and deferred maintenance. This report presents a potential range of financial outcomes, none of which are certain, based on available data and conditions. It recommends strategies that City Council and staff can take now to ensure the ongoing provision of core municipal services and over the next few years. The LRFF also offers strategies for the Council to consider in terms of revenue options that can provide additional revenues to strengthen the City's financial health. The findings and recommended strategies provide a road map for financial stability to help lead the City through the next ten years of economic uncertainty and begin to identify the financial limitations and revenue options for the future.

FISCAL IMPACT

None

RECOMMENDED ACTION

Receive and file.

ATTACHMENTS

2015-2025 Long Range Financial Forecast

Long Range Financial Forecast

City of St. Helena
2015 – 2025

February 2015

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Summary of Findings and Recommendations

The City of St. Helena is located in the heart of the Napa Valley and has a population of approximately 6,000 residents. The City was incorporated in 1876 and reincorporated in 1889. St. Helena is a general law city and operates under a Council-Manager form of government. The City Council is comprised of five members, with a directly elected Mayor serving a two year term, and the other four at-large members serving four-year overlapping terms. The City Manager, is appointed by the Council and is responsible for administration of City affairs and implementation of Council policy.

The City's Fiscal Year (FY) 2014-15 Operating and Capital Budget is $10.6 million with approximately 67 budgeted positions. As a full-service City, St. Helena has the following departments: City Manager, Planning and Community Improvement, Recreation, Library, Finance, Public Works, Police and a voluntary Fire Department.

The Long Range Financial Forecast (LRFF) has been developed to help the City of St. Helena plan a path of stability. This begins with the principle that the City must operate with a long-term structurally balanced budget and strong reserves to have an effective role in sustaining the vitality of our community.

This analysis is centered on the City's General Fund because it is the primary operating budget for tax supported municipal services. Long range financial forecasting assists the City in making decisions that lead to our ability to sustain core services to the community.

The City has weathered the Great Recession through budget cuts that included reduction of staff and deferred maintenance. This report presents a potential range of financial outcomes, none of which are certain, based on available data and conditions. It recommends strategies that City Council and staff can take now to ensure the ongoing provision of core municipal services over the next few years. The LRFF also offers strategies for the Council to consider in terms of revenue options that can provide additional revenues to strengthen the City's financial health. The findings and recommended strategies provide a road map for financial stability to help lead the City through the next ten years of economic uncertainty and begin to identify the financial limitations and revenue options for the future.

It is important to note that this is the first LRFF and is intended to serve as a tool for financial planning and decision making in the years ahead. It should become a standard practice for the City to update this plan annually.

The LRFF uses two revenue scenarios and two expenditure scenarios to illustrate trends of the City's expenditures and revenues over the next ten years. The FY 2014-15 Adopted Operating Budget is used as the base for all scenarios.

The two revenue forecasts are as follows:

- **Baseline -** The baseline revenue growth estimate is based on a continuing modest economic recovery. This forecast is similar to the actual revenue growth the City incurred over the last ten years. However, economic history shows that over a ten year period, the country always experiences a recession. Therefore, this baseline forecast can be considered optimistic, but still conservative.

- **Baseline with a minor recession -** This forecast assumes a minor recession during Fiscal Years 2018 through FY 2020, which is in line with fundamental economics that have shown that the country experiences a recession about every ten years.

The two expense forecasts are as follows:

- **Current levels with escalators –** This expense forecast is based on the FY 2014-15 expenditure levels, which includes current level of staffing and services. Annual escalators are based on modest cost increases as described in the following section. In addition projections are provided for the annual Assigned General Fund Reserve, which serves as the City's "savings account" for emergencies.

- **Current levels with escalators and with modest level of asset recapitalization -** This second expense forecast is identical to the above forecast except it includes an annual expenditure of $1.6 million for capital projects. Necessary staffing increases to perform and oversee these projects are not included in the operating budget as it is clearly evident the City is unable to afford just the annual capital expense. No Assigned General Fund Reserve is provided in this forecast, because in this scenario the General Fund is immediately in an operating deficit, which only worsens with each year.

Using a set of assumptions, currently available data and economic projections, the following findings were reached.

Summary of Findings

1. Operating Revenues:

Recent modest gains in revenue through an improving economy and reductions in expenditures and deferred maintenance helped the City begin its recovery from the Great Recession.

- *Using the baseline revenue forecast, the City faces a budget deficit in the first year, due to expenses exceeding revenues. Beginning in FY 2017, forecasted net operating revenues slightly exceed expenditures. Note: the FY 2016 property tax revenue was increased to reflect the higher level of property tax collected in FY 2014 per the CAFR.*

- *The baseline with a recession revenue forecast shows a scenario in which the City revenues basically equal expenditures.*

2. Assigned General Fund Reserve:

The Council has set an informal goal of achieving and maintaining a 25% Assigned General Fund Reserve. This amount is deemed essential not only based on the informal Council goal, but is also considered a reasonable amount by industry standards based on an expectation of retaining reserves that equal three months of operating expenditures. Also, if the City has any anticipation of borrowing funds or issuing bonds, the rating agencies consider this reserve as part of their ratings. A sustained 25% Assigned General Fund Reserve can assist the City in achieving a better credit rating and thereby being eligible for lower interest rates on bonds or loans. The current forecasts show the Assigned General Fund Reserve to fluctuate from 16% to 24% until the 25% target reserve is met in FY 2024.

- *Under the baseline forecast, beginning in FY 2016, the Assigned General Fund Reserve balance is at $2.1 million, which is below the 25% informal Council goal. This reserve remains below the 25% informal goal through FY 2024. Therefore, even though the City's net operating budget shows a surplus beginning in FY 2018, there is inadequate revenue to maintain a critical Assigned General Fund Reserve balance of 25%.*

- *If the economy experiences a minor slowdown as illustrated in the second revenue forecast the result will be General Fund revenues meeting expenditures but a growing Assigned General Fund Reserve deficit that totals $1.9 million, and a reserve at 12%. This is due to the fact that even though the reserve amount remains relatively stable at $1.8 to $2.0 million, expenditures increase each year requiring a contribution to maintain a higher percentage.*

3. Operating Costs:

The City's current staffing level of 67 employees along with a volunteer fire department are diligently delivering the programs and services to the community and managing all the required administrative functions as well. It is important to recognize that staffing levels remain at near recession lows, while revenues now exceed pre-recession highs.

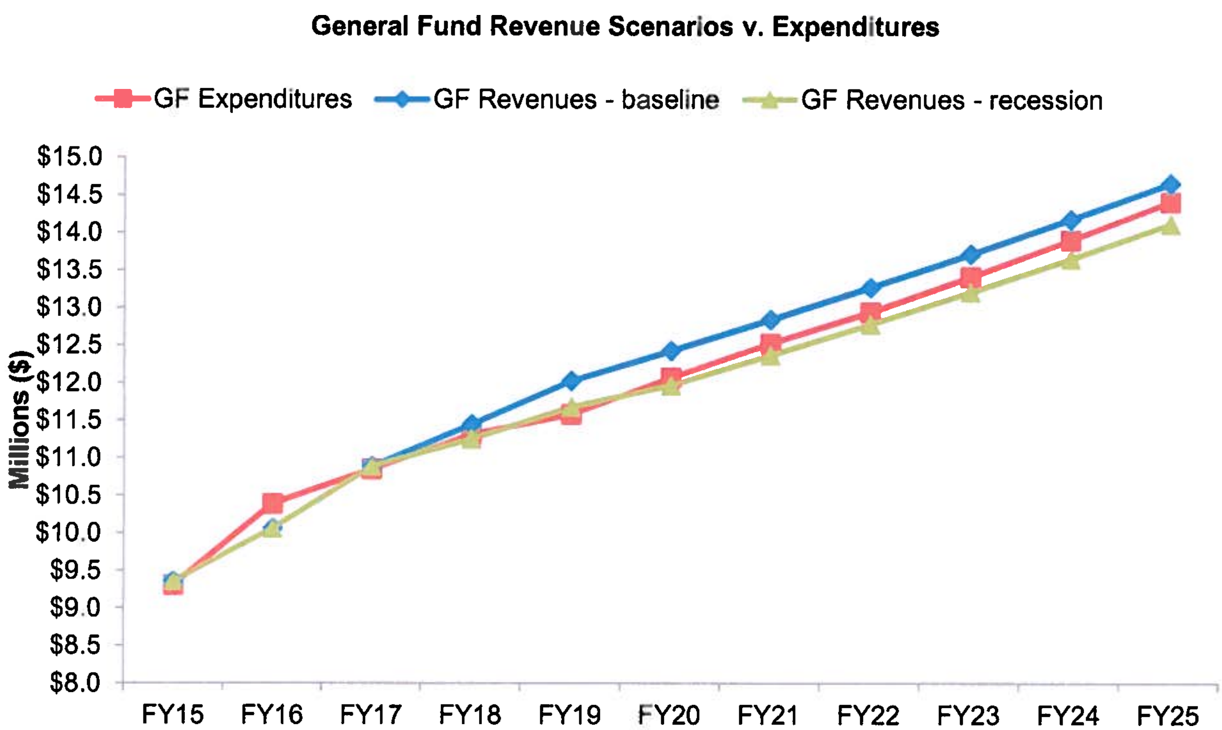
- *The base costs to provide the current level of City services will continue to grow over the next ten years. Cost increases currently known are driven by scheduled increases in CalPERS pension rates, employee salaries and healthcare premium increases. General City operating expenses are expected to increase due to CPI. In addition, in FY 2016, the General Fund must assume a $528,000 State Revolving Fund Debt Service payment. This payment continues through 2028 (three years beyond the forecast). More detail on this payment is provided in the next section.*

- *Under both revenue forecasts, the first year requires either a reduction in expenditures by $300,000 or use of Unassigned General Fund Reserves. In subsequent years revenues slightly exceed expenditures, but adequate ongoing funding is not available to allow the City to add critical administrative staffing, or enhance services. Nor is funding available to hire additional consultants, fund new programs or initiatives, implement unfunded mandates or support community proposals. Essentially, as forecasted with the current* *revenue sources, the City has inadequate revenue to maintain current levels of staffing and services, as well as maintain an acceptable Assigned General Fund Reserve balance. The inability to add any additional staff or respond to unfunded state and federal mandates could place the City at risk. It is important to note that the current staffing levels are considered inadequate and the workload exceeds capacity.*

4. ***Asset Recapitalization:***
   - *In an effort to control costs, the City has deferred maintenance of buildings, parks, streets and information technology asset needs. There are currently insufficient monies in the General Fund budget to address the City's asset recapitalization needs. At some point, the City may be faced with significant costs to replace or repair a major building subsystem, park amenity, IT upgrade or roadway paving that will spike the budget and compete with ongoing services for revenue.*

   - *There is also insufficient revenue to support any type of bond measure or loan for the purpose of building a new city hall, police station, corporation yard or community center.*

In summary, the following graph illustrates the two revenue projections when compared to the projected expenses (without asset recapitalization).



Strategies for Sustainability

Many cities across California are facing similar revenue and expense challenges and no one action can resolve this financial challenge, but with solid and diverse strategies, a city can begin to develop a course of action that is focused on delivering core services and achieving their own goals. The following strategies are recommended as proactive steps the City of St. Helena should be prepared to take in order to continue delivering core programs and services to the community.

1. ***Closely manage General Fund expenses.*** *Through the annual budget process it is vital that a strong focus on core and essential services remain a guiding principle. It is important to recognize that the expense structure of the forecast does not take into consideration additional expenses related to any increases in staffing, programs and services that are unforeseen at this time. The increases included in this plan are fundamentally nondiscretionary, covering projected pension cost increases, healthcare cost increases, growth of salaries at a modest rate, general inflation and the state loan payment of $528,000. An annual mid-year budget update should be presented to Council to provide an estimate of year-end revenue and expenditures projections, allowing Council the opportunity to make necessary adjustments. Staff continues to seek cost savings through efficiencies.*

2. ***Regularly review fees for services.*** *In 2012 staff prepared a fee schedule for Planning, Building and Public Works related fees for services. It was adopted by Council in May 2012 but overall cost recovery was not significantly enhanced. Since that time Planning and Building staffing levels have decreased and recently have been increased again. An updated fee study should be conducted and a target cost recovery rate should be set by the Council. Building, planning and public works fees should then be regularly reviewed and adjusted to achieve this cost recovery rate.*

3. ***Conduct an annual Council goal setting process to identify community priorities and seek opportunities for community based financial support.*** *The City is expected to provide core and essential services to the community and maintain its infrastructure, while also complying with all laws and mandates. Full compliance requires a base level of staffing and funding that is adequate to perform all these functions. Many of these functions are purely administrative and have no source of revenues. Other community priorities and initiatives may have the opportunity to collaborate with the private or non-profit sectors. These existing or potential partnerships should be identified and explored.*

4. ***Evaluate additional revenue measures.*** *Any increase, addition or extension of a tax or assessment requires approval by registered voters or property owners, as provided by law. Monies raised would depend on the level of tax or assessment levied. Before moving forward on any new revenue measure, the City needs to explore how the existing*

revenue measures are viewed as well as what type of additional revenue measures voters might be likely to pass, if any.

Opportunities that the City could explore include:

a. *Sales Tax increase requires a majority vote if the uses are general in nature or a 2/3rd vote if the uses are specific.*

b. *Real Property Transfer Tax requires the City to become a charter city, which could necessitate a significant public process that would require dedicated staffing and funding, to create a charter, which must then be approved by a majority vote. Recently, a California city became a charter city for the sole purpose of enacting a real property transfer tax, and in every other aspect of law continues to follow general California law. As a charter city, a real property transfer tax could be placed on the ballot and requires a majority vote for passage.*

c. *Parcel Taxes can be used for a variety of municipal services and are considered a special tax and therefore require a 2/3rds vote to pass.*

d. *Assessment Districts can be used to fund landscaping, parks, streetlight maintenance, and roadway maintenance and construction. The primary issue is that Proposition 218 limited assessment districts to funding for property-related costs with a finding of special benefit. It is likely that roadway maintenance would be a general benefit and could not be funded by an assessment district.*

4. ***Evaluate opportunities for economic development.*** *Two of the City's three main sources of revenue are sales tax and transient occupancy tax. The additional revenue provided by the City's newest hotel is estimated to provide the General Fund with $900,000 in additional revenue. Without this additional revenue, it is forecasted that the City would continue the projected operating deficiency that begins in FY 2016 for ten years. An economic development strategy should be developed that helps guide the City in determining the types and amount of business development it is interested in retaining and attracting.*

5. ***Explore opportunities to annex contiguous unincorporated areas of Napa County.*** *The City provides services and supports residents and businesses in neighborhoods immediately surrounding St. Helena. There have been discussions for many years regarding the annexation of the Meadowood community, for example. Annexation of certain neighborhoods would result in the City receiving an increase in revenue with minor increases in expenditures.*

6. ***Develop a long-term funding plan for asset recapitalization of municipal facilities, parks, IT upgrades (software and hardware) and streets.*** *The City has not set aside adequate funds to recapitalize its major assets to rehabilitate or replace assets as*

needed. In the FY 2014-15 Adopted Budget, the City created two replacements funds; one for equipment in which $30,000 was set aside; and a second for buildings for which $25,000 was set aside.

a. *Buildings – The City owns and maintains approximately 64,000 square feet of government buildings. In 2012, the City eliminated the Government Buildings function within Public Works. Since then, existing staff and some contract services have been used to keep the buildings operating. No preventative maintenance has been performed in nearly three years. The City established a building replacement fund in FY 2014-15 to cover major repairs or to replace buildings and deposited $25,000. Currently, the Parks crews have assumed the government buildings duties.*

b. *Parks – The City owns 10 parks and four pathways totaling approximately 40 acres. The Parks crews maintain all the parks and pathways, and as noted above now also maintain the government buildings. The City has not established an asset replacement fund to cover major repairs, replace equipment, or address safety concerns related to failing infrastructure.*

c. *Information Technology – The City contracts with a private IT consulting company to support its network, PC and service needs. It has become industry standard to replace PCs every 3-5 years and to make enhancements to servers, storage and other IT equipment annually. The City established a computer replacement fund in FY 2014-15 and deposited $30,000 into the fund. Generally, PC replacements and other IT infrastructure and equipment are funded from the annual operating budget.*

d. *Streets – The City is responsible for 26 centerline miles of roadway. The Pavement Management Plan, presented to Council in February 2015 provided estimates for maintaining and improving the City's streets. The Plan shows that an additional $1.25 million of annual road maintenance is inadequate to maintain the City's streets at a Pavement Management Index of 58. An investment of $2.5 million annually would maintain the Pavement Management Index at 58 and an investment of $3.5 million annually would increase the Pavement Management Index to 63. In FY 2018, Measure T is expected to provide the City with approximately $665,000 annually for pavement management projects. This revenue is included only in the asset recapitalization scenario, as it can be used only for pavement management projects.*

Risks to the Forecast

Every projection is a combination of assumptions based on analysis of historical data, use of actual data when available (e.g., labor contracts, CalPERS rates estimates), and educated assumptions based on an analysis of available information. In addition to the built-in uncertainty of projections, the City continues to experience a particularly volatile economic climate and uncertainty in the future of revenue and major expenses that could impact the City's budget. The major risks to these projections are discussed below. This discussion is meant to provide an overview of the major issues and projections that the City will have to monitor and update in the years to come.

1. **Volatile Economy** - The City's revenues are impacted by what is going on in the economy. As evidenced in the recent recession, the City's three largest revenue sources, property, sales and transient occupancy taxes, are tied to the broader economic trends.

2. **Pension Costs** - CalPERS pension costs continue to rise and are projected to increase through 2020. The projections in this forecast are based on five years of CalPERS estimates and then extrapolated out at a 1% increase per year. CalPERS continually reassess the employer contribution and based on market returns and other factors, rates can be increased or decreased annually. The past few years the stock market has experienced gains, which provide revenue towards the CalPERS liabilities. As was experienced in the early 2000's, declines in the stock market can result in increased employer contributions.

3. **Compensation Increases** – The Memorandum of Understand (MOU) with the St. Helena Employees Association expires in January 2016 and the MOU with the St. Helena Police Officers Foundation expires in 2017. Increases in compensation will be discussed as part of renegotiating both of these MOUs. Currently the expense forecast includes merit increases and modest salary increases to keep pace with inflation.

4. **Health Premiums** - The City pays 100% of employee and dependent health premiums. Health premiums are projected to continue to rise over the next decade by 6% annually. The risk is that health premiums rise faster than forecast, increasing total compensation costs. As mentioned in the expense section, the City's insurance pool is exploring a self-funded insurance program which would offer cost containment if successfully implemented.

5. **Asset Recapitalization** - The City has not been putting monies aside for maintenance of municipal buildings, streets, IT and park facilities. At some point, the City may be faced with significant current-term costs for replacement or repair of a major building subsystem, park amenity, software package or roadway paving that will spike the budget and compete with ongoing services for revenue.

6. **Major New One-Time Expenses** - The expenditure forecast does not include any provisions for unexpected one-time expenses, such as changes in legislation, unexpected events, acts of nature or other such factors that could require the City to expend a significant amount of General Fund monies.

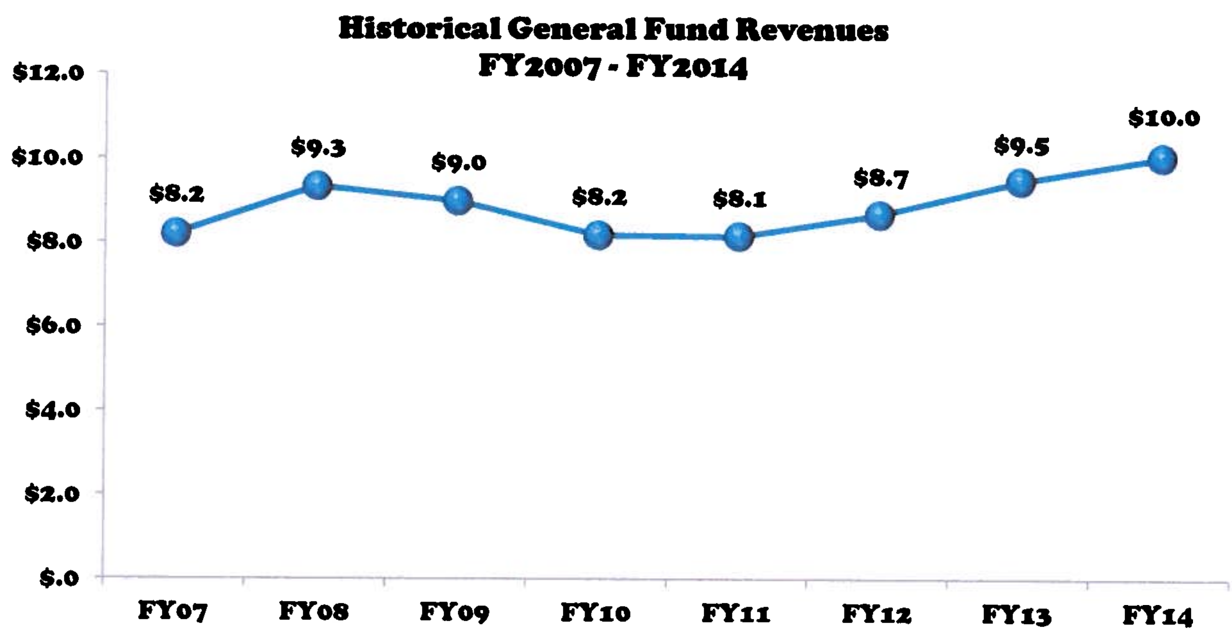
In summary, the LRFF is intended to illustrate revenue and expense trends over the next ten years and is an important tool to develop financial strategies to ensure the City is financially stable. The next few years will require strong leadership, community involvement and difficult decisions as a plan for fiscal stability is developed and implemented.

Historical Perspective

St. Helena has gone through a period of economic volatility over the last six years. Led by a decrease in revenues in FY 2009, the City made reductions in staffing and deferred Citywide maintenance in order to balance the budget. In FY 2009, the City employed 82 full-time equivalent (FTE) staff members, and when compared to the current FY 2014-15 budget, this number has been reduced to 67, a 18% reduction in staff Citywide. General Fund revenue in FY 2008 totaled $9.3 million, compared to $8.1 million in FY 2011 and $10 million in FY 2014.

City Revenues

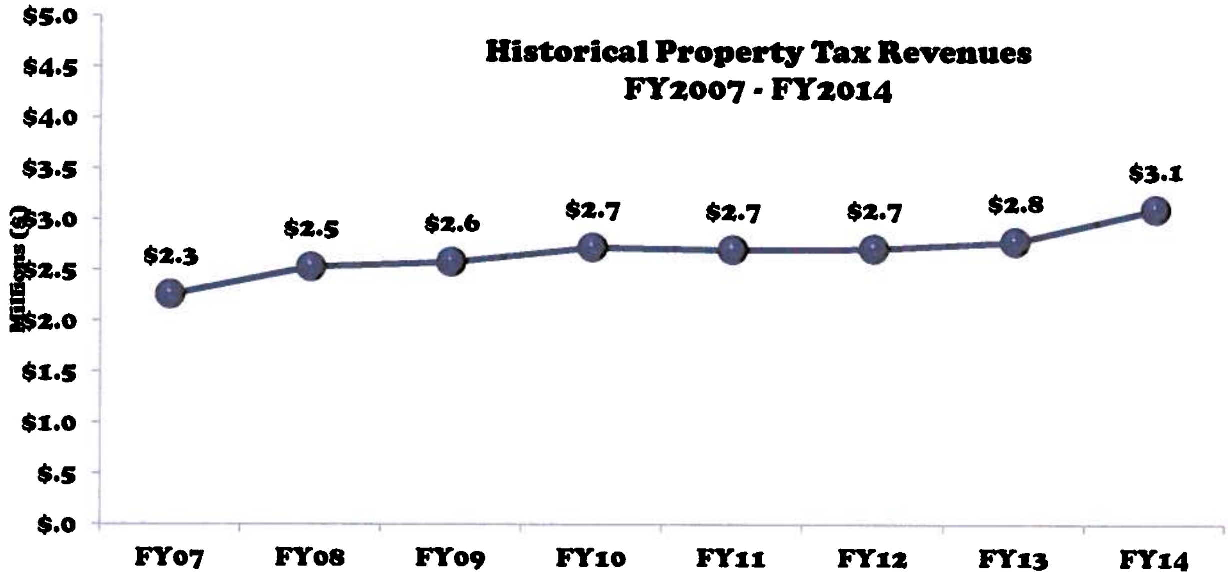
The City has several revenue sources, with the major three sources being sales, property and transient occupancy taxes. The following chart illustrates the past eight years of total General Fund revenue and the impact of the Great Recession is clearly illustrated by the decline in revenues in FY 2008-09 and continuing into FY 2010-11. This chart also illustrates that the City's General Fund revenue now exceeds pre-recession levels, yet staffing levels remain at near recession lows.



Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

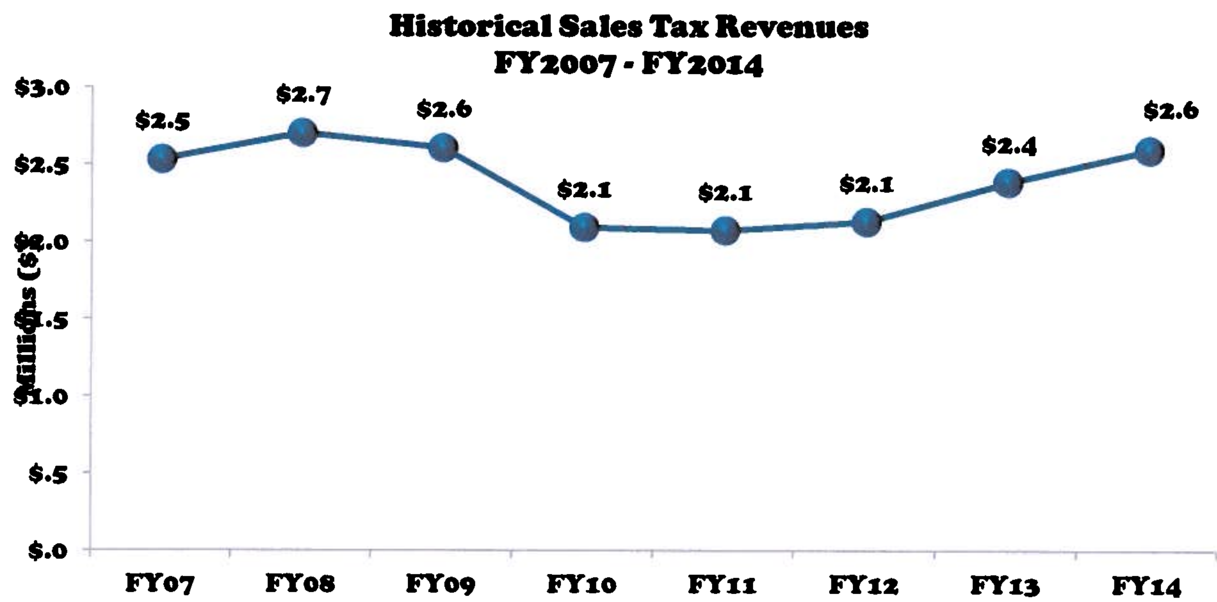
The City has three major sources of General Fund revenue: property tax, sales tax and transient occupancy tax.

Property tax revenue was only modestly impacted by the Great Recession by remaining steady rather than increaings for three years but has experienced increases in FY 2013 and FY 2014.



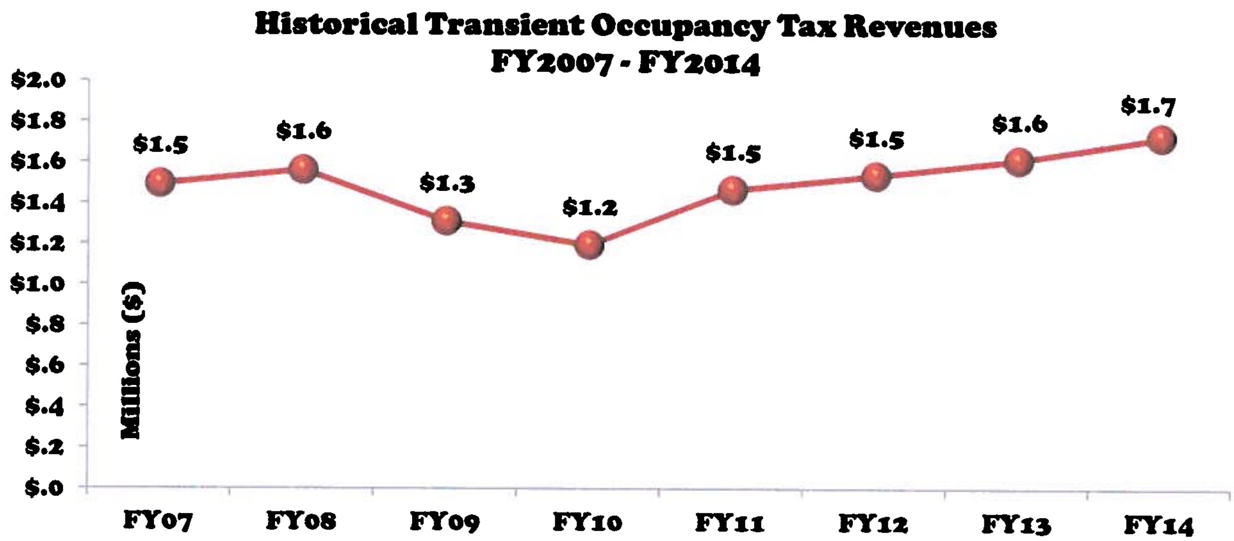
Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

Sales tax revenue declined to a low of $2.1 million in FY 2010-11 and remained at this rate for two more years and began rebounding in FY 2013 with another increase in FY 2014.



Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

Transient Occupancy Tax is the City's third largest revenue source and similar to sales tax revenue declined during the Great Recession, but has been slowly increasing each year and exceeded prerecession levels in FY 2013-14.

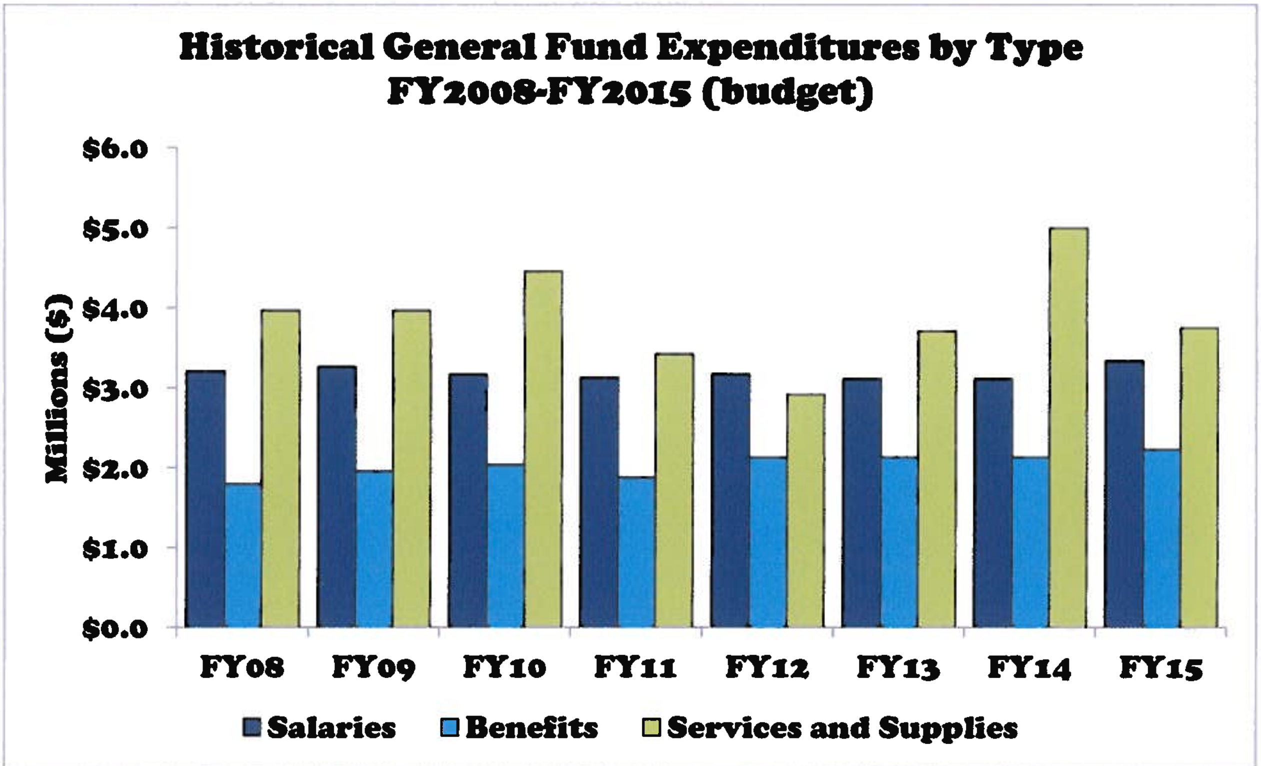


Numbers in $ Millions – source: FY 2007 through FY 2014 CAFRs

A fourth revenue source, specifically fees for planning and building services, experienced a decline in FY 2014. In FY 2013, actual license and permit revenue totaled nearly $440,000 and in FY 2014, actual revenue totaled slightly over $300,000. Other sources of General Fund revenue include in-lieu vehicle license fees, fines, penalties, interest earnings, rents, and other charges for services. These revenues have remained relatively flat or experienced slight increases over the past few years.

City Expenses

In response to the Great Recession and related decline in revenues, the City worked diligently to reduce its operating costs, achieved mostly by reductions in staffing. The City has established and maintains 21% Assigned General Fund Reserve of budgeted operating expenditures. In addition, the FY 2014-15 budget had indicated an Unassigned General Fund reserve of $2.26 million. However, following the completion of the FY 2013-14 Comprehensive Annual Financial Report, this amount was reduced to $1.29 million.



	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Salaries	$3.2	$3.3	$3.2	$3.1	$3.1	$3.1	$3.1	$3.1
Benefits	$1.8	$1.9	$2.0	$1.9	$2.1	$2.1	$2.1	$2.1
Services & Supplies	$4.0	$4.0	$4.5	$3.4	$2.9	$3.7	$5.0	$3.7
Total	**$9.0**	**$9.2**	**$9.7**	**$8.4**	**$8.2**	**$9.0**	**$10.2**	**$9.3**

***Numbers in millions*

This period of retraction was difficult on the City, with reductions coming in the following areas and are described in more detail below:

- **Preservation of Service Levels**: A major focus during the recession was to achieve cost savings by reducing staffing levels and deferring maintenance while preserving service levels.

- **Administrative Staffing:** Throughout the City, mostly administrative positions were eliminated in an effort to preserve services to the community. This approach can work in the short term to weather an economic downturn, but within a few years, the backlog of work and the inability to meet legally required mandates grows exponentially, resulting in an exhausted staff, potential legal exposure, and a frustrated community.

- **Capital Projects:** Few projects have been funded through the General Fund over the past several years. Due to the City's poor road condition, $1.2 million was budgeted in FY 2014-15 for road repairs. The budgeting of these funds results in an estimated General Fund unreserved fund balance of $1.09 million, which is being adjusted per the FY 2013-14 CAFR to $.1 million.

- ***Salary and Benefit Costs:*** *Personnel costs, which include salaries and benefits, make up more than 60% of the City's General Fund expenditures in the FY 2014-15 Adopted Budget. Both the Police Officers Foundation and St. Helena Employees Association agreed in their recent contracts to contribute more towards the employer's PERS contribution, while also receiving modest salary increases to offset these contributions. These actions have helped to reduce the City's pension contributions.*

  Subsequent reforms enacted independently by the City to create a second benefit tier for employees hired after July 2012 and reforms implemented by the Public Employees' Pension Reform Act of 2013, will eliminate enhancements prospectively and have required the City's employees to contribute more toward their benefits.

  Most recently, CalPERS recalculated pension contributions to include a higher rate related to mortality, resulting in an increase in the City's PERS contribution that will be effective in FY 2017 through FY 2023. This rate increase is in addition to the rate increase announced in April 2013, which will become effective in FY 2015-16. Also, for FY 2016, PERS created a new contribution formula that includes an annual lump sum employer payment of unfunded liability. These changes result in a nearly 25% increase in employer PERS contribution for FY 2016 and estimated 4% increases thereafter.

- ***Supplies and Services:*** *An area of major expense reductions was in the area of supplies and services. However, supplies and services are increasing annually due to cost increases in equipment, materials and consulting services. In FY 2014 expenditures increased by nearly $1.0 million due to the $1.9 million refund paid to grantors related to the City's flood response.*

Forecast Revenues and Expenses

The City has worked diligently during these challenging and volatile economic times to manage its budget. Reductions in expenditures have resulted in revenues exceeding expenses in the last four years. At the same time, the City is experiencing cost pressures from CalPERS' contribution rate increases, health premiums, merit & salary increases, along with general CPI increases that put this trend at risk. In addition, the City has not been putting monies aside for the long-term funding for recapitalization of facilities, parks, information technology or streets. This has led to significant current funding needs, which will only increase in the future and/or result in severe deterioration of the City's building and infrastructure assets if not addressed in the near term.

The forecasts included in this plan have been made for revenues and expenses over the next ten fiscal years based on the best available information. Due to the volatile and unpredictable nature of General Fund revenues, two revenues scenarios have been developed for this forecast: one with a baseline and a second that is a baseline with a minor recession. Two expense forecasts are used for this plan, one that focuses on operating expenses, while the second includes the financial challenges in addressing the City's asset recapitalization needs. This section discusses these two forecasts.

Revenues

Projections of future revenue are based on a set of assumptions at a point in time and intended to highlight trends and should be updated annually. Because the City's three major revenue sources for the General Fund (property, sales and transient occupancy taxes) are affected by the economy, significant changes in the local, regional and national economic outlook, positive or negative, can shift these revenue sources significantly. As realized in the reductions in revenue that started in FY 2009-10, history is not always a reliable indicator of the near future. That being said, this plan assumes in the forecasts that recent improvements in economic conditions locally and nationally will continue at a modest pace over the next several years. The baseline forecast predicts a modest but still positive (optimistic) forecast, while the baseline with a minor recession includes a very minor recession for three years.

To capture the uncertainty of revenue growth, this forecast includes two revenue scenarios:

- **Baseline** - The baseline revenue growth estimate is based on a continuing modest economic recovery. This forecast is similar to the actual revenue growth the City incurred over the last ten years. However, economic history shows that over a ten year period, the country always experiences a recession. Therefore, this baseline forecast can be considered optimistic, but still conservative.

- **Baseline with a minor recession** – this forecast generally follows the baseline forecast but illustrates the impact of a minor recession in FY 2018 through FY 2020.

The table below shows the escalator assumptions for the revenue sources under these two scenarios. The difference in the revenue forecasts between the baseline and baseline with a minor recession are in sales tax, property tax, and transient occupancy taxes.

Revenue	Baseline Forecast Growth Per Year	Baseline with Recession Growth Per Year
Property & VLF Tax	3%	2 to 3%
Sales Tax	3%	-1 to 3%
Transient Occupancy Tax	4%	2% to 4%
Other Taxes	4%	4%
Licenses and Permits	0%	0%
Other Revenue	5%	5%

The City's major revenue categories are discussed below, as well as the assumptions used for each forecast.

Property Taxes. After three years of flat revenues of a moderate decline , property tax revenue began increasing again in FY 2013. This increase is due to rising property values from existing homes and the sale of homes. St. Helena is projected to experience minor new development over the next ten years. Increases in property tax are based mostly on increases in property values.

- **Baseline -** Under the City's baseline growth scenario, property taxes are assumed to grow at an annual increase of 3%, which assumes full Proposition 13 increases of 2.0% per year plus an additional 1% increase due to property turnover and new growth, for a total forecast growth rate of 3%.

- **Baseline with a minor recession –** In this scenario, property taxes follow the same annual increase of 3% except during FY 2018-2020 when the annual increase is reduced 2% annual and returns to 3% in FY 2021.

Sales Tax. Growth in sales tax depends on a variety of factors but for St. Helena it is the economy and tourism that have the largest impact. Five-year sales tax projections are provided to the City by MuniServices, the City's sales tax consultant. MuniServices provides growth scenarios for the City on a quarterly basis.

- **Baseline -** The 3% annual growth level assumes moderate growth in sales taxes in line with long-term inflationary expectations.

- **Baseline with a minor recession –** This projection assumes an annual growth rate of 3% each year. A minor recession in fiscal years FY 2018 through 2020, reduces sales tax growth to 1% in the first year, -1% in the second year and 1% in the third year. The 3% escalator is reinstated in FY 2021.

Transient Occupancy Tax (TOT). The City charges 12% transient occupancy tax on all overnight stays when occupying a room or rooms or other living space in a hotel, inn, tourist home or house, motel or other lodging (defined below) unless the stay is for a period of 31 days or more.

- **Baseline –** Under the City's baseline growth scenario, TOT is projected to increase 4% annually. In addition, the opening of the Las Alcobas Hotel is projected for FY 2016-17 with an additional $500,000 in TOT. The following two fiscal years each include $200,000 in additional revenue for a total of $900,000 annually in additional TOT by FY 2019-20.

- **Baseline with a minor Recession –** TOT is projected to increase 4% and is reduced to 2% for FY 2017-18 through FY 2019-20 and returns to 4% through the end of the forecast. The additional TOT from Las Alcobas is included at the same rate as in the baseline forecast.

Other Taxes, Licenses, Permits and Other Revenues. These revenues comprise the remaining 25% of the General Fund revenues and their escalating assumptions range from 0% increase for licenses and permits; 1% for interest and rents, 2.4% for charges for services and 5% for other revenues.

Expenses

The City's expense profile includes a combination of costs that the City controls and does not control. For example, the City controls labor costs to the extent that it authorizes a certain number of positions and negotiates labor contracts that govern pay and benefits. Pension costs, on the other hand, (the result of past labor negotiations and CalPERS contracts) are a cost the City has little control over in the near term. The third category for expenses is services and supplies. This category includes most non-labor expenditures.

The major assumptions in the City's cost projections are included in the table below and are further discussed thereafter.

Forecast Expense Assumptions		
Expense	Growth per Year	Notes
Salaries	2.5%	Increases based on merits and moderate CPI
Pension Costs	-8% to 22%	Based on PERS estimates
Health Premiums	6%	Experience and industry projections
Other Benefits	3.8%	Moderate growth compared to health care
Services and Supplies	4.5%	Lower growth rate than last two years

Salaries. For the projection, salaries are assumed to grow at a modest rate of 2.5% per year. Without any changes to staffing totals or the granting of any significant salary increases, this represents the anticipated cost of step increases for those employees not at top step, as well as very modest cost of living increases. Over the past two years, the City has added a few select, critical positions. This expense scenario does not include additional positions. New services, unfunded mandates and other demands will require the addition of positions over the next ten years.

Pension Costs. The City is a part of the California Public Employees Retirement System (CalPERS) and is required to pay an employer contribution toward the contracted pension benefits as determined by CalPERS. City employees pay a portion of pension costs based on a CalPERS formula and some employees contribute more through negotiated cost sharing.

Pension cost projections are provided by CalPERS on an annual basis. In addition, rate increases for the mortality rate adjustment are also factored into this forecast as well as the unfunded liability payment being imposed in FY 2015-16. These factors result in a 25% increase in the City's PERS contribution for FY 2015-16. In the following years, the contribution rates fluctuate from an increase of 9% to a decrease of 9% and finally level off to 1% increase in the last few years of the forecast.

Health Premiums. The City pays 100% of employee health care premiums. This means that as premiums rise, the City's contribution increases as well. Based on recent history and expectations for increases over the next decade, the City assumes health premium costs will increase 6% per year. However, the City's is a member of the Redwood Empire Municipal Insurance Foundation (REMIF) which is currently exploring a self-funded program for health care. If this can be accomplished, REMIF is projecting that for the first few years, the member cities would experience no cost increases. More information will be forthcoming as REMIF continues work on this proposal.

Other Benefits. In addition to health premiums, the City provides dental and vision care to employees. This is not expected to increase as fast as health premiums and is projected to rise at an average of 3.8% per year.

Services and Supplies. These non-employee costs were reduced during the Great Recession but have increased in recent years. These costs are projected to increase at a modest rate of around 4.5% per year through the projection period. However, this projection may be too low as material costs and operational needs are already being identified as near term needs. In addition, with the limited capacity of full-time staff, the City retains consultants to perform necessary work.

Also included in this category is the State Revolving Fund Loan annual payment of $528,000 beginning in FY 2016. Measure A funds are not available to cover this loan amount as had been the case since the debt was incurred in FY 2009 for the partial funding of the flood control project. As this is a long term obligation, it is factored into the expense budget for all ten years of the forecast. Upon release of the Measure A funds in FY 2018, the City will have options regarding use of these remaining funds estimated to be approximately $4.5 million.

Assigned General Fund Reserve at a minimum 25%. Based on an informal Council goal and industry best practices, the City's Assigned General Fund reserve should be 25% of budgeted operating expenditures. This goal is not achieved in either of the revenue scenarios and unachievable when expenditures toward asset recapitalization are illustrated.

The graphs and tables below show the results of the revenue projections as compared to the expense projection.

Scenarios

The following section illustrates the two revenue forecasts, both of which utilize the same expense forecast.

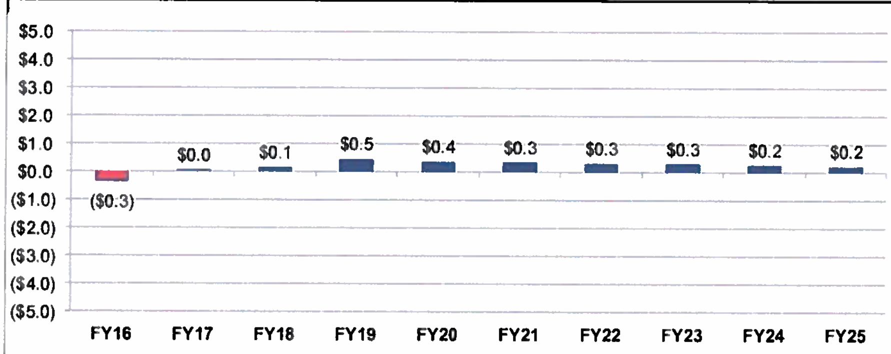
Baseline Revenue Forecast – Net Operating Revenues

The baseline revenue growth estimate is based on a continuing modest but optimistic economic recovery. This forecast is similar to the actual revenue growth the City incurred over the last ten years.

Baseline Revenue Forecast

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Revenues											
Property Taxes & VLF	$3.4	$3.9	$4.0	$4.2	$4.3	$4.4	$4.6	$4.7	$4.8	$5.0	$5.1
Sales Tax	$2.5	$2.6	$2.7	$2.8	$2.9	$3.0	$3.0	$3.1	$3.2	$3.3	$3.4
Transit Occupancy Tax	$1.7	$1.8	$2.4	$2.7	$3.0	$3.1	$3.2	$3.3	$3.5	$3.6	$3.8
Other Taxes	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Licenses and Permits	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Other Revenues	$0.9	$1.0	$1.0	$1.1	$1.1	$1.2	$1.2	$1.3	$1.4	$1.4	$1.5
Total Revenues	**$9.4**	**$10.1**	**$10.9**	**$11.4**	**$12.0**	**$12.4**	**$12.8**	**$13.3**	**$13.7**	**$14.2**	**$14.7**
Expenses											
Salaries	($3.3)	($3.4)	($3.5)	($3.6)	($3.7)	($3.8)	($3.8)	($3.9)	($4.0)	($4.1)	($4.2)
PERS	($0.9)	($1.1)	($1.2)	($1.3)	($1.2)	($1.3)	($1.3)	($1.3)	($1.3)	($1.4)	($1.4)
Health Premiums	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.1)	($1.2)	($1.3)	($1.4)	($1.4)
Other Benefits	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)
Services & Supplies	($3.8)	($4.5)	($4.7)	($4.9)	($5.2)	($5.4)	($5.6)	($5.9)	($6.2)	($6.4)	($6.7)
Total Expenses	**($9.3)**	**($10.4)**	**($10.8)**	**($11.3)**	**($11.6)**	**($12.1)**	**($12.5)**	**($13.0)**	**($13.4)**	**($13.9)**	**($14.4)**
Net Operating Revenues		**($0.3)**	**$0.0**	**$0.1**	**$0.5**	**$0.4**	**$0.3**	**$0.3**	**$0.3**	**$0.2**	**$0.2**
Beginning Assigned GF Reserve	**$2.0**	**$2.1**	**$1.8**	**$1.8**	**$1.9**	**$2.4**	**$2.7**	**$3.0**	**$3.3**	**$3.6**	**$3.9**
Operating Surplus/(Deficit)		**($0.3)**	**$0.0**	**$0.1**	**$0.5**	**$0.4**	**$0.3**	**$0.3**	**$0.3**	**$0.2**	**$0.2**
Net Assigned GF Reserve		**$1.8**	**$1.8**	**$1.9**	**$2.4**	**$2.7**	**$3.0**	**$3.3**	**$3.6**	**$3.9**	**$4.1**
Assigned GF Reserve of 25%		**$2.6**	**$2.7**	**$2.8**	**$2.9**	**$3.0**	**$3.1**	**$3.2**	**$3.4**	**$3.5**	**$3.6**
Assigned GF Reserve surplus/(deficit)		($0.8)	($0.9)	($0.9)	($0.5)	($0.3)	($0.1)	$0.1	$0.2	$0.4	$0.4
Ending Unassigned GF Reserve	**$0.1**							**$0.1**	**$0.3**	**$0.7**	**$1.2**

Key Assumptions:
1) Sales taxes grow at 3.0% per year
2) Property taxes grow at 3%per year FY 15/16 adjusted to CAFR actuals
4) Salary expense grows at 2.5% per year (COLA). No change in headcount for 10 years
5) PERS expense includes cost of recent actuarial assumption changes approved by CalPERS board in April 2013 and February 2014 and estimates for issued Oct 2014
6) Beginning Unassigned GF Reserve adjusted per the FY 2013-14 CAFR



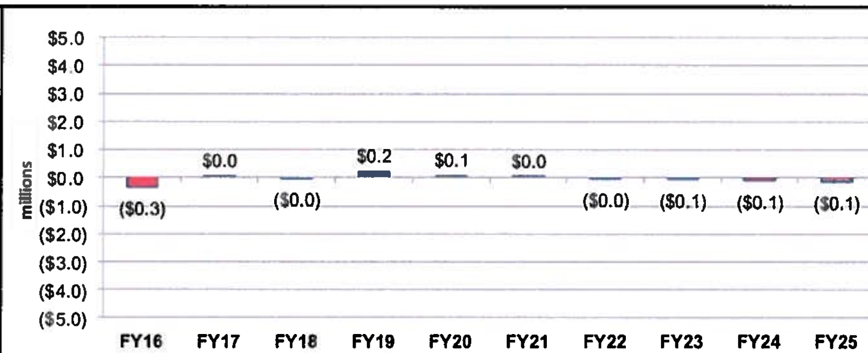
Baseline with a minor recession – Net Operating Revenues

The baseline with a minor recession forecast assumes the same level of revenue growth as the baseline however a minor recession is included in FY 2018 through 2020.

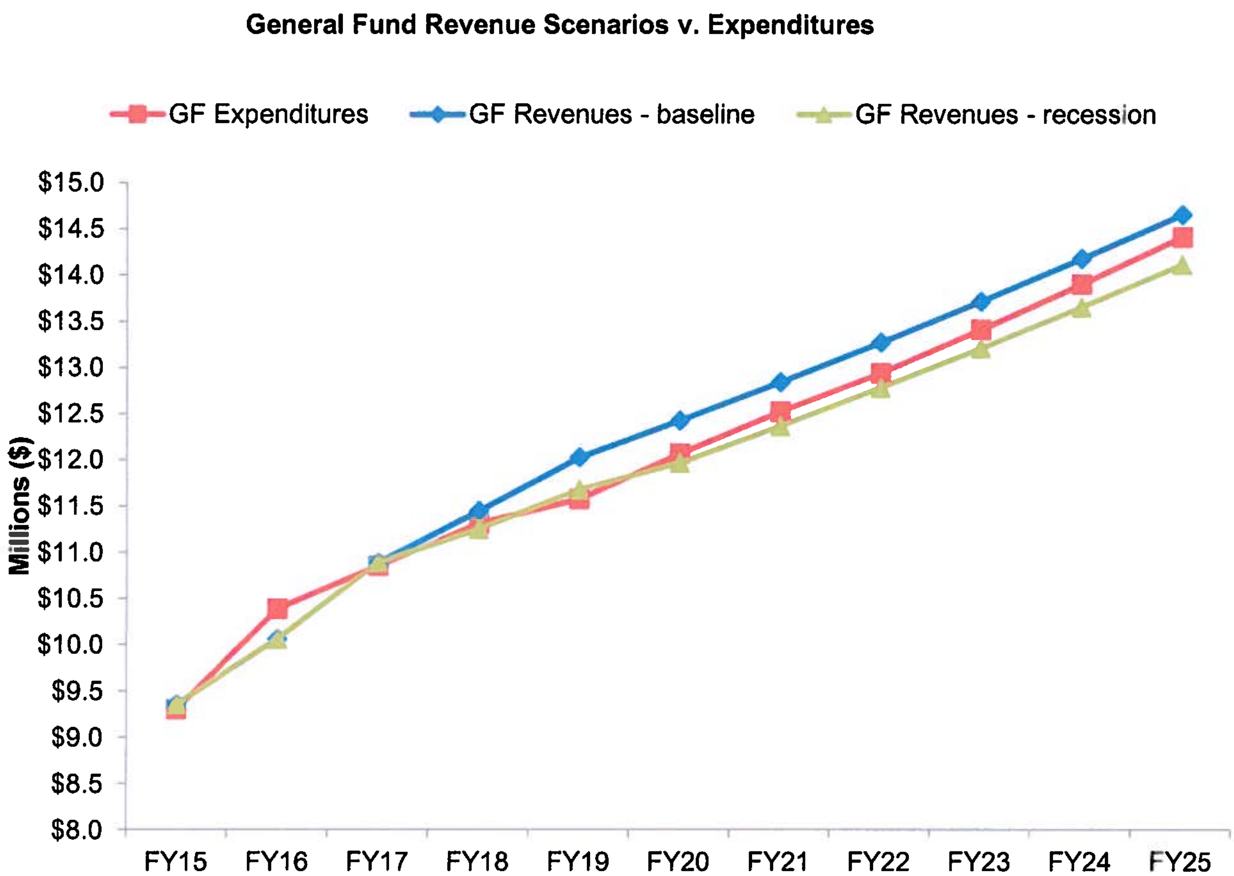
Baseline Revenue Forecast (Recession)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Revenues											
Property Taxes & VLF	$3.4	$3.9	$4.0	$4.1	$4.2	$4.3	$4.4	$4.6	$4.7	$4.8	$5.0
Sales Tax	$2.5	$2.6	$2.7	$2.7	$2.7	$2.8	$2.9	$3.0	$3.0	$3.1	$3.2
Transit Occupancy Tax	$1.7	$1.8	$2.4	$2.7	$3.0	$3.1	$3.2	$3.3	$3.5	$3.6	$3.8
Other Taxes	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Licenses and Permits	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Other Revenues	$0.9	$1.0	$1.0	$1.1	$1.1	$1.2	$1.2	$1.3	$1.4	$1.4	$1.5
Total Revenues	**$9.4**	**$10.1**	**$10.9**	**$11.3**	**$11.8**	**$12.1**	**$12.5**	**$13.0**	**$13.4**	**$13.8**	**$14.3**
Expenses											
Salaries	($3.3)	($3.4)	($3.5)	($3.6)	($3.7)	($3.8)	($3.8)	($3.9)	($4.0)	($4.1)	($4.2)
PERS	($0.9)	($1.1)	($1.2)	($1.3)	($1.2)	($1.3)	($1.3)	($1.3)	($1.3)	($1.4)	($1.4)
Health Premiums	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.1)	($1.2)	($1.3)	($1.4)	($1.4)
Other Benefits	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)
Services & Supplies	($3.8)	($4.5)	($4.7)	($4.9)	($5.2)	($5.4)	($5.6)	($5.9)	($6.2)	($6.4)	($6.7)
Total Expenses	**($9.3)**	**($10.4)**	**($10.8)**	**($11.3)**	**($11.6)**	**($12.1)**	**($12.5)**	**($13.0)**	**($13.4)**	**($13.9)**	**($14.4)**
Net Operating Revenues		($0.3)	$0.0	($0.0)	$0.2	$0.1	$0.0	($0.0)	($0.1)	($0.1)	($0.1)
Beginning Assigned GF Reserve	**$2.0**	**$2.1**	**$1.8**	**$1.8**	**$1.8**	**$2.0**	**$2.0**	**$2.0**	**$2.0**	**$2.0**	**$1.9**
Operating Surplus/(Deficit)		**($0.3)**	**$0.0**	**($0.0)**	**$0.2**	**$0.1**	**$0.0**	**($0.0)**	**($0.1)**	**($0.1)**	**($0.1)**
Net Assigned GF Reserve		**$1.8**	**$1.8**	**$1.8**	**$2.0**	**$2.0**	**$2.0**	**$2.0**	**$2.0**	**$1.9**	**$1.7**
Assigned GF Reserve of 25%		**$2.6**	**$2.7**	**$2.8**	**$2.9**	**$3.0**	**$3.1**	**$3.2**	**$3.4**	**$3.5**	**$3.6**
Assigned GF Reserve surplus/(deficit)		($0.8)	($0.9)	($1.1)	($0.9)	($1.0)	($1.1)	($1.2)	($1.4)	($1.6)	($1.9)
Ending Unassigned GF Reserve	**$0.1**										

Key Assumptions:
1) Sales taxes grow at 3.0% per year reduced to 1% in FY 18, -1% in FY 19 and 1% in FY 20
2) Property taxes grow at 3%per year reduced to 2% in FY 18-20
3) TOT grows at 4% per year reduced to 2% in FY 18-20
4) Salary expense grows at 2.5% per year (COLA). No change in headcount for 10 years
5) PERS expense includes cost of recent actuarial assumption changes approved by CalPERS board in April 2013 and February 2014 and estimates for issued Oct 2014



In summary, the graph below illustrates the two revenue projections when compared to the projected expenses.



In addition to general operating expenses, the City has capital assets it is responsible for maintaining and replacing when their useful life has expired. Like many cities in California, St. Helena has significantly reduced its General Fund contribution to preventative and ongoing maintenance of its capital assets.

The City has not set aside adequate funds to recapitalize its major assets to rehabilitate or replace assets for streets, parks, buildings and information technology as needed. In the FY 2014-15 Adopted Budget, the City created two replacements funds; one for equipment in which $30,000 was set aside; and a second for buildings for which $25,000 was set aside. This section discusses these major areas of asset recapitalization and steps the City should be taking to develop asset plans and funding reserves in an effort to put aside adequate funds to maintain these important City assets.

The City's water and wastewater long-term rehabilitation is funded and allocated through the water and wastewater enterprise fund and is not included in this analysis.

The City is responsible for maintaining government buildings, parks, and streets and must also ensure adequate and secure information technology for both the staff and citizens to store and access information.

Buildings – The City owns and maintains approximately 64,000 square feet of government buildings including city hall, fire station, Carnegie Building, library, police station and park restrooms. In 2012, the City eliminated the Government Buildings function within Public Works. Since then, existing staff and some privatization of services have been used to keep the buildings operating. Recently, the Parks crews have assumed the government buildings duties. No preventative maintenance has been performed in nearly three years. The City established a building replacement fund in FY 2014-15 to cover major repairs or to replace buildings and deposited $25,000.

Best practices in building management require, what is often referred to as the recapitalization of these assets. This means the replacement of building sub-systems (e.g., roofs, electrical distribution equipment, HVAC, floor coverings, parking lots, paving, fire alarms, etc.) that wear out over time.

There are several ways to fund these improvements:

1) **Pay for expenses as they occur from available operating funds**. A pay-as-you-go approach to maintaining government buildings only works when the City has created a facilities replacement reserve to fund needed major subsystem replacements. The City is not reinvesting in facilities, and there is a backlog of deferred items from at least 1990 on city hall and the police station just to name two significantly deteriorated buildings. As a result, a pay-as-you-go funding mechanism cannot provide the adequate annual funding needed to maintain and replace needed subsystems.

2) **Set monies aside as a percent of building value.** It is common to set aside funds based on building value. A common amount is 1% to 2% of a building's value

3) **Forecast replacement costs and dates** for subsystems and set monies aside sufficient to replace these systems as needed. Under this method, the City reviews the age and condition of each major subsystem, estimates the replacement cost and date, and develops a funding plan that would allow for proper replacement of subsystems over time. This option provides a good estimate of actual needs.

Parks – The City owns 10 parks and four pathways totaling approximately 40 acres. The Parks crews maintain all the parks and pathways, and as noted above now also maintains the government buildings. The City has not established an asset replacement fund to cover major repairs or replace equipment.

Having monies to replace play structures, resurface courts, and re-seed fields is not only a safety issue but community enjoyment issue for the City. The City should develop a park asset plan which would identify the cost of recapitalization of park assets which would be based on an average number of assets per year for replacement based on lifespan and estimated cost of each unit. Funding options for recapitalization of park assets is identical to those listed above for buildings.

Information Technology – The City contracts with a private IT consultant company to provide its network, PC and service needs. It has become industry standard to replace PCs every 3-5 years and to make enhancements to servers, storage and other IT equipment annually. The City established a computer replacement fund in FY 2014-15 and deposited $30,000 into the fund. Generally, PC replacements and other IT infrastructure and equipment are funded from the annual operating budget.

The City should develop an IT strategic plan that identifies the hardware, software, network, storage and security needs for the next five years. Currently, the City's IT infrastructure is outdated and insufficient to meet current storage, operational and security needs. In addition, funding is only available to support one technician on site for 12 hours a week. For a $20 million organization, this level of technical staffing is not sufficient. Funding for the recapitalization of IT assets is identical to those listed above for buildings.

Streets – The City is responsible for 26 centerline miles of roadway. The Pavement Management Plan, presented to Council in February 2015 provided estimates for maintaining and improving the City's streets. The Plan shows that an additional $1.25 million of annual road maintenance is inadequate to maintain the City's streets at a Pavement Management Index of 58. An investment of $2.5 million annually would maintain the Pavement Management Index at 58 and an investment of $3.5 million annually would increase the Pavement Management Index to 63. In FY 18, Measure T is expected to provide the City with approximately $665,000 annual for pavement management projects. This revenue is included only in the asset recapitalization scenario, as it can used only for pavement management projects.

Funding for roadway maintenance is funded by State Gas Tax monies. The FY 2014-15 Adopted Budget estimates the City will receive approximately $160,000 annually from source. These revenues are not nearly enough to keep up with the maintenance requirements. Unfortunately, as roadways deteriorate, the cost of returning the roadways to adequate conditions rise significantly. For example, a roadway that could be maintained by periodic sealing and re-paving may require complete reconstruction if not maintained properly.

To illustrate the financial challenges faced by the City related to asset recapitalization, the following chart depicts a revenue scenario using the baseline forecast and $1.6 million annual expenditure for asset recapitalization. This includes $1.25 million for pavement projects and $300,000 for parks and building maintenance, and $50,000 for IT assets. With inadequate revenue to cover this minor contribution towards asset recapitalization, the net operating budget experiences a nearly $13 million deficit by FY 2025. Over the 10 year period, total unfunded operating expenses are estimated at $74.2 million.

Baseline Revenue Forecast (optimistic) with Asset Recapitalization

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Revenues											
Property Taxes & VLF	$3.4	$3.9	$4.0	$4.2	$4.3	$4.4	$4.6	$4.7	$4.8	$5.0	$5.1
Sales Tax	$2.5	$2.6	$2.7	$2.8	$2.9	$3.0	$3.0	$3.1	$3.2	$3.3	$3.4
Transit Occupancy Tax	$1.7	$1.8	$2.4	$2.7	$3.0	$3.1	$3.2	$3.3	$3.5	$3.6	$3.8
Other Taxes	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Licenses and Permits	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Other Revenues*	$2.2	$1.0	$1.0	$1.1	$1.1	$1.2	$1.2	$1.3	$1.4	$1.4	$1.5
Total Revenues	**$10.6**	**$10.1**	**$10.9**	**$11.4**	**$12.0**	**$12.4**	**$12.8**	**$13.3**	**$13.7**	**$14.2**	**$14.7**
Expenses											
Salaries	($3.3)	($3.4)	($3.5)	($3.6)	($3.7)	($3.8)	($3.8)	($3.9)	($4.0)	($4.1)	($4.2)
PERS	($0.9)	($1.1)	($1.2)	($1.3)	($1.2)	($1.3)	($1.3)	($1.3)	($1.3)	($1.4)	($1.4)
Health Premiums	($0.8)	($0.9)	($0.9)	($1.0)	($1.0)	($1.1)	($1.1)	($1.2)	($1.3)	($1.4)	($1.4)
Other Benefits	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.5)	($0.6)	($0.6)	($0.6)	($0.6)	($0.7)
Services & Supplies	($3.8)	($4.5)	($4.7)	($4.9)	($5.2)	($5.4)	($5.6)	($5.9)	($6.2)	($6.4)	($6.7)
Total Expenses	**($9.3)**	**($10.4)**	**($10.8)**	**($11.3)**	**($11.6)**	**($12.1)**	**($12.5)**	**($13.0)**	**($13.4)**	**($13.9)**	**($14.4)**
Net Operating Revenues	**$1.3**	**($0.3)**	**$0.0**	**$0.1**	**$0.5**	**$0.4**	**$0.3**	**$0.3**	**$0.3**	**$0.2**	**$0.2**
Unassigned General Fund Reserve (per forecast)	**$1.3**		**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**	**$0.5**	**$0.9**	**$1.5**
Asset Recapitalization - Pavement	($1.1)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)	($1.3)
Asset Recap - Other	($0.2)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)	($0.3)
Net Operating Revenues with Asset Recap	**$0.0**	**($1.8)**	**($3.2)**	**($4.6)**	**($5.7)**	**($6.8)**	**($8.0)**	**($9.2)**	**($10.4)**	**($11.7)**	**($13.0)**

Key Assumptions:
1) Sales taxes grow at 3.0% per year
2) Property taxes grow at 3%per year FY 15/16 adjusted to CAFR actuals
4) Salary expense grows at 2.5% per year (COLA). No change in headcount for 10 years
5) PERS expense includes cost of recent actuarial assumption changes approved by CalPERS board in April 2013 and February 2014 and estimates for issued Oct 2014
6) Includes $665,000 in revenue beginning in FY18 for Measure T pavement maintenance
*7) FY 15 includes $1.29 GF unreserved fund balance for Asset Recapitalization