Introduction

Our nation and state are in the midst of the worst economic recession since the Great Depression. All leading economic indicators continue to be down from mid-decade highs. Inflation is beginning to edge upward. Although surveys indicate minor improvements, consumer confidence ratings continue to remain low. Unemployment rates, job losses, and lay-offs in all sectors, housing foreclosures, and the state of the economy continue to dominate conversations, morning headlines and the evening news.

Many cities around the country are faced with declining revenues, deteriorating capital infrastructure, and structural imbalances within their budgets, forcing reduced services, staff layoffs, employee benefit reductions and other drastic measures. In 2008, a National League of Cities survey found that more than three in five municipal finance officers said that their city was less able to meet the financial needs than in the previous year.[1] Imagine what the results would be if the survey was done today.

When cities are forced to move from financial crisis to financial crisis, they are unable to strategically and proactively tackle the critical municipal issues of today: infrastructure maintenance, workforce development, public safety and economic development.

In an effort to avoid this same fate, the City of Twin Falls developed a financial forecasting model. The financial forecast model will assist the City in developing sustainable action plans. By focusing on the future, continuing to examine internal operations for efficiencies, investing in our human capital, equipment and infrastructure, judiciously weighing proposals to add or enhance programs, and planning carefully, the City of Twin Falls will strive to continue to offer efficient, effective and expected levels of service to its residents and businesses during an era of economic uncertainty.

Although the unemployment rate continues to be below the state and national statistics, the Twin Falls area's unemployment rate continues to remain high – 8.2% in June 2010, up two-tenths from 8.0 % May 2010. In June 2009, the area's unemployment rate was 6.5%. The number of foreclosures occurring in our community is higher than what has typically been experienced. Given the obstacles associated with changes in our local economy – increasing costs, a growing community, albeit significantly slower, and ongoing constraints of our fiscal environment – the development of this financial plan has been very challenging. Balancing the priorities of the community with the need to ensure long term sustainability has become increasingly important, especially in times when revenues have become scarcer and less certain. Although improved when compared to last year, residential building activity has experienced softened, which may be a linked to the expiration of the home buyer tax credit of 2010. Additionally, commercial and industrial growth and expansion continues to see declines. The effects of the current economic environment are reflected in the five year's fiscal plan.

[1] City Fiscal Conditions in 2008, National League of Cities, p. iii

Financial Forecast Model

The forecasting model allows the City to examine the opportunities and consequences of financial decisions beyond the confines of a single fiscal year. The model illustrates the impacts and costs associated with implementing the City's core planning documents. The City's comprehensive plan, transportation plan, waste water facility plan and the water system master plan all identify the need for significant capital investment. While the City plans on a multi-year basis; state law directs an annual budget process and limits methods of raising capital to meet infrastructure needs. The demand for financial resources is further complicated by the need to balance the cost of long term infrastructure projects with the ongoing cost of day-to-day services. Given limitations on ability to raise revenue, the downturn in the economy and identified infrastructure needs, it has become painfully obvious the City cannot assure efficient use of limited resources through an annual budgeting process. With this in mind, the long term planning committee was appointed and charged with the responsibility of developing a five-year financial model for the city. This document is the result of their effort.

This model adheres to the City's financial policies and helps secure its financial position. It contemplates future funding for the City's day-to-day operations, scheduled capital improvement expenditures, and principal and interest payments for outstanding long-term debt, and capital leases that will be available. The model is organized by fund, which provides the public a clear idea of how the City intends to allocate its resources over the course of the next five years.

The financial forecasting model for the City of Twin Falls is designed to provide the City with a broad overview of the revenues and expenditures for the government and enterprise funds. It summarizes and illustrates the range of tax options and the effects each option has on the City's tax rate. The model illustrates, by fiscal year, additions to the City's employee corps and capital acquisitions. The City's financial forecasting model is divided into several sections, covering the items noted below.

<u>Government Fund</u>

- Summary of Revenue and Expenditures
- Revenues Overview
- Property Tax Analysis
- Overall Impact of Property Taxes
- Expenditures Overview
- Overview of Personnel
- Overview of Capital
- Historical Information

<u>Water Fund</u>

- Summary of Revenue and Expenditures
- Overview of Capital Projects
- Debt Analysis
- Rate Impact Analysis

<u>Wastewater Fund</u>

- Summary of Revenue and Expenditures
- Overview of Capital Projects and Debt Analysis
- Rate Impact Analysis

The City of Twin Falls's financial forecasting model has been designed to encourage the efficient, effective and responsive delivery of critical services and acquisition of capital. This plan continues our commitment to prudent fiscal management, effective service delivery, and is a vehicle the City can use to provide its citizens with the highest quality of life and opportunities.

Government Funds

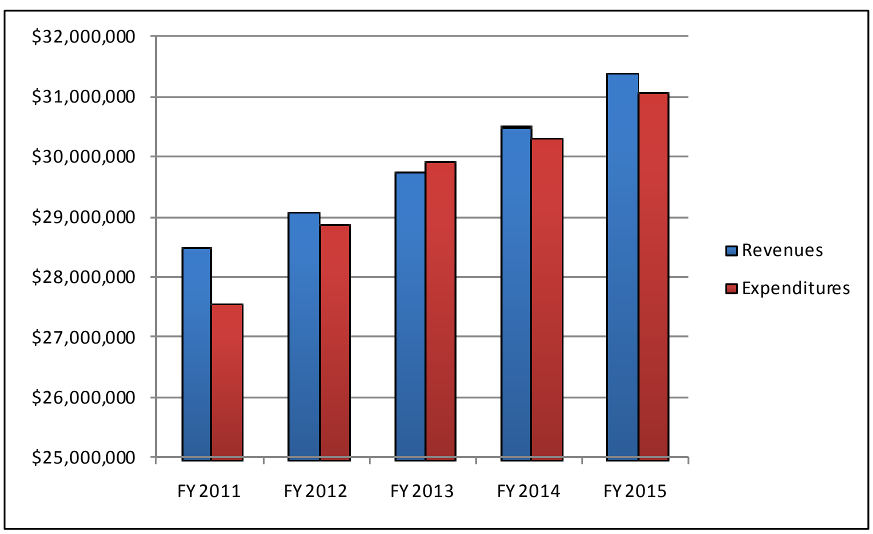
Most of the City of Twin Falls's activities are conducted through Government Funds or Property Tax supported funds. This umbrella of funds includes: the General Fund, Street Fund, Street Lighting Fund, Capital Fund, Airport Fund and Insurance Fund. The funds are supported primarily through the collection of property taxes. Additionally, government fund departments rely on revenues collected from licenses and permits, franchise fees, intergovernmental grants and shared revenues from the state of Idaho (sales tax, gas tax, etc.). The major expenses of the City's government funds include personnel, materials and supplies used to support day-to-day operations, contractual services, equipment, and capital acquisitions.

Summary of Revenue and Expenditures

Over the next five years, the City of Twin Falls is projecting the City's total government fund revenues will be generally flat.

This section of the City's five-year forecasting model focuses on revenues the City projects it will receive to support the organization. Overall, the City projects that revenue will increase each fiscal year by an average slightly less than 2.5%. Over this same period, the City projects expenditures will increase an average slightly more than 3.0%. Figure 1 illustrates revenue and expenditure projections for fiscal years 2011 to 2015.

Figure 1 – Government Fund Revenues & Expenditures



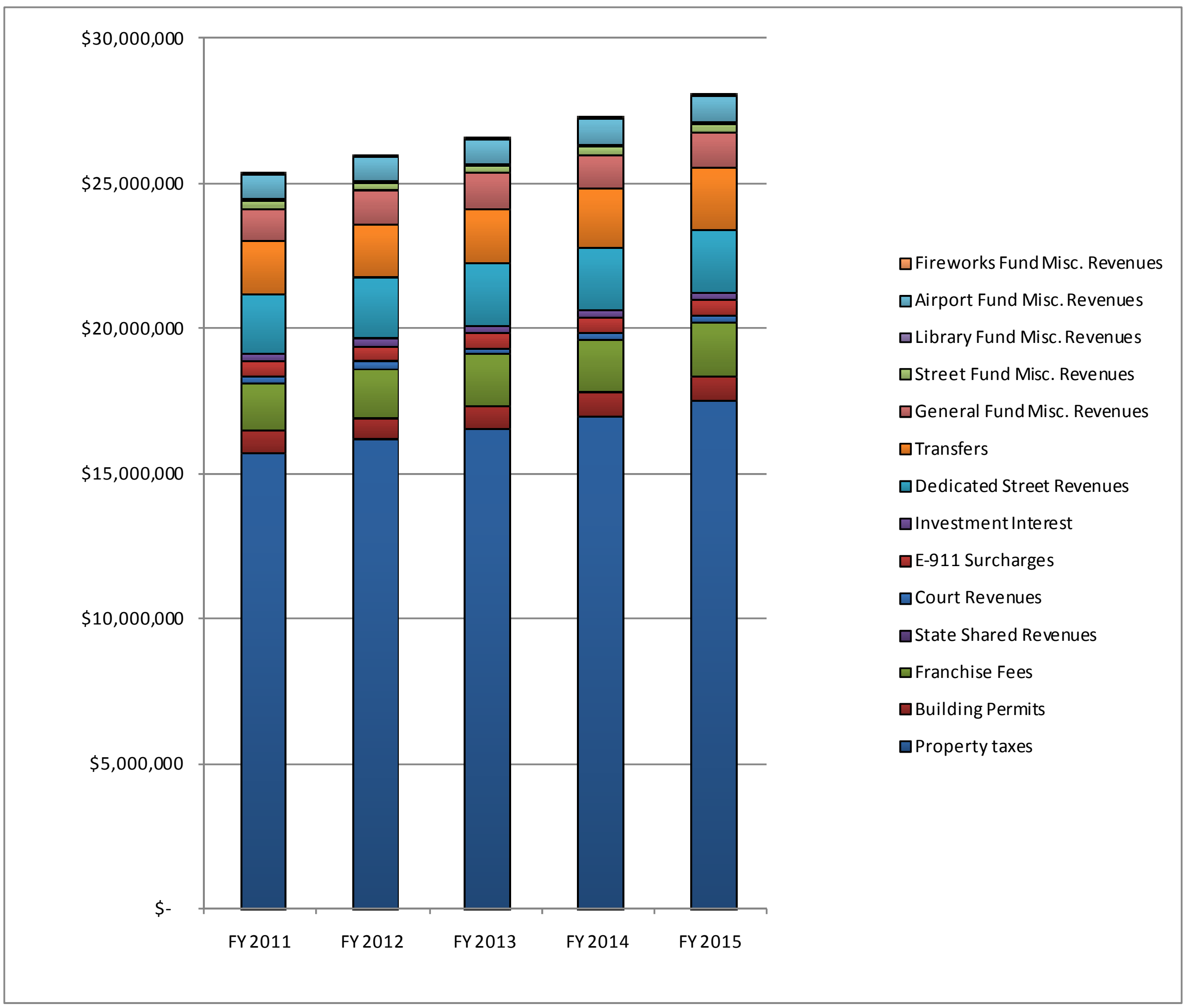
The graph illustrates the City anticipates revenues will exceed expenditures in four of the next five fiscal years. However, the projected deficits and surpluses projections for fiscal years 2012, 2014 and 2015 are insignificant and represent less than 1% of the projected government expenditures for each fiscal year. To achieve this position, the City's department leaders scrutinized every capital expenditure, and proposed new hires. The projected surpluses are tenuous, at best, and could become deficits if the local economy and tax base erodes beyond what has been projected.

Revenue Projections

As previously stated, the City is projecting that total revenues in the government, or tax supported, funds will be flat, increasing by an average of less than 2.5% annually. For the 2011 fiscal year, the City projects it will collect and receive $28,510,881, which is $1,604,474, or 5.3%, less than the $30,115,355 budget in revenues for the 2010 fiscal year. The City projects that total revenue collections will remain below the amount budgeted to collect in the 2010 until the 2013 fiscal year.

Figure 2 illustrates the City's total revenue projections for each fiscal year from 2010 to 2015. Like the five year planning model, the illustration uses the assumption the City Council will continue current taxing philosophies and elect to take only the "Growth Formula." A discussion on the opportunities and impacts of this and other taxing options is discussed later in greater detail.

Figure 2 – Government Fund Revenues by Category

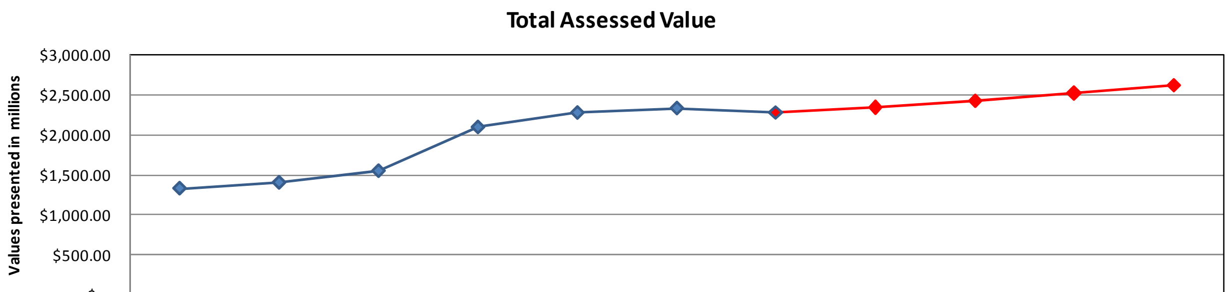


Total Assessed Value

In the 2005 fiscal year, the City's total assessed value was $1.330 billion. In fiscal year 2010, the City's total assessed value is $2.331 billion. For each fiscal year from 2004 to 2010, the City's total assessed value increased by an average of $200.3 million, or by 10.37%, annually. The largest increase was realized in fiscal year 2007 when the county assessor was required by the Idaho State Tax Commission to reassess property. As a result, the City's total assessed value increased by $546.4 million, or by 35.3%. If fiscal year 2007 is excluded from this average, the City's valuation has increased annually by an average of $113.8 million, or by 4.49%.

Based on current economic conditions, the City is projecting its net total assessed value will decrease by 2.1% to $2.283 billion.   However, the City projects the net total assessed value will increase in the 2012 fiscal year by $57 million, or by 2.5%, to $2.340 billion. Figure 3 illustrates the City's actual total assessed value from the 2005 to 2010 fiscal years, illustrated in blue, as well as projections for the next five years, illustrated in red.

Figure 3 – Total Assessed Value of the City of Twin Falls



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
TAV	$1,330.38	$1,403.35	$1,548.71	$2,095.11	$2,276.13	$2,331.98	$2,283.43	$2,340.43	$2,425.53	$2,517.92	$2,622.69

Projections for the next five years…

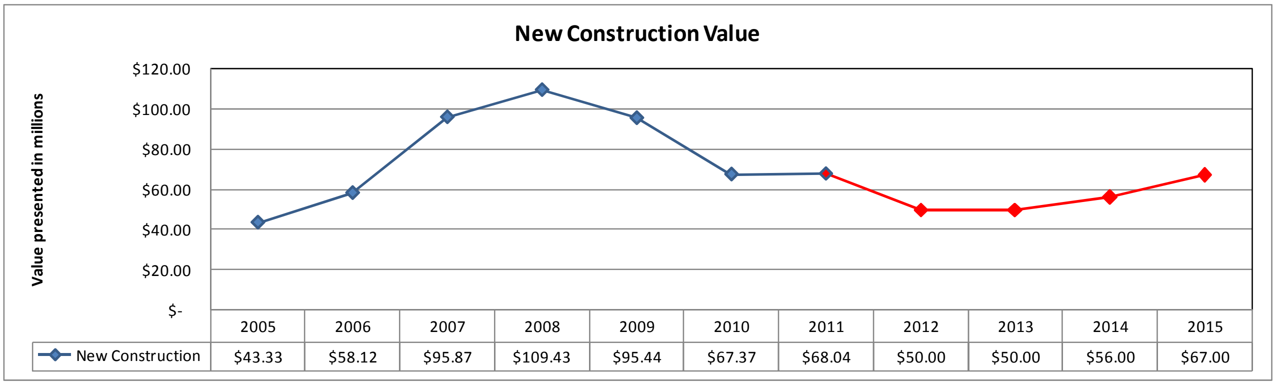
- The City projects the total assessed value will decrease in 2011 and realize modest increases from fiscal year 2012 and beyond.
- From FY 2010 to FY 2015, the City's total assessed valuation is projected to increase by a total of 12.47%.

New Construction and Annexation

The new construction value for the 2010 fiscal year was $67,369,643. According to the Twin Falls County Assessor, the net new construction value for the City for the 2011 fiscal year is $68,042,995, which translates into $448,286 in new revenue. However, the City is projecting that future new construction values will significantly decrease after this year.

Based on building activity through May 2010, the City projects the net new construction value for fiscal year 2012 will be approximately $50,000,000, which represents a decrease of approximately $18,042,995, or by approximately 38%. The projected net new construction value for the 2012 fiscal year is lower than the value realized in the 2005 fiscal year. Figure 4 reflects the actual new construction values from the 2005 to 2010 fiscal years, illustrated in blue, as well as projections for the next five years, illustrated in red.

Figure 4 – New Construction Values



Based on the number of available and buildable lots in inventory, the City anticipated that increases in its total valuation stemming from annexations will continue to decline. The City projects only one annexation that will appear on the City of Twin Falls's tax role, the Desert View Subdivision. This subdivision has an estimated taxable value of $7 million and will appear fiscal year 2012.

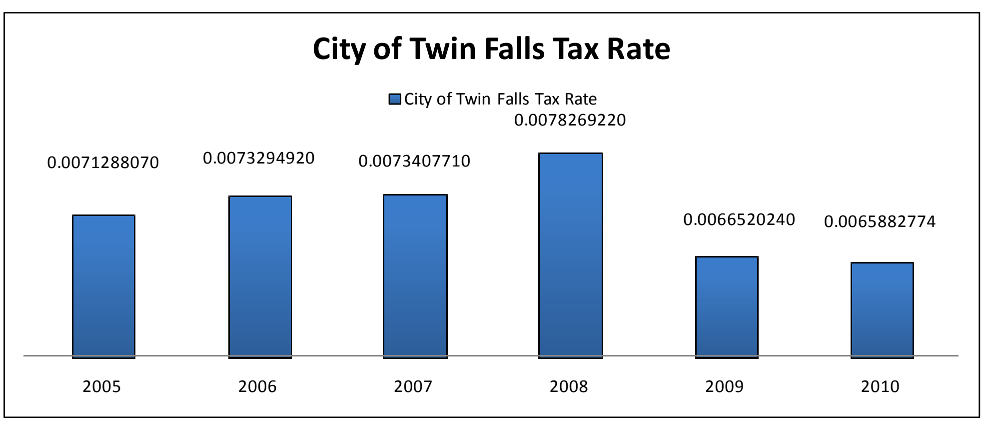
Projections for the next five years…

- Based on independent research and conversations with members of the local development community, the City projects the new construction value will be flat in fiscal years 2011, 2012 and 2013, with slight increases in fiscal years 2014and 2015.
- The City is projecting the new construction value for the 2015 fiscal year will be $67 million, which is slightly less than the actual value that was realized for the 2010 fiscal year.

Property Tax Analysis & Overall Impacts

A City's taxable value, or tax base, is one of the best indicators of the economic health of a community. Over the course of the last six fiscal years, the City's tax rate has remained relatively flat. As illustrated in Figure 5, the tax rate assessed by the City has decreased in each of the past two fiscal years.

Figure 5 – Tax Rate of City of Twin Falls from FY 2005 to FY 2010



Property taxes are based on the value of the property owned. It is often called an ad valorem tax because the tax is set according to physical value. The six-year high was $7.83/$1,000 of taxable value (0.0078269220) and occurred in fiscal year 2008. The six-year low was $6.59/$1,000 of taxable value

(0.0065882774) and occurred in the 2010 fiscal year. The average tax rate applied over this timeframe is \$7.14/\$1,000 (0.0071443822) in taxable value.

As provided for in the Idaho Code, local governments and independent taxing entities have the ability to increase total tax collections by 3% each year, in addition to making allowances for new construction, annexation, and foregone revenue. However, the decision on what and how much to request in property taxes remains a local decision, one that rests solely with the City Council. The following tables illustrate two of the many potential opportunities and impacts of the tax options available for consideration by the City Council.

Figure 6, referred to in the five year model as the "statutory maximum" option, assumes the City Council will increase tax revenues by 3%, collect the revenues associated with new construction and annexation, and capture foregone balances.

Figure 6 – "Statutory Maximum" Property Tax Option

Category	2010 Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget
Total Assessed Valuation	$ 2,331,983,468	$ 2,283,427,290	$ 2,340,427,290	$ 2,425,533,699	$ 2,517,916,704	$ 2,622,685,455
Tax Rate	0.006588277	0.007362979	0.007578489	0.007688178	0.007799269	0.007911585
Property taxes	$ 15,363,754	$ 16,812,828	$ 17,736,902	$ 18,647,934	$ 19,637,910	$ 20,749,598
Prior Year Collections		$ 15,363,754	$ 16,812,828	$ 17,736,902	$ 18,647,934	$ 19,637,910
3% Statutory increase		$ 460,913	$ 504,385	$ 532,107	$ 559,438	$ 589,137
New construction		$ 448,286	$ 368,149	$ 378,924	$ 430,538	$ 522,551
Annexations		$ -	$ 51,541	$ -	$ -	$ -
Foregone Balance Used		$ 539,875	$ -	$ -	$ -	$ -
Foregone Balance	$ 539,875	$ -	$ -	$ -	$ -	$ -

Figure 6 – "Statutory Maximum" option – illustrates:

- Tax collection revenues increase from \$15,363,754 in FY 2010 to \$20,749,598 in FY 2015, based on projections and assumptions described above.
- Tax Rate increases from \$6.59/\$1,000 of taxable value for the 2010 fiscal year to \$7.91/\$1,000 of taxable value for the 2015 fiscal year, based on projections and assumptions describe above. This represents a total increase of 20.1% in the tax rate during the five year planning horizon.
- The City's foregone balance of \$539,875 is captured in its entirety in FY 2011, leaving a \$0 balance. Under this option, the City would not have a foregone balance.

Figure 7 illustrates the opportunities and impacts of the "Growth Formula Only" option.

Figure 7 – "Growth Formula Only" Property Tax Option

Category	09-10 Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget
Total Assessed Valuation	$ 2,331,983,468	$ 2,283,427,290	$ 2,340,427,290	$ 2,425,533,699	$ 2,517,916,704	$ 2,622,685,455
Tax Rate	0.006588277	0.006924696	0.006935370	0.006848247	0.006767973	0.006696855
Property taxes	$ 15,363,754	$ 15,812,040	$ 16,231,730	$ 16,610,654	$ 17,041,192	$ 17,563,743
Prior Year Collections		$ 15,363,754	$ 15,812,040	$ 16,231,730	$ 16,610,654	$ 17,041,192
3% Statutory increase		$ -	$ -	$ -	$ -	$ -
New construction		$ 448,286	$ 368,149	$ 378,924	$ 430,538	$ 522,551
Annexations		$ -	$ 51,541	$ -	$ -	$ -
Foregone Balance Used			$ -	$ -	$ -	$ -
Foregone Balance	$ 539,875	$ 1,000,788	$ 1,505,172	$ 2,037,280	$ 2,596,718	$ 3,185,855

Figure 7 – "Growth Formula Only" option – illustrates:

- Tax collection revenues increase from $15,363,754 in FY 2010 to $17,563,743, in FY 2015, based on projections and assumptions described above.
- Tax Rate increases from $6.59/$1,000 of taxable value for the 2010 fiscal year to $6.69/$1,000 of taxable value for the 2015 fiscal year, based on projections and assumptions describe above. This represents a total increase of approximately 1.5% in the tax rate during the five year planning period.
- The City's foregone balance of $539,875 continues to grow in each fiscal year for the five year model. In FY 2015, the foregone balance is $3,185,855, based on projections and assumptions described above. Over the five year planning period, the cumulative impact is estimated to be $10,325,812.

The City of Twin Falls has made a consistent effort in recent years to keep its tax rate consistent. When compared to the communities similar in size and scope and other communities in the Magic Valley area, the City's tax rate is lower. When examining and exploring options, it is important to recognize the symbiotic relationship that exists between the City's ability to collect tax revenues and the impact collections have on the City's tax rate. Figure 8 illustrates the differences in tax collections for the options presented above. Figure 9 illustrates the impact of the options on the City's tax rate.

Figure 8 – Comparison of Tax Options - Revenues

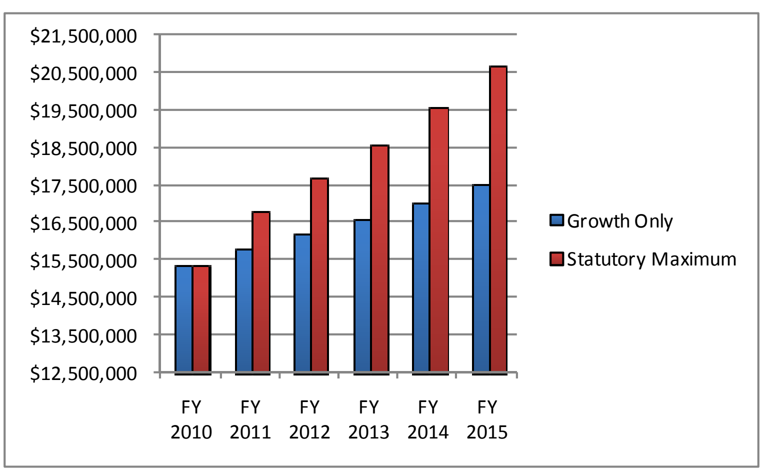
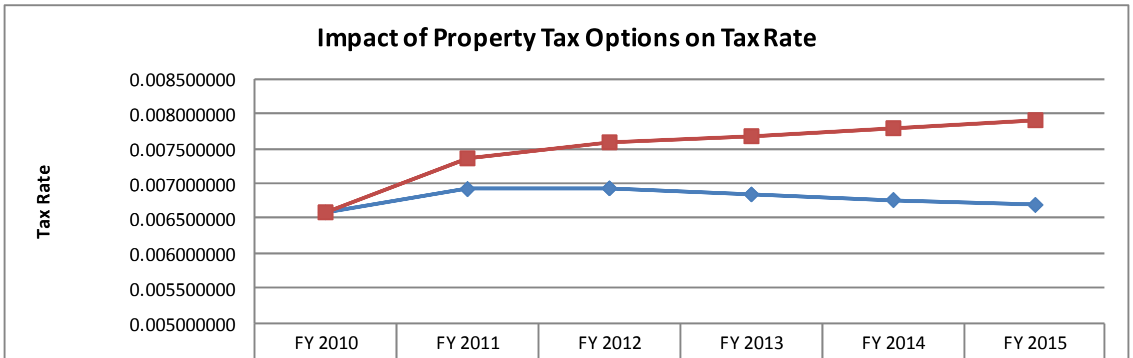


Figure 9 – Impact of Property Tax Options on Tax Rate



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Growth Only	0.006588277	0.006924696	0.006935370	0.006848247	0.006767973	0.006696855
Statutory Maximum	0.006588277	0.007362979	0.007578489	0.007688178	0.007799269	0.007911585

It is important to note: there are more than the two options that appear in this report. The five year model illustrates and analyzes the impacts of three other of the many, many possibilities.

Expenditure Projections

Overview of Personnel, Salaries & Benefits

One of the more important assets the City of Twin Falls has is its loyal, competent, innovative workforce. As a result, a major priority of the 2010-2015 Financial Plan is to protect and enhance the City's investment in personnel. The proposed plan for the upcoming fiscal years continues the philosophy of adding employees sparingly, only 3.375 over the next five years.

Projections for the next five years…

Using history as its guide, the five-year forecasting model provides for:

- an average, annual performance increase of 2% to its employees
- an average, annual increase of 10% in health insurance costs – the nine-year average annual increase is 8.94%
- maintains current benefit levels and the mandatory PERS-I increases

The City has assigned a committee to review the City's compensation and benefits models. This plan will be modified to reflect this committee's recommendations once developed.

Overview of Maintenance and Operational Costs

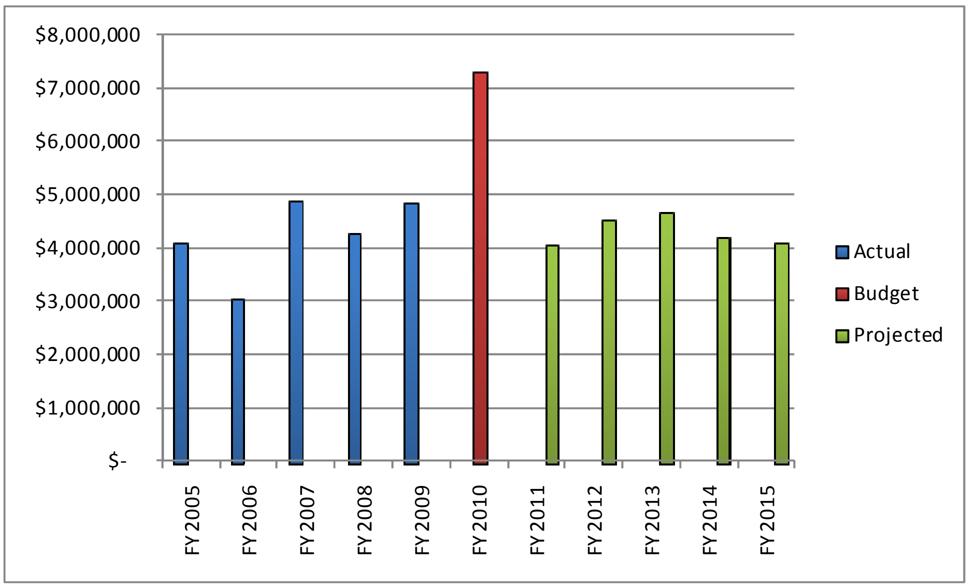
Based on historical allocations, the five-year forecasting model provides for an average annual increase of 3% in the government-type funds. In all funds, the maintenance and operational line-items have experienced both increases and decreases since the 2005 fiscal year, ranging from an increase of 13.98% in the 2009 fiscal year and a reduction of 6.62% for the following year. The City's 2011 fiscal year preliminary budget calls for $6,266,735 in overall maintenance and operational expenditures in the government funds, which represents a 4.7% increase over the 2010 appropriation and is over the financial model's target of 3%.

Overview of Capital Expenses

Historically, the City of Twin Falls has approached the acquisition of capital assets in a strategic manner. Over the course of the last five years, the City has spent an average of $4,259,485. During this time, the highest was $4,909,222, which occurred in fiscal year 2007. The low was $3,052,703 and occurred in fiscal year 2006.

For fiscal year 2010, the City budgeted to spend $7,345,406 in total capital expenses for the 2010 fiscal year, of which $3.5 million of cash reserves from the City's Street Fund for the Falls Avenue West reconstruction project. Figure 10 illustrates total capital acquisitions and improvements during the five year planning horizon, which includes road maintenance.

Figure 10 – Comparing Capital Acquisitions from Fiscal Year 2005 to Fiscal Year 2015, Respectively.



The City projects that it will expend less in each of the next five fiscal years on capital than what was budgeted for the 2010 fiscal year.

Looking forward, the long term financial model anticipates the City spending an average of $4,341,826 in each of the next five fiscal years. The capital components that have been programmed into the model will assist the City maintaining current levels of service and existing facilities. Additionally it places a larger emphasis on road maintenance and roadway construction/reconstruction. In fiscal year 2011, the City has budgeted to expend $4,095,928 on capital. The 2011 recommended expenditures are the lowest of any of the years contained in the model. The largest amount the City anticipates it will spend on capital is $4,708,500, which occurs in fiscal year 2013.

The long term plan does not contemplate the City using reserves or debt instruments to cover the recommended capital expenses to be made in any of the government funds. For a specific list of proposed capital expenditures, please see the financial forecasting model.

Enterprise Funds

The main goal or purpose of the business-like Enterprise Funds is to provide services to customers for a fee that covers the current cost of operations, as well as the purchase and maintenance of necessary capital assets. The residual earnings captured by a particular Enterprise Fund may not be co-mingled with any other fund or spent for any other purpose other than the one for which it has been collected or reserved. As it is the case with all proprietary funds, when expenditures rise (because of increased production or treatment to satisfy demand) revenues also increase; this is not the case with governmental funds.

The water fund includes water supply, water distribution, pressurized irrigation, and utility billing. The sewer fund supports collections systems and operations at the City's treatment facility.

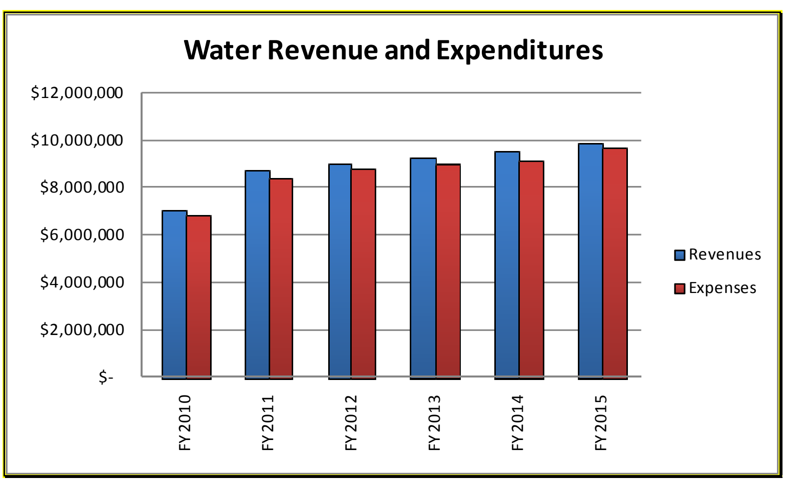
Water Fund

Summary of Revenue and Expenditures

The most significant factor influencing the water fund, in terms of both revenues and expenditures, is the City's water project designed to address arsenic standards that were promulgated by the Environmental Protection Agency in 2001. This fund's capital improvements program, corresponding rate adjustments and debt service costs have been shaped and impacted by the imposition of this unfunded federal mandate. Starting in 2010 and lasting for the next 15 years, these improvements are costly and will have a significant impact on both revenue and expenditure.

Over the next five fiscal years, the City anticipates that it will have to adjust rates if it is to raise revenues sufficient to support the departments operating under this fund and, at the same time, maintain healthy reserve balance. Figure 11 illustrates both anticipated revenue and projected expenditures. The revenues illustrated in the graph below reflect a rate adjustment of 2.5% annually.

Figure 11 – Water Revenue and Expenditures



Revenue Projections

In each of the past two previous fiscal years, the amount the City had budgeted to collect in water revenues has not been realized. Based on current revenues estimates, this trend will continue in the 2010 fiscal year.   Excluding revenue the City projects to receive from the flat fee – estimated to be

$490,000 – and based on revenues received through May 2010, the City projects it will receive $6,599,908, or 9.5%, less in total revenues. However, 2010 fiscal year collections are up almost 6% compared to the prior fiscal year. For the 2011 fiscal year, the City budgeted to receive revenues totaling $8,814,644, of which $2,887,900 will be used to service water debts.

In fiscal years 2012 through 2015, revenues are projected to increase by 3%. The cause of increases in total fund revenues is two-fold: a rate adjustment (2.5%) and an increase in the number of new customers (1.4%).

Projections for the next five years…

- The City anticipates water rates will need to be increased annually by an average of 2.5%, assuming water consumption rates remains consistent and the projected growth rate of 1.4% is realized.
- Operating costs are projected to continue to increase at a rate of 5% annually.

Rate Impact Analysis

As with expenditures, rate projections are greatly influenced by the City's need to comply with Federal arsenic standards. In June 2010, the City of Twin Falls implemented a "flat fee" of $11.15, which will service the debt associated with the "capital" portion of the City's arsenic compliance project. This fee will cover an annual debt service of $1,566,900 and collect an additional $391,725 which will be used to meet bonds tests and bond covenants. Assessing the arsenic compliance debt in this manner also allows the City to split that rate out from the remainder of the user fees in the water bills.

The flat rate for arsenic compliance is only part of the projected increases to water rates. The proposed revenue bond and other capital and operational increases are covered by regular rate increases. The City will need to consider making annual rate adjustments to cover increased costs anticipated in operational expenses. The annual rate adjustment is projected to be 2.5% annually. Because of the fluidity of the water fund, these rate increases are significantly smaller than they would have been if the arsenic compliance projects had been included in the regular rate structure rather than as a flat rate per water account. The impact of the proposed rate adjustments is illustrated in the Figures 12 and 13.

Figure 12 – Water Rate Projections for Residential and Commercial Customers

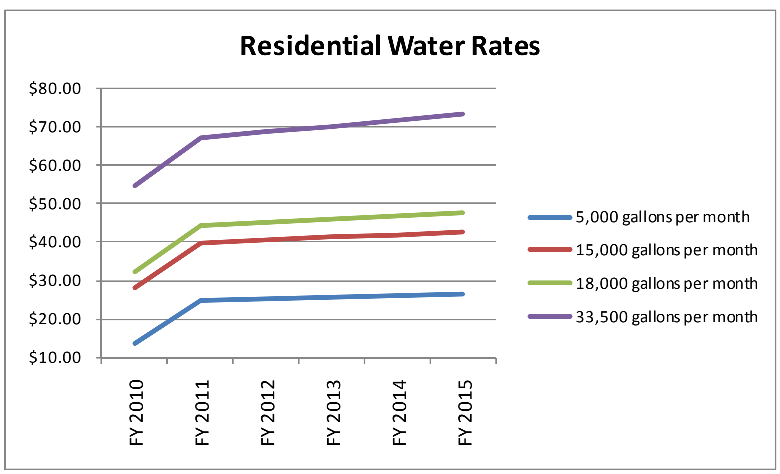


Figure 13 – Projected Residential and Commercial Water Rates

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
5,000 gallons per month	$ 13.48	$ 24.96	$ 25.31	$ 25.66	$ 26.03	$ 26.40
15,000 gallons per month	$ 27.98	$ 39.83	$ 40.54	$ 41.28	$ 42.03	$ 42.80
18,000 gallons per month	$ 32.33	$ 44.28	$ 45.11	$ 45.96	$ 46.83	$ 47.72
33,500 gallons per month	$ 54.81	$ 67.32	$ 68.73	$ 70.16	$ 71.64	$ 73.15

Expenditure Projections

Operating under the same philosophies as the government fund departments, the five-year forecasting model projects the water fund will not need to add employees. Similar to the government fund, the model provides for:

- an average, annual performance increase of average of 2% to its employees
- an average, annual increase of 10% in health insurance costs – the nine-year average annual increase is 8.94%
- maintains current benefit levels and the mandatory PERS-I increases

The five year plan anticipates that expenditures in the water fund will increase annually. In Fiscal Year 2011, total expenditures are projected to increase by $1,183,606 or 16.2%. For 2012, total expenditures are projected to increase by $407,445, or by 4.8%. The root of the increase is the addition of a new debt service payment in the amount of $1,566,900. The model also projects expenditures in operational costs will increase by an average of 2.74% in each of the next three fiscal years.

The total expenditures in the water fund for fiscal year 2010 are projected to be $6,901,439. Proposed total expenditures for 2011 are $8,473,422, an increase of $1,571,983, or 22.78%, when compared to the 2010 projections. The total expenditures for fiscal years 2012 through 2015 are illustrated below.

- FY 2012 $8,473,422 an increase of 22.78% compared to FY 2011
- FY 2013 $8,880,867 an increase of 4.81% compared to FY 2012
- FY 2014 $9,084,534 an increase 2.29% compared to FY 2013
- FY 2013 $9,186,619 an increase of 1.12% compared to FY 2014

Figures 14 and 15, below, illustrate the increases in expenditures by category during the five year planning horizon. Please note the significant increase in annual debt services (illustrated in purple) that will be made by the City during the five year planning horizon and beyond.

Figure 14 – Water Fund Expenditures by Category

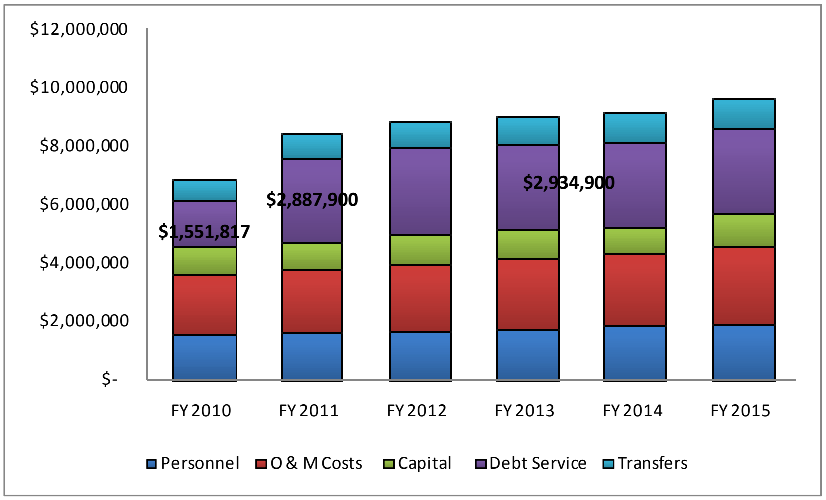


Figure 15 – Water Fund Expenditures by Category

	Personnel	O & M Costs	Capital	Debt Service	Transfers
FY 2010	$ 1,585,213	$ 2,043,745	$ 991,264	$ 1,551,817	$ 729,400
FY 2011	$ 1,642,257	$ 2,170,778	$ 917,250	$ 2,887,900	$ 855,237
FY 2012	$ 1,706,966	$ 2,284,024	$ 1,057,000	$ 2,934,900	$ 897,999
FY 2013	$ 1,776,531	$ 2,418,226	$ 1,012,000	$ 2,934,900	$ 942,899
FY 2014	$ 1,850,160	$ 2,562,037	$ 849,000	$ 2,934,900	$ 990,044
FY 2015	$ 1,914,895	$ 2,716,889	$ 1,108,000	$ 2,934,900	$ 1,039,546

Overview of Maintenance and Operational Costs

Based on historical allocations, the five-year forecasting model provides for an average annual increase of 5% in the enterprise funds. Key drivers are water pipe and supplies, electrical and power costs, and professional service contracts to support long-term planning efforts and engineering projects.

Overview of Capital Projects

Recently, City water projects have been driven by the need to comply with federal arsenic standards. After reviewing several alternatives, the City settled on a two-fold approach: acquire water that meets the federal clean drinking water standards, including arsenic, and that are considered to be “senior” in nature; and, blend the new water supply with the water pumped from the City’s South and Hankins well fields.

In the 2009 fiscal year, the City purchased water rights at Pristine Springs and Sunny Brook Springs at a cost $10.255 million. The construction on the capital portion water project began in fiscal year 2010 and is expected to end in January 2011. The capital project portion includes a water blending station, booster pump stations, a 30-inch transmission line, a 24-inch dedicated main to the Hankins well field, and engineering. The revised estimated cost of this project is $18.5 million. To cover both the water rights acquisition and capital improvements, the City sold revenues bonds, totaling $28.85 million.

In addition to the arsenic compliance projects, the City has programmed several cash and revenue funded projects $850,000 to $1.2 million, annually. These items include vehicles, equipment, line replacements, and other similar projects. For a specific list of the programmed capital improvement for the water fund, please consult the five-year financial model.

Debt Analysis

According to the Idaho Bond Bank and the State of Idaho's Department of Environmental Quality loan agreements, the City of Twin Falls is required to collect revenues at a "1 to 1.25" ratio. This means that annually total revenues must be at least 25% larger than the total amount the City will spend on annual debt service payments.

Total debt in the water fund is $35,250,000. In 2011, the City will make a total debt service payments totaling $2,887,900: $467,914 for the 2002 State Revolving Fund note, $898,788 for the 2009 Idaho Bond Bank note (water right acquisition), and $1,521,198 for the 2010 Idaho Bond Bank note (capital portion of water project). In Fiscal Year 2010, debt service equaled 22.5% of the total water fund expenditures. For the 2011 fiscal year, debt service payments total more than 34% of all expenditures in the water fund. For each of the next fifteen years, the City will make debt service payments of $2,934,878. This amount equates to approximately 32% of the annual appropriation for each year within this planning window. Over the five-year planning period, the City will make principle and interest payments totaling $14,627,500.

Wastewater Fund

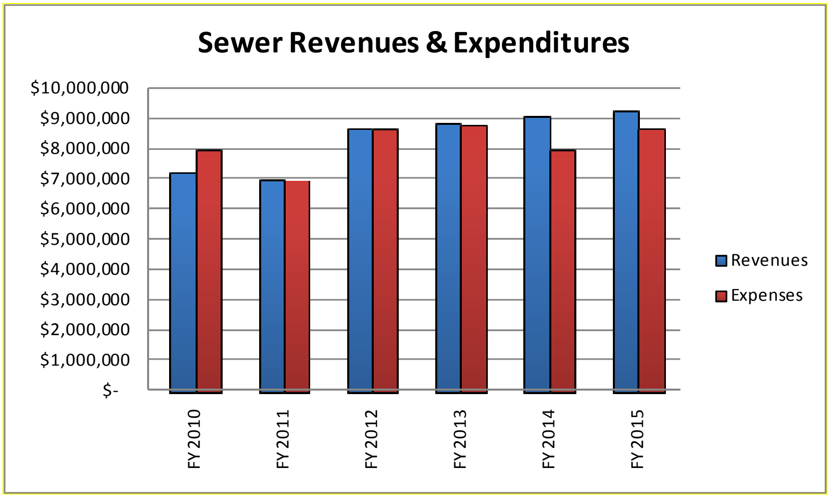
Summary of Revenue and Expenditures

Like the water fund, the sewer fund has and will be impacted by federal and state mandates. The City recently received its new National Pollution Discharge Elimination System (NPDES) from the EPA. The permit will require the City to make major improvements to its waste water treatment facility. These improvements will allow the City to become in compliance with new federal regulations. The City intends to seek court approval to declare these projects "ordinary and necessary." The five-year forecasting model anticipates that we will petition the district court and begin construction of necessary improvements during the 2010 fiscal year.

In addition to the recommended improvements at the waste water facility, the five year plan provided funding for improvements to the City's sewer collection system. The plan assigns funding for the strategic replacement and improvement of the system by replacing undersized or failing collection lines located throughout the City, replacing and maintaining manholes along Grandview, upgrading the Rock Creek Lift Station and completing the Northeast Sewer line.

Revenues in the City's sewer fund will continue to remain volatile. Figure 16 is intended to illustrate what the City is anticipating in revenues and projecting in expenditures.

Figure 16 –Sewer Fund Revenues and Expenditures



Revenue Projections

The sewer fund is heavily reliant on industrial revenues. As a result, this fund has been significantly impacted by the economic downturn, which is reflected in the City's revenue estimates for the forecast period.

For the 2010 fiscal year, the City projects it will collect revenues totaling $7,265,416, which is $753,472, or 9.46%, less than that budgeted amount of $8,018,888. For the upcoming fiscal year, the City anticipates collections to be $7,044,204, or 3% less than the 2010 revenue projection. The graph above anticipates sewer rates will increases by:

- 10% in fiscal year 2011 to cover diminished revenues to meet anticipated expenditures
- 23% in fiscal year 2012 to replacing aging wastewater infrastructure to include the Rock Creek Lift Station, the ultraviolet disinfection system and the dewatering system, which are both located at the City's wastewater treatment facility
- 1.5% for fiscal years 2013, 2014 and 2015 to cover expenditures associated with anticipated increases in operations, maintenance and routine capital projects.

Like the water fund, the long-term plan projects that sewer fund accounts will continue to grow at a rate of at least 1.4%, annually. If the projected growth rate and consumption rate are not realized, programmed capital improvement projects may have to be reprioritized; rate adjustments may have to increase more than what is currently projected, or some combination of these two options.

The next five years…

- The City anticipates sewer rates will need to be increased annually.
- Revenues will continue to be volatile – industrial revenues continue to be off mid-2000 year collection
- Operating costs are projected to continue to increase at a rate of 5% annually.

Rate Impact Analysis

Rates in the sewer fund are expected to increase each year of the five-year plan. The largest rate increase – currently estimated to be 23% – is scheduled to occur in fiscal year 2012. This rate adjustment will cover the costs of the improvements at the City's waste water treatment facility and its collection system.

Figure 17 and 18 illustrates the effects of anticipated rate increases to the City's customers. In Figure 17, the blue line illustrates the impact to those customers who send 5,000 gallons per month to the City's waste water treatment facility. The red line illustrates the impact of the rate adjustment for those customers who send 8,000 gallons per month, the maximum – or cap – the City bills any of its residential customers, to the City's waste water treatment plant. The impact on the City's commercial customers is proportional to that illustrated for the City's residential customers.

Figure 17 – Sewer Rate Projections for Residential Customers

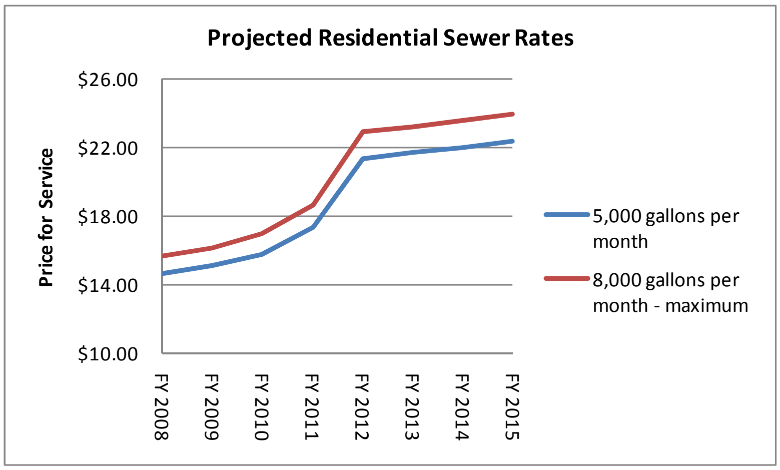


Table 18 – Sewer Rate Projections for Residential Customers

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
5,000 gallons per month	$ 14.63	$ 15.06	$ 15.78	$ 17.36	$ 21.35	$ 21.67	$ 22.00	$ 22.33
8,000 gallons per month - maximum	$ 15.65	$ 16.11	$ 16.92	$ 18.61	$ 22.89	$ 23.24	$ 23.58	$ 23.94

Expenditure Projections

Excluding fiscal year 2011, the five-year plan projects the costs associated with personnel, operation and maintenance, debt service and transfers will increase annually with fluctuations in total expenditures is caused by the amount allocated for capital improvements and acquisitions. In Fiscal Year 2011, total expenditures, excluding capital and including debt service, are projected to increase by 8.2%. For 2012, total expenditures are projected to increase by $1,502,797, or by 27.8%. The root of the increase is the addition of a new debt service payment in the amount of $1,655,564. For fiscal years 2013, 2104 and 2015, the model projects costs will increase annually by 3%.

Similar to the water funds, the five-year forecasting model projects the sewer fund will not need to add employees. As stated previously, the five year forecasting model provides for:

- an average, annual performance increase average of 2% to its employees
- an average, annual increase of 10% in health insurance costs – the nine-year average annual increase is 8.94%
- maintains current benefit levels and the mandatory PERS-I increases

When capital improvement costs are included in the expenditure projections, the overall expenditures in the sewer fund experience significant fluctuations. The total expenditures in fiscal year 2010 are projected to be $8,018,888, while those proposed for 2011 are $7,011,031, a decrease of $1,007,857 or 12.6%.

As illustrated below, this "up and down" trend continues throughout the planning window:

- FY 2012 $8,736,078 an increase of 24.65% compared to FY 2011
- FY 2013 $8,843,625 an increase of 1.2% compared to FY 2012
- FY 2014 $7,996,677 a decrease 9.6% compared to FY 2013
- FY 2015 $8,711, 914 an increase of 8.9% compared to FY 2014

Figures 19 and 20 illustrate the increases in expenditures by category during the five year planning horizon. Note the fluctuations of the capital appropriations, which are illustrated in green.

Figure 19 – Sewer Fund Expenditures by Category

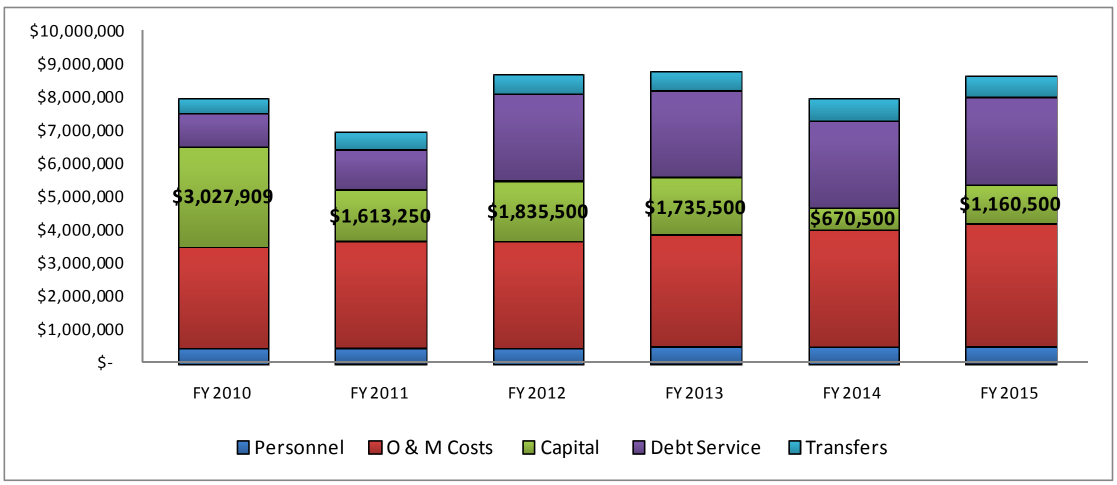


Figure 20 – Sewer Fund Expenses by Category

	Personnel	O & M Costs	Capital	Debt Service	Transfers	Total Expenditures
FY 2010	$ 472,910	$ 3,081,659	$ 3,027,909	$ 976,643	$ 459,767	$ 8,018,888
FY 2011	$ 481,314	$ 3,196,339	$ 1,613,250	$ 1,184,171	$ 535,957	$ 7,011,031
FY 2012	$ 499,432	$ 3,198,656	$ 1,835,500	$ 2,639,735	$ 562,755	$ 8,736,077
FY 2013	$ 518,909	$ 3,358,589	$ 1,735,500	$ 2,639,735	$ 590,893	$ 8,843,625
FY 2014	$ 539,487	$ 3,526,519	$ 670,500	$ 2,639,735	$ 620,437	$ 7,996,678
FY 2015	$ 557,376	$ 3,702,844	$ 1,160,500	$ 2,639,735	$ 651,459	$ 8,711,914

Overview of Maintenance and Operational Costs

Like the water fund, the five-year forecasting model provides for an average annual increase of 5% in the sewer funds. Key drivers are electrical and power costs at the City's waste water treatment facility, professional service contracts to support long-term planning efforts, and engineering projects.

Debt Analysis

Total debt in the sewer fund is $12,269,276. In 2011, the City will make a total debt service payments totaling $984,171: $621,448 for the 2002 State Revolving Fund note and $362,723 for the 1999 Certificates of Participation (COPs), which was used to refund the 1995 Sewer Bond that allowed for improvements at the City's waste water treatment facility. Debt service payments in fiscal years 2010 and 2011 were similar; they equaled less than 15% of the fund's total expenditures.
In the 2012 fiscal year, the five year plan anticipates the City will issue additional debt to cover the improvement needs as a result of the new, more stringent NPDES permit and collection system, specifically the Rock Creek Lift Station. In this year, debt service payments total more than 30% of all expenditures in the sewer fund. From the 2012 fiscal year to the 2015 fiscal year, the five year plan projects the City will make an annual debt service payment in the amount of $2,639,735.

Next Steps…

The model helps the City of Twin Falls to position itself to endure the current economic downturn and take advantage of the next economic "boom" when it occurs. Today, Twin Falls continues to foster a strong industrial/commercial base, healthy reserve funds, local government innovation and excellent community amenities. The five-year financial model is designed to ensure that Twin Falls's current levels of high quality municipal services continue. This plan will also assist the City to engage in meaningful, thoughtful financial planning, and as a financial management tool.

Preparing updates to the City's financial forecasting model and corresponding annual budgets will require close scrutiny of department tasks. The goals and plans discussed in the financial model represent a balance of the needs and expectations with available resources. Costs are minimized and the efforts to economize continue. Service levels need to be evaluated. In some cases, maintaining – let alone increasing – services and service levels will require additional sources of revenue. Few new activities, programs or expansions are included in the model.

By maintaining an equitable, competitive tax rate, funds will cover essential staffing, operating and capital acquisitions.

The stability of City finances and services affect the quality of life in our community. The financial model can serve as the guidepost – assisting in the decision-making process and illustrating the opportunities and consequences of those decisions beyond one, single particular budget year – in the areas of:

- Level of service discussion and community expectations
- Exploring alternative service delivery techniques and methods
- Ensuring the City's ability to attract and retain a high quality workforce
- Incorporate concepts of performance measurement into management practices

It is important for the City to not only plan for and provide adequate levels of quality service, but to also provide a means of measuring and reporting the results of our efforts. As more information is provided about how we are performing, the City Council, the public, the staff and others can determine the value of programs, where improvements could be made, or where resources might be better applied.