



	Approved	Denied
Action taken	12/13/04	
Other:		
Verified by:	<i>Ted Leonard</i>	

WASILLA CITY COUNCIL ACTION MEMORANDUM

AM No. 04-76

TITLE: AWARD OF CONTRACT TO NORTHERN ECONOMICS INC. IN THE AMOUNT OF \$39,914 FOR DEVELOPMENT OF A FISCAL FORECAST MODEL WITH A FIVE-YEAR HORIZON.

Agenda of: December 13, 2004

Date: December 7, 2004

Originator: Ted Leonard, Director of Finance and Administrative Services

Route to:	Department	Signature/Date
	Police	
	Recreational and Cultural Services Library, Museum	
	Public Works Planning	
X	Finance *signature required	<i>Ted Leonard</i> 12/6/04
X	Clerk	<i>Ted Leonard</i>

REVIEWED BY MAYOR DIANNE M. KELLER: _____

FISCAL IMPACT: yes \$39,914 or no Funds Available yes no

Account name/number: 110-4181-499-45-04

Attachments: Proposal From Northern Economics to develop a fiscal forecast model with a five-year horizon.

SUMMARY STATEMENT:

In the Fiscal Year 05 Budget, the Council set a budget initiative and goal for the Finance Department to develop a long-term Financial Plan. The Council set this initiative based on the administration's recommendation that the City of Wasilla needs a financial planning process that assesses the long-term financial implication of current and proposed policies, and assumptions, and that develops appropriate strategies to achieve its goals. The administration believes that a financial plan will help the City Council ensure that regardless of changing economic times, city government will have the financial stability and economic resources, it needs to provide essential services and maintain the City of Wasilla's high quality of life in future years.

In order to complete a five-year financial plan, the City of Wasilla needs to develop a fiscal forecasting model that will provide accurate and timely information. The five-year forecast from this model will provide the contextual framework within which the City Council and Administration will be able to develop its annual and long-term goals and objectives and assist the administration and Council in preparing the annual operating budget. The five-year forecast will also help our elected officials and executive management identify the direction in which the city is going and where the city will be in five years. The forecasting process will be continuous from year to year. Fine-tuning adjustments will be made each year as part of the normal budget process. Forecasting is one of the most powerful tools that is available to help the City Council make informed decisions, based on available information, to ensure the City's future vitality and economic stability.

Another advantage of completing the financial plan and developing a fiscal forecasting model, it is that it gives the City of Wasilla the ability to implement a multi-year budgeting model if the Council desires to go in that direction. In researching the advantages of a multi-year budgeting model, administration has projected that the City could save an estimated 600 to 800 hours of staff time and many hours of council time every two years. It would also allow the city to concentrate more time on planning and performance measurement monitoring of city programs if the city staff and council did not have to go through a yearly budget cycle. The City staff will be researching the advantages and disadvantages of converting over to multi-year budget cycle and have recommendations to the council by the end of this fiscal year.

Enclosed is a proposal from Northern Economics to develop a fiscal forecast model with a five-year horizon. The forecasting model that Northern Economics is proposing will be made up of three primary components: the revenue model, the cost module and the fund summary model. Whenever new data is entered into the revenue and cost modules, the modeling program will generate updated fiscal projections in the fund summary model. This model will include projections for the general fund, major special revenue funds such as the Library and Youth Court Fund and all of the Enterprise Funds.

The Finance Department believes that there are advantages of using Northern Economics to develop the model. Northern Economics, Inc. has had a lot of experience working on projects for the City and on other projects in the Matanuska-Susitna Borough. Northern Economics developed a 10 year sales tax revenue forecast for the City of Wasilla, worked on projecting population for the City of Wasilla and identifying the Greater Wasilla area, developed a community profile for the City of Wasilla and has provided economic information for the city's airport master plan. Because of the experience that Northern Economics has in working with the city on economic forecasts, the Finance Department believes that Northern Economics Inc. will be able develop a accurate forecasting model and have it completed in time to use for the Fiscal Year 2006.

Based on the experience that Northern Economics has with the City of Wasilla, the type of model that they will develop for us, the proposed methodology that Northern

Economics will use, their ability to provide a forecast model in a timely fashion, and the fee proposed for developing the model, the Finance Department recommends that contract be awarded to develop a fiscal forecast model under WMC 5.08.120 (B) (6). The Finance department believes that Northern Economics will provide us a quality-forecasting model at a reasonable price.

STAFF RECOMMENDED ACTION: Council award contract to Northern Economics Inc. in the amount of \$39,914 to develop a fiscal forecast model with a five-year horizon.



November 3, 2004

Ted Leonard, CMA
Finance Director
City of Wasilla
Wasilla, AK 99654

Dear Ted:

We enjoyed meeting with you on October 20 to discuss how Northern Economics can assist the City of Wasilla in developing a fiscal forecast model. One of the goals of developing a fiscal forecast model is to establish a baseline level of services (LOS) for the City.

This letter includes our proposal to develop a fiscal forecast model with a five-year horizon. In this letter, we have included a proposed scope of work, schedule, and budget.

We have reviewed the City of Oakland's five-year financial planning process and propose to use that as our base model.

Scope of Work

Task I. Data Collection

Our first task is to collect financial and fiscal information for the City of Wasilla. The fiscal information will include audited and unaudited financial statements for several years, preferably for at least the past five years. The City's capital and operations budgets and capital improvement programs for the same time horizon will be reviewed. The work programs for city departments will also be reviewed.

This information will be used to develop the model's base budget. We will work with the City to identify historical performance data, anticipated staffing and capital needs, and initial growth assumptions.

We will review City documents and published reports, supplementing these with interviews with the Mayor and staff. We will also coordinate with the City staff (especially Bruce Urban) to incorporate available information on the Sports Complex, as well as future Capital Improvement Program (CIP) projects. As part of this effort we will also attempt to identify the information that City staff would like to see as output from our work.

880 H STREET, SUITE 210
ANCHORAGE, ALASKA 99501
(907) 274-5600 FAX (907) 274-5601
e-mail: mail@norecon.com
Internet: www.northerneconomics.com

Task 2. Data Analysis

After our data collection efforts, we will evaluate the economic and demographic trends in the City and the surrounding areas, as well as trends in revenue and expenditures for each of the major departments or enterprise funds. Where necessary, or where sufficient information is not available, we will recommend categories of revenues and expenditures for subsequent analysis and modeling.

Task 3. Identify Forecast Model Assumptions

Future changes in economic and demographic parameters will depend on various assumptions—or scenarios—for future growth and development. The probability of certain economic scenarios actually occurring introduces a level of uncertainty in forecasting the future. Policymakers can have different opinions about the future of Wasilla and what will happen to these parameters. This task will identify the assumptions that will be incorporated into the model and that can be changed by the user.

Task 4. Describe Forecast Model Structure

Our efforts in this task will be to develop a diagram of the model structure based on our efforts in the first three tasks. Our initial suggestion is for an Excel-based spreadsheet model, since most financial analysts and accounting staff are familiar with the program.

We will identify information that will be used as input to the model, the approach that will be used to estimate changes for each major department or enterprise fund (e.g., historical data, service standard, per capita multiplier, etc.), base assumptions that will be employed in the model, and the outputs that will be provided.

We will meet with the Finance Department and other interested City staff to review and discuss this model and ensure that the City's expectations and our modeling efforts are aligned.

Task 5. Forecast Model Development

Following the Task 4 meeting with City staff, we will start developing the fiscal forecasting model. The spreadsheet model will feature an interface that allows users to change assumptions and see results. The model will provide a five-year forecast period.

The forecast model will be similar in structure to that used by the City of Oakland, California,, although we will strive to create as much flexibility as possible. We understand that one of the City's goals is including potential financial effects from projects and activities identified in forthcoming economic development planning efforts. A flexible model structure can more readily incorporate these potential changes, and other changes that are presently unforeseen but which we anticipate will occur in the future and need to be included.

Revenue and expenditure components will be driven by a base budget, anticipated staffing and capital needs, and growth assumptions. Growth assumptions for the City will be coordinated with the City Planning Department. Borough planning assumptions for areas outside of the City boundary will be evaluated and used where they are judged to be appropriate. Modifications to the Borough's assumptions will be discussed with City staff prior to implementing them in the model. This review will be important since the City's market or service area extends beyond its current boundaries.

The model will feature revenue and expenditure components. Revenue sources will include sales taxes, property taxes, interest earnings, revenue sharing, and some shared taxes, as well as any future taxes or user charges that may be identified in Task 1.

Expenditures will be based on the City's current and anticipated expenditure categories, and updated to reflect assumptions about future growth and infrastructure needs.

To the extent practicable, for each department or enterprise fund we will evaluate the variable costs associated with population growth in the service area, and those costs that are relatively fixed, or that are composed of large capital investments.

Task 6. Calibrate Forecast Model

Following model development, we will calibrate the model by comparing the model results for previous years with actual historical data, and making adjustments where necessary. One of the necessary calibration functions will be to identify the historic and current priorities of the City Council, and how the Council has reacted to budgetary limitations.

Task 7. Present Preliminary Forecast Model Results

We will present results to City staff on the preliminary model and provide directions on how to use it. The focus of this meeting will be to demonstrate the model's ability to estimate historical revenues and expenditures, and to predict future revenues and expenditures given varying sets of assumptions. We will seek staff input on the perceived reliability of the forecasts and how the output matches their perception of the "real world."

Task 8. Refine Forecast Model

Following the meeting with City staff, we will incorporate comments and fine-tune the draft model.

Task 9. Draft Report Preparation

We will prepare a draft report to present the five-year forecast, explain our methodology, and demonstrate how the model works. The report will serve the dual purpose of reporting the five-year forecast and also serving as a brief user's guide. We will submit an electronic file (Adobe portable document format) of the draft report as well as the Excel file of the model to the City for review and testing.

Task 10. Model Adjustments and Final Report Preparation

The City will have a review period of two weeks, during which the reviewers can prepare comments on the draft report, model, and forecast. After we receive comments and changes at the end of the review period, we will prepare a final forecast and report, and complete the forecast model.

Schedule

Assuming a start date by mid-November, we anticipate that we can achieve the following schedule:

- Late November - meet with City staff to review the model structure
- Early January - present the preliminary model results
- Mid-January – submit draft report and draft model
- Mid-February - deliver final report and model

Budget

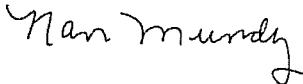
We propose to complete this work for a firm, fixed price of \$39,914. The budget for each task is shown in the table below. This budget includes travel to Wasilla for data collection, interviews, and meetings with City staff, as well as 10 hard bound copies of the final report and the same number of CDs with the fiscal forecast model.

Table 1. Estimated Budget

Task	Total Labor Hours	Total Cost (\$)
Project Management	10	1,230
Project Kickoff meeting	10	1,250
1. Data Collection	46	4,930
2. Data Analysis	36	3,690
3. Identify Forecast Model Assumptions	7	820
4. Describe Forecast Model Structure	24	2,640
5. Develop Forecast Model	82	8,150
6. Calibrate Forecast Model	34	3,470
7. Present Preliminary Model Results	24	2,640
8. Refine Forecast Model	23	2,295
9. Prepare Draft Report and Model	60	5,660
10. Prepare Final Report and Model	24	2,460
Total Labor	380	39,235
Total Travel Cost		518
Total Expenses		618
Expense Markup		62
Total Project Cost		39,914

Thank you for the opportunity to propose on this project.

Sincerely,



Nancy Mundy, Ph.D.
Policy Analyst

Northern Economics, Inc.

Northern Economics, Inc., founded in 1982, is Alaska's premier economic consulting firm, serving a diverse clientele in both private and public sectors. Throughout its history, Northern Economics has specialized in developing practical, cost-effective solutions in economic planning and assessment. Our work has taken our consultants to nearly every community in the state, including extensive work in the Matanuska-Susitna Borough, and several projects for the City of Wasilla. Our economists have developed a thorough understanding of the opportunities and issues unique to the Alaskan economy as a whole and to the MSB and Wasilla economies in particular. No one knows Alaskan economic issues better.

Some of Northern Economics most relevant project experience is provided below. Additional information on Northern Economics and our staff can be found at: www.northerneconomics.com.

Wasilla Sales Tax Evaluation. Northern Economics conducted an evaluation of the impact of an increase in the sales tax rate on sales tax revenues in Wasilla, Alaska. Work included identifying economic drivers for consumer spending, developing a model for sales tax revenue growth based on those drivers, estimating future population trends in the Matanuska-Susitna Borough, and evaluating the market response to a change in the sales tax rate.

Wasilla Community Profile. Northern Economics reviewed, collected, and analyzed qualitative and quantitative data for use in developing a community profile of Wasilla; collect and compile information about Wasilla history, amenities, population, and employment; highlight Wasilla community assets and attractions; for the City of Wasilla.

Wasilla Airport. Northern Economics provided economic and financial analysis for the Wasilla Airport Master Plan, developed by LCMF, Inc. Tasks include benchmarking with similar airports in Alaska, and identifying strategies to develop sustainable and profitable operations.

Knik Road-Goose Bay Airport. Northern Economics analyzed the fiscal and employment effects of the proposed Knik Road-Goose-Bay airport site in Wasilla.

Mid-Year Economic Forecast for Alaska. In this project for the Anchorage Economic Development Corporation, Northern Economics revised the mid-year economic forecast for Alaska, including a summary of sector trends for the first half of 2000, an outlook for the remainder of the year, and a preliminary assessment for 2001; staff presented findings in various formats, including documents and public presentation.

2004 Economic Outlook for the State of Alaska. Northern Economics prepared a forecast of the economic outlook for the State of Alaska for 2004. The forecast was presented by Northern Economics to the World Trade Center Alaska's first annual Statewide Economic Forecast Luncheon on January 27, 2004, and was subsequently released in report form by the World Trade Center Alaska.

2005 Economic Outlook for the State of Alaska. Northern Economics is in the process of preparing a forecast of the economic outlook for the State of Alaska for 2005. The forecast will be presented by Northern Economics to the World Trade Center Alaska's second annual Statewide Economic Forecast Luncheon in January 2005.

Matanuska-Susitna Borough Asset Management Plan. Northern Economics is completing an Asset Management Plan for the Mat-Su Borough, related to its sand and gravel (earth materials) resources. Project tasks include mapping potential gravel resources, field inspection, and

preliminary quantity assessment, done in conjunction with geologist Tom Crafford. In-process tasks include an economic and financial assessment of current and future markets for aggregates in four primary areas of the MSB (North Parks, South Parks, Point MacKenzie, and Wasilla). Debby Broneske is the MSB Project Manager and Cal Kerr is NEI's Project Manager and principal investigator.

Gravel Market Analysis for Mat-Su Erosion Study. Northern Economics prepared a market analysis of gravel materials in the Matanuska valley, including estimates of current and long-term potential of pricing of materials that might be obtained from the river bottom. The market analysis was created to be used to support a conceptual gravel mining business plan. Northern Economics further supported the analysis by contributing information on existing and potential land use controls that could mitigate further loss of private land to river erosion, as well as by providing verbal input about the potential socioeconomic impacts of erosion control.

Economic Impact of a New Hospital Facility in the Matanuska-Susitna Borough. Work for this project included collecting construction and operating cost data and using input-output analysis with IMPLAN™ software to determine the economic impacts of the facility on the Borough. The economic impacts of the new hospital facility were measured according to the additional jobs, labor income, and tax revenues that could potentially be generated by construction and operations of the facility.

Economic impact assessment of the proposed construction of a prison facility at the Matanuska-Susitna Borough (MSB). Northern Economics assessed the economic impacts of the proposed construction of a 1,200-bed new correctional facility in Sutton using input-output analysis. Operations and maintenance activities on the regional economy were evaluated based on the direct, indirect and induced employment, labor income, value-added, and tax revenues that can potentially result from the construction and O&M investments in the region.

Matanuska-Susitna Borough Rail Corridor Study. As part of the Matanuska-Susitna Rail Corridor Study team, Northern Economics has prepared a detailed draft study of current and potential commodity flows through Port MacKenzie. The team analyzed nine categories of goods: petroleum and chemical products, containerized cargo and vehicles, wood products, coal, sand and gravel, oil field modules, manufactured homes, selected minerals, and natural gas. Market conditions were assessed for commodities; low, base, and high case scenarios were developed and potential for import/export under each scenario was evaluated.

Knik A.R.M. Transportation Project. This was a feasibility study of commuter rail and ferry service between the MSB and Anchorage, including survey of potential users, assessment of tourism opportunities, and identification of improvements necessary to support public transit services.

Mat-Su Borough Transportation Plan Update. Northern Economics, together with Lounsbury and Associates, conducted an estimate of income, employment, and population for 127 transportation analysis zones in the MSB; developed economic models that estimate income, employment, and population, based on evidence gathered from borough property tax records; and forecast low-, base- and high-case growth rates and patterns for a 20-year period, based on anticipated transportation and other capital improvements.

Population distribution models for proposed Knik Arm Crossing. Northern Economics developed population distribution models for the Municipality of Anchorage and Matanuska-Susitna Borough for proposed Knik Arm Crossing.

Port MacKenzie Pre-Feasibility Study. Northern Economics prepared several components of a pre-feasibility study of the proposed dock facility at Point MacKenzie in the Matanuska Susitna Borough. Tasks included completion of a benefit-cost analysis, compilation of population and employment data, evaluation of commodities that might flow through the port, assessment of competition from other Southcentral ports, and preparation of financial analysis for the port.

Mat-Su Ferry Feasibility Study. Project work required revenue and traffic forecasting, projections on passenger, vehicle and cargo use for Port MacKenzie; an estimate of peak commuter and truck vehicles by year and time of day; recommended fares; and suggested levels of service frequency.