



Budgeting and Financial Planning in an Era of Uncertainty

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Richmond by the Numbers

- 107,000 Residents
- \$155 million annual operating budget
- 32 miles of shoreline
- 292.6 acres of parkland
- 17 miles of the SF bay trail
- 7 member City Council, including a directly elected Mayor – all elected at-large



Home of Rosie the Riveter



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Purpose of Long-Range Planning

Informs strategic policy decisions, such as establishment and maintenance of cash reserve levels and debt management

Introduces life-cycle and multi-year impacts into the budget decision-making process

Helps to provide operational stability in an organization



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Purpose of Long-Range Modeling

Allows sensitivity analysis of financial changes resulting from a changing economic environment

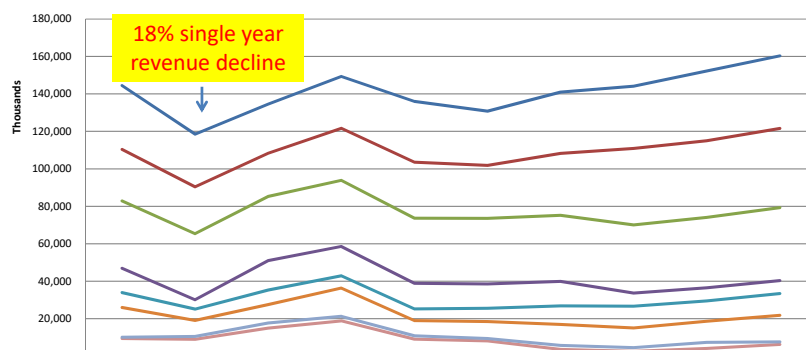
Helps evaluate long-term impacts of current decisions and policy proposals (e.g. tax and spending proposals)

Allows analysis of specific service level issues (e.g., infrastructure investment)



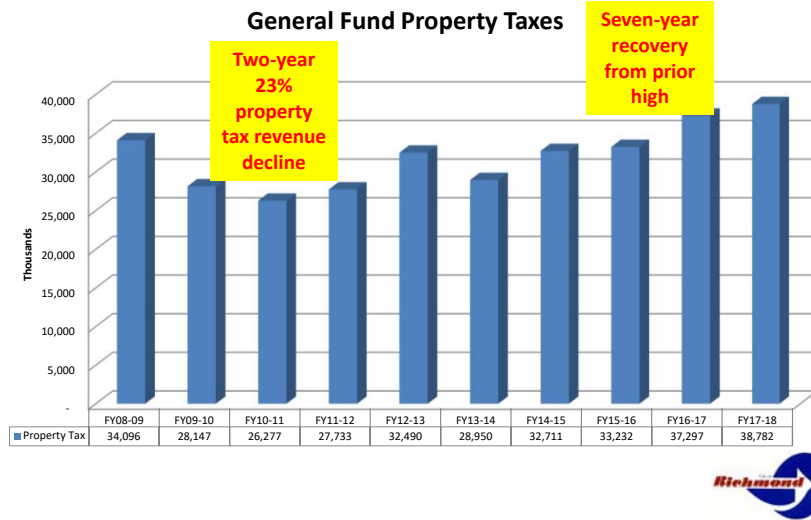
Revenue Uncertainty Impacting City of Richmond

General Fund 10-Year Revenue



	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Property Tax	34,096	28,147	26,277	27,733	32,490	28,950	32,711	33,232	37,297	38,782
Sales & Use Tax	27,567	25,000	23,026	27,788	29,866	28,305	33,131	40,877	40,907	42,299
Utility User Tax	35,953	35,299	34,341	35,318	34,776	35,034	35,300	36,365	37,658	38,917
Tax Settlement	13,000	5,000	15,667	15,667	13,667	13,000	13,000	7,000	7,000	7,000
Other Taxes	7,960	6,092	7,824	6,551	6,247	7,054	9,918	11,629	10,803	11,593
Other Revenue	15,822	8,494	9,769	15,086	8,097	9,037	11,184	10,564	11,306	14,151
Intergovernmental	743	1,545	2,793	2,445	1,833	1,355	2,218	1,906	3,260	1,392
Op. Transfer-in	9,354	8,952	14,895	18,791	9,028	8,053	3,520	2,561	4,069	6,212

Revenue Uncertainty Impacting City of Richmond



Efforts to Balance Past Budgets

- Eliminated 177 positions (approximately 20% of workforce) since FY 2008-09, largely by attrition;
- Implemented organizational restructuring in several departments;
- Worked with bargaining units to discuss budget constraints and negotiate concessions, especially as they relate to OPEB;
- Take aggressive steps to eliminate General Fund subsidies for revenue-based programs;
- Budget for “opportunity” cost savings during the fiscal year.

Effects of Past Budget Processes on Financial Planning

The unintended result of these efforts was to become focused on short-term operating results (which were largely dismal) and to abandon a strategic, multi-year financial approach to management.



Issues Pushing City to Do Budget Forecast

- Two downgrades by rating agencies (resulted in default on interest rate swaps)
- Had not been able to balance the budget for several years
- Concerns over liquidity
- Continued increases in PERS rates
- High public safety costs
- Political leadership



National Resource Network

- Federal grant to identify and provide technical assistance to tackle a critical City issue
- Public Financial Management provided technical assistance to develop five-year financial forecast which was identified as a key driver for the city's long-term success



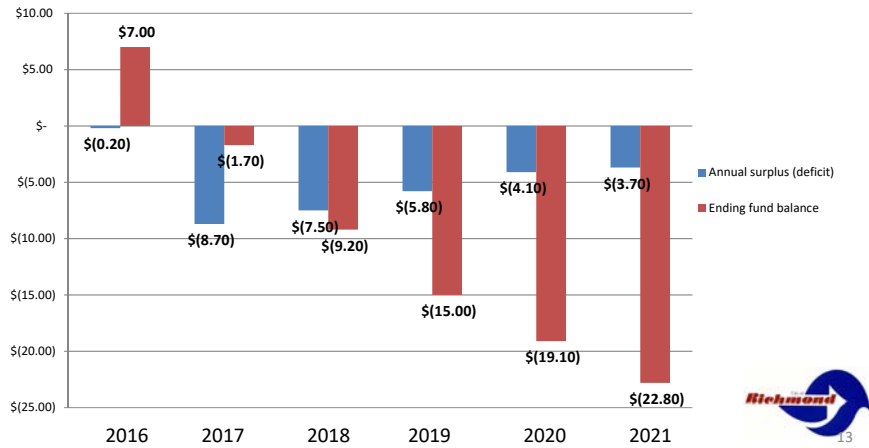
Objectives in Presenting Five-Year Model to the City Council

- Extend the financial planning horizon
- Focus on two key goals over the planning horizon:
 - Balance budgets going forward
 - Increase liquidity
- Stress the importance of true financial modelling

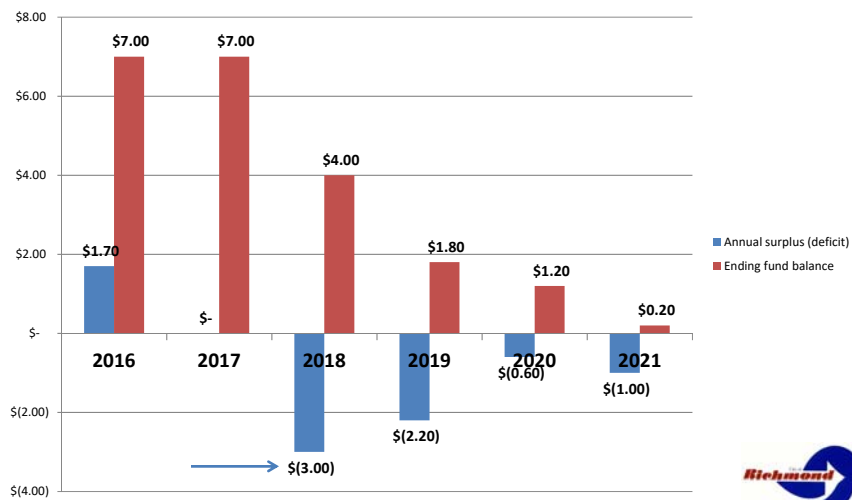


Baseline Forecast Results

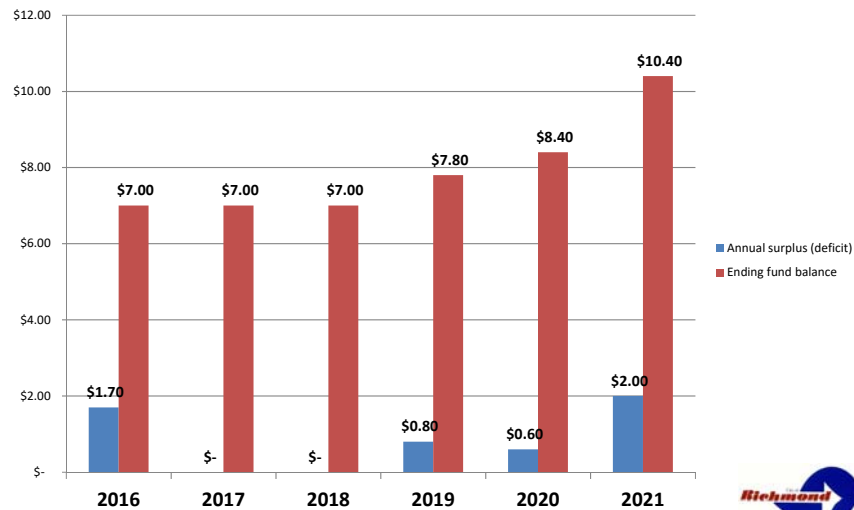
- Good news: Declining deficits
- Bad news: Continuing erosion of reserves



Forecast Results – After Adoption of FY 2016-17 Budget



Forecast Results – “Resetting” Baseline in FY 2017-18



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Use of Model in Labor Negotiations

- Labor groups were presented with the model projections
- Labor groups were encouraged to attend the formal presentation
- Labor groups were invited to engage with Finance staff to better understand the implications



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Use of Model in Labor Negotiations

GENERAL FUND MAJOR TAX REVENUE BASELINE PROJECTION

Property Tax	44,990,256	5.00%	47,239,769	5.00%	49,601,757	5.00%	52,081,845	5.00%	54,685,937
Sales & Use Tax	32,827,667	5.80%	34,732,531	3.83%	36,063,025	3.83%	37,444,012	3.83%	38,877,600
Utility Users Tax	44,657,538	1.46%	45,309,806	1.69%	46,077,345	1.70%	46,860,465	-4.70%	44,659,483
Total Taxes	122,475,461	3.92%	127,282,106	3.50%	131,742,128	3.53%	136,386,323	1.35%	138,223,020

CONTINGENT SALARY INCREASES

Revised tax projection		133,812,209	140,599,883	144,520,257
Prior fiscal year major tax revenue threshold	129,282,106	135,812,209	142,599,883	146,520,257
Salary increase (effective July 1 of fiscal year following threshold)		1%	1%	1%
Revised tax projection		134,847,249	142,706,663	147,668,876
Prior fiscal year major tax revenue threshold	130,282,106	137,847,249	145,706,663	150,668,876
Salary increase (effective July 1 of fiscal year following threshold)		2%	2%	2%
Revised tax projection		135,882,289	144,813,443	150,817,494
Prior fiscal year major tax revenue threshold	131,282,106	139,882,289	148,813,443	154,817,494
Salary increase (effective July 1 of fiscal year following threshold)		3%	3%	3%

* Maximum increase over life of contract = 5%



Lessons Learned for Future Budget Forecasting

- Take the time necessary to do the forecast right
 - A static model is not an adequate tool
- Keep the model up to date
- Make the multi-year forecast an integral part of the annual budget process





Thank you!

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