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
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
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

18% single year revenue decline
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

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
## Use of Model in Labor Negotiations

### GENERAL FUND MAJOR TAX REVENUE BASELINE PROJECTION

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Revised Tax Projection</th>
<th>Prior Fiscal Year Major Tax Revenue Threshold</th>
<th>Salary Increase Effective July 1 of Fiscal Year Following Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>44,689,256</td>
<td>46,801,757</td>
<td>52,081,845</td>
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<tr>
<td>Sales &amp; Use Tax</td>
<td>44,057,026</td>
<td>46,077,345</td>
<td>44,600,405</td>
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<tr>
<td>Total Taxes</td>
<td>88,746,282</td>
<td>92,879,102</td>
<td>106,682,250</td>
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</tbody>
</table>

### CONTINGENT SALARY INCREASES

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Revised Tax Projection</th>
<th>Prior Fiscal Year Major Tax Revenue Threshold</th>
<th>Salary Increase Effective July 1 of Fiscal Year Following Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>133,812,209</td>
<td>135,811,209</td>
<td>137,810,209</td>
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<tr>
<td>Sales &amp; Use Tax</td>
<td>134,847,249</td>
<td>136,846,249</td>
<td>138,845,249</td>
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<tr>
<td>Total Taxes</td>
<td>268,659,458</td>
<td>272,657,458</td>
<td>276,655,494</td>
</tr>
</tbody>
</table>

*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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