Thinking Like A Bear
How to Prepare for a Recession:
Use of Long-Term Financial Planning

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The Value Long-Term Financial Planning
Scott Mitnick - City Manager, City of El Segundo
Long-Term Financial Planning

- Why it is important
- Evolving at the local level
- What is a LTFP?
- Hypothetical Plan Outline

“Planning is bringing the future into the present so you can do something about it now.” Alan Lakein

- Recession = Enhanced Finance Staff Role
- Essential Management Tool
- “Good Government”
- Best Management Practice (“BMP”)
Notable Financial Events
Past 30 Years

- 1990-91 Recession (Cold War/Aerospace/S&L Crisis)
- Northridge Earthquake (1994)
- Pension Formula Enhancements (1999 – 2000)
- 2001 Recession (Dot.Com Bubble & 9/11 Bombings)
- 2008-09 Great Recession
  (Mortgage Loan Crisis, Housing Bubble, Dodd-Frank)

Notable Financial Events
Past 30 Years (cont.)

- California Redevelopment Agencies Dissolution (2012)
- Public Employees’ Pension Reform Act (PEPRA) (2013)
- Rise of Internet sales
- Rise of Homelessness (2013 to present)
- Major Fire and Flooding Disasters (2017 to present)
- “Imminent” 2020-2021 Recession
## LTFP Evolution

- Early 1990s – Continued “Loss of Local Control”
- Late 1990s – Rise of Long-Term Forecasting
- Early 2000s – Budget Awareness
- 2008-2012 – Service & Staff Reductions
- 2012-2016 – Adjusted to “New Normal”
- 2016-Present – Rise in use of LTFP

## Purpose of LTFP

- Management tool to prepare for organizational, financial, and service challenges
- Prepare for future financial crisis
- Forward-thinking BMP
What is a LTFP?

- Quantitative -- Technical Analysis
  - Revenues, Expenditures, Reserves, & Debt
  - Multi-year Forecasting (5, 10, 20, 30 years)
- Qualitative -- Policy Planning
  - Financial Policies
  - Guiding Principles
- Provide Regular Updates Every 2 to 5 Years

LTFP Outline

1. Introduction/Purpose
2. Executive Summary
   - Financial Challenges Facing the Organization
   - Long-Term Financial Projections
   - Revenue Projections
   - Expenditure Projections
3. Recommendations
   - Revenue Options
   - Expenditure Options
   - Policy Options
LTFP Outline (cont.)

4. Overview of Revenues, Expenditures, Reserves, Debt, etc.
5. Peer Group Comparisons
6. Review of Each Fund by Category
   • Governmental Funds (including General Fund)
   • Enterprise Funds
   • Fiduciary Funds (including Pensions & OPEB)
7. Review of Outstanding Debt and Debt Capacity
8. National, State, & Local Economic Forecasts

9. Review of Organization’s Financial Policies:
   • Mission Statement/Goals/Top Priorities
   • Debt Policies
   • Investment Policies
   • Reserve/Fund Balance Policies
   • Capital Improvement Program Policies
   • Audit Policies
   • Accounting Policies
   • Budget Policies
   • Others
10. LTFP Recommendation Details
11. Budget Module/Workbook
12. Fiscal Sustainability Fact Sheet
13. Appendix & Glossary
Bankruptcy Forecast: Long Road To Recovery

Mar 2014 Long-Range Financial Plan (mil.)

- Mission Critical Expenditures
- Fund Balance

Years 1-10 | Years 11-20 | Years 21-30
---|---|---

GFOA 16.7% of Total Exp

5% of Total Exp

FY18-19 Long-Range Financial Plan

Total General Fund Balance (mil.)

- Available Balance
- Funded Reserves
- 16.67% of Exp
- Reserve minimum
The Good Times Won’t Last

- Recessions have occurred on average:
  - every 5.7 years since 1933
  - every 6.6 years since 1961

- Last recession “officially” ended in 2009, adverse effects lingered for several years

- Stockton forecast assumes next recession starts in 2020 and every 5 years thereafter (2025, 2030, 2035)
If your cycle looks anything like Stockton’s, your long-range plan needs to go out around 10 years so you can see the bottom!
Wrap-Up

- Think long-term
- Revisit assumptions
- Be realistic
- More informed decision-making
- Greater transparency
- Tension between long-term liabilities/costs & service demands

Yolo County Long-Term Plan
Tom Haynes – Assistant Chief Financial Officer, Yolo County
Historical Context

- County hit hard by Great Recession
- Subject to program and fiscal impacts imposed by the State
- Declining reserves and fund balances
- Increasing backlog of deferred capital improvements
- Lack of long-term focus
A New Path Forward

- Recognized need to take control of own destiny and become financially sustainable
- Renewed focus on long-range planning
  - County Strategic Plan
  - General Plan
  - Capital Improvement Plan
  - IT Strategic Plan
  - Long-Term Financial Plan

Long-Term Financial Plan

- Approved by Board of Supervisors in 2010
- Developed vision and framework for achieving financial sustainability over 5-7 years
- Implemented in phases
  - First establish a strong financial infrastructure
  - Then identify imbalances & develop strategies
- Used GFOA's Financial Management model to assess financial infrastructure
Components of LTFO

- Adopt financial sustainability as a strategic goal
- Build policy framework through development and refinement of financial policies
- Strengthen financial management structure
- Identify long-term imbalances through analyses and forecasts
- Develop and implement strategies to achieve and maintain structural balance

Implementation of LTFO

- Board of Supervisors adopted financial sustainability as a County Strategic Goal
- Developed 3-Year Tactical Plan to implement Strategic Goals
- Redesigned financial function
  - Consolidated all financial functions
  - Created appointed CFO position (previously elected)
  - Established Financial Oversight Committee
  - Transformed to a strategic business partner
Implementation of LTFP (cont.)

- 14 key financial policies were developed or strengthened
- Developed 5-year Capital Improvement Plan and IT Strategic Plan
- Developed long-range financial forecasts
- Identified long-term imbalances
  - Pension, OPEB, Roads
- Implemented a modern financial/ERP system

Outcomes of LTFP

- Financial sustainability engrained in culture
- Increased reserve levels, improved cost recovery, strengthened internal controls
- Implemented OPEB pre-funding plan and supplemental pension funding plan
- Increased credit rating from BBB+ to A+
- Issued CIP bonds to address significant capital needs
Case Study: OPEB Liability

- OPEB premiums historically on a pay-as-you-go basis, all paid by General Fund
- Unfunded liability increased from $107M in 2008 to $153M in 2014
- Due to underfunding, ARC continued to grow
- In response, Board approved an OPEB pre-funding plan in 2014 with 15-year ramp up to ARC
## Case Study: OPEB Liability

<table>
<thead>
<tr>
<th>Fiscal Year Ending</th>
<th>County Payroll</th>
<th>Total Paygo</th>
<th>Full ARC</th>
<th>Phase-in to Full ARC</th>
<th>Additional Contribution</th>
<th>Deposit to OPEB Trust</th>
<th>Charge as % of Payroll</th>
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<tr>
<td>2016</td>
<td>$86,475</td>
<td>$5,724</td>
<td>$18,675</td>
<td>7%</td>
<td>$907 $5,676</td>
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<td>2017</td>
<td>89,285</td>
<td>6,365</td>
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<td>13%</td>
<td>1,801 $7,114</td>
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<td>2018</td>
<td>92,187</td>
<td>6,887</td>
<td>21,856</td>
<td>20%</td>
<td>2,994 $8,798</td>
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<td>2019</td>
<td>95,183</td>
<td>7,519</td>
<td>23,592</td>
<td>27%</td>
<td>4,340 $10,696</td>
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<td>2020</td>
<td>98,277</td>
<td>8,224</td>
<td>25,421</td>
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<td>5,675 $12,609</td>
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<td>2021</td>
<td>101,471</td>
<td>8,721</td>
<td>27,355</td>
<td>40%</td>
<td>7,454 $14,890</td>
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<td>2022</td>
<td>104,769</td>
<td>9,363</td>
<td>29,393</td>
<td>47%</td>
<td>9,414 $17,390</td>
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<td>2023</td>
<td>108,174</td>
<td>10,070</td>
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<td>11,169 $19,908</td>
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<td>10,575</td>
<td>33,752</td>
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<td>13,906 $22,919</td>
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<td>2025</td>
<td>115,319</td>
<td>11,397</td>
<td>36,066</td>
<td>67%</td>
<td>16,528 $26,163</td>
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</tr>
</tbody>
</table>

- Implemented pre-funding plan with the 2015-16 budget
- Simultaneously negotiated reduced benefit caps with labor organizations
- As a result, unfunded liability dropped to just $69M in 2018
- Began fully funding ARC as part of 2019-20 budget (8.5% of payroll)
Ongoing Planning Efforts

- Focus on stability and long-term sustainability of operations
- Using technology to provide better service and streamline operations
- Developing performance measures and integrating strategic goals into budget process
- Enhancing financial transparency and citizen engagement

Summary

Don’t be a “Bear in the Headlights”

- “If you fail to plan, you plan to fail.” - Ben Franklin
- “Those who fail to learn from the past are doomed to repeat it.” - Sir Winston Churchill
Summary

Take the Plunge!

- LTFP is driven by a vision for a better future

Positive Editorial

Source: Appeal-Democrat, June 4, 2017
Conclusion

- Governing boards, employees, media, & community will be supportive
- With recession coming, finance professionals will play a more prominent role
- Embrace the future because your decisions matter more today than before

Questions?

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