

How Our 5-year Forecast Changed our Budget

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Finance Director

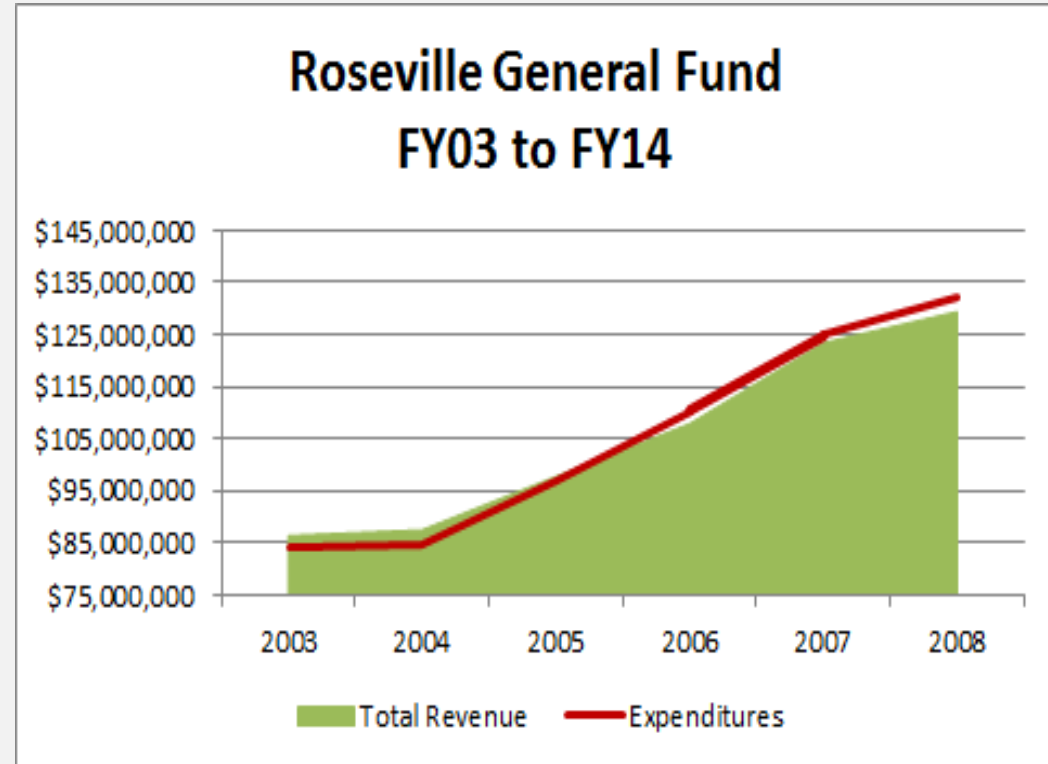
February 19, 2015



The “Good Old Days” before 2008

Spending was rising faster than revenue...

...**BUT** we knew that the revenue growth wouldn't stop!



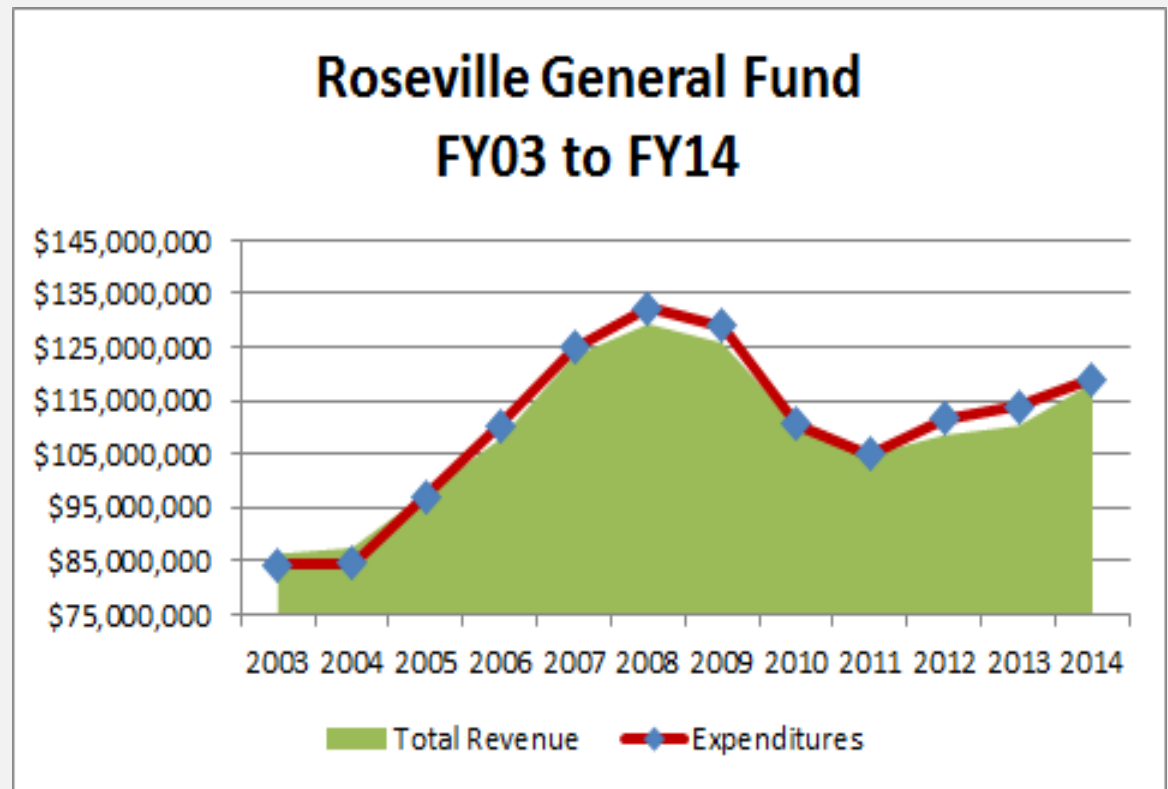


Then Came the “Great Recession”

...Until it did
stop..

...or rather,
plummeted!

And we still
haven't fully
recovered





We had to make continuous cuts over several years

- Eliminated 180 positions: lay-offs, vacancies, early retirement
- 5% reduction in compensation (2 years)
- No salary increases
- Employee pay their share of PERS
- Cut material and supplies by 25%
- Funding Holidays
 - Eliminated 3% of payroll for OPEB
 - Eliminated Building/Park/IT Rehab. funding (\$3.5m/year)
 - Removed or reduced WC and GL premiums



There was a Backlash to this

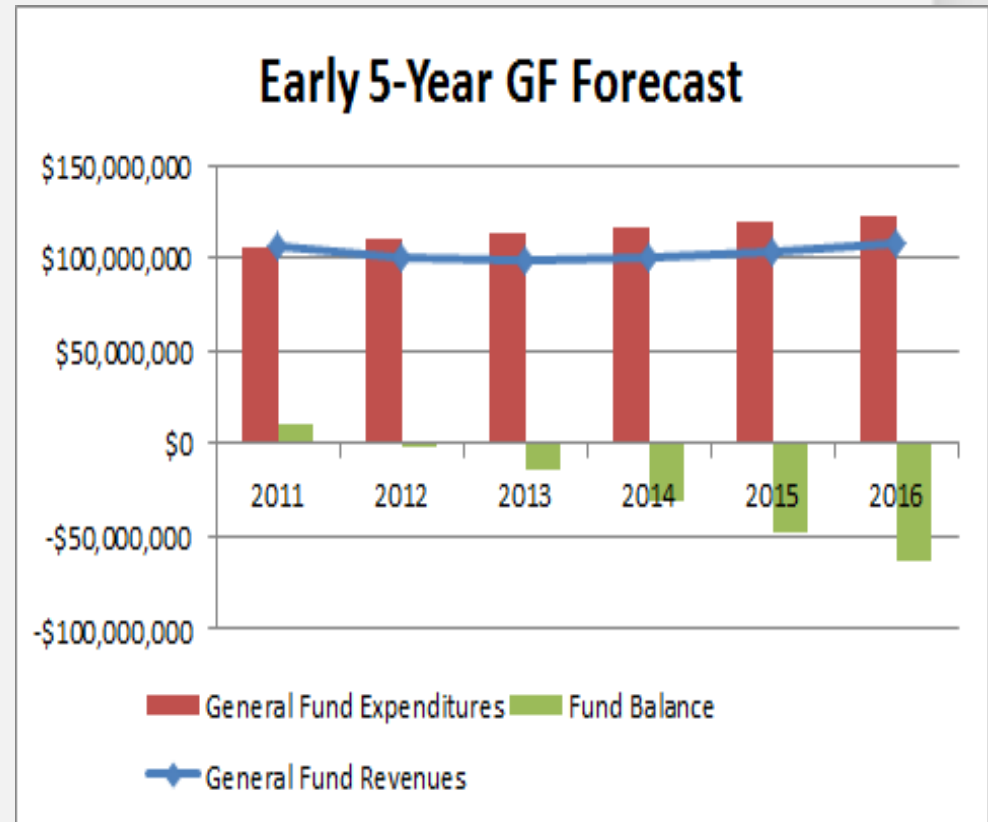
- Labor wanted raises and compensation for PERS payment
- Dept. Heads wanted staff back
- Community wanted services restored
- Finance Director wanted OPEB and CIP Rehab. funding back

But we had no hold on the future



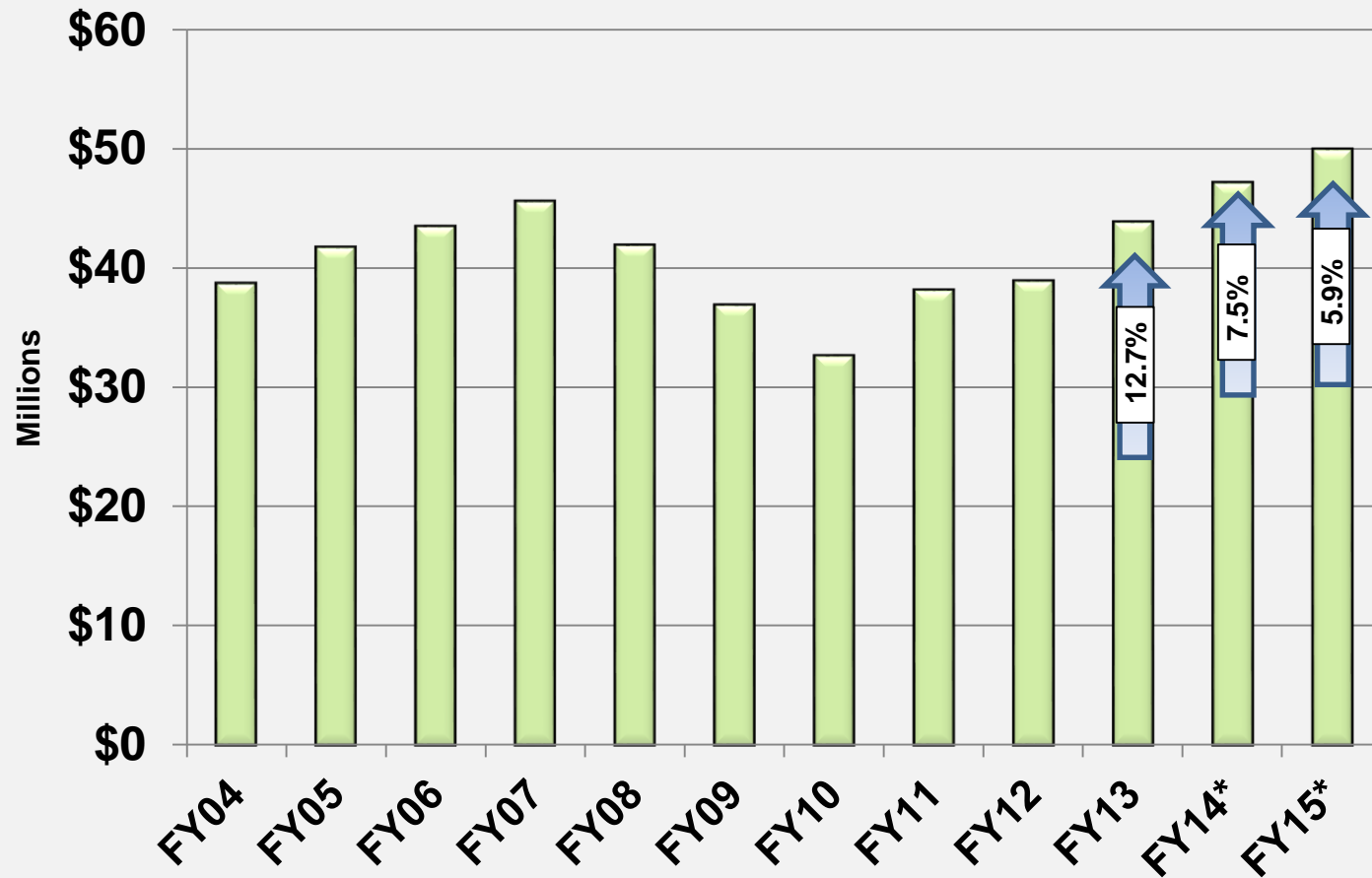
Peering Into the Future...Didn't Look Good

- Early forecast plagued by:
 - Increasing PERS
 - Give-backs expired
 - Healthcare cost increases
 - Hiring for police
- While negative, this forecast bakes in unknown cuts of \$3.6M



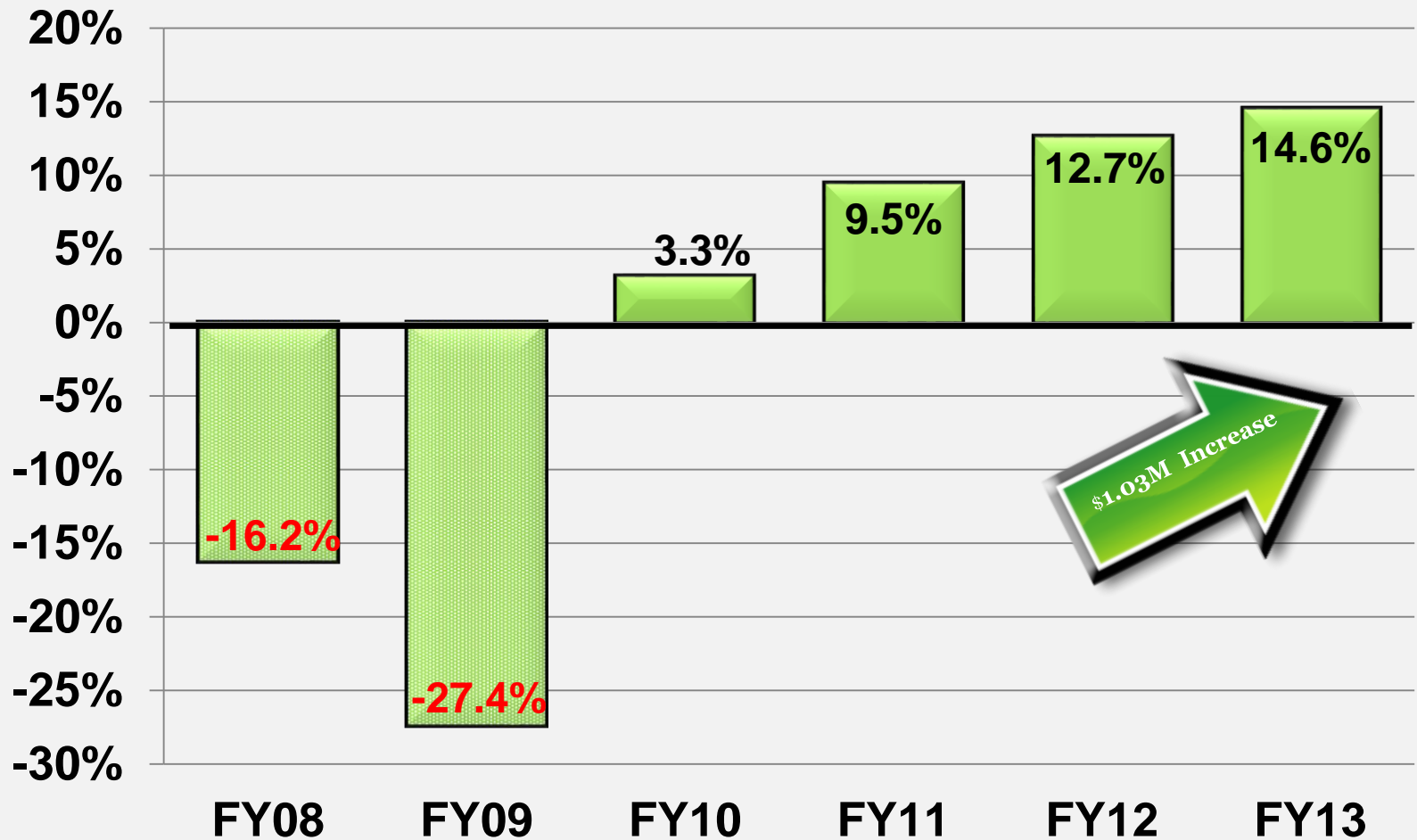
...Then Things got better

Sales Tax Comparison

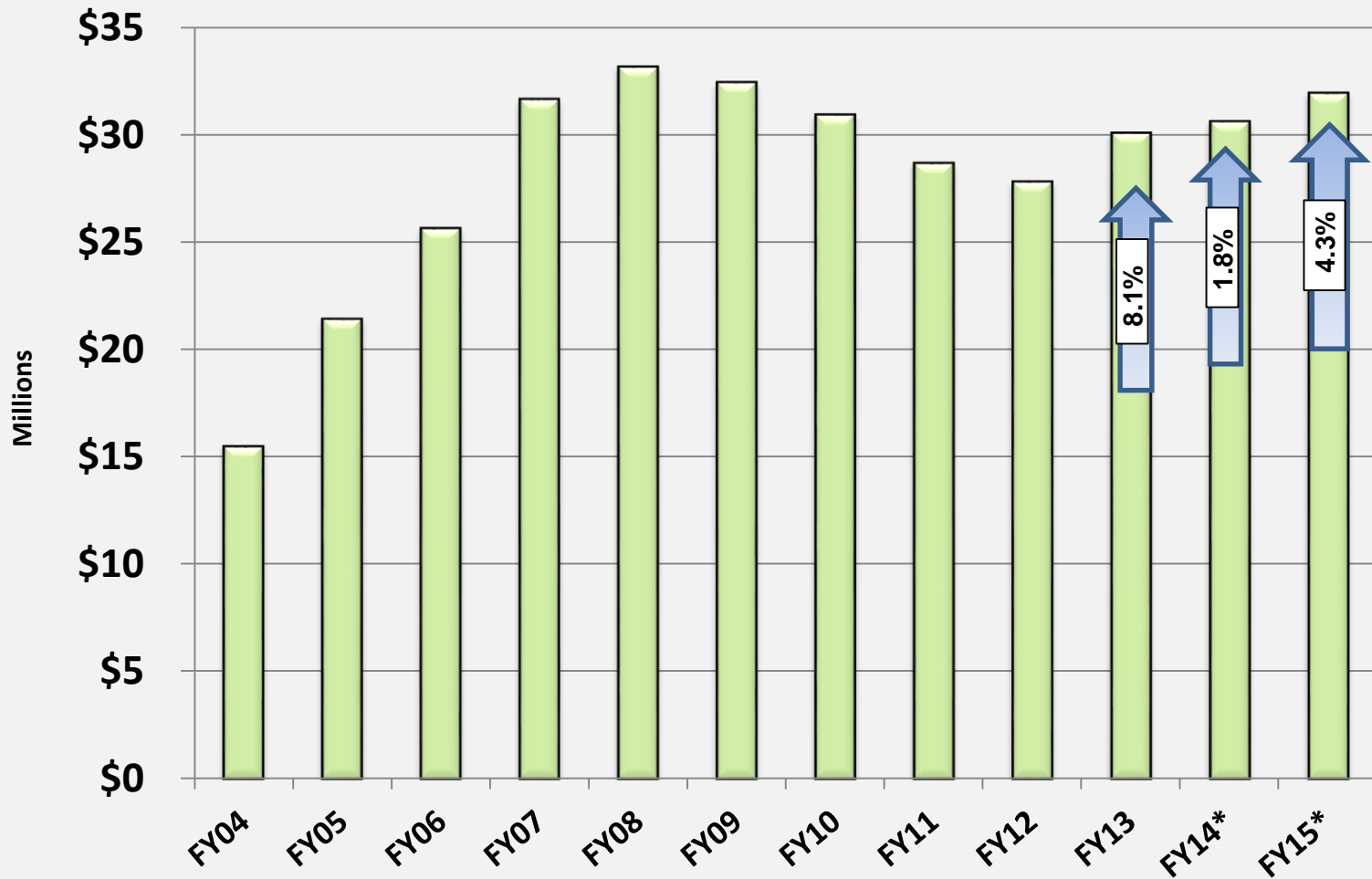


*Estimated

New Auto Sales Increasing

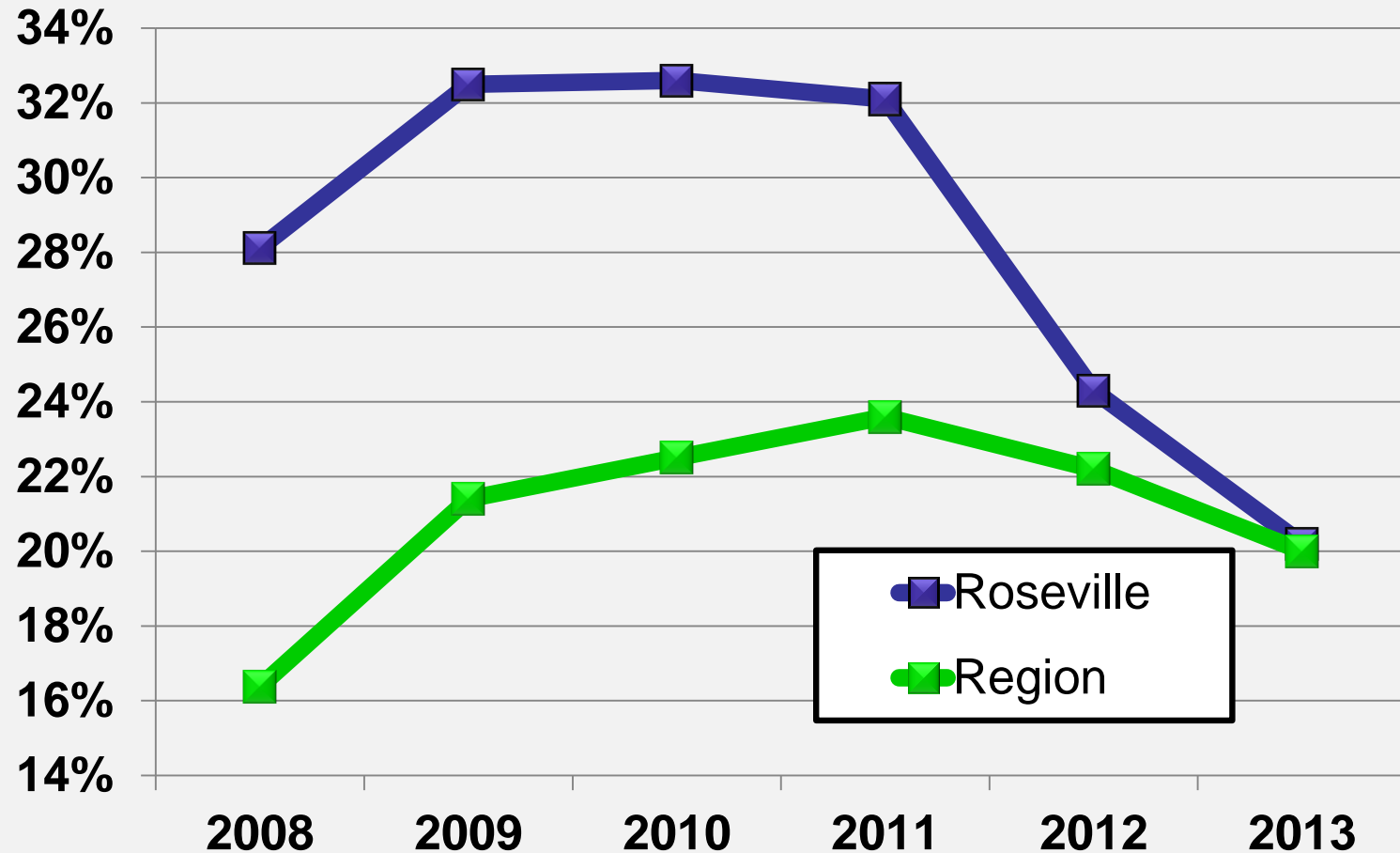


Property Taxes



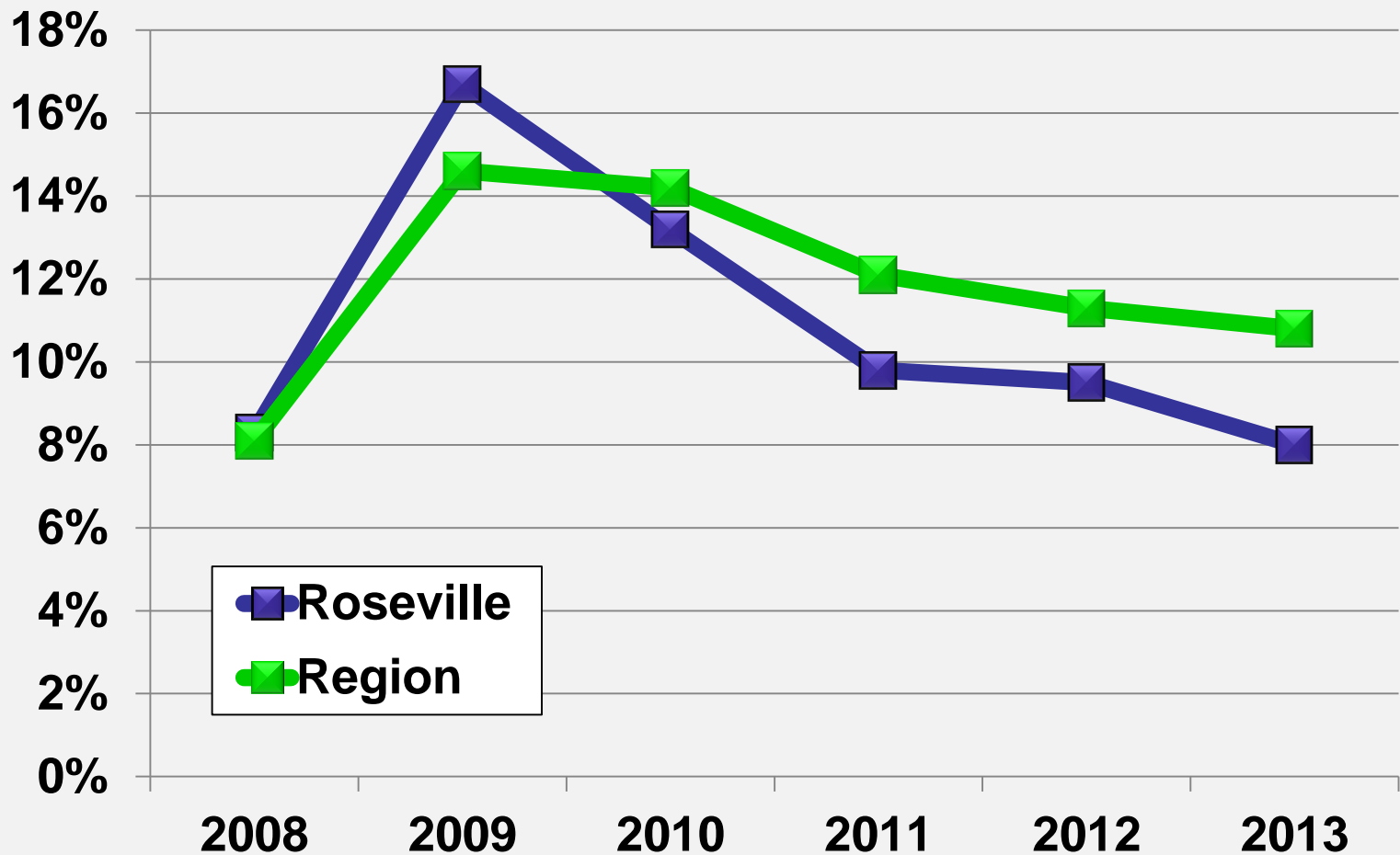
*Estimated

Office Vacancy Rates Down



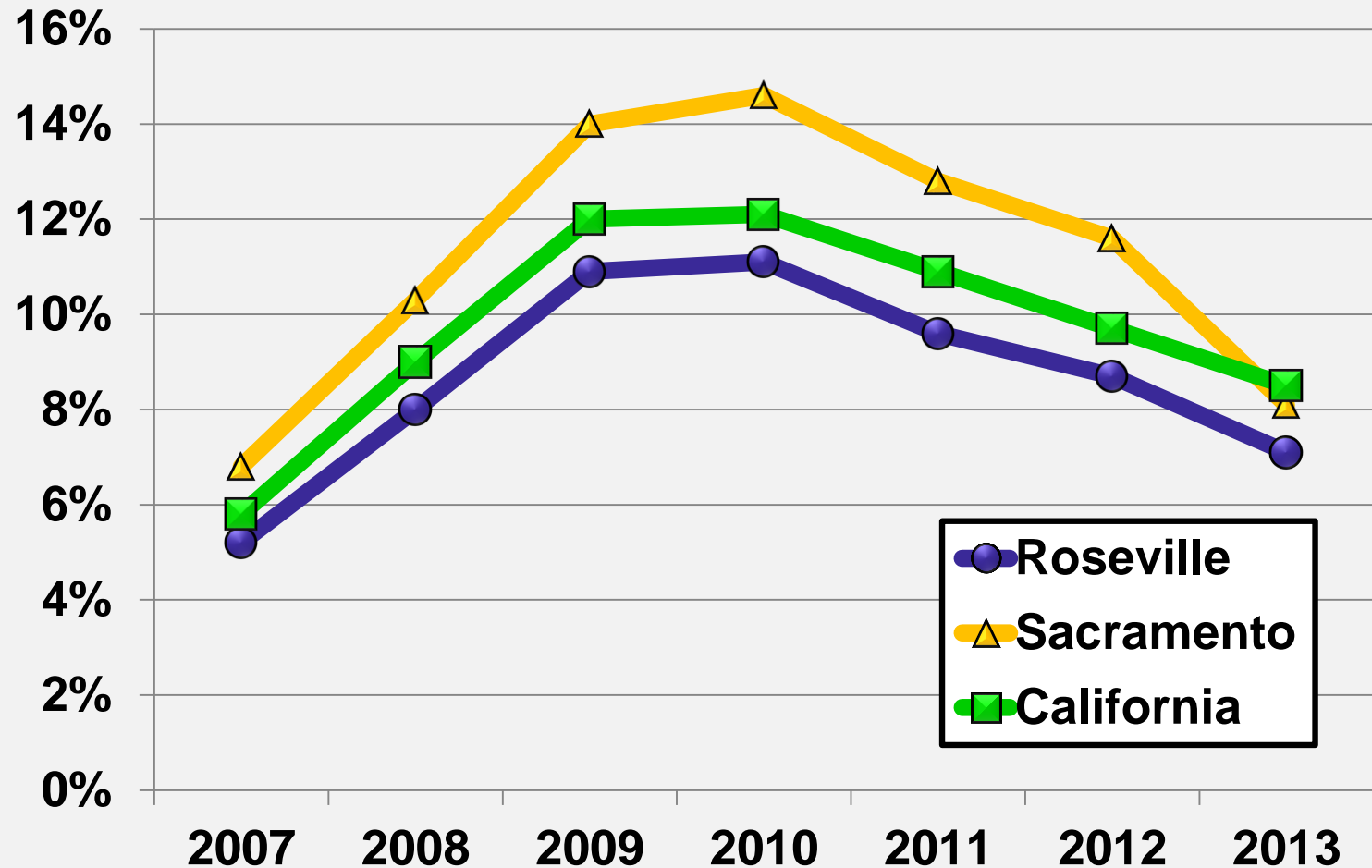
Source: CBRE Research

Retail Vacancy Rates Down



Source: CBRE Research

Unemployment Declined



Source: www.CA.gov

...But Challenges Remain



City Couldn't Get Ahead of the Curve

- Labor relations strained
 - Imposed EE PERS on Police
 - Fire used political position to push for raises
- PERS/OPEB costs on the rise
- Started funding for previous “holidays”
- Budget still tough to balance

Policies were needed to direct future spending

STAFF-RECOMMENDED POLICY RESPONSES



Financial Policy Recommendations

1. Hold costs below expected revenue
 - Controlling payroll growth
 - Limit across-the-board salary increases
 - Avoid increasing staffing levels
2. Full funding of OPEB ARC over 5 years
 - Establish OPEB trust to reduce ARC payment
 - Creation of Tier III benefits for new employees
3. Fund cost for building maintenance, IT and parks replacement over 5 years

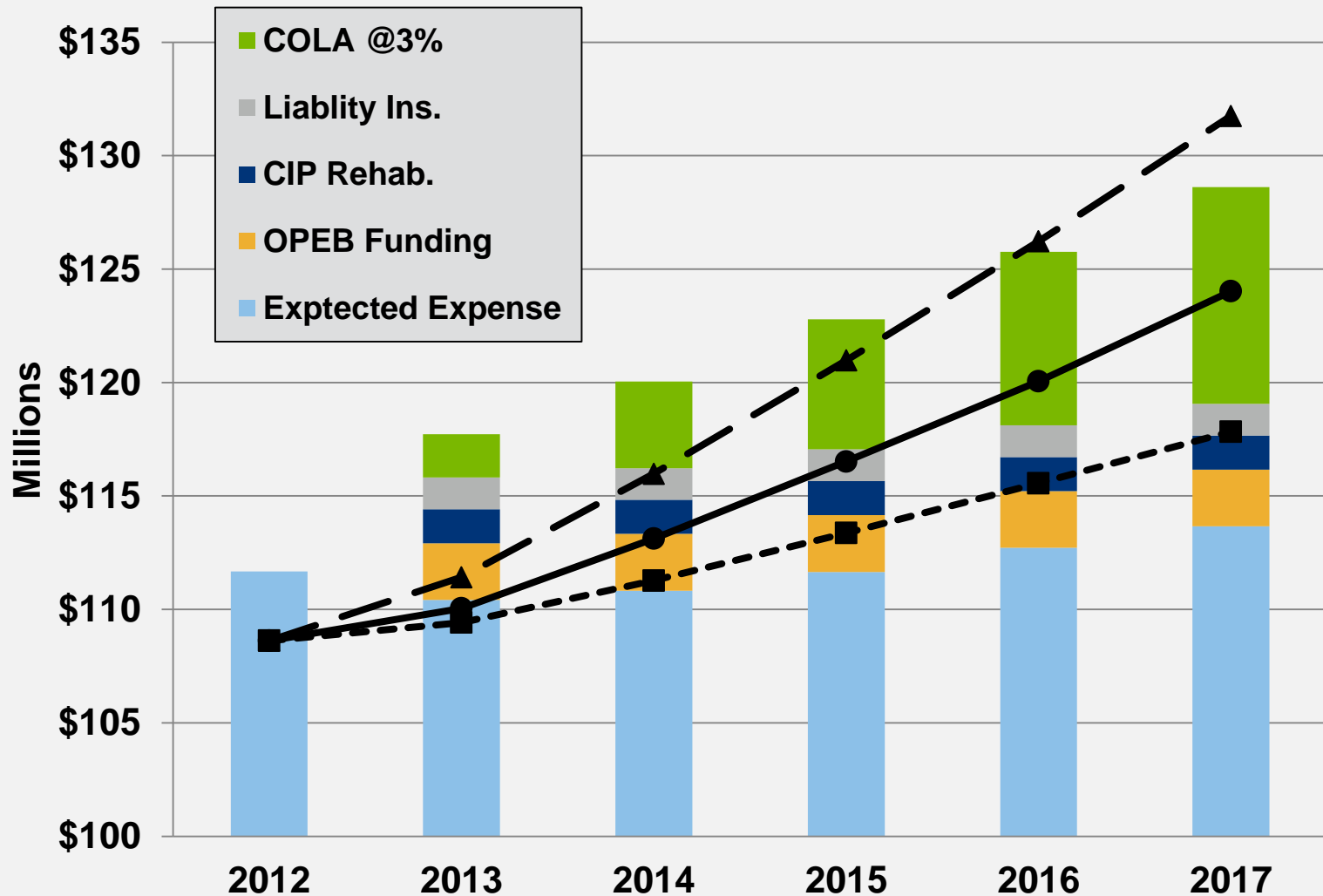
Policies became critical as revenues returned



Presenting to Policies & Projections to Council

- You need Council buy-in for the authority to include policies in budget
- Showing results reinforces:
 - Multi-year implementation
 - Risk of not meeting goals
- Council buy-in helps address labor demands

Our 2011 5-Year Forecast

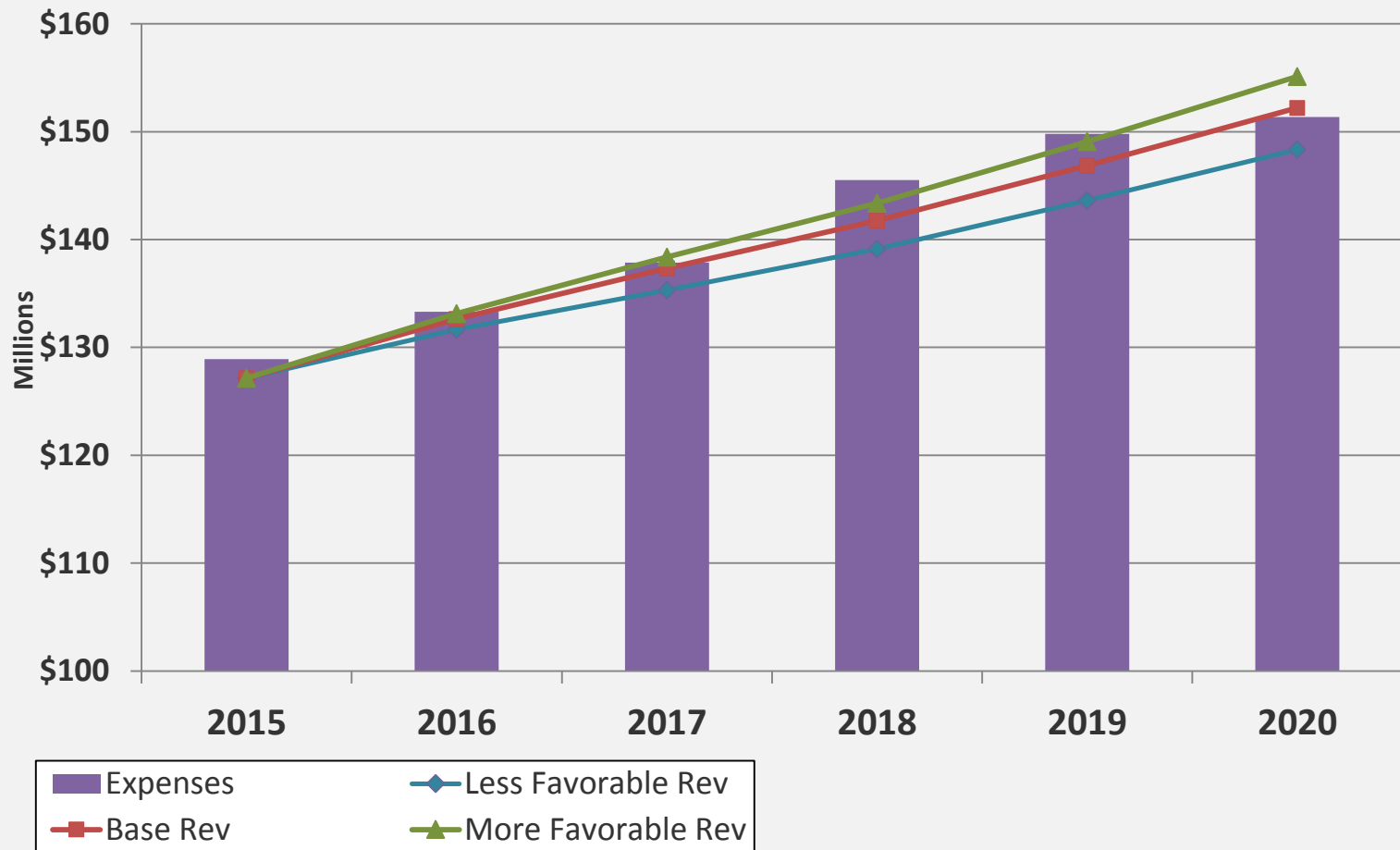




Cost Pressures Continue...

- Inflationary increases on materials and supplies
- Affordable Care Act implementation
- Regulatory (e.g., storm water runoff)
- Con't PERS/OPEB increases
- Once Fire got raises...everyone got raises

5-Year Forecast 3-Years On





Future Years of the Budget Model

- Variables
 - Economy
 - PERS rates (increasing)
 - Salary vacancies, unspent materials and supplies
 - Council directed staffing and compensation levels
 - Contract negotiations

Lessons Learned

- Financial policies are **difficult to hold to** for future-year expenses (e.g., Park/IT/Building replacement and OPEB)
- Financial policies need to be a **continual part of the budget discussion**
- You need to **educate Council, staff, and unions** on the value of funding for the future
 - Avoided interest cost on bonds
 - Using the stock market to fund future benefits with OPEB trust



Conclusion

1. Creation of financial policies critical to long-term financial future
2. Multi-year budget forecast and financial plan was foundation
3. 5-year forecast has become part of the City's culture, and helps to react early to potential issues

