



City Council AGENDA REPORT

DATE: 11/06/2023

AGENDA OF: 11/28/2023

DEPARTMENT: Finance

SUBJECT: 10-year Citywide Long Range Financial Plan (FN)

RECOMMENDATION: Receive an update from Baker Tilly on the development of a 10-year Citywide Long Range Financial Plan (CWLRFPP).

BACKGROUND: The City had a financial forecast and model prepared by Baker Tilly (formerly Management Partners) that was presented to the City Council at its special meeting on August 18, 2020, to understand the effects that the COVID-19 pandemic could cause in future years. The forecast was used during the budget process in the following years. In Fiscal Years (FY) 2021 through 2023, the City had to reduce expenditures, thereby reducing services, returning to a fundamentally status quo budget in FY 2024.

While the City's financial position appears to be improving compared to the original forecast, the City still expects to face a significant structural deficit in its General Fund over time. This structural budget deficit results from a fundamental imbalance, where expenditures exceed revenues. In recent years, the City adopted budgets to meet the primary goal of preservation of services, but in FY 2024 this necessitated reducing the General Fund investment in the Capital Investment Program (CIP).

Updating and maintaining a CWLRFPP will provide more clarity and consistency in the City's budgeting process. Baker Tilly has worked with City staff to develop short and long-term options for fiscal sustainability:

- Reviewing and analyzing the City's long-term financial forecast
- Developing a matrix of revenue, service, and expenditure budget strategies designed to address an anticipated structural deficit
- Providing a real-time decision-making model that can help the City evaluate various budget strategies based on different revenue and expenditure assumptions

DISCUSSION: Baker Tilly has completed its independent analysis of the City's financial forecast, obtaining updated information from City staff. Based on their independent professional experience in financial forecasting for cities in California, they have updated the analysis by:

- Updating revenues and expenditures based on the latest staff projections
- Improving the assumptions to reflect more realistic outcomes based on the City's actual experience as well as the latest economic indicators and projections
- Refining the forecast that allows for analysis of various key assumptions such as:

- Revenue estimates for property tax, sales tax, utility users' tax, business license tax, and real property transfer tax
- Cost increases for service delivery initiatives
- Personnel cost assumptions relative to cost-of-living adjustments and health benefits
- Impacts of future CalPERS discount rate changes
- Recessionary impacts for estimated future recessions
- Impacts of budget strategy options identified for City Council consideration (e.g., revenue enhancements, cost containment, service modifications)

The 10-year analysis shows that the City faces a long-term fiscal gap that averages over \$10 million annually and will deplete reserves if not addressed. The City must implement structural budget solutions that result in sustainable adjustments in revenue or expenditures.

Receiving this update and exploring solutions to the structural deficit supports the Health in All Policies (HiAP) key elements of promoting health, equity, and sustainability. In particular, it supports the Collective of Results and Evidence-based (CORE) Conditions for health and well-being that residents have healthy environments (natural and built), a safe and just community, and stable, affordable housing and shelter. This connection exists because when the City can make informed decisions that are based on a long-range financial plan, it is empowered to make budget decisions that preserve its essential services, vital Capital Investment Program projects, and its investment in affordable housing and public safety.

FISCAL IMPACT: There is no financial impact to receiving this presentation; however, the CWLRFPP can help demonstrate the financial impacts of future budget options and the overall outcome of this process will help the entire City determine solutions for both current and long-term financial issues and opportunities.

Prepared By:
 Marisol Gómez
 Assistant Director of Finance

Submitted By:
 Elizabeth Cabell
 Director of Finance

Approved By:
 Matt Huffaker
 City Manager

ATTACHMENTS:
 None.