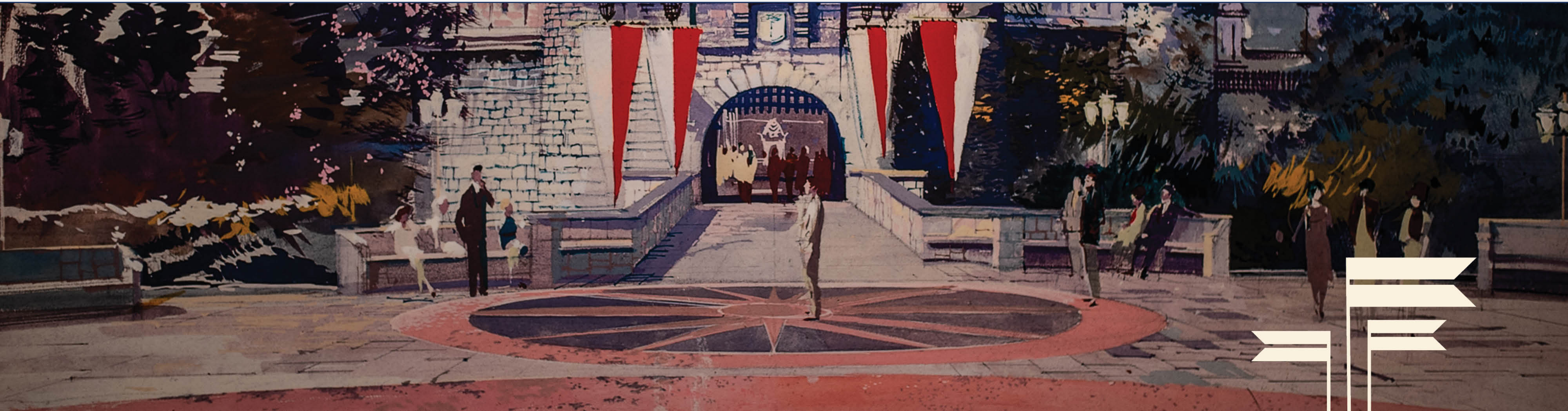
Avoid Being the “Un-happiest” Place in California



Karen Ribble
Senior Director
State and Local Governments
US Public Finance
FitchRatings

Anna Van Degna
Public Finance Director
City & County of San Francisco

Tina Olson
Finance Director
City of Pleasanton

Karen Ribble
Senior Director
State and Local Governments
US Public Finance

FitchRatings

How to Prepare for the Next Recession

A Rating Agency Perspective

Fitch's 'Through the Cycle' Approach:

- Estimate likely unique revenue response to standard 1% GDP decline
- Evaluate each issuer's tools available to response
  - Revenue Raising
  - Expenditure Management
  - Reserve Spending
- Use past performance or policy to establish expectations of reserve levels to be maintained through the economic cycle

Primary Tools Available

Revenue Raising

- Tends to be quite limited in California due to Propositions 13 and 218
- Issuers usually have some capacity to increase license, fees, permits and permits, charges for services
  - Unlikely to be enough to offset revenue declines but provides some support

Primary Tools Available

Expenditure Management:

- Service cuts (labor) costly likely to play key role
  - Negotiate temporary furloughs, change in retirement or healthcare funding
  - Cut vacant positions or layoffs
- Limit or delay pay-as-you-go capital spending
- Other cost shifting

Primary Tools Available

Use of Reserves:

- Rainy Day Reserves
- Internal Service Fund balances
- Reallocate Fund Balance committed or assigned to other uses

Rating Impact

- Fitch expects issuers to use reserves during an economic downturn.
- If use of reserves is temporary and limited to period of recession within expected magnitude, there should be no impact on financial resilience assessment or rating
- Long term credit rating also incorporates rebuilding reserves and financial resilience during periods of economic growth

Fitch Analytical Sensitivity Tool (FAST)

Scenario Analysis is a tool to create unique impact of standard 1% GDP decline stress scenario

- 15-20 year history of revenue performance compared to changes in GDP creates an issuer's expected revenue response to 1% GDP decline
- Assumes no change in spending pattern for purposes of stress test
- Uses inherent budget flexibility (combination of revenue raising assessment and flexibility of spending assessment) to assess Reserve Safety Margins at various assessments (aaa, aa, a, bbb, bb)
- Financial Resilience assessment is one of many assessment used to determine the rating outcome

Local Government Scenario Analysis

Yellow cells allow user input/override

Select an issuer:

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	-1.00%	0.50%	2.00%
Inflation Assumption (% Change)	2.00%	2.00%	2.00%
Revenue Output (% Change)	-3.00%	1.00%	4.00%
Inherent Budget Flexibility	Midrange		

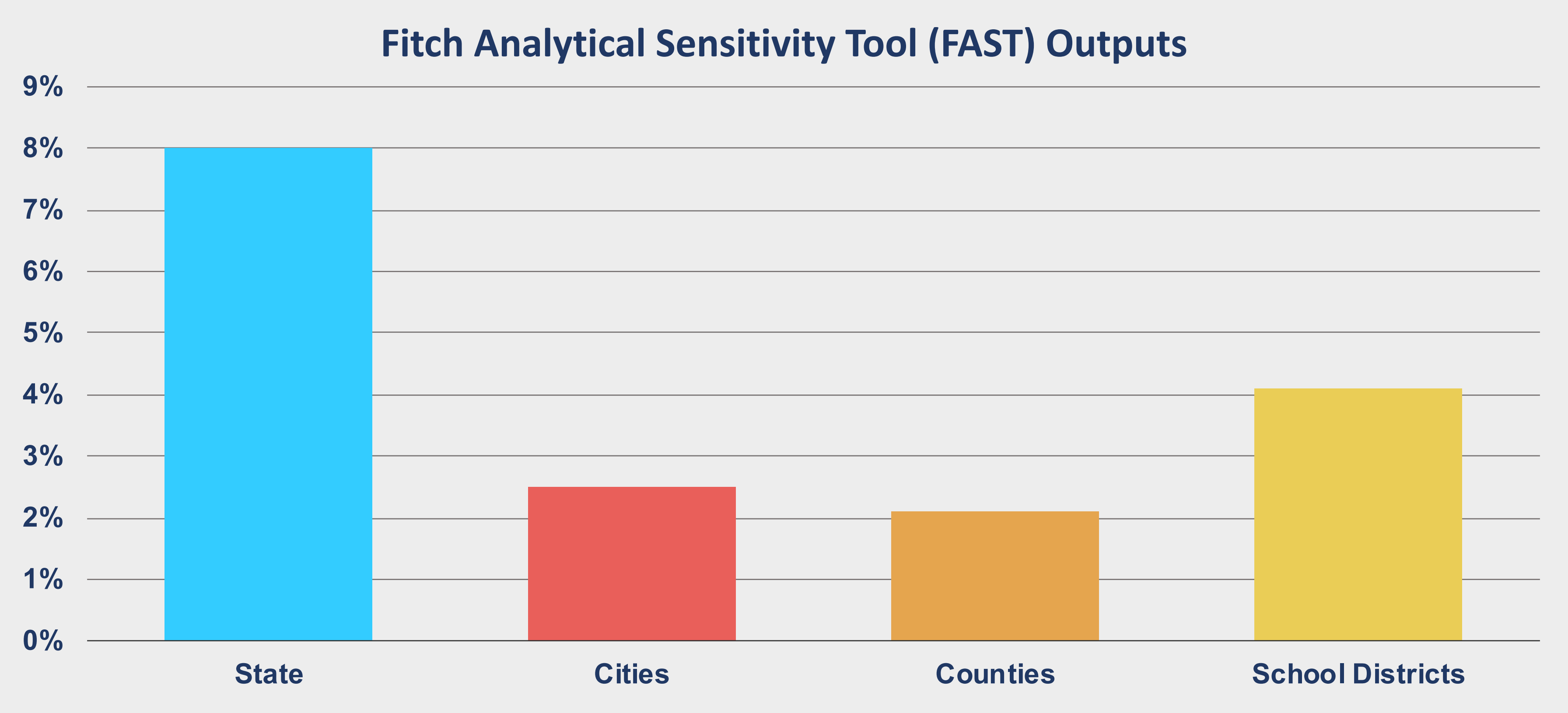
Analyst Interpretation of Scenario Results:

[If applicable, discuss factors embedded in the historical data that make the scenario appear materially more/less severe than baseline trends would dictate. For all, discuss analyst's expectations for how the issuer is likely to respond in the (baseline trends) scenario. These expectations should (1) be consistent with prior assessments of revenue and expenditure flexibility and (2) serve as the basis for the assessment of Financial Resilience Through Downturns.]

Revenues, Expenditures, and Fund Balance	Actuals: 2008	2009	2010	2011	2012	2013	2014	Year 1	Year 2	Year 3
Total Revenues	66,634	67,543	67,104	73,195	75,057	76,154	79,139	76,765	77,532	80,634
% Change in Revenues		1.40%	-0.60%	9.10%	2.50%	1.50%	3.90%	-3.00%	1.00%	4.00%
Total Expenditures	65,894	68,749	66,324	67,336	69,053	74,325	76,056	77,577	79,129	80,711
% Change in Expenditures		4.3%	-3.50%	1.50%	2.50%	7.60%	2.30%	2.00%	2.00%	2.00%
Transfers In and Other Sources	2,397	2,408	2,186	2,943	2,427	2,974	3,060	2,968	2,968	3,118
Transfers Out and Other Sources	2,813	1,646	1,671	2,281	7,806	5,269	5,505	5,615	5,727	5,842
Net Transfers	-416	762	515	662	-5,379	-2,295	-2,445	-2,647	-2,730	-2,724
Bond Proceeds and Other One-Time Uses	0	0	0	0	0	0	0	0	0	0
Net Oprating Surplus (+)/Deficit(-) After Transfers	324	-444	1,295	6,521	625	-466	638	-3,459	-4,326	-2,802
Net Oprating Surplus (+)/Deficit(-) After Transfers (% of Expenditures and Transfers Out)	0.5%	-0.6%	1.9%	9.4%	0.8%	-0.6%	-4.2%	-5.1%	-5.1%	-3.2%
Available Fund Balance (General Fund)	15,372	16,683	17,772	25,097	25,712	25,212	25,856	22,397	18,071	15,269
Other Available Funds (Analyst Input)										
Combined Available Finds (Balance (GF + Analyst Input)	15,372	16,683	17,772	25,097	25,712	25,212	25,856	22,397	18,071	15,269
Combined Available Fund Bal. (% of Expenditure and Transfers Out)	22.4%	23.7%	26.1%	36.1%	33.5%	31.7%	31.7%	26.9%	21.3%	17.6%

Reserve Safety Margins	Inherent Budget Flexibility: Minimal	Limited	Midrange	High	Superior
Reserve Safety Margins (aaa)	48.0%	24.0%	15.0%	9.0%	6.0%
Reserve Safety Margins (aa)	36.0%	18.0%	12.0%	7.5%	4.5%
Reserve Safety Margins (a)	24.0%	12.0%	7.5%	4.5%	3.0%
Reserve Safety Margins (bbb)	9.0%	6.0%	4.5%	3.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenaruo aaumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in year 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessmenet of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safty margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.



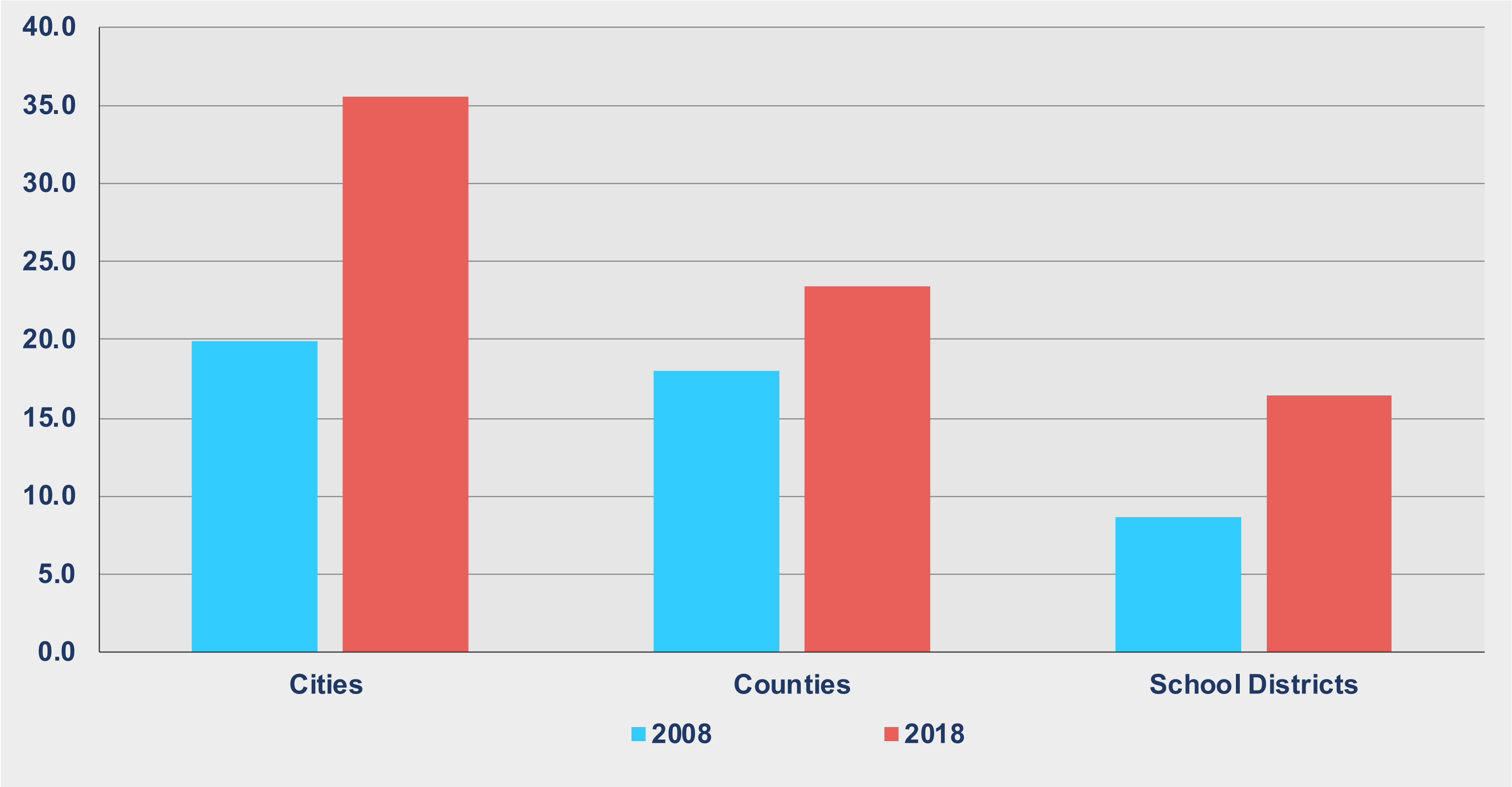
Note: Average revenue loss estimated in a 1% decline in U.S GDP for Fitch-rated issuers in California. Results may not be representative of broader, non-rated universe of credits in state.

Source: Fitch Ratings

CSMFO

SPEAKER PRESENTATION

YESTERDAY, TOMORROW AND FINANCE
2020 CSMFO ANNUAL CONFERENCE
JANUARY 28-31, 2020
DISNEYLAND CA



Source: CAFRs

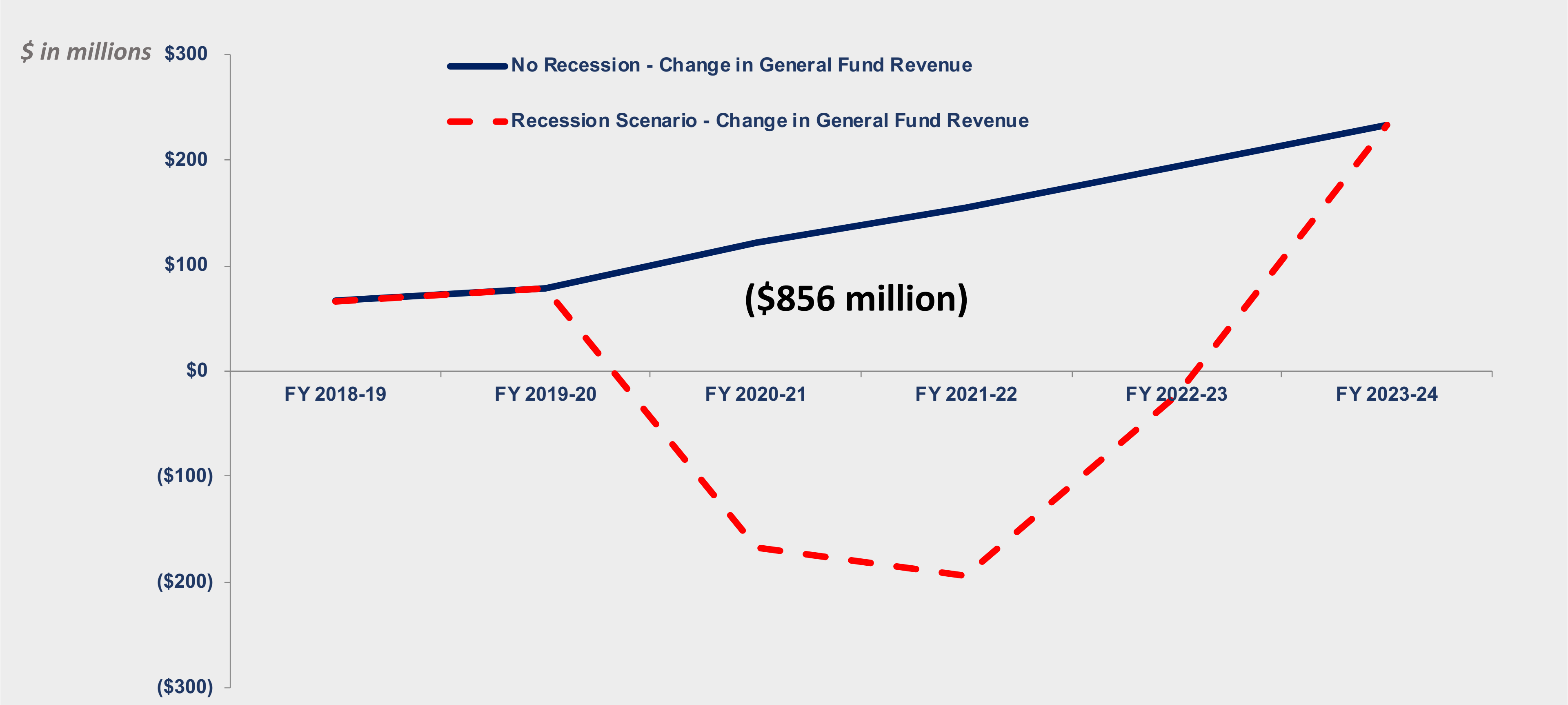
Anna Van Degna
Public Finance Director

City & County of San Francisco

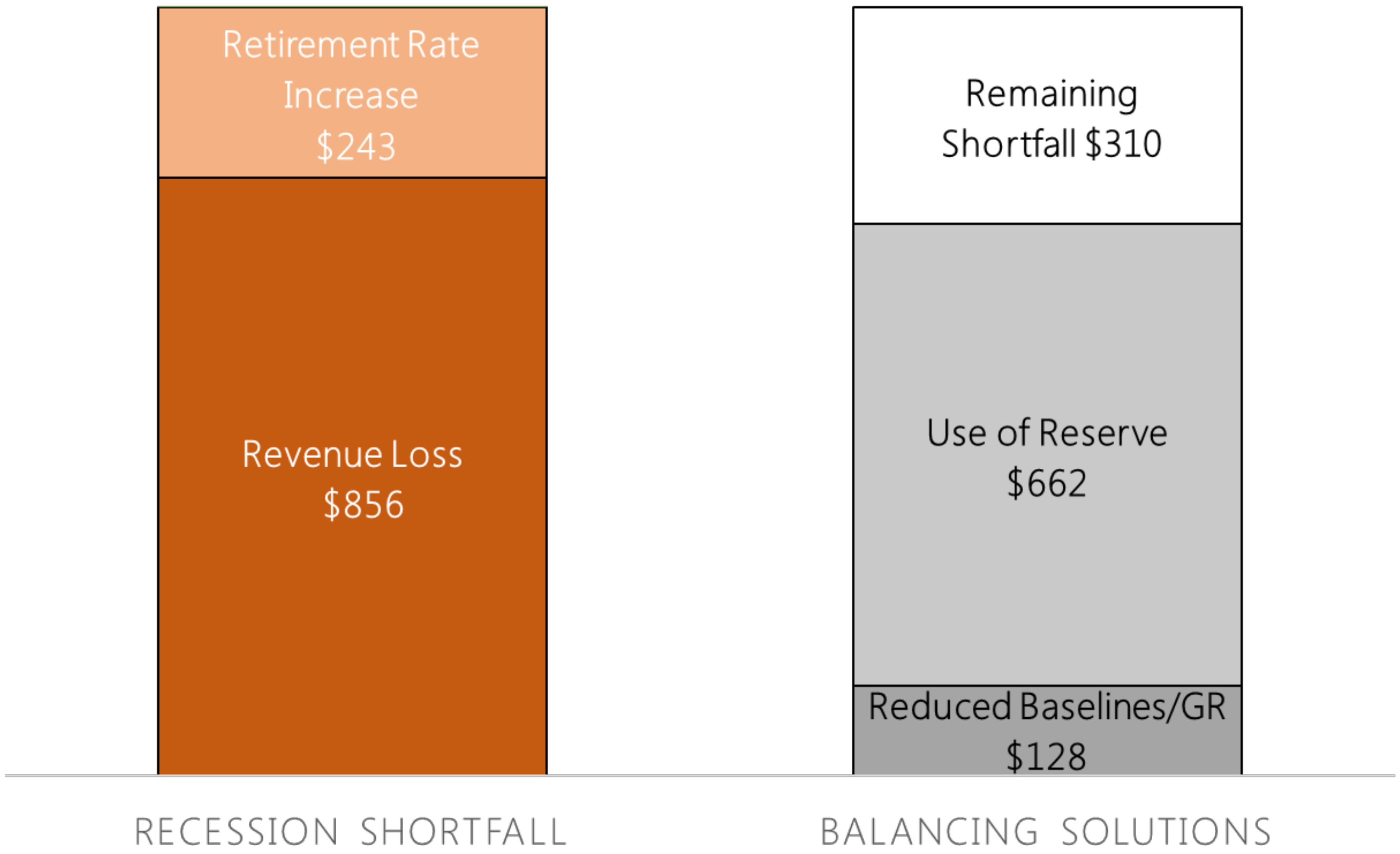
Great Recession Balancing Measures:

- Use of reserves and sale of City property
- Temporary furlough days negotiated with employee groups
- Deferral of capital, IT, and equipment investments
- 1,800 FTE workforce reduction between FY 2008-09 to FY 2010-11
- Federal stimulus funding
- Broad service reductions

Five Year Financial Plan Recession Scenario: Revenue Shortfall + Increased Pension Contributions



Five Year Financial Plan Recession Scenario Solutions

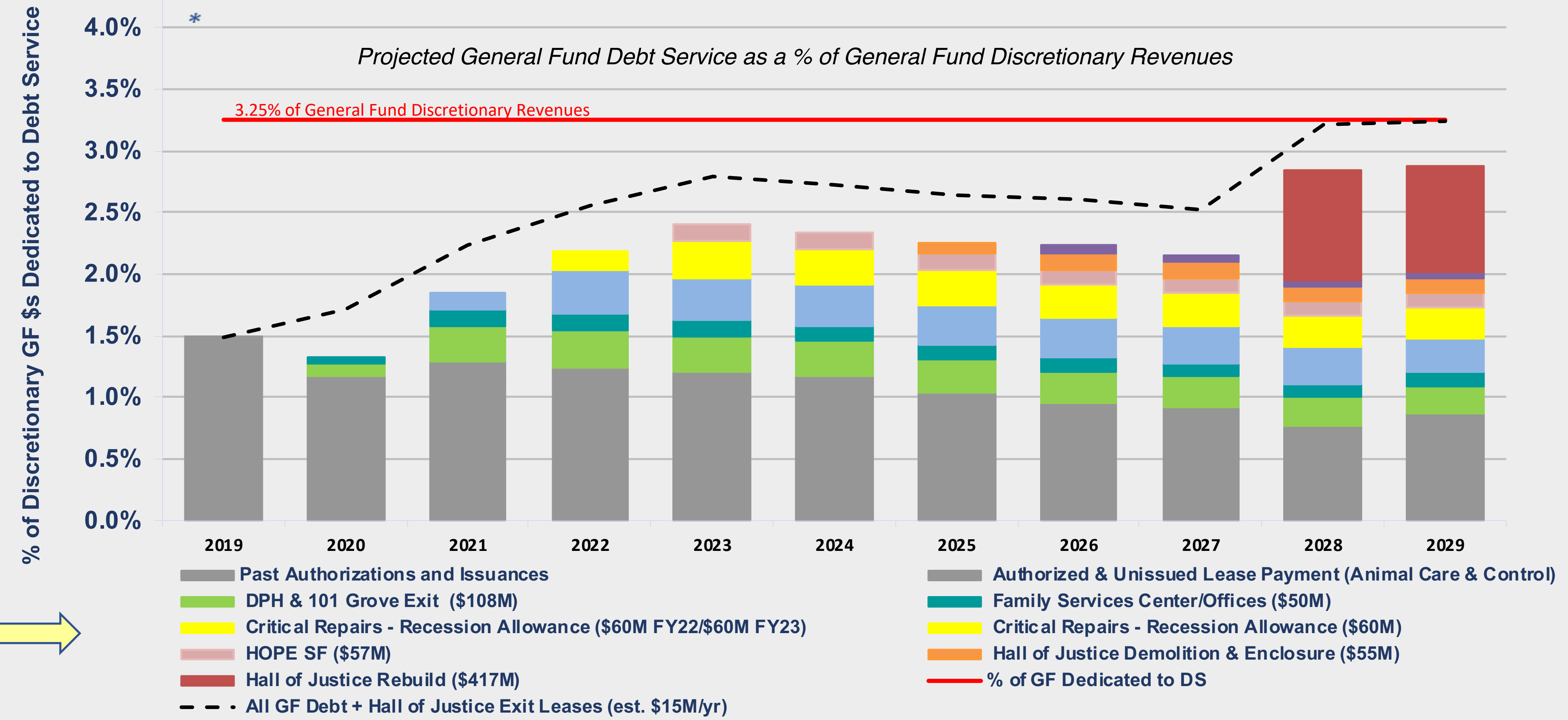


- Pension system asset losses will require additional employer contributions.
- Use of reserves and reduced spending mandates solves 72% of the shortfall
- Remaining gap will be closed with policy choices.

Capital Funding Strategies:

- FY2020 Capital Plan proposes: $39.1B over next 10-years:
  - $20.3B in enterprise investments; $5.1B in GF investments
  - $13.6B in external agency investments
- Funded with a combination of Pay-GO and debt
  - Planned Pay-Go Program is escalated by 7% annually from FY 2019-20, with $2.2B allocated over the 10-year plan window
  - Reserve of $120M COPs over 2 years to fund critical repair projects in the event of an economic downturn and associated impact to Pay-Go Program

10 Year Capital Plan - General Fund Debt



Planned Recession Allowance

Tina Olson, Director of Finance

City of Pleasanton

1. Know your City's Demographics

- Median Income & Unemployment Rate
- Housing Prices and Disposable Income
- Property and Sales Taxes Level of Stability

2. Establish Financial Policies to Address Your Organization's Risks

Use of One-time Monies

- Year-end Surplus
- One-time Revenues

↓

Build Reserves & Pay Down Liabilities

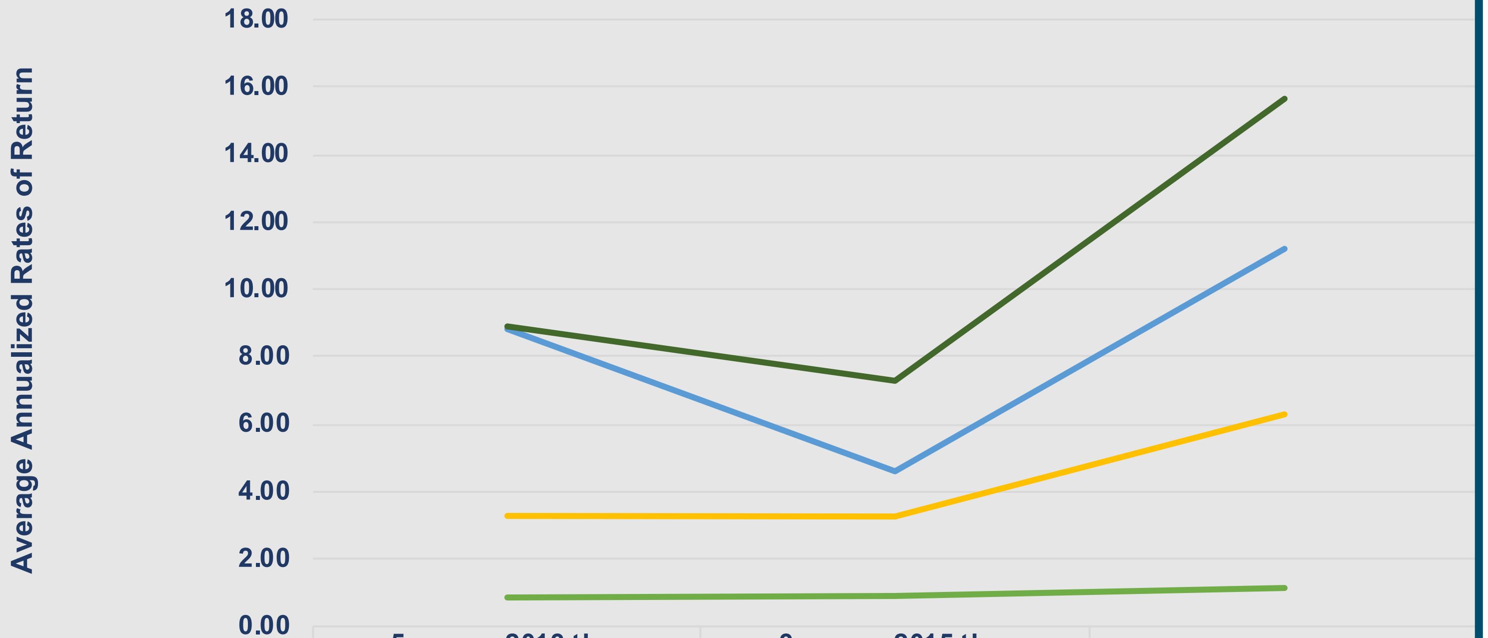
- Operating and CIP Reserves
- Pre-fund Pension Liabilities

↓

Ride Out the Next Recession without Reducing Services

Pleasanton's Recession Toolbox (Total GF Budget = $126.8M)

Average Annual GF Expenditure Savings	Operating Reserves	CIP Reserves	Section 115 Pension Trust Fund
$3.0M	General Fund: $28.0M Internal Services Funds: $44.7M	$17.5M	$30.0M



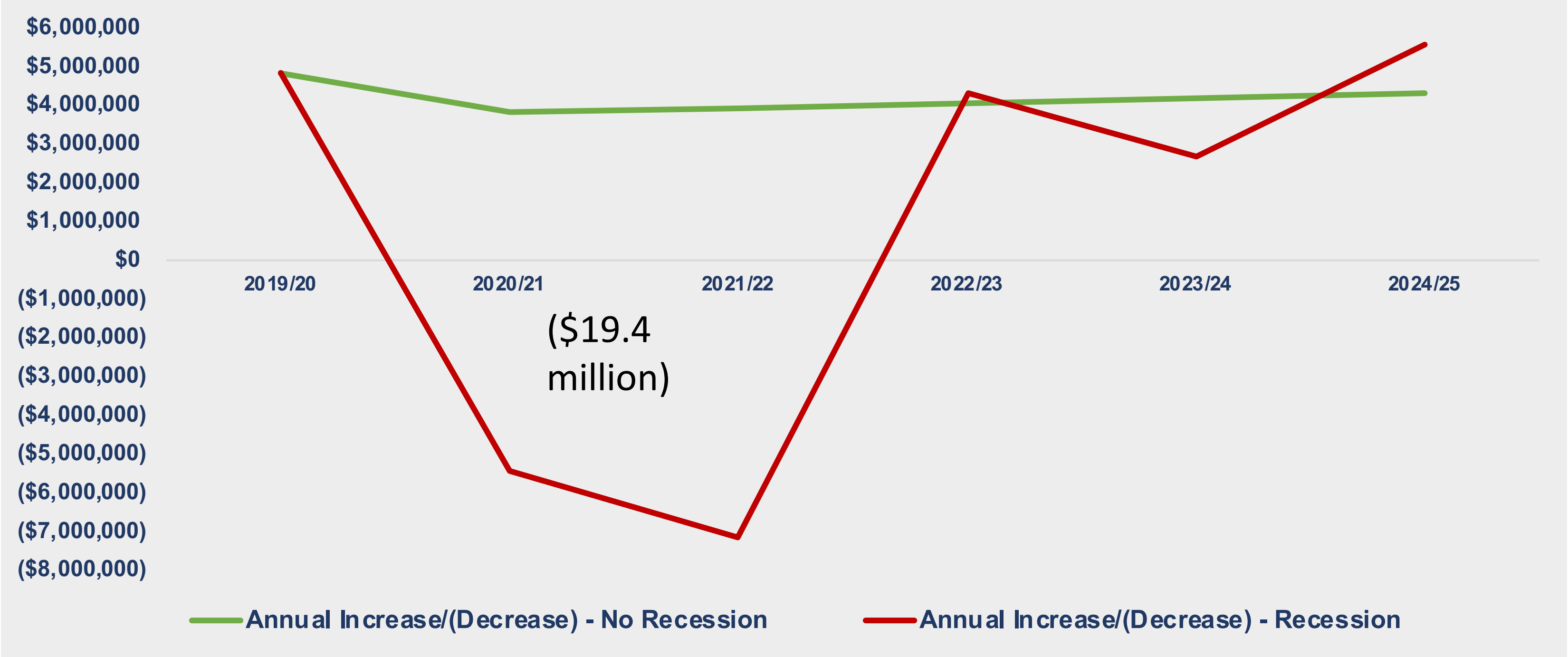
	5 years - 2013 thru 2017	3 years - 2015 thru 2017	One year - 2017
City of Pleasanton	0.86	0.94	1.14
CalPERS	8.80	4.60	11.20
PARS - Conservative	3.29	3.26	6.29
PARS - City 70/30 Portfolio	8.87	7.29	15.65

City of Pleasanton　CalPERS　PARS - Conservative　PARS - City 70/30 Portfolio

Pleasanton Section 115 Trust (PARS):

- $10M in Conservative
- $20M in 70/30 Portfolio

How will the City of Pleasanton's Revenues likely be Affected by another Great Recession?



No Recession – change in GF revenue assumes 3% annual revenue growth after FY 19/20
Recession – change in GF revenue is the same annual revenue growth/decline rate as Great Recession

How will the City of Pleasanton Survive another Great Recession?