

Thinking Like A Bear

Why Every Local Government Needs a Long-Term Financial Plan



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The Value of 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**



LTFP Outline (cont.)

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



LTFP Outline (cont.)

- 10. LTFP Recommendation Details**
- 11. Budget Module/Workbook**
- 12. Fiscal Sustainability Fact Sheet**
- 13. Appendix & Glossary**





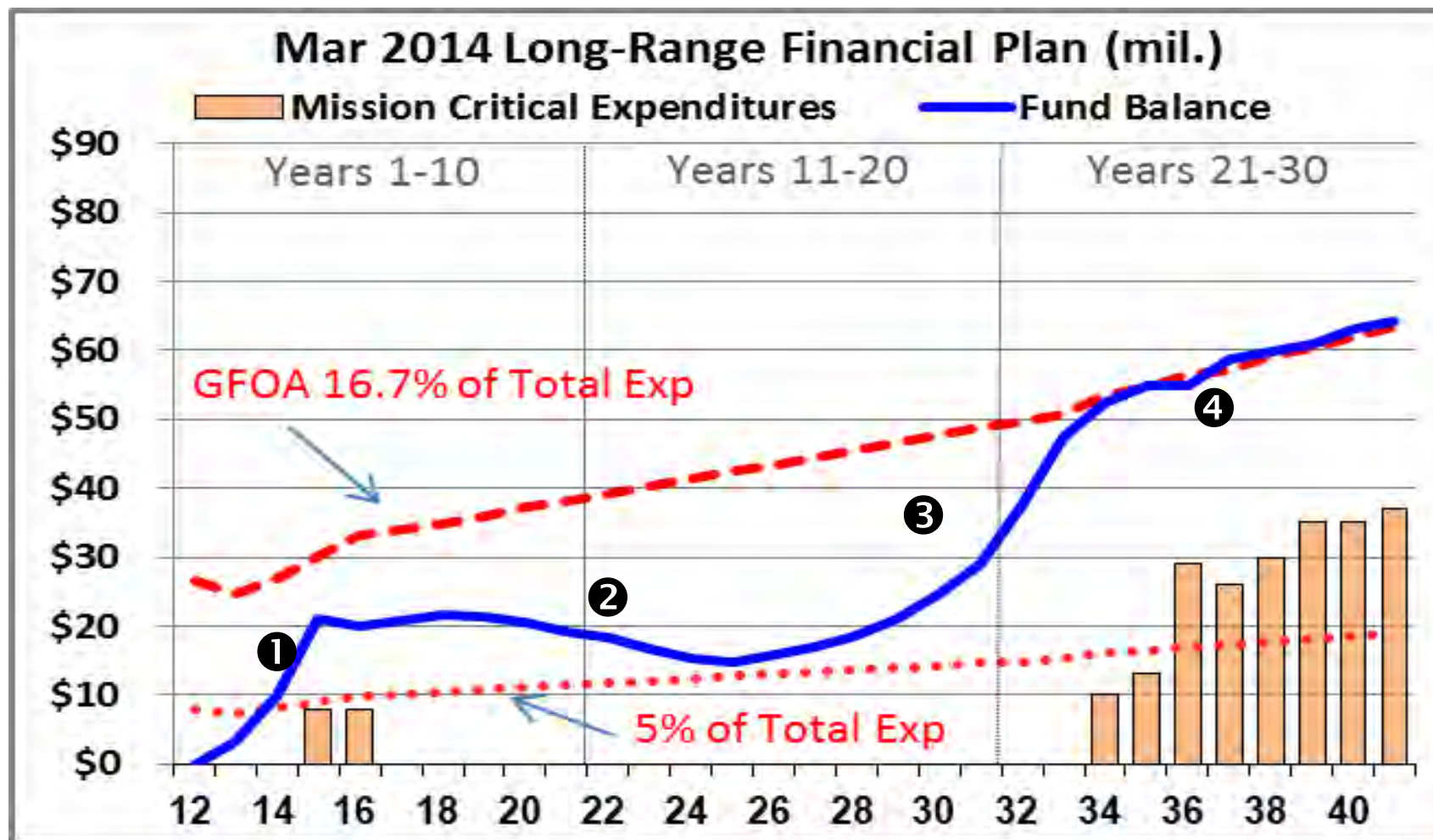
City of Stockton Long-Term Plan

Matt Paulin - Chief Financial Officer, City of Stockton



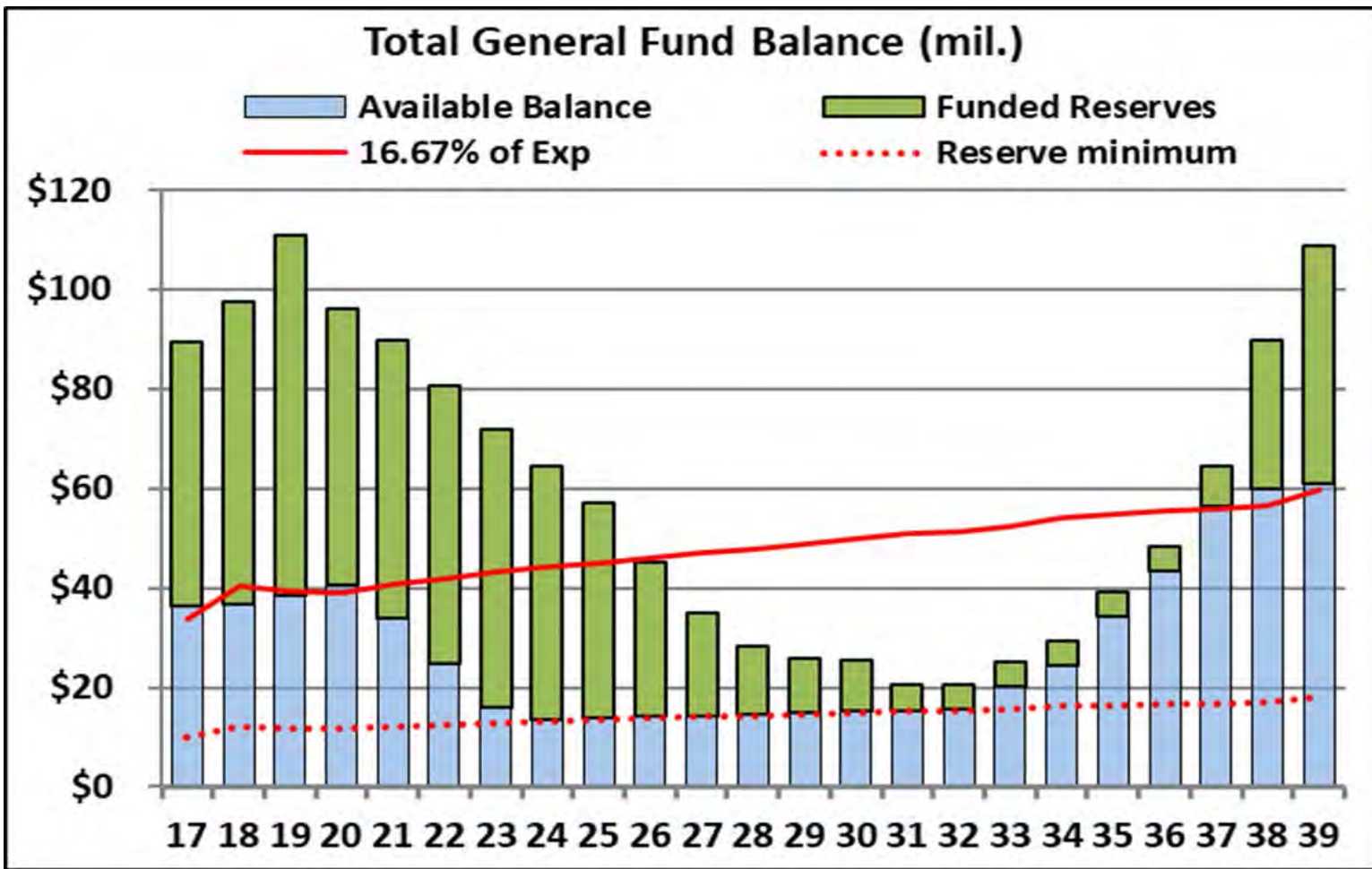


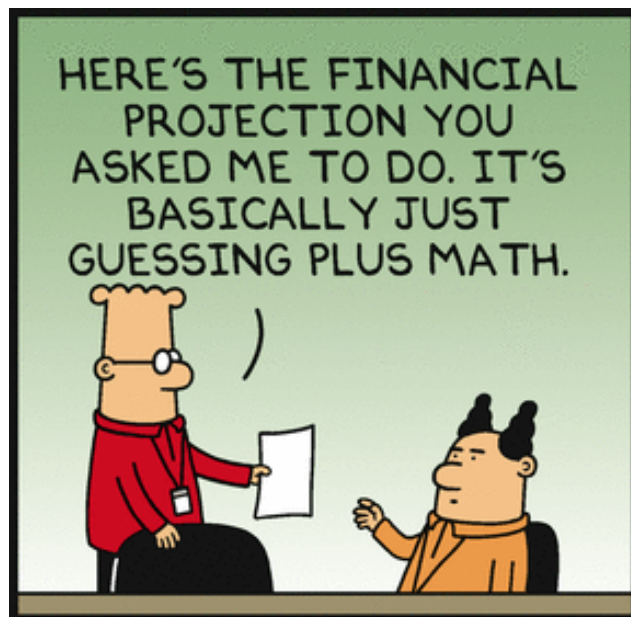
Bankruptcy Forecast: Long Road To Recovery



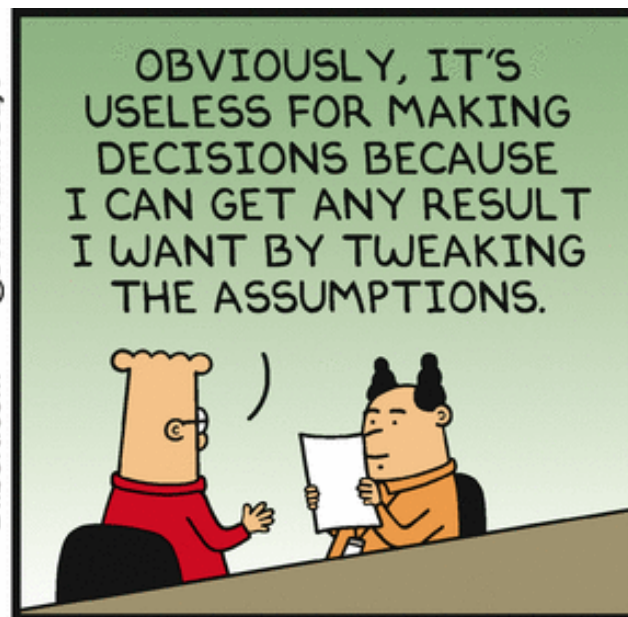


FY18-19 Long-Range Financial Plan





Dilbert.com @ScottAdamsSays



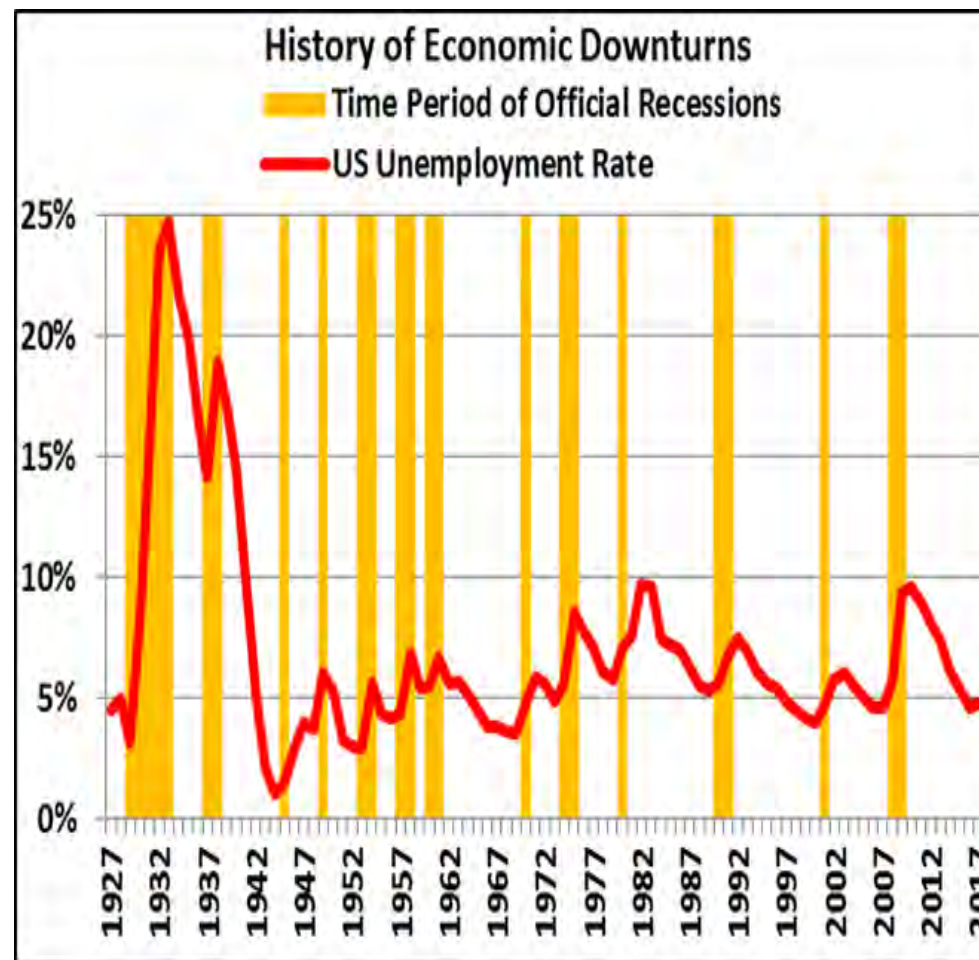
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The Good Times Won't Last

- 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)

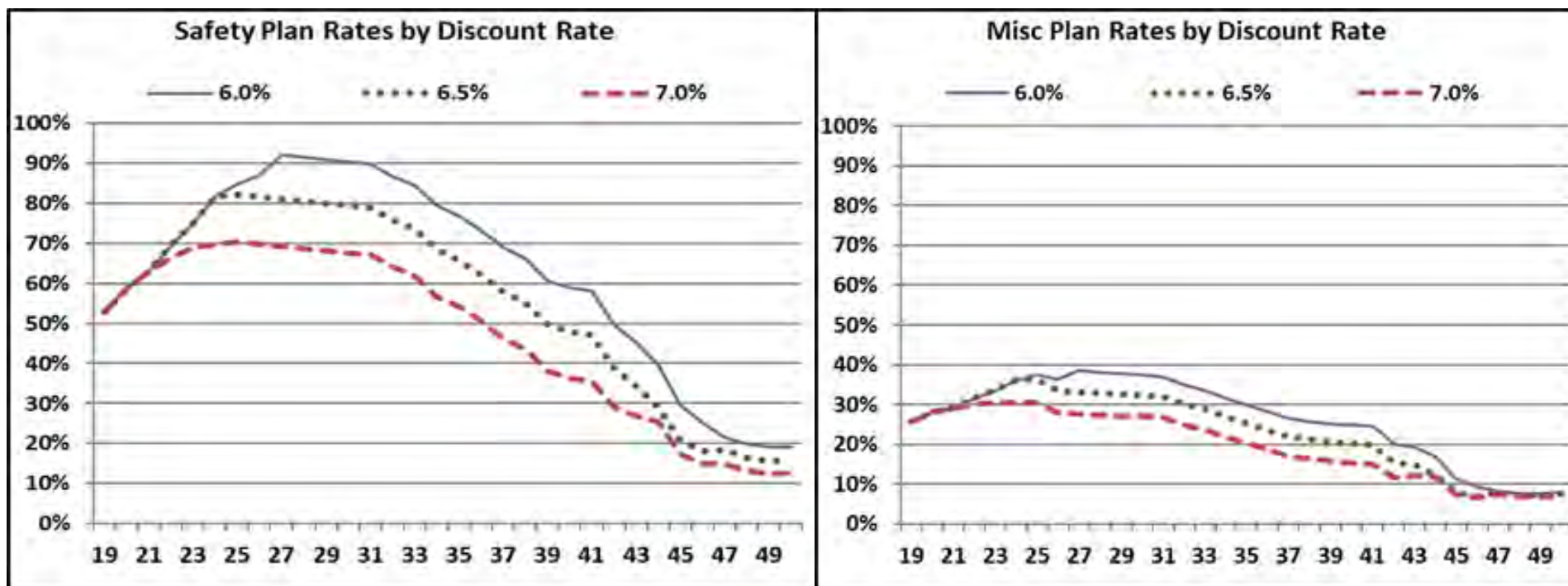




THE ECONOMIC FORECAST IS DIFFICULT FOR AN AMATEUR TO GET
RIGHT...BUT THE PROFESSIONALS ARE REASONABLY CONFIDENT
THAT THE MARKETS WILL GO EITHER UP OR DOWN IN THE
LONG OR SHORT TERM



Pension Cost Life Cycle



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

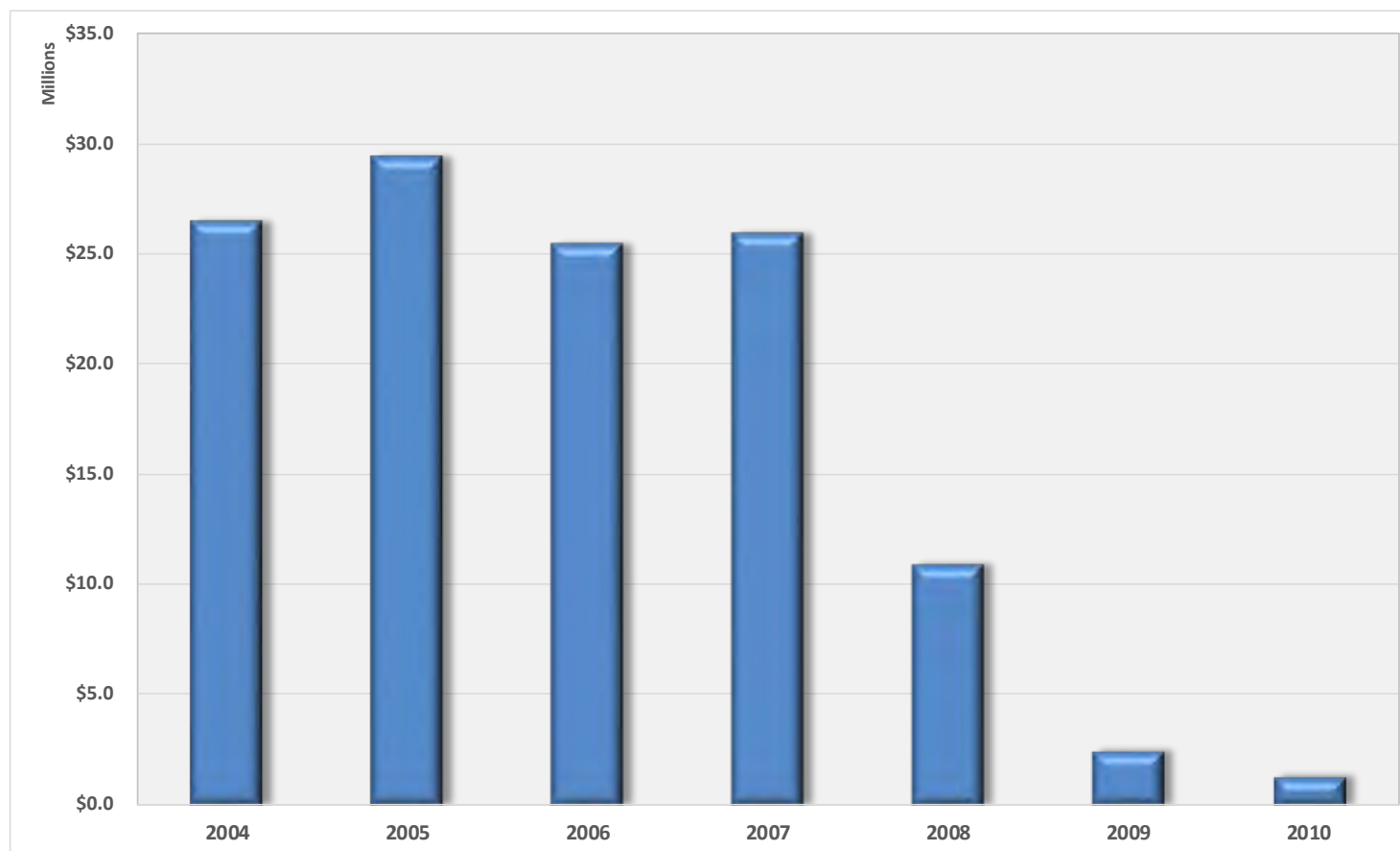


Historical Context

- 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



General Fund Balance



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 LTFP

- 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 LTFP

- 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

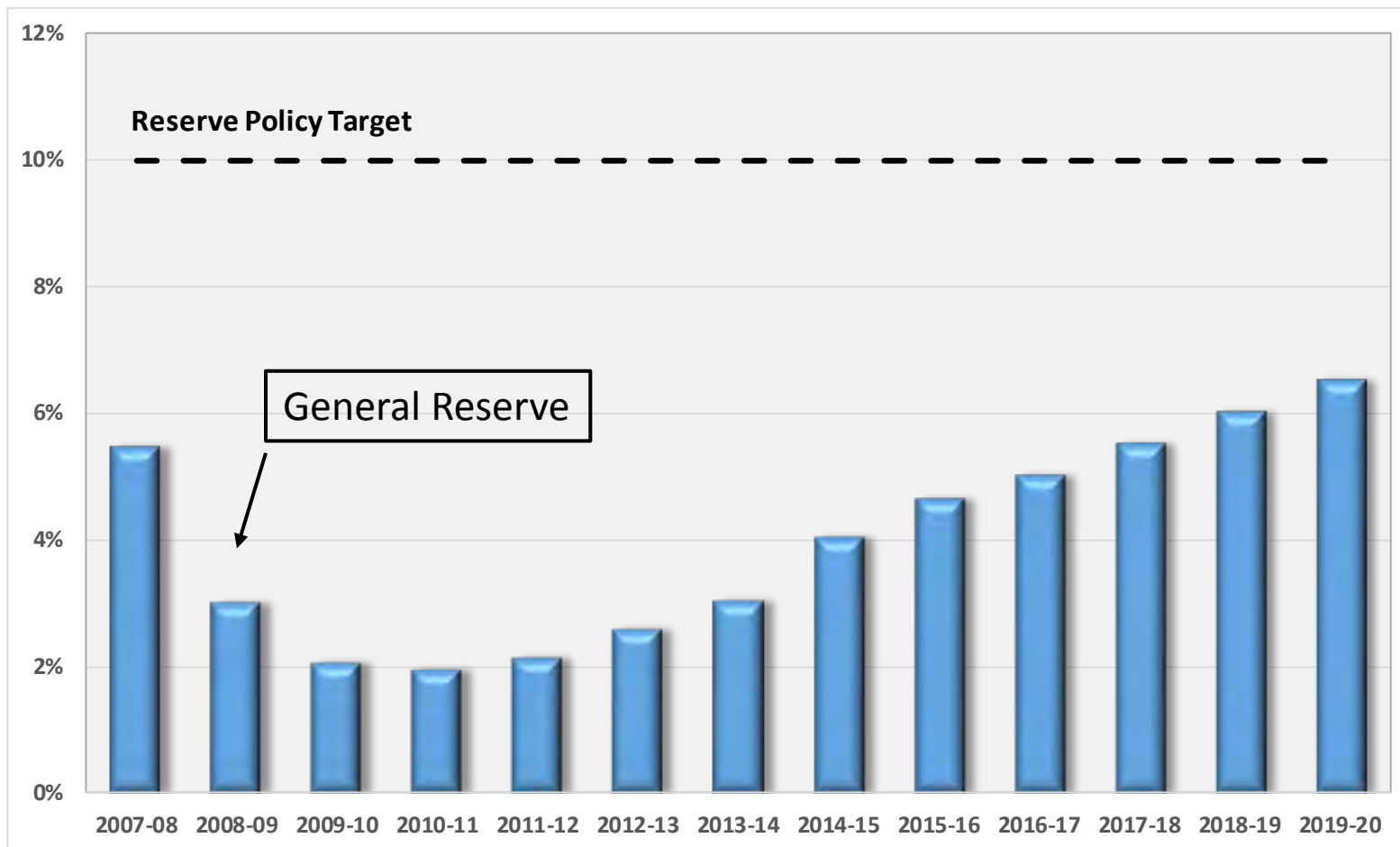


Outcomes of LTFP

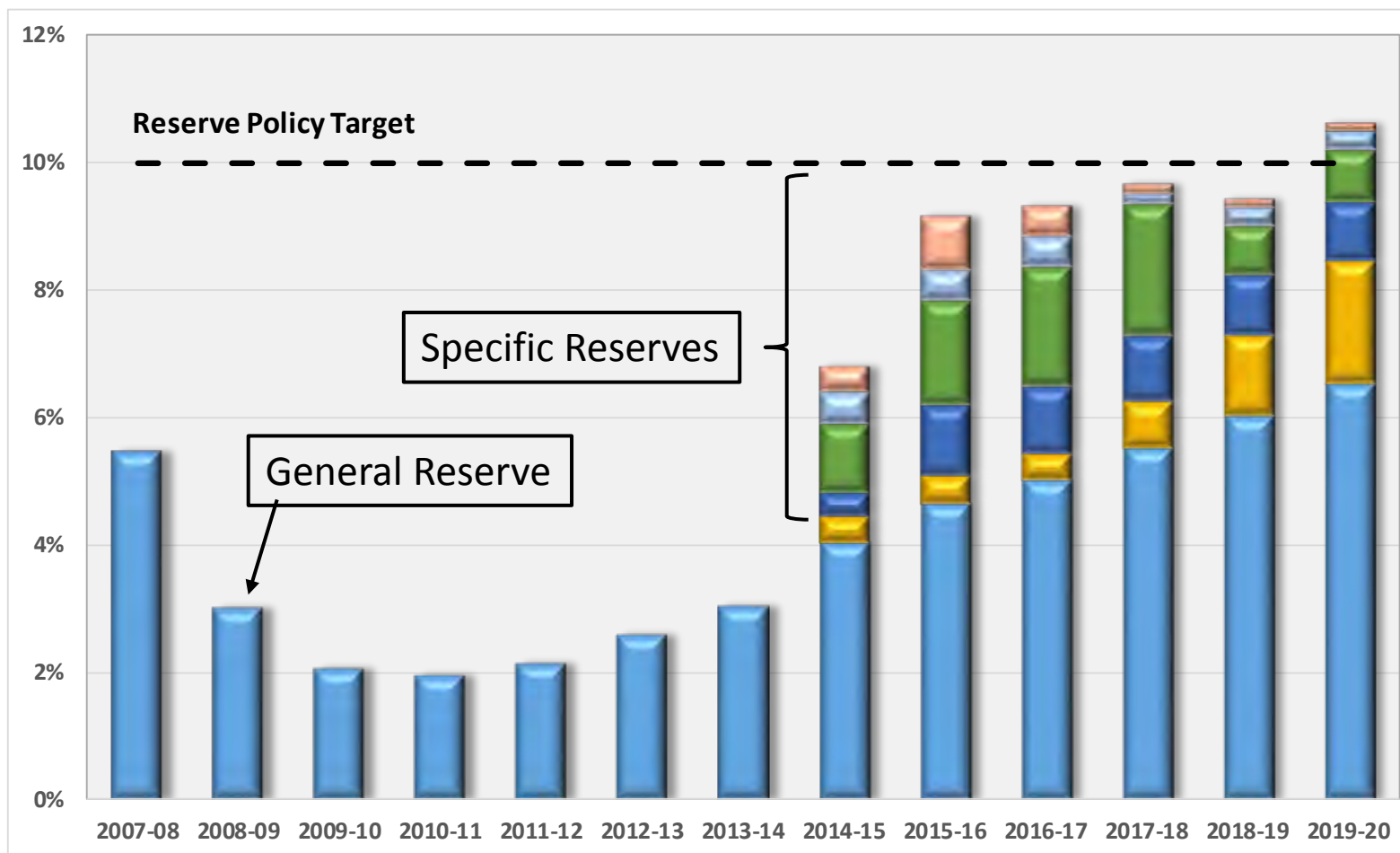
- Financial sustainability engrained in culture
- Increased reserve levels, improved cost recovery, strengthened internal controls
- Implemented OPEB pre-funding plan and supplemental pension funding plan
- Increased credit rating from BBB+ to A+
- Issued CIP bonds to address significant capital needs



Reserve Balances



Reserve Balances



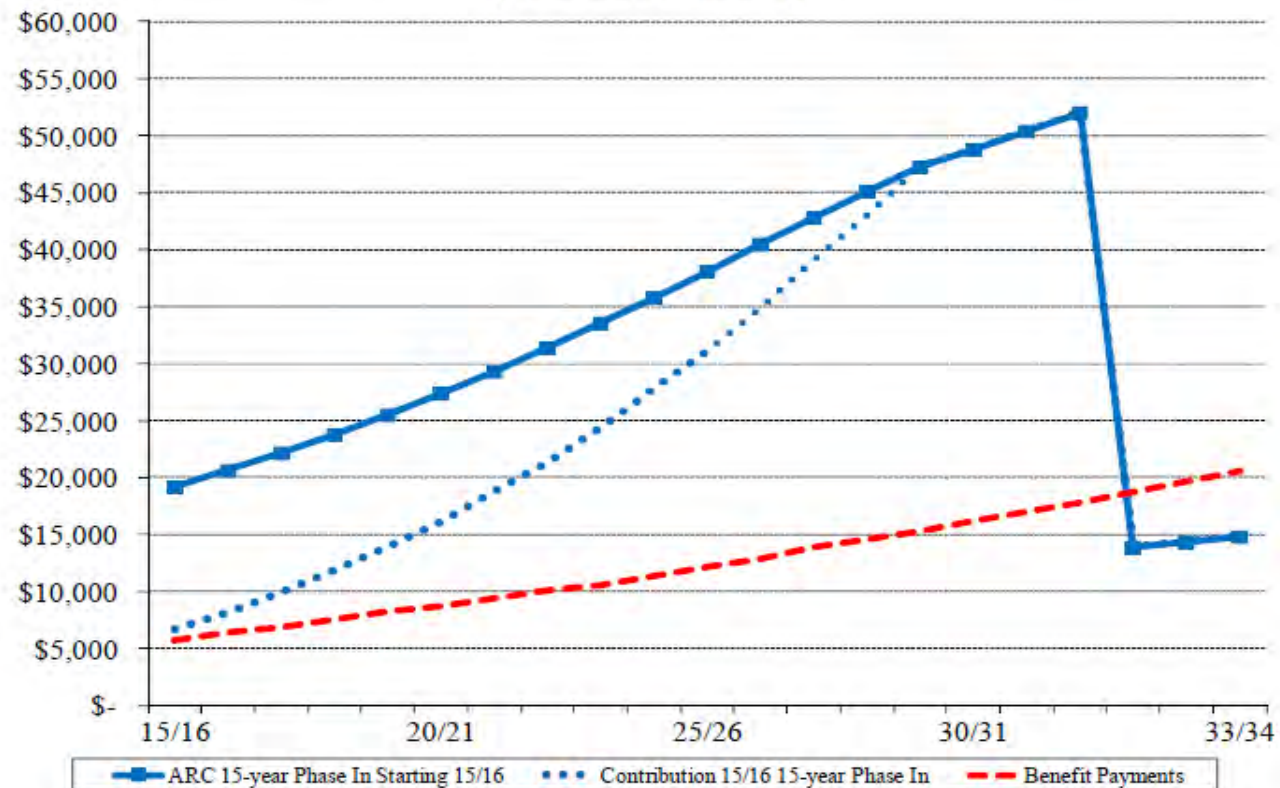
Case Study: OPEB Liability

- 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

Phase In Pre-Funding Illustration
15 Year Phase In Starting 15/16
 (Amounts in 000's)



Case Study: OPEB Liability

Fiscal Year Ending	County Payroll	Total Paygo	Full ARC	Phase-in to Full ARC	Additional Contribution	Deposit to OPEB Trust	Charge as % of Payroll
2016	\$ 86,475	\$ 5,724	\$ 18,675	7%	\$ 907	\$ 5,676	7%
2017	89,285	6,365	20,218	13%	1,801	7,114	8%
2018	92,187	6,887	21,856	20%	2,994	8,798	10%
2019	95,183	7,519	23,592	27%	4,340	10,696	11%
2020	98,277	8,224	25,421	33%	5,675	12,609	13%
2021	101,471	8,721	27,355	40%	7,454	14,890	15%
2022	104,769	9,363	29,393	47%	9,414	17,390	17%
2023	108,174	10,070	31,520	53%	11,369	19,908	18%
2024	111,689	10,575	33,752	60%	13,906	22,919	21%
2025	115,319	11,397	36,066	67%	16,528	26,163	23%

Case Study: OPEB Liability

- 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



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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