



Recession Readiness:

Act Now to Prepare for the Coming Storm

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CSMFO Conference: February 1, 2023



Recession Readiness: Learning Objectives

With rebounding revenues and an influx of federal funds, many local governments haven't done an in-depth review of operations for potential efficiencies in recent years.

With the chance of a future recession increasing, this session will offer guidance on how to take action now to best prepare for the future.

At the end of the session, you should be able to:

- ◆ Develop strategies on how to leverage one-time federal funds for long-term success;
- ◆ Identify revenue opportunities and efficiencies in current operations; and
- ◆ Stress test your budget + begin an action plan for sustainability



Where We Are Now: Three Premises



1. The Start of the Next Downturn is Now Closer Than the End of the Last One

- As of February 2023, we have nearly completed over a decade of the expansion phase of the current business cycle*, starting after the recession bottomed out in June 2009: [164 months and counting](#)
- Average 1945-2009 (prior 11 cycles): [58.4 months](#)
- Average 1854-2009 (prior 33 cycles): [38.7 months](#)
- Range since 1854: 10 to 120 months

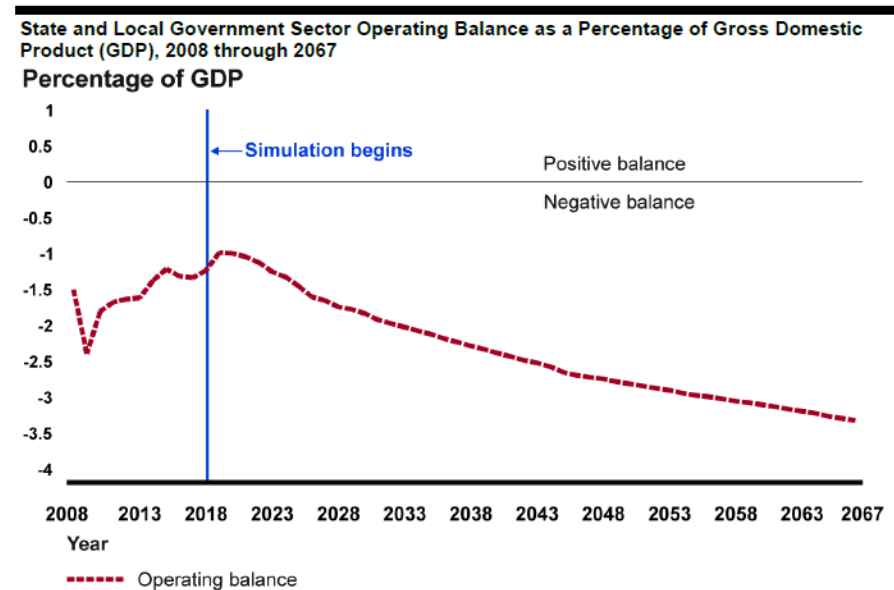
Last Five Expansion Phases (trough to peak)	Duration
November 2001 – December 2007	73 months
March 1991 – March 2001	120 months
November 1982 – July 1990	92 months
July 1980 – July 1981	12 months
March 1975 – January 1980	58 months

Source: National Bureau of Economic Research (NBER)
*does not include the brief COVID-19 recession



2. Structural Fiscal Challenges Persist

- Public sector fiscal challenges are not just cyclical, and few public employers will simply grow their way out of such pressures
- Before the pandemic, the U.S. Government Accountability Office (GAO) developed a simulation model for the state and local sector as an entirety, projecting significant fiscal gaps absent corrective action, due largely to:
 - Flat revenues as % of GDP
 - Healthcare and retiree costs rising faster than the overall economy
- GAO calculated that closing the structural fiscal gap would require action equivalent to a **14.7% reduction** in state and local government recurring expenditures every year



Source: GAO analysis of data from the Agency for Healthcare Research and Quality, Bloomberg, the Board of Governors of the Federal Reserve System, the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Census Bureau, the Centers for Medicare & Medicaid Services, the Congressional Budget Office, and the Federal Reserve Bank of St. Louis. | GAO-19-208SP



3. Pent-up Demands Have Surfaced

- ◆ **From the workforce**, to make up for containment and concessions during the downturn as the labor market has since heated up
- ◆ **From the public, operating departments, and elected officials** to restore and enhance services
- ◆ **To address deferred and growing infrastructure needs**
- ◆ **To meet changing IT demands** (mobility, access) and opportunities

Managing competing expectations and goals from operating departments, labor, Councils/Boards, and the public – while positioning for long-term fiscal stability – is a major challenge and concern for public sector finance officers in this period of recovery and growth



Issues for CA Municipal Leaders – A View from the City of Santa Rosa

- ◆ In Santa Rosa, rising costs for operational goods and services, as well as capital project costs, strain existing and future budgets
- ◆ The City's current labor agreements are up in June 2024, and those negotiations will undoubtedly be reflective of the higher cost of living in Sonoma County
- ◆ Santa Rosa is struggling to hire and retain staff at virtually all levels of our organization, and as such we must become more creative in what we offer employees
- ◆ The City knows that CalPERS pension costs will continue to impact our budget
- ◆ Santa Rosa is an area prone to natural disasters, and as we found in the aftermath of the 2017 Tubbs Fire, even a well-funded General Fund reserve may be lost quickly should disaster strike



Summary: Where We Are

1. The start of the next downturn is now closer than the end of the last one
2. Structural fiscal challenges will persist
3. Pent-up demands have surfaced



IIJA, ARPA & Federal Funding Considerations



Putting Together the Puzzle Pieces: Federal Funding

Putting together the funding puzzle pieces is a generational opportunity for state and local governments, but one that is highly complex

Even the highest capacity governments will be challenged to effectively plan and execute implementation

- ◆ Coronavirus Aid, Relief, and Economic Security Act (CARES Act)¹ passed in March 2020, over \$2 trillion in stimulus funding and relief
- ◆ American Rescue Plan Act (ARPA)² signed into law March 2021, a \$1.9 trillion stimulus package, including \$350B in direct aid to state and local governments, as well as significant investments in **infrastructure, education, public health, human services** and **housing**
- ◆ Infrastructure Investment and Jobs Act (IIJA)³ signed into law November 2021 – includes historic investments in **roads, bridges and highways** (\$110B), **broadband** (\$65B), **water** (\$55B), **transit** (\$39B), **airport** (\$25B) and **ports** (\$17B) infrastructure
- ◆ Some provisions support efforts to **address equity, sustainability and partnerships**

¹ <https://www.congress.gov/bill/116th-congress/senate-bill/3548>

² <https://www.congress.gov/bill/117th-congress/house-bill/1319>

³ <https://www.congress.gov/bill/117th-congress/house-bill/3684>



IIJA Summary

- ◆ **The Infrastructure Investments and Jobs Act (IIJA)**, which became law on November 15, 2021, is the largest and most comprehensive infrastructure bill in American history
- ◆ \$1.2T bill, of which approximately **\$550B (46%) is new spending** and **\$650B (54%) reauthorizes existing programs**
 - Invests in new programs for transportation, energy transmission, resilience, broadband, and many others
 - Reauthorizes the nation's surface transportation and drinking water and wastewater legislation
- ◆ Covers a 10-year period
- ◆ Strong emphasis on **safety** and **resiliency** throughout the legislation
- ◆ Expands support for and use of public private partnerships
- ◆ Centralizes oversight of and strengthens existing Build America / Buy America requirements
- ◆ Most funds spread over the first five years (through federal FY 2026)

103
NEW PROGRAMS
AVAILABLE
TO STATE AND LOCAL
GOVERNMENTS

\$756B
ACROSS ALL AVAILABLE
PROGRAMS
TO STATE AND LOCAL
GOVERNMENTS



Overview of Transportation Provisions

Surface transportation (highway and transit) largely funded through existing programs

New programs created

- ◆ Bridge Investment Program
- ◆ National Infrastructure Project Assistance
- ◆ Safe Streets and Roads for All
- ◆ Culvert removal, replacement, and restoration
- ◆ Strengthening Mobility and Revolutionizing Transportation Grant Program
- ◆ Electric vehicles and charging infrastructure funding
- ◆ Reconnecting Communities Pilot Program
- ◆ Railroad Crossing Elimination Grant Program

New Transportation Investments for States and Local Governments



- Roads, Bridges and Major Projects, \$48.25B
- Airports, \$20B
- Electric Vehicles, Buses and Ferries, \$13.45B
- Safety, \$10B
- Public Transportation, \$4B
- Passenger and Freight Rail, \$3B
- Ports and Waterways, \$400MM

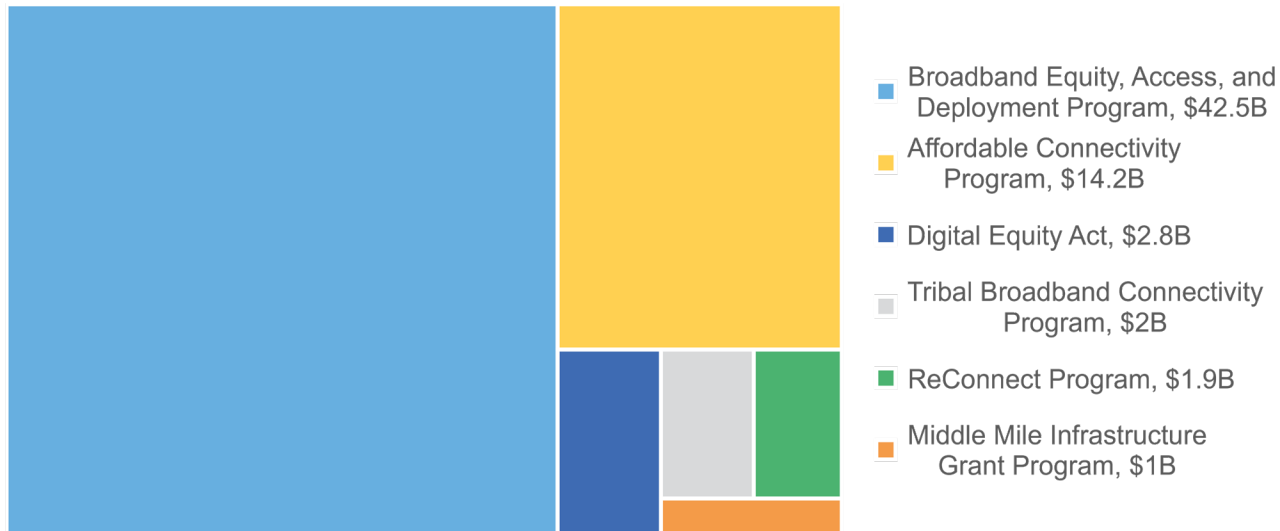


Overview of Broadband Provisions

Provides \$64.4B for new broadband deployment and adoption, the largest in U.S. history

- ◆ Primarily grant programs, largely deployed through states
- ◆ Creation of a new category of Private Activity Bonds
- ◆ Funding for existing grant and loan programs

New Broadband Investments





Water and Energy Infrastructure Financing Overview

Water Infrastructure

- ◆ Provides \$55B over the next five years.
- ◆ Bulk of funding will be distributed through existing State Revolving Funds (SRFs)
 - Increased funding for grants/principal forgiveness

Energy Infrastructure

- ◆ Provides \$98B of funding for energy infrastructure
- ◆ Fuels and Technology: new programs focused on mine reclamation, orphaned wells, carbon capture, carbon storage, wind energy, hydropower, solar energy
- ◆ Energy Security and Grid Infrastructure reliability and resilience efforts – grant programs (P3 opportunities)

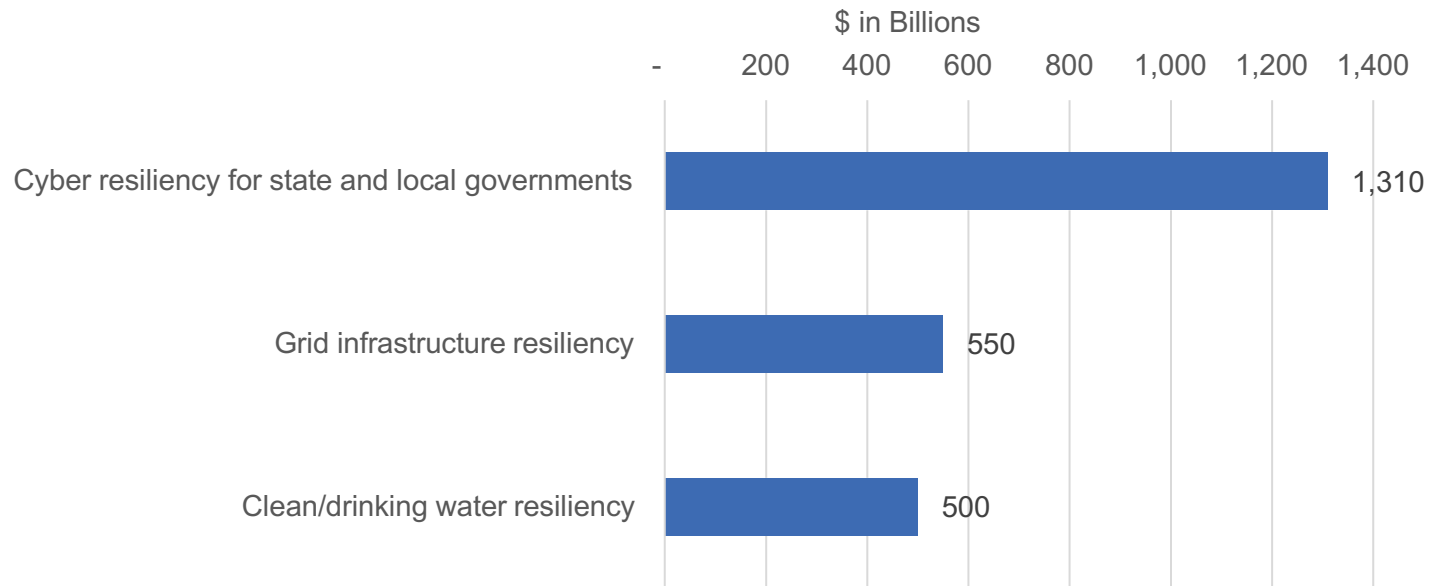
Purpose	Amount
Recapitalization of SRFs	\$23.4B (SRF)
Removal of lead service lines	\$15B (SRF)
Address emerging contaminants	\$5B (SRF)
Small, Underserved, and Disadvantaged Communities	\$5B
Various additional water infrastructure investments including technical assistance, resilience and cybersecurity vulnerabilities, and advanced technologies.	\$6.6B



Cybersecurity Provisions

- ◆ Over \$2B in funding for cybersecurity resiliency and innovation
- ◆ New \$1B State, Local, Tribal, and Territorial (SLTT) Grant Program
- ◆ \$100M Cyber Response and Recovery Fund Program – federal, state, local, tribal, and public and private entities eligible for support following a “significant incident”

Cybersecurity Investment





Changes and Updates to Federal Lending Programs Under IIJA

Transportation Infrastructure Finance & Innovation Act (TIFIA) and Railroad Rehabilitation & Improvement Financing (RRIF) Loan Programs

- ◆ Expands eligible projects to include airports, transit-oriented developments, acquisition of plant and wildlife habitats for environmental mitigation
- ◆ Changes certain provisions of the loan agreements making them more “user-friendly”
- ◆ Requires value for money analysis of delivery alternatives for projects >\$750M

Water Infrastructure Finance & Innovation Act (WIFIA) Loan Program

- ◆ Reauthorizes appropriations for FY2022 through FY2026
- ◆ Updates to certain requirements associated with WIFIA loans and implementation of expanded outreach program to small and rural communities

Private Activity Bonds

- ◆ Limit for qualified highway or surface freight transportation facilities increased from \$15B to \$30B
- ◆ Eligible projects expanded to include Qualified Broadband Projects and Qualified Carbon Dioxide Capture Facilities



IIJA Project Examples



Bus Rapid Transit System in Atlanta Area

- ◆ Estimated to cost about \$1B, the buses would run in dedicated lanes free from other traffic



Expand Network of Electric Vehicle Charging Stations in California

- ◆ California will receive \$384M over the next five years to help large cities, as well as smaller cities meet their goals of electrifying their bus fleets in compliance with the State's mandate to electrify all heavy-duty transit buses by 2040



Off-dock Container Support Facility in Tacoma, Washington

- ◆ The \$41.5M project will increase off-dock container and chassis storage and free up on-dock space at nearby terminals



Approaching Equity in Funding

- ◆ **Equity** is present and at times encouraged in both IIJA and ARPA funded projects
- ◆ Consider the below definitions to frame your understanding of equity:

People being treated differently in the interest of giving all people access to health, safety, and welfare (the fundamental purposes of local government)

*-The Basics of Equity in Budgeting, GFOA
Government Finance Review,
February 2021*

The consistent and systematic fair, just, and impartial treatment of all individuals, including individuals who belong to underserved communities that have been denied such treatment

*- White House Executive Order On Advancing
Racial Equity and Support for Underserved
Communities Through the Federal Government,
January 20, 2021*

- ◆ **Each definition acknowledges that equitable project selection and implementation is not one-size-fits all** and will look different from jurisdiction to jurisdiction based on the demographic background, region, and availability of existing resources and infrastructure
- ◆ When applied to competitive IIJA opportunities, **equity outcomes are likely to be a primary evaluation consideration**



Examples of Incorporating Equity into Capital Investments

Options/Tools	Case Example
1. Identifying equity priorities/goals based on historical disparities – either from strategic plan or developing specific equitable outcomes driven by leadership and input from residents; can use GIS Mapping to assist with determining historical spending and other demographical trends. ¹	Long Beach, CA
2. Intentionally dedicate amount and/or percent of funding for specific equitable priority – set aside X percent of CIP allotted funds for equitable purposes either via increased or shifted funds, or in a Community Benefit Agreement for certain types of developments. ²	Austin, TX (Project Connect)
3. Creating and inserting equity factors/criteria into the project prioritization process – to encourage intentional investment proportionate to community need. ³	Eugene, OR
4. Creating an Equity Impact Statement – establishes criteria to review projects and programs in terms of impacted populations, community engagement, and other best practices for equitable project planning and implementation. ⁴	King County, WA
5. Maximizing public-private partnership opportunities – better leverage assets and partnerships to maximize impact of available capital funds for investment. ⁵	Seattle, WA
6. "Triple Bottom-Line" Evaluation/Analysis – evaluate individual proposed projects/investments under a “triple bottom line” approach: economic, fiscal and environmental and (other) social impacts. ⁶	Raleigh, NC
7. Other financing tools/strategies to increase and/or dedicate resources to equitable CIP goals – linking and earmarking new revenue streams or expiring tax incentives/abateements to CIP. ⁷	Philadelphia, PA

1. <https://www.longbeach.gov/globalassets/health/media-library/documents/healthy-living/office-of-equity/city-of-long-beach-office-of-equity-toolkit>
2. <https://www.austintexas.gov/departments/project-connect-anti-displacement-initiatives>
3. https://www.eugene-or.gov/DocumentCenter/View/1100/Long_Form_TBL_Tool?bidId=#;~:text=Goal%2Foutcome%3A%20It%20is%20our,negative%20impact%20for%20all%20people
4. https://kingcounty.gov/~media/elected/executive/equity-social-justice/2016/The_Equity_Impact_Review_checklist_Mar2016.ashx?la=en
5. <https://www.seattle.gov/documents/Departments/FinanceDepartment/2227proposedcip/Overview.pdf>
6. <https://ced.sog.unc.edu/2015/11/the-triple-bottom-line-in-local-government-community-economic-development/>
7. <https://www.phila.gov/programs/rebuild/>



Creating a Plan to Maximize Impact



ARPA + IIJA = Unprecedented Opportunity

Local governments must plan strategically to make the best use of all available federal funds

– or risk missing out on an unprecedented opportunity

PFM has long assisted clients with understanding their financial baselines and projecting scenarios – all practices vital to optimizing federal resources

In the context of ARPA and IIJA, we can help our clients:

- ◆ Develop customized models to identify multi-year baseline budget forecasts
- ◆ Assess opportunities to “braid” and “blend” funding streams to leverage ARPA/IIJA and other funding
- ◆ Apply an equity perspective to the use of federal funding

Why Braiding and Blending?

“The American Rescue Plan also provided over \$350 billion in critical resources to every state, county, city, and unit of local government...**Cities should look to leverage those resources to help prepare for the transformative investments included in the Bipartisan Infrastructure Law** including training the workers needed to build high quality infrastructure; hiring back the public sector workers needed to help manage potential federal investments; and getting a jump start on water, sewer, and broadband projects that could complement investments from the infrastructure law.”

Bipartisan Infrastructure Law Guidebook, White House Fact Sheet



Key Considerations for Implementation

- ◆ **Prioritize your community's capital needs and develop a project pipeline** – taking time to think about the projects previously considered impossible due to lack of funding or regional coordination. This is a once-in-a-generation funding opportunity that will require bold, inclusive thinking
- ◆ Use the **Bipartisan Infrastructure Law Guidebook** to identify federal funding streams to target
- ◆ Ensure all transit, railway, road, highway, and bridge projects are a part of your **MPO's Transportation Improvement Plan**
- ◆ **Begin mapping sites** for electric vehicle and alternative fuel charging stations
- ◆ **Inventory and map** the lead pipes in your community
- ◆ **Work with your state's broadband agency** to ensure your community or region's needs are appropriately mapped and inventoried
- ◆ **Establish relationships** with the regional offices for key federal agencies, who can help direct you to resources and provide technical assistance



Challenges for Mid-Size Cities in California

- Some cities not large enough to be direct ARPA recipients but have to go through the State for disbursement of funds
- Cities may not have municipal ownership of various ARPA/IIJA funding categories (such as utilities) and/or not qualify for other categories (e.g., rural preference grants)
- Those cities that may need the most help may have limited internal capacity to pursue competitive grant opportunities
- In Santa Rosa, ARPA funding and an unanticipated General Fund surplus created a path to take on new social programs and capital projects
- Many programs seeded with ARPA funds may see future ongoing costs to the City's General Fund and each program will present its own obstacle against dissolution
 - A prime example is the City's inRESPONSE mental health response unit
- Departments are looking now to find ways to work these programs into their future budgets, and the City is looking for additional funding opportunities to keep them going
- The potential for these costs to impact the General Fund on an ongoing basis will need to be taken into account, along with the City's need to pay for long-deferred infrastructure programs



Key Considerations for a Strategic Financial Plan

Maximizing the impact of federal funding streams – and braiding the funding streams to create greater impact and leverage – requires a detailed approach to:

- ◆ Be prepared for the revenue and expenditure impacts of a post-pandemic economy
- ◆ Address the loss of one-time funding from ARPA
- ◆ Make certain that both operating, and capital spending are aligned with goals and outcomes
- ◆ Align capacity and timing of projects with other non-federal funding opportunities
- ◆ Create sufficient local capacity and partnerships to implement the desired projects in a strategic order
- ◆ Take advantage of investments that can help increase future revenue and/or stabilize or reduce future cost
- ◆ Ensure O&M costs related to infrastructure are accounted for in outyear operating budgets
- ◆ Analyze the "fit" of federal funding streams within your organization's existing financial condition, CIP needs and debt-related covenants



Key Steps for a Strategic Financial Plan

Key Steps Might Include:

- ◆ **Understanding your starting point.** What is your jurisdiction's five-year budget projection right now – before layering in any federal funding streams? This should include General Fund, debt service, PAYGO capital, Capital Fund, and other sources
 - The Capital Improvement Plan (CIP) is necessary but insufficient to serve as a starting point
- ◆ **Layer in potential, likely, and known federal funding and associated expenditures** (IIJA and associated O&M, direct ARPA revenue replacement, and associated one-time and recurring spending)
 - **Avoiding the potential for a fiscal cliff.** Minimum five-year horizon, including at least one year after expiration of IIJA and ARPA funding
- ◆ **Prioritize impacts to achieve**
- ◆ **Merely fast-forwarding CIP items is unlikely to provide the maximum impact and leverage** from federal funding
- ◆ Reevaluate non-IIJA and ARPA baseline revenue forecasts
- ◆ Layer in critical, time-sensitive “must” spending (e.g., crumbling or underinvested infrastructure, vaccine rollout, priority economic relief)



Multi-Year Planning Framework for IIJA

Identify available funding streams and potential revenue	Develop a well-rounded strategy that aligns with funding restrictions	Maximize the impact
<p><u>Take Inventory of Available Funds</u></p> <ul style="list-style-type: none">Review how your municipality is eligible for and can access available IIJA funds. Funds may be available through:<ul style="list-style-type: none">Competitive grantsSuballocations based on populationFederal formulas <p><u>Consider All Funding Needs and Potential Projects</u></p> <ul style="list-style-type: none">Compile a list of IIJA, ARPA, and other projects that may be eligible for federal fundingDetermine how to allocate the dollars in the category, which has the fewest restrictions	<p><u>Transportation</u></p> <ul style="list-style-type: none">Competitive grants opportunities from USDOTInvest in bridges and rail crossingsInvest in public transit programs and facilities <p><u>Environmental and Disaster Recovery</u></p> <ul style="list-style-type: none">Weatherization Assistance ProgramsInvest in electrical grid to withstand weather and disasterFund pre-disaster mitigation activities <p><u>Invest in Infrastructure and Productivity Initiatives</u></p> <ul style="list-style-type: none">Broadband and network investmentWater, sewer, and stormwater improvementsStreet and sidewalk repairsEnergy efficiency, fleet renewal, and space rationalization initiatives <p><u>Invest in Equitable Priorities</u></p> <ul style="list-style-type: none">Address historical and systemic disparities in areas such as health, housing, and educationInvest in disproportionately impacted areas	<p><u>Maximize federal funding</u></p> <ul style="list-style-type: none">Maximize the other components of federal funding <i>outside</i> of IIJA and the state and local fiscal recovery allocation of ARPA (e.g., determine what can be covered under separate federal programs such as the FEMA Disaster Relief Fund, CDBG, Emergency Management Performance, HHS, CDC grants, public health workforce, community health center etc.) <p><u>Coordination and Alignment</u></p> <ul style="list-style-type: none">Coordinate where possible with any overlapping levels of government that are eligible for funding or receive direct allocationsConsider regional partnerships or co-investment with non-profit and philanthropic community



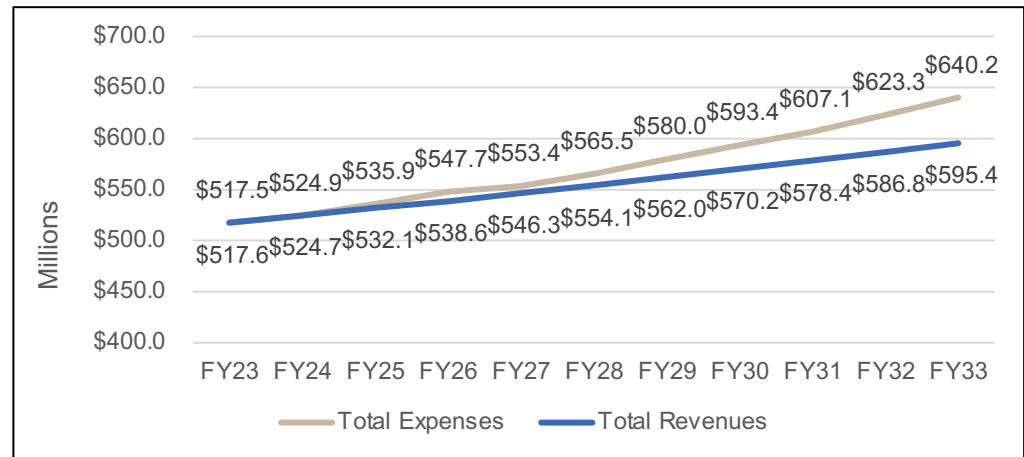
Stress Testing



Step One: Baseline Long-Range Financial Plan

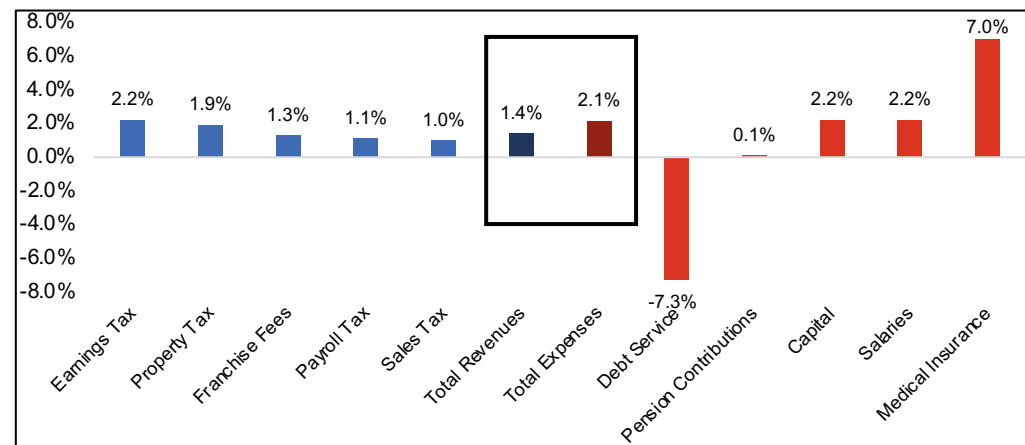
- Recognized best practice: 5-10 year **long-range financial plan** to create a framework for fiscal sustainability
- Evaluate key budget drivers and policy parameters through a **baseline** analysis
- Focus on recurring revenues and expenditures and structural budget position (“carry forward”)
- Assess and address liabilities and long-term needs (e.g. infrastructure, unfunded retiree benefits, tax policy)
- Develop strategies to bend the curves, close any gaps, and carve out new resources
- Communicate the plan and gain buy-in from all levels of the organization

General Fund Projections: FY2023-FY2033



For illustrative purposes only.

Projected CAGR for Major Budget Drivers: FY2023-FY2033



For illustrative purposes only.



Step Two: Stress Test

◆ **Stress test** the plan under alternative economic scenarios, and to provide “**pre-mortems**” on what could go wrong without preventative measures

- Revenue sensitivity
- Expenditure sensitivity and fixed cost constraints
- Debt and capital program considerations

◆ What scenarios?

- Moderate or “typical” recession?
- Great recession or worse?
- Multiple scenarios?

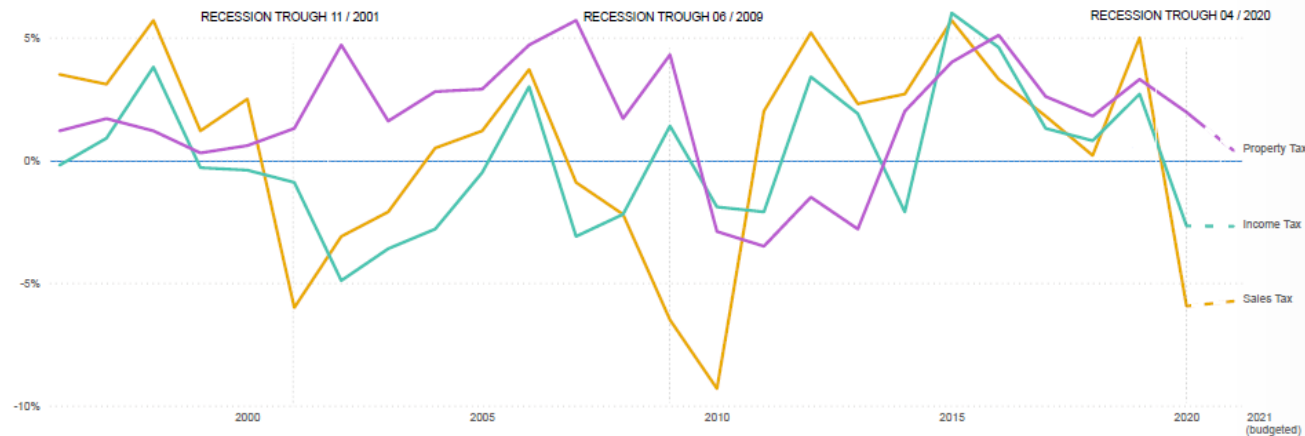


Stress Test: Revenues

- ◆ Evaluate and forecast key revenue streams under alternative economic scenarios
- ◆ Both the degree of sensitivity to the economy **and** timing of impacts can vary across revenue types based on a range of local factors
- ◆ Examples:

- Timing of payment
- Reassessment practices
- Laws and practices with regard to tax caps and credits
- Tax base and industry mix / concentration
- Character of the community (e.g., built out or developing)

FIGURE 3. YEAR OVER YEAR CHANGE IN GENERAL FUND TAX SOURCES





Stress Test: Revenues

◆ Common revenue streams to watch:

- Sales taxes
- Income / wage taxes
- Business taxes
- Intergovernmental revenues not under direct local control
- Property taxes (maybe)
- Real estate transfer taxes (definitely)
- Development related fees



Stress Test: Revenues

◆ Common projection issues:

- Do you already (and/or overlapping levels of government) already have forecasting models for major revenue streams driven by economic assumptions?
- What was your experience during prior downturns?
 - Has your community and economic base changed significantly since those prior recessions? If so, what does that change imply?
 - Have your tax/fee rates and rate structures changed since your last downturn, and what does that imply?
- Could collection/payment rates decline?
- Will public resistance to otherwise routine rate adjustments (and/or demand for tax breaks) likely intensify during tough times?
- For intergovernmental revenues, how is the fiscal structure for the other level of government (e.g. state) aligned with the economy in terms of the potential severity and timing of pressures? Are the revenues formulaic or discretionary? What is the history, if any, during prior downturns?



Stress Test: Operating Expenditures

$$\text{Total Expenditures} = \text{Fixed Costs} + [\text{Level of Service} * \text{Cost Per Unit of Service}]$$

◆ How would your service demands change in a recession?

- Greater demand for social services and safety nets
- Some growth-related service pressures might decline (e.g., building permit inspections)
- Are certain discretionary services and studies likely to go on hold?

◆ How might costs per unit of service change?

- Wage pressures could moderate. How much flexibility (If under collective bargaining, when do contracts expire? Are there reopeners?)? How to address and present?
- Healthcare inflation? Workers' compensation?
- Are any major contracted services coming up for bid? Is that just a general concern or are there economic sensitivities with the pricing?

◆ What are your fixed costs?

- Are they truly fixed? Even if not economically sensitive, are the prospective trends clear?

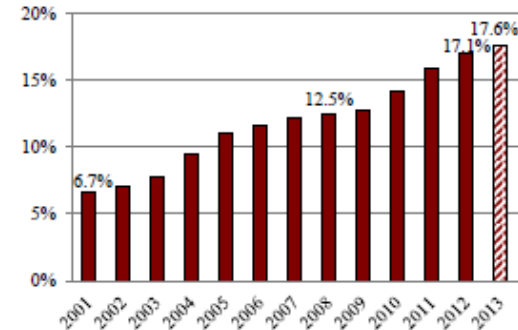


Stress Test: Operating Expenditures – Pension Contributions

◆ Declining pension investment returns would increase employer contributions (eventually)

- Reduced assets, or even just shortfalls relative to the assumed return, will increase a plan's unfunded liability
- In turn, a larger unfunded liability will mean bigger amortization payments on top of the normal costs for current service
- Impact and timing will depend on multiple factors, for example: smoothing method for investment returns, AVR lag to budget year, amortization method (open/closed, level dollar or level % of pay) and period, potentially offsetting changes in payroll growth, etc.
- Overall, however, the economic downturn was a major driver of rising pension costs in the wake of the Great Recession
- Today, some plans/systems are already under sharp pressure due to other factors (e.g., CalPERS) and many remain underfunded

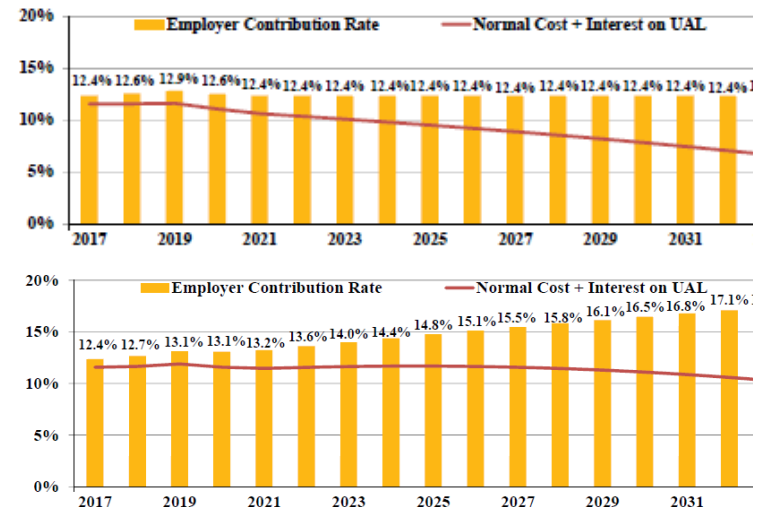
FIGURE 4. ANNUAL REQUIRED CONTRIBUTION AS A PERCENT OF PAYROLL, FY 2001-2013



Note: 2013 involves projections for about one-third of plans. Sources: Various 2013 actuarial valuations; and PPD (2001-2013).

Source (Figure 4): Center for Retirement Research at Boston College, "The Funding of State and Local Pensions" 2013-2017 (June 2014)

Sample Plan Impacts: 6.0% Annual Returns Instead of 7.5%



For illustrative purposes only.



Stress Test: Retiree Benefits and Other Non-Debt Liabilities

- ◆ Pension funded ratio, pension health relative to the plan sponsor's finances and economic base, actuarial risk, benefit design
- ◆ Other Post-Employment Benefit (OPEB) funding, benefit design and risk exposure
- ◆ Other non-debt liabilities, such as:
 - Internal service fund condition
 - Workers' compensation reserves

Is 80% the Right Number?

"The funded ratio is most meaningful when viewed together with other relevant information. Other factors that might be considered in assessing the fiscal soundness of a pension plan include:

- Size of the pension obligation relative to the financial size (as measured by revenue, assets, or payroll) of the plan sponsor.
- Financial health (as measured by level of debt, cash flow, profit or budget surplus) of the plan sponsor.
- Funding or contribution policy and whether contributions actually are made according to the plan's policy.
- Investment strategy, including the level of investment volatility risk and the possible effect on contribution levels.

Each of these factors should be examined over several years and **in light of the economic environment**."

Source: "The 80% Pension Standards Myth," American Academy of Actuaries, Issue Brief, July 2012 [emphasis added]



Stress Test: Capital and Debt

◆ Re-evaluate CIP needs

- Assessment of needs to identify what might be deferred vs. critical / mandated
- Evaluation of historical programmed vs. actual expenditures

◆ Related capital needs (if not in CIP): fleet, equipment

◆ Potential issues to review with your Municipal Advisor:

- Outstanding debt schedule and future capacity
- Assumptions for borrowing costs during economic downturn:
 - New debt issued
 - Variable rate exposure, if any
- Mix of debt vs. pay-go capital funding



Action Plans for Sustainability

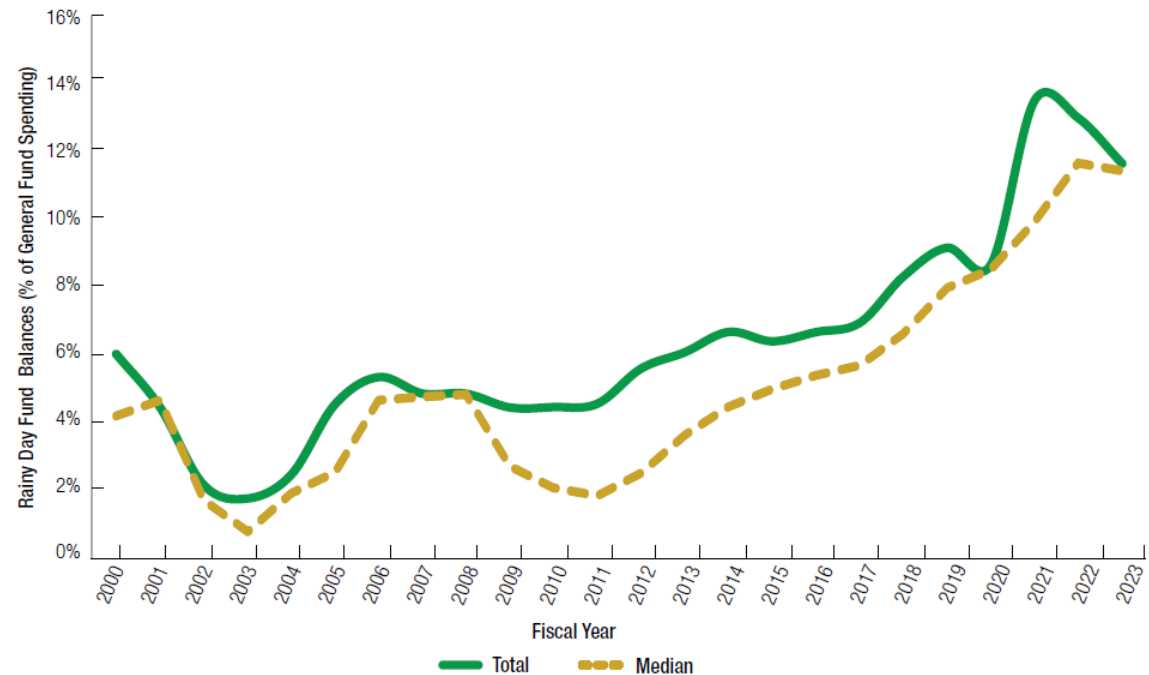


So You Have a Stress Test: Now What?

◆ Calibrate and size reserve needs

- Existing policy
- Current reserve levels
- Risk-based resizing
based on exposure
analysis?

Rainy Day Fund Balances as a Percentage of Expenditures Fiscal 2000 to Fiscal 2023



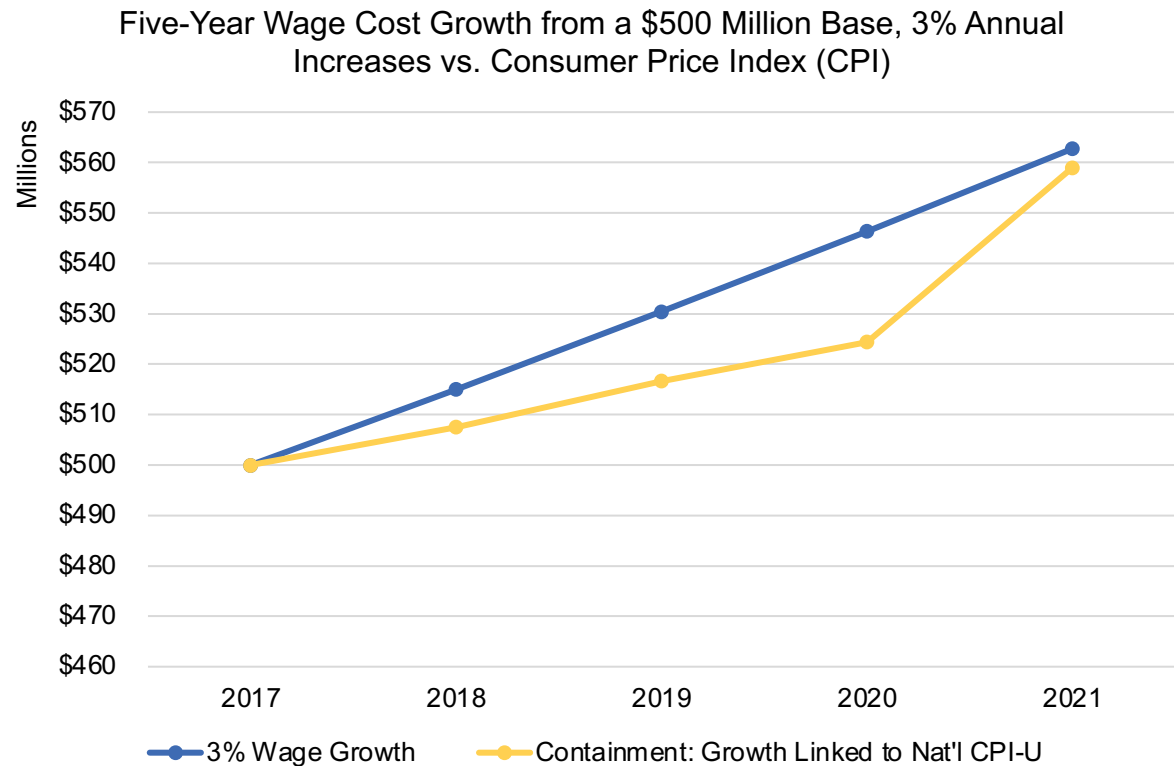


So You Have a Stress Test: Now What?

◆ Establish spending parameters for addressing pent up demands

- Workforce agreements / policies
- New services

◆ Communications and buy-in





Action Plan: Revenue Positioning

◆ Tax incentives review

◆ Non-tax revenue updates

- Keep pace with cost of service
- Consider special funds for volatile service areas with self-sustaining revenues (e.g., permitting)

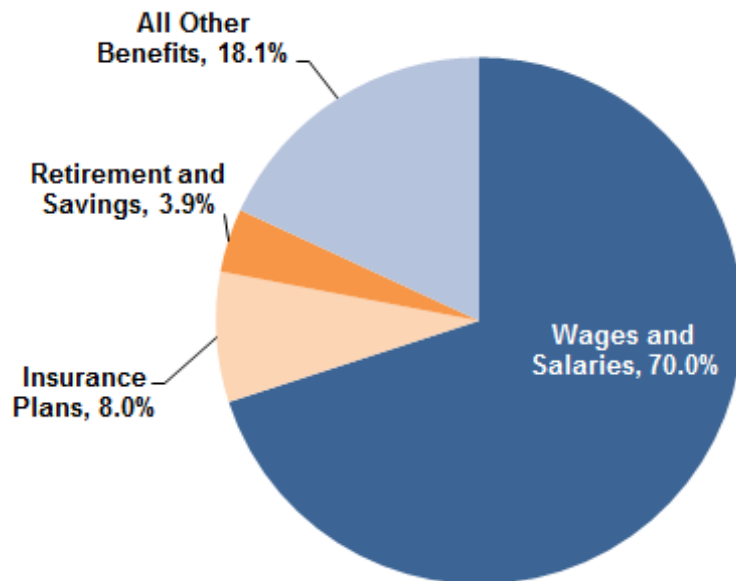
◆ Tax policy analytics

- Establishment of a mechanism to buffer volatile revenues
 - City of Oakland, Commonwealth of Massachusetts
- Review of tax structure
 - Revenue diversification
 - Exemptions (e.g. sales tax)

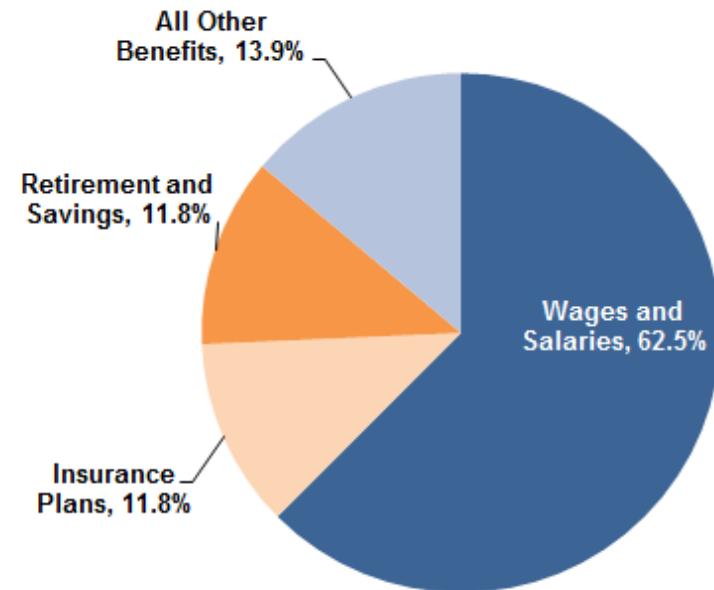


Action Plan: Total Compensation Portfolio

Private Industry: Q4-2018



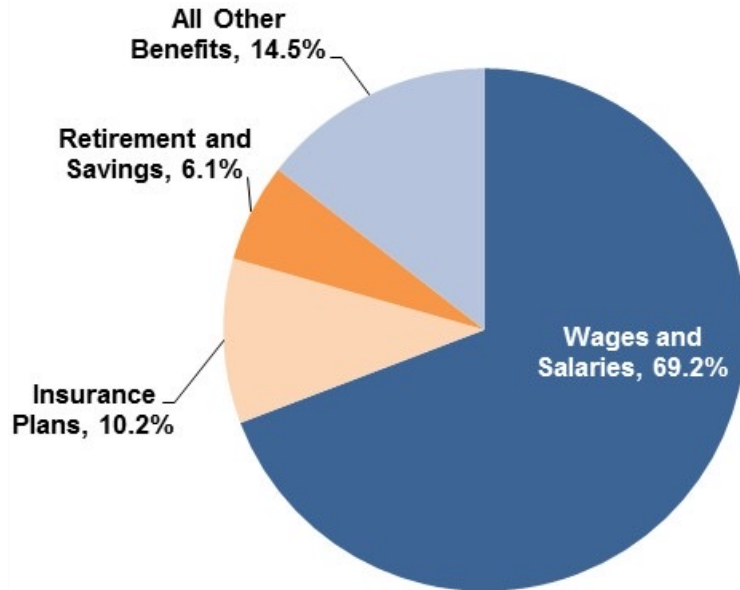
State and Local: Q4-2018



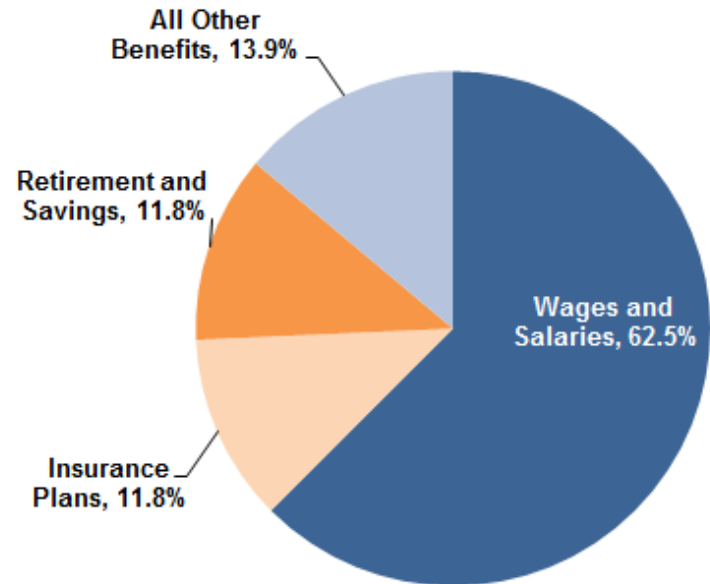


Action Plan: Rebalancing the Compensation Portfolio

State and Local: Q1-2004



State and Local: Q4-2018





Action Plan: Employee Compensation

◆ Use current pay flexibility, as available, toward adopting/negotiating:

- More affordable health benefit programs and structures
- Paid leave and schedule reforms
- Work rules
- Retiree benefit restructuring / cost-sharing

◆ Goals:

- More competitive pay to recruit and retain quality employees
- A more efficient (smaller) workforce through attrition
- Less exposure to future benefit cost growth



Action Plan: Non-Personnel Expenditures

◆ Develop options for future savings:

- Agency performance reviews
- Policy reviews: e.g., criminal justice
- Explore alternative service delivery

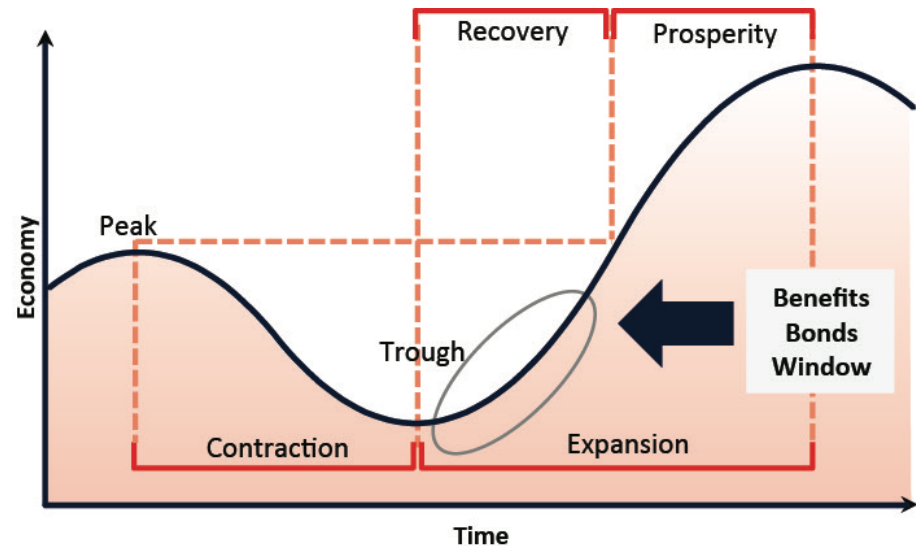
◆ Invest in productivity gains:

- Energy efficiency
- Fleet
- Technology
- Productivity Bank?



Action Plan: Retiree Benefit and Other Non-Debt Liabilities

- ◆ Retiree benefit liability management?
 - Benefit change?
 - Buyouts?
 - De-risking (actuarial assumptions)
- ◆ Stabilization fund (Section 115)?
- ◆ OPEB trust/policy?
- ◆ Pension funding?
 - POBs?
 - Asset sales/concessions
 - Financial engineering
 - Internal loans
 - Asset-in-Kind (AIK) transfers
- ◆ Fully fund, as needed and applicable, other reserves and special funds:
 - Worker's compensation
 - Internal services





Action Plan: Capital and Debt Considerations

- ◆ Invest now in infrastructure renewal and replacement
- ◆ Consider CIP process improvements to increase rate of spend-down and increase impact with debt incurred
- ◆ Again, explore internal “investment” opportunities with operating budget savings (e.g., energy efficiency, fleet modernization)
- ◆ Plan for capital investment during a downturn? Construction costs may be favorable, rates may be lower, local economy may benefit from the stimulus activity
- ◆ Potential issues to review with your Municipal Advisor:
 - Diversification of debt to de-risk portfolio (e.g., fixed vs. variable rate debt, exposure to liquidity providers and counterparties)
 - Permitted structure of new debt issuances (e.g., slower repayment of debt)
 - Timing of debt incurrence (e.g., use of interim financing tools and/or cash)
 - Debt refinancing guidelines
 - In light of options identified above, debt policies and flexibility included therein



Recession Readiness Checklist



Recession Readiness Checklist

Stress Test

- ☐ Baseline long-range forecast
- ☐ Select a downturn scenario
- ☐ Analyze revenue impacts
- ☐ Analyze expenditure impacts
- ☐ Understand fixed cost trends
- ☐ Review liabilities
- ☐ Review CIP/debt

Action Plan for Sustainability

- ☐ Calibrate and size reserve needs
- ☐ Establish future spending parameters
- ☐ Revenue positioning
- ☐ Employee compensation rebalancing
- ☐ Develop efficiency/policy options
- ☐ Invest in productivity
- ☐ Liability management
- ☐ Liability funding
- ☐ CIP/Debt Strategy
- ☐ Other?

- ☐ Communication and Stakeholder Buy-in

Note: Sample list; other considerations may apply in specific circumstances.



Disclosures

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