



CITY OF
HAYWARD
HEART OF THE BAY

WS # 2

DATE: December 18, 2007
TO: Mayor and City Council
FROM: Director of Finance and Internal Services
SUBJECT: Budget Guidelines and Long Range Financial Planning

RECOMMENDATION

That Council read and comment on this report.

BACKGROUND

Each year staff prepares an Operating and Capital Budget. These budgets are recommended to the City Council for adoption in June and they establish the plan for the coming year.

The City of Hayward has a practice of presenting a Two-year Operating Budget and a Five-year Capital Improvement Plan. The budget process usually commences in January.

In September, the Council received the schedule and plan for this next Two-year Budget cycle.

DISCUSSION

Current General Fund Forecast

As of October 2007, the General Fund revenues and expenditures are in line with the budget projections; however, looking forward through the end of the 2008 fiscal year staff has identified areas that will impact reserves. The two major areas of concern are related to (1) a reduction in revenue due to the housing market and general reduction in consumer spending and (2) an increase in employee services costs due to public safety overtime and adjustments to bring employee salaries in line with the market.

The adopted FY08 budget projected a \$3.8 million use of reserves. Based on current estimates, staff expects the use of reserves to be adjusted by approximately \$2 million, for a total of \$5.8 million. These estimates are very preliminary. Staff has a comprehensive Mid-year Review scheduled for January 29, 2008. At that time staff will review the details of these assumptions and projections with Council.

In order to prepare for the next budget cycle staff has been developing a long term view of the City's financial picture. The long term view or forecast confirms that, in general, City general fund expenditures are projected to increase annually at a rate greater than revenue. From time to time organizations experience these economic fluctuations and that is why general fund reserves are so important. However, during our preliminary look forward over a 10 year period we can see that taking action now to address a structural deficit will provide the City with financial stability in the long term.

Long Range Financial Planning

Long range financial planning is a powerful complement to traditional budgeting. This new approach provides an analysis of the financial environment, a long term forecast of revenues and expenditures, and looks at financial resources and desired service levels. Long range financial planning also sets standards of financial stewardship through establishing financial policies.

In early November the City Manager introduced the value of long range financial planning and staff has been developing steps to implement these best practices.

A summary of the long range planning process is outlined below:

Phase One

- Creating consensus regarding the purpose of long range planning and results desired.
- Identifying a project team.
- Formulating a strategy for involving stakeholders.
- Creating an outline or roadmap to explain the process.
- Identifying service level preferences which will determine how resources will be spent and how revenue will be raised.
- Developing financial policies.

Phase Two

- Developing strategies through analysis of available data to develop financial sustainability.
- Analyzing the financial environment.
- Development of planning assumptions.
- Creating 10 year revenue and expenditure projections.
- Analyzing department obligations and opportunities.

Phase Three

Based on the analysis in Phase Two, develop strategies to confront and anticipate challenges and capitalize on opportunities. These strategies are developed collaboratively with all stakeholders.

- Developing strategies.
- Evaluating and developing planning process.
- Developing response to challenges.
- Developing path to new opportunity.
- Celebrating success.

- Committing to tangible steps necessary to execute financial strategies.

Communication with stakeholders is important throughout all phases of the long range financial planning process.

Establishing Guidelines for the FY2009-2010 Budget

As the budget development process begins, certain guidelines must be established. The City Manager has established these guidelines in conjunction with the Finance Department in order to address the General Fund structural deficit. Based on preliminary analysis, staff estimates that expenditures will exceed revenues in FY09 by \$8 million, if no action is taken. Therefore, the City staff has embarked upon an action plan to address the financial situation. The action plan includes, but is not limited to the following actions:

Review of the Cost Allocation Plan: This is already in progress to ensure the costs allocated to various non-General Fund operations are appropriately charged for the services provided.

Fee Study Update: A full evaluation and update to our entire fee structure will be accomplished.

Facilities Evaluation: Staff will conduct a thorough evaluation of current City facilities for possible consolidation and/or disposal.

Fleet Evaluation: Staff will conduct a thorough evaluation of our current rolling stock fleet to determine if we can reduce our inventory within the fleet or find other ways to meet the service demands of our operation in terms of our fleet operations.

Departmental Reorganizations: There may be opportunities to evaluate and reorganize various departments in order to maintain or even enhance service levels and reprioritize services with current staffing levels. All departments will participate in this effort and assist in defining how this might be carried out.

Selective Hiring Freeze: Prior to filling any vacant positions, Department Heads shall gain approval from the City Manager.

Innovations Generator: Staff will create an electronic mailbox and a voice mailbox available to all employees to provide ideas and suggestions about how the City can improve operations and reduce expenditures.

Innovations Task Force: A task force will evaluate and process the information garnered from the Innovations Generator, as well as look at other areas of possible innovation to reduce service delivery costs and/or improve our ability to enhance services.

Revenue/Savings: The goal is to reach a savings/revenue combination of a minimum of \$2 million per year through the revenue and efficiency efforts outlined above, plus other

innovations yet to be determined. However, \$2 million is not enough to balance the current structural deficit.

Expenditures/Reductions: To work toward the \$8 million per year budget impact target each department as been asked to bring forward recommendations which result in a total 6% reduction to all General Fund budgets for FY09.

FISCAL IMPACT

As noted above, staff is recommending an action plan to address the forecasted structural deficit in the General Fund: The action plan for the FY09 Budget includes targets to increase revenue by \$2 million and decrease expenditures by 6% in the General Fund.

PUBLIC CONTACT

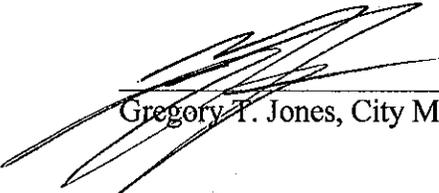
On November 28th, the Council Budget and Finance Committee discussed the budget projections as part of the monthly financial report review.

Prepared by:



Debra C. Auker, Director of Finance and Internal Services

Approved by:

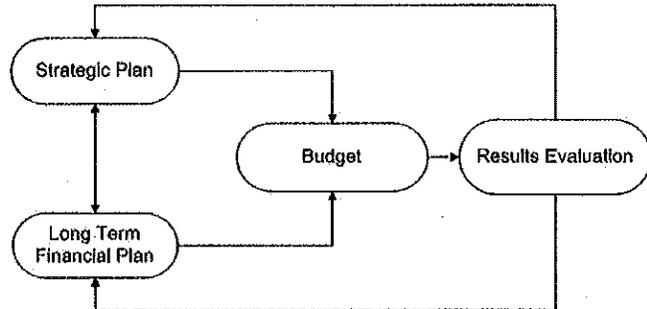


Gregory T. Jones, City Manager

Attachments: GFOA Long-term Financial Planning Introduction
DRAFT – General Fund 10 year forecast



Faced with downward pressures on tax revenues, increasing expenditures, shifting demographics, as well as a host of other complex challenges, local government needs a new approach to planning. The traditional centerpiece of governmental planning, the annual budget, is not suited, by itself, to address these types of challenges due to its inherent tactical and short-term nature. This makes long-term financial planning a powerful complement to traditional budgeting and an invaluable piece of a government's overall planning framework because it provides a long-term and comprehensive financial perspective that is not available through other governmental planning processes. The diagram to the right shows how financial planning interacts with other traditional components of the planning framework to form a complete system.



Financial planning includes analysis of the financial environment and revenue and expenditure forecasting. However, it also includes a number of other essential features. A plan articulates the service level your government wants to provide to its citizens – this allows you to reconcile financial resources with desired service levels. Through financial policies, long-term financial planning establishes the standards of financial stewardship your organization aspires to, thereby providing a common language and framework for guiding day-to-day financial management decisions. Financial planning occurs through collaboration between elected officials and staff, thereby producing a shared understanding of service and financial strategy. This understanding allows elected officials and staff to focus their energies throughout the year on the matters agreed to be most important to the on-going sustainability of the community. These characteristics of planning bring a number of benefits:

Broader Outlook

Good financial planning does not simply project the status quo into the future – rather, you consider a range of possible futures confronting the organization, examine the financial consequences, and determine the most appropriate policy and strategy responses. It is from this broad consideration that the primary benefit of financial planning flows: to stimulate discussion and thinking about the long-term impacts of decisions made today and how your organization can begin positioning itself now to maximize its ability to meet challenges, exploit opportunities, and deliver a stable level of essential services.

“Long-term financial planning develops a mechanism that helps staff and policy-makers move from a reactionary mode to one of charting the course ahead, preparing for the pitfalls as well as the successes.”

Terry McCall, CFO
City of Gresham, OR



Deliberate Responses

A long-term financial plan enables proactive management of government finances, rather than reactive responses to financial crises as they occur. When you develop a long-term financial plan you combine financial forecasting with financial strategizing to identify future challenges and opportunities, causes of fiscal imbalances, and strategies to secure financial sustainability.

Improved Allocation of Resources

Financial planning brings a long-term perspective to resource availability that is necessary for setting realistic boundaries on what your government can accomplish and helps direct resources to the highest priority activities. A long-term perspective integrates strategic planning and budgeting, enabling you to forecast, predict, and actively communicate challenges before they arise and opportunities before they pass by.

The Phases of a Long-Term Financial Plan

A long-term financial planning process takes place over phases. These phases are:

Mobilization Phase - Setting the Stage for Success

Long-term financial planning begins by creating consensus on what the purpose and results of the planning process should be. Mobilization determines the composition of the project team, identifies the project sponsor, and formulates a strategy for involving important stakeholders. Here you should expect to create a high-level roadmap that helps participants understand how the process will unfold and their role in it. A financial plan must identify the service level preferences of the community because this has important implications for how resources will be spent and how revenues will be raised. A financial plan also articulates critical financial policies, which allow you to set and validate baseline standards for financial stewardship and perpetuate structural balance. Based on these initial activities, it becomes possible for you to define the ultimate purpose the financial plan is intended to fulfill. From expanding services in order to meet growth, to reducing reliance on unstable or low-growth revenue sources, defining the purpose of planning up-front builds shared expectations for the plan and provides the basis for later evaluation of the results.

"Finally... a model Long-Term Financial Plan! The City of San Clemente developed a Long Term Financial Plan 15 years ago and the process would have been much easier if GFOA's resources had been available then."

Pall Gudgeirsson, Asst. City Manager and Treasurer
City of San Clemente, CA

Analysis Phase - Supporting Decisions

By properly setting the stage through Mobilization, you are prepared to produce an analysis that supports development of strategies for financial sustainability. In the Analysis Phase, you analyze the financial environment, create long-term revenue and expenditure projections, and analyze debt position. This helps you gain a better understanding of the forces that impact financial stability, potential future imbalances in



financial position, the causes of those imbalances, weaknesses in financial policies, and threats in the financial environment.

Decision Phase - Informed Response

After first mobilizing your organization and alerting it to the importance of long-term planning and then analyzing the forces affecting financial stability, you develop strategies to confront anticipated challenges and capitalize on opportunities. These strategies are developed collaboratively between elected officials, staff, and, perhaps, citizens. After developing your new strategies, you evaluate the planning process, celebrate successes, and commit to the tangible steps needed to execute the financial strategies and ultimately achieve and maintain long-term financial sustainability.

Credibility and Communication

Long-term financial planning is not solely or even primarily a technical exercise. It is essential that different stakeholder groups be actively engaged in the process, endorse the plan and trust the results. A successful long-term financial plan builds in opportunity for meaningful communication with stakeholders like staff, elected officials, and your citizens. A broad base of participation is a proven means for building the credibility of the plan and gaining commitment to financial strategies.

How GFOA can Help You with Financial Planning

Long-term financial planning emphasizes the long-term impacts of decisions made today. By making apparent the long-term consequences of decisions through long-range forecasts and financial analysis, financial planning transforms the dialog between decision-makers in your organization by placing the focus of the conversation squarely on financial sustainability. GFOA can lead you through the process of long-term financial planning by providing proven tools and techniques, serving as a trusted advisor, conducting financial analysis, and by working with elected officials and staff to develop strategies for financial balance. If you would like to learn more about how long-term financial planning works and how GFOA can help you, please feel free to contact the GFOA's Research and Consulting Center at 312-977-9700 or at consulting@gfoa.org.

