



# Financial Planning

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City Council Study Session

September 19, 2017

# Overview

What is the goal of financial planning and budgeting?

What issues has the City faced in terms of finances and what are the City's finances today?

What's next?

Ensure fiscal sustainability to meet the needs of current and future residents

# Strategies



Financial  
Planning and  
Management

Analytical  
Support

Trust and  
Transparency

Continuous  
Improvement

# Creating a Good Budget

Incorporates a long-term perspective

Establishes linkages to broad organizational goals

Focuses budget decisions on results and outcomes given available public resources

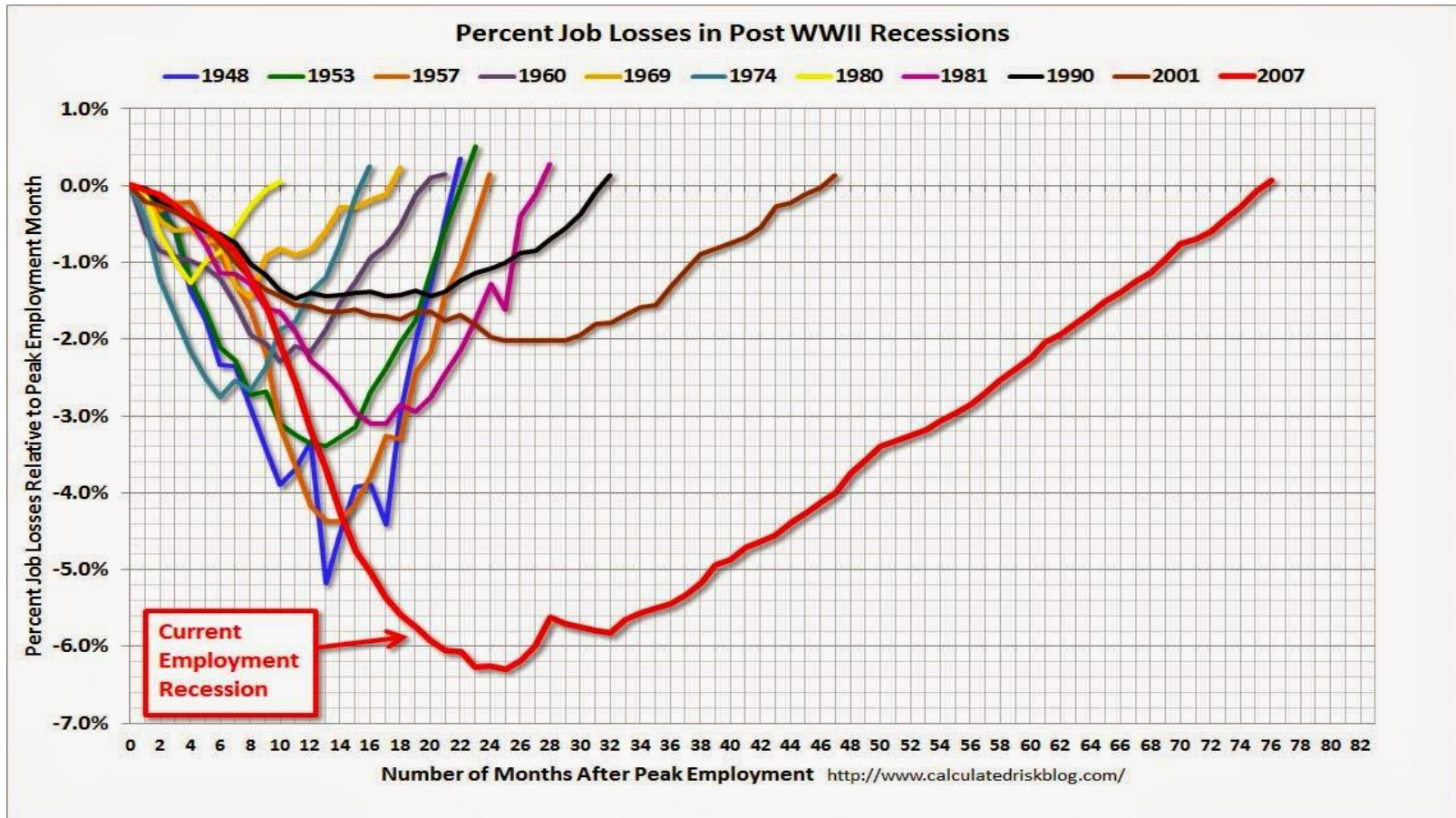
Involves and promotes effective communication with stakeholders

Supports fiscally responsible actions by management and employees

“I’ve heard there is going to be a recession... I’ve decided not to participate.”

-Walt Disney

# Economic Cycles



# Response to Recession

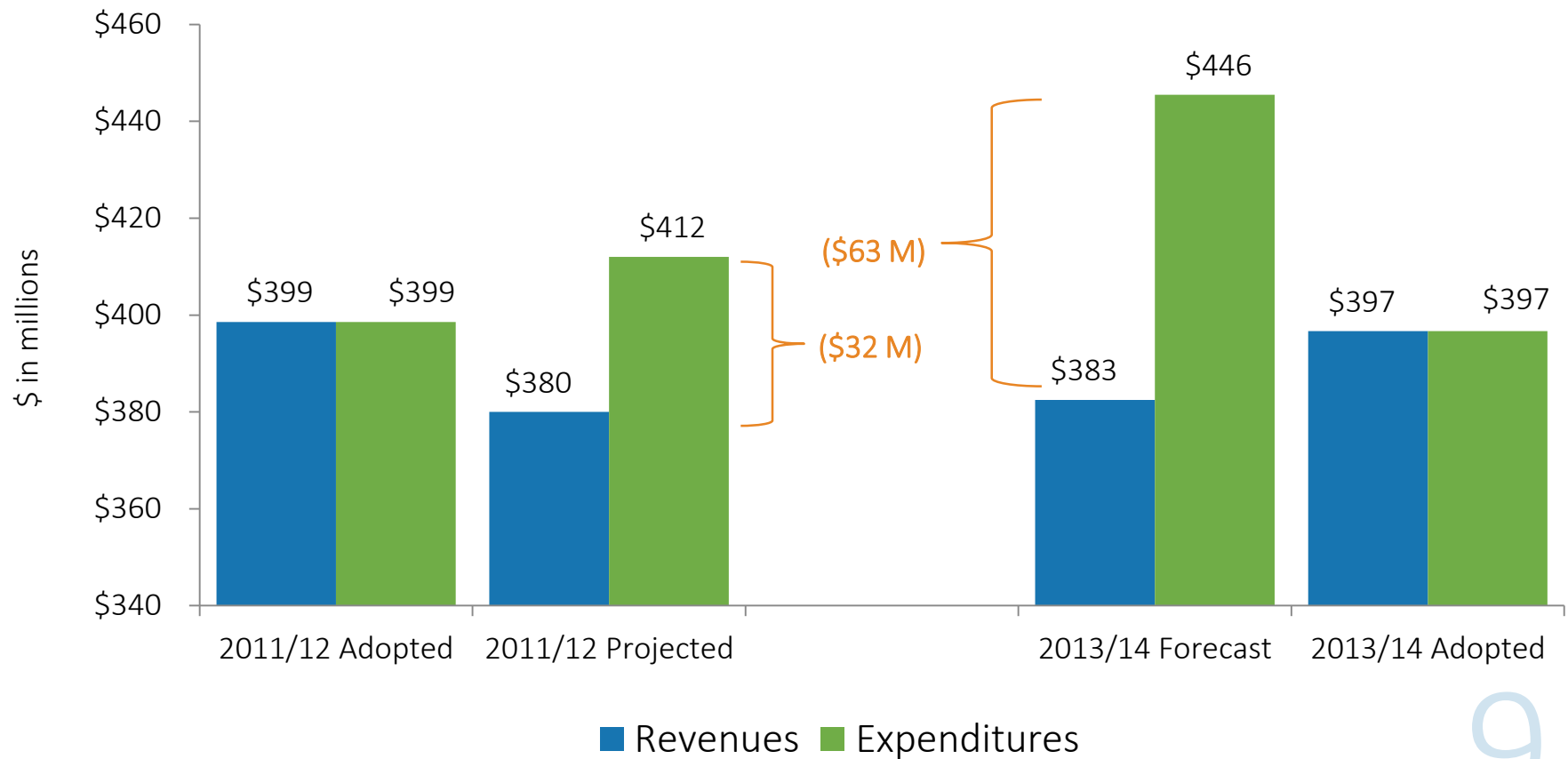
**Initial Unsustainable Response:** debt restructuring, used reserves in the General Fund and other funds

**Tempered Response:** reduced expenses (such as service efficiencies and vacancy reductions), forced attrition, froze non-rep wages (some unions also deferred contractual wage increases), delayed maintenance



# Response to Recession

**Severe Correction:** furloughed employees, layoffs, received grants (COPS, SAFER), increased taxes and implemented new taxes



Ultimately, City downgraded by rating agencies for handling of the recession and its slow and “limited progress in addressing a structural deficit in its General Fund resulting in a sharp decline in reserves...”

“The deficit results from widespread revenue shortfalls as well as over-spending in multiple areas.”

“The recent reversal in financial position raises concerns about the City’s management of its finances and budget monitoring capabilities.”

Fitch downgrade report in 2012

# Moves Toward Fiscal Sustainability

## Financial Planning and Reporting

Monthly Financial Reporting

6-Year Financial Forecasts

Restoration of Reserves

## Policies and Engagement

Reserve Policy Change to 10-20%  
with a goal of 15%

Fiscal Sustainability Taskforce

Strategic Planning to Better  
Allocate Resources

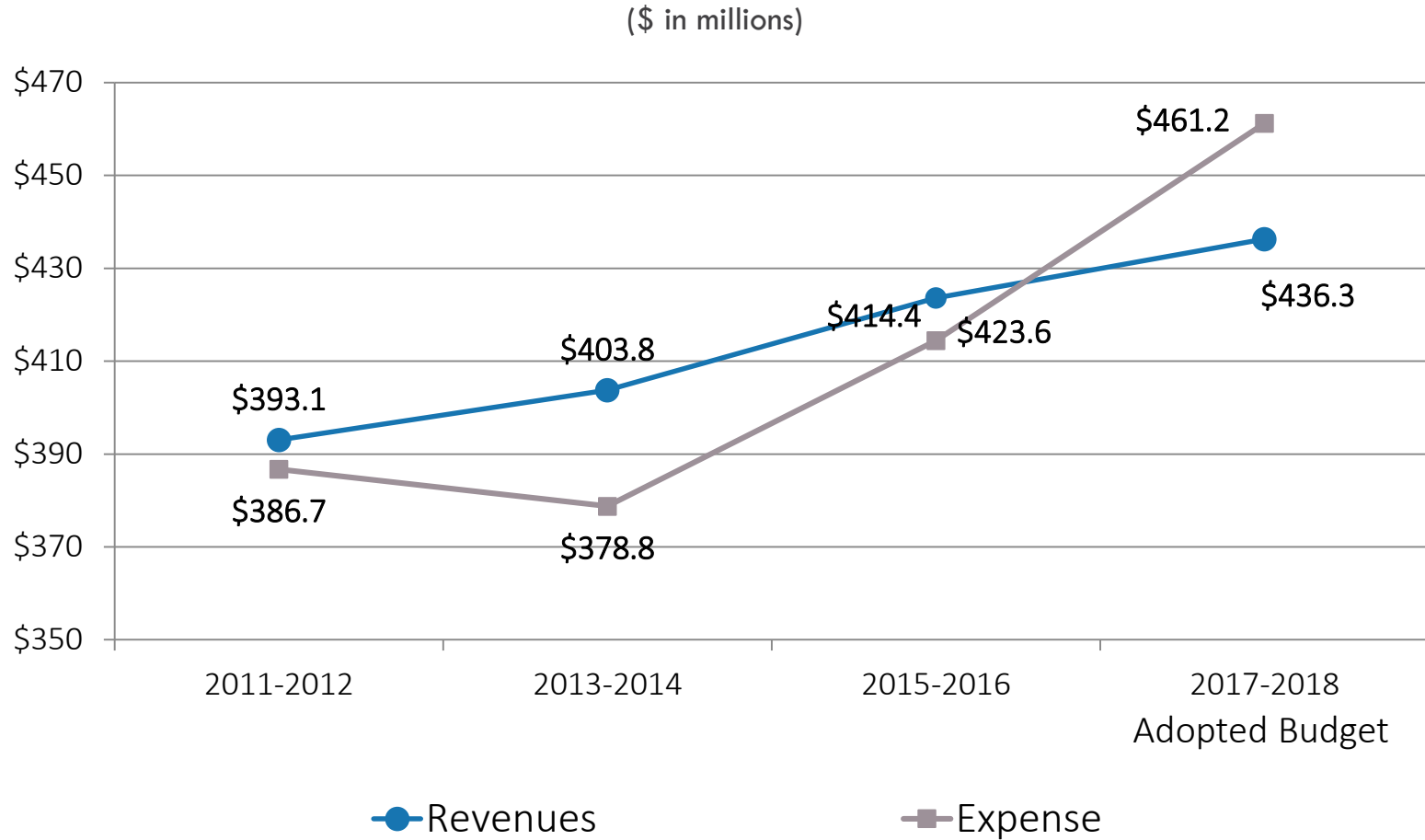
Engagement of Rating Agencies  
(Improved Bond Rating)

## Analysis

Cost Driver Reviews – Health  
Care, Personnel, Maintenance  
and Operations, Retirement

Recurring Expenses Funded with  
Recurring Revenues

# General Fund Financials

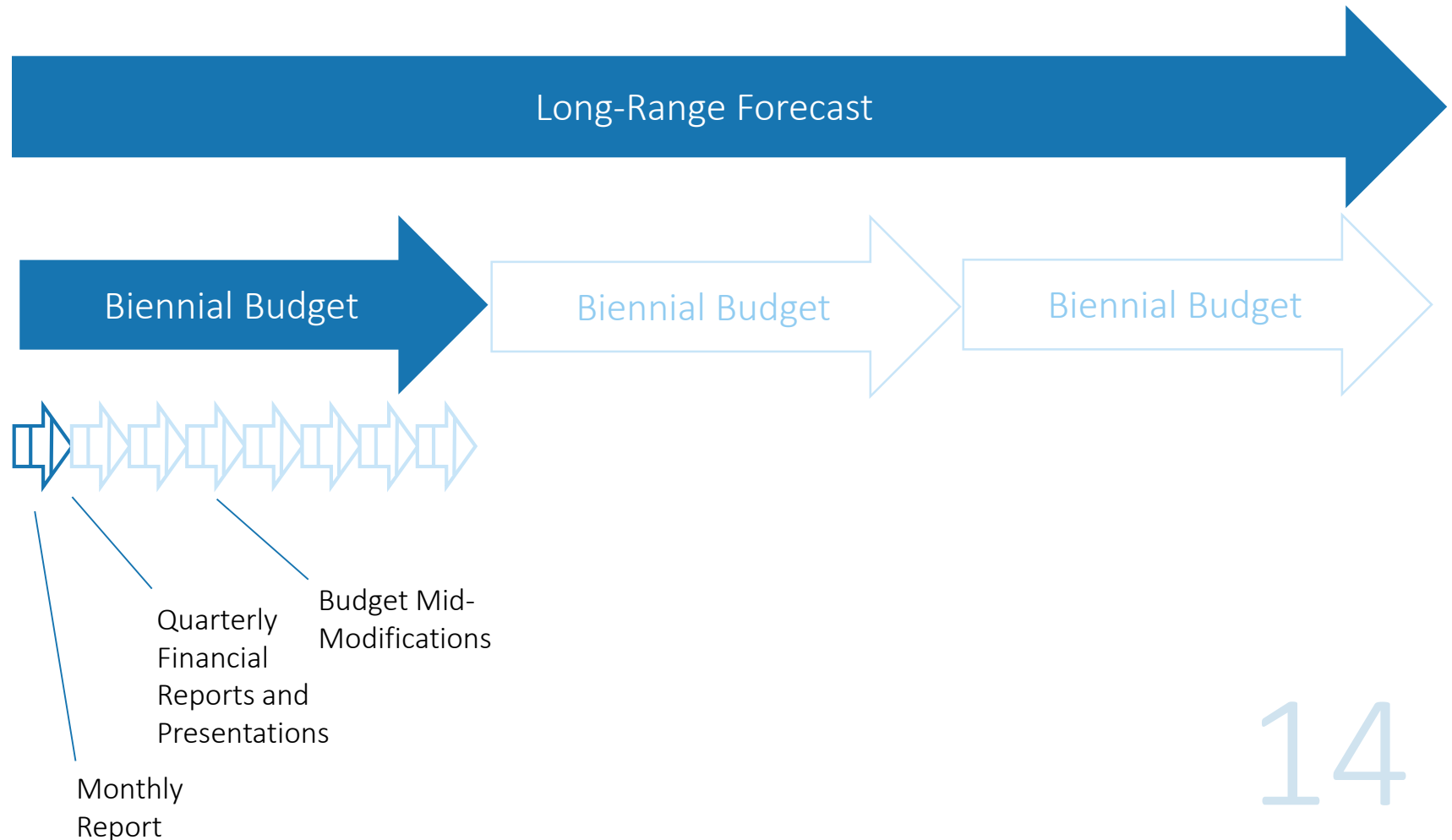




THE ECONOMIC FORECAST IS DIFFICULT FOR AN AMATEUR TO GET  
RIGHT...BUT THE PROFESSIONALS ARE REASONABLY CONFIDENT  
THAT THE MARKETS WILL GO EITHER UP OR DOWN IN THE  
LONG OR SHORT TERM

# Budget Process

6-Year Period



Foresight is thoughtful,  
deliberate, and strategic.  
Action is purposeful,  
confident, and tactical.  
Foresight is what enables wise  
action.

- Ron Holifield

# Long-Range Forecast

6-year basis

Assumes status quo continues

Provides snapshot of long-term structural sustainability of the City's tax base and expense base

Facilitates discussions of long-term policies, such as infrastructure investment, labor and pension costs, and tax policies

Exposes impacts on future generations of short-term decisions

**City Council Touch Points:** Starts the biennial budgeting process, normally after the first quarter report  
Updated throughout the budget development process



# Biennial Budget

2-year basis

Incorporates a long-term perspective through the Long-Range Forecast

Establishes linkages to broad organizational goals, Tacoma 2025

Focuses budget decisions on results and outcomes given available public resources

Involves and promotes effective communication with stakeholders

**City Council Touch Points:** Staff is required to submit a budget by the first week in October. The City Council adopts the budget before the start of the biennium.

# Budget Monitoring and Adjustments

Frequent monitoring of actuals compared to plan

Analysis of trends in expenses and revenues over time

Savings vs. delays

One-time vs. recurring

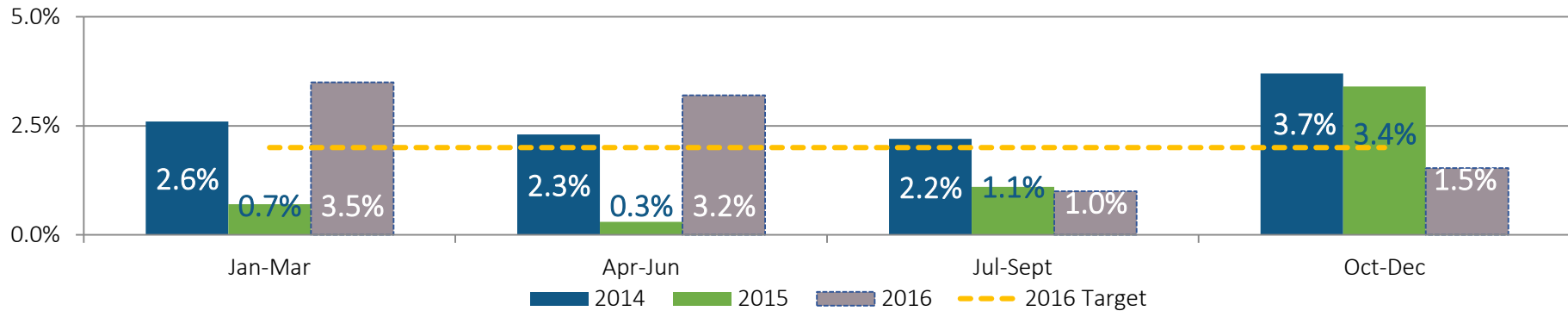
Adaptive and responsive to changes in needs

Incorporates a long-term view

**City Council Touch Points:** Staff provides monthly financial reports and quarterly study session briefings (posted online). City Council approves any appropriation updates, such as re-appropriation, and is required to review the budget at the end of the first year of the biennium.

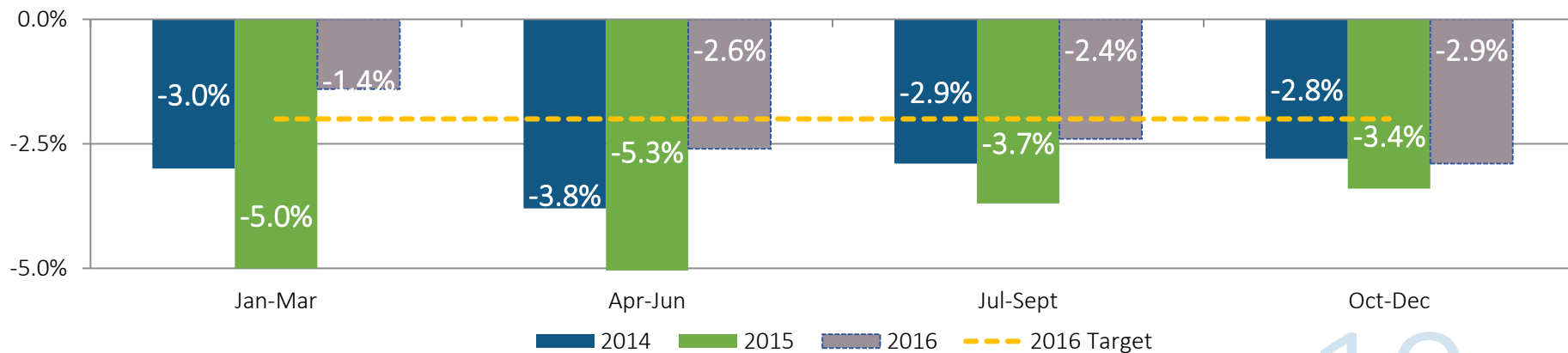
# Revenue

Actuals Compared to Plan by Reported Quarter  
(positive is favorable)



# Expense

Actuals Compared to Plan by Reported Quarter  
(negative is favorable)



# What Does a Good Process Look Like?

## Forecasting and Budgeting

If we are always going to be “wrong,” we want to be on the right side of wrong

Allows for some changes in the economy to the negative or positive without requiring severe corrections

Clear about assumptions and risks

Monitors trends and adjusts budget as needed (adjust our spending to match changes in the economy)

Tracks one-time and accumulated savings for needed future investments

# What Does a Bad Process Look Like?

## Forecasting and Budgeting

Doesn't discuss its assumptions or positive and negative considerations

Too tight - meaning that decision-makers won't have room to respond to emergent issues

Doesn't consider future needs (such as maintenance)

Doesn't include frequent monitoring

Commitments outside of priorities setting process and reviews of financials

What's next?

# Mid-Biennium

September 19 (today)

*Study Session on financial planning*

September 29

*City Council convey considerations to the City Manager*

October 31

*Study Session presentation on 2017 financials through 3<sup>rd</sup> Quarter*

November 21

*Study Session presentation on the 2017-2018 Modification Proposal*

November 28

*Public Hearing on Modification*

*1<sup>st</sup> Reading of Modification*

December 5

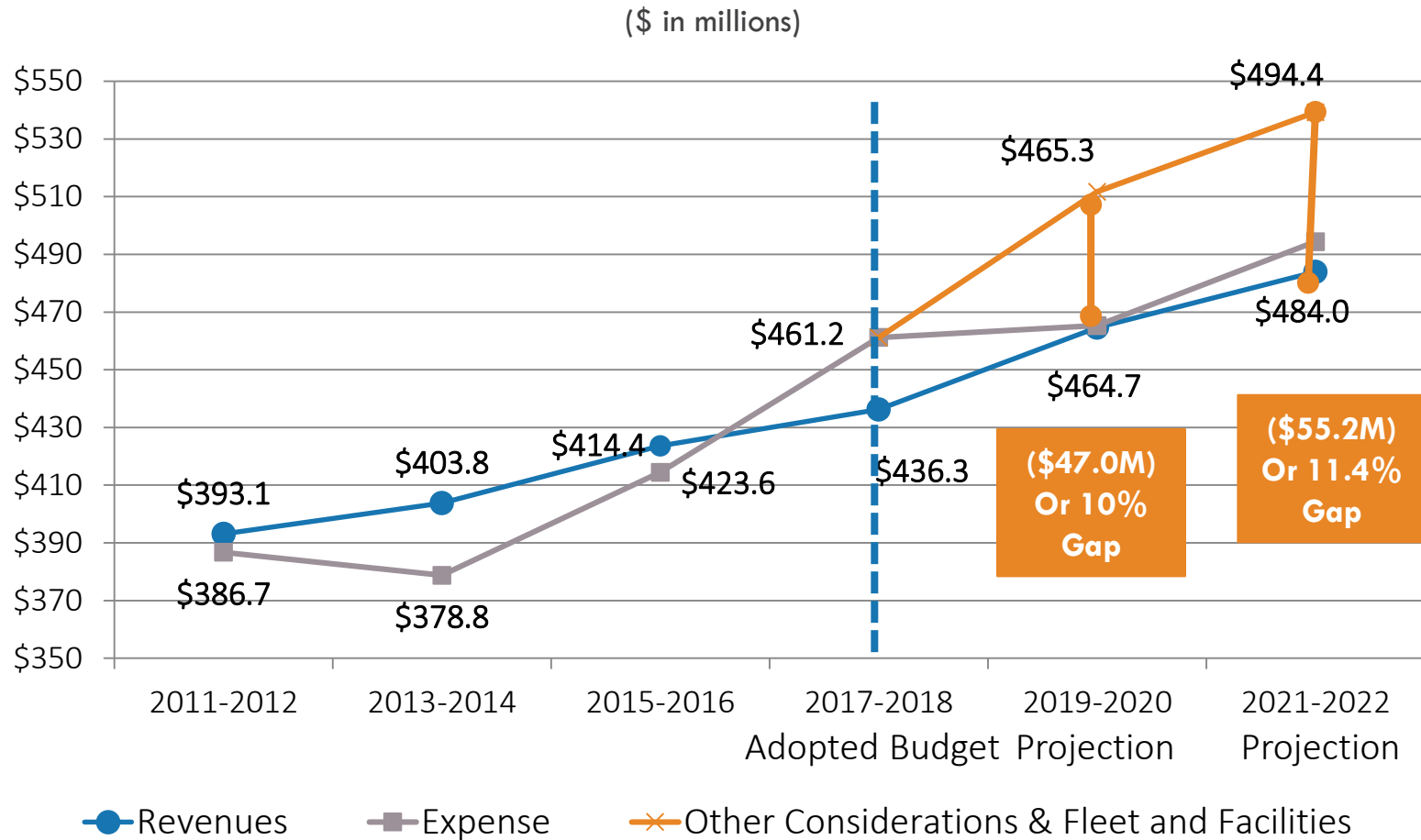
*2<sup>nd</sup> Reading*

# Outstanding Commitments & Considerations

One-Time Commitments	2017-2018	2019-2020
Emergency Homelessness Response	\$3,400,000	
Fire Station 5/SAFER	\$2,200,000	
Broadway Center for Performing Arts Capital		\$2,500,000
Sound Transit Link		\$750,000 to \$1,500,000
Ongoing Commitments	2017-2018	2019-2020
Fire Station 5 (Net of PSE Contributions and Projected Tax Revenues)		\$840,000
Known Considerations	2017-2018	2019-2020
Body Cameras/Public Disclosure Support		\$1,825,000
Emergency Medical Services Fund		\$4,000,000
Deferred Fleet and Facilities	2017-2018	2019-2020
Fleet Replacements		\$12,500,000
Facility and Other Asset Deferred Maintenance		\$23,625,958
<b>Total</b>		<b>\$46,040,958 to \$46,790,958</b>



# General Fund Forecast Update



# Other Outstanding Considerations

Homelessness Response

Broadway LID Appeal Impact

South Tacoma LID

Click!

Third Party Liability Fund

Family Justice Center

Permitting Fee Study

Immigrant and Refugee Affairs Commission and Defense Fund

Workforce Central Line of Credit

# Reserve Policy

Staff will bring forward a session on reserves and the reserve policy in more detail.

# Asset Management

Staff will bring forward a session on deferred maintenance and asset management. Including:

- What do we know about the City's assets and their condition?
- How do we plan and manage those assets?
- How do we fund asset management and deferred maintenance?

# Summary of Key Points

Economic cycles are inevitable, we should be prepared

We've made progress, but the structural deficit still exists

Reserves provide options and flexibility for mitigating unexpected current and future risks and act as a buffer against economic shocks

Forecasts should be accurate enough to guide policy decisions and flexible enough to respond to changing conditions and new information

Spending decisions should be made in context of other priorities

Best practice is to regularly monitor actuals compared to plan and analyze trends over time



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