



City of Richmond Financial Forecast Summary, Budget Principles and Fiscal Sustainability Planning

Presentation to City Council – March 2, 2021

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About Management Partners

We are experts at fiscal sustainability planning and financial forecasting for cities

20+
years

of service exclusively to local governments

**Over
1,500**
projects

successfully completed in 41 states

80+
associates

including generalists and subject-matter experts in finance, IT public works and other areas

3
national
offices

in Costa Mesa (Orange County) and San Jose, CA and Cincinnati, OH

Served
90%

of California cities with more than 100,000 people (53 of 59)

Services

- **Financial Planning/Budgeting**
- Organization Analysis
- Process Improvement
- Operations Improvement
- Service Sharing
- Strategic Planning
- Organization Development
- Performance Management
- Facilitation and Training
- Executive Recruitment
- Executive Coaching

Presentation Agenda



- Fiscal Sustainability Planning
- Guiding Budget Principles for Consideration
- Next Steps

Our Engagement with City of Richmond



Review Current Fiscal Model

Review key assumptions

Improve forecast with updated information



Create Fiscal Model Dashboard

Supports fiscal decision making

Clarity of impact of assumptions and strategies



Prepare Fiscal Sustainability Plan

Identify budget strategies for Council consideration

Facilitate creation of fiscal sustainability plan

Fiscal Sustainability Planning



Fiscal Sustainability Planning

- Comprehensive set of fiscal policies and action steps to provide services in the long term without threat of insolvency or default of promised expenditures or liabilities
- Customized to the requirements and priorities of the City
- In-depth analysis of fiscal strategies
 - Fiscal impact
 - Feasibility



Four Steps Towards Fiscal Sustainability



Understand the problem with a solid long-range forecast



Identify and evaluate short- and long-term strategies to solve the gap



Communicate and engage stakeholders



Council select best strategies for staff implementation

Path Towards Fiscal Sustainability

Fiscal Sustainability Strategy Types

A. Expenditure controls and cost shifts

- Reducing expenses or shifting the cost burden away from the General Fund

B. Service delivery changes

- Changing the way that services are delivered, either through contracting for services, insourcing services from other agencies, or through public-private partnerships

C. Revenue enhancements

- Increasing the resources available to pay for services through new or increased revenues

D. Service level reductions

- Service level reductions that must be implemented to the extent that the items above are not able to be implemented or do not sufficiently address the fiscal gap

Maintain Service Levels

Reduce Services

Fiscal Sustainability vs. Fiscal Solvency

Fiscal Sustainability

- Long-term view (5- to 20-years)
- Focused on reserves
- Revenue enhancement
- Prioritize services
- Reduce costs

Fiscal Solvency

- Short-term view (60 days to 6 months)
- Focused on cash flows
- Liquidity enhancement
- Postpone long-term obligations
- Reduce debt obligations

Richmond's Path Towards Fiscal Sustainability

Cash balances are currently sufficient to meet obligations

Comprehensive approach in addressing long-term obligations must be developed

Proactively addressing General Fund fiscal gap will avert insolvency issues

Developing and implementing a strategic fiscal sustainability plan is critical

Prudent guiding budget principles will assist fiscal discipline efforts

Guiding Budget Principles



Guiding Budget Principles

- Best practice used by local governments
- Links organizational goals to focused budget decisions based on results and outcomes
- Clarifies expectations in developing and evaluating a proposed budget
 - Staff – preparation
 - Council – consideration
 - Community – expectations

Proposed Guiding Budget Principles Categories

1 Budgeting Policies

2 Reserve Policies

3 Ongoing Resources and Operations

4 Use of One-Time (Windfall) Resources

5 Capital Projects

6 Fiscal Sustainability Planning

7 Debt Management

8 Other Matters

Proposed Guiding Budget Principles

Budgeting Policies

- Guided by long-term financial planning
- Amended based on urgency
- City Manager authority to reallocate appropriations within a fund

Reserve Policies

- Minimum reserves –two months (17%) of annual operating expenditures, exceptions:
 - Wastewater Funds – minimum 50% of annual operating costs plus \$5 million emergency reserve
 - Risk management – sufficient to cover self-insurance indemnity
 - Equipment replacement – based on asset inventory and replacement needs

Ongoing Resources and Operations

- Ongoing costs supported by ongoing revenues
- Avoid dependence on temporary/elastic revenue sources
- Full cost recovery
- Avoid earmarking revenues for specific services/projects (maximize flexibility)

Use of One-Time (Windfall) Resources

- One-time revenues not used for ongoing expenditures
- Unpredictable revenues (e.g., sale of land/assets) treated as one-time revenues
- One-time resources used for one-time expenses (capital improvements, replenish reserves)

Proposed Guiding Budget Principles

Capital Projects

- Five-year CIP plan based on system of prioritization and funding resources available
- All associated costs (operating, maintenance, debt service, future costs) identified and incorporated in forecast for new CIP projects

Fiscal Sustainability Planning

- Fiscal sustainability plan if structural gap is projected
- Reserves stabilized within 10 years
- Service level reductions a last resort

Debt Management

- Debt not issued for ongoing operations
- Capital leases allowed for fleet, equipment, technology
- Long-term borrowing
 - > one generation of users
 - No available reserves
 - Debt service term < useful life of assets

Other Matters

- Enterprise funds reflect true cost of service, self-reliant on fees/charges/rates
- Residential, commercial, industrial property development pay fair share of capital improvements

Questions on Guiding Budget Principles



Next Steps

Budget Principles – Feedback and/or Adoption

- Review principles, provide feedback to staff and/or adopt principles
- Staff will use principles to guide budget development
- Management Partners will use principles to inform budget strategy considerations

Presentation of Fiscal Model and Budget Strategies – March 23

- Review fiscal model, updated forecast and dashboard tool to support Council’s review of budget strategies
- Review budget strategies identified and analyzed for consideration
- Consider various budget scenario packages to demonstrate how the fiscal gap can be resolved

Community Engagement – April 2021

- Conduct community workshop to educate about City’s forecast
- Obtain input on strategies to provide fiscal sustainability

Develop and Implement Fiscal Sustainability Plan – Date TBD

- Review outcome from community workshop
- Select strategies to incorporate in a fiscal sustainability plan
- Approve the fiscal sustainability plan
- Direct staff to implement the plan



Thank You

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