



PINOLE CITY COUNCIL FINANCE SUBCOMMITTEE AGENDA

April 28, 2021

3:00 PM

VIA ZOOM TELECONFERENCE

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SUBMIT PUBLIC COMMENTS TO CITY CLERK BEFORE OR DURING THE MEETING VIA EMAIL

comment@ci.pinole.ca.us

Comments received before the close of the item will be read into the record and limited to 3 minutes. Please include your full name, city of residence and agenda item you are commenting on.

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If none of these options are available to you, or you need assistance with public comment, please contact the City Clerk, Heather Iopu at (510) 724-8928 or hiopu@ci.pinole.ca.us .

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Note: Staff reports are available for inspection on the City Website at www.ci.pinole.ca.us. You may also contact the City Clerk via e-mail at hiopu@ci.pinole.ca.us .

Finance Sub-Committee Membership:

Mayor Martínez-Rubin, Mayor Pro Tem Salimi and Treasurer Swearingen

Staff: City Manager, Andrew Murray
Assistant City Manager, Hector De La Rosa
City Attorney, Eric Casher
Finance Director, Markisha Guillory
City Clerk, Heather Iopu

A. CALL TO ORDER

B. PUBLIC COMMENT

C. CONSENT ITEMS

1. [Approve the Minutes of the September 30, 2020 meeting](#)

D. BUSINESS ITEMS

1. Preliminary Proposed Long-Term Financial Plan For Fiscal Year (FY) 2021/22
– (FY) 2025/26 **[Review and provide direction (M. Guillory)]**

No action is requested. The Subcommittee is an advisory committee which makes recommendations to the City Council.

E. ADJOURNMENT

Posted: April 23, 2021 at 5:00 p.m.

Heather Iopu, CMC
City Clerk

PINOLE FINANCE SUBCOMMITTEE
MINUTES
September 30, 2020

A. CALL TO ORDER

Mayor Swearingen called the meeting to order at 3:01 P.M. The meeting took place via Zoom teleconference and was broadcast from Pinole City Hall Chambers, 2131 Pear Street, Pinole, CA.

Board Members Present:

Mayor Swearingen
Mayor Pro Tem Martinez-Rubin
Treasurer Debbie Long

Staff Members Present:

City Manager, Andrew Murray
City Attorney, Eric Casher
Finance Consultant, Genie Rocha (3:07 p.m.)
City Clerk, Heather Iopu
Development Services Director/City Engineer Tamara Miller

B. PUBLIC COMMENT

The following speakers submitted written comments that were read aloud and will be filed with the agenda packet for this meeting: **David Rupert, Irma Rupert**

C. CONSENT ITEMS

1. Approve the Minutes of the August 26, 2020 meeting.

ACTION: Motion by Martinez-Rubin/Swearingen to Approve the Minutes of the August 26, 2020 meeting.

Vote: Passed 3-0

D. BUSINESS ITEMS

1. Review Revised Procurement Policy
[Review and Provide Direction (E.Casher)]

City Attorney Casher presented a report highlighting the proposed revisions to the Procurement Policy. The staff recommendation is to adopt a complete revision and City

overhaul of the current policy. The key sections being added are: Contracting Principles, Standards of Conduct/Ethical Considerations, Design-Build Contracting, Cooperative Procurement, Micro-Purchasing, Information Technology Purchases, Qualified Vendors, Definitions Section.

Existing sections in the policy that were revised include: Sole Source Procurement, Emergency Procurement, Purchase Orders.

Staff also recommends that a procedures manual is created and implemented after the revised Procurement Policy is approved. This will be an administrative tool to guide staff particular to the details of each section in the policy.

Committee members asked questions regarding the details of the report.

Staff responded to questions and provided clarification regarding topics in the policy including: how this policy relates to other cities, use of standard language throughout policy, Wastewater Pollution Control Plant contract matters, digital bidding platform and process, online and credit card purchasing, prevailing wage determination, threshold amounts for Council approval of contracts and department head signing authority, micro purchases, design-build procurement, grant acceptance, and purchase orders.

The committee recommended to staff that some language be added to improve clarity in the procedures manual sections regarding approval authority and bidding process, and micro purchases, that were noted by staff for implementation.

City Manager Murray suggested implementing a process for notifying Council of contracts approved under the City Manager's authority which will be outlined in the procedures manual.

The committee recommended also adding a procedure in the manual that notifies Council of Notices of Completion that are not listed on a City Council agenda.

ACTION: Motion by Swearingen/Martinez/Rubin to Recommend Approval of the Policy to the City Council, with the revision of including "Council" in the Conflict of Interest section, noted by staff.

E. ADJOURNMENT

At 4:53 p.m., Mayor Swearingen adjourned the meeting to a future Finance Subcommittee Meeting.

Submitted by:

Heather Iopu, CMC
City Clerk



FINANCE SUBCOMMITTEE REPORT

D1

DATE: APRIL 28, 2021

TO: FINANCE SUBCOMMITTEE MEMBERS

FROM: ANDREW MURRAY, CITY MANAGER
MARKISHA GUILLORY, FINANCE DIRECTOR

SUBJECT: PRELIMINARY PROPOSED LONG-TERM FINANCIAL PLAN FOR
FISCAL YEAR (FY) 2021/22 - FY 2025/26

RECOMMENDATION

Review the Preliminary Proposed Long-Term Financial Plan for Fiscal Year (FY) 2021/22 - FY 2025/26 and provide direction to staff for changes to incorporate into the next draft of the document, the Revised Proposed version.

BACKGROUND

In February 2020, the City Council adopted the City of Pinole Strategic Plan 2020 – 2025. The Strategic Plan identified four goals for the City (safe and resilient, financially stable, vibrant and beautiful, and high performance), and 22 individual strategies (special projects) to complete over a five-year timeframe.

One of the strategies under the goal of a financially stable Pinole is to “develop a long-term financial plan (LTFP) and use it to guide budget and financial decisions (including policies regarding reserves and management of liabilities).”

The City is in the process of developing a Long-Term Financial Plan for Fiscal Year (FY) 2021/22 - 2025/26 to address this Strategic Plan strategy.

City staff has created the attached Preliminary Proposed version of the LTFP for the Finance Subcommittee’s review and feedback. Staff plans to incorporate the Subcommittee’s feedback into a Revised Proposed version of the LTFP that will be presented to the Finance Subcommittee for review and feedback. Staff plans to present the resulting version of the LTFP, the Final Proposed LTFP, to the City Council. The tentative schedule is that the Preliminary Proposed version will be considered by the Finance Subcommittee on April 28, 2021, the Revised Proposed Version will be considered by the Finance Subcommittee on May 12, 2021, and the Final Proposed version will be considered by the City Council on May 18, 2021. Should the City Council desire changes to the Final Proposed version, staff will create a

Revised Final Proposed version for consideration by the City Council at a subsequent meeting.

REVIEW AND ANALYSIS

This inaugural LTFP of the City's will have a narrower scope than future LTFPs. (Staff is anticipating creating new LTFPs every two years going forward.) The objective of this inaugural LTFP is to establish the methodology by which the City will conduct forecasting for the purpose of the LTFP, establish the organization and scope of the LTFP, and identify the major challenges and opportunities and expenditure and revenue options that the City will face over the next five years. This LTFP does not recommend specific changes to service levels or recommend associated new revenue mechanisms. That would be a goal of future LTFPs. Even with a more limited scope than future LTFPs, this inaugural version will be a valuable resource for City leaders when they make future financial and operational decisions.

Note that this version of the LTFP references a community survey. City staff will deploy a community survey within the next week to gather input on the major challenges and opportunities that the City will face over the next five years. Also note that in some places, this Preliminary Proposed LTFP simply lists a topic (subheading) that staff believes warrants discussion in the LTFP, but for which staff has not yet inserted text/analysis. This is indicated by the notation "***" in the body of the document. Staff will add text/analysis where a "***" currently exists in the document if the Finance Subcommittee agrees that the topic merits coverage in the LTFP.

City staff invites the feedback of the Finance Subcommittee and members of the public on the methodology, organization and scope, and content (particularly the major challenges and opportunities and expenditure and revenue options) of the Preliminary Proposed LTFP.

FISCAL IMPACT

The final Long-Term Financial Plan for Fiscal Year (FY) 2021/22 - FY 2025/26 adopted by the City Council will be a valuable resource for City leaders when they make future financial and operational decisions. The LTFP does not itself require or authorize any expenditure of City funds, and therefore does not itself have any fiscal impact to the City.

ATTACHMENTS

- A – Preliminary Proposed Long-Term Financial Plan for Fiscal Year (FY) 2021/22 - FY 2025/26

City of Pinole

Long-Term Financial Plan for Fiscal Year (FY) 2021/22 - FY 2025/26



Preliminary Proposed Version

April 23, 2021



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ELECTED OFFICIALS AND DEPARTMENT HEADS

ELECTED OFFICIALS

Mayor	Norma Martinez-Rubin
Mayor Pro Tem	Vincent Salimi
Council Member	Devin Murphy
Council Member	Anthony Tave
Council Member	Maureen Toms
Treasurer	Roy Swearingen

DEPARTMENT HEADS

City Manager	Andrew Murray
Assistant City Manager	Hector De La Rosa
City Attorney (Contract)	Eric Casher
City Clerk	Heather Iopu
Development Services Director	Tamara Miller
Finance Director	Markisha Guillory
Fire Chief	Chris Wynkoop
Police Chief	Neil Gang

STRATEGIC PLAN 2020 – 2025 VISION, MISSION, AND GOALS

VISION

Pinole is safe, vibrant, and innovative community with small town charm and high quality of life.

MISSION

Pinole will be efficient, ethical, and effective in delivering quality services with community involvement and fiscal stewardship.

GOALS

1. **Safe and Resilient Pinole:** Develop and communicate resilience through quality public safety service delivery, property maintenance policies and practices, and disciplined investment in community assets.
2. **Financially Stable Pinole:** Ensure the financial health and long-term sustainability of the City.
3. **Vibrant and Beautiful Pinole:** Facilitate a thriving community through development policies and proactive relationship building.
4. **High Performance Pinole:** Build an organization culture that is efficient, ethical, and effective in delivering quality services with community involvement and fiscal stewardship.

EXECUTIVE SUMMARY

The City of Pinole's Long-Term Financial Plan (LTFP) for Fiscal Year (FY) 2021/22 - FY 2025/26 has been created to help implement the City's Strategic Plan 2020 – 2025. It has been developed in conformance with public finance best practices.

The LTFP considers how economic and demographic trends might impact future requests for City services and City revenues. It incorporates a five-year forecast of General Fund, including Measure S funds, revenues and expenditures. The forecast anticipates that the General Fund will be structurally balanced over the five-year period.

The LTFP identifies the major challenges and opportunities that the City will likely face over the planning horizon, as well as the main discretionary service level/expenditure options and new revenue options that the City faces and should bear in mind as it makes future financial and operational decisions.

This inaugural LTFP does not recommend specific optimal service levels and programs for the City, nor identify specific matching revenue sources to support them. Rather, this LTFP forecasts the City's budget condition over the next five years and identifies a number of revenue and expenditure options the City Council can consider implementing in the future. City staff anticipates creating an updated LTFP on a biennial basis going forward, and expects that future LTFPs will have more specific recommendations on service levels and programs and associated funding sources.

INTRODUCTION

BACKGROUND

In February 2020, the City Council adopted the City of Pinole Strategic Plan 2020 – 2025. The Strategic Plan identified four goals for the City (safe and resilient, financially stable, vibrant and beautiful, and high performance), and 22 individual strategies (special projects) to complete over a five-year timeframe.

One of the strategies under the goal of a financially stable Pinole is to “develop a long-term financial plan (LTFP) and use it to guide budget and financial decisions (including policies regarding reserves and management of liabilities).” The City of Pinole Long-Term Financial Plan (LTFP) for Fiscal Year (FY) 2021/22 - FY 2025/26 has been created to address this Strategic Plan strategy.

PURPOSE

The purpose of the LTFP is to inform the City’s financial and operational decision making. The LTFP can be used as a guide to many planning and decision-making processes, such as the development of future budgets and Capital Improvement Plans (CIP). The LTFP also marks the beginning of the FY 2021/22 annual budget development process.

SCOPE

The Long-Term Financial Plan (LTFP) for Fiscal Year (FY) 2021/22 - FY 2025/26 covers the revenues and expenditures of the City’s General Fund, including the Measure S 2006 and Measure S 2014 funds, over a five-year period. Future LTFPs will cover all City funds.

DEVELOPMENT PROCESS

City staff began developing the LTFP in winter 2020/2021. The LTFP was created using public finance best practices. City staff consulted numerous resources to determine how to approach the project and create sound analysis. Best practices are well summarized in the key publication on municipal long-term financial planning, the Government Finance Officers Association’s (GFOA) Financing the Future: Long-Term Financial Planning for Local Government. GFOA, one of the leading professional associations in the public finance field, defines financial forecasting and long-term financial planning as follows:

- Financial forecasting is the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other salient variables.
- Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges.

The main tasks required to create the LTFP were the following:

- Forecast revenues and expenditures using key assumptions about the City's operating environment;
- Identify the major challenges and opportunities that the City will face over the next five years;
- Identify policy alternatives, including changes to revenue sources and expenditures, that will result in a sustainable, long-term balance between desired service levels and City financial resources; and
- Gather feedback on a draft LTFP and gain Council approval of the final LTFP.

City staff has completed the necessary tasks using best practices. This has resulted in a LTFP that is consistent with GFOA's Long-Term Financial Planning best practice, which requires that a long-term financial plan:

- Use a planning horizon of at least five years;
- Include an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and plan monitoring mechanisms; and
- Be visible.

The LTFP development process was structured to support participation from a variety of stakeholders. Staff shared information and received input from Council Members and the public at numerous Finance Subcommittee and City Council meetings in spring 2021. Staff also gathered input from interested stakeholders through an online survey that specifically focused on identifying the most important challenges and opportunities that the City will face over the five-year planning period. The participatory development process has resulted in a LTFP that reflects the interests of the City Council and community.

City staff anticipates creating an updated LTFP on a biennial basis going forward.

LONG-TERM FINANCIAL FORECAST

INTRODUCTION

One of the key steps in creating a LTFP is to create a long-term financial forecast. A long-term financial forecast estimates future revenues and expenditures based on assumptions about the City's future operating environment. Over the past few years, the City has included a long-term financial forecast covering the General Fund, including the Measure S funds, in the annual budget. (The City also issued an updated five-year forecast in October 2020.)

FORECAST METHODOLOGY

As noted above, City staff followed public finance best practices when creating the LTFP, including when designing the forecast methodology. Staff reviewed the City's past forecasting work, the work of peer jurisdictions and other leading municipalities, and academic and professional materials on the topic. Staff used the FY 2020/21 revised mid-year budget as the base year of the five-year forecast.

MAJOR ECONOMIC AND DEMOGRAPHIC TRENDS

Forecasting future events or conditions requires identifying the major current trends that will shape the future. The primary determinants of a city's financial sustainability are the demands for city services, the city's revenues, and service delivery methods. These are primarily driven by demographic and cultural changes as well as economic changes.

Demographic and Cultural Changes

City staff is not anticipating any significant changes to the demographics or cultural characteristics of Pinole's population over the five-year period covered by the LTFP. The City's total population has remained very stable over the past decade, and there are a limited number of sites available for significant new housing development, which would allow for a population increase. The City is expecting to receive applications for some new housing projects at infill sites, but it is not possible at this point to forecast how many new housing units might be created as a result, nor to forecast how such projects, if constructed, might impact the City's population. The City's demographics have also remained fairly stable, and staff is not anticipating any significant changes to demographics over the five-year planning horizon.

Economic Changes

Prior to the onset of COVID-19 in early 2020, the City was experiencing a steady, modest economic expansion, similar to that experienced by many other cities in the aftermath of the Great Recession. COVID-19 created an unanticipated shock to the national economy. Many of Pinole's businesses were significantly impacted by the shelter-in-place health orders, which disrupted many retail, restaurant, entertainment, and personal service activities. Due to public health interventions and the growing availability of vaccines, the local and national economies are expected to recover to pre-COVID-19 levels by late 2021, and thereafter resume the steady, modest growth of the pre-COVID period. Therefore, City staff is not anticipating any economic changes during the five-year planning horizon that would significantly influence the financial forecast.

Due to the specific forms of taxation through which Pinole receives the majority of its General Fund revenue, particularly sales tax (including from online sales) and property tax, the City did not experience a significant loss of revenue due to COVID-19. For the purpose of the LTFP's long-term forecast, City staff is assuming a return to steady, modest revenue growth commensurate with steady, modest economic growth.

City staff does expect that new service delivery methods will emerge over the five-year planning horizon that will increase the City's efficiency and therefore enable it to get more mileage out of existing resources. That said, productivity gains are expected to mimic those realized in the economy generally, which will not amount to a significant increase overall during the five years. City staff also expects that if the federal government makes a significant new investment in infrastructure, perhaps through a new infrastructure bill, the cost of capital project materials and labor will increase. City staff does not have a precise sense of how that would likely impact the cost of City capital projects, and therefore has not included any related increased cost in the LTFP. Forthcoming CIPs will incorporate the City's estimate of any increase in the cost of capital projects due to additional federal investment.

STATUS QUO FORECAST

The five-year forecast that the City has included in recent annual budgets and updated in October 2020 is a "status quo" forecast. A "status quo" forecast assumes that the City continues current (status quo) staffing levels, service levels, and programs in the future and that the City does not establish any new revenue-generating mechanisms.

City staff has created an updated status quo five-year forecast for the General Fund, including Measure S funds, for FY 2021/22 through FY 2025/26. This forecast will be used as the basis of the development of the FY 2021/22 budget. For the status quo forecast, staff assumed that future City service levels would remain at the levels of FY 2020/21. Staff then forecasted revenues and

expenditures for the five succeeding years by applying assumptions about possible future changes in economic conditions that impact revenues and expenditures.

Based on specific assumptions, detailed below, the City forecasts that the General Fund and the Measure S funds will be structurally balanced over the five-year forecast period.

GENERAL FUND SUMMARY INCLUDES MEASURE S 2006 & 2014	2018-19 Actual	2019-20 Actual	2020-21 Revised Budget	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
PROPERTY TAX	\$3,837,167	\$4,514,755	\$4,146,109	\$4,230,162	\$4,642,585	\$5,649,469	\$5,801,568	\$5,959,970
SALES TAX	3,994,720	3,788,080	3,991,200	4,224,661	4,392,228	4,523,995	4,659,715	4,799,506
MEAS S 2006 & 2014 LOCAL SALES TAX	4,286,328	3,901,837	4,092,000	4,284,000	4,454,000	4,587,620	4,725,249	4,867,006
UTILITY USERS TAX	1,812,844	1,809,832	1,896,000	1,914,960	1,934,110	1,953,451	1,972,985	1,992,715
FRANCHISE TAX	735,311	750,001	750,000	757,500	765,075	772,726	780,453	788,258
INTERGOVERNMENTAL TAX	1,836,501	1,952,717	2,006,163	2,082,883	2,142,701	2,218,061	2,298,695	2,382,941
OTHER TAXES	884,757	826,359	785,000	800,700	816,714	833,048	849,709	866,703
OTHER REVENUE	3,334,631	2,376,859	1,847,933	1,898,626	1,973,044	2,050,955	2,132,528	2,217,944
ONE-TIME REVENUE			619,756	600,000	-			
TRANSFERS IN	6,290,688	-	1,933,025	1,147,758	1,407,804	1,527,278	1,705,486	2,043,065
TOTAL REVENUES	27,012,947	19,920,440	22,067,186	21,941,250	22,528,260	24,116,602	24,926,388	25,918,109
SALARIES	8,593,887	9,184,283	9,872,536	9,952,103	10,250,666	10,558,200	10,874,946	11,201,194
BENEFITS - PERS RETIRE	1,792,051	2,451,619	3,077,528	2,939,809	3,199,855	3,319,329	3,497,537	3,600,905
BENEFITS - OTHER	3,079,527	2,864,038	3,052,813	3,185,910	3,350,257	3,523,834	3,667,439	3,903,512
OTHER OPERATING EXPENSES	2,506,418	3,460,467	3,083,472	3,123,284	3,161,810	3,297,503	3,366,772	3,484,921
DEBT SERVICE	590,433	606,553	556,107	576,150	596,150	611,150	677,150	677,150
CAPITAL PROJECTS	211,292	429,470	2,040,649	315,000	150,000	150,000	150,000	150,000
ONE-TIME EXPENDITURES			1,126,380		22,500		22,500	
TRANSFERS OUT	21,732,833	1,255,058	1,395,962	1,313,058	1,275,435	1,293,318	1,311,222	1,329,664
TOTAL EXPENDITURES	38,506,441	20,251,487	24,205,447	21,405,314	22,006,672	22,753,332	23,567,565	24,347,346
Surplus/(Deficit)	(11,493,493)	(331,047)	(2,138,261)	535,936	521,588	1,363,270	1,358,823	1,570,763

Fund Balance, July 1	23,478,448	11,984,955	11,653,908	8,731,745	9,231,515	9,624,184	10,912,951	12,165,299
Preliminary Fund Balance, June 30	11,984,955	11,653,908	9,515,647	9,267,681	9,753,103	10,987,453	12,271,774	13,736,062
General Reserves Adjustment	-	-	(783,902)	(36,166)	(128,919)	(74,502)	(106,475)	(344,570)
Fund Balance, June 30	\$11,984,955	\$11,653,908	\$8,731,745	\$9,231,515	\$9,624,184	\$10,912,951	\$12,165,299	\$13,391,493
Revenues – Transfers In	16,287,510							
Revenues – Interest	924,669	1,010,988	1,049,151	994,406	982,612	955,631	920,155	872,866
Expenditures – Transfers Out			1,933,025	1,147,758	1,407,804	1,527,278	1,705,486	2,043,065
Expenditures - Other	52,921	81,434	60,000	50,000	40,000	40,000	30,000	30,000
Pension Fund Balance, June 30	17,159,258	18,088,812	17,144,938	16,941,586	16,476,394	15,864,747	15,049,416	13,849,217
General Reserve Balance, June 30	7,137,963	7,457,116	8,456,568	8,619,913	8,982,828	9,298,345	9,653,066	9,997,635

Revenues

As shown in the table above, the status quo forecast anticipates that General Fund revenue, including the Measure S funds, will grow from \$21.9 million in FY 2021/22 to \$25.9 million in FY 2025/26, primarily due to increases in the property tax and sales tax categories.

Property Tax

Property tax is an ad valorem tax levied on real property. The fixed statutory rate is 1% of assessed valuation. The City receives approximately 19% of the total ad valorem properties taxes levied on property located within its boundaries (exclusive of Redevelopment Project Areas).

The residual property tax revenue that has resulted from the dissolution of the former Redevelopment Agency is forecasted to increase by approximately \$908,511 (61%) in FY 2023/24, after outstanding redevelopment bonds are retired. The forecast reflects one-time revenue of \$600,000 in FY 2021/22 for the anticipated sale of former Redevelopment property, Pinole Shores II. The sale is expected to net approximately \$3,000,000, of which the City's share is 18.75%, or \$600,000.

The status quo forecast, provided by HDL, the City's property tax consultant, assumes that property tax revenue will grow from \$4.2 million in FY 2021/22 to \$6 million in FY 2025/26.

Sales Tax

This category includes General Fund, Measure S 2006, and Measure S 2014, and is the General Fund's largest source of revenue. The City levies 9.25% sales tax on all merchandise, which

includes the 1% Bradley Burns Sales Tax, 0.5% Measure S 2006, and 0.5% Measure S 2014. The status quo forecast, provided by HDL, the City's sales tax consultant, assumes that sales tax revenue, including the General Fund and the Measure S funds will grow from \$8.5 million in FY 2021/22 to \$9.7 million in FY 2025/26.

Utility Users Tax

The City levies an 8% utility users tax on the value of public utilities services consumed within the City limits for electricity, gas, and telecommunications. The status quo forecast assumes that utility users tax revenue will grow from \$1.9 million in FY 2021/22 to \$2 million in FY 2025/26.

Franchise Tax

The City levies a 5% franchise tax on public utilities and other corporations who furnish gas, electric, water, refuse, and cable television or similar services to citizens living within the City's boundaries. The fees are defined in the franchise fee agreements and are paid directly to the City by these franchisees. The status quo forecast assumes that franchise tax revenue will grow from \$757,000 in FY 2021/22 to \$788,258 in FY 2025/26.

Intergovernmental Tax

This revenue category comprises the vehicle license fee (VLF). The status quo forecast assumes that intergovernmental tax revenue will grow from \$2.1 million in FY 2021/22 to \$2.4 million in FY 2025/26.

Other Taxes

This includes the business license tax and transient occupancy tax (TOT). The City levies a 10% TOT for occupancy of 30 days or less in a motel or lodging facility. The status quo forecast assumes that the total business license tax and TOT revenue will grow from \$800,700 million in FY 2021/22 to \$866,703 in FY 2025/26.

Other Revenue

This category includes all other revenue sources, such as grants, licenses & permits, fees, fines & forfeitures, charges for services, investment income, and other miscellaneous revenue. The status quo forecast assumes that total other revenue will grow from \$1.9 million in FY 2021/22 to \$2.2 million in FY 2025/26.

Transfers In

This category includes transfers from the Pension Section 115 Trust Fund to the General Fund. The amount transferred is based on the difference between the City's base year (FY 2018/19) contribution toward employee pensions and the forecasted required City contribution in future years. The status quo forecast assumes that transfers in from the Trust will grow from \$1.1 million in FY 2021/22 to \$2 million in FY 2025/26.

Expenditures

As shown in the table above, the status quo forecast anticipates that General Fund expenditures, including the Measure S funds, will grow from \$21.4 million in FY 2021/22 to \$24.3 million in FY 2025/26, primarily due to increases in the salaries and benefits categories.

Salaries

Salaries comprise approximately 47% of total General Fund expenditures. Salaries are forecasted to increase by the standard 3% per year unless a different cost-of living-adjustment (COLA) is agreed upon through labor agreements. The status quo forecast assumes that salaries will grow from \$10 million in FY 2021/22 to \$11.2 million in FY 25/26.

Benefits-Retirement

Retirement benefits comprise approximately 13% of total General Fund expenditures. The City's annual required contribution is forecasted based on the most recent actuarial valuations report as of July 2019 provided by the California Public Employees' Retirement System (CalPERS). The forecast reflects the net cost of the required employer contribution minus employee contributions. The status quo forecast assumes that retirement benefits will grow from \$2.9 million in FY 2021/22 to \$3.6 million in FY 2025/26.

Benefits-Other

Other benefits comprise approximately 15% of total General Fund expenditures. This category includes all other benefits other than retirement, such as medical, dental, vision, life insurance, and long-term disability benefits. The status quo forecast assumes that other benefits will grow from \$3.2 million in FY 2021/22 to \$3.9 million in FY 2025/26.

Other Operating Expenditures

This category includes all other expenditure categories, such as professional services, utilities, indirect costs, and materials and supplies. The status quo forecast assumes that other operating expenditures will grow from \$3.1 million in FY 2021/22 to \$3.5 million in FY 2025/26.

Capital Outlay

This category includes small capital improvements, and equipment and vehicles for ongoing operations and maintenance. The status quo forecast assumes that capital outlay will decrease from \$315,000 in FY 2021/22 to \$150,000 in FY 2025/26.

The City develops a separate five-year Capital Improvement Plan (CIP) to plan for and appropriate funds to capital improvement projects. Capital projects are primarily funded by Measure S, Gas Tax, Measure J, Sewer enterprise funds, and other miscellaneous funding.

Debt Service

This category includes the payment of debt for the 2006 pension obligation bonds (POBs) that were issued to finance the City's unfunded accrued actuarial liability with CalPERS. The future years are forecasted based on the long-term debt obligation schedule. This debt will be fully paid and retired in FY 2035/36.

Transfers Out

This category includes the transfers from the General Fund and Measure S to other funds to support Recreation, Public Access Television, vehicle replacement, and streets improvements. The status quo forecast assumes that transfers out will remain steady at \$1.3 million per year in FY 2021/22 through FY 2025/26.

"FY 2021/22 PROPOSED BUDGET STAFFING LEVEL" FORECAST

The status quo forecast presented above assumes that the staffing levels, service levels, and revenue sources that are incorporated into the FY 2020/21 mid-year revised budget continue over the five-year forecast period. This is a standard approach to forecasting.

Based on various analyses that the City has conducted over the past year, including the Organizational Assessment, City staff will be recommending the addition of three net new City positions in staff's proposed FY 2021/22 budget, as well as potentially others. These three positions are a new Human Resources Director or new Community Services Director (depending on which of the two positions the incumbent Assistant City Manager assumes), a new Community Development Director or new Public Works Director (depending on which of the two positions the incumbent Development Services Director / City Engineer assumes), and a new Administrative Fire Captain position. These three additional positions are critical to the City attaining the bandwidth needed to perform bare minimum services in all City departments. Staff believes that the addition of these three positions creates a much-needed new normal for staffing at the City.

Given staff's belief that the City must add these three net new positions to attain the minimum bandwidth needed in all City departments, staff believes that it is valuable to present a five-year financial forecast that assumes these three positions as part of the baseline. As such, staff has created a "FY 2021/22 proposed budget staffing level" forecast. This forecast is identical to the status quo forecast except for the addition of these three positions. The table below summarizes this forecast. Note that a portion of each of these three new positions is funded by sources other than the General Fund.

GENERAL FUND SUMMARY INCLUDES MEASURE S 2006 & 2014	2018-19 Actual	2019-20 Actual	2020-21 Revised Budget	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast
PROPERTY TAX	\$3,837,167	\$4,514,755	\$4,146,109	\$4,230,162	\$4,642,585	\$5,649,469	\$5,801,568	\$5,959,970
SALES TAX	3,994,720	3,788,080	3,991,200	4,224,661	4,392,228	4,523,995	4,659,715	4,799,506
MEAS S 2006 & 2014 LOCAL SALES TAX	4,286,328	3,901,837	4,092,000	4,284,000	4,454,000	4,587,620	4,725,249	4,867,006
UTILITY USERS TAX	1,812,844	1,809,832	1,896,000	1,914,960	1,934,110	1,953,451	1,972,985	1,992,715
FRANCHISE TAX	735,311	750,001	750,000	757,500	765,075	772,726	780,453	788,258
INTERGOVERNMENTAL TAX	1,836,501	1,952,717	2,006,163	2,082,883	2,142,701	2,218,061	2,298,695	2,382,941
OTHER TAXES	884,757	826,359	785,000	800,700	816,714	833,048	849,709	866,703
OTHER REVENUE	3,334,631	2,376,859	1,847,933	1,898,626	1,973,044	2,050,955	2,132,528	2,217,944
ONE-TIME REVENUE			619,756	600,000	-			
TRANSFERS IN	6,290,688	-	1,933,025	1,257,758	1,531,256	1,662,338	1,837,715	2,180,481
TOTAL REVENUES	27,012,947	19,920,440	22,067,186	22,051,250	22,651,712	24,251,662	25,058,618	26,055,525
SALARIES	8,593,887	9,184,283	9,872,536	10,382,553	10,511,576	10,826,923	11,151,731	11,486,283
BENEFITS - PERS RETIRE	1,792,051	2,451,619	3,077,528	3,049,809	3,323,307	3,454,389	3,629,766	3,738,321
BENEFITS - OTHER	3,079,527	2,864,038	3,052,813	3,325,910	3,489,288	3,660,718	3,807,147	4,063,801
OTHER OPERATING EXPENSES	2,506,418	3,460,467	3,083,472	3,123,284	3,161,810	3,297,503	3,366,772	3,484,921
DEBT SERVICE	590,433	606,553	556,107	576,150	596,150	611,150	677,150	677,150
CAPITAL PROJECTS	211,292	429,470	2,040,649	315,000	150,000	150,000	150,000	150,000
ONE-TIME EXPENDITURES			1,126,380		22,500		22,500	
TRANSFERS OUT	21,732,833	1,255,058	1,395,962	1,313,058	1,275,435	1,293,318	1,311,222	1,329,664
TOTAL EXPENDITURES	38,506,441	20,251,487	24,205,447	22,085,764	22,530,065	23,294,000	24,116,288	24,930,139
Surplus/(Deficit)	(11,493,493)	(331,047)	(2,138,261)	(34,514)	121,647	957,662	942,330	1,125,386
Fund Balance, July 1	23,478,448	11,984,955	11,653,908	8,731,745	8,659,980	8,648,840	9,465,549	10,244,981
Preliminary Fund Balance, June 30	11,984,955	11,653,908	9,515,647	8,587,231	8,548,175	9,237,990	9,907,137	10,732,209
General Reserves Adjustment	-	-	(783,902)	(37,251)	(132,787)	(140,952)	(162,898)	(406,926)
Fund Balance, June 30	11,984,955	11,653,908	8,731,745	8,659,980	8,648,840	9,465,549	10,244,981	10,963,441

Revenues – Transfers In	16,287,510							
Revenues – Interest	924,669	1,010,988	1,049,151	994,406	976,232	941,721	897,605	841,338
Expenditures – Transfers Out			1,933,025	1,257,758	1,531,256	1,662,338	1,837,715	2,180,481
Expenditures - Other	52,921	81,434	60,000	50,000	40,000	40,000	30,000	30,000
Pension Fund Balance, June 30	17,159,258	18,088,812	17,144,938	16,831,586	16,236,562	15,475,945	14,505,834	13,136,691
General Reserve Balance, June 30	7,137,963	7,457,116	8,456,568	8,960,138	9,244,524	9,568,679	9,927,427	10,289,032

MAJOR CHALLENGES AND OPPORTUNITIES OVER THE NEXT FIVE YEARS

One of the main objectives of a LTFP is for an organization to identify significant challenges and opportunities that it is likely to face in the future such that the organization can take steps, with an adequate runway, to overcome challenges and profit from opportunities, all the while providing desired service levels through a structurally balanced budget.

MAJOR CHALLENGES

Changes in demographics and economic conditions can create significant challenges for cities. As noted above, City staff does not anticipate that demographic or economic changes over the next five years will create any significant challenges for the City. The City will nonetheless face a number of other challenges over the next five years.

The City completed a poll in November 2019 of a representative sample of likely voters to identify their top concerns and prevailing opinions. Participants provided the following responses to the question “What do you think is the most important issue facing the City of Pinole today?”:

- Traffic/transportation (14%);
- Public services funding/spending (13%);
- Crime/policing (9%);
- City budget/policies (8%);
- Housing/overpopulation (7%);
- Infrastructure/roads/power issues (6%);
- Jobs/economy/development (6%);
- Schools/education (5%);
- Community improvements (4%);
- Wildfires/fire safety (4%);
- Homelessness (2%);
- Taxes (2%);
- None/nothing (7%);
- Other (3%); and
- Don’t know (11%).

It is interesting to note that no single issue emerged as the most significant to a majority of respondents. Rather, different respondents felt that a wide variety of challenges were the most significant.

In addition to those listed above, City staff has identified the following additional items as major challenges that the City will face over the next five years:

- The changing nature of retail and the related impact to the City's sales and property tax revenues; and
- The long tenure of many of the City's employees, their eligibility for retirement, and need for succession planning.

MAJOR OPPORTUNITIES

Changes in demographics and economic conditions can also create opportunities for cities. City staff does not anticipate that there will be any significant demographic or economic changes in the City over the next five years, therefore staff is not anticipating that demographic or economic changes will themselves present major opportunities. That said, the City currently faces and will continue to face a number of opportunities over the next five years.

Other opportunities facing the City include the following:

- The opportunity to reimagine retail centers as the physical footprint of bricks and mortar retail contracts;
- The opportunity to redevelop other underdeveloped infill sites;
- The City's central location in the Bay Area, adjacent to I-80 and San Francisco Bay;
- The City's diverse population; and
- The City's historic downtown.

POLICY ALTERNATIVES - ADDITIONAL DISCRETIONARY EXPENDITURES

One goal of a LTFP is to identify the City services, and service levels, that residents desire, and can be afforded on an ongoing basis by a structurally balanced City budget.

In the United States, there are many levels of government (federal, state, county, city, and special districts), with distinct responsibilities. Cities are primarily responsible for public safety, land use, and public works. They are also often responsible for parks and recreation and sometimes responsible for providing utility services, such as clean water, wastewater, and power.

Pinole is considered a “full service” city, which means that it provides all traditional municipal services. It also provides some services, particularly fire protection and wastewater, that are provided by special districts in many other cities. Pinole provides a very broad range of service for a city of its size.

The majority of City of Pinole staff and resources are dedicated to public safety (police and fire services), land use regulation, building safety, local transportation infrastructure (streets, signals, bike lanes, etc.), and wastewater services. The City also invests significant staff and resources in additional public-facing services, such as outdoor recreation space and facilities, recreational and educational programs, cable television programming, and childcare and senior services. Some City staff and resources are also needed to provide internal services, such as finance, human resources, legal, information technology, records management, and facilities and equipment, to support the public-facing operations. Since having made reductions in staffing during the Great Recession, the City has been leanly staffed compared to many other cities.

Customer expectations for certain municipal services, such as wastewater, are fairly consistent across communities. Therefore, it is straightforward for a city to identify the optimal service level for that function. Customer expectations, and service levels, for other municipal services, vary significantly across communities, and are influenced by a number of factors. As noted above, the City of Pinole is leanly staffed, and provides a solid but basic level of service in most service areas.

As illustrated in the forecasts above, were the City to fund the status quo staffing levels and service levels and fund the three critical new positions that City staff is recommending in the proposed FY 2021/22 budget, without creating any new revenue mechanisms, the City is expected to experience a structurally balanced budget over the next five years. The City is not, however, expected to have significant surplus resources to invest in new programs or services.

Were the City to eliminate some of the status quo staffing and service levels and/or create new revenue sources, the City would have additional financial capacity to contribute to unfunded or deferred liabilities and/or increased services and programs. Over the course of the past year, members of the community and/or members of the City Council have expressed some interest in increasing the City’s contributions toward unfunded or deferred liabilities and increased

service levels or programs in several areas. In this inaugural LTFP, staff has listed some of the services and programs that the community and/or City Council have expressed some interest in expanding. Note that in general, addressing unfunded and deferred liabilities is best accomplished with one-time financial resources whereas expanding ongoing services is best addressed with ongoing financial resources.

UNFUNDED/DEFERRED LIABILITIES

The City has a number of unfunded liabilities and deferred maintenance needs that it could address with one-time resources, described below.

Unfunded Liabilities

The City has a number of unfunded liabilities, such as unfunded accrued compensated absences, negative fund balances in General Fund-related funds, unfunded liability for other post-employment benefits (OPEB), and unfunded retirement (pension) liabilities.

Unfunded Accrued Compensated Absences

As of the end of FY 2019/20, the City had approximately \$1.4 million in unfunded liability for vested accrued paid vacation and sick leave for employees. The City traditionally pays for paid leave out of its normal operating budget, referred to as “pay-as-you-go.” The City could choose to set aside funds to eliminate this unfunded liability.

Unfunded Retirement (Pension) Liability

The City provides its employees with a defined benefit retirement program through CalPERS. Depending on the demographic characteristics of the City’s employees, the amount of City and employee contributions to the retirement program, and the program’s return on its investments, the assets and liabilities in the City’s CalPERS account fluctuate over time. Per the most recent actuarial valuation available, as of June 30, 2019 the City had a total unfunded pension liability with CalPERS of approximately \$36.5 million.

CalPERS has made several changes to its policies and procedures over the past decade that have been intended to increase the financial strength of the system, but have also resulted in significantly increased required contributions and unfunded liabilities for municipalities. CalPERS has changed key assumptions that increased unfunded liabilities, including increasing the life expectancy of beneficiaries and decreasing the expected rate of return on assets. CalPERS has also implemented new policies that require municipalities to accelerate contributions in order to achieve adequate funded status more quickly. So, despite the implementation of the less costly Public Employees’ Pension Reform Act (PEPRA) in 2013, the City’s unfunded pension liability has grown substantially over the past few years. CalPERS is unlikely to implement a comparably broad set of additional changes in the coming years, but even more modest changes, in addition to

environmental factors, could continue to significantly increase the City's unfunded pension liability over the next few years.

The City created a special trust fund in FY 2017/18 referred to as a "Section 115 trust," funded with General Fund resources, to offset this significant unfunded pension liability. As of December 31, 2020, the market value of the assets in the trust fund was \$19.2 million. The unfunded liability in CalPERS will fluctuate over time, as will the value of the assets in the Section 115 trust.

Unfunded Accrued Liability (UAL) for Other Post-Employment Benefits (OPEB)

A pension is the primary benefit that the City provides to retirees. The other main benefit that the City provides to retirees is a contribution toward medical insurance premiums during retirement. This and other ancillary, non-pension retirement benefits, are referred to as other post-employment benefits (OPEB). Until recently, employers have not been required to report OPEB assets and liabilities in the same way that they have been required to report pension assets and liabilities. Further, employers have generally not been required to make regular payments to pre-fund OPEB liabilities. Employers have normally paid for OPEB benefits on a pay-as-you-go basis. This has resulted in significant unfunded OPEB liability for many employers, including the City. As of June 30, 2020, the City had an unfunded OPEB liability of \$36.4 million.

Deferred Maintenance and Renewal

Like many cities, Pinole has deferred investment and expenditures on capital assets and other systems, particularly in response to and in the aftermath of the Great Recession and the dissolution of redevelopment. The current model allows the City to provide essential services, but defers some investment in capital assets, business systems, and human capital. This deferral of investment will lead to the deterioration of some assets and systems in the long run.

Capital Asset Renewal and Replacement

Pinole has deferred expenditures on capital asset maintenance and renewal, and many of the City's capital assets are reaching the natural end of their useful life. The City owns a significant portfolio of capital assets, which are well described in the City's Capital Improvement Plan (CIP). These include buildings, roads, sidewalks, parking lots, trails, parks, open space, the wastewater treatment plant, the sewer collection system, the stormwater collection system, vacant lots, streetlights, and traffic control devices. The City's Strategic Plan includes a strategy to conduct a citywide asset condition assessment. That effort is currently underway, addressing different asset types in phases. The City is also implementing a new capital asset management software system. After these two efforts are complete, the City will have a much clearer picture of its complete capital asset portfolio and the expenditures required for maintenance and renewal to achieve the lowest possible total cost of ownership of its assets.

Human Capital, Including Employee Compensation and Training

The City implemented its current basic service expenditure model as a result of the Great Recession and the dissolution of redevelopment. The current model relies on very lean staffing levels and limited investment in the City's workforce. To attract and retain quality employees that are sufficiently trained and resourced to provide efficient and effective services in the long-run, the City will need to increase its investment in its workforce.

Information Technology Systems

**

Vehicle and Equipment Replacement

**

SERVICE AND PROGRAM EXPANSION

As noted above, the City provides a solid but basic level of service in most service areas. The City can spend its discretionary financial resources on expanding services and programs.

Expansion of Existing Services

Economic Development

The City has not had a formal economic development function since 2012, when the dissolution of redevelopment occurred, although the City has undertaken some limited economic development activities recently, such as having a consultant complete a consumer retail demand and market supply assessment in 2019.

One of the Strategic Plan strategies is to “develop a comprehensive economic development strategy,” and several other Strategic Plan strategies also relate to economic development. The City is in the process of selecting a professional services firm to develop the economic development strategy, and will likely undertake a reorganization recommended by the Organizational Assessment that will create economic development functions in the City Manager's department and the community development department.

Environmental Programs

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Fire Service

The City is currently assessing the community's fire suppression, fire prevention, rescue, and emergency medical response needs, as well as assessing various service models and funding mechanisms that could be accessed or established to support these services. The Fire

Department plans to present some preliminary findings and recommendations regarding changes in service model and level in early 2021.

Housing Assistance

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Youth Support

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New Services

Although Pinole is a “full service” city, there are some services that other cities provide that Pinole does not. These include robust cultural, historic, and artistic programs and educational support programs.

Cultural, Historical, and Artistic Programs

**

Education Support

In California, public education is provided by school districts. School districts rely on a different source of revenue than do cities. Some cities support the education of their residents by offering educational support program or by providing financial assistance to public schools. The City does offer afterschool enrichment programs to students for a fee, but does not currently provide educational support programs.

Capital Expansion

The term “capital expansion” refers to creating new capital assets, such as parks or plazas, opposed to simply renewing or replacing existing capital assets.

New Parks and Park Upgrades

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Other Capital Expansion Projects

New Public Spaces/Placemaking

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Additional Reserves

Pursuant to its Reserve Policy, the City is required to maintain a general reserve equal to 50% of total ongoing annual General Fund expenditures. As of June 30, 2020, General Fund reserves exceeded the minimum required at approximately 57.9% of total General Fund expenditures.

The City's formal General Fund reserve and other uncommitted General Fund fund balance have fluctuated over the years. The larger these reserves and balances, the better the City is able to address unplanned revenue reductions or expenditure increases.

Staff performed an analysis of the City's financial resiliency using the diagnostic tool offered by the GFOA. The tool determined that the City has a low level of financial risk based on several factors, including its revenue stability, low expenditure volatility, and high liquidity. GFOA suggests that cities with a low level of financial risk maintain a minimum general reserve of approximately 17% of total ongoing annual General Fund expenditures. (GFOA recommends that cities with moderate and high levels of financial risk maintain general reserves at a minimum of 26% and 36%, respectively.)

City staff believe that a high reserve is appropriate given the ongoing uncertainty regarding the impact of the pandemic. However, City staff may recommend reducing the required reserve to 35%, so that funds currently held in reserve greater than 35% can be invested in high-priority City needs.

POLICY ALTERNATIVES – ADDITIONAL REVENUE AND EXPENDITURE REDUCTION OPTIONS

ADDITIONAL REVENUE

New Local Revenue

Increased Fee Revenue

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Sale of Surplus Property

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New Local Tax Measures

Increased Real Estate Transfer Tax

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New Parcel Tax

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Assessment Districts

Assessment Districts

**

Business Improvement District

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Enhanced Infrastructure Financing District

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New Federal Funding

American Rescue Plan Act

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American Jobs Plan

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Additional Cash from Debt

Best practices in long-term financial planning require analyzing the City's debt position and the affordability of additional borrowing. One financial strength of the City's is having relatively little general debt.

EXPENDITURE REDUCTIONS

Retiree medical benefit

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Process Improvements/Efficiencies

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OPTIMAL SERVICE LEVELS AND REVENUES

This inaugural LTFP does not identify optimal service levels and programs for the City, nor identify specific matching revenue sources to support them. Rather, this LTFP forecasts the City's budget condition over the next five years and identifies a number of revenue and expenditure options the City Council can consider implementing in the future. City staff expect that future LTFPs will have more specific recommendations on new service levels and programs and associated funding sources.

SUMMARY AND NEXT STEPS

The City is in a relatively strong financial position which is expected to continue through the life of the forecast. Based on the baseline forecast, the City will be able to continue to fund its status quo service levels and has the capacity to address some of the operating and capital improvement needs beyond the baseline. Should the City Council decide to appropriate funding to items not currently included in the status quo forecast, staff will develop alternative forecast scenarios to show the impact on revenues, expenditures, and reserves.

The primary purpose of this inaugural LTFP is to present the five-year financial forecast and identify all of the major financial challenges and opportunities that the City is expected to face over the next five years. It does not recommend funding specific unfunded liabilities or new service levels. Nor does it recommend the revenue sources that are best suited to fund those expenditures.

As a strategic planning tool, the LTFP can however be used to guide preparation of the annual operating and capital budget process.