



# **M E M O R A N D U M**

*City of Thousand Oaks • Thousand Oaks, California*

**TO:** City Council  
**FROM:** Community Budget Task Force  
**DATE:** February 22, 2005  
**SUBJECT:** Financial Strategic Plan

## **ISSUE**

Shall City Council receive and adopt Community Budget Task Force's recommendations on Financial Strategic Plan?

## **FINANCIAL IMPACT**

There are no significant cost impacts associated with Community Budget Task Force's review of Financial Strategic Plan beyond those identified by staff in its report to Council.

## **RECOMMENDATION**

1. Approve Financial Strategic Plan and update annually, and look back at changes in assumptions and update Plan accordingly.
2. Use Budget Model when major changes are anticipated externally and internally and take into account "What If" scenarios in order to understand impact of changes.

## **BACKGROUND**

In June 2003, City Council re-established CBTF and assigned "Review of City's Financial Strategic Plan" as one of our four study topics. Over the past year, staff has shared various draft versions of the Financial Strategic Plan with CBTF. The City's outside consultant, Mike Davis of Davis Co., also met with CBTF to discuss this project. As a result of input provided by CBTF members, considerable revisions to Financial Strategic Plan have been made. The final Financial Strategic Plan document contains many of the requested revisions made by CBTF members. As the staff report points out, this document represents a highly collaborative and involved process that took several years to develop.

However, it is important to note that the CBTF did not review in detail the assumptions and does not opine on any conclusions or findings within the plan as presented.

The Budget Model contained within the Financial Strategic Plan is supported by interlinked computer files and can easily be manipulated by staff to take into consideration a wide array of future events. This is an important management tool, which can be used continuously by City Council, and staff to better understand the City's current and future financial condition. As a result, on January 10, 2005, CBTF voted unanimously in favor of recommending City Council approval of the Financial Strategic Plan.

Submitted by:

  
Jerry Lewi  
CBTF Chair

c: CBTF Members

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# **M E M O R A N D U M**

***City of Thousand Oaks • Thousand Oaks, California***

***City Manager's Office***

**TO:** Philip E. Gatch, City Manager

**FROM:** Scott Mitnick, Assistant City Manager  
Candis Hong, Finance Director

**DATE:** February 22, 2005

**SUBJECT:** Financial Strategic Plan

## **ISSUE**

Shall City Council approve final Financial Strategic Plan?

## **FINANCIAL IMPACT**

Preparation of the final Financial Strategic Plan document cost approximately \$92,000 (\$70,500 in direct costs for outside consultant (Davis Co.) and \$22,500 in indirect costs for staff time and expenses). Use of Davis Co. involved a \$65,000 budget previously approved by City Council (General Fund Expenditure Account 001-0410-612-5640). As a result of City Council's request for additional Community Budget Task Force review and participation, the consultant incurred an estimated \$5,000 in additional expenses which will need Council approval and appropriation authority. Indirect costs associated with staff time and expenses were absorbed via existing General Fund and other fund budgets. There are not any other anticipated cost impacts associated with City Council approval of Financial Strategic Plan at this time.

## **RECOMMENDATION**

1. Approve final Financial Strategic Plan document.
2. Direct staff to use Financial Strategic Plan's *Budget Model* to assist in preparation of FY 2005-06 & FY 2006-07 Operating and Capital Improvement Program (CIP) Budgets, as well as to assist with managing the City's revenues and expenditures over the next 10 to 20 years (as requested by Community Budget Task Force).
3. Appropriate \$5,000 from FY 2004-2005 General Fund Unappropriated Fund Balance Account 001-0000-311-1000 to Expenditure Account 001-0410-612-5640 to cover remaining consultant (Davis Co.) expenses associated with preparing Financial Strategic Plan.

## Financial Strategic Plan

February 22, 2005

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Doc(s) in CCD for 2 yrs

Original(s) in dept

per retention

### **ANALYSIS**

#### *Previous Ten Years – City was in a “Growth Mode”*

The attached Financial Strategic Plan revealed that over the past decade the City was in a significant “Growth Mode.” General Fund revenues grew at a very healthy annual inflation-adjusted rate of 6.8%. Expenditures grew at an inflation-adjusted rate of 5.8%. With each fiscal year, the General Fund's ending “fund balance” grew as a result of recurring surplus revenues. Per City Council's long-standing policy, the year-end fund balance was used in the following fiscal year to pay for one-time capital improvement projects and/or to ensure that the City's formal reserve policies were adhered to.

#### *Next Ten Years – City will shift to a “Maintenance Mode”*

The attached Financial Strategic Plan also acknowledges that the City is shifting from a “Growth Oriented” organization to a “Maintenance Oriented” organization. The Davis Company's Budget Model predicts that over the next decade General Fund revenues will grow at an annual inflation-adjusted rate of 4.4%, which is nearly one-third less than the preceding decade. The projected recurring surplus revenues and year-end General Fund “fund balance” is projected to shrink considerably with each year through FY 2012-2013, at which time revenues and expenditures are predicted to nearly break even.

The net surplus revenues over the next ten years are projected to be approximately \$20 million (in current dollars). That's less than \$2 million per year. Therefore, the amount of year-end fund balance available to be used to pay for one-time capital improvement projects, and one-time grants will be less than has historically been the case. Without any new revenue sources and/or program/service level reductions, funding new programs/services/projects, one-time grants to other local agencies (such as Conejo Valley Unified School District, Conejo Recreation and Park District, Boys & Girls Club, Senior Concerns, YMCA, District Attorney, etc.), will be more difficult over the next decade than it was over the past decade. The focus going forward will have more to do with maintaining the existing “Quality of Life” that makes Thousand Oaks the special place that it is.

### **DISCUSSION**

The attached Financial Strategic Plan is not a specific “Financial Plan” prescribing or suggesting “how” the City's local economy “will” grow or develop, or “how” the City's finances “will” be spent. The Financial Strategic Plan does not contain a series of different “what if” scenarios or projections as to what “may” happen in the future.

Rather, the Financial Strategic Plan contains a *Budget Model* which forecasts revenues and expenditures (primarily within the General Fund) over the next ten years based on a careful analysis of historical data, General Plan build-out scenarios, and input from staff with respect to service levels. City staff will be charged to use the *Budget Model* during upcoming budget preparation cycles to better understand revenue, expenditure,

staffing, service level, and capital infrastructure challenges in both the near- and long-term.

It also needs to be pointed out that the data contained in the Financial Strategic Plan is "dated" to the extent that the "actual" revenues and expenditures used for the Budget Model were from FY 1992-93 through FY 2001-02 (through June 30, 2002). The Budget Model uses partial data from FY 2002-03 (based on what was available at the time). The Budget Model does not use "actual" revenues and expenditures from FY 2003-04 or for the first six months of FY 2004-05 (through December 31, 2004). By the time Davis Co. completed its final analysis, the most recent audited "actual" revenues and expenditures available were used.

Statistically speaking, the regression analysis used to predict future revenues and expenditures for ten years (FY 2003-04 through FY 2012-13) based on "actual" revenues and expenditures from the previous ten years (FY 1992-93 through FY 2001-02) provides a sound mechanism to project future outcomes.

Over the past few months, however, there have been a few unanticipated cost increases associated with rising retirement costs which are not fully reflected in the Budget Model. For example, the Ventura County Sheriff's Department experienced a recurring \$2 million retirement cost increase which was passed onto the City's General Fund in July 2004. As discussed in detail on page 25 of the Financial Strategic Plan, the City's PERS retirement costs increased significantly over the past two years as well. The full recurring additional cost to the City's General Fund will be over \$1 million per year and will be reflected in the FY 2005-06 and FY 2006-07 budget.

Going forward, the Budget Model will need to be revised on an annual basis to fully take into consideration significant revenue and expenditure assumptions not included in the existing Budget Model. The additional Sheriff Department and PERS retirement costs will cause the expenditure projections to increase. This may cause the projected \$20 million net surplus over the next ten years to decline.

## **BACKGROUND**

### *Initial "Financial Element" Concept – Dating back to early 1980s*

Dating back to the early 1980s, City Council, Planning Commission, and staff had contemplated pursuing a sixth optional Element to the General Plan which would focus on the City's finances and economic policies, especially as they related to land use and development. A small number of "cutting edge" California cities developed and implemented a "Financial Element" in the 1980s and 1990s, such as Sunnyvale and Pleasanton in Northern California. In an effort to emulate the success of these cities, staff prepared draft outlines of a "Financial Element" for City of Thousand Oaks. However, nothing was adopted nor implemented.

*Community Budget Task Force "Financial Strategic Plan" Recommendation – 2000*

Per City Council direction on February 8, 2000, staff solicited the input from the Community Budget Task Force (CBTF) to develop a new "Financial Element." Preparation of a Financial Element document was discussed with CBTF at four separate meetings on March 20, April 3, April 12, and May 1, 2000. During the course of these meetings, the CBTF expressed a desire to focus more on developing a "Strategic Plan" with respect to the City's long-term revenues and expenditures, as the City was gearing up for the current transition from a "growth oriented" organization to a "maintenance oriented" organization.

During the course of the CBTF's meetings in 2000, the City Attorney and Community Development Director pointed out that adopting a formal "Financial Element" to the General Plan would result in a more narrow document, focusing on land use decisions that would require an extensive process to revise in the future. Therefore, the City Attorney and Community Development Director suggested that the City pursue another, broader, more flexible and comprehensive approach, such as adoption of "Financial Policies" or a "Financial Plan."

In an effort to balance: 1) City Council's February 2000 direction to develop a Financial Element; 2) CBTF's desire to develop a long-term revenues and expenditures "Strategic Plan;" and, 3) City Attorney and Community Development Director's suggestion to prepare a more flexible "Financial Policies/Plan" document, CBTF decided to combine all three concepts into one document entitled "Financial Strategic Plan."

The CBTF then met on September 18, October 2, and October 16, 2000 to develop a comprehensive Financial Strategic Plan outline. On December 19, 2000, City Council authorized preparation of a Financial Strategic Plan based on the outline proposed by CBTF. City Council determined that the Financial Strategic Plan would serve as a major information and policy document for City Council, staff, and residents to ensure long-term effective and efficient management of City finances, operations, facilities, and capital improvement projects.

*Selection of Davis Co. to prepare Financial Strategic Plan – December 2001*

Per City Council direction, a Request for Proposals/Qualifications was issued on December 14, 2001 to obtain assistance from outside consultants to prepare a Financial Strategic Plan. After going through a highly competitive selection process, on June 18, 2002, City Council awarded a professional services contract to The Davis Company (Davis Co.).

*Preparation of Financial Strategic Plan – 2002 through 2004*

During the course of FY 2002-03 and FY 2003-04 (July 1, 2002 through June 30, 2004), Davis Co. interviewed and worked with staff from all City departments and prepared draft versions of a Financial Strategic Plan.

*Review of Financial Strategic Plan assigned to CBTF – June 2003*

In June 2003, City Council established a new CBTF and assigned "Review of City's Financial Strategic Plan" as one of its four study topics. Over the past year, various draft versions of the Financial Strategic Plan were shared with CBTF. Mike Davis of Davis Co. also met with CBTF. As a result of input provided by CBTF members, considerable revisions to Financial Strategic Plan have been made.

*Final Financial Strategic Plan Document – February 8, 2005*

Attached as Part I and Part II is a full copy of the final Financial Strategic Plan for City of Thousand Oaks. This document contains numerous revisions and suggestions received from CBTF members and staff from multiple City departments. It represents a highly collaborative and involved process that took place over several years.

**CONCLUSION**

Although it has taken a long time, the final Financial Strategic Plan has achieved the City Council's desired outcome of serving as an information tool for City Council and staff to effectively manage City finances, operations, facilities, and capital improvement projects. The outside consultant (Davis Co.) has done an outstanding job working collaboratively with multiple City departments and members of the Community Budget Task Force over the past few years. The *Budget Model* does a good job analyzing historical revenue and expenditure data from the past decade, as well as projecting revenue and expenditure concerns over the next decade.

It is now up to City staff to use the Financial Strategic Plan and its *Budget Model* to assist in preparation of the FY 2005-06 & FY 2006-07 Operating and Capital Improvement Program Budgets. As requested by CBTF, staff will review and update the Budget Model on an annual basis and make revisions where necessary to take into consideration significant revenue and expenditure changes.

Submitted by:



Scott Mitnick  
Assistant City Manager



Candis Hong  
Finance Director

Attachment Doc(s) in CCD for 2 yrs  
Original(s) in dept  
per retention

c: CBTF Members  
Executive Managers  
Mike Davis