Attached to this report is the City’s updated General Fund Long Range Financial Plan (LRFP) for the years 2005-06 through 2015-16. The LRFP identifies key financial issues and will guide the upcoming 2006-07 budget process. The attached report contains a discussion of the following areas:

- National, state and local economic conditions
- Methodology and assumptions used to forecast future revenue and expenditure streams
- Analysis of City revenue and expenditure performance
- Results of long range forecast
- Financial challenges lying ahead
- Comparison of City forecasting model with alternative forecasting methods

As a consequence of the community’s, Council’s and staff’s “Strengthening the Bottom Line” efforts since 2001, the City has eliminated a long-term structural deficit. The current LRFP shows General Fund surpluses through 2010-11. Moreover, during this period, Council’s objective of contributing $1.0 million of surplus funds to the Infrastructure Reserve should be achievable. The most significant driver of balancing the budget and generating surpluses was the elimination of 70 General Fund positions since 2001. This difficult but necessary step was critical in achieving the results shown in this forecast.

Based on recent trends, the LRFP assumes a slowly improving economy in the near term, with revenue sources such as sales and transient occupancy taxes reviving. It also assumes, based on recent Public Employee Retirement System data and staff reductions, that increases in major benefit expenses such as health and pension will moderate in the near term compared to past, steep increases.
These positive trends, however, are not a ticket to passive management of the City’s finances. Instead, the following challenges demand Council’s and staff’s active attention:

- Building the Infrastructure Reserve to a level that sustains a $10 million annual rehabilitation effort
- Supporting major new facility needs such as a new police building, library improvements, rebuilding of several fire stations, and athletic fields and facilities at the Golf Course
- Maintaining a vibrant economic base that continues to generate significant sales and transient occupancy taxes
- Negotiating upcoming SEIU, Fire and Police union contracts
- Funding the City’s outstanding retiree medical liability
- Closing a major revenue gap starting in year 2012-13 when the landfill closes and refuse rent revenue declines

To manage these challenges, the City will continue to seek opportunities to restructure the organization around staffing vacancies and retirements. Senior staff’s upcoming review of the City Auditor’s Span of Control Report recommendations will aid this effort. Other cost containment efforts may be needed. With health care costs periodically rising at double-digit rates, employees may be called upon to contribute to premiums. To fund major new facilities, new revenue sources or a significant reallocation of resources may be necessary.
**RECOMMENDATION**
Staff recommends that the Finance Committee review and comment on the attached forecast of revenues, expenses, and reserve levels before the full City Council reviews the plan.

**BACKGROUND AND DISCUSSION**
The attached document serves as background and discussion for the LRFP update.

**RESOURCE IMPACT**
As with any financial forecast, the fiscal impacts shown are estimates. Estimates of future deficits and surpluses, as well as the estimated costs of future financial challenges, are meant to guide future policy and budget decisions.

**POLICY IMPLICATIONS**
City Finances and the Long Range Financial Plan are one of the Council’s Top 5 Priorities.

**ENVIRONMENTAL REVIEW**
This report does not require California Environmental Quality Act (CEQA) review.

**ATTACHMENTS**
Attachment 1: Long Range Financial Plan (Chapters 1-4)

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