



DATE: February 6, 2024
TO: Mayor & City Council
FROM: Director of Finance
SUBJECT: Review of General Fund Long Range Financial Model and Fiscal Assumptions

RECOMMENDATION

That the Council receives the presentation and overview of the updated General Fund Long Range Financial Model and fiscal assumptions.

SUMMARY

Over the last several months, staff have worked with Baker Tilly to update the City's General Fund Long Range Financial Model (Model). The Model was originally developed in 2017 by Management Partners, which was acquired by Baker Tilly in October 2022.

During the work session, staff will provide an overview of the Model, including both revenue and expenditure assumptions for future financial forecasting. In addition to the review of the 10-year forecast and assumptions, staff will guide Council through an interactive exercise to demonstrate how the Model can be used to forecast and understand the financial impacts of policy decisions.

BACKGROUND

On October 3, 2017¹, Management Partners (currently Baker Tilly) presented the Model to the Council at a work session. The presentation provided a brief overview of the project objectives and key assumptions built into the Model. Management Partners provided a demonstration of the capabilities and flexibilities of the Model by running a variety of hypothetical scenarios to illustrate the long-term fiscal implication of policy decisions.

Following the October 3, 2017 work session, the City held a fiscal sustainability work session on October 14, 2017², where the Council was again presented with the Model, as well as strategies and options for revenue generation, cost shifting, expenditure controls, and changes to service provisions to assist in closing the City's long term structural budget gap. Council supported exploration of options from all categories except for reductions to the provision of services. Several of the supported options were explored by staff and implemented, including increasing the City's real property transfer tax (RPTT), and transient occupancy tax (TOT). In

¹ [Hayward City Council Meeting October 3, 2017 \(www.legistar.com\)](http://www.legistar.com)

² [Hayward City Council Meeting October 14, 2017 \(www.legistar.com\)](http://www.legistar.com)

2023, staff began working with Baker Tilly to update the Model by reviewing both revenue and expenditure assumptions to ensure congruence with current economic trends.

DISCUSSION

In 2023, staff engaged with Baker Tilly to conduct a review of the General Fund Long Range Financial Model to recommend updates to the structure of the Model, as well as the assumptions applied for long-range financial forecasting. Since the Model was first developed over six years ago, changes to the structure of the Model and assumptions have evolved incrementally. This is the first comprehensive review of the Model since 2017. The Model is a significantly dynamic and interactive tool that provides staff with the ability to run hypothetical scenarios in real time to forecast both short-term and long-term fiscal implications. Completing a review and update every few years is important to ensure the quality and accuracy of long-range financial forecasting.

Model Assumptions

In addition to updating the structure of the Model, staff worked with Baker Tilly to review the existing revenue and expenditure assumptions to ensure that the current assumptions identified are congruent with both local and state economies. The updated Model provides sophisticated economic forecasting assumptions, escalation factors, and detailed personnel-related costs. The City uses the Model to simulate a variety of fiscal scenarios to understand the long-term fiscal impacts to the General Fund. Attachment II provides an overview of the assumptions in the Model that allow staff to forecast the City's future fiscal status.

Interactive Budget Model: Scenarios

Like the work session in October 2017, Council will have an opportunity to review the Model. Staff will guide Council through a series of hypothetical scenarios to demonstrate, through charts and interactive graphs the financial implications of policy decisions and potential changes in the economy.

NEXT STEPS

Staff will continue to update and monitor the Model and provide Council with regular updates on the fiscal health of the City. An update to the Model will be included with the FY 2024 Mid-Year Review in March 2024. Additionally, staff is currently working to schedule a work session with a local Economist to provide an overview of the current economic environment in Hayward and California.

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