



# City of Santa Rosa Assessment Report: Financial Model and Budget Process

February 2025

## Executive Summary for City Council Goal Setting Session

ALVAREZ & MARSAL  
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# Executive Summary

A&M was engaged to conduct an independent validation of the City’s multi-year financial forecast model and evaluate the annual budget process to provide insights on opportunities for improvement and options for engaging zero-based budgeting.

	Financial Model	Budget Process	Transformation Planning
Approach	<ul style="list-style-type: none"> <li>Reviewed long-term financial forecast and supporting documentation</li> <li>Analyzed B2A trends</li> <li>Interviewed finance team</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed historical budgets and process documentation</li> <li>Interviewed finance SMEs and department leadership “customers”</li> <li>Compared approach to industry best practices</li> </ul>	<ul style="list-style-type: none"> <li>Together with City leaders, identified the need to <b><u>consider broader transformation planning</u></b> to reach fiscal sustainability</li> </ul>
Observations	<ul style="list-style-type: none"> <li>Precision of revenue estimates including property tax and sales tax can be improved</li> <li>Challenges accounting for vacancies</li> <li>Minor methodological inconsistencies</li> <li>Lack of self-checking and scenario modeling functioning</li> </ul>	<ul style="list-style-type: none"> <li>Condensed budget process results in unrefined submissions</li> <li>Spend not tied to programs or strategies</li> <li>Insufficient communication and management across departments</li> <li><b>Does not challenge staffing and maintains status quo by default</b></li> </ul>	<ul style="list-style-type: none"> <li>Historically conservative approach has at times undermined confidence in forecasts</li> <li><b>Narrow perspective on addressable spend</b> across departments</li> <li>Operations and organization are not aligned with mandates and priorities, <b>emphasis on stability over innovation, staffing over other critical investments</b></li> </ul>
Recommendations	<ul style="list-style-type: none"> <li><b>Refine forecasting methodology to reduce variance</b></li> <li>Improve approach to vacancies</li> <li>Enhance model infrastructure (error checks, scenario analysis, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Redesign budget infrastructure and processes to <b>focus on programs rather than object codes</b></li> <li>Lengthen the budget process to support <b>thoughtful, analytical request submissions</b></li> <li>Increase communication and implement uniform budget guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Improve <b>consistency and trust</b> in budget communications</li> <li>Rationalize services and programs based on mandates and priorities (<b>including deferred capex</b>)</li> <li>Optimize workforce composition, assignment, and compensation</li> <li>Improve <b>interdepartmental resource sharing</b></li> <li>Strengthen procurement to support transformation</li> </ul>

A&M recommends the City take immediate action to not only address the findings of the assessment areas but to transform city financial operations **and overall City operations** in support of lasting sustainability.

# The Case for Transformation

While addressing the recommendations identified by the assessment as initially scope will provide some functional improvement, course correction to get the City on the path to financial health requires an intentional focus and action on broader-scale transformation initiatives.

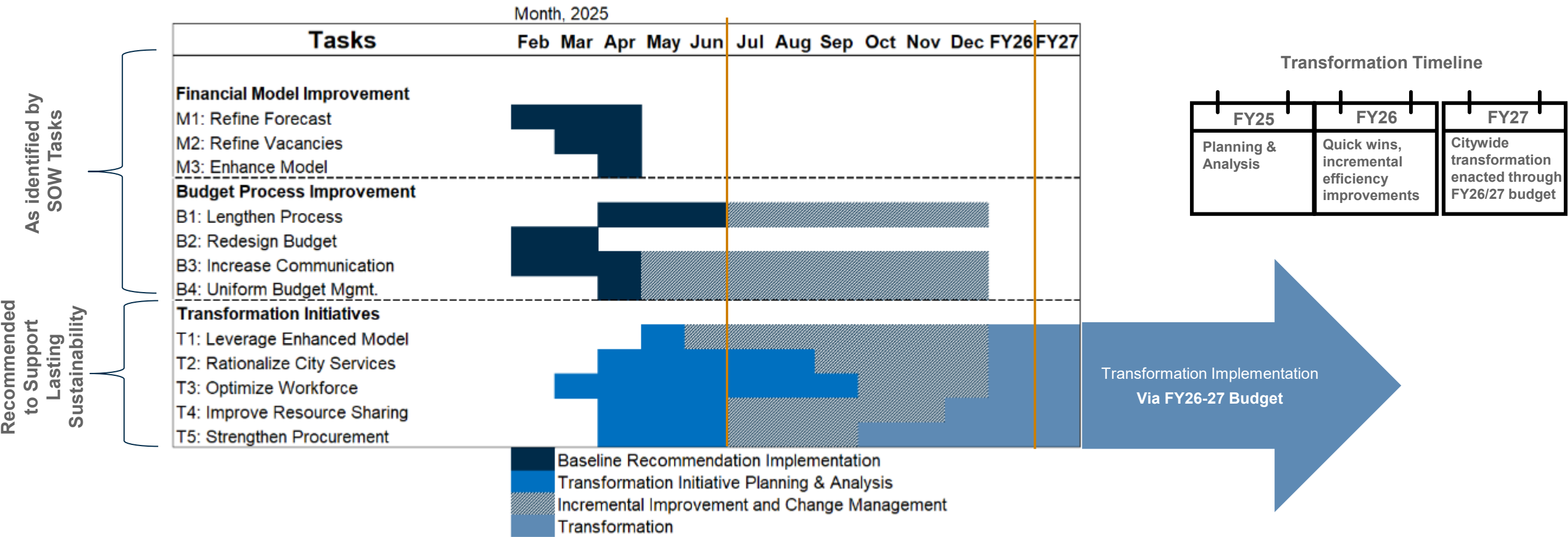
	Challenge	Solution	Outcome
Within Current Approach	<ul style="list-style-type: none"><li>The problem initially posed to A&amp;M was two-fold:<ul style="list-style-type: none"><li>Uncertainty as to the alignment of forecasting with best practices undermined certainty in forecasts</li><li>The status quo budget process was not well positioned to address major budget deficits in the near future</li></ul></li></ul>	<ul style="list-style-type: none"><li>Refine the City’s approach to key assumptions in the financial model, and update long-term forecast</li><li>Extend the budget timeline and increase communication and engagement of departments in the budget process</li></ul>	<ul style="list-style-type: none"><li>Increased accuracy of model, decrease variances, and provide a clearer picture of the long-term financial outlook</li><li>Improved strategic alignment, stakeholder buy-in, and increased thoughtfulness in budget submissions</li><li><b>Minor improvements in long-term fiscal sustainability</b></li></ul>

While the results of the assessment can support meaningful marginal improvements, these steps alone are insufficient to support lasting sustainability. **A&M recommends the City of Santa Rosa take decisive action to refocus city services on strategic priorities.**

Transforming to Support Council Strategy	<ul style="list-style-type: none"><li>City structure is <b>fragmented and siloed</b> with limited interdepartmental resource coordination</li><li><b>Norms remain unchallenged</b>, and costs which are assumed to be “fixed” are outpacing revenue growth</li><li>Years of <b>incremental budgeting</b> have <b>resulted in significant inefficiency</b></li><li>Political leaders are <b>not aligned on fiscal realities</b>, at times contributing to budget growth</li></ul>	<ul style="list-style-type: none"><li><b>Analyze “mandates”</b> related to existing city services, identify realignment opportunities, and <b>pursue comprehensive efficiency.</b></li><li>Identify <b>meaningful budget reductions</b> that <b>preserve strategically important investments</b></li><li><b>Redesign budget process</b>, and financial engagement process to <b>strengthen shared sense of ownership</b>, and reach clear understanding of the tradeoffs which must be considered for <b>lasting sustainability</b></li></ul>	<ul style="list-style-type: none"><li><b>Redefine the City’s operating model</b> to adapt to the modern fiscal realities</li><li><b>Challenge assumptions and leave “no rock unturned”</b> in a quest to improve efficiency</li><li>Invest limited resources on core services based on <b>impact and value to residents</b></li><li>Undertake transformation guided by <b>a shared vision of reality</b> and clear sense of ownership for political and administrative leaders</li></ul>
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# Next Steps to Support Transformation

Santa Rosa should move quickly to implement financial model and budget process improvement recommendations, which will serve as the critical infrastructure required to support a broader transformation in pursuit of lasting fiscal sustainability.



A&M recommends that broader transformation efforts are planned immediately and undertaken based on the successful strengthening of financial planning infrastructure.