



# Long-Term Financial Planning

*Overview of a New Platform*

City of Kansas City, Missouri  
**2013-2018**

Long-term financial planning combines financial forecasting with financial strategizing to identify future challenges and opportunities...Good financial planning does not simply project the status quo “x” number of years into the future...Financial planning stimulates discussion about the long- term impact of decisions made today and how the city can position itself now to deliver a stable level of essential services.

*Government Finance Officers Association, Financing the Future*

In June 2012, the Finance Department was tasked to develop a platform for long-term financial planning (LTFP) within 90 days, to complement the City's next budget cycle. The LTFP team in charge of plan development, led by Director of Finance, Randall Landes, is:

Deputy Director of Finance, Wanda Gunter  
City Controller, Eric Clevenger  
City Treasurer, Tammy Queen  
Development Finance Manager, Dan Bagunu  
Assistant Budget Officer, Mark Thoma-Perry  
Manager of Administration and Analysis, Cemal Umut Gungor  
Katherine Carttar, Cookingham-Noll Fellow  
Nick Hawkins, Cookingham-Noll Fellow

Consultant Julie Carmichael provided overall project management and, relying upon data provided by the LTFP team, developed the Financial Trends Monitoring System, Five-Year Strategic Fiscal Planning Model, and this report.

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## COMPONENTS OF LONG-TERM FINANCIAL PLANNING (LTFP)

In June 2012, the Finance Department was tasked to develop a platform for long-term financial planning (LTFP) within 90 days, to complement the City's next budget cycle. The blueprint for this decision-making model involves:

- **Trust:** restoring the community's trust in City government
- **Transparency:** revealing the complex decision-making processes and strategies required to deliver City services
- **Responsiveness:** building a plan that considers the community's diverse needs and priorities
- **Sustainability:** maintaining the long-term financial health of the City while investing in the City's core service areas.

The City's long-term financial planning will begin to link the following distinct activities that currently exist in some form within the City, but are now only loosely connected:

- **City Council:** Priorities and Goal-Setting, Citizen Engagement and Surveys
- **City Manager:** Annual Budget and Performance Measurement
- **Finance Department:** Annual Financial Reports, Financial Policies, Forecast
- **Public Works:** Five-Year Capital Improvements Plan, Infrastructure Condition
- **City Planning:** Demographic and Economic Statistics, Mapping
- **Departments:** Business Plans

The two activities that serve to connect all of these efforts, a trends analysis and strategic fiscal planning model, have not been updated since 2007. With new enhanced versions of both, the City is positioned to begin transforming its budget process from an exercise in balancing revenues and expenditures one year at a time, to a tool that will be strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals.

Exhibit 1 is adapted from the Government Finance Officers Association publication *Financing the Future*. It lists the major components of LTFP and the planning process that satisfies each, adapted to reflect the City's three phases: Analysis, Decision, and Execution. This report, the Financial Trends Monitoring System, the Strategic Fiscal Planning Model, and the recent citizen survey complete the Analysis Phase and provide potential strategy options for the Decision Phase. Adopted strategies in the Decision Phase will lead to Execution of the plan within the budget and other departmental processes that provide regular monitoring of the plan.

## EXHIBIT 1

| LTFP Component   | Strategic Planning | Forecasting | Capital Improvement Planning | Business Planning (Departments) | Budgeting |
|--|--------------------|-------------|------------------------------|---------------------------------|-----------|
| Visioning - defines the purpose and related objectives of the agency                           | X                  |             |                              |                                 |           |
| <b>ANALYSIS PHASE</b>  |                    |             |                              |                                 |           |
| Stakeholder surveys - assesses strengths and weaknesses, demand for services                   | X                  |             |                              | X                               |           |
| Fiscal environment analysis: ten year trends   |                    | X           |                              |                                 |           |
| Five-Year Strategic Fiscal Planning Model  |                    | X           | X                            |                                 |           |
| <b>DECISION PHASE</b>  |                    |             |                              |                                 |           |
| Fiscal and operational strategies, policy development  | X                  | X           | X                            | X                               | X         |
| Service demand planning  | X                  | X           | X                            | X                               | X         |
| Service prioritization - objectives and resource availability                                  | X                  | X           | X                            | X                               | X         |
| Resource allocation  |                    |             | X                            | X                               | X         |
| <b>EXECUTION PHASE</b>   |                    |             |                              |                                 |           |
| Alignment - aligns activities of subunits to undertake the organization's strategic objectives |                    |             | X                            | X                               | X         |
| Management planning - detailed action planning to achieve organizational objectives            |                    |             | X                            | X                               | X         |
| Performance monitoring - assesses progress under action plans                                  |                    |             | X                            | X                               | X         |

## TREND ANALYSIS

The first step in the process is developing The Financial Trend Monitoring System (FTMS) patterned after the International City/County Management Association's (ICMA) *Evaluating Financial Condition: A Handbook for Local Government*. Financial indicators in the report have been identified by ICMA, credit rating agencies, and other governmental professional associations as the factors most relevant in determining the financial condition of local governments. The FTMS also includes relevant measures from the Government Finance Officers Association's (GFOA) long-term financial planning model, which recommends a fiscal environment analysis that examines categories of sufficiency, flexibility, vitality, equity, demand and political environment. This first annual report, created within a compressed time frame, will be expanded in future updates to include other indicators, some of which are listed in Appendix A.

The Financial Trends Monitoring System can be used by managers and policymakers to better understand the forces that affect financial condition, identify existing and emerging financial problems, develop actions to remedy these problems, and provide a database that can be used to make future projections for effective budgeting, capital planning, and general policy making. The information on trends will help demonstrate to citizens that the government is aware of and in control of its finances.

Ten-year trends in economic indicators, operating position, revenues, expenditures, long-term liabilities, capital plant maintenance, and service levels are compared to population, inflation, other similar entities, or benchmarks. The trend analysis concludes with fiscal and operational strategies which may recommend policy development, revenue reform, or productivity improvements.

The analysis will identify areas of strengths (the city's financial discipline evidenced by subsequent years of increasing fund balance) as well as potential areas for review (increasing unfunded liabilities). The trends report will often "bust" commonly held myths, and just as often provide the empirical support for new policy directions. A trends report also provides valuable information for a Strategic Fiscal Planning Model—including factors that impact growth, reasonable growth rate assumptions, and critical values.

The format for analysis of each indicator is:

1. Graphical presentation of the indicator's trend
2. Formula for computing and interpreting the indicator
3. Analysis of the 10-year trend
4. Fiscal and operational strategies which may recommend policy development, revenue reform, or productivity improvements.

By using 10 years of data, trend analysis answers several questions:

1. How fast is an indicator changing and in which direction?
2. How does one trend compare to another and is there a correlation?
3. How do our trends compare to local or regional trends?
4. How can we effectively use the results for planning, budgeting and policy making?

The LTFP team collected data for 48 indicators. Eight economic and demographic indicators that make up this first year's Environmental Scan are not assigned a rating, but the analysis of each contributes to contextual understanding of factors that impact revenues and expenditures. Environmental Scan indicators examine population levels and composition, population density, per capita income and household income, poverty levels, employment, property values, building permits, and crime rate.

The remaining 40 indicators were given the following ratings:

- **Positive:** The trend is positive and the indicator meets any policy or performance measures set by the City.
- **Watch:** The trend is uncertain. The indicator should be watched carefully because it may move in a direction that could have a negative impact on the City's financial health.
- **Negative:** The trend is negative. The indicator does not meet policy or performance measures set by the City. Corrective action should be considered.

The results of the analysis are:

|   |                    |
|---|--------------------|
|  | 11 Positive Trends |
|  | 12 Watch Trends    |
|  | 17 Negative Trends |

Exhibit 2 lists the 40 rated indicators organized by rating.

## EXHIBIT 2

|   |           |
|---|-----------|
| <b>Positive</b>                                 | <b>11</b> |
| <b>Revenue Indicators</b>                       |           |
| Revenue Pie Graph                               |           |
| Sales Tax Revenue Estimation Error              |           |
| Property Tax Per Capita                         |           |
| Franchise Fees Per Capita                       |           |
| Intergovernmental as a Percent of Total Revenue |           |
| <b>Expenditure Indicators</b>                   |           |
| General Fund Expenditure Estimation Error       |           |
| Salaries & Benefits as a Percent of Op Exp's    |           |
| <b>Service Level Indicators</b>                 |           |
| Administrative Overhead                         |           |
| Fire Per Capita                                 |           |
| Overall Streetlight Condition Index             |           |
| Parkland Square Footage Per Capita              |           |
| <b>Watch</b>                                    | <b>12</b> |
| <b>Operating Position Indicators</b>            |           |
| Liquidity                                       |           |
| <b>Revenue Indicators</b>                       |           |
| Operating Revenue Per Capita                    |           |
| Tax Redirections                                |           |
| General Fund Revenue Estimation Error           |           |
| Sales Tax Per Capita                            |           |
| Tourism & Leisure Per Capita                    |           |
| Service Charges as a Percent of Total Revenue   |           |
| <b>Expenditure Indicators</b>                   |           |
| Personnel costs per FTE                         |           |
| Capital as a Percent of Total Exp's             |           |
| <b>Service Level Indicators</b>                 |           |
| Non-Uniform Per Capita                          |           |
| Police Per Capita                               |           |
| Overall Bridge Condition Index                  |           |
| <b>Negative</b>                                 | <b>17</b> |
| <b>Operating Position Indicators</b>            |           |
| Structural Balance                              |           |
| Unreserved Operating Fund Balances              |           |
| Operating Surpluses (Deficits)                  |           |
| <b>Revenue Indicators</b>                       |           |
| Restricted and Renewable Revenues               |           |
| Earnings Tax Per Capita                         |           |
| Business License Per Capita                     |           |
| <b>Expenditure Indicators</b>                   |           |
| Expenditures Pie Graphs                         |           |
| Operating Expenditures Per Capita               |           |
| Expenditures by Outcome Per Capita              |           |
| Fringe Benefits as a Percent of Personnel Costs |           |
| Debt Service as a Percent of Operating Exp's    |           |
| Outstanding Debt as a Percent of Market Value   |           |
| <b>Long-Term Liabilities Indicators</b>         |           |
| Pension Funding Ratio Non-Uniform               |           |
| Pension Funding Ratio Uniform                   |           |
| Annual Pension Payments                         |           |
| Other Post-Employment Benefits (OPEB)           |           |
| <b>Service Level Indicators</b>                 |           |
| Overall Pavement Condition Index                |           |
| <b>Grand Total</b>                              | <b>40</b> |

The results can be organized into a variety of customizable “scorecards” to give management, policymakers, and stakeholders a variety of ways to analyze results. The separate Financial Trends Monitoring System Report includes three sample scorecards. Exhibit 3 shows the results for a “Core Indicators” scorecard—those indicators considered to be the most fundamental snapshot of financial condition. Of these, 7 are positive or not rated, 3 are watch, and 7 are negative.

### EXHIBIT 3

|  |           |
|--|-----------|
| <b>Not Rated</b>   | <b>4</b>  |
| Population   |           |
| Per Capita and Median Household Income                     |           |
| Employment   |           |
| Property Value   |           |
| <b>Positive</b>  | <b>3</b>  |
| Property Tax Per Capita                                    |           |
| Franchise Fees Per Capita                                  |           |
| Salaries & Benefits as a Percent of Operating Expenditures |           |
| <b>Watch</b>   | <b>3</b>  |
| Operating Revenue Per Capita                               |           |
| Sales and Use Tax Per Capita                               |           |
| Capital as a Percent of Total Expenditures                 |           |
| <b>Negative</b>  | <b>7</b>  |
| Structural Balance   |           |
| Unreserved Operating Fund Balances                         |           |
| Earnings Tax Per Capita                                    |           |
| Operating Expenditures Per Capita                          |           |
| Fringe Benefits as a Percent of Personnel Costs            |           |
| Debt Service as a Percent of Operating Expenditures        |           |
| Annual Pension Payments                                    |           |
| <b>Grand Total</b>   | <b>17</b> |

The LTFP team identified over 50 fiscal and operational strategies, a complete listing of which can be found in Appendix B. The following are considered “core” strategies: ones that either originate from the 16 core indicators or from indicators that received a “Negative” rating. These strategies will be prominent considerations for assumptions and scenarios used in the Strategic Fiscal Planning Model and are submitted in draft form for consideration by the City Council.

## **Financial Stewardship: Adopt policies and procedures that maintain long-term financial health.**

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Goal 1 – Develop, adopt and codify the following new financial policies:

- Long-term financial planning
- Revenue (as recommended by CCMR)
- Pension Funding
- User Fee

Goal 2 – Adopt a plan to achieve a structurally balanced budget, based on the following factors:

- Current expenditures should equal current revenues
- An adequate fund balance is maintained
- Revenue growth is equal to or greater than expenditure growth
- Capital maintenance expenditures are not deferred
- Long-term liabilities are addressed

Goal 3 – Develop a time-specific, funding plan to meet the City’s adopted goal of two months’ worth of expenditures.

Goal 4 – Adopt a funding policy with the goal of reaching a 100% level of funding for all sponsored plans.

Goal 5 – Review City’s adopted debt policy with consideration given to modifying debt capacity provisions in order to specify a ceiling for the amount of debt service as a percent of operating budget or develop a mitigation strategy to protect both credit quality and market access.

## **Revenue Management: Identify and monitor factors that influence future revenue growth.**

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Goal 6 – Develop appropriate renewal or replacement strategies for the following taxes:

- Temporary Health Levy (2014)
- Fire Sales Tax (2016)
- Earnings Tax (2016)

Goal 7 – Implement Citizens’ Commission on Municipal Revenue recommendations:

- Base recommendations
- Business license reform

Goal 8 – Review aggregate tax redirections (e.g. TIF, STIF, etc.) and tax abatements to determine effect on budget and return on investment.

## **Service Delivery and Performance Management: Identify and monitor factors that influence citizen demand for and satisfaction with City services.**

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Goal 9 – Integrate performance and productivity measures within annual budget to link expenditures to Council priorities, service levels, service delivery efficiencies, citizen demand, and customer satisfaction.

Goal 10 – Monitor citizen demand for services and survey citizen satisfaction.

## **Financial Management: Implement operating and financial support systems that maintain long-term financial health.**

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Goal 11 – Continue roll-out and integration of long-term financial plan including:

- Financial Trend Monitoring System
- Strategic Fiscal Planning Model
- Integration with, Strategic Planning, Budget and Performance Management

Goal 12 – Conduct assessment of the City’s financial policies, practices, processes, etc. using the CIPFA/GFOA Model.

Goal 13 – Complete tax collection system upgrades:

- Earnings, utilities, convention and tourism, business license, hotel and car rental (2013)
- Property taxes and special assessments (2014)

Goal 14 – Perform a comprehensive total compensation review.

Goal 15 – Design a pension benefit structure which fits with available budget resources.

Goal 16 – Develop a multi-year approach to health care funding and cost containment, which includes an appropriate reserve for risk associated with self-funding.

Goal 17 – Develop a plan to maintain City’s general obligation AA credit rating by capitalizing on credit strengths and addressing weaknesses.

Goal 18 - Develop a plan to address other post-employment benefits liability (OPEB) through either plan design changes, direct funding or both.

Goal 19 – Develop a comprehensive risk management plan.

### **Capital Plant: Ensure the adequate and efficient maintenance of the City’s infrastructure.**

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Goal 20 - Develop funding plan(s) to keep assets (e.g. streets, buildings, bridges, streetlights, etc.) at minimum condition levels (if applicable, per GASB 34) or based on funds availability.

Goal 21 - Develop funding plan(s) to keep equipment (e.g. rolling stock, technology, office equipment, furnishings, etc.) at prescribed levels or condition.

## NEXT STEPS

The City has faced a number of financial challenges in the recent past. The FTMS system is not designed to project the future financial situation of the City; however, the system will provide an important benchmark for management to monitor and develop strategies for problem areas and to maintain positive trends. The analysis conducted as part of the trends report builds expert knowledge of the organization and its environment which is vital to the quality of the plan. The trend results are then used to inform the inputs and assumptions for the Strategic Fiscal Planning Model—factors that impact growth, reasonable growth rate assumptions, and critical values.

## STRATEGIC FISCAL PLANNING MODEL

The next step in the Long-Term Financial Planning process was construction of the Five-Year Strategic Fiscal Planning (SFP) Model to achieve the following goals:

- Understand available funding sources
- Identify key variables that impact revenue
- Quantify the opportunity costs of funding decisions
- Assess the likelihood that services can be sustained
- Assess the level at which capital investment can be made
- Identify future commitments and resource demands

The SFP model is a financial plan to illustrate the likely financial outcomes of particular courses of action or factors affecting the environment in which the government operates. A financial plan is not a forecast of what is certain to happen, but rather a device to highlight significant issues or problems that must be addressed if goals are to be achieved.

The SFP model links operating, debt, and capital decisions in order to identify appropriate strategies to achieve the City's goals. Decisions are no longer made in a vacuum, but within a framework of all competing interests and priorities.

The SFP model forecasts both revenue and expenditures, but in very different ways:

1. *Revenues* are impacted by a myriad of variables largely outside the City's control. Finance Department staff uses sophisticated modeling to identify those variables, and correlation to revenue collections. These revenue models provide a range of future growth rates which are then used to estimate the level of funding available for current budget deliberations. Growth rates will now also inform the SFP model. ***The question answered in a SFP model related to Revenues is: What is the likely level of resources the City can expect given certain changes in economic and demographic variables?***
2. *Expenditures* are impacted by economic and demographic variables as well, but levels can be controlled through management decisions. Because the City is required to adopt a balanced budget each year, expenditures are matched to available resources. Now the long-term impacts of those choices can be evaluated in the SFP model. ***The question answered in a SFP model related to Expenditures is: What changes in revenues and/or service levels are required to meet our highest priorities?***

Current forecasting practice is to present current expenditures times a growth rate (for example, each department can increase the budget by 5%). Implied in this growth rate are

assumptions for inflation, population changes, and expectations for service demand. An expanded formula breaks out these assumptions:

$$\text{Operating Expenditures} = \text{employees per population} * \text{population increase} * \text{average cost (expenditures per employee)} * \text{cost increase.}$$

Note: When you cancel out numerators and denominators, you are left with expenditures times a growth rate.

This equation provides a plausible story about the future using the world of today as a starting point. It assumes that the ratio of current expenditures per employee is the most efficient level of service delivery that can be achieved in the near future. And it assumes that the ratio of employees per population is adequate. Given these two truths, the equation then forecasts the current level of service forward for changes in economic and demographic assumptions.

## Scenarios

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The SFP model generates alternative “what if” scenarios based on varying assumptions for population, inflation, mandates, number of employees, salary increases, health care costs, capital requirements, and many more. Although it is common practice to develop pessimistic, optimistic and “most likely” scenarios, planning is more valuable when scenarios chosen are all equally plausible. This allows strategic decisions to be tested against likely outcomes, not likely extremes. And this approach reinforces the idea of the SFP model as a planning tool, that when used as such can produce financial strategies that work under any scenario.

Scenarios can highlight weaknesses across a variety of outcomes. Scenarios focus decisions on critical values. And scenarios will not predict what *will* happen, but will provide the flexible thinking required to respond *if* something happens.

## Link to the Budget

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The SFP model influences budget formulation by identifying financial parameters as part of the strategy to reach fiscal balance. The budget is then used to operationalize the financial plan by implementing specific financial strategies, funding service level preferences, identifying a set of spending assumptions, and linking operating, capital, and debt planning efforts.

A successful plan is supported by strong guidance from elected officials on what the organization values and believes to be important as expressed through official policy.

## Sample Scenario Results

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SFP model results are summarized by the following seven graphs, benchmarked to City policies:

- Structural Balance
- Reserves - All Operating Funds as a percent of expenditures
- Reserves - General Fund Supported as a percent of expenditures
- Reserves - Special Revenue Funds
- Debt Service as a percent of expenditures
- PAYG Capital as a percent of expenditures
- Redirections as a percent of Tax Revenues

Finance Department staff will use scenarios to inform deliberations for the 2013-2014 Budget. Because the SFP model is built to be flexible, staff anticipates annual enhancements to this first year's basic structure, to ensure a match between the financial plan and evolving service demands.

For purposes of this report, staff identified one scenario to demonstrate the model structure and results:

### **Scenario Description**

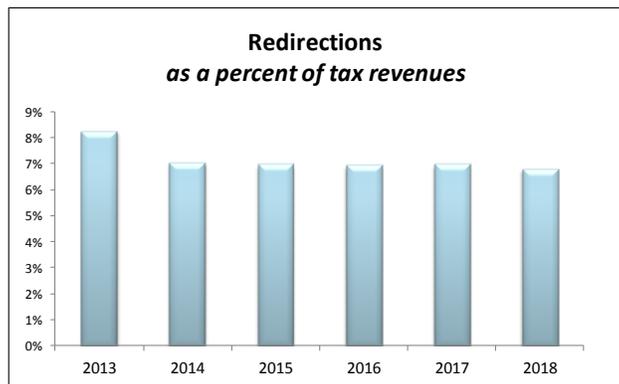
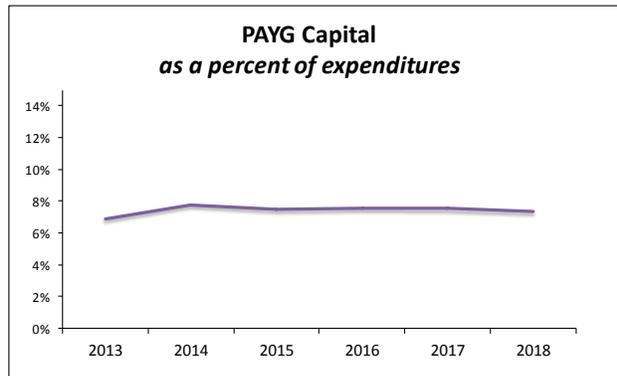
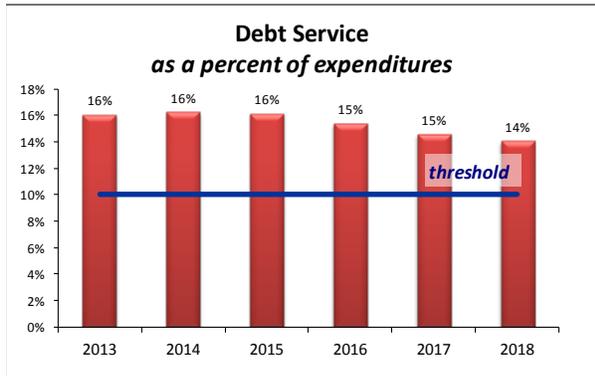
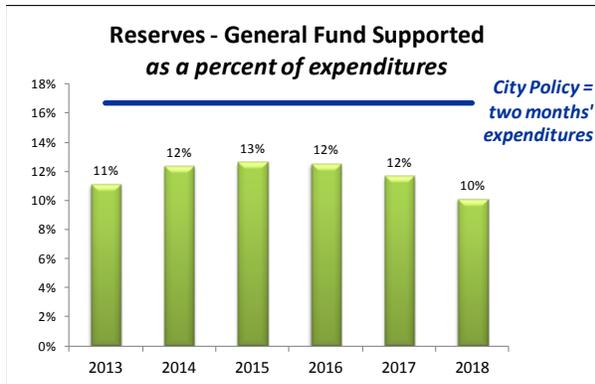
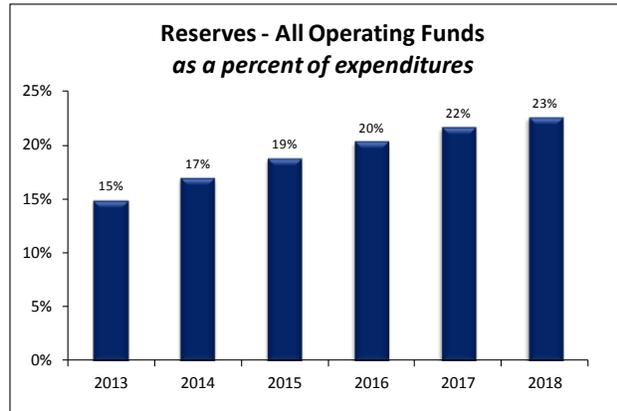
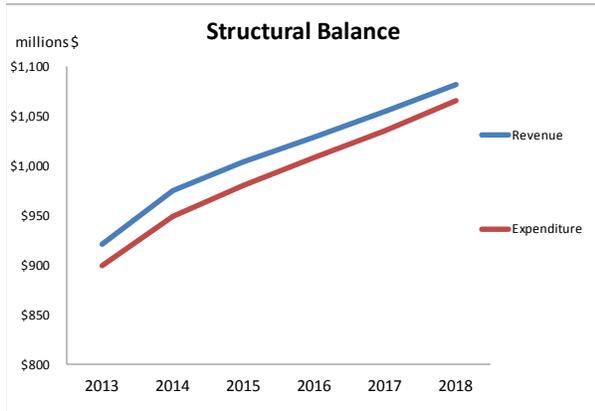
Parks land only and front foot taxes and motor vehicle license fees not collected in 2013. New 1/2 cent sales tax takes effect in January 2013, first collections occur in fiscal year 2013-2014. 7.5% of earnings tax is dedicated to street maintenance beginning in fiscal year 2013-14. New bonds issued for street program (\$100 million) and bridge repairs (\$25 million), repaid with property tax mill levy increase. No employee additions.

# SAMPLE SCENARIO

|   | 10-Year Trends      | 2013 estimated | Annual      |            |            |            |            | Forecast Period |
|---|---------------------|----------------|-------------|------------|------------|------------|------------|-----------------|
|   |                     |                | 2014        | 2015       | 2016       | 2017       | 2018       |                 |
| <b>Demographic Assumptions</b>                    |                     |                |             |            |            |            |            |                 |
| 2013 estimated population                         |                     | 465,000        |             |            |            |            |            |                 |
| Population growth                                 | 0.46%               |                | 0.5%        | 0.5%       | 0.5%       | 0.5%       | 0.5%       | 2.5%            |
| <b>Revenue Assumptions</b>                        |                     |                |             |            |            |            |            |                 |
| Budget variance                                   | -8% to +7%          | 2.0%           |             |            |            |            |            |                 |
| Earnings Tax                                      |                     |                |             |            |            |            |            |                 |
| Rate  |                     |                | 1.0%        | 1.0%       | 1.0%       | 1.0%       | 1.0%       |                 |
| Annual Increase                                   | 2.4%                |                | 2.5%        | 2.5%       | 2.5%       | 2.5%       | 2.5%       | 2.5%            |
| Sales Tax   |                     |                |             |            |            |            |            |                 |
| Rate  |                     |                | 2.375%      | 2.875%     | 2.875%     | 2.875%     | 2.875%     |                 |
| Annual Increase                                   | 1.2%                |                | 3.0%        | 3.0%       | 3.0%       | 3.0%       | 3.0%       | 3.0%            |
| Property Tax                                      |                     |                |             |            |            |            |            |                 |
| Mill Levy   |                     |                | 1.5875      | 1.7261     | 1.7574     | 1.7540     | 1.7508     |                 |
| Annual Increase                                   | 2.1%                |                | 2.0%        | 2.0%       | 2.0%       | 2.0%       | 2.0%       | 2.0%            |
| Utility Franchise Increase                        | 4.1%                |                | 4.0%        | 4.0%       | 4.0%       | 4.0%       | 4.0%       | 4.0%            |
| <b>Expenditure Assumptions</b>                    |                     |                |             |            |            |            |            |                 |
| Budget variance                                   | -4% to +8%          | -2.0%          |             |            |            |            |            |                 |
| Annual employee additions (FTE's)                 |                     |                |             |            |            |            |            |                 |
| General Government                                |                     |                | -           | -          | -          | -          | -          | -               |
| Police  |                     |                | -           | -          | -          | -          | -          | -               |
| Fire  |                     |                | -           | -          | -          | -          | -          | -               |
| Public Infrastructure                             |                     |                | -           | -          | -          | -          | -          | -               |
| Neighborhoods and Health                          |                     |                | -           | -          | -          | -          | -          | -               |
| Difference from employees increased by population |                     |                |             |            |            |            |            |                 |
| General Government                                |                     |                | (25.0)      | (50.2)     | (75.5)     | (100.9)    | (126.5)    | (378.2)         |
| Police  |                     |                | (3.1)       | (6.1)      | (9.2)      | (12.3)     | (15.4)     | (46.1)          |
| Fire  |                     |                | (10.0)      | (20.1)     | (30.2)     | (40.4)     | (50.7)     | (151.5)         |
| Public Infrastructure                             |                     |                | (6.2)       | (12.5)     | (18.8)     | (25.1)     | (31.5)     | (94.1)          |
| Neighborhoods and Health                          |                     |                | (2.2)       | (4.5)      | (6.8)      | (9.1)      | (11.3)     | (33.9)          |
|   |                     |                | (3.5)       | (7.0)      | (10.5)     | (14.1)     | (17.6)     | (52.7)          |
| Salaries increase                                 |                     | 3.6%           | 3.5%        | 3.5%       | 3.5%       | 3.5%       | 3.5%       | 3.5%            |
| Benefits increase                                 |                     | 7.3%           | 7.0%        | 7.0%       | 7.0%       | 7.0%       | 7.0%       | 7.0%            |
| Operating Costs increase                          |                     | 2.0%           | 3.0%        | 3.0%       | 3.0%       | 3.0%       | 3.0%       | 3.0%            |
| <b>Operating Scenario</b>                         |                     |                |             |            |            |            |            |                 |
| General Fund Supported                            | <i>Initiative 1</i> |                | -           | -          | -          | -          | -          | -               |
|   | <i>Initiative 2</i> |                | -           | -          | -          | -          | -          | -               |
| Special Revenue Funds                             | <i>Initiative 1</i> |                | -           | -          | -          | -          | -          | -               |
|   | <i>Initiative 2</i> |                | -           | -          | -          | -          | -          | -               |
| <b>New Debt Issues</b>                            |                     |                |             |            |            |            |            |                 |
| General Fund Supported                            |                     |                | 100,000,000 | 25,000,000 | -          | -          | -          | -               |
| Special Revenue Funds                             |                     |                | 100,000,000 | 25,000,000 | -          | -          | -          | -               |
|   |                     |                | -           | -          | -          | -          | -          | -               |
| <b>PAYG Capital Projects</b>                      |                     |                |             |            |            |            |            |                 |
| Budgeted projects not in CIP                      |                     | 62,018,034     | 73,655,931  | 73,252,678 | 76,075,456 | 77,756,192 | 78,187,161 |                 |
| Street Maintenance Utility (MFT Fund)             |                     | 4,702,187      | -           | -          | -          | -          | -          |                 |
| Roadways  |                     | 1,443,370      | 16,007,912  | 16,408,110 | 16,818,312 | 17,238,770 | 17,669,739 |                 |
| Bridges   |                     | 21,709,852     | 21,013,706  | 22,476,887 | 20,882,136 | 27,318,003 | 27,318,003 |                 |
| In-District                                       |                     | 209,005        | 209,005     | 209,005    | 209,005    | 209,005    | 209,005    |                 |
| Buildings   |                     | 19,775,000     | 18,781,000  | 19,014,310 | 19,249,953 | 19,487,953 | 19,487,953 |                 |
| Recreation  |                     | 6,325,000      | 6,325,000   | 6,325,000  | 6,325,000  | 6,325,000  | 6,325,000  |                 |
| Walkways  |                     | 5,653,562      | 4,719,366   | 4,719,366  | 4,719,366  | 4,719,366  | 4,719,366  |                 |
| Flood Control                                     |                     | 500,000        | 500,000     | 500,000    | 500,000    | 500,000    | 500,000    |                 |
|   |                     | 1,700,058      | 6,099,942   | 3,600,000  | 7,371,684  | 1,958,095  | 1,958,095  |                 |

# SAMPLE SCENARIO

## Fiscal Years Ended 2013 - 2018 Financial Plan





## CONCLUSION

The FTMS and SFP Model are important first steps in breaking a pattern of successive single-year fixes, often implemented without a long-term view. With these tools, the Finance Department is now better positioned to work with departments in partnership—helping them develop multi-year plans that meet service goals, while staying consistent with financial realities.

Future enhancements to these tools will:

- Include enterprise operations
- Link expenditures to service outcomes
- Expand department-level business planning efforts
- Incorporate service level decision packages in budget deliberations

By linking expenditures to service outcomes, stakeholders are given a better understanding of each program’s operations, the variables that affect funding levels, and the impact of funding decisions on service levels. For instance, a Fleet Maintenance division can show the average age of the fleet given different replacement scenarios, and the impact on efficiency for both maintenance costs and time spent out of service. A Street Maintenance division can highlight the impact of population changes by showing the projected number of street miles, estimated pavement condition ratings, and impact on future expenditures based on cost per mile data. Parks and Recreation can show the impact of adding parkland or changing the level of maintenance for existing parkland using cost data and standards based on a set of specific factors such as visitation rates, plant types, and physical features.

Performance audits can be used to evaluate efficiencies (expenditures per employee). Comparisons to other jurisdictions can be used to evaluate whether workload (employees per client) is appropriate. Once acceptable levels are determined, an enhanced forecast model that links expenditure choices to service levels and performance standards gives policymakers the tool to set priorities, make choices, and understand the opportunity costs of those choices. Instead of cutting \$x amount, stakeholders choose service levels: increasing/decreasing wait times, number of clients served, maintenance levels.

This process also allows policymakers to choose between different packages of service levels—and to incorporate those results in a model that integrates operating, debt, and capital considerations. Departmental analysis of funding needs, and the impact on outcomes and performance for various funding levels will be analyzed comprehensively, against all other competing considerations. Future enhancements will change the conversation from “we need to cut X,” to choosing service levels that lead to positive transformation.

## **APPENDIX A: FUTURE ADDITIONS/ENHANCEMENTS TO FTMS**

- Population composition (age, educational levels, race, etc.)
- Current liabilities as a percent of net operating revenues
- Cost recovery of user charges
- Uncollected property tax
- Sales tax base analysis
- Elastic vs. inelastic revenues
- Use of one time revenues as a percent of total
- Business licenses fee tied to measures of business activity
- Tax burden, residential and business
- Debt service paid off in ten years
- Debt per capita
- Overlapping debt
- Enterprise funds profits/losses
- Enterprise funds reserves
- Enterprise funds operating ratio

## **APPENDIX B: FISCAL AND OPERATIONAL STRATEGIES**

**(CORE STRATEGIES ARE HIGHLIGHTED)**

### **FINANCIAL STEWARDSHIP: Adopt policies and procedures that maintain long-term financial health.**

- Implement the recommendations of the Citizens' Commission on Municipal Revenue regarding revenue policy adoption and revenue reform.
- Evaluate revenue sources to estimate individual and business tax burdens.
- Ensure that one-time revenues are not used to cover recurring operations.
- Establish policy for the number of years granted in the redirection of EATs.
- Consider policy to cap total redirections.
- Implement plan for Earnings Tax renewal (current expiration is December 2016). Identify revenue replacement strategy if not renewed.
- Implement plans to renew the sales taxes scheduled to expire within the next five years: PMT (12/2015), Fire (12/2016) and General Sales dedicated to capital improvements (12/2018).
- Evaluate renewal options for the temporary Health Levy, scheduled to expire in April 2014.
- Evaluate options relative to property tax levies that are at or near the voted maximum.
- Review other programs to determine if service charges should be used for funding.
- Identify intergovernmental revenues associated with federal and state mandates, and track the budgetary impact of unfunded mandates.
- When applying for grant funding, quantify the total commitment in matching funds, additional reporting requirements, future maintenance requirements and overhead costs.
- Incorporate salary survey to ensure salaries are competitive with peers.
- Evaluate the quantity and quality of individual fringe benefits.
- Implement programs to reduce health insurance costs.
- Implement funding plans and/or changes in plan design for indirect benefits, including unfunded pension liabilities, compensated absences, and other post-employment benefits.
- Include full funding of long-term liabilities in the Strategic Fiscal Planning Model.
- Limit approval of new debt to those projects with a new revenue source.
- Monitor debt levels in conformance with codified debt policy.

## **REVENUE FORECASTING: Identify and monitor factors that influence future revenue growth.**

- Monitor demographic, economic, statutory, regulatory and other relevant factors that impact revenue collections including CPI, GRDP, employment trends by major sector, population totals and composition, personal income growth, weather patterns, average hotel/motel room rate, average occupancy rate, casino market share, future convention bookings and events, CPI for hotel and food, and business activity.
- Conduct an analysis of individual taxes and test models for forecasting.
- Monitor the sales tax base composition and activity of major industries.
- Monitor large state refunds and settlements of sales taxes.
- Conduct an annual analysis of sales and use taxes, detailing the historical change in each, as well as the tax base change for important sectors.
- Conduct an annual analysis to track changes in assessed value by type (real or personal) and by class (residential or commercial), as well as the breakdown of the growth between reassessment and new construction.
- Monitor Federal and State regulatory changes in the gas, electric and telecommunications industries to identify threats to future collections.
- Monitor number of active businesses.

## **SERVICE DELIVERY AND PERFORMANCE MANAGEMENT: Identify and monitor factors that influence citizen demand for and satisfaction with City services.**

- Integrate performance and productivity measures within annual budget to link expenditures to Council priorities, service levels, service delivery efficiencies, citizen demand, and customer satisfaction.
- Evaluate individual service areas to determine if pattern reflects changes in efficiency or citizen demand.
- Monitor citizen demand for services and survey citizen satisfaction.
- Monitor change, composition (i.e. age and education levels), and location of the City's population to determine the cost of serving residents and the revenues contributed through taxes.
- Estimate future costs of new development.
- Evaluate full range of service delivery options including public, private, public/private, etc.
- Develop service delivery standards and incentives to ensure the highest level of productivity.

- Evaluate optimal levels of overhead support, and ensure administrative support staff is factored in forecast assumptions for direct service employee additions and subtractions.
- Implement recommendations of the 2012 Internal Service Funds survey.
- Evaluate options for automatic aid agreements with surrounding Fire departments for manpower and equipment.
- Forecast the full cost of parkland maintenance for both existing and proposed parkland acquisitions.

**FINANCIAL MANAGEMENT: Implement operating and financial support systems that maintain long-term financial health.**

- Annually update the Financial Trends Report.
- Continue to integrate the Strategic Fiscal Planning Model with the budget to show the five-year impact of current financial policies, service delivery levels, and Council priorities.
- Utilize the model to prioritize and implement City goals while complying with the financial policies.
- Continue to conduct monthly cash flow analyses to ensure a prudent and optimal investment mix.
- Continue to track and publicly report tax incentive project results against original benchmarks.
- Track aggregate redirection data against the City’s budget and as a percent of total revenue.
- Incorporate redirections in Strategic Fiscal Planning Model.
- Conduct annual review of user charges. Produce a periodic report which measures cost recovery, and amount and source of any subsidy for each fee-supported activity.
- Adopt a formal user fee policy.

**CAPITAL PLANT: Ensure the adequate and efficient maintenance of the City’s infrastructure.**

- Identify infrastructure maintenance requirements to maintain acceptable condition ratings.
- Develop detailed budget information to track new capital and maintenance expenditures per unit, by asset type; including the impact on the long-term operating budget.

- Develop asset "performance measures" by surveying taxpayer satisfaction of street condition, parks, bridges, etc.
- Implement a capital planning effort which includes policies and criteria reflecting community priorities.
- Continue to rate the condition of every street and increase funding plans for street maintenance and rehabilitation in the annual CIP.
- Continue to rate the condition of every bridge and maintain funding plans for bridge maintenance and rehabilitation in the annual CIP.
- Continue to rate the condition of every street light and maintain funding plans for maintenance and replacement in the annual CIP.