

City of Wauwatosa

Financial Resiliency Policy

Policy Objective

The City of Wauwatosa has a long history of strong financial practices reflected in its healthy financial condition, fund balance reserves and AAA bond rating. Despite ~~a multiyear recession~~ economic challenges and state legislation that has severely limited its ability to increase property taxes, the City has continued to invest in its transportation, sewer, water, and parks infrastructure as well as in equipment and buildings. This accomplishment was made possible thanks to years of strong budgeting and financial practices under the guidance of current and past elected officials and staff. It also occurred due to ~~consecutive~~ a number of years of above-average building activity while the City simultaneously implemented organizational changes to create operational efficiencies and resulting savings. The City has effectively managed compensation costs and, in addition, public-private collaborations have been prioritized resulting in both savings and in operational synergisms. The City also continues to invest in human capital by funding a performance pay system, providing annual cost of living increases, competitive benefits, and a robust employee development program.

However, the City still faces a myriad of financial challenges. These include a structural imbalance in forecasted revenues and expenditures due largely to ~~revenue limitations including ongoing reductions to state and federal aid,~~ caps on property tax levy increases, and limits on access to new revenue sources such as sales and income taxes which do not provide the City with any flexibility to deal with inflation. ~~—Cfire and police collective bargaining for the Fire and Police Departments also limits flexibility to control expenditure growth.~~ commitments and demand for new programs. Of additional concern are unfunded liabilities including retiree health insurance and deferred infrastructure maintenance that must be addressed.

It is important that we prepare to not only overcome these challenges but develop an organization that can survive external shocks (like a severe economic downturn). Recent research by the Government Finance Officers Association describes such an organization as “resilient” and identifies eight essential characteristics of a resilient system¹.

1. **Diversity:** Avoid a single point of failure or reliance on a single solution.
2. **Redundancy:** Have more than one path of escape.
3. **Decentralization:** Centralized systems look strong, but when they fail, the failure is catastrophic.
4. **Transparency:** Don’t hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.
5. **Collaboration:** Work together to become stronger.

¹ Kavanagh, Shayne. Building a Financially Resilient Government through Long Term Financial Planning. The Government Finance Officers Association.

6. **Fail Gracefully:** Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.
7. **Flexibility:** Be ready to change when plans aren't working. Don't count on stability.
8. **Foresight:** You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

This policy seeks to apply these eight characteristics to the City's financial systems in order to build a resilient organization. Much of what is included are existing financial practices the City already utilizes while also identifying areas for improvement.

It is intended that this policy will be reviewed annually with the presentation of the five-year forecast and updated every 5-years by the Financial Affairs Committee of the Common Council to reflect changing economic and political conditions.

Diversity: Avoid a single point of failure or reliance on a single solution.

1. Keep a multi-faceted perspective on financial health
 - a. Don't focus on just revenues and expenditures
 - i. Remain aware of land use patterns, demographic trends and long term liabilities such as pensions and retiree health insurance.
 - ii. Diversify the funds you maintain.
 - iii. Enhance the City management team's credibility by insisting on transparency in financial ~~philosophies~~ policies and decisions
 - b. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately \$120 million of development in 2023 dollars) through 2028.
 - ~~b. Maintain a five-year forecast

 - i. The base forecast must be policy neutral
 1. Base revenues and expenditures forecasts on historical trends or other reliable data
 2. Utilize actuarial recommendations to forecast health insurance claim inflation
 3. Do not assume changes in services, staffing, pay or benefits
 4. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"
 5. Assume agreed upon sewer and water rate increases based on capital spending
 6. Assume property tax increases equal to anticipated net new construction.
 7. Adjust for any future TIF closings.
 8. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy
 - ii. Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.
 1. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately \$75 million of development) through 2020.~~

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- ~~2. Increase the property tax levy by the amount of the increase in property tax covered debt service based on the five-year capital budget. The City will strive to smooth debt service increases with a target of a 1% annual levy increase.~~
- ~~3. As needed, increase the property tax levy an additional 1.5% for operating cost increases:
 - ~~a. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.~~
 - ~~b. In years where net new construction is greater than 1.5% carryover the difference for us in the subsequent year.~~~~
- ~~4. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast. Based on current inflation forecasts from the Congressional Budget Office and the Federal Reserve, it is anticipated the COLA will be between 1.0-2.0%. Recognizing there may be years the City can not afford to maintain a COLA equivalent to the CPI, it will strive to never let the cost of living adjustment (COLA) fall below 1%.~~
- ~~5. Consider reducing the forecasted increase in health insurance through plan design changes, increasing employee cost/risk share, improved claims experience, and/or reducing the number of employees covered.~~
- ~~6. Explore organizational restructuring such as alternate shift structures in the Police Patrol Division and staffing structure changes in the Fire Department in order to reduce staffing and/or overtime.~~
- ~~7. Continue to implement operational changes to reduce costs or increase efficiency.~~

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c. Proactively address all unfunded liabilities

i. Infrastructure

1. Maintain a "State of Good Repair" report to determine the appropriate level of spending necessary to avoid deferred maintenance
2. Produce a five-year capital budget that achieves a minimum of 75% of the state of good repair spending over a five-year period
- ~~3. Maintain road performance at XXX (TBD)~~
3. Ensure sewer and water rates are sufficient to fund the state of good repair level of spending while maintaining a 1.10 coverage ratio (i.e. net operating income is 110% of annual debt service debt service
4. Achieve 40% cash financing of the capital budget by 2030.
- ~~4.5. Evaluate, consider and propose alternate funding sources, such as a City Transportation Utility.~~

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ii. Other Post Employment Benefits

- ~~1. Strive to eliminate retiree healthcare benefits from labor contracts~~
- ~~2. Develop a strategy to mitigate the future impact of the City's retiree health care and sick leave pay-out obligations. Possible options include:~~
- a. ~~Buy-out of the benefit from groups of employees~~

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~~b.1. Establishment of a Retiree Health Insurance Trust seeded with the surplus Health/Life fund balance and funded with budgetary health/life savings.~~

- d. Maintain a competitive and efficient compensation program for employees
 - i. Conduct a periodic review of the pay and benefit system to ensure the right pay and benefits at the right cost are being provided
- 2. Maintain a diversity of funds to reduce reliance on General Fund and potential single point of failure.
 - a. The General Fund should never subsidize any of the other funds
 - b. Internal service funds should be used for all business functions
 - c. Each separate fund should maintain its own fund balance in accordance with a fund balance policy
 - d. Within the Tax Increment Fund, annual cash flow analysis should be conducted to ensure that each TIF is self-sustainable. Per the TIF Policy, Municipal Revenue Obligations (MRO's) should be the preferred structure for TIF deals. When City financing is required, it should be on a reimbursement basis as late in the deal as possible and a 1.25 coverage ratio must be maintained.
 - e. Maintain the vehicle replacement, building improvement and information system replacement funds. Depreciate all assets to continue to finance those funds. Add fire vehicles to vehicle replacement fund as-when possible.

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~~3. Enlarge the base of informed constituents~~

- ~~a. Continue to expand communication with constituents through social media and through activities like the Citizen's Academy.~~
- ~~b. Consider adding an educational component to the City's website.~~

Redundancy: Have more than one path of escape.

- 1. Utilize designated fund balances for specific long-term investments
 - a. Amortization Fund for general obligation debt coverage and capital investments
 - b. Redevelopment Reserve for extra-ordinary economic development
 - b.c. Affordable Housing Reserve in the Community Development Authority Fund
- 2. Institutionalize financial planning through governance practices like financial policies. Financial policies are the cornerstone of redundancy because they preserve best practices despite turnover in elected officials and staff. Policies should include:
 - a. Fund Balance
 - b. Investment
 - c. Fixed Asset
 - d. Debt issuance
 - e. General budgeting and accounting
 - f. Economic Development Investment
- 3. Create reserves for specific purposes and record those purposes in a policy.
- 4. Continue to ~~c~~Encourage citizen involvement as this creates more grassroots support in the community
- 5. Pursue multiple strategies to limit expenditure growth for long-term financial health

- a. Maintain an inventory of services that can be pursued in collaboration with other governments.
- b. Pursue in-sourcing opportunities where economical
- ~~c. Encourage departments to pursue accredited status to insure the use of best practices.~~
- ~~d.c. Conduct annual third party departmental reviews to~~ Actively identify and achieve process and organizational efficiencies with an emphasis on leveraging the Tyler MUNIS Enterprise Resource Planning system and other technology.
- ~~e. Maintain the LEAN program and initiatives~~
- ~~f.d. Continue to aggressively effectively manage health insurance~~
 - ~~i. On-site health clinic~~
 - ~~ii. Regular TPA review~~
 - ~~iii. Continued emphasis on Wellness~~
- ~~g. Conduct regular compensation system review to ensure system is market competitive. Maintain policy of control point representing current market median.~~

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Decentralization: Centralized systems look strong, but when they fail, the failure is catastrophic.

1. ~~Insist Provide~~ Directors the tools and support to managing their cost and revenue structures.
 - a. Departments are responsible for budgeting and monitoring all operating expenses and programmatic revenues. This includes understanding how the compensation system functions and the impacts of their operational decisions on those costs which represent ~~over 75% a vast majority~~ of the City's General Fund budget.
 - b. Break-out costs that departments can control and identify strategies to incentivize departments to control those costs. For example, worker compensation costs can be positively impacted by safety initiatives so Directors need to understand their share of the cost.
 - c. Provide departments rewards and incentives to manage their budgets more efficiently
 - i. Departments may keep 50% of any unbudgeted revenue so long as it is spent on one-time items (e.g. equipment, training, etc.)
 - ii. Departments may carry-over 50% of any salary savings including overtime (not to exceed 1% of their salary budget) for one-time investments
 - iii. When possible the City will budget or carryover funds that will be ~~\$250,000 is~~ set-aside annually for the internal granting program
 - iv. Departments may keep 50% of the amount they exceed any required budgetary reduction. That same amount can also be used towards a subsequent year's reduction.
 - d. Identify and budget for any operating impact of capital improvements
2. Strive to decentralize the financial planning process.
 - a. Engage departments in identifying issues, analyzing them, and developing strategies.
 - b. Engage departments in financial modeling and forecasting.

- c. ~~Develop an organization wide strategic framework that departments can innovate within. Continue to support and enhance an organizational culture that encourages departments to be innovative and collaborative in addressing financial challenges.~~
3. Strategic plan should be developed in the context of the Five-year forecast.

Transparency: ~~Don't hide your systems.~~ Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.

1. Promote transparency in ~~key areas like goals and objectives, forecast assumptions, and reserve standards.~~ financial management and decision-making.
 - a. ~~Hold annual employee meetings to present financial health and forecast~~
2. ~~Inform and educate the public, elected officials and employees on the City's budget and financial condition through all communication channels.~~
 - a. ~~All budget documents and audited financial statements are posted timely online~~
- 2.3 Use full-cost (direct and indirect) accounting for programs.
- 3.4. ~~Ensure departments have access to up-to-date financial information by leveraging the Tyler MUNIS financial system and other technology.~~
 - a. ~~Provide departments live and easy-to-use budget-to-actual reports and forecasts~~
 - b. ~~Provide departments live and easy-to-access salary information by employee and cost center~~
- 4.5. ~~Make sure everyone knows understands what the strategic plan goals are and how they will be achieved what achievement looks like via a defined communications plan.~~
5. ~~The assumptions that drive revenue and expenditure trends should be available for review.~~
6. ~~Reserve amounts and why they are needed should be explained.~~
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7. Conduct a financial policy audit to determine policies that need to be updated or created.

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Collaboration: Work together to become stronger.

1. ~~Elected officials set priorities and high-level policy collaboratively with staff~~
~~Build elected officials' service priorities into the plan.~~
 - 1.a. ~~Elected officials participate in development and monitoring of the strategic plan which is used to guide budgetary decisions.~~
 - a. ~~Continue engagement of elected officials in strategic plan and budget~~
 - b. ~~Involve e~~Elected officials ~~participate~~ in ~~developing~~ evaluation criteria for budget prioritization ~~that is tied to the strategic plan~~
2. Ensure that elected officials are in agreement with five-year forecast assumptions
3. ~~Elected officials~~ ~~A~~assist staff in ~~pro-actively identifying critical issues~~ ~~provide feedback to staff recommendations and solutions~~
- ~~Provide feedback to staff recommendations and solutions~~
 - a.
2. Provide elected officials a role in that planning process — a role they can thrive in.
 - a. ~~Expectation is that elected officials set priorities and high-level policy guidance to staff~~

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- ~~b.a. Assist staff in pro-actively identifying critical issues~~
- ~~c.a. Provide feedback to staff recommendations and solutions~~
- 3.4. Orient elected officials to the financial planning and management process.
 - a. Regularly review key financial policies including:
 - i. Fund Balance
 - ii. Debt
 - iii. Investment
 - iv. Financial Resiliency
 - v. Budget administration
 - ~~a.b.~~ Create a financial policy compliance update
 - i. Fund balance
 - ii. Debt Policy
 - ~~b.c.~~ Review planning calendar (five-year forecast, budget, strategic plan) annually
- 4.5. Establish and communicate key indicators to help elected officials and public stay abreast of financial condition.
 - a. Annually present financial indicators review
 - b. Quarterly General Fund Projection
 - c. Annual TIF cash flow projections
 - d. Investment report
- ~~e.6.~~ City management and elected officials promote a culture of collaboration among City departments

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Fail Gracefully: Strive to build in safeguards to limit the impact of failures and Bbe patient when honest efforts fail ~~and strive to build in safeguards to limit the impact of those failures.~~

1. Recognize changing conditions ~~to make a soft landing to minimize organizational turbulence.~~
 - a. Use five-year forecast process to highlight potential short and long-term changes to revenues and expenditures
 - b. Regularly evaluate accuracy of forecasts in order to identify problematic assumptions or structural imbalances.
 - ~~b.c. Prepare for financial challenges so changes can be made that minimize the impact on the community and employees.~~
2. Promote credibility and open dialogue to obtain buy-in, learn from and correct failure and encourage people to communicate ideas as well as concerns
 - a. ~~Always assume the~~ Appreciate that the forecast is wrong – the final number is not important but recognizing trends is. Identify issues that require a strategic approach and establishing financial parameters within which service strategies must operate
 - b. Avoid blaming departments for budgeting and forecasting mistakes and work together to develop mutually agreed to solutions
 - c. Use long range planning to enhance the credibility of the financial management system and to promote dialogue participation.
 - d. Strive to set, manage, and communicate measurable financial goals. Don't ignore performance deviations as this is essential for credibility and will encourage fact-based decisions.

Flexibility: Be ready to change when plans aren't working. Don't count on stability.

- ~~1. Regularly diagnose the strategic environment to know when flexibility may be required.~~
- ~~a.1. Constantly Have mechanisms in place to monitor the environment and financial condition to see if financial strategies are working or whether changes are needed.~~
 - ~~b. Plan to implement strategic diagnosis exercises to strengthen your critical capacity.~~
 - ~~c.a. Use the 10-10-10 decision making tool for significant decision: What will the impact of this decision be in 10 days, 10 months and 10 years?~~
- ~~a.2. Maintain an awareness Keep up-to-date of financial best practices and technology changes.~~
- ~~2. Create financial models to show the impact of changes.~~
 - ~~a. Be prepared to explain the financial impact for every council recommendation~~
- ~~3. Evolve and adapt the financial planning process itself.~~
- ~~3. Leverage fund balances to support flexibility in responding to changing conditions. For example, using the Fleet reserve fund balance to weather periods of high fuel prices.~~
- ~~4. Leave space in the budget for good things to happen.~~

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Foresight: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

1. Maintain a five-year forecast
 - a. The base forecast must be policy neutral
 - i. Base revenues and expenditures forecasts on historical trends or other reliable data
 - ii. Utilize actuarial recommendations to forecast health insurance claim inflation
 - iii. Do not assume changes in services, staffing, pay or benefits
 - iv. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"
 - v. Assume agreed upon sewer and water rate increases based on capital spending
 - vi. Assume property tax increases equal to anticipated net new construction.
 - vii. Adjust for any future TIF closings.
 - viii. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy
 - b. Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.
 - i. Increase the property tax levy by the amount of the increase in property tax covered debt service based on the five-year capital budget. The City will strive to smooth debt service increases with a target of a 0.5-1.0% annual levy increase. This annual increase is necessary to maintain existing infrastructure

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- ii. As needed, increase the property tax levy an additional 1.5% for operating cost increases. This increase is necessary to maintain quality city services.
 - 1. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.
 - 2. In years where net new construction is greater than 1.5% carryover the difference for use in the subsequent year.
- iii. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast.
- iv. Evaluate strategies to reduce the forecasted increase in health insurance
- 4. Develop effective forecasting techniques.
 - a. Remember that forecasting is different than predicting.
- b. Involve others employees from throughout the organization in forecasting
 - e. Develop the capacity for flexible scenario modeling to show the impact of possible different futures.
- 2. Build capacity among staff and elected officials for strategic diagnosis.
- 3. Complement financial planning with other long-term plans.
 - a. Strategic Plan
 - a.b. Capital budgetImprovement Plan
 - b.c. State of Good rRepair
 - e.d. Comprehensive Plan
 - d.e. Neighborhood/Business District Plans (t.e. Mayfair Corridor, North Ave. Village)
 - f. Departmental sStrategic and Ooperating pPlans
 - g. Housing Study
 - h. Community survey
- 4. Identify and fully fund operational impacts of capital assets
- e.5. Begin communicating and planning for the eventual exhaustion of the City's excess levy limit capacity in approximately 2028-2030.

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