Wauwatosa, WI

7725 W. North Avenue
Wauwatosa, WI 53213

Financial Affairs Committee

Meeting Agenda - Final

Tuesday, April 11, 2023 | **7:30 PM** | **Committee Room #1 and Zoom: https://servetosa.zoom.us/j/81144274572, Meeting ID: 811 4427 4572**

Regular Meeting

HYBRID MEETING INFORMATION

Members of the public may observe and participate in the meeting in-person or via Zoom at the link above. To access the Zoom meeting via phone, call 1-312-626-6799 and enter the Meeting ID.

CALL TO ORDER

ROLL CALL

FINANCIAL AFFAIRS COMMITTEE ITEMS

1. Consideration of approval of one-year support and licensing renewal agreement with Nutanix for hyperconverged technology to run the City's technology services in the amount of $54,998.39 — **23-982**

2. Consideration of approval of one-year maintenance and support renewal agreement with ProPhoenix for Police and Fire record management and computer aided dispatch in the amount of $68,636.28 — **23-1007**

3. Consideration of approval of a Level Three fund transfer and consulting services contract with CDM Smith for the creation of a Lead Service Line Replacement Plan in the amount of $134,670 — **23-322**

4. Request for authorization to submit a grant application to the WisDOT Transportation Alternatives Program for a multi-use trail on Wisconsin Avenue — **23-399**

5. Request for authorization to submit an application for grant funding from the Wisconsin Department of Natural Resources to support the development of a new City park at 116th Street and Gilbert Avenue — **23-407**

6. Review of draft Financial Reserves Policy - Part III: Community Development Block Grant, Revolving, Agency, Health Insurance and Dental Insurance Funds — **23-422**

7. Review of Financial Resiliency Policy — **23-1013**

CLOSED SESSION ITEM

The Committee may convene in closed session regarding this item pursuant to Wis. Stat. §19.85 (1)(g), to confer with legal counsel for the governmental body who is rendering oral or written advice concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved. The Committee may reconvene into open session to consider the balance of the agenda.

1. Litigation Update regarding Knowlton, et al. v. City of Wauwatosa, Case No. 20-CV-1660, US District Court, Eastern District of Wisconsin **23-446**

ADJOURNMENT

NOTICE TO PERSONS WITH A DISABILITY
Persons with a disability who need assistance to participate in this meeting should call the City Clerk's office at (414) 479-8917 or send an email to tclerk@wauwatosa.net, with as much advance notice as possible.

To:	**Financial Affairs Committee**
From:	**Jalal Ali, Director of Information Services**
Date:	**3/2/2023**
Subject:	**Approval of one-year Support and Licensing Renewal Agreement with Nutanix for hyper-converged technology to run the City's technology services, in the amount of $54,998.39**

A. Background/Rationale

The City of Wauwatosa has used Nutanix hyper-converged infrastructure (HCI) as the technology to run over 120 virtual servers in the City's two data centers. These servers facilitate the operations of most of the City's services including Financial, Human Resources and payroll, 911 Dispatch, Police and Fire record management, email, file services, to name a few. The Nutanix infrastructure was installed in 2019 following an extensive research and RFP process to replace an aging unsupported platform.

Hyper-converged technology is an IT infrastructure solution that combines storage, computing, and networking into a single platform, making it easier and more efficient to manage. Hyper-convergence takes many of the, previously separate, components that make up a data center and consolidates them into a unified platform. This unification, or convergence, allows tighter integration of those parts thus providing for a single management interface to manage the three tiers. This reduces staff time required to maintain our systems up-to-date while also reducing costs and improving scalability. Hyper-convergence has allowed us to focus on our service offering and meeting resident's needs rather than constantly managing compatibility of multiple disparate resources.

In the 2019 RFP, the City evaluated responses from four vendors with solutions ranging from $508,000 to $962,000 for relatively comparable solutions. After further research and discussion, the City selected Heartland Business Solutions' proposal to install Nutanix at a cost of $413,000 which included 3 years of support and maintenance. The selection of Nutanix was based on their market performance as visionary leader in the field with strong ability to execute their vision, according to the, then current, 2019 Gartner report. It was anticipated at the time that renewals after year 3 would cost $75,000. These costs include licensing fees to continue use of the Nutanix software. The renewal also provides 4-hour response to replacement of failing server components as well as support & updates to the software that activates these components.

Council approval is required since the renewal costs exceeds $25,000. These costs are included in the 2023 Information Technology budget.

B. Key Issues for Consideration

- Heartland Business Solutions (HBS) is the registered Value-Added Reseller (VAR) for Nutanix. As the registered, HBS receives exclusive renewal discounts from Nutanix that are not made available to other resellers. HBS is then able to extend those discounts to the City.
- Continued use of the Nutanix software requires renewal of software contracts

C. Fiscal Impact

The March 26th, 2019 FAC memo listed the annual future financial impact to cover our servers, storage, and backup platform at $75,000. Our current costs for this coverage are $67,000 that also includes renewal of the backup software, Veeam.

This request is a one-year renewal of licensing, maintenance, and support of existing software and hardware. The City continues to qualify for large renewal discounts due to early adoption of Nutanix's solution.

D. Requested Action

Approval of renewal agreement for one year at a cost of $54,998.39

E. Attachments

Renewal quote from Heartland Business Solutions

![Heartland Business Systems]

Nutanix Renewal - April 2023

Quote #297937 v1

Prepared For:
Wauwatosa, City of
Jalal Ali
7725 W. North Ave
Wauwatosa, WI 53213

P: (414) 479-8926
E: jali@wauwatosa.net

Prepared By:
Milwaukee Wisconsin Area Office
Greg Borchard
N28 W23050 Roundy Drive Suite 200
Pewaukee, WI 53072

P: 262-650-6500 ext. 1222
E: gborchard@hbs.net

Date Issued:
02.03.2023
Expires:
04.24.2023

Nutanix Renewal - 1 Year		Price	Qty	Ext. Price
R-SW-PRS-PRO-NODE	**Nutanix Prism Pro - subscription license renewal (1 year) - 1 node**	$379.91	10	$3,799.10
[redacted]				
R-SW-AOS-ULT-MCW	**Nutanix AOS Ultimate - subscription license (1 year) + Mission Critical Support**	$30,550.27	1	$30,550.27
[redacted]				
R-L-CORES-ULT-MCW	**Nutanix AOS Ultimate - subscription license (1 year) + Mission Critical Su**	$0.01	200	$2.00
[redacted]				
R-L-FLASHTIB-ULT-MCW	**Nutanix AOS Pro - subscription license (1 year) + Production Support - 1 TiB capacity**	$0.01	70	$0.70
[redacted]				
RS-HW-MCW-ST	**Nutanix MCL - Subscription License 1 Year Renewal**	$1,758.28	2	$3,516.56
[redacted]				
RS-HW-MCW-ST	**Nutanix MCL - Subscription License 1 Year Renewal**	$2,139.97	8	$17,119.76
[redacted]				
Renewal Coverage: 04/25/2023 - 04/23/2024 Customer understands that all orders for Nutanix are final when accepted by Nutanix. No cancellations, returns, exchanges or refunds are allowed.				
			Subtotal	**$54,988.39**

Quote Summary	Amount
Nutanix Renewal - 1 Year	$54,988.39
Total:	**$54,988.39**

Acceptance

Milwaukee Wisconsin Area Office	Wauwatosa, City of	
Greg Borchard		
Signature / Name	Signature / Name	Initials
02/03/2023		
Date	Date	

HEARTLAND BUSINESS SYSTEMS

Nutanix Renewal - April 2023

Quote #297937 v1

Prepared For:
Wauwatosa, City of
Jalal Ali
7725 W. North Ave
Wauwatosa, WI 53213

P: (414) 479-8926
E: jali@wauwatosa.net

Prepared By:
Milwaukee Wisconsin Area Office
Greg Borchard
N28 W23050 Roundy Drive Suite 200
Pewaukee, WI 53072

P: 262-650-6500 ext. 1222
E: gborchard@hbs.net

Date Issued:
02.03.2023

Expires:
04.24.2023

Nutanix Renewal - 1 Year		Price	Qty	Ext. Price
R-SW-PRS-PRO-NODE	**Nutanix Prism Pro - subscription license renewal (1 year) - 1 node**	$379.91	10	$3,799.10
[redacted]				
R-SW-AOS-ULT-MCW	**Nutanix AOS Ultimate - subscription license (1 year) + Mission Critical Support**	$30,550.27	1	$30,550.27
[redacted]				
R-L-CORES-ULT-MCW	**Nutanix AOS Ultimate - subscription license (1 year) + Mission Critical Su**	$0.01	200	$2.00
[redacted]				
R-L-FLASHTIB-ULT-MCW	**Nutanix AOS Pro - subscription license (1 year) + Production Support - 1 TiB capacity**	$0.01	70	$0.70
[redacted]				
RS-HW-MCW-ST	**Nutanix MCL - Subscription License 1 Year Renewal**	$1,758.28	2	$3,516.56
[redacted]				
RS-HW-MCW-ST	**Nutanix MCL - Subscription License 1 Year Renewal**	$2,139.97	8	$17,119.76
[redacted]				
Renewal Coverage: 04/25/2023 - 04/23/2024 Customer understands that all orders for Nutanix are final when accepted by Nutanix. No cancellations, returns, exchanges or refunds are allowed.				
			Subtotal	**$54,988.39**

Quote Summary	Amount
Nutanix Renewal - 1 Year	$54,988.39
Total:	**$54,988.39**

Acceptance

Milwaukee Wisconsin Area Office	Wauwatosa, City of
Greg Borchard	
Signature / Name	Signature / Name Initials
02/03/2023	
Date	Date

CITY OF WAUWATOSA
MEMO

To:	**Financial Affairs Committee**
From:	**David Simpson, Director of Public Works**
Date:	**April 5, 2023**
Subject:	**Consideration of approval of a Level III fund transfer and consulting services contract with CDM Smith for the creation of a Lead Service Line Replacement Plan in the amount of $134,670**

A. Issue

Included in the 2023 water utility operating budget are funds for consulting services for assistance with the completion of a Lead Service Line Replacement Plan. A request for proposals for consulting services was issued and a recommendation is being made for award of a contract at this time as well as a request for a Level III fund transfer.

B. Background/Options

As part of Wauwatosa's continued dedication to ensuring safe drinking water we have budgeted for the completion of a Lead Service Line Replacement Plan beginning in 2023. The City currently has over 15,500 water service lines in use. Approximately 9,100 are considered in-use with lead/unknown material on the private and/or public portions of the service line. The completion of a Lead Service Line Replacement Plan will update and complete our current service line material inventory and develop a comprehensive plan to remove the remaining lead services while meeting all state and federal requirements to have such a plan in place by the end of 2024.

A request for proposals (RFP) for consulting services was issued for the creation of a Lead Service Line Replacement Plan. The scope of work will include the completion of a detailed service line inventory that meets State and Federal requirements, completion of a Lead Service Line Replacement Plan, and grant application assistance for the WDNR Safe Drinking Water Program (which is being funded in large part with Bipartisan Infrastructure Law funds). The scope also includes significant public outreach through the process with focus group meetings, public engagement, and discussions with a Common Council Standing Committee leading to ultimate approval of the plan by the Common Council, which may or may not include ordinance modifications as well.

Two responses to the RFP were received. While cost is not the determining factor in selecting the most qualified vendor to provide consulting work the proposal costs are shown below:

Consultant	Proposed Consulting Costs
Sigma	$102,584.00
CDM Smith	$134,670.00

Proposals were reviewed by a panel of City staff members who analyzed many factors including cost, relevant experience, proposed timeline, references, qualifications of key staff, and project understanding. Based on all the data available to us we are recommending that we enter into a contract with CDM Smith for a total fee not to exceed $134,670.00. While CDM Smith is not the lowest cost proposal they have extensive relevant experience including projects very similar to our proposed project in Wisconsin, with the most recent project beginning with West Allis shorty. When budgeting for this project we had originally envisioned a smaller scope, however, when reviewing the WDNR requirements as well as discussing the need for substantial public input and grant assistance the scope has expanded, which has led to proposal costs over the budgeted amount for the project. Given that this is such an important topic we believe the expanded scope is necessary so we are also asking for approval of a Level III fund transfer to fund the project.

C. Strategic Plan (Area of Focus)
Priority 3: Infrastructure

D. Fiscal Impact
The recommended contract with CDM Smith will have a cost not to exceed $134,670, which is greater than the budgeted amount of $60,000. To date, our maintenance of mains account and lateral replacement accounts are trending below an average year so we anticipate that expenses within those budgets will be less than anticipated for 2023 which allows for a Level III fund transfer to fund the entirety of the contract.

E. Recommendation
Authorize entering into a consulting services contract with CDM Smith for the creation of a Lead Service Line Replacement Plan in the amount of $134,670 and approval of a Level III fund transfer in the amount of $74,670.

CITY OF WAUWATOSA
MEMO

To: **Financial Affairs Committee**

From: **William Wehrley, City Engineer**
Stephanie Wilson, Landscape Architect

Date: **April 4, 2023**

Subject: **Memo from the Engineering Department requesting authorization to submit an application for WisDOT Transportation Alternatives Program for multi-use trail on Wisconsin Avenue**

A. Issue

The Transportation Alternatives Program (TAP) is a state of Wisconsin legislative program that was authorized in Fixing America's Surface Transportation Act, the federal transportation act that signed into law in 2015. The Engineering Department is requesting approval to continue the TAP application process for construction of a multi-use trail on Wisconsin Avenue.

B. Background/Options

The Engineering Department has submitted a grant application for the construction of a multiuse trail on the north side of Wisconsin Avenue and a portion of Mayfair Road as well as improved marked crosswalks along the route to provide safer crossings across Wisconsin Avenue at regular intervals (see map for limits of proposed route). The addition of the multi-use trail will complement other City of Wauwatosa and Milwaukee Regional Medical Center (MRMC) projects that are set to occur in the next few years to provide a more complete bicycle and pedestrian network that serves a wide range of users and abilities. With the inclusion of the multiuse trail on Wisconsin Avenue, an off-street connection of the Oak Leaf Trail on both the west and east will be completed. Access points along the route include elementary schools and Safe Routes to School, major employment hubs, connections to multimodal (BRT) and Wisconsin Avenue Park (The Ability Center is currently fundraising for major improvements at this park).

City staff has coordinated with City of Milwaukee, MRMC and County Parks to ensure that the proposed project enhances the regional network and complements private and public projects in the area.

C. Strategic Plan (Area of Focus)

Priority 2: Public Safety – Proactively address pedestrian, bicycle and vehicular safety
Priority 3: Infrastructure – Ensure the City's infrastructure supports public health through multi-modal transportation and recreation opportunities

D. Fiscal Impact

Successful applicants must provide at least a 20% local match for TAP projects, resulting in a minimum $444,914 required match for a $2,224,574 project budget. If funding is awarded the capital improvement program will include the required matching funds for the Common Council's consideration.

E. Recommendation

Approval of a resolution supporting the application for grant funds from the Transportation Alternatives Program in the amount of $2,224,574, with a City match of $444,914.

CITY OF WAUWATOSA
Resolution

R-23-##

By:

Resolution supporting an application to the Wisconsin Department of Transportation for a grant through the Transportation Alternatives Program for the installation of a multi-use trail along portions of Wisconsin Avenue and Mayfair Road

WHEREAS, the City of Wauwatosa supports the application submitted to the Wisconsin Department of Transportation (WisDOT) for the 2023-2026 Transportation Alternatives Program (TAP) award cycle. The purpose of the application is to seek federal grant funding to construct a multiuse trail along Wisconsin Avenue and S.T.H. 100 (Mayfair Road) and improve pedestrian crossings; and

WHEREAS, the City of Wauwatosa recognizes that WisDOT reimburses project sponsors for the federal share of 80% of the approved TAP project costs, up to the limit of the federal award amount. In light of the minimum twenty percent (20%) match requirement, the City of Wauwatosa will work toward securing the matching funds from the City's Capital Improvement Program Budget.

NOW, THEREFORE, BE IT RESOLVED by the Common Council of the City of Wauwatosa that if the City of Wauwatosa is awarded funding by WisDOT for the 2023-2026 TAP award cycle, appropriate city officials are hereby authorized to accept the award administered by WisDOT for the above- referenced project, provided that sufficient matching funds are available.

BE IT FURTHER RESOLVED that the City of Wauwatosa agrees to comply with all applicable laws, requirements, and regulations as outlined in the WisDOT 2023-2026 TAP application materials, the state-municipal agreement between WisDOT and the City of Wauwatosa, and any other program and/or project documentation.

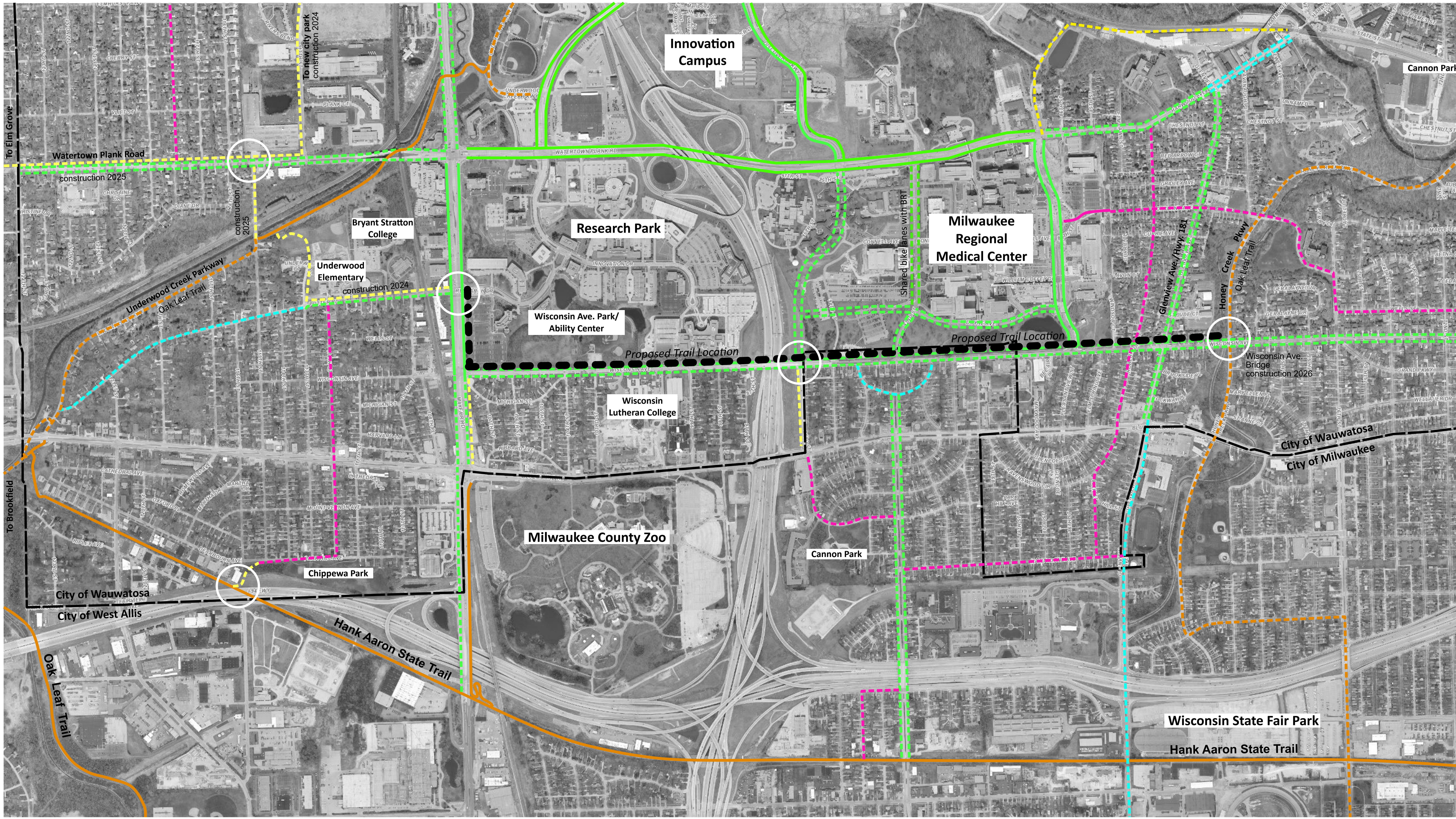
Passed and Dated________________________

Adopted:
Page:
Journal:

____
Clerk

Approved_______________________________

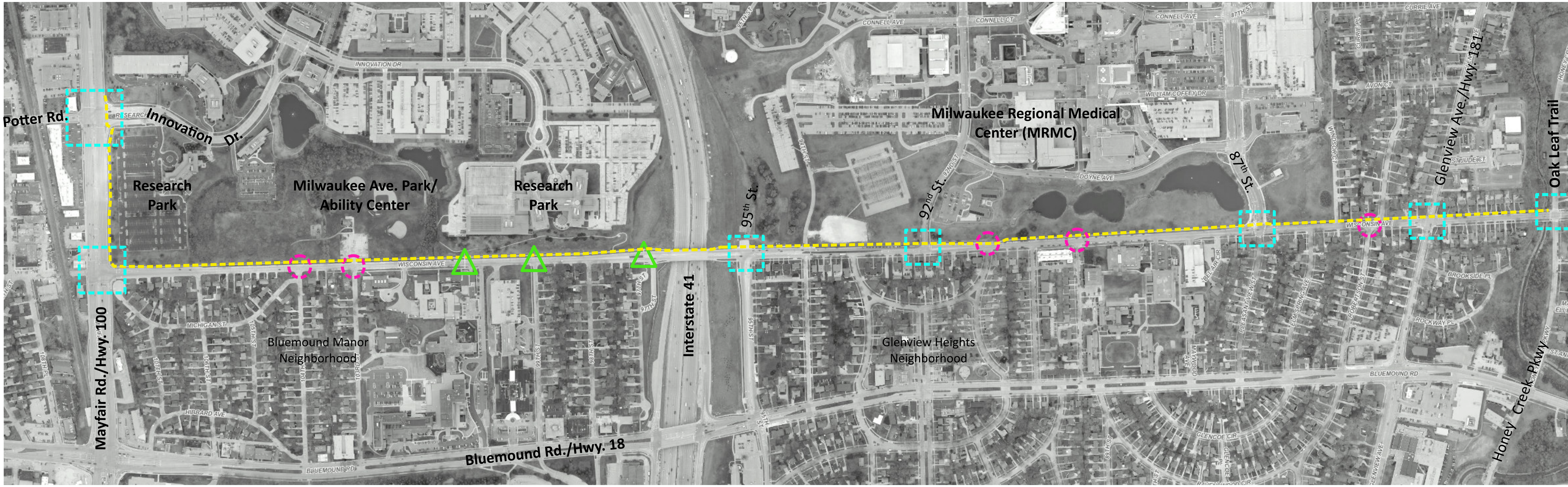
____
Mayor



Existing on-street bike lanes
Proposed on-street bike lanes
Greenway/Bicycle Boulevard
Proposed sharrows
Proposed off-street multi-use trail
On-street bike route/trail
Off-street trail
Proposed off-street trail/TAP Grant Application
Key bicycle and pedestrian connections

Wisconsin Avenue Mulituse Trail Overall Area Map

Date : 3.23.2023




View north on Mayfair Road.


View east on Wisconsin Ave. Typical existing condition with 5' sidewalk and grass terrace. Terrace varies along corridor.


View east on Wisconsin Avenue.


View east at the intersection with 87th Street.

Proposed multiuse trail

Proposed crosswalk and ramp improvements

Signalized intersection

Existing crosswalk to be improved

Wisconsin Avenue Multiuse Trail

Date : 3.23.2023

CITY OF WAUWATOSA
MEMO

To: **Financial Affairs Committee**

From: **Alex Krutsch, Parks and Forestry Superintendent**

Date: **April 4, 2023**

Subject: **Memo from the Parks and Forestry Superintendent requesting approval of an application for grant funding from the Wisconsin Department of Natural Resources to support development of the 116th Street Park.**

A. Issue

The Knowles-Nelson Stewardship Fund (KNS), administered by the Wisconsin Department of Natural Resources (DNR), is a grant program supporting the development of outdoor recreation in Wisconsin. The application process for a local government requires a resolution in support of the application by that government's governing body. City staff is requesting approval of a resolution supporting an application to KNS for funds to develop the 116th Street Park at this time.

B. Background/Options

The Common Council has allocated 2 million dollars of American Rescue Plan Act (ARPA) funds through the City's Capital Improvement Plan (CIP) for the development of a new city park located at the intersection of 116th Street and Gilbert Avenue on the City's West side. In 2022, during the new parks master planning phase, the City's consultant, Site Design, estimated development and construction costs for the park at 4.5 million dollars. City staff, along with the City's project consultants, are now seeking grant funding to close the funding gap.

The KNS fund is administered by the DNR and offers grant based funding for the development of outdoor recreation facilities in Wisconsin with an emphasis on passive recreational opportunities. City staff intends to apply for $235,000 in funds to construct a fully accessible restroom with an adult changing table as part of phase 1 of the parks construction schedule. Other park elements in phase 1 development include grading, lighting, paths, landscaping, and storm water features.

C. Strategic Plan (Area of Focus)

Priority 3: Infrastructure & Priority 5: Quality of Life

D. Fiscal Impact

There is no anticipated impact to the City's general fund nor the CIP as part of this grant application. Staff intends to use funds already secured from the Milwaukee Metropolitan Sewerage District's (MMSD) Green Solutions program as matching funds for any award secured by the City through the KNS fund.

E. Recommendation

Approval of a resolution supporting the application for grant funding from the Knowles-Nelson Stewardship Fund in the amount of $235,000.

CITY OF WAUWATOSA
Resolution

R-23-##

By:

Resolution authorizing City staff to apply for grant funding through the Department of Natural Resources for portions of the proposed park located at 116th Street and Gilbert Avenue

WHEREAS, the City of Wauwatosa is interested in acquiring or developing lands for public outdoor recreation purposes as described in the application;

WHEREAS, financial aid is required to carry out the project;

WHEREAS, the City of Wauwatosa has budgeted a sum sufficient to complete phase one of the project and;

NOW, THEREFORE BE IT RESOLVED THAT Alex Krutsch, the City's Parks & Forestry Superintendent, is authorized to act on behalf of the City of Wauwatosa to:

Submit an application to the State of Wisconsin Department of Natural Resources for any financial aid that may be available;

Submit reimbursement claims along with necessary supporting documentation within 6 months of project completion date;

Submit signed documents; and

Take necessary action to undertake, direct and complete the approved project.

BE IT FURTHER RESOLVED that the City of Wauwatosa will comply with state or federal rules for the programs; may perform force account work; will maintain the completed project in an attractive, inviting and safe manner; will keep the facilities open to the general public during reasonable hours consistent with the type of facility; and will obtain from the State of Wisconsin Department of Natural Resources or the National Park Service approval in writing before any change is made in the use of the project site.

Passed and Dated_________________________

Adopted:
Page:
Journal:

____
Clerk

Approved_________________________________

____
Mayor

7725 W. North Avenue
Wauwatosa, WI 53213

Wauwatosa, WI

Staff Report

File #: 23-422 **Agenda Date:** 4/11/2023 **Agenda #:** 6.

Review of draft Financial Reserves Policy - Part III: Community Development Block Grant, Revolving, Agency, Health Insurance and Dental Insurance Funds

Submitted by:
John Ruggini, Finance Director
Department:
Finance Department

A. Issue

A financial reserve provides protection from risk. The City of Wauwatosa faces risks like revenue shortfalls during recessions and losses from extra-ordinary events, like a pandemic or extreme weather event. Reserves help make sure that the City can respond quickly and decisively to extreme events. Reserves also support vital public services during revenue declines. A reserve policy describes how much we will try to retain in our reserve. It also describes acceptable uses of reserves. The City has had an informal reserve policy but as a best practice, and to protect our Aaa bond rating, we seek to formalize that policy. This is a continued discussion from January 10, 2023.

B. Background/Options

At the January 10, 2023 meeting, staff introduced a draft fund balance policy and reviewed General Fund balances and policy recommendations. Included in this packet is an updated policy to include the Community Development Block Grant (CDBG), Revolving, Agency, Health/Life and Dental Funds. The table below summarizes the balances of these funds.

	2021 Adjusted Balance	Benchmark	2021 % of Benchmark	2021 Over/ (Under) Benchmark	Status
Capital Projects - PWB Reserve	$ 291,305	N/A	N/A	N/A	
Capital Projects - Working Capital	$ 4,599,107	20% above 3 year average of max monthly cash deficit	102%	$ 75,858	
CDBG Program	$ (5,560)	N/A	N/A	N/A	
Revolving Fund					
Agency Fund			N/A	N/A	
Firefighters Endowment	$ 11,487		N/A	N/A	
Dick Bachman Flag Fund	$ 691		N/A	N/A	
Land Conservation Fund	$ 187,770		N/A	N/A	
Automated License Plate Reader	$ 8,951		N/A	N/A	
Hart Park Senior Center	$ 44,635		N/A	N/A	
Cemetery Trust	$ 16,764		N/A	N/A	
Library Trust	$ 326,911		N/A	N/A	
Health/Life	$ 6,577,581	30% of most recent 3-year average claims expense	313%	$ 4,398,958	
Dental Reserve	$ 240,007	30% of most recent 3-year average claims expense	403%	$ 180,488	

The following is proposed for inclusion in the Financial Reserve Policy and included in the attached draft policy.

Community Development Block Grant Fund (13)

The Community Development Block Grant (CDBG) Fund is used expending funds received from the Federal Government's Department of Housing and Urban Development's block grant program. The majority of the funds are provided to third party entities known as sub-recipients. As expenses are paid on a reimbursement basis, any fund balance, is the result of timing delays in receiving those reimbursements and is restricted for already incurred expenses for program activities.

Revolving Fund (14)

Certain funds that are donated or provided to the City for specific purposes are maintained in the Revolving Fund. The fund is known as a "revolving" fund because funds deposited in this fund automatically become available to be spent for the designated fund. Programs included in this fund are:

Police Department Forfeiture funds. Funds the City receives from the state and federal government when assets are seized as part of criminal activity.

Fire Department EMT Grant. Funds received by the Fire Department from the State of Wisconsin for Emergency Medical Technician expenses.

Fire Department Training Tower. Other Fire Departments pay an annual subscription fee to use Wauwatosa's Training tower. Funds are used to maintain the tower.

Fire Department Donations. Donations made from the public specifically to the Fire Department

Fire Department Equipment Reserve. Proceeds from the sale of fire vehicles are deposited here and then used to offset the cost of outfitting new vehicles.

Agency Fund (15)

The City is the fiscal fiduciary over several different programs. As these funds are not technically governed by the Common Council, they are held in "Agency" in this fund. By definition, any fund balance is restricted to the purpose for which the funds were received. The current programs held in agency include:

Wauwatosa Firefighters Union Scholarship Endowment. The City holds funds donated on behalf of the Fire Union which are then awarded by the Union for scholarships.

Dick Bachman Flag Fund. In the past the local civic organization such as the Rotary Club, collected funds to maintain the flags on North Avenue.

Land Conservation Fund. The City established a "Big Box" ordinance that requires new large retail stores to contribute to a fund that can be used to maintain or demolish any vacant big box properties.

Automated License Plater Reader. The City is the fiscal agent for a coalition of police departments that share license plate data from their automated license plate readers.

Hart Park Senior Center. Funds raised by the Senior Center members to be used for improving the Senior Center building and equipment.

Cemetery Trust Fund. Funds required to be set aside by the Cemetery for the perpetual grounds of the Cemetery and not yet invested.

Library Trust. Funds donated to the Library or earned from operating budget surplus that are governed by the Library Board.

Health/Life Insurance Fund (16)

The Health/Life Insurance Fund pays for all health and life insurance expenses. Direct program revenues are deposited in this account as well as the fees charged to departments with employees who are enrolled in these programs. As an internal service fund, the fund is designed to cover all of its costs.

Minimum	30% of most recent 3 years of actual claims costs
Maximum	No maximum so long as the City has an unfunded retiree health insurance liability.
Justification	Largest and most volatile expense is health insurance claims. Largest percent change since 2002 was a 31% spike.
Reasons reserves may be used	To cover one-time spikes in health insurance claims costs, including stop loss insurance.
Acceptable Use of Excess Reserves	Replace or expand City workout equipment Issue one-time dividends to departments and/or employees One-time Wellness or Health Insurance program expenses One-time expenses to reduce City's retiree health insurance liability. Contributions to a trust to pay for the City's retiree health liability.
Source of Funds	Year-end surplus in the Health/Life Insurance Fund

Dental Insurance Fund (17)

The Dental Insurance Fund pays for all dental insurance expenses. Direct program revenues are deposited in this account as well as the fees charged to departments with employees who are enrolled in these programs. As an internal service fund, the fund is designed to cover all of its costs.

Minimum30% of most recent 3 years of actual claims costs	
Maximum	No maximum so long as the City has an unfunded retiree health insurance liability.
Justification	Largest and most volatile expense is dental claims. Largest percent change since 2002 was a 21% spike.
Reasons reserves may be used	To cover one-time spikes in dental insurance claims costs
Acceptable Use of Excess Reserves	Issue one-time dividends to departments and/or employees One-time Wellness program expenses One-time expenses to reduce City's retiree health insurance liability. Contributions to a trust to pay for the City's retiree health liability.
Source of Funds	Year-end surplus in the Dental Insurance Fund

C. Strategic Plan (Area of Focus)

Priority 1: Economic Development and Financial Resilience. A fund balance policy is a critical component of financial resiliency.

D. Fiscal Impact

This item is for informational purposes only.

E. Recommendation

This item is for informational purposes only. Staff will continue to provide updates until all funds have been reviewed. At that point staff will recommend adoption of the policy.

Financial Reserve Policy – City of Wauwatosa

Why a Reserve Policy Is Important

A financial reserve provides protection from risk. The City of Wauwatosa faces risks like revenue shortfalls during recessions and losses from extra-ordinary events, like a pandemic or extreme weather event. Reserves help make sure that the City can respond quickly and decisively to extreme events. Reserves also support vital public services during revenue declines. A reserve policy describes how much we will try to retain in our reserve. It also describes acceptable uses of reserves.

Acceptable Uses of Reserves

Reserves are meant to address unexpected, nonrecurring costs. Reserves should not be used for recurring annual operating costs. An exception is poor economic conditions or events that disrupt the City's revenues. In such cases, reserves may be used to provide short-term relief so that the City can restructure its operations in an orderly manner.

Replenishment of Reserves

If the City uses its reserves and those reserves are below the allowed minimum, then the Finance Director will propose a plan for the replacement of the reserves. The Financial Affairs Committee will review and approve the plan. The City will try to replace the reserves within the minimum amount of time that is practical.

If the maximum reserve is exceeded during the forecast period, the City may spend the excess reserves on allowable uses. Reserves should be treated as a one-time revenue, as per the City's policy on one-time revenues.

The City's finance department will conduct long-range forecasting to determine if City is likely to stay within its range of reserves.

Authority to Use Reserves

The Finance Director may authorize the use of reserves for purposes consistent with this policy.

The Size of the City of Wauwatosa's Reserve

The City of Wauwatosa will endeavor to hold the following amounts in reserves by fund:

General Fund (10)

The General Fund Reserves include non-spendable, restricted and unrestricted balances. See attachment 1 for definitions of these categories. The unrestricted balances include:

Emergency and Working Capital Reserve (Unassigned)

Minimum	Two months of General Fund expenditures (16.7%) from the current year original adopted budget
Maximum	Three months of General Fund expenditures (20%)

Justification	Recommendation by the Government Finance Officers Association for an appropriate level of reserves for communities with a moderate risk profile. Provides sufficient working capital for year-end when debt service payments are due prior to property tax receipts
Reasons reserves may be used	• Response to emergencies (e.g. natural disasters, pandemics, terrorism) • Catastrophic infrastructure damage • Service sustention during a severe fiscal crisis • Short-term revenue bridging (i.e. awaiting property tax receipts in December)
Acceptable Use of Excess Reserves	• Capital Expenditures • Extra-ordinary economic development opportunities • Pay-down debt
Source of Funds	• Year-end Surplus • Budgeted funds

Contingency Fund (Unassigned)

Minimum	.5% of General Fund Expenditures of the current year original adopted budget
Maximum	Refreshed annually so should never exceed minimum
Justification	Based on prior years' experience and revenue constraints
Reasons reserves may be used	• Unplanned departmental budgetary shortfall (but not as an ongoing source of budgetary revenue) due to one-time events (severe winter weather, extra-ordinary public safety event, unanticipated litigation, pandemic, etc.)
Acceptable Use of Excess Reserves	• N/A
Source of Funds	• Must be replenished annually from the Emergency Reserve as of January 1.

Amortization Fund – Debt Coverage (Unassigned)

Minimum	125% of annual levy funded principal and interest payments (subsequent year budget) excluding short-term and refunding borrowings
Maximum	135%
Justification	Maintenance of Aaa bond rating is secured, in part, by this reserve as payment of debt service is pledged. Reserve secures repayment.
Reasons reserves may be used	• Extra-ordinary catastrophe causing an extreme cash flow shortage preventing debt service payments
Acceptable Use of Excess Reserves	• Cash-financing to avoid borrowing • Reducing outstanding debt • Smoothing mark-to-market fluctuations

	Use of excess reserve requires approval of Public Debt Commission
Source of Funds	• Surplus interest earnings • Bond premium

Capital Improvements - (Assigned)

Minimum	N/A
Maximum	N/A
Justification	Source of additional funding for cash financing capital projects
Reasons reserves may be used	• Cash financing capital projects that would otherwise require borrowing
Acceptable Use of Excess Reserves	• Cash-financing to avoid borrowing
Source of Funds	• Sale of public land owned by the City • Other one-time revenues designated by the Common Council

Welcome to Wauwatosa Plant Beds/Medians - (Assigned)

Minimum	N/A
Maximum	N/A
Justification	Donated funds with expressed purpose for the "care and maintenance of the Welcome to Wauwatosa Sign plant beds and the plant beds in the medians.
Reasons reserves may be used	See above
Acceptable Use of Excess Reserves	*N/A*
Source of Funds	Donated from the dissolved "Beautification Committee" in 2019.

Recycling Stabilization - (Assigned)

Minimum	None
Maximum	Current Year Estimated Total Annual Commodity Value X 2
Justification	The City receives revenue based on the market value of its recyclables. This market is subject to significant volatility, which can cause stress on the Solid Waste budget as this function depends on this revenue to offset the cost of the program. This reserve will smooth out year-to-year fluctuations, which in the past have been significant and unpredictable.
Reasons reserves may be used	• Actual or anticipated decrease in recycling revenues that would cause a budgetary shortfall requiring the City to budget additional levy for the solid waste function • Year-end shortfall in recycling revenue compared to budget contributing to a general fund deficit. This is generally not

	realized as a revenue loss, rather a deficit in the expense budgeted to pay the recycling vendor.
Acceptable Use of Excess Reserves	• One-time expenditures related to the solid waste function
Source of Funds	• Surplus recycling revenue

Non-lapsing Funds - (Assigned)

Minimum	N/A
Maximum	N/A
Justification	The City designates certain accounts as "non-lapsing" as part of the annual budget resolution so that any year-end balance automatically carries over. The Senior Commission, Youth Commission and Commission for Persons with Disabilities are all examples of non-lapsing accounts as well as funds donated for specific purposes, such as for the Police K-9 unit. For a full listing, please see the most recent operating budget resolution.
Reasons reserves may be used	• Must be used for the assigned function
Acceptable Use of Excess Reserves	• Per Common Council discretion
Source of Funds	• Year-end surplus in the relevant accounts

Reserve for Subsequent Year Expenditures - (Assigned)

Any funds carried over from the prior year must be reserved as assigned fund balance in the year from which they are carried over. For example, funds carried over from 2022 to 2023 will be held in reserve as subsequent year expenditures in the 2022 Subsequent Year Expenditure Reserve. The 2023 expenditure budget must be amended to reflect the increased expenditure authority with a revenue offset shown as "Appropriated Surplus Applied" to reflect the future use of funds held in reserve. Had these funds not been carried over, they would have otherwise increased the Unassigned Fund Balances. The Finance Department updates this reserve balance manually each year as part of the year-end close process. This reserve will exist in any fund for which there are carry-overs.

Reserve for Encumbrances - (Assigned)

Similar to the Reserve for Subsequent Year Expenditures, any funds encumbered for a purchase order or contract at year-end, will automatically carry-over into the subsequent year and be reserved as assigned fund balance in the year from which they are carried over. For example, purchase order and contract balances carried over from 2022 to 2023 will be held in reserve in the 2022 Reserve for Encumbrances. The 2023 expenditure budget must be amended to reflect the increased expenditure authority with a revenue offset shown as "Appropriated Surplus Applied" to reflect the future use of funds held in reserve. This reserve will decrease automatically as the funds are spent. This reserve will exist in any fund for which there are year-end encumbrances.

Debt Service Fund (11)

The Debt Service Fund is used to pay all non-utility principal and interest debt payments as well as debt issuance expenses. Special revenue funds, such as Tax Incremental Districts, transfer funds to this fund for the debt service owed. The Debt Service Fund includes a non-spendable balance for a loan provided to the Milwaukee Area Domestic Animal Control Commission that will be paid off in 2036. The designated fund balance includes bond premium that is held to be used for subsequent year's interest payments. No additional fund balance may accumulate, per state statute.

Capital Projects Fund (12)

The Capital Projects Fund is used for expenses and revenues related to constructing, improving or acquiring a non-utility asset. Examples includes roads, bridges, fire apparatus and public building renovations. Unspent bond proceeds are held in reserve and considered restricted.

Public Works Building and Yard Improvements (Assigned)

Minimum	NA
Maximum	NA
Justification	This balance was created with funds received by the Department of Transportation for temporary easements necessary for the Zoo interchange reconstruction.
Reasons reserves may be used	• Improvements to the Public Works yard and buildings
Acceptable Use of Excess Reserves	NA
Source of Funds	• One time revenues associated with the Public Works complex

Capital Projects Cash Flow Reserve (Restricted)

Minimum	10% greater than 3 year average of maximum monthly cash deficit
Maximum	30 % greater than 3 year average of maximum monthly cash deficit
Justification	The capital projects fund often expends funds prior to receiving revenues such as bond proceeds and grants so it is necessary to maintain a working capital reserve for cash flow.
Reasons reserves may be used	• To cover cash flow shortages for the fund
Acceptable Use of Excess Reserves	• Cash finance capital improvements
Source of Funds	• Capital project surplus

Community Development Block Grant Fund (13)

The Community Development Block Grant (CDBG) Fund is used expending funds received from the Federal Government's Department of Housing and Urban Development's block grant program. The majority of the funds are provided to third party entities known as sub-recipients. As expenses are paid on a reimbursement basis, any fund balance, is the result of timing delays in receiving those reimbursements and is restricted for already incurred expenses for program activities.

Revolving Fund (14)

Certain funds that are donated or provided to the City for specific purposes are maintained in the Revolving Fund. The fund is known as a "revolving" fund because funds deposited in this fund automatically become available to be spent for the designated fund. Programs included in this fund are:

Police Department Forfeiture funds. Funds the City receives from the state and federal government when assets are seized as part of criminal activity.

Fire Department EMT Grant. Funds received by the Fire Department from the State of Wisconsin for Emergency Medical Technician expenses.

Fire Department Training Tower. Other Fire Departments pay an annual subscription fee to use Wauwatosa's Training tower. Funds are used to maintain the tower.

Fire Department Donations. Donations made from the public specifically to the Fire Department

Fire Department Equipment Reserve. Proceeds from the sale of fire vehicles are deposited here and then used to offset the cost of outfitting new vehicles.

Agency Fund (15)

The City is the fiscal fiduciary over several different programs. As these funds are not technically governed by the Common Council, they are held in "Agency" in this fund. By definition, any fund balance is restricted to the purpose for which the funds were received. The current programs held in agency include:

- **Wauwatosa Firefighters Union Scholarship Endowment.** The City holds funds donated on behalf of the Fire Union which are then awarded by the Union for scholarships.
- **Dick Bachman Flag Fund.** In the past the local civic organization such as the Rotary Club, collected funds to maintain the flags on North Avenue.
- **Land Conservation Fund.** The City established a "Big Box" ordinance that requires new large retail stores to contribute to a fund that can be used to maintain or demolish any vacant big box properties.
- **Automated License Plater Reader.** The City is the fiscal agent for a coalition of police departments that share license plate data from their automated license plate readers.
- **Hart Park Senior Center.** Funds raised by the Senior Center members to be used for improving the Senior Center building and equipment.
- **Cemetery Trust Fund.** Funds required to be set aside by the Cemetery for the perpetual grounds of the Cemetery and not yet invested.

- **Library Trust.** Funds donated to the Library or earned from operating budget surplus that are governed by the Library Board.

Health/Life Insurance Fund (16)

The Health/Life Insurance Fund pays for all health and life insurance expenses. Direct program revenues are deposited in this account as well as the fees charged to departments with employees who are enrolled in these programs. As an internal service fund, the fund is designed to cover all of its costs.

Minimum	30% of most recent 3 years of actual claims costs
Maximum	No maximum so long as the City has an unfunded retiree health insurance liability.
Justification	Largest and most volatile expense is health insurance claims. Largest percent change since 2002 was a 31% spike.
Reasons reserves may be used	• To cover one-time spikes in health insurance claims costs, including stop loss insurance.
Acceptable Use of Excess Reserves	• Replace or expand City workout equipment • Issue one-time dividends to departments and/or employees • One-time Wellness or Health Insurance program expenses • One-time expenses to reduce City's retiree health insurance liability. • Contributions to a trust to pay for the City's retiree health liability.
Source of Funds	• Year-end surplus in the Health/Life Insurance Fund

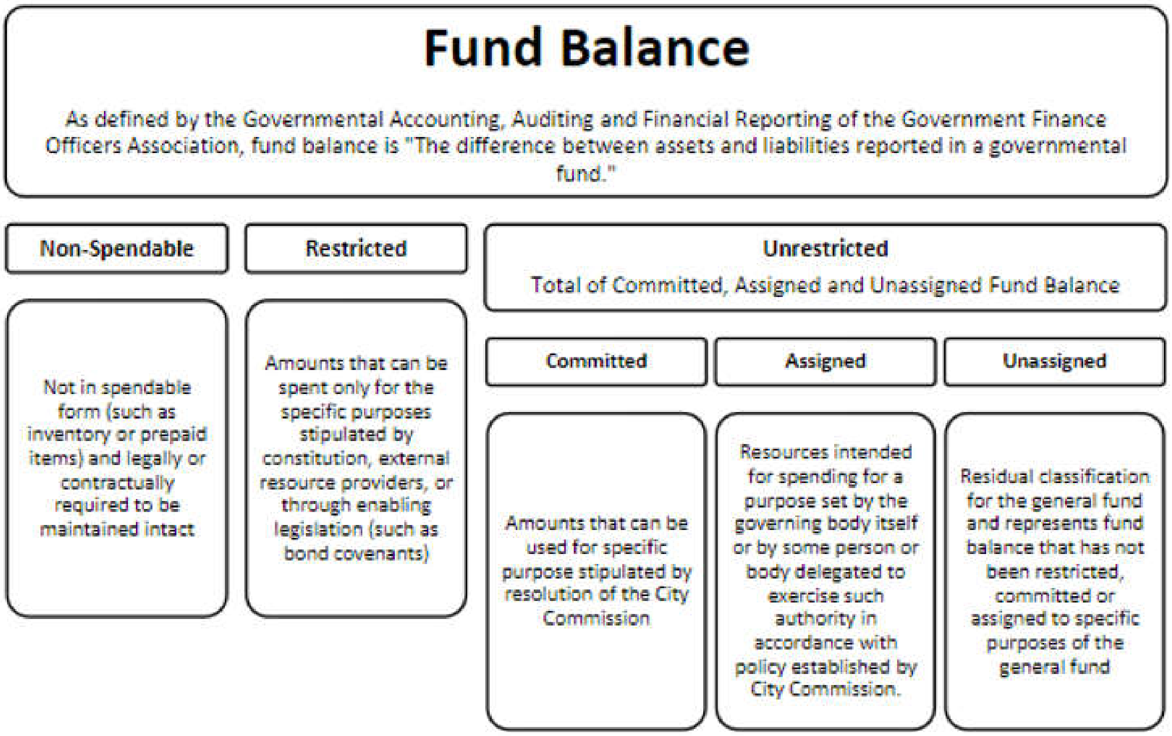
Dental Insurance Fund (17)

The Dental Insurance Fund pays for all dental insurance expenses. Direct program revenues are deposited in this account as well as the fees charged to departments with employees who are enrolled in these programs. As an internal service fund, the fund is designed to cover all of its costs.

Minimum	30% of most recent 3 years of actual claims costs
Maximum	No maximum so long as the City has an unfunded retiree health insurance liability.
Justification	Largest and most volatile expense is dental claims. Largest percent change since 2002 was a 21% spike.
Reasons reserves may be used	• To cover one-time spikes in dental insurance claims costs
Acceptable Use of Excess Reserves	• Issue one-time dividends to departments and/or employees • One-time Wellness program expenses • One-time expenses to reduce City's retiree health insurance liability.

	• Contributions to a trust to pay for the City's retiree health liability.
Source of Funds	• Year-end surplus in the Dental Insurance Fund

Attachment 1



- City Commission refers to the Common Council.

7725 W. North Avenue
Wauwatosa, WI 53213

File #: 23-1013 **Agenda Date:** 4/11/2023 **Agenda #:** 7.

Review of Financial Resiliency Policy

Submitted by:
John Ruggini
Department:
Finance Department

Issue
In 2016, the Common Council adopted a "Financial Resiliency Policy" based on research conducted by the Government Finance Officers Association. Given the passage of time as well as changes in the organization, local economy and make-up of the Common Council, a review and update of this policy is needed. Over the past several months, the Committee and staff have discussed updates to this policy. A marked-up and clean copy of the policy including all of those changes is attached.

Background/Options
Financial resiliency is defined as the ability to quickly recover from external environmental shocks, such as a severe recession. Attached is a research paper written by the Government Finance Officers Association that describes eight characteristics of a resilient system.

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.
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.

The attached policy applies 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. A significant component of the policy is adopting specific directions and assumptions to develop the five-year forecast.

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

The policy has not been updated since adoption. Over the past several months, the Committee and staff have discussed updates to this policy. A marked-up and clean copy of the policy including all of those changes is attached.

Fiscal Impact
This item is for informational purposes only

Recommendation
Staff recommend the committee provides feedback on the policy which will be incorporated and then brought again before the committee for formal approval.

Building a Financially Resilient Government through Long-Term Financial Planning

The Government Finance Officers Association
www.gfoa.org • 312-977-9700

Building a Financially Resilient Government through Long-Term Financial Planning

By Shayne Kavanagh, GFOA senior manager of research

The concept of "sustainability" has captured the attention of local government leaders across the United States and Canada over the past few years. This includes finance officers, as the term "financial sustainability" has come to signify practices such as directing one-time revenues away from recurring sources of expenditure and taking into account long-term maintenance and operating costs when planning and evaluating capital projects.

However, the current recession has taught us that sustainability is a necessary but insufficient condition to ensure the ongoing financial health of local government. A sustainable system is balanced, but an external shock (like a severe economic downturn) can unbalance the system and perhaps even collapse it. Local governments will continue to face serious challenges from outside, including but not limited to economic adjustments, natural disasters, and important policy changes by other levels of government. As such, finance officers must strive to help their organizations go beyond sustainability to a system that is adaptable and regenerative – in a word: resilient.

Jamais Cascio, a fellow at the Institute for Ethics and Emerging Technologies, identifies eight essential characteristics of a resilient system:[1]

- **Diversity**: Avoid a single point of failure or reliance on a single solution.
- **Redundancy**: Have more than one path of escape.
- **Decentralization**: Centralized systems look strong, but when they fail, the failure is catastrophic.
- **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.
- **Collaboration**: Work together to become stronger.
- **Fail Gracefully**: Failure happens. Make sure a failure state won't make things worse.
- **Flexibility**: Be ready to change when plans aren't working. Don't count on stability.
- **Foresight**: You can't predict the future, but you can hear its footsteps approaching. Think and prepare.

A sustainable system is balanced but potentially brittle. A resilient system not only survives shocks, it thrives even under conditions of adversity.

This article explores these characteristics as they relate to creating a financially resilient government and the central role that long-term financial planning plays in financial resiliency. You can use these characteristics to evaluate your own financial planning process and prepare a road map for its evolution. The Government Finance Officers Association (GFOA) interviewed officials at several local governments that have been practicing long-term financial planning for a number of years (some as long as 15 or 20) and that have, as a consequence, achieved financial resiliency. Below are some examples of how these governments are not just surviving the current economic downturn, but thriving in it.

AAA Bond Ratings Achieved. Several of our research subjects have had their bond ratings recently upgraded to AAA, and one had its existing AAA reaffirmed. The rating agencies pointed to long-term financial planning as evidence of management's dedication to the practices that maintain long-term financial health. This is a stark illustration of the "flight to quality" that has been occurring in all investment markets.

Making Believers Out of Skeptics. One government recently had a new chief operating officer who was skeptical of the value of long-term financial planning in the current economy. "What use are multi-year forecasts and strategies under conditions of such volatility?" the COO reasoned. However, the COO was soon converted when she witnessed how the fund balances built up in the good times could be used to buffer shocks, how the governing board was highly engaged in serving as an effective steward over long-term financial health, and how the government was spared the need to suddenly and reflexively resort to the same wrenching retrenchment tactics as many of its neighbors. Of course, receiving an AAA bond rating played no small role in the COO's change of opinion.

Preparing for the Future. Our resiliency research subjects have not only been able to avoid the most painful retrenchment tactics, but have been able to make sound investments in their futures. For example, while many state governments have been using stimulus funds to backfill their operating budgets and thereby defer tough budget decisions, the City of Coral Springs, Florida, has been using stimulus funding to invest in labor-saving technologies. The city's managers and officials believe that the economy is entering a "new normal" where former levels of revenue can't be expected to return. While long-term planning and financial reserves have bought the city some time, this doesn't mean the city can continue on indefinitely as it has. Therefore, officials have been supportive of long-term technology investments that will allow the city to maintain its current service levels with fewer employees, as well as many other program and staffing adjustments that, while not immediately necessary, will reduce the cost of city government over the long term.

Our Featured Local Governments

- City of San Clemente, California
- City of Sunnyvale, California
- City of Coral Springs, Florida
- County of Hanover, Virginia
- Mentor Public Schools, Ohio

Saving Jobs. One of the most feared consequences of any recession is job loss. Our research subjects for this paper have been able to avoid layoffs so far. Hanover County, Virginia, is particularly enthusiastic about the potential of long-term planning to help to preserve jobs. In Hanover County's experience, the organization-wide perspective provided by a financial plan has been instrumental in encouraging departments to shift underutilized employees to areas of greater need. For example, the recession has reduced construction and the demand for building inspectors, so the county has been able to use them for in-house construction projects and similar tasks where a contractor may have otherwise been used. Hence, the county has been able to shift building inspectors across tasks, thereby filling a real need while preserving jobs.

The rest of this paper will describe how long-term financial planning supports each of the eight essential characteristics of a resilient system.

Diversity. Avoiding a single point of failure or reliance on a single solution.

- Keep a multi-faceted perspective on financial health.
- Maintain a diversity of funds to reduce reliance on the general fund.
- Enlarge the base of supportive constituents.

The most fundamental aspect of "diversity" in financial planning is a multi-faceted perspective on financial health. The planners' viewpoint should not be limited to focusing on revenues and expenditures. Land-use patterns, demographic trends, and long-term liabilities (such as pensions) must all be carefully monitored. For example, long-term financial planning has highlighted the connection between land-use policy and financial condition for many of our research subjects, thereby directly influencing land-use policies. In Florida, the state distributes sales taxes on a per-capita basis, rather than the point-of-sale method found in many other states. As a result, cities in Florida don't have the same powerful incentive for commercial development that many other cities have. Coral Springs, though, has recognized that commercial properties are not subject to the same property tax restrictions as residential properties, so commercial properties remain important as net contributors to financial health.[2] This nuance has led Coral Springs to emphasize diversity in local land use, while many other cities in the area are primarily residential.

In another example, the City of Sunnyvale, California, like many cities in the state, is part of the California Public Employees' Retirement System (CalPERS). Warned by CalPERS about potential rate increases, the city performed an independent analysis and discovered that it may experience a 35 to 45 percent increase in required contributions in the future. This has allowed the city to begin planning now to mitigate and absorb this risk.

Another common theme among our research subjects is diversity in the funds maintained. Different funds can be used to account for non-current liabilities such as OPEB, workers' compensation, depreciation, and replacement of assets. Self-supporting internal service funds contribute to efficient overhead services. These practices reduce the burden on the general fund and keep it from becoming a single point of failure.

Finally, Mentor Public Schools in Ohio has consciously cultivated constituent diversity. For a school district, parents are the most engaged constituents. However, district taxpayers who don't have children are an indispensible source of funding. Therefore, Mentor Schools takes special care to demonstrate its financial responsibility to parents and non-parents alike, and to find out what non-parents think of the school district's performance. For example, Mentor Schools has an important use fee component to its extracurricular activities (it is not 100 percent tax-supported) and has been mindful of keeping its asset portfolio consistent with future service demands – for example, two properties were recently sold, thereby eliminating maintenance costs, generating a one-time revenue, and placing the property back on the tax rolls. Enhancing financial management credibility by taking highly visible actions like these enlarges Mentor Schools' base of supporters.

Redundancy. Avoid having only one path of escape or rescue.

- Maintain a reserve policy to prevent use for recurring expenditures and to specify the purpose of reserves.
- Institutionalize financial planning through governance practices like financial policies and citizen engagement.
- Pursue multiple strategies for long-term financial health.

Fund balances, or reserves, are the key to redundancy. Focusing on reserve levels across multiple funds helps make sure each fund has appropriate backup. Our subjects agreed that the basis of strong reserves is good financial policy on reserves. A policy should prohibit fund balances from being used for recurring expenditures, save notable exceptions like working capital, or providing temporary budgetary stabilization in an economic downturn. Reserves must be taken very seriously by all managers and officials, so prohibiting unsustainable uses of fund balance emphasizes the preservation of fund balance as the means of rescue from crisis situations.

Our subjects also agreed that it is important to create reserves for specific purposes and to record these purposes in a policy. This preserves the credibility of the reserve system – the reserves are there for a widely understood and agreed-upon reason, not as a slush fund. This, in turn, protects the integrity of the reserve – people see the restriction as important and are less likely to propose inappropriate uses and such proposals, even if made, are unlikely to receive support. The City of San Clemente, California, for example, recently created a reserve for asset maintenance, an activity that has been widely underfunded in many local governments.

Reserves must be taken seriously by all managers and officials, so prohibiting unsustainable uses of fund balance emphasizes the preservation of fund balance as the means of rescue from crisis situations.

Financially resilient governments are distinguished by the adoption of a policy supporting a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, financial policies, and service policies. In financially resilient governments, long-term financial planning is institutionalized in the governance of the organization. This leads to consistent decisions. Financial policies are the cornerstone of redundancy because they help preserve good practices through changes in elected officials and top management personnel. The GFOA Best Practice, *Adoption of Financial Policies*, describes many of the most important policies.[3]

In addition to formal policies, community engagement can help assure the continuity of financial planning and related practices. For example, Mentor Schools has a special citizen subcommittee focused on financial planning. While the school board fully supports financial planning, it is subject to a variety of pressures and must address a plethora of issues. However, the subcommittee never lets the school board forget the importance of Mentor School's long-term financial health. In Sunnyvale, citizens took a powerful step to institutionalize financial planning. The city's charter study committee (made up of citizens) recently recommended amending the city charter to require 10-year financial plans.

Citizen engagement can also create more grassroots or viral support for financial planning in the community. Coral Springs has an extensive citizen volunteer program, where citizens help with special projects, like canal clean-up, as well as ongoing services like police patrol and call-center staffing. In addition to reducing staffing costs for the government, the volunteer program gives the city the opportunity to educate and fully engage citizens in the Coral Springs business and financial planning model. The city has found that volunteers take accurate information about the city's financial condition and practices back to their friends and neighbors and often become advocates for these practices. Thus, citizens come to expect a long-term, strategic approach to financial problems from the city.

Finally, resilient governments don't bank on just one strategy to remain financially healthy – they rely on a combination of strategies: short- and long-term revenue enhancement and expenditure reduction. For example, Sunnyvale has modeled a combination of expenditure reductions, revenue enhancements, and drawdowns on the city's budget stabilization reserve to cope with the economic downturn. While the short-term pressure is the most immediate concern for many in Sunnyvale, the financial strategy also includes a two-tiered retirement system (i.e., reduced benefits for new employees) that doesn't save much right away but saves $1.5 million annually by the eighth year of the plan, and a total of $44 million in the general fund over a 20-year period – in a general fund operating budget of about $125 million.

Decentralization. Centralized systems look strong, but failure is catastrophic.

- Make managers manage their cost and revenue structures.
- Engage departments in identifying issues, analyzing them, and developing strategies.
- Engage departments in financial modeling and forecasting.
- Develop an organization-wide strategic framework that departments can innovate within.

Decentralization is about engaging operating departments in financial planning so that all departments think more strategically about finance, rather than long-term financial health relying solely on the efforts of central administration.

The bedrock of decentralization is for all departments to be responsible for their own budgets. For instance, a large county in the western United States made departments more responsible for program revenues by directly linking their budget allocations to program revenue income. In one large Midwestern city, budget analysts had been assigned to each department in order to monitor budget compliance and, where necessary, cajole the department into compliance. In search of a better approach, the analysts were withdrawn and re-assigned to other tasks, while department heads who exceeded their budgets were called in front of the board's finance subcommittee, in a public meeting, to explain the negative variances and what is being done to correct the situation. The department head must then return to these meetings until the problem is corrected and for a period afterward to guard against relapse. Needless to say, department heads prefer to avoid these meetings and are therefore much more rigorous in managing their budgets than before.

Sunnyvale goes beyond these fundamental steps by making departments fully responsible for their long-term cost and revenue structure, including the operating impact of proposed capital projects. In fact, there was recently a high level of interest in a new park in the community, and the recreation director was one of the most vocal advocates for having a long-term funding strategy for maintenance in place before committing to building the park.

With this basic ethos of making managers manage their budget in place, it becomes possible to take a decentralized approach to financial plan development. Through its financial planning process, the finance and operating staff at the City of San Clemente identifies a number of "critical issues" that could affect the future financial health of the city. A number of cross-functional "issue teams" are then formed to analyze each issue and suggest strategies. San Clemente has found that staff members are eager to participate on the teams (some even requesting a spot a year in advance) because they know that the decisions made during the planning process are important and that positive involvement is a key to advancement at the city. The consistent and meaningful involvement of departments in identifying issues, analyzing them, and developing strategies is a consistent theme in financially resilient governments.

Involving departments in financial forecasting and modeling hones their understanding of financial condition, and, hence, their perception of the need for a solid, long-term financial strategy. It also improves the quality of the forecast. Hanover County realized that in the new economic reality, historical data was not as useful as it had been in making projections. Qualitative judgment was more important than ever. The county formed cross-departmental teams to examine major revenue sources and develop key forecast assumptions. For example, community development, economic development, and assessor personnel were all involved in analyzing the property tax.

Finally, and perhaps most importantly, long-term planning fosters a strategic framework for creating value for the public through government programs. The long-term plan articulates the service objectives the government is striving for and defines the parameters within which the government will pursue these objectives. Departments can then develop their own plans and budgets, yet remain aligned with the big picture. A plan drives action and prevents paralysis by analysis or inertia. The plan grants permission to try new things to further the plan's objectives.

All of these characteristics promote the innovation that is needed to adapt to changing financial conditions. When it is accepted that everyone is working toward the same objective, innovation is more likely because commonality of purpose makes new ideas that diverge from the established order permissible – if the innovation is intended to achieve a high-priority strategic goal, then the effort is respected.

As an illustration of how planning can create shared goals, Hanover County has found that its planning process has been very important in creating a widely held acceptance of the value of teamwork across departmental lines.

In Hanover, objectives are established through the planning process, and reliable information relative to the objectives and financial condition is disseminated. The county then reinforces the importance of inter-departmental information sharing by creating communication channels across departmental lines. For example, training and professional development is often one of the first expenditures to come under pressure during a revenue downturn, yet training is a primary source of the innovations that are needed to improve cost-effectiveness. Hanover has used its planning process to establish and support an objective for high-quality professional development across the organization, including encouraging joint training opportunities across departments.

Transparency. Make it easier to figure out where a problem may lie. Share plans and listen when people point out flaws.

- Promote transparency in key areas like goals and objectives, forecast assumptions, and reserve standards.
- Use full-cost (direct and indirect) accounting for programs.

Transparency implies openness, communication, and accountability Transparency pervades the financial planning practices of financially resilient governments. Following is some of the most important information to make transparent.

- **The Organization's Goals and Objectives**. Make sure everyone knows what the goals are, how they were arrived at, and what activities will be undertaken in pursuit of the goals.
- **Forecast Assumptions**. The assumptions that drive revenue and expenditure trends should be available for examination. Some key assumptions include population/enrollment trends, employee headcount, changes in property values, and changes in consumer behavior.
- **Reserve Standards.** What amounts will the government endeavor to hold in reserve, and why? What amounts are actually being held? Are these amounts too much or too little? Clarity on these questions (especially when the amounts held are high) is essential to maintaining the credibility and integrity of the reserve system.

The GFOA's research subjects have also found that full-cost accounting for services (direct and indirect costs) is essential to resiliency. Full-cost accounting makes the cost of doing business transparent. Transparency leads to trust, as everyone can see what the true cost of doing business is for all services, including support services such as budgeting and finance. Transparency and trust leads to better-informed discussions about the relevance and contribution of services, and to opportunities for enhancing revenues, for increasing operational efficiencies, and for enhancing the credibility of the financial management system among management, elected officials, and the public.[4]

Collaboration. Working together to become stronger.

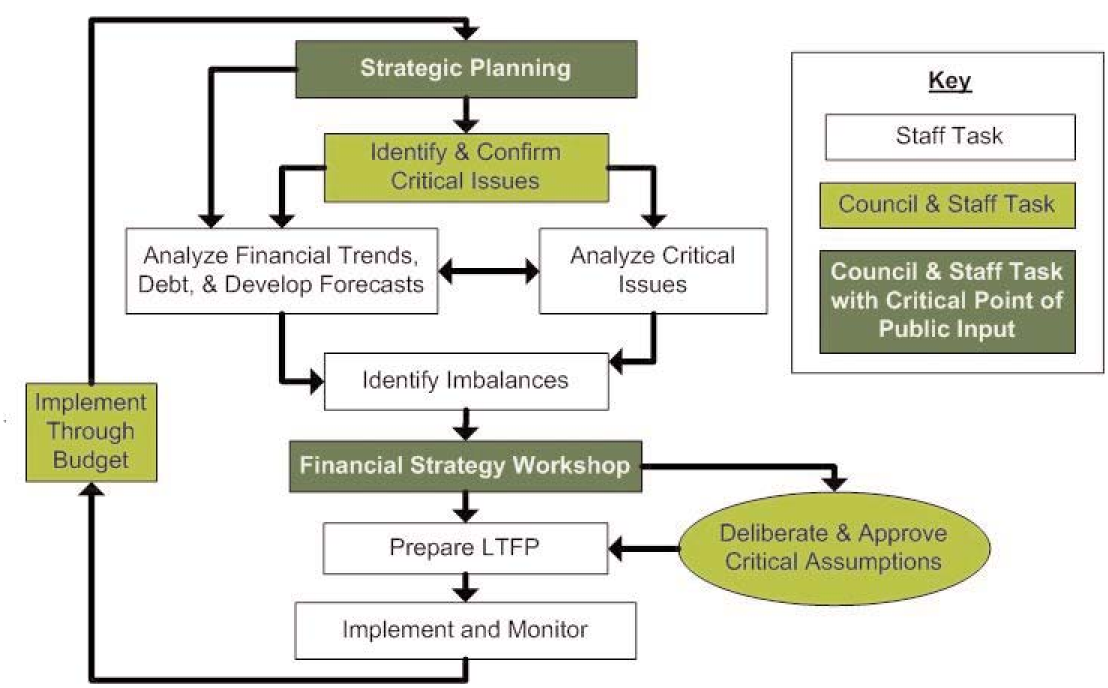
- Build elected officials' service priorities into the plan.
- Provide elected officials a role in that planning process – a role they can thrive in.
- Orient elected officials to the planning process.
- Use key indicators to help elected officials stay abreast of financial condition.

Elected officials have an incalculable impact on financial health because they have the final say over tax policies and budgets. Therefore, resilient governments foster close collaboration between elected officials and staff to help both groups become more savvy financial decision makers, better recognize problems, and enact appropriate solutions.

The first step is to engage elected officials by building their service priorities into the financial plan. In addition to demonstrating that the plan is relevant to their service goals, this step provides a common basis for participation in the planning process – although not every official will be comfortable discussing financial issues, all can discuss and appreciate service issues.

The next step is to provide elected officials with a role in the planning. Exhibit 1 provides an overview of the City of San Clemente's planning process and how elected officials are engaged. The shaded boxes are crucial points of involvement. The Council sets service goals through strategic planning, helps to identify issues that affect the

Exhibit 1: Council Involvement in San Clemente's Planning Process



financial health of the city, and reviews and approves the critical assumptions behind the staff's suggested financial strategies – assumptions that will shape how the annual budget is developed.

When new officials are elected, they must be introduced and acclimated to planning process. Resilient governments have a formal orientation program and periodic refreshers. San Clemente, for example, has an annual financial policy compliance self-review of its policy portfolio. San Clemente has found this is a good way to keep elected officials engaged with financial policies. In addition to these formal mechanisms, regular one-on-one meetings on financial issues give officials a chance to ask questions that they may not be comfortable asking in a public meeting. The impact of all of these efforts is to create a culture on the governing board in favor of financially resilient decisions. Once in place, the culture can become self-sustaining as new officials are subject to peer pressure and existing officials take their own actions to promote resiliency (such as Sunnyvale's aforementioned charter amendment, which was driven by public rather than staff action).

Finally, key indicators of financial condition should be established and communicated to help elected officials remain confident that they have a handle on financial condition. Mentor Public Schools, for example, keeps its board up-to-date on three key indicators:

- Percent of budget spent on personnel (with 85 percent as an upper threshold).
- Recurring revenue versus expenditures (including biannual forecast updates).
- Enrollment trends versus staffing (keeping student to staff ratios consistent).

Fail Gracefully. Failure happens. Make sure failure won't make things worse.

- ❖ Recognize changing conditions to make a soft landing.
- ❖ Promote credibility and open dialogue to learn from and correct failure.

Financially resilient governments recognize, through forecasts and environmental scanning, changing conditions in order to make a soft landing. When Sunnyvale adopted its fiscal year 08/09 budget in June of 2008, staff had predicted an economic downturn, but had not yet seen any evidence in their revenues because city revenues typically lag the economy. By August 2008, the city began to see slight indications, but economic information (from constant scanning of the environment) led them to believe that things were going to be substantially worse. Hence, they began to plan for a serious fiscal challenge and were therefore better able to cope with the economic crisis that finally manifested. In 2004, Coral Springs recognized that politics in the state were headed toward major residential property tax reform, including austere restrictions on local tax autonomy. At that point, the city started making changes such as diversifying its tax base and streamlining operations to make sure its workforce didn't expand beyond the city's means. When reform eventually came in 2007, Coral Springs was prepared.

Few, however, predicted the full breadth and severity of the current economic downturn. When caught in a financial decline, resilient governments quickly recognize it and react by updating forecasts, modeling new scenarios to define the financial parameters within which they must develop strategies, continually monitoring the environment for change, and maintaining open communication with departments so they can take corrective action. Hanover County has found it particularly important to maintain open communication with the board. If news of failure is attenuated in an effort to reduce political fallout, the board will not fully appreciate the gravity of the situation, thereby lessening their support for retrenchment and recovery strategies, eventually making the situation even worse.

Financially resilient governments use long-term planning to enhance the credibility of the financial management system and promote open dialogue about financial condition. A projected imbalance isn't cause for recrimination – it is an opportunity to take preventative action to avoid crisis. Financially resilient governments are careful not to position forecasts as a "prediction" of future financial position, but rather as a tool to: 1) recognize longer-term issues that require a strategic approach; and 2) establish financial parameters within which service strategies must operate.

Resilient governments are also skilled at setting and managing to measurable financial goals. Communication of these goals (including deviations from planned performance) is essential for credibility and encouraging fact-based, data-driven financial decision making. For example, Hanover County's financial goals include protecting its AAA bond rating and getting through the financial downturn without layoffs – two very measurable goals, the importance of which are easy to communicate.

Flexibility. Be ready to change when plans aren't working. Don't expect stability.

- Regularly diagnose the strategic environment to know when flexibility may be required.
- Create financial models to show the impact of changes.
- Evolve and adapt the financial planning process itself.

Financially resilient governments are constantly monitoring their environment and financial condition to see if financial strategies are working and to learn of conditions that might call for a change in approach. Regular plan updates are a formal tool all the GFOA's research subjects use, but they have also all developed an institutional habit of taking time to look beyond the day-to-day business of government for issues that could affect financial health. These "strategic diagnosis" exercises are important for strengthening this critical capacity.

Resilient governments also have financial modeling and scenario analysis capabilities to determine the impact of changes in assumptions and financial strategies. For example, Hanover County used its models to show how deferred maintenance would affect the life cycle of capital assets. This allowed the county to make informed decisions on deferment, including the long-term cost required to make up the impact of these deferments later.

Finally, resilient governments evolve their planning process as needed to address new issues, accommodate new stakeholders, keep up with best practices, and otherwise adapt to the changing needs of the organization. For example, the diagram in Exhibit 1 was developed by San Clemente a few years ago as part of a redesign of its financial planning process to improve the elected officials' involvement in planning. San Clemente also designates a special "theme" for each planning cycle to capture the issues that are driving planning that year. For example, the theme for most recent planning cycle was "Fiscal Tune-Up," acknowledging the need to reaffirm fundamental good financial management practices in a time of financial pressure.

Exhibit 2: Don't Expect Stability

VIX is the ticker symbol for the Chicago Board Options Exchange Volatility Index, a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market. Sometimes referred to as the "fear index," it represents one measure of the market's expectation of volatility over the next 30-day period.[5] Unsurprisingly the VIX reached all-time highs in the fall of 2008 and has been well above historical levels over the past 12 months.[6]

Foresight. Think and prepare.

- ❖ Develop effective forecasting techniques.
- ❖ Build capacity among staff and elected officials for strategic diagnosis.
- ❖ Complement financial planning with other long-term plans.

Financial forecasts are at the crux of foresight. Our research subjects suggest:

- Using forecasts to identify the parameters within which to develop and execute strategies, rather than to try to "predict" the future.
- Involve others in forecasting. Operating departments can improve the qualitative judgment applied to the forecast. Elected officials can review critical assumptions.
- Develop capacity for flexible scenario modeling to show the impact of different possible futures.

Regular review of the environment is essential for diagnosing strategic issues. Elected officials and executive management should be involved in strategic diagnosis to promote informed and realistic financial decision making. Coral Springs found that its strategic diagnosis helped officials and management accept that a return to the halcyon conditions of the early 2000s was unlikely and that the city should begin positioning itself early to operate effectively under new fiscal realities – this included opening union contracts, revising personnel schedules and deployment, and automating work processes.

Successful long-term financial planning builds interest in better long-term planning in other areas.

Other departments outside of finance often put a great deal of effort into their own long-term plans. These plans can be a source of foresight into financial condition. Resilient governments connect their long-term financial planning process to these other plans to increase the quality of their forecasting and strategic diagnosis. For example, a comprehensive land use plan might suggest long-range facility requirements.

Resilient governments have also found that successful long-term financial planning builds interest in better long-term planning in other areas. Mentor Public Schools, for instance, has seen improvement in its long-term plans and studies for capital, maintenance, technology, instruction, equipment replacement, and enrollment trending as a result of the interest in the long term generated by financial planning. These plans improve the quality of the forecast and help identify possible points of future fiscal failure.

Conclusion

Financial resiliency is essential to continuing a consistent program of public services despite the current volatile economic environment. A number of local governments from across the country have achieved financial resiliency and realized benefits such as AAA bond ratings and a soft landing in the current recession. Most importantly, though, these governments have been able to maintain the trust and confidence of their constituents and continue to create value for the public through government action.

Notes

[1] Jamais Cascio, "The Next Big Thing: Resilience," *Foreign Policy*, May/June 2009.
[2] "Net contributor" means that a constituent contributes more in tax revenues that are used in services.
[3] All GFOA best practices are available at www.gfoa.org.
[4] Jon Johnson and Chris Fabian, "Leading the Way to Fiscal Health," *Government Finance Review*, December 2008, pp. 16-26.
[5] Description of VIX taken from Wikipedia.
[6] Graph from Yahoo.com.

Shayne Kavanagh is the senior manager of research for GFOA. He has written GFOA publications including *Financing the Future: Long-Term Financial Planning for Local Government* and *Financial Policies: Design and Implementation*. Mr. Kavanagh has worked directly on a number of long-term financial planning projects and served as the project manager for projects at the City of Montclair, California; the City of Gresham, Oregon; the City of San Juan Capistrano, California; and Wayne County, Michigan. He has spoken on the topic of financial planning and policies at the California Society of Municipal Finance Officers, the New England States GFOA, the Michigan GFOA, the International City/County Management Association, National League of Cities, and the GFOA annual conference. Mr. Kavanagh has written articles on financial planning that have appeared in journals such as *Government Finance Review*, *Public Management*, and *School Business Affairs*. Prior to joining the GFOA, he was the assistant village manager for the Village of Palos Park, Illinois. Mr. Kavanagh has an MPA degree from Northern Illinois University.

For more information about the GFOA Research and Consulting Center, e-mail consulting@gfoa.org.

Acknowledgements

The author would like to thank the following people for their generous assistance:

Mary Bradley, Finance Director, City of Sunnyvale, California
Joe Casey, Deputy County Administrator, County of Hanover, Virginia
Robert Goehrig, Budget and Strategic Planning Manager, City of Coral Springs, Florida
Pall Gudgeirsson, Assistant City Manager/Treasurer, City of San Clemente, California
Anne Kinney, Director of Research and Consulting, GFOA
Vivian McGettigan, Director of Finance, County of Hanover, Virginia
Daniel Wilson, Chief Financial Officer, Mentor Public Schools, Ohio

City of Wauwatosa
Financial Resiliency Policy

Policy Objective

The City of Wauwatosa has a long history of strong financial practices reflected in its AAA bond rating. Despite a multiyear recession 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 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. Collective bargaining for the Fire and Police Departments also limits flexibility to control expenditure growth. 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 system[1].

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.
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.

---

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

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 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 and decisions
    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.
            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.
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)
        4. Ensure sewer rates are sufficient to fund the state of good repair level of spending while maintaining a 1.1 coverage ratio
    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
            b. 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 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 possible.

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
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 Encourage citizen involvement as this creates more grassroots support in the community
5. Pursue multiple strategies 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. Conduct annual third party departmental reviews to identify efficiencies
   e. Maintain the LEAN program and initiatives
   f. Continue to aggressively 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.

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

1. Insist on Directors 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% of the City's General Fund budget.
    b. Break-out costs that departments can control. 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. $250,000 is set-aside annually for 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.
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.
    a. Hold annual employee meetings to present financial health and forecast
2. Use full-cost (direct and indirect) accounting for programs.
3. Ensure departments have access to up-to-date financial information
    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. Make sure everyone knows what the goals are and how they will be achieved.
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.

Collaboration: Work together to become stronger.

1. Build elected officials' service priorities into the plan.
    a. Continue engagement of elected officials in strategic plan and budget
    b. Involve elected officials in evaluation criteria for budget prioritization
    c. Ensure that elected officials are in agreement with five-year forecast assumptions
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
    b. Assist staff in pro-actively identifying critical issues
    c. Provide feedback to staff recommendations and solutions
3. Orient elected officials to the planning process.
    a. Create a financial policy compliance update
        i. Fund balance
        ii. Debt Policy
    b. Review planning calendar (five-year forecast, budget, strategic plan) annually
4. Establish and communicate key indicators to help elected officials stay abreast of financial condition.
    a. Annually present financial indicators review
    b. Quarterly General Fund Projection
    c. Annual TIF cash flow projections

Fail Gracefully: Be 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.
    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.
2. Promote credibility and open dialogue to learn from and correct failure
    a. Always assume 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 solutions
    c. Use long range planning to enhance the credibility of the financial management system and to promote dialogue.

   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. Constantly 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. 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?
   d. Maintain an awareness of financial best practices.
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.

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

1. Develop effective forecasting techniques.
   a. Remember that forecasting is different than predicting.
   b. Involve others in forecasting
   c. 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. Capital budget
   b. State of Good repair
   c. Comprehensive Plan
   d. Neighborhood/Business District Plans (i.e. Mayfair Corridor, North Ave. Village)
   e. Departmental Strategic and Operating Plans

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 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 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 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, fire and police collective bargaining 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 system[1].

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.
6. **Fail Gracefully**: Be patient when honest efforts fail and strive to build in safeguards to limit the impact of those failures.

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

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 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.
    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. 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.
            5. Evaluate, consider and propose alternate funding sources, such as a City Transportation Utility
        ii. Other Post-Employment Benefits
            1. Develop a strategy to mitigate the future impact of the City's retiree health care and sick leave pay-out obligations.
    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 when possible.

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
   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 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. Actively identify and achieve process and organizational efficiencies with an emphasis on leveraging the Tyler MUNIS Enterprise Resource Planning system and other technology.
   d. Continue to effectively manage health insurance

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

1. Provide Directors the tools and support to manage 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 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$ 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. 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: 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 financial management and decision-making.
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
3. Use full-cost (direct and indirect) accounting for programs.
4. Ensure departments have access to up-to-date financial information by leveraging the Tyler MUNIS financial system and other technology.
5. Make sure everyone understands the strategic plan goals and what achievement looks like via a defined communications plan.
6. Reserve amounts and why they are needed should be explained.
7. Conduct a financial policy audit to determine policies that need to be updated or created.

Collaboration: Work together to become stronger.

1. Elected officials set priorities and high-level policy collaboratively with staff

a. Elected officials participate in development and monitoring of the strategic plan which is used to guide budgetary decisions.
b. 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 assist staff in pro-actively identifying critical issues provide feedback to staff recommendations and solutions
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
   b. Create a financial policy compliance update
   c. Review planning calendar (five-year forecast, budget, strategic plan) annually
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
6. City management and elected officials promote a culture of collaboration among City departments

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

1. Recognize changing conditions 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.
   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. 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 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. Have mechanisms in place to monitor the environment and financial condition to see if financial strategies are working or whether changes are needed.

2. Use financial forecasting to prepare for different financial scenarios

3. Keep up-to-date of financial best practices and technology changes.

4. 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.

5. Leave space in the budget for good things to happen.

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 such as the Congressional Budget Office
        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
        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

2. Involve employees from throughout the organization in forecasting
3. Complement financial planning with other long-term plans.
    a. Strategic Plan
    b. Capital Improvement Plan
    c. State of Good Repair
    d. Comprehensive Plan
    e. Neighborhood/Business District Plans
    f. Departmental strategic and operating plans
    g. Housing Study
    h. Community survey
4. Identify and fully fund operational impacts of capital assets
5. Begin communicating and planning for the eventual exhaustion of the City's excess levy limit capacity in approximately 2028-2030.

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, ~~. C~~fire 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 system[1].

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[2] 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.~~

Formatted: Font: (Default) Garamond, 12 pt

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.~~

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
  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~~

Commented [JR1]: Still important. Deleted because covered below

Formatted: Font: (Default) Garamond, 12 pt

Formatted

~~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

Formatted: Not Highlight

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.

~~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 ~~e~~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.~~

Commented [JR2]: Duplicative from above

Formatted: Numbered + Level: 2 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 0.75" + Indent at: 1"

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

1. ~~Insist~~ Provide~~on~~ Directors the tools and support to manag~~eing~~ 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.~~

6. Reserve amounts and why they are needed should be explained.
7. Conduct a financial policy audit to determine policies that need to be updated or created.

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~~

   ~~c.~~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~~

Formatted

Formatted: Font: (Default) Garamond, 12 pt

Formatted: Font: (Default) Garamond, 12 pt

Formatted

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted

Formatted

Formatted: Font: (Default) Garamond, 12 pt

Formatted: Normal, No bullets or numbering

~~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

~~c.~~6. City management and elected officials promote a culture of collaboration among City departments

Formatted

Formatted

Fail Gracefully: Strive to build in safeguards to limit the impact of failures and ~~B~~be 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~~?

~~d.~~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.

Formatted

Formatted

Formatted: Indent: Left: 0.5", No bullets or numbering

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

Formatted

Formatted

Formatted

Formatted

Formatted

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

~~1. Develop effective forecasting techniques.~~
~~a. Remember that forecasting is different than predicting.~~

~~b.~~2. Involve ~~others~~ employees from throughout the organization in forecasting
~~c. 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 ~~budget~~Improvement Plan
~~b.~~c. State of Good ~~r~~Repair
~~c.~~d. Comprehensive Plan
~~d.~~e. Neighborhood/Business District Plans ~~(i.e. Mayfair Corridor, North Ave. Village)~~
f. Departmental ~~s~~Strategic and ~~O~~operating ~~p~~Plans
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.

Formatted

Formatted

Commented [JR3]: Still important. Deleted because covered below

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted

Formatted