



# Wauwatosa, WI

## Financial Affairs Committee

### Meeting Agenda - Final

7725 W. North Avenue  
Wauwatosa, WI 53213

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Tuesday, May 9, 2023

7:30 PM

Committee Room #1 and Zoom:  
<https://servetosa.zoom.us/j/81144274572>,  
Meeting ID: 811 4427 4572

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#### 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

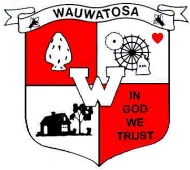
1. Recommendation for an amendment to the consolidated fee schedule for a reduced weekday morning locker room rental rate at Hart Park [23-1031](#)
2. Recommendation for approval of the 2022 capital project carryovers [23-1034](#)
3. Review of Financial Resiliency Policy [23-1013](#)

#### 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](mailto:tclerk@wauwatosa.net), with as much advance notice as possible.

CITY OF WAUWATOSA  
MEMO



To: **Financial Affairs Committee**

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

Date: **May 2, 2023**

Subject: **Memo from the Parks and Forestry Superintendent requesting an amendment to the consolidated fee schedule for a reduced weekday morning locker room rental rate**

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**A. Issue**

Creating a reduced rental rate for the locker rooms at the Stadium at Hart Park on weekday mornings will coincide with the discounted track and field rate that was created during the 2023 budget process. Parks management believes aligning rates for the track, field, and locker rooms will make the facility more attractive to potential users.

**B. Background/Options**

As part of the 2023 budget process a new weekday morning rental rate for use of the track and field at Hart Park Stadium was created. The new rate for weekday mornings was set at \$50/hour; a 50% reduction from the standard rate of \$100/hour. The purpose of the new rental rate was to encourage rental of the field during an underutilized time period, with the hope of relieving demand that exceeds capacity for evening and weekend hours at the field.

So far in 2023, DPW office staff have taken a number of reservations during the weekday morning timeslot. We have also received feedback that user groups would like to utilize the locker rooms if a similar discount could be applied. Parks management believes this to be good policy as it would create a better user experience for renters while allowing the park to capitalize on revenue that would otherwise go unrealized.

Cost recovery at Hart Park, particularly the stadium, is an important aspect of the park system. It allows the Parks to provide quality facilities to our user groups while relieving the Wauwatosa taxpayers of some of the expense. A portion of stadium revenue is kept in a park reserve fund and utilized to replace the track and field surfaces at the end of their useful life.

**C. Strategic Plan (Area of Focus)**

Priority 5: Quality of Life

**D. Fiscal Impact**

Creating a reduced rate for weekday morning rental of the locker rooms will make the locker rooms a more attractive addition to rentals of the track and field during the same time period. Based on current weekday morning rentals of the track and field the reduced locker room rate has the potential to generate an additional \$5,300 in revenue.

**E. Recommendation**

Approval of an amendment to the consolidated fee schedule creating a Hart Park locker room rental rate of \$50/hour for rentals occurring Monday through Friday between the hours of 7:00am and 12:00pm.



Staff Report

File #: 23-1034

Agenda Date: 5/9/2023

Agenda #: 2.

Recommendation for approval of the 2022 capital project carryovers

**A. Issue**

Earlier this year, the 2022 Operating Carryovers were approved. Presented here for approval are the capital project carryovers.

**B. Background/Options**

A carryover is a budgetary mechanism by which spending authority is transferred from one fiscal year to the next. This is most often necessary where a project budgeted for in one fiscal year (2022) is not completed so that remaining committed but unspent funds associated with the project are transferred to the following fiscal year (2023). While the City adopts a five-year capital plan, only the first year of the plan is actually authorized. In this case, the 2022-2026 plan was adopted in November 2021 and the 2023-2027 plan was adopted in February 2023. We are now requesting the 2023 fiscal year of the 2023-2027 plan be amended for the unspent 2022 funds (and prior as the 2022 fiscal year had been already amended for prior year carryovers).

Capital projects are typically complex infrastructure projects (such as street and utility construction) or large equipment purchases (such as a Fire engine) that often span multiple fiscal years so carryover funds are not uncommon. The Capital Budget is adopted separate from the Operating budget but once approved, they are combined in the City’s financial system so spending can be tracked. Capital projects have multiple funding sources including property taxes, special assessments, grants, surplus funds (cash) and bonds (borrowed money). The majority of capital carryovers typically represent bond funds that have been borrowed but not yet spent. Of the \$12.1 million requested for carryover, 76% are bond funds. These borrowed funds legally must be spent on capital projects within two years of having been borrowed. Staff actively monitor these timeliness requirements.

I am requesting that \$12,216,435 be carried over as compared to the \$8,773,175 in the prior year for previously approved capital projects. There is no funding included for new projects. The table below organizes the carryovers by justification:

Row Labels	Sum of Amount Recomme
Project in progress	5,775.73
Project surplus - will be transferred	128.74
Punch list items	938.17
Work in 2023	397.43
Future year construction	1,879.49
Project delayed	2,047.73
Annual budget rolled over	1,049.11
<b>Grand Total</b>	<b>12,216.4</b>

From the perspective of an Alder, it is important to monitor delayed projects and understand the reasons for delays and any impacts on future capital budgets. For example, often future projects are contingent on the completion of a current

project. From a staff perspective, we are often juggling limited staffing resources, changes to contingent projects that we don't control (such as the Department of Transportation), scope changes, pricing changes or delays in land acquisition to name a few. The table below shows which projects have been delayed. At the meeting, staff can speak to the reasons for the delays and any potential impacts.

Project	Project #	Sum of Amount Recommended for Carryover
STREET LIGHT CONVERSION	2403	186,601
MAYFAIR RD & BURLEIGH ST BIKE PATH	2115	813,321
GLENVIEW & HARWOOD INTERSECTION	2116	56,881
TENNIS COURT BATHROOM REMODEL	2137	397,930
EAST TOSA IMPROVEMENTS-NORTH SIDE	2101	590,000
HIGHLANDS DECORATIVE STREET LIGHTING	2111	3,000
<b>Grand Total</b>		<b>2,047,733</b>

A full listing of all the carryovers is included as an attachment. The majority of the projects are funded with bond proceeds which cannot be used for purposes other than capital projects and are often restricted to specific types of projects. The Capital Budgets can be found at the web page below if you'd like more detail on a particular project.

<https://www.wauwatosa.net/government/departments/finance/budget>

**C. Strategic Plan (Area of Focus)**

This carryover supports the strategic goal of maintaining city infrastructure.

**D. Fiscal Impact**

As all of these projects were previously budgeted, there is no fiscal impact on the 2023 Budget.

**E. Recommendation**

I recommend amending the 2023 Budget by increasing capital project expenditure authority up to \$12,216,435 for prior year unspent funds

Project	Project #	Sum of Amount Recommended Carryover
2020 PAVING PROGRAM	1020	183,866
BIKE/PEDESTRIAN PLAN IMPLEMENTATION	1104	154,180
BUILDING CONTROLS UPDATES	6801	25,842
BUS STOP IMPROVEMENTS	9008	133,391
2021 PAVING PROGRAM	1021	498,216
STREET LIGHT CONVERSION	2403	186,601
POLICE DEPT ACCESS CONTROL UPGRADE	6410	45,000
2022 PAVING PROGRAM	1022	1,746,883
STATE ST. RECONSTRUCTION	1106	82,587
NORTH AVENUE PAVING-MENOMONEE	1107	11,351
MAYFAIR RD & BURLEIGH ST BIKE PED	1115	813,321
GLENVIEW & HARWOOD INTERSECTION	1116	56,881
STH 181 WISCONSIN AVE TO CENTER ST	1121	90,163
2022 PAVEMENT REPAIRS AND SPOT IMPR	1622	482,172
2022 BRIDGE SPOT REPAIRS	2222	214,917
WISCONSIN AVE BRIDGE OVER HONEY CRE	2303	455,413
CONSTRUCT FIBER OPTIC CONNECTIONS	2402	1,073,842
SIGNALIZED INTERSECTION IMPROVEMENT	2621	5,504
TOSA EAST UTIL IMPROVE & FLOOD REL	3005	74,815
UNDERWOOD CREEK SOUTH SANITARY IMPR	3008	461,685
2021 SAN SEWER IMPROVEMENTS	3021	62,285
FIRE STATION 52 ROOF REPLACEMENT	6610	6,544
2021 REPLACEMENT OF FIRE ENGINE/LAD	6671	51,484
ALL FACILITIES HVAC UPGRADE	6800	125,011
PUBLIC RESTROOM UPGRADES HART PARK	8025	30,266
TENNIS COURT BATHROOM REMODEL	8037	397,930
EAST TOSA IMPROVEMENTS-NORTH AVE	9001	590,000
IMPROVEMENTS AT HART PARK EAST 68TH	8019	0
2023 PAVING PROGRAM	1023	205,738
NORTH AVENUE PAVING - MAYFAIR RD T	1112	255,226
2022 SIDEWALK IMPROVEMENTS	2022	173,500
TOSA TRAILS-112TH ST CONNECTOR	2305	33,020
HIGHLANDS DECORATIVE STREET LIGHTIN	2405	3,000
ALICE STREET STAIR REPLACEMENT	2500	7,021
103RD STREET STORM SEWER RELAY	4102	1,756,076
SECURITY CAMERA INSTALL - CITY HALL	6027	30,517
PUBLIC WORKS BUILDING FLOOR SYSTEM	6203	57,001
MINI EXCAVATOR & TRAILER	6227	5,379
POLICE DEPARTMENT SECURITY CAMERAS	6414	16,837
POLICE LOBBY REFRESH	6441	60,000
RADIO MICROPHONES (REPURPOSED)	6629	11,873
2022 AMBULANCE REPLACEMENT	6652	23,199
HART PARK PLAYGROUND SURFACE REPLAC	8023	361,932
BOSTON STORE AQUISITION AND PROPERT	9978	818,020
WA3009 SAN SEWER LINING & LATERAL G	3010	86,697
KNOLL BLVD STORM SEWER IMPROVEMENTS	4100	80,000
HONEY CREEK STORM SEWER OUTFALL IMP	4103	53,868
DEMOLITION AT 62ND AND MARTIN DRIVE	6802	35,900
BIKE SHARE III 2021	9961	81,479
<b>Grand Total</b>		<b>12,216,435</b>



## Staff Report

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**File #:** 23-1013

**Agenda Date:** 5/9/2023

**Agenda #:** 3.

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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



# 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:<sup>1</sup>

- **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.

**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.

### 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



**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.<sup>2</sup> 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 indispensable 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.<sup>3</sup>

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 draw-downs 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.<sup>4</sup>



**Collaboration.** Working together to become stronger.

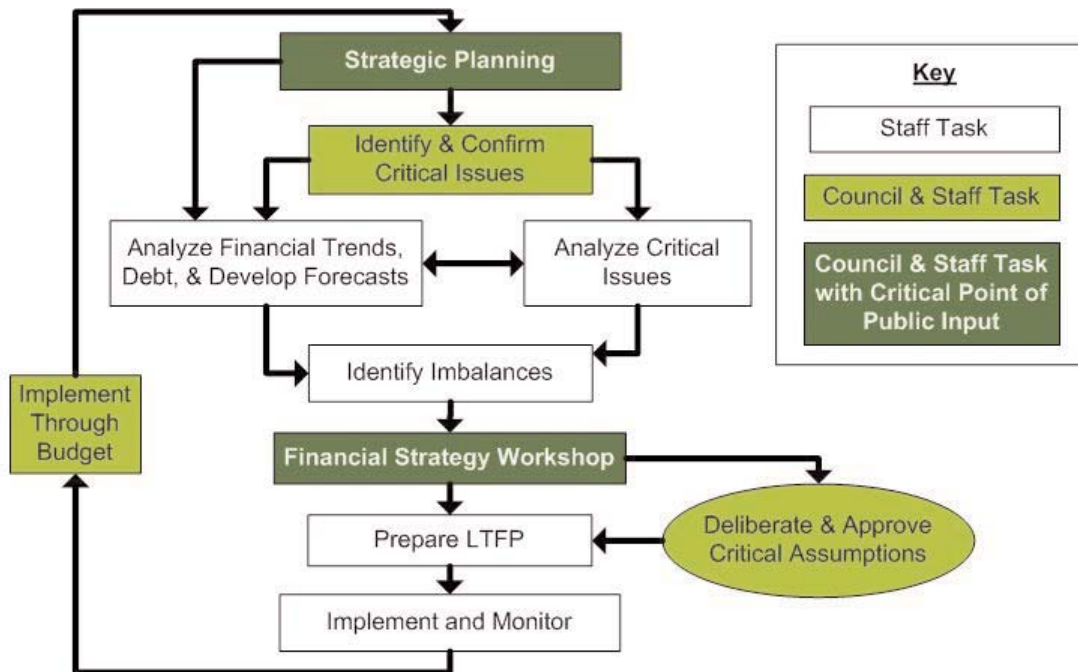
- ❖ Build elected officials’ service priorities into the plan.
- ❖ Provide elected officials a role in that planning process – a role they can thrive in.
- ❖ Orient elected officials to the planning process.
- ❖ Use key indicators to help elected officials stay abreast of financial condition.

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 poli-



cy 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.

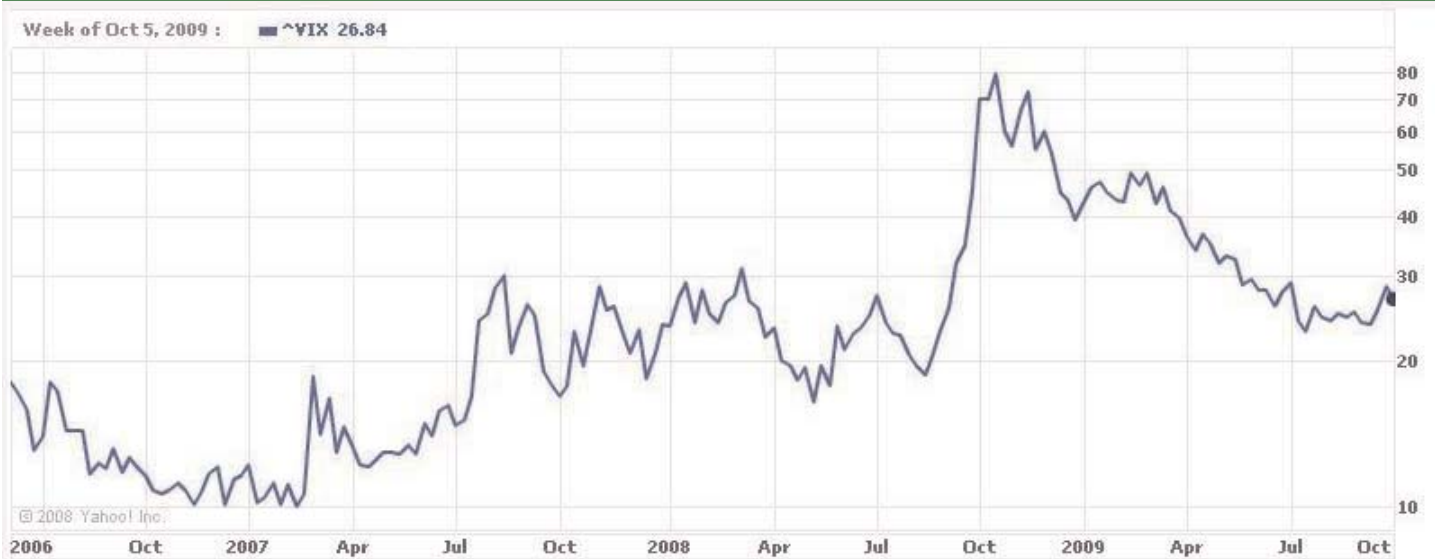
Resilient governments also have financial modeling and scenario analysis capabilities to determine the impact of changes in assumptions and financial strategies. For example, Hanover County used its models to show how

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.<sup>5</sup> Unsurprisingly the VIX reached all-time highs in the fall of 2008 and has been well above historical levels over the past 12 months.<sup>6</sup>



## **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

<sup>1</sup> Jamais Cascio, “The Next Big Thing: Resilience,” *Foreign Policy*, May/June 2009.

<sup>2</sup> “Net contributor” means that a constituent contributes more in tax revenues that are used in services.

<sup>3</sup> All GFOA best practices are available at [www.gfoa.org](http://www.gfoa.org).

<sup>4</sup> Jon Johnson and Chris Fabian, “Leading the Way to Fiscal Health,” *Government Finance Review*, December 2008, pp. 16-26.

<sup>5</sup> Description of VIX taken from Wikipedia.

<sup>6</sup> 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.

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**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<sup>1</sup>.

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.

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<sup>1</sup> 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 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<sup>1</sup>.

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.

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<sup>1</sup> 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.](#) ~~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<sup>1</sup>.

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.

<sup>1</sup> Kavanagh, Shayne. [Building a Financially Resilient Government through Long Term Financial Planning](#). The Government Finance Officers Association.

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

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

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

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

1. Keep a multi-faceted perspective on financial health
  - a. Don't focus on just revenues and expenditures
    - i. Remain aware of land use patterns, demographic trends and long term liabilities such as pensions and retiree health insurance.
    - ii. Diversify the funds you maintain.
    - iii. Enhance the City management team's credibility by insisting on transparency in financial ~~philosophies~~ policies and decisions
  - ~~b. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately \$120 million of development in 2023 dollars) through 2028.~~
  - b. Maintain a five-year forecast
    - i. ~~The base forecast must be policy neutral~~
      - ~~1. Base revenues and expenditures forecasts on historical trends or other reliable data~~
      - ~~2. Utilize actuarial recommendations to forecast health insurance claim inflation~~
      - ~~3. Do not assume changes in services, staffing, pay or benefits~~
      - ~~4. Include forecasted debt based on the 5-year capital plan plus an additional five years synchronized with inflation adjusted based on Engineering's "State of Good Repair"~~
      - ~~5. Assume agreed upon sewer and water rate increases based on capital spending~~
      - ~~6. Assume property tax increases equal to anticipated net new construction.~~
      - ~~7. Adjust for any future THF closings.~~
      - ~~8. Produce a forecasted fund balance for every fund and identify where forecasted fund balances deviate from policy~~
    - ii. ~~Include policy options and maintain awareness of the impact of operational changes to balance the 5-year plan.~~
      - ~~1. Continue to aggressively pursue development with an annual goal of 1.5% net new construction (approximately \$75 million of development) through 2020.~~

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

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

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

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

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

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

## Redundancy: Have more than one path of escape.

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



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

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

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

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

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

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

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**Collaboration:** Work together to become stronger.

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

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

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**Fail Gracefully:** Strive to build in safeguards to limit the impact of failures and ~~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. 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. 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?
  - 2. Maintain an awareness Keep up-to-date of financial best practices and technology changes.
- 2. Create financial models to show the impact of changes.
  - a. Be prepared to explain the financial impact for every council recommendation
- 3. Evolve and adapt the financial planning process itself.
- 3. Leverage fund balances to support flexibility in responding to changing conditions. For example, using the Fleet reserve fund balance to weather periods of high fuel prices.
- 4. Leave space in the budget for good things to happen.

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

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

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- ii. As needed, increase the property tax levy an additional 1.5% for operating cost increases. This increase is necessary to maintain quality city services.
  - 1. In years where net new construction is less than 1.5%, utilize excess debt capacity to make up the difference.
  - 2. In years where net new construction is greater than 1.5% carryover the difference for use in the subsequent year.
- iii. The employee cost of living adjustment (COLA) will be influenced by the Consumer Price Index (CPI) and the City's five-year forecast.
- iv. Evaluate strategies to reduce the forecasted increase in health insurance
- 1. Develop effective forecasting techniques.
  - a. Remember that forecasting is different than predicting.
- 2. Involve others employees from throughout the organization in forecasting
  - e. Develop the capacity for flexible scenario modeling to show the impact of possible different futures.
- 2. Build capacity among staff and elected officials for strategic diagnosis.
- 3. Complement financial planning with other long-term plans.
  - a. Strategic Plan
  - a.b. Capital budgetImprovement Plan
  - b.c. State of Good +Repair
  - e.d. Comprehensive Plan
  - d.e. Neighborhood/Business District Plans (i.e. Mayfair Corridor, North Ave. Village)
  - f. Departmental sStrategic and Ooperating pPlans
  - g. Housing Study
  - h. Community survey
- 4. Identify and fully fund operational impacts of capital assets
- e.5. Begin communicating and planning for the eventual exhaustion of the City's excess levy limit capacity in approximately 2028-2030.

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