



**NEWBERG CITY COUNCIL
WORK SESSION
AUGUST 1, 2016, 6:00 PM
NEWBERG PUBLIC SAFETY BUILDING (401 EAST THIRD STREET)**

WORK SESSIONS ARE INTENDED FOR DISCUSSION. NO ACTION WILL BE TAKEN ON THE AGENDA ITEMS AND NO DECISIONS WILL BE MADE. NO ORAL OR WRITTEN TESTIMONY WILL BE HEARD OR RECEIVED FROM THE PUBLIC.

I. CALL MEETING TO ORDER

II. ROLL CALL

III. REVIEW OF THE COUNCIL AGENDA AND MEETING

IV. PRESENTATION OF 5-YEAR FINANCIAL PLAN

Pages 1-22

V. ADJOURNMENT

ACCOMMODATION OF PHYSICAL IMPAIRMENTS:

In order to accommodate persons with physical impairments, please notify the City Recorder's Office of any special physical accommodations you may need as far in advance of the meeting as possible and no later than two business days prior to the meeting. To request these arrangements, please contact the city recorder at (503) 537-1283. For TTY service please dial 711.

City of Newberg

Long-Range Financial Plan Process Overview

August 1, 2016

Purpose

The purpose of this report is to provide an overview of the long-range financial plan (LRFP) process from beginning to end. The development of a 5-year financial plan is one of the six strategic priorities adopted by Council on January 4, 2016, specifically stated as follows:

Within 18-24 months, develop a 5-year financial plan to guide long term fiscal health for the City. Within one year, create a fiscal policy that addresses use of debt, preservation of contingencies and reserves, and insures that fee structures are consistent with service levels. These policies will be used to help develop the financial plan.

The overview provides the details of the process and timeline. This is a unique and dynamic process that the City has not done before, so this is a living document, not a cookbook off a shelf. However, the process is modeled on best practices as promulgated by the Government Finance Officers Association (GFOA). The process can take between six to ten months, with February 2017 being the target date for this initial process.

The LRFP will benefit the City's decision-making process by providing a larger framework than any one fiscal year or any specific individual. It provides guidance and efficiency for the annual budgeting process. It also benefits Council and management in evaluating the myriad of planned and unplanned opportunities and challenges that arise more frequently throughout the year by providing a model to assess the impact of various options.

Step 1 - Long Range Financial Planning Committee

The purpose of the committee is as advisory to the Finance Director. It will meet twice a month in public meetings between September and November 2016 to provide advisory input from the perspective of private industry and standard best practices. It will also help shape the financial policies proposed by staff. The committee would be comprised of management, elected officials, and members of the community with experience in banking/financial sector, business ownership, and general financial expertise. The following members would include as follows:

- Finance Director (Lead) – Matt Zook
- Mayor Andrews
- City Manager – Joe Hannan
- City Councilor – TBD
- Banking/financial community member – TBD
- Business owner – TBD
- General community member – TBD

Project Time – The commitment to this process will take time on the part of each person involved, above and beyond the existing status quo. The initial path through the planning process makes rough

assumptions regarding the amount of time required. A clear commitment is required to stay on task within a reasonable timeframe. The emphasis on this initial planning cycle will be to keep the process moving forward through each of the steps, recognizing that successive cycles will improve upon the process and the product.

Preliminary Financial Analysis

Environmental Issue Scan – A collaborative brainstorm and SWOT analysis involving the LRFP Committee to identify the key issues facing the City with a financial impact. The list of issues helps define the scope of the plan to specific deliverables. Specific issues identified may include any number of the following issues and should be agreed upon early in the process:

- Rising personnel costs, including retirement and health benefits
- Transportation infrastructure funding
- Dispatch operating and capital funding requirements
- Potential TVF&R consolidation and effect on property tax levy
- Others?

Interface with other planning processes – Examples of related planning processes that will feed information into the LRFP planning as well as be fed by the LRFP include:

- Pavement Maintenance Committee
- Capital Improvement Plans
- Facilities Master Plans
- Equipment Replacement Plans
- Citizens' Rate Review Process
- Economic Development Plan
- Tourism Plan
- Annual budget process – Financial plan feeds annual budget process

Financial Policies

Financial policies define minimum standards and best practices specifically for the City of Newberg. They serve as additional key indicators that monitor fiscal health and long-term sustainability, much like the lights on a dashboard inform the driver aiming for a specific destination that factors such as fuel, oil, temperature, and speed dictate the condition of the vehicle upon arrival. It has been some time since the certain policies have been address at the City, so staff will be creating draft policies for the Ad Hoc committee to review. This will begin early in the LRFP process and run concurrently with the entire process and be presented to Council for review and approval with the final LRFP. In the analysis phase, staff will measure the City's compliance against these policies and report this compliance with the LRFP. Polices that will be reviewed include:

- Fund Balance, Contingency, and Reserve Policy
- Revenue Policy
- Debt Policy
- Operating Budget Policy
- Capital Improvement Policy
- Purchasing Policy

Plan Scope

The scope of the plan should ensure that the specific issues identified in the Environmental Issues Scan are addressed.

- Specific Funds included within the plan analysis – While the City has roughly 30 separate funds in various stages of usage, only the key operational funds will be considered in the scope of the LRFP. Traditional programs associated with City services, such as Public Safety, Community Development, and Administration, often involve multiple funds. The list of funds proposed includes the following :
 - General Fund
 - Administrative Support Services Fund
 - 911 Emergency Fund
 - Public Safety Fund
 - Street Fund
 - Wastewater Funds (Rates and SDCs)
 - Water Funds (Rates and SDCs)
 - Stormwater Funds (Rates and SDCs)
 - Transient Lodging Tax Fund
 - Building Fund
- Time Horizon – The plan will address a rolling, five-year horizon and updated annually.
- Integration with the Annual Budget Process – The conclusion of the LRFP annual update will inform the annual budget process.

Step 2 - Analysis Phase – Turning information into measureable and meaningful trends, projections, and analysis for making strategic decisions.

Information Gathering

Sources for data come from within the City, such as historical revenue and expenditure numbers, as well as from outside the City, such as financial, economic, population factors. Staff performs this task with input from the Committee

Trend Projections

Three types of trend analyses occur at this stage – revenue projections, expenditure projections, and long-term debt analysis. A critical task is the development of the financial model. The financial model has not yet been developed. Staff will consider options of using existing software tools in the industry versus developing a custom program using Microsoft Excel. Building the model in Microsoft Excel allows staff to using pre-existing data, such as the City’s budget model, as a basis for long-range projections. It also allows for complete customization. On the flip side, building this model takes time. At present, the Microsoft Excel model has more advantages.

Financial balance analysis

This stage identifies potential deficiencies between projections and targets, such as differences between revenues and expenditures, differences between projections and financial policies, and any other unfavorable trends. Staff performs this stage.

Step 3 – Approval Phase

- A set of financial strategies are developed to address and improve the financial position of the organization. Often, it is advisable to include other stakeholders in the financial strategy development process. Council may consider forming a standing Finance Committee. This topic may be revisited in the future.
- Recognition of the completion of the planning process. This involves a final review of the plan to measure whether the original goals of the plan were met and the formal adoption of the plan and financial strategies by Council.

Step 4 – Execution Phase

This phase puts the LRFP into action. The annual budget process will be the first opportunity to execute the plan, as this is where the Budget Officer will allocate resources to the top priorities of the LRFP. This is where the plan becomes tried and tested, resulting in real change and direction. In addition, progress is monitored throughout the year, allowing early detection of deviations from the plan and capturing improvements to the future planning process. The financial model becomes a tool for evaluating mid-year opportunities and changes.

Schedule

August

- Finance drafts financial policies & begins building financial model
- Ad Hoc committee members appointed

September

- First Ad Hoc committee meeting : review draft financial policies, review of key issues to be addressed in LRFP
- Second Ad Hoc committee meeting : Finalization of the key issues, ongoing policy review and development

October

- 1st Council Work Session : Progress report to Council
- Third Ad Hoc committee meeting : Ongoing review of financial model
- Fourth Ad Hoc committee meeting : Ongoing review of financial model

November

- Fifth Ad Hoc committee meeting : Presentation of draft LRFP, review of key results, development of draft financial strategies to address the key issues
- 2nd Council Work Session : Progress report to Council

December

- Sixth Ad Hoc committee meeting : Finalization of LRFP to be recommended to Council
- Finance prepares LRFP, policies, and strategies for presentation to Council in January

January

- 1st Council Work Session : Presentation to Council of LRFP, policies, and strategies.
- 2nd Council Meeting : Adoption of LRFP, policies and strategies
- Staff begins FY 2017-18 annual budget process

Conclusion

This overview is intended to provide all interested parties with a high-level view of the long-range financial planning process, including persons involved, the scope of the process, and the overall timeframe. Changes to this overview will occur as the process happens, considering this is a new process for the City. The aim is to create a process that remains simple enough to sustain yet provide an effective tool to assist in making the critical strategic decisions for the future sustainability of the City.



Long-Range Financial Planning Process – An Overview

Presented to the City of Newberg City Council

August 1, 2017

Introduction

- ▶ Purpose – Accomplish one of the six Strategic Priorities adopted by Council on January 4, 2016
 - Within 18-24 months, develop a 5-year financial plan to guide long-term fiscal health for the City.
 - Within one year, create a fiscal policy that addresses use of debt, preservation of contingencies and reserves, and insures that fee structures are consistent with service levels. These policies will be used to help develop the financial plan.

- ▶ Finance Director has been tasked to lead this process

Step 1 - Long Range Financial Planning Committee

- ▶ Purpose – Working group to Finance Director to assist in the development of the draft financial policies.
- ▶ Membership – 7 members
 - Finance Director (Lead)– Matt Zook
 - Mayor Andrews
 - City Manager - Joe Hannan
 - City Councilor – TBD
 - Banking/financial community member – TBD
 - Business owner – TBD
 - General community member – TBD

Step 1 - Long Range Financial Planning Committee (continued)

- ▶ Meet twice a month between September and November 2016 (final meeting on Dec 1 rather than on Thanksgiving)
- ▶ 2nd and 4th Thursday from 5:30 to 7:00 pm in the City Hall Permit Center Conference Room (1st Floor)
- ▶ All meetings will be open to public
- ▶ Regular updates to Council (every couple months)



Step 1 - Long Range Financial Planning Committee (continued)

- ▶ Financial Policies to be addressed:
 - ▶ Fund Balance, Contingency, and Reserve Policy
 - ▶ Revenue Policy
 - ▶ Debt Policy
 - ▶ Operating Budget Policy
 - ▶ Capital Improvement Policy
 - ▶ Purchasing Policy



Step 2 - Analysis Phase

- Issues to Address through the LRFP (operating and capital)
 - Rising personnel costs, including retirement and health benefits
 - Transportation Infrastructure Funding
 - Dispatch operating and capital funding requirements
 - Potential TVF&R consolidation and effect on property tax levy
 - Others?

Step 2 - Analysis Phase (continued)

- ▶ Interface with other City plans
 - Pavement Maintenance Ad Hoc Committee
 - Capital Improvement Plans
 - Facilities Master Plans
 - Equipment Replacement Plans
 - Citizens' Rate Review Process
 - Economic Development Plan
 - Tourism Plan
 - Others?

Step 2 - Analysis Phase (continued)

► Plan Scope

■ Funds considered:

- ❖ General Fund
- ❖ Admin Support Service Fund
- ❖ 911 Emergency Fund
- ❖ Public Safety Fund
- ❖ Street Fund
- ❖ Transient Lodging Tax Fund
- ❖ Public Works Funds (rates & SDC funds)
 - Wastewater
 - Water
 - Stormwater
- ❖ Building Fund

Step 2 - Analysis Phase (continued)

► Plan Scope

- Time Horizon – Five-year rolling window, updated annually in the latter half of each calendar year in anticipation of the annual budget process

► Financial Model

- Built using Microsoft Excel
- Flexible to address multiple drivers, run “what if” scenarios
- Graphical illustration of key outputs, including revenue vs expenditures in each fund

Step 2 - Analysis Phase (continued)

- ▶ Financial Model (continued)
 - Focus of revenue projections:
 - ❖ Property taxes
 - ❖ Franchise revenue
 - ❖ State shared revenues
 - ❖ Transient lodging taxes
 - ❖ Marijuana taxes
 - ❖ Gasoline tax and/or transportation fees
 - ❖ New revenue streams

Step 2 - Analysis Phase (continued)

- ▶ Financial Model (continued)
 - Focus of expenditure projections:
 - ❖ Personnel
 - ❖ Retirement & health benefits
 - ❖ Streets
 - ❖ Facilities
 - ❖ Equipment replacement
 - ❖ Streets
 - ❖ TVF&R consolidation

Step 3 – Approval Phase

- Presentation to Council at 1st Council Work Session (Jan 2017)
 - Draft Long Range Financial Plan
 - Draft Financial Policies
 - Recommended Financial Strategies
 - Review of process, recommendations for future cycles
- Adoption by Council at 2nd Council Meeting (January 2017) of LRFP, policies, and strategies!

Step 4 – Execution Phase

- ▶ The LRFP informs the annual budget process
- ▶ The LRFP is monitored throughout the year, allowing for early detection of problems and opportunities
- ▶ The Financial Model is used throughout the year to evaluate priorities and strategic decisions.

Schedule

► August

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- Ad Hoc committee members appointed

► September

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► January

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- 2nd Council Meeting : Adoption of LRFP, policies and strategies
- Staff begins FY 2017-18 annual budget process

Conclusion

- ▶ LRFP is a Strategic Priority adopted by Council
- ▶ Long Range Financial Planning Ad Hoc Committee will assist in the process
- ▶ Financial Policies will be created, vetted, and approved
- ▶ Financial Model will be a flexible tool allowing for multiple inputs and graphical output with the ability to run “what if” scenarios that will be used throughout the year as strategic decisions are made
- ▶ Planning process will run from August 2016 through January 2017 with resulting strategies implemented in the FY 2016-17 budget