

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 and City Council. It will meet twice a month in public meetings between September and November 2016 (specific schedule on page 4) 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

All LRFP Ad Hoc Committee meetings will be from 5:30-7:00 pm in City Hall, 1st Floor Conference Room (subject to change).

- 8th - First Ad Hoc committee meeting : review draft financial policies, review of key issues to be addressed in LRFP
- 22nd - Second Ad Hoc committee meeting : Finalization of the key issues, ongoing policy review and development

October

- 13th - Third Ad Hoc committee meeting : Ongoing review of financial model
- 27th - Fourth Ad Hoc committee meeting : Ongoing review of financial model

November

- 7th - Council Work Session : Progress report to Council
- 10th - Fifth Ad Hoc committee meeting : Presentation of draft LRFP, review of key results, development of draft financial strategies to address the key issues
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December

- 1st - 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

- 3rd - Council Work Session : Presentation to Council of LRFP, policies, and strategies.
- 16th - 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.