



Long Term Financial Management Planning

What Your Council Needs to Know...

Today's Session Will Answer...

What is a Financial Management Plan (FMP)?

How does an FMP fit into the budget process?

What are the steps to create an FMP?

What should you consider while developing an FMP?

How can you use debt as a financial planning tool?

What is a Financial Management Plan?

- A multi-year fiscal plan for all funds by activity or fund
- Integrates & analyzes:
 - ✓ Previous actions of the governing body
 - ✓ Existing & future operating costs
 - ✓ Capital improvement & equipment plans
 - ✓ Existing & future debt
 - ✓ Tax base changes
- Determines if capital & operating costs are sustainable over time under certain assumptions

Financial Planning Benefits

Translates Vision
into Action

Identifies Funding
Sources for Priorities

Manages
Community
Expectations

Identifies Assets &
Appropriate Fund
Balances

Reduces Stress in
the Budgeting
Process

Communicates
Long-Term Plans to
External Parties

Reduce Reactionary
Impulses in
Unanticipated
Situations

What Do You Get From This Effort?

- Integrates budget, tax policy & adopted plans
- City Council can focus on “big picture,” policy issues & long-term financial health
 - ✓ Annual budgetary process dovetails with long-term analysis & goals
 - ✓ Removes focus from single-year tax impacts
- Projects tend to be less controversial
 - ✓ Provides background/perspective on issues for discussion
 - ✓ Provides framework to make informed decisions
- City has vehicle for informing stakeholders

Without Financial Planning...

- Impacts capability to respond to unanticipated events
- Potential interruption or reduction in service levels
- Creates higher costs for delayed or unplanned expenditures
- Reduces transparency & understanding for stakeholders
- Hampers confidence in organizational capabilities & staff



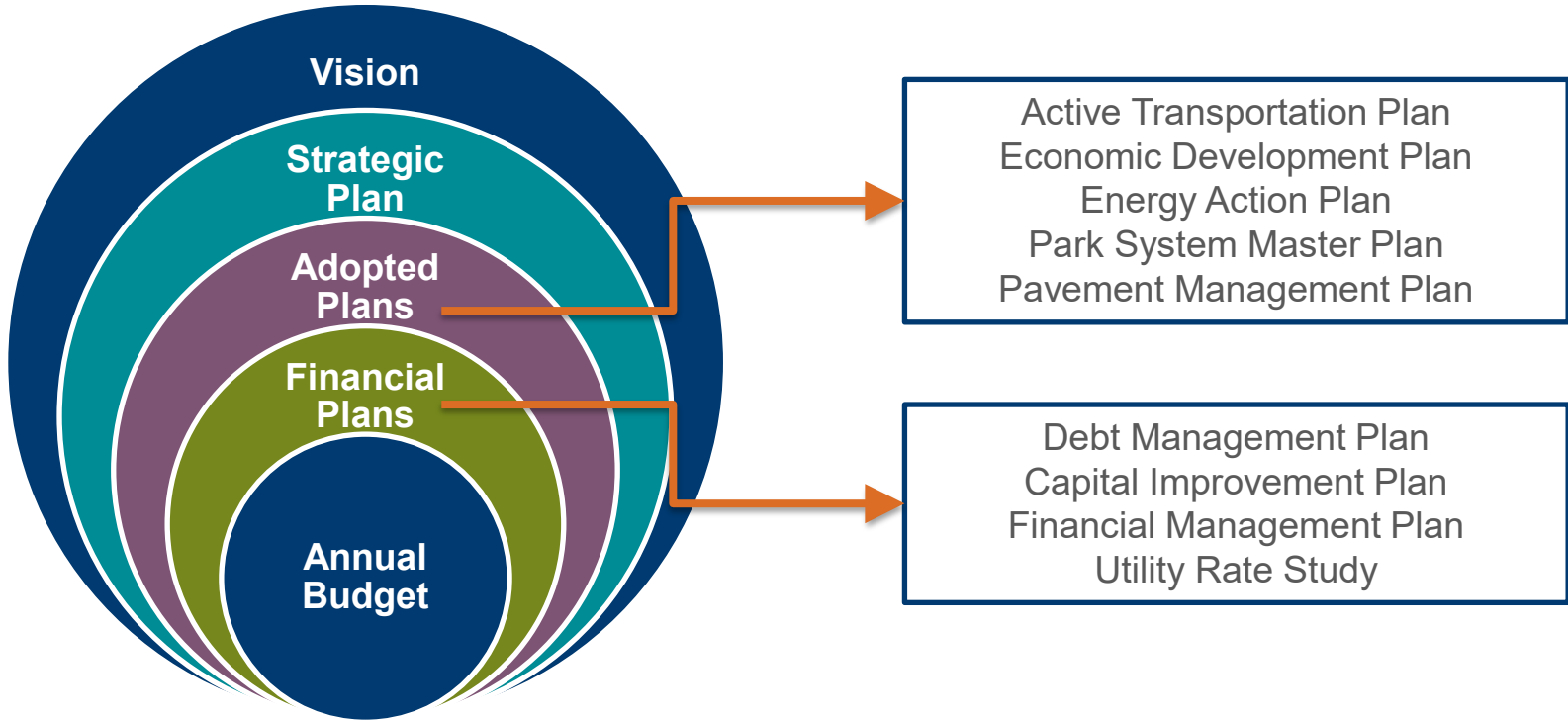
Best Practices: Financial Management Planning

The Government Finance Officers Association states...

GFOA recommends that all governments prepare and maintain a long-term financial plan that projects revenues, expenses, financial position, and external factors for all key funds and government operations at least five years into the future. Governments that utilize debt financing and/or utility rate setting should consider a long-term financial plan greater than five years. The plan should be reviewed on an annual basis and updated as needed or as major assumptions change. Long-term financial planning should be the starting point for capital planning, developing operating budgets, estimating revenue, and other planning processes.

Source: gfoa.org/materials/long-term-financial-planning

Planning & Budget Development: Hierarchy



Budgeting: A Friendly Reminder...

Most important community annual task for councilmembers

- Setting policy on what's important & where to spend

Every organization pays for things differently

- Comparing with neighboring communities not always fair

More services & amenities tend to create greater costs

- Efficiencies alone will not save you

Integrating Planning & Budget Processes

Start with Vision, Strategic Priorities & Adopted Plans

- Provide foundation for decisions
- Changes in programs or service level?
- New or revised capital project?

Identify Costs Needed to Achieve Goals

- Personnel
- Services & programs
- Material & supplies
- Capital outlay & debt
- Equipment

Annual Budget Calendar: General



Step 1: Identify Participants & Stakeholders

- Governing Body
 - ✓ Advisory commissions
- City Administrator
- Finance Director
- Public Works Director
- Other Department Directors

Your FMP requires support from stakeholders to be successful!



What to do here?

- Ensure appropriate staff included in the process
- Establish appropriate timeline to solicit input

Step 2: Identify Anticipated Costs

- Review strategic priorities and plans
- Consult experts & stakeholders
 - ✓ Public works staff
 - ✓ Consulting engineers
 - ✓ Financial consultants
- Include market factors
 - ✓ Inflation
 - ✓ Commodity prices

Your FMP should be updated annually!



What to do here?

- Encourage candid discussions about needs
- Use reasonably conservative estimates

Step 2.1: Decide Which Funds to Include

Governmental Funds

Activities primarily funded by taxes, grants & similar sources

- General
- Special Revenue
 - ✓ Cable television
 - ✓ Grant
 - ✓ EDA
- Debt Service
- Capital Project
 - ✓ Parks
 - ✓ Equipment & vehicles
 - ✓ Facilities

Proprietary Funds

Activities that receive significant support from user fees & charges

- Enterprise
 - ✓ Water utility
 - ✓ Sanitary sewer utility
 - ✓ Storm water utility
 - ✓ Ice center
 - ✓ Street lighting utility
 - ✓ Golf course
 - ✓ Liquor
- Internal Service
 - ✓ Self-insurance

Step 2.2: Consider Assumptions

- The Plan is only as good as its assumptions
- Conservative approach
 - ✓ Expenses increase faster than revenues
 - ✓ Slower growth predictions
 - ✓ Ensures plan remains feasible over the long term
 - ✓ Identifies potential issues in out years
- Better to come back to policy makers with good news instead of bad

Step 3: Prioritize Needs

- Legal requirements
- Public safety concerns
- Asset condition
- Public opinion
- Cost–benefit considerations
- Operating impacts
- Resource availability

New capital projects and programs usually planned in an “out-year” first!



What to do here?

- Ensure compliance with mandated requirements
- Provide anecdotes & data to support requests

Step 4: Analyze Data

- Review financial positions of each fund
 - ✓ Fund balances & trends
 - ✓ Surplus & deficits
 - ✓ Debt service
- Identify other potential budget impacts
 - ✓ Capital costs & related operating costs
- Refine cost estimates



What to do here?

- Critique analysis & provide additional insight
- Be available & prepared to respond to questions

Step 4.1: Establish Fund Balance Requirements

Fund	Description	Requirement	Measurement	Basis
General	Small Local Governments	> \$500,000	Credit Rating Agency	Fund Balance
	All Others	42%–50%	Subsequent Year Expenditures	
Special	Property Tax Supported	25%–50%	Subsequent Year Expenditures	
	Other Revenues	0%–50%		
Capital	Equipment & Improvements	25%–35%	Five-Year Rolling Average	
Enterprise	Public Utility	Varies	Six-Months Operating + Debt Service + Capital Projects	
	Other			

Fund Balances: A Friendly Reminder...

- Support operations between property tax settlements
 - ✓ Operating costs (e.g., wages, supplies)
 - ✓ Of next year's General Fund expenditures
 - GFOA recommends 35%–50%
 - OSA recommends no less than five-months (42%)
- Cover unanticipated costs
 - ✓ Unforeseen circumstances (e.g., policy decisions, emergencies)
- Support long-term financial planning & expenditures

Step 5: Prepare the Model

Cashflow



Capital



		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		
Inflation Assumptions													
1	Revenue (Non-property tax)						3.50%	3.50%	3.50%	3.50%	3.50%		
2	Interest Earnings						1.50%	1.50%	1.50%	1.50%	1.50%		
3	Expenses						4.00%	4.00%	4.00%	4.00%	4.00%		
4	CIP Inflation Factor						2.00%	2.00%	2.00%	2.00%	2.00%		
STREET IMPROVEMENT FUND													
		Actual		Estimated	Budget	Projected							
REVENUE													
5	General Property Tax	3	116	267	20,016	20,000	20,000	20,000	20,000	20,000	20,000		
6	Intergovernmental	200	0	0	0	0	0	0	0	0	0		
7	Interest Earnings	334	337	312	312	1,505	2,147	616	925	683	994		
8	Total Revenue	537	453	579	20,328	21,505	22,147	20,616	20,925	20,683	20,994		
EXPENSES													
9	Total Current	32,083	32,175	0	1,784	0	0	0	0	0	0		
10	Total Capital Projects (Line 24)	0	0	0	41,513	0	1,074,212	0	37,029	0	43,417		
11	Total Expenses	32,083	32,175	0	43,297	0	1,074,212	0	37,029	0	43,417		
12	Revenues Over / (Under) Expenses	(31,546)	(31,722)	579	(22,969)	21,505	(1,052,065)	20,616	(16,104)	20,683	(22,423)		
OTHER FINANCING SOURCES / (USES)													
13	Bond Proceeds (Line 27)					0	950,000	0	0	0	0		
14	Total Other Sources / (Uses)	0	0	0	0	0	950,000	0	0	0	0		
15	Ending Cash Fund Balance	175,717	143,995	144,574	121,605	143,110	41,045	61,661	45,557	66,240	43,817		
CAPITAL PROJECTS & DEBT LEVY													
	Capital Project Name	Project Number	Multiple Year?	Project		2022 Costs	2022 Estimated	2023 Budget	2024	2025	2026	2027	2028
				First Year	Last Year				Projected				
16	Seal Coat/Crack Seal	No	2022			41,513	41,513	-	-	-	-	-	-
17	Seal Coat/Crack Seal	No	2024			36,101	-	-	37,560	-	-	-	-
18	Seal Coat/Crack Seal	No	2026			34,209	-	-	-	-	37,029	-	-
19	Seal Coat/Crack Seal	No	2028			38,553	-	-	-	-	-	-	43,417
20	Seal Coat/Crack Seal	No	2030			35,558	-	-	-	-	-	-	-
21	South St. (from 5th to 6th)	No	2024			84,293	-	-	87,698	-	-	-	-
22	Irvine Street Reconstruct	No	2024			640,063	-	-	665,921	-	-	-	-
23	2nd Street Reconstruct	No	2024			272,043	-	-	283,033	-	-	-	-
24	Total Capital Projects					1,182,332	41,513	-	1,074,212	-	37,029	-	43,417
PROJECTED NEW DEBT TERMS													
25	Interest Rate						3.50%	3.75%	5.45%	4.25%	4.50%	4.50%	4.50%
26	Number of Years						15	15	15	15	15	15	15
27	Debt Amount (Line 13)								650,000				
28	New Debt Levy (See Page 2)						0	0	0	99,047	99,047	99,047	99,047

Step 6: Identify Existing/New Funding Sources

- **Local**

- ✓ Special assessments
- ✓ Franchise fees
- ✓ Fund balances
- ✓ Property taxes
- ✓ Bond proceeds
- ✓ TIF & tax abatement
- ✓ Park dedication fees

- **Non-Local**

- ✓ Grants
- ✓ Federal aid & grants
- ✓ State aid & grants
- ✓ Private partnerships
- ✓ Joint Powers Agreements (JPAs)

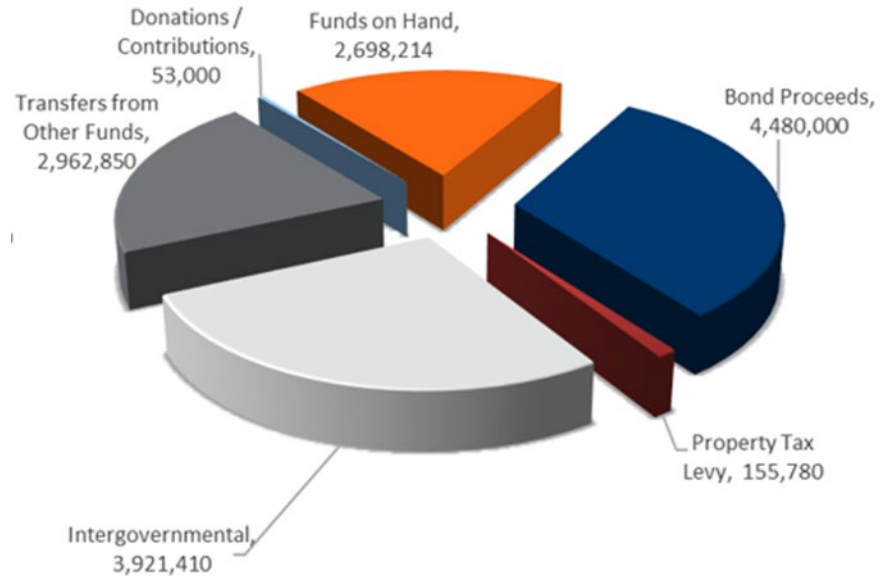
- **Internal Resources**

- ✓ Fund balances

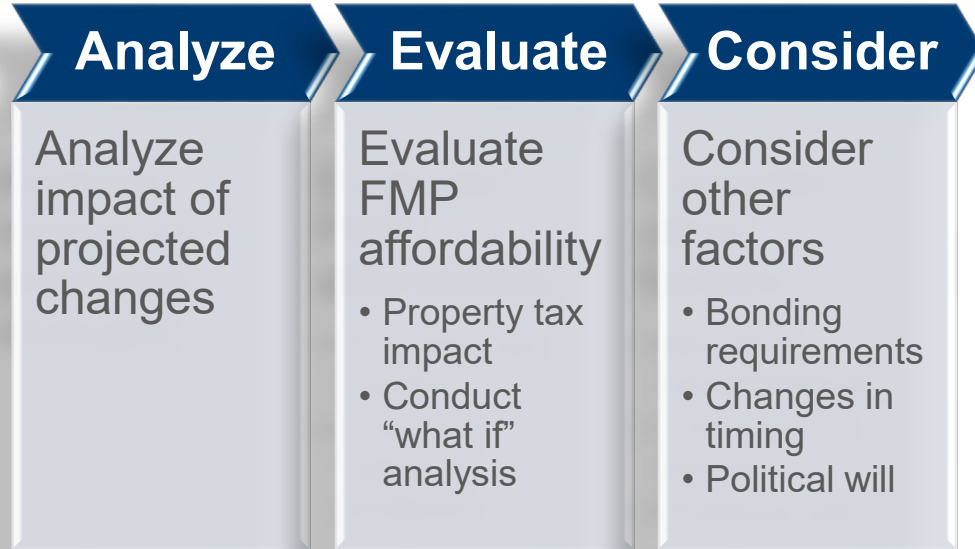
There may be legal restrictions for different funding sources!

Example: Project Funding Sources

- Road Reconstruction
 - ✓ Municipal State Aid (MSA)
 - ✓ Utility contributions
 - ✓ Capital reserves
 - ✓ Current engineering budget
 - ✓ Bond proceeds
 - ✓ Others



Step 7: Analyze Options



Inter-departmental communication is key!

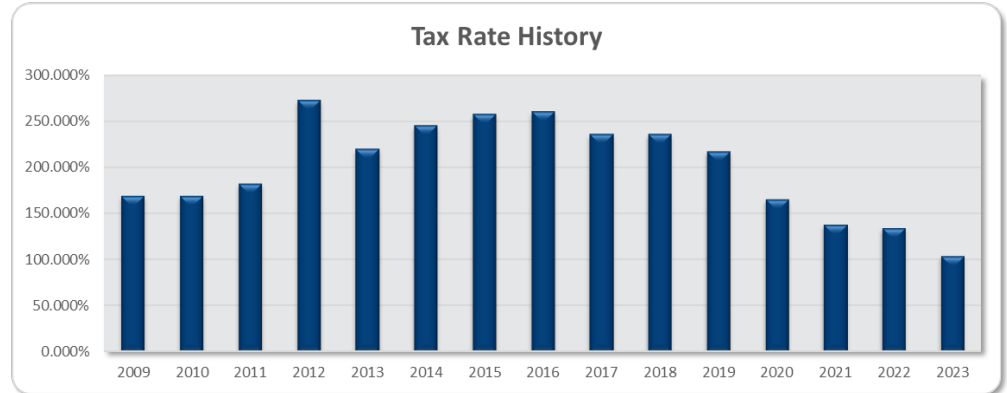
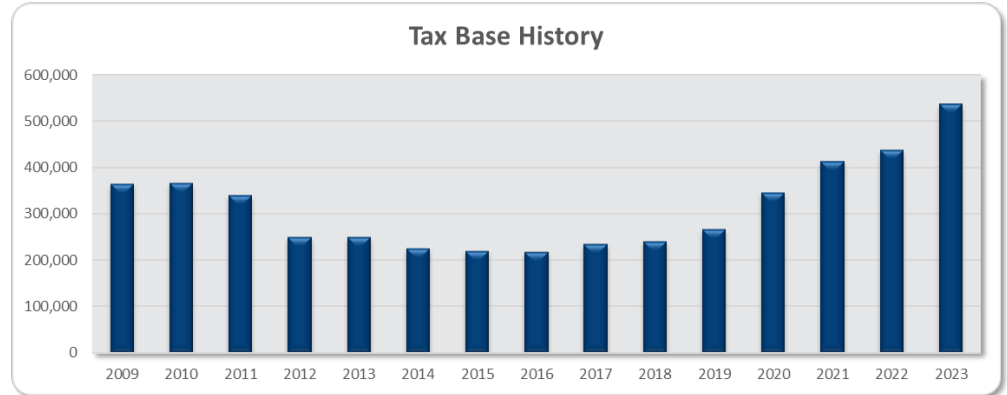


What to do here?

- Offer alternatives to aid review process
- Communicate with stakeholders about status

Step 7.1: Analyze Property Tax Changes

- Changes in:
 - ✓ Total tax levy
 - ✓ Property values
 - ✓ Property tax law
- Can result in:
 - ✓ Changes in tax rate
 - ✓ Shift in who pays



Step 8: Discussion

- Disclose & review assumptions
 - ✓ Provide easy to understand information
 - ✓ Be forthright with challenges or issues
- Provide thoughtful recommendations
 - ✓ Discuss priorities & potential impacts
- Be prepared for more analysis
 - ✓ Consider presenting scenarios

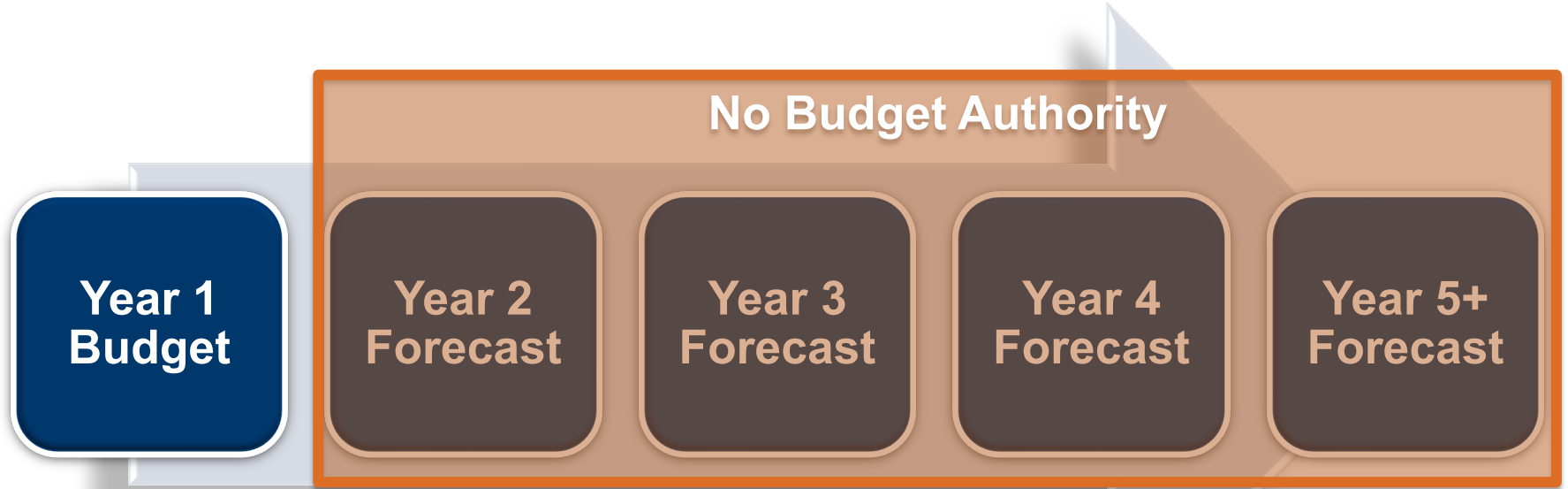
Remind the governing body about what they have already decided!



What to do here?

- Provide visuals to clarify needs (e.g., maps, photos)
- Do not rely on others to advocate for the FMP

Financial Management Plan: Structure



Developing an FMP: Always Remember...

- Include as part of annual budget development process
 - ✓ Build current budget from the FMP & note any changes
 - ✓ Formal review & adoption
- Ongoing efforts include:
 - ✓ Plans (e.g., feasibility studies, park improvement)
 - ✓ Payment review & project close-out
- Be transparent: Do **not** build the FMP in a vacuum!

Debt Issuance

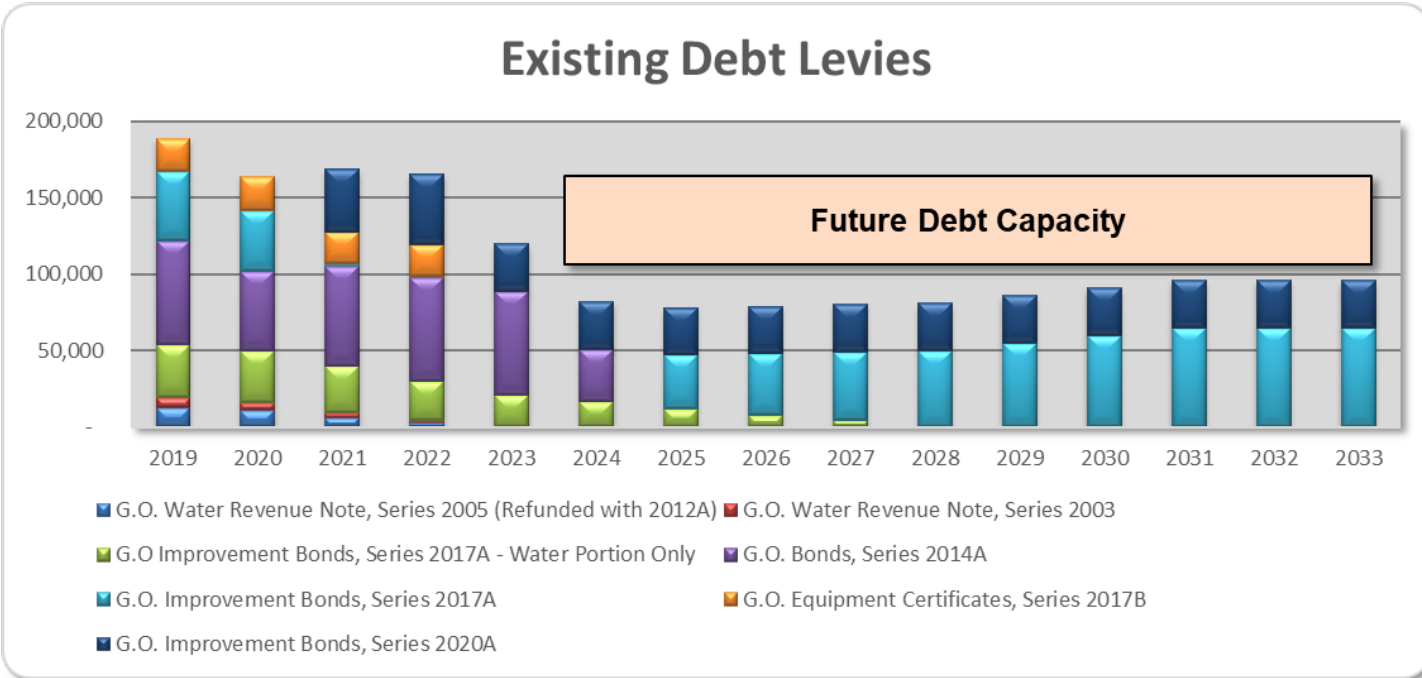
- Prudent use of debt can be useful financial planning tool
 - ✓ May reduce uses of reserves
 - ✓ May limit impact on property tax levy and rates
- Bonds may be issued to finance construction, deferred maintenance and/or repair of public infrastructure
 - ✓ Equipment
 - ✓ Public buildings
 - ✓ Streets
 - ✓ Public utilities

General Municipal Bond Types

- Debt must be secured by some asset and/or funding sources
- Two primary types:
 - ✓ General Obligation (GO)
 - Irrevocable pledge to levy ad valorem taxes for debt service
 - ✓ Revenue (secured by specific revenue source)
 - Utility system, lease payments, special assessments and/or tax increment
 - Special uses (e.g., hospitals, nursing homes, housing)

GO pledge usually attracts the lowest available interest rates!

Debt Capacity



Credit Ratings

	Moody's	S & P	Fitch
Highest	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Lowest (Investment Grade)			

Rating agencies consider several factors:

- ✓ Management practices
- ✓ Economic environment
- ✓ Financial performance
- ✓ Debt & pension profile

Budget & Financial Impacts: Communication Tips

- Be honest & transparent
- Provide background & education
- Keep it simple & relatable
- Use visuals



Final Thoughts...



- Start with strategic priorities & plans
- Use reasonably conservative assumptions
- Most city costs are related to personnel & service level
- Be honest, simple & relatable when communicating budget impacts
- The FMP tends to be a “pay now or pay later” proposition
- Every city pays for things differently
- Be transparent: Do not build the FMP in a vacuum

Always remember...



Your Presenters



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