



# **Long-Term Financial Planning & Other Planning Processes**

Wednesday, October 18, 2023

3:00 – 4:40 PM

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# Agenda

- ❑ GFOA Best Practice: Long-term financial planning
- ❑ Key steps in financial forecasting
  - Define assumptions
  - Gather information
  - Conduct a preliminary/exploratory analysis
  - Select/implement methods
  - Use forecasts
- ❑ Complimentary planning processes
- ❑ Focus on strategic planning
- ❑ Benefits of long-term financial planning
- ❑ Questions

# Long-term financial planning

- Best practice approved by the Government Finance Officers Association (GFOA) Board<sup>1</sup> in March 2022
- Recommends 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

<sup>1</sup>Government Finance Officers Association. (2022, March 4). GFOA best practices: Long-term financial planning. <https://www.gfoa.org/materials/long-term-financial-planning>

# Long-term financial planning

- Governments that utilize debt financing and/or utility rate setting should consider a long-term financial plan greater than five years<sup>1</sup>
- The plan should be reviewed on an annual basis and updated as needed
- Long-term financial planning should be the starting point for capital planning, developing operating budgets, estimating revenue, and other planning processes

# Poll Question #1

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Does your organization prepare long-term financial plans?

1. Yes, we develop ours using all GFOA Best Practice standards.
2. Yes, we develop ours exceeding the GFOA Best Practice standards.
3. Yes, we develop a long-term financial plan for at least one fund but do not meet all the standards of the GFOA Best Practice.
4. Long-term plan? We're just happy to get our annual budget adopted!

# Financial forecasting

- A management tool that presents estimates of past, current, and projected financial conditions<sup>2,3</sup>
- An effective forecast enables decision makers to
  - maintain fiscal discipline
  - provide essential services
  - forewarn of impending financial imbalances that can be addressed before becoming a crisis

***“The goal of forecasting is not to predict the future but to tell you what you need to know to take meaningful action in the present.”***

*Paul Soffo  
Silicon Valley-based forecaster*

<sup>2</sup>Government Finance Officers Association. (2014, February 28). GFOA best practices: Financial forecasting in the budget preparation process.

<sup>3</sup>Kavanagh, S. C. & Iglehart, C. (2012, October). Structuring the revenue forecasting process. Government Finance Review. [https://www.gfoa.org/sites/default/files/GFR\\_OCT\\_12\\_8.pdf](https://www.gfoa.org/sites/default/files/GFR_OCT_12_8.pdf)

# Key steps in financial forecasting

GFOA Best Practices<sup>2</sup>

1

**Define  
assumptions**

2

**Gather  
information**

3

**Conduct a  
preliminary/  
exploratory  
analysis**

4

**Select/  
implement  
methods**

5

**Use forecasts**

# Key Steps in Financial Forecasting<sup>2</sup>

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1

**Define  
assumptions**

1. A time horizon of at least five years into the future
2. Objective of the forecasting policy?  
**Conservative** (underestimates revenue and includes expenditure contingencies) or **Objective** (estimate revenue/ expenditures as accurate as possible)
3. Related political/legal issues?
4. Identify major revenue and expenditure categories

# Major funds

- In governmental accounting, financial transactions are organized by funds
  - *A fund is a self-balancing set of revenue and expenditure accounts which maintain their own balances for the purpose of carrying on specific activities or achieving defined objectives within specific regulations, restrictions, or limitations.*<sup>4</sup>
- In general, spending from each fund must take place within the confines of estimated receipts to that fund
- Long-term financial planning should focus on the government's major funds

<sup>4</sup>Sheridan, R. G. & Thomas, T. M. (2019). Follow the Money (4th ed.). Cleveland, OH: The Center for Community Solutions.

# Major revenue sources

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Sales tax

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Ad valorem (property tax)

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Infrastructure sales surtax

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Intergovernmental revenue

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District assessments

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Gas tax

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Impact fees

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User fees

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Investment income



# Expenditures

- For many local governments, personnel costs are the largest part of their budget
- Salaries and wages are often pre-determined based on bargaining unit agreements as well as non-bargaining step tables, cost of living increases, longevity incentives, and codified elected official salary amounts
- Other fixed benefit costs include healthcare and pension plans




# Expenditures

- Non-personnel operating costs usually involve the most agency discretion (unless the services provided are mandated)
  - Often involves the procurement of good and services
- Demand for services and inflation must be considered when budgeting for program grants and contracts provided by third parties
- Similarly, fee for service operations must project demand for services in making expenditure projections



An aerial photograph showing a winding river with green banks, a bridge, and surrounding urban and suburban areas with houses and roads.

# Expenditures

- Capital outlays are generally based on planned improvements and often defined as having a value exceeding \$5,000 and a useful life extending beyond the fiscal year
    - A capital improvement plan may already include multi-year projections for inclusions in the long-term financial plan
    - Usually more discretionary than operating costs and are often reduced or delayed when revenue estimates are lower than anticipated
  - A non-discretionary expense for agencies are debt service payments
- 
- A decorative graphic in the bottom right corner consisting of several parallel yellow diagonal lines.

# Fund balance

State and local government budgetary fund accounting is based on the following equation:

Estimated beginning available fund balance  
+ Estimated revenues  
= Amount available for appropriation  
- Expenditure appropriations  
= Estimated ending available fund balance



# Rainy day funds/ emergency reserves<sup>5</sup>

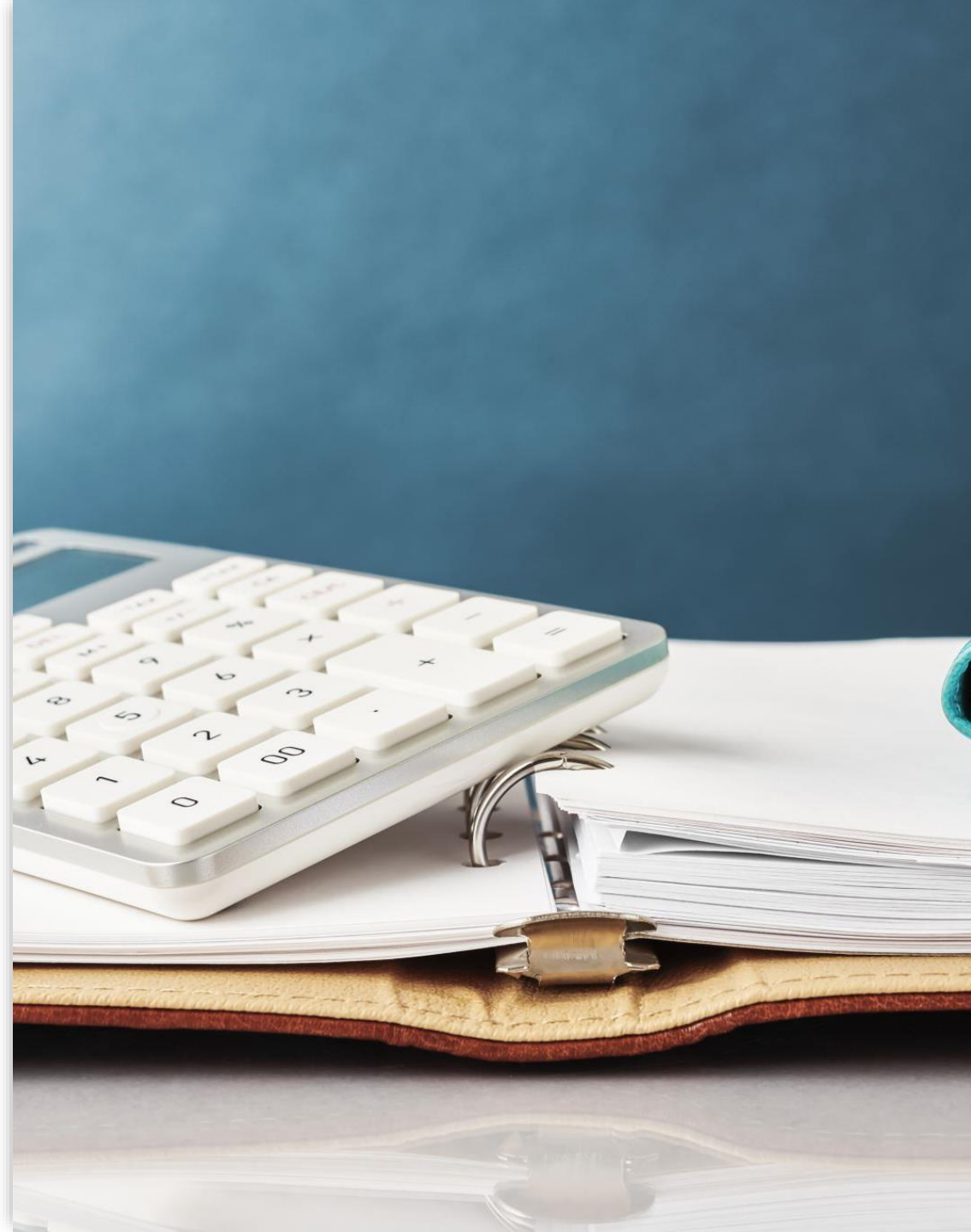
- To maintain services under financial stress, state and local governments should build fiscal savings into their unassigned fund balances
- GFOA recommends a minimum unassigned general fund balance of at least 2 months of operating revenues or expenditures
- Governments with high risks, such as fluctuating revenue streams, population growth, high infrastructure needs, extreme weather, etc., should maintain a higher level of savings

<sup>5</sup>Arapis, T, & Reitano, V. (2017). Accumulating & maintaining fiscal savings from theory to practice. *Journal of Government Financial Management*.



# Cash flow

- Must consider the timing of revenue receipts<sup>5</sup>
- May need to budget an ending fund balance for carryover funds to ensure adequate cash flow for expenses at the beginning of a new fiscal year



# Preliminary Analysis

## Assumptions, Projections and Priorities



## City Commission Workshop

March 2023

Major Operating Fund Balance Analysis	General Fund	Road & Drainage District	Fire Rescue District	Solid Waste District	Building Fund
Fiscal Year 2020					
Beginning Fund Balance	\$14,432,833	\$16,402,161	\$ 3,909,637	\$ 2,426,090	\$ 5,826,046
Revenues	45,876,358	20,389,432	12,582,179	10,116,213	3,867,186
Expenditures	<u>(44,559,598)</u>	<u>(18,245,524)</u>	<u>(11,747,870)</u>	<u>(8,941,271)</u>	<u>(2,825,486)</u>
Ending Fund Balance	\$15,749,594	\$18,546,069	\$ 4,743,635	\$ 3,601,032	\$ 6,867,746
Fiscal Year 2021					
Beginning Fund Balance	\$15,749,594	\$18,546,069	\$ 4,743,635	\$ 3,601,032	\$ 6,867,746
Revenues	53,833,024	21,682,353	13,623,649	11,102,147	4,202,744
Expenditures	<u>(48,966,767)</u>	<u>(15,792,148)</u>	<u>(12,157,700)</u>	<u>(9,026,267)</u>	<u>(3,871,853)</u>
Ending Fund Balance	\$20,615,851	\$24,436,274	\$ 6,209,585	\$ 5,676,913	\$ 7,198,637
Fiscal Year 2022					
Beginning Fund Balance	\$20,615,851	\$24,436,274	\$ 6,209,585	\$ 5,676,913	\$ 7,198,637
Revenues	57,880,667	21,313,588	14,345,993	11,551,878	5,650,990
Expenditures	<u>(53,962,517)</u>	<u>(21,126,168)</u>	<u>(14,353,209)</u>	<u>(10,316,746)</u>	<u>(4,101,837)</u>
Ending Fund Balance (Estimated)	\$24,534,001	\$24,623,694	\$ 6,202,369	\$ 6,912,045	\$ 8,747,790

# Preliminary Analysis

## Assumptions, Projections and Priorities



## City Commission Workshop

March 2023

Major Operating Fund Balance Analysis	General Fund	Road & Drainage District	Fire Rescue District	Solid Waste District	Building Fund
Fiscal Year 2023					
Beginning Fund Balance	\$24,534,001	\$24,623,694	\$6,202,369	\$6,912,045	\$8,747,790
Budgeted (Use) or Reserve of Fund Balance	(1,998,740)	(3,886,310)	259,070	(273,220)	(760,950)
Committed Fund Balance- Amendments, Re- appropriated Projects & Encumbrances	(4,292,056)	(20,191,521)	(534,770)	(2,044,864)	(3,699,460)
Emergency & Disaster Reserve (20%)	<u>(13,209,284)</u>	<u>(5,230,770)</u>	<u>(3,027,396)</u>	<u>(2,312,942)</u>	<u>(1,185,450)</u>
Projected "Available" Fund Balance	\$5,033,921	\$(4,684,907)	\$2,899,273	\$2,281,019	\$3,101,930

# Key Steps in Financial Forecasting<sup>2</sup>

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2

**Gather  
information**

1. Use the judgement and expertise of individuals inside and outside in the organization
2. Identify forces impacting revenue and expenditure trends
3. Review other long-term plans

# Collective expertise

## Internal

- Depending on the fund, the central budget office may issue the revenue forecast
- Department directors/managers can provide insight into planned activities



## External

- Florida Department of Revenue's Tax Research Office issues county and municipal revenue estimates for select sources
- Property Appraiser issues property valuation for Ad valorem & district assessment calculations
- Often released after the local budget process has begun and focus on the upcoming fiscal year

# Potential forces on revenue and expenditures

Commission/board  
priorities

Cost of living

General inflation in  
product prices

Supply-chain  
shortages and  
issues

Bargaining unit  
agreements

Funded and  
unfunded  
mandates

Grant funded  
programs

Restricted funds

# Other organization long-term plans



Strategic plan



Comprehensive plan



Capital improvement program



Rate studies



District assessment methodology reports

# District assessments

## North Port Fire Rescue District - FY 2023 Revenue Sufficiency Analysis<sup>6</sup>

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
1 Operating Revenue											
2 Tier 1, Tier 2 Rate Revenue	\$ 15,437,825	\$ 15,437,825	\$ 16,967,356	\$ 18,205,256	\$ 19,367,394	\$ 20,603,823	\$ 21,919,297	\$ 23,318,873	\$ 24,807,934	\$ 26,392,205	\$ 28,077,781
3 Change in Revenue From Growth	-	1,455,905	466,998	341,158	362,119	384,365	407,977	433,039	459,641	487,876	517,845
4 Subtotal	\$ 15,437,825	\$ 16,893,731	\$ 17,434,353	\$ 18,546,414	\$ 19,729,512	\$ 20,988,188	\$ 22,327,274	\$ 23,751,913	\$ 25,267,575	\$ 26,880,081	\$ 28,595,626
5 Weighted Average Rate Increase	0.0%	0.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.5%	4.5%	4.5%
6 Additional Rate Revenue From Rate Increase	-	73,625	770,903	820,979	874,311	931,109	991,599	1,056,021	1,124,631	1,197,700	1,275,519
7 Total Rate Revenue	\$ 15,437,825	\$ 16,967,356	\$ 18,205,256	\$ 19,367,394	\$ 20,603,823	\$ 21,919,297	\$ 23,318,873	\$ 24,807,934	\$ 26,392,205	\$ 28,077,781	\$ 29,871,145
8 Less: Collections Estimate	(540,324)	(593,857)	(637,184)	(677,859)	(721,134)	(767,175)	(816,161)	(868,278)	(923,727)	(982,722)	(1,045,490)
9 Plus: Other Operating Revenue	489,690	583,810	600,810	619,510	640,080	662,707	687,597	714,975	745,092	778,220	814,661
10 Equals: Total Operating Revenue	\$ 15,387,191	\$ 16,957,308	\$ 18,168,882	\$ 19,309,045	\$ 20,522,769	\$ 21,814,828	\$ 23,190,309	\$ 24,654,631	\$ 26,213,570	\$ 27,873,279	\$ 29,640,316
11 Less: Operating Expenses											
12 Personal Services	\$ (9,815,229)	\$ (10,760,782)	\$ (12,188,193)	\$ (13,290,866)	\$ (14,481,942)	\$ (16,212,346)	\$ (17,277,835)	\$ (18,415,886)	\$ (20,575,251)	\$ (22,344,371)	\$ (24,252,421)
13 Operations & Maintenance Costs	(3,406,911)	(3,490,064)	(3,678,298)	(3,862,837)	(4,066,776)	(4,224,757)	(4,345,530)	(4,533,284)	(4,753,085)	(5,003,907)	(5,184,782)
14 Equals: Net Operating Income	\$ 2,165,051	\$ 2,706,462	\$ 2,302,392	\$ 2,155,342	\$ 1,974,052	\$ 1,377,725	\$ 1,566,945	\$ 1,705,461	\$ 885,234	\$ 525,001	\$ 203,113
15 Plus: Non-Operating Income/(Expense)											
16 Interest Income	\$ 106,968	\$ 80,000	\$ 49,068	\$ 55,630	\$ 60,106	\$ 60,216	\$ 57,780	\$ 56,463	\$ 51,205	\$ 39,711	\$ 24,673
17 Equals: Net Income	\$ 2,272,019	\$ 2,786,462	\$ 2,351,460	\$ 2,210,972	\$ 2,034,158	\$ 1,437,942	\$ 1,624,724	\$ 1,761,924	\$ 936,439	\$ 564,712	\$ 227,786
18 Cash Flow Test											
19 Net Income Available For Debt Service	\$ 2,272,019	\$ 2,786,462	\$ 2,351,460	\$ 2,210,972	\$ 2,034,158	\$ 1,437,942	\$ 1,624,724	\$ 1,761,924	\$ 936,439	\$ 564,712	\$ 227,786
20 Less: Non-Operating Expenditures											
21 Transfers Out	(1,645,000)	(1,550,000)	(1,600,000)	(1,650,000)	(1,700,000)	(1,750,000)	(1,800,000)	(1,850,000)	(1,900,000)	(1,900,000)	(1,900,000)
22 Other Below the Line Expenses	(3,000,000)	-	-	-	-	-	-	-	-	-	-
23 Net Cash Flow	\$ (2,372,981)	\$ 1,236,462	\$ 751,460	\$ 560,972	\$ 334,158	\$ (312,058)	\$ (175,276)	\$ (88,076)	\$ (963,561)	\$ (1,335,288)	\$ (1,672,214)
24 Unrestricted Reserve Fund Test											
25 Balance At Beginning Of Fiscal Year	\$ 5,667,598	\$ 3,294,617	\$ 4,531,079	\$ 5,282,538	\$ 5,843,510	\$ 6,177,668	\$ 5,865,610	\$ 5,690,334	\$ 5,602,258	\$ 4,638,697	\$ 3,303,409
26 Cash Flow Surplus/(Deficit)	(1,165,525)	1,236,462	751,460	560,972	334,158	(312,058)	(175,276)	(88,076)	(963,561)	(1,335,288)	(1,672,214)
27 Reserve Fund Balance Used For Cash Flow Deficit	(1,207,456)	-	-	-	-	-	-	-	-	-	-
28 Balance At End Of Fiscal Year	\$ 3,294,617	\$ 4,531,079	\$ 5,282,538	\$ 5,843,510	\$ 6,177,668	\$ 5,865,610	\$ 5,690,334	\$ 5,602,258	\$ 4,638,697	\$ 3,303,409	\$ 1,631,195
29 Minimum Working Capital Reserve Target	4,460,142	4,740,254	5,239,947	5,641,111	6,074,615	6,656,131	7,027,009	7,439,751	8,168,501	8,774,483	9,401,161
30 Excess/(Deficiency) Of Working Capital To Target	\$ (1,165,525)	\$ (209,175)	\$ 42,591	\$ 202,399	\$ 103,053	\$ (790,521)	\$ (1,336,675)	\$ (1,837,493)	\$ (3,529,804)	\$ (5,471,075)	\$ (7,769,966)

<sup>6</sup>Stantec Consulting Services. (2023). North Port Fire Rescue District FY 2023 Revenue Sufficiency Analysis: Assumptions & Preliminary Results Workbook.



# Key Steps in Financial Forecasting<sup>2</sup>

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3

**Conduct a  
preliminary/  
exploratory  
analysis**

1. Business cycles – Economic impacts on revenues/expenditures
2. Demographic trends
3. Outliers and historical extremes
4. Relationships between variables

# Economic conditions

Variable	Source	Measures
Real Gross Domestic Product (GDP)	Bureau of Economic Analysis (BEA)	Status of overall U.S. economy
Personal income	Bureau of Economic Analysis (BEA)	Sales tax
Consumer Price Index	Bureau of Labor Statistics (BLS)	Sales tax and government expenditures
Housing starts	U.S. Census Bureau	Overall U.S. economy and ad valorem
Unemployment rate	Bureau of Labor Statistics (BLS) and Florida Commerce	Income tax and human services expenditures
Housing statistics	Local Association of Realtors	Local economy, ad valorem, and property transfer fees
Consumer confidence index	Conference Board	Overall U.S. economy and sales tax
Retail sales	U.S. Census Bureau	Sales tax
New home sales	U.S. Census Bureau	Ad valorem and property transfer fees

# Demographic trends

- Depending on the services provided by a government, community indicators should be considered:
  - Poverty rate
  - Population trends
  - Crime rates
- The Bureau of Economic and Business Research at the University of Florida publishes the annual Florida Estimates of Population and Projections of Florida Population by County
- Local projections can be purchased for economic and demographic data through financial services, such as Moody's Analytics

# Key Steps in Financial Forecasting<sup>2</sup>

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4

**Select/  
implement  
methods**

1. Extrapolation
2. Regression/econometrics
3. Hybrid forecasting

# Forecasting methods<sup>3</sup>

## Extrapolation

- Uses historical data to predict the future by projecting the trend forward
- Examples include moving averages and single exponential smoothing

## Regression/econometrics

- Based on the relationship between independent variables and a dependent variable
- If a linear relationship exists between the independent and dependent variables, one or more independent variables can be used to predict future revenues or expenditures

## Hybrid forecasting

- Combines knowledge-based forecasting with a quantitative method of forecasting
- Can deliver superior results

# Forecasting methods

- Per GFOA, revenue forecasters should at least consider single exponential smoothing since it puts a heavier weight on recent periods<sup>3</sup>
- Exponential Smoothing in Excel – Math Guy Zero  
<https://www.youtube.com/watch?v=m8hwbDDQung>

# Current year projections

- Since forecasting for the next fiscal year and futures ones will occur during the current one, consider developing projections for current year revenue and expenditures
- Projecting current year revenue and expenditures also provides for a better estimate of the ending available fund balance for the new budget year
- Especially impactful if you use a conservative approach in your annual budget process

## Poll Question #2

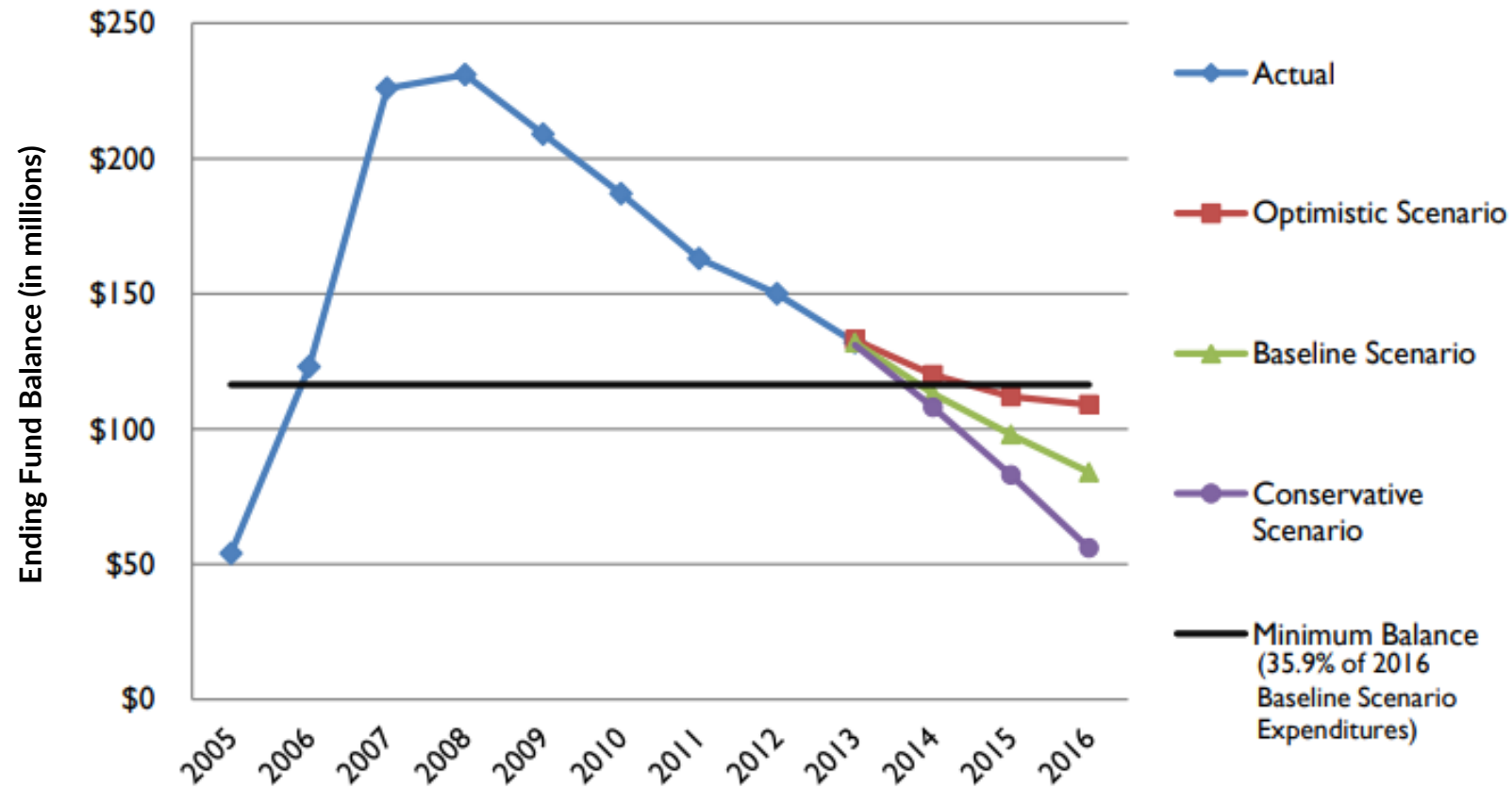
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What do you reference for the current fiscal year when you are developing forecasts for your budget process and/or long-term financial plan?

1. Adopted budget
2. Amended budget
3. Calculate current year projections
4. Nothing. We only focus on the next fiscal year.

# Forecast ranges

## Franklin County, OH General Fund Analysis<sup>7</sup>



<sup>7</sup>Marsh, T. et al. (2013, August 1). Franklin County budget and economic advisory panel report. <https://budget.franklincountyohio.gov/OMB-website/media/Documents/Budget-Economic-Advisory-Panel-Docs/Final%20Report/Final-Budget-and-Economic-Advisory-Panel-Report.pdf>

# Key Steps in Financial Forecasting<sup>2</sup>

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5

**Use forecasts**

1. Credibility of the forecaster
2. Presentation approach
3. Linking forecast to decision-making

# Forecaster credibility<sup>2</sup>

- Have a transparent process and forecast assumptions
- Acknowledge variability based on outside forces
- Stay within acceptable tolerance
- Avoid over-promising on forecast accuracy
- Be careful about raising the alarm on impending crisis

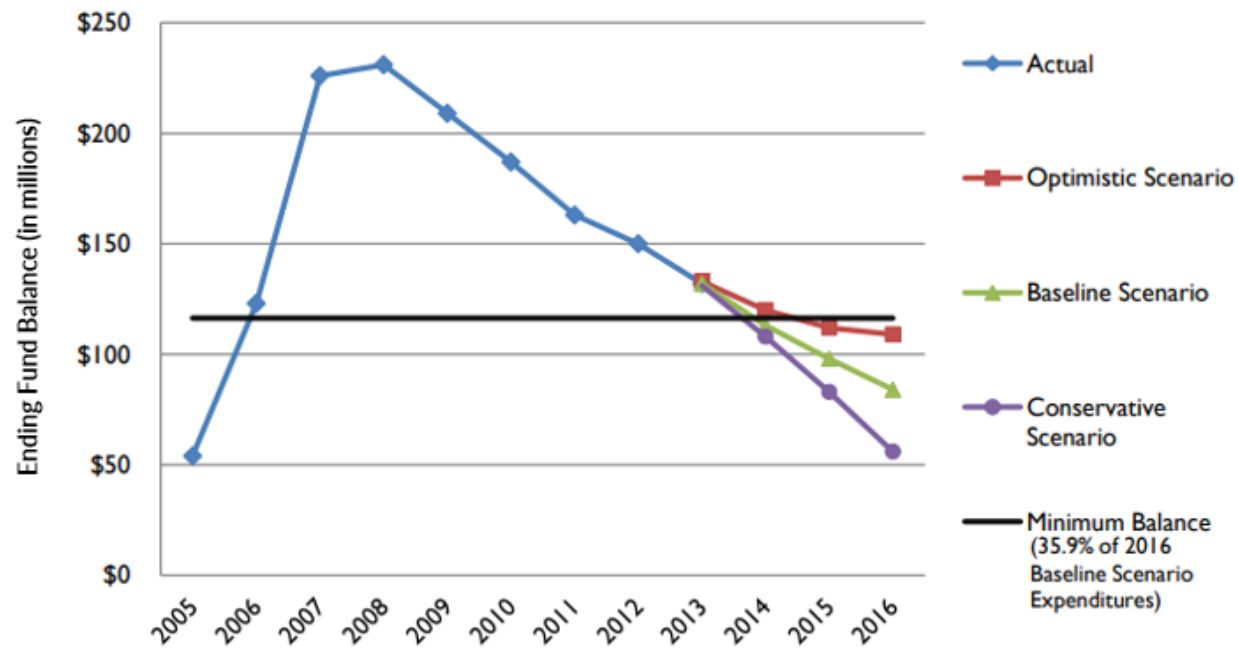
*Since it is difficult to control all economic, social, political, and environmental conditions, fluctuations from government budget projections are the rule, not the exception*

# Presentation approach<sup>2</sup>

- Set a clear, simple, and reasoned forecast message
- Represent the baseline assumptions on a level of consistency with the status quo, with exceptions clearly stated
- Provide assumptions used in the forecast
- Address implications in terms of budget shortfalls/surpluses, changes in reserves, or another metric meaningful to the audience
- Involve other Department staff in the process and presentation

# Forecast message

## Franklin County, OH General Fund Analysis<sup>7</sup>



Based on anticipated economic conditions and revenue projections, the county will be unable to maintain current service levels and the minimum fund balance required by the Board of Commissioner's reserve policy within the next two years


# Pro forma presentation approach

Long-term financial plans can present fund revenue and expenditures at the major category levels provided source assumptions are identified

## Revenue

- Taxes
- Permits and fees
- Intergovernmental
- Charges for service
- Fines and forfeits
- Miscellaneous
- Other sources

## Expenditures

- Personnel
  - Operating
  - Capital outlay
  - Grants and aids
  - Debt service
  - Interfund transfers
- 

# Basic pro forma example

	2021	2022	2023	2024	2025	2026	2027	2028
	Actuals	Actuals	Estimate	Projection	Projection	Projection	Projection	Projection
Beginning Fund Balance	14,067,984	15,156,174	13,800,014	10,241,360	15,039,938	18,579,370	18,898,621	17,997,047
Revenue								
Taxes	33,577,653	33,684,252	33,850,675	45,213,672	45,441,488	45,668,433	45,897,512	46,126,732
Intergovernmental	703,595	697,586	690,186	655,186	655,186	655,186	655,186	655,186
Charges for Service	1,292,534	1,362,333	1,416,675	1,473,342	1,517,513	1,562,992	1,609,924	1,658,164
<b>Total Revenue</b>	<b>35,573,782</b>	<b>35,744,171</b>	<b>35,957,536</b>	<b>47,342,200</b>	<b>47,614,187</b>	<b>47,886,611</b>	<b>48,162,622</b>	<b>48,440,082</b>
Expenditures								
Personnel	4,469,238	4,896,263	5,559,315	5,776,500	5,999,032	6,962,988	7,067,959	7,341,103
Operating	27,031,562	29,012,603	30,731,567	33,458,324	34,675,613	37,144,078	38,482,853	40,544,898
Capital Outlays	0	49,500	14,220	14,220	26,465	15,800	0	15,800
Grants and Aids	2,984,792	3,141,965	3,211,089	3,294,577	3,373,647	3,444,493	3,513,383	3,587,164
<b>Total Expenditures</b>	<b>34,485,592</b>	<b>37,100,331</b>	<b>39,516,191</b>	<b>42,543,621</b>	<b>44,074,757</b>	<b>47,567,359</b>	<b>49,064,195</b>	<b>51,488,965</b>
<b>Ending Fund Balance</b>	<b>15,156,174</b>	<b>13,800,014</b>	<b>10,241,359</b>	<b>15,039,939</b>	<b>18,579,368</b>	<b>18,898,622</b>	<b>17,997,048</b>	<b>14,948,164</b>
Ending Fund Balance Target	8,621,398	9,275,083	9,879,048	10,635,905	11,018,689	11,891,840	12,266,049	12,872,241
3 Months of Expenditures								

# Assumptions examples

## Revenue

Taxes: Reflects approval of the proposed 33.6% tax rate increase in FY 2024 with no additional increases for the next four fiscal years

Intergovernmental revenue: Due to the amounts awarded in federal grants declining recently, the plan assumes no increase in future years.

## Expenditures

Personal Services: Projected salary and wage increases for bargaining and non-bargaining staff are based on the following Consumer Price Index for All Urban Consumers (CPI-U) forecasted by Moody's Analytics:

2024 – 2.6%

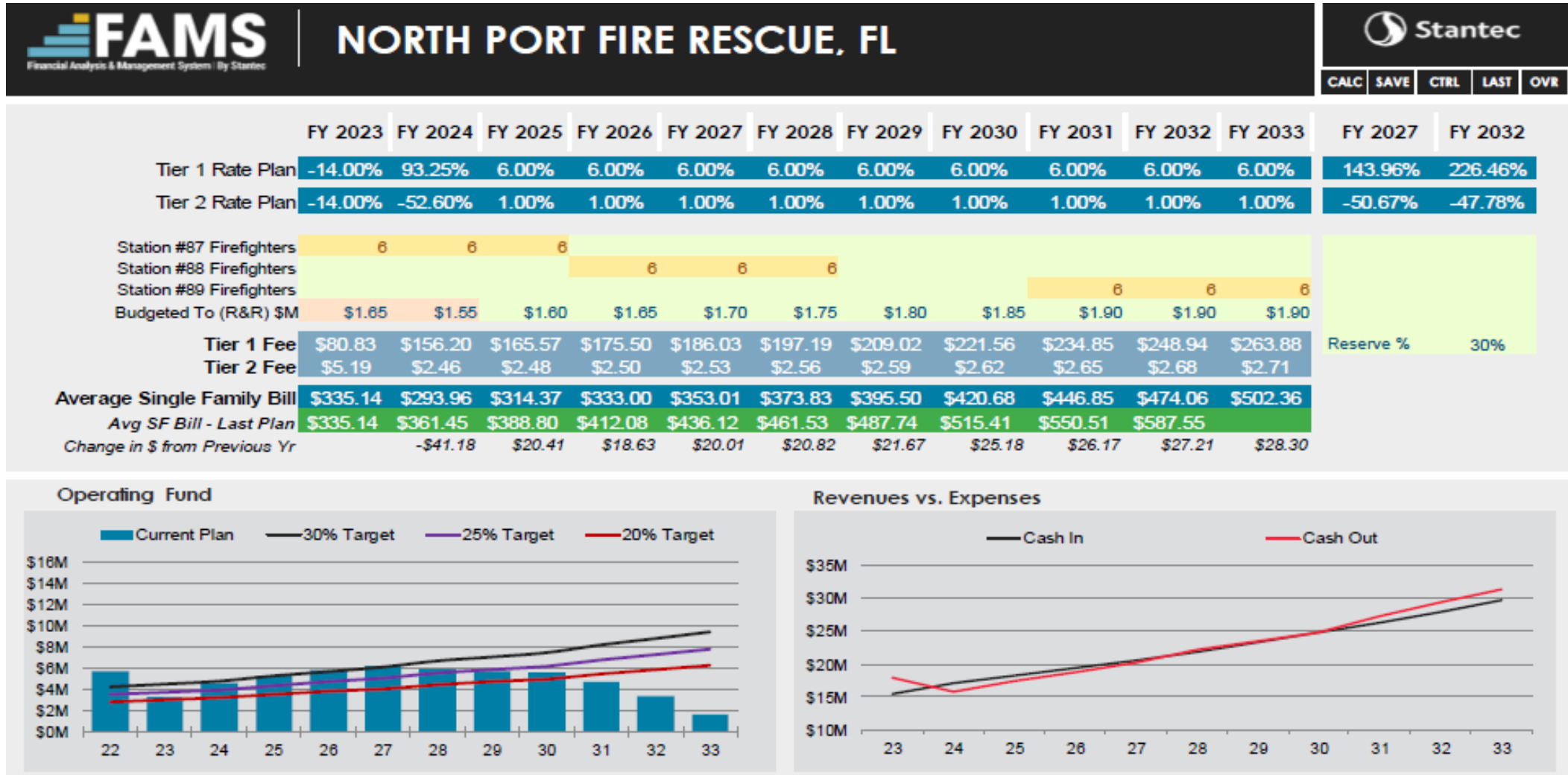
2025 – 2.4%

2026 – 2.1%

2027 – 2.0%

2028 – 2.1%

# Addressing implications<sup>6</sup>



# Integrating forecasting into decision making<sup>8</sup>

- Financial forecasts are surprisingly ineffective in influencing decision makers
- Most valuable when accompanied by other planning processes and communicated together

<sup>8</sup>Kavanagh, S. C. (2015, October). Integrating forecasting into decision-making. Government Finance Review.



# Complimentary planning processes

Purpose of Planning Processes <sup>1</sup>	Long-term financial planning	Budgeting	Capital improvement program	Financial policies	Strategic planning
Establish an organizational vision				o	o
Achieve organizational alignment	o	o	o	o	o
Forecast long-term revenue/expenses	o		o		
Setting utility rates	o				
Identify unfunded liabilities	o		o		
Assessing infrastructure condition			o		
Determine long-term debt capacity	o				
Conduct a general environmental scan					o
Analyze external economic environment	o				o
Analyze fiscal environment	o			o	
Prioritize initiatives, services, & programs/set goals					o
Determine long-term impact of goals & priorities	o		o		
Allocate resources to address priorities & goals		o	o		
Set short-term service-level goals		o			

# Integration with budget & CIP process



# Integration with financial policies<sup>8</sup>

- Financial Policies:
  - Establish local standard for acceptable and unacceptable courses of financial action
  - Serve as guidelines for government to operate
  - Provide a standard to judge government's fiscal performance
- Financial policies that create a good environment for forecasts and financial planning include
  - Reserves
  - Structurally balanced budget
  - Non-recurring and volatile revenue
  - Long-term financial planning

# Fund balance policy

- The City should retain an Emergency and Disaster Reserve of 20% and Economic Stabilization Reserve of up to 10% of operating expenditures in the following funds:
  - General Fund
  - Building Fund
  - Fire Rescue District Fund
  - Road & Drainage District Fund
  - Solid Waste District Fund



City of North Port

RESOLUTION NO. 2020-R-26

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF NORTH PORT, FLORIDA, REPEALING RESOLUTION NO. 2018-R-13; ADOPTING A FUND BALANCE POLICY; INCORPORATING RECITALS; PROVIDING FOR CONFLICTS; PROVIDING FOR SEVERABILITY; AND PROVIDING AN EFFECTIVE DATE.

**WHEREAS**, it is essential for governments to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and

**WHEREAS**, Resolution No. 2018-R-13 approved a new fund balance policy and repealed the previously adopted fund balance and economic stability policies; and

**WHEREAS**, this policy restates and revises the policy adopted in Resolution No. 2018-R-13 by omitting the minimum requirements in the Budget Stabilization and Economic Uncertainty Reserves; and

**WHEREAS**, the City's reserve policies are based on sound fiscal principles designed to allow the City to maintain continuity of operations in adverse conditions while being mindful of our fiduciary responsibility to taxpayers, both current and future generations; and

**WHEREAS**, adequate fund balance levels are an essential component of the City's overall financial management strategy, an important factor in external bond rating agencies' measurement of the City's financial strength, and that these Financial Reserve Policies will need to be adjusted from time to time as conditions change; and

**WHEREAS**, the City lies within a coastal zone highly susceptible to hurricane and storm damage; and

**WHEREAS**, debt service funds will be maintained as required by bond covenants; and

**WHEREAS**, there exists uncertainty in the economic markets around the world, in regard to the cost of construction materials, interest rates, personnel costs, medical insurance costs, and general inflation; and

**WHEREAS**, each sizable fund has been analyzed to determine the type of risk it may be exposed to, the duration of the risk, methods to mitigate that risk, and the amount of funds needed to mitigate against that risk; and

## Poll Question #3

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Who knows their organization's vision, mission, and/or values?



# Integration with strategic planning



# Purpose of strategic planning

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- Establish an organizational vision
- Achieve organizational alignment
- Conduct a general environmental scan
- Conduct analysis of the external economic environment
- Prioritize services, initiatives and programs, and set goals



# 3 rules of traditional strategic planning

1. Follows specific steps, like developing a “vision statement”
  - Routine steps give a false sense of certainty about an uncertain future
  - Can become about creating a document, not making the process meaningful
2. Planning and long-term thinking are done at a specific time, like a once a year preceding the budget process, and by certain level staff
  - Plans created by elected officials and executive staff might be irrelevant to frontline staff and residents
3. Long-term priorities should be stable over time, should cover all of what the organization does, and drive department actions
  - A VUCA world means being open to change, even abandoning long-term priorities to adapt
  - An effective strategy is focused on the most important issues

# Differences in planning processes<sup>9</sup>



<sup>9</sup>GFOA & ICMA. (2022). Rethinking Strategic Planning.

# Rolling planning process

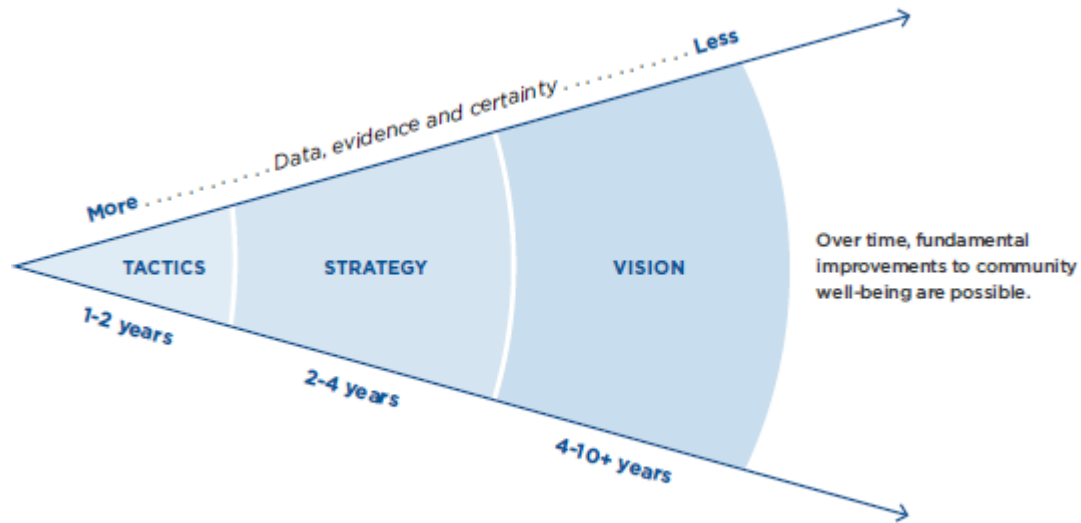
## Initial Year

- Precedes the budgeting process
- Establishes the Vision and defines the issues to be addressed
- Defines strategies based on a review of the current conditions
- Identifies tactics to be used (i.e. what will be funded)
- Allocates resources
  - Budgeting as a funding of services & outcomes, rather than funding departments

## Ongoing...

- Precedes the budgeting process
- Does not produce a new Strategic Plan, but guides the budget process in resource allocation
  - Beware of overcorrecting course
- Refines strategies based on a review of the current conditions
  - Confirm tactics that will be addressed in the budget
- Allocates resources
  - A focused strategy identifies the most valuable budget requests

# Time horizons in strategic planning<sup>9</sup>



The time cones shows us that tactics, strategy, and vision are all, simultaneously, part of strategic planning but receive different emphasis based on how far you are looking into the future.

- Vision = 4-10 yrs. Broad enough that it can conform to changes in strategy that goes with newly elected leadership
- Strategy = 2-4 yrs. Flexible to adjust for changing elected officials; short enough to show timely progress on priorities
- Tactics = 1-2 yrs. Putting the strategy into action; a direct connection to budget (and HR practices, and operational plans)

# Information gathering

## Collaborative planning with:

- Residents and Community Members
  - Identify Important Issues
- Employees
  - SWOT Analysis
- Consultants
  - Future Analysis

## Why?

- Hear from people with a stake in the issues at hand
- Build legitimacy
- Helps inform decisions of leaders



# Define the vision

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- An aspirational state for the community.
- Broad enough that it can conform to changes in strategy with newly elected leadership, but not so broad as to be meaningless.



*"An innovative, friendly, engaging, and sustainable community where residents, businesses, and visitors can flourish."*



*"To preserve and enrich our community's quality of life for those who live, work and play in our paradise."*



*"Endless opportunity by design."*



# Identify key areas



## STRATEGIC FOCUS AREAS

### Public Services

To maintain a safe and healthy community by delivering essential services from skilled, professional and dedicated public servants.

### Economic & Community Development

To create a business climate that promotes a diversified, growing economy consistent with sustainable growth management plans, environmental stewardship and enhanced quality of life.

### Infrastructure

To build and maintain countywide infrastructure that meets our evolving needs and enhances our community appearance, improves public safety and protects our natural resources.

### Efficient & Effective Government

To manage fiscally sound county operations with a culture of transparency, accountability, citizen engagement and innovation.



# Define the problem

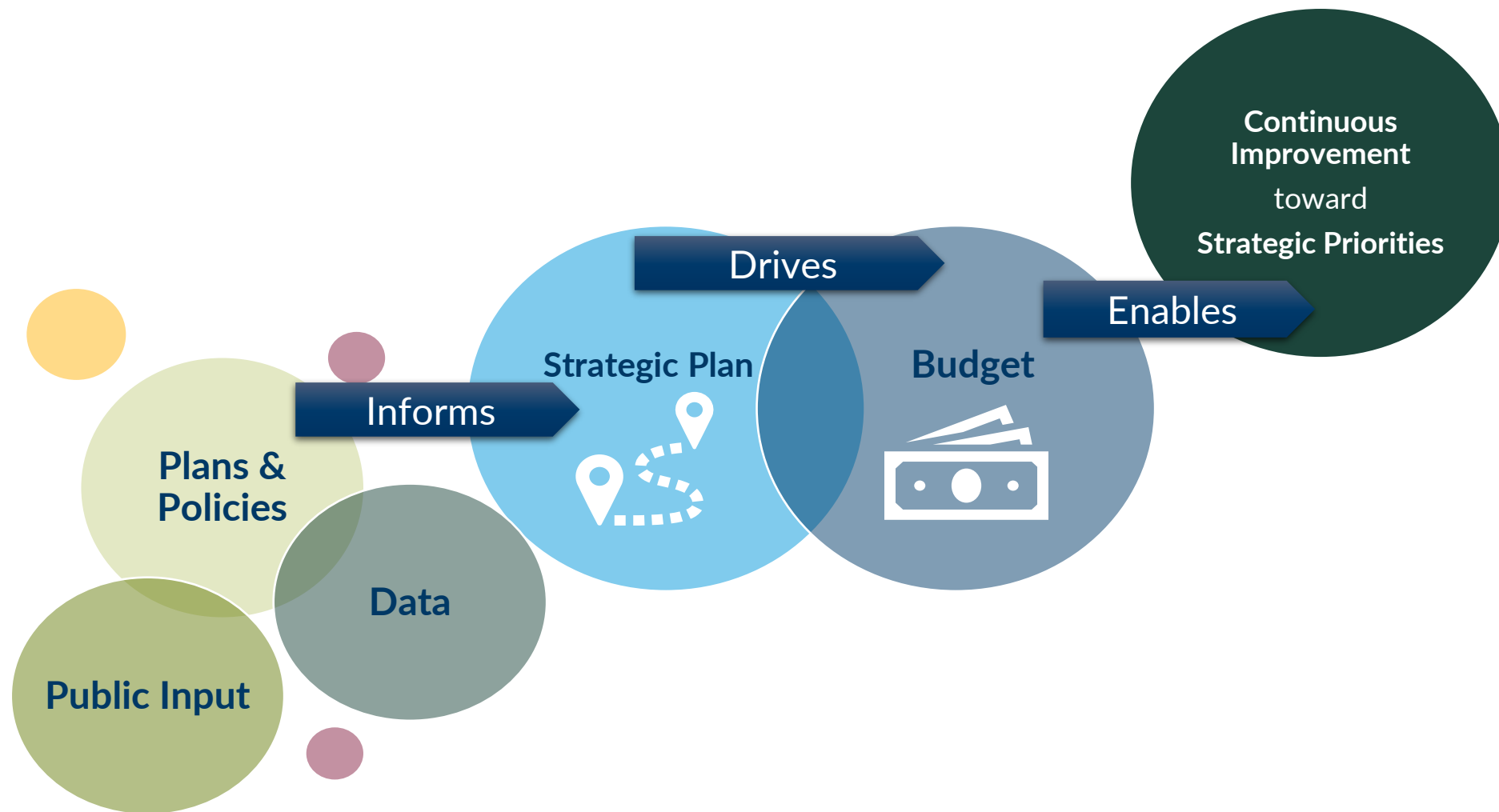
- “Good Budgeting Starts with Good Planning”
- Turn the Curve planning – Mark Friedman’s book *Trying Hard is Not Good Enough*
- Answer the 5 questions to determine action plan for implementing a solution based on data



# Provide focus through constraints

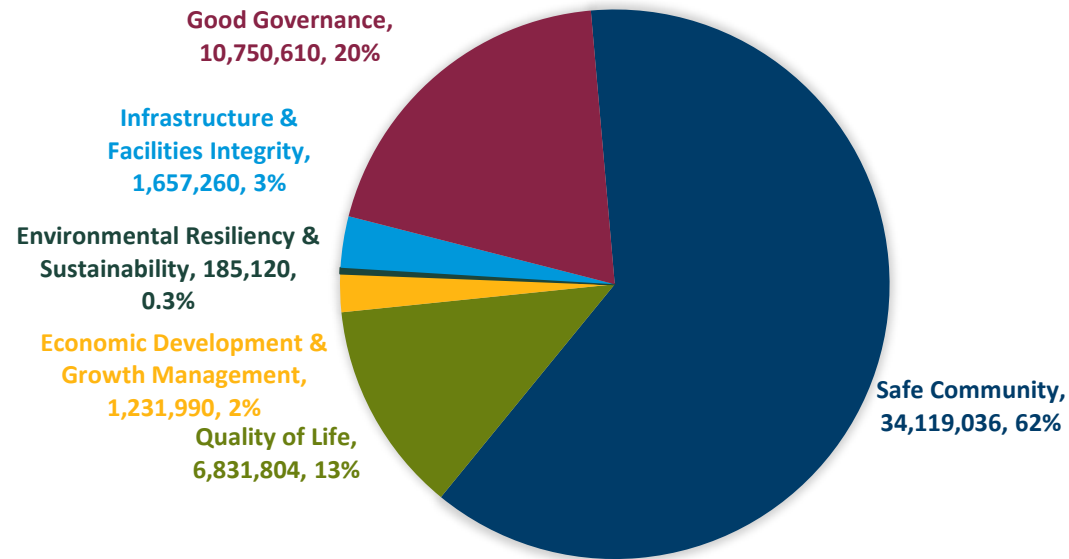
*Constraints act as a filter to remove some strategies from consideration and highlight trade-offs between different strategies*

- Support
  - Is a strategy supported by elected officials? Is it supported by residents?
  - Crucial to align the authority and the money needed to see a strategy through
- Capacity
  - Does the organization have the operational capacity to enact and maintain the strategy?
- Public value
  - Potential to make a positive difference in the lives of stakeholders

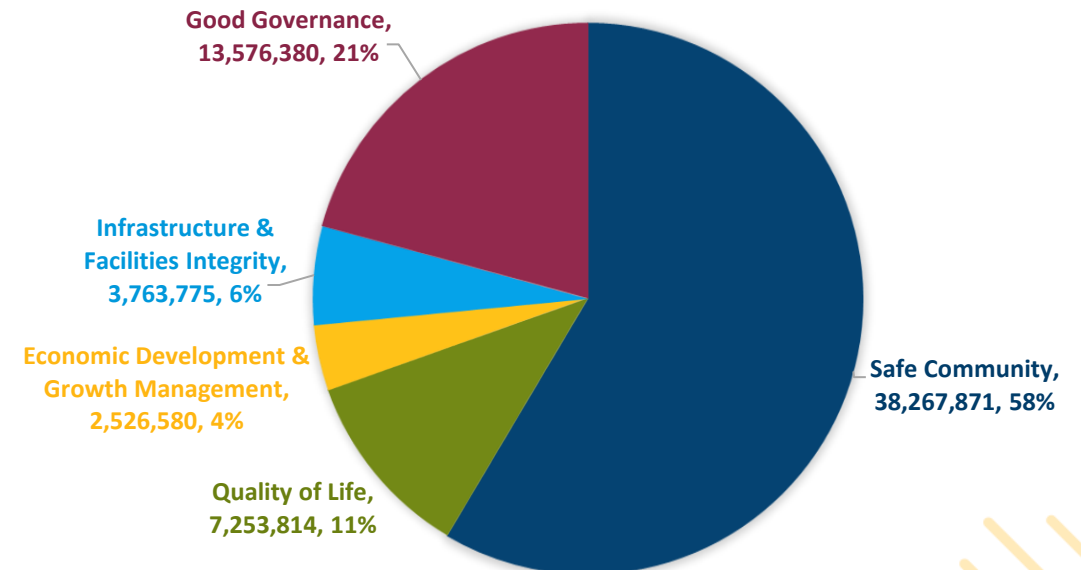


# Linking financial & strategic planning

FY 2022 Adopted General Fund Budget



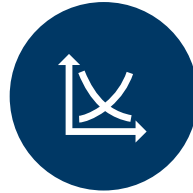
FY 2023 Adopted General Fund Budget



# Benefits of long-term financial planning<sup>1</sup>



Creates a long-term outlook into other planning processes like budgeting, capital planning, and revenue forecasting



Helps diagnose potential risks and causes of fiscal distress



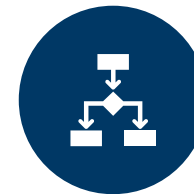
Stimulates “big-picture thinking”



Provides a tool for evaluating long-term compliance with financial policies



Allows for pre-emptive action to mitigate forecasted financial distress



Defines parameters for decision-making



Communicates long-term financial position to residents and other stakeholders, including rating agencies and bond investors

