

# PLANNING & FORECASTING

Information from the perspective of a City Auditor in a Statutory City Ongoing since February 2011...



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## **Auditor's Office Mission**

*To account for and report the finances accurately and identify financial issues that threaten the ability of the City of Findlay to provide and sustain its core statutory services of Water, Sewer, Streets, Police, Fire, Courts etc. to its citizens.*

**Jim Staschiak II, City Auditor**

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## About Findlay Ohio

- Population of 40,000 originally gas/oil boom town
- Approximately a \$70MM government business
- Two employers total contributions each exceed 6% of gross revenues of our major income stream
- Oasis in northwest Ohio, not adjacent to major city
- Longstanding manufacturing base has included several fortune 500 companies. Corporate headquarters to Marathon Petroleum Corp. and Cooper Tire & Rubber Co.
- Findlay relatively recession proof until 2007
- Passed 3 year temporary .25% income tax in 2009

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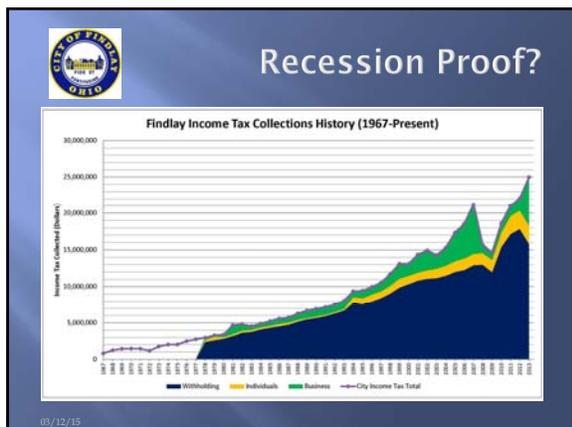
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- Economic Factors  
The Next 17 Months**
- ❑ Falling off of 3 year ¼% City Income Tax Increase (\$3.5MM)
  - ❑ Loss of Local Government Funds (\$0.23MM '11; \$0.46MM '12)
  - ❑ Permanent Loss of Tangible Personal Property Tax (\$0.37MM)
  - ❑ Elimination of Estate Tax (\$0.8MM '13)
- Over \$5 Million Dollars in Revenue Reductions  
21% of our current General Fund Revenue!*
- 7/26/2011 ORIGINAL SLIDE PRESENTED TO CITY COUNCIL

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**Economic Factors  
The Next 17 Months**

**WHAT IF...**

If 2013 Expenses approximately same as 2012  
**\$26,500,000.00**

If 2012 Revenues remain approximately the same as 2012, but take out 1/4% Income Tax and Remove Estate Tax  
**\$20,500,000.00**

Additional Funds Needed to Pay Expenses  
**\$6,000,000.00**

Difference	Tax Rate	Average taxable wage	Jobs Needed *
\$6,000,000.00	÷ 1.00%	÷ \$ 40,000.00	= 15,000

\* Assumes Full Tax Rate revenue goes to General Fund and \$3,000,000 to Capital Improvements

5/19/2012 ORIGINAL SLIDE PRESENTED TO CITY COUNCIL

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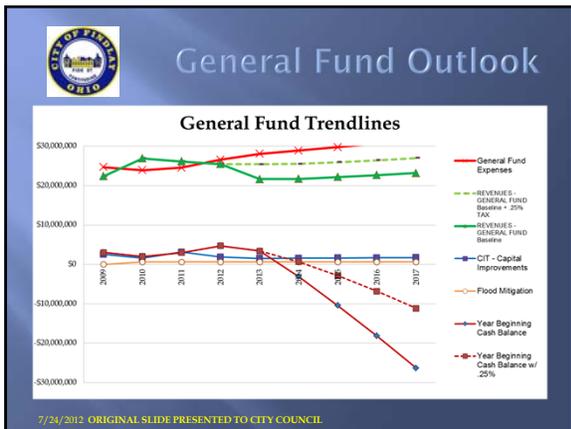
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- ### Define what it means to have FISCAL HEALTH!
- Healthy Reserves on ALL key Funds
  - Prudent Fiscal Policies
  - Monitor Revenue & Control Expenses
  - Maintain Manageable Debt
  - Financial Compliance
  - Economic Diversification
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- 09/10/2013 ORIGINAL SLIDE PRESENTED TO CITY COUNCIL

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- ### Tools Available
- Great staff and authority from electorate
  - State Auditor's Fiscal Caution, Watch & Emergency
  - GFOA Best Practices
  - Minimum Balance, 5-Year Capital Plan, 5-Year Enterprise pro-forma & Rainy Day Reserve resolutions adopted by council and a Debt Policy
  - Fall Pre-Budget Process
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## City Auditor's Goals

It was clear we needed better planning...

- ❑ Balanced Budget Policy
- ❑ Financial Policies conform GFOA Best Practices
- ❑ 2-Year Operations Budget
- ❑ 5-Year Operations Forecast
- ❑ 5-Year Capital Improvement Plan
- ❑ 5-Year Debt Plan
- ❑ Employment Growth Targets

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## Tools Created

- ❑ Financial 'Snapshot'
- ❑ Budget Presentation Package GFOA
- ❑ 4 Council Presentations or 'Touch Points': Debt Presentation, Mid-Year Review, Pre-Budget and Budget Meetings (concept GFOA)
- ❑ Minimum Balance Policies for all Key Funds GFOA
- ❑ Internet availability of easily understandable financial data as presented to Council GFOA

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## Tools Created 'Snapshot'

**FINANCIAL GENERAL FUND**  
Expenditures/Expenditures Snapshot: 4/30/15

Category	Actual	Budget	Variance
General Fund Operations & Expenses	\$24,400,000	\$24,400,000	\$0
Capital Assets	\$2,000,000	\$2,000,000	\$0
Debt Service	\$1,000,000	\$1,000,000	\$0
<b>APPROPRIATED YEAR END CASH BALANCE</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>	<b>\$0</b>

**FINANCIAL GENERAL FUND**  
Expenditures/Expenditures Snapshot: 3/30/15

Category	Actual	Budget	Variance
General Fund Operations & Expenses	\$23,500,000	\$23,500,000	\$0
Capital Assets	\$1,800,000	\$1,800,000	\$0
Debt Service	\$1,000,000	\$1,000,000	\$0
<b>APPROPRIATED YEAR END CASH BALANCE</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>	<b>\$0</b>

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 **Forecasting**

- Prior to 2007, revenue estimates within 5% of projections excluding windfalls (primarily estate tax)
- Recent years 2007-2011 difference averaged 11%
- My Goals:
  - Refine estimation methods to within 5% exclusive of windfalls and unanticipated loss
  - Be able to explain every windfall or loss and determine future impact
  - Report receipts monthly, emphasize quarterly
  - Revenue reviewed line by line and projected to \$50-\$100
  - Currently estimates running +/- 2% exclusive of windfalls

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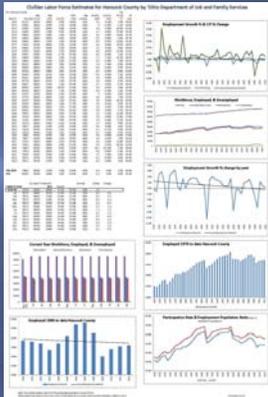
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 **Economic Data**



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**Employment trend is declining**



Employed 1970 to date Hancock County per ODJ&FS

Employment Growth

5/8/12 City of Findlay Ohio ORIGINAL SLIDE PRESENTED TO CITY COUNCIL 15

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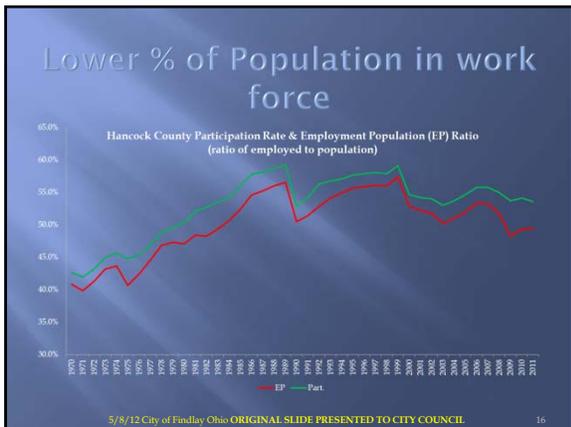
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### Forecasting

- Involving Department Heads/Supervisors is crucial
- Need a clear understanding of operational changes that impact revenues: PD, Courts, HD, Engineering/zoning, Public Works, etc.
- Economic Impacts: Economy, Employment, Economic Development/Loss, Statistical trends

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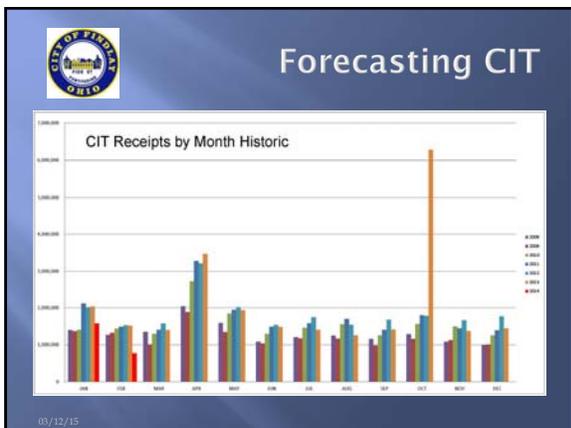
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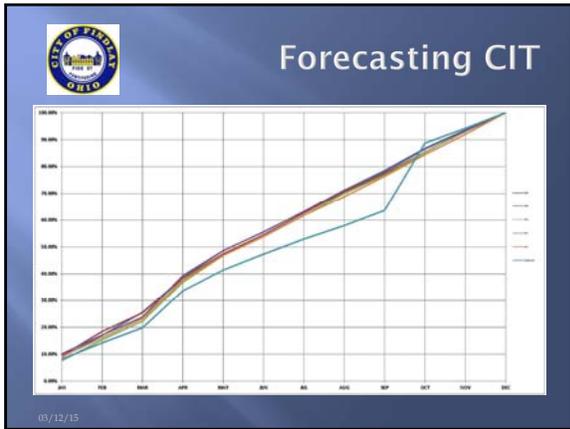
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- ### Forecasting Water & WPC
- 3 Methods of Projection
    - Water Model (complex operational & capital assumptions)
    - Historical Trending & Estimation
    - Billing System Projection
  - Review all 3 weighting billing system heaviest
  - Wet/Dry year & Rate increases greatest impact prior loss of industries had major impact
  - Comments on 'water loss'
  - Past Due accounts follows foreclosure rate
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### Water & Sewer Snapshot

2014	
<b>WATER FUND REVENUE &amp; EXPENSE STATEMENT</b>	
03/12/15	
Four Year Ending Cash Balance - Unappropriated	\$7,322,457
Revenue and Receipts projection Water Fund	\$8,593,515
Budgeted Operating & Capital Expenditures Appropriated	(\$6,118,435)
OPERATIONAL SURPLUS/(DEFICIT)	\$2,274,021
RESTRICTED ACCOUNTS BALANCE	(\$753,016)
Scheduled Capital Improvement Projects - 2014	(\$6,472,000)
<b>PROJECTED FIVE YEAR END WATER FUND UNRESTRICTED CASH BALANCE</b>	<b>\$1,524,039</b>
Minimum 2 month Reserve Balance for operational expenses	\$1,217,200
Minimum Reserve Balance for debt service	\$274,775
Minimum Reserve Balance for other capital projects	\$0
<b>TOTAL MINIMUM RESERVE BALANCE</b>	<b>\$1,491,975</b>
<b>Over/(Short) of minimum reserve balance</b>	<b>\$32,064</b>
<b>SEWER FUND REVENUE &amp; EXPENSE STATEMENT</b>	
03/12/15	
Four Year Ending Cash Balance - Unappropriated	\$ 9,755,843
Revenue and Receipts projection Sewer Fund	\$ 9,884,710
Budgeted Operating Expenditures	(2,272,255)
OPERATIONAL SURPLUS/(DEFICIT)	\$ 1,809,217
RESTRICTED ACCOUNTS BALANCE	\$ (5,898,320)
Scheduled Capital Improvement Projects - 2014	(2,774,820)
<b>PROJECTED FIVE YEAR END SEWER FUND CASH BALANCE</b>	<b>\$ 3,229,515</b>
Minimum 2 month Reserve Balance for operational expenses	\$ 1,253,800
Minimum Reserve Balance for debt service	\$ 658,775
Minimum Reserve Balance for other capital projects	\$ 0
<b>TOTAL MINIMUM RESERVE BALANCE</b>	<b>\$ 1,912,575</b>
<b>Over/(Short) of minimum reserve balance</b>	<b>\$ 1,316,940</b>

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## Politics!?

- ❑ Relationship between Administration and Audit Department can be adversarial, independence is critical, communication is key
- ❑ How to speak to City Council (4 Touches)
- ❑ Press, Press, Press (community is a partner)
- ❑ Tax Finance office structure (In 1960's Mayor restructured to our detriment)
- ❑ Planning creates a level of accountability, which elected leaders may or may not desire

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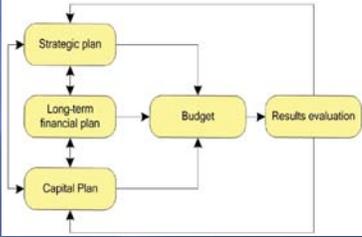
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## Relationships

Easy to get caught up in individual components of planning long-term. Must understand complete relationship. Illustration from GFOA



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    graph LR
      SP[Strategic plan] --> LTFP[Long-term financial plan]
      LTFP --> CP[Capital Plan]
      CP --> LTFP
      LTFP --> B[Budget]
      CP --> B
      B --> RE[Results evaluation]
      RE --> SP
  
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## Capital Improvements

- ❑ Auditor recommending a minimum of \$1,750,000 annual transfer
- ❑ Approximately \$8,000,000 behind in street repair and maintenance
- ❑ Calculations incomplete for needed capital maintenance dollars

For a Balanced Budget the following projections apply:

	Cap Impr	General Fund (GF) Portion of CIT	Other GF Revenue	Total Available for GF Operations
2013	22.0% \$4,565,000	78% \$16,185,000	\$7,425,000	\$23,610,000
Options	20.0% \$4,150,000	80% \$16,600,000	\$7,425,000	\$24,025,000
	15.0% \$3,112,500	85% \$17,637,500	\$7,425,000	\$25,062,500
	12.5% \$2,593,750	88% \$18,156,250	\$7,425,000	\$25,981,250
	10.0% \$2,075,000	90% \$18,675,000	\$7,425,000	\$26,100,000
2013	22.0% \$3,770,880	78% \$13,369,200	\$7,425,000	\$20,794,200
Options	20.0% \$3,428,000	80% \$13,712,000	\$7,425,000	\$21,137,000
	15.0% \$2,571,000	85% \$14,569,000	\$7,425,000	\$21,994,000
	12.5% \$2,142,500	88% \$14,987,500	\$7,425,000	\$22,425,000
	10.0% \$1,714,000	90% \$15,426,000	\$7,425,000	\$22,851,000

1% Options do not include likely revenue reductions due to operational changes

09/25/2012 ORIGINAL SLIDE PRESENTED TO CITY COUNCIL

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## Tips

- ❑ City Auditor determines recommended minimum balances for all funds using GFOA best practices. Administration can spend below minimum balances, a plan to recapture to minimums should be put in place
- ❑ Best to affirm or target likely Capital Improvements spending before budgets started
- ❑ Create adoptable current year budget, then City should begin following year budget process to show short term sustainability of spending priorities. Findlay's 'AA stable' bond rating can be protected with proper planning. Bond purchasers respond positively to planned results
- ❑ Quote RELIABLE source such as GFOA best practice or ORC, OAC & Audit Management Comments
- ❑ Fiscal Caution is AWESOME! (never too late at anyway)
- ❑ Performance Audits(s) for establishing benchmarks
- ❑ You can plan until the cows come home but there must be action!
- ❑ Be prepared to explain increase in cash balances due to proper reserves

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## Tools Needed Today

- ❑ 2 Year Budget Process
- ❑ 5 Year Operations Plan jointly done by Administration and Auditor (schools)
- ❑ Permissive communications between Auditor & Income Tax Administrator

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## Conclusion

- ❑ If you give me a realistic 2-year operations budget, a 5-year operations forecast and a 5-year capital improvement plan...
- ❑ ... I can overlay a 5-year debt plan and benchmark the needed revenue and corresponding economic growth necessary to support the operations of the City of Findlay

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Final Thought

It's NOT just about planning...

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Thank You...

Questions?



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