



Assuring Financial Sustainability in Local Government

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Financial Sustainability – What is it?

- “Broadly, sustainability refers to the ability of administrators to maintain an organization over the long term.”
- “However, the definition of financial sustainability may vary widely between for-profit organizations and nonprofits (defined as organizations that use surplus revenues to achieve their goals rather than distributing them as profit or dividends), depending on the business structure, revenue structure, and overarching goal of the organization.”

Top Financial Sustainability Concerns

Top financial sustainability concerns reported by GFOA members:



Aging population



Pensions and cost of health care



Infrastructure maintenance and renewal



Income and wealth inequality



State and federal revenue sharing

Source: GFOA.org

Sustainability Concerns

- **Aging Population**

- What are the concerns? What are the operational and financial impacts?:
 - Possible refocus in programs offered
 - More demands for certain services
 - Changes in housing and transportation needs
 - Declining levels of consumer spending with economic plateauing over time

Sustainability Concerns

- **Pensions and Cost of Health Care**
 - What are the concerns and the operational and financial impacts?
 - Pension costs (projected to be \$2.24 million or 17% of total General Fund personnel costs for Bountiful City in FY2020)
 - Budget & Operational impacts from two pension tiers
 - Other Post Employment Benefits (projected at \$46,422 for Bountiful City in FY2020)
 - Health Care costs (projected to be as much as \$1.94 million or 15% of total General Fund personnel costs for Bountiful City in FY2020)

Sustainability Concerns

○ **Infrastructure maintenance and renewal**

- What are the concerns?
 - Maintenance tied to capital is often lost in the operational budget
 - Tendency by some governments to defer maintenance to weather economic downturns
- What are the operational and financial impacts?
 - FY2019-FY2029 projected capital improvements at \$39.4 million in governmental funds (\$139.8 million for all funds combined)

Sustainability Concerns

- **Income and wealth inequality**
 - Is this a local concern?
 - Potential for constituent disconnect in demand for programs and services based on income inequality
 - Disparity in opinions on who should pay for programs and services
 - What are the impacts?
 - Increased need for certain government services
 - Budget and operational impacts

Sustainability Concerns

- **State and federal revenue sharing**
 - What are the concerns?
 - Shrinking revenues
 - Declining levels of local control and input
 - What are the operational and financial impacts?
 - FY2019 was projected at \$2.3 million for Bountiful City from a total General Fund budget of \$17.45 million

GFOA Financial Sustainability Framework



Source: GFOA.org

GFOA Financial Sustainability Framework

1. LONG TERM VISION

Establish a long-term vision to give people reason to cooperate over a sustained period of time

2. TRUST AND OPEN COMMUNICATION

Build trust and open communication to encourage cooperation

3. COLLECTIVE DECISION-MAKING

Use collective decision-making to foster a forum to cooperate

4. SET RULES

Set rules and ensure they are followed

5. TREAT PEOPLE FAIRLY

Treat participants fairly under the rules

Source: GFOA.org

Bountiful City Council Policy Priorities

These Policy Priorities are intended to provide the Council, Staff and the City's boards, commissions and residents with a succinct, unified vision of what is important to the City of Bountiful, Utah. Items in Tier 1 are considered to need more attention than items in lower tiers.

Tier 1

Improve & Maintain Infrastructure

- Stay ahead of the maintenance curve
- Appropriate & reasonable utility rates
- Long-term capital planning
- Communication of accomplishments

Community-Compatible Economic Development

- Lower the tax burden of residents
- Broaden the tax base
- Provide jobs & services
- Creative redevelopment

Financial Balance & Accountability

- Pay-as-you-go
- Transparency
- Balanced revenue sources

Open, Accessible, & Interactive Government

- Active resident engagement
- Consistent two-way communication
- Customer relations
- Professional, well trained staff

Tier 2

Sustainable Bountiful

- Long-term vision in planning
- Balanced housing mix
- Clean, safe neighborhoods

Preserve Community Identity & Vitality

- Vibrant Main Street
- Celebration & events
- Arts & history
- Public safety

Tier 3

Public Safety & Emergency Preparedness

- Community-oriented Police and Fire
- Active emergency preparation
- Engage & train neighbors

Regional Cooperation & Collaboration

- Shared facilities
- Strong relationships
- Economies of scale

Quality & Varied Recreational Opportunities

- Well maintained parks
- Trails & urban pathways
- World-class golf facility

Ideal Elements for Sustainability

- Adequate, dependable, and predictable revenue sources
- Predictable expenditures increasing at no more than the rate of inflation
- Setting aside reserve funds for future needs
- Conservative use of debt financing
- Unified commitment to conservative budgeting and spending by all parties
- Heightened level of Situational Awareness with flexibility and adaptability

Other General Points

- Know your organization – Assess Strengths, Weaknesses, Opportunities and Threats
- Know your industry and the factors which influence financial sustainability
- Actively collaborate with others for input and to see the big picture view
- “What E'er Thou Art, Act Well Thy Part”
(or generally, “stick with your core functions and competencies”)

Financial Sustainability – Some Ground Rules / Best Practices

- One-time revenues must not be used to fund ongoing expenditures
- Be careful not to build one-time expenditures into the ongoing base budget
- Follow the “Prudent Person” rule – What would I do if this were my money?
- New programs or new employees only with an ongoing revenue source or priority/policy mandate
- Quantify the effects on the operating budget of new capital improvements
- Recognize possible collateral effects of budget changes (e.g., new budgeted item(s) may affect other budget items)

Example 1 – Collateral Effects of Budget Decisions

- **New Park**

- **Potential Positive Impacts:**

- Additional vitality to the area
 - Offers multiple uses (recreation; community building, etc.)
 - Potential creative redevelopment opportunity
 - Additional park & facility rental fees
 - Additional green space
 - City beautification

Example 1 – Collateral Effects of Budget Decisions

- **New City Park**

- **Potential Negative Impacts:**

- Increased operations and maintenance costs
 - Potential for more nuisance or crime activity
 - Increased traffic in surrounding areas
 - Potential noise and other use complaints
 - Additional future capital needs

Example 2 – Collateral Effects of Budget Decisions

- **New Retail/Business Development**
 - **Potential Positive Impacts:**
 - Increased property tax revenue
 - Increased sales tax revenue
 - Increase employment opportunities
 - Varied service offerings for citizens

Example 2 – Collateral Effects of Budget Decisions

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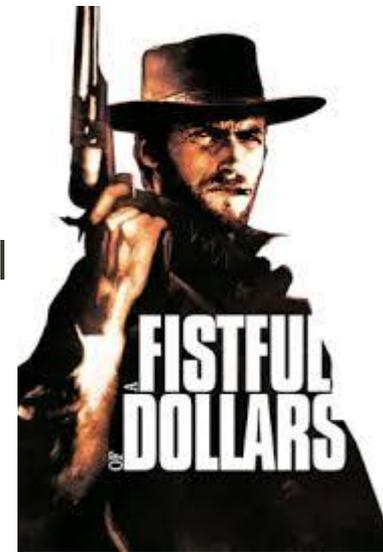
Public Finance Lifecycle

(with a little descriptive help from Clint Eastwood)

○ Phase 1: Growth Phase

- Focused on start-up activities & community needs assessment
- Funding needs to match growth
- Moderate to rapid increase in organization structure/expenses

A “**Fistful of Dollars**” could be very useful during this Lifecycle stage



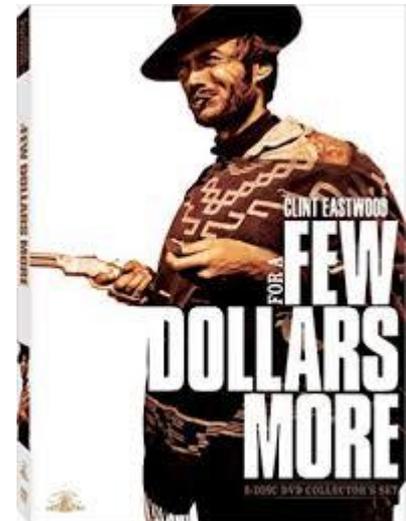
Source: Google.com/images

Public Finance Lifecycle

(with a little descriptive help from Clint Eastwood)

- **Phase 2: Early to Mid- Stage Phases**

- Continued growth with more and more needs for funding
- Refining community needs and matching of service offerings
- Always searching “**For a Few Dollars More**” to fund needs and new programs



Source: [Google.com/images](https://www.google.com/images)

Public Finance Lifecycle

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○ Phase 3: Mid-Stage to Mature Organizations

- Later years typically marked by a plateauing or maturing economic environment with possible declining revenue picture
- Management seeks for a long-term balance of revenues and expenses to maintain essential services
- Organization and management become a **“High Plains Drifter”** of sorts -

“A gunfighting stranger comes to the small settlement of Lago and is hired to bring the townsfolk together in an attempt to hold off three outlaws who are on their way.”

Those three outlaws or (states of being) become....

Info graphic and quote source: imdb.com



Public Finance Lifecycle

(with a little descriptive help from Clint Eastwood)

- **The Three Outlaws (or states of being) for Stable to Mature Organizations:**
 - **“The Good”** (Stable & mature community)
 - **“The Bad”** (Plateauing economy with possible declining revenues and rising expenses)
 - **“The Ugly”** (Limited places to grow revenues to maintain desired services)



Source: [Google.com/images](https://www.google.com/images)

Keys for Success Along the Public Finance Lifecycle

- Well Stated Mission Statement and Strategic Plan
- Comprehensive General Plan to guide development
- Well articulated Policies and Priorities
- Shared views of necessities vs discretionary items
- Established emergency reserves philosophy
- Pay-as-you-go methodology for most projects
- Transparency and regular communication
- Budget aligned with mission; adopted plans and key policies and priorities
- Regular monitoring and reporting
- Course adjustments and alignments as needed

Common Forecasting and Budgeting Tools

- Models/Templates for:
 - Sensitivity Analysis (General & Capital Funds)
 - Sensitivity Analysis (Enterprise Funds)
 - Long-term Trend Analysis
 - Long-term Capital Planning
 - Conservative Investing
 - Regular Financial & Budget Monitoring

Questions? Thank You



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