

## TURNING FINANCIAL DISTRESS INTO FINANCIAL SUCCESS

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## WHAT HAPPENED IN BRUNSWICK?

Late 1990s, implemented Full-Time Division of Fire without a new tax levy.

Division of Police expenditures growing much faster than tax funding provided by tax levies.

City issued more than \$10 million in new debt to address traffic signalization and various storm water concerns in early 2000s. No new funding sources to pay off the debt.

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## WHAT HAPPENED IN BRUNSWICK?

Road Improvements were limited to those funded through grants and maintenance became impossible.

Departmental capital programs eliminated unless an emergency; Ex: borrowed to purchase a Fire Truck.

Sold assets and used proceeds to operate.

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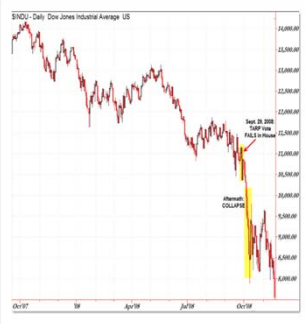
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HOW BAD DID IT GET?  
Look Familiar?

Time for Handout #1  
(GAAP Bottom Line Modified Accrual - Governmental Funds)  
(FYEs 2002-2008)

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HOW WOULD YOU FEEL?

Handouts 2-3 Pics

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ARE YOU UP FOR THE CHALLENGE?

Challenge Pics - Handout 4

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WHAT TYPE OF PERSON  
ARE YOU?

WHO WOULD  
YOU INVOLVE?

WHERE AND HOW WOULD  
YOU START?

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## EXERCISE

IF YOU WERE APPOINTED  
FINANCE DIRECTOR (IN 2010),  
WHAT WOULD YOU HAVE DONE?

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## SHARE OUR STORY

Todd's story – 2003-current. Finance Director in 2010

Lynnette's story – 2011-current

Now its time to tell  
you how the City  
turned our  
financial distress  
into financial  
success

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# SHOCK & AWE

August 2010 Presentation  
City Council  
Audit Committee  
City Employees

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# GOALS OF PRESENTATION

- 1) Understand current and projected cash reserves status.
- 2) Review historical information and understand Cash to GAAP presentation and differences.
  - What happened since 2002 and how did we get here?
- 3) Recognize current debt situation and discuss alternate funding plans.
- 4) Determine future budget and financial focus.
- 5) Review and understand 2011 and 2012 high-level picture.
- 6) Recommendations or corrective action plan.

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# RECOMMENDATIONS/ CORRECTIVE ACTION PLAN

- 1) Must develop and adhere to a strategic Master Plan.
  - Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people.
  - Prioritization of services, resources, and capital is key.
  - Severely limit abrupt changes to master plan to provide structure, consistency and processes in order to succeed.
    - Historically, significant budget amendments/abrupt changes have been "the norm".
    - Finance Committee and/or Financial Audit Advisory Review Committee should also review all new future projects involving debt or risk to the City's operating revenue.
  - If a stable environment persists, implement a sound investment strategy/program with the existing cash reserves.
- 2) Must consider and implement, in part or total, alternate funding sources for debt issued between 2002-2009.
  - If not considered or implemented, must be prepared to reduce current services to be in-line with the "new" dedicated income tax funding model.

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## RECOMMENDATIONS/ CORRECTIVE ACTION PLAN (Cont.)

- 3) Funding mechanisms, to pay debt obligations, for all new debt projects should be identified prior to issuing debt.
  - If existing funding sources, rather than new funding sources, are identified to retire the debt, a corresponding reduction in expenditures should be identified.

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## RECOMMENDATIONS/ CORRECTIVE ACTION PLAN (Cont.)

- 4) Must balance the budget as a result of low cash reserves.
  - Expenditures should not exceed realistic or reasonably expected revenue projections.
  - One time revenues should not be matched up against recurring expenditures.
  - Consider reinstating a departmental capital replacement program. Cost versus benefit analysis.
  - Consider hiring freeze for all positions unless position is tied to a defined revenue stream or is self-supporting.
    - Person recommending hiring must be able to present proof of revenue stream. To be considered by Council and/or Financial Audit Advisory Review Committee.
  - Consider using any possible ERI "savings" to bridge budget gap rather than commit to roads.
  - Prioritize and must be able to make tough decisions.

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## RECOMMENDATIONS/ CORRECTIVE ACTION PLAN (Cont.)

- 5) Focus on high-level items and not so much in the details.
  - Focus on biggest revenue and expenditure sources.
  - Focus on new funding mechanisms.
  - Think "outside the box".
- 6) Must return to comfortable Cash Reserve levels. Cash reserves are necessary to:
  - Allow for unexpected or expected emergencies to be handled.
    - a downturn in the economy, significant reductions in revenue streams, unpredictable events (natural disasters, etc.), etc.
  - Allow for fluctuations in the numerous variables and assumptions that make up the City budget.
  - Allows for a consistent investment program.
  - Weighed against service levels. How much is reasonable?

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## WHY DID WE DO THIS?

SHOCK & AWE!  
CHANGE BEHAVIORS  
REBUILD & EARN TRUST  
HAVE TO START SOMEWHERE

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## INCREASE REVENUES

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## SPECIFIC TAX LEVY

- City passed a temporary safety levy
  - Saved the City
    - Made everything else possible
  - Temporary nature
    - built trust
    - Generated \$3.8 million for safety forces in first full year of collections
  - Only got us back to ground zero
    - no room to address other issues, debt load, capital, etc.
    - Could lose it.
    - Difficult to plan for the future.

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## IMPLEMENTED A STORM WATER FEE

- Used to retire debt obligations issued on storm water projects.
  - Financial restatements involved
  - Half of fee already sunk in debt for 20 years
  - Other half maintained in annual program
  - Prevented City from further layoffs

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## STOP OVERSPENDING & CONTROL EXPENDITURES

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## EARLY RETIREMENT INCENTIVE PROGRAM OPERS ONLY

How It Works – Restrictions on Program  
Must stick to plan to work out. Avoid pressure.  
Catalyst to convert departments make-up & staffing levels  
Still today we save about \$1 million annually from this program.  
Savings used for road/capital program.  
Can cause coverage/staffing limitations  
Know what you are getting into. Know the pros & cons

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## FUND STRUCTURE CHANGES

- ◉ Remove every big operation/service out of the GF
  - Place into separate Special Revenue Fund
  - Establish purpose per AOS/GASB 54
  - Force departments to run as a business and no longer be saved by the General Fund
    - Different approach to zero based budgeting and other textbook approaches you may see

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## FUND STRUCTURE CHANGES (Continued)

- ◉ Create capital subfunds within each department's fund or account
  - Replaced old mechanism and flaws
  - Provides non-monetary incentives for good performance
  - How City restored its departmental capital replacement program
    - Mainly by changing behaviors
    - Created an environment to do well and save for the future
    - Rewarding and supporting good behaviors

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## FUND STRUCTURE CHANGES (Continued)

- ◉ Created City's first ever Capital Projects Fund
  - Accounts for projects not otherwise tied to a department or roads.
    - building improvements, parking lots, etc.
  - Allocated % of Income taxes to this fund that used to go to funding operations.
  - Working towards better capital vs operation ratios.

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## INCOME TAX ALLOCATION CHANGE(☺)

- Combined % allocation method with \$ method.
- Catalyst to develop fund balance reserves
  - Helped to establish 1<sup>st</sup> ever General Fund reserve.
  - Helped to establish separate special revenue fund reserves for safety forces and protect against any potential sudden loss in temporary levy.
  - Have a systematic plan that buys time vs a chaotic plan.
- Demonstrate how it works.
- Provides Council and Administration with the most funding flexibility by law while holding people accountable to perform.
- Make sure levy promises and requirements are followed first before anything else.

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## Fund Balance Reserve Policy

Build sufficient reserves before creating a policy.  
Know the purpose.  
Policy should take into account environment and CFO/CEO personalities.  
Get buy-in from all parties....  
Consider a minimum and maximum reserve level.  
Define what happens if minimum or maximums aren't followed or exceeded.  
Consider capital, debt and operation ratios.  
Require annual reviews and updates to the policy (as part of the policy itself).

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## DEBT OBLIGATION FUND

Found alternative funding sources to retire debt.  
Establish funding plans to retire debt before issuing.  
City currently has no debt requirements paid from this fund, thus allowing revenue sources to be reallocated to other projects (cash basis).  
Balance debt/leveraging versus cash basis.

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Establish a Citizens'  
Financial Review and  
Audit Committee

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Balance the Budget  
and  
Plan for the Future

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**Improve  
Infrastructure**

Systematically and under a planned approach

Plan for the future before the future arrives

"Easier said than done." Difficult hurdles to overcome.

People's nature.  
Don't want to pay for something they don't need now. Levies.  
Won't complain to you until it's too late.

One of the biggest issues facing the City today.  
Have over 400+ roads and we complete about 2-3  
road projects a year due to funding limitations.

Depreciated value of our roads are now at  
47% of original cost. Area of concern from  
AOS financial indicators and analysis.

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## Update Technology

Systematically and under a planned approach

Plan for the future before the future arrives

Made a lot of strides but still have a lot of work to do.

Comes down to priorities. Infrastructure vs technology.

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## Investment Portfolio & Increase Revenues

Must build a consistent reserve and communicate.

Review options and, if applicable, update policy.

Consider an investment advisor or broker.

Increased **interest** revenue by 2,100% from 8 years ago.

Interest revenue in 2018 expected to increase by over 20% from 2017.

Most interest revenue accounted for in the General Fund. Provides flexibility. Used for road improvement projects over the last 3 years.

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## Financial Results from 2010-2017

Pic Handouts 4 & 5

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LEARN FROM HISTORY  
TRY TO PREVENT  
REPEATING MISTAKES

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KNOW SOME THINGS WE DID  
MAY NOT ALWAYS WORK IN  
OTHER COMMUNITIES  
(Lots of factors involved)

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STRONG WILLED INDIVIDUALS,  
WHO ARE TRUSTED AND  
POSSESS THE ABILITY TO SAY NO  
TO OTHERS WHEN NEEDED HAVE  
A GREATER CHANCE AT  
SUCCESS.

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REMEMBER WHO YOUR  
"REAL BOSSES" ARE

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RECOGNIZE & THANK  
PEOPLE WHO MAKE  
POSITIVE CHANGES

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BE GREAT  
(NEVER MEDIOCRE)

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LUCK IS INVOLVED  
AND HELPS

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REFLECT  
BE PROUD OF  
ACCOMPLISHMENTS BUT  
NEVER BE SATISFIED

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LEAVE YOUR COMMUNITY IN  
BETTER SHAPE THEN WHEN  
YOU ARRIVED

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TURN YOUR FINANCIAL  
DISTRESS INTO FINANCIAL  
SUCCESS!

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