



**Creative Solutions  
FOR  
Thriving Communities**

CENTRALINA COUNCIL OF GOVERNMENTS

**REGIONAL CONFERENCE 2014**

# **Beyond Pay Check-to-Pay Check: Long-Term Financial Strategies for Successful Communities**



GROWING Jobs and Our Economy | CONTROLLING Cost of Government | IMPROVING Quality of Life

# Beyond Pay Check-to-Pay Check: Long-Term Financial Strategies for Successful Communities

**Jim Prosser, Executive Director  
Centralina Council of Governments**

**Pamela S. Dubois, Deputy County Manager  
Cabarrus County**

# What Is a Financial Plan?

1. A spreadsheet containing a ten-year projection of capital and operating costs with revenue projections and “gap” analysis
2. A narrative with findings and recommendations focused on key policies and practices to support the plan
3. A strategic plan, updated annually, to strengthen your long-term financial position
4. Manage credit rating

# Why Develop a Financial Plan?

- Develop context for better (more informed) financial decisions
- Forecast and coordinate future financial investment needs
- Improve annual budget process
- Establish framework for assessing financial impact of development options
- Demonstrate return on investment for funding projects with “out-year” cost savings

# How to Develop a Financial Plan

- Engage elected officials to identify goals, concerns and issues to be addressed by plan
- Staff prepares “true” budget, projected capital costs and growth options
- Build spreadsheet with operating projections, debt service cost (based on capital needs), revenue projections and gap analysis
- Agree upon growth modeling options

# Building a Financial Plan

- Engage elected officials at key stages
- Identify your “financial foundations”
- Develop a “cost to serve” model
- Update plan annually prior to annual budget
- Incorporate annual strategic plan
- Allow reasonable time to build plan

# Cabarrus County, North Carolina

Pamela S. Dubois, Deputy County Manager

# Budget and Financial Planning

- Capital Improvement Plan – Projects with a cost exceeding \$100,000 and the associated ongoing operating cost with the project for future budgets
- Board retreat where priorities are set regarding personnel policy related to employee compensation, healthcare cost effects, and direction of the tax rate for budget
- Departments submit personnel request to Budget Division
- Departments submit detailed budget request to Budget Division



# Budget and Financial Planning (continued)

- Budget, County Management, and Departments meet to review the request for level of funding
- Budget receives outside funding requests from Schools, Community College, Health Alliance, Economic Development, and other agencies
- Budget is prepared and balanced and submitted to Commissioners for approval

# Highlights of this presentation

- Capital Improvement Plan (CIP)
- Funding Requirements of Counties in NC
  - Community Colleges
  - Public Schools
  - Court Facilities
  - County Facilities: Jails, EMS, Parks, Admin, etc.

# Highlights of this presentation (continued)

- CIP Plan for Cabarrus County with priorities set
- Assessing Funding Large Capital Needs
  - Reserve Policy
  - Debt Issuance
- Projecting out 5 years to fund operational and capital needs

# Why do a CIP? What are the benefits to the Board and the citizens? What are the obstacles?

- CIP allows for the accumulation of projects needed to operate and improve upon the services of the County
- The plan provides a snapshot of all the needs in the community and the projected time frame of the funding
- The most difficult part of the CIP is to integrate the capital needs of Schools and the Community College

# Why do a CIP? What are the benefits to the Board and the citizens? What are the obstacles?

## (continued)

- The economy put a limit on funding large capital maintenance projects for the all parties
- The County did not issue any school debt during the recession due to limited revenue sources

# Capital Expenditures and Funding Requirements

- General Statute (GS) 115D-32 (a) (1) states that the tax-levying authority shall be responsible for providing, in accordance with the provisions of GS115D-33 and 115D-34, as appropriate, adequate funds to meet the financial needs of the institutions (Community Colleges) for Plant items such as land purchases, erecting of buildings, purchase of autos, buses, trucks, purchase or rental of all equipment necessary for the maintenance of building and grounds operations of plants; and purchase of all furniture and equipment not provided for administrative and instructional purposes
- A similar statute, GS115C-426 (f) also requires the County to fund capital outlay for both School Districts but the level of funding is not mandated

# Capital Expenditures and Funding Requirements (continued)

- The County is also required to provide a courthouse for state staff and to provide for the upfit and replacement of furniture and some equipment.
- And then there are also County projects like a Sheriff Admin and Jail Facility, Facility for Department of Human Services, Parks, Senior Centers, EMS Stations, 911 Centers, Administration, etc.

# Cabarrus County's CIP

| Capital Improvement Plan                                    |                    |                    |                     |                     |                     |                     |                       |
|---|--------------------|--------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| CAPITAL IMPROVEMENT PLAN BY PROJECT                         |                    |                    |                     |                     |                     |                     |                       |
|   | Adopted<br>FY 2013 | Adopted<br>FY 2014 | Planning<br>FY 2015 | Planning<br>FY 2016 | Planning<br>FY 2017 | Planning<br>FY 2018 | Planning<br>Beyond    |
| General Government  |                    |                    |                     |                     |                     |                     |                       |
| Courthouse Chiller  | 135,000            |                    |                     |                     |                     |                     |                       |
| Elections Voting Equipment                                  |                    |                    |                     | 1,000,000           |                     |                     |                       |
| Fleet Maintenance Addition / Expansion                      |                    |                    |                     |                     |                     |                     | 465,000               |
| General Services Grounds Division Relocation                |                    |                    |                     |                     |                     |                     | 260,000               |
| Governmental Center Chiller Replacement                     |                    |                    |                     |                     | 165,000             |                     |                       |
| Multi Building Precast Sealing and Caulking                 | 240,000            |                    |                     |                     |                     |                     |                       |
| Parking Deck - Downtown Area                                |                    |                    |                     |                     | 75,000              |                     | 5,425,000             |
| <b>Total</b>  | <b>\$ 375,000</b>  | <b>\$ -</b>        | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$1,165,000</b>  | <b>\$ 75,000</b>    | <b>\$ 6,150,000</b>   |
| Culture and Recreation                                      |                    |                    |                     |                     |                     |                     |                       |
| Arena - HVAC Equipment Replacement                          | 1,000,000          |                    |                     |                     |                     |                     |                       |
| Arena- Event Center Entrance                                |                    |                    |                     | 140,000             |                     |                     |                       |
| Arena- Marquee Replacement & Sign Enhancements              |                    |                    |                     | 112,500             |                     |                     |                       |
| Arena- Pave Front Overflow Lot                              |                    |                    |                     | 117,500             |                     |                     |                       |
| Arena - Roof Replacements                                   | 52,000             |                    |                     |                     |                     |                     |                       |
| Arena- New High Man Lift (new)                              |                    |                    | 127,000             |                     |                     |                     |                       |
| Camp T.N. Spencer Park                                      | 75,000             | 990,420            |                     |                     |                     |                     | 1,932,488             |
| Atando Road Park/ Elma C. Lomax Incubator Farm              |                    |                    |                     |                     |                     |                     | 1,260,929             |
| Frank Liske Park Artificial Turf (by GSA)                   |                    |                    |                     |                     |                     |                     | 1,600,000             |
| Frank Liske Park Multi-Projects                             |                    |                    |                     | 850,000             |                     |                     | 2,485,000             |
| Frank Liske Park Overflow Parking Lot (new)                 |                    |                    | 165,000             |                     |                     |                     |                       |
| Frank Liske Park Western Playground Restroom Facility (new) |                    |                    | 220,000             |                     |                     |                     |                       |
| Frank Liske Park Tennis Courts' Lights Replacement          |                    | 135,000            |                     |                     |                     |                     |                       |
| School Park Projects- Miscellaneous                         |                    |                    |                     |                     |                     |                     | 5,000,000             |
| North Cabarrus Park   |                    |                    |                     |                     |                     |                     | 3,850,000             |
| Northeast Cabarrus Community Park                           |                    |                    |                     | 1,500,000           |                     |                     | 6,175,000             |
| Park Land Acquisition                                       |                    |                    |                     |                     |                     |                     | 28,800,000            |
| Robert Wallace Park   |                    | 950,000            | 535,735             |                     |                     |                     | 5,964,265             |
| Rocky River Greenway  |                    |                    |                     |                     |                     |                     | 76,000,000            |
| Cox Mill Parking Lot (new)                                  |                    | 250,000            |                     |                     |                     |                     |                       |
| Mt. Pleasant Library Expansion                              |                    |                    |                     |                     |                     |                     | 456,000               |
| West Cabarrus Library Branch                                |                    |                    |                     |                     |                     |                     | 4,514,000             |
| <b>Total</b>  | <b>\$1,127,000</b> | <b>\$2,325,420</b> | <b>\$ 827,735</b>   | <b>\$2,940,000</b>  | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ 138,037,682</b> |
| Public Safety   |                    |                    |                     |                     |                     |                     |                       |
| Courthouse Expansion / Relocation                           |                    |                    |                     |                     |                     |                     | 60,000,000            |
| Emergency Communications Improvements                       |                    | 520,000            |                     |                     |                     |                     |                       |
| Radio Replacement (new)                                     |                    |                    | 336,000             | 336,000             | 336,000             |                     |                       |
| EMS Co-station Concord Mills Area                           |                    | 375,000            |                     |                     |                     |                     |                       |
| Public Safety Training Facility                             |                    |                    |                     |                     |                     |                     | 19,000,000            |
| <b>Total</b>  | <b>\$ -</b>        | <b>\$ 895,000</b>  | <b>\$ 336,000</b>   | <b>\$ 336,000</b>   | <b>\$ 336,000</b>   | <b>\$ -</b>         | <b>\$ 79,000,000</b>  |





# How do you fund your CIP Plan?

- **Reserve Policy**
- In accordance with state statute, appropriated fund balance in any fund will not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts
- The County will maintain an unrestricted, unassigned fund balance that exceeds eight percent (8%) of annual general fund expenditures in accordance with the North Carolina Local Government Commission's (LGC) recommendation. For a County our size, a recommended target goal of fifteen percent (15%) should be maintained. These funds will be used to avoid cash-flow interruptions, generate interest income, eliminate the need for short-term borrowing, assist in maintaining an investment-grade bond rating, and sustain operations during unanticipated emergencies and disasters

# How do you fund your CIP Plan? (continued)

- On June 14, 2005 (revised March 15, 2010), the Board of Commissioners adopted a resolution formalizing the following fiscal management policies to be incorporated into the County's budget document beginning with the 2006 fiscal year:
  1. Recurring, operational expenses of the County government will only be funded through recurring revenue sources;
  2. The County will maintain an unrestricted, unassigned fund balance equal to 15% of general fund expenditures; and
  3. Upon the completion of the annual audit of the County finances, any unrestricted, unassigned fund balance above 15% will be transferred to the Capital Reserve Fund, to reduce reliance on debt financing; or to the Self-Funded Hospitalization Fund as required to maintain the integrity of those funds
- Notwithstanding the requirements of items 1, 2, and 3 above, fund balance may be committed or assigned for any use in the general fund to overcome revenue shortfalls related to significant downturns in the economy

# For Large Projects, Debt Financing is most appropriate, unless you have available cash on hand.

- First needs are those primarily relating to the cost of land, architect, and engineering in a building project. These cost are necessary to establish the construction cost of a facility which in turn must be defined in dollars in order to finance this portion of the project. These cost are ideal for cash funding.
- Next phase is site work, contingency, demolition (if necessary) and the actual construction cost. Site work and contingency could be paid for by cash based on resources available and construction is a great candidate for debt financing.
- The final cost needed for the project are technology requirements, furniture and fixtures for the facility. These cost are ideal for cash as their useful life is short in nature and financing tend to have a longer term of payback

# Project List for 5 New Facilities

| Estimated Cost of Project | \$ 22,800,000          | \$ 12,300,000    | \$ 3,700,000 | \$ 2,500,000      | \$ 20,000,000 | \$ 25,000,000        |            |           |            |
|---------------------------|------------------------|------------------|--------------|-------------------|---------------|----------------------|------------|-----------|------------|
| Project Title             | Mt. Pleasant<br>Middle | RCCC<br>Building | RCCC<br>Land | Odell 3-5<br>Elem | Royal<br>Oaks | Kannapolis<br>Middle | Total      | Cash      | Debt       |
| Funded already            |                        |                  |              |                   |               |                      |            |           |            |
| Land                      | owned                  | owned            |              |                   | new site      | owned                |            |           |            |
| Architect/Engineering     | 2,000,000              |                  |              |                   |               | 1,319,000            |            |           |            |
| Unfunded cost ( Below)    |                        |                  |              |                   |               |                      |            |           |            |
| Land                      |                        |                  | 2,335,320    |                   | 1,540,000     |                      | 3,875,320  | 3,875,320 |            |
| Architect/Engineering     |                        | 1,060,000        | 85,680       |                   | 890,000       | 681,000              | 2,716,680  | 2,716,680 |            |
| Demolition                | 500,000                |                  |              |                   |               |                      | 500,000    | 500,000   |            |
| Administrative Cost       | 200,000                | 206,000          | 55,000       |                   | 150,000       |                      | 611,000    | 611,000   |            |
| Site Work                 |                        | 695,000          | 1,200,000    |                   |               | 1,961,556            | 3,856,556  |           | 3,856,556  |
| Construction              | 18,174,000             | 9,715,000        |              | 2,500,000         | 15,360,000    | 17,984,400           | 63,733,400 |           | 63,733,400 |
| FF&E                      | 500,000                | 30,000           |              |                   | 750,000       | 2,457,551            | 3,737,551  | 3,737,551 |            |
| Technology                | 500,000                |                  |              |                   | 800,000       |                      | 1,300,000  | 1,300,000 |            |
| Contingency               | 926,000                | 213,740          | 24,000       |                   | 510,000       | 596,493              | 2,270,233  | 2,270,233 |            |
| Escalation Cost           |                        | 380,260          |              |                   |               |                      | 380,260    | 380,260   |            |

Balance to fund for projects      20,800,000      12,300,000      3,700,000      2,500,000      20,000,000      23,681,000      82,981,000      15,391,044      67,589,956

# Compiling a Plan to combine 5 years of operational and capital expenditures with funding resources

- Establish the current balanced budget (i.e. Budget for FY 2016 to be adopted in June of 2015) while incorporating the current year approved CIP projects for funding
- Estimate the growth in revenues over the following 4 years based on historical patterns and current data., i.e. valuation of County properties, building permits issued, and documents recorded. Also estimates of state and federal grant funding as well as program fees collected by departments
- If debt is pending, look to the revaluation year to see if the growth in the tax base can handle the level of debt anticipated

# Compiling a Plan to combine 5 years of operational and capital expenditures with funding resources (continued)

- Begin the process of estimating the actual operational expenditures needed to operate the County and increases needed if new facilities are built such as new schools, parks, county facilities such as new EMS stations
- If new facilities are needed and subject to debt financing, debt service will need to be projected and included in the expenditure section of the plan
- CIP projects also need to be incorporated if funded by General Fund monies
- Once all this data is analyzed, the plans must balance each year. This could mean that expenditures may need to be reduced, revenues may need to be reassessed, or worse case, the tax rate needs to be adjusted to meet the needs as determined by the Board of Commissioners

# Cabarrus County's FY2014 Plan - Revenues

## Five Year Financial Plan

| GENERAL FUND  |                    |                    |                    |                                 |                    |
|---|--------------------|--------------------|--------------------|---------------------------------|--------------------|
|   | <u>2014</u>        | <u>2015</u>        | <u>2016</u>        | Revaluation Year<br><u>2017</u> | <u>2018</u>        |
| <u>Budgeted Revenues for:</u>                                       |                    |                    |                    |                                 |                    |
| Amended Budget less one time revenues from the previous fiscal year | 191,835,332        | 203,400,339        | 206,710,357        | 210,144,532                     | 220,391,089        |
| Ad valorem  |                    |                    |                    |                                 |                    |
| Change resulting from Revaluation                                   | -                  | -                  | -                  | 6,737,639                       |                    |
| Growth/Decline in tax base  | 2,780,813          | 2,017,698          | 2,591,597          | 2,645,357                       | 2,835,022          |
| Improvement in DMV collections rate 5%                              |                    | 470,000            |                    |                                 |                    |
| Other Taxes   |                    |                    |                    |                                 |                    |
| Growth in Sales taxes   | 3,350,847          | 443,951            | 450,610            | 457,369                         | 464,230            |
| New 1/4 cent sales tax/education capital projects                   | 1,957,211          | 89,103             | 90,439             | 91,796                          | 93,173             |
| Permits & Fees  |                    |                    |                    |                                 |                    |
| Ambulance Fees  | 145,805            | 92,206             | 94,050             | 95,931                          | 97,850             |
| Building Inspection Fees  | 671,804            | 126,780            | 134,387            | 142,450                         | 150,997            |
| Register of Deeds Fees  | 405,800            | 70,280             | 73,091             | 76,015                          | 79,055             |
| Other   |                    |                    |                    |                                 |                    |
| QSCB Subsidy Payments   | (67,070)           | -                  | -                  | -                               |                    |
| Increase (Decrease) in other Revenues                               | 2,319,797          | -                  | -                  | -                               | -                  |
| <b>Total Re-occurring Revenues</b>                                  | <b>203,400,339</b> | <b>206,710,357</b> | <b>210,144,532</b> | <b>220,391,089</b>              | <b>224,111,417</b> |
| One Time Revenue Sources  |                    |                    |                    |                                 |                    |
| Proceeds from DMV change ( 4 months add revenues)                   | 2,467,049          |                    |                    |                                 |                    |
| COPs Proceeds - School Debt/Housing Unit                            | 2,681,834          | -                  | -                  | -                               |                    |
| Lottery Proceeds  | 4,911,790          | 2,200,000          | 2,000,000          | 2,000,000                       | 2,000,000          |
|   | -                  |                    | -                  | -                               |                    |
| Fund Balance Appropriated   | -                  | 1,197,050          | -                  | -                               |                    |
| <b>Total One-time Revenues</b>                                      | <b>10,060,673</b>  | <b>3,397,050</b>   | <b>2,000,000</b>   | <b>2,000,000</b>                | <b>2,000,000</b>   |
| <b>Total Revenues</b>   | <b>213,461,012</b> | <b>210,107,407</b> | <b>212,144,532</b> | <b>222,391,089</b>              | <b>226,111,417</b> |



# Cabarrus County's FY2014 Plan - Expenditures

|   |                             |                             |                             |                             |                             |  |  |  |  |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--|--|--|--|
| Budgeted Expenditures for:  |                             |                             |                             |                             |                             |  |  |  |  |
| Amended Budget less one time expenditures from the previous fiscal year | 200,226,468                 | 209,035,101                 | 208,887,407                 | 210,214,519                 | 216,455,184                 |  |  |  |  |
| County Services   |                             |                             |                             |                             |                             |  |  |  |  |
| Personnel increases due to service expansion/realignments               | 1,967,134                   | 468,299                     |                             | -                           |                             |  |  |  |  |
| Increases in Health Insurance   | 907,698                     | 300,000                     | 511,000                     | 546,770                     | 585,044                     |  |  |  |  |
| Benefits for part-time employees (Health Care Reform)                   | 23,946                      |                             | -                           | -                           |                             |  |  |  |  |
| Increase in Merits/Salary Adjustments/COLA/Outside Ag.                  | 1,013,852                   |                             | -                           | -                           |                             |  |  |  |  |
| Operating (misc., not captured in other categories)*                    | 661,130                     | 339,175                     | 1,500,000                   |                             |                             |  |  |  |  |
| Debt  |                             |                             |                             |                             |                             |  |  |  |  |
| Retirement of Debt Service  | (246,921)                   | (262,333)                   | (275,216)                   | (395,621)                   | (283,942)                   |  |  |  |  |
| Schools   | (777,256)                   | (786,818)                   | (1,067,522)                 | (1,093,139)                 | (1,123,669)                 |  |  |  |  |
| Qualified School Construction Bonds                                     | -                           | -                           | 1,330,000                   | -                           |                             |  |  |  |  |
| New Debt Service for Capital Needs                                      |                             |                             |                             | 8,433,430                   | (88,113)                    |  |  |  |  |
| Other   |                             |                             |                             |                             |                             |  |  |  |  |
| Fulfilled/Added Econ Dev Incentive Grants                               | 1,151,217                   | 50,283                      | (674,450)                   | (1,249,400)                 | (167,000)                   |  |  |  |  |
| Obligation to Kannapolis (TIF)  | 44,000                      | 43,700                      | 3,300                       | (1,375)                     | 1,625                       |  |  |  |  |
| Increase in Current Expense Funding for Schools (tech lease)            | 1,433,094                   |                             |                             |                             |                             |  |  |  |  |
| Increase in current expense for supplements (1.5%)                      | 138,891                     |                             |                             |                             |                             |  |  |  |  |
| Increase in current expense for growth in ADM                           | 679,330                     |                             |                             |                             |                             |  |  |  |  |
| Increase to KCS if pull school nurses out of ADM calc                   | 25,450                      |                             |                             |                             |                             |  |  |  |  |
| Special Olympics Salary increase FY 2013                                | 930                         |                             |                             |                             |                             |  |  |  |  |
| Increase in Contribution to Health Alliance                             | 658,756                     | (300,000)                   | -                           | -                           | -                           |  |  |  |  |
| Decrease in Contribution to Arena Fund                                  | (91,554)                    | -                           | -                           | -                           |                             |  |  |  |  |
| Increase to EDC   | 20,000                      |                             |                             |                             |                             |  |  |  |  |
| Increase (Decrease) in Contingency                                      | 1,198,936                   |                             |                             |                             |                             |  |  |  |  |
| <b>Total Re-occurring Expenditures</b>                                  | <b>209,035,101</b>          | <b>208,887,407</b>          | <b>210,214,519</b>          | <b>216,455,184</b>          | <b>215,379,129</b>          |  |  |  |  |
| Capital Projects/ One-time Expenditures                                 |                             |                             |                             |                             |                             |  |  |  |  |
| Capital Improvement Plan - General Fund Monies                          | 4,203,000                   | 1,220,000                   | 1,220,000                   | 1,220,000                   | 1,220,000                   |  |  |  |  |
| Contribution to State Unemployment Fund                                 | 222,911                     |                             |                             |                             |                             |  |  |  |  |
| <b>Total Capital/One-time Expenditures</b>                              | <b>4,425,911</b>            | <b>1,220,000</b>            | <b>1,220,000</b>            | <b>1,220,000</b>            | <b>1,220,000</b>            |  |  |  |  |
| <b>Total Expenditures</b>   | <b>213,461,012</b>          | <b>210,107,407</b>          | <b>211,434,519</b>          | <b>217,675,184</b>          | <b>216,599,129</b>          |  |  |  |  |
| Revenues over (under) Expenditures                                      | 0                           | 0                           | 710,013                     | 4,715,906                   | 9,512,288                   |  |  |  |  |
| Estimated Unassigned Fund Balance as percentage of General Fund Budget  | 49,672,423                  | 48,475,373                  | 49,185,386                  | 53,901,292                  | 63,413,580                  |  |  |  |  |
| Property Tax Rate   | 23.27%<br>.70/ 100          | 23.07%<br>.70/ 100          | 23.26%<br>.70/ 100          | 24.76%<br>.70/100           | 29.28%<br>.70/100           |  |  |  |  |
| <b>Total Debt Service Payments as a % of Current Budget</b>             | <b>42,359,335</b><br>20.26% | <b>41,310,184</b><br>19.78% | <b>41,297,446</b><br>19.65% | <b>48,242,116</b><br>22.29% | <b>46,746,392</b><br>21.70% |  |  |  |  |

# Major Point of Reference

- Only the first year of the plan is a reality. It is adopted by the Board as the true budget for the next fiscal year
- A 5-Year Plan is only a projection (snapshot in time) based on anticipated needs and requests at the time
- Capital Improvement Plans also need to be fluid as major events can occur that change the priorities of the County. The projects typically hold true to form but may switch funding cycles due to priorities

# Major Point of Reference (continued)

- Needs and priorities change so the plan needs to be fluid as its subject for change each budget cycle
- Planning is a great way to evaluate the needs of an organization as well as understanding the limit of resources that are available as well

# Session Take-Aways

1. Financial planning is an essential element of sound financial management.
2. Financial plans need to reflect capital and operating needs over at least a five to ten year time frame.
3. Financial plans provide the opportunity to model financial impacts of growth, improvement and investment options.
4. Effective financial planning engages elected officials and staff.

# Comments and Questions?



## **Key Financial Strategies**

An emerging trend for cities is the development of long-term financial plans. Borrowing concepts from both Comprehensive Land Use Planning and the private sector, governments are combining elements of strategic and financial planning with capital and operating projections. The result provides an enhanced framework for financial decisions so elected officials have the essential information needed to make critical decisions on a timely basis. The following provides some answers to basic questions about financial planning:

### **Q. What are the essential elements of a financial plan?**

A. A financial plan should include three basic elements; a spreadsheet with a five to ten year projection of capital and operating needs, a narrative description of the basis for those needs and a prioritized schedule of actions needed to implement the plan.

### **Q. How does a financial plan differ from a capital improvement plan (CIP)?**

A. A financial plan differs from a CIP in several basic ways. First a CIP generally addresses only capital needs. Sometimes a CIP outlines needs without a realistic identification of funding sources. A financial plan includes both capital and operating needs and outlines the funding sources as well. In addition financial plans generally include capital needs typically overlooked in most CIP.

### **Q. What is typically included in financial plans?**

A. Centralina has identified “financial foundations” that should be addressed within a financial plan including typical CIP elements, growth impacts costs, pavement management systems, non-annual recurring maintenance, facility replacement, information technology, economic development, housing, debt management, budget options, council goals, vehicle replacement and credit rating issues.

### **Q. How is a financial plan developed?**

A. Normally the financial planning process includes four stages. Stage One identifies the financial needs (foundations) that will be addressed in the plan. Stage Two includes developing general estimates of revenue projections, costs, debt service schedules and timing to address the financial needs into a spreadsheet format. Stage Three is the development of strategies to address the inevitable gap between needs and resources. Stage Four is refinement of the projections, preparation and presentation of the final plan including narrative plan description and prioritized implementation schedule.

### **Q. What can a financial plan tell officials that they don’t already know?**

A. The primary benefits of the plan include assembling and quantifying the collective knowledge of staff and elected officials regarding projected needs. Most important, the plans typically provide projections of the impact on taxpayers to support the projected needs. This provides the information needed to begin to align expectations with resources in a realistic manner.

**Q. What is the role of elected officials and staff in preparation of the plan?**

A. Financial plans are only useful if elected officials provide guidance and sign-offs at each stage. This can be accomplished through a series of workshops corresponding to each stage where elected officials review and refine the draft plan elements. Staff is typically responsible for identifying financial needs; preparing revenue, cost and timing estimates; developing narrative plan elements and summarizing the plan implementation schedule.

**Q. How much time does it take to prepare a financial plan?**

A. Typically the planning process requires about six months. The timing reflects the need for staff to gather plan elements and for elected officials to review and refine plan elements in workshop settings.

**Q. How is the plan used after it is developed?**

A. The financial plan is used as a framework for financial decisions, including budgets much like a Comprehensive Land Use Plan is used to guide zoning and land use issues within a community. Communities can use the plan to guide community growth decisions, requests for new capital facilities or services. The plan's financial projection spreadsheet can be used to model capital and operating costs for various growth models or the cost to build and operate a proposed community center.

**Q. Is a financial plan a substitute for a budget?**

A. Most definitely not! The plan is a framework to make financial decisions it is not a financial decision in itself. It provides a basis for making better financial (including budget) decisions.

**Q. Developing a financial plan seems to be a lot of work and expense. What value will it provide our community?**

A. Communities with financial plans find that they are making better financial decisions and are more willing and able to make critical decisions because the needed information is more readily available. Municipal credit rating agencies will frequently request much of the information included in the financial plans. Some communities provide the plan to these agencies as part of their credit evaluation. Finally, the plans provide a basis for continuity as elected officials and staff change.



## Financial Foundations

| Foundation Item                                | Description   |
|--|---|
| <b><u>Non-Annual Recurring Maintenance</u></b> | Identifies government owned facilities (buildings, shelters, etc.) and forecasts recommended maintenance requirements including costs over facility life cycle. The information is aggregated by fund and incorporated into financial plan.   |
| <b><u>Capital Improvement Plan</u></b>         | Forecast capital costs for new and replacement facilities and equipment over a ten to twenty year period. Includes potential funding sources.   |
| <b><u>Fleet Plan</u></b>                       | A plan for vehicles and equipment that identifies when equipment will need to be replaced, refurbished or removed from fleet. This information is aggregated by fund. Plan should include annual operating costs including amortization, operation and maintenance costs.           |
| <b><u>Energy Management System</u></b>         | Identifies government owned buildings, equipment, appurtenances that consume energy and develops a method to capture and record energy consumption. This information is used to assess return on investment calculation for equipment replacement, upgrade based on energy savings. |
| <b><u>Fiscal Impact Analysis</u></b>           | Provides a basis of calculating the cost to serve (capital and operating) for various types of development and compares cost with anticipated revenue increment generated by development that can be used to pay for services.  |
| <b><u>Debt Management Plan</u></b>             | Details principal and interest costs for outstanding debt over the term of debt instrument. Identifies policies relating to issuance of new debt and refunding existing debt.   |



| Foundation Item                       | Description  |
|---------------------------------------|--|
| <b><u>Utility Rate Policy</u></b>     | Provides guidance on establishing and changing rates based on bond requirements and operating needs. Should include factors that address funding for non-annual recurring maintenance not covered by debt issuance. Policy should also address frequency of utility rate analysis as part of budget process. |
| <b><u>Customer Service System</u></b> | Used to guide service performance and adjust service systems as needed.  |
| <b><u>Resident Survey</u></b>         | Survey residents for feedback on service levels, performance and features and is used to guide financial planning, communication and service performance   |
| <b><u>Life-cycle costs</u></b>        | Projects operating and maintenance costs of facilities over expected life. This is especially important when assessing benefit of investment in facility features that may reduce overall operating/maintenance costs within debt amortization period.   |