



Long-Range Financial Planning Committee 2017 Recommendations

Overview

The city finds itself in a strong financial position owing to the diligence of City Council and the Mayor's attention to fiscal policies and balancing the budget. Two significant changes have had significant impact on the budget in recent years:

- 1) A spend-down of budget overages from previous years, and
- 2) A tightening of fiscal policy to ensure that Mukilteo has appropriate sustainability in its budget planning process.

LRFP process

The LRFP has struggled in this iteration owing to a few factors, including

- 1) A particularly savvy City Council has meant that much of the primary concerns of a LRFP (policies, prioritization) have already been addressed .
- 2) Prior LRFP made recommendations that have been adopted, so there is less 'low hanging fruit' in Mukilteo's budget.
- 3) The previous budgets had not been updated to the current format until Spring of 2016, presenting a challenge for the committee to compare expenses and revenue separated by category, not presented (as previous) only as inputs/outputs from each fund. Ultimately, this information was presented to Council a part of a new IT rollout with Sharepoint, but was not presented to LRFP.
- 4) Turnover in the staff position of Director of Finance has meant that the longer-term analysis for the city's finances hasn't been a priority.
- 5) Despite turnover, significant transparency and acumen has been demonstrated by our former Director of Finance, which has had the effect of addressing short-term council concerns in creating useful budget information to base projections on.

Policies

There is opportunity in the area of reserving longer-term capital expenditures. The council and city establish a budgetary direction every year, money is set aside in the budget, but if that money is not spent it simply carries over to the next budget. It may then be subject to deletion rather than spent for the purpose for which it was intended.

In the case of sidewalks, for instance, the city budget includes a line item, but the line item is carried over and the money is not appropriated 'reserved' for the accumulation of the monies specifically for sidewalks. This can have the effect of rendering the small amount set aside each year useless. In this particular case it is our recommendation make a separate reserve fund that is specific for sidewalks and improvements to ensure that these monies are used appropriately.

There is an unfortunate trend that items budgeted for but not used are 'on the chopping block' for the following year's budget. The council appears to be moving in a direction, and money is set aside in the budget, but ultimately the city and council may not fulfill the obligation set forth in the previous budget.

Comparison

It would be beneficial to the city for this committee to conduct an analysis across other similarly situated cities to find out what revenues might be available and what expenses might be reduced. This will have the result of establishing benchmarks that the city will find useful in setting budgetary direction.

Similarly situated cities that might be good for comparison in Washington include Anacortes, Port Townsend, and Edmonds. Anacortes, for instance, generates more than 50% of its revenue from "charges for services." Mukilteo generated less than 25%% of its budget from similar sources.

Findings/opinions: 2015-2017

- 1) Participation in LRF: future teams should consist of community members and even former council members. Committee members should have some knowledge of accounting and/or business practices so they can read a budget and understand fund accounting and financial analysis. A somewhat larger committee is recommended to both allow for turnover without disruption and to foster dialogue and ideas.
- 2) Purpose: the LRF should take as its purpose a long-term view of the city's budget, an anticipation of revenue and expense increases or decreases over a 5-10 year period. At the committee and the Mayor's discretion, the committee can focus on one or all of three main areas of concentration:
 - a. Creating financial comparisons to similarly situated cities,
 - b. Forecasting financial obligations and impact of the city's long-range plan, including recommendations of policies and procedures, and/or
 - c. Serving as ombudsmen to Council and the public as necessary to allow for the free-flow of ideas and transfer of information regarding Mukilteo's financial picture.
- 3) Future Finance Directors should continue the tradition started by Doug Volesky of providing information not just on fund balances and expenditures, but revenue and expenses by category so longer-term analysis is possible. Allowance should be made to give LRF committee members adequate access to the more robust financial information that is now available, and the city should consider including some level of Sharepoint access. This is due to the fact that so much of the committee's work is based on viewing up-to-date financial information.
- 4) A policy that addresses the concept of reserving should be established. This policy should include what exactly, the city is reserving for, the timeline, anticipated budget, and how funds

will be formally set aside. Reserves should not be earmarked for a period of years without action, nor should they be earmarked over and over again in a budget, becoming a larger line item, until they are discarded due to necessity.

- 5) Reserving also applies to the maintenance of previous capital expenditures. Each capital expenditure has a life cycle or at the very least requires periodic maintenance. Each proposal should be evaluated not just for initial cost, but for anticipated ongoing maintenance. This is not a current part of the purchase and planning process, but should be incorporated.

It has been at our pleasure to serve the city on the Long-Range Financial Planning committee during these transitional years. Mayor Gregerson and Council have been gracious throughout this process, and explanations are frequent while disputes are few. During this time, the city's Finance Director has placed the city's finances on a firm footing in terms of process, organization, and presentation, as evidenced by

- The positive findings of a recent audit,
- The implementation of a new IT solution for sharing information, and
- The many hours spent by our former Finance Director based on suggestions from the Mayor, Council, and this committee on presenting budgetary information in a format that allows for real analysis to take place.

We hope this foundation will continue to our next Finance Director and allow the next committee to continue this valuable process.

Respectfully submitted,

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