

THE CITY OF PALM COAST FLORIDA



LONG TERM
FINANCIAL PLANNING

Find Your Florida

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I. Background

A long term financial planning process helps to support future decisions regarding the best use of financial resources.

Background:

The Government Finance Officers Association (GFOA) defines the long term financial planning process as “*aligning financial capacity with long-term service objectives.*” Financial planning uses forecasts to provide insight into the future financial capacity and establishes the groundwork for strategies to be developed in order to achieve long-term sustainability in light of service objectives and financial challenges.

The long term financial planning process is an integral part of the City’s Strategic Action Plan as well as the budget process. Changes to the financial planning process will be driven by changes in strategic direction as reflected in the Annual Strategic Action Plan. The plan will be carried out through the annual budgeting process. The Long Term Financial Plan (LTFP), which is outlined in the annual budget document, shows the City’s continued dedication to transparency and financial accountability.

II. Goals & Objectives

Goals

The goal of the long term planning process is to encompass the following elements and essential steps:

- (1) Time: The LTFP should look at least five years into the future.
- (2) Scope: The LTFP should consider all appropriated funds, but especially those funds that are used to account for the issues of top concern to elected officials and the community.
- (3) Frequency: The LTFP should be updated as needed in order to provide direction to the budget process, though not every element of the long-range plan must be repeated.
- (4) Content: As key indicators of financial health, the long term financial planning process should include:
 - a. An analysis of the financial environment
 - b. Revenue and expenditure forecasts
 - c. Debt position and affordability analysis
 - d. Strategies for achieving and maintaining financial balance
 - e. Plan monitoring mechanisms
- (5) Visibility: The public and elected officials should be able to easily learn about the long-term financial prospects of the government and strategies for financial balance through either separate plan documents or by integrating it with existing communication devices.

Objectives

The LTFP takes into account the following objectives:

- Continuous improvement in the City's financial position
- Maintaining or improving the service level standards
- Achieving full cost recovery when possible for the provision of services

These objectives enhance the longer term financial sustainability of the City and help it to achieve the objectives documented in the Strategic Action Plan.

III. Assumptions

Essentially, a financial plan is a set of assumptions about what is projected to occur in the future. Though these assumptions about what will or will not occur may change over time, there must be a common set of expectations of future events or conditions based on what is known at the time the plan is prepared.

The following considerations are taken during the financial planning process:

- Revenue projections
- Available revenue sources not currently being utilized
- Expenditure projections
- Anticipated deficits or surpluses
- Condition of reserves/fund balance
- Economic growth and current conditions
- Historical trends
- Future rate increases
- Anticipated operational changes
- Upcoming legislative action
- Current state of the disaster reserves
- Sustainability of current expenditure baseline
- Long term impact of current decisions being made
- Bond ratings

IV. Financial Planning for Capital Improvements

Each year the Capital Improvement Program (CIP) is updated, reflecting City Council priorities as described in the Strategic Action Plan. Project requests are submitted by various departments and are reviewed by staff members from the City’s Infrastructure Team. The team consists of project managers, planners and other division managers, under the direction of the City Manager.

Ten Year Lookout

The Team prepares a “Ten-Year Capital Project Lookout” annually. This “lookout” is presented to City Council and allows staff to receive direction on future capital project needs.

Five Year CIP

Each year, as an integral component of the annual budget process, a five-year CIP is adopted by City Council. Projects necessary to ensure that appropriate level-of-service standards are achieved and maintained for the five-year period are identified. Project review, along with available funding requirements, forms the basis of the program. The CIP is then approved by City Council in conjunction with their review and adoption of the annual operating budget. The first year of the five-year CIP is the Capital Budget. There is no commitment to expenditures or appropriations beyond the first year of the Capital Improvement Program.

V. Accountability

In order to ensure the City's long-term financial sustainability, management will monitor performance through the budget results as well as through performance measures. The performance measures are tied back to City Council's Strategic Action Plan. Guidance will be provided to management by the Finance Director and the City Manager through quarterly meetings where both budget compliance and performance measure results are reviewed with the department head and their supporting staff.

The goal of the quarterly meeting is to:

- Ensure budget compliance
- Build a high level of responsibility among departments
- Provide more structure for the budget process
- Hold the departments accountable
- Help the departments to "own" their budget
- Help departments understand revenue
- Improve decision making
- Promote long-term consideration during decision making
- Articulate priorities to departments including short-term operational priorities and the overall long-term vision for the City
- Promote citywide focus on City Council's goals and objectives as described in the City's Strategic Action Plan

VI. Deliverables

The following deliverables, on an annual basis, will provide assurance and results to City Council that management has taken the proper steps to ensure transparency and commitment to the long term financial stability of the City.

- Budget results
- Citizen Survey
- Annual Progress Report
- Comprehensive Annual Financial Report (CAFR)
- 10 Year Infrastructure Plan
- 5 Year Capital Improvement Plan

VII. Definitions

Capital Improvement Program (CIP): A Capital Improvement Program, or CIP, is a short-range plan, which identifies capital projects, provides a planning schedule and identifies options for financing the plan. Essentially, the plan provides a link between a Strategic Action Plan and the entity's annual budget.

Comprehensive Annual Financial Report (CAFR): A Comprehensive Annual Financial Report is a set of financial statements comprising the financial report of a governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB).

Deficits/Surpluses: Deficits occur when a government's expenditures exceed the revenue it generates. Surpluses occur when a government's expenditures are less than the revenue that it generates.

Disaster Reserves: Reserved funds to cover the potential costs of a hurricane or other disaster.

Expenditure Projections: These estimate the future costs of current services adjusted for inflation and known obligations. Projections can be done by object (i.e., personal services, equipment, contractual services, etc.), by program or function (i.e., public safety, recreation, etc.), or some combination of the two.

Full Cost Recovery: The practice by which organizations seek enough funding to cover all their costs.

Reserves/Fund Balances: These reflect the reserves (both dedicated and unspecified) available to municipalities to help endure short-run fiscal pressures such as revenue shortfalls or unanticipated expenditures.

Revenue Projections: These demonstrate trends in existing revenue streams to illustrate the level of available resources given current policy and projected economic assumptions. Projections can be done in the aggregate by major revenue type, or they can be very detailed to show variations in individual revenues.

Strategic Action Plan: An organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy.