

# **FINANCIAL MANAGEMENT**



## **CREATING AND IMPLEMENTING A FIVE YEAR FINANCIAL FORECAST/FIVE YEAR CAPITAL IMPROVEMENT PLAN**

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FINANCE DIRECTOR/CITY AUDITOR  
CITY OF SALEM**

## City of Salem



- Mayor Kimberley Driscoll (2005-today)
- Mayor/City Council form of Government
- First GFOA Budget: 2005
- First Year Forecast/Capital Improvement Plan: 2005
- FY16 Budget: \$144 Million
- Finance Office Staff: 4
- Budget Process Begins in January.
- Budget Presented to City Council late May/early June.

# Why create a five year financial forecast?



- 1. Reviews operating needs.**
- 2. Identifies fiscal challenges and opportunities**
- 3. Develops long term budgeting policies as part of an overall strategic plan.**
- 4. Identifies key areas that the City needs to focus on such as rising health insurance costs, retirement assessments, and collective bargaining agreements**
- 5. Helps the City plan for its capital budget, debt service management, and long term sustainability.**

# What are the benefits of a forecast?



- **The five year financial forecast is also used as a communication tool for both the City Council and the public. A separate power point document helps the administration communicate the long term strategies, fiscal challenges, and overall financial health of the City of Salem.**
- **The forecast is always evolving and is constantly updated as information becomes available**

# Where to start?



## Revenues

1. What are your revenue categories?
2. Historical Spending.
3. Have you increased fees?
4. What has been your historical growth?
5. Where are you at YTD?
6. Local aid.
7. Overrides/Debt Exclusions.

## Expenditures

1. What are this years “budget busters?”
2. Do you have CBAs?
3. Health insurance/Fixed Costs.
4. School Costs?
5. Employment growth.
6. Cherry sheet assessments.
7. Debt.

# Example: Revenues



	% INC/DEC FY15 v FY16	% INC/DEC FY15-FY18	FY15 RECAP	FY16 PROPOSED	FY17 PROJECTED	FY18 PROJECTED	FY19 PROJECTED
<b>TOTAL: LEVY LIMIT (not included in total)</b>	3.23%		81,702,749	84,345,317	87,072,131	89,873,296	92,750,735
<b>REVENUES</b>							
ACTUAL REAL ESTATE AND PERSONAL PROPERTY TAX LEVY	3.93%		79,058,307	82,161,382	84,215,417	86,320,802	88,478,822
TOTAL: LOCAL RECEIPTS	7.55%		15,823,000	17,018,000	17,335,950	17,661,849	17,995,895
CHERRY SHEET REVENUE	0.21%	1.00%	29,108,507	29,168,576	29,460,262	29,754,864	30,052,413
SCHOOL BLDG ASSISTANCE	PER MSBA	per SBA	732,824	732,824	723,824	723,824	723,824
OFS - RECURRING	6.04%	2.50%	1,090,452	1,156,347	1,184,256	1,212,862	1,242,184
OFS - NON RECURRING	16.67%	0.00%	600,000	700,000	0	0	0
TOTAL ENTERPRISE FUND REVENUE	-6.16%	varies	14,847,014	13,932,813	14,815,000	14,815,000	14,815,000
<b>TOTAL REVENUES</b>	<b>2.56%</b>		<b>141,260,104</b>	<b>144,869,942</b>	<b>147,734,708</b>	<b>150,489,201</b>	<b>153,308,138</b>

- Local Receipts
- Fee Surveys
- MSBA/Cherry Sheet Monies
- One Time Revenue Sources (Recurring/Non-Recurring)
- Enterprise Funds

# Example: Expenditures



	% INC/DEC FY15 v FY16	% INC/DEC FY15-FY18	FY15 RECAP	FY16 PROPOSED	FY17 PROJECTED	FY18 PROJECTED	FY19 PROJECTED
<b>EXPENDITURES</b>							
TOTAL: GENERAL GOVERNMENT	2.48%	3.00%	5,354,857	5,487,393	5,652,015	5,821,575	5,996,222
TOTAL: PUBLIC SAFETY	1.67%	varies	19,170,700	19,491,454	20,435,000	21,424,793	22,463,116
TOTAL: PUBLIC WORKS & FACILITIES	1.36%	varies	3,765,086	3,816,437	3,965,732	4,121,894	4,285,248
TOTAL: HUMAN SERVICES	4.02%	3.00%	1,277,825	1,329,231	1,369,108	1,410,181	1,452,487
TOTAL: CULTURAL AND RECREATIONAL	1.57%		2,520,109	2,559,596	2,628,205	2,707,051	2,788,262
TOTAL: FIXED COSTS	8.35%		26,259,457	28,452,510	27,019,943	28,264,968	29,579,042
TOTAL: DEBT SERVICE - LONG TERM	16.72%	varies	4,247,491	4,957,699	4,926,909	4,926,909	4,926,909
TOTAL: DEBT SERVICE - SHORT TERM	56.47%	varies	389,048	608,756	370,000	370,000	370,000
TOTAL: ESSEX TECH ASSESSMENT	7.77%	5.00%	2,376,792	2,561,373	2,689,442	2,823,914	2,965,109
<b>CITY EXPENDITURE TOTAL</b>	<b>5.97%</b>	<b>3.00%</b>	<b>65,361,365</b>	<b>69,264,449</b>	<b>69,056,353</b>	<b>71,871,284</b>	<b>74,826,396</b>
TOTAL: EDUCATION	-2.42%	3.00%	54,461,543	53,145,269	56,847,244	58,552,661	60,309,241
<b>SCHOOL EXPENDITURE TOTAL</b>	<b>-2.42%</b>	<b>3.00%</b>	<b>54,461,543</b>	<b>53,145,269</b>	<b>56,847,244</b>	<b>58,552,661</b>	<b>60,309,241</b>
TOTAL: SEWER ENTERPRISE	-8.60%	varies	7,178,672	6,561,402	2,687,566	2,876,048	2,748,429
TOTAL: WATER ENTERPRISE	0.59%	varies	5,093,274	5,123,455	2,767,372	2,807,315	2,848,456
TOTAL: TRASH ENTERPRISE	17.62%	3.00%	2,461,917	2,895,784	2,982,658	3,072,137	3,164,301
<b>ENTERPRISE FUND EXPENDITURE TOTAL</b>	<b>-1.04%</b>		<b>14,733,863</b>	<b>14,580,641</b>	<b>8,437,595</b>	<b>8,755,500</b>	<b>8,761,186</b>
<b>TOTAL - CITY, SCHOOL, AND ENTERPRISE</b>	<b>1.81%</b>		<b>134,556,771</b>	<b>136,990,359</b>	<b>134,341,192</b>	<b>139,179,445</b>	<b>143,896,823</b>
TOTAL: OTHER			7,902,972	700,028	1,216,829	1,234,059	1,251,729
CHERRY SHEET ASSESSMENT	12.78%	4.00%	6,365,908	7,179,555	7,466,737	7,765,407	8,076,023
<b>TOTAL: OTHER EXPENDITURE</b>	<b>-91.14%</b>		<b>7,902,972</b>	<b>700,028</b>	<b>1,216,829</b>	<b>1,234,059</b>	<b>1,251,729</b>
<b>TOTAL EXPENDITURES</b>	<b>1.69%</b>		<b>142,459,743</b>	<b>144,869,942</b>	<b>143,024,758</b>	<b>148,178,910</b>	<b>153,224,575</b>

# What is a Capital Improvement Plan?



- A capital improvement program (CIP) is a blueprint for planning a community's capital expenditures.
- A CIP is typically a multi-year plan identifying capital projects and equipment to be funded during the planning period.
- A CIP is composed of two parts, a capital program and a capital budget.
- The capital program is a plan for capital expenditures that extends out past the capital budget.
- The capital budget is the upcoming year's spending plan for capital items.



# Ok, so what qualifies?



- **Capital items are tangible assets or projects with a value of \$25,000 or more.**
- **Must have a depreciable life of five (5) or more years.**
- **Examples of Capital Assets are DPW equipment, Buildings (purchase or major renovations), water and sewer infrastructure.**
- **Items that are NOT capital assets include services, painting rooms or buildings, books, field maintenance, routine building maintenance.**

# Policies and Procedure



- **The city will make all capital purchases and improvements in accordance with the adopted capital improvement program. The city will develop a multi-year plan for capital improvements and update it annually.**
- **The city will enact an annual capital budget based on the multi-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development or changes in economic base will be calculated and included in capital budget projections.**
- **The city will coordinate development of the capital improvement budget with the development of the operating budget. Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts.**
- **The city will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval.**

# Policies and Procedure



- **The city will use intergovernmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and priorities, and whose operating and maintenance costs have been included in operating budget forecasts.**
- **The city will maintain all its assets at a level adequate to protect the city's capital investment and to minimize future maintenance and replacement costs.**
- **The city, as part of its capital planning process, will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection, a maintenance and replacement schedule will be developed and followed.**
- **The city will determine the least costly financing method for all new projects.**

# Debt Policies and Procedures



- **The city will confine long-term borrowing to capital improvements or projects/equipment that cannot be finance from current revenues.**
- **When the city finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project.**
- **Total net debt service from general obligation debt will not exceed five (5) percent of total annual operating budget as listed on part 1a of the annual tax rate recapitulation as submitted to the Department of Revenue.**
- **Debt will only be issued for capital that is valued greater than \$25,000, and has a depreciable life of five (5) or more years.**
- **Total general obligation debt will not exceed that provided in the state statues.**

# Debt Policies and Procedures



- **Whenever possible, the city will use special revenue funds, special assessments, or other self-supporting bonds, instead of general obligation bonds.**
- **The city will not use long-term debt for current operations unless otherwise allowed via special legislation.**
- **The city will retire bond anticipation debt within six months after completion of the project.**
- **The city will maintain good communications with bond rating agencies about its financial condition.**
- **The city will follow a policy of full disclosure on every financial report and bond prospectus.**

# Capital Worksheet



Department & Activity		Date Prepared																																														
Contact Person		Phone Number																																														
1 Project Title		4 Cost																																														
2 Form of Acquisition (check appropriate)		<table border="1"> <thead> <tr> <th></th> <th>Per Unit</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Purchase Price or annual rental</td> <td></td> <td>\$ -</td> </tr> <tr> <td>Plus: Installation or other costs</td> <td></td> <td>\$ -</td> </tr> <tr> <td>Less: Trade in or other discount</td> <td></td> <td>\$ -</td> </tr> <tr> <td>Net purchase Cost or annual rental</td> <td>\$ -</td> <td>\$ -</td> </tr> </tbody> </table>			Per Unit	Total	Purchase Price or annual rental		\$ -	Plus: Installation or other costs		\$ -	Less: Trade in or other discount		\$ -	Net purchase Cost or annual rental	\$ -	\$ -																														
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3 Number of Units Requested		6 Number of Similar Items in Inventory																																														
5 Purpose of Expenditure (check appropriate)		7 Estimated Use of Requested Item(s)																																														
<input type="checkbox"/> Scheduled replacement <input type="checkbox"/> Present equipment obsolete <input type="checkbox"/> Replace worn-out equipment <input type="checkbox"/> Reduce personnel time <input type="checkbox"/> Expanded service <input type="checkbox"/> New operation <input type="checkbox"/> Increased safety <input type="checkbox"/> Improve procedures, records, etc. <input type="checkbox"/> Other (explain below)		<input type="text"/> Weeks per year <input type="text"/> Months (if seasonal) <input type="text"/> Average days per week (for the weeks used) <input type="text"/> Average hours per day used <input type="text"/> Estimated useful life in years																																														
8 Replaced Item(s)																																																
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Item</th> <th rowspan="2">Make</th> <th rowspan="2">Age</th> <th colspan="3">PRIOR YEARS</th> </tr> <tr> <th>Maintenance Costs</th> <th>Breakdowns</th> <th>Rental Costs</th> </tr> </thead> <tbody> <tr><td>a</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>b</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>c</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>d</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> <tr><td>e</td><td></td><td></td><td></td><td></td><td></td><td></td></tr> </tbody> </table>					Item	Make	Age	PRIOR YEARS			Maintenance Costs	Breakdowns	Rental Costs	a							b							c							d							e						
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9 Recommended Disposition of Replacement Item(s)																																																
<input type="text"/> Possible use by other agencies		<input type="text"/> Trade In																																														
<input type="text"/> Which agency (if applicable)		<input type="text"/> Sale																																														
<input type="text"/>		<input type="text"/> No value																																														
10 Submitting Authority																																																
Submitted by		Position																																														
Signature		Date																																														
11 Notes (reserved for Mayor/Finance Director)																																																

1. Only capital purchases with a value of \$25,000 or greater should be included in your plan; anything under \$25,000 should be part of your operating budget.
2. Capital items must have a depreciable life of five (5) or more years.
3. Backup documentation (i.e. literature from manufacturer of equipment, detailed descriptions, price quotes obtained, state bid list identification, etc.) will help keep the process efficient.
4. Equipment/Projects that have matching funds will have priority and the source of the matching funds should be identified within the request form or in a separate document..
5. Any equipment that may be traded in and/or surplusd should be identified.

## City of Salem



## **FY2016 Operating Budget**

<http://www.salem.com/auditor-director-finance/pages/budget-2016-final>

## **Capital Improvement Plan**

<http://www.salem.com/sites/salemma/files/uploads/fy16ff-07.pdf>

## **Five Year Financial Forecast**

<http://www.salem.com/sites/salemma/files/uploads/fy16ff-06.pdf>

# Questions??



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