

COMMITTEE REPORT

THE CITY COUNCIL OF THE CITY OF FINDLAY, OHIO

A **COMMITTEE OF THE WHOLE** meeting was held on Monday, April 17, 2017 to discuss the transfer of \$1,500,000 to the Capital Plan.



R. Ronald Monday, President of Council Pro-Tem

COMMITTEE OF THE WHOLE

DATED: April 17, 2017



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JIM STASCHIAK II
CITY AUDITOR

Wednesday, January 25, 2017

In order to address the question of transferring \$1,500,000.00 of General Fund money to the Capital Improvements Restricted Account I think it is best to provide City Council with some guidance regarding best practices in capital planning:

From the Government Finance Officers Association Website:

GFOA recommends that governments develop and adopt capital planning policies that take into account their unique organizational characteristics including the services they provide, how they are structured, and their external environment. Per the GFOA Capital planning policies should provide, at minimum:

1. A description of how an organization will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the organization.
2. A clear definition of what constitutes a capital improvement project.²
3. Establishment of a capital improvement program review committee and identification of members (for example, the finance officer or budget officer, representatives from planning, engineering, and project management, and, as deemed appropriate, operations departments most affected by capital plans, along with a description of the responsibilities of the committee and its members.
4. A description of the role of the public and other external stakeholders in the process. (The level and type of public participation should be consistent with community expectations and past experiences.)
5. Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources
6. A requirement that the planning process includes an assessment of the government's fiscal capacity so that the final capital plan is based on what can realistically be funded by the government rather than being simply a wish list of unfunded needs.
7. A procedure for accumulating necessary capital reserves for both new and replacement purchases.
8. A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt.³
9. A requirement that a multi-year capital improvement plan be developed and that it include long term financing considerations and strategies.
10. A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.
11. A requirement that the plan include significant capital maintenance projects.
12. Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.

GFOA recommends that governments formally adopt financial policies. Steps to consider when making effective financial policies include (1) scope, (2) development, (3) design, (4) presentation, and (5) review. *Capital* - Policies that cover the lifecycle of capital assets, including capital improvement planning, capital budgeting, project management, and asset maintenance.

With specific regards to a request to transfer \$1,500,000.00 into the Restricted Capital Account from the General Fund:

* I will leave arguing the merits of the request to the Administration; however, here are some points of relevance.

* GFOA points 1, 3, 4 & 7: The City of Findlay should strongly consider putting in place a process that reviews these needs prior to presentation of a completed plan. It would save significant time for all if the Appropriations Chair and the City Auditor had an opportunity to discuss the plan details with the Administration well prior to draft plan legislation being sent to Council. Additional points follow that would be part of the pre-legislation considerations.

* January 1st cash balances have been greater than the Restricted Capital Account estimated revenues for the entire budget year. Put in other words, the City has been starting the year with a fully funded capital budget based on expected revenues. These have effectively become 'restricted use' reserves. There has been no discussion, to my knowledge, as to what a proper capital restricted account reserve should be for Findlay. The request certainly becomes part of the reserve discussion which should also include Council and Auditor. The table shows projected cash carryforward versus actual cash carryforward.

Capital Improvements Restricted Account	2016	2015	2014
Administration projected cash carry forward	\$2,254,842	\$1,898,428	\$2,941,670
Actual cash carry forward into the next year	\$5,126,460	\$4,528,257	\$6,374,482

* At the City Council meeting of 1/17/17 the Income Tax Administrator acknowledged the deferral amount from 2016 into 2017 is significantly less than prior years. This could have a significant negative impact on the 2017 projected revenues, i.e. the shortfall may be larger than was projected for the 2017 budget. In light of the Mayor's comments regarding revenues for 2017, a 'wait and see approach' should certainly be considered.

* At the annual budget meeting a 5 year operational model was demonstrated. It would be reasonable for Council to request the impact of this funding request be shown by the Administration using this 5 year model. Using the model should become a regular practice for all requests of this type and magnitude in the future.

Some Options for Council at this time:

- 1) Council can fund the request of the Administration; OR
- 2) Council could increase the Capital Improvement allocation to a comparable amount; OR

City of Findlay Income Tax Allocation Options

Funding Options	Cap Impr	(1)		(2)	
		General Fund (GF) Portion of CIT	Other GF Revenue	Total Available for GF Operations	Increase in Capital Funding
	27.0% \$6,245,785	73% \$16,866,752	\$7,653,654	\$24,840,456	\$1,819,278
	28.0% \$6,814,460	74% \$17,118,677	\$7,653,654	\$25,071,762	\$1,987,662
	25.0% \$5,783,134	75% \$17,348,403	\$7,653,654	\$25,305,087	\$1,156,627
	24.0% \$5,551,809	76% \$17,580,728	\$7,653,654	\$25,634,413	\$826,301
	23.0% \$5,328,484	77% \$17,812,053	\$7,653,654	\$25,765,736	\$693,976
	22.0% \$5,089,158	78% \$18,043,378	\$7,653,654	\$25,997,059	\$482,651
	21.0% \$4,857,833	79% \$18,274,704	\$7,653,654	\$26,228,383	\$231,325
	20.0% \$4,626,507	80% \$18,506,030	\$7,653,654	\$26,459,714	

Historic Allocation
Current Allocation

- 3) Adopt a 'Wait and See' approach. Council can transfer General Fund dollars at any meeting throughout the year should a true need arise for cash in the capital improvements restricted account; OR
- 4) Council could do a blended approach to reduce risk to General Fund cash reserves by transferring some cash now and allocate the balance over the calendar year with and increased allocation.

Respectfully,



Jim Staschiak II
City Auditor