

## FINANCIAL SERVICES

### Service Description

Many Finance functions are centralized for efficiency and to ensure compliance with legal and professional requirements. Staff provide for the strategic management of the City's finances and perform functions necessary to conduct the financial business of the organization. Services include projecting and allocating resources through the annual budget preparation process; staffing the City's Budget Committee; reporting the City's financial condition to citizens and other stakeholders; providing accessible financial management tools; procuring materials and services and paying vendors and employees; billing customers, cashing, and collections; managing the City's investment portfolio and cash needs; issuing debt and making payment on outstanding debt; forecasting financial threats and opportunities and analyzing the financial impacts of proposals brought to the Executive Management Team and City Council.

Financial Services has a total FY09 adopted budget of \$3.9 million and 30.5 full time equivalent (FTE) employees.

### Historic Perspective

- 1865 Charter established Board of Trustees with Treasurer.
- 1917 First Purchasing Agent for the City of Eugene hired.
- 1957 City bond rating upgraded to "Aa".
- 1963 State enacted legal requirements for local budget process.
- 1983 Financial policies adopted and long-range forecast developed.
- 1991 Measure 5 passed and Eugene Decisions process conducted.
- 1997 Passage of Measure 50 created a rate-based property tax system.

### Community Involvement

The Budget Committee, comprised of eight City Councilors and eight appointed citizen members, represents the public interest for this service, reviewing the annual budget, capital improvement program and other financial documents and policies. Citizen testimony on budget proposals is received during public hearings and during public comment periods at committee meetings.

### Customer Input

The major source of customer input for this service is the Central Services Advisory Board (CSAB). Comprised of staff representatives from other City departments, CSAB is responsible for reviewing and providing recommendations on all aspects of financial services in accordance with the

annual CSAB work plan. External customer input is provided by the Budget Committee, current and prospective City vendors and citizen testimony received at public hearings and during public comment periods at committee meetings.

### Mission

Our mission is to support City staff, policy makers and citizens by providing quality financial services and information to promote prudent decision making that maintains long-term financial stability.

### Outcomes

- Wise stewardship of public resources.
- Financial stability of the City organization.
- Financial integrity of the City.
- Accessible and understandable financial information.
- Sustainable and robust business systems.
- Public confidence in financial policies, practices and information.

### Operating Principles

- We achieve legal and professional standards.
- We work to achieve common goals while balancing competing needs.
- We strive for consistency, accuracy, timeliness and completeness.
- We promote open communication.
- We model fiscal responsibility for the organization.
- We develop creative and innovative solutions.

### Current Operating Environment

#### External Trends

#### **Structural General Fund Imbalance**

With the passage of Ballot Measure 50 in May of 1997, the property tax system for financing City services changed from a levy-based system to a rate-based system. This rate-based system relies on low inflation and a high level of new construction to provide the resources needed to fund a consistent level of service for a growing population. Despite the City's efforts to deliver services in a more cost-efficient manner and implement new revenue sources to balance the budget each year, the continuously rising costs of wages and fringe benefits coupled with limited growth in existing revenue sources has resulted in annual deficits in the City's General Fund. In the past, these deficits were addressed primarily by using one-time revenues, such as the Reserve for Revenue Shortfall. Now that the Reserve for Revenue Shortfall is depleted, the City has to identify alternative recurring

revenue sources and/or cost reductions in order to balance the General Fund budget. The Finance Division is a key player in developing a balanced budget, as well as developing the policies that guide the level of reserves.

### **Negative Macroeconomic Trends**

Rapid deterioration of macroeconomic conditions in 2007-08, including decline in real estate values, disruptions in the municipal bond markets, significant investment losses experienced by pension funds and other large institutional investors, high volatility in the cost of liquid fuels and other commodities, increased unemployment rate and overall decline in economic activity will continue to pose a major challenge to effective delivery of financial services. Locally, these trends are exemplified by the loss of major taxpayers such as Hynix Semiconductor Inc., slowdown in new construction and associated property tax revenue growth, challenges with issuance of debt and increased demand for local government services. The Finance Division plays a key role in ensuring the City's financial stability during these difficult times through prudent and sustainable stewardship of its resources.

### **Changing Standards and Requirements**

Government accounting standards, federal and state requirements and laws are in a constant state of change. For example, the Governmental Accounting Standards Board (GASB) made significant changes in financial reporting requirements for other post-employment benefits (OPEB) effective in FY08. The City of Eugene began reporting its OPEB liabilities associated with retiree health care in the FY07 Comprehensive Annual Financial Report (CAFR). Although accounting standards do not require funding the obligation for retiree health care, if it is not funded, the City's financial statements will show a growing liability, which indicates a deteriorating financial condition. The Finance Division must keep abreast of these and other changes and make appropriate adjustments in our operating and reporting practices in order to ensure the financial integrity of the organization, as well as to meet all legal and professional standards.

### Internal Conditions

#### **Organizational Leadership and Culture Transformation**

Periodically, the membership on the City Council changes and new Executive Managers join the organization. These changes can be accompanied by significant adjustments in leadership style, organizational culture and business processes. An example is an interdepartmental approach to developing the FY10 budget through Joint Executives and Division Managers (JEDM) budget teams. In the context of these changes, Finance needs to be flexible, but focused. We must be smart enough to retain the techniques and practices that have worked in the past, learn how

to do our jobs better from our public and private sector partners, and discard the methods that are no longer useful.

### **Effective Use of Staff**

Financial Services has a highly experienced and qualified but aging workforce. A significant number of managers and professional employees in the Finance Division will be eligible to retire in the coming years, creating the need to find qualified replacements for key positions in the organization. A special emphasis needs to be made on preserving the institutional knowledge and skills possessed by senior Finance staff through employee cross-training, business process documentation, effective succession planning and expanding professional development opportunities.

### **Effective Management of Technology**

Finance is faced with an environment where technology is continuing to evolve, and customer expectations with regard to technology continue to increase. There are two major impacts from this rapidly changing technological environment. First, system operation, maintenance, upgrades, and training require nearly daily attention from a wide variety of staff in the division. Second, new ways to provide services with an eye toward efficient interaction with the customer, such as billing, receiving vendor bids, accepting customer payments, and paperless payroll processing are being deployed and expanded. Effective use of technology while providing information to internal and external stakeholders via multiple channels will continue to be a major focus of Finance staff.

### **Compliance Monitoring and Competing Demands**

Finance plays multiple roles in the organization. We don our watchdog hats to monitor compliance with laws, administrative rules and professional standards to guarantee that appropriate action is taken. We see that adequate internal controls are in place to safeguard the assets of the City. At the same time, we play the mediator for financial issues by attempting to share resources across all parts of the organization in an equitable manner. As an overhead service, Finance must balance its role as mediator, watchdog and internal service provider with attention to quality customer service.

### **Performance Measures**

#### **Core Processes**

Perform financial functions

- City's investment portfolio interest rate compared to the 12-month rolling average of 180-day T-Bill rate.
- Dollar amount of delinquent accounts as a percentage of total receivable balance.
- Percentage of small dollar purchases made with purchase card.
- Direct deposits as a percentage of total paychecks.
- Dollar amount of discounts received on accounts payable.
- Number of journal entries reviewed and posted each month.

#### Plan, monitor and report results

- Percentage of times five-day monthly closing occurs within schedule.

#### Ensure financial integrity of the organization

- Ending fund balance as a percentage of total revenues.

### **Total System**

#### Effectiveness

- Six-year forecast accuracy - percentage differential of actual to projected revenues in Year 1 of the forecast.
- Number of citations of non-compliance (contained in the audit comments and disclosures required by state regulations).
- Number of audit adjustments proposed by external auditors.
- Percentage of bid protests upheld.
- Government Financial Officers Association (GFOA) awards received for Comprehensive Annual Financial Report (CAFR) and budget document.
- Special Capital Recognition from GFOA for the Capital Improvement Program (CIP) document.

#### Efficiency

- Finance payroll as a percentage of total payroll cost.
- Number of Finance FTEs per 100 City FTEs.

#### Financial

- General obligation bond rating of Aa2 with a stable outlook.
- General Fund reserves as a percentage of General Fund expenditures (main subfund).

#### Customer Satisfaction

- Percentage of Budget Committee members satisfied or very satisfied with services provided by the Finance staff.
- Percentage of Central Services Advisory Board (CSAB) members satisfied or very satisfied with services provided by the Finance staff.

### **Strategy 1: Develop a sustainable General Fund budget.**

Objectives: Develop annual operating General Fund budgets with current revenues equal or greater than current expenditures in each fiscal year starting with FY10.

Achieve a reserve of 8% of the General Fund expenditures above the minimum required Unappropriated Ending Fund Balance (UEFB) over a five-year period.

#### Work Activities:

- Work with the Joint Executives and Division Managers (JEDM) Team, Budget Committee, City Council and other external and internal stakeholders to achieve a balanced General Fund budget.
- Finance staff to develop and Budget Committee to adopt a new General Fund reserve policy, including required reserve levels above the minimum UEFB level, a plan and a timeline for achieving those reserve levels, criteria for reserve drawdown and procedures for replenishing the Reserve in the event of a drawdown.
- Prepare annual General Fund budgets that contribute to achieving minimum reserve requirements.
- Provide periodic reports to the Budget Committee on the General Fund status and trends.

### **Strategy 2: Implement recommendations identified within Sustainable Business Initiative as part of City-wide practices and business processes.**

Objectives: Incorporate new public contracting rule changes related to sustainability into purchasing operations and procedures by the end of FY10.

Develop and provide ongoing sustainable purchasing training and tools to the departments.

Increase the use of paperless finance transactions.

#### Work Activities:

- Create a "Vendor Sustainability Form" for all public contracts in FY10.
- Define specific sustainable reference standards as part of the annual Financial Policies and Procedures (FPPM) update, such as green cleaning supplies, recycled office products, etc.
- Update the contract writing system (CONRAX) with the new sustainability requirements.
- Provide at least three training sessions per year to City staff on sustainable procurement practices and new contracting rules.
- Develop and utilize tools to increase the use of paperless finance transactions in payroll, purchasing and other core business processes.

**Strategy 3: Maintain City's Aa2 general obligation bond rating in light of deteriorating macroeconomic conditions.**

Objective: Maintain the City's general obligation bond rating at Aa2 with a stable outlook.

Work Activities:

- Achieve a structurally balanced General Fund budget.
- At the time of each bond sale, develop strategy for communication with bond rating agencies around critical rating factors.
- During each bonding cycle, emphasize the importance of certain rating factors, such as maintenance of reserves.
- Improve other factors that are critical bond rating considerations, such as adopting a policy for and funding of an additional General Fund reserve.
- Continue to work on diversifying General Fund revenue sources.

**Strategy 4: Improve accuracy of General Fund revenue forecasting.**

Objective: Maintain a high level of accuracy in General Fund revenue forecasting by achieving a 3% (+/-) or lower differential between actual and budgeted revenues in each year.

Work Activities:

- Work with the departments on improving the accuracy of revenue estimates for General Fund user fees and fines.
- Improve the accuracy of beginning working capital forecasting through proactive monitoring of revenues and expenditures.
- Maintain high level of accuracy in projecting property tax revenues.
- Annually compare changes in property taxes by account group to determine major factors in property tax changes.
- Analyze historical revenue forecast variances to identify future opportunities for revenue forecasting improvement.

FEEDBACK: City Council, Budget Committee, Central Services Advisory Board (CSAB), Citizen Survey, Sustainability Commission, citizen phone calls and letters, departmental budget liaisons, City vendors, action summaries, staff notes, bond rating, conferences with auditors, legal and professional standards, long-term financial trend report, benchmarking (internal and against other jurisdictions).

## System Map

### CORE PROCESSES

Perform financial functions

Plan, monitor and report results

Ensure financial integrity of the organization

### OUTPUTS:

Contracts and agreements  
 Employee/vendor payments and customer receipts  
 Financial policies and procedures  
 Long-range financial planning  
 Annual budget document  
 CIP document  
 Financial Trend Report  
 Financial information and reporting  
 Compliance

### DIRECT CUSTOMERS:

Executive managers  
 City staff  
 Elected and appointed officials  
 Other government agencies  
 The public  
 Media  
 Business and financial community  
 Bond holders and creditors

### STAKEHOLDERS:

Budget Committee  
 CSAB  
 Sustainability Commission  
 Bond rating agencies  
 Regulatory agencies  
 Employees  
 Other city staff  
 Investment services  
 Other jurisdictions  
 Voters/property tax payers  
 Vendors  
 Professional organizations  
 Standard setters, e.g., GASB  
 State and federal government

### SUPPLIERS:

Executive management  
 Citizens  
 Other governments  
 Standard-setting bodies  
 Policy makers  
 Suppliers of goods and services  
 Other city staff  
 Financial services staff  
 Grantors

### INPUTS:

Money  
 Legal and professional standards and requirements  
 Information and data  
 Computer systems  
 Equipment  
 Materials and supplies  
 Facility  
 People

### SUPPORTING PROCESSES:

Negotiations  
 Training  
 Research and analysis  
 Buying and selling  
 Monitoring system compliance with laws and standards  
 Cash management  
 Computer system management  
 Maintain databases  
 Record keeping  
 Consulting  
 Loan administration  
 Investing