

MONDAY, FEBRUARY 1, 2021
6:00 PM
WORK SESSION ON BUDGET FORECASTING TOOL AND BASIS OF
ACCOUNTING

Mayor Burge called the work session to order at 6:00 p.m.

Present: Mayor Scott Burge, Council President Megan Greisen, Councilor Joel Haugen, Councilor Josh Poling, Councilor Brandon Lesowske, Councilor Pete McHugh, Councilor Tyler Miller, Interim City Manager Alexandra Rains, Police Chief Norm Miller, Finance Administrator Jill Herr, City Recorder Susan Reeves, Program Analyst Huell White, and Legal Counsel Peter Watts.

Remote: Public Works Director Dave Sukau, Rob Moody, partner with Merina + CO., Geoff Wenker (6:12 pm) and Program Analyst Intern Isaac Butman (6:18 pm)

Interim City Manager Alexandra Rains explained Rob Moody is on the line and he is going to walk us through the budget forecasting tool that he put together for us.

Rob Moody went through the presentation he provided to Council and staff. He apologized as he is having difficulty with the fiscal projection model being able to share it on the screen. He explained they started working with the City to develop this model to assist in the budgeting in financial strategies for the City. He explained the model facilitates a, “what if” type of analysis giving impacts on various funds for decisions that are being made or being considered. He explained it is a five-year projection based on operations. He explained there is a projection for each fund and what they have done is taken budgeted numbers that could be input by staff and a number of assumptions that then project those amounts out five years into the future. He explained so there are assumptions for things like the inflationary increases, assumptions on the revenue side for what you might be doing with utility rates, assumptions for what might be going on with property taxes, and those are all real quick inputs for staff that ripple through the entire model. He went over the street fund as an illustration.

Councilor Haugen thanked Rob for being here this evening. He asked for a history of the model in terms of its functionality and success in the financial process.

Rob Moody explained they have done projection models, such as this for a number of clients. He has put together models like this. He explained his background is he was a finance director for Cities prior to going back into public accounting about twenty years ago and they used a model similar to this when he was at Wilsonville. He has put together models like this for several cities and a couple of counties. He explained they are basically just a tool that the City can have in its bag, but they aren’t the end all, for example, because they take in your capital improvement is not built into this model, it is more operational. He explained other than that it also won’t necessarily anticipate things like unanticipated revenue sources. He explained if you get a grant

midyear you would have to go in and update the model for that. He explained the cities and counties that use this have found it incredibly valuable just for doing reasonableness checks along the lines of what they think will be the impact or when Council says we want to spend an extra \$100,000 on public safety, what does that do to the general fund balance in years three and four. He explained having a longer-term horizon will help the Council and staff have a more consistent approach to financial planning.

Councilor Lesowske asked is this what more and more cities are using as a budgetary tool because of the projections?

Rob Moody replied this type of model is gaining a lot of traction in smaller jurisdictions and part of that is there are several of the models out there so there are opportunities to take pieces of some of the better models and put them together.

Councilor Lesowske asked are there any potential concerns of these budgets not meeting their mark in regard to user error? He explained for our departments to be able to project for not just one year out but five years out, there are many things that could happen in that timeframe. He would be curious if there are any potential pitfalls that could be associated with this type of budgeting tool.

Rob Moody replied it is a great question and there are a lot of variables, and a lot of assumptions when you are moving through a five-year period. He stated you have a pretty good crystal ball for twelve to eighteen months; beyond that it becomes a lot of guess work. He explained if you make conservative estimates and keep the model current it does give you some insights. He stated the biggest risk is just simply failing to keep the model up. He went over the proposed transaction around GAAP-Basis reporting. He explained in GAAP-Basis financial statements for Governments as directed by GASB, who sets standards for Governmental reporting, there are three different bases for accounting, there is budget basis at the back, there are the fund statements in the middle that are either modified accrual or full accrual, and then there is the full accrual statements up front that are supposed to be somewhat comparative to business financial statements. He explained, from a practical standpoint, to make this change the City would have to do very little, if anything, in terms of difference in the day-to-day operational accounting. He explained, from a budget standpoint, you have a choice; you can continue to budget just the way you are with no negative impact on this proposed transition or you can shift the way you are doing your budgeting slightly. He explained the only difference is doing it the way you are doing it now versus shifting to a modified accrual basis budget there is less reconciliation to do at year end. He stated you can do the work now or you can do it at year end. He stated being able to incorporate those into your financial statement does a couple of things for you. He explained first it raises the perception and the sophistication of your financial reporting. He went over the potential downsides. He explained there is more to audit with the GAAP basis financial statements.

Councilor McHugh asked what kind of complaints have they received when implementing this?

Rob Moody replied this is just really presenting the financial statement for purposes of the audit in external reporting. He stated the biggest complaint is it is more work.

Council President Greisen asked is this something Jill has seen and has had plenty of time to look over.

Finance Administrator Jill Herr replied we used to be on modified accrual and on the recommendation of our previous auditor and CPA we moved to more of a modified cash basis. She explained it is not a problem, but like Rob said, it will be some work to put it together. She explained going forward, especially as we move closer and more into the Urban Renewal and issuing, it is going to be needed.

Councilor Miller asked if our auditor has been solicited at all for their advice on this model.

Finance Administrator Jill Herr replied we have talked about this for the last twelve months and we are actually leaning towards having our current audit, starting in the year we are now, complete it in modified accrual, but we held off to do a little more investigating and whatnot. She explained the auditor is very comfortable with our books, they are very comfortable putting together a new financial statement. She explained the auditor will prepare a new financial, she will not prepare them anymore.

Council thanked Rob.

Rob Moody thanked Council for this time.


Adjournment

Mayor Burge adjourned the work session at 6:25 p.m.



Mayor Scott Burge

Attest:



City Recorder Susan M. Reeves, MMC