



# FINANCE & GOVERNANCE

AUGUST 6, 2013

# PRIORITIES

- **Adopt a plan to develop a structurally balanced budget by fiscal year 2015-16 to adequately fund basic City services**
- **Develop a time-specific funding plan to meet the City's adopted goal of maintaining a fund balance of at least two months' worth of expenditures**
- **Develop a plan to assure the actuarial soundness of the City's pension systems and to significantly reduce other post-employment benefits liability**

# INDICATORS

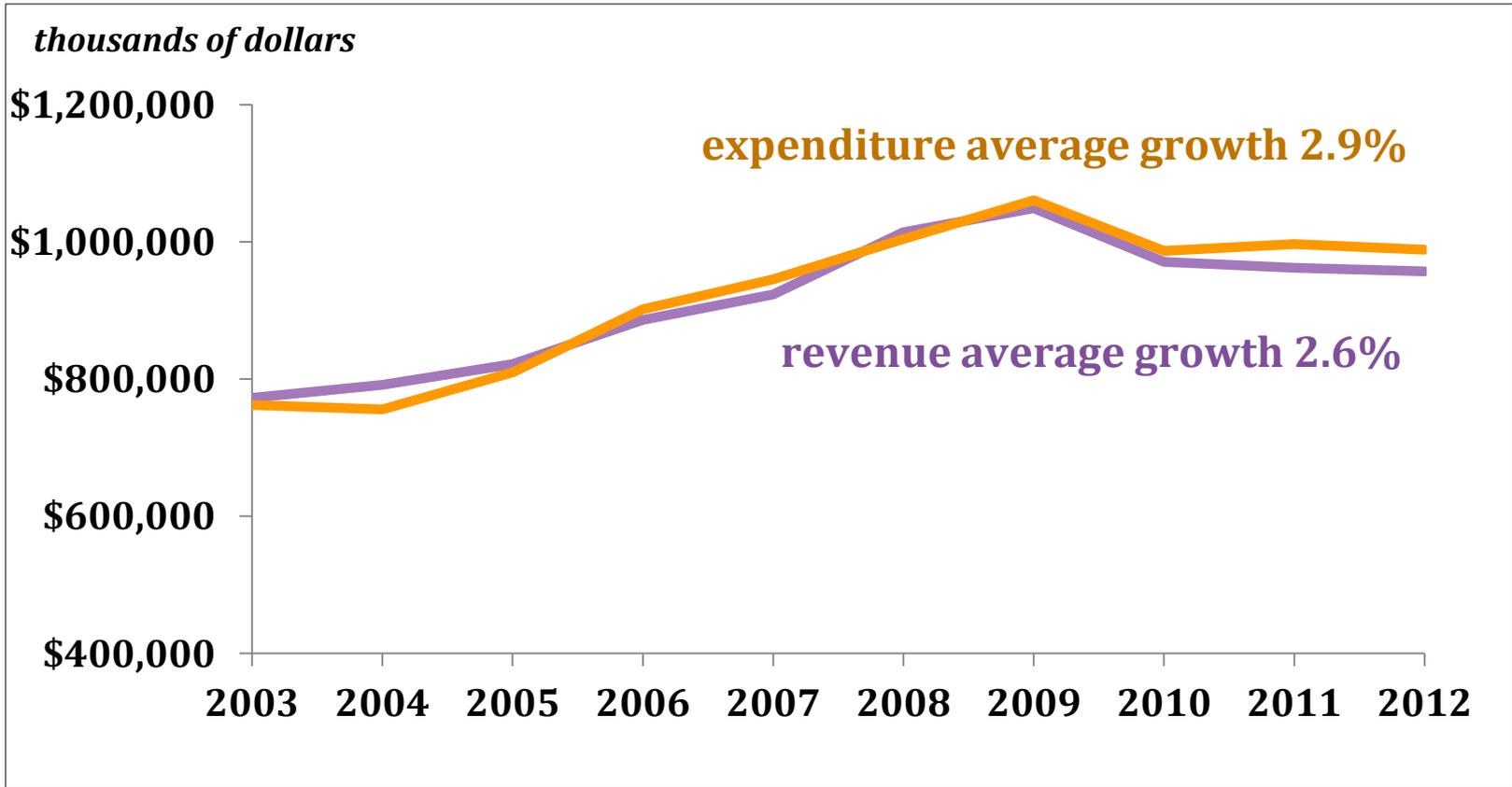
1. **Operating Fund ratio of expenditure to revenue growth**
2. **General Fund balance**
3. **Pension systems funded ratio**
4. **Amount of other post-employment benefits liability**

# WHAT IS A STRUCTURALLY BALANCED BUDGET?

- **Current expenditures should not exceed current revenues**
  - **Revenue growth is equal to or greater than expenditure growth**
  - **An adequate fund balance is maintained**
  - **Capital maintenance expenditures are not deferred**
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# EXPENDITURE V. REVENUE GROWTH

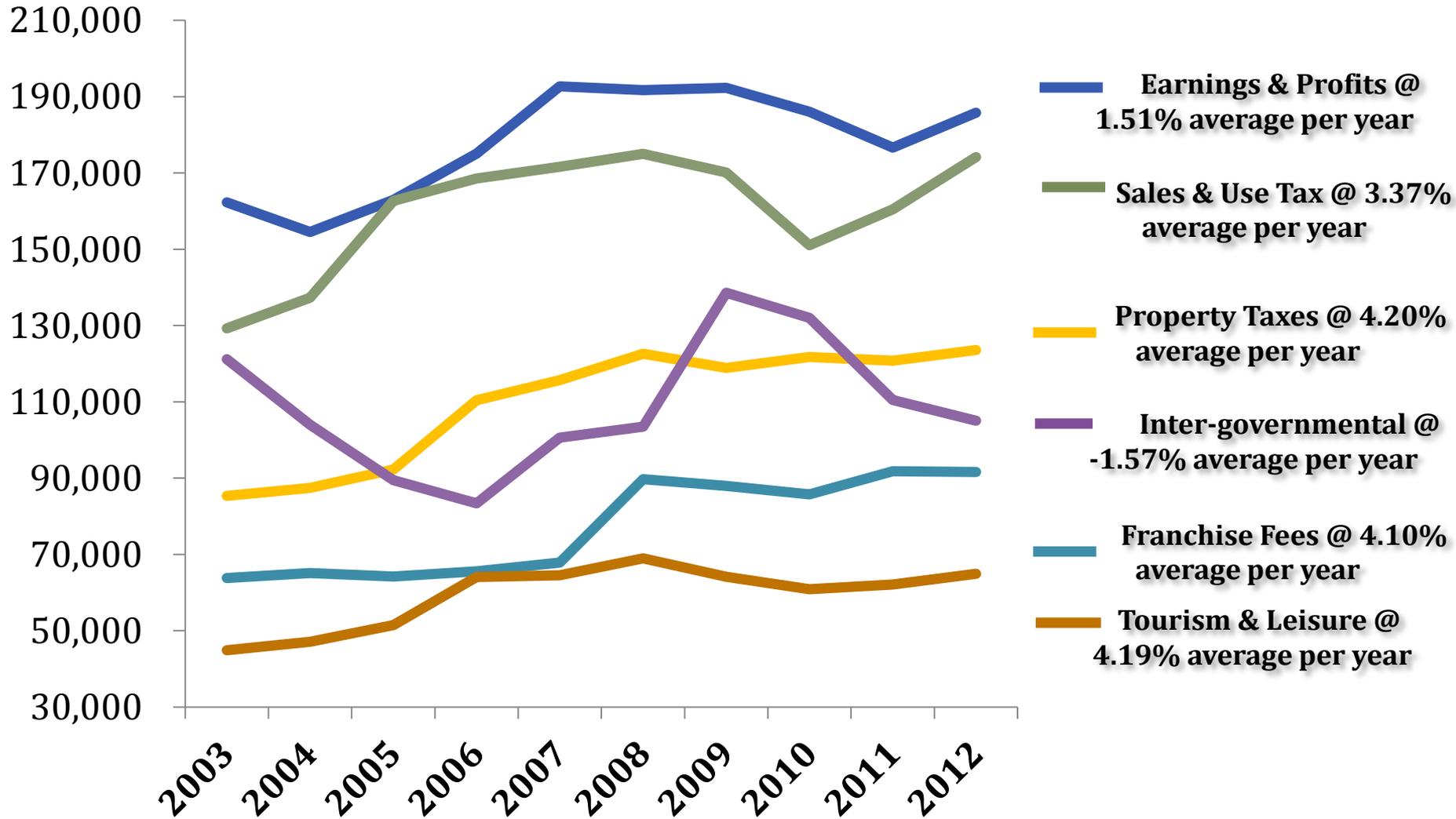
Negative Trend: 



**Note: Expenditures reflected here are below needed levels of spending in some areas (i.e. pensions, deferred maintenance)**

# WHAT'S DRIVING THE REVENUE LINE?

## Major Revenue Sources

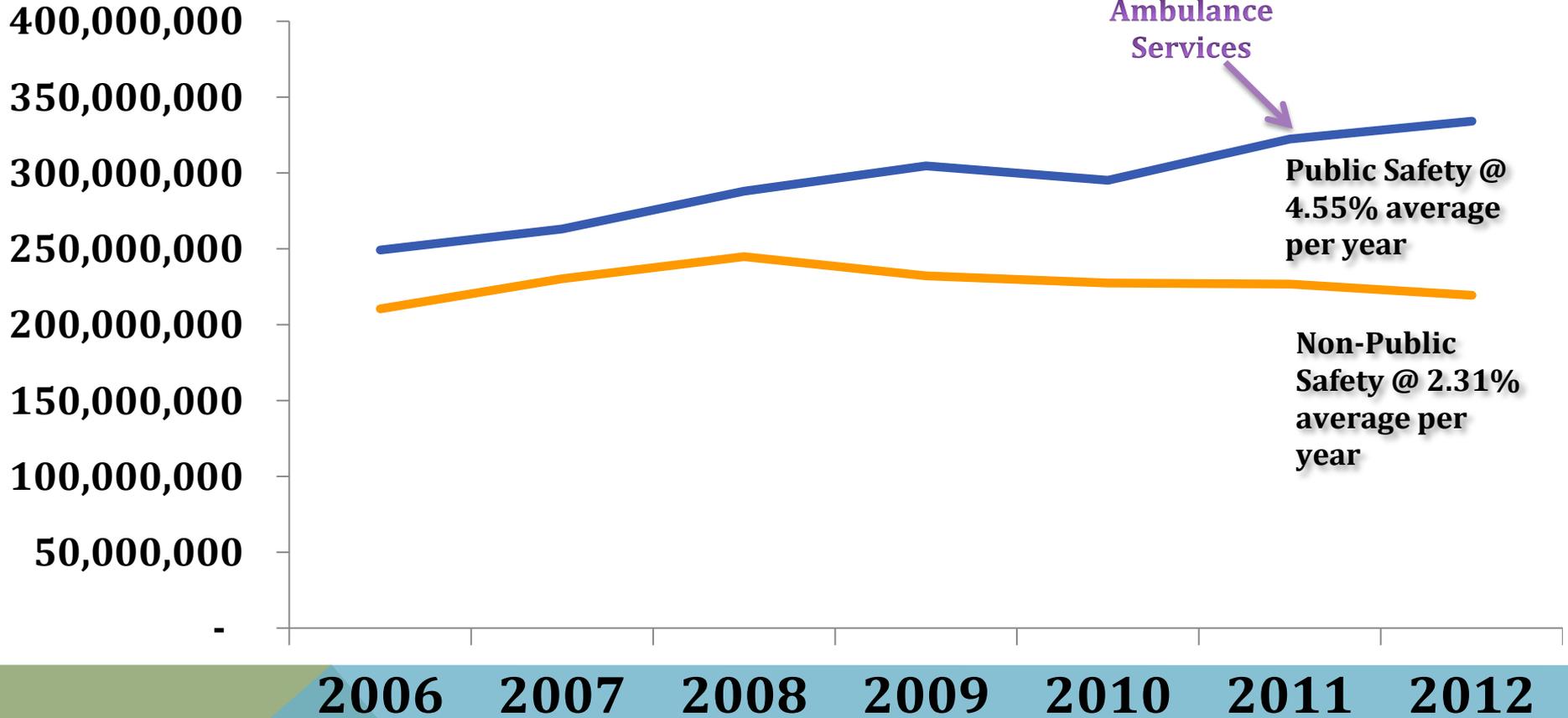


# WHAT'S DRIVING THE EXPENDITURE LINE?

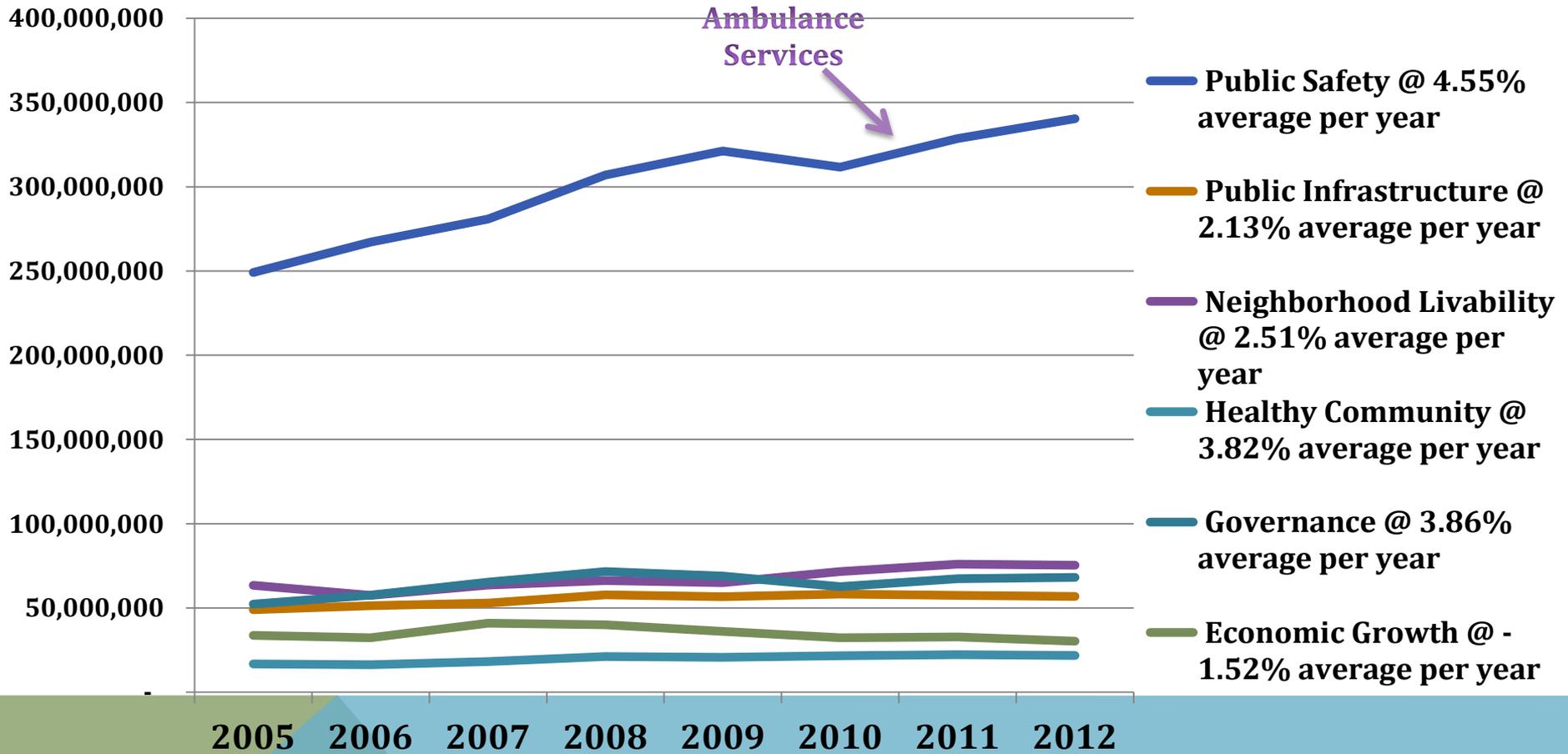
Negative Trend: 

## Operating Expenditures by Outcome Area

2012 dollars

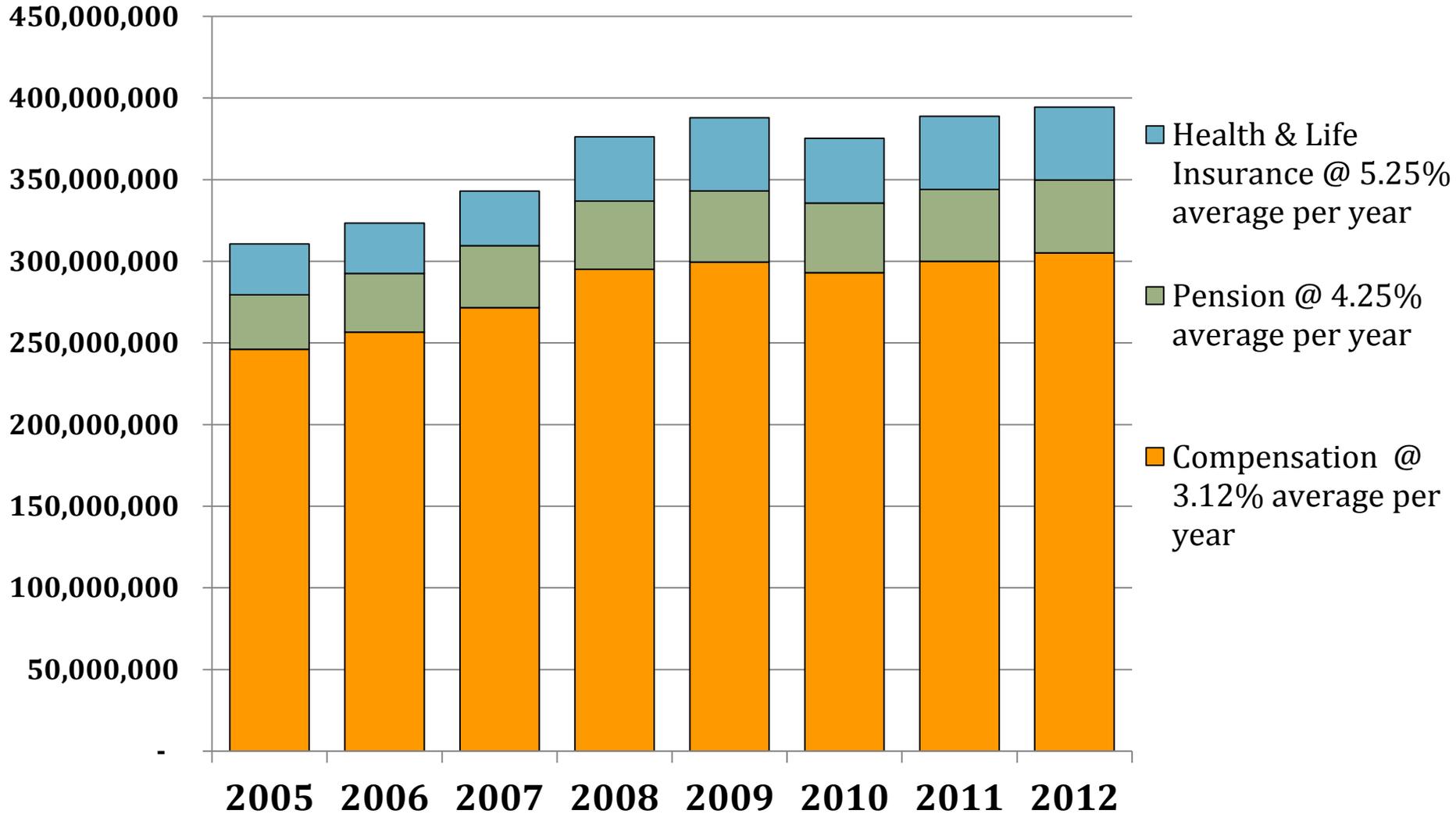


# WHAT'S DRIVING THE EXPENDITURE LINE?



# WHAT'S DRIVING THE EXPENDITURE LINE?

## Operating Personnel Expenditures

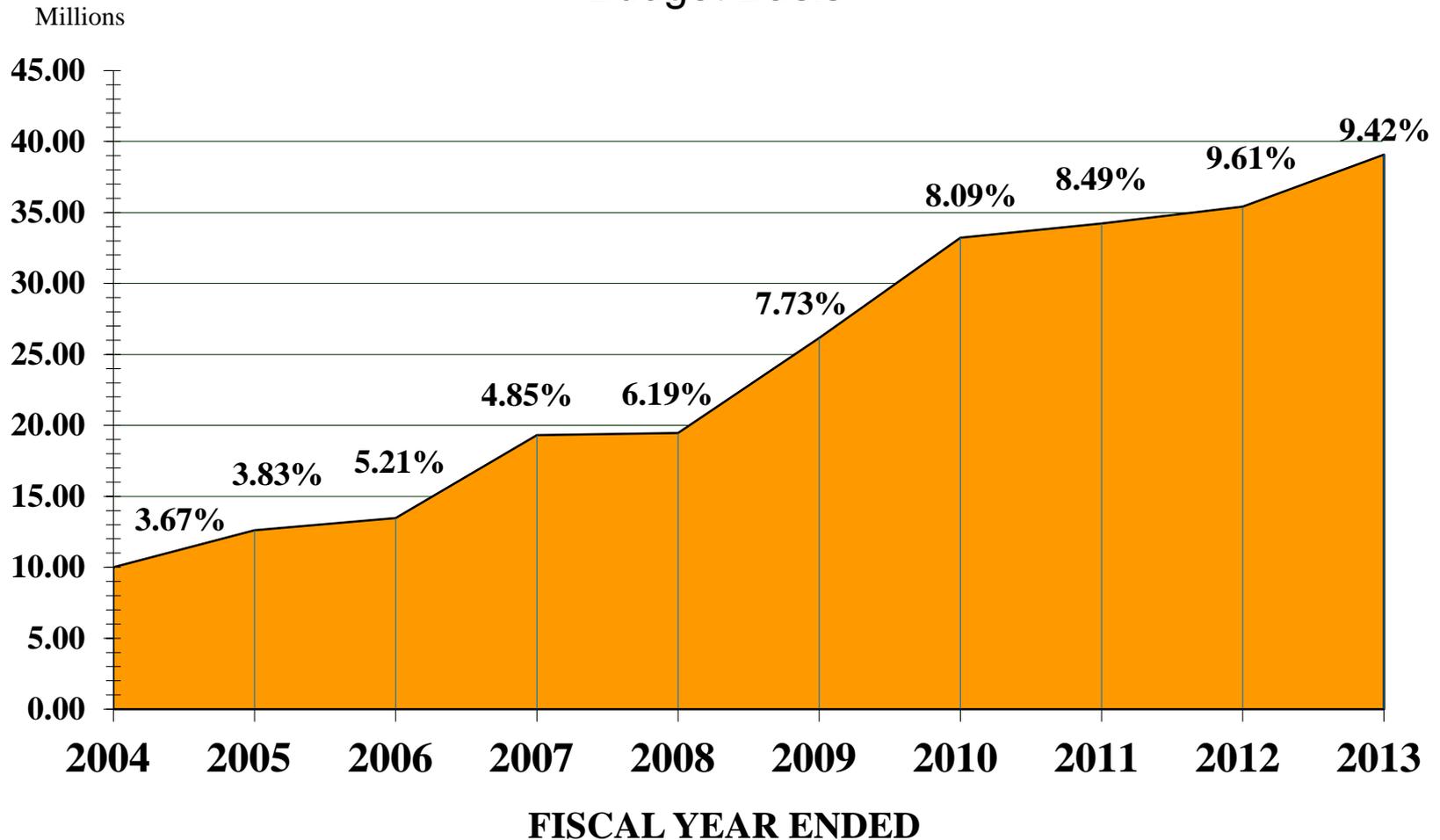


# BUDGET BASIS FUND BALANCE FOR OPERATING FUNDS

	# of Funds (total funds = 82)
Funds with Surplus	49
Funds with Deficit	4
Funds being monitored closely	<ul style="list-style-type: none"><li>• Ambulance Services</li><li>• HOME Investment</li><li>• ARRA Stimulus</li><li>• Econ. Dev. Initiative - HUD Grant</li></ul>

# GENERAL FUND BALANCE

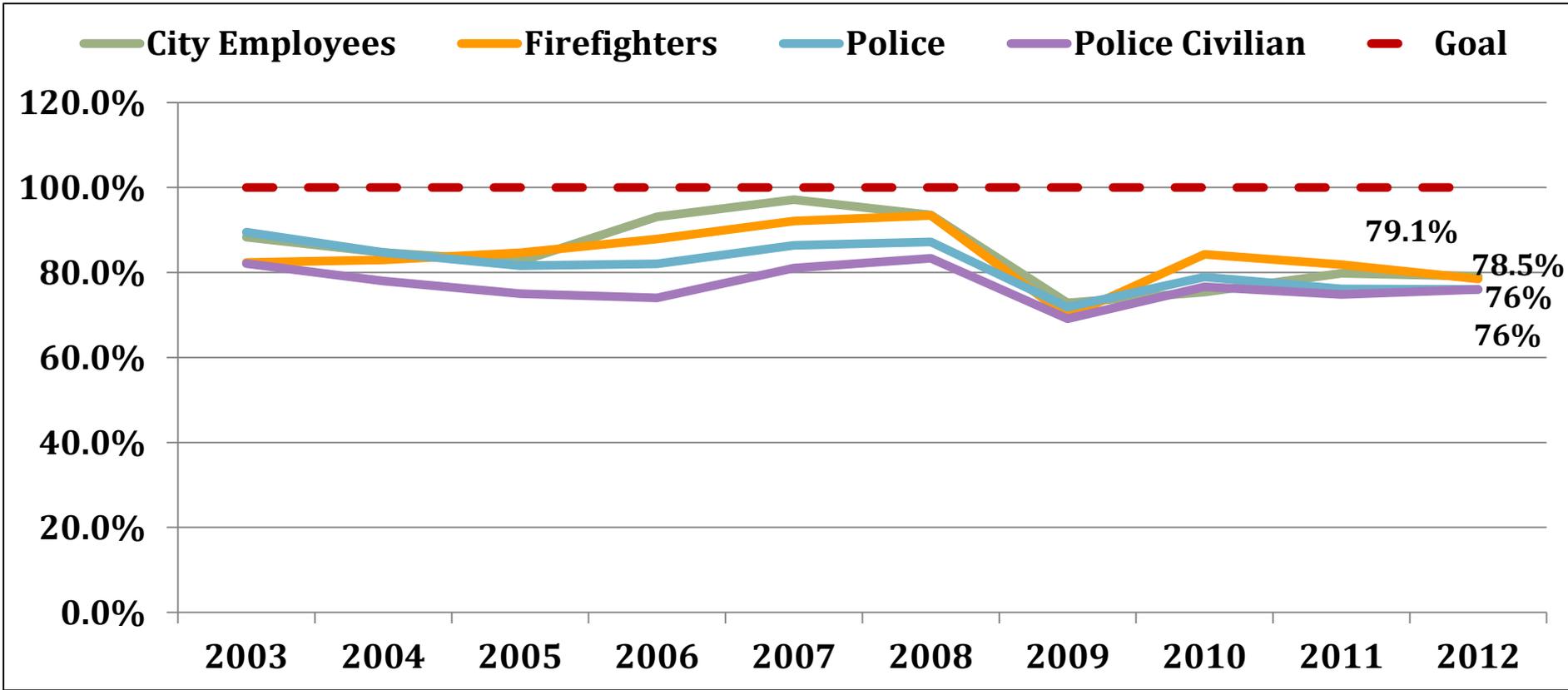
## Ten Year Analysis of General Fund Balance Budget Basis



**Note: The fund balances are presented on a budgetary basis and will not match balances in the audited financial statements which are presented on a modified accrual basis.**

# PENSION SYSTEMS FUNDED RATIO

Negative Trend: 

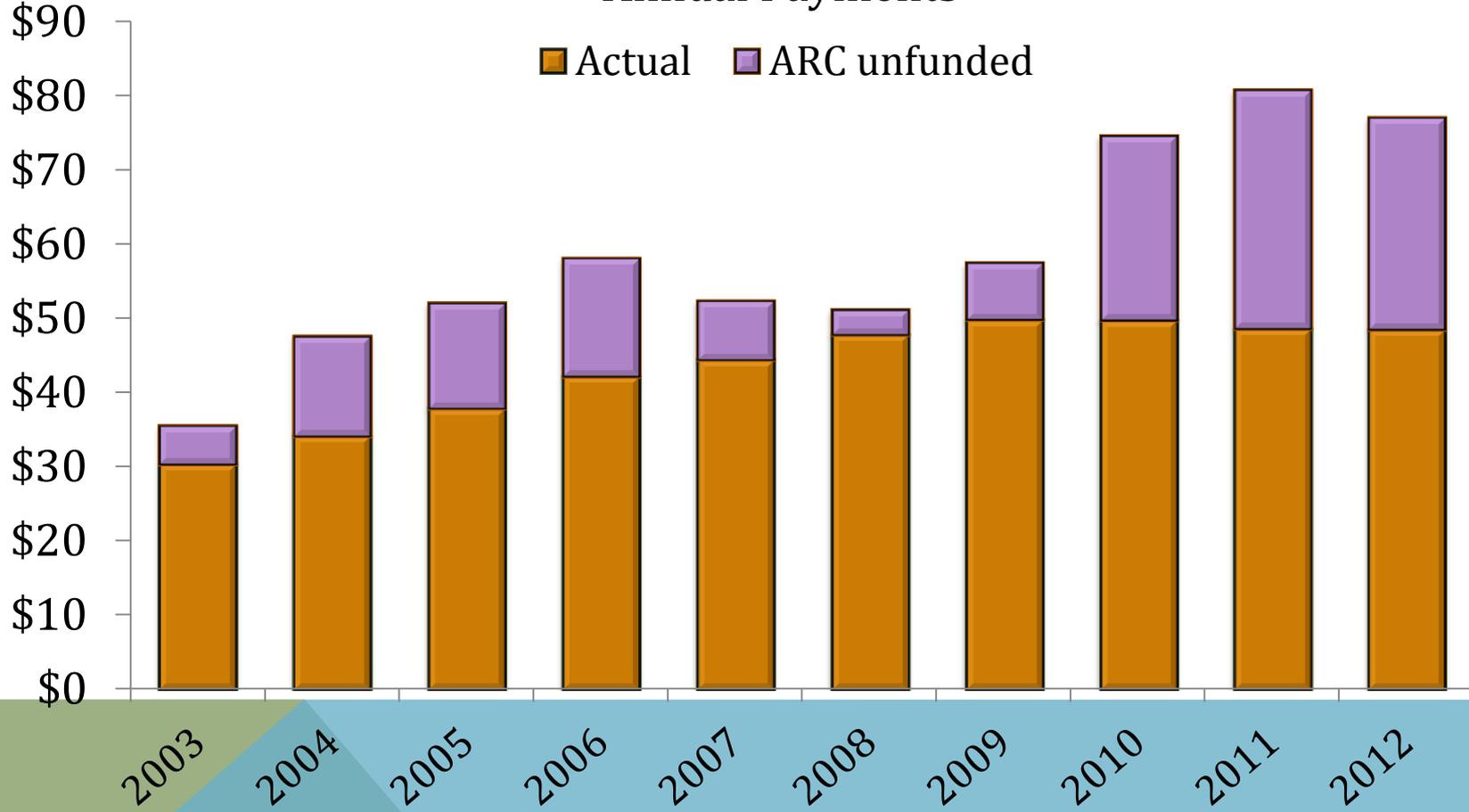


# PENSION ANNUAL PAYMENTS

millions of \$

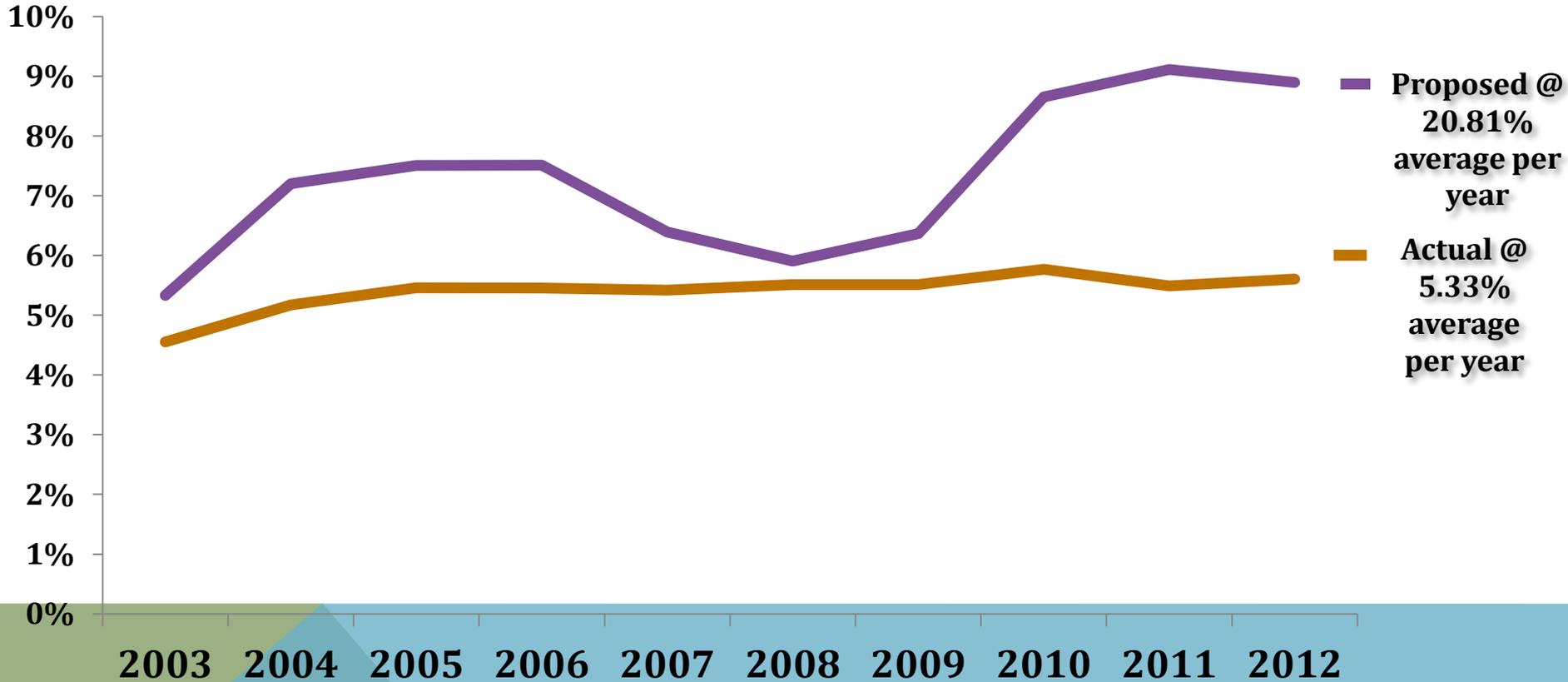
## Annual Payments

Actual ARC unfunded



# PENSION AS % OF OPERATING EXPENDITURES

## Pension % of Operating Expenditures Actual vs. Proposed



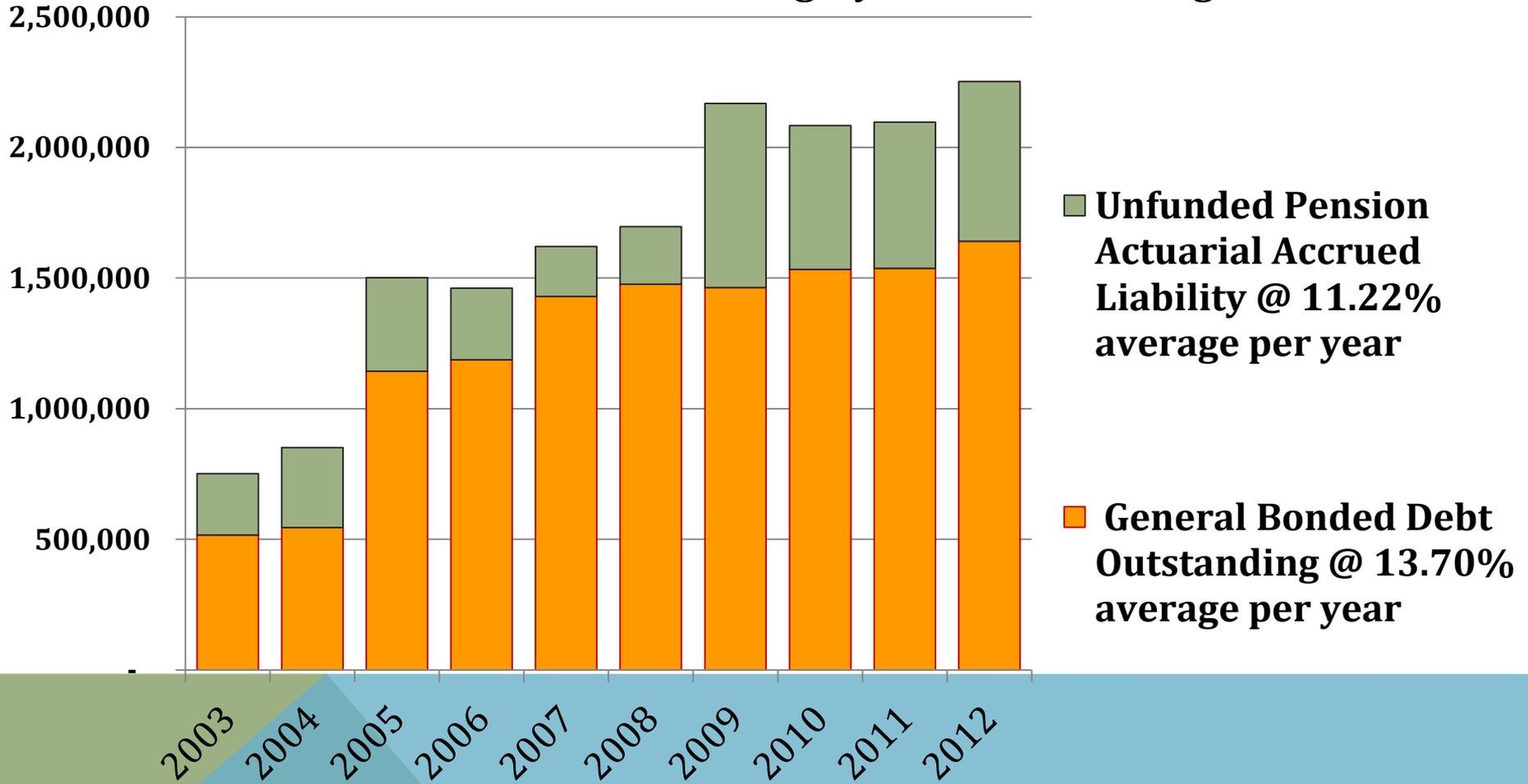
# MAYOR'S BLUE RIBBON TASK FORCE ON PENSION REFORM

Recommendations considered by Pension Project Team (made up of City leaders and pension system representations)

- **Plan design changes for Police and Police Civilian systems have been approved by the State legislature and signed into law by the Governor**
  - Requires City to fully fund ARC
  - Tier 2 benefit plan
  - Increased contributions from employees
- **Plan design changes for Employee's system have been agreed to and ratified**
  - Requires City to fully fund ARC
  - Tier 2 benefit plan
  - Increased contributions from employees
- **Plan design changes for Firefighters' system are the subject of current negotiations with hope of a resolution this summer**
- **Expected implementation in FY2014-15 City budget**

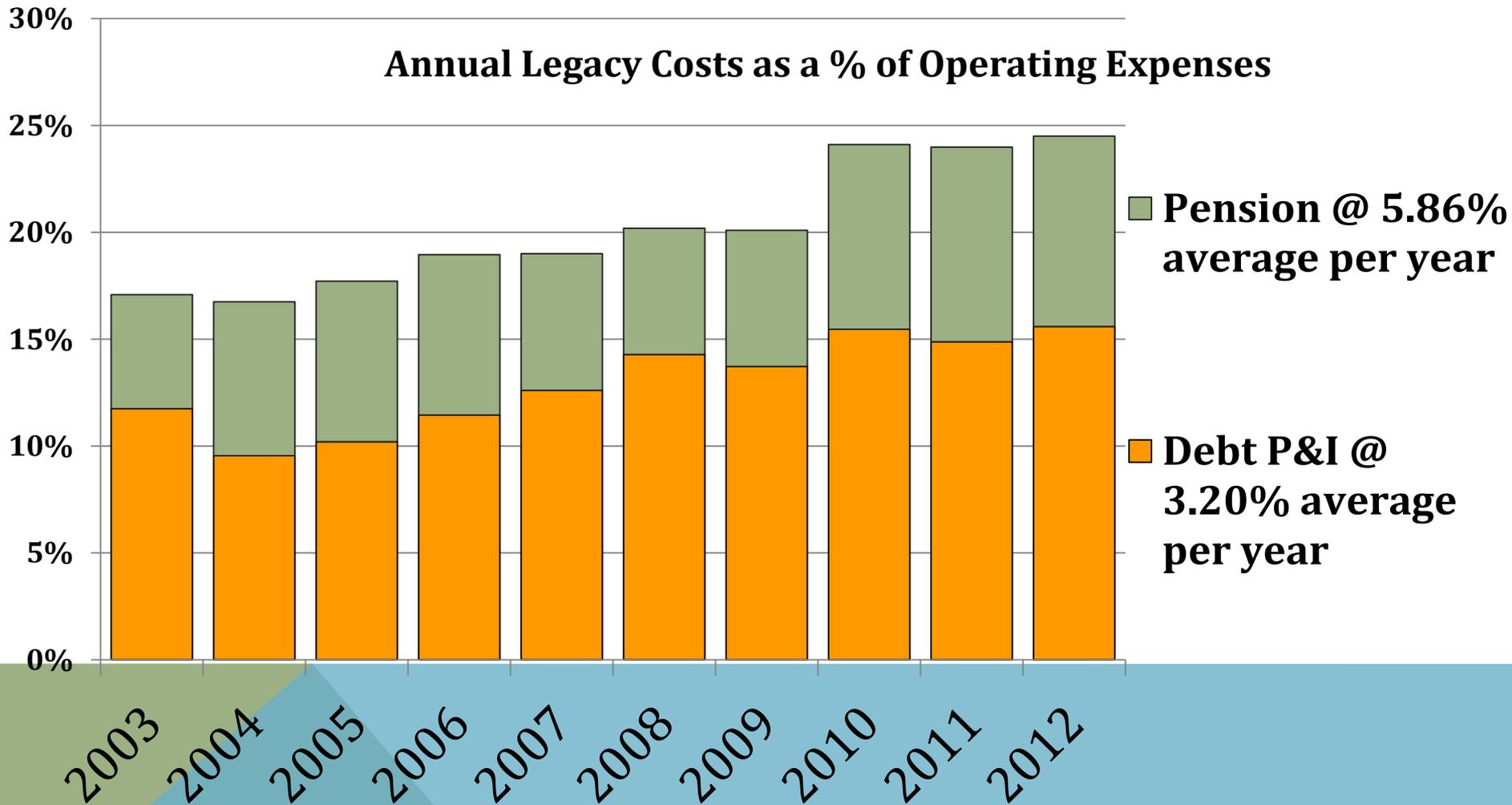
# COMBINED LEGACY COSTS

## Total Legacy Costs Outstanding



# COMBINED LEGACY COSTS

**Annual Legacy Costs as a % of Operating Expenses**



# PRIORITY

**Maintain the City's general obligation AA credit rating and seek to strengthen it in the future by capitalizing on the City's credit strengths and addressing its weaknesses**

# INDICATORS

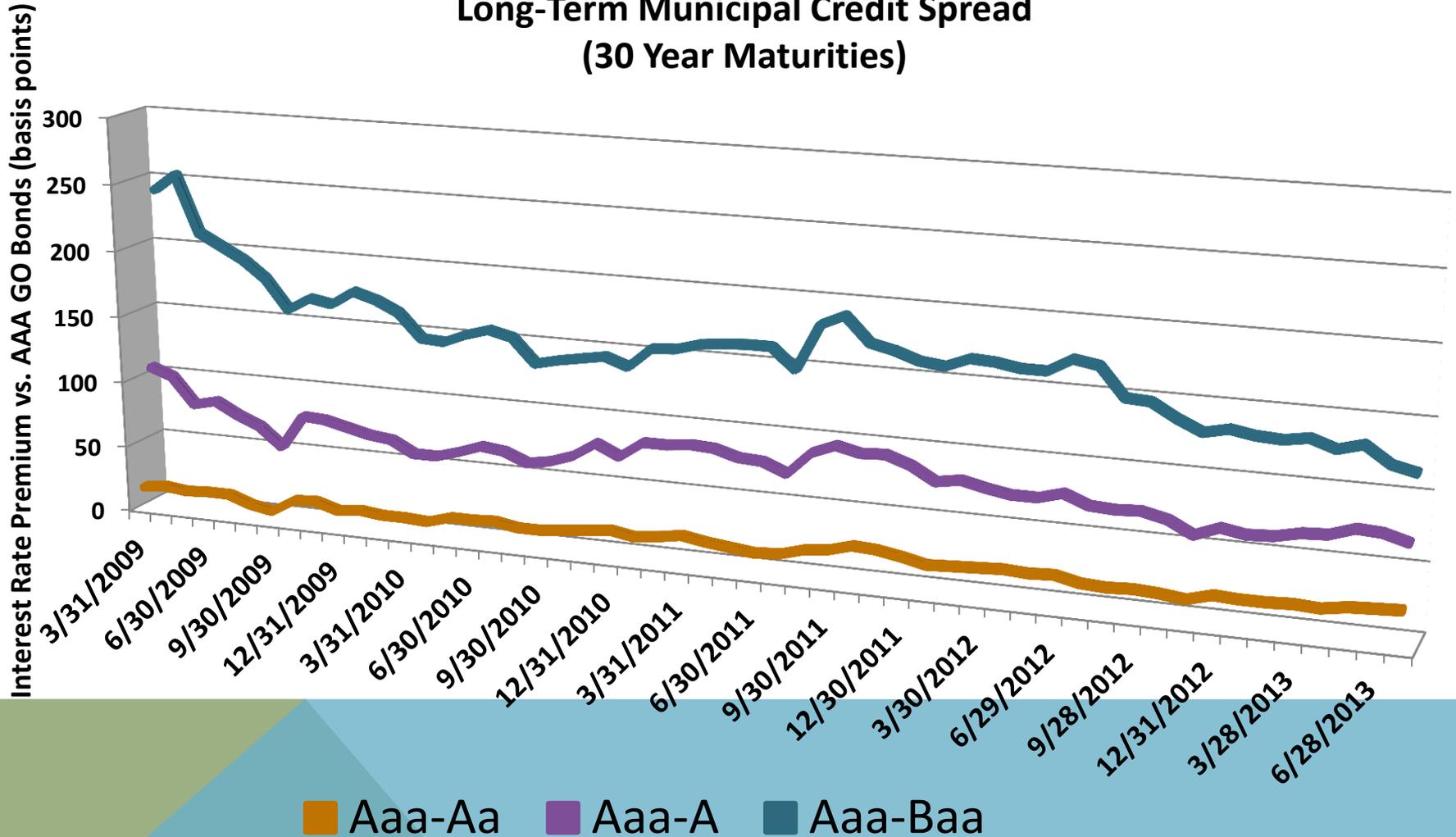
- 1. Debt service as percent of expenditures**
- 2. Credit ratings**

# CREDIT RATINGS (AS OF AUGUST 2, 2013)

Type of Bonds	Moody's	Standard & Poor's
<b>General Obligation Bonds</b>	<b>Aa2</b>	<b>AA</b>
<b>KCMO Special Obligation Bonds</b>	<b>A1</b>	<b>AA-</b>
<b>Water Revenue Bonds</b>	<b>Aa2</b>	<b>AA+</b>
<b>Sewer Revenue Bonds</b>	<b>Aa2</b>	<b>AA</b>
<b>Airport Revenue Bonds</b>	<b>A2</b>	<b>A+</b>
<b>Airport Revenue Bonds (Subordinate)</b>	<b>A3</b>	<b>A</b>

# CREDIT SPREADS

## Long-Term Municipal Credit Spread (30 Year Maturities)



For illustration purposes only. Past performance may not indicate future results. Source: Thomson Municipal Market Data

# STANDARD & POOR'S AUGUST 2013 RATING REPORT

- **General obligation and annual appropriation credit ratings affirmed with a stable outlook**
  - **Credit strengths**
    - Regional center of a “strong and diverse economic base that continues to experience population growth”
    - “Strong” financial management policies which indicate that “practices are strong, well embedded, and likely sustainable”
  - **Credit weaknesses**
    - Moderately-high to high debt levels with “elevated” annual debt service requirements
    - Earnings tax renewal requirement – represents a “large portion of general fund revenues”
- 

# MOODY'S METHODOLOGY

## Moody's Investors Service

- **Weighting System for Grid-Indicated Rating**

- Economic Strength 40%
- Financial Strength 30%
- Management and Governance 20%
- Debt Profile 10%

- **Calculation of Adjusted Net Pension Liability**

- Will be higher than our calculated liability
  - Accrued actuarial liabilities discounted at market rate instead of assumed investment rate
  - Plan assets valued at market value instead of smoothing
  - Adjusted net pension liability amortized over 20 years

# S&P'S METHODOLOGY PROPOSED CHANGES

## Standard and Poor's (Proposed Criteria - 2012)

- **Analytical Framework for Ratings**

• Institutional Framework	10%
• Economy	30%
• Management	20%
• Financial Measures	30%
• Liquidity	10%
• Budgetary Performance	10%
• Budgetary Flexibility	10%
• Debt and Contingent Liabilities	10%

- **Framework used to determine Indicative Rating**

- **Adjusted for positive and negative overriding factors to determine final rating**

# PRIORITY

**Ensure adequate funding for maintenance of City infrastructure**

# INDICATORS

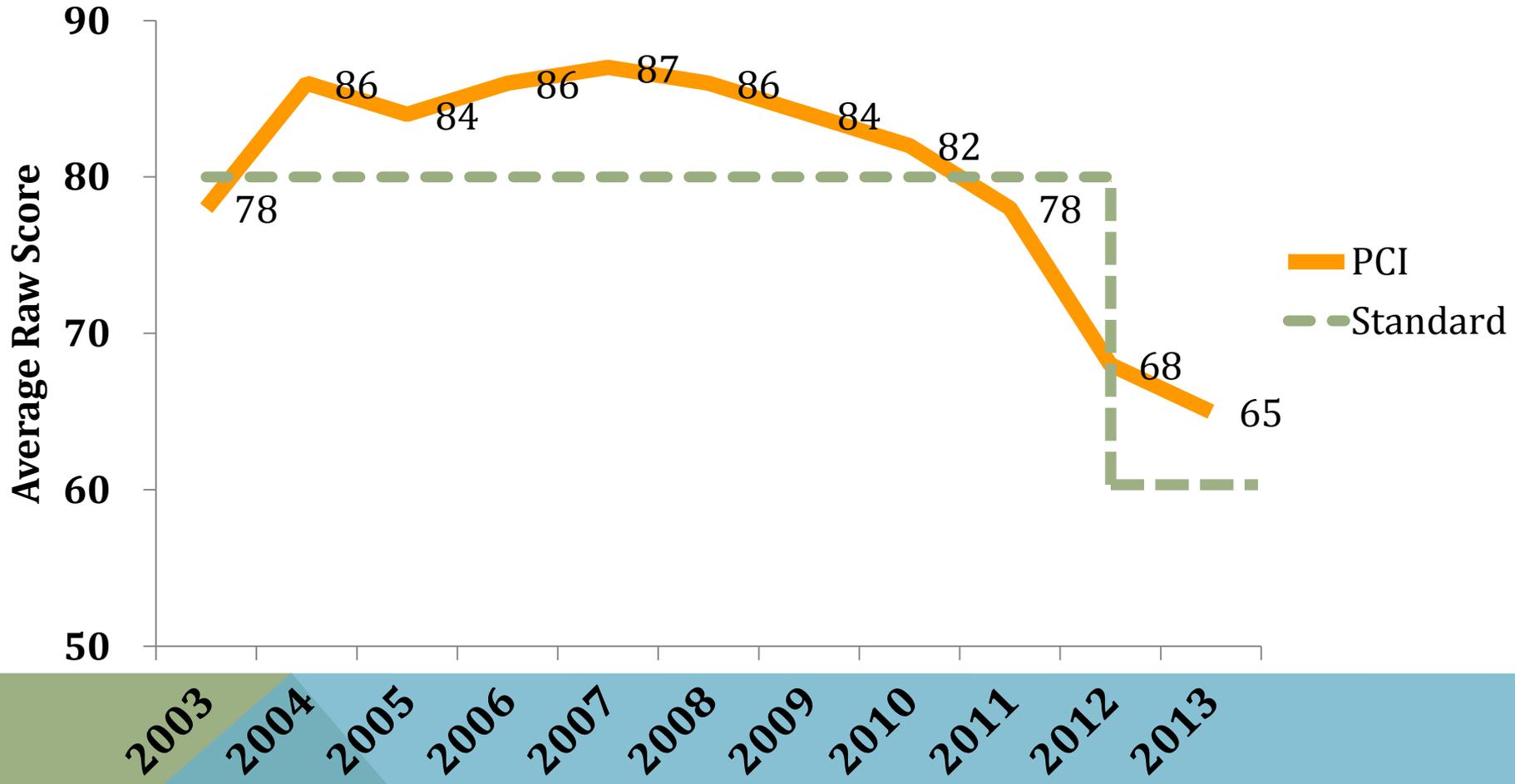
- 1. Capital expenditures as a share of General Government expenditures**

**Additional Indicators to inform discussion:**

- 1. Pavement condition index**
- 2. Citizen satisfaction with maintenance**

# STREET CONDITION INDEX

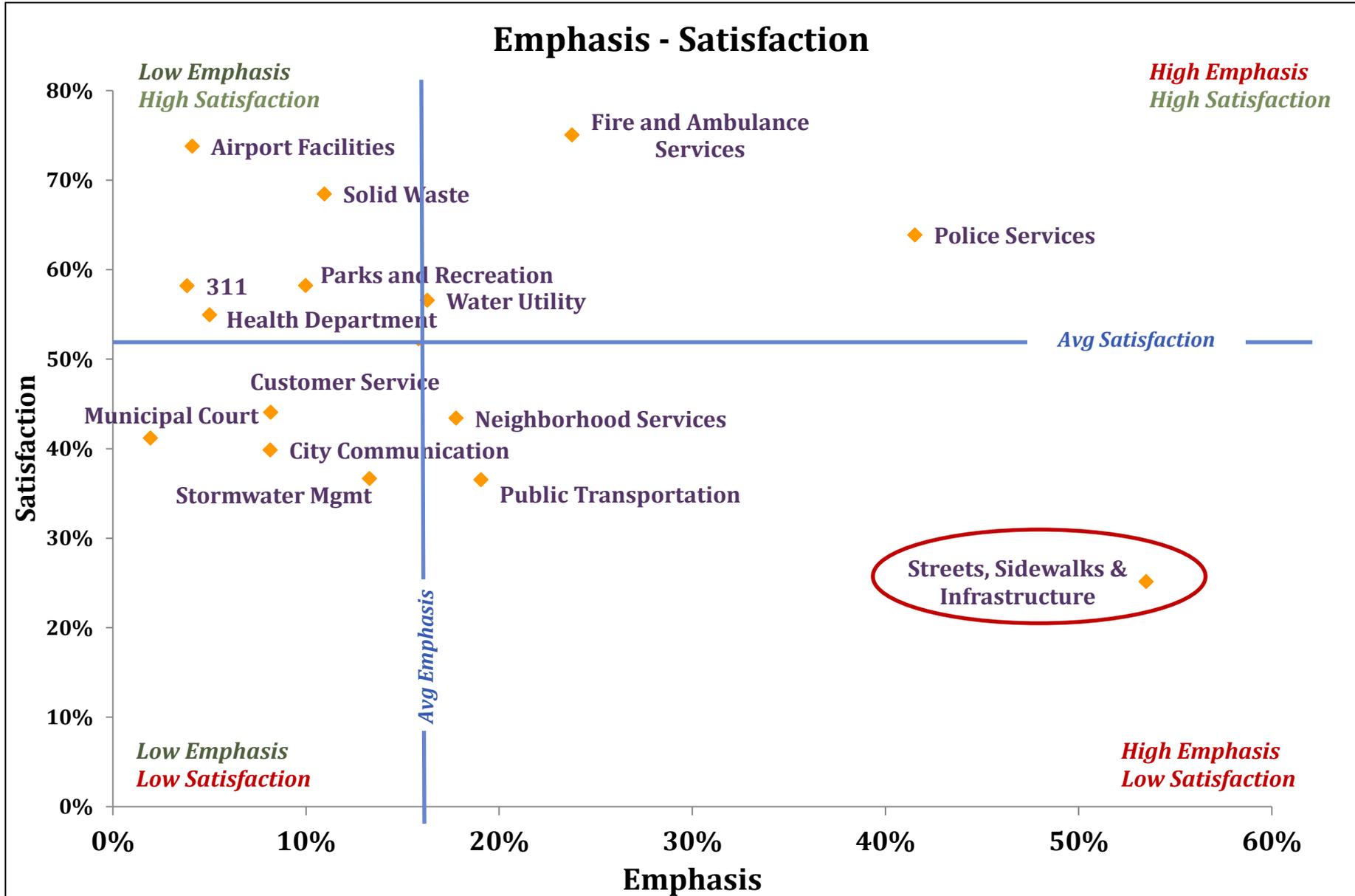
Negative Trend: 



## STREET CONDITION RATING SYSTEM – DEFINITION IN FLUX

- **Street Condition Rating affects financial condition and reporting – 3 years of going below our established standard is bad**
  - *Standard reduced from a system average score of 80 to 60 (out of 100 points)*
  - *Underlying rating system being reviewed by Public Works*
- **Rating system review conducted by Greenhouse consulting**
  - **Recommendations:**
    - *Underlying calculation in rating system - Clarify proper length of depreciation of a roadway*

# CITIZEN SURVEY: EMPHASIS ON INFRASTRUCTURE



# PRIORITY

**Emphasize the focus on the customer across all City services; engage citizens in a meaningful dialogue about City services, processes, and priorities using strategic communication methods.**

# INDICATORS

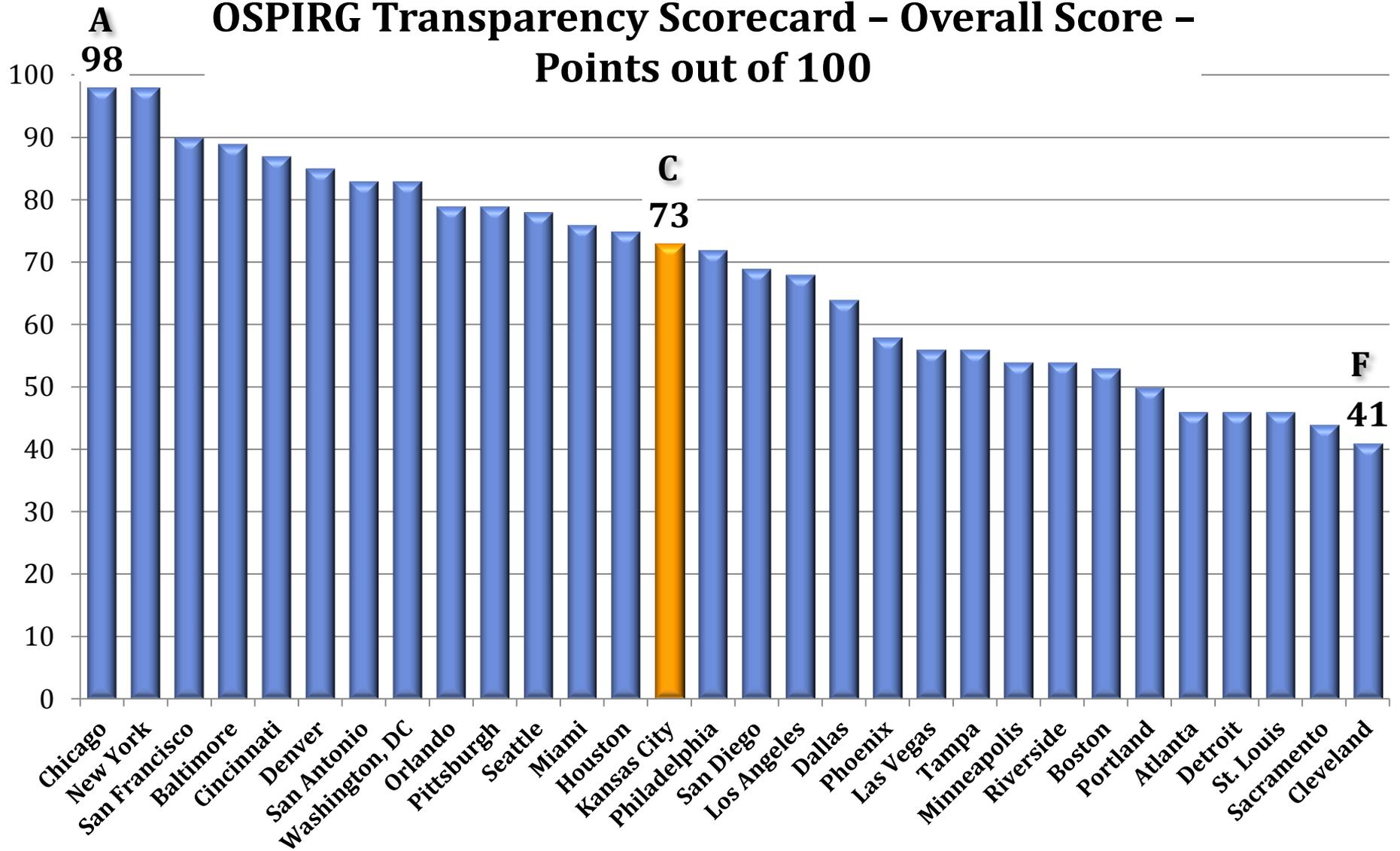
- 1. % of citizens satisfied with customer service**
- 2. % of citizens satisfied with communication**
- 3. % of businesses satisfied with City services**
- 4. % of customers satisfied with 311 service request outcomes**

# OSPIRG FOUNDATION GRADE OF TRANSPARENCY IN CITY SPENDING – JANUARY 2013 STUDY

Grading Criteria	Total Possible Points	KC Points Scored
Checkbook-level spending data	15	15
<b>Contracts and Descriptions for Items in Checkbook</b>	4	2
Historical Checkbook Expenditures	3	3
<b>Checkbook Searchability</b>	9	0
Downloadable Checkbook	3	3
<b>Tax Expenditures</b>	10	5
Municipal Budget	25	25
Historical Municipal Budgets	3	3
CAFR	10	10
Historical CAFR	3	3
<b>Service Request Center</b>	8	4
Central Transparency Website	7	0

# OSPIRG FOUNDATION GRADE OF TRANSPARENCY IN CITY SPENDING – JANUARY 2013 STUDY

## OSPIRG Transparency Scorecard – Overall Score – Points out of 100



# OSPIRG FOUNDATION GRADE OF TRANSPARENCY

## **Factors that impede increased transparency:**

- **Limited financial resources and staffing constraints**
- **Antiquated technology**
- **Privacy and legal concerns**
- **Poor coordination between departments**

*Source: OSPIRG Transparency Report (January 2013)*

# WHAT WE'VE DONE AND HOW WE CAN IMPROVE?

## Done it!

- **Put on data.kcmo.org**
  - Line item budget
  - Service Requests with raw downloadable data/API

## To do list!

- **Open Checkbook (with searchability)**
- **Open 311**
- **Central transparency website**
- **Further transparency with contracts**

# FINANCE DEPARTMENT EFFORTS TOWARD AWESOMENESS

- **Finance department strategic planning process**
  - CIPFA Survey Process
  - Internal Services Survey
- **RevKC**
  - *Rollout 1 completed on time - June 10, 2013*
    - ETAX, Business License, Utility Taxes, Conventions and Tourism Taxes, & Arena Fees
  - *Rollout 2 scheduled – May 5, 2014*
    - Property taxes
    - Special Assessments

# REVKC DATA

## RevKC Progress through 7/31/2013

- **Total Collections – \$ 104,012,308**
- **Involuntary Collections - \$ 1,047,671**
- **Quick Tax**
  - **Taxpayers Accessing**
    - **1<sup>st</sup> Party Access – 14,491**
    - **3<sup>rd</sup> Party Access – 1,354**
  - **Collections through Quick Tax - \$ 10,943,804 (11% of total collections)**
- **Refunds Issued - 1239**
- **Taxpayer Correspondence Sent** (including RevKC notification letters, assessments, tax clearances, etc.) - **60,723**

# Final Thoughts or Questions?

