The City's Business Model.

Comprehensive Long-Range Finance Plans + Economic Development.

The City Finance Plan.

The City's *Comprehensive Long-Range Finance Plan* provides for the financial resources to support the city's operations that fund public goods and services to locally demanded standards. Most local governments have annual budgets and multi-year capital improvement plans that offer the opportunity for the city to take the multi-year view of their financial position. The *Finance Plan* serves as the town's business plan by identifying the sources and uses of funds available to the town using a multi-decade view. Multi-decade planning is imprecise on details but great on mega-trends that make a difference.

Since the city's first responsibility is to protect and enhance its neighborhoods, significant expense is devoted to this purpose. However, business retention, expansion and recruitment are essential for the growth and prosperity of the city, so resources must also be allocated to support the business community's needs as expressed in the *Economic Development Plan.*

Principles for the *Finance Plan*. The underlying principles of the *Comprehensive Long-Range Finance Plan* are focused on actions to create and maintain revenue sources for a strong infrastructure system. The basic axioms that connect the city's *Finance Plan* to the *Economic Development Plan* are:

1. Adequately funding quality infrastructure to support economic development.
2. Equitably sharing the costs and benefits among all stakeholders.
3. Promoting partnerships that focus on outcomes necessary for businesses and private sector activities to prosper.
4. Supporting private, institutional and public investment consistent with the community vision.
5. Using debt wisely.

The Comprehensive Long-Range Finance Plan is the process the city uses to anticipate its long-term financial resources and needs on a comprehensive basis; breadth and depth are the order of the day. In some sense, the *Finance Plan* outlines the business model for the city.

1. It provides the framework to fund, and/or finance, the physical and social infrastructure necessary to establish and maintain a successful community.
2. It responds to the current decline in the city's financial resources and its capacity to continue to provide the public goods and services the town's residents and businesses have come to expect.
3. It is the vehicle for evaluating alternative approaches to public finance using debt re-structuring, private-public partnerships, the privatization of public services and other approaches.

As a result of pressures to reduce taxes and increase services, more of the burden for necessary and accustomed community services are being foregone or born directly by residents, businesses and property owners through private governments such as "condo" associations, community development districts and mandatory homeowners associations with their dues, assessments and regulations. Long term thinking is required by the city to respond to this trend.

The Inevitably Self-Reliant City.

The role of national, state and provincial governments is declining despite their desperate measures to retain relevancy. In the United States, the 20th century system of state and federal support for cities is fading fast. America's cities are finding less economic and financial support from state and federal sources even though unfunded mandates and top-down governing persists.

While national governments retain their importance in defense, environmental management and other global issues, state and provincial governments find themselves in the organizational middle with their duties evolving upward to the national level or devolving downward to the local level. The sorting out of meaningful roles for the various levels of government will be a front-burner issue of the 21st century since it is increasingly obvious the middle level of state government exists primarily to perpetuate itself.

As this drama unfolds, cities and towns need to become economically and financially self-supporting. They are increasingly on their own to find jobs and incomes for their citizens and tax and fee revenues for their public operations. Expanding the scope of the local economy to directly engage with the world is essential for economic growth and financial independence, no matter the size of the city.

Income Statements and Balance Sheets.

The Community Income Statement. City governments call this their annual budget. It has projected costs and anticipated revenues from taxes, fees, grants and other sources. The income statement is an established tool used by businesses for measuring revenues, expenses and profits. It is of similar value when evaluating the flow of resources to the economic, social and physical infrastructure systems.

- **Annual Budgets** consolidate the expenses and revenues for operating the city in keeping with the levels of service that have become accepted. Millage rates and other fees are set to collect the amount of money necessary to fund annual operations and maintain reserves.
- **Capital Improvements Plan.** Funding and financial systems that support the design, construction and maintenance of physical and social infrastructure systems are traditionally the subject of the city's Capital Improvements Plan [CIP], including:
    - Comprehensive plans and facility system plans identify facility requirements and the timing for their provision; these usually focus on transportation, utility, park and public building projects.
    - Preliminary engineering studies determine costs, phasing and design options that enable the constructing jurisdiction to understand the magnitude of the proposed improvement and its relationship to the funds and financing available to the local government.
    - The inclusion of social and economic development expenditures in the traditionally physically-oriented capital improvements planning process will help leverage physical improvements to provide multiple benefits for social capital formation and economic development.

Special Districts Plans and Budgets are growing in number, size and breadth of responsibility; they are in essence special-purpose governments. Financial management and community leadership skills are necessary for the managers of these special-purpose governmental units.

The Community Balance Sheet. The city's economic function is easy to follow through the format of a wealth-oriented balance sheet. The balance sheet reports the city's physical and financial assets and liabilities, thus tabulating the accumulated economic wealth of the city. Access and transparency of the financial statements are important attributes for a character town to earn community trust. The city's wealth includes quantitative measures such as financial account balances, reserve funds and the present value of physical assets. Measuring the community's financial strength each year is of unquestioned importance. It serves as an indicator of success and survival.

Qualitative Measures of Community Wealth. While wealth is most easily measured in monetary terms, there are other assets to consider when tabulating the balance sheet for the community:

- **Quality of life measures:** Quality, though harder to measure than quantity, may be more meaningful. Indicator projects have successfully evaluated a community's progress in preserving natural lands, reducing teen pregnancy and transforming other societal negatives into positives.
- **Community assets:** Natural resources, social networks, peace and tranquility, for example, are all valuable societal assets to record on the community balance sheet.
- **Goodwill:** Goodwill is an important business concept that applies to cities. It is the measure of trust the community has in the city as the steward for its public resources and the keeper of the community's vision. Building and maintaining a hefty balance in the goodwill account enables cities and other institutions to be innovative and expansive without being second-guessed and micro-managed by various "watch" groups.

Small Area Financial Analysis.

Every small city and town has specific areas within the city that either generate excess property tax revenues or consume more tax funded services than their taxes support. Generally, non-residential areas produce taxes and fees in excess of the city's costs to service them. Single family neighborhoods generally do not pay their way since they consume more services than their taxes cover. To respond to this condition, cities promote business and industrial districts that generate taxes from high value property without the expense of schools and neighborhood services. A Revenue Source Analysis will identify the areas of the city producing various levels of property tax revenues to the city.

Three examples of strategic financial planning:

1. The City of Maitland [FL] is a well-established residential community very interested in preserving their neighborhood values. The protective attitude of their residents occasionally inhibits new investments in developable areas of the City that would generate high tax and fee receipts for the City. The City annexed properties on the other side of a major transportation corridor that was isolated from the main body of the City; an area where new development could occur without disturbing the established residential areas. The variety of land uses, the abundance of development densities and intensities and the increase in tax and fee revenues have strengthened the financial position of the City without disturbing the tranquility of established neighborhoods.

2. The Cities of Kissimmee, Sanford and Tavares in Florida, each a character town, invested substantial sums in their downtown waterfronts. In all three cases, the public investment was followed by private investment with uses and intensities that are creating taxes, fees and jobs consistent with their town's vision.
3. Osceola County, Florida knows that West U.S. 192 with its extensive tourist commercial development is the major source of its tax and fee revenues. The County works diligently to help businesses in that corridor succeed by providing infrastructure, property maintenance laws and special taxing arrangements that will perpetuate the success of this district.

Every city should know what parts of the city produce revenues for the city. With GIS and the growing number of helpful county property appraisers, "heat maps" can be created with relative ease. The purpose of this knowledge is to fine-tune the city's business model to invest in the revenue producing areas with entitlements and infrastructure that enable and support high-value job centers.

Private Governments.

Financing public infrastructure using private governments. As local governments become more desperate for revenues, two things happen: taxes and fees are increased; and more of the burden for infrastructure construction and maintenance is off-loaded to users. The primary methods for shifting costs directly to the users is through organizations that operate as private governments. These private governments are homeowners' associations, property owners associations, taxing districts and improvement districts that can impose fees and rules on members. The members of these associations and districts pay for their private systems that were once public services funded by the City general revenue taxes.

Private associations with revenue raising authority. Private governments are proliferating; they have authority to raise revenue, impose regulations and adopt budgets. The process for determining representation is inconsistent and occasionally troublesome. These private governments exist due to the abdication of local elected governments in assuming responsibility for the provision of infrastructure and regulations suitable to the private communities' inhabitants.

Training and oversight of these private "officials" by public agencies is required.

- Homeowners and condominium associations, property owners' groups, improvement districts and special taxing districts are becoming more prevalent; their leaders need training.
- Private taxation in the form of dues, fees, assessments, surcharges and other revenue-raising methods are becoming widely used by private governments that may not have financial expertise.
- The public role in these private governments is generally undefined. The obligations of the public entities approving these private communities seems to be:
  - Early notification to property owners of their new financial obligations,
  - Financial and leadership skill training for the private managers so they can effectively manage these private governments,
  - Oversight to avoid and correct abuses.

Action Plans.

1. **Interactive data base construction and management.**
   Data is the life blood of financial planning and operations. The town's data base can be reasonably sophisticated using off-the-shelf tools currently available. Geographic information systems [GIS] provide great platforms for financial analysis and reporting. The data base enables the city-wide and small area analysis critical for long-range financial planning and capital investing.
2. **Department operating plans and budgets.**
   - Each department in the city has plans, budgets and procedures for operating, managing, maintaining and evaluating the city's infrastructure systems and programs. Streets and drainage, utilities, parks, public safety and a myriad of other activities are provided by the city.
   - Departmental operating plans also exist for special districts, public authorities and, sometimes, private community governments. Most of the city's staff and budget is devoted to these operating departments.
   - The level of service provided is directly linked to the vision-driven strategic plan that sets the standards and expectations of the stakeholders. Maintenance plans, schedules and expenses reflect standards provided in the strategic plan. Finance plans also include standards for adequate renewal and replacement funds for aging infrastructure.
3. **Revenue source analysis.**
   Most cities and towns do not know exactly where their money comes from. A Revenue Source Analysis can identify the amount of taxes generated by specific districts and areas within the city. This information can let the city target improvements and support programs to grow selected revenue producing districts. This analysis helps the city secure and expand its revenue sources.
4. **Private/public collaboration.**
   Collaborations of all sorts are necessary for success in the future. Resources are dwindling. Sharing and coordinating work efforts and resources is imperative.
   - **Internal city efficiencies:** Within the city, collaboration between the operating departments, the planning function and the financial officer enables the unfettered flow of coordinated rules, regulations and budgets. Community relations and performance measures become important and inherent elements to the operating systems used by successful cities to build and maintain stakeholder trust. Internal communication, cooperation and collaboration enable the city to function better, and it also makes it look better to those on the outside.
   - **Incentives:** Financial and other incentives are valuable tools for a town to use to achieve its goals. Incentives are usually associated with business recruitment but could apply to retaining existing employers or talented people. The incentive could be cash, tax deferments, training programs, contributions of land or buildings for vision-consistent employers or matching funds for lucrative private enterprise contracts. In all cases the incentives should be only a part of the financial program, they should be given only upon the receipt of results and they should only support activities that are consistent with and supportive of the town's vision.

- **Privatization:** The privatization of public services is becoming more common. The expectation is that the private sector can provide the same level of service the public is used to at a lower cost. The jury is still out on this supposition, but many cities are giving it a try. The trick seems to be:
  - To provide a way to gauge the quality of service,
  - To determine that an initial contract is fair to both the private and public entities,
  - To establish an exit strategy for both parties.
- **Public/private partnerships [P3s]:** These partnerships have many qualities of privatization, except, they usually establish an active role for both parties beyond the monetary "deal". Methods for mutual dependence and performance are worked out at the start. Examples:
  - The City of Kissimmee, Florida offered 10 acres of city property to attract an in-town mixed-use developer now contracted to provide apartments in the downtown area. The alliance of the city and the developer will leverage public lands to provide housing in their redevelopment area.
  - The City of Sanford, Florida has a similar arrangement that will provide housing in its downtown.
  - Osceola County, Florida provided land that enabled construction of the headquarters for International Consortium of Advanced Manufacturing Research [now BRIDG] expected to provide new high-tech jobs in the region.
  - "Win-win alliances" can put private capital to work to support the public agenda.

Conclusions.

1. **Consider the *Comprehensive Long-Range Finance Plan* as the city's business model.** *The Finance Plan* is the city's business model that presents the city's long-term expenses and mines the full range of sources with funds that fit the programmatic needs of the city. *The Plan* also designates existing and future areas of the city that will generate taxes and fees sufficient to support city operations in the future. The small area analysis guides the town's investment decisions for infrastructure that will benefit the town's future revenue streams.
2. **Develop a sophisticated interactive, fine-grained data base** that enables an analysis of how and where the city makes its money. Revenue sources come from many places. Some revenues are found in traditional tax and fee sources; some are from traditional partners like state and federal agencies while others are from newly emerging and untested sources. Some sources require matching funds or non-cash equity in the form of city land or buildings. Some funders are institutions with competitive benchmark systems.
3. **Find non-traditional revenue sources.** The use of impact fee credits, the sale of entitlements from public lands, rental fees for under-utilized city buildings, New Market Tax Credits and the conversion of previously free services and facility use to fee-based services are happening. State and federal sources are declining, so either the resident's expected levels of service need to be adjusted downward or supplemental sources of revenue need to be found. In general, privatizations and public-private partnerships only shift the burden from the city to its residents; not necessarily a great idea.

4. **Integrate the district's economic development and finance programs.** These two functions, when harnessed as a team, are truly synergistic. ***The Economic Development Plan*** benefits from targeted capital improvements and the city budget benefits from taxes and fees from new private investment.
5. **Consider partnering** and collaborating at every opportunity to advance the city's strategic objectives.
6. **Think and act comprehensively and long-term** with:
   - An annual operating budget,
   - A five-year capital budget,
   - A twenty to fifty year finance plan that anticipates the town's long-term sources and uses of funds.
7. **Leverage public capital improvements** and social infrastructure to support private economic development objectives consistent with the city's vision; monitor the effectiveness of the public dollars used for private business. Cross-leverage every asset to produce multiple benefits.
8. **Approach privatization of public services and private-public partnerships cautiously;** and always with an exit strategy. Be wary of private governments [homeowners associations, special districts] with independent funding and regulatory powers; provide oversight for performance.
9. **Support local small businesses, start-ups and entrepreneurs** with entitlements, business licenses, home occupation permits, incentives and infrastructure that achieve city goals.
10. **Connect every financial action of the city to its vision and strategy.** Establish and maintain a system of accountability that is transparent and real-time to ensure that the public can see the connection between *The Finance Plan* and the city's vision. Be transparent and measured when imposing taxes and fees, reserving funds for renewals and replacements and using debt.