

THE AFTERMATH OF THE RECESSION: DEFERRING CAPITAL EXPENSES

ULCT MIDYEAR CONFERENCE, ST. GEORGE, UTAH

**PRESENTERS:
LAURA LEWIS &
JASON BURNINGHAM**



**LEWIS YOUNG
ROBERTSON & BURNINGHAM, INC.**
AN INDEPENDENT MUNICIPAL FINANCIAL ADVISORY
AND CONSULTING FIRM

THE LEADERSHIP EFFECT

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COLIN POWELL

"LEADERSHIP IS SOLVING PROBLEMS. THE DAY SOLDIERS (CONSTITUENTS) STOP BRINGING YOU THEIR PROBLEMS IS THE DAY YOU HAVE STOPPED LEADING THEM. THEY HAVE EITHER LOST CONFIDENCE THAT YOU CAN HELP OR CONCLUDED YOU DO NOT CARE. EITHER CASE IS A FAILURE OF LEADERSHIP."

HENRY FORD

"DON'T FIND FAULT, FIND A REMEDY"

MITT ROMNEY

"LEADERSHIP IS ABOUT TAKING RESPONSIBILITY NOT MAKING EXCUSES"



WE PROVIDE SOLUTIONS

THE BIGGER PROBLEM

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IT'S NO SECRET THAT AMERICA'S INFRASTRUCTURE IS FAILING

- A NATIONAL EMBARRASSMENT – *YAHOO FINANCE NOVEMBER 2014*
CBS NEWS – FALLING APART – AMERICA'S NEGLECTED INFRASTRUCTURE – NOVEMBER 2014
- *NY STATE COMPTROLLER* – 2012 "IF STATE AND LOCAL GOVERNMENTS ARE RUNNING AN INFRASTRUCTURE RACE, THEY STARTED OUT BEHIND AND CONTINUE TO LOSE GROUND."
- *60 MINUTES* REPORT ON AMERICA'S FAILING INFRASTRUCTURE – NOVEMBER 2014

A COUPLE OF 'LOW-LIGHTS' FROM THIS REPORT:

- ✓ 32% OF ROADS IN THE US ARE IN POOR CONDITION
- ✓ THE US RANKS **16**TH IN THE WORLD FOR INFRASTRUCTURE ACCORDING TO THE WORLD ECONOMIC FORUM



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HOW DOES UTAH COMPARE

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UTAH'S INFRASTRUCTURE REPORT CARD

BRIDGES **B+**

CANALS **D+**

DAMS **B-**

DRINKING WATER & SUPPLY **C**

HAZARDOUS WASTE **C+**

LEVEES **D-**

ROADS **B+**

SOLID WASTE **B-**

TRANSIT **B+**

WASTEWATER & STORMWATER **C+**

G.P.A. C+

Each category was evaluated on the basis of capacity, condition, funding, future need, operation and maintenance, public safety, innovation and resilience.

- MULTI-YEAR RECESSION HAS SIGNIFICANTLY CONTRIBUTED TO REDUCED BUDGETS AND FURTHER DETERIORATION OF ESSENTIAL PUBLIC INFRASTRUCTURE
- RECENTLY VIA AN INFORMAL BLIND SURVEY CITY MANAGERS INDICATED THAT THEY WOULD LIKE TO SEE PROPERTY TAXES INCREASED IN THEIR COMMUNITIES
 - ✓ NEED TO CATCH UP WITH INFLATIONARY COST OF PROVIDING SERVICES
 - ✓ NEED THE STABILITY OF THIS REVENUE SOURCE AS A PART OF WELL GROUNDED FISCAL MANAGEMENT

WHAT IS YOUR GRADE ??????



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NO EASY ANSWERS

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UTAH'S INFRASTRUCTURE REPORT CARD

BRIDGES **B+**

CANALS **D+**

DAMS **B-**

DRINKING WATER & SUPPLY **C**

HAZARDOUS WASTE **C+**

LEVEES **D-**

ROADS **B+**

SOLID WASTE **B-**

TRANSIT **B+**

WASTEWATER & STORMWATER **C+**

G.P.A. C+

Each category was evaluated on the basis of capacity, condition, funding, future need, operation and maintenance, public safety, innovation and resilience.

- WHEN FUNDING IS LIMITED THE LIST OF PROJECTS THAT NEED TO BE DONE GETS LONG VERY FAST
- DEFERRING MAINTENANCE IS OFTEN DONE BECAUSE IT IS ASSUMED THAT THE COST TO REPLACE WILL "ONLY" BE TWICE AS MUCH AS THE COST OF THE MAINTENANCE
 - THIS RISK / REWARD PARADIGM IS INCORRECT AS IT CAN BE EVIDENCED THAT THE TOTAL COST COULD BE AS MUCH AS 15X MORE
 - IF IT WERE EASY THEN OUR INFRASTRUCTURE WOULD NOT BE GETTING AVERAGE OR BELOW AVERAGE GRADES
 - IT TAKES INSIGHTFUL LEADERSHIP TO TACKLE THESE ISSUES



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NO EASY ANSWERS

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ENCOURAGED BY RECENT DESERET NEWS OP ED PIECE FROM MONDAY OF THIS WEEK!

Keith B. McMullin - Chairman of the Board

Clark G. Gilbert - President and CEO

Paul S. Edwards - Editor

Frank J. ...

R. Scott Taylor - Opinion Editor - 801-933-7707

IN OUR OPINION: SALT LAKE COUNTY'S BUDGET

PROPOSAL WOULD BREAK CYCLE OF DEFERRED
MAINTENANCE (4-7-15)

EDITORIAL

Smart county budget

Salt Lake County Mayor Ben McAdams has done something in his proposed budget that deserves praise as a meaningful nod toward fiscal



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WHERE TO START

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- NOW THAT THE ECONOMY IS HEALING, IT IS TIME TO ADDRESS ONGOING DEFERRED MAINTENANCE AND INFRASTRUCTURE NEEDS
- UPDATE THE CAPITAL FACILITIES PLAN IF IT'S MORE THAN THREE YEARS OLD
- ASSESS VIEWPOINTS OF CONSTITUENTS
 - MEANS OF GETTING THEIR INPUT
 - GOOD DIALOGUE AND ACCURATE CONSTITUENT COMMUNICATION
- LONG RANGE FINANCIAL PLAN
 - BRING PIECES TOGETHER IN ONE COHESIVE AND COMPREHENSIVE PLAN
 - FINANCIAL SUSTAINABILITY INSTEAD OF FINANCIAL CRISIS MANAGEMENT



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COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN (CFSP)

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- What is **COMPREHENSIVE FINANCIAL SUSTAINABILITY PLANNING?**

A CFSP is a toolbox designed to ensure the financial viability of your city or town



COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN (CFSP)

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A Multi-year revenue and expenditure forecast that may include:

1. Capital Facilities Finance Planning
 - Connection to master plans, capital improvement programs (CIPs), and asset management/depreciation planning
 - Set priorities
 - Debt vs. pay-as-you-go
2. Revenue and expenditure forecasting
 - Includes growth assumptions based on economic indicators and land-use dynamics and availability
3. Identifying Level of Service needs for your community
4. Impact of various budget balancing approaches
5. User rate / fee analysis and sensitivities

COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN (CFSP)

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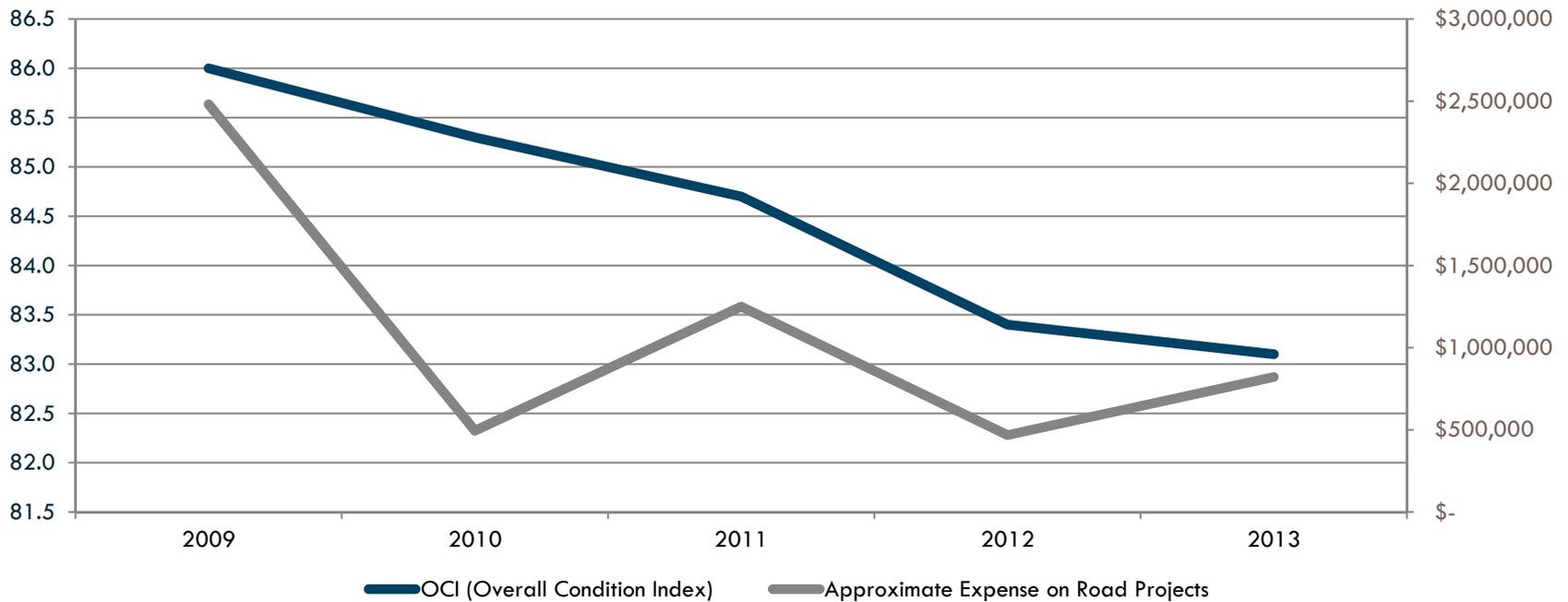
6. Written financial policies and procedures
 - Identifies key financial ratios and metrics to monitor
 - Outlines the involvement of stakeholders and elected officials
7. Analyze Debt Capacity / Affordability
8. Develop Financial Management guidelines
9. Economic strategic plans for enhancing revenues

It is a process to involve stakeholders

- ❑ Create advisory committees
- ❑ Meet to review performance and modify planning objectives and assumptions
- ❑ Use process and study to transfer knowledge to all stakeholders
 - elected officials, municipal staff, constituents

COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN (CFSP)

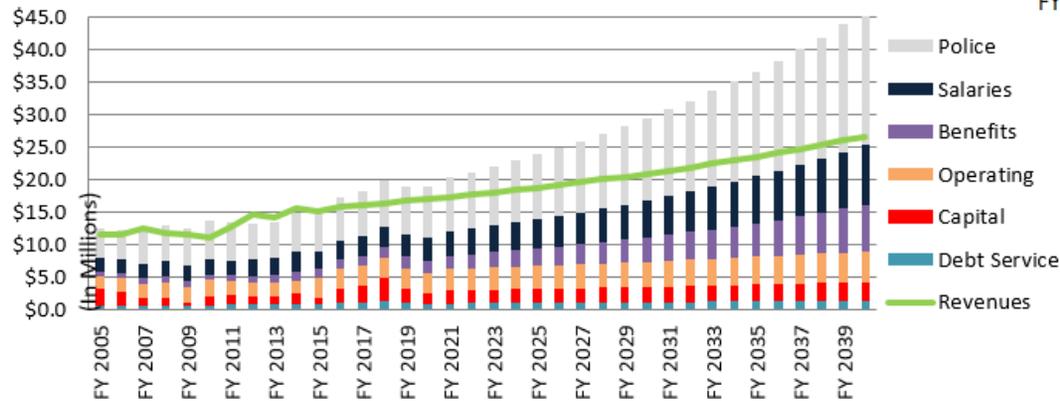
ROAD CONDITION CORRELATION WITH EXPENSE



COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN (CFSP)

Dynamic Budget

General Fund Revenues and Expenditures



2.2% Average Revenue Growth (2016-2040)

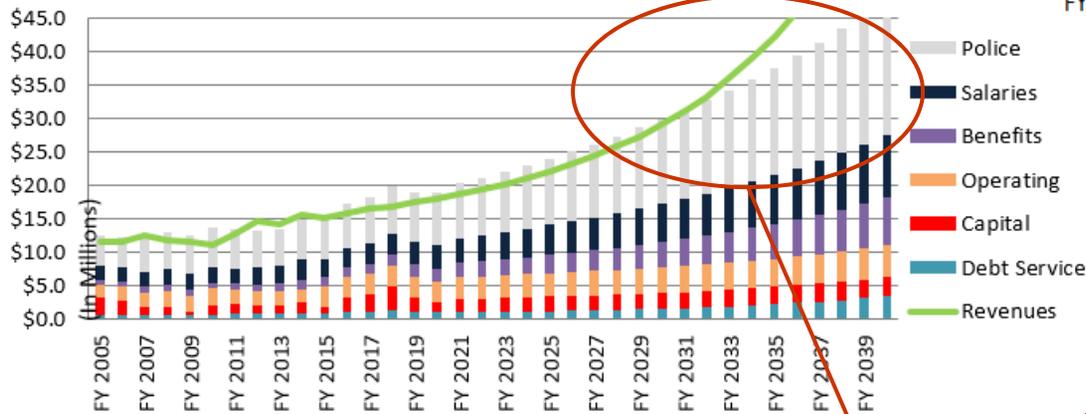
4.2% Average Expenditure Growth (2016-2040)

	Revenues	Expenses	Under/ (Over)	Sum thru 2040
FY 2016	15,642,000	17,064,000	(1,422,000)	(205,809,000)
FY 2020	16,916,000	18,859,000	(1,943,000)	(196,261,000)
FY 2040	26,527,000	45,751,000	(19,224,000)	(19,224,000)

COMPREHENSIVE FINANCIAL SUSTAINABILITY PLAN (CFSP)

Dynamic Budget

General Fund Revenues and Expenditures



6.3% Average Revenue Growth (2016-2040)

4.4% Average Expenditure Growth (2016-2040)

	Revenues	Expenses	Under/ (Over)	Sum thru 2040
FY 2016	15,786,000	17,064,000	(1,278,000)	47,735,000
FY 2020	17,934,000	18,909,000	(975,000)	55,570,000
FY 2040	67,823,000	47,816,000	20,007,000	20,008,000

A CFSP is a toolbox designed to ensure the financial viability of your city or town; “A Guiding Blue-Print to Ensure Long-term Sustainability.”

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- ❑ **ACCESS THE CADRE OF PROFESSIONALS THAT CAN HELP YOU**
- ❑ **EDUCATE YOUR CONSTITUENTS ABOUT THE NEEDS; ALLOW FOR THEIR BUY-IN AND OWNERSHIP OF THE ISSUES AND POTENTIAL SOLUTIONS**
- ❑ **BE PREPARED TO MAKE DIFFICULT DECISIONS**

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Courtesy of Flickr/Steve Lind

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ASCE
AMERICAN SOCIETY OF CIVIL ENGINEERS

2015
REPORT
CARD

***** for *****

UTAH'S
INFRASTRUCTURE

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RAISE THE GRADES 5 KEY SOLUTIONS

1 DEVELOP AND FUND PLANS TO MAINTAIN AND ENHANCE UTAH'S INFRASTRUCTURE: Infrastructure investment must be increased to meet Utah's growing needs, but it also should be prioritized and executed according to well-conceived plans that focus on the health and goals of the system and economy.

2 PLAN TO COORDINATE AND SAVE: Continuing to proceed piecemeal in the development of infrastructure strategies and plans for our complex, urbanizing populace is not practical nor a responsible means for dealing with the future. State leaders should organize a comprehensive and coordinated infrastructure planning effort that could bring needed efficiencies, significant savings, investment, and, most importantly, added safety.

3 PLAN TO REBUILD TO REBOUND: If something must be replaced, let's rebuild it to rebound when challenged. Our leaders should task experts to use current risk models and prepare forward-looking economic analyses that assesses the cost of inaction in the face of population growth and potential natural hazards, like an earthquake, and consider using a responsible portion of what will certainly be spent tomorrow strengthening our infrastructure today.

4 INCREASE LEADERSHIP IN INFRASTRUCTURE RENEWAL: Utah's infrastructure is a responsibility of state and local leaders, and leadership is needed to maintain and renew the infrastructure the generations before us have built.

5 PROMOTE SUSTAINABILITY AND RESILIENCE: Today's infrastructure must meet the community's ongoing needs, and at the same time, protect and improve environmental quality. Sustainability, resiliency, and ongoing maintenance must be an integral part of improving Utah's infrastructure.



Courtesy of Flickr/UtahWithAnEye

ABOUT UTAH'S INFRASTRUCTURE

Utah's public infrastructure systems are at a crossroads of historic growth. Significant changes are needed as population density increases and the state's infrastructure faces new demands. Utah is seeing a rapid shift towards urbanization but also a transition in infrastructure use from an agrarian to urban corridor.

Both old and new infrastructure will require Utah's attention. In this assessment, available funding and needs information was compiled, and it is estimated that Utah's infrastructure needs over the next 20 years exceed \$60 billion to both maintain and provide infrastructure for growing areas. As federal funding sources recede, the State of Utah will need to strive to be self-sufficient in the planning and funding of infrastructure.

The *2015 Report Card for Utah's Infrastructure* is an independent review of the current state of infrastructure needs, capability and funding in the State of Utah by the Utah Section of the American Society of Civil Engineers. It is a tool that shows every citizen the extent, condition, and importance of the state's infrastructure assets that support modern life.



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- ❑ DON'T BE THIS KIND OF "LISTENING LEADER!"

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