



**Palm Beach
CIVIC ASSOCIATION**
PROTECTING THE QUALITY OF LIFE SINCE 1944

PBCA-LRP Financial Strategy Study

04/09/19

Purpose Today

Describe The Work of the PBCA's Long-Range Planning Financial Strategy Sub-Committee

Advocate Why Major Town Financial Decisions Should Be Made Within A Strategic Context

Illuminate a Pathway to Establish That Strategic Context



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CONTENTS

Background

Rationale

Findings & Conclusions

The Path Forward

Next Steps

Background

After an initial look at the myriad of potential future financial issues facing the Town, the PBCA Long Range Planning Committee in conjunction with the PBCA Tax and Finance Committee formed the Financial Strategy Sub-Committee.

Charter--identify specific vulnerabilities & opportunities relating to the Town's finances under various 10-20 year scenarios.

Purpose--inform & help prepare Town officials develop plans & take immediate actions to reduce/eliminate financial vulnerabilities & capitalize on opportunities beneficial to Palm Beach residents.

Work Of The Committee To Date

- Identified relevant trends impacting Palm Beach over next 10-20 years
- Performed a forward-looking SWOT analysis
- Collected, reviewed and analyzed Town financial, property and tax records/reports
- Reviewed recent history of more significant Town financial decisions
- Screened best practices employed in other similar communities & businesses
- Developed this report to the Town Council

What Is A Financial Strategy?

- Strategy organizes the internal and external context of an organization
- Helps make sense of the environments* in which it operates
- Helps create a path forward for major financial decisions
- Provides others in the organization and its stakeholders with a way to understand the organization, its environment and the path it has chosen.

***Environments include:**

- Political
- Economic
- Societal
- Technological
- Legal
- Earth (i.e Physical)

Rationale For A Financial Strategy In Palm Beach

- Enables Town management to pull the right financial levers at the right times
- Avoids decisions which may appear optimal short-term but are sub-optimal long-term
- Minimizes the risk of bad financial decisions
- Avoids being blind-sighted without enough time or resources to make optimal decision--Proactive rather than reactive (i.e. "event-driven")
- Facilitates community engagement and support
- Ensures Palm Beach's long-range financial integrity

Findings and Conclusions

(1) On The Surface, the Town's Finances Currently Appear To Be In Very Good Shape

- Near perfect bond ratings
- Sizable reserves
- Property market values >\$22B (2017) = over \$7mm/acre
- Growing property-tax base—CAGR of assessed value 5.7% since 1990
- Average household income of >\$250,000
- Town-owned assets with a marketable value of \$400mm-\$500mm
- Potential incremental revenues from renovation of Town docks

Findings and Conclusions

(2) Looking Well Ahead, the Town Will Face Increasingly Complex and Potentially Dire Matters with Appreciable Financial Consequences

1. Existential economic threats

- Compounding US debt crowds out munis—many triggers
- Rise of corporate/personal debt crowds out munis
- Muni debt no longer tax-advantaged
- Severe recessions
- Much higher personal-income and/or new wealth taxes destroying property values
- EU dissolution
- China-India meltdowns
- New wars

Findings and Conclusions

(2) Looking Well Ahead, the Town Will Face Increasingly Complex and Potentially Dire Matters with Appreciable Financial Consequences

2. Other existential threats

- Sea-level rise
- Devastating hurricanes
- Accelerating longevity

3. Local Challenges

- Changing pension-plan actuarial and/or lower rate-of-return assumptions
- Infrastructure enhancement/replacement
- New infrastructure
- Significant new safety/health requirements
- Business community sustainability

Findings and Conclusions

(3) Cumulatively, Such Matters Could Greatly Swell Financial Outflows

- Understated liabilities-e.g. widening pension shortfalls
- Rising cost of public debt financings
- More difficult debt raising
- Inflating operating expenses
- Property tax collection shortfalls from sagging residential property values and less residential construction
- Tax and fee shortfalls from a shrunken business community

Findings and Conclusions

(4) Oblivious To Most of These Financial Threats, Residents Aspire To A “Peerless” Quality Of Life

- living in an exceedingly safe, sustainable Town eco-system
- recognized for its elegantly-landscaped stunning architecture & exceptional QoL
- enjoying special social & recreational experiences, wellness lifestyles, progressive health care
- enriched by cultural arts/activities and faith-based centers
- inspired to engage in civic/philanthropic causes
- served by a distinctive resurgent business community
- welcoming visitors and newcomers attracted to our world-renown resorts, shopping, beaches, ambience and climate
- engaged with and benefiting from an efficacious, Town government with technology-inspired services delivered by a top-talented workforce under far-sighted strategic governance & responsive management.

Findings and Conclusions

(5) Yet Despite This Aspiration, the Town Currently Lags Its Realization In Some Important Ways

- PB is far from being a “Smart Town”—Lagging opportunities to heighten efficiency, expand/improve services as well as provide data analytics support to decision-making
- Pressures to close the pension shortfall have created a fiscal climate which discourages certain potentially desirable discretionary spending—e.g. accelerated IT investments--in the best longer-term interests of the Town’s stakeholders
- The Town hasn’t adopted employee compensation, recruitment and retention policies guaranteed to attract and retain the best possible talent
- Looking ahead, a more strategic approach to fiscal management will be needed to plan prudently for future threats and opportunities
- And, we haven’t quantified the “effective population” the Town serves

Findings and Conclusions

(6) Looking Forward, The Town Has The Capacity To Boost Its Financial Inflows To Enable More Discretionary Spending and Meet Future Economic Challenges

- Additional monetization of Town assets—sale, ground-lease, sale/leaseback
- Town “community foundation” and other financial volunteering—e.g. legacies
- Public-private partnerships
- Property-related tax structures & elasticity
- Other taxes and fees
- Additional debt financings

The Path Forward

THE “WHAT”--A Strategic Context For Financial Decisions—Mechanics

- Develop models and data analytics to explore the financial impact of major financial decisions & exogenous events under varying assumptions and scenarios
- Evaluate the appropriateness/magnitude of new investment initiatives (e.g. IT)
- Conduct periodic Town-asset market/resale valuations as input to major new investment/divestiture decisions
- Enhance recently implemented dashboard-like mechanisms to engage stakeholders through more effective communications

The Path Forward

THE “WHAT”--A Strategic Context For Financial Decisions—Specific Analyses

- Explore the future liabilities associated with acceleration in longevity
- Assess the feasibility of new means of raising inflows
- Analyze suitable levels and structures of property taxation
- Recalibrate adequate levels of Town reserves
- Identify and evaluate alternative means of funding larger projects
- Consider an “effective population” study to size Town’s stakeholder segments—i.e. its constituency

The Path Forward

THE “HOW”—Two Complementary Strategic Planning Mechanisms

1. **Inculcating Strategic Planning into Town Government:**
 - Spearheaded by a Strategic Planning Manager
 - Melding specific strategic-planning elements into every major department
 - Conducting periodic strategic-planning retreats for senior Town officials
2. **A Private-Sector-Driven Permanent “Financial Strategic Forum” (FSF) To Provide Inputs and Early Alerts on Potentially Disruptive Long-Range Financial Matters**
 - Broadly Representative Of The Major Stakeholders in Our Community
 - Providing Advice and Counsel To The Town’s Strategic Planning Manager

NEXT STEPS FOR THE TOWN AND THE COMMUNITY

Embrace the concept of a strategically-driven financial-planning process

Consider establishing a dedicated strategic planning function within Town government

Transition continuing advisory work of the PBCA Sub-Committee to the new “Financial Strategy Forum” with broader volunteer representation from other stakeholders including the business and institutional communities