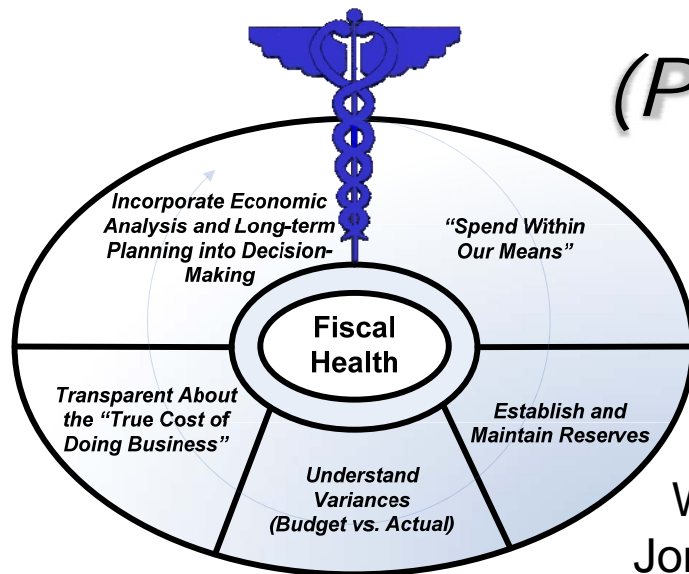


Managing our Budget During Turbulent Times:

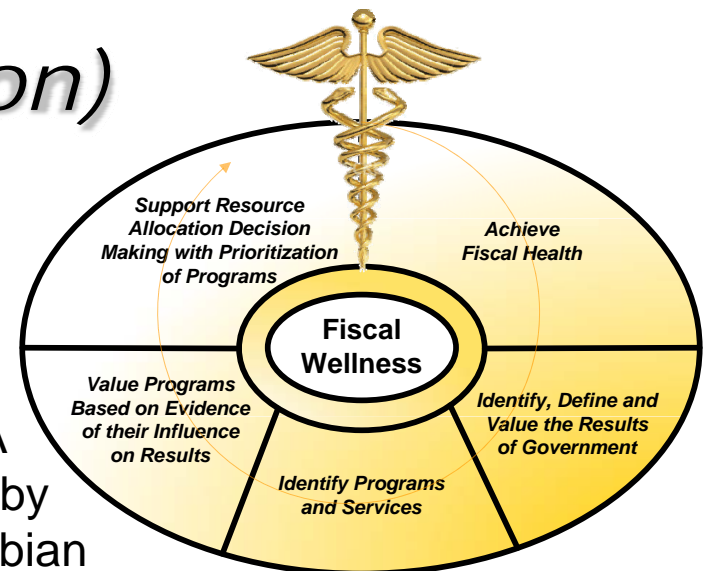
Achieving Fiscal Health & Wellness

ACHIEVING FISCAL HEALTH



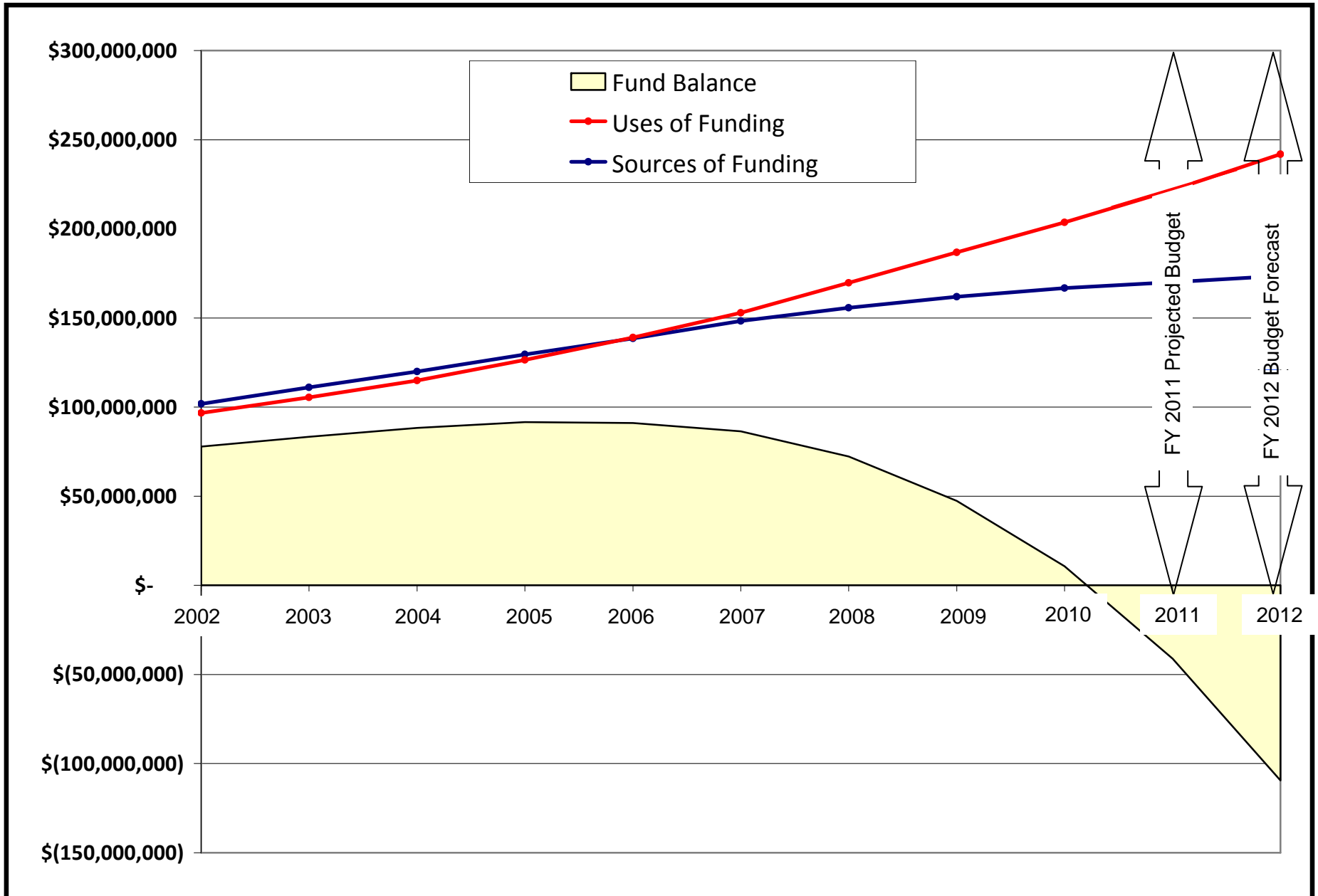
(Prioritization)

ACHIEVING LONG-TERM FISCAL WELLNESS



Adapted From ICMA
Workshop Conducted by
Jon Johnson & Chris Fabian
September, 2009

Could this happen?



Role of Diagnostician

Achieving Fiscal Health & Wellness

Phase I: Initial Diagnosis, Prescription and Treatment Plan



Fiscal Health & Wellness Diagnostic:

- Spending Within Our Means?
 - Start with Revenues?
 - Differentiate Ongoing vs. One-time?
 - Distinguish Program vs. General Gov't?
- Establishing and Maintaining Our Reserves?
 - Reserve Requirements?
 - Reserve Inventory?
- Understanding Variances?
 - Too Many Contingencies?
 - Forecasting Tools?
- True Cost of Doing Business?
 - Internal Service Funds?
 - Full Cost Plan?
- Long-term Decision Making?
 - Trend Analysis?
 - Scenario Planning?
 - Decision Support Tools?
- Results of Government?
 - Clear, comprehensive Results?
 - Clear "Value" of Results?
- Program Valuations?
 - Program Inventory?
 - Strategy Maps – Cause & Effect?
- Resource Allocation Based on Prioritization?

<p>ACHIEVING FISCAL HEALTH</p>		<p>ACHIEVING LONG-TERM FISCAL WELLNESS</p>
<p><u>Prescription of Fiscal Health</u> <u>Treatment Options to:</u></p> <ul style="list-style-type: none"> ✓ Spend Within Our Means ✓ Establish and Maintain Reserves ✓ Understand Variances ✓ Establish True Cost of Doing Business ✓ Integrate Long-term Planning into Decision Making 	<p><u>Prescription of Fiscal Wellness</u> <u>Treatment Options to:</u></p> <ul style="list-style-type: none"> ✓ Sustain Fiscal Health Achievements ✓ Identify, Define and Value Results of City ✓ Value Programs (Based on Results) ✓ Evaluate Program Efficiency ✓ Support Resource Allocation Decision Making with Program Prioritization 	

“Over the Counter” Treatment

Treatment Options:

- Fees for Service = Cost of Delivery
- Freeze Vacant Positions (Non-essential?)
- Across the Board “Cuts”
- Defer/Delay Capital Projects
- “Sharpen” Revenue Billing/Collection
- Consolidated Purchasing/Contracting
- Sell Underutilized Assets
- Cost Allocation/Overhead Transfers
- Freeze Salaries/Overtime



Treatment Considerations:

- Only a Short-Term “Fix” to Relieve Pain
- Can apply with minimal diagnosis (anticipate impact)
- Must have follow up diagnosis

“Emergency-Room” Treatment

Treatment Options:

- Across the Board Budget “Amputation”
- Hiring Freeze/Furloughs
- Reduction in Workforce
- 4-Day work weeks
- Reduce Services
- Spend “Savings” Reserves
- Early Retirement Incentives
- Outsourcing/Shared Services
- Resize or Restructure



Treatment Considerations:

- Don’t apply without diagnosis
- Don’t be guilty of malpractice
- Only to “Stop the Bleeding”

Cosmetic Surgery

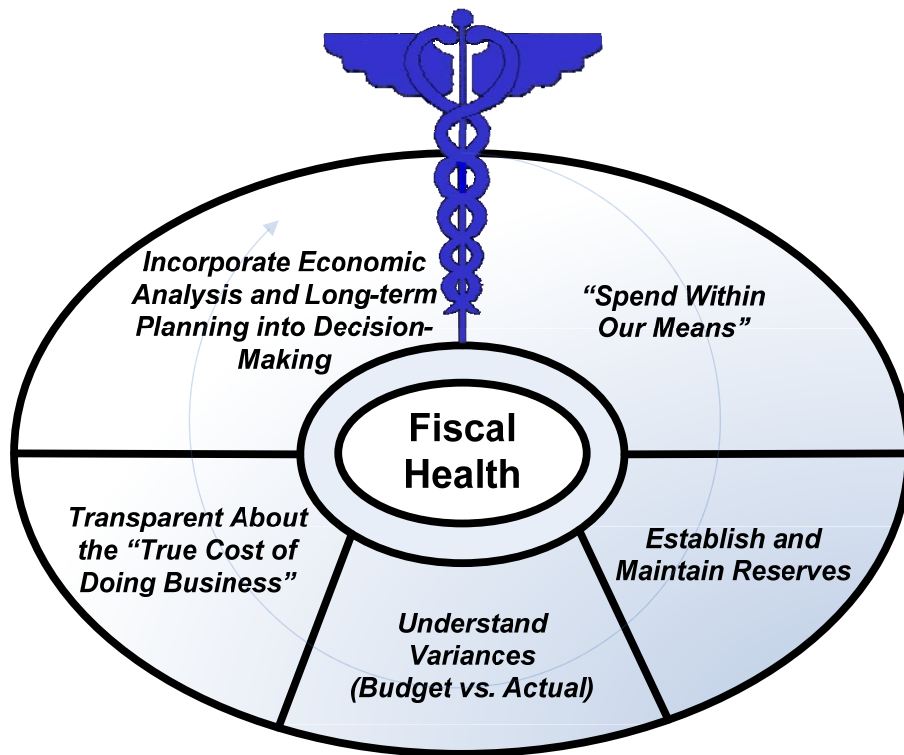
Not a Solution

- Accounting Gimmicks
- Shifting Operational Costs to Capital Budgets
- Deferring Compensations
- Under fund Accrued Liabilities

Achieving Fiscal Health & Wellness

2 Strategic Initiatives

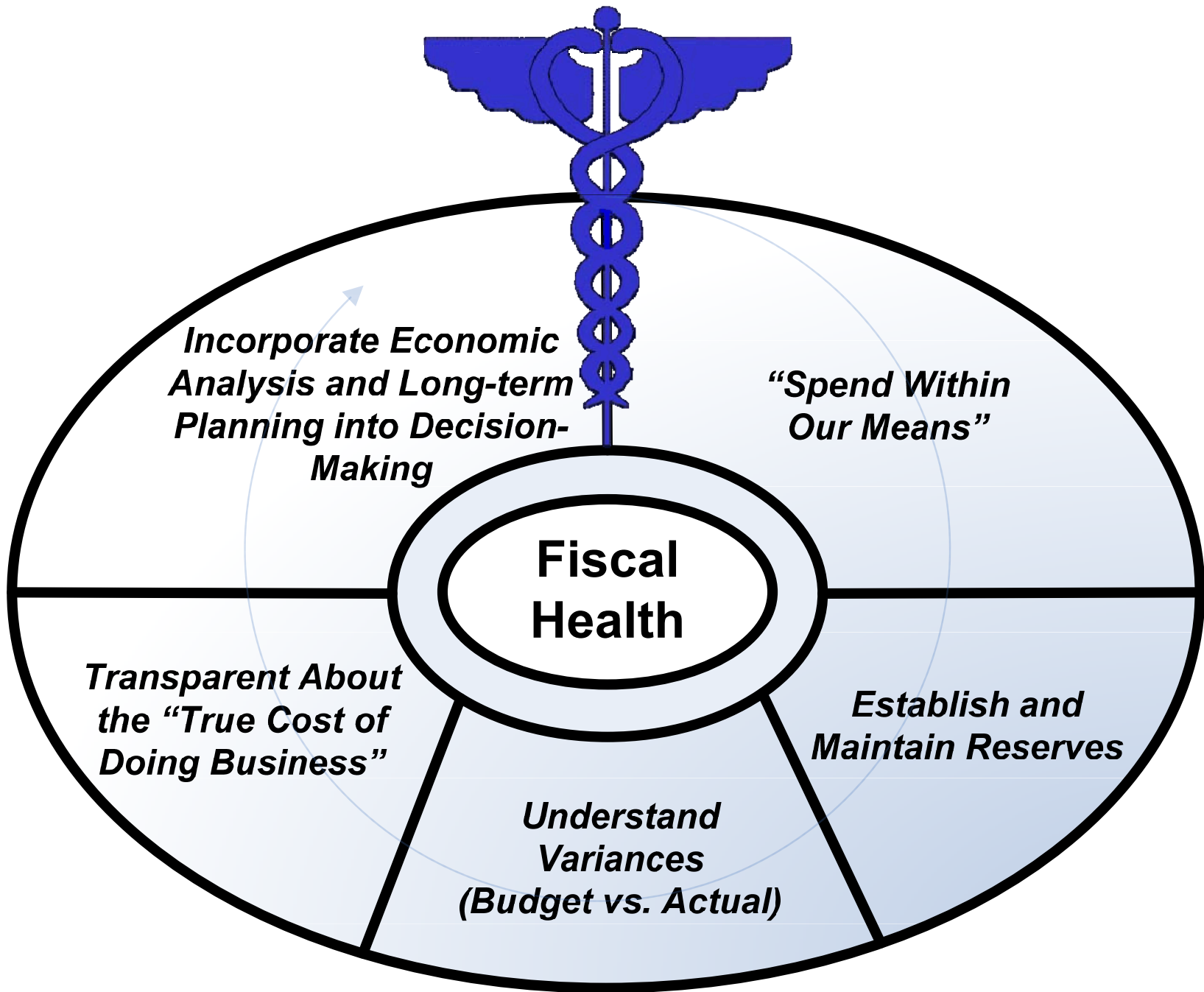
Fiscal Health



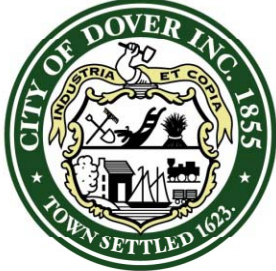
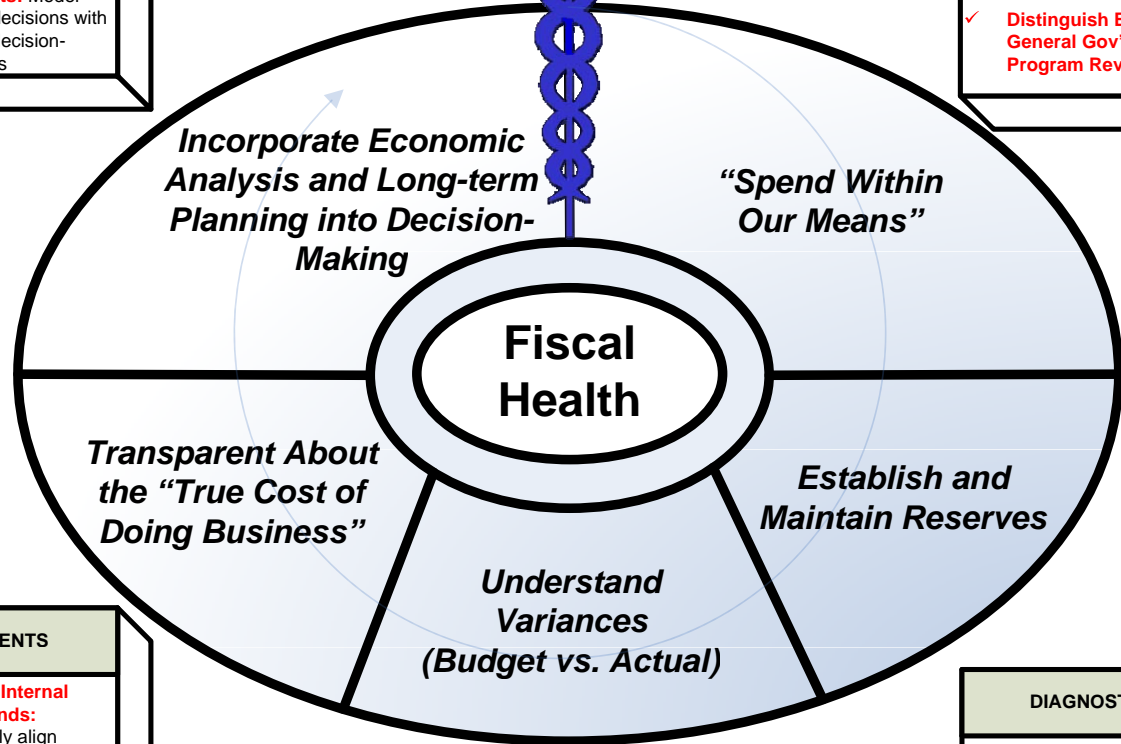
Long-term Fiscal Wellness



ACHIEVING FISCAL HEALTH



ACHIEVING FISCAL HEALTH



DIAGNOSTICS	TREATMENTS
<ul style="list-style-type: none"> ✓ Account for Impact of External/Economic Influences?: Do we incorporate economic trends into our forecasts? Are we accurate? ✓ Incorporate/Consolidate Long-term Plans into Forecasts? ✓ Plan for Ongoing Replacement/Maintenance Costs? 	<ul style="list-style-type: none"> ✓ Trend Analysis and Forecasting: Identify and assess key influences on our revenue sources and expenses ✓ Decision Making Tool, Incorporating and Communicating Long-term Impacts: Model impacts of decisions with interactive decision-support tools

DIAGNOSTICS	TREATMENTS
<ul style="list-style-type: none"> ✓ Start with Revenues?: Do we begin fiscal discussions with available revenues, rather than expenses? ✓ Distinguish Between Ongoing vs. One-time Revenues / Expenses? ✓ Distinguish Between General Gov't and Program Revenues? 	<ul style="list-style-type: none"> ✓ Achieve Ongoing Alignment: Ongoing costs can only be funded with ongoing revenue. ✓ Achieve One-time Alignment: Fund one-time costs with unreserved fund balance, one-time sources (ex. Grants), dedicated ongoing revenue. ✓ Incentivize Self-Sustaining Programs: Allow programs to keep 100% of program revenue generated.

DIAGNOSTICS	TREATMENTS
<ul style="list-style-type: none"> ✓ Appropriate Program Costs Shouldered by Users?: Do we know what overhead, administrative and internal services we provide, how much they cost, and how each customer influences the demand for service? ✓ Know the Programs Offered, and How Much they Cost?: Do we know what programs we offer, how much they cost (direct and indirect)? 	<ul style="list-style-type: none"> ✓ Implement Internal Service Funds: Appropriately align supply/cost of service with customer demand ✓ Utilize Full-Cost Plan: Appropriately align cost/supply of service with demand for all overhead and admin programs ✓ Program Inventory: Identify each program offered by organization ✓ Program Costing: Price each program (direct and indirect costs)

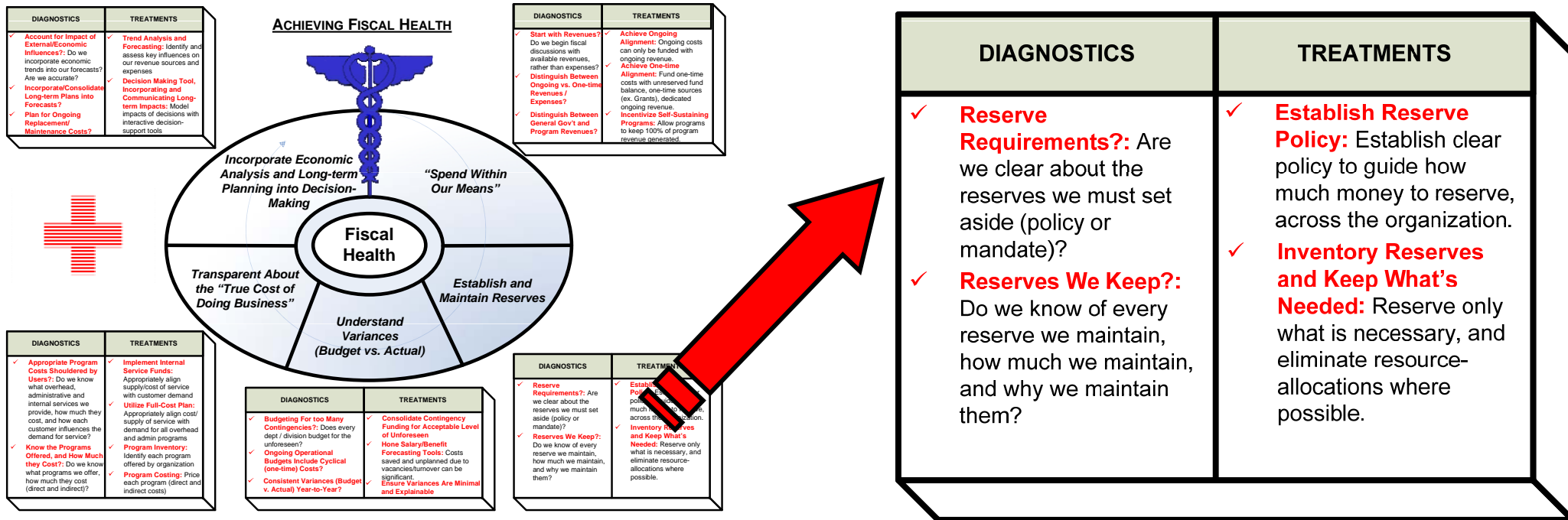
DIAGNOSTICS	TREATMENTS
<ul style="list-style-type: none"> ✓ Budgeting For too Many Contingencies?: Does every dept / division budget for the unforeseen? ✓ Ongoing Operational Budgets Include Cyclical (one-time) Costs? ✓ Consistent Variances (Budget v. Actual) Year-to-Year? 	<ul style="list-style-type: none"> ✓ Consolidate Contingency Funding for Acceptable Level of Unforeseen ✓ Hone Salary/Benefit Forecasting Tools: Costs saved and unplanned due to vacancies/turnover can be significant. ✓ Ensure Variances Are Minimal and Explainable

DIAGNOSTICS	TREATMENTS
<ul style="list-style-type: none"> ✓ Reserve Requirements?: Are we clear about the reserves we must set aside (policy or mandate)? ✓ Reserves We Keep?: Do we know of every reserve we maintain, how much we maintain, and why we maintain them? 	<ul style="list-style-type: none"> ✓ Establish Reserve Policy: Establish clear policy to guide how much money to reserve, across the organization. ✓ Inventory Reserves and Keep What's Needed: Reserve only what is necessary, and eliminate resource-allocations where possible.

Approach to Fiscal Health #1: Spend Within our Means

- Symptoms of Good Fiscal Health
 - Start with Revenues
 - One-time and Ongoing Alignment
 - Differentiate Program Revenues from General Government Revenues
 - Budget Allocations Responsive to Changes in Program Revenues
- Spend Within our Means in order to:
 - Base budgets on reliable sources of funding
 - Perform analysis to ensure reserves aren't used for ongoing expenses
 - Prevent reliance on volatile revenues (that might not come in)
 - Promote revenue diversification
 - Engage departments in enhancing revenue sources
 - Provide for flexibility and promote collaboration when responding to program revenue shortfalls

Establish and Maintain Reserves

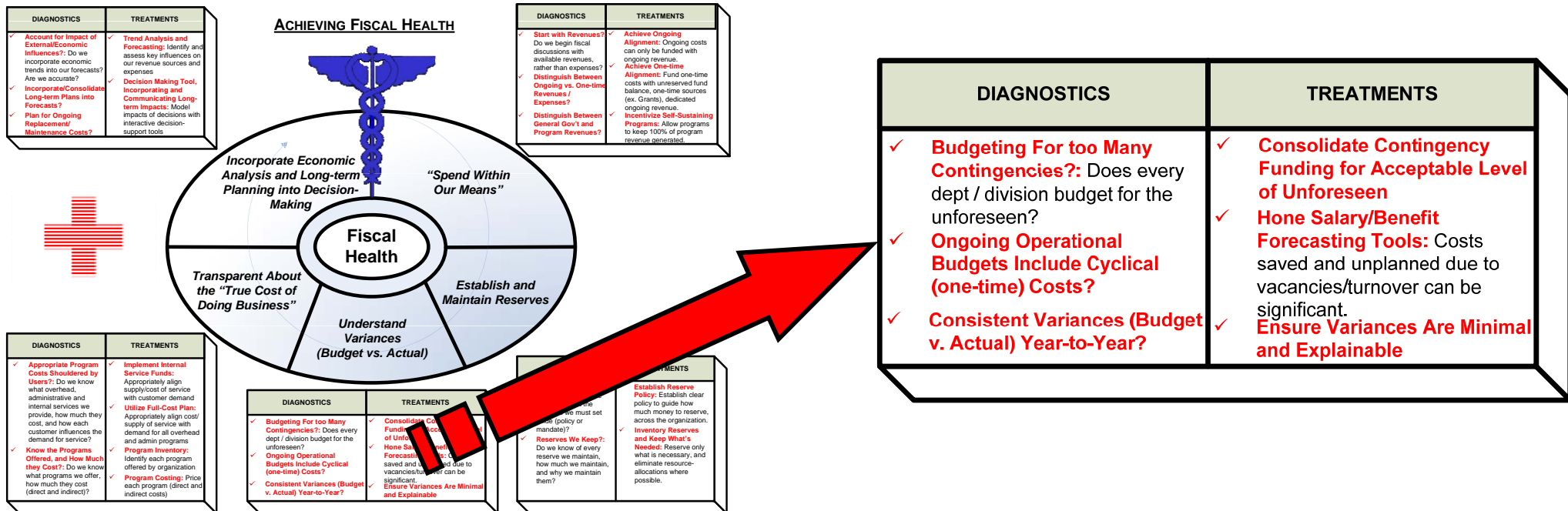


- *Review and update a written fund balance reservation policy? How do we ensure that reserves are maintained?*
 - established working capital reserves must be sufficient to meet emergency needs and/or short-term revenue shortfalls
 - Periodically review inventory of all other restricted or designated fund balance reserves, stating their purpose, the authority establishing them and how they are to be maintained

Approach to Fiscal Health #2: Establish and Maintain Reserves

- Symptoms of Good Fiscal Health
 - Adhere to Working Capital Reserve Policy
 - Identify, Document and Understand All Reserves
 - Review and Maintain Adequate Fund Balance Levels – too Little or too Much
- Establish and Maintain Reserves in order to:
 - Provide a back-up plan for emergencies, revenue shortfalls, or other unforeseen changes
 - Set aside funding for long-range plans
 - Holding appropriate amount of reserves establishes credibility with internal and external stakeholders

Understand Variances (Budget vs. Actual)

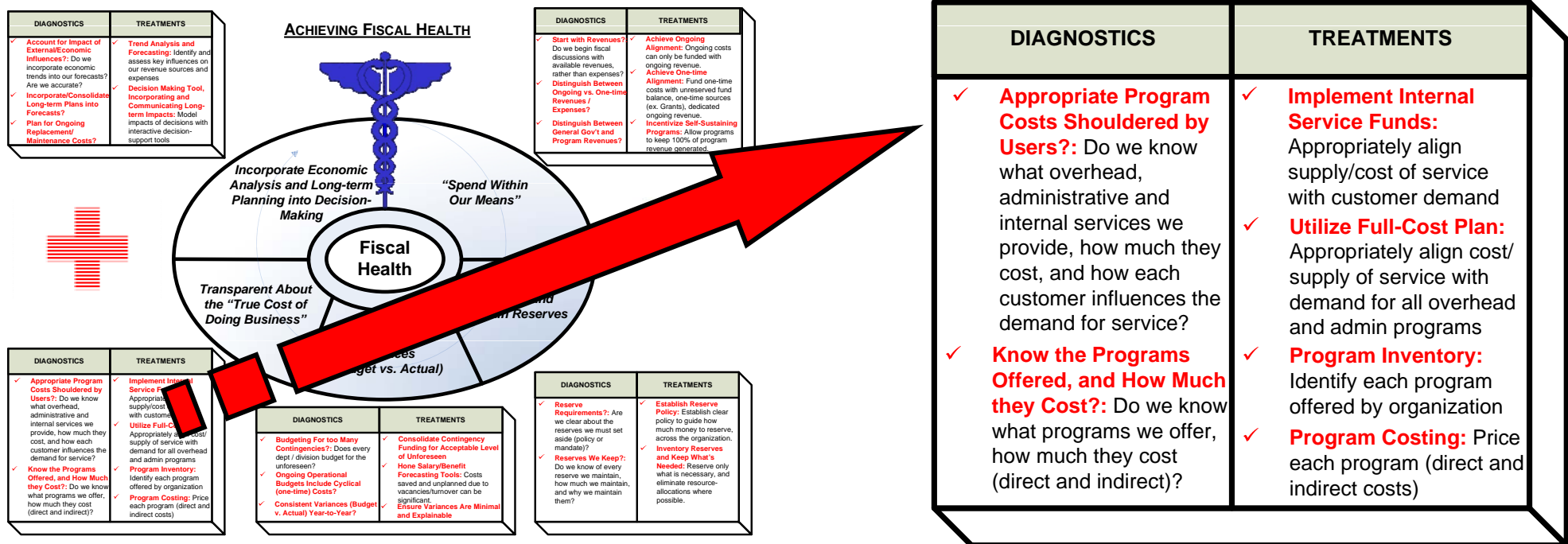


- Recognize and understand variances between budgeted and actual revenues and expenditures. How do those variances impact future budget cycles?
- Maintain a formal Compensation Plan to establish employee salary/wage ranges and guide labor negotiations. How often is the plan updated?
- When assessing the adequacy of employee compensation, comparable positions and benefit packages must be included in comparison.

Approach to Fiscal Health #3: Understand Variances

- Symptoms of Good Fiscal Health
 - Identify ongoing resources devoted to one-time or cyclical (“seemingly ongoing”) expenditures
 - Eliminate unnecessary contingencies maintained in department budgets
 - Analyze and understand revenue variances
 - Don’t overlook thorough analysis of budget-to-actual variances
 - Promote multi-year budgeting for capital projects
 - Refine salary and benefit projections, to align with actual costs incurred
 - Effectively monitor revenue billing and collection
- Understand Variances in order to:
 - Promote collaborative engagement of organization in understanding variances
 - Allow for more effective budget monitoring and management
 - Provide source of “hidden treasure” when looking for budget reductions
 - Help identify the “fluff”
 - Uncover “shadow” / “decentralized” support functions hidden in department budgets

Transparent about “True Cost of Doing Business”



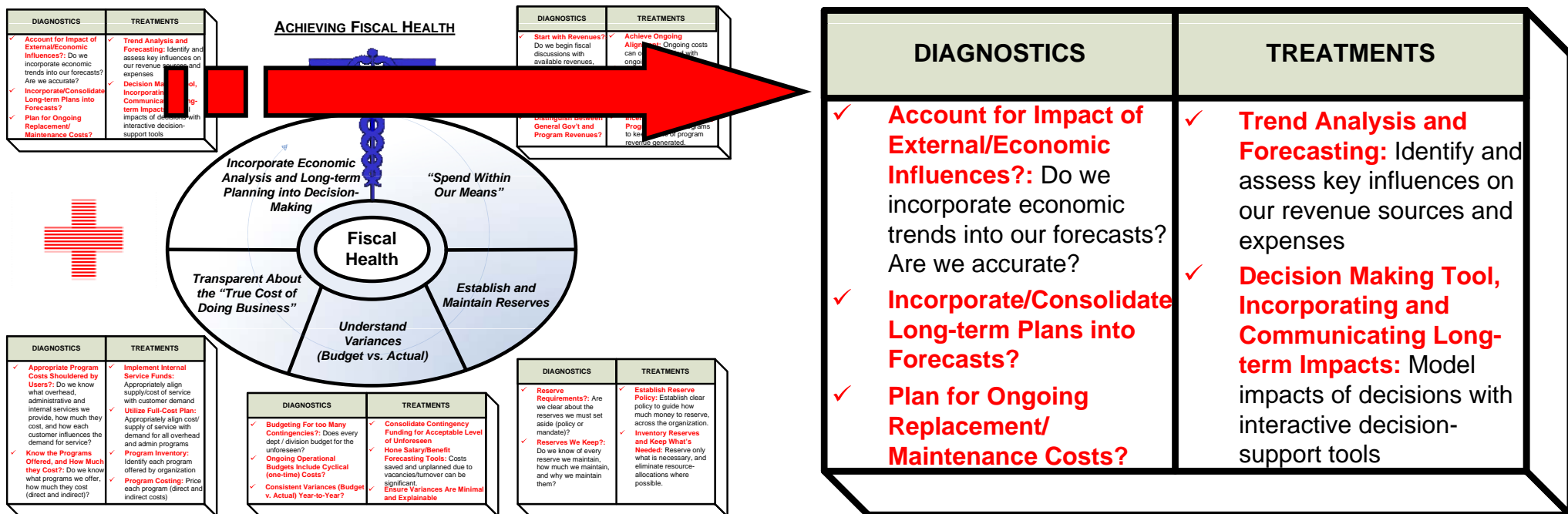
- *Review the services provided by each fund and how the internal charges are established and distributed.*
 - Utilize appropriate demand metrics when determining costs
 - Customers must perceive that costs are transparent, and that they have the ability to influence those costs by altering their own demand

Approach to Fiscal Health #4:

Transparent About “True Cost of Doing Business”

- Symptoms of Good Fiscal Health
 - Align supply/cost of internal services with customer demand
 - Appropriately allocate overhead and administrative costs to funds or departments who benefit
 - Identify total cost (direct and indirect) for all programs
 - Establish fees that recapture appropriate level of total costs of service delivery
- Be Transparent About the True Cost of Doing Business in order to:
 - Engage departments in assessing demands for internal services
 - Promote enhancement of program revenues
 - Provide collaborative services to reduce the total cost
 - Diversify burden from General Fund by appropriately sharing costs among other dedicated revenue streams
 - Establish cost parameters for assessing and requiring “centralization” vs. “decentralization”

Economic Analysis and Long-term Planning



- *Budget forecast will only be reliable if based upon other long-term plans developed by the organization?*
- *Is our Capital Improvement Plan included and utilized in our budget process and our financial forecasts?*
- *What tools can we use to better communicate financial information to our elected decision-makers?*



Treatment: Incorporate Fiscal Health Diagnostic into Long-term Decision Making

GENERAL FUND

Monday, June 08, 2009

(Key: Items in "Blue" can be modified; items in "Black" can not)

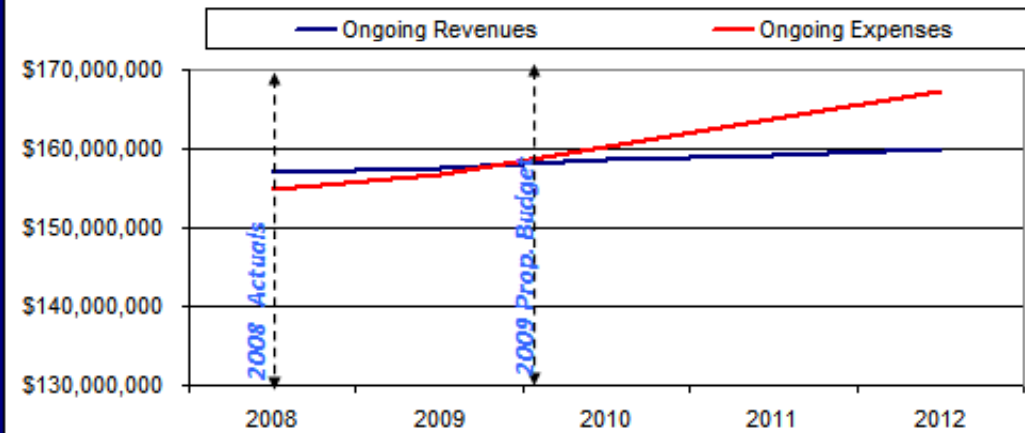
Fiscal Health Diagnostic (Do we meet the objectives?)

Objectives	Status	1st Year Missed	1st Year Impact
Set Aside Reserves	Meets	-	\$0
Fund "True Cost of Business"	Meets	-	\$0
Achieve "Ongoing" Alignment	Does Not Meet	2010	(\$1,492,879)
Achieve "One-time" Alignment	Meets	-	\$0

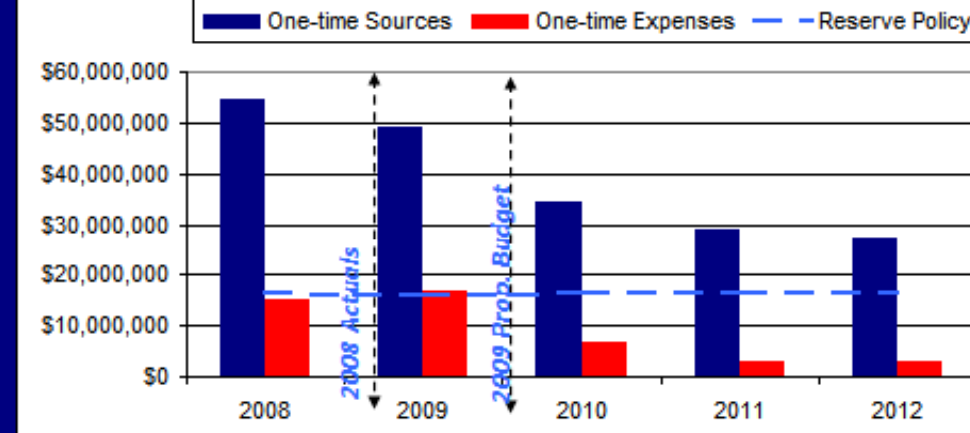
Ideas for Cost Containment or Additional Revenue

Description	R / E	Ongoing	Year 1	Year n	One-time	Year
Raising Taxes	R	\$1,500,000				2009
			2007	2012	\$0	
			2007	2012	\$0	2007
Use FB for Ongoing	N		2010	2010		

Ongoing Alignment, 2008-2012



One-time Alignment, 2008-2012



Ongoing Business Cases

Ongoing Projects	Y/N	Approval Year	First Year \$
Detention Center Expansion	Y	2009	\$ 760,000
Sheriff's PC Replacement	Y	2009	\$ 35,232
Assessor System	Y	2009	\$ 316,046
Treasurer's System	N	2009	\$ -

One-time Business Cases and 5-Year Plan

One-time Projects	Y/N	Approval Year	First Year \$
Detention Center Expansion	Y	2009	\$ 9,500,000
Sheriff's PC Replacement	Y	2009	\$ 440,400
Assessor System	Y	2009	\$ 3,950,580
Treasurer's System	N	2009	\$ -
Sheriff Upgrade Desktop Consoles			

Approach to Fiscal Health #5: Economic Analysis and Long-term Planning

- Symptoms of Good Fiscal Health
 - Incorporate all long-term plans in forecasting
 - Prepare comprehensive, multi-year Capital Improvement Plan, and clearly identify associated ongoing operating costs
 - Utilize simple, graphic communication tools to illustrate fiscal health position to all stakeholders
- Focus on Economic Analysis and Long-term Planning in order to:
 - Use key indicators to forecast trends which frames and influences better decision making
 - Use of graphic tools ensures shared understanding of long-term fiscal position
 - Promote accuracy and understanding of financial forecasting
 - Decision makers focused on high-level stewardship role
 - Identify potential points of failure and allows foresight in response
 - Provide for improved long-term planning and financial modeling
 - Allow scenario-planning which encourages flexible and adaptive decision-making

From Health to Wellness


The Mercury News 2007

Across the Board Cuts Address \$14.5 Billion Shortfall

- **California Governor's Office**: “Across-the-board approach spreads reductions as evenly as possible so no single program gets singled out.”
- **Reaction**: “the governor’s approach would be like a family deciding to cuts its monthly mortgage payment, dining-out tab and Netflix subscription each by 10%, rather than eliminating the restaurant and DVD spending in order to keep up the house payments.”

Prioritization in the Headlines

From Coast to Coast



The Statesman Journal

January 8, 2009

Governor Explains Budget a

SALEM - "The state of Oregon is facing an immediate 140 million dollar shortfall in revenue, prompting Governor Ted Kulongoski to order across the board cuts in all state agency spending."

Telfer admits legislators will have tough decisions ahead of them as state lawmakers mull over the latest downturn in the economic forecast. Instead of across the board cuts, she would prefer to see prioritization of budgets.

Meanwhile, Senator Chris

The Statesman Journal, Oregon



The Times Argus

January 5, 2009

Financial Crisis Expected

Governor Jim Douglas said yesterday. "we understand that we're going to have to make some very difficult decisions and we should not be making these decisions just sort of in an across-the-board way. We need to be looking at the programs that we're providing and prioritizing them as they fit in to what Vermonters need."

The Times Argus, Vermont

Prioritization at the National Level

"We're going to have to prioritize, just like a family has to prioritize.

I want to go line by line through every item in the federal budget and eliminate programs that don't work and make sure that those that do work, work better and cheaper.

And we've got to prioritize both our spending side and our tax policies to make sure that they're working for you. That's what I'm going to do as president of the United States."



Key Objectives of Prioritization

- Evaluate the services we provide.
- Better understand our services in the context of the cause-and-effect relationship they have on the community's priorities.
- Provide a higher degree of understanding among decision-makers as they engage in a process to rank services based on priorities.
- Articulate to people in the organization and to the public how we value our services, how we invest in our priorities, and how we divest ourselves of lower-priority services.

Steps to Successful Prioritization

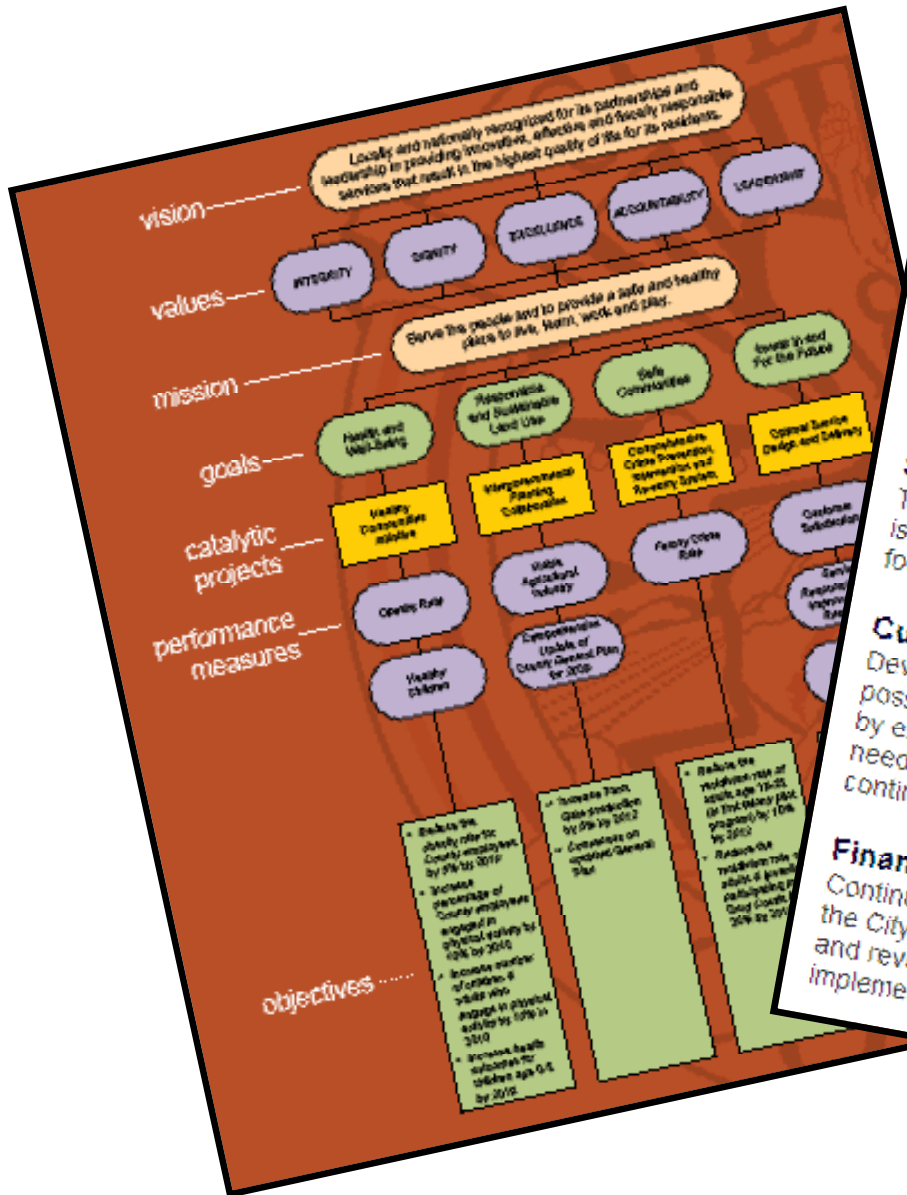
- **1.) Determine Results**
 - Accurate prioritization of programs, reflecting the City's stated objectives, depends on the comprehensive identification of the Results we are in business to achieve
- **2.) Clarify Result Definitions**
 - Precision in prioritization results from the articulation of the cause and effect relationship between a program and a Result
 - With clearly defined Result Maps, detailing the factors that influence the Results we are in business to achieve, we can seek to minimize subjectivity in the process of linking programs with Results
- **3.) Identify Programs and Services**
 - Differentiating programs and services we offer, as opposed to comparing the departments who provide those services allows for better Prioritization
- **4.) Value Programs Based on Results**
 - With the right Results, and with clear definitions of those Results, we can more accurately place a value on a program relative to its influence on achieving Results
- **5.) Allocate Resources Based on Priorities**

ACHIEVING LONG-TERM FISCAL WELLNESS



The Challenge with Results

(Goals, Objectives, Strategies, Values...)



Mission Statement

To be the nation's premier community in which to live, work and raise a family.

Core Values

- Customer Focus
- Leadership
- Empowered Employees
- Continuous Quality Improvement

Strategic Priorities

The City Commission has identified seven priorities that they believe reflect the key issues in the community. These priorities are intended to provide strategic direction for City staff. The priorities and their mission statements:

Customer-Involved Government

Develop innovative ways to make participation in local government activities possible for all residents and foster a sense of engagement among the citizenry by effectively communicating a common identity, actively seeking insight into the needs of the community, aligning City services with customer expectations, and continuing to strive for excellence.

Financial Health & Economic Development

Continue to enhance the high level of service quality and financial stability that the City has become known for by encouraging redevelopment, diversifying tax and revenue sources, ensuring the long-term viability of financial strategies, and implementing "new urbanism" techniques.

Identify and Define Results

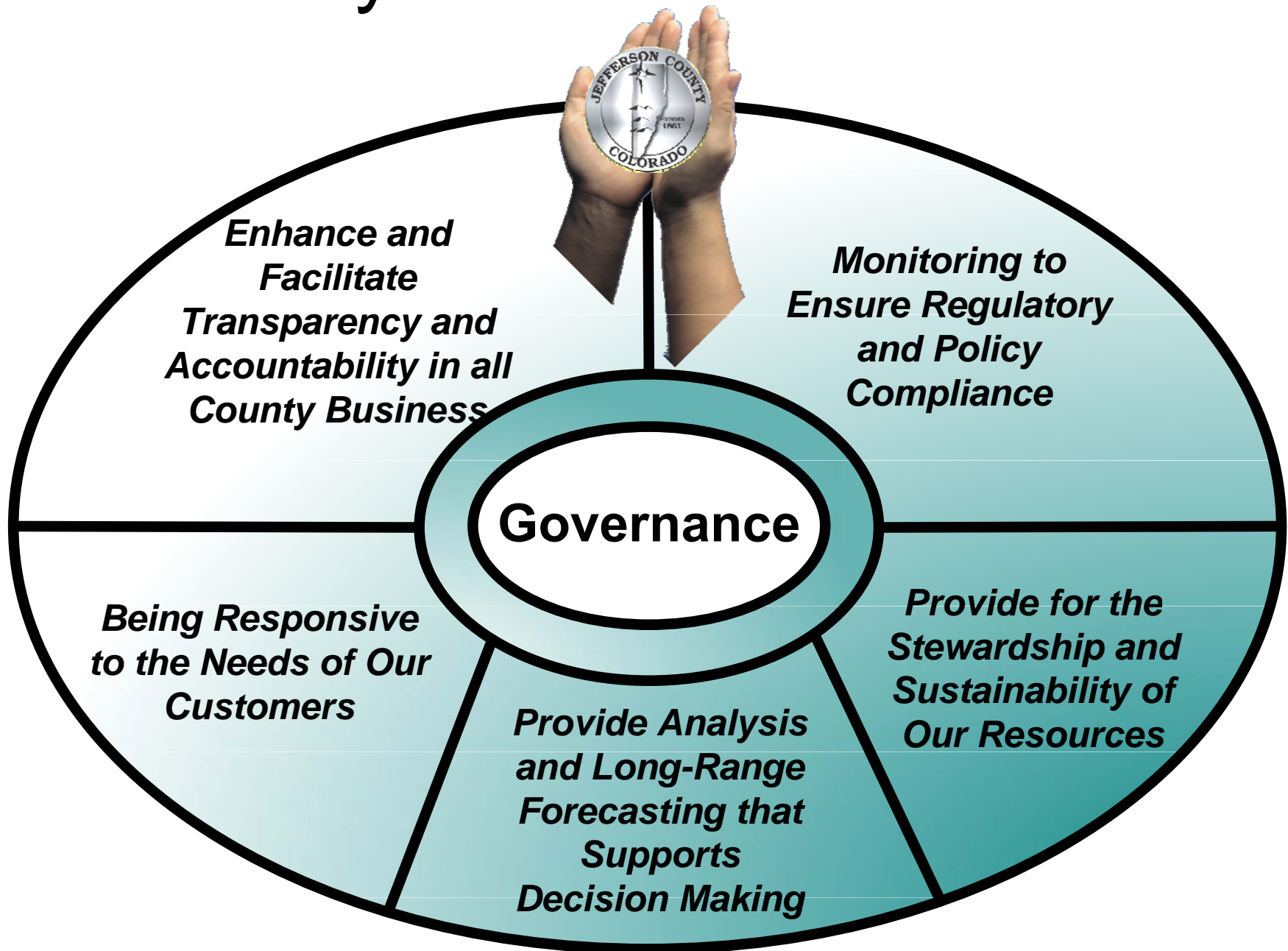
Result Map Representation of Economic Opportunity



Identify and Define Results



Identify and Define Results



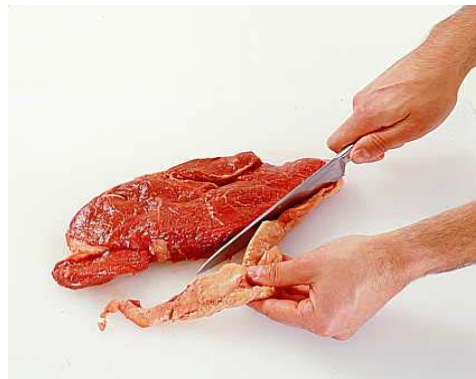
Differentiating Prioritization from other Approaches

Differentiating Prioritization from other Approaches

- Objectives of Prioritization Re-define and Reach Beyond Traditional Conversations:
 - *“Core vs. Non-core”*
 - *“Essential vs. Non-essential”*
 - *“Mandated vs. Non-mandated”*



“Cutting to the Core”



“Trimming the Fat”



“Separating the Wheat from the Chaff”