

Fiscal First Aid: Tools for Recovering From Fiscal Stress

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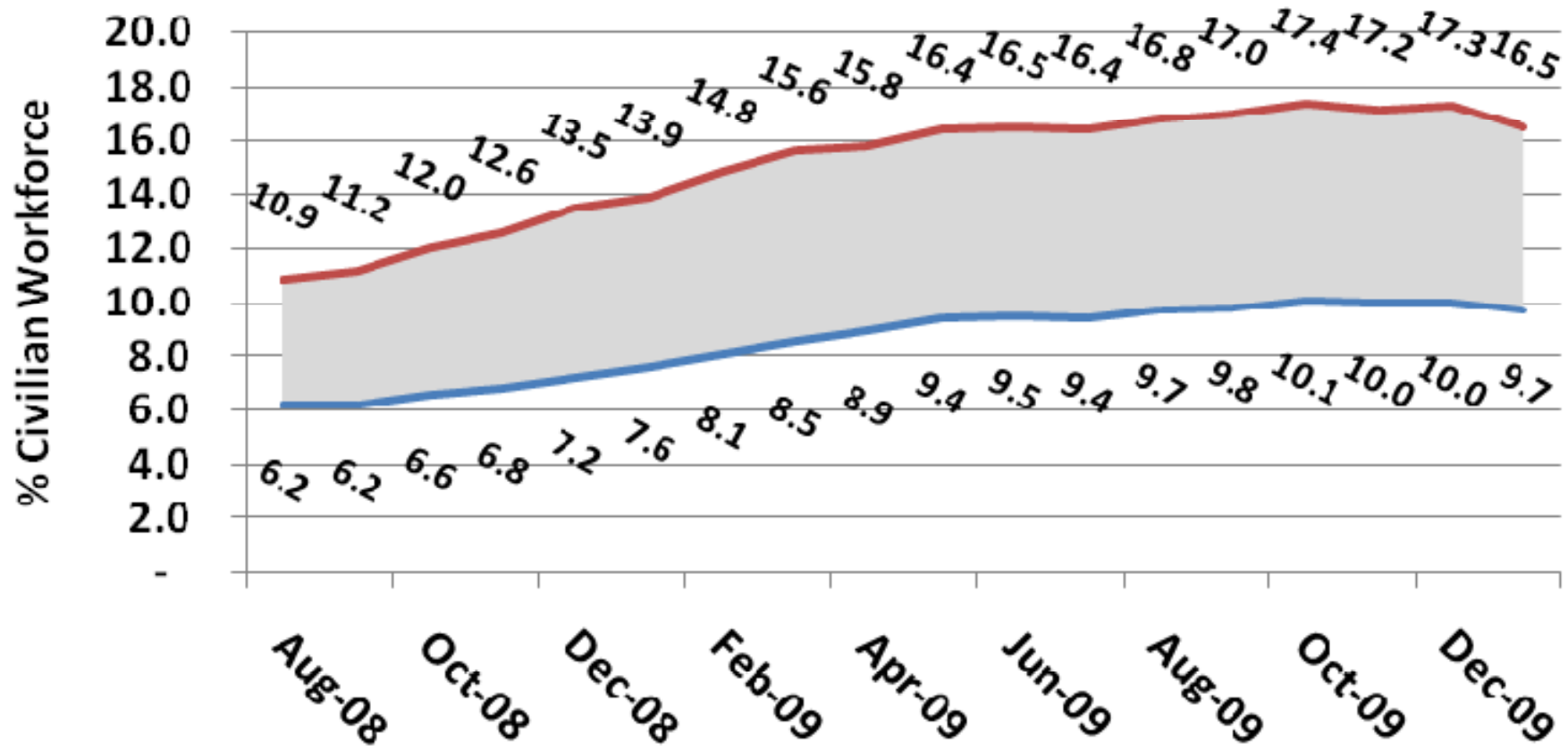
Economic Conditions

- ◆ The national economy is on a “modest growth path that will be accompanied by extraordinarily high rates of unemployment.”
(UCLA Anderson Forecast)

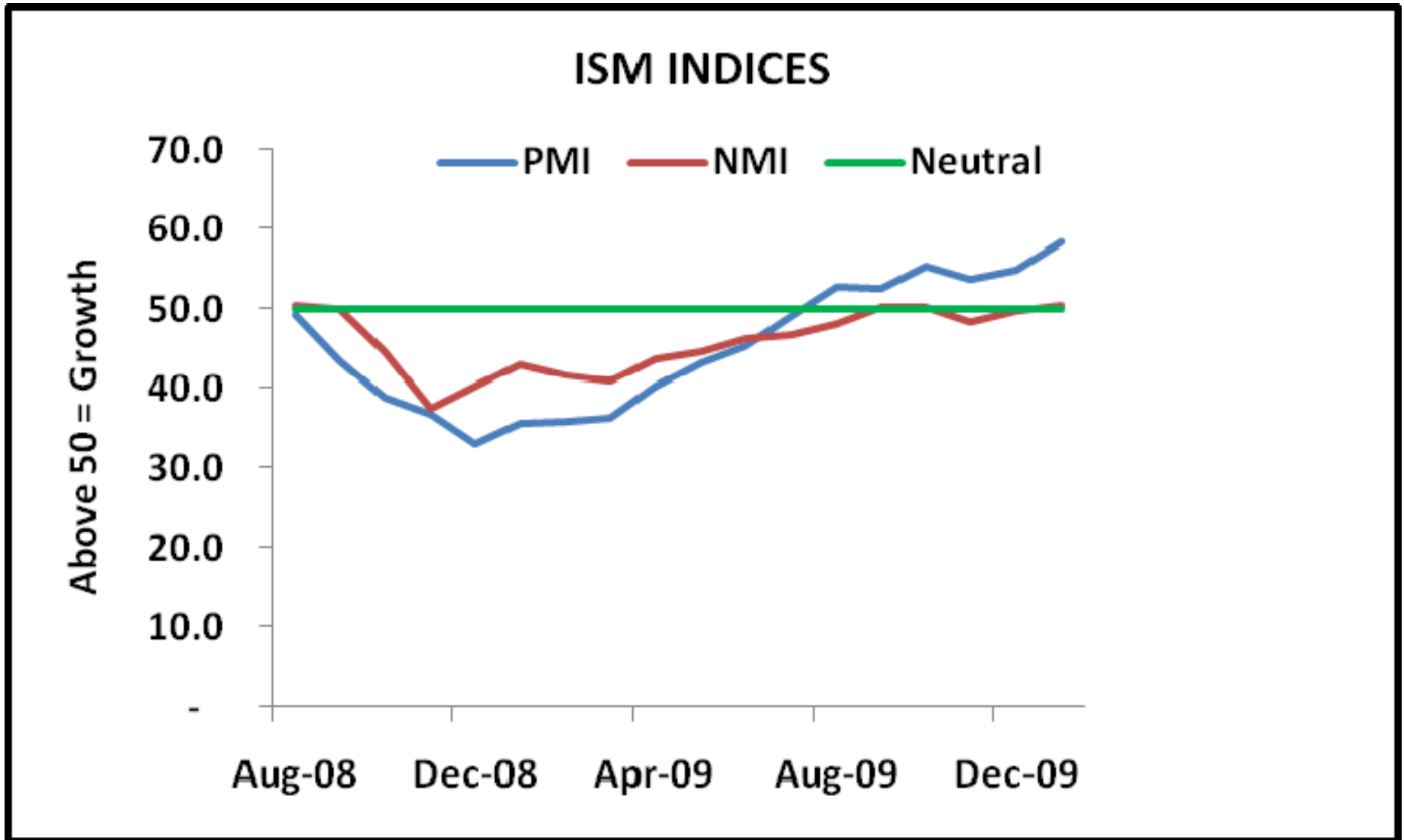


Unemployment

UNEMPLOYMENT RATE - U3 and U6

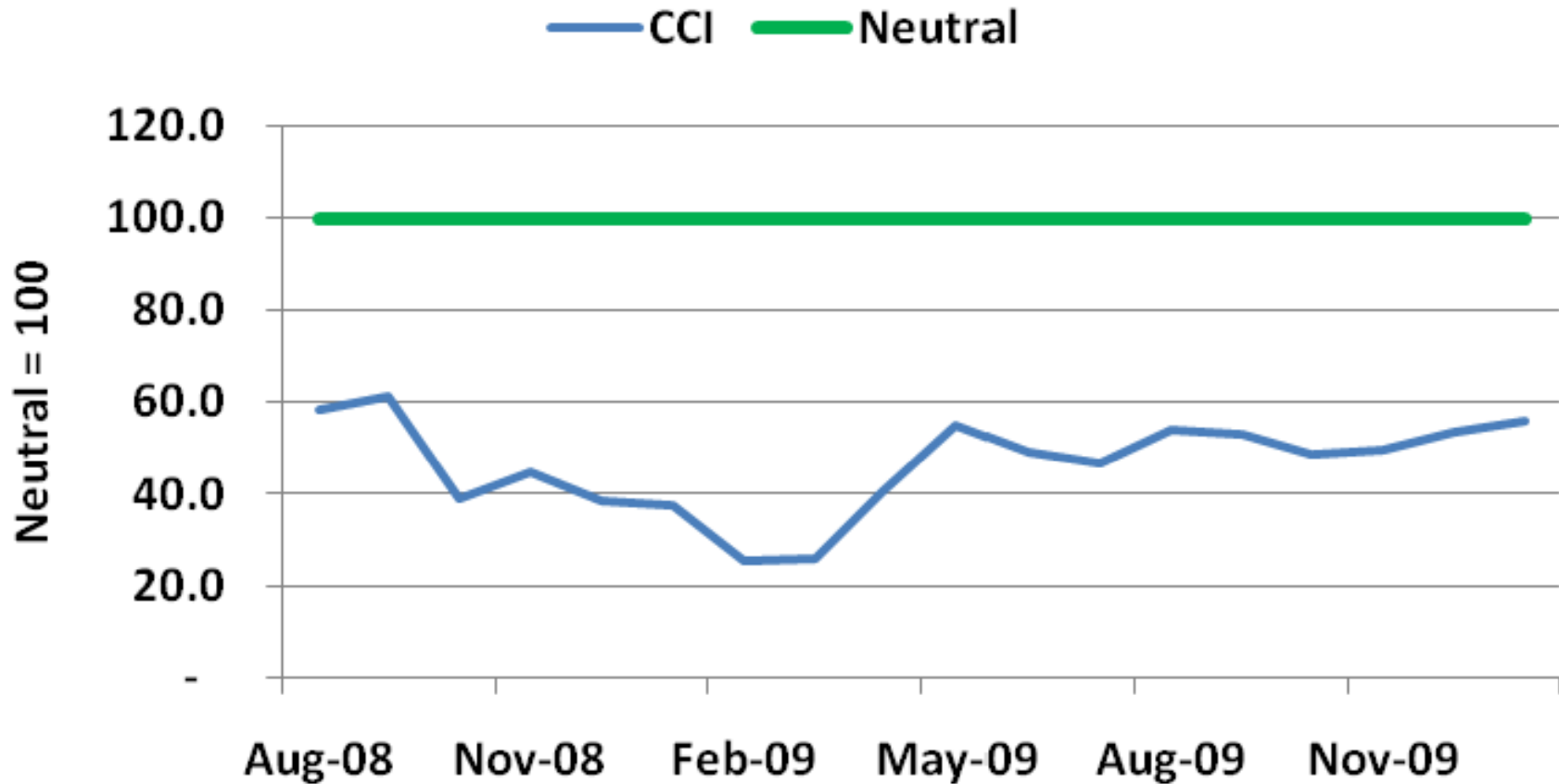


ISM Indices



Consumer Confidence

CONSUMER CONFIDENCE



Government Conditions Follow

- ◆ Municipalities will likely face a shortfall between \$56B & \$83B from 2010-12
- ◆ The low point for city fiscal conditions typically follows the low point of an economic downturn by at least two years,
 - Indicates the low for cities will come sometime in 2011
- ◆ Cities are responding with layoffs, furloughs and payroll reductions; delaying and canceling capital projects; and cutting city services.



From NLC Fiscal Condition Survey

Purpose of Today's Session

- ◆ Provide information to help in coping with fiscal problems resulting from economic conditions so you can...
 - Put fiscal stress into perspective and consider a process for recovery
 - Develop information for decision-making
 - Diagnose causes of distress
 - Develop strategies and tactics for recovery



Agenda

- ◆ Introduction to the Recovery Process
- ◆ Developing a Fiscal Health Model
- ◆ Fiscal First Aid Tactics for Retrenching
- ◆ Shopping Cart Exercise
- ◆ Leadership Tips



A 12-Step Recovery Process

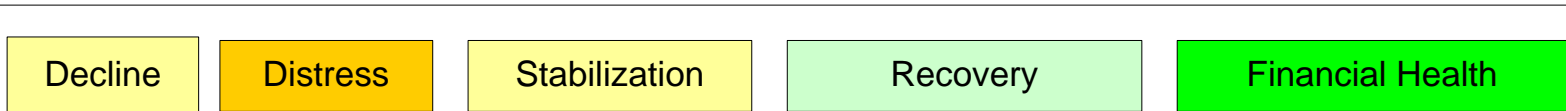
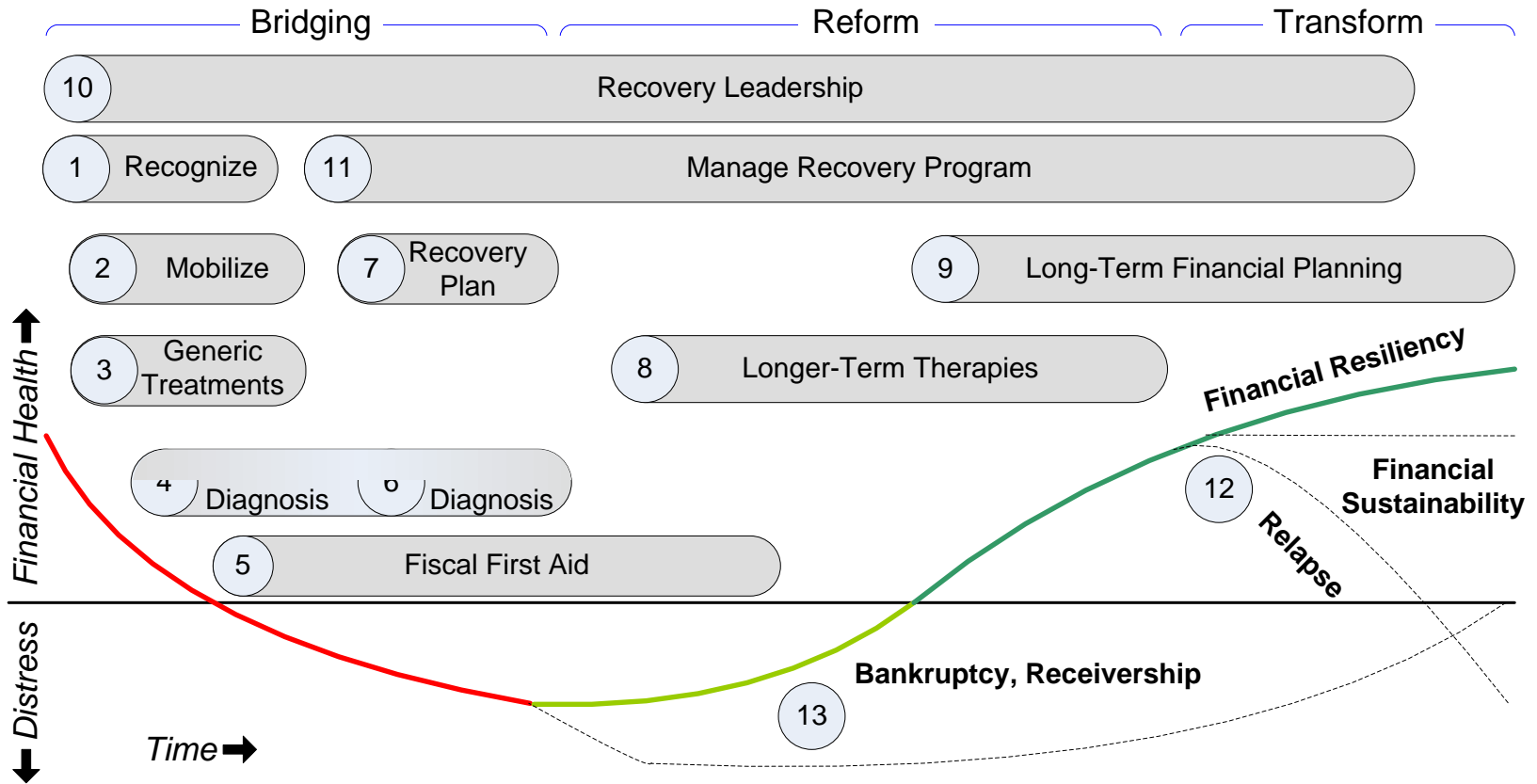




GFOA's Process for Recovery from Financial Distress



Stages of Financial Recovery



Recovery Process Overview



◆ Bridge

- Recognize & Mobilize: Form a team
- Stabilize: Buy time, create confidence
- Diagnose: Discover nature of problems
- Apply retrenchment tactics
- Develop recovery plan



Recovery Process Overview



◆ **Reform**

- Execute the recovery plan
 - Monitor, manage, adjust
- Further develop & implement long-term strategies
- Initiate formal long-term financial planning



Recovery Process Overview



◆ Transform

- Institutionalize long-term planning
 - From once-a-year event to a way of life
- Realize new methods for delivering service
- Become financially “resilient”
 - Adaptable and regenerative



Take-Aways

- ◆ Recovery has three basic stages
- ◆ Use the recovery process to survive...
- ◆ ...But also use it to ultimately thrive!



Discussion

- ◆ What symptoms of distress are you facing?
- ◆ What do think are the immediate causes?
 - The root causes?
- ◆ Where are you in the recovery process?
- ◆ What problems are you facing?
 - What problems do you anticipate facing?



Keys to Bridging

◆ Recognize

- Get arms around the situation
- Enlist others
- Create a sense of true urgency (not panic)

◆ Mobilize

- Form a recovery team of executive managers
- Form other teams to help with key tasks
- Analyze stakeholders



Keys to Bridging

◆ Diagnose

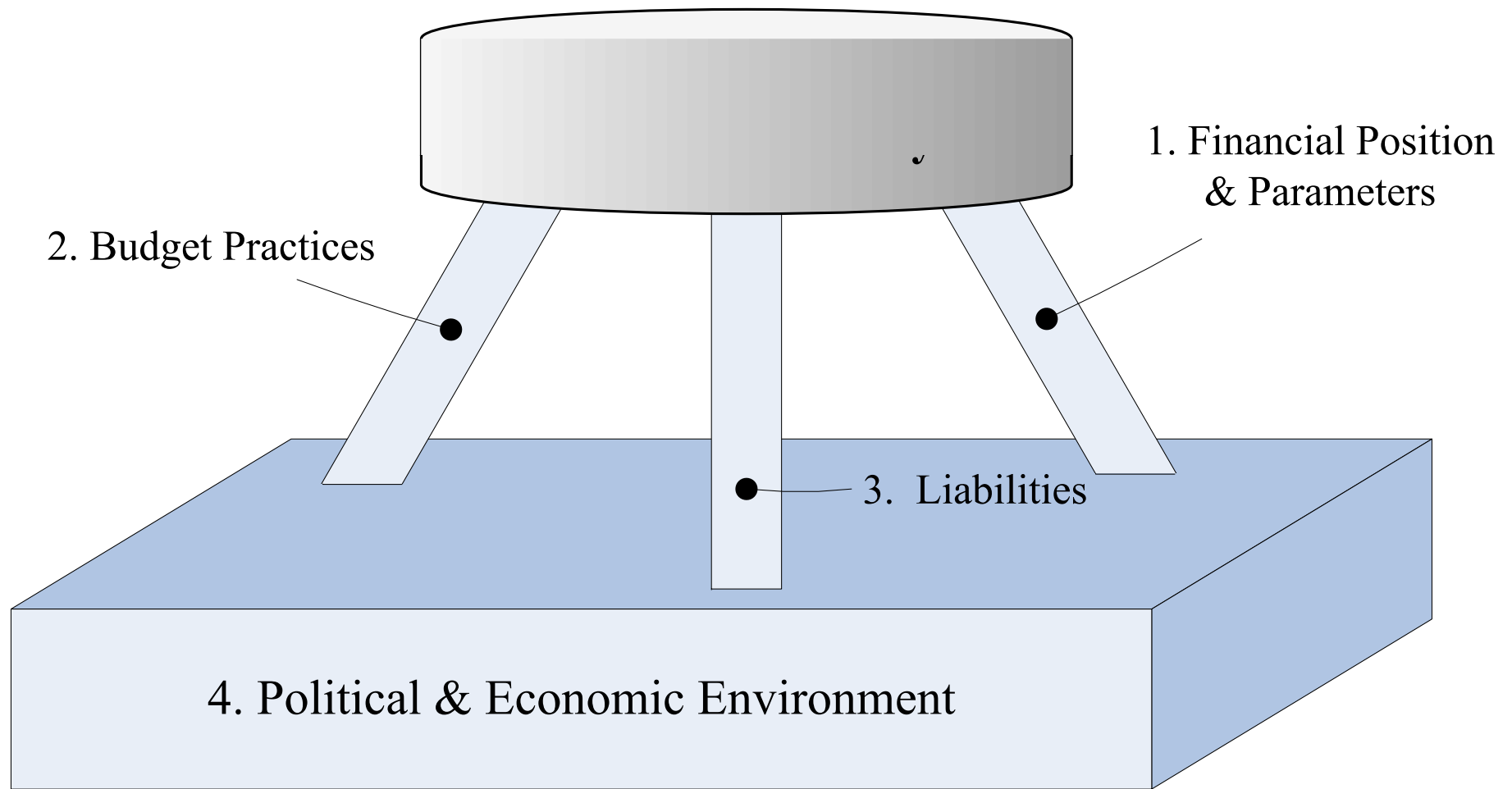
- Create a fiscal health model
 - A fiscal health model guides the diagnosis
 - Gives the process credibility
- Question practices and assumptions
- Validate findings



Developing a Fiscal Health Model



Components



Lessons from the Field

- ◆ Role of the diagnostician
 - Listen carefully
 - Listen for what is not being said
 - Talk to the lower levels of the organization
 - Form project teams
 - Use the diagnosis to build trust



About the Diagnosis

- ◆ Examines most immediate causes of financial distress
- ◆ Look for problems with recovery leverage
- ◆ Suggests fiscal first aid techniques



Financial Position and Parameters

- ◆ Cash
- ◆ Reserves
- ◆ Revenues
- ◆ Expenditures

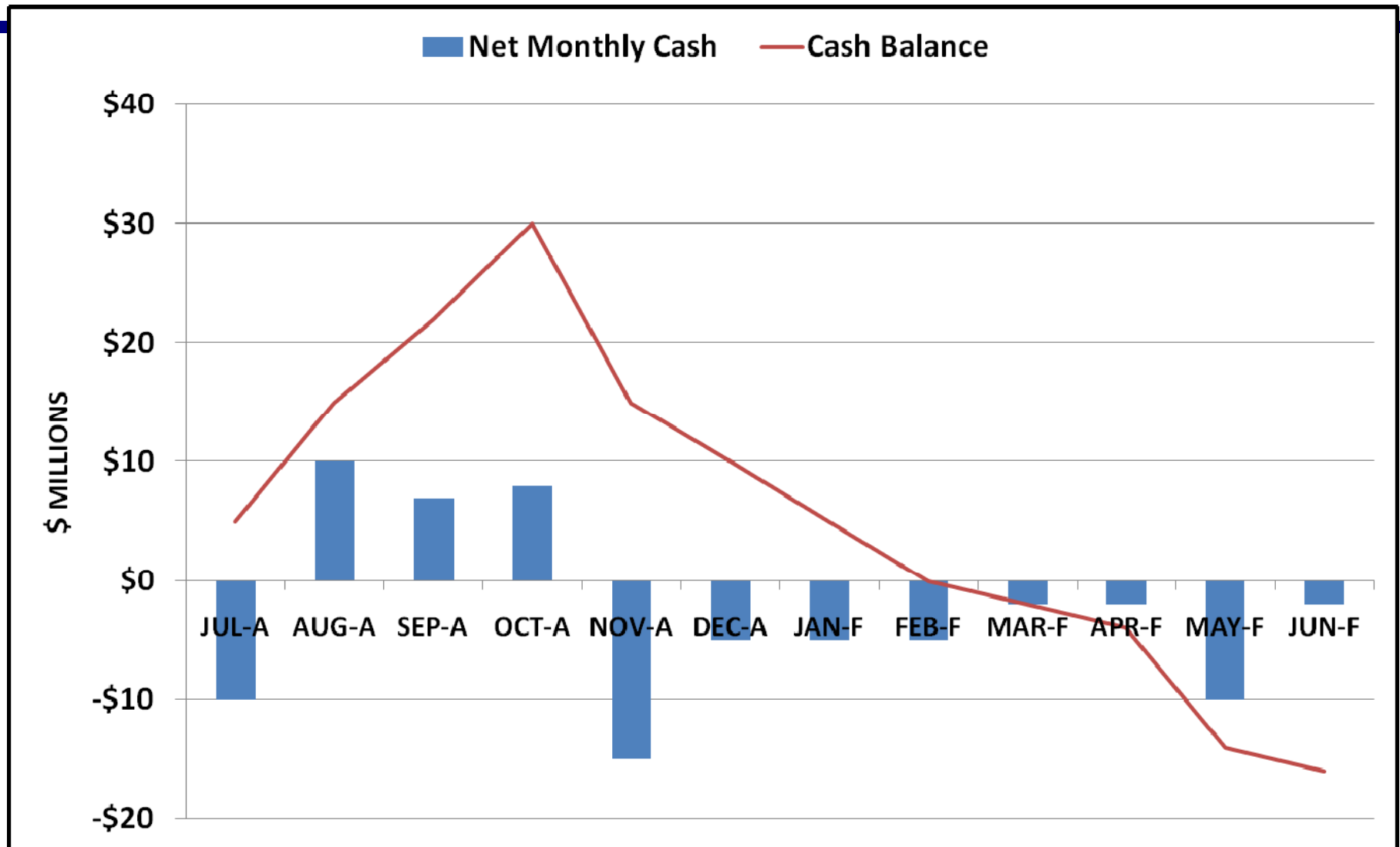


Analyze Cash

- ◆ Develop a monthly cash flow model
 - Indispensable in a cash crisis
- ◆ Reveal low points in revenue
 - When might bridge financing be needed?
 - Can actions be taken to accelerate inflows and slow down outflows?



Cumulative Cash Flow

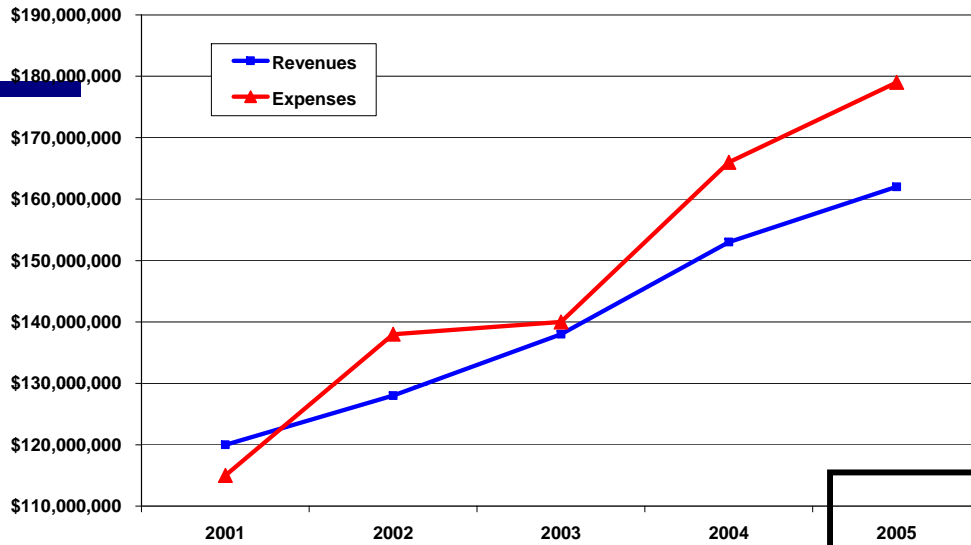


Get a Handle on Reserves

- ◆ Is there a reserve policy in place?
 - What level of reserves do we want?
 - How can we use our reserves to bridge?
- ◆ Is it understood and used?
- ◆ What do we need to do differently?

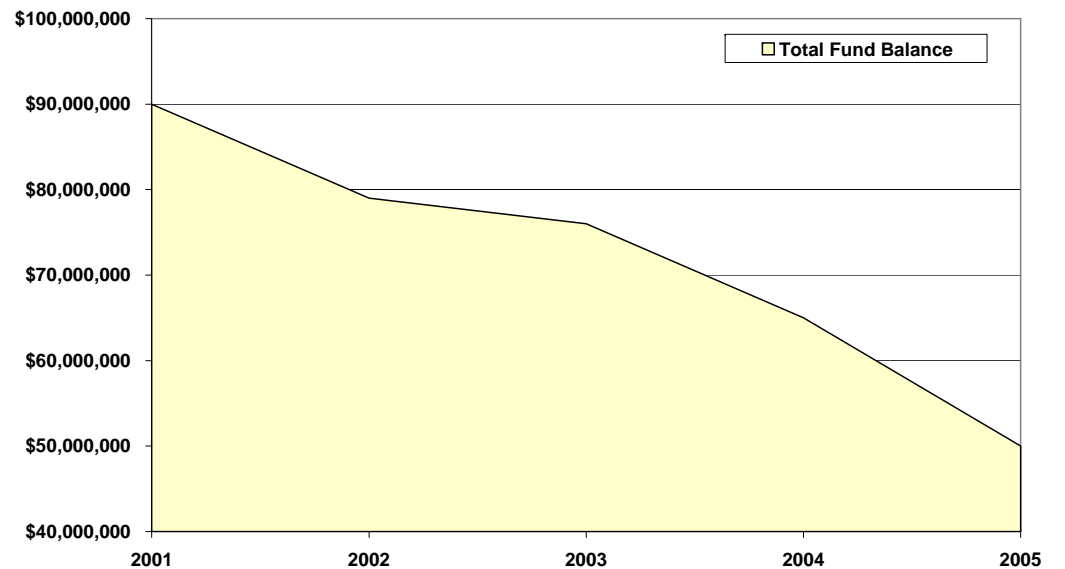


General Fund 2001-2005
Actual Revenue and Expense Trends



Simple is good
too

General Fund 2001-2005
Fund Balance Trends



Lessons from the Field

- ◆ Review all fund balance & debt policies
 - Find out where capacity exists
 - What is the feasibility of using the capacity?
- ◆ Know rating agency expectations
- ◆ Compare policy standards to long-term forecasts

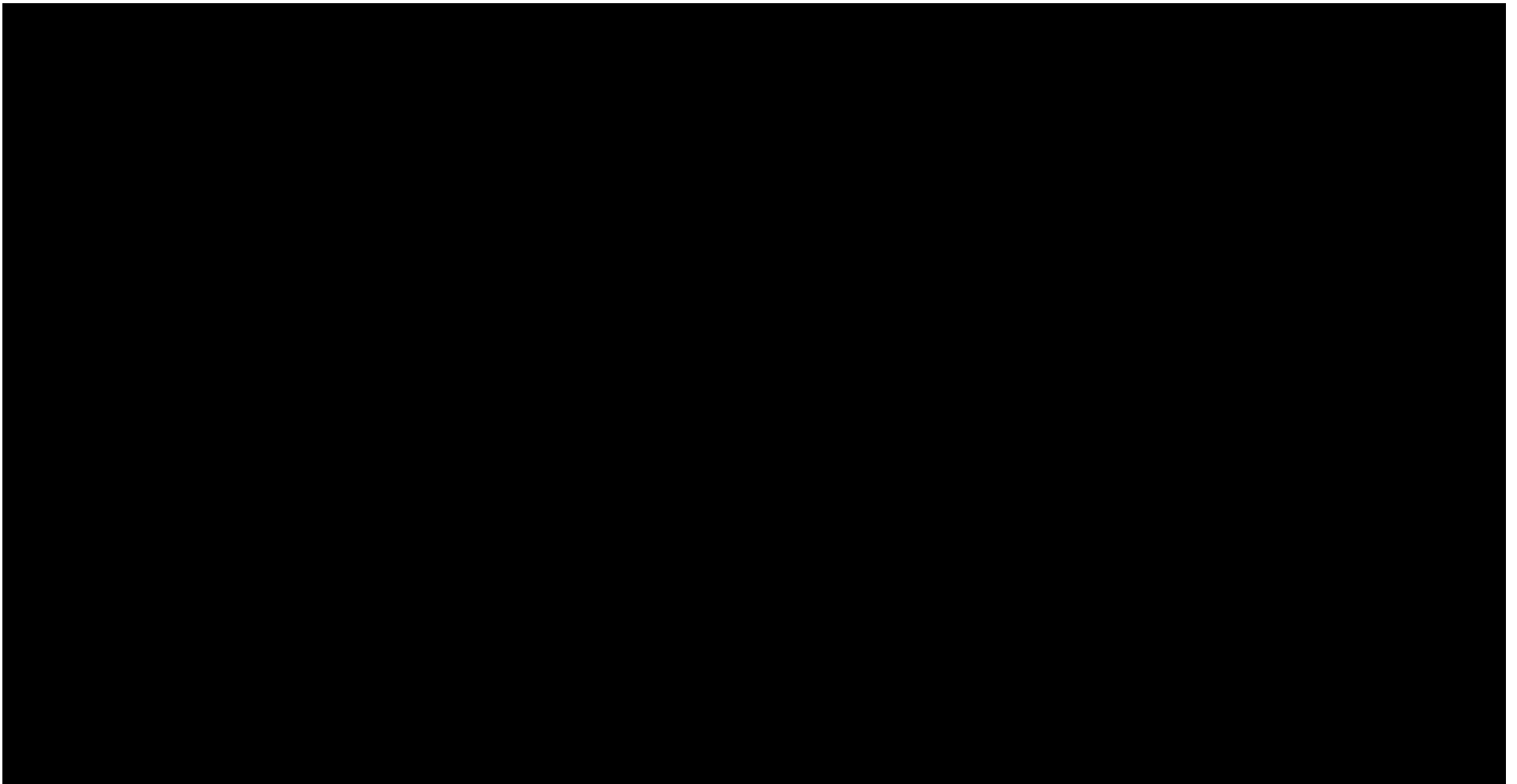


Explore Revenue Options

- ◆ Examine collections
 - Can they be enhanced?
- ◆ Graph trends
 - Reveal economic trends
 - Maybe reveal an opportunity for audits?
- ◆ Compare program revenues to costs
 - Fee update potential?
 - Incentive departments to maximize program revenue



Program Revenue Graphs



Lessons from the Field

- ◆ Find out if a tax increase is feasible
- ◆ Develop user fee policies to establish a shared understanding of what subsidies are acceptable
- ◆ Analyze revenues thoroughly
 - Complete a revenue manual
 - See Aug 2007 issue of GFR



Expenditure

- ◆ How are expenditures authorized?
 - Position control?
 - Budget controls?
 - Capital project management?
- ◆ What is the control strategy?
 - Decentralized vs. centralized? Selective?
- ◆ Accountability for results for service goals?
 - Do expenditures tie back to mission, strategic plan?



Expenditure

- ◆ What is money spent on?
 - Which areas are the biggest?
 - Which are growing the fastest?
- ◆ What services are offered?
 - Direct and indirect cost
 - Alignment with strategic goals
 - Service level options
 - Demand changes
 - Supported by program revenues



Lessons from the Field

- ◆ Know your short-term strategies
 - Stabilizing & bridging techniques
 - Across-the-board cuts
- ◆ Know your approach to staffing
 - Multi-year staffing plan and benchmarking
 - Verify policy for vacancy budgeting is understood
 - Align position control with long-term service restructuring
 - Make sure compensation practices support financial health



Budget Practices

- ◆ Know what you need for true structural balance
- ◆ Analyze variances



True Structural Balance

- ◆ Recognize the true nature of the problem
- ◆ Start budgeting with revenues
- ◆ Are recurring vs. non-recurring revenues separated out for budgeting purposes?
- ◆ Is there a policy on non-recurring revenues?
- ◆ Is there a policy on volatile revenues?



Variations

◆ Budget vs. Actual

- Are there consistent overages that if fixed could lead to more accurate planning?
- Are certain areas consistently over-budgeted?
- What cost areas are hardest to control?

◆ Budget vs. Prior Year Budget

- Was a temporary increase in expenditure budgeted for again in the next year?

◆ Actual vs. Prior Year Actual

- Are any areas particularly volatile?



Liabilities

◆ Debt

- Are payment schedules affordable?
- Can debt help with recovery?

◆ Post-employment benefits

- Are near-term cost increases expected?
- Are liabilities fully-funded?
- Are ARCs being made?



Political & Economic Environment

- ◆ State of the economy
 - Will the economy help or hinder you?
- ◆ State financial situation
 - What state policies will impact you?
- ◆ Changing service demands
 - Where is demand is going up or down?
- ◆ Internal leadership & management
 - Is there accountability? Teamwork?



Take-Aways

- ◆ Develop a diagnosis model
 - Focus on the fundamentals first
- ◆ Use the diagnosis to educate and get stakeholders to understand the situation
- ◆ Test assumptions, verify beliefs
- ◆ Base recovery strategies on diagnosis



Other Keys to Bridging

- ◆ Develop a long-term forecast (not covered today)
 - Essential for authentic recovery
- ◆ Present financial information in clear & compelling format
 - Know your audience
 - Establish your credibility



A simple tool: The 5 X 5 Budget

| (Dollars in Millions) | This Year | Next Year | Year 3 | Year 4 | Year 5 |
|-----------------------|-----------|-----------|--------|--------|--------|
| Beginning Balance | \$20 | \$20 | \$17 | \$12 | \$5 |
| Revenue | \$100 | \$102 | \$105 | \$108 | \$112 |
| Expenditures | \$100 | \$105 | \$110 | \$115 | \$119 |
| Surplus/ Deficit | \$0 | -\$3 | -\$5 | -\$7 | -\$7 |
| Ending Balance | \$20 | \$17 | \$12 | \$5 | -2 |



Other Keys to Bridging

- ◆ Choosing retrenchment tactics
 - Use to stabilize condition
 - Can be implemented quickly
 - May or may not be sustainable
 - May have negative side-effects



Picking the Right Retrenchment Tactics



Different Techniques for the Situation

- ◆ Over-the-Counter
 - Immediate relief
 - Used early in the recovery process
- ◆ Emergency Room
 - Far more serious
 - Diagnosis required
- ◆ Quackery
 - “Cure” may worsen the condition



Over the Counter

◆ Treatment Examples

- Freeze vacant positions or salaries
- Small across the board cuts
- Defer/delay capital projects
- Sharpen revenue billing/collections
- Cost allocation transfers

◆ Considerations

- Only a short-term “fix” to relieve pain
- Safe to apply with minimal diagnosis
- Know long-term impacts & plan to remediate



Emergency Room

◆ Treatment Examples

- Large across the board budget cut
- Furloughs / hours reductions
- Reduction in work force
- Spend reserves
- Early retirement incentives



◆ Considerations

- Don't apply without diagnosis
- These treatments are risky & can go wrong
- Only to "Stop the Bleeding" – not permanent solutions



Quackery

- ◆ Accounting gimmicks
- ◆ Shifting operational costs to capital budgets
- ◆ Deferring compensation
- ◆ Under-fund accrued liabilities

See GFOA website if you need help convincing others of this. www.gfoa.org/fiscalfirstaid



Choosing tactics

- ◆ There are many, many first aid techniques to pick from
- ◆ Use these criteria to judge which ones fit best
 - Net Benefit (short term and continuous)
 - Time-to-Benefit
 - Equity
 - Side Effects
 - Political feasibility



GFOA Fiscal First Aid Website

http://www.gfoa.org/index.php?option=com_content&task=view&id=937&Itemid=416

Or, go to www.gfoa.org, click on the image to the right



A few key tactics to understand...

- ◆ Make managers manage
 - Accountability is crucial
 - Enlist others in solving the problem
- ◆ Centralize buying decisions
 - Not a permanent solution, but may have temporary uses
- ◆ Technology automation
 - Understand turn-around time for savings
- ◆ Across-the-board cuts
 - There are better ways



Seize the Day! Crisis offers opportunities to do the typically unthinkable

- ◆ Consolidate services, both internally and with other governments
- ◆ Give flexibility (with accountability) in exchange for savings, new revenues
- ◆ Make internal services competitive and accountable
- ◆ Practice winning compliance to cut costs and improve compliance
 - Educate compliers
 - Make compliance agencies accountable, too
 - Align efforts with risk: risk-based compliance
- ◆ Citizen self-service – FAST!



Practice Field: The FFA Shopping Cart

- ◆ Groups of 5 or 6
- ◆ Based on info presented, decide how to move forward
 - No one pathway
 - Pathways may be constrained, eg, by collective bargaining agreements
- ◆ Share experience



After Retrenchment: Reform and Transform



Reform Phase

- ◆ Prepare a written recovery plan
 - Doesn't need to be long
 - Should be broad in scope
 - Revenue & expense, soft & hard issues
 - Designate time-frames & accountabilities
- ◆ Develop long-term strategies
 - Contribute to longer-term sustainability
 - Often challenge prevailing assumptions



Transform Phase

- ◆ Institutionalize long-term financial planning
- ◆ Become better able to withstand outside shocks
- ◆ Become more adaptable to a changing environment
- ◆ Become better able to recover from problems
- ◆ Go for resiliency, not just stability

Go to GFOA website for Resiliency white paper:

[http://gfoa.org/downloads/financiallyresilie](http://gfoa.org/downloads/financiallyresilientgovernment_whitepaper.pdf)



[ntgovernment_whitepaper.pdf](http://gfoa.org/downloads/financiallyresilientgovernment_whitepaper.pdf)

Seize the Day! Leadership Tips

- ◆ Make your purpose clear; pursue relentlessly
- ◆ Frame everything in results terms
- ◆ Focus on the core, all else is optional
- ◆ Always keep your residents in sight
- ◆ Be open to changing anything but your organization's values
- ◆ Expect (and demand) leadership from others



GFOA Resources

- ◆ Fiscal First Aid website
- ◆ Resiliency white paper
- ◆ GFOA Training and Conference sessions
- ◆ *The Government Finance Review*



Thank you!

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