

Sharpening Fiscal Foresight.... Through the Lens of Priority Based Budgeting

“Seeing things differently”



*CSMFO Annual Conference
February 15, 2022*

A Brief Introduction





The most dangerous phrase
in the language is **"we've
always done it this way."**

Rear Admiral Grace Hopper (1906-1992)



AFI's Guiding Principles for 21st Century Local Government

The logo consists of the letters 'a' and 'f' in a white, stylized, lowercase font. The 'a' is a simple circle with a vertical line through it, and the 'f' is a simple vertical line with a horizontal crossbar. They are positioned on the left side of the slide, with the 'a' slightly overlapping the 'f'.

We have chosen lives of public service
because:

- ***WE BELIEVE** in something greater than ourselves*
- ***WE BELIEVE** through public service we can*
 - ❖ ***Enhance the common good***
 - ❖ ***Improve lives***
 - ❖ ***Better our communities***



We believe local governments must move beyond resilience to become **ANTI-FRAGILE** by

- *Building for long-term fiscal sustainability*
- *Actively building trust and accountability*
- *Focusing on community outcomes*
- *Running on real data, in real time*
- *Being flexible and nimble*
- *Achieving outcomes through collaboration and partnership*
- *Attracting and unleashing great talent*

What is the budget...
and why is it important to me?



So, what am I supposed
to do with this?



What is the Budget?

TRUE or FALSE:

“The budget is the single-most important policy document a local government adopts.”





What is the budget?...

- *Something my organization can't wait to do each year!!!!*
- *A fun process that we all look forward to!!!!*
- *The best part of my job!!!!!!*

OR.....

What is the budget?...

- an **ACCOUNTING EXERCISE** to satisfy the needs of the finance/budget office?
- a **NECESSARY EVIL** to meet the mandates of state legislation and city code?
- a **WASTE of TIME (and paper)** since once it's adopted, no one pays attention to it?



What is a budget?



A **STATEMENT of PRIORITIES** for the community that:

- **COMMUNICATES** to citizens and other stakeholders what services they can expect and how their tax dollars are being spent
- Defines how the local government **ALLOCATES** its **RESOURCES** to achieve what is important to the community
- Translates **POLICIES into ACTION**

What is a budget?



A critical ***CONTROL TOOL*** that:

- Provides the ***LEGAL AUTHORITY*** to conduct day-to-day operations
- Sets clear ***BOUNDARIES*** related to spending and fiscal oversight
- Ensures ***ACCOUNTABILITY, TRUST and TRANSPARENCY*** in managing “someone else’s money”
- Offers a ***MONITORING*** device to ensure compliance with “the plan”

What is a budget?



A **MANAGEMENT TOOL** that:

- Establishes a **SPENDING PLAN** for the upcoming fiscal year
- Demonstrates how services are being delivered in the most **EFFECTIVE** and **EFFICIENT** way possible
- Identifies and articulates **HOW MUCH IT COSTS** to provide services
- Offers staff a **“LINE OF SIGHT,”** connecting “what” they do with “why” they do it to benefit the community

What is a budget?



A **PLANNING TOOL** that:

- Establishes a link between **STRATEGIC OBJECTIVES** and how **RESOURCES are ALLOCATED**
- Offers a “roadmap” for carrying out elected official’s **POLICY OBJECTIVES**
- Helps decision-makers make the **BEST USE of LIMITED RESOURCES**
- Provides for long-term **FINANCIAL SUSTAINABILITY**

What is the Ultimate Goal?



TO PREPARE A BUDGET THAT:

- Reflects the *priorities* and long-term interests *of the community*
- Offers assurance that *funds are being used to achieve those priorities*
- Insures *objectivity and transparency* in decision-making

Connecting the *BUDGET* with the *STRATEGIC PLAN*





How Are Community Priorities Reflected in the Budget?



So.....



SCAN the ENVIRONMENT

- **Political Environment**
 - Lack of Trust
 - Lack of Perceived Transparency
- **Economic Environment**
 - Increased Economic Uncertainty
 - Increased Marketplace “Competition”
- **Social Environment**
 - Changing Demographics
 - Changing Community Demands/Needs



SCAN the ENVIRONMENT

- **Legal Environment**
 - More Legislative “Rules”
 - More Compliance Standards
- **Natural Environment**
 - Impacts of Disasters
 - Impacts of Unsustainable Practices





TRANSFORMING | **EDMONTON**

BRINGING OUR CITY VISION TO LIFE

Evolution of Budgeting



**Line-by-Line
Budgeting**

**Incremental
Budgeting**

**Zero Based
Budgeting**

**Results Based
Budgeting**

**Priority Based
Budgeting**

THE CITY OF
Edmonton

Types of Budget Methods

- **LINE ITEM BASED – what most of us do**
 - *Most traditional – builds the budget by types of expense*
 - *Focuses on what the organization “buys”*
- **ZERO-BASED – proven difficult to implement**
 - *Builds budget “from scratch” each year*
 - *Focuses on what the organization “buys”*
- **INCREMENTAL or TARGET-BASED – meant to simplify things**
 - *Supported “across the board” mentality*
 - *Still focused on what the organization “buys”*

Types of Budget Methods

- **PERFORMANCE-BASED – very limited success**
 - Builds the budget by “how much” is done
 - Focuses on inputs, outputs, level of service
- **PROGRAM-BASED – successfully “catching on”**
 - Builds the budget by “how” money is spent
 - Focuses on what the organization “does”
- **RESULTS-BASED – most recent evolution**
 - Builds the budget by linking resources to outcomes
 - Focuses on “why” the organization does what it does

GOVERNING

CONNECTING AMERICA'S LEADERS

“Across the board cuts spreads the pain evenly and also evenly spreads the mediocrity”

- Budget Director for the State of Louisiana

The Mercury News *From 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.”

Types of Budget Methods

- **PRIORITY BASED BUDGETED**

- Provides framework for allocating resources to the priorities of your community
- Combines principles of “Zero Based,” “Program Based,” “Performance Based,” and “Results Based”
- Avoids traditional **“Across-the-Board”** mentality
- Focuses on **“what to keep”, NOT “what to cut”**
- Allows organization to “see” things in a different way and apply a more diagnostic approach
- Aligns with current best practices in local government

afi Alliance
for Innovation



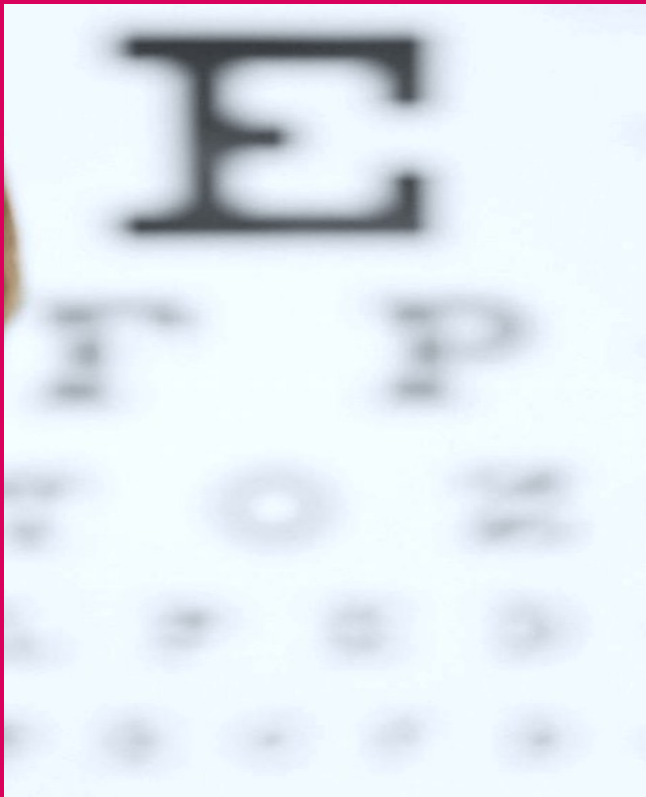
ICMA

Best Practice

Straight Ahead



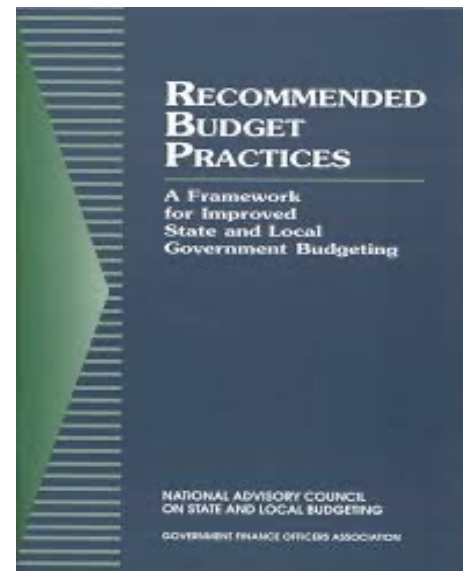
BRINGING VISION INTO FOCUS WITH A NEW “LENS”



Recommended Budget Practices

National Advisory Council on State & Local Budgeting

- **Published in 1998**
- **Joint effort of:**
 - *Government Finance Officers Association (GFOA)*
 - *International City/County Management Association (ICMA)*
 - *National League of Cities (NLC)*
 - *National Association of Counties (NACo)*
 - *U.S Conference of Mayors*
 - *Council of State Governments*
 - *National Conference of State Legislators*
 - *Association of School Business Officials (ASBO)*

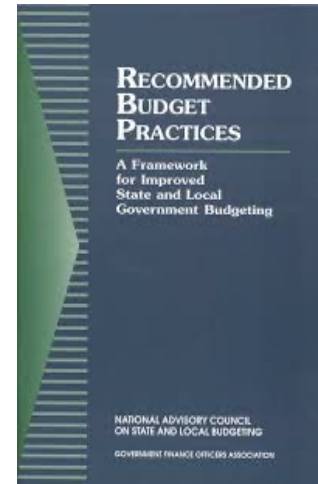


<https://www.gfoa.org/materials/nacslsb>

Recommended Budget Practices

National Advisory Council on State & Local Budgeting

- *“The mission of the budget process is to help decision-makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process*
- *“The budget process consists of activities that encompass the development, implementation and evaluating of a plan...”*
 - *Incorporates a long-term perspective*
 - *Establishes linkages to broad organizational goals*
 - *Focuses budget decisions on results and outcomes*
 - *Involves and promotes effective communications with stakeholders*





Leading the Way to
Fiscal Health

-OR-

*Confessions of a 30-year
Finance Director !*

Insanity



Doing the same thing over and over again and expecting different results

AVOID FISCAL ILLITERACY.....

GOVERNING

THE STATES AND LOCALITIES

🏠 | FINANCE | HEALTH | INFRASTRUCTURE | MANAGEMENT | POLITICS | PUBLIC SAFETY

FINANCE 101 SPECIAL SERIES

Financial Illiteracy: One of Government's Biggest and Least-Discussed Problems

Failure to understand financial outcomes is more dangerous to states and localities than ever, and there's a big gap between what public leaders know about finance and what they need to know.

BY LIZ FARMER | FEBRUARY 2014



"Failure to understand financial outcomes is more dangerous to states and localities than ever, and there's a big gap between what public leaders know about finance and what they need to know."

<http://www.governing.com/finance101/gov-financial-illiteracy-feature.html>

We Must “*See*” the Difference

GOVERNING

THE STATES AND LOCALITIES

FINANCE | HEALTH | INFRASTRUCTURE | MANAGEMENT | ELECTIONS | POLITICS | PUBLIC SAFETY | URBAN | EI

FINANCE 101

SPECIAL SERIES

The Difference Between a Sustainable Budget and a Balanced Budget

A balanced budget isn't always a healthy one.

BY LIZ FARMER | MAY 12, 2014

“Over the Counter” Treatments

Treatment Options:

Freeze Salaries/Overtime
Freeze Vacant/Temporary Positions
Across the Board “Cuts”
Defer/Delay Capital Projects
Random % Increase in Fees for Service
Sell Underutilized Assets



Treatment Considerations:

- Only a Short-Term “Fix” to Relieve Pain
- Safe to apply with minimal diagnosis but...
- **MUST** have follow up diagnosis

“Emergency-Room” Treatments

Treatment Options:

Hiring Freeze/Furloughs

Reduction in Workforce

4-Day work weeks

Reduction in Employee Benefits

Reduction in Service Levels

Eliminate Training, Travel and Memberships

Spend “Savings” Reserves



Treatment Considerations:

- Not permanent solution
- Don't apply without diagnosis
- Do only to “Stop the Bleeding”

“Cosmetic” Treatments (*Not a Solution!!!*)

- Accounting Gimmicks
- Shifting Operational Costs to Capital Budgets
 - Deferring Compensation
 - Underfund Accrued Liabilities
 - Short-term Borrowing
- “*Distort*” estimates or projections



Fiscal Foresight Principles

ASSESS FINANCIAL REALITY –

“What is our “picture of Fiscal Health”?”

- Being able to “*see*” and communicate more clearly the organization’s fiscal reality over the next few years allows policy makers to better understand how to plan for the financial sustainability of the organization in the long term.



Fiscal Foresight Principal #1

“How much does the organization have available to spend?”

(Not “How much do I need?”)

“Spend Within Your Means”



Fiscal Foresight Principle #1:

Spend Within Your Means



DO YOU...

- *Understand the organization's financial situation?*
- *Understand where revenues come from?*
- *Distinguish one-time from ongoing sources and uses?*
- *Differentiate general government revenues from program revenues?*

Fiscal Foresight Principle #1:

Spend Within Your Means

DO YOU...

- ***Understand the organization's financial situation?***
 - Ensure **EVERYONE** – *not just Finance/Budget staff* – has clarity around financial picture
 - Communicate it simply, clearly and in “*non-accounting*” terms



Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2009 Baseline and CBO's Estimate of the President's Budget

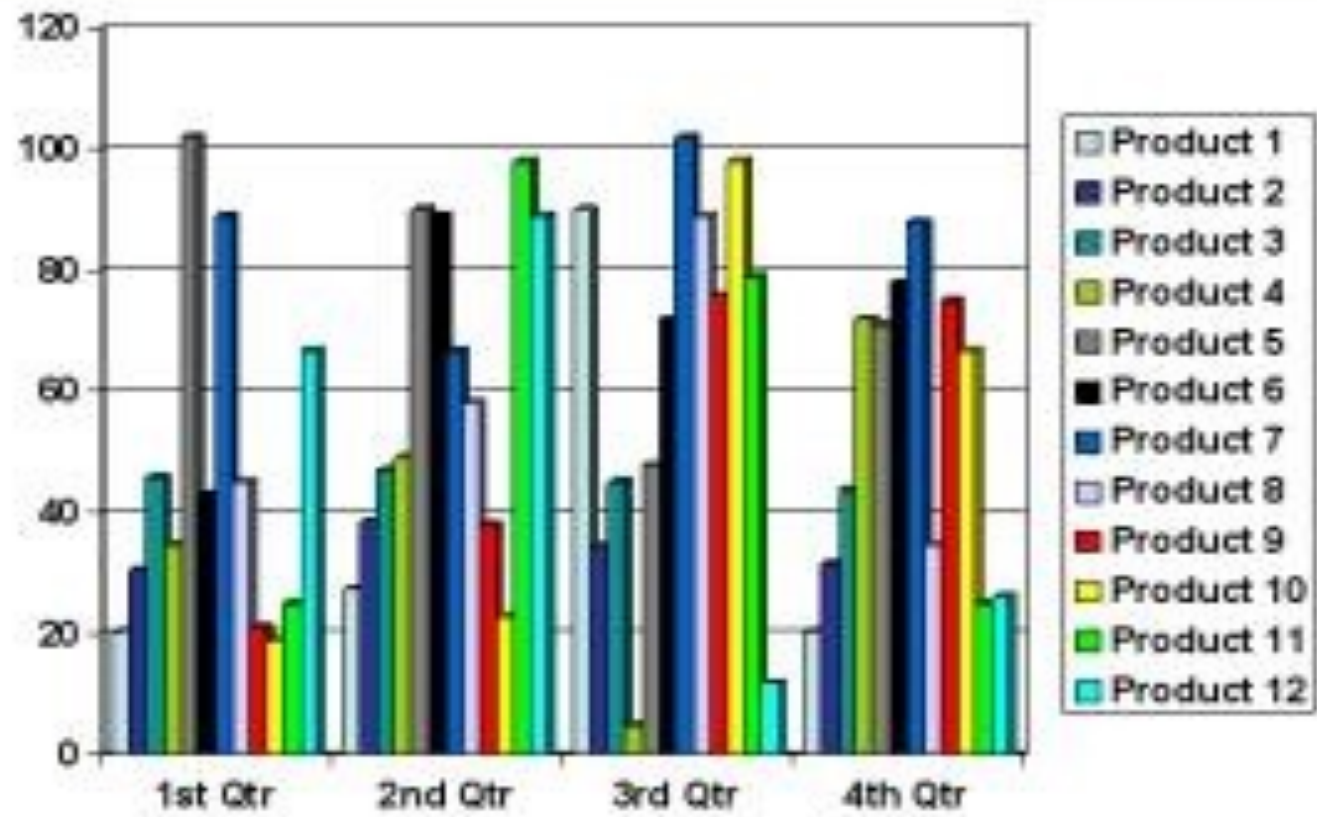
(billions of dollars)

	Actual 2008	2009	2010	21
Revenues:	2,534	2,136	2,134	2
Outlays:	2,883	2,852	2,879	2
Total Deficit:	-419	-1,667	-1,129	-4
Revenues:	2,534	2,139	2,299	2
Outlays:	2,883	4,004	2,660	2
Total Deficit:	-419	-1,845	-1,309	-4
			Difference	
Revenues:	n.a.	-25	-45	-
Outlays:	n.a.	152	190	-
Total Deficit*	n.a.	-137	-241	-4
Marketwide:				
Total Deficit as a Percentage of GDP:				
CBO's baseline	-0.2	-11.8	-7.9	-
CBO's estimate of the President's Budget	-0.2	-12.1	-8.6	-
Debt Held by the Public as a Percentage of GDP:				
CBO's baseline	61.8	54.9	60.1	-4
CBO's estimate of the President's Budget	61.8	54.9	66.7	-4

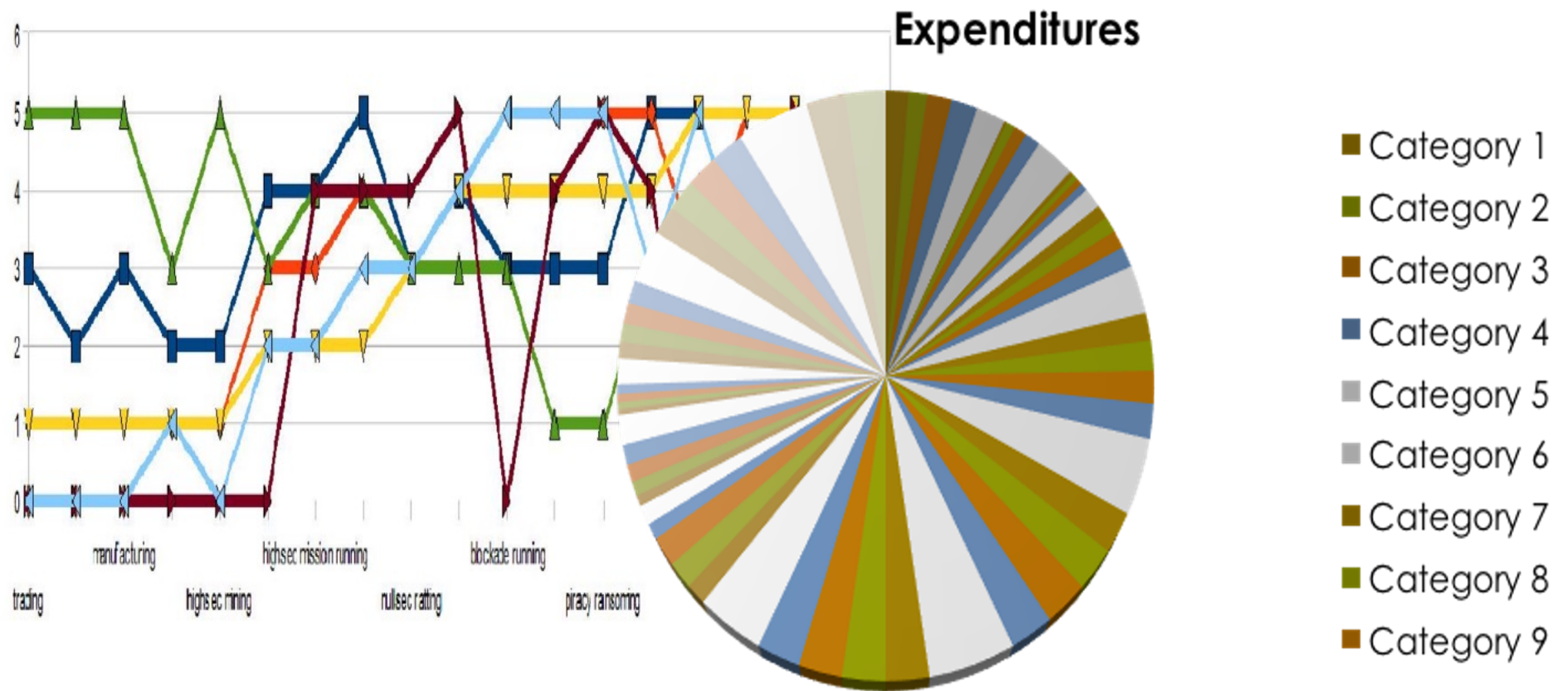
Source: Congressional Budget Office.

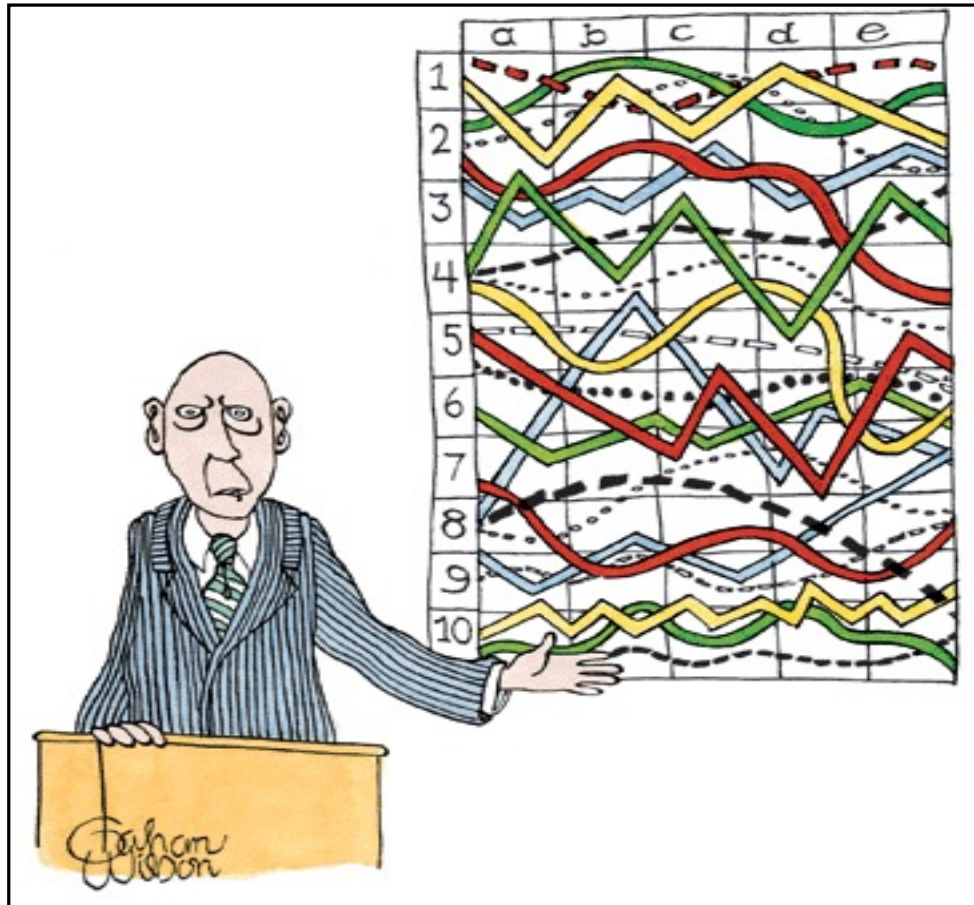
SIDEWALK OWNERS ASSOCIATION - OPERATING AND CAPITOL BUDGETS									
ACCOUNTS	2008 Actual	2009 Budget	2010 Actual	2010 Budget	2008 Actual	2009 Budget	Difference		
INCOME									
Annual Dues	45000	45000	45000	55,500	51000	50201	2109		
Paid Due Accounts	5019	5694	4714	4714	5524	5524	0		
Lot Fees	275	375	375	375	375	375	0		
Property Transfer Fees	225	250	250	250	250	250	0		
Finance Charges	150	855	935	935	554	554	0		
Interest Income	120	200	235	235	195	200	-45		
CCR Fees	800	250	0	250	70	250	280		
Total Income	\$1,389	\$4,671	\$1,327.88	\$2,542	\$616	\$2,684	\$434		
EXPENSES									
Bad Debt Write Off	1000	1000	2343	2343	1576	1000	-76		
Accounting	3000	4000	4600	4600	4000	4000	0		
Bank Service Charges	50	0	0	0	0	0	0		
Insurance	2000	2823	2827	2827	2541	2541	0		
Lease Cars, Repairs	26500	30000	30000	30000	45000	47000	2000		
Including Snow Removal - please see bottom on page for breakdown of expenses*									
Postage & Box	700	850	850	850	700	700	0		
Legal	750	100	0	750	0	750	750		
Office Supplies	300	100	70	100	0	100	100		
Printing	425	671	831	831	500	666	206		
Snow Removal	1000	1000	800	1400	See above*				
Snow Events	600	800	300	500	700	700	0		
Water	2000	2500	3195	3099	2235	2235	0		
Filing Fees	200	100	100	100	100	100	0		
Taxes - Federal	225	100	75	75	74	74	0		
Taxes - Property	275	75	62	62	0	75	75		
Power	140	250	245	245	275	275	0		
Backflow Testing		725	700	700	820	820	0		
Repairs to Parks & Equipment					135	135	0		
Tax Preparation		200	200	200	200	200	0		
Common Area Develop	7500	0							
Sign - Front Entrance		1000	2000	2000	1916	0	-1916		
Trail Work		1000	0	1000	0	0	0		
Total Expenses	48,345	\$1,691.88	\$5,823	\$7,763	\$4,996	\$2,684	2416		

2008 Dues Increase of \$25/year or \$1,500/month based on 177 households \$1,500/monthly
 *Breakdown for Lease Cars, Moving, Fertilizer, Weed Control, Printing, Bidding: \$20,275.26, Repairs of Repairs, etc.: \$8,008.26,
 Gas Surcharge: \$7999.22 and Snow Removal: \$1401.81



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“I’ll pause for a moment so you can let this information sink in.”



Fiscal Foresight Principle #1:

Spend Within Your Means

DO YOU...

- *Always start with revenues?*
 - Understand where your revenues come from
 - Understand what “drives” those revenues
 - Validate revenue projections with key stakeholders
 - Prepare and maintain an organization-wide “*Revenue Manual*”



Revenue Manual Example



Ad Valorem Taxes

Description

Source

A levy against the taxable value of real and personal property. Prior to October 1 of each fiscal year, the City Commission sets the millage rate for the tax. One mill is \$1 of tax per \$1,000 of taxable assessed value. The millage rate is applied to the total taxable land and personal value. Taxable assessed value equals total assessed value (Save Our Homes) less allowable and qualified exemptions, such as: \$75,000 for Homestead exemption, additional Senior Citizen exemptions (applies to City of Coral Springs and Broward County only), and/or Disabled exemptions. Example: For a home assessed at \$200,000, the millage rate of \$3.9315 is applied after determining the \$25,000 Homestead exemption, resulting in \$175,000 in taxable value and \$3277.51 in property taxes.

Legal Authority

Florida Constitution, Article VII, Section 9
 Rules of Florida, Chapter 389
 Florida Statutes §119.01
 City of Coral Springs Code Chapter 17

Fund/Unit/Center/Office

000-0000-211-10-00
 Ad Valorem Taxes
 001-0000-111-20-00
 Delinquent Taxes

Department

Department of Financial Services
 Director
 (954) 344-1007

Accounting Treatment

Method Received

Collected from property owners within the City for the Broward County Tax Collector. Payments are received through the tax collector beginning November 1 each fiscal year.

Frequency

The County distributes the proceeds within 15 days each calendar year.

City of Coral Springs, Florida

Budget Determination/Distribution Formula

Based on current assessed value of property and millage rate.

Application of Receipts/Spent Requirements

General Fund, unrestricted

Fee Schedule/Discount Schedule

The current \$3.9315 is the base rate each year. Since 1990 City's millage rate has been stable. Discounts are offered to encourage early payment, according to the following schedule:

4% if paid in November
 1% if paid in December
 2% if paid in January
 1% if paid in February

Collection History

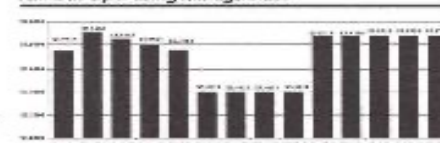
Revenue Added/Total

Yr	Revenue
2005*	\$26,675,072
2004	\$24,633,009
2003	\$22,493,330
2002	\$23,322,274
2001	\$13,693,451
2000	\$13,459,493
1999	\$14,115,835

*Adopted Budget

(Includes delinquent taxes collected.)

Annual Operating Millage Rate



EMS moved to General Fund in Fiscal Year 2001

Ad Valorem is Latin for "according to value." An Ad Valorem Tax is assessed on real and personal property located within City limits, based on the value of the property. The rate is measured in Mills. One mill equals \$1.00 per \$1,000 of assessed value.

Revenue Manual Example



2017 Revenue Manual | 38

Convention & Visitors: Taxes

Other Taxes: Lodging Tax

Account: 4151

Description

Taxes levied on guests lodging in hotels, motels, and campgrounds located within the City.

Legal Basis

Municipal Code Sections 4.08.005 and 4.08.020.

Current Rate/Fee

3% of the cost of lodging.

Collection/Administration

Each vendor collects the tax and remits the amount to the Director of Finance before the twentieth day of each month.

Exemptions

An occupant who has resided in a hotel for at least thirty days or who is a permanent resident in a hotel is exempt from this tax. All local, state, and federal government sales are exempt.

Collection Variables

The number of lodgers, available rooms, and room rates (an average of \$99 per night in 2016).



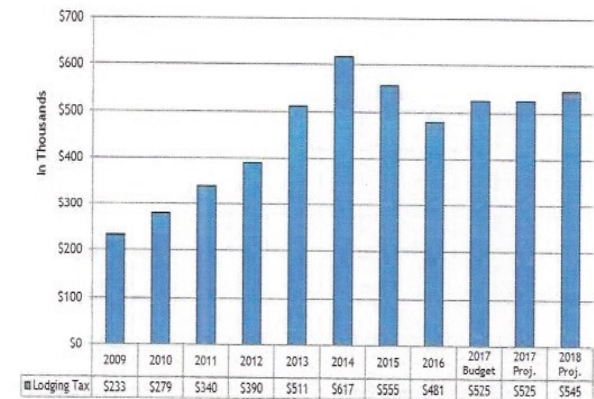
2017 Revenue Manual | 39

Other Taxes: Lodging Tax

Account: 4151

Ten-Year Collection History

Lodging Tax



Fiscal Foresight Principle #1:

Spend Within Your Means

DO YOU...

- *Distinguish ONE-TIME from ONGOING?*
 - Differentiate and “depict”:
 - *Ongoing revenues from one-time sources*
 - *Ongoing expenditures from one-time uses*
 - Achieve fiscal alignment by
 - *Funding ongoing operations with ongoing revenue streams*
 - *Funding one-time needs with one-time sources*
 - *Ensuring reserves aren’t used to mask structural deficit*
 - *Avoiding reliance on volatile/sporadic revenues to fund operations*
 - Distinguish between:
 - *Operating Budget – recurring expenditures for day-to-day needs*
 - *One-time (Capital) Budget – non-recurring “one-time” expenditures*



Differentiate **ONGOING** and **ONE-TIME**

EXECUTIVE SUMMARY									
GENERAL FUND									
			2018 Actuals	2019 Budget			2020 Budget		
				Revenues	Ongoing	One-Time	Revenues	Ongoing	One-Time
				As Amended	As Amended	As Amended			
SOURCES OF FUNDS									
Beginning Fund Balance			43,963,923	45,873,254	0	45,873,254	41,577,385	0	41,577,385
CAFR Adjustment						~			
General Governmental Revenues									
Taxes & Special Assessments			110,359,249	117,935,085	117,935,085	0	118,251,318	118,251,318	0
Licenses & Permits			53,545	56,500	56,500	0	49,000	49,000	0
Charges for Services			5,667,608	6,213,000	5,765,000	448,000	5,419,000	5,379,000	40,000
Intergovernmental Assistance			475,647	1,356,070	513,620	842,450	464,000	464,000	0
Fines & Forfeitures			131,056	246,000	46,000	200,000	261,500	61,500	200,000
Investment Income			4,262,577	2,500,000	0	2,500,000	3,300,000	400,000	2,900,000
Other Income			528,244	50,000	0	50,000	100,000	0	100,000
Intra-County Transactions (Transfers)									
Indirect Cost Allocation			4,502,535	3,549,984	3,549,984	0	4,668,096	3,846,477	821,619
Treasurer's Fees			2,426,922	2,669,600	2,669,600	0	2,692,000	2,692,000	0
Interfund Transfers									
Employee Benefits Fund			4,000,000	2,000,000	0	2,000,000	3,000,000	0	3,000,000
Social Services HVAC			1,742,688	0	0	0	0	0	0
Patrol Fund (for Emergency Mgmt)			1,982	0	0	0	0	0	0
Public Trustee Fund (net revenues)			916,259	0	0	0	250,855	100,000	150,855
Total General Governmental Revenues			135,068,312	136,576,239	130,535,789	6,040,450	138,455,769	131,243,295	7,212,474
Departmental/Program Revenues									
Intergovernmental Assistance			5,018,614	4,214,427	4,214,427	0	4,397,766	4,397,766	0
Fines & Forfeitures			30,814	0	0	0	25,000	25,000	0
Licenses & Permits			2,610,640	2,892,000	2,892,000	0	2,154,000	2,154,000	0
Charges for Services			15,399,233	16,724,024	14,809,624	1,914,400	15,319,225	15,010,432	308,793

Fiscal Foresight Principle #1:

Spend Within Your Means



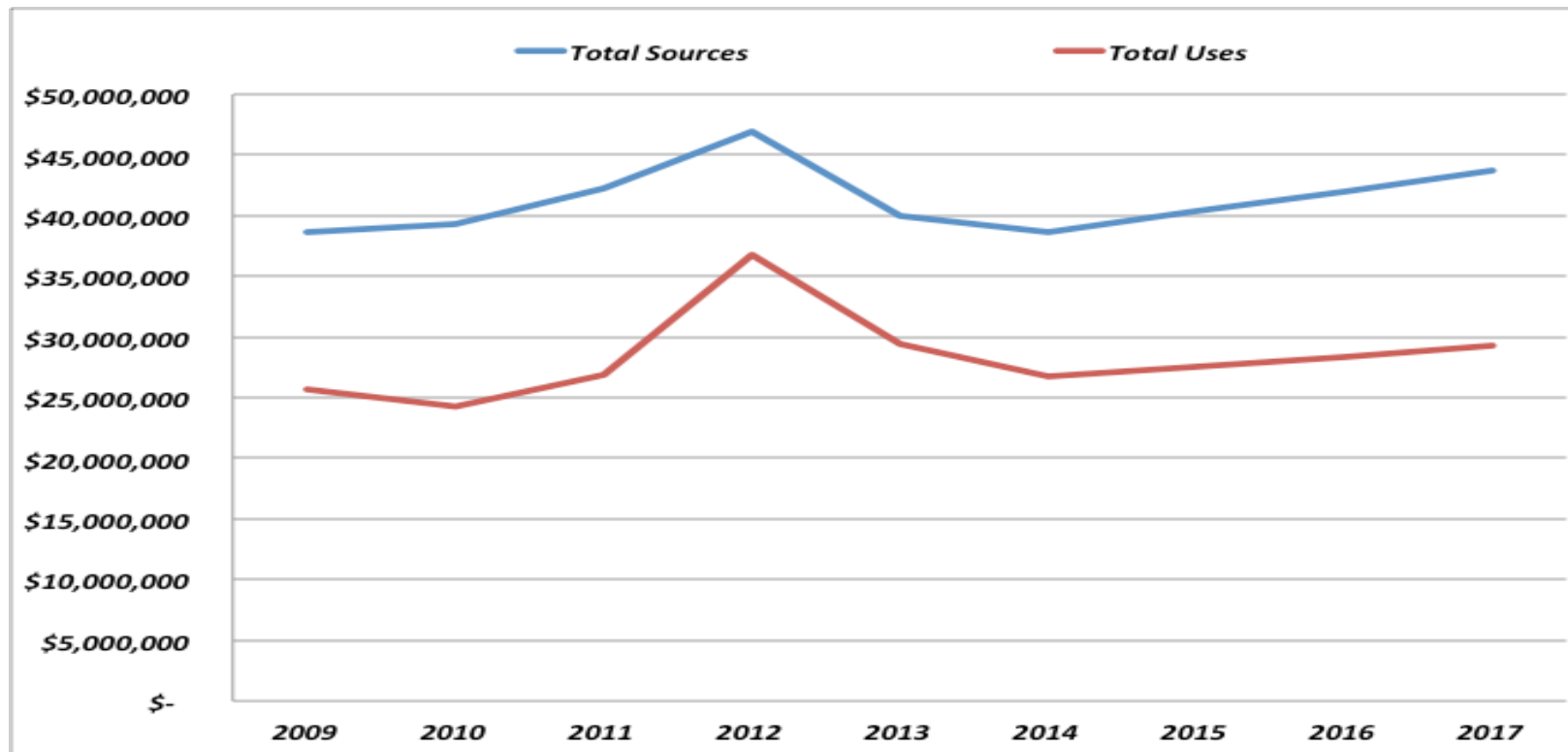
DO YOU...

- *Differentiate “PROGRAM” revenues from “GENERAL GOVERNMENT” revenues?*
 - *Determine how department budgets are ‘funded’*
 - Assign **Program Revenues** to department with the Program Costs
 - Calculate department’s proportionate share of **General Government Revenues**
 - *Establish departmental “target budgets” based on*
 - 100% of associated **Program Revenues**
 - Proportionate share of **General Government Revenues**
 - *Encourage revenue diversification and enhancement*
 - *Incentivize cost recovery and cost containment*

*Differentiate **ONGOING** vs. **ONE-TIME** and
PROGRAM vs. **GENERAL GOVERNMENT***

	<i>Ongoing</i>	<i>One-time</i>
<i>General Government</i>	1	2
<i>Program-specific</i>	3	4

*Looks like a financially “healthy” organization –
RIGHT?*

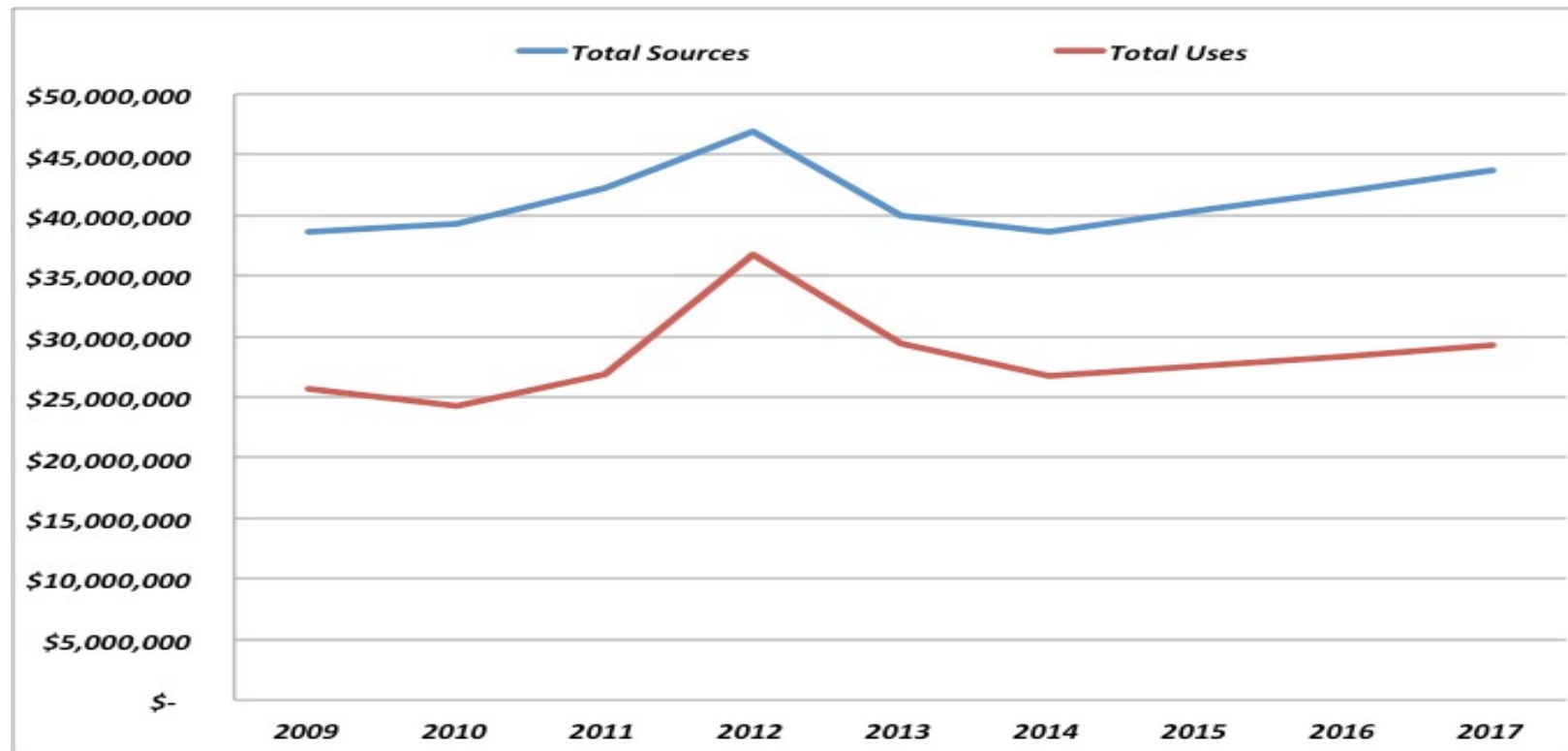


Historical

Current

Projected

Let's separate ONE-TIME from ONGOING

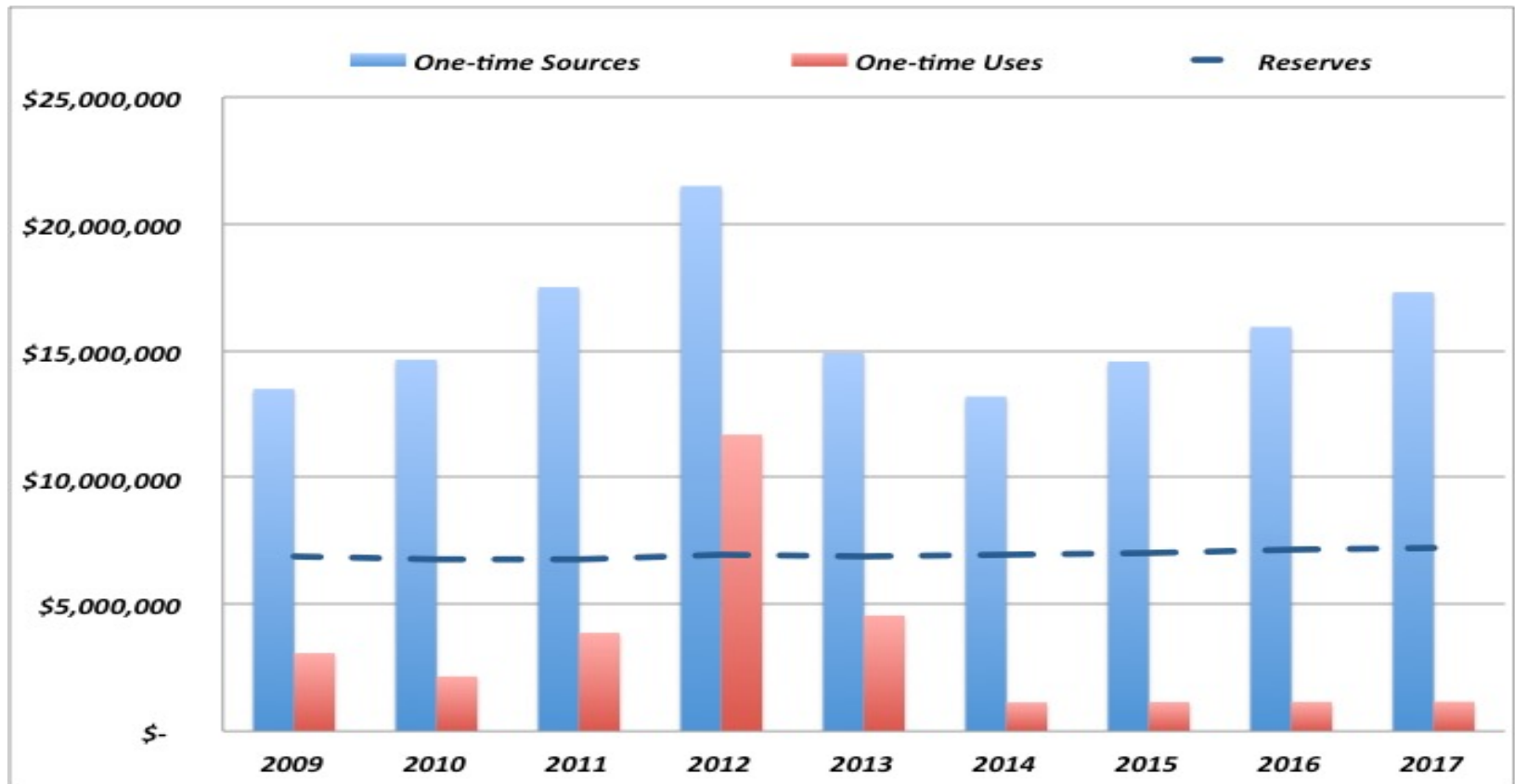


Historical

Current

Projected

Here's the ONE-TIME side of the world.....

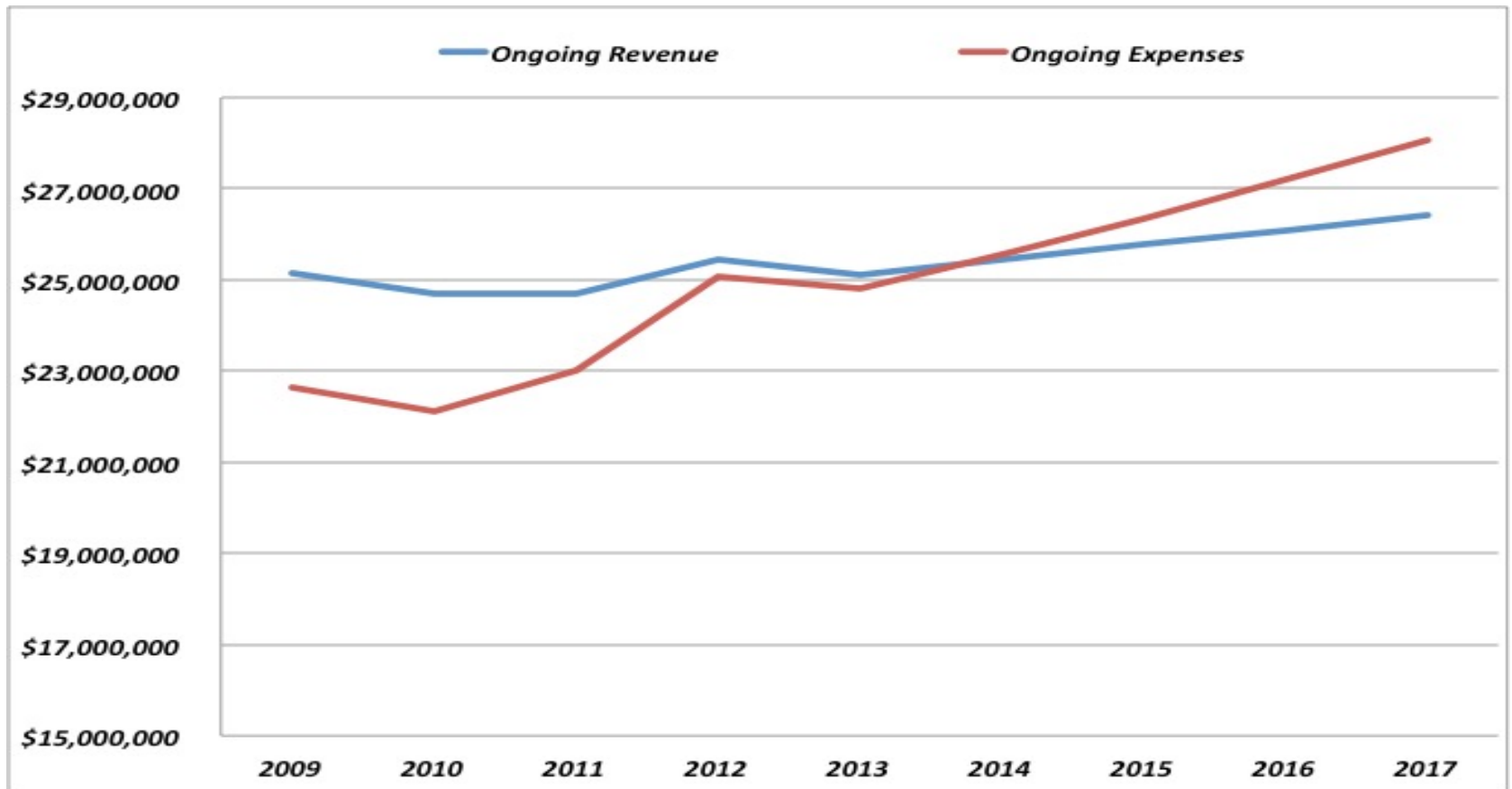


Historical

Current

Projected

And here's the ONGOING side of the world.....

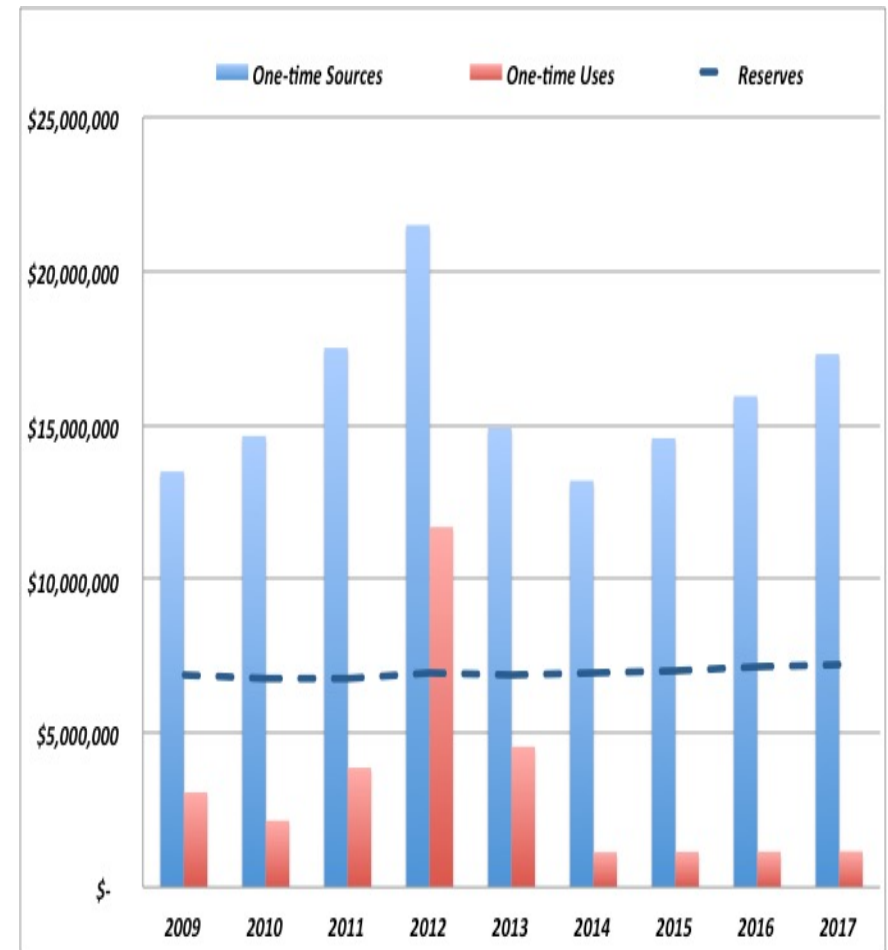
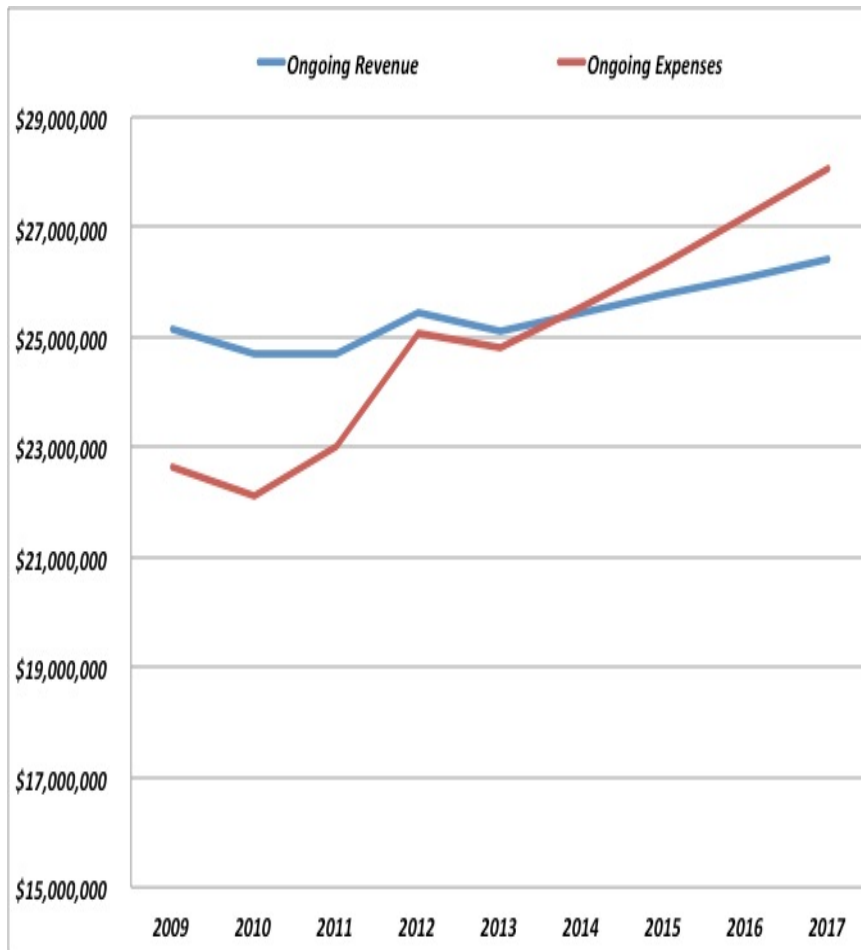


Historical

Current

Projected

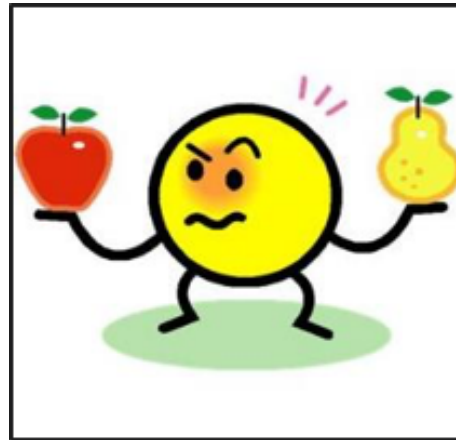
Both worlds side by side....



Fiscal Foresight Principal #2

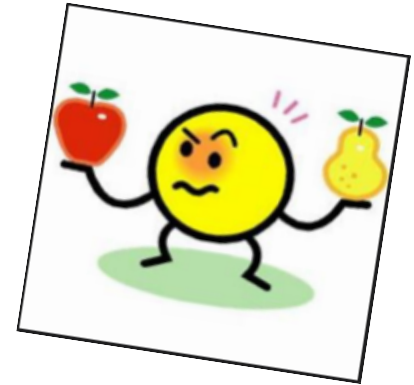
“What’s the Difference?”

Understanding Variances (Budget to Actual)



Fiscal Foresight Principle #2:

Understanding Variances



DO YOU...

- *Analyze and explain annual “budget to actual” variances? (a source of “hidden treasure”)*
- *Strive to align operating budget with actuals?*
- *Monitor “budget to actual” differences regularly during the year?*
- *Practice multi-year capital budgeting?*

Fiscal Foresight Principle #2:

Understanding Variances



DO YOU...

- *Analyze and explain annual “**budget to actual**” variances?*
 - Discover potential “**hidden treasure**” in
 - Recurring variances that never go away
 - One-time or cyclical expenses masked as ongoing costs
 - Contingency funds disguised as operating expenses (*Code for “fluff”*)
 - Analyze expense categories/types, not departments



Types of Variance Analysis

- Revenues & Expenditures
 - *Budget to Actual*
 - *Multi-year historical year to year actuals*
 - *Cyclical trends*
 - *Ongoing vs. one-time fluctuations*
- Multi-year Capital Projects
 - *Project Budget Carry-forwards?*
 - *Excessive number of “change orders”?*



Types of Variance Analysis

- Employee Compensation
 - *Comp Plan vs. Actual Wages Paid*
 - *Hiring Range*
 - *Maximum Range*
 - *Market Comparison - based on total compensation*
 - *Approved FTE Count*
- Accounts Receivable
 - *Compare amounts due and amounts billed*
 - *Compare amounts billed and amounts collected*



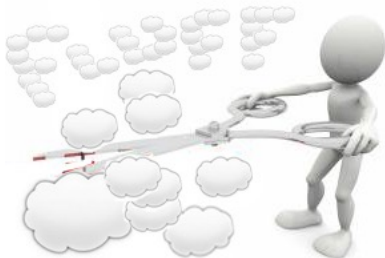
Fiscal Foresight Principle #2:

Understanding Variances



DO YOU...

- ***Strive to align operating budget with actuals?***
 - ***"Underspending" is as bad if not worse than "overspending"***
 - ***Don't rely on "savings" from budget to actual variances***
 - ***Refine salary and benefit projections to align with actual costs incurred***
 - ***Identify AND eliminate "the fluff"***



***Variances will never disappear –
but need to be explained***

Salary/Benefit Projection Tool

2009 Salary & Benefit Forecasting Tool						
Fund	00050		Assuming	5.0%	Increase in 2009	
Department	(All)					
Division	(All)					
			Data			
% Increase	Home Business Unit	Title	FTE	Earned Salary @ 12/31/08	Earned Salary @ 12/31/09	TOTAL Taxes & Benefits @12/31/09
5.0%	53120	Accounting Technician	1	41,410	43,346	15,233
		Administrative Coordinator II	1	59,944	62,747	18,470
		Administrative Specialist III	1	40,703	42,606	11,150
		Dir OS & Comty Resrce Dept	1	129,970	136,046	34,859
		Mgr of Admin & Education Svcs	1	80,398	84,157	18,812
		Microcomputer Specialist	1	61,438	64,310	18,965
		Network Administrator I	1	67,376	70,525	19,312
		OS Volunteer Service Coord	1	38,154	39,938	10,514
		Programmer Analyst II	1	74,824	78,322	17,543
	53120 Total		9	594,217	621,996	164,859
	53150	Administrative Specialist I	1	33,913	35,499	12,433
		Administrative Specialist II	2	60,456	71,363	28,112
		Graphic Design Specialist II	1	56,782	59,437	15,851
		Public Information Director	1	79,363	83,073	15,211
	53150 Total		5	230,515	249,372	71,606
	53160	Acquisitions Specialist	1	69,424	72,670	20,139
		Administrative Specialist II	1.2	38,500	67,925	27,756
		Administrative Specialist III	1	37,684	39,353	10,500
		Land Supervisor	1	76,000	79,562	14,614

Fiscal Foresight Principle #2:

Understanding Variances



DO YOU...

- *Monitor “budget to actual” differences regularly during the year?*
 - Ensures you “*won’t run out of money*”
 - Avoids spending entire budget “*whether you need it or not*”
 - *Incentivize budget savings to change “use it or lose it” mentality*
 - Identifies need for periodic budget amendments



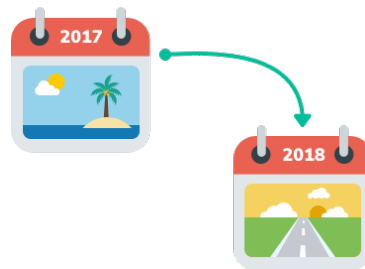
Fiscal Foresight Principle #2:

Understanding Variances



DO YOU...

- *Practice multi-year capital budgeting?*
 - Avoids large capital "carry-forwards" at year-end
 - Avoids inflating total budget \$\$\$\$
 - Avoids setting incorrect expectations with community



Fiscal Foresight Principal #3

“Why Do We Need to Keep Money in the Bank?”

Establish and Maintain Reserves
(“Preserve the Reserves”)



Fiscal Foresight Principle #3:

Establish and Maintain Reserves



DO YOU...

- *Understand what makes up Fund Balance(s) and why you hold reserves?*
- *Maintain a Working Capital and/or Emergency Fund reserve*
- *Have written fund balance reservation policies that are monitored?*

Fiscal Foresight Principle #3:

Establish and Maintain Reserves



DO YOU...

- *Understand what makes up Fund Balance(s) and why you hold reserves?*
 - Be clear about reserves that are required to be set aside (*i.e. Statutory; Policy, Best Practice*)
 - Have formal “*inventory*” of all restricted or designated fund balance reserves documenting:
 - *Purpose for holding them (“why”)*
 - *Method of calculation (“how much”)*
 - *Authority for establishing them (“who says”)*

Fund Balance Reserves

- Identify individually (*not combined*)
- Don't label as savings or rainy-day funds
- Ensure all stakeholders understand the “*why*”; “*how much*” and “*who says*”
- Support with written policies that are reviewed annually and approved as part of the budget



Types of Reserves

- **Contingency Reserves**
 - Consider appropriating at a fund level
 - Discourage departments from maintaining in its budget
- **Working Capital Reserves**
 - Economic cycles or cash flow fluctuations
- **Emergency Reserves**
 - Disasters or unforeseen events
- **Asset Replacement Reserves**



Types of Reserves

- Future Pension/Retiree Benefit Obligations
- Statutory Reserves
 - State – imposed
 - Organization – imposed
- Bond or Debt Service Requirements
 - Usually spelled out in bond covenants
- Cash-Funded Capital Projects



Fiscal Foresight Principle #3:

Establish and Maintain Reserves



DO YOU...

- ***Maintain a Working Capital and/or Emergency Fund reserve***
 - **Ensure established working capital reserves are sufficient to meet emergency needs or short-term revenue shortfall**
 - **Separate set aside funding for other future needs :**
 - *Long-range plans, major maintenance and asset/equipment replacement*
 - *Cash-funding capital projects*
 - *Pension obligations*

Determining the Right Level

- **Baseline recommendation (*General Fund*) –**
 - *5% to 15% of operating revenue*
 - *1 to 2 months operating expenditures*
- **Adjust for:**
 - *Historic events and past experience*
 - *Government size*
 - *Revenue stability*
 - *Future capital needs*



Standard & Poor's Views



- Low = **0% or below**
- Adequate = **1% to 4%**
- Good = **4% to 8%**
- Strong = **8% to 15%**
- Very Strong = **Above 15%**

Fiscal Foresight Principle #3:

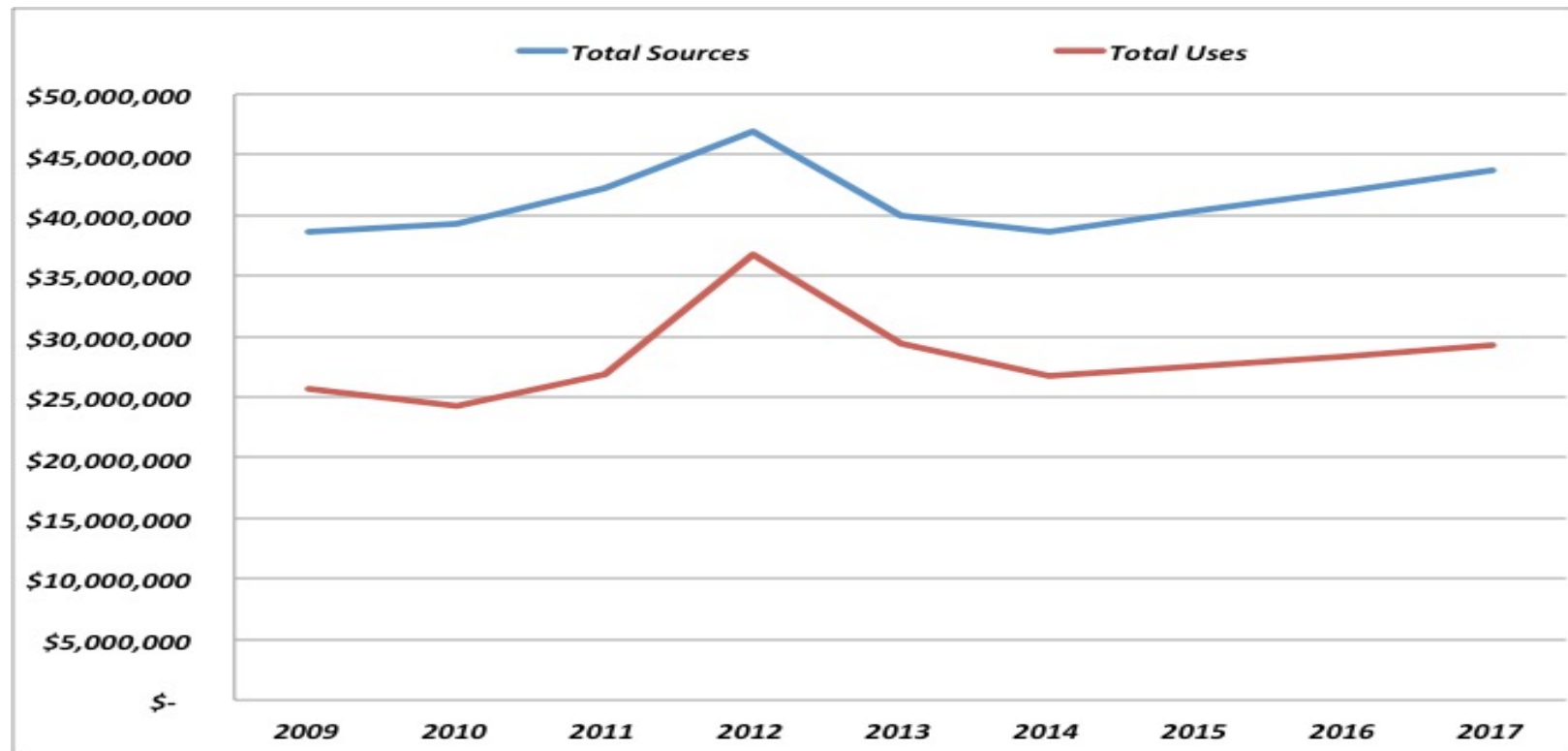
Establish and Maintain Reserves



DO YOU...

- *Have written fund balance reservation policies that are monitored?*
 - Monitor Fund Balances to ensure that reserves are maintained
 - Monitor Fund Balance levels to ensure they *“aren’t too little”* OR *“too much”*, but *“just right”*
 - Approve each year as part of Budget Adoption

Let's separate ONE-TIME from ONGOING

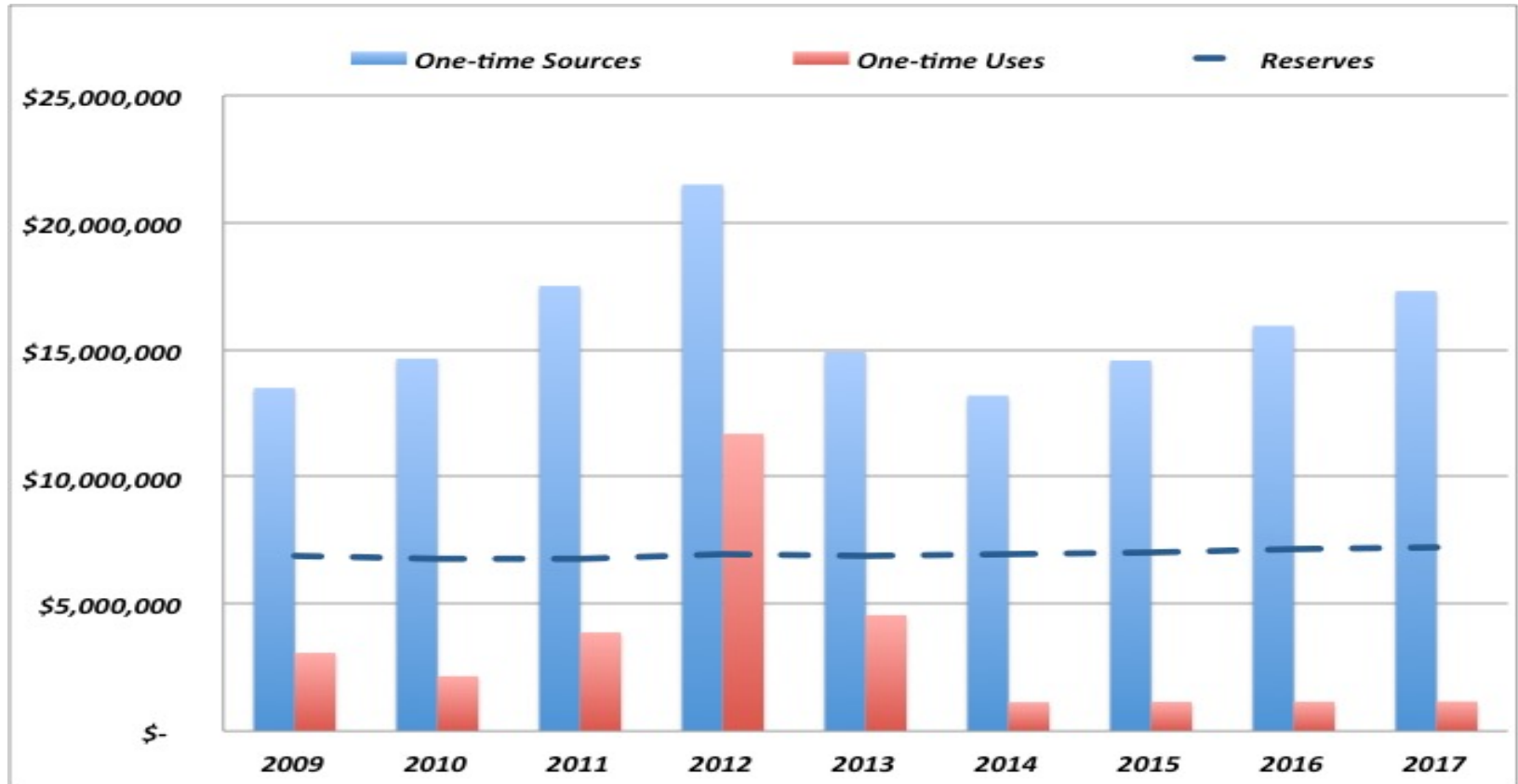


Historical

Current

Projected

Here's the ONE-TIME side of the world.....

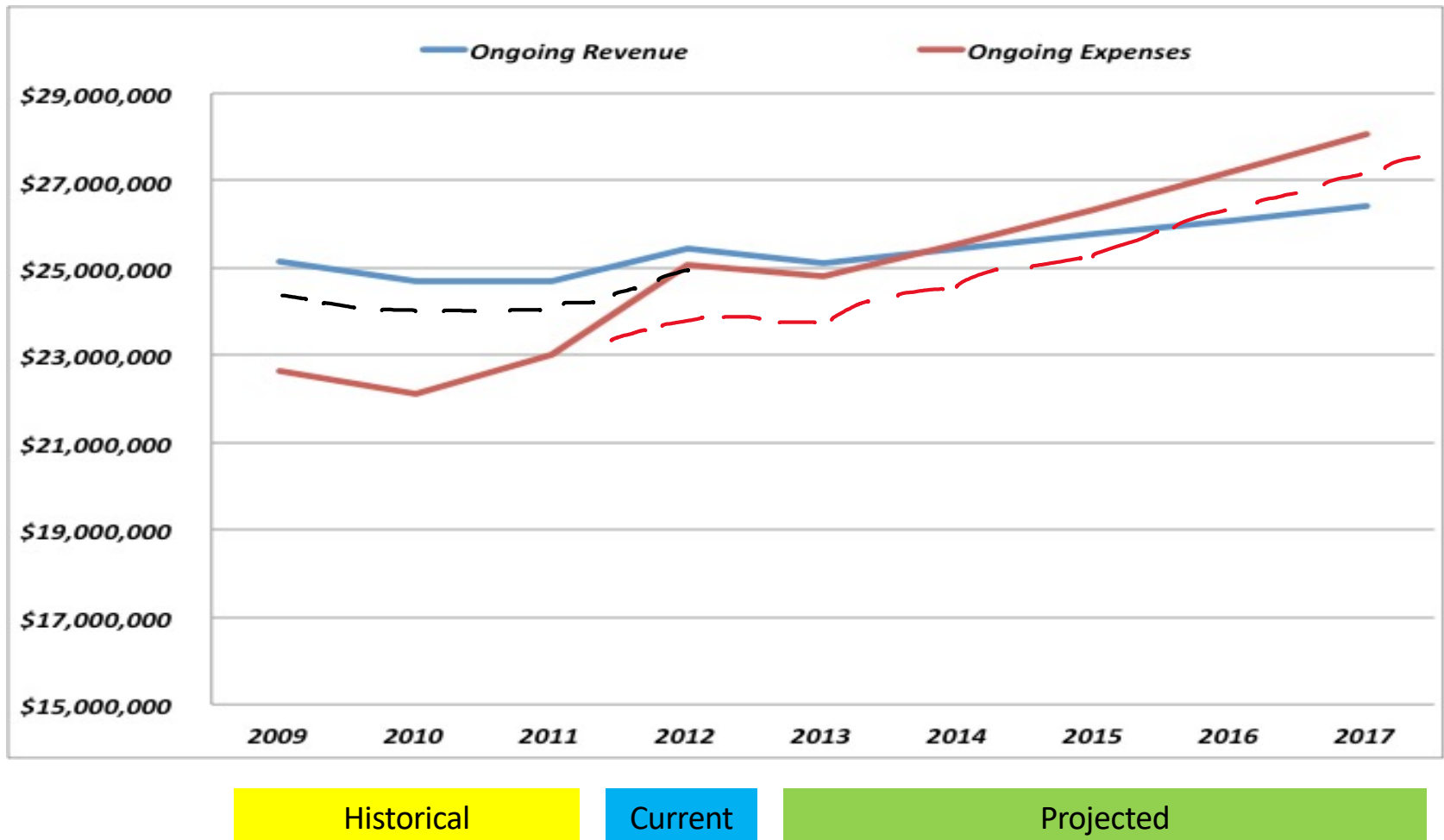


Historical

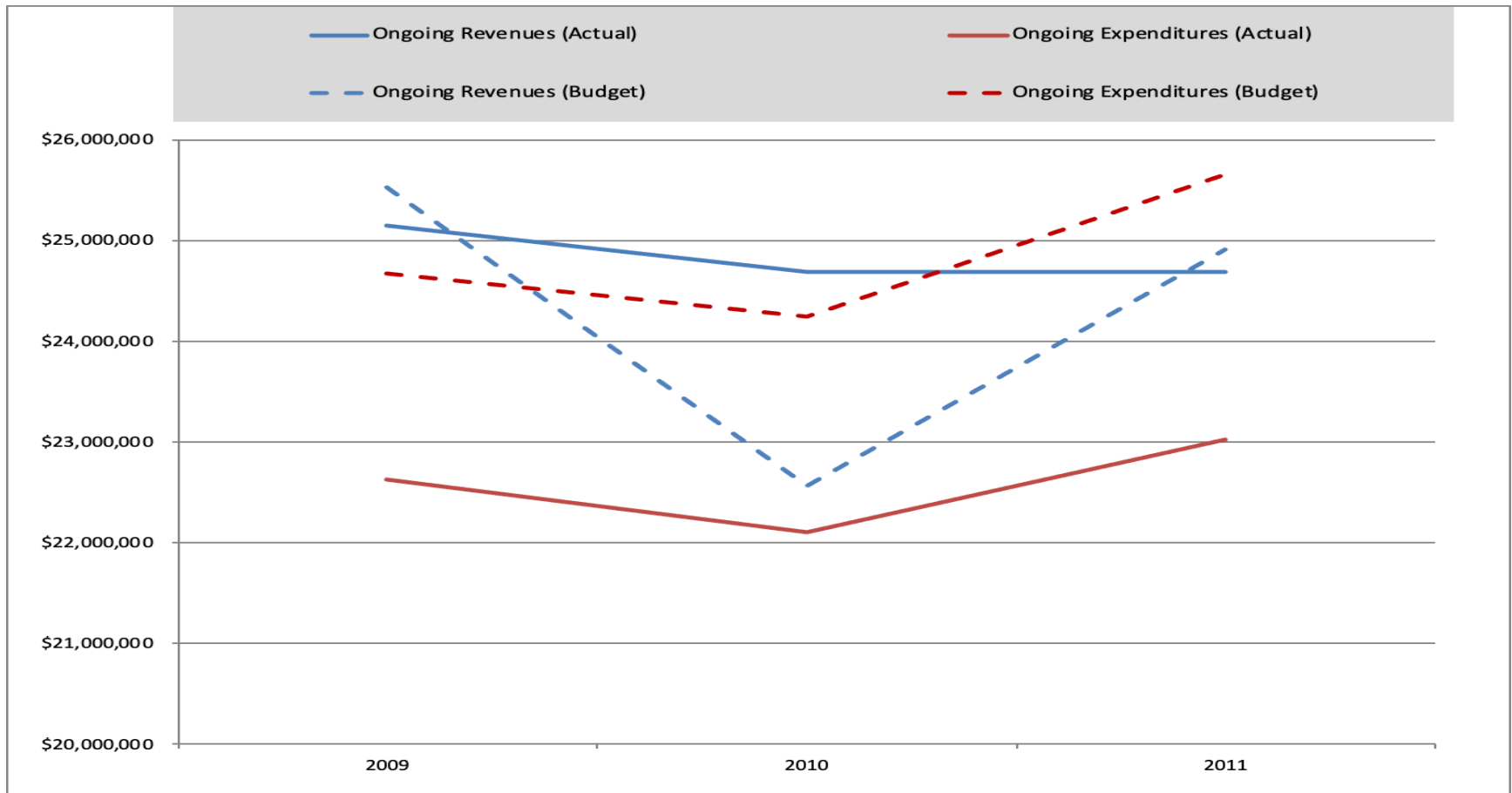
Current

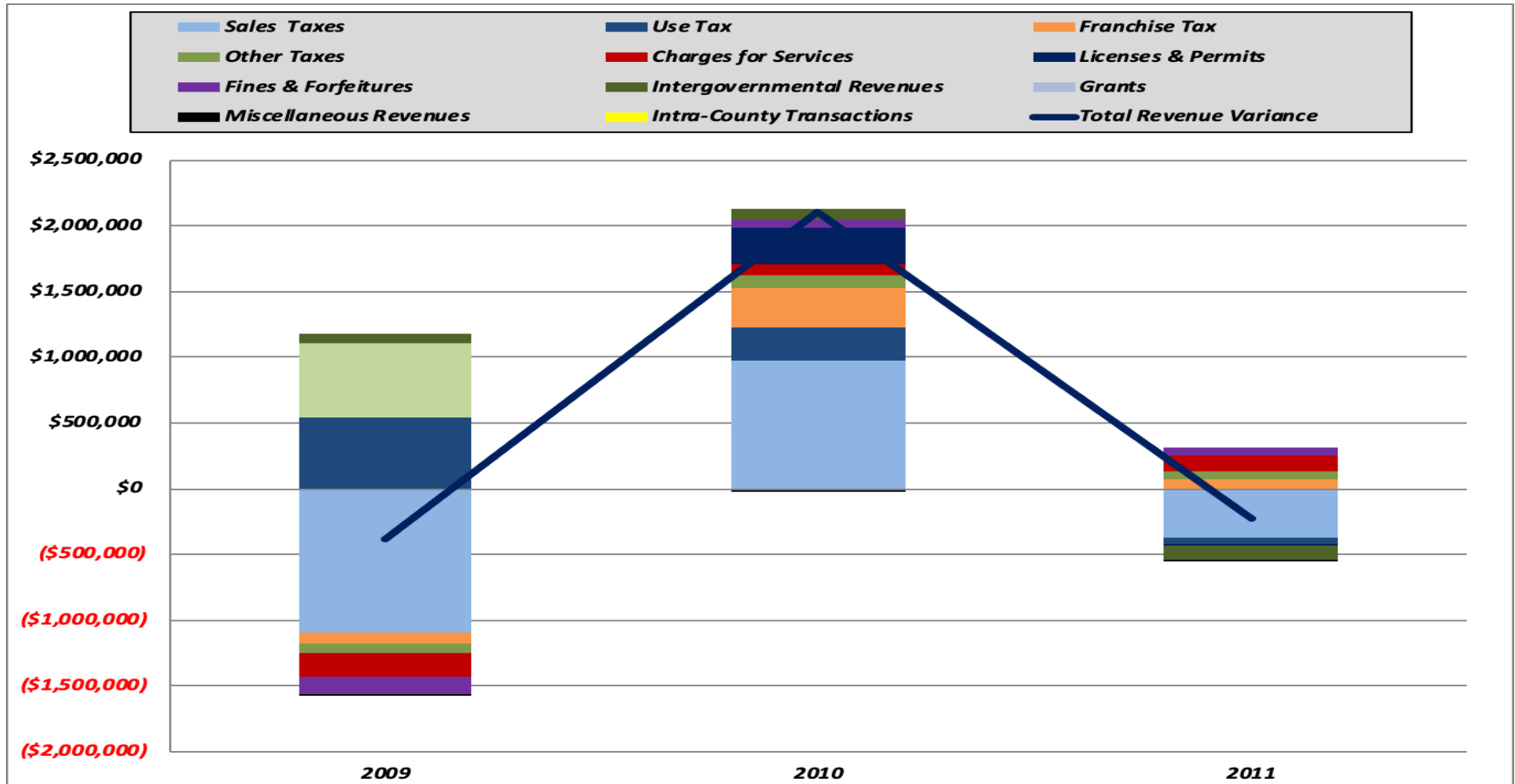
Projected

And here's the ONGOING side of the world.....

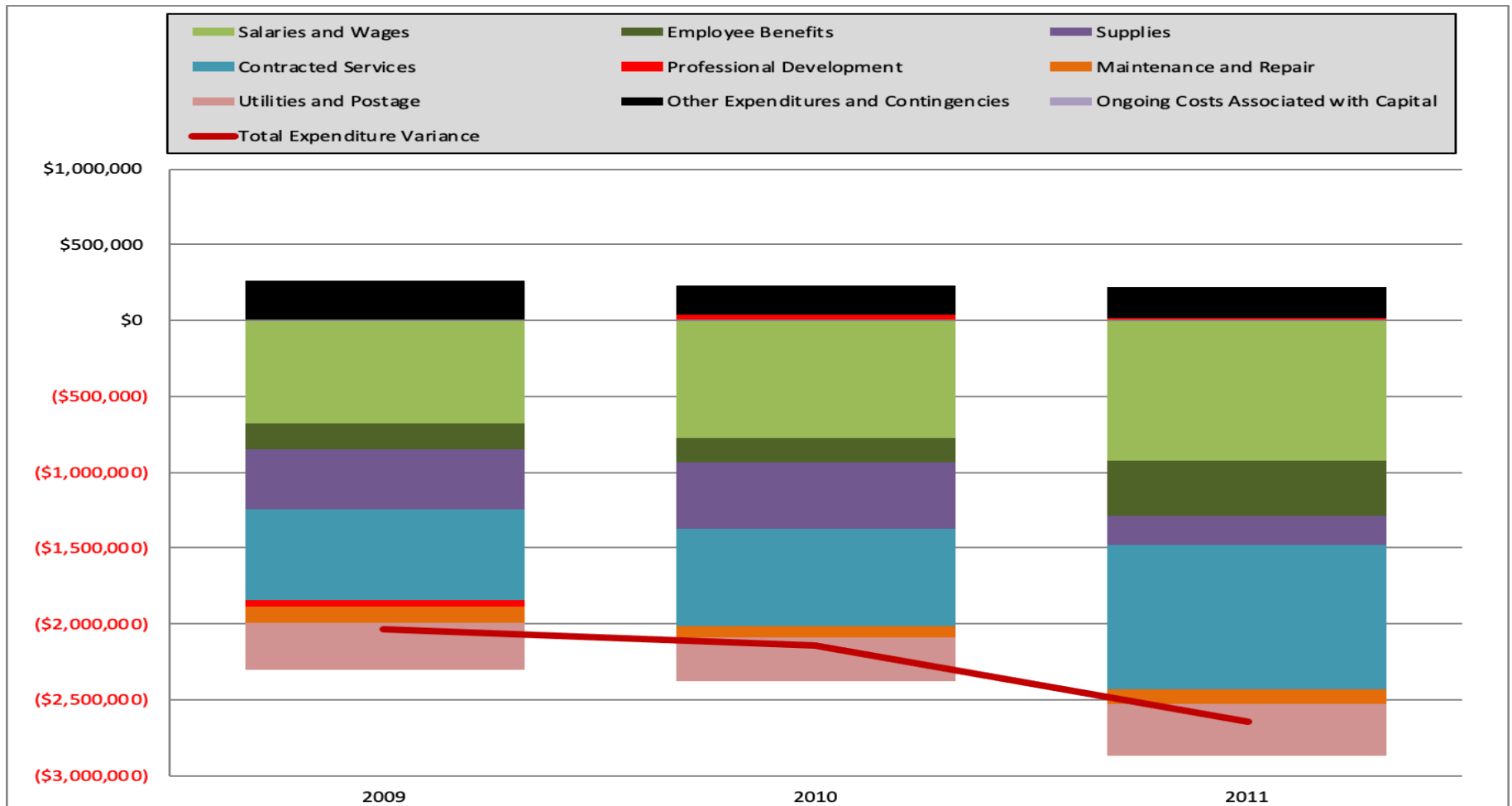


Ongoing Variance Analysis





Ongoing Expenditure Variance Analysis





So.....

***Where
do I
start?***



Diagnostic Questions to Ask

- Does everyone in your organization have a clear understanding of your ***fiscal reality***?
- Does your organization differentiate between ***ONE-TIME*** and ***ONGOING*** revenues and expenditures?
 - *If yes, how are they tracked? Do your forecasts demonstrate this differentiation?*
- Does your organization differentiate “***program***” revenues from “***general government***” revenues such as taxes, earnings on investments, franchise fees, etc.?
 - *If yes, do you use that differentiation to set “target budgets”?*
- Does your organization prepare a formal ***revenue manual***?
 - *If yes, what type of information is included?*

Diagnostic Questions to Ask

- **Are variances between budgeted and actual revenues and expenditures analyzed and explained?**
 - *If yes, how do those variances impact future budget cycles?*
- **Does your organization utilize a formal compensation plan to establish employee salary/wage ranges?**
 - *If yes, how often is the plan updated?*
- **When assessing the adequacy of employee compensation, are employee benefit packages included in this assessment?**

Diagnostic Questions to Ask

- Does your organization have a written fund balance reservation policy?
 - *If yes, how are you monitoring those reserves to ensure that they are properly and adequately maintained?*
- Are established working capital reserves sufficient to meet emergency needs or short-term revenue shortfalls?
- Does your organization have an inventory of all restricted or designated fund balance (reserves)?
 - *If yes, does it indicate the purpose for the reserve, cite the authority for its establishment and show how it is calculated?*

Get Started on the Path to Fiscal Health...



- **Prepare analysis of “one-time” vs. “ongoing” revenues and expenditures**
 - *Separate worksheet for each Accounting Fund*
 - *Include 3 years of historical data*
- **Prepare SIMPLE 5-year revenue projections**
 - *Strive for reasonableness, NOT perfection or precision*
 - *Review assumptions with key stakeholders*
 - *“Start with Revenues” - finalize revenue projections BEFORE budget kick-off*
- **Prepare graphic depiction of fiscal reality and review with organization**
 - *Share “picture of fiscal health” BEFORE budget kick-off to ensure shared clarity*

Get Started on the Path to Fiscal Health...



- **Prepare analysis of “program” vs. “general government” revenue**
 - *Determine how department budgets are funded between these two sources*
 - *Involve departments in program revenue projections*
- **Prepare departmental target budgets based on projected revenues**
 - *Allocate 100% of associated program revenues*
 - *Allocate historical proportionate share of general government revenues*
- **Prepare organizational “Revenue Manual”**
 - *Start with 5 to 10 largest revenue sources in year one and then expand each year*

Get Started on the Path to Fiscal Health...



- **Strive to align budget with actuals**
 - *Refine salary and benefit projections, to align with actual costs incurred*
 - *Provide more effective budget monitoring and management to eliminate variances*
 - *Identify and eliminate the “fluff”*
- **Analyze and understand variance trends over past 3 to 5 years**
 - *Explain large budget to actual variances – especially for REVENUES*
 - *Look for recurring variances and eliminate*
- **Fund cyclical expenditures with one-time funding sources**
- **Consolidate “contingencies” in department budget and appropriate at Fund level**
 - *For emergency or unforeseen “one-time” needs*
 - *Assure responsiveness to Departments when a need comes up*

Get Started on the Path to Fiscal Health...



- **Ensure Salary and Benefit projections reflect actual anticipated spending**
 - *Factor in historical vacancy/turnover trends*
- **Budget multi-year project costs in expected year of expenditure**
- **Incentivize departments to “turn back” budget savings rather than spend money unnecessarily**

Get Started on the Path to Fiscal Health...



- **Establish a written Working Capital/Emergency Fund Balance reserve policy**
 - *Provides back-up plan for emergencies, revenue shortfalls, or other unforeseen changes*
- **Identify, document and understand all fund balance reserves**
 - *Use to education elected officials, staff and citizens*
 - *Determine if you are reserving “too much” or “too little”*
- **Review adequacy of fund balance levels**
 - *Hold only appropriate amount in reserve to establish credibility with internal and external stakeholders*
- **Set aside funding for future needs and/or obligations**
 - *i.e. Major Maintenance Projects, Cash-Funded Capital Projects, Asset Replacement, etc.*