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Ohio Auditor of State  
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**Long Term Planning**

Local Government  
Officials Conference

Presented by: Dave Thompson  
Local Government Services

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**PROBLEM**

- Lack of long-term financial planning has been a key contributor to some of the biggest challenges facing Ohio local governments



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**WHAT THEY DO**

- Many local governments in Ohio have tried to deal with the current recession by the traditional budget method of balancing revenues and expenditures



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### National Advisory Council on State and Local Budget (NACSLB)

Indicates the broad scope of a good budgeting process include:

- A) Long Term Perspective
- B) Establish linkage to organizational goals
- C) Provides incentives to government management and employees
- D) Focused on results and outcomes



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Failure to plan for periods longer than traditional budget year results in:

- A) Management by crisis
- B) Hasty decisions
- C) "Emergency" expenditure cuts or tax increases



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## 危机

*"Written in Chinese, the word 'crisis' is composed of two characters. One represents **Danger** and the other represents **Opportunity**"*

**John F. Kennedy**



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## BETTER SOLUTION

Rather than treating the current fiscal crisis as an *insurmountable problem*, many organizations have taken the opportunity to:

- plan for the longer term
- focus resources on public priorities



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## Framework for developing your Local Government's Financial Planning System



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## Long-Term Financial Planning before the Recession

- Combines Financial Forecasting with Financial Strategizing to:
  - Identify future challenges & opportunities
  - Causes of fiscal imbalances
  - Strategies to secure financial sustainability



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## Long-Term Financial Planning after the recession

GFOA White Paper:

- Financial sustainability as it relates to Long Term Planning signifies practices:
  - Directing one-time revenues away from recurring sources of expenditures
  - Taking into account long term maintenance & operating costs when planning and evaluating capital projects



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## Long-Term Financial Planning after the recession

• GFOA White Paper:

- Current recession has taught us that sustainability is necessary but insufficient
- This type of system is balanced but a severe economic downturn can unbalance the system or even collapse it



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## Challenges for Local Government Officials

- Outside economic adjustments
- Natural disasters
- Political Pressures
- Policy changes at other levels of government



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## What to do?

- Finance officers must strive to help their organization go beyond sustainability to a system that is adaptive and regenerative
  - The system must be resilient



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## Jamais Cascio

- Fellow at the Institute for Ethics & Emerging Technologies
  - Identifies 8 Characteristics of a resilient system



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## 8 Characteristics

- Diversity
- Redundancy
- Decentralization
- Transparency
- Collaboration
- Fail Gracefully
  - Flexibility
  - Foresight



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## DIVERSITY

- Keeping a multi-faceted perspective on financial health
  - Planners viewpoint not limited to focusing on revenues and expenditures
  - Land use patterns, demographic trends and long-term liabilities (debt payments & retirement costs) must be monitored
- Maintain a Diversity of funds to reduce reliance on the General Fund
- Enlarge the base of supportive constituents



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## REDUNDANCY

- Maintain a reserve policy
  - to prevent use for recurring expenditures and
  - to specify purpose of reserves
- Institutionalize financial planning through governance practices
  - financial policies and citizen engagement
- Pursue multiple strategies for long-term financial health



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## REDUNDANCY

- Fund balances, or reserves, are the KEY to redundancy
- Basis of strong reserves is good financial policy supporting reserves
- Policy should prohibit fun balances from being used for recurring expenditures
  - Save providing temporary budget stabilization in economic downturn



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## REDUNDANCY

- Financially resilient governments are distinguished by
  - the adoption of a policy supporting a financial planning process that assesses the long-term financial implications of current and
  - proposed operating and capital budgets, financial policies and service policies



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## REDUNDANCY

- In addition to formal policies, community engagement can help assure the continuity of financial planning and related practices
  - Mentor Schools has a special citizen subcommittee focused on financial planning. The School Board is subject to a variety of pressures and issues. However, the subcommittee never lets the Board forget the importance of the District's long-term financial health



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## REDUNDANCY

- Rely on a combination of strategies to cope with economic downturn:
  - Short & Long-term revenue enhancements
  - Expenditure reductions
  - And if necessary drawdown on reserves



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## DECENTRALIZATION

- Making managers manage their cost and revenue structures
- Engage departments in:
  - identifying issues, analyzing them and developing strategies
  - financial modeling and forecasting
- Develop an organization-wide strategic framework that departments can innovate within



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## DECENTRALIZATION

- The bedrock of Decentralization
  - all departments are responsible for their own budgets
- Involving departments in financial forecasting and modeling
  - hones their understanding of the financial condition,
  - and their perception of the need for solid, long-term financial strategy
  - can also improve quality of forecast.
- In today's economic reality historical data not as useful in making prediction. Qualitative judgment is more important than ever



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## TRANSPARENCY

- Promote transparency in key areas like:
  - Goals & objectives, forecast assumption, and reserve standards
- Make sure everyone involved in the planning process knows:
  - What are the goals
  - How did we arrive at them
  - What activities will be undertaken in pursuit of goals



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## TRANSPARENCY

- The assumptions that drive revenue/expenditure trends should be available to entire planning team.
  - Key assumptions may include:
    - population/enrollment trends
    - employee head count
    - changes in property values
    - changes in consumer behavior
- What amounts will the government endeavor to hold in reserve, and why?
  - Clarity in this area is essential to maintaining credibility and integrity



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## COLLABORATION

- Build Elected Officials service priorities into the plan
- Provide Elected Officials a role in the planning process- a role they can thrive in
- Orient Elected Officials to the planning process
- Use **Key Indicators** to help officials stay informed of financial condition



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## COLLABORATION

- Not every official will be comfortable discussing financial issues, but all can discuss and appreciate service issues
- Elected official's role can be such tasks as
  - Identifying and confirming critical issues, deliberate and approve critical assumptions, & implementation of plan through budget process
- Key Indicators of financial condition should be established and communicated to help Elected Officials remain confident that they have a handle on financial condition



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## COLLABORATION

- Mentor Schools keeps its Board up to date on three KEY INDICATORS
  - Percent of budget spent on personnel
    - 85% is the upper threshold
  - Recurring revenues vs. expenditures
    - Including biannual forecast updates
  - Enrollment trends vs. staffing



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## FAIL GRACEFULLY

- Recognize changing conditions to make a soft landing
  
- Promote credibility and open dialogue to learn from and correct failure



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## FAIL GRACEFULLY

- Few predicted the severity of the current economic downturn. When caught in a financial decline, resilient governments quickly:
  - recognize it and react by updating forecast, modeling new scenarios to define financial parameters within which they must develop new strategies.
  - continually monitor the environment for change and maintain open communications with departments



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## FAIL GRACEFULLY

- A projected imbalance (deficit) isn't cause for recrimination - it is an opportunity to take preventive action to avoid crisis
- Financially resilient governments are careful not to position forecast as a prediction of future financial position but rather a tool to:
  - Recognize longer term issues that require a strategic approach
  - Establish service parameters within which service strategies must operate



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## FLEXIBILITY

- Regularly diagnose the strategic environment to know when flexibility may be required
- Create financial models to show the impact of changes
- Evolve and adapt the planning process itself



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## FLEXIBILITY

- Financially resilient governments
  - constantly monitor their environment and financial condition to see if financial strategies are working
  - gauge whether a change in approach is necessary
- Financial modeling and scenario analyses
  - permit governments to determine the impact of changes in assumptions and financial strategies
- Planning processes should evolve as needed to
  - address new issues
  - accommodate new stakeholders
  - keep up with best practices
  - adapt to changing needs of organization



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## FORESIGHT

- Develop effective forecasting techniques
- Build capacity among staff and elected officials for strategic diagnosis
- Complement financial planning with other long-term plans



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## FORESIGHT

- Financial forecasts are the crux of foresight
  - Use forecasts to identify parameters within which to develop and execute strategies rather than predict the future
  - Involve others in forecasting
    - Operating departments can improve qualitative judgment applied to forecast.
    - Elected officials can review critical assumptions
  - Develop capacity for flexible scenario modeling to show impact of different possible futures



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## FORESIGHT

- Other departments outside of Finance often put a great deal of effort into their own long-term plans.
  - These plans can be a foresight into financial conditions
- Successful long-term financial planning builds interest in better long term planning in other areas
  - Mentor Schools has seen improvement in long-term planning in the areas of Capital, Maintenance, Technology, Instruction, Equipment replacement, and Enrollment trending.
    - These improved studies enhance the quality of the forecast and help identify possible points of future fiscal failure



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## CONCLUSION

- A resilient long-term financial planning process is essential in order for a local government to provide a consistent program of public services despite the current volatile economic environment
- Most importantly, governments that develop resilient long-term planning processes have the opportunity to maintain trust and confidence of their constituents and continue to create a value for the public through government action



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## NOTES

- Information for this presentation came from three primary sources
  - Building a Financially Resilient Government through Long-Term Financial Planning
    - The Government Finance Officers Association
  - Mentor Public Schools – Fiscal Projections
    - Pursuing excellence in an era of declining revenues
  - National Advisory Council on State and Local Budget 2008



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