



## Long- Term Financial Planning Training

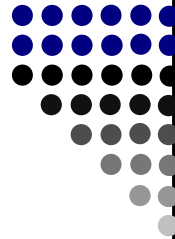
## Agenda

<b>8:15 a.m. – 9:00 a.m.</b>	<b>Registration and Continental Breakfast</b>
<b>9:00 a.m. – 9:10 a.m.</b>	<b>Welcome</b>
<b>9:10 a.m. – 10:30 a.m.</b>	<p><b><u>Section 1. Definition and overview of long-term financial planning &amp; Assessing your readiness for planning</u></b></p> <ul style="list-style-type: none"> <li>• Module 1 – Definition and Overview</li> <li>• Module 2– LTFP for Elected Officials</li> <li>• Module 3 – Readiness Assessment</li> </ul>
<b>10:30 a.m. -10:40 a.m.</b>	<b>Break</b>
<b>10:40 a.m. – 12:00 p.m.</b>	<p><b><u>Section 2. The financial planning process &amp; strategies for working with the public and elected officials and the public</u></b></p> <ul style="list-style-type: none"> <li>• Module 4 – The Long Term Financial Planning Process</li> </ul>
<b>12:00 p.m. – 1:00 p.m.</b>	<b>Luncheon</b>
<b>1:00 p.m. – 2:25 p.m.</b>	<p><b><u>Section 3. Financial Policies and Forecasting</u></b></p> <ul style="list-style-type: none"> <li>• Module 6 – Financial Policies &amp; Long Range Forecasting</li> <li>• Module 7 – Forecasting</li> </ul>
<b>2:25 p.m. – 2:35 p.m.</b>	<b>Break</b>
<b>2:35 p.m. – 4:30 p.m.</b>	<p><b><u>Section 4. Developing Strategies For Financial Health</u></b></p> <ul style="list-style-type: none"> <li>• Module 8 – Strategy Development</li> </ul>

# Definition & Overview of Long-Term Financial Planning



## Module 1



## Topics

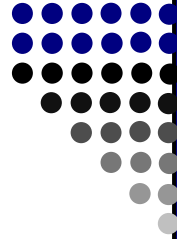


- What is long-term financial planning and why do it?
- Five Pillars of LTFP
- What are the challenges?

## Part I What is LTFP and Why?



- Definition
- Essential Characteristics
- Why do it



## What is Long-Term Financial Planning?



- A combination of technical analysis & strategizing
  - Forecasting & strategy development
- A collaborative and visionary process
  - Elected officials, staff, & public
- An anchor of financial sustainability
  - Changing mindsets
  - Institutionalize long-term thinking

## What is a Financial plan?



- Essential characteristics
  - What is the time horizon?
  - What funds are considered?
  - How often is a plan done?
  - What is in it?

## So, Why Financial Planning Now?



- Manage financial stress
  - Long-term forecasts
  - Long-term strategic approaches to issues
- A consistent, multi-year approach to services
  - Counteract multi-year budget volatility
  - Financing strategies for capital projects
  - Financial policies

## Part I – Take Aways

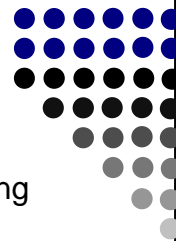


- LTFP is a strategic and visionary process
- The scope of the LTFP should be driven by the characteristics of the issues that are motivating planning
- The presence of long-term strategies for structural balance characterizes a true LTFP
- LTFP helps avoid & deal with financial stress

## Part II Five Pillars of LTFP



- Long-Term Service Vision
- Financial Policies
- Technically Sound Analysis & Forecasting
- Collaborative & participative process
- Connection to other plans



## Long-Term Service Vision



- Define the future the community wants
  - Great opportunity to engage elected officials and the public
  - Makes planning more meaningful for participants
  - Key for aligning finances with service levels

## Ottawa's 20/20 Vision



- A Caring and Inclusive City
- A Creative City Rich in Heritage, Unique in Identity
- A Green and Environmentally Sensitive City
- A City of Distinct, Liveable Communities
- An Innovative City Where Prosperity is Shared Among All
- A Responsible and Responsive City
- A Healthy and Active City

## Financial Policies



- Define standards for stewardship of public's tax dollars
  - Define financial future community wants
  - Forms basis for accountability and increasing trust in government
  - Another crucial point of elected official involvement

## Sample Policies from Long Beach



- **Structurally Balanced Budget.** The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets.
- **Use of One-Time Resources.** One-time resources such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar nonrecurring revenue shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time resources include establishing and rebuilding reserves, early retirement of debt, capital expenditures and other nonrecurring expenditures.



## Analysis and Forecasting



- Sound analysis and forecasting provides:
  - **Credibility**
  - Scenario analysis capabilities
  - Adaptability

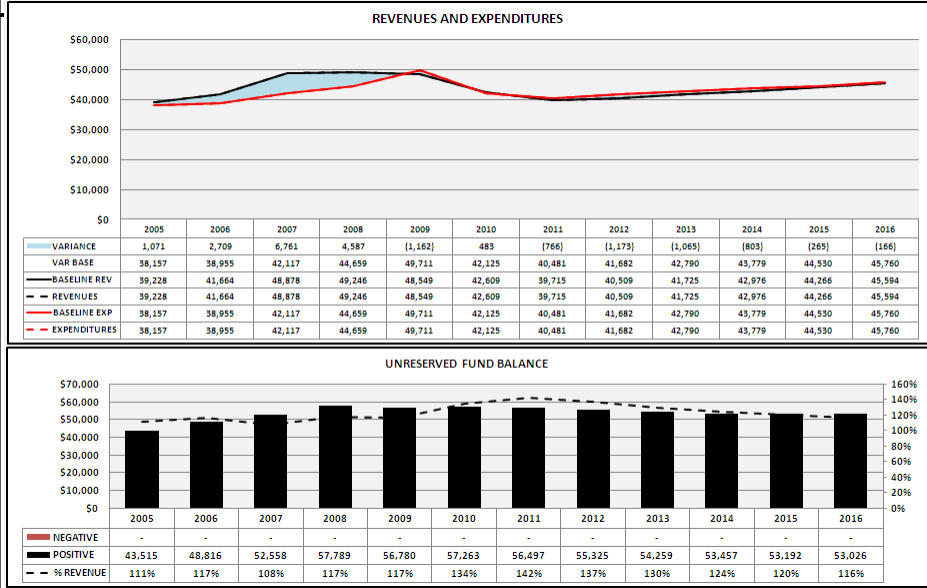
## Analysis & Forecasting Contribute to Planning Process



### **Begins with an Environmental Scan**

- Demographic data
- Internal assessment of financial management practices
- Resident and business surveys
- Stakeholder input
- Strengths-Weaknesses-Opportunities-Threats
- Local and national economic conditions
- Trend analysis

# Forecast Model



# Collaborative & Participative Process



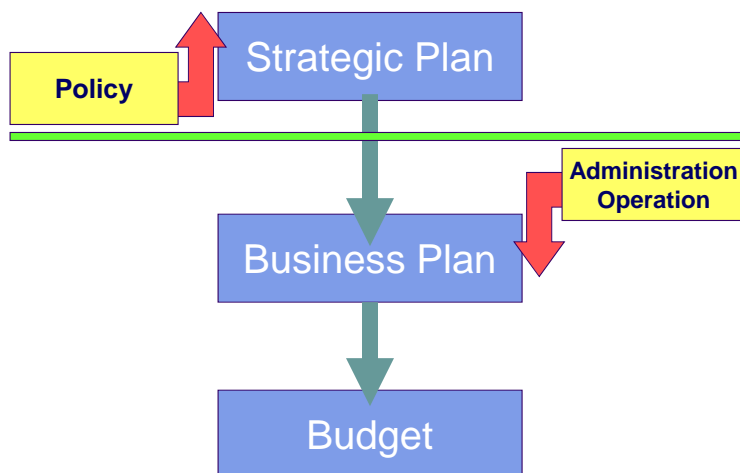
- Process must engage different groups to
  - Gain different vantage points
  - Increase plan quality
  - Build a wide basis of support for strategies

## Getting Elected Officials On-Board



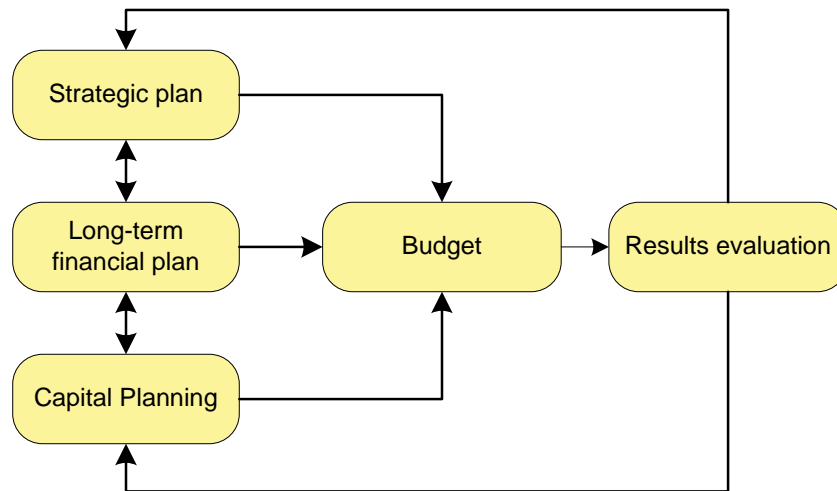
- Private sector support
- Focus on results & outcomes
- Don't jump in the deep end – get results from a small project then build on that success
- Citizen input
- Partnership between elected officials and professional staff

## Policy Vs. Operations





## Connection to Other Plans

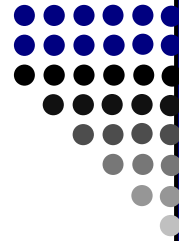


## Part II – Take Aways



- LTFP needs to be connected to a service vision
- A credible technical analysis is the foundation for the plan
  - It gives participants confidence in the process
- LTFP is part of a complete planning portfolio

## Part III Challenges of LTFP



### Common Challenges



- Elected official buy-in
  - Design ways to get them involved
    - Policies
    - SWOT analysis
  - Connect the plan to their vision for the community
- Staff time
  - What can you stop doing?
  - Start with one or few funds and go from there

## What are your challenges?

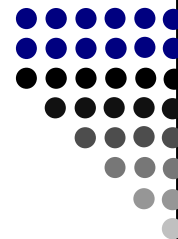


- What issues are driving interest in LTFP?
  - Short-term?
  - Long-term?
- Where are you at in the process right now?
- What do you envision will be different under LTFP?
- What are the major obstacles to your vision?

## Long-Term Financial Planning For Elected Officials



Module 2





## Topics for Today

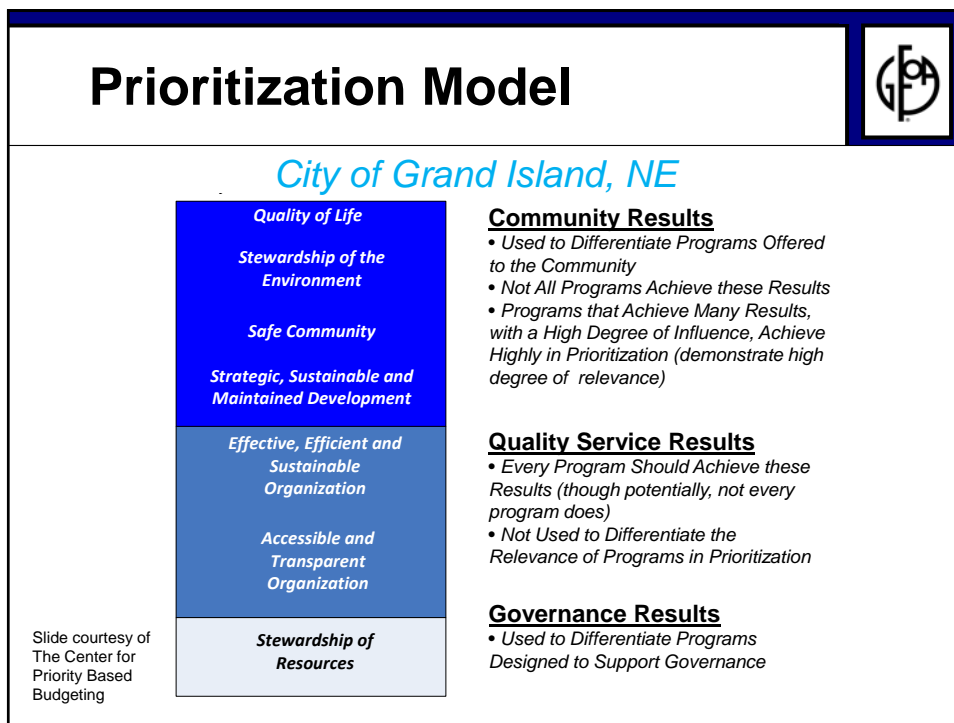
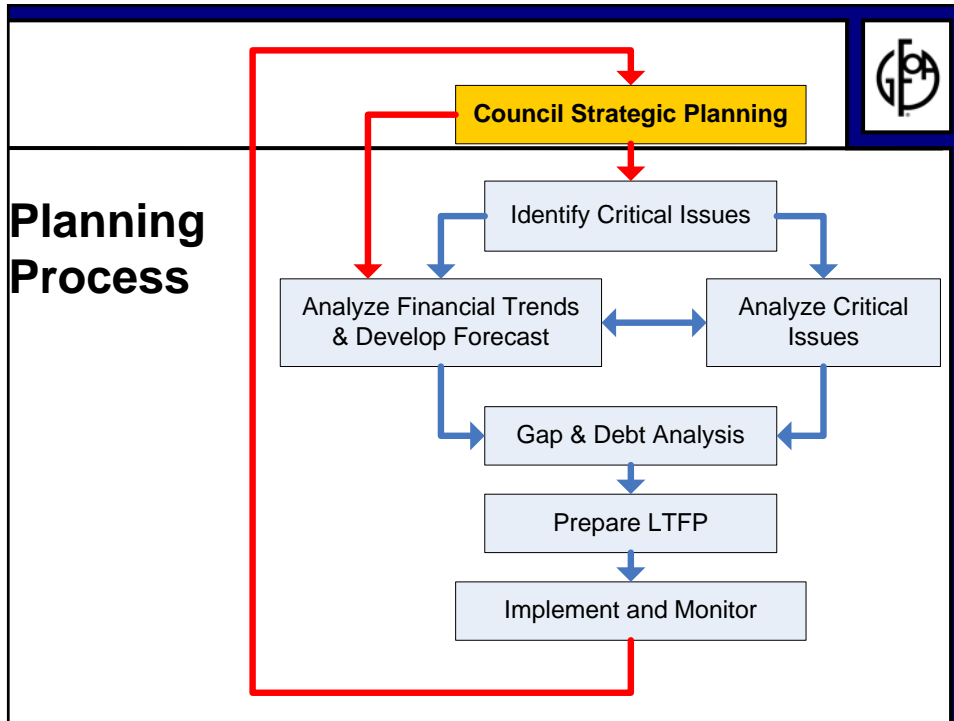
- Review top concepts for elected officials to help them lead their governments towards a better financial future
  - From GFOA's *Elected Officials Guide to Long-Term Financial Planning*
- Describe how to put concepts into practice
- Generate discussion and exchange of ideas



## Concept #1

- ***Elected officials' main contribution to financial planning is a long-term vision and a set of priorities***
  - Is there a strategic plan?
  - Is the strategic plan a precursor to the budget?
  - Does the financial plan account for the costs of the strategic plan?



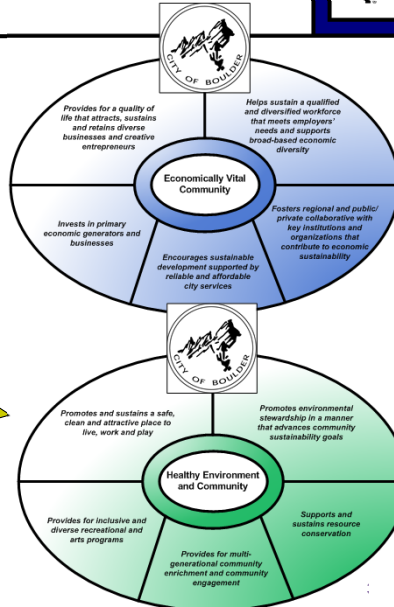
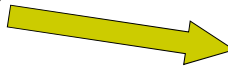
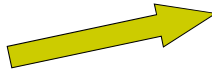


# Clarify Priority Definitions (Result Maps)



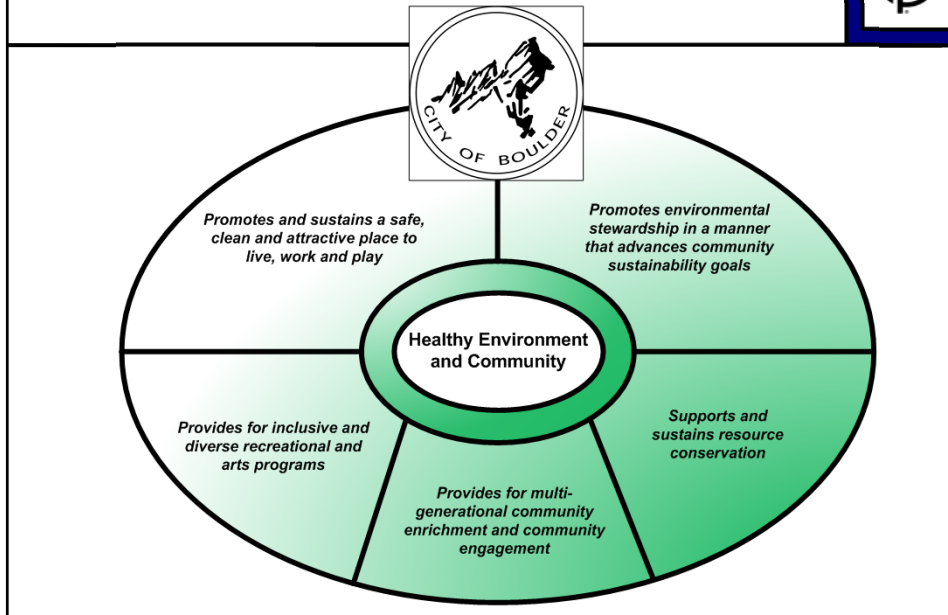
## City of Boulder, CO Results

- ❖ Accessible & Connected Community
- ❖ Economically Vital Community
- ❖ Healthy Environment & Community
- ❖ Inclusive & Socially Thriving Community
- ❖ Safe Community



Slide courtesy of  
The Center for  
Priority Based  
Budgeting

# Close Up of Result Map

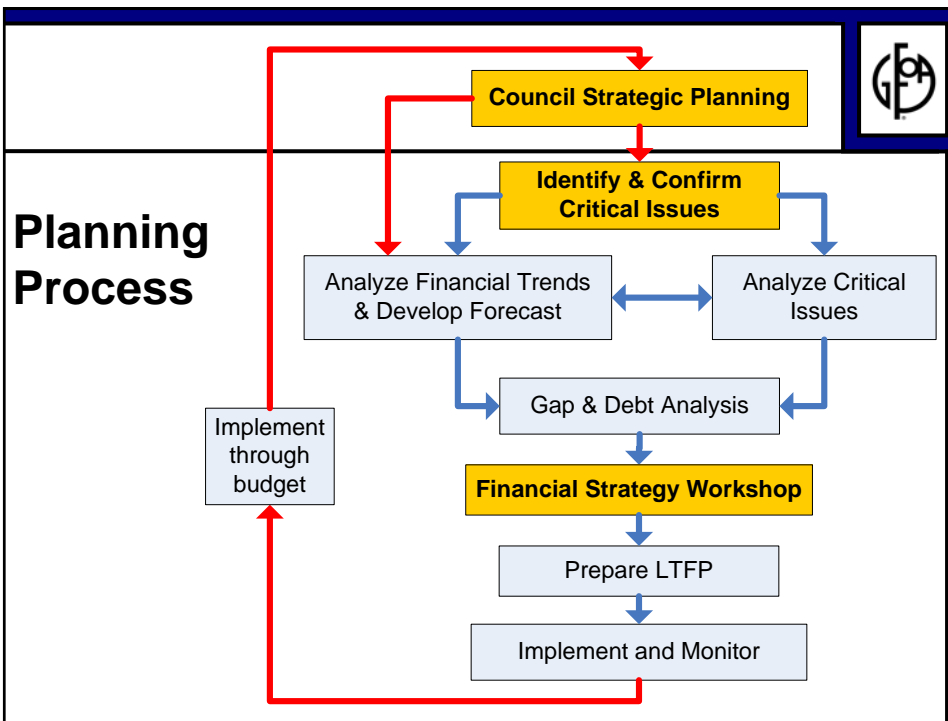


## Concept #2



● ***Financial planning should be central to how the government is governed & managed – not just a one-time event or a staff tool***

- Is our budget process preceded by financial planning?
- How do elected officials provide input on the critical financial issues facing the government?



## Concept #3



- **Elected officials must take leadership, maintain fiscal discipline & stick to the strategies, despite pressure to expand programs, reduce taxes, etc.**
  - Are financial forecasts updated regularly?
  - Do we have a “dashboard” or “scorecard” of key financial operational indicators?

## Toronto Progress Scorecard 2005 to 2011

Major Financial Issues		
Identified in the Long Term Fiscal Plan 2005	Current Status (2011)	Score
<b>Well-managed (Expenditures):</b> <ul style="list-style-type: none"> <li>• City has a higher cost structure for some services than other municipalities in GTA</li> <li>• Demands for growth not adequately funded</li> <li>• Variability in certain program expenditures from year to year, e.g. economic downturns</li> </ul>	Costs “restrained”	✓
	Growths in expenditure and revenue being balanced	⊖
	Social Services & Court Security upload. Restoration of full 50% funding on Ontario Works administration costs	✓
<b>Affordable (Revenues):</b> <ul style="list-style-type: none"> <li>• Business taxes not competitive</li> <li>• Inadequate revenue sources to fund responsibilities</li> <li>• Improper funding of Provincial cost-shared programs</li> </ul>	Improving business competitiveness	✓
	Revenues diversified	⊖
	User Fees enhanced	⊖
	Provincial 50% TTC Operating Funding	✗
	Share of HST	✗
<b>Sustainable (Assets &amp; Liabilities):</b> <ul style="list-style-type: none"> <li>• Investment in ageing infrastructure lagging</li> <li>• Employee benefits and other liabilities not adequately funded</li> </ul>	<ul style="list-style-type: none"> <li>• 10 year capital plan</li> <li>• More than 60% to be spent on State of Good Repair</li> </ul>	✓
	Debt increase mitigated	⊖
	Sick Pay liability partially capped, but some liabilities still growing	⊖

Legend:	
✓ Improving or compares favourably	✗ No progress
⊖ Stabilizing or work in progress	

# Financial Scorecard

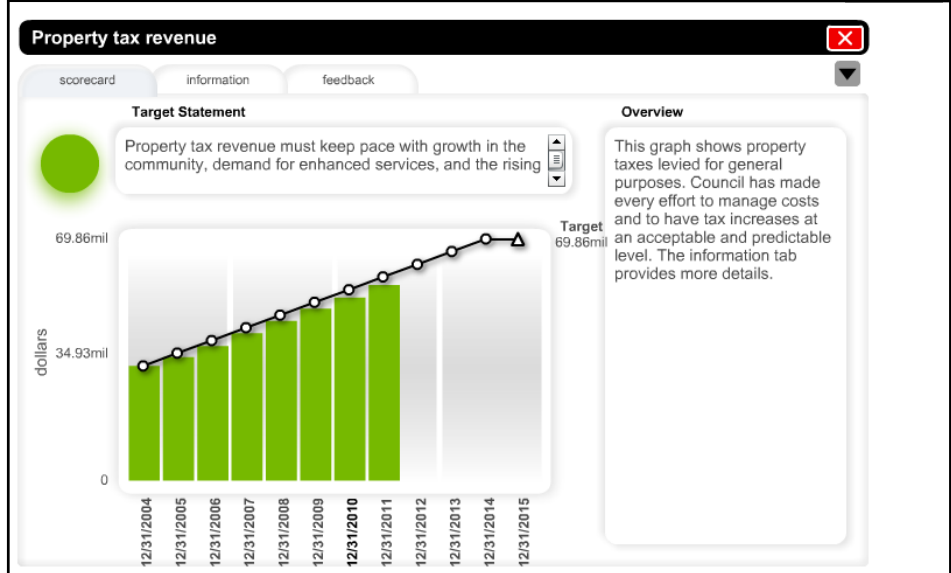


Indicator	08	07	06	05	04	03	02	01	00	99
Revenues Per Capita	F	F/C	F/C	W	W	F	F	F	F	F
Property Tax Revenues	F	F	F	F	F	F	F	F	F	F
Property Values	F	F	F	F	F	F	F	F	F	F
Elastic Revenues	W	F/C	F	F	F	F	F	F	F	F
User Fee Revenues	F	F	F	F	F	F	F	F	F	F
License & Permit Revenues	W	F	F/C	F	F	F	F	F	F	F

# Maple Ridge's SEE-IT



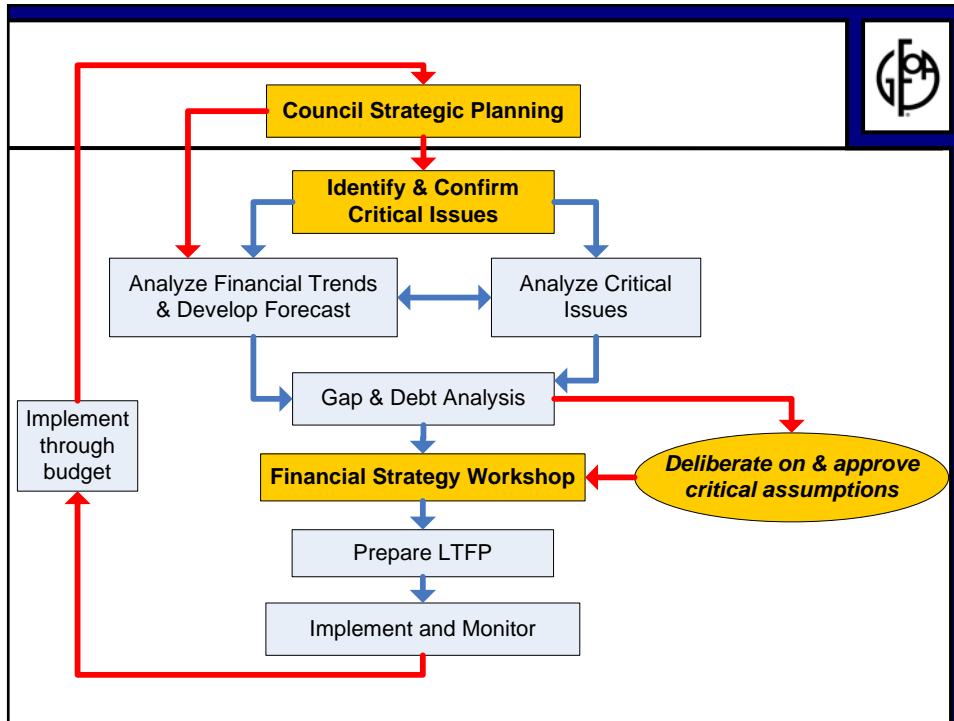
# Property Tax Indicator from Maple Ridge



## Concept #4



- **The link between the financial plan & the budget is crucial – demand that the budget reflect the strategies developed via financial planning**
  - Are critical forecast assumptions transparent?
  - Are these assumptions transferred to the budget process?
  - Do we understand the costs of our strategic service initiatives over a multi-year period and are those costs reflected in the budget?



## Concept #5

- **Elected officials must be able to step back & adopt a strategic mindset**
  - How are elected officials involved in approving financial policies?
  - How are elected officials kept apprised of compliance with the financial policies?
  - Does our financial plan focus on truly “strategic” issues or does it really address more routine, operational issues?

## Top Policies for LTFP



- Reserves
  - How much money do we want to have in reserve?
- Debt
  - What is an affordable level of debt for our community?
- Structural balance
  - What is the definition of “structural balance”?
  - How many years into the future do we want to be balanced?

## Top Policies for LTFP



- Cost Recovery
  - To what extent are we willing to subsidize services with specific beneficiaries?
- Long-term financial planning
  - Are we committed to understanding and acting on the long-term impacts of current decisions?



## Take-Aways

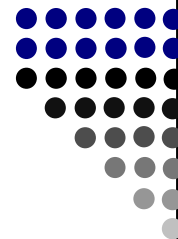


- Elected officials have key role in financial planning. The most important are:
  - Setting a service vision
  - Adopting financial policies
  - Keeping long-term financial sustainability at the forefront through words and action

# Readiness Assessment



## Module 3



## Readiness Assessment



- See the readiness assessment handout:
- Covers
  - Service vision
  - Elected official awareness of LTFP
  - Chief executive officer
  - Financial policies
  - Forecasting
  - Leadership credibility
- Quick review of these topics on the next slide

## Prioritization Model



### City of Grand Island, NE

Quality of Life
Stewardship of the Environment
Safe Community
Strategic, Sustainable and Maintained Development
Effective, Efficient and Sustainable Organization
Accessible and Transparent Organization
Stewardship of Resources

#### **Community Results**

- Used to Differentiate Programs Offered to the Community
- Not All Programs Achieve these Results
- Programs that Achieve Many Results, with a High Degree of Influence, Achieve Highly in Prioritization (demonstrate high degree of relevance)

#### **Quality Service Results**

- Every Program Should Achieve these Results (though potentially, not every program does)
- Not Used to Differentiate the Relevance of Programs in Prioritization

#### **Governance Results**

- Used to Differentiate Programs Designed to Support Governance

## Advantages of LTFP for Elected Officials



- **Identify problems**
  - Identify financial problems before they hit the headlines.
- **Solve problems**
  - Financial planning helps find solutions to financial challenges, very often before drastic (and painful) action is required.
- **Setting goals, meeting goals**
  - Financial planning aligns financial capacity with service goals
- **Policy**
  - Long-term financial planning is good governance
- **Constituent communication**
  - Help elected officials describe to citizens how they are providing good stewardship over the citizens' taxes

## Advantages of LTFP for CEOs



- Improved organizational management
- Ensuring stability
- Better budgeting process
- More strategic relationship with the CFO

## Top Policies for LTFP



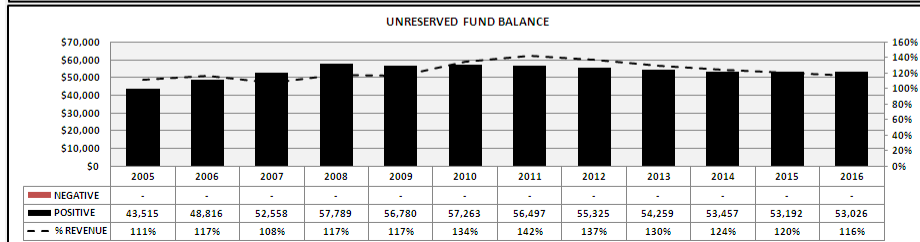
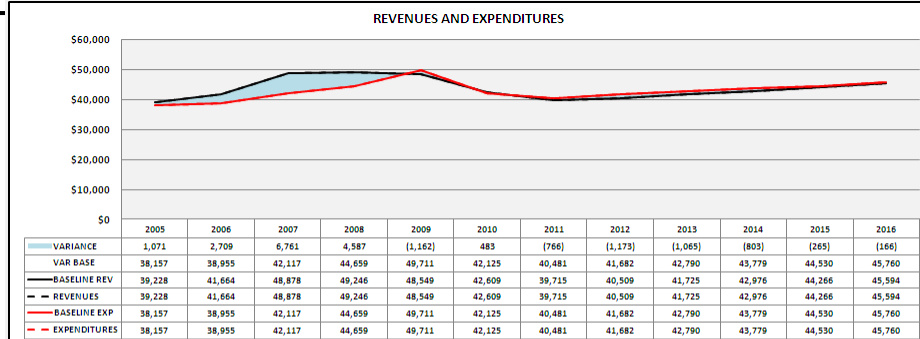
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# Forecasting Model



## About Leadership Credibility



- Leadership credibility is...
  - ...being believed & trusted by others
- Why it is important
  - If people don't believe in the messenger, they won't believe the message
- Credibility takes time to build, but can be lost in an instant

## How to Build Credibility



- Articulate a vision
  - Describe the better future you are striving towards
- Be consistent in words and behaviors
  - “Walk the talk”
- Be flexible
  - Don’t doggedly stick to a direction that isn’t working

## How to Build Credibility



- Be honest...
  - ...to the extent it is possible
- Give the personal touch
  - Be responsive to concerns
- Demonstrate expertise
  - Showing substantive expertise in the issues at hand gives followers confidence

## How to Build Credibility



- **Trust followers**
  - Empower others to act
- **Encourage followers**
  - Recognize successes & give credit where it is due.

## Discussion



- Let's spend some time reviewing the readiness assessment
  - Where do you stand today?
  - How might this impact your approach to LTFP?
  - What are your next steps?



PHOTO: JEFF BELMONTE

## Gaining Commitment to a Long-term Financial Plan

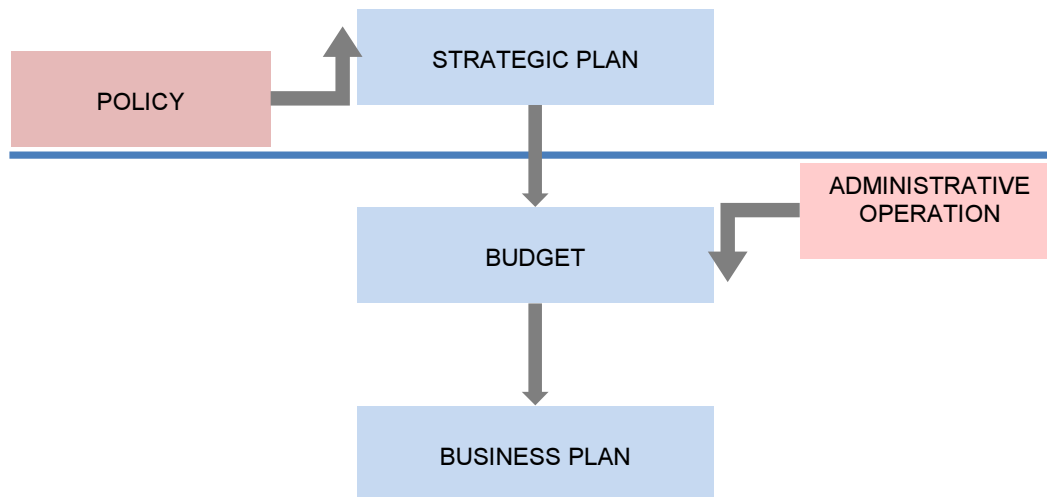
BY SHAYNE KAVANAGH, GFOA

Long-term financial planning is an established best practice in public management<sup>1</sup> and is a leading interest of finance officers across North America.<sup>2</sup> A long-term financial plan is a collaborative and visionary exercise in which technical analysis, such as long-term forecasting, debt capacity analysis, and capital improvement planning, are used to reveal potential future imbalances in the financial

position. Then, strategies to mitigate these imbalances (or to take advantage of opportunities) are developed in concert by elected officials and managers. Of all the components of a long-term financial planning process, gaining support for long-term financial strategies has proven challenging for many public managers. These long-term strategies might entail short-term sacrifice or at least de-



FIGURE 1 Relationship between budget, business plan, and strategic plan



layed gratification. They also require consistent commitment over a multi-year period. These characteristics are at odds with the prevailing political environment found within many local governments. This doesn't mean that long-term financial planning is impossible, just that public managers will need to employ what the noted thinker on public management, Mark Moore, calls "political management."

### I. POLITICAL MANAGEMENT

Political Management is about building a climate of tolerance, ongoing support, or active cooperation for a manager, policy, or overall strategy among those outside the scope of a manager's direct authority. The authorization or operational assistance of those outside the manager's direct authority is needed to fulfill the public purposes for which the manager will be held accountable.<sup>3</sup> Moore describes three main approaches to political management:<sup>4</sup>

- **ENTREPRENEURIAL ADVOCACY:** The manager focuses on getting the right people to authoritatively back a policy or strategy.
- **NEGOTIATION:** The manager identifies a preferred policy and then negotiates with relevant centers of power to gain an outcome, as that is as close as possible to the manager's preferred position.
- **MANAGING POLICY DEVELOPMENT:** Rather than concentrating on getting a particular policy approved, the manager concentrates on developing a system that produces good policy decisions, either on a single issue or on an on-going basis.

This article will focus on the last of these approaches, managing policy development, because it aligns most closely with the practice of creating a strong long-term financial planning process, which is the goal of public finance officers. In order to gain initial acceptance of a strategy and on-going support for its implementation, a strategy development process, and the strategy that results from it, must have two key features: "democratic legitimacy" and "substantive legitimacy."<sup>5</sup> Democratic legitimacy is the extent to which a strategy or process is perceived to reflect the will of the community. Substantive legitimacy is the extent to which the strategy or process incorporates relevant expertise. The rest of this article is devoted to how public managers can impart democratic and

substantive legitimacy to a strategy development process. These concepts are illustrated using the experiences of local governments from Canada and the United States that have successfully advanced strategies for long-term financial health in their own organizations.

### II. DEMOCRATIC LEGITIMACY

Achieving democratic legitimacy requires a process of democratic deliberation and consultation on the issues at hand and the strategies to address those issues.

Elected officials are the representatives of the public, so the democratic legitimacy of any planning process starts with them. There are many ways to compel elected officials to be more engaged. Foremost is to base the long-term financial plan on a strategic plan. The strategic plan describes elected officials' vision and service objectives for the community. To the extent that the financial plan is perceived as elemental to operationalizing the strategic plan, the financial plan will receive greater support from elected officials. Figure 1 shows how this concept works in the District of Maple Ridge, British Columbia, and the City of Coral Springs, Florida. The strategic plan is regarded as primarily the jurisdiction of the elected officials (though senior staff are heavily involved in its development), while the business plan (which includes the long-term financial plan) and budget are used by staff to translate the Council's priorities into action. This linkage gives elected officials confidence that the staff's operational plans are reflective of their broader vision for the community. The elements of long-term financial planning (forecasts, financial strategies, etc.) are built into the business plan to ensure that the strategic plan and budget are financially sustainable.

Another useful tactic for engaging elected officials is to tie a specific revenue strategy to a valued service initiative. This increases acceptance of a revenue initially and helps maintain it over time. Maple Ridge adopted a one percent tax increase to pay for infrastructure maintenance. Linking the increase directly to a valued community objective legitimized the tax.

Beyond engaging elected officials, democratic legitimacy is greatly enhanced by engaging the general public. Many elected of-

officials are more comfortable with committing to a strategy if they know that it was developed through a process of broader democratic deliberation. Further, this process of deliberation should produce a strategy that is more acceptable to the community and may even help public officials find citizens who are willing to help implement the strategy. This latter point is particularly important, because convincing people to agree that a strategy is a good idea is one thing, obtaining active support for the strategy when the implementation runs into snags (which it almost inevitably will) is quite another.<sup>6</sup>

Managers should use a variety of tools to gain representative input from the public, while working with elected officials to understand the issues for which they support gathering public input. Surveys, community meetings, and focus groups are common ways to engage the public in the planning process. Using more than one method helps to obtain input from different segments of the community. This kind of representativeness is important because input that is not representative will skew the findings, harming substantive legitimacy, and will not be seen as democratically legitimate.

#### CIRCLES OF STAKEHOLDERS

When developing their long-term financial plan, the First 5 Alameda County Commission in California, comprising nine volunteer members, thought in terms of different circles of stakeholders to engage. First, people and organizations directly involved in or impacted by the agency's programs.

Second, funders and oversight authorities. Finally, private sector firms, other government agencies, or other actors that can influence the success of a financial strategy. Planners should consider the stakes all these groups have in a strategy and how to engage them.

For example, consider the case of a public hearing for a new community recreation center. If the group of citizens is self-selecting (as is usually the case at an open public hearing), the citizens attending are likely those with a high level of interest in the issue (e.g., those that would like to have a premium community center). They do not really represent the average voter, who might prefer a more modest center and lower taxes. In such a case, the public input will not have true democratic legitimacy and public engagement may be discredited both from the standpoint of decision-makers ("citizens don't know enough to participate effectively") and citizens ("city hall doesn't listen"). Try to work towards reasonably representative participation, be it through random sampling for surveys or actively recruiting diverse view points to be included in community forums.

While the points made so far apply broadly to citizen engagement for any public purpose, it is important that democratic deliberations for financial planning, in particular, include issues of technical feasibility (financial or otherwise) as part of the deliberation, lest the deliberation become a "wish list" conversation. Here are a few examples of public engagement techniques used by the local



# What happens if we...

- ...borrow?
- ...use reserves?
- ...raise taxes?

## CITYWIDE CAPITAL PLANNING & ANALYSIS

*From Unlimited Choices to Informed Solutions*



**CONTACT:**  
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governments who participated in our research that are particularly relevant to financial planning:

- CITIZEN VALUE RATING:** Community surveys are a good way to obtain a broad overview of citizen opinion about the community and the local government. A survey can provide a perspective on finances by asking citizens their opinion on the value they receive for a tax dollar spent on their local government.
- BUDGET GAME:** A budget “game” challenges citizens to allocate a hypothetical pool of limited resources among a portfolio of valuable services. Such an exercise gives citizens a better appreciation of the difficult choices that public officials must make. The City of Toronto featured such an exercise in its 2004 City Budget Community Workbook, which is available at [www.toronto.ca/budget2004](http://www.toronto.ca/budget2004).
- COMMUNITY CO-PRODUCTION:** Community groups are great potential participants in a planning process because they represent a constituency with a well defined interest in an issue. As such, they are rich potential sources of partners to help implement strategies that come out of the planning process. Coral Springs, for example, has held community visioning summits in which they invited community groups not just to engage in “blue sky” visioning, but also to make practical commitments to how they could help make this vision a reality. The District of Maple Ridge funds community groups to help implement the Council’s strategic priorities. Those groups that receive funding from the District are expected to participate fully in the District’s business planning process to ensure that value is received from the District’s investment.

- VOLUNTEER PROGRAMS:** Citizen volunteers who work in staff capacities (e.g., recreation assistants, teacher assistants, citizen police patrols) can be engaged. For example, in Coral Springs, as part of their orientation, citizen volunteers are educated on the city’s financial planning model, the plan’s consistency with best practices, and the volunteers’ role in helping the city achieve financial sustainability. These civic-minded individuals are likely to speak with their friends and neighbors about their experiences. This type of approach can help build a grass-roots expectation for a long-term, strategic approach to the financial issues faced by local government.

Finally, for democratic legitimacy, it is important to follow a well designed process that respects relevant laws and that provides for a clear point of closure. The former point is fairly obvious: if the strategy development process does not respect relevant laws like open meetings acts, it will not be seen as legitimate. The latter point may be less obvious, however. Strategies, by necessity, are often implied in abstract terms in order to appeal to a broad audience and to allow for sufficient latitude to respond to changing conditions during implementation. As such, there is often no intuitive point at which strategy development is definitively complete. Therefore, the process should provide for an official point of closure. This can be accomplished by forming an “evaluation committee” comprising individuals of sufficient authority to review, provide meaningful feedback on, and approve strategies suggested by the participants in the process. The evaluation committee should be presented with clear recommendations by the participants at defined points during the planning process. The committee then should evaluate and prioritize the recommendations using a structured approach, which would then lead to a formal adoption of the strategies by the governing board at a public meeting. In most cases, there should be at least some overlap in membership be-

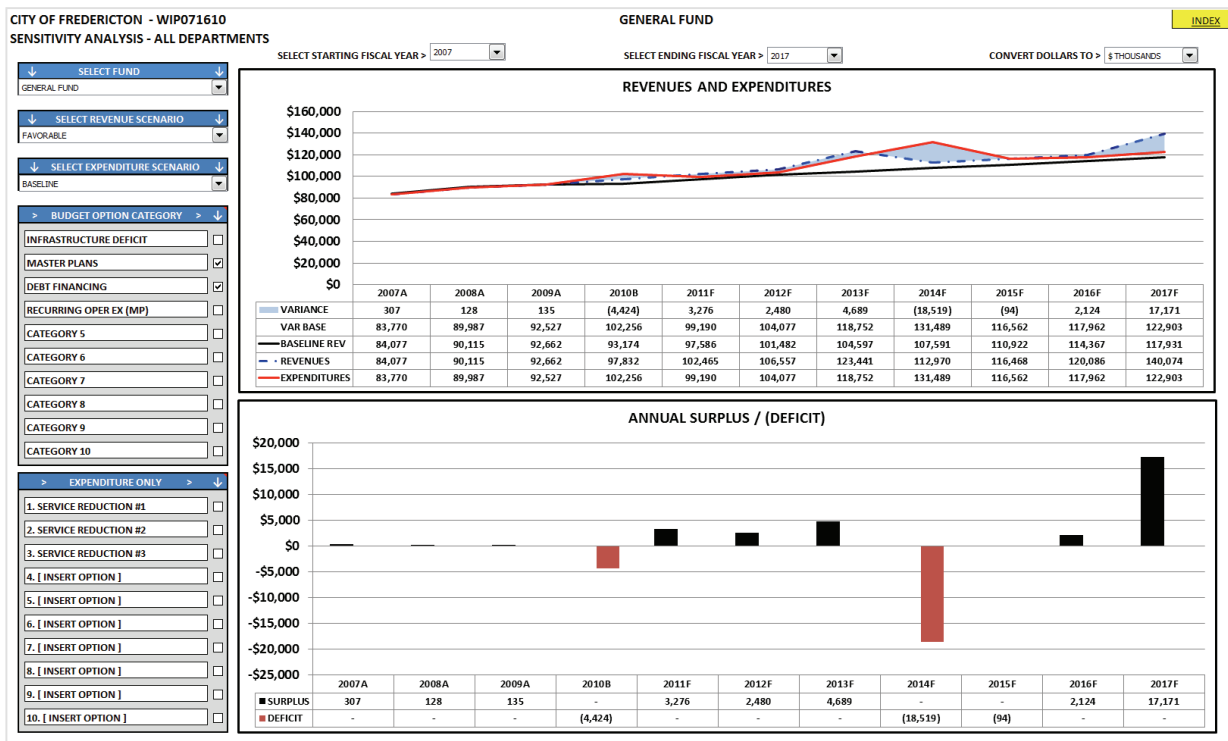


FIGURE 2 Financial Model, City of Fredericton, New Brunswick

tween the evaluation committee and the governing board so that the governing board is not being asked to approve strategies it had no part in evaluating.

### III. SUBSTANTIVE LEGITIMACY

Substantive legitimacy comes from pulling relevant expertise into the decision. Substantive legitimacy therefore starts with the staff, who must lead the way on using relevant data to inform decision-making. In financial planning, the foundation is an analysis of the financial and economic environment. This analysis helps decision-makers understand salient demographic trends, economic indicators, and metrics of the organization's financial position. Just as importantly, it demonstrates that the staff has their arms around this issue. In Maple Ridge, decision-makers were provided data about infrastructure value, lifecycle, and replacement costs to help make the decision on the District's asset maintenance strategy.

Also important is a good financial model that depicts a long-term forecast. The model should also show the impact of different strategic options on the forecast, which helps decision-makers better consider the principle alternatives available and their likely consequences. Figure 2 shows an example of a financial model that incorporates these characteristics from the City of Fredericton, New Brunswick.

Of course, staff must perform due diligence on the strategies presented to the governing board. GFOA typically recommends that small staff teams analyze the issues under study in the long-term financial plan and recommend strategies. These staff teams must back their recommendations with salient information such as the experience of other governments, practices from private sector organizations, and feasibility studies specific to the staff's recommended course of action.

Staff also can bolster substantive legitimacy in the way they present strategies. Presenting a menu of strategies gives decision-makers more confidence, and a better sense of ownership over the final choice. However, a menu should not be too expansive due to the "paradox of choice": too many choices actually lowers satisfaction<sup>7</sup> with the process because decision-makers come to feel overwhelmed. Staff should use their expertise to reduce the menu to just the best alternatives. Staff should also provide their evaluation of the options, perhaps using a consistent set of criteria across the options, such as those suggested below. A numerical or color-coded rating system often helps decision-makers more readily absorb the evaluation.

- **NET BENEFIT:** Total benefit (usually in financial terms) less cost to implement.
- **DIFFICULTY:** Challenge associated with implementation.
- **TIME TO BENEFIT:** How rapidly the net benefit can be obtained.

Also, when evaluating financial strategies for decision-makers, the finance officer should represent the impact of the strategy on the stakeholders and the governing body. If a strategy has a different impact on one or more stakeholder groups, they need to be consulted and, to the extent possible, brought on board before the governing body makes its final decision. For instance, the City of Toronto decided that one of its strategic directions was for busi-

nesses to be more competitively positioned. To do this, it decided to change the relative contribution of residential versus commercial property taxes so that the commercial taxpayers were paying less over all. In advance of this change, meetings were held throughout the municipality to hear from interested parties concerning all aspects of the proposed change. Staff then incorporated the feedback into recommendations to City Council.

The finance officer should also demonstrate that the financial strategies are consistent with the board's formally adopted financial policies. This shows respect for precedent and responsiveness to the accumulated decisions of the board with regards to how it defines its financial stewardship over the organization. The finance officer is not the only source of substantive legitimacy. External actors, such as a commission of influential citizens or an external consultant, can impart substantive legitimacy to a strategy or process. The City of Toronto used the Conference Board of Canada to assess the City's financial and economic environment and reinforce the point that significant changes would need to be made in Toronto's authorizing environment in order for the City to be fiscally sustainable. The independent report enhanced the credibility of the City's argument and validated its strategies. Toronto also convened an Independent Fiscal Review Panel of leading citizens to review the City's efforts to improve its performance over the past three to four years and make recommendations on areas that may offer additional savings. The City has already implemented some of the Panel's recommendations and is pursuing a number of others.

Non-financial staff can help also. A finance director who was encouraging his governing board to adopt the town's first formal policy on general fund reserves enlisted the chief of police to explain to the board that a healthy reserve was essential to allow the town to respond quickly and decisively to natural disasters. In another example, the director of public works at Maple Ridge showed photographs of road conditions at public meetings to illustrate the positive impact the District's asset maintenance plan was having.

Gaining solid support for long-term financial strategies is one of the most challenging parts of a long-term financial planning process. By being mindful of democratic and substantive legitimacy, the finance officer can develop a system that produces strategies that decision-makers can support.

**SHAYNE KAVANAGH** is the Senior Manager of Research for GFOA. Shayne has been developing the practice and technique of long-term financial planning for local government since he started GFOA's long-term financial planning consulting offering in 2002 and has been working with local governments on financial planning ever since. He is currently working with a number of local governments including: the City of Hamilton, Ontario; Wayne County, Michigan; and Adams County, Pennsylvania. He is also the author of the book *Financing the Future: Long-Term Financial Planning for Local Governments*.

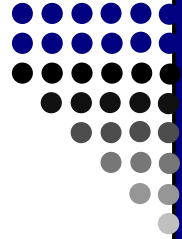


Shayne would like to acknowledge the kind participation of the following interviewees: Dan Altman, City of Toronto; Ruby Chui, City of Toronto; Trevor Thompson, District of Maple Ridge; Rebecca Gebhart, Alameda County; and Tina Tapley, City of Fredericton.

# The Long-Term Financial Planning Process



## Module 4



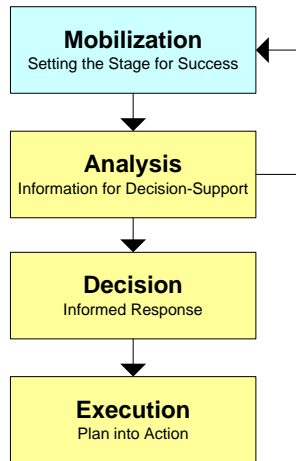
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## Topics



- Conceptual Process
- Review of Actual Processes

## Conceptual Process



## Mobilization Phase



- **Align Resources**
  - Identify participants
  - Design a process
- **Preliminary Analysis**
  - Initial SWOT analysis
  - Other analyses, like forecasts



## Mobilization Phase

- Service level preferences
  - Strategic priorities and objectives
- Financial policies
  - Self-assess compliance with policies
  - Identify new policies
- Define purpose and scope
  - Consensus on problems planning is to solve
  - Limit scope of planning to those issues



## Example of Policy Self-Assessment

Policy Statement	Status	Comment
<b>Utility Rates &amp; Fees.</b> The City will set fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation and overhead charges.	✓	An annual review of the utility rates was completed.
<b>Accounting.</b> Maintain a liquidity ratio of at least 1:1	✓	
<b>Reserves.</b> The City will establish a Golf Course Improvement Reserve for costs associated with capital improvements budgeted in the Golf Course Fund. The reserve will be maintained at a level at least equal to the projected five-year costs.	--	Reserve = (\$510,000) for FY 2005-06

## Coral Springs Strategic Priorities



- Customer-involved government
- Financial health & economic development
- Excellence in education
- Neighborhood and environmental vitality
- Youth development & family values
- Strength in diversity
- Traffic, mobility, and connectivity

## Customer-involved government



- Directional statements
  - Encourage citizens to volunteer
  - Promote voter turnout
  - Diversify methods of communicating with citizens
  - Increase contact with community businesses
- Key intended outcomes
  - Number of citizen volunteer hours
  - Percentage voter turnout
  - Survey results



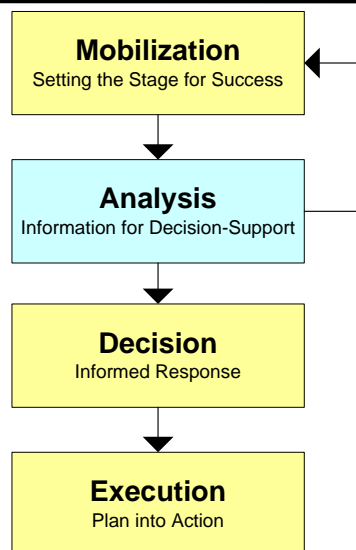


## Mobilization Phase Take-Aways

- Preparation is key to financial planning.
- A clear “roadmap” increases confidence in the planning process
- Financial policies are crucial
- Mobilization must identify service priorities
- There must be consensus on the purpose of planning



## Conceptual Process

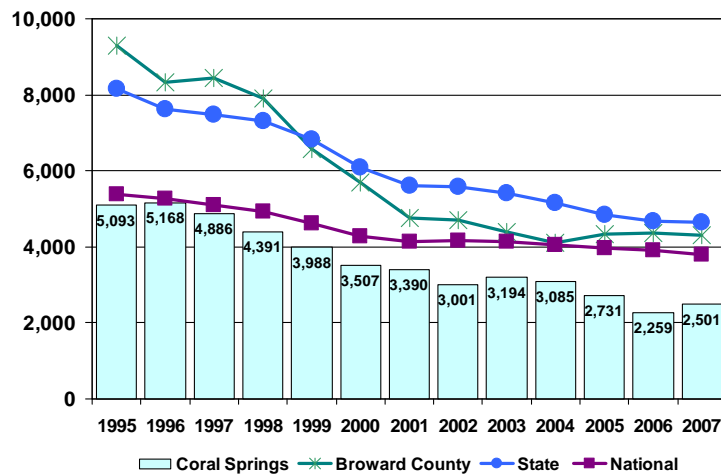


# Analysis Phase



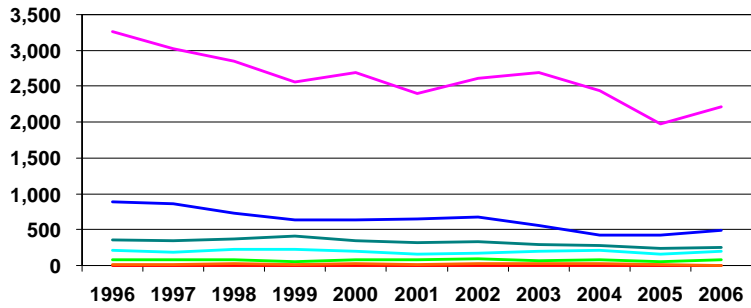
- Environmental Analysis
  - Objective and subjective sources
  - Build expertise for analysis & strategizing
  - Examine variety of factors, not just financial
    - Population
    - Land use
    - Business activity
    - Housing trends
    - Legal
    - Crime rates

# Crime Rate



Good

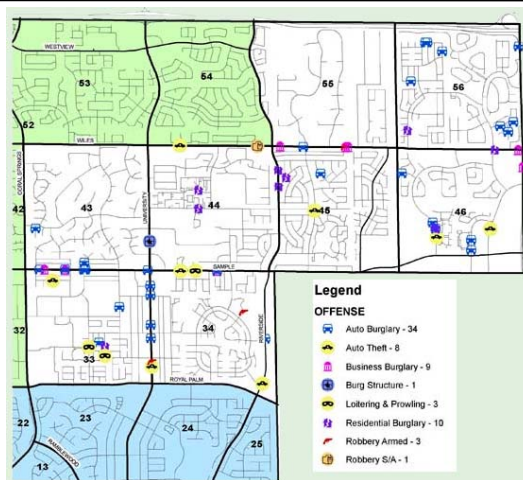
# Drill Down...



Good

- Murder
- Robbery
- Burglaries
- Motor Vehicle Theft
- Forcible Rape
- Aggravated Assault
- Larceny

# ...and Down



## Analysis Phase



- Revenue and Expenditure Forecasting
  - 5 to 10 year forecasts are typical
  - Hybrid techniques are the most common & powerful

## Analysis Phase

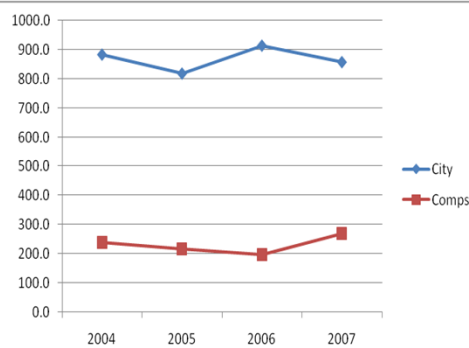


- Debt Analysis
  - Analyze impact of current obligations
  - Examine capacity for future indebtedness
  - Community ability-to-pay vs. budgetary-impact
  - Use ratios and other statistics
    - For more info see GFOA's "Best Practice: Debt Management Policy" at [www.gfoa.org](http://www.gfoa.org)

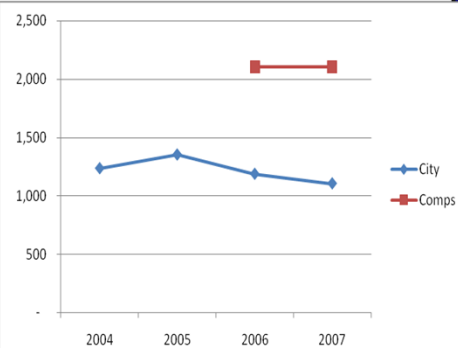
## Debt Analysis



Own debt per capita



Overlapping debt



## Analysis Phase

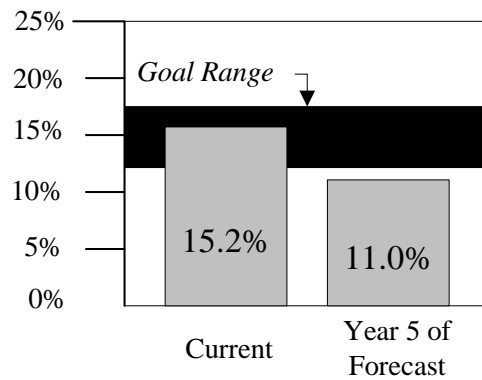


- Financial Balance Analysis
  - Consider all different types of imbalances
- Data visualization helps communicate imbalances

## Reserves



Unreserved Fund Balance as a % of Annual Operating Expenditures



Goal: 12.5% - 17.5%

## 5 x 5 Table



	<i>This Year</i>	<i>Next Year</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
Starting Balance	\$100 million	\$100 million	(\$1.1 billion)	(\$2.8 billion)	(\$6.4 billion)
Revenues	\$18 billion	\$19.8 billion	\$21.8 billion	\$23.9 billion	\$26.2 billion
Expenses	\$18 billion	\$21 billion	\$23.5 billion	\$27.5 billion	\$31 billion
Surplus/(Deficit)	\$0	(\$1.2 billion)	(\$1.7 billion)	(\$3.6 billion)	(\$4.8 billion)
Ending Balance	\$100 million	(\$1.1 billion)	(\$2.8 billion)	(\$6.4 billion)	(\$11.2 billion)

Taken from *The Price of Government* by Osborne and Hutchinson

# Rate Analysis

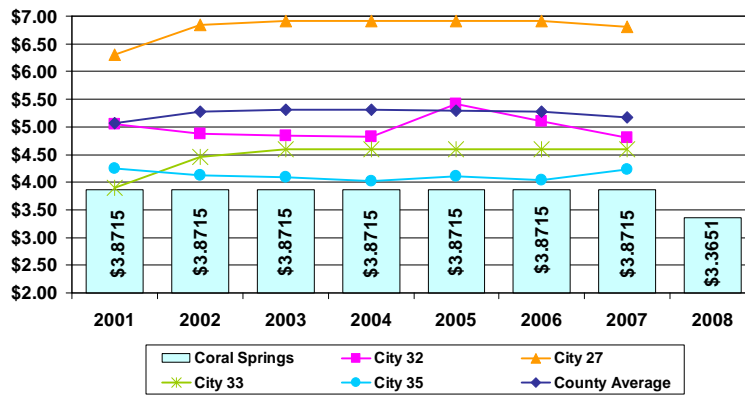


Customer Type	2010 Monthly Bill	2020 Monthly Bill
Single Family Residential	\$14	\$50
Apartment Building (100 Units)	\$864	\$2,999
Restaurant	\$314	\$1,091
Office Building	\$715	\$2,481
Health Club	\$1,222	\$4,243
Medium Hotel	\$1,609	\$5,586
Hospital	\$22,706	\$78,852

# Getting the Right Tax Rate/Service Level Mix



Operating Millage Rate



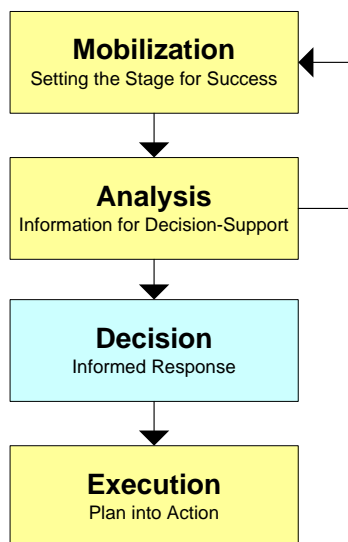
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## Analysis Phase Take-Aways



- Environmental analysis is the foundation of planning – invest in it!
- Hybrid techniques are the most effective
- Debt analysis varies in importance with local circumstances
- Consider multiple types of imbalances
- Develop effective presentation techniques

## Conceptual Process





## Decision Phase



- **Develop Financial Strategies**
  - Match strategy development approach to size of imbalance
  - Find the right mix of strategies
  - Correct decision-making processes that led to imbalance
- **Plan Conclusion and Transition to Action**
  - Design a clear culminating event
  - A public meeting to approve the plan is common
  - Gain formal commitment to financial strategies

## Strategy Development Approach – Get Ready



- **As a result of Analysis Phase, identify potential “critical issues”**
  - Data analysis
  - Interview critical stakeholders
  - Citizen engagement
- **Prioritize critical issues**
  - Board level
  - Consider strategic questions

## Example of Critical Issues



- A. Cost Control
  - Potential process efficiencies, personnel practices, and how costs are allocated
- B. Economic Development
  - Improve the tax base by looking at land use, infrastructure, new industries, & new engines of growth
- C. Deficit Spending & Budget Accountability
  - A budget that all parties agree to & support

## A. Cost Control Strategic Questions



1. Which specific cost control ideas to pursue?
2. How to assign accountability for cost control objectives?
  1. How do you measure cost control accountability?
3. How do you factor in costs that aren't under our control?
4. How can we use technology to control costs?
5. How do you reward departments that engage in cost control behavior?

## Strategy Development - Teams



- Form team structure for strategizing
- Implementation advisory teams (IATs)
  - Cross functional
  - Recommend strategies
  - Facilitate implementation
- Steering committee
  - Comprised of elected and/or appointed leaders
  - Coordinate project
  - Coordinate strategy

## IAT Develops Strategies 6 Steps to Strategy Development



- Diagnose the underlying causes of the critical issue
- Identify practical alternatives for resolving the strategic issue.
- List the barriers to achieving the alternatives.
- Develop proposals for achieving the alternatives
- Identify major actions for the next two or three years
- Develop an action/work plan for the next six to twelve months

## Strategy Development Workshop



- Joint workshop with IATs and Board
- IATs present recommended strategies
  - Could be a menu of options
  - Important to have some suggested direction
- Board provides feedback enabling the IATs to develop detailed plans and budgets

## Strategy Evaluation Criteria



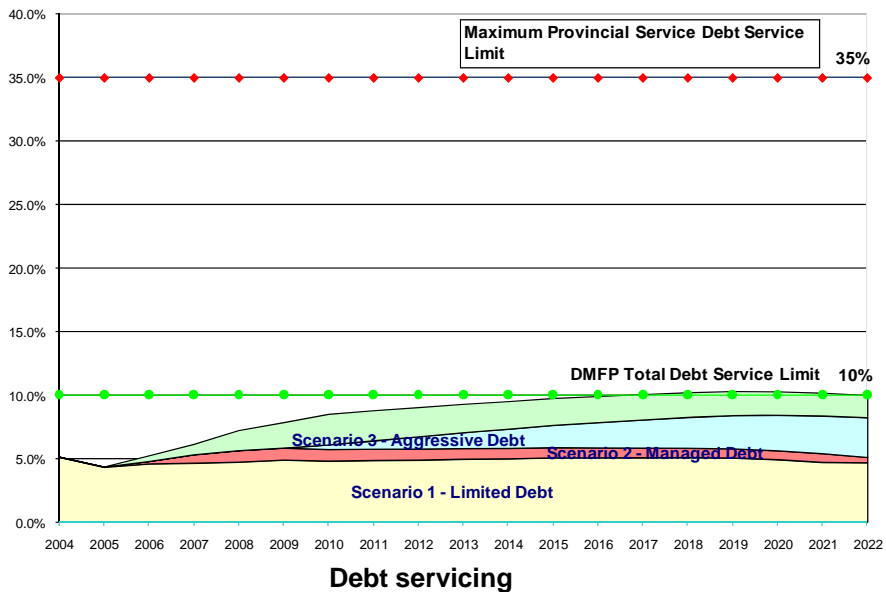
- Net Benefit
  - What is the net monetary impact?
- Difficulty
  - How hard will this strategy be to achieve?
- Time to benefit
  - How long will it take to get the benefits?
- Overall priority
  - What is staff's overall recommendation given the above?

# Edmonton's Debt Scenarios



- Scenario One, Limited Debt - \$150 million of additional tax supported borrowing over three years (status quo)
- Scenario Two, Managed Debt - as above with tax-supported borrowing continuing at \$50 million annually; no stop date subject to interest rates
- Scenario Three, Aggressive Debt - Scenario Two, plus borrowing to fund light rail

## City's Debt Servicing Costs - 3 Scenarios



## Action Plans



- Action plans define...
  - Action Items
  - Key deliverables or milestones
  - Deliverable/milestone due dates
  - Accountable individuals
  - Quick wins
    - Find and use dept success stories

## Developing Action Plans



- First, think about the *five steps...*
- ...and develop details
- Consider the following:
  - Testing potentially controversial or new products with others
  - Accessing outside experts as a special resource
  - Contacting others for their experience
  - Training others on new ideas
  - Parallel, linear, and para-linear tasks
  - Prioritize competing issues

## Actions Plans Reflected in Budget



- Consider means to build into budget
  - Special fund?
  - Decision-packages?
  - Special project?
  - Business plan?
- Also, use this opportunity to hold your culminating event for planning

## Coral Springs Business Plan



- **Translates the Strategic Plan into action**
- Develop initiatives to support Strategic Priorities
- All resources are allocated within the Business Plan
- Financial strategy aligns short-term objectives with long-term financial health
- Performance monitored via review of KIOs and process-level performance measures
- Focuses budget decisions on strategic priorities instead of line items

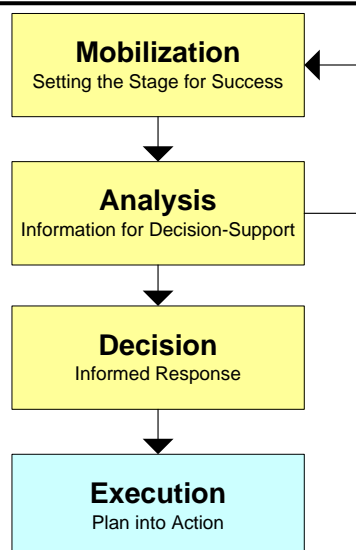


## Decision Phase Take-Aways



- The means by which strategies are developed is as important as the strategies themselves
- Redressing a fiscal imbalance almost always requires a change to decision-making processes
- A culminating event is a mandatory part of the planning process

## Conceptual Process







## Execution Phase

- Executing the Plan
  - The budget is the most important execution tool
  - *Participant commitment* is also crucial
- Monitoring
  - Updates
  - Scorecards
- Continue Team work
  - Transition IATs to facilitating implementation
  - Keep people involved



## Budget Assumptions

- |  |
|--|
| <ul style="list-style-type: none"><li>• Personnel contracts at rate of CPI (3.5%) plus benefits (6.0%)</li></ul>   |
| <ul style="list-style-type: none"><li>• Non-Personnel inflation at CPI (2.3%)</li></ul>  |
| <ul style="list-style-type: none"><li>• Rate increases for fees at CPI (2.3%)</li></ul>  |
| <ul style="list-style-type: none"><li>• Volume increase for fees at projected rate of Fire Rescue (5.0%) and Emergency Medical billings (2.5%)</li></ul> |

## Coral Springs Financial Health & Economic Development



- On-going initiatives
  - Communications center
  - Downtown zoning district
- New initiatives
  - Wastewater disposal feasibility study
  - Sewer lift station study
  - Business sustainability

## Coral Springs Key Intended Outcomes – Finance & Econ Dev



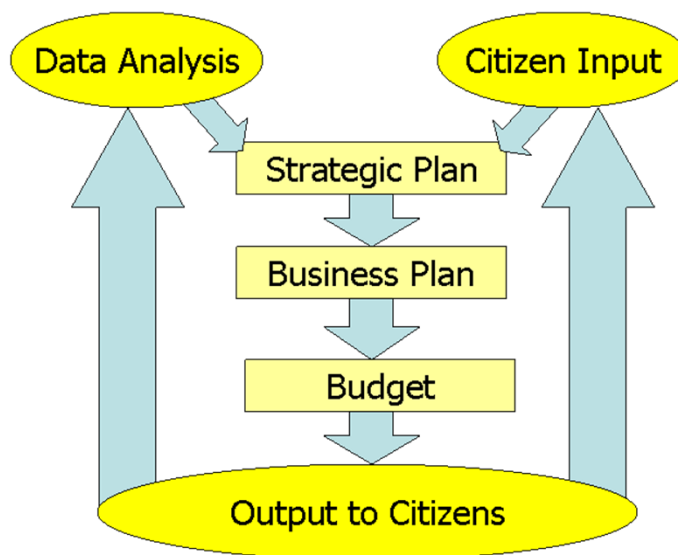
Key Intended Outcomes	Goal	Goal	Goal
	FY 2007	FY 2008	FY 2009
Bond Ratings	AAA	AAA	AAA
Residents' value rating (Resident Survey)	73%	72%	72%
Add a minimum of \$2 M annually to the City's financial reserves until a goal of 17% of budgeted expenditures is reached	17%	17%	17%
Commercial square footage development initiated within the Downtown CRA	*	*	400,000
Percent plan reviews completed within 15 days	95%	95%	95%
Non-residential value as percent of total taxable value	20%	20%	20%
Percentage increase in operating millage rate	0%	0%	0%

## Keys to Business Plan Success



- Democratic legitimacy
  - Substantial input from elected officials
    - Based on their strategic plan
  - Engages the community
    - Surveys, meetings, volunteers
- Substantive legitimacy
  - Data driven decision making
  - High quality & participative analysis
  - Outside validation
  - All departments closely involved

## Summary of a few key ideas



## Execution Phase Take-Aways

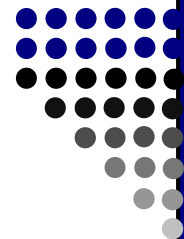


- The budget and LTFP must be linked
- *Participant commitment* is crucial for execution
- Develop on-going monitoring mechanisms to keep the plan at the forefront

## Review of Actual Processes



The Case of San Clemente





## San Clemente

- Located at southern end of Orange County, California
- About 70,000 people
  - Still growing
- Mix of land use
- 200 FTEs
- Council-Manager Government



## Points of Interest

- Process visibility
- Fiscal environmental analysis
  - ICMA Financial Trend Monitoring System
  - Critical issues
- Connection to the budget process
- Fiscal policy analysis



## Process

- Wide range of perspectives on issues
- ID issues and form teams
- 5 and 20 year forecast
- Issue papers reviewed by team
- Formal plan document
- Budget decision packages
- Council priority setting session



## Take-Aways for a Successful Process

- Have a knowledgeable leader
  - Design, engaging, coordinate, facilitate
- Follow an explicit conceptual approach
  - Define roles, timelines
  - Enough structure to move forward, but not constraining participants' ability to collaborate
- Provide for a clear culminating event

## Take-Aways for a Successful Process

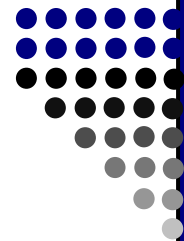


- Build in opportunities for meaningful communication
  - Increase quality and perception of quality
- Take into account other planning processes
  - Strategic plan
  - Capital plan
  - Land use plan
  - Facility plans, technology plans, etc
- Provide ample resources for Analysis Phase
  - Assign roles
  - Have milestones

## Working with Elected Officials & The Public



Module 5



## Topics

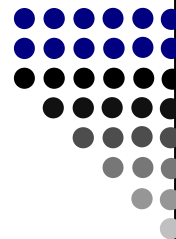


- Working with Elected Officials
  - The working relationship
  - Other tactics
- Working with the Public
  - Determine Your Objective for Engaging the Public
  - Determine a Role for the Public
  - For Greatest Participation, Go to Them

## Working with Elected Officials



The Working Relationship  
Tools and Strategies  
Other Tactics





## Key Characteristics of a Working Relationship



- Credibility
- Accountability
- Right Roles

## CREDIBILITY



- Trust
  - Character
  - Competence
- Expertise and Experience
  - Help officials interpret & respond to the environment
- Consistency and Reliability

## 13 Trust Building Behaviors

*By Steven Covey*



- 1. Talk Straight
- 2. Demonstrate Respect
- 3. Create Transparency
- 4. Right Wrongs
- 5. Show Loyalty
- 6. Deliver Results
- 7. Get Better
- 8. Confront Reality
- 9. Clarify Expectation
- 10. Practice Accountability
- 11. Listen First
- 12. Keep Commitments
- 13. Extend Trust

## ACCOUNTABILITY



- Unbiased
  - Not a sales job
- Timely and Complete
- Demonstrate achievement of results
  - “SHOW ME”
- Responsive to new or “changed” information
  - Engage in strategic diagnosis



## ROLES

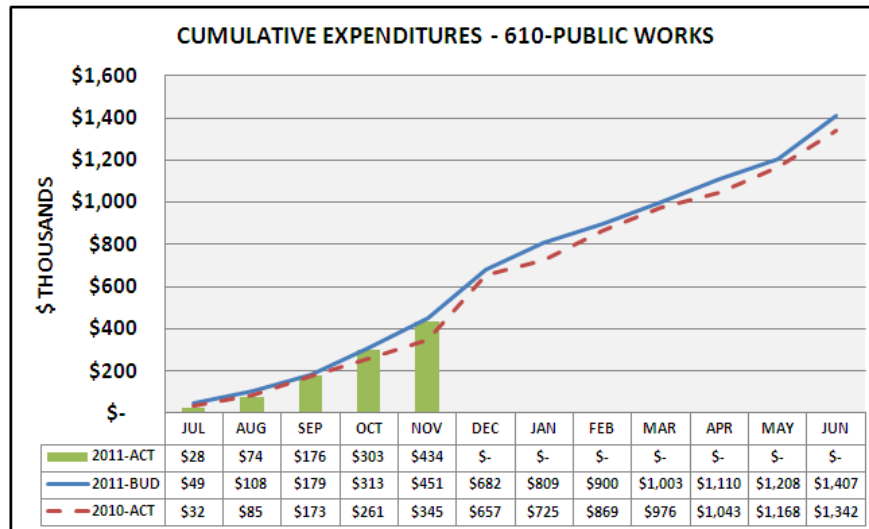
- Be a true ally of elected officials
- Engage elected officials in the solution
- Create roles for officials in the process
  - Strategic diagnosis
  - Recruit outside resources
  - Develop policy framework



## FINANCIAL REPORTING

- At least quarterly & *at start of budget process*
- High-level summary – *with talking points*
- Include simplified balance sheet
- Highlight variance analysis
  - *Budget to actual*
  - *YTD to prior YTD*
  - *Key balance sheet data*

## Monthly Reporting Example



## Other Tactics for Adapting LTFP to Elected Officials



- Align focus of time horizon with term of office
- Make LTFP a tool for public communication
- Integrate with other planning processes
- Tie to capital planning
- Create an outlet for short-term concerns
- Do planning regularly

## Working with Elected Officials Take-Aways

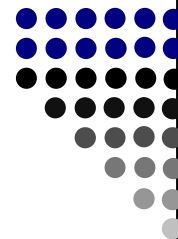


- Develop a good working relationship
  - Credibility; accountability; good communications; right roles
- Strategic planning and visioning is essential
  - All elected officials can participate
- Make information available and accessible
  - Data visualization

## Working with The Public



Determine Your Objective for Engaging the Public  
Determine a Role for the Public  
For Greatest Participation, Go to Them



## Determine Your Objective



<b>Deliberative Democracy</b>	<b>versus</b>	<b>Collaborative Democracy</b>
Connects diverse viewpoints to public policy		Brings diverse skills to public policy
“Quality” measured by procedural uniformity and equality of inputs		Focused on the effectiveness of decision-making and outputs.
Requires an agenda for orderly discussion		Requires breaking down a problem into pieces that can be parceled out to members of the public and officials
Debates problem before action or discusses solution after it has been reached		Occurs throughout the decision-making process
Seeks consensus as a desirable end unto itself		A means to an end. Doesn't emphasize participation for its own sake.

## Collaboration Example



- “Engage Gwinnett” from Gwinnet County, Georgia
  - 40 leading member of community participated
  - Examined service needs and funding strategies
- Started with 3 educational sessions on economy budget and on how to run teams
  - Then broke into 4 teams centered on various functional areas
  - Dept heads gave presentations on how each area worked
- Teams studied their area & made recommendations
  - Status quo: How to become more efficient if taxes held up
  - 10% reduction: If taxes fell 10%, what steps should be taken?
- 113 total recommendations made to County Board
  - Judged a positive experience by both Board, staff, and citizens.

# Find the Right Role for Citizens



- Ask the right questions
  - Don't go too big picture or too technical
- Ask the right people
  - Deliberative: Representative
  - Collaborative: Expert
- Design the Process for the Desired Ends
  - Structure
  - Soft leadership
  - Open information

# Engaging Public in New Discussion About "What they Want to Keep"



Slide courtesy of The Center for Priority Based Budgeting

# Make it Easy for the Public to Engage



**\$500 Exercise**

*If you live, work or pay taxes in the City of Monterey, please fill out the following form based on your priorities for city spending. You can submit this form electronically.*

**Instructions:**

- 1) You have a total of \$500 which represents the City's resources.
- 2) Imagine you are the person in charge of allocating these resources.
- 3) Distribute your \$500 according to what you think the City should provide for citizens.
- 4) If you allocate nothing in a space that means you do not think the City should spend any money in that area.

**Please note:** This form does NOT keep track of your totals. Please remember to spend only \$500. You will have to keep track of your total. Thank you!

**Suggestion:** There are six major categories to you may want to decide first how much you want to spend in each broad category. If you were to allocate your \$500 equally, it would amount to about \$13 per item.

Ensuring a level of ECONOMIC VITALITY sufficient to support the City's quality of life and municipal services	
\$	RECRUITS, RETAINS and SUPPORTS A DIVERSE MIX OF BUSINESSES THROUGH APPROPRIATE INCENTIVES, EFFICIENT PROCESSES and COMMUNITY PARTNERSHIPS
\$	SUPPORTS A VIBRANT, REVITALIZED, SAFE, ACCESSIBLE and INVITING DOWNTOWN AREA, BUSINESS CENTERS, COASTAL AREAS and TOURIST ATTRACTIONS
\$	ENHANCES and PROMOTES MONTEREY'S IDENTITY AS A HISTORIC, CULTURAL and RECREATIONAL "DESTINATION PLACE" FOR TOURISTS and REGIONAL VISITORS
\$	ACTIVELY MARKETS MONTEREY'S LOCATION, FACILITIES, ACTIVITIES and LIVABILITY TO RESIDENTS, VISITORS and BUSINESS COMMUNITY
\$	PROMOTES COMMUNITY EVENTS, ACCESS TO EDUCATION, HOUSING OPTIONS and EMPLOYMENT OPPORTUNITIES THAT SUSTAIN THE RESIDENTS OF MONTEREY

Slide courtesy of The Center for Priority Based Budgeting

- Use the Web
- Attend established citizen meetings (Rotary, Church PTA etc)
- Kiosks at Library, City Hall, etc

# Engaging the Public Take-Aways



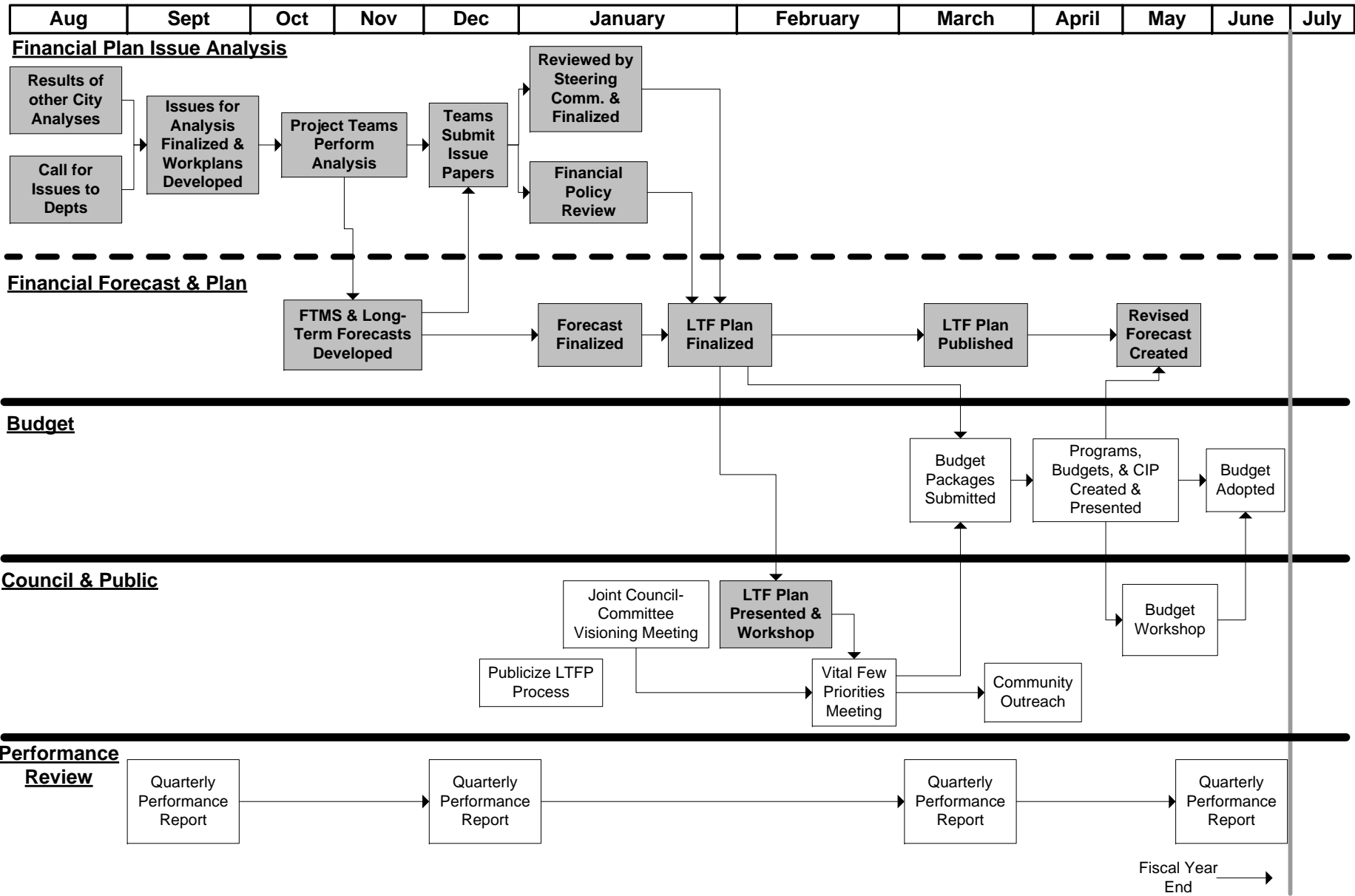
- Know your objective
  - Deliberation on an issue to impart legitimacy?
  - Collaboration to bring expertise to bear?
- Find right role for citizens based on the above
  - Ask the right questions
  - Ask the right people
- Make it easy for people to participate
  - Go to where they are
  - Use the web – especially for collaboration

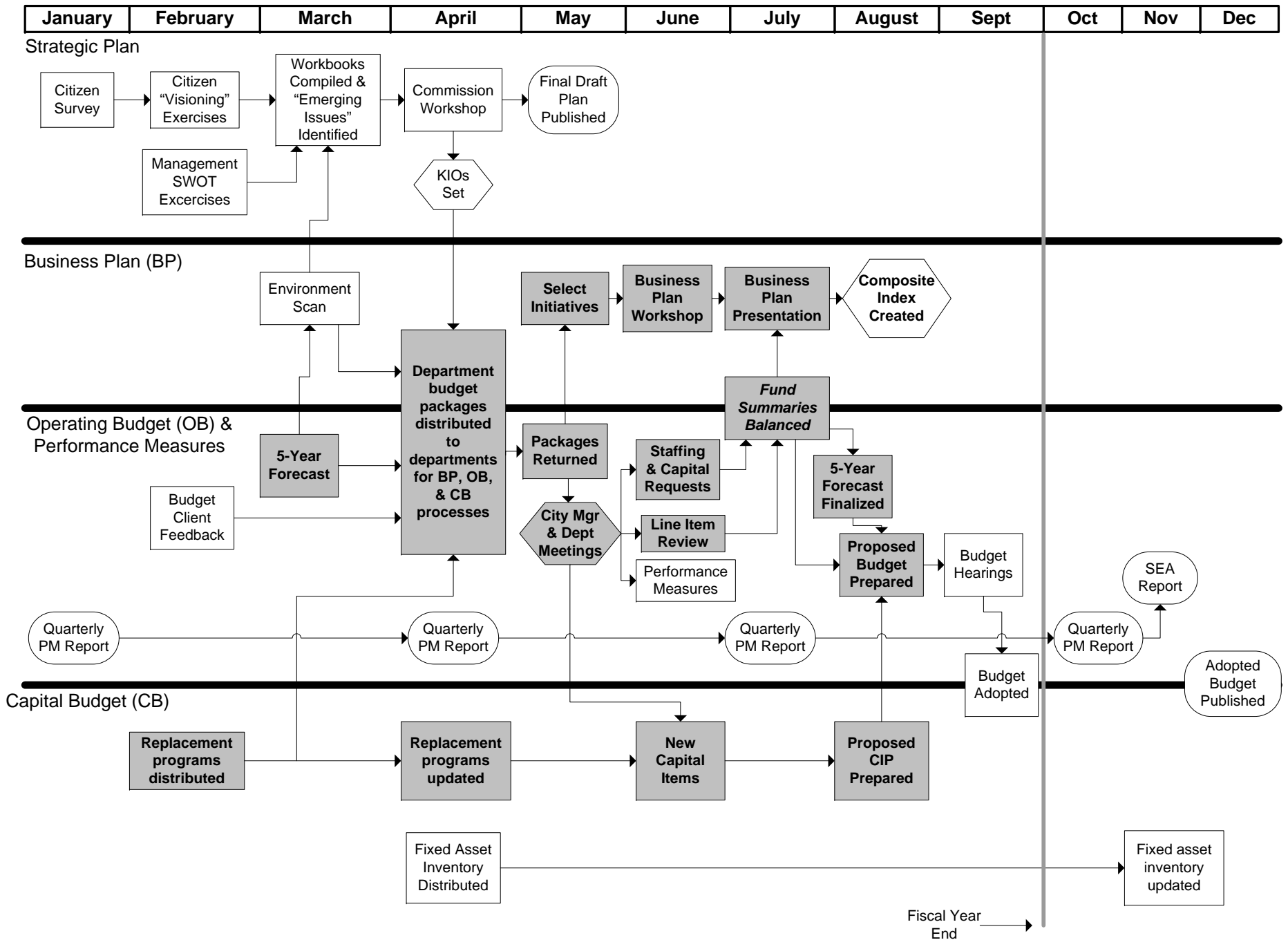


## Discussion



- What tips and traps have you experienced with public engagement?
  - What works?
  - What can create problems?





This self-assessment tool describes how well the organization has addressed the steps of the Mobilization Phase of long-term planning (LTFP). The project team should self-describe their comfort level for each item by checking either "red," "yellow," or "green." For "red" or "yellow" items, the team should identify a corrective action, who is responsible for completing that action, and when they will complete it. Finally, note that the items are presented in an approximate chronological order so that items near the top of the checklist should tend to have a higher confidence rating each time the tool is used.

Mobilization Phase Activities	Comfort Level			Actions		
	Red	Yellow	Green	Comment	Who	When

**Align Resources**

1	We have established a leader for the planning process.					
2	We have established a project manager.					
3	The core project team has been identified.					
4	We have decided on a basic strategy for how to involve elected officials					
5	The process for planning is clear, including a process map.					
6	A detailed "project plan" is identified, with dates & responsibilities.					
7	The extended project team has been identified.					

**Preliminary Financial Analysis**

8	We have gathered important stakeholders' views on environmental issues.					
9	We have considered input from other planning processes.					
10	We have considered the need for a preliminary revenue/expenditure forecast.					
11	We have considered the need for a preliminary debt analysis.					

**Identify Service Level Preferences and Policy**

12	The organization's service level preferences and polices have been identified.					
13	Specific service initiatives, priorities, and/or projects are identified that provide insight into future resource requirements					
14	We understand how these will be related to the LTFP process.					

**Validating and Promulgating Financial Policies**

15	We have assessed compliance with our existing policies.					
16	We have identified areas of weakness in our policy portfolio.					
17	We know what policies we need to adopt to guide the planning process.					
18	We have targeted other policies for adoption as a result of the planning process					

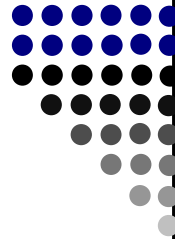
**Months**

	1	2	3	4	5	6	7	8	9	10	11	12+
<b>Mobilization Phase</b>												
Align Resources	█											
Preliminary analysis	█	█										
Service level preferences		█	█									
Self-assess compliance with policies	█	█										
Identify new policies		█	█									
Define purpose and scope			█	█								
<b>Analysis Phase</b>												
Environmental analysis			█	█	█							
Long-term forecasting					█	█						█
Debt analysis					█	█						
Financial balance analysis						█	█					
<b>Decision Phase</b>												
Develop financial strategies							█	█				
Plan Conclusion and transition to action								█				
<b>Execution Phase</b>												
Link to Budget								█	█	█	█	█
Monitor												█

# Financial Policies & Long-Range Forecasting



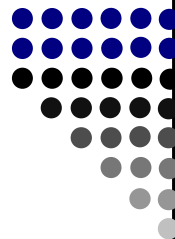
## Module 6



# Reserve Policies



- About reserve policies
- Sizing your reserve
- Key policy elements





## About a Reserve Policy

- Corner stone of financial flexibility
  - Buffer shocks
  - Manage risk
- Policy is essential to:
  - Define amount to hold in reserve
  - Describe purpose of reserves



## Reserve Key Questions

- What is the right level of reserves?
- What factors influence the "right" level of reserves?
- What are the most important elements of a reserve policy?
- How can you develop a strategy for using reserves for budgetary stabilization?

## The Right Level of Reserves?



- How to measure?
  - Reserves as a percent of
    - Regular revenues or...
    - Regular expenditures
  - Choice depends upon which is more predictable

## The Right Level of Reserves?



- What does GFOA recommend?
  - As a baseline for the general fund:
    - 16% of regular operating revenues
    - 2 months of regular operating expenditures
- S&P's views on available reserves
  - Low: Below 0%
  - Adequate: 1%-4%
  - Good: 4%-8%
  - Strong: 8%-15%
  - Very strong: Above 15%





## Factors Influencing the “Right” Level?

- GFOA recommendation just a baseline
- Need to adjust based on local conditions
- Conduct an analysis
  - Catalogue major influencing factors
  - Analyze past experience on factors
  - Judge implications for reserves



## Risk Factors to Consider

- Vulnerability to Extreme Events & Public Safety
- Revenue source stability
  - Types of revenue
  - Concentration in tax base
- Expenditure volatility
  - Look for spikes from unusual, non-recurring circumstances

## Risk Factors to Consider



- Leverage
  - Debt
  - Maintenance / replacement
- Budget practices
  - Large contingencies reduce need for reserves
- Liquidity
  - What does the cash flow curve look like?
  - Are reserves needed for working capital?

## Risk Factors to Consider



- Other funds' dependency
  - Are other operations outside the fund subsidized by the fund?
  - If so, is the fund also seen as a "backstop" against risk?
- Growth
  - High growth may require higher reserves
- Capital projects
  - What is the expectation of using reserves for capital projects?



## Other Drivers to Consider

- Government size
- Management plan
- Borrowing capacity
- Public perception
- Political Support
  - Is there a level of reserves that resonates?
  - Can elected officials be engaged in the analysis?



## Most Important Policy Elements?

- Reserve target levels
  - Consider breaking into subcategories
  - Key word: ***credibility***
- How to reach target levels
  - Broad guidance in policy
  - Use a long-term financial plan for more specifics

## Most Important Policy Elements?



- Conditions for use of reserves
  - Use of Reserves
  - Authority to Use Reserves
  - Replenishment of Reserves
  - Excess Reserves

## Take-Aways

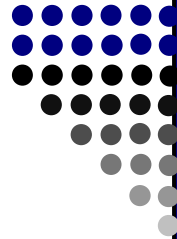


- Reserves are critical to financial planning
  - Flexibility
  - Risk mitigation
- A policy defines a target level and what reserves can be used for
- Analyze the risks you face to define your target

# Risk Based Reserve Analysis



A Case Study of the City of Colorado Springs



## Agenda



- Primary risks faced by Colorado Springs
- “Triple-A” approach to addressing uncertainty
- Applying the Triple-A approach



## Three Primary Risks

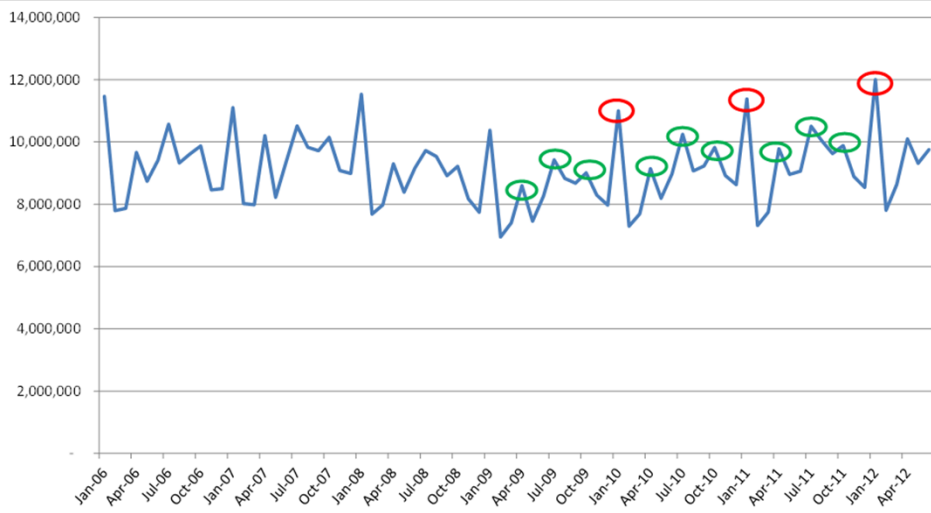
- Volatility of sales tax revenue (and other revenues)
- Potential for the storm sewer and bridge infrastructure to fail
- Vulnerability to extreme events
- Secondary risk factors
  - Unexpected spikes in expenditures (lawsuits)
  - Pension cost volatility



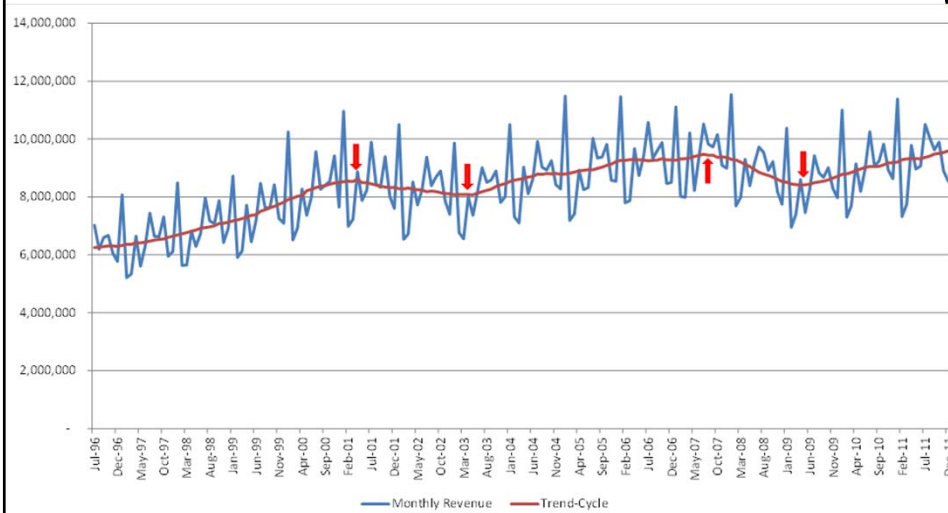
## Triple-A Approach to Dealing with Uncertainty

- Accept
  - Uncertainty is inevitable, including black swans
- Assess
  - Find potential impact, using reference cases
- Augment
  - Uncertainty will usually be underestimated!

# Revenue Volatility



# Revenue Volatility





## Triple-A Applied to Sales Tax

- Accept
  - Little random variation, but Black Swans are possible
  - Easy to imagine sources of future trouble
- Assess
  - Max length of down turn has been 25 months
  - Max decline during has been 0.53% per month
- Augment
  - Raise expectations for risk (1.5X)
  - Max 0.8% monthly decline
- \$23M loss over 25 months is “worst case”
  - Budget can be reduced in response, though
  - \$13M judged adequate to make a “soft landing”



## The Results

<b>Budgetary Uncertainty Reserve</b>
<b>\$13 million for sales tax economic uncertainty +</b>
\$7.5 million for economic uncertainty in other revenues +
\$6.25 million for pension payment uncertainty =
<b>\$27 million or about 12.5% of general fund revenues as budgetary uncertainty reserve</b>
<b>Emergency Reserve</b>
<b>\$5.25 million for critical bridge failure</b> and \$11.6 million critical storm sewer replacement, for a total of \$16.85 million +
<b>\$5-7.5 million for extreme events +</b>
\$2-4 million for expenditure spikes from lawsuits =
<b>\$27 million or about 12.5% of general fund revenues as an emergency reserve</b>





## The Results

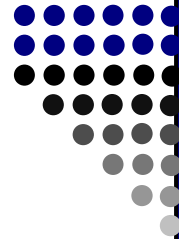
- Colorado Springs has since experienced...
  - A transit litigation settlement
  - The largest wildfire in Colorado history
  - Increased flooding risk due to fires
- City has been able to manage these challenges and City Council understands the role of reserves and are working to replenish them.



## Take-Aways

- Identify major risks
  - See GFOA's *Financial Policies* for guidance
- Use the Triple-A approach to estimate uncertainty associated with risks
- Don't ignore political considerations
  - Work them into the process of identifying and managing risks
  - Examples
    - Highlight other extreme event risk mitigating strategies
    - Address elected officials' preferences

## Other Key Policies



## Key Policies



- **Balanced Budget**
  - Defines a balanced operating budget
    - Goes beyond Provincial requirements
  - True structural balance:
    - Recurring revenues = recurring expenditures
- **Asset Maintenance & Inventory**
  - Establish intent to keep assets maintained
  - Inventory and assess the condition of all major capital assets.
  - Consider cost of maintenance when making new investment decisions
  - Commit to funding a maintenance plan



## LTFP Policy

- Commit to doing a Plan
- Scope of the Plan
  - What's in it? Time Horizon? Funds? Analysis?
- Relation to Strategic Planning
  - Make sure plans are realistic and aligned
- Find Imbalances
- Long-Term Balance
  - The plan contains solutions



## Key Policies

- Revenue
  - Encourage more stable revenue base
  - Encourage new sources
  - Positive return from economic development
  - Vigilant collections
  - Earmarks
- Use of One-time Revenues
- Use of Unpredictable Revenues

## Key Policies



- Fees and Charges
  - Goal of fees
    - Provide flexibility in use of general revenues
    - Assign costs to specific beneficiaries
  - Cost recovery
    - What are the criteria for high levels of cost recovery vs. lower levels?
    - What will the cost basis be for recovery?
  - Review of fees
    - How often are fees reviewed?
    - When are new fees warranted?

## Key Policies



- Debt limits
  - Legal limits
    - What does provincial law allow?
  - Policy limits
    - What types of debt can be used & for what purposes?
  - Financial limits
    - How much debt is acceptable?
- Debt structuring
  - Term
  - Repayment schedules

## Take-Aways

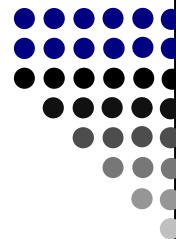


- The policies presented in this section complement a reserve policy
- Judge your own situation to decide which are most important
- Most important will usually be
  - Structurally balanced budget
  - Long-term financial planning
  - Debt

## Forecasting



Module 7



## Long-Term Financial Planning



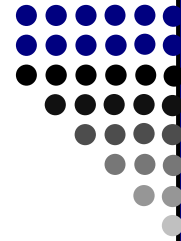
- Forecasting is a major part of LTFP
- Strategies for making LTFP and forecasting relevant include:
  - Develop board-level policy on long-term financial sustainability
  - Use LTFP to address burning issues of concern to board
  - Show how LTFP has solved problems

## How LTFP & Forecasting Solves Problems



- Multi-year forecasts reveal possible structural deficits that may not be apparent in short-range financial plans.
- Projected negative imbalances between revenue and spending can be addressed more proactively with creation of alternative strategies for increasing resources and/or decreasing spending BEFORE a crisis erupts.

## Define the Forecasting Problem



## A Wise Man Once Said...



- "It's dangerous to make predictions, especially about the future."
- "The future ain't what it use to be."
- "You've got to be very careful if you don't know where you are going because you might not get there."



- Lawrence "Yogi" Berra



## Why Define the Problem?

- Influences which forecasting method is best
  - Example: short-term forecast demands different methods than long-term
- Determines analytic techniques
  - Example: Focusing on a particular revenue or variable over others
- Provide for common set of objectives among forecasters
  - Who is the audience?
  - What do we want to tell them?

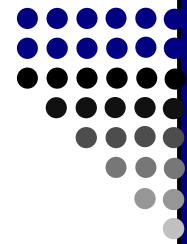


## Key Questions to Ask

- Question 1: What is the Time Horizon of the Forecast?
- Question 2: Is Our Forecasting Policy “Objective” or “Conservative”?
- Question 3: Who is the Audience for the Forecast?



## Gather Information



## Topics



- Select Revenues
- Finding economic data
- Accessing specialist expertise
- Understand special events & trends
- Identifying influence factors
- Preparing historical data



## Selecting Revenues

- From Step 1, have a good idea of what revenues will be the focal point of the analysis
- A small number of revenues typically account for an overwhelming percentage of total revenue.
- Some revenues have a history of large swings from one year to the next.
- Some revenues are known to be affected by special events or the business climate.
- Some revenues deserve attention simply due to their size.



## Economic Measures

- Role of economic measures
  - Provide background / context for forecasting
  - *Might* have direct role in forecast
- Many indicators are regional...
  - May not reflect the circumstances of small communities
  - May be close enough for larger govts
- If your tax base is very diverse, general indicators like unemployment, personal income may help
- If you are reliant on a particular industry more focus might be better
  - Redmond, WA used to look at PC sales for Microsoft revenue

## Access Specialist Expertise



- External consultants
  - Can be helpful with roles such as...
    - Technical skills like forecasting, computer programs, or data cleaning
    - Adding credibility to the forecast
    - Raise difficult issues
  - Cautions
    - Consultant will not understand local environment as well as staff
    - Potential hammer and nail problem
    - Can staff maintain the forecast on their own?

## Access Specialist Expertise



- Other external options
  - Compare notes with similar governments in the region
  - Form a panel of local experts to provide perspective
    - Members can come from other govts, business, and academia
    - City of Dayton has a panel that meets annually to discuss local economy and trends

## Access Specialist Internal Expertise



- Regular meetings to review key indicators
  - Promotes regular habit of looking up-and-out, rather than always down-and-in.
- Survey of key staff
  - Survey avoids group biases
- Operating departments
  - Specialist knowledge of revenues they generate

## Understand Special Events & Trends



- Special events or important shifts in the environment can impact forecasts
  - Statistical techniques based on historical data will not pick these up
- Taking time to assess these forces will...
  - Improve the forecast
  - Help anticipate audience's questions

## STEEP Framework



- Tool for structuring thinking and making sure nothing is overlooked
- Particularly useful for external analysis
- **S** – Social
- **T** – Technological
- **E** – Economic
- **E** – Ecological
- **P** - Political / Legal

## Prepare Historical Data



- First, gather data as far back as possible
- What kind of data?
  - Monthly data is strongly preferred
  - Aggregated data obscures trends and seasonality
- How much is enough?
  - Five years is the minimum required for a valid result from most statistical techniques
  - Better reveals trends



## Preparing Historical Data

- Cleaning data
  - The data may require scrubbing data to remove the impact of historical events that reduce the predictive value of the data.
  - Examples
    - Amnesties for delinquent payers
    - Rate changes
    - Delays in receiving revenue, such that it is recorded in a later period



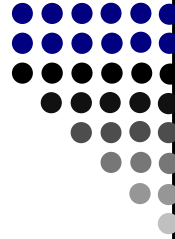
## Take Aways

- Monthly data is preferred for forecasting
  - Shows trends within the year
- Five years of data is a minimum for most quantitative techniques
- Gather external and internal expertise to uncover influencing factors and special events
  - Use STEEP framework ensure it is comprehensive
- Clean historical data

## Selecting Methods



- Introduction to techniques
  - Judgmental forecasting
  - Extrapolation
  - Econometrics
- Selecting a Technique
- Testing a Technique



## Our Guiding Principle



“Statistically sophisticated or complex methods do not necessarily produce more accurate forecasts than simpler ones.”

## Judgmental Forecasting



- What is judgmental forecasting?
  - Making forecasts based on one's reasonable assessment of existing conditions and expertise
- It is generally recommended against
  - Not transparent and hard to replicate
  - Subject to cognitive biases
    - Overconfidence, over-weighting recent information, selection perception
  - Of questionable accuracy in many situations...

## When is judgmental forecasting best used?



- The environment is stable
- The forecaster has a history of making and learning from similar forecasts
- The forecaster has knowledge of information that is not reflected in historical events
  - Major new taxpayer in town
  - Change in tax rates
- The economic and/or political environment is undergoing drastic changes.





## So, what to do?

- Judgmental forecasts do not require statistical expertise and account for usual local events
  - Two arguments in favor
- However, judgmental forecasts have many weaknesses as we have seen
- Conclusion: Judgmental forecasts have a role, but take steps to mitigate their weaknesses



## Mitigating Weaknesses

- Start by documenting accumulated wisdom about the revenue source
  - Influencing factors are less likely to be overlooked
- Keep records of forecasts & review past performance
  - Keep records on key variables, not just final forecast
- Create graphics of key trends
  - More revealing than data in tabular form
- Decompose the forecast problem
  - Forecast less complex component parts



## Mitigating Weaknesses

- Obtain several independent judgments
- Require justification of the forecast
  - Verbal justification of the forecast leads to higher forecast consistency
  - A written justification can be used to help learn from the forecast results, when results become available.
- Develop an algorithm
  - Even a simple algorithm reflecting factors behind the item being forecast can significantly improve decision making.



## Extrapolation

- Use historical data to project forward trends
- Three basic types of extrapolation will be reviewed
  - Naïve
  - Moving averages
  - Exponential smoothing

## Naive Forecasting



- What is naive forecasting?
  - Making forecasts based on the most recent, typical (or normal) period. A typical period can be a week, month, quarter, or year.
- Alternatives include using:
  - The absolute change from the last period
  - The percent change from the last period
  - The value of the last similar period

## When is naive forecasting used?



- Naïve is not a good method for making actual forecasts!
- However, naïve is a great method for creating a test case to compare other forecasting methods against
- If your chosen method can't outperform naïve it probably isn't very good!



## Moving Averages

- A simple moving average estimates the next period's value by averaging a given number of preceding observations.
  - For example, an "order 3" moving average for April would average the results of January, February and March revenue.
  - The process would then move on to May by averaging the results of February, March and April.



## Moving Averages

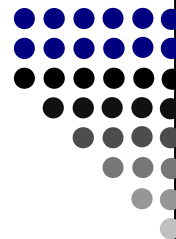
- Advantages
  - Easy to use
    - No special statistical expertise required
    - Can be done with basic Excel functionality
  - Dampens random variation in the trend
- Disadvantages
  - May obscure real, non-random trends
  - All periods in the average are treated the same
    - More recent periods may have more predictive value

## General Principles for Extrapolation



- **Prepare the data.** Data preparation & cleaning of the forecasting process takes on special significance for extrapolative techniques
  - **Adjust outliers**
  - **Adjust intermittent time series**
  - **Adjust for historical events**
  - **Adjust for seasonality.**
- **Weight the most recent data heavily for short or medium term forecasts**

## Presenting the Forecast





## Present Forecast

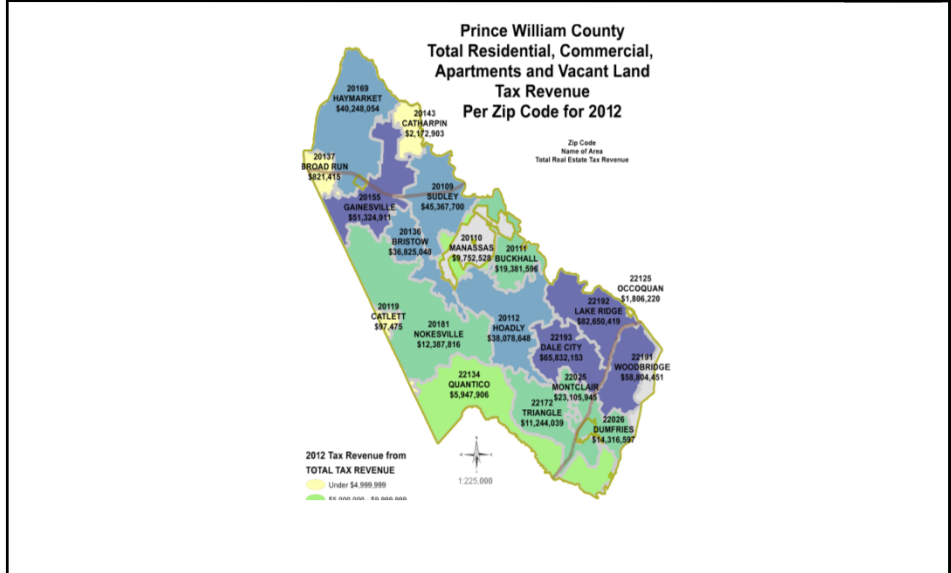
- Develop presentation strategy
  - Use experts for an outside perspective
  - Make your assumptions transparent
- Know your audience
  - What are they interested in?
  - What questions will they have?
  - How do they like to see information?
- Use technology to provide interactivity
- A few presentation examples will be shown

## FY 2013-2017 General Revenue Forecast (in thousands)

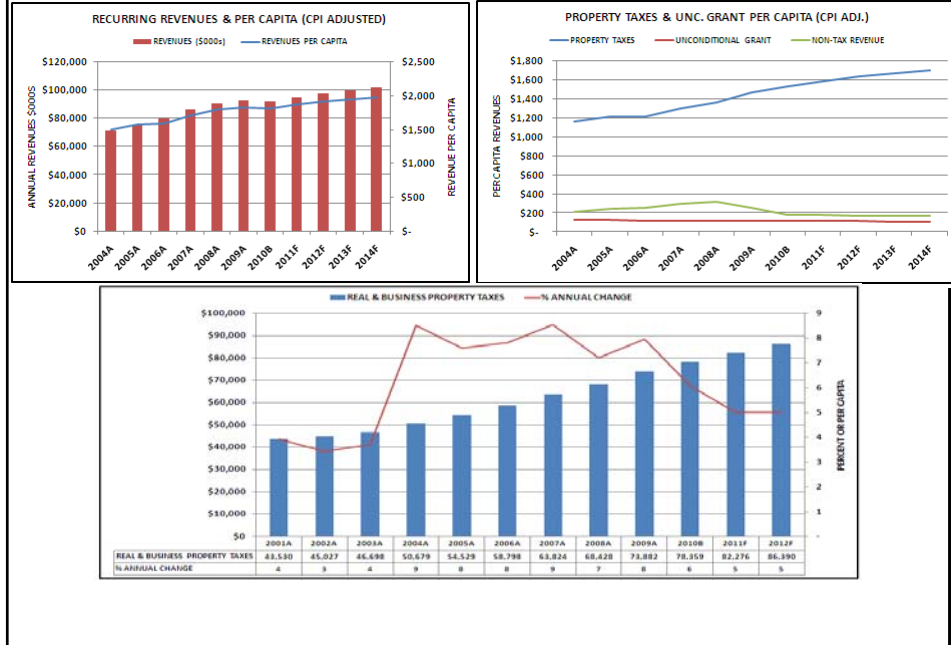


Real Estate Tax Rate:		\$1.204	\$1.212	\$1.224	\$1.230	\$1.230	\$1.224
(\$ in 000s)	% to Total (FY 2013)	FY 2012 Revised Est.	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Real Estate Taxes	65.76%	\$493,721	\$520,658	\$550,024	\$581,245	\$614,510	\$648,867
Personal Property Taxes	16.76%	126,725	132,685	138,090	143,440	148,970	154,670
Sales Tax	6.65%	51,089	52,673	53,990	55,339	56,723	58,141
Consumer Utility Tax	1.74%	13,395	13,740	14,110	14,500	14,890	15,290
Communications Sales Tax	2.38%	18,850	18,850	18,850	18,850	18,850	18,850
BPOL Tax	2.92%	21,960	23,090	23,770	24,470	25,430	26,430
Investment Income	1.14%	7,280	9,011	12,032	15,992	19,841	22,557
All Other	2.66%	21,031	21,095	21,487	21,870	22,351	22,835
Add'l Revenue w/ 3 new FTE's	-0.01%	-	-	-	-	-	-
<b>Total General Revenue</b>	<b>100.00%</b>	<b>\$754,051</b>	<b>\$791,802</b>	<b>\$832,353</b>	<b>\$875,706</b>	<b>\$921,565</b>	<b>\$967,640</b>
Increase over Prior Year		2.29%	5.01%	5.12%	5.21%	5.24%	5.00%
School Portion		\$424,737	\$446,161	\$469,142	\$493,712	\$519,673	\$545,754
County Portion		325,163	341,491	359,016	377,755	397,570	417,476
Transportation Fund		4,150	4,150	4,195	4,238	4,322	4,410
<b>Total General Revenues</b>		<b>\$754,051</b>	<b>\$791,802</b>	<b>\$832,353</b>	<b>\$875,706</b>	<b>\$921,565</b>	<b>\$967,640</b>

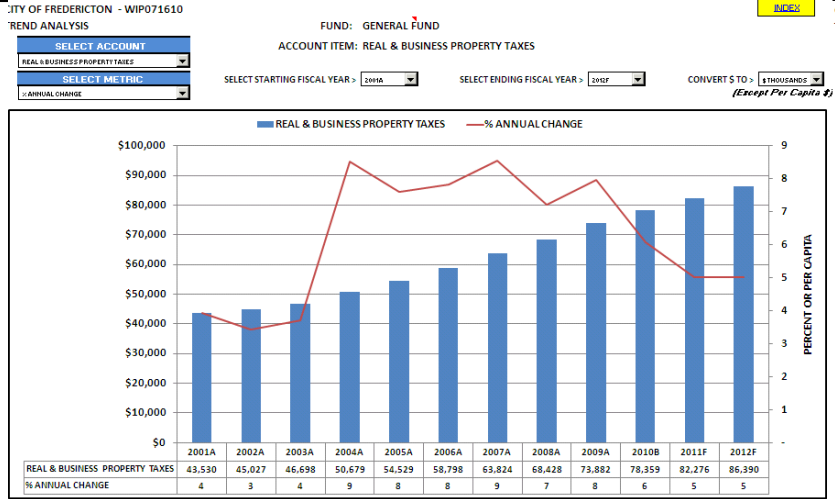
# Best Way to Present Financial Information to Elected Officials



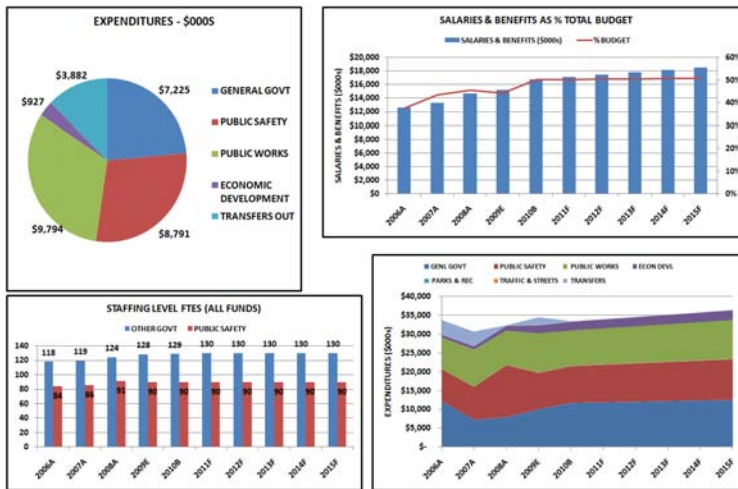
# Annual Revenue Forecasting



# Trend Analysis - Ex: Property Tax, % Annual Change



# Annual Expenditure Forecasting





## Take-Aways



- Make forecasts relevant to decision-processes
  - Is forecasting information valuable given the decisions that are being asked of the board and managers?
- Use technology to make presentations interesting
  - Beware going overboard – go for elegant simplicity
- Update forecasts regularly

## Sample Financial Policy Statements

### 1) Structurally Balanced Budget

The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan will be developed and implemented to bring the budget back into structural balance.

### 2) Report on How the Budget is Balanced

The City Manager will include in the narrative transmitting the Proposed Budget a concise discussion on how the proposed budget is balanced. If the structural balance changes between the Proposed and Adopted Budgets, the City Manager will clearly delineate the changes and the resulting structural balance in the Adopted Budget.

### 3) General Fund Reserves

The City shall maintain an Emergency Reserve equivalent to 10 percent of General Fund recurring expenditures and an Operating Reserve equivalent to 10 percent of General Fund recurring expenditures. If these reserves are used, a plan will be developed and implemented to replenish the funds used.

### 4) Use of One-Time Resources

Once the General Fund budget is brought into structural balance, one-time resources such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar nonrecurring revenue shall not be used for current or new ongoing operating expenses. Appropriate uses of onetime resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other nonrecurring expenditures.

### 5) Use of New Discretionary Revenue

Once the General Fund budget is brought into structural balance, a minimum of 10 percent of all new (ongoing) discretionary revenue will be devoted to capital projects including deferred maintenance and infrastructure needs.

### 6) User Fees and Charges

The City shall establish user charges and fees at a level that reflects the service costs. Full cost charges shall be imposed unless it is determined that policy, legal or market factors require lower fees. The City Council will define the level of City financial subsidy to be provided for various City services.

Fees will be reviewed and updated on an ongoing basis to ensure that they keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery. In implementing this goal, a comprehensive analysis of City costs and fees should be made at least every five years. Fees may be adjusted

during this interim period based on supplemental analysis whenever there have been significant changes in the method, level or cost of service delivery.

### **7) Grants**

City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City.

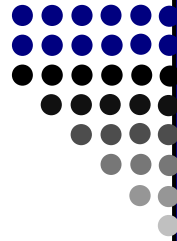
### **8) Long-Term Financial Plan**

Each year, staff shall develop a Long-Term Financial Plan that forecasts operating expenditures and revenue for the next three to five years and capital expenditures and revenue for the next seven years. The Long-Term Financial Plan will be updated prior to the start of the annual budget process. As part of the budget message, the City Manager will advise the City Council of potential long-term positive and adverse trends along with his or her analysis of the trends.

### **10) Debt Issuance**

General Fund long-term debt payments shall not exceed 10 percent of operating expenditures. In addition, the City shall not issue long-term (over 1-year) General Fund debt to support operating costs. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

# Strategy Development Process



## Overview of Process



- A. Form the teams & define how to work together
- B. Diagnose the critical issue
- C. Analyze guiding policies
- D. Develop action plans

*Diagnosis + Guiding Policy + Coherent Set of Implementation Actions = **Strategy***

## Key Themes in Process



- Use data to drive decisions
  - Quantitative evidence standards will be developed
- Diagnose before treatment!
  - Examine the “system” – how multiple variables interact
- Engage others in the solution
  - City government won't have all the answers

## Key Themes in Process



- Be innovative
  - Doing more of the same thing usually doesn't work
- Turn ideas into action
  - A strategy does not exist without a coherent, feasible action plan
- Be adaptable
  - Variation – seek out new ideas and try new things
  - Survivability – Accept that failure of an idea is possible, so try it out on a smaller scale first
  - Selection – Have methods to evaluate if an idea is working and know when to stop



## A. Form Teams

- Determine team membership
- Appoint and orient the team chair
- Hold first team meeting



## Strategy Advisory Teams

- Strategy Advisory Teams (SATs)
  - Cross functional work teams
  - Three to ten members
  - Led by appointed chairperson
  - Recommends strategies to resolve critical issues
  - Members should have role in implementation

## Steering Committee



- Provides overall guidance to process
  - Manage process SATs will follow
  - Help direct resources to SATs
- Provide feedback to SATs

## Governing Board



- Formally reviews strategies and gives go-forward direction



## The Importance of Starting off Right

- Take time to prepare to work together
  - Get acquainted
  - Discuss how to resolve disputes
  - Develop process for dealing with different ideas and opinions
- These steps are crucial to team success



## First Team Meeting

- Develop a realistic priority of the team's work
- Share expectations
- Define team goals and the critical issue (and perhaps start talking about measures)
  - How will we know if progress is being made?
- Form operating guidelines
- First homework assignment





## Part A Milestones

- Team goals & issue are *clarified by the team*
  - Team goals, issue, & measures (sources of evidence) are approved by the Steering Committee
  - Team goal checklist is completed
- Ground rules for team operation have been agreed upon & documented
  - How will decisions be made?
  - How will work be performed?
  - How will differences be resolved?
  - How can concerns be raised?
  - Who is the recorder & what is the format of notes?



## B. Diagnose the Critical Issue

- Diagnose before treatment!
  - Don't assume everything worth knowing is already known. To do so severely limits creativity.
- A diagnosis defines the challenge
  - A diagnosis simplifies the complexity of reality by identifying certain aspects of the situation as critical
  - At a minimum, the diagnosis classifies the situation, linking facts into patterns and suggesting that more attention be paid to some issues and less to others.
  - Results in a simplified model of reality that allows one to make sense of the situation & engage in further problem solving



## Secondary Research

- If you are new to a topic, start with Wikipedia
- Use search terms that tend to be associated with research and quantitative data
  - E.g., table, survey, control group, correlation, standard deviation, PhD, university, national study
- Try searching in topic specific repositories, like the website of a relevant journal
- Try using multiple search engines
- If you find marginally related research, read the bibliography

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## Primary research

- Survey key stakeholders
  - Clientele, front-line employees, community leaders inside and outside of government
- Personal interview of key stakeholders
- Review archival documents

*It is critical to go outside the team and government!*

## Developing a System Model (or *Telling a Story*)



- 1. Define the Issue
  - Don't jump to conclusions
  - Be realistic
  - One or two sentences should be sufficient
    - If not, the scope may be too broad
- 2. Model building
  - A representation of reality
  - "All models are wrong, but some are useful"
    - George Box, Statistician
  - Avoid "problem, solution" thinking
    - This can be hard to do!
    - You want **DIVERSITY OF IDEAS** – complete agreement is unnecessary and not even desirable.

## Developing a System Model



- What are the factors that influence the issue?
  - Build a hypothesis of cause and effect
  - A model allows you to test the hypothesis
- **A key question:** How did we (the community/city, through behaviors, beliefs, practices, etc.) contribute to or create the circumstances (good and bad) we face now?
- Two ways to answer this question:
  - Make a list
  - Draw a picture

## Make a List



- What are the key factors that seem likely to capture the issue (or tell the story)
  - They could be broad or narrow in scope, internal or external
- The goal is not to evaluate them as right or wrong. The purposes are:
  - Begin talking about the problem, identify people's assumptions and hypotheses
  - Establish boundaries. How far does this problem go?
  - Learn how each member of the team thinks.
  - Lay groundwork for selecting key variables.

## Make a List



- Other questions to consider
  - How would this issue look from the perspective of elected officials? What factors might they notice?
  - How would this issue look from the front-line employee's perspective?
  - How would it look from the citizen's perspective?
  - What factors has the government created or contributed to?



## Draw a Picture

- Draw a picture of your measurement
  - The most important graph about the problem
  - 2 parts: Historical baseline and Forecast
- Historical baseline should include about 5 years of data
- Forecast (also ask “why?”)
  - Will the trend continue in the same direction?
  - Will it go in that direction faster, slower or about the same?
  - Do we think the trend will flatten out? When will it flatten out and at what level?
  - Do we think the trend will change direction? When? What will happen after?



## Draw a Picture

- What is the story behind the picture?
  - Focus on the direction of your baseline and forecast? What explains the pattern?
  - How might different parties interpret your picture?
    - Council, front-line staff, clientele, etc.
  - What interrelationships might there be between your different pictures?



## The Five Whys

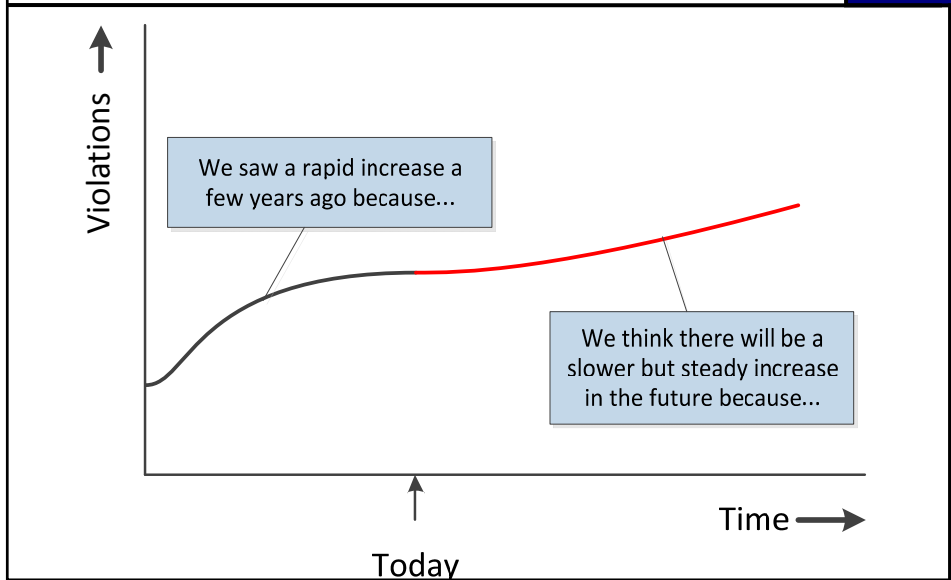
- 1<sup>st</sup> why: Why is “X” taking place?
  - Put answers (usually 3-4) on a wall with plenty of space
- Successive whys
  - Ask why for each of the previous answers to “why”?
  - Post answers by “parent” why.
  - Look for convergence
- Avoid blame-related answers



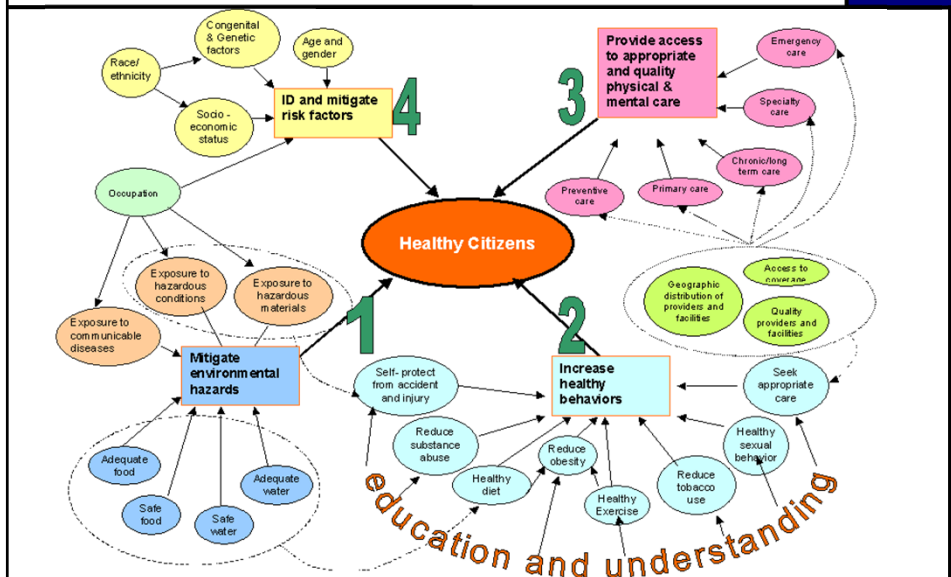
## Research and Modeling

- The order of researching and modeling may vary
  - You might prefer to do some research first in order to make a more informed explanation of the factors
  - You might prefer to do modeling first in order to figure out where you need more information
  - You may need to do both!
- Use your research design to decide how to get started.

# Picture of Measurement Example



# System Map Example





## Part B Milestones

- Diagnostic approach documented and vetted by Steering Committee
  - Team member roles and timelines should be assigned for primary and secondary research
- Diagnostic is presented to Council by SAT
  - What are the important variables, trends, patterns?
    - Use quantitative measures, where possible
  - Which appear to be the most promising levers?
  - Who, besides City government, has an important role in impacting the system?
  - Use the pictures of your choice



## Group Activity

- Pick a “critical issue” that someone at your table volunteers (should be real)
  - That volunteer becomes the “patient”
  - The other people at the table are diagnosticians
- Diagnose the critical issue
  - Define the issue
  - Build a model
    - What are the key factors that seem likely to capture the issue (or tell the story)?
  - What are implications for developing a strategy?



## Part C. Analyze guiding policies



- A guiding policy defines how to deal with the challenge.
  - An overall approach chosen to cope with the obstacles identified in the diagnostic
  - Channels efforts in a defined direction without specifying exactly what will be done
  - A policy is not a “goal” or “outcome,” but rather is a method how to grapple with the situation (and ruling out possible actions too).

## 4-Step Process to Developing Guiding Policy



1. Identify practical alternatives for resolving the critical issue.
2. Find the critical weaknesses in the alternatives.
3. Develop proposals for achieving the alternatives
4. Identify major actions for the next two or three years

## Identify Practical Alternatives

(what would it take to succeed?)



- Start by identifying ideas
  - Brain storming / brain mapping
  - Benchmarking / idea scouting
  - Enable employees to suggest ideas
  - Connect with creative citizens
  - Enable citizens to suggest ideas
- Identify the major alternatives
  - Variation is valuable
- Phrase each in action terms
  - Do, get, buy, achieve
  - Frame the strategies in action terms

## Find the Weaknesses



- Brainstorm weaknesses inherent in the alternatives.
- Thinking about weaknesses helps ensure alternatives address problems directly & early.
- It also helps prevent overconfidence

## Develop Proposals for Alternatives



- Proposals should address actions...
  - To directly achieve the alternative
  - To overcome important weaknesses
- Proposals should seriously consider “experimental” approaches
  - Try multiple ideas. Do not put all eggs in one basket
  - When trying something new, do it on a scale where failure is survivable
  - Identify sources of feedback so that approach can be adjusted as needed

## Identify Major Actions



- Identify major actions to achieve proposals over the next two to three years
  - Using existing staff in existing positions
- SAT could suggest new staff or reorganization but be prepared to justify
- Describe how and when the success of a strategy will be evaluated
  - A strategy should be modified or dropped if it is not working



## Part C. Milestones

- Policy alternatives identified
  - Standard documentation approach will be provided
- Policy alternatives evaluated by the City Council
  - Feedback provided sufficient to allow teams to proceed to action planning



## Group Activity

- Using your critical issue develop Guiding Policies as a team
  1. Identify practical alternatives for resolving the critical issue.
  2. Find the critical weaknesses in the alternatives.
  3. Develop proposals for achieving the alternatives
  4. Identify major actions for the next two or three years



## Part D. Develop an Action Plan

- Action plan should cover the next 6 to 12 months
- Should identify...
  - Important tasks to implement the policy
  - Deliverables that can be monitored
  - Due dates for the deliverables
  - Responsible party for producing the deliverable
- Steps should be coherent and coordinated
- Develop plans after strategy evaluation workshop



## Part D. Milestones

- Action plan developed that shows actions, deliverables, responsible parties, and due dates



## Sources of Strategy Power

- Leverage arises from a mix of anticipation, pivot points, and concentration of effort
  - Anticipate predictable aspects of others' behavior
  - A pivot point magnifies the effect of effort
  - Concentration is applying enough effort to reach a tipping point
- Reduce ambiguity by defining proximate objectives (tasks) that can be accomplished and that will further the strategy
- Identify how different elements in the system will react to pulling one lever or another
- Look for external phenomena that can be ridden like a wave.



## Thinking Like a Strategist

- Good strategy is a hypothesis – it pushes just past the boundaries of what is known or comfortable
- Doing more of the same is rarely the right answer
- Three essential skills
  - Have a variety of tools for fighting your own myopia and for guiding your attention
  - Develop the ability to question your own judgment
  - Cultivate the habit of making and recording judgments so you can improve

## References

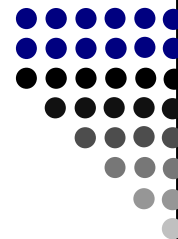


- Trying Hard is Not Good Enough
  - By Mark Friedman
- Strategic Planning for Public & Nonprofit Organizations
  - By John Bryson
- Good Strategy, Bad Strategy
  - By Richard Rumelt
- How to Measure Anything
  - By Douglas Hubbard

## Performance Budgeting



Zero-based Budgeting (ZBB),  
Priority Based Budgeting (PBB).  
Performance Measurement





## Incremental Budgeting

- Incremental budgeting is...
  - Taking last year's budget as the starting point and making changes at the margin
    - Deciding how to spend incremental new revenue
    - Deciding to cut if there are "decrements"
- Problems with incremental budgeting...
  - Past patterns of spending may not longer be affordable or relevant
  - In cut-back environment, across-the-board cuts are the common, but not strategic solution



## 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."



## Zero-Base Budgeting (ZBB)



- ZBB asks managers to build a budget from the ground up, starting from zero.
- GFOA surveys show that “text book” ZBB is almost unheard of in practice.
- Those who report using ZBB use “practical” versions
  - Zero-line item budgeting
  - Service level budgeting

## 3 Questions of Planning & Budgeting



	Planning	Budgeting
Prerequisite: What is Affordable?	What are the community's priorities and how can government action add value?	What programs should we fund in order to best achieve the priorities?
	How much and what quality of service does the community need from a given program?	What level of service should we fund within a program?
	Is the service provided efficiently?	For a given service level, are the requested inputs reasonable for the output we expect to receive?



## Zero Line-Item Budgeting

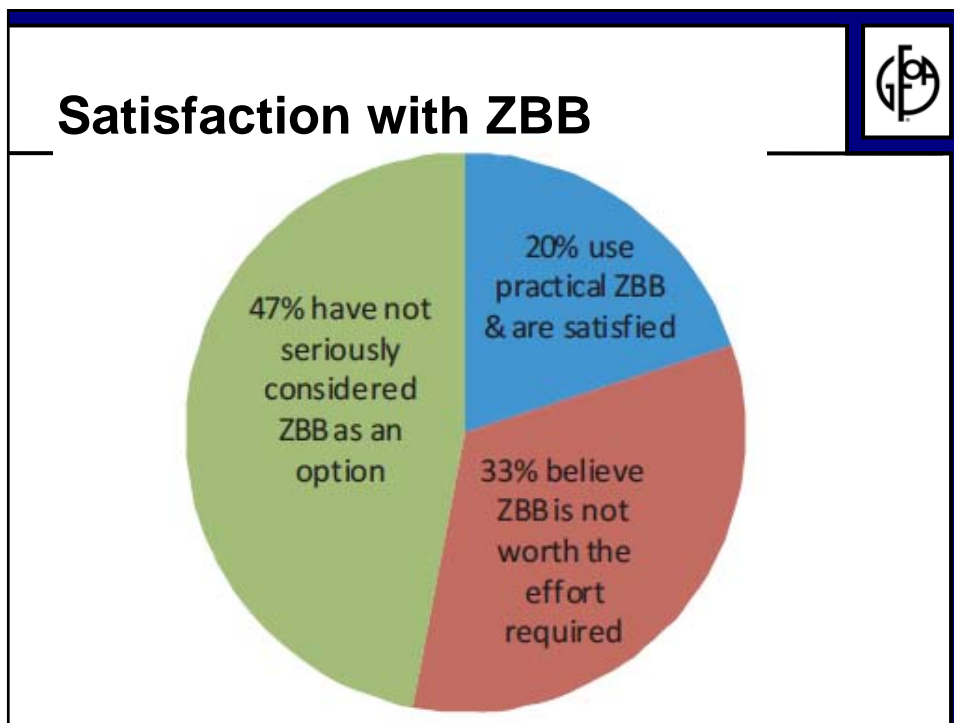
- Each line item starts with zero, not last year's spending
- Departments must justify spending based on a description of the needed inputs, not by pointing to last year's budget
- Changes the discussion about costs
- Helpful for reallocating funding within a department
- There are efficiency gains, but not systematic
- Does not focus on service levels



## Service Level Budgeting

- Departments put together packages to represent different service levels
- Detailed examination of spending deemphasized
- Helpful in selecting service levels
- Can be paperwork intensive
- Efficiency is not addressed directly

Rank	Decision Package	Cost
<b>Minimum Service Level to Remain Viable</b>		
1	Main and Regional Libraries at 52.5 Hours Weekly	\$17,761,003
<b>Continuation of Current Services</b>		
2	Community Area Libraries	\$5,607,436
3	Neighborhood/Expanded Community Area Libraries	\$5,296,036
4	Expansion of Main and Regional Library Hours	\$5,960,425
5	Full Neighborhood Library Hours	\$3,090,026
6	Operating Grants to Municipals at 90%	\$46,4646
7	Enhanced Staffing for Circulation and Operations	\$527,365
8	Books and Materials at 78% of Continuation	\$500,000
9	Operating Grants to Municipals at 95%	\$23,323
10	Books and Materials at 87% of Continuation	\$550,000
11	Full Main and Regional Library Service	\$392,186
12	Operating Grants to Municipals at 100%	\$11,662
13	Books and Materials at 100% of Continuation	\$750,000
14	Computer Rotation and Replacement	\$100,000
<b>Desired New Service Level</b>		
15	Replacement of Integrated Library System (ILS)	\$824,900
16	Fund Stand-by Pay for Librarians	\$2,800
17	Achieve Library Strategic Goal No. 5 — Client Satisfaction	\$15,000
<b>GRAND TOTAL</b>		<b>\$41,458,808</b>





## ZBB Strengths

- ZBB moves the organization away from incremental budgeting.
- ZBB rationalizes budget cuts
- ZBB makes the trade-offs between inputs and outputs more transparent.
- ZBB is effective for re-allocating resources within departments



## ZBB Weaknesses

- ZBB is managerially driven
- ZBB does not directly address whether a government should be in the business of providing a service in the first place
- ZBB doesn't address alternative service delivery options
- ZBB doesn't directly address efficiency of services
- Perceived to be paperwork-intensive



## Is ZBB for you?

- What is ZBB replacing?
- Is performance data available to help make different funding levels meaningful?
- How much work will be required to implement ZBB?
- How “comprehensive” a budget process does the organization want?
- How sustainable should budget reform be?
- What issues are driving interest in ZBB?



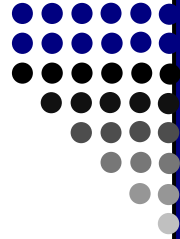
## Take-Aways

- Text-book ZBB is very rare, but “practical” versions are not uncommon
- ZBB could work, if it fits your circumstances
- Priority based budgeting methods are the modern alternative to ZBB

# Priority-Driven Budgeting



An Alternative to Incremental  
Budgeting



## Why PDB?



- PDB is a powerful tool that helps us
  - Better meet the expectations of constituents
  - Address current or anticipated fiscal constraints
  - Focus on the revenues we have and on using them in the most productive ways possible
  - Spend within our means
  - Get the best results for the money we have

## According to Moody's:



- Across-the-Board versus Targeted Budget Cuts
  - “Across-the-board cuts can be a way to avoid tough decisions”
  - “Targeted cuts require a serious discussion of community values, relative benefits of different services, and long-term implications”
- Moody's wants to see how local governments plan for and respond to financial challenges over the long term
  - *“Making targeted cuts can demonstrate a more strategic approach to managing the fiscal crisis”*

## Overview of Steps in the Process



- Identify Available Resources
- Identify Your Priorities
- Define Your Priority Results More Precisely
- Prepare Decision-Units for Evaluation
- Score Decision-Units Against Results
- Compare Scores between Decision Units
- Allocate Resources
- Create Accountability for Results & Create Service Efficiencies

## Step 1 – Identify Available Resources



- **Identify Available Revenues.**
  - Shift thinking: From what is “needed” to what is “available”
  - Identify the amount of resources that are “available” to fund operations as well as one-time initiatives and capital expenditures
  - Differentiate between one-time and on-going sources
  - Educate and inform stakeholders

***Intended Result:*** Adopt a “spend within your means” approach – meaning there is a common understanding of the amount of resources *available* and that there is a clearly established limit on how much can be budgeted for the upcoming fiscal year.

## Step 2- Identify Your Priorities



- Define key priorities
  - Define in terms of results or outcomes
- Use a strategic plan or mission/vision statement as the starting point
- Closely involve the governing board
  - Could also be a point of citizen involvement

***Intended Result:*** A set of priorities expressed in terms of measurable results that are of value to citizens and widely agreed to be legitimate by elected officials, staff, and the public.



# Determine Results



## City of Grand Island, NE



### Community Results

- Used to Differentiate Programs Offered to the Community
- Not All Programs Achieve these Results
- Programs that Achieve Many Results, with a High Degree of Influence, Achieve Highly in Prioritization (demonstrate high degree of relevance)

### Quality Service Results

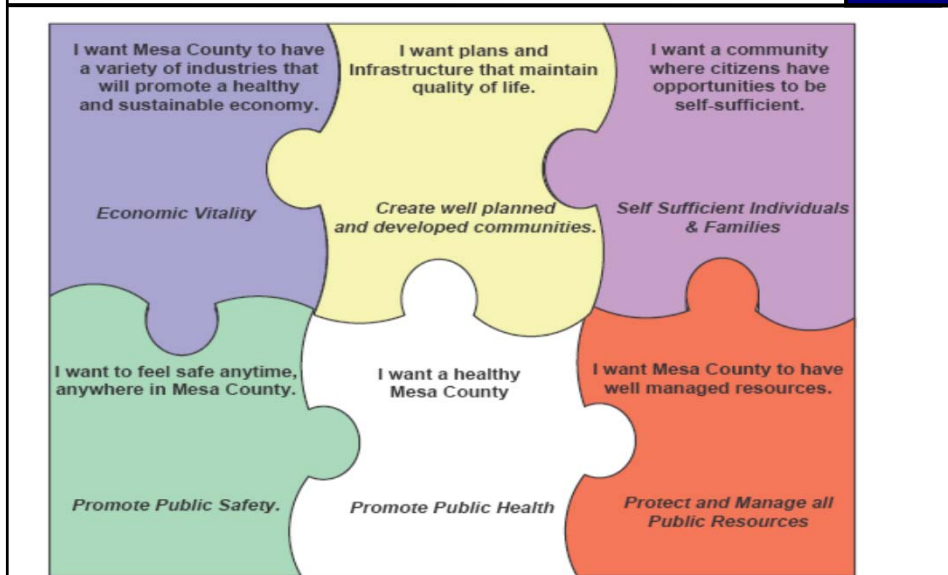
- Every Program Should Achieve these Results (though potentially, not every program does)
- Not Used to Differentiate the Relevance of Programs in Prioritization

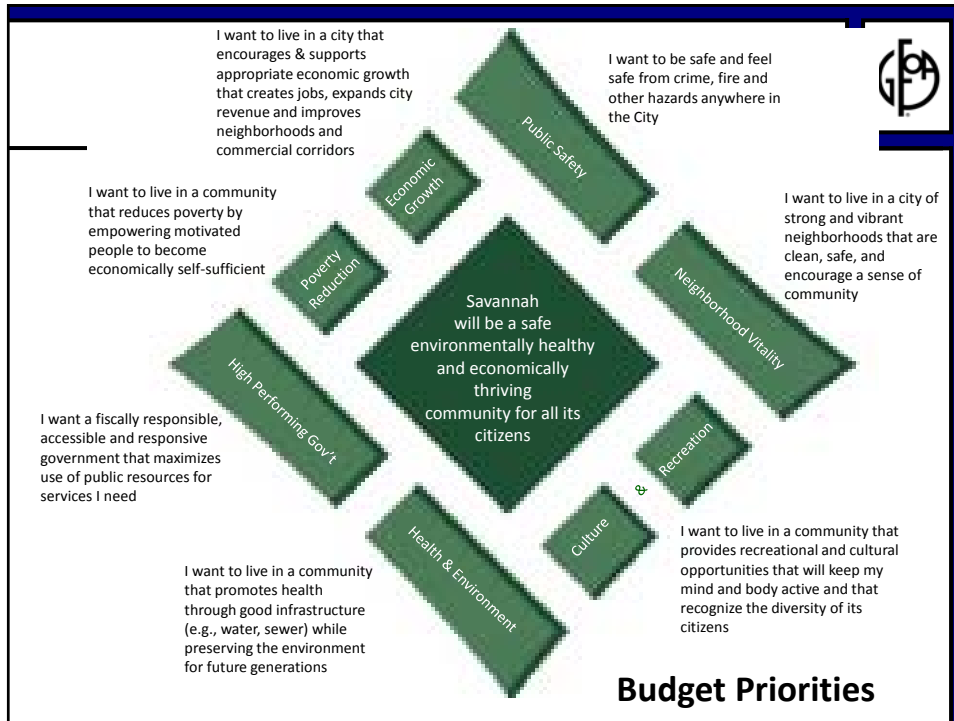
### Governance Results

- Used to Differentiate Programs Designed to Support Governance

Slide courtesy of The Center for Priority Based Budgeting

# Mesa County





## Step 3 - Define Your Priority Results More Precisely

- The priority results define why an organization exists.
- Use strategy maps
  - Develop with cross-functional teams
  - Ask: "When the City \_\_\_\_\_, then they achieve [the result the citizen was focused on]."
  - Are some results more important than others?

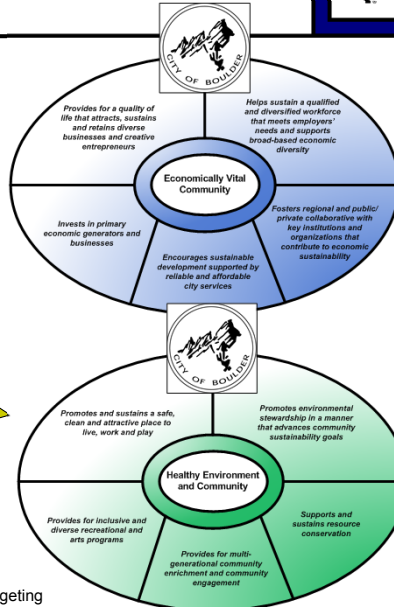
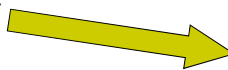
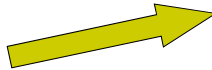
**Intended Result:** Reveal the identity of your community and the objective meaning of what is relevant to it through the process of defining priority results.

# Clarify Priority Definitions (Result Maps)



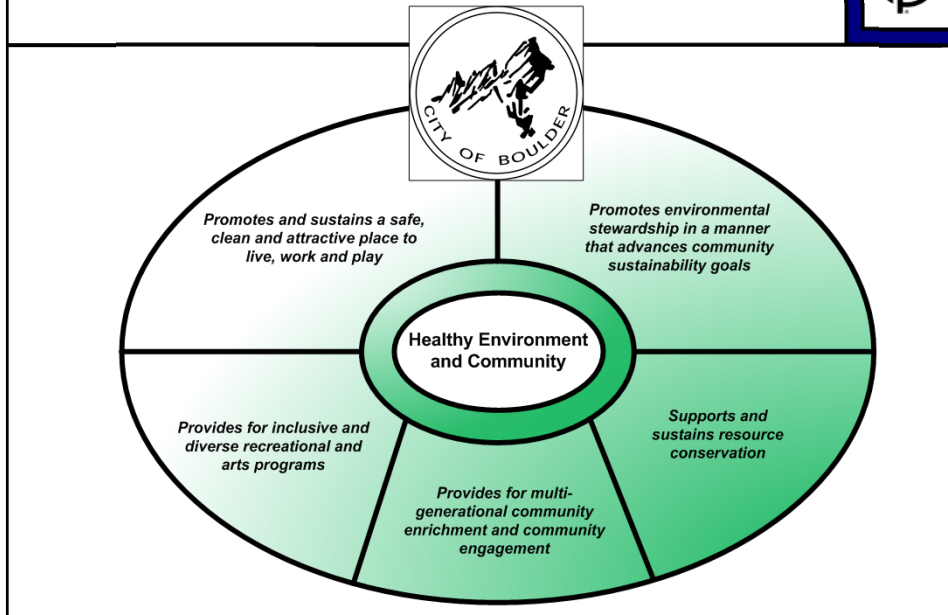
## City of Boulder, CO Results

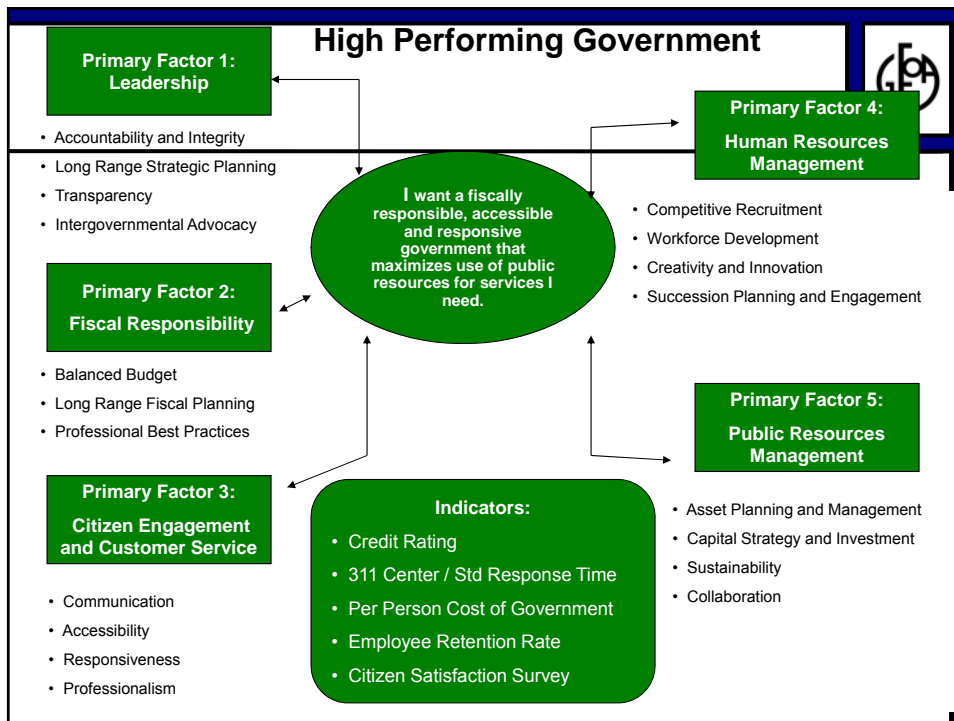
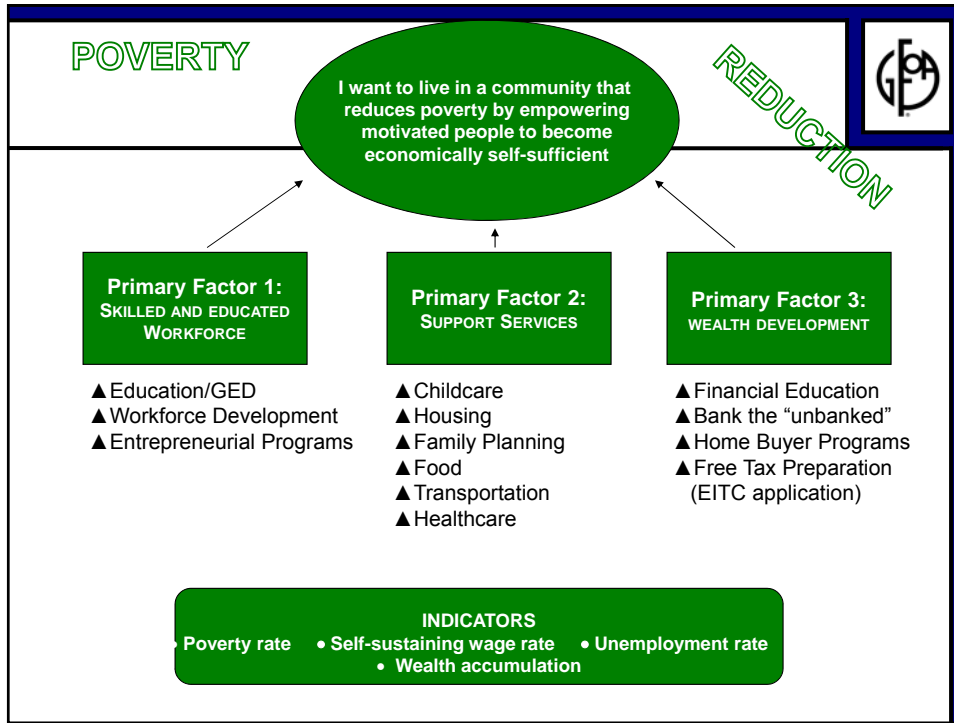
- ❖ Accessible & Connected Community
- ❖ Economically Vital Community
- ❖ Healthy Environment & Community
- ❖ Inclusive & Socially Thriving Community
- ❖ Safe Community



Slide courtesy of The Center for Priority Based Budgeting

# Close Up of Result Map





## Step 4 - Prepare Decision Units for Evaluation



- There are two basic approaches: “offers” or “programs.”
  - Offer: Customized service package
  - Programs: Set of related activities to achieve result

**Intended Result:** Prepare discrete decision-units that produce a clear result. Think about evaluating these decision units against each other and not necessarily about evaluating departments against each other

## Identify Programs and Services



- Departments develop their own program inventories
- When defining programs, be clear on the objectives of what inventory will be used for
- Not too big, not too small, just right!
  - Measure relative size based on costs, people associated with program
  - Departments and Divisions = too big
  - Tasks = too small

### CITY OF BOULDER, COLORADO Department Program Inventory Monday, July 26, 2010

**Directions:** For all of the programs and services in your department, identify the program name. When completed, please e-mail the Program Inventory back to Jim Reesor



Fund No.	Department Providing Program	Program Name
010	Community Planning & Sustainability	General Business Assistance
010	Community Planning & Sustainability	Business Retention and Expansion
010	Community Planning & Sustainability	Business Incentive Programs
010	Community Planning & Sustainability	Business Partnerships and Sponsorships
140	Community Planning & Sustainability	Energy Decarbonization
140	Community Planning & Sustainability	Green Job Creation
140	Community Planning & Sustainability	Climate Adaptation Planning
112	Community Planning & Sustainability	Comprehensive Planning
112	Community Planning & Sustainability	Intergovernmental Relations
112	Community Planning & Sustainability	Historic Preservation
112	Community Planning & Sustainability	Ecological Planning

Slide courtesy of The Center for Priority Based Budgeting

City of Boulder, Colorado

## Step 5 - Score Decision Units Against Results



- Develop a process to evaluate decision units
  - Score Decision Unit against all areas or just one?
  - Other criteria?
    - Mandates?
    - Revenue coverage?
    - Increasing demand?
  - How to assign scores?
    - Self-assessment vs. evaluation team?

## Step 5 - Score Decision Units Against Results



- Regardless of how you answer the foregoing questions, keep these points in mind:
  - Evaluate against priority results as they were defined by stakeholders
  - Scores must be based on demonstrable influence
  - Results of scoring are presented as a recommendation to the board

***Intended Result:*** Each decision unit (offer or program) should have a score that indicates its relevance to the stated priorities.

## Score Programs on Basis of Results & Basic Program Attributes



### Basic Program Attributes

- Mandated to Provide the Service
- Reliance on the City to Provide the Service
- Self-Sustainability (*Program Revenue*)
- Change in Demand for Service

### City of Boulder's Results

- Accessible & Connected Community
- Economically Vital Community
- Healthy Environment & Community
- Inclusive & Socially Thriving Community
- Safe Community

## Identify "Value" of Program Based on their Influence on Results



**Individual Department Program Scorecard**  
Thursday, January 28, 2010

**Directions:** For all the programs in your department, please rate how these programs score in the four Basic Attributes and they influence the City's ability to achieve its Priority Results. When completed, please email the Program Scorecard back to [mariah.habel@sanjoseca.gov](mailto:mariah.habel@sanjoseca.gov)

		Evaluation Criteria									
		Basic Program Attributes				Priority Results					
		Mandated to Provide Program	Cost Recovery of Program	Change in Demand for Service	Reliance on City to Provide Service	Safe City	Prosperous Economy	Green, Sustainable City	Attractive, Vibrant Community	Reliable, Well-Maintained Infrastructure	
<p><b>0-4 Scale (Federal)</b> 1=Minimal/2=Challenging/3=Difficult/4=Resolution/5=Mandated</p> <p><b>0-4 Scale (Based on Percentage)</b> 75%: 2-75-100%; 3=50-75%; 4=25-50%; 1=0-25%</p> <p><b>0-4 Scale (City)</b> 4=Admitted significantly decreasing; 3=Admitted significantly increasing; 2=Admitted; 1=Not Admitted</p> <p><b>0-4 Scale (City can provide service)</b> 4=City public entities can provide service; 3=Other entities can provide service; 2=City can provide service; 1=City can provide service</p> <p><b>On a scale of 0 to 4 points, 0 = program has no influence on achieving the Results; 1 = program has some influence, though minimal; 2 = program influences the Results; 3 = program has a strong influence on the Results; 4 = program is essential to achieving the Results.</b></p>		Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below	Enter Score Below
Office of Economic Development	Business Attraction/Expansion Assistance	4	2	4	4	2	4	3	2	0	
Office of Economic Development	International Business Relations/Sister City	0	1	2	2	0	2	1	1	0	
Office of Economic Development	Economic Strategy, Policy and Analysis	1	2	4	2	0	3	3	2	0	
Office of Economic Development	Downtown Management	1	2	4	4	3	2	0	3	4	
Office of Economic Development	Arts/ Festival Grants and Assistance	1	1	3	0	1	3	1	4	1	
Office of Economic Development	K-12 Arts Education	0	0	2	0	1	2	0	4	0	
Office of Economic Development	Cultural Planning, Policy and Initiatives / Arts	1	0	2	4	1	3	1	4	1	
Office of Economic Development	Public Art Project Management	1	1	2	0	1	2	2	4	3	
Office of Economic Development	Public Art Master Plan Implementation and	1	1	3	0	1	2	1	4	2	

Slide courtesy of The Center for Priority Based Budgeting  
Center for Priority Based Budgeting

## Step 6 - Compare Scores Between Offers/Programs



- The Moment of Truth
  - Make sure there results aren't a surprise
- Broad engagement will help make sure people understand the process
- Look for opportunities to divest of low priority programs other than just cutting
  - Transfer? Take over by NGO?

**Intended Result:** The prioritized ranking of programs is a logical and well-understood product of a transparent process – no surprises.

## Step 7 - Allocate Resources



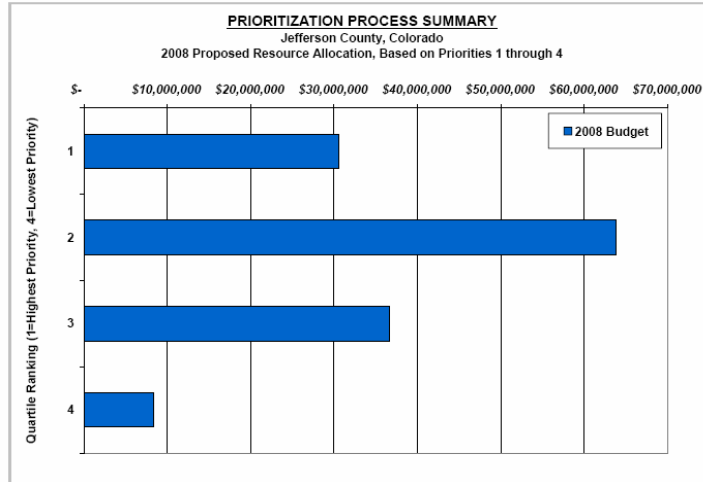
- A number of methods for allocating resources, but PDB is not a mechanistic process.
  - Line vs. Quartile method
- There is much give-and-take and discussion about how resources are allocated in light of the scoring.
- Support services are often funded at a historical level
  - Long-range goal of full costing
- Try ranking without respect to funding, but allocate with funding in mind

**Intended Result:** Align resource allocation consistent with the results of priority-driven scoring.





## County-wide Resource Allocation Decision Making Supported by Priorities



- Is this an acceptable “picture”?
- If there were a significant revenue downturn, is the answer across the board budget cuts, or could Prioritization be used to better re-allocate resources?
- Conversely, if revenues were unexpectedly higher, is the answer across-the-board spending increases, or should the additional investment be made in top priorities first?

## Step 8 - Creating Accountability



- Moral hazard
- Create methods for making sure that programs/offers deliver the results
- Establish standards of evidence against which the performance of the programs/offers will be judged.

## Concept for Performance Measures



### Basic Needs

**Priority:** People in Polk County who are at risk because of their health or economic status will get their basic needs met, and are as self-sufficient as possible.

#### Indicators:

Poverty Level	<i>Improving</i>
Homeless Population	<i>Maintaining</i>
No Health Coverage	<i>Improving</i>
County vs State	<i>Improving</i>

## Priority Driven Budgeting Take Aways

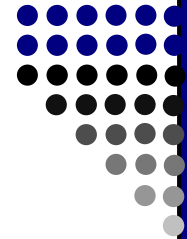


- Priority driven budgeting is a practical alternative to incremental budgeting & ZBB
- PDB may not be for everyone
  - Leadership must be committed
- See GFOA's free whitepaper for more details
  - Available at [www.gfoa.org/research](http://www.gfoa.org/research)

# Performance Measurement



Lessons form Performance Measurement Leaders: A Sample of Larger Local Governments in North America



## Performance Measurement Report Key Findings



- Chief executive support is indispensable
- Regular performance review meetings are essential
- Performance measurement's greatest value is as a tool for learning
- A centralized performance measurement coordinating authority provides a locus for performance measurement activity



## Not so important...

- Highly sophisticated analysis
- High tech
- Robust training programs

For the details visit [www.gfoa.org/research](http://www.gfoa.org/research)



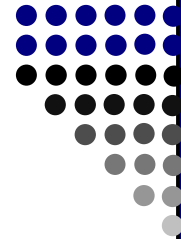
## Resources

- Visit [www.gfoa.org/research](http://www.gfoa.org/research) for...
  - Free ZBB research report
  - Free priority budgeting research report

# Actually Measuring Things



## Practical Steps



## Performance Measures



- Definition of Measurement
  - A quantitatively expressed *reduction of uncertainty* based on one or more observations
- Defining what to measure
  - If it matters at all, it is detectable/observable
  - If it is detectable, it can be detected as an amount (or range of possible amounts)
  - If it can be detected as a range of possible amounts, it can be measured
- Start by *defining what you want to measure and why you want to measure it*

## Clarifying the Measurement Problem



- What is the decision this measurement is supposed to support?
- *What is the definition of the thing being measured in terms of observable consequences?*
- How, exactly, do these consequences matter to the decision being asked?
- What additional value will measurement add to decision-making?

## Measurement of Outcomes



- In the case of critical issues and community conditions, we want to apply measures to “outcomes”
  - **Constituent + observable change = outcome**
  - E.g., We want a community that is safe
  - E.g., We want families that are able to support themselves economically
- Outcome measures should directly tell us if constituents are *actually better off*
  - Output measures only tell us how much effort was put forth

## Criteria for a Good Measure



- **Communication Power**
  - Does the indicator communicate to a broad audience?
- **Proxy Power**
  - Does the measure say something of central importance about the result we want with respect to a critical issue or community condition?
- **Data Power**
  - Do we have quality data on a timely basis?

## Criteria Lead to Measurement Priorities for a Given Critical Issue or Community Condition



- **Primary Measures**
  - 3 or 4 measures that score highly on all three criteria
- **Secondary Measures**
  - Any other measure for which there is good data. Supplements primary measures
- **Data Development Agenda**
  - Priorities for new and improved data





## Possible measures

- A safe community
  - Resident perceptions of safety
  - Trends in larceny / theft crimes
- Families can support themselves economically
  - # and % of school children in poverty
  - Growth in jobs available in higher paying industries

*What are your ideas?*



## How to Measure

- Measures should not be overly complicated or difficult
- Here are some approaches to measurement to help you measure anything
  - Decomposition
  - Basic methods of observation
  - Sampling
  - Secondary Research
  - Human judgment



## Decomposition



- Many measurements start by **decomposing** an uncertain variable **into constituent parts** to identify **directly observable** things that are easier to measure
- Decomposition itself often provides sufficient reduction in uncertainty that further observations are not required.
- Let's try decomposing citizen satisfaction with the water billing and payment process
  - Short class discussion

## Basic Methods of Observation



- **Follow the trail** like a clever detective. Does the thing you are trying to measure **lead to consequences** that themselves leave a trail?
  - Use **direct observation**. Start looking, **counting**, and/or sampling.
  - If it doesn't leave a trail, **add a tracer** so it starts leaving a trail
  - If you can't follow a trail, can you create conditions to observe it (**an experiment**)
- How might we apply these ideas to our problem of utility billing satisfaction?*

## Sampling



- Even a small sample can significantly **reduce uncertainty**
- A sample **reduces data collection** costs
  - Absolute certainty is unnecessary & very costly
- Random samples are usually preferred, but non-random have their uses as well

*How might we use sampling for our measurement problem?*



## Secondary Research



- Someone has probably encountered the measurement problem before
- Other agencies may gather data that you could use
- Don't reinvent the wheel

*What are some of the best secondary sources for Wausau?*

## Human Judgment



- Human judgment is **flexible**, but **fallible**
  - Anchoring, halo/horns, bandwagoning
- **Structured evaluation** tools that define major criteria, require a defined score, and then weight the decision factors is an improvement over nothing
  - Always get multiple ratings



Mobilization Phase Activities	Comfort Level			Actions		
	Red	Yellow	Green	Comment	Who	When

**Articulating the Purpose for Long-Term Financial Planning**

19	We have identified the purposes stakeholders value.					
20	We have formed these into a formal statement of purpose.					
21	This purpose statement has been approved by the appropriate stakeholders.					
22	These purposes have been translated into official issues of study for the LTFP project team.					

**Defining Scope**

23	We have a formal scope statement.					
24	The scope statement includes...					
25	...purposes of interest to stakeholders.					
26	...needed financial policy improvements.					
27	We have a sense of priority for the in-scope areas.					
28	We know which funds will be included in the analysis.					
29	We know the time-horizon that will be used in the plan					
30	We know how the financial planning process will be integrated with...					
31	...the budget.					
32	...strategic planning.					
33	...other_____.					
34	We know how often we anticipate undertaking the LTFP planning process					