



CENTER FOR  
PRIORITY BASED BUDGETING

*Using a Unique Lens to Focus Community Resources on Results*

# ***FISCAL HEALTH MODELING***

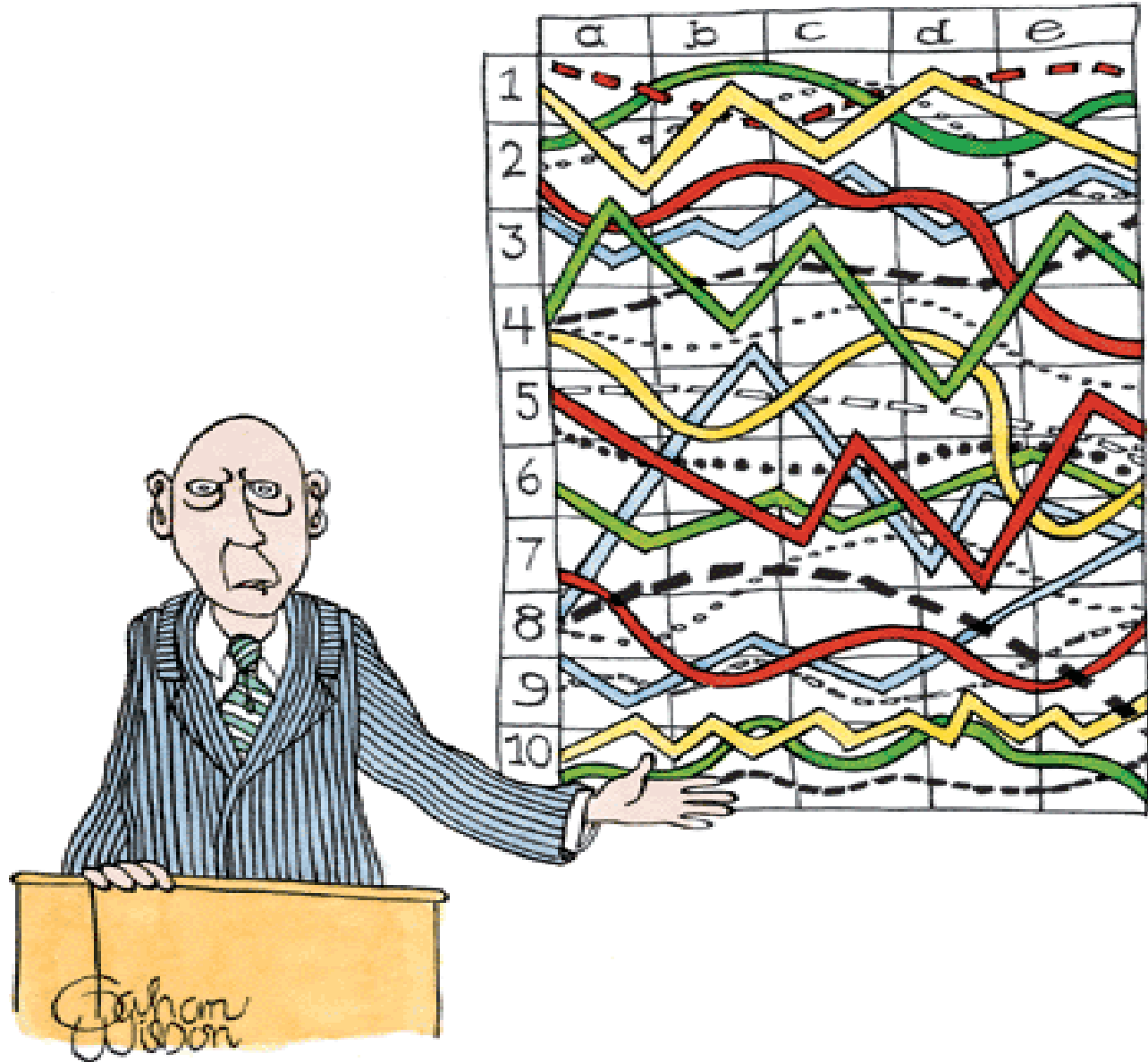
ICMA Learning Lounge

**Jon Johnson & Chris Fabian**

ICMA Conference Presenters







*"I'll pause for a moment so you can let this information sink in."*

# GOVERNING

## GOVERNING

THE STATES AND LOCALITIES

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

### FINANCE 101 SPECIAL SERIES

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

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

BY LIZ FARMER | FEBRUARY 2014



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

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

# GOVERNING

U.S.

## ***Task Force Report Urges Municipalities to Stop Hiding Fiscal Troubles***

By RICK LYMAN and MARY WILLIAMS WALSH JAN. 14, 2014

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MORE

WASHINGTON — After years of painful service cuts and devastating bankruptcies, culminating in the financial collapse of Detroit, state and local governments are being urged to stop using budget gimmicks that obscure the true extent of their money problems.

On Tuesday, the [State Budget Crisis Task Force](#) released its final report, calling for an end to the longstanding practice of using one-offs and opaque accounting methods that make budgets appear balanced even when fiscal

Streamlined investment  
is waiting for you

***"States and cities have deep structural problems that will not go away just because the country is coming out of the recession that started in 2008."***

***"Local governments must stop using budget gimmicks that obscure the true extent of their money problems."***

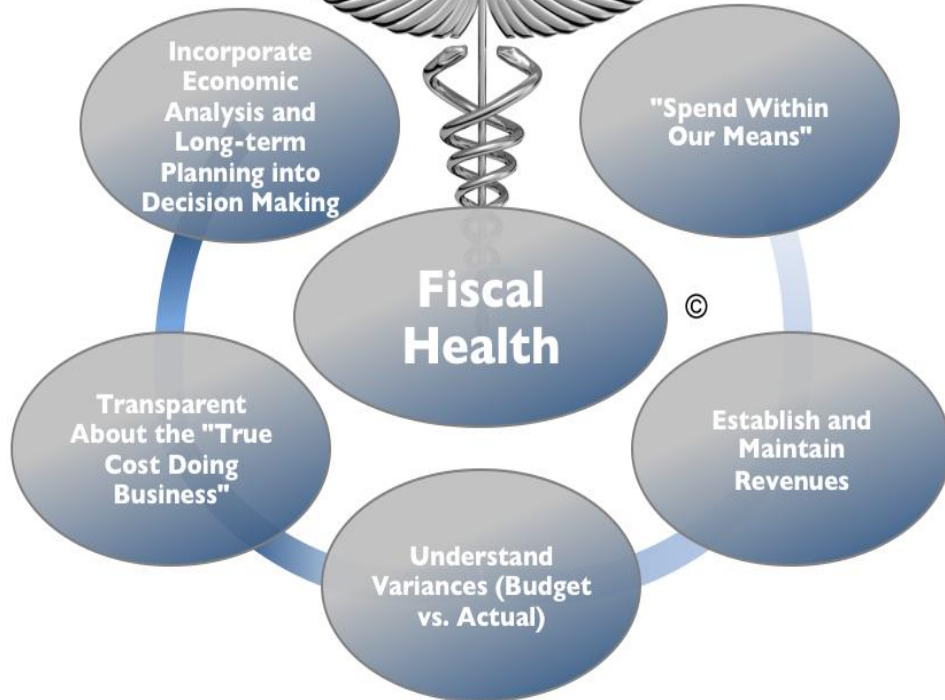
-Volcker-Ravitch Report

# Achieving Fiscal Health & Wellness

## 2 Strategic Initiatives

### Fiscal Health

### Long-term Fiscal Wellness



# BRINGING VISION INTO FOCUS WITH A NEW “LENS”







# ACHIEVING FISCAL HEALTH



# Strategic Questions

- *How much do we have available to spend? - (not “How much do you need”?)*

***“Spend Within Our Means”***



- *Why do we need to keep “money in the bank”?*



***Establish & Maintain Reserves***

- *What’s the “difference”?*



***Understand Variances (Budget to Actual)***

# Strategic Questions

- *“It costs how much”????????*



***Transparent About  
“True Cost of Doing Business”***

- *“What’s the plan and what could cause it to change?”*



***Economic Analysis & Long-Term Planning***

- *What does the future look like?*
- *What if.....???*



***“Fiscal Health Diagnostic Tool”***

# *Diagnostic Questions to Ask*

- ? **Does your organization differentiate between one-time and ongoing revenues and expenditures?**
  - ? If yes, how are they tracked? Does your forecast demonstrate this differentiation
- ? **How does your organization differentiate “program” revenues from “enterprise” revenues such as taxes, earnings on investments, franchise fees, etc.?**
- ? **Does your organization prepare a formal Revenue Manual?**
  - ? If yes, what type of information is included?

# *Diagnostic Questions to Ask*

- ? **Does your organization have a written fund balance reservation policy?**
  - ? If yes, how are you monitoring to ensure that reserves are maintained?
  
- ? **Check to see if established working capital reserves are sufficient to meet emergency needs or short-term revenue shortfalls**
  
- ? **Check to see if there is an inventory of all other restricted or designated fund balance reserves, stating their purpose, the authority establishing them and how they are to be calculated**

# *Diagnostic Questions to Ask*

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

# *Diagnostic Questions to Ask*

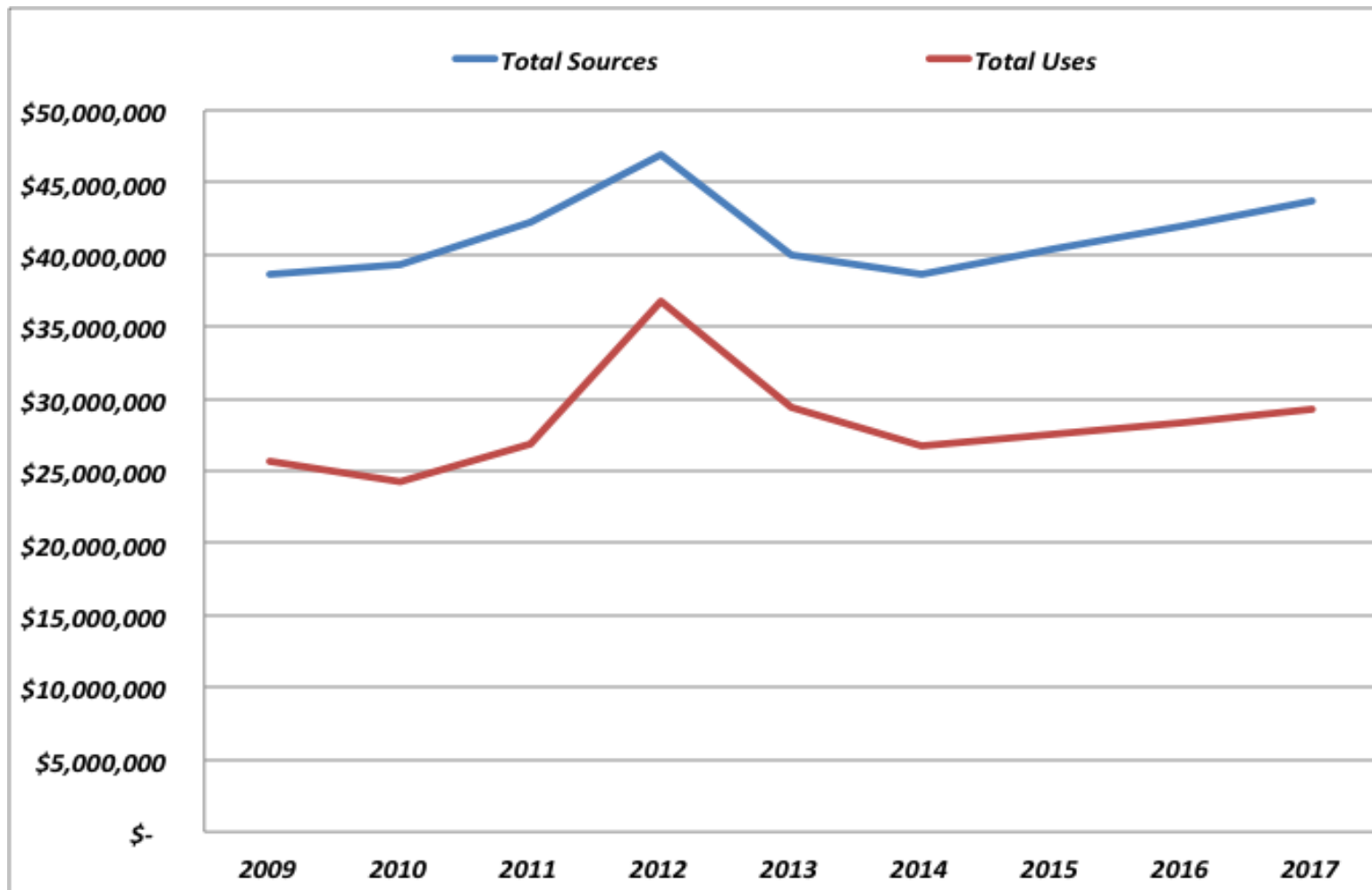
- ? **Does your organization utilize Internal Service Funds?**
  - ? If yes, what are the services provided by each fund and how are the internal charges established and distributed?
  
- ? **Check to see if appropriate demand metrics are evaluated when determining costs**
  
- ? **Check to see if customers perceive that costs are transparent, and that they have the ability to influence those costs by altering their own demand**
  
- ? **Does your organization prepare a Full Cost Allocation plan in addition to an OMB A-87 Cost Allocation Plan?**
  - ? If yes, how is this plan incorporated into the budget process?

# *Diagnostic Questions to Ask*

- ? Does your Five-Year forecast incorporate other long-term plans developed by your organization?**
- ? Does your organization prepare a Capital Improvement Plan?**
  - ? If yes, what information is included and how is it utilized in your budget process and your financial forecasts?**
- ? What tools does your organization use to communicate financial information to its elected decision-makers?**



# Looks like a Financially “Healthy” Organization – Right?



# Let's Look through a Different Lens!



## CITY OF WHEAT RIDGE, COLORADO COMBINED GENERAL and CAPITAL FUNDS

Wednesday, May 15, 13



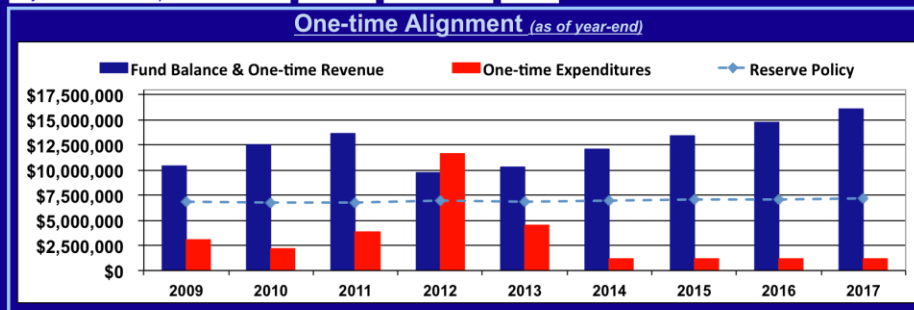
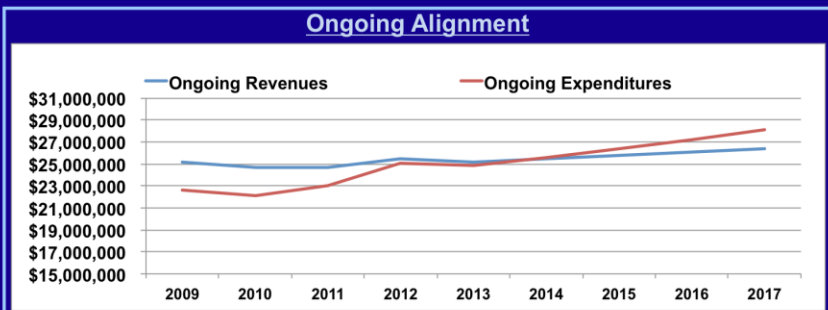
### Fiscal Health Diagnostic (Are objectives met?)

Objectives	Status	1st Year Missed	1st Year Impact
Set Aside Reserves	Meets	-	\$0
Achieve "Ongoing" Alignment	Does Not Meet	2014	(\$137,866)
Achieve "One-time" Alignment	Meets	-	\$0

Note: Items in "Blue" can be modified; items in "Black" can not

### Additional Ideas for Revenue Enhancement

Description	R	Ongoing	Year 1	Year n	One-time	Year
Increase Sales Taxes	R	\$0	2014	2017	\$0	2013
Sell City Hall (sell assets)	R	\$0	2014	2017	\$0	2014
ULTIMATE ELECTRONICS CLOSES	R	\$0	2014	2017	\$0	2012
Anticipated Increase in Sales Tax Revs	R	\$0	2015	2017		
Fill Gap	N		2014	2015		
Adjust Reserve Policy	N	10%	2013			



Ongoing Initiatives	Y/N	Approval Year	First Year \$
	N	2013	\$ -
	N	2013	\$ -
CIP - 32nd Ave. Reconstruction - Wadsworth to Kipling	N	2014	\$ -
CIP - Wadsworth Reconstruction - 36th to 46th	N	2014	\$ -
CIP - Pedestrian & Bike Master Plan	N	2015	\$ -
CIP - Dispatch Center	N	2016	\$ -

One-time Projects	Y/N	Approval Year	First Year \$
	N	2012	\$ -
	N	2012	\$ -
CIP - 32nd Ave. Reconstruction - Wadsworth to Kipling	N	2013	\$ -
CIP - Wadsworth Reconstruction - 36th to 46th	N	2013	\$ -
CIP - Pedestrian & Bike Master Plan	N	2014	\$ -
CIP - Dispatch Center	N	2015	\$ -



# “Looking Through the “New Lens”



- Is the organization able to clearly *communicate* its fiscal position to its various stakeholders?
- Does the organization *“SPEND WITHIN ITS MEANS”*?
- What are the organization’s *“ongoing”* sources of revenue as compared with its *“one-time”* sources of funding?
- Are these *“ongoing”* sources sufficient to fund *“ongoing”* operational expenses?
  - Are *“one-time”* funds being used to cover *“ongoing”* expenses?
- Are their sufficient *“one-time”* funding sources to pay for future *“one-time”* project and capital needs?

# “Looking Through the “New Lens”



- Does the organization monitor its level of **“Restricted” Fund Balance**?
  - Does the organization maintain sufficient **“Emergency/Working Capital Reserves”** by adopted policy?
- Do actual revenues and expenditures **align** with adopted budget amounts?
- Are the impact of **“ongoing”** expenses discussed when approving **“one-time”** capital projects?
- Are **future financial impacts** of current decisions clearly understood at the time those decisions are made?

# "FISCAL HEALTH DIAGNOSTIC TOOL" –

## Tell the Story with a "Picture"



### GENERAL FUND

Monday, June 08, 2009

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

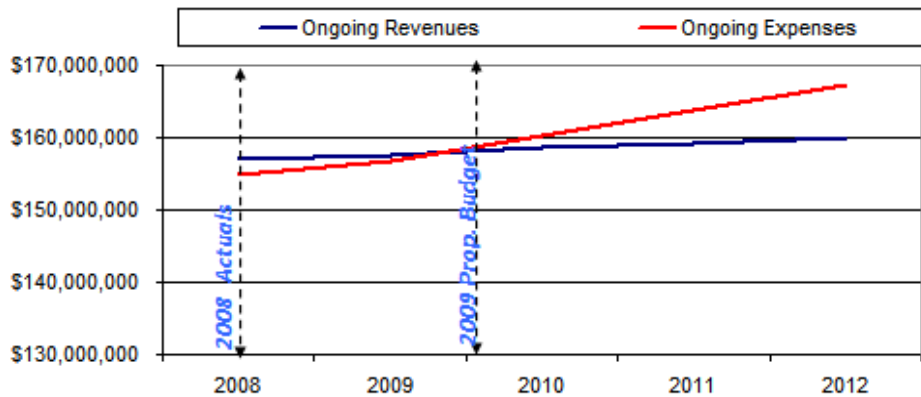
#### Fiscal Health Diagnostic (Do we meet the objectives?)

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

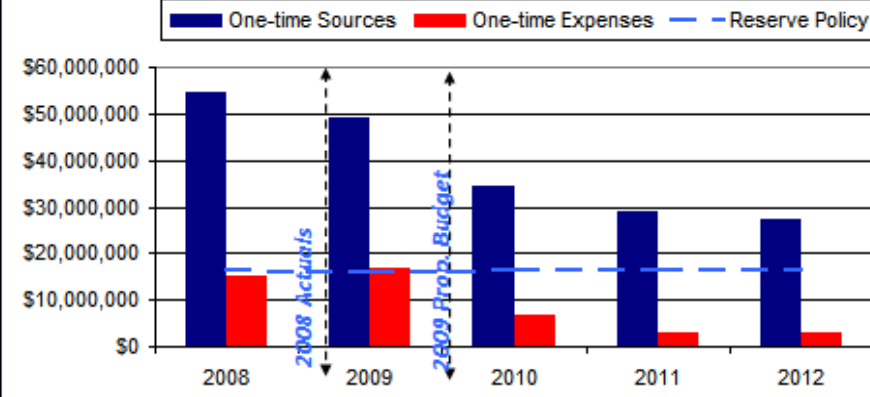
#### Ideas for Cost Containment or Additional Revenue

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

Ongoing Alignment, 2008-2012



One-time Alignment, 2008-2012



#### Ongoing Business Cases

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

#### One-time Business Cases and 5-Year Plan

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

*Live Demonstration of*

**“Fiscal Health  
Diagnostic Tool”**

Questions/Comments?

# Thank You !



**CENTER FOR  
PRIORITY BASED BUDGETING**

*Using a Unique Lens to Focus Community Resources on Results*

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**Center for Priority Based Budgeting,  
Denver, Colorado.***



The logo features the text 'ICMA' in a blue sans-serif font above a large '100' in a blue script font. The 'th' is in a smaller, orange script font. The background is light blue with two white fireworks exploding. Below the logo is a horizontal line.

ICMA  
**100**<sup>th</sup>

ANNUAL CONFERENCE

**Charlotte**  
Mecklenburg County

SEPTEMBER • 14-17 • 2014