

CASE STUDY

Rayong, Thailand
Portland, Oregon

Improving Municipal Financial Management

CityLinks Partnership between
Rayong, Thailand, and Portland, Oregon





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Like other municipalities in the developing world, Rayong, Thailand, was ill-prepared for decentralization. Of particular concern to mayor Suraphong Putanapiboon was the inexperience of municipal staff and elected officials in the area of financial management. *CityLinks* partner Portland, Oregon, helped Rayong staff develop a five-year financial plan to help forecast revenues and expenditures and plan accordingly, and to ultimately prepare the city for issuing bonds to meet its extensive capital investments needs. In addition, the partnership helped Rayong put in place new financial management policies to ensure financial stability, as well as new citizen involvement procedures to help the municipality educate citizens about the budget and better assess citizen priorities.

Introduction

In 1999, Thailand embarked on a process of decentralization that assigned municipal governments responsibilities formerly reserved for the national government. Many municipalities, however, lacked sufficient revenues to carry out these new responsibilities.

In Thailand today, grants and local taxes collected by the central government constitute more than seventy percent of the municipal revenue stream, while locally collected revenues average only eleven to twelve percent (the remainder comes from revenue-sharing taxes). As the central government begins to allow more local control and decentralizes tax collection, cities in Thailand will need to be prepared to take on new tax collection and administration responsibilities. The city of Rayong's mayor, Suraphong Putanapiboon, looked forward to a time when his city could issue bonds to address its chronic capital needs. He recognized that preparing for this transition and the challenges it presented would require keen financial management and the involvement of citizens. He knew that there were people with far more experience in financial management than he had, so he applied to the USAID *CityLinks* Partnership to tap this expertise.

ICMA selected Portland, Oregon (population 508,000), to assist Rayong because of the U.S. city's strength in municipal financial management and citizen involvement. Portland has a reputation as one of the most livable cities in the United States. Although Portland is much larger than Rayong, both cities are the largest in their region and serve as industrial centers for the surrounding communities. Moreover, both are strategically located for international commerce. Rayong is on the Gulf of Thailand, just 112 miles

Rayong Facts

Location: Southeastern Thailand,
112 miles from Bangkok

Population: 117,600

CityLinks Partner: Portland,
Oregon

Partnership Dates: 2000-2002



from Bangkok, and the Rayong River flows through the center of the city to the sea. Portland is also a coastal city, situated at the confluence of the Willamette and Columbia rivers. Both Portland and Rayong are experiencing rapid population growth—Portland over the course of the past two decades and Rayong more recently.

Working together, the cities of Rayong and Portland developed a transparent five-year budgeting tool that allows citizens and decision-makers to assess the future and better understand the long-term ramifications of decisions that are made. Using this tool, Rayong now calculates what new programs will cost over the next five years. This enables the city to consider the sustainability of new programs at the outset. The tool is also used to evaluate the impact of new costs and revenues transferred from the central government to the municipality. The budgeting process will allow the city to accurately project budget surpluses and deficits over a five-year period. This will allow Rayong's leaders to address projected budget shortfalls in advance rather than when there is a crisis, thus avoiding sudden, unanticipated cuts to service delivery. Today, local governments in Thailand do not have independent borrowing authority; when municipalities are given this authority, Rayong will be able to allocate surpluses to pay off long-term debt, allowing it to meet the infrastructure needs of the community.

The city of Rayong also worked with Portland to strengthen its financial management practices. The city has new policies in place to balance the local government budget each year, maintain financial reserves, use one-time revenues to fund one-time expenditures, and measure the effects that a proposed change to revenues will have on the city's budget and finances. These financial management practices will further strengthen control over the city's finances and contribute to improved decision-making.

The Strategy

The partners decided to focus on improving municipal financial management by creating a five-year revenue and expenditure forecast model, adopting sound financial policies, and promoting citizen participation in the budget process. As decentralization shifts revenue collection to municipalities, improved financial management and multiyear planning will become key to increasing revenues and improving efficiency. Developing sustainable service delivery plans likewise requires multiyear revenue and expenditure forecasting.

During their initial meetings, the teams from Rayong and Portland agreed that Rayong had two critical needs: 1) improved financial management systems, and 2) a five-year revenue expenditure and forecast model, which would include detailed projections for operating as well as revenue and capital expenditures. Portland's program, which uses

Microsoft Excel, would be used as a model; the teams would adapt it to Rayong's situation. In addition, the teams agreed that they needed to identify appropriate budget and financial planning policies and processes for citizen participation.

The teams thus set out on a course to accomplish three basic objectives:

- Forecast revenue and expenditures for a five-year period;
- Develop sound financial policies;
- Create an additional component within the budget process that provides for citizen participation.

Forecasting Revenues and Expenditures

Developing the forecasting model was an iterative process. The partners first prepared background material and preliminary modeling. Then they reviewed and revised it. The Thai team learned the Portland model through both formal and informal training sessions; the Portland team helped adapt the model to the Thai system—changing, for example, the numbering of years to follow the Buddhist calendar.

The partners then took the following steps to create a five-year financial model:

- Collecting historical budget data
- Determining growth factors
- Forecasting operating and investment capital expenditures for a five-year period
- Testing plans against policies.

Collection of historical budget data For each revenue and expenditure category, Rayong staff collected historical data from the previous five years. Revenue categories included tax, public property rentals, municipal pawnshop, donations, and central government grants. Expenditures were divided according to municipal government divisions: municipal clerk, technical services and planning, finance, public works, public health and environment, sanitary works, and education. Rayong staff also prepared organizational charts detailing the organization and services provided by each division and department.

Determining growth factors The partners then took into account known and anticipated changes in distribution formulas for major revenue sources, to determine growth factors for each revenue and expenditure category. Where no growth factor could be assumed, they allowed the base year to stand as the budgeted amount for the future. The formula in the model allowed revenue categories to be forecast either on the basis of detail specific to that category, or on the basis of aggregate detail. The data was reviewed to address any anomalies resulting from running the statistical model.



Forecasting operating and investment capital expenditures Once they had good data with which to work, the Rayong and Portland teams forecasted operating and investment capital expenditures for a five-year period by applying the growth factors they had identified to individual expenditure line items on a department-by-department basis. Running the model results in summary information for revenues, operating expenditures, and capital expenditures and shows variances, such as the degree to which the budget is balanced over a five-year term. Not surprisingly, the model showed that expenditures were far outstripping revenues. The partners adjusted the model further to differentiate operating expenditures from investment capital, to provide the mayor and council with an accurate financial picture.

Testing plans against policies The final step in developing a five-year budget forecast was to test financial plans against financial policies. By comparing the plans with the policies, staff could identify problems and opportunities for improvement in financial management. The program also allowed the partners to prepare alternative “what if” scenarios, showing the effect of potential new revenues and/or the impacts of estimated higher expenses.

The revenue/expenditure forecasting model was developed using Microsoft’s Excel spreadsheet program. The model has been developed as a series of linked worksheets within a single spreadsheet file. Individual worksheets correspond to revenue and expense details that are currently used by the city of Rayong in development of its five-year plan and annual budget.

The individual revenue and expenditure worksheets enable the user to develop a five-year forecast for each worksheet line item. This information is then used to create a series of summary worksheets, including:

- **Rayong Municipality Five-Year Expenditure Worksheet:** A detailed summary of the line-item forecasts, by division and department, developed in each expenditure worksheet.
- **Revenue/Expense Forecast Worksheet:** A detailed summary of the line-item forecasts developed in each revenue worksheet and an expenditure summary for each division within the Rayong Municipality.
- **Forecast Summary Worksheet:** A high-level summary of five-year forecast revenues and expenditures.
- **Fund Balance Worksheet:** A high-level summary of overall sources of funds, beginning and ending fund balance, and a comparison of fund balances with the city’s reserve policies.
- **Economic/Demographic and Impacts Worksheet:** A compilation of selected economic and demographic data for a historical five-year time period. Budget and expenditure impacts are calculated, based on the economic/demographic information and selected revenue/expenditure information.

Developing Sound Financial Management Practices

After reviewing Portland's financial policies to discern their applicability to Rayong, the team recommended that Rayong's municipal council adopt four key policies:

1. Balance budgets: Revenues and expenditures are balanced each year.
2. Maintain financial reserves: The ending general fund balance equals at least 25 percent of annual expenditures, providing a "rainy-day" fund that would allow the city to absorb unanticipated revenue shortfalls without immediate and drastic expenditure cuts.
3. Use one-time revenues to fund one-time expenditures, so that such funding is not used for new programs that will be ongoing.
4. Use measurements of affordability when considering new or increased revenues: Before a change is adopted, the impact of a change on the budget is measured.

The municipal council heeded the team's recommendations, and these four key elements of sound financial management were put into place.



Incorporating Citizen Participation into the Budget Process

Both teams agreed that citizen participation was an essential component of effective financial management. The teams discussed the use of citizen participation activities to educate citizens about the municipal budget, seek input from citizens on the development of budget priorities for the local capital and operating budget, and solicit feedback from citizens after the annual budget has been drafted, to help determine whether the budget is adequately addressing citizens' needs and priorities.

Following a meeting in Portland, where he saw the citizen-based budget review committee in action, Mayor Suraphong returned to Rayong and immediately appointed a five-member citizen financial advisory committee to provide input on and oversight for the budget. The advisory committee met several times with the partners, to learn more about the five-year forecasting process that Rayong was using. The committee also has implemented a program to educate community members on financial and municipal management; reviewed and made comments and recommendations on Rayong's budget; and developed plans for capital project outreach.

Portland also shared with Rayong its strategies for involving citizens in budgeting and financial management, including citizen surveys focused on budget priorities, community budget forums, public hearings, and council review. The partners discussed how and when these citizen involvement activities could be overlaid on Rayong's budget schedule. Because Rayong had no history of citizen involvement, the partners decided to phase in these activities over a five-year period.

Following initial education sessions, the citizen task force and advisory committee recommended a budget increase for children's education and the development of a master plan for tourism. They also looked at options for increasing revenues. The committees recommended requesting that the provincial government redirect a portion of the two percent hotel tax to the municipality that generated the revenue, and that the central government similarly redirect a larger share of the seven percent value-added tax to the municipality that generated the business. They also discussed increasing the fee for garbage collection. Although these recommendations were not acted upon, they provided Rayong with experience in evaluating options for increasing its revenue stream.

“While Rayong has a budget structure similar to ours, we spent a lot of time working together to understand how the context differs and how this affects budgeting options. It was challenging for us to learn their system, especially restrictions on revenues. For example, we found an outstanding loan and debt service payment, but Rayong had no independent borrowing authority; it can't yet issue bonds. Learning about each other was grueling, tedious, and exhausting—but ultimately very rewarding.”

**Ruth Roth, Principal Financial Analyst,
Portland, Oregon**

Finally, to help Rayong share the budget process with citizens, Portland officials prepared two step-by-step manuals summarizing the model the partners developed: *The User's Manual for Revenue & Expenditure Model and Guidelines for Citizen Involvement within the Budget Process*. These were translated into Thai and provided to the committee.

Sustainability and Outlook

The forecasting model that was developed by Portland and Rayong will serve as a tool that can be used by the city of Rayong to:

- Project existing revenues and evaluate new local fees and taxes;
- Prepare for further decentralization efforts by developing alternative financial scenarios to test impacts on the ability to provide municipal services and the cost of those services on Rayong citizens; and
- Assist in public outreach efforts with Rayong citizens.

In 2002, Rayong worked with its partners in Portland to create a five-year revenue and expenditure forecast model, which it then used to prepare annual and five-year budget forecasts for each division and department. This will enable the mayor and municipal council to accurately forecast whether revenues are sufficient to meet Rayong's expenditures; i.e., whether the operating budget is sustainable over the next five years. The five-year forecast also provides Rayong's elected leaders with the information needed to identify the capital projects the municipality will support over that same period. The financial policies that are now in place will also allow Rayong officials to clearly communicate to citizens the rationale behind the budget and financial decisions that are made. Similarly, the citizen involvement plan will allow Rayong citizens to communicate to officials their priorities for municipal services.

The mayor and elected officials also learned how to use the forecast model as a decision-making tool. For example, partners showed how the model can be used to develop "what if" alternatives to evaluate the impact of decentralization on the budget and to prepare project and program funding plans. Rayong officials also learned how to use a five-year forecast to help educate citizens and stakeholders about Rayong's budget.

City officials are prepared to continue using the process to project revenues and expenditures and develop five-year financial plans. Municipal elections held in April 2004 brought in Rayong's first popularly elected mayor, Worawit Suppachokchai. Because the new mayor was deputy mayor under Mayor Suraphong, he has taken part in the *CityLinks* partnership and is prepared to use the tools Portland introduced to strengthen the financial position of Rayong.

Decentralization in Thailand means that local governments will be given greater responsibility to deliver services and more flexibility in choosing which projects and services to fund. The budget tool will continue to provide Rayong with the ability to evaluate the effect of new programs on its budget and to select the program and level of service that it can afford. Making decisions about service delivery is not merely a financial exercise, however; it requires understanding what citizens want and need. Gathering input from citizens is difficult, even in communities with a long history of democratic governance; it can be a major challenge in countries where government officials, employees, and citizens have little or no experience in working together. In Thailand, as in other coun-



tries with a history of centralized government, truly engaging citizens will be a major challenge. Civil servants lack an understanding of the need for citizen involvement and skills for engaging citizens in the decision-making process. Citizens likewise have no experience in giving feedback to government; building trust is a long process that requires demonstrating that their input is valued by incorporating citizen feedback into service delivery plans.

Lessons Learned and Shared

The partnership concluded with a two-day best practices symposium held in Bangkok to disseminate the lessons learned. Over 100 officials from neighboring municipalities attended. At the symposium, representatives from Portland and Rayong shared the forecasting models they had developed and identified four keys to their successful project:

- Staff commitment to the project
- Focus on learning from and educating each other
- Applying the right tools to the problem
- Support from city leaders.

“Our Thai partners learned a new way to think about the budget—beyond the current year. The citizen participation piece was an eye-opener, as well. We both wanted to deliver something that would work. After the symposium, our Thai partners were excited about following the road map after we left.”

Ken Rust, Chief Financial Officer, Portland

The model developed by Portland and Rayong is readily replicable. The revenue/expense format is based on Thai budgeting practices, and Microsoft Excel is widely used throughout the country. The forecasting model is easy to use, and it can be modified to reflect the needs of other municipalities. The user’s manual explains the model and greatly enhances the capability of municipal officials to replicate the process on their own.

The user’s manual and citizen participation guide also suggest a schedule that can be tailored to meet local conditions (some cities may need more time than others to implement the models). Focusing on the overall goals of the financial management system can help municipalities adapt

Results and Sustainability

- Rayong has forecast its revenue and expenditures for a five-year period, with 2545 (FY2001-02) as the base year.
- Rayong has adopted financial policies that provide a solid foundation for future budget and financial planning. These policies relate to the need to balance the budget, maintain adequate financial reserves, use one-time revenues to fund one-time expenditures, and use measurements of affordability when considering new or increased revenues.
- Rayong has adopted a multiyear citizen involvement component within the budget process model and appointed a Citizen Budget Task Force. The task force has implemented education sessions on financial and municipal management, given feedback on Rayong's budget, and developed plans for citizen outreach.
- Step-by-step manuals for both the five-year revenue and expenditure forecasting model and the citizen participation component were prepared and translated into Thai.



and apply the details of the budget spreadsheet approach and citizen participation activities as needed.

Portland is continuing to mentor Thai communities. A new partnership with three other Thai cities (Chiang Mai, Khon Kaen, and Phuket) will assist the cities with specific redevelopment projects and improved environmental management through sound financial practices. Throughout the partnership, the cities will work to increase citizen outreach and participation. The partnership will encourage the Thai cities to collaborate and address common issues.

Conclusion

Transparent and competent budgeting seems to be beyond the grasp of many cities struggling with decentralization. The idea of involving citizens in something so complicated is rarely considered. Working together through the *CityLinks* Program, employees of the city of Portland were able to effectively tell and show their colleagues in Rayong, Thailand, how citizens could be engaged. Many people intuitively understand that current decisions of a city impact the future financial health of the community—the five-year budget plan adopted by Portland and Rayong allow citizens and decision makers to understand the impact of their decisions more quantitatively.

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