Developing a Fiscal Health Model

A Fiscal Health Model

Lessons from the Field
- Role of the diagnostican
  - Listen carefully
    - Listen for what is not being said
  - Talk to the lower levels of the organization
  - Form project teams
  - Use the diagnosis to build trust

About the Diagnosis
- Examines most immediate causes of financial distress
- Look for problems with recovery leverage
- Suggests fiscal first aid techniques
Financial Position and Parameters

- Cash
- Reserves
- Revenues
- Expenditures

Cash

- Develop a monthly cash flow model
  - Indispensable in a cash crisis
- Reveal low points in revenue
  - When might bridge financing be needed?
  - Can actions be taken to accelerate inflows and slow down outflows?

Reserves

- Is there a reserve policy in place?
  - What level of reserves do we want?
  - How can we use our reserves to bridge?
- Is it understood and used?

Lessons from the Field

- Review all fund balance & debt policies
  - Find out where capacity exists
  - What is the feasibility of using the capacity?
- Know rating agency expectations
- Compare policy standards to long-term forecasts
Revenues

- Examine collections
  - Can they be enhanced?
- Graph trends
  - Reveal economic trends
  - Maybe reveal an opportunity for audits?
- Compare program revenues to costs
  - Fee update potential?
  - Incentive departments to maximize program revenue

Program Revenue Graphs

Lessons from the Field

- Find out if a tax increase is feasible
- Develop user fee policies to establish a shared understanding of what subsides are acceptable
- Analyze revenues thoroughly
  - Complete a revenue manual
  - See Aug 2007 issue of GFR

Expenditure

- How are expenditures authorized?
  - Position control?
  - Budget controls?
  - Capital project management?
- What is the control strategy?
  - Decentralized vs. centralized? Selective?
- Accountability for results for service goals?
  - Do expenditures tie back to mission, strategic plan?
Expenditure

- What is money spent on?
  - Which areas are the biggest?
  - Which are growing the fastest?
- What services are offered?
  - Direct and indirect cost
  - Alignment with strategic goals
  - Service level
  - Demand changes
  - Supported by program revenues

Lessons from the Field

- Know your short-term strategies
  - Stabilizing & bridging techniques
  - Across-the-board cuts
- Know your approach to staffing
  - Multi-year staffing plan and benchmarking
  - Verify policy for vacancy budgeting is understood
  - Align position control with long-term service restructuring
  - Make sure compensation practices support financial health

Budget Practices

- True Structural Balance
  - Recognize the true nature of the problem
  - Starting budgeting with revenues
- Variances
  - Consistent overages that could lead to more accurate planning?
  - What cost areas are hardest to control?

True Structural Balance

- Are recurring vs. non-recurring revenues separated out for budgeting purposes?
- Is there a policy on non-recurring revenues?
- Is there a policy on volatile revenues?
### Variances
- **Budget vs. Actual**
  - Are certain areas consistently over-budgeted?
  - Do certain areas consistently over-spend?
- **Budget vs. Prior Year Budget**
  - Was a temporary increase in expenditure budgeted for again in the next year?
- **Actual vs. Prior Year Actual**
  - Are any areas particularly volatile?

### Lessons from the Field
- Use “Make Managers Manage” approach to budget control
  - Minneapolis experience
- Apply controls selectively
- Look for opportunities like:
  - Going back to suppliers for discounts
  - More competitive procurements

### Liabilities
- **Debt**
  - Are payment schedules affordable?
  - Can debt help with recovery?
- **Post-employment benefits**
  - Are near-term cost increases expected?
  - Are liabilities fully-funded?
  - Are ARCs being made?

### Political & Economic Environment
- **State of the economy**
  - Will the economy help or hinder you?
- **State financial situation**
  - What state policies will impact you?
- **Changing service demands**
  - Where is demand going up or down?
- **Internal leadership & management**
  - Is there accountability? Teamwork?
Take-Aways

- Develop a diagnosis model
  - Focus on the fundamentals first
- Use the diagnosis to educate
- Test assumptions, verify beliefs
- Base recovery strategies on diagnosis