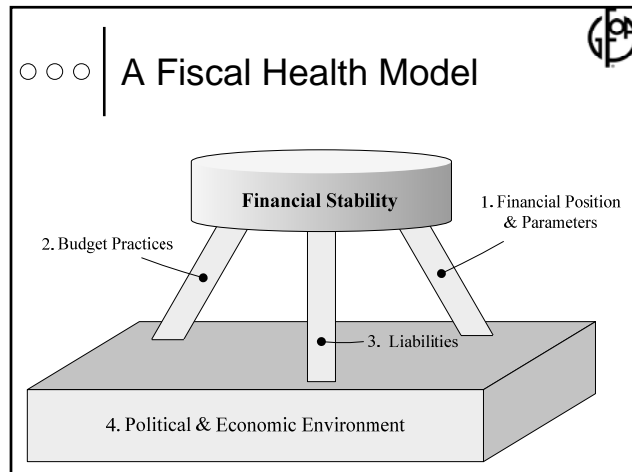



Developing a Fiscal Health Model

1




- ## Lessons from the Field
- o Role of the diagnostician
 - 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
- 3

- ## About the Diagnosis
- o Examines most immediate causes of financial distress
 - o Look for problems with recovery leverage
 - o Suggests fiscal first aid techniques
- 4

○○○ | Financial Position and Parameters 


- Cash
- Reserves
- Revenues
- Expenditures

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○○○ | 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?

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○○○ | 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?

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○○○ | 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

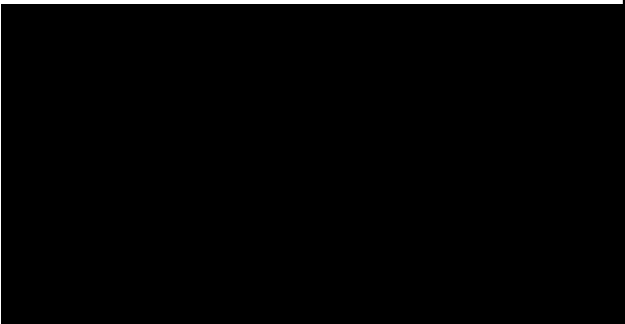
8

○○○ | 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

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○○○ | 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 subsidies are acceptable
- Analyze revenues thoroughly
 - Complete a revenue manual
 - See Aug 2007 issue of GFR

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○○○ | 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?

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○○○ | 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

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○○○ | 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

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○○○ | 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?

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○○○ | 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?

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○○○ | 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

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○○○ | 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?

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○○○ | 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 is going up or down?
- Internal leadership & management
 - Is there accountability? Teamwork?

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○○○ | 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

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