The Journey To Resilience

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Why?

Goes to the very core of why our organizations exist:

- Not a flavor of the month
- Evolution, not revolution
- It is encompassing and fits itself to the small and very large entities
- Complements long range fiscal planning across the entity
- It has been proven that it can work
Why?

- Leave your organization better than you found it
  - By definition resilience does so
What Do We Do To Get Started?

• Taskforce: Invite Include Inspire
  ◦ No inspiration needed
• 15 members consisting of people who have worked on it or were very interested in the topic
What Do We Do To Start?

- Define Resilience and specifically financial resilience.
- What are the characteristics of:
  - A financially resilient government?
  - Specific practices under each characteristic?
  - How do we make it stick in an organization?
  - What are the best practices to implement?
What?
Standard Definition of Resiliency

- The ability of a government:
  - to withstand acute shocks and chronic stresses
  - while maintaining and improving essential services and,
  - recovering quickly and effectively better than you were before.
What?

- Core concept from the GFOA Taskforce:
  - Resilient governments accept uncertainty and change. They learn from past experiences, evolve and come back better than they were before.
Resilience Is Not Something New

- GFOA – Recovering From Financial Stress - The Transform State
- GFR – “Rebuilding an Resilient Nation, “Probability Management in Financial Planning”, “Sizing Your Reserves a Risk-Based Approach”
  - Covered in the GFOA Long Range Financial Planning and Financial Policies classes
  - Webinar in early 2014
How?

- Theme of year
  - Surfaced at annual conference in Minnesota 2014
  - Working agreement with Rockefeller Foundation
- Teamed with GFOA Research and Consulting Center
- How to implement and make it available to everyone in our profession
- Themes
  - Innovation and Resilience - Philadelphia
  - April issue of Government Finance Review
  - “How to” and best ways we know as a separate area on the GFOA.org web site
GFOA: Specific Practices Under Each Characteristic

- Taskforce came up with 15 areas to start
- Voted on which ones to work on
- Top five:
  - “Playlist” for financial decision-making
  - Try out new decisions as “experiments”
  - 10/10/10 analysis
  - Identify Guiding Principles
  - Building relationships
GFOA: Specific Practices Under Each Characteristic

- Broke into five subgroups of three on each team
- Supported by GFOA staff
- Reading assignments
- Have to be willing to field test in own organization to see if the proposed worked in practice as it did in theory
We Want To Be Resilient – How Do We Make It Happen?

- How do we help finance officers gain acceptance of new ideas in their organizations?
- How do we hasten the spread of public financial resilience?
  - Communication is a Strategic Issue
  - Made to Stick and Decisive
    - written by Chip and Dan Heath
Decision Making
Sciences

- **Decisive** – narrow framing - you miss options
  - W – widen your options

- **R** – reality-test your assumptions

- **A** – attain distance before deciding

- **P** – prepare to be wrong
COB Lessons Learned From Sustainability Implementation – “The Evolution”

- Economic, Environmental, and Social - at first were separate, not integrated: 2004-05
- Fiscal sustainability was an afterthought
- Added via two community driven BRCs
- The GAP
- How do we gain traction going forward so we are better than before?
- How do we make it stick
  - Not just fiscal – all areas
Resilience - Theory to Implementation

- BRC results became the roadmap for our fiscal and leadership journey
  - More on this later
- Opportunities on the revenue and expenditure sides
- We wanted to be better than we were before the 2001 - 2004 downturn
- Resiliency – let’s find out about it – so the journey began
The GAP

- 3 versus 4 percent
- One-time to balance
- Watching the house of cards be blown away
- Leadership – pick yourself up and get back on the horse
COB: How?

“Playlist” for financial decision-making:

COB:

- The budget will balance ongoing revenue to ongoing expenditures.
- One-time money will be used for one-time expenditures.
- Debt will not be used for operating costs.
- Triggers.
COB: How?

Building relationships:

Invite, Include, Inspire

Matrix Management:
- Major Projects
  - Municipalization
  - 2A Implementation
  - Boulder Junction
  - Civic Area

Budget Transition Team
- One is now the COB Budget Officer
- One is the Deputy Director in a major department of the city
- One has become a finance manager in a major department
- Two are senior financial analysts in other cities
Long Term Forecasting in a Time of Structural Change
LEADERSHIP AND LONG RANGE FINANCIAL PLANNING
Leadership

If your actions inspire others to dream more, learn more, do more and become more, you are a leader.

John Quincy Adams
About Leadership Credibility

- Leadership credibility is…
  - …being believed & trusted by others

- What type of finance department are you in your organization? Isolated, Neutralized, Engaged?

- 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 - adapt
How to Build Credibility

- Be open and provide clarity
- Provide the personal touch
  - Be responsive to concerns
- Demonstrate expertise
  - Showing substantive expertise in the issues at hand gives followers confidence
Elected Officials

• THE key players.

• Elected officials have the last word on the how much the organizations taxes, spends, and what it spends on.

• You need their buy-in to effectively use long-term financial planning.
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.
Advantages of LTFP for Elected Officials

- **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
Organizational Management

- More rigorous test for undertaking new programs and services
- Shared priorities with elected officials
- Focus on forward-looking indicators
Budgeting Process

- Reduced conflict during budget process
- Greater elected official confidence
- Greater alignment between submissions and funding realities
CFO Relationship

- CFO becomes a strategic partner
  - Provide more strategic intervention
  - CFO becomes more involved in helping departments create value

- Result of Global Study
  - 80% see improved decision-making as highest priority for improving financial operations
Advantages of LTFP for Employees

• Employees can get excited about LTFP as a career opportunity, growth and development.

• Employees can…
  ◦ Analyze financial position.
  ◦ Analyze and strategize on critical issues.
  ◦ Help develop financial strategies.
Obtaining the Public’s support

- Use the media
- Surveys
  - Citizen satisfaction, prioritization, or specific issue.
- Community Meetings
- Committees
  - “Blue ribbon”
  - Standing
Dealing with Objections

According to John Kotter…

- Responses that rely on great deals of data and logic are suboptimal
- These responses lose the attention of the audience.
- Rather, the response should rely on “clarity, simplicity, and common sense.”
Three Common Objections

• **LTFP will be too much work**
  ◦ Describe how LTFP is work worth doing

• **We don’t have the skills or capacity**
  ◦ The policy proponents need to provide objectors with some self-confidence

• **It won’t work because we are different**
  ◦ Show how others have solved similar challenges
Quick Read for More About Dealing with Objections
Part III
Communication

- Communications Checklist
- Communication Plan
Communication Checklist

• Be direct and honest
  ◦ In order to influence, be willing to be influenced

• Acknowledge concerns
  ◦ Make sure the plan addresses issues of concern

• Find and convert influential people

• Repeat, repeat, repeat!
Communications Plan

- **What to communicate?**
  - Keep the message simple
  - Know your audience (use our earlier analysis)
  - Tell the story behind the numbers

- **How to communicate?**
  - Use many channels, but don’t neglect in-person
  - Be positive, honor the past
Communication Plan

• **To whom?**
  ◦ This will be driven by the audience analysis.

• **Where?**
  ◦ Are some messages better delivered out of the office? Are there times to visit someone on their own turf, rather than calling them to yours?

• **When?**
  ◦ Give current info, not an after-the-fact report
Financial Policies: Design and Implementation
The transition to a service economy

Personal Consumption Expenditures for Goods and Services as a Share of Total: U.S. History and Forecast
(Source: Moody’s Economy.com)

Goods Share  Services Share  Services Less Health Care Share

0.0%  10.0%  20.0%  30.0%  40.0%  50.0%  60.0%  70.0%  80.0%  90.0%

-54.33%  -45.67%  41.00%  23.29%  53.70%  76.71%
Accountability vs. Flexibility

- Investment
- Debt
- Reserves
- Revenue & Expenditure
- Operational Budgeting
- Capital Budgeting
What Are They?

• One of the most essential tools in your financial tool box

• They are financial guidelines for operational and strategic decision making

• Policies not procedures
At the COB

Strategic

- 2035 update every five years
- What should the revenue mix be?
- What is the vision of the city?

Tactical

- What decisions need to be made now to reach strategic fiscal sustainability?
- How to include the public

The here and now

- Headwinds and tailwinds
- Did not include utilities
- Two sets of work: Blue Ribbon Commissions I and II
- Eight years in and pleased with results

- GFOA - By Shayne Kavanagh
- Strongly recommend that it be a part of your financial resource library.
Why Are They Important?

- Institutionalize good financial management practices
- Clarify and crystallize strategic financial intent
- Promotes long-term & strategic thinking
- Defines the boundaries
- Helps attain good bond ratings
- Manage risks to financial condition
- They are established public management best practices
Common Misconceptions

- State statutes normally do not provide guidelines for financial management
- Policies limit flexibility
- Small governments do not need financial policies
If You Need to Start Small: Prioritize
Essential Financial Policy Types

- Operating Budget
- Fund Balance and Reserves
  - GF FB will be 15% of op exp
- Capital Budgeting and Planning
- Debt Management
- Long-Range Financial Planning
- Investments
Highly Advisable: Financial Policy Types

- Financial Reporting
- Revenues
- Internal Controls
- Expenditures
- Purchasing
- Risk Management
Advisable Financial Policy Types

- Economic Development
- Clean Energy
- Sustainability
  - Interweaving of:
    - Social-Environmental-Economic
Governance and the “Policy Mindset”

- Measure compliance with policies
- Review policies regularly
- Use them to guide important decisions
- As new issues come up - Adapt
- Balance accountability and flexibility
- Orient new governance and appointed leaders
- Show policies can solve problems and create benefits
Overcoming Resistance

- Good idea but not the right time
- The policy is too difficult to understand
- We will not obtain unanimous agreement
- It leaves too many questions unanswered
- Says X and Y but are mutually exclusive
- It goes too far
- It does not follow our traditional values
- Too much work to implement it
- We don’t have the skills to put it in place
- It won’t work here – we are different
Leading Change by John Kotter

- Create a sense of awareness and urgency
- Develop the guiding coalition
- Develop a clear change vision
- Empower broad based action
- Generate short term wins
- Don’t let up
- Embed the change in the culture
Forecasting Revenues and Expenditures when there is a Great Degree of Uncertainty
Evolve and Adapt
It Has Been A Learning Experience

Standard:
• What you know
• What you don’t know
• What you don’t know that you don’t know

Added:
• What you wish you had known when you started down this path
How State of Colorado law is different from the State of Washington

- Local control versus state control
- The specific impacts on the finance department
- How it has impacted budget expenditures and revenues
- Tips, Traps, and Lessons Learned so far
Each entity decides if they will allow or not

- City Regular Sales and Use Tax Rate 3.56%
- City RMJ Tax Rate 3.50%
- Total COB 7.06%
- State tax rate 12.90%
- Total State and City Tax Rate 19.96%

State share back of 10.0% of sales pro rata/sales
Excise Tax Rate

City - Five percent on the average market rate of unprocessed recreational marijuana that is sold or transferred from a recreational marijuana cultivation facility.

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Other Specific Impacts on the Finance Department – Local Level

- Licensing
- Collections
- Cash Handling
  - No bank accounts
  - Lots of cash so need a place to count it
  - Counterfeit bills
- Security
  - Front window
  - Courier
  - Larger safe
- Auditing
  - Forensic auditing, not usual business auditing for tax compliance
How RMJ Has Impacted Budget Expenditures and Revenues

- Could not let RMJ hijack the regular budget process
- Before it made it to the budget process, it had been spent numerous times
- Everyone had an idea of how much revenue there would be and what it should be used for
- Numerous dedicated taxes, the new tax – was consolidated in the GF
Revenue Projections Were Challenging

- Lots of advice, but none based on facts and no empirical evidence
- The network was not as viable this time
- Influence diagram based on method Shayne Kavanagh at GFOA had used on sales tax
- Set the two anchors – the high and the low
- Had to have one number for revenue
  - Only guarantee made was it would be wrong
    - $2 million about 2.0% of GF budget
Concerned About Longevity of the Tax

- Proposed and accepted: treat as one-time money until the number of states reach critical mass
- Built-in several contingencies due to multiple unknowns
  - Youth education
  - Unknown expenditures at time of appropriations
  - Revenue: Not a high degree of confidence
- Budgeted $2M actual $2,035,000
Tips, Traps and Lessons Learned So Far
Tips, Traps and Lessons Learned So Far

- Safety issues raise new and old concerns
- People who have never handled large amounts of cash will need training
- Still no bank accounts
  - State law to allow cooperatives, but the Fed does not
- No bankruptcy protection
- Banking problem being extended to employees and suppliers of the business segment
Tips, Traps and Lessons Learned So Far

- Odor complaints – grow operations
- Smoke complaints – your toking neighbor
- Where it can be smoked
  - Cannot just light up outside
- Hotel rooms same as smoking regulations
- Landlords can prohibit
- Home conversions – VRBOs
  - Impact on affordable housing
Other Things Learned While on the Journey

- University of Colorado at Denver Cost Accounting class
- The affinity diagram is a worthwhile endeavor when confronted with the new and unknown
- State produced study released in July - due to high tax rates people not switching from medical
  - Price Elasticity
- Very glad relied on the numbers instead of the emotion to make projections and increase expenditures.
What Questions Can I Answer for You?