

Public Sector Advisors



Thriving Through Change: Building Financial Resiliency



PRESENTATION TO

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What Does Surviving the Recession Mean?

- Restoring services?
- Going back to the way we were?
- Taking a pause, then picking up where we left off?
- Fundamentally adjusting to new circumstances?

New Normal Has Emerged

- Slow to moderate growth
- Continuously increasing service requirements
- Unfunded mandates
- Domestic and global industry changes
- Rapid technological change
- Altered political landscape
- Aging populations
- Persistent community issues
- *Opportunities and likelihood of disruptions increasing*

Why Is Sustainability No Longer Sufficient?

- Sustainability is necessary, but insufficient, to ensure ongoing financial health of public entity
- Sustainable system is balanced, but potentially brittle
 - External shock can unbalance system and cause major disruptions/breakdowns, e.g., severe economic downturn
 - Balanced budget and operations do not signify resiliency
- Resilient system not only survives shocks, it thrives

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Building Financial Resiliency is Vital

- Thriving Through Change
 - Withstand acute shocks and chronic stresses
 - Maintain and improve essential services
 - Recover quickly and effectively
 - Adapt, succeed and renew under adverse and unforeseen conditions
 - Move from recovery and sustainability to resiliency

Characteristics of Financially Resilient Government

- *Diversity* – avoid single point of failure or single solution
- *Redundancy* – have more than one path of escape
- *Decentralization* – when centralized systems fail, its catastrophic
- *Transparency* – don't hide your systems
- *Collaboration* – working together to become stronger
- *Fail gracefully* – it happens, ensure it doesn't make things worse
- *Flexibility* – be ready to change, don't count on stability
- *Foresight* – think, hear footsteps approaching, and prepare

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Key Tools to Build Financial Resiliency

- Enhance long-term financial planning
- Reform budget process
- Address liabilities
- Advance culture of accountability
- Advance innovative and adaptive culture

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Planning is Indispensable

- *“In preparing for battle, I have always found that plans are useless and planning is indispensable.”*
 - General Dwight D. Eisenhower
- Long-term financial planning is central to financial resiliency
 - Supports important characteristics of resiliency: diversity, decentralization, and collaboration (GFOA)

Enhance Long-Term Financial Planning

- Combines financial forecasting with strategizing
 - Prepare for and make sound investments in future
 - Project revenues and expenditures for at least 5 years, longer time horizon recommended
 - Anticipate future impact of cost increases, contracts, revenue trends, service demand, and liabilities
- Demonstrates commitment to maintain long-term financial health
 - Impacts bond credit ratings and credibility with community

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Long-Term Financial Plan = Foundation



Interlude on Financial Policies

- Financial policies = Rudder to steer toward operational success and financial sustainability/resiliency
 - Fund balance and reserves
 - Revenues, expenditures, and operating budget
 - Capital asset management and debt management
 - Accounting, auditing and financial reporting
 - Internal controls and risk management
 - Economic development

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Reform Budget Process

- Move from incremental budget to policy-based perspective
 - Zero-based budgeting or priority-based budgeting
- Priority-based budgeting (PBB)
 - Make decisions about which services will continue and at what level
 - Use community input about service priorities and needs
- Stakeholder input is essential

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Address Liabilities

- Must identify all long-term liabilities to create accurate long-term financial plan and priority-based budget
- Use long-term financial plan and PBB to model scenarios to address liabilities
- Critical to bond credit rating and debt financing
 - Investors view unaddressed liabilities as threat to bond repayment
- Transparent and inclusive process is essential

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Advance Culture of Accountability

- Accounting, auditing and financial reporting are critical
 - Transparency, integrity and business intelligence
- Performance management systems are powerful tools
 - Monitor progress on outcomes and results
 - Early warning systems
 - Reveal opportunities to improve service and efficiency
 - Good metrics key to effective performance management
 - Team-based approaches produce more robust systems

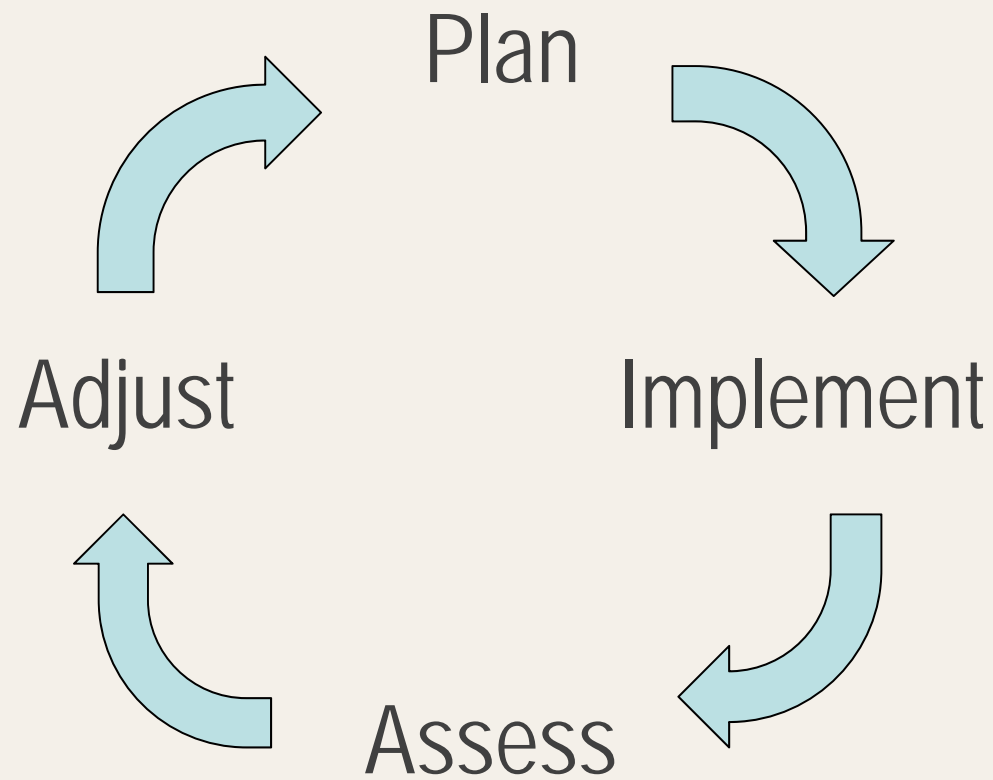
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Advance Innovative and Adaptive Culture

- Make innovation a discipline throughout organization
- Incorporate innovation and continuous process improvement in management systems
 - E.g., Lean Process Improvement, The Malcom Baldrige National Quality Award
- Transform to reduce cost and increase flexibility
 - Consolidation, shared services, P3, community partnerships, volunteer programs
- Create culture of flexibility and responsiveness

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Continuous Cycle



Financial Resiliency Checklist – Part 1

- ✓ Look to the future – ask the right questions – expect the unexpected
- ✓ Develop long-range financial plan with guiding principles and strategic objectives
- ✓ Update financial policies comprehensively (fund balance, reserves, etc.)
- ✓ Establish culture of financial discipline and sound debt management
- ✓ Continuously refine priority-based budgeting – what’s important and how much
- ✓ Emphasize team-based approaches, stakeholder involvement and transparency
- ✓ Evaluate and manage risks
- ✓ Develop plan to address long-term liabilities

Financial Resiliency Checklist – Part 2

- ✓ Stress affordability and structural balance – operating expenses match operating revenues
- ✓ Reexamine revenues – diversification and dependency on volatile sources
- ✓ Revisit expenses – fixed vs. discretionary
- ✓ Maintain quarterly reporting and monitoring – more often if appropriate
- ✓ Utilize performance management system – monitor progress and reveal early warnings
- ✓ Develop strategies for unfunded mandates
- ✓ Highlight and reward innovation, flexibility and responsiveness

Questions?