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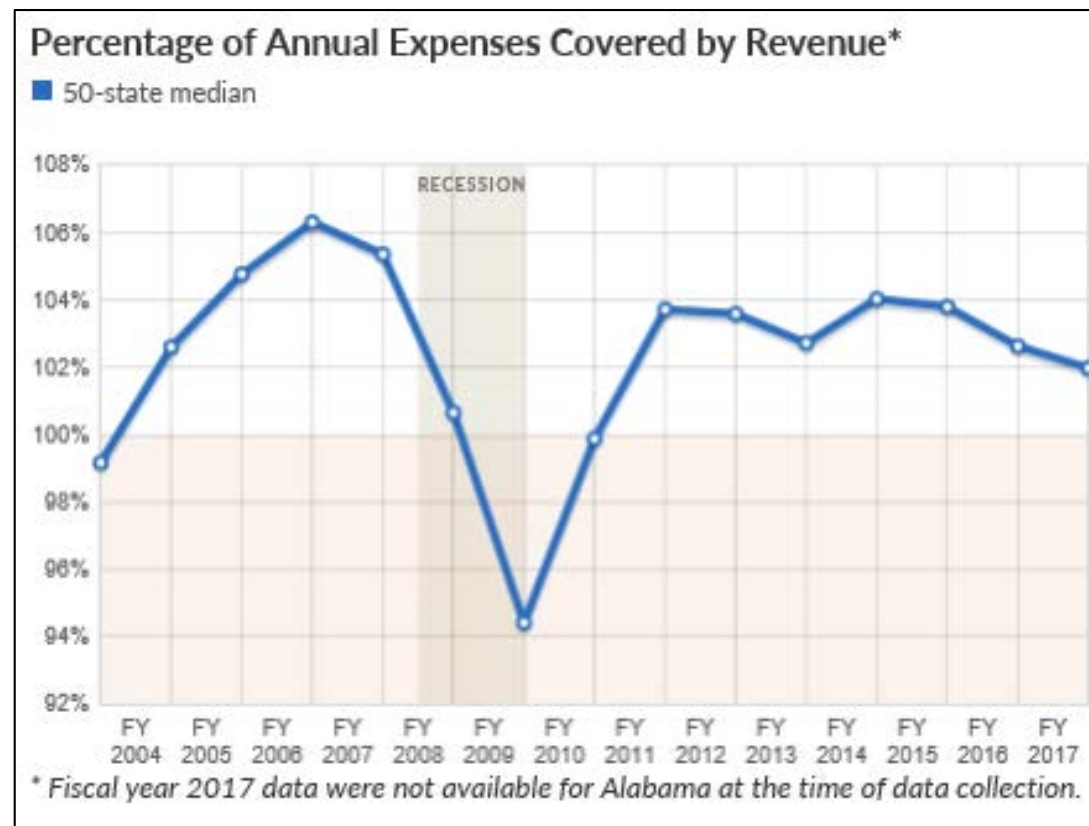
# Building a Roadmap to Healthy Government: Financial, Capital & Operational Planning

ILCMA Winter Conference  
February 6, 2020



## EXTERNAL PRESSURES

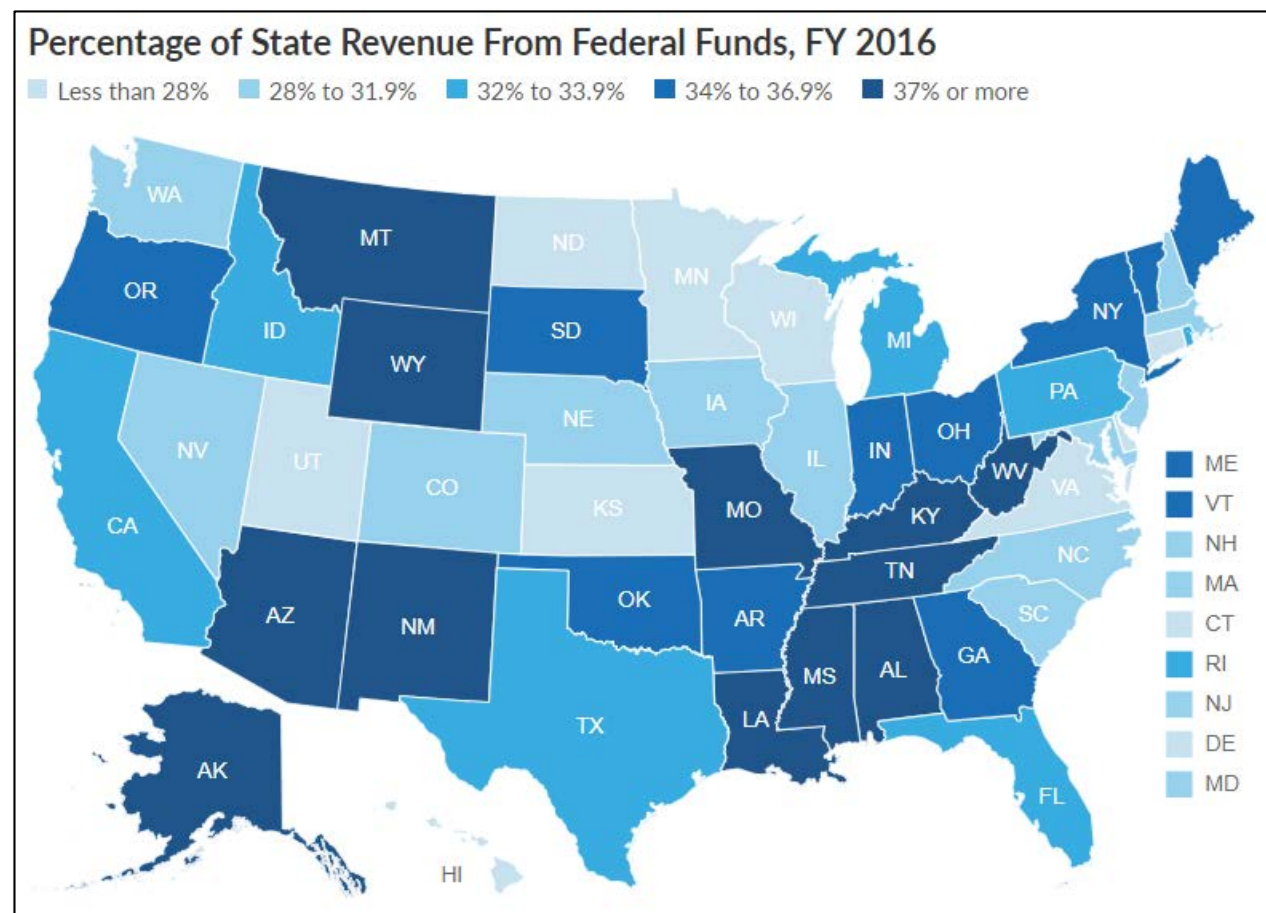
# Expenses to revenue



\* Source: Pew Research

**EXTERNAL PRESSURES**

# Federal funding

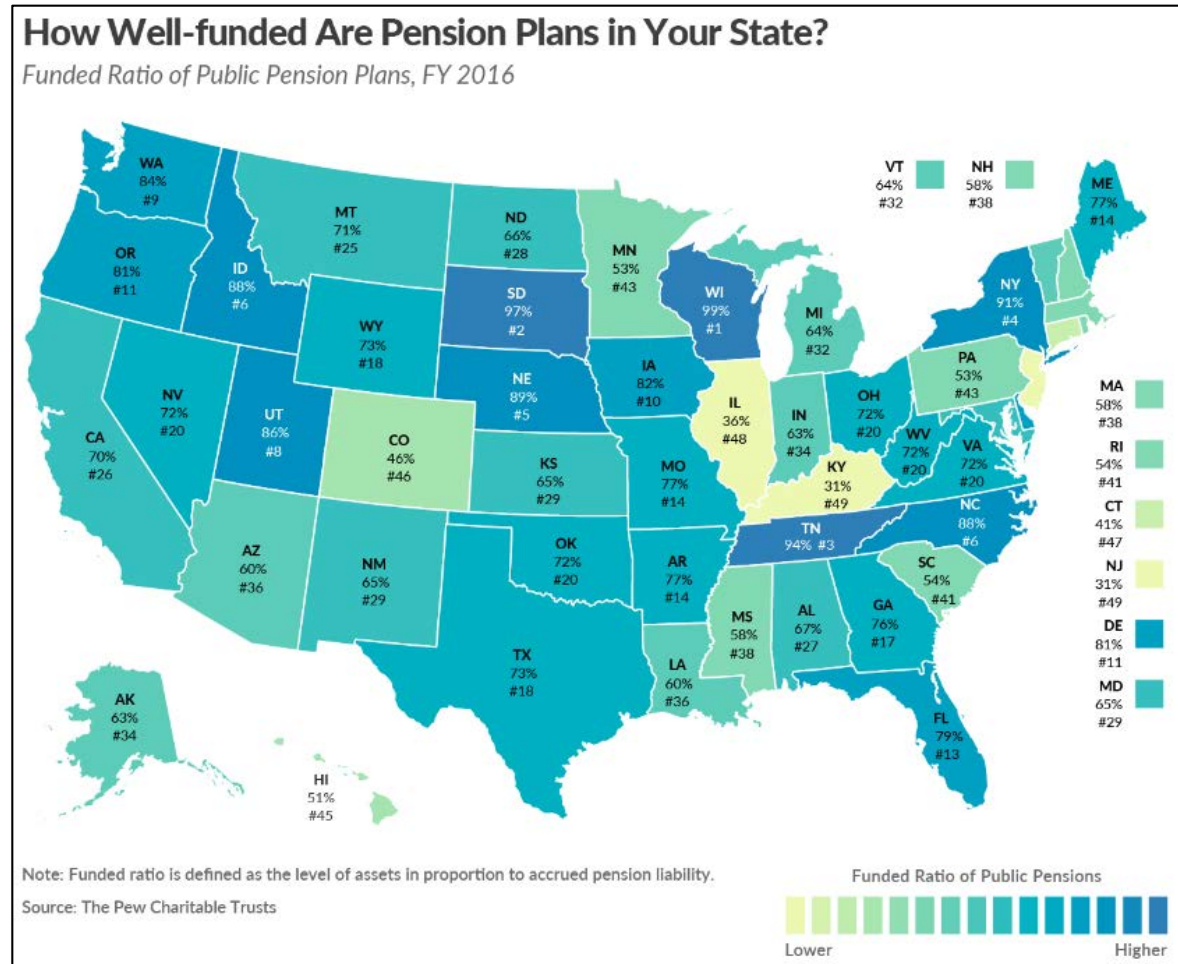






EXTERNAL PRESSURES

# Pension funding



# Long-Term Financial and Capital Planning



# Overview



- Local Government can be challenged with the task of providing/maintaining services with fewer resources
  - Revenue limitations for non-home rule units
  - Decrease of state distributed revenue
  - Delayed receipt of state distributed revenue
- Underscores need for local units of government to extend planning horizons beyond one year



## A COMPREHENSIVE APPROACH TO FINANCIAL PLANNING

- Difference between mechanics (Fiscal) and management (Policy/Operational)
  - Importance of connecting the two
- Allows effective communication with stakeholders and key decision makers
  - Education
- “Big picture” considerations
  - Are you budgeting to priorities?
- Your multi-year financial plan
  - Vital component of decision making
  - A living document



# Shortfalls of Annual Budgets



Isn't a financial plan

Meets a statutory requirement



Only focused on next year

Are trends developing?



Reactive

•Should know there is a problem year(s) before



Often budget does not meet prioritized initiatives

# Planning for the Long-Term



Historical activity →



Current Budget →



Projected future →



Identify issues →



Propose solutions →

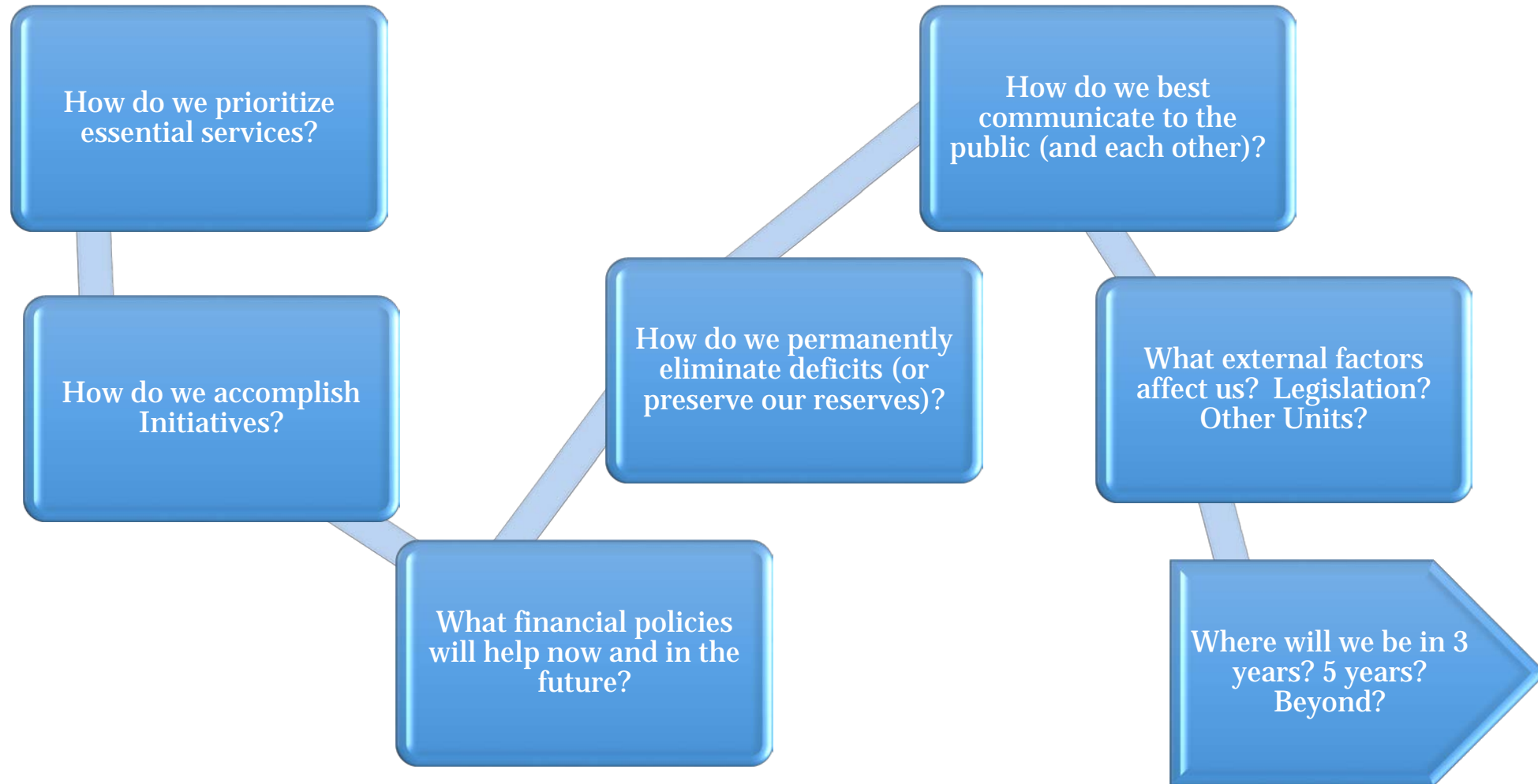


Stakeholder impact →



Implement  
Solutions/Monitor  
Impact

## WHAT ISSUES DO WE FACE?



## WHERE DO WE START?

- Ask yourself...
  - Where Have We Been?
  - Where Are We Now?
  - Where Are We Going?
- What are our goals, initiatives, promises?
- Do these align?



# Where Have We Been?



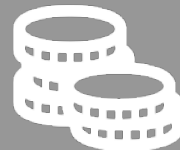
Analyze last 2 to 3 years of historical data

Look for budget surplus or shortfalls



Trends of expense increases

Salary increases  
Inflationary increases



Trends of revenues

State-distributed revenue  
Miscellaneous revenues



# Where Are We Now?



Can we afford our current budget?



Evaluate budget to actual reports



Do we have enough cash reserves to absorb an unexpected loss in revenue?

# Where Are We Going?

What projects do we want to complete?

Can increases in expenses be sustained in the next budget year and beyond?

Are we building cash balances to support future projects?

# Multi-Year Capital Planning

Should answer the following questions:

- What are the Unit's capital investment priorities?
- How much will it cost to construct, operate, and maintain?
- What is the fiscal capacity of the Unit to support capital spending over time?

Should have a clear mission:

- To maintain and improve the Unit's capital assets over time
- To improve quality of place
  - People and business attraction

Should be flexible:

- Respond to new needs and address emergencies

# Multi-Year Capital Planning Process

## Develop policies

- Establish process for addressing maintenance, replacement, and proper fixed asset accounting over the full life of the asset

## Needs assessment

- Identify all capital and major equipment needs
- Prioritize

## Affordability analysis

- Balance capital priorities with fiscal constraints

# Prioritizing Capital Projects – Factors to Consider

Health and safety  
concerns

Legal mandates

Economic,  
environmental, or  
social value

Operational benefits

Specific needs or  
demands for  
improved service  
(community input)

Return on  
investment (saving  
on maintenance  
costs)

Capacity to leverage  
other resources  
(matching funds for  
grants)

Project feasibility  
(cost, timetables,  
management  
capacity)

Project risks



# Prioritizing Capital Projects

## Assess

Assess needs over a certain time period (usually 5 years)

- Gather information from department heads
- Use asset inventory to identify projects necessary in future years
- Add “new” priorities

## Determine

Determine which factors to use (on previous slide) and how they should be weighted

## Compare

Compare benefits of a particular project to its total cost both for initial construction and ongoing operating expense



## Identify Issues (Operating and Capital)

- Funding Gaps
- Reliance on/Depletion of Cash Reserves
- Plan includes all essential services?
- Can we meet infrastructure needs?
  - Paving
  - Utilities
- Are we allocating funds for quality of place?



# Propose Solutions

- Is there a better way to use or reallocate already available resources?
- Can we reduce costs?
- Can we better manage the growth of costs?
- Are there ways to generate new revenue?

# Examples of Local Government Revenue Sources

## Local Option Taxes

- Sales Taxes
- Fuel Taxes
- Income Taxes
- Vehicle Taxes

## User and License Fees

- Parks, recycling, building permits, liquor licenses

## Value Capture

- Impact Fees
- Special Assessment District
- TIF (Tax Increment Financing)

## Financial Arrangements

- Public-Private Partnerships (P3's)
- Privatization
- Donations, Grants, Crowd-Funding

# Adopting the Financial and Capital Plan



Summary document describing the needs, priorities, costs, financing, and timing of projects



Formal adoption of the plan



Incorporate plan into the budget process



Update the plan annually



# Monitor Plan Results



The plan is only as good as the results it produces



Monitor to ensure that projects remain on schedule and within budget



Evaluate asset performance

Is the project producing the expected results?  
Have long-term goals been met?



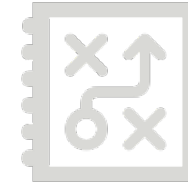
Monitor external environment

Changes in technology or equipment can make portions of the plan obsolete  
Changes in State and Federal funding may impact number and/or priority of projects  
Citizen input may signal a change in direction

# Benefits of Multi-Year Financial and Capital Planning



Demonstrates strong management (particularly important to bond rating agencies)



Can be proactive rather than reactive



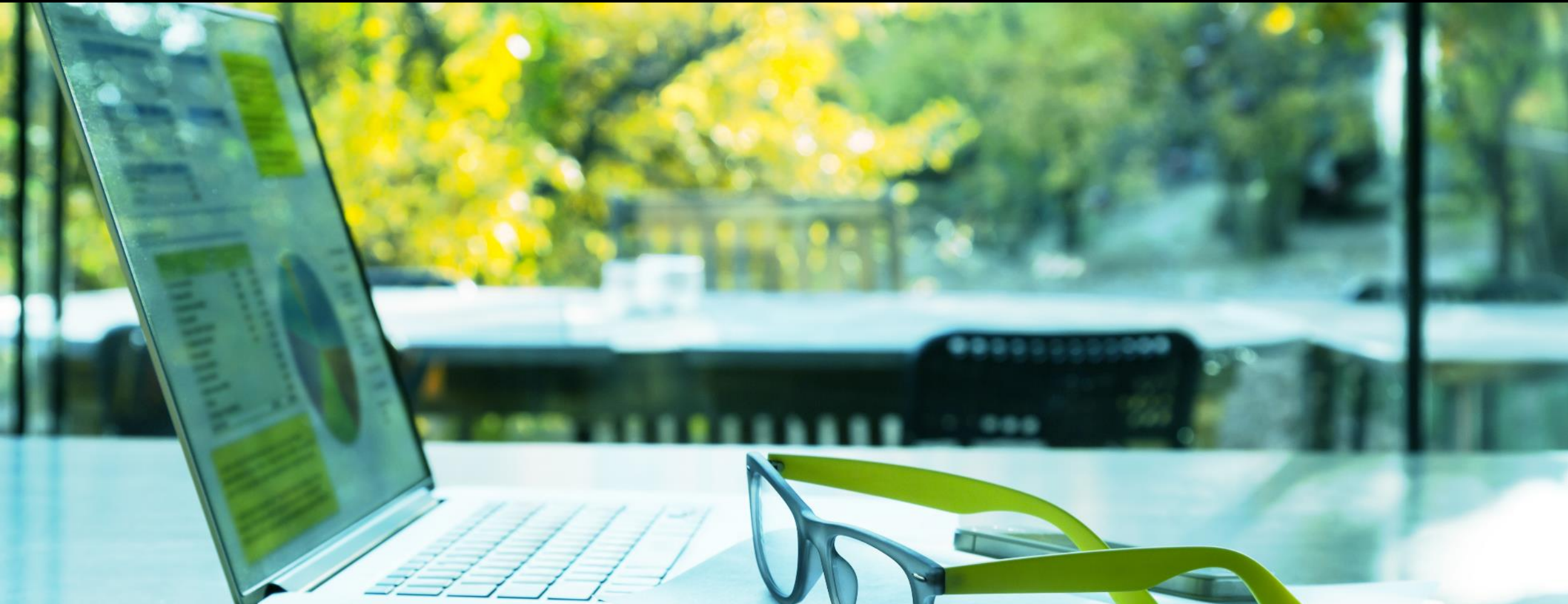
Helps to prioritize projects and develop a plan to finance those projects



Efficient use and management of resources - helps spread the costs of capital improvements over time



# Operational reviews: The ultimate public sector health check





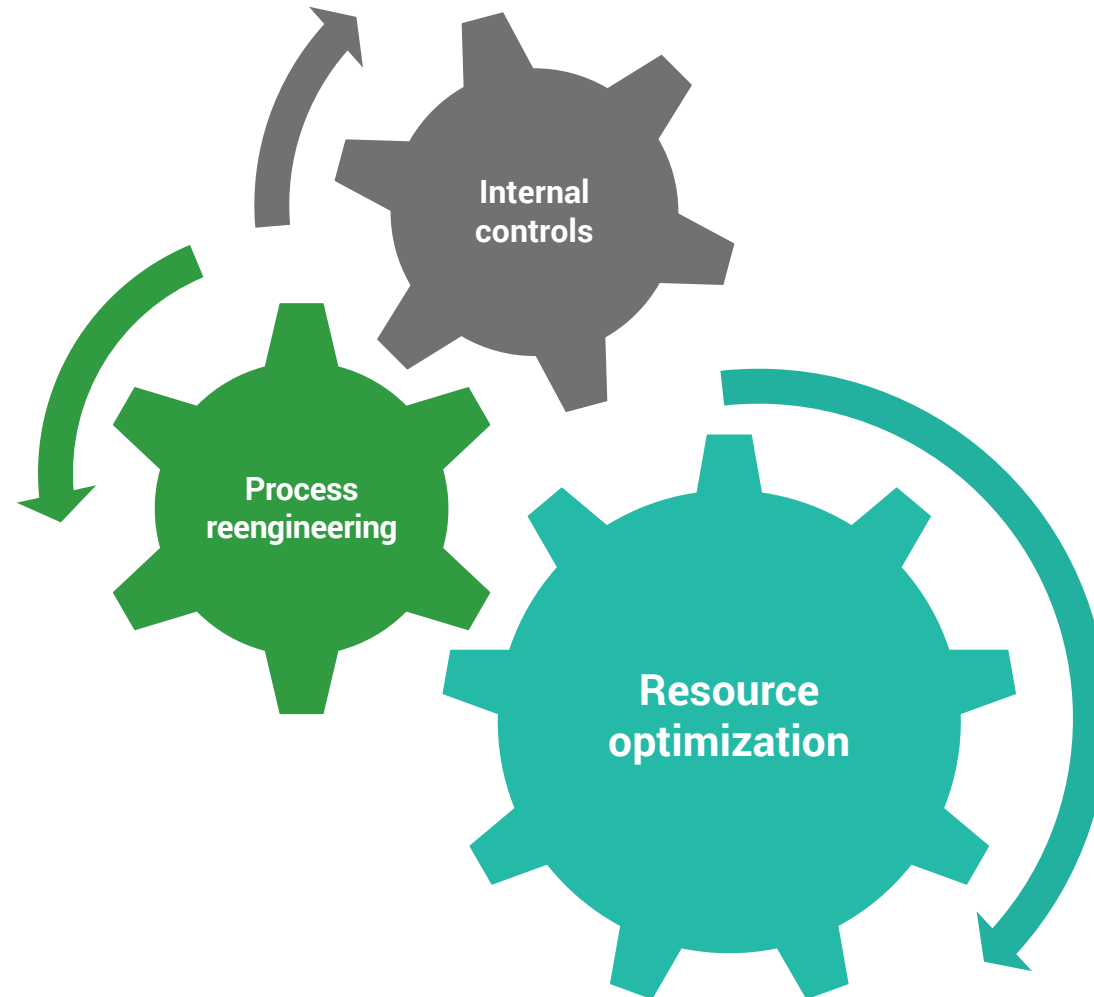
**OVERVIEW AND OUTCOMES**

## Overview

- Independent assessment
- Can be re-occurring or one-time
- Usually defined in scope to a single department or division
- Provide insight into current operations and opportunities for improvement

**OVERVIEW AND OUTCOMES**

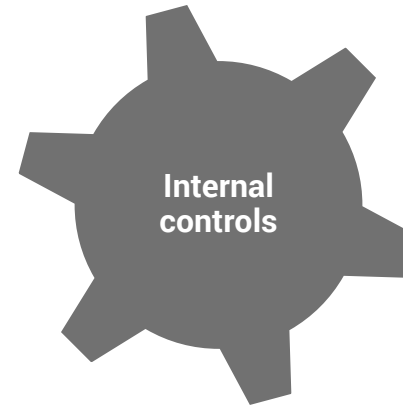
# Operational review outcomes



**OVERVIEW AND OUTCOMES**

## Outcomes: Internal controls

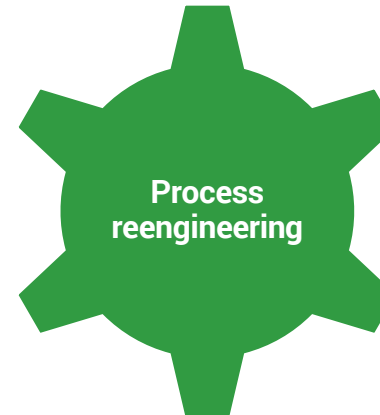
- Segregation of duties
- Risk management
- Data retention/storage



**OVERVIEW AND OUTCOMES**

## Outcomes: Process reengineering

- Leveraging technology
- Alignment with industry best practice
- Lean process reengineering



**OVERVIEW AND OUTCOMES**

## Outcomes: Resource optimization

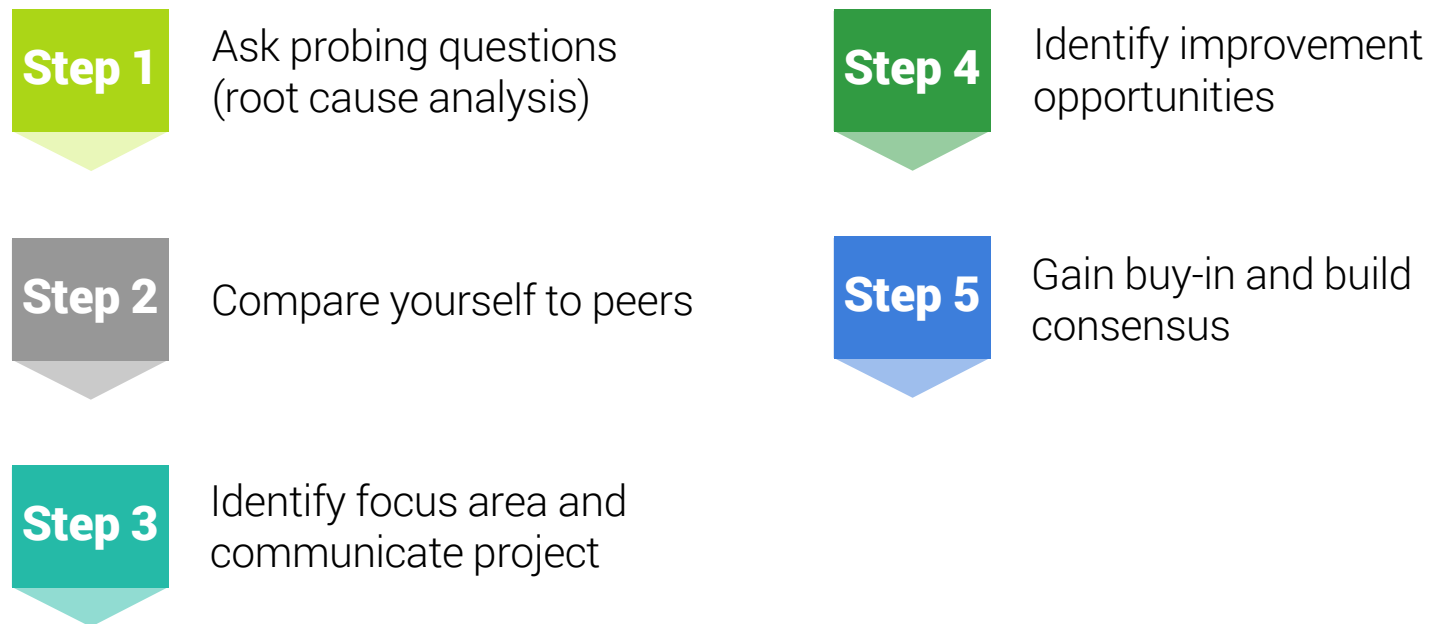
- Alternative service delivery
- Enhanced revenue streams
- Productivity improvements
- Strategic resource alignment
- Consolidation and shared services





# Conducting operational reviews

## 5 steps to identifying opportunities



## Conducting operational reviews (cont.)

### Step 1

### **Ask probing questions to narrow your focus**

- Where do we spend the most money?  
(divisions, functions, etc.)
- Where do we have the least or more inefficient use of technology?
- What are the complex processes involving multiple departments/divisions?
- What are the high profile/public facing departments?
- Do neighboring communities have similar needs?
- Do any two functions/individuals/team perform the same or similar job duties?

## Conducting operational reviews (cont.)

### Step 2

### **Compare yourself to peers**

- Identify similar organizations (size, demographics, etc.)
- Identify aspirational organizations
- Identify pertinent comparison points
- Benchmarks may include
  - Public works
    - Miles of road maintained versus streets maintenance personnel
  - Human resources
    - HR personnel versus total employees
  - Parks and recreation
    - Operating expenditures per acres of land managed or maintained

#### **More information on benchmarking:**

[bakertilly.com/insights/benchmarking-for-results-how-to-design-a-program-that-works](https://bakertilly.com/insights/benchmarking-for-results-how-to-design-a-program-that-works)

## Conducting operational reviews (cont.)

### Step 3

### **Identify focus area and communicate project**

- Root-cause and benchmarking analyses identify potential high-impact departments or cross-departmental functions (enterprise technology, procurement, etc.)
- May be several high-impact areas. Staggering reviews makes them more feasible (i.e. one per year)
- Communicate the project to staff and stakeholders
  - Be transparent as possible: More communication = less rumors and fear
  - Why is this important to them? What's their role?

## Conducting operational reviews (cont.)



**Step 4**

### **Identify improvement areas**

*Process improvement, cost savings or revenue enhancement*

- Review available performance data, processes and organizational charts
  - What stands out and/or needs to be explained?
- Interview staff at all levels, grouping questions into three categories
  - What works well and what are you proud of?
  - What makes it difficult to do your job?
  - What are you not doing now that could result in process improvement, cost savings or revenue enhancement for the organization?

## Conducting operational reviews (cont.)

### Step 4

### **Identify improvement areas** (cont.)

*Process improvement, cost savings or revenue enhancement*

- Go back to the benchmarks. Why are we different than our peers?
- Document your findings and determine which findings, if addressed, could have the biggest impact on the organization
- Research potential solutions/changes with industry groups and comparables

## Conducting operational reviews (cont.)



**Step 5**

### **Gain buy-in and build consensus**

- Make the case for each recommendation
  - What's the benefit to the organization? To the employees?
- Identify potential challenges to implementing the recommendations – and solutions for mitigating those challenges
- Discuss the findings and recommendations with organization leadership and elected official before issuing a final report
- Assign an owner to each recommendation and regularly track progress

# Challenges and strategies

**We don't have  
time!**

## **Challenge**

Operational reviews can be time and labor intensive

## **Strategies**

- Begin to regularly collect data now
- Use an external resource to conduct reviews
- Be cognizant of schedules (i.e. don't schedule a review of Finance when the budget is due)



**Our Directors  
think  
a review means  
they're in  
trouble.**

## Challenges and strategies (cont.)

### **Challenge**

People find operational reviews SCARY

### **Strategies**

- Review versus audit
- Present yourself as a partner – what challenges have they been facing that you can help solve?
- Pick your battles

I'll get in trouble  
if my boss  
knows  
I said this...

## Challenges and strategies (cont.)

### **Challenge**

Staff are reluctant to be honest during the review

### **Strategies**

- Separate directors/managers/supervisors from staff during interviews
- Have avenues for anonymous input (i.e. confidential survey)
- Maintain confidence and build trust
- Use an external resource to conduct review

## Challenges and strategies (cont.)

**I recommend  
changes that  
never get  
implemented...**

### **Challenge**

Lack of buy-in to recommendations means they never get implemented

### **Strategies**

- Involve stakeholders at all levels of the organization
- Support recommendations with details and facts
- Boards need to understand monetary or risk impact to see benefits
- Use an external resource to conduct reviews



# Contact Information

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