



Long-Term Financial Planning for Governments

What is Long-Term Financial Planning?

“As a long-time observer of public budgeting, I have wondered what the next wave of reform would be, and how well it would address the problems that local budgeters actually face. Now I know. The answer is long-term financial planning.”

-Irene S. Rubin

(Author of *The Politics of Budgeting* and winner of the Aaron Wildavsky Award for lifetime scholarly achievement in public budgeting)

Long-term financial planning (LTFP) is used to identify future financial challenges and opportunities through financial forecasting and analysis, and then, based on that information, to devise strategies to achieve financial sustainability.

Long-term financial planning is not just a staff-driven process. It is consensus-driven and inclusive, involving elected officials, staff, and the public. Inclusiveness is important because a viable long-term financial plan must satisfy two requirements that can at times be difficult to reconcile. First, the plan must result in strategies to achieve and maintain financial sustainability. Second, the plan must identify how the government will provide a consistent

level of services and address issues of major concern to the community within financial constraints.

Forging a plan that will gain the support of elected officials, staff, and the public is critical for successful implementation. It requires reaching out to stakeholders inside and outside the government and a rigorous technical analysis. GFOA’s planning approach incorporates both of these elements.

Elements of a Long-Term Financial Plan

Financial Environment Analysis: Economic trends and critical issues

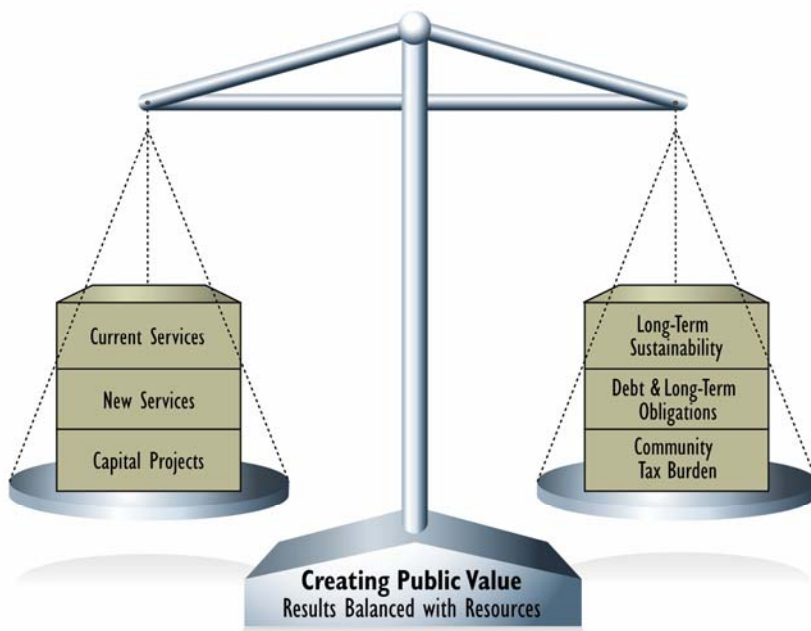
Revenue / Expenditure Forecasts: Five to ten year projections

Debt Analysis: Debt levels, debt sustainability, and debt capacity

Financial Balance Analysis: Estimate future position and uncover imbalances

Financial Strategies: Address future imbalances and maintain long-term balance

Cooperation: A collaborative effort among elected officials, the finance office, and the public



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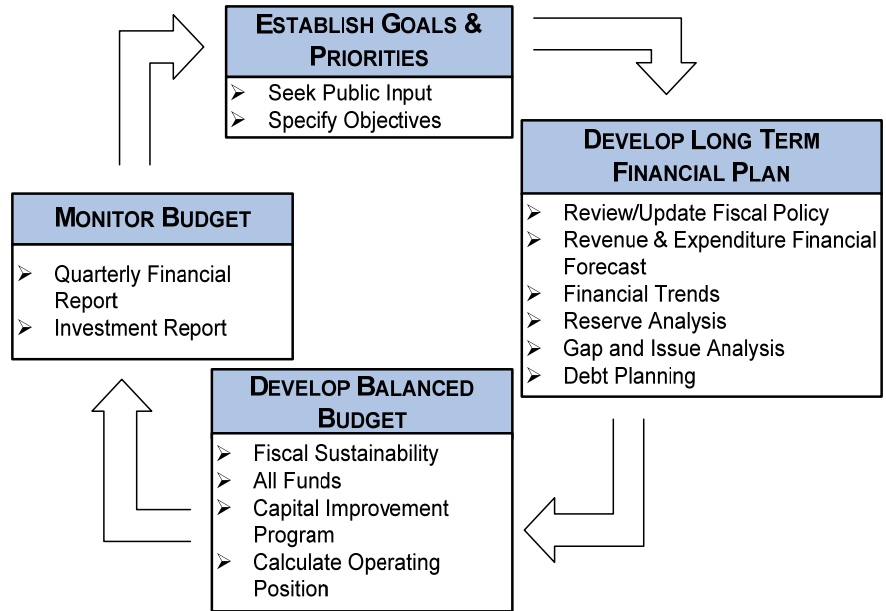
Who is Involved in Long-Term Financial Planning?

A Leader. The plan requires a leader. The CEO or CFO may fill this role. The leader needs an in-depth understanding of the issues facing the organization and is responsible for engaging participation from the right individuals and groups within and outside of government.

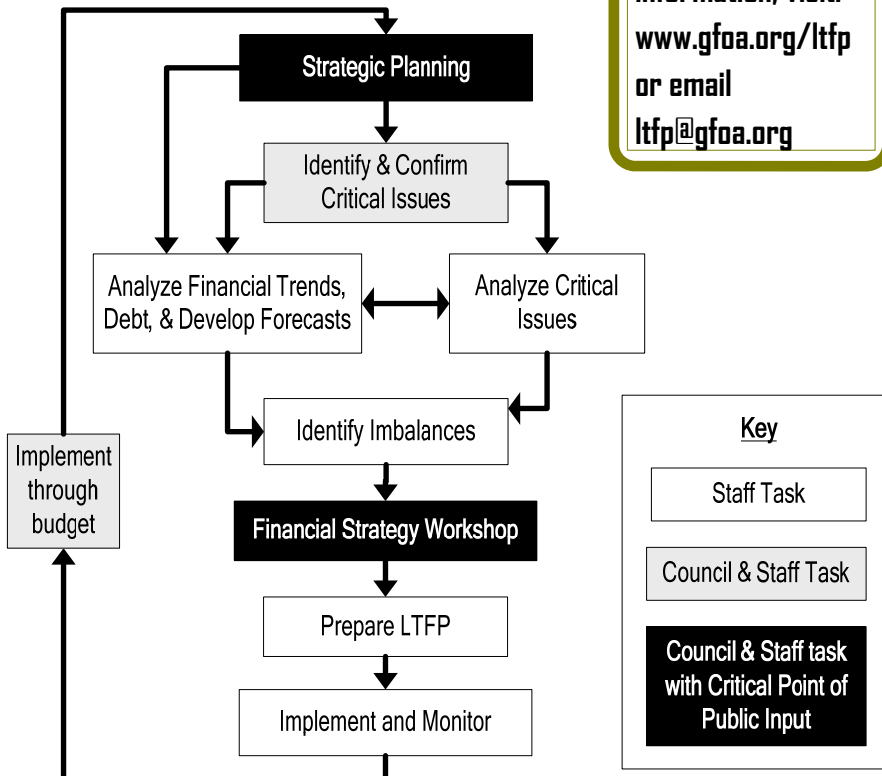
Elected Officials. A financial plan cannot succeed without elected officials. They set the standards for the financial stewardship and hold staff accountable for meeting those standards.

Staff. A core group of staff members, usually from the finance office, will carry forward

The City of San Clemente's Long-Term Financial Planning Cycle



Sample Planning Process



the planning process from day-to-day. Financial sustainability requires action from many departments, so the planning leader must find a way to involve other departments as well.

The Public. Involving the public brings democratic legitimacy to the plan. The financial plan will impact services and the financial burden placed on the community, so the public should be involved through mechanisms like surveys, focus groups, community meetings, or special commissions.

Consultants. Consultants can be used for assistance with technical analysis or guidance through the financial planning process.

What are the Benefits of Long-Term Financial Planning?

Balanced Budgets: Long-term planning makes government mindful of the long-term impacts of today's decisions, setting the stage for balanced budgets in successive years by avoiding temporary solutions.

Reduce Conflict During Budgeting: Financial planning is organized around a consensus-based set of service and financial goals, which sets boundaries on the budget process and creates an understanding of budget priorities.

Sustainable Growth: Long-term planning optimizes government's ability to manage growth. It enables a financial strategy to be developed that can balance needs of new residents with existing residents.

Manage Low , No, or Negative Growth: Long-term planning is important for communities experiencing little or no growth that cannot depend on revenue from new development to "grow their way out" of financial imbalance.

Reasons for Governments to do Long-Term Planning

- Impending financial crisis
- Unique economic or funding challenges
- Improve bond ratings and lower the cost of borrowing
- Incorporate a longer-term, more strategic perspective into planning and budgeting
- Better communicate financial information to the public
- Determine service levels and priorities for the future

Stable Tax Rates: Long-term planning and forecasting identifies potential peaks and valleys in future revenues and expenses, allowing governments to take countervailing action ahead of time.

Better Service Planning: Effective financial planning requires making decisions about the level of service that government will provide over a multi-year period.

Long-Term Financial Planning Experience of the City of Gresham, Oregon



"Clarity of resources makes the city manager better able to craft and clarify the choices and challenges faced by

the organization over the long term and injects reality into decisions."

Erik Kvarsten, City Manager

"Long-term financial planning develops a mechanism that helps staff and policy-makers move from a reactionary mode to one of charting the course ahead, preparing for the pitfalls as well as the successes."

Terry McCall, CFO

The City of Gresham has faced many of the same fiscal challenges as other local governments, including stagnant revenues and increasing costs. With the assistance of GFOA consultants, the City has used long-term financial planning to navigate through financial difficulties and produce positive outcomes. In the City of Gresham, LTFFP:

- 1. Allows for discussions on options and strategies.** When the Council and public were presented with analysis and benefits of fee indexing, they easily adopted it with the support of developers and the business community.
- 2. Provides the analysis needed to create or refine financial policies.** In 2007, the Council adopted a rainy day reserve policy; the budget committee approved funding for the reserve that same year.
- 3. Provides communication between policy makers and staff for taking corrective action.** Gap closing strategies are now being introduced into the annual budget planning process.



What Financial Pitfalls can LTFP Help You Avoid?

Fiscal stress can have many causes. Here are the most common financial pitfalls that financial planning helps you overcome.

Lack of Lifecycle Costing: The annual budget places emphasis on the cost of an asset for a single year. However, assets often have ongoing costs, like maintenance and operations. Failure to plan for full lifecycle costs exposes the government to unexpected future liabilities.

Robbing Peter to Pay Paul: When the resources of one fund are used to inappropriately subsidize the activities of another it may indicate that the government is providing services beyond its means.

Failure to Link to Other Planning Processes: Long-term financial planning is an integral part of a complete planning framework, as shown in the

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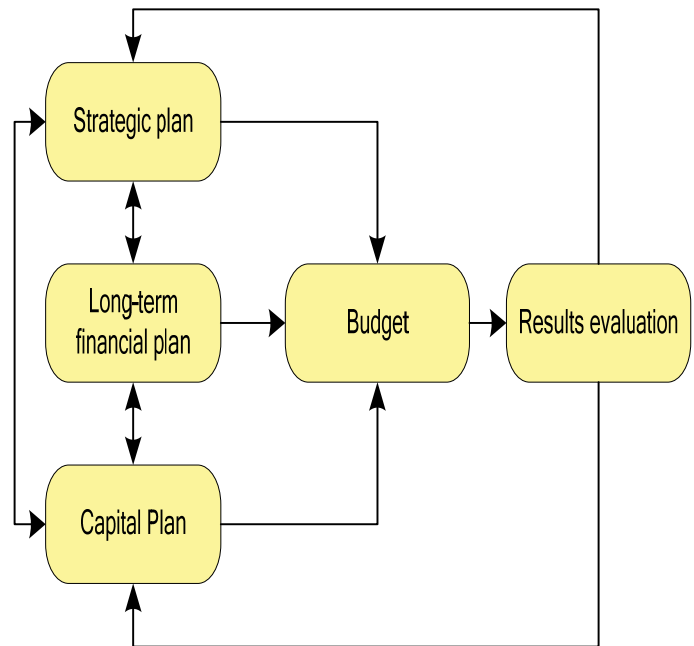


figure above. Financial planning ties together the fiscal impacts of other plans and provides unified strategies for financial sustainability.

Borrowing for Operations: Long-term debt is a valuable tool for funding capital projects; however, borrowing to finance day-to-day operations creates long-term liabilities for short-term benefits.

Selling Off Assets: Selling surplus land, buildings, or other assets to finance operations only defers an immediate budget gap.

Relying on One-Time Revenues: Governments often receive revenues in one year that are not expected to recur in the next. If these temporary resources are used to finance ongoing services, fiscal imbalance will result when the well runs dry.

Check out these Resources and More at www.gfoa.org/lftp

Books:

- *Financing the Future: Long-Term Financial Planning for Local Government*
- *An Elected Officials Guide to Long-Term Financial Planning*

Consulting Services:

- Unparalleled Expertise
- Customized and Affordable

Training Courses:

- Long-Term Financial Planning
- Revenue Forecasting and Analysis

More:

- Free articles and reports
- Examples of financial plans



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