Budgeting During a Recession

Principles, Practices, Processes, and Politics

[Logo]
3 Stages of Financial Recovery

1. Recognize
2. Mobilize
3. Generic Treatments
4. Initial Diagnosis
5. Fiscal First Aid
6. Detailed Diagnosis
7. Recovery Plan
8. Longer-Term Therapies
9. Long-Term Financial Planning
10. Recovery Leadership
11. Manage Recovery Program
12. A Strong Financial Foundation for a Thriving Community
13. Bankruptcy/Receivership

12 Steps through the process

Your Financial Condition

- Decline
- Distress
- Stabilization
- Recovery
- Financial Health
12 Steps through the process:

1. Recognize
2. Mobilize
3. Generic Treatments
4. Initial Diagnosis
5. Fiscal First Aid
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10. Recovery Leadership
11. Manage Recovery Program
12. Bankruptcy/Receivership
13. Decline

Your Financial Condition:

- Decline
- Distress
- Stabilization
- Recovery
- Financial Health

3 Stages of Financial Recovery:

- Bridging
- Reform
- Transform
Our Presenters, In Order of Appearance

• Kurt M. Thurmaier, Chair of the Department of Public Administration, Northern Illinois University

• Chris Adams, President, Balancing Act, Senior Fellow, University of Colorado School of Public Affairs

• David D. Hart, Chief Financial Officer, Los Angeles Unified School District
A Note About Balancing Act Software

• Balancing Act software will be used to demonstrate concepts of good budgeting, but the software is not required.
  • Excel “what if” scenarios can often perform similar tasks and many things we will cover have nothing to do with software

• If you want to use Balancing Act, it is now available for free to help local governments with the financial crisis

• In order to get as many good resources to GFOA members as quickly as possible, GFOA is working with a number of private sector firms that have graciously agreed to provide their expertise free of charge. Please be aware that there is no financial relationship between these firms and GFOA. Also, GFOA does not endorse their products or services.
Three Principles in Cutback Budgeting

Dr. Kurt Thurmaier
Distinguished Engagement Professor and Chair
Department of Public Administration
School of Public and Global Affairs
Northern Illinois University
Three Guiding Principles

Strategic plans and priorities are made for cutback management periods.
Three Guiding Principles

Strategic plans and priorities are made for cutback management periods.

2018-2020 POLICY AGENDA

TOP PRIORITIES (in alphabetical order)
- Affordable Childcare Study and Funding
- Five Flags Center: Direction and Funding
- Inclusive Dubuque Support
- Major Streets Improvement: Plan, Direction, and Funding
- Poverty Reduction: Action Plan
- River Cruise Docking Facilities: Direction
- Winter Farmers Market: Location and Funding Support

HIGH PRIORITIES (in alphabetical order)
- Bee Branch Floodwall Gates Funding
- Central Avenue Corridor: Economic Revitalization
- Crime Prevention Program: Maintenance
- Debt-Reduction Plan: Continuation
- Mental/Brain Health Strategy and Action Plan
Three Guiding Principles

Rainy day funds are created for 1\textsuperscript{st} and 2nd year revenue shortfalls such as the Covid-19 pandemic period.
Three Guiding Principles

Remember TANSTAAFL and resist political pressure to defer capital maintenance projects.
River City Cuts Back: A Simulation

- Teaching case on cutback budgeting
- Background: River City Population ~ 60K
- Council-Manager Form, Seasoned Manager
- Fund balance is $2.4M higher than 20% policy

- THEN COVID-19 Hits!
- Revenues drop at least $2.4M in Q4.
- What are the options
River City Cuts Back: A Simulation

• Teaching case on cutback budgeting
• Background: River City Population ~ 60K
• Council-Manager Form, Seasoned Manager
• Fund balance is $2.4M higher than 20% policy

• THEN COVID-19 Hits!
• Revenues drop at least $2.4M in Q4.
• What are the options....and consequences?
River City Cut Back 2(a)
Educator License - For Classroom Use Only

You are in deficit.
-$2.5m

Where the Money Goes

Spending
- Culture and Recreation: $12.7m
- Capital Projects: $66.8m
- Streets & Infrastructure: $14.1m
- Public Safety: $29.6m
- Municipal Services Fully Supported by User Fees: $18.7m
- Community and Economic Development: $14.2m
- General Government: $10.4m
- Transportation Services: $9.3m
- Health and Social Services: $1.0m

Revenue
- Taxes: $54.3m
- Charges for Services & Permits: $44.3m
- Intergovernmental Revenue: $34.6m
- Miscellaneous Revenue: $28.6m

Submit
Reset all to start over

This simulation tool allows you to show how you would develop the budget, because we want to hear from you!

For more information about the City of Dubuque's budget process, please visit on:
www.ci.dubuque.ia.us/budget
You are in deficit. - $2.0m

### Where the Money Goes

#### Spending

- **Culture and Recreation**: $12.7m
- **Capital Projects**: $66.8m
- **Streets & Infrastructure**: $13.6m

#### Public Works: $9.7m

Please choose the following option that you support in regard to the asphalt milling and overlay of City of Dubuque Streets:
- Continue with the five Centerline mile program that currently exists
- Reduce asphalt milling and overlay program by one mile
- Reduce asphalt milling and overlay program by two miles
- Reduce asphalt milling and overlay program by three miles
- Reduce asphalt milling and overlay program by four miles

### Revenue

- **Taxes**: $54.3m
- **Charges for Services & Permits**: $44.3m
- **Intergovernmental Revenue**: $34.6m
- **Miscellaneous Revenue**: $28.6m
- **Investments & Property**: $12.4m

### Other

- **Engineering**: $3.8m
- **Public Safety**: $29.6m
- **Municipal Services Fully Supported by User Fees**: $18.7m
- **Community and Economic Development**: $14.2m
- **General Government**: $10.4m
You are in deficit.

Confirm Change

WARNING! Reducing street maintenance violates a top priority of the council's policy agenda!

Delayed milling and overlay will increase vehicle costs due to poor road surfaces, may increase accidents, and increase street maintenance costs overall.

Don't Change  Make Change

Revenue

Taxes: $54.3m
Charges for Services & Permits: $44.3m
Intergovernmental Revenue: $34.6m
Miscellaneous Revenues: $28.6m
Investments & Property: $12.4m

Engineering: $3.8m

Public Safety: $29.6m
Municipal Services Fully Supported by User Fees: $18.7m
Community and Economic Development: $14.2m
General Government: $10.4m
Transportation Services: $9.3m
Health and Social Services: $1.0m

NIU
You are in deficit.

Confirm Change

Warning: This reduction violates the council's high priority related to its Crime Prevention Program!

Don't Change  Make Change

Revenue

Police: $15.5m
Shall the police force be reduced by 1 FTE sworn officer. This reduces the police department budget by approximately $112,000.
- Retain the current FTE for the police force.
- Reduce the police force by 1 FTE sworn officer

Fire: $11.2m

Emergency Communications (911): $1.5m

General Safety: $1.4m

Municipal Services Fully Supported by User Fees: $18.7m
You are in deficit.

- $2.5m

### Revenue

- **Taxes**: $54.3m
- **Charges for Services & Permits**: $44.3m
- **Intergovernmental Revenue**: $34.6m
- **Miscellaneous Revenue**: $28.6m

#### Proceeds from Bonds
- **Proceeds from Bonds**: $20.3m
  - $20.3m
  - $0.00
  - $20.3m

#### Fund Balance
- **Fund Balance**: $0.00
  - $0.00
  - $0.00
  - $0.00

Should the Fund balance surplus be used to cover lost revenue? Financial policies require a minimum of 20% General Fund balance. Currently, the General Fund balance has a surplus of $2.4m.

- Leave the Fund balance untouched.
- Reduce the Fund balance by $1 million.
- Use the entire Fund balance surplus to cover revenue losses.
- Reduce the Fund balance by $3.4 million.

**Comment**

#### Other Miscellaneous Revenues
- **Other Miscellaneous Revenues**: $8.2m

#### Investments & Property
- **Investments & Property**: $12.4m

---

This simulation tool allows you to show how you would develop the budget, because we want to hear from you!

For more information about the City of Dubuque’s budget process, please visit us at: www.cityofdubuque.org/budget
### Revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$54.3m</td>
</tr>
<tr>
<td>Charges for Services &amp; Permits</td>
<td>$44.3m</td>
</tr>
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</tr>
<tr>
<td>Miscellaneous Revenue</td>
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</tbody>
</table>

**Proceeds from Bonds:** $20.5m

**Fund Balances:** $0.00

Should the Fund balance surplus be used to cover lost revenues? Financial policies require a minimum of 20% General Fund balance. Currently, the General Fund balance has a surplus of $2.4M.
- Leave the Fund balance untouched
- Reduce the Fund balance by $1 million
- Use the entire Fund balance surplus to cover revenue losses
- Reduce the Fund balance by $3.4 million

**Other Miscellaneous Revenues:** $8.2m
Taxes: $54.3m

Charges for Services & Permits: $44.3m

Intergovernmental Revenue: $34.6m

Miscellaneous Revenue: $32.0m

Proceeds from Bonds: $20.5m

Fund Balances: $3.4m

Should the Fund balance surplus be used to cover lost revenues? Financial policies require a minimum of 20% General Fund balance. Currently, the General Fund balance has a surplus of $2.4M

Options:
- Leave the Fund balance as is
- Reduce the Fund balance
- Use the entire Fund balance to cover revenue losses
- Reduce the Fund balance by $3.4 million

More Information

Warning: This reduction violates the City’s financial policies!
Three Take Aways

• Frame the conversation with Strategic plans and priorities.
• Don’t drain the Rainy Day Pail in the first year. Recessions average 10-15 months of rain.
• Remind citizens and officials of TANSTAAFL. Deferring capital maintenance projects raises overall costs in the long run.
Decision Making During a Recession

Declining Revenue + Public Needs/Expectations = Pain
Online Budget Simulations

• Frame tradeoffs
• Show cost effects
• Show impact on services
• Educate users on totality of what government does
• Align citizen expectations with their willingness to pay taxes
• “Get buy-in” (AKA “share the pain”)
### The Three C’s of Budget Simulation

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Context</th>
<th>Consequence</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Spending can’t exceed revenue</td>
<td>• Why item is important</td>
<td>• What would a service cut mean?</td>
</tr>
<tr>
<td>• Legal requirements</td>
<td>• Educate on why item is in the budget</td>
<td>• How prepared are we for natural disaster, recession?</td>
</tr>
<tr>
<td>• Restricted funds</td>
<td>• History of item, funding levels</td>
<td>• Damage from deferred maintenance</td>
</tr>
<tr>
<td></td>
<td>• Visualizations, video</td>
<td>• Vulnerable populations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tax increase</td>
</tr>
</tbody>
</table>
“School staff and department staff had no idea how much we spend on particular items...Knowing the cost of something or the tradeoff that would have to be sacrificed changes peoples’ minds.”

Suzanne Slack, CFO
Syracuse City School District
“School staff and department staff had no idea how much we spend on particular items...Knowing the cost of something or the tradeoff that would have to be sacrificed changes peoples’ minds.”

“Anytime that folks better understand a decision or budget, they feel better. But then when they take that knowledge and vote, they feel like they contributed to the budget and own some piece of it!”

Suzanne Slack, CFO
Syracuse City School District
School staff and department staff had no idea how much we spend on particular items...Knowing the cost of something or the tradeoff that would have to be sacrificed changes peoples’ minds.

It definitely gave us leverage to make changes.

Anytime that folks better understand a decision or budget, they feel better. But then when they take that knowledge and vote, they feel like they contributed to the budget and own some piece of it!

Suzanne Slack, CFO
Syracuse City School District
What’s the Role of the CFO in a Budget Crisis

Ensure an informed decision is made in a resource-constrained environment
Priorities for Los Angeles Unified School District:

• Leadership inside your organization: Your top jobs as CFO

• Bringing in the public: Aligning your budget strategy with the public will
What do we want from our government?
Are we willing to pay for it?
You are in deficit.

Options for Service Reductions

<table>
<thead>
<tr>
<th>Spending</th>
</tr>
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<tbody>
<tr>
<td>Development Services: $890,000</td>
</tr>
<tr>
<td>Fire: $1.7m</td>
</tr>
<tr>
<td>Police: $3.7m</td>
</tr>
<tr>
<td>Parks &amp; Recreation: $3.9m</td>
</tr>
<tr>
<td>Libraries: $1.3m</td>
</tr>
<tr>
<td>Public Works: $2.0m</td>
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</table>
You are in deficit.

- $2.0m

Revenue

- General Fund revenue: $11.5m

Police: $3.7m

- Officers at high schools: $350,000
- Social Services Unit: $550,000
- Public information and community outreach: $300,000
- Dedicated traffic enforcement unit: $720,000
- K9 (police dog) Program: $150,000
- Regional task forces on auto-theft, drugs and early release: $70,000
Reductions would reduce traffic enforcement, investigative resources for significant accidents, and collaboration with other City departments and school districts to improve traffic safety.

### Revenue

- **General Fund revenue:** $11.5m

### Public information and community outreach:
- **Public information and community outreach:** $300,000

### Dedicated traffic enforcement units:
- **Dedicated traffic enforcement units:** $720,000

### K9 (police dog) Program:
- **K9 (police dog) Program:** $150,000

### Regional task forces on auto-theft, drugs and early release:
- **Regional task forces on auto-theft, drugs and early release:** $70,000
You are in deficit. $1.9m

**Revenue**

- General Fund revenue: $11.5m

**Police: $3.6m**

- Officers at high schools: $350,000
- Social Services Unit: $550,000
- Public information and community outreach: $300,000
- Dedicated traffic enforcement unit: $648,000
- K9 (police dog) Program: $150,000
- Regional task forces on auto-theft, drugs and early release: $70,000

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**Expenses**

- Officers at high schools: $350,000
- Social Services Unit: $550,000
- Public information and community outreach: $300,000
- Dedicated traffic enforcement unit: $648,000
- K9 (police dog) Program: $150,000
- Regional task forces on auto-theft, drugs and early release: $70,000

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Total revenue: $11.5m
Total expenses: $13.1m
Deficit: $1.6m
You are in deficit.

- $2.0m

Options for Service Reductions

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“Balancing Act gave our community a chance to sit in the City Manager’s chair and make budget decisions among all of the quality-of-life services we provide. People commented on how hard that role is, and that insight proved valuable in building trust.”

Dominick Casey, City Manager, City of Roseville, California
“If you don’t like the proposed tax increase, then show the city what you would cut.”
Findings from Large-Scale Experiment Using Budget Simulation

Citizens are capable of making tradeoffs
• “In times of fiscal constraint citizens can make tradeoffs between raising taxes and cutting spending”

Citizens take a balanced approach
• “90% of our respondents made some cuts in spending and tax increases”

Having citizens work through tradeoffs and experiencing cost-effects shrinks ideological differences
• “While there are continued and substantial differences between Democrats and Republicans, these differences are substantially reduced when both groups face the real budget”

Lesson from the Great Recession

“In participatory cities, nothing is off the table when dealing with a fiscal crisis.”

Additional Takeaways

• Invest in building fact-based relationships with stakeholders (internal staff, dept heads, electeds, the public) to work through the recovery

• Utilize communication resources, such as PIOs, when dealing with the public

• Share constraints, context and consequences with stakeholders and work together for a wise outcome
The End

• For access to all resources shown on this webinar (including free software) go to:
  • www.gfoa.org/ffa

• If you have questions, please use the chat feature to ask

• Our presenters
  • Kurt Thurmaier, kthur@niu.edu
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  • David Hart, david.hart1@lausd.net