Financial Scenario Planning

Visualizing and Strategizing for Uncertain Times
12 Steps through the process

3 Stages of Financial Recovery

- BRIDGING
- REFORM
- TRANSFORM

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

Your Financial Condition

- DECLINE
- DISTRESS
- STABILIZATION
- RECOVERY
- FINANCIAL HEALTH

Relapse
Financial Scenario Planning
Visualizing and Strategizing for Uncertain Times

"V" shaped recovery

- Rebound is swift, but not easy
- Short-term, quick fixes could bridge the gap to recovery

Big "V" recovery

- Downturn is deeper, but bounceback is rapid
- Short-term bridge strategies apply

"W" recovery

- A short-term recovery, but a return of infection in fall
- Longer-term strategies to endure and transform

"L" recovery

- Recovery is stalled by deeper economic woes
- Long-term transformation strategies needed asap
Getting to Know You

Which of the 4 scenarios (V, v, W, L) best matches the scenario people are talking most about in your government?

- Big V
- Little v
- W
- L
Scenario Planning

“You can tell you have good scenarios when they are both plausible and surprising; when they have the power to break old stereotypes; and when the makers assume ownership of them and put them to work.”

Scenario making is intensely participatory, or it fails.

Scenario Planning and Scenario Making as a Key Skill

- Peter Schwarz, “Art of the Long View”
WHY?

What are the defining characteristics of the current crisis, and why is Scenario Planning an appropriate tool?
Scenario Planning

Need to Take Decisive Action, and Swiftly

Need to Define and Better Understand the Problem You’re Trying to Solve

Why?

1. We all feel a need to Take Action (“Now”)

2. It’s difficult to pin-point the problem we’re trying to solve (it’s uncertain, it’s a moving target and evolving)

3. When we act, we want to be “as right as possible”

“Admit and embrace uncertainty”

... And be prepared to rapidly challenge assumptions
There is currently extreme uncertainty for how this situation could all play out.

Different solutions are appropriate, for each scenario (potentially radically different solutions).
Psychological

Decision fatigue: “The more choices you have, the harder it is to choose between them.” Hick’s Law

Magnitude of some of the impacts of the decisions that need to be made can be paralyzing
Getting to Know You

Have you ever done scenario planning before in your current local government?

[Yes/no]
HOW?

What does Scenario Planning do, exactly?
What are the key takeaways to successful deployment?
Note how McKinsey & Co start to code name their imaginable futures, “A3” to “B5” and so on...

McKinsey’s 3x3 Matrix titles distill a lot of information, summarizing a ton of variables, into a shared code of comprehension.

“V” shaped recovery

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“L” recovery

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Triggers / Indicators

LEGEND:
- Tourism, visitors begin to return = indicators
- End furlough policy = decisions
- = confirmed path

More insight needed: Information “Hunting & Gathering” to understand triggers better...

Range of Appropriate Actions

“L” recovery
- Recovery is stalled by deeper economic woes
- Long-term transformation strategies needed asap

“W” recovery
- A short-term recovery, but a return of infection in fall
- Longer-term strategies to endure and transform

Big “V” recovery
- Downturn is deeper, but bounceback is rapid
- Short-term bridge strategies apply

“Y” shaped recovery
- Rebound is swift, but not easy
- Short-term, quick fixes could bridge the gap to recovery
Cash is King
Short-Term Strategies to Slow the Flow of Money Out the Door and Keep the Budget Balanced

By HYMANE K. HUANG AND JOSEPH CAREY II, Ph.D.

Fiscal First Aid Resource Center

A financial crisis can take many forms:

- A major local employer lays off much of its workforce.
- Property values plummet due to a shrinking population in the area.
- A natural disaster inflicts significant infrastructure damage.
- A mass-quarantine hails economic activity.
- A cyberattack shuts down online commerce.

Any of these events would likely cause significant financial distress for even the best-prepared local governments. Whether they lead to increased expenditures, decreased revenue, or a combination of both, the effect is the same: the local government finds itself without enough money to do everything that people expect it to get done. GFOA has put together this set of resources to help local government finance officers facing these types of situations. The centerpiece is a 12-step process we call Fiscal First Aid: Recovering from Financial Distress. Use the following diagram to navigate through the different steps of the financial recovery process.

12-Step Fiscal First Aid Recovery Process

- Step 1: Recognition
- Step 2: Mobilize
- Step 3: Generic Treatments
- Step 4: Initial Diagnosis
- Step 5: Fiscal First Aid
- Step 6: Detailed Diagnosis
- Step 7: Recovery Plan
- Step 8: Long-Term Treatments
- Step 9: Long-Term Financial Planning
- Step 10: Recovery Leadership
- Step 11: Manage the Recovery Process
- Step 12: The Outcome of Recovery
Getting to Know You

What approach is your organization taking to ensure fiscal sustainability? (select all that apply)

A. Across the board budgetary reductions
B. Deferral of capital projects
C. Furlough of employees
D. Targeted program reductions
E. Partnerships, regional collaboration
Initiatives:
- New Recreation Center
- Water - Asset Management Plan
- New Fire House
- Comp Study Recommendations
- 5-year CIP
- Sales Tax Decline 20% (little "V")
- Federal/State COVID Support
- 2020 Mid-year Budget Adjustment
- Updated Mid-Year Budget Adjustment
- Sales Tax Decline 50% (big "V")
- Recovery followed by return of shelter in-place
- The "L" (Initial hit, followed by recession)

Projection Values (%):

Total Revenues and Expenses

- Expense
- Revenue
- Baseline Exp
- Baseline Rev

Total Fund Balance

- Balance
- Baseline Bal

2020 - $4,175,066

Legend:
- 2014 - Actual
- 2015 - Actual
- 2016 - Actual
- 2017 - Actual
- 2018 - Actual
- 2019 - Actual
- 2020 - Projections (calc)
- 2021 - Projections (calc)
- 2022 - Projections (calc)
- 2023 - Projections (calc)

Plot Start Balance (General Fund):
2014 $8,762,478
Calc projection basis: 2019 Actual
Background Scenario: Main Scenario

- Hold Axis Limits
- Hide Baseline Scenario
- Hide Interfund Transfers
Quick Fixes for Expense Reduction

- **Diminish / Eliminate Variances** – review trend data in budget to actuals (and budget to budget, actuals to actuals too) and interview departments to determine where variances could be reduced to lessen projected expenses.

- **Vacancies** – inventory vacant positions (and, if you have PBBi data, identify the programs that vacant positions are tied to). Implement a temporary freeze on vacancies, especially non-essential vacancies, or vacancies tied to lower priority programs.

- **Inventory Reserves** – often times, for good reason, individual departments begin to build reserves for unexpected contingencies (so they don’t have to wait on central administration for approvals). Explore reserves in IT, Facilities, Fleet and consider if multiple reserves are redundant.

- **Review Capital Plan** – explore one-time opportunities to suspend minor/major capital expenses, in order to free up resources to bridge a one-time short-fall (only appropriate for one-time, short-term strategy to create a “bridge” to recovery)

- **Temporary Pay Freezes** – temporarily suspend pay increases

- **Incentivize Retirement** – use one-time resources to help provide an incentive to workers who may wish to retire (and if you have PBBi data, focus where staff are supporting programs with a direction of “service level decrease”)
Revenue Projections
Knowns and Unknowns

**Known**
- By consensus, now in a recession starting in March (must be 2 consecutive quarters of GDP contraction to be officially declared)
- Wall Street bearish response
- City must rebalance its 2020 budget
- 2020’s adjustments to directly feed 2021 budget

**Unknown**
- Severity of decline
- Shape/length of recovery
- Estimates range from 10% to 35% Q2 GDP contraction and 10-25%+ unemployment
- Length of the stay-at-home order
- Structural vs. cyclical
- Stimulus impacts & Business failures
# Early revenue scenarios: Inputs

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Q2 &quot;Shock&quot; Contraction</th>
<th>Bottom Quarter</th>
<th>Quarter of recovery</th>
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<tbody>
<tr>
<td>Scenario 1</td>
<td>10%</td>
<td>Q2</td>
<td>Q4</td>
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<tr>
<td>Scenario 2</td>
<td>15%</td>
<td>Q2</td>
<td>Q4</td>
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<tr>
<td>Scenario 3</td>
<td>20%</td>
<td>Q2</td>
<td>Q1 2021</td>
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<tr>
<td>Scenario 4</td>
<td>25%</td>
<td>Q2</td>
<td>Q1 2021</td>
</tr>
<tr>
<td>Scenario 5</td>
<td>30%</td>
<td>Q2</td>
<td>Q2 2021</td>
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</tbody>
</table>

![Governmental Revenue by Quarter ($000’s)](chart.png)

- **Baseline**
- **Scenario 1**
- **Scenario 2**
- **Scenario 3**
- **Scenario 4**
- **Scenario 5**
- **Scenario 6**
### Early revenue scenarios: outputs

<table>
<thead>
<tr>
<th>Scenario</th>
<th>2020 Gap vs. Budget</th>
<th>2021 Gap vs. Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>$14.9M</td>
<td>$13.5M</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>$20.6M</td>
<td>$13.5M</td>
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<tr>
<td>Scenario 3</td>
<td>$31.5M</td>
<td>$20.3M</td>
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<tr>
<td>Scenario 4</td>
<td>$39.8M</td>
<td>$20.3M</td>
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<tr>
<td>Scenario 5</td>
<td>$53.1M</td>
<td>$30.4M</td>
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#### Governmental Revenue by Quarter ($000's)

- **Baseline**
- **Scenario 1**
- **Scenario 2**
- **Scenario 3**
- **Scenario 4**
- **Scenario 5**
- **Scenario 6**

The graph illustrates the projected governmental revenue by quarter, considering various scenarios and their impacts on budget and forecast adjustments.
2020 Short- and Mid-term Planning
Below is a list of immediately available options; City will likely need to pursue other budget adjustments in addition to this list

**In-flight:**
- Hiring Freeze announcement
- Modifications to reappropriation (currently scheduled 4/21)

**Analysis underway (ELT to receive electronic packets):**
- Consideration of capital project deferrals/delays
- Consulting / Travel / Training budgets
- Fuel costs
- Open/unfulfilled purchase orders
- Lease-financed equipment purchases
Framework:

1. **Cost Modeling**: Separate fixed vs. variable cost
2. **Size the gap**: Compare revised cost modeling to revenue scenarios
3. **Refine the gap**: Estimate by Fund
4. **Finalize funding strategy**: Determine appropriate use of reserves vs. gap to solve
5. **Cost initiatives & service level adjustments**: ELT and Department discussions

Tools to utilize:
- 2020 BFO Drilling Platforms
- New projects/programs from previous 4-5 BFO cycles
- Wish to avoid blanket “all departments cut X%” guidance
<table>
<thead>
<tr>
<th>Initiative</th>
<th>Scenario 1 $13.5M</th>
<th>Scenario 3 $20.3M</th>
<th>Scenario 5 $30.4M</th>
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<tr>
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<tr>
<td>Initiative F</td>
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2021 Revised Budget Process
Operating principles:

• Emergency situation – both in demands on staff and in financial uncertainty
• Temporarily moving away from the BFO model
• One-year budget, but will populate both years in BART with flat 2021>2022
• Will not convene the 7 BFO teams
• 2021 budget will retain its linkage to 2020 strategic objectives and to metrics
• 2022 will also be a 1-year budget; extent of recovery will drive whether we follow the same 2021 process or return to full BFO

Goal is to get back to a biennial BFO-driven process for 2023-2024
Design elements:

• 2021 service levels based on a **re-sized 2020 budget**
• **Tactical ELT-driven** process
• **Spend targets** determined by BLT sub-group and disseminated to SA Directors
  - SA Directors have authority to determine the targets cascaded to Dept. Heads
  - **Targets are not one-size-fits-all** – avoiding guidance like “all SA’s/depts must cut xx% of their budget”
    - Submitted offers **must** balance to the overall SA-level targets
• Will carefully catalog any service adjustments for 1) communication and 2) prioritizing future add-backs when revenue recovers
Next steps and timing
ELT sub-group to co-sponsor: Kelly, Jeff, Teresa, Travis

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Lead</th>
<th>Support</th>
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<tr>
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<td>Extended FP&amp;A community</td>
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<td>Cost Initiatives / Service</td>
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<td>ELT, Budget &amp; FP&amp;A</td>
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<td>Adjustments</td>
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<tr>
<td>Workforce Alternatives</td>
<td>XXXXXXXX</td>
<td>HR, CMO, CAO, Finance, Operational</td>
</tr>
</tbody>
</table>
2020 Re-balance

Finance Committee & ELT
Initial forecast & messaging
ELT cascades forecast to depts
ELT cascades revisions to depts
SAs/Depts adjust budgets
Review 2020 forecast with Finance Committee

2021 Budget

Buy-in on new 2021 process
Targets distributed, offers created in BART
Finalize Offers
BLT convenes w/ balanced budget
Move through CM-recommended budget
Next steps

- Complete analysis and implementation of fiscal first aid levers
- Refine scenarios and projections of 2020 revenue – ongoing basis
- Finalize governance, roles/responsibilities, and workplan
- Re-balance 2020 budget
- Process design and execution of the 2021 budget conceptual framework
1. Communication Strategy
2. Importance of Financial Policies, like Reserves (now and into the future)
3. Planning Around “What if” Scenarios

Reflections from:

Jamie Rouch
Chief Financial Officer
City of Branson, MO
Take Aways

*Bringing Scenario Planning back to your Organization*
1. Define plausible futures that show a range of outcomes.
2. Update your model (mental and software) as you go.
3. Create your playbook of solutions (continually validate and test).
4. Communicate continually.
5. Strategies will be robust no matter what happens.

Take Aways:

- Define plausible futures that show a range of outcomes.
- Update your model (mental and software) as you go.
- Create your playbook of solutions (continually validate and test).
- Communicate continually.
- Strategies will be robust no matter what happens.
The End

• For access to all slides and resources shown on this webinar go to:
  • www.gfoa.org/ffa

• Includes access to free software for scenario planning from ResourceX
  • No financial relationship between firms and GFOA
  • GFOA does not endorse their products and services

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

• Our presenters, in order of appearance
  • Chris Fabian, cfabian@resourcex.net
  • Jamie Rouch, jrouch@bransonmo.gov
  • Travis Storin, Storin@fcgov.com
12-Step Fiscal First Aid Recovery Process

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New GFOA Research

- Cash is King: Short Term Strategies to Slow the Flow of Money Out the Door and Keep the Budget Balanced

Upcoming Training

- April 9, 2020. Take the 2020 Financial Policy Challenge

Past Training

Click on each webinar to access a recording of the webinar, the PowerPoint presentation, and other supporting materials.


Free Limited-Time Offers from Third-Party Firms

In order to get as many good Fiscal First Aid resources to GFOA members as quickly as possible, GFOA is working with 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 any products or services.
You’ve made it to the Bonus Slide Material...
The “Nudge” Factor

“Alter the environment in which decisions are made so that people are more likely to make choices that lead to good outcomes.”

- Frame choices responsibly around the policy decisions we’re trying to drive
- Choice / Decision architects honor and reinforce appropriate roles and responsibilities of Budget and Accounting, as differentiated from Elected Officials, Departments, and Citizens
- Ever present “scoreboard” for the myriad decisions in front of us every day

- HBR: Beshears, Gino, “Leaders as Decision Architects”