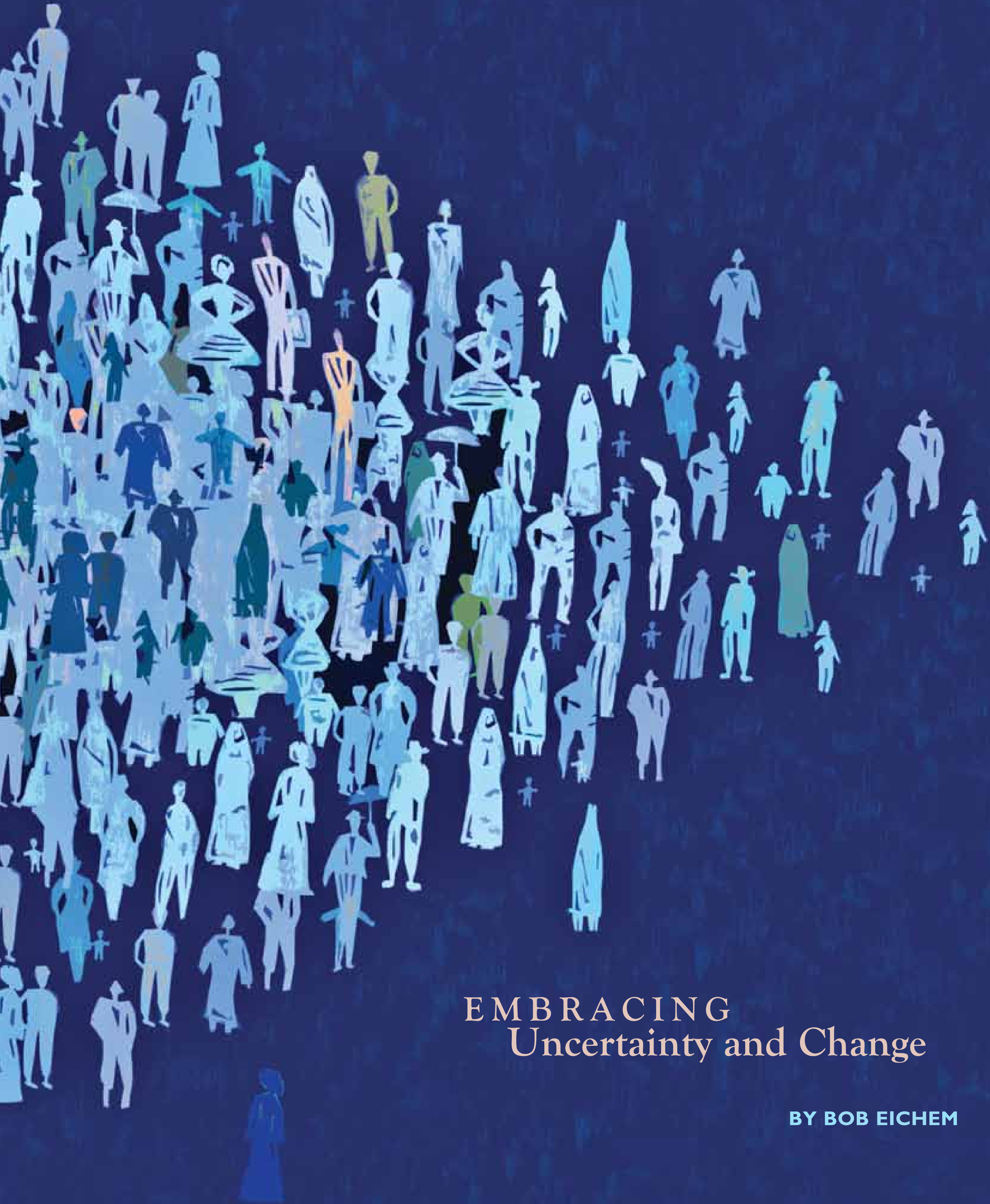

EMBRACING Uncertainty and Change

BY BOB EICHEM

Resilience planning is the next frontier in creating a viable fiscal future for our organizations. Finance officers should embrace it in government finance because it takes us beyond having a structurally balanced budget and past the practice of focusing on the near future. Embracing resilience makes us think and plan with a different set of decision-making tools.

Resilience planning can provide organizations with long-term benefits that are very much worth the extra effort. It is a concept that goes to the very essence of our responsibilities as public finance officers — to keep our organizations well-funded and to leave them in better shape than they were in when we started. It isn't easy, though. Resilience planning requires us to prepare our organizations for acute shocks (situations such as economic downturns and disasters that may affect us for a few months to a few years) and chronic stresses (big issues such as homelessness and affordable housing), and to consider new strategies accordingly. Our goals should be bigger than simply maintaining what we have.

Embracing resilience makes us think and plan with a different set of decision-making tools.

Many local governments are already working to become more resilient. To tap into this wellspring of knowledge, the GFOA has formed a 15-member task force. The members of this national team have varying levels of experience, from just starting out in government finance or administration careers to those who have been at it for several decades. Perspectives include practitioners, consultants, and people who worked in other industries before joining government. All of them are doers and thinkers who have looked at resilience planning at both the macro and micro levels.

THE ART OF ASKING "WHY"

The journey toward a resilient government starts with "why" — the fundamental reason for the organization's existence, and the reason constituents and employees should care. That existential "why" is at the center of what bestselling author Simon Sinek terms the "Golden Circle."[1] (For more information about Sinek's book, see the review in this issue of *Government Finance Review*.) Sinek tells us that while "why" is central, it must also be accompanied by "what" (the service that an organization provides) and "how" (the method or approach used to provide that service). The problem many organizations have, Sinek posits, is that they only are able to clearly articulate their "what" and their "how," but not their "why." Inspirational leadership isn't possible without the "why," leaving only transactional modes of management. This will ultimately fail to attract, motivate, and retain a highly effective workforce, leading to subpar organizational performance. Hence, leaders must understand that employees and constituents don't get excited about "what" the organization does, but rather "why" it does it.

Identifying the organization's "why" is not difficult from a technical perspective. A police department, for example, exists to protect people. The real challenge in articulating "why" is the emotional or "gut" component, which can be difficult to put into words. "Why" is often neglected because "what" and "how" are easier to articulate.

Once everyone in your organization has a clear and shared understanding of why the organization does what it does, the case for resiliency becomes much easier to make. Understanding the organization's "why" makes the value of what it does obvious, along with why the organization's capacity to continue what it does should be protected.

Our goals should be bigger than simply maintaining what we have.

Having come to an agreement as to why resiliency is important, a government's next step is to ask what it can do to become more financially resilient. To answer this question, the GFOA's resiliency task force studied specific methods and techniques that governments can adopt to help them make better financial decisions.

BOULDER'S STRATEGIES

The City of Boulder, Colorado, provides an example of how resilience planning has made a difference. Boulder took a major hit during the 2001-2004 economic downturn, losing 17 percent in total general fund revenues. The severe financial stress created by this situation had somewhat improved by 2008, when the great recession hit. Fortunately, by then, the city had established a culture where financial resiliency was a shared goal between city council and staff. The city had improved and updated fiscal controls across all the disciplines of finance. The city's first long-range fiscal plan, which looked out to 2030, was completed by early 2008. The long-range plan is reassessed with each annual budget, which includes a look at the current year plus five more years.

These tools created a blueprint for fiscal sustainability. The work was based on maintaining what the city had after losing significant revenues. The resulting service level was much lower than it had been before the recessions. Residents wanted more, and the council certainly wished the city could provide more. Early in 2009, it was clear that just getting Boulder back to the level it had been at years ago would not create the future the community, council, and city staff wanted. That's when the real work on fiscal resilience began.

The following are strategies Boulder undertook to become more resilient. All these topics are explored further in other articles in this issue of *Government Finance Review (GFR)*.

Identify Guiding Principles. Boulder had never used a systematic method for prioritizing current programs and services or proposing new ones. When the city implemented a priority-driven budgeting methodology, it was able to determine several things for the first time: whether the greatest portion of the city's revenues were being used for the city's most-desired outcomes, and if there was any duplication of programs. The city also involved all departments and many staff members more deeply in the budget process, another very important step. Finally, and most important, it gave the city council and staff a shared understanding of why the City of Boulder does what it does.

For more information, see "Guiding Principles for Financial Resiliency" in this issue of *GFR*.

Try Out New Decisions as "Experiments." The city adopted a policy calling for it to balance its budget by matching ongoing revenues to ongoing expenditures; one-time revenues will be used for one-time expenditures. When a project, program, or innovative proposal makes a strong case for meeting the city's guiding principles but lacks sufficient ongoing funding (to keep the budget structurally balanced), the city treats it as an experiment and funds the proposal with one-time money — allowing it to find out if the idea works before committing to a broader or longer-term implementation. This is done with a clear understanding that the experiment will end if there is not enough funding in the future. The policy is simple, but it has had a major impact on the city's fiscal position.

For more information, see "Experimenting with Innovation" in this issue of *GFR*.

10/10/10 Analysis. The Boulder finance office applies a 10/10/10 analysis to high risk-proposals — staff members are asked to consider how they might feel about the decision to move forward with a proposal in 10 minutes, 10 months, and 10 years. The intent is to help decision makers differentiate between short-term emotions and longer-term considerations. This is a useful tool for forecasting unpredictable revenue sources, for instance, in situations where the latest news headlines, political issues, or other short-term pressures can exert undue influence. Staff members have considered if they would be happy with recommending a given forecast in 10 minutes, and what emotional pressures might be leading them to make that recommendation. The next question is: Would staff still be happy with the original recommendation in ten months because it was based primarily on a principled, impartial analysis? Or would the short-term emotions that helped prompt the initial forecast have dissipated by then, leaving staff unsatisfied with their original recommendation?

For more information, see "Making the Right Decision the First Time" in this issue of *GFR*.

Plan for a Financial Crisis. The experiences we gain over the course of our careers become our arsenal of options for confronting new challenges. This mental list of options for dealing with crisis and high-stress situations will be better, of course, if it is developed purposefully. For example, during the 2001-2004 financial downturn, the options on Boulder's list focused almost exclusively on short-term retrenchment tactics such as reducing staff levels, holding positions open indefinitely, deferring or reducing maintenance and replacement, and using one-time money to pay for ongoing costs. While these techniques did help balance the budget in the short term, they did not move the city toward a structurally balanced budget, nor did they take into consideration what would happen if another short-term shock occurred in the near future.

Fortunately, by the time the Great Recession began in 2008, Boulder's long-range fiscal plan was mostly in place, and the city had a new list of strategies. Revenues were being monitored more closely, and as it became evident that the revenue decline was not short term, city departments adapted and decreased expenditures in order of priority. The city still held positions open, but an internal cross-departmental team reviewed each vacancy; high-priority positions were filled, while lower-priority positions were held open longer or filled by contract. Replacement and renovation funding was now a higher priority, so technology and new equipment could be replaced to keep productivity high. The city had done a great deal of work on the revenue side as well. Each year the city council looked at the city's long-term needs and asked the voters if they would approve changes or additions to diversify and broaden the revenue base.

One list of strategies for dealing with financial distress that you might be familiar with is the GFOA's 12-Step Process to Financial Recovery (available at www.gfoa.org). In creating this guide, the resiliency task force has taken strategies, updated them, and fashioned them into a menu of financial policies that you can use in your own organization.

For more information on this topic, see "Planning for a Financial Crisis" in this issue of *GFR*.

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Build Relationships. The responsibilities of public finance officers and their areas of accountability have become myriad and sometimes very complex. As the level of complexity has grown, finance officers have increasingly learned to work with others to solve their challenges.

One of the best ways to do this is to build strong working relationships with others, even where there has been tension previously.

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A few years ago, the city's central budget office had a complete turnover. The City of Boulder is quite decentralized, and the relationships among the departments and the central office were not always collaborative. There was a lot of misunderstanding as to what role each should serve. The city held a mini-recruitment process, open only to internal city candidates for members of a transitional staff, and the candidates were asked how many hours per week they would be able to devote to working in the central budget office. Some were able to work full time, and some part time. The vacancy savings in the budget division paid for the additional staffing to make up for those employees working in the central office.

The project was a great success because it created a much better ongoing working relationship between the central office budget staff and other departments. Those who were involved have a much better understanding of the central budget work, and vice versa. The project also helped the city clearly define the roles and expectations of the central budget office and the departments. One of the transition members is now Boulder's city budget officer. Some of those who did the backfill work in the departments are now finance leaders in their own departments. While this project alone did not turn the entire relationship around, it certainly has been a major catalyst, and today it is quite common across the city to use this matrix form of staffing to work on major projects.

For more information on relationship building, see "Relationship Advice for the Finance Officer" in this issue of *GFR*.

CONCLUSIONS

Many more challenges faced the city as it worked its way along the path of resiliency. By 2013, fiscal resilience had become the norm in Boulder's budgeting and long-range fiscal planning work. And the timing for working on resilience could not have been better. In September 2013, the city had a major flood, bringing $35 million in damage. The city's resiliency work paid off, though, and it had adequate reserves to cover the costs and bridge the time until reimbursements arrived. No operating services had to be reduced or eliminated. Boulder was also able to bounce back better than before (a key goal of resilience) by increasing operating and other capital budgets for 2014 and 2015. The city's resilience has also been tested by the fact that Federal Emergency Management Agency reimbursements have come in slowly — in fact, at 18 months after the event, reimbursements have been minimal.

Boulder's work on resilience has led to better decision making, and it has provided new and comprehensive ways for the city to analyze the decisions that are made. Other public-sector organizations that are using the same approach report the same results and conclusions. I chose resilience as the theme for my year as GFOA president so we could share this information with our peers. In the coming months, the GFOA will be providing guidance in using these concepts. Likewise, the theme of the GFOA annual conference in Philadelphia this year is Innovation and Resilience. Read the articles and attend the conference so you can learn more about the strengths and advantages of resilience and how it can be implemented in your organization.

Note

1. Simon Sinek, *Start with Why: How Great Leaders Inspire Everyone to Take Action* (London: Portfolio, 2011).

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