The 2020 Financial Policy Challenge
The “Challenge” ...
The “Challenge” ...

Now has a Dual Meaning
12 Steps through the process:

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

3 Stages of Financial Recovery:
- Bridging
- Reform
- Transform

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

- **Recognize** (Step 1)
- **Mobilize** (Step 2)
- **Generic Treatments** (Step 3)
- **Initial Diagnosis** (Step 4)
- **Fiscal First Aid** (Step 5)
- **Recovery Plan** (Step 6)
- **Detailed Diagnosis** (Step 7)
- **Manage Recovery Program** (Step 11)
- **Longer-Term Therapies** (Step 8)
- **Long-Term Financial Planning** (Step 9)
- **Bankruptcy/Receivership** (Step 13)
- **Relapse**

3 Stages of Financial Recovery

- **Bridging**
- **Reform**
- **Transform**

Your Financial Condition

- **Decline**
- **Distress**
- **Stabilization**
- **Recovery**
- **Financial Health**
Looking for Lessons in Analogous Situations

- Militaries are often faced with the following characteristics of their decision-making environment
  - Resource constrained
  - Dynamic
  - Highly Uncertain
Looking for Lessons in Analogous Situations

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• *Sound familiar?*
Commander’s Intent

• The definition of what a successful mission looks like
  • Empower people to guide their initiative as the operate in a fluid environment

• Provides a “spectrum of improvisation”
  • Keeps proven processes in place
Financial Policies are Commander’s Intent

• Defines a big picture financial objectives

• Provides boundaries for acceptable action

• Serves as a basis for evaluating actions
  • “After action“ reviews strengthen ability to use commander’s intent
Financial Policies with Special Relevance to Our Challenge

• Fund balance / Reserves
• One-time revenue
• Debt burden
• Fees
• Long-term financial planning

See Challenge website for policy templates
Fund Balance / Reserves

• Why a reserve policy is important

• The *minimum* and maximum size of your government’s reserve

• Acceptable uses of the reserve

• Authority to use the reserve

• Replenishing reserves, after they are used
City of Kansas City, Missouri
Ten Year Analysis of General Fund Balance – Budget Basis

Note: The fund balances are presented on a budgetary basis and will not match balances in the audited financial statements which are presented on a modified accrual basis.
Resource

• Conduct risk analysis to determine amount needed for other concerns

• Risk analysis: GFOA Colorado Springs report
One-Time Revenues

• Why a one-time revenue policy is important

• Acceptable uses for one-time revenues

• Acceptable uses for undependable revenues

**Resource:** Check out the City’s of Denver’s policy on the Challenge website
One-time and unpredictable revenue

Kansas City, Missouri

One-time, limited term resources or unpredictable revenue such as proceeds from asset sales, debt refinancing, one-time grants, legal settlements, revenue spikes, budget savings and similar nonrecurring resources shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time and unpredictable revenue include building and maintaining the unallocated reserves in the general fund or other city funds, the early retirement of debt, capital improvements, or capital maintenance expenditures and other nonrecurring expenditures.
Debt Burden

• Why a debt policy is important

• Appropriate conditions for use of debt

• Allowable debt instruments

• Limits on the amount of debt your government will incur

• Maturity guidelines
Revenue Diversification

Kansas City, Missouri

The city shall strive to maintain a diversified mix of taxes and fees to protect it from short-term fluctuations in any of its various revenue sources. The city should also support economic policies designed to attract businesses that grow and increase the diversity of its tax base.
Structurally balanced budget

Kansas City, Missouri

1. The city shall annually adopt a balanced budget, which requires recurring revenue to be equal to or exceed recurring operating expenses.

2. Increases in expenses, decreases in revenue, or a combination of the two shall be used to balance the budget.

3. Non-recurring revenues shall be used to fund non-recurring expenses under normal circumstances.

4. Any year-end operating surpluses shall revert to the unappropriated fund balance to assist in reaching the required reserve levels as set by the fund balance and reserve policy. Any surplus above the required levels may be used to support one-time expenses only.
Structurally balanced budget

Kansas City, Missouri

5. The city shall assure decision makers and stakeholders have information during all phases of the budget process, including but not limited to, the current financial condition of the city, the impact of the proposed or actual budget, and the outlook and trends.

6. The city shall adjust its policies, plans, programs and management strategies during a current budget period, as appropriate, to stay within funds available.

7. The city shall identify major revenue sources it considers unpredictable and define how those revenues may be used.

8. The city shall develop a policy to guide the financial actions it shall take in the event of emergencies, natural disasters, downturns in the economy, or other unexpected events.
Budget Reporting

Kansas City, Missouri

Sec. 2-1956. Quarterly budget reports.

(a) The City Manager, with the assistance of the Finance Department, will prepare a quarterly budget report analyzing actual and anticipated revenues and expenditures for the first three quarters of every fiscal year.
Budget Reporting

Kansas City, Missouri

Sec. 2-1956. Quarterly budget reports.

(c) The Finance Department will explain any anomalies in the report. Such anomalies:

(1) Are a major expenditure or revenue exception that affects a fund’s total expenditure budget by one percent or totals over $500,000.00;
(2) Are significant and not part of a normal pattern; or
(3) Will most likely negatively or positively impact the ending balance in the department or fund at the end of the fiscal year.
Resource

• Local debt limits placed in context of decision making process at Wake County
Fees

• Why a user fees policy is important

• Desired cost recovery levels

• Regular review and update of fees
Long-Term Financial Planning

• Why a policy on long-term planning and forecasting is important

• The minimum length, frequency, and scope of forecasts

• Key features of long-term assumptions and analysis

• Commitment achieving a balanced long-term financial plan
Five Year Financial Plan

Baseline Scenario

Balanced Scenario
### Five-Year Financial Plan scenarios

<table>
<thead>
<tr>
<th>Baseline Scenario</th>
<th>“Known knowns” eg wages and benefits, current debt service, inflationary growth, projected revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced Scenario</td>
<td>“Fixes” the Baseline - Changes to programs and service levels, FTE counts, funding sources, new initiatives</td>
</tr>
</tbody>
</table>
Long Term Financial Planning Policy

Kansas City, Missouri City Charter

Sec 804 – Annual Budget

(d) Five year financial plan. By November 1 of each year, the Mayor and Council will adopt a five-year financial plan. Adoption of the annual budget will include consideration of the five-year financial plan and priorities established by the Council by ordinance. The Council is authorized to vary the term of the financial plan by ordinance and may adopt amendments to the plan.
Pandemic Scenario Assumptions

Assumes Fiscal Year 2019-20 Adopted Budget with the following conditions:

- No new employees through forecast period
- Employer contributions to health insurance increase 5.0% per year
- Pension contributions reflect actuarial assumptions
- Salary increases for all employees are capped at 2.0% per year including collective bargaining and non-represented employees

- The following assumptions have been included to model an Exogenous Recession - Pandemic:
  - The General Fund subsidizes operations in Convention and Tourism Fund, Fire Sales Tax Fund, Health Fund, Parks Sales Tax Fund, and Public Safety Sales Tax Fund at $45 million over five years
  - Savings of $115 million over five years to remain solvent to maintain approximately one half of the General Fund Reserve in Year Five
  - Necessary cuts to Capital Maintenance of $23 million over five years
  - Assumes new Earnings Tax Filing Date of July 15th, 2020
  - Shortfalls in Gaming Taxes and Business License Fees totaling $2.3 million
Pandemic Scenario

New Baseline Scenario

General Fund: Reserves as a percent of operating expenditures

City Policy = two months’ expenditures

New Balanced Scenario

General Fund: Reserves as a percent of operating expenditures

City Policy = two months’ expenditures
Summary

A strategic plan and long-term financial plan can:

• assess the current environment and respond to changes;
• estimate the long-term financial and service implications of current and proposed policies;
• illustrate the likely financial outcomes of particular courses of actions;
• develop commitment to the organization’s vision and mission;
• achieve consensus on strategies and objectives for achieving that mission.
Questions?

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Visit gfoa.org/financial-policy-challenge to submit policies, access templates, and download examples