IN THE THROES OF FISCAL WOES?
Tips & Techniques to Cope with the Shortfalls

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Alliance for Innovation
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A Brief Introduction

JON JOHNSON
The Economic Ride Ahead....

IT’S ALL IN THE QUESTIONS

Leading the Way to Fiscal Health
(aka Confessions of a 30-Year Finance Director)
“How Much Do We Have? 
(Not “How much do you need?”)

“How Spend Within Your Means”

How Much Do We Have?
Spend Within Your Means

DO YOU...

- Understand the organization’s financial situation?
- Understand where revenues come from?
- Distinguish one-time from ongoing sources and uses?
- Differentiate general government revenues from program revenues?
Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2009 Baseline and CBO's Estimate of the President's Budget

(Billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Actual 2008</th>
<th>CBO 2009</th>
<th>President's Budget 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1,634.5</td>
<td>$1,640.2</td>
<td>$1,649.8</td>
</tr>
<tr>
<td>Outlays</td>
<td>$1,593.3</td>
<td>$1,602.6</td>
<td>$1,611.4</td>
</tr>
<tr>
<td>Total Deficit</td>
<td>$40.2</td>
<td>$37.6</td>
<td>$38.4</td>
</tr>
</tbody>
</table>

Note: CBO's estimate includes changes to tax law and non-tax policy changes.

Source: Congressional Budget Office.

Expenditures

- Category 1
- Category 2
- Category 3
- Category 4
- Category 5
- Category 6
- Category 7
- Category 8
- Category 9
“I’ll pause for a moment so you can let this information sink in.”

How Much Do We Have?

Spend Within Your Means

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### Differentiate ONGOING and ONE-TIME

<table>
<thead>
<tr>
<th>EXECUTIVE SUMMARY</th>
<th>GENERAL FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOURCES OF FUNDS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>2018 Actuals</strong></td>
<td><strong>2019 Budget</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beginning Fund Balance</strong></td>
<td>43,903,923</td>
</tr>
<tr>
<td><strong>General Governmental Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Taxes &amp; Special Assessments</td>
<td>119,359,249</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>55,945</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>5,467,678</td>
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<tr>
<td>Intergovernmental Assistance</td>
<td>475,477</td>
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<tr>
<td>Fines &amp; Forfeitures</td>
<td>181,056</td>
</tr>
<tr>
<td>Investment Income</td>
<td>1,382,577</td>
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<tr>
<td>Other Income</td>
<td>128,244</td>
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<tr>
<td><strong>Net County Transfers (Transfers)</strong></td>
<td></td>
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<tr>
<td>Indirect Cost Allocation</td>
<td>4,502,515</td>
</tr>
<tr>
<td>Treasurer’s Fees</td>
<td>2,496,052</td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td></td>
</tr>
<tr>
<td>Employee Benefits Fund</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Social Services MIAC</td>
<td>1,342,688</td>
</tr>
<tr>
<td>Petrol Fund (for Emergency Align)</td>
<td>1,992</td>
</tr>
<tr>
<td>Public Training Fund (net revenues)</td>
<td>1,275</td>
</tr>
<tr>
<td><strong>Total General Governmental Revenues</strong></td>
<td>215,068,132</td>
</tr>
</tbody>
</table>

### How Much Do We Have?

**Spend Within Your Means**

**DO YOU...**

- Understand the organization’s financial situation?
- Understand where revenues come from?
- Distinguish one-time from ongoing sources and uses?
- Differentiate general government revenues from program revenues?
Looks like a financially “healthy” organization – RIGHT?

Let’s separate ONE-TIME from ONGOING
Here’s the ONE-TIME side of the world.....

And here’s the ONGOING side of the world.....
Both worlds side by side....

It’s All in the Questions.....

“What’s the Difference?”

Understanding Variances
(Budget to Actual)
What’s the Difference?

Understanding Variances

DO YOU...

○ Analyze and explain annual “budget to actual” variances? (a source of “hidden treasure”)

○ Strive to align operating budget with actuals?

○ Monitor “budget to actual” differences regularly during the year?

○ Practice multi-year capital budgeting?

And here’s the ONGOING side of the world.....
Ongoing Revenue Variance Analysis

Ongoing Expenditure Variance Analysis
What’s the Difference?

Understanding Variances

DO YOU...

○ Analyze and explain annual “budget to actual” variances? (a source of “hidden treasure”)
○ Strive to align operating budget with actuals?
○ Monitor “budget to actual” differences regularly during the year?
○ Practice multi-year capital budgeting?

It’s All in the Questions.....

“What exactly is it that we do and... How much does it cost to do what we do?”

Identifying Programs and the Cost to Provide Them
What do we do and how much does it cost?

Identifying Programs

DO YOU...

○ Have a “program inventory” that lists all the programs your departments provide?

○ Understand what it costs to provide each individual program you offer (both direct and indirect costs)?

○ Establish fees for service that recapture appropriate level of total cost of providing that service?

○ Allocate overhead and administrative costs to Funds and/or Departments that benefit from those services?

Alice’s Restaurant Menu Selections

• Entree
• Side Dish
• Beverage
Alice’s Restaurant
Menu Selections

• Entree
  o Chicken
  o Beef
• Side Dish
  o Starch
  o Vegetable
• Beverage
  o Something in a Cup
  o Something in a Glass

Alice’s Restaurant
Menu Selections

Chicken
  Chicken Marsala
  Fried Chicken
  Chicken Teriyaki

Beef
  Fillet Mignon
  Pot Roast
  Ground Sirloin

Seafood/Fish
  Lobster
  Trout
  Catfish

• Side Dish
  • Baked Potato
  • Sweet Potato
  • Rice Pilaf
  • Caesar Salad
  • Green Beans
  • Squash

• Beverage
  • Coffee
  • Tea
  • Wine
  • Beer
OBJECTIVES for Developing Program Inventories

- Create a comprehensive listing of all services offered by each operating division (to both “external” and “internal” users)
- Provide a better understanding of “what we do” to staff, administration, elected officials and citizens
- Provide a framework to better understand how resources are used to support “what we do”
- Provide a valuable tool for staff, management and elected officials to use when faced with budgetary “choices” about how funds are distributed.
- Allow for the preparation and discussion of a “program budget” rather than a “line-item budget”

Defining Programs

- To determine “just right”, look for “differences” that might help determine if an service can be defined as a “stand-alone” program
  - “Who” are you offering the service to?
    - Does it benefit a specific demographic group or population?
  - “Where” are you offering the service?
    - Does it impact a specific area, location or environment
  - “What” are you doing the service to?
    - Does it affect a specific property or asset (infrastructure, facility, etc.)
  - “How” is it funded? – Is there someone paying for it?
    - Are there revenue sources associated directly with the program (“Program Revenues”)
Defining Programs

- Has someone told us we “have to do it”?
  - Are there statutes, ordinances, resolutions, or other legislative documents that require us to provide the service?

- What “type” of service are you providing?
  - Preventative, Replacement; Repair/Maintenance; Instruction; Protection; Informative; etc.

- “Is there someone outside the organization that “does the same thing”?”
  - Does a private business offer a similar service (“Yellow Pages test”)

- Do we “advertise” that we do it?
  - Is there a separate phone directory or website reference to the service?

WHAT TO WATCH OUR FOR

- A “facility” or “location” is not normally considered to be a program – i.e. Golf Course; Airport, Recreation Center, Fire Station, etc.

- A “line item” in the budget is not normally considered to be a program – i.e. Equipment Maintenance; Utilities; Travel & Training, etc.

- Revenue sources are not programs

- Program names should not be the same as the name of an organizational unit i.e. Branch, Department, Division, Section, etc.

- Don’t be afraid of breaking down too far – easier to “roll-up” than to “pull apart”
Program Examples

**THESE ARE PROGRAMS...**
- Adult Swimming Lessons
- Patrol Response to Emergency Calls
- Commercial Building Permitting
- Fire Suppression
- Payroll Processing
- Storm Drain Cleaning
- Graffiti Removal
- Traffic Sign Maintenance
- Desktop Support / Help Desk
- Household Hazardous Waste Drop-Off
- Sidewalk Maintenance
- Trail Development
- Median Mowing & Landscaping

**THESE ARE NOT...**
- Aquatic Center
- Police Patrol
- Utilities
- Professional Development
- Fire Station
- Human Resources
- Contracted Services
- Storm Drainage
- Code Enforcement
- Trash Trucks
- Open Space
- Time Sheet Review
- Staff Supervision

“Do’s & Don’t’s” of Program Inventory

**DO –**
- Provide a **PROGRAM NAME** that is concise and easily understood
- Comprehensively identify programs and services that your departments **OFFER** to the community it serves
- Provide a brief **PROGRAM DESCRIPTION** of the program

**DON’T –**
- Use **ACRONYMS** or **ABBREVIATIONS** that are unfamiliar to others
- Identify **TASKS, BUDGET LINE ITEMS** or **ORGANIZATIONAL UNITS** as a program
- Don’t write a justification of the program – just a description!
Alice’s Restaurant
Menu Selections

• Chicken
  • Chicken Marsala
  • Fried Chicken
  • Chicken Teriyaki

• Beef
  • Filet Mignon
  • Pot Roast
  • Ground Sirloin

• Seafood/Fish
  • Lobster
  • Trout
  • Catfish

• Side Dish –
  • Baked Potato – Plain
  • Baked Potato – Loaded
  • Rice Pilaf
  • Caesar Salad
  • Green Beans
  • Squash

• Beverage
  • Water
  • Coffee or Tea
  • Wine
  • Beer

But how much do these items cost? Do they all cost the same amount?
Will my budget let me have Filet or Hamburger?, a Plain or Loaded Potato?

What do we do and how much does it cost?

Identifying Program Costs

DO YOU...

• Have a “program inventory” that lists all the programs your departments provide?

• Understand what it costs to provide each individual program you offer (both direct and indirect costs)?

• Establish fees for service that recapture appropriate level of total cost of providing that service?

• Allocate overhead and administrative costs to Funds and/or Departments that benefit from those services?
How to Identify Program Costs

1) Associate *Salary and Benefit Costs* with your *Personnel*

2) Assign *Personnel* to the *Programs* they provide

3) Associate *Non-Personnel Costs* with *Programs*

4) *Line item* Budget is now expressed as a *Program Budget!*

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1. Associate Salary and Benefit Costs with your Personnel

Key is understanding how personnel line items are distributed (per FTE, on a percentage of salary basis, etc.)
2. Assign Personnel to the Programs they Provide

- Estimate for a given year (this is not a time study!)
- Accuracy, not precision, is the goal
- Can’t allocate an FTE over 100% (no matter how overworked they think they are)

3. Associate Non-Personnel Costs with Programs

- Choose a reasonable allocation methodology:
  - Divide costs by FTE (i.e. supplies line item)
  - Assign costs directly to program (i.e. annual audit)
4. Convert from “LINE ITEM” to “PROGRAM” Budget

What do we do and how much does it cost?

Identifying Program Costs

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- Allocate overhead and administrative costs to Funds and/or Departments that benefit from those services?
It’s All in the Questions…..

“Why do we do what we do?”

Determining Results

So…… Where do I start?
Get Started on the Path to Fiscal Health...

- Prepare analysis of “one-time” vs. “ongoing” revenues and expenditures
  - Separate worksheet for each Accounting Fund
  - Include 3 years of historical data
- Prepare SIMPLE 5-year revenue projections
  - Strive for reasonableness, NOT perfection or precision
  - Review assumptions with key stakeholders
  - “Start with Revenues” - finalize revenue projections BEFORE budget kick-off
- Prepare graphic depiction of fiscal reality and review with organization
  - Share “picture of fiscal health” BEFORE budget kick-off to ensure shared clarity

Get Started on the Path to Fiscal Health...

- Prepare analysis of “program” vs. “general government” revenue
  - Determine how department budgets are funded between these two sources
  - Involve departments in program revenue projections
- Prepare departmental target budgets based on projected revenues
  - Allocate 100% of associated program revenues
  - Allocate historical proportionate share of general government revenues
- Prepare organizational “Revenue Manual”
  - Start with 5 to 10 largest revenue sources in year one and then expand each year
Get Started on the Path to Fiscal Health...

- Strive to align budget with actuals
  - Refine salary and benefit projections, to align with actual costs incurred
  - Provide more effective budget monitoring and management to eliminate variances
  - Identify and eliminate the “fluff”

- Analyze and understand variance trends over past 3 to 5 years
  - Explain large budget to actual variances – especially for REVENUES
  - Look for recurring variances and eliminate

- Fund cyclical expenditures with one-time funding sources

- Consolidate “contingencies” in department budget and appropriate at Fund level
  - For emergency or unforeseen “one-time” needs
  - Assure responsiveness to Departments when a need comes up

Get Started on the Path to Fiscal Health...

- Ensure Salary and Benefit projections reflect actual anticipated spending
  - Factor in historical vacancy/turnover trends

- Budget multi-year project costs in expected year of expenditure

- Incentivize departments to “turn back” budget savings rather than spend money unnecessarily
Get Started on the Path to Fiscal Health…

- Identify the programs and services each department offers
  - Comprehensive “inventory” of everything that you do!
- Determine the cost of each program identified
- Change focus of budget discussions from “line items” to “programs”
- Expand/enhance cost recovery for programs
  - Determine appropriate cost recoupment level for fees already assessed
  - Determine where cost recovery for programs is appropriate where fees aren’t being assessed
- Spread cost burden from General Fund to other Accounting Funds
  - Especially to programs funded by dedicated revenue streams
  - Utilize Internal Service Funds for departments like I.T., Fleet, Facilities & Risk Management

And...Who is my Audience?
The most dangerous phrase in the language is "we’ve always done it this way."

Rear Admiral Grace Hopper (1906-1992)

QUESTIONS?

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