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Best Practices in **Municipal Financial Planning**



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The Recession is Behind us, but Government Finances Have not Changed

A decade after the worst financial crisis in modern American history, some state and local governments continue to grapple with unbalanced operating budgets and inadequate reserves. With the U.S. in the midst of the longest expansion phase ever, the likelihood of a downturn continues to grow, making it increasingly important for governments to assess their fiscal sustainability and proactively prepare for uncertainty ahead.

Unlike annual budgets, which only consider short-term revenue and expense targets, strategic financial planning projects and analyzes the impact of changing assumptions on an entity's long-term horizon. Detailed on the following pages are five best practices that governments should adhere to when developing a long-range forecasting model.

#1

Focus the Scope

Don't let your Planning Wander

It is essential to define a financial model's requirements, intended use, and audience.

Establishing the scope of the model provides a decision-making framework for controlling changes and yields a clear process for capturing requirements and meeting the expectations of stakeholders.



Many governments make the mistake of trying to incorporate too much financial data into the model by projecting every line item from the general ledger. Doing so, however, makes the planning process overly complicated and unwieldy, while also introducing false precision into the projection.

Instead, identify a list of key revenue and expense drivers and focus sensitivity and what-if analyses on those critical components.

#2 Make it Comprehensive

Strike the Right Balance between Specificity and Inclusiveness

The multi-year plan forecast must strike a balance between being comprehensive inclusive enough that it accurately represents the operations of your governmentgovernment operations while avoiding unnecessary details that can impede the planning process. Therefore, the appropriate revenue and expenditure drivers, such as property taxes, personnel expense, and debt and capital, must be considered in order to accurately determine the access your bottom line impact.

Relevant funds should also be included. A good multi-year plan will include the general fund and any major operating funds guaranteed by the general fund or that receive transfers from it. Where applicable, water, sewer, and other enterprise funds should all be considered.

COMPREHENSIVE
NOT EXHAUSTIVE

#3 Consider Alternative Scenarios

Explore beyond Best, Worst, and Expected Cases

Flexibility in your the scenario analysis and sensitivity testing is critical.

Available tools, such as those found in traditional budgeting and forecasting programs, generally require limiting the analysis to best, expected, and worst case scenarios.

Spreadsheets are further limited by complex (and risky) conditional formulas and competing versions of the same model.

Projection forecasting models should permit consideration of unlimited portfolios of variables and various permutations of scenarios. Anything less means you will have to stumble across the best answer, limiting the full functionality of the model. Limited models make governments less prepared for unpredictable economic conditions.



#4 Collaborate with Stakeholders

Don't Plan in a Bubble - Involve your Team

A multitude of internal and external stakeholders should invariably be involved in the multi-year planning process. To reach a consensus on a long-term financial direction, budget analysts, operating departments, elected officials and executive stakeholders require the ability to communicate with one another.

Version control issues can obstruct or hinder communication channels between model builders and their stakeholders. Be sure to consolidate versions or utilize tools that facilitate version control and communication.

Effective planning necessitates the consideration of myriad voices and opinions with a platform that enables real-time data collection and reporting functionality.



#5 Tell your Story

Build a Narrative around your Government's Financial Outlook

The main purpose of planning and modeling is to tell a financial story that moves decision-makers to action.

Taking a multi-year approach changes the conversation on data and metrics – you can present the financial challenges to interested parties from a broader perspective and encourage people to think beyond their departmental boundaries.

Multi-year planning allows you to talk about what investments are worth making down the road in addition to what reductions you need now. Communicating those trajectories in a clear and concise manner will drive consensus in your stakeholders and inspire action in your government.



How can Synopsis Benefit your Government?

Synopsis Helps Decision-Makers Answer the Following Questions



How would a change in local economic conditions affect local revenue and overall operating balance?



How should labor negotiations or other personnel strategies be prioritized across wage adjustments, benefits reform, and work rule changes?



What impact will increased spending on capital projects have on the operating budget?



Is the local government well prepared to weather the next economic downturn, with sufficient reserves and manageable risk exposure?



How might my credit rating be affected by any or all of the above?

SYNOPSIS KEY FEATURES

Delivered in the Cloud

No hardware or software to maintain

Built for Collaboration

Version control issues completely eliminated

Easy to Implement

Average time to "Go Live" is 3 weeks

Best Practice Approach

Leverage PFM's long history helping local governments solve budget and finance challenges.

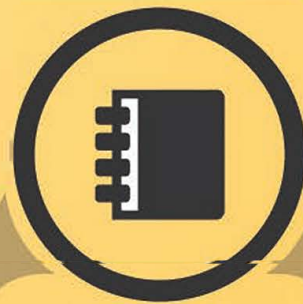
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MAKE IT COMPREHENSIVE

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between specificity and
inclusiveness



COLLABORATE WITH STAKEHOLDERS

Don't plan in a bubble -
involve both internal and
external stakeholders



FOCUS THE SCOPE

Don't let your planning
wander - define require-
ments, intended use, and
audience



CONSIDER ALTERNATIVE SCENARIOS

Explore beyond best, worst,
and expected cases - broad-
en your analysis



TELL YOUR FINANCIAL STORY

Focus on your governments
financial narrative to move
decision-makers to action