

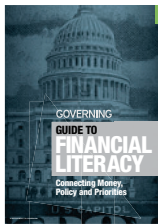
The background of the cover features a large, brown-tinted seal of the United States Department of Justice. The seal depicts an eagle with wings spread, perched on a shield. A banner draped across the eagle's chest reads "QUI PRO DOMINA JUSTITIA SEQUITUR". The shield itself is adorned with stars and stripes. The entire seal is set against a circular background with a grid-like pattern.

**GOVERNING**

**GUIDE TO**  
**FINANCIAL**  
**LITERACY**

**Volume 2**

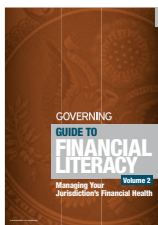
**Managing Your  
Jurisdiction's Financial Health**



## About this Series

The *Governing Guide to Financial Literacy: Connecting Money, Policy and Priorities* is the first volume in a series of resource guides developed by the Governing Institute. The first Financial Literacy Guide takes an in-depth look at budget basics, investing, legacy costs, taxes, bonds and more. Download a complimentary copy at:

[www.governing.com/publicfinance](http://www.governing.com/publicfinance)



## Volume 2

The *Governing Guide to Financial Literacy, Volume 2*, is a resource for newly elected public officials, budget officers, government leaders and department heads. This Guide provides relevant knowledge to public leaders, which helps them better determine their jurisdiction's financial health. Inside you'll find everything from an overview of accounting concepts to what steps you can take to improve your jurisdiction's financial health. For additional information on public finance, visit [www.governing.com/finance101](http://www.governing.com/finance101).

## ACKNOWLEDGMENTS

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The **GOVERNING INSTITUTE** advances better government by focusing on improved outcomes through research, decision support and executive education to help public sector leaders govern more effectively. With an emphasis on state and local government performance, innovation, leadership and citizen engagement, the Institute oversees Governing's research efforts, the *Governing* Public Official of the Year Program and a wide range of events to further advance the goals of good governance. The Governing Institute is led by Julia Burrows, who has served in a variety of leadership roles – most recently as a senior adviser to Sacramento, Calif., Mayor Kevin Johnson, and previously as the deputy city manager and economic development director for the city of Roseville, Calif.

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## GOVERNING

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## INTRODUCTION

### **Your government's finances are a lot like a famous Italian opera.**

Great opera is a beautiful, elaborate production put on by talented, dedicated professionals. It doesn't take a trained eye or ear to respect the effort and commitment it demands. But it's also in a foreign language, and it's full of traditions, customs and unspoken rules most casual fans don't understand. So if you're like most of us, you can't tell an excellent opera from an average one, but you're willing to trust the connoisseur sitting next to you.

As a government leader and decision-maker, you don't need to be an expert on your government's finances, but you do need to have your own opinion. You also need to be able to speak confidently about your government's overall financial health.

Financial health is a difficult subject because your government's finances are complex. The basic question, "Is this government financially healthy?" is really several questions wrapped into one: Did it collect all the money it expected to collect? Did it spend more than it expected to spend? Did it use dedicated or "earmarked" resources for their intended purpose? How much of the money it will collect in the future is already claimed for future spending needs? There are several financial documents that answer these questions; however, separating vital information from the non-essential details can be difficult.

At the same time, financial statements are only part of the story. To really know your government's financial health, you'll need to know how decisions about everything from information technology systems to road repairs to pension benefits affect the bottom line.

This Guide focuses on five simple principles:

## 1 Financial health is more than a grade.

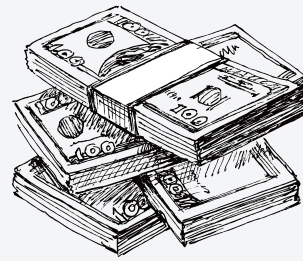
It's a multifaceted concept with trade-offs, contradictions and other complexities. No single grade or rating is a comprehensive representation of financial health. However, it's not so complex that it can't be defined or measured. The hard part is striking a balance between too much complexity and not enough.

## 2 Financial health is more than a balanced budget.

Good budgeting is an essential part of financial health. If a government cannot plan to live within its means, and follow that plan, it will not sustain financial health. However, budgets are short-term plans. Even a balanced budget can mask long-term financial health problems.

## 3 Financial health requires a focus on context.

Financially healthy governments understand how economic conditions, the legal environment and political climate shape their financial health. They see how subtle changes in that environment will affect revenue collections and long-term demand for services. They have a long-term financial plan based on the environment and context in which they operate.



## 4 Financial health demands effective financial information systems.

Today, smartphones and cloud computing are the norm. By that standard, many states and localities manage their money with ancient technology. A government's finance systems should, at a minimum, allow staff to answer basic questions, including: Where is our cash? How many jobs are currently vacant? Is a department at risk of overspending its budget? These systems are smart investments that can help ensure financial health.

## 5 Financial health is everyone's responsibility.

It is as much about internal processes and staffing patterns as it is about rainy day funds and budget variances. Effective operations management empowers staff to focus on cost savings, efficiencies and other essential components of financial health.

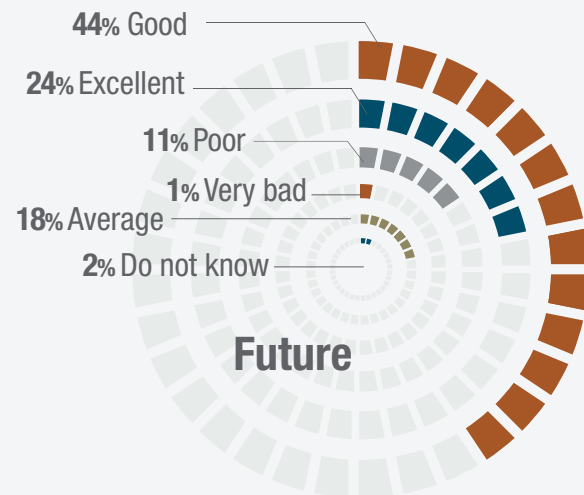
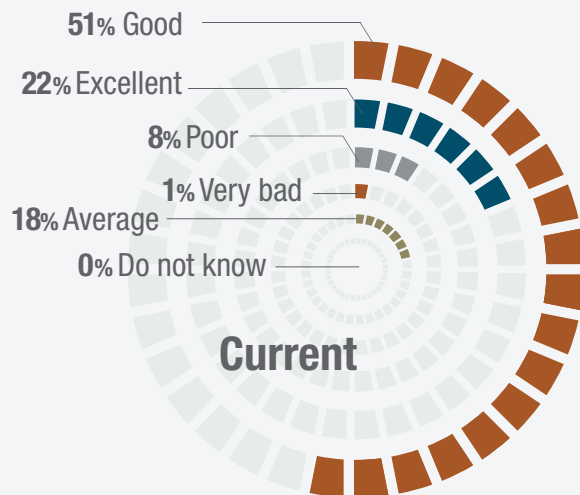
**This Guide is organized into three sections.** The first section covers the basic definitions, concepts and other technical information relevant to financial health. It also includes some quick reviews to help you brush up on basic public finance and governmental accounting concepts. The second section addresses how we determine financial health. It covers the different metrics, systems and benchmarks governments use to assess and communicate financial health to stakeholders. The third section is an overview of the biggest threats to state and local government financial health, and how some jurisdictions are addressing those threats. It focuses on the policies, strategies and systems that you, as a policymaker, should consider for improving financial health. **G**

# Financial Health at a Glance

In a Governing Institute survey, state, county and city government leaders reported their jurisdictions' current financial health as strong, but expected it to decline over the next decade.

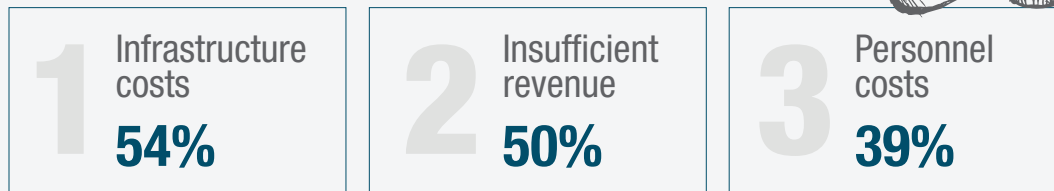
## Financial Health 2015-2025

Nearly three-quarters of the respondents reported their jurisdiction's current financial health as excellent or good, while only two-thirds thought that would be the case a decade from now.



## The Top 3 Biggest Threats

Large unpaid bills loom on the horizon.

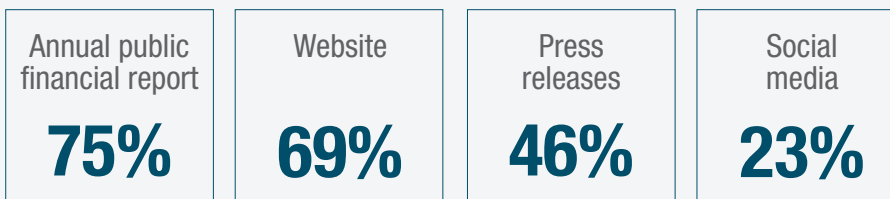


Source: Governing Institute Financial Health Survey, April 2015

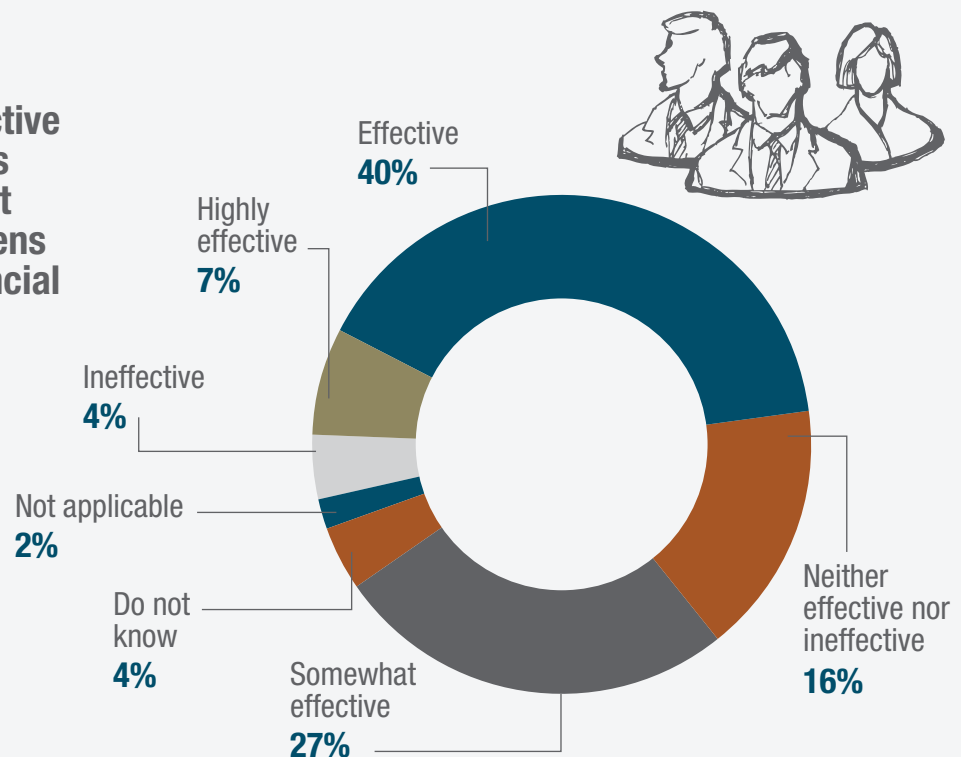


# SECTION 1

## Most Popular Ways to Get the Word Out About Financial Health



## How effective are efforts to connect with citizens over financial health?



# WHAT IS **FINANCIAL HEALTH?**



## First and foremost, let's define financial health.

Financial health is often used alongside words such as fiscal health, financial condition, financial outlook and fiscal fitness. These terms all mean something slightly different, but they all speak to the same set of concepts. Throughout this Guide we will use the term “financial health” to encompass all of these related terms.

Public finance experts have defined financial health dozens of ways, but they all point toward the same basic idea. That is:

*A state or local government is financially healthy if it can deliver the services its citizens expect, with the resources its citizens provide, now and in the future.*

The core idea here is that government financial health is about the ability to deliver services citizens want. This is quite different from the private sector where a company is considered financially healthy if it is profitable and is expected to remain profitable for the next year or two. Citizens expect state and local governments to deliver essential services for decades to come. To do this, governments must invest in infrastructure, set money aside for pensions and other future obligations, and take many other steps to ensure they can deliver services in the future. If they fail to do these things they are not financially healthy.

This seems simple enough, but it's complicated by three factors:

### 1. Tastes and preferences change.

The services citizens want today might be quite different from the services they want tomorrow. Twenty years ago, no one expected state and local governments to fight climate change, promote international trade or broaden access to healthful food. Massive policies and programs like these were left to the federal government. What citizens consider essential services often changes. How they're willing to pay for services can also change. In government financial health, the past is not always prologue.

**2. Time matters.** If a government pushes its payments on bonds, pensions and other obligations 20 years into the future, its 5- to 10-year financial health will look much better. If it spends money to maintain its infrastructure today, it weakens its near-term health in exchange for better long-term health. Because of these trade-offs, financial health has a lot to do with how we define “the future.”

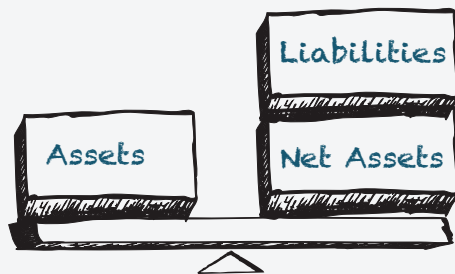
### 3. Can't control the uncontrollable.

State governments, and local governments in particular, can't control many of the factors that directly impact their financial health. They can do little, if anything, to affect federal government policies, economic recessions, natural disasters and many other important influences. These are essential financial health considerations.

finance defined:  
**FUNDS:**  
Stand-alone  
groups of accounts  
within a  
government

## Government Accounting 101

The most important concept in governmental accounting is the “fundamental equation.” It states that a government’s assets must equal its liabilities plus its net assets.



An asset is anything the government owns that has value, such as cash, equipment or buildings. A liability is money the government owes someone else, such as unpaid invoices or pension liabilities. Net assets — or fund balance, in some circumstances — is the difference between assets and liabilities. Growth in net assets over time is a good indicator of financial health. Governments report this information in several different balance sheets.

For these and many other reasons, when we think about state and local government financial health, it’s essential to keep a few points in mind. The first is that conversations about a government’s financial health should happen in a context. How does your jurisdiction’s financial health compare to governments with similar political and economic circumstances? How have its key financial health indicators changed over time? How did it change in response to a major change in federal government policy, or some other major external influence?

Secondly, government financial statements are complex because they present different types of information that assume different time frames. Some of the most popular financial indicators, such as fund balance levels, are focused on the short term. They tell us about a government’s ability to meet its spending needs during the next fiscal year. Others, such as coverage levels, tell us about its ability to meet spending needs over the next several decades. To properly assess a government’s financial health, you need indicators that cover both the near and long term.

Lastly, there’s nothing wrong with summarizing financial health with a single letter grade or number. However, discussions about financial health often end there when that’s where they should begin. Your job as a policymaker is to know your jurisdiction’s financial health, but more importantly, to know the story behind it. What are its main drivers? What explains a recent improvement or downturn? How is it connected to dynamics in the local, regional and international economy? How does it, or could it, respond to a major policy change that you lead?

Once we take all of these considerations into account, we arrive at a simple model or representation of financial health in practice.

## The Components of Financial Health

Financial health has three main components. To understand a government’s financial health, we need to understand each component individually and how each component interacts with the others:

### 1. Financial position is a government’s ability to pay its bills as they come due.

A government’s financial position is strong if it has plenty of cash and other liquid resources available. Without those resources it will have to borrow money, delay payments or liquidate some of its other assets, all of which carry significant financial costs. Some bills might be unexpected, such as legal settlements or emergency infrastructure repairs. A strong financial position means a government is prepared for these and other contingencies.

### 2. Financial performance is how well a government’s typical revenues cover its typical expenses.

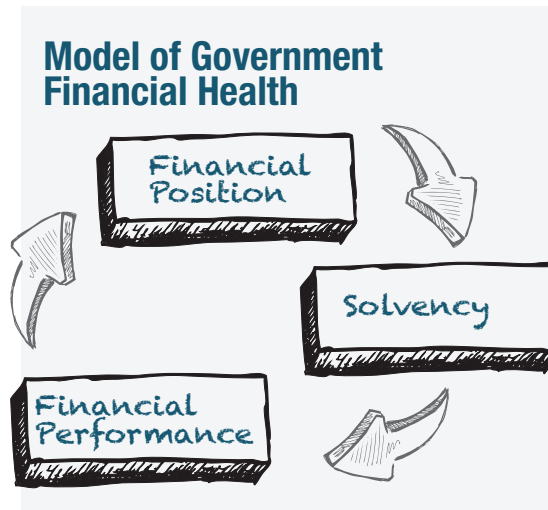
In the private sector this is called profitability. For state and local governments it’s more complex. No doubt, government services should generate enough revenue to cover most or all of a government’s costs. In many cases this is possible, such as with public utilities or state parks. But for many essential services it’s not. Citizens do not expect to get a bill when they call the police. Children do not pay for health care they receive through the state Medicaid program. Citizens pay for these services through general revenues such as local property taxes and state income taxes. These are some of the most important and expensive services governments offer. For that reason, states and localities think about financial performance quite differently than their private sector counterparts.

**3. Solvency is a government's ability to pay bills that will arrive in the future.** There are three types of solvency:

**Cash solvency** is whether a government has enough cash on hand to cover expenses that will come due in the very near future, usually in the next 60 to 90 days. This is the definition of solvency that typically applies to bankruptcy. If the entity in question does not have enough cash to pay its bills currently due, and if it cannot generate cash by imposing new fees or selling assets, then it is insolvent and eligible for bankruptcy protection.

**Long-term solvency** is the government's ability to generate the revenues it will need to cover its long-term spending needs. In other words, assuming there are no major changes to its tax rates or other revenue policies, a government is long-term solvent if it can generate enough revenue to cover the principal and interest on its outstanding debt, its obligation for pensions and retiree health care, its infrastructure investment requirements and other long-term spending needs.

**Service-level solvency** is whether the government has the capacity to continue to deliver basic services in the face of major changes in its economic and political circumstances. Its tax base should be able to withstand the loss of a major employer or industry. Its tax structure should allow it to capture enough revenue to pay for the transportation, public safety and other service demands that come with new growth. And its policies and the political culture should be able to adapt to a changing economy by delivering services through public-



private partnerships, cross-jurisdictional sharing and other alternative service arrangements.

To truly understand your government's financial health you must know how the three main components of financial health interact. Sometimes these interactions are a cycle of virtue. For example, strong financial performance means a government is more likely to end the year with a budget surplus. That surplus becomes cash that improves the government's financial position. If its financial position is strong, it can borrow money at lower interest rates to finance routine infrastructure maintenance, which improves its long-term solvency.

This cycle can also be destructive. A government with a weak financial position is more likely to borrow money to cover its short-term spending needs. Some of its revenues will then be diverted to pay the interest on that borrowed money. With

## Budgets and Financial Health: Proceed With Caution

There is a fourth type of solvency — budget solvency. A government is budget solvent if its budgeted revenues meet or exceed its budgeted spending. Most state and local governments are required by law to pass a balanced budget that meets this basic criterion. At the surface it would seem that budget solvency and financial health go hand-in-hand. Unfortunately, this is often not the case. Why? Because budgets are based on assumptions, and those assumptions don't always square with reality. A government can balance its budget by planning for new cost savings or efficiencies, by shifting spending responsibilities to another level of government, or by suspending payments on long-term obligations such as pensions or infrastructure maintenance.<sup>1</sup> Many also adjust their budgets throughout the fiscal year. Over time, these "budget tricks" can turn a temporary gap between revenues and spending into a permanent gap, or "structural budget deficit."





fewer revenues, financial performance weakens and it's more difficult to improve financial position over time. States that depend heavily on income taxes, such as California, or severance taxes from natural resources, such as Alaska and Wyoming, struggle with this problem because those revenues are difficult to predict.<sup>2</sup> In fact, California voters recently approved the creation of a mandatory state rainy day fund to bolster their state's financial position.<sup>3</sup>

Some governments are strong on one component but weak on others. For instance, many small municipalities have robust financial positions, sometimes holding cash and other liquid assets equal to more than a year of their annual spending. At the same time, they have large unfunded infrastructure needs that

finance defined:

#### **ASSET:**

Anything that has value, such as cash, inventory, equipment, and even infrastructure, such as roads and bridges

are a major drag on their long-run financial position. This often happens because voters are sensitive to property taxes. If local property values increase, the government will collect more property taxes even if it does not change its property tax rate. At the same time, many taxpayers oppose new taxes or increases to existing tax rates to fund new programs or infrastructure. Most govern-

ments cannot "save up" enough to pay for infrastructure projects with cash, so those spending needs go unmet while, ironically, more cash goes in the bank. The opposite is true of governments that have invested heavily in infrastructure, but have little, if any, free or "slack" resources to bolster their financial position.

The central challenge with financial health is that these interactions are a bit different for every government. That's why, once again, context matters. It's crucial to think of your government's financial health relative to other governments with similar economic, political and demographic characteristics.

## **The Status of Financial Health Today**

What do we know about state and local government financial health today? First, there's a lot of optimism. According to a recent Governing Institute survey conducted for this publication, more than 70 percent of state and local government decision-makers believe their jurisdiction's financial health is excellent or good. Approximately 90 percent of those same officials believe their government's financial health will be the same or better in 10 years.<sup>4</sup>

We also know the Great Recession hurt, but spared states and localities permanent damage. Consider the trends shown in the figure titled "Trends in Select Local Government Financial

## **The Shrinking Fiscal Policy Space**

Flexibility is a big part of financial health. If financial circumstances change, it helps to have the latitude to take raise taxes, trim spending on social services, renegotiate labor contracts or other corrective action.

Many states and localities don't have that latitude. Their state constitutions require voter approval of any new taxes. They have large numbers of vulnerable citizens who literally can't live without basic public services. Their labor contracts, pensions and other benefits are protected by state law. Or they face massive unfunded mandates from other governments. Governments in these circumstances can't do much to bolster their financial health.

These constraints are known as the "fiscal policy space."<sup>5</sup> This concept is a useful way to think about the context for how to measure and manage your jurisdiction's financial health. The fiscal policy space is also a powerful predictor of financial health. Research has shown that throughout the past two decades virtually every state and local government in the U.S. has seen its fiscal policy space narrow. For local governments that depend on support from their state government, this problem is even more acute. That's why it's not

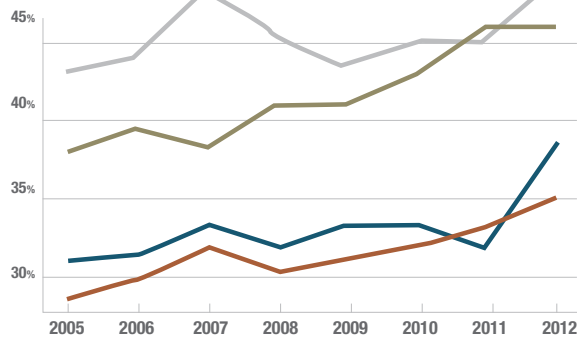


surprising that half of the Governing Institute survey respondents cited insufficient revenue as a major threat to their future financial health.

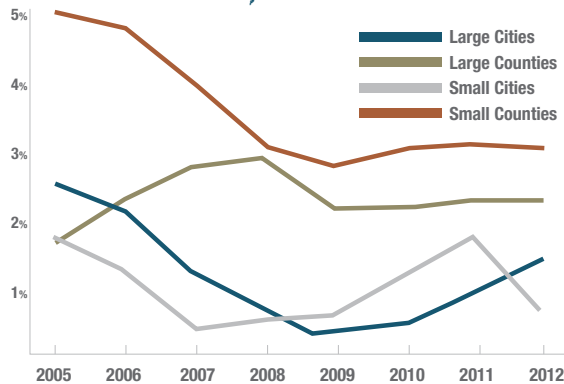
Health Indicators" on page 13. It shows nationwide financial health trends before, during and after the recession. In this case, financial position is a government's fund balance as a percentage of its annual spending; financial performance is the annual change in its net assets; and solvency is how much its overall revenues exceeded its overall expenses as a percentage of its overall expenses. This figure is a plot of the averages of these measures for a national sample of just less than 1,000 local governments. Small governments are defined here as having populations less than 100,000 people while large governments are defined here as having populations of more than 100,000 people.

## Trends in Select Local Government Financial Health Indicators

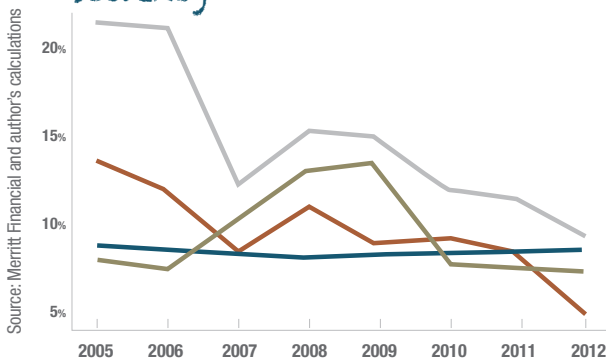
### Financial Position



### Financial Performance



### Solvency



The figure highlighting trends in government financial health indicators shows that financial performance and solvency dropped a bit, mostly because revenues consistently fell short of expectations during the Great Recession. At the same time, financial position, one of the most closely watched financial health measures, didn't change much. For state governments, these figures are quite similar.<sup>6</sup>

Some more recent numbers indicate financial performance and solvency are also back on the rise. According to the National League of Cities, more than 80 percent of city finance officers believe their government is better able to meet spending needs now than it was in the recent past.<sup>7</sup> Recovering revenues are a big part of that improvement.

However, there's plenty of cause for concern. According to the Governing Institute survey, more than half of state and local government decision-makers believe infrastructure investment — or the lack thereof — is the biggest threat to their government's financial health. A variety of studies also show that more than two-thirds of state and local governments slowed or stopped spending on infrastructure during the Great Recession.<sup>8</sup> In the meantime, the federal government has significantly scaled back its own spending on state and local infrastructure projects. So even though financial position and financial performance have improved, there are looming concerns about long-term financial health. **G**

## Essential Questions: Defining Financial Health

- 1 Do we routinely review our financial health? If not, do we rely on analysis from the state government, a think tank, a research institution or some other source?
- 2 Do we use a formal definition of near-term and long-term financial health? If not, why?
- 3 Do financial staff have a regular, formal opportunity to explain noticeable changes in our financial health?
- 4 When financial health changes noticeably, is it due to an increase in mandated spending? Expiration of a grant or loss of a revenue source? The addition of a new service? A change in management practice, staffing or technology? Economic recession or expansion?
- 5 How much do we depend on federal resources to deliver our core services? For state governments, how much of our annual spending is related to Medicaid? For local governments, how much do we depend, both directly and indirectly, on state shared revenue, federal grants and other sources? Have we established plans?
- 6 Is our fiscal policy space shrinking or expanding? If it's shrinking, how will that affect the financial choices available to us in the future?

# HOW TO MEASURE **FINANCIAL HEALTH**



## Given the complexity of financial health, a good measurement strategy is simple and intuitive, but multifaceted.

That's why we typically talk about financial health measurement "systems." These systems pull together information from financial statements, budgets, economic and demographic information, and other sources into a summary assessment. Of course, no system is perfect. Each has advantages and disadvantages.

There are two basic types of systems: retrospective and prospective. Retrospective systems use existing data to say something about a government's current financial health. Prospective systems use that information to forecast a government's future financial health. Your government should have a system to evaluate its own financial health. Ideally, that system includes both retrospective and prospective elements.

### Retrospective Systems

Most of the financial health measurement systems in use today are retrospective. They share similar features, including:

They're based mostly on information from audited financial statements.

They combine financial information into summary measures, usually in the form of mathematical ratios.

They compare — or benchmark — those ratios across governments with similar population, wealth and other characteristics.

They report a grade or other summary measure.

**The 10-Point Test.** The original retrospective system is the 10-Point Test. It is designed to speak to financial position, financial performance and solvency in a comprehensive but simple measurement system. Parts of the 10-Point Test have evolved over the years, but the basic measurements and concepts have not changed. Most of the financial health assessment systems used today are patterned off of this original test.

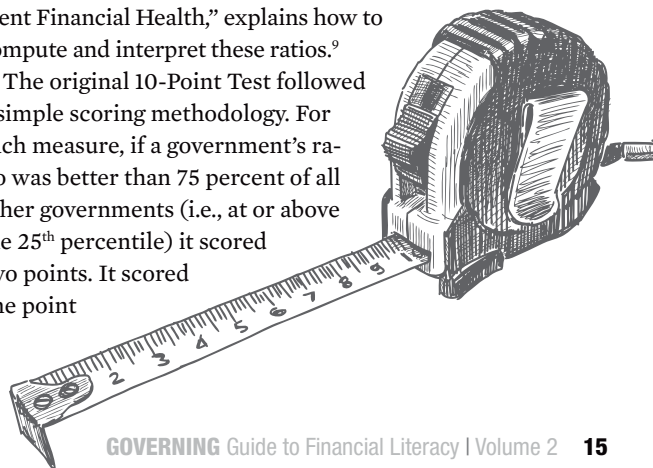
As the name suggests, the test is based on 10 measures from a government's basic financial statements. "Short-run financial position" and "liquidity" cover financial position. Two measures — "net asset growth" and "operating margin" — cover financial performance. Budget solvency is covered by "own source revenues" and "revenue sufficiency." "Debt burden," "coverage 1" and "coverage 2" speak to long-term solvency. Service-level solvency is difficult to measure but is roughly captured through "capital asset condition." The table on page 16 titled, "The 10-Point Test of Government Financial Health," explains how to compute and interpret these ratios.<sup>9</sup>

The original 10-Point Test followed a simple scoring methodology. For each measure, if a government's ratio was better than 75 percent of all other governments (i.e., at or above the 25<sup>th</sup> percentile) it scored two points. It scored one point

finance defined:

### RETRO-SPECTIVE SYSTEMS:

Financial systems that use existing data to say something about a government's current financial health



## The 10-Point Test of Government Financial Health

	Measure	Ratio (expressed as equations)	Financial Health Component	Ratio Interpretation
	Short-Run Financial Position	Unassigned General Fund Balance / Total General Fund Revenues	Financial Position	A higher ratio suggests larger reserves for dealing with unexpected resource needs in the long run.
	Liquidity	Total General Fund Cash and Investments / (General Fund Liabilities - General Fund Deferred Revenues)	Financial Position	A high ratio suggests a greater capacity for paying off short-term obligations.
	Net Asset Growth	Change in Governmental Activities Net Assets / Total Governmental Activities Net Assets	Financial Performance	A high ratio suggests annual costs are being adequately financed and the financial condition is improving.
	Operating Margin	(Revenue for Governmental Activities / Total Governmental Activities Expenses) X - 1	Financial Performance	A low ratio suggests basic government services are more self-sufficient through charges, fees and grants.
	Own Source Revenues	Primary Government Operating Grants and Government Revenues / Total Primary Government Revenues	Financial Performance/ Budget Solvency	A low ratio suggests the government is not heavily reliant on intergovernmental aid.
	Near-Term Solvency	(Primary Government Liabilities - Deferred Revenues) / Primary Government Revenues	Budget Solvency	A low ratio suggests outstanding obligations can be more easily met with annual revenues.
	Debt Burden	Total Outstanding Debt for the Primary Government / Population	Long-Term Solvency	A low ratio suggests less burden on taxpayers and greater capacity for additional borrowing.
	Coverage 1	Debt Service / Non-Capital Governmental Funds Expenditures	Long-Term Solvency	A low ratio suggests general governmental long-term debt can be more easily repaid when it comes due.
	Coverage 2	Enterprise Funds Operating Revenue + Interest Expense / Interest Expense	Long-Term Solvency	A high ratio suggests greater resource availability for repaying the debts from enterprise activities as they come due.
	Capital Asset Condition	(Ending Value of Primary Government Capital Assets - Beginning Net Value) / Beginning Net Value	Long-Term Solvency/ Service-Level Solvency	A high ratio suggests a government is keeping pace, on average, with the aging of its capital assets.

if it was better than 50 percent of other governments, and zero points if it was better than 25 percent. If it was in the bottom 25 percent, it received one negative point for that measure. A government that outperforms its peers can earn up to 20 points on the 10-Point Test.

The 10-Point Test is timeless because it's comprehensive but simple. It speaks to all three dimensions of financial health with just a few numbers. That said, any system based entirely on financial statements will have several drawbacks. Among them:

**It causes financial reporting lags.** According to the Governmental Accounting Standards Board (GASB), a typical state or local government takes six to nine months to produce its annual financial statements.<sup>10</sup> The implication for financial health measurement is clear: Financial ratios tell us about financial activity that happened a long time ago.

**The 10-Point Test and financial statements do not effectively measure cash solvency.** Measures like short-run financial position and liquidity are taken from a government's balance sheet. The balance sheet is a snapshot; it describes asset and liability levels at a specific moment in time. But a government's cash flows are dynamic: They ebb and flow throughout the year as taxes are collected and dispersed, as grant dollars arrive, and as the government pays its employees and vendors. To really understand your government's cash flow needs you have to see regular reports — ideally monthly or quarterly — on cash inflows and outflows. It's difficult to do that analysis from basic financial statements alone.

**Ratios based on financial statements don't account for transfers of resources within the government.** For example, many state and local governments are allowed to move money from their public utilities funds to their general fund. This will improve the general fund's financial position, but that improvement is unrelated to the general fund's assets and liabilities.

**State Fiscal Monitoring Systems.** The 10-Point Test is the basis for a second broad category of retrospective financial health measurement systems: state fiscal monitoring systems. Many states have the power to intervene on behalf of a local government that is struggling with major financial problems. According to the Governing Institute survey,

## 42% of Governing Institute survey respondents believe that if a local government's financial health is failing, the state should intervene.

42 percent of respondents believe that if a local government's financial health is failing, the state should intervene. That intervention can include anything from technical assistance to the state seizing control of the local government's daily operations.<sup>11</sup> Almost all states that have this power use financial health measurement systems to identify local governments that are, or might be, on the verge of severe problems. Local officials in states with these

## For Better or Worse, Fund Balance is King

There is no correct financial health measure. In fact, a 2012 study commissioned by The Civic Federation in Chicago found state fiscal health monitoring systems collectively use more than 100 different measures to capture the three main dimensions of financial health.<sup>12</sup>

State and local public officials see it differently. When asked to identify the financial health indicators they rely on the most, 82 percent cited the general fund balance and 46 percent cited bond ratings. No other measure received more than 25 percent of responses. For better or worse, fund balance is king.

Fund balance is a good measure of budget solvency and financial performance. It grows when revenues exceed expenses and it shrinks when they don't. It also speaks to financial position and liquidity because governments can use fund balance to meet unexpected spending needs. Some even see it as a measure of fiscal discipline because it's difficult for policymakers to resist the temptation to spend it. However, it's only one measure, and it has little to do with long-term solvency. So while general fund balance is useful, always keep in mind it's just a small piece of your government's overall financial health.





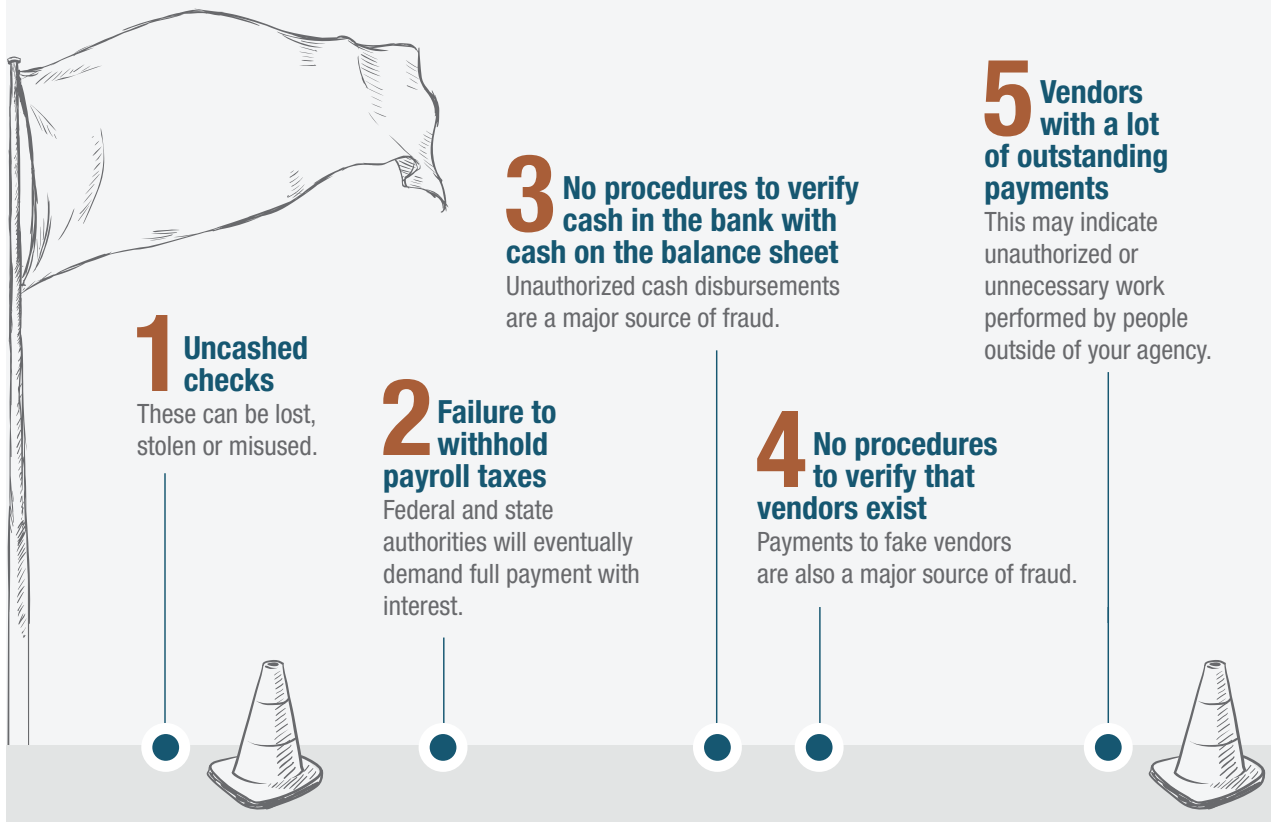
systems are acutely aware of how the state monitors, evaluates and ultimately grades its financial health.

#### Examples include:

- New York State's Office of the Comptroller launched its Fiscal Stress Monitoring System in 2013. It includes nine financial indicators, all from audited financial statements, and eight environmental indicators, such as changes in population, property values and unemployment. The system includes a rubric that converts those indicators into a fiscal stress score. As of September 2014, 15 localities were in a state of "Significant Fiscal Stress," 11 were rated as having "Moderate Fiscal Stress" and 25 were "Susceptible to Fiscal Stress."<sup>13</sup>
- Michigan revamped its local fiscal oversight system in 2012. That system, run by the state treasurer, now includes 19 different indicators, including new measures of cash solvency.<sup>14</sup> If a local government scores high enough on a fiscal stress indicator index it is placed on a watch list. If it remains on the watch list it becomes a candidate for additional state intervention, including the imposition of a state-appointed emergency manager.
- In Florida, the auditor general requires local governments to design their own financial condition assessment system based on suggested measures from their financial statements. That system is then reviewed as part of the government's independent financial audit. The independent auditor reports any concerns to the auditor general.<sup>15</sup>
- North Carolina's state treasurer maintains one of the most thorough and, arguably, effective systems in the country. That system includes several different measures of financial position, financial performance and solvency taken from

## 10 Financial Health Red Flags

A big part of financial health is knowing what not to do. Below are a few common red flags that point to much larger problems with a state or local government's financial policies, procedures and systems:



audited financial statements. It also allows users to benchmark their government against other governments of their choosing.<sup>16</sup>

**Financial Health Self-Assessments.** No doubt, state oversight systems produce useful information. If your government is part of one, you should familiarize yourself with the information it offers about you and your peer governments. However, these systems are not a substitute for your own periodic financial health self-assessment. With a few exceptions, most of these systems do not properly account for context. They create groups of local governments on broad criteria like population, but they usually ignore far more important factors such as local wealth, tax base and the authority to raise local revenues. Moreover, it's not always clear what these systems are designed to accomplish. A few states have broad authority to assist or even take over struggling local governments. But most states don't. Proponents of these "non-intervention" monitoring systems argue that publicizing a local government's financial struggles will encourage its residents to

take their own corrective action. But at the moment it's not clear if and when that approach works.

You will serve your government much more effectively if you encourage it to develop its own financial health monitoring system. A good place to start is the International City/County Management Association's (ICMA) Financial Trends Monitoring System (FTMS).<sup>17</sup> It is one of the few retrospective systems that incorporates information from governments across the country.

This system is popular because of its focus on context. It includes a mix of 23 different indicators explicitly designed to measure all three elements of financial health. Local governments that participate in it agree to have their financial health benchmarked against a peer group of governments with a similar population, tax base and service demands. To that end, members also receive periodic reports on their financial health relative to those peers. Perhaps most important, members agree to share the story behind those numbers. They routinely communicate with each other about how key management and policy decisions have affected the financial ratios over time.

## 6 Paychecks sent to retirees, terminated employees or deceased employees

Good payroll audit procedures should prevent this.

## 7 Benefit payments to ineligible retirees, family and friends

Without proper procedures, it's easy to lose track of who is eligible.

## 8 Individual departments/agencies maintaining their own checking accounts

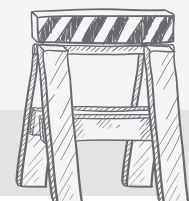
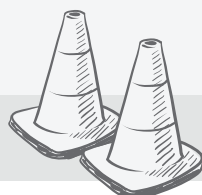
This allows staff to create unauthorized bank accounts in the government's name.

## 9 Financial audit identifies a material weakness on internal controls

This indicates a major problem with financial policies or procedures and requires immediate attention.

## 10 Staff are not trained on new financial systems or policies

Small mistakes over time by well-intended staff can add up to big financial problems.



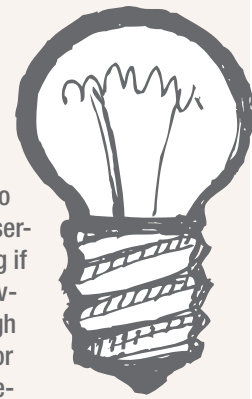
## Best Practice

# Thinking Ahead in Portland

Every other year the city auditor in Portland, Ore., publishes a performance audit of the city's financial health. The analysis behind the audit is based on a system of 12 measures, including a mix of 10-Point Test-style indicators and broader economic factors such as the unemployment rate and tax base growth. It also benchmarks 10-year trends against similar trends for 6 other large West Coast cities.

Portland's version of the financial health performance audit is unique because much of it is focused on questions about the city's long-term solvency, including: Are the city's unfunded pension and retiree health care liabilities higher or lower than peer cities?

Is it investing enough in its capital infrastructure? Has it borrowed an appropriate amount of debt? It also contends with questions of service-level solvency by asking if the city should consider delivering certain services through public-private partnerships or other non-traditional arrangements, and if it should continue to deliver certain services at all.<sup>18</sup> Portland's model is one of the most thorough prospective measurement systems in state and local government today.



This system was popular at a time when government financial information was difficult to find and even more difficult to compare across governments. Comparisons are less of a challenge today as most local governments make their financial statements and other documents available electronically. That said, the FTMS remains popular, and its measurement strategy is one of the most influential in the industry.

Financial health self-assessment is not a one-size-fits-all approach — each jurisdiction must develop its own system for an accurate assessment. For example, the city of Lawrence, Kan., launched its own financial health assessment system in 2009. The main challenge when developing this system was finding appropriate comparison cities.

Lawrence, with a population of 90,000, is home to the University of Kansas and sits on the far western edge of greater Kansas City, Mo. Like most mid-sized cities, it tends to compare itself to nearby cities. But for Lawrence it's less useful to compare its financial health to its neighbors. Its population is more educated but also has a lower income

level than most Kansas City suburbs due to its preponderance of students. The university and other cultural institutions employ a lot of people, but those institutions are exempt from most property and sales taxes. Lawrence needed a different approach.

To address this problem, it identified the 14 best comparison cities across the country matched on general population, youth population, per capita income and age of housing stock. Not surprisingly, the best comparison cities are other stand-alone, mid-sized college towns, including Iowa City, Iowa; St. Cloud, Minn.; Chico, Calif.; and State College, Pa. Lawrence compares 10-year trends in its financial health indicators to the same trends among these peer cities. According to the city auditor, who developed and manages this approach, the system has been well received and has helped focus policymakers' attention on important emerging financial issues.<sup>19</sup>

## Prospective Systems

Financial health measurement based on financial statements is essential. But if the goal is to make policies today that improve financial health tomorrow, that style of measurement falls short. Arun Raha, an award-winning economic forecaster and former chief economist for the state of Washington, famously brought this problem to life by saying forecasting financial trends is "...like driving a car forward, looking only in the rear view mirror."<sup>20</sup> Circumstances today offer clues about the future, but we can really only guess what's coming.

That's where prospective systems fit in. These systems project future financial health from

finance defined:

### PROSPECTIVE SYSTEMS:

Financial systems that project future financial health based on past trends in economic, financial and other measures



past trends in economic, financial and other measures. More specifically, they attempt to project solvency based on some understanding of the links between a government's economic environment and its financial policies.

**Credit Ratings.** Credit ratings are the most widely discussed financial health measurement systems for state and local governments. They're also one of the few prospective systems. That's a big part of their appeal.

The credit rating agencies – Moody's, Standard & Poor's and Fitch – answer a simple question: Will this government pay back a particular bond (or set of bonds) on time and in full? Bonds more likely to be repaid carry a higher rating, and those considered likely to be repaid carry lower ratings.

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**Credit ratings on their own are not a good financial health indicator. They are meant for investors who want to know if they'll get their money back.**

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To reach that conclusion the ratings agencies analyze information from financial statements, economic indicators, demographic trends and how much debt the government currently owes, among many other factors. Their goal is to forecast a government's near-term financial position and long-term solvency. They do this analysis in different ways for different types of bonds, but every credit rating is a prospective statement about financial health.

Credit ratings are a powerful influence on how we think about and manage our financial condition. They are a clear and decisive statement about a government's financial future. They're also widely misunderstood and misused.

Credit ratings on their own are not a good financial health indicator. They are meant for investors who want to know if they'll get their money back. They are, at best, an indirect measure of whether a citizen can expect to receive the same package of services for the same basic tax rate.

In fact, many state and local governments are only marginally healthy but have strong credit ratings. Why? Because if they encounter severe financial problems, their state constitution

requires them to repay their bond investors before anyone else. This is one of many instances where credit ratings can be out of sync with overall financial health. This is not a criticism of credit ratings, but it is a caveat — they are, at best, a proxy for overall financial health.

Unfortunately, outside of credit ratings there are few good examples of prospective financial health measurement systems. Some state and local governments convene round table discussions of business leaders and other financial experts. These discussions can help identify emerging trends in the economy that will affect future financial health. Internal auditors in a few cities do performance audits of long-term solvency and service-level solvency (see the sidebar “Thinking Ahead in Portland” on page 20), but that style of work is still uncommon. That said, as new data and analytical tools become more readily available, the potential for better work is unlimited. For now, the key point is to try, whenever possible, to incorporate prospective elements into how you think about your government's financial health. **G**

### Essential Questions: Measuring Financial Health

- 1 Who do we consider our financial peers, and why? Do we identify our peers on the basis of geography? Demographics? Types of services delivered? Or other factors? Would we draw different conclusions about our financial health if we compared ourselves to a different group of governments?
- 2 How do we define a financial trend? Relative to ourselves over time? Relative to a peer group? Both? Would our financial trends look noticeably different if we changed the time frame or context? What are the strengths and weaknesses in how we define those trends?
- 3 How do we measure our cash solvency? Do staff prepare periodic cash flow reports? Do we have a person or team who monitors our cash position?
- 4 What are our main assumptions about how changes in the local, regional and international economy shape our financial health? Do we routinely revisit and update those assumptions?
- 5 What is our current credit rating, and what does it tell us about our overall financial health? Have these ratings changed recently? If so, why?

# HOW TO IMPROVE **FINANCIAL HEALTH**

## Now that you know how to think about and measure financial health, the next question is: What can we do about it? More specifically, what are the biggest threats to our financial health, and how can we address them?

We hear a lot about a few key financial threats. Rising health care costs are probably the most widely discussed. Medicaid is now the single largest spending item in most state budgets. More ominous is that health care costs have increased faster than most other costs, and funding for Medicaid from both the federal government and state governments has not kept pace.<sup>21</sup> This means that without a major change in who Medicaid covers or what it pays for, it will consume an ever-larger share of state budgets. This pressure on states inevitably affects local governments.

Virtually every state is taking steps to control those costs through new technologies and partnerships with the health care industry. They're also trying to use new funding tools made available by the federal Affordable Care Act (ACA). These changes are incredibly difficult, both practically and politically, but they're underway.

State and local pensions are another closely watched threat. Critics have argued that pensions are too generous and that governments have shirked their obligation to fund them for many years. Some believe pensions are as severe of a threat to financial health as Medicaid and other expensive public assistance programs. As the recent developments in New Jersey, Rhode Island and elsewhere have shown, pension reform is also politically perilous.<sup>22</sup> No doubt, some jurisdictions have worked with labor and other stakeholders to address their pension problems. The city of Baltimore's recent transition to a "hybrid" public pension is a good recent example.<sup>23</sup>

That said, it's surprising that when asked to identify the biggest threats to their financial health,

54 percent of public officials cited infrastructure costs as a primary threat while 50 percent cited insufficient revenue. Many also identified personnel costs as a cost driver, however, 26 percent pointed to pensions, other post-employment benefits or debt.

Health care and pensions are major problems, but these survey results are consistent with many of the popular strategies state and local governments are now using to take charge of important parts of their own financial health. As a policymaker you should be familiar with these strategies and how they might work in your jurisdiction. Those strategies fall into three basic categories, or the "Three Es": 1) enterprise-wide thinking; 2) economizing infrastructure; and 3) engaging citizens.

### The "Three Es" That Will Help You Take Charge of Your Jurisdiction's Financial Health



## Enterprise-Wide Thinking

Many states and localities organize their financial management function into separate sub-functions. The budget is prepared by one department, implemented across the organization, and audited and reported on by a different department. Governments today are moving the needle on financial health by integrating these separate functions into enterprise-wide systems.

finance defined:

### **SALARY LAPSE:**

A chronic problem in government that occurs when a portion of a budgeted salary becomes available

Much of this integration happens through technology, and in particular, by implementing new enterprise resource planning (ERP) systems. Today's best ERP systems allow staff across the government to bring new information to bear on how they manage their budgets and their day-to-day operations. Over time, these small adjustments can make a big difference

on infrastructure, personnel and other costs that can be difficult to manage. A few examples:

- With budget and performance information in the same system, it's much easier to see the full costs — the total of both the direct and the indirect costs — to deliver a service. With better cost information, managers can see where cost overruns are happening, how changes to internal processes affect costs, and how new equipment and other investments might drive down costs over time.
- Personnel costs comprise up to half of total spending for a typical local government and nearly one-quarter for most state governments.<sup>24</sup> But unfortunately, many public sector information systems don't allow decision-makers to answer basic questions about "salary lapse," a chronic problem in government. Salary lapse occurs when a portion of a budgeted salary becomes available. This happens when a posted job goes unfilled or when a job that someone left goes unfilled for the rest of the fiscal year. To get good data on salary lapse the personnel systems across the government must talk to one another. With enterprise-wide technology, managers can better plan for and manage their personnel needs.
- The city of Pittsburgh has moved to a paperless platform for all internal processing of licenses, permits, tax administration and other back-office functions. Approval processes that used to take weeks now take days, mostly because staff are held accountable within the ERP system for the status of critical paperwork. In some cases, these new efficiencies have allowed managers to redirect staff toward other understaffed functions.<sup>25</sup>
- Public utilities in Miami and Dallas have used

enterprise-wide technology to automate many of their internal operations. For example, in the past, the simple process of testing water quality, treating the water and ordering chemicals to resupply for the next treatment was spread over several different departments and staffs. With automated technology, all three steps of that process happen instantly and automatically.<sup>26</sup>

- Enterprise-wide thinking also supports governments' efforts to leave less "money on the table." Better access to data on who uses services and when allows governments to more effectively collect the taxes, tolls and fees they are owed. More sophisticated financial information systems facilitate more efficient processing of tax bills and payments, both of which make citizens more amenable to paying their tax bill on time and in full. New technology systems can also improve data security and bolster taxpayer trust in government revenue management. Technology also allows governments to extend their reach beyond the enterprise, opening up collaborations with private companies and nonprofits, and bringing more people — including low-income taxpayers — into the system.

To be clear, sometimes enterprise-wide systems can be expensive and difficult to implement. This is especially true in today's financial environment where it's difficult to prioritize investments in internal systems over investments in roads, parks and other systems that benefit citizens in more direct, visible ways. Enterprise-wide thinking also requires managers and policymakers to think differently about the relationship between "spending" and "costs." It's difficult to measure costs, especially when the program or service doesn't have a clear unit of output to organize those costs. So instead, it's much easier to focus on what a government spends on that program or service, even if spending levels reflect cost overruns, subsidies to other programs, inefficiencies and other problems that good cost information can reveal. Despite the challenges, these investments yield big dividends for long-term financial health.

## Economizing Infrastructure

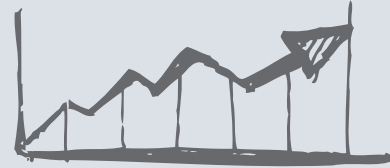
As mentioned, infrastructure costs are a particular concern for financial health. Fortunately, there are a wide variety of new tools to help better understand and plan for future infrastructure investments. These tools are all part of a strategy to "economize" infrastructure investment.



## 10 Policies and Practices that Promote Financial Health

As a policymaker, you can improve your government's financial health first by understanding it, and then by establishing policies and procedures to promote it. Below are 10 key policies and procedures your government should have:

**1** Rainy day fund policy



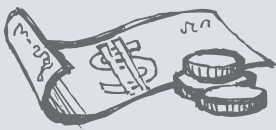
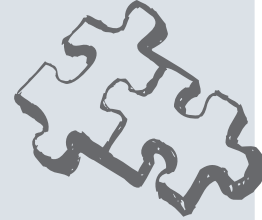
**2** Target fund balance or ending budget balance policy

**4** Long-term financial plan

**3** Policy on the use of one-time revenues

**5** Regular debt affordability studies

**6** Policy on inter-fund transfers



**9** Routine reviews of financial information technology needs

**7** Quarterly cash flow reports

**8** Policies and procedures on indirect cost allocations

**10** Regular analysis of how capital investments affect the operating budget

finance defined:

### **DEBT CAPACITY:**

How much money a government can legally borrow within state law

- The Government Finance Officers Association (GFOA) strongly supports long-term financial planning.<sup>27</sup> This style of planning is, in effect, connecting 5- to 10-year forecasts of a government's revenues and spending to its long-term strategic plan. Planning of this sort promotes infrastructure maintenance because it protects the resources available for capital investment. Capital investments are one of the first spending areas governments typically cut during recessions. If a state or local government has planned for a range of revenue and spending contingencies, it is more likely to have protected capital resources in place.
- Many states and municipalities now incorporate "sensitivity analysis" or "scenario analysis" into their revenue and expenditure forecasts. This style of analysis allows decision-makers to evaluate different future scenarios. Tools like these are valuable from a technical standpoint because they can make forecasts more accurate. They also offer decision-makers a chance to see how different assumptions about economic trends and service delivery patterns will affect the likely range of revenue and spending outcomes. GFOA's MuniCast tool is one of the most popular to this effect.
- Most states and some localities periodically review their "debt affordability." Many governments finance the bulk of their capital projects with debt, which is a scarce resource. It follows that prudent use of debt is an essential part of infrastructure maintenance. There are two critical concepts surrounding debt. Debt capacity is how much money a government can legally borrow within state law. Debt affordability is a government's ability to repay debt given its current and expected revenues. The former is based on a formula calculation. The latter is related to expected economic growth and infrastructure needs. It's essential that state and local governments periodically review both their debt capacity and debt affordability, and use that information to prioritize capital projects accordingly.

## **Engaging Citizens**

Financially healthy governments engage their citizens. There's an important distinction here between transparency and citizen engagement in financial health. Many governments have achieved transparency by publishing most or all of their basic financial transaction data online. However, real engagement means giving citizens the opportunity to determine if their government is putting public resources behind their most important priorities.

According to the Governing Institute survey, more than two-thirds of public officials say they communicate financial health through their annual financial report and by publishing the annual financial report on their website. Financial reports are useful, but they do not tell the complete financial health story. At the same time, less than one-quarter of the respondents use more accessible methods such as social media and citizen-centric reports to communicate the jurisdiction's finances. Fewer yet seem to publish the results or outcomes of day-to-day operations.

For many states and municipalities, financial transparency means "publishing the checkbook." If taxpayers can see where their money is spent, the logic goes, they are far more likely to trust their government's financial management practices. However, this approach does not address the much larger question: What do citizens get for their investment?

The city of Boston has developed an innovative system to address this issue. Boston About Results (BAR) is a big data performance management system that produces a variety of detailed reports on city services. These reports allow citizens to see, often on a block-by-block basis, how the city manages graffiti complaints, restaurant inspections, parks maintenance requests and other essential services.<sup>28</sup> With these reports, citizens can see their taxes at work. This emphasis on service-level solvency is crucial to engaging citizens on their government's financial health. **G**

## **Essential Questions: Improving Financial Health**

- 1** How do we define debt capacity? How do state and federal laws shape that capacity? Do we self-impose any restrictions on our debt capacity?
- 2** Have we done a debt affordability study recently? If so, what were the main assumptions and findings?
- 3** Do we have the 10 essential policies and practices known to promote financial health? If not, why?
- 4** Do we have a structural deficit? Is some level of deficit appropriate given our current and future financial health?
- 5** How do we measure the condition of our infrastructure assets? Does information about that condition affect our financial planning? Our capital budgeting?
- 6** How can we build sustainability into our budget process? How can we keep elected officials focused on it?

## CONCLUSION

# Setting the Tone for Financial Health

As a policymaker, your job is to connect your government's financial resources to its shared priorities. This is much easier to do if your government has the ability, now and in the future, to deliver the services its citizens want. In other words, your job is much easier if your government is financially healthy.

You can do two main things to make this happen. First and foremost, make sure your government has a thorough, thoughtful system to measure its own financial health. But far more important, set the tone

at the top. Make sure your government has the right policies, procedures, systems and technologies in place to ensure costs are properly measured, staff can adjust to changing financial circumstances, the right information is brought to bear on day-to-day financial decisions and that citizens can see the return on their tax dollars. With time, these small, day-to-day steps can have a big impact on your jurisdiction's financial health. California Gov. Jerry Brown summed this up well recently when he said, "Fiscal discipline is not the enemy of our good intentions, but the basis for realizing them."<sup>29</sup> **G**

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## ENDNOTES

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<sup>18</sup> [www.portlandonline.com/auditor/index.cfm?a=452916&c=60923](http://www.portlandonline.com/auditor/index.cfm?a=452916&c=60923)

<sup>19</sup> Interview with Michael Eglinski, City Auditor, City of Lawrence, Kan., May 14, 2015.

<sup>20</sup> [www.seattletimes.com/seattle-news/additional-12b-hole-in-state-revenue-projected-8212-expect-more-budget-cuts/](http://www.seattletimes.com/seattle-news/additional-12b-hole-in-state-revenue-projected-8212-expect-more-budget-cuts/)

<sup>21</sup> [www.cbpp.org/research/policy-basics-where-do-our-state-tax-dollars-go](http://www.cbpp.org/research/policy-basics-where-do-our-state-tax-dollars-go)

<sup>22</sup> Patrick McGuinn (2014), "Pension Politics: Public Employee Retirement System Reform in Four States," Brookings Institution Working Paper, [www.brookings.edu/~media/research/files/papers/2014/02/26-public-pension-reform/pension-politics\\_final\\_225.pdf](http://www.brookings.edu/~media/research/files/papers/2014/02/26-public-pension-reform/pension-politics_final_225.pdf)

<sup>23</sup> [articles.baltimoresun.com/2014-05-05/news/bs-md-ci-pension-vote-20140505\\_1\\_councilwoman-helen-holton-councilwoman-sharon-green-middleton-new-city-employees](http://articles.baltimoresun.com/2014-05-05/news/bs-md-ci-pension-vote-20140505_1_councilwoman-helen-holton-councilwoman-sharon-green-middleton-new-city-employees)

<sup>24</sup> [www.cbpp.org/research/some-basic-facts-on-state-and-local-government-workers](http://www.cbpp.org/research/some-basic-facts-on-state-and-local-government-workers)

<sup>25</sup> Interview with Paul Leger, Director of Finance, City of Pittsburgh, Pa., May 18, 2015.

<sup>26</sup> [www.wsj.com/articles/SB10000872396390443816804578002280926253750](http://www.wsj.com/articles/SB10000872396390443816804578002280926253750)

<sup>27</sup> [www.gfoa.org/long-term-financial-planning-0](http://www.gfoa.org/long-term-financial-planning-0)

<sup>28</sup> [www.cityofboston.gov/BAR](http://www.cityofboston.gov/BAR)

<sup>29</sup> [articles.latimes.com/2013/jan/24/local/la-me-state-of-state-20130125](http://articles.latimes.com/2013/jan/24/local/la-me-state-of-state-20130125)

# GLOSSARY

## PUBLIC FINANCE DEFINED

Term	Definition
Asset	Anything the government owns that has value, such as cash, equipment or buildings
Budget Solvency	A government is budget solvent if its budgeted revenues meet or exceed its budgeted spending; often described as the fourth type of solvency.
Cash Solvency	A government's ability to cover expenses that will come due in the next 60 to 90 days using available cash on hand
Debt Affordability	A government's ability to repay debt given its current and expected revenues
Debt Capacity	The amount of money a government can legally borrow within state law
Financial Health	A state or local government is financially healthy if it can deliver the services its citizens expect, with the resources its citizens provide, now and in the future.
Financial Performance	How well a government's typical revenues cover its typical expenses
Financial Position	A government's ability to pay its bills as they come due
Fiscal Policy Space	Flexibility in a government's budget that allows it to shift funds based on needs through actions such as raising taxes, negotiating labor costs and reducing spending on social services
Funds	Stand-alone groups of accounts within a government
Fund Balance	Difference between assets and liabilities in a governmental fund; reveals the accumulated effect of a government's past general fund surpluses and deficits
Liability	Money the government owes, such as unpaid invoices or pension liabilities
Long-Term Solvency	A government's ability to generate the revenues it will need to cover long-term spending needs such as principal and interest on debt, pensions and retiree health care, and infrastructure requirements
Net Assets	Difference between assets and liabilities in a governmental fund; often mentioned as an indicator of government fiscal health; most commonly discussed is general fund balance
Prospective Systems	Financial systems that project future financial health based on past trends in economic, financial and other measures
Retrospective Systems	Financial systems that use existing data to say something about a government's current financial health
Salary Lapse	A chronic problem in government that occurs when a portion of a budgeted salary becomes available
Service-Level Solvency	A government's capacity to continue to deliver basic services in the face of major changes in its economic and political circumstances
Solvency	A government's ability to pay bills that will arrive in the future; the three primary types of solvency include cash solvency, long-term solvency and service-level solvency
10-Point Test	A retrospective system based on 10 measures from a government's financial statements





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## Understanding Your Financial Story: One Application, Complete Access for Decision-Makers

**G**overnment leaders are expected to be good stewards of taxpayer dollars by making informed decisions about how their limited resources are allocated. Unfortunately, many public agencies keep operating data, personnel information and finances siloed, meaning users, managers and executives do not have real-time access to all of the information they need to do their job effectively.

Workday Financial Management eliminates those silos and provides all appropriate personnel with user-friendly access to timely and reliable information. Developed to ensure industry relevance and functionality, Workday Financial Management is seamlessly integrated into the Workday suite of cloud applications, allowing accounting, financial reporting, and human capital management and

governance information to be available through a single application.

Workday's unique accounting solution, Worktags, empowers users to capture every detail of every financial transaction to create a foundation for robust analytics.

The Workday Financial Management application provides composite insight into all transactions covering budget, revenue, procurement, expenses, finance, grants, projects, consumable inventory and payroll. The application uses analytics embedded in flexible and easy-to-modify business processes to show any level of summary or information relevant to the user. This allows managers and executives to effectively make informed financial and personnel decisions from "one source of truth."

### Benefits of Workday Financial Management

- Offers a complete picture of your agency's finances
- Provides access to relevant financial information for all agency decision-makers
- Increases internal governance and reduces risk
- Facilitates internal and external change without disrupting business operations
- Provides a consistent, user-friendly interface, mobile access and powerful analytics







# Transforming the Workplace Savings Plan

In an effort to meet the needs of the 21<sup>st</sup>-century employee, public entities are exploring additional benefits to help shore up their employees' financial health. We know voluntary workplace plans complement existing employee benefit programs, such as pensions, and play a large role in helping employees work toward replacing their working income during retirement.

To transform the workplace savings plan, government employers may consider these five strategies to help employees understand the importance of taking full advantage of the voluntary savings plans.

- 1. Focus on retirement income.** Simply showing employees their account balance or telling them how much they will need in retirement has largely proven ineffective. Instead, employers should help them understand how their savings translates to a regular retirement income. Showing individuals their projected retirement income in comparison to their income replacement goal is a key first step that can motivate them to save more.
- 2. Integrate retiree health care costs into employee education.** To help employees see a holistic view of their retirement future, they need to be able to factor health care costs into their retirement savings goals. Evidence suggests that people realize the high cost of health care in retirement — with 19% of workers who delay retirement citing continued health care coverage as the reason.<sup>1</sup> At Empower Retirement, our tools and resources help employees estimate their expected health care costs throughout each stage of retirement.
- 3. Offer financial wellness programs.** 58% of workers save less than they know they need to because of their day-to-day expenses and debt.<sup>2</sup> Financial wellness and budgeting should be key components of programs offered to employees.
- 4. Allow peer-to-peer comparison.** When employees can compare their savings rates to top savers in their peer group, they tend to save more. Our participant experience shows that using comparisons with others in an employee peer group — based on demographic factors such as age, salary and gender — drives people to save more. Data from those who have used this type of planning tool show savings rate increases of 25%.<sup>3</sup>
- 5. Provide enhanced plan design features.** Features such as automatic enrollment and automatic increase (escalation) may help keep employees on the right path to meet their retirement savings needs.

State and local governments can meet and exceed the expectations of employees through positive changes in workplace voluntary savings plans. Empower can help implement strategies to potentially strengthen both the jurisdiction's and employees' financial health today and well into the future.

To learn about the specific solutions Empower provides government plan sponsors to help them address America's retirement savings challenge, visit [www.empower-retirement.com](http://www.empower-retirement.com).

1. PwC Employee Financial Wellness Survey, 2015

2. EBRI Retirement Confidence Survey, 2014

3. Based on participants who logged on to the website and moved the deferral rate slider at least once. Results based on over 8,000 participants who accessed the How do I compare? tool from 4/11/14–5/8/14.

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*Operations-focused Peer Performance model with management augmentation*

**"Our partnership with Veolia has improved the day-to-day operations of the utility, resulting in significant cost efficiencies and improved customer service."**

– Alex Thomson,  
PWSA Board Chairman

**15%**  
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*Public-private concession model to strengthen finances and improve infrastructure*

**"We've worked with Veolia for years in the community and this arrangement allows for both continuity and improvement in the water resource and wastewater service, and it assures us that the total commitment to the residents of the City of Rialto is met."**

– Mike Story,  
Rialto City Administrator

**\$35**  
million up-front payment  
**\$41**  
million in needed capital

### Milwaukee

*O&M model developed to meet stringent and enhanced performance targets*

**"After two years of analysis and a competitive bidding process, I truly believe this is environmentally and financially the best direction for our Region."**

– Kevin Shafer,  
MMSD executive director

**\$35**  
million savings over  
10 years

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## A STRATEGIC BUDGET PROCESS FOR AN AGILE GOVERNMENT

**As technologies advance**, the global marketplace expands, and the economy ebbs and flows, it is apparent that traditional budgeting, planning and forecasting practices are becoming a relic of the past. With the right strategies in place, state and local governments can develop an agile and intelligent budget and performance

management process that supports decision-making and mitigates waste, fraud and abuse. Neubrain can help your jurisdiction through this process. With solutions powered by cutting-edge and easy-to-use BOARD technology, Neubrain links budget decisions with strategic outcomes to improve your jurisdiction's overall fiscal health.

BUDGETING	FINANCIAL MODELING	FINANCIAL REPORTING
Traditional, Budgeting for Outcomes, Priority Based, Performance Based 	Driver-Based Planning, Cost Modeling, Forecasting and Predictive Analytics 	Automated Budget Books, CAFR Reports, Fiscal Health Monitors 
PERFORMANCE MEASUREMENT	TRAINING	CONSULTING ADVICE
Metrics Collection-Review-Approval Workflow, Dashboards and Scorecards 	Performance-Based Budgeting, Performance Measurement, Visualization, Data Modeling 	From Strategy to Execution 



To learn more, visit [www.neubrain.com](http://www.neubrain.com)





## Leveraging Workforce Data to Control Costs and Improve Productivity

From time-off requests to overtime worked to absenteeism, public agencies are collecting more workforce data than ever before. However, the more data that is collected, the more difficult it becomes to use. In government, manually managed spreadsheets are the norm, and while they may be successful in recording data, they don't provide actionable insights into productivity and costs.

**Kronos® Workforce Analytics™ solution** integrates data from multiple sources to provide up-to-the-minute insight into workforce activity — enabling your jurisdiction to predict labor costs, improve productivity, and, ultimately, better its financial health.

**Control costs.** Workforce Analytics consolidates and displays critical workforce metrics, helping to identify inflated labor expense. This insight allows decision-makers to make real-time adjustments to staff allocation.

**Improve productivity.** Workforce Analytics helps link productive employee hours and the bottom line by identifying unproductive time, such as tardiness or absences.

According to more than 50 percent of state and local government decision-makers, agencies spend the most on personnel.<sup>1</sup> Kronos' workforce management solutions can help by providing actionable data that allows public agencies to more accurately forecast future spending and staffing needs to create a more efficient, cost-effective government. With thousands of installations in organizations of all sizes — including over 2,000 government agencies — we're proving workforce management doesn't have to be so hard.

### Benefits of Workforce Analytics

Kronos' workforce management solutions provide state and local government leaders with the necessary tools for decision-making, including:

- > On-demand labor performance insights
- > Real-time view of employee trends
- > Identification of root causes of poor performance, reduced productivity and behavior issues
- > Ongoing efficiency improvements seen agency wide

1. Governing Financial Literacy survey, 2014



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