



Preparing Your Budget for the Next Recession (Part 3)

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Discussion Topics

- Crisis Background
- Budget Basics / Environment
- Public Engagement
- Budgeting for Results
- Strategies to Manage/Reduce Cost
- Q&A Session (Interactive)

Crisis Background



Crisis Background

- 2007/2008 – Faced with a big economic downturn.
- Per RealtyTrac – Florida had the second most foreclosure filings in the United States for 2009, which resulted in:
 - Negatively affecting property values and tax collections

Crisis Background, Cont.

- 2009/2010 – Florida Legislative Committee on Intergovernmental Relations ask agencies to detail effects of policies & the economy.
- Majority of the Responses:
 - Reduce Workforce
 - Reduce Services/Level of Services
 - Contract Out Services
 - Jointly Fund Services

Crisis Background, Cont.

- COVID-19 – March 2020
 - Our Most Recent Crisis
 - Not just a health crisis (pandemic); Sparked a Financial Crisis: **INFLATION**
 - ❖ Reduction in State Shared Revenue
 - i. Reduction Work Capabilities (Capital Asset Spending)
 - ii. Reduction in Materials
 - ❖ Increase Spending (CARES Act) (ARPA)
 - i. Technology
 - ii. P.P.E. & Other Supplies
 - iii. First Responder O/T – Enterprise Fund O/T
 - iv. Infrastructure

Crisis Background, Cont.

- During times of Economic Downturn Gov't Needs to Focus on:
 - Revenue Enhancements
 - Reduce Expenses
 - Grants
 - Service Prioritization
 - Reorganization
 - Consolidation of Services
 - Long-Range Financial Planning

Crisis Background, Cont.

- Distress Markers: Finance
 - Lack of Contributions to Long-term Liabilities
 - Underfunding Infrastructure
 - Lack of Liquidity
 - Regular Use of Non-Recurring Revenues

Crisis Background, Cont.

- Distress Markers: Debt & Liabilities
 - Unsustainable Debt Service Carrying Charge & Pension/OPEB Cost
 - Overleveraged on Debt
 - Lack of Active Debt Management

Budget Basics/Environment



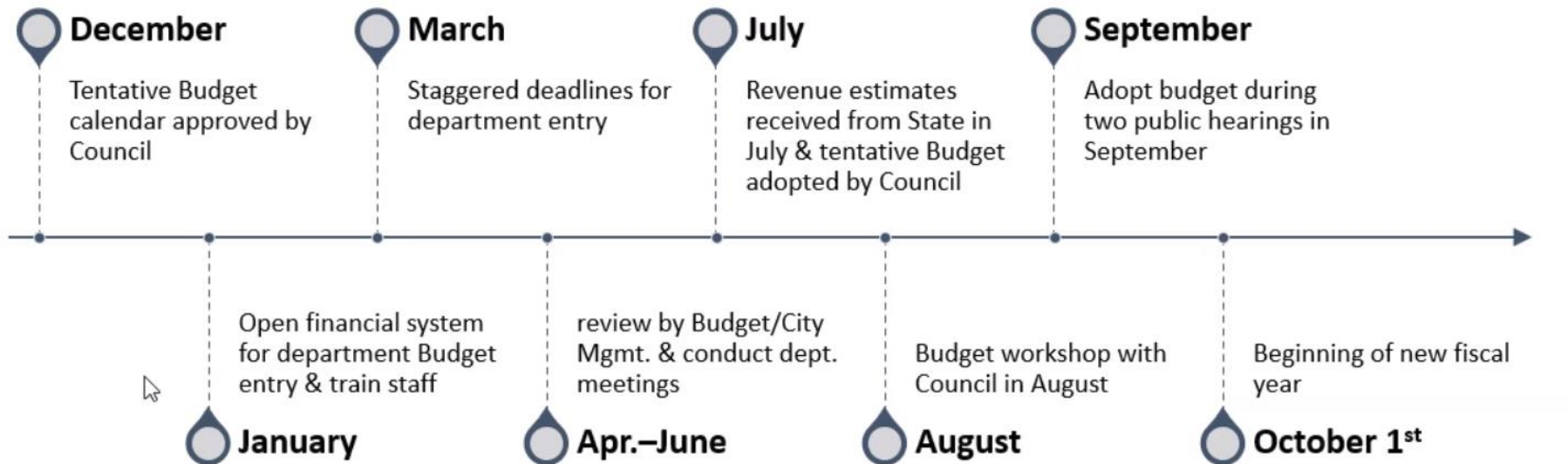
Budget Basics/Environment

- It is important to remind ourselves that we are not entitled to taxpayer dollars; governments are created by the governed and must be accountable and transparent.
- GASB Statement # 1 presumes taxpayers are entitled to know 3 things:
 - 1) What is the Gov't doing and how
 - 2) What the Gov't did and how well
 - 3) What the Gov't plans to do and why

Budget Basics/Environment

- Governments allocate funds through the budget process
- The budget provides the legal authority to expend funds
- Process should involve major stakeholders and reflect their needs/priorities
- Appropriations are typically authorized for a single year

Budget Basics/Environment



Budget Basics/Environment

- What does the Public want?
 - No tax increases
 - Reduce the size of the government
 - Declining support on pension & healthcare
 - Show service value & run at improved efficiencies
- How do we get there?



Public Engagement



Public Engagement

- Why Public Engagement is Important
- Strategic Plan
- Performance Measures
- Goals / Strategic Priorities

Public Engagement: Important

- Why
 - To align public expectations with reality
 - Get feedback
 - Collaborate for results
- Results
 - Enable richer participation (overtime)
 - Generate community empathy and buy-in
 - Reduce emotional reactivity

Public Engagement: Plan

Department Business Plans



Strategic Goals	Performance Measures	Current Year	Target FY 13	Target FY 14	Target FY 15	Action Plans short & long term
Goal 4						Actions
Goal 3						Actions
Goal 2						Actions
Goal 1						Actions

Strategic Goals	Performance Measures	Current Year	Target FY 13	Target FY 14	Target FY 15	Action Plans short & long term
Goal 4						Actions
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Goal 2						Actions
Goal 1						Actions

Strategic Plan

Strategic Goals	Performance Measures	Current Year	Target FY 13	Target FY 14	Target FY 15	Action Plans short & long term
Goal 4						Actions
Goal 3						Actions
Goal 2						Actions
Goal 1						Actions

Public Engagement: Plan



CITY OF OCALA STRATEGIC SCORECARD

A GREAT PLACE TO LIVE, PLAY & PROSPER

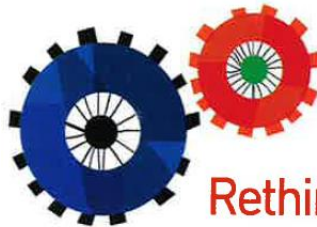
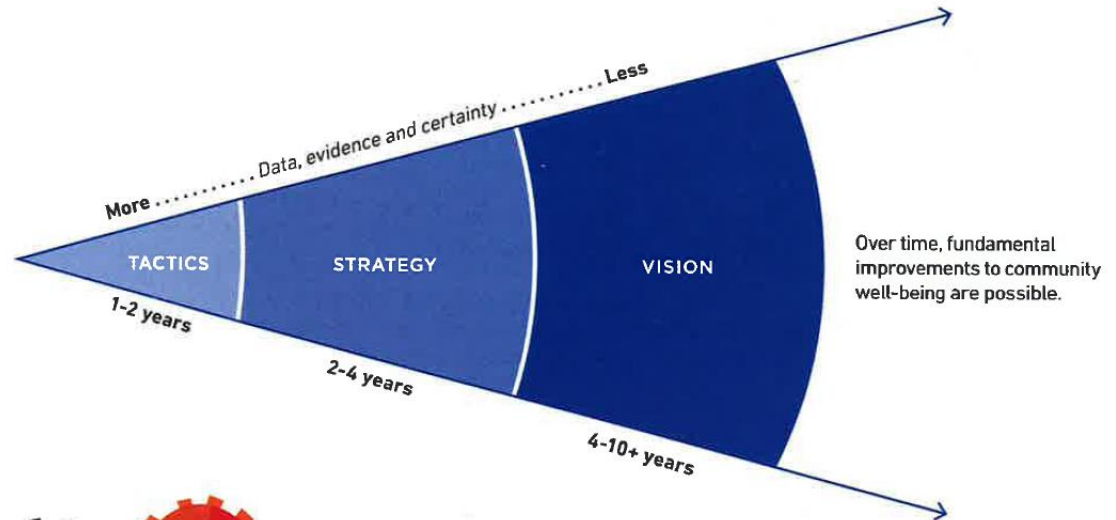
■ On Track
 ■ Near Target
 ■ Needs Improvement
 ■ Measuring

Pillar	Quality of Place			
	Metric	Value	Target	Status
QUALITY OF PLACE	Parks with No Safety Related Crimes	100%	Target: 80%	On Track
	Overall Customer Satisfaction	99%	Target: 90%	On Track
OPERATIONAL EXCELLENCE	CIP Projects Completed Citywide YTD	108	Target: 142	Measuring
	CIP Projects Completed Citywide YTD	108	Target: 142	Measuring
OPERATIONAL EXCELLENCE	Police Priority Response ≤ 3 Minutes	79%	Target: 75%	On Track
	Fire Driving Time < 300 seconds	86%	Target: 75%	On Track
ENGAGED WORKFORCE	Building Inspections < 1 Business Day	99.4%	Target: 99.5%	Near Target
	Building Inspections < 1 Business Day	99.4%	Target: 99.5%	Near Target
ENGAGED WORKFORCE	Number of Open Positions	XX	Target: XX	Measuring
	Number of Open Positions > 60 Days	XX	Target: XX	Measuring
FISCALLY SUSTAINABLE	5 Year Employee Retention	XX%	Target: XX%	Near Target
	5 Year Employee Retention	XX%	Target: XX%	Near Target
FISCALLY SUSTAINABLE	Annual IT Security Training Completed	97%	Target: 100%	Near Target
	City General Fund Expenditure YTD	60.84%	Target: 97%	Near Target
ECONOMIC HUB	Electric Revenue YTD	58%	Target: 100%	Near Target
	Electric Revenue YTD	58%	Target: 100%	Near Target
ECONOMIC HUB	Electric Rate Comparison by Percentile	57%	Target: 71%	Near Target
	Commercial Value to Total Taxable Value	58%	Target: NA	Near Target
ECONOMIC HUB	Economic Impact of Cultural Arts Events	NA	Target: \$900,000	On Track
	Economic Impact of Cultural Arts Events	NA	Target: \$900,000	On Track

Public Engagement: Plan

- Vision:
 - What the communities strives for
- Strategy:
 - Defines direction and priorities to achieve the vision
- Tactics:
 - Put the strategy into action

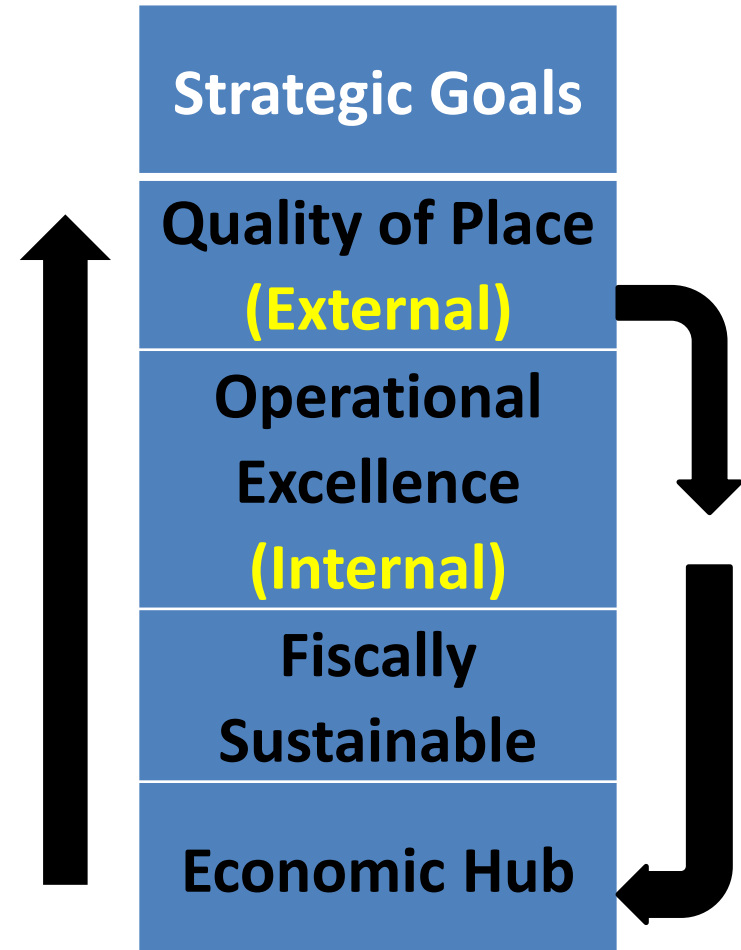
The time cone shows us that tactics, strategy, and vision are all, simultaneously, part of strategic planning but receive different emphasis based on how far you are looking into the future.



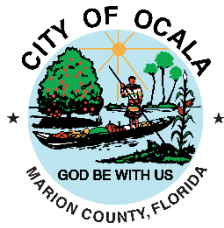
Rethinking the Rules

Public Engagement: Goals/Priorities

- Priority 1 – Economic Hub
- Priority 2 – Fiscally Sustainable
- Priority 3 – Operational Excellence
- Priority 4 – Quality of Place



Budgeting for Results



Budgeting for Results

1. Determine available resources/dollars
2. Prioritize needs/wants
3. Set performance measures
4. Data Driven/Results Oriented
5. Communicate performance results
6. What is feel good / What is required by law?
7. Monitor your Cash Flow

Budgeting for Results, Cont.

- Monitor your Cash Flow
 - Review B to A Variances
 - Review Position Controls (Vacant)
 - Review Purchasing Controls
 - Review Capital Projects (Timely, Within Budget)
 - Review Overall Performances
 - ❖ Cost reductions might negatively impact services. You want to reduce cost but not reduce the level you provide.

Budgeting for Results, Cont.

- Data Driven/Results Oriented

- Timely Information

- ❖ Information must be available so managers can change course (if needed)

- Seasonal Variation

- ❖ Dividing the annual budget to 12 equal months may not always work well for both Revenues and Expenses

- ❑ People are more likely to hold themselves accountable when:

- i. Their actions are transparent
 - ii. Their reputations are on the line

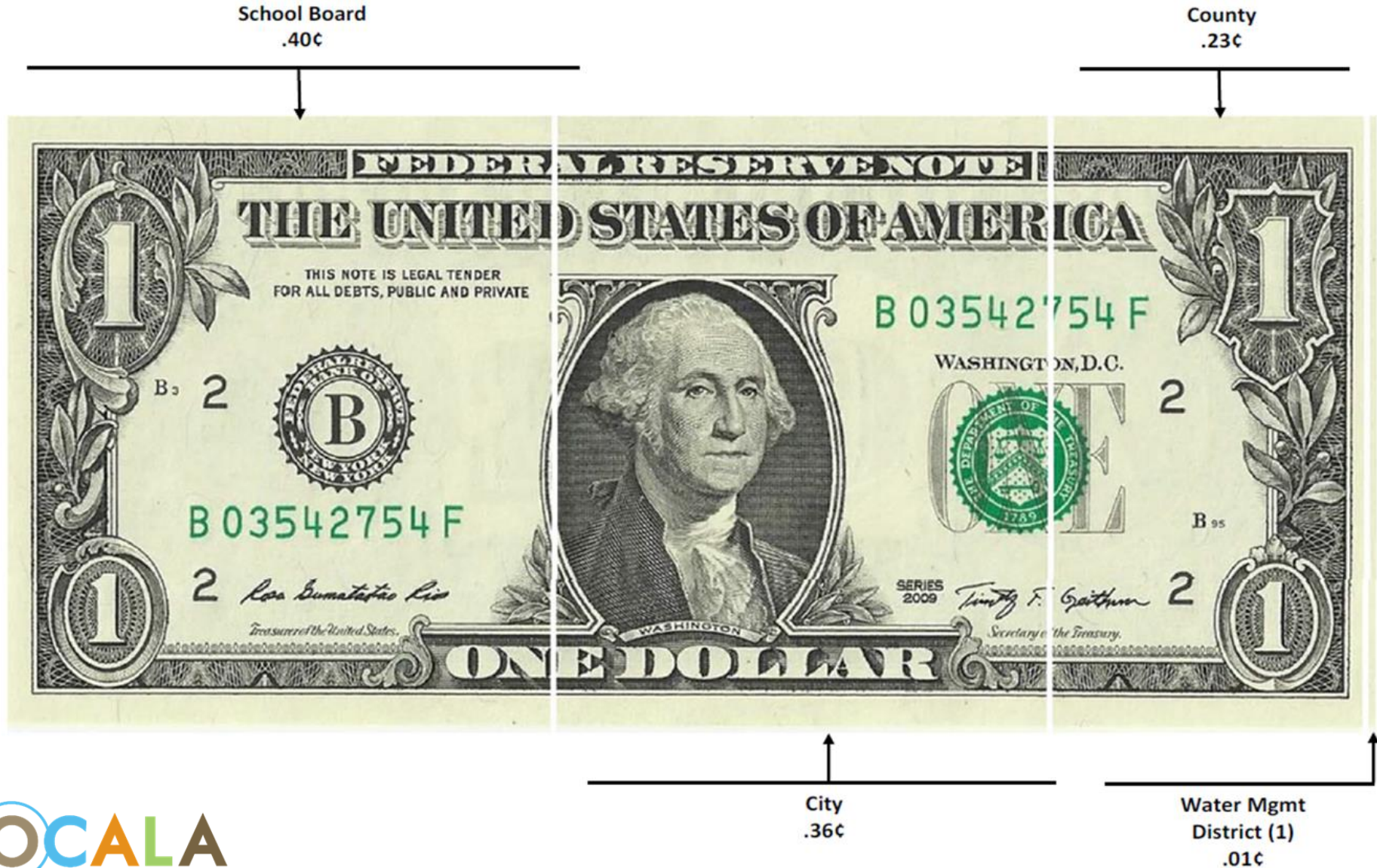
Strategies to Manage/Reduce Cost



Strategies to Manage/Reduce Cost



Strategies to Manage/Reduce Cost



General Fund Dollars

Police
.32¢

Fire
.16¢

Dev. Svs.
.06¢

IT
.04¢

Engineering .02¢
Business/Finance .02¢
Facilities .02¢



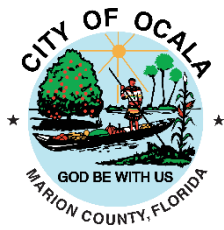
Strategies to Manage/Reduce Cost

- How to Cut Cost
 - Eliminate Paper/Other Supplies/Memberships
 - Cut/Limit Travel
 - Mergers
 - Debt Refinancing
 - Lease/Rent – Not Purchase
 - Use P-Card Rewards/Program
 - Perform Services for Other Gov't/Private Sector
 - Process Improvements

Strategies to Manage/Reduce Cost

- How to Cut, Cont.
 - Purchase Services from other Governments
 - Pension Reform (DB to DC)
 - Early Retirement
 - Personnel Freeze/Reduction In Force (RIF)/Staff Consolidation
 - Healthcare Reform
 - Take-home Vehicles
 - Office Printers
 - Delay/Cancel – Programs/Events
 - VMI = Vendor Managed Inventory

Manage/Reduce Cost – Personnel



Manage/Reduce Cost – Personnel

- Remember the environment?
 - No Tax Increase
 - Reduce Gov't Size
 - Declining Support
- There is also a changing environment in staff/employee way of thinking

Manage/Reduce Cost – Personnel

- What are the consequences to the personnel freezes, RIFs and staff consolidation?
 - Low Morale
 - Decrease in Efficiencies
 - High Turnover
- How do we turn this around?
 - Dynamic (Servant) Leadership

Manage/Reduce Cost – Personnel

- A dynamic leader yearns for...
 - Knowledge & Experience
 - The ability to improve their leadership skill set
- Dynamic Leader = Servant Leader
 - Servant Leadership is the philosophy where the main goal of the leader is to serve their employee/team/staff
- Helps employees develop & perform as high as possible

Manage/Reduce Cost – Personnel

- Cause & Effect
 - Employee Life
 - Supportive co-workers & staff, lowering stress levels, decrease in emotional exhaustion, overall positive effect on family life
 - Job Performance
 - Build upon skills, achieve personal/professional goals, overall positive effect on an individuals well being

Manage/Reduce Cost – Personnel

- Satisfaction or Engagement



Manage/Reduce Cost – Personnel



- Lays the foundation of which ENGAGEMENT can thrive

Manage/Reduce Cost – Personnel

- Satisfaction
 - Defined as fulfillment in one's wishes, expectations, or needs, or the pleasure derived from this.
- Engagement
 - Defined as an emotional state where we feel passionate, energetic and committed towards our work. In turn, we fully invest our best selves; our hearts, spirits, and minds into the work we do.

Manage/Reduce Cost – Personnel

Satisfaction

Transactional

Contractual

Manage/Reduce Cost – Personnel



Manage/Reduce Cost – Personnel

Engagement

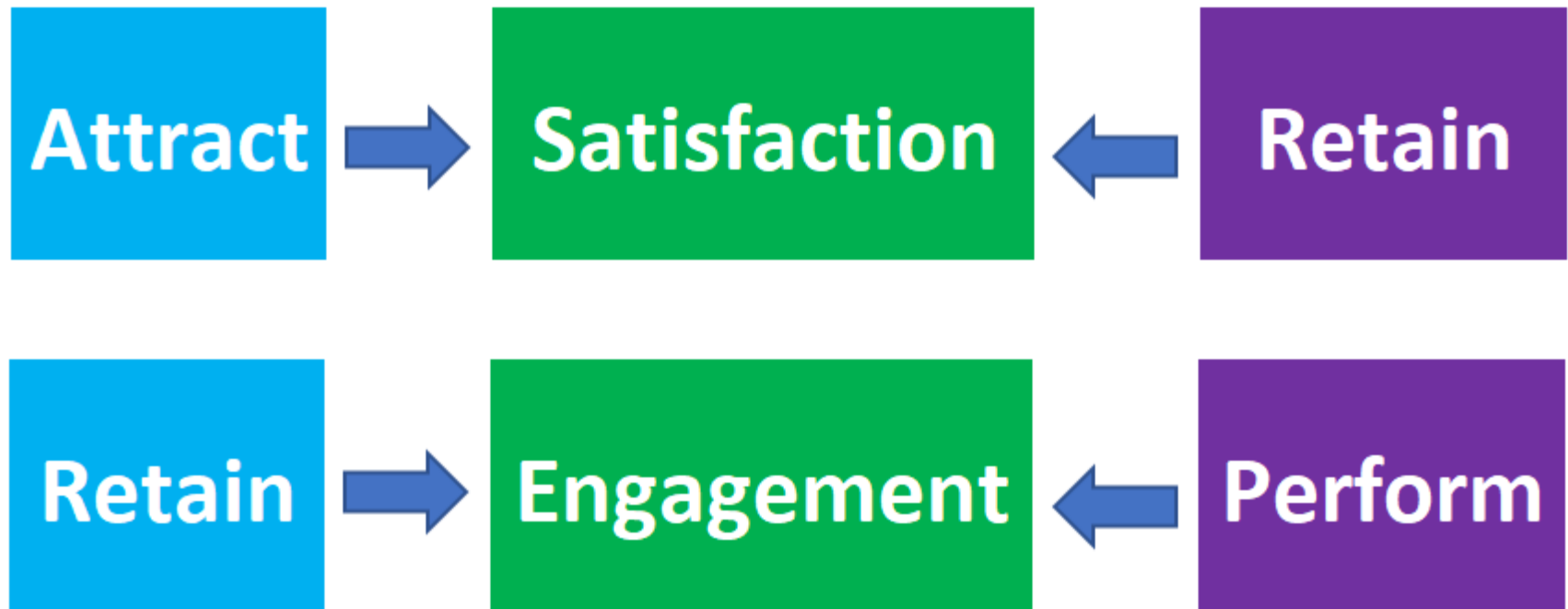
Hearts, Spirits, and Minds

Transformational

Manage/Reduce Cost – Personnel



Manage/Reduce Cost – Personnel



Manage/Reduce Cost – Mergers



Manage/Reduce Cost – Mergers

- Why Mergers and/or Shared Services?
 - Derive economies of scale
 - Help address budget challenges
 - Reduce redundant and obsolete solutions
 - Enable government to cut costs while improving service quality

Manage/Reduce Cost – Mergers, Cont.

- Between 1921 and 1996 there were 132 formal consolidation attempts with only 22 successes
- Notable Mergers:
 - New York City – all five boroughs (1898)
 - Nashville, Tennessee – Davidson County (1963)
 - Toronto, Canada – six municipalities (1998)
 - Kansas City, Kansas – Wyandotte County (1998)
 - Louisville, Kentucky – Jefferson County (2003)
 - Iowa State High Schools 1935 = 953, now 453 (2013)
 - Princeton Township – Princeton Borough, NJ (2013)

Manage/Reduce Cost – Mergers, Cont.

- 2009 – The GFOA published “Alternative Service Delivery: Shared Services” Document
- Recommendation – That Gov’t examine the benefits of alternative service delivery & utilize the 6 below processes for successful implementation:
 - Get Started – Organize Gov’t
 - Feasibility Study
 - Come to an Agreement
 - Implementation
 - Ongoing Monitoring
 - Long-term Review & Reassessment

Manage/Reduce Cost – Mergers, Cont.

- Types of Services Shared:
- Citizen
 - Police / Fire
 - Public Works
 - Utilities
- Back Office
 - Finance/Budget/Procurement
 - HR
 - IT

Manage/Reduce Cost – Mergers, Cont.

- Camden County, New Jersey:
 - Police Dept is now a shared countywide PD
 - Metro Division is paid for by Camden City
 - Savings from shared use of equipment, coordination of resources, elimination of overlapping job responsibilities & purchasing supplies
 - Average Cost Per FTE-Officer went down from \$182,168 to \$99,605

Manage/Reduce Cost – Mergers, Cont.

- Yolo County, California
 - Created – Local Agency Formation Commission (LAFCo)
 - Works with public agencies & districts to identify/develop potential opportunities to share municipal services between agencies to improve:
 - Service Efficiencies
 - Maintain High Quality Services
 - Contain Cost

Manage/Reduce Cost – Mergers, Cont.

	Total Governments (less school districts)	State Population, 2019	Governments Per Capita (per 100,000 residents)
North Dakota	2,485	762,062	326.1
South Dakota	1,766	884,659	199.6
Wyoming	739	578,759	127.7
Kansas	3,486	2,913,000	119.7
Nebraska	2,269	1,934,000	117.3
Kentucky	1,149	4,468,000	25.7
Alaska	179	731,545	24.5
Michigan	2,292	9,987,000	22.9
Alabama	1,058	4,903,000	21.6
Washington	1,605	7,615,000	21.1
Virginia	516	8,536,000	6.0
Arizona	416	7,279,000	5.7
Maryland	344	6,046,000	5.7
Nevada	172	3,080,000	5.6
Hawaii	21	1,416,000	1.5
Average of all states	1,546	6,550,736	23.6

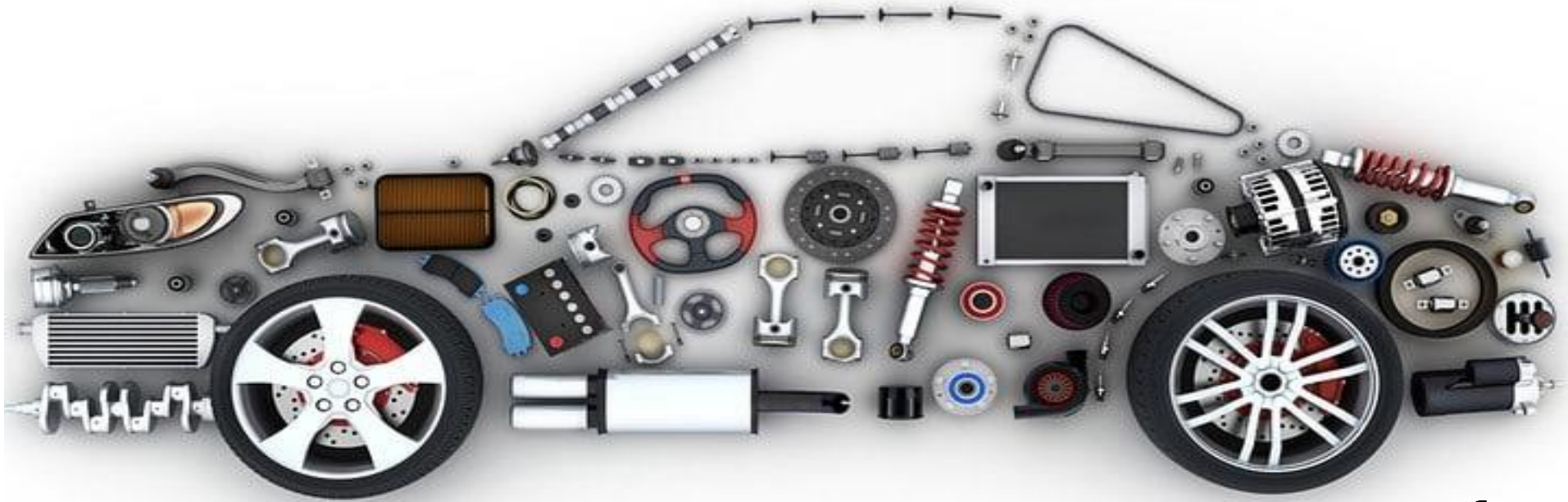
Source: U.S. Census of Governments, 2017 data



Manage/Reduce Cost – VMI



- Parts & Inventory Management



Manage/Reduce Cost – VMI, Cont.

Inventory Turnover formula measures the number of times inventory is consumed in a given time period.

The formula is calculated by dividing the Cost of Goods Sold (**COGS**) by Average Inventory (**AI**).

$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{Goods Sold}}{\text{Average Inventory}}$$

Walmart Inc.					
Inventory Turnover Rate	10.45	=	\$ 512 Billion		Cost of Goods Sold
			\$ 49 Billion		Average Inventory
Avg Days to sell Inventory	34.9	=	365		Annual Days
			10.45		Inventory Turnover Rate

Manage/Reduce Cost – VMI, Cont.

Inventory Turnover formula measures the number of times inventory is consumed in a given time period.
The formula is calculated by dividing the Annual Parts Purchased (APP) by Average Inventory (AI).

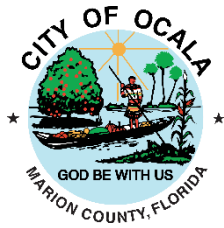
$$\text{INVENTORY TURNOVER RATIO} = \frac{\text{Annual Parts Purchased}}{\text{Average Inventory}}$$

Fleet Parts Operation				
Inventory Turnover Rate	2.82	=	$\frac{\$ 1,100,000.00}{\$ 390,000.00}$	$\frac{\text{Annual Parts Purchased}}{\text{Average Inventory}}$
Avg Days to sell Inventory	129.4	=	$\frac{365}{2.82}$	$\frac{\text{Annual Days}}{\text{Inventory Turnover Rate}}$

Manage/Reduce Cost – VMI, Cont.

- **Eliminates Inventory Capital Cost** - By outsourcing inventory ownership, fleet pays for parts only when they were used.
- **Improves your cash flow** – without the need to store large volumes of inventory, capital expenditure is reduced, and capital can be invested elsewhere. Cash is not sitting on shelves collecting dust.
- **Drastically reduce administrative labor** – time consuming physical inventory counts and variances, redundant orders, and warranty reimbursements; delegated to parts suppliers.
- **No obsolete dead stock** – because inventory levels rely on technician demand, there's less risk of unwanted stock left sitting in your warehouse. Vendors have more knowledge are in a better position to acquire and manage parts inventory.

Manage/Reduce Cost – Purchasing



Manage/Reduce Cost – Purchasing

- Direct Purchase – CIP Projects
- Direct Purchase – Bulk Purchasing / Co-Ops
- Pre-Payment Deals – Fire Truck
- P-Card – Program Advantages
- ACH / E-Payables Programs

Manage/Reduce Cost – Vehicles

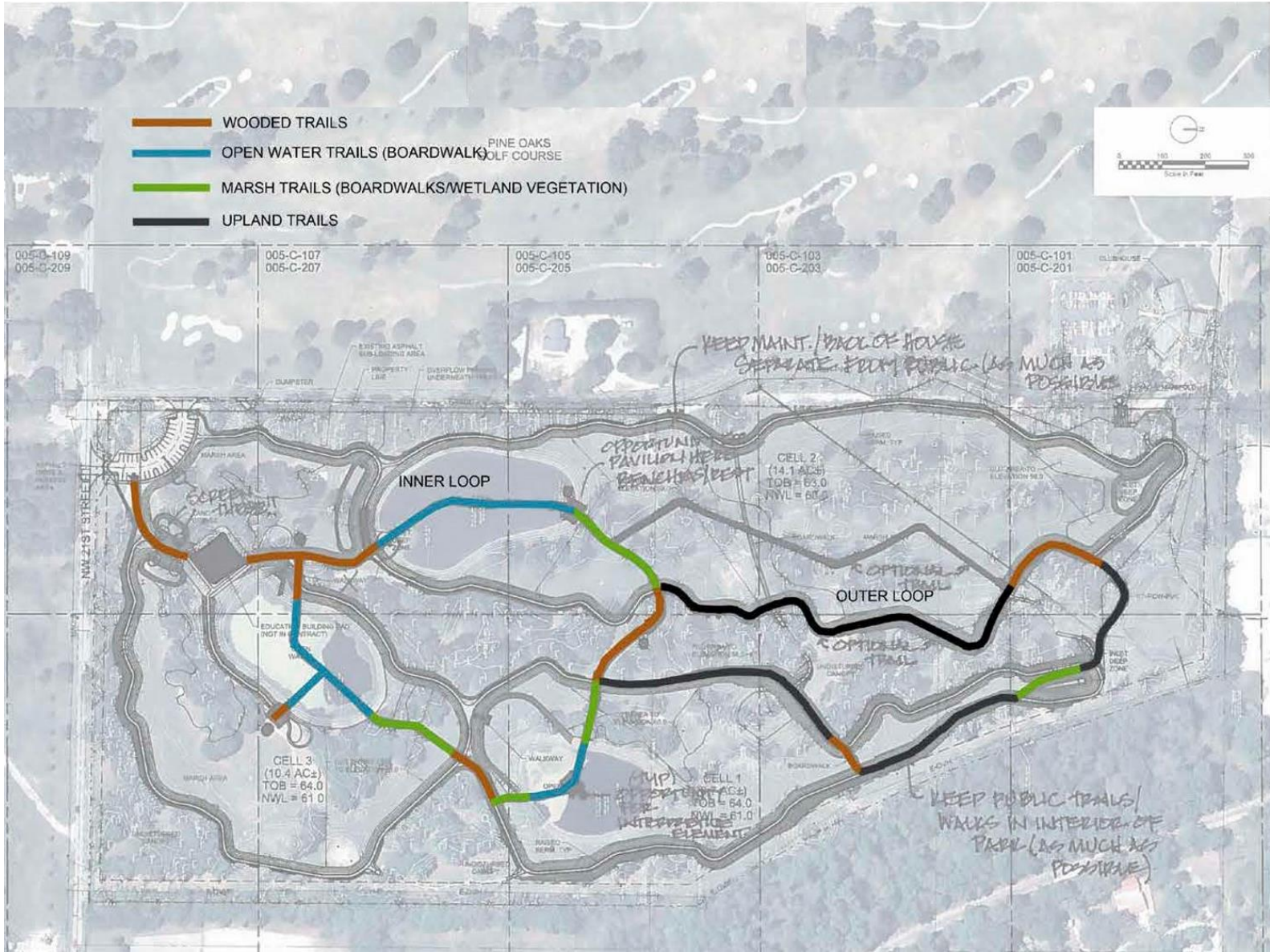
- Take Home Vehicle Program
 - Non-Sworn
 - Sworn
 - Management / Supervisors / Administration
 - Utility Departments
 - Lives within/out City/County Limits
 - Car Allowance

Manage/Reduce Cost – Grants

- Local – State – Federal Grants
 - Stimulus Package – Federal Grant
 - Solar Grant – County Prison
 - FDOT Transportation Grants – County/City
 - FAA/FDOT Grants – Runway/Airport Renovations
 - FDEP/DEP/Water District Grants – Wetland Park
 - FDEP/Water District Grants – Sceptic Tanks
 - FDOT Grant – Osceola Trail
 - Public/Private Partnership – Ft. King
 - EPA – Electric Sanitation Trucks

Manage/Reduce Cost – Grants, Cont.

- FDEP/Water District Grants – Wetland Park
 - \$8,000,000 Capital Project (Grant Funded 56%)
 - \$3,500,000 City Share (44%)
 - \$2,000,000 FDEP – State Share
 - \$2,000,000 St. Johns Water District Share
 - \$300,000 DEP – Fed Share (Education Signage)
 - \$200,000 DEP – Fed Share (Trails)

[illegible]





Manage/Reduce Cost – Grants, Cont.

- FAA/FDOT Grants – Airport Terminal Renovations
 - \$7,200,000 Capital Project (50% Grant Funded)
 - \$3,600,000 FDOT Share (50%)
 - \$3,600,000 City Share (50%)
 - \$2,000,000 Rent Pre-Payment from Tenant
 - \$1,600,000 City Cash Portion







Manage/Reduce Cost – Grants, Cont.

- FAA/FDOT Grants – Airport Runway Renovations
 - \$5,800,000 Capital Project (98% Grant Funded)
 - \$100,000 City Share (2%)
 - \$500,000 FDOT Share (8%)
 - \$5,200,000 FAA Share (90%)

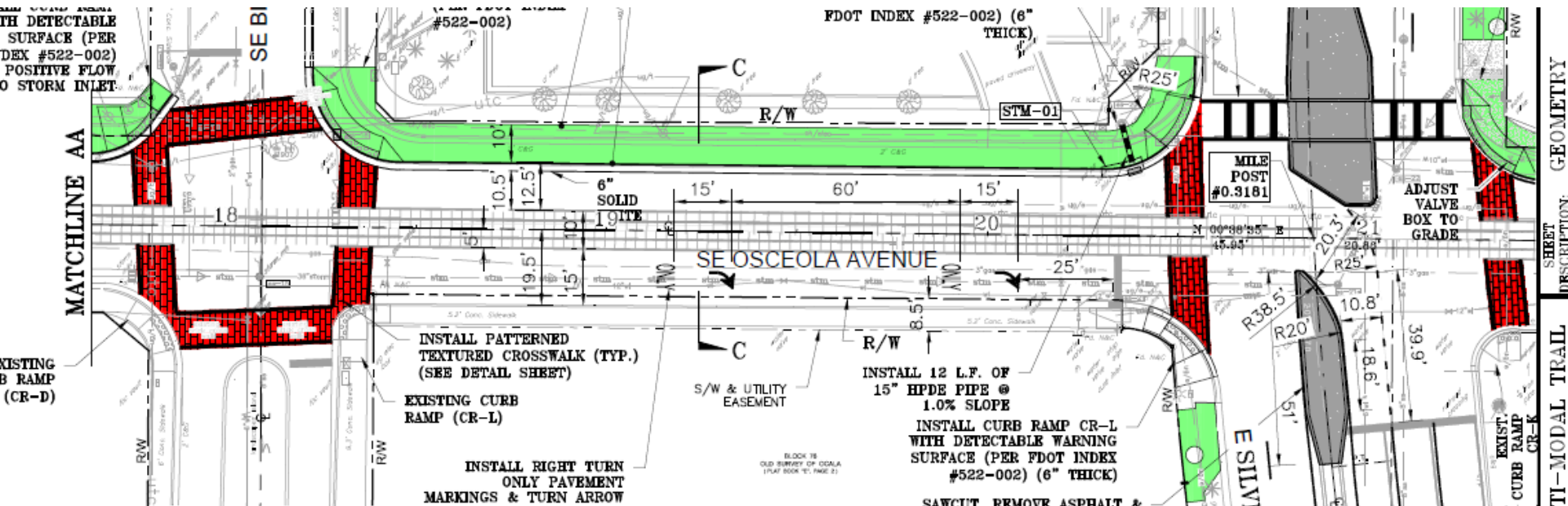
Manage/Reduce Cost – Grants, Cont.



Manage/Reduce Cost – Grants, Cont.

- FDOT Grant – Osceola Trail
 - \$1,089,000 Capital Project
 - \$25,000 City Share (2%)
 - \$1,062,000 FDOT Share (98%)

Manage/Reduce Cost – Grants, Cont.





Drake Arnold
2020







Manage/Reduce Cost – Grants, Cont.

- Electric Sanitation Trucks
 - Cost Double of Diesel Trucks
 - Residential Route = 1,000 cans per day @ \$130 of diesel cost per day
 - Same 1,000 can route @ \$30 per day electric charges
 - No water pumps/oil filters on electric trucks
 - ROI w/ grant 1.5 years – ROI w/o grant 5 years





Powered by Electricity.
Zero Emission.

OCALA

For more information
on how Ocala is going
green visit ocala.org

BYD



Public Works

06-2

According to the GFOA

- Establish A Long-Term Vision
- Build Trust & Open Communication
- Use Collective Decision-Making
- Create Clear Rules
- Treat Everyone Fairly

4 STEPS TO SUCCESS

FOR BUDGETING DURING A CRISIS



STEP 1



UNDERSTAND THE NEXT SIX TO 18 MONTHS

Forecast how revenues will be affected by the pandemic-induced economic downturn.

Develop a range of scenarios (i.e., no recession forecast; recession forecast) tied to assumptions (i.e., magnitude and duration of losses, by source by fiscal year; pre-recession growth rates by revenue source) about the downturn's severity.

Determine how soon General Fund resources might be depleted.

STEP 2a



REDUCE SPENDING

Reduce capital asset investments.

Defer some purchases.

Improve capital project management.

Reexamine maintenance and replacement standards

STEP 2b



FIND NEW RESOURCES

Increase interfund charges where there is a case for it.

Reassess internal service fund and cost allocation formulas.

Redesignate general fund reserves.

Consider monetizing assets.

Implement new or revised, fees where appropriate.

Consider short-term borrowing.

STEP 2c



REDUCE MATERIALS OR CONTRACTOR COSTS

Close facilities where social distancing isn't possible.

Eliminate lower-value or no-use programs.

Review contractor costs and re-negotiate, if possible.

STEP 3



COMMUNICATE AND ENGAGE

Use video conferencing, Facebook Live, and other technology to keep your elected officials, employees, and community members informed and to receive feedback.

Technology allows new voices to participate.

Use social media and your community's website to provide updates.

STEP 4



SUPPORT DECISION MAKING

Understanding impacts to revenues and possible scenarios is key to good decision-making.

Solutions supported by governing body form the basis action.

Interactive Q&A

- Disclaimer – All interactive Q&A's are true/real examples, most are within the State of Florida.



Questions?



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