



Preparation for the Next Financial Crisis
October 17, 2012

The Power of Fiscal Policies

Protecting Your Long-Term Fiscal Health

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

The Power of Policies



- Good times come and go.
- But your values shouldn't.
 - And that's what fiscal policies are all about.

Plans and Policies

**"Plans are nothing.
Planning is everything."**

Dwight D. Eisenhower

- Plans are good.
 - General Plans (and Elements)
 - Facility Master Plans (Pavement, Parks, Bicycles, Water, Sewer)
 - Long-Term Forecasts
 - Multi-Year Budgets
 - ❖ Operating and CIP
- Policies are better.

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Fiscal Health



- ... is a lot like your personal health — it's not what you live for but it's hard to enjoy your life without it.
- And like personal health, fiscal health is rarely luck.

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Fiscal Policies



- The best way to ensure your long-term fiscal health.
 - Local economy important
 - ❖ And no one is immune from economic downturns.
 - But not the most critical feature . . . financial management counts!
 - ❖ Just Think: Orange County
- Important in both good times and bad

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When do fiscal challenges arise?

- Roots of fiscal adversity for most governments take hold in the good times, by making commitments that are not sustainable
- Rarely in the bad times, when most agencies act on the “First Rule of Holes”
 - When you find yourself in one, stop digging.

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Both Preventative and Curative

- Clearly articulated policies help prevent problems from arising in the good times.
- And help respond to bad times when they do occur.

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Take on momentum of their own

- What's the most frequent answer to the question: "Why do we do it this way?"
- And provide continuity as elected officials and staff change.
- Most powerful when it put in place before the need for them arrives.

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An Example of the Power of Policies

Fund Balance Survey: 1996

City	Policy?	If Yes, Description	Actual
Arroyo Grande	No		1%
Atascadero	No		1%
Grover Beach	Yes	20% of operating	20%
Morro Bay	Yes	27.5% of operating	15%
Paso Robles	Yes	15% of operating	13%
Pismo Beach	No		-14%
San Luis Obispo	Yes	20% of operating	21%

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Plans Versus Policies

- Plans change over time as actual results replace assumptions (like, as soon as the laser jet ink is dry).
- But policies:
 - Are your “north star” guiding preparation of plans.
 - Help making tough decisions easier by telling you what your values are before they are put placed under stress by adverse circumstances.
 - You might actually do something else, but they are a powerful starting point:
 - ❖ *But for “this,” I would do . . . what?*

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So, does this really work?

- Some quick examples: policy vs actual

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Situation Ten Years Later

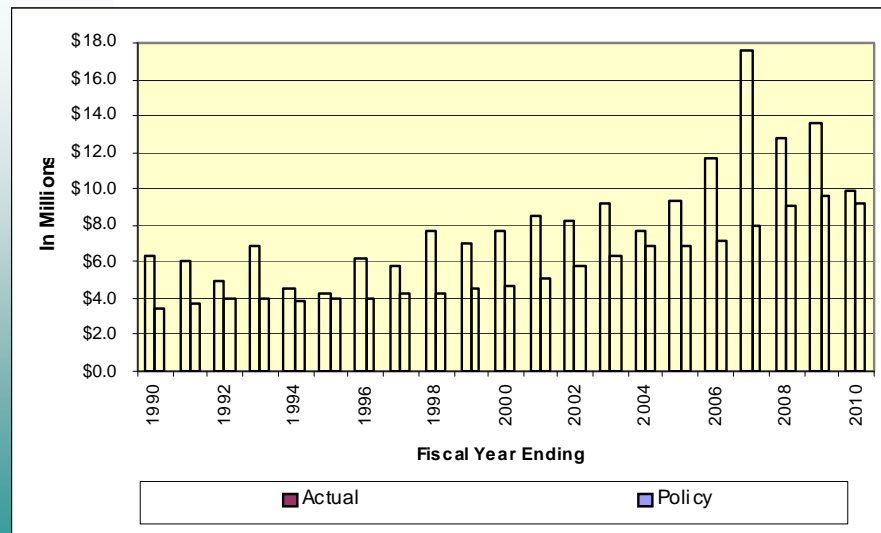
Based on Adopted 2006-07 Budget

City	Policy?	If Yes, Description	Actual
Arroyo Grande	Yes	20% of Operating	20%
Atascadero *	Yes	Narrative Assessment	44%
Grover Beach	Yes	20% of Operating	23%
Morro Bay	Yes	27.5% of Operating	14%
Paso Robles	Yes	15% of Operating	39%
Pismo Beach	Yes	15% of Operating	15%
San Luis Obispo	Yes	20% of Operating	21%

* Actual Shown as Percent of Operating Budget

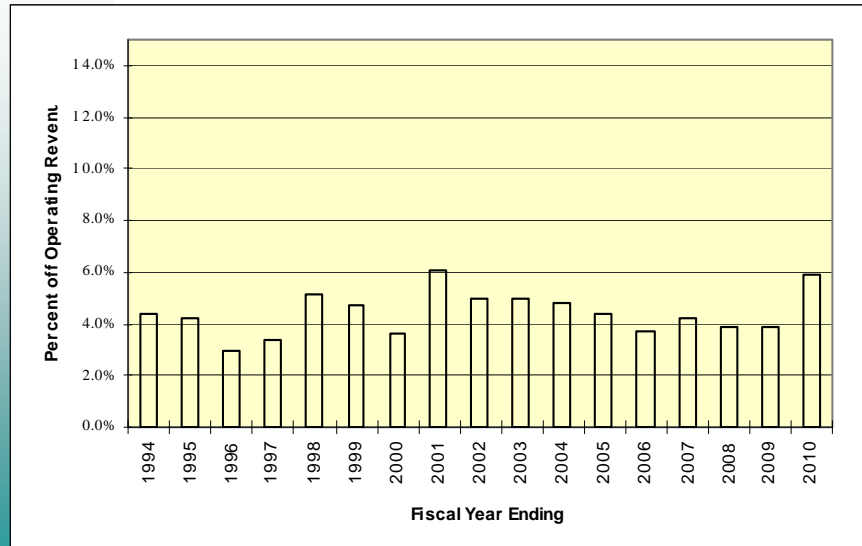
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Unreserved, Undesignated General Fund Balance



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Ratio of General Fund Debt Service to Revenues



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Summary



- Policies Are Powerful
 - Fundamental foundation for long-term fiscal health: underlying basis for case-by-case decision-making.
 - Articulates your values before they are under stress.
 - Provides context for what you would “but for” – should be roadmaps, not straight jackets.
 - Essential component of long-term financial planning.
 - Key factor in staying out of fiscal trouble and then responding when you are.

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