

2022 Municipal Finance Institute

Wednesday, December 7



LEAGUE OF
CALIFORNIA
CITIES

Strengthening California Cities
through Advocacy and Education

Creative Budget Management Strategies

Moderator:

Roberta Raper, Department Director, Cal Cities Fiscal Officers Department,
Finance Director, West Sacramento

Submit questions via email during
the session to our panelists at

QuestionsCalCities@gmail.com

Crafting a Budget that Stakeholders Can Buy Into

Tips and tricks from 30 years in the trenches



Mark Twain once said that an ‘expert’ is
“someone who shows up from out of town.”

An accountant by trade, I spent 10 years in corporate, non-profit and startup finance offices before moving into city finance in 2001.

For 12 years I was deeply involved in the local government budgeting process as a leader in two California cities.

After taking an early retirement, I spent 10 years helping start a software company to serve local government.

- Designed operational reporting software
- wrote the plan for the Company's budget products
- worked directly with finance teams around the country



Giving back: McCannConsulting.org



“Mike McCann is everything you want in a consultant, and someone you rarely find – available, helpful, and thoughtful, he provides solutions tailored to meet our unique needs.

His expertise in local government finance and budgeting is evident and unmatched. He has been a tremendous guide in our adoption of the Open Gov platform.”

Chris Richardson, Chairman – Elbert County,
Colorado, Board of County Commissioners
October 23, 2022

It takes professionals *and* elected leaders

Accounting (Professional)

- Revenue forecasts
- Personnel costs
- Sunk costs
 - Program change “tails”
 - CIP outyears
 - asset maintenance
 - debt service

Community (Political)

- Service priorities
- New programs
- New projects
- Sunsetting programs
- Reserve levels

Recognize the work that should be done by professionals versus decisions that need to be made by community's elected leaders

Transparency builds trust

- Open communications and strong feedback loops between departments and central budget management foster cooperation.
- Budgeting is not one-and-done at any meaningful level
- Both staff and constituents need respect and support
- Adopting and publishing a budget is just the starting point
- Publishing results achieved under that budget brings it to life

Budgeting is not done in a vacuum. It is both supported and constrained by outside factors

Supporting

- Strategic plans
- Long-range financial forecasts
- Capital Budgets
- Current financial results
- Available reserves

- Overall economy
- Labor negotiations
- Outside mandates
- National politics
- Prior commitments

Constraining

Forecasting staff costs

Staff costs are 75-80% of operating budgets

Percentage errors are four times as painful as errors in non-staff costs.

When we worked with a county to help improve their forecasting, they found that \$2M in staff cost “padding” had crept into the budget through a history of overly conservative estimates.

The details matter. Deep understanding of labor costs is critical to bargaining-unit negotiations, out-sourcing, buy vs build, and cost recovery decisions.

You don't always win: The man behind the curtain

Sometimes we learn the most important lessons from our fails.

I worked with large County over many months on their budgeting process. I was shown the single most complex Excel worksheet I had ever seen.

I had to see it in person in their physical office because it was tightly linked into their on-prem mainframe system.

They had ONE GUY who understood how it worked

As a software vendor we, could not untangle this puzzle and eventually had to back away from serving them.

Budgeting must be relearned every year

- Staff turnover
- Budget team turnover
- New technology
- Changes in:
 - Community priorities
 - Strategic plans
 - Reserve levels
 - Legal requirements
 - Political drivers



Training is the great equalizer

- The annual budgeting exercise triggers emotional reactions ranging from discomfort to terror for many government managers.
- The key actors already have important full-time day jobs.
- Clear instructions, good tools, and close support reduce the angst around the whole process.
- Logical processes, realistic deadlines, great communications help.
- “Iterate” might be my favorite budgeting word.

A case in point

- I worked with a very large urban Public School District for several years, both on-site and remote, hands-on, supporting their complex budget.
- The budget process involved hundreds of people, including every school principal, many teachers, service departments and Human Resources.
- The differences between those we reached with training and those we did not, were vast and consequential.

Fear - antagonism - hidden people and dollars – elaborate defensive arguments – appeals outside the process . . .

Involving the right people

I advocate creating expanded budget teams with leaders from departments, programs, projects, grant-funded activities, even outside stakeholders & boards.

This is designed to produce two positive outcomes:

1. More people doing direct hands-on work in budget request narratives, metrics and dollars
2. Wider confidence in the budget process, in having voices heard, and fairness in the final budget results

Lessons from the Great Recession

The ability for key leaders to come together around the City Manager's table, make important compromises, and find consensus is a critical budget tool when times are truly tough.

The gruff old Public Works Director had probably occupied his office longer than I had been in the work force.

He ran his domain with expertise and daunting authority. I will always remember him rearing back at senior leadership budget meeting in the second year of the Great Recession and telling us that his shop had given enough, and it was time to “cut some guns and hoses” from the budget.

With that ice-breaker the horse-trading got real, and a path forward was found.

A clear vision, long-range perspective, and wide scope are essential

- Only incremental change is possible - resources are always limited
- Most revenues and expenses are already locked in
- Concepts of fairness, transparency, and equity are critical
- Meaningful narratives help build understanding
- Meeting community priorities and vision is the point of the exercise

“A community is a social group whose members have something in common, such as a shared government, geographic location, culture, or heritage. Community can also refer to the physical location where such a group lives” - Dictionary.com

Mike's Key Takeaways

- Budgets are always estimates, the hard work of smart dedicated people
- The budget process should embrace and empower openness, creative thinking, risk-taking, and compromise
- There is never enough money - there are always more worthwhile projects waiting for funding
- The budget process should advance the government's goals while growing the team's abilities and cohesiveness.

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