



PUBLIC SECTOR SERVICES

NAVIGATING TURBULENT TIMES

APPROACHES AND STRATEGIES FOR GOVERNMENTS
IN FINANCIAL DISTRESS

Impending recessions
Looming pension debt
Declining populations
Spiking maintenance costs
Falling property tax bases

SOUND FAMILIAR?

In spite of the prolonged economic recovery, many municipalities have experienced financial difficulty due to these challenges. Although unemployment has fallen, these financial pressures have created a sense of urgency for many state and local governments.

To navigate turbulent times and prepare for an uncertain future, state and local governments need proactive approaches and strategies that address critical fiscal management issues.

OUR APPROACH

Our team of seasoned former government leaders and consulting professionals takes an “operator mentality” to help your government organization take realistic action and achieve tangible results. Having been in the seat of the executive, we understand what it’s like to steer a government organization.

Whether your municipality is currently navigating through financial distress or proactively preparing for rougher waters, it can be difficult to know where to start on the path to financial improvement. We provide a roadmap that begins with **understanding your current situation** and ends with **taking tangible steps forward to reach higher financial ground**. Our recommendations are measurable and action-oriented so your organization can make real, structural change in your operations or finances.

COMMON ISSUES FOR GOVERNMENTS IN FINANCIAL DISTRESS

Fluctuations in property values, collections, and retail sales tax base

- Difficulty in **differentiating the “nice-to-haves” from the “must-haves”**
- **Unfunded pension funds and other postemployment benefits**
- Inaccurate forecasting
- **Declines in population**
- Changes in fund balances and governmental revenues and expenses
- **Infrastructure maintenance costs**
- Lack of financial policies
- Lack of awareness of community needs and expectations for service solvency
- Borrowing to cover cash flow needs
- **Unsustainable expenditure commitments**

Our roadmap includes the following steps to help improve the short- and long-term financial outlook:

- Assess the financial solvency and ability to pay long-term debt
- Evaluate reserve spending and borrowing trends
- Identify opportunities for revenue enhancement and cost containment to improve cash solvency
- Analyze historical, current and projected fund revenues and expenditures
- Validate assumptions and projections to develop a balanced budget
- Evaluate existing fiscal indicators (e.g., population trends, changes in property value, late payments to vendors, current/prior year budget deficits, etc.)
- Examine best practices in municipal governments
- Benchmark general fund program against peers



A&M CAN HELP CHART YOUR COURSE TO FISCAL STRENGTH

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.™

5 STEPS FINANCE OFFICERS CAN TAKE TO SHORE UP THEIR FISCAL POSITION

1 DEVELOP MONITORING SYSTEMS TO TRACK FINANCIAL HEALTH



Performing financial condition analysis can help predict potential issues and prevent recurring operating deficits and financial insolvency. Municipalities should “red flag” consecutive years of negative economic indicators.

Key items for analysis include:

- Environmental, financial, and organizational **indicators of distress**
- Ability to **generate sufficient revenue** within the current fiscal period to cover expenditures
- Historical, current, and projected financial and **economic conditions**

KEY INDICATORS TO WATCH

- Population trends
- Property values
- Crime rates
- Poverty rates



2 PROVIDE TIMELY REPORTING OF FINANCIAL RESULTS



Timely financial and operational reporting is critical to overall financial health – it’s hard for leaders to know where to focus without insight into the current state. Many distressed cities find themselves 12 or even 24 months delinquent in completing their Comprehensive Annual Financial Reports.

Finance officers should focus on producing the following reports in a timely manner:

- Monthly or quarterly budget-to-actual statements
- Year-to-date look on financial performance
- Inventory of employee positions and status
- Status of capital projects
- Changes in economic factors.

3 UNDERSTAND CASH AND FINANCIAL POSITION



Cash position is a leading indicator of fiscal health, but ongoing analysis of the organization’s financial cash position is often overlooked. **Here’s two ways finance officers can better understand cash position:**

- Establish processes that inform officials **when revenues and expenses occur** to help identify variances in revenues and expenses and overall cash position
- Integrate operational cash flow forecasts into a government’s financial policies by each major fund group with input from City department heads about the **timing of planned expenditures**

4 PROVIDE FOR ACCOUNTABILITY IN FINANCIAL MANAGEMENT



Without approved safeguards in place, there is no basis for sustainable financial stewardship. State and local governments should approve the following safeguards and transparency measures:

- Financial planning policies to maintain a **long-term view** and hold to the fundamental principle of a balanced budget
- Revenue policies to **avoid potential service disruptions** caused by revenue shortfalls
- Expenditure policies to promote fiscal stability by ensuring that a jurisdiction is prudent in planning for its expenditures
- For transparency and accountability, finance officers need to **monitor and report the outcomes** of these approved policies and make adjustments as needed.

5 BE WILLING TO SPEND MONEY TO SAVE MONEY



State and local governments need to identify initiatives that will cut costs and improve efficiency in the long run, and external resources can often help quickly create value. The services of industry professionals can help validate the organization’s financial position and condition.

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ABOUT ALVAREZ & MARSAL

Alvarez & Marsal Public Sector Services provides strategic financial management and operational performance improvement services to federal, state, and local governments and non non-profit organizations. A&M has successfully helped guide municipalities both in financial distress and in relative stability through the process to improve their fiscal and operational performance.

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