



City of Killeen Council Workshop

Financial Recovery Plan

July 25, 2016

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Financial Recovery Plan

- Financial recovery is the process of recognizing the presence of financial distress, employing containment strategies, and reversing the pattern of financial decline.
- Government Finance Officers Association (GFOA) has developed a financial recovery tool to assist municipalities in the recovery process.

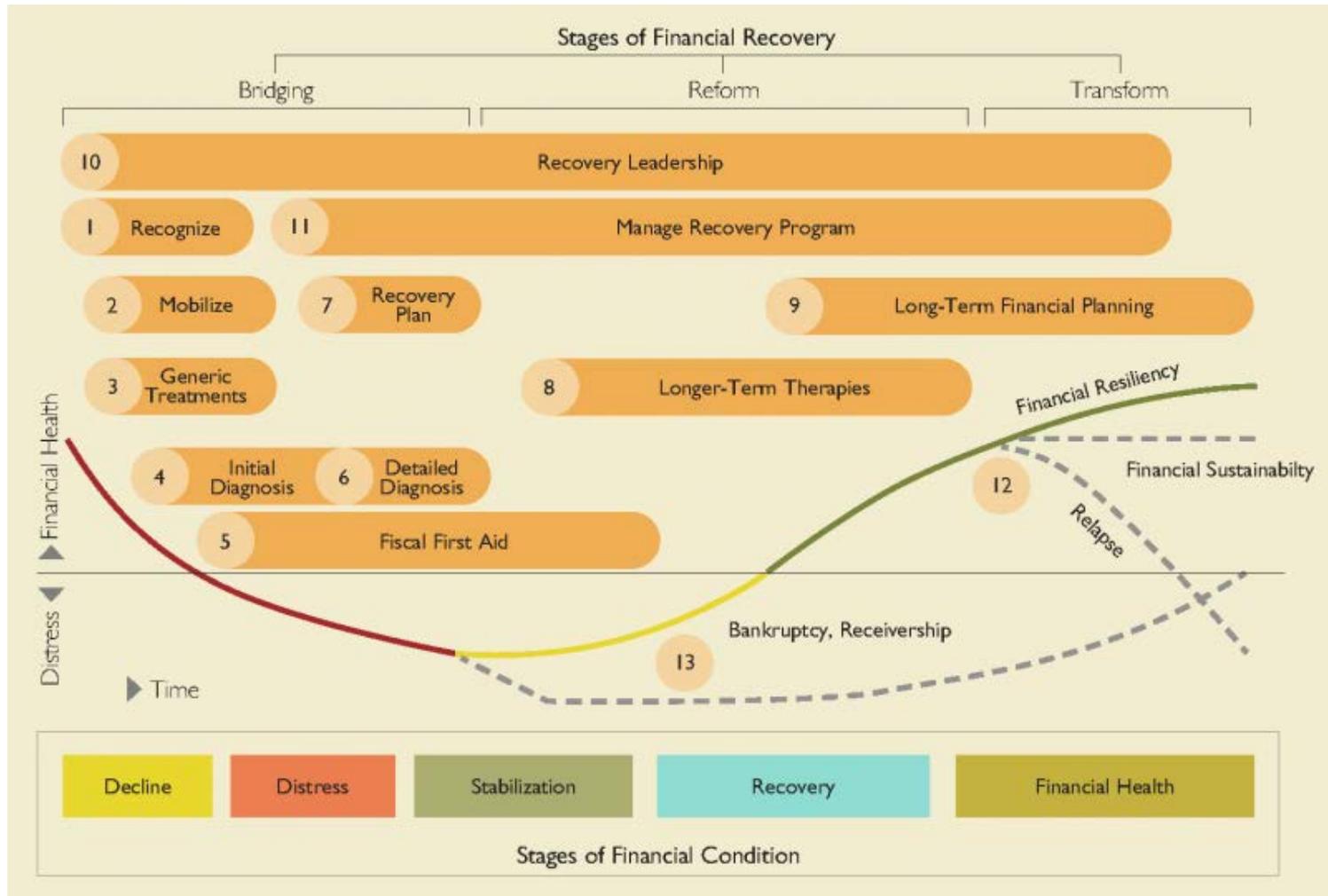


Overview of the Process

- Financial recovery process is comprised of three stages:
 - Bridging
 - Reform
 - Transform
- Three stages are further broken down into a 12-step process.



Financial Recovery Process





Three Stages of Recovery

1. Bridging – Stabilize the immediate situation and create breathing room for further reform.
2. Reform – Carry out the short-term recovery plan and develop and implement long-term treatments for financial distress.
3. Transform – Institutionalize long-term financial planning.



12-Step Process

1. Recognition – recognize the problem and begin developing countering strategies
2. Mobilize – build a core recovery team
3. Generic Treatments – characteristics include short time-to-benefit, not complex, and reversible
4. Initial Diagnosis – identify the most immediate causes of financial distress



12-Step Process Continued

5. Fiscal First Aid – stabilizes the situation
 - a. **Primary Treatments (Pg. 5): first line of defense**
 - Program inventory
 - Enhance purchasing practices
 - Review recurring expenditures
 - b. Treatments to Use with Caution: may worsen financial condition if not used properly
 - Defer and/or cancel capital projects.
 - Use fund balance to soften the landing.
 - Use short-term debt to pay for vehicles.



12-Step Process Continued

- c. Treatments to Use with Extreme Caution: help the near term and may work against financial sustainability
 - Large or sustained across-the-board cuts
 - Levy a broad tax increase.
- d. Treatments Not Advised: can be problematic
 - Underfund accrued liabilities like pensions.
 - Shift operational costs into capital budgets.



12-Step Process Continued

6. Detailed Diagnosis – explores the root causes of financial distress (Internal vs. External; Economic/Technical vs. Political)
7. Recovery Plan – sets forth the strategies that will be used to achieve financial recovery
8. Long-Term Treatments – addresses the fundamental causes of financial distress
9. Long-Term Financial Planning – as recovery strategies begin to have a positive impact, the City should follow-up by developing a regular, institutionalized long-term financial planning process



12-Step Process Continued

10. Recovery Leadership – spans across all three stages
11. Manage the Recovery Process – leadership is required in a financial recovery in order to make the major changes in organization performance necessary to pull out of the decline, and keep the recovery on track
12. Outcome of Recovery – three possible outcomes
 - a. **Financial resiliency** – financial stability is recovered, and continued efforts are made to implement strategies, budget techniques, and early warning systems to ensure future financial shocks can be withstood.
 - b. **Financial stability** – structural balance has been achieved, and the necessary institutional practices have not been adopted to withstand future shocks.
 - c. **Relapse** – may occur as the result of a new economic downturn, new decision makers that did not experience the recovery process, or the use of unsustainable recovery strategies that deferred the financial reckoning day.



Next Steps

- Build the Financial Recovery Team.
 - In addition to the leader, most recovery teams will need people in the following roles:
 - Finance
 - Operations
 - Human Resources
 - Communications (stakeholder engagement)
- Establish the role that City Council will play.

Questions?



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