Long-term financial planning is a vital discipline for creating and maintaining financial sustainability. However, it requires a shift away from the short-term perspective associated with annual budgeting and towards a five- to 10-year perspective not normally associated with government financial management. Accordingly, long-term planning presents several implementation challenges. The purpose of this article is to identify the key challenges of long-term financial planning, especially for those just starting the process, and to describe how local governments experienced in long-term planning have addressed those challenges.

**CHALLENGE #1 — MOBILIZING FOR PLANNING**

It can be difficult to mobilize an organization for planning, especially if there is not a pressing financial crisis motivating planning. Thus, the leaders of the planning process must make stakeholders aware of the need for planning and create a desire to participate.

**Solution #1. Describe the better future available through planning.** The leaders of the planning process, such as the city manager and CFO, can help participants envision a better future through financial planning. The interviewees for this article take a number of approaches to this. Some create a general vision around protecting the community’s assets and reserves and taking action now to prevent future crises. This vision is captured by the adage of “running government like a business” and tends to resonate especially well with governing board members who have a business background. Others accentuate the ability of long-term planning to enhance service delivery. This vision focuses more on the services and capital improvements that the financial plan can help provide for the community and less on the numbers themselves. This vision speaks to board members who see service delivery as their primary purpose.

Once past the initial planning cycle, the leader of the planning process can point to previous successes resulting from planning in order to inspire the next planning cycle. For instance, Minneapolis used the planning process to develop and commit to a long-term strategy for managing its employee pension obligations, while Palo Alto used financial planning to improve its bond rating to AAA, making Palo Alto one of very few California communities to achieve this rating. Scottsdale also benefited with improved bond ratings — as one of the few communities with AAA rating from all three credit rating agencies.

**Solution #2. Describe the consequences of not planning.** The converse of the better future available through planning is the deterioration in financial position that comes from inadequate planning. When using this approach, the leaders of the planning process must be careful not to be perceived as fear-mongering.

Minneapolis officials successfully used this tactic by simply pointing to an instance where insufficient financial planning put the city in an unsustainable position. In 1996, the city purchased some police cars outside of the normal purchase/replacement schedule, and increased spending on internal services, such as computer replacements. The expectation that the spending would lead to longer-term efficiencies and savings did not materialize and the city was left with a combined deficit of $60 million. The repayment is scheduled to continue for many years. The council

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**Experienced Planners**

In preparing this article, the author interviewed four experienced organizations for their insight:

- City of Minneapolis, Minnesota — 5 years experience
- City of Palo Alto, California — 10 years experience
- City of San Clemente, California — 15 years experience
- City of Scottsdale, Arizona — 15 years experience

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**Strategic Planning and Financial Planning**

Long-term strategic planning is a valuable source of support for financial planning. In addition to providing information on service-level preference, which can be used in financial planning, it helps elected officials practice long-term and strategic thinking, which pays off in financial planning.
is now more inclined to consider the long-range implications of its decisions and is more reluctant to approve spending that results in immediate gratification but may prove unsustainable.

**CHALLENGE #2 — PRESENTING FORECASTS**

Presenting revenue and expenditure forecasts can be challenging because they can distract the governing board with questions of forecast precision and assumption validity instead of how to develop strategies to achieve and maintain financial sustainability. This derails the planning process as the board becomes focused on scrutinizing the forecast and not on recognizing potential future financial imbalances and how to solve them.

**Solution #1. Frame long-term financial planning as a means for creating the future, not forecasting it.** Management guru Peter Drucker said that the best way to predict the future is to create it. Hence, long-term planning should be presented to elected officials as a way to create and then maintain financial balance, with forecasting as a tool for realizing this objective. Key to this perspective on planning is making a strong linkage between service planning and financial planning. Service planning brings a more tangible feel to financial planning because elected officials can focus on what financial strategies can do to help the community realize better services, rather than on simply how revenues might compare to expenditures over a multi-year period.
Integrating service planning into financial planning also can help elected officials think more creatively about how to maintain financial stability. For example, in Minneapolis, focusing on the service results that matter to citizens prompted the city to consider merging library services with the county, something that would previously not have been discussed. Sharing service responsibility with the county would allow the city to eliminate duplicate expenditures, while preserving services.

**Solution #2. Emphasize the speculative nature of long-term forecasting.** The planning process leaders should emphasize to the board that the forecast is not intended to be a tool of scientific precision. Rather, it is intended to reveal longer-term trends and imbalances that might not be apparent over a shorter time horizon. Of course, stopping here could leave the financial planning process open to criticism that the forecasters’ methods or skills simply are not up to par. For this reason, the City of Palo Alto’s administrative services director emphasizes that the purpose of planning is not only to identify future imbalances, but also to apply course corrections before the imbalances manifest.

All of the organizations interviewed for this article found that regularly updating the forecasts throughout the year is an essential complement to verbal reminders of the inherent imprecision of long-term forecasting. For instance, Scottsdale makes monthly updates and has found that the updates provide a clear demonstration to the city council that forecasts must always be adapted to the changing environment and, importantly, that city staff is committed to staying on top of those changes.

**Solution #3. Enhance forecast credibility.** Even if the board accepts that forecasts are inherently imprecise, it will still want the confidence that the forecasts are as accurate as possible within those limitations. Following are three techniques that can both increase the credibility of the forecast and hone accuracy.

The first is to supplement the forecasting effort with credible third parties. The City of Scottsdale, for instance, uses the Arizona Blue Chip Forecast, a monthly newsletter reporting forecasts from leading analysts within the Arizona business community. The city’s finance director is sure to always mention the Blue Chip Forecast to demonstrate that staff is using outside expertise as background for the city’s forecasts. Palo Alto uses consultants in a couple of different capacities. First, the city engages consultants to assist directly with property and sales tax projections. Second, an outside economist has validated the city’s forecast methods.

The second technique is to involve a cross-section of internal staff in the forecasts. For example, operating departments can provide insight into the behavior of revenues that they have an active role in collecting or generating. An internal auditor, if available, can verify that the numbers and methods used to forecast are reliable.

While outside resources can help, there is a danger of over-relying on outsiders, especially where the information provided by outsiders is not customized to the government. Forecast credibility could be harmed if the assumptions underlying the forecast are questioned and staff either cannot explain them or if they do not adequately account for the specific issues and environment the government is facing.
Engaging external and internal resources in the forecast and publicizing their involvement in the forecast improves the forecast’s “expert legitimacy”—or the board and public’s perception that the forecast is based on the best available expertise that could be brought to bear on the problem.

The third and final technique is to focus on short-term forecast accuracy as a means to build the forecast’s overall credibility, thereby lessening the skepticism that is naturally associated with long-term forecasting. Accuracy in short-term forecasts can be achieved with a reasonable amount of effort and the results of those efforts can be judged quickly and easily. Palo Alto builds its short-term forecasts into its entire planning cycle, including mid-year adjustments and year-end reporting in order to clearly demonstrate the staff’s understanding of the city’s revenue and expenditure flows.

**Solution #4. Consider use of preliminary forecasts carefully.** Preliminary forecasts are presented at the beginning of the planning process and can be useful for setting the context for the remainder of the financial planning effort by demonstrating potential future imbalances and creating a sense of urgency for planning. However, the assumptions behind the forecast will likely be looser and accuracy less precise than the more refined forecasts that occur later. As a result, there is a risk that preliminary forecasts could exacerbate the tendency of the board or public to focus on forecast accuracy and not the message of financial balance. The most basic strategy to mitigate this risk is to set audience expectations by emphasizing the preliminary nature of the forecasts. It is also possible to present a range of potential future forecast values (e.g., high, medium, low), which can show that the future holds different possibilities. This approach may inadvertently shift the conversation towards the assumptions that were used to arrive at the ranges, however.

Another strategy to mitigate the risk associated with preliminary forecasts is to time the forecast’s construction to coincide with events that significantly impact on financial position. For instance, Minneapolis waits until the state legislature adjourns because legislative action often has important financial implications for the city. This resolves at least one major variable that impacts the city’s forecasting.

Finally, preliminary forecasts can be presented to a narrower audience. Minneapolis limits its presentation to just the mayor and the mayor uses the information to lead the city’s planning process. The fact that the preliminary forecast is not presented in front of the public also helps depoliticize it.

**Solution #5. Get early feedback on assumptions used to drive forecasts.** Because the future is uncertain, forecasts must be built upon a number of assumptions. The perceived reasonableness of these assumptions can be a source of forecast controversy, especially when the assumptions concern a politically charged issue. Therefore, it can be helpful to get early feedback before constructing the forecasts. Operating departments are a primary source of information for assumptions. For instance, a community development department can help prepare reasonable assumptions about future land use trends that will drive revenues. Departmental involvement is especially critical for expenditure forecasts since departments know best what their future service provision plans are. Failure to obtain departments’ input on this critical point could result in budget requests that are quite divergent from the forecasts, thereby invalidating the long-term projections almost immediately.

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**Decentralize to Make Managers Manage**

In Creating Public Value, Mark Moore points out that a central element of implementing any new strategy or innovation in the public sector is to establish internal accountability in the organization. One tactic particularly germane to implementing long-term financial planning is to decentralize the budget process and then to hold managers accountable for managing their own financial resources. This not only frees up finance department resources to concentrate on long-term planning but also raises departmental managers’ consciousness of financial management, making them more effective partners for long-range financial planning. Minneapolis’s elimination of departmental budget analysts and Scottsdale’s practice of controlling the budget at the departmental level illustrate the application of Moore’s idea.
A solid strategic planning/service priority-setting process identifies the board’s and community’s service level preferences, which allows planners to solidify their assumptions around the major programs and projects the government will concentrate on over a multi-year period.

Historical data can be used to research and build assumptions. It is human nature to assume that the past is a reasonable indicator of the future, so assumptions based on historical data will be less likely to raise controversy. However, the past is not always the best indicator of the future, so planners should depart from historical experience if they feel a change in the organization’s environment or circumstances warrants it.

Finally, updating forecasts frequently based on changes in the assumptions can reduce the controversy associated with the assumptions. If the audience for the forecast knows that forecasts will change as assumptions change, there will be less pressure to perfect the assumptions (an impossible task) at the outset.

**CHALLENGE #3 — ALIGNING RESOURCES**

Long-term financial planning is a comprehensive effort and obtaining the resources to do a thorough job can be daunting. Structuring a capable team and making available sufficient time to work on financial planning are possible, however.

**Solution #1. Leverage other departments as participants.** The most fundamental strategy is to engage the efforts of other departments outside of finance. Departments, though, may be reluctant to commit their resources to a process that they see as belonging to the CFO or other financial executive. Hence, it is important that the CEO (e.g., city manager) serve as a leader of the planning process and that the board demonstrate clear sponsorship of financial planning. The CFO also must demonstrate to departments that there is a problem to be solved through financial planning and that departments have an important role to play in developing the solution.

The cities interviewed for this article involve operating departments in a variety of ways. Scottsdale involves the departments in both revenue and expenditure forecasting. Recognizing the departments’ valuable contributions to projecting revenues and working with them as a team to develop a joint forecast has helped departments become fully engaged in the process. Departments have even greater responsibility for projecting expenditures. In fact, departments are responsible for explaining any variances between the forecast for their department and actual experience. Scottsdale includes the departments’ contributions directly in the public plan document, thereby instilling “pride of authorship” in the department and ensuring they put their best effort forward.

San Clemente includes departments on “critical issue” teams that analyze and recommend solutions for the issues of greatest consequence to the city’s financial future. Because financial planning is such a valued activity at San Clemente, participation on the issue teams is seen as a means of professional development and potential advancement. In fact, the

**How Long to Institutionalize?**

It was the common experience of the interviewees that long-term financial planning takes multiple cycles to fully institutionalize. The precise duration and rate at which institutionalization occurs among staff and elected officials varies with local conditions.
leader of San Clemente’s process, the assistant city manager/treasurer, has received requests a year in advance from personnel in other departments to participate on the issue teams for the next year’s planning cycle. In this way, success propagates itself as a successful planning process inspires others to get on board with a process that is open to new volunteers.

Departments also will become engaged in the financial planning process if they perceive that planning will result in tangible outcomes of importance to their operations. In Minneapolis, departments are required to prepare multi-year business plans, which are then used to inform the long-term financial plan of expected future service levels and expenditure commitments. The financial plan then forms the basis for the city’s annual budget. If a department does not prepare its business plan at an adequate level of detail then its interests will not be accounted for in the financial plan, and it will find itself at a significant disadvantage during the budget process.

**Solution #2. Eliminate low value-added finance department work.** Even with the efforts of other departments, long-term financial planning will require additional time from the finance department. Rather than simply adding long-term financial planning on top of the other work already performed, however, the finance department should examine its work with an eye towards eliminating tasks that produce the least value. The research for this article did not reveal any universal answers as to which tasks are most ripe to be pared back, but it did produce a number of examples of how governments have streamlined their financial management:

- Minneapolis eliminated the finance department budget analyst positions that were assigned to each department. This position spent a great deal of time checking department accounting work and acting as a “cudgel” to cajole departments into following proper procedures. Now Minneapolis relies on departmental managers and accounting staff and holds them accountable through the budget and planning process.
- Scottsdale does not perform centralized (finance department) analysis of budget-to-actual variations at the line-item level. Instead, department managers are held accountable at the department level and are free to manage their resources within that constraint.
- San Clemente has found that financial planning creates up-front agreement on major funding priorities and what level of expenditures the city can afford. This has reduced the contention and debate normally associated with the annual budget process and, therefore, the time required for budgeting.
- Minneapolis has refocused its budget process on major transitional items expected to have important impacts on that year’s finances and away from detailed scrutiny of routine expenditures that are needed each year to continue established services. The city found that focus on routine expenditures was distracting the city from consideration of the bigger and longer-term picture, while not adding much value to the budget deliberations.
- Minneapolis eliminated, curtailed, or simplified reports that were not actively being used to manage, like full-time equivalent (i.e., headcount) reports and department expenditure reporting.
- Scottsdale reduced the level of reliance for budget year-end carry-over estimates. The city used to put a great deal of effort into estimating this number accurately, but found that the time and effort of the analysis did not add appreciable value to the overall financial plan effort. Now it simply uses a conservative estimate for projecting near-term budget carry-over availability.
- It was all of the interviewees’ experience that if planning is successful, the resource issue will begin to resolve itself because high-quality planning becomes an organizational priority and resources naturally align to complete it.
CHALLENGE #4 — INSTITUTIONALIZING PLANNING

Ideally, financial planning will become a standard feature of the organization’s financial management and governance. Institutionalizing planning is difficult because it requires a number of diverse solutions.

Solution #1. Shift the organization from a reactive to a proactive mindset. A proactive mindset presents fertile ground for continued planning. A proactive mindset can be nurtured by promoting examples of how planning has revealed tomorrow’s problems, allowing solutions to be enacted today and by citing instances of where inadequate planning created difficult problems that required difficult solutions. Regular forecasting can foster a proactive mindset by constantly highlighting the need to consider a longer-term horizon and acknowledging future potential imbalances.

Solution #2. Adapt to elected officials’ needs. A constant dilemma for financial planning is elected officials’ predilection for short-term issues. This tendency will never be eliminated and nor should it be, as constituents value responsiveness in their elected officials. However, it also has meant that some elected officials view planning as an impediment. In response, the interviewees have employed a number of means for adapting their planning practices to best suit the needs of their elected officials and thereby gain their support for ongoing planning.

- Palo Alto focuses the bulk of its analytical attention in the time period of the plan that corresponds to the elected officials’ terms in office. Even though Palo Alto does a 10-year forecast, the first four to five years are the real target and set the stage for what services and capital investments the city can afford.

- San Clemente has focused on making the plan a tool for elected officials to communicate with the public. San Clemente works closely with the media to garner positive public reaction to the plan and works to keep the planning document succinct and manageable so that elected officials can easily use it to develop talking points with constituents.

- Minneapolis has integrated financial planning with other planning processes that are of primary interest to elected officials. Integration with strategic planning is important for injecting substantial issues into financial planning — those in which elected officials will take an interest. Integration with the budget promotes a smoother budgeting process and, ultimately, a balanced budget — an outcome that elected officials immediately recognize as worthwhile.

- Scottsdale includes capital planning as a leading feature of its long-term planning because capital projects require cash and debt planning, lead to long-term operational cost considerations, and success of many community projects are of great interest to elected officials.

- Scottsdale also emphasizes on effective data visualization in its plan. Most elected officials have minimal interest in pouring through reams of numerical data, so effective visualization devices like charts and graphs are used to help communicate financial information and make the plan more meaningful to them. Although not from Scottsdale, Exhibit 1 provides an example of how data can be made meaningful to elected officials. This graphic shows how current and projected fund balance compares to the goals set through the board’s adopted financial policies. In addition to being simple and straightforward, it incorporates the board’s own financial policies as a central communication device, making it that much more meaningful to elected officials.

- Minneapolis had designed a “release valve” that allows elected officials to respond to short-term constituent concerns without creating unsustainable long-range commitments. Flowing from its policy of matching one-time revenues with a one-time expense, the city has adopted a practice wherein one-time revenues can be used for special projects with a short-term lifespan. For example, one-time revenues were used to create micro-grants to community groups for short-term projects to improve the community’s natural environment. This resulted in great public approbation without creating a permanent expense.

- All the interviewees have found that regular planning provides great opportunity to include timely issues within the
long-term plan. A less frequent planning process may prove less able to address timely issues, thereby generating greater resistance from elected officials.

Solution #3. Keep staff engaged in long-term, big-picture thinking. Staff also must commit to ongoing long-term financial planning. Two of the most important commitments are ongoing capital planning and maintenance planning because they have such weighty implications for future financial position and because these plans require significant effort on the part of departments to maintain. Making the financial plan real is the key to gaining the ongoing commitment of the departments. If they do not believe that the strategies and actions called for by the plan will be implemented, they will be hesitant to commit to it. For instance, if the board approves funding for a regular equipment maintenance and replacement program, then departments will much more willingly produce a quality replacement and maintenance plan. The finance department can further reinforce this dynamic by positioning itself as an advocate for departments when they demonstrate a real need for equipment maintenance and replacement that will contribute to long-term financial stability.

CONCLUSION

Despite its promise, long-term financial planning is not without its challenges. These challenges can arise when trying to commence planning, when trying to institutionalize a successful planning process, or anywhere in between. This article has presented the experiences of four organizations with substantial experience in long-term planning in the hopes that their collective wisdom will help others enjoy the same successes.