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Best practices for schools, cities

Local governments and school districts in Michigan could use corporate-style discipline as they tackle some of the same fiscal challenges confronting businesses.

Fluctuating revenues, climbing benefit costs and aging infrastructure strain public and private sector budgets alike. Reductions in state aid and property tax payments create added shortfalls.

To cope, progressive leaders adapt best practices from their corporate counterparts, often with help from financial experts who turn around distressed companies.

Initial steps in either sector involve a close look at current systems and processes. Advisers with backgrounds in accounting, management, finance and other disciplines identify issues such as rising deficits, data gaps, unrealistic assumptions and inefficient practices.

From our work advising city managers, council members and school officials, we see how the overall economy affects communities — particularly as the housing market slump reduced assessments. Local governments and schools also are squeezed by revenue-sharing cuts and personnel costs for health care, pensions and wages. Labor agreements based on pre-recession revenue levels can become unaffordable, espe-



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cially if retiree benefits are generous.

The cumulative impact hits hard. Many Michigan cities can't afford street repairs, new equipment and other upgrades, which pushes that spending down the road at a possibly inflated cost. Schools can't install electronic technology or afford full bus service. Public entities lacking adequate reserves sometimes can't repay bond debts on schedule, risking credit rating downgrades.

Service cuts and layoffs often are a first-resort response to deficits, particularly if decision-makers don't foresee severe imbalances. But proven strategies can avoid or minimize those unpopular actions, as well as more dire consequences from chronic crises.

Six Michigan communities have been placed in state receivership since 2000. Emergency managers were appointed in a rescue that supersedes local control and strips officials of financial authority and sometimes their salaries — as is the

case now in Pontiac. These local governments may have staved off emergency manager control and stabilized themselves by enlisting experienced restructuring consultants. Department of Treasury officials are less likely to intervene when municipalities and school districts demonstrate serious intent to address problems by bringing in business professionals. This simple action can buy time and credibility.

Before suggesting ways to maintain or regain financial steadiness, consultants look at accounting procedures, purchasing systems, lease agreements and surplus assets, then investigate the validity of assumptions about retirement patterns, retiree longevity, investment returns and other critical projections. This check also can involve "what if" analysis to forecast the impact of declining property tax revenues or rising benefit costs.

The idea is to spot and avoid potential minefields. As a temporary part of the financial management team, objective outsiders are able to dig into sensitive areas that may have been tiptoed around — such as wage and benefit adjustments, purchasing procedures, privatization, consolidation of departments and shared services with nearby cities. Managers learn how to reduce expens-

es and risks.

An overriding goal is to apply business standards to what is, actually, a municipal or educational business. One strategic change is moving from single-year budgets to three-year rolling budget cycles, as Oakland County has done for years. Twenty state governments use two-year budgets.

Today, for example, a small Southeast Michigan city is gaining a clearer, longer-term look at its financial status by preparing a three-year budget proposal with consultants' guidance. The two-month process involves revenue and expenditure projections based on detailed analysis of regional economic forecasts, maturity of work force, asset replacement needs, labor contracts and other key indicators. Factors change, so a one-year budget can't simply be extended.

The residents of Michigan's municipalities and the students of its school districts would enjoy long-term benefits if leaders would incorporate more business best practices into the management of these governing bodies.

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