



The Ohio Society of CPAs

Ohio Budget Advisory Task Force Issue Paper

Strategic Planning

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Any successful business engages in the difficult but necessary process of strategic planning. It provides a roadmap for the future, taking into consideration internal and external environmental demands and contingencies that could either impede or accelerate the path to success. It is an attempt to predict the unpredictable, putting everything on the table without regard for political or personal preferences.

This process is also instrumental in the economic viability of governmental entities. In fact, with taxpayer dollars at stake, it is imperative that Ohio develop a widely adopted, long-range planning tool to avoid future budget problems and maintain greater financial stability between fiscal years that includes budgetary, economic, demographic, and debt analysis to provide a framework for financial projections for the upcoming fiscal years. Just as important as the process of strategic planning is the effective implementation, monitoring, and evaluation of the planning results. This analysis will ultimately provide data that will be used in future planning and implementation efforts.

The goal should be to make all governmental entities in Ohio efficient, predictable, and economically viable providers of basic and essential services to the citizens of this state. This can only happen through a comprehensive – and public - strategic planning process which partners government leaders with objective financial experts who can disregard sacred cows, rise above politics and make fiscally prudent, forward thinking recommendations.

The process is not without challenges. There will be an inevitable lack of consistency and uniformity among agencies, which makes benchmarking difficult. Ohio's two-year budget cycle and legislative term, not to mention House and Senate term limits, make statewide planning beyond the biennium a challenge. The leadership commitment to put aside politics and do the best thing for the state can be a difficult choice.

However, it is our recommendation that for Ohio to return to not only the stable but the thriving state it once was, executive and legislative branches embrace mandatory long-term strategic planning covering not only the current biennium but the subsequent two cycles as well. Further, the process and results, including analysis of how closely prior predictions met actual numbers, should be made publically available on an annual basis via a presentation to the Governor's administration and Ohio General Assembly, and Web availability to the public.

Currently Ohio's Office of Budget and Management engages in a six year expenditure planning process and receives feedback from external economists on the state and federal financial outlook. While that is a great starting point, that process is not codified in statute in terms of length or content, mandated to include external experts or required to be presented to the Ohio General Assembly or the public.

Such a model is not without precedent as Florida has been operating under this paradigm for four years. Since 2006, Florida has engaged in a mandated long-term strategic planning process: *The State of Florida Long-Range Financial Outlook*. This constitutionally mandated program was put into place by Florida voters, who recognized the need to set long-term fiscal policies for all of the state's departments and agencies. *Outlook* achieves this goal by looking at the amount of revenue that the state of Florida is bringing in and from what sources, as well as a breakdown of state government expenditures. Those figures are then extrapolated over three two-year state budget cycles, factoring in significant events such as economic volatility, natural disasters, and possible legislative, regulatory, or constitutional changes made by state and/or federal government or voters. The result is one annual, comprehensive public document that serves as a basis for a state budget process that attempts to avoid the maximization or minimization of "gotcha" moments related to political gain.

Further, while *Outlook* examines all state agencies, particular focus is given to departments responsible for significant expenditures from one fiscal year to the next. The analysis focuses on the specific services provided and whether they are delivered in as efficient manner as possible.

While such an approach is not a substitute for the traditional budget process, it does allow government leaders to examine the causes of funding pressures beyond the sources of revenue that fund them.

Virginia also has a mandatory strategic planning process, although the focus is less on the financial forecasts associated with the state's budget. Their process looks at how well each state funded program or service is reaching prescribed outputs. Each year the Council on Virginia's Future, a partnership between public and private sector citizens of Virginia, publishes an annual accountability score card assessing the condition of the Commonwealth. This summary is based largely on data culled from *Virginia Performs*, a signature initiative of the Council that measures performance leadership, and accountability systems within state

government. Mandated by the Code of Virginia, this annual analysis reviews how effective state agency outcomes align with larger statewide goals and publishes those results for distribution to the General Assembly, Governor and public. ¹ Pairing this initiative with Florida's annual mandatory financial long-term planning could result in leaner, more efficient government processes and outcomes that effectively fulfill the vision, goals and objectives of the state.

Kentucky also has a mandatory strategic planning process for departments led by an executive branch cabinet member and select non-cabinet organizational entities. Coinciding with their two-year state budget, each entity must submit a four-year strategic plan along with an annual strategic plan progress report that details the progress the agency has made toward achieving its strategic goals and objectives. ²

Whether it is mandated constitutionally or through legislation, the state budget process should not be riddled with uncertainty and surprises. Further, every state budgeted program should be subject to annual review to ascertain if it is achieving the desired results.

Recommendation

- **Ohio must adopt a publically available, long-term fiscal and results-based strategic plan, updated annually by a standing body made up of public and private financial sector experts.**

Increase the size of the Rainy Day Fund

States use rainy day funds or budget stabilization funds as a cushion against financial volatility. Given historic drops in tax revenue and continued budget gaps that could exceed \$290 billion, states have tapped into their rainy day funds in fiscal year 2009 and 2010 at levels not seen since the 2001 recession.

In fact, rainy day fund savings peaked at the start of the 2001 recession, totaling 6% of aggregate state expenditures at the end of fiscal year 2000, before declining to 1.4% of expenditures in 2002. After 2002, fund balances continued to climb until the end they reached 5.1% of expenditures at the end of fiscal year 2008.³

¹ Virginia Performs, <http://vaperforms.virginia.gov/index.php>

² Commonwealth of Kentucky, Strategic Planning

³ Tax Policy Center, Tax Policy Briefing Book, State and Local Tax Policy: "What are rainy day funds and how do they work?"

The decision that most states made, including Ohio, to go to these funds has renewed the debate about the amount states should be setting aside in these reserves and how to determine “when it is raining”. The balance of what had been in Ohio’s rainy day fund - \$1 billion - was used to balance the state’s 2010-11 state operating budget. Given the economic uncertainties that continue to plague state and federal government and the debate over whether the federal government can and should continue to “bail out” states facing budget deficits, further studies should be done to determine if having a baseline percentage of the state operating budget available in the rainy day fund is a prudent approach.

Recommendation

- **Research feasibility of mandating that a baseline amount is available in the state’s rainy day fund based upon a percentage of the total state budget, and work toward replenishing the fund when possible.**