

The Illinois Government Finance

LEADER

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**ILLINOIS
GOVERNMENT
FINANCE OFFICERS
ASSOCIATION**

**Illinois Government Finance
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Check out the details on the Annual Conference—including educational sessions, extras including Golf at the Rail and Lincoln Museum tour plus links for information, a list of exhibitors, accommodations information and links and more!

Find much, much more @ www.igfoa.org!

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The Illinois Personal Information Protection Act

by Neil Witek, PMP, CISSP, CISA, of of Remington Associates, LTD

To help understand this new Illinois law, we need to go back a few months to February 14, 2005 when MSNBC broke an exclusive story...

MSNBC had learned that in the previous week, database giant ChoicePoint had notified 30,000 to 35,000 California residents that their personal data may have been accessed by “unauthorized third parties.” But there were many questions from the California residents, and seemingly few answers.

Who is Choicepoint? Why do they have my personal data? How did an “unauthorized third party” get my personal data? What do I do now? How do I prevent this from happening again?

There were lots of questions with too many uneasy answers. But one question lingered for a while... What prompted ChoicePoint to send these letters in the first place? This one has a simple answer: California Senate Bill 1386.

Signed into law on September 25, 2002 and operative July 1, 2003, this Act:

“...would require a state agency, or a person or business that conducts business in California, that owns or licenses computerized data that includes personal information, as defined, to disclose in specified ways, any breach of the security of the data, as defined, to any resident of California whose unencrypted personal information was, or is reasonably believed to have been, acquired by an unauthorized person.”

Simply put: California + Personal Data + Breach = Notification to Residents

The ChoicePoint situation got worse – a lot worse. In just

a couple days, ChoicePoint came clean and announced that the 30,000 to 35,000 California residents were not the only ones affected. There were, potentially, thousands of other consumers affected who lived in other states, but ChoicePoint claimed they didn't have to notify them. The Act only covered California residents. The media attention and public pressure built until ChoicePoint finally gave in and announced all those affected would be notified, some 145,000 consumers!

In the months since, we have learned of several other similar cases:

- ◆ Bank of America, 1.2 million consumers affected
- ◆ DSW, 1.4 million affected
- ◆ LexisNexis, 312,000 affected
- ◆ Polo Ralph Lauren, 180,000 affected
- ◆ CitiFinancial, 3.9 million affected
- ◆ CardSystems, 40 million affected

Are these breaches new? Has the hacker community suddenly become better at cracking into computer systems? Why is all this happening now?

Data breaches are all too common

The short story is, sadly, data breaches are not new. They've been happening for a long, long time. Sometimes, the company finds out about it, sometimes it doesn't, meaning the company doesn't even realize data was stolen in the first place. All too often, if the company did find out about the breach, it was reluctant to notify consumers because of the potential marketing nightmare, legal liability or it was just plain guarding the bottom line.

What changed was the law. With California SB 1386, companies were forced to notify those affected or face severe penalties. But the Act wasn't perfect. Most apparent, it only covered California residents. What about everyone else?

Not willing to wait for the federal system, several states jumped into action to draft their own legislation on course with SB 1386 to protect their own constituency. Illinois was one of the first to actually enact legislation.

Illinois Act signed into law

On June 16th, 2005, Governor Rod Blagojevich signed the Illinois “Personal Information Protection Act” into law. This Act is effective January 1, 2006.

Essentially, the Act requires any business, university, agency or other entity that, for any purpose, deals with nonpublic personal information concerning an Illinois resident to notify these residents if this data suffers a security breach.

The Act specifically defines the options for notification and states the notification will “be made in the most expedient time possible and without unreasonable delay.” The Act even specifically defines what “Personal Information” means and what it doesn’t mean, as it pertains to the Act.

What gives the new Act its muscle is the Violation section. A violation of this Act constitutes an unlawful practice under the Consumer Fraud and Deceptive Business Practices Act.

Unfortunately, many security experts agree, the new Act has at least one significant loophole or apparent weakness. The Act clearly states that the sensitive data is only defined as “personal information” when it is not encrypted or redacted. So, even if a company does suffer a security breach, if the data is encrypted, it is not legally obligated to notify affected residents. The trouble is, the Act does not define “encryption,” or even the strength of encryption required. Security experts fear some company may try to shirk responsibility and implement cheap, weak or relatively transparent forms of encryption just to get around the law rather than acknowledging the importance of information privacy and implementing appropriate security controls, including strong encryption.

Call to action

As this new Act affects virtually every Illinois business, organization and government entity (and of course, every Illinois resident), wise administrators will now start to determine how the Illinois Personal Information Protection Act affects their day-to-day operations. Here are a few quick tips:

- ◆ Read the actual Act to understand how “Personal Information” is defined and what constitutes a “Security Breach.” The Act is only a couple pages long and reads easily. A link is provided at www.igfoa.org.
- ◆ Determine if, when and how your organization deals with “Personal Information” for any purpose. Does your business collect credit card information from customers? How many places does your HR department collect and store Social Security numbers? Where and when does your organization deal with bank account numbers, either for employee direct payroll deposits or for automatic payments from customers?
- ◆ Identify and describe the security controls around this sensitive, personal data. This information will be used during a risk assessments, including a Business Impact Analysis, to quantify overall exposure and risk.
- ◆ Develop an action plan to remediate lacking controls. Of course, you don’t have to wait until the Act goes into affect on January 1st, 2006. Start now! Regardless of the law, it just makes good business sense to protect personal information.
- ◆ Revisit and re-assess your plan. Security is never a one-time event. Commit now and pre-schedule at least a semi-annual review of personal data, security controls and the overall risk management associated with this Act.

Most importantly, while you may be reading this article from a business point of view, remember you are also a resident that is supposed to be protected by the Act.

Wouldn't you want your local book store to keep your credit card information safe? Wouldn't you want your Village to protect your bank account number used for auto-payments safe? How about your employer safeguarding your Social Security number from outside hackers or other disgruntled employees? If you view this Act from this perspective, it becomes very easy to justify the effort to safeguard the information you are responsible for in your own organization. So... get started!

**Personal Information Protection Act resources—
links at www.igfoa.org**

- ▶ PDF version of the Illinois Personal Information Protection Act:
<http://www.ilga.gov/legislation/publicacts/94/PDF/094-0036.pdf>
- ▶ A chronology of data breaches reported since the ChoicePoint incident:
<http://www.privacyrights.org/ar/ChronDataBreaches.htm>
- ▶ Summary of State security freeze and security breach notification laws:
<http://www.pirg.org/consumer/credit/statelaws.htm>
- ▶ ISO-17799, Code of practice for information security management:
<http://www.iso.org/iso/en/commcentre/pressreleases/2005/Ref963.html>
- ▶ FTC's privacy site:
<http://www.ftc.gov/privacy/index.html>

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See you at Ravinia for Hootie and the Blowfish

Join colleagues, friends, and associates at the IGFOA Ravinia Summer Concert to see Hootie and the Blowfish!

September 10

Concert starts at 7:30 pm; The park opens for picnicking at 5 pm.

Cost: Lawn admission is \$10 each.

Food: Bring your own picnic dinner or sample from the multiple gourmet vendors available at the park. Or pre-purchase a boxed dinner with your registration.

Transportation:

Parking is available for between \$7 & \$10 at the park or free park'n'ride shuttle service from the Highland Park or the downtown Ravinia train stations. Metra's Union Pacific North Line also makes a limited number of stops at the Ravinia Park station before and after the concert.

For registration follow links from www.igfoa.org.

IGFOA NEWS

The Executive Board's Strategic Plan calls for the Career Development Committee to develop a curriculum of fundamental through advanced local government finance topics to deliver training programs that meet the needs of both new and experienced local government finance professionals. That plan, approved by the Executive Board at its June meeting, follows. If you are interested in helping the Career Development Committee develop curriculum, please contact Career Development Committee Chair Sue Stanish at sstanish@willowbrook.il.us

IGFOA Curriculum Development Plan

ACCOUNTING SERIES

Development schedule: Start October 2004;
Complete October 2005

Seminar launch:

Intermediate Governmental Accounting	January 2005
Advanced Governmental Accounting	May 2005
Basic Governmental Accounting	November 2005
Internal Controls Intermediate	February 2006
Intro. to Governmental Accounting/ Reporting	July 2006

Ongoing schedule

Seminar	Frequency	Month	Duration
Intro to Gov. Accounting/ Reporting	Annual	July	2 hours
Basic Governmental Accounting	Annual	November	1 day
Intermediate Gov. Accounting	Annual	January	2 days
Internal Controls	Triennial	Feb	1 day
Advanced Governmental Accounting	2-4 years	May/June	2 days

BUDGET SERIES

Development schedule: Start September 2004;
Complete January 2007

Seminar launch:

Basic Budgeting Oct 2004, Sept 2005, Oct 2006
Introduction to Budgeting
and CIP September 2006
Budgeting and Financial
Planning Inst. October 2006
Intermediate Budgeting March 2007

Ongoing schedule

Seminar	Frequency	Month	Duration
Intro to Budgeting and CIP	Annual	Sept	2 hours
Basic Budgeting	Annual	Sept-odd/ Oct-even	1 day 1 day
Intermediate Budgeting	Biennial odd	March	2 days
Budgeting and Financial Planning Institute	Biennial even	October	1 day

CASH MANAGEMENT SERIES

Development schedule: Start June 2005;
Complete January 2006

Seminar Launch:

Cash Management Institute Oct 2005
Introduction to Cash Management Jan 2006
Basic Cash Management Feb 2006
Intermediate Cash Management March 2006

Ongoing schedule

Seminar	Frequency	Month	Duration
Intro to Cash Management	Annual	Jan	2 hours
Basic Cash Management	Biannual	Feb/Oct-odd or Sept-even	1 day 1 day
Intermediate Cash Management	Biennial even	March	1 1/2 days
Cash Management Institute	Biennial-odd	October	1 day

DEBT MANAGEMENT SERIES

Development schedule: Start November 2004;
Complete December 2006

Seminar launch:

Debt Management Institute—ongoing March 2005
Basic Debt Management March 2007

Ongoing schedule

Seminar	Frequency	Month	Duration
Basic Debt Management	Annual	March	2/3 day
Debt Management Institute	Annual	March	1 day

ILLINOIS PUBLIC PENSION SERIES

Development schedule: Start January 2005;
Complete December 2006

Seminar launch:

IPP Institute—ongoing April 2005
Understanding local gov.
pub. pensions April 2007

Ongoing schedule

Seminar	Frequency	Month	Duration
Understanding local gov. public pensions	Biennial	April-odd	1 day
IPP Institute	Annual	April	1 day

LOCAL GOVERNMENT REVENUE SERIES

Development schedule: Start January 2006;
Complete July 2007

Seminar launch:

Introduction to local gov. revenue November 2006
Basic local government revenue August 2007
Property Tax Institute August 2007

Ongoing schedule

Seminar	Frequency	Month	Duration
Intro to local government revenue	Annual	November	2 hours
Basic local government revenue	Biennial-odd	August	1 day
Property Tax Institute	Biennial-odd	August	1 day

HOT TOPICS/ADMINISTRATION

Development schedule: Start May 2005;
Complete July 2007

Seminar launch:

Technology seminar	December 2005
Introduction to local gov. finance	May 2006
Basic purchasing	August 2006
Public Finance Law Institute	August 2006
Professional staff inst. (Assistant's Rep)	Nov 2006

Ongoing schedule

Seminar	Frequency	Month	Duration
Intro to local government finance	Annual	May late	3 hours
Basic purchasing	Biennial-even	August 2006	1 day
Professional Staff Institute	Annual	November	1 day
Public Finance Law Inst.	Biennial-even	August	1 day
Technology seminar	Annual	December	2/3 day
Joint conference with Wisc. GFOA	Annual	May/June	2 days

SUPPORT STAFF SERIES

Development schedule: Start June 2005;
Complete February 2007

Seminar Launch:

Utility Billing	June 2005
Payroll	December 2005
Accounting Receivable and Cash Handling	April 2006
Internal Controls	May 2006
Accounts Payable	April 2007
Records Management	May 2007

Ongoing schedule

Seminar	Frequency	Month	Duration
Utility Billing	Annual	June	1/2 day
Payroll	Annual	December	1/2 day
Accounting Receivable and Cash Handling	Biennial-even	April	1/2 day
Internal Controls	Triennial	May	1 day
Accounts Payable	Biennial-odd	April	1/2 day
Records Management	Triennial	May	1/2 day

IGFOA TRAINING

Training highlights

Seminars take place at Westmont Centre.

An Intro to Costing Government Services

Instructor: Paul Glick, Glick Consulting Services

Wednesday, October 5, 2005 8:30 am–4:30 pm

Designed to introduce the concepts and techniques of costing government services and to demonstrate the application of different methodologies to important decision areas in government. The numerous pitfalls of costing services will be confronted. Participants will be encouraged to use cost analysis in managerial decision making. The issues of costing and pricing will be explored with particular emphasis in its application to both enterprise funds and internal service funds.

Developing Financial Management Policies

Instructor: Paul Glick, Glick Consulting Services

Thursday, October 6, 2005 8:30 am–4:30 pm

What are government financial policies? Why should governments adopt them? How are they developed and what should they include? Are there obstacles to adopting policies? This seminar answers all of these questions. The topical policy areas discussed will be operating and capital budgets, revenues, reserves, debt, accounting, purchasing and investments. After the seminar, the participants will understand what actions are necessary to develop comprehensive, meaningful financial policies. Sample policies will be provided.

Local Government Financial Statements

Instructor: Paul Glick, Glick Consulting Services

Friday, October 7, 2005 9 am–noon

Introduces very basic accounting principles (e.g., assets, liabilities, and equity) and highlights four accounting principles, the reporting entity, fund accounting, the bases of accounting and the financial reporting pyramid. In addition, we review in detail many examples of government financial statements. For members of governing bodies or local government department directors and supervisors.

Basic Governmental Accounting

Lead Instructor: Brian LeFevre, Sikich Group

Wednesday November 9, 2005 9:00 am–4:00 pm

Basic governmental accounting theory and practice. Topics include appropriations and budgets, double entry accounting, principles of accounting, fund accounting, classifications and terminology, and basic theory.

Basic Budgeting Seminar

Lead Instructors: Larry Maholland, City of St. Charles and Kathryn Booth, Village of Bartlett

Friday November 18, 2005 8:30 am–4:30 pm

This seminar covers basic governmental budgeting theory and practice. Topics include budgeting and appropriations requirements for Illinois local governments, principles of budgeting, fund accounting and the budget, expenditure analysis, revenue projections, budget balancing, budget execution and amendment.

For details and registration visit www.igfoa.org.

2005 IGFOA Sponsoring Firm Members

Check out services offered by these Sponsoring Firms at the on-line IGFOA Financial Services Guide <http://www.igfoa.org/FinSvcGuide.html>

AON Consulting Services
Becker, Burke Associates
Bond Logistix LLC
Capital Gains Incorporate
Chapman and Cutler
Charter One Bank Illinois
Crowe Chizek LLC
Crowe-Norene LLC
Ehlers and Associate, Inc
Fifth Third Bank
First National Bank
First Trust Portfolios L.P.
FitchRatings
Gallagher Benefit Services, Inc.
Goldstein and Associates
ICS Advantage, LLC
Illinois Metropolitan Investment Fund
JP Morgan Chase
Knutte & Associates, P.C.
LaSalle Bank N.A.
Lauterbach & Amen LLP
Legg Mason Wood Walker, Inc.
MB Financial Bank
McGladrey & Pullen LLP
Merrill Lynch
Miller, Cooper & Co., Ltd.
Moody's Investor Service
Morgan Stanley
Municipal Software, Inc.
Oak Brook Bank
Plante & Moran, PLLC
PMA Financial Network, Inc.
Retirement Plan Advisors
Robert W. Baird & Co., Inc.
S.B. Friedman & Company
Siebert Brandford Shank & Co., LLC
Sikich Cozad Asset Management
Sikich Gardner & Co, LLP
Sikich HR Solutions

Smith Barney
Speer Financial, Inc.
Standard & Poor's Ratings Group
State Bank of Countryside
US Bank
Virchow, Krause & Company, LLP
Washington Mutual
William F. Gurrie & Co., Ltd.
Wolf & Company LLP

Many thanks to the Illinois GFOA 2005 Reception Sponsors

Thanks to these sponsors who made possible the IGFOA's reception at the GFOA Annual Conference in San Antonio:

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2005 IGFOA calendar

South Metro Chapter Board meeting

Friday, September 2

Connie's Pizza, Orland Park

IGFOA Annual Conference

Wednesday, September 14–Friday, September 16

Springfield Hilton

Introduction to Costing Local Government Services

Wednesday, October 5

Westmont Centre Training Room

Women in Public Finance Conference

Thursday October 6–Friday, October 7

Evening reception at the The Women's Athletic Club of Chicago

Developing Financial Management Policies

Thursday October 6

Westmont Centre Training Room

Understanding Local Government Financial Reports

Friday, October 7

Westmont Centre Training Room

South Metro Chapter Hot Topic Seminar

Friday, October 28

South Metro Chapter half-day hot topic training program

Moraine Valley Community College

Advanced Public Funds Investments

Thursday, November 3

Westmont Centre Training Room

South Metro Chapter Board meeting

Friday, November 4

Connie's Pizza Orland Park

Basic Governmental Accounting Seminar

Wednesday, November 9
Westmont Centre Training Room

Basic Budgeting Seminar

Friday, November 18
Westmont Centre Training Room

South Metro Chapter Holiday Luncheon

Friday, December 2 House of Hughes, Crestwood

Chicago Metro Chapter Holiday Luncheon

Friday, December 9
Location TBA

Joint Illinois GFOA and GMIS Technology Seminar

Wednesday, December 14
Tentative: Joint seminar on between the Illinois GFOA
and GMIS
Westmont Centre

Visit www.igfoa.org/calendar for details, or contact IGFOA
at info@igfoa.org or by phone at 630-663-0019.

ETHICS

Instead of stressing rules, government should teach ethics

By Bob Stone

Federal workers get ethics training every year. It's the law—one hour a year. The Pentagon, where I worked, took the requirement more seriously—because I got two hours.

Unfortunately the two hours didn't deal with ethics at all. Instead we learned about the laws covering bribery and conflicts of interest. When could we accept a meal from a government contractor, or how expensive a gift

could we accept from a friend who had dealings with our agency?

Ethics was never discussed. It's hardly ever discussed as a way to make government work better and cost less. But this has to change in any organization that is trying to move beyond bureaucracy to high performance.

The bureaucratic system is founded on rules, supervision and close checking by specialists and inspectors general to ensure behavior consistent with the rules.

Moving beyond bureaucracy depends on getting rid of most of the rules and restrictions controlling worker behavior, and shifting to a different form of control—one based on a strong sense of mission and a culture of trust, with authority and responsibility shifted from the few at the top to the many front-line workers.

This shift, however, requires that the organization have a strong ethical grounding. Without such grounding, a sense of mission and a culture of trust aren't enough. Ethics must replace the missing rules. My ideal is something like the "permission slip" issued by former Education Secretary Dick Riley to his employees. Ask yourself, Riley said:

- ① Is it good for my customers?
- ② Is it legal and ethical?
- ③ Is it something I am willing to be accountable for?
- ④ Is it consistent with my agency's mission?
- ⑤ Am I using my time wisely?

Is the answer yes to all of these questions? "If so, don't ask permission. You already have it," Riley said. "Just do it!"

But a permission slip won't work without a common understanding

of ethical behavior. Without such understanding, reform efforts are condemned always to be rolled back after inevitable ethical lapses lead to demands to tighten up again.

But how is ethical behavior to be strengthened? Ethics is too interlaced with the details of practically every decision to be taught as a course apart. It must be part of everyday work, because issues arise every day that have an ethical content, if only we would look for it.

For example, when American Paul Hamm won the Olympic men's all-around gymnastics competition by the tiniest of margins, I cheered, even when it turned out that Hamm had beaten his Korean competitor, Yang Tae Young, only through a scoring error that's been likened to giving a football team only two points for a field goal.

The Korean team protested, but the judges ruled that it was too late, and Hamm got the gold medal; Yang, the silver.

What should be done? Who was the real winner? My feelings were clear: Hamm won fair and square. Every opinion on TV, radio and the press agreed—at least every opinion expressed by an American. We were all sorry for Yang, and sorry that Hamm's day of triumph was rained on, but our guy won.

We all judged by our hearts, and by the rulebook. But what if we looked for the ethical content of the question? Is there an ethical standard to apply that trumps the rulebook's detail about protests and deadlines? Was there an ethical thing for Hamm to have done? Asking several friends helped me figure it out. Their first answer was, "Keep the medal." Then I asked, "What would you have done in Hamm's position?" All quickly said, "I would have given it back."

So what did the controversy teach us about ethics?

First, most of us don't immediately see most issues as ethical ones. Even though we consider ourselves ethical, we often make quick judgments without raising questions of ethics. Second, we don't really know our opin-

ion until we express it. And third, and most important to anyone aspiring to be an ethical leader, we need to talk about issues with our friends and colleagues, forcing ourselves to look at the issues through an ethical lens.

In other words, ethics can't be taught just by ethics specialists. It must be taught by leaders—agency heads, line managers, first-line supervisors. They must teach by leading their organizations to examine issues for their ethical content. Many issues that appeared to be tactical will turn out to be ethical. And the discussions of ethics will raise the ethical awareness of everyone in the organization.

Bob Stone, who was director of the White House project to reinvent government from 1993 to 1999, is a partner with the Public Strategies Group of St. Paul, Minnesota; on-line at www.psg.us/

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Budget Solutions: A twelve-step program

By The Public Strategies Group

Two years ago governors and legislatures across the nation were touting their tax cuts and rebates. Today, the same leaders are standing before their constituents to announce shortfalls of comparable size. The numbers are staggering. But big fiscal challenges always bring with them big opportunities. Rather than resorting to traditional medicine—raising taxes, cutting spending, and using accounting gimmicks to push today's costs into tomorrow's budgets—public leaders should look to the many innovations that have been pioneered over the past two decades to wring more bang out of the government buck. Below we explain our own twelve-step program for public leaders serious about kicking the habit of fiscal over-indulgence.

1. The first step is to **set the price of government (POG)**.

Simply put, the POG is what we pay in taxes, fees and charges out of each dollar of personal income for the whole range of government services we buy. The national average price of state and local government was relatively stable from 1970 through 1990; it then rose dramatically following the last recession and stayed at a higher level through the late '90s. The recent round of tax cuts was designed to bring the price more in line with its historic average.

While nationwide averages are interesting, each state and locality has its own, and often surprising, pattern. Assessing and then getting political agreement on the desired price of government is a first crucial step in managing today's fiscal challenges.

2. Once agreement has been reached on the price—and therefore the revenue side of the budget—the next step is to **buy results that citizens value**. Too much of the government budget process is focused on costs.

We have literally thousands of “cost codes” in our public accounting systems. We can, with relative ease, report on the whereabouts of every penny of public money, but we know almost nothing about the results of all that spending. Sure, we want our money accounted for, but what really counts are the results we get for the money we spend. If a program manager or lobby group says that a budget should be raised because costs are going up, they should be told: “We don't pay for higher costs, we pay for better results.”

Results-based budgeting is dramatically different from the traditional cost-based approach.

3. **Separate the permanent (long-term) issues from the temporary (short-term) issues**. Many jurisdictions have built up “rainy day funds” to help them through temporary, short-term budget difficulties. It will be tempting to throw these reserve dollars at the problem right away. It could be a mistake to do so. Reserves are “one time” money. Using one-time money in the face of long term or structural imbalances is a recipe for disaster.

To decide when and how to use reserves vs. other budget solutions, governments must:

- Develop a credible forecast of revenues both short and long term.
- Develop a credible forecast of current expenses both short and long term.
- Determine whether revenues will be adequate to meet forecast expenses in the long term.

(Note: these are best done in the context of **biennial budgeting and four year financial forecasting.**)

	Cost-Based Budget	Results-Based Budget
Starting point	Last year's costs.	This year's price. A fixed number based on the Price of Government. Unit, agency or department results and performance targets.
\$ added on	This year's increased costs plus the costs for enhancements.	None - the price is given.
Budget submission	Justification for the needs and the associated costs. Plus enough extra money so that there is enough left after the budget is "cut."	Results to be achieved at the specified price.
Job for budget analyst	Find inflated costs and unnecessary "needs." Probe how work is done and push for more productive approaches.	Validate submitter's ability to produce the results. Shop for alternative submitters who can produce the same results. Create choices for decision makers.
Job for decision makers	Choose what to cut—find the "hidden" costs.	Choose which results to buy. More of some, less of others. Choose agencies or organizations that give the most results for the money.
Incentive for budget managers	Build up costs, then when asked, propose unacceptable cuts ("closing the Washington Monument")	Produce results that really matter. Demonstrate the connection between results and the budget.

If revenues will be adequate to meet expenses over the long term, then the jurisdiction can use reserves to meet its short-term needs. If not—and this will most likely be the case — the jurisdiction will need to make permanent changes in its expenses, revenues or both. Once it has done so, it can use its reserves to meet whatever short term needs remain.

But here's the rub: delay makes the problem worse. Changes in spending or revenue cumulate over time. The earlier they are made in the budget cycle, the more they contribute to a solution.

So, how should governments proceed when they have to make long-term fiscal changes? Our focus here will be on spending. The normal response to the prospect of spending cuts is gloom and doom about service cutbacks. There will, of course, be reductions. Jobs will be lost. But when all is said and done, it is possible to INCREASE the value created for citizens for each dollar of spending. Here's how.

4. Clear the decks. Eliminate programs or activities that are not central to the government's core purposes or are no longer valuable to citizens. Divesting will almost certainly mean disruption, but in return, governments will have resources they can invest in results that matter to citizens. One of the most visible examples of successful deck clearing has been the Defense Department's Base Closing effort. Similar challenges have confronted school districts with excess space and agencies with outdated programs. In the Minneapolis Public School District several years ago, leaders first identified the "must do's," putting them on what they called their dream list. With that list in front of them, they proceeded to identify the "can live without" that would make their dreams possible.

5. Make services accountable to their customers. No one is in a better place to judge the value of a service than those who use it.

- ▶ Giving customers choices about their services and making sure that the money follows the customers. This creates competition between service providers

for the customers' business. When school choice works this way, for example, school administrators begin to pay very close attention to what parents want.

- ▶ Requiring that governments post service standards and provide customers a rebate if they don't live up to them. That's how it works today when you apply for a passport. They either get it to you on time or you get your money back. The result: delighted customers who get passports much faster than they ever thought possible.
- ▶ Creating customer boards to provide direction to service providers. The Minnesota Department of Administration used a customer board to help it run the state's internal telecommunications service.
- ▶ Making it possible for customers to serve themselves through e-government. Web based services give customers control over the time and convenience of the services they want.

6. This is all part of **making performance consequential**. That's the key. When there are no consequences (rewards or sanctions) for performance, the results are likely to be "good enough for government work," but never as "good as possible."

- ▶ **Enterprise management.** Make service organizations that can sell their services "earn" their budgets by selling to citizens or other agencies—often in competition with private providers. Suddenly, survival depends on how well they please their customers, at what price. The Edmonton, Canada, school district turned around its central office by transforming key departments into internal enterprises, with schools as their customers. Entire nations—including Australia and the United Kingdom—have used this approach for many of their internal service operations.
- ▶ **Managed competition.** Use competitive contracting to make public agencies compete with other

agencies or private firms to serve public needs. When public agencies are required to compete they unleash the creative potential of their employees, because the incentives for success are so direct. Indianapolis has used such competitions to improve services and lower costs by an average of 25 percent.

- **Performance management.** Require every agency to set performance targets and then measure and report results against those targets. Doing so focuses attention on what matters most: results. To strengthen the focus, add rewards for success—both financial and psychological—as well as penalties for poor performance. (It takes several years to develop an effective performance management system, and it requires serious investment. The first two approaches offer faster results and far greater savings; hence they are more useful during a fiscal crisis.)

7. Provide flexibility in return for accountability. In exchange for the new forms of performance accountability we have described, give programs and their managers flexibility in how services are delivered. Tying programs up in red tape while making them accountable for performance is a set up for failure. Give any organization willing to commit itself to specific results flexibility in how they hire, pay, purchase and invest. The Office of Student Financial Assistance in the U.S. Department of Education is now operating in just this way. It is a “Performance Based Organization,” with both the accountability and flexibility it needs to succeed. Its performance has improved dramatically as a result.

8. Reform how government works on the inside, to improve its performance on the outside. All organizations are creatures, and often prisoners, of their internal systems for budgeting, accounting, personnel, procurement, and auditing. The messages these systems send about following the rules of bureaucracy are much more powerful than all of the leadership exhortations to perform better. Lasting improvements in performance require improved systems.

Every one of these systems has a long history, and

reform is often difficult. If you cannot redesign them in the short term, empower a panel of **Bureaucracy or Barrier Busters** to give organizations selective relief from rules that get in the way of results or add needlessly to costs. Doing so will help improve results and lower costs, while building the case for system reform.

9. **Cut the cost of mistrust.** The main purpose of 20-30 percent of all government spending is to control the other 70-80 percent. Much of that spending is based on the belief that most of us, if given the opportunity, will lie, cheat and steal. This level of mistrust is not only expensive, it undermines performance. For example, in special education today most teachers spend up to 50 percent of their time filling out forms to demonstrate compliance with federal and state rules and regulations. If we could cut this cost of mistrust and find less expensive ways to win compliance, we could give our schools a massive infusion of what they need most—time to teach.

10. **Get a return on capital investments.** When operating budgets are tight, many governments turn to their capital budgets (supported by bonding) to deliver good news to their constituents. For a small increase in debt service (in the operating budget), governments can launch relatively large expenditures for roads, bridges, buildings and technology. Among the top priorities for capital should be investments designed specifically to make services better, faster and cheaper. Proposed investments that produce the highest return in service quality or cost savings should take precedence over those that produce a lower return.

11. **Target subsidies.** For state governments in particular, much spending really involves transfers of resources from one set of taxpayers to another. Sometimes this is done directly through assistance payments or tax credits. Other transfers are indirect, like the way most states subsidize college students by subsidizing the schools they attend. In both cases, however, these subsidies are often not targeted on those who truly need them. (Nor are they targeted on results.) By targeting subsidies we can save money and make sure that the money we do spend is focused on results we care about.

12. **Consolidate.** In many ways this is the favorite of

politicians. Surely there are savings to be had from consolidating multiple agencies into super-agencies, or in consolidating smaller jurisdictions into larger ones or multiple service systems into one-stop centers. If all consolidation means is moving boxes around on an organizational chart, however, it is likely to result in many shotgun weddings, with few real savings and many new costs.

- ▶ **Consolidating missions.** Often when organizations are combined they bring with them their various missions. The result is a lack of focus, if not outright conflict between missions. Consolidations work best when the resulting organization has a clear, focused mission and set of clear, limited performance targets.
- ▶ **Consolidating funding streams.** Far more powerful than consolidating organizations is consolidating their funding streams. Categorical funding leads inevitably to categorical—and therefore complicate—organizations. Consolidate the funding, focus it on clear, high priority outcomes, and use it to purchase those priority outcomes from whatever organizations can best produce them.
- ▶ **Consolidating “steering” authority.** Most government organizations have both policy (steering) responsibilities and operating (rowing) responsibilities. These are not the same! Steering functions focus on doing the right things, while rowing functions focus on doing them right. By separating these roles, both can be performed better. Once separated, steering can be consolidated to assure that policy is integrated and mutually reinforcing across a government unit. Using consolidated funding streams, steering organizations can “purchase” key results from those who row.
- ▶ **Consolidating layers.** In one Minnesota county there were eight layers of management between the elected county board and the front line employees. Layers may have been necessary when communication was cumbersome and employees were poorly educated. But with today’s technology and workforce the justification for so many layers

is gone. Consolidating layers can save money. It can also improve service by delegating more authority to those closest to the customers being served.

- ▶ **Consolidating access.** Much of what government does involves the collection and processing of information. Accessing what the government knows has often been cumbersome and expensive for those inside and outside of government units. Technology provides the opportunity to consolidate access—and in so doing to reduce costs and improve service.

For government leaders the next few months will be very uncomfortable, as they try to explain how tax cuts turned into revenue shortfalls almost over night. They will get even more uncomfortable if their solutions involve raising taxes or cutting services or service quality. To avoid either one, they will be tempted to resort to accounting gimmicks to “shrink” the problem by delaying the reporting of expenses or accelerating the recognition of revenue. Gimmicks don’t solve problems—and hoping won’t make them go away.

There is a third alternative: taking the opportunity this challenge presents to remake our public services as if the public really mattered. Doing so requires a combination of courage, creativity and good ideas. We have described a range of creative ideas above. That they have already been used and have worked in many jurisdictions should encourage our public leaders to act.



This paper was prepared by The Public Strategies Group based on its partners’ experience with fiscal crisis in the public sector over the last two decades. The Public Strategies Group (www.psgrp.com) specializes in designing creative solutions for those public organizations that want to delight their customers with outstanding service at reasonable prices. The firm consists of a small group of some of this country's most advanced thinkers and practitioners of post-bureaucratic government.

Power surges!

Fact one: lightning storms are on the increase globally. Fact two: today's businesses rely on more electronic equipment than ever before. Just imagine what happens when these two facts collide. A direct lightning strike can cause an enormous amount of physical damage. However, the indirect effect from a nearby strike can also cause damage by inducing voltage surges onto power and data cables. When lightning strikes the ground near a building it causes a massive rise in ground voltage in the vicinity. This rise in ground voltage is conducted back through buried pipes into the building where it can travel through the electrical system creating havoc along its path. Often referred to as spikes, over voltage, or transients, these surges have been reported to cause everything from data loss to the total destruction of equipment.

Two ways to prevent surge damage

According to Alliant Energy, the best way to protect against power surges is to invest in high-quality surge protection. You should use both a meter-based or circuit-panel based surge suppressor and several point-of-use suppressors.

-  Meter or circuit panel-based surge protectors block large external surges that travel through power lines. Both kinds of protection require professional installation.
-  Point-of-use surge suppressors absorb internal surges that originate inside your business or come through telephone or cable lines. These are the surge protectors that you directly plug your electronic equipment into.

Beware of everyday surges, too

True, big surges during a storm can destroy a piece of equipment, but a more common form of damage is electronic rust. Over time, small everyday surges can quietly degrade the internal circuitry of electronic equipment. You may not even notice the damage until the equipment fails to work. Consider the fact that the average business experiences more than 25 of these small power

surges each day—9,000 a year—and you can quickly understand the reason for protecting your business in rain or shine.

How to tell a surge protector from a power strip

A true surge protector should include the following: UL-1449 second edition rating, ground indicator light, a price tag of \$20 to \$150 and let-through voltage (clamping voltage) of 330 or less.

Reprinted from Loss Control Insights, a free publication provided by EMC Insurance Companies, www.emcins.com

The real estate impact of parks

Economics Research Associates (ERA) was engaged by the Illinois Association of Park Districts to highlight current research literature relating to the real estate impacts generated by proximity to parks and recreation in Illinois. The literature review found that neighborhood and community parks have a potentially positive impact on surrounding residential communities. Based on studies reviewed by ERA, the following benchmarks were noted:

- ◆ Neighborhood parks can provide up to a 20% increase in housing values for those homes facing the park. Benefits from a neighborhood park can extend to approximately 600 feet, with houses nearer to the park receiving the majority of the benefit.
- ◆ Community parks may provide benefits up to 33% of the residential real estate value. Homes within 1,000 feet of a large community park may receive a 9% increase in home value. Positive externalities of a community park may extend up to 2,000 feet.
- ◆ ERA's approach also looked at value enhancements generated by other park / open space formats, including greenways, which are noted in the body of the report.

Find the entire report online at

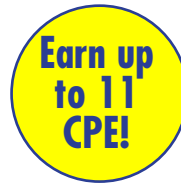
http://www.ilparks.org/research_era_real_estate.pdf

IGFOA 2005 Annual Conference

September 14-16th

Springfield Hilton

Register online at <http://www.igfoa.org/events.html>
See a list of Educational Programs [on the next page](#)



"Upon the subject of education, not presuming to dictate any plan or system respecting it, I can only say that I view it as the most important subject which we as a people can be engaged in."

—Abraham Lincoln,
from the March 9, 1832 First Political Announcement

Registration fees:

Member fee: \$240.00 (\$270 after September 1)

Non-Member fee: \$290.00 (\$320 after September 1)

Golf Outing: \$65 per person*

Abraham Lincoln Presidential Museum tour: \$15 per person*

*Limited availability – early registration encouraged

Refer to registration form on-line for more details.

For Guest Registration, consult *Guest Registration* form on-line

What does my Conference Registration Include?

Conference Registration includes admittance to any of the Conference sessions on Wednesday, September 14 through Friday, September 16, 2005, the IGFOA Annual Business Meeting, and the Vendor Showcase. Registration also includes the following meals and social events:

Wednesday, September 14:	Welcome Reception and Dinner
Thursday, September 15:	Breakfast, Luncheon & Vendor Showcase Recep.
Friday, September 16:	Women's Network Bkfst. or Continental Bkfst. Brunch during Business Meeting

Keynote Address: Lincoln on Leadership

by Paul R. Craig, Senior Associate, Institute of Government and Public Affairs at the University of Illinois at Springfield

Learn about Abraham Lincoln's approach to leadership and how you can apply the same tactics! For nearly twenty-five years, Mr. Craig worked as a training director and as a personnel director. His agency experience includes executive positions in the Illinois Department of Transportation, the Illinois State Board of Education and the Teachers' Retirement of the State of Illinois. In addition to this agency experience Mr. Craig has served as an organizational consultant to several state agencies including the Department of Children and Family Services, the Department of Central Management Services and the Illinois State Police.

How do I register?

Go to IGFOA Conference On-line Registration to register, or print out and fax the completed online form to 630-663-0162. On-line registrants receive automatic confirmations.

Conference accommodations –Hotel cut-off date is August 23!!!

Conference accommodations are available at the Springfield Hilton. IGFOA Annual Conference rates are single room \$89/night plus room tax. A specific number of rooms have been reserved for the IGFOA Annual Conference, however attendees are encouraged to make reservations immediately. **Conference attendees should make reservations before August 23, 2005** to receive the guaranteed rate. For accommodations, please call the Springfield Hilton at 217-789-1530 or 1-800-HILTONS. Be sure to mention that you are with Illinois GFOA.

Rail splittin' extra events

Conference Golf Outing
Wednesday, September 14
tee off at 11 am
The Rail Golf Course \$65

Springfield's Home of the LPGA State Farm Classic, the Rail Golf Course is rated 4 stars by Golf Digest Magazine and is continually voted as one of the best places to play golf in Central Illinois. 1400 S. Club House Dr., Springfield
Additional fee of \$65.00 covers golf, cart and lunch. Sign up with your on-line conference registration.



Conference Tour
Wednesday, September 14
starting at at 10:30 am
The Abraham Lincoln Presidential Library & Museum \$15

Combining scholarship and showmanship, the Abraham Lincoln Presidential Library and Museum in downtown Springfield communicates the amazing life and times of Abraham Lincoln in unforgettable ways. Includes admission to two theaters inside the Museum and box lunch at the Museum Cafe. Please read advice and directions at <http://www.alincolnlibrary.com/visit/home.html> to get the most out of our tour! Located within walking distance of the hotel at 112 N. Sixth St.

Order your ticket with your on-line conference registration.

Conference Educational offerings

As of presstime, educational sessions include:

BRUSH UP ON BASICS

Introduction to Capital Financing and Debt Management
Overview: Illinois Department of Revenue

LEARN ABOUT REGULATIONS AND LEGISLATION

Upcoming IRS Scrutiny of 457 Plans
Legislative Update
State Gift Ban Act and Amendments
GASB 43 & 45 Auditing for OPEB and Benefits
GASB 43 & 45: An Actuarial Perspective
Circular 230—IRS & SEC Enforcement
GASB 44 Statistical Section
New Illinois Personal Information Protection Act

DISCOVER HOW TO PUT TECHNOLOGY TO WORK FOR YOU

Automating Your Collections
Preventing Fraud While Automating Your Disbursements
Check 21—Changing How Banking is Done Today

BOOST YOUR MANAGEMENT SAVVY

Assistants and Professional Staff Roundtable
Management Tools: Conflict Management
Management Tools Session on Personnel Evaluation
Management Tools Session on Disaster Recovery
Optimal Cash Management Strategies

EXPLORE HOT TOPICS IN PUBLIC PENSIONS AND BENEFITS

IMRF and Social Security
Pension Portability
Retirement Drop Plans
Public Sector Uses of 401(a) Plans
Voluntary Retirement and Health Plans

SHARPEN YOUR ECONOMIC DEVELOPMENT ACUMEN

Economic Development Incentives Good and Bad—What's in the Toolbox?
Tax Increment Financing—Rules of the Road

For details see www.igfoa.org/EducationalSessions.html

Featured Speakers

- Linda Abernethy**, Director, McGladrey & Pullen LLP
- Barry R. Anderson**, President, Municipal Software, Inc.
- Scott Brandt**, Acting Chief Administrator of the Illinois Department of Financing and Professional Regulation's Public Pension Division
- Erik Bush**, Director of Finance & Information Services, City of Warrenville
- Brian W. Caputo**, Director of Finance/City Treasurer, City of Aurora
- John E. Cripe**, Compensation Manager for both the City of Lincoln and Lancaster County, Nebraska and Police and Fire Pension Administrator, City of Lincoln
- Lynda Given**, Partner, Chapman & Cutler
- Chris Gruckenberger**, Director Organizational Resources and Effectiveness, City of Naperville
- John J. Hartnett**, Vice-President, JHDH, Inc.
- Gary Karshna**, President/CEO, Capital Gains, Inc.
- Robert Kastenbaum**, Vice President and Product Manager of Global ACH, JP Morgan Chase
- Gary M. Kitts**, Revenue Agent Employee Plans Specialist, Internal Revenue Service
- Louis W. Kosiba**, Executive Director, IMRF
- Frederick G. Lantz**, Partner and the Director of Government Services, Sikich Gardner & Co., LLP
- Stacey B. Levine**, Director, RSM McGladrey Retirement Resources
- Lauren R. Okum**, Director, RSM McGladrey Retirement Resources
- Richard Schnuer**, Finance Director and Treasurer, City of Champaign
- Todd Sholeen**, Vice President, LaSalle Bank N. A.
- Bill Stafford**, Director of Finance, City of Evanston
- Robert Walmsley**, AIG VALIC
- Kelly Zabinski**, Manager, William F. Gurrie & Co., Ltd.