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MEMORANDUM

To: City Council, City Manager

From: Chris Pike, Finance Director

Date: January 2012

Subject: **General Fund Resources & Uses Forecast**

Economic Conditions Overview

Janet Louise Yellen is currently the Vice Chair of the Board of Governors of the Federal Reserve System. She stated that even as the U.S. economic outlook remains clouded, conditions have improved in a number of ways during these past two years from the most severe recession and financial crisis to afflict our country since the Great Depression (October 21, 2011). Economic data by the Commerce Department's Bureau of Economic Analysis released recently indicate that the economy is unlikely to slip into another recession.

Yellen pointed out that output growth has resumed and private-sector employment has risen about 2.5 million since payrolls troughed in early 2010. Industrial production has generally advanced solidly, business investment in equipment and software continues to rise briskly, and U.S. exports have grown at a robust pace. Additionally, financial market functioning is much better than in the depths of the crisis; the quantity and quality of capital and the size of liquidity buffers in the banking system have improved significantly; nonfinancial business balance sheets are mostly in solid shape; and credit conditions, although still tight, have eased somewhat for many businesses and households.

However, it is quite clear that the recovery has been proceeding at a disappointingly slow pace despite the improvements mentioned. Since the beginning of the recovery in the third quarter of 2009 through the second quarter of 2011, real gross domestic product (GDP) expanded at an average annual rate of only about 2.5%. As a consequence, aggregate output in the second quarter still had not reached its peak level just prior to the recession. Consequently, unemployment declined only 1 percentage point from its high of about 10 percent near the end of 2009, and the number of jobs in the private sector remains more than 6 million below the peak level reached in early 2008. The number of jobless for six months or more is especially at a much higher level.

A senior US Economist at Goldman, Sachs & Co. agrees in a recent white paper that the economic recovery since the end of the financial crisis in mid-2009 has been disappointing, mainly due to the persistently high number of unemployed in the US, with the current rate of GDP growth insufficient to dent the huge pool of long-term unemployed.

According to the latest U.S Department of Commerce data released in June, all of the states posted GDP growth between 2000 and 2010; albeit with a wide variation in growth rates. While Michigan grew a little over 2%, Wyoming nearly doubled. **This goes to show how important the stability of just one or two industries in any state can be compared to government planning or industrial policy.** For Dunwoody, this means energies spent identifying and attracting those key industries are significantly more important to our economic resilience than other issues such as tax policy or zoning ordinances.

Many of the states in the industrial Midwest lost manufacturing jobs, as would be expected. Most had slow population growth between 2000 and 2010 and a lack of economic expansion seems to have coincided with relatively low median income. States that lost major industries or where those industries were crippled were left with poorly paying jobs. The median incomes in Indiana, Georgia, Missouri, and Michigan are low and grew more slowly than wealthier states. Georgia is the headquarters for several companies that have struggled to grow recently, including Home Depot, Delta Airlines, and SunTrust Banks. The tourism industry, another important contributor to GDP, has also suffered. The slowing real estate market in Atlanta, which was hurt by the collapse of the housing bubble, has also hurt economic growth. A factor which could help to improve the state's economy over time, however, is that the state has one of the youngest populations in the U.S. Nationally, the median age is 37.2 while Georgia's median age is 35.3. (Florida is 40.7.)

According to a prominent quarterly forecast by Georgia State University, uncertainty from multiple sources will continue to keep the state's economy from growing significantly. "Things are not shutting down, just moderating," said Rajeev Dhawan, director of the Economic Forecasting Center at the university. "But the risks remain predominately on the downside." In his quarterly "Forecast of Georgia and Atlanta," released in November, Dhawan cites a number of factors why growth prospects for the city and state are unclear in the coming year, including declining consumer spending, the elevated price of oil, European financial turmoil and a softening export market. Uncertainty also is spawned by the political tumult resulting from the debt ceiling showdown, the impending report from the Super Committee, the onset of an election cycle, and the extremely low level of confidence among the consumers and business owners. For Dunwoody, recognizing the external pressures from Washington and abroad make it imperative we deliberately plan internal priorities and strategies.

Dhawan projects the losses to continue in Georgia's finance, construction and government sectors while recent weakness in the leisure/hospitality segment should improve slightly in 2012, according to the forecast. The outlook is mixed for other key segments. Manufacturing is growing at 1 percent while wood products will decline by nearly 9 percent next year. On the other hand, transportation-related manufacturing is expected to register 4 percent growth in 2011 and twice that next year.

Exports have been rosy for Georgia and other southeastern states, with a 25 per cent growth rate. These are mostly aircraft industrial machinery and paper products to Asia. Even sales to Europe increased, but at a smaller rate. A lot of attention has been placed on making Savannah even more economically relevant to Georgia's future. Being able to strategically align with coastal ports could pay attractive returns in the future.

Uncertainty about Europe's debt crisis, is just one of the [smaller] factors keeping a brake on Georgia's economy, he said. Pessimism about the United States' own fiscal policy for the congressional Super Committee's plans for deficit reduction, high gas prices and dropping

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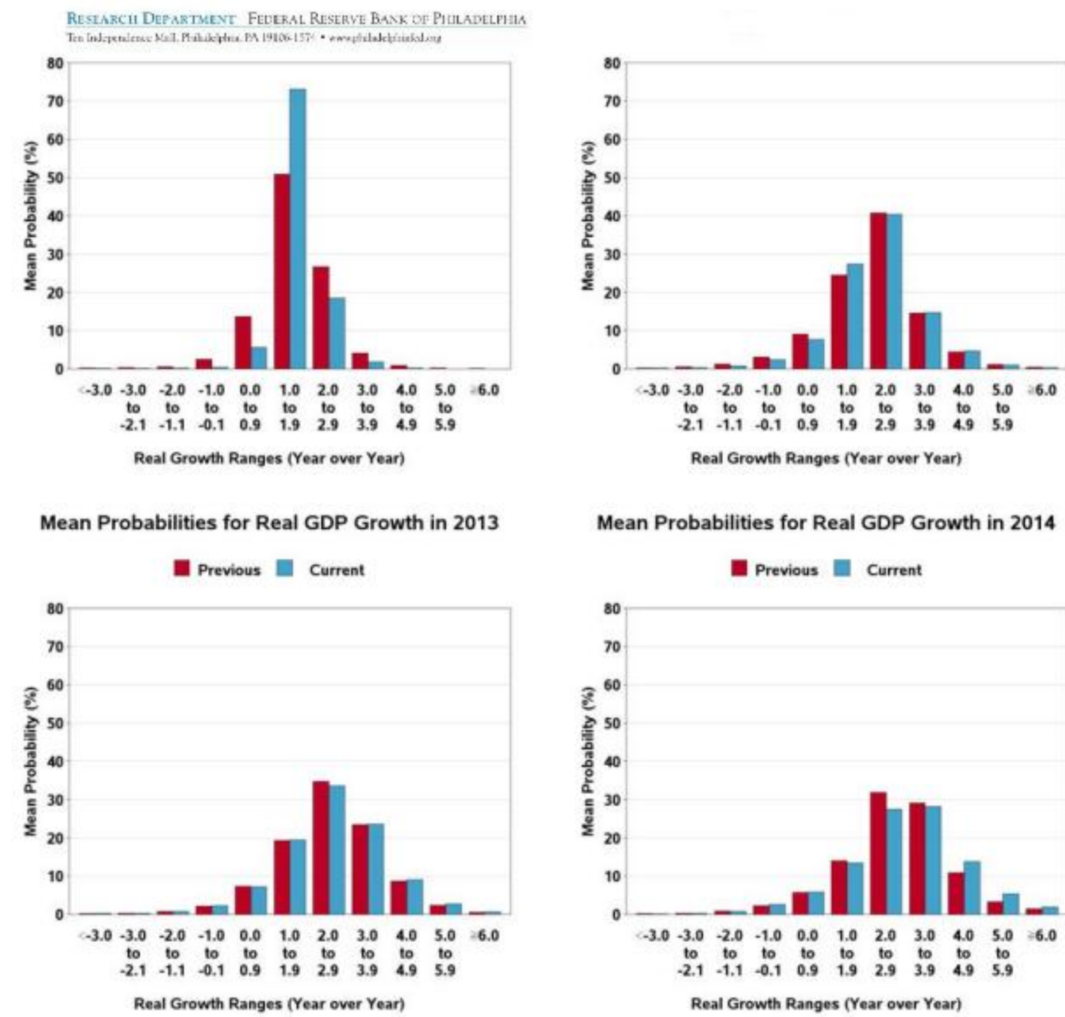
consumer spending are much more significant. For Dunwoody, I feel the deficit crisis will have a long-term negative impact. Most likely, we will see some combination of spending cuts and tax increases (or revenue enhancements as Reagan used to call them.) The spending cuts will, in my opinion, include shifting burdens from the national level to the state level. In turn, states including Georgia will shift burdens to the county and city level. While this will take some time, it is imperative we avoid reliance on state and federal funding sources. This is discussed more later on.

GDP Growth

Since the end of the financial crisis in mid-2009, US gross domestic product (GDP) has grown by only about 2 percent in real terms. GDP growth in the United States slowed from 3.7% in the first quarter to 1.7% and 2.5% in the second and third quarters respectively. The latest Survey of Professional Forecasters from the Federal Reserve Board of Philadelphia predicts GDP growth of 1.8% in 2011 and 2.4% in 2012. This is lower than the last prediction of GDP growth of 2.7% in 2010 and 2.5% in 2011.



Goldman Sachs believe the US is unlikely to get further stimulus and that government will continue to be a modest drag on growth with an increase in the rate of fiscal tightening at the federal level over the next couple of years. This tightening will also result in higher interest rates for any debt we issue. For Dunwoody, this means two things. First, this is likely the time to borrow should we anticipate the need to do so any time soon. Second, holding and building cash for future capital needs would be beneficial. In short, borrow now (if needed) and pay cash later.

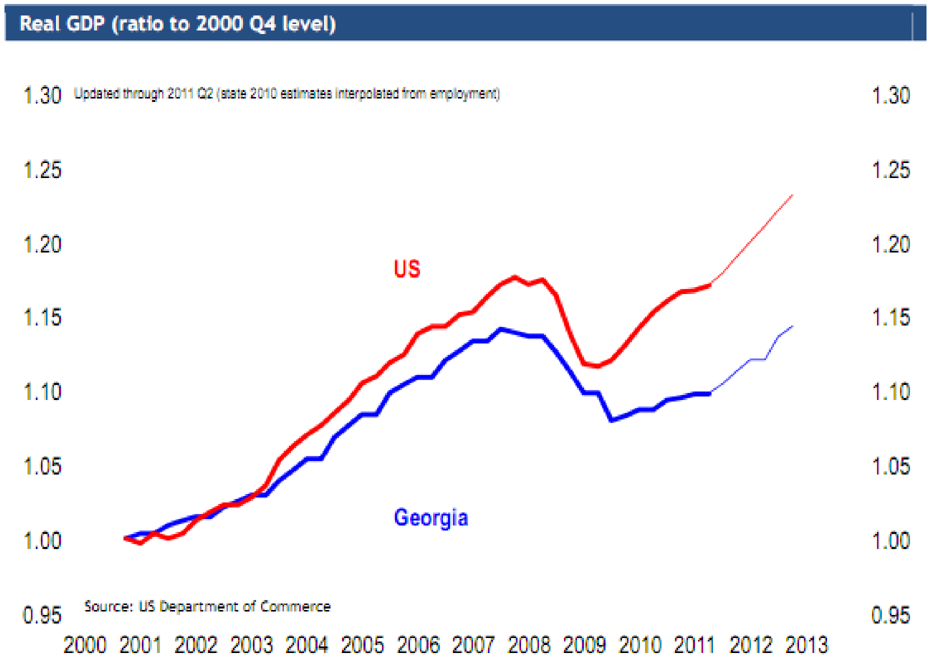
In 2012, the national impact depends on upcoming policy decisions. At best from a short-term perspective, if the Obama administration's package passed, which seems quite unlikely, fiscal drag would be neutralized. At worst, if all temporary stimulus expires, an expected fiscal drag of more than 1.5 percentage points of growth in early 2012 is likely to surface. The more likely outcome is that the administration and Congress agree on tax-related proposals and probably extend the one-year payroll tax cut for one more year. 2013 is also likely to be more problematic, with the national elections, expiration of the Bush tax cuts, and other fiscal stimulus measures.

Above-Trend Growth Remains Elusive

* First principal component of 25 weekly and monthly US activity indicators. Shaded band indicates trend growth of 2.25-2.75%.
Source: Department of Commerce. GS Global ECS Research.

Coming out of the recession, Georgia's economy recovered sluggishly, recording 1 percent growth in 2010. The Selig Center for Economic Growth at the University of Georgia's Terry College of Business forecasted earlier this year that Georgia's economy will sustain the recovery and expand by 2.9 percent in 2011, after adjusting for inflation. That rate of growth in the state's gross domestic product (GDP) will match the nation's growth rate, which will be the first time in seven years that Georgia has caught up with U.S. GDP growth. "As the lingering effects of recent restructuring and the real estate bubble fade, Georgia will begin to outperform the U.S. in 2012," said Dean Robert T. Sumichrast.

However, a research paper from JP Morgan Chase & Co., James Glassman mentions that since 2005 onwards, Georgia's economy has lagged the national economy and 2011 is proving to be more of a challenge. Georgia lagged the national economy during most of the previous expansion and is lagging in the rebound. Georgia’s economy is forecast to continue to ascend slowly into 2012.



Employment Rates

Unemployment rate, at 9.6% in October 2010, dropped to 8.6% in November, remaining stubbornly high. The economy to date only regained about one-fifth of the jobs lost during the recession while the U.S. housing market were visibly weak at historically low levels. Georgia’s unemployment rate is 9.9% as of November.

Unemployment is projected to be an annual average of 9.0 percent in 2011, before falling to 8.8 percent in 2012, 8.4 percent in 2013, and 7.8 percent in 2014. The estimates for 2012, 2013, and 2014 are higher than the projections in the last survey indicating a more pessimistic view. The forecasters’ projections for the annual average level of nonfarm payroll employment suggest job gains at a monthly rate of 106,500 in 2011, and 123,200 in 2012, as the table below shows.

	Real GDP (%)		*Unemployment Rate (%)*		*Payrolls (000s/month)*	
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Annual data (projections are based on annual average levels):						
2011	1.7	1.8	9.0	9.0	111.5	106.5
2012	2.6	2.4	8.6	8.8	150.1	123.2
2013	2.9	2.7	8.1	8.4	N.A.	N.A.
2014	3.1	3.5	7.6	7.8	N.A.	N.A.

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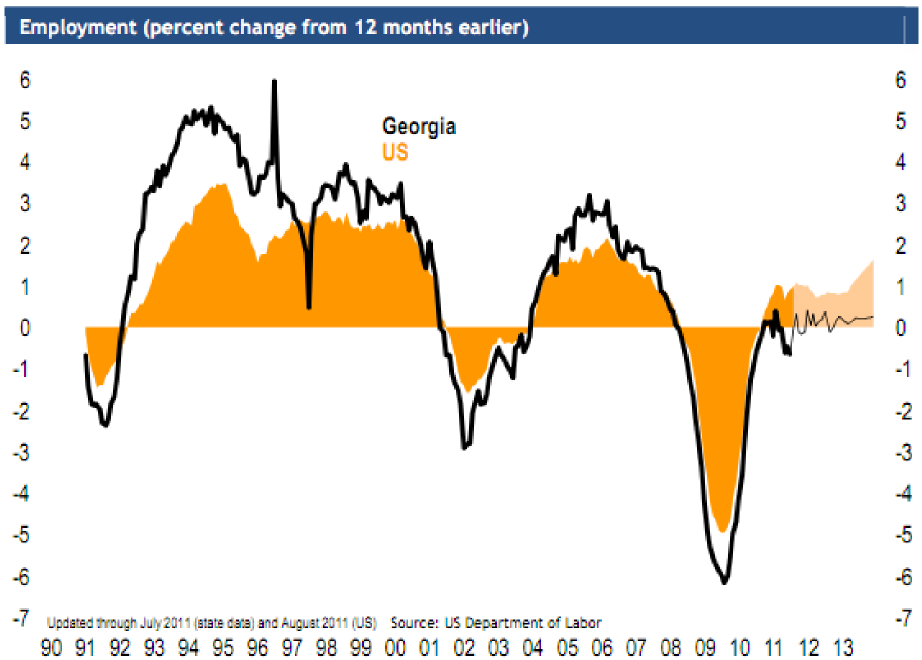
The unemployment rate is the single best indicator of the relative economic performance of a region and by this standard the local economy is weakening, like the national economy. Georgia's unemployment rate appears at least to be stabilizing around 10%. The job market in Georgia remains flat, echoing the state's flat growth profile. The economy is expected to speed up in 2012, but not at a pace that would be expected to revive the job market. For Dunwoody, it's essential to recognize some markets will outperform others and we are benefited by targeting the growth markets.

Job growth in Georgia matched the national average until recently, as labor shedding intensified. Employment has stabilized but Georgia has suffered its most significant economic crisis in a long time, judging by trends in employment. Employment expanded about 5% over the course of the past expansion, like the national average, then contracted sharply and now is almost 4% below.



One thing is very clear for Dunwoody. We benefit from a more educated work force. The unemployment rate for those without post-secondary degrees is more than double those with post-secondary degrees. **Without doubt, it is my opinion our strongest weapon for fiscal resiliency is ensuring our labor market is trained and ready for growth while attracting those businesses that will hire our labor.**

Inflation

Yellen mentioned that inflation picked up significantly over the first half of this year, with the price index for personal consumption expenditures (PCE) rising at an annual rate of about 3.5%. This is well above the level of 2 percent or a little less that most Federal Open Market Committee (FOMC) participants consider consistent with the Federal Reserve's dual mandate for price stability and maximum employment. In contrast, PCE inflation averaged less than 1.5% over the preceding two years. However, she was not of the view that the higher rate of inflation experienced so far this year has become ingrained in the economy, as longer-term inflation expectations have remained stable according to surveys, and market-based measures of inflation compensation are still subdued. In fact, she mentioned, there is a risk that disinflationary pressures could intensify if the recovery falters as the substantial amount of resource slack that is projected to remain in U.S. labor and product markets over the next several years, coupled with sustained growth in productivity, continues to restrain the growth in labor costs, helping to contain inflationary pressures.

The latest Survey of Professional Forecasters from the Federal Reserve Board of Philadelphia predicts little change in the outlook for inflation. Overall CPI inflation in 2012 will average 1.9 percent, down from 2.0 percent previously. Overall CPI inflation will rise to 2.2 percent in 2013, up 0.1 percentage point from the previous estimate. Core CPI inflation in 2012 will average 1.8 percent, unchanged from the previous survey, and rise to 2.0 percent in 2013. The projections for headline and core PCE inflation follow a similar pattern.

Over the next 10 years, 2011 to 2020, the forecasters expect headline CPI inflation to average 2.5 percent at an annual rate. This estimate is up slightly from 2.4 percent in the last survey. Over the same period, headline PCE inflation will average 2.16 percent at an annual rate, down slightly from last survey's estimate of 2.25 percent.

Short-Run and Long-Run Projections for Inflation (Annualized Percentage Points)

	Headline CPI		Core CPI		Headline PCE		Core PCE	
	Previous	Current	Previous	Current	Previous	Current	Previous	Curren
Quarterly								
2011:Q4	2.0	2.0	1.7	1.7	1.7	1.8	1.5	1.4
2012:Q1	2.0	2.0	1.6	1.8	1.8	1.7	1.5	1.6
2012:Q2	2.1	1.9	1.9	1.8	1.6	1.6	1.7	1.6
2012:Q3	2.0	2.0	2.0	1.8	1.8	1.8	1.7	1.7
2012:Q4	N.A.	2.0	N.A.	1.8	N.A.	1.7	N.A.	1.6
Q4/Q4 Annual Averages								
2011	3.2	3.6	2.0	2.2	2.5	2.8	1.7	1.8
2012	2.0	1.9	1.8	1.8	1.8	1.7	1.6	1.6
2013	2.1	2.2	1.8	2.0	2.0	2.0	1.7	1.8
Long-Term Annual Averages								
2011-2015	2.30	2.40	N.A.	N.A.	2.10	2.10	N.A.	N.A.
2011-2020	2.40	2.50	N.A.	N.A.	2.25	2.16	N.A.	N.A.

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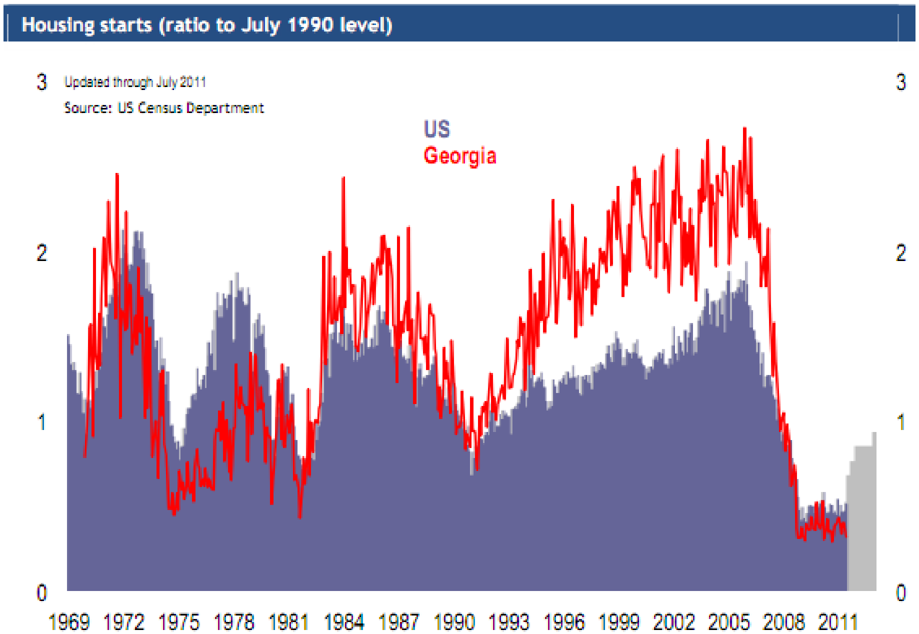
Housing

Janet Yellen directed attention towards the fact that a sharp downturn in housing was at the core of the recent recession and continues to weigh down on the recovery. While robust increases in housing activity helped spur recoveries in the past 50 years, she said, residential construction remains depressed by a large inventory of foreclosed and distressed properties, tight credit conditions for construction loans and mortgages, concerns about further declines in home prices, and the substantial number of homeowners whose mortgage balances exceed the values of their homes. As a result, new home construction currently is at only about one-third of its average pace in recent decades.

House prices across the state still are drifting down and the local housing market has yet to stabilize. Housing starts in Georgia have fallen to the lowest level in decades and home building activity has plunged 80% from the 2005/06 levels, remaining flat. Home building construction probably will remain depressed for a while longer. The number of new single–family housing permits issued in Georgia increased an estimated 9 percent in 2010. This year, it's forecast to increase by almost 16 percent.



Georgia's moderate economic recovery should help to stabilize its housing markets in 2011. Inflated real estate conditions generally were found in states whose house prices matched national trends or rose faster than the national average. States that did not suffer from speculative conditions would be identified by a decline in the relative price of houses in this last decade. House prices have fallen more than the national average in the past year and are as low as they have been in recent memory, in relative terms.

Sumichrast believes that Georgia's prolonged and severe housing bust has run its course as employment and personal income growth are expected in 2011. New jobs, bigger paychecks and stabilizing home values will give more people the confidence to buy homes. As a result, homebuilding will contribute to Georgia's economic growth in 2011.

Complicating matters in December, the National Association of Realtors said Monday it will release downward revisions for previously occupied home sales. Some estimate those revisions to be as much as 15%. Examining the following chart, home prices are down about 20% from the national average, a statistic even more significant when you note our home prices were above the national average before the real estate crash.

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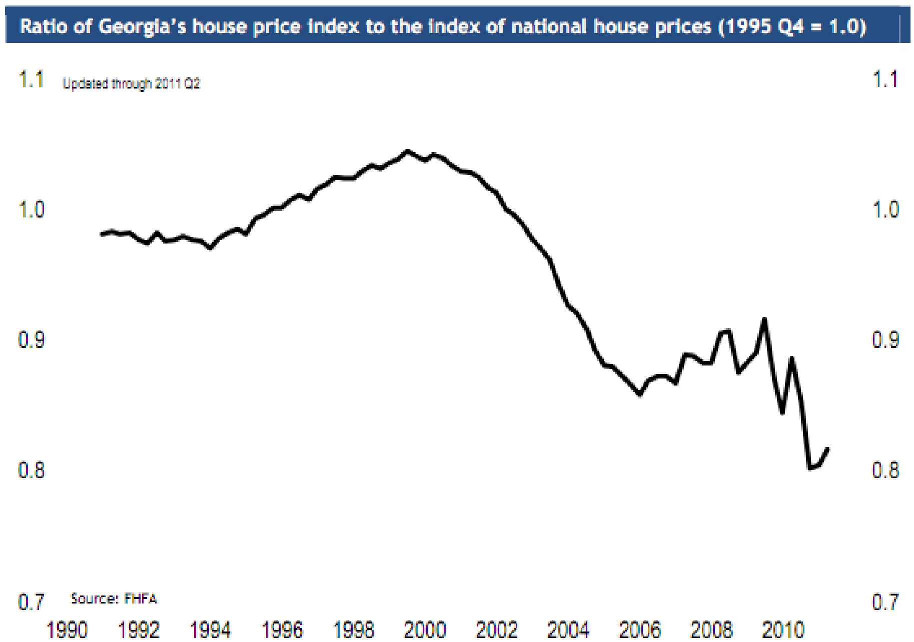


Consumer Spending

Vice Chair Janet Yellen mentioned that the average pace of consumer spending during the past several quarters has been quite weak. High levels of unemployment and underemployment, slow gains in wages, and declines in the values of both homes and financial assets weighed on household spending. While households appear to have made some progress in deleveraging, but many still face elevated debt burdens and reduced access to credit. Moreover, consumer sentiment dropped markedly over the summer and has remained low since then, reflecting households' concerns about the broader economy as well as their own financial situations.

As weak consumer spending increases concerns among businesses about the prospects for sustained growth in the demand for their products and services, many businesses have been reluctant to significantly expand their payrolls. Furthermore, recent surveys have shown some deterioration in firms' hiring plans, and new claims for unemployment insurance by workers who have been laid off remain relatively high.

Prominently, manufacturing activity expanded in September, most likely due to increased export demand, while construction spending climbed in August as public construction rose more than expected. Capital goods orders were strong in August, suggesting robust growth in business investments, both within the U.S. and abroad. Consumer spending has also seen relatively healthy trends as same-store sales for major retailers were better than expected in September and automobile sales rebounded. Dunwoody's occupation tax returns show growth in the area outpacing the state and national growth. Lower gasoline prices should also support consumer spending going forward.

However, it should be noted that personal incomes and consumer credit growth showed subdued trends. Personal incomes declined in August for the first time in nearly two years and real incomes fell even further. Consumer credit declined unexpectedly in August, further confirming buyer reluctance to step up consumption. The continued weakness in the housing sector, despite the fall in the 30-year mortgage rate to below 4% for the first time, is also affecting consumer confidence.

Government Sector

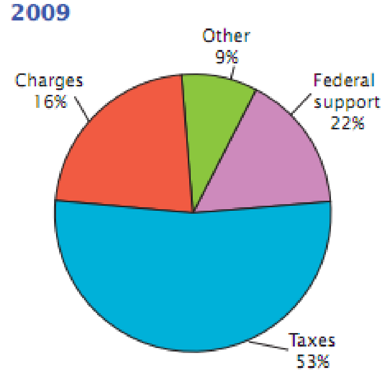
In the government sector, with ongoing pressures on their budgets, state and local governments have continued to shrink their payrolls and reduce their spending on construction projects. Moreover, the boost to the economy from earlier stimulus policies by the federal government has begun to wind down and federal fiscal policy will also restrain the pace of the recovery in the year ahead though it is unclear how the future path for fiscal policy will evolve. The uncertainty surrounding both the federal budget process and the future course of fiscal policy appears to have weighed on household and business confidence of late.

To revive the labor market and help the economy recover, the Obama administration proposed a new stimulus plan worth nearly $450 billion. The plan envisions a further cut in payroll taxes for employees and employers alike, while boosting incentives to employers for new hiring. The administration has also proposed increased spending on infrastructure and some senators have added a new tax on the wealthy to pay for some of the additional spending. However, the proposals are mostly perceived by Congress as short term measures and therefore lack bi-partisan support.

According to the latest State and Local Government Finances Report Summary released last year by US Consensus Bureau, State and local governments are facing significant financial stress from the most recent recession. The impact of economic conditions on state and local finances is most notable in insurance trust revenue and individual and corporate income tax revenue collection. Furthermore, economic stress is showcased in the dramatic increase in unemployment compensation. The market declines in 2009 had a direct impact in not only insurance trust revenues, but also cash and securities holdings, which declined sharply for employee retirement and unemployment trust funds.

State and local government revenues declined 22.1 percent from 2008 to $2.1 trillion in 2009. The decline was driven in large part by insurance trust revenue, which declined 683.5 percent in 2009 from $85.3 billion to −$498.0 billion. State and local general revenues totaled $2.4 trillion in 2009. The major shares of general revenue for state and local governments were taxes (52.7 percent), federal support (22.2 percent), charges (16.1 percent), and other revenue (9.0 percent) as shown in the chart. State and local government general revenue from own sources declined 3.5 percent in 2009 to $1.9 trillion.

Source of State and Local Government General Revenue: 2009



Source: U.S. Census Bureau, 2009 Annual Surveys of State and Local Government Finances.

Taxes represented the largest source of general revenue for both state and local governments in 2009, representing 47.8 percent of general revenue at the state level and 39.5 percent of general revenue for local governments.

Overall, tax revenue declined 4.5 percent in 2009 to $1.3 trillion. Individual and corporate income taxes saw the largest declines in 2009 at 11.3 percent and 19.2 percent, respectively. The majority of tax receipts collected for state and local governments are sales and gross receipts taxes (34.1 percent), property taxes (33.4 percent), and individual income taxes (21.3 percent).

The continued economic downturn caused a decline of Dunwoody's property tax revenues. Real and personal property taxes two years ago were estimated at $6.43 million. The FY 2011 Budget estimated only $6.01 million. This year, the number drops to an estimated $5.72 million. Only a limited amount of new development exists as businesses wait for the right opportunity to expand operations. Offices continue to consolidate; leaving vacant rental space. And just as it took time for the negative values to reflect the economy, the increase in assessed values will likely tail the economic recovery.

State governments were most dependent on sales and gross receipts taxes and individual income taxes, which accounted for 82.5 percent of total state government tax revenue. As part of selective sales taxes, motor fuel, alcoholic beverage, and tobacco products taxes were overwhelmingly collected by state governments, with state government making up 96.2 percent of the state and local total

Additionally, the past several sessions of General Assembly included discussions regarding curbing or eliminating several of municipal revenue sources such as property taxes. Efforts to pass State tax reform legislation stalled this year as concerns about raising taxes on middle-class tax payers and the accuracy of estimates in the analysis were raised. Although the final outcome is not known at this time, items clearly on the table of discussion include property taxes, sales taxes, franchise fees, and insurance premiums taxes. **Combined, these taxes account for over 60% of our revenues and actions taken at the state level could prove crippling at the local level.** Furthermore, tightening at the Federal level reflects the reality of a new standard that is sure to have an effect at the state and local levels. As I mentioned before, there will be pressure at the state and federal level to reduce the tax burden. The easiest thing for the federal government to do is shift responsibility to the state level without reducing the benefits. In turn, the easiest thing for the state legislature to do will be to reduce local taxes collected at the state level; avoiding spending cuts in state programs while providing tax cuts to residents.

In July 2012, the State of Georgia will ask voters in Metro Atlanta to increase the sales tax by a penny to pay for regional and local transportation improvements. If the referendum passes, the City will receive funding for traffic signal timing improvement and improvements to Mount Vernon Road ($12,000,000). In addition, if the referendum passes, the City will receive approximately $1 million per year (for 10 years) from the sales tax that must be spent on local transportation improvement projects. This dedicated source of funding will allow the City to move forward with the projects identified in the Comprehensive Transportation Master Plan. However, you'll not the potential reductions in the previous paragraph outweigh the additional revenues from the TSPLOST.

During the same time period, state and local indebtedness increased 5.1 percent to $2.7 trillion, with local governments accounting for 61.0 percent of the total amount of state and local debt outstanding. Outstanding state indebtedness in 2009 was 39.0 percent of the combined total state and local indebtedness.

Nationally, the end of the cold war around 1990 marked a new and awkward period for our country where taxes could be lowered without reducing benefits and social programs. Accordingly, those taxes were lowered while needs in education and infrastructure was neglected. Over the past two decades, that neglect is painfully evident as our roads deteriorate and our student's test scores lag other countries. National politicians in the past

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have made promises as to what they can "give" the voters. In the future, politicians will make promises as to what they won't "take away" from the voters. We are already seeing this at the state level since we have balanced budget laws. It will also become a reality at local levels. **For Dunwoody, this means evaluating long-term resiliency is critical. We should make deliberate efforts to ensure new programs, new departments, and even new employees can be sustained indefinitely.** We cannot simply add a expenses with short-term revenues and hope a permanent source appears down the road. Also, and to restate a previous opinion, our economic resiliency will rise and fall with the quality of our education system and infrastructure. And to add, our infrastructure should include bandwidth and telecomm capacity, not just the roads and traffic planning.

Examining the "Winners"

Dunwoody, to date, has a great culture. Our corporate "DNA" strives for excellence and best practices on just about everything we endeavor. To be fiscally resilient, our goal should not be merely to solve immediate funding problems. That is far too narrow. Coping with these problems is important—well, it's more than important. It's necessary and urgent—but it is only a means to an end. Our greatness will be that we not only met challenges, we do it in ways that leave people in our dust—so as to emphatically assert or reassert our leadership. The goal should be greatness; not just survival. The goal should be resiliency and not just sustainability. Survival of the fittest is not about who is the strongest or biggest. Just ask California, Illinois, or Birmingham. It's about those departments and organizations that are quickest to change course when the situation changes. When the world gets really fast, the speed with which Dunwoody can effectively observe, orient, decide, and act matters more than ever.

Not all governments have been crippled from the economic recession. In fact, many have thrived. Those who thrived had five common characteristics. Around the country, some local governments have adjusted to the new economy quite nicely. We can examine what successful organizations did before and after the recession to determine what we should do. So who's winning the battle? Following, I identify some things we can do to improve fiscal resiliency. Resilient governments have done five core things over the past few years. These five things are not the cause of their resiliency, but rather the results of their resiliency. Those governments achieved or retained AAA bond ratings, added jobs in a slumping economy, built a database of resources, valued long term planning, and prepared for the future. A resilient system not only survives shocks, it thrives even under conditions of adversity. Should the market, lawmakers or Mother Nature make a sudden disruptive move in the wrong direction, we need the resources to shield ourselves from the worst effects. Winston Churchill was fond of saying that "America will always do the right thing, but only after exhausting all other options." With our infancy, we have to be careful because we have few other options to exhaust when it comes to our finances.

Examine other resilient governments identifies eight essential characteristics of a fiscally resilient system. Jamais Cascio pointed out in a 2009 article that resiliency is a reflection of a government's diversity, decentralization, foresight, redundancy, transparency, collaboration, flexibility, and its ability to fail gracefully.

Diversity: Avoiding a single point of failure or reliance on a single solution

Diversity involves two things. First, Dunwoody needs to keep a multi-faceted perspective on financial health. The most fundamental aspect of "diversity" in financial planning is a multi-faceted perspective on financial health. We can't evolve in a vacuum. Council, the

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City Manager, and department heads must be involved in setting goals and vision. Keep up with economic trends. Know where your tax base is going. Know your larger tax payers, and then know their goals and visions. The planners' viewpoint should not be limited to focusing on revenues and expenditures. Land-use patterns, demographic trends, and long-term liabilities (such as pensions) must all be carefully monitored. For example, long-term financial planning has highlighted the connection between land-use policy and financial condition for many of our research subjects, thereby directly influencing land-use policies.

Second, Dunwoody needs to maintain or improve our diversity of funds. While most of our current general fund revenues are from taxes, those revenues come from a wide pool of taxpayers and include a diverse pool of tax sources. Property taxes are less than a third of our current budget compared to over 85% in some local governments. We need to work to maintain our diversity or even expand it through user fees, grants, donations, intergovernmental agreements, in-kind contributions from nonprofits, privatization when it makes sense, concessions, and sponsorships. Also, we need to document and plan this diversity via a revenue sources manual.

Decentralization: Centralized systems look strong, but when they fail, the failure is catastrophic.

Decentralization is about engaging operating departments in financial planning so that everyone thinks more strategically about finance, rather than long-term financial health relying solely on the efforts of central administration. The bedrock of decentralization is for all departments to be responsible for their own budgets. Ancillary benefits include promoting eagerness and buy-in, as well as honing understanding and creating succession options. Decentralization allows you to do more with less people. The consistent & meaningful involvement of all departments in identifying issues and developing strategies is a consistent theme in financially resilient governments.

Curtis Carlson is the CEO of SRI International, which serves as an innovation factory for governments and companies on topics ranging from education to clean energy to homeland security. "There are few problems left today where one person with one skill can solve them," he explained. "That means you had better assemble the best team. Not a good team—the best team. You don't want to be 'world class.' That just means there are a lot of others like you. You want your team to be best in the world." Resilient organizations have staff who are involved and make key decisions. That doesn't mean the City Manager and department heads don't have key jobs though. Carlson claims, "My job is to help create an environment where those decisions can happen where they should happen—and to support them and reward them and inspire them."

Redundancy: Have more than one path of success.

Financial reserves are the easiest form of redundancy when maintaining a budget level, but not the only way. Resiliency also includes redundancies with suppliers, contractors, programs, and staff.

Foresight: You can't predict the future, but you can hear its footsteps approaching.
Never let a budgetary constraint distract you from your mission. Always be prepared to answer the question, "How can I now achieve my program goals without the funding I requested?" Our current environment is in a flatter world where change is happening quickly. A decade ago, Facebook didn't exist, twitter was just a sound, a cloud was merely something in the sky, 4G was just a parking space, and Skype was a typo spellcheck

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missed. The Internet has leveled hierarchies and broken up monopolies everywhere, it is hard to believe that it will not have a substantial impact on our departments. Continuous innovation is not a luxury anymore—it is becoming a necessity. In the hyper-connected world, **whatever can be done, will be done. The only question for you is whether it will be done by you or to you: but it will be done.** Dunwoody needs to lead the next change.

Transparency: Don't hide your systems. Transparency makes it easier to figure out where a problem may lie. Share your plans and preparations, and listen when people point out flaws.

Research subjects found that full-cost accounting for services (direct and indirect costs) is essential to resiliency. Transparency leads to trust, as everyone can see what the true cost of doing business is for all services, including support services such as budgeting and finance. Transparency and trust leads to better-informed discussions about the relevance and contribution of services, and to opportunities for enhancing revenues, for increasing operational efficiencies, and for enhancing the credibility of the financial management system among management, elected officials, and the public. Transparency reduces your risk of failure; especially when that failure is from public backlash. Transparency reduces your risk of not knowing what your customers want. Transparency keeps your customers informed; therefore helping you stay informed with valuable feedback. Transparency holds you accountable. Transparency prevents future (knee-jerk) regulations. Transparency reminds us of our role to serve others. Transparency identifies your strongest advocates.

Collaboration: Work together to become stronger.

Collaboration is staff, citizens, businesses, and elected officials working together to become stronger. Elected officials have an incalculable impact on financial health because they have the final say over tax policies and budgets. Collaboration with elected officials is important to build service priorities into plans. Collaboration with transparency builds trust. General Martin Dempsey is the Chairman of the Joint Chiefs of Staff who stated "If we could only do one thing with new soldiers, it would be to instill in them trust for one another, for the chain of command, and for the nation. Collaboration is important on the battlefield and trust is the cement of collaboration," said Dempsey. "And trust is the prerequisite for creativity. You will never be creative if you think that what you have to say will be discounted. So creativity cannot happen without trust, communication cannot happen without trust, and collaboration cannot happen without trust. It is the essential driver."

Fail Gracefully: Failure happens. Make sure a failure state won't make things worse.

Failing gracefully is best achieved by "predicting" the failure and averting it when that future is not what you want it to bbe. A projected imbalance isn't cause for recrimination – it is an opportunity to take preventative action to avoid crisis. Financially resilient governments are careful not to position forecasts as a "prediction" of future financial position, but rather as a tool to: 1) recognize longer-term issues that require a strategic approach; and 2) establish financial parameters within which service strategies must operate.

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In Florida, the state distributes sales taxes on a per-capita basis, rather than the point-of-sale method found in many other states. As a result, cities in Florida don't have the same powerful incentive for commercial development that many other cities have. Coral Springs, though, has recognized that commercial properties are not subject to the same property tax restrictions as residential properties (e.g. assessment valuation caps), so commercial properties remain important as net contributors to financial health. This nuance has led Coral Springs to emphasize diversity in local land use, while many other cities in the area are primarily residential. **Why does that matter … it's about to happen in Georgia!** Failing gracefully answers the question, "What next?"

Flexibility: Be ready to change when plans aren't working. Don't count on stability.

Be ready to change when plans aren't working. Don't expect stability. **Most importantly, don't be afraid to deviate when something new surfaces.** I've seen leaders and cities fall because they refused to admit their plan was imperfect when another opportunity presented itself. Dunwoody must regularly diagnose the strategic environment to know when flexibility may be required, create financial models to show the impact of changes, and evolve and adapt the financial planning process itself. Financially resilient governments are constantly monitoring their environment and financial condition to see if financial strategies are working and to learn of conditions that might call for a change in approach. Again, survival of the fittest isn't about size or strength. It's entirely about who can adapt the quickest in an ever-changing environment. Dunwoody must evolve continue to evolve our planning processes as needed to address new issues, accommodate new stakeholders, keep up with best practices, and otherwise adapt to the changing needs of the organization.

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