



# **Leaders Vision Finance**


**“Building financially-based visions of excellence”**

A hosted, collaborative thinking event

with

**Alden B. Davis**

**27 April 04**



The future  
creates the present  
against a backdrop of the  
past.

# Today's Purpose

To consider possibility thinking & personal vision as part of the leadership we provide  
In a way that equips us with the financial savvy of CFO's and exposes the mental model of Mayors and CEO's  
So that we create financially-based visions of excellence for our city.

## **Products**

- **Demystify the world of CFO's**
- **Provide a framework for our creativity**
- **Stimulate possibilities**
  
- **Appreciate the elegant solutions available to those who can unlock the delicate balances and interdependencies within municipalities**

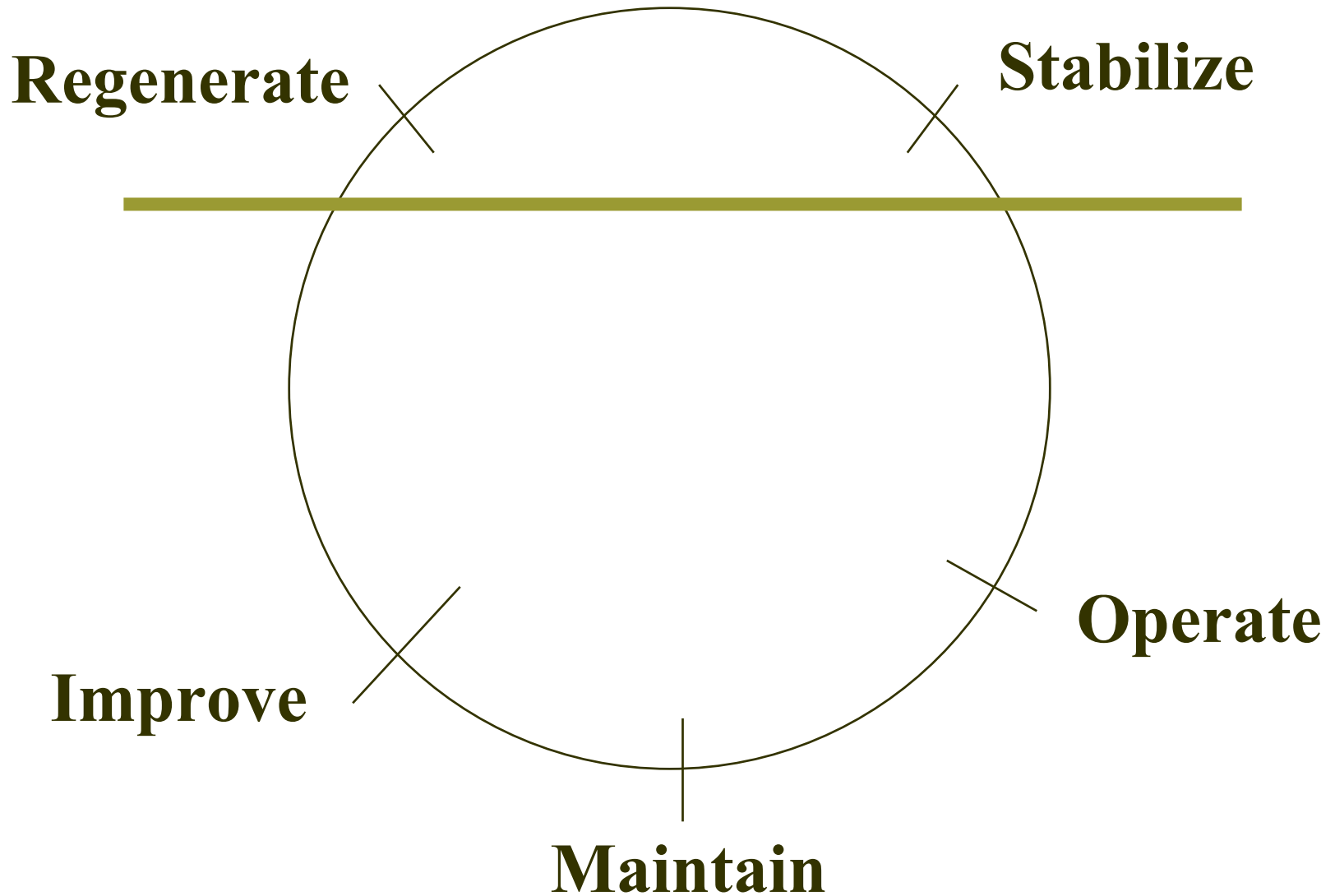
# Similar Businesses?

- We are both funded by customers to deliver a product.
  - Pratt takes raw materials and delivers a jet engine
  - Schools take a little person and deliver a citizen
- Our customers “vote” in the marketplace with their feet.
  - GE or Rolls Royce products
  - Voucher movement / private schools
- Quality is determined by a specification.
  - FAA, military, industry standards
  - Mastery test scores, learning objectives, graduation requirements
- Product must be delivered within funding levels
  - Shareholders get ever-increasing returns
  - Taxpayers get no tax increases year-over-year

## **A.D.'s Beliefs**

1. Municipalities are in a situation requiring a regeneration of their business.
2. You are influential in resourcing and leading the regeneration.
3. The lack of delivery on municipal basics precludes the ability to influence strategic questions in a meaningful way.
4. The change process used must model the desired end-state.
5. Groups of people equipped with vision are uniquely empowered.

# Process Life Cycle



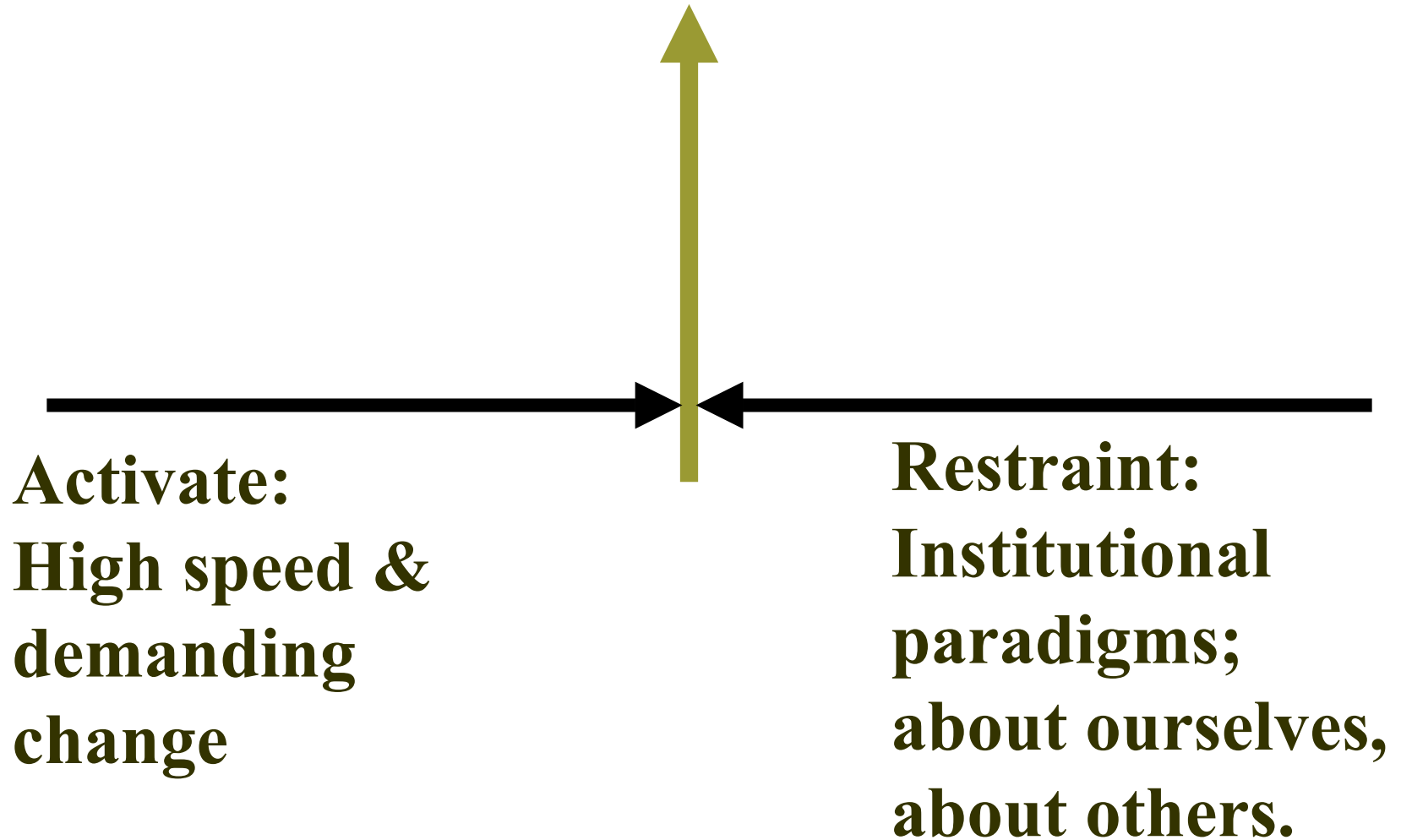
## PREMISE

People are experiencing comprehensive change which must be successfully navigated...and

you are organizationally positioned to serve as positive and thoughtful guides for the rest of the organization.



# How do we reconcile?





Ultimately Possible

Hope

Reality

Immediately Impossible



**\$hifting**

**Performance**  
**Using the *Value Tree***

# Opening Questionnaire

1. Most of our people can personally connect their daily work and associated expenses to an Income Sheet and Balance Statement. T F
2. Our financial people understand the impact of “lean” so well that they are tough negotiators when setting budget expectations for our lean projects. T F
3. Our organization shares a common understanding of the word “value.” T F
4. Our Lean-leaders in Hartford have personal vision of value creation. T F
5. “Value” is realized when a lean project has been completed. T F
6. Pursuing lean projects make sense because they are the right thing to do. T F
7. Shared understanding of the city and its finances increases peoples’ ability to “do.” T F

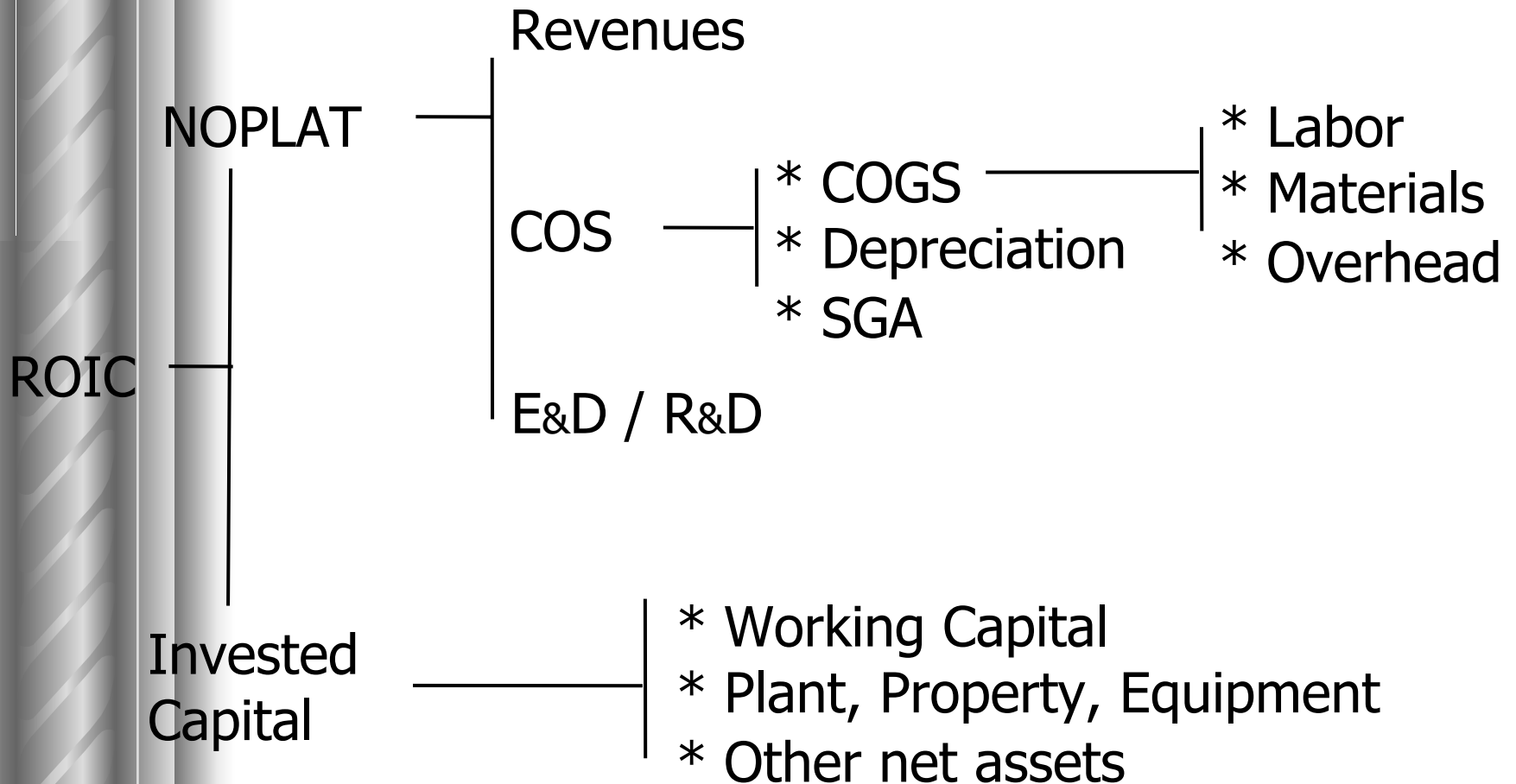
# What is the Value Tree?

- Financial model of the business on one page
  - Visually oriented
  - Interactive
  - Easily understood by people
- Financial tool for developing business context
  - Interrelationships of various dollar flows
  - Drivers of business decisions
- Financial “range-finder”
  - Target identification
  - Target selection
- Financial-world de-mystifier
- Financial guidepost helping answer the essence question...“Is the institution increasing its value (how much its worth) or destroying its value?”



Getting to know "the tree"

# The Value Tree Exercise



# The Value Tree for Targeted Insight

**Sales /Marketing:** Quality of sales \$; preparing for improvements

Fin.Analyst: Budgeting improvements

Ops/Shop: Knowing the big “whys”

HR/IR: Enablers of change

**Procurement:** Supply chain mgmt

EHS/Med: Waste chain mgmt.

Quality: More than SR<sup>2</sup>

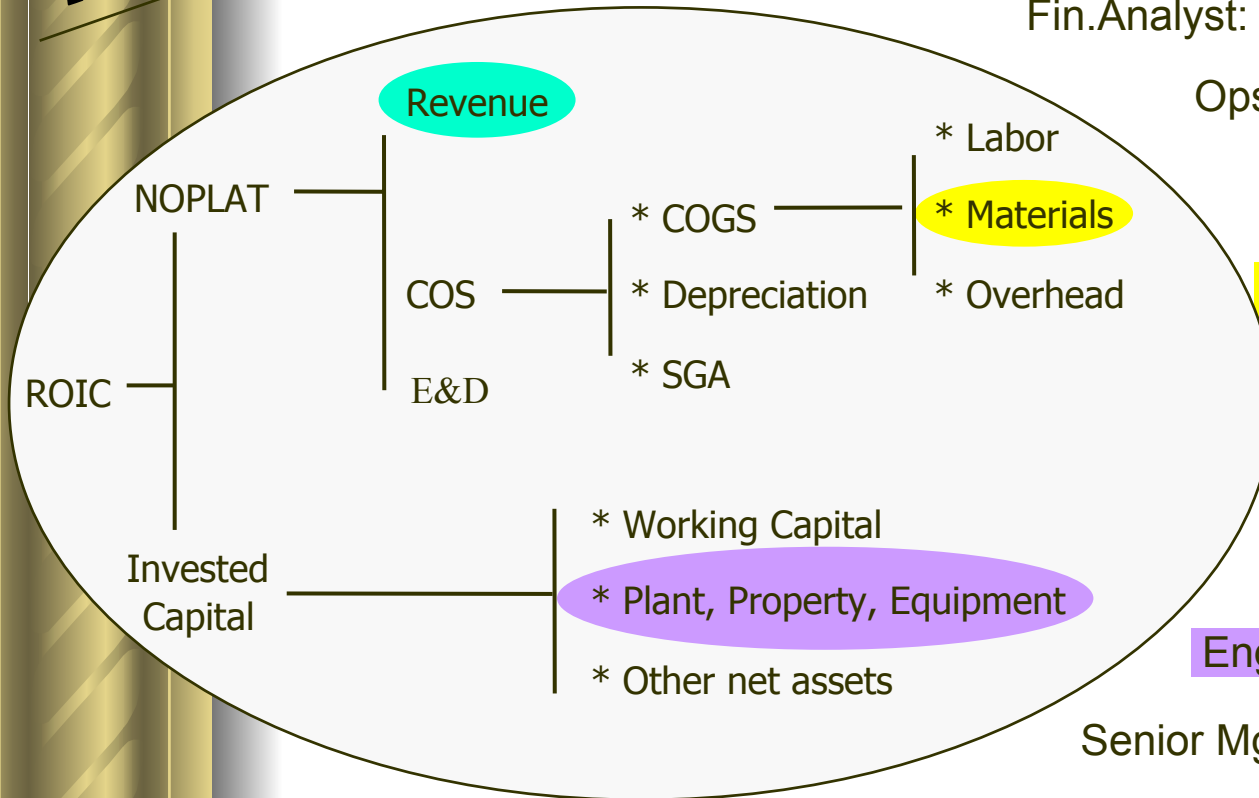
Facil./Maint: TPM & Utilization

**Engineering:** Defining infrastructure

Senior Mgmt: Targeting & implications

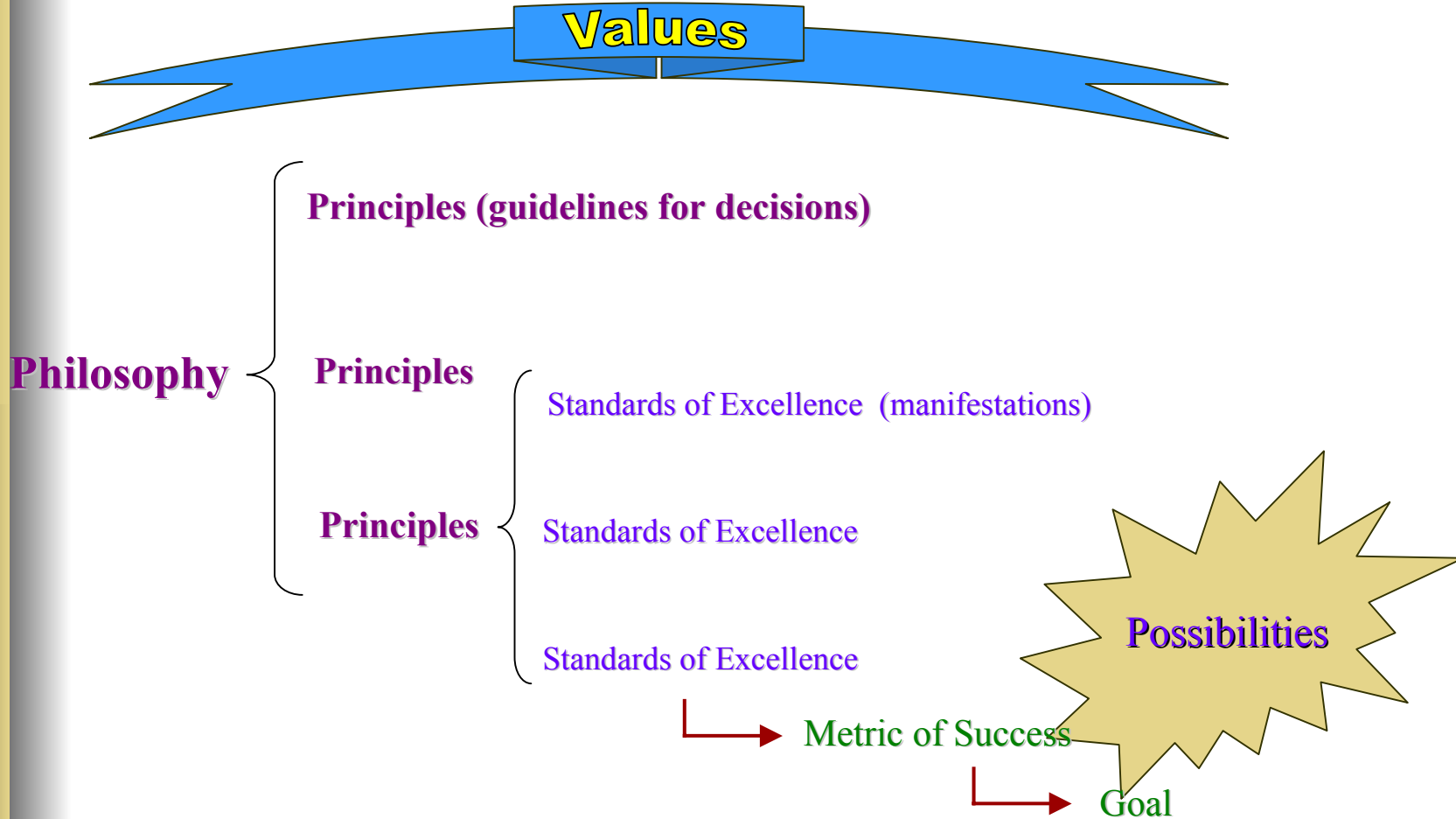
Financial Planning: Detailing long-term performance

Order-to-Cash: Optimizing an enterprise flow



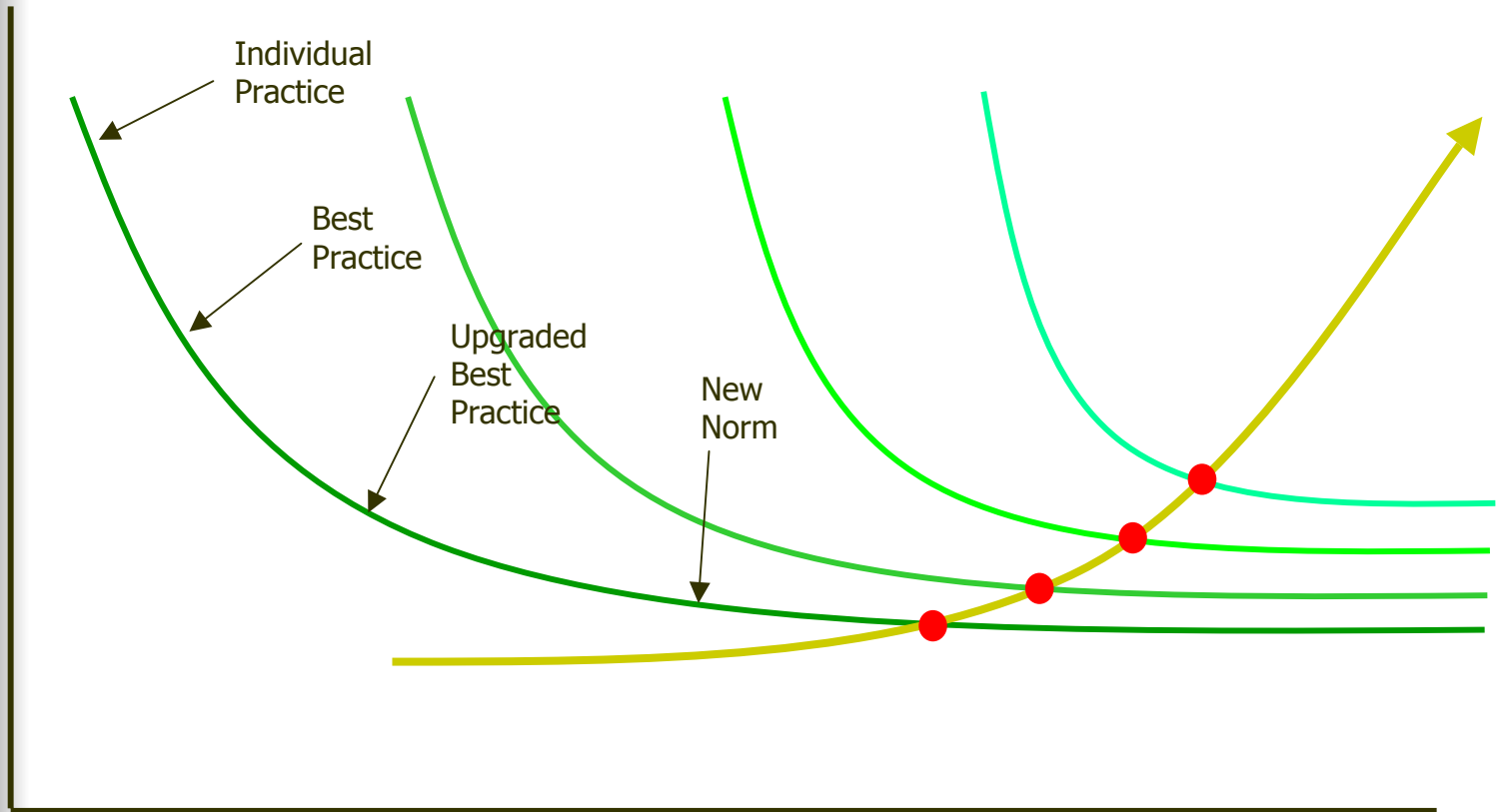


# Standards of Excellence



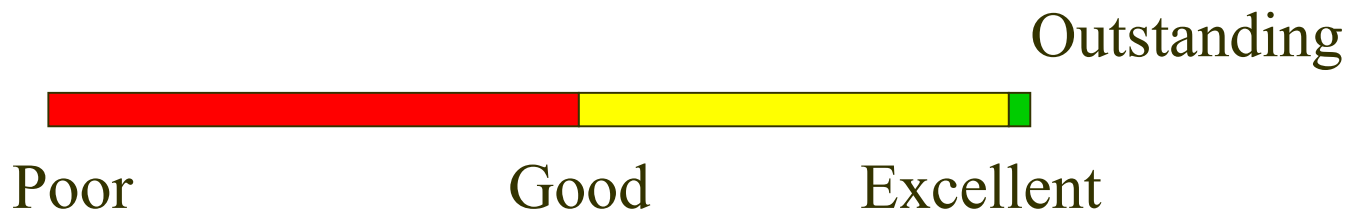
**Standard of Excellence:** the criterion for measuring or judging goodness as established by an authority.

# Learning Organizations Achieve Continuously Improving Results with Greater Ease Over Time



# Our Choice

- Poor standards deliver Downright Bad results/rewards
- Good standards deliver Poor results/rewards
- Excellent standards deliver Good results/rewards
- Outstanding standards Take all the rewards



...a key metric for the quality of our standards would be our bond rating!

### Moody's and Standard & Poor's Rating Codes

These rating systems are similar, although not identical. The chart is a key to reading the ratings:

Moody's	S & P's	Meaning
<b>Aaa</b>	<b>AAA</b>	Bonds of the best quality, offering the smallest degree of investment risk. Issuers are exceptionally stable and dependable.
<b>Aa</b>	<b>AA</b>	Bonds of high quality by all standards. Slightly higher degree of long-term investment risk.
<b>A</b>	<b>A</b>	Bonds with many favorable investment attributes.
<b>Baa</b>	<b>BBB</b>	Bonds of medium-grade quality. Security appears adequate at present but may appear unreliable over the long term.
<b>Ba</b>	<b>BB</b>	Bonds with speculative element. Moderate security of payments; not well safeguarded.
<b>B</b>	<b>B</b>	Cannot be considered a desirable investment. Small long-term assurance of payments.
<b>Caa</b>	<b>CCC</b>	Bonds of poor standing. Issuers may be in default or in danger of default.
<b>Ca</b>	<b>CC</b>	Bonds of highly speculative quality; often in default.
<b>C</b>	<b>C</b>	Lowest rated class of bonds. Very poor prospects of ever attaining investment standing.
<b>-</b>	<b>D</b>	In default.

# For example...



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About Edina](#)

## **Bond Rating**

Independent bond rating agency Standard & Poor's in 2002 upgraded its rating for the City of Edina's general obligation bonds.

Standard & Poor's upgraded Edina's general obligation (GO) bond rating to AAA, the company's highest rating. Edina is just the fifth city in the state to receive the rating. Bonds issued by Minneapolis, St. Paul, Rochester, and Bloomington also have Standard & Poor's AAA rating. There are just 55 cities in the country with the AAA rating. Of those, Edina is just one of 20 with a population less than 50,000.

Moody's Investors Services, another independent bond-rating agency in 2000 gave the City of Edina its highest rating, Aaa. Edina is just one of three Minnesota cities to have the top rating from both agencies. The other cities are Bloomington and Rochester.

Standard & Poor's emphasizes four factors when assigning the AAA rating to a municipality. The factors are: strong and proactive administrations, effective debt management with moderate to low debt, a vibrant and diverse economy and strong finances.



# Edina they say...

According to Standard & Poor's officials, the AAA rating specifically reflects Edina's continued above-average financial performance with very high fund balance levels, ongoing growth of the local economy, which has continued to diversify the tax base and attract new development of both retail and commercial property despite the fact that the community is almost completely developed, and ongoing strong management practices."

Additional factors include the City's participation in the Minneapolis MSA and role as a first-ring suburb in the prosperous western suburbs of the Twin Cities and a manageable debt burden with most GO-backed debt supported by tax-increment financing or other revenue sources. The stable outlook attached to the rating shows Standard & Poor's expectation of the City's continued strong financial performance with good fund balances and appropriate management of its debt profile.

# AAA-rated Cities and Counties

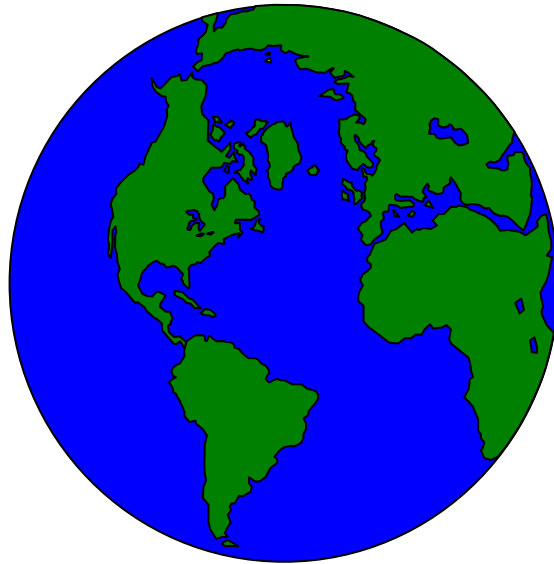
## Cities... "the coveted 13"

- Cambridge, MA
- Charlottesville, VA
- Columbus, OH
- Dallas, TX
- Edina, MN
- Denver, CO
- Minneapolis, MN
- Overland Park, KS
- Santa Monica, CA
- St. Paul, MN
- Vancouver, BC
- -
- -

## Counties

- Albemarle County, VA
- Alexandria County, VA
- Arlington County, VA
- Dane County, Wisconsin
- Fairfax County, VA
- Franklin County
- Henrico County, VA
- Mecklenburg County, NC
- Wake County, NC

# World Class Lean Concepts





# *Improvements Possible*

Key results to be expected with a soundly implemented and well maintained "kaizen."

Immediately:

- 20% - 30% Productivity improvement
- 30% - 40% Increased equipment uptime
- 30% - 50% Reduction in space run ts.
- 10% - 20% Reduction in purchased costs
- 50% - 60% Improvement in product quality
- 10% - 20% Reduction in WrkComp Accrual
- 70% - 90% Reduction in WIP inventory

*Translating into value?*

# Success Looks Like...

**Given The ValueTree**

**Let's have a conversation**

**In a way that sizes the possibility-  
thinking required by this group.**