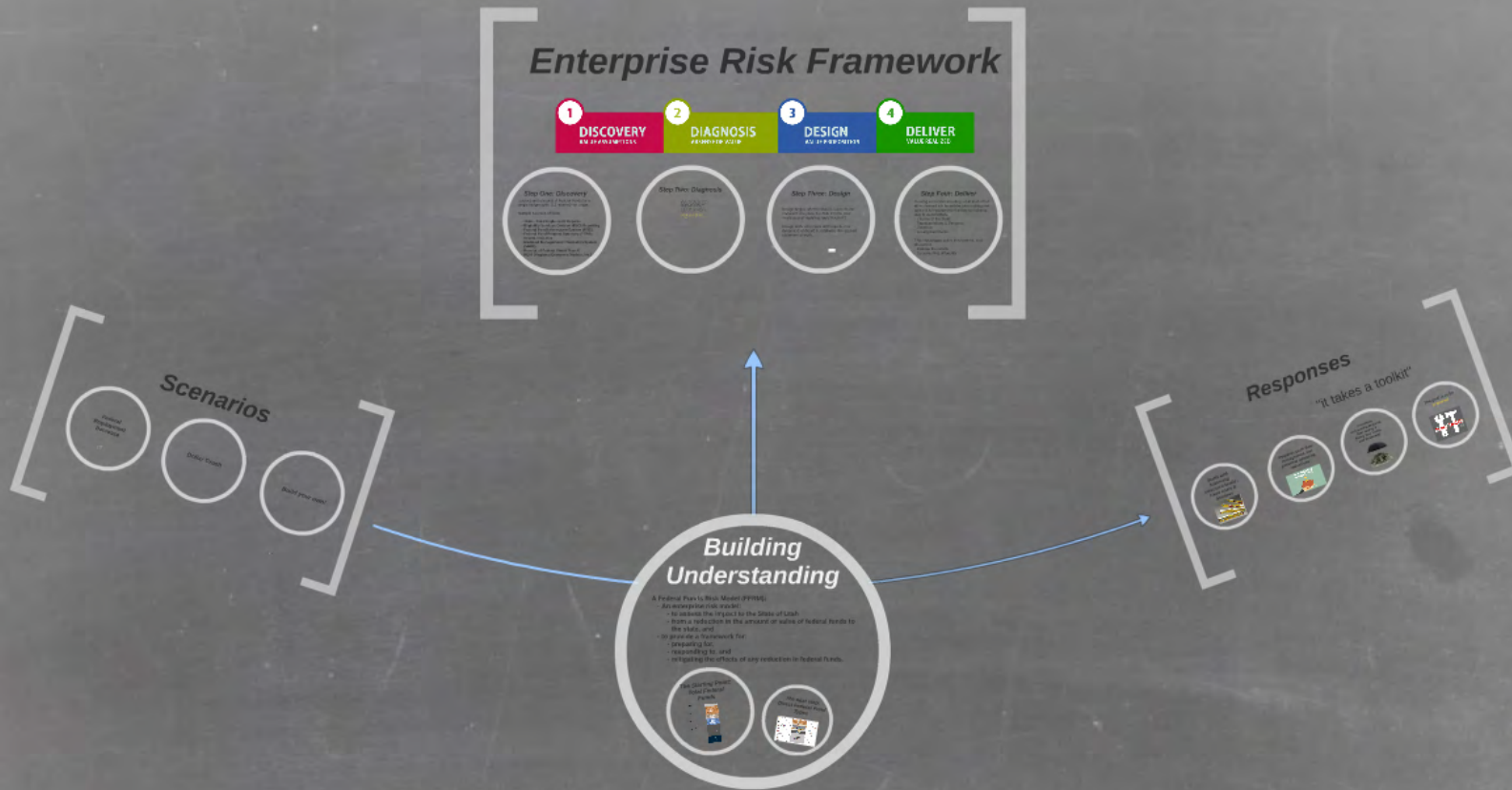


# Federal Funds Risk Model

Q&A

Federal Funds Risk Model (FRM) Q&A



# Federal Funds Risk Model

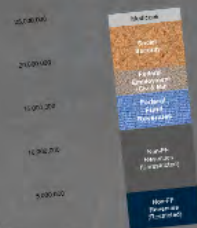
Q&A

# Building Understanding

## A Federal Funds Risk Model (FFRM):

- An enterprise risk model:
  - to assess the impact to the State of Utah
  - from a reduction in the amount or value of federal funds to the state, and
- to provide a framework for:
  - preparing for,
  - responding to, and
  - mitigating the effects of any reduction in federal funds.

### The Starting Point: Total Federal Funds

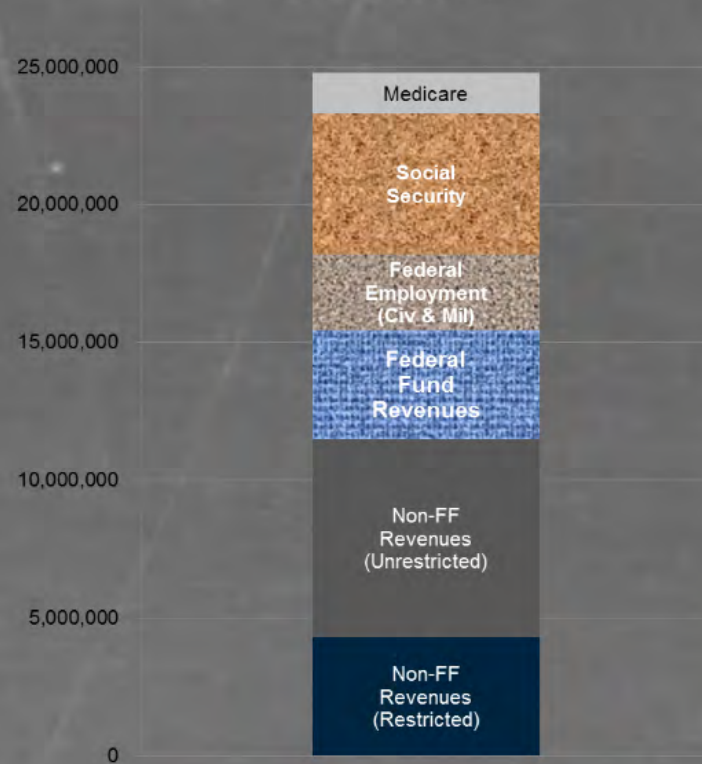


### The next step: Direct Federal Fund Types





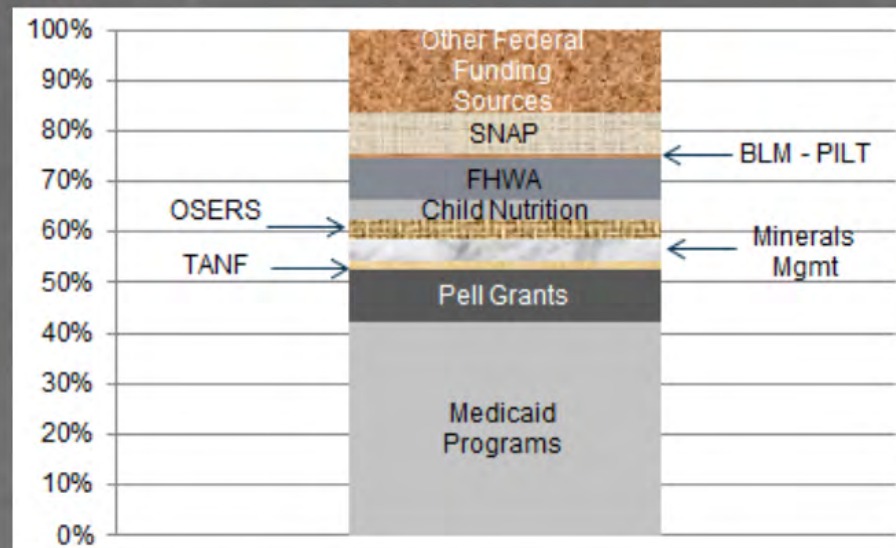
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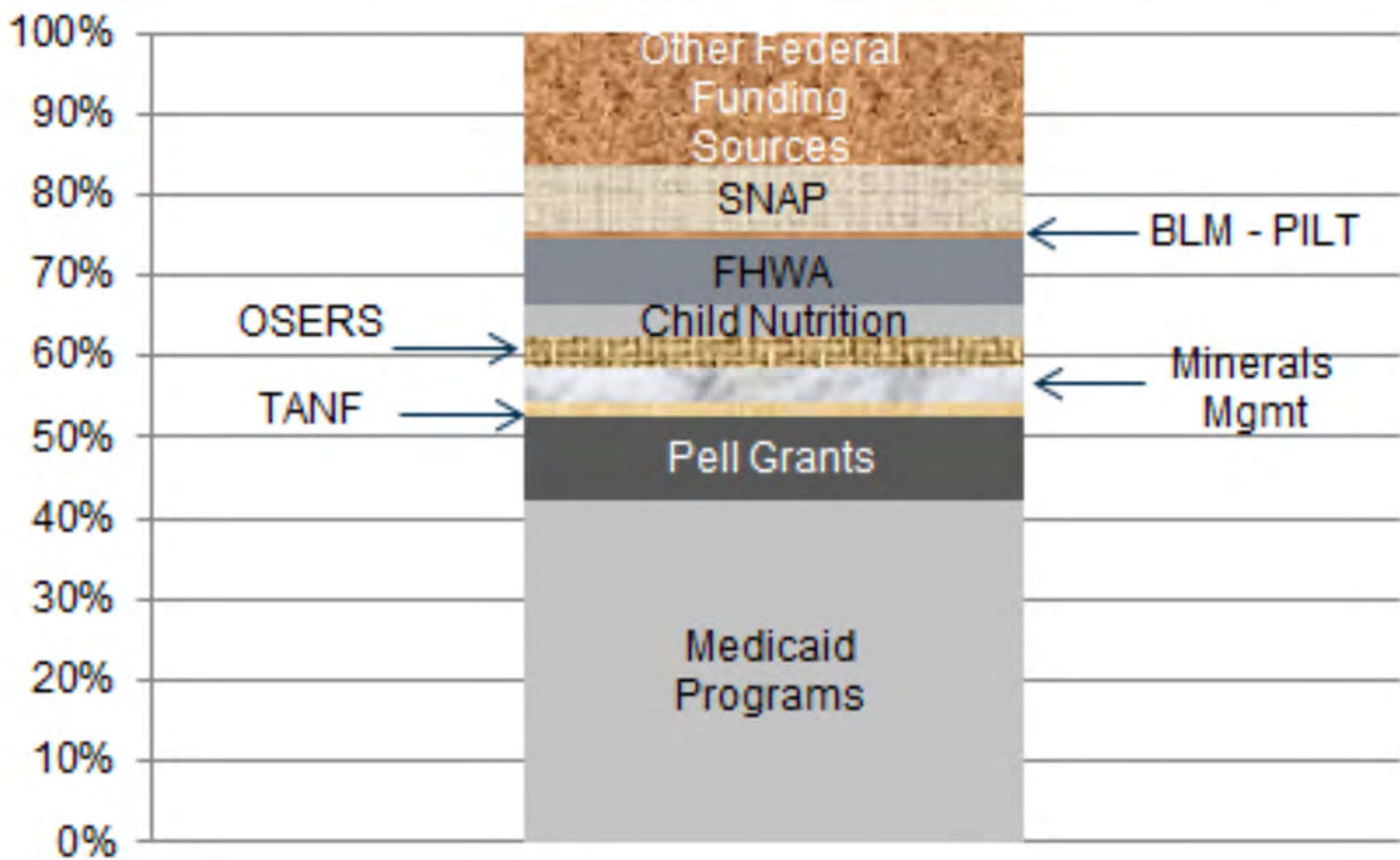
# Funds

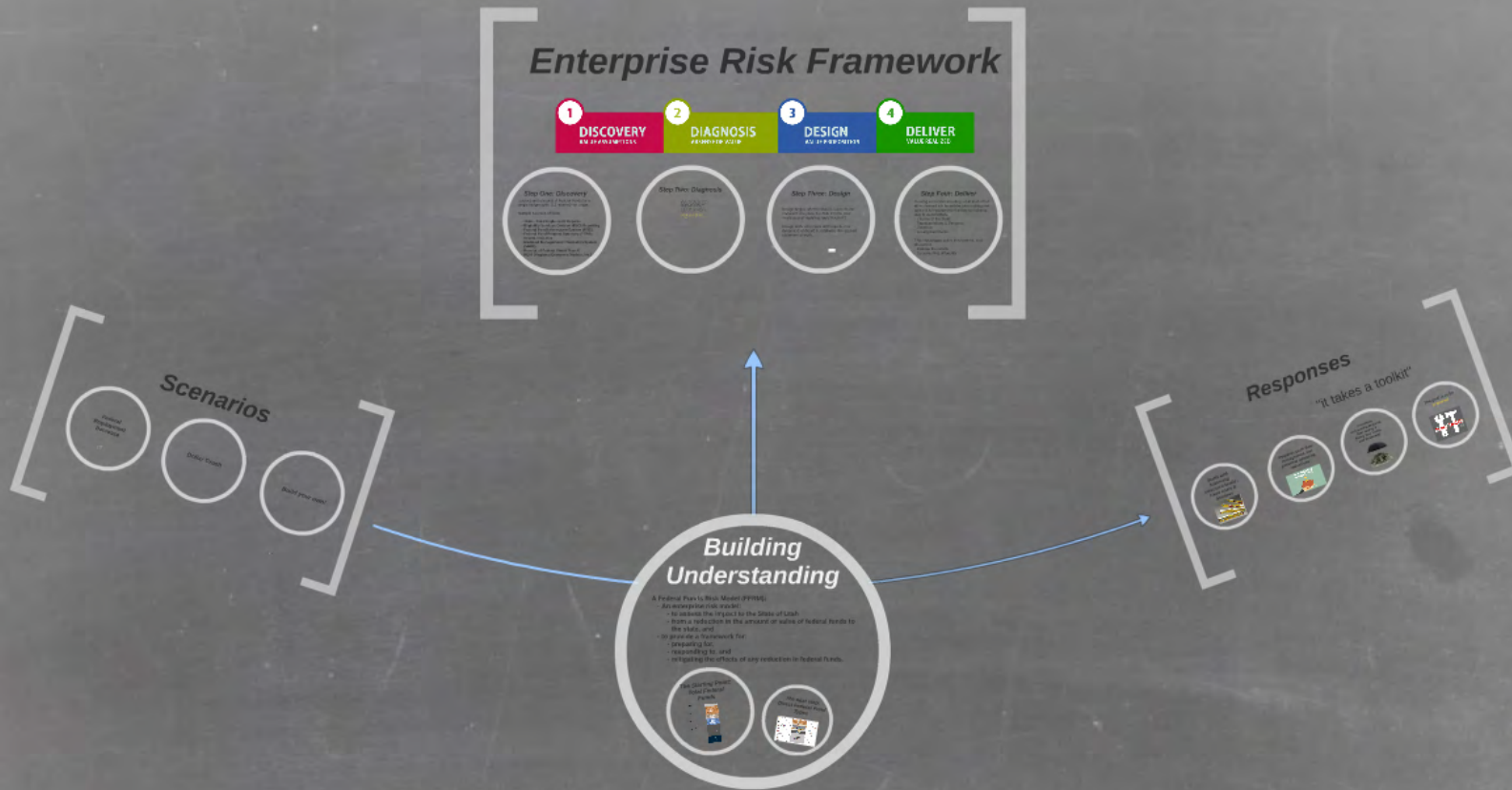


# The next step: Direct Federal Fund Types









# Federal Funds Risk Model

Q&A



# Enterprise Risk Framework



**Step One: Discovery**

Sources and amounts of Federal Funds for a single budget cycle (12 months) – or longer.

Sample sources of Data:

- 2010 – 2014 Single Audit Reports
- Eligibility Services Division (ESD) Reporting
- Federal Fund Information System (FFIS)
- Federal Fund Request Summary (FFRS)
- Grants Utah Gov
- Medicaid Management Information System (MMIS)
- Receipt of Federal Funds Report
- REMI (Regional Economic Models, Inc.)

**Step Two: Diagnosis**

**Step Three: Design**

Design begins after the data is sourced and reviewed. We place the data into the Risk Analysis and Modeling Tool ("RA&M-t")

Design ends with inputs and outputs, in a dynamic dashboard that delivers the required statement of work.

**Step Four: Deliver**

In using and communicating a risk model that drives toward risk based decision making and policy, it is important for the data to make its way to stakeholders.

- Citizens of the State;
- Representatives & Senators;
- Governor;
- Local governments.

This encourages active involvement, and discussion

- Manage the results
- Do something differently



## ***Step One: Discovery***

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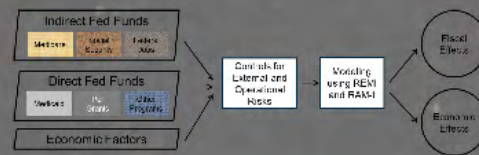
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# Step Two: Diagnosis

The FEDERAL FUNDS RISK MODEL should allow policymakers and even members of the public, if feasible, to run different risk scenarios and receive output showing the impacts for state government, translated, if possible, to a level of service.

Ideally, the FEDERAL FUNDS RISK MODEL will include a user-friendly digital interface that will allow policymakers and, if possible, the public to conduct "what if" analysis

To show the impacts resulting from different possible efforts to respond to or mitigate the impacts from a reduction in the amount or value of federal funds.

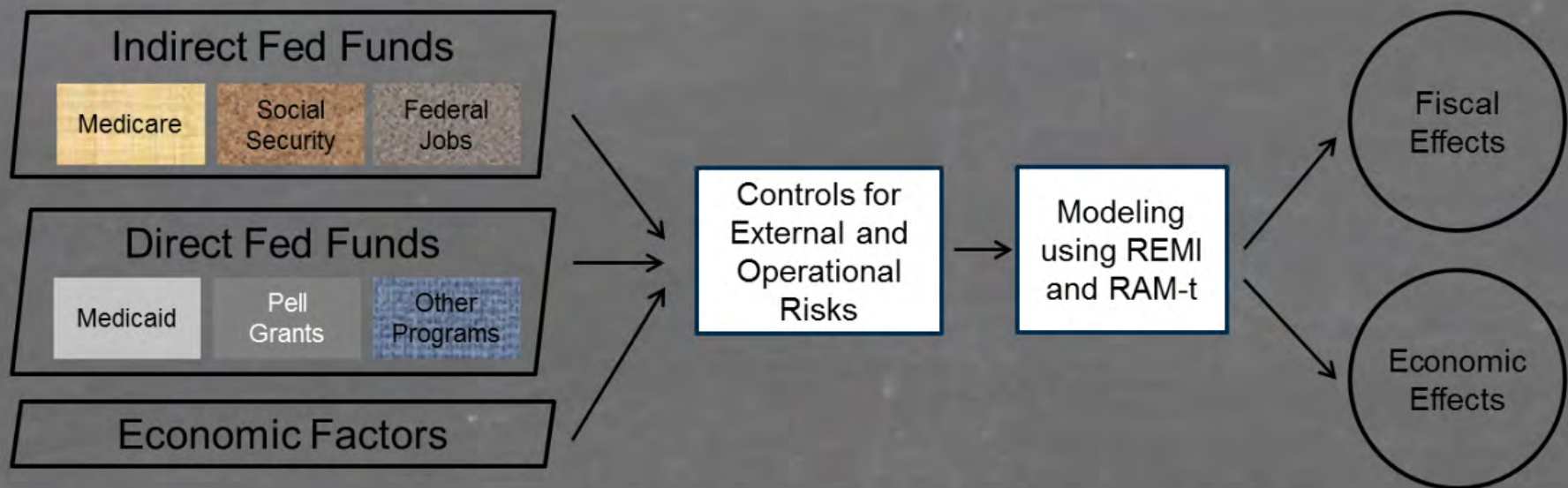




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### Scenario Factors

Destructive

Sequester  5%

Interest Rate  0 bp

Medicaid Programs  0%

Military Funding  0%

---

### Mitigations

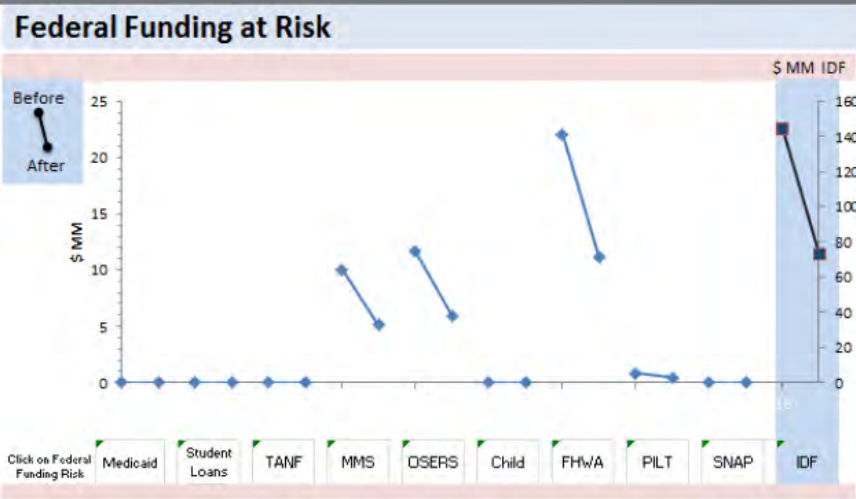
66%

Revenue  \$61 mm

Service Level  \$3 mm

Debt  1.42% of Ceiling

Reserves  0.26% of Funds



### Indirect Federal Funding IDF

Includes Federal civilian and military wages, Social Security, and Medicare

Federal Funding at Risk

Before Mitigation: **\$144.06 mm**

After Mitigation: **\$73.31 mm**

Cost of Funds: **\$8.42 mm**

Improvement: **+49.11%**

### Economic Impact

	<u>Base</u>	<u>At Risk</u>	<u>Mitigated</u>
Jobs	1,452 k	6 k	2,910 k
GDP	\$148,500 mm	633 mm	311 mm
State and Federal Direct and Indirect Funding	\$24,857 mm	189 mm	93 mm

### Revenue Volatility

	<u>General Fund</u>	<u>Education Fund</u>	<u>Total</u>	
<u>Base at Risk</u>	\$67 mm	\$122 mm	\$189 mm	<u>Per Cent of Debt Capacity</u>
<u>Mitigated</u>	\$22 mm	\$39 mm	\$61 mm	
Revenue	\$22 mm	\$39 mm	\$61 mm	<b>0.0%</b>
Service Level	\$1 mm	\$2 mm	\$3 mm	
Debt	\$0 mm	\$0 mm	\$0 mm	
Reserves	\$0 mm	\$0 mm	\$0 mm	
Total	\$23 mm	\$42 mm	\$64 mm	
<u>Mitigated Value</u>	\$44 mm	\$80 mm	\$124 mm	<u>Per Cent Debt Ceiling</u>
Forecast Error	\$4 mm	\$9 mm	\$13 mm	<b>60%</b>
Variance (F = Favorable   U = Unfavorable)	U \$40 mm	U \$71 mm	U \$111 mm	

## ***Step Four: Deliver***

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# *Scenarios*

*Federal  
Employment  
Decrease*

*Dollar Crash*

*Build your own!*





## Scenario considerations:

- Federal Employment Cut Widening Federal budget deficits force program managers to furlough government employees and send contractors home.
  - Assumption: 10% Federal Civilian Reductions
- While not subjecting Hill AFB to a Base Realignment and Closure (BRAC), the Department of Defense scales down and redeploys several components of the Air Base Wing. The redeployments are all outside of the State of Utah.
  - Assumption: 15% Federal Military Reduction

# ***Dollar Crash***

© 2008  
© 2007  
© 2006  
© 2005  
© 2004



## Macro economic events considered:

- The demand for dollars suddenly drops as more and more countries hold reserves in non-dollar currencies, for example, the Chinese Yuan.
  - Assumption: 5% devaluation of the US Dollar
- The Federal Reserve begins to tighten the money supply by buying US Treasury securities which has the effect of increasing interest rates.
  - Assumption: 300 basis point (3%) increase in Interest Rates
- In the short term an increase in interest rates translates into higher credit costs. These costs are passed on to consumers. Prices begin to rise.
  - Assumption: 200 basis point (2%) increase in credit spreads
- The Federal budget deficit widens enough to trigger sequestration of many Federally funded programs, including education, management of Federal lands, and transportation.
  - Assumption: 3% Sequestration



***Build your own!***

<http://federalrisk.le.utah.gov/>





**Not unlike building a house  
Use the right tools to:**

- Size the foundation
- Put up the walls
- Weather proof your roof
- Mitigate your risks



"Plan for the worst, hope for the best"

# Responses

"it takes a toolkit"

Starts with  
balancing  
structural levels :  
Fixed costs &  
Services



Requires cash flow  
management and  
potential spending  
reductions



It involves  
anticipating impacts,  
then saving \$ :  
(Rainy Day Funds  
and Reserves)



The goal is to be  
*prepared*



***Starts with  
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**THE TOP CASH FLOW  
MANAGEMENT TOOLS**



**DIRECTCAPITAL**  
a CIT company

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## Recommendations

- **Centralized grant management**
  - Purchase an integrated grant management system for increased efficiency, accuracy, and transparency
  - Integrate with existing enterprise financial system
  - Extend existing Federal funds review process
  - Layer resources on existing processes
  - Improve data quality, access, and utilization
- **Expand existing risk management to Federal funds**
  - Require structural balance of Federal funds in the appropriations process
  - Identify appropriate buffer layer
  - Find the best mitigation responses
  - Reduce risk exposure
- **Integrate into broader Enterprise Risk Management framework**
  - Federal Funds Risk Model (FFRM) into Grant governance and Fiscal Health Dashboard
  - FFRM to include:
    - Accountability
    - Costs, to include Indirect and structural costs

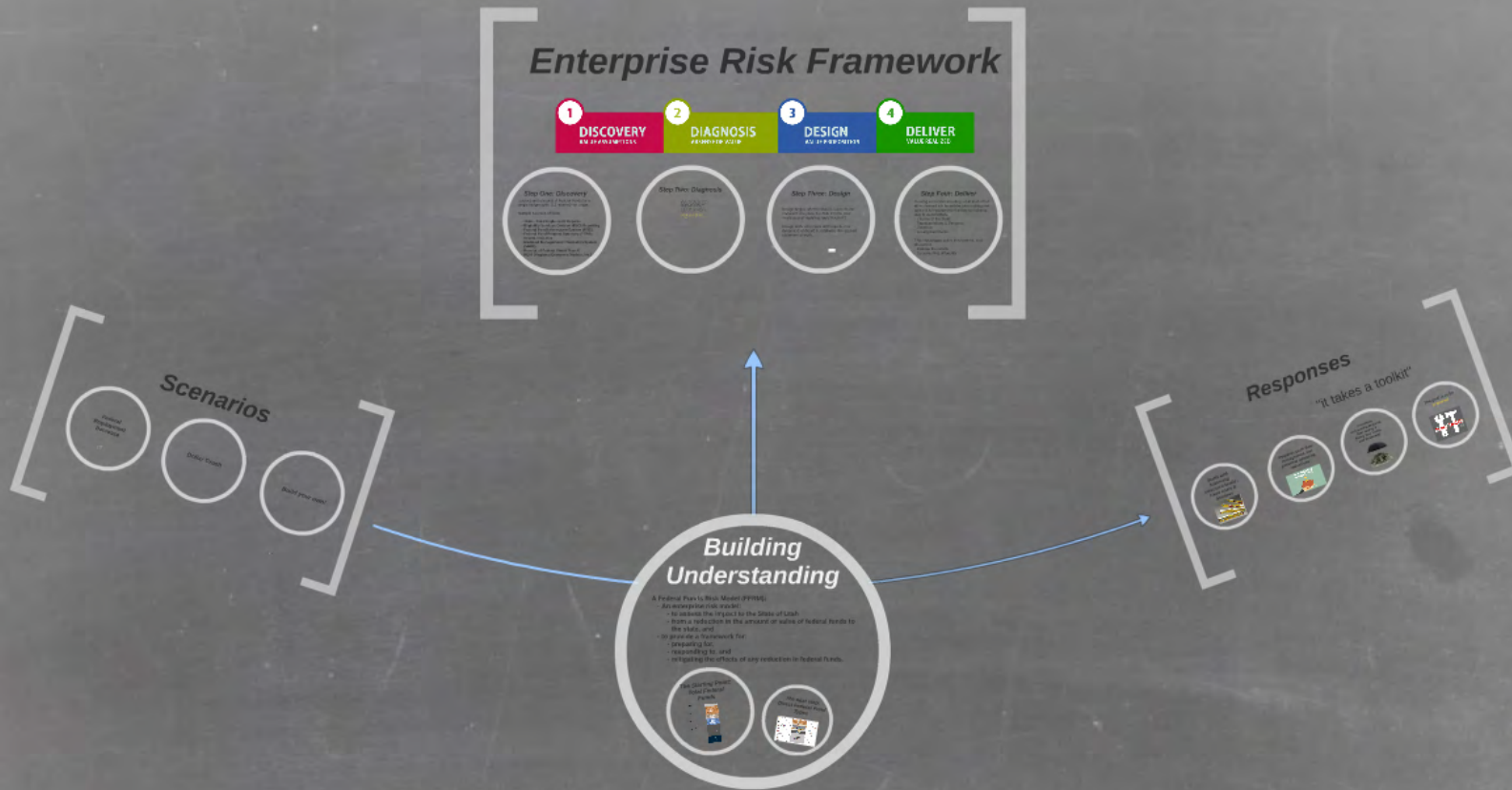
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# Federal Funds Risk Model

Q&A

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Full report production delivery 09/30/15