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OPTION AND DECISION MEMOS

BASIC COMPONENTS

1. **Define the problem:** Why are you writing and why should the reader be interested?
2. **Summarize your findings**
3. **Step back and show how you got there:** Give a roadmap of the framework of your memo
4. **Generate criteria for evaluating options for change**
5. **Analyze each option according to your criteria:** What are the pros and cons? What's feasible? What are the predictable outcomes?
6. **Support assertions with relevant data**
7. **Consider qualifications, caveats, counterarguments**
8. **Suggest next steps or other implementation issues**

This first page of a student memo is a good example of "skimmable" formatting.

MEMORANDUM

To: Mayor Coleman Young
From: John S. Smith
Re: Raising the non-Resident Income Tax
Date: March 13, 19xx

The budget problem facing the city is serious. The deficit is projected by the Budget Department to reach \$72 million in fiscal year 1976-1977 and reach \$500 million by 1981-82. Given the sensitivity of the auto industry to the national and international economy, permanent relief may only come from a national economic recovery that is not expected for a period of years. Thus, while it is unfair to project current recessionary spending and revenue patterns into the 1980s, the short-term problems are serious and require immediate action.

The city needs to cut the deficit by at least \$30 million in the short run. Completely closing the deficit is not in the city's interest. A deficit reduction plan which raised the entire \$72 million could cause a severe economic shock to an already fragile economy and exacerbate out current problems. Instead, we should aim to maintain the deficit at its current level using the appropriate accounting methods, and await the more permanent relief that comes from an economic recovery.

As part of a general deficit reduction problem, the city should take steps to raise the non-resident income tax rate from ½ to 1%. Several strong arguments exist for raising the non-resident income tax rate. They include:

- **The suburbs are underpaying for service provided by the city.** Currently non-residents pay only half of 1% to Detroit in income taxes. Residents, on the other hand, pay 2%. While service reimbursement taxes are useful, many services, such as police and fire protection, street cleaning, etc., defy easy reimbursement schemes.
- **Raising the tax rate from ½% to 1% has a relative low cost to non-residents.** The median income for a suburban worker is approximately \$15,000 to \$16,000. An increase in the tax rate to one percent only decrease the annual pay of a worker making \$16,000 by \$60, or just of \$3 per bimonthly paycheck.
- **The current relative income tax levels create incentives for Detroit residents to move to the suburbs.** Currently residents of Detroit pay 2% in local income taxes, while suburbanites pay only 1%. Increasing the non-resident tax rate to 1% would change the suburbanite tax rate to at least 1 ½% and attenuate the current disincentive.



CHECKLIST FOR WRITING ACTION MEMORANDA

Structure

- Directly address your reader's needs in the opening lines.
- Cover background in just a few words and then go quickly into a summary of your recommendations.
- Break down your discussion into meaningful sections in a significant order, reflect that order very briefly in your opening paragraph, and then stick to it.
- Use subheads to summarize key points, like headlines, for easy skimming (in boldface or underlined).
- State the main idea of each paragraph within the first two sentences.
- The rest of the paragraph supports or qualifies the main idea with concrete data.
- Distill and group information into bullet points with appropriate headings.
- If using a conclusion, frame your recommendations in a broader context, rather than merely summarizing your main ideas.

Content

- Anticipate your reader's most pressing needs and focus on what you know and she or he doesn't.
- Specify your assumptions and justify them when necessary.
- Keep discussions of problems and their potential solutions close together and indicated as such.
- Find creative, meaningful ways to express key statistics.
- Evaluate your options by balancing out their costs and benefits.
- Briefly discuss alternatives or counterarguments whenever feasible.
- Balance recommendations with discussions of their evaluation and implementation
- Consider the political implications of your recommendations whenever relevant.
- Whenever possible, provide your reader with fallback positions in case your preferred options are not attainable.
- Make sure issues of equal importance take up equivalent space: the more important, the more space, and vice versa.
- Consider closing with a discussion of "next steps"-- short- and long-term implementation.

Audience

- Give your reader a clear answer to his or her paramount concern: "Why am I reading this?"
- Recognize your intended reader's degree of prior knowledge: try not to over- or under-explain.
- Anticipate your reader's probable questions, concerns, and objections and answer them directly.
- Choose your words carefully: your memo may be forwarded to secondary readers

Style

- Avoid such wordy introductions as "It is an important consideration to keep in mind that . . ."
- Instead, you just get right down to the point.
- Never use two words when one will do.
- Use the active voice whenever possible.
- Use parallelism in all types of lists.
- Choose the plain English word over its more inflated Latinate equivalent.
- Match vocabulary, word choice, and use of jargon to your reader's background and level of expertise.

Brief Guidelines for Writing Action Memoranda

1. Incentive:

Let your boss know why he or she should be concerned with this issue at this time. Why is this on his or her desk now? Why can't it wait?

2. Assumptions:

Specify broad assumptions that frame the memo. Why are some things in or out of the memo? "Assuming our current policy...." "Assuming Congress would not...."

3. Options:

Present clear choice of options. Make sure all major options are considered, but avoid clutter of irrelevant options (justify why some are not elaborated). Identify sub-options so that decisionmakers can quickly observe how they differ. Some simplification is essential, but it needs justification beyond sandwiching a preferred option between formal alternatives. Beware of bureaucratic tendencies to trade away options in advance and present lowest common denominators.

4. Context:

How does this issue relate to other issues currently under consideration? Would the options look different if the context were presented differently?

5. Fallbacks:

Remember Murphy's law and prepare your boss for the worst. Identify the costs if a preferred option fails. What are the fallbacks? Will the wrong sequence of actions close off some fallbacks? Beware of letting the best (your preferred option) destroy the good (a less desirable but more attainable option).

6. Probabilities:

Describe the probabilities that the costs and benefits of various options will be realized. How sensitive are they to changes in various assumptions? If some larger framework changes, would the probabilities (and weighting of the issues) change significantly?

7. Time Horizon:

Action memos must focus on the specific issue at hand, but action-forcing events often provide opportunities to direct attention to longer term issues. A good memo writer often can put the immediate issue into a longer term framework.

8. Brevity:

Be brief. Your memo is one of many on a crowded desk. Avoid telling your boss what (s)he already knows. Avoid overly elaborate analysis and temptations to show off technical skills (Use appendices if necessary).

9. Bias:

You often cannot avoid having a personal or bureau point of view, but you can avoid slanting the assumptions or options. Your expression of your preferences will be more credible if it is openly disclosed and if you have fully and adequately presented alternative views.

10. Leaks:

Memos often receive wider distribution than their authors intend. While frankness is important, as authors choose their words, they should imagine how they might appear in print.

To: Director, Panama Water Authority
From: ---
Re: Service Expansion Campaign Problems
Date: March 21, 1990

Summary

Current financial trends at the Water Authority are discouraging. Liquidity is dangerously low, and the combination of rising expenses and stagnant revenues is creating problems with solvency and profitability. Most important, water sales have actually decreased during the past year, despite increasing expenditures on the service expansion program. While these problems may be temporary — representing a normal lag time between expenditures and their resulting impact — measures should be taken to: 1) Improve the Authority's liquidity, and, 2) Increase sales.

Problem Analysis

1. Liquidity. This is probably the most urgent financial problem. According to the data, the Authority may be unable to meet its obligations during the coming year, and will have trouble collecting what it is owed:

- Liabilities exceed assets. The *current assets to current liabilities ratio* is now .85. This is alarming for two reasons: 1) Most experts agree that a healthy utility should have a CA/CL ratio of 1 or more; and, 2) The Authority's CA/CL has fallen from 1.37 in 1972.

When inventories are excluded, the *ratio of "quick" assets* — those which can be easily converted into cash — to liabilities is .72, which is considered acceptable for a utility. This indicates the Authority is relatively well-equipped to handle short-term obligations, despite the CA/CL ratio. Nonetheless, the trends indicate that there is still reason to worry: the "quick" ratio has declined rapidly from 1.26 in 1972.

- Collection is slow. Customers are paying their water bills an average of 86 days after receiving them, an improvement from 125 days two years ago. This is a bit slow, compared to other utilities. Worse, the Authority now must wait 398 days, on average, to receive our valorization tax subsidy, through property taxes — more than twice as long as in 1972.

- Performance is declining. The *turnover ratio* has fallen to .10 from .16 in 1972. This means that one "unit" of assets now produces only .10 units of operating revenue. Utilities should produce a turnover ratio of .25.

2. Solvency. The results of the debt analysis are mixed. Total debt is relatively low, and the Authority is not under-capitalized. However, interest payments are taking over an increasing proportion of income:

- Debt is not dangerously high. The *long-term debt to capitalization ratio* is .50. This means that about half of capital received by the Authority is coming from loans; the figure is not unreasonable for a utility. Also, the *total debts to assets ratio*, measuring all debt as a proportion of all assets, is safe at .55.
- Interest payments are becoming difficult to meet. The ratio of revenues (before interest) to interest has rapidly fallen to 1.06 from 5.19 in 1972. Three problems become apparent here: 1) All but a fraction of revenues are now being used to pay interest, leaving very little money to reinvest; 2) This is a result of rapidly declining revenues; 3) The trend indicates the situation is rapidly deteriorating.

3. Profitability. Since there is no absolute measure of a utility's profitability, ratios are used to compare a utility's comparative efficiency over time. By all available measures, profits are declining at the Water Authority:

- As a proportion of revenues, net profits have fallen to a mere .007 from .28 in 1972. Compared to patrimony (i.e., contributions), net profits have fallen to .002 from .092. Compared to assets, net profits have fallen to .0007 from .044.

4. Efficiency. Two efficiency problems are readily apparent: first, the Authority's ability to use resources to produce and distribute water is deteriorating; and second, expenses have been taking an increasing chunk of revenues:

- Water production and sales have declined as a proportion of assets. The ratio of water production to assets has fallen to .27 from .36 in 1972, while the ratio of water sales to assets has fallen to .19 from .28. The *absolute* level of water production has been increasing, but the absolute level of assets used has been increasing more quickly.
- Water is being lost in the process. An average of 72 percent of water produced is actually sold. This means that more than a quarter is lost through leakage or theft, or is not adequately billed to customers. Good

performance in a water utility is 85 to 90 percent; clearly the Authority could be doing better.

- Expenses are increasing faster than revenues. The *operating ratio*, measuring expenses as a percentage of revenues, has risen to 87 percent, way above an appropriate level for utilities. Little significant change has occurred in the composition of operating expenses.

Recommendations

1. Raise liquidity: Improve collection. Collection of valorization taxes is a problem. The Water Authority receives a subsidy from property taxes; it appears that the government recently shifted from a six-month to a one-year property tax collection schedule. To combat the resulting liquidity problem, the Authority could request that the government return to the six-month schedule; an alternative would be to simply include the valorization tax with the water bill instead of cross-subsidizing from property taxes. Also, the collection of water bills, now between 60 and 90 days, could be quickened to between 30 and 60 days.

The Authority should attempt to learn more about the current assets-liabilities imbalance. From the balance sheet, it appears that most of the deterioration this year is attributable to a new entry of 1.2 million balboas for payments to autonomous agencies; it is unclear what this signifies.

2. Increase sales: Improve distribution and billing. The inability of water sales to keep up with expenses is at the root of most of the problems described above. A major aspect of this problem is that the Authority has not been reimbursed for huge amounts of water it produces. Even in Panama City, only 79 percent of water produced is finally sold, while in the interior provinces the ratio has fallen to 54 percent. The Authority should examine its distribution system for leakages and possible security breaches, especially in the interior provinces. Also, the Authority should look at its billing procedures to find out which customers are not paying, or not being informed about, their bills. It may be that many people, particularly in the outer provinces, are simply unable to pay.

Finally, the Authority should attempt to discover why the recent expansion program has not done more to increase water production.

**POLICY MEMO:
THE BIG PICTURE ON ARMY RECRUITMENT**

TO: DAVID CHU, UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS

FROM: CURT GILROY, DIRECTOR OF ACCESSION POLICY

SUBJECT: ENSURING EFFICACY OF RECRUITING INITIATIVES

DATE: 5/2/05

EXECUTIVE SUMMARY

The U.S. Army must address four key challenges in order to turn around the ominous current decline in accession, which is threatening the integrity of the U.S. force structure. In February, the Army faced its first recruiting shortfall in 5 years, and March saw recruitment short by more than 30%. The following factors have come together in a perfect storm to precipitate this crisis:

- (1) Negative public opinion about the military in key demographics and negative publicity about Iraq
- (2) Muddled marketing approach is not penetrating today's youth
- (3) More teenagers pursuing college
- (4) Improving U.S. economy increases labor market competition, compounding the factors above

It is difficult to pinpoint how each of these conditions has affected accession rates, but it is certain that this confluence is to blame. Though each issue presents different practical obstacles - in scope, in measurement, and in time horizon - the challenges are not independent, and their solutions will overlap to our benefit.

EXISTING EVIDENCE

- 1) **Public Opinion and Negative Publicity:** Recent polls suggest that the war in Iraq has seriously damaged public opinion in demographics critical to accession. Primarily, the likelihood of adult women to recommend military service dropped from 58% in May 2003 to a low of 35% in May 2004. Adult women are by far the most influential people in potential recruits' decisions about future pursuits; according to a poll of 16 -27-year-olds, 44% identified mothers as the most influential in decision-making about their future, compared to 13% for the next highest, fathers. (Another poll found that 81% of potential recruits identify mothers as the biggest influencers on future decisions.) That being said, overall confidence in the military is on the high

end of the 30-year spectrum at 75%, which is a positive sign in light of overall negative feelings about Iraq. (Only 47% now believe that Iraq was the right decision, down from 74% in April 2003.) This low public opinion about Iraq is directly related to the situation on the ground there, through the lens of how the media portrays it. A constant flow of negative media reports have been published since Bush declared “mission accomplished,” and that negative publicity dictates public opinion. The fact that fluctuations in adult women’s feelings about the military have coincided with events in Iraq suggests that positive news –or at least positive publicity –about Iraq would have a positive correlation with mothers’ opinions.

- 2) Muddled Marketing, Recruiting Recession: This is where the rubber hits the road with respect to accession, and the Army is lagging. The Army brand is the weakest of the four branches; while the Air Force is considered the high-tech force, the Navy the ocean force, and the Marines the “elite warriors,” the Army has no specific image, making it significantly harder to market to teenagers. There is also debate about the cost-effectiveness of TV advertising campaigns versus grass-roots recruiting efforts. Another major challenge is the question of who to target; parents (or mothers, as the public opinion polls above might suggest), or would-be recruits? Army Secretary Francis J. Harvey plans to shift the focus to parents, and the strategy includes everything from parent-directed TV advertisements to direct-mailing campaigns. In sum, the three major elements of successful product marketing are all in flux at the Army; the branch’s image is ambiguous, its target consumer group is splintered between recruits and parents, and the means of delivering the message is up in the air. Compounding this is that overall recruiting spending has dipped since 2002, a time when it should have been to be rising.
- 3) College Careers: Another harbinger for negative accession rates is that college attendance rose continuously through the '90's, shrinking the pool of would-be recruits. This fact is bolstered by public opinion data suggesting that youth from 16 –27-year-olds are increasingly interested in college; from 2003 to 2004, the number of recruiting age civilians interested in attending college increased from 33% to 42%. A possible cause for this shift in preferences and behavior is that the financial payoff for a college education has increased during the past two decades. Overall, the general rule is that elevated college attendance is negatively correlated with military enrollment.
- 4) Economic Prosperity: Military recruiting is traditionally inversely proportional to unemployment, and thus we can safely assume that the economy’s recent improvement has negatively impacted recruitment. However, contradicting this assumption is that recruitment is only down in the Army and Marines, and not in all four branches of the military, indicating that declining accession is not only about wages. Though this view adds some complexity to the calculus, it does not refute the claim that economic prosperity is leading to lower recruitment –one potential explanation could be, as noted in the marketing discussion above, that recruits are more excited about the Navy and Air Force, and therefore, willing to accept less pay in those duties. Also, considering that higher education is becoming more financially promising, the military has another competitor in the “market” vying for recruits.

FURTHER CONSIDERATIONS

Two other hurdles must also be considered for the Army to optimize accession rates;

(1) By 2025, Hispanics will make up 25% of high school students, yet that demographic has extremely low high school completion rates (62% for Hispanics compared to 93% for whites). Addressing this disconnect is essential to successful future recruiting.

(2) Anecdotal evidence suggests that poor Army recruiting “culture” is dragging down accession. While difficult to measure, this is likely related to compensation and performance measurement; recruiting is a low status job and achievement is measured by number of recruits signed on, rather than the number who are ultimately retained as soldiers.

CONCLUSION

A set of negative recruiting conditions have hit the Army in conjunction, leading to a decline in accession attributable to the economic atmosphere and general public sentiment, as well as the army’s muddled marketing strategy and the growing appeal of college. No one factor operates in a vacuum; they are interdependent and therefore inseparable, but each must be addressed.