

Beware of the Good Financial Times



By Len Wood

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How can you ever forget? You were in office for only a few months before you were confronted with a ghastly budget deficit. The budget showed that a ten-percent gap existed between proposed expenditures and available revenues. Some serious cutting was on the horizon. Your first reaction was, why me? I ran for office to do good things for my community, not dismantle needed municipal services.

After reality sank in, you faced the task head on. You and your colleagues took a combination of actions that eventually brought the budget into balance. It wasn't easy, and you took a lot of heat from your constituents. You learned that cutting budgets is much more demanding and heart-wrenching than increasing them. You also decided to never go through it again.

“Financial deficits that lead to devastating cutbacks do not develop overnight...”

Fortunately, the budget outlook this year is much better than in recent years. But beware, it is precisely during anticipated good times that cities are most vulnerable to setting themselves up for future excruciating cutbacks.

Financial deficits that lead to devastating cutbacks do not develop overnight and most often have roots in decisions made during the good times. The full fiscal impact of many local government decisions may not be felt until a year later or more. For example, an aggressive capital improvements program will not show its full fiscal impact until debt service payments are due and operating expenses are required to maintain the new improvements and facilities. Or, if a city grants generous retirement benefit increases, the full cost impact may not be felt until several years later. Or, it may be a combination of decisions that establishes the groundwork for severe fiscal problems. Once this groundwork is in place, it may take only a slight recession (local, regional, or national) to put a city in the danger zone.

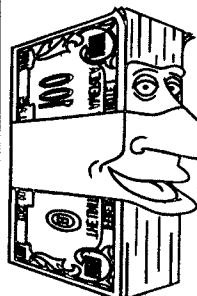
So, how do you avoid being forced to make cutbacks? Obviously, a large, vigorous tax base provides insulation against this problem. But most cities do not have this luxury and must face the fact that their financial condition is going to fluctuate. Cities have good, neutral, poor, and ugly years. While you may not be able to avoid the poor and ugly, you can take steps to minimize their impact. Here are a few suggestions:

1. **Have a long-range financial operating plan.** Most local governments' operating budgets cover one year. Deferred problems and costs may be lurking in the future. A long-range financial plan will identify problems on the horizon.
2. **Demand a full costing of all wage and benefit packages.** What are the total, ongoing operating costs of this package? Get this question on the record: “What is the full annual cost of this package, and can we afford it?”
3. **Request an operating budget for every major capital improvement.** Too often, cities will build a structure and not anticipate the total staffing, operating, and maintenance costs.
4. **Require a *proforma* for grants that require the hiring of new personnel.** A plan for paying the full cost of the new personnel should be developed before committing to the grant.
5. **Link Issues.** Look for linkages between budget proposals. If the parks division decides to root prune trees along a highway, it will have an impact on the street maintenance division's workload. Street maintenance must remove concrete or asphalt and replace it after the tree roots are cut. Or, if more police patrol officers are hired, more civilian staff is needed to provide administrative and clerical support.
6. **Insist upon a structurally balanced budget.** A balanced budget can be deceiving. It can be

achieved by relying on one-time money. A structurally balanced budget requires that ongoing revenues equal or exceed ongoing expenditures.

Many cities do not have the resources to deflect the blows delivered by intruding forces—natural disasters, federal and state mandates, state take-aways, economic downturns and recessions, community shifts, and internal problems. These forces are going to exert themselves. A well-led and managed city will anticipate these problems and aggressively address them in their infancy. They know that the sooner a potential deficit is dealt with, the less pain.★

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