

# Budgeting in a Time of Fiscal Crisis

**L**ocal government officials are currently attempting to recover from the aftermath of reassessment, delayed property tax distributions and, in many parts of the state, continued economic stagnation. Many communities are still facing a financial crisis and struggling to maintain cash flow so they may continue to provide essential services.

In 2003, reassessment delayed property tax distributions for most taxing units throughout the state. As of April 1, some municipalities still had not received final property tax distributions for 2003 and not all counties had even completed their reassessment. Since property tax is the primary revenue source for local governments, the delay in distributions has caused many taxing units to scramble for revenue options and funding sources.

Reassessment was not the only factor contributing to the cash flow crisis. The past few years have shown a growing dependency on local income tax revenues to support local services. Unfortunately, income taxes are, by their very nature, more volatile than property taxes. In 2003, income tax revenues statewide declined by an average of 8% from the previous year. To make matters worse, the state legislature passed a law in December 2003 that eliminates the "banking" of unused maximum levies. Consequently, 2004 maximum levies were computed on the previous year's certified levy, rather than the maximum levy as in years past.

Recent changes in the statutes also require assessed values to be certified with no allowance for appeals. This means that tax rates will likely produce less revenue than expected if taxpayers successfully appeal their

assessments. All of these factors have contributed to the difficulties of local governments to fund necessary services. As a result, many municipalities have had to borrow money and make difficult budget decisions.

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#### **Short-term Fix**

A few options are available to help survive a budget crisis or at least alleviate a cash flow crunch. One short-term solution is to defer or reallocate capital expenditures. Unlike salaries and benefits, capital expenditures can sometimes be postponed if the need is not immediate. So, when looking for possible places to make budget cuts, capital outlays are a good place to start. If a capital purchase cannot be postponed, then one might consider making that purchase with bonds or leases paid from property taxes outside the maximum

levy limitations. (Remember, property tax supported bond issues of less than \$2 million dollars can be accomplished without a formal petition remonstrance). Or, the capital expenditure may be made out of a cumulative fund. Both options could free up money that may have otherwise been spent out of the General Fund.

Reducing current year appropriations is another method that can be used to relieve a budget crisis. By reviewing expenditures through year-end, one may determine which budget items are no longer necessary and can be eliminated and which items could be deferred to a future period. The Council might then pass a "Reduction of Appropriation Resolution" to formalize the budget cuts and solidify its plan to reduce expenditures. Reducing current year expenditures may also be helpful in funding the ensuing year's budget.

Another option used to control spending is to limit or discontinue additional appropriations, which are requests to spend more than what was originally budgeted for that year. During times of financial distress, it is often practical to suspend requests for additional expenditures. If the expenditure is necessary, it may need to be delayed to some future period when the cash flow situation improves.

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Taxing units may also temporarily borrow or transfer available funds from other sources to supplement funds that are experiencing cash flow problems. However, temporary loans must be repaid either by the end of the calendar year, or at the latest June 30 of the ensuing budget year. If the municipality opts for the deadline of June 30, the fiscal body is required to adopt a resolution to extend the repayment period.

Dormant or inactive funds may also be a possible funding source, and transfers from a dormant fund do not require repayment. A fund that is no longer in use may be declared dormant by resolution of the Council and existing balances may be transferred to the General Fund or Rainy Day Fund.

### **Long-term Solutions**

While short-term solutions may help

relieve an immediate cash flow problem, it is perhaps even more important to look for long-term solutions, which may result in increased revenue streams or additional funding sources. Most counties have already adopted a local option income tax such as CAGIT, COIT or EDIT. Some have even requested new legislation to allow for the creation of an additional or special income tax to fund a specific project. Using new income tax revenue for specific capital outlays can free up money to be used for operating purposes. However, if revenues are still deficient, municipalities may also need to consider other taxes, adding user fees, or impact and availability fees, or increasing current fees within the limits allowed by law.

Since personal services are usually the largest budgetary item, it would be practical to evaluate staffing levels and workload distributions to determine if a cost savings opportunity is available. For example, cross-training employees in an effort to more evenly distribute the workload may reduce overtime expendi-

tures. Eliminating positions through attrition (meaning vacant positions are not filled as employees retire or move on) will free up dollars that could be used elsewhere in the budget. Other ways of reducing payroll costs include voluntary furloughs (allowing employees to take temporary periods off work without pay), reducing hours of work, or possibly even implementing lay-offs.

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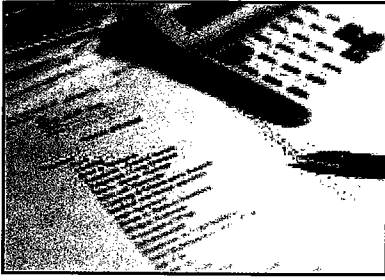
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Investigating ways to reduce health insurance costs may also be helpful. Consider realistic deductibles, co-payments and coverages that are more in line with the benefits experienced in the private sector.

Another long-term option might be to evaluate the municipality's contractual obligations and services that can be outsourced. The advantages of outsourcing include:

- possible cost savings in salaries and benefits because employees are the responsibility of the contractor;
- access to new technology and

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skills without paying for specialized training or hiring new employees; and

- improved service because the contractor has more time and resources to devote to the service. Outsourcing also shifts the risks and cost burden to the contractor and allows local officials to focus on their primary business of managing the government.

Finally, a municipality may consider negotiating for lower contract prices or cost-effective alternatives such as partial outsourcing or inter-local agreements.

### **Assistance from Utilities**

Municipal utilities can also provide assistance. For example the civil municipality could charge the municipi-

pal utilities for payment in lieu of property taxes in recognition that the civil municipality would have received property taxes on the utility plant had it been privately owned. Municipal hydrant rental can be converted to a monthly user charge applicable to water customers, which would eliminate the need to fund this item through property taxes. Expenditures relating to Storm water control could be shifted from the General Fund or street department to the municipal sewage works or Storm water utility, and then recouped through Storm water user fees.

### **Zero-based budgeting**

Sometimes local officials are tempted to propose a higher budget than what is actually needed, commonly known as "padding" the budget. During times of revenue shortfalls, it is more practical to budget realistic expenditures through zero-based budgeting. This method requires the budget to be built from zero rather than starting with the previous year's budget and adding a flat 3-10%. This method also requires that expenditures be justified in each fiscal year as opposed to simply basing the budget decisions on a previous year's funding level.

Finally, evaluate the quality of the information that is being provided by the current accounting system and ensure that it is generating information that is useful for fiscal decision-making. The information should measure performance in regards to budgeting and accounting. In addition, it should alert local officials to potential problems. It may be necessary to explore upgrading or installing software that can streamline the budget process, expedite involved calculations, and improve the overall quality of accounting and budgetary information - which will likely result in a cost savings.

It is well understood that the axiom "easier said than done" applies in this circumstance. However, given the financial difficulties that most local entities have endured since early last year, many of the easier budget cuts have already been made. With no end in sight, it seems that now is the time for municipal officials to accept the challenge to think "outside the box" for new and creative solutions.

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