

I find this particular column difficult to write. This is not a matter of, “Here’s the city administrator’s contingency budget.” Rather I want to lay out in general terms, “Here’s what we (at minimum, we as a city council; ideally, we as a community) need to be thinking about.”

And I have trouble writing about something that is prospective. We know there will be reductions in revenue. But how much, when, and other details are unknown. The uncertainty makes contingency planning (not to mention a column about contingency planning) difficult.

I do not want to come across as whining. I’m writing this over the weekend, prior to the governor’s State of the State address on February 1 and prior to presentation of his state budget report on February 22. I am merely presenting the reality of the situation.

I also do not want to be alarmist. I expect the city’s finances over the next few years will be quite difficult. But I am also confident that the city (and the state) will capably meet the challenge.

The state faces a structural deficit around \$3 billion going into its 2011-13 biennium. Whoever was elected in November was going to face some tough decisions in balancing the state budget. Spending will have to be reduced for most programs. The top spending programs in the state’s general fund are (in order): school aids and credits, Medicaid, UW system, corrections, and local aids (including shared revenue).

The City of Evansville expects to receive \$879,163 in intergovernmental revenues in 2011; this is about 29% of the city’s budgeted general fund. It includes moneys restricted to spending on streets, recycling, police, and fire. It also includes \$514,136 in unrestricted moneys through the shared revenue, expenditure restraint, and computer aid programs. The hard truth is that cuts in shared revenues are all but certain.

The shared revenue program dates back 100 years to 1911. Its implementation and funding have changed over time. However the program is seen as a means to improving the overall equity and efficiency in the state-local tax system, providing property tax relief, and equalizing tax base across jurisdictions. Shared revenues (and other intergovernmental aids) are a significant and vital part of the city’s budget.

Recognizing that cuts in shared revenues are all but certain, the two questions are how much? and when? The size of the cut obviously affects the city’s ability to provide current services at current levels. And the timing is important since the city and the state have different fiscal years. With these questions in mind, city leaders have been discussing a contingency budget to deal with an anticipated significant loss in general fund revenue.

I think the city runs a pretty good business. We have in place a number of fiscal policies and procedures designed to limit spending to within our means and to provide stability over time. These policies include budgeting with a focus on revenues, maintaining

adequate reserve funds, reviewing variances, implementing user charges, aligning revenues and expenses, and limiting debt.

The most important part of the budget process is that we start with the revenue side, specifically the property tax levy. Prior to budgeting, we decide how much we can afford. And that sets the limit for budgeted expenses – operating, capital projects, and debt service. Although it has been rather simplistic in just setting a cap, it has been effective to keeping spending within our means. Additionally, I believe the city council and department heads to be rather frugal within that cap.

We've also adopted a policy for fund reserves. Reserves serve two main functions. They act as an emergency fund for unexpected expenses. And they serve to meet operating cash flow needs due to the uneven timing of tax receipts, shared revenues, and other revenues. For the general fund, our policy is to have reserve fund equal to four months operating expenses.

The paperwork tends to lag by a couple weeks, but every month department heads are given budget-to-actual reports to review and track their spending. Similar reports are given to the city council on a quarterly basis. So differences – either above or below budgeted amounts – are looked at regularly throughout the year. But variances actually get the most attention during the annual budget process, and I expect the use of monthly budget reports as a management tool is an area the city can improve in its fiscal procedures.

We hear plenty of complaints when user fees and charges are raised. And they have been increased. But it is appropriate and more efficient for services that benefit individuals and distinct constituencies – rather than the general public – to be paid for by those individuals.

In budgeting, we have also strived to match one-time revenues with one-time expenses and ongoing revenues with ongoing expenses. Such alignment helps to keep revenues and expenditures steady over time. And in a few cases (such as using a grant to install LED streetlights), we've been able to take advantage of one-time projects that will reduce ongoing expenses.

Under state law, cities are limited to general obligation debt of 5% of the equalized value of all property in the city. While we do not have a formal, adopted policy regarding debt capacity, the city has operated under a policy of limiting its outstanding general obligation debt to 50% of the allowable capacity. This is intended to limit the size of debt service payments.

After the spring election, the city will do some strategic planning. Details are still to be determined, but it may be at a Committee of the Whole meeting with department heads. One focus of the strategic planning will likely be to streamline and provide better service for our residents and businesses. Another major theme will likely be to identify priorities

among the services which the city provides in order to make sure that precious tax dollars are used for the best value.

This strategic planning will guide contingency plans in our budget.

Most of the contingency budgeting – preparing for significant cuts in shared revenues – is already set in existing fiscal policies designed for long-term stability. This preparation will be enhanced by strategic planning to determine guidelines and parameters guide actions which are more reactionary.

And some actions will be purely reactionary – immediate measures to cope with cut revenues in a tight economy. These short-term maneuvers will play a bigger role if cuts in shared revenues occur during the current fiscal year. When the city council set the 2011 back in November, it used the \$458,905 amount certified by the state (plus other intergovernmental revenues).

Although certified by the state, the moneys won't be received until late July (15%) and late November (85%). If the state in balancing its budget decides to make the reductions occur this year, the city will have fewer options to accommodate the cut.

Immediate actions under the contingency budget may include cutting city services. This is more likely minor programs or activities within departments rather than entire departments. But it is likely all city departments would participate in the cuts.

Immediate actions may include collaboration, consolidation, or contracting. Whatever the nuances, additional partnerships with public jurisdictions and/or with the private sector may improve efficiency of existing services. After all, people don't particularly care who provide the service so long as it gets done.

Although we've raised user fees in a number of areas to cover costs associated with providing services that benefit individuals, there are still public subsidies in much of these services. In a few cases, the direct costs still receive a general fund subsidy. And in many cases, the city's overhead costs are not included in the fee. These would likely be reviewed closely.

And the general fund balance is maintained to act as a rainy day fund. I can envision a deep cut in shared revenues being spread out over a few years by using the fund balance as a means to smooth the shock to the budget. And (of course) the fund balance would be rebuilt to a healthy level afterwards.

In the end, the whole matter of the contingency budget will be one of responsibly balancing taxes and city services during a time of economic distress.