Managing Your Budget in Times of Fiscal Stress

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Understanding Financial Condition

Entity's ability to finance expected services on a continuing basis.

- Fiscal Stress- the inability of an entity to generate enough revenues within the current fiscal period to meet its expenditures.

Four Components of Financial Condition

Solvency of Each Fund

- Cash
- Budgetary
- Long-term
- Service Level

Factors Affecting Cash Solvency

- Billing cycles do not coincide with cash flow requirements
- Receivables not being enforced timely

Factors Affecting Budgetary Solvency

- Deficient budgeting procedures
- Lack of knowledge about real program costs
- Failure of management to understand
  - financial information
  - proper budget preparation
  - monitoring procedures

Factors Affecting Budgetary Solvency

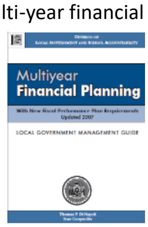
- Federal, State and Local Mandates/Restrictions
  - Tax Cap/Tax Freeze/Statutory Limits
- Declining Population or Industry
- Severe Weather

Factors Affecting Service Level Solvency

- Stagnant or shrinking tax base
- High level of tax exempt properties
- Lack in growth of revenues
- Lack of control over rising costs
- The true cost of providing services

Factors Affecting Long - Term Solvency

- Non-existent or inadequate multi-year financial planning may lead to:
  - Deteriorating infrastructure
  - Lack of funds for contractual and debt payments



Other Factors Affecting Financial Condition

- Community needs and resources
- Susceptibility to Economic and environmental conditions
- Political culture

Current Year Corrective Actions

If you find yourself facing declining revenues and believe your budget is no longer workable, or upcoming budgets will no longer be workable, we consider taking the following steps to make mid-course corrections, before the situation worsens, resulting in fund deficits.

Step 1

Declare a spending moratorium:

- To develop an appropriate response to growing fiscal stress, you need to buy yourself some time.
- Stop all spending other than payroll, debt service, fixed contractual obligations and mandatory health and public safety spending.
- All other spending should require approval by CFO and CEO

Step 2

Prepare a Cash Flow Forecast:

- Determine how much revenue is expected to be collected each month.
- Compare revenue flows to expected monthly expenditures.
  - Example on Next Page

GENERAL FUND (A)										ESTIMATED			
Inflows	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**Sept.**	**October**	**November**	**December**	**Totals 20XX**
Real Property Taxes	50,000	125,000	37,500	25,000	12,500								250,000
Interest and Penalties		19,250	10,500	3,500	1,750								35,000
Sales Tax			75,000			75,000			75,000			93,750	318,750
Court Fines and Fees	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
Clerk Fees	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Court Grant			15,000										15,000
Totals	**58,000**	**152,250**	**146,000**	**36,500**	**22,250**	**83,000**	**8,000**	**8,000**	**83,000**	**8,000**	**8,000**	**101,750**	**714,750**
Outflows	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**Sept.**	**October**	**November**	**December**	**Totals 20XX**
Salaries and Benefits	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	480,000
Building Maintenance		5,000				12,500							17,500
Utilities	1,750	1,750	1,750	1,750	1,500	1,500	1,500	1,500	1,500	1,500	1,750	1,750	19,500
Computer Equipment	20,000												20,000
Clerk	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	25,200
Board	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Court	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000
Court Capital Outlay					17,500								17,500
Debt Payment	10,000												10,000
Totals	**82,600**	**57,600**	**52,600**	**52,600**	**69,850**	**64,850**	**52,350**	**52,350**	**52,350**	**52,350**	**52,600**	**52,600**	**694,700**
Surplus/ (Deficit)	**-24,600**	**94,650**	**93,400**	**-16,100**	**-47,600**	**18,150**	**-44,350**	**-44,350**	**30,650**	**-44,350**	**-44,600**	**49,150**	**20,050**
Cash Balance YTD Beg. Balance: $20,000	**-4,600**	**90,050**	**183,450**	**167,350**	**119,750**	**137,900**	**93,550**	**49,200**	**79,850**	**35,500**	**-9,100**	**40,050**	

Step 3

Review your revenue and expenditure assumptions:

- Begin to run a series of simple “what-if” scenarios against your budget assumptions. The assumptions related to major revenue sources (property taxes, sales tax distributions and State aid) should be reviewed to determine if budgeted amounts are still realistic. In addition, smaller but more volatile sources such as mortgage recording taxes should also be examined for reasonableness, but don’t sweat the small stuff.

Step 3 (cont.)

Budgetary assumptions that seemed reasonable at the time of budget adoption may now seem optimistic. Your municipality may have budgeted sales tax growth at 2 percent over 20xx collections, but what happens if there is no growth?

- What-if scenarios help you identify:
  - Effects of revenue cuts or shortfalls
  - Unforeseen expenditure increases
  - Revenue driven expenditures that can be cut
  - High risk services and areas within your budget prone to revenue loss

Ensure you have a formally adopted Multiyear Financial Plan in place.

Step 4

Develop a budget remediation plan:

- Based on the "what-if" scenarios will help identify expenditures that may need to be curtailed to avoid deficits.
- If revenues exceed expectations toward the end of the year, it is easier to lift spending restrictions, that to implement them at the end of the year.
- Verify Legal Reserve levels, to determine if any expenditures can be covered by properly established reserves.

Step 4 (cont.)

- Ensure maximization of contingency amounts where legally authorized.
- Ensure you have a formally adopted Fund Balance Policy
  - As a last resort, conduct an analysis of available unrestricted Fund Balance to determine if any budget gaps can be filled using Fund Balance.
    - Using Fund Balance results in an operating deficit and you would need to experience operating surpluses in future years to build Fund Balance back up.

Step 5

Modify your budget:

- After identifying items that could be reduced, delayed or eliminated, you should modify your budget immediately to record the new estimated revenues and appropriations.
- Be sure to stick to prioritization in order to avoid cutting any one department by an across-the-board amount, in order to still provide priority services to taxpayers.
- Consider long-term solutions to build in now.

Step 5 (cont.)

Modify Multi Year Plans:

- Refer to Multiyear Financial Plan and determine which revenues and expenditures need to be modified in future years, taking into account the results of the what-if scenarios.
- Refer to Multiyear Capital Plan and determine if any capital expenditures can be pushed into future years or avoided all together.

Step 6

Continue to monitor your budget monthly:

- Although you should be performing monthly budget-to-actual reviews every month, in times of fiscal stress this requirement become increasingly important.
- Further reviews of budget-to-actual and cash flow analysis may result in further budget modifications.

Step 7

If your fiscal situation continues to deteriorate and additional cuts will not produce sufficient savings in time to balance the books at year-end, using unrestricted fund balance or issuing a budget note may be necessary.

- These measures should only be considered as a last resort; the current fiscal climate is likely to last for a while, and using fund balance is a "one-shot" that only delays the tough decisions that will have to be made for the upcoming fiscal year.

In addition, local officials need to be mindful not to over-appropriate fund balance; you cannot use fund balance restricted for other purposes to cover budget shortfalls, only the unrestricted portion.

Developing Ensuing Fiscal Year's Budget

Once you have made adjustments to address the current year impact of the events that caused Fiscal Stress, it is time to turn your attention to next year's budget. Before beginning addressing next year's budget, it is recommended you collect some documents:

- Multiyear Financial Plan
- Multiyear Capital Plan
- Formal Fund Balance Policy
- Cash Flow Analysis
- Budget Status Report
- 5+ Years of Financial Statements
- Negotiated Contracts

Step 1

Carefully Analyze Appropriations:

Focus on essential appropriations first. Gather all appropriations that are deemed to be absolutely necessary to offer standard services:

- Health
- Salaries
- Safety
- Utilities
- Others?

Step 1 (cont.)

Determine if any plan to fund reserves is absolutely necessary or if it can be postponed to other years (consult multiyear plans)

Maximize the funding of Contingencies where allowed by law.

Ensure to address any appropriations mandated by law, contract or court order; to include debt principal and interest.

When possible, put off capital expenditures except those financed by available grants that can only be used for a specific purpose and adjust multi-year plans.

Step 1 (cont.)

Identify expenditure driven revenues and avoid cutting expenditures that drive them (CHIPS, some grants, etc.)

Once all essential appropriations have been carefully identified and planned, you can begin creating a separate list of non-essential appropriations and ranking them by priority.

- Priority can be determined using may methods
  - Future cost savings
  - Repair vs Replacement
  - Future Revenue Growth
  - Replace Redundancies
  - Others?

Step 2

Carefully Analyze Expected Revenues:

- Sales tax
- State Aid
- Federal Aid
- Services to Other Governments
- Grant opportunities

Step 2 (cont.)

Evaluate opportunities that exist to finance various services with fees, permits and user charges rather than relying on general fund real property taxes to subsidize these services. Added benefit to this initiative is that tax-exempt properties must also have to contribute toward these costs.

- Water and Sewer
- Garbage and refuse
- Parks and recreation
- Cemeteries

Step 2 (cont.)

- Develop a plan to use existing reserve funds:
  - When necessary (and authorized), consider transferring unneeded or excessive reserve balances to other reserves that have a more immediate purpose.
  - Extract appropriations from the annual budget that can be financed by reserve funds and determine how much to appropriate in upcoming budget cycles
    - Exercising this option will likely require an amendment to any reserve plan and/or multi-year plan that exist.
- Amended reserve fund plan should include manner in which the effected reserve funds will be replenished to desired levels going forward.

(Refer to Fund Balance Policy & MYFP)

Step 3

Consider alternative strategies:

Consider shared service initiatives with other governments:

- Identify any economies of scale that exist within your region
- Identify furloughed employees that can be shared by several governments to reduce employer costs while maintaining a ready workforce when COVID constraints are lessened.
- Consult OSC Shared Service LGMG.
- Consult NYS DOS Local Government website.
- Reach out to associations (NYCOM, AOT, NYSAC, etc.) to identify best practices.

Step 4

Utilize supplemental budgetary displays (aka: contemporary budgeting) to identify the true cost of various government services (direct costs + indirect costs less any attributable revenues generated as a result of the service) to determine which services result in the largest drain on the tax dollar.

- For those services that represent the largest drain on the tax dollar consider any alternate service delivery options that may exist:
  - Establishing fees
  - Privatization
  - Shared service agreement
- Discontinue offering the service

Step 5

Evaluate unrestricted fund balance levels and consider the need to appropriate a portion in ensuing years' budgets.

- Consult existing fund balance policy in an effort to keep unrestricted fund balance at or above designated level.
- If no fund balance policy exists the Board should immediately adopt a policy and use it as a benchmark going forward in adopting future budgets.

Step 5 (cont.)

General Fund (A)	Unassigned FB
Beginning balance of current year -1/1/20XX	$2,000,000
Plus: Revenues to date - for period- 9/30/20XX	6,500,000
Less: Expenditures to date - for period- 9/30/20XX	6,000,000
Balance to date 9/30/XX	$2,500,000
Plus: Projected revenues to year end - 12/31/20XX	2,500,000
Less: Projected expenditures to year end -12/31/20XX	4,000,000
Estimated balance end of year - 12/31/20XX	$1,000,000
Breakdown	
Unassigned Appropriated (to be used next year)	300,000
Reserve for Encumbrances (Estimated)	50,000
Unassigned Unappropriated	650,000

Step 6

Consider expanding the volunteer workforce:

- We are all in this together and all residents have a vested interest in reducing the cost of necessary services for which they benefit from.
  - More people out of work and available than any other time in history.
- Use muni website and/or bulletin board to advertise need for volunteers
- Consider establishing consulting groups/committees made up of cross section of the community tapping into various skill sets and knowledge base that exist.
- Conduct training to increase pool of qualified volunteers

Resources

- "Managing your budget in times of Fiscal Stress"
  https://www.osc.state.ny.us/localgov/pubs/lgmg/managingbudget.pdf
- "Financial Condition Analysis"
  https://www.osc.state.ny.us/localgov/pubs/lgmg/financialconditionanalysis.pdf
- Multi Year Planning Booklets
  https://www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf
  https://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf

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Resources (cont.)

- Understanding the Budget Process Booklet
  https://www.osc.state.ny.us/localgov/pubs/lgmg/budgetprocess.pdf
- OSC Webinars
- https://www.osc.state.ny.us/local-government/academy/webinars-training
- Other Training from OSC
  https://www.osc.state.ny.us/localgov/academy/index.htm
- Open Book New York Website
  https://www.openbooknewyork.com/

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