

BUDGET UPDATE

FEBRUARY 2010

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This newsletter will continue the updates on our budget situation. Look for information in coming weeks on sales tax and other financial data. As soon as we know any news, we'll share it with you, and please feel free to ask me or any member of the Management Team your questions.

The focus of this update is our structural deficit. This new economy has required us as a City to review our budget and plan for the future to ensure we can provide a level of service that is supported by the revenues we receive. This economy has created a *structural budget deficit* - and that is very different than an *annual budget deficit*.

What is the Difference Between an Annual Deficit and a Structural Deficit?

Annual Budget Deficit



An **annual budget deficit** is often unexpected and virtually always the result of **one time or short-term occurrences** such as:

- Declining revenues due to a slow or declining economy;
- Unexpected loss in revenue due to state and/or federal actions;
- Increased in debt obligations;
- Cost due to one-time occurrences such as natural disasters;
- Increased costs related to mandated programs;
- Increases in committed and fixed expenditures such as negotiated salary increases;
- Increases in non-discretionary or fixed expenses, such as energy or fuel;
- Other unanticipated expenses such as legal costs or settlements.

Structural Budget Deficit

A **structural budget deficit**, in contrast, is marked by persistence, where **ongoing expenditures consistently exceed ongoing revenues**. Some of the contributors to our structural deficit that we have experienced in the past include:

- Underfunding of existing programs;
- Increases in personnel without a corresponding increase in base revenues;
- Increases in programs or services without a corresponding increase in revenues;
- Lack of, or limited, strategic financial planning;
- Annual unmet/deferred infrastructure and maintenance needs;
- A significant backlog of deferred maintenance needs;

The temporary causes of annual deficits are often overcome with temporary solutions, but structural deficits are different - even if one-time solutions are able to bring a structural deficit temporarily into balance, the gap between ongoing expenditures and ongoing revenues will continue to result in future budgetary crisis.

What are some ways we can address our structural deficit?



First, one-time revenues should not be used to fund ongoing or fixed expenditures. Second, we need to be honest with the community about what they can expect given the available resources. A clear understanding of the tradeoffs involved is essential. For example, if highly maintained streets are the desire, then the community must understand that, without a new or specific revenue source, other services will be reduced so we can afford to maintain the streets.

What won't work?



"Across-the-board" reductions are only one time or short term and mask the structural problem instead of addressing it honestly. Structural deficits require structural solutions. We need to make clear, decisive, and long-term corrective actions. ***Right-sizing the organization to match up with expected, long-term and ongoing revenues is the only effective solution.*** Without this action the structural gap will grow and we will eventually collapse under its effects. There can be no positive improvement such as raises, adequate expenditures on maintenance and supplies, flexibility, or discretionary spending without solving the structural budget deficit.

The problem is not unsolvable...it is, however, extremely unpleasant and hard. Only by maintaining our focus on the future success of the City of Evans will we be successful in this effort.

Sincerely,

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

PHILOSOPHY

The Management Team has created the following set of philosophies as a guide in making decisions.

- We must make decisions that tie in with the Strategic Priorities (Infrastructure, Public Safety, Economic Development, and Regional Leadership).
- We must take in consideration the long term implications of our decisions.
- We make decisions together as a team.
- Nothing is untouchable
- Level of services will not be the same