

When Good Budgets Go Bad: Dollars and Sense Revisited

by John Nicoll

The following is a preview of one of the topics to be covered during Leadership Training Institute seminars at NLC's Congress of Cities and Exposition in Orlando, Fla., November 11-15.

The laws of unintended consequences hold true in the management of budgets and finance. Things that seem like a good idea at the time often produce results we had not anticipated.

Cities and towns across the nation seem to be caught off guard when the economic cycles and our own well intentioned, ill-advised practices come around to bite us. The national and local press is full of stories of financial trouble at all levels of government.

Ironically, the genesis of our problems is often in the "good times." New programs, better wages and benefits, and new facilities seem to be good decisions when you have sufficient revenues and adequate balances.

Unfortunately, the full cost impact of such decisions may not show up until years later. Newly elected officials often find they have inherited the consequences of earlier "good" decisions.

In keeping with the American dream, we can hope and believe that things will get better. Sooner or later the problem becomes unavoidable and we look for ways to keep up a "business as usual" approach while we scramble to find solutions.

How we react to the now unavoidable problem can unintentionally set the stage for a financial tail spin. The following quick and painless "fixes" can have negative consequences.

Use Balances: "That's what they're for."

Balances play an integral role in our financial well-being. They can be used for cash flow, internal loans, response to natural disasters, lawsuits and insurance claims.

Using your balances for temporary relief until you have a financial plan in place may be appropriate. Raiding your balances to avoid cuts or increased fees and taxes is not a good policy.

Spend the Windfall: "We have the money."

Unexpected revenues come from several sources. Small spikes in building activity, retail sales taxes, utility fees and even interest rates can bring in unanticipated revenues. We'll rush to spend it on new programs before we assess the likelihood that it may not be an ongoing source. If we don't exercise restraint, the one-time money adds to the operating

base and we later have to find a way to pay the ongoing costs out of an already stretched operating budget.

Unaffordable Grants: “It’s free money.”

The pressure to pursue federal and state grant monies is increased when we’re on the hunt for revenue. Accepting “free” money most often comes with strings and consequences. Matching funds, ongoing costs and expectations of continuing service to a new customer group are problems that can arise from the grant “solution.”

If the grant can help with an already prioritized goal and is affordable on an ongoing basis it may be worth pursuing. If it doesn’t meet that threshold, think twice before you go after the grant.

Adopt Structurally Balanced Budgets: “Don’t spend more than you make.”

By design, you can balance a budget for a while with some interim measures. The decision to use one-time funds to get through a difficult time can be a reasonable business decision. However, without a plan to have recurring revenues that are equal to or greater than the recurring expenses, you’re at risk. Author Len Wood identifies short term budget fixes as a “Triple B budget, (Band Aids, Bubble-Gum and Baling Wire). There is no long range substitute for a structurally balanced budget.

Sound Financial Policies

Some governing bodies have adopted financial policies that limit or prohibit poor budget practices. Publishing these policies in the budget and requiring staff to publicly report on how the budget presented meets these policies provides an open public forum on the city’s financial condition and guards against inappropriate or ill-advised financial practices.

Quick solutions may provide short-term relief, but to ensure a secure future, cities and towns must budget with foresight and care during the “good times” in order to be prepared for the challenge of uncertainty.

Details: Nicoll will lead Leadership Training Institute seminar L23, entitled “Local Government Finance: Guarding the Public Checkbook,” on Wednesday, November 12 from 1:30 p.m. to 5 p.m. For more information or to register for Leadership Training Institute seminars, [click here](#).

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