

Best Practices and Budgeting Techniques for the “New Normal”

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Presentation Overview

- **Identifying Changes and Reasons for Change**

- **Local Government's Role in the Recovery**
 - Fiscal management – *Balancing the Operating Budget*
 - Economic Stimulus – *Making Capital Investments*
 - Local Government is the backbone of local economies
 - Local Government is where economic recovery must take place & where jobs are created.
 - Local Government capital investments are a platform for private sector investment and growth

- **Meeting Your Community's Challenges**
 - Understand the issues, prioritize, collaborate & lead
 - Identify best practices
 - Communicate, communicate, communicate

What has Changed?

Yesterday.....

- Stable Budgets with Growing Revenues
- Abundant Developers & Capital Investments

Today.....

- Budget Deficits with plummeting revenues
- Where are Capital Projects?



Why Has it Changed?

- ***The “New Normal” – NLC Public Finance Panel***
 - There are systemic changes in our nation’s economy that have affected and will continue to affect local government finance.
 - Property taxes worked well in the 19th century industrial economy but not in today’s information based economy.
 - 1980’s shift from Federally to Locally funded infrastructure projects.
- Combined with the recent economic downturn, a new strategy for local government finance is needed.

What is happening as a result of the Change?

- *Laws and Policies are changing which impact local governments*

- “Internet Sales Tax Law” attempted to capture leaking revenues.
 - Two internet based businesses have left the state
 - No new revenues collected from Amazon or Overstock
- Cessation of funding inherently local expenses.
 - State cut salaries to state's regional superintendents



What will likely be forthcoming?

- *Increased resistance over use of TIF*
 - Arguments over the “But For”
 - State Senate Bill pending changing state funding for schools based upon TIF surplus paid to Schools





Local Government's Role in the Recovery

■ Economic Stimulus - *What do the Experts Say?*

□ *NLC President: Cities.....*

- Are the backbone to their local economies.
- Are where economic recovery must take place & jobs must be created.
- Provide capital investments as a platform for private sector investment and growth which lead to local jobs.

□ *ICMA's Strategies that contribute to the recovery:*

- Local leaders can turn crisis into opportunities.
- Stimulate recovery by increasing revenues or drawing on reserves.
- Expand or accelerate Local Capital Projects.

Local Government's Role in the Recovery

■ Options:

- Wait for the federal government to help;
- Wait for the state to help; or
- Create your own solutions

■ Traditional Methods:

- Cut Costs
- Reduce Staff
- Increase Taxes

■ The “New Normal” Method:

- Utilize other sources of Revenue for Capital Projects
- Become pro-active about development to create jobs and increasing tax revenues





The Process – Best practices for making capital investments.

■ Stimulating Local Economies– *the Basics:*

□ *Understand the Issues:*

- Learn from those who study the issue – NLC & ICMA
- Fiscal Management & Capital Investing are not mutually exclusive
 - You can invest in Capital Projects without General Fund Capital or Commitments

□ *Prioritize & Collaborate*

- Work with your staff, other elected officials and your region's leaders to advance investment in local Capital Projects

□ *Lead*

- Investing in Capital Projects may seem counter-intuitive but it is widely recommended

□ *Communicate, Communicate, Communicate*

- With staff, other elected officials, regional leaders and constituents

The Process – Best practice for making capital investments. (Cont'd)

■ Types of Local Government Capital Projects to Invest in:

□ *New Private Projects*

- Project Incentives – Grant as an incentive for the Developer to do the project
- Finance Incentive – Refundable Cash or Credit Enhancements

□ *Help for Existing Projects Under Stress*

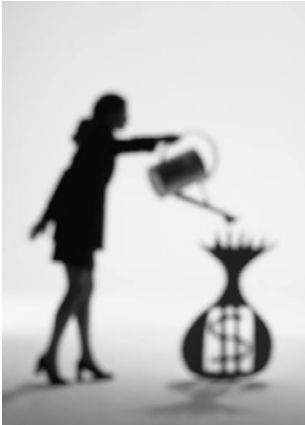
- Create funding source to support existing projects under stress

□ *Deficit in TIF Funds*

- Create additional revenue source (special tax) to fund deficits rather than relying on other TIF Districts or your General Fund.

□ *Public Stimulus Projects*

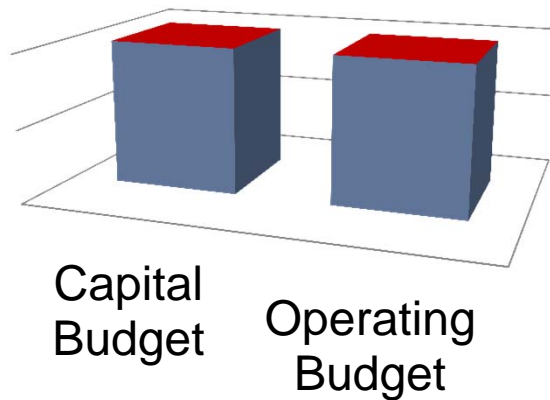
- Projects that have large direct & indirect financial benefits
- Infrastructure in greenfield locations to stimulate development



Operating Budget v. Capital Budget

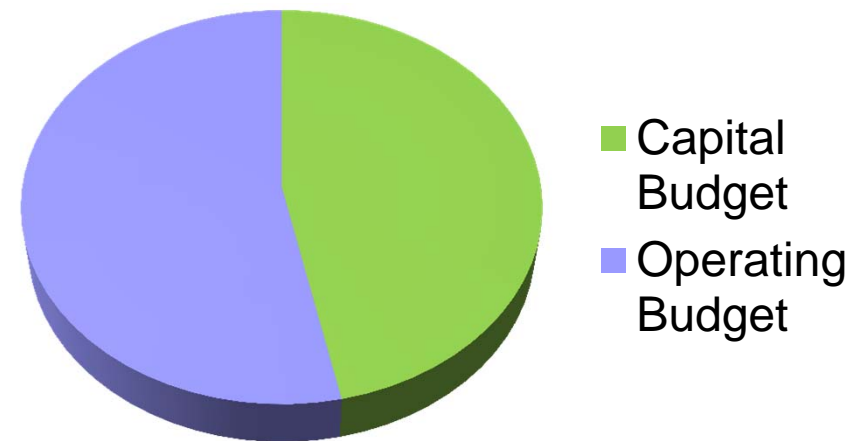
- Why should local governments identify alternate sources of revenue for capital projects?
 - Traditionally, general fund revenues have been used to pay for both **operational** and **capital** expenses.

Revenue Sources



■ General Fund ■ Special Taxes

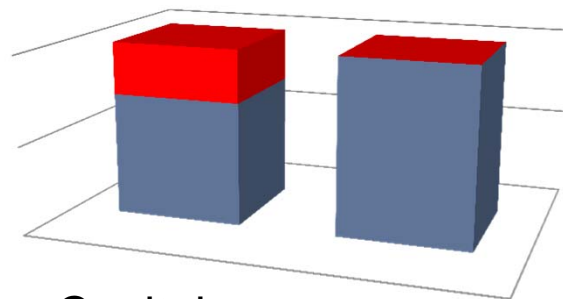
General Fund Uses



Operating Budget v. Capital Budget

- By adding Special Taxing Sources to the revenue sources for capital projects, the general fund monies previously used for capital projects can be used for operational expenses.

Revenue Sources

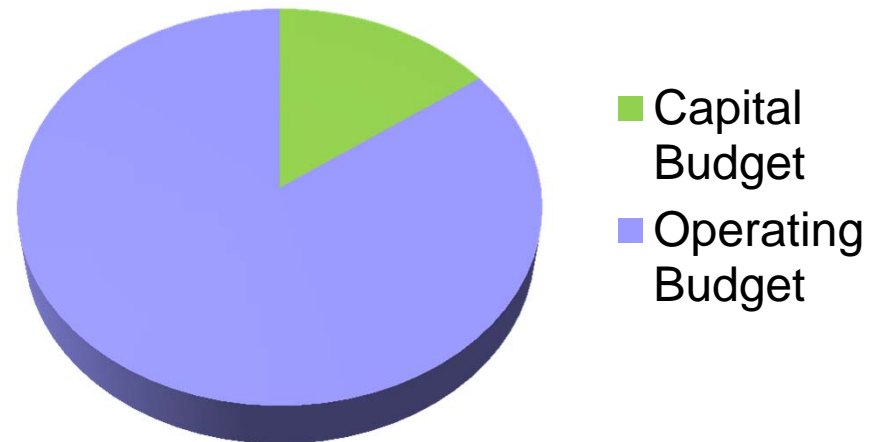


Capital Budget

Operating Budget

■ General Fund ■ Special Taxes

General Fund Uses



■ Capital Budget
■ Operating Budget

Examples of Local Government Capital Projects

■ Retaining & Expanding Existing Market Share:

□ The facts:

- Local Government with a reputation as a regional amateur sports tournament destination.
 - 2.2 million people drawn from a five state region who spend tens of millions of dollars with local businesses
- Needs to invest tens of millions of dollars or risk losing its market and the tens of millions of dollars spent in its local economy.

□ The Process / Solution:

- Collaboration - A steering committee made up of the five local agencies who benefit from the sports tournaments was formed to build consensus.
- Understanding the Issues:
 - Identified the need for investment, the types of facilities required and their cost.
 - Studied how the investment would add local jobs and increase direct and indirect spending by nearly \$50 million per year
- Leadership: Potential alternative funding sources include a Business Development District, a regional Amusement Tax, and increases in Hotel taxes.

Examples of Local Government Capital Projects

■ **Troubled Investment Turned Around:**

□ **The Facts**

- Before the meltdown, a community invested tens of millions of dollars in a new downtown Transit Oriented District.
- Suddenly, the developer walked away from the project.

□ **The Process / Solution**

- A "Community Gap" Analysis Completed
 - How much would the community have to invest to attract a Qualified Developer?
 - Where would the money come from to fund ("Bridge") the Gap?
- Developer's "invited" to look at the project
- Today, the Community is working with a national developer to complete the project
- Alternative Taxes Include Home Rule Sales Tax & TIF



Examples of Local Government Capital Projects

■ Seizing Opportunity for Growth:

□ The Facts

- Developer owns in excess of 500 contiguous acres abutting interstate – much of it not yet annexed into a municipality
- Developer has industrial/manufacturing connections and desires public infrastructure and incentives to attract users

□ The Process / Solution

- Planning, cooperation & execution.
- IGA's are negotiated among two adjoining municipalities and the County in order to facilitate those improvements (water, roads and sewer) necessary to service future industrial and manufacturing businesses
- Creation of an IJRL TIF prior to 12-31-11

Finding a Qualified Developer

■ What is a “Qualified Developer”?

- They have similar project experience, are financially sound, and have some cash to put into the project.

■ Does the Project Require an Incentive?

- Project Incentive – Using a financial model for the project you should determine the likely GAP.

- The GAP is the amount of incentive required to induce the developer to undertake the project. – Typically a non-refundable subsidy.

- Access to Capital Incentive –

- In addition to a Project Incentive, the community may need to provide additional funding for the developer to meet its lender’s underwriting requirements – more money down.

- This should be structured to be fully refundable to the community

Finding a Qualified Developer (Cont'd)

- **Identifying and attracting a Qualified Developer –**
 - Determine Project type – Retail, Industrial, Commercial, Residential or Mixed Use
 - Look for developers who have completed similar projects
 - Make call to introduce developer to project
 - Send out “invitation” with details on the project and the community’s willingness to provide incentives
 - Follow up to encourage their reply to the Invitation

- **Negotiating with developer**
 - What does the developer’s reply to the invitation “Ask”?
 - What type of incentives are they looking for?
 - Justification for Ask? (“Gap”)
 - Move toward a term sheet





Capital Projects that Don't Require a Developer

- **Legacy area requiring overall revitalization**
 - High traffic corridors with existing businesses
 - Downtowns with existing businesses
- **Greenfield Areas with opportunity for development**
 - Near major highway, rail or airport
 - Needs infrastructure (Roads, Sewer and or Water) for the area to develop
- **Public Programs that Stimulate Economic Activity**
 - Sports facilities
 - Business Incubators
 - Corporate Campuses
 - Medical Campuses



How will the Project be funded?

- **Avoid use of General Obligations**
- **Alternative (Special) Revenue Sources**
 - Additional sales tax for District Benefitted
 - Sales Tax Rebate Agreements
 - Additional Property Tax for District Benefitted
 - Off site improvement
 - Tax Increment Financing
 - Amusement Taxes
 - Hotel /Motel Taxes
- **Layering Alternative Revenue Sources**
 - Allows for more than one special tax
 - Minimizes impact on any one source

How will the Project be funded? (Cont'd)

- **No one Special Taxing Source (STS) is best**
- **Capital (Funding) Stack – look to use multiple STS on any given project**
 - It allows for spreading of the funding needs over a broader constituency in the area so as not to impact any one of the two harshly
- **Begin with a STS that provides immediate revenue (i.e. Added Property, Sales, Hotel or Amusement Tax) to provide immediate “seed” revenue.**
- **By layering another financing source, such as TIF, additional revenue is available to either supplement or abate the original tax.**



Innovative Alternative Solutions

- **Unprecedented Economic Hardships are leading to Unprecedented Changes**
 - “The status quo must go.” Municipalities must transgress the comfort level provided by doing business in the same manner it has for the last 30 years.
 - Past practices are unsustainable. Municipalities must consider intergovernmental cooperation, outsourcing of legacy services to the private sector, developing alternative revenue streams, and forensically examine all controllable expenditures.
 - Corporate downsizing and reorganization has saved businesses – so too can those concepts save communities by freeing funds to stimulate economic development, spur jobs creation and fund infrastructure improvements that put people to work, injecting life into the economy.



Outsourcing

- Hot-button topic that is often shied away from because of Illinois being a heavily unionized State. We cannot shy away anymore:
 - Inflexible Union contract positions, suffocating pension contribution requirements, and a broken arbitration system are significant factors leading to the demise of safety and economic survivability in our communities.
 - The only current solutions available are to beg the populace for money to put in the pockets of the Unions or to cut non-Union personnel and disrupt the day-to-day functioning of the government the taxpayers expect to function.
 - These solutions have limitations and the core theory driving the process is unsustainable.



Outsourcing (Cont.)

- Privatization of several core services lessens wage and benefit costs, eliminates continued pension increases, provides greater personnel and job performance control by way of the contract process, frees revenue for economic development purposes, and can stimulate jobs in the economy in excess of the government employee layoffs.
 - Public works
 - Emergency Medical Services/Firefighting
 - Public-safety dispatching
 - Corrections
- Privatization must be examined for its long term sustainability and true economic benefits rather than a short term cash flow solution.

Intergovernmental Agreements & Cooperation

■ Cooperation versus Turf

- Faced with the current budget woes, the luxury of having overlapping services at multiple governmental levels is becoming more difficult to justify and more difficult to fund.
- Municipalities in close proximity may be able to achieve cost effective savings through pooling and sharing resources, as well as develop hybrid homogenous services unbridled by jurisdictional lines.

■ Examples:

- Analysis of traffic fines in a collaborative effort lead to a change in collection practices netting the county and its municipalities nearly \$1 million annually from the previous collection method.
- Current efforts are underway between two Villages and a County to construct and develop a water system to supply a significant IJRA Industrial Conservation Area.
- Multi-jurisdictional Public safety dispatching.
- Specialized regional law enforcement task forces or policing.



Cost Controls – Healthcare Insurance

- Healthcare insurance has long been an unexamined benefit attached to government employment.
 - As medical costs have skyrocketed, so too have premiums for providing coverage to public sector employees.
 - These costs are hampered many times by restrictive collective bargaining agreements that prohibit municipalities from changing coverage levels or passing through the costs by requiring a heightened employee contribution
- Municipalities need to examine their healthcare insurance costs and work with providers and Unions to provide adequate coverage with fair contributions that rise in step with premium increases



Summary

- Communities across the nation are developing strategies to combat these tough economic times.
- In addition to reducing costs, communities can be proactive regarding development in their communities by identifying special taxing sources to provide incentives or to construct public improvements.
- By encouraging development and utilizing methods that do not utilize the community's general funds, municipal leaders can encourage job growth, increase tax revenue and shepherd their communities through today's economic downturn.



Questions and Answers

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