The "New Normal"

HOW TO KEEP INVESTING IN LOCAL CAPITAL PROJECTS

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Many local governments have seen a dramatic shift in their financial health which is likely to persist for many years to come. Those leaders who take the time to understand this "new normal" will be better able to shepherd their communities through the change and into a better future.

How has local government finance changed and what are the best ways to meet the challenge? Knowing what has changed and why it changed is an important first step in understanding what needs to be done. It is also important to know that you and your community "are not alone" - best practices have emerged across the country. The process of looking for solutions that work for your community should begin by becoming well informed and collaborating with other local government leaders.

While cutting costs and keeping taxes low is an essential part of good government, leaders cannot afford to lose sight of the fact that they are responsible for the collective well being of their citizens. This responsibility requires leaders to think beyond any single downturn.

The National League of City's president - Mayor Ron Loveridge, of Riverside, California - said it well:

"Cities are not only the engines of their local communities; they are also the backbone of their regional economies, where investments in infrastructure and services provide a platform for private sector investment and growth. And cities are the wealth of nations. We are where economic recovery must take place… we are where jobs are increased, or more commonly lately, are lost. We must change that equation."

WHAT WE KNOW?

THEN AND NOW

Two years ago local governments spent a great deal of time on the flood of developers and opportunities that were pouring into their communities. The issues to be resolved then were: *How do we grow smartly? Should we accommodate the request of a particular development? How much, if any, incentive should we provide? How do we handle the sheer volume of activity?*

Many of these communities had a difficult time keeping up with the exhausting pace of activity; they grew in size, revenues and staff to meet the demands of a red hot economy that went on year after year for nearly a decade.

Today, local governments are faced with much different issues: *How do we balance our budget? What programs are essential? How do we prioritize the use of our limited funds? How can we get a developer to develop the land we bought during the boom years so we can save money? How can we find qualified developers to consider developing in our community so we can put people back to work? Our health insurance costs have gotten out of control, what are our options? Can we save money by outsourcing some of our services? How can we help keep developments in our community alive so neighborhoods can remain vibrant? What should we do about our TIFs that are underperforming?*

"Cities are not only the engines of their local communities; **they are also the backbone of their regional economies…"**

Mayor Ron Loveridge, Riverside, CA

THE BIG PICTURE

While most local governments are busy trying to manage the current change, it is useful for them to understand and keep an eye on the big picture. The current struggles are mostly about an economic boom that went bust, but over the last thirty years – perhaps even longer – a far more broad set of changes in our nation's economy has been slowly making it more difficult for local governments to fund their programs.

The Public Finance Panel at the National League of Cities has done a nice job of explaining how the changes in our nation's economy have had a profound impact on local government's revenues. I have the good fortune to sit on this panel with 15 other local government leaders from around the country. In my

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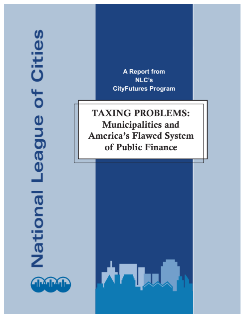
interactions on the panel, I have grown to appreciate how similar the local government financial issues are across our country, and that while no two situations are identical, best practices have, in fact, emerged. For a good understanding of these issues, I encourage you to look at the report from the panel



called, Taxing Problems: Municipalities and America's Flawed System of Public Finance (http://www.nlc.org/ASSETS/FFDB9F32357B44A7B6681CF414EDC3DE/Taxing%20Problems.pdf). Pages 9 to 14 do a pretty good job of summing it up.

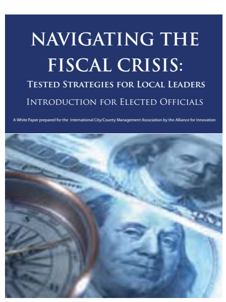
BEST PRACTICES TO MEET YOUR COMMUNITY'S NEEDS

THE BASICS

Make sure that you understand the real issues, prioritize your efforts, work collaboratively as a team, identify best practices, craft a plan and communicate, communicate, communicate with your staff and citizens. There is no "magic button" to press, but local governments must remember that they are where economic recovery must take place and where jobs are created. They are the backbone of their regional economy and that their investment in infrastructure is the platform for private sector investment and growth that creates jobs. Cut cost? Absolutely. Abandon capital projects? Absolutely not.

One question that seems to frequently come up these days is whether communities should be involved in any capital projects when they face tight budgets. I even read an editorial in one of our client's local newspapers where the editorial board said that "this is especially a bad time" to be talking about the funding for a redevelopment project that they otherwise believed to be valuable.

In a white paper recently published by the International City/County Management Association (ICMA), the ICMA sets out strategies that elected officials can implement to mitigate fiscal stress and stimulate their local economies. The paper echoes the research from the NLC and supports the need for local governments to carefully increase expenditures, and expand or accelerate capital projects. Failing to do so will, the paper says, hurt the local economic recovery more than maintaining or raising taxes. *(See page 5-Navigating the Fiscal Crisis: An Introduction for Elected Officials.)* (www.icma.org/Documents/Document/Document/4305) Given this counter-intuitive approach, local government leaders must be well informed and demonstrate real leadership.



BEST PRACTICES EXAMPLES

How do you cut costs to stave off operating losses while growing investment in capital projects? There are a number of different ways that communities can fund capital projects through the careful use of special taxing districts that allow for imposition of a tax only on those areas or people who benefit the most from the capital project. When used correctly, these districts do not increase taxes in a general way and they do not put the communities' general fund at risk. Some good examples of the process will help illustrate the point:

STILL INVESTING IN ITS FUTURE AND BUILDING ITS LOCAL ECONOMY

One of our local government clients is looking to bolster its regional economy by investing tens of millions of dollars in its amateur sports facilities so that the region can remain a leading destination for amateur sports tournaments. If it doesn't make these investments, area businesses will lose the tens of millions of dollars they receive annually from the direct and indirect spending that come from these events. How to fund this investment?

We began the process by forming a steering committee of regional local government leaders whose communities all benefit from the amateur sports programs. Next, we identified the need for investment, the types of facilities required and their cost. We showed how the investment would add jobs and have a long term stabilizing effect on the local economy. The framework for an intergovernmental agreement on alternative (non-general fund) taxes that can be used to cover the investment has been established. These alternative sources include a business development tax in the heavy retail area where some of the new facilities will be located, a regional amusement tax and the use of hotel taxes, all of which will be primarily paid by those utilizing the new facility.

TROUBLED INVESTMENT MADE GOOD

In another instance, a community invested tens of millions of dollars in a new downtown Transit Oriented District and was suddenly faced with the loss of its developer. For several months, the community struggled to find a new developer. Working with the community's highly skilled staff, we started our work by understanding the "Community's Gap" - *how much would it have to invest to get the project back on track?* Next we identified how this Community's Gap could be "Bridged" - *where was the money going to come from?* Ultimately, a financial sensitivity model that helped lead the discussion was built that led to terms the community could support. Today the community has a letter of intent with a national developer and a defined plan on how to cover the cost of its investment that does not use any of its general funds.