Fiscal Responsibility and the Annual Budget Review

The Finance Committee and the Village Board have just concluded its annual review of the FY2011 budget. For the third year in a row, the Village is being challenged to make difficult decisions in the management of its operations. Coping with the worst economic downturn in 50 years, the Village, like other cities and municipalities around the country, are facing sizable budget shortfalls that are expected to grow even greater in 2011. According to a study conducted by the Regional Bond Dealers Association in collaboration with Moody's Ecomony.com, there will be no big turnaround for state and local government revenue in the near future. *Even as the economy recovers local government revenues are likely to continue their lag.* Further influencing the Village's financial woes, is the State's distribution of our local share of the State Income Tax. Currently lagging four months behind on its payments, the State intends to further reduce the Village's share of the State Income Tax, causing revenues to freefall even farther next year.

As part of its regular Annual Budget Review, the Finance Committee and Village staff conducted an in depth analysis of its operational revenues and expenditures for FY 2011. In an attempt to balance the budget and reduce spending, $960,000 of reductions and cost avoidances was proposed. Still faced with a remaining $343,000 deficit the Board helped identify an additional $26,000 in cuts. Despite the proposed cuts this year and the more than $1.2 million dollars in spending reductions and cost avoidances last year, the Village was unable to make up the revenue shortfall without further adjustments to the budget.

To look for solutions the Finance Committee began constructing a Comprehensive Financial Plan to reflect the Village's long-term goals. Revenue projections were made based on Village operations, services, capital investments, and restoring and maintaining required fund balances. While the Village has been able to meet its short-term budgetary obligations in recent years without sacrificing service levels, major reductions were made through staffing, hiring and wage freezes, furlough days and employee benefits. Capital improvements and equipment purchases have been postponed and fund balances nearly depleted. Looking toward the future, the committee put forth several ideas for the Board to consider.

The approved budget must be a part of an overall financial plan that moves the Village toward the achievement of its long-term goals and sustainability. As the board continues to update the Village's Strategic Plan specific policies, plans, programs and management strategies must reflect how our long-term goals will be achieved. Developing a long-range financial plan will ensure the affordability of these goals and give light to the financial implications of our current budgetary decisions.

Shore up and maintain the long-term financial stability of the Village. Long-range revenue projections reveal long-term budgetary shortfalls. Short-term adjustments allow for a temporary balancing of the budget, but do not support the fiscal framework necessary to attain the Village's strategic priories. For that we must factor in the broader view and economic realities that are shaping our future. Although we cannot expect an overnight fix, our financial plan should be able to demonstrate progress is being made to achieve our long-term goals and sustainability.

Find equitable solutions that offer the least disruption and promote shared responsibility across all stakeholders. While tough times call for tough decisions, any solution the Village considers should be carefully analyzed for its impact to all concerned parties: Employees, residents, business community, vendors and the Village itself. There are no simple, singular answers to navigating the current economic conditions. Rather the best approach is a compilation of equitable solutions share by multiple parties with a vested interest in our community.

The Village can no longer afford to provide direct services without established revenue streams to cover their costs. One such example is residential garbage collection. The Village currently collects approximately $210,000 through real estate taxes to pay for this service. At one time the tax revenue collected nearly covered the cost of the service. Today the contracted cost has grown to more than $355,000 annually, causing the Village to utilize general fund dollars to make up the difference, a practice that has cost our Village over $730,000 in the past eleven years. Although far less than the garbage rate for individuals, the Village can no longer afford to subsidize this expense for its residents. Part of the proposed savings this year includes a possible reduction in garbage service. Limiting pickup to one can per household could potentially cut the budget by approximately $30,000. Residents would then have the option to increase service at their own expense. To help make up the projected refuse shortfall, the Village voted to pass a 5% utility tax. Tax on both gas and electric service is estimated to raise revenues by $325,000 annually. While some of the revenues will be used to make up for the cost of garbage collection, the remainder will help restore fund balances to ensure the Village's financial stability, fund core operations, resurface roadways, maintain facilities and replace aged vehicles and equipment.

Both the Finance Committee and Village Board have struggled with the idea of instituting a new tax during these financially challenging times and we are sensitive to the impact this tax will have on our residents and businesses. Unfortunately, we have come to a point where we cannot solely rely on spending cuts to balance the budget and effectively manage the Village. Johnsburg is not alone in this predicament. Communities all around the state are slashing expenses and searching for ways to replace lost revenues. An analysis of Village fees and taxes shows that we have one of the lowest real estate tax rates in McHenry County and only one new tax (telecommunications) has been implemented in our Village in more than twenty years.

Finally, the *Annual Budget Review* is part of a continual, dynamic budget process that monitors, evaluates and makes adjustments to the budget, policies, plans, programs and management strategies of the Village to ensure progress is being made and goals remain relevant. As the Village continues to find ways to cut costs and improve efficiencies in its operations, current economic conditions have forced leadership to include solutions that aim toward replacing lost revenue. Optimal solutions engage participation of all stakeholders, are the least disruptive and are viewed as the most equitable for all vested parties. As time and conditions change, so too may the solutions, but our fiscal responsibility must remain steadfast.

For more information or answers to your questions please contact Village Hall or click on the **2011 Annual Budget Review** to view the full presentation.

Sincerely,

Mary Lou Hutchinson
Finance Committee Chairman