



The Journey to Financial Recovery

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Municipalities and counties are entering the second year of financial turmoil with the end still out of sight for many. Just as explorers of past centuries needed to overcome many obstacles on their journeys, you must do the same in this situation. Ehlers offer specific advice on how to best use your resources plus the wisdom and resources of others on *The Journey to Financial Recovery*.

The journey started with the mortgage lending melt-down and other events that converged to create an economic recession. Communities heavily reliant on sales and income taxes were hit hard. Every community is facing declining property tax revenues. Overcoming these obstacles may require the use of tools already at your disposal, gathering additional provisions in the form of outside expert assistance to collaborate with your team. You may need to use one or more of the following:

Cost Reductions and Efficiencies: These can range from in-house purchases, outsourcing services, establishing service partnerships, and other efficiency efforts, to workforce reductions including hiring freezes, vacancies by attrition, and layoffs. The need for lean government will be ongoing because of funding gaps in subsequent years, so cuts and efficiencies should be made with a long-term strategy in mind.

Revenue Enhancements: A potential increase in user fees, one-time fees, or taxes can be more controversial than service cuts due to the number of people directly impacted. Many communities have enlisted the aid of a financial advisor to conduct independent rate studies of utility rates, permit fees and other service charges. This approach provides the outside expertise to test the need for an increase and, if warranted, provide an unbiased recommendation for the public and the governing body to support.

Cash Flow and Investments: In a healthy economy, a savvy finance director, treasurer or administrator can carefully balance the need for liquidity and interest income. But in difficult and uncertain economic times, a professional investment advisor can help evaluate your situation and recommend an investment policy and strategy.

Debt Management: Interest rates were low and relatively stable the past six months of 2009. Early in 2010, rates have been rising as inflationary pressures and the level of public debt are shaping expectations for our economy. The 30-year U.S. Treasury Bond rate, a driving force for municipal bond rates, has increased from 2.8% in January 2009 to 4.5% in January 2010.

A financial advisor can help identify old debt issued with higher rates, prepare a plan to restructure that debt, and work with a municipality or county to issue new bonds while interest rates are relatively low. This can reduce debt service payments and free up cash for other purposes.

Capital Projects: The current compulsion is to save money by reducing expenditures. This is generally sound practice, but now is a good time to proceed with "shovel-ready" projects. Interest rates are still relatively low. There is time during 2010 to take advantage of special federal bonds under the federal *American Recovery and Reinvestment Act (ARRA)*, which expires at the end of the year.

Economic Development: Many economic development projects have come to a grinding halt due to a lack of lending activity and cash flow problems. Banks and other lenders are avoiding risk by not participating in projects.

However, there are ways for local governments to proactively pursue economic development. Under *ARRA*, taxable *Recovery Zone Economic Development Bonds* can be issued for public projects. Tax-exempt *Recovery Zone Facility Bonds* can be issued to jump-start private business projects.

Every state has other tools available to municipalities to help spur economic development such as; *Tax Increment Finance Districts*, *Business Districts*, and *Special Service Areas*.

If you have questions or need help charting the course for your community's "*Journey to Financial Recovery*," contact your nearest Ehlers office or call 1-800-552-1171. ■