



CREATING A BUDGET SURPLUS

WHY CREATING A RAINY-DAY FUND IS A PRUDENT DECISION, WHEN POSSIBLE.

 Intelligent Partnerships



State and Local Budgets



Things to Consider

Though budget surpluses are generally a positive thing, economists agree that they must be achieved in the right way to have a positive effect on the community. For example, if a budget surplus is achieved from austere policies, the effects could be detrimental to the local economy and community. Though it should be noted that austere measures are sometimes necessary to avoid a debt crisis.

Instead, any planning to put money away for a rainy day should be carefully considered so as not to impact inflation, the quality of public services, community investment, or anything else that could negatively affect the public good.



A Balanced Budget

Unlike the Federal Government, States are not allowed to practice deficit spending.

All states (except Vermont) must produce a balanced budget, as required by their Constitutions. In pursuit of this goal, unexpected losses in tax revenue or unexpected expenditures can cause states to dramatically cut spending in order to balance the budget.



Establishing a Surplus

There are any number of policies and programs that governments can adopt to help create a budget surplus, while still prioritizing the public good. Intelligent Partnerships has previously released guidance on some policies that can be utilized to establish a budget surplus.



Going Green • Governments can implement green policies, including installing solar panels, ensuring that all appliances used are energy-saving, and changing all lightbulbs to LED bulbs to generate savings.



Early Retirement Incentive Program (ERIP) • Municipalities can consider offering incentives to employees who are close to retirement, which moves them off the payroll.



Public-Private/Nonprofit Partnerships • In order to save money and maintain quality of public service, governments might want to explore the possibility of partnering with a private entity or a nonprofit to deliver services.



Contracting Out • Governments can contract out services to other companies. Common uses of this option are trash services, janitorial services, and road maintenance.

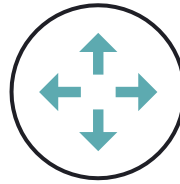
Benefits of a Surplus

When a government is able to create a budget surplus for a rainy day, there are a number of positive side effects that the municipality can enjoy. Along with a cushion for any future, unforeseen negative impacts to the government's revenue (such as the economic crisis that the coronavirus pandemic has created nationwide), the municipality can also potentially use some of the surplus to invest in infrastructure or community projects. State and local governments might also benefit from the following advantages:



Helps Fight Inflation

Inflation is caused by an influx of money into the economy. When a budget surplus is executed thoughtfully, it can reduce the money in the economy and slow inflation.



Provides Flexibility

A prolonged surplus will allow the government to react to economic trends better. For example, the surplus means that when the economic is experiencing a downturn, the municipality can reduce taxes to help stimulate the local economy.



Low Interest Rates

A surplus results in less borrowing, which results in a lower risk for the lender. The lower risk means the borrower can benefit from a lower interest rate.

Case Studies



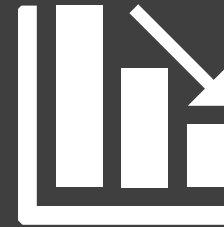
Before the coronavirus pandemic, many state and local governments and governmental organizations were enjoying surpluses, which were a result of the multi-year economic growth that the United States was experiencing. There has been varying levels of success (and failure) in utilizing these funds during the pandemic, and many states have had to scramble to address large projected deficits.

South Carolina - \$672M Surplus

Despite the coronavirus, South Carolina has been able to add to their surplus, even though the state is experiencing an economic slowdown and is responding to the coronavirus. State legislators have been operating under a Continuing Resolution, and they are writing budget proposals that allow for 1%, 2%, and 3% cuts in response to the economic slowdown.

Ohio - \$775M in Spending Cuts

Ohio is planning on making spending cuts, \$300 million of which target K-12 public schools, despite the \$2.7 Billion in the state's rainy-day fund.



Hawaii - \$2.5 Billion Budget Gap

Though the state has agreed to use its \$1 Billion rainy-day fund to help bridge the gap, its dramatic loss in revenue is forcing the state to re-evaluate its budget. The revenue loss is attributed to the pandemic-caused decline in tourism, which normally brings \$17.8 Billion each year.



Wyoming – Largest Rainy-Day Fund

At the beginning of the fiscal year, Wyoming had enough in their surplus to cover operating costs for the state for over a year. Due to the pandemic, the state is trying to find ways to make up for a revenue loss of 20% in the state.

Things to Consider



Learning from Prior Experiences



In evaluating budget decisions to create a budget surplus, it is important to keep past experiences front of mind.

- Is the decision being made while maintaining the priority of the public good?
- Are the budget decisions sustainable?
- Is there a mechanism for reversing the decision if it proves to be detrimental?
- If services are removed, who is being impacted and what is being implemented to offset the effects?
- Could the changes potentially mean compromising the quality of service provided? If so, is there a mechanism in place to ensure that the public is receiving the same standard of service or better?





Sensible Approaches



Budgetary issues are not unique to governments. Families around the country face similar problems everyday. When parents sit at the kitchen table to make tough decisions that are immediate, consequential, and difficult: Groceries or the electricity bill? Gas for the car or the household gas bill?

The ability to give yourself a chance to be ready for those moments by setting a little aside when you have it is prudent, whether you are a household or a governmental entity.

In today's financial climate, building budget reserves are not necessarily front of mind for most government organizations, both large and small. This is indicative of prioritizing the public good, which should always be of the utmost importance.

ABOUT US



We bring decades of experience helping clients in diversity management, strategic engagement and workforce design.

We encourage our partner organizations to prioritize our community's health and safety and remain an available resource.

Should you have any questions or need strategic design and implementation support, please feel free to contact our team at:

(877) 234-9737 or www.iPartnerships.net

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