



HADLEYVILLE DEPARTMENT OF FINANCE

1245 LINCOLN BOULEVARD
HADLEYVILLE, AZ 85001

INTERDEPARTMENT MEMORANDUM

October 26, 2010

TO: Budget and Finance Teams

FROM: Jack Sprague, Town Manager

RE: Town Financial Crisis Update

As you complete your proposals for the town council, I wanted to summarize again what the council is expecting and some advice on how your proposal can best help the council reach decisions on combating the town's financial crisis. Specifically remember some key elements of your project:

- 1) Analyze fully and make recommendations for adjusting the town's direct and entitlement spending in the current adopted budget.
- 2) Present specific recommendations for both the Economic Security Department and Water and Sewage Department based on the information provided.
- 3) Present a "blanket proposal" to the town council that reduces the town's operating budget by 13% immediately (detail your justification for the specific reductions) and eliminates all deficit spending within 3 years.

By now you've completed a detailed analysis of the current operating budget, the current state of revenues and expenditures, and the forecasts for each. You've also used similar information to prepare specific recommendations for two town department budgets. Now you have the task of the "30,000-foot level" approach despite only having summary level information from which to make recommendations. The council understands that your explanation of the adjustments you propose will be confined to general discussion of the pros and cons of each adjustment. Obviously there are a multitude of considerations within each department affected by the budget adjustments, as you've seen through your department analysis. The council, however, needs to see that in each of your recommendations you've considered how different elements of the budget work together. For example, you may recommend for a significant reduction in parks and recreation programs, but you also should consider the impacts of those expenditures to the revenue gained through park user fees. There are plenty of scenarios where an adjustment to one line item in the budget will impact others.

Also consider many of the concepts that have been discussed in your group in the past few weeks. You've discussed the various merits of ways of raising revenue, specifically different sales and usage-tax related methods. You've also explored the political problems inherent in reducing entitlement spending. Also keep in mind, as you explored in the Water and Sewage Department's budget, the difficulty in planning for a capital expenditure. You'll notice two capital projects in the town's operating budget line items: 1) a new elementary school and 2) a new senior activity center. Keep in mind that any adjustments to these two budgets might impact debt service, long-term planning, or timelines for the project. Although we don't expect you to explore these in great detail, since you are dealing with summary information, any adjustments in these areas should at least mention potential impacts the council should consider.

In addition, to the explanations of adjustments you've made to reduce the operating budget by 13% and eliminate deficit spending, the council is looking for a minimum of three recommendations related to long-term budget balancing. These recommendations can center on increasing revenue, long-term privatization of town services, reductions in staff, and/or whatever you feel is sound and will bring the most benefit to the town's finances.