

LONG RANGE FINANCIAL PLANNING - CITY OF HIGHLAND PARK

The purpose of long range financial planning is to set forth, for a specified period of years, estimates of the cost of proposed public services as well as the means for financing those services. The long-range financial planning process is, in effect, an extension of the annual budget process that identifies governmental expenditures and corresponding revenues.

The long-range financial plan of a community should be, in large part, based on those things over which the governing body has direct control. For example, local governing bodies have direct control, at least in the long run, over most expenditures in the budget. A majority of budget items can be increased or decreased (subject to labor contracts, etc.) at the will of the governing body. Revenues, on the other hand, are less subject to direct control. While the governing body establishes tax rates, the base upon which the rate is imposed is generally outside the local government's control. Basing future expenditure increases on increased revenues resulting from an uncertain expansion in the private sector work force, for example, would be considered speculative.

Expenditures

A long-range plan should project expenditures to be incurred by the local unit to provide public services. The plan should identify future expenditures based on current levels of services, as well as identifying increases or decreases in expenditures based on increases or decreases in service levels. The plan should include projections of the cost of employee compensation, including increases in employee salaries and fringe benefits, as well as changes in employment levels. The plan should also include projections of operating expenses, such as contractual obligations (e.g., refuse disposal) and utility charges (e.g., telephone and electricity) -

Revenues

A long range financial plan should project the annual yield of each major source of revenue available to the local unit. The projections should be based on the historical trend of collections. major deviations from these trends should be identified and explained. Any new sources of revenue (e.g., cable TV franchise, etc.) or proposed rate increases should also be noted, and their degree of certainty assessed.

Emergency Loan Requirements

The long range financial plan of the City of Highland Park must also meet the requirements specified in the emergency loan act- They include submitting a long range Plan which balances future revenues with expenditures. After a state loan is approved, the city must submit semi-annual evaluations of the city's performance against the long-range plan. The city's long range financial plan not only fails to projected total expenditures or total revenues over the next five years, but also fails to show a balance between the two. In addition, the city's plan neglects to provide clearly identifiable benchmarks upon which semiannual performance evaluations could be based.

Conclusion

The proposed 5-year plan of the City of Highland Park relies heavily for its achievement upon revenues that would materialize only if certain economic development projects were successful and other economic improvements beyond the control of the city were to occur. Although it is reasonable to include these as objectives in the plan, it should be recognized that some or all of these objectives may not be realized within 5 years and that a plan built on those revenues may prove misleading.