

## Greenwich Time

### To navigate Greenwich's budget gap, look to proven solutions

By Gregory Bedrosian

Posted: 02/17/2009 08:20:41 PM EST

[http://www.greenwichtime.com/opinion/ci\\_11725089](http://www.greenwichtime.com/opinion/ci_11725089)

In a scene that's being repeated in city halls and state houses across the country, the leadership of Greenwich is doing the hard work of re-crafting the town budget in the face of an extraordinary projected budget shortfall of \$31 million. We are part of a great national debate on how to navigate a historic financial and economic crisis. While the process is well under way, we would do well to revisit proven, common-sense principles of corporate financial crisis management as we engage the really tough decisions regarding layoffs, cuts in capital expenditures and taxes.

First, we should insist on material cuts that bring expenditures in line with income in the worst case scenario. Second, we should set an across-the-board benchmark. Addressing our \$31 million shortfall in a \$364 million budget calls for a reduction of 8.5 percent in current spending. Finally, we must take a fresh look at all key expenditures and make any cut or delay any spending that doesn't cripple a specific function or service. It's a hard but critical discipline to ensure we "right-size" our government.

In addition to outright spending cuts, our leadership is wisely looking at ways to delay major capital expenditures in Greenwich. They are recognizing that when restructuring during a crisis, it's critically important to avoid doing anything that materially constrains cash flow. However, in a public sector context, this also means don't raise taxes.

Greenwich historically derives well more than 70 percent of budgeted revenue from property taxes, i.e., our revenues are inextricably linked to real estate values on the Grand List. Since economic dislocation likely will constrain property tax receipts and other revenue streams, we must not compound the damage by increasing tax rates, which rarely generates more revenue and, perversely, usually results in less.

None of these lessons are new or particularly profound, and that's exactly my point. Countless businesses, from startups to multibillion corporations, have survived macro-economic downturns or enterprise-level setbacks by doing the hard work of containing spending. Almost all that don't survive act as though their crisis is somehow different; they make inadequate cuts and pin their hopes on quick revenue fixes.

The good news is that facing an 8.5 percent shortfall, while hardly pleasant, is not a dire crisis by any standard. Consider that earnings at S&P 500 companies have fallen for five straight quarters, with year-on-year operating earnings down 22 percent in this past quarter alone, and further drops expected for the next quarter. Clearly, our budgetary challenge in Greenwich pales in comparison.

This is not to suggest that covering our budget shortfall will be easy or painless -- we have a lot at stake. Having lived and worked across the United States and Europe, my family now proudly makes Greenwich our home. Like our neighbors, we value our town's unique quality of life that gives us privileges, including enviable public safety, outstanding education for our children, unique natural beauty and character, and well-developed municipal infrastructure.

But we should bear in mind that our ability to enjoy all of this is in large part because of our history of sound fiscal management underpinned by predictable and low taxes. Our challenge is to keep this tradition alive by making the tough budgetary decisions that will see Greenwich through this crisis stronger than before, and as a worthy legacy to our children.

-----

*Gregory Bedrosian, a Greenwich resident, is co-founder and chief executive officer of Redwood Capital Group, an independent investment banking firm.*