

FISCAL FIRST AID

BY SHAYNE KAVANAGH AND MELANIE PURCELL

The Government Finance Officers Association would like to thank the following organizations for their valuable contributions to the research for this article: City of Miami, Florida; City of San Diego, California; City of Washington, D.C.; City of Daytona Beach, Florida; Fiscal Crisis and Management Assistance Team, State of California; Genesee County Controller, Michigan; Jefferson County, Colorado; King County, Washington; Mentor Schools, Ohio; the Pennsylvania Economy League; the University of Pittsburgh; and Washoe County, Nevada.

With indicators of housing market performance plumbing depths that haven't been seen in years, soaring energy and commodity costs, and slowed economic growth, many local governments are feeling financial pressure. In this environment, minor structural imbalances that were manageable in the past may now manifest as a financial crisis. The purpose of this article is to outline strategies and tactics for "fiscal first aid" — stabilizing the financial condition in preparation for more in-depth rehabilitation. However, this article will not be just of use to those in financial crisis. Governments with a stable position can review these concepts to practice preventative care and head off a crisis before it occurs.

GETTING STARTED

A diagnosis must be made before applying basic treatment. Not only does this ensure that the right treatment is prescribed, it also convinces the patient of the need for action, including permanent "lifestyle" changes.

Distinguish between structural and cyclical deficits. A financial crunch owing to a fundamental mismatch between income and outflows requires a very different approach from one that arises out of a temporary downturn in revenues. Temporary downturns that are reasonably anticipated to last less than two to three years could be weathered by using reserves, putting a freeze on hiring, or deferring capital or maintenance spending, for example. If these practices are stopped and remedial action is taken when revenues come back, then the harmful side effects will be minimized. However, using these same tactics to deal with a structural deficit can actually worsen the problem. Using reserves puts

off the day of financial reckoning, and the eventual required solutions will be that much more drastic and painful. Hiring freezes place greater pressure on staff, perhaps causing turnover amongst the most capable — especially if there is no expectation that staffing levels will return to normal in the foreseeable future. Deferring infrastructure spending ultimately harms the economic vitality of the community and the very tax base that supports the government.

Help decision makers visualize the problem. Modern spreadsheet software offers interactive and visually appealing ways to present financial data. Interactive presentations can be used to show anticipated future financial positions under different growth scenarios (see "Long-Term Financial Forecasting for Local Governments" on page 60 in this issue). If, for instance, the forecast shows a budget deficit even under improved economic conditions, then the case for action becomes that much more compelling.

Finding anecdotal ways to relate the scope and nature of the problem to people's daily lives also helps clarify why action is needed and further stakeholders' understanding of the issues. For example, relating debt to mortgage and car payments or to buying groceries on credit can help elected officials and the public feel more able to support the actions needed to fix a structural decline or make an adjustment during a cyclical shortfall.

Get benchmark data. Comparative data on factors such as employees per capita, overtime spending ratios, benefit costs, claims costs, etc., can reveal areas of over-expenditure. Per capita and per employee analyses provide excellent perspective and help employees and elected officials adjust their expectations and understanding of what is realistic. Just as importantly, benchmarking data provides tangible proof of the need to change.

Understand what tough times mean for citizens. In a financial downturn, it is not just government that feels pressure. Citizens cannot afford new or increased taxes, while certain services like public safety or health and human services become ever more costly. Further, certain segments of the population may be particularly vulnerable and even less able to bear tax increases or service cuts than others. A fiscal first aid

In this environment, minor structural imbalances that were manageable in the past may now manifest as a financial crisis.

strategy must be hatched with full knowledge of how the proposed course of action will affect the citizenry. Not only is this important for short-term political support, but it is necessary for building trust with citizens, which is crucial for ongoing financial sustainability.

Understand what tough times mean for employees.

While the purpose of government is to serve the citizens, the most effective and efficient organizations recognize the value of employees in providing that service. During tough economic times, employees, just like all other citizens and residents, are facing increased costs and potentially reduced income from spouses who are facing other facets of the downturn. This can become a significant issue when evaluating labor contract strategies and changes in workplace expectations.

FISCAL FIRST AID STRATEGIES

The following strategies provide broad guidance for applying fiscal first aid. Any government confronting a financial crisis should consider how to incorporate these strategies, no matter the cause of the imbalance.

Prioritize services. Prioritizing services is essential in the case of a structural deficit. Services cannot be provided as they always have. There is probably some “fat” that can be trimmed from the existing service mix, but more likely, government will have to do less of or simply stop providing some services to concentrate on a more limited number of higher-priority programs. Jefferson County, Colorado, has recently had great success with prioritizing its service programs according to how they contribute to achieving the results of greatest interest to the County Board. (An article describing Jefferson County’s experience and methods is available at www.gfoa.org/lftp/firstaid.) Prioritizing services can also be useful in cases of cyclical deficit, helping to focus the service portfolio and prevent a structural deficit before it occurs.

Work with a citizen blue ribbon committee. A committee composed of leading citizens can provide an outside perspective on efforts to restore financial balance. Such a committee can also help build public support for hard choices by getting influential citizens involved in the development of the strategies. The committee should comprise those whose opinion is highly respected by the public in financial matters. This might include local business owners, former elected officials, or accountants or other financial professionals.

Seize the opportunity to innovate. A crisis can provide impetus to innovate and make changes that would be near impossible in better times. The opportunity is especially ripe when the gravity of the crisis is powerfully illustrated using benchmarks or data visualization. Remember, “a crisis is a terrible thing to waste.”¹

Use the opportunity to involve and focus employees. Employees know the organization best, and unleashing their creativity can be of great aid in reaching financial stability. Many of the fiscal first aid tactics described in this article present an opportunity for employee involvement. Employee involvement will be that much more effective when paired with an employee recognition program. Public approbation and reward of employees who actively contribute to the solution will build powerful momentum among all employees for positive action. (An article on how the City of Palo Alto, California, structured an employee involvement program is available at www.gfoa.org/lftp/firstaid.)

FISCAL FIRST AID TACTICS

The following tactics are remedies that can be selectively applied, depending on the nature of the malady. Hence, up-front diagnosis is needed so the right tactics can be selected.

Make managers manage. Layers of control may have built up over time that are costly to maintain and of limited effectiveness. For example, budget analysts from the budget office should not be used to cajole operating departments into following their budgets — mechanisms should be in place to make sure departmental managers are self-motivated. For example, in the City of Minneapolis, Minnesota, managers that exceed budgetary tolerances must explain the deviations at a special session of the City Council and must periodically report to the council on their progress in rectifying the situation. Needless to say, managers do their best to avoid being called in front of council in the first place. This has allowed the city to re-purpose analysts who were previously asked to monitor departmental budgets.

Audit certain routine expenditures. Over time, routine expenditures can creep upwards, sometimes for no good reason. It may be possible to save money by auditing these types of expenditures, making sure the underlying usage levels are correct. While the savings may not always be dramatic, such audits provide an opportunity to get employees involved and

to create a change in the mindset of the organization, making efficient use of taxpayer money paramount. Examples of expenditures to investigate include:

- **Pensions and benefits.** Ensure that only those who are entitled to benefits are receiving them. It can be surprising how often a new spouse of a deceased employee's spouse is receiving health insurance and a pension payment, or a student child of an employee who is no longer eligible is still being covered. Also, verify that health coverage is coordinated with Medicare and other available coverage, and implement positive re-enrollment procedures.
- **Cell phones, pagers, and landline usage.** Negotiate pooled minute plans, and compare rates with other agencies. Verify that numbers on the phone bill actually belong to the agency, and cancel unused accounts. Confirm that employees who are assigned pagers and cell phones actually need them more often than on rare occasions. Verify compliance with Internal Revenue Service regulations regarding reporting of personal use.
- **Office and janitorial supplies.** Examine the average cost of office supplies per full-time employee in different departments. Of course, some departments, such as finance, will use more than others, but checking for reasonable use might uncover areas of waste or examples of particularly efficient use that can be copied by others.
- **Publications, travel, and memberships.** This area of expenditure is a familiar target for cost-cutting. However, employees need training and professional development to become more efficient and generate innovations that help create a financially sustainable local government. Therefore, sweeping elimination or reductions should be avoided in favor of a more focused approach where essential training is considered an integral cost of personnel (also thereby giving a truer picture of the cost of an employee). Managers should carefully plan professional development for their employees to get the most value for the dollar.

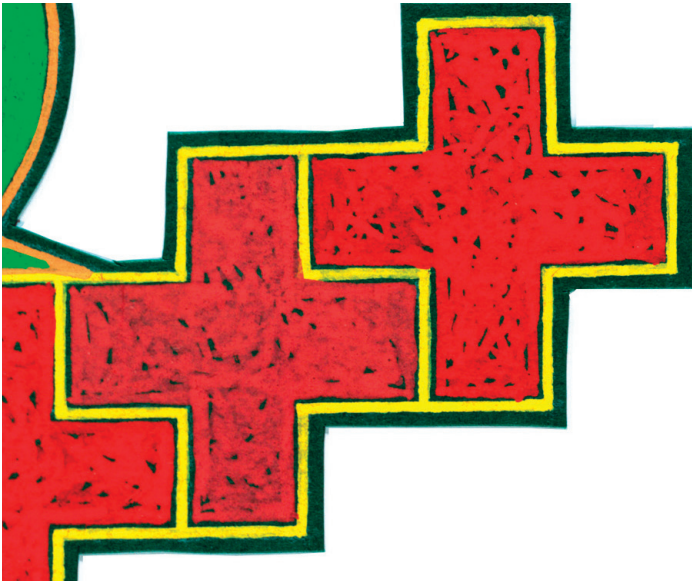
Reduce energy consumption. Green technologies provide a new chance to gain substantial increases in energy efficiency. For example, the light-emitting diodes in LED streetlights use less electricity and require significantly less maintenance than standard streetlights. Solar and wind adaption can be great supplements to purchased traditional electricity for



government facilities. Energy efficiency initiatives do not need to be exotic to be effective, though. Autosleep on computers, motion sensors on office lights, daylight sensors on street lights, and consolidation of office printer use can all make a dent in rising energy costs. Motor vehicle fuel costs have increased particularly rapidly, so educating staff about trip planning and fuel conservation techniques can be especially valuable.

Manage risks. Insurance premiums and claims settlement can be a significant cost. Inadequate risk management practices or even fraud can contribute to higher costs. Benchmark your experiences against those of others and look at improving risk management or fraud prevention techniques where appropriate. Also consider a third-party administrator if additional help is needed, and to provide periodic audits of performance.

Evaluate overtime usage. Examine the ratio of overtime to regular wages. If there is reason to believe that the level of overtime is excessive, examine scheduling options to reduce it, and check to see if particular personnel are involved in driving up overtime costs. Also consider implementing more stringent approval requirements for approving overtime. For example, Genesee County, Michigan, has one central budget for overtime in its general fund (rather than a separate overtime budget in each department), and departments must come forward each month to report the purpose for any use of the overtime budget. In some instances, adding part-time



personnel or even an additional full-time staff person can provide more cost effective service than paying overtime.

Address health-care costs. Health-care costs are a large and rapidly escalating cost for many governments. Examine the major drivers of these costs. For example, how much could more aggressive co-payments save the agency on prescription medications? Can generic drugs reduce costs? Also, seriously consider wellness options that will bring down costs in the long run at little to no expense, such as nutrition promotions and health club memberships offered at a discount. Also consider using the opportunity afforded by financial crisis to harmonize benefits among labor groups, which will reduce administration costs, as fewer plans cost less to operate. Also examine where the greatest needs are in the employee population so the organization's health care coverage provides what is needed but does not pay for unused benefits. For example, employees with young children will need more preventative care; middle age employees may need diabetes or heart care; and overall, employees may prefer more dental and less vision care.

Implement purchasing practices. Simple purchasing practices can reduce costs:

- Multi-year contracts that guarantee lower prices can be especially valuable for construction-related activities, printing, and heavy equipment. Long-term contracts can also help manage energy costs.
- Standardize and limit the selection available for office supplies and basic technology such as PCs and copiers.

- Standardize fleet vehicles, establishing limits on make, model, etc. A standardized airplane inventory has been instrumental to Southwest Airline's legendary cost-control abilities, and the same tactic can work for local governments.
- Just-in-time purchasing for products such as office supplies, auto parts, and janitorial supplies can slash inventory costs. Modern technology and competitive markets put just-in-time purchasing in easier reach than ever before.
- Reevaluate vendors frequently to verify value and accuracy. Lack of competition can cause complacency and lead to higher prices.
- Audit encumbrances and other held funds, including projects for which funds are carried over more than a year. Better cash management can reduce requirements for funding and reduce costs.

Audit revenue sources. Liabilities may be underreported for revenues that are remitted based on self-reporting of tax liability. An audit can uncover instances of underpayment.

Improve billing and collections procedures. Standardize billing and collection procedures for all receivables and clearly define responsibility for all aspects of the collection process. Pay particular attention to points where there are hand-offs between departments or personnel, especially where physical, rather than electronic, documents are involved. Consistent collections efforts will help prevent past-due amounts from growing so large and so old as to become uncollectable. Also consider reconciling records for different revenue streams to ensure that all constituents are paying their fair share. For example, property tax records can be confirmed against utility bills or other agency's property tax records. Income tax records can be compared against property tax records, court filings, and business records at the county clerk's office. Finally, to collect on outstanding receivables that haven't been vigorously pursued in the past, consider an amnesty program. These programs do not always work as planned, however. An article chronicling the City of Chicago's experience provides pointers for an effective program (visit www.gfoa.org/lftp/firstaid for a copy of the article).

Explore fees for services. Consider charging fees for services where the driver of the service provision cost can be accurately attributed to specific users and where the cost of charging the fee is not prohibitive. Further, and perhaps more

importantly, examine the extent to which existing fees are meeting cost recovery goals. In many cases, cost recovery goals may not have been formally defined, leading to de facto and unintended subsidization of services.

Explore opportunities for inter-organizational cooperation. Cooperate with other organizations to gain economies of scale. Overlapping jurisdictions might be particularly good potential partners, since they have a direct interest in the fiscal stability of other overlapping governments. Rich opportunities for cooperation include:

- Commodity purchasing for items such as office supplies, vehicles, computers, and operating supplies through state contracts, government cooperatives, and government pricing schedules from major vendors.
- Joint health insurance purchasing with other agencies or using pooled insurance. Similar pooled efforts can work for risk management.
- Work with not-for-profits to run or fund appropriate services (e.g., libraries, senior centers, recreation, cultural institutions, etc.).

CONCLUSION

A financial crisis is a jarring experience and can throw the organization into chaos. In such an environment, short-sighted and unsustainable solutions may become attractive. Instead, consider sound strategies and tactics for fiscal first aid to help guide the organization through a crisis using methods that provide immediate relief while creating the conditions for long-term sustainability. ■

Note

1. Russ Linden, "A Crisis is a Terrible Thing to Waste," *Governing Magazine*, May 23, 2007.

SHAYNE C. KAVANAGH is a senior manager in the GFOA's Research and Consulting Center in Chicago, Illinois. He can be reached at skavanagh@gfoa.org. Kavanagh is author of *Financing the Future: Long-Term Financial Planning for Local Government*, published by the Government Finance Officers Association. MELANIE PURCELL is the assistant director for municipal technical advisory services at the University of Tennessee. She has served local governments in Michigan, Wisconsin, Nebraska, and Nevada for the past 15 years, emphasizing budgeting and organizational effectiveness.

all the
PORTFOLIO ACCOUNTING
AND REPORTING
you'll ever need!

Tracker

195.00

PER MONTH

Tracker is an easy to use, web-based portfolio accounting and reporting investment tool for institutional investors.

We simplify the labor intensive and time consuming task of investment management.



60 day

COMPLIMENTARY PORTFOLIO SET UP

FREE TRIAL

tracker.us.com

Toll Free 888.327.1422

Corporate Headquarters: Charlotte, North Carolina Since 1997

Reprinted with permission of the Government Finance Officers Association, publisher of *Government Finance Review*, 203 N. LaSalle St., Suite 2700, Chicago, IL 60601-1210. (312/977-9700; fax: 312/977-4806; e-mail: GFR@gfoa.org; Web: www.gfoa.org). Annual subscriptions: \$35.