

# BUDGET-BALANCING TACTICS IN A TIME OF CRISIS

May 14, 2020



SCHOOL OF GOVERNMENT

Center for Public Leadership and Governance



# ADVICE FROM THE ALLIANCE FOR INNOVATION, 2008



# Alliance for Innovation Advice During the Great Recession

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- In making budget reductions, avoid across-the-board cuts that take funds away from higher priority programs and services along with those with lower priority.
- If reducing positions, avoid eliminating only vacant positions that either randomly distribute vacancies or leave high turnover agencies severely understaffed.
- Lead inclusively and encourage creativity and engagement at all levels of the organization rather than tightening controls and making top-down decisions.
- Draw on the organization and the community's ideas and support, and use the crisis to identify how the organization can be strengthened.

Gerald J. Miller and James H. Svara, eds., *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders*. Alliance for Innovation, 2009, p. 21.

# Departmental Budget Cuts

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- “Across the board” – a uniform percentage reduction for all departments
- Selective cuts
  - Targeting “nonessential” services
  - Targeting functions likely to experience low demand during a recession

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# REVENUE-ENHANCING TACTICS



# Revenue-Enhancing Tactics I: Cities Across the Nation 2009

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**Raising fee levels (45%)**

**Raising the number of fees (27%)**

**Increasing property tax rate (25%)**

**Raising level of impact fees (19%)**

# Revenue-Enhancing Tactics II: Cities Across North Carolina 2009

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**Increase current fees for services (43.5%)**

**Increase the appropriation from fund balance (31.3)**

**Establish new fees for previously uncharged services (17%)**

**Impose/raise development impact fees (7.3%)**



## Fee Move Options by North Carolina Local Governments, 2008-2010

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- **Animals**
- **Assessment, zoning or plan review**
- **Building and development**
- **Building inspections**
- **Business license**
- **EMS/ambulance transport**
- **Fire inspection**
- **GIS/maps**
- **Historic district guidelines document**
- **Landfill tipping**
- **Library**
- **Parking fees/fines**
- **Public event/festival**
- **Public health**
- **Public transit**
- **Recreation/leisure activities**
- **Refuse collection**
- **Recycling**
- **Sign permit**

# Selected North Carolina City & County New or Increased Fees for Service

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- **Recreation/leisure activities**
- **Public health (environmental health inspection, dental & orthodontic fees, clinic fees)**
- **Refuse collection**
- **Landfill tipping**
- **Building inspection**
- **Assessment, zoning, or plan review**
- **Emergency medical service/ambulance transport**

# Non-Fee Revenue Enhancement Moves

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- **Payment Process Streamlining**
- **Cash Management/Investment Return Boost Practices**
- **Privatization of Services**
- **Asset Sales/Leasing (Land & Public Buildings)**
- **Move Enterprise Funds to General Fund**
- **Grantsmanship (Federal & State)**

# Four Take-Aways

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- **Increased or new fees for service are a popular and pragmatic short-term approach to budget-balancing. Care should be taken to focus on approaches that are the most promising in terms of revenue generation and can be explained as “pay as you go” user fees. Options that raise social equity, fairness, or access concerns among citizens should be avoided.**
- **Drawing down “rainy day” reserve fund balances or moving funds from enterprise funds to the general fund could be risky in terms of impacts on bond ratings and the cost of future borrowing as well as on masking the true picture of revenue-expenditure imbalance.**
- **Raising existing taxes, especially on property, remains a political “third rail” maneuver that will prove problematic especially during times of economic distress.**
- **Economic stimulus funds targeted to local governments in 2008 for shovel-ready projects are now targeted to individuals and businesses, reducing the prospects for significant fiscal rescue or bail-out of municipalities and counties by the federal government.**

# COST-CUTTING TACTICS



# Common Expenditure-Reduction Tactics among NC Cities, 2009

	Percentage of Respondents
No pay raises	64.9%
Reduce capital spending	59.4%
Hiring freeze	26.5%
Reduce employee benefits or increase employee share of cost	16.6%
Reduce positions	11.5%
Contract out additional services	9.3%
Reduce service levels	8.6%
“Contract in” services previously contracted out	8.4%
New intergovernmental arrangement for services	4.2%

N = 453 responding cities

Source: North Carolina League of Municipalities survey of member cities, 2009. Used with permission.

# Cost-Cutting Moves by North Carolina Local Governments, 2008-2010

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- Hiring Freeze
- Furloughs
- Reduction of Work Hours
- Overtime
- Salaries/Wages/Compensation
- Reduced Employee Benefits
- Health Benefits
- Position Cutbacks
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# Hiring Freeze

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- “Hard Freeze” – no hiring; no exceptions
- “Soft Freeze”
  - Selective
  - Exceptions

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# Parks Department Motto

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“Clean, Safe, and Open”

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# ADVICE FROM THE GOVERNMENT FINANCE OFFICERS ASSOCIATION



## “v” shaped recovery

- Rebound is swift, but not easy
- Short-term, quick fixes could bridge the gap to recovery



COVID Scenarios and Strategies by GFOA & Resource X, React, Rebalance, Repurpose, Reprogram, Strategies for Short-term Survival and Long-term Transformation, 2020

# GFOA Advice: Immediate Approaches to Consider Based on “v” Type of Recession

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Small “v” Shaped Recovery where rebound is swift but not easy and where short-term actions can bridge the gap.

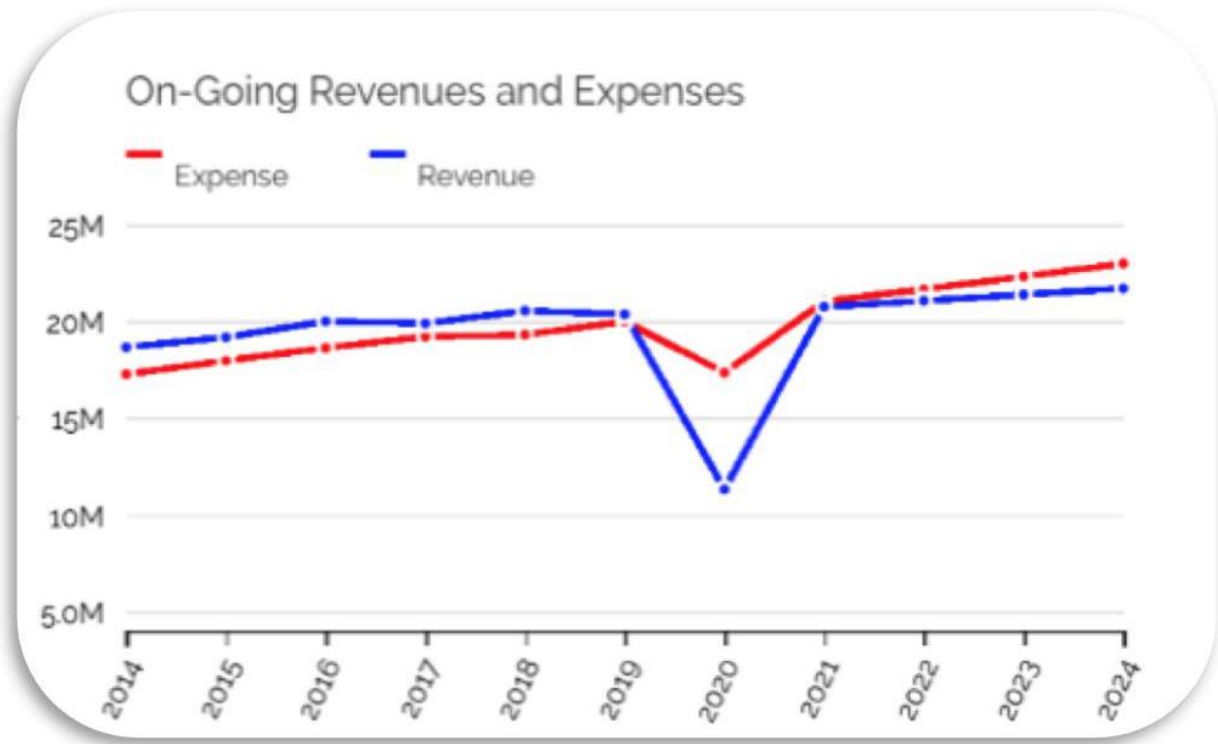
1. Diminish/Eliminate Variances: Review trend data and interview department heads to determine where expenses can be reduced.
2. HR & Organizational Opportunities. Implement a freezes on Vacancies, Pay Increases or Incentivize Early Retirements.
3. Department Reserves. Explore reserves where departments have budgeted for contingencies where they don't have to wait for administrative approval. Especially where there may be redundancy.
4. Capital Plan Review. Explore one-time opportunities to delay capital expenses in order to free up resources to bridge a one-time short-fall.
5. Slow the Cash Flow. Reduce or delay expenditures or look for new resources (e.g. interfund transfers, re-designate general fund reserves, new or revised fees).

COVID Scenarios and Strategies by GFOA & Resource X,  
React, Rebalance, Repurpose, Reprogram, Strategies for Short-term Survival and Long-term Transformation, 2020



## Big “V” recovery

- Downturn is deeper, but bounceback is rapid
- Short-term bridge strategies apply



COVID Scenarios and Strategies by GFOA & Resource X,  
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# GFOA Advice: Immediate Approaches to Consider Based on “V” Type of Recession

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Deeper “V” Shaped Recovery. Downturn is deeper but bounce back is rapid. Short-term bridge strategies apply.

1. Internal Service Funds/Full Cost Allocations. Distribute expenses to the departments who use services provided by internal support functions. May free up resources in the General Fund.
2. HR & Organizational Opportunities. Employee furloughs or temporary reductions in compensation.
3. Service level Reductions or Suspensions. What services could be provided at a lesser level or even temporarily stopped? Review/renege contracts where possible.
4. Program Partnerships. Opportunities for leveraging partners internally (centralization) and externally with other public sector/nonprofits.

COVID Scenarios and Strategies by GFOA & Resource X,  
React, Rebalance, Repurpose, Reprogram, Strategies for Short-term Survival and Long-term Transformation, 2020

# GFOA: Blueprint for Action to Fund the Future

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The same exercise is appropriate whether you're planning 3-5 years or 3-5 months ahead....

## Free-up & Re-allocate Resources:

1. Can we leverage partners, or source services with public/private providers, in order to free up resources? Focus on the “irreducible core” programs and services.
2. Can we apply technology to automate or free up human resources?
3. Can we reduce service levels or eliminate services to free up resources?

## Generate New Revenue:

1. Do our fees cover the costs of providing the service?
2. Can we recoup additional funding or attain new grant opportunities or are we reporting the true cost of services to granting agencies?
3. Do we have options left besides raising additional revenue from tax and rate payers? (Last resort).

COVID Scenarios and Strategies by GFOA & Resource X,  
React, Rebalance, Repurpose, Reprogram, Strategies for Short-term Survival and Long-term Transformation, 2020

# Don't Treat Every Service/Function The Same

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Service Level Increase – We must keep providing this program, and likely increasing resources to it (e.g. First Responders, Public Health, etc).

Status Quo – We need to continue providing this program “as is”, without room to compromise (e.g. utilities).

Service Level Decrease/Suspension (temporary) – We need to continue providing this service, but we can be flexible with the level of service or If we had to, we could suspend this service (e.g. recreation, swimming pools).

Internal Partnerships – Can we centralize or consolidate functions (e.g. fleet management, IT support).

Regional Partnerships – Are we better off providing this program with a regional partner in order to maintain current level of services? (e.g. regional fleet/facilities maintenance)

COVID Scenarios and Strategies by GFOA & Resource X,  
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# Webinar Participant Forum

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To offer a remark, just raise your hand under the "participants" box, and Julia will unmute you for a brief comment. (Please keep your comment to 30 seconds or less, so everyone will have a chance.)

If you wish to remain anonymous, please enter your questions in the Q&A box.



## In your opinion, which three of the following budget-balancing tactics is your government most likely to adopt in a time of severe crisis?

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**51%**- eliminate pay raises

**51%**- freeze hiring

**72%**- delay/cancel capital projects

**14%**- across-the-board departmental budget cuts (uniform percentage)

**0%**- layoffs

**11%**- furloughs

**54%**- restrict purchases

**7%**- service cutbacks

**5%**- tax increase

**14%**- fee increases

**In your opinion, which two of the following budget-balancing tactics is your government least likely to adopt, even in a time of severe crisis?**

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**18%-** eliminate pay raises

**21%-** reduce employee benefits

**37%-** cuts in public safety budget

**18%-** across-the-board departmental budget cuts (uniform percentage)

**35%-** layoffs

**9%-** furloughs

**5%-** reduce staff training

**2%-** reduction of employee work hours

**58%-** tax increase

**11%-** reduce financial support to outside groups