

# NAVIGATING THE FISCAL CRISIS: TESTED STRATEGIES FOR LOCAL LEADERS INTRODUCTION FOR ELECTED OFFICIALS

A White Paper prepared for the International City/County Management Association by the Alliance for Innovation



# **Navigating the Fiscal Crisis: Tested Strategies for Local Leaders**

## **An Introduction for Elected Officials**

As the fiscal crisis around the country threatens more and more local governments, officials are faced with increasing challenges and a need for immediate action. The vision and the leadership of elected officials are keys to sustaining local governments through this crisis.

The ways that local governments responded to past economic downturns offer guidance on how to survive and even become stronger during times of fiscal stress. To determine the lessons of past experience, ICMA (the International City/County Management Association) commissioned a white paper prepared by researchers from the Academic Network of the Alliance for Innovation.

This executive summary for elected officials:

- Describes the fiscal dimensions of the current economic crisis.
- Identifies what worked in previous fiscal cutback efforts.
- Explains why innovation is critical and how positive actions can be taken.
- Describes how local government actions can contribute to the economic recovery.

### **Fiscal Dimensions of the Economic Crisis**

Although there is variation among the states, in general such economic drivers as the automobile manufacturers, the financial services industries, and the new housing construction industries have experienced slowdowns that result in higher unemployment, reduced sales tax revenues, and reduced revenues from building permit and related fees.

The ripple effect from these slowdowns touches related businesses, including suppliers, restaurants, and stores. The decrease in purchasing produces a decrease in sales tax revenues. In some localities, small businesses have closed because they could not sustain the loss in sales.

The tightening of credit due to the crisis in the financial markets has made it much more costly and difficult for local governments to borrow money typically used to finance capital projects. Unless cities and counties have an exceptional credit rating, which is difficult with budget shortfalls, they may have trouble borrowing through traditional methods

Because the stock market has sustained major losses and pensions are funded in large part by stocks, the cost of local government obligations to pay pensions could have a substantial effect on local governments. Officials should have a

clear understanding of how their system works. The global dimensions of the financial crisis have decreased the demand for United States' exports.

Foreclosures persist and are expected to continue. In addition to subprime mortgages and mortgages that are now more than the value of a house, unemployment will force additional people who live paycheck-to-paycheck into foreclosure. Foreclosures cost local governments due to increased property maintenance, crime, and such social issues as homelessness.

As property values drop from foreclosures and the declining housing market in general, property tax revenues will decrease. Local governments that are dependent on a significant percentage of revenues from the state will face reductions in state funds as states face their own budget shortfalls.

A specific local government may encounter any combination of these conditions that contribute to fiscal distress, and the timing may differ. It is imperative that elected officials seek a full and frank assessment of the current conditions and likely trends for the next two years. Local governments in some parts of the country are already making substantial changes to adjust to negative conditions. It is common, however, for the full impact on local government budgets to come 18 to 24 months after the start of an economic downturn.

### **What Worked In Previous Cutback Efforts?**

In times of fiscal crisis, citizens look to elected officials for answers, and these officials can fill an important educational role.

- Work with staff members, educate the public, solicit their input, and engage them in problem solving. Hold town meetings and provide information to the public on the issues, the financial impact, and the possible programmatic changes that will be required.

Although an immediate response to a major budget shortfall is to stop spending and introduce across-the-board cuts, research shows that other approaches may be more effective in sustaining a local government over time when faced with a serious and prolonged downturn.

- Make any cuts sensible and understandable to the public.
- Refrain from deferring maintenance or moving money around for short-run expediencies. Remember that one-time cuts help immediately but do not save more money in subsequent years like cuts in continuing expenses do.
- Maintain revenues to support expenditure levels because these actions have a greater positive impact in speeding economic recovery than cutting expenditures.

- Consider the value of a service before cutting it. Across-the-board cuts do not differentiate essential from nonessential services. The same percentage cut may be easier to absorb in a large program than a small one. Although it's important for local government program managers to identify cost savings, they must consider the value of the service to the local government's core mission and the impact of cutting it.
- Make an effort to move staff members from positions that are eliminated into vacant positions. Hiring freezes create a pool of unfilled positions, but simply eliminating empty positions weakens organizational performance. It is better to target elimination of less needed positions whether occupied or not.
- Reduce work hours or use furloughs with an accompanying reduction in pay, which has less impact on morale than a straight reduction in pay.
- Bring contracted services back in-house to be performed by staff members in order to save money and to save jobs. Layoffs will affect the local economy due to reduced spending and other financial effects that unemployment can introduce. They may even lead to loss of homes. Where possible, alternatives such as early retirements, reduced hours, or redefined jobs are preferable.

### ***What Elected Officials Can Do***

Early in the process, elected officials can establish broad goals to guide program and service review by staff. Mayor Charles Meeker of Raleigh, North Carolina, for example, recently said in his state of the city address, "It's going to be a year of choosing which programs to continue, not which programs to add."<sup>1</sup> Local officials can convey the message to citizens and staff that all programs are on the table.

It is likely that programs have constituencies that support them, but elected officials need to help citizens understand that programs must meet the highest needs in order to justify continuation at current levels. They can make sure that citizens get their questions answered and understand the budget review process, but they create confusion by promising individuals that their services will remain the same or trying to get special treatment.

Elected officials should expect as much information as possible from staff about options and consequences of specific cuts. Ultimately, they must weigh the long-term interests of the community as a whole in making the final decisions about cuts. Elected officials should backup central managers and give them the

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<sup>1</sup> David Bracken, "Meeker: Recession is both challenge and opportunity," *Raleigh News and Observer*, January 26, 2009  
<http://www.newsobserver.com/news/story/1382542.html>

authority and the support to act decisively and coherently. They should monitor effectiveness and look for adjustments in the methods used to accomplish the strategies.

### **Why Innovation Is Critical**

Periods of fiscal stress and the necessary retrenchment can be times of innovation and creativity. Innovations can be new and original to the organization, and they can be adoptions of process improvements implemented by other organizations. Innovation brings about change and new approaches to problem solving.

In a cutback period, the resources are not sufficient to maintain the status quo. The changes that are required can be reactive and negative or proactive and positive. More than ever, local governments must have the flexibility to suspend practices that are no longer adequate and thoughtfully consider and apply other solutions. Providing incentives for improving performance will encourage staff members to think creatively and become part of the solution.

Here are actions that local governments can take and elected officials can support that promote constructive change:

- Where cuts need to be made, take action quickly.
- Focus on core mission, purpose, and highest priorities in order to differentiate essential services from others.
- Take a long-term view.
- Foster stewardship and cost containment.
- Support staff in trying new approaches and improving organizational design and processes.
- Commit to communicating with all stakeholders.

### ***What Elected Officials Can Do***

Elected officials' leadership in encouraging a long-term perspective, rather than a short-term reactive stance, will be essential to effective management of this crisis. The elected officials' role allows them to command attention. By inviting citizens to discuss the core mission, purpose, and highest priorities, elected officials have the opportunity to create partnerships with citizens.

Their role in educating and engaging all stakeholders in solving the problems facing our communities will support their long-term vitality and stability. They can reinforce the message that innovations are encouraged despite the risks.

### **How Local Governments Contribute to the Economic Recovery**

Local governments are important economic agents. Because they make substantial purchases of goods and services and have employees who buy

products and pay rent or mortgages, local governments contribute to the economic well being of a community.

There are several strategies that local leaders can implement to mitigate fiscal stress or even mildly stimulate the economy. Elected officials leadership in championing these efforts is essential.

- It's important to maintain or increase local government expenditures by continuing or increasing revenues or drawing down financial reserves. These actions help support the local economy countering the downturn in other areas.
- Expand or accelerate capital projects, especially those with low operating costs. These projects put money into the economy because they have a direct relationship to business and industry.
- Although tax cuts are an option, they are typically not large enough to make a discernable impact on the economy.
- Although it seems counter-intuitive, economic literature suggests that cutting expenditures hurts local economic recovery more than maintaining or raising current tax levels.

### ***What Elected Officials Can Do***

By educating citizens on how the actions of local governments impact the economic cycle and the value of sensible budget decisions that sustain needed programs and services, elected officials can help citizens understand how local government actions support the local economy.

### **Summary**

Elected officials have the responsibility to govern their communities wisely and link residents to the governmental process. The current fiscal crisis that is threatening local governments makes these tasks harder but even more important. Citizens look to elected officials to address serious problems, not just hunker down and wait out the storm.

Officials should focus resources on the most important programs and services and encourage changes that will make communities stronger in the future. They are in a unique position to engage citizens and to provide the leadership that inspires confidence and trust.

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The complete white paper *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders* and supporting research papers can be found at <http://www.transformgov.org>.