

Generic Retrenchment Techniques:

Any-Time Responses to Financial Distress

By

Joe Casey,


Deputy County Administrator, Hanover County, Virginia

Shayne Kavanagh,

Senior Manager, Research and Consulting, GFOA



Government Finance Officers Association
Research and Consulting Center
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During the early stages of a financial recovery, jurisdictions need to take action right away to begin to stabilize the situation – before the leaders of the recovery process will be able to conduct a detailed diagnosis of the causes of distress and develop a response tailored to the situation. At this point, the organization can turn to generic retrenchment techniques – techniques that are safe to apply with little or no foregoing diagnosis of the situation, which are especially useful at the start of the recovery process. Generic techniques have the following essential characteristics:

- **Short time-to-benefit ratio.** A yield occurs in a very short period of time.
- **Not complex.** It is easy to understand the short-term benefits and long-term ramifications. It is also easy to explain to others.
- **Reversible.** It can be undone with reasonable effort. Since generic treatments aren't applied with much diagnosis, it is better if they can be reversed if needed. For example, a hiring freeze can be lifted, or a new fee can be repealed or reduced.

This paper presents a number of generic retrenchment techniques, divided into categories such as personnel, revenues, supplies and materials, and more. The experiences of Hanover County, Virginia, are presented as an example. Examine each technique to see if you can benefit from it.


Personnel

Stretch professional development funds. Training is usually one of the first things cut during a retrenchment, but training sessions are often where employees get new ideas on how to be more efficient. Rather than cutting training completely, consider a cost-sharing arrangement with employees. This reduces the budget for training without eliminating it and may lead employees to be more selective about which training sessions they attend. Memberships in professional associations are another form of development. Rationalize spending on membership in these groups by verifying that memberships are directly relevant to the duties of the employees involved and that the memberships are being actively used. You may also find that multiple employees have individual members for the same association when a collective membership is available.

Use unpaid or lower-cost labor. Hanover County found \$30,000 in potential savings by using prison work release labor to clean kennels and perform other duties for its animal control program. Interns or community volunteers can also provide low-cost labor to per-

About Hanover County

Hanover County, which is located in central Virginia, has a population of more than 100,000 people. Hanover has a total budget of \$400 million and a general fund budget of \$200 million. It is one of the smallest counties in the United States with a triple-A bond rating. In addition, the county recently received a Senate and Productivity and Quality Award and was chosen as one of the America's Promise Alliance's "100 Best Communities for Young People."



form public services. When using this technique generically, it is probably best to limit it to lower-risk services. For example, while use of citizen volunteers in public safety roles has potential, it probably needs more study and forethought than can be brought to bear in the earliest stages of the recovery process.


Share personnel. There may be opportunities to share personnel across departments. Sharing personnel helps prevent layoffs by better distributing human resources to where they are most needed. There is often potential for sharing administrative assistants, for example. You might also look to see where the organization is hiring contracted labor and see if in-house resources could be used instead (which might help prevent a layoff). Hanover found opportunities to share personnel with its county attorney, public works, community development, and public safety functions. To illustrate, a number of county employees (who were not employed in public safety) were working in volunteer fire fighting and emergency medical service (EMS) capacities for the county on their off-time. The county found a way to temporarily re-assign these employees to public safety to cover vacancies in fire and EMS. This allowed the county to retain necessary coverage levels for public safety services while avoiding layoffs in other departments.

Reassess personnel equipment needs. During times of higher revenues, personnel may have been assigned equipment that isn't completely essential to the job, and the government may now be willing to live with the lower level of service associated with eliminating that equipment. Hanover County reassessed the need for individual cell phones, personal digital assistants, uniforms, individual desktop printers, and take-home vehicles, saving almost \$100,000 annually.

Allow voluntary part-time status. Letting employees volunteer to move to part-time status is a relatively non-controversial way to save money on salary costs (and fringe benefits that are based on salary). In fact, some employees might welcome the opportunity to move to part-time status. However, managers should think about repercussions such as the newly part-time workers' continued eligibility for fringe benefits and effects on scheduling. Despite the risks, this can be considered a safe generic technique because it can be easily reversed. In fact, managers might want to make it clear that part-time status is provisional, with a defined sunset date for the initiative. This will allow managers to assess the effects and rescind the decision, if necessary, without adversely affecting morale.

Short-term hiring freeze. A short-term hiring freeze that lasts a few months or simply extends the time a position is vacant might provide some immediate financial relief. This kind of hiring freeze would not usually require formal proceedings such as governing board approval. A longer hiring freeze would require more careful analysis, including deciding what departments and functions are affected (e.g., will public safety positions be exempted?), calculating how overtime costs will be affected, and identifying potential risks to critical services.

Rethink staffing ratios. Fixed staffing ratios can potentially transform personnel from a variable to a fixed cost. See if staffing ratios can be reconsidered to provide more flexibility in how staff resources are used. For example, Hanover County identified more than \$1.5 million in potential savings from changing ratios for sheriff personnel per capita,



teachers to students, and fire fighters per truck. While this technique may not lead to immediate savings by itself, it does form the basis for important discussions about staffing levels that could lead to significant savings later.

Revenues

Raise fees where appropriate. A review of fees may show that certain fees have not been raised in some time, in which case an increase might be appropriate. Public managers will have to use their judgment to determine where it is feasible to raise fees immediately and where further study will be required. Fees with the following qualities are candidates for an immediate increase:

- there has been no increase in a number of years,
- there is reasonable basis to assume that the cost of service has increased,
- the governing board and management expect high levels of cost recovery,
- those paying the fee are clear beneficiaries of the service, and
- there is existing statutory authority for raising fees.


Implement new fees where appropriate. Over time, the government might have come to provide a number of services that, while small and seemingly innocuous on their own, add up to real money. It may be appropriate to start charging a fee for these services, especially if the beneficiary of the service is a distinguishable constituent. For instance, Hanover County identified the potential for \$50,000 in new revenue for its animal control service by starting a licensing tag program for cats. Hanover found that it was spending just as much, if not more, on animal control for cats, thereby justifying the fee. Again, public managers will need to use discretion to determine where a fee can be implemented right away and where more study will be required. To illustrate, a number of communities have implemented EMS fees, where accident victims are charged a fee for EMS response to the scene. While the accident victims are clearly the beneficiary of the service, such fees can be controversial and may require more deliberation.

Reexamine interfund charges. Just like user fees, inter-fund charges can sometimes become outdated. There may be obvious and widely agreed upon opportunities to update these charges to help the funds that are experiencing distress. This is another technique where the public manager must exercise discretion. A clear and compelling case for updating or adding a charge exists in some cases, but in others, the matter may require further study and discussion lest the charge degenerate into cross-fund subsidization.

Think more entrepreneurially. Government may have valuable assets that can be transformed into ongoing revenue streams. For example, Hanover County made more space available for cellular service antennae leases and began selling methane from its landfill for a total of more than \$100,000 in new annual revenues.

Supplies and Materials

Reduce paper costs. Using electronic documents can reduce printing and material costs in a number of ways. For example, the City of Redwood, California, purchased about \$7,000 worth of iPads for its City Council, and it expects to save more than \$30,000 a



year in printing costs as a result.¹ Simply posting reports on the Web instead of printing them out could also save money – Hanover County plans to save 10 percent on its printing costs this way. You can also stop buying paper products such as calendars and day planners that are replicated in office productivity software such as Microsoft Outlook. Finally, modern office productivity software packages have graphic capabilities that reduce or eliminate the need for preprinted stationary and letterhead.

Save energy. Energy efficiencies are a great way to save money while fulfilling the green goals that many governing boards have adopted. This could include improving turn-off habits, initiating tighter temperature controls, keeping fleet tires properly inflated, and better managing routes and fuel.


Re-examine maintenance and replacement standards. The organization's maintenance standards might have been established years ago, when products were not as durable as they are today. For example, Hanover County identified the potential to save \$200,000 per year by changing the standard for servicing buses from 30 to 45 days, a change that is acceptable because engines and buses are built much better than they were 20 years ago, when the standards were originally developed. In other cases, the organization might simply be willing to live with a lower standard of maintenance. Hanover County plans to save more than \$100,000 a year by reducing standards for internal mail delivery, grounds maintenance, painting, and custodial services. The county also identified \$350,000 in one-time savings that could be achieved by accepting higher mileage and years of service on ambulances and fire trucks before they have to be replaced.

Rethink lease agreements. Governments may rent properties that they could own for a lower net cost. Check to see if depreciating property values and the strength of the government's borrowing capacity might allow it to make financially savvy purchases of property that it currently rents. Hanover County projected \$30,000 in annual savings from eliminating more than 30,000 square feet in rented space in favor of county-owned space.

Process Redesign

Share cashiering resources. More than one department probably has cash receipt functions, and sharing these services could help reduce personnel costs. Hanover County saved \$40,000 a year by using the treasurer's office's cash receipt capabilities to cover the needs of the utility billing department.

Share constituent contact intake. It is not uncommon for multiple departments to have personnel who are responsible for taking calls directly from the public and greeting walk-ins. There is a significant amount of waste inherent in this arrangement because these individual constituent service agents often have a fair amount of downtime, and due to the nature of the work (i.e., constant interruptions), they are not usually very productive in using that downtime to accomplish other tasks. Consolidating constituent contact intake into one shared unit reduces downtime and allows the constituent service agents to specialize their skills. While some governments have gone so far as to implement a fully realized call center and 311 number, Hanover County found the potential to save




\$50,000 a year by directing the county's existing main number to a designated call-taker in the county administrator's office; improving signage to better direct visitors to the contact intake agents for the departments they want, rather than relying on dedicated receptionists to direct visitors; and making more effective use of the county Web site to provide services, thereby eliminating the need for some constituents to visit county offices.

Eliminate low or no-value tasks. Quality guru W. Edward Deming taught that most business processes contain up to 95 percent waste. A financial challenge may provide impetus to eliminate tasks that provide little or no value to the customer, but have remained in place regardless. Give managers permission to identify and eliminate this kind of work. Hanover County identified a number of such tasks, and eliminating some of them generated substantial savings. For example, the county found that it was placing notices of public hearings, job openings, and other advertisements in multiple area newspapers. This was an expensive and unnecessary approach (state law requires advertising in only one paper). Consolidating ads resulted in project savings of \$20,000 a year. In the assessor's office, tax assessors would traditionally visit properties to reassess them, a time-consuming task. The assessor's office identified the potential for \$150,000 in annual savings by eliminating the visit and instead using satellite photos to conduct routine reassessments. The assessor uses the photos to verify that nothing has changed from what was expected at the property.

Scope of Services Provided

Cut the most discretionary of spending. The organization may have certain programs that are widely recognized as "nice to have," but not essential to the mission. It may be possible to cut these programs, at least to some extent, in the early phases of the recovery process, if there is a shared understanding of the depth of the financial challenge and the logic of cutting this type of spending. Hanover County, for example, had traditionally operated a cannery for the benefit of local food growers (growers could take their produce to the cannery to be canned). A cannery is not essential to the county's core functions, so might be a place where spending could be reduced.

Reduce the scope of capital asset investments. A common response to fiscal distress is to defer or eliminate capital project spending, but jurisdictions need to make sure they aren't hurting themselves in the long term. For instance, a jurisdiction might have to rely on obsolete and potentially unsafe assets if it fails to invest in new ones, or new assets might be needed to preserve the economic vitality of the community. However, it might be possible to make a quick and low-risk decision to simply scale back on the asset purchase by reducing the amount purchased or by foregoing premium features. Hanover County found that it could save \$100,000 by reducing the scope of a project to upgrade its communication system. The county reduced the number of radio channels the system accommodated and the total number of radio towers by three (thereby accepting a lower level of coverage). The new communication system was still an improvement over the old one, but the county avoided the cost associated with premium features. Retaining the three radio towers would have improved radio coverage to 97 percent from 95 percent, but county officials decided it wasn't worth the added cost.



Make minor reductions in service levels. You might be able to make minor reductions in service levels at the earliest stages of the recovery process. If decision makers understand the depth of the financial challenge, they are more likely to accept some immediate reductions in services. Examples might include reducing library hours, reducing the number of issues of a community newsletter, or closing a community center for holidays.

Rethink subsidies. Your jurisdiction might have given subsidies – to internal programs, outside agencies, or constituencies – which could be reviewed for continued relevance and affordability. For example, tax exemptions may reduce revenue yields while only benefiting a narrow segment of the community. Local government may also have institutionalized financial support for good ideas that came from advocacy groups or elected officials who are no longer in office, but these programs may, in fact, be ancillary to providing essential core services. While reducing these subsidies right away might be politically challenging, you can begin by cataloguing subsidies as a starting point for discussion of their continued feasibility.

Fund Balances

If the government has built up fund balances in good times and has an explicit policy about how this money may be used to mitigate budgetary distress, then fund balances could be a useful generic retrenchment technique. The fund balance policy needs to describe:

- who can authorize use of reserves;
- the target level of reserves the government seeks to maintain (so the jurisdiction can assess the impact of the proposed use on actual reserve levels);
- how much of that target is authorized for budgetary stabilization specifically (versus responding to extreme events, for example); and
- the permissible uses of the reserve (can reserves be used for only non-recurring expenditures, or can they be used for recurring expenditures, in the context of a long-term plan to reach structural balance?).

If a government does not have a strong fund balance policy, then using reserves might not be a good generic technique because many of the decisions that would otherwise be framed by a policy will have to be thought through.

Note

1 Katharine Lackey, “iPads Saving Cities Paper Costs,” USA Today, August 10, 2010.