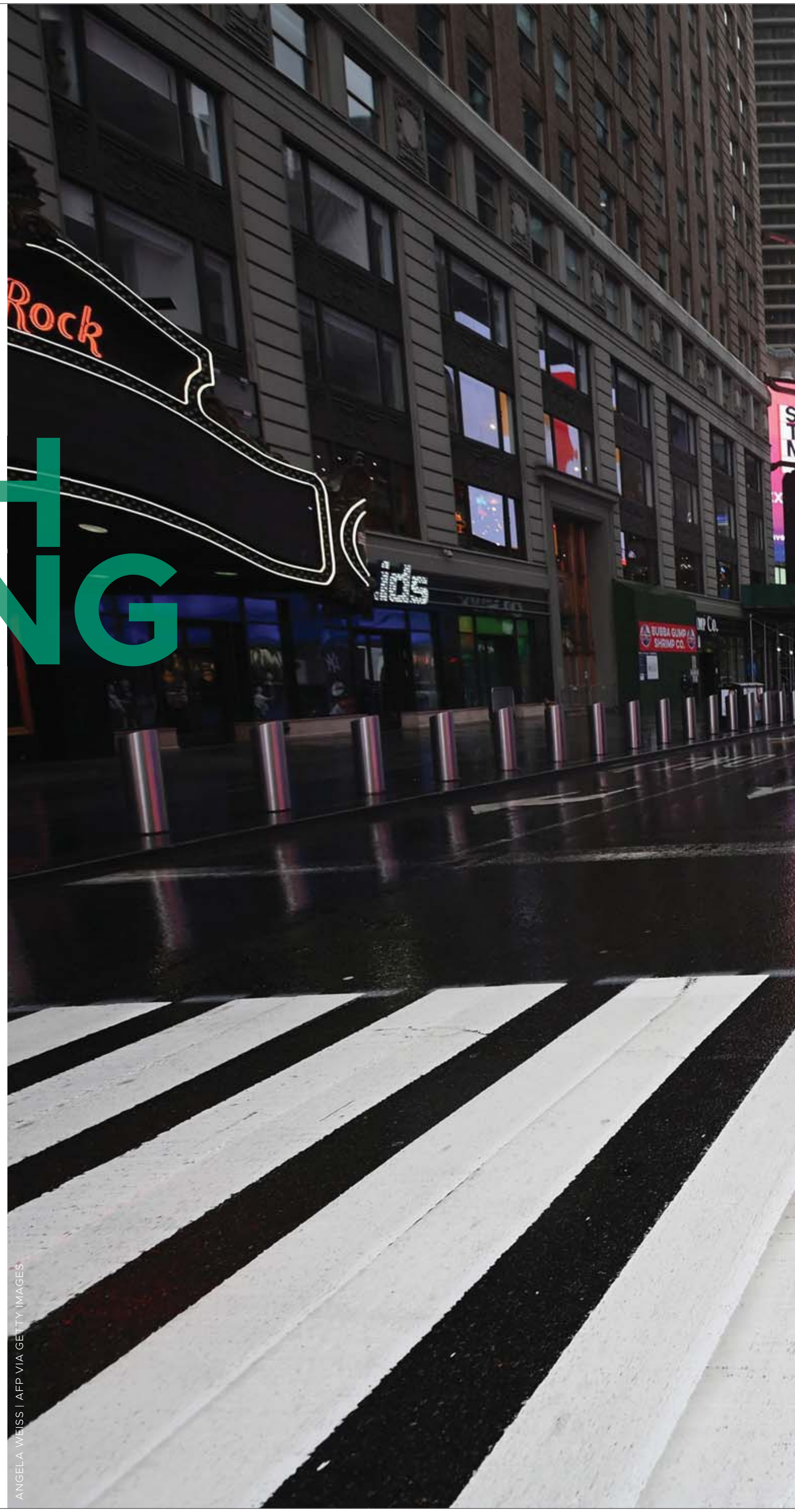
CASH IS KING

BY SHAYNE C. KAVANAGH AND JOSEPH P. CASEY, PH.D.

Cash is king during a financial crisis. How can local governments ensure they have enough cash on hand during this period, and what actions can they take to protect and rebalance the budget to adapt quickly?



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CITIES ON LOCKDOWN

A nearly empty Times Square in New York City as seen on March 23, 2020, following the state-ordered mandatory shutdown of all non-essential businesses.

Cash is king during a financial crisis. Local governments need to make sure they have enough cash on hand for essential services. Therefore, in a crisis, one of the first things local governments should do is slow the net flow of cash out the door and find ways to rebalance the budget. This could be done by reducing or delaying expenditures, or even finding new resources. There are many financial retrenchment techniques a government could use to get this done. However, a good retrenchment technique has the following characteristics:

Short time-to-benefit. A positive yield occurs in a 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 these retrenchment techniques are applied quickly and usually without much diagnosis ahead of time, they should be able to be reversed if needed. For example, a hiring freeze can be lifted.

This article presents a number of tried-and-true retrenchment techniques that can improve cash flow during difficult times and provide time and resources for governments to develop strategies to deal with the financial crisis.

The techniques are divided into the following categories:

- **Reduce Personnel Costs.** This is the biggest area of expense for most governments, so a serious retrenchment effort will have to address personnel costs.
- **Reduce Capital Spending.** Capital assets are often very costly, so even a modest reduction in spending could result in significant savings.
- **Reduce Materials or Contractor Costs.** Though not as significant as personnel or capital, many governments can find savings in existing contracts that may not be as painful to cut.
- **Create More Advantageous Inflows and Outflows of Cash.** These techniques won't balance your budget but can help better manage the incidence of expenditures and revenues during the year.
- **Get New Resources.** Governments should also explore possibilities for new resources, even if those opportunities are limited.

Examine each technique to see if you can benefit from it. However, beware that many techniques have potential pitfalls. We have highlighted the most important pitfalls you should be aware of.

Fiscal First Aid emphasizes the importance of leadership during the recovery process.

This paper is part of GFOA's Fiscal First Aid: Recovering from Financial Distress program. The Fiscal First Aid program lays out a 12-step process for recovering from financial distress. The techniques described here fit in to the very first steps of the 12-step recovery process. Therefore, the Fiscal First Aid process suggests a few points you should keep in mind while reading.

First, GFOA's Fiscal First Aid: Recovering from Financial Distress describes how you can form a team to help navigate a financial crisis. The team can help think through the best retrenchment strategies for your government, generate support for those strategies, communicate the right messages inside and outside the organization, and identify and mitigate the unintended consequences that are unavoidable when making sudden expenditure cuts. This is important because some techniques described in this article will be more controversial than others. For example, some techniques will require changes in personnel practices, perhaps even reductions in compensation. You may need to start discussions with labor groups and others to successfully put these techniques in place. If you have a strong team, navigating these potentially treacherous waters will be considerably easier. You may also need to communicate what is happening to the press or other community influencers so that the public understands why potential changes to services may be necessary and sees how strategies taken in the short term will make for a stronger and more financially sustainable organization in the long term.

Second, Fiscal First Aid emphasizes the importance of leadership during the recovery process. A key element of leadership is treating people fairly. Research unequivocally shows that people react very poorly to being treated unfairly, perhaps even going so far as to sabotage or bring down the system that they feel treated them unfairly. Hence, the financial recovery team will need to think about how to apply the techniques in this article as fairly as possible. A good place to start is by making a visible demonstration of the fact that the leadership is willing to endure the same austerity measures that they ask of other employees.

TECHNIQUE 1

REDUCE PERSONNEL COSTS

Personnel is the largest expenditure for most local governments, so limiting personnel expenditures will be a big opportunity to improve cash position.

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. The leaders of the recovery process need to help everyone understand what exemptions there are to this policy and why (e.g., critical public safety functions). The leadership also needs to work with department managers to help them understand what will happen to the vacancy savings. To best support the financial recovery, savings should return to a centralized pool so they can be directed to where they are needed most.

Potential Pitfall

- Consider if the positions you are freezing are mission-critical, or if a lack of staffing could cause inefficiencies or lost revenue in excess of the cost of the position. For example, if positions are not filled, otherwise normal events like an employee illness could create a critical gap in staffing.

Eliminate vacant positions

Positions that are not filled tie up budgetary resources that could be used for other needs. Assuming the position is not essential, eliminating vacant positions is a good way to reduce a local government's biggest expense (personnel) while avoiding layoffs of existing employees. An example relevant to the COVID-19 pandemic might be temporary summer recreation employees who would staff facilities or events that will now be unavailable.

The recovery team could also look for less obvious possibilities by examining all vacant and, in particular, long-term vacant positions. Some departments use long-term vacancies for budget savings while others find it impossible to fill specialized positions. If it is not clear that a vacant position is safe to eliminate, it can be put on hold. As with savings from a hiring freeze, the recovery leadership should explain that all savings will return to a central budget. To ease the pain, the recovery leadership can promise to reconsider the eliminations after the situation has stabilized.

Potential Pitfall

- Decide a fair and reasonable way to differentiate the essential from the unessential. You don't want to regret eliminating a position that turned out to be essential.

Stretch professional development funds

The COVID-19 pandemic has greatly limited or even eliminated travel for many local governments. However, even when travel becomes more feasible, training and travel will probably be one of the first things to be cut off during a retrenchment. Training sessions, though, are often where employees get new ideas on how to do their jobs better. Rather than cutting training completely, consider alternatives. For example, a cost-sharing arrangement with employees could reduce the budget for training without eliminating it and may lead employees to be more selective about which training sessions they attend. You might also encourage more Internet-based training, which will typically have a lower cost than in-person options. Memberships in professional associations are another form of development. Economize 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 memberships for the same association when a collective membership is available. Professional development is often most highly valued by management and employees with highly technical jobs. The recovery leadership will need to make sure these employees understand the new policy and what avenues remain for professional development.

Potential Pitfall

- By cutting off professional development, you might cut off a source of good ideas your organization needs to get through tough times. Be strategic in how you reduce professional development spending.

Share personnel

The COVID-19 situation will increase demand for service in some areas of local government and decrease demand in others. Also, employee illnesses may cause gaps in staffing. 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 support, for instance. 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). For example, one small county found that many county employees (who were not employed in public safety) were working in volunteer firefighting and emergency medical service (EMS) capacities for the county on their off time. The county found a way to temporarily reassign 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. Shifting employees to help with emergency management tasks might be an opportune way to share personnel during the pandemic crisis.

Letting employees volunteer to move to part-time status is a relatively noncontroversial way to save money on salary costs.

Potential Pitfalls

- Make sure personnel are qualified/trained to adequately assist in the area they are being shifted to.
- Some organized labor groups may oppose cross-training and/or job sharing. Make sure to bring organized labor into the discussion early if you'd like to pursue this technique.

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, especially for nonessential functions. One small county reassessed the need for individual cell phones, uniforms, individual desktop printers, and take-home vehicles, saving almost $100,000 annually.

This is also an opportunity to get creative. For example, one large city analyzed vehicle use by each department. The city instituted a car-sharing pool and took away underutilized vehicles. At the time, smaller departments in the city could not afford to maintain vehicles but were afraid to give up the vehicles they did have. The pool system gave all employees access to vehicles, while the fleet age has decreased, and the city has saved money.

Potential Pitfalls

- Many employees may view these pieces of equipment as "perks" that make their jobs easier. The recovery leadership must communicate clearly why this is being done.
- Some equipment might be mandated by labor agreements.
- This technique is an opportunity for the recovery leadership to lead by example by giving up nonessential equipment or special allowances. Failure to lead by example could hurt morale.

Allow voluntary part-time status

Letting employees volunteer to move to part-time status is a relatively noncontroversial way to save money on salary costs (and fringe benefits that are based on salary). In fact, some employees might welcome the opportunity. However, managers should think about repercussions such as the new part-time workers' continued eligibility for fringe benefits, impact on pension calculations, or any effects on scheduling. Despite the risks, this can be considered a safe 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, or that it may need to be rescinded in emergency circumstances. This will allow managers to assess the effects and rescind the decision, if necessary, without adversely affecting morale.

Potential Pitfall

- Make sure organized labor is involved if a change in the status of position to part time impacts labor agreements, etc.

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, one small county identified more than $1.5 million in potential savings from changing ratios for sheriff personnel per capita, teachers to students, and firefighters 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.

Potential Pitfalls

- Beware of perceptions that local government is decreasing public safety. Be sure that any discussion of staffing ratios focuses on how to get the best results for the community via a more efficient deployment of available personnel resources. Be sure to communicate proactively to the press and other community influencers about what is happening.
- Check if staffing ratios are covered by a collective bargaining agreement.

Make acceptable reductions in service levels

You might be able to make reductions in service levels, especially for nonessential services. If decision-makers understand the depth of the financial challenge and that it may not be temporary, they are more likely to accept some reductions in services. Examples might include reducing hours open to the public or even eliminating some services that are recognized as "nice to have" but not essential.

Potential Pitfalls

- The distinction between "nice to have" and "essential" is not always universally agreed upon. Hence, this retrenchment strategy could become more controversial than many of the others we have described.
- Unlike the strategies described so far, this requires reductions in the compensation of existing employees to achieve meaningful savings. This could hurt morale, etc.

Voluntary time off for employees

During difficult economic times, voluntary time-off programs allow employees who no longer have available paid time off to be off work to tend to personal affairs, while at the same time saving the jurisdiction money through salary and some benefit costs. This program could also be the precursor to a mandatory time-off program.

Potential Pitfalls

- Essential work could suffer if the wrong employees take off too much time. Therefore, some limits must be set on who can participate and how much time they can take.
- Because the time off is *voluntary*, it will be hard to predict the amount of savings that will materialize. The recovery leadership must be willing to live with this uncertainty.

AP PHOTO/MATT YORK

FURLOUGH FUNDS

Tempe, Arizona, furloughed 495 temporary employees during the coronavirus pandemic, most of whom work for departments that operate the library, arts and culture facilities, community centers, recreation programs, and volunteer services.

- If the voluntary program is seen by the leadership as a potential precursor to mandatory time off, be clear that this is the case. In other words, voluntary will be tried, but mandatory may need to be considered if insufficient savings develop.
- Make sure employees understand that voluntary time off is not compensated, which might impact benefits as well (e.g., pension benefits).

Mandatory time off for employees

Otherwise known as an unpaid furlough program, a mandatory time-off program is one way to avoid layoffs while still generating considerable salary savings. A number of mandatory days off can be set to match the savings the local government needs to generate to keep its budget balanced.

Rules governing time off will need to be established: how many employees can be out on a certain day, which employees need to be in to perform certain functions, etc. Employees need to know that this time off is not paid and is therefore not part of their paid time off. Also, the recovery leadership team should be clear about which projects or initiatives can be deferred in light of reduced work time. One large city even found that some employees enjoyed the mandatory time off as long as they weren't required to complete all the same job duties in the remaining work time.

Potential Pitfalls

- Unlike most strategies described so far, this requires mandatory reductions in the compensation of existing employees. This could hurt morale, etc.
- Such a program could require difficult concession bargaining with a labor organization or employee bargaining group.

Look for opportunities to reduce employee benefit costs

It may be possible to make changes to benefits that reduce personnel costs. As an example, moving to a cafeteria style of benefits, introducing co-pays on some benefits, or capping or eliminating some benefits may be possible.

Post-retirement benefits offer another cost-saving opportunity. For example, one large city eliminated most post-retirement benefits for management staff, based on a fixed employment start date (i.e., tenured employees were grandfathered in). This did create some inequities in that someone who was originally hired one day before another employee kept their benefits while the other lost theirs. The move did produce ongoing and increasing savings.

Potential Pitfalls

- Changing benefits during a plan year may not be possible.
- Unlike most strategies described so far, this requires mandatory reductions in the compensation of existing employees. This could hurt morale, etc.
- Such a program could require difficult concession bargaining with a labor organization or employee bargaining group.
- Grandfathering strategies could cause compensation inequities, which hurt the work environment.

TECHNIQUE 2

REDUCE CAPITAL SPENDING

It is common for local governments to defer or cancel capital spending during tough financial times. However, it may not be possible or advisable to cancel all capital spending, as some spending is indispensable. That said, capital assets are high-cost items, so even a modest reduction in capital spending could be a significant amount of money.

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. Further, investment in new infrastructure, equipment, software, or other capital could improve efficiencies and reduce operating costs.

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. One small 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% from 95%, but county officials decided it wasn't worth the added cost.

Potential Pitfall

- Beware of a "penny-wise, pound-foolish" decision of cutting back features with significant long-term benefits. Look for real opportunities to trim purely "nice-to-have" features.

Defer certain capital asset purchases

Some capital assets are safer to defer than others. Prime candidates for deferral might include capital

Beware of a "penny-wise, pound-foolish" decision of cutting back features with significant long-term benefits.

assets that provide a brand-new service, have significant, ongoing operating and maintenance costs, and don't have a critical public health or safety function. It may not be wise to defer assets that replace an existing asset, reduce ongoing costs, and/or serve a critical public safety or health function.

The recovery leadership should examine the capital improvement plan to look for the best opportunities to defer. To make painful decisions easier to accept, the recovery leadership might point out that the government may have an opportunity in the future to issue debt at lower interest rates[1] and ultimately build just as much, if not more, infrastructure than originally planned.

Potential Pitfall

- Deferring investments that reduce long-term costs will be counterproductive.

Improve capital project management

Improving capital project management and monitoring techniques can provide some near-term benefits. For example, it is not uncommon for the start of a project with approved budget authority to be delayed. Aggressive monitoring of these situations and cancellation of projects that aren't moving forward can free up funds for other uses. Project schedules may also be overly optimistic about how quickly a project will proceed, thereby routinely overestimating the rate at which project funding would be drawn upon. For example, this could result in premature allocations for pay-as-you-go financing projects, thereby tying up scarce funding needlessly.

TECHNIQUE 3

REDUCE MATERIALS OR CONTRACTOR COSTS

Materials and contractors are typically not as large a part of the budget as personnel or capital projects, but every bit counts in a financial crisis.

Reexamine 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, one small 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 was acceptable because engines and buses are built much better now than they were when the standards were originally developed. In other cases, the organization might simply be willing to live with a lower standard of maintenance. The county government also found an opportunity 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.

To use this technique effectively, the recovery leadership must identify real opportunities for savings like those previously described. Just pushing legitimately pressing needs into the future may only increase long-term costs, ultimately making full recovery longer and more difficult.

Potential Pitfall

- Make sure you understand the long-term increases in cost and risk that you may incur by reducing maintenance or replacement standards. For example, if an asset is maintained to a lower standard, it might be more likely to experience a critical failure sooner.

Reduce paper costs

Not only could reducing the use of paper eliminate costs, but it could also help governments adapt better to conditions where personal contact is limited and remote work is more prevalent. Using electronic documents can reduce printing and material costs in several ways. For example, one small city purchased about $7,000 worth of iPads for its city council and expects to save more than $30,000 on printing costs as a result. Simply posting reports on the Internet instead of printing them could also save money. A small 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. Modern office productivity software packages have graphic capabilities that reduce or eliminate the need for preprinted stationery and letterhead. Another option is to remove desktop printers to discourage printing and provide paperless options as a substitute.

There are many other possibilities to eliminate paper in the year 2020, like electronic signatures, fillable forms in Adobe Acrobat, and more. GFOA has best practices for electronic payments and electronic signatures, and encourages using features available in modern financial systems to cut back on unnecessary processing of paper.

Potential Pitfall

- Though there may be concern that paperless processes are more vulnerable to cybercrime and those concerns are legitimate, remember that paper-based processes are also vulnerable to fraud and perhaps even more vulnerable to internal fraud than their paperless counterparts. Make a clear-eyed assessment of the risks involved and proceed accordingly.

Save energy

Energy efficiencies are a great way to save money, especially for facilities that may now be underutilized. This could include changing turn-off schedules and initiating tighter temperature controls for buildings. This applies to vehicles too, like keeping fleet tires properly inflated and better managing routes and fuel.

Eliminate low- or no-value tasks

Quality guru W. Edward Deming taught that most business processes contain up to 95% 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

Not only could reducing paper eliminate costs, it could also help governments adapt to conditions where personal contact is limited.

and eliminate this kind of work. One small county identified such tasks. 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. Many such opportunities doubtlessly exist in your government. A classic opportunity for finance offices is eliminating reports that people don't read. Stop producing reports you suspect people aren't reading. If no one notices, that report may not be valuable.

Potential Pitfalls

- Be careful to consider organization-wide impacts of eliminating tasks. What might be a no-value task to one department might have a lot of value to another.
- The mantra of "we've always done it that way" can be an impediment to changing work processes. However, we are in extraordinary times, and extraordinary times can shake people out of old habits.
- For a variety of reasons, it will be difficult to reduce personnel costs through the elimination of low- and no-value tasks, especially in the short term. As our examples above implied, most times savings will come on materials and contracts or in giving staff more time to address higher-value work. Therefore, be careful not to overestimate the available cash savings from eliminating low- or no-value work.

Review software maintenance contracts

Many local governments own software licenses to hundreds of different products, many of which require annual maintenance and support costs—entitling the government to help desk support and new versions of the software. However, for many governments, upgrading to a new version during a fiscal crisis is not a viable option. Also, for a product nearing the end of its life, a complete replacement would be more likely than an upgrade. In either case, the government can stop paying maintenance and support, or it can hire a third party that supports the system at a lower price and continue to use the licensed software. Additionally, for products that are well-established or do not support critical functions, having the availability of support/upgrade resources may not be necessary or worth the cost. In addition, with annual price escalation, many governments are surprised to learn that the annual cost of maintenance has grown substantially since the software was first purchased and, in some cases, might even be more expensive than the license cost to purchase new software.

Potential Pitfalls

- Ending maintenance and support will start the government on the path to software replacement. Many vendors do not allow a government to start maintenance and support again without paying penalties.
- This approach only works if the government owns a perpetual license to the software and annual fees are not required to maintain that license.

Rethink subsidies

Your jurisdiction might have given subsidies to internal programs, outside agencies, or constituencies that 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 be ancillary to providing essential core services. While reducing these subsidies right away might be politically challenging, you can begin by cataloging subsidies as a starting point for discussion of their continued feasibility.

Also, consider if it is viable to transform certain tax/fee exemptions into an equivalent grant. Though this will be cost neutral on its own, the equivalent grant can make the subsidization more explicit and lead to valuable questioning if it is an appropriate use of public money.

TECHNIQUE 4

CREATE MORE ADVANTAGEOUS INFLOWS AND OUTFLOWS OF CASH

Delay payments to vendors

The payment terms a vendor sets usually stipulate the maximum length of time the government has to make a payment. Though delaying payment to the maximum allowable length won't reduce costs, it may help achieve a more favorable balance between cash inflows and outflows.

Potential Pitfalls

- If a vendor offers early payment discounts, you may give up more than you gain by delaying payment.
- Delaying payments to a vendor may cause a strain in the relationship between a vendor and government. For vendors providing essential services, or for vendors that the county may be relying on due to limited suppliers in the market, the government may not want to risk ruining its relationship. In difficult times, vendors are often in a similar situation. Delaying payment may cause hardship with the vendor in terms of their ability to meet obligations to employees or suppliers.

Look for areas of consistent surplus in prior budgets

Look for budget line items that have consistently been underspent in prior years. It could be that excess resources have been allocated in this year's budget that could be used for more pressing needs. For example, one large county found that the county clerk's election budget had large surpluses three out of every four years. It turned out that the clerk was budgeting the full cost of a presidential election every year as a placeholder for when the actual election occurred. This technique won't reduce costs, but the local government will not need to wait until the end of the year to realize the surplus.

The recovery leadership team can work with departments to examine budget versus actual spending over the last three to five years to look for areas of consistent underspending. It is important to note that, in many cases, this overbudgeting is a method of risk management for departments: the excess budget can be used for unexpected costs. However, this cushion can add up across all departments. If the leadership team can provide assurances that a centralized pool of money will provide a safety net, then departments may be more willing to "pool" their risk and, thereby, generate substantial savings.

Look for budget line items that have consistently been underspent in prior years.

Potential Pitfall

- The department that set the budget might have had legitimate reasons for its initial budget estimate. The recovery leadership should find a way to satisfy that concern while also solving the misallocation of resources. For example, the county found another way to give the clerk confidence that the cost of a presidential election would be covered when the time came.

TECHNIQUE 5

GET NEW RESOURCES

Increase interfund charges where there is a case for it

Interfund 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 a technique where the public manager must exercise discretion. A clear and compelling case for updating or adding a charge exists in some cases. In others, the matter may require further study and discussion, lest the charge degenerate into cross-fund subsidization.

Potential Pitfalls

- Interfund charges could devolve into cross-fund subsidization if not rigorously justified.
- Make sure higher interfund charges don't create new problems in other funds. This strategy only makes sense if the fund that will pay more can afford to do so.

Reassess internal service fund and cost allocation formulas

Internal cost allocations charge frontline programs for services provided by support programs. The revenue from these charges are often accounted for in an internal service fund. Fleet, information technology, and workers' compensation are often managed in this way, for example. Check to make sure these charges have not become excessive. For example, if an internal service fund has a very large fund balance, it could be that charge rates are high. If the internal service charge rates have gotten high, consider reducing or deferring charges, at least on an interim basis.

Potential Pitfall

- If rates are reduced too much, the internal service fund will suffer, thus creating new problems for your government.

Redesignate general fund reserves

You may have designated some portion of your general fund for special projects or other purposes that are not as important now. For example, perhaps some reserves have been set aside for special projects and the need for those projects is now less compelling. Local jurisdictions might consider reassessing these designations and redesignating those funds to help bridge the financial gap and balance the budget.

Potential Pitfalls

- Redesignating general fund reserves is a one-time strategy and is not sustainable.
- The projects that the reserves were intended to fund will be deferred.

Consider monetizing assets

Governments may have valuable assets that can be transformed into ongoing revenue streams. For example, some local governments have explored the potential of underutilized real estate owned by the local government. In some cases, the property might be located in commercially attractive areas but being used for government activities that could be performed on less valuable property (e.g., some kinds of offices, storage, etc.).

That said, there are some assets that could be monetized but where careful deliberation and study is important, lest the government make an unwise and irreversible decision. Monetizing these assets could still be part of the recovery strategy but should not be seen as an immediate retrenchment technique.

Potential Pitfalls

- Beware of selling unused property in a soft market. Consider if a temporary lease to a private party could bring in some revenue in the short term, without losing an asset that may be more valuable in the long term.
- Don't rush into monetizing public assets where the valuation is complex and the government, as the seller, finds itself in a buyer's market.

Implement new or revised fees where appropriate

Over time, the government might have come to provide many 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 distinguishable. For instance, one small county identified the potential for $50,000 in new revenue for its animal control service by starting a licensing tag program for cats. The county 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 or where a new fee simply may not be appropriate. For example, some fees might be counterproductive to the goals of public service. For instance, fees for using emergency medical services are often controversial because the service is not elective and is assessed when people are at their most vulnerable. Many local governments have reduced or discontinued fees and fines associated with justice services, recognizing that the fees often entail excessive collection costs and significantly impede people's ability to effectively interact with the justice and courts system.

In addition, all governments must be aware that maintaining public trust is vital. By adding fees that are not viewed as appropriate, the government can appear greedy or opportunistic during a time when the rest of the economy and community are suffering.

The best opportunity for this strategy in a financial crisis might be to make sure full cost is being charged for elective services. For example, building permit services benefit the property holder almost exclusively, and there is little reason for the rest of the community to subsidize it.

Pitfall to Avoid

- Fees that are regarded as unfair, unwarranted, or have unintended consequences might actually hurt the local government and community well-being in the long run.

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[1] Interest rates often fall during a recession, as there is less demand from borrowers.

Fiscal First Aid:

Recovering from Financial Distress

The public safety concerns that the COVID-19 pandemic raises are top of mind for local government officials—and for good reason. The pandemic has financial consequences for local governments. Unlike recessions, which can be thought of as a steep hill downward, the economic effects of COVID-19 thus far seem more like the fall off a cliff. Also, given the prolonged interruption to normal economic activity that many public health and economic experts expect, an extended economic recession seems likely even when the threat to public health subsides. As leaders in Washington, D.C., work to develop strategies to stimulate the economy, provide resources to help counties and other local governments through this difficult time, and limit the lasting damage from this recession, all local governments must also take action to address what they can at a local level.

To help local governments deal with the tenuous financial situation, GFOA has provided a program called Fiscal First Aid: Recovering from Financial Distress. This program was actually created more than 10 years ago to help local governments deal with the 2008 Great Recession. It was extremely popular at the time, and we have even heard from a number of veteran GFOA members that they have dusted off their copies of the Fiscal First Aid material and are using it now. As governments work to deal with the public health crisis, they must also take action to deal with the economic and fiscal crisis that is shaping up from loss in revenue and increase in expenditures.

What is financial recovery and fiscal first aid?

Financial recovery is the process of recognizing, arresting, and reversing a pattern of financial decline. Fiscal first aid refers to retrenchment tactics that can be used to stabilize an organization's financial condition. This stability builds stakeholder confidence in the recovery process and buys time to develop and enact more comprehensive financial recovery strategies.

The recovery model is made up of three essential stages:

1 **BRIDGING.** During the Bridging Stage, the government must get through the immediate crisis and create breathing room to make more sustainable reforms. Bridging includes:

- Recognizing that financial distress exists and convincing a critical mass of stakeholders of the same
- Diagnosing the causes of distress
- Applying fiscal first aid tactics to stabilize the situation
- Developing a recovery plan

2 **REFORM.** The government carries out the short-term recovery plan and develops and implements long-term therapies in the Reform Stage. Reform includes:

- Developing long-term financial strategies
- Starting a formal long-term financial planning process

3 **TRANSFORM.** In the Transform Stage, the government institutionalizes long-term financial planning and becomes more resistant to future financial distress and adaptable to a changing environment.

What can you find on the GFOA financial recovery website?

The site (gfoa.org/ffa) contains the following:

- **A 12-step process for financial recovery.** The website breaks down the three stages of recovery described above into 12 detailed steps.
- **Catalog of fiscal first aid techniques.** The site highlights the most and least recommended techniques for providing short-term relief from financial distress.
- **Catalog of long-term treatments.** A number of strategies to improve financial condition over the long term are discussed.
- **Diagnostic model.** A full, ready-to-use diagnostic model is available to help find causes of financial distress that you can address.

What should you do right now?

Local governments are now in the Bridging Phase. Below are the most important parts of the Bridging Phase to get started with.

Get your mind around the basics of the problem. Of course, no one can predict exactly what is going to happen to your government's revenues and expenditures, but there are some questions you can answer now, such as:

- Which revenues are most vulnerable and least vulnerable? For example, property taxes will not be hit as quickly or as hard as a hotel tax or sales tax. Understanding the relative vulnerability of your major sources of revenue helps you understand your overall risk.

- What services are critical for the public safety response and which are not? This gives you an idea of where you might expect increased costs and where costs can be cut.

Form a team. Dealing with the financial downturn will likely require some far-reaching strategies. Having a team that can help think these through is critical because you will need support to implement the strategies, and you will need help thinking through potentially unforeseen and unintended consequences of cost-cutting measures.

Slow the flow of cash out of your doors. Cash is king during a financial crisis, and local governments need to make sure they have enough cash on hand for essential services. Therefore, one of the first things local governments should do is slow the flow of cash out the door. There are a number of tried-and-true retrenchment techniques that can improve cash flow during difficult times. You can access a catalog of these techniques at gfoa.org/ffa.

Develop a culture of frugality and make smart choices about future investment. In a situation of severe financial distress, everyone needs to understand that every dollar counts. Applying some of the retrenchment techniques described at gfoa.org/ffa can help, but the leaders of the recovery process also need to apply frugality to themselves and their own immediate staff. If the leaders and/or their closest colleagues are spared what everyone else is asked to endure, then the recovery process loses credibility. Leaders must also be ready to prioritize spending using data on what will be most effective and cut where necessary, so the government can continue to fund essential projects that deal with the current crisis and allow the organization to emerge without taking too many steps backward. Even in times of recession, few governments benefit from across-the-board spending freezes or indiscriminate cuts to all new projects. Governments must continue to invest in critical infrastructure that will support recovery.

Develop a cash flow analysis. Cash flow is a measure of the difference between cash sources and uses, and it is a key indicator of an organization's fiscal health. Cash flow analysis takes on renewed importance in a financial crisis. Cash is critical for short-term operations. It pays the salaries and buys the equipment that produces public services. A balance sheet may carry plenty of assets, but without cash, a government is effectively bankrupt. Governments in a financial crisis should develop cash flow models that allow the organization to pinpoint its current cash position and provide insight into future positions. GFOA is working on instructional videos for developing your own cash flow analysis; they will be posted on gfoa.org/ffa.

Conclusions

The financial downturn caused by COVID-19 is concerning, and local governments have not had to contend with such a situation for more than ten years. For some local governments, this may mean there is no institutional memory on how to respond! Fortunately, the GFOA Fiscal First Aid model has preserved and updated that institutional memory for the current crisis.

GFOA is working to update resources so they are most relevant for the current unprecedented environment, and we will post these as they become available. For more information and for resources, training materials, case studies, and example tools, please visit gfoa.org/ffa. For questions, please contact research@gfoa.org.