

## Local government cutbacks in hard times

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When rural America is hit by hard times, local government is affected. The impacts of unemployment, plant closures, and recession are felt as decreases in local government revenues, which translate into cuts in local government expenditures and services. With the signing into law of the Gramm-Rudman-Hollings bill, which calls for a balanced federal budget by 1991, the impacts of hard times on local governments will be even more significant as federal assistance declines, especially in the areas of community development and social services.

Capital expenditures, both for new facilities and for maintenance, are one of the first areas to be cut. Reduction in personnel frequently follows. Programs that perhaps tend to be cut disproportionately are parks and libraries. Expenditures for public safety (police and fire) and general administration, however, usually do not drop very much.

Following is a discussion of the methods that local governments often employ to cope with fiscal crisis, including common cutback actions, the problems and paradoxes of fiscal

decline, and considerations for cutback management. The purpose is not to provide specific answers, but to encourage local leaders to think about effective approaches for developing "revenue-enhancement" or "cost-containment" strategies in their communities.

### Coping with fiscal crisis

Local governments have two alternatives in a fiscal crisis: either to find new sources of revenue, or reduce expenditures by cutting programs or by becoming more efficient. The most obvious and common way to increase revenues is by *charging user fees for services*. In the past, local governments faced with tax or revenue reductions, particularly declining property taxes, quickly adopted new fees and increased existing fees to balance the budget. These fees have taken the form of building use fees, project development charges, and several types of user charges. Recently, local governments and private utility districts have imposed fees for services and commodities which used to be free, or available

at a low cost, e.g. park and museum admissions and increased utility hook-up fees.

Unfortunately, it is much easier to adopt such fees in an economically healthy community than in a distressed one. It can be very difficult politically to raise fees in a community that has been hit by economic hardship. Local governments and agencies suffering budget imbalances from loss in tax revenue or fees, may only be able to decrease expenditures. Such decreases usually take the form of limited travel and training, deferred maintenance and capital expenditures, cuts in various services (e.g., parks, libraries), and employee attrition or hiring freezes.

Whatever decrease is being considered, it is important to ask how the public that is to be served will be affected. The extent to which continuity of service can be maintained should be a major factor in any final decision.



### Common cutback actions

The traditional method of coping with local government fiscal decline is to adjust employee expense by seniority, which means that those workers who have been around for the shortest length of time are laid-off first. The main advantage of this method is that it involves a certain kind of equity that most people understand intuitively. The disadvantage is that seniority considerations have little or nothing to do with efficiency. Should what is trimmed be determined by the accident of how long an employee has been around? Even within a program area, should a long-term employee be kept and a new, perhaps more efficient employee, be let go? Nevertheless, at present, seniority considerations regarding personnel seem to have a solid standing in our legal and cultural institutions.

With minor, less drastic fiscal cuts, many local governments opt for a hiring freeze, or use retirements and resignations to reduce budgets. This is acceptable, since no one has to be fired or laid-off. However, this method has all of the disadvantages of the seniority principle because cutbacks are not related to the effectiveness or expense of the programs involved.

To reduce expenses, local governments can allocate an even-percentage cut across all programs. This method also has a certain kind of non-political equity attached to it, but shares the disadvantages of the two previously mentioned methods. Even-percentage reductions are easy to implement, but there is no relationship between the reduction and the value of the program.

Programs could be judged according to productivity, or value to the

community, and the least productive or less valuable programs would then be cut. While this approach is theoretically sensible, it is politically difficult to implement because it is so hard to derive an objective measure of productivity or value criteria that is convincing enough to protect public sector administrators against criticism from the leaders and community users whose programs are to be cut.

Zero-base budgeting, a method of reducing public sector budgets that was first popular about fifteen years ago, requires setting up basic cost-benefit analysis studies that will rank projects and programs by their efficiency. When expenditures need to be reduced, the lowest ranking programs are cut. This method, of course, has the same political obstacles as the previous methods.

### Problems and paradoxes

Several problems and paradoxes arise when cutbacks and cutback management are considered. The irreversibility of organizational formation refers to the fact that an organization generally cannot be reduced in the reverse order from which it was built. Administering a budget cutback would be relatively easy if the units or programs that have been added to a system last could be terminated first. However, people not only find this unfair, but the newest program might be the most valuable.

Problems of managing cutbacks are complicated by the problems caused by lack of adequate staff. When cutbacks have to be made, local government needs the most capable staff it can get. However, it is during such times that capable staff is most likely to be laid-off or to resign. When a local

government has plenty of money, it is more likely to have an adequate staff than in times of fiscal crisis when its needs are most acute.

Then there is the tooth-fairy syndrome. No matter how poor the economy is, some employees and citizens persist in the belief that there is no reason for concern and that "something will happen" to remove the financial deficit. It's hard to make cutback decisions when staff feels that no emergency exists.

Good personnel practices seem to dictate that employees be involved in decisions that affect them, which leads to the participation paradox. During an economic decline it is almost impossible to have employees participate in their own job terminations, or in those of their associates. Contrary to usually accepted personnel policy, job termination or firings are easiest to handle as edicts from above.

One of the characteristics of local government is that top leadership, the elected officials, cannot be depended upon to hold long tenure in office, therefore, employees cannot depend on consistent policy over the years. This has undesired implications for any kind of long-term planning, or planning for a fiscal deficit, since no deals can be made for the future that future leadership cannot reverse.

Finally there is the productivity or efficiency issue. In a fiscal crisis, it is obviously desirable that local government be as efficient and productive as possible. However, increased productivity frequently requires investment in new equipment, or new personnel with different backgrounds, and during times of fiscal crisis local government has no money to spare, nor is it able to borrow.

### Considerations for cutback management

Local government officials, accustomed to a long history of revenue increases, have in many cases been suddenly hit with revenue shortfalls and have had to quickly adopt a management style far different from what they were used to. Some general guidelines follow that any successful cutback-management strategy should consider.

In Figure 2, the various cutback actions which might be employed by local governments in an effort to cope with fiscal decline are listed on the left-hand side. They are again: adjustment by seniority; hiring freezes, retirements, and resignations; even-percentage cuts; productivity criteria; and zero-base budgeting. Across the top of Figure 2 are the evaluation criteria; service continuity, equity, efficiency, and staff awareness.

In evaluating cutback strategies, certain common characteristics with regard to continuity of service need to be looked at. Is the level of service that clientele require (in this case, the public) best served by reductions in this area? Often there are threshold effects which drastically impact the level of services available. For example, many smaller communities have limited public safety departments and if a reduction results in elimination of police coverage for a certain period of time, for instance the early morning hours, this may not immediately effect the general level of service. When a need arises for police services during those morning hours, however, the shortcoming will be very apparent.

Another criterion for evaluating budget reductions is whether a particular action is perceived to be equitable by the individuals it affects. An example might be an across-the-board reduction of time worked, or a work furlough, enacted to accomplish a dollar savings in the budget. One viewpoint is that those who are most affected are newer employees who are just becoming adjusted to their positions, and lower income employees, such as support staff. However, it can be just as strongly argued that professional employees with seniority should be accorded greater consideration. Does one group suffer the impact more than others? Should equity adjustments be a consideration?

Cutback actions	Service Continuity	Perceived Equity	Efficiency	Staff Awareness
Adjustment by Seniority	-	+	-	+
Hiring, Freezes, Retirements, Resignations	-	+	-	+
Even-Percentage Cuts	-	+	-	+
Productivity/Efficiency	+	-	+	-
Zero-Base Budgeting	+	-	+	-
*(-) Low (+) High				

Figure 2. Evaluating cutback management strategies

Is a particular cutback the most effective, or the very best way, to accomplish the absolute dollar reduction that is necessary? For example, even-percentage reduction across all budget categories has a fairness criterion associated with it, but the same dollar savings may be realized by carefully reviewing the budget of selected larger programs, such as public works, rather than by applying a set, even-percentage reduction across all budget categories. This is especially true in smaller communities where the management and council have a better idea of the respective efficiency levels of various programs and departments. The drawback in smaller communities is that the programs and departments that are affected often include friends and neighbors.

The participation paradox has been discussed, and the difficulty of employee participation in terminations, but it is important to point out that the stress on individual employees can be greatly reduced by a free flow of information. There is considerable evidence to indicate that communication and discussion will lead to a more successful result. Therefore staff awareness through regular meetings, office memoranda, or other methods is to be encouraged. Staff awareness does not necessarily mean staff participation, however, and the degree of staff participation will most likely be handled on a case-by-case basis.

The degree to which capital and labor expenditures are affected should also be considered, and dollar-for-dollar impacts on personnel versus non-personnel budget items examined. Assuming a community's capital improvement plan has been well thought out, and is designed for a still relevant future need, or to replace a current worn-out facility, the question becomes one of the protection of current jobs versus the value to the community

of future benefits from the planned capital expenditure. This decision is especially difficult, because it involves beneficiaries not yet community residents, and possibly not yet born, as in the case of future users of a community's public education facilities.

### Conclusion

Obviously, it is very difficult to develop and implement a cutback management strategy and to address all of the considerations mentioned here, but allowing too many exceptions will dilute the effectiveness of the overall program. In order to assign a priority to the various cutback actions considered, some value or productivity criteria should be attached.

New approaches to deal with new challenges emerge from local government motivation. Presented below is a checklist of some reduction and efficiency-building ideas for municipal governments.

1. Improve and increase use of computer technology, ie. train staff to use word processing, spreadsheets, and data bases.
2. Centralize purchasing functions, order in bulk, avoid emergency purchases.
3. Establish blanket purchase orders or credit situations with vendors to economize paper handling.
4. Review investment and insurance policies.
5. Review employee benefit packages.
6. Examine the possibility of contracting some services, such as janitorial/maintenance functions, through private agencies rather than by hiring permanent employees.
7. Consider employee programs such as job sharing, part-timing, benefits cost-containment, renegotiating labor agreements, volunteer services.

Hard Times in Private Sector	Public Revenue	Public Expenditures/Services
Declining Local Economic Base →	Results in → Declining Property Taxes	
Plant Closures →		
Declining Retail and Service → Trade Sales	Results in → Declining Sales Taxes	
Unemployment →	Need for basic service continues	Basic City Services Continue to be Needed (i.e., police, fire, etc.)
		Operation and Maintenance Costs of Utilized Facilities Continue

Figure 1: Impacts of hard times on rural local government

Cutbacks should be made with a clear understanding of future local impacts that may result from the new environment. Major reductions in capital spending may result in a substantial increase in the local unemployment rate. It is important to anticipate the demands for services that will be placed on the local government by those who are newly unemployed. Cost reductions must be made for the environment that "will be" and not the environment that "was".

Cutback management is a difficult but necessary action when revenue shortfalls exist. For local governments, participants include management and employees, but more important, the public that is served. The cutbacks in federal programs for smaller cities create an even more urgent need that local government seek creative solutions to difficult questions.

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**Address Correction Requested**

#### **Sources of Additional Help:**

Brink, David R., and Margaret B. Guss. *Cutback Management in Local Government: A Selected, Annotated Bibliography*, CPL Bibliography No. 76, Council of Planning Librarians, Chicago, Illinois, March 1982.

(Governments have met the challenge of limited resources in different ways. Administration in an environment of limited resources to carry out large and complex responsibilities has given rise to different management philosophies and strategies. This bibliography containing references primarily from 1975 to 1981, conveys some idea of the approaches examined and service areas affected. Management approach areas addressed include: contracting for services, cooperation and consolidation, financial analysis, innovation, production, and reorganization.)

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(The focus of the Winter 1986 issue was state and local government finance. Article topics addressing local government financial issues include: local government cash management and investment practices, factors affecting municipal bond ratings, small city financial management strategies, and evaluating human services contracting.)

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