



Fiscal First Aid

ULCT Midyear Convention – April 2010



Purpose of First Aid



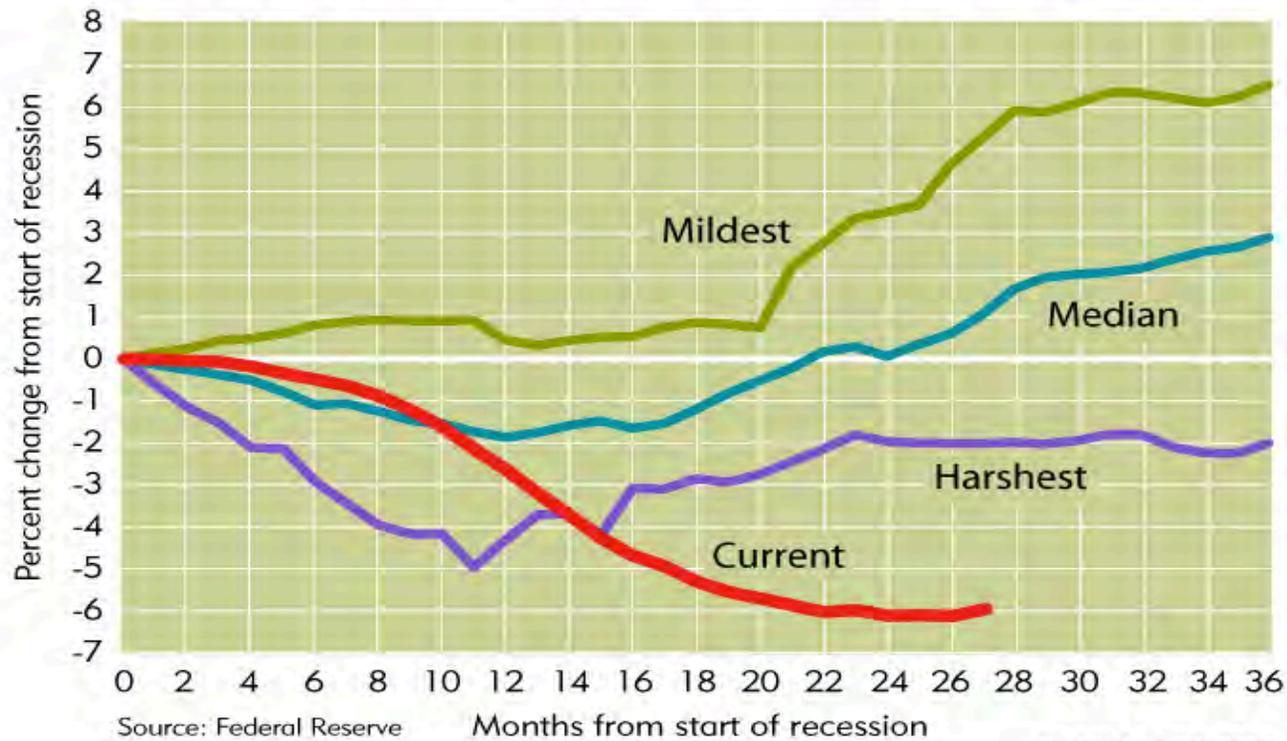
- Preserve life
- Prevent further harm
 - Prevent condition from worsening
- Promote recovery

First aid training also involved prevention of initial injury.

“How Bad” is it? A recession for the record books.

- There have been 10 post WWII recessions.
 - Average length 10.5 months (shortest 6 months, longest 16 months).
- This recession officially began in December 2007, likely ended in the 3rd or 4th quarter of 2009
- Industrial production down 14% in this recession...largest decline since 1939
- Payroll employment fell more than 6%...post depression record
- Unemployment rate for men, young adults, people over 55 at the highest level since the employment data has been collected (1949)
- 33% decline in real value of housing since 2006, similar to the decline in the 1920's

Change in U.S. Employment: Current Recession vs. Summary of 10 Postwar Recessions*



Source: Federal Reserve
Bank of Minneapolis

Months from start of recession

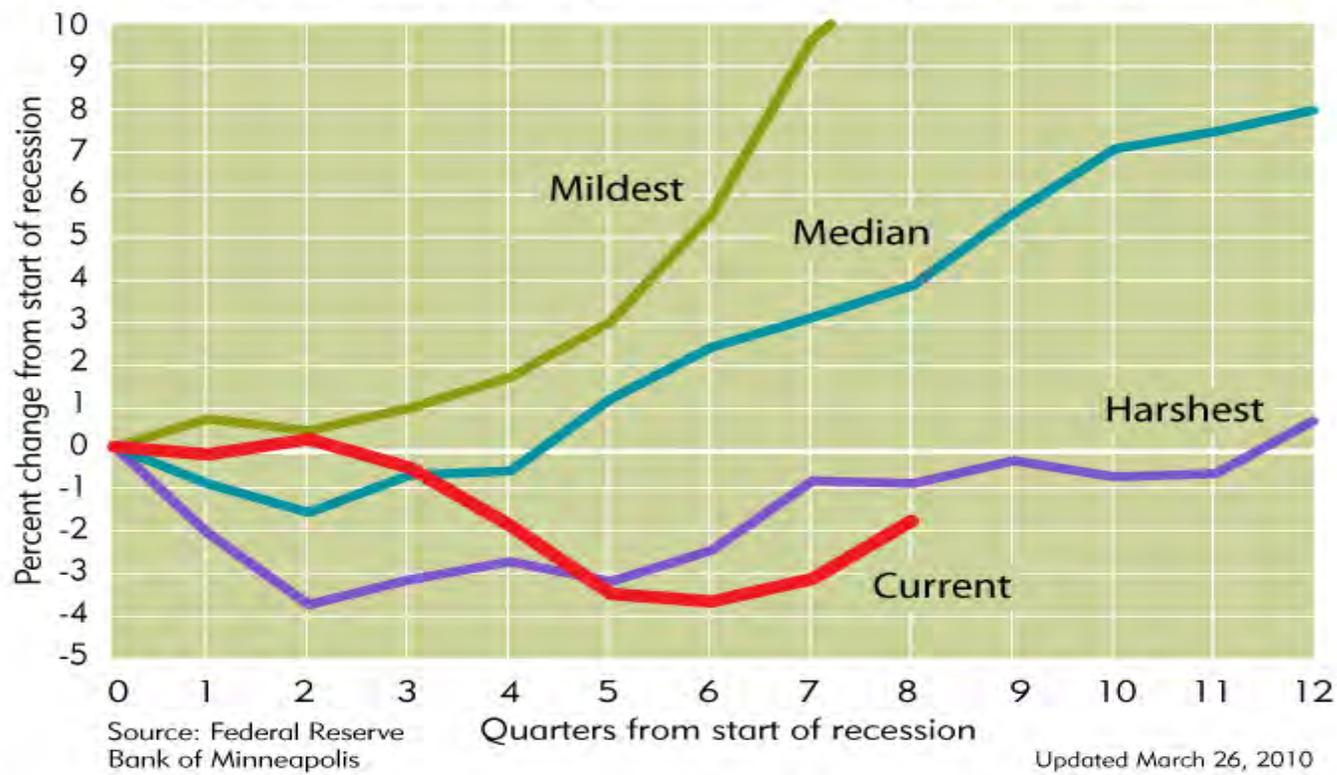
Updated April 2, 2010

*Mildest, median, and harshest lines reflect the smallest, median, and largest declines as of each month; they do not reflect specific individual recessions.

Change in U.S. Employment

Utah nearly mirrors the U.S. employment line

Change in Output: Current Recession vs. Summary of 10 Postwar Recessions*



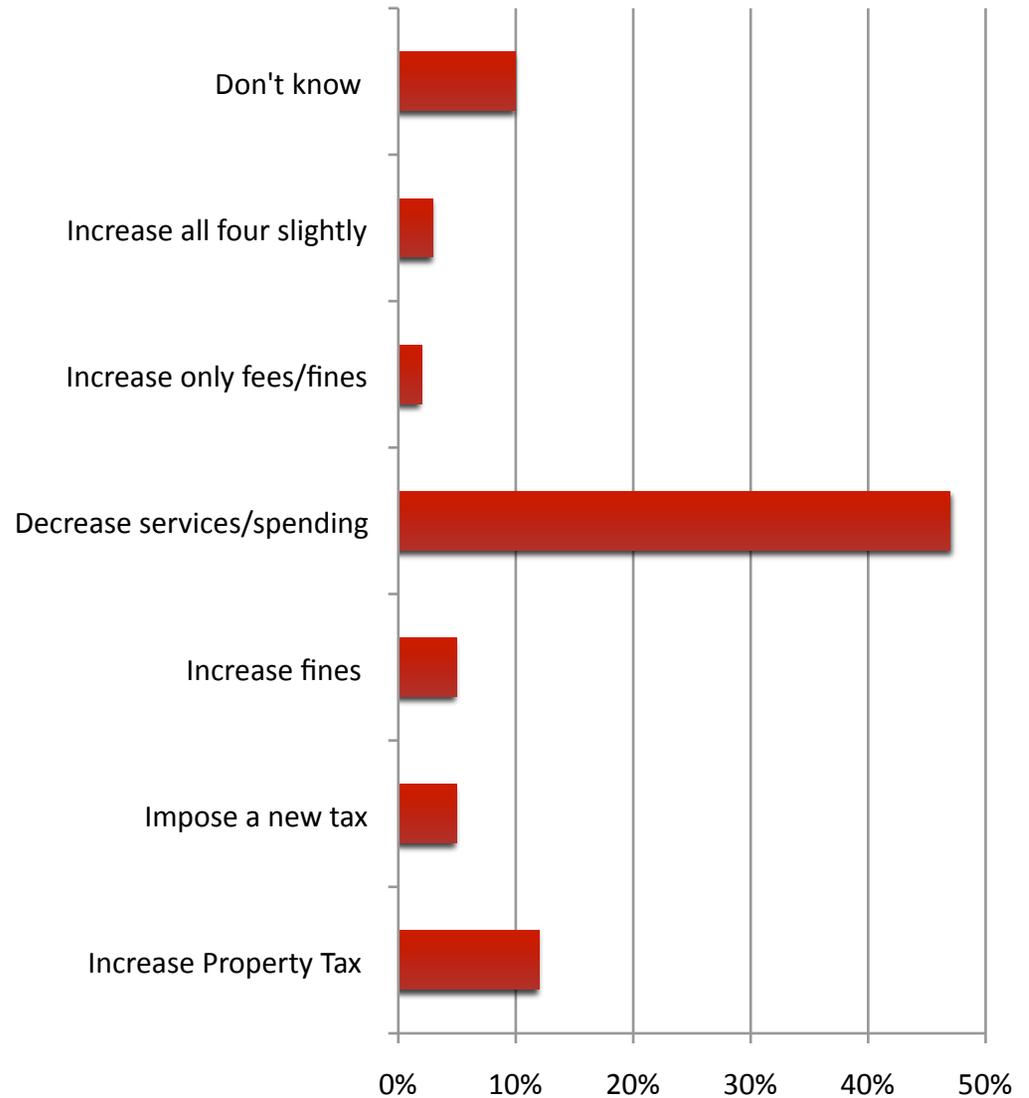
Change in output by quarter

Last two quarters show improvement

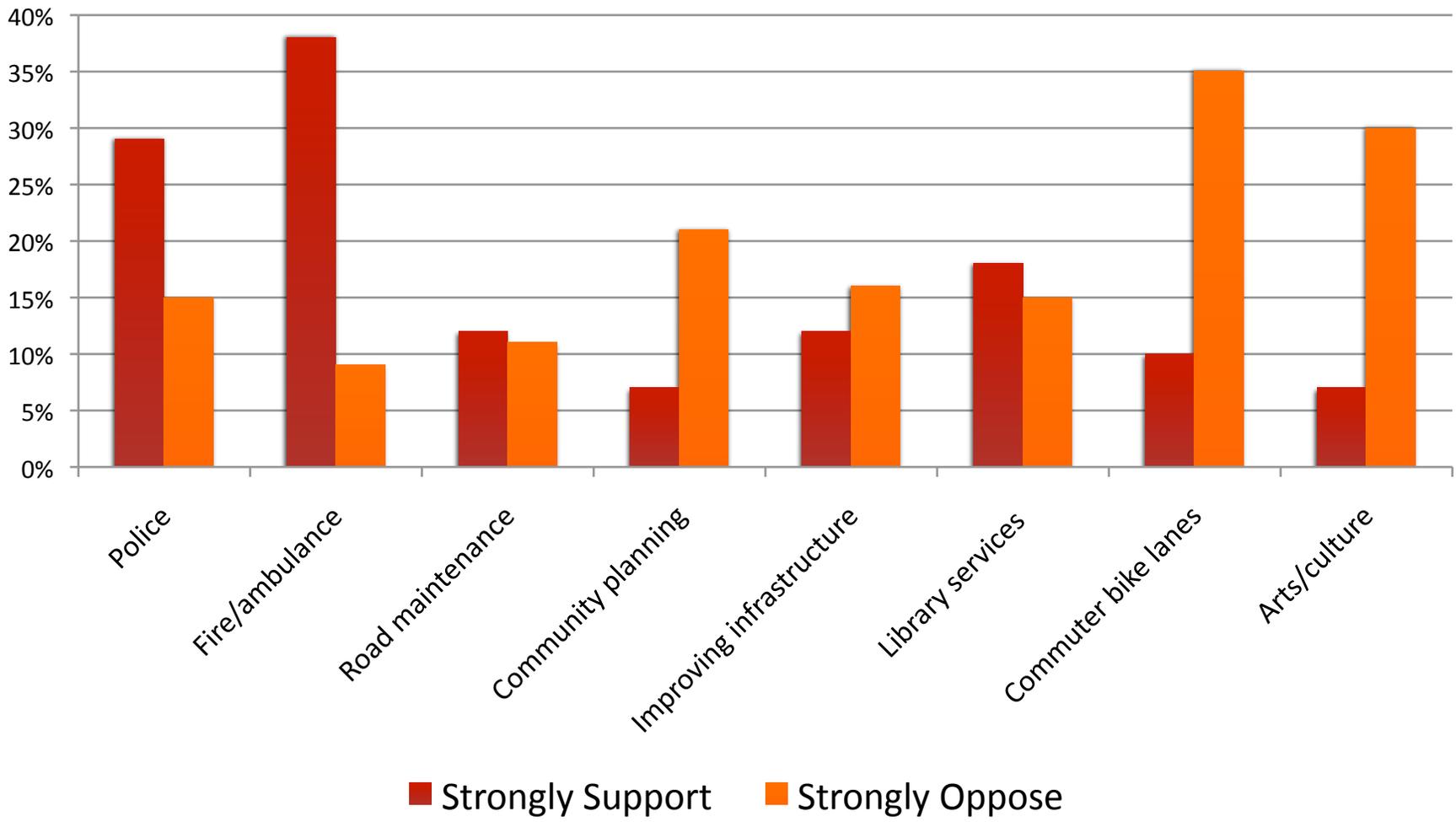
Output is gross domestic product adjusted for inflation.

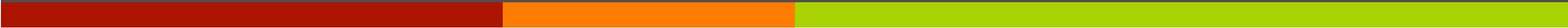
So how do you manage your budget shortfalls?

Utah cities and towns are required by state law to balance their budgets. In years when tax revenues are down, would you prefer to...?



Would you oppose or support a property tax increase if it allowed your city to maintain the current level of services in the following areas?





A good budget process...

- Incorporates a long-term perspective,
- Establishes linkages to broad organizational goals,
- Focuses budget decisions on results and outcomes,
- Involves and promotes effective communication with stakeholders, and
- Provide incentives to government management and employees.

Fiscal First Aid

Primary treatments

Treatments to use with caution

Treatments to use with extreme caution

Treatments not advised



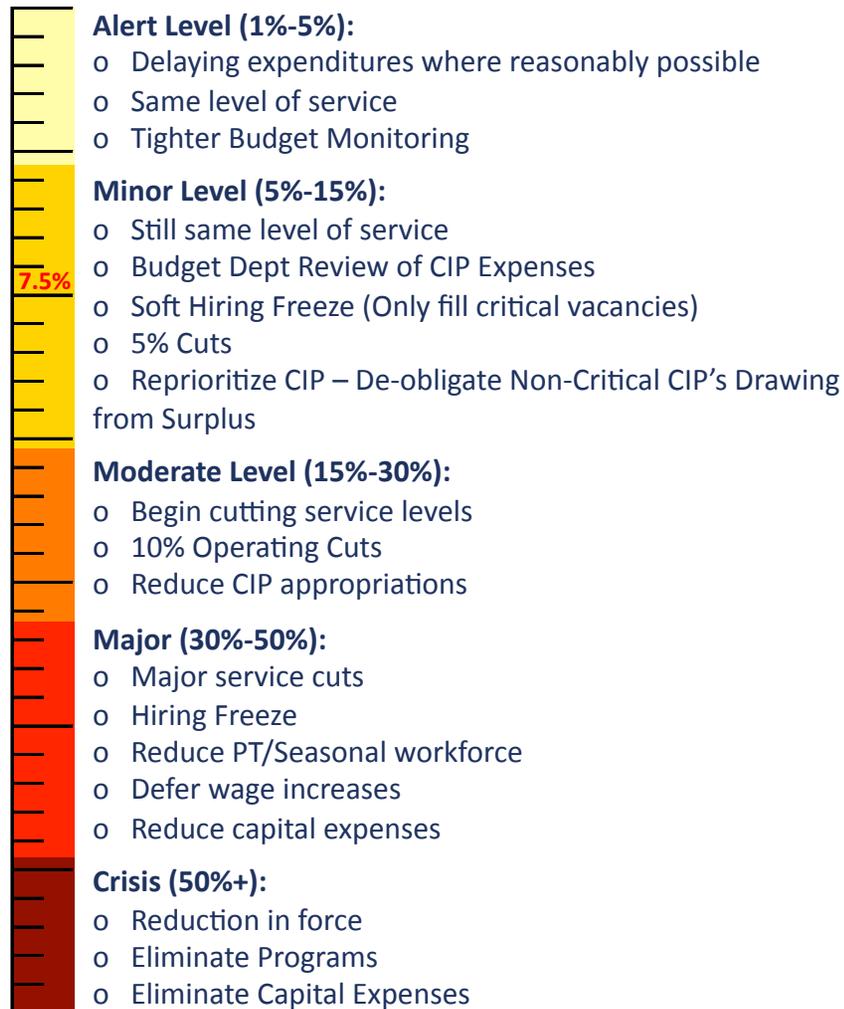
First Step – Correct Diagnosis

- First Step – Correct Diagnosis
 - What is really causing the downturn?
 - Cybercondriac
 - Main cause of the problem
 - Internal and external factors
 - Internal = organizational
 - External = economy, state and federal mandates
 - Focus your attention on what you can control

Budget Shortfall



No Projected Shortfall from Original Budget



Primary Treatments

- Are those that are recommended as the first line of defense and should be considered as a first option. In many cases, the go-to treatments not only provide immediate help but also improve the long-term prognosis.
- Revenue
- Capital Debt
- Human Resources
- Management Practices
- Financial Planning

Primary Treatments -- Revenue

- Audit revenue sources
- Improve billing and collections
 - Leaky bucket scenario
- Explore fees for services
 - Fees are usually equitable and approved by the public
- Propose taxes with a strong nexus
 - Tax increase that is dedicated to a service the public approves of.

Primary Treatments – Financial Planning

- Evaluate financial condition
 - Benchmarking data
- Inventory programs and ascertain their costs
- Seek state, federal, and/or regional assistance
- Audit certain recurring expenditures
 - Travel, purchasing, energy consumption

Primary Treatments – Management Practices

- Recognize opportunities within a crisis
- Manage perceptions
- Make managers manage
 - Establish culture of accountability
- Network with peer agencies
- Pursue inter-organizational cooperation
 - Partner with other organizations to create an economy of scale.
- Develop cash flow reporting

Treatments to Use with Caution

- May be called for if the go-to techniques are not sufficient. However, the side effects of these treatments could potentially worsen financial condition if used improperly.
- Revenue
- Human resources and benefits
- Capital and debt
- Financial planning and analysis
- Management practices

Treatments to Use with Caution

- Revenue
 - Selling of assets
- Human resources and benefits
 - Offer early retirement
 - Increase part-time labor
 - Hiring/ wage freeze
 - Reduce hours worked/pay
- Capital and debt
 - Use short term debt
 - Defer capital projects
- Financial planning and analysis
 - Revisit interfund transfers
- Management practices
 - Close facilities
 - Outsource

Treatments to Use with Extreme Caution

- **Might help the near term financial situation, but could ultimately work against financial sustainability.** For example, a treatment might damage the government's reputation, thereby reducing the public's support local taxes
- Revenue
- Human resources and benefits
- Management practices

Treatments to Use with Extreme Caution

- Management practices
 - Make across-the-board wage cuts
- Human resources and benefits
 - Make across the board wage cuts
 - Defer compensation
- Revenue
 - Levy broad tax increases
 - Create special service districts

Treatments to Avoid

- Will cut the budget, but will get in you in trouble in the long run (and maybe the short run).
- Underfund accrued liabilities
- Use accounting manipulations
- Shift operational costs to capital budgets – financing operational expenses through debt.



Fiscal First Aid...what works?



Thank you.

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