Roadmap to Recovery

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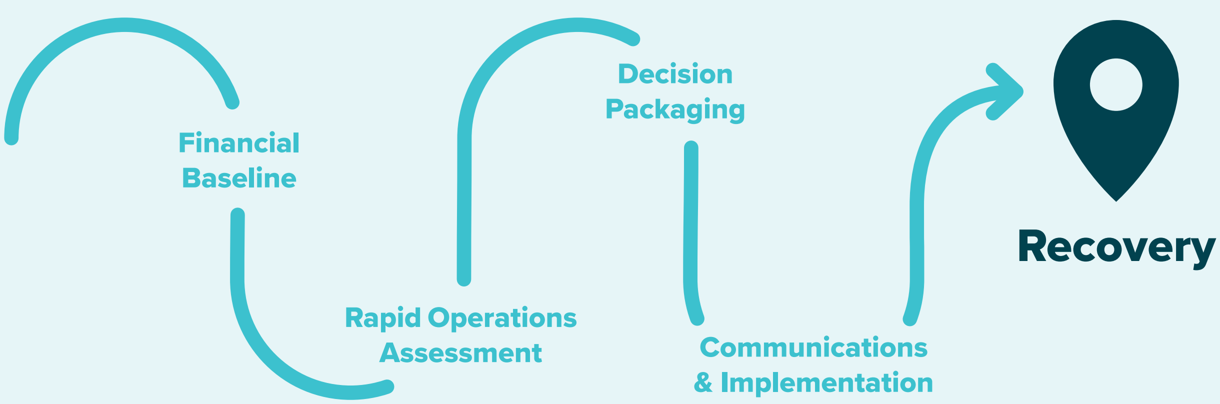
Local governments were finally hitting their stride after the Great Recession when the COVID-19 pandemic jolted the nation. Financial and economic free-fall and a public health and social crisis have placed demands on local government to deliver services and meet changing expectations in a highly uncertain time. As the nation begins to recover, and we enter a post-viral economy, local government fiscal distress will be a focus. We can lean on the recovery lessons many of us have learned to create a roadmap for our communities. One thing is certain—local government recovery begins now.

As municipalities are faced with unprecedented challenges, they are seeing negative short-term revenue impacts, and dark clouds are on the horizon for long-term forecasts, too. The unclear arc of the country's financial recovery will require municipal managers and governing bodies to regularly assess trends and make operational adjustments to preserve fiscal sustainability and rebalance service levels. Though the specific financial impacts of the pandemic are unparalleled, the process of assessment and recovery used in prior economic downturns can be customized to help local governments weather the storm.

Four stops on the recovery roadmap will drive your organization and elected leadership toward fiscal resiliency:

1. Financial Baseline
2. Rapid Operations Assessment
3. Decision Packaging
4. Communications and Implementation

This approach is integrated and comprehensive, and each stop along the road builds on the next—committing to the first stop and triaging your finances will inform the route you take next.



Financial Baseline

At the first stop on the recovery roadmap, you must identify where you were headed on your journey before COVID-19, and how will that change. To establish your financial baseline, you need to analyze historical revenue and expenditure trends as well as the known future financial impacts, such as collective bargaining agreement inflators and cost increases of non-personnel services. Your financial baseline defines the framework beneath the operational and programmatic structure of your municipality.

Next, you must assess the pandemic's potential impact on discrete revenue sources. Local governments get revenue from different types of taxes and industries. Jurisdictions that are dependent on highly elastic revenue sources, like sales and income tax, will see an immediate impact because of surging unemployment and plummeting retail sales. Those that depend primarily on property tax will feel the effect later after new property assessments take into account the impact COVID-19 has on local real estate markets.

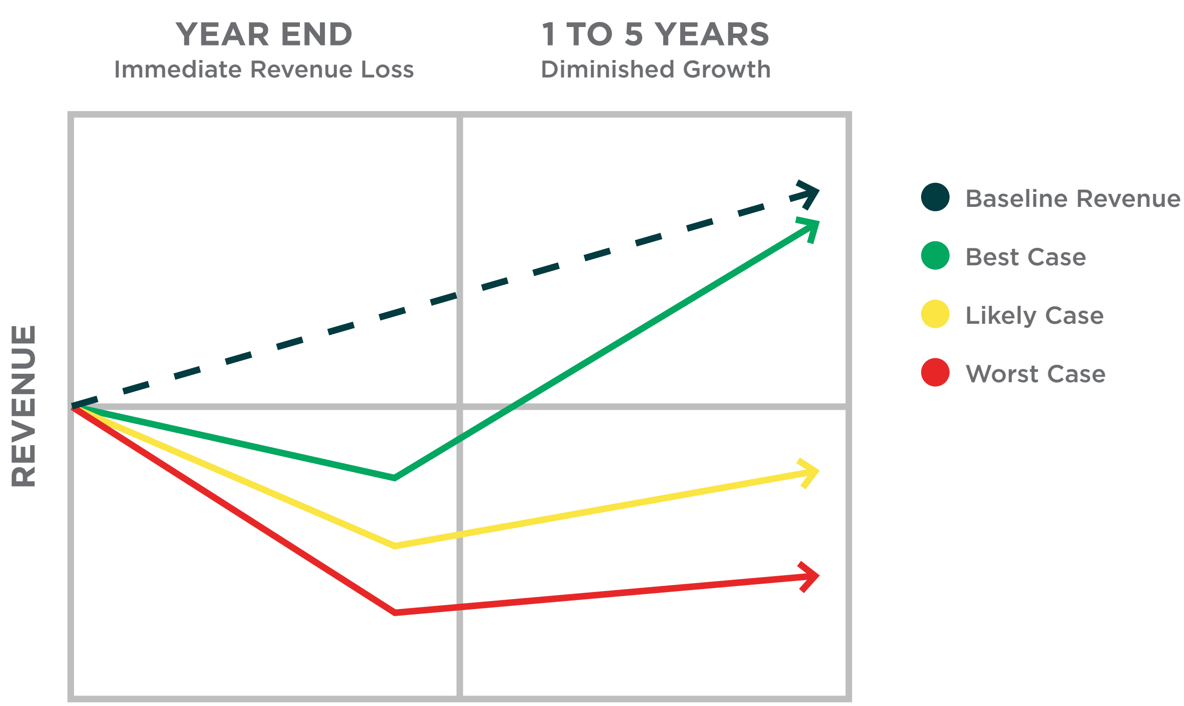
As you triage your financial situation, consider three discrete periods to provide context for short and long-term decision-making: (1) the immediate three to six-month period; (2) the fiscal year-end; and (3) a one to three-year fiscal forecast. This knowledge will inform your decisions for both immediate stop-gap measures and long-term service realignment that may be necessary for your community.

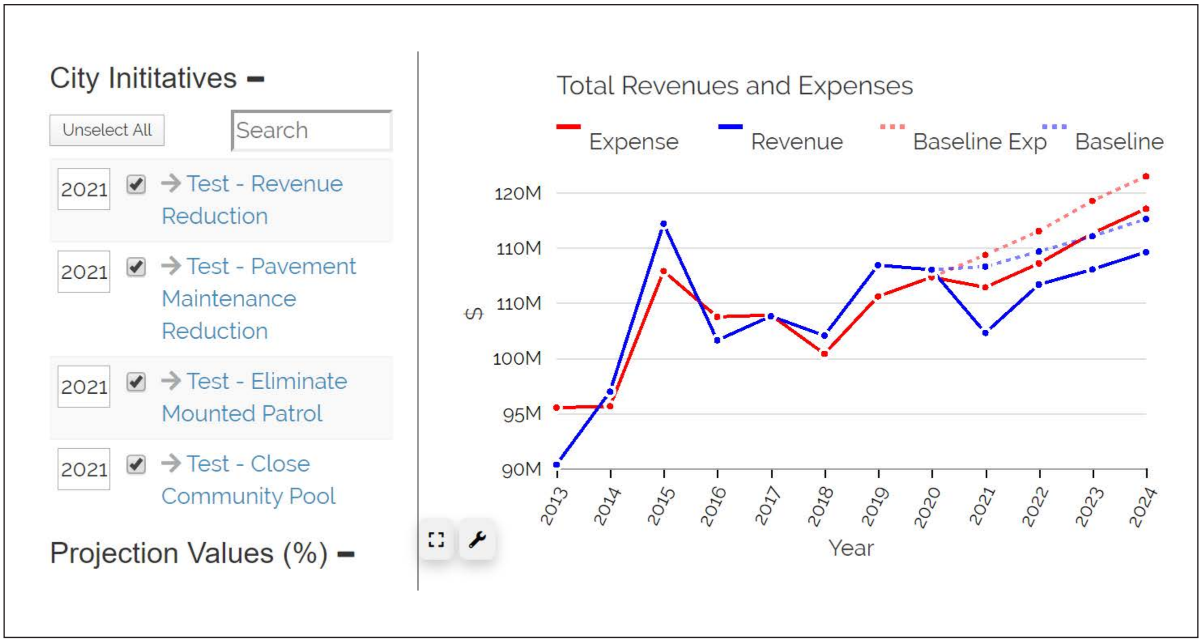
The three to six-month revenue analysis will clarify the projected decline in highly elastic revenues that are directly connected to the pandemic economy—sales taxes, fine and forfeiture revenue, interest-based revenue, fee revenue, and real estate transfer taxes. These revenue sources will likely decline rapidly. Understanding that immediate impact will help you frame and prioritize decisions, especially those related to sweeping stop-gap measures such as hiring freezes, furloughs, or eliminating positions.

Next, evaluate those revenue sources that will be impacted by the current economic climate but at a less immediate rate. For example, project both short-term income tax revenue loss and the prolonged impact associated with projected increases in unemployment or situational business downturns unique to your community.

Finally, project the impact on revenue sources that respond more slowly to economic disruption, such as property taxes. In this analysis, you must evaluate projected changes in collection rates and their impact on local government revenue. These projections will be supported by an analysis of the 2008/09 recession and its impact on your community's property tax revenue. While the context for the Great Recession was different, the lessons learned about local economies can inform how our post-viral recovery will be affected.

When the assessment is complete, you will have the information necessary to develop multiple projections. Whether





you have an in-house financial model, use an online tool such as the ResourceX Fiscal Health Model, or work with trusted advisors to develop a custom financial model for your organization, you need a tool that can imagine scenarios and project the impact across revenue categories.

Financial triage also applies to special revenue and enterprise funds. Widespread economic uncertainty in our communities will impact industrial and commercial water and power use and customers' ability to pay utility bills. The closure of recreation facilities affects user fee revenues and the ability to staff for seasonal use. A comprehensive assessment of fiscal health includes exploring the sustainability of each municipal fund.

We recommend building at least three revenue projection scenarios into your model to demonstrate potential financial conditions. This is particularly valuable during periods of extraordinary uncertainty, so you can begin to frame the scale of cost reductions that may be required. For example, what if the recovery is V shaped—a precipitous decline followed by a dramatic and rapid recovery? This optimistic scenario may call for far-reaching but short-term expenditure reductions and depletion of reserves. Conversely, what if the recovery is far more gradual, requiring three to five years to reach pre-pandemic revenue levels? Under this conservative scenario, it may be appropriate to analyze and apply revenue recovery patterns from the Great Recession to estimate financial recovery. Finally, what if the pandemic fundamentally redefines the conditions of the local economy? If major employers go under and the tax base is debilitated, this "constrained" scenario may anticipate a longer recovery roadmap and the need to restructure local government service delivery and focus on expanding the employment base in your community.

Our work with fiscally distressed communities in Pennsylvania that lost their steel mills and mines demonstrated that this is a tangible risk that must be proactively managed against. Many communities in Pennsylvania were built over generations around the operations of large scale steel mills; residential urban planning, civic organizations, commercial corridors, and municipal services were built upon that economic driver. For example, volunteer fire departments were staffed by shift workers from the mills; their union agreements allowed work stoppages to respond to fires. Parks, recreation programs, and libraries were funded by steel companies; some of the grandest community libraries ever constructed were funded by Carnegie in small mill towns along the Monongahela River. When the steel industry collapsed, these towns collapsed with it. However, over time, many have redefined themselves by strategically tackling blight, redeveloping their housing mode, and incentivizing the development of a more diverse local economy centered around small and medium-sized businesses that support a broad range of industries. This redefinition has taken broad strategic vision supported by small, incremental improvements over many months and, in most cases, many years.

It is concerning to review the worst case and even the likely scenario, but this financial triage is critical to determining available emergency reserves and incorporating those fund balances into your financial model. Cash reserves exist to prepare us for periods of unexpected economic interruption. Using reserves to maintain service levels and minimize organizational disruption is important to your organization, the community you serve, and your local economy.

Local governments are frequently one of the largest employers in a community. The ability to maintain services and personnel contributes to a sense of stability and viability. It is not always possible to preserve all service levels, but you will need all available resources to navigate this crisis. Understanding the point at which reserves are depleted will provide an internal deadline to determine and implement cost reductions and organizational restructuring if needed. This baseline financial stress test will function as a comparative tool that can be used to evaluate changing revenue conditions in real time and inform decisions regarding the need for expense reductions.

Once the baseline financial model is developed, you will closely monitor monthly revenue and expense trends. Updating the model monthly will show emerging trends and help support local government managers and governing bodies with recommendations for potential interventions. If the financial triage process indicates that significant operational changes are required, a rapid operations assessment can help your municipality thoughtfully plan and prioritize needed reductions.

Rapid Operations Assessment

Once you have an updated financial model and triage scenarios, the next stop on your journey is to assess your operations. This assessment begins with a core services inventory for every department. This inventory identifies each distinct program within the department, estimates the financial and human resources dedicated to the program, the revenue generated, and the existing service levels of the program. This is something the Chief Administrator's Office and/or Budget Office can do collaboratively with departments so it can be completed expeditiously. Specifying service levels frames the real-world implications of program reduction or elimination. This inventory also shows the interconnectedness of programs. Our personal experience with rapid operations assessment is that of an outside advisor. Outside expertise is often helpful, but the steps an organization needs to take to understand service level and cost reductions can be supported with in-house resources.

Program Area	Activities	Current Service Level	Adopted Service Standard or Industry Best Practice	Link to City Council Strategic Plan Priority
Park Maintenance	Mowing	At least every other week from April to October	Same	Safe and livable neighborhoods
Park Maintenance	Thatch	Not performing this activity	Once a year in March, if needed	
Park Maintenance	Aerate	Not performing this activity	• 3/season on athletic fields • 2/season on other high use areas • 1/season on all others	
Park Maintenance	Fertilize	Not performing this activity	• 4/season on athletic fields or heavily used turf areas • 3/season on other turf areas	
Park Maintenance	Irrigate	Inspect and adjust at startup, then once/month	Same	
Park Maintenance	Pest control	Not performing this activity	• As needed on typical weeds • Post emergence 1/week • Pre-emergence 2/year • Insects 1/year • Fungus 1/year	
Park Maintenance	Edge	1-2/year in formal, high-use areas around shelters and restrooms	• 1-2/year in formal, high-use areas around shelters and restrooms • 1/month in all other areas	
Park Maintenance	Trim	1/month or as directed	Same	
Park Maintenance	Trees	As required	Same	
Park Maintenance	Top dress	Not performing this activity	1/year or as conditions dictate	

Often, individual employees or employee groups service many programs, so eliminating programs may not always translate into staffing reductions and associated savings. For example, eliminating pavement line striping may reduce non-personnel operating expenses associated with materials and supplies, but the street crew that would perform that duty must remain to perform other core functions. The core service inventory will uncover and show program nuances to help you develop responsible and actionable plans for service level adjustments and, ultimately, cost reductions.

After the inventory is completed, programs can be aligned within the community's existing strategic plan framework or evaluated within a rubric of core versus discretionary programs. Core programs are often defined as those that are necessary to protect the health and safety of the public or mandatory as a matter of state or federal law. Discretionary programs are those that support broader service delivery goals but are not required to meet statutory responsibilities. This process defines what a municipality must do versus what it would like to do.

The inventory will allow you to develop cost reduction alternatives that align with specific programs and allow the organization to make informed decisions based on the potential financial impact, service level changes, and implementation considerations associated with each alternative.

Framing the Decisions

Difficult decisions will need to be made. During this stop on your road to recovery, the goal should always be to minimize service level disruptions and limit negative impacts on municipal employees. Framing the decision to be made is easier when you can visually demonstrate the impact of a decision in your financial model. Typically, every potential decision becomes a cost reduction option that is entered into the financial model. This allows you to facilitate a process for decision-makers where you can select and deselect cost reduction options and assess each option's impact on the community's financial condition. Using the model allows you to evaluate options within the context of anticipated revenue and available cash reserves.

Reducing services and your workforce is unpleasant and can be emotional, but there is power in thoughtfully discussing and planning for these decisions. Joining forces as a leadership team to walk through each potential reduction creates a shared understanding of the current situation and how your organization must respond to ensure fiscal sustainability. Being united as a collaborative team when reviewing options and using well-researched data with the governing body bolsters confidence in decision-making. This type of teamwork is critical in uncertain times and allows for greater understanding of the implementation steps and how decisions will be communicated. Once difficult decisions are made, the hard work of implementation must begin.

Implementation and Communications Support

The final stop on the roadmap to recovery is working intentionally to develop a critical path and implementation sequence for each cost reduction initiative. This planning process is formalized in an implementation plan with key steps, target completion dates, and staff assignments. This document becomes an important management tool and creates a platform for conversation and accountability during routine updates. The implementation plan provides a guide, but the actual implementation is done by the hardworking people within the organization. For implementation to work, it needs to be driven by the highest level of the organization. Plan progress reviews should be incorporated into the existing management system, reviewed at recurring staff meetings, and serve as a major feature of management team one-on-one meetings. When effective, a clear management system creates the environment for implementation success, as it establishes a process for accountability and provides a structure to maintain flexibility.

Keep transparent, constructive, and people-focused information flowing to your employees and your community throughout your journey to recovery. This is especially important when communicating change. We have never known a time like this, and bad news is everywhere, but silence is not an option. Right now, you cannot overcommunicate, and repeating messages and placing information on all available communication channels is an appropriate tactic. It is critical that your organization is the one to communicate about changes rather than relying on the media or others in the community to tell your story for you.

Encourage leadership to be front and center. People want to hear from their leaders now. Make sure your leadership is visible and transparent as your key spokesperson. If you lead people, and especially if you are the city manager, chief administrative officer, or department director, employees want to hear from you. They want to hear from you first, and they want to hear from you all the time. Implementing hard organizational changes will be tough on your workforce. Frequent messages to your employees will be appreciated.

Focus on your people first. Operations are critical, and explaining what we do is important, but people care about people first—especially right now. Your employees want to know how you are going to keep them safe and healthy in the workplace, and they are concerned about their jobs. Say exactly how you are caring about your employees. Repeat this often. This is a message not just for your employees—it's important for the public to hear how much you value and care for your employees. Show your humanity through your words, and remember that authenticity is the key to maintaining and building trust.

Share bad news in a constructive way. You will have bad news that you need to communicate. Budget impacts may lead to furloughs or layoffs, and services may need to be cut. You do not make decisions like these lightly, and how you communicate bad news should be carefully planned as well. If some of these scenarios are a potential, then think through how you want to communicate, and always tie bad news to constructive messages. People need to know what they can do to control their own situation. By always attaching constructive messages to bad news, you provide an avenue for coping. This is emotional, and acknowledging feelings and expressing empathy while remaining upfront and honest about the changes your organization is making will help, as will offering clear explanations for the decisions. You want those who must hear bad news to feel that this situation has been treated with transparency, responsibility, accountability, and compassion.

Summary

Local governments will inevitably need to make broad and sweeping expense reductions to deal with the immediate short-term impacts of the COVID-19 pandemic. These types of reductions can stun an organization and leave employees mired in uncertainty. That uncertainty can seep into service delivery and undermine public confidence in the government. Those governments that quickly assess the impact of the pandemic and intentionally realign their programs to what is coming next will demonstrate confidence to their employees and the community. Though virtually every service provided by a local government has some constituency who would advocate for its retention, in the end, it is more responsible to make informed decisions about specific service levels than to arbitrarily reduce spending "across the board." Doing so is rooted in the need for local government to instill confidence in the community it serves.

Support

As trusted advisors to local governments and utilities, we take seriously our commitment to support our clients in the best of times and the worst of times. We have supported local governments and utilities as they emerged from the Great Recession, and we want to be of service to you as you navigate the post-viral economy. We have access to the ResourceX Fiscal Health Tool, and our team of consultants has built custom financial models for complex organizations. These resources, as well as our practical knowledge of organizations and local government service delivery, position us to be a resource for identifying potential realignment of services and describing the impact of service level changes for decision-makers. As communities emerged from the Great Recession, we worked alongside cities, counties, towns, and villages to advise on how to strategically add positions in critical areas—as a counterbalance to the request to "restore prior service levels."

We have laid out a roadmap in this document that may enable you to navigate this process yourself, but if you find that you need a partner, we would be honored to be of service.

Julia Novak and Jonathan Ingram are local government practitioners who have served as consultants with The Novak Consulting Group, now part of Raftelis. They have worked with hundreds of local governments as consultants, and their successful work with fiscally distressed communities informs the methodology shared here.