

This Time Really Is Different: Subnational Financial Management Must be Extremely Innovative as Governments Recover from the Impacts of the Current COVID-19 Crisis

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The current economic slowdown looks to possibly be one of the most astonishing and difficult fiscal periods for subnational governments ever. In the next few weeks and months, tax revenue declines are expected to be significant and fast, in some cases worse than the declines of the 2008 financial crisis. Fortunately, while painful, this downturn may not last as long as past ones. Even so, with national governments already providing stimulus and racking up unprecedented debts, significant additional funds from federal governments may not be forthcoming. As a recovery begins, likely soon, subnational governments need to use new tools for fiscal creativity and innovative financial management will be necessary.

Subnational surpluses in the states and localities in the U.S. have turned into revenue declines quickly. Just before the health crisis began in earnest, revenue growth for U.S. states was 6.8% February 2019 to February 2020. States reporting preliminary data from early March are seeing declining revenue growth. Arizona had an expected \$1 billion surplus, now they have a \$1 billion shortfall. Local governments are already seeing significant revenue declines. Local governments are being especially hit hard. In Philadelphia, for example, a massive \$400 million shortfall this spring quarter is expected.

In past times of austerity, subnational governments used the same tools -- such as across-the-board budget cuts -- and implemented them. This time really is different. We must find alternatives to a “heavy axe” approach of simple across the board cuts and harsh fiscal measures. In past times of austerity, cuts were quickly implemented and even years later many agencies still suffer. Civil servants and vulnerable citizens were hurt more than necessary in order to gain savings. This is the time for a new approach.

This is the time for governments of all sizes to examine their finances, their missions and their priorities. This is the time to focus on the results desired and structure the agencies and its budget to reach those results. Governments must look at financial innovations and positive examples from all over the world. Certainly we are in a crisis and many government officials and staff lack the time for long term thinking at this very moment. However, as soon as the health situation improves and businesses begin opening again, government financial management experts must treat the recovery period as a time to reform, restructure and plan. Short term crisis-oriented cuts must be replaced by long term strategic planning.

As soon as recovery begins, a focus on mission, priorities and results is essential to maintaining efficiencies and being lean. Identifying the results desired, the top priorities -- such as avoidance of



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layoffs – and actions to get the results you want. Aligning the cuts and fiscal adjustments with the priorities and the results desired should be the goals. Agency leaders have a once in a lifetime opportunity to create lasting and effective efficiencies and positive change even in these unprecedented times. This can be done even in this time of fast moving revenue changes requiring quick action. Merely reacting to the crisis week to week or month to month simply cannot work in this environment.

A financial assessment of each agency should take place in which all line items are examined. Agency staff can be involved to provide ideas and input. Spending and revenues should be categorized and analyzed. This allows for a more strategic approach going forward. Efficiencies obviously must be found to provide the necessary budget cuts.

There are many creative ways to approach the recovery. Innovative use of technology, implementation of public private partnerships, the breaking up of silos, and many other ideas can be considered. These unprecedented times require new and unprecedented reforms to government services. Questions should be asked of all agencies providing government services. Instead of eliminating the entire training budget, can technology be used to develop an effective and low cost option? Can part time employees be used to continue a program that cannot afford to hire and train new full time staff? Can alternative revenue streams be used to fund parks?

Planning and an analysis of finances will allow subnational governments to cope with future expected volatility. Given the health crisis from which we are suffering, subnational revenues are expected to be volatile. Governments must be prepared for revenue recovery when the economy begins to turn around, but there may be moments of revenue declines during weeks or months in which the virus returns. Even years later many agencies still suffer from those cuts.

Assessing the current fiscal situation, implementing currently required budget cuts and planning for the coming volatile “roller coaster” through this next fiscal year is essential. Even with the situation changing quickly, putting plans in place for flexible management of finances over the next few months will make all staff lives easier and lead to increased stability. The alternative is the very stressful reaction to the crisis week to week.

