Local government cutback budgeting refers to reducing operations below the current level. It forces organizations to realign expenses with revenues. The larger the gap between expenses and revenues the greater the cutback required to restore a balanced budget.

Cutback budgeting also may target a general policy theme or a specific agency or department. For instance, a city may de-emphasize libraries and parks in favor of more law enforcement or fire protection. In that circumstance, funding for libraries and parks may be reduced, held flat, or curbed from growing at a previous rate. This results in a cutback budget for those departments. Concurrently, resources may be diverted to preserve or grow public safety programs.

Chief Reasons for Cutbacks

Many local agencies find themselves dealing with cutbacks periodically when economic conditions negatively influence local expenses and revenues, such as during a recession. Some other chief reasons for cutbacks include

- specific revenue shortfalls tied to a program or series of programs
- unfunded mandates from another governmental level
- unusual or unanticipated fiscal issues such as public protection concerns, unemployment, and natural disasters
- shifting public service demands (for example, street repair reductions to fund more animal control services)
- changes in political ideology (for example, demands for less government and more privatization).
Local Budgeting Environment

Several characteristics of the local budgeting environment influence approaches to cutback management. First, local governments mostly provide public goods and services unprofitable for the private sector. Frequently, these represent goods and services that exhibit efficiency through economies of scale with costs distributed community-wide.

Market measures of efficiency and effectiveness find little use during budget hearings as service beneficiaries argue to protect their favored programs. Further, supply-and-demand market rules become moot because many local service recipients do not directly pay for services received and only one service provider usually exists.

Second, taxpayers generally represent “involuntary” resource providers to government. Given the option of not paying for governmental services, many would forgo payment. The absence of the “no-pay” option fosters intense transparency and accountability pressure from citizens. In essence, they want to know how their money is spent and who is responsible for spending it.

Third, “incrementalism” continues as the most influential budgeting approach. Incrementalism recognizes that most governmental budgets build on factors already in place. Basically, this approach boils down to the notion that financial plans for a subsequent year typically involve incremental additions or subtractions to that base budget. It respects past commitments while easing political angst.

Unfortunately, incrementalism skirts comprehensive analysis of the entire budget annually. Depending on the spending or revenue gap, downsizing may call for overall scrutiny, performance evaluation, and radical surgery, not just an incremental adjustment.

Cutback Planning

The severity of a cutback budget is relative. Planning strategies must be tempered by three factors:

1. size
2. duration
3. urgency.

Initially, the relative size of the budget reduction demands determination. A reduction of $100,000 from a $1 million budget may signify a devastating 10 percent hit with immediate layoffs and service reductions. However, a reduction of $100,000 from a $10,000,000 budget results in a 1 percent budget decrease. This may mean only a six-month delay in filling three vacant positions out of a staff of 100. Obviously, the proposed $100,000 cut poses drastically different challenges to the comparison agencies.

The projected duration of a cutback also makes a difference. A short-term cutback may be accommodated with modest actions. A one-year reduction of $100,000 on a $1 million budget could be achievable through deferring replacement equipment, delaying software upgrades, eliminating staff training, or holding off on facility modifications. However, if the duration of the same cutback level is projected to continue beyond a fiscal year, other actions may be required. For example, the agency may downsize by two staff members immediately rather than sacrificing supporting resources and delaying facility modifications for multiple years.

The timing of a cutback has consequences. If the organizational unit, or public agency, has several months to meet a reduction goal, the path pursued may look different from a crisis reduction. The former may involve a cost-saving reorganization or renegotiation of employee compensation by midyear. In the crisis mode, layoff notices may demand direct delivery.

The crux of cutback planning is that each agency’s set of circumstances is unique—even among similar agencies. Cutbacks need fact-driven analysis of expenses and revenues, which must be fully informed about the cutback size, duration, and urgency. This enables evaluation of sensible solutions.

Common Cutback Strategies

Policymakers may take the lead in providing staff direction on reconciling the gap between spending and revenue gap. Yet, it is generally staff that carts in the bad news and trots out a game plan to make ends meet. Local cutbacks draw from a menu of possible approaches. Options vary in response to the cutback needed and service priorities:

- **Across-the-board, general cuts**: Levy across-the-board
appropriation reductions, such as a 3 percent reduction to all departments. This trims the budget without singling out any particular program—avoiding an angry rebuke from service recipients.

- **Pinpoint specific percentage reductions**: Target reductions selectively to particular operations, such as a 2 percent reduction to public works.

- **Program reductions**: Eliminate specific programs, defer new programs, and reduce less popular and poorly managed programs.

- **Capital improvement reductions**: Eliminate low-priority capital improvements, suspend previously funded projects that have not started, and defer maintenance.

- **Reserve-level review**: Reconsider reserve levels.

- **Personnel cost reductions**: Add no new positions, eliminate temporary employees, curb overtime, enact furloughs, trim salary and benefit elements, re-examine pension plans and other post-employment benefits, reorganize, and initiate a hiring freeze.

- **Service and supplies reduction**: Restrict travel and training, minimize supply inventories, reduce or renegotiate service contracts, and restrict or reduce use of telephones.

- **Equipment reductions**: Suspend normal replacement cycles and minimize new acquisitions.

- **Boost revenues**: Review and consider increasing tax rates, adopt new taxes, raise contractual charges to other agencies, and assess the appropriateness of user fees and user fee levels.

Local cutback budgeting aims for a balance between expenses and revenues. To the extent that this balance involves science, mathematical approaches carry the day. To the extent that budget balancing involves art, operational ingenuity triumphs.

Cutback Strategies

Local cutbacks draw from a menu of possible approaches:

- across-the-board, general cuts
- pinpoint specific percentage reductions
- program reductions
- capital improvement reductions
- reserve-level review
- personnel cost reductions
- service and supplies reduction
- equipment reductions
- boost revenues.

Cutback Budgeting—Science or Art?

Local cutback budgeting aims for a balance between expenses and revenues. On the one hand, to the extent that this balance involves science, mathematical approaches carry the day. Quick control over an expenditure pattern careening toward red ink takes decisive action.

Reaching mathematical financial goals take priority over a more studied appraisal of public service implications. The sober process sidesteps wishful thinking and avoids any hint of chicanery. A public agency reaches the cutback through reducing expenses, increasing revenues, or some combination of the two.

On the other hand, to the extent that budget balancing involves art, operational ingenuity triumphs. Ideally, policymakers adopt governmental budgets that represent sound financial planning, and truly balance essential expenses with realistic revenues.

Budget strategies reflect operational analysis, public service delivery priorities, and tactical and strategic adjustments. Ultimately, the process strengthens the organizational core and offers opportunities for stakeholder participation while debating expenses and revenues.

Local cutback budgeting fluctuates between these two extremes. In adopting a balanced budget, strategies employed must address the reasons for the cutback; the environment; and the size, duration, and urgency of the reduction.

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