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Management Strategies for an Era of Budget Uncertainty.

To minimize the impact on services from future spending cuts and economic downturns, governments need to take a proactive, multi-year approach.

The National Association of State Budget Officers recently released its annual Fiscal Survey of the States, and the picture is not a particularly pretty one. Far from having completely rebounded from the Great Recession of 2007-2009, NASBO reports that states have continued to experience a slow recovery: Thirty-three of them projected fiscal-year 2017 revenues to come in slower than anticipated and 23 made mid-year budget cuts.

Moreover, while budgets are expected to recover somewhat for fiscal 2018, many states are preparing for a possible recession by taking actions such as building up their rainy day funds. In addition, there is the wild card of possible federal cuts, to Medicaid and other federally funded programs, that could make both state and local budgets even more volatile. Put all of this together, and it appears that what NASBO previously identified as the "new normal" — a world in which budget constraints are ubiquitous rather than cyclical — may indeed be upon us.

For state and local officials, this kind of budget situation requires an ongoing, conscious strategy of financial and program management to minimize impacts to citizens. Governments and their agencies can lessen the chances of service disruptions and degradations by anticipating and planning. Pushing problems and decisions about them into the future only works if we know that the future environment will be more hospitable than the present one. This seems a dicey proposition for states and localities, given the liabilities — pensions and infrastructure, to name two — that are already present.

Here are some specific actions, in addition to continuing to maintain healthy rainy day funds, that can and should be taken now to be better prepared for the inevitable budget uncertainty of the future:

Focus on efficiency and productivity: Actions that can bring more bang for the buck — carefully contracting out services, consolidating services between agencies and the like — can be considered much more thoughtfully and deliberately now than they can be later when agencies are responding to a mid-year budget cut.

Ask mission questions, prioritize and focus on performance: Many agencies, often through no fault of their own, may have experienced a kind of "mission creep." Now is the time to reassess priorities by focusing on program performance and reassessing the need for high-cost, low-return initiatives. This increases the odds of avoiding the time-honored but ill-advised practice of across-the-board spending cuts — a strategy that implies that everything is equally important at the margin.

Consider long-term commitments: The underfunding of state and local pensions and retiree health care is well documented. States and local governments need to continue assessing the affordability of these and other future commitments and find ways — and the political will — to get them under control. Once they determine how generous these plans will be in the future, they need to develop a realistic strategy for funding them prudently, including catching up on any underfunding that may have occurred in the past.

There was a time when governments and their agencies could expect to be saved by the natural cycles of budgeting. If an economic downturn created budget problems for a year or two, temporary fixes might be sufficient until more normal times returned. But the new normal requires a new strategy that explicitly recognizes that only a multi-year strategy for budgeting and program management can truly confront the fiscal challenges that governments are virtually certain to face.

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