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Taking action when fiscal storm clouds threaten

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The fiscal crisis club has a new member: the City of Harrisburg, Pa. Faced with staggering debt payments it simply can't afford, the capital city is weighing its options. None of them are particularly pleasant: Does the city file for bankruptcy? Does it make use of Pennsylvania's Act 47 fiscal emergency program and avail itself of state oversight? Does it raise the property tax levy to an unimaginable level to resolve its structural budget gap?

The unfortunate reality is that Harrisburg isn't alone. Local governments across the country, many of which were struggling long before the economy collapsed, have witnessed their fiscal wherewithal stripped to the bones in the past year. Los Angeles has proposed closing all non-public safety operations two days per week. The word "receivership" has been uttered in Detroit and Toledo. Layoffs and program cuts are pending in cities from coast to coast.

It's painfully obvious that the fiscal storm clouds aren't likely to break in the foreseeable future. As states confront their own once-in-a-generation crisis, their ability to help localities is nil. With wary consumers only beginning to regain their footing, consumption taxes will hardly be a source of salvation. And as the federal stimulus dries up, states and localities will be forced to stand on their own.

From 2003 to 2008, I had a front-row seat as staff to the state financial control board in Buffalo. The period marked a dramatic turn for the better in that city's fiscal condition, enabling it to weather the current economic storm from a higher-water position than many of its peers. As others accelerate down the path of fiscal distress, they'd be well served to abide by the following guiding principles.

• Resist the temptation to be blinded by the near term. How do we meet next week's payroll? How do we make next month's debt payment? But just as long-range planning is essential to prudent fiscal management under normal conditions, it's even more so in situations of fiscal distress. Resist the tendency to focus on the immediate at the expense of the long-range. Both are critical components of any effective recovery strategy.

• Multi-year planning is not a license to speculate. Long-range budgeting only works when anticipated shortfalls are married to likely, non-speculative actions. Just because projected challenges may not come to fruition for three or four years doesn't give officials free reign to plug gaps with "pie in the sky" speculative actions.

• Know your weaknesses, and have contingency plans at the ready. A budget is merely a roadmap — a plan for how service delivery will be funded for the next 12 months. Reality often differs, and fiscal crisis only raises the ante for effective anticipation. Know the potential "soft spots" in the budget and the extent of their potential impact in a worst case scenario, and inventory contingency options before they're needed.

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