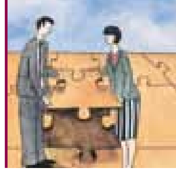

Your Government Needs a Financial Emergency Policy

By Emily Jenkins

After an issue exposed its vulnerability to financial distress, Garden City, Kansas, developed a policy for how to respond if a real financial emergency were to occur.

A financial emergency policy is designed to mitigate some of the issues that would be caused by a financial crisis. Having plans in place can save valuable time and lead to better outcomes by reducing the need to make difficult decisions during emotional times.

GARDEN CITY'S SURPRISE

In 2016, the City of Garden City, Kansas, realized that it was more vulnerable to financial emergency than originally thought. The city's finance director received a call from the local bank asking if the Recreation Commission, which provides sports, fitness, and art programming for city residents, was permitted to open the operating loan it had requested — and it was not. Opening an operating loan violated a number of statutes for a component unit of the city government, and the attempt to do so indicated that the Recreation Commission board did not understand its own regulations. As a component unit, the commission was technically accountable for its own finances, but its actions put the whole city at risk. If the commission owed money it could not pay back, the city would ultimately be responsible, at a potential cost to city programs.

After receiving the worrisome news, the local government set about the difficult task of repairing the financial damage. The Recreation Commission had acquired properties it could not reasonably support, its cash balances were dangerously low, and it could not sustain operations through the end of the year. The director was replaced, park maintenance was transferred to the city, properties were sold off, and Garden City's general fund lent $300,000 to sustain the Recreation Commission through the end of the year. The whole ordeal caused controversy among citizens who were concerned that their city administration did not have adequate control over its finances.

This experience exposed the city's vulnerability to financial distress, and as a result, the city commission decided to develop a policy for how to respond if a real financial emergency were to occur. Initially, the city commission was worried about how the public might perceive a financial emergency policy, since even the mention of a financial emergency can be worrying and divisive. To alleviate concerns, the city's finance director took the time to verify and demonstrate that although the circumstances with the Recreation Committee were unfortunate, the city's overall position was still sound. Hence, the city commissioners could be confident that they were wisely planning for the possibility of more severe difficulties in the future, not remediating an actual financial emergency.

DEFINING AN EMERGENCY

A good financial emergency policy begins with a definition of what constitutes an emergency. A government should establish a baseline of what its financial position should look like in normal conditions, and then specify when deviations from that baseline indicate a financial emergency. Definitions might include target liquidity falling below a pre-determined threshold, inability to make timely payments, and dependence on one-time sources of revenue for daily operations. The policy should also specify instructions for:

- **Declaring the start of a financial emergency.** Explicitly stating that the government is now experiencing a financial emergency maintains transparency and ensures that all departments are aware that there are procedural changes in effect.
- **Designating a leader.** The role of the leader is to manage cash, create predictability, create accountability, and communicate. This person should have a strong financial background and be ready to delegate tasks and devise plans for dealing with the emergency.
- **Deploying plans.** The government should have plans for identifying the cause of the emergency and determining how to address it, always keeping the long-term health of the government in mind. For example, choosing to defer maintenance on capital assets could lead to short-term savings, but might have long-term consequences. Hence, financial plans must be cognizant of short and long-term trade-offs and balance them.
- **Declaring an end to the financial emergency.** Departments will then return to business as usual with lessons learned.

Once a financial emergency has been defined and the steps for addressing an emergency are determined, a local government could create a playbook for likely financial distress scenarios.

CREATING A PLAYBOOK

Once a financial emergency has been defined and the steps for addressing an emergency are determined, a local government could create a playbook for likely financial distress scenarios. Scenarios could include, for example, loss of a major employer, natural disaster, tax reform, or recession.

According to the city's financial management guidelines, "a pre-determined definition of financial emergency, combined with routine self-assessments of financial health, can save valuable time during a crisis — time that can then be used to better cope with the financial emergency." To start achieving the city commission's goal, the finance director compiled all the city's financial policies into one comprehensive document designed to help new board members and to serve as a continual reference for all elements of the city government.

The next step was to determine what the city's action plan would dictate. Once written, the policy was approved by the city commission and praised by auditors, who valued the increased transparency. The policy also rebuilt stakeholder confidence, assuring them that the government was ready for financial challenges that might come its way.

City officials now take time out of their annual retreat to work on the emergency playbook, going over likely scenarios and deciding how they would manage them; this year, the retreat will focus on how the city would adapt to the loss of a major employer. They also take time each year to reassess how a financial emergency should be defined and the steps that will be taken if the city really faces a financial emergency.

CONCLUSIONS

Garden City was fortunate that the Recreation Commission's actions didn't have more of an effect than they did, but the situation shows how suddenly and unexpectedly financial trouble can arise, and how being unprepared could lead to serious complications. Governments need to have a plan in place before a crisis occurs, and that plan must meet the needs of the present without compromising the sustainability of future generations.

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