# Cutting Costs Without Cutting Corners

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When President Trump signed the executive order creating the Department of Government Efficiency (DOGE),[1] aggressive government cost-cutting efforts moved back into the national headlines and the public consciousness.

While the federal government is unique in many ways, the attention generated by DOGE and the personalities associated with it have naturally led some to ask whether local governments should have their own DOGEs and launch proactive, comprehensive cost-cutting initiatives. Maybe you are an appointed or elected local government leader who is raising that question yourself.

Spending cuts are popular when they are easy. Efficiency is not controversial when it means not buying $600 hammers, and reducing purported "waste, fraud, and abuse" wins the press conference, even if it only makes a marginal difference on the balance sheet.

Actual cost cutting – reducing what government really spends on goods and services – is much harder but, if done honestly and effectively, also powerful.

And it may also be necessary, if your voters are demanding local government tighten its belt. Even if math and logic dictate that your government needs more revenue to sustain vital services, there are practical or even statutory limitations on how much you can close your deficit without also controlling spending.

If you are a local government leader considering a proactive cost cutting campaign, here are a few principles to get you started.

## Take a Multi-Year Perspective

When is a spending increase also a spending reduction? When you take a multi-year perspective. Reviewing your financial performance within the context of a multi-year plan will show where you can slow spending growth and achieve the same or higher savings as cutting a few positions here and there.

For example, if health insurance costs grow by 10 percent a year, how can you reduce that to 5 percent? Now apply that slower growth rate to the next three, five or ten years and watch the savings grow.

Using this multi-year perspective will also help you avoid well-intended initiatives that mask increased long-term costs behind short term reductions.

For example, be careful using early retirement incentives to reduce headcount. What feels like a win-win is sometimes cost neutral or even a financial loser for government. Will you have to replace the employees you're incenting to retire? What are your policies on cashing out unused leave? Will you become more dependent on contractors and how much do they cost?

## Costing Your Most Important Asset

Public sector employees are a government's greatest asset and thus largest cost. Local government is labor intensive, so personnel costs usually consume most of the budget.

This includes your spending on employee health insurance, which often grows faster than salaries, and your spending on pensions and other post-employment benefits (OPEB) like retiree health care. It even includes policies like paid

1 "Exec. Order No. 14210, of February 14, 2025, Implementing the President's 'Department of Government Efficiency' Workforce Optimization Initiative," C.F.R., title 3 (2025): 9669-9671; https://www.federalregister.gov/d/2025-02762

leave or work rules that determine how many and which employees can perform which tasks, which in turn influences your headcount and overtime spending.

You do not have to follow the DOGE playbook and go straight to layoffs. Take a careful look at which costs are growing, how, and why. If employee health insurance spending is growing faster than salaries, then how much can you save by changing your health plan offerings or design? Would reducing paid leave or changing how it can be used reduce overtime? Should you change the actuarial assumptions in your pension plan and trade higher contributions in the near term for smaller liabilities and lower spending in the future?

## Be Strategic & Specific

What if we just tell every department to cut the same percent or dollar amount from their budget? Across-the-board cuts are easy to explain, sound fair on their face, and transfer hard decisions about cost cutting to the managers who know their operations best.

But they are also like pruning a garden with a lawn mower, applying a one-size-fits-all approach that really fits none. Cutting 10 percent from a department with five employees is not the same as cutting 10 percent from one with 1,000 employees, and it may not work for either.

Instead, your cuts should be strategic and specific. You should start with some target for how much you need to save and how fast. Size will dictate strategy and if you have a large target, even more reason to focus on the areas where you spend the most. This is another side benefit of using a multi-year plan. That exercise will tell you specifically what is driving your costs and how large your deficit is.

Second, think about which services you provide. Which ones do you provide that replicate a service provided by someone else? Which services are statutorily required and which are discretionary? Which services are practically necessary, but you have discretion in how you provide them, and therefore how much you spend on them?

There are approaches like zero-based budgeting or performance budgeting that can flip the conversation from what can we cut to what should we fund. That paradigm shift is very powerful, but implementing these programs takes time, good information, and buy-in across the organization.

Plus, they will not eliminate hard decisions at the end of the process. There will be services you have to cut, not because they are bad, but because they are lower priorities than something that is better.

Cost cutting is hard, especially in local government. **PFM's Management and Budget Consulting group can help you make smarter reductions.**

**Want to learn how PFM can assist you? Contact us through our website: pfm.com/contact-us.**