

## COVID-19 Viewpoint

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# Fiscal Responses to COVID-19: Evidence from Local Governments and Nonprofits

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**Abstract:** *The rate of expansion and the breadth of COVID-19 caught the world by surprise. From the perspective of nonprofit and public entities responsible for service provision, this pandemic is also unprecedented. The authors offer a RISE framework for navigating the fiscal effects of COVID-19 and rely on recent surveys to assess the response strategies of local governments and nonprofit organizations. They find that many nonprofits were hit fastest and hardest by the pandemic and that local governments are, essentially, trying to figure out their financial condition moving into the next budget cycle.*

The COVID-19 pandemic is unlike anything most of us have experienced. The profound humanitarian and economic fallout of this pandemic carries with it disruption to operations and finances. In most countries, crisis response is in full swing with a focus on increasing the capacity of health care systems and constraining the spread of the coronavirus, including stay-at-home orders, temporary school and business closures, and event cancellations. The outbreak in the United States not only exposed weaknesses in the health care system but also threatens the financial capacity of public and nonprofit organizations. Many local government and nonprofit leaders have expressed concerns about reductions in revenues and the long-term financial sustainability of their organizations.<sup>1</sup> Despite the growing pressures of financial shortfalls, there has never been a more critical time for public and nonprofit organizations to maintain services. The circumstances are such that there is a simultaneous demand for services to protect the public from the pandemic's spread and to respond to the economic shock felt worldwide.

Undertaking financial and managerial actions in coping with COVID-19 is demanding and full of uncertainty. While it is still too early to fully grasp the extent of this pandemic, government and nonprofit leaders are closely monitoring and mitigating the financial impacts of COVID-19. This Viewpoint essay discusses the fiscal impacts of COVID-19 on public and nonprofit organizations, current responses, and strategies. Using data collected from a recent survey, we propose a four-stage RISE model—which is designed based on stories and information from public and nonprofit organizations—with the goal of assisting and informing the public and nonprofit scholars and practitioners.

## Fiscal Impacts of COVID-19 Survey

We conducted a survey of public and nonprofit organizations' financial status and responses to COVID-19 between April 1 and April 15, 2020.<sup>2</sup> The survey comprised closed and open-ended questions focusing on the organizations' financial condition, recent efforts to cope with the financial impacts of COVID-19, and their actions toward the next budget cycle. Fiscal condition, in this study, is generally defined as an entity's ability to meet its current and future obligations (Maher and Nollenberger 2009). More specifically, fiscal health focuses on the ability of governments and nonprofits to fulfill "short-term financial obligations . . . obligations over a budgeted fiscal year . . . long-term obligations . . . and service requirements" (McDonald 2018, 47; see also McDonald, Decker, and Johnson 2020).

Because of the time-sensitive nature of the event, we chose a convenience sample that focused on current graduate students (many of whom are midcareer) and alumni of the University of Nebraska Omaha's School of Public Administration, members of the Nebraska City/County Managers Association, and nonprofit executive directors in the Omaha area.<sup>3</sup> We received 297 survey responses; 222 surveys were fully completed. The respondents represented federal, state, county, municipal, and special district governments and nonprofit and foundation organizations. Not surprisingly, the survey respondents were heavily concentrated in Nebraska and its contiguous states.<sup>4</sup>

This essay focuses on respondents representing the three largest samples: municipal governments (30.5 percent), county governments (16.8 percent), and nonprofit organizations (13 percent). Nearly

80 percent of the respondents were in managerial/administrative positions, including financial department/offices (see table 1), and 72 percent reported having been in their current position for at least four years. Respondents were asked to self-evaluate their organization's current financial condition<sup>5</sup> on a scale from 1 (perfect fiscal health) to 10 (financial crisis). Overall, 36.6 percent of the respondents reported good financial condition, scoring 1–3; 26.0 percent reported medium financial health, scoring 4–6; and 31.1 percent were in financial difficulty, scoring 7–10. By organizational type, municipalities had the highest percentage of good financial health, while the financial prospects of county governments and nonprofit organizations were more concerning (see figure 1).

### Current Financial Impacts of COVID-19 and a Vision for Response Strategies

While most of the current efforts in the United States continue to mitigate the spread of this novel coronavirus and develop plans to safely return to normal operations, public and nonprofit organizations exhibit different financial and managerial responses in coping with the financial impacts of this pandemic. Our model aims to assist public and nonprofit managers in navigating this crisis, with an emphasis on response stages while going beyond the current situation and thinking forward to recovery. We categorize the organizational actions into four stages of a RISE (resilience, intention, sustain, endurance) model.<sup>6</sup> The RISE model, as we describe here, takes an organizational perspective from the open systems framework (Gibbons 2015; Pfeffer and Salancik 1978; Rainey 2014).<sup>7</sup> The first stage (resilience) emphasizes financial capacity and organizational flexibility to react

to the external shock and maintain current operations. The second stage (intention) focuses on immediate actions, including cutback management, to mitigate financial impacts and to smooth the decline in organizational resources. The third stage (sustain) highlights short-term actions toward the next budget cycle(s) as well as operational and financial changes toward stabilization. As the external shock exposed organizational weaknesses and provided opportunities for organizations to adjust and adapt, the fourth stage (endurance) encourages leaders to rethink and reform their strategies to strengthen their operations and seize new opportunities.<sup>8</sup> This open systems approach should benefit public and nonprofit leaders by drawing their attention to increasing organizational capacity by hedging against external shocks and enhancing their response practices in navigating this crisis while invigorating their adaptation and recovery strategies in a post-COVID-19 environment.



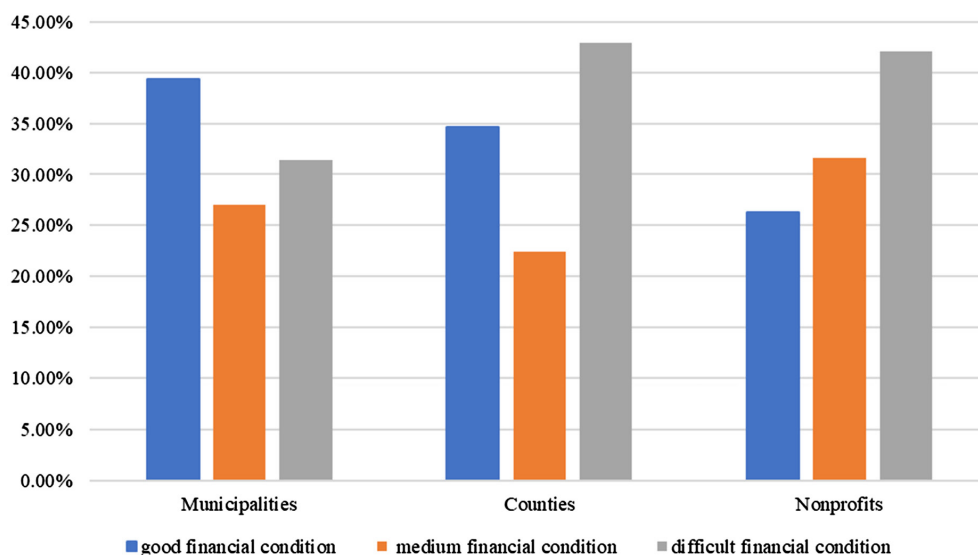
### Resilience

COVID-19 is stress-testing organizations' financial capacity. Different from previous economic crises, the global scale of the COVID-19 pandemic has devastated the economy, with almost 95 percent of Americans following stay-at-home orders, more than 16 million people filing for unemployment insurance, businesses closing, and events canceled nationwide (Morath and Chaney 2020; U.S. Department of Labor 2020). Some anecdotal evidence

**Table 1** Survey Respondents\*

	Municipal Governments	County Governments	Nonprofit Organizations	Total
Management/administration	25.14%	14.85%	18.85 %	58.86%
Finance department/office	16.57%	3.42%	—	20.00%
HR department/office	—	2.86%	—	2.86%
Other	9.14%	6.29%	2.85%	18.29%
Total	50.85%	27.42%	21.71%	100%

\*As most of the nonprofits in the sample are small organizations with fewer than 25 full-time staff, the executive director or managerial staff can be in charge of the organization's financial and operational management.



**Figure 1** Financial Condition by Organizational Type

suggests that the economic and financial impact of COVID-19 could be the greatest shock to the U.S. economy in nearly a century (Buckley 2020; McKinsey Global Institute 2020).

In coping with these challenges, financial capacity, cash flow, revenue diversity, and the elasticity of revenue portfolios are key factors in organizational resilience (Carroll and Stater 2009; Prentice 2016; Yan and Carr 2019). Because of differences in financing and revenue sources, public and nonprofit organizations are affected differently by this pandemic. Almost half (44.7 percent) of the nonprofits in the survey sample considered the impact of COVID-19 to be much worse in comparison with the economic crisis in 2008–09, compared with 27 percent of municipal governments and 18.4 percent of county governments. In a 2020 survey conducted by the Nonprofit Association of the Midlands, 91 percent of nonprofits reported canceling events and programs, and 56 percent of nonprofits in Nebraska—which are often local nonprofits operating with less than \$250,000 in net assets—anticipated a significant impact of this pandemic on their revenue streams and operations (NAM 2020). The cancellation of fundraising events or program activities leads to revenue losses that may not be made up in this fiscal year, thus significantly affecting organizations’ cash flow and short-term solvency.

Nonprofit financial management is well known for the “four proverbs”—be lean, minimize overhead, diversify revenue, and avoid debt (Mitchell and Calabrese 2019). While these financial and budgeting practices increase the effectiveness of nonprofits’ financial operations during normal periods, they also prevent organizations from building up reserves and leave them with little wiggle room to react to unexpected events like this pandemic. On the other hand, many city and county governments are able to sustain service provision in the short run because of their ability to draw on reserves and their reliance on less elastic revenue sources such as property taxes.<sup>9</sup> When a city or county has less reserves and relies more on elastic revenues—such as sales and/or income taxes—the immediate effects of COVID-19 on local fiscal conditions will be greater (McDonald and Larson 2020). In addition, our survey shows that the early effects of COVID-19 vary by the organization’s financial capacity. Approximately 17 percent of respondents reporting good fiscal health believed that the financial impacts of this pandemic are worse than the effects of the economic crisis in 2008–09, while 34 to 35 percent of the respondents in the medium financial health and financial difficulty groups provided similar responses. In terms of organizational operation, there are high percentages of respondents in the neutral categories, which reflects the uncertainty of this current financial situation. Overall, sound financial organizations are more likely to maintain three months of operating expenditures, provide the employees with current benefit packages, and keep the current number of employees, while financially difficult organizations are struggling and have more doubts about their financial capacity (see figure 2).

### **Intention**

One of the most challenging issues in establishing an action plan in response to an unexpected event like a pandemic is the uncertainty. Public and nonprofit organizations are in the process of figuring out a more comprehensive picture of the fiscal impacts of COVID-19, assessing the severity of this pandemic on organization finances, and

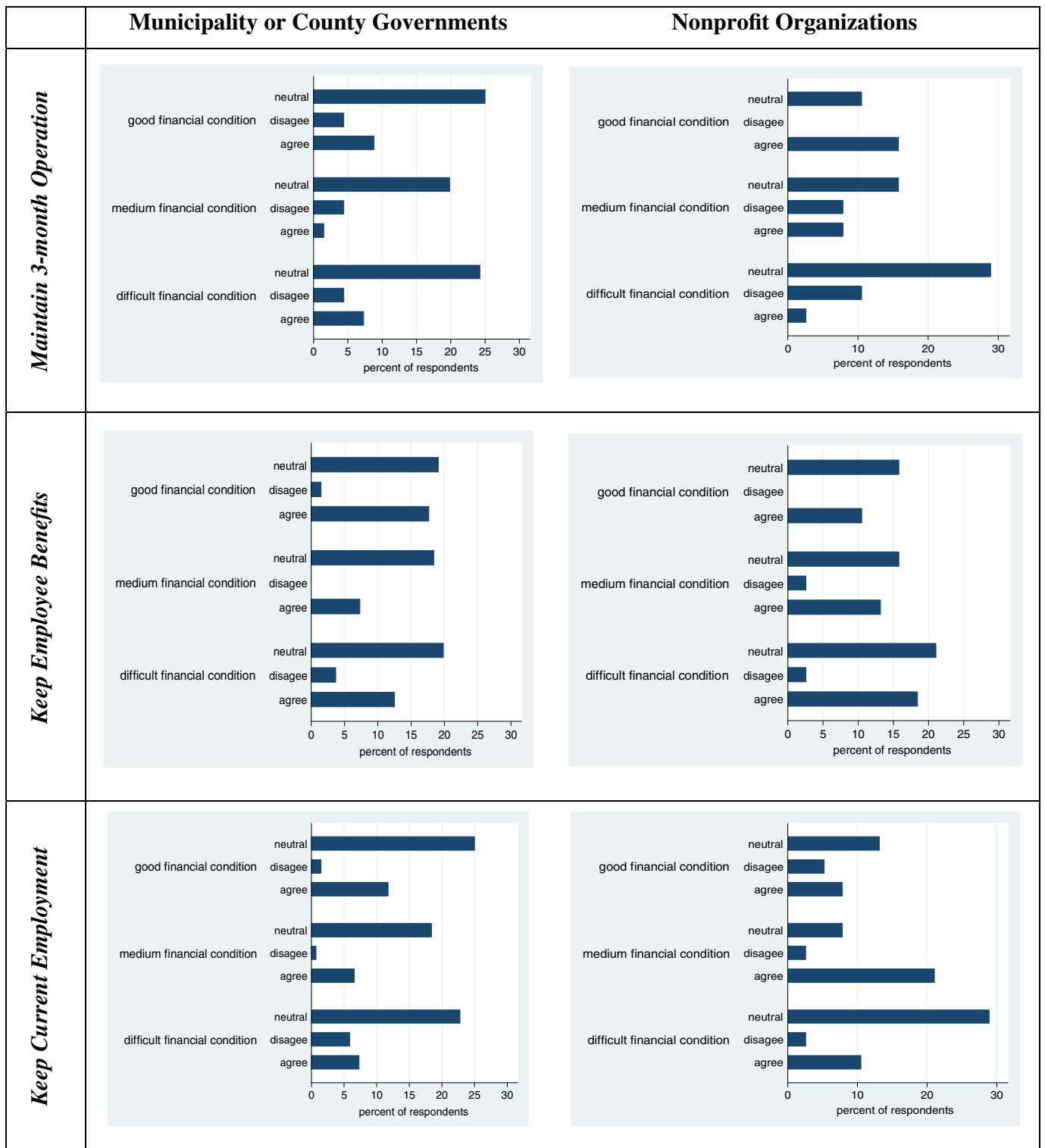
navigating action plans in these ever-changing socioeconomic and legal environments. While developing plans to keep employees safe and lessen interruption of the organization’s operations, public and nonprofit organizations have applied different strategies to minimize the fiscal impact of COVID-19 on current operations. The top five strategies adopted are freezing discretionary spending, hiring freezes, delaying capital expenditures and routine maintenance, pursuing financial assistance through federal grants—from the CARES (Coronavirus Aid, Relief and Economic Security) Act or the Federal Emergency Management Agency—or community foundations, and reducing public access or service hours (see table 2). The cutback strategies of these organizations are more likely to follow the “stop the bleeding” managerial decision-making process, with reductions in discretionary spending or delays of capital/maintenance costs while avoiding layoffs of full-time staff.<sup>10</sup> Raising taxes or service fees, cuts to expenditures, and layoffs are, at this time, low priorities for most public and nonprofit organizations (see table 3). However, just under 20 percent of the sample respondents identified broad expense cuts and target cuts, and approximately 12 percent of the organizations mentioned laying off or furloughing workers. In terms of immediate action plans, respondents wrote,

We are anticipating a precipitous drop in philanthropic revenue so some fiscal tighten up measures are being undertaken. The highest-grade employees are taking pay cuts from 10–15 percent and continuing on for at least a year. We are also freezing all salaries (annual salary increases come in early fall). We also have a hiring freeze insofar as any new positions must be approved.

In Nebraska, we are going through the annual budget process, and we will be probably looking to cut our proposed budget by about 30 percent. We’re going with the low-hanging fruit first like travel (we always over budget and we’ll be likely to have less travel, period, in the next months). Like so many places, we have a lot of fixed costs including personnel so it’s conceivable we may do our own salary reductions. Happily, we have healthy reserves and are expecting a large bequest soon so we hope that this is a short-term issue and that we can get back to business as best we can.

In addition, professional associations such as nonprofit associations or government finance officers associations keep their membership updated about changes in the legal environment through newsletter and webinars. Some nonprofit associations are offering workshops to help their members take advantage of grant opportunities or government financial support programs such as the CARES Act or providing training for nonprofits to strategically revise their financial plans. An executive director of a nonprofit association wrote,

Applying to CARES Act loans was challenging for nonprofits due to the lack of/changing guidance from the Small Business Administration. Those nonprofits that had an existing relationship with a bank seem to have an easier time in completing the application. Additionally, Nonprofit of Midlands Association added to our training calendar some ‘just in time’ offerings. Topics include: Sprint Planning, with a focus on short-term action planning, Productivity and Time Management in this new work environment and Cash Flow planning and



**Figure 2 Organizations' Current Financial Condition and Ability to Maintain Operations**

budget forecasts. Getting real and getting comfortable with your organizations budget is critical right now. Some nonprofits took planned fundraisers online and some canceled, either way this loss of revenue will likely not be replaced.

**Sustain**

While immediate actions need to be taken to minimize the impacts of COVID-19 on organizational operations, a longer-term plan is

necessary for organizational survival and stability. Moving forward to the next budget cycle, organizations emphasize reviewing revenue forecast plans to be better informed of their financial situation. We asked, “Looking into the next budget cycle, what do you think will be the five most important actions that will be taken in response to COVID-19?” Interestingly (perhaps not surprisingly), the most common response was not knowing—it was too early to tell. Nonprofit leaders most frequently identified spending cuts, freezing

**Table 2** Top Five Strategies in Response to COVID-19\*\*

	Public Organizations—Municipalities	Public Organizations—County Governments	Nonprofit Organizations
1	Freezing discretionary spending (50.58%)	Freezing discretionary spending (35%)	Freezing discretionary spending (75.6%)
2	Delaying capital expenditures and routine maintenance (41.57%)	Delaying capital expenditures and routine maintenance (34.69%)	Pursuing financial assistance either through government grants or community foundations (52.63%)
3	Improving management productivity (30.34%)	Reducing hours to save cost (30.61%)	Delaying capital expenditures and routine maintenance (47.37%)
4	Reducing hours to save cost (23.60%)	Improving management productivity (26.53%)	Tapping on endowment (42.11%)
5	Hiring freeze (20.22%) or increasing cooperation (23.25%)	Increasing contracting out (23.41%)	Improving management productivity (39.47%)

\*\*The percentages in parentheses indicate the percentages of respondents who agreed with the fiscal strategy. The responses are more consistent in the nonprofit sector; however, there were more “neither agree or disagree” responses among the public organizations.

**Table 3** Five Least Favorable Strategies Response to COVID-19\*\*\*

	Public Organizations—Municipalities	Public Organizations—County Governments	Nonprofit Organizations
1	Raising taxes (sale tax or property tax) (73.03%)	Layoff or furlough (67.35 %)	Layoff or furlough (63.16%)
2	Raising user fees or charge (69.66%)	Raising user fees or charge (63.27%)	Raising user fees or charge (60.53%)
3	Layoff or furlough (58.43 %)	Raising taxes (sale tax or property tax) (57.14 %)	Eliminating services (50.00%)
4	Cutting across the board (51.69%)	Cutting across the board (55.10 %)	Cutting across the board (50.00%)
5	Eliminating services (48.31%)	Target-cut (53.06%) or eliminating services (51.02%)	Target-cut (42.11%)

\*\*\*The percentages in parentheses indicate the percentages of respondents who disagreed with the fiscal strategy.

hiring and salaries, developing or expanding online programing, and tapping into endowments. While nonprofits are encouraged to keep paying staff and maintain their core services, this becomes more challenging the longer this pandemic affects communities. Even though cutting programs and merging and acquisitions are tougher cutback strategies for nonprofits to undertake, some organizations have started having conversations about partnering with other local nonprofits. A nonprofit executive wrote,

Based on some conversations with members, this is the time to do scenario planning and/or have difficult conversations. Do organizations need to look at partnerships, cutting programs but working with other nonprofits to ensure client services? I expect to see mergers and acquisitions in the coming months similar to what we saw with the Great Recession.

The financial and budgeting strategies are more ambiguous in the public sector. County and municipal officials were more ambivalent than nonprofit managers, noting that they did not yet know because it was too early; they are monitoring the budget and revenues. That said, there is a clear expectation by respondents that these local governments will experience revenue losses. Interestingly, few respondents mentioned drawing down reserves or increasing revenues, rather the focus going into the next fiscal year will be on cutting expenditures primarily through discretionary spending, capital and maintenance spending, and personnel (salary freezes, benefit cuts and hiring freezes). A Nebraska city manager said,

Unfortunately, it is far too early to really tell the full effect as it is most likely going to get worse before it gets better. We are bracing for a 30 percent (estimate) drop in sales tax revenues and no idea on unpaid property taxes. We’ll know more on both of those in a couple of months. We’ve delayed most new projects until we get a better handle on revenues. As we all know it’s one thing to budget an expense but getting the

revenue is another. We are lucky that water and sewer are our only utilities. We anticipate some delinquency that will have a minor effect on Water and Sewer. We are fortunate on the water side that 85 percent of our \$7.5 million water revenue is from the Bio Campus and we have a contract guaranteeing payment whether they use it or not. We have a small Keno program (lottery) which right now is generating zero and I anticipate revenues for the year will drop by 50 percent. Building permits have slowed down, but we are optimistic they will pick up again. I’m estimating our hotel occupation tax will be down by 40 percent for the year.

This pandemic has also altered workplace dynamics with staff working from home. Many organizations were able to allow their employees to bring home sufficient tools, such as computers, laptops, and office supplies. The pandemic also required the organizations to upgrade their information technology infrastructure and security to meet the increasing demands of the virtual work setting. A county official wrote,

One thing that I and others were involved with was ordering 25 laptops (I debated recommending 50, and wish I had). We got the 25 in a few days and beat the rush to purchase. Our IT department has done an outstanding job in facilitating the majority of our employees to work remotely. We are heavily using Zoom to communicate and the administration is using Microsoft Team. We just started using Team in early March. I hold daily check-ins with my Fiscal staff using Team. Most of our fiscal 2021 budget information (nonconfidential) is on our website and budget kick-off meetings with department heads and elected officials are taking place via Zoom. Our purchasing team has worked tremendously hard to get PPE for our Sheriff, Jail and Facilities operations. This is an area that has an amazing number of phony businesses, so they have worked hard to make sure the sellers are real and can provide product.

A nonprofit executive director wrote,

For those that can work from home, they should and ensure staff has the tools to work well. The NAM office moved a week before this all hit and were fortunate that we were able to send home surface pro's, extra screens and keyboard. I think Zoom is here to stay as a normal way of doing business, but we need to get smart on how and when to use.

### **Endurance**

The unprecedented shock caused by this pandemic not only exposed weaknesses in our health care system but also reflects vulnerable aspects of organizational fiscal structures. Some respondents indicated that their organizations are in better shape because of the lessons learned from the previous economic recession. Learning from past experiences enables organizations to realize and improve their weaknesses while increasing their ability to effectively respond to future events (Moon 2020; Moynihan 2008).<sup>11</sup> Coping with the challenges of this pandemic, public and nonprofit managers may stand before an opportunity to reform and rethink organizational strategies to strengthen their operations against future fiscal emergencies. From a public administration standpoint, this event has created different expectations for the role of governments and the demands of government actions in responding to emergencies or crises. A shock of this scale forces collaboration between different levels of governments and enhancement of management capacity and IT systems. As current public budgeting and funding systems promote greater spending during the response and recovery phase at the expense of mitigation and preparedness (Donahue and Joyce 2001), this pandemic provided a wake-up call for public organizations to rethink and reform organizational capacity to effectively respond to a future emergency or disaster.

From the nonprofit perspective, COVID-19 will establish some new “norms” in the ways that organizations operate. An unprecedented event like this highlights the role of backbone nonprofit organizations, in which coordination and community with decreased competition will be vital. As prior research has shown, while increases in nonprofit competitions can result in more financial efficiency and better service delivery, collaboration among nonprofits increases economies of scale and reduces overhead and administrative costs (Lecy and Searing 2015; Paarlberg et al. 2018). As many nonprofits are struggling to maintain their operations, collaboration enables organizations to deliver their services more cost-effectively. In addition, despite the fiscal challenges it is causing, this event can also create opportunities for nonprofit organizations to be more efficient. Nonprofits are nimble and resilient, and they are working with their community-based partners to ensure clients are served. Looking to the future, the nonprofit field expects to see innovations in fundraising events, trainings, and larger gatherings by utilizing virtual meeting platforms.

### **Conclusion**

While the discussion is time-sensitive—survey respondents participated at a time when the pandemic was beginning to explode in the United States—and regionally concentrated (most respondents were in Nebraska or neighboring state), the findings have implications for local governments and nonprofits throughout the United States. The analysis revealed a couple of things: first, public and nonprofit organizations are still trying to

figure out the fiscal effects caused by COVID-19, and second, public and nonprofit sectors were affected by and responded somewhat differently to this fiscal shock. For those county and municipal officials who responded to the survey, there is a great deal of uncertainty. Many are still trying to figure out the extent to which the pandemic will affect their fiscal condition, yet they are anticipating losses in revenues. Their response strategies are focused on limiting expenditures. Nonprofits, on the other hand, were generally hit faster and harder and required more immediate and innovative responses to survive the fiscal shock caused by the pandemic. This included making cuts to spending and salaries, but also, at least for some, offered opportunities for development of innovative online programming and virtual events. Public and nonprofit organizations can learn from this current situation and use these experiences to inform their strategic planning with more simulations from different budgeting scenarios to build a much stronger foundation for financial resilience.

### **Notes**

1. A survey of 2,400 local leaders found that 9 of 10 city leaders expect major budget shortfalls, and nearly 100 percent of cities with populations above 50,000 expect to see a revenue decline (NLC 2020; ICMA 2020). Another survey conducted by the Nonprofit Finance Fund (NFF 2020) found that 75 percent of nonprofit leaders are seeing a reduction in earned revenues, and 64 percent of the respondents are worried that COVID-19 threatens their long-term financial sustainability.
2. The timing of the survey is important because it was administered when the numbers of confirmed COVID-19 cases and deaths were beginning to increase rapidly in the United States and stricter social distancing measures were being taken by states. The survey opened on April 1, 2020, and closed April 15, 2020. According to Johns Hopkins University, two weeks before the survey was sent (March 15, 2020), there were only 2,900 confirmed COVID-19 cases in the United States. By April 1, 2020, the number of confirmed cases had jumped to 215,000, and the number of deaths in the United States was approximately 5,000. When the survey closed on April 15, 2020, Johns Hopkins University recorded 628,900 confirmed cases and 26,700 deaths in the United States (see <https://coronavirus.jhu.edu/us-map>). By mid-April, 42 states and the District of Columbia had issued stay-at-home orders, affecting 96 percent of U.S. population. See Samantha Bloch, “Driving Down, but Speeding Up during COVID-19 Crisis,” *NCSL Blog*, May 4, 2020, <https://www.ncsl.org/blog/2020/05/04/driving-down-but-speeding-up-during-covid-19-crisis.aspx>.
3. The University of Nebraska Omaha Alumni Association sent the survey to 550 graduates from the Master of Public Administration (MPA), Urban Studies, and PhD programs; 229 current MPA students, 16 Urban Studies students, and 37 PhD students also received the survey, as did the Nebraska City/County Managers Association’s 79 members. The response rates were 33 percent (partial completion) and 24 percent (full completion).
4. For the 155 who answered the question, 90 percent worked in Nebraska and 92 percent worked in Nebraska or the contiguous states of Iowa, Kansas and Colorado. Others worked in Florida, Illinois, Massachusetts, Nevada, Texas, Virginia, Washington, D.C., Wisconsin, and Wyoming.
5. It is important to note that these responses are based on perceptions and not actual financial condition (see Maher and Deller 2011, 2013).
6. Based on our survey findings, we propose the RISE model to correspond with different stages in the organizations’ responses and anticipated recovery strategies. Other similar strategies have been developed in the private sector such as 5R model (resolve, resilience, return, reimagination, and reform) (McKinsey Global Institute 2020).

7. The open systems approach emphasizes that an organization is more dependent on its environment for crucial resources, and changes in the environment require organizational actions to react and adapt (Pfeffer and Salancik 1987). Rainey (2014, 37–43) expands on the contingencies theory and open systems approach by highlighting the benefits of an organic and flexible organizational operation in response to complexity and uncertainty.
8. A “black swan” event, such as a pandemic, is a type of event with a low probability of happening. However, when it happens, it can trigger further black swan events, and a consequence is “unmeasurable uncertainty” (Gibbons 2015, 91). The unprecedented event of this pandemic and its economic fallout can cause significant financial challenges, yet it can also force organizations to change and to rethink their strategies to adapt and reemerge.
9. The location of respondents is important because local governments in these states are heavily reliant on property taxes. For local governments in Great Plains states, property taxes account for more than 75 percent of general fund revenues, and they rank among the lowest states in receipt of state aid (Maher 2015).
10. According to Levine (1985), local governments with low to moderate levels of distress will adopt short-term cutback strategies to “stop the bleeding,” such as drawing down reserves and/or limiting discretionary spending. The more severe the distress, the tougher the response strategies (e.g., salary/hiring freezes, laying off personnel, eliminating core services).
11. Moon (2020) emphasizes that the experience and institutional memories learning from the poor management of MERS outbreak partially contributed to the successful experiences of the South Korean government in response to COVID-19.

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