

Budgeting During a Crisis: Responding to the COVID-19 Recession



April 17, 2020



Objectives of Today's Webinar

1

Offer initial projections about potential financial impacts of COVID-19 on cities

2

Explore phases of response, from forecasting to cutbacks to policy solutions

3

Preview sample forecasting tool to help project the impact of the COVID-19 downturn

4

Share strategies for addressing this emergency

The COVID-19 Recession: Much of the Economy Immediately Shut Down



- About 95% of U.S. population, about 306 million people, are under stay-at-home orders

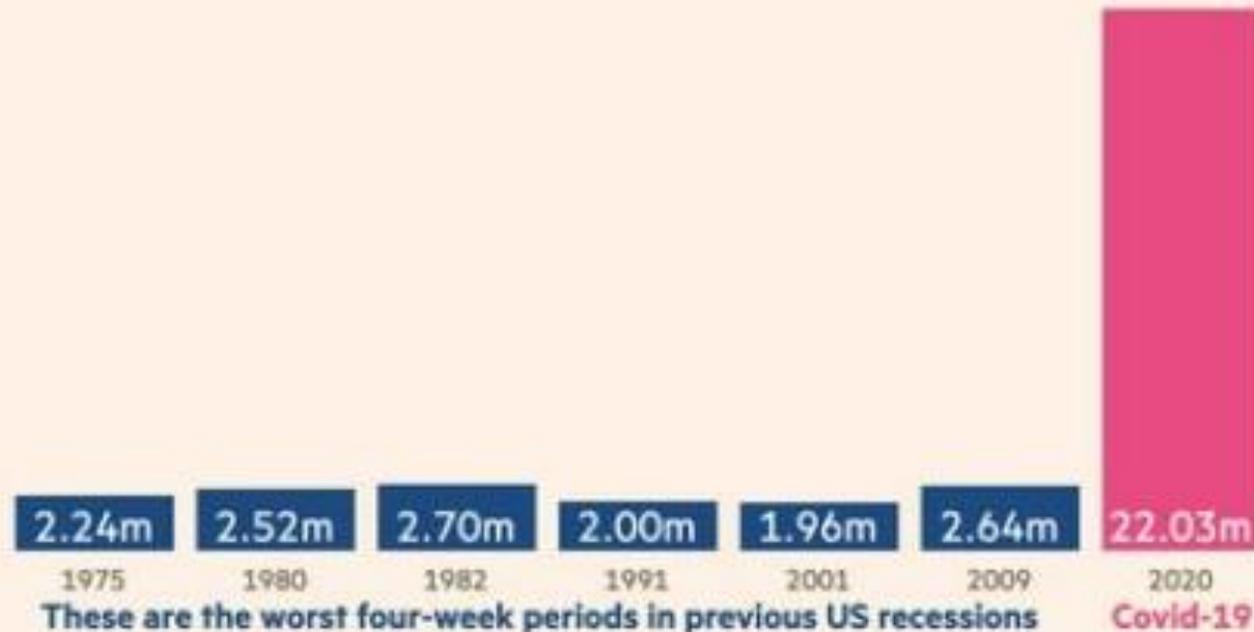
- Consequently, economic activity has been greatly decreased

- Local governments, especially cities, depend on economic activity for tax revenues

The COVID-19 Recession: Unemployment Spike, Retail Collapse

Covid-19 impact is unprecedented

US initial jobless claims over four week period



Graphic: Alan Smith, Keith Fray
Source: Refinitiv, FT calculations
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Nearly 22 million new unemployment claims were filed in the past month, while retail sales plunged a record-breaking 8.7 percent.

The COVID-19 Recession: Swift, Severe Impact



During the Great Recession, 8.7 million jobs were shed over two years; half the job loss in 2020 so far.



The International Monetary Fund predicts the current downturn will be the worst since the Great Depression in the 1930s.

The COVID-19 Recession: Local Governments Hit Hard

Nearly 9 in 10 city leaders say they expect major budget shortfalls according to a survey of 2,400 local leaders by National League of Cities and U.S. Conference of Mayors

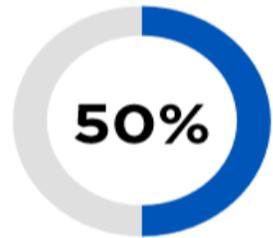
CARES Act is putting \$2 trillion into economy, direct aid to cities under 500,000 is still unclear, but it appears to be about \$170 per capita (California numbers)

Local governments must submit certifications by April 17

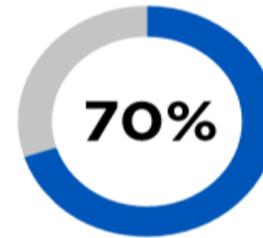
<https://forms.treasury.gov/caresact/stateandlocal>

The COVID-19 Recession: Local Governments Hit Hard

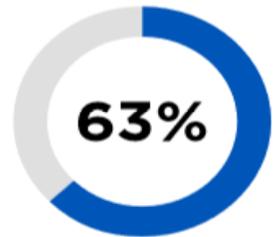
**PUBLIC SERVICES WILL BE IMPACTED
BY THE ECONOMIC STRAIN OF COVID-19.**



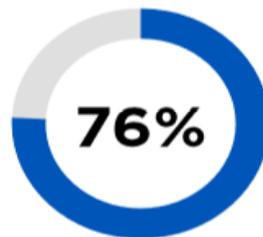
of municipalities <50,000
are anticipating having to cut
public services.



of municipalities 200k-499,999
are anticipating having to cut
public services.



of municipalities 50k-199,999
are anticipating having to cut
public services.



of municipalities 500,000+
are anticipating having to cut
public services.

MORE THAN **HALF** OF ALL CITIES OF ALL ALL SIZES
REPORTED THAT POLICE WILL BE AFFECTED.

Source: National League of Cities survey



The COVID-19 Recession: Local Governments Hit Hard

**CORONAVIRUS WILL HAVE A STAGGERING
IMPACT ON ALL MUNICIPAL EMPLOYMENT.**

THERE WILL BE FURLOUGHS



- 26%** OF MUNICIPALITIES <50,000
will have to furlough their employees
- 55%** OF MUNICIPALITIES 50K-199,999
will have to furlough their employees
- 54%** OF MUNICIPALITIES 200K-499,999
will have to furlough their employees
- 59%** OF MUNICIPALITIES 500,000+
will have to furlough their employees

AND THERE WILL BE LAYOFFS

- 26%** OF MUNICIPALITIES <50,000
will have to lay off their employees
- 36%** OF MUNICIPALITIES 50K-199,999
will have to lay off their employees
- 39%** OF MUNICIPALITIES 200K-499,999
will have to lay off their employees
- 47%** OF MUNICIPALITIES 500,000+
will have to lay off their employees



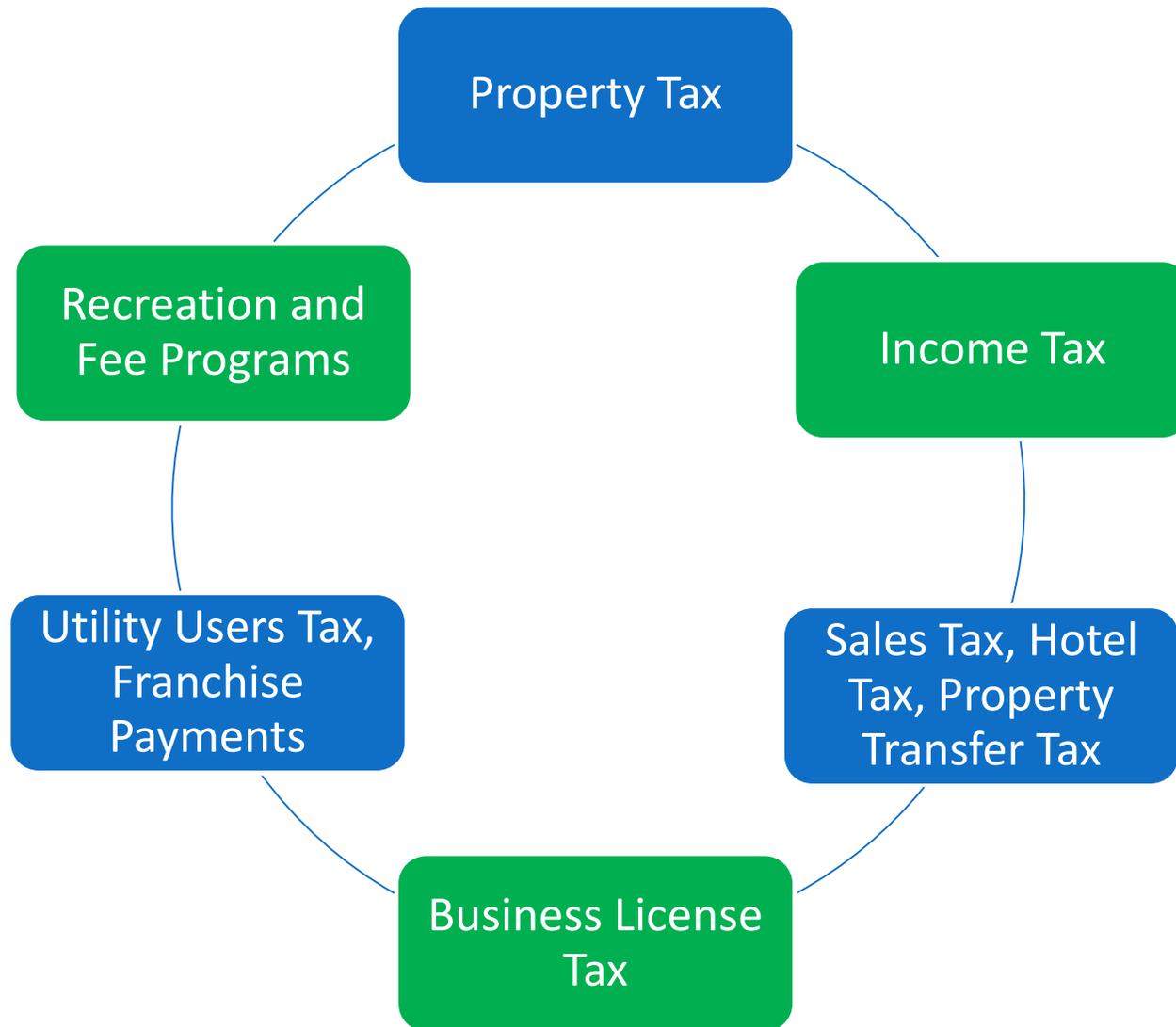
Step 1: Understand the next 6 to 18 months

Timing of the impact will depend on each jurisdiction's major revenue sources and elasticity of sources

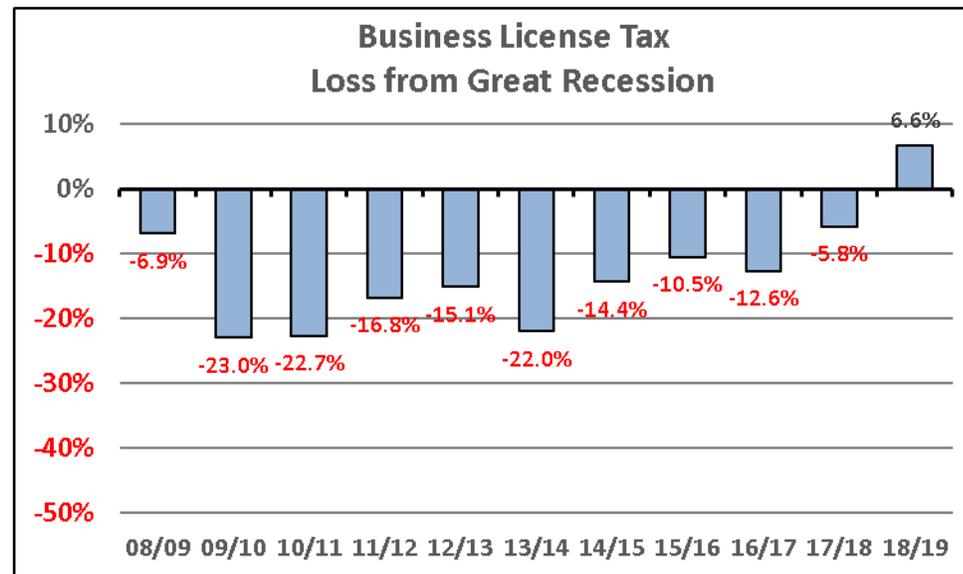
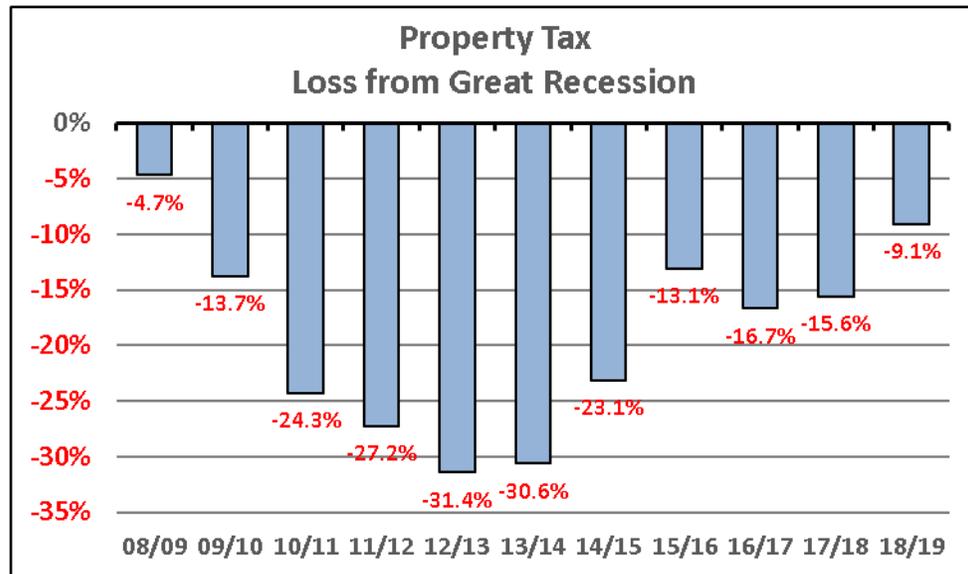
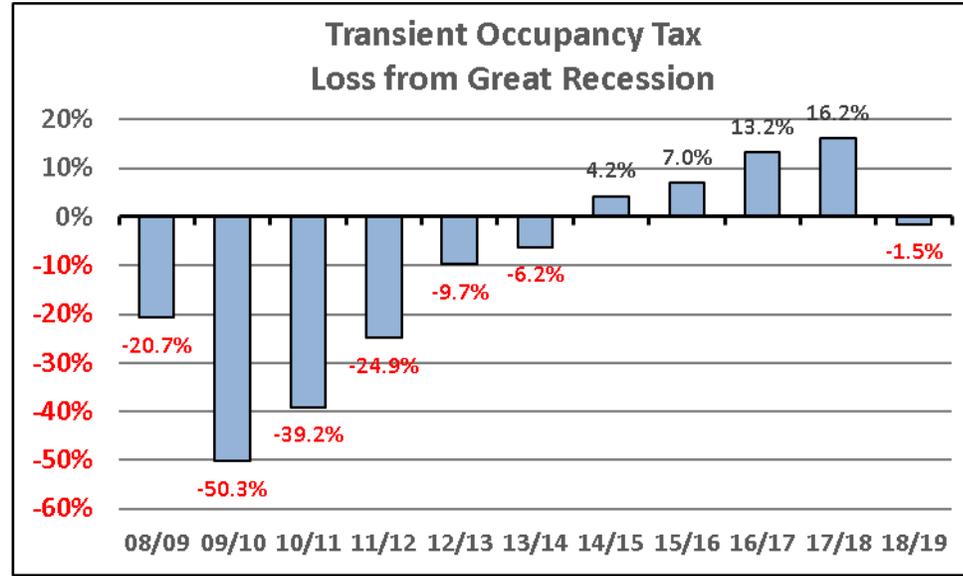
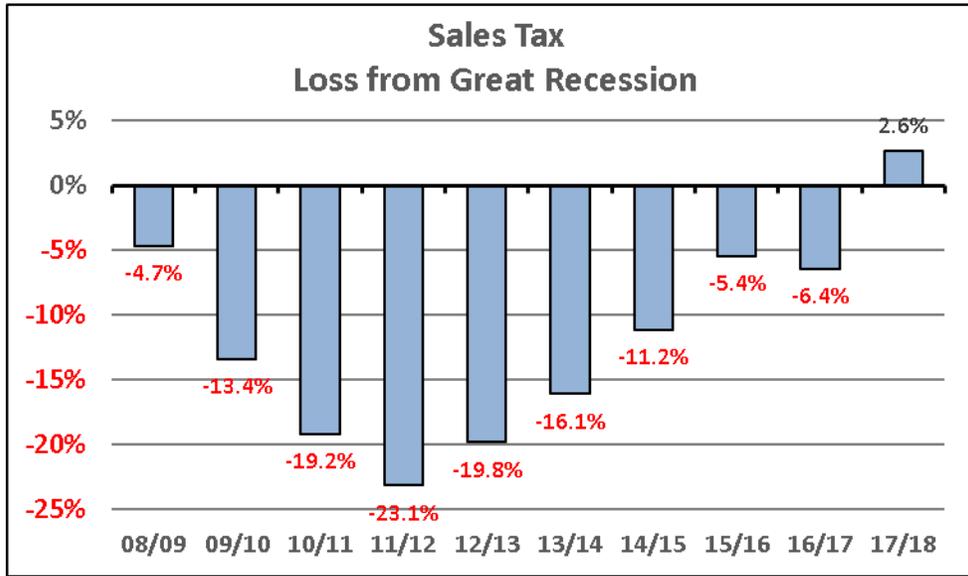
Each city is unique – some will see major problems as early as this fall

- ❑ Forecast how revenues will be affected by the pandemic-induced economic downturn.
- ❑ Develop a range of scenarios tied to assumptions about the downturn's severity.
- ❑ Determine how soon General Fund resources might be depleted.

Local Agency Revenue Impacts Vary by Source



What Will This Recession Look Like?



Need to forecast magnitude and duration of impact to be set by revenue source by fiscal year

Losses are compared to a pre-recession forecast

Elements to Include in a Short-Term Forecast

Agency-specific data

- Recent and budgeted (pre-recession) revenues and expenditures by category, fund balance

Different scenarios

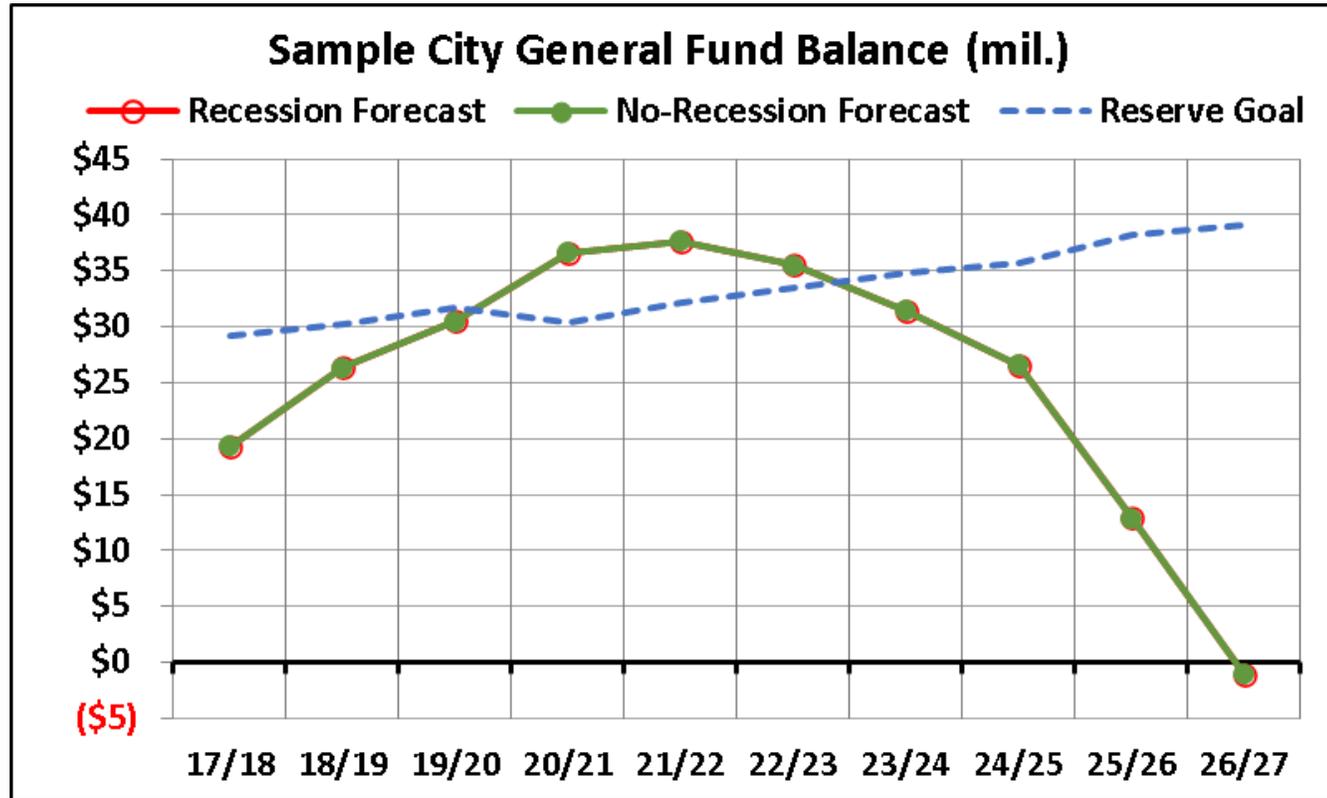
- No-recession forecast
- Recession forecast
- Allow for flexibility
- Dashboard of charts showing fund balance, annual shortfall, revenue loss, cash flow

Elements to Include in a Short-Term Forecast

Key assumptions

- Magnitude and duration of losses, by source by fiscal year
- Pre-recession growth rates by revenue source
- Payroll growth by police/fire/other; set growth rates such as pension, O&M, debt, capital
- New local sales tax, budget cuts, budget increases
- Potential federal aid or cash flow loan

Sample Forecast – Before the Covid-19 Recession



- Here is a city that is doing pretty well in the near-term, assuming no recession
- They are at or near their reserve goal until 2025, when rising pension costs will drive down their available fund balance
- Corrective actions will eventually be needed, even without a recession

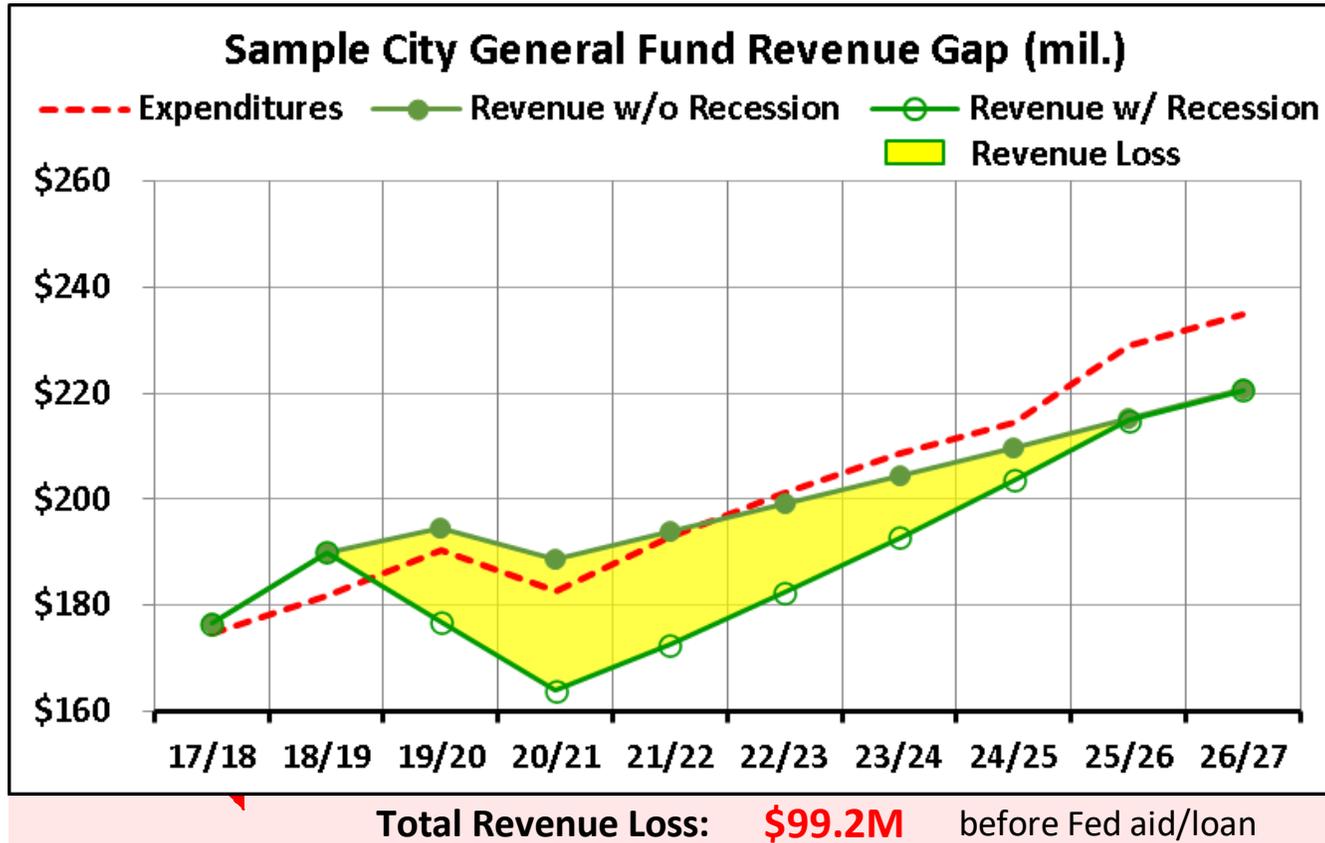
Sample Forecast – Define Scale & Timing of Revenue Loss

 Management Partners Revenue Source None	Amounts Show Percent Revenue is Below the No-Recession Forecast					
	4	4	3	<< Loss Option Phase-out >>		3
	SEVERE	SEVERE	HIGH	LOSSES END FY 24/25		
	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Property Tax	0.00%	0.00%	-12.00%	-9.00%	-6.00%	-3.00%
Sales & Use Tax/T&UT	-15.00%	-20.00%	-12.00%	-9.00%	-6.00%	-3.00%
Utility Users Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Business License Tax	0.00%	-40.00%	-24.00%	-18.00%	-12.00%	-6.00%
Transient Occupancy Tax	-25.00%	-50.00%	-24.00%	-18.00%	-12.00%	-6.00%
Property Transfer Tax	-25.00%	-40.00%	-18.00%	-13.50%	-9.00%	-4.50%
Franchise Payments	-10.00%	-5.00%	-3.00%	-2.25%	-1.50%	-0.75%
All Other Taxes	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Intergovernmental	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fines & Forfeitures	-10.00%	-20.00%	-12.00%	-9.00%	-6.00%	-3.00%
Licenses & Permits	-20.00%	-30.00%	-18.00%	-13.50%	-9.00%	-4.50%
Community Develop Fees	-25.00%	-30.00%	-18.00%	-13.50%	-9.00%	-4.50%
Park & Recreation Fees	-25.00%	-30.00%	-18.00%	-13.50%	-9.00%	-4.50%
Other Fees & Charges	-20.00%	-25.00%	-15.00%	-11.25%	-7.50%	-3.75%
Interfund Charges	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Revenue	-10.00%	-10.00%	-6.00%	-4.50%	-3.00%	-1.50%
Transfers In	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

- Flexibility needed given range of potential impacts
- This particular model allows magnitude of loss to be defined by revenue source, by fiscal year
- Shows severe impact in first two years, declining impact over next four years

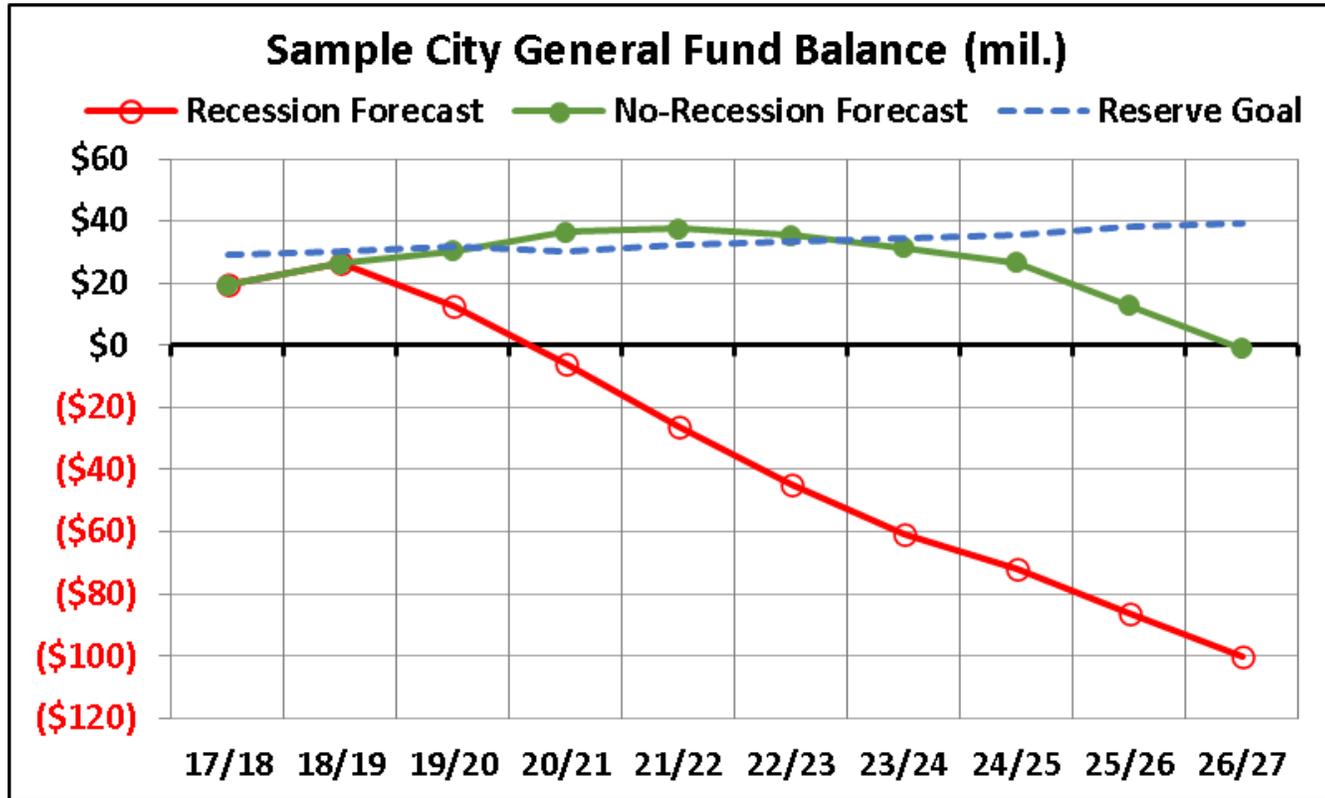
Numbers are amount below the pre-recession forecast in each year, not percent change over prior year; zero means no loss compared to a no-recession scenario

Sample Forecast – Resulting Revenue Loss



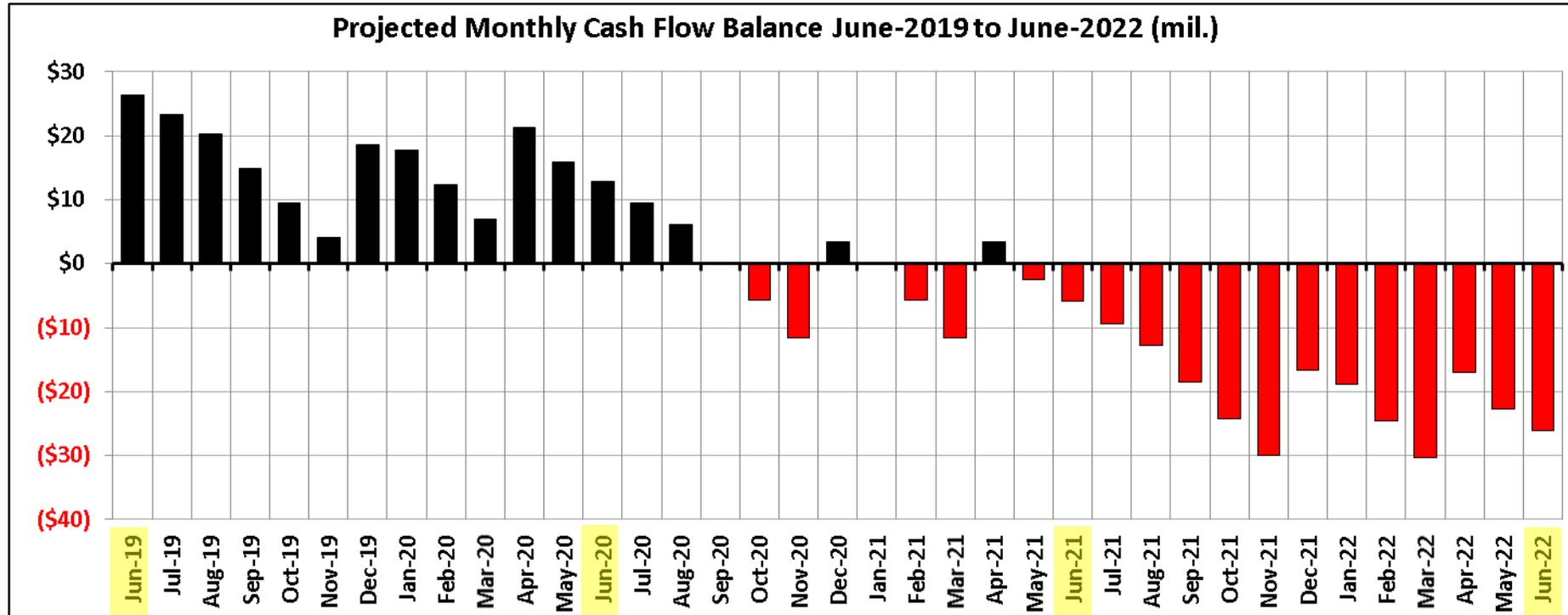
- This particular scenario results in a \$99M revenue loss over six years
 - Loss highlighted in yellow
- Revenue loss is before any:
 - Federal assistance
 - Short- or medium-term borrowing to bridge cash flow shortfall
 - Corrective budget actions to cut spending or increase revenues

Sample Forecast – After the Covid-19 Recession



- With this magnitude of revenue loss, and no mitigating actions, city is in deficit by FY 20/21
- Urgent action required, given time needed to craft and implement budget cuts or revenue increases

Sample Forecast – Cash is King

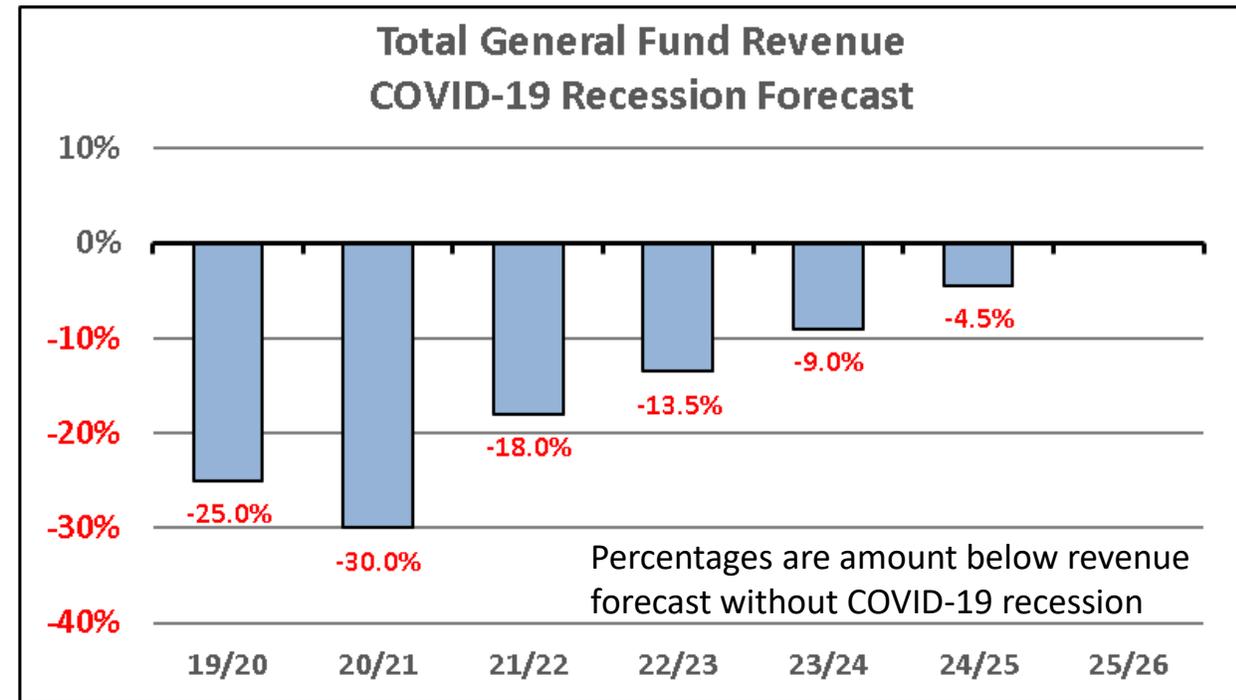
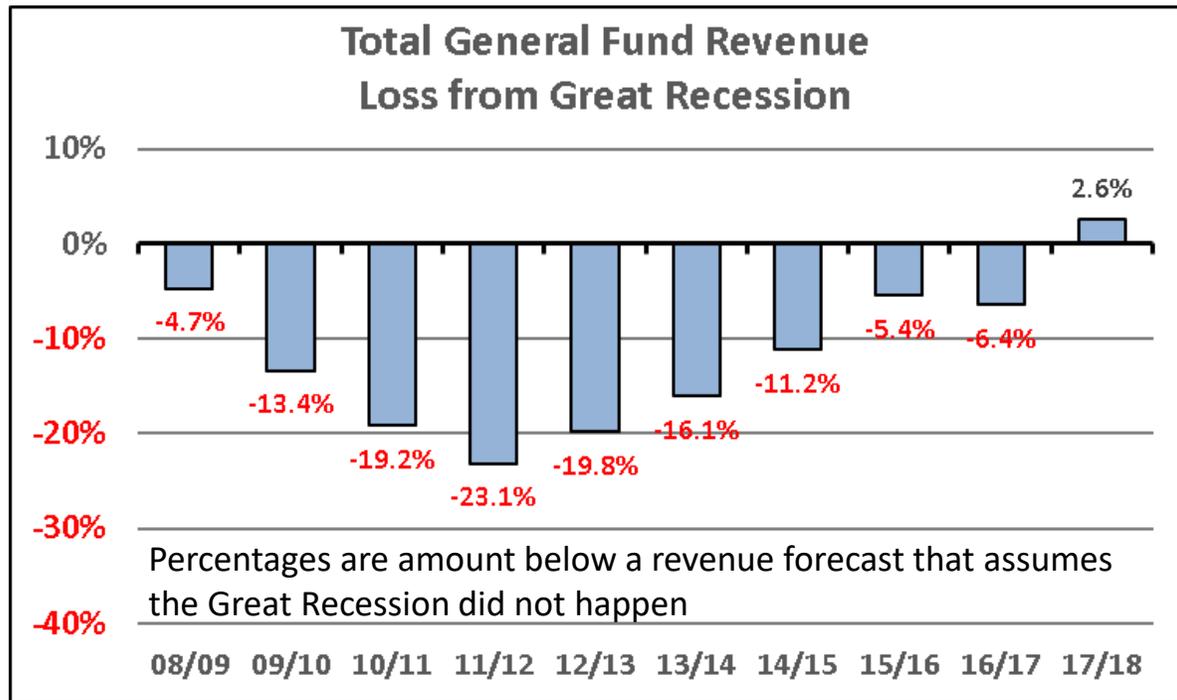


- Examine your monthly cash flow for closer look at time available to your agency to enact budget strategies
- Under this scenario, the city is permanently in the red by May 2021

Sample Forecast – Scenario Planning

- Before: Baseline Revenues and Expenditures
 - Adjust pre-recession revenue growth rates
 - Vary growth rates of key areas such as staffing levels, salaries, pension, health, O&M, debt, capital
- After: Incorporate Revenue Loss from COVID-19 Recession
 - Vary severity of loss and recovery period, and continually adjust impacts as better information becomes available on local economic activity
- Mitigation: Model Impact of Corrective Measures
 - Budget reductions, tax increase
 - Federal assistance, borrowing

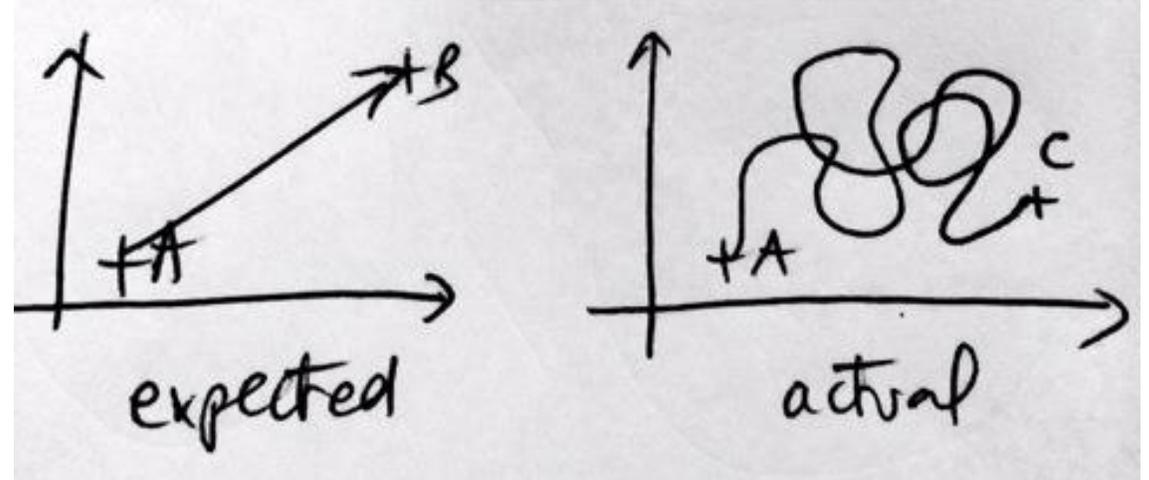
Sample Forecast – Comparison to Great Recession



- Dust off old data, create a pre-Great Recession forecast, and compare to actuals for that period
- Then compare to what your scenarios show for COVID-19 recession
- This example shows a more severe initial loss under COVID-19, whereas Great Recession impact built up over several years, and the recovery took longer than this sample forecast assumes for COVID-19; this is only one potential outcome

There is No Single “Right” Answer

- Local economy and revenue sources vary among agencies
- Many moving parts, and outcomes you don't control
- Uncertainty is unavoidable, you inevitably will be wrong
- But difficult policy decisions need the best information available to support them
- Develop a forecast using reasonable estimates, and create a plan capable of responding to a range of potential outcomes



Step 2: Reduce Spending

- Reduce capital asset investments
- Defer some purchases
- Improve capital project management
- Reexamine maintenance and replacement standards
- Refinance debt

Step 2: Find New Resources

- Increase interfund charges where there is a case for it
- Reassess internal service fund and cost allocation formulas
- Redesignate general fund reserves
- Consider monetizing assets
- Implement new or revised fees where appropriate
- Consider short-term borrowing

Step 2: Reduce Materials or Contractor Costs

- Close facilities where social distancing isn't possible
- Eliminate lower-value or no-use programs
- Review contractor costs and renegotiate if possible
- Rethink subsidies, as painful as this might be

Step 3: Communicate and Engage



Once managers know the extent of the problem, they must help elected officials, employees and community members understand the challenges and gather input on possible solutions.

Step 3: Communicate and Engage

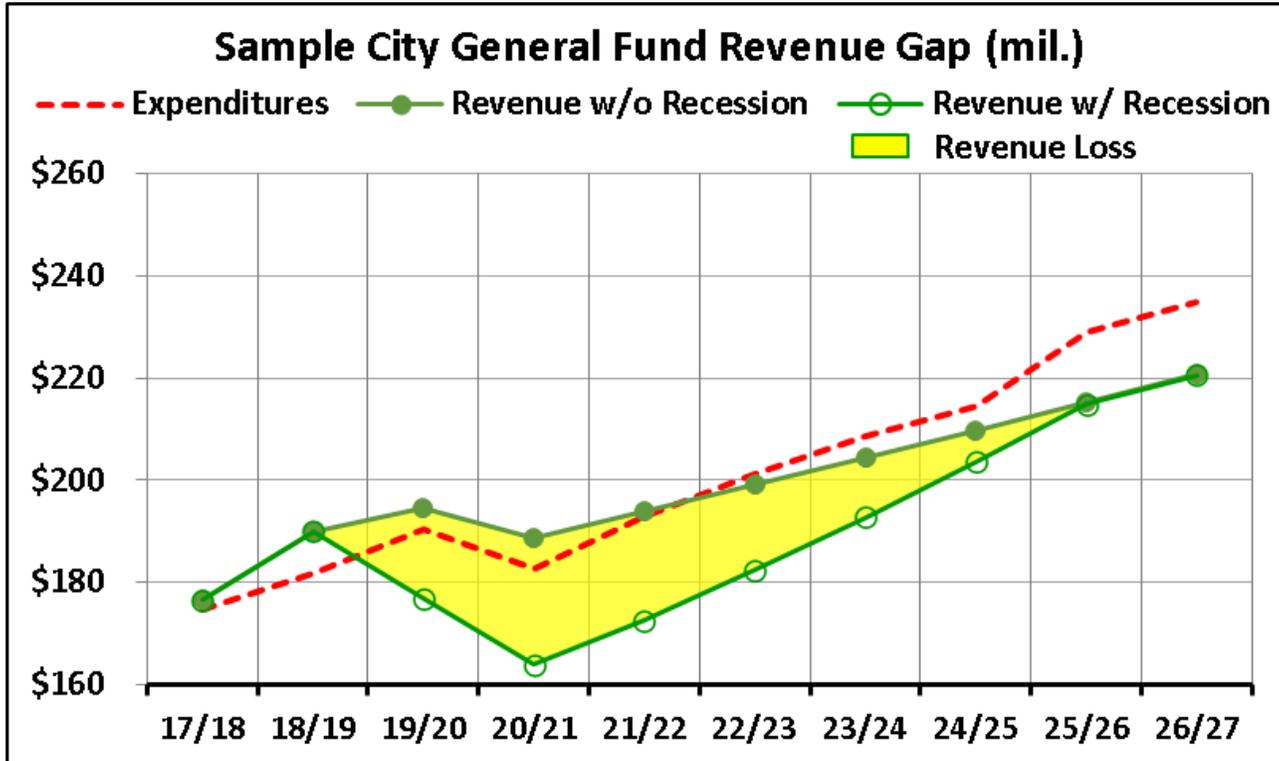


Use videoconferencing, Facebook Live, other technology to get the word out and gather feedback

Technology allows new voices to participate

Use social media and the city's website to provide updates

Step 4: Support Decision-Making



Clear graphics help communicate a message, especially in online meetings

- Understanding impacts to revenues and possible scenarios is key to good decision-making
- Solutions supported by governing body form the basis of action

Conclusion



Our financial world is uncertain, and the 2020-21 budget picture is unclear.



Cities are starting now to plan ahead for a possible 6- to 18-month recession unlike any other.



The four steps of the COVID-19 Recession Response form the foundation of a local government's plan to address the crisis.



Communication with the community and governing body is key to finding solutions.

Thank You!

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