



LOCAL GOVERNMENT BUDGETS FACE VISE-LIKE GRIP
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Local governments are leading the way and taking steps to protect their citizens from the Covid-19 pandemic. Acting urgently, they are ordering individuals to shelter in place, closing their own facilities, and ordering businesses that are not essential to close. They are providing emergency shelters, feeding the hungry, suspending utility shut offs, establishing eviction moratoriums, deferring taxes, and more. When this will all end is unknown and how long it will take to recover is even a more complicated question. But one thing is clear. Local governments are going to feel like they are in a vise-like grip as their revenues fall and demands for expenditures increase while keeping their budgets balanced in the coming months.

There has been considerable discussion of the health and economic impact of the pandemic, but similarly alarming is the fiscal crisis that will upend state and local government budgets before long. And the impact of the pandemic is even more concerning because many local governments are already experiencing declining fiscal conditions. A bellwether report from the National League of Cities in 2019 that surveys city finance officers nationwide found that nearly two in three finance officers in larger cities (populations above 300,000) predicted a recession as soon as 2020. Concern was less evident in smaller-sized cities, but it still stood at 49 percent in larger mid-sized cities (populations 100,000 to 300,000) and 38 percent in mid-sized cities (populations 50,000-99,000). The overall picture from the survey showed mounting pressure on city budgets with general fund revenue growth slowing to 0.6 percent in fiscal 2018 and general fund expenditures growing by 1.8 percent over the previous fiscal year.

Many local governments are in the process of developing their FY 2021 budgets and the next fiscal year will commence for a significant number on July 1st. They better use a pencil with an eraser rather than a pen when putting their budgets together. Government finance offices are challenged to forecast expenditures and revenues going forward in the midst of the dual health and economic crises. With so much uncertainty it will be difficult to develop hard and fast projections of their own source revenues as well as any funding that might come to them from their intergovernmental partners—the states and the federal government. A good example of unpredictability is the sales tax. To develop a meaningful revenue estimate, one would have to know when retail activity will commence, how quickly it will ramp up, where it will take place, and how robust it will be.

A particularly stark example of the impact of the pandemic is public transit. Ridership numbers have dropped precipitously and there is uncertainty about when they will pick up in the short term and how transit will fare over the longer haul. Will riders return in pre-pandemic numbers to buses and subways where they are in close proximity to other riders? Will workers return to downtown offices in similar numbers? Workers may press for more work-at-home opportunities after this forced period of isolation and employers who have been reticent about allowing teleworking may be more open to this option after the pandemic experience, especially in places where office space is pricey.

Expenditure forecasts will certainly be evolving as well until the nation opens up for business again, people get back to work, and there is some semblance of stability. Finance teams will be looking initially for short-term strategies to reduce expenditures. Their Government Finance Officers Association (GFOA) recommends acting quickly to stem the net flow of cash out the door during a financial crisis and finding ways to rebalance the budget. Techniques that can be used fall into five categories: reduce personnel costs, reduce capital spending, reduce materials or contractor costs, create more advantageous inflows and outflows of cash and get new revenues. These fiscal first-aid tools are intended to give finance and government leaders the time and resources to develop longer-term strategies to deal with a financial crisis.

Governments have proven to be quite resilient through various financial crises over the years. Thanks to organizations like GFOA they have been armed with tools and guidance to weather the coming storm. Nevertheless, local governments will surely find that they are facing an unprecedented budget vise.

Resources

City Fiscal Conditions 2019, National League of Cities, 2019, Christina K. McFarland and Michael A. Pagano.
https://www.nlc.org/sites/default/files/2019-10/CS_Fiscal%20Conditions%202019Web%20final.pdf

Cash is King: Short-Term Strategies to Slow the Flow of Money Out the Door and Keep the Budget Balanced, Government Finance Officers Association, 2020, Shayne C. Kavanagh and Joseph P. Casey, Ph.D.
https://www.gfoa.org/sites/default/files/Fiscal_First_Aid_CashisKing032020.pdf

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