Ohio State Resource Network: Budgeting in a Crisis 101

June 3, 2020

National Resource Network

In 2013, the U.S. Department of Housing and Urban Development selected a consortium of organizations to launch the National Resource Network that provides technical assistance to small and medium sized communities that have struggled with serious economic challenges since the Great Recession (2009 – 2010).

These communities rarely face a single obstacle to competing more effectively for the residents and businesses they need to thrive. Economic challenges are often related to housing, equity, community development, transportation, workforce development, education, and public safety issues. Frequently, smaller governments lack the time and staff needed to tackle these complicated issues as the realities of the day crowd out opportunities to invest in the future.

The Network provides cross-cutting technical assistance from subject matter experts in these areas to local leaders who have the vision to move their community forward and the readiness to make hard decisions in support of that vision.

OSRN and JTF

In 2017, the Laura and John Arnold Foundation provided a $4 million grant to establish State Resource Networks that bring the NRN approach to a larger number of communities in a few states.

Ohio has a concentration of communities that have struggled to regain the population and economic activity they lost during the Great Recession. A 2016 study by the Greater Ohio Policy Center showed that Ohio’s legacy cities experienced population loss, lower labor force participation, falling housing values and rising poverty in the five years *after* the Great Recession officially ended in June 2009.

In the summer of 2019, the Network, in cooperation with GOPC, Arnold Ventures and the Just Transition Fund, announced the creation of the Ohio State Resource Network (OSRN). The Just Transition Fund is committed to creating equitable and sustainable economic opportunity for the Ohio communities hit hardest by the transition from coal-based industries and power plants, and is funding this peer-to-peer network.

When “I don’t know” isn’t good enough

Since the coronavirus’ outbreak, we have worked with clients around the country to assess the pandemic’s impact on the finances and daily operations of local governments, school districts and other public sector institutions.

COVID-19 is, first and foremost, a public health emergency and limiting the virus’ spread is the first priority. But the virus’ impact goes beyond the physical to the fiscal and likely creates a shortfall for your organization’s budget.

At the start of the outbreak, the answer to most questions regarding how the virus’ impact on local government’s finances was “I don’t know.” There is still a lot of uncertainty regarding how long restrictions on business activity will last, when consumers will feel safe enough to re-enter the economy and when people will be able to return to work.

But you can’t lead based on “I don’t know.” You have to manage your organization and make decisions to allocate your extremely limited resources, even with all the uncertainty. This webinar will help you put a strategy in place to manage the financial crisis in the short term and into the 2021 budget season.

Ohio's challenge: Income tax dependence

Ohio local governments are **very dependent on "elastic" revenues** -- those that are sensitive to economic swings – especially the income tax. That source has the advantage of growing "naturally" (without tax rate changes) when the economy is strong. But the opposite is true in a recession.

In March 2020, the Brookings Institute ranked larger city governments by their vulnerability to an immediate negative financial impact due to COVID 19.

The rankings account for a government's reliance on elastic revenues and the share of their economy that comes from industries vulnerable to job loss in the pandemic (mining, transportation, travel, hospitality and employment services). **Ohio has four of the five most vulnerable cities in the country. Akron (13th) and Dayton (45th) are also in the Top 50.**

Percent of 2019 GF Revenues from Elastic Sources		
City	State	% of 2019 Revenues
Columbus	OH	75.5%
Cincinnati	OH	71.8%
Bowling Green	KY	71.2%
Toledo	OH	70.7%
Cleveland	OH	67.5%
Aurora	CO	66.1%
Colorado Springs	CO	66.0%
Springfield	MO	63.3%
Grand Rapids	MI	62.2%
Tulsa	OK	61.3%
National average		22.0%

For more please see: *https://www.brookings.edu/blog/the-avenue/2020/03/31/when-will-your-city-feel-the-fiscal-impact-of-covid-19/*

From triage to stability to sustainability

Cash stability	Budgetary stability	Structural stability
Can you pay liabilities when they are due?	*Are revenues and expenditures balanced for the year?*	*Do recurring expenditures and recurring revenues balance?*
Monitor liquidity	Reforecast CY budget	Workforce strategies
Cash flow forecasts	Revenue collection	Capital projects and planning
Spending controls	Cost containment	Intergovernmental advocacy
Funding and quantifying emergency needs	Track spending for federal or state reimbursement	Rethinking work process (remote working)
	Use of reserves	Multi-year planning
		Economic relief programs

Cash flow report

Cash flow reports answer two questions – are we at risk to run out of cash at some point during the year and will we finish the year in better position than we started it. The report should be very high level and show just a few categories.

	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
Beginning Balance	**$ 2.4**	**$ 1.8**	**$ 2.5**	**$ 2.0**	**$ 1.7**	**$ 3.4**	**$ 2.7**	**$ 2.3**	**$ 3.6**	**$ 2.4**	**$ 1.7**	**$ 0.5**
Revenues												
Income tax	$ 1.0	$ 2.4	$ 1.0	$ 1.0	$ 2.3	$ 1.0	$ 1.0	$ 2.4	$ 0.4	$ 0.3	$ 2.4	$ 0.4
Other taxes	$ 0.0	$ 0.1	$ 0.1	$ 0.3	$ 0.7	$ 0.2	$ 0.2	$ 0.3	$ 0.1	$ 0.1	$ 0.2	$ 0.1
Licenses & Permits	$ 0.1	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ 0.2	$ 0.1	$ 0.1	$ 0.1	$ 0.2	$ 0.1	$ 0.1
Charges for services	$ 0.4	$ 0.1	$ 0.4	$ 0.4	$ 0.6	$ 0.7	$ 0.6	$ 0.7	$ 0.4	$ 0.7	$ 0.7	$ 0.6
Other	$ -	$ -	$ 0.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.7
Total Revenues	**$ 1.5**	**$ 2.7**	**$ 1.6**	**$ 1.8**	**$ 3.9**	**$ 2.0**	**$ 1.9**	**$ 3.5**	**$ 0.9**	**$ 1.2**	**$ 3.5**	**$ 2.9**
Expenditures												
Salaries and wages	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 1.8	$ 1.2	$ 1.2	$ 1.2	$ 1.2	$ 1.8	$ 1.2
Fringe benefits	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.5	$ 0.7	$ 0.6
Contractual services	$ 0.1	$ 0.1	$ 0.0	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.0
Supplies & Materials	$ 0.1	$ 0.0	$ 0.0	$ 0.1	$ 0.2	$ 0.1	$ 0.2	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1
Other	$ 0.2	$ 0.1	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 0.1	$ 0.1	$ 2.0	$ 0.1
Total Expenditures	**$ 2.0**	**$ 2.0**	**$ 2.1**	**$ 2.1**	**$ 2.2**	**$ 2.8**	**$ 2.3**	**$ 2.2**	**$ 2.1**	**$ 1.9**	**$ 4.7**	**$ 1.9**
Ending balance	**$1.8**	**$2.5**	**$2.0**	**$1.7**	**$3.4**	**$2.7**	**$ 2.3**	**$ 3.6**	**$ 2.4**	**$ 1.7**	**$ 0.5**	**$ 1.5**

Enhanced cash flow monitoring

We recommend that you identify a few items that will be impacted by COVID-19 and track them each month. You want to compare actual receipts to two reference points – receipts at the same point in prior years (historical baseline) and your current year projection distributed across 12 months. There will be a lag between the pandemic's economic impact and the drop in your revenues but this will help you move discussions about that impact from the anecdotal to the factual.

Income Tax Revenues ($ Millions)

	Jan	Feb	March	April	May	June	TOTAL
2019 actual ($)	$1,298	$316	$4,734	$1,292	$376	$4,458	**$12,476**
2020 projection ($)	$1,345	$328	$4,905	$1,339	$370	$4,157	**$12,445**
2020 projection (% of total)	6%	1%	22%	6%	2%	19%	**100%**
2020 receipts	$1,195	$339	$4,788	$1,345	$266	$4,262	$12,194
2020 vs. 2019 receipts (% change from last year)							**-2%**
2020 vs. 2020 projection (% change from target)							**-2%**
Growth target in 2020 budget							**3.6%**

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Economic uncertainty

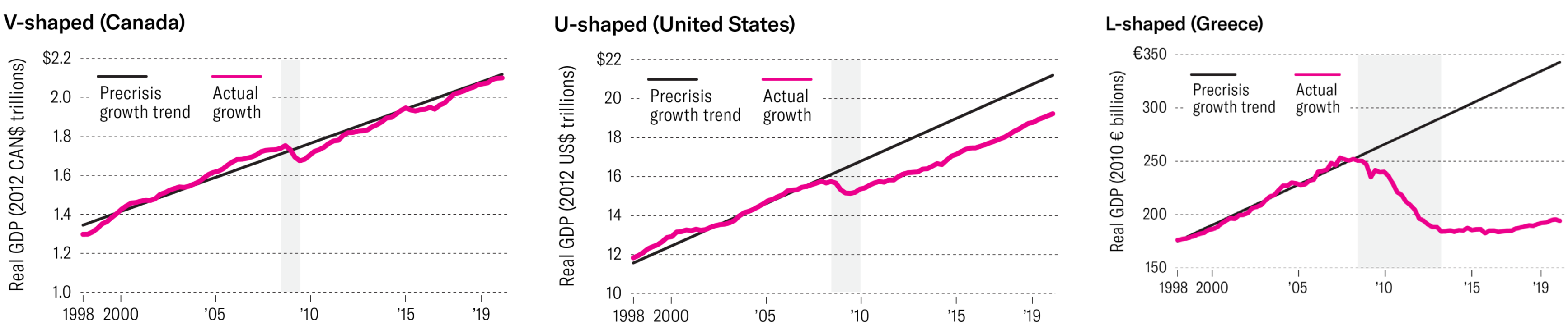
The pandemic-driven recession is unlike any in recent history in a couple ways.

1) It has been more immediate and, at least in the short term, much more severe than the "Great Recession." Job loss has been off the charts.

2) It is also a "service driven recession," meaning its started in the service sector instead of the goods-producing sector. Other recessions have started in the goods-producing sector and created an excess inventory that has to be absorbed before recovery begins.

While the service driven recession creates a very sharp loss in jobs in income, there is hope that recovery could be quicker, though practically that depends on the virus, how it spreads, whether there's a vaccine, etc.

2008 experiences



Source: Statistics Canada, NBER, BEA, Hellenic Statistical Authority, BCG Center for Macroeconomics Analysis

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Scenario analysis

You will need to rethink your current year budget since the revenue picture will be much worse than anticipated. Reforecasting your revenues should be an iterative process (you'll improve it as you learn more) and an honest process (you should be clear about your assumptions, particularly related to reopening).

We also recommend that you use scenario analysis to reforecast your budget, which is an approach where you pick a few key variables and show how the results change in different combinations of those variables.

In Sandusky, Ohio, we are helping the City reforecast its 2020 budget and the multi-year financial picture using these variables:

1) How soon Cedar Point amusement park reopens

2) Changes in the income tax, admissions tax and lodging tax

We have an optimistic scenario in which the park opens during the summer and a pessimistic scenario in which the park cannot reopen until 2021. This will help leaders put together a "menu of options" for closing the deficit in different scenarios before the "worst case" scenario arrives.

What about expenditures?

Much of the pandemic's budgetary impact will be felt on the revenue side but there will be some expenditure impact, too. You may have had an increase in expenditures for personal protective equipment (PPE), public safety overtime or workspace refurbishing (plexiglass shields at teller windows). **You should track those expenditures since much of the federal and state aid is based around the concept of expenditure reimbursement instead of "revenue replacement."**

But we also recommend taking another look at your expenditures to see if the pandemic has changed your spending relative to budget:

1) Salaries and wages: Are there positions you can't fill because of COVID-19?

2) Health insurance: Are you self-insured? Did your claims activity drop (people going to the doctor less) or spike (people infected with the virus)?

3) Contractual services: Are you able to reassign staff whom you're already paying to functions that contractors would've handled?

4) Supplies/materials/projects: What projects will you have to put on hold?

For a lot of governments there will be "organic" savings related to the virus – money that won't get spent, even if you don't take any action, because the activity isn't possible during a shutdown.

Balancing the budget in bad times

The Government Finance Officers Association (GFOA) put together a website to help governments of all sizes identify and evaluate potential gap closing measures. PFM helped GFOA produce two reports that break the measures into a set of primary tactics (things you should do even outside of a crisis) and cautionary tactics (things you will likely have to do to balance the budget).

We will send you both reports along with a third one that will help you evaluate which options make the most sense for your community.

The first GFOA report also discusses the importance of creating the right decision making environment where you emphasize transparency, accountability, and prioritization.

For more information, please visit https://www.gfoa.org/fiscal-first-aid

Primary gap-closing tactics

The "primary" techniques mostly take sound, proven financial management practices and explain how they can be especially helpful during financial distress. Governments should use these tactics, in good times and bad, to maximize the value of taxpayer money. They include:

Control personnel costs

Vacancy control

Monitor and limit use of overtime

Address health care costs

Enhance purchasing practices

Review ongoing expenditures

Review use of consultants

Increase revenues

Obtain federal and state/provincial assistance

Improve billing and collections procedures

Pooling resources & partnering

Pool departmental resources

Look for opportunities to partner with private organizations

Debt, capital & equipment spending

Review opportunities to refinance debt

Cautionary gap-closing tactics

Many governments will not be able to balance their budget following COVID-19 by just doing the basics well. They will have to use at least some of the "cautionary" treatments identified below, even though they have a greater risk of hurting the quality of government service, lowering employee morale and exacerbating long-term challenges if used for a long time. They include:

Control Personnel Costs	Organizational strategies
Wage freeze	Small or temporary across-the-board cuts
Hiring freeze (more stringent than vacancy control)	Reorganization
Increased use of part-time labor	Centralize finance and HR functions
Reduce hours worked and paid	**Sourcing strategies**
Close facilities or reduce hours of service	Outsourcing
Layoffs, furloughs or reductions in force	Insourcing
Increase employee contributions toward cost of retirement benefits (pension, OPEB)	Divesting

How to choose from bad options

Your menu of gap-closing options will likely include several that run the risk of negative consequences beyond financial savings. They are mostly unpleasant and often contradictory to the operational, strategic or financial goals set before the pandemic. Plus you're choosing from a menu of painful options in an environment of uncertainty. Whatever you choose, it's hard to know right now if that's a "worst case scenario."

That's why careful, rational decision-making is both essential and incredibly hard. We hope to make this difficult process somewhat easier by giving you a framework to help identify and evaluate the components of your gap-closing strategy.

- Criteria 1: Size - How big is your hole, given the best information you have right now?
- Criteria 2: Financial impact – Which tactics create the biggest bang for your buck?
- Criteria 3: Service impact – What do these tactics cost in terms of lost or reduced service quality?
- Criteria 4: Political feasibility – How can you best use your political capital to close the budget gap?
- Criteria 5: Legal authority – Which tactics are you authorized to take on your own?
- Criteria 6: Implementation – Which tactics can you practically implement right now?

The PFM report walks through these issues in more detail

One last idea…

The pandemic has had an unprecedented, painful impact but that impact will not be felt equally across communities. Those that were able to build some level of reserves in prior years are in a better position to weather this storm.

The generic guideline for how much reserves you should have is 2 months (or 17 percent) of recurring revenues or expenditures. That is just for cash flow purposes and some communities have gone farther by creating rainy day funds. It's raining now – those funds will create some buffer against taking more painful actions, at least in the short term.

If you are a community that has not had significant reserves, you have an opportunity to start to build one, as counterintuitive as that sounds.

Many Ohio governments adopt their budget partway through the year for which they are planning. So the 2020 budget was adopted in February or March 2020. That enables governments to estimate any surplus from the prior year and then spend it in the next year.

This is unusual relative to other parts of the country where the budget legally has to be adopted before the year begins and carryover spending is considered deficit spending. It's also problematic because it takes away one of the primary tools for building a reserve.

Starting with your 2021 budget, we encourage you to rethink this practice of using your full carryover to balance the budget. It's similar to using your savings to pay for your groceries.

Group Discussion:

What successful strategies has your community or organization deployed to manage fiscal challenges?

Do you have any additional questions? Or, is there any additional information that could be helpful to you?

Thank you! Join us for the Upcoming Webinars:

Webinar 2: Planning for Recovery 101

June 17, 2020 at 12 PM – 1 PM

Join GOPC and City Managers from the **Cities of Hamilton and Sandusky** for a presentation and discussion on how to plan for recovering from the impacts of COVID-19.

Webinar 3: Effective Use of State & Federal Funding 101

June 30, 2020 at 2 PM – 3 PM

Join GOPC and Enterprise Community Partners for a presentation and discussion regarding strategizing to receive State- and Federal-pass through money and how to effectively use those resources in the short-term to advance long-term community goals.

To register, visit: www.greaterohio.org

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