

## COVID-19 Local Response Initiative Session Eight “Towards Financial Resilience: Budgeting During COVID-19”

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This handout reviews key points on crisis budgeting from session eight of the Coronavirus Local Response Initiative for city leaders with Linda Bilmes and Jorrit de Jong.

### A PERFECT STORM

This pandemic has plunged your local economy and budget planning processes into a sea of **uncertainty**. Needs—and expenditures—are rising, revenues are plummeting, and a **liquidity crisis** looms. Budget shortfalls are a certainty, but their relative size and severity are unknown. The **lack of coordination** at the federal level has left cities and states to chart their own courses, and the patchwork approach only exacerbates the uncertainty.

The CBO is predicting budget shortfalls for states twice as high as they were following the 2008 financial crisis. States may not only cut aid to local governments but also impose additional charges and rules.

Many of the usual **tools** for raising revenues (e.g., increasing fees for parking, services, or utilities) are **unusable** for reasons both practical and humanitarian, and **uncertainty is roiling the municipal bond market**. It looks **unlikely that any further stimulus will be structured in a way that offers much help to local government**.

How can you produce a budget that responds to all that has changed, is changing, and will continue to change? How can you make informed **trade-offs**? What can you do in your role to provide **stability** amid the uncertainty?

### PHASE 1: RESPOND

It is not enough right now to simply revise your budget; you must **reimagine** it. This means **questioning all your assumptions**, giving serious thought to **worst-case scenarios**, and **making adjustments** to your operating and capital budgets **as you learn** more from residents, business, and other levels of government.

Begin with a frank **assessment** of your situation:

- What are your short-term revenue losses?
- What are your short-term expenditure increases?
- Who in your community is suffering the most, and how can you provide relief?

Next, identify **critical tasks**:

- Create a team to coordinate budget-related tasks and manage hard decisions.
- Identify urgent cash shortages.
- Organize supports for high-priority sectors and underserved groups.
- Communicate your priorities, decisions, and plans clearly.

To cut your budget strategically, in a way that is aligned with your priorities, embrace **activity-based budgeting**. Think about the **outcomes** you want, the **activities** you think will produce them, and **budget for those activities**. Resist across-the-board cuts. Departments may not share your priorities, or may slash the line item guaranteed to turn out the public in defense of their budget. Ask them to **break down their budget** by activities (for most departments, these are the tasks that involve direct contact with clients or customers), then:

- Suspend ongoing activities that are not making a clear contribution to your strategic priorities.
- Prioritize essential activities and eliminate or scale back those that are lower priority.

- Cut overhead costs aggressively.
- Look for opportunities for productivity gains.

**Ask yourself:**

- Are you budgeting appropriately for new and emerging essential activities during the crisis?
- Are there any possible new sources of revenue?
- Have you reviewed (and renegotiated) your contracts?

**On the capital side, examine every item with the same rigor** you bring to operations—every project and every lease in your portfolio. Are there opportunities for refinancing debt or extending borrowing capacity?

**To produce a budget, plan for two scenarios:** your **best guess** about what will happen based on what you know right now and your **worst-case** scenario. For each of these, think carefully and creatively about costs and revenues. Build both version of the budget in a way that allows you to **update, revise, and recombine** them on at least a quarterly basis. Your budget is based on the information you have, and **information is changing fast**.

Use **microsamples** for forecasting purposes: take a small sample of taxpayers and use surveys or focus groups to understand their needs, priorities, behaviors, and thinking around issues that will affect your bottom line. (This is how the CBO forecasts the effects of new changes in tax codes.) Use what you learn as a rough indicator, and incorporate it into your thinking and planning.

**PHASE 2: STABILIZE**

To begin stabilizing your city’s finances and your local economy, pay close attention to **three realms:** strategic cuts using activity-based budgeting (as described above); protecting city employees, small businesses, and underserved groups; and capital budgeting and debt refinancing.

**Protecting the lifeblood of the community:**

- Layoffs are a last resort. Don’t “cut off your arm to lose weight.”
- Include the needs and voices of the most vulnerable in decision-making.
- Convene focus groups of small business owners and ask them what they really need.

Paycheck Protection loans only provide for employee compensation. Local businesses need more than this to **reopen in a way that is safe and sustainable**. Now is the time to **think creatively** and to strengthen your relationship with these stakeholders.

There are **critical proactive steps you can take in capital budgeting**.

- Lobby state and federal government to help lower your cost of borrowing as a critical part of stimulus spending.
- Engage with your investor community. Differentiate your bonds and sell directly to investors to reduce costs on both ends.
- Begin laying the groundwork for sustainable recovery. Communicate with your Chambers of Commerce regularly.
- Get together with other mayors in your state and ask state treasurers to transfer state cash from Wall Street to Main Street so you can seed investment in local communities.

Advocate at the state and local level for the next stimulus package to include money for every state to set up a state bank to lend to community banks that will invest in local businesses.

### PHASE 3: TRANSFORM

Every crisis brings opportunities, and as the crisis winds down and you work to **rebuild a sustainable and resilient economy**, opportunities for new programs and new directions will come into view. A leaner operating budget and new partnerships to support future infrastructure projects provide a basis for transformation.

#### Leaner operating budgets:

- Departmental funds redirected to top priorities.
- Opportunities to reduce rents, increase telework and job-sharing.
- Operations reshaped in ways that advance sustainability and public health priorities.

#### New partnerships and infrastructure:

- Small businesses and community banks more invested community partners.
- Regional partnerships become recovery engines.

This pandemic is the greatest public health crisis we have seen in our lifetimes. It is already putting you and your constituents under intense financial strain, and it may yet cause financial shockwaves worse than any you've previously experienced. But it is also an opportunity to reshape your city's priorities, get rid of what you don't need or no longer works, renegotiate or cut overpriced contracts, and scale down capital projects that no longer make sense.

It may be hard to see the light now, but much good has come out of past pandemics: think indoor plumbing, public parks, and healthcare reforms. Adapting to the changes ahead won't be easy, but **don't doubt your power to make your city a better place on the other side of this crisis.**

### ADDITIONAL RESOURCES

- Government Financial Officers Association, [“Fiscal First Aid Resource Center.”](#)
- US Conference of Mayors and Bloomberg Philanthropies, [“COVID-19 City Fiscal Tracking and Reimbursement.”](#)
- Government Financial Officers Association, [“COVID-19 Response Resources.”](#)
- International City/County Management Association, [“Emergency Relief and Cost Recovery Resources.”](#)