

## Handout

Agenda Item 10.3  
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California Special Districts Association  
Districts Stronger Together  
Webinar: Budgeting for the COVID-19 Recession  
Craig K. Murray

### Presenters:

Andy Belknap, Sr. VP, Management Partners  
Bob Leland, Special Advisor, Management Partners  
Steve Toler, Partner, Management Partners

**Overview:** *The pandemic-induced recession is quickly changing the revenue landscape for public agencies. Responding to the changes requires leaders to understand the extent of their fiscal challenges and formulate strategies to adapt. Strategies include forecasting what the near future might look like, developing solutions to improve the agency's financial outlook, and communicating both the forecast and the potential solutions to elected officials, employees and the community. This webinar will look at how agencies can begin to formulate future scenarios, options that include cutting costs and increasing revenues, and best ways to engage stakeholders.*

**Objectives:** 1. Offer initial projections about potential financial impacts of COVID-19 on districts; 2. Explore phases of response, from forecasting to cutbacks to policy solutions; 3. Share strategies for responding to pandemic impacts

**COVID-19 Recession:** *Swift, Severe Impact. Immediate Economy Shut Down. 1. ~95% of US Population, ~ 306M people, placed under stay-at-home orders; 2. Economic activity greatly decreased; 3. Local Gov't depends on business and economic activity for tax revenues; 4. Great Depression unemployment at its peak was 25%. Unemployment claims by 30.3 M in past 6 weeks; rate between 15-20%; 5. Taxable Sales in Freefall (except online purchases: Wayfair decision revenues are boosting county sales tax pool, one bright spot); 6. Travel Spending down 78% in Mar-Apr. Projected to be down \$400B nationwide for 2020, likely slow to recover (editor note United after Gov. support funds run out expect to do layoffs in 6 months); 7. GDP down 4.8% in 1Q20 and expected to be down 30-35% in 2Q20.; 8. During Great Recession 8.7M job lost over two years v. COVID 19 and 2020 numbers almost triple in just one month; 8. International Monetary Fund predicts will be worst since the Great Depression in the 1930s.*

**Special Districts:** *Incredibly Varied. Single v. Multi-Function / Enterprise v. Non-Enterprise / Independent v. Dependent. 17 Major Types of District. Special Districts by Type: 1. Water and Utility Districts 20%; 2. Fire 17%; 3. Community Services District 15%; 4. Reclamation and Resource Conservation 13%; 5. Cemetery 12%; 6. Library, Vector Control, Recreation and Park 8%; 7. Sanitation 5%; 8. Health Care 4%; 9. Irrigation 4%; 10. Airport, Harbor and Transit 2%.*

Understand the next 6 to 18 months: Business are so different that there is no typical district even within districts of the same types: 1. Variable v. fixed costs will greatly shape ability to withstand even moderate revenue swings; 2. Reserve levels vary widely; 3. Revenue options may be constrained for a while; (Poll: What additional costs are you incurring?).

### Examples of Questions you should be asking:

1. To what extent are your revenue sources reliant on economic health?; 2. Which revenues are more at risk in a short-and mid-term economic recession?; 3. What customer categories indicate the largest potential risk (e.g. residential, commercial)?; 4. What was your district's experience in the Great Recession?; 5. What are the impacts on property sales and assessed values if your agency is reliant on property tax revenues?; 6. How will unemployment trends affect collections for user fees?; 7. Do you have a collection policy in place consistent with SB998 (water districts only)?; 8. How reliant are the service that you purchase on the supply chain that may be affected in a prolonged recession?; 9. Has your District officially determined which employees are essential and non-essential?; 10. Has this been done in writing?; 11. Impacts on reentry?; 12. Is your District ready for immediate and/or future furloughs and layoffs?; 13. Do you have a financial forecast in place to model the potential fiscal impacts from the COVID-19 Pandemic?

### What can you do:

1. Create a short-term forecast- ID the problem you need to solve; 2. ID strategies to address budget challenges; 3. Plan for reentry and your agency's new normal; 4. Communicate and engage; 5. Support decision-making.

### Building a Forecast:

1. Gather Data: A. Recent and budgeted revenue and expense by category; B. Available fund balance (exclude non-spendable and committed amounts)
2. Growth Rates: A. Grow base amounts by realistic growth rates, including personnel costs (COLAs, higher pension costs, deferred maintenance) needed for sustainability over time
3. Alternate Scenarios: A. What does a "no recession" forecast look like? B. Run alternate "recession forecast" scenarios; how bad can it get?
4. Dashboard: A. Effective charts clearly communicate your financial condition.
5. Flexibility to Define Scale & Timing of Revenue Loss: eg Mgt. Partners Model allows magnitude of loss to be defined by revenue source, by fiscal year (none, low, moderate, high, severe). Flexibility helpful in running alternate outcomes. Revenue Source: Property Tax, Special Assessment Tax, Franchises/Other Taxes, Intergovernmental-State, penalties, licenses & permits, utility charges, park and recreation fees, other fees and charges, other revenue. 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

6. Shape of Recovery Determines Revenue Loss: V-Shaped (Fast Recovery); U-Shaped (Slower Recovery); L-Shaped (Prolonged Recovery); W-Shaped (Double-Dip Recovery).
7. Dashboard of Charts Tells the Story: An existing structural shortfall is exacerbated by COVID-19 revenue losses; eg For this agency, time is of the essence. General Fund Balance, Post-Recession Annual Change in Balance, Net Revenue Loss from Recession,
8. Case Study of CA Recreation Dist. Independent rec. district serving three cities and unincorporated areas over 100 sq miles and pop. Of 280k: Rec. classes, parks/open space, facilities, golf courses, aquatics, community events. A. District General Fund Balance chart: District was already facing a decline in fund balance even before this economic recession. The District already expected to implement \$2.5 M in cuts in FY 2021 to offset recreation program losses. COVID 19 impacts will leave District w/o General Fund reserves in 12 months. B. Post-Recession Annual Change in Balance Chart: Fund balance chart showed the annual surplus or shortfall based on parameters of economic downturn. This assumed District would implement \$2.5M in cuts in FY 2021, which would then be restored in FY 22. C. Net Revenue Loss from Recession Chart: Shows change in revenue compared to "no recession" revenues and expenditure levels. District would need to reasonably expect about a \$12M revenue loss through FY 2022. Actions Taken by CA Recreation District in Response to COVID-19 Pandemic: 1. Eliminated recreation programs through Summer of 2020; 2. Identified \$2M or \$2.5M (5% of annual operating expenditures) in cuts necessary for FY 2020-21; 3. Closed District facilities (e.g. playgrounds, pools, gated parking areas, tennis/basketball courts, organized sports park amenities); 4. Laid off 420 part-time employees to temporarily save \$1.4M during COVID-19 Pandemic.
9. There is No Single "Right" Answer: Local economy and revenue sources vary among agencies. Many moving parts, and outcome 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...and start now!
10. Budget Strategies: Reduce Spending. A. Reduce Capital Asset Investments; B. Defer some purchases; C. Improve capital project management; D. Reexamine maintenance and replacement standards; E. Refinance Debt.
11. Budget Strategies: Find New Resources. A. Increase interfund charges where there is a case for it; B. Reassess internal service fund and cost allocation formulas; C. Redesignate general fund reserves; D. Consider monetizing assets; E. Implement new or revised fees where appropriate; F. Consider short-term borrowing
12. Budget Strategies: Reduce Materials or Contractor Costs: A. Close facilities where social distancing is not possible; B. Eliminate lower-value or no-use programs; C. Review contractor costs and renegotiate if possible; D. Rethink subsidies, as painful as this might be.
13. Plan for Reentry into the Workplace: Reentry: Physical (who to have onsite, where, when, how), Programmatic, Operational (return to work policy updates, hazard pay anticipation, staggered schedule, new different work practices), Social/Team (transition from emergency telework to long term, employee communication, org. culture, overall well-being and health, teamwork strategies).
14. Establish some guiding principles for the reentry plan: 1. Ensure compliance with state and county orders and guidelines; 2. Assume a gradual, phased in approach that allows pulling back if needed; 3. Ensure safety of employees and the public; 4. Resume programs and functions based on priorities and safety; 5. Respect employee relations issues, nurture our employees and be mindful of initial and continuing concerns; 6. Provide robust, continuing two-way communication and information to employees and the public. 7. Foster a culture of innovation.

**Conclusion:**

Our financial world is uncertain, and the 2020-21 budget picture is unclear; communities are starting now to plan ahead for a possible 6- to 18-month recession unlike any other; the steps of the COVID-19 Recession response from the foundation of a local government's plan to address the crisis; communication with the community and governing body is key to finding solutions.

Nancy Hetrick, Vice President. [Nhetrick@managementpartners.com](mailto:Nhetrick@managementpartners.com) (408)674-3369.

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