

# **Oklahoma Municipal Management Services**

## **Covid-19 Budget Mitigation and Recovery In Oklahoma Municipal Government**

Oklahoma Municipal Management Services  
Randy Ewing, Management Consultant

Being willing and able to improvise has always been a necessity in municipal government. With the on-set of a world-wide new coronavirus pandemic, communities and their local governments have a new challenge requiring considerable improvisation.

The remainder of the Budget for Fiscal Year 2019-2020 (effectively the 4<sup>th</sup> quarter) and the development and implementation of the coming new Fiscal Year 2020-2021 will be critical in mitigating the local health and economic consequences of the pandemic as well as providing a path to recovery.

Every community in Oklahoma has many unique characteristics and therefore “one size will not fit all” in mitigation and recovery. Even so, there are many common factors to consider in “righting” municipal finances and in assisting the revival of the local economy.

In an attempt to highlight the common issues for action by municipal governments, the following context of action is presented in two parts: Assumptions and Suggestions.

### **Mitigation Assumptions:**

MA1. The last quarter of the FY 2019 -2020 Budget (plus or minus) will have atypical revenue shortfalls within individual categories of revenue chart of accounts, e.g., sales tax, use tax, franchise fees, business licenses and permits fees, planning and zoning fees, court fines, etc. Such shortfalls will vary depending upon the particular business mix and product demand mix in each community. For example, small communities that have one or more grocery stores in all likelihood will have strong sales tax collections for grocery stores while at the same time having reduced sales taxes for restaurants as a group. All other revenue account categories may have uncharacteristic shortfalls in the original budgeted estimated revenue.

MA2. The new FY 2020-21 Budget also will have atypical revenue shortfalls but the pattern by quarter may differ significantly with a progression of worst to best moving to the end of the fiscal year. This of course could change as to severity depending on the virus rebounding sometime during the year as well as whether or not there is a steady progression of a return to more normal commerce. The comprehensive nature of the health emergency might well require some level of mitigation and recovery ranging from 24-36 months.

MA3. For most municipal owned and operated utilities, both the last quarter of the FY 2019-

2020 Budget and the entire FY 2020-2021 Budget should have relatively stable revenue collections through fees and charges with the exception of some increase in late payments and non-payments. However, any sign of revenue deterioration in the utilities operations would need mitigation as well.

MA4. For municipalities which experience extensive financial shortfalls and therefore extreme financial stress which are projected over one or more fiscal years, innovative and politically sensitive measures may need to be considered.

### **Mitigation Suggestions:**

MS1. The first steps in budget mitigation are to compare revenue receipts by month and quarter for the previous full budget year to the current fiscal year; then based upon best available local revenue category information, project the last quarter of the current fiscal year forward in this context to the upcoming new fiscal year. Assuming budget shortfalls in the current fiscal year and in the upcoming fiscal year compared to what would be a usual incremental improvement, an overall picture of revenue available as compared to the usual expenditure side of the budget should emerge.

MS2. The next step is to decide what are realistic immediate reductions in operating materials, supplies, and operating capital to bring both the current and next annual budget into balance. A reduction in payroll might also be necessary. Furloughs (maintaining employee benefits although not receiving wages or salary) would be preferred to layoffs. Another option would be a percentage reduction in wages and salary (perhaps with a deferred repayment of such reductions, staged over time as budgets improved in the future). Any reductions in payroll to collective bargaining units in all likelihood would need to be renegotiated with the relevant bargaining agent.

MS3. If the current and/or the upcoming budget are still out of balance relating to the policy choices for minimal service delivery levels, then the unappropriated fund balance (cash reserves) should be evaluated for to what degree, if any, might be allocated to balance the current year and/or the upcoming fiscal year budgets. Generally, best practice is to maintain a minimum cash reserve of 15-20% of the current operating budget. Ideally, the cash reserve will be considerably more than that percentage. Because each day is different and may pose unforeseen service delivery emergencies, generally, the first order of reserve (the 15-20%) would not be used to balance the budget in this situation unless the amount appropriated will be nominal. More typically an amount above the basic reserve level might be used to achieve balances along with available reductions in expenditure levels. CAUTION: the nature of this health emergency is its current unpredictability and whether it will rebound; whether it will recur seasonally in the upcoming fiscal year; what will be the delivery dates for health mitigating therapies for the sick and a vaccine for the well; and, what will be the extended, staged time-frames for economic recovery and at what levels over time. Therefore, an over dependence of balancing by whatever reserves might be available could be problematic for balancing in the future. A local alternative would be to seek a local, draw-down bank loan under the utility public trust for the benefit of the beneficiary at a preferred low interest rate for a term of up to five years and with interest only in the first two years; such a loan might

be rolled over as need in cooperation with the local bank. Any future revenue stimulus to local government from State or Federal sources might off-set any of the above matters for balancing in whole or in part.

MS4. In cities and towns experiencing extreme municipal financial stress, evaluation of treating public safety (protecting property and individuals) as a utility—in whole or in part—might be considered with the rate structure based upon the county property tax assessment formula in some weighted combination of number of people in a household for residential and number of employees at a location for commercial/industrial.

## **Local Recovery**

The Covid-19 pandemic has introduced municipal government to a new kind of disaster—beyond the more familiar (tornado, flood, high winds, wildfires, earthquakes...) As challenging as the more familiar disasters are, their physical responses and economic recovery are often more predictable.

Since the flint, the horse, agriculture, mass production, etc. modern electronic technology has turned the page in overcoming time and space. This pandemic has shown individuals that many things can be done in a different way—from wherever. Zoom, social media, delivery, take-out, school lesson streaming, and drive-thru everything have been all encompassing in daily life—not for days but weeks and months.

### **Recovery Assumptions:**

RA1. While undoubtedly much social and economic activity will begin to resume over the weeks and months of 2020—but the times are changing. Major events change the way people “do business”—for work, for home, and more. The Great Depression, World War II, 9/11, The Great Recession, and now Covid-19.

RA2. Municipal government is responsible for the collective protection of their citizens' and guests' health.

RA3. Local government is capable of meeting community-wide health challenges quickly in cooperation with its partners (State Government, Federal Government, County Government, businesses, many community partners, and other Local governments).

RA4. Local government has a responsibility to point its local businesses to access available recovery grants and loans by working with local banks, businesses, chambers of commerce, and State and Federal Governments

RA5. Local governments communication on recovery matters with its citizens and guests is essential.

RA6. Local governments will further consider the adequacy of the business “mix” of its

economy and will consider alternative businesses strengthening and development strategies which might also be a hedge against other comprehensive health and physical emergencies.

RA7. The economic impact of the Covid-19 pandemic will likely have municipal budget impact for most communities beyond Fiscal Year 2020-2021 and could extend for several fiscal years depending on the particular jurisdiction's economic mix.

### **Recovery Suggestions:**

RS1. Continue to monitor CDC Guidelines for Covid-19 containment. City government should follow best practices for protection of the municipal workforce, including outfitting the workforce or any contact among themselves or the public and identifying protective measures for its citizens and guests along with on-going pandemic status updates.

RS2. Establish or update a Municipal Government web site to facilitate communications with its citizens and guests regarding matters associated with local health measures, the operations of the local economy and the operations of municipal operations. Ideally, the site would provide for as many transactions with citizens and guests electronically if possible. This atypical operating circumstance provides an opportunity for the municipality to evaluate—and if possible—implement new electronic technology measures which not only satisfy current health requirements but might be long lasting improvements into the future.

RS3. Continue to identify, in cooperation with local Chambers of Commerce, the scope and access information for financial aid measures to the impacted local businesses.

RS4. Continue to evaluate, and assist in implementing, how businesses can adapt to the various stages of recovery for the comprehensive health emergency. Through web site communication, review of OMMS resources, and electronic audio/video conferences, these resources can be helpful to understand challenges, needs, and alternatives which may be useful to business activity.

RS5. Document any municipal operations which might be refundable or provide for loans to the municipality due to the extra-ordinary impacts of the health emergency.

RS6. Journal the on-going actions taken. Ideally, also journal what would have needed to be done throughout the extended health emergency and consequential economic impacts for post event analysis and for building a future health emergency action plan for the community. Consider such matters as licensing, building codes, planning codes, and other measures which might be waived, modified, or enhanced to facilitate emergency health measures.

RS7. Consider what areas of community economic slow-down had what kind of impacts to business and how those impacts might have been lessened within health guidelines. Consider the same consideration for municipal operations, including key areas of diminished revenue. Future new business development should consider the likely consequences from a comprehensive health emergency.

RS8. Request a second opinion and/or other budgetary assistance from OMMS or another relevant organization as to budget capacity in the prolonged economic recovery process and develop a financial strategy for 24-36 months which would include the replenishment of any used reserves and/or the repayment or budgeting of any loan payments associated with the health emergency mitigation and recovery.

### **Moving Forward to Recovery:**

As each community plans for recovering its economic and government capacities, Oklahoma Municipal Management Services continues to be available for providing technical assistance through these unique circumstances resulting from a world-wide public health emergency. While this pandemic has been a set-back for a relative brief point-in-time OMMS is committed to improving the well-being of Oklahoma's cities and town as we move forward.

April 20, 2020