Towards Financial Resilience:
Budgeting During COVID-19

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The Journey to Fiscal Recovery

**Respond**
Stem the bleeding

**Stabilize**
Laying the groundwork for stabilizing the local economy

**Transform**
Opportunity to fund new priorities and take your city in new directions
Local Government is in a Perfect Fiscal Storm

Respond

Stabilize

Transform
COVID-19 State Budget Shortfalls Could Be Largest on Record

Total shortfall in each fiscal year, in billions of 2020 dollars

<table>
<thead>
<tr>
<th>2001 Recession</th>
<th>Great Recession</th>
<th>COVID-19*</th>
</tr>
</thead>
<tbody>
<tr>
<td>'02 $60</td>
<td>'09 $130</td>
<td>'20 $110</td>
</tr>
<tr>
<td>'03 $105</td>
<td>'10 $150</td>
<td>'21 $190</td>
</tr>
<tr>
<td>'04 $110</td>
<td>'11 $120</td>
<td></td>
</tr>
<tr>
<td>'05 $60</td>
<td>'12 $60</td>
<td>'22</td>
</tr>
<tr>
<td></td>
<td>'13</td>
<td>$350</td>
</tr>
</tbody>
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* Estimates based on CBPP calculations using Congressional Budget Office and Goldman Sachs unemployment estimates. Does not reflect use of rainy day funds or federal aid already enacted.
Source: CBPP survey of state budget offices (through 2013); CBPP calculations (2020-2022)
What has been hardest for you in navigating the financial uncertainty of this crisis?
FY 2020 is bad. 
FY 2021 will be worse.

No one knows your city as well as you do. You can do this.

1. Less local aid from States 
2. Lower own-source revenues 
3. New spending needs 
4. Higher borrowing costs 
5. Huge uncertainty on duration and depth of crisis
Respond: Immediate Steps

1. Strategic budget cuts using activity-based mindset
2. Forecast based on current assumptions
3. Ask stakeholders what they need
Budget cuts are painful.

Shifting to an activity-based mindset allows you to pause, be more strategic.

1. Across-the-board cuts are simple, but not strategic
2. Departments have their own priorities – which may be different from yours
3. Lay out activities performed in each department
Strategic Cuts:
Traditional Budgeting vs. Activity-Based Budgeting

Traditional Budget is line-item

Traditional Budget
Salaries $371,917
Fringes $118,069
Supplies $74,745
Equipment $25,614

TOTAL $590,345

ABC Budgeting
Adult Education $150,600
ESL $220,789
Kids Programs $145,203
Building upkeep $30,000
Book acquisition $43,753

TOTAL $590,345
Budget FY 2021: Question Everything

Reimagine revenue:
• Base assumptions on micro-samples, not history

Reimagine cost structure:
• Ruthlessly cut overheads
• Systematically review all contracts
• Support underserved communities in new ways

Budget for two scenarios through 2021:

1. What you expect to happen based upon what you see today.

2. What is the worst case that can happen based upon what you see today.

Information will change! Update quarterly.
Given these circumstances, how are you approaching your fiscal planning?
## Stabilize: Proactive Capital Budgeting

<table>
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<tr>
<th>Tell your story</th>
<th>Engage Investors Actively</th>
<th>Shift cash from Wall Street to Main Street</th>
</tr>
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</table>
| • 30-year bonds now 3.5%, may go to 5% when supply goes up  
  • Investor uncertainty driving muni market  
  • Differentiate your projects | • Raise awareness of new bond issues with Chamber of Commerce in advance  
  • Liaise with community banks and investors every quarter | • Ask State Treasurers to seed investment in local community by holding state cash in local banks |
## Transform: New Opportunities

<table>
<thead>
<tr>
<th>Leaner Operating Budget</th>
<th>New Partnerships</th>
<th>Preserve Tax Base for the Future</th>
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</table>
| • Redirect departmental funds to top priorities  
• Opportunities to reduce city rents, use telework, shorten workweek, job shares, environmental benefits | • Regional partnerships established now can be recovery engines  
• Relationships with SMEs, community banks | • Infrastructure projects and relationships with community groups, banks and SMES |
Session Wrap Up & Takeaway
Some benefits that emerged after previous pandemics...

- Indoor Plumbing
- Sewage treatment
- Public Parks
- Public Housing
- Guaranteed healthcare (in many countries)