



## Beyond the Mic with AEM

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### COVID-19 | Budget Considerations for Cities

Hosted by Jean McGann, CPA and Victoria Holthaus, CPA

#### Jean McGann (00:07):

Thank you for joining us today to talk about COVID-19 and the impact on your current 2020 budgets and your future 2021 budget. My name is Jean McGann. I'm president of AEM Financial Solutions and also a partner with Abdo, Eick & Myers. With me today is Vicki Holthaus and Vicki is also within AEM Financial Solutions and also a partner at Abdo, Eick & Myers.

So today we're going to focus in on the impacts on your 2020 budget and your 2021 budget - really focusing in primarily on cities. To share a little bit of history about Vicki and myself: Vicki and I have been working on the operations side of government for quite a few years. Sometimes I hate to say how many years - for myself, I'm not speaking for Vicki at all! However, we work with cities as well as counties. Whether it's in a consulting aspect or, you know, just looking at overall process improvements on the operational side of things.

So, you know, one of our concerns is that we just want to make certain that we can share as much information as possible in regard to what cities can do to react and plan for COVID-19.

#### Victoria Holthaus (01:30):

Yeah! Hello Jean and hello everyone that's listening in on this call today. We're happy to have you here with us. We recognize that everything with regard to COVID-19 is moving so fast. And so we really look forward to this opportunity today to just talk with you about some of the very same strategies that we've been using and talking about with our clients to just adapt to the ever-changing conditions and just ensure that they have some tracking mechanisms in play for when it comes to tracking the COVID-19 related costs and are really feeling like they're starting to get a pulse from a revenue standpoint on some of the various impacts on both this year's budget and financial performance as well as, you know, we're coming into summer here and starting to think about the 2021 budget. So we can really start to get a pulse on, on what this next budget planning season is going to look like.

I was going to start with some of the immediate impacts that folks are talking about and preparing for. So in the short term, as everyone is aware, experiencing office and facility closures. Those closures are leaving us with some short term revenue losses, but we still have fixed costs that we're needing to pay even though those facilities aren't up and operating amidst those shortfalls. So some of the immediate recommendations that we've been making to clients is to utilize project accounting to really start tracking those costs and capturing that information in the event there is some future reimbursement that's available. Additionally, we are working with clients to calculate what some of those short term revenue impacts are. In a moment, we'll talk more in depth about examples of revenue losses - things like revenue losses from recreational programs being canceled, different city facilities being closed, less building permits than we would typically be seeing just as we're starting off a construction season.

On the expense side of things, of course, we're also experiencing increased costs with emergency response to the pandemic. We're having increased public safety costs as we're staffing duty crews at facilities to try and limit the amount of exposure amongst our staff and avoid scenarios where we're having different levels of management being exposed at the same time and to ensure coverage and continuity of service as much as possible. So we've got some increased payroll costs as we're looking to staff our emergency operations. And then of course PPE, Personal Protective Equipment, whether it's in our public safety departments as well as public works and their emergency responsibility and our building departments and inspection services to ensure that employees are safe as they can be as they're ensuring continuity of service and keeping the operations going throughout this time.

**Victoria Holthaus** (continued):

Other more immediate costs that we've been seeing of course are with information technology as we look to shift city operations to being performed in more of a remote work scenario. We've got additional laptops being commissioned to staff. We've got additional cell phones being assigned out to staff so just try and keep up with city services as much as possible in that remote work environment. And then of course we're starting to consider the possibility of staffing shortages if we do have some folks being out for illness and what that's going to look like.

**Jean McGann** (05:20):

So Vicki, earlier you mentioned really taking a look at how you're tracking all these additional expenses, whether it be for payroll or whether it's just regular operational expenses. I just wanted to take a moment to expand on that. Many cities and counties will use project accounting to track different expenses and since there is a potential, nothing is for certain yet, but there is a potential that there could be a reimbursement from FEMA. I think it's really important that all of our cities and counties either set up a separate project if they, you know, can do project accounting within their financial system or if they have a different department that they truly try to start tracking all of these different types of expenses up front. Within your payroll system, you can also set up a different pay code or different pay type so that employees can track their time if there are additional costs related to COVID-19. This will make it much easier if there is a potential reimbursement to be able to submit reports in order to apply for these potential reimbursements. And it also provides an opportunity for the city and the city council to know exactly what COVID-19 is costing the city.

So in addition to tracking the COVID-19 additional payroll costs and operational costs, we really need to be taking a look at what will the coronavirus have or, you know, how does that impact our current 2020 budget. Because of all the various shutdowns that we've had, there are some big potential impacts to your 2020 budget. As we're working with our clients, we're really having them take a look at the different recreation programs, whether it be a community center or just upcoming recreation program events. Potentially, if this goes further out into the summer, it could have an impact on your outdoor, you know, recreational type things such as your swimming pool. We don't know whether this will have a huge impact on your building department revenue. However, it would be good to also take a look at that and see where you're at with that as well as other fees.

As you are looking at revenue for recreation, building, other fees, those types of things, it would be a valuable exercise to take a look at the last three to five years so you can look at what has the trend been for revenues over these years. By doing this, you're gonna be able to provide a very, very good estimate as to what the impact for 2020 will be. So most cities as they're looking at this are really looking at revenue impacts for the next two to six months. Each city is taking a different tactic on this. However, it would be good to do several estimates so that you'll have the ability to gauge what the overall impact will be if this does go out longer than what we anticipate.

**Victoria Holthaus** (08:33):

So we're starting to speculate on some of the more mid-range types of impacts. And I think some of those anticipated impacts are both economic, of course, and relate to expectations for future property tax collections. So, what are your thoughts on that, Jean? What are some of the things that you think our city clients will need to consider with some more of the mid-range impacts of COVID-19?

**Jean McGann** (09:03):

As we continue to look out further, some of the considerations that I think you need to look at is - will there be additional property tax delinquencies? Will there be an inability to pay? Now, this could potentially be very far reaching, but we do want to figure out all of the various economic conditions and factors that could be out there. There could also be an increase in your delinquent utility payments. Now, as we look at this, there are many cities that have decided that for this next billing - and potentially for a few billings after that - that they are not going to be charging penalties - really, to try to help the community and as both residential and commercial businesses try to keep up. However, as you get towards the end of the year, you may see an increase in the delinquent utilities itself. There could be some decrease in additional, you know, licensing fees due to all of the hospitality areas that are currently shut down - your bars, your restaurants. We're hoping that the economy will pick up and everything will be able to reopen. However, there is absolutely the potential that it may not be feasible for some of these places to reopen.

**Jean McGann** (continued):

Now another area to consider, and of course we don't know what economic impact there will be on this, however, we could see a decrease in market valuation of both your commercial/industrial and residential areas. A lot of this depends on how quickly we're able to come out of this economic decline and so at this point, as I say, only time will tell. And one of the last areas I wanted to mention that you'll want to take a look at is many communities do have a local sales tax revenue that is coming into the city. And given that people are doing the shelter in place, there's not a lot of people out and about, there could be a significant decline in the amount of sales tax revenue that local communities will see.

**Victoria Holthaus** (11:08):

So some of the other areas that clients are starting to speculate about with regard to some of the economic impacts of COVID-19 are with regard to the lower fuel prices and folks commuting less, buying less fuel in general. There's some concern about less aid being available in the municipal state aid for streets pool. So there's the possibility that that could affect some of the future payments coming from that funding source. As well as there's certainly some talk about whether or not we will see unallotment or delay in local government aid payments similar to some of the unallotment that we saw in the early 2000s.

**Jean McGann** (12:00):

Now, the one thing to mention though is that we have not heard any actual actions or motions being taken on anything dealing with local government aid or municipal state aid. At this point, it's just truly speculation and so we certainly don't want to give anybody the impression that something like this could happen. It's just areas to take under consideration. So another area that needs to be considered as we are going through COVID-19 is deferred maintenance. Vicki, could you speak to this for us?

**Victoria Holthaus** (12:33):

Yeah, I sure can. Um, you know, right now we see a lot of public works departments and just general city facility management, operating on skeleton crews really just to protect the health and safety of staff. And they're responding more so on an emergency basis and only to the more critical functions.

So something that we've really started to talk about is how that spills into deferred maintenance on different things and the deferred maintenance issues that can and will arise as a result of this. With regard to general building maintenance, we've got, you know, recreation facilities and structures, park equipment maintenance, city fleet maintenance, vehicles and other equipment. No doubt about it, we want to ensure that we're maintaining public safety equipment and it's operating at its peak performance during this time. But by and large, we're likely seeing delays in maintenance of some of the other fleet items and that will result in a lot of additional work once we are back up into regular staffing modes. But really that catch-up period could be delayed because a lot of cities are using full and part-time staff that would otherwise be doing some of the work of part-time and seasonal staff over the course of the summer as a strategy to mitigate costs. And that's certainly going to delay any catch-up period or any catch-up that we would have with regards to deferred maintenance on city vehicles and city equipment and city facilities.

So we've talked a lot about all of the different impacts of COVID-19, both from an immediate expenditure standpoint as well as some of the projected revenue losses that we're seeing. Jean, what are you seeing as strategies that cities are employing to try and mitigate some of those additional costs?

**Jean McGann** (14:36):

Well, Vicki, you know, the strategies really do vary from city to city, but we have really been seeing some consistent trends into areas that cities are considering to make certain that they are able to mitigate some of these additional costs they are experiencing. Some cities are still maintaining a high reserve balance or they have some capital funds that they're redirecting in order to pay for the additional costs they're incurring. Another area is really reviewing and taking a look at your capital improvement program or your long-term plan and determining if there are some capital acquisitions that can be delayed to a different year. And as we look at our overall city facilities, because they're closed, there are going to be utility savings there so that that's just kind of a given with city halls being either closed to the public or being closed to the public and having employees work remotely. So there will be reduced utility costs there.

**Jean McGann** (continued):

Many cities are taking a look at the number of contractors and the type of contractors that they do have and they're utilizing the full time employees that they have in order to take care of some of those contractual costs. Since they're cutting back on other service areas, the city staff would then have the potential time to take on some of the contractor work. Also, as we're looking at the overall economy, our gas prices have really been reduced over the past month or so. And so between the lower fuel prices and having less vehicles out on the road, the fuel costs are going to be reduced as well. And kind of stating the obvious, but no one is traveling right now. And so any of the training courses will either be done virtually and so we won't have a lot of the additional training and travel costs that are involved, as well.

When looking at, you know, payroll considerations, there's a lot of different options to look at there. Many cities are holding off on their hiring process for non-essential employees. And another way that they're looking at trying to hold costs or reduce costs are some of them have decided not to hire seasonal employees this year and they will have their full time staff go ahead and pick up what the seasonal staff would normally do. And you know, something that some cities or many cities don't step back and look at is if the city determines it's in the best interest to either lay off or furlough some employees, there is going to be an additional cost there as well. Unemployment tax, Vicki, as you know, is treated much differently for a government entity when you compare it to a private entity. And so cities do need to take into consideration what that additional unemployment cost is going to take for the city.

**Victoria Holthaus** (18:01):

Yeah. Because Jean, when the city is calculating the potential savings from furloughs or layoffs I think really what you're saying is they need to factor in the amount of unemployment that they will need to pay as a part of that analysis. Is that correct?

**Jean McGann** (18:19):

Yes, that's absolutely what I'm saying. And that is an area that many times it's just overlooked. Especially when you look at private sector compared to government sector, the calculations are so much different.

**Victoria Holthaus** (18:35):

Great. That's incredibly helpful information to have. Jean, as we wrap up here, I want to transition a bit and share some closing thoughts with regard to financial processes and internal controls as we start to shift to more remote work environments. I think it's helpful for folks to know that as they're shifting to more of a remote working environment for their city hall staff and specifically for their finance staff, it's really important to consider what internal control adjustments are going to be made or what internal controls are going to need to be in place to mitigate risks. You know, making sure that you still have the proper checks and balances, ensuring that, wherever possible, you have review on critical functions. And Jean, what else would you add to that?

**Jean McGann** (19:25):

You know, to really be specific I think that your purchasing policies really need to be reviewed because if there needs to be a deviation either because of remote work or because of an essential employee not being able to approve a specific areas. I also think one very specific example is if a city currently has a one electronic signature and one manual signature on checks that are going out. Well, we just need to make certain that as we go through all changes in process that the city council is approving all of these actions so they're aware as to what's going on.

And also one thing I wanted to mention is that on an upcoming podcast we are going to have some talks with a couple of our government auditors in regard to the single audits as it relates to potential FEMA reimbursements. And they're also going to touch a little bit deeper on all of the internal controls and policies that you should be reviewing.

**Victoria Holthaus** (20:39):

We hope that all of the information that we've shared with you today is valuable to you and is information that you can use in your planning purposes. If at any time you have any questions, please do feel free to reach out to Jean McGann or myself. We're happy to share any insights that we may have with you as you work with your city councils and staff through this next budget season.

**Jean McGann** (21:03):

And with that, we just really want to thank you for joining us today and we hope that you can join us for our next podcast which will focus in on the single audits and internal controls.

**Victoria Holthaus** (21:16):

Yes, thanks everyone. Thanks for joining us for the podcast and stay well.

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