

BUDGETING IN THE PANDEMIC

A Seminar on Forecasting and Budgeting
Strategies for Fiscal Year 2021



UNC
SCHOOL OF GOVERNMENT



NCLG

Welcome

Overview of Survey Results

- NCLM & NCLGBA Survey from April 2020

Hear from Practitioners

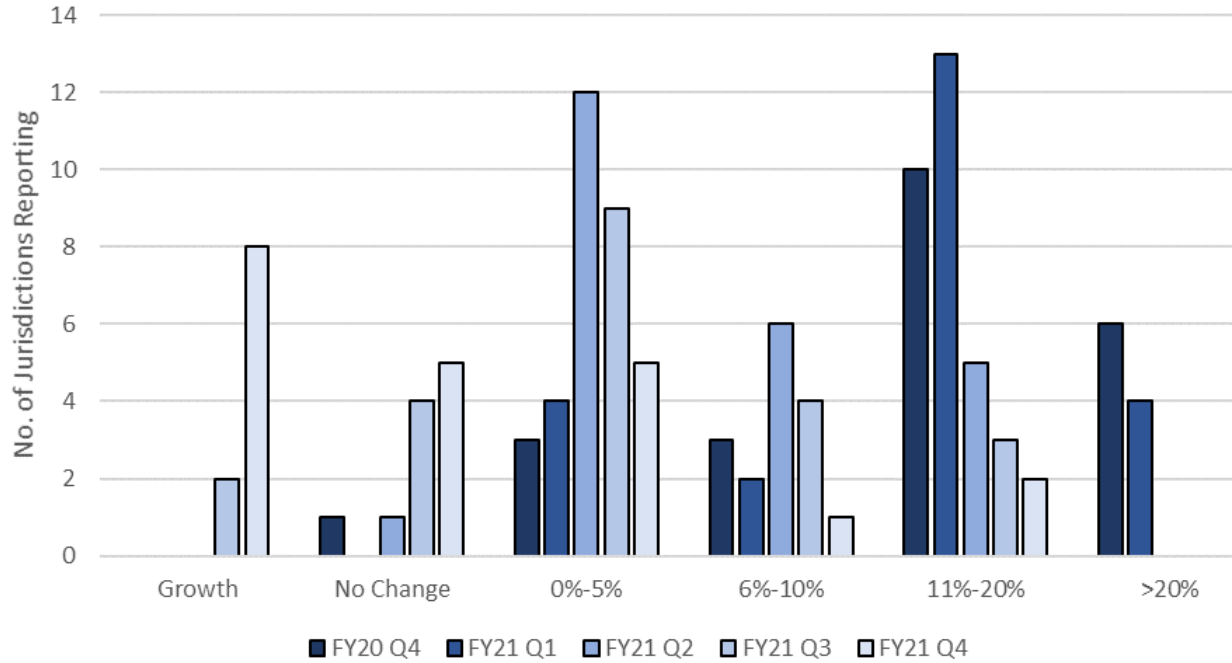
- Brief background on their communities
- Revenue projection discussion
- Expenditure adjustments

Questions

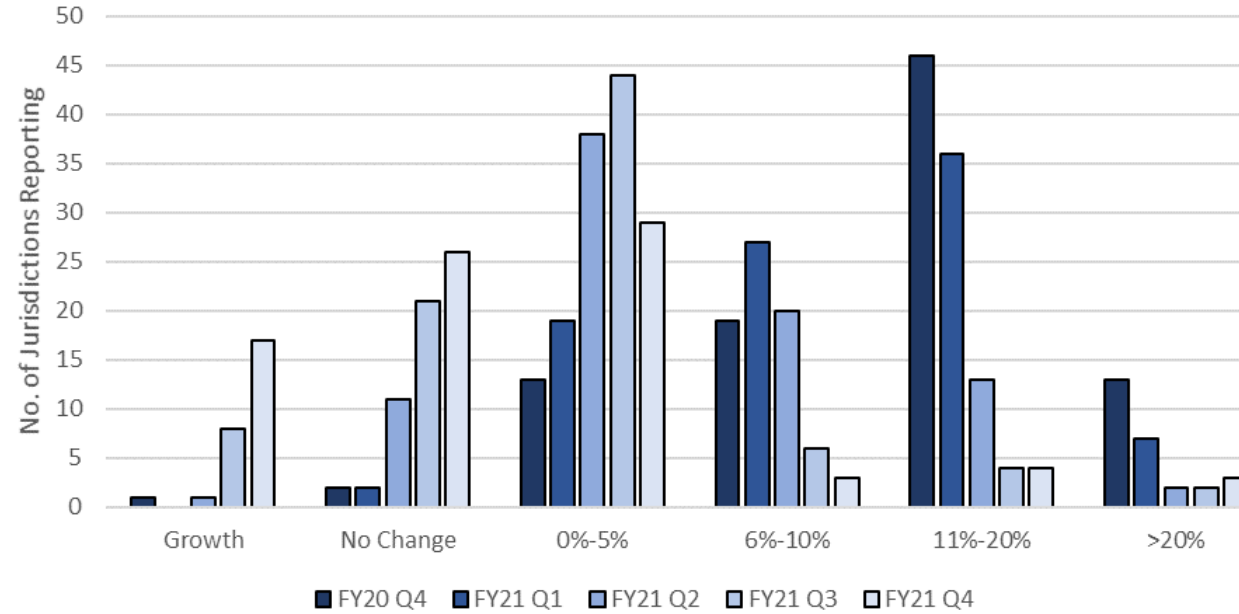
Additional resources



Expected Reduction in Sales Tax Revenue by Quarter: County



Expected Reduction in Sales Tax Revenue by Quarter: Municipal



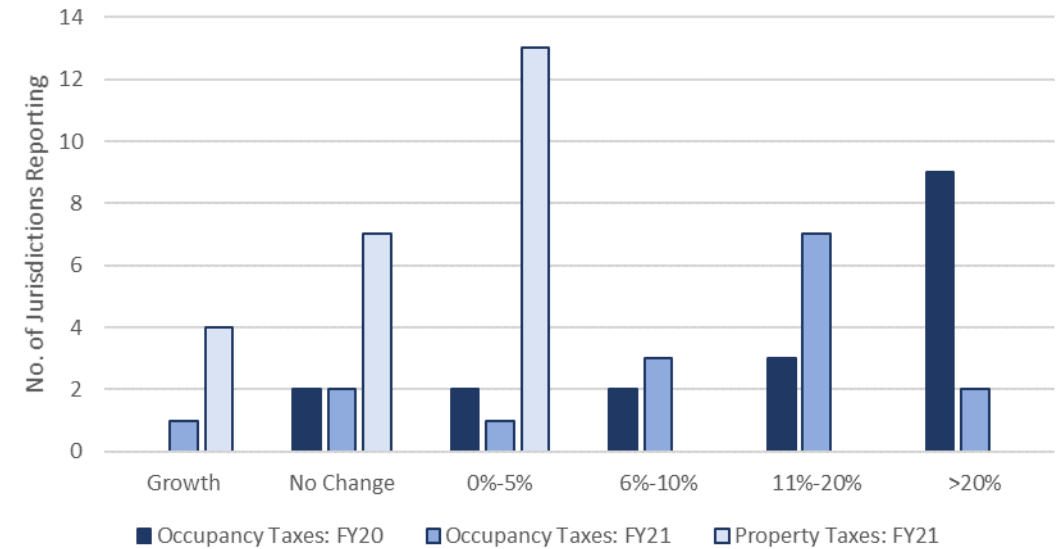
Survey: Sales Taxes

- Sales taxes are expected to decrease throughout the next fiscal year, but most anticipate it being minor by Q2

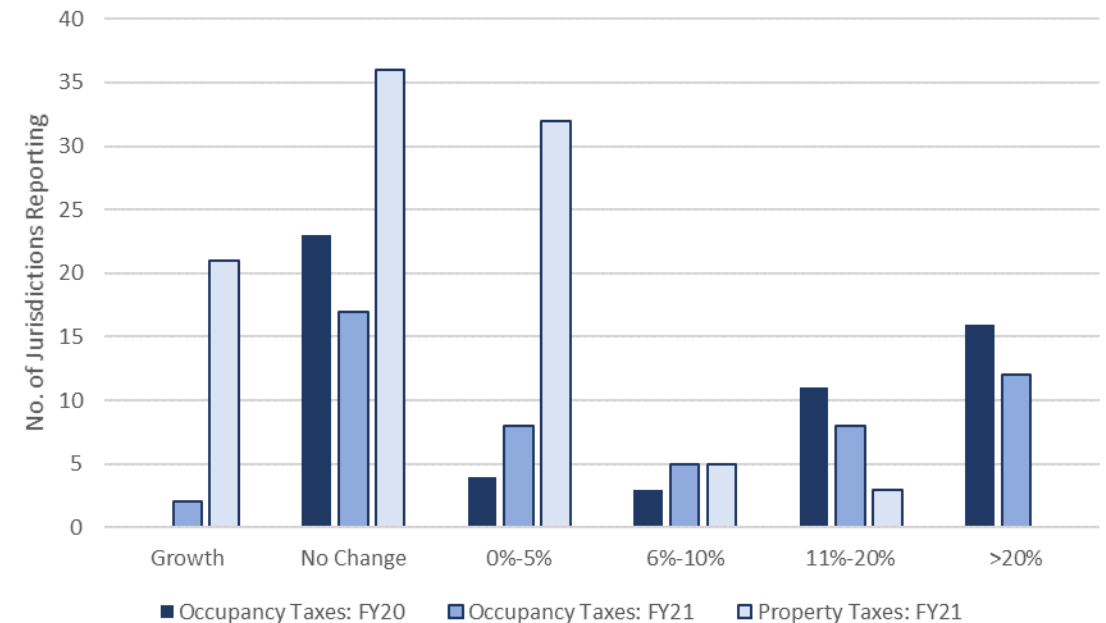
Survey: Occupancy & Property Taxes

- Occupancy taxes are expected to decline next FY
- Minor impacts on property taxes
 - *Reduced collection rates?*

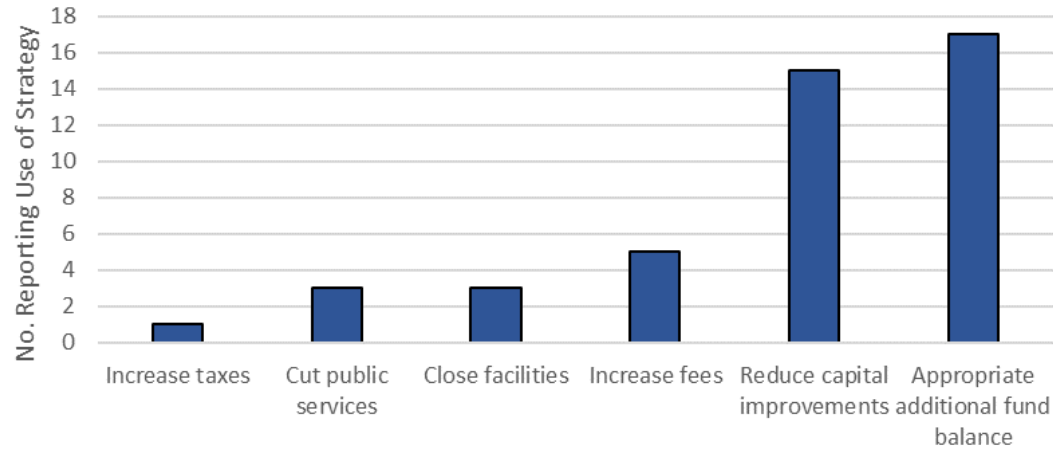
Expected Reductions in Other Tax Revenues: County



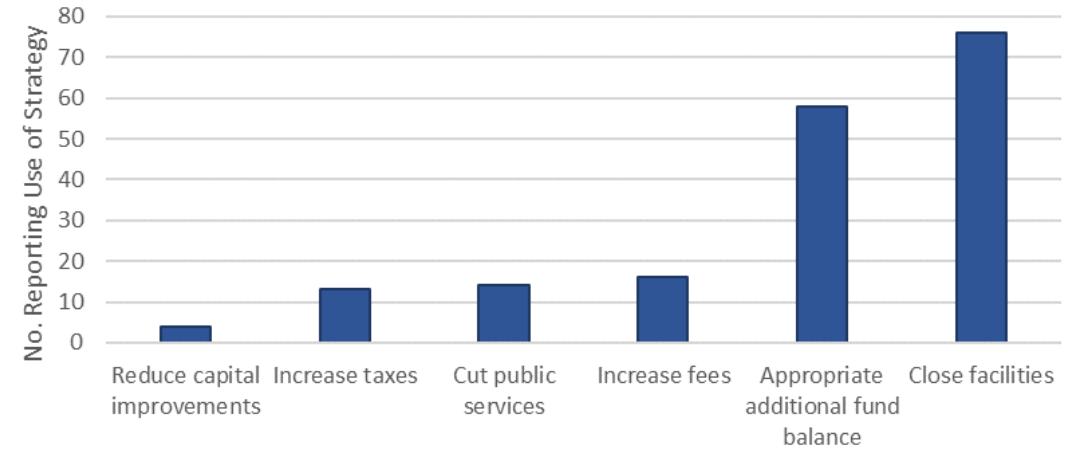
Expected Reductions in Other Tax Revenues: Municipal



Strategies to Balance the Budget in Response to Projected Revenue Shortfall: Counties



Strategies to Balance the Budget in Response to Projected Revenue Shortfall: Municipalities

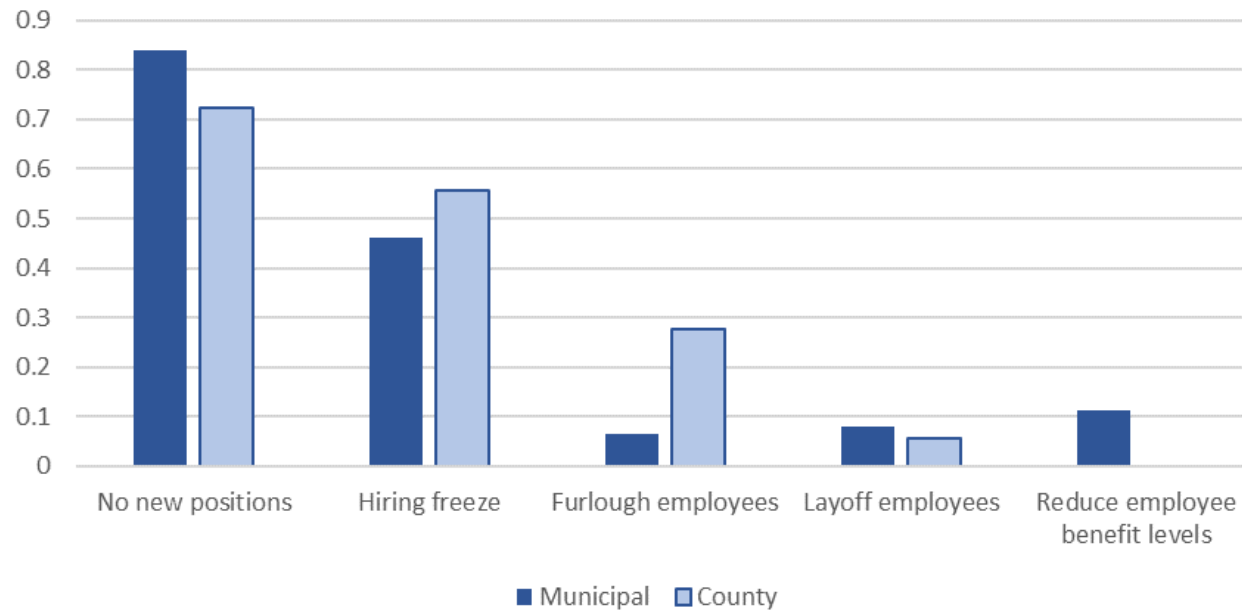


Survey: Budget Balancing Tactics

- Most common strategy: Fund balance
 - *Munis: Close facilities and increase fees*
 - *Counties: Reduce capital and increase fees*

SURVEY: STAFFING

Percentage of Jurisdictions Utilizing Staffing Strategies in Response to Projected Revenue Shortfalls





PANEL OF EXPERTS





Brian Barnett
Deputy County Manager
Pitt County



Teresa Fulk
Assistant Town Manager
Town of Newport



Rodney Harris
Deputy County Manager
Cabarrus County



Stephen Hawryluk
Deputy Budget Director
City of Winston-Salem



Kenneth Hunter
Budget/Evaluation Manager
City of Rocky Mount



Tony McDowell
Assistant Finance Director
City of Asheville

Our Panel

- Each will take between 7-to-10 minutes to discuss budgeting for FY2021 in their jurisdiction
- Please send questions through Q&A
 - *We'll answer as many questions as possible*
 - *The answers will be held until the end*

TOWN OF NEWPORT

Teresa T. Fulk
Assistant Town Manager & Finance Director

Town of Newport

- Economic Overview

- *Tourism drives our economy, with a small amount of manufacturing*
- *April – September is typically when our economy thrives*
- *Revenue sources we depend on:*
 - Ad Valorem Tax 47.5%
 - Sales Tax 21.0%
 - Ambulance Transport Fees 23.0% of Fire/EMS Department budget

Town of Newport

- What revenues do you forecast being impacted?
 - *Revenue projections:*
 - Sales Tax -25%
 - MOTV Tax -15%
 - Ambulance Transport Fees -10%
- How did you forecast them?
 - *Method*
 - NCLM revenue projections, look back to the Great Recession, and our best guess
 - *Time period being impacted*
 - 1st quarter FY21 – expecting significant cash flow reduction
 - Entire FY21 will be impacted by this rapid plunge into recession

Town of Newport

Forecasted shortfall

- *Sales Tax ~\$137,500 (\$31,110 = 1 cent on tax rate)*
- *MOTV Tax ~\$37,500*
- *Together this equates to the loss of ~5.6 cents tax revenue*

Budget balancing strategies

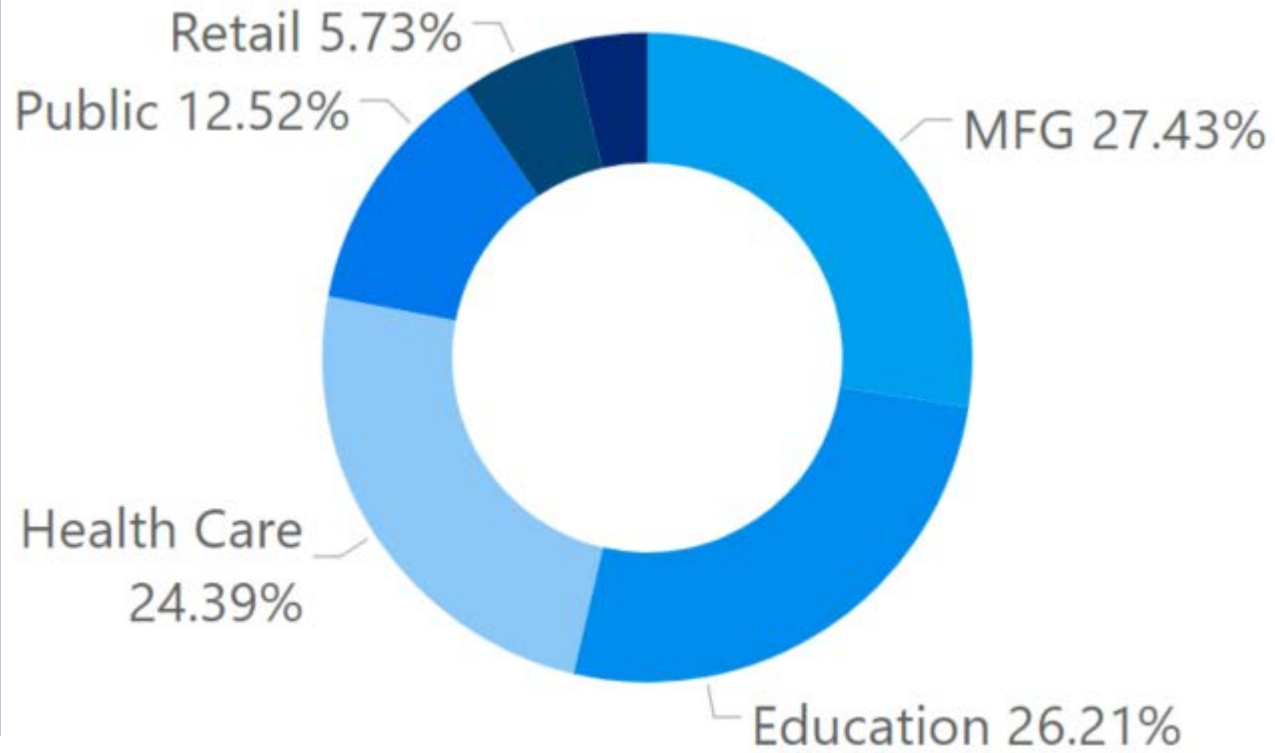
- *Reserves (fund balance) – appropriate fund balance*
- *Capital/infrastructure – delay projects and large purchases*
- *Departments – further tighten controls on spending*

CABARRUS COUNTY

Rodney Harris
Deputy County Manager

~Population

211K

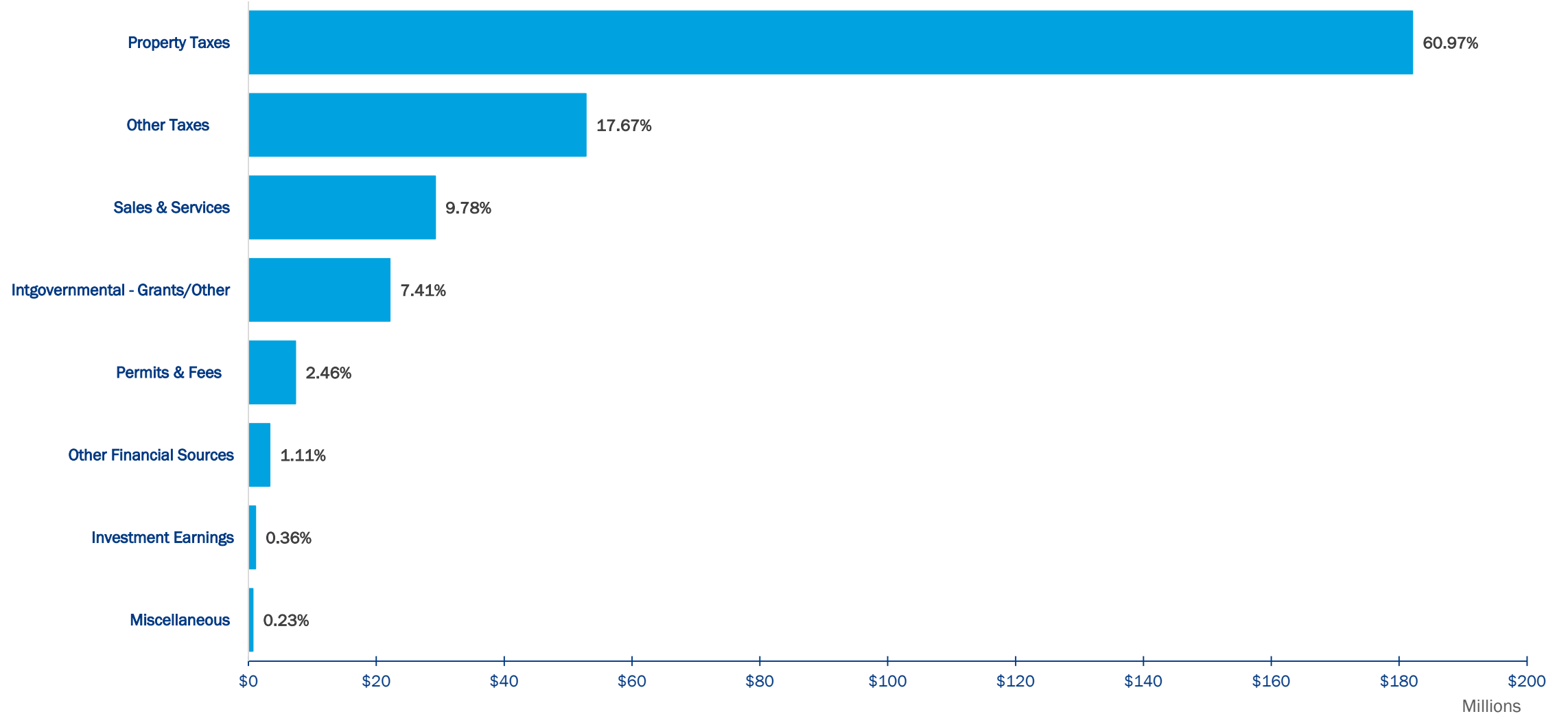


TOP-10 PRINCIPAL EMPLOYERS BY SECTOR

Data based upon FY2019 CAFR.

MFG – Manufacturing

Sources of Revenue



REVENUE – AREAS OF CONCERN

What revenues do you forecast being impacted?

- **Sales Tax**
- **Property Tax**
- **Investment Earnings**

Forecasting Method?

- **Sales Tax**
 - 20% reduction for FY2021
 - 50% reduction in Sales Tax for FY20
 - Utilizing consumer GPS data to inform estimates
- **Property Tax**
 - Recession level collection rate for FY2021
 - Reduced new vehicle sales = reduced revenue
- **Investment Earnings**
 - Reduced due to lower interest rates

EXPENSES – BALANCE BUDGET STRATEGIES

Growth Revenue

- Estimated revenue loss of \$15 million for FY2021; primarily sales tax.
- Revaluation addresses majority of shortfall at current tax rate

PAYGO Adjustment

- Shifted capital expenses from general to capital fund

Status Quo

- No expansion of programs

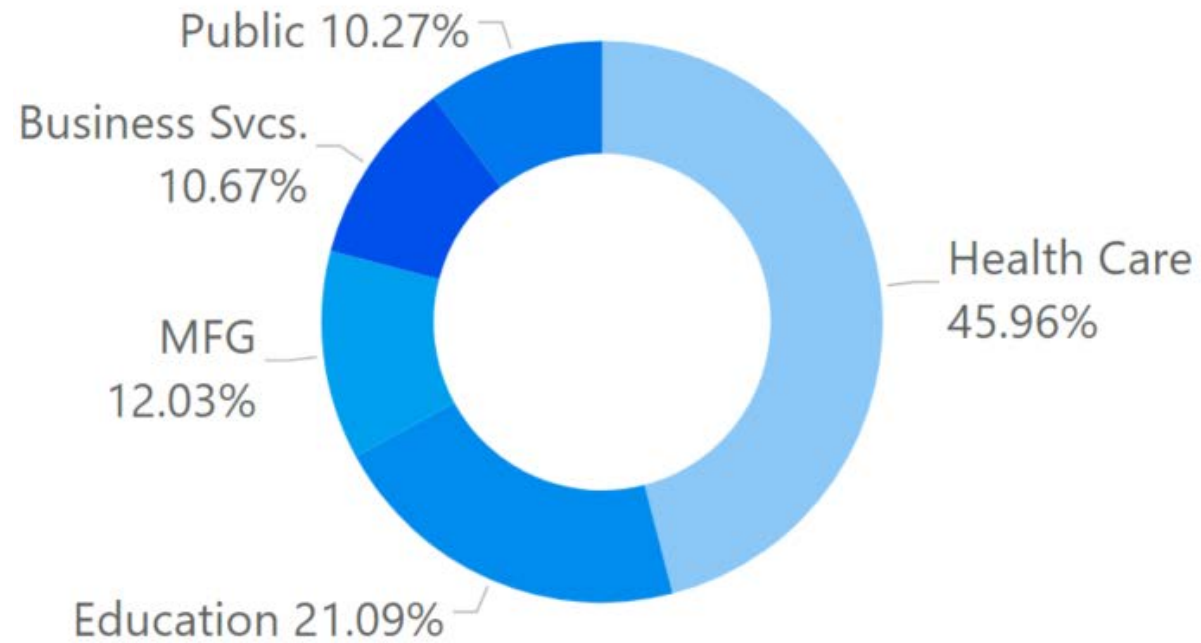
Hiring Freeze

- Delay new position until January 2021

CITY OF WINSTON-SALEM

Stephen Hawryluk
Deputy Budget and Evaluation Director

~Population
241K



TOP-10 PRINCIPAL EMPLOYERS BY SECTOR

Data based upon FY2019 CAFR.

MFG – Manufacturing

City of Winston- Salem

- Economic Overview
 - Health care, technology/innovation (Wake Forest Innovation Quarter), financial services, manufacturing
 - Downtown development
 - Impact of BB&T/Sun Trust merger?
 - Major General Fund Revenue Sources for FY 2020-21
 - Property Tax: \$111,484,120 (52.1%)
 - Sales Tax: \$34,990,090 (16.4%)
 - Intergovernmental: \$31,813,270 (14.9%)

City of Winston-Salem

- Major Revenues Impacted by COVID-19
 - Property Tax: +\$1.2 million (budget-to-budget)
 - Estimated tax base growth 0.64%
 - Filing of business personal property extended
 - Reduced \$1.4 million from early forecast to proposed budget
 - Building Inspections Revenue: -\$375K (budget-to-budget) (-9.7%)
 - Total budget \$3.5 million
 - Updated forecast provided by departmental staff

City of Winston-Salem

- Major Revenues Impacted by COVID-19
 - Sales Tax: -\$4.4 million (budget-to-budget) (-11.1%)
 - Hyper-conservative projections
 - Forecast year-over-year, by sales month
 - Reduced \$7.1 million from early forecast to proposed budget
 - Q4 FY 20: -20%
 - Q1 FY 21: -20%
 - Q2 FY 21: -10%
 - Q3 FY 21: -5%
 - Q4 FY 21: no growth

City of Winston- Salem

Major Revenues Impacted by COVID-19

- Other major revenues (ABC Allocation, Motor Vehicle Privilege Tax, Beer and Wine)
 - Assumptions to mimic reduction seen during Great Recession
 - ABC: -8.75%
 - MVPT: -3.42%
 - Beer/Wine: -3.21%

All revenue assumptions through end of FY 2020-21

Staff will monitor revenues throughout fiscal year

City of Winston- Salem

- Initial general fund forecast estimated a gap of \$2.7 million
- Factoring in COVID-19, general fund gap increased to \$12.7 million
- Budget balancing strategies
 - Increased use of reserves (+\$3.4 million)
 - One-time economic development proceeds (+\$4.0 million)
 - No merit, public safety supplement, or increase to minimum hourly
 - Freeze/eliminate vacant positions
 - Department budgets left fairly intact

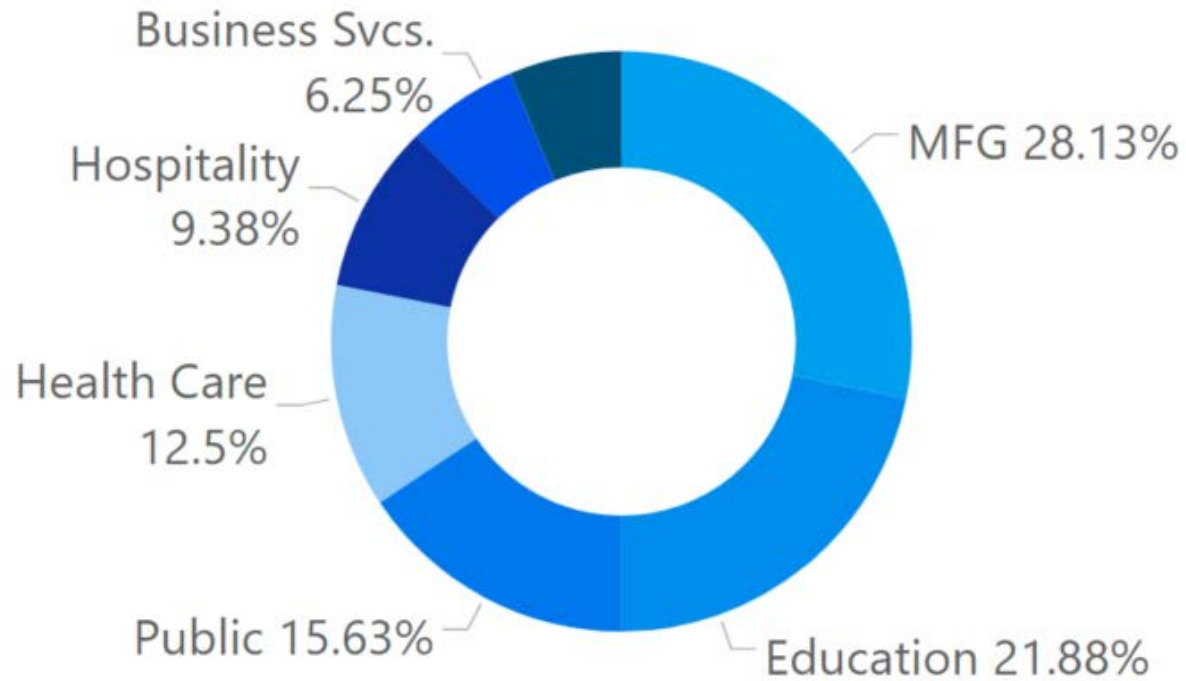
CITY OF ASHEVILLE

Tony McDowell

Assistant Finance Director Budget & Forecasting

~Population

92K



TOP-10 PRINCIPAL EMPLOYERS BY SECTOR

Data based upon FY2019 CAFR.

MFG – Manufacturing

City of Asheville

- Economic Overview
 - *Heavily reliant on tourism*
 - *Regional center for western North Carolina for shopping, medical, etc.*
 - *Anticipating major impact on sales taxes*
 - *Property taxes (50%), sales taxes (21%) and state utility taxes (7%) make up almost 80% of our General Fund revenue*

City of Asheville

What revenues do you forecast being impacted?

- Sales taxes down 20% for remainder of FY20 and flat for FY21
- Investment Earnings down
- No revenue from closed facilities (Civic Center, Rec Centers, etc.)
- Development revenues down
- Fare free transit and parking
- ABC store revenue down
- Lower property tax collection rate

How did you forecast them?

- League of Municipalities Estimates
- Parking consultants
- Assume some revenue impacts will extend well into FY21

City of Asheville

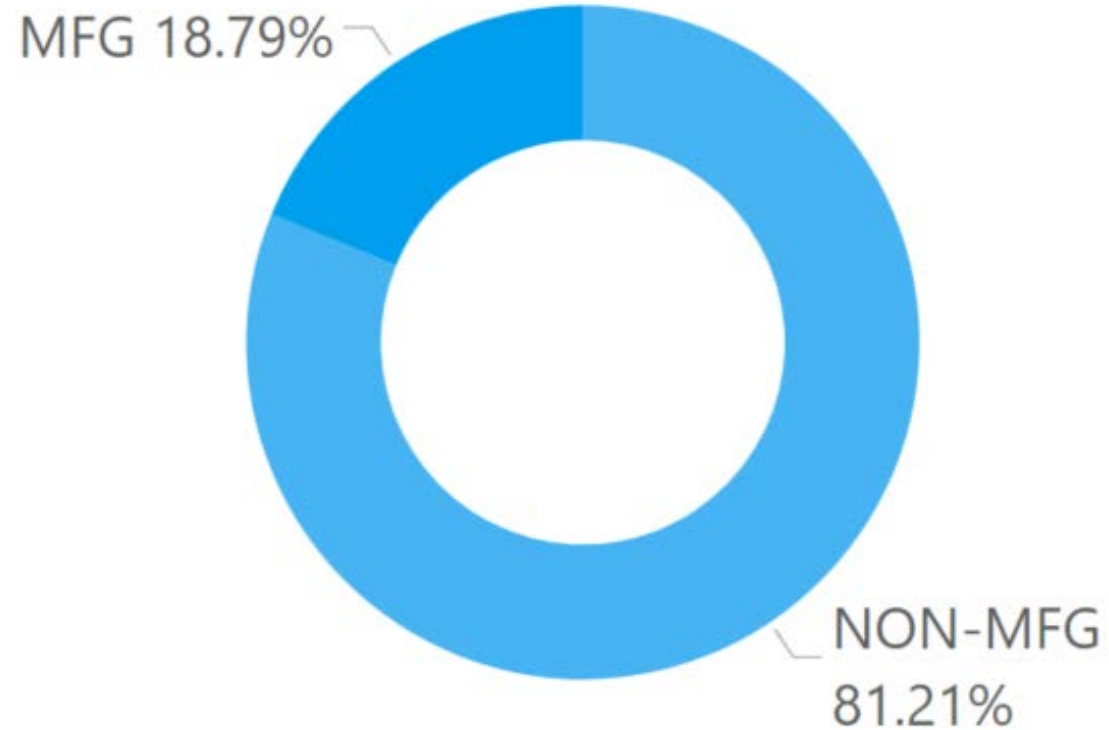
- Overall, anticipating General Fund expenses will exceed revenues by \$2.5M - \$5.0M (total budget of \$132M) in current year
- Budget balancing strategies for FY21
 - *Budgeting approximately \$1.5M in fund balance*
 - *No employee salary adjustments*
 - *Hiring freeze through at least December 2020*
 - *Hold departmental operating budgets flat*
 - *No service enhancements or additions*

PITT COUNTY

Brian Barnett

Deputy County Manager – Chief Financial Officer

~Population
178K



PRINCIPAL EMPLOYERS BY SECTOR

Data based upon FY2019 CAFR.

MFG – Manufacturing

Pre-COVID-19 Positive Trends

Comfortable Growth in Major Revenues since 2015.

Very Little “Hangover” from Recession

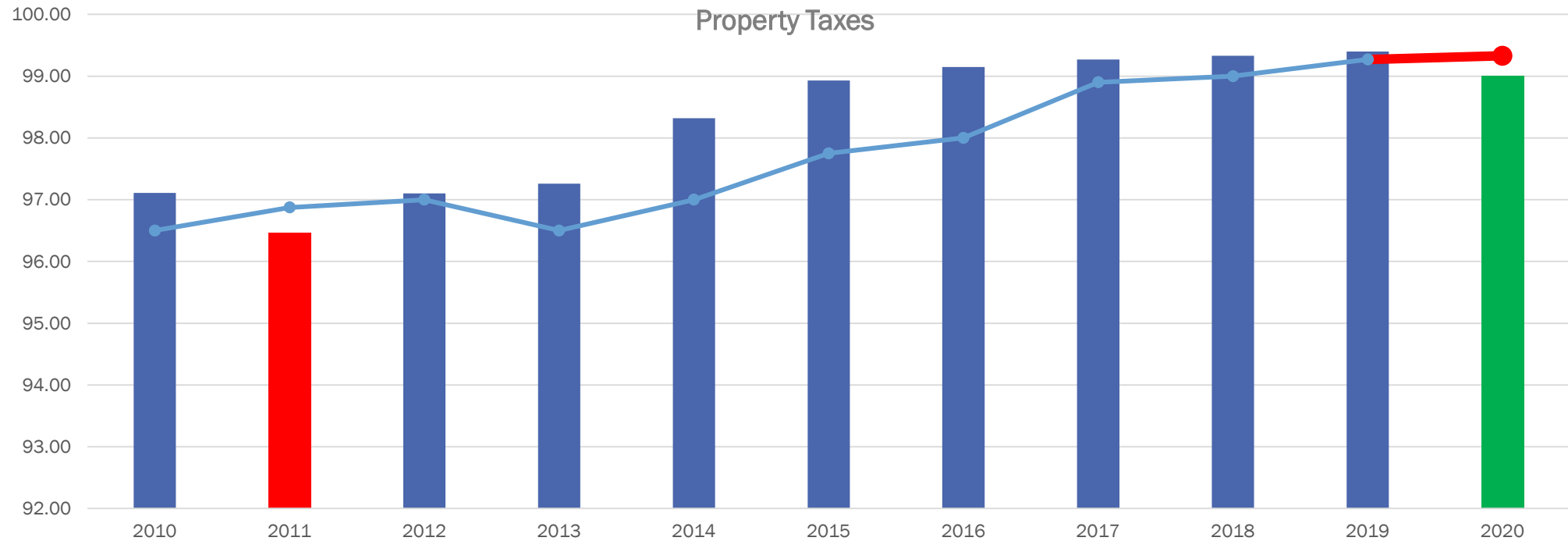
2020 Reappraisal Produced a 12.50% Increase in Property Valuation

Finally Able to Fund Several Non-School Debt Capital Projects

Looking Forward to Deliberating How to Fund Deferred Expenses

Planning to Create a “New Base” Budget

COVID-19 Areas of Concern – FY 2020



- Not Meeting the Budgeted Property Tax Collection Rate
 - Budget – 99.40%
 - Projection – 99.00%

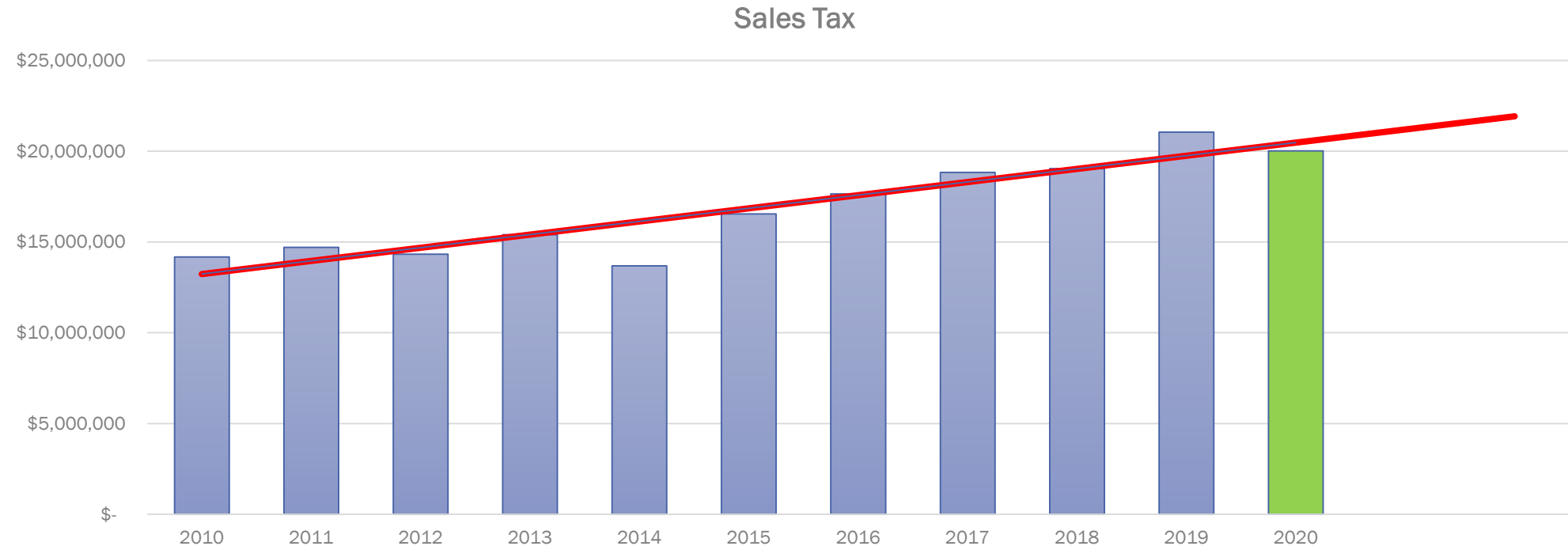
COVID-19 Areas of Concern – FY 2020



■ Not Meeting the Budgeted Property Tax Collection Rate

- *Budget* – \$93,445,541
- *Projection* – \$92,511,086
- *Loss* of \$934,556

COVID-19 Areas of Concern – FY 2020



■ Reduction in Sales Tax Revenue

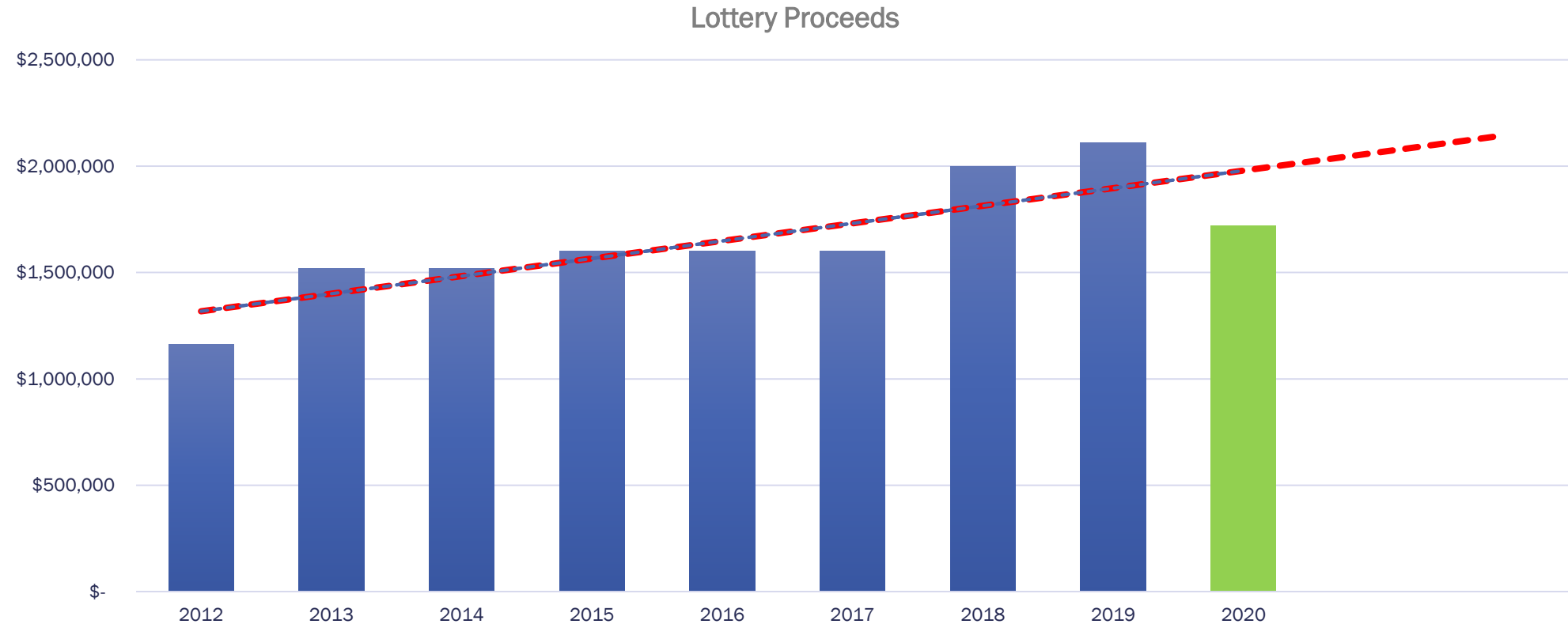
- *5% Reduction from Projected Actual ($\approx 1.8M$)*
- *25% Reduction in April Revenue*
- *30% Reduction in May & June Revenue*

COVID-19 Areas of Concern – FY 2020



- Reduction in Investment Earning Revenue
- 11.13% Projected Loss in Revenue

COVID-19 Areas of Concern – FY 2020



- Reduction in NC Education Lottery Revenue
- 18% Projected Loss in Revenue

COVID-19 Areas of Concern – FY 2021

- What revenues do you forecast being impacted?
 - *Property Tax – Revenue Neutral Tax Rate; Reduced Collection Percentage Below Statutory Limit. Instead of 99.40% Collection Rate, Going with 98.50%*
 - *Sales & Use Tax – 1st Quarter Losses Equal to 1/12 of Annual Amount; 16% Loss Compared to Pre-COVID Projection*
 - *Lottery Proceeds – 18% Reduction*

- How did you forecast them?
 - *Historical Trends*
 - *Reduce 1st Quarter Revenues*
 - *Minor Revenues Unchanged*

COVID-19 Areas of Concern – FY 2021

Expenses Impacted by COVID-19?

- *Personnel – New positions with outside County funding; Retirement cost increase; no COLA expenses; budgeting merit, but not implementing until more data is available*
- *Travel – Certification related travel; mandated travel*
- *Health Insurance – No changes (such a blessing)*
- *Capital – Deferred to next year*
- *School Capital – Utilizing reserves*
- *Basically all non-personnel expenses back to 2020 levels*

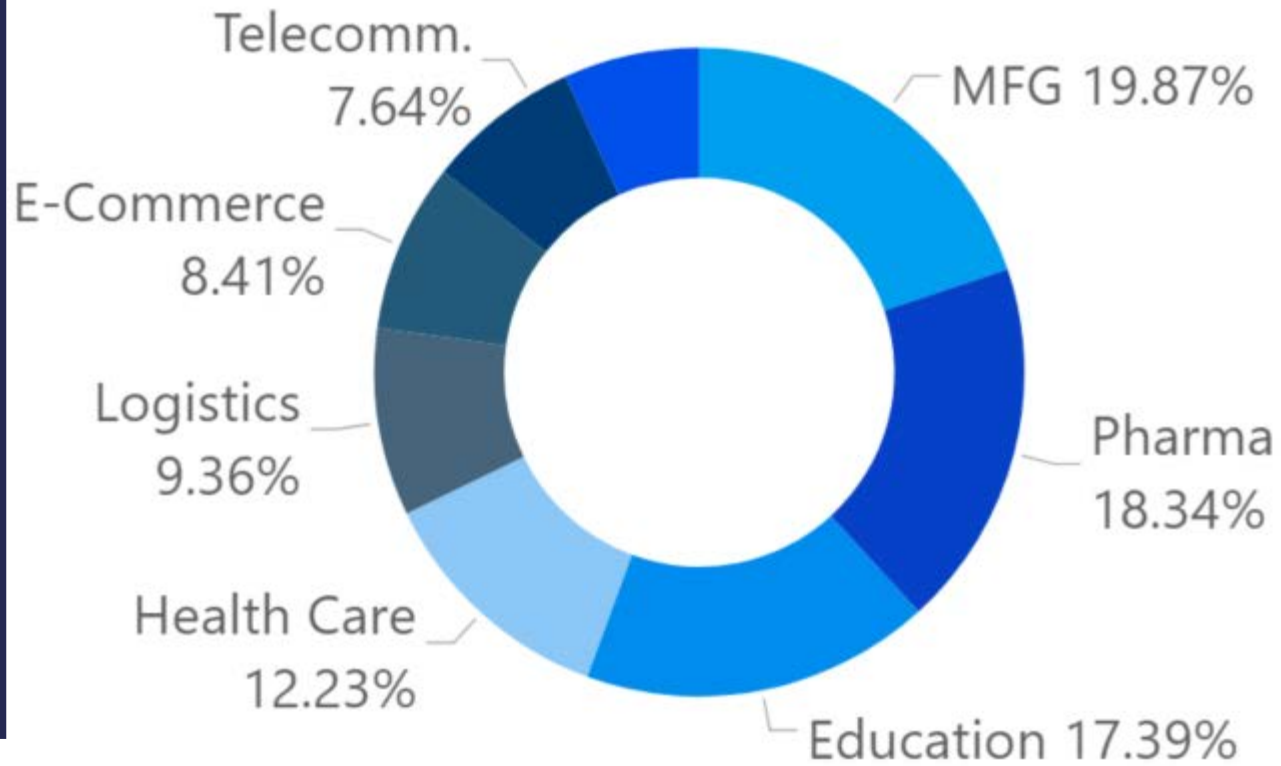
Preparing Department Heads for Mid-Year Changes after Review in December 2020

CITY OF ROCKY MOUNT

Kenneth Hunter
Budget & Evaluation Manager

~Population

54K



TOP-10 PRINCIPAL EMPLOYERS BY SECTOR

Data based upon FY2019 CAFR.

MFG – Manufacturing

City of Rocky Mount

■ Economic Overview

- *Economic Base: Manufacturing, Logistics, Agriculture, Hospitality, Retail*
- *Relevant Trends: Pre-COVID Growth in Manufacturing, Logistics, Services*
- *Revenue Mix: Property Taxes, Sales Taxes, Fees for Services, Utility Revenues, Investment Interest*

City of Rocky Mount

What revenues do you forecast being impacted?

- *Local Option Sales Tax: -25% through lockdown, slow recovery afterward*
- *Interest on Investments: -80% long-term due to lower interest rates*
- *Programs & Services: varies based on program, overall impact -20%*
- *Inspections & Permits: -30%*

How did you forecast them?

- *Method: 2008-09 recession experience, retail foot traffic observations, application of program changes*
- *Time Period Impacted: March 2020 – June 2021*

City of Rocky Mount

Forecasted
shortfall: \$8.54
million

- *Remainder of FY 2020: \$2.60 million*
- *FY 2021: \$5.94 million*

Budget
balancing
strategies

- *Hold use of base appropriated reserves to current levels*
- *Avoid action against current FT staff*
- *Evaluate all department expenditures*
- *Reduce spending for suspended, reduced programs*
- *Minimize capital expenditures*



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QUESTIONS

Moving Forward



Please take the survey

<https://publicinput.com/W230>



Additional Resources

<https://www.sog.unc.edu/resources/microsites/coronavirus-covid-19>

- Budget-Balancing Tactics in a Time of Crisis Webinar [tomorrow!](#)
- Property Taxes and the Pandemic
- Local Government Finance Professionals
- Lots of blogs on related topics too!



2020 NCLGBA Virtual Conference

Scheduled for Thursday, July 16, 2020

Stay tuned for more details!

THANK YOU FOR JOINING US & TO OUR PRESENTERS

A recording of this webinar will be available on the SOG COVID-19 microsite and any questions can be directed to Chris Williams or myself



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