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COVID-19: A Closer Look At How It Affects 10 Major U.S. Cities

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Key Takeaways

- COVID-19 will have a significant effect on major U.S. cities, increasing expenditures and reducing revenues.
- The projected hit to U.S. economic growth from the ensuing recession will exacerbate the situation, presenting even more challenges for cities as they struggle to maintain structural balance, especially for those reliant on economically sensitive revenues.
- While we expect the federal relief package to aid state and local governments in the near term, the timing and support remains unknown, placing more pressure on liquidity levels.

The COVID-19 pandemic continues to evolve rapidly and has already plunged the entire world—and the U.S. with it–into recession. Projections for GDP contraction start in the first quarter (negative 1.3%) and worsening substantially in the second (negative 12.7%). Over the course of 2020, S&P Global Ratings forecasts an annualized decline in real GDP of 2.1%. The forecast is predicated on a precipitous drop in tax collections on consumer spending, coupled with a surge in unemployment. See S&P Global Ratings' most recent forecast, "It's Game Over for the Record U.S. Run; The Timing Of A Restart Remains Uncertain," (published March 27, 2020, on RatingsDirect. As a result, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative (See "All U.S. Public Finance Sector Outlooks Are Now Negative," published April 1, 2020).

Prolonged Revenue Declines Will Lead To Pressure On Liquidity

In our view, American cities that entered the recession with weak liquidity and reserves or with a high amount of economically sensitive revenues will be particularly vulnerable to the looming pressures. When unbudgeted COVID-19 expenditures are added to the mix, the pressure to make ends meet becomes exponentially harder for local governments, straining already tight city budgets. Federal aid from the recently passed relief package, the CARES Act, will likely provide some help but is unlikely to make budgets whole since $150 billion in federal aid earmarked for state and local governments will likely only cover COVID-19-related expenditures and not revenue declines.

For all U.S. cities, sales and uses taxes; leisure and hospitality revenue; lottery revenue; licenses, fees, and permits; and motor fuel taxes will be the hardest hit. Those that rely less on this revenue will be more insulated in the short term. However, even property taxes are likely to be affected should the recession be prolonged.

With Revenue Down, Management Will Make The Difference

In times of crisis, proactive and nimble management with robust governance policies are critical in maintaining credit quality. This includes carefully monitoring liquidity, particularly where revenue streams start to falter, reaching out to access external liquidity sources when needed.

The cities in this article all enjoy proactive management teams focused on both current and future pressures. As the situation unfolds over the course of 2020, cities who respond quickly and adequately to major budgetary shifts will have a much better ability to allay negative credit action, particularly if they start in a position of relative financial strength.

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