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Pandemic Brings Fresh Challenges for City Budgeting.

Officials from Philadelphia and other cities discuss how they're responding to economic shock

For city governments, the budget process is never easy. But this year, the COVID-19 pandemic and resulting recession have made that work exceedingly difficult—and the pain is only just beginning.

This was the consensus from several top city budget officials speaking at a July 8 online panel discussion organized by The Pew Charitable Trusts. The spending plans being adopted by major cities throughout the country are based on revenue estimates containing more than the usual dose of uncertainty.

"We expect there will be need for some adjustments," said Philadelphia Budget Director Marisa Waxman, referring to the $4.8 billion budget the city adopted in late June. "This has been a very challenging time. Philadelphia will survive; it has been around for 300 years and isn't going away."

The virtual panel discussion featured Waxman, San Francisco Controller Ben Rosenfield, Houston Deputy Finance Director William Jones, and budget consultant John W. Hill, who served as Detroit's chief financial officer during its 2013 bankruptcy. The hour-long conversation before an online audience of more than 100 city policymakers, public finance experts, and other stakeholders was part of Pew's project on local fiscal oversight.

Houston and Philadelphia have approved spending plans for the fiscal year that started July 1. Although San Francisco's fiscal year also began July 1, its leaders delayed the new budget for three months to give themselves more time to deal with the economic shock.

During the discussion, the officials detailed how they scrambled to make cuts and offset the decline in local revenues, which was greater in cities like Philadelphia that rely more on income and sales taxes than on less-volatile property taxes. (Unlike the federal government, local governments cannot run budget deficits.) For now, none of the jurisdictions plans to reduce city employee pension contributions or borrow new money to close budget gaps. Each received funding from the federal coronavirus aid package, which must be spent on COVID-19-related expenses by December.

Houston, whose mayor initially talked about widespread furloughs of city workers, managed to avoid those and pass a budget roughly equal to the previous year's $2.5 billion spending plan. The city is seeing a big drop in sales tax revenue, and the law limits the amount it can get from property taxes, its main source of revenue, Jones said. This left Houston with a gap of about $170 million, which it filled by cutting costs, by taking about $90 million from its reserves, and by "redeploying" workers and jobs into COVID-19 relief work.

That redeployment enabled Houston to fund those workers and jobs with some of its $404 million in coronavirus aid, Jones said. Houston also projected having enough revenue this year to avoid tapping into its small rainy day fund. Neither Philadelphia nor San Francisco took such steps with that aid ($276 million and $154 million, respectively), and neither city is expected to replenish its rainy day fund this year.

San Francisco is likely to cut its fiscal 2021 budget below last year's $6.5 billion, Rosenfield said. The city's property tax revenues have held steady, but just about everything else has plunged: Hotel tax revenues this spring, for example, fell from $100 million to approximately $10 million. The projected budget gap stands at $750 million. The mayor has ordered all departments to plan for 10% cuts and brace for even more.

Like Waxman, Rosenfield understands that the uncertainty surrounding the coming months means that San Francisco's budget will probably have to be revised early and often. "We have an office pool going on how soon the first readjustment will have to be made. I'm guessing three months," Rosenfield said. In addition, he expressed hope that cities will increasingly use technology to deliver services—such as license renewals—remotely and more efficiently, a point echoed by the others.

Philadelphia's $4.8 billion operating budget is about 8% smaller than the one that Mayor Jim Kenney proposed in early March before the outbreak. Then the recession hit sales tax and income-based taxes hard: The city initially warned of a $649 million shortfall, then increased it to $749 million as the numbers came in. To close the gap, the city took $229 million from its reserves and rainy day fund and made up the rest with targeted tax and fee increases as well as layoffs. But that has left little cushion for another shock.

"We won't be able to dig $100 million from the seat cushions again," Waxman said, agreeing with the others that some of the budget-balancing tactics used this year won't be available next year. Among the cities with current officials on the panel, only Philadelphia has laid off city workers at this point—454 in total, mostly part-time and temporary employees.

Hill said the economic shock, even though it came suddenly, is not a passing blip after which urban life—and the items and activities that cities tax—will return to normal. "There will be some changes in how corporations do business," he said, "how we deal with physical infrastructure, how we deal with distance learning and work—and those are likely to be permanent."

These changes and others, Hill said, are likely to complicate city budgeting for years to come.

The Pew Charitable Trusts

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July 27, 2020