

# **Bond Case Briefs**

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## **Panel Explores City Budgeting Priorities Amid Continued Economic Uncertainty.**

### **Mood is cautiously optimistic as the pandemic fades and federal aid arrives**

City governments were forced to make difficult decisions in the spring of 2020 when COVID-19 upended their normal budget processes. Now, many of those cities are developing new spending plans for the year ahead. Although uncertainties remain, officials feel a sense of cautious optimism, thanks to the infusion of federal funds and the lessons learned since the start of the pandemic.

This was a key takeaway from a recent virtual panel discussion organized by The Pew Charitable Trusts' Philadelphia research and policy initiative. Among the themes voiced by city budget representatives and experts on municipal finance were:

- Uncertainty about revenues—and, to a lesser extent, expenditures—will be a challenge for the foreseeable future, but effective use of federal aid from the American Rescue Plan Act can help.
- Cities' problems are often complex and affect multiple city agencies. But the budgeting process is hampered by being largely siloed from the rest of city government—and by individual departments being siloed from one another.
- Investments in enhancing equity should be embedded in the budgetary process and informed by data. Policies and practices adopted to address pandemic-related issues can help advance inclusive economic growth.

"When you're in uncertain and unprecedented environments, there is a need to forecast more, to monitor more, to report more, and be very transparent with assumptions," said Matthew Stitt, a director at PFM, a public finance firm based in Philadelphia that works with state and local governments. "If your city was already in growth mode, their investment decisions tend to be more about inclusion. But if you were in a city that was in decline structurally, you have to think of not only ways of including everyone in your investment strategies but also how do you grow the economic pie."

Three officials from Philadelphia also took part in the panel discussion—Finance Director Rob Dubow, Budget Director Marisa Waxman, and City Council Chief Financial Officer Robert McDermott—as well as Detroit's Budget Director Steven Watson and Shayne Kavanagh, senior manager of research at the Government Finance Officers Association. The April 27 conversation before an online audience of city policymakers, public finance experts, and other stakeholders was part of Pew's examination of Philadelphia's fiscal health in the wake of the pandemic.

The start of the COVID-19 pandemic in early 2020 forced cities to deal with uncertainty in revenues and expenditures—not just in creating budgets, but in managing them throughout the current and future fiscal years. The subject of a virtual convening hosted by Pew last July, this challenge has continued as cities have been developing budgets and financial plans for the upcoming fiscal year and beyond.

"You can't get rid of the uncertainty; you can only plan for it," said Dubow. One priority for

Philadelphia, he said, is to rebuild year-end fund balances as a way of giving the city budget flexibility in the coming years. To partially close the budget shortfall for the current year, Philadelphia used \$229 million from its reserves. That means it will have far less in reserve when this fiscal year ends on June 30.

Like Philadelphia, Detroit develops long-term financial plans as part of its yearly budget process. To assess the potential long-term impacts of the pandemic, the city has partnered with three universities to create Detroit-specific data and economic forecasts and is working with the Michigan Treasury Department to use tax data to better understand the local economy and tax base.

“Much like before the pandemic, it is all that much more important to focus investment and funding on building economic opportunities for Detroiters,” Watson said.

Federal aid from the American Rescue Plan Act will help cities reduce uncertainty and close the budget gaps that have resulted from decreased revenues. In Philadelphia’s case, an influx of \$1.4 billion helped to close most of the budget shortfall for fiscal year 2022, which begins this July 1. Officials noted the need to spread these dollars over several years, as they can be used through the end of 2024—with additional federal aid unlikely.

In addition to the need to address uncertainty, participants noted that the pandemic highlighted the often-siloed nature of the budgeting process in comparison with the interdisciplinary nature of the issues facing many cities. When an initiative doesn’t fit neatly into any one department, it may struggle to survive, even if it is effective. The challenge, said Kavanaugh of the finance officers association, is “how do we organize ourselves around solving problems and bring in actors from different sectors to do it?”

Waxman, Philadelphia’s budget director, agreed that the ways in which budgets are set up can complicate spending decisions. For example, “there are still some challenges syncing the collaborative, interlocking nature of the work with traditional budgeting,” she said, referring to the money spent on anti-violence initiatives in her city.

Finally, the participants cited the need to embed equity into budgeting—both as a process and an outcome—moving forward. Waxman cited Philadelphia’s efforts to be more intentional about who is involved in the budget process and who benefits from specific programs. McDermott emphasized the importance of using data, including geospatial data, to inform spending decisions, saying that effective use of such data can effectively target equity outcomes at the neighborhood level.

The speakers agreed that the next several years will be challenging for city budgets, as local officials learn which of the pandemic-spurred economic changes fade away and which are longer-lasting. They also agreed that the one-time federal relief presents a unique opportunity to invest in future growth.

## **The Pew Charitable Trusts**

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