
Flush With Federal Aid, City Finance Officers Offer Optimistic Outlook.

“It has been a rather incredible two-year period,” notes one official.

Three finance officers from major U.S. cities on Thursday described how the fiscal outlook for their governments has brightened substantially since the early days of the Covid-19 outbreak and stressed how federal aid has provided an important boost.

When the pandemic first struck in early 2020, it sent shockwaves through the world of state and local finance. Since then, budgets in most places have stabilized following massive infusions of federal relief dollars to states and localities directly and to American households. At the same time, certain key state and local revenue streams never dried up as badly as many first anticipated.

Brendan Hanlon, chief financial officer for the city and county of Denver, recalled how the government there entered into the pandemic with a $1.5 billion general fund budget and then lost around $200 million in 2020. One way Denver closed the gap was cutting labor costs, leaving open jobs vacant and offering retirement incentives.

“It has been a rather incredible two-year period. It’s been the depth of the lows and now, with federal funds, we have so many opportunities for investment. It’s a bit of a high of the highs,” he said during an event held by the Milken Institute.

The American Rescue Plan Act, with its $350 billion of direct state and local aid, is proving to be an especially significant source of help for states and localities. They’re also gearing up for an influx of new federal dollars for public works under the $1.2 trillion infrastructure law President Biden signed in November.

‘It Helped Us Manage’

Elizabeth Reich, chief financial officer for Dallas, noted that the city has received hundreds of millions of dollars in federal aid over the course of the pandemic—its direct ARPA aid alone totals $355 million and an earlier CARES Act allotment was around $234 million. “It helped us manage through the last two years,” she said.

“But money alone doesn’t cut it. And more important is how you invest that money,” Reich added. She explained how Dallas focused its earlier pandemic spending using CARES Act dollars on immediate needs like testing, vaccinations, protective equipment for workers, rental aid, shelter for the homeless and small business assistance.

With ARPA spending, the city has turned its attention to longer-term infrastructure and economic development investments, targeting areas like water and sewer upgrades, housing preservation in lower-income neighborhoods and solving gaps with internet connectivity.

Meanwhile, Reich said that sales taxes in the city have completely recovered and based on the latest figures have been coming in stronger than expected in recent months, which she says is likely attributable to factors like the expanded federal child tax credit and other federal stimulus spending, as well as the city capturing tax revenue from online sales.

She also said that despite fears earlier in the pandemic that Covid-19 would drive down property values and, in turn, sales tax collections, Dallas isn't seeing clear signs of erosion at this point. Property value grew by about 4.56% in 2021, with commercial property value growth slightly outpacing residential, Reich said.

Taxes from weekday hotel stays are down compared to pre-pandemic levels, a sign of decreased business travel, she said. But she also noted that Dallas is seeing companies and people relocate to the city, and that unemployment is falling, although not quite to pre-pandemic levels.

"Overall, Dallas is in a strong position," she said.

Jennie Huang Bennett, Chicago's CFO, said that after Covid struck, the city was facing lost revenues in the ballpark of $1.5 billion in 2020 and 2021, on top of earlier financial difficulties. But she said that the losses from the pandemic were largely one-time hits and federal aid has helped bridge the city's path to recovery, and to support investments in low-income neighborhoods.

Bennett said the city is on track to achieve "structural balance" with its budget by 2023 despite the turmoil Covid caused. Bennett said that income, sales and real estate-based taxes have been performing strongly. But the city is seeing some lagging revenues tied to tourism and hotels, along with ride-sharing, parking garages and utilities, with remote work a likely culprit behind these declines.

Hanlon said it's still unclear what the long-term effects of remote work will be on downtown real estate in Denver. But he said that the city is considering options to potentially promote more residential growth in the area. "We've been talking about how do we make sure we have a nimble, flexible response to different uses of space," he said.

Route Fifty

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