

Public Sector Services



# The Covid-19 Financial Crisis:

## *Challenges and Opportunities*

A response roadmap to support recovery efforts in the wake of the Coronavirus Pandemic.



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# The COVID-19 Financial Crisis: *Challenges and Opportunities*

## Where We Are

State and local governments are facing unprecedented challenges in the wake of Covid-19. There are significant unfunded costs associated with a massive public health response. To address citizen needs, high levels of new demand for cash assistance and other services will be required to mitigate sudden economic downturn. Substantial declines in tax revenue, especially from sales and hotel taxes, as well as mass transit and other enterprises, will strain financial resources resulting in constrained budgets. Diminished investor demand for short-term debt and increased short-term interest rates, may limit borrowing ability. These factors put governments in a precarious position as they try to navigate the way forward.

## A&M's Approach in a Post-Covid-19 Environment

*The initial focus must be providing relief for distressed citizens and businesses followed by execution of a comprehensive Covid-19 strategic response, in five key areas*

- Continuation of Essential Services
- Invest Stimulus to Promote Growth
- Redesign Revenue and Capital Structures
- Plan and Budget Spending and Investments
- Digitize and Automate Service Delivery

## We have weathered challenges before, but this time will be different.

During the Recession, the peak of weekly US Unemployment Insurance claims was 665K; for the week ended March 28, 2020, the number of UI claims was 6.65 million. State and local government revenues are expected to decline precipitously as layoffs will diminish personal income tax collections and losses in the stock market will erode capital gains tax collections. Sales tax revenues will slow at least in the near term due to declines in consumer spending, while gas taxes will be reduced as people drive less to work and other places, coupled with a sharp decline in oil prices.

## Covid-19 Recovery Toolkit

Dealing with this challenge will require a multi-pronged approach, including proactive short- and long-term actions.

The COVID19 response should be sufficient in scale, strategic, and focused on promoting both a quick recovery and long-term economic resilience.

1. Immediately take necessary fiscal steps to ensure continuation of essential services and maximize the benefits of short-term Federal relief funding
2. Invest Federal fiscal stimulus funding in public infrastructure and education and in state and local workforces to promote economic growth
3. Rethink and strategically redesign state and local revenue and capital structures to diversify funding sources and incentivize recession-resistant economic development
4. Plan and budget for state and local spending and investment based on data-driven economic, demographic, and projected service-demand models
5. Digitize and automate public service delivery to focus resources on direct customer interaction and minimize resources devoted to back-office transaction processing

# A&M's RESPONSE ROADMAP to POST-COVID-19 RECOVERY

During the Great Recession in 2008, state and local governments faced significant financial and operational challenges, but it is possible that the impact of Covid-19 could be much worse. Given the abrupt decline related to Covid-19, the demand for state and local services is reaching unprecedented heights just as revenues are about to plummet. States and cities reliant on sales and incomes taxes with a high share of vulnerable industries\* are likely to experience significant fiscal declines within a few months.

To help address these needs, A&M has developed a roadmap of actions state and local governments should consider in the immediate term and over the next 36 months as the world recovers for Covid-19. The goal is to combine strategic decision meeting constituent needs.

Response Objectives	Maximize and Manage Stimulus Funds (ASAP)	Stabilize Finances and Services (6-18 mos.)	Redesign for Recession-Resistant Future (18-36 mos.)
1. Take necessary fiscal steps to ensure continuation of essential services and maximize short-term Federal funding	<ul style="list-style-type: none"> <li>Streamline services</li> <li>Manage service changes</li> <li>Communicate changes</li> </ul>	<ul style="list-style-type: none"> <li>Benchmark operations</li> <li>Partner with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Revise service models</li> <li>Structure revenue policies</li> <li>Share functionality across departments</li> </ul>
2. Invest Federal fiscal stimulus funding to promote economic growth	<ul style="list-style-type: none"> <li>Assess key needs</li> <li>Establish Fiscal Stimulus Leadership Team</li> <li>Maximize funding impact</li> </ul>	<ul style="list-style-type: none"> <li>Continue strategies to maximize funding impact</li> <li>Identify KPIs</li> <li>Track progress</li> </ul>	<ul style="list-style-type: none"> <li>Enhance grants mgmt</li> <li>Maintain fiscal stewardship</li> <li>Extend stimulus benefits</li> </ul>
3. Rethink and strategically redesign state and local revenue and capital structures	<ul style="list-style-type: none"> <li>Assess eligibility</li> <li>Review debt requirements</li> <li>Develop what-if scenarios</li> </ul>	<ul style="list-style-type: none"> <li>Determine revenue capacity</li> <li>Identify new revenues</li> <li>Develop capital plan</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate opportunities to enhance revenues</li> <li>Monetize assets, if needed</li> </ul>
4. Plan and budget state and local spending and investment based on data-driven models	<ul style="list-style-type: none"> <li>Evaluate fiscal indicators</li> <li>Assess financial solvency</li> </ul>	<ul style="list-style-type: none"> <li>Analyze revenue trends</li> <li>Determine reserve spending needs</li> <li>Develop fiscal health model</li> </ul>	<ul style="list-style-type: none"> <li>Integrate forecasts with policies</li> <li>Restructure expenditure policies</li> </ul>
5. Digitize and automate service delivery to focus on direct customer interaction	<ul style="list-style-type: none"> <li>Expand virtual services</li> <li>Identify processes for RPA</li> <li>Increase remote work options</li> </ul>	<ul style="list-style-type: none"> <li>Inventory services for digitization</li> <li>Pilot robotic automation of high-return processes</li> </ul>	<ul style="list-style-type: none"> <li>Develop implementation program for digitization</li> <li>Expand RPA based on pilot results</li> </ul>

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Alvarez & Marsal is accessible through the Innovations and Solutions Contract with OMNIA partners.

## About Alvarez & Marsal

Alvarez & Marsal Public Sector Services provides strategic financial management and operational performance improvement services to federal, state, and local governments and non-profit organizations. A&M has successfully helped guide municipalities both in financial distress and in relative stability through the process to improve their fiscal and operational performance.