



**A V E N U**  
INSIGHTS & ANALYTICS

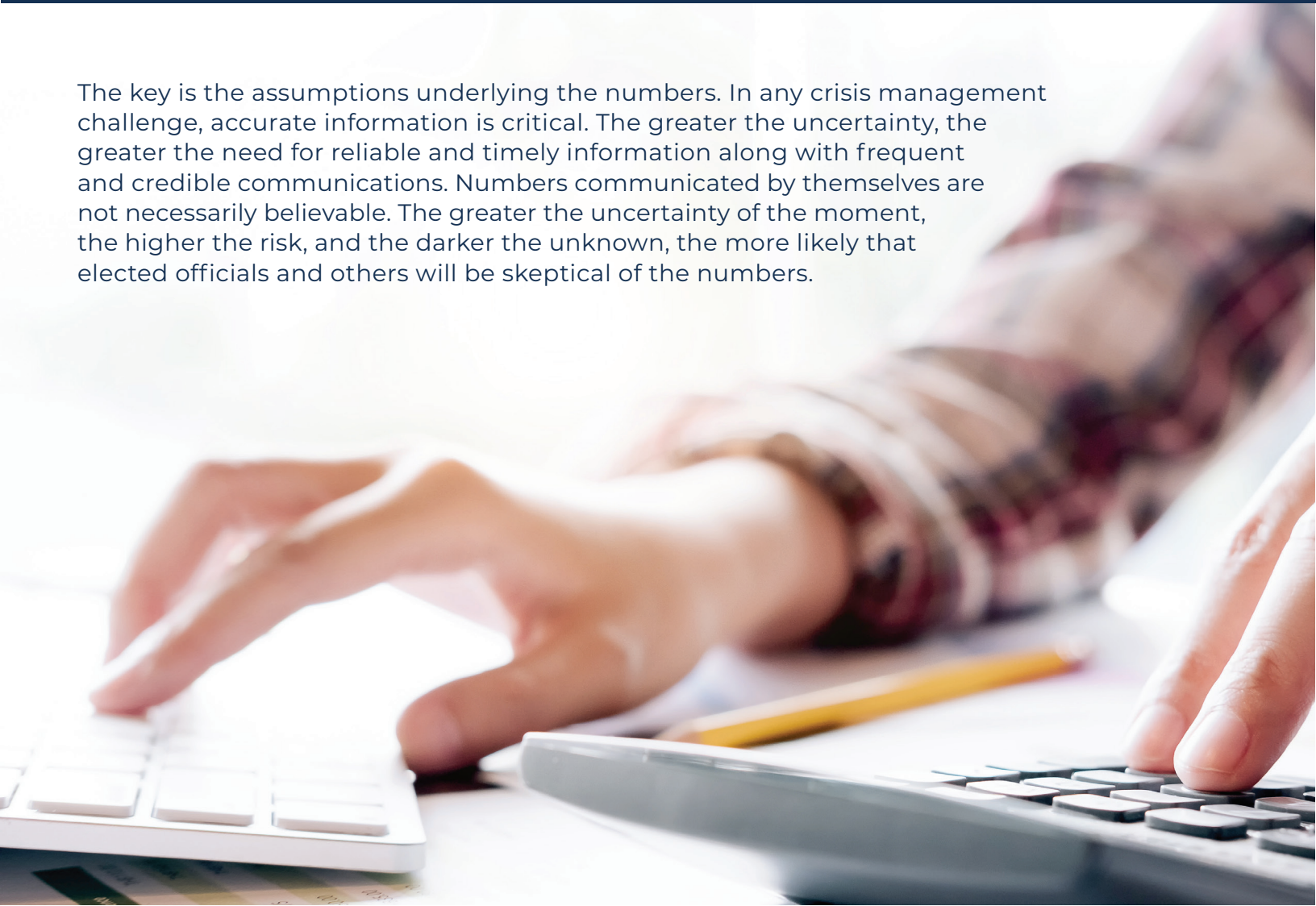
# Budgeting in a Sea of Unknowns

Key takeaways regarding  
budgeting and how to  
approach the unknown  
amid the current  
COVID-19 crisis



Most cities across the country are deep into the preparation of their FY2021 budgets, a job that is difficult in the best of circumstances for both City Managers and Finance professionals. However, under the current pandemic conditions, it is seriously daunting and looks almost impossible. This is particularly true for those jurisdictions preparing multi-year projections. The first challenge is doing the projections at all. The second challenge is working with your elected officials, bargaining groups, and community to accept them!

The key is the assumptions underlying the numbers. In any crisis management challenge, accurate information is critical. The greater the uncertainty, the greater the need for reliable and timely information along with frequent and credible communications. Numbers communicated by themselves are not necessarily believable. The greater the uncertainty of the moment, the higher the risk, and the darker the unknown, the more likely that elected officials and others will be skeptical of the numbers.



So how do cities prepare budgets in these radically uncertain times? How does staff assure themselves and their policy bodies that they have done everything possible to put a foundation under the numbers comprising their recommended budget? They must put forward all of the assumptions on which their numbers are based. They must be comfortable with, in fact invite, scrutiny of

those assumptions from as many sectors as possible. Even in the midst of turbulent times, staff makes certain assumptions on which they base their budget recommendations. In order for those assumptions to be defensible, they must be based on a broad input of information subjected to thorough analysis.

All this sounds logical, but many cities may not apply the process because they lack sufficient staff resources, don't know how to reach outside their organization for information partners, assume no one will share information with the city even if they are asked, or other reasons. However, the more turbulent and uncertain the environment in which the budget has to be developed, the greater the importance of collecting broad data to support grounding assumptions; and the more critical it becomes for staff to share that supporting data and their related analysis with their elected officials.

That brings us to **COVID-19** and the unknowns of the rapidly evolving economic landscape. While all cities currently share the same general uncertainty, each community is, in fact, unique. They are different in size. Their business community mix may be very different than the adjacent communities. Their social priorities may vary widely. Their ability to deliver services, and the type of services they deliver, may differ. Their population may be younger or older than other communities. So, while certain assumptions may apply across all of them, others are going to be unique to each community.

With this in mind, how does each city approach budget development? There are four areas that any city must now consider when building their FY2021 budgets (particularly when building Year One of a multi-year budget), although how they gather information and the resulting assumptions they make may vary widely:



# THE PANDEMIC

There are certain questions everyone must consider:

- How long will the Shelter-in-Place last?
- How long will the ongoing virus threat last?
- When will our community have effective, timely, and informative testing?
- When will we have effective treatment?
- Is the virus seasonal or will it come as waves?
- When will we have a vaccine?



We will get most of this information from regional, state, and federal sources and then apply our own intellect, perspectives, and local knowledge to that information.

However, that is only the first pass at compiling relevant information. The next level must come from our organizations and communities: What resources do we have to address each of the possible pandemic scenarios (worst, most likely, and best)? What services do we offer unique to our jurisdiction that are impacted by the various elements of the pandemic?

- Which ones must be funded?
- What service level impacts do we face with remote workers?
- What additional services must we have in place for the duration of the pandemic?
- How might we continue operations and service delivery in the most efficient and effective manner in a longer-term or episodic crisis?

This requires us to reach out to the non-profit communities, our faith-based partners, health providers serving the community, special districts serving our city, school districts, and others. In order to develop the best assumptions in this area, we need to know how these sectors are viewing the service demand in the community. If staff doesn't reach out to these service partners and listen to their input, budget assumptions will be weaker and less defensible.



# 2

## THE ECONOMIC SHUTDOWN

The base for this area flows from our analysis of the pandemic and the information we get from sources outside our community:

- How long will the economic shutdown last?
- How will business come back online – all at once, sector by sector, regionally?
- Will they come back at all (i.e., restaurants and small retail)?
- Where will authorization/guidance to lift closure come from – the White House? The Governor? Local decision-makers?
- What will consumer-spending habits look like after the shelter-in-place is done?
- What will be our local and regional unemployment rate and for how long?
- What will be the short and long-term impact on the local housing market?
- When will our revenue stream return to normal? What changes in amounts or cycles might we expect?



Local information unique to our community becomes more critical and relevant to our budget assumptions because of the makeup of the unique business sectors in our communities. It is critical that city staff engage key businesses and business organizations in this conversation as they develop budget assumptions. If staff does not engage in this conversation, their assumptions made in this area may be missing critical data. Your elected officials are likely talking to these sources and may want to challenge your numbers or assumptions based on input they received from their business sources. It is best to be prepared for that.



A suggested list of recommended information partners might include business organizations in the area (e.g., Board of Realtors, Chamber of Commerce, Downtown Business Association, Visitors and Convention Bureau), key commercial brokers serving the area, large employers or tax generators within the city limits, housing organizations, builders and developers, business leaders in the community (particularly those that may have the ear of the elected officials). These folks know their business far better than city staff and know it from a variety of perspectives. Perhaps some of these sources have no relevant information. Perhaps they have it and won't share it. What matters is that staff reached out and tried to engage these sources in the process. Done often enough, trust will build and information sharing will occur. And, staff is then able to demonstrate a broad information foundation on which to base their assumptions and build the budget.

# 3

## THE RECOVERY

Once staff has a set of assumptions from the first two areas (Pandemic and Economic Shutdown), budget-related assumptions can be made related to recovery. Given the assumptions made regarding business coming back online and consumer life returning to “normal” (if it does), what impacts does that have on revenue generation within your community – sales and use tax (including Wayfair), Utility User Tax, Hotel/Transient Occupancy Tax, property tax, business license tax, cannabis tax etc.?

### QUESTIONS TO CONSIDER

- What impacts might a slow recovery have on service delivery within the community, particularly from the non-profit sectors?
- Federal, state and/or local county actions/decisions that impact the projected revenue flow or service recovery positively or negatively?
- What sectors might need municipal, financial, or other assistance to recover?

Once again, conversations should be held with the non-profit sector, community activists, housing advocates, and the faith-based community, as well as county and state staff. What demands are going to be made on city funds during the budget review and adoption process? How can staff anticipate and plan for them and/or defend against them? Again, the broader the base of information supporting budget assumptions, the greater the credibility the numbers will have.



# 4

## FUTURE PLANNING (Lessons Learned)

The final unique area to be addressed is lessons learned from this pandemic.

- What new resources should the City plan for as protection against another pandemic or similar disaster?
- What equipment should be stockpiled, if any?
- How does what your community learned and experienced during the **COVID-19** attack impact your reserve policies and why?
- What changes in service delivery or operations should be made based on the newly acquired information?
- Should your departments budget for more Tabletop Exercises with or without exercise partners; do identified changes need to be made in EOC structure and operations that will impact the budget?
- How will your HR policies and related costs change based on your experience with telecommuting?
- Will those changes require the acquisition of new technology?

Clearly, a lot of this information must come from within and throughout the organization. Given the severity of the **COVID-19** pandemic, these conversations should be held with staff and their bargaining units across the organization. Best practices dictate that these conversations start in an atmosphere of collaborative brain-storming and future planning, prior to each department having to defend their individual budgets. Information must also come from community partners such as hospitals, special districts, school districts, and others.



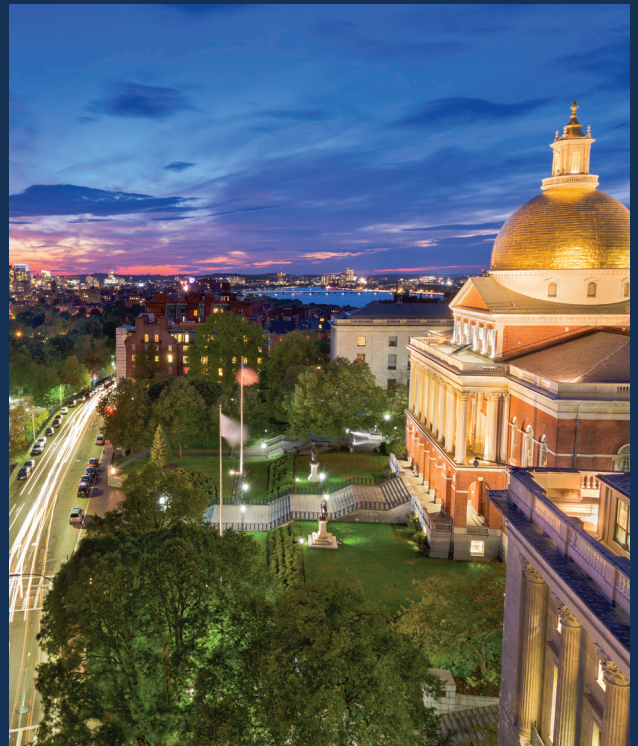
This is an overwhelming task for most municipal finance and budget staff no matter how competent or nimble they may be. However, it is critical in this time of **COVID-19**. The more work put into the upfront effort of assumption development, the more solid the underlying assumptions will be. The more timely and transparent staff is in sharing their well-grounded assumptions with all partners, interested community, and elected officials, the more solid the actual numbers will be, the more defensible budget-related recommendations will be, and the less staff will struggle during the budget proposal and adoption process.

With thorough data gathering, community involvement, honest and frequent conversations, and a transparent process, municipal organizations can rise to the challenge of this difficult time. Now is the time to show our communities our professionalism and leadership; to let them know we honestly care about their well-being, and that we see a path forward to a safe and secure future. Our adopted FY 2021 budget should be a beacon of hope, a clear statement of how each of our communities will survive in the short-term and make their way back to human and economic health.

## IS AVENU RIGHT FOR YOUR LOCAL GOVERNMENT?

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To explore how we can help you improve your community, please contact us at **[succeed@avenuinsights.com](mailto:succeed@avenuinsights.com)**. Visit us at **[avenuinsights.com](https://avenuinsights.com)** to learn more.



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