

COVID-19: Financial impacts on Virginia's local governments

A report to support local government decision making

THE LOCAL GOVERNMENT budget process in Virginia can be tumultuous in the best of times, but this year looks to be particularly fraught with uncertainty and turbulence. Since March, when the full scope of the coronavirus pandemic became apparent, local government managers and finance staff have diligently worked to discern the implications for local revenues. Ultimately, this work seeks to provide informed recommendations to elected officials.

This is no easy task.

To help shoulder this burden, staff at the Center for Public Administration and Policy at Virginia Tech established a finance discussion network in April 2020. These weekly meetings bring together over 140 local government managers and finance officers to discuss topics such as methods to cope with local revenue shortfalls, the finer points of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), and questions related to Federal Emergency Management Agency (FEMA) assistance. Guest speakers have included representatives from the Federal agencies, the Virginia Department of Transportation, Virginia Housing, the Virginia Department of Emergency Management, the Government Finance Officer Association, the Virginia Municipal League, and the Virginia Association of Counties.

In these sessions, local government officials and staff from across the Commonwealth have learned from each other, shared information, and developed resources to support each other. At present, over 140 representatives from Virginia's cities, counties and towns participate each week.

Survey results: A picture begins to come into focus

On May 27, the Center for Public Administration and Policy released the results of a statewide survey that gathered data from nearly 90 local governments on the anticipated budgetary impacts of the pandemic to FY20 and FY21.

The total number of local governments responding to the survey included 17 cities, 47 counties and 24 towns with an overall response rate of 27%. The median population was 23,418 with a range of a population from 445 to 475,000. The surveys were anonymous; not all local governments answered all questions.

Here are some of the big takeaways.

#1 – Most respondents reported having a written financial policy. The study asked the if the responding local government maintains written financial policies. Of the 88 respondents, 87.5 percent of local governments reported having written financial policies. Only 12.5 percent reported not having adopted financial policies (these included nine counties and two towns). All responding cities reported having adopted financial policies.

#2 – The majority of respondents are experiencing a revenue shortfall. Over 80 percent of local governments reported a revenue shortfall due to the pandemic (see Table 1). Based on 65 responses, the total financial impact in FY20 is over \$228 million dollars (see Table 2).



This is what meetings look like now (photo taken during a finance network meeting on May 6).

Why ask about financial policies? Financial policies inform and guide elected officials during their decision-making process and provide boundaries for the local government. The Government Finance Officers Association (GFOA) identifies adoption of financial policies as a best practice “central to a strategic, long-term approach to financial management.”

for FY21 to mitigate the fiscal impacts of the pandemic. However, 28 (40 percent) of local governments are using unassigned fund balance in FY21 (see Table 4).

Table 1: Anticipated Revenue Shortfall in FY20

Q: For the current year (FY20) budget, do you anticipate a revenue shortfall related to the Coronavirus Pandemic?		Total	City	County	Town
	Total Count	79	16	42	21
	Yes	72	16	35	21
	No	7	0	7	0
	Yes	81.8%	94.1%	74.5%	87.5%
No	8.0%	0.0%	14.9%	0.0%	

Table 2: Anticipated dollar revenue shortfall

Total revenue shortfall expected in FY20	
Total	\$228,137,507
Median	\$1,000,000
Average/Mean	\$3,509,808
Minimum	\$25,000
Maximum	\$51,200,000

#3 – The responses are mixed on use of the general fund balance in FY20. The respondents were asked if they expected to use unassigned general fund balance in FY20 to cover any revenue shortfalls due to the pandemic. Of those responding, 35 percent of local governments reported that they will be using fund balance to mitigate revenue shortfalls in FY20. Thirty (30) local governments projected that the general fund would be used to balance their FY20 budget. Just over 60 percent of local governments reported that they would use less than 5 percent of the unassigned general fund to balance the FY20 budget. However, about 8 percent of responding towns noted they would use 15 percent or more of the unassigned fund balance in the current fiscal year. On the other hand, just over 30 percent of responding cities reported that they would use 10-15 percent of the unassigned fund balance in the current fiscal year (see Table 3).

Table 3: Level of unassigned general fund balance use in FY20

Q: Indicate the percentage of unassigned general fund balance your locality expects to use at year end June 30, 2020.		Total	City	County	Town
	Total Count	30	6	12	12
	<5%	19	3	9	7
	5%-10%	5	1	2	2
	10%-15%	5	2	1	2
	>15%	1	0	0	1
	<5%	63.3%	50.0%	75.0%	58.3%
	5%-10%	16.7%	16.7%	16.7%	16.7%
	>15%	3.3%	0.0%	0.0%	8.3%

#4 – Most (but not all) respondents do not anticipate using a large amount of their general fund balance to cover FY21. Local governments were asked about their use of unassigned fund balance for FY21. Of the 70 respondents to this question, 42 (60 percent) of local governments are not using unassigned fund balance

Table 4: Use of general fund balance as a percent in FY21

Answer	%	Count
<5%	65.4%	17
5%-10%	23.1%	6
10%-15%	7.7%	2
>15%	3.8%	1
Total	100%	26

For comparison, local governments were asked to convert the percentage of general fund balance to dollars. On average, the responding local governments plan to use \$3.2 million in fund balance to balance the FY21 budget with a median of \$1,000,000 (see Table 5).

Table 5: Use of general fund balance in dollars


	Dollar of Fund Balance
Median	\$1,000,000
Average/Mean	\$3,213,905
Maximum	\$40,000,000
Minimum	\$40,000

Lessons learned

- All local governments should consider developing and adopting written financial policies to guide elected officials during their annual operating and capital budget process.
- Local governments using general fund balance in FY20 and/or FY21 should document the justification and take actions to mitigate the financial impacts to the unassigned fund balance levels. Local government actions to be considered include deferral of one-time capital expenditures, reduction of travel expenditures, and reductions in targeted personnel expenditures related to business and recreational programming.
- Local governments using general fund balance in FY20 and/or FY21 budgets should develop a plan to replenish the fund balance as soon as practical. Be prepared to explain to the rating agencies how your local government plans to recover financially.
- Local governments need opportunities to share and learn from each other. Engaging in professional associations provides educational and networking opportunities for elected officials and local government staff.

Learn more

For the Government Finance Officers’ Association’s best practices and fiscal first aid recommendations, visit www.gfoa.org.

The Local Government Management program facilitates a weekly webinar series for Virginia’s local finance officials and managers. The full report and more information are available by contacting Dr. Stephanie Davis, sddavis@vt.edu. 

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