

HOW YOUR AGENCY CAN SURVIVE AND RECOVER FISCALLY FROM THE COVID-19 OUTBREAK

Tuesday, April 28, 2020

Webinar Technical Notes

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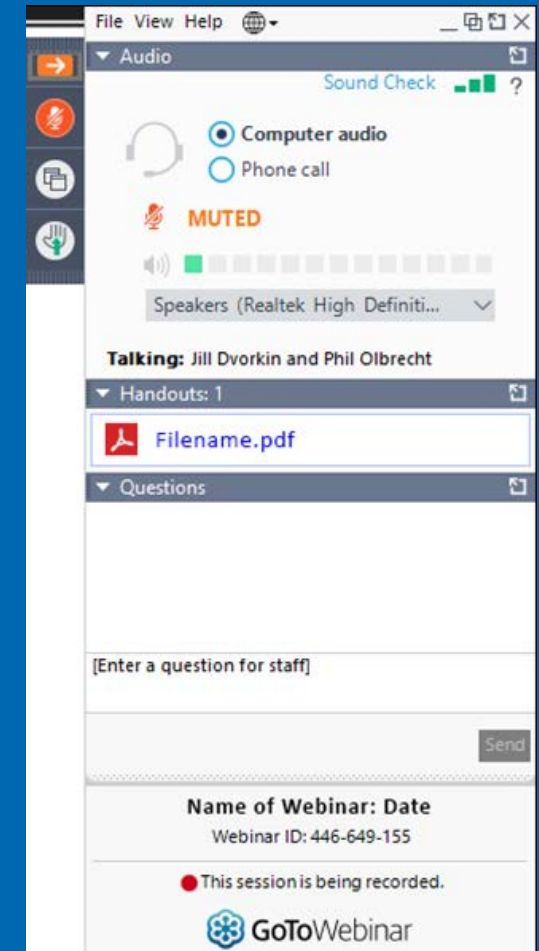
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Presenters



Mike Bailey

Finance Consultant
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Toni Nelson

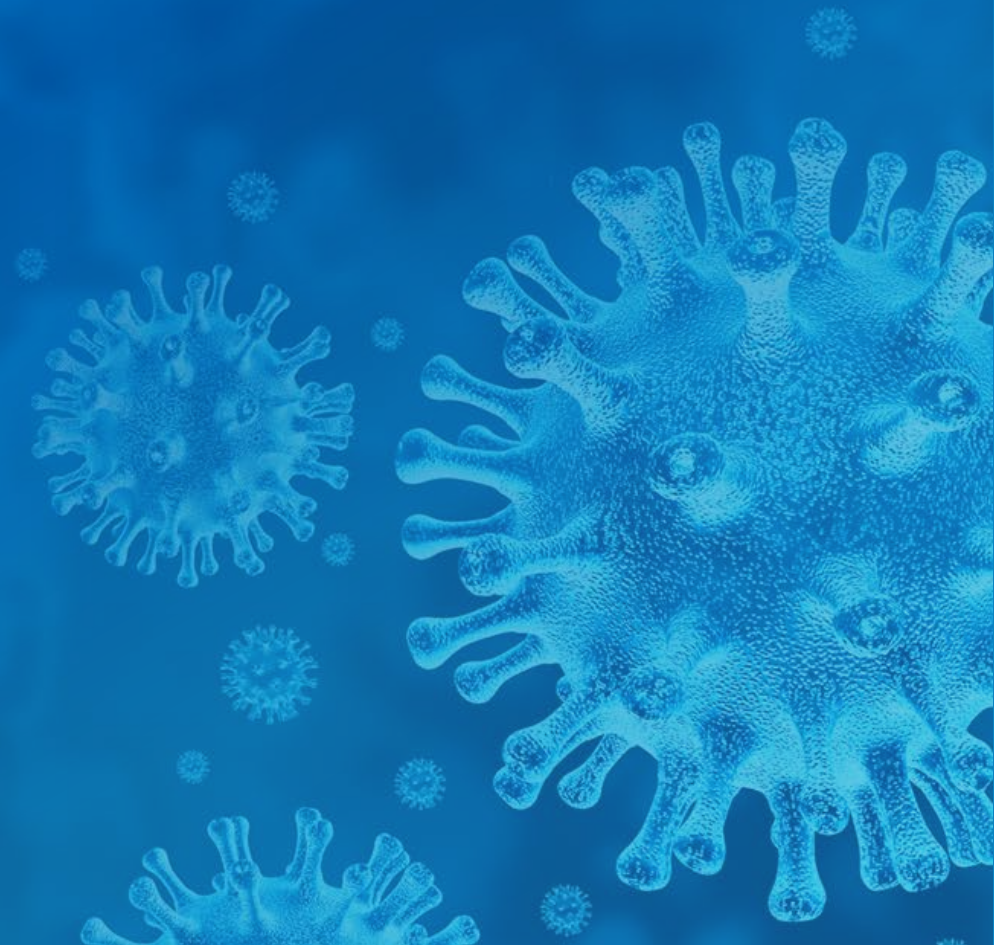
Finance Consultant
MRSC

Agenda

- Resource Recap
- Financial Forecasting
 - Revenue
 - Expenditures
 - Cashflow
- Communication
- Scenario Development



Resource Recap



Resource Recap

- MRSC – COVID 19 resource page
- Government Finance Officers Association
- Washington State Auditors Office
- Association of Washington Cities

Financial Forecasting

The background of the slide is a blue-tinted collage of financial data. It includes a smartphone in the center, a pen resting on a spreadsheet with various numerical values, and two donut charts. One donut chart is in the bottom right, showing segments for 13%, 18%, 6%, 7%, and 15%. Another donut chart is on the left side, showing segments for 18%, 6%, 7%, and 14%. The overall theme is financial analysis and forecasting.

Building (Updating) Your Model

Financial forecasting should:

- Illustrate financial outcomes based on past trends, drivers and assumptions
- Be interactive in response to changes in assumptions
- Tell a story, provide feedback, communicate
- Facilitate a discussion

The focus is on the audience – your leadership & policymakers

Revenues

Revenue forecasting principles remain the same

- Know your local economy
 - Based on your major revenue types (property tax, fees, sales tax)
- A mix of quantitative and qualitative analysis
- Use trends to
 - Illustrate past norms and show deviations
 - Help inform the forecast (where applicable)

Revenues

- Property tax
 - Likely more stable (revenue based, the rate will change)
 - Residential values may prove stable while commercial may change
 - New construction likely different than original projections (future)
 - Timing for 1st half 2020 may be adjusted by your county
- Business license
 - May also be more stable provided most businesses survive
 - Policymakers may want to analyze effect of adjusting rates

Revenues

Sales tax

- Volatile – by sector, so create scenarios by sector
- Past analysis may prove insufficient to assess effect of COVID 19
 - Example: Recession of 2008
- Data will lag – which won't be helpful
- Other data sources may serve as surrogate
 - For trend and impact analysis
 - Because it is more timely

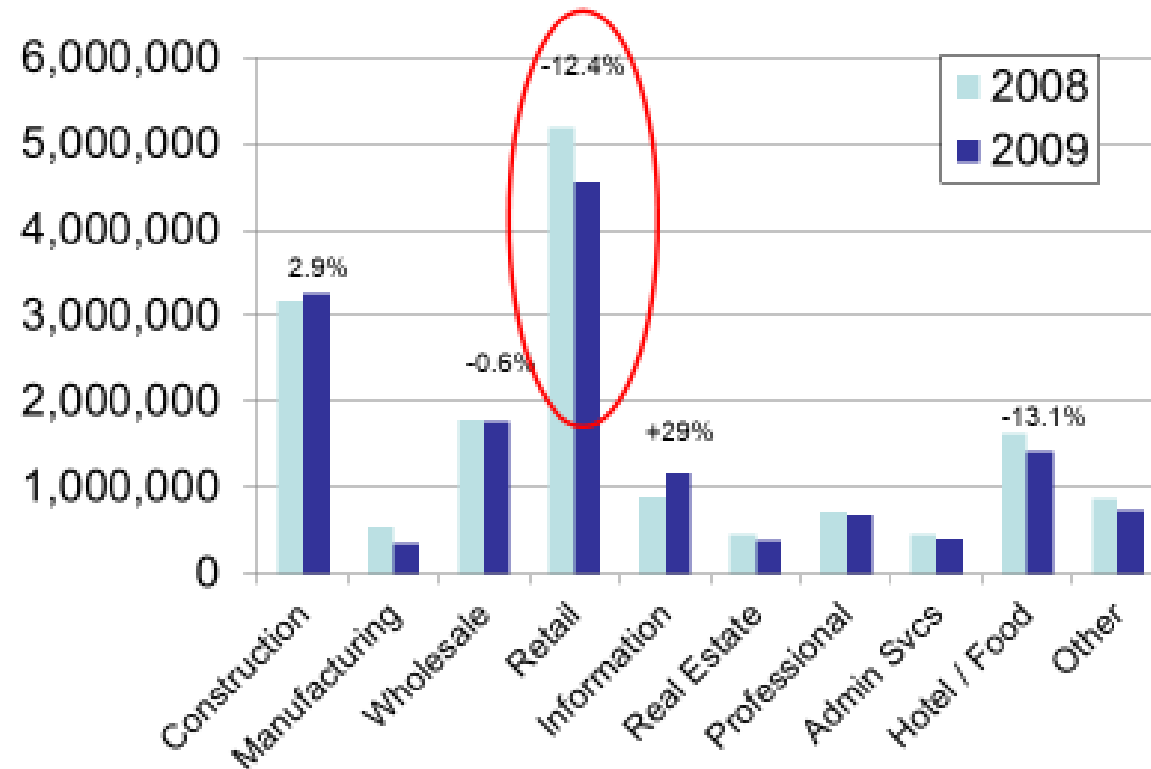
Redmond Example

Last Recession

Sales tax by source



General Fund Revenue – Sales Tax



Overall sales tax decrease from 2008 YTD is 6.3%

(same as reported last quarter)

Note: Data from December report which reflects sales through October

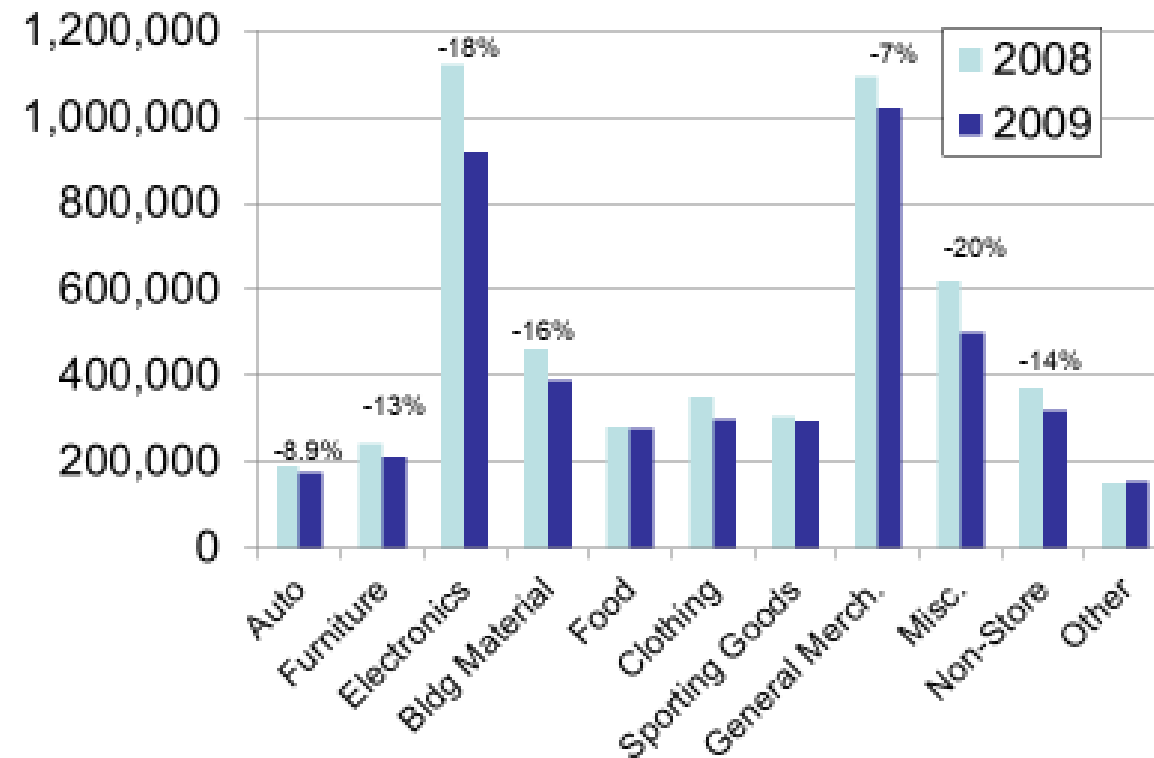
Redmond Example

Last Recession

Retail Sales tax
by source



General Fund Retail Sales Tax Analysis



Overall retail sales tax decrease from 2008 YTD is 12.4%
This is an improvement from a decrease of 16.6% last quarter

Revenues – Sales Tax

From “Facteus”

(<https://first.facteus.com/>)

- Based on electronic transactions data
- Not your data, not your community
- But may prove helpful

Consumer Spend										
Year over Year % Change										
		15-Mar-20	22-Mar-20	29-Mar-20	5-Apr-20	12-Apr-20				
Restaurants	↗	-16%	↓	-63%	↓	-65%	↓	-62%	↓	-60%
Fast Food Restaurants	↗	-5%	↘	-37%	↘	-36%	↘	-32%	↘	-31%
Movie Theaters	↘	-52%	↓	-93%	↓	-99%	↓	-99%	↓	-99%
Amusement Parks	↘	-33%	↓	-82%	↓	-85%	↓	-81%	↓	-83%
Commercial Sports & Athletic Fields	↗	-9%	↓	-69%	↓	-86%	↓	-76%	↓	-85%
Tourist Attractions	↘	-27%	↓	-70%	↓	-83%	↓	-73%	↓	-73%
Drug Stores and Pharmacies	↗	22%	↗	15%	↗	-9%	↗	-7%	↗	1%
Wholesale Clubs	↗	54%	↗	13%	↗	-6%	↗	4%	↗	-5%
Discount Stores	↗	31%	↗	2%	↗	1%	↗	17%	↗	20%
Variety Stores	↗	47%	↗	20%	↗	-1%	↗	11%	↗	13%
Department Stores	↘	-27%	↓	-66%	↓	-67%	↓	-64%	↓	-61%
Misc. General Merchandise	↗	-5%	↘	-30%	↘	-33%	↘	-25%	↘	-27%
Grocery Stores & Supermarkets	↗	43%	↗	27%	↗	6%	↗	15%	↗	14%
Beer, Wine, and Liquor Stores	↗	20%	↗	58%	↗	11%	↗	28%	↗	26%
Video Games	↗	21%	↑	63%	↗	51%	↑	95%	↑	102%
Home Supply Warehouse Stores	↗	6%	↗	-13%	↗	6%	↗	3%	↗	-2%
Airlines	↘	-41%	↓	-79%	↓	-88%	↓	-92%	↓	-94%
United Airlines	↘	-43%	↓	-79%	↓	-88%	↓	-92%	↓	-94%
Alaska Airlines	↘	-57%	↓	-81%	↓	-89%	↓	-92%	↓	-94%
Lodging	↘	-23%	↓	-65%	↓	-77%	↓	-75%	↓	-80%
Holiday Inn	↘	-31%	↘	-58%	↓	-82%	↓	-80%	↓	-82%

More From Facteus

Amazon, on the other hand, has seen spending continue to accelerate, growing nearly 44% year over year.



Revenues

- Utility tax
 - Semi stable (relatively inelastic)
- Lodging (tourism) taxes
 - Very volatile, at least in short term
- Intergovernmental payments – check for changes
- Fines and forfeits – typically smaller amounts
- Other revenue – interest, rents, etc.

Revenues – Fees and Charges

- Utility fees
 - Shutoffs, late fees, reconnect fees suspended
 - Potential cashflow implications
- Development and permit fees
 - Reduced levels of activity, may have already received revenue related to future committed costs
- Recreation and facility use fees
 - Most are suspended (immediate effects, potential longer term effects)

Expenditures – By Type

- Compensation
 - Salaries and Wages
 - Often tied to labor agreements
 - Benefit costs
 - Safety equipment & supplies
- Services and supplies
- Capital
 - Recurring (vehicles, equipment)
 - Non-recurring (projects)

Expenditures – By Function

- Public safety / first responders
- Maintenance and systems support
 - Utilities, infrastructure, IT, etc.
- Leadership
- General administration
 - Finance, Personnel, Legal, etc.
- Program staff
 - Essential (examples could be development / permit related, education)
 - Non-Essential (recreation, community centers)

Expenditures – Strategies

- Capital – defer projects, delay replacements
- Supplies – reduce inventories, delay replacements
- Services – consider which should be suspended / discontinued
- Compensation
 - Hiring “freeze” / review current vacancies
 - Furloughs, temporary layoffs, permanent layoffs
 - Reopen bargaining agreements (if possible)
 - Reduce liabilities (accrued vacation, sick leave)
 - Unemployment compensation when it becomes due

Cashflow – Issues and Options

- Delays and deferrals
 - Tax collections such as property taxes (in some counties)
 - Fees, late fees, related resources
- Reductions in revenue collections
 - Differing lag times (need to anticipate this impact)
 - Taxpayer compliance (if they owe it, will they pay it on time??)
- Strategic use of reserves
 - Refer to your policies
 - Refresh your policies (review to create awareness)

Cashflow – Issues and Options

- Liquidity
 - Is your cash available?
 - Investment policies and options
 - Safety, Liquidity and Return on Investment
- All funds (accounting funds) should be reviewed
 - Then focus on those with liquidity challenges
 - Assess investment policy options during these unusual times

Cashflow – Issues and Options

- Don't intermix funds – each fund needs to remain distinct
- Interfund loans
 - Ability to repay, compliance with guidance
 - Steps required to implement
- Short-term borrowing
 - Tax / revenue anticipation notes, bank loans, private placement
 - Ability to repay
 - Review your policies
 - Consult your debt team (bond council, financial advisor)
 - Access to markets could be an obstacle

Cashflow – Issues and Options

- Other funds (those you don't think about often)
 - Debt service – if your county delays property tax deadline do you have sufficient reserves to make June debt payment?
 - Lodging tax – Do you have commitments that could prove difficult to meet? (hard dollar amounts, etc.)
- Focused on operations (not capital)

Communication

A blue-tinted background image showing a person's hands holding a smartphone. In the background, a laptop and some papers are visible on a desk.

Communication

Some key concepts

- Constructive – does the communication fit the need?
- Credibility – maintaining the confidence and support of decision makers
- Fact based – clearly identify what is speculation
- Timely and relevant – can't always wait for precision
- Accessible – get the same information to all the audiences
- Participative – interactive (to the degree possible)

Communication

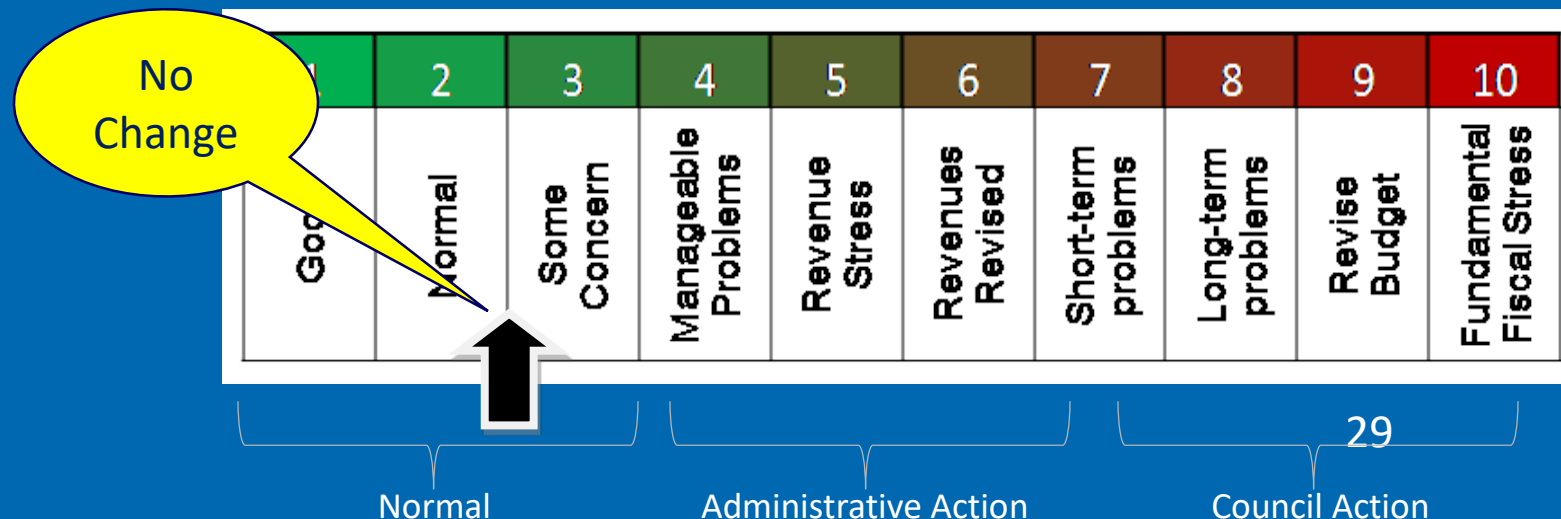
Audiences

- Leadership – contribute to the decisions constructively
- Legislative – involve decision makers routinely
 - Review policy guidance and how it is facilitating decision making
- Staff – create a means to predictably share information
 - Create a schedule, provide exposure of the leaders, interactive
- Community
 - Websites have been updated – keep it up as things evolve
 - Update & consolidate guidance (e.g. tax due dates, etc.)
 - Don't forget phone messages

Budget Reporting

Redmond example

- Difficult economic times results in greater scrutiny
 - Public Administration and Finance Committee
 - City Council
 - City Administration



Scenario Development

The background of the slide is a blue-tinted image. It features a spiral-bound calendar with the year '2020' and the months 'January' and 'February' visible. A blue pen is resting on the calendar. A green diagonal line runs from the bottom left towards the center of the image.

Strategic Financial Plan

- Here's the Key!
- Created to enable analysis related to changes in underlying assumptions
 - The situation is dynamic and things will change
 - You will want to (and will be asked to) evaluate alternatives
 - Use a table of drivers and assumptions to enable a robust financial analysis
- Keep it high level
 - Don't let the details get in the way of the strategic view
 - Focus on the most meaningful variables



Illustration of Strategic Financial Plan – Revenue

	A	B	C	D	E	F	G	H	I	J	K
1	ANY CITY, WA										
2	Long Range Financial Plan										
3		(in thousands)	History			Current	Forecast				
4	Revenues		2016	2017	2018	2019	2020	2021	2022	2023	2024
5		Property Tax	1,372	1,414	1,050	1,309	1,352	1,386	1,410	1,431	1,451
6		Sales Tax	2,738	2,955	3,227	2,946	3,241	3,403	3,505	3,610	3,683
7		Utility Tax	1,448	1,511	1,538	1,571	1,650	1,699	1,750	1,803	1,857
8		Other Taxes	148	157	564	360	367	374	382	389	397
9		Total Taxes	5,706	6,037	6,378	6,187	6,610	6,863	7,047	7,234	7,387
10		Licenses & Fees	304	497	393	366	373	380	388	396	404
11		Intergovernmental	217	238	266	245	250	255	260	265	271
12		Charges for Service	2,810	3,067	3,251	3,493	3,668	3,778	3,854	3,854	3,854
13		Fines & Forfeits	5	1	0	-	-	-	-	-	-
14		Other Revenues	118	141	124	168	172	175	179	182	186
15		Non Revenue	21	8	10	-	-	-	-	-	-
16	Total Revenues		9,182	9,988	10,423	10,459	11,073	11,451	11,727	11,931	12,101

[illegible]

Illustration of Strategic Financial Plan – Expenditure

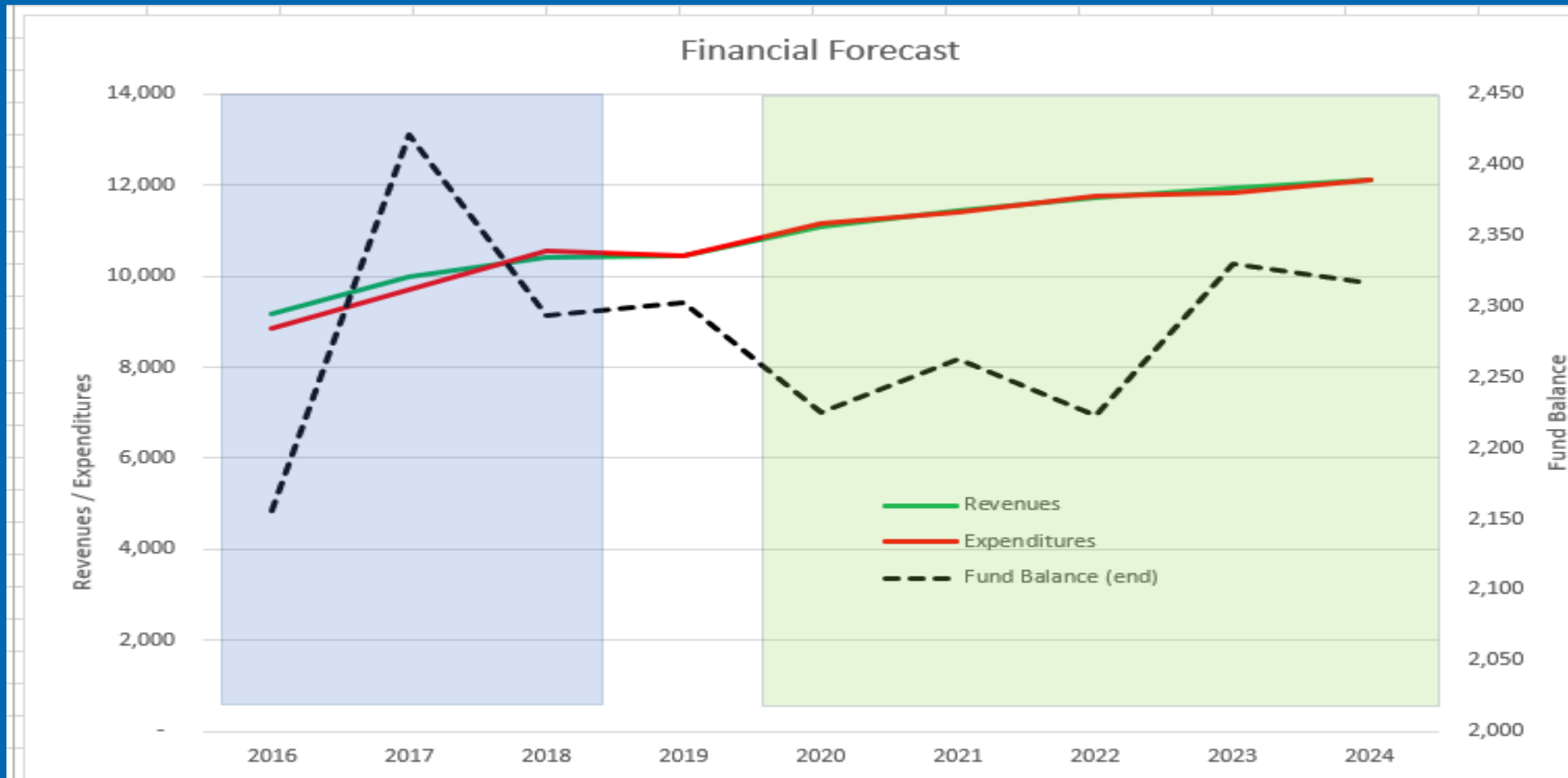
		History			Current	Forecast				
		2016	2017	2018	2019	2020	2021	2022	2023	2024
Expenditures										
	Salaries	4,158	4,248	4,532	5,023	5,224	5,329	5,535	5,646	5,752
	Benefits	1,386	1,416	1,511	1,674	1,828	1,865	1,937	1,976	2,013
	Total Compensation	5,544	5,664	6,043	6,698	7,052	7,194	7,472	7,622	7,766
	Supplies	332	348	325	334	341	348	355	362	369
	Services and Charges	1,233	1,411	1,637	1,616	1,649	1,682	1,715	1,750	1,785
	Intergovernmental	479	483	531	513	524	534	545	556	567
	Capital	-	58	3	11	10	-	50	-	30
	Interfund	1,250	1,759	2,012	1,277	1,574	1,655	1,630	1,534	1,598
	Total Expenditures	8,838	9,722	10,550	10,450	11,151	11,413	11,767	11,824	12,115
	Difference	344	266	(128)	9	(78)	38	(40)	107	(14)
	Fund Balance (end)	2,155	2,422	2,294	2,303	2,225	2,263	2,223	2,330	2,316

Financial Plan Assumptions and Drivers

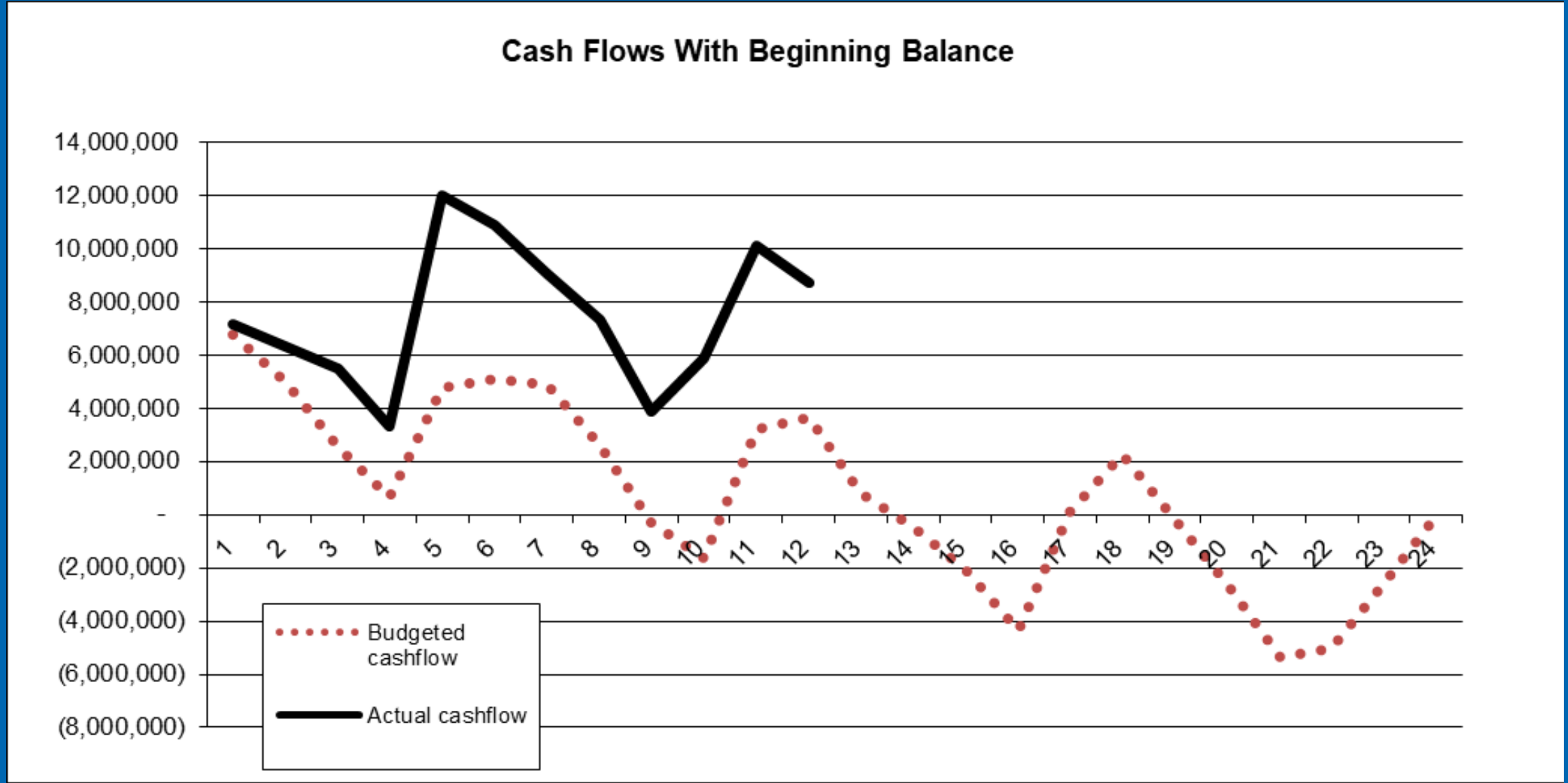
	2020	2021	2022	2023	2024	Explanations			
Expenditures									
Salaries									
Number of Employees	83.25	83.25	85.25	85.25	86.25				
# of New FTEs	1.00	-	2.00	-	1.00				
Public Safety	1.00	-	1.00	-	1.00	Average Public Safety Compensation			
Non-Public Safety	-	-	1.00	-	-	Average non-Public Safety Compensation			
Change in Compensation	3%	2%	2%	2%	1%	Cost of Living Adjustment			
Benefits	35%	35%	35%	35%	35%	Percent of salaries			
Total Compensation									
Supplies	2%	2%	2%	2%	2%	CPI	2%		
Services and Charges	2%	2%	2%	2%	2%	CPI	2%		
Intergovernmental	2%	2%	2%	2%	2%	CPI	2%		
Capital	10	0	50	0	30	Dependent on Need - WAG			
Interfund	1,574	1,655	1,630	1,534	1,598	Average of prior five years			

Green cells are for "input"
Yellow cells are derived

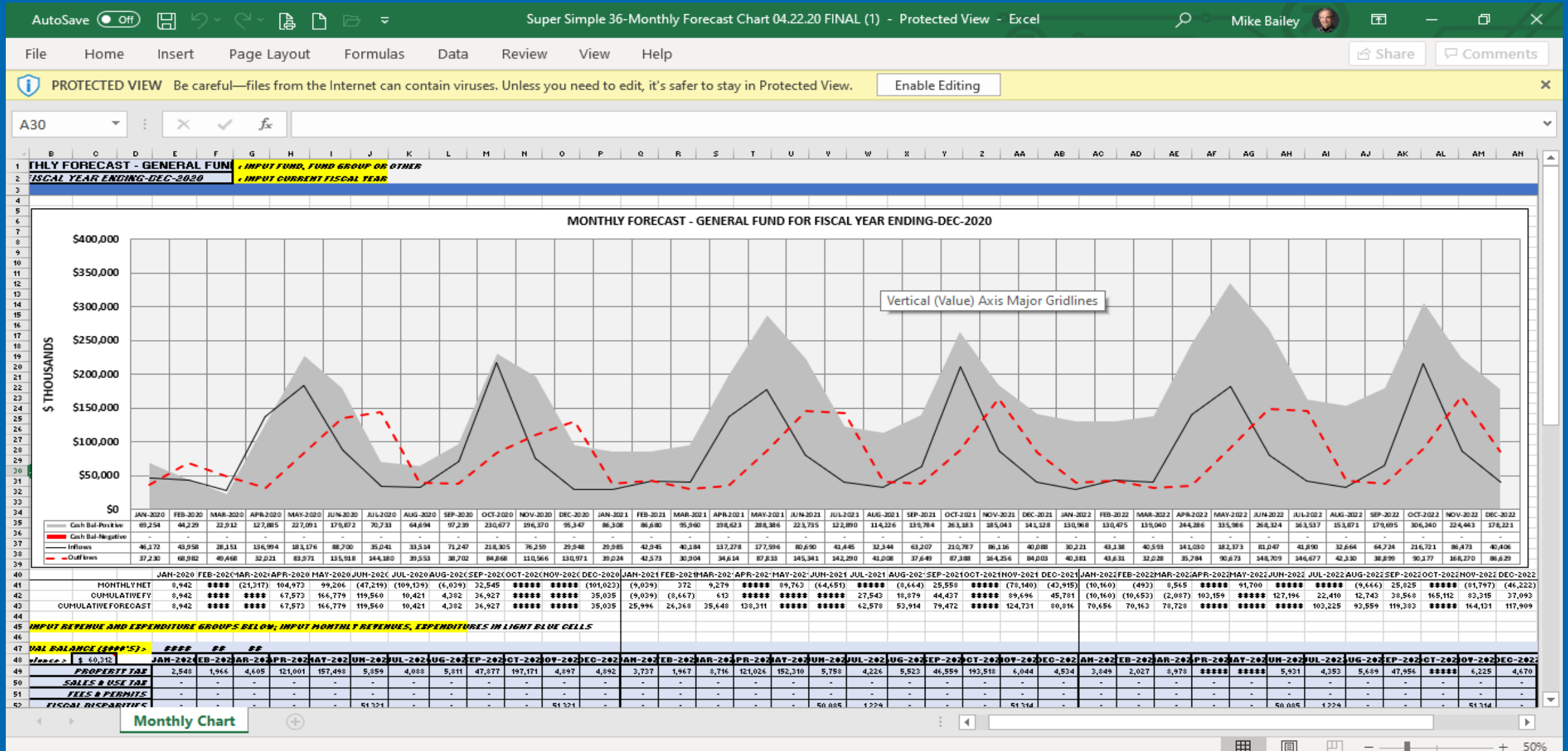
Illustration of Strategic Financial Plan – Charts



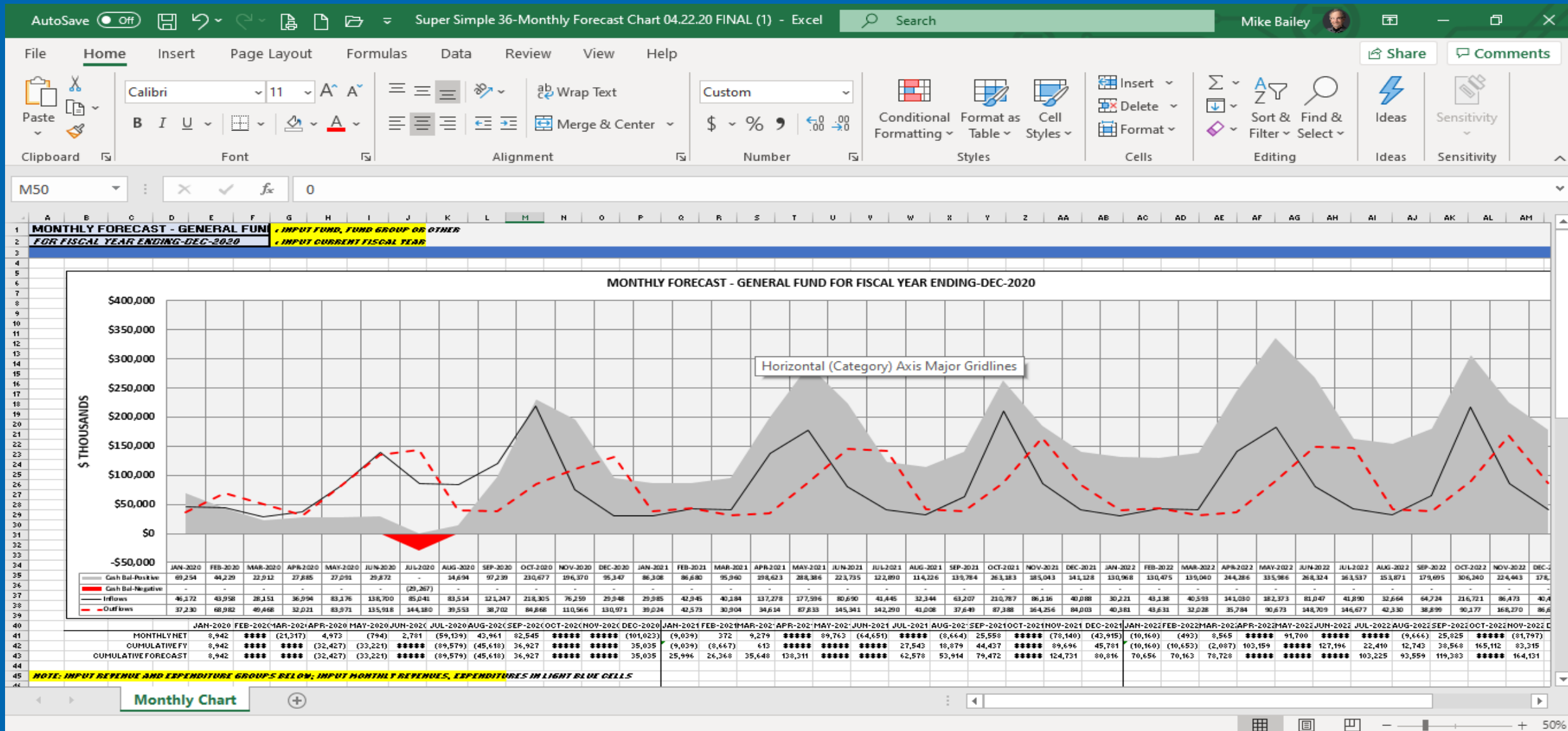
Another Redmond Example – Monthly Cashflow



GFOA Models – “Super Simple”



GFOA Models – “Super Simple”



Tips and Tricks

- Consider likely / potential fluctuations in cashflow
- Stress test
 - At what point in major categories would problems occur?
- Evaluate cost of liquidating investments vs. borrowing
- Create “points in time models”
 - Save off each significant scenario
 - They will run together at some point and become confusing
- Review and confirm this work looks “reasonable”
- Keep it simple and on point!

How to Get Started

- Use a GFOA provided resource:
- Download one of two Excel model templates at course website (www.gfoa.org/ffa)
 - Simple Model – includes a tab for instructions
 - Super Simple Mode – no instructions, but pretty simple 😊
- Other GFOA resources included:
 - Link to a YouTube illustration for how to do this work

Conclusion

Financial Leadership in a National Emergency

- Anticipate fiscal issues
- Develop a means to support scenario evaluations
- Propose plans to mitigate the fiscal affects
- Facilitate decision making
- Put the plans into action

A coordinated approach is essential to your success

Resources

- **MRSC** (mrsc.org) – webpages & trainings
 - Coronavirus (COVID-19) Resources for Local Governments
 - Finance web pages – mrsc.org/finance
 - AskMRSC – Call / email with questions
- **GFOA** (gfoa.org)
 - GFOA Resource Center for Coronavirus Response
 - Best practice series
- **WA State Auditor's Office** (sao.wa.gov)
 - The Center – center@sao.wa.gov
 - SAO Helpdesk
- **AWC** (wacities.org) – Coronavirus (COVID-19) resources available

Questions?



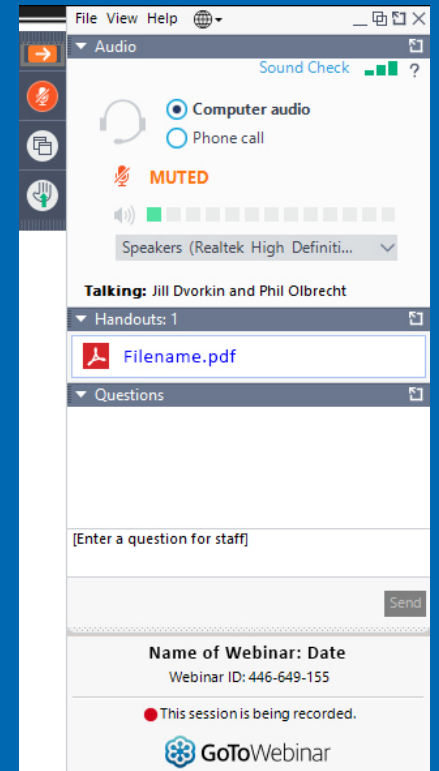
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