

# City Finance Amid COVID-19



With no crystal ball, city finance planning amid COVID-19 is a tricky task. Yet, cities must do their best to prepare their budgets and make the best decisions based on available information. The Iowa League of Cities aims to compile as much information and research as possible to assist. Some of these resources include a dedicated COVID-19 Resources and a dedicated COVID-19 Finance webpage, results of a COVID-19 Finance Survey that was recently conducted, and other research related to COVID-19 and city finance. This report looks at some of these materials as a snapshot in time; the League will continue to provide updated information and research as available and in conjunction with the rapidly changing environment we are currently experiencing.

## Iowa League of Cities COVID-19 Finance Survey

The League distributed a city finance-related survey in May and June 2020. City participants represented a wide variety of cities in terms of city size and location. Populations ranged from 82 to over 75,000. In addition, the League has information provided outside of its survey format on COVID-19 related financial estimates from many other communities, including all cities of larger than 50,000 in population.

The survey asked cities to estimate budget impacts in terms of revenues and expenditures, and to note actions the city had taken as a result of revenue reductions. Note that the survey's timeframe was in the earlier stages of the pandemic and that changes and updates can occur very rapidly in the current environment. Cities were encouraged to comment on a short-term horizon, mostly FY20 budget and FY21, if available, simply due to the pandemic being new and acknowledging that long-term projections would not be possible at this point in time.

## Revenue Sources

Within the survey, participants were asked how they arrived at their estimates. As is understandable, most included experience-to-date, and cited uncertainty in projecting forward. Some categories ranged widely depending upon unique city characteristics. The ranges noted in this article are in aggregate and may omit high and low response outliers.

**Property taxes, road use tax fund and local option sales tax are three revenue sources common to most city budgets in Iowa, and likely represent significant impacts due to COVID-19.**



**Property taxes** – the property assessment cycle is generally an 18-month cycle. Economic conditions impacting property taxes will experience a significant lag time until these are more fully realized. In the short-term, cities noted that a delayed impact due to delinquent tax collections may occur. In the League survey, many cities noted they anticipated recouping delinquent taxes eventually, and some estimates ranged from 2% to 10% reductions. It is assumed this does not relate to market conditions/potential suppression of assessments; the long-term is difficult to project at this time.



**Road Use Tax Fund** – cities estimated a 10% to 50% decrease over the short term. The recent Iowa Department of Transportation guidance references an estimate of approximately a 20% decrease as a state-wide average over the short term.



**Local Option Sales Tax** – cities responding indicated a 10-40% decrease over the short term.

## Other Revenue Sources



**Hotel/Motel Tax** – cities indicated a 40-70% drop over the short term.



**Parking Fees** – some cities indicated significant reductions over the short term, some at 100% due to waiving fees.



**Airport** (fuel charges) – cities with airports indicated a 30% to 40% decrease over the short term.



**Water Utility Fees and other Utility Fees** – cities indicated a 2% to 10% decrease, most related to no late charges and decreased usage, over the short term.



**Program Fees** – cities indicated a significant reduction in program revenues, dependent upon types of programs offered in each city.



**License/Permit Fees** – cities indicated a range of 20-40% decrease over the short term.

### Other comments related to COVID-19 and city revenue sources from larger communities in Iowa and other conversations with members include:

- Loss of rental and facilities revenues, including convention centers, entertainment venues and senior centers
- Loss of revenue due to swimming pool and golf course closures and prepaid supplies
- Flood mitigation revenue decreases due to reduced revenues from sales tax
- Transit revenue reductions
- Decrease in advertising revenues
- Franchise fee reduced revenues
- Water, utility and library fine waivers
- Reduced planning, inspections, and permitting revenues
- Decrease in public housing fund rentals
- Casino revenues losses
- County assessment for services reductions
- Reduction in district court fee revenues

### Which COVID-19-related expenditures were reported in the League survey and conversations with city members?

Some of the COVID-19 related expenditures reported included:

- Setup and technology for remote work and remote meeting setup, including laptops, software and licenses, routers, webcams, electrical/internet, cables, monitors, zoom or similar meeting platforms and VPN
- Attorney fees
- Deep cleaning services for public buildings, spaces and property
- PPE, including cleaning supplies, masks, face shields, sneeze guard/Plexiglas, spray guns and hand sanitizer/stations
- Signage
- Overtime and vacation payout paid to certain employees such as public safety, information technology and public works
- Costs related to special meetings and publishing public notices and minutes
- Lost wages and decreased productivity costs
- Paid wages when employees were quarantined or during departmental closures
- Costs related to city design elements to encourage social distancing
- Debt payments due to lost parking or convention center revenues
- Investment income due to a market downturn
- Increased security costs

**Some revenue streams may have guidance from the State or other sources; however, many local revenue sources do not have state-provided guidance at the time of this writing. The League is making efforts to keep its COVID-19 Finance and COVID-19 Resources webpages apprised as new information becomes available.**

## What other comments were given?



- Cities are concerned about the potential for rising health insurance premiums and plans as a result of the pandemic
- Some CDBG businesses report not being able to meet the required match
- Many cities are facing delayed or canceled capital expenditures and capital projects
- Cities report concerns about losing seasonal employees looking for other employment during this time of uncertainty
- Eliminating any non-critical travel and training, cutting programs and operations, putting in place hiring freezes, considering not hiring part-time and seasonal employees, considering whether furloughs or layoffs may be necessary



### National League of Cities COVID-19 Impact Projections by State

In a recent study by the National League of Cities (NLC), a state-by-state projection of aggregated anticipated revenue loss is featured. While the study acknowledges the challenges involved in projecting such wide-ranging estimates, it provides a useful framework as more

is learned. In the study, Iowa's projected total revenue loss for all cities and townships combined totals just over \$1.1 billion. The methodology used in the study uses U.S. Census data for revenue estimates. If the same methodology is used with revenue actuals reported by the State of Iowa, the estimated loss jumps to approximately \$1.5 billion. Note that these calculations are highly sensitive to the assumptions used, and again that the current economic environment is quickly changing.

Part of the methodology used in the NLC study included estimates of unemployment as of late March and April. Recorded unemployment estimates have recently been at the peak in Iowa and nationally and correspond to the pandemic's unprecedented nature. In just two months' time, unemployment rates reached beyond the peak of past recessions that took a much longer duration to realize.

### Iowa League of Cities COVID-19 Finance Tool

Included on the League's COVID-19 Finance webpage is the League's COVID-19 Finance Tool and instructions, meant to give a framework for cities to think about estimating revenue loss on a short-term horizon.



## CITIES ARE ESSENTIAL

### Iowa League of Cities and National League of Cities' Cities are Essential Campaign

The Iowa League of Cities has partnered with the National League of Cities in advocating for direct funding for cities of all sizes. Our joint campaign, Cities Are Essential, is already underway. These funds will provide much-needed stability as cities deal with unplanned expenditures and revenue losses due to the pandemic. While most cities in Iowa may not yet realize the full impact of the pandemic, this is our only chance to express that there will be a decrease in revenues, delays in projects and negative impacts to our communities.

## Studying Past Post-Recession Performance, Unemployment, and other Indicators



In partnership with the League, Iowa State University Extension & Outreach's Office of Community and Economic Development (ISU CED) led a detailed study examining past market recovery post-recession and a discussion on unemployment.

This study acknowledges that the root causes of recessions are different and thus will impact cities and the economy differently. However, the data can provide insightful information that may assist local governments in making decisions in this environment. This will be published in July 2020 and made available via the ISU CED and League websites.

A general finding from this study concluded that those cities with smaller total revenues (those under \$500,000 in total annual revenues) on average had not recovered total revenue from pre-Great Recession levels in the seven-year span following it. There may have been other factors that impacted these communities during that time frame, but it could be reasonably assumed that

the recession contributed to the trend. The 478 cities in these groups represent roughly half of the cities in Iowa, and ranged in population from 15 to 977 in the 2010 U.S. Census.

Unemployment data can also be an economic indicator; the COVID-19 pandemic has already impacted unemployment rates in Iowa significantly. Iowa's unemployment rate rose to 10.2% in April 2020, the highest it has been since the Bureau of Labor Statistics began recording Iowa-specific data in 1976. The U.S. unemployment rate for April 2020 was 14.7%. In Iowa, the unemployment rate that lagged the Great Recession rose to a peak of 6.6% (approximately 18-months after the beginning of the recession). By comparison, the U.S. unemployment rate in January 2010, the peak month following the Great Recession, was 10.6%. Again, the pandemic creates a different scenario than in previous recessions and will be difficult to project forward, or determine the long-term at this time.

[www.iowaleague.org](http://www.iowaleague.org)  
[research@iowaleague.org](mailto:research@iowaleague.org)  
Phone: (515) 244-7282

