



Downtown Springfield skyline.

ECONOMY / GOVERNMENT

City and town budgets hit hard

Municipalities face declining revenues amidst pandemic



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AS COVID-19 RAVAGES local economies, cities and towns are falling into a sea of red ink – and trying to figure out how to deal with it. While the public health impact of coronavirus is the primary focus of most local officials today, municipalities must also grapple with the economic fallout as they think about their budgets for the next fiscal year, which starts July 1.

Cities and towns are no longer getting money from hotel and meals taxes, recreational marijuana sales, or excise taxes on new cars. Business and housing growth have come to a screeching halt. Levels of state aid for next year remain uncertain, and no one knows what federal aid will be forthcoming. Meanwhile, municipalities are spending money on everything from masks for first responders to student laptops. And no one knows how long the pandemic will last.

“Right now, unfortunately, there are way more questions than answers, and all the questions are, from a budget viewpoint, gigantic red ink question marks,” said Geoff Beckwith, executive director of the Massachusetts Municipal Association.

The biggest component of most municipal budgets is property taxes, which are relatively stable. But cities and towns also rely on state aid, which is up in the air as the state grapples with budget shortfalls measured in the billions. Municipalities also rely – to differing degrees, depending on the community – on other local taxes and fees, which are declining precipitously.

Even once the initial economic crush subsides, residents are less likely to buy new cars in a recession, resulting in lower motor vehicle excise taxes. Business may not recover and less housing may be built, affecting property taxes. Making up for lost revenue through tax override votes – which let communities raise property taxes by more than 2.5 percent – are difficult to pass when residents are suffering financially.

Cities and towns are being hit on the chin with punch number one, and they will

also be hit by punch number two, three, four, five and six,” Beckwith said.

There are clear regional differences in how communities are being affected. Elizabeth Braccia, finance director for Barnstable County, said Cape Cod towns earn much of their money from tourism in June through August. While most vacation rentals have been cancelled, she speculated that if the virus allows it, Massachusetts residents may want to vacation close to home this summer, letting municipalities recoup that revenue. Officials will be monitoring beach openings in other states and talking about what it takes to reopen restaurants. “I do think once we start opening up, people will be chomping to get out, get on vacation, and the Cape is a likely place to do that,” Braccia said.

There will also be differences between small towns and large cities.

But the experiences of Massachusetts’s three largest cities offer some insight into municipalities’ challenges.

Boston

Earlier this month, Boston Mayor Marty Walsh released a \$3.65 billion city operating budget proposal for fiscal 2021 – a 4.4 percent increase over the current year. According to budget director Justin Sterritt, that is \$30 million lower than what city officials planned before the outbreak. The city is scaling back plans for new or expanded programs.

Boston already spent nearly \$20 million responding to COVID-19: buying tens of thousands of laptops and software for students, delivering food for students, procuring personal protective equipment for first responders, and standing up the Boston Hope Center, a temporary medical center at the Boston Convention and Exhibition Center.

With no tourism, no travel, conventions cancelled, and sit-down restaurants shuttered, the city is not getting tax revenue from rooms and meals taxes or aircraft traffic into Logan Airport. People are also not commuting and paying for parking. All told, Sterritt said the city is losing “tens of millions” of dollars in fees and taxes.

As with every municipality, Boston has no idea how much state local aid it will get next year.

In some ways, Boston is lucky. The federal CARES Act provides relief money for municipal governments, but only those whose population exceeds 500,000. In Massachusetts, that means only Boston is in line for help. (Smaller municipalities can access other pots of federal money, for example, for homelessness or heating assistance.)

Sterritt said the city is still figuring out how much money it will get from the federal government and how it can be used. He noted that most relief money is earmarked for COVID-19-related expenses and cannot be used to fill revenue holes.

Sterritt said Boston has more resources than some other municipalities, has a generally resilient local economy, and started out in a strong fiscal position. But at the same time, he said the city has “a really big responsibility” to provide services to a large population.

Worcester

Worcester is still figuring out the baseline revenue assumptions it needs to build its budget for next year, since all the work budget officials did before the pandemic hit must be revisited.

“A lot of it is very speculative at this stage because so much is unknown, including when we’re going to be opening things back up,” said Worcester City Manager Ed Augustus.

Between 6 and 7 percent of Worcester’s budget comes from local taxes and fees – including taxes on meals and hotel rooms, which are being decimated. Augustus said the city is counting on losing three months of revenue, but projecting how much more will be lost after that involves “huge guesses.”

The city is paying \$750,000 to maintain the DCU Center – which instead of bringing in income from concerts and events is being used as a field hospital. Closing the municipal golf course and putting off membership sales could cost another approximately \$450,000.

The city got \$200,000 from the state for public health costs, which helped buy personal protective equipment for public health workers and launch a contact tracing program. An earlier federal stimulus bill gave the city nearly \$5 million for social safety net and small business programs. Worcester’s emergency communications center has a finance team that is tracking expenses for overtime, homeless shelters, and equipment so the city can apply for reimbursement to state and federal emergency management agencies.

Worcester implemented a hiring freeze, with exceptions for critical positions, and Augustus must personally approve expenses over \$2,000. He hopes to repurpose the unused snow and ice budget and manage this year’s budget without tapping into reserves.

Looking ahead, the city plans a 2.5 percent increase in property taxes next year, the maximum allowed under state law. It will level fund services, with no salary increases and no new positions. Augustus said he will put every extra dollar into a contingency fund, so he can manage state aid cuts or lower revenue without layoffs.

“We’re going into next year just in a defensive crouch,” Augustus said.

Springfield

Springfield provides daily public updates on the coronavirus impact, and as of Wednesday, the city logged \$2.3 million in lost revenue and \$1.34 million in deficit spending. Typically, communities cannot overspend their budget, but due to the emergency, the state is letting communities incur liabilities and borrow money for emergency spending.

Springfield chief financial officer TJ Plante said the lost revenue comes from excise taxes – on hotels, restaurants and motor vehicles – and department revenues from things like park fees, parking tickets, and obtaining birth and death certificates. The city has not received \$2.3 million it expected from a contract with the MGM Springfield casino, which is temporarily closed. Its cash flow is also interrupted because residents can delay paying property taxes.

Long-term, Springfield Mayor Domenic Sarno said the entire business landscape could change. Businesses may close and companies that have been operating remotely might reduce the size of their offices.

Sarno is in some ways well-prepared: this is the fourth disaster to hit Springfield since he took office. But he said the pandemic is different from a tornado, nor'easter, or gas explosion. "This is a different animal," Sarno said. "The others I knew what hit us and I knew how to hit back....This is like you're shadow boxing. It's invisible. Who knows how long it's going to go?"

Springfield is buying laptops for students, setting up food sites, and giving grants to restaurants and small businesses.

Sarno said city officials are "tracking every dime" to apply for reimbursement. He is lobbying US Rep. Richard Neal, a former Springfield mayor who chairs the powerful House Ways and Means Committee, to include money for local governments in the next federal relief package. "We're on the front lines," Sarno said. "If we're going to get the economy going, we have to have money to be able to keep essential services going."

So far, Springfield has gotten around \$4.4 million in federal dollars for housing subsidies, public safety, and entitlement and social service programs.

Springfield instituted hiring and spending freezes. City officials are trying to get out of paying for contracts with vendors that are no longer providing services and have laid off employees.

"We do have to squirrel away as much money as we can," Sarno said, anticipating budget shortfalls.

Sarno has not yet released his budget proposal for next year, which he typically does by May. "I couldn't sit here and advise the mayor on how to do a budget right now because the revenue picture is so unclear," Plante said. Plante expects to have at least \$25 million less than anticipated.

Sarno said he is considering digging into reserves for the first time in about five years. “The reserve is for a rainy day,” he said. “It’s pouring right now.”

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