



Town Budget Notebook

COVID-19 brings with it an historic economic shutdown and big budget implications. Here's a look ahead for town governments.

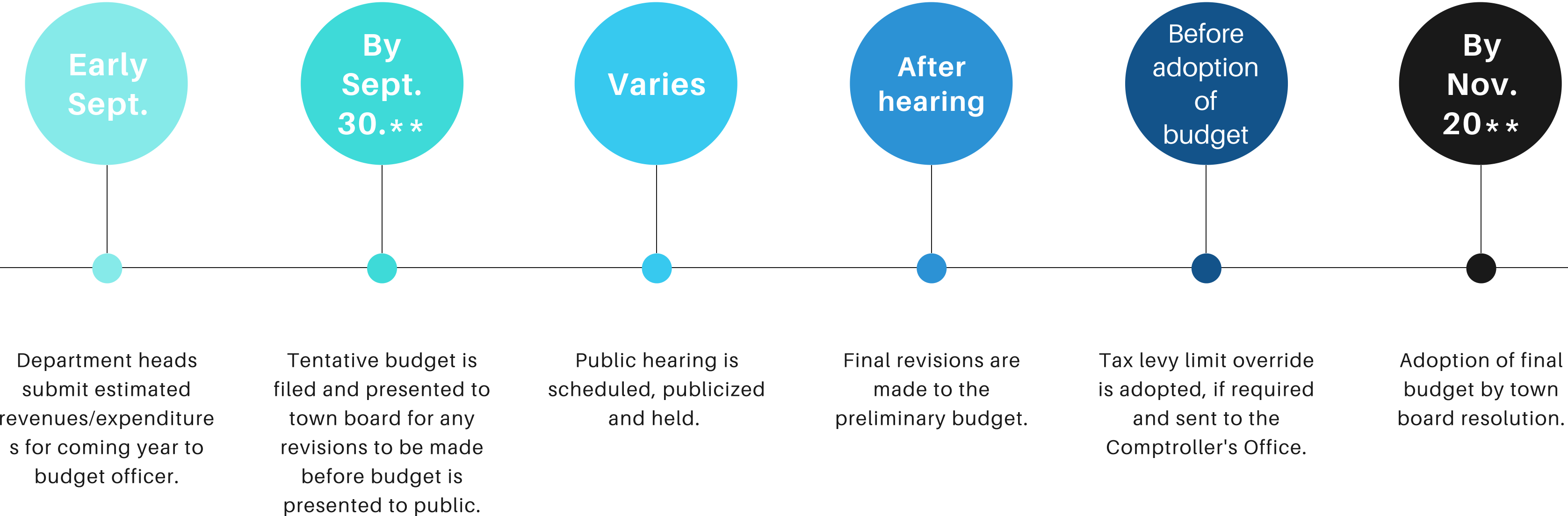


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TOWN BUDGET PROCESS

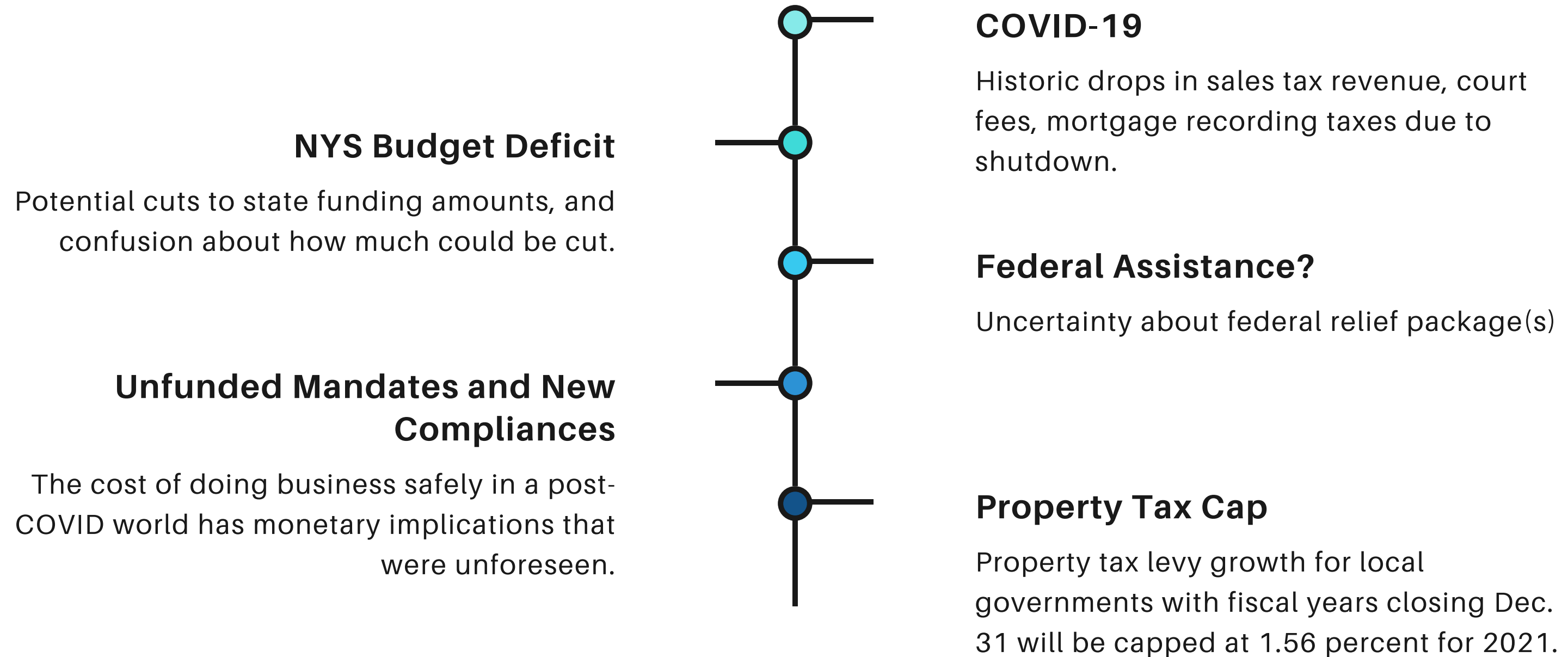
Fiscal year ending 12/31

*** (Please note: Monroe and Westchester County towns run about a month behind)*



FACTORS AFFECTING 2021 TOWN BUDGETS

Association of Towns



FEDERAL FUNDING QUESTIONS REMAIN

CARES Act Misses Smaller Local Governments

In April, the federal government recently enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to address the economic fallout from the coronavirus pandemic in the United States. Unfortunately, the various federal stimulus packages recently adopted fail to adequately help local governments. Although the first stimulus package provides some direct funding, it is only for municipalities with populations of over 500,000. ***In real terms, this means five counties, one city, and one town in New York qualified for that round of aid.***

The coronavirus pandemic has created significant financial stress for local governments in New York as an estimated \$2 billion in sales tax revenue has been lost, as well as other sources of revenue such as permit fees, justice court fines, and mortgage recording taxes. Furthermore, Gov. Andrew Cuomo has stated that local governments can expect a reduction in state aid anywhere from 20 to 50 percent if the federal government does not provide aid to states. Lack of federal funding, combined with a decrease in state aid, and reduced revenue from sales tax, court fines, permit fees etc., would be catastrophic for towns, and ultimately New York State residents.

This paints a perilous picture of depleted resources and widely affected local economies and services.

A recent report issued by the New York State Comptroller's Office indicates that state and local governments account for 8.5 percent of the nation's GDP, and according to the U.S. Bureau of Labor Statistics, state and local governments provided over 13 percent of the total jobs in 2019. The Bureau of Labor Statistics recently reported states + localities laid off 1.5 million government workers due to COVID-19, which was a storyline likely missed due a positive job report in May of 2020.

The Association of Towns supports direct federal funding to localities to avoid budget deficits, furloughs and layoffs and local service interruption. We have provided a sample resolution for our members to adopt and submit to their federal representatives [here](#) on our website.

COVID'S EFFECT ON NYS SALES TAX

Source: The New York State Comptroller's Office

Sales tax revenue for local governments in May fell 32.3 percent compared to the same period last year, according to State Comptroller Thomas P. DiNapoli. Sales tax collections for counties and cities in May totaled \$918 million, or \$437 million less than 2019.

The sharp decline in revenues was widespread around the state, ranging from a drop of 19.5 percent in Westchester County to a 41.5 percent decline in Tioga County. Nearly every county in every region of the state saw a large drop in overall collections. New York City experienced a 31.9 percent decline, amounting to \$196 million in lost revenues for a single month. One major influence is consumers' online spending, now largely subject to the sales tax. Detail on this activity is not currently available.

"We anticipated that sales tax revenues would continue to drop because of COVID-19 but the May sales tax figures show just how deep it is cutting into municipal finances," DiNapoli said. "Sales tax revenues are vital funding not only for the state but for municipalities like counties and cities as well. The federal government needs to step up and provide financial help to states and local governments hit hard by this virus to avoid severe cuts to critical services." DiNapoli reported that local sales tax collections dropped 24.4 percent in April, or \$327 million less than collected in that month a year ago, after relatively modest losses in March collections.

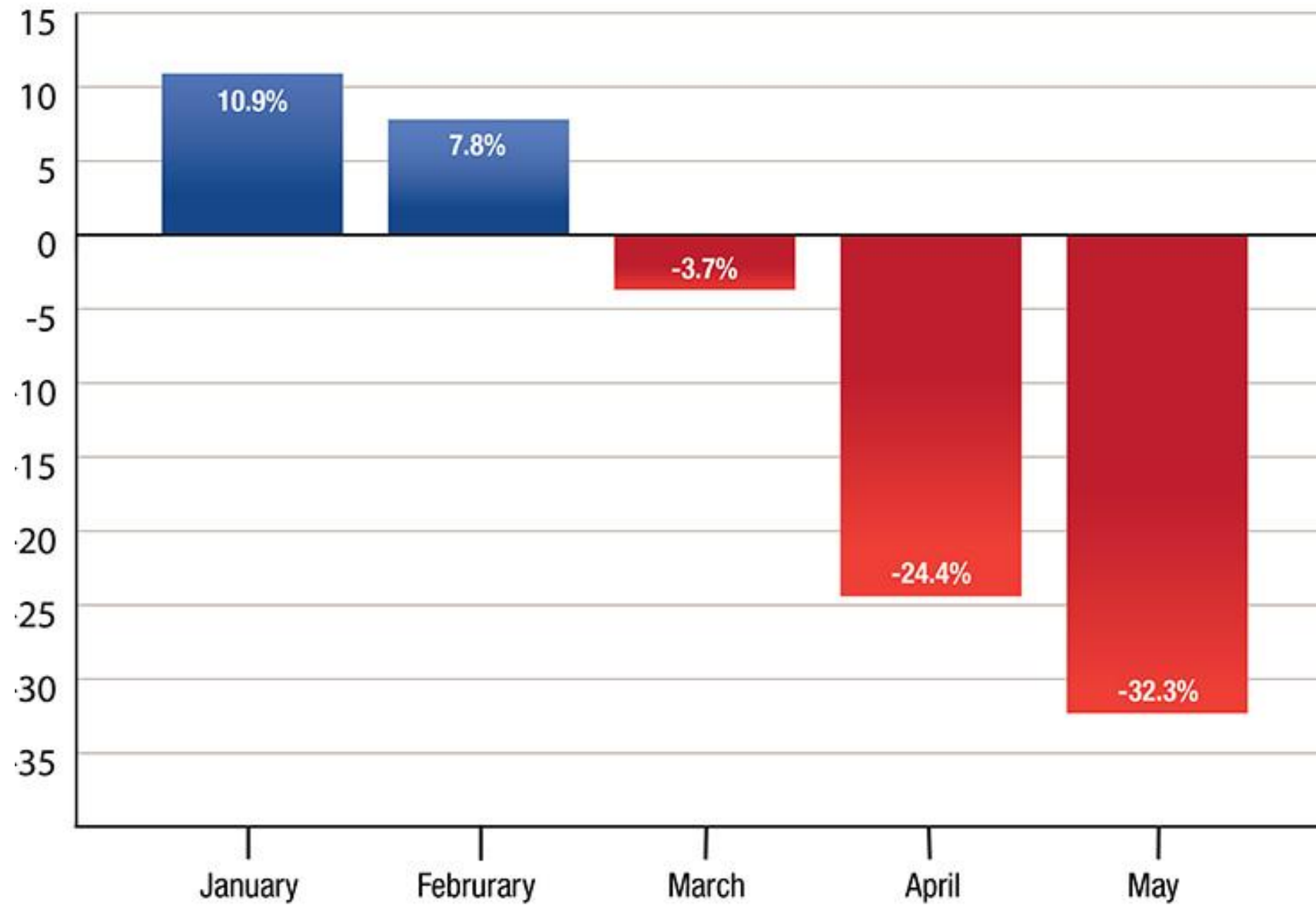
Over the three-month period of the pandemic's effects, local governments have received \$824 million (19.2 percent) less in sales tax revenue than they did during that same period in 2019.

COVID'S EFFECT ON NYS SALES TAX

Quarter 1

Monthly Year-Over-Year Change in Statewide Local Sales Tax Collections

January to May 2020



NEW YORK SALES TAX DOWN THROUGH Q2

Source: The New York State Comptroller's Office

Statewide Analysis

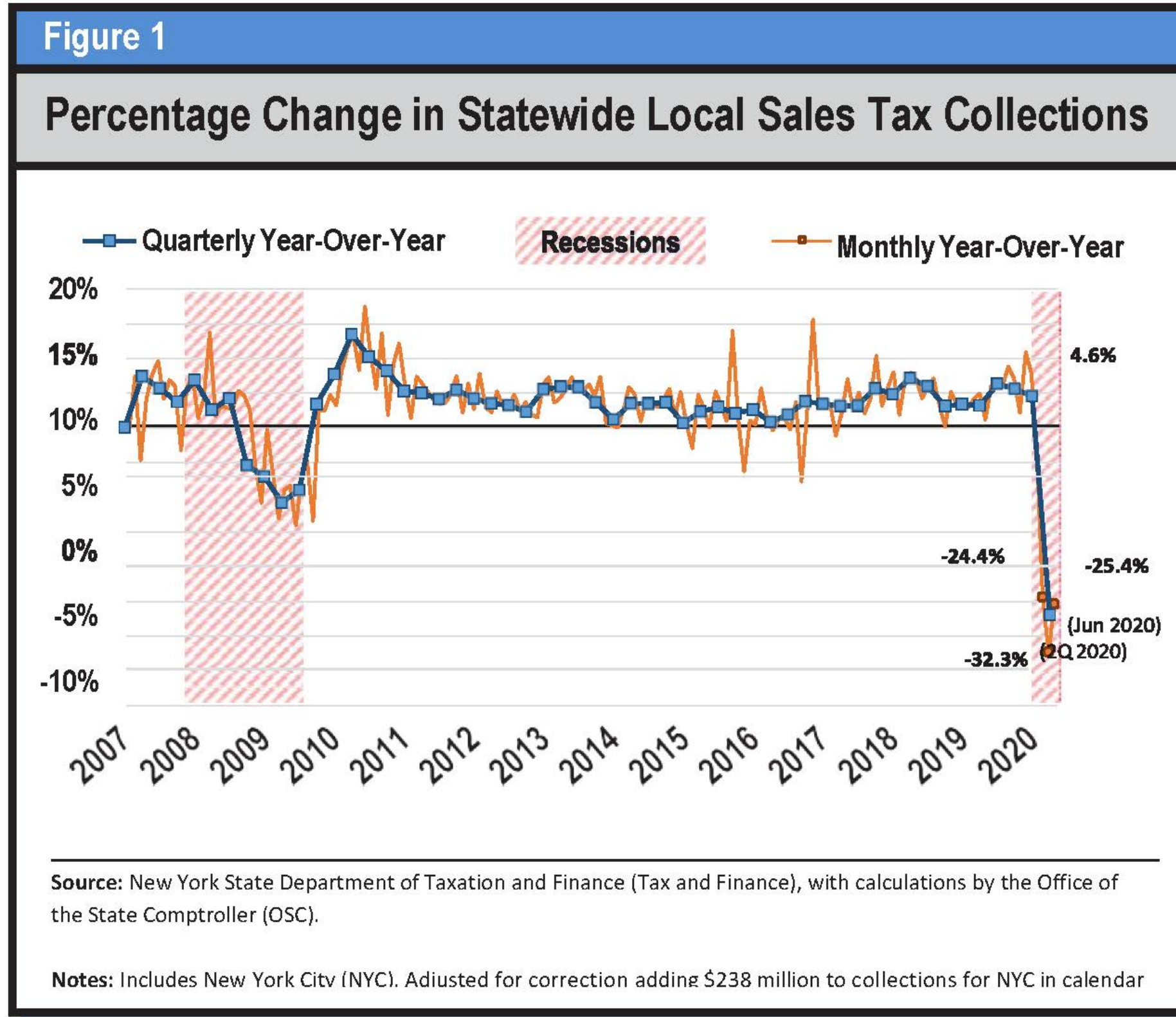
June 2020 sales tax data showed mixed results for local governments. Year-over-year statewide local collections were down 25.4 percent, a slight improvement over the 32.3 percent drop in May and slightly higher than the 24.4 percent decrease in April. However, sales tax performance for June varied considerably, with many counties in regions that began reopening sooner seeing growth over June of 2019, and New York City having a particularly steep decline.

For the second calendar quarter (April-June) overall, local sales tax collections declined significantly in all parts of the state, with the statewide total down 27.1 percent, or \$1.2 billion, over the same quarter in 2019.¹

The COVID-19 pandemic shuttered many businesses in mid-March, caused spikes in unemployment and a national recession, and was the main driver of quarterly sales tax declines, which were especially steep in April and May.² By early June, most retail stores and offices in upstate regions were conditionally permitted to reopen under strict safety guidelines, while downstate regions were not permitted to reopen as soon, especially New York City. The second quarter drops came after a 4.6 percent increase in first quarter (January-March) collections, the strength of which was partly due to better collection of taxes on internet sales from small, out-of-state merchants.

COVID'S EFFECT ON NYS SALES TAX

Quarter 2



FISCAL IMPACT SURVEY RESULTS

AOT Survey of Member Towns Regarding Potential State Funding Cuts

In keeping with its mission to help towns obtain greater economy and efficiency and in response to the fiscal impacts of the COVID-19 pandemic, the Association of Towns distributed a survey to its membership in April of this year. We requested towns report both quantitative and qualitative impacts of actual and projected revenue losses attributable to the COVID-19 pandemic and state actions.

Some highlights:

Fiscal Impact of COVID-19

- Statewide, between loss of justice court fines, mortgage recording taxes, permit and licensing fees and sales tax, towns' lost an estimated \$215 million in revenue in March alone. Sales tax represents the largest portion of this total, and New York businesses were fully operational for the first half of March.

How Towns Use State Funding

- Excluding CHIPS, 31 percent of respondents primarily use state funding for youth, senior and recreation services, courts and administration.
- 39 different responses were given when asked what town services mainly rely on state funding. This indicates that cuts in state funding will not only impact things like road maintenance, but also services like cemetery maintenance, code enforcement, and police and fire services. The breadth of the impact of reductions in state assistance should not be underestimated.

Summary

While we all know that many towns rely on state funding for road maintenance, our survey showed a larger variety of services that are buoyed by state assistance - things like library services, recreation and youth program, administrative services, just to name a few. Just as the Governor and the Legislature are calling for robust federal aid to offset state losses, the Association of Towns is calling on the state to provide a similar robust effort - clearly, a state funding cut of 40 percent will have a more drastic effect on town budgets and by extension, New York taxpayers. Town budgets are built with little fat to trim, so we anticipate drastic reductions in town services and administration. Whether or not towns will have to raise revenues elsewhere remains to be seen and largely depends on the state.

FISCAL IMPACT SURVEY RESULTS

AOT Survey of Member Towns ring Potential State Funding Cuts

Cuts in State Funding

- Top responses when asked what town services that will immediately be reduced or eliminated if there is a reduction in anticipated state funding by 20 percent

Road Maintenance	23.8%
Recreation Programs	13.9%
Youth Programs	9.4%

- Top responses when asked what town services that will immediately be reduced or eliminated if there is a reduction in anticipated state funding by 40 percent

Road Maintenance	24.5%
Recreation Programs	10.5%
Buildings and Grounds	8.2%

- Top responses when asked what budget actions towns would use address a 20% cut in state funding

Cancel Capital/Infrastructure Projects	21.8%
Draw down of reserves	20.8%
Reduction of staff levels and hours	18.1%

- Top responses when asked what budget actions towns would use to address a 40% cut in state funding

Reduction of staff levels and hours	23.6%
Cancel Capital/Infrastructure Projects	18.6%
Draw down of reserves	15.0%

FACING COVID-19'S FINANCIAL FALLOUT

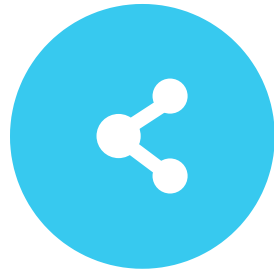
Experts suggest that we may be feeling the financial effects of the COVID-19 pandemic for several budget cycles.

AOT has been monitoring several pieces of legislation that would potentially ease the pressure local governments face as they develop their first post-COVID-19 budgets.

As of the time of this writing, the following bill passed the Legislature and waits either approval or veto by the governor.

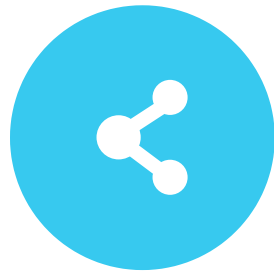
- A10492/S8417 – Allows BANs to rollover for 7 years instead of 5; allows towns to spend money from capital reserve funds for capital costs related to COVID-19 without being subject to a permissive referendum; allows towns to temporarily borrow money from reserve funds for COVID-19-related expenses so long as at least 20 percent of what's borrowed is returned each fiscal year; gives towns another year to pay back interfund advances.

Stay tuned to our website www.nytowns.org and social media pages for breaking updates regarding these bills as they become available.



START WITH YOUR VISION AND VALUES IN MIND

The most valuable piece of any long-range, strategic plan is the work you put into developing a unified community vision. Your vision is the ideal place on the horizon, where your community will and in 15 to 20 years, so long as you take appropriate action. Additionally, clearly defined values tell us how we will get there. As you're starting to evaluate tough budget decisions, refresh yourself on the vision and values. Recognize that the current crisis may slow your pace, but never do anything that will take you off the path, or impact your ability to ultimately reach your identified vision.

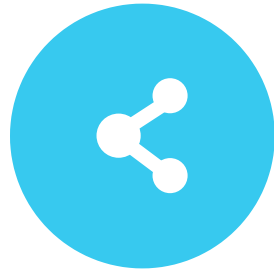


AVOID "ACROSS-THE-BOARD" DECISIONS

The federal government used to call this "incision" or "impoundment." It's the lowest possible form of decision making. Revenues are down 20 percent? We'll just slice 20 percent from every line item. In most cases, it's not practical (mandated spending, long term debt, labor contracts, etc.). In nearly every other case, it represents a lack of tough decision making, critical thinking, and prioritization. Look at every spending line independently, and determine what investments will most effectively drive you toward your priorities.

Tips to Get your Town Budget Ahead of the Curve

This is an excerpt from an article that appeared in the July/August 2020 issue of *Talk of the Towns & Topics* Courtesy of Matt Horn, MRB Group's Municipal Division, *SmarterLocalGov*.



LEVERAGE THIS CRISIS TO BUILD YOUR BEST LEAN ORGANIZATION

Critical decisions will need to be made. Rather than blindly committing to doing everything on a temporary basis, use this opportunity to build your best organization. Rebuild Town Hall to deliver all services in as lean a fashion as possible. When revenues recover, don't immediately spring back to old ways. Treat expanded revenues as "found money," and continue leveraging lean principles to maximize revenue streams. Build in flexibility for the next crisis - it's never more than a few years away.

Tips to Get your Town Budget Ahead of the Curve

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