

Municipal Budgeting During the Pandemic

By Melissa Szot, CPA, CGMA, Senior Manager

Local governments have been severely impacted by the pandemic; however, there has been very little news coverage regarding this sector. While citizens' tax payments are still due, not all local programs are funded entirely through local taxes. Generally, the revenues that have been affected by the pandemic can comprise anywhere from 5% to 20% of the total revenue of the General Fund.

The difficult part of budgeting is the “unknown” factor as the return of economic activity to pre-pandemic levels remains uncertain. As vaccines roll out and restrictions loosen, the hope is for better days ahead from an economic and budget standpoint.

Fortunately, the American Rescue Plan Act of 2021 (Rescue Plan) established the Coronavirus Local Fiscal Recovery Fund designating \$130.2 billion in aid for local government entities. These funds can be used to respond to the coronavirus health and/or economic impacts and cover the cost of providing services. With details of the Rescue Plan now available, this new information can be utilized for budget planning. This newsletter outlines some factors to consider when developing budgets.

Considerations for All Municipalities

Technology and Cybersecurity – During the pandemic, most employers provided their employees with the flexibility to work remotely or on a “hybrid” schedule. As a result, many employers had to provide hardware that was not included in the original budget. In regard to data security, it has been reported that attempted cyberattacks increased between 200% to 400% during the pandemic. This required municipalities to become more vigilant with their cybersecurity training and protections. While some of the costs incurred may have been one-time expenditures, there will most likely be recurring costs related to technology and cybersecurity. Now is also a good time to obtain a risk assessment from the Information Technology (IT) Department, based on current policies and procedures, and determine what adjustments may be needed.

Key Budget Questions:

- How many employees will be working remotely during the budget year? Do these employees need access to the municipality's data?
- Has there been enough cybersecurity training? How many training sessions should be conducted annually and what is the cost?
- Based on the results of the IT risk assessment, what areas can be improved upon? What will the cost be to improve areas deemed deficient?

Health Insurance – For many tri-state municipalities, health insurance plans generally provide for coverage of testing and treatment of COVID-19. This means more costs incurred by these plans, which could potentially increase future premiums or self-insured claim expenses. While premiums and self-insured claim expenses over the past year have remained stable, added costs to treat COVID-19 patients may impact future expenses.

Key Budget Question:

- Will additional healthcare costs due to the pandemic cause health insurance premiums to rise over the next few years at a greater rate than normal?

Local Municipalities Other than School Districts

Recreation Programs – Due to the decrease of in-person programs, this area was significantly impacted during the pandemic. Although we did see a reduction in the corresponding expenditures, it wasn't enough to offset the reduction in revenues. While local governments did not need seasonal employees for these programs, full-time recreation staff still had to be paid. Given social distancing and other requirements, these programs will need to be looked at in a different light.

Key Budget Questions:

- How will recreation programs continue while following the proper safety protocols established by the federal and state governments?
- What is the makeup of the community? How likely is it that residents will continue to participate in these programs as they are currently designed? Would more of the community participate if the programs were modified to meet safety protocols?
- What would it cost to implement program changes? Will these be recurring or one-time costs?

Tax Certioraris – There is still a lot unknown with what the “offices of the future” will look like. When the pandemic started, many businesses scrambled to move their employees to either 100% remote or a hybrid schedule. For a number of companies, business continued to run smoothly with employees working from home; therefore, they must decide how to move forward once everything is back to full capacity.

Rental of commercial space can be expensive, so companies may reduce their office space. Since building values are partly based on their income-producing ability, their valuation for property tax purposes may be significantly reduced. This could result in a significant influx of tax certiorari claims seeking a reduction in assessed valuation. Speaking with the municipality's assessor will be an integral part of budgeting for this item.

Key Budget Questions:

- How many commercial properties are within the municipal boundaries? What kind of businesses are located at these properties?
- Can these businesses run remotely? For example, a dentist's office would not be able to operate remotely, whereas a travel agency could conduct business either remotely or on a flexible schedule.
- For large commercial businesses, what would be the estimated revised assessed value?

Overtime Pay – At the start of the pandemic, we saw an immediate drop in overtime pay in police and other departments. The courts were closed for several months and did not require additional staffing. Special events, such as July 4th celebrations, were cancelled, reducing the requirement for public safety and public works overtime. However, as the pandemic continued to surge, overtime started increasing due to frontline employees being diagnosed with COVID-19. Now with the vaccine's impact, we would anticipate overtime to return to normal levels.

Key Budget Questions:

- How many of the municipality's essential employees have been vaccinated?
- What trend with overtime pay was seen during the course of the pandemic?
- What overtime pay relating to COVID-19 protocols will continue post-pandemic? Does this expense need to be included in future budgets?
- Should the accounting system be adjusted to track pandemic-related overtime separately from regular overtime to provide the municipality the ability to claim federal reimbursement under the Rescue Plan?

School Districts

Analysis of Pandemic Spending – School districts have spent a significant amount preparing their buildings for in-person learning by purchasing personal protective equipment (PPE) and sanitizing classrooms. Monies may also have been spent on laptops and other technology for students to enable remote learning. The Business Office should perform an analysis of expenses during the past year and categorize them (i.e., one-time costs, recurring costs during the pandemic, and estimated recurring costs post-pandemic).

Key Budget Questions:

- What costs were incurred during the pandemic that will continue to be incurred once the school district returns to normal operations? Will those costs remain at the same level or are they expected to be reduced slightly?
- What additional costs would be incurred if a student, teacher or administrator is diagnosed with COVID-19?
- What programs were halted due to the pandemic? How will those programs be offered during the next school year? What safety measures will be implemented and what will be the cost?

Type of Learning Provided (e.g., In-Person, Remote, Hybrid) – Now that vaccines are readily available and guidelines have been provided to re-open schools safely, the community pressure to return to full-time, in-person teaching has increased. While this is great news, some parents remain extremely cautious about their children returning. Additional public relations costs may be incurred to educate parents on the precautionary measures implemented by the school district.

Key Budget Questions:

- What is the go-forward plan for teaching students? Will the school district offer a hybrid schedule for children whose parents are apprehensive about their children returning to the classroom? What will be the cost to continue to provide a hybrid environment for students?
- Will additional spending to educate parents on safety measures taken lead to an increased number of students enrolled for in-person learning? How much is anticipated to be spent on these communications?
- What will be the impact on the bus schedules, extra classroom activities and breakfast and lunches provided?

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting or auditing matters relative to the public sector. Please contact a member of your client service engagement team or either of the following:

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