



Budgeting Approaches in Uncertain Times

PFM Client Training

April 23, 2021

[pfm.com](https://www.pfm.com)



Michael Nadol

Managing Director
PFM Group Consulting LLC
nadolm@pfm.com



Matthew Stitt

Director
PFM Group Consulting LLC
stittm@pfm.com



Hank Fishkind, Ph.D.

Director
PFM Group Consulting LLC
fishkindh@pfm.com



Agenda

- I. OVERVIEW AND GOALS
- II. ECONOMIC IMPACTS
- III. ARP ACT: KEY PROVISIONS AND BUDGET CONSIDERATIONS
- IV. EQUITY IMPACTS
- V. BRINGING IT ALL TOGETHER
- VI. QUESTIONS



Overview and Goals



Goals and Application

- ◆ After more than a year of the COVID-19 pandemic generating unprecedented social and economic costs, many state and local governments are finally now seeing moderated infection rates, vaccination rollout, and the American Rescue Plan (ARP) Act offer **hope**
- ◆ At the same time, however, **uncertainty** remains about the future trajectory of subsequent variants and potential new outbreaks, the need for booster vaccines, the timing for reopening of different activities, additional public policy responses – and the associated near-term and long-term economic impacts
- ◆ **The American Rescue Plan** – signed into law on March 11, 2021 – provides significant federal funding to state and local governments, and a boost for the underlying economy – but **pending guidance will be critical**
- ◆ This webinar is provided to assist in thinking about key considerations for developing your government's strategic framework as you move forward and seek to maximize the ARP Act impact and **ensure strong budgets in uncertain times**
- ◆ A few notes:
 - Content is based on early ideas from our clients and industry leaders, but this is an evolving set of issues (with detailed Treasury guidance not yet released)
 - Our focus today will be primarily on general governments at the local level, but we also hope that those of you from other client sectors (e.g., states, utilities, schools, special districts) will find many of the principles we address to be broadly applicable
 - Many of you have likely already adopted a number of the approaches and practices we will outline today in response to earlier stages of the pandemic and the CARES Act, and many of the concepts we will present originate from you, our clients
 - We hope that we can that nonetheless contribute a few new and useful thoughts along the way and help to validate the important work you are already doing for your communities



Economic Impacts

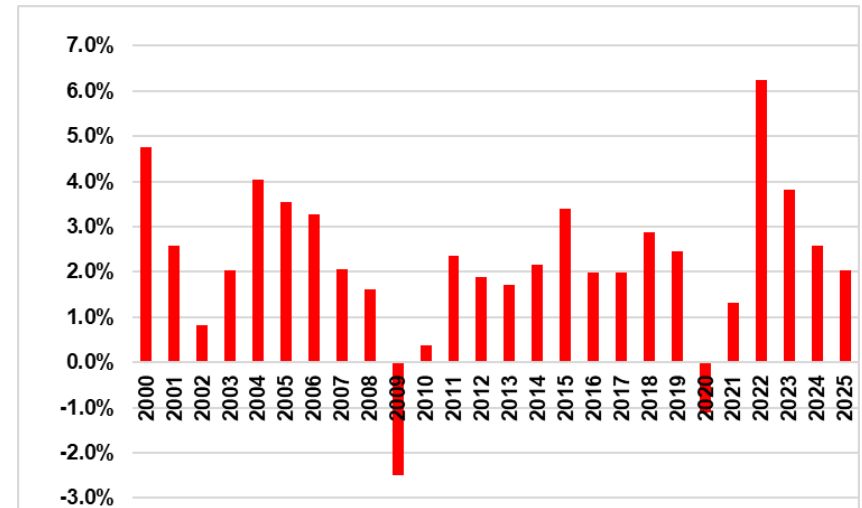
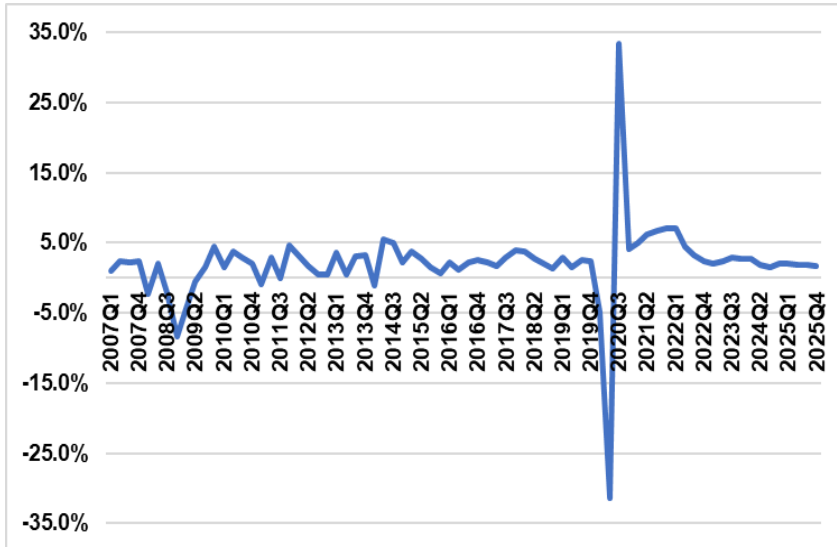


First Services Sector Driven Recession

- ◆ COVID-19 has triggered the first recession ever caused by a contraction in the services sector of the economy
- ◆ Prior recessions generally stemmed from the goods producing sector. For example, the Great Recession beginning in 2008 was caused by an excess supply of housing stimulated by faulty financing and speculation
- ◆ Unlike a goods-based recession, a service sector recession does not generate excess inventory that must be absorbed before recovery can begin
- ◆ Instead, a service-based recession causes a very sharp loss of employment and income and devastates restaurants, retail, service, entertainment, tourism and travel
 - Many of these businesses are relatively small and have small capital bases
 - Most services sector workers are relatively lower paid and may lack healthcare and other safety nets and personal savings
- ◆ Since a services sector recession is not burdened by excess inventory, the initial rebound occurs very quickly, but full recovery is delayed until a vaccine is in wide use



Trajectory of Growth in Real GDP



/Source: Moody's Analytics



COVID-19 Recession Accelerated Structural Changes Already Underway

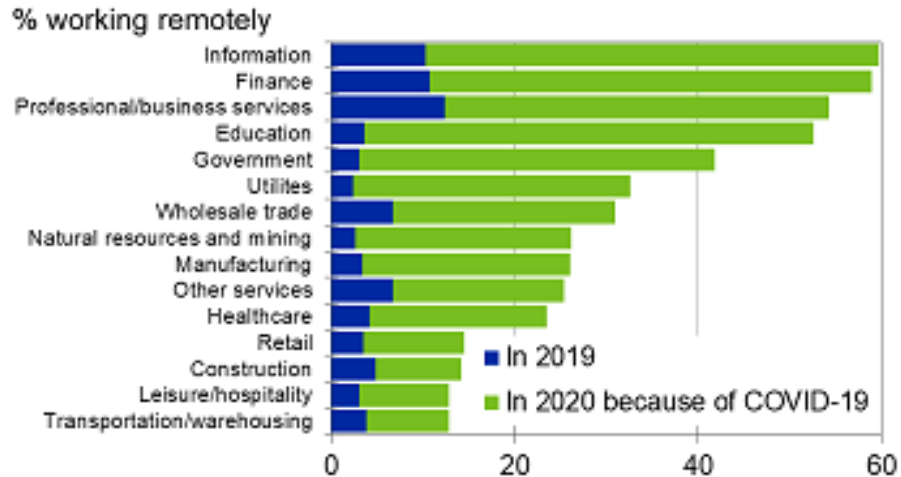
- ◆ **Prior to the recession, the U.S. economy was undergoing major structural changes**
 - Most obvious was the shift to E-commerce sales
 - Globalization of supply chains and artificial intelligence (“AI”) combined to spur global trade and lower consumer prices and inflation – with little (if any) real wage growth for middle- and lower-income workers in the U.S. (and most other developed countries)
- ◆ **COVID-19 recession dramatically accelerated these structural changes**
 - E-commerce flourished and home delivery services expanded dramatically
- ◆ **Out of necessity, businesses and their employees learned that work-from-home (‘WFH’) works!**
 - Previously, businesses were reluctant to allow expanded WFH due to feared losses in productivity
 - Instead, productivity remained the same – or often improved – and many employees appreciated the flexibility
- ◆ **A hybrid WFH model seems to be the “new normal”**
 - A recent PWC survey found that more than 80% of firms plan to continue WFH and shift to a hybrid staffing pattern
 - Rotating groups will come to work each day
 - In this model, most employees in certain sectors will WFH 2-4 days per week



Work From Home Transformations

- ◆ Work from home, works for many firms and many workers
- ◆ Premise expense typically 3rd largest business expense – smaller footprints

COVID-19 Fueled Work From Anywhere

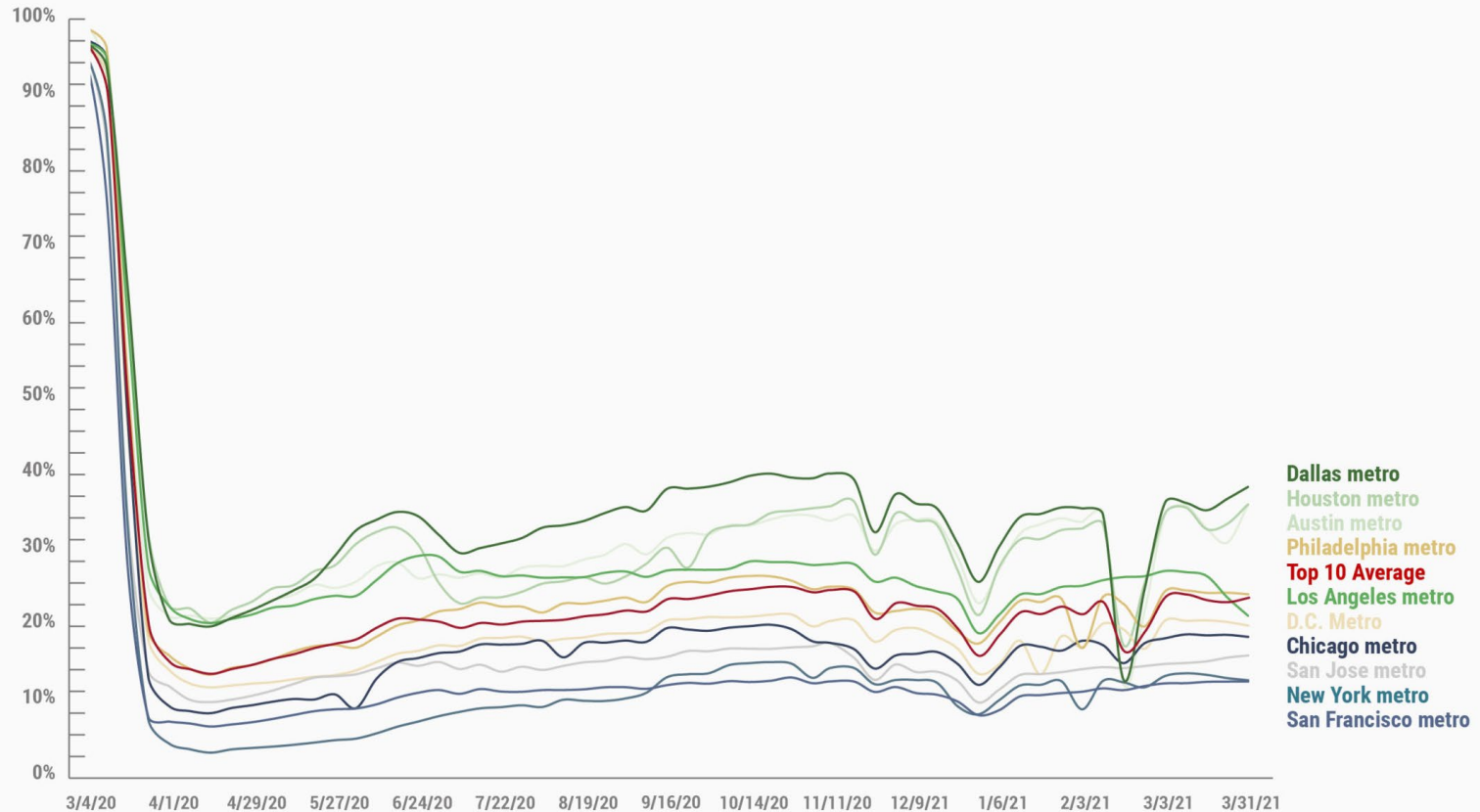


Sources: BLS, IPUMS, Moody's Analytics



Status of Return to Office Work

OCCUPANCY OVER TIME – MARCH 5, 2020 TO MARCH 31, 2021



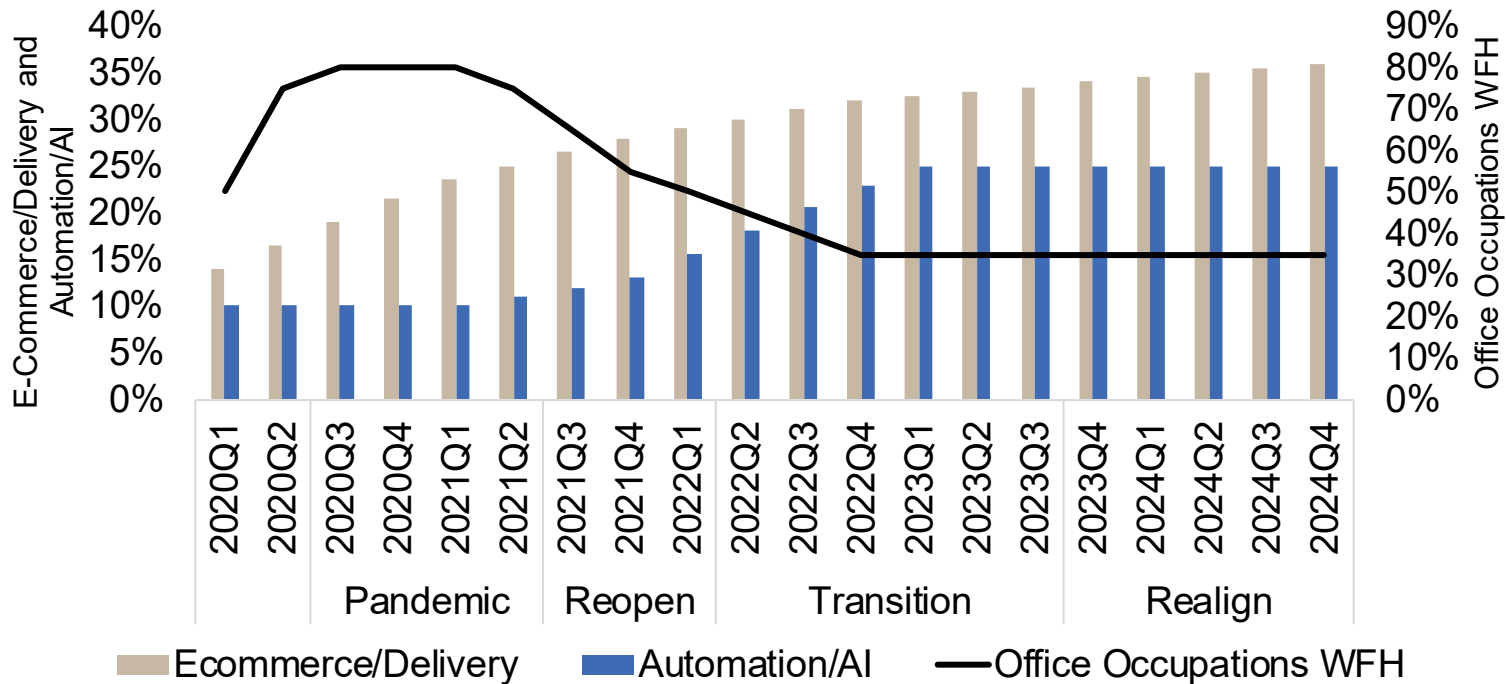
Returns are at approximately 25% nationwide

Source: Kastle “Back to Work” Barometer, “Weekly Occupancy Report” (3/29/21)



Permanent Impacts Projected to Unfold through 2024 in Stages

- E-commerce and delivery services will continue growing, but at a slower pace going forward
- WFH peaked at about 80% of office occupations and will recede, but remain high at 30%+

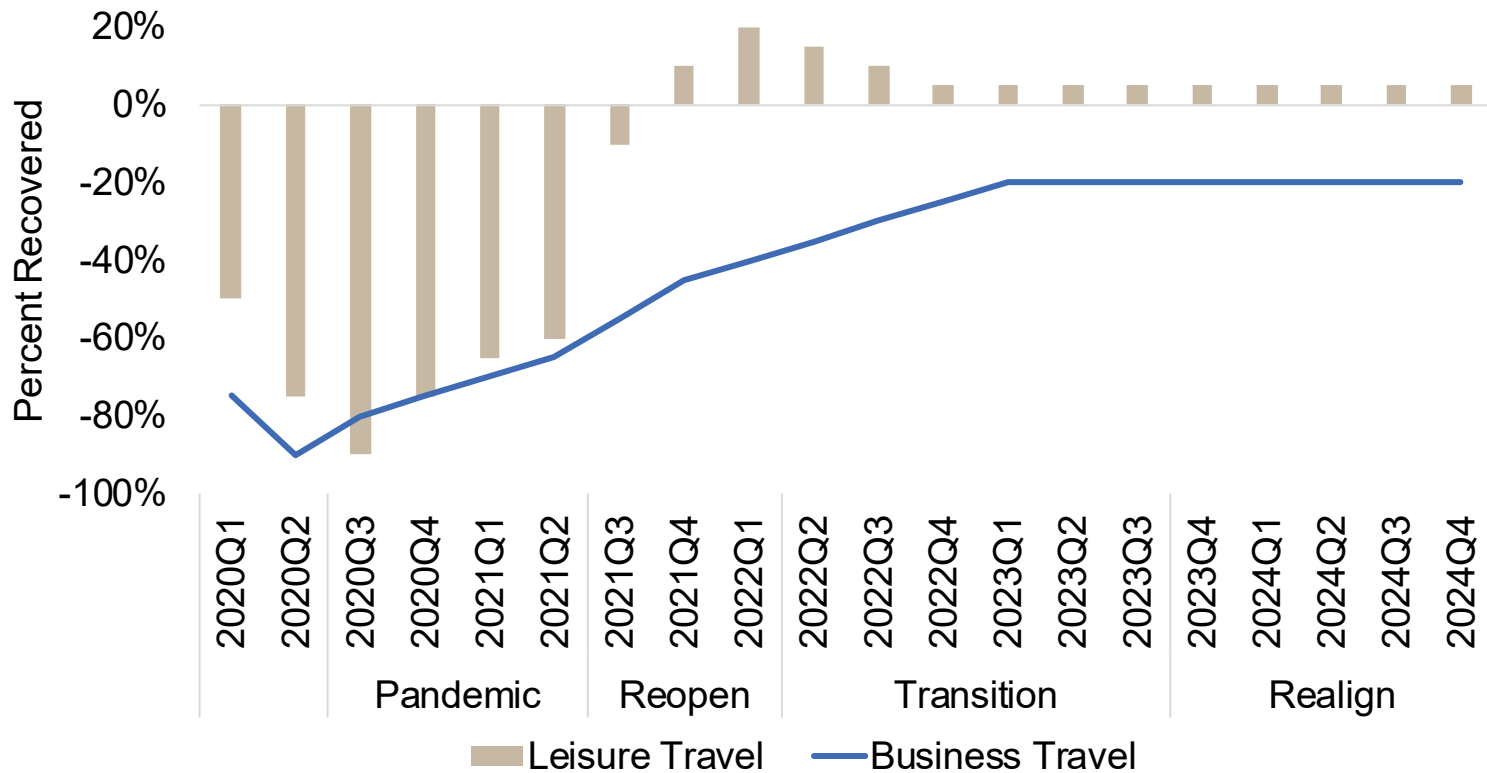


Sources: PFM and McKinsey



Travel Recovery will be Highly Differentiated

- Leisure travel will recover quickly and soon rise above prior levels
- Not so for business travel



Source: PFM

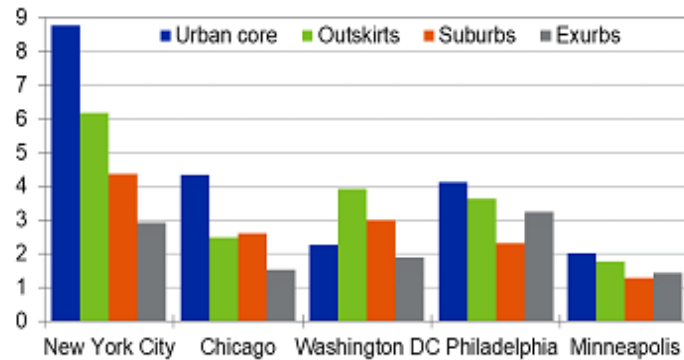


Work From Home Already Creating Winners/Losers

- ◆ Losers: higher-cost urban centers, especially in the NE, and Core Urban Counties
- ◆ Winners: lower-cost cities in south and west with better climates, and places with high amenity values

Cities' Labor Markets Are Struggling

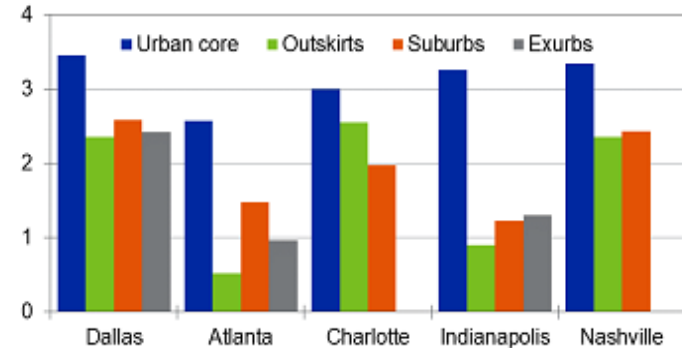
Unemployment rate, %, diff from 2020Q1 to 2020Q4



Sources: BLS, Census Bureau, Moody's Analytics

Core Urban Counties Struggle Everywhere

Unemployment rate, %, diff from 2020Q1 to 2020Q4



Sources: BLS, Census Bureau, Moody's Analytics



Conclusions

- ◆ The impacts of structural change will vary significantly depending upon a variety of factors, including:
 - The composition of businesses and occupations
 - Cost, amenities, and services provided by the community
 - Policy responses by governments
- ◆ Significant repricing and ultimately restructuring of retail and office space, along with parking
 - If only 25% of office workers WFH on average with hybrid staffing, the demand for parking, restaurants and services are reduced +/-25%
- ◆ Residential uses are stimulated – both new housing and repurposing existing uses
- ◆ The ARP Act not only provides near-term budgetary supports, but also offers opportunities to enhance communities and respond to structural changes
 - Funding for utility projects and for 5G
 - Funding for capital projects for schools



COVID-19 Response: Congressional Actions to Date

Enactment Date	Bill Title
March 6, 2020	\$7.8 billion Coronavirus Preparedness and Response Supplemental Appropriations Act
March 18	\$15.4 billion Families First Coronavirus Response Act (FFCRA)
March 27	\$2.1 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act
April 24	\$483 billion Paycheck Protection Program and Health Care Enhancement Act
Dec 27	\$900 billion Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act
March 11, 2021	\$1.9 trillion American Rescue Plan (ARP) Act of 2021



Economic Recovery via Aid to Individuals

Recovery checks for individuals and families	Unemployment compensation benefits	Temporary expansion and modification of child tax credit, EITC and dependent care credit	Premium assistance for certain health insurance coverage
Agriculture and nutrition programs, including SNAP	Childcare and programs for older Americans and their families	Mental health and substance-use disorder services	Extension of emergency rental assistance, homeowner assistance, other housing programs



Economic Recovery via Aid to Businesses

Continuation of paid sick and family leave credits	Additional PPP funding with more access for nonprofits, digital media, self-employed, etc.	Economic Injury Disaster Loans	Extension of Employee Retention Credits
Restaurant Revitalization Fund (SBA)	Shuttered venue operators grants	Support for failing multi-employer pension plans	Support for agricultural businesses



Economic Recovery via Pandemic Relief Activities

<p>Increased funding for a national vaccination program, testing, contact tracing, R&D, manufacturing of medical supplies</p>	<p>State, local and territorial government funds for economic relief can provide:</p> <ol style="list-style-type: none">1. Aid to households, small businesses, nonprofits and hard-hit industries;2. Premium pay for essential employees or grants to employers;3. Government services affected by a revenue reduction during the pandemic;4. Investments in water, sewer and broadband infrastructure <p>Can also “fill in the gaps” after other sources are depleted</p>
<p>Cybersecurity efforts, such as modernization of federal IT and networks, largely to assist with the vaccine distribution process</p>	
<p>Education funds to assist K-12 schools in reopening by hiring more staff and putting in place new testing protocols; funds for institutions of higher education</p>	



Case Study: Sales Tax for a South Florida County

1. Methodology

- A. Economic forecasting model for a South Florida County was developed
- B. Forecasts for key economic drivers for sales taxes were generated from the model
- C. Econometric equations were calibrated to project key revenues based on forecasts for key drivers
- D. The general functional forms for the equations look like this:

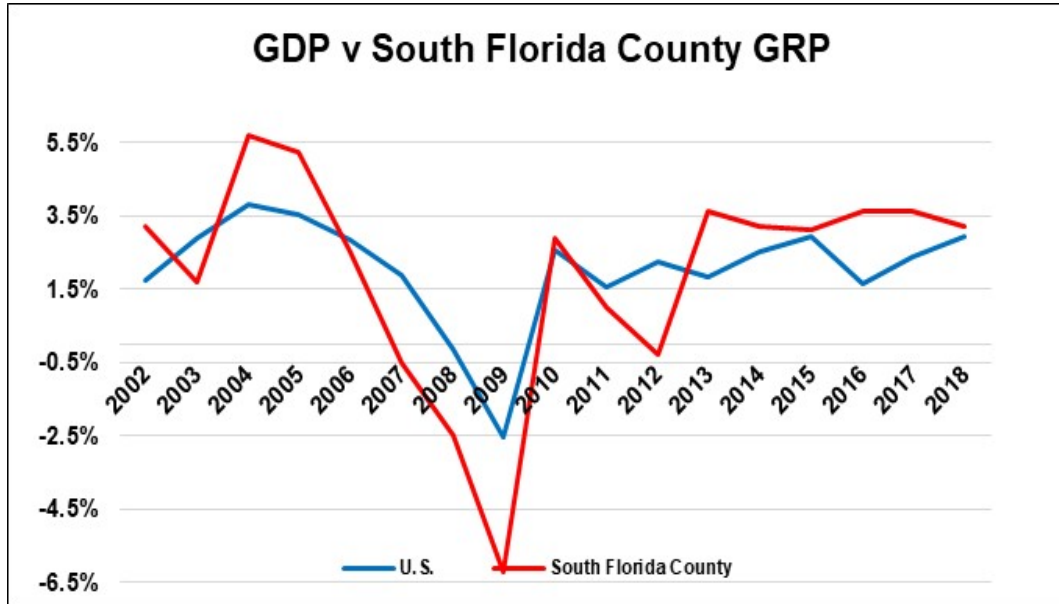
$$\% \text{ Change (Revenue)}_{it} = a + b_1 * \% \text{ Change (GRP}_t) + \% \text{ Change (CPI}_t)$$

Where: *i* is any key revenue; *t* is the time period; GRP is gross regional product; and CPI is the consumer price index

- 2. The charts that follow illustrate the key steps in the methodology



Step 1 – Use Forecast for U.S. GDP to Drive Forecast for County’s Gross Regional Product

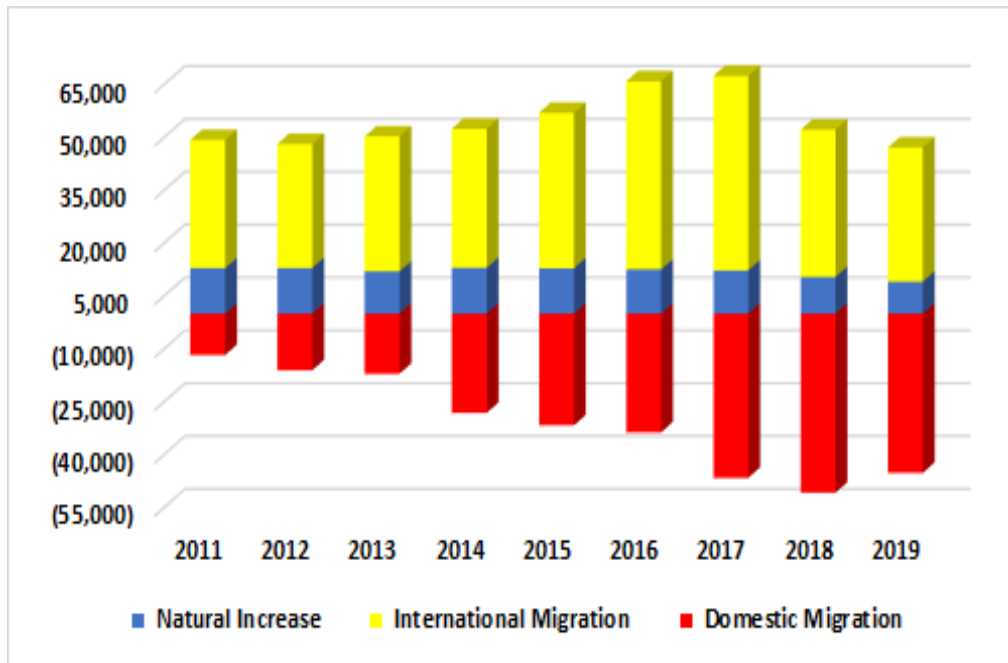


- The economies of most cities and counties are highly correlated with U.S. GDP
- For our South Florida County the historical correlation is 0.88
- This means that 88% of the variation in County GRP can generally be projected using GDP
- Notice that the amplitude of County GRP is greater than for GDP
- This historical experience indicates that the County’s economy will potentially contract by more than U.S. GDP and may rebound faster
- The economic structure of each place will differ in important ways that must be understood

Sources: U.S. Bureau of Economic Analysis and PFM



Step 2 – Analyze Key Economic Drivers for Area’s Economy – Population Growth by Component for the County



- Population growth peaked in 2014 at 33,138
- Since then population growth has slowed sharply to just 1,559 in 2019
- International migration is the dominant factor for population growth, and this source slowed since 2016
- Many residents have tended to leave South Florida over time, moving mostly to other Florida counties – resulting in rising volumes for domestic out migration

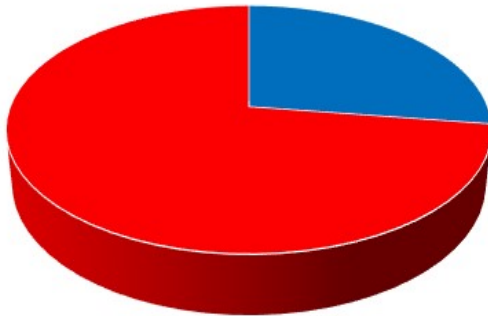
Sources: U.S. Bureau of Economic Analysis and PFM



Step 2a – Analyze Key Economic Drivers for Area’s Economy – Employment and Sales for the County

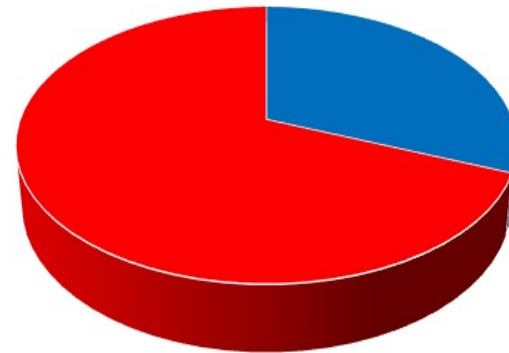
- 27% of total employment in this County is directly related to tourism and travel including: attractions, accommodations, bars and restaurants, and a substantial portion of retail employment
- 31% of all taxable sales are tourism related

Total Employment as of February, 2020



■ Directly Impacted: Tourism, Retail, Personal Services
■ All Other Less Directly Impacted

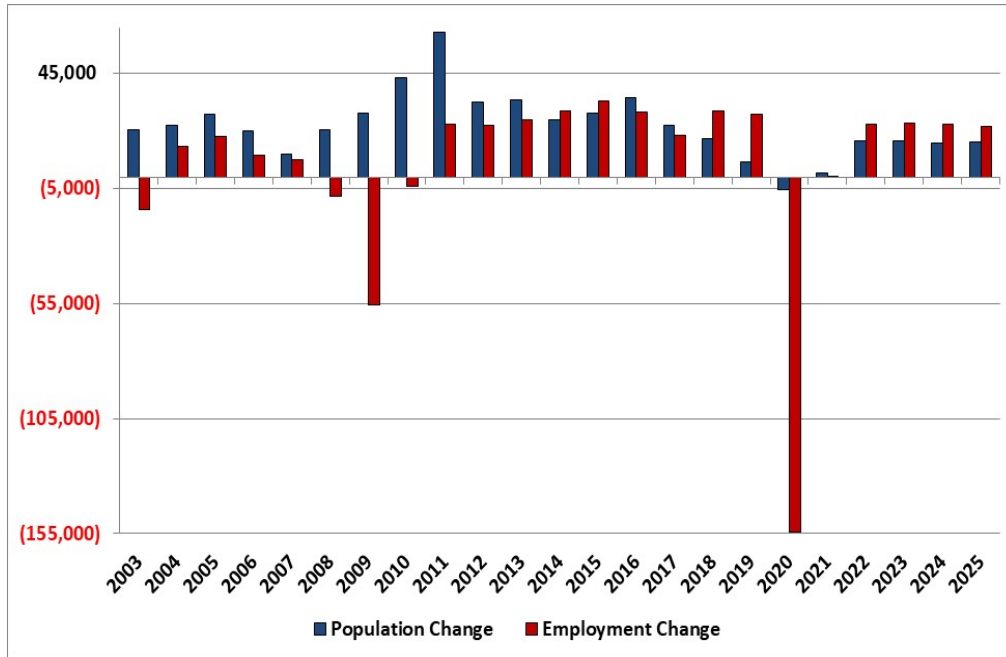
Taxable Sales



■ Tourism Related ■ All Other



Step 3 - Forecast Key Economic Drivers for Area's Economy – Projections for Growth in Population and Employment for the County

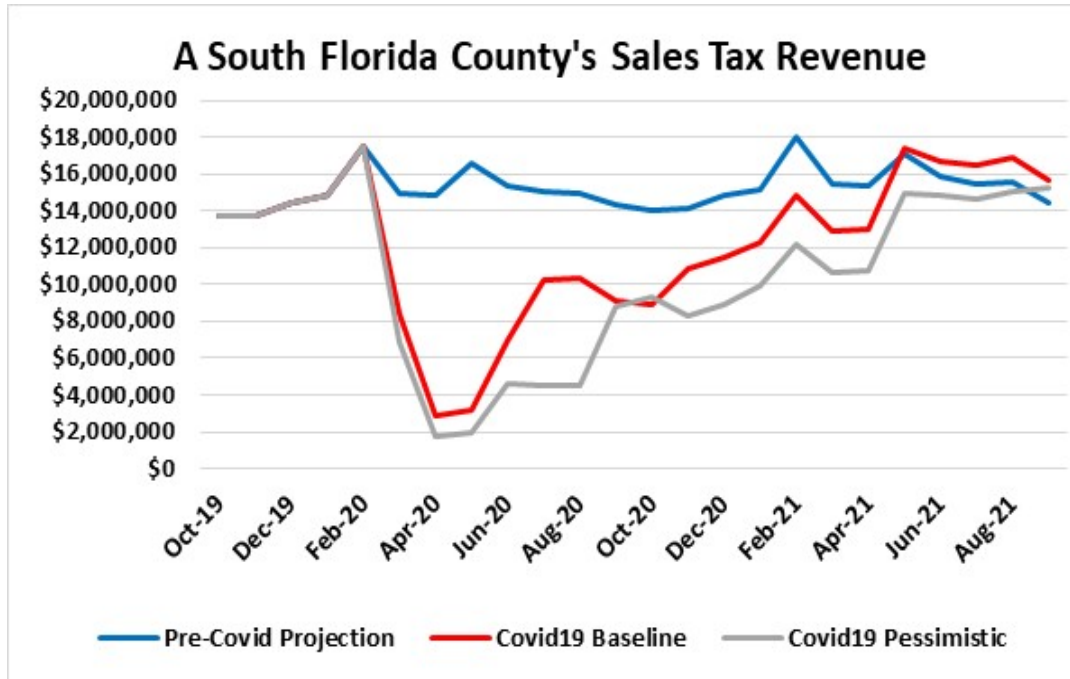


- The COVID-19 recession hit South Florida particularly hard since its economy is so heavily dependent upon travel, tourism, and international migration
- Employment dropped precipitously in 2020
- Tourism halted and will recover incrementally as the need for social distancing abates
- Stimulus dollars will fuel both employment and tourism

Sources: U.S. Bureau of Economic Analysis and PFM



Step 4 – Project Sales Taxes Based on the Economic Forecast

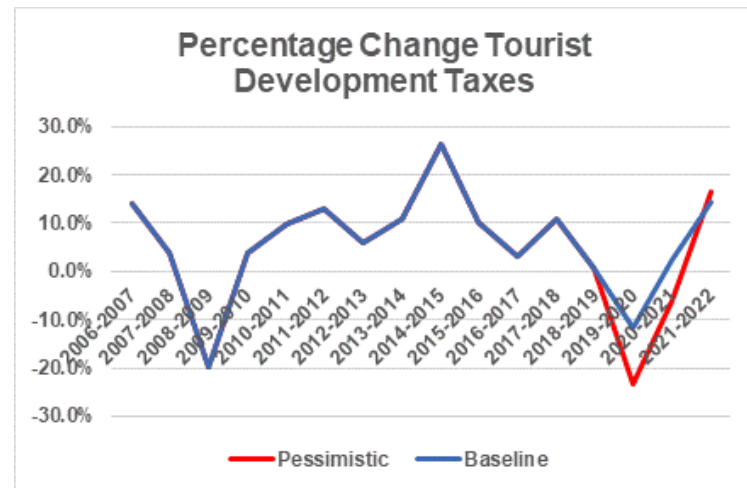
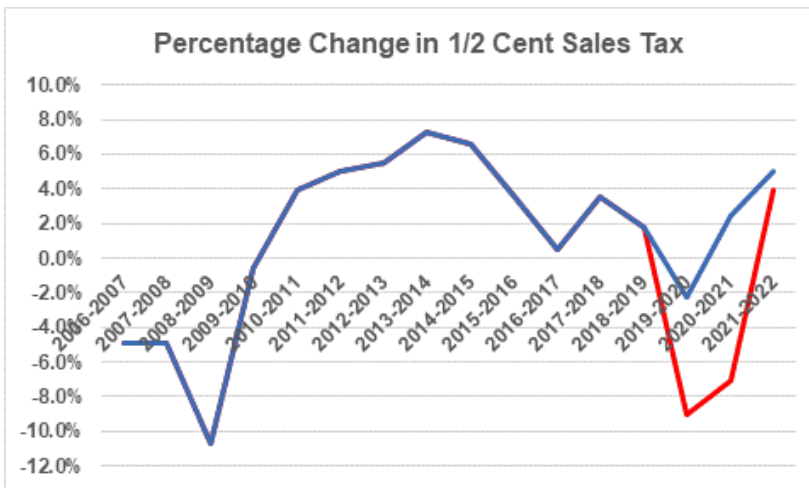
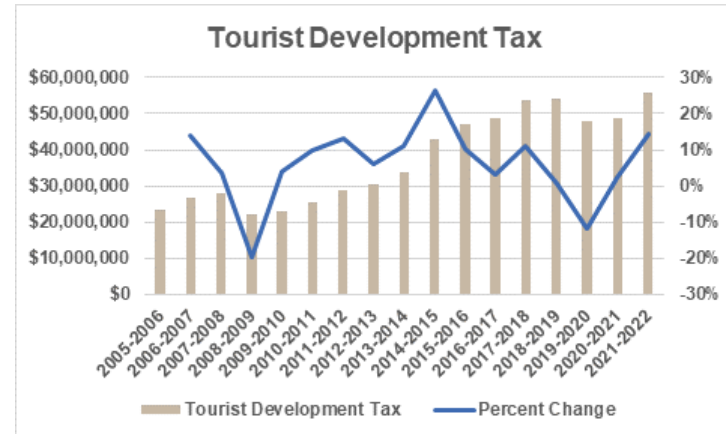
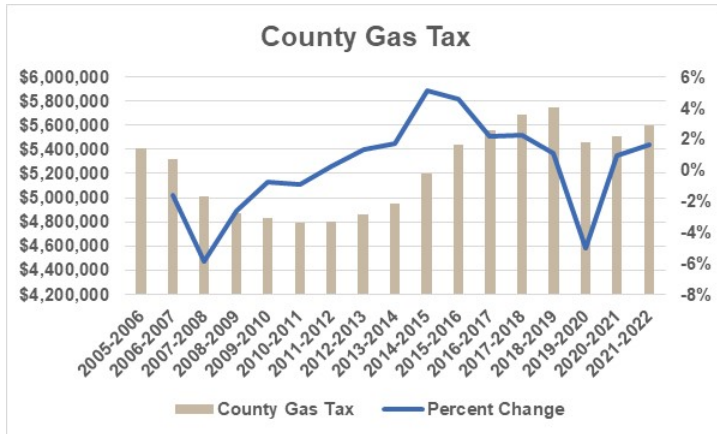


- Given sharp drops in population growth coupled with dramatic declines in employment and tourism, sales tax revenues plummeted with the onset of COVID-19
- The impact was magnified by the loss of spendable income and the over weighting of tourist spending on taxable items
- Recovery could come fairly quickly based on the projected rebound in the U.S. economy and the reopening of tourism and travel industry

Sources: U.S. Bureau of Economic Analysis and PFM



Forecast Product Outputs – Example South Florida County

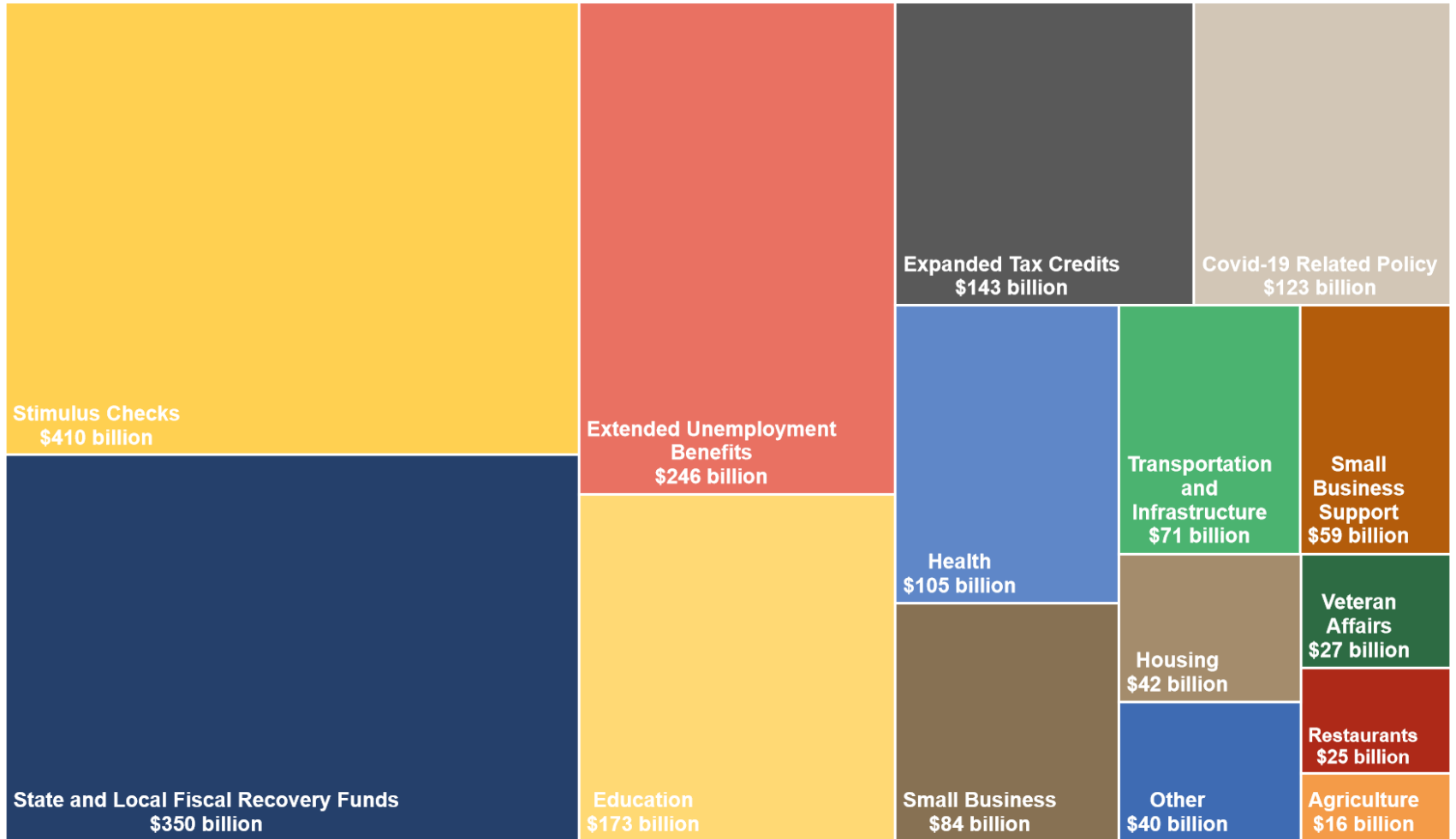




ARP Act: Key Provisions and Budget Considerations

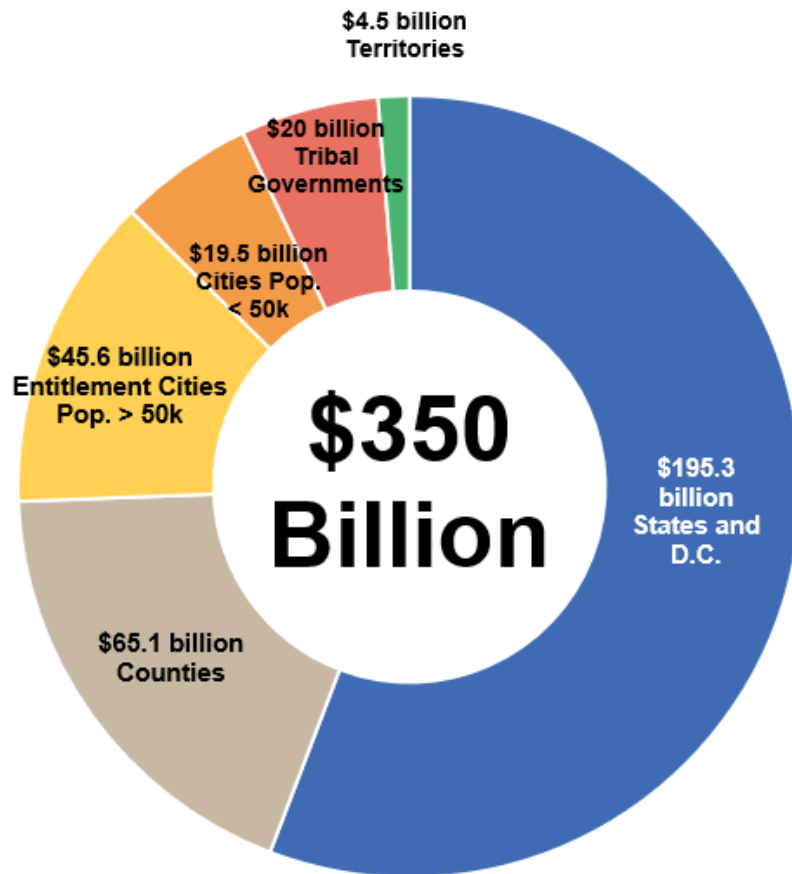


\$1.9 trillion American Rescue Plan Act





2021 \$1.9 Trillion American Rescue Plan – State & Local Aid Highlights



- ◆ Funding must be spent by end of the calendar year 2024
- ◆ Funds can be used to provide **government services affected by a reduction in revenue, relative to revenues collected in the full fiscal year completed prior to the COVID-19 health emergency**. Authorizes funding for necessary **investments in water, sewer or broadband infrastructure**, among other uses
- ◆ Funds **cannot be used to directly or indirectly offset tax reductions or delay a tax/tax increase** and cannot be directly deposited into a governmental pension fund
- ◆ Payments to state and local governments will be **distributed in two tranches** – half within 60 days of enactment, with the balance distributed 12 months after the date on which the first tranche was paid
- ◆ **Official guidance from the U.S. Department of Treasury on eligible uses of fund disbursements is forthcoming**



More to Come? – \$2 trillion American Jobs Plan Proposal

- ◆ President Biden announced his infrastructure plan last month
- ◆ Includes an additional >\$2 trillion over eight years:
 - Highways, roads, bridges, ports, airports, transit
 - Clean drinking water, renewed electric grid, high-speed broadband
 - Affordable housing and school/facility retrofits
 - Workforce development and investment in manufacturing, clean energy, and home care
- ◆ Corporate tax increases proposed to offset these new investments





ARP Act: Good Problems to Have

Opportunity	Challenge
Significant near-term payments to provide immediate relief	Pressure to spend too much too soon
Funding through December 2024 (4-5 fiscal years)	Tension between urgent and long-term needs; risk of dependence on funding that will eventually end
Funding for multiple purposes through different programs, some flexible, some provided directly to businesses and the public	Complex decision-making required about what to invest where and how to maximize use of varying funding streams
Resources provided for business recovery and economic investment	Local economies may be shifting due to work-from-home flexibility and other post-pandemic change
Federal goals and some new programs with a strong emphasis on equity	Need to build consensus and create clarity around local equity goals and metrics
Dedicated support provided for cities, counties, schools, states, transit, higher education, and other public agencies	Program designs may overlap inefficiently and will be difficult to align for maximum impact
Potential for follow-up infrastructure legislation	Invest now or wait?



Quick Payments (50% of \$350m in 60 days; balance within a year)

Key Steps Might Include:

- ◆ Quantifying immediate public health needs (vaccine rollout, education, testing and tracing, PPE, etc.)
 - What can be covered under separate FEMA Disaster Relief Fund (\$50 billion), Emergency Management Performance (\$100 million), HHS testing and tracing (\$47.8 billion), CDC vaccine distribution grants (part of \$8.5 billion), public health workforce (\$7.66 billion), community health center (\$7.6 billion) and other distinct new programs?
- ◆ Evaluating local gaps in relief programs to support and sustain hard-hit individuals, families, and businesses
 - What supplemental local expenditures beyond the federal government's direct payments to households and businesses are important priorities?
 - How to align with state and other overlapping local government efforts?
- ◆ Developing contingency plans and quantifying associated funding requirements if variants or other factors lead to a more prolonged recovery or new program needs (e.g. booster shots)
- ◆ From analysis such as the above, **map out how much of the total flexible funding remains available going forward on a year-by-year basis**



Multi-Year Program (funding through 12/31/2024)

Key Steps Might Include:

- Develop a multi-year baseline forecast prior to layering in direct ARP Act aid and associated spending
 - **Minimum five-year horizon**, including at least one year after ARP Act state and local fiscal recovery funding ends
- Reevaluate non-ARP Act baseline revenue forecasts in light of stimulus impacts on local households and businesses
- Layer in critical, time-sensitive “must” spending (e.g., vaccine rollout, testing and tracing, priority economic relief)
- To the extent ARP Act funds remain available after “must” spending occurs:
 - **Be clear on eligible and ineligible uses** for different funding streams (pursuant to guidance from corresponding agencies of jurisdiction, i.e., Treasury, Dept. of Education, Dept. of Transportation, etc.)
 - **Develop a “menu” of options** (note: certain initiatives may meet multiple goals)
 - **Prioritize options and develop a strategy** for what to fund when across the planning horizon



Investment Strategies: Emerging Themes for the Options Menu

Immediate Response

Public Health Response

- Continued access to testing
- Contact tracing
- Additional PPE investments
- Vaccination rollout and education

Economic Relief and Recovery

- Direct grants to businesses
- Technical assistance for small businesses and displaced workers
- Reemployment programs
- Homeowner and rental assistance
- Emergency relief programs
- Benefits **access**

Multiyear Strategies

Sustainable Fiscal Health

- Replenishment of risk-based reserves
- Elimination of budget deficits and reimbursement shortfalls
- Productivity investments (e.g., technology, energy efficiency, fleet renewal and replacement, space rationalization)
- Criminal justice strategies

Capital and Infrastructure Investment

- Broadband network investments
- Sidewalk repairs
- Stormwater improvements
- Street improvements
- Drinking water improvements
- Transit investments
- Pay-down of debt

Future Economic Growth

- Market-based strategies
- Positioning effectively for WFH changes
- Infrastructure and amenities
- Rethinking tax incentives and tax policy
- Small, local, diverse business development
- Workforce development

Equity and Inclusion

- Structures to support equity impact analysis and metrics
- Anti-poverty initiatives
- Communications, engagement, and reporting tools



Multiple Funding Streams and Goals: Align and Maximize

State and Local Aid (Flexible)	State and Local Aid (Targeted)	Other Public Sector and Related	Individuals and Families	Businesses
<p>\$350 billion for states, counties, cities, and tribal governments</p> <p>To provide services affected by a COVID-19 revenue loss</p> <p>To address COVID-19 and its economic effects, including through aid to households, small businesses, nonprofits, and industries</p> <p>Covers premium pay for essential workers</p> <p>Can invest in water, sewer, and broadband infrastructure</p> <p>Can transfer to special-purpose units</p> <p>Cannot be used for pensions or to offset revenue loss from new tax cuts</p>	<p>Public health (e.g., vaccine distribution, testing, tracing, workforce, community health centers, behavioral health)</p> <p>Human services funding (e.g., childcare expansion, Head Start)</p> <p>Medicaid FMAP funding for initiatives including mobile crisis intervention services</p> <p>Emergency management and SAFER (Fire staffing)</p> <p>EPA grants for environmental justice and air quality monitoring</p> <p>Housing and homelessness</p> <p>Veterans home funding</p> <p>Library internet access</p>	<p>K-12 Elementary and Secondary School Emergency Relief (ESSER) and other funding, including for internet access</p> <p>Higher education relief with a focus on financial aid</p> <p>Transit operating assistance and capital grants</p> <p>Airport operations and improvements</p> <p>Amtrak (including relief of State funding)</p>	<p>\$1,400 (income-eligible) stimulus payments</p> <p>Increased Earned Income Tax Credit, Child tax credit, Dependent care tax credit</p> <p>Expanded unemployment benefits</p> <p>SNAP increase extension and WIC increase</p> <p>Expanded health insurance funding</p> <p>Emergency rental assistance, homeowner assistance, and housing vouchers</p> <p>LIHEAP and water/sewer utility assistance funding</p> <p>Retraining and healthcare for veterans</p>	<p>Extends and expands employee retention and paid leave credits</p> <p>Modest increase to Paycheck Protection Program and expanded eligibility for nonprofits</p> <p>Targeted Economic Injury Disaster Loan advance payments</p> <p>Targeted funds for highly impacted industries, such as restaurants, bars, venue operators, airlines and the aviation industry</p> <p>Expanded USDA funding</p>

Note: The table above is simplified and not fully comprehensive; in addition, new and existing programs beyond the four corners of the ARP Act may also be relevant to strategy development.



Potential Strategies for Alignment Across Stakeholders

◆ Multi-Stakeholder Planning and Coordination Groups

- Overlapping and/or regional governments
- Nonprofit institutions and civic/community organizations

◆ Larger Government Leadership

- State incentives for coordinated planning
- Counties convening and coordinating municipal approaches

◆ Joint Program Delivery

- Interlocal agreements
- Use of a nonprofit structure



Equity Impacts



Equity and Recovery: Disparate Impact of COVID-19

- According to CDC data, the COVID-19 hospitalization and death rates for Black, Latinx, and Native Americans have been approximately **two to three times** higher than for white Americans

Rate ratios compared to White, Non-Hispanic persons	American Indian or Alaska Native, Non-Hispanic persons	Asian, Non-Hispanic persons	Black or African American, Non-Hispanic persons	Hispanic or Latino persons
Cases ¹	1.7x	0.7x	1.1x	1.3x
Hospitalization ²	3.7x	1.0x	2.9x	3.1x
Death ³	2.4x	1.0x	1.9x	2.3x

- Nearly 10% of Black and Latinx workers were unemployed (nationwide) at the end of 2020, compared to 6% of white workers⁴
- According to the National Bureau of Economic Research, Black-owned businesses shuttered at **more than two times** the rate of white-owned businesses⁵
- According to a recent CDC study, Black individuals, who make up roughly 12% of the country's population, represent only 8.4% of those who have received at least one dose of the vaccine. Similarly, while 18% of the country identifies as Hispanic or Latino, they make up only 10.7% of those who have been vaccinated

¹Data reported by state and territorial jurisdictions (accessed 3/10/21). Numbers are ratios of age-adjusted rates standardized to the 2019 US intercensal population estimate. Calculations use only the 53% of case reports that have race and ethnicity data available; this can result in inaccurate estimates of the relative risk among groups.

²COVID-NET (<https://www.cdc.gov/coronavirus/2019-ncov/covid-data/covid-net/purpose-methods.html>, accessed 2/27/21). Numbers are ratios of age-adjusted rates standardized to the 2019 US standard COVID-NET catchment population.

³NCHS provisional death counts (<https://data.cdc.gov/NCHS/Deaths-involving-coronavirus-disease-2019-COVID-19/ks3g-spdg>, accessed 3/6/21).

Numbers are ratios of age-adjusted rates standardized to the 2019 US intercensal population estimate

⁴Tracking the Post-Great Recession Economy," Center on Budget and Policy Priorities, 2021

⁵The Impact of COVID-19 on US Firms," National Bureau of Economic Research, 2021



Equitable Recovery

Guiding Perspectives	Best Practices	Potential Tools
<p>Recovery:</p> <ul style="list-style-type: none"> Maximize utility of ARP Act funds to ensure fiscal and economic stability and growth <p>Equity:</p> <ul style="list-style-type: none"> Ensure funds are sufficiently allocated to address urgent, immediate spending needs in short-term (e.g., housing) Dedicate a share of remaining funds to address mitigating <i>structural</i> disparities over long-term (e.g., digital infrastructure, workforce development) <p>Balance:</p> <ul style="list-style-type: none"> Sequence spending through 2024, balance need to spend on urgent (short-term) versus structural needs (long-term) Continue with strategy to spend targeted, time-sensitive funding (first), followed by flexible, non time-sensitive funding (last) 	<p>Use Equity Lens:</p> <ul style="list-style-type: none"> Set equitable goals and/or plans (short-and long-term) for recovery, generate a sense of urgency for meeting targets Set guidelines/questions to help departments determine how budget requests impact progress towards goals <p>Support Public Goods:</p> <ul style="list-style-type: none"> Ensure funds are allocated equitably Ensure all constituents have equal access to digital services Ensure public employees are adequately trained (digital environment) <p>Leverage and Maximize Funding through Partnerships:</p> <ul style="list-style-type: none"> Align equitable priorities with “buckets” of available relief funding (e.g., health, housing, education), develop place-based strategy to leverage capacity of partners Create communication vehicle/committee to ensure leverage and partnership opportunities are maximized Ensure small, local, diverse business participation <p>Transparency and Reporting of Equitable Recovery Plan and Progress:</p> <ul style="list-style-type: none"> Create <i>public</i> dashboard and require more frequent reporting through recovery Expand and diversify surveying/feedback tools in less-engaged communities 	<p>Tax Credits and Benefits:</p> <ul style="list-style-type: none"> Maximize tax credit and benefit enrollment/utilization to stabilize household incomes and contribute to local economic growth Locate access/enrollment centers in existing public facilities to maximize reach <p>Budget Equity Tools:</p> <ul style="list-style-type: none"> Create process that better informs equitable spending proposals and evaluations (e.g., Portland², Philadelphia³, San Antonio⁴) Tax/revenue evaluations (for new, proposed revenue generating options), tax burden, and economic and equity impact analyses Spending impact policies and analyses <p>Working Groups & Committees:</p> <ul style="list-style-type: none"> Internal: meets more frequently, focuses on (intra-government) operational and strategic considerations External: meets less frequently, focuses on partnership strategies



Data Disaggregation & GIS Applications

Example Analysis Tools

GIS Mapping¹

- **GIS Mapping** – use to further demonstrate existing and changing disparities geographically
- Track capital (and/or operating) investments over time with demographic overlays showing progress towards reversing historical disparities/closing gaps
- Show revenue evaluations (for new, proposed revenue generating options) and economic and equity impact analyses, spatially

Data Disaggregation²

- Disaggregate data by race/class and display in smaller geographical areas (census tracts, zip codes, districts, etc.).

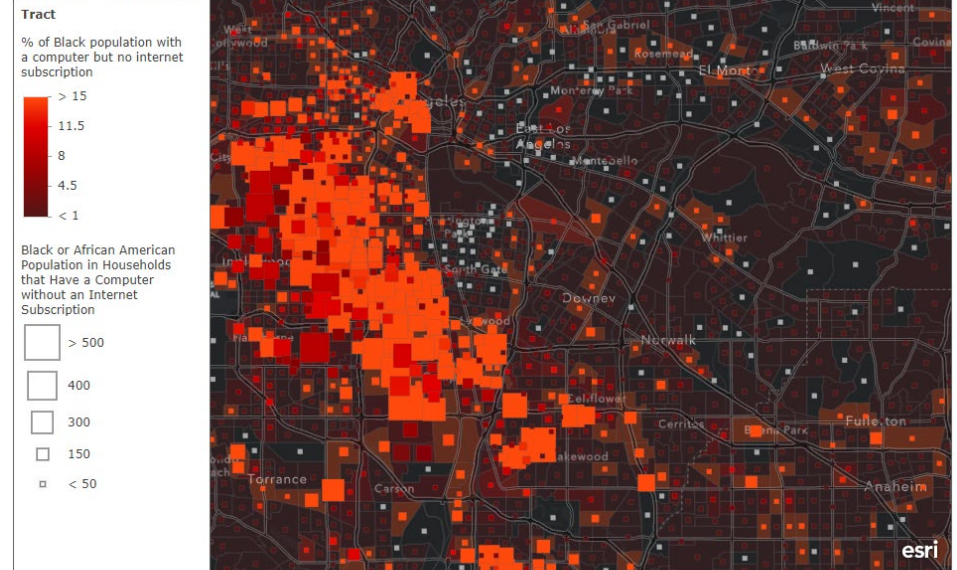
Planning and Evaluation

- Tool can better inform planning and resource allocation
- Allows for better tracking of progress and impact

EXAMPLE: GIS and Revenue Impact

- Historical disparities in property assessments³: over-assessed lower valued properties in lower-income neighborhoods, creating an inequitable revenue stream
- Further burdens lower-income households with less discretionary income to contribute

Where do Black or African Americans not have an internet subscription at home?



This map highlights areas across the entire US where the Black/African American population does not have an internet subscription in their household. This is shown by states, counties, and tracts. The data comes from the most recent release of ACS.

County of Los Angeles, Esri, HERE, Garmin, SafeGraph, METI/NASA, USGS, Bureau of Land Management, EPA, NPS, USDA | County of Los Angeles, Esri, HERE, Garmin, SafeGraph, METI/NASA, USGS, Bureau of Land Management, EPA, NPS, USDA | County of Los Angeles, Esri, HERE, Garmin, SafeGraph, METI/NASA, USGS, Bureau of Land Management, EPA, NPS, USDA

Opinion

How Lower-Income Americans Get Cheated on Property Taxes

Many homeowners are paying a total of billions of dollars extra because of inequities in assessing property values.



Equitable Recovery

◆ Dedicate funding for equitable priorities

- Dedicate X% of relief or general (operating or capital) funding for longer-term equitable priorities (e.g., affordable or workforce housing production and programs)

◆ Align short- and long-term equitable recovery strategy with non-governmental entities (partners), where possible

- Create public-private partnerships and strategies to leverage matching funds or services

- Community Benefit Agreements

◆ Require tax evaluations and revenue impact analyses for proposed revenue-generating measures

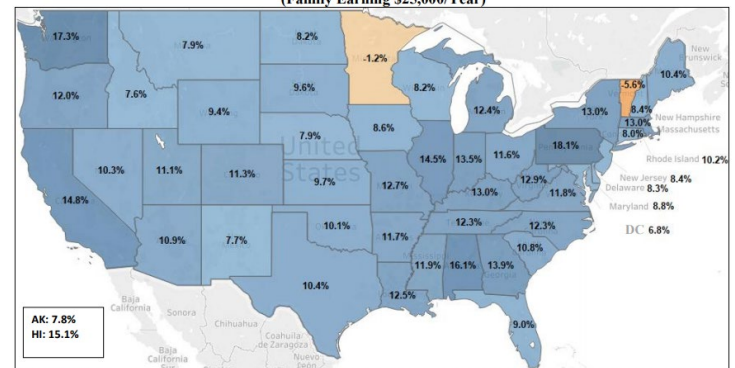
- Adequate and sustainable resources are necessary for recovery
- Assess tax incidence and level of impact of revenue-raising measure on vulnerable populations

AUSTIN

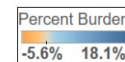
Proposed Project Connect funding plan includes \$300 million for anti-displacement efforts

Philly Council's 'once-in-a-generation' anti-poverty plan sends \$4.5M to community groups

Map 5: Combined 2018 Tax Burdens (Income, Property, Sales, & Auto) as a % of Income (Family Earning \$25,000/Year)



Source: ORA Analysis. The lighter the blue in the map, the lower the tax burden as a percentage of income. Orange indicates a negative burden (a refund).

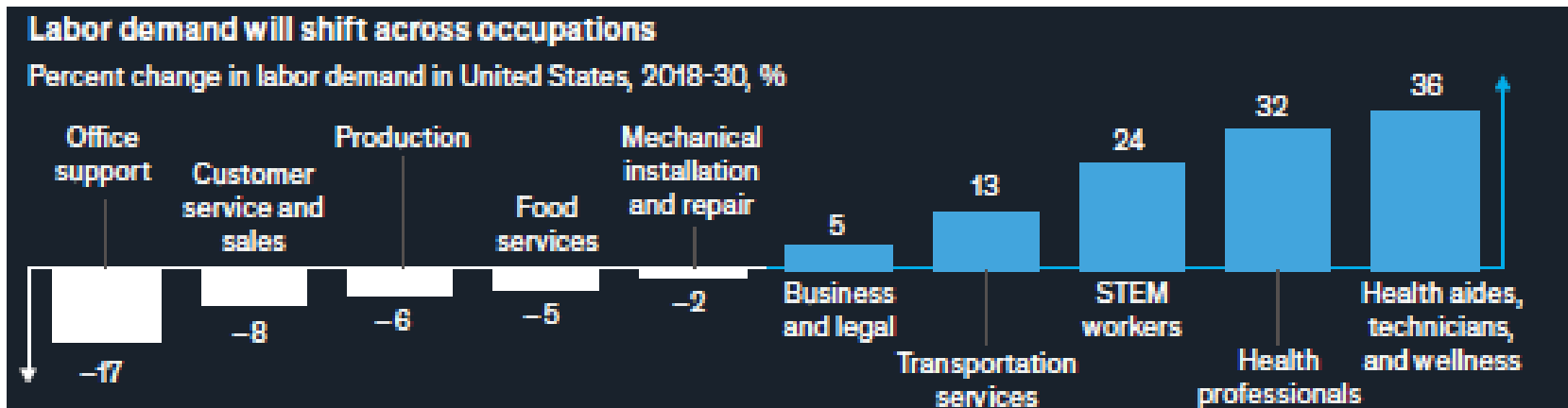


Source: "Tax Rates and Tax Burdens In the District of Columbia – A Nationwide Comparison (2018), Government of the District of Columbia, March 2020



Long-Term View: New Work From Home Economy

- ◆ Job opportunities will also be impacted by economic trends, with some analysts anticipating:
 - Greater displacement for lower-wage workers
 - More occupation transitions required over the course of a year
 - Expanded healthcare hiring



Source: McKinsey Global Institute, "The future of work after COVID-19" (February 2021)

- ◆ Opportunities:
 - Expanded workforce development to support career transitions
 - Partnerships (local governments, schools, community colleges, private employers)
 - Emphasis on future growth (e.g., healthcare)



Bringing It All Together



What are the Rating Agencies Watching?

- ◆ ARP Act funds are **one-time revenues**. As such, it's critical to consider:
 - Sustainability of programs and projects funded
 - Long-term budget implications of ongoing spending (operating and future maintenance)
- ◆ Monitoring the balance of the demands of reserve replenishment and service restoration vs. fueling economic growth
- ◆ Continuing to monitor the economic and revenue implications of the pandemic
 - Structural balance in budgets
 - Level of reserves
 - Revenue mix and reliance on economically sensitive revenues
 - Potential property-tax impacts in 2022 and beyond
 - Potential new wave of coronavirus outbreaks
- ◆ Awaiting US Treasury guidance describing the flexibility in applying the funds

How local governments use the one-time revenue will be an important factor for long-term credit stability and ratings. For those facing multiyear structural imbalances, the stimulus may be a lifeline arriving just in time to avert major expenditure reductions. For those that saw less revenue softness during the pandemic, they could use stimulus money to accelerate projects that will have economic benefits. And for the many governments that fall in between, management teams will have to balance the demands of reserve replenishment against the potential for fueling economic growth.

S&P Global Ratings – Across U.S. Public Finance, All Sectors Stand to Benefit from the American Rescue Plan (3/18/2021)



Case Study: City of Austin, Texas

Childcare Provider Relief Fund	Creative Space Disaster Relief Program	Creative Worker Relief Grant	Economic Injury Bridge Loan Program	Legacy Business Relief Grant	Small Business Relief Grant
\$6.0 million in grants to 199 childcare providers impacted by the COVID-19 pandemic	\$1.0 million in grants to 32 for-profit live music venues, performance spaces, art galleries, arts-focused non-profits, and individual artists facing temporary or permanent displacement	\$3.3 million in grants to over 1,866 creative sector workers impacted by the COVID-19 pandemic	\$0.6 million in short-term, low interest loans to 19 small businesses impacted by the COVID-19 pandemic	\$5.0 million in grants to eligible businesses that have operated from a publicly-facing (brick and mortar) business for at least 20 years in an area that is currently within a City of Austin Council District	\$18.6 million in grants to 964 small businesses impacted by the COVID-19 pandemic
Live Music Venue Preservation	Music Disaster Relief Fund	Non-Profit Relief Grant	Relief of Emergency Needs for Tenants (Rent) Program	Relief in a State of Emergency (RISE) Fund	Utility Bill Relief Programs
\$1.5 million in grants to 74 live music venues, with an additional \$3.6 million to be distributed in Spring 2021	\$1.5 million in grants to 1,500 performing musicians impacted by the COVID-19 pandemic	\$6.0 million in grants to 356 non-profit organizations impacted by the COVID-19 pandemic	\$15.2 million to assist 4,828 households impacted by the COVID-19 pandemic	\$29.0 million in direct financial assistance and direct relief services to 196,386 households impacted by the COVID-19 pandemic	\$24.0 million to assist residential customers needing payment assistance through Customer Assistance Program and Financial Support Plus 1 Fund



Case Study: City of Austin, Texas

Government Service Procurement	Health and Mental Wellness	Public Infrastructure
Civic Innovation	Communication Enhancement	
Employee and Business Assistance	Financial Support	



Case Study: City of Austin, Texas

Government Service Procurement	Health and Mental Wellness	Public Infrastructure
<ul style="list-style-type: none"> • Enter into a City of Austin master supplier agreement for COVID-19 rapid testing • Increase the amount of City of Austin procurement to small and/or local businesses • Procure food from local restaurants and businesses to feed food-insecure Austin individuals and families 	<ul style="list-style-type: none"> • Continue providing enhanced mental wellness resources for Austinites • Continue providing housing and meals to COVID-19 patients experiencing homelessness • Offer safety trainings to business owners and creative professionals, and create a safe reopening certification program for local businesses 	<ul style="list-style-type: none"> • Collaborate with government agencies and community partners to close the digital divide • Continue permitting parking spaces and outdoor spaces for other usage • Expedite affordable housing development • Expedite sidewalk and bike route development to enhance equitable access to goods and services
Civic Innovation		Communication Enhancement
<ul style="list-style-type: none"> • Develop partnerships to secure enhanced COVID-19 testing and tracking resources, and support vaccine distribution to historically marginalized groups • Establish formal pathways for City of Austin staff to receive and review innovative ideas • Facilitate the creation of financial services for unbanked individuals, creatives, business owners, and entrepreneurs 		<ul style="list-style-type: none"> • Announce grants from a centralized City source • Continue creating educational resources for reopening businesses • Create a communications tree for important COVID-19 updates and announcements • Create a communications tree for small businesses to receive notifications regarding permitted festivals and events • Standardize messaging to stakeholders and business patrons
Employee and Business Assistance	Financial Support	
<ul style="list-style-type: none"> • Assist local creatives with streaming content from local arts and cultural organizations • Collaborate with partners on workforce development to prepare Austinites for jobs in current and new industries • Continue providing workshops and one-on-one coaching to help business owners, entrepreneurs, and creatives adapt their business models • Facilitate stronger mentorship opportunities for business owners 	<ul style="list-style-type: none"> • Provide additional financial assistance to individuals, households, employees, businesses, and non-profit organizations • Incentivize adaptations to produce innovations and improvements to commercial sites, which benefit employees and customers • Continued dedicated relief and recovery fund for Live Music Venues • Temporarily reduce or waive certain City permits and fees for businesses that are reopening safely 	

Note: List of potential opportunities is not exhaustive.

City of Austin, "Economic Recovery and Resiliency Framework" (3/2021)



Bringing it All Together: Multi-Year Recovery and Investment Plan



Thank You!



pfm



Michael Nadol

Managing Director
PFM Group Consulting LLC
nadolm@pfm.com



Matthew Stitt

Director
PFM Group Consulting LLC
stittm@pfm.com



Hank Fishkind, Ph.D.

Director
PFM Group Consulting LLC
fishkindh@pfm.com

Questions?

- You can type your question into the chat function now (*due to time constraints, not all questions may be handled live*)
- You can e-mail any of us after the call or reach out through your primary PFM contact
- If you would like a copy of these slides, please email us to request



Important Disclosure Information

ABOUT PFM

PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation.

Financial advisory services are provided by PFM Financial Advisors LLC and Public Financial Management, Inc. Both are registered municipal advisors with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) under the Dodd-Frank Act of 2010. Investment advisory services are provided by PFM Asset Management LLC which is registered with the SEC under the Investment Advisers Act of 1940. Swap advisory services are provided by PFM Swap Advisors LLC which is registered as a municipal advisor with both the MSRB and SEC under the Dodd-Frank Act of 2010, and as a commodity trading advisor with the Commodity Futures Trading Commission. Additional applicable regulatory information is available upon request.

Consulting services are provided through PFM Group Consulting LLC. Institutional purchasing card services are provided through PFM Financial Services LLC. PFM's financial modelling platform for strategic forecasting is provided through PFM Solutions LLC.

For more information regarding PFM's services or entities, please visit www.pfm.com.

Special disclaimer regarding the research and forecasts included in today's presentation: This research and any forecasts are based on current public information as of April 16, 2021 that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are also as of the date hereof and are subject to change without prior notification.