



Role of Public Finance During a Crisis

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A woman with red braids tied in a bun is sitting at a desk in an office. She has her hands covering her face, with her fingers spread, suggesting she is crying or overwhelmed. She is wearing a dark green long-sleeved shirt. In front of her is a laptop. The background is a blurred office space with glass partitions and other desks.

“I’ve got enough to worry about!
Why Public Finance? Why now?”



What is Public Finance?





CO Local Governments

- 4,116 active local governments in 2020
- Types include:
 - Metropolitan Districts (1,906)
 - Water/Wastewater/Utilities (407)
 - Cities & Towns (272)
 - Fire Protection Districts (254)
 - School Districts (178)
 - Counties (64)
 - Housing Authorities (111)
 - Public Improvement Districts (92)
 - Cemetery Districts (81)
 - Conservation Districts (76)
 - Business Improvement Districts (67)
 - Urban Renewal Authorities (63)
 - Hospital & Health Services (40)
 - Emergency Telephone E-911 (32)



Objective of Public Finance

Are achieved by managing and drafting policies pertaining to:

Revenues

Expenditures

Debt issuance &
service

Financial
administration



Managing Public Revenues

Major sources include:

- ✓ Property tax
- ✓ Sales tax
- ✓ Charges & fees
- ✓ Other taxes (i.e. severance, SOT-specific ownership taxes)
- ✓ Operating grants & contributions



Managing Public Expenses

Major sources include:

Counties:

- ✓ Health & welfare
- ✓ Public safety
- ✓ General government
- ✓ Highways & streets
- ✓ Culture & recreation

Cities:

- ✓ General government
- ✓ Public safety
- ✓ Public works
- ✓ Water/wastewater/utilities
- ✓ Capital outlay

- ✓ Interest expense (based on indebtedness)



Public Debt Management

Many a citizen will never be able to understand fully the problem of the public debt, for it is too complicated for the average layman.

– SEYMOUR E. HARRIS, *American Economist*



Public Debt Management

1

Raise funds for capital projects, development initiatives.

2

Secure best-possible borrowing parameters.

3

Maintain cashflow required to adequately service debt.

ACHIEVE COMMUNITY GOALS

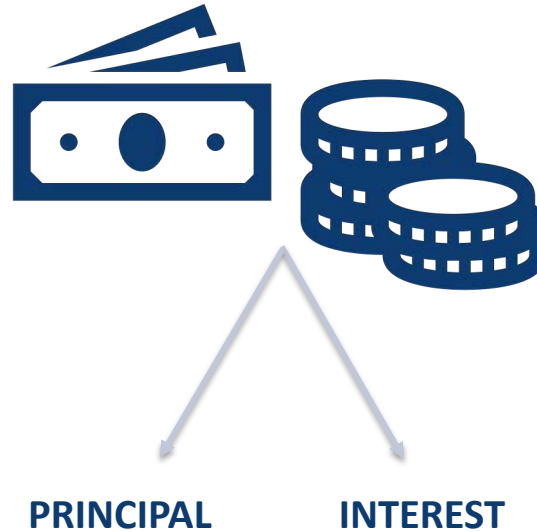


Raising Public Debt

- New debt increases funding ability for:
 - ✓ Public buildings
 - ✓ Schools (classrooms, remodeling, new facilities)
 - ✓ Public safety facilities (Police, Fire, etc.)
 - ✓ Recreational properties (parks, tennis courts, ball fields)
 - ✓ Economic development & redevelopment



Servicing Public Debt



Requires public disclosure AND fiscal discipline.



Financial Administration



Accounting & record-keeping



Treasury management & investments



Budgeting & resource allocation



Policy creation & management



Why is Public Finance Important?

Relative to Revenue & Expenses, it:

- Determines feasibility of proposed projects
- Identifies “deployable” cash balances
 - ✓ Grand County & Town of Granby (\$50K SBA Loan)
 - ✓ Cash flow forecasting
 - ✓ Revenue & expenditure modeling



Why is Public Finance Important?

Relative to Debt, it:

- Determines borrowing needs
 - ✓ Financial management planning
 - ✓ Cash flow forecasting
 - ✓ Policy guidelines & management
- Identifies 'the reality' of present value savings on refundings
 - ✓ Is 3% PV savings today better than 7% 3 months from now?



Why is Public Finance Important?

Relative to Financial Administration, it:

- Facilitates budget development
 - ✓ Financial management planning & modeling
 - ✓ Cash flow forecasting
- Aids in CAFR formulation
 - ✓ Revenue & expense analysis
- Strengthens investment strategies
- Ensures regulatory compliance (TABOR, IRS, GASB, etc.)



COVID Effect on Public Finance

All Sector Outlooks Across U.S. Public Finance Turn Negative – Key Macro Factors



Duration

Uncertainty about the rate of spread and peak of COVID-19 could pressure liquidity



Mobility Restrictions

Closure of large segments of the economy has weakened demand and revenues



GDP Decline/Unemployment

Unprecedented decline forecasted for the 2nd quarter will present challenges across public finance



Containment/Mitigation Costs

Many issuers are at the front line of absorbing these unbudgeted costs



Policy Response

The timing of federal stimulus funds and support are uncertain and timing is of the essence



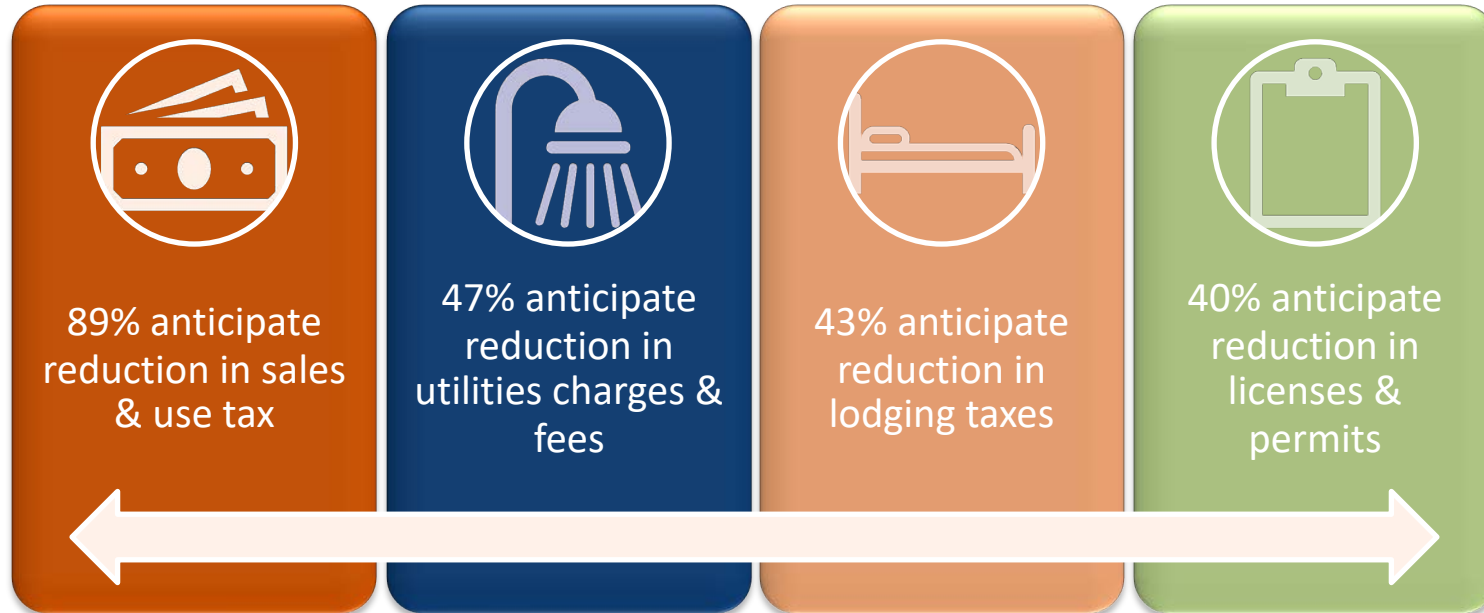
Market Volatility

Market access could continue to be pressured and more costly; prolonged equity market decline hurts revenues and pensions

*S&P Municipal Bond
Credit Rating
Recalibration
April 1, 2020*



COVID-related Fiscal Impacts: Colorado



CML, DOLA, Colorado Counties Inc. & Colorado Special Districts surveyed nearly 50% of Colorado counties.



COVID-related Fiscal Impacts: Colorado

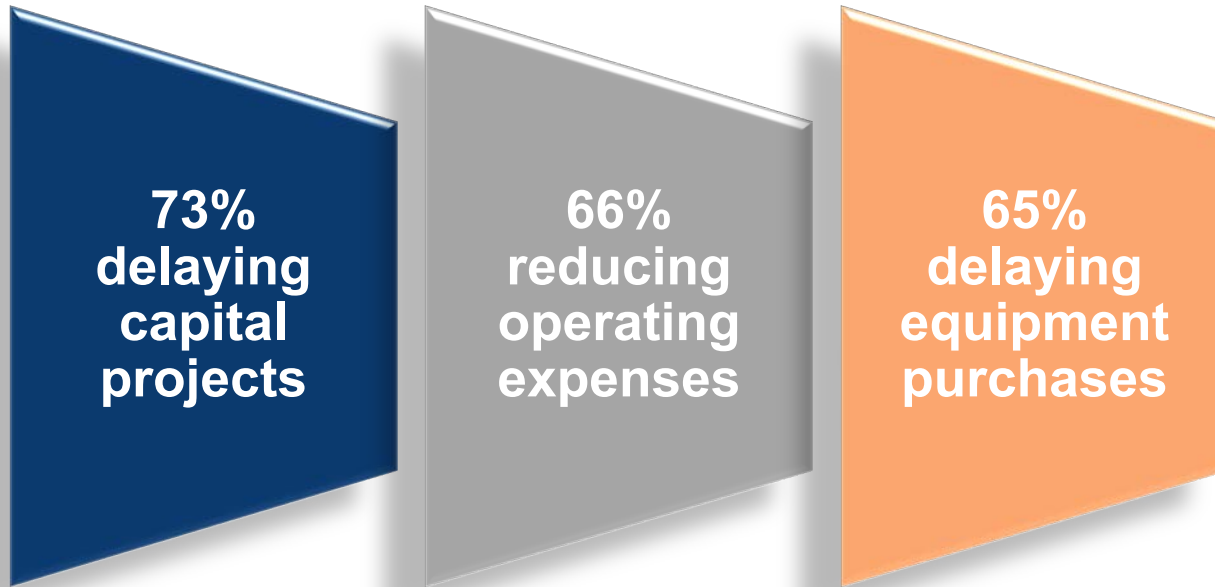
- \$10.5 million average anticipated revenue decline
- 21.6% average general fund reduction
- 69% anticipate using reserves to cover shortfall

How will Colorado municipalities respond?



COVID-related Fiscal Impacts: Colorado

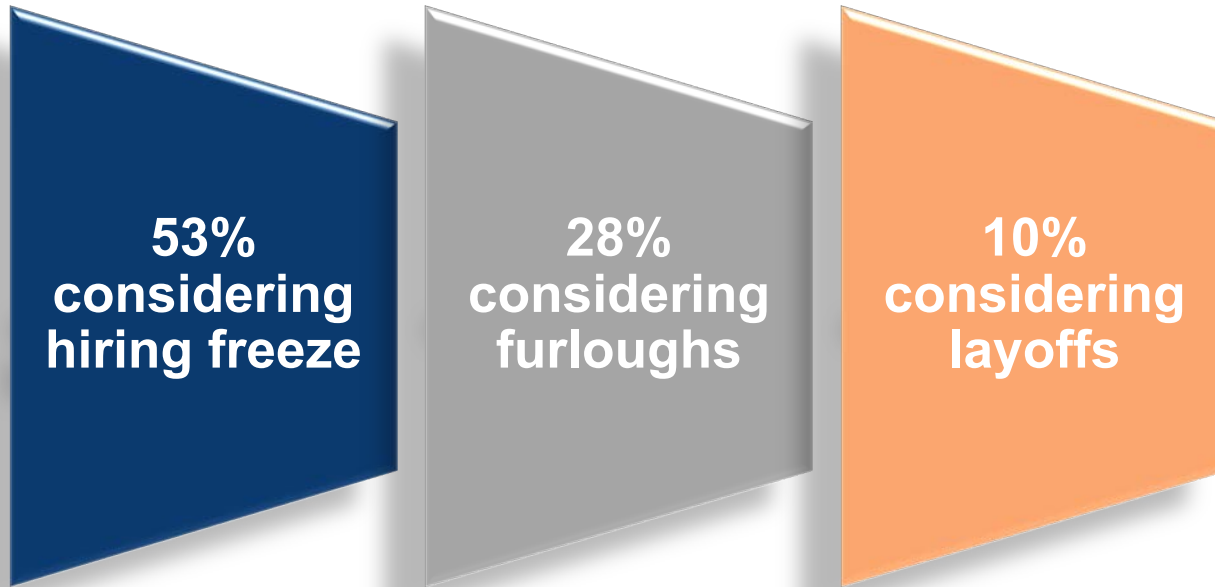
Local government reactions





COVID-related Fiscal Impacts: Colorado

Local government reactions






Don't Panic! Get Back to the Basics

Rely on Public Finance fundamentals to:

- ✓ Spur economic growth Initiatives (URAs)
- ✓ Maintain minimum 1.0x debt service coverage
- ✓ Move capital projects forward
- ✓ Build contingency, rainy-day, emergency funds
- ✓ Focus on sustainability
- ✓ Increase GDP in micro-economies
- ✓ Deliver strong health & human services
- ✓ Refine business continuity, disaster recovery
- ✓ Create jobs & reduce unemployment



THE 7 DEADLY SINS OF PUBLIC FINANCE

Never, ever, ever be tempted!



7 Deadly Sins of Public Finance

1. Balance your budget with a one-time fix
2. Ignore the long-term implications of a transaction
3. Take on too much
4. Misapply a temporary windfall
5. Shortchange pension obligations
6. Make unrealistic projections for rates of return
7. Ignore financial checks & balances

Publication Source: Governing



7 Deadly Sins of Public Finance

1. Balance the budget with a one-time fix.

DON'T:

- ✓ Shift payments to the next fiscal year
- ✓ Borrow money to cover operating costs

DO:

- ✓ Raise taxes
- ✓ Cut expenses
- ✓ Bolster cash reserves



7 Deadly Sins of Public Finance

2. Ignore the long-term implications of a transaction.

DON'T:

- ✓ Rely on single-year budgets

DO:

- ✓ Develop long-term financial management plans
- ✓ Determine feasibility for multi-year budgets



7 Deadly Sins of Public Finance

3. Take on too much.

DON'T:

- ✓ Privatize assets
- ✓ Overdo public investments

DO:

- ✓ Complete affordability studies
- ✓ Stick to your long-range plan



7 Deadly Sins of Public Finance

4. Misapply a temporary windfall

DON'T:

- ✓ Use one-time surpluses to cover recurring expenses

DO:

- ✓ Manage expenses wisely
- ✓ Segregate recurring expenditures (operating) from one-time (capital projects)



7 Deadly Sins of Public Finance

5. Shortchange pension obligations.

DON'T:

- ✓ Delay or skip payments
- ✓ Reduce payment amounts

DO:

- ✓ Keep current with all obligations
- ✓ Limit “creep” of long-term pension liabilities



7 Deadly Sins of Public Finance

6. Make unrealistic projects for rates of return

DON'T:

- ✓ “Plug” your investment return number to create a balanced-budget

DO:

- ✓ Rely on current market conditions & professional advisor forecasting



7 Deadly Sins of Public Finance

7. Ignore financial checks & balances

DON'T:

- ✓ Lose track of the money you have

DO:

- ✓ Strengthen controls & internal monitoring
- ✓ Develop prudent investment & debt policies
- ✓ Follow GFOA best practices



Your Presenter

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