

Economic Disruptions Prompted by the COVID- 19 Pandemic

Municipalities in South Carolina will experience negative financial impacts from the economic disruptions caused by the COVID-19 pandemic. The Municipal Association of SC recommends that municipal officials immediately begin to examine the potential impact of this health emergency on revenues and expenditures in their current budget, and 2021 budget, if the municipality's new fiscal year starts before September 2020. Because of the evolving conditions, the unknown duration of the pandemic's effects, and each municipality's unique characteristics, municipal officials are encouraged to tailor the forecasting process to your circumstances and to reevaluate projections as conditions change and more information becomes available.

To assist municipalities in conducting this evaluation, the Association offers the following guidance.

Expect disruptions to the collection of revenues due and payable between April and June 2020. Based on current modeling, economic conditions should show slow, but steady, improvement beginning in July and continue through September 2020. The anticipation is that economic conditions will return to near prepandemic levels by the last quarter of the calendar year. Keep in mind that following the lifting of the emergency restrictions, it will take time for residents and small businesses impacted by the pandemic to recover.

Impact on Revenues

Property Tax Revenue

The safest strategy for property tax revenue is to assume that the town will not collect any significant amount of past-due real property taxes until the delinquent property tax collection process begins.

Anticipate lower than typical personal property tax payments at least through June 2020 with a gradual improvement in on-time payments beginning in the third quarter of the calendar year.

Business License Revenue

Plan on delays in receiving business license payments and an increase in delinquency rates. Small businesses may need to rely on money set aside for business license payments to bridge the financial hardships created by the virus. The rate of delayed payments will vary based on your community's local business mix and economic conditions. Municipalities that generate the majority of their business license revenue from small businesses or harder hit business types ,such as restaurants, bars, personal services, and hotels, may experience a larger volume of delayed payments. Depending on the duration of public health restrictions on these business types, 2021 business license revenue based on 2020 gross receipts could be significantly lower.

The Municipal Association is carefully monitoring the virus's impact on the business license Collections Programs and does not anticipate a reduction in the total revenue collected and paid to municipalities in 2020. However, the timely release of checks to municipalities depends on

timely and accurate gross receipt information and payments from the insurance companies, which may be impacted by virus-related restrictions place on the businesses. The Association will make every effort to release the funds as early as possible. A delay is expected with the usual June 30 disbursement for the Insurance Tax Collection Program. Municipal staff should plan on receiving this disbursement check for ITCP by July 30.

Local Government Fund Revenue

In 2019, the South Carolina General Assembly adopted a new formula for calculating Local Government Fund payments to cities and counties. The Association does not anticipate a reduction in LGF payments issued through June 30, 2020. Payments made after July 1, 2020, the start of the 2020-2021 fiscal year, should follow the statutory formula. If the state's 2021 budget is less than the prior year, the LGF payments could be reduced by no more than 5% from the previous year's payment.

Local Option Sales Tax Revenue

Municipalities in counties that implemented one or more of the South Carolina Local Option Sales Taxes can expect to receive lower sales tax payments resulting from decreased sales during the COVID-19 pandemic and the extension of sales tax deadlines. The South Carolina Department of Revenue announced on March 17, 2020, the delay of deadlines for state sales tax payments for the period April 1 through May 31 until June 1, 2020. The State Board of Economic Advisors met on April 9, 2020, to review forecast data and discuss the estimated impact on state revenues. At the state level, the BEA forecasts a decrease in April through June sales tax revenue of approximately 8%. For the fiscal year ending on June 30, the BEA estimates that the reduction in April to June sales tax revenue will be offset by stronger than expected sales tax revenue collected in the first nine months of fiscal year 2019 – 2020. The BEA also forecasts a net sales tax revenue increase on June 30 of 4% during the prior fiscal year revenue as opposed to a prepandemic forecast of a year-end increase of 7%. It is not clear whether the forecast pattern will apply to sales taxes collected at the county level.

Building Permit and Fee Revenue

Reductions in planning, zoning, building permit and other development fees must be estimated at a local level based on the level of development activity.

Court Fines and Fees

Expect reduced court fine and fee revenue through at least June 2020 because of several factors. First, the SC Judicial Department suspended trials until further notice. Second, many police departments are reducing minor enforcement actions and limiting resident contact during the pandemic to protect employees, which will reduce the volume of tickets issued and the revenue generated when courts reopen. Third, when court activity resumes, expect an increased number of defendants claiming an inability to pay fines and fees and a reluctance by judges to levy significant penalties because of the pandemics' negative economic impacts.

Local Hospitality and Accommodation Taxes

Local hospitality and accommodation tax revenues are likely to be the hardest hit municipal revenue sources. Governor McMaster ordered the closure of in-restaurant dining effective on March 18, and restrictions on hotels and short-term rentals went into effect on April 1. These actions have significantly impacted revenue from these two sources until the orders expire, and economic activity returns to normal. The most conservative approach is to forecast minimal revenue from accommodations and hospitality fee revenues for the period the restrictions remain in effect.

Utility and Service Fee Revenue

On March 16, 2020, Governor McMaster requested that all providers of essential utility services refrain from cutting off service for nonpayment for the "... duration of the state of emergency." The state of emergency will likely continue through April or into early May. Even after the state of emergency terminates, a large number of utility and essential service customers will face difficulties paying their current bills as well as any required catch-up payment. The recovery of delinquent utility revenue may be a challenging and time-consuming task. Municipalities that use utility bills to collect solid waste collection, stormwater, and other fees for service will experience the same challenges and delays in receiving past due payments. Cities and towns are encouraged to develop reasonable policies that spread the delinquent payments over an extended period and balance the municipality's need for the revenue against the ability of the customer to pay the current bill and the past due balance.

Franchise Revenue

The restrictions on utility service cutoffs will also impact the collection of franchise fees levied on electric and potentially cable television bills, if the provider is delaying cutoffs. Late payment of utility bills may result in a delayed or reduced amount of franchise revenue remitted by utility companies.

Utility Transfers

The negative impacts on utility revenues may impact the ability of an utility fund to support budgeted utility transfers.

Impact on Expenditures

Because COVID-19 is a medical emergency, and most municipalities do not deliver medical services, significant increases in expenditures related to the virus are not anticipated for most municipalities. However, municipalities that provide primary emergency medical services or support services may experience higher pandemic associated expenses. Direct COVID-19 costs should qualify for FEMA reimbursement and subject to minimum eligibility requirements. However, receiving payment is likely to take a considerable amount of time.

Cash Flow Challenges

There is a high probability that cities and towns will experience reduced or late revenue collections from April through June 2020. Unless new revenue is appropriated, expenditures reduced, or a combination of actions is implemented, a shortage of available cash to cover current expenses is likely to occur. Municipalities with an adequate fund balance, unrestricted funds carried from over prior years, may need to temporarily appropriate money from their fund balance to cover expenses. Cities or towns without sufficient fund balance may need to borrow money in anticipation of future revenues to cover the costs. The early identification of the need to borrow money is essential because of the lengthy and formal process required to borrow money.

Budget Amendment or Approval

The South Carolina Constitution requires municipalities to prepare and maintain a balanced annual budget, which provides for sufficient income to meet the estimated expenses for each year. The expenditure of funds or approval of contracts in excess of the sum appropriated in a municipal budget is unlawful. Cities and towns faced with the need to amend or adopt a new budget, even during the COVID-19 state of emergency, should do so using an ordinance. Unlike state government, there appears to be no provision in law for municipalities to use a continuing resolution.