# Pandemic Management: Options for Dealing with Financial Responsiblities in the Age of COVID-19

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**For South Carolina counties**, springtime marks the beginning of the annual budget process, a routine that identifies priorities and allocates resources for the fiscal year ahead. However, this year, the traditional cadence of this process was hijacked by the COVID-19 pandemic, with its haphazard mix of virtual meetings, gallons of hand sanitizer, fist bumps, and shots in the dark. As the time of COVID-19 approaches the end of its first year, we are all beginning to see and feel the financial impacts of those budget projections.

### County Revenue Sources and the Impact of the Pandemic

For many, the meat and potatoes portion of county budgets—property taxes and state aid to subdivisions—has not been materially affected in the fiscal year 2020/21 budget cycle. This is not to say that these revenue sources are not or will not be affected by the pandemic. To the contrary, Moody's Analytics estimates that state and local governments (nationwide) face a combined revenue loss of $500 billion through the end of 2022. Furthermore, the South Carolina Board of Economic Advisors, which provides financial forecasts to the South Carolina General Assembly for budgeting purposes, reduced projections of

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the State's gross general fund revenues for both fiscal year 2020 and 2021 to 4 percent and negative 3 percent growth, respectively. This will impact the State's annual budget and may result in flat or reduced funding to counties. Statutorily, if the state's budget is less than the prior year, state appropriations to counties will be reduced.

Real property tax collections and state aid are, by their nature, trailing indicators for counties. For property taxes, the January 15, 2020 ad valorem property tax deadline occurred prior to the full effect of the pandemic being known; similarly, state income tax collections were deferred until July 15, 2020. The true impact of the pandemic on these collection sources is just coming to fruition with respect to state income taxes and likely will not be known until the January 15, 2021 tax deadline for ad valorem real property taxes.

Outside taxes and state assistance, budgeted revenues for items like sales-tax-based revenues (local option sales taxes, hospitality fees, local and state accommodations fees), enterprise revenues (utilities, stormwater, and other fees), and, to the extent they are collected (and contingent on timing), business license taxes would reflect more near-term effects resulting from the pandemic.

### Addressing Revenue Losses and Delays

Regardless of the source, losses of or delays in revenues create cashflow shortages, and drawing on fund balance and limited cash reserves creates structural imbalances and can only take you so far. To avoid fiscal strain, many counties have implemented or will implement the fail safe remedy of reshaping operations, cutting labor, and reducing expenses. However, it may be difficult to address cashflow issues solely through expense reductions. To the extent expense reduction proves insufficient, a county may explore several options for raising new revenues.

**Raising Taxes/Fees/Charges**

Assuming the political will exists, the easiest way to relieve budget pressure is to raise new revenue through taxes or fees.

By state law (Section 6-1-320 of the *Code of Laws of South Carolina 1976*, as amended (the "South Carolina Code"), commonly known as "Act 388"), a county's authorization to increase its millage rate year-over-year is limited to (a) the increase in the Consumer Price Index, plus (b) the percentage increase in the population of the county in the previous calendar year (the "Millage Limitation"). In addition to the Millage Limitation, the county may further avail itself of a "look-back" provision that is commonly referred to as "millage banking." Millage banking allows the county to increase its millage rate in the upcoming fiscal year by any millage increase "allowed but not previously imposed for the three property tax years preceding the year to which the current limit applies."

To the extent the Millage Limitation is too restrictive or does not raise sufficient funds, there are some exceptions to Act 388 to additionally consider, including the emergency millage exception in Section 6-1-320(B) (catastrophic events, for which the pandemic arguably qualifies) and the exemption in Section 6-1-320(D) for reserve accounts, which could be levied to replenish depleted general fund balance.

In addition to operating taxes, counties may choose to institute user service charges as needed to pay for county services. New fees can generate additional revenues and relieve pressure on the general fund. Any new fee imposition must qualify under the provisions of Section 6-1-330 of the South Carolina Code, and revenues raised by any new fee must be used for the particular governmental service for which the charge is imposed.

**Lease Financing**

If your county faces immediate capital needs, lease financing of personal property (equipment) may be a useful tool in lieu of up-front general fund capital expenditures. Through a lease-financing structure, an expense that would otherwise be immediately payable can be extended over several years as needed to improve cashflows. Additionally, some government entities made arrangements to lease-finance existing capital assets—essentially taking a loan against existing equipment in order to generate an immediate cash infusion and paying the asset back in future budget years on the expectation of a return to normalcy.

**Tax Anticipation Notes**

A tax anticipation note ("TAN") is a short-term borrowing option available to counties. A TAN is a note issued by the county and secured by a pledge of future tax revenues and the full faith, credit and taxing power of the county. TANs are structured to mature in less than one-year and generally mature by April 15 of the upcoming tax year. While a TAN can provide short-term cashflow relief, it does not increase revenues or taxes. It simply allows you to front-load your future tax collections, and pay them back, with interest, once tax collections are received. Any decision to issue a TAN should be carefully considered; because once you start the cycle of relying on TANs, that cycle can be very hard to escape in future budget years.

**General Obligation Bonds**

General obligation bonds provide a powerful and flexible tool to offset general fund capital expenditures. As these borrowings are subject to debt limit considerations (limited to 8 percent of each county's respective taxable assessed value), they should be pursued only after due consideration, but offer fewer strings than most alternatives. The South Carolina Constitution only requires the purpose be a "public purpose" and a "corporate purpose" of the county, which would include current operations and contingency funding. Additionally, some counties have determined to issue general obligation bonds in lieu of, or to otherwise redeem, lease purchase obligations to provide or preserve capacity under the Millage Limitation applicable to the County's levy for operations. The Millage Limitation under Act 388 does not apply to debt service millage.

**Refunding/Restructuring Existing Debt**

We are living in a period of historically low interest rates. The same benefits that many homeowners see from refinancing their mortgages in the current borrowing environment are available to the local government debt market. Counties should consult their financial advisors and bond counsel to determine if debt service may be reduced through refunding existing debt. These savings can reduce debt service millage levies, savings which can be captured and offset by increases in operating millage (subject to the Millage Limitation). In addition to savings-related refundings, some issuers may seek to restructure existing debt. In a restructuring, debt payments may be adjusted and deferred, creating immediate relief from debt payments.

The foregoing catalogues a sample of the tools available to counties seeking to address fiscal challenges and unknowns during the balance of fiscal year 2020/2021 and into the fiscal year 2021/2022 budget cycle. Successfully and proactively addressing cash flow challenges now will well-position your county in the months and years to come, and help to put it back on the path to post-pandemic prosperity.