



## **COVID-19 Financial Impact Survey Results Summary**

### **April 20, 2020**

NHMA is proud to call all 234 towns and cities in the state our members. We have been deeply involved in advising our members as well as advocating for them during this crisis. Our municipalities face many challenges, and the financial impact is at the forefront.

NHMA launched a COVID-19 Financial Impact Survey to our members on Tuesday, April 14, in anticipation of our presentation to GOFERR on April 17, giving towns and cities only about 48 hours to compile a great deal of information relative to COVID-19 expenses, lost revenues, and overall budget impacts. Despite the short time frame, 127 municipalities responded—a 54% response rate<sup>1</sup>. This underscores what we already knew: That the financial impact of the COVID-19 pandemic is of grave concern to municipalities, and that financial assistance is critical.

There are two caveats to note before reviewing survey results summary:

1. Our survey did not account for any reduction in state funding to municipalities, such as Meals & Rooms tax distribution, the \$40 million in municipal aid, or highway block grant payments. All towns and cities are concerned and anxious about whether there will be cuts to those sources of funding that they rely on.
2. There are so many unknowns, and circumstances are subject to change, including financial impacts. The financial impacts will be long-term and significant. Anticipated expenses and revenue losses cannot accurately be predicted, but municipalities have done their best to do so.

We have provided visual summaries of the data in the attached addendum.

### **I. COVID-19 Related Expenses**

The survey looked at several different categories of potential expenses. We asked municipalities to report increased expenses due to COVID-19 from March 13 to date, and to report anticipated increased expenses for the remainder of 2020. Overall, increased costs to date for that 5-week period were reported at \$7.6 million, while anticipated estimated future costs just for the remainder of this year are approximately \$27.2 million.

It will come as no surprise to you I imagine that the towns and cities with police, fire, and/or emergency services reported significant cost increases in these categories, for expenses like PPE, additional training, and overtime. Total spent to date in these categories was reported at over \$2

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<sup>1</sup> Two additional municipalities had submitted responses that were added after NHMA's presentation to GOFERR on April 17, 2020.

million, with anticipated expenses for the remainder of 2020 at over \$10 million. While we understand from listening to Assistant Commissioner Plummer's presentation that many emergency response related expenses will be reimbursed by FEMA, there are many categories of expenses that will not be reimbursed through that program.

- Welfare: Forty percent reported that they have already seen an increase in welfare expenses just since March 13, and 53% reported they anticipate significant future welfare costs increases, including more need for shelter and rental assistance, utility payments, and food. Many added they anticipate a huge spike in welfare need once the foreclosure stay is lifted. For example, Conway has seen an increase in homeless clients and requests from individuals who have been laid off, particularly since they have so many retail and hospitality businesses in their town that have been shut down. With a lack of shelters in the area, they are paying hotel room rates to house welfare recipients. They are not alone. The survey results show that towns and cities anticipate an increase in welfare of about \$1.6 million for the remainder of the year.
- Technology: Sixty-three percent reported increased expenses related to technology and more than half reported they anticipate additional technology expenses in order to allow employees to work remotely and municipal officials to hold meetings and otherwise operate remotely. These expenses include laptops and other devices, as well as virtual meeting software that is secure and can allow multiple meetings to be held at once. Spent to date on technology is over \$500,000, and anticipated to be spent is about \$850,000.
- Borrowing: Many municipalities reported that they will need to consider tax anticipation notes (TANs) due to much higher than usual property tax payment delinquencies, and this means paying interest and other costs associated with borrowing. Several municipalities reported that they haven't had TANs in many years or have never needed a TAN will be looking into one this year. The next section on revenue loss will discuss TANs and why this issue is so significant.
- Other increased costs: Other increased costs that municipalities have and will face include legal fees, particularly with regard to legal advice on employment issues and compliance with new federal legislation; anticipated increases in property tax abatements being requested; increased costs for holding elections; and increased employment-related costs, including unemployment, overtime (spent: \$2 million, anticipated: nearly \$4 million), benefits for furloughed employees, loss of employees who are sick, and compliance with new laws, such as the Families First Coronavirus Response Act.

## **II. COVID-19 Related Revenue Loss**

As the results of the survey show, revenues are just as much a concern, if not more of a concern, as expenses.

### **Three areas of concern regarding revenues:**

1. State Aid to Municipalities
2. Property Tax Delinquencies/Cashflow
3. Other Revenue Shortfalls

#### **1. State Aid to Municipalities**

Our survey did not ask about state aid to municipalities (Meals & Rooms Tax distribution, highway block grants and the FY 21 one-time appropriation for \$20 million) as we are already well aware that receipt of these revenues is of significant concern to all our members.

#### **2. Property Tax Delinquencies**

##### **Background:**

- 197 municipalities operate on a calendar year while 37 are on a fiscal year (July 1- June 30).
- Most municipalities bill property taxes twice a year (June and December) while a few issue bills quarterly or once a year (December).
- Municipalities on a calendar year have been providing services for six months (since January) and bill in arrears for those services with the semi-annual tax bill in June.
- Most mortgage companies require borrowers to escrow property taxes as part of their monthly mortgage payments, then pay the property taxes from those escrow accounts once the tax bill has been issued.

##### **Delinquency Scenarios:**

- Respondents to our survey indicated that for a property tax levy, mortgage escrow payments typically represent anywhere from 16% to 80% of the tax levy, with an average of approximately 45%.
- Delinquent property taxes (i.e. taxes not paid by the due date) typically range from a low of 2% to a high of 30% of the tax levy, with an average delinquency of about 9%.
- When asked if they had sufficient reserves to maintain municipal operations if the delinquent property tax rate was 10%, all but a few replied yes.
- When asked if they had sufficient reserves to maintain municipal operations if the delinquent property tax rate was 20%, approximately 40% said no.
- When asked if they had sufficient reserves to maintain municipal operations if the delinquent property tax rate was 30%, almost 70% said no.
- With a 40% delinquent property tax rate, nearly all said they did not have sufficient reserves to maintain municipal operations.

##### **Tax Anticipation Notes (TANS)**

- When asked if they would be able to obtain a TAN to meet cashflow needs over the next 6 months, nearly a third responded that they were not sure.

- Some municipalities have not had to borrow a TAN for years or even decades. Additionally, some banks do not issue TANs.
- Municipalities are required to make payments to school districts “as the school board shall require for the maintenance of schools” (RSA 198:5). School districts are not statutorily authorized to borrow TANS but rather must rely on the periodic payments from the municipality.
- The Federal Reserve Bank is proposing a “Municipal Liquidity Facility” to assist cities nationwide in meeting their liquidity needs. We have only seen a brief summary of this proposal, have discussed it very briefly with the NH Department of Revenue Administration and the NH Municipal Bond Bank, and are unclear at this time if, when or how, this program could assist New Hampshire municipalities with their cashflow needs.

### **3. Other Revenue Shortfalls:**

- Motor vehicle registration fees are the second largest general fund revenue source for many municipalities. A quarter of the respondents to our survey indicated that they are already seeing shortfalls in motor vehicle registration fees despite the ability for citizens to continue registering during the pandemic via online, by drop-box or by appointment. Those who have already seen shortfalls in motor vehicle fees projected revenue loss through December at approximately \$23 million.
- While a few respondents indicated that they are already seeing higher than normal delinquencies in utility payments, the vast majority indicated that it is too soon to tell. Many utilities bill quarterly and indicated another survey in a month or two could provide more accurate estimates of utility delinquencies.
- About 58% of respondents indicated that they are seeing shortfalls in a variety of other municipal fees and taxes (building permits, parking fee, recreation fees, land use taxes, etc.) and estimated that revenue loss through year end to be approximately \$35 million.

## **III. Overall Budget Impacts & Conclusion**

At the end of the survey, we asked members to provide general information on budget impacts and actions that towns and cities might need to take to mitigate the impacts described above:

- Many reported that the layoffs and furloughing of employees, cutting public services, and drawing down their reserves may be necessary.
- As stated before, many reported serious concern about cuts to meals and rooms distribution, state aid, and highway block grants. Some municipalities are reworking their July 1 budgets to account for cuts in state funding—but without any direction on how much to cut, or even whether to cut this revenue—while many others have already adopted budgets that rely on the full amount of state funding.

Finally, we encourage you to read the recent New York Times Article “This is Going to Kill Small-Town America,” which is attached to these materials. It is written about the devastating effects of COVID-19 on our very own Bristol, NH. It is an article that many town officials have said could be written about any of our towns.

## **Addendum: NHMA COVID-19 Survey – Facts and Graphs**

**54%** of municipalities (**127 of 234**) responded to the survey

**COVID-19 Expenses to date = \$7.5 million**  
**Anticipated COVID-19 Expenses through December = \$26.7 million**

### **Significant Municipal Concerns:**

- Loss of state aid (Meals & Rooms tax distribution, Highway block grants, \$20 million in FY 21 one-time funding) and other municipal revenues
- Property tax delinquencies
- Increased welfare expenses when Emergency Order #3 (relative to discontinuing utility services) is lifted
- Ability to borrow for cashflow needs

For a typical property tax levy, payments from mortgage escrow accounts range from **16% to 80%** of the tax levy, with an average of **46%** typically paid from mortgage escrow accounts.

Property tax delinquencies typically range from **2% to 30%**, with an average delinquency rate of **9%**.

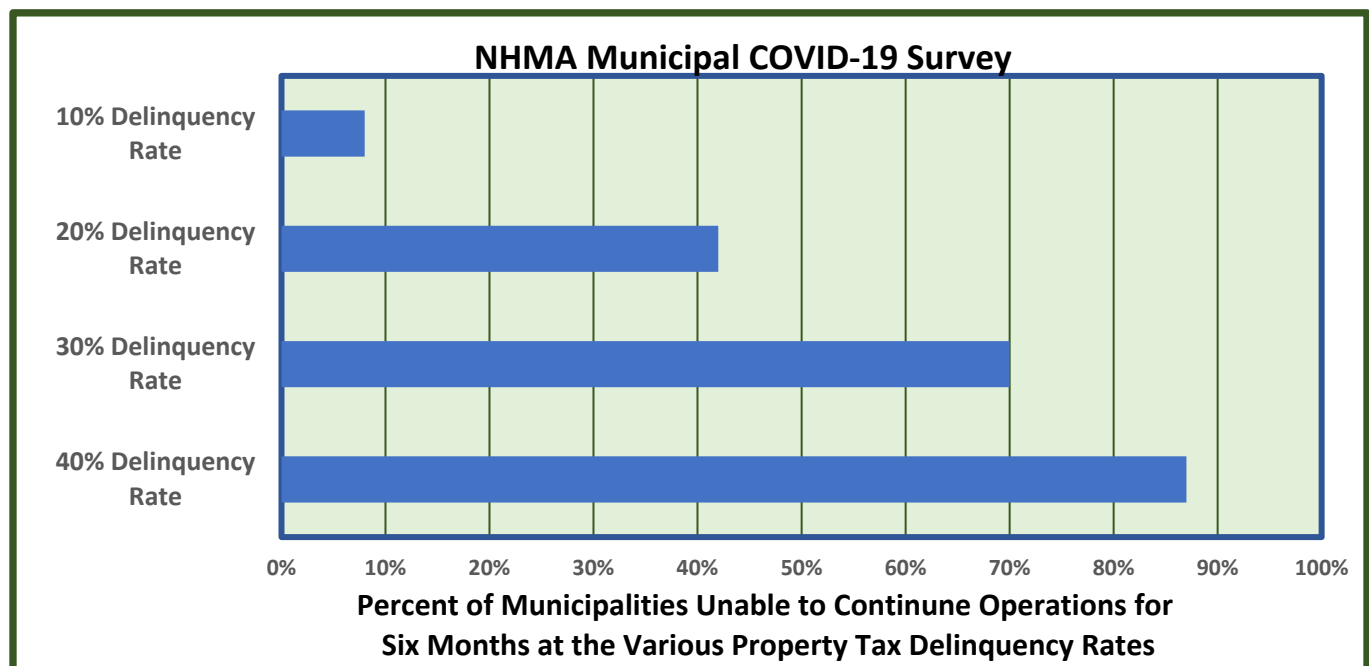
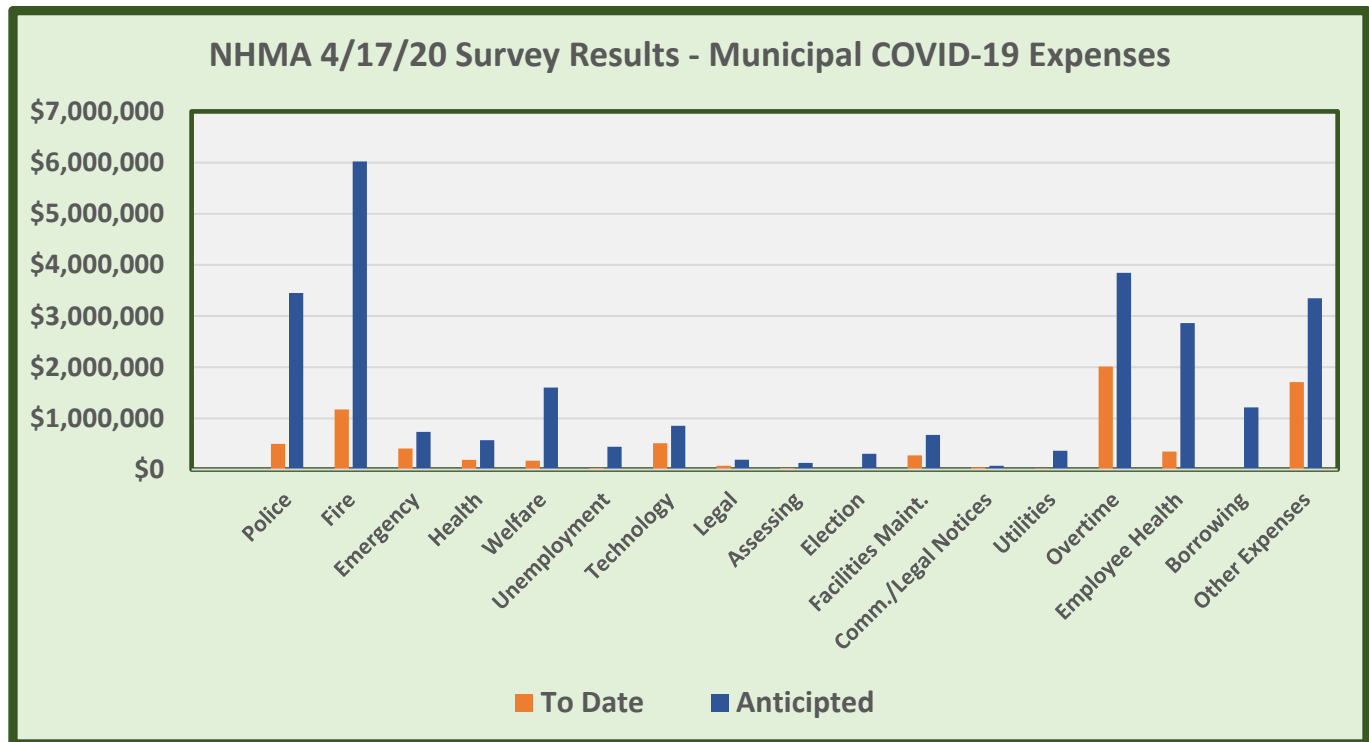
**30%** of municipalities are not sure they will be able to borrow tax anticipation notes to meet cashflow needs over the next six months.

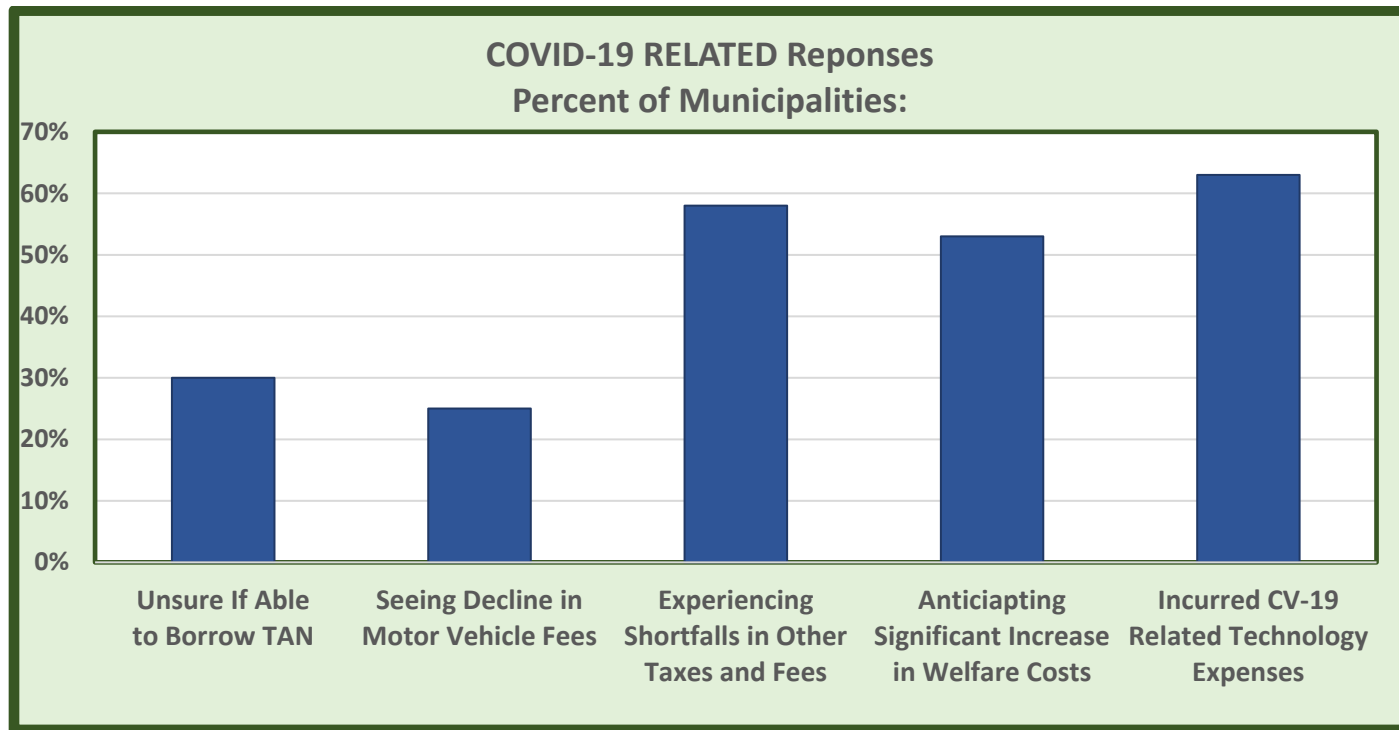
**25%** of municipalities are already seeing declines in motor vehicle registrations and estimate revenue shortfalls of **\$23 million**.

**58%** of municipalities are seeing shortfalls in other taxes and fees, estimating the revenue loss of **\$35 million**.

### **Likely Responses to Revenue Shortfalls:**

- Layoffs and Furloughing of Employees
- Cutting public services
- Drawing down reserves





## 'This Is Going to Kill Small-Town America'

Once the coronavirus reached rural Bristol, N.H., the effect on the local economy was devastating.



By David Gelles

April 14, 2020

BRISTOL, N.H. — The coronavirus itself was slow to arrive in Bristol, a lakeside town of 3,300 people. The economic destruction came swiftly.

By the end of March, with just a few local cases confirmed, gift shops, yoga studios and restaurants had all shut their doors. Hundreds lost jobs, contributing to a record surge in national unemployment claims.

But at least the Freudenberg factory was running at full strength. The factory, which employs 350 people and makes bonded piston seals and other components for carmakers around the world, has an outsize impact on Bristol's economy.

Besides paying employees their salaries and the town taxes, the factory — part of a German industrial conglomerate — is the largest customer of Bristol's sewage and water systems, a linchpin of the annual budget.

"Freudenberg is our lifeblood," Nik Coates, the town administrator, said in an interview on April 2. "If that plant was ever to close or significantly reduce operations, that would put us in a world of hurt."



Nik Coates, the town administrator, worried about layoffs at the Freudenberg factory, Bristol's largest employer. John Tully for The New York Times



As the coronavirus upends economic life around the world, small towns like Bristol are particularly vulnerable. Freudenberg is its lone large employer. There are just a few national chains — a Dunkin', a Rite Aid and a Dollar General. And many of the small locally owned businesses depend on seasonal residents, who flock to Newfound Lake during the summer, doubling the town's population for a few months.

The community has tried to come together in recent weeks, with residents extending help to one another and trying to support local establishments. But with unemployment ballooning and the threat of worse financial pain to come, neighborly good will is worth only so much over the long term.

"We're not rich by any means," Mr. Coates said. "We're pretty poor, in fact."

On April 3, the bad news started to spread around town. Freudenberg announced it was firing more than 100 people, shutting down its manufacturing of bonded piston seals and looking for additional buyouts. With car sales around the world essentially halted, automakers were suspending operations, and suppliers like Freudenberg were suddenly without revenue to pay workers in places like Bristol.

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The factory has been operating for decades, and is a point of pride for the town. Some years ago, Ford Motor named it one of the carmaker's best suppliers. The layoffs, however predictable they may have been, were a blow to Bristol's morale. Several people affected by the layoffs declined to be interviewed, not wanting to upset the biggest employer in town.

"Managing this is going to be difficult for sure," Mr. Coates said after learning about the layoffs.

Much of Bristol has now ground to a halt. Restaurants were among the first to close last month. The Homestead, a popular spot where locals splurge on crab-stuffed haddock and lobster rolls, tried to do takeout. But after a week of losing money, Mark McDonough, who owns the Homestead and four other restaurants in the state, shut it down.

"It's been a heartbreaking couple of weeks here," he said. "Companywide, we've had to send about 225 people to the unemployment line."

Mr. McDonough's other restaurants, which are in larger cities, continue to serve takeout. Still, sales are down nearly 90 percent, and waiters and dishwashers are out of work. Hoping to help, Mr. McDonough bought his employees gift cards and is serving them free meals.

Bristol's best-known local business was also quick to close. TwinDesigns, a gift shop run by the twin brothers Jim and Brad Tonner, features merchandise celebrating a 51-year-old turtle named Diane, who is on display in a small back room. Business normally picks up in the summer, when tourists buy turtle books, puzzles and stuffed animals.

"If this goes on too long, we won't survive," Brad Tonner said. "This is going to kill small-town America."

Even those businesses that have remained open are struggling. Dawna Shackley invested her life savings last year to open a graphic design and printing shop, Newfound Impressions. Business was going well, allowing her to hire her first employee in January.

Now sales have shriveled, from about \$20,000 a month before the crisis to just \$1,500 in March. Ms. Shackley fired her employee. Her last two printing jobs were both related to the virus: 6,000 brochures about good hygiene for a hospital, and a few banners for the town with information about the crisis.

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"At this point, I'm not sure how long I can last," Ms. Shackley said. "I figure I've got another two or three months."

Some businesses are seeing an uptick in sales. In the days after Gov. Chris Sununu ordered nonessential businesses closed, people lined up in the parking lot at Skip's Sport Shop, the town's gun store. Hannaford, a grocery store, has been busy, and is offering a senior hour from 6 to 7 some mornings. Aubuchon, a regional hardware chain, is offering curbside pickup.

Locals have tried to support one another with acts of kindness, however small. Jason Briand, owner of a flooring company, is posting videos that instruct residents how to apply for federal loans. Cathy Bannan Redman, a Bristol resident, organized a team of 60 volunteers to shop for the town's elderly and immuno-compromised.

"I come from a long line of helpers," said Ms. Redman, whose parents volunteered in Bristol over the years.

Small businesses are trying to do their part, too. The town's gym, Kilter Fitness, is letting members use its weights at home. Newfound Yoga is streaming classes online. LinCross, a sandwich shop that is still serving takeout, distributed free toilet paper. A distillery donated a gallon jug of hand sanitizer it had made to the Police Department, which was running low.

"What we lack in monetary resources we make up for many times over in community involvement," Mr. Coates said.

Bristol's lone Chinese restaurant, Very Excellent, initially saw business slump in late February.

"There was a lot of anti-Chinese sentiment," said Hector Hsu, the owner, who was born in China and is completing his Ph.D. in aerospace engineering at the Massachusetts Institute of Technology outside Boston, 100 miles south.

Mr. Hsu opened Very Excellent last year, believing it would be a welcome distraction from his studies. Last month, as the virus spread in Boston, Mr. Hsu decided to move to Bristol full time. He starts each day at Very Excellent, where he obsesses about health and hygiene.

"I check everyone's temperature in the morning and yell at them to sanitize," he said.

In recent weeks, Very Excellent rolled out a reduced-cost menu of takeout meals, and as people have hunkered down, orders have picked up. Mr. Hsu is now breaking even and hopes to avoid layoffs.

Still, there are gnawing concerns about the town's future. Any economic recovery, whenever it does arrive, may take that much longer to reach places like Bristol, which celebrated its bicentennial last year.

Already, Mr. Coates is concerned that the share of tourism revenue that Bristol receives from the state is going to shrivel. That could affect basic services that keep residents safe and draw visitors to Newfound Lake, which is exceptionally clean and surrounded by forested hills.

"Running a town is more than just keeping the lights on and paying your employees," he said. "It's things like taking care of the beaches and replacing our defibrillators."

A major test of Bristol's resilience will come this summer, when second homes around Newfound Lake fill up. Though Mr. Coates isn't even sure the town will open its beaches, some year-round residents are already worried that a surge of visitors could spread the virus.

Yet if the crowds don't show up, the economy will suffer that much more. "The seasonal businesses will be killed if this isn't over by the summer," Mr. Coates said.

And then there is the Freudenberg factory. In a statement, the company said that the layoffs were temporary, and that it anticipated "that the facility will be back on line as soon as our customers and suppliers, themselves, return to normal operations."

The problem is, no one knows when that will be.

"My concern is that this thing drags on for a year or spikes again," Mr. Coates said, "and our businesses don't come back."

The Coronavirus Outbreak >

## Frequently Asked Questions and Advice

Updated April 11, 2020

### • When will this end?

This is a difficult question, because a lot depends on how well the virus is contained. A better question might be: "How will we know when to reopen the country?" In an American Enterprise Institute report, Scott Gottlieb, Caitlin Rivers, Mark B. McClellan, Lauren Silvis and Crystal Watson staked out four goal posts for recovery: Hospitals in the state must be able to safely treat all patients requiring hospitalization, without resorting to crisis standards of care; the state needs to be able to at least test everyone who has symptoms; the state is able to conduct monitoring of confirmed cases and contacts; and there must be a sustained reduction in cases for at least 14 days.

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