MUNICIPAL RESPONSES TO THE COVID-19 DOWNTURN: INITIAL OBSERVATIONS

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The economic downturn created by the COVID-19 experience in March 2020 raised serious concerns about the potential effects on both the Illinois economy and local governments. Sharp rises in unemployment and declines in sales in specific business sectors suggested that the Illinois economy could potentially be seriously impacted. However, as the downturn continued and more complete information was available, it became clearer that the long-term effects might not be as serious as initially thought. The economic sectors most adversely affected were either low-paying or in decline even before the pandemic (Nystrom, 2020). Further, aggressive federal stimulus programs helped prevent decreases in consumer spending and offset lost local government revenues (VonKerczek, 2021).

This article examines responses from a survey of Illinois municipalities conducted through the Illinois Municipal League (IML) — in cooperation with the Illinois Government Finance Officers Association (IGFOA) and the Northern Illinois University Center for Governmental Studies in April and May 2021 — early in the economic recovery. This time frame also coincided with the end of fiscal year 2021 (FY21) for most Illinois municipalities, which is important because it includes the full extent of the declines related to COVID-19 in that year. The survey results do not purport to assess long-term impacts. Rather, they focus on immediate fiscal adjustments with few, if any, indications regarding how these responses may change as the economy further recovers. Likewise, the 2020 Census data will provide more accurate and current information to better inform policy decisions.

Respondents were asked about economic and fiscal conditions plus responses in FY21 and those planned in FY22. Because policies and conditions were in a state of flux with incomplete information on the speed at which the economy would reopen, responses included speculation about actions to be taken in the coming year. Nevertheless, the information paints a picture of the extent to which responding municipalities were affected and their planned responses. If the economy recovers more quickly, then actual responses may be more positive than reported.

A large literature exists regarding how municipalities respond to fiscal downturns (Clark & Ferguson, 1983; Walzer, 1985; Pagano, 1993; Maher & Deller, 2007; Kim & Warner, 2016), so survey responses are examined in light of those findings. Due to the relatively small sample size (27), the analyses are mainly descriptive and attempt to determine response patterns depending on size and pre-COVID conditions. The comparisons reflect the thinking of municipal policymakers as the economy was starting to recover and provide a benchmark for policy adjustments during the remainder of this year.

IGFOA sent the survey questionnaire to 206 members and did several follow-ups. In total, 27 municipalities ranging in population from 2,098 to 197,757 with representatives in both the Chicago Metropolitan Statistical Area (MSA) (21) and downstate Illinois (six) responded (Figure 1 and Table 1). The sample includes a broad range of municipal sizes, with four having a population less than 10,000, 10 having between 10,000 and 25,000, and 13 having more than 25,000.

The small number of responses prevents sophisticated statistical inferential analyses and may include some nonresponse bias. Nevertheless, it allows insights about the approaches used by a cross-section of Illinois municipalities. To the authors' knowledge, no comparable source of information existed at the time of writing in August 2021. The absence of detailed information on fiscal status for the same respondents immediately prior to COVID-19 prevents before-and-after comparisons. Instead, several sample characteristics are described to indicate the relevance of the descriptive analyses for generalization to experiences in other municipalities.

According to the U.S. Census Bureau's 2019 population estimates, the responding municipalities have an average population of 41,181 (Table 1). For reference, the average population for all IGFOA member municipalities is 27,066, so the survey sample is larger than average. In general, IGFOA municipalities are larger in population — 27,066, compared to an average of 8,506 across all Illinois municipalities. Many have access to professionally trained financial staff, which may tilt the reporting strategies. For instance, nine responding

FIGURE 1

LOCATION OF MUNICIPAL SURVEY RESPONDENTS

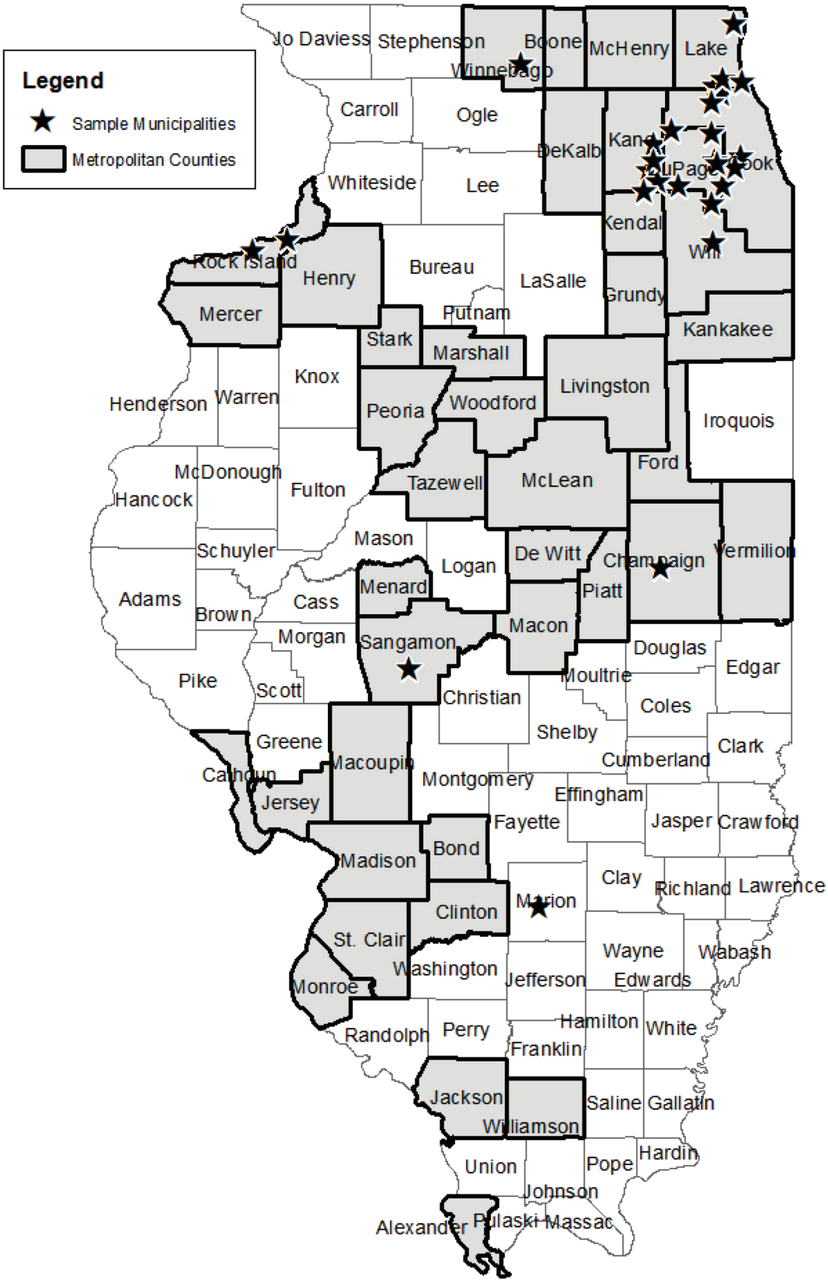


TABLE 1

SURVEY SAMPLE CHARACTERISTICS

CHARACTERISTIC	NO. OF RESPONSES	% OF TOTAL
Total Responses	27	
By Location		
Chicago Metro	21	80.8%
Downstate	6	23.1%
By Largest Industry*		
Manufacturing	9	34.6%
Health Care	6	23.1%
Professional Services	5	19.2%
Retail Trade	2	7.7%
Wholesale Trade	2	7.7%
Arts & Entertainment	1	3.8%
Education	2	7.7%
By Population Size		
Under 10,000	4	15.4%
10,000–24,999	10	38.5%
25,000–49,999	8	30.8%
50,000–99,999	2	7.7%
100,000+	3	11.5%
Average Population Size**		
Survey sample	41,181	
Illinois	8,506	
IGFOA municipalities	27,066	
Median Population Size**		
Survey sample	20,645	
Illinois	1,057	
IGFOA municipalities	19,447	

**By share of jobs in municipality, according to 2018 LEHD data from the U.S. Census Bureau.*
***Per 2019 population estimates by the U.S. Census Bureau, Population Estimates Program.*
Source: IML-CGS fiscal recovery survey, 2021.

municipalities have administrators and 13 have city managers, meaning 81.5% had access to this level of financial or management expertise.

The median population in the survey (20,645) approximates the median IGFOA member municipality (19,447). Likewise, the responding municipalities are predominantly in the Chicago MSA (80.8% of the responses). Of the six downstate responses, only one is in a nonmetropolitan county. The sample municipalities represent a diversity of industrial bases. The three largest industries, by share of employment in the municipality, are manufacturing (34.6% of the responses), health care (23.1%), and scientific/technical/professional services (19.2%).

Several studies that examined the likely impact of the COVID-19 downturn and business conditions in general are discussed briefly to place reported municipal responses in perspective. Houser and Walstrum in June 2020, collaborating with the Illinois Manufacturing Excellence Center and the Michigan Manufacturing Technology Center, surveyed member businesses on conditions at that time and the likely expectations. The relatively low response rate (232) limits analyses of responses by manufacturing businesses and by population size. However, in June 2020, those businesses reported substantial declines in revenues compared with their expectations at the start of 2020. Most reported “some but not strong” concerns about the company’s financial health. Likewise, three-quarters of respondents expected that economic activity in the U.S. would return to the pre-COVID level by the close of 2021. The study suggested that respondents expected to make relatively small changes in operations.

Business respondents seemed relatively accurate in the timing of the recovery, although the impact of current shortages in the supply chain may slow the speed of the recovery. Workforce shortages, partly accommodated by public programs to protect workers and stimulate spending, may likewise slow the recovery.

Main Street America conducted several surveys focused mostly on main-street businesses. For instance, Powe and Batts (2020) reported on a survey done in August 2020 with 1,414 responses from 47 states and the District of Columbia. More than half of the respondents (51%) were not in a major metropolitan area, and 31% were in municipalities with fewer than 10,000 residents. These survey results are useful because they provide information on small businesses midway through the pandemic downturn and offer several insights into the thinking of business owners.

Differences between the Main Street America reports in May and August 2020 show that the impacts on small main-street businesses were less than initially reported (Wagner & Powe, 2020). Instead of the expected 25% of small businesses that would close by September 2020, the actual number was closer to 10% (Powe & Batts, 2020, p. 3). Approximately half (53%) had closed but then reopened. Respondents also confirmed the importance of local nonprofits and similar organizations in helping them adjust to changing conditions.

Differences among municipalities in economic bases also determine the impacts. Municipalities with heavy concentrations in manufacturing may differ in responses from those relying heavily on tourism, for example. The size of the municipality and its diversity of revenue sources along with home rule authority also affect the strategies used. Some of these differences are discussed below, given the limited data available.

LOCAL ECONOMIC CONDITIONS

Overall, survey respondents were relatively positive about the current economic conditions (in April and May 2021) in their municipalities, with approximately half reporting that conditions were either prosperous but with signs of an economic slowdown or stable with no significant changes expected in the next year or so (Table 2). Nevertheless, 13.6% reported being hit hard by the COVID-19 recession and facing slow recovery. Those sample municipalities had populations between 10,000 and 50,000, but 81.8% of all respondents (any size) described prosperous or stable economic conditions.

Relatively few responding municipalities larger than 50,000 provided information on current economic conditions. Of those that did, one had a stable economic outlook with no changes in the short term, another reported a high unemployment rate compared with neighboring communities, and a third reported being prosperous with some signs of slowdown. These respondents are in northern Illinois or the Chicago MSA and were more prosperous entering the economic slowdown.

The sample municipalities' current economic conditions varied considerably by past economic and fiscal conditions. According to estimates from Economic Modeling Specialists, Inc., approximately three-quarters of the sample municipalities lost employment between 2015 and January 2020. Among the four municipalities that gained employment before the pandemic, three were stable or prosperous, and one was hit hard by the recession. The only municipality reporting a high unemployment rate relative to its surrounding communities also lost employment between 2015 and 2020.

Months of unrestricted reserves are used to show past fiscal conditions in the sample municipalities (Sohl et al., 2016). The national-level Government Finance Officers' Association (2015) recommends that municipalities maintain adequate unrestricted reserves for a minimum two months of operating expenses. A majority of municipalities in the sample met or exceeded this threshold in FY20. The size of reserves did not seem to show a relationship to economic conditions after the COVID-19 downturn. Most municipalities that had moderate reserves reported being stable or prosperous in the current survey. However, nearly half of the municipalities with low reserves (less than two months) were prosperous with some signs of slowdown and probably could weather adverse economic conditions more easily. While this comparison sheds some light on what is happening, the number of respondents is too small to generalize statewide.

The lockdown of the economy limiting access to restaurants and other businesses was a major factor in the COVID-19 slowdown. Some businesses closed completely or changed the ways they delivered services. Thus, the importance of the retail sector in a municipality determined to a significant extent how much it was negatively impacted. In reporting the local retail environment, municipal leaders again were relatively positive, with approximately one-third reporting a stable downtown with less than 10% vacancies and 23.8% reporting a prosperous downtown with a few vacant stores but no immediate growth expected. Approximately one-third of respondents reported a stable downtown but expected the number of vacancies to increase in the future.

Retail represents a large portion of the employment base in many municipalities, but most respondents (66.7%) also reported a general slowdown in economic activity with no large employer layoffs. None reported large-scale, permanent business closures, although 9.5% reported slight employment declines that had begun to rebound, and 23.8% reported temporary cutbacks that hurt main-street businesses. These findings are generally positive and indicate, at least for the sample municipalities, that the impact of the downturn may not be long-lasting, barring other adverse events in the future.

TABLE 2

ECONOMIC CONDITION OF SAMPLE MUNICIPALITIES

FACTOR	HIGH UNEMPLOYMENT ABOVE AVERAGE OF SURROUNDING COMMUNITIES	HIT HARD BY THE COVID-19 RECESSION AND RECOVERY HAS BEEN SLOW	STABLE WITH NO SIGNIFICANT CHANGES EXPECTED IN NEXT YEAR OR SO	PROSPEROUS BUT WITH SIGNS OF ECONOMIC SLOWDOWN EVIDENT	RELATIVELY PROSPEROUS AND SIGNS OF SIGNIFICANT GROWTH	TOTAL
By Employment Change						
Gained >5%		1		1		2
Gained <5%				1	1	2
Lost <5%		2		1	1	4
Lost 5-10%	1		4	3	2	10
Lost >10%			2	1	1	4
By Size of Reserves						
High (9+ months)		1			1	2
Moderate (2-8 months)	1		4	4	2	11
Low (<2 months)		1	1	3	1	6
Not in FY20 Database		1	1		1	3
Total	1	3	6	7	5	22

**ZIP-code-level estimates from Economic Modeling Specialists, Inc., for January 2015-2020.*
***Unrestricted net assets relative to annual operating expenditures, excluding capital outlay and depreciation. All data is from the FY20 Financial Database provided by the Illinois Office of the Comptroller.*
Source: IML-CGS fiscal recovery survey, 2021.

A majority of responding municipalities (61.5%) collect a hotel/motel tax that was affected by the declines in travel. The significance of a hotel/motel tax is difficult to quantify because it is not specifically tracked in standard data sources and is, instead, combined with other local sales taxes.[1] In addition, this revenue source is not usually considered general revenue and is spent mainly on tourism and the promotion of activities that subsequently may increase other revenue sources, such as sales taxes.

As one might expect, municipal officials in the survey reported a substantial decline in hotel/motel tax receipts, with many reporting declines of 20% or more and others between 10% and 20%. While these revenues may not support direct services, some expenditures to promote tourism and related purposes may now have to come from the general fund. Thus, at least indirectly, the loss of these revenues affects overall fiscal conditions both in the short term and in future years if the local economy continues to suffer. Fortunately, travel has increased in the recent summer months but shows signs of slowdowns in the fall of 2021 with new restrictions from the COVID-19 delta variant.

IMPACT ON FISCAL YEAR 2021 BUDGETS

As noted, most sample municipalities have an April 30 fiscal year end date, so the responses are based on a full year of the economic slowdown. Of special interest for this discussion is that municipal leaders also reported impacts of the downturn on both FY21 and FY22 revenues (Table 3). Most often reported (40.9%) is that municipal revenues are barely adequate to meet current needs and did not accommodate cost increases from inflation. Several respondents reported inadequate revenues for current services and/or cutbacks being considered in FY22 (beginning May 2021). At the same time, several respondents reported that revenues were sufficient to provide current services with a surplus at year's end, but only two municipalities were able to add services as needed. Thus, it is difficult to make inferences about overall conditions. These responses are what one might expect given the diversity in employment base, location, and size of municipalities in the sample. Several general observations seem reasonable based on a more detailed comparison of responses and local characteristics.

As with economic conditions, revenue status during the pandemic was not strongly related to past employment changes or levels of reserves. Among the municipalities that gained employment between 2015 and January 2020, half had a revenue surplus, one had "barely adequate" revenues, and one had inadequate revenues with cutbacks considered in FY22. However, half of the municipalities that lost more than 10% of local jobs between 2015 and January 2020 also had a revenue surplus.

The size of past reserves in sample municipalities seemingly did not relate to revenues in FY21. Among the eight municipalities with "sufficient" or "more than adequate" revenues in FY21, five had moderate reserves in FY20 (two to eight months of expenditures), two had low reserves (less than the GFOA-recommended minimum of two months), and one was not listed in the FY20 Illinois Office of the Comptroller database. Among the five municipalities with "inadequate" revenues in FY21, three had low reserves and two had moderate reserves.

Municipal size and location (i.e., Chicago MSA vs. downstate Illinois) were not related to whether revenues were reported as adequate. However, industrialized municipalities (i.e., manufacturing being the largest share of jobs in the community) more often reported inadequate revenues (correlation coefficient of -0.39, significant at 5% confidence interval). Conversely, municipalities with the largest share of jobs in retail trade were more likely to add services or have a revenue surplus (correlation coefficient of 0.36, significant at 5% confidence interval). These industry classifications are high-level and do not include possible effects of other major employment sectors nor do they include the impact of commuting patterns.

Municipalities in the sample with a retail-intensive employment base are mainly bedroom communities with more residents than jobs physically located in that municipality. The outbound commuters include residents in higher-paying sectors who were able to work remotely. Conversely, the manufacturing-intensive municipalities had substantial inbound commuter flows, including other employment sectors susceptible to layoffs, such as food service. Thus, a more detailed analysis involving other communities is needed before serious inferences can be drawn.

More insights into the financial impact of COVID-19 are provided by comparing budgets in FY20 (ending April 30, 2020) versus FY21 (ending April 30, 2021) as the economy started to reopen. Budgets are not necessarily the same as actual revenues since budgets were based on perceptions of the length and severity of the slowdown, as well as potential strategies and resources available. For example, access to uncommitted reserves can affect decisions about how and when to respond to expected revenue changes. This is especially true because previous recessions are not accurate predictors of COVID-19 response patterns.

TABLE 3

REVENUE STATUS, FY 2021

FACTOR	INADEQUATE WITH SERVICE CUTBACKS BEING CONSIDERED FOR FY22	INADEQUATE FOR CURRENT SERVICES BUT NO IMMEDIATE CUTBACKS CONTEMPLATED	BARELY ADEQUATE TO MEET CURRENT NEEDS BUT NOT ENOUGH TO ALLOW FOR INFLATION	SUFFICIENT FOR CURRENT LEVEL OF SERVICES WITH A SURPLUS	MORE THAN ADEQUATE AND CAN ADD SERVICES AS NEEDED	TOTAL
By Past Employment Change*						
Gained >5%	1			1		2
Gained <5%			1	1		2
Lost <5%			2	1	1	4
Lost 5-10%	2	2	4	1	1	10
Lost >10%			2	2		4
By Size of Reserves**						
High			2			2
Moderate	2		4	4	1	11
Low	1	2	1	2		6
Not in FY20 Comptroller Database			2		1	3
Grand Total	3	2	9	6	2	22

**ZIP-code-level estimates from Economic Modeling Specialists, Inc., for January 2015-2020.*
***Unrestricted net assets relative to annual operating expenditures, excluding capital outlay and depreciation. All data is from the FY20 Financial Database provided by the Illinois Office of the Comptroller.*
Source: IML-CGS fiscal recovery survey, 2021.

Detailed information was not yet available on expected revenues and, in some instances, municipal officials were not sure about forthcoming state or federal aid when budgeting for FY21. The state government distributed funds to local governments (outside of Cook, DuPage, Kane, Lake, and Will counties) through the Local Coronavirus Urgent Remediation Emergency (Local CURE) Support Program (Illinois Department of Commerce and Economic Opportunity, 2020). These federal funds came from the Coronavirus Relief Fund using dollars allocated to Illinois through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The funds reimbursed allowable local expenditures within a specific time. The relatively short time frame, even though application deadlines were later extended, may have limited the uses for long-term projects. Not all responding municipalities had applied for CURE funding in FY21, but of those that did, nearly all received the full funding allocated to them.

Likewise, municipalities benefitted indirectly from other financial support to small businesses through the Business Interruption Grants (BIG) funded from the federal CARES Act and the state capital improvement program (Crawford, 2020). This program provided $290 million for childcare providers and $290 million to other small businesses with special attention to areas with economic disadvantages. These and other funds such as the Payroll Protection Program, which came later, helped hard-hit businesses to continue operations and avoid terminating employees in some instances, positively affecting local spending in the area.

Approximately half of responding municipal officials (54.5%) reported a FY21 budget higher than the previous year, with several reporting increases of 5% or more and a 2% to 4% increase reported most often. This finding is consistent with assessments of the state of the local economy reported previously. At the same time, the above analyses do not paint an overly optimistic picture because almost as many municipal leaders reported either no change in budget or, in some cases, declines of 3% or larger. In many instances, the increase barely covers inflation, with a few mayors (9.1%) reporting FY21 budgets within 1% up or down from FY20.

No special type of municipality was more likely to experience budget increases or declines in the survey, but data is limited in this context. Respondents were not asked for exact budget adjustments, only broad categories such as if the budget was expected to change by more than 1% over the previous year. Population size and several indicators of location and industry base were not significantly correlated with the scale of budgetary adjustments. However, additional analysis is needed with more observations. Nevertheless, the seven municipalities that reduced budgets by more than 1% had smaller populations than the 27 municipalities overall. Approximately 60% of municipalities with populations larger than 25,000 expected to increase budgets, compared with 58.3% of those smaller than 25,000. Again, these are only simple observations about the current sample. More analyses by location or industrial base could change the findings.

TABLE 4

CHANGES IN MUNICIPAL BUDGETS FOR FY2020 TO FY2021

CHANGE IN BUDGET	UNDER 25,000	OVER 25,000	ALL RESPONSES
Higher by 5% or more	25.0%	0.0%	13.6%
Higher by 2% to 4%	25.0%	60.0%	40.9%
No change—within 1% of last year	16.7%	0.0%	9.1%
Lower by 3% to 5%	0.0%	40.0%	18.2%
Lower by 6% to 10%	16.7%	0.0%	9.1%
Lower by 11% to 15%	8.3%	0.0%	4.5%
Not sure	8.3%	0.0%	4.5%

MUNICIPAL COST-CUTTING RESPONSES

Respondents were asked if the municipality had to take unusual cost-cutting measures to balance the FY21 budget since earlier analyses suggested that local economies weathered the pandemic relatively well. That situation, plus the relatively short duration of the economic slowdown, suggests that major cutbacks were probably not needed. However, responding officials were almost evenly split, with slightly more reporting a need for unusual cost-cutting approaches.

Recent analyses examined responses by municipalities during economic recessions with relatively consistent outcomes (Walzer & Blanke, 2018). The most immediate cutback response was to postpone future projects and maintain current services, which seems reasonable because it retains employees.

Other approaches included delaying equipment or vehicle replacements, which is a short-term approach and may increase future spending. Not replacing retirees is more common, and in some cases, positions can be reorganized to deliver services in alternative ways, especially when technology offers viable arrangements that may also provide opportunities to reduce costs in the long term. Not providing pay increases is more difficult, especially under collective bargaining agreements. Borrowing to maintain current services and terminating staff are obviously the most difficult and least desirable financial management approaches.

Responses by municipal leaders in the current environment conform to this pattern. The three most-often-reported strategies included delaying replacement of vehicles and equipment (nine), postponing additions to staff (eight), and deferring repairs and maintenance on equipment and buildings (seven). These strategies were followed by postponing construction of new planned facilities (six), providing smaller pay increases than planned (four), and either providing no pay increases or not replacing retirees (three each).

Two municipalities reported more serious strategies such as temporary furloughs and employee terminations due to budget shortfalls, but these options were not common. One municipality raised property taxes to keep pace with inflation. None reported short-term borrowing to meet current expenses. Only two municipalities reported cutbacks in services, and no municipality in the survey reported delays in employee pension contributions. This may have been because of current concerns about the fiscal status of local pension funds in many cases. Also, this strategy could show up in later stages of an economic downturn but perhaps were less likely because of the current pace of the recovery.

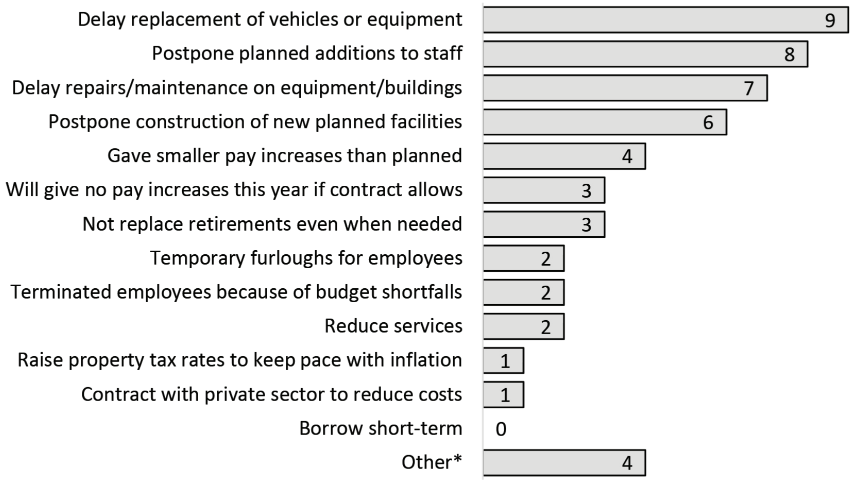
The two municipalities that reduced personnel both had "health care" as a large employment sector and are in northern Illinois. Those reporting cutting services had manufacturing-intensive employment bases and populations below 25,000. Municipalities providing smaller pay increases typically had populations between 25,000 and 50,000 while those that gave no pay increases when allowed were smaller than 25,000.

EXPECTATIONS FOR THE REMAINDER OF FISCAL YEAR 2022

Illinois municipalities were already into FY22 when the survey was completed and so they had insights into fiscal expectations and possible necessary responses even though the strength and length of the recovery was still uncertain. Thus, while initial responses to the severity of the economic downturn suggest it

FIGURE 2

COST-CUTTING MEASURES USED



**Other responses included tapping fund balances to balance the budget, offering early retirements, and reducing travel and training opportunities.*
Source: IML-CGS fiscal recovery survey, 2021.

is less severe than thought, IGFOA respondents reported several additional actions that might be forthcoming in the following months.

Highest on the list of potential responses was to apply for project funds from the federal or state government (61.1%). Given the relatively aggressive funding provided already, this response can be expected. Adding local revenues was also mentioned by some municipalities, including raising property taxes when allowed (38.9%), considering adding a new tax (38.9%), and increasing fees for services (22.2%).

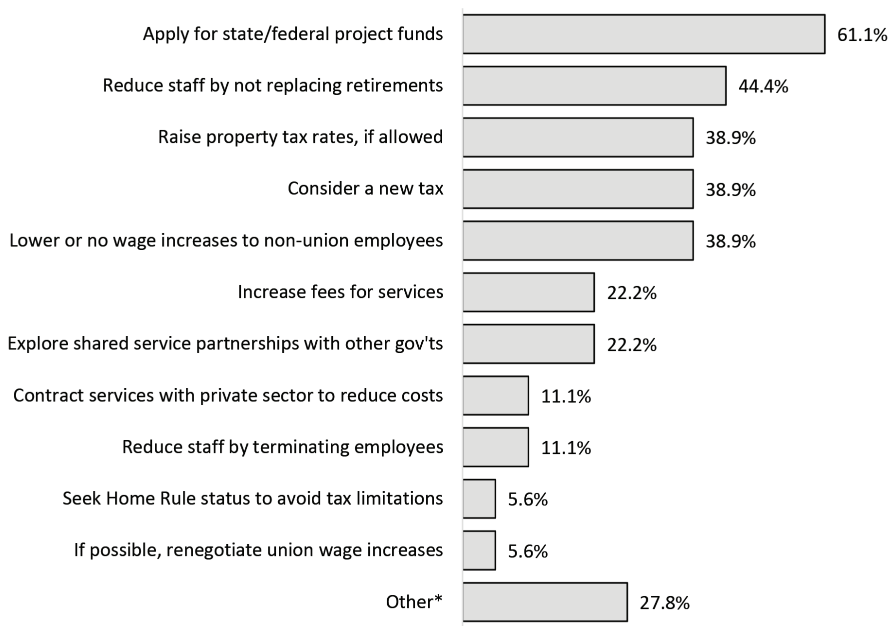
However, the next most likely response was to reduce staff by not replacing retirees (44.4%). This approach could potentially lead to significant adjustments in services depending on the size of the reductions. Overall, 38.9% of respondents planned on offering lower or no wage increases to employees not governed by collective bargaining agreements. Presumably, not replacing retirees means that other employees can take on added responsibilities or that technological advances can be better used in delivering services.

Based on these responses, it is likely that municipalities will continue with past practices, as necessary, during potential cutbacks in FY22. These strategies are relatively straightforward and do not incur short-term debt and/or sharply reduce staff. They also have relatively quick impacts on balancing budgets. The short duration of the slowdown and quick recovery thus far seems to have prevented serious fiscal cutbacks.

Surveyed municipalities typically did not expect major budget reversals. Among the 16 municipalities that expect to make cost-cutting measures in FY22, nine took unusual cost-cutting measures in FY21. Eight of the 10 municipalities that did not expect to make cuts in FY22 did not take unusual cost-cutting measures in FY21. Only two that reported cuts in FY21 did not expect to make cutbacks in FY22. Planned cutbacks relative to the past fiscal year did not differ substantially by population size.

FIGURE 3

ACTIONS PLANNED IF FY22 REVENUES ARE INSUFFICIENT



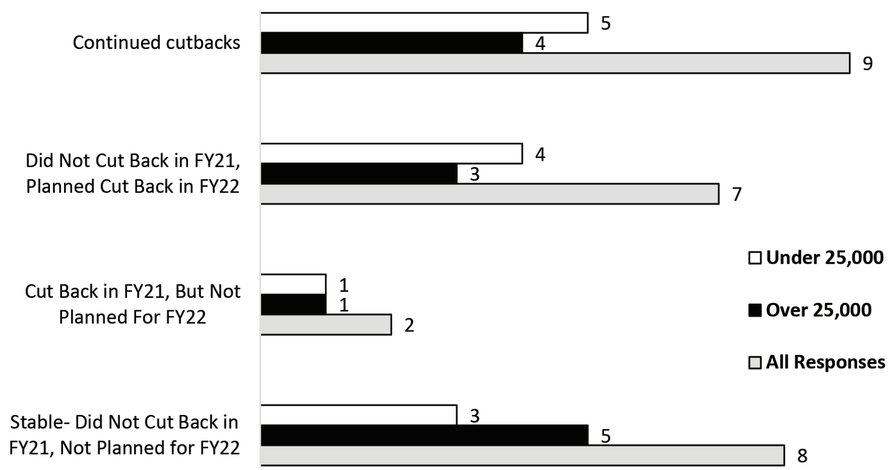
**Other strategies included actions such as delaying capital outlays and equipment purchases, tapping fund balances, and reducing property tax rebates.*

OVERALL IMPACTS OF THE COVID-19 DOWNTURN

For reasons already mentioned, the overall impact of the COVID-19 national economic downturn was less severe than expected among the sample municipalities. Nevertheless, the impact differed depending on the economic base, and the economic setbacks are not yet fully completed for some municipalities. When asked about the overall impact, the 19 officials who responded to this question were split, with 10 saying that the impact was minimal because the local economy was responding quickly and five more reporting a positive outlook with businesses expanding. At the same time, six officials indicated that several businesses had closed permanently, causing employment decreases. However, only two reported significant impacts such as an indefinite municipal hiring freeze; four said several permanent positions will not be replaced in the future; and, eight responded that necessary infrastructure maintenance was postponed. Thus, a more detailed inspection of municipalities is needed to fully understand the importance of these actions.

FIGURE 4

COST-CUTTING MEASURES TAKEN IN FY21 VS. EXPECTED FOR FY22



The disparity of the impacts is likely because of the differential impacts on the local economy. Also, respondents can vary in terms of perceptions of the severity of local economic conditions, and in this survey, they are more likely to have had financial training. The overall assessment was relatively positive because many responding municipalities were in relatively strong economic positions when the downturn started. The duration and strength of the recovery will largely determine how municipalities will be affected in the next several years.

WHAT HAVE WE LEARNED?

The COVID-19 economic slowdown is useful in observing municipal finance practices for several reasons. First, it was brought about mainly because of policy decisions to place significant limits on a relatively prosperous economy for health considerations. Second, the duration of the shutdown, while substantial in some instances, was relatively short. Third, the rebound has been stronger than expected but could be limited by shortages in supply chain industries.

The recovery process was still early when the survey was administered, making it difficult to speculate about its strength and duration, but survey responses suggest that the impacts on many Illinois municipalities were less powerful than thought. Likewise, municipal officials responded in relatively predictable ways to protect local services, such as delaying expansion projects or not replacing or adding employees. There is little evidence of serious negative long-term employment cutbacks, but 38% indicated they may increase property taxes and the same percentage reported they may consider a new tax in the future.

For certain, more detailed analyses are needed before definitive statements can be made about the long-term effects, which will depend on responses in the supply chain and how quickly the work force can adjust to pending employment opportunities. Nevertheless, it seems that many of the surveyed municipalities were in relatively strong fiscal positions at the beginning and were helped by aggressive federal and state policy responses.

While the COVID-19 downturn differs markedly from previous recessions, the basic strategies reported by municipal leaders are consistent with the findings in studies of Illinois municipalities in previous years (Walzer & Blanke, 2018; Walzer, 1985; Miranda & Walzer, 1994). Mayors reported maintaining current services by possibly reducing planned expansions and, as a last resort, reducing staff positions. The relatively short duration of the economic downturn and uncertainties about the next several months make it difficult to determine actions to be taken in the remainder of FY22. Especially important will be how municipalities take advantage of changes in technology in redesigning the local economies and delivering services.

In any case, the survey documents the thinking of responding municipal officials in the early stages of the national recovery. The national economy has continued to rebound but was facing another outbreak of the virus in August 2021. The extent to which this possible setback may affect planned strategies reported in this article remains to be seen.

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ENDNOTES

[1] The Illinois Department of Revenue includes sales tax collections by jurisdiction and type of retailer, e.g., the share of home-rule sales tax revenue from eating and drinking places. However, it does not distinguish local sales taxes from restaurants from sales from hotels and motels. Similarly, the Illinois Office of the Comptroller distinguishes state vs. local sales taxes but not local general sales vs. local hotel/motel sales. Finally, the Census of Governments includes hotel/motel sales taxes in an "other selective sales taxes" category that cannot be dissected further.

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