Projecting Lost Revenue

COVID-19 Responses for States, Counties, Cities, and Mobility Agencies
Generating accurate projections of public entities' revenue loss is essential to funding the recovery. Accessing available relief funds requires loss estimates driven by customized approaches, blending economic modeling, operations analysis, policy experience, and common sense.

We, as a society, are in the throes of a global pandemic unlike any disaster in our lifetimes. Stay-at-home orders and social-distancing measures to reduce the rapid spread of the SARS-CoV-2 coronavirus are having complex and far-reaching economic impacts.

Underlying all of this is widespread uncertainty. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, is designed to infuse states, businesses, and residents with a $2 trillion lifeline. But its implementation remains in flux, with as-yet-undetermined additional stimulus expected, and uncertain timelines and pathways for lifting social distancing.

Governments, agencies, and quasi-public entities are facing catastrophic revenue losses, as well as new costs for combating the virus. They need defensible estimates of lost revenue and new costs, both to make effective claims to programs and agencies within CARES, as well as to prepare for and advocate for additional funds.
However, accurate lost revenue estimations are complex. Below are some considerations for public entities preparing to generate lost revenue estimates:

- **State and local government revenue comes from many different sources — How do we count it all?**
  - Direct usage fees (e.g., parking, entrance, tolls, farebox).
  - Taxes and transfers based on economic activity (e.g., sales or mortgage transfer taxes, hospitality taxes), which requires understanding macroeconomic shifts.
  - Other unique sources (e.g., rental income, advertising, public-private partnerships).
  - Lost/changed revenue from critical services (city and county hospitals).

- **Time is of the essence — How long will federal relief funding last?**
  - Many entities that are assessing their lost revenue are rapidly positioning to compete for funds and/or influence the debate about additional stimulus.

- **Audience matters — Whom do we need to convince?**
  - Federal agencies have released some guidance about how to calculate lost revenue.
  - Some audiences are more skeptical than others and may have their own expectations about lost revenue estimation.

- **Social distancing duration is important — How long will activity be diminished?**
  - Even seemingly straightforward revenue loss calculations likely depend on the duration of social distancing, which in turn depends on the trajectory of COVID-19 cases and healthcare response.
  - A sophisticated understanding of leading thinking by global experts about the paths of the virus and the lifting of social distancing are essential.
Guidehouse Approach for Assessing Lost Revenue

Our approach to this challenge is to tailor our long-standing expertise in understanding how public finances operate to the evolving context of COVID-19:

- Growth rate
- Healthcare capacity
- Severity
- Duration
- Activity restrictions
- Behavioral changes
- Sectoral activity
- Indirect Impact
- Output
- Employment
- Fees
- Tolls
- Taxes
- Subsidies
- Transfers

This begins with understanding the healthcare management and social distancing policies implemented to limit COVID-19 cases — at a federal, state, and local level. This includes the range of social distancing restrictions, their duration, and expected behavioral changes. This, in turn, is driven directly by the modeling of COVID-19 cases projected by public health officials.

In many instances, the behavior change from social distancing restrictions directly impacts public sector revenues — such as through reduced revenues from parking fees and transit ridership. We employ operational analysis and business modeling techniques to forecast revenue losses tied directly to the severity, duration, and focus of social distancing restrictions.
In other cases, public sector revenues are impacted indirectly through reduced economic activity, resulting in smaller tax receipts and depleted General Funds. We leverage more sophisticated macroeconomic modeling approaches to understand the economy-wide impacts as a result of structural shifts in consumer spending and spillover economic activity — this allows us to arrive at projections for expected fiscal losses and answer questions such as: “How much sales tax revenue will we lose from the retail sector this year?” With many public agencies walking a tightrope of fiscal sustainability, a holistic understanding of the relationship between the macroeconomy and public sector revenues is essential.

The other side of the coin of lost revenue is COVID-19-related expenditures. Currently, public agencies are having to make unbudgeted expenditures such as on telecommunications licenses as workforces go remote, while others may be having to pay overtime for staff to man Emergency Operations Centers. We can develop staffing, project, and other operational models integrated with agency needs to estimate capital and operating COVID-19 expenses, and, just as importantly, prepare, present, and defend this data to the Federal Emergency Management Agency (FEMA) and other funders.

**How much money is in the CARES Act for aid to states and municipalities?**

- $150 billion Coronavirus Relief Fund for state, local, and tribal governments ($8 billion for Native Americans and $3 billion for the District of Columbia and U.S. territories).
- Payment to states will be allocated proportionately based on their share of the U.S. population.
- Localities with more than 500,000 people can apply directly to Treasury for their relative share by population (compared to the state’s total population) or 45% of the total allocated to a state.
- There are at least $25 billion for transit agencies as well as other funds for infrastructure including airports.
The essential work of quantifying state and local revenue losses stemming from this public health crisis seems daunting, but Guidehouse knows from its years of helping clients recover from major disasters, the steps that must be taken to develop estimates that stand up to the scrutiny they will receive from funders and the public. An incomplete submission to the federal government — either in form or substance — can result in potentially billions of dollars in lost recovery funds. Reach out to Guidehouse’s state and local government team to understand how your jurisdiction can better understand the impact of this crisis and maximize your recovery dollars.
Getting back to normal will require a lot of our governments, residents, and businesses. It will also require adequate funding and recovery support. Planning for this recovery seems daunting, but Guidehouse knows from experience how to do it and we can help you.

About Guidehouse’s Socioeconomic Modeling Team

We have a deep bench of economic modeling experts and experienced quantitative analysts ready to start immediately. Daily, we work with clients to estimate economic, environmental, and societal impacts for public sector entities. Our socioeconomic modeling team focuses on developing strategic insights on key topics for clients using the tools of quantitative economic analysis. More than a “plug-and-chug” shop churning out technically correct but unhelpful analysis, we take a strategic approach to economic analysis, understanding your real needs and designing an approach that is appropriate, robust, defensible, and tailored to your audiences.

Our team is proficient at designing analysis at many scales — neighborhood, city, region, and state. We can use Bureau of Labor Statistics and Bureau of Economic Analysis data, or your proprietary data if you prefer. We are proficient in a variety of current state and future modeling approaches, including location quotients, equity metrics, mapping industry value chains, and modeling the social and economic impacts of shifts driven by policy changes. These shifts include changes to economic output, tax revenue, job creation, environmental emissions, and equity concerns. Our tools include classic input-output models such as IMPLAN or more sophisticated tools such as REMI. We also specialize in customizing existing tools and creating purpose-built tools to meet specific needs. We have employed these techniques in studies for cities, states, utilities, nonprofits, and private entities, and stand ready to help public entities bring these capabilities to bear in responding to COVID-19.
About Guidehouse

Guidehouse is a leading global provider of consulting services to the public and commercial markets with broad capabilities in management, technology, and risk consulting. We help clients address their toughest challenges with a focus on markets and clients facing transformational change, technology-driven innovation and significant regulatory pressure. Across a range of advisory, consulting, outsourcing, and technology/analytics services, we help clients create scalable, innovative solutions that prepare them for future growth and success. Headquartered in Washington DC, the company has more than 7,000 professionals in more than 50 locations. Guidehouse is a Veritas Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets and agenda-setting issues driving national and global economies. For more information, please visit: www.guidehouse.com.