IMPACT OF COVID-19 ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS – EVIDENCE FROM US NATIONAL MUNICIPALITIES

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ABSTRACT

This study examines the change of municipal financial condition between 2018 and 2022, with a focus on the impact of the COVID-19 pandemic. Using the adjusted Performeter system, we find the overall financial condition of the sample governments is significantly lower in 2020 primarily due to the drastically decreased revenues and rising expenditures. Among the three specific financial areas under examination, financial performance has been most vulnerable to the pandemic impact, but the pandemic effect on financial position is mixed. The results of our study shed light on critical aspect of financial management during crisis to internal as well as external stakeholders of governments.

Keywords: *COVID-19, financial performance, crisis management, local governments, Performeter*

1. INTRODUCTION

The eruption of COVID-19 in early 2020 and the unprecedented damage it caused to economic activities and social lives present dramatic challenges to the budgets and finance of central governments as well as to local and regional authorities in all countries (Agrawal and Bütikofer, 2022). In the academic field, a renewed interest of research has been spurred with attempts to assess the consequences of the pandemic and how crisis management could be internalized in the management strategies of different organizations. In this vein, Journal of Public Budgeting, Accounting, and Financial Management (JPBAFM) called special research in early 2020 to examine the immediate budgetary responses to the pandemic by 32 different countries/economies and explore the possible implications of these policies (Gross, et al. 2020). The findings from these studies indicates even the magnitude of the government aids and interventions varies largely in monetary values using aggregate economic and budgetary data, the policy tools used by different countries had a lot of similarities (de Jong and Ho, 2020). The studies also express concerns of the significantly increased level of indebtedness, fiscal sustainability, and amplified social inequality after the COVID-19 will persist into the future, especially for developing countries.

In case of the US, the world's largest economy, state and local governments have played a central role in combating the crises due to the decentralized governmental structure. To assist the operation of state and local governments, the US Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) that has provided $150 billion direct funding to these governments in 2020 (Department of Treasury, 2023). These funding were primarily used as special revenue fund to cover necessary expenditures incurred due to the public health emergency with respect to the COVID-19. In 2021, the pass of Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program delivered another $350 billion to state, territorial, local, and Tribal governments across the country to support their response to and recovery from the COVID-19 public health emergency. However, as the pandemic has outstretched into a long-term crisis and generated profoundly consequences to many aspects of government operation, state and local governments still face a large gap between the funding allocated by the stimulus plan and the amounts needed to balance their budgets and recover from the crisis. In a recent stress test infographic prepared by Moody's Analytics (2021) for the COVID-19 crisis, 66% of the U.S. state governments are underprepared for the baseline scenario, indicating 42 states would need to fill