

# COVID-19 Fiscal Impact on California Cities and Assistance Needed

# COVID-19 Fiscal Impacts and Past Economic Downturns

- **More immediate economic and social impacts**
  - Shelter-at-home; essential business only
  - Unemployment growing at much faster rate than last recession
- **State is in a much healthier fiscal position**
- **Stronger protections for local revenues**
- **Cities are less dependent on State funds**
  - Except local streets and road funds (SB 1; HUTA, RMRA)
- **Human capital and infrastructure in place to provide support**

# Key Takeaways

- **Cities are bracing for a nearly \$7 billion general revenue shortfall over the next two fiscal years**
- **This shortfall will grow by billions of dollars if COVID-19 stay-at-home orders extend into the summer months and beyond**
- All cities, regardless of size and geography, are impacted
- Cities most severely impacted are **those with high dependencies on sales taxes and transient (hotel) occupancy taxes (TOT)**

# Key Takeaways

- Over 90 percent of cities report they are considering **cutting/furloughing city staff or decreasing public services**, and 72 percent of cities report they may take **both** actions
- Cities project deep impacts to core services due to revenue shortfalls and deferred revenues, **regardless of size and geography** - 84 percent of cities report that police services will be adversely impacted
- Given current and projected revenue shortfalls and disrupted cash flow, cities will **need fiscal assistance** to stabilize local government operations

# Projected Revenue Shortfall

- Together, **cities face a nearly \$7 billion general revenue shortfall over two fiscal years**
- Cities (except San Francisco) are facing a revenue shortfall of over \$5 billion
  - **57 percent of the shortfall** amount is attributed to the **decline in sales tax** revenue (including local add-on rates and countywide transportation sales taxes allocated to cities)
  - **27 percent is attributed to** the decline in **transient (hotel) occupancy tax (TOT)** revenue
  - Additional losses are attributed to declines in revenues from business taxes and licenses, parking and admissions taxes and fees, property transfer taxes, franchises etc.
- City/County of San Francisco is reporting a \$1.7 billion shortfall
- While cities of all sizes and in all parts of the state are impacted, cities most severely impacted are those with high dependencies on sales taxes and transient (hotel) occupancy taxes (TOT)

# Projected Revenue Shortfall

- **Impact to general revenues and reserves**

- The impact of COVID-19 on cities' annual general revenues and reserves will be significant
- Ranging from 5.3 percent (average) of general revenues to a high of 19 percent of general revenues through FY 20-21 (revenue loss only)
- Through FY 2020-21, the impact on reserves will be significant with reductions of over 40 percent on average and for some cities, complete depletion
- Additional losses in FY 2021-22

# Sales Tax Extension and Deferrals

- **Governor's Executive Order provides 90-day extension for first quarter filings**
  - Businesses with returns of <\$1 million get extra 3 months to file (July 31, 2020).
  - Provides additional 60 days to file refund claims
- **CA Dept of Tax and Fee Admin. (CDTFA): 12-month, interest free, \$50,000 deferral**
  - Response to tens of thousands of requests for relief (breaching one hundred thousand)
  - Small businesses can enter into payment plans to distribute up to \$50,000 of sales tax liability over a 12-month period, interest-free

# Impact of Sales Tax Extension and Deferrals

- **Statewide estimated impact**

- Delay of \$300-600 million of city revenues statewide (highly dependent on utilization)
- Delay and deferrals include local 1% Bradley Burns and add-on sales taxes
- CDTFA will apply the \$50,000 deferral proportionally to the TOTAL effective rate in each city/counties jurisdiction (ranges from 7.25-10.5 percent)
- CDTFA will continue remitting revenues not deferred or delayed

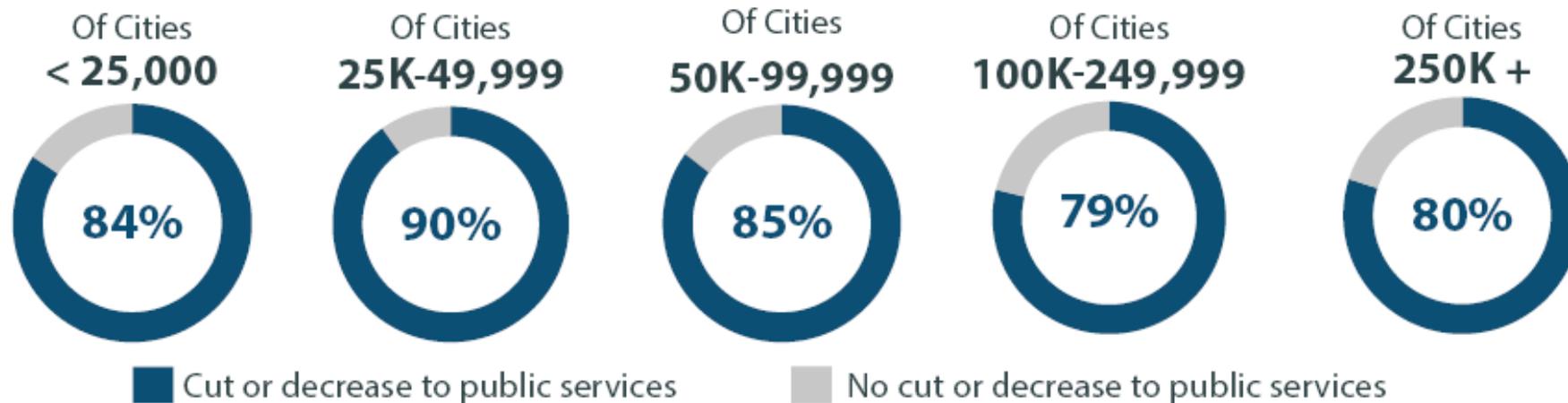
- **Impact to general revenues and reserves**

- Add to the significant impact of COVID-19 on cities' annual general revenues with a combined average decline of 15.5 percent to a high of 44 percent.
- Reserves will be impacted significantly by an average decline of 44 percent, and for some cities, twice as much as their available reserves.

# Impacts to Services

90 percent of cities report they are considering cutting city staff or decreasing public services, and 72 percent of cities report they may take both actions

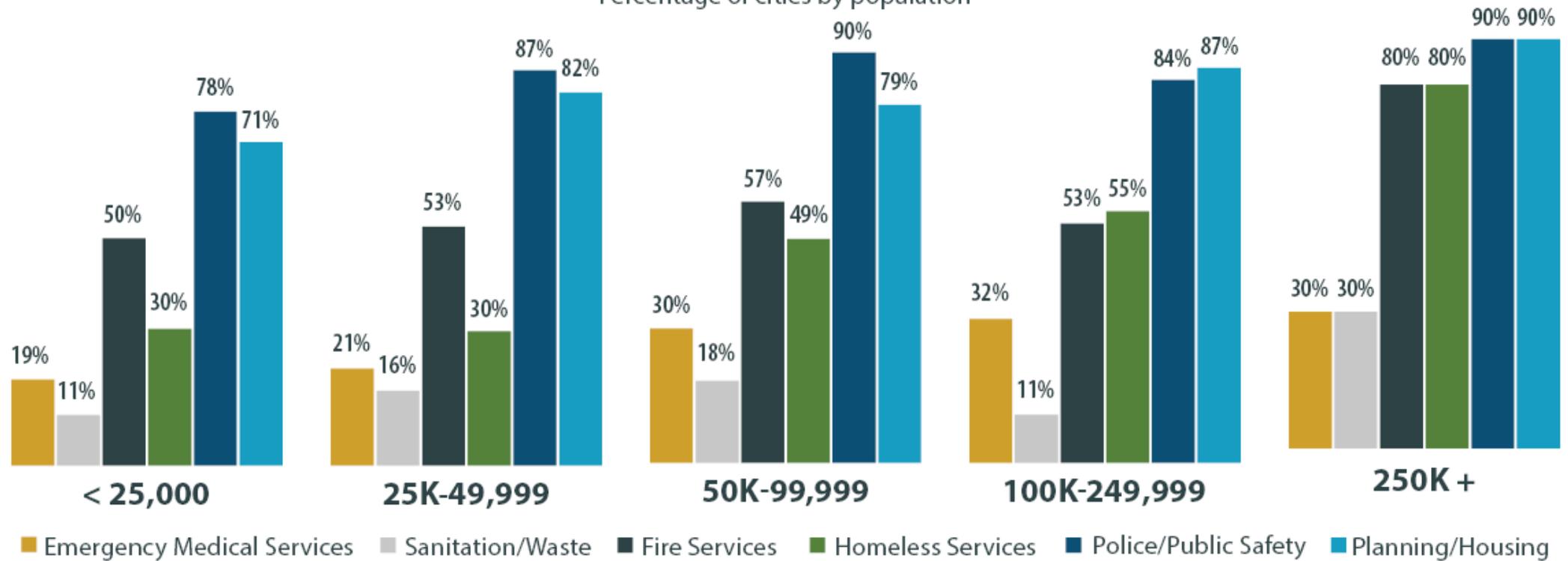
## Public Services Will Be Impacted By Drastic Revenue Loss



# Impacts to Services

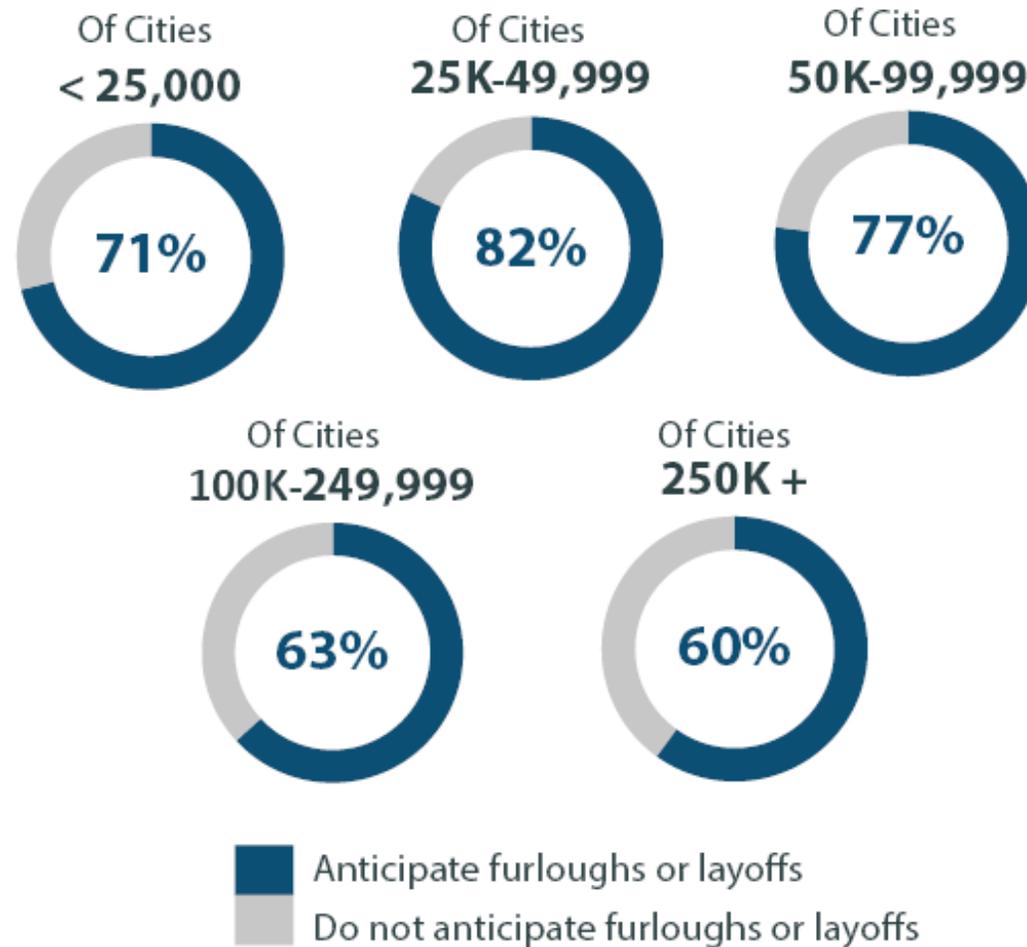
## Core Services Face Significant Impacts Regardless of City Size

Percentage of cities by population



# Impacts on City Workforce

## COVID-19 Has Staggering Impact on City Workforce



# What Cities Need from State and Federal Government

- Direct and flexible Assistance to address the budget impacts of COVID-19 (revenue shortfalls and increased expenses).
- An allocation of the State CARES Act funding for cities with populations under 500,000.
- Short-term financing vehicle to support cash flow needs of local governments.