

California City Finances and the COVID-19 Pandemic: Revenue Sources, Timing & Getting Help

COVID-19 Webinar Series
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Speakers

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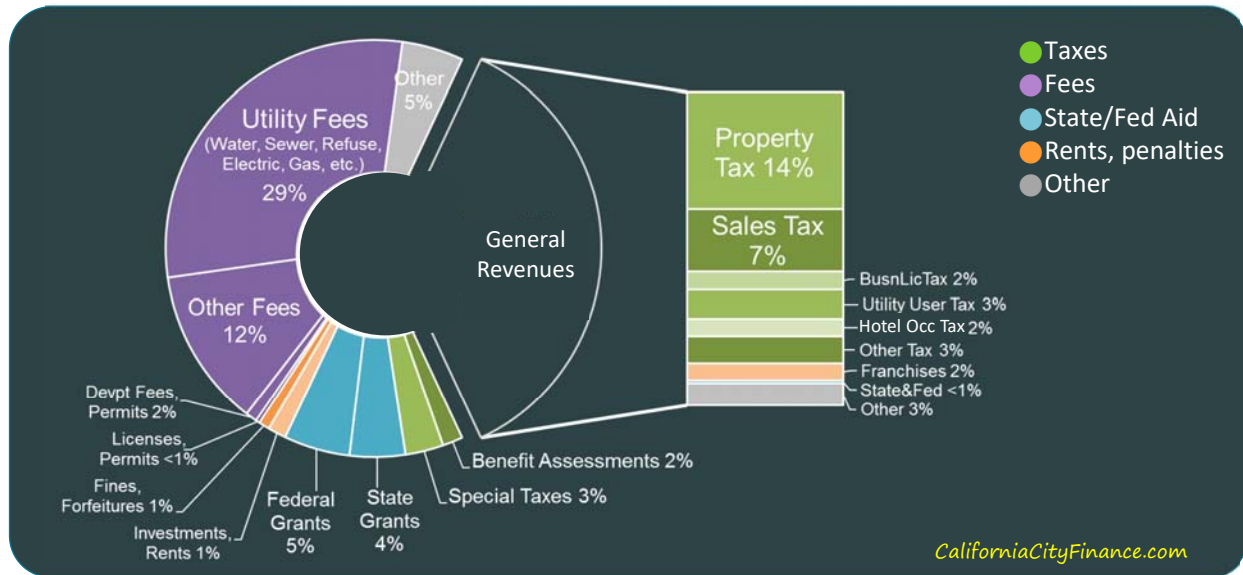
Agenda

- **Lessons Learned:** How does COVID-19 compare to past economic downturns for California and its cities?
- **Begin at the Beginning:** Review of California city revenue sources.
- **Which Eggs in Which Baskets:** Discuss revenue vulnerabilities and timing of impacts.
- **Rain Check:** What we know about impact of the small business sales tax deferral program.
- **Bump in the Road:** Preamble on impact to local streets and roads funding.
- **Look for the Helpers; Be a Helper**

How COVID-19 Differs From Past Economic Downturns

- More immediate economic and social impacts
 - Shelter-at-home; essential business only
 - Unemployment has surpassed last recession, in less time
- 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 (HUTA, RMRA)
- Human capital and infrastructure in place to provide support

California City Revenue Sources



5

Key Revenue Source Impacts and Timing

Sales and Use Tax (including add-on sales taxes)

- **Administration:** CA Dept. of Tax and Fee Administration (CDTFA)
- **Timing:** Immediate (30-60 days)
- **Impact:** 30% to 37% decline in current quarter (positive bump from online sales)
- **Indicators:** Shift to home cooking (groceries), declining auto/fuel sales, increased online sales. Effects depend on make-up of local tax base

Concern Level:
HIGH

Hotel Tax (Transient Occupancy Tax)

- **Administration:** City
- **Timing:** Immediate (30 to 60 days)
- **Impact:** 80% to 90% decline in current quarter
- **Indicators:** Travel, social distancing restrictions – especially tourism-oriented cities (resorts, theme parks, vacation destinations)

Concern Level:
HIGH

6

Key Revenue Source Impacts and Timing

Business Operations (License) Tax

- **Administration:** City
- **Timing:** Delayed (most based on prior year gross receipts)
- **Impact:** Varies. 10% to 15% decline over next two fiscal years
Local specialized situations: casino, refinery, tourism
- **Indicators:** Economic conditions, sector specific

Concern Level:
Varies,
delayed

Property Tax

- **Administration:** Counties
- **Timing:** Delayed – mostly not until 2021-22
- **Impact:** Potential moderate decline in taxable value of property
- **Indicators:** Watching industry specific re ongoing economic effect

Concern Level:
delayed,
low

7

Key Revenue Source Impacts and Timing

Admissions Tax, Parking Tax, Parking Meter

- **Administration:** City
- **Timing:** Immediate
- **Impact:** ~100% decline in current quarter
- **Indicators:** Social distancing orders preventing concerts, festivals, sporting events

Concern Level:
HIGH
for some

Property Transfer Tax

- **Administration:** County
- **Timing:** Immediate
- **Impact:** ~65% decline in current quarter, most recaptured in FY2020-21
- **Indicators:** Slowdown in real estate transactions; some activity still occurring

8

Key Revenue Source Impacts and Timing

User Fees: Development, Recreation, etc.

- **Administration:** City
- **Timing:** Immediate
- **Impact:** varies, some offset from demand-based costs
- **Indicators:** Stay-at-home closing recreation programs through the summer, development applications impacted by social distancing and economic concerns

Other: Franchises, Fines & Forfeitures, etc.

- **Administration:** City
- **Timing:** 60-120 days
- **Impact:** temporary and small
- **Indicators:** solid waste franchisees, lower traffic

9

Small business sales tax extension & deferral programs

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

- Within existing authority
- Response to tens of thousands of requests for relief
- Small businesses can enter into payment plans to distribute up to \$50,000 of sales tax liability over a 12-month period, interest-free

Local Effects

- 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%)

10

Small business sales tax extension & deferral programs

Estimated Impact & Issues

- \$300-500 million statewide (depending on utilization) city impact – delayed \$
 - For most cities ~2% to 4% of general revenues, ~2% to 12% of discretionary reserves
- CDTFA will continue remitting revenues not deferred or delayed
- This is a cash flow issue ... but it is compounded by actual revenue losses (which are much larger for most)

Considerations

- Delayed revenue ... not losses (mostly)
- Supports small businesses in your city

Next steps

- CDTFA still developing portal/application (will help assess utilization rate)
- Work to ensure consistent reporting and collection enforcement
- Find cash flow and backfill solutions

11

Local Streets and Roads Funding

Countywide Transportation Sales Taxes – “Self-Help” Counties

- Declines in allocations due to decline in taxable sales
- Potential delays due to deferral programs

State Local Streets and Roads Funding

Highway Users Tax Account (HUTA), Road Maintenance and Rehabilitation Account (RMRA – SB1)

- Revenues are from state per-gallon fuel taxes and vehicle registration taxes so tied to fuel consumption, vehicle values and registrations ... *NOT* fuel price
- Allocations affected by fixed “take-outs” before the city and county distributions
- New estimates in May with the Governor’s May Budget Revision.

12

What Now? Taking Steps Forward

League Advocacy

- ✓ State and Federal
- ✓ Direct requests for statutory relief
- ✓ Forthcoming requests for additional financial support for *all* cities (for expenditures and actual revenue losses)
- ✓ Work with your regional manager on direct member advocacy

League Survey of COVID-19 Fiscal Impacts

- ✓ 250+ Responses
- ✓ Component of a larger fiscal impact model considering a range of economic and financial outlooks by experts
- ✓ Highlighting impacts to city operations and finances
- ✓ Supports requests for statutory and financial support

13

What Now? Taking Steps Forward

✓ Connect with your colleagues, use League resources

- Use League Divisions & Listservs, Regional Managers

✓ Know thyself

- Understand the unique local condition of your city's revenue sources
- Understand what to be concerned about and what *NOT* to be concerned about and when
- Understand your city's reserves and short term financing options

✓ Get advice from professionals

✓ Open discussions with employee groups

✓ Early action is key

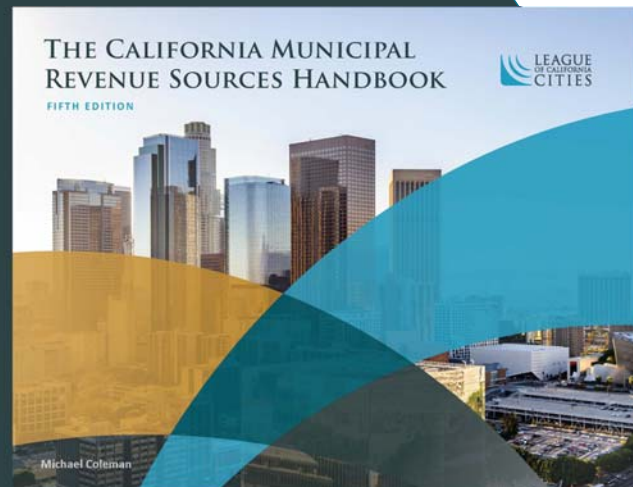
14

What Now? Taking Steps Forward

An essential resource for anyone involved in local government finance in California.

Up-to-date information on local fees, taxes, charges and intergovernmental revenue for local governments including laws, court decisions, state tax rates and allocation formulas.

<https://www.cacities.org/publications>



15



Questions?

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www.cacities.org/coronavirus

16