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

COVID-19 Webinar Series
April 16, 2020
How to Ask a Question

• All phone lines have been muted.
• For **written** questions - use the Q&A window to the right side of your screen. Please enter your name, title and city.
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
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
Key Revenue Source Impacts and Timing

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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)
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
## Key Revenue Source Impacts and Timing

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### 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
### 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
Key Revenue Source Impacts and Timing

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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
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
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
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%)
Estimated Impact & Issues

• $300-500 million statewide (depending on utilization) city impact – delayed $
  o 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
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.
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
✓ 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
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
Questions?

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www.cacities.org/coronavirus