

# 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

## **Michael Coleman**

Fiscal Policy Advisor

[CaliforniaCityFinance.com](http://CaliforniaCityFinance.com)



## **Nick Romo**

Legislative Representative  
League of California Cities



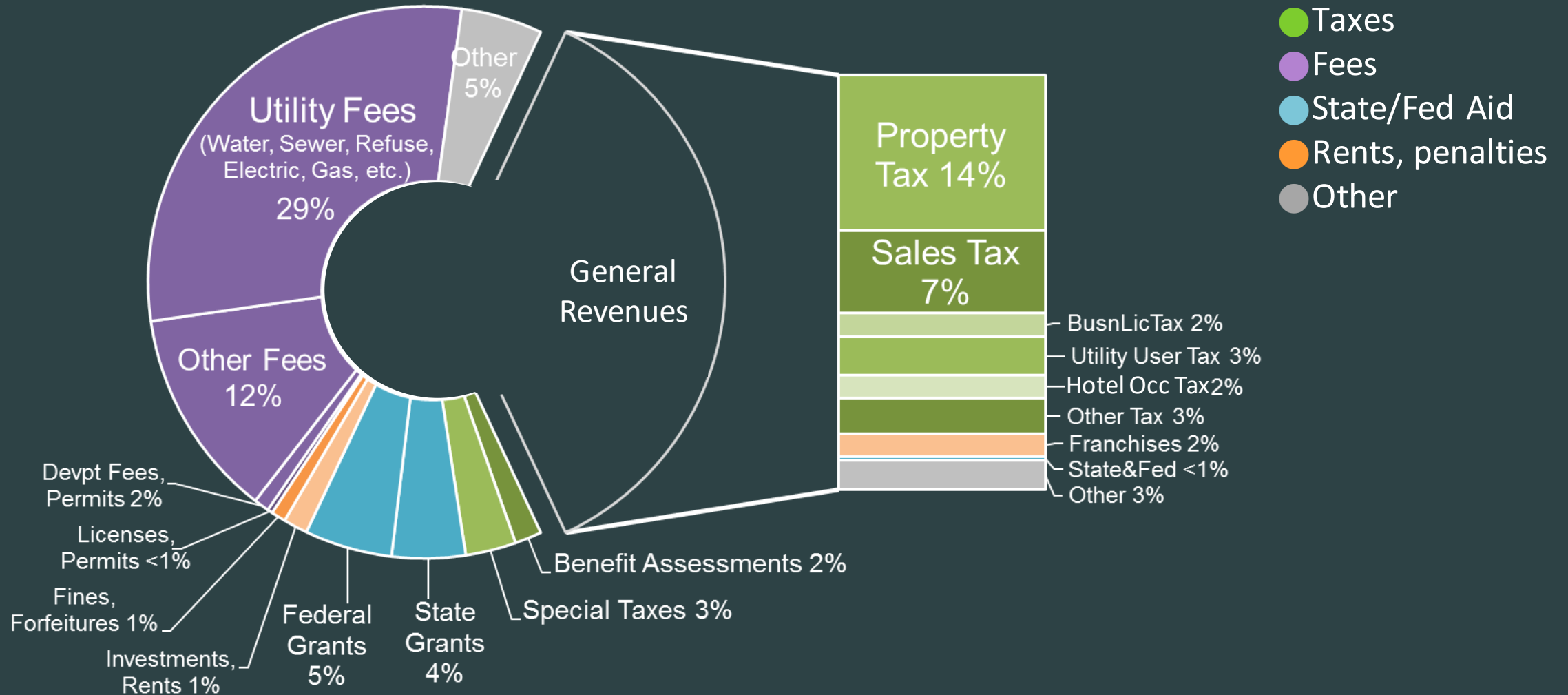
# Agenda

- **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



# 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**

# 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

## 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**



# 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

## 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

## 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

## 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

## 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

# 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

# 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

# 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%)

# 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



# 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.

# 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

# What Now? Taking Steps Forward

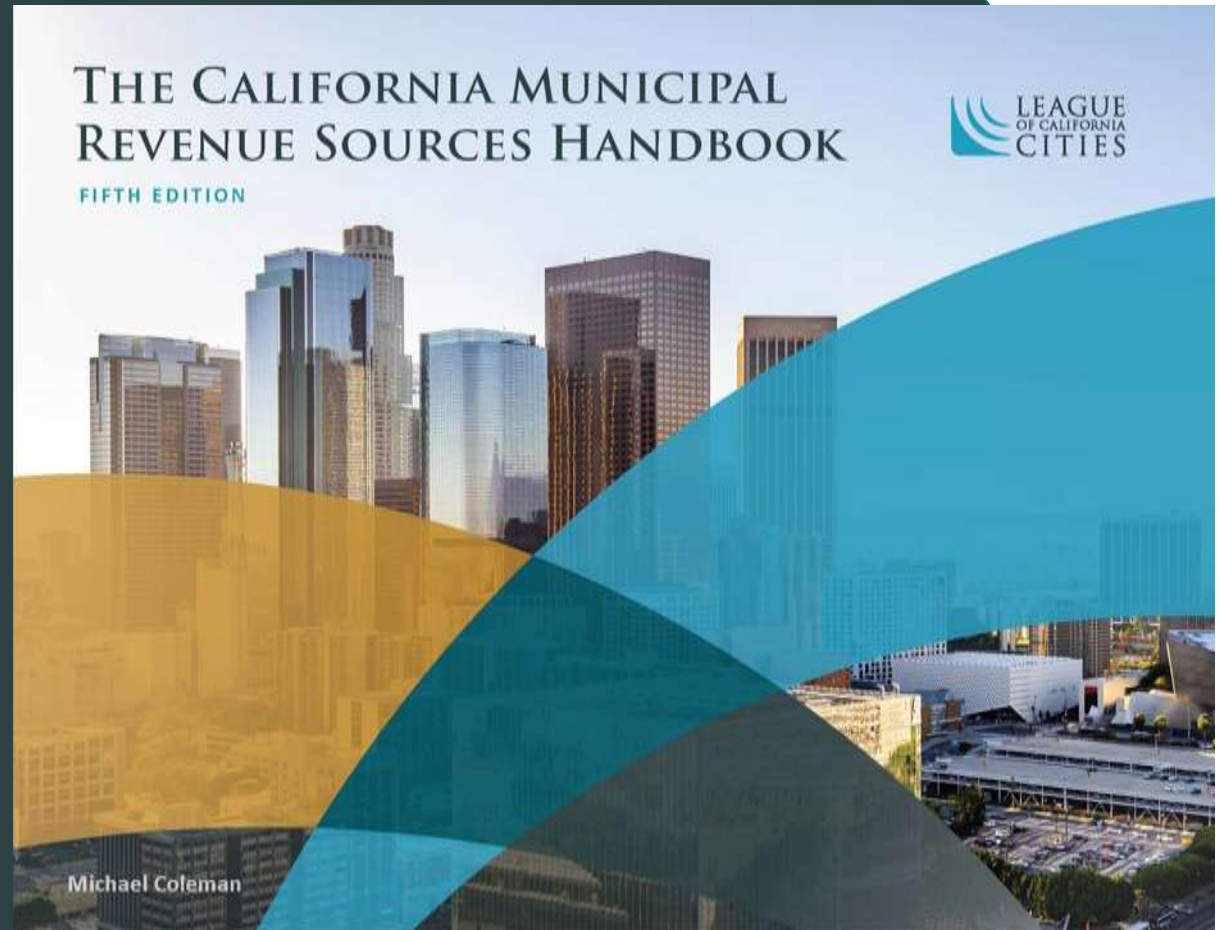
- ✓ **Connect with your colleagues, use League resources**
  - Use League Divisions & Listservs, Regional Managers
- ✓ **Know thyself**
  - Understand the unique local condition of your city's revenue sources
  - Understand what to be concerned about and what *NOT* to be concerned about and when
  - Understand your city's reserves and short term financing options
- ✓ **Get advice from professionals**
- ✓ **Open discussions with employee groups**
- ✓ **Early action is key**

# 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>





# Questions?

Michael Coleman (colemman@muniwest.com)

Nick Romo (nromo@cacities.org)

[www.cacities.org/coronavirus](http://www.cacities.org/coronavirus)