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

Nick Romo
Legislative Representative
League of California Cities
• **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

- **Taxes**
- **Fees**
- **State/Fed Aid**
- **Rents, penalties**
- **Other**

**General Revenues**

- **Utility Fees**: 29% (Water, Sewer, Refuse, Electric, Gas, etc.)
- **Other Fees**: 12%
- **Devpt Fees, Permits**: 2%
- **Licenses, Permits**: <1%
- **Fines, Forfeitures**: 1%
- **Investments, Rents**: 1%
- **Federal Grants**: 5%
- **State Grants**: 4%
- **Benefit Assessments**: 2%
- **Special Taxes**: 3%

**Property Tax**: 14%

- **Sales Tax**: 7%
  - BusnLicTax: 2%
  - Utility User Tax: 3%
  - Hotel Occ Tax: 2%
  - Other Tax: 3%
  - Franchises: 2%
  - State&Fed: <1%
  - Other: 3%
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
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
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
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
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
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%)
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.
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?

Michael Coleman (coleman@muniwest.com)
Nick Romo (nromo@cacities.org)

www.cacities.org/coronavirus