

Estimated Budget Impacts of COVID-19

Presenter: Jim Shannon, Budget Director

Impacts to the Economy

- Shelter-in-place results in a broad suspension of economic activity
- Demand for Unemployment Benefits (March) has reached historic levels and is anticipated to continue increasing
- Recession has likely already began, or will begin within the next few months; depth and length of recession are unknown
- Return to “business as usual” will likely take a long time and could look different the pre-COVID conditions

Forecast Changes

- No models exist to accurately forecast this situation and existing data trends not relevant going forward
- Assuming the steep decline of economic activity due to COVID-19 generally continues through the fiscal year
- COVID-19 response continues into July, but 2020-2021 fiscal occurs within recessionary conditions
- Estimated revenue impacts currently forecasted could be slightly better or tens of millions of dollars worse
 - 2019-2020: -\$45 million; Declines anticipated March-June
 - 2020-2021: -\$65 million; 8.6% drop from 2019-2020
 - “Great Recession” dropped 2.9% and “Dotcom Bust” dropped 2.6%

Significant General Fund Revenue Impacts

- **Property Tax:** No impact in 2019-2020; 2020-2021 drop (-\$3.5M)
- **Sales Tax:**
 - 2019-2020: First two quarters already received with solid growth; 3rd quarter (Jan-March) anticipated to drop 10%, 4th quarter anticipated to drop 45% (-\$27M)
 - 2020-2021: Low levels of activity persist in 2020-2021, with negative year-over-year growth (-14%) until 4th quarter of 2020-2021 (-\$41M)
 - Overall assuming five quarters with negative growth averaging 17%; Great Recession had seven quarters averaging 11% declines
 - Internet sales included in the above (eBay omitted)

Significant General Fund Revenue Impacts

- **Transient Occupancy Tax:** 2019-2020 assumes 15% occupancy rate for March-June (-\$7.2M). 2020-2021 drops 30% (-\$5.8M)
- **Business Taxes:** In 2019-2020, 75% already received. Assumed last quarter drop (-\$6M). 2020-2021 drops almost 10% (-\$7M)
- **Utility Taxes:** In 2019-2020, 70% already received. Assumed last quarter drop (-\$2M). 2020-2021 drops 3% (-\$2.7M)

2019-2020 Resolving General Fund Shortfalls

- Return to City Council at the end of April to reduce existing expenditure appropriations
 - Personal services vacancy savings
 - Reductions as feasible for non-COVID-19 non-personal/equipment expenditures
 - Suspension of Departmental, City-Wide Expenses & General Fund Capital projects not started
- Proceeds from Revenue Capture Agreement with eBay, Inc.
 - City received State disbursement for Oct-Dec activity in February (City's portion totaled \$7.3M)
 - 2019-2020 revenue may total \$15-20M, but is still being evaluated
- Evaluate the use of reserves

2020-2021 Resolving General Fund Shortfalls

- Pay down debt
 - Refunding of outstanding City Hall lease-revenue bonds
- Revenue Capture Agreement
 - Revenue associated with agreement not previously captured and assumed ongoing; estimated revenues still under evaluation
- Implement ongoing service level reductions
 - Reduce, eliminate, and reprioritize services
 - Will work to minimize layoffs, but positions will be eliminated
 - Tier I reductions will be implemented with budget adoption
 - Tier II reductions will be identified for potential action later in the fiscal year if conditions worsen

2020-2021 Approach to Balancing General Fund

- Consideration of 2019-2020 one-time items
 - Evaluate those programs and services in the 2019-2020 Adopted Budget listed as one-time, but have been funded on a one-time basis for a number of years
- Utilize Budget Stabilization Reserve, 2020-2021 Future Deficit Reserve, and other one-time sources
 - Budget Stabilization Reserve totals \$32M and Future Deficit Reserve totals \$10.9M
- Reductions will require hard decisions; assessing the equity of service impacts across our diverse community is essential

Special and Capital Fund Impacts

- Airport Funds
 - Significant reductions anticipated and cost containment measures implemented in 2019-2020 to generate \$10 million; deferment of 19% of capital program expenditures to 2020-2021
 - Federal stimulus package for airport sector includes \$10B to prevent, prepare for, and respond to COVID-19
- Transient Occupancy Tax Fund
 - 2019-2020 drop of \$10.5 million; 2020-2021 drop of \$8.6 million
 - Significant impact to Team San Jose operations and facility capital improvements, cultural grants, and San Jose Convention and Visitors Bureau

Special and Capital Fund Impacts

- Development Fee Program Funds
 - Building, Planning, Citywide Planning, Fire and Public Works anticipated to experience at least a 30% activity drop in 2020-2021; reserve levels, costs, and fee revenue being re-evaluated
- Construction and Conveyance Tax Funds
 - Funds the Parks and Community Facilities Development, Library, Public Safety, Service Yards, and Communications Capital programs; expecting drop of \$22 million over five years
- Construction Excise Tax Fund (Traffic Capital Program)
 - Anticipated to fall \$1 million below 2019-2020 budget; expecting drop of \$22 million over five years

Community and Employee Engagement

- The release of the 2020-2021 Proposed Budget Operating Budget pushed back to May 8, 2020 (new budget calendar forthcoming)
- Community and employee communication will continue to be important, but more challenging in this environment
- The format and timing of City Council and Community Budget Study Sessions will need to change
- City departments will actively engage their employees on how to solve our shortfall
- Employee suggestion form is available on the intranet page of the City Manager's Budget Office for submittal of individual ideas (anonymously, if desired)
- City Manager will conduct a series of virtual town-hall style meetings with all City employees

Appropriation Actions to Support COVID-19 Response

- Establish a COVID-19 Emergency Response appropriation in the Emergency Reserve Fund in the amount of \$14.4 million
- Accept grant funding of \$3.9 million from the State of California for an Emergency Homeless Funding Grant
- Transferring in \$10 million from the General Fund's 2019-2020 Ending Fund Balance Reserve (expect to replenished prior to June 30)
- Reallocating \$500,000 from the Emergency Reserve Fund Unrestricted Ending Fund Balance
- Future actions will recommend the execution or ratification of agreements related to COVID-19 emergency services that have previously commenced

Estimated Budget Impacts of COVID-19

Presenter: Jim Shannon, Budget Director