



Agenda Submittal

Agenda #: 17 **Status:** Regular Calendar
Type: Report **Department:** County Administrator
File #: 20-351 **Contact:** Ian Goldberg, 784-6116
Agenda date: 5/5/2020 **Final action:** 5/5/2020
Title: Receive an update on initial County Fiscal Impacts from the COVID-19 Emergency and the revisions to budget assumptions for FY2020/21

Governing body: Board of Supervisors

District: All

Attachments: 1. A - COVID-19 Revenue Loss Summary Impacts, 2. Minute Order

Date	Ver.	Action By	Action	Result
5/5/2020	1	Board of Supervisors		

Published Notice Required? Yes ☐ No ☒

Public Hearing Required? Yes ☐ No ☒

DEPARTMENTAL RECOMMENDATION:

It is recommended that the Board of Supervisors receive an update on initial County Fiscal Impacts from the COVID-19 Pandemic Emergency and revisions to budget assumptions for FY2020/21.

SUMMARY:

At this time, roughly three months into the COVID-19 pandemic medical emergency and the related actions and reactions locally, statewide, nationally and worldwide, the County of Solano and the cities are planning not only for emerging from the restrictions and anticipating the reopening of businesses but also working on the new challenges that the economic shutdown has had. While it is difficult to predict accurately the extent of all the impacts, closures and reductions that business activities have or will have throughout the State, County or locally, especially when we are still operating under State restrictions, we do anticipate reduced revenues. The County General Fund, the main budget that accounts for general purpose revenues such as interest income, real estate related revenues and property taxes, is expected to see reductions in several sources before year end. We anticipate additional impacts to program specific revenues that draw their funding from sale tax revenues, including Prop 172. Fortunately, during the FY2019/20 midyear projections, County departments had identified salary savings from vacancies and improved revenue receipts which will help to offset the immediate revenue shortfall in other areas. As a result, the County Administrator does not currently expect additional cuts in the current fiscal year, and we can absorb the loss of revenue within the midyear projected year-end fund balance.

The challenge for FY2020/21 is different, in preparing for both the close of the fiscal year and the adoption of a new fiscal year budget, there are many unknowns including uncertainty over the State and Federal funding on many mandated programs and uncertainty in the disbursement of statewide sale tax revenues that fund many county programs and services. County staff continue to evaluate potential impacts, even as circumstances continue to change. To address the status in key areas for the preparation of a budget, the County Administrator is recommending the Board receive an update on Preliminary Revenue Impacts and revisions to the FY2020/21 Budget Assumptions and consider a change to the FY2020/21 Budget Adoption Process.

FINANCIAL IMPACT:

The costs associated with preparing the agenda item are nominal and absorbed by the department's FY2019/20 Adopted Budget. Attachment A reflects the current & initial revenue changes for FY2019/20 and FY2020/21.

DISCUSSION:

Background

The COVID-19 pandemic has taken a human toll locally, statewide, nationally and internationally. Little was known about the virus before January 2020, and as it spread at a much faster rate than the international or national medical community had experienced in recent decades, the World Health Organization and the U.S. Center for Disease Control (CDC) warned of the risks and human losses other countries were experiencing from the spread of the virus. Governments at all levels around the world took extraordinary and unprecedented actions intended to manage and slow the spread of the COVID-19 virus including the U.S., the State of California, and counties throughout our State. The actions taken included the restriction on travel to various parts of the world, the closure of international borders, the suspension of non-essential travel, the closure of schools, requirements for businesses to close if not deemed essential and restriction on those that were identified as essential.

Public health orders for people to shelter at home, the use social distancing, to practice good hygiene with frequent hand washing, to avoiding touching the face and wearing some type of face masks when out, were issued all with the intent to safeguard human life. These actions have had profound impacts on people and the economy including the stock markets, money markets, small businesses, large businesses, employers, employees, the elderly, families and children. Very few, if any, have not felt the impact directly or indirectly from the COVID-19 pandemic and the related actions. The economy worldwide has been on hold as we have waited and watched and hoped that the scientific and medical communities could manage to keep up with the COVID-19 virus spread, to rapidly develop testing capabilities and search for treatments as they worked to bend the curve which the models were projecting.

As businesses closed or reduced their operations locally and statewide, we have seen increased claims for unemployment, increased enrollment in social service SafetyNet programs like Cal Fresh, losses in earnings and numerous Federal and State funding authorizations intended to address costs and losses. Locally, we have had businesses seek assistance either from Federally funded programs directly or through the Small Business Administration local office as they try to manage through the economic challenge the COVID-19 pandemic has created.

Beginning in late January 2020, the World Health Organization and U.S. news stations were discussing and reporting on a coronavirus that had impacted parts of China and was feared to be spreading through other parts of the world at an incredible pace. Then in February 2020, Solano County and the medical community were pushed into the world spotlight initially due to an arrangement between the U.S. Department of Defense (DOD) and the CDC which resulted in the selection of the hotel on Travis Air Force Base (TAFB) as an isolation and COVID-19 quarantine site for Americans being airlifted and transported from various COVID-19 impacted areas. The County became the location of the first confirmed community acquired COVID-19 case. That community acquired case was a female who had no contact or affiliation with the CDC efforts or with anyone from TAFB and was not diagnosed for several days, creating an impact on a local hospital and a regional hospital in Sacramento before it was determined that it she had COVID-19.

In the weeks and months that have passed since that first local case in February, the COVID-19 pandemic has had, and continues to have, immense impacts on lives and livelihoods, it has and will have economic impacts in the State, nation and the world and there remains uncertainty as to trajectory and lingering impacts of the

COVID-19 virus and the economy.

Preliminary Revenue Impacts from COVID-19

The FY2019/20 County revenue remains under review as we look at what has happened in the past 3 months due to the COVID19 pandemic and the actions taken to address the risk to human life. The requirements and restrictions influencing the projections, such as the Shelter at Home order, State and federal commerce, business and travel restrictions, impact revenue and earnings generated, as well as the investment markets, and more profoundly local business. To date, staff has evaluated the main revenue sources that fund county operations.

FY2019/20 Property Tax Projections:

Secured property tax and other taxes based on the secured property tax roll, collected in FY2019/20 are based on base year value as of January 1, 2018. Therefore, we do not project any negative impact in either the current fiscal year or FY2020/21. The impacts of COVID-19 may impact the based year value as of January 1, 2021, which would impact the FY2021/22 tax roll.

Other property taxes, including unsecured and supplemental taxes, will be impacted beginning in FY2020/21, with preliminary estimates shown below.

FY2019/20 Sales & Use Tax Projections:

Sales tax reductions resulting from COVID-19 will impact FY2019/20 and FY2020/21. The estimates in Attachment A are based on a preliminary analysis of our sales tax revenue from various sections and are applied to the most recent monthly estimates received from our sales tax consultants, HdL Companies. For FY2019/20, we are assuming reductions in collections for the remainder of the fiscal year. For FY2020/21, we are assuming a slow recovery, starting in the first quarter, growing by the 4th Quarter. These assumptions are largely dependent on how long the public health orders are in place and estimates will be re-evaluated in the coming weeks as we work to finalize our preliminary budget.

FY2019/20 Prop 172 Public Safety Sales Tax Revenue Projections

Proposition 172 is a key revenue source for our County Public Safety Departments and is based on ½ cent statewide sales tax funding for Public Safety Services. As of Midyear Prop 172 was projected at \$40 million and accounts for 58% of Intergovernmental revenues in FY2019/20. Prop. 172 is generated by a statewide sales tax and a statewide distribution formula. The swift reaction by consumers and businesses to the outbreak of COVID-19 in the U.S. has caused a huge decrease in spending on certain goods and services. The national and state response, combined with the uncertainty of how long the presence of the virus will disrupt the U.S. economy, has made revenue forecasting particularly challenging.

Staff is working with HDL, the County Sales Tax consultant, to monitor the statewide trend in Prop. 172 funding and anticipate bringing additional information to the Board during budget hearings, if appropriate.

FY2019/20 Interest Income

Interest income in the General Fund is not anticipated to be materially impacted in FY2019/20 as budgeted interest earnings for the fiscal year have been substantially achieved prior to COVID-19. However we have adjusted our anticipated revenue earnings for FY2020/21.

Supplemental Secured and Property Transfer Tax

Supplemental Property Tax is a tax on the purchase of new property or on new construction to residential property. Supplemental Property Tax is in addition to the standard property taxes that are required and are based on the value of the new property or the new construction. Property Transfer Tax is a documentary transfer tax or sales transfer tax levied on property transfers that occur in the County. Both of these tax revenue sources are dependent on home sales and new construction. It remains unclear if the COVID-19 emergency has negatively affected the housing market and the construction industry, but it has slowed it and staff is anticipating a decline.

FY2020/21 Budget Assumptions

Revenue projections from key funding sources have been adjusted to reflect initial reductions in the FY2020/21 due to COVID-19 lingering effects. Interest Income, Supplemental Taxes, Unsecured Taxes, Sales & Use Taxes, and Disposal Fees are all anticipated to decline due to COVID-19 and have been adjusted down in the Recommended Budget. The actual decline in these revenue sources are dependent on the investment markets, construction and housing market, and the impact on local businesses. While these revenue sources have been reduced based on an initial evaluation, the actual impact will depend on the short- and long-term impacts of COVID-19 related restrictions, such as the length of the shutdown, the effect on consumer spending, and a number of other factors that cannot currently be determined. Department staff will continue to evaluate COVID-19 impacts and will provide any necessary revisions prior to final adoption of the FY2020/21 Budget.

FY2020/21 Budget Adoption Process

There are uncertainties surrounding the State and Federal budgets for FY2020/21 given the decisions to postpone the due date for income taxes and first quarter of sales taxes, and the unknown and uncertain impacts to the businesses that were required to close or modify their operations. These State and Federal uncertainties in turn create uncertainty in the County budget, therefore we are recommending the Board modify the budget process as follows: The FY2020/21 Preliminary Recommended Budget Hearings will commence Thursday, June 25, 2020 and continue for a period not to exceed 14 calendar days as originally approved by the Board of Supervisors. However, during the Preliminary Recommended Budget Hearings, the Board will be asked to authorize spending within the Preliminary Recommended Budget, subject to supplemental budget adjustments that the Board will need to consider in the fall once there is a State and Federal budget. The Board would then be asked to adopt a final budget for FY2020/21 in the fall of 2020. Given the yet to be determined and calculated financial impacts of the COVID-19 pandemic, the extended supplemental budget process will allow departments time to determine any necessary adjustments to the Preliminary Recommended Budget and bring any adjustments forward in a Supplemental Budget. Following the issuance of the FY2020/21 Supplemental Budget no later than September 8th, which will include any necessary adjustments to the Preliminary Recommended Budget, it is recommended that the Board commence Adopted Budget Hearings in mid-September, and at the conclusion of which will approve the Adopted Budget prior to the October 2, 2020 State deadline.

ALTERNATIVES:

The Board could choose not to receive an update on preliminary revenue impacts from the COVID-19 pandemic on FY2020/21 budget assumptions and the FY2020/21 budget adoption process, however this is not recommended as these areas are key to understanding the identified revenue impacts on County operations as the CAO staff continues to develop a budget for FY2020/21.

OTHER AGENCY INVOLVEMENT:

The County Administrator and Other County Departments were involved in developing the information included in the report.

CAO RECOMMENDATION:

APPROVE DEPARTMENTAL RECOMMENDATION