Impact of COVID-19 on Local Agency Budgets in the Central Valley and Bay Area and surrounding counties

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Key Takeaways:

1. COVID-19 is having a major impact on local government budgets: 20% of respondents indicate they will not be able to balance their budget this fiscal year; an additional 20% indicated only a "maybe".
2. 80% of respondents indicate revenue declines from COVID-19, with the biggest losses coming from service fees, and sales, occupancy, and fuel / motor vehicle taxes.
3. Local governments have employed several strategies to deal with budget issues stemming from COVID-19. Nearly 40% of respondents have dipped into "rainy day" funds and 28% plan to do so in the future. Many agencies indicated decreasing services and deferring maintenance and capital expenditures; one in every eight have resorted to layoffs and furloughs.

For questions, comments, or press inquiries, please contact fiscalsurvey@price.usc.edu.

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Survey overview and approach

The COVID-19 pandemic caused the sharpest economic downturn since the Great Depression of 1929. While it will take years to assess the pandemic's impact on the economy, many governmental organizations rely on an up-to-date understanding of the shock and recovery to navigate this crisis. The Financial Impact Survey aims to equip California local governments with a set of indicators to situate them in this period of rapid change. It addresses three aspects of the pandemic's impact:

1. Fiscal health and preparedness
2. Response to the crisis
3. Capacity for recovery

We sent the survey to 876 individuals overseeing the financial affairs of local government agencies in 29 counties divided into 4 regions (see Figure 1). The response rate was 10.6% or 94 completed surveys, between October and December 2020. The survey was distributed to county and municipal governments, school districts, and transportation agencies. Survey respondents came from all regions covered by the survey (Table 1). Cities of all sizes were well-represented among respondents (Table 2). Most of the school district respondents came from small and medium-sized districts with a few large school districts responding as well (Table 2).

This survey is part of a larger project to better understand local government finance, commuting patterns, and impacts of migration on California's Central Valley. The project is a partnership between the USC Sol Price School of Public Policy, Occidental College, and UC Davis' Center for Regional Change, and is supported by the Chan-Zuckerberg Initiative (CZI) as part of their Housing Affordability program in their Justice & Opportunity initiative.

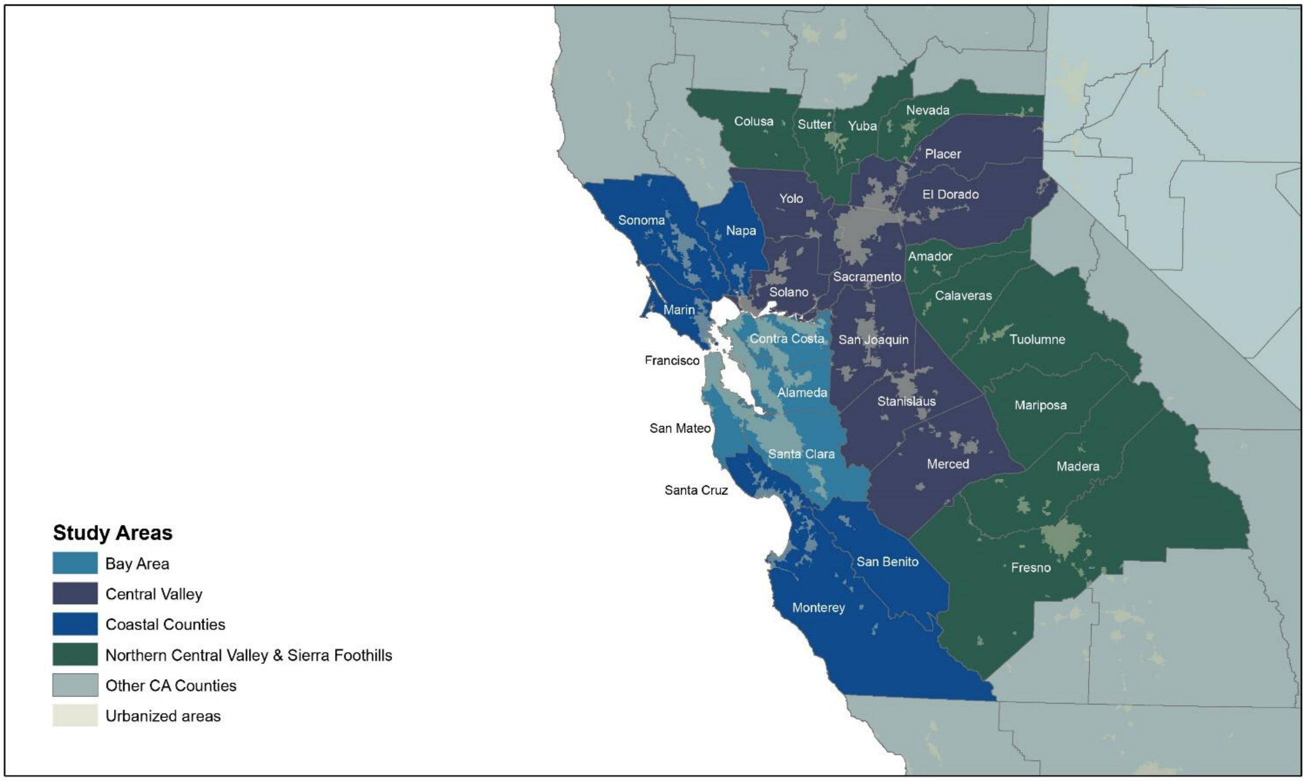

Figure 1. Map of study area and location of participating local governments

Table 1. Regional distribution of respondents

	Regional distribution of Respondents			
	Municipal government	**School districts**	**County government and transportation agencies**	**All Respondents**
Bay Area	18	19	0	37
Coastal counties	4	12	0	16
Central Valley	5	7	4	16
Sierra Foothills	9	13	3	25
Total	36	51	7	94

Table 2. Respondents by size of jurisdiction

	Respondents by Size of jurisdiction		
	Municipal and County governments		**School districts**
Under 10,000 people	8	Small (1-3 schools)	25
Between 10,000 and 50,000 people	12	Medium (4-25 schools)	22
Between 50,000 and 100,000 people	9	Large (over 25 schools)	4
Over 100,000 people	14		
Total	43		51

Fiscal situation during and prior to the pandemic

California municipalities, counties, and school districts typically balance their budgets. Many have a budget-balancing requirement in their charter or in a subsequent ordinance. Not balancing their budget is relatively rare for these California agencies. This fiscal year, 20% of survey respondents indicated that they will **not** be able to balance their budget, due to COVID-19 (Figure 2). An additional 20% indicated they **might not** be able to balance their budget.

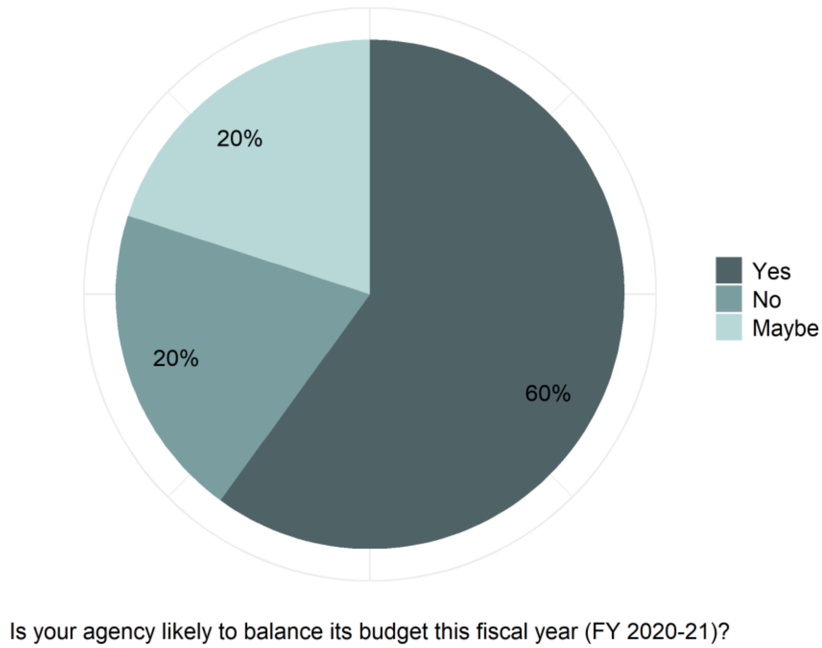

Figure 2. Agencies' ability to balance their budget. Total number of responses: 94

The pre-COVID-19 fiscal trajectory does not seem to be associated with local government fiscal health during the pandemic. Table 3 shows that respondents who had *improving* fiscal conditions *before* the pandemic were very likely to have *declining* fiscal conditions *during* the pandemic. Those with stable finances before the pandemic were more likely to have stable finances during the pandemic.

Table 3. Fiscal trajectory of respondents before and during COVID-19

		Fiscal Trajectory **BEFORE** Covid-19			
		Declining	Stable	Improving	All Entities
Fiscal Trajectory **DURING** Covid-19	Declining	17	14	30	61
	Stable	8	14	3	25
	Improving	2	3	3	8
	All Entities	27	31	36	94

Agencies' fiscal situations before the pandemic were likewise not associated with the inability to balance their budget in the current fiscal year. The probability of not being able to balance their budgets was the same among respondents with improving or declining fiscal conditions *before* the pandemic (Table 4).

Table 4. Ability of respondents' agencies to balance their budget based on fiscal trajectory before COVID-19

		Fiscal Trajectory **BEFORE** Covid-19			
		Declining	Stable	Improving	All Entities
Will you be able to balance your budget this fiscal year?	Yes	17	17	23	57
	Maybe	3	7	8	18
	No	7	7	5	19
	All Entities	27	31	36	94

Coping with the pandemic financially

Respondents have used several strategies to plug holes in the budget created by the pandemic. About 40% of respondents have dipped into reserve funds, half of those have used 10% or more of available reserves (Figure 4). Another 28% of respondents indicated plans to use reserves in the future.

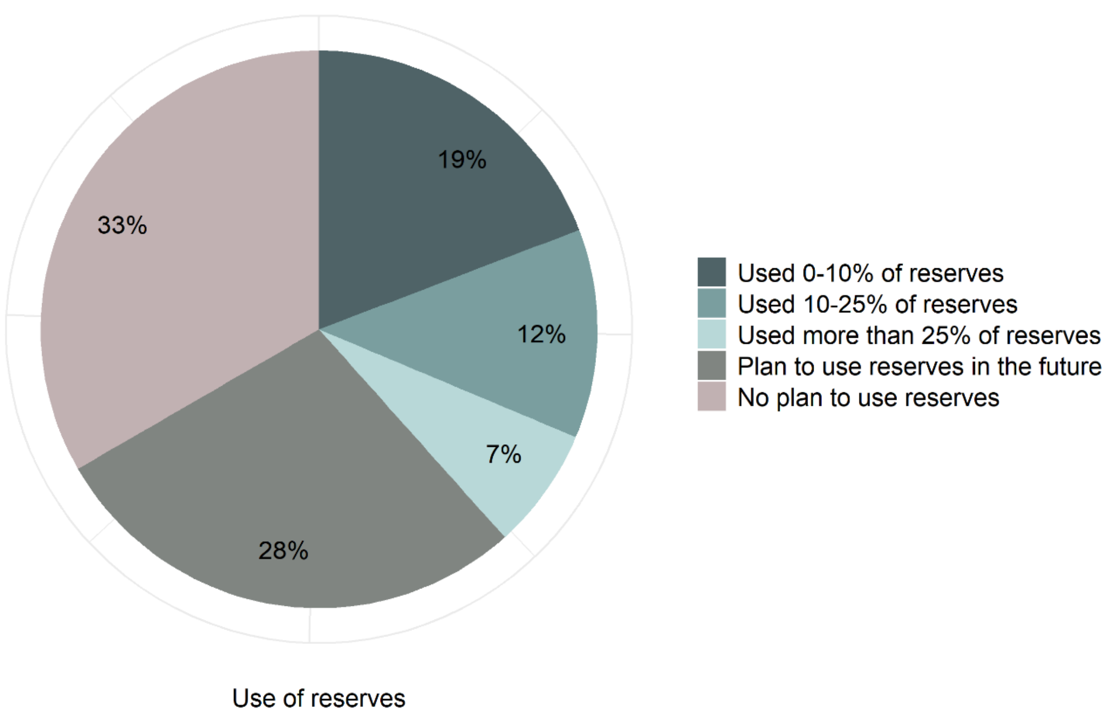

Figure 3. Agencies' use of available reserves. Total number of responses: 56

Respondents indicated a variety of cost reduction activities to ease budget pressure. Most respondents used at least 3 of the strategies listed in Table 4. The most common strategies have included deferral of maintenance expenditures and capital projects as well as cutting services. Reducing or furloughing personnel were less common among respondents' agencies.

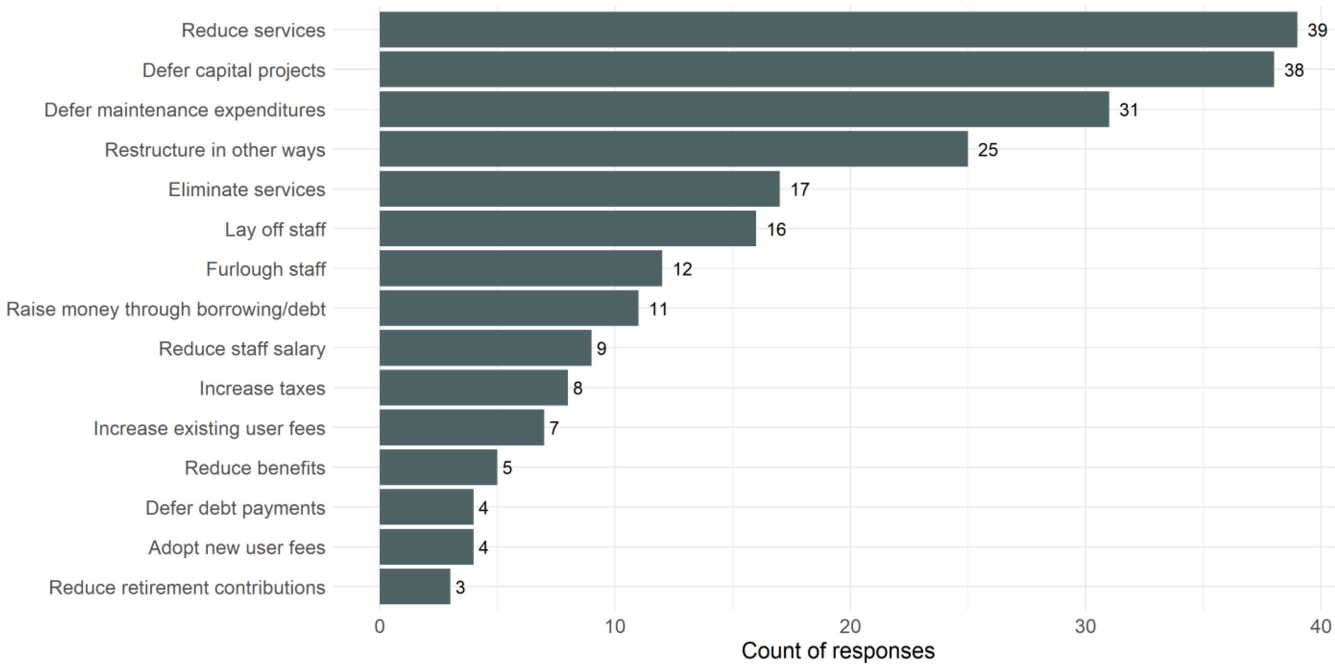

Figure 4. Strategies used to stabilize budget by number of respondents. Total number of responses: 80

COVID-19 impacts on agency revenues

The Great Recession (2007-2013) marked the most recent time of budgetary strain for many of these local agencies. To understand the degree of financial pain, survey respondents compared the fiscal situation due to COVID-19 to that faced during the Great Recession.

Survey results indicate that there is little correlation between the impact of the Great Recession and the repercussions of the pandemic on revenue generation. Revenue decline during the COVID-19 crisis has been as fast or faster than during the Great Recession for about half of respondents (Figure 5). About 20% of respondents have not seen revenues decline.

The impact of the pandemic on demand for services is clearer (Figure 6). While, here too, many respondents reported no change, nearly 50% answered that demand for services increased faster than during the Great Recession. 20% estimated that medical emergencies increased faster than during the Great Recession, twice as high as same or lesser impact.

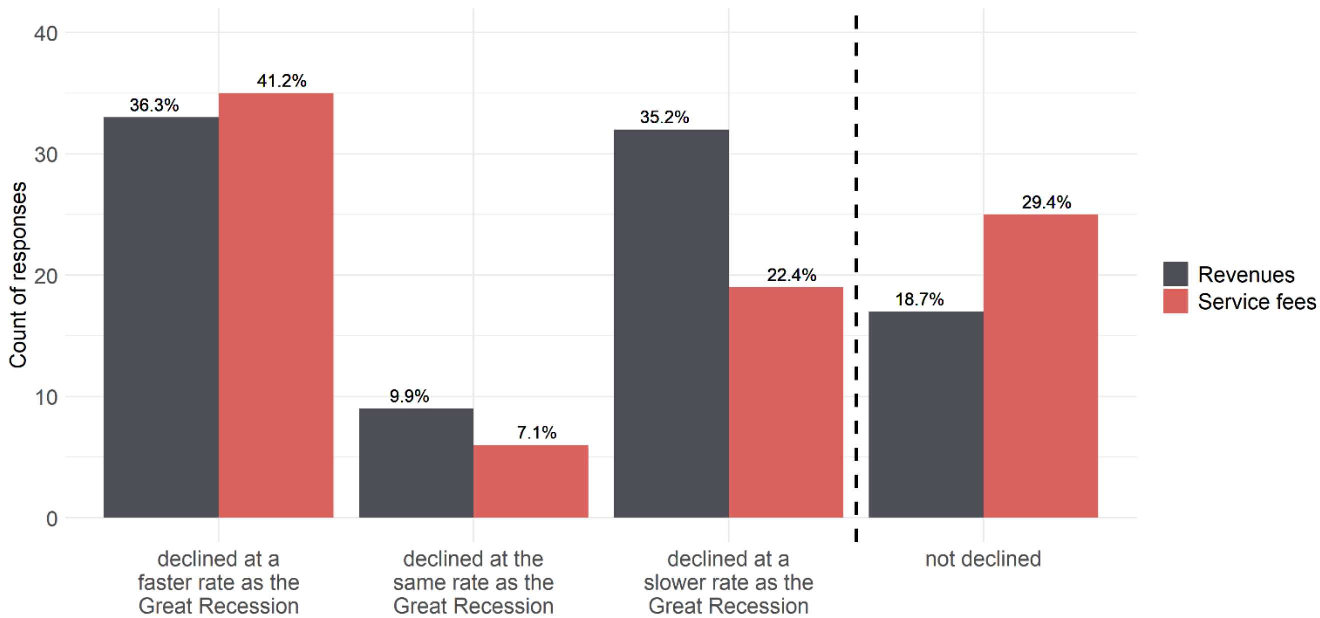

Figure 5. Change in revenues compared to the Great Recession of 2007. Total number of responses: 91

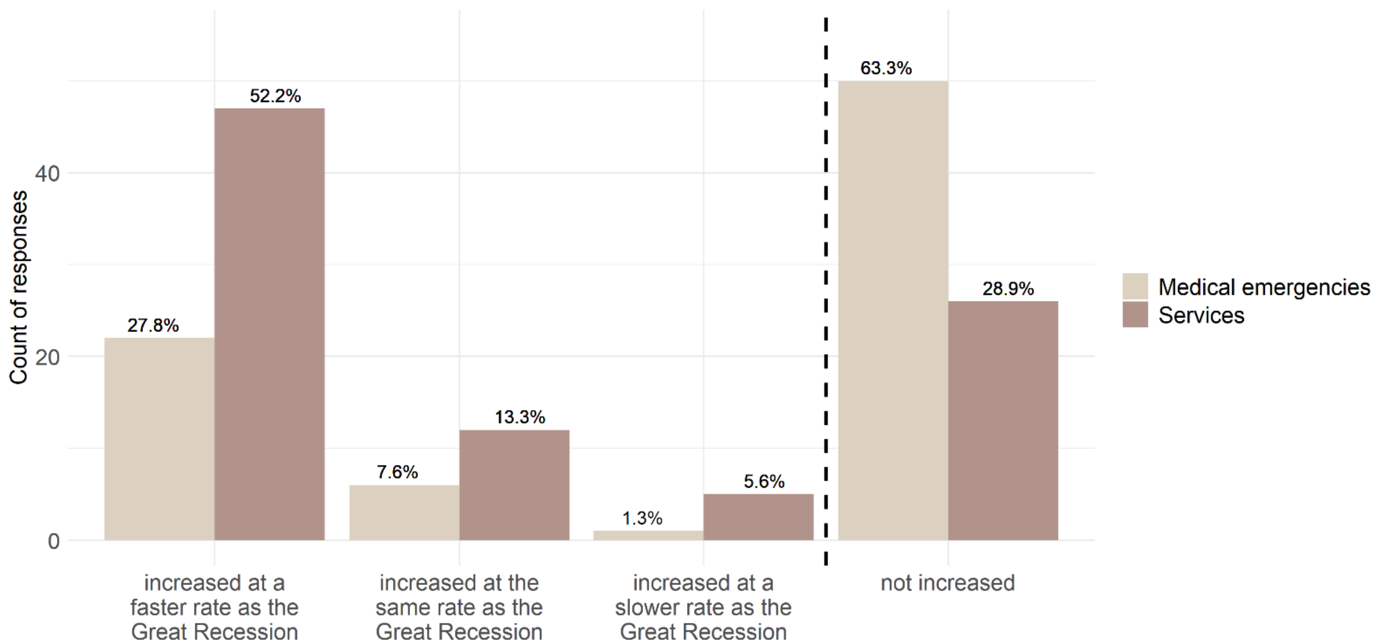

Figure 6. Change in demand for services compared to the Great Recession of 2007. Percentages total to 100% for each color category. Total number of responses: 78

Respondents ranked declines in sales and occupancy taxes and service fees as the most important factors contributing to revenue shortfalls since the beginning of the economic downturn (Figure 7). Overall, many respondents reported declines in services fees and other sources of revenue.

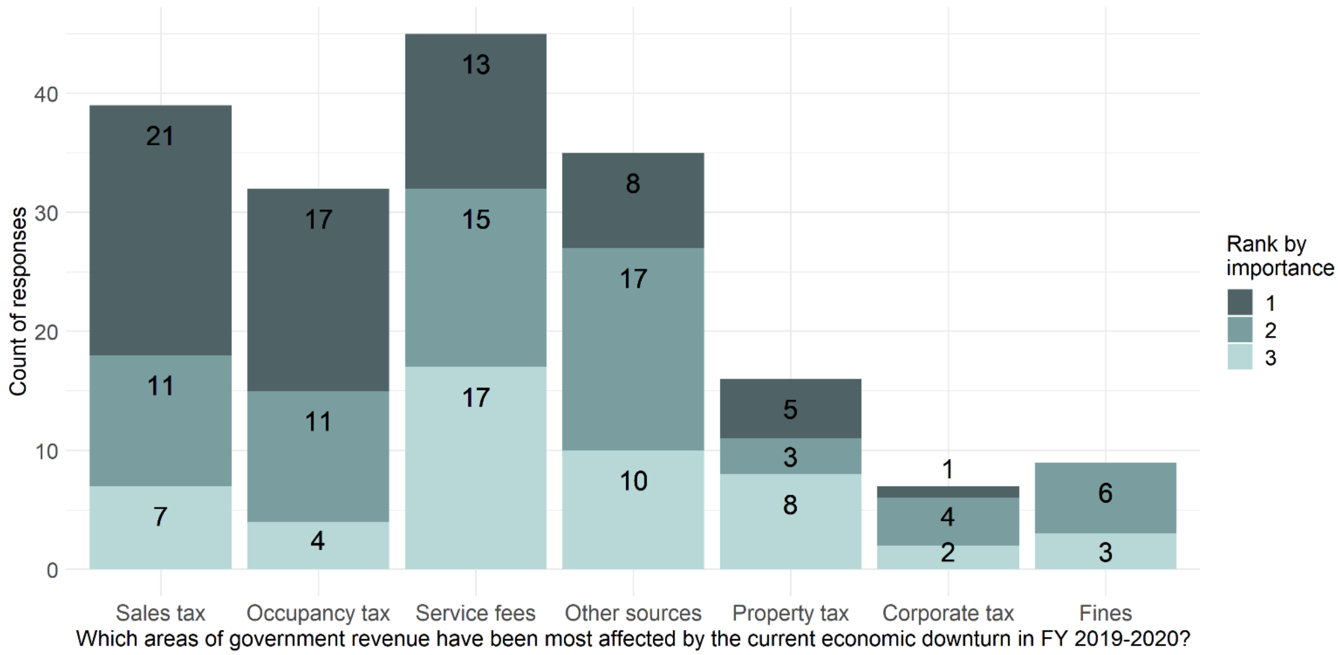

Figure 7. Assessment of impact of Covid-19 on revenue sources since beginning of economic downturn. Rank 1 is most severely impacted. Bars ranked by number of people who ranked the option as the most important. Total number of responses: 80

Many respondents expect the same categories to continue to be affected as the pandemic unfolds (Figure 8). Thinking to the next fiscal year, sales and occupancy taxes remain top of mind for most important of the affected revenue sources. More respondents become concerned about property tax revenue in the coming year than during the past fiscal year.

Respondents expect the quickest recovery to come from sales taxes and service fees. Property taxes, occupancy taxes and other sources received a more ambivalent assessment (Figure 9).

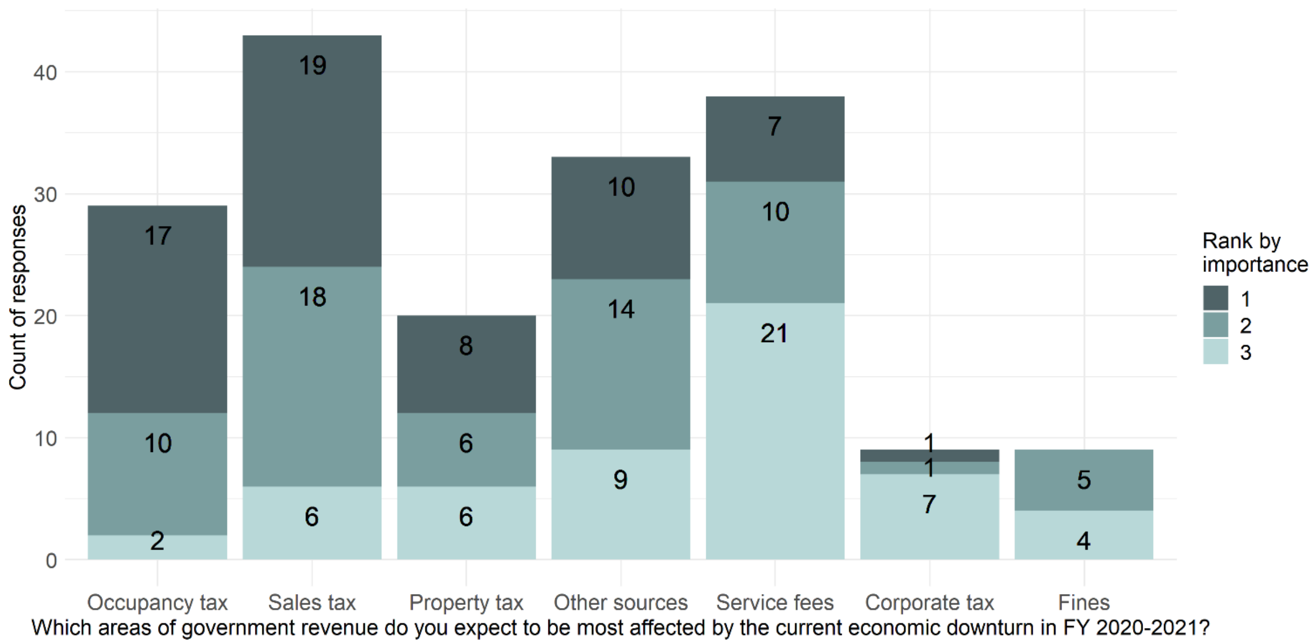

Figure 8. Assessment of impact of Covid-19 on revenue sources in coming year. Rank 1 is most severely impacted. Bars ranked by number of people who ranked the option as the most important. Total number of responses: 80

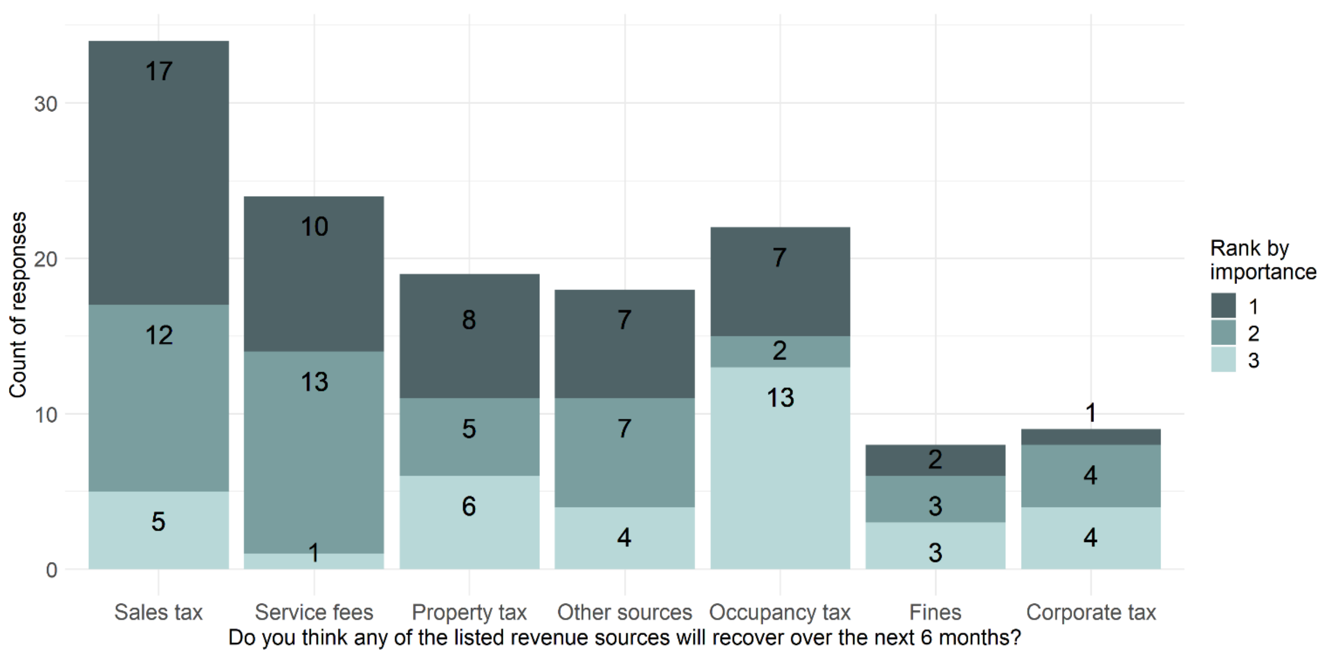

Figure 9. Assessment of recovery of revenue sources from Covid-19. Rank 1 is most severely impacted. Bars ranked by number of people who ranked the option as the most important. Total number of responses: 65