City of Palo Alto (ID # 11504)

City Council Staff Report

Report Type: Informational Report **Meeting Date: 9/14/2020**

Summary Title: Sales Tax Digest Summary 2020 Q1 (Calendar)

Title: City of Palo Alto Sales Tax Digest Summary for the First (Calendar) Quarter of 2020 (January - March 2020)

From: City Manager

Lead Department: Administrative Services

Information

The City received $5.7 million for the first quarter (calendar year, January to March 2020) sales which is $2.0 million (26.6 percent) lower than the same quarter in calendar year 2019. The following files, compiled by the City's sales tax consultant, MuniServices/Avenu, are attached for this informational report for which no action is required.

COVID-19 Public Health Emergency

During this period, the world began grappling with COVID-19, a global pandemic. The financial implications of this public health emergency are significant, with regional, national and global impacts on economies in response to shelter in place orders required by the State of California and the County of Santa Clara and related social distancing restrictions. On March 12, 2020 the City Manager, acting as the Director of Emergency Services, issued a Proclamation of Local Emergency regarding the presence and community spread of COVID-19 in Santa Clara County and our region. On Sunday, March 15, 2020, the City Manager activated the Emergency Operations Center (EOC). On March 16, 2020, the City Council ratified the Proclamation of Local Emergency, which continues in effect. In addition, on March 16, 2020, the County of Santa Clara implemented a Shelter-in-Place order that remain in effect to a certain degree today.

This quarter of information includes the brief period impacted by these significant and immediate changes in consumer behavior, immediately impacting sales tax revenues. Moreover, these orders were also the catalyst for legislative actions attempting to provide relief to citizens and businesses during this unprecedented time. As noted in the report from the City's consultant (page 1 of Attachment C), some payment of sales tax revenue to Palo Alto is deferred for 90 days or until next fiscal year. It is expected that receipts throughout calendar year 2020 will be impacted not only by the economic impacts associated with the pandemic but also the legislative impacts, namely the legislative relief.

Attachments:

- Attachment A: Avenu Q1 Sales Tax Digest Summary
- Attachment B: Economic Categories and Segments
- Attachment C: Sales Tax Updates

City of Palo Alto
Sales Tax Digest Summary
Collections through June 2020
Sales through March 2020 (2020Q1)

California Overview

The percent change in cash receipts from the prior year was -0.9% statewide, -0.6% in Northern California and -1.2% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity decreased for the year ended 1st Quarter 2020 by -6.0% statewide, -6.6% in Southern California and -5.1% in Northern California.

City of Palo Alto

For the year ended 1st Quarter 2020, sales tax cash receipts for the City were -6.7% from the prior year. On a quarterly basis, sales tax revenues were -26.6% from 1st Quarter 2019 to 1st Quarter 2020. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. Note: It is important to recognize that the state offered small businesses a 90 day extension to pay their 1st Quarter 2020 taxes (to alleviate some of the short-term economic difficulties of the pandemic), and many businesses had partial or no payment for the 1st Quarter. Thus, the 26.6% decrease for the quarter includes decreases related to the state 90-day extension program and actual 1st Quarter economic activity did not decline to this extent. As a result of the extension program, many payments for 1st quarter economic activity will be paid in the 2nd Quarter.

Regional Overview

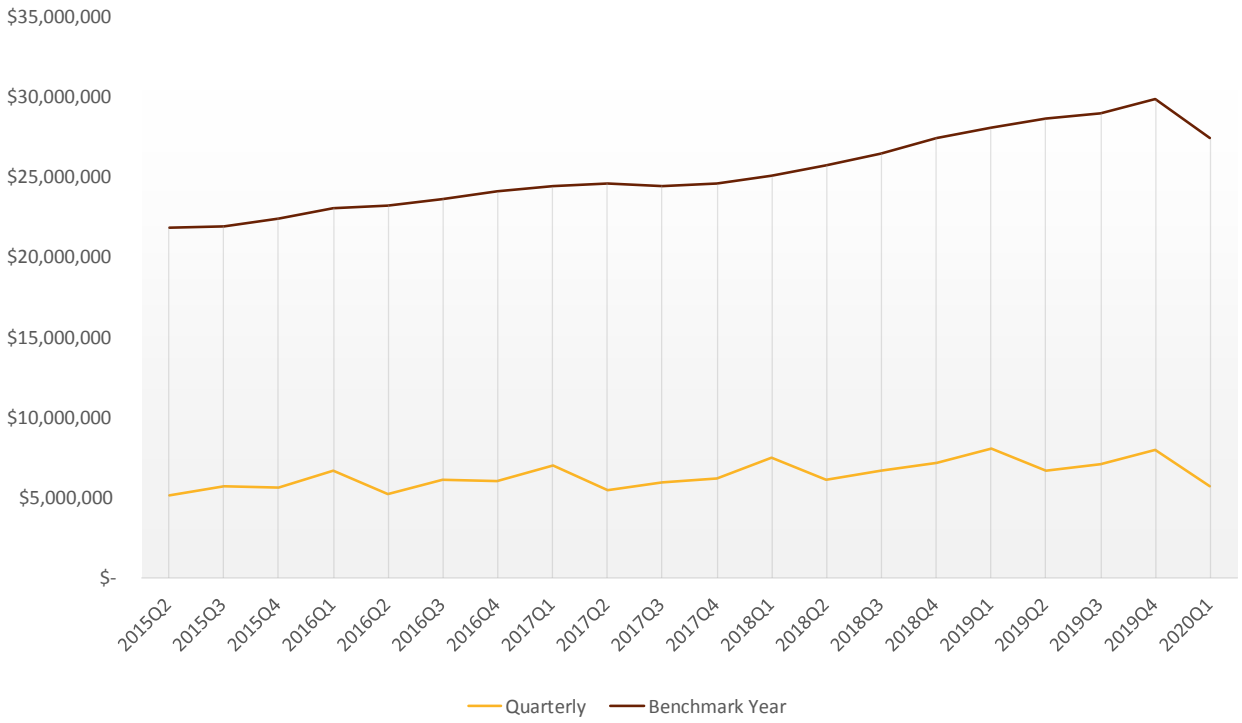
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO

BENCHMARK YEAR 2020Q1 COMPARED TO BENCHMARK YEAR 2019Q1

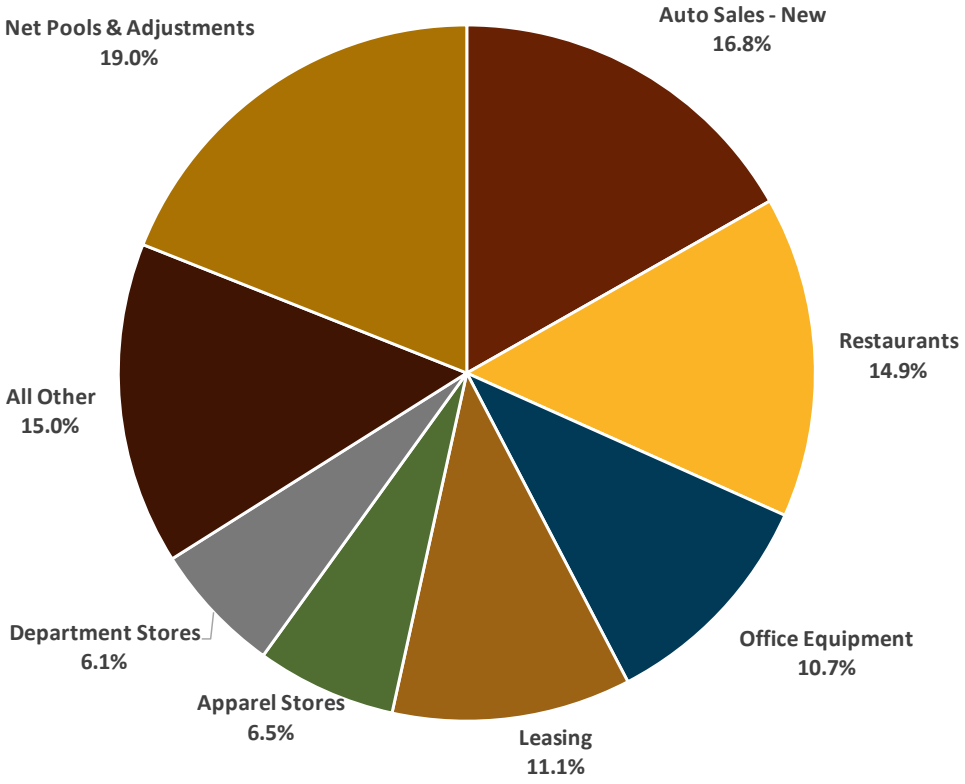
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 1st Quarter 2020									
% of Total / % Change	PALO ALTO	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	28.6 / -17.6	28.7 / -5.4	27.4 / -3.5	28.1 / -1.2	29.4 / -2.5	29.6 / -7.6	28.7 / -4	30.9 / -0.7	28.6 / -11.4
Food Products	17.1 / -15.6	22.2 / -8.0	23.4 / -9.6	17.8 / -5.4	17.2 / -4	24.1 / -9.1	19.2 / -3.8	17 / -2	34.8 / -5.1
Construction	0.8 / -44.6	10.0 / -6.2	10 / -7.7	12.4 / -1.5	11.8 / -3.4	8.7 / -8.9	10.9 / 0.4	16.1 / 5.2	8.6 / -10.8
Business to Business	26.1 / 24	13.0 / -3.5	15.3 / -3.9	11.4 / 0.9	14 / 7.4	12 / -5.5	12.2 / -3.8	7.4 / 2.6	3.7 / 1.6
Misc/Other	27.3 / -11.5	26.1 / -6.2	23.9 / -10.8	30.3 / -3.1	27.6 / -1.8	25.6 / -6.4	29 / -3.5	28.6 / 0.2	24.4 / -2.3
Total	100 / -3.0	100.0 / -6.0	100 / -7.2	100 / -2.3	100 / -1.4	100 / -7.5	100 / -3.3	100 / 0.5	100 / -6.6
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 1st Quarter 2020									
	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	Leasing	Restaurants	Auto Sales - New	Department Stores	Department Stores	Restaurants	Department Stores	Department Stores	Restaurants
% of Total / % Change	12.5 / 58.5	15.9 /18.9	12 / -15.6	12.1 / 6.3	14.0 / 2.2	17.9 / -10	11.8 / 5.1	13.4 / 4.3	24.6 / -5.6
2nd Largest Segment	Auto Sales - New	Auto Sales - New	Restaurants	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New
% of Total / % Change	18.8 / -22.1	11.9 /17	16.8 / -11.7	12.1 / -5.9	11.1 / -2.1	12.3 / -5.3	11.1 / -2.9	11.9 / 3.8	12.5 / 1.5
3rd Largest Segment	Restaurants	Department Stores	Miscellaneous Retail	Restaurants	Restaurants	Department Stores	Restaurants	Restaurants	Food Markets
% of Total / % Change	15.3 / -15.4	15.9 /18.9	8 / 6.1	12.1 / -6.4	11.4 / -5.1	10 / -0.7	12.4 / -5.9	10 / -7.5	8.9 / -4.0
	*** Not specified to maintain confidentiality of tax information								

Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 1st Quarter 2020: $32,812,518

**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2020Q1 BMY is sum of 2020 Q1, 2019 Q4, 2019 Q3, 2019 Q2)*

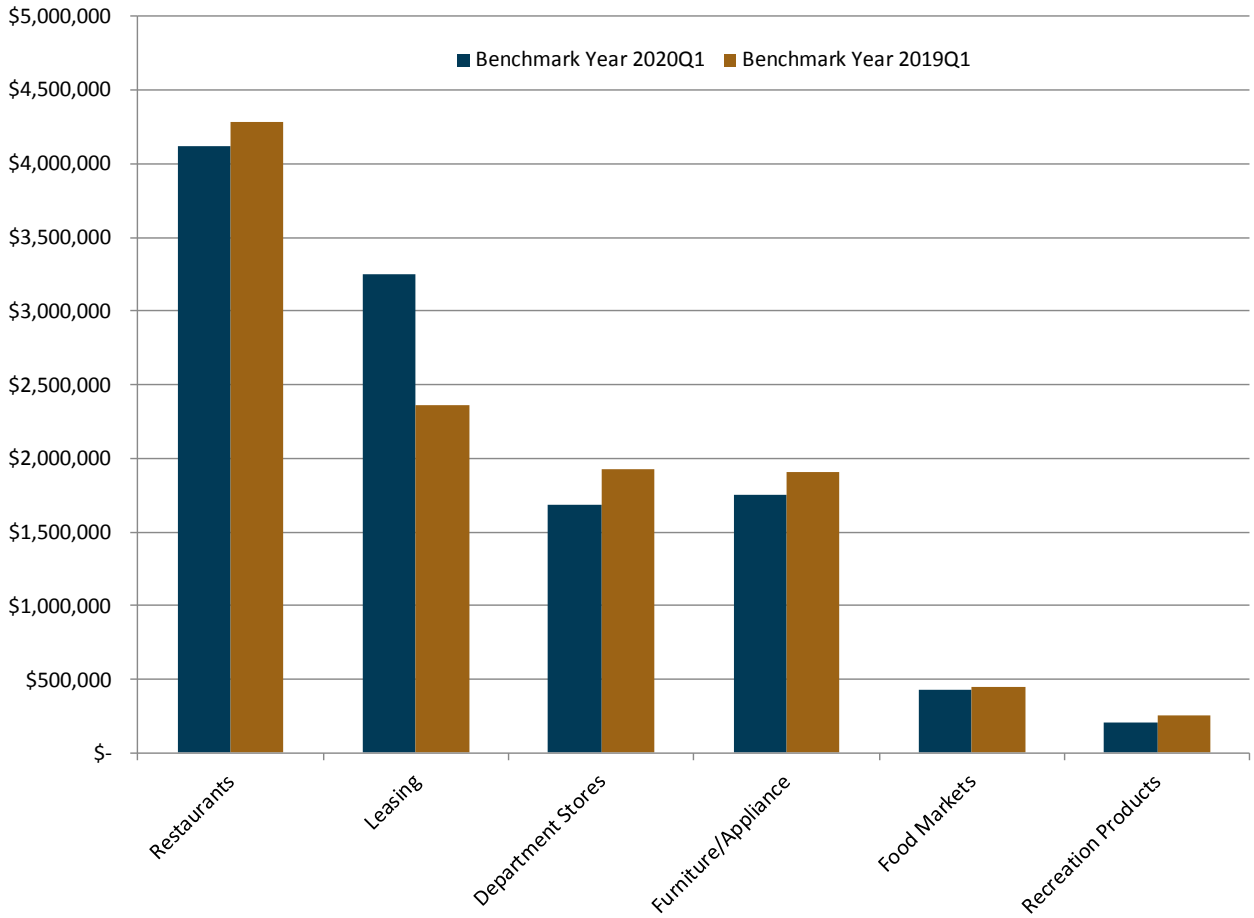


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 1st Quarter 2020. The Top 25 Sales/Use Tax contributors generate 56.5% of Palo Alto's total sales and use tax revenue.

Anderson Honda
Apple Stores
Audi Palo Alto
Bon Appetit Management Co.
Hermes
Houzz Shop
HP Enterprise Services
Integrated Archive Systems
Louis Vuitton
Lucile Packard Children's Hospital
Macy's Department Store
Magnussen's Toyota of Palo Alto
Mclaren San Francisco
Neiman Marcus Department Store
Nordstrom Department Store
Richemont
Shell Service Stations
Shreve & Co.
Stanford Outpatient Clinic Pharmacy
Tesla
Tesla Lease Trust
Tiffany & Company
Urban Outfitters
Varian Medical Systems
Volvo Cars Palo Alto

Sales Tax from Largest Non-Confidential Economic



Historical Analysis by Calendar Quarter

Cash Category	%	2020Q1	2019Q4	2019Q3	2019Q2	2019Q1	2018Q4	2018Q3	2018Q2	2018Q1	2017Q4	2017Q3
General Retail	26.0%	1,474,257	2,665,153	2,385,380	1,981,968	1,843,013	2,567,368	2,195,807	1,629,266	1,516,808	1,881,732	1,602,213
Business To Business	33.4%	1,892,288	2,354,864	1,834,999	2,047,219	2,198,385	2,428,644	1,937,139	1,965,691	1,851,152	2,635,136	1,860,347
Misc/Other	19.8%	1,122,692	1,787,599	1,514,298	1,776,358	1,304,318	1,213,676	1,187,765	1,237,941	1,183,895	1,206,578	1,184,645
Food Products	16.8%	954,061	1,206,382	1,203,629	1,252,840	1,160,612	1,877,247	2,260,007	1,789,526	1,639,073	1,569,619	1,448,336
Net Pools & Adjustments	3.9%	223,252	2,004,397	1,619,094	1,688,276	1,208,826	1,820,850	2,139,510	1,191,568	-183,952	1,136,075	1,374,372
Total	100.0%	5,666,550	10,018,395	8,557,399	8,746,661	7,715,155	9,907,785	9,720,228	7,813,992	6,006,976	8,429,140	7,469,913

Cash Segments	%	2020Q1	2019Q4	2019Q3	2019Q2	2019Q1	2018Q4	2018Q3	2018Q2	2018Q1	2017Q4	2017Q3
Miscellaneous/Other	45.7%	2,591,205	3,452,948	4,138,457	4,251,453	3,891,665	4,881,849	4,854,095	3,747,045	3,373,907	3,791,527	3,233,434
Auto Sales - New	13.7%	777,399	1,389,232	59,312	34,543	34,543	76,617	90,235	54,661	60,326	82,100	56,998
Restaurants	14.7%	833,983	1,085,252	1,069,628	1,035,216	1,045,521	1,066,578	1,060,546	1,124,991	1,045,496	1,054,073	1,049,565
Apparel Stores	5.2%	294,002	581,209	469,248	404,627	408,968	405,979	361,406	439,601	412,952	701,369	419,279
Department Stores	4.3%	245,948	554,454	431,717	356,943	356,943	599,795	475,142	495,267	471,419	642,666	458,066
Miscellaneous Retail	5.0%	284,296	504,530	366,010	324,279	326,994	596,192	448,510	451,110	390,780	585,892	440,005
Business Services	3.0%	171,181	188,230	124,310	198,913	181,454	173,916	148,751	154,446	163,072	148,906	147,499
Service Stations	2.6%	145,255	168,541	175,608	159,032	159,032	110,015	98,072	97,870	117,783	128,671	117,256
Food Markets	1.8%	100,029	89,602	104,014	105,601	95,783	175,994	43,961	57,433	155,193	157,861	173,439
Net Pools & Adjustments	3.9%	223,252	2,004,397	1,619,094	1,876,055	1,214,253	1,820,850	2,139,510	1,191,568	-183,952	1,136,075	1,374,372
Total	100.0%	5,666,550	10,018,395	8,557,399	8,746,661	7,715,155	9,907,785	9,720,228	7,813,992	6,006,976	8,429,140	7,469,913

*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2019Q1 to 2020Q1

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2020/1 Total	2019/1Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	-46.2%	-35.5%	-72.3%	-34.1%	-32.0%	1,318,355	2,352,307	-44.0%	Electronic Equipment	Light Industry	Restaurants	Apparel Stores
Cupertino	-41.1%	-53.9%	-20.7%	25.9%	-49.7%	301,061	653,064	-53.9%	Business Services	Chemical Products	Restaurants	Service Stations
Gilroy	-25.2%	-42.5%	-37.0%	-13.2%	-60.2%	2,145,391	3,618,595	-40.7%	Department Stores	Light Industry	Auto Sales - New	Apparel Stores
Los Altos	-46.1%	-48.7%	10.0%	-59.0%	-35.7%	302,888	553,343	-45.3%	Recreation Products	Bldg.Matls-Retail	Restaurants	Food Markets
Los Gatos	-59.6%	-53.3%	0.6%	-1.6%	-51.9%	693,834	1,470,684	-52.8%	Light Industry	Electronic Equipment	Miscellaneous Retail	Restaurants
Milpitas	-33.8%	-38.3%	-13.1%	-8.7%	-8.7%	3,939,559	5,158,859	-23.6%	Auto Sales - New	Office Equipment	Restaurants	Apparel Stores
Morgan Hill	-28.1%	-42.6%	-44.3%	22.9%	-40.0%	1,387,200	2,026,418	-31.5%	Light Industry	Heavy Industry	Restaurants	Service Stations
Mountain View	-26.0%	-34.1%	10.1%	-69.7%	-38.2%	2,803,858	4,899,820	-42.8%	Heavy Industry	Bldg.Matls-Retail	Business Services	Restaurants
Palo Alto	-38.4%	-55.2%	-77.6%	-11.0%	-27.0%	4,546,121	6,678,707	-31.9%	Leasing	Recreation Products	Restaurants	Electronic Equipment
San Jose	62.2%	-41.4%	-32.2%	-14.5%	-26.0%	4,565,895	7,789,284	-41.4%	Miscellaneous Retail	Office Equipment	Restaurants	Bldg.Matls-Retail
Santa Clara	-23.3%	-35.9%	-11.5%	-11.2%	-22.9%	8,913,547	11,210,424	-20.5%	Bldg.Matls-Whsle	Chemical Products	Restaurants	Auto Sales - New
County of Santa Clara	-77.2%	-64.7%	-41.0%	-64.4%	-59.3%	375,026	999,694	-62.5%	Chemical Products	Drug Stores	Restaurants	Miscellaneous Retail
Saratoga	-22.1%	-55.7%	46.4%	-71.4%	28.4%	104,040	214,675	-51.5%	Bldg.Matls-Retail	Drug Stores	Restaurants	Service Stations
Sunnyvale	-5.7%	-30.6%	-53.7%	-55.4%	#N/A	4,190,379	6,205,518	-32.5%	Department Stores	Auto Parts/Repair	Office Equipment	Restaurants

Economic Categories and Segments		
Economic Category	**Economic Segment**	**Description**
Business to Business - sales of tangible personal property from one business to another business and the buyer is the end user. Also includes use tax on certain purchases and consumables.	Business Services	Advertising, banking services, copying, printing and mailing services
	Chemical Products	Manufacturers and wholesalers of drugs, chemicals, etc.
	Electronic Equipment	Manufacturers of televisions, sound systems, sophisticated electronics, etc.
	Energy Sales	Bulk fuel sales and fuel distributors and refiners
	Heavy Industry	Heavy machinery and equipment, including heavy vehicles, and manufacturers and wholesalers of textiles and furniture and furnishings
	Leasing	Equipment leasing
	Light Industry	Includes, but is not limited to, light machinery and automobile, truck, and trailer rentals
	Office Equipment	Businesses that sell computers, and office equipment and furniture, and businesses that process motion pictures and film development
Construction	Building Materials – Retail	Building materials, hardware, and paint and wallpaper stores
	Building Materials - Wholesale	Includes, but is not limited to, sheet metal, iron works, sand and gravel, farm equipment, plumbing materials, and electrical wiring
Food Products	Food Markets	Supermarkets, grocery stores, convenience stores, bakeries, delicatessens, health food stores
	Food Processing Equipment	Processing and equipment used in mass food production and packaging
	Liquor stores	Stores that sell alcoholic beverages
	Restaurants	Restaurants, including fast food and those in hotels, and night clubs

Economic Categories and Segments		
Economic Category	**Economic Segment**	**Description**
General Retail – all consumer focused sales, typically brick and mortar stores	Apparel Stores	Men's, women's, and family clothing and shoe stores
	Department Stores	Department, general, and variety stores
	Drug Stores	Stores where medicines and miscellaneous articles are sold
	Florist/Nursery	Stores where flowers and plants are sold
	Furniture/Appliance	Stores where new and used furniture, appliances, and electronic equipment are sold
	Miscellaneous Retail	Includes, but is not limited to, stores that sell cigars, jewelry, beauty supplies, cell phones, and books; newsstands, photography studios; personal service businesses such as salons and cleaners; and vending machines
	Recreation Products	Camera, music, and sporting goods stores
Miscellaneous/Other	Miscellaneous/Other	Includes but not limited to health services, government, nonprofit organizations, non-store retailers, businesses with less than $20,000 in annual gross sales, auctioneer sales, and mortuary services and sales
Transportation	Auto Parts/Repair	Auto parts stores, vehicle and parts manufacturing facilities, and vehicle repair shops
	Auto Sales - New	New car dealerships
	Auto Sales - Used	Used car dealerships
	Miscellaneous Vehicle Sales	Sale and manufacture of airplanes and supplies, boats, motorcycles, all-terrain vehicles, trailers and supplies
	Service stations	Gas stations, not including airport jet fuel

AVENU INSIGHTS & ANALYTICS

CALIFORNIA COVID-19 UPDATE

Early June 2020

Revenue Projections under Covid-19

CLIENT UPDATE #1: Sales and Use Tax

Avenu has been hard at work developing economic assumptions on which to build revenue projections for each of our clients. For many of our clients, Sales and Use Tax is a primary revenue source and one that currently is in a state of flux. The pandemic has caused reduced economic activity, business closures, and uncertainty about the future.

The recent Sales Tax Executive Order from Governor Newsom also impacted sales tax cash flows. This communication is intended to explain the lower than normal first quarter 2020 allocations to local governments resulting from the pandemic and the Governor's Executive Order.

Sales and Use Tax Liabilities Deferred by CDTFA

Extension Program: On April 2, 2020, Governor Newsom issued Executive Order N-40-20 that allowed businesses with under $1M in tax liability to delay their first quarter sales and use tax filings for 90 days. This action means that first quarter filings for these businesses, normally required by the end of April, could be delayed until the end of July.

Deferral Program: Another state program allows small businesses ($5M or less in taxable sales) to defer up to $50,000 of their sales and use tax liabilities until next fiscal year. For those who request the deferral, the owed amount would be payable in twelve equal installments over the following year and would not be subject to interest or penalties as long as these payments are made. The payments will start in August 2020 and they will not extend beyond July 31, 2021.



The Avenu team continues to have ongoing discussions and communication with the CDTFA in order to better understand and report back to our clients on the status and impacts of Q1 Extensions/ non-filings, Q1 & Q2 sales tax deferrals, late payments and other sales tax issues. According to the CDTFA, the impact of the first quarter 2020 sales and use tax return and payment extensions are as follows:

- First quarter allocations to local jurisdictions are down approximately 13% compared to the first quarter 2019. A portion of the decrease was reduced economic activity and a portion was due to the Extension/non-filers.
- CDTFA stated that they believe most of the decrease will be recovered when businesses that elected to take the three-month extension file and pay those returns that are due by July 31, 2020. These revenues will be paid to local governments in August and most will accrue them to FY 19/20.
- The CDTFA estimates that 178,288 tax payers who have a tax obligation of under $1M have $844M in taxes still outstanding.
- 85 taxpayers who have tax obligations of over $1 have $81M still outstanding as well.
- The liabilities allowed under the Executive Order that can be included are tax liabilities from the first and second quarters of 2020 and include monthly and fiscal year filers.
- It is important to note that all taxes remain due eventually: they are not waived.

The delay in payment of taxes results in a timing issue of when tax revenues will be received by local jurisdictions. The Extension program will delay some payments to August and the Deferral program will delay some payments to FY 20/21.

Applications for the Deferral payment plan will be available in July 2020. To date CDTFA has stated that they have received inquiries from approximately 6,800 businesses or their representatives interested in the Deferral program.

We are in contact with CDTFA and we will provide further updates as more information becomes available.

Other Brief Updates

Proposition 172 : PSAF Revenue: Although the decline in taxable sales May 2020 over May 2019 (March sales) averages 21.9% statewide, the range among counties is significant: -17.1% to -41%. The 21.9% tracks with our current forecast. However, at the end of June, the June (April Taxable Sales) Prop 172 payments will provide a better indicator of the assumptions on the recession rates we used for each of our clients.

Unemployment

Recent estimates of U.S. unemployment came in lower than expected at 13.3%. The Bureau of Labor Statistics acknowledged that there are errors in the 13.3% number and that it is likely higher. California's unemployment rates are published monthly, after state analysts have had a chance to closely review all available data. The most recent estimate, published last week, showed a California unemployment rate of 15.5%, with more than 5.1 million Californians out of work.

In addition, the actual number of unemployed is assumed to be much higher due to: recent data issues with the unemployment survey, those workers that choose not to register for unemployment, and undocumented workers not counted in the survey. The 'real' unemployment rate is likely much higher than the typical figure used. We are keeping a close eye on this.

Consumer Spending

Historically, unemployment rates are highly correlated with consumer confidence and consumer spending, which ultimately impact sales tax revenue. It is difficult to predict consumer spending at this time given the uncertainties with employment, the nature of the recovery, and the re-opening of businesses. Again, we will be tracking consumer spending and consumer behavior closely to analyze new trends.

Conclusion

We hope that this brief update keeps you informed and up to date. Please do not hesitate to contact your Client Services Representative at any time - we are here to help you through these difficult times.

NOTES: A copy of the Governor's 90 day extension Executive Order can be found here. Information about the $50,000 deferral program can be found here.



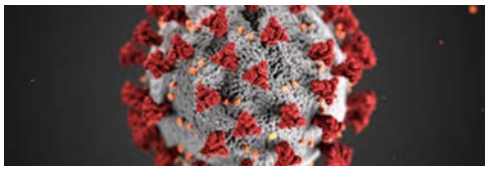
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California COVID-19 Update

Client Update #2: Mid July 2020

Recovery Indicators



The Importance of Unemployment Statistics

Quick Take-Away

Unemployment statistics are one indicator of the economic health of a region. Under the COVID caused economic downturn, the unemployment rate is especially important for local taxes because it indicates the speed at which local business is recovering…or not. While unemployment is not necessarily a clear indicator of sales tax activity, it does correlate to consumer confidence which drives consumption and ultimately sales tax. Unemployment rates also impact other taxes such as transient occupancy tax (TOT).

The [published] California Unemployment Rate measures the total number of employees in California that are a part of the labor force but are without a job, and is generally tied to current levels and applying unemployment assistance cases. As published by state and federal agencies, the California Unemployment Rate through May 2020 is at 16.30%, compared to 16.40% from last period and 4.10% last year. This is higher than the long-term average of 7.22%.

However, the real unemployment rate (U-6) is a broader definition of unemployment than the official unemployment rate (U-3). In June 2020, it was 18%. It is down from the 22.8% rate in April. That is almost as bad as the 25% rate during the Great Depression. Please feel free to discuss the U-6 numbers for your jurisdiction with your Avenu Representative.

Understanding Unemployment Statistics

Historically, the unemployment rate in California reached as high as 12.40% in 2010, while the United States reached 9.50% in that time frame. https://ycharts.com

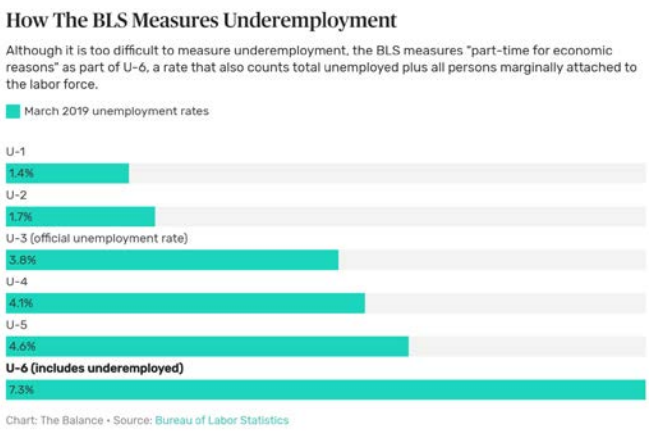
- While the state's unemployment rate of 16.31 percent is slightly lower than the record high set in April 2020, it is still far higher than the 12.3 percent level during the height of the Great Recession (March, October, and November 2010).
- April's revised loss of 2.4 million jobs in California since March, is the biggest month-over month job loss in state history, far eclipsing the Great Recession's then record-setting, month-over loss of 132,800 jobs between December 2008 and January 2009.
- Nine of California's 11 industry sectors gained jobs in May. Construction posted the largest job gain (+75,000) thanks to strength in specialty trade contractors and ongoing construction projects. Leisure and hospitality (+64,800) had the second largest job gain due to growth in accommodation and food services. Government (-95,800) had the largest drop with state and local government jobs both experiencing large decreases over the month.

While these numbers are staggering enough, it is important to understand that they must be looked at locally to fully understand the long-term impact on a city's business recovery. The real unemployment rate is always higher. According to the balance, the real unemployment rate (U-6) is a broader definition of unemployment than the official unemployment rate (U-3). In June 2020, it was 18%. It is down from the 22.8% rate in April. That is almost as bad as the 25% rate during the Great Depression.

The U-3 is the rate most often reported in the media. In the U-3 rate, the Bureau of Labor Statistics (BLS) only counts people without jobs who are in the labor force. To remain in the labor force, they must have looked for a job in the last four weeks. The U-6, or real unemployment rate, includes the underemployed, the marginally attached, and discouraged workers. **For that reason, it is roughly double the U-3 report.**

The BLS reports other, broader definitions of underemployment. Here are the designations:

- **U-1**: Persons unemployed 15 weeks or longer, as a percent of the civilian labor force.
- **U-2**: Job losers and persons who completed temporary jobs, as a percent of the civilian labor force.
- **U-3**. Total unemployed, as a percentage of the civilian labor force. The current official unemployment rate may confirm current economic trends.
- **U-4**. Total unemployed plus discouraged workers, as a percentage of the civilian labor force plus discouraged workers.
- **U-5**. Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percentage of the civilian labor force plus all persons marginally attached to the labor force.
- **U-6**. Total unemployed, plus all persons marginally attached to the labor force, plus total employed part-time for economic reasons, as a percentage of the civilian labor force plus all persons marginally attached to the labor force. The current real unemployment rate is about double the official unemployment rate, designated as U-3.





California Industries Payroll Jobs by Biggest Month-Over Change

Major Industries	Month-over Change (April 2020 - May 2020)	Year-over Change (May 2019 - May 2020)	Total Payroll Jobs as of May 2020
Construction	+75,000	-61,300	821,900
Leisure and Hospitality	+64,800	-891,500	1,137,700
Education and Health Services	+44,700	-223,100	2,570,600
Professional and Business Services	+23,500	-208,400	2,507,100
Manufacturing	+17,100	-126,700	1,199,000
Trade, Transp., Utilities	+12,800	-376,100	2,672,200
Other Services	+4,500	-162,000	413,100
Mining and Logging	+1,100	+200	22,800
Financial Activities	+200	-11,100	827,000
Information	-6,300	-52,100	503,200
Government	-95,800	-155,000	2,446,000

Key Summary Points

- To identify the real unemployment rate in your area, double the formal rate (U-3) published by the Bureau of Labor Statistics (i.e., look closely at the U-6 rate.).
- Unemployment is a key indicator of business recovery under COVID and should be looked at in parallel with other more standard financial indicators such as performance of a jurisdiction's primary tax revenue.
- When making budget assumptions and making resulting projections under COVID, it is critical to base your assumptions as much as possible on local data; and to check and revise your projections much more frequently as COVID conditions change **in your area**.

Other Economic/Financial Impacts

We are still in the early days of the COVID economic downturn. The most current detailed sales tax data available to us from the California Department of Tax and Fee Administration (CDTFA) we have is for January to March 2020, so it is very preliminary and only includes a few weeks of COVID impact. It also includes some data irregularities due to the state extension and deferral programs, put in place under the Governor's Executive Order N-40-20, which cloud the overall economic picture a bit. Since we already know that Q2 2020 (April to June) will be very bad fiscally for most jurisdictions due to the stay at home order and the associated business closings, we think the first initial sign of how things might proceed for the economy and how FY 20/21 (and future years) might look will be better understood when we receive 3rd quarter 2020 detailed sales tax information. We will continue to monitor everything closely, but the recession will play out over time as conditions change and settle. We do not think there will be a definitive event/data point for at least another five to six months when Q3 data is available. The Q3 sales tax data will be a 'first look' at how the longer term recession is starting to unfold and it too will likely twist and turn over time.



It will be some time before full impacts are known on other kinds of local revenue, but as local budgets are finalized, several trends are clear. Communities with significant Transient Occupancy Tax revenue (TOT) have been severely impacted. Napa County hotel revenue dropped 95.5 percent year-over-year; Palm Springs staff estimated 75% - 85% losses in the Spring months. Hotels around California are asking their elected officials and city/county government officials for at least a 90-day deferral of TOT payments. Los Angeles, Anaheim, West Hollywood, Vacaville, and Woodland have taken various actions to provide relief from TOT payments with many other cities/counties considering this action.

Stay-at-home orders and increased telecommuting should increase residential utility use, and therefore generate some local Utility Users tax (UUT) revenue, but that may be offset by businesses shutting down and the commiserate drop in commercial usage.

Reduced economic activity will also cause declines in income from fines and fees (e.g. new businesses opening, new licenses, construction permits, building inspection, etc.). This also affects revenues tied to transportation—parking tickets, bridge tolls, gas taxes, transit fares.

On May 6 Governor Newsom issued an executive order that suspends until May 2021 the ability of county assessors to levy late fees for property tax payments. As laid out by the Labor Center at UC Berkeley, a reduction in the number of property transactions will drive a drop in property transfer taxes, at least temporarily. A lengthy recession (which most local governments are treating as a worst-case scenario) could reduce property values, particularly in the commercial rental market, which we are already seeing. This could spark downward assessments and reductions in sales prices.

During this time of uncertainty, it is essential for local government to assess all possible avenues to stabilize revenue. Given the different impacts of COVID on local governments and their local economy, the inconsistent timing of COVID spikes, and the varying local responses to the national conversation on racial equity and racial justice, even adjacent communities may be suffering different impacts or degrees of impact. Therefore, financial assumptions, recovery projections, and response plans must be based as much as possible on local data and local analysis. Avenu is keenly aware of this and is committed to assisting each of our clients with that local analysis in a responsive and responsible manner.

State Money – Last week, the Governor signed into law a State Budget that holds out hope for another round of federal stimulus funds but also provides funds for homelessness and for COVID-19 response, including $500 million in CARES Act dollars for cities. While the new budget is balanced, the impact of the pandemic and the delayed tax deadline means that uncertain budget will need to be revisited in August once more is known about the State's total tax receipts and a possible July stimulus package from Congress.

The California Budget and Policy Center offers their perspective on Governor Newsom's 2020/2021 budget. Policy think tanks across the country are writing about the shortage of dollars in all states, how states are going into deep deficits despite their somewhat healthy reserves at the start of this fiscal year, and that cities should not be looking to states to send them bailout money.

Local Ballot Measures -- Many jurisdictions struggling with reduced revenue flow, diminishing reserves, and increased costs are looking to the November ballot for relief. A significant number of cities are considering tax measures for November including Sales Tax, UUT, TOT and others. There is little agreement among pollsters and other pundits as to a 'general mood' for tax increases and whether such ballot measures have a reasonable chance of success or not. Voter sentiment is likely to change as economic and pandemic conditions change and a lot will depend on local conditions which makes it difficult to predict voter perspectives across the state.

Other COVID Resources – There are many resources available for cities regarding the constantly moving target of COVID and recovery. The League of California Cities, through their publication "CA Cities Advocate", has a depth of information and also issues many other communications weekly as needed. The California Department of Public Health has a myriad of up-to-date information on their web site. Stateside has a quality up-to-date report on a timely basis showing relevant actions and impacts across the states.

In summary, we leave you with a quote that sums up our perspective on this challenging time and the corona virus: *"Don't expect the current health and economic challenges to end with a touchdown pass. It's more likely to be three yards and a cloud of dust*." Alan Murray, Editor of Fortune Magazine.