THE FISCAL IMPACT OF COVID-19 ON CALIFORNIA’S LOCAL GOVERNMENTS

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June 15, 2021

Find out more about the survey and project
How have they affected local governments in California?

Health Impacts:
3,696,472 cases
62,512 deaths
67,644,684 tests
39,519,789 vaccines administered

Economic Impacts:
>1 year of Stay at Home orders
Unemployment
Changes in consumption and production patterns
Work from Home
Racial and socioeconomic disparities
Essential Workers

Source: https://covid19.ca.gov/state-dashboard/
Surveys of Municipal, County, and School District budget officers

Key Areas covered

1. Revenue and Service Level Impacts
2. Overall Budgets
3. Strategies for Coping
4. Transfers and Stimulus

Results Summary

• Uncertainty and pessimism about balancing budget greatly reduced, but not completely gone, from Fall 2020 to Spring 2021

• Heightened demand for services persisted

• Local government used a wide array of strategies to cut cost and balance budgets
  o Defer projects and maintenance
  o Reduce / restructure services
  o Cut staff
  o Use reserve funds
### Survey Stats

#### Respondents by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>School Districts</th>
<th>Cities &amp; Counties</th>
<th>Total</th>
<th>Oct – Dec 2020</th>
<th>Apr – May 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bay Area</td>
<td>20</td>
<td>15</td>
<td>35</td>
<td>94</td>
<td>172</td>
</tr>
<tr>
<td>Central Valley</td>
<td>6</td>
<td>7</td>
<td>13</td>
<td></td>
<td></td>
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<tr>
<td>Foothills</td>
<td>12</td>
<td>7</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outer Bay</td>
<td>13</td>
<td>6</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SCAG</td>
<td>19</td>
<td>20</td>
<td>39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of California</td>
<td>38</td>
<td>9</td>
<td>47</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Participating Agencies

<table>
<thead>
<tr>
<th>Region</th>
<th>School Districts</th>
<th>Cities</th>
<th>County</th>
<th>Total Respondents</th>
<th>Total Sampled</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct – Dec 2020</td>
<td>49</td>
<td>35</td>
<td>4</td>
<td>94</td>
<td>870</td>
<td>11%</td>
</tr>
<tr>
<td>Apr – May 2021</td>
<td>108</td>
<td>57</td>
<td>7</td>
<td>172</td>
<td>1470</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>157</td>
<td>92</td>
<td>11</td>
<td>266</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

New wave every 6 months

Results as of June 4, 2021
Revenue and Service Level Impacts
Let us compare the past 6 months since COVID began to the Great Recession: **Revenue Decline**

### Oct – Dec 2020
- Total Revenue: 85 Responses
  - 35% Strong Decline
  - 36% Moderate Decline
  - 19% Minor Decline
  - 10% No Change
  - 10% Not Applicable

### April – May 2021
- Total Revenue: 165 Responses
  - 43% Strong Decline
  - 30% Moderate Decline
  - 21% Minor Decline
  - 7% No Change

### April – May 2021: SCAG only
- Total Revenue: 39 Responses
  - 23% Strong Decline
  - 33% Moderate Decline
  - 44% No Change

### Service Fees
- 91 Responses
  - 41% Strong Decline
  - 22% Moderate Decline
  - 29% Minor Decline
  - 7% No Change

- 154 Responses
  - 44% Strong Decline
  - 21% Moderate Decline
  - 27% Minor Decline

- 36 Responses
  - 56% Strong Decline
  - 17% Moderate Decline
  - 25% Minor Decline

- 56% Strong Decline
- 17% Moderate Decline
- 25% Minor Decline

[Legend: Same as 2008 Recession, Faster than 2008 Recession, Slower than 2008 Recession, No Change]
Let us compare the past 6 months since COVID began to the Great Recession: **Increase in Service Demand**

- **Oct – Dec 2020**
  - 29% Same as 2008 Recession
  - 13% Faster than 2008 Recession
  - 6% Slower than 2008 Recession
  - 52% No Change
  
- **April – May 2021**
  - 27% Same as 2008 Recession
  - 19% Faster than 2008 Recession
  - 10% Slower than 2008 Recession
  - 44% No Change

- **April – May 2021: SCAG only**
  - 30% Same as 2008 Recession
  - 30% Faster than 2008 Recession
  - 3% Slower than 2008 Recession
  - 38% No Change

**Responses:**
- Oct – Dec 2020: 90 Responses
- April – May 2021: 161 Responses
- April – May 2021: SCAG only: 37 Responses
Let us compare the past 6 months since COVID began to the Great Recession: **Increase in Service Demand**

### Emergency / Health

- **Oct – Dec 2020**: 79 Responses
  - 63% Same as 2008 Recession
  - 28% Faster than 2008 Recession
  - 8% Slower than 2008 Recession
  - 1% No Change

- **April – May 2021**: 153 Responses
  - 34% Same as 2008 Recession
  - 54% Faster than 2008 Recession
  - 8% Slower than 2008 Recession
  - 3% No Change

- **April – May 2021: SCAG only**: 34 Responses
  - 32% Same as 2008 Recession
  - 56% Faster than 2008 Recession
  - 12% No Change

### Public Safety

- **84 Responses**
  - 44% Same as 2008 Recession
  - 43% Faster than 2008 Recession
  - 6% Slower than 2008 Recession
  - 7% No Change

- **157 Responses**
  - 34% Same as 2008 Recession
  - 41% Faster than 2008 Recession
  - 15% Slower than 2008 Recession
  - 10% No Change

- **38 Responses**
  - 45% Same as 2008 Recession
  - 37% Faster than 2008 Recession
  - 13% No Change
  - 5% Slower than 2008 Recession
Budgets
How has your agency's financial position changed in the last 6 months?

Oct – Dec 2020
All 94 responses
- Worse than pre-COVID: 24%
- Slightly worse than pre-COVID: 27%
- Stable: Same as pre-COVID: 40%
- Slightly better than pre-COVID: 6%
- Much better than pre-COVID: 2%

April – May 2021
All 172 responses
- Worse than pre-COVID: 30%
- Slightly worse than pre-COVID: 35%
- Stable: Same as pre-COVID: 22%
- Slightly better than pre-COVID: 10%
- Much better than pre-COVID: 3%

SCAG only (39 responses)
- Worse than pre-COVID: 23%
- Slightly worse than pre-COVID: 13%
- Stable: Same as pre-COVID: 38%
- Slightly better than pre-COVID: 3%
- Much better than pre-COVID: 3%
Do you expect that your agency will be able to balance its budget in FY 2020-2021?

- **All Agencies**
  - Oct – Dec 2020: 19% Yes, 20% No, 61% Not Sure
  - Apr – May 2021: 10% Yes, 5% No, 85% Not Sure

- **School Districts**
  - Oct – Dec 2020: 20% Yes, 22% No, 59% Not Sure
  - Apr – May 2021: 8% Yes, 2% No, 90% Not Sure

- **Cities**
  - Oct – Dec 2020: 14% Yes, 23% No, 63% Not Sure
  - Apr – May 2021: 11% Yes, 16% No, 74% Not Sure

Total Responses:
- Oct – Dec: 94
- Apr – May: 172
Do you expect that your agency will be able to balance its budget in FY 2020-2021?

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**April – May 2021**

Non-SCAG

- Yes: 84%
- No: 12%
- Not Sure: 4%

SCAG

- Yes: 87%
- No: 5%

Total Responses: Non-SCAG: 133, SCAG: 39

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“It depends on your definition of a balanced budget. If the definition of balanced budget is that available resources are greater than or equal to requirements (expenditures), then the answer is yes. If the definition is solely current resources vs. current requirements, the answer is no.”

– Municipality

“Overall, the fiscal impact was much less than we anticipated.”

– Municipality

“COVID added costs and reduced revenue. The great recession only reduced revenue”

– School District
Local governments have an institutional requirement to balance their budget.

Failure to do so affects debt limits and credit ratings.

Repercussions can lead entities to use strategies to balance their budget like inter-fund transfers to signal fiscal health.

When 12-16% of respondents report that they may not balance their budget, it is notable.
Coping Strategies
Did your agency make any of the following changes to its recent budget for fiscal 2020-2021 in response to COVID-19?

**Oct – Dec 2020**
- Reduce services: 57%
- Defer capital projects: 55%
- Defer maintenance expenditures: 45%
- Restructure services: 36%
- Other: 32%
- Eliminate services: 25%
- Lay off staff: 23%
- Furlough staff: 17%
- Raise money through borrowing/debt: 16%
- Reduce staff salary: 13%
- Increase taxes: 12%
- Increase existing user fees: 10%
- Reduce benefits: 7%
- Defer debt payments: 6%
- Adopt new user fees: 6%
- Reduce retirement contributions: 4%

**April – May 2021**
- Reduce services: 44%
- Restructure services: 42%
- Defer capital projects: 33%
- Defer maintenance expenditures: 31%
- Other: 26%
- Lay off staff: 24%
- Eliminate services: 17%
- Adopt new user fees: 12%
- Raise money through borrowing/debt: 11%
- Increase existing user fees: 11%
- Furlough staff: 9%
- Reduce staff salary: 7%
- Increase taxes: 7%
- Reduce retirement contributions: 4%
- Reduce benefits: 4%
- Defer debt payments: 2%

Number of Responses: 69

Number of Responses: 123
Did your agency make any of the following changes to its recent budget for fiscal 2020-2021 in response to COVID-19?

**Number of Responses:** 94

**Rest of CA**
- Reduce services: 44
- Restructure services: 41
- Lay off staff: 29
- Deferral of maintenance expenditures: 29
- Deferral of capital projects: 29
- Other: 24
- Eliminate services: 17
- Increase existing user fees: 12
- Adopt new user fees: 12
- Raise money through borrowing/debt: 11
- Furlough staff: 9
- Reduce staff salary: 7
- Increase taxes: 7
- Reduce retirement contributions: 5
- Reduce benefits: 4
- Defer debt payments: 1

**SCAG**
- Restructure services: 45
- Reduce services: 45
- Defer capital projects: 38
- Deferral of maintenance expenditures: 31
- Other: 17
- Eliminate services: 14
- Raise money through borrowing/debt: 14
- Adopt new user fees: 10
- Increase existing user fees: 10
- Furlough staff: 10
- Lay off staff: 7
- Increase taxes: 7
- Reduce staff salary: 3
- Reduce benefits: 3
- Defer debt payments: 3
- Defer retirement contributions: 0

**Number of Responses:** 29
In the average week, what share of your agency’s staff worked from home more than three days a week?

April – May 2021

Non-SCAG

- 24% 1-25%
- 23% 26-50%
- 31% 51-75%
- 5% All

SCAG

- 38% 1-25%
- 21% 26-50%
- 23% 51-75%

Total Responses:
Non-SCAG: 132, SCAG: 39

Evidence from other surveys and policies

- September 2020, 59% (US OPM) and 63% (GBC) of federal workers worked from home daily
- April 2021, 3% every day; 43% 1-4 days / week for Treasury workers (NTEU)
- Latest California state government guidance finds that 75% of 230,000 state employees can work from home... but devolves decisions to departments
Transfers and Stimulus Payments
Which intergovernmental transfers have been most affected by the current economic downturn?

Total Responses: Oct – Dec: 30, Apr – May: 67
Which **intergovernmental transfers** have been most affected by the current economic downturn? [SCAG and Non-SCAG Agencies]

Total Responses: Non-SCAG: 52, SCAG: 15
Do you think **COVID-19 stimulus payments** or other transfers will close the revenue shortfall that your agency is expecting during the COVID-19 crisis?

<table>
<thead>
<tr>
<th></th>
<th>Stimulus will help</th>
<th>Stimulus will not help</th>
<th>Not sure</th>
<th>Not expecting a budget shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct–Dec 2020</td>
<td>15%</td>
<td>54%</td>
<td>24%</td>
<td>7%</td>
</tr>
<tr>
<td>Apr–May 2021</td>
<td>69%</td>
<td>9%</td>
<td>6%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Do you think COVID-19 stimulus payments or other transfers will close the revenue shortfall that your agency is expecting during the COVID-19 crisis?

<table>
<thead>
<tr>
<th>Apr-May 2021</th>
<th>Stimulus will help</th>
<th>Stimulus will not help</th>
<th>Not sure</th>
<th>Not expecting a budget shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-SCAG</td>
<td>68%</td>
<td>9%</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>SCAG</td>
<td>78%</td>
<td>6%</td>
<td>0%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Total Responses: Non-SCAG: 127, SCAG: 38
Stimulus payments useful, but burdensome

“Every agency providing funding has a different set of rules or standards on how to document and receive reimbursement.” - Municipality

“The accounting, reporting, and spending restrictions are a lot to manage.” – School District

“The one time monies provided during COVID allowed our small district to make major gains in providing access to our entire school. It kept us from reducing staff and taking on loans to cover the deferrals.”
– School District

“The COVID relief funds provided by the federal government have offset the costs of increasing classified staff supports for the 2020-2021 school year. However, there is no projected relief funds for next year which will decrease the district's ability to maintain current staffing levels and, therefore, staff layoffs will occur for the 2021-2022 school year.”
– School District
Does your agency have a reserve fund policy to use in times of economic downturn or severe fiscal stress?

Oct – Dec 2020
Total Responses: 74

Apr – May 2021
Total Responses: 172

Since March 2020, did your agency need to use funds from your fund reserves to meet expenditure needs?

Oct - Dec 2020
- Yes: 78%
- No: 22%

Apr - May 2021
- Yes: 85%
- No: 15%

Total Responses:
Does your agency have a **reserve fund policy** to used in times of economic downturn or severe fiscal stress?

**Totals**: Non-SCAG: 133, SCAG: 39

**Non-SCAG**
- **86%** Yes
- **14%** No

**SCAG**
- **85%** Yes
- **15%** No

**April – May 2021**

Since March 2020, did your agency need to use funds from your fund reserves to meet expenditure needs?

**Totals**: Non-SCAG: 114, SCAG: 33

**Non-SCAG**
- **49%** No, do not plan to use reserves
- **18%** Not yet, but plan to use in the future
- **32%** Yes

**SCAG**
- **58%** No, do not plan to use reserves
- **21%** Not yet, but plan to use in the future
- **21%** Yes
Summary of Results

• Much of the uncertainty prevalent in the first 6 months of the pandemic was replaced with greater confidence in the fiscal position of agencies.

• Still, a notable share of agencies struggled to balance their budget.

• Most agencies made cuts to personnel and services that may be difficult to recover and used reserves that will need to be replenished.

• The legislation of a Federal stimulus that included explicit provisions for local government boosted confidence in ability to balance budgets.
Discussion

• General Q & A (10 minutes)
• Structured discussion (20 minutes)
Discussion – Budget balancing

• Local government agencies are required to balance their budget.
• The results showed that agencies used many strategies to achieve this goal.
• Given the diversity of strategies, what does it mean to balance a budget?
  o What costs accumulate to make balancing more difficult in the future?
  o Did reserves work as intended? Were they available for the most pressing needs?
  o Are there issues of fiscal literacy for non-finance managers working in local government?
Discussion – Balancing strategies

• As Covid-19 retreats, the focus of local government is shifting to recovery and planning for the future.

• The most frequent strategies agencies used were:
  o Service elimination, reduction or restructuring
  o Defer capital projects or maintenance expenditure
  o Reduce, lay off or furlough staff
  o But not much on the revenue side

• Will the strong financial position of many agencies allow them to return to normal operation and make up for lost time?

• For those that fell behind, will transfers be enough to close the gap and enable recovery of services?
Discussion – Looking to the future

• While some of these strategies were implemented to cut cost, some of them may have longer term benefits to employees and agencies (e.g., option to work from home).

• How likely are these changes to persist? Has the pandemic been an opportunity to restructure beyond emergency response?

• What are the potential costs of such restructuring (e.g., permanent loss of staff)?
Thank you for participating!

Contact us with any questions or comments:

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Thank you to other members of the project team involved in the survey: Marlon Boarnet, Manita Rao, Bonnie Wang, Greg Randolph, Bernadette Davis, Brandon Louie, Sarina Rodriguez, Jada Ho, Emilio Pardi, Ina Morton, and Ellie McKinney

Find out more about the survey and project