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San Francisco Sees \$116 Million Gap as Revenue Falls Short.

- **Higher than expected property taxes helped soften the blow**
- **Voter-approved taxes and changes added \$11 million to budget**

San Francisco's revenue is falling short of forecasts as the economy recovers more slowly from the coronavirus pandemic than the technology hub expected, creating a \$116 million budget shortfall just a few months into its fiscal year.

In a report issued Tuesday by city Controller Ben Rosenfield, revenue is forecast to be \$144 million less than expected in the adopted budget for the year that began in July, largely due to drops in business and hotel taxes. Still, higher than expected property tax collections are softening the blow and boosting reserves by \$21 million.

The city already raided reserves to help plug a \$1.5 billion deficit over the next two years due to the pandemic. Rosenfield's update comes a week after city voters approved new business taxes and changes, which will add a net \$11 million to the budget. Mayor London Breed in October had warned that failure of the measures could lead to service cuts. The budget for the fiscal year was enacted that month, later than usual to deal with the uncertainty amid the pandemic, and the city is already seeing changes to its forecast.

San Francisco's predicament is true for other local governments across the country dealing with the uncertainty of the outbreak and resulting shutdowns. Municipal officials are also hoping for a federal stimulus package, but Congress remains in gridlock. Chicago is planning to raise taxes and lay off workers to plug its record \$1.2 billion gap, and New York City is using \$4 billion in reserves, and warning it may have to lay off as many as 22,000 city workers if it doesn't get federal aid or state approval for borrowing to help close its \$9 billion shortfall.

"The level of uncertainty regarding city revenues and expenditures remains extraordinarily high, driven by the economic and financial impacts of the public health emergency," Rosenfield wrote.

Indeed, the city on Tuesday said it will temporarily roll back the reopening of indoor dining and reduce the capacity of fitness center and theaters after a spike in Covid cases.

By tapping reserves, San Francisco, a city and county of about 880,000 residents, avoided layoffs but the Board of Supervisors approved scheduled raises for city workers against the wishes of the mayor, who called it irresponsible. The two-year general fund budget is about \$6 billion per year.

Rosenfield told the Board of Supervisors Tuesday that another concern is the availability of funds from the Federal Emergency Management Agency, which the city relies on for temporary housing for those at risk of contracting the coronavirus, such as those over age 65 or those who have qualified medical conditions.

The FEMA program, which is dependent upon the executive branch continuing it, can be cut off with 30 days' notice, and is only authorized month to month. "So I don't say that to scare anybody, but only to note that I think there is a significant risk that FEMA will fall away at some point," Rosenfield

said.

Rosenfield's report assumes a vaccine will be available in spring 2021, and widespread adoption by December 2021. It expects a slower rebound in travel and tourism than previously forecast, not returning to pre-pandemic levels until the fiscal year that begins in July 2025.

Another key source of uncertainty is telecommuting, because even if offices can return to full capacity — which they currently aren't — it's unknown if managers will continue to allow employees to work from home as much as possible, according to the report. If remote work returned to its pre-pandemic levels, the city would get \$190 million more in business revenue. San Francisco expects to collect \$3.7 billion in total receipts, down from \$4.4 billion the previous year, according to the report.

Bloomberg Economics

By Romy Varghese

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