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San Francisco-Area Cities Face Precarious Budgets Amid Pandemic.

- **Some cities see revenue fall below estimates for fiscal year**
- **Region vulnerable to losses as companies permit remote work**

San Francisco and several neighboring cities are watching revenue slip more than expected, leaving local leaders grappling with whether the pandemic has permanently transformed their finances.

The effects vary. Oakland must make cuts to close a $62 million shortfall this year, while San Jose may cover its $10 million decline in general-fund revenue with reserves. San Francisco faces a $411 million deficit next year after having largely exhausted one-time measures.

Collectively, the results show that the region, a hub for the technology industry that drove California's economic boom, is struggling with the multiple rounds of state and local orders imposing and relaxing business restrictions to combat the spread of the coronavirus.

The loss of revenue from canceled conventions to fewer lunching downtown workers also underscores the area's vulnerability to the rise of remote work. San Francisco's fiscal analysts last month warned real estate markets like theirs "face an uncertain future" should workers fail to return to their offices as they did before the pandemic. On Tuesday, Salesforce.com Inc., San Francisco's largest private employer and occupant of its tallest tower, said it would permanently embrace more flexible work policies even after the pandemic ends.

That compounds the difficulty facing municipal leaders, who can't predict virus surges and further mandates restricting activities, as they craft budgets. At the same time, companies are still mulling their policies on what kind of workforce and space they should have after the pandemic eases, said Greer Cowan, a research analyst at the Bay Area Council Economic Institute, which focuses on the nine-county region.

"There's so much uncertainty surrounding when it's safe to return to the office and, additionally, both business and employee preference around when they want to return and if they want to return to the office that it makes sense that cities are having a hard time getting a grasp on it," she said.

Municipal-bond analysts are closely watching if anecdotal evidence of workers leaving expensive cities such as New York translates into permanent hits to their economies. Credit rating companies S&P Global Ratings and Fitch Ratings cut their outlooks on San Francisco's ratings to negative from stable, reflecting uncertainty about its recovery given changing work habits and pressure on commercial real estate and tourism.

Here's a snapshot of fiscal conditions by city:

San Francisco:

- $411 million general-fund deficit in the fiscal year starting July 1

- In the second quarter of fiscal year 2020, sales-tax collections fell 43% compared with the same period a year earlier, hotel taxes plunged 93%, and parking taxes dropped 66%
- “If it is no longer necessary to physically bring workers into downtown offices –- or for those workers to live in the Bay Area –- then the consequences for the regional economy could be severe”: city’s 5-year report

San Jose:

- Collections of transient occupancy taxes from July through December are 74% below the amount collected in the same period of the previous year
- City plans to lower its projected revenue from this tax, which include levies on hotel rooms, to $5.5 million from $9 million
- Sales-tax receipts expected to exceed forecast by $20 million to $262.5 million
- Online purchases and construction-related activity driving outperformance while other categories are declining compared to same period previous year
- “Due to uncertainty regarding the timing of when a vaccine will be widely distributed, a steep rise in COVID-19 cases during the fall and winter months, and ongoing social distancing requirements, economic conditions are anticipated to continue to be suppressed during the remainder of 2020-2021”: budget update report

Oakland:

- $62 million general-fund deficit this fiscal year, which ends June 30, driven by police overtime and revenue drops
- Business taxes now forecast for this fiscal year at $83.25 million, 5% less than expected in budget and 15% below the previous year’s collections
- Transient occupancy taxes now budgeted for this fiscal year at $10.5 million, 34% drop from forecast and 46% down from previous year
- “We’ve seen, obviously, some of the big tech companies say they’re never going to require their employees to come back. I don’t think that will hold for every industry, but I think we would not be assuming that everybody’s fully back in their seats on July 1”: City Administrator Edward Reiskin in an interview

Mountain View:

- Sales-tax receipts now estimated for this fiscal year at $18.9 million, 3.5% less than budgeted and 3% less than last year: mid-year report
- Other local levies, including transient occupancy taxes, now estimated this fiscal year 23% less than budgeted and 17% from last year
- “This estimate assumes the earliest recovery period will start this summer for certain categories, such as sales tax and other local taxes, but other revenue categories are not expected to recover until well into the following fiscal year:” report

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