

Special Report:

Navigating the Impacts of the COVID-19 Pandemic on Berkeley's Finances

Today's Discussion:

- Purpose of this special report
- Impact on Berkeley's **economy**
- Impact on Berkeley's **revenues**
- Impact on Berkeley's **expenditures**
- Considerations for decision-making



The COVID-19 pandemic is a public health crisis with social and economic impacts that may last for years.

Response to this economic downturn will require a marathon approach rather than a sprint.

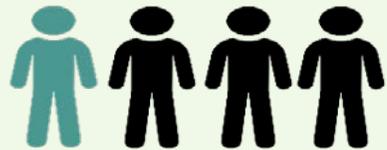
Our purpose is to:

- Provide **long-term** perspective in facing the budget challenges of the pandemic
- Provide **high-level analysis** of information and data available
- Offer **considerations** from government finance experts to help make the tough decisions ahead
- Provide context to **complement** the work of other City departments during this time



Impact on Berkeley's Economy

The shelter-in-place order is significantly impacting Berkeley's **jobs, businesses, and cultural identity.**



27% of Berkeley workers are at high risk of unemployment and many are already unemployed due to the pandemic.

This economic shock is unprecedented—public health risk is driving the severity and duration.

The City is in a relatively strong fiscal position, but will face difficult tradeoffs in order to weather the economic downturn.

Impact to federal and state economies may reduce funding to Berkeley.



Impact on Berkeley's Economy

Without federal and state aid, Berkeley will be stretched to address **unmet needs**.

Some individuals and businesses are left out of federal relief bills or struggle to get benefits, including:

- Undocumented residents
- Small businesses without banking relationships to banks issuing relief loans

Vulnerable residents are disproportionately impacted by the pandemic, including:

- Low income residents
- Undocumented workers
- Seniors
- Unhoused residents
- People in abusive households
- Frontline workers in healthcare, transit, delivery, and grocery services, among others

The closure of UC Berkeley will further impact the local economy.

Nearly 86% of students have moved out of university residences.

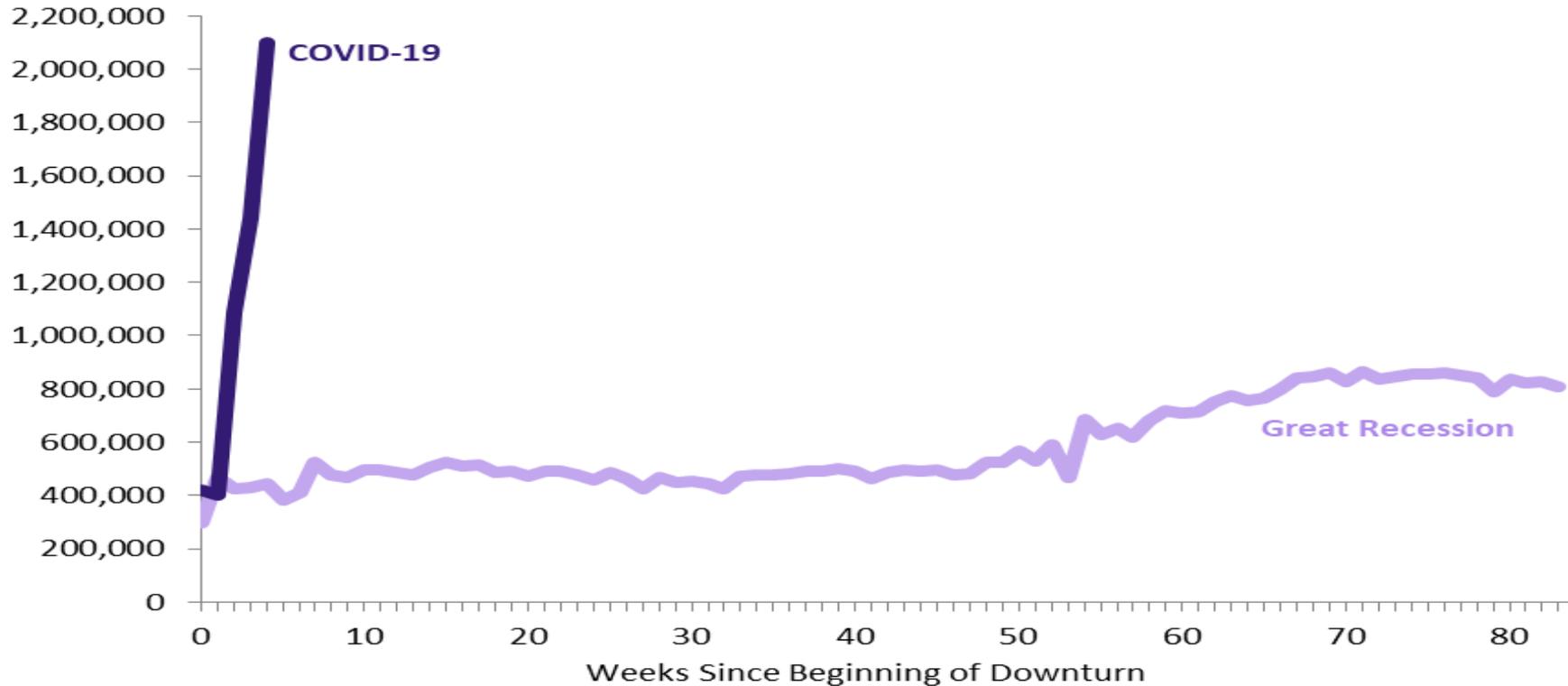
If closures to continue into the fall, businesses that count on income from the university community will suffer, and sales and use tax revenue will decrease.

Impact on Berkeley's Economy

Legislative Analyst Office: **Unemployment** in California worse than Great Recession.

Unemployment Caseload Now More than Double the Worst of the Great Recession

Total number of workers with active claims for unemployment benefits



Impact on Berkeley's Revenues

Revenues will decrease as some expenditures increase.

Revenues from **sales and use tax, property transfer tax, and hotel occupancy tax** will decline in the short term.

Berkeley will see moderate impact on **property tax and business license tax** revenue over the next one to two fiscal years.

Federal and state financial assistance may help cover some costs of the COVID-19 response, but will **not make up for all lost revenues.**

Measure P funding for initiatives to support affordable housing may change to the extent that the pandemic affects property values and sales.

Measure U1 revenues used to assist in housing retention and rapid rehousing for unhoused residents may be impacted to the extent the pandemic affects rental income for owners of five or more residential rental units.

Some actions the City has taken to **assist small businesses and residents will also affect revenue**, such as reducing parking enforcement and temporary stoppage of commercial refuse services.

Impact on Berkeley's Revenues

Revenue Source	% of General Fund	Potential Impact	Estimated First Impact
Property Tax	34%	Likely to change to the extent that COVID-19 affects the housing market and property values	12+ months
Sales and Use Tax	10%	Will decline significantly with restaurants and many other businesses closed or scaled back. Impact will be multiplied if COVID-19 forces UC Berkeley to extend online classes into the fall	Immediately
Business License Tax	10%	Business licenses are taxed based on a percentage of the previous year's gross receipts. This revenue will likely decrease by about 10-15% over the next 2 fiscal years.	12+ months
Property Transfer Tax	6%	During the Great Recession, property transfer taxes declined by 51% and did not rebound until 2016. This revenue will likely not be lost, but deferred.	Immediately
Transient Occupancy Tax (Hotel Tax)	4%	This revenue remained relatively flat during the Great Recession. However, tax revenue will decline now as the shelter-in-place order affects occupancy.	Immediately
Parking and Moving Violations	4%	Berkeley has relaxed parking enforcement to promote social distancing.	Immediately

Impact on Berkeley's Expenditures

Some expenditures are increasing as emergency operations continue and demand for some city services grows.

Berkeley is facing some immediate increases in costs to protect public health and welfare.

COVID-19 will likely increase the cost to provide health insurance and retirement contributions for city employees.

Berkeley has taken immediate action including, but not limited to:

- Establishing the Berkeley Relief Fund for small businesses, residential renters, and arts organizations
- Setting up a COVID-19 testing site for vulnerable community members and essential workers
- Convening a task force to help skilled nursing and long term care facilities to limit the spread of COVID-19 and prepare for an outbreak
- Placing unhoused residents living in shelters into hotel rooms

Considerations for Navigating the Challenges

As revenues decline, the City will need to balance pandemic response with **long-term** financial planning to **reduce overall expenditures**. Experts recommend the City:

- Ensure **social equity** by evaluating the need to support Berkeley's residents, businesses, and community agencies **comprehensively, rather than on a one-at-a-time basis**, so that city resources are distributed fairly and in proportion to the level of need.
- Reduce expenditures to focus on **essential activities** that prioritize **public health and safety**, as well as **community value**.
- Leverage current and potential federal and state aid in a **comprehensive approach** to address needs.
- Coordinate Berkeley's resources to provide aid **not supported by federal and state funding**.
- Take a **long-term view** to spending reserves to make sure enough funds are available to pull the City through a potentially long economic downturn.
- Consider **hiring freeze**, voluntary separations

Considerations for Navigating the Challenges

Experts advise taking a long-term view in spending reserves so that funds will be available for the duration of the downturn.

Use reserves as part of a plan with defined end dates and a specific goal.

Do not rely solely on reserves, but use them in combination with other measures to reduce expenditures and mitigate revenue loss.

Develop multiple scenarios with specific criteria for when and how much of the reserves can be used.

Berkeley is fortunate to have a reserve fund of \$36 million, giving the City more flexibility during economic downturns.

Reserves are made up of:

- **Stability Reserves** for maintaining fiscal stability to address unexpected shortfalls
- **Catastrophic Reserves** for maintaining operations in the case of a public emergency

The City Council established a stronger reserve policy in January 2017 following a City Auditor report. Catastrophic reserve usage policy was adopted in February 2018.

THANK YOU

Thanks to staff in the City Manager's Office, the Budget Office, and the Finance Department for their consultation on this special report.

Thanks also to the dedicated City Council members and city staff working to serve the Berkeley community during this challenging time.



