



CSMFO

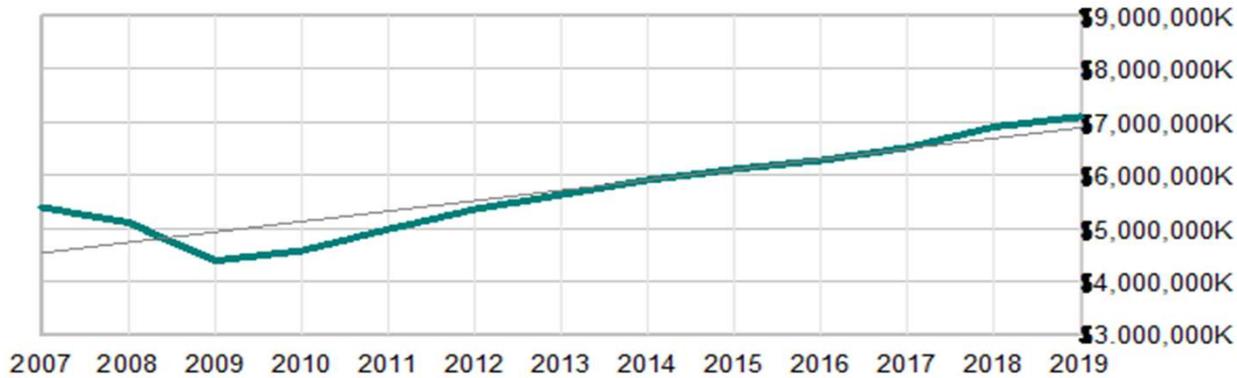
***COVID-19 BEST PRACTICES:
ANALYZING REVENUES***

HdL[®] Companies

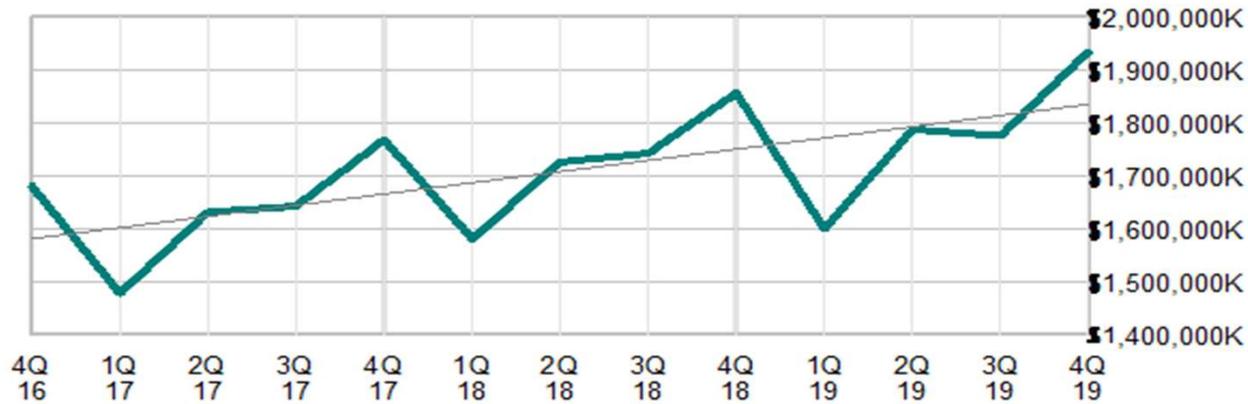
KNOW YOUR STARTING POINT

- Know your base – what moves the needle for your agency's revenues and why so that it can be clearly communicated when necessary
- Draw your starting line – provide others with a common place to start the conversation as difficult as it may be
- Listen to leaders and the community regarding their thoughts and what they may be willing to change – advance think about those perspectives to be ready with possible solutions

BY CALENDAR YEAR – SINCE GREAT RECESSION



LAST 13 QUARTERS



STATEWIDE SALES TAX TRENDS

1% Bradley Burns Local

SALES TAX BY MAJOR INDUSTRY GROUP CALENDAR YEAR

General Consumer Goods
Count: 545,565

State & County Pools

Autos And Transportation
Count: 82,909

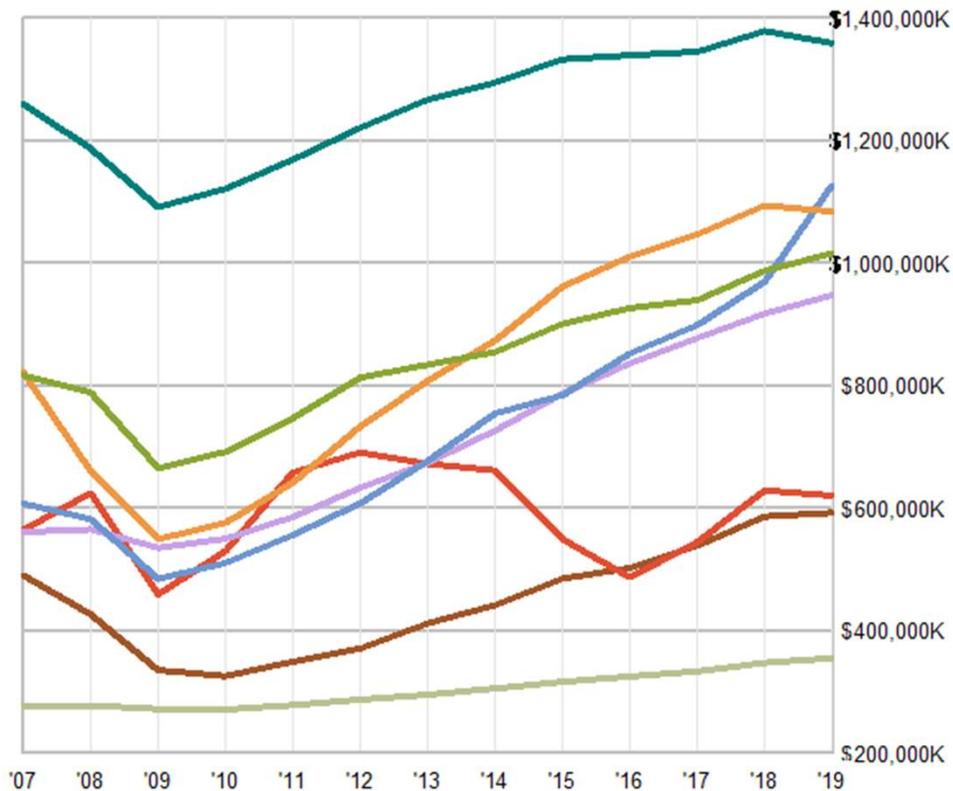
Business And Industry
Count: 353,173

Restaurants And Hotels
Count: 131,598

Fuel And Service Stations
Count: 14,433

Building And Construction
Count: 40,235

Food And Drugs
Count: 45,185

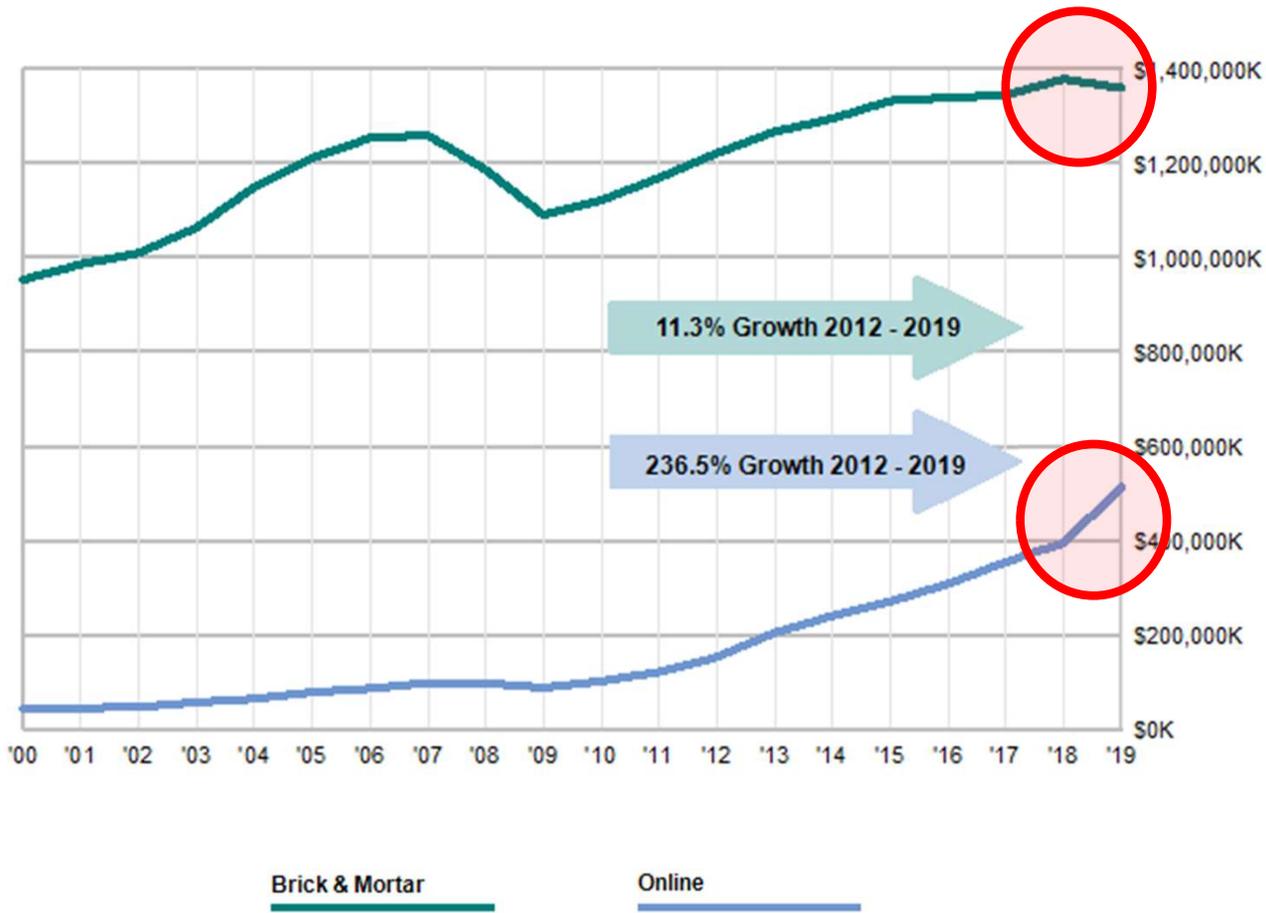


*ADJUSTED FOR ECONOMIC DATA

STATE OF CALIFORNIA

Major Industry Groups
13-Year History

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STATEWIDE POINT OF SALE AND COUNTY USE TAX POOLS

CORONAVIRUS (COVID-19) IMPACTS

IMPACT ON CALIFORNIA SALES TAX AND FORECAST:

- HdL Forecast currently assumes statewide 'shelter-in-place' directive will continue until the end of May 2020 – 2.5 months – Great Shutdown
- Virus runs its course by the end of September (no “return of virus and subsequent economic impacts” factored in)
- Unemployment, household debt (mortgage, credit cards, auto loans) expected to be a lag on economy afterwards
- Local sales & use tax declines are expected to continue through end of 2020, with only moderate gains/re-growth thereafter
- Businesses with tight profit margins (like restaurants) and those carrying heavy debt loads (large retailers) may not be able to recover and eventually close permanently
- Stimulus checks will mostly be spent on food, housing (mortgage/rent) and other essentials – some of which is not taxable

STATEWIDE SALES TAX TRENDS

1% Bradley Burns Local Forecast

1Q20	2Q20	2019/20	2020/21
-7.5%	-36.0%	-9.5%	-1.5%



FY 2020/21 projected to **decrease 10.9%** compared to FY 2018/19

MAJOR INDUSTRY GROUP FORECAST



Autos/Transportation

1Q20 -6% , 2Q20 -55% , 20/21 -6%



Business/Industry

1Q20 -15% , 2Q20 -30% , 20/21 -5%



Fuel/Service Stations

1Q20 -10% , 2Q20 -50% , 20/21 0%



Restaurants/Hotels

1Q20 -10% , 2Q20 -60% , 20/21 -7%



Building/Construction

1Q20 -7% , 2Q20 -40% , 20/21 0%



Food/Drugs

1Q20 5% , 2Q20 5% , 20/21 2%



General Consumer Goods

1Q20 -15% , 2Q20 -45% , 20/21 -3%



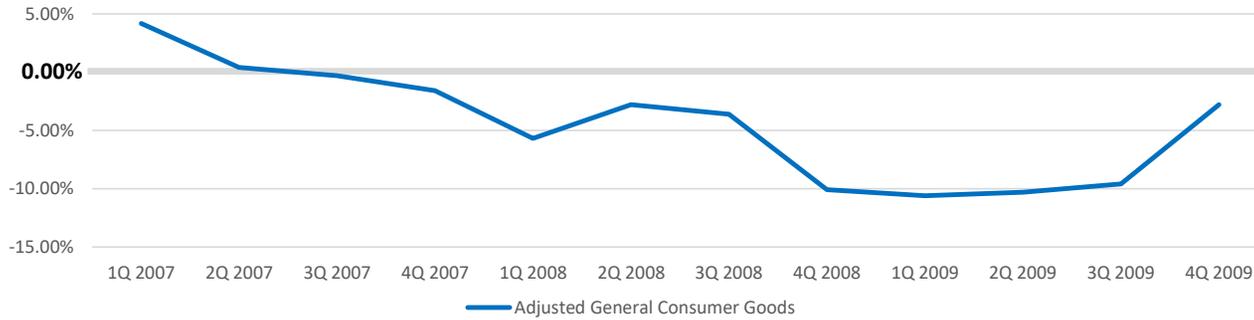
State/County Pools

1Q20 15% , 2Q20 10% , 20/21 7%

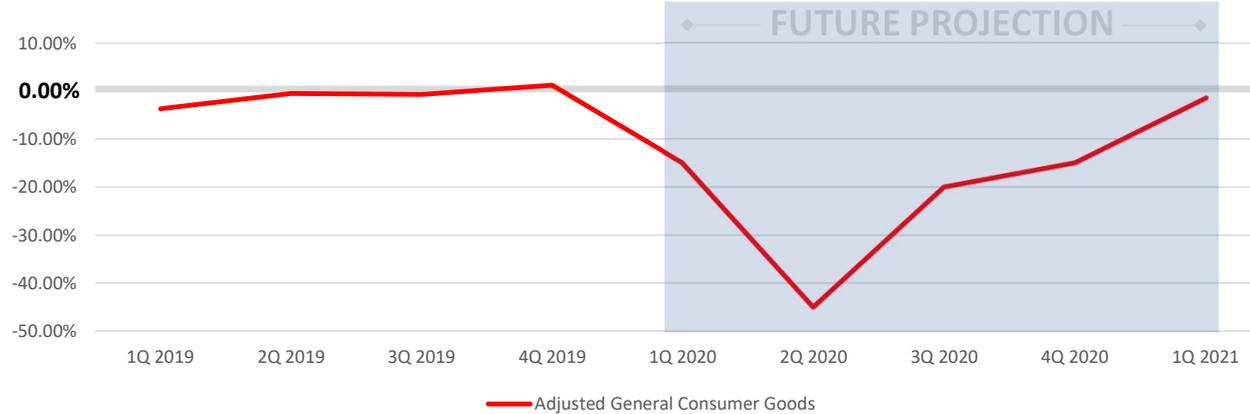
DOES IT COMPARE TO THE GREAT RECESSION?

- Not yet it doesn't... we've never shutdown the US/CA economy
- Great Recession - Dec 2007 – June 2009 – 19 months, spurred by Housing Bubble and subsequent Subprime Mortgage Crisis
- **GR** - gradual decline in global economy to the bottom hurt consumer confidence and unemployment leading to prolonged recovery
- **Now** – sudden/immediate drop, might not create same prolonged damage to consumer confidence and unemployment

GENERAL CONSUMER GOODS 1Q07 - 4Q09



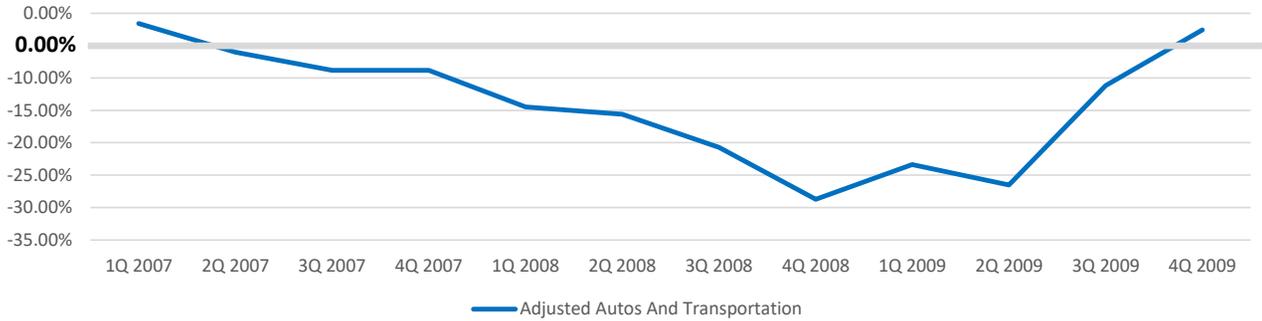
GENERAL CONSUMER GOODS 1Q19 - 1Q21



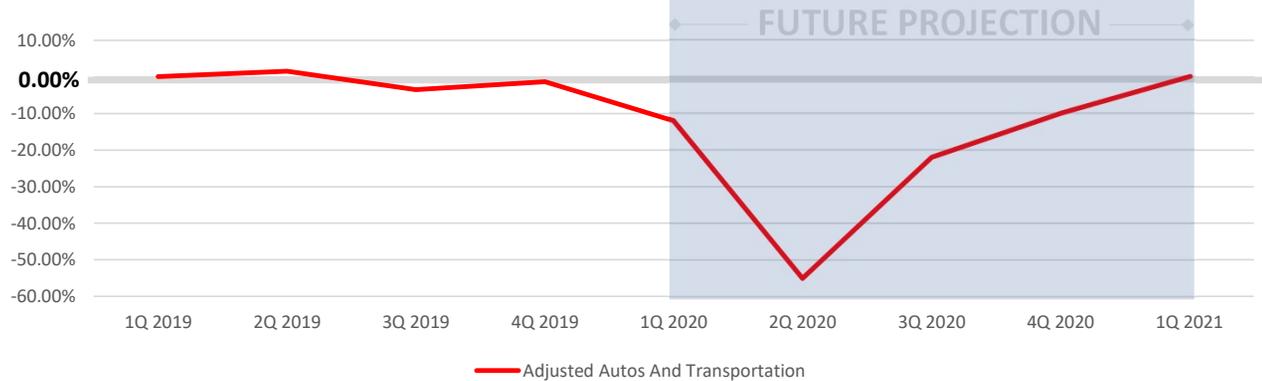
GENERAL CONSUMER GOODS

(PERCENTAGE CHANGE)

AUTO AND TRANSPORTATION 1Q07 - 4Q09



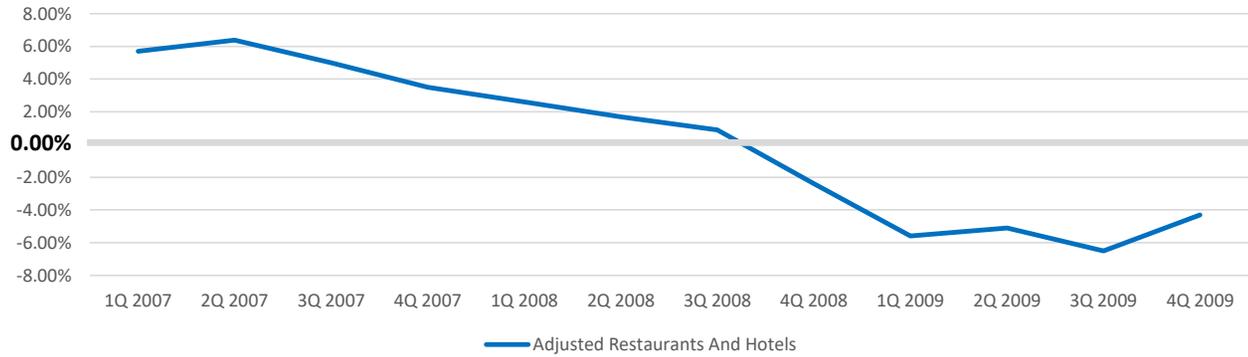
AUTOS AND TRANSPORTATION 1Q19 - 1Q21



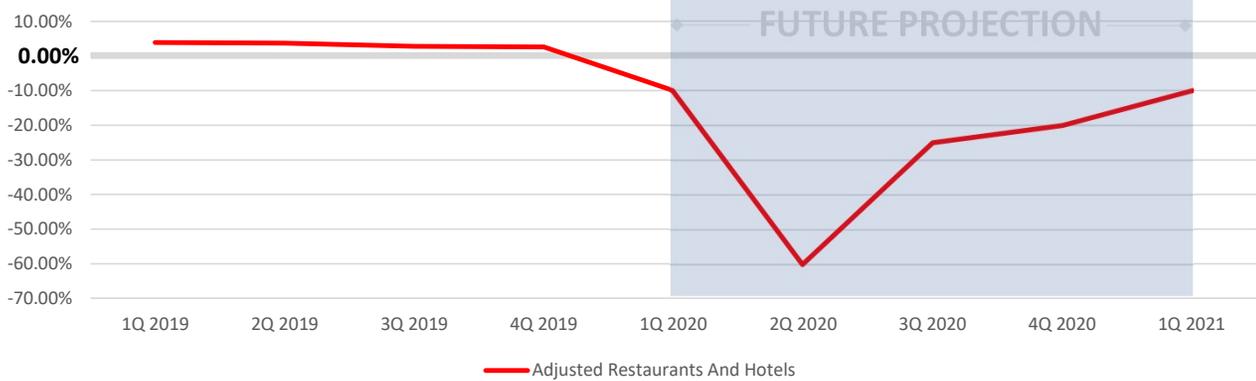
AUTOS AND TRANSPORTS

(PERCENTAGE CHANGE)

RESTAURANT AND HOTEL 1Q07 - 4Q09



RESTAURANTS AND HOTELS 1Q19 - 1Q21



RESTAURANTS

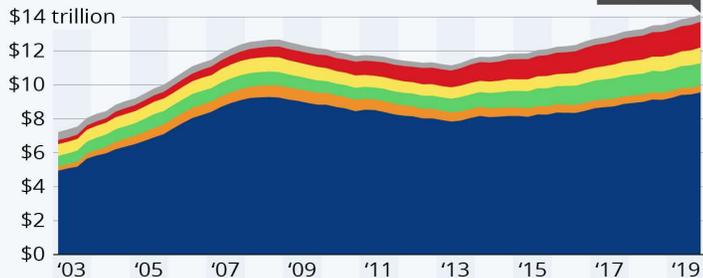
(PERCENTAGE CHANGE)

HOUSEHOLD AND CORPORATE DEBT

U.S. Household Debt Tops \$14 Trillion for the First Time

Total household debt balance in the United States, by category

- Mortgage
- Home Equity Line of Credit
- Auto Loan
- Credit Card
- Student Loan
- Other



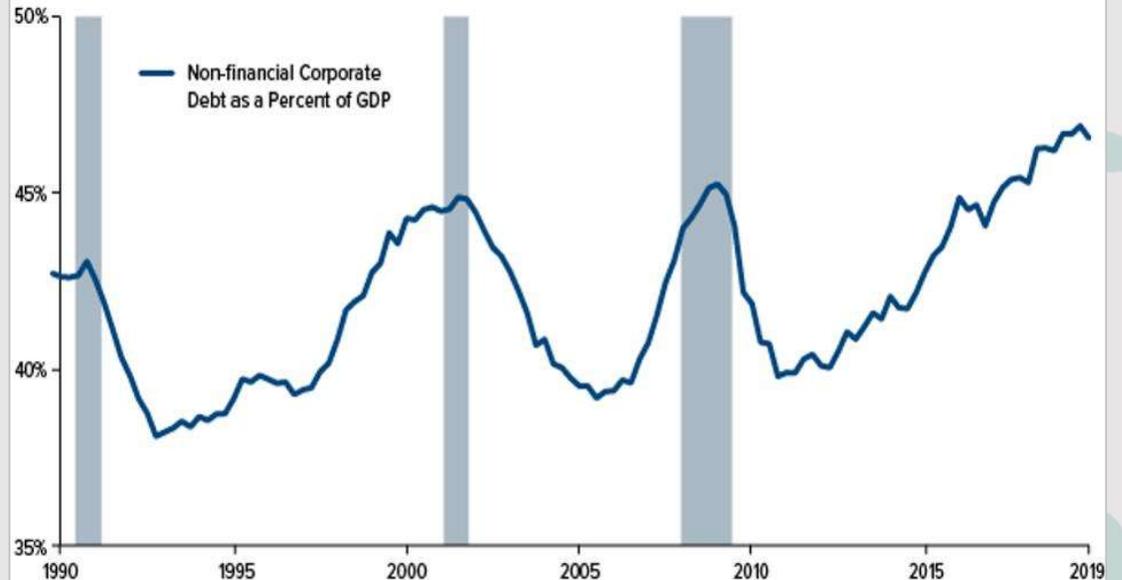
Source: New York Fed Consumer Credit Panel/Equifax



statista

U.S. Corporate Debt Has Climbed to an All-Time High in the Decade Since the Financial Crisis

30-Year Period Through Oct. 2019



Source: Bureau of Economic Analysis, Federal Reserve, U.S. Global Investors

WHAT DOES THE REOPENING LOOK LIKE TO HdL...

- Restaurants and hotels currently closed will need time to staff and stock up
- Summer travel expected to be limited: stay-cations, lack of foreign travelers
- Business travel expected to linger - travel expenses easiest to reduce
- Consumers forced to shop online may change habits going forward, negatively impacting brick and mortar even further
- Auto industry incentives expected motivate car buyers – Cash For Clunkers 2?
- Building - construction not as immediately impacted since large scale development still allowed to continue, low finance rates may increase infrastructure spending
- Gas Station receipts damaged by drop in demand (lack of commuters) causing dramatic price drops to crude oil and gas prices, may continue into 2021 until global supplies are reduced

SALES TAX – SHORT TERM CONCERNS

ECONOMIC RELATED CASHFLOW CONSIDERATIONS:

- March Advance – ‘normal’ due to prepayments from taxpayers
- **April Advance** – advance portion only reduced about 6% by CDTFA - due to number of prepayments and quarterly filings received to date
 - Posted on CDTFA’s website as of April 21 (now)
- **May Clean Up Payment** – will heavily depend on actual amounts collected and returns filed for 1Q20 – when the rubber meets the road
- June-July-August Advance and Clean Up payments – represent 2Q20 activity, much more impacted by shutdown

DEFERRAL IMPACTS

Governor Newsom Executive Order (3/30/20)

- 90-day deferral up to \$1 million in sales tax liability, in effect through 7/31/20, no sign up necessary – if qualify, don't file
- Could move cash from 1Q20 into 2Q20, especially May 2020 into August 2020.
- Since through 7/31/20 (end of 2Q20 filing period), could move cash from 2Q20 into 3Q20. However, 2Q20 actual receipts will be considerably smaller due to shutdown – reducing potential receivable.

DEFERRAL IMPACTS

CDTFA 12-month Installment Program

- For small businesses, \$5 million or less in annual taxable sales
- Defer maximum \$50,000 tax liability, 12-month interest and penalty free, must be paid in full by 7/31/2021
- Must apply for monthly installment plan with CDTFA
- Might first take advantage of 90-day deferral then 12 month installment plan after 7/31/20. Potential to move tax revenue from 1Q20 to 2Q20, then 12 monthly payments afterwards – moving from FY 19-20 into FY 20-21.

OTHER SALES TAX RELATED REVENUE IMPACTED

- Locally adopted Transaction & Use Tax (TUT) measures
 - New measures effective April 1, 2020 – first advance in June 2020
- Countywide Transportation Funding
 - Both Local Transportation Fund (0.25% of base sales tax rate) and countywide TUT's designated for transportation
- Proposition 172 – Public Safety Funding (0.5% of base sales tax rate)
- County Realignment – Public Safety-Mental Health-Welfare (1.5625% of base sales tax rate)

HdL RESOURCES

<https://www.hdlcompanies.com/covid-19>

HdL COMPANIES: *Covid-19 Resources*

LOCAL 1% TAX: *90-Day Extension, \$50k Payment Plan*

COUNTY TRANSPORTATION FUND/LTF: *90-Day Extension, \$50k Payment Plan*

SPECIAL DISTRICTS/TRANSACTION TAXES: *90-Day Extension, \$50k Payment Plan*

PUBLIC SAFETY/PROP 172 - *90-Day Extension, \$50k Payment Plan*

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PROPERTY TAX – ECONOMIC IMPACTS

FY 2019-20 CONSIDERATIONS

- Assessed values were as of January 1, 2019
- Many counties chose not to allow deferrals for April 2020 payments
- Cities that participate in County Teeter Plans may help limit exposure to near term delinquencies

FY 2020-21 CONSIDERATIONS

- Assessed values that were enrolled on January 1, 2020, reflecting Calendar Year 2019 activity, have already been set prior to the shutdown.

PROPERTY TAX – ECONOMIC IMPACTS

- Experienced listings pulled in February by sellers not needing to move, waiting for March real estate data
- Summer moving season will be true test
- Talk to local real estate agents to get timely information
- First impacts – likely supplemental revenues in FY 20-21
- Anticipate slow growth past FY 20-21 until further information is available

TRANSIENT OCCUPANCY TAX (TOT)

- HdL client data shows 60% drop in revenue through March
- 90% of hotels in US are franchised
 - Possible shuttering of properties as franchisees will be stressed by lenders
- 70% of hotel employees laid off or furloughed
(American Hotel and Lodging Assoc)
- Phased reopening expected for resorts and destination locations
- Communication with local hotels key to forecasting
- Cities asked for deferrals, not recommended but can require to file a return to track a receivable

BUSINESS LICENSE TAX

- Revenue impacts dependent on:
 - Fee structure - HdL Clients – 60% gross receipts (more impacted), 40% employee based or flat fee
 - Timing of fee renewals:
 - annually (calendar year/original month of application)
 - monthly
- Many cities enacted/considering deferring fees – monthly structure will incur bigger impact



Thank you!

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