

CLAIRE BARTELS
DIRECTOR of FINANCE
CITY TREASURER

CITY OF LOS ANGELES
CALIFORNIA



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MAYOR

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May 7, 2020

The Honorable Members of the Budget and Finance Committee
c/o Office of the City Clerk
City Hall, Room 395
Attention: Mandy Morales

**OFFICE OF FINANCE: FISCAL YEAR 2020-21 REVENUE IMPACT OF COVID-19
(CF: 20-0500 / 20-0600)**

Dear Honorable Members,

Please find attached the report from Office of Finance regarding the revenue impacts for the current and upcoming fiscal years related to the COVID-19 situation as requested by CF: 20-0500 and 20-0600.

We very much appreciate the ability to further discuss our findings and remain available for your questions.

Sincerely,

Claire Bartels
Director of Finance / City Treasurer

Attachment

cc: Matthew Szabo, Office of the Mayor
Miguel Sangalang, Office of the Mayor
Andrew Kaplan, Office of the Mayor
Council President Nury Martinez, Council District 6
Matt Hale, Council District 2
Richard H. Llewellyn, City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Office of Finance Executive Staff



ATTACHMENT

Summary

The Office of Finance administers the collection of taxes and permits totaling \$2.5 Billion annually. The majority of this revenue is related to the following taxes:

- Los Angeles City Business Tax
- Sales and Use Taxes (forwarded by the State of California)
- Transient Occupancy Taxes
- Parking Occupancy Taxes
- Real Property Transfer Taxes (forwarded by LA County)
- Utility User's Taxes for Electricity, Natural Gas, and Communications

Current 2019-20 Fiscal Year Outlook

The current revenue outlook for FY 19-20 published in the proposed FY 20-21 budget plan for these taxes is \$2.446 billion. The Office of Finance estimates that revenues across these taxes would be \$2.416 billion for this fiscal year. The \$30 million shortfall is largely attributed to lower electric utility user tax receipts and predicted reductions in sales tax transfers from the state for the remaining two months of the current fiscal year.

	Finance Forecasted	Revenue Outlook	(+/-)
Parking Occupancy Tax	\$ 102.0	\$ 102.0	\$ -
Transient Occupancy Tax	\$ 280.0	\$ 272.7	\$ 7.3
Sales Tax	\$ 554.0	\$ 586.5	\$ (32.5)
Real Property Transfer Tax	\$ 210.8	\$ 215.8	\$ (5.0)
UUT - Communications	\$ 126.0	\$ 126.6	\$ (0.6)
UUT - Gas	\$ 75.5	\$ 74.1	\$ 1.4
UUT - Electric	\$ 413.5	\$ 440.3	\$ (26.8)
Business Tax	\$ 654.0	\$ 627.9	\$ 26.1
Total	<u>\$ 2,415.8</u>	<u>\$ 2,445.9</u>	\$ (30.1)

Los Angeles City Business Tax

The current FY budget target for business tax receipts is \$627.9 million including \$73.2 million in cannabis related business tax collections. At this point in time Finance projects that FY 19-20 business taxes collections will total \$654.0 million.

Non-Cannabis related business taxes

Finance has collected \$546.1 million in non-cannabis related business taxes as of May 1 including payments for the 2020 annual business tax renewal due on March 3.

Finance is currently following up with businesses that failed to renew as part of a second renewal mailing and Notice of Hearing process along with field enforcement staff individually contacting non-responding businesses that paid significant taxes in 2019.

The standard approach used by Finance to effect these collections in past years was to perform one full Notice of Hearing mailing with a 10-day response period for all non-responding businesses followed by site visits conducted by enforcement staff for businesses still not responding to verify continued operations and seeking reporting of prior year receipts and related payment.

The COVID-19 situation has impacted the ability for Finance customer service staff to assist the large numbers of responding businesses normally associated with a full Notice of Hearing mailing and field enforcement staff cannot perform site visits to businesses as a result of social distancing requirements and closure of businesses deemed non-essential. Finance has restructured its approach this year by implementing an ongoing Notice of Hearing which targets subsets of non-responding businesses each week over a 10-week period which will reduce the customer service requirements to a level than can be supported by available staff. Field enforcement teams are also performing follow-up with individual businesses but are doing so now, upfront, and in conjunction with the Notice of Hearing mailings, remotely via phone and/or e-mail. Finance is anticipating that we will still be able to complete both these tasks before the end of the current fiscal year and collect at least \$20 million within that timeframe.

Additional business tax receipts from audit activities and collection operations is estimated at \$5 million. Approximately 1/3rd of audits currently selected have been postponed due to those businesses being closed or otherwise significantly impacted by COVID-19. Audit staff have adjusted audit assignments to focus on the remaining 2/3rd of businesses while limiting new audit targets to firms that fall into essential industries. Finance's debt collection activity has been noticeably impacted by the current situation with a much higher percentage of firms with outstanding debt citing financial hardships impacting their ability to pay. This trend has also been cited by the debt collection agencies contracted by the department.

Cannabis related business taxes

Finance has collected \$65.5 million in cannabis related business taxes as of May 1. There are two more monthly renewal periods this current fiscal year and each period typically results in \$6 million in receipts. There are also \$6M in outstanding payments related to firms which can only remit payment in cash but have been unable to do so as a result of the COVID-19 closures for Finance's cannabis cash acceptance unit. It is anticipated that Finance will be able to resume acceptance of cash payments in some fashion prior to the end of this fiscal year to facilitate these and future renewal cash payments for cannabis. This cumulative \$18 million in additional cannabis business tax collections would bring the fiscal year total to \$83.5 million.

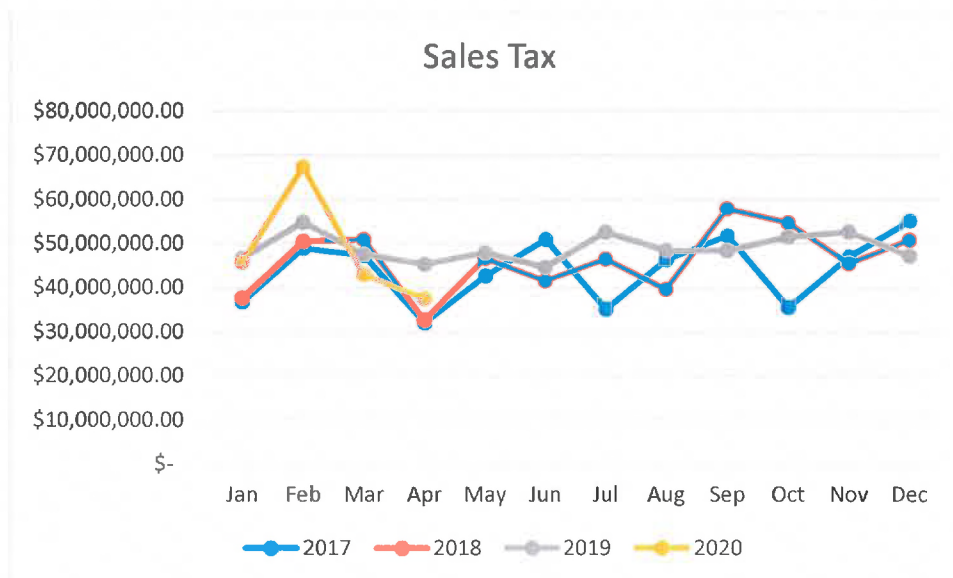
Sales and Use Taxes (forwarded by the State of California)

The current FY budget target for sales tax receipts is \$586.5 million. At this point in time Finance projects that FY 19-20 sales tax collections will total \$554.0 million. Finance has collected \$492.8 million in sales tax receipts as of May 1 with two more monthly sales tax payment transfers from the state scheduled before June 30. It is estimated that these transfers will be 34% lower than the prior year same month totals if the mid-March impacts included in the April payments remain consistent.

Sales tax payment transfers were 10% lower in March compared to the same month of the year prior and down 17% in April compared to that month of the prior year.

Monthly Sales Tax Receipts (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 36,691,700.00	\$ 37,648,000.00	\$ 46,634,695.14	\$ 45,680,038.51	-2%
Feb	\$ 48,866,800.00	\$ 50,448,900.00	\$ 54,872,731.75	\$ 67,235,965.52	23%
Mar	\$ 47,240,634.88	\$ 50,927,237.46	\$ 47,545,217.94	\$ 42,987,624.39	-10%
Apr	\$ 32,033,900.00	\$ 32,623,200.00	\$ 45,277,711.72	\$ 37,399,189.00	-17%
May	\$ 42,644,000.00	\$ 46,606,927.86	\$ 47,915,970.49		
Jun	\$ 50,881,682.47	\$ 41,478,069.16	\$ 44,549,411.00		
Jul	\$ 35,137,000.00	\$ 46,463,712.36	\$ 52,614,987.12		
Aug	\$ 46,335,400.00	\$ 39,594,454.08	\$ 48,370,037.08		
Sep	\$ 51,764,718.72	\$ 57,840,500.46	\$ 48,328,052.41		
Oct	\$ 35,464,600.00	\$ 54,699,497.31	\$ 51,412,981.85		
Nov	\$ 46,992,800.00	\$ 45,461,679.83	\$ 52,603,673.14		
Dec	\$ 55,073,314.55	\$ 50,759,200.15	\$ 47,150,766.00		



Transient Occupancy Taxes

The current FY budget target for transient occupancy tax receipts is \$272.7 million. At this point in time Finance projects that FY 19-20 transient occupancy tax collections will total \$280.0 million. This total includes \$228.6 million in receipts from hotels and \$51.4 million in short-term rental related receipts.

Finance has collected \$265.3 million in total transient occupancy taxes as of May 1 including \$220.2 million in receipts from hotels and \$45.2M in short-term rental related receipts. Monthly receipts have declined by 11% and 77% for February and March in comparison to those same months in the prior year. This includes declines in short-term rental receipts of 24% and 118% with hosting platforms reporting negative receipts for the first time in the month of March.

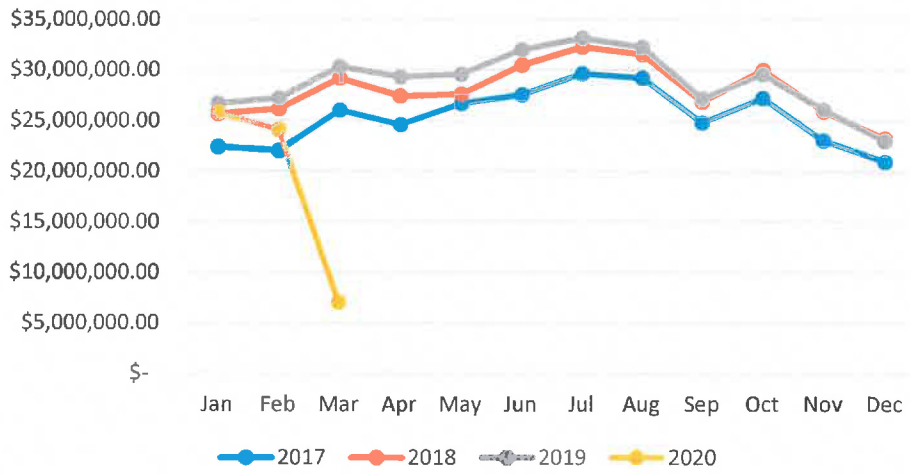
The tourism and travel industry has been significantly impacted by the COVID-19 situation as many countries have introduced curfews and travel restrictions to contain the spread of the virus, worldwide travel has come to an almost complete standstill as of April 2020. While airlines are seeing an unprecedented drop in passengers, other branches of the tourism industry are facing similar setbacks, ranging from closures in the food and drink industry to decreasing guest numbers in the accommodation industry.

The U.S. Travel Association and Oxford Economics has projected that the US will suffer a \$519 billion decline in direct travel spending translating into \$1.2 trillion in lost economic output - a financial impact 9 times worse than 9/11. Over the next two months, the travel industry is set to suffer an 81% fall in revenue while a 45% decline is expected for the entire year. The CBRE Group has also reported that they expect demand rate for rooms in Los Angeles County to decrease by 50% in comparison to 2019 totals. Tourism Economics has projected that overall travel spending in the State of California will drop by 50% in 2020 compared to the prior year with spending in December still 33% lower than that month in the prior year.

Monthly Transient Occupancy Tax Receipts – All Sources (2017-Current)

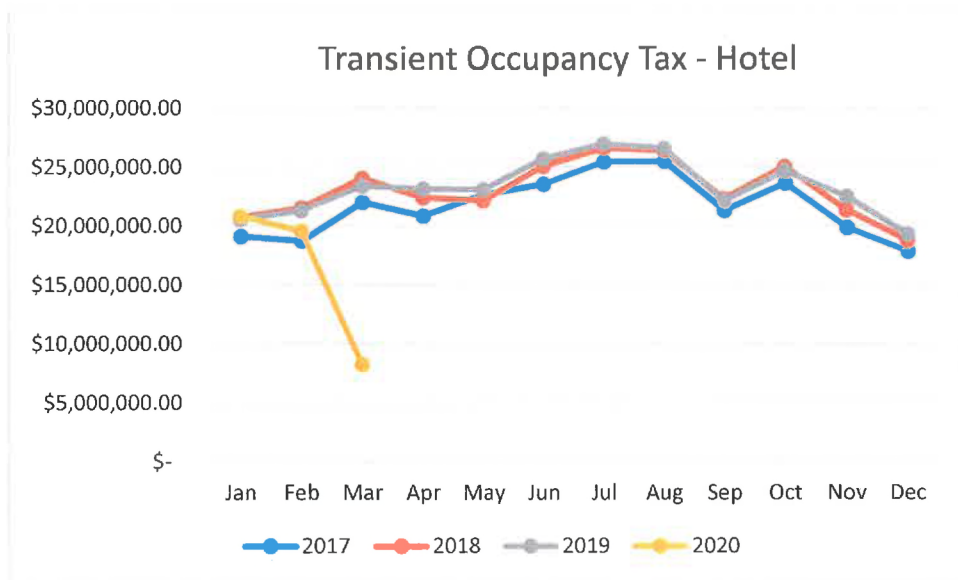
	2017	2018	2019	2020	
Jan	\$ 22,428,460.55	\$ 25,686,068.77	\$ 26,673,318.94	\$ 25,789,540.34	-3%
Feb	\$ 22,042,060.95	\$ 26,162,489.65	\$ 27,223,343.45	\$ 24,096,212.29	-11%
Mar	\$ 26,015,324.98	\$ 29,193,951.84	\$ 30,366,118.96	\$ 7,007,107.61	-77%
Apr	\$ 24,614,096.62	\$ 27,433,779.37	\$ 29,341,976.33		
May	\$ 26,696,138.27	\$ 27,604,770.96	\$ 29,587,708.65		
Jun	\$ 27,545,219.94	\$ 30,477,769.48	\$ 32,039,709.69		
Jul	\$ 29,621,597.47	\$ 32,279,762.33	\$ 33,177,806.62		
Aug	\$ 29,229,544.56	\$ 31,552,694.66	\$ 32,268,133.07		
Sep	\$ 24,801,062.12	\$ 26,879,107.90	\$ 27,191,249.73		
Oct	\$ 27,230,579.18	\$ 30,019,203.82	\$ 29,589,817.97		
Nov	\$ 23,008,678.75	\$ 25,920,702.13	\$ 26,096,813.43		
Dec	\$ 20,922,411.13	\$ 23,225,355.23	\$ 23,025,788.15		

Transient Occupancy Tax - All Sources



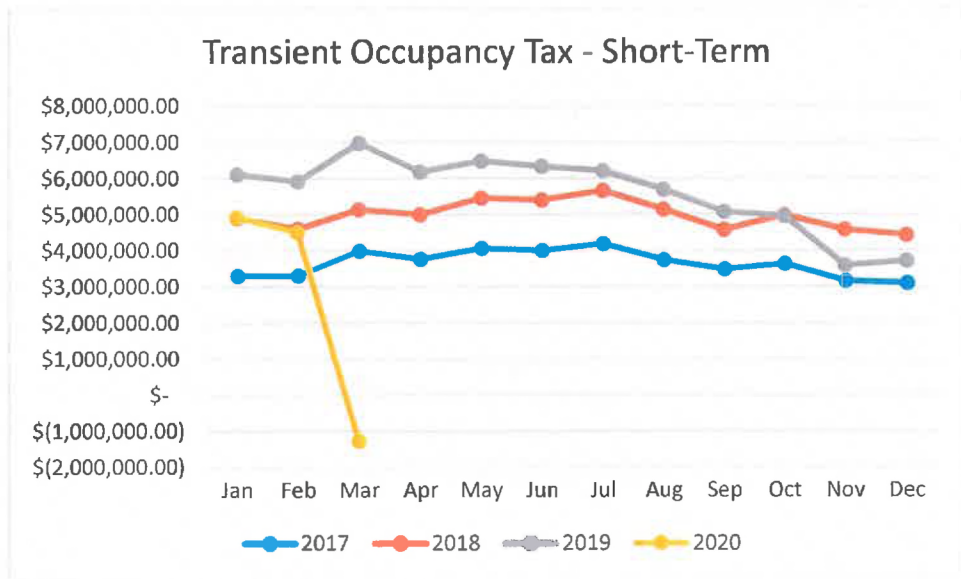
Monthly Transient Occupancy Tax Receipts – Hotels (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 19,128,782.77	\$ 20,780,302.98	\$ 20,565,064.66	\$ 20,857,207.83	1%
Feb	\$ 18,726,928.70	\$ 21,560,555.96	\$ 21,302,724.43	\$ 19,586,737.53	-8%
Mar	\$ 22,024,397.47	\$ 24,054,174.36	\$ 23,385,527.62	\$ 8,277,504.26	-65%
Apr	\$ 20,850,586.23	\$ 22,432,906.39	\$ 23,158,445.72		
May	\$ 22,636,947.58	\$ 22,149,115.42	\$ 23,107,437.03		
Jun	\$ 23,541,180.79	\$ 25,070,306.79	\$ 25,706,071.28		
Jul	\$ 25,433,121.46	\$ 26,614,627.28	\$ 26,967,133.75		
Aug	\$ 25,493,873.40	\$ 26,415,526.06	\$ 26,583,325.12		
Sep	\$ 21,321,770.02	\$ 22,301,475.67	\$ 22,121,578.13		
Oct	\$ 23,601,286.62	\$ 25,033,661.59	\$ 24,631,196.38		
Nov	\$ 19,853,072.29	\$ 21,346,349.79	\$ 22,509,464.35		
Dec	\$ 17,830,446.14	\$ 18,799,305.32	\$ 19,312,504.77		



Monthly Transient Occupancy Tax Receipts – Short-term Rentals (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 3,299,677.78	\$ 4,905,765.79	\$ 6,108,254.28	\$ 4,932,332.51	-19%
Feb	\$ 3,315,132.25	\$ 4,601,933.69	\$ 5,920,619.02	\$ 4,509,474.76	-24%
Mar	\$ 3,990,927.51	\$ 5,139,777.48	\$ 6,980,591.34	\$ (1,270,396.65)	-118%
Apr	\$ 3,763,510.39	\$ 5,000,872.98	\$ 6,183,530.61		
May	\$ 4,059,190.69	\$ 5,455,655.54	\$ 6,480,271.62		
Jun	\$ 4,004,039.15	\$ 5,407,462.69	\$ 6,333,638.41		
Jul	\$ 4,188,476.01	\$ 5,665,135.05	\$ 6,210,672.87		
Aug	\$ 3,735,671.16	\$ 5,137,168.60	\$ 5,684,807.95		
Sep	\$ 3,479,292.10	\$ 4,577,632.23	\$ 5,069,671.60		
Oct	\$ 3,629,292.56	\$ 4,985,542.23	\$ 4,958,621.59		
Nov	\$ 3,155,606.46	\$ 4,574,352.34	\$ 3,587,349.08		
Dec	\$ 3,091,964.99	\$ 4,426,049.91	\$ 3,713,283.38		



Parking Occupancy Taxes

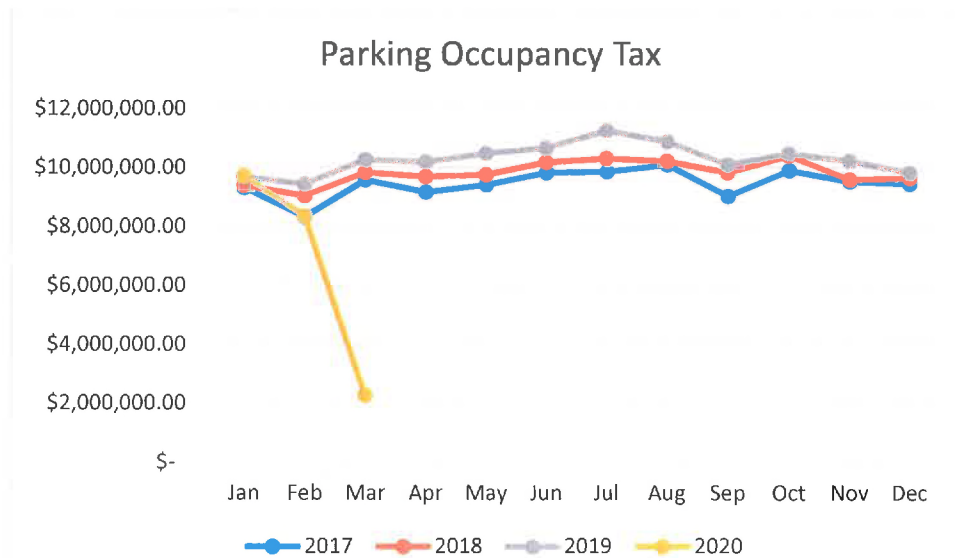
The current FY budget target for parking occupancy tax receipts is \$102.0 million. At this point in time Finance projects that FY 19-20 parking occupancy tax collections will total \$102.0 million.

Finance has collected \$99.0 million in total transient occupancy taxes as of May 1. Monthly receipts have declined by 12% and 78% for February and March in comparison to those same months in the prior year. Some parking operators have established installment agreement payment plans to extend the timeframe of their payment obligations in order to meet operational cash flow needs.

For municipalities, a major and possibly lasting impact is a reduction in parking demand and revenue. The parking software company, Smarking, randomly selected 541 garages across the nation and found a reduction between 50 to 70 percent for commuter/monthly facilities and up to 95 percent for visitor/transient parking compared to the activity level at the same time last year. There is also a reduction in revenue from parking enforcement from fewer parkers and from communities stopping or relaxing enforcement.

Monthly Parking Occupancy Tax Receipts (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 9,318,627.80	\$ 9,397,867.66	\$ 9,671,639.06	\$ 9,716,542.05	0%
Feb	\$ 8,331,935.84	\$ 9,046,982.09	\$ 9,445,704.60	\$ 8,348,809.47	-12%
Mar	\$ 9,583,644.81	\$ 9,843,599.18	\$ 10,274,852.08	\$ 2,281,317.19	-78%
Apr	\$ 9,164,155.88	\$ 9,696,484.50	\$ 10,192,549.49		
May	\$ 9,417,279.02	\$ 9,763,540.76	\$ 10,484,481.02		
Jun	\$ 9,824,793.62	\$ 10,188,094.64	\$ 10,672,936.76		
Jul	\$ 9,863,416.78	\$ 10,314,260.56	\$ 11,259,657.77		
Aug	\$ 10,103,976.05	\$ 10,233,372.97	\$ 10,893,879.94		
Sep	\$ 9,041,147.51	\$ 9,837,517.47	\$ 10,108,384.89		
Oct	\$ 9,902,320.34	\$ 10,418,528.70	\$ 10,480,279.94		
Nov	\$ 9,520,106.75	\$ 9,602,778.35	\$ 10,226,677.74		
Dec	\$ 9,445,950.55	\$ 9,659,082.85	\$ 9,826,577.29		



Real Property Transfer Taxes (forwarded by LA County)

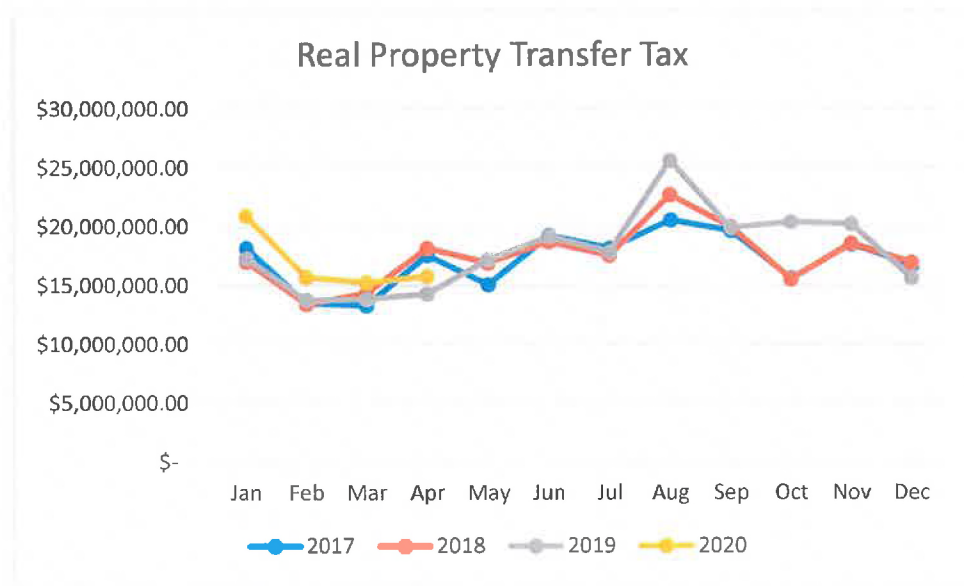
The current FY budget target for real property transfer tax receipts is \$215.8 million. At this point in time Finance projects that FY 19-20 real property transfer tax collections will total \$210.8 million.

Finance has collected \$187.4 million in real property transfer taxes as of May 1. Finance is estimating that receipts will be down to \$11.7 million for each of the remaining two reporting months this fiscal year.

The California Association of Realtors has reported that Southern California sales are down 28% since early March with related showings and mortgage applications also dropping. Daily new home sale listings have dropped 22% in Los Angeles in that same period. Pending sales are slowly increasing so there are possible signs of activity stabilizing.

Monthly Real Property Transfer Tax Receipts (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 18,202,034.85	\$ 17,055,749.00	\$ 17,291,513.30	\$ 20,943,171.78	21%
Feb	\$ 13,511,482.25	\$ 13,467,617.00	\$ 13,779,561.83	\$ 15,720,289.70	14%
Mar	\$ 13,310,344.80	\$ 14,339,392.13	\$ 13,865,861.81	\$ 15,277,979.40	10%
Apr	\$ 17,560,380.50	\$ 18,209,320.40	\$ 14,307,061.39	\$ 15,791,068.05	10%
May	\$ 15,083,670.65	\$ 16,919,414.05	\$ 17,191,765.92		
Jun	\$ 19,246,872.55	\$ 18,730,572.05	\$ 19,164,507.13		
Jul	\$ 18,167,863.05	\$ 17,578,418.28	\$ 17,863,840.53		
Aug	\$ 20,543,674.03	\$ 22,703,024.39	\$ 25,609,390.38		
Sep	\$ 19,644,654.69	\$ 19,990,512.85	\$ 19,916,365.10		
Oct	\$ 15,582,844.15	\$ 15,511,833.30	\$ 20,399,103.85		
Nov	\$ 18,481,049.85	\$ 18,557,861.91	\$ 20,230,713.41		
Dec	\$ 16,707,565.20	\$ 16,932,098.51	\$ 15,612,098.90		



Utility Users Taxes for Electricity, Natural Gas, and Communications

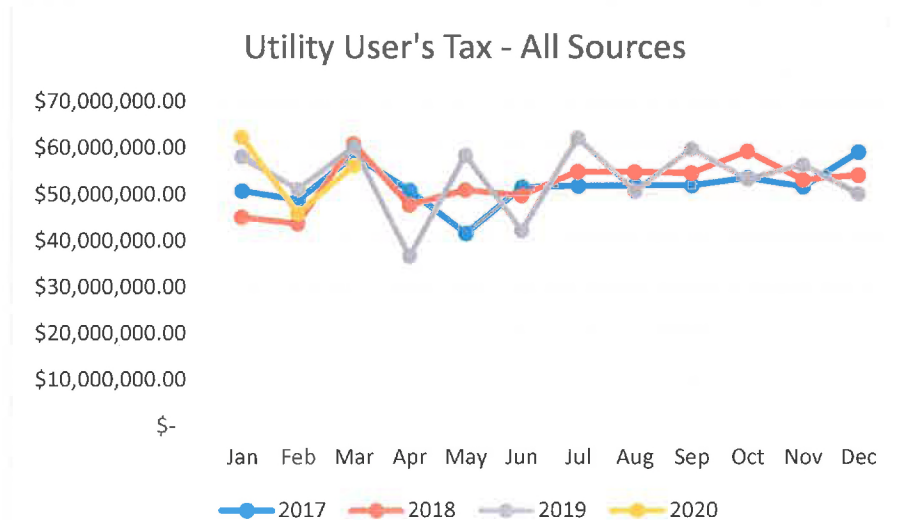
The current FY budget target for utility user tax receipts is \$641.0 million including \$440.3 million in electric user tax, \$74.1 million in gas user tax, and \$126.6 million in communications user tax receipts. At this point in time Finance projects that FY 19-20 utility users tax collections will total \$615.0 million. This total includes \$413.5 million in receipts from electric user taxes, \$75.5 million from gas user taxes and \$126.0 million in communications users tax related receipts. The revised estimate for total electric user tax receipts was provided by the Los Angeles Department of Water and Power.

Finance has collected \$550.3 million in utility user taxes as of May 1 including \$369.8 million in receipts from electric user taxes, \$71.0 million from gas user taxes and \$109.5 million in communications user tax related receipts.

U.S. electricity demand last week plunged to a 16-year low as offices shut and industrial activity slowed sharply with government travel and work restrictions to slow the coronavirus spread, according to analysts and the Edison Electric Institute (EEI) trade group. EIA said it expected power sales to the commercial sector to drop by 4.7% in 2020 as many businesses close, while industrial demand will fall by 4.2% as factories shut or reduce output. EIA said it expects total U.S. power consumption to decline by 3% in 2020 before rising almost 1% in 2021.

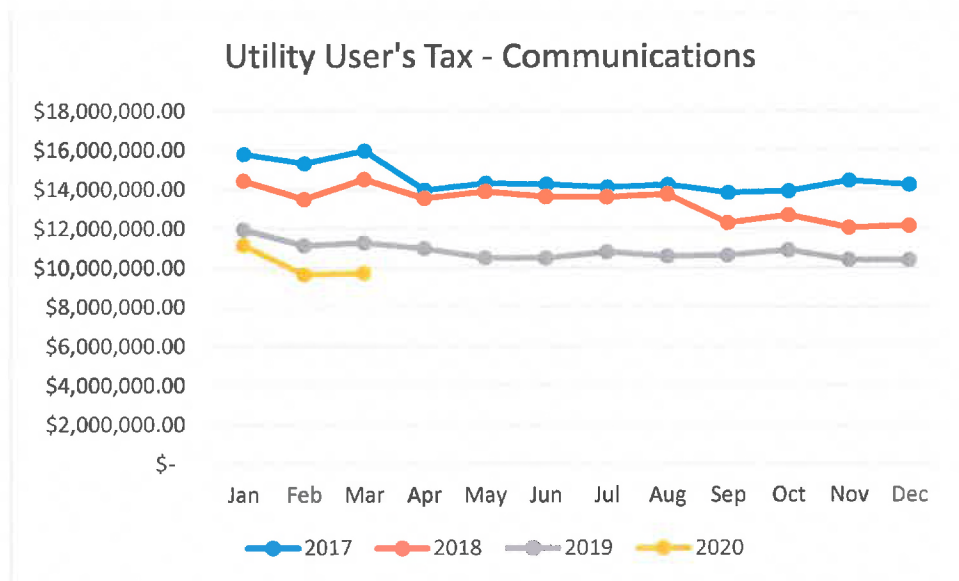
Monthly Utility User Tax Receipts – All Sources (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 50,769,766.73	\$ 45,152,680.50	\$ 58,186,029.15	\$ 62,460,389.06	7%
Feb	\$ 48,862,217.01	\$ 43,764,536.52	\$ 51,168,760.60	\$ 45,985,984.92	-10%
Mar	\$ 58,359,448.49	\$ 60,973,806.25	\$ 60,230,671.15	\$ 56,154,108.11	-7%
Apr	\$ 50,847,249.34	\$ 47,776,325.47	\$ 36,688,266.06		
May	\$ 41,619,532.42	\$ 51,011,343.43	\$ 58,412,394.51		
Jun	\$ 51,596,927.45	\$ 49,827,517.44	\$ 42,252,100.57		
Jul	\$ 51,898,623.68	\$ 54,915,765.00	\$ 62,234,244.52		
Aug	\$ 51,930,501.35	\$ 54,859,569.88	\$ 50,691,133.62		
Sep	\$ 51,984,313.42	\$ 54,645,140.85	\$ 59,832,086.85		
Oct	\$ 53,619,039.62	\$ 59,314,355.85	\$ 53,310,526.77		
Nov	\$ 51,699,928.67	\$ 53,207,265.88	\$ 56,457,802.76		
Dec	\$ 59,097,529.38	\$ 54,158,026.07	\$ 50,148,819.18		



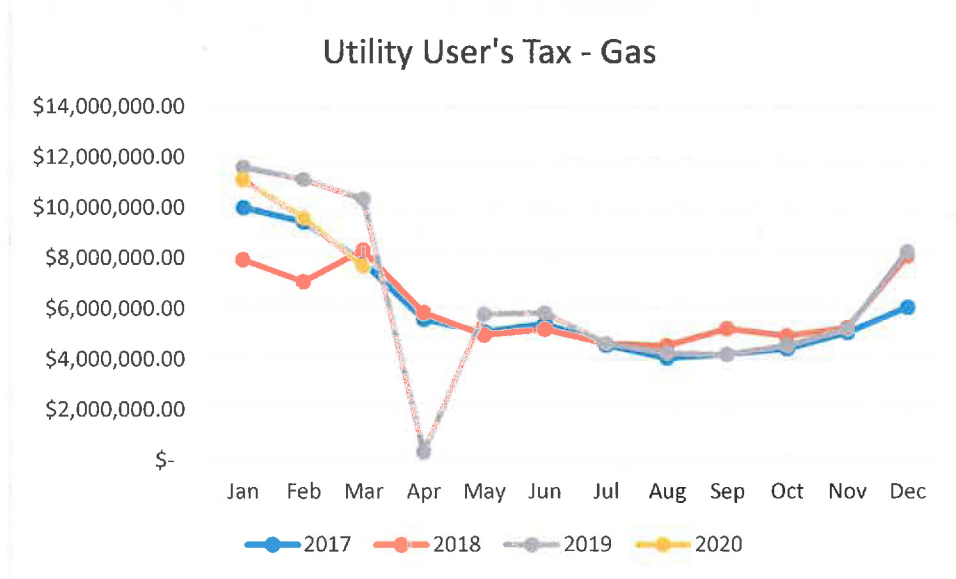
Monthly Utility User Tax Receipts – Communications (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 15,782,708.26	\$ 14,435,584.15	\$ 11,948,338.97	\$ 11,157,430.44	-7%
Feb	\$ 15,311,894.06	\$ 13,488,232.36	\$ 11,139,374.61	\$ 9,657,992.00	-13%
Mar	\$ 15,959,016.03	\$ 14,524,632.02	\$ 11,291,137.45	\$ 9,744,070.12	-14%
Apr	\$ 13,960,580.71	\$ 13,549,427.56	\$ 10,987,376.44		
May	\$ 14,306,218.19	\$ 13,891,064.65	\$ 10,512,706.37		
Jun	\$ 14,253,388.96	\$ 13,626,784.30	\$ 10,494,709.10		
Jul	\$ 14,107,936.44	\$ 13,611,629.73	\$ 10,810,250.29		
Aug	\$ 14,243,405.26	\$ 13,759,162.94	\$ 10,597,453.28		
Sep	\$ 13,815,621.06	\$ 12,288,419.14	\$ 10,638,691.70		
Oct	\$ 13,901,557.05	\$ 12,678,919.03	\$ 10,895,042.42		
Nov	\$ 14,435,083.42	\$ 12,048,726.26	\$ 10,402,131.81		
Dec	\$ 14,228,815.03	\$ 12,138,866.84	\$ 10,382,505.00		



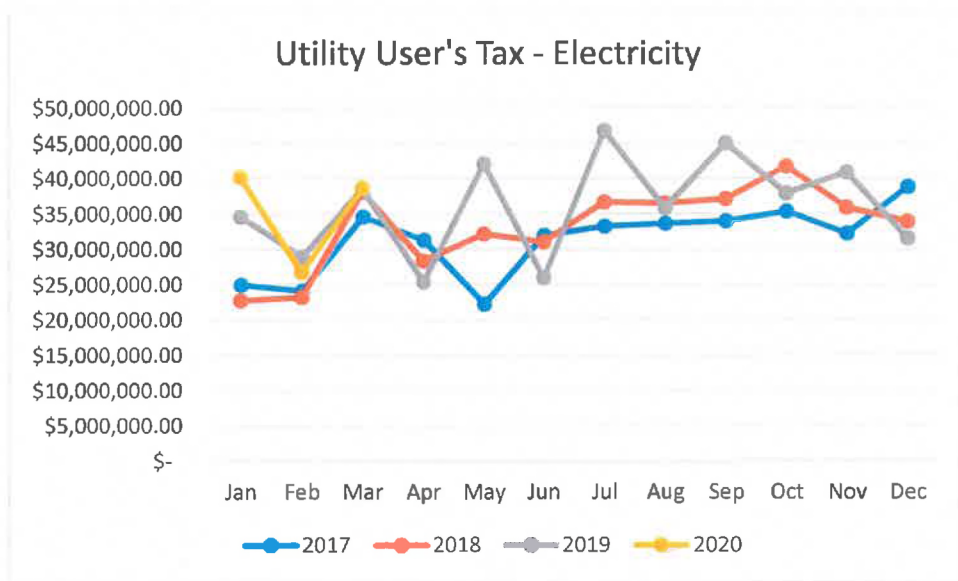
Monthly Utility User Tax Receipts – Natural Gas (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 10,002,698.26	\$ 7,935,114.91	\$ 11,604,257.77	\$ 11,106,495.38	-4%
Feb	\$ 9,431,594.07	\$ 7,072,916.28	\$ 11,111,081.15	\$ 9,601,178.25	-14%
Mar	\$ 7,825,476.54	\$ 8,318,352.97	\$ 10,349,329.70	\$ 7,682,848.17	-26%
Apr	\$ 5,577,381.52	\$ 5,858,666.18	\$ 337,953.39		
May	\$ 5,080,443.04	\$ 4,950,510.03	\$ 5,790,913.25		
Jun	\$ 5,394,929.88	\$ 5,190,262.17	\$ 5,828,472.25		
Jul	\$ 4,555,085.63	\$ 4,632,234.33	\$ 4,629,425.23		
Aug	\$ 4,044,865.75	\$ 4,543,488.50	\$ 4,231,409.60		
Sep	\$ 4,194,499.31	\$ 5,212,430.59	\$ 4,179,358.14		
Oct	\$ 4,411,421.00	\$ 4,926,449.95	\$ 4,535,348.60		
Nov	\$ 5,062,316.59	\$ 5,251,171.10	\$ 5,185,417.11		
Dec	\$ 6,052,424.32	\$ 8,080,406.60	\$ 8,256,545.87		



Monthly Utility User Tax Receipts – Electricity (2017-Current)

	2017	2018	2019	2020	
Jan	\$ 24,984,360.21	\$ 22,781,981.44	\$ 34,633,432.41	\$ 40,196,463.24	16%
Feb	\$ 24,118,728.88	\$ 23,203,387.88	\$ 28,918,304.84	\$ 26,726,814.67	-8%
Mar	\$ 34,574,955.92	\$ 38,130,821.26	\$ 38,590,204.00	\$ 38,727,189.82	0%
Apr	\$ 31,309,287.11	\$ 28,368,231.73	\$ 25,362,936.23		
May	\$ 22,232,871.19	\$ 32,169,768.75	\$ 42,108,774.89		
Jun	\$ 31,948,608.61	\$ 31,010,470.97	\$ 25,928,919.22		
Jul	\$ 33,235,601.61	\$ 36,671,900.94	\$ 46,794,569.00		
Aug	\$ 33,642,230.34	\$ 36,556,918.44	\$ 35,862,270.74		
Sep	\$ 33,974,193.05	\$ 37,144,291.12	\$ 45,014,037.01		
Oct	\$ 35,306,061.57	\$ 41,708,986.87	\$ 37,880,135.75		
Nov	\$ 32,202,528.66	\$ 35,907,368.52	\$ 40,870,253.84		
Dec	\$ 38,816,290.03	\$ 33,938,752.63	\$ 31,509,768.31		



2020-21 Fiscal Year Forecast

Predicting the impact of the COVID-19 situation on tax revenues for the upcoming 2020-21 fiscal year is simply not possible without knowledge of exactly when the impact of that virus will subside along with its related economic impacts. Scenarios which could result in either a more rapid decline of the virus' impact or in contrast a relapse of increased infections and sustained economic impact are both plausible outcomes at this time. Rather than attempt to provide a specific forecast of what tax revenues will be for the upcoming fiscal year a simplified model was developed to illustrate what the resulting tax revenue receipts would be if certain impacts were applied to normal levels of tax revenue.

The impacts used by this model are focused on just three primary areas in which quantitative reports have been made available by analysis from government or other research and industry economic groups. Impacts on energy and travel/entertainment were applied to revenue receipts related to firms in those specific industries. All other industries were adjusted to reflect the assumptions made for retail and services activities.

Additional assumptions included were that cannabis business tax receipts would increase by 30% as new businesses were permitted and remitting related taxes over the coming year; annual tax impacts related to real property transfers would not change; communications user tax revenue would continue to decline by 10% as has occurred over the past several years; and that travel/leisure/entertainment business activities which account for 7% of business tax revenue account for that same percentage of sales tax revenue.

Three scenarios were developed:

Scenario #1

This first scenario makes the assumption that steady progress will be made in the ability for business activity to adapt and recover from COVID-19 impacts. A moderate level of impact on retail and service activities will continue until fall and travel and entertainment industry impacts will still be significant through the remainder of this calendar year and economic activity a year from now will be slightly below normal levels. The resulting cumulative receipts would be \$200 million lower than receipts forecasted by the current revenue outlook.

Scenario #2

This scenario forecasts a more optimistic situation where current impacts start to fade more rapidly in the coming months with business activity aside from travel and entertainment largely returning to normal levels by December and economic activity a year from now being slightly above normal levels. The resulting cumulative receipts would be \$45 million lower than receipts forecasted by the current revenue outlook.

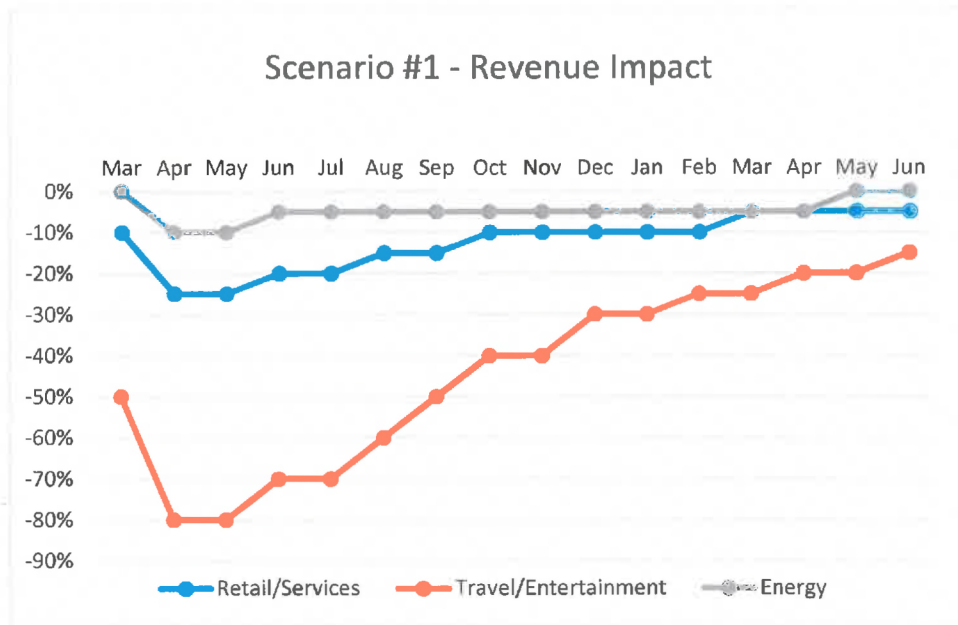
Scenario #3

This scenario forecasts a more pessimistic situation where current impacts largely remain in the coming months with improvements slowly occurring the remainder of the year. Economic activity would still be noticeably lower than prior levels in December and one year from now. The resulting cumulative receipts would be over \$400 million lower than receipts forecasted by the current revenue outlook.

Scenario #1 - Conservative

Relative Economic Impact Assumptions

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Retail/ Services	-10%	-25%	-25%	-20%	-20%	-15%	-15%	-10%	-10%	-10%	-10%	-10%	-5%	-5%	-5%	-5%
Travel/ Entertainment	-50%	-80%	-80%	-70%	-70%	-60%	-50%	-40%	-40%	-30%	-30%	-25%	-25%	-20%	-20%	-15%
Energy	0%	-10%	-10%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	0%	0%



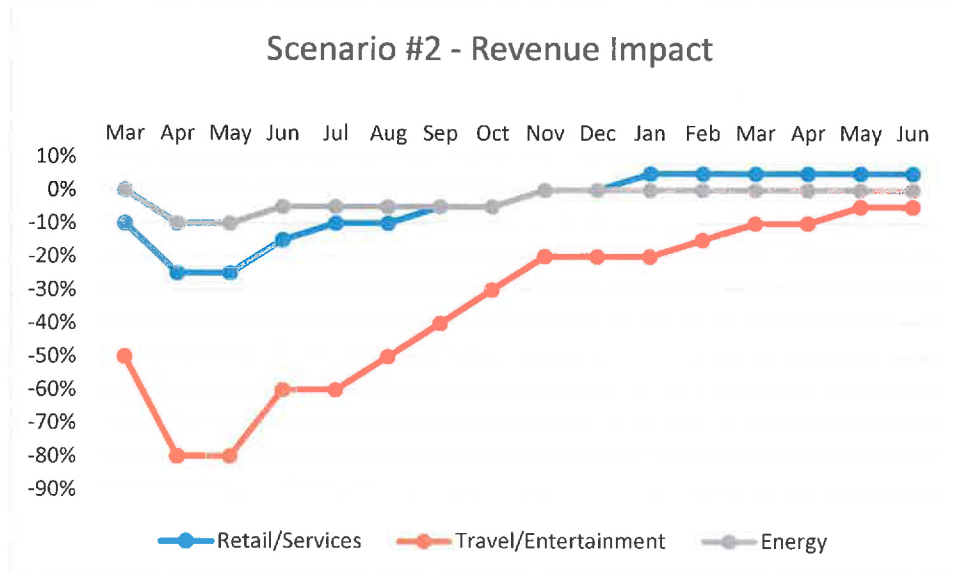
Model Receipts vs. Revenue Outlook Forecast

	Scenario Modeled	Revenue Outlook	(+/-)
Parking Occupancy Tax	\$ 73.5	\$ 102.0	\$ (28.5)
Transient Occupancy Tax	\$ 198.1	\$ 244.9	\$ (46.8)
Sales Tax	\$ 519.2	\$ 557.1	\$ (37.9)
Real Property Transfer Tax	\$ 223.7	\$ 215.8	\$ 7.9
UUT - Communications	\$ 97.7	\$ 113.4	\$ (15.7)
UUT - Gas	\$ 77.4	\$ 66.4	\$ 11.0
UUT - Electric	\$ 417.1	\$ 434.8	\$ (17.7)
Business Tax	\$ 613.6	\$ 686.5	\$ (72.9)
Total	\$ 2,220.3	\$ 2,420.9	\$ (200.6)

Scenario #2 - Optimistic

Relative Economic Impact Assumptions

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Retail/ Services	-10%	-25%	-25%	-15%	-10%	-10%	-5%	-5%	0%	0%	5%	5%	5%	5%	5%	5%
Travel/ Entertainment	-50%	-80%	-80%	-60%	-60%	-50%	-40%	-30%	-20%	-20%	-20%	-15%	-10%	-10%	-5%	-5%
Energy	0%	-10%	-10%	-5%	-5%	-5%	-5%	-5%	0%	0%	0%	0%	0%	0%	0%	0%



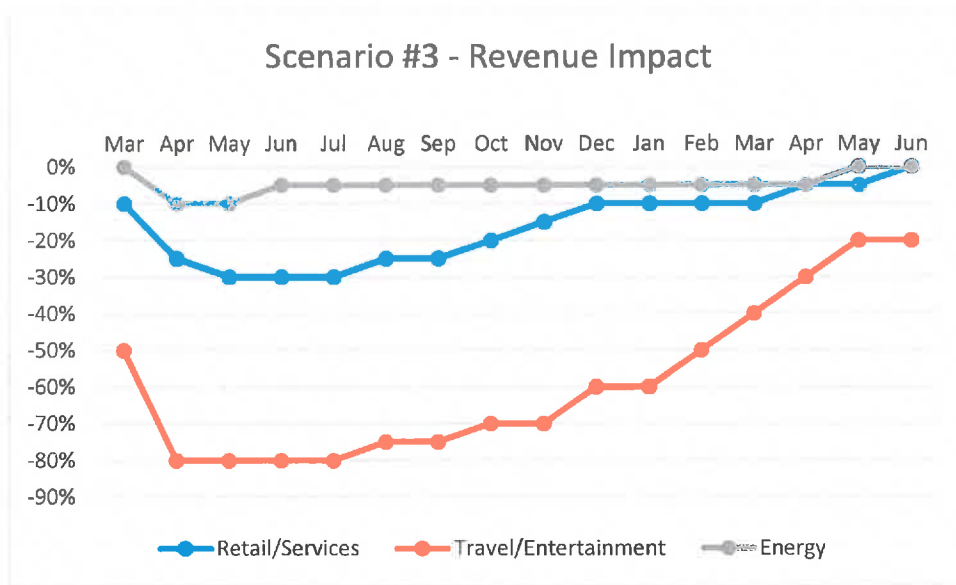
Model Receipts vs. Revenue Outlook Forecast

	Scenario Modeled	Revenue Outlook	(+/-)
Parking Occupancy Tax	\$ 87.9	\$ 102.0	\$ (14.1)
Transient Occupancy Tax	\$ 237.1	\$ 244.9	\$ (7.8)
Sales Tax	\$ 578.3	\$ 557.1	\$ 21.2
Real Property Transfer Tax	\$ 223.7	\$ 215.8	\$ 7.9
UUT - Communications	\$ 97.7	\$ 113.4	\$ (15.7)
UUT - Gas	\$ 80.3	\$ 66.4	\$ 13.9
UUT - Electric	\$ 429.5	\$ 434.8	\$ (5.3)
Business Tax	\$ 641.4	\$ 686.5	\$ (45.1)
Total	\$ 2,376.0	\$ 2,420.9	\$ (44.9)

Scenario #3 - Pessimistic

Relative Economic Impact Assumptions

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Retail/ Services	-10%	-25%	-30%	-30%	-30%	-25%	-25%	-20%	-15%	-10%	-10%	-10%	-10%	-5%	-5%	0%
Travel/ Entertainment	-50%	-80%	-80%	-80%	-80%	-75%	-75%	-70%	-70%	-60%	-60%	-50%	-40%	-30%	-20%	-20%
Energy	0%	-10%	-10%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	0%	0%



Model Receipts vs. Revenue Outlook Forecast

	Scenario Modeled	Revenue Outlook	(+/-)
Parking Occupancy Tax	\$ 56.6	\$ 102.0	\$ (45.5)
Transient Occupancy Tax	\$ 154.2	\$ 244.9	\$ (90.7)
Sales Tax	\$ 441.2	\$ 557.1	\$ (115.9)
Real Property Transfer Tax	\$ 223.7	\$ 215.8	\$ 7.9
UUT - Communications	\$ 97.7	\$ 113.4	\$ (15.7)
UUT - Gas	\$ 77.4	\$ 66.4	\$ 11.0
UUT - Electric	\$ 417.1	\$ 434.8	\$ (17.7)
Business Tax	\$ 543.6	\$ 686.5	\$ (142.9)
Total	\$ 2,011.5	\$ 2,420.9	\$ (409.4)

Additional Background Information

Non-Essential Categorized Businesses in Los Angeles

Approximately 77% of annual business tax revenue is received from firms that were identified as essential by the City and State and were allowed to continue operations providing goods and services during the stay-at-home order. For 2019 the city received \$112.6 million in annual business tax receipts from firms that have been categorized as non-essential which have had restrictions placed on them related to current stay-at-home orders. Approximately 180,000 registered Los Angeles businesses are considered non-essential per these orders.

Impact of COVID-19 on Retail Sales

With the COVID-19 pandemic limiting movement and disrupting economic activity, retail sales dropped 8.7% in March, the largest month-to-month decrease since the US Census Bureau started tracking the data.

Overall changes in retail activity in March reported by the US Census Bureau with corresponding metrics from 2019 business tax collections are as follows:

Category	Change between 2/2020 and 3/2020	Change between 3/2019 and 3/2020	# of Locations	2019 Business Tax Payments
All retail and food services	-8.70%	-6.20%	60,431	\$ 74,314,516
All retail	-6.20%	-3.80%	46,793	\$ 62,596,732
Motor vehicle and parts dealers	-25.60%	-23.70%	1,084	\$ 602,537
Auto and other motor vehicles	-27.10%	-24.90%	2,246	\$ 5,122,502
Furniture and home furnishings stores	-26.80%	-24.60%	1,774	\$ 1,987,063
Electronics and appliance stores	-15.10%	-15.90%	2,622	\$ 2,728,667
Building material, garden equipment and supplies dealers	1.30%	7.60%	1,245	\$ 3,394,311
Food and beverage stores	25.60%	28.00%	2,012	\$ 2,687,411
Grocery stores	26.90%	29.30%	1,737	\$ 9,233,496
Health and personal care stores	4.30%	4.30%	3,552	\$ 12,156,773
Gas stations	-17.20%	-18.00%	676	\$ 4,429,966
Clothing stores	-50.50%	-50.70%	7,825	\$ 3,642,641
Sporting goods, hobby, musical instrument, and book stores	-23.30%	-22.70%	1,660	\$ 735,414
General merchandise stores	6.40%	7.50%	5,144	\$ 4,827,740
Miscellaneous store retailers	-14.30%	-4.90%	9,436	\$ 6,660,515
Non-store retailers	3.10%	9.70%	5,780	\$ 4,387,696
Food services and drinking places	-26.50%	-23.00%	13,638	\$ 11,717,784