

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: April 28, 2020

TO: Honorable Members of the Rules, Elections, and Intergovernmental Relations Committee

FROM: Sharon M. Tso *smtso* Chief Legislative Analyst Council File No. 20-0002-S51
Assignment No. 20-04-0450

SUBJECT: Resolution (O'Farrell - Krekorian) to include in the City's 2019-2020 Federal Legislative Program SUPPORT of an economic stimulus bill and/or any administrative action that would assist local and state governments in economic recovery as a result of the COVID-19 pandemic.

CLA RECOMMENDATION: Adopt Resolution (O'Farrell - Krekorian) to include in the City's 2019-2020 Federal Legislative Program SUPPORT of an economic stimulus bill and/or any administrative action that would assist local and State governments in economic recovery as a result of the COVID-19 pandemic.

SUMMARY

Resolution (O'Farrell - Krekorian), introduced on April 22, 2020, notes that the emergence of COVID-19 has forced local and State governments to expend hundreds of millions of dollars in emergency funding to protect the medical safety of the population and support local businesses. Failure to properly fund local and State governments could have catastrophic effects including public sector layoffs, the reduction of vital public services, the slowdown of necessary infrastructure projects, and the weakening of financial reserves.

While the federal Government has passed a series of economic stimulus bills to assist individuals and small businesses, financial support for local and State governments has been relatively minimal. California has adopted several measures aimed at providing billions of dollars in relief and essential services to local governments relative to the pandemic, but will need more federal support in order to appropriately provide for local governments.

The Mayor's Proposed 2020-21 Budget predicts extreme economic impacts to sensitive local tax sources should the COVID-19 pandemic continue to affect normal City business. And the continued presence of COVID-19 in the coming months and years would require local and State governments to expend additional billions in funds to combat the virus and provide essential services. However, options for acquiring these necessary funds are limited without additional federal assistance. The Resolution therefore recommends support of an economic stimulus bill and/or any administrative action that would assist local and State governments in economic recovery as a result of the COVID-19 pandemic.

BACKGROUND

The COVID-19 pandemic has forced unprecedented changes to life in Los Angeles. On March 19, 2020 Governor Gavin Newsom issued a Stay-at-Home Order related to the COVID-19 pandemic, which has been diagnosed in 19,528 Los Angeles County residents as of April 27, 2020. The Governor's Order limits Californians to only essential activities away from their home in order to minimize the congregation of large groups of people that may serve to spread the virus.

The State, County and City have taken extreme measures to maintain public health and provide assistance to those most in need. On April 3, Governor Newsom announced that federal stimulus funds would be applied toward sheltering homeless residents in 15,000 identified hotel rooms throughout the State. Subsequent to this announcement, the County announced its own goal of procuring an additional 15,000 hotel rooms to house residents. The estimated cost to secure 15,000 hotel rooms in the County and staff the facilities is \$195 million. Additionally, on March 18, 2020, Governor Newsom announced that \$50 million in State funding would be used to purchase 1,300 trailers from the Federal Emergency Management Agency to shelter residents. These costly measures, among numerous others, are necessary to protect vulnerable populations and stop the spread of COVID-19.

The Governor's Stay-at-Home Order has resulted in significant financial impacts for residents and businesses. Most businesses are closed and unable to perform commercial activity, leading to an immediate loss of revenue and the dismissal of employees. Previously employed residents are now out of work, and have limited access to funds for essential needs.

State and local governments are expected to see a reduction in tax revenues as a result of the crisis. With residents and businesses unable to work and generate revenue, their proportional tax payments to the federal, State, and local governments are likely to be reduced by a severe amount. Additionally, the crisis has created a near-complete shutdown of travel and tourism, a \$37 billion industry in the City. The U.S. Travel Association has estimated that the crisis' effect on the travel industry will cause a \$910 billion loss to the country's economy. In cities such as Los Angeles where travel and tourism are of unmistakable importance, the shutdown in non-essential travel will reduce important tax revenues such as the Transient Occupancy Tax. These predicted impacts will result in decreased revenue to local and State governments already facing the financial burden of supporting public health and the economy during the COVID-19 pandemic, let alone regular public services.

Over the last six years, the State has built up a cash reserve fund of \$21 billion that would be used only in the case of an emergency. However, the costs of maintaining public health and sustaining essential services during the crisis is likely to swiftly deplete this fund. It is unknown how the State plans to support the needs of residents and local governments after this fund has been drained.

The federal government has passed a series of economic stimulus bills to assist individuals and small businesses during the COVID-19 pandemic, including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, H.R. 748). These bills provide payroll support and loans to

small businesses facing a sudden drop-off in revenue, and distribute stimulus checks for individuals of up to \$1,200 which are anticipated to cover necessary costs such as rent and mortgage payments, among numerous other measures. However, support for local and state governments has been lacking, putting immense strain on the resources of these entities.

On April 23, 2020, Senate Majority Leader Mitch McConnell proposed that, instead of being provided federal assistance, States and local governments should cut spending by declaring bankruptcy. This suggestion has been met with swift bipartisan criticism by Governors such as Andrew Cuomo of New York and Larry Hogan of Maryland. Michigan Governor Gretchen Whitmer stated "He's wrong, and we need Congress to step up and help States... It's because of this global pandemic that we are all having to make tough decisions. We need the federal government to have our backs".

DEPARTMENTS NOTIFIED

City Administrative Officer



Alex Whitehead
Analyst

Attachments: Resolution (O'Farrell - Krekorian)

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the emergence of the COVID-19 pandemic has caused a health and financial crisis in the United States and throughout the world; and

WHEREAS, local and state government economies have suffered as they have had to allocate hundreds of millions of dollars in emergency funding to maintain the health and safety of residents while also experiencing immediate losses to revenue as a result of stay-at-home orders and the closure of non-essential businesses, potentially in the hundreds of millions; and

WHEREAS, the Federal Government has passed an economic stimulus bill and is currently considering additional measures to help individuals and small businesses financially recover from the economic slowdown, however, local and state governments are also in need of further financial assistance to avoid: public sector layoffs, reduction of vital public services, the slowdown of infrastructure projects meant to improve the health and safety of local residents, and the weakening of local and state government financial reserves; and

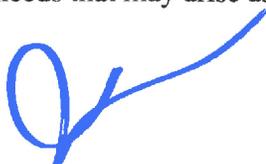
WHEREAS, on March 16th, 2020 the State of California adopted several measures aimed at providing billions of dollars in relief and essential services, including the passage of SB 89, which provides 1 billion dollars to be expended by Governor Newsom's Administration; the State will need much more federal assistance as the loss of revenue due to a changing economy, impacted by the escalating costs of public health needs and increased demand in social services such as unemployment insurance; and,

WHEREAS, the Mayor's Proposed 2020-21 Budget predicts impacts to various economically sensitive tax sources should nationwide unemployment continue to rise, the stay-at-home orders be extended, or any shift occur that would affect the health and safety of residents, most categories of revenue could be negatively affected; and

WHEREAS, in this current fiscal year and continuing into 2020-21, the City, County and State will spend billions of dollars on COVID-19 related expenses, including, but not limited to: maintaining public institutions such as universities and schools; ensuring essential services to at-risk populations such as meals for seniors, families and immunocompromised residents while maintaining homeless services and housing; expanding COVID-19 testing and public health programs; economic development programs to help individuals and small businesses; and there is a possibility that the costs will continue to rise, with no guarantee as of now that the City, County or State will be reimbursed for its loss of expenditures and/or revenues; and

WHEREAS, as Congress discusses future economic stimulus bills, assistance to local and state governments should be a priority so that the health and safety of residents will not be compromised and City leaders can continue to serve constituents and local businesses with financial and health needs that may arise as a result of the COVID-19 pandemic.

APR 22 2020



NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles, hereby includes in its 2019-20 Federal Legislative Program SUPPORT of an economic stimulus bill and/or any administrative action that would assist local and state governments in economic recovery as a result of the COVID-19 pandemic.

PRESENTED BY: *Mitch O'Farrell*
MITCH O'FARRELL
Councilmember, 13th District

SECONDED BY: *Paul Repori*

ORIGINAL
SUPERVISOR OF ENVIRONMENTAL RELATIONS