

# COVID-19 and the City of Austin

## Implications for City Finances

**April 7, 2020**



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# Overview

- National and local data begin to reflect impact, but its just the beginning - Massive jump in claims for unemployment (3,000+%), but tip of the iceberg – systems are overwhelmed, and many have either not applied or been unable to get through
- Stock market typically prices in the impact of a future event in something close to real time

2020	Dow	S&P	Nasdaq	Russell
14-Feb	29,398	3,380	9,731	1,688
<u>31-Mar</u>	<u>21,917</u>	<u>2,585</u>	<u>7,700</u>	<u>1,153</u>
Change	-25.4%	-23.5%	-20.9%	-31.7%

- Issues on the Horizon
  - Timing and level of CARES injections – business & individual
  - Capacity vs willingness to spend



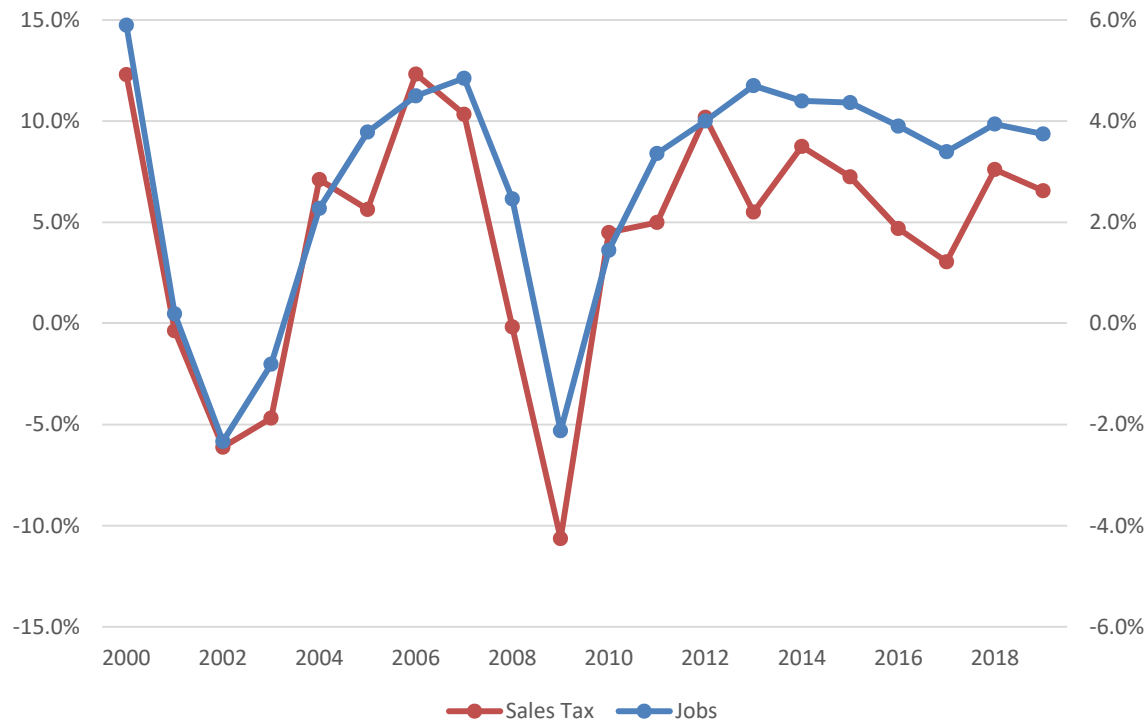
# Jobs & Sales Tax

- Observed local correlation between job growth and sales tax for a long time (91.9%).
  - Growth in jobs yields growth in income, which yields capacity for increased spending.
- St. Louis Fed picks up the idea for use in evaluating impact of COVID-19 by classifying occupations according to three criteria:
  - Whether those occupations are essential to public health or safety
  - Whether they involve work that can be completed off-site
  - Whether they are salaried
- Estimate that 66.8 million people nationally are employed in occupations that at high risk of layoff.
  - Sales, Production, and Food Preparation & Services, among others.



# Jobs & Sales Tax

## Austin MSA and City of Austin Sales Tax Growth





## Jobs & Sales Tax

- Another approach looks at how many people work in occupations that require the worker to perform tasks in close physical proximity to other people - 27.3 million workers have occupations with a high contact intensity, e.g. Hairstylists, Food and Beverage Serving workers, and Flight Attendants, among others.
- Two different methodologies and datasets – likely significant overlap, but each capturing some aspects that the other ignores.
- St. Louis Fed takes average of the two  $(66.8\text{m} + 27.3\text{m}/2) = 47.1$  million people nationally being laid off during this period.
- Summing to the initial number of unemployed in February, this resulted in a total number of unemployed persons nationally of 52.8 million. Given the assumption of a constant labor force, this resulted in an unemployment rate of **32.1%**.



# Jobs & Sales Tax

## Occupational Estimates of Percentage Job Loss

	Employed	Potential Losses	Lost as Share
Management Occupations	54,720	1,410	2.6%
Business and Financial Operations Occupations	65,030	3,827	5.9%
Computer and Mathematical Occupations	61,460	N.A.	0.0%
Architecture and Engineering Occupations	27,080	2,032	7.5%
Life, Physical, and Social Science Occupations	8,990	47	0.5%
Community and Social Service Occupations	11,740	422	3.6%
Legal Occupations	10,840	1,704	15.7%
Education, Training, and Library Occupations	59,260	N.A.	0.0%
Arts, Design, Entertainment, Sports, and Media Occupations	18,720	5,892	31.5%
Healthcare Practitioners and Technical Occupations	47,550	3,654	7.7%
Healthcare Support Occupations	21,240	2,322	10.9%
Protective Service Occupations	21,920	2,533	11.6%
Food Preparation and Serving Related Occupations	108,880	88,418	81.2%
Building and Grounds Cleaning and Maintenance Occupations	29,620	18,104	61.1%
Personal Care and Service Occupations	29,410	14,084	47.9%
Sales and Related Occupations	113,400	63,932	56.4%
Office and Administrative Support Occupations	174,160	30,734	17.6%
Farming, Fishing, and Forestry Occupations	1,340	N.A.	0.0%
Construction and Extraction Occupations	44,110	11,793	26.7%
Installation, Maintenance, and Repair Occupations	34,800	1,503	4.3%
Production Occupations	36,720	1,344	3.7%
Transportation and Material Moving Occupations	47,540	7,519	15.8%
<b>TOTAL</b>	<b>1,028,530</b>	<b>261,275</b>	<b>25.4%</b>



# Sales Tax Scenarios

	FY 2019	FY 2020		FY 2021	
		Rapid Resolution	Slower Resolution	Rapid Resolution	Slower Resolution
October	\$20,482,225	\$21,463,345	\$21,463,345	\$20,482,225	\$18,432,484
November	\$18,697,243	\$20,197,938	\$20,197,938	\$18,697,243	\$17,761,688
December	\$23,474,321	\$26,824,029	\$26,824,029	\$23,474,321	\$22,887,028
January	\$19,197,390	\$20,703,612	\$20,703,612	\$19,197,390	\$19,197,390
February	\$18,499,300	\$19,385,436	\$19,385,436	\$18,499,300	\$18,499,300
March	\$21,771,491	\$21,771,491	\$21,771,491	\$21,771,491	\$21,771,491
April	\$20,966,305	\$10,475,380	\$10,475,380	\$20,966,305	\$20,966,305
May	\$20,274,704	\$10,129,836	\$10,129,836	\$20,274,704	\$20,274,704
June	\$21,556,037	\$13,466,530	\$11,309,328	\$21,556,037	\$21,556,037
July	\$21,797,313	\$16,343,945	\$13,617,260	\$21,797,313	\$21,797,313
August	\$20,079,928	\$17,568,076	\$14,553,854	\$20,079,928	\$20,079,928
September	\$22,017,087	\$20,915,416	\$18,161,240	\$22,017,087	\$22,017,087
	\$248,813,344	\$219,245,034	\$208,592,749	\$248,813,344	\$245,240,755
		-11.9%	-16.2%	13.5%	17.6%
		-\$29,568,310	-\$40,220,595	\$29,568,310	\$36,648,006



## Lodging Taxes - Preliminary

- Travel & Tourism obviously severely hit – some modest demand from first responders, medical professionals, those who must distance from family.
- Rates likely will also be affected – while industry will try to hold the line as compared to past crisis situations (9/11 & 2008) the impact to the economy and massive excess supply will put downward pressure.
- Following is Scenario for real time activity – ADR down 20% from previous year, occupancy down as much as 95%.

	Occupancy	ADR
March	25%	\$175.81
April	5%	\$121.66
May	5%	\$117.82
June	10%	\$109.43
July	20%	\$99.07
August	25%	\$100.44
September	30%	\$119.61
October	40%	\$127.30
November	50%	\$121.62
December	35%	\$78.50





## Stimulus Impact

- Cash payments to individuals and expanded unemployment help support ongoing obligations for most – at least for a period of time. For those who have lost income, discretionary spending will be significantly reduced. Stay-at-home orders also reduce discretionary spending.
- Payroll Protection Program (PPP) resources and Economic Injury Disaster Loans (EIDL) are crucial for most consumer-facing small business to survive – COA help for individuals and businesses to access and expediate is high value-added.
- Given above, direct assistance might be focused on those who fall through the cracks – likely important to have individual interactions to determine needs.
- New stimulus focused on infrastructure spending would have a positive overall economic impact – classic approach to responding to economic downturn.



# Conclusions

- Consumer activity (retail & personal services) and hospitality are the two sectors hit first, and hardest, by COVID-19
- Other sectors also being heavily influenced, especially in the near-term
  - Non-essential Medical
  - Sales
  - Any unique transaction business, eg, Real Estate
- COA feels impacts strongly in sales, lodging, mixed beverage taxes
  - Could be impacts in other general revenue streams
    - Property values?
    - Fund transfer from Austin Energy
    - Fees?
- Process, rather than definitive answers

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