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Graham Knaus

April 23, 2020

The Honorable Gavin Newsom
Governor, State of California
State Capitol, First Floor
Sacramento, CA 95814

RE: Urgent County Fiscal Stability and Budget Needs

Dear Governor Newsom:

California counties have been at the front line of fighting the COVID-19 public health crisis, working tirelessly to ensure California successfully bends the curve and reduces the number of positive cases and deaths in the state. As we enter the second month of this pandemic, the revenues counties need to carry on normal operations, much less respond to this unprecedented worldwide crisis, have begun to erode. As counties manage their current year budgets and prepare their budgets for the 2020-21 fiscal year, they are beset by reduced resources, an ongoing health crisis, and significant overall uncertainty. Our counties must adopt balanced budgets, and are facing the specter of massive labor curtailments and layoffs, as well as service reductions, in the immediate-term future. Some of these reductions may affect the very services that are most needed during our collective response to COVID-19.

Like the state, counties are grappling with the twin pressures of increased costs and reduced revenues—revenues that have declined both because of the faltering economy as well as the measures taken to assist the private sector in weathering this period of shelter-in-place efforts. We, like the state, are entering this unprecedented period of economic uncertainty with trepidation and we request that the state partner with counties to weather the storm.

CSAC respectfully urges your Administration and the Legislature to adopt specific actions that prioritize the health of counties and critical services as you continue exploring ways to lead California through this crisis. Counties have also fully engaged California’s congressional delegation to advocate for more funding from the federal government to support state and local governments during this pandemic, including opportunities to recover lost revenue to protect the safety net from being dismantled.

The following are the primary concerns of California’s counties and are shared regardless of county size, location, or current number of COVID-19 cases:

- **Backfill sales tax lay-away program:** Provide counties with funding to backfill revenue delays caused by the sales tax lay-away program. A portion of the sales tax directly funds critical state services under the 1991 and 2011 realignment structures, including public health, behavioral health, a number of human services programs, and public safety. . Further, delaying the receipt of revenue into the next fiscal year will have dramatic impacts on realignment allocations among counties and between critical programs that could permanently complicate counties’ ability to deliver services in both the budget year and future years.
- **Executive Order on property tax delinquencies:** Allow counties to consider a distressed property owner’s economic hardship when determining whether the county may cancel property tax delinquencies and other charges. There is significant uncertainty among many county officials as to whether they are allowed to take economic hardship into account, given past court rulings.
- **Opt out of Teeter Plan:** County cash flow has been substantially impacted by multiple cash flow issues and COVID-19 spending necessitating temporary permission for counties that participate in the Teeter plan to opt out of the plan mid-year. The combination of fewer-than-usual on-time property tax payments and a significant increase in canceled delinquency charges could have unmanageable short-term fiscal impacts for counties, without the long-term benefit on which the Teeter Plan is predicated. Allowing counties to opt out of the plan would allow the short-term impact to be shared at a manageable level among taxing entities.
- **Cash flow assistance and CRF funds:** We also seek an immediate partnership with the state to assist counties with urgent cash flow issues so that all counties can continue operating. Immediately distributing the local share of remaining Coronavirus Relief Fund to counties with populations below 500,000 would not only put them on equal footing with the larger counties, it would also provide exactly the kind of short-term cash flow assistance that will enable counties to meet this moment. Given that counties are the level of government facing the bulk of CRF-eligible expenses, the majority of the remaining funds—at least 77.5 percent, the same percent that the federal government is directly allocating to California counties—should be distributed to counties on a per capita basis. A state-county partnership to help manage cash flow issues will also likely involve state assistance to consolidate local applications for the Federal Reserve’s recently announced Municipal Liquidity Facility. We look forward to opening a dialogue about additional short-term local needs and possible solutions as the state and counties continue to respond to the pandemic.
- **Realignment revenue:** Finally, counties are very concerned about the significant estimated decline in revenues dedicated to 1991 realignment, 2011 realignment, and Proposition 172, and the effect those declines will have on the public health, human services, behavioral health, and public safety programs they fund. We would like to explore ways the

state and counties might work together to provide stability for these funds and to avoid massive cuts to the programs most needed during this statewide emergency and concurrent economic downturn. Counties are committed to working with your Administration and the Legislature to determine whether the answer is direct state assistance or another creative solution. However, this need is immediate, as counties, like the state, are on the cusp of developing their spending plans, conducting public hearings, and preparing to meet their responsibility to adopt a balanced budget.

While the list above is not exhaustive, these are critical areas that CSAC will be advocating for on behalf of all counties and as we move through these unpredictable times. We realize that the state's ability to assist is not infinite, but the events of the last two months strongly reinforce the need for us – the state and counties – to join together to weather this unprecedented series of events while continuing to serve the good people of California. The issues above reflect counties' most critical and urgent needs at this moment and as we continue our local efforts in the collective fight against COVID-19.

Respectfully,



Graham Knaus
Executive Director