

## **Mid-Year Fiscal Conditions Survey Reveals Impact of Coronavirus** **By JJ Rocha, Grassroots and Legislative Services Manager, TML**

Each year, TML conducts a fiscal conditions survey of its member cities. With an unexpected public health crisis and an economic recession, most cities will have to make difficult decisions over the next coming months. This is why TML created a special-edition, mid-year fiscal conditions survey to help cities navigate the upcoming budget planning process. With 552 cities responding, the survey demonstrates that the Coronavirus pandemic has impacted cities significantly.

Cities are the government closest to the people and play a significant role in the quality of life and emergency response for communities. Citizens benefit from the core services that cities provide, such as public safety (EMS, fire, and police), streets, parks, public transportation, libraries, utilities, and other vital services. Those services are funded by property taxes and other sources of revenue.

With little financial assistance from the state, cities are tasked to manage growth or decline and rely on their own capacity to generate revenue. The state provides almost no funding for the provision of city services. In fact, Texas ranks 47 out of the 50 states in the amount of state-generated revenue as a percentage of their budgets. In planning its own revenue mix, each city is different and will need to make decisions based upon any number of factors, such as the impact of COVID-19 on other sources of local revenue like sales taxes, the amount of city expenditures made in response to the emergency, as well as the ability and willingness of local taxpayers to potentially pay a given property tax rate.

Survey results show that 67 percent of cities are choosing not to change their property tax rate. Only 14 percent of cities are estimating a raise in their tax rate. Further, over half are projecting to adopt the “no new revenue rate,” which used to be called the “effective rate” prior to Senate Bill 2 from 2019. Of cities that plan to exceed the no new revenue rate, the median increase is projected to be 3.5 percent according to the survey.

In recent months, cities are not only responding to a public health crisis, but they have taken a financial hit. Sixty-six percent of cities have lost sales tax revenue due to the pandemic. In addition, more than 50 percent have lost hotel occupancy tax revenue, and 48 percent have lost mixed beverage taxes. Of the responding cities, 28 percent expect next year’s revenue to be lower compared to the current year.

To deal with the current revenue loss, cities have examined what cost-saving measures could be implemented. Twenty-five percent of cities imposed a hiring freeze and 15 percent have frozen wages in the current fiscal year. The survey shows that cities will continue to extend their hiring and wage freeze into the next fiscal year. Twenty-three percent of cities either reduced or eliminated city services. However, only 10 percent of cities expect to reduce or eliminate services in the next fiscal year.

Under the CARES Act, the Coronavirus Relief Fund is to be used for state and local governments in response to the pandemic. Twenty-five percent of all cities have received such funds. Sixteen percent of cities that received funds received it directly through the U.S. Treasury Department. Cities in a county of 500,000 or more population were able to receive their money from that county – 29 percent received funds through this avenue. All other cities (except the few with 500,000 or more population that received direct allocation) can draw their funds from the state through the Texas Division of Emergency Management (TDEM), and over half of cities that received funds did so through TDEM.

It is no surprise that Texas and its cities have experienced incredible growth in recent years. Many cities have seen their populations grow by more than 10 percent since 2010, with some experiencing an upwards of 30 percent growth. According to the U.S. Census, Texas has led the nation in annual population growth for each year between 2010 through 2019. Texas cities have felt that impact. For much of the past decade, seven of the fifteen fastest growing cities are located here. Texas surpassed 28 million people in 2017 and is on the verge of surpassing 29 million.

Recent trends have shown populations shifting from rural to urban areas, indicating that cities will experience the majority of the future population growth. The state demographer projects the state's population will double by 2050. This would mean 25 million more people living in Texas in 30 years. Currently, 74 percent of the Texas population (21.2 million people) live in incorporated areas. Further, 89 percent of Texans (25.6 million people) live in metropolitan statistical areas (MSAs). In other words, the vast majority of Texans live, work, and play in or around cities. In the last five years, we have seen cities taking on more capital spending to address this growth. Now, we are seeing an incline of cities (30 percent) that are expecting to postpone capital spending as a cost saving measure.

The survey reinforces the notion that no two Texas cities are identical, especially in a crisis. Cities may respond differently to economic conditions and public health emergencies, and that is why the legislature should not impose one-size-fits-all mandates or revenue restrictions on cities. City officials are engaged with residents every day and are the most familiar with local issues. They must have the flexibility to respond to fluctuations in revenue sources and to the different levels of services city taxpayers demand.

The full results are online on TML's website at [www.tml.org](http://www.tml.org), click on "Resources" and then "Surveys".

## 2020 Mid-Year Special Edition Fiscal Conditions Survey Results

552 Responses

### Municipal Revenue

	Current Year											Projected Jun-20
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Current year revenue lower than last year's revenue	47.8%	41.4%	29%	25.1%	23.9%	18.7%	25.5%	22.3%	23.1%	16.2%	6.3%	34.9%
Current year revenue remained constant to last year's revenue	-	-	-	-	-	-	-	-	-	-	43.6%	43.2%
Expect lower revenue next year	37.8%	29.9%	22%	20.7%	15.9%	19.60%	7.4%	7.6%	8.0%	3.0%	4.7%	24.2%
Expect revenue to remain constant next year	-	-	-	-	-	-	45.5%	46.3%	45.7%	48.4%	51.0%	54.6%

### Revenue Condition and Outlook Under 10,000 in Population

	Current Year											Projected Jun-20
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Current year revenue lower than last year's revenue	46.3%	41.8%	31.0%	27.7%	26.5%	20.8%	27.6%	19.3%	27.7%	18.3%	7.7%	26.3%
Expect lower revenue next year	37.2%	33.5%	25.0%	23.4%	18.7%	22.0%	7.5%	7.4%	10.6%	3.8%	6.1%	18.2%
Expect revenue to remain constant next year	-	-	-	-	-	-	52.6%	52.0%	61.7%	77.9%	86.2%	55.3%

### Revenue Condition and Outlook Over 10,000 in Population

	Current Year											Projected Jun-20
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Current year revenue lower than last year's revenue	52.7%	40.8%	23.0%	10.6%	17.1%	13.1%	18.6%	5.8%	25.9%	34.8%	19.2%	41.4%
Expect lower revenue next year	39.8%	20.0%	12.5%	6.7%	8.0%	12.7%	7.1%	6.6%	12.9%	10.9%	15.4%	28.6%
Expect revenue to remain constant next year	-	-	-	-	-	-	16.2%	27.3%	61.1%	54.3%	65.4%	29.9%

### Change in Property Tax Rates

	Current Year											Projected Jun-20
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
No change	49.7%	42.3%	47.1%	52.6%	49.4%	49.1%	47.2%	41.7%	42.8%	46.5%	41.1%	67.5%
Raised Rate	34.8%	43.0%	36.3%	30.4%	33.2%	27.1%	27.9%	31.1%	28.4%	24.3%	27.9%	14.7%
Reduced Rate	15.5%	14.7%	16.6%	17.0%	17.4%	23.8%	16.1%	18.7%	18.8%	19.4%	21.6%	9.1%
City does not levy property tax rate	-	-	-	-	-	-	8.8%	8.6%	10.0%	10.1%	9.4%	8.7%

### Adopted Tax Rate Relative to No New Revenue Rate

	Current Year											Projected Jun-20
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Higher than no new revenue rate	45.4%	35.9%	38.10%	40.1%	49.2%	59.2%	56.7%	55.2%	60.1%	56.6%	62.2%	37.9%
Same as the no new revenue rate	31.3%	37.9%	35.30%	24.3%	20.2%	14.9%	33.3%	32.5%	29.9%	31.8%	29.1%	57.6%
Lower than no new revenue rate	23.3%	26.2%	26.60%	35.6%	30.6%	25.8%	10.0%	12.3%	10.0%	11.6%	8.7%	4.4%

Median increase of the no new revenue rate - 3.5%

### Percentage of Cities with Lost Revenue due to COVID-19

	Jun-20
Sales Tax	66.5%
Hotel Occupancy Tax	56.5%
Mixed Beverage Tax	48.9%

**Average Amount of Lost Revenue (Percentage) due to COVID-19**

	Jun-20
Sales Tax	13.3%
Hotel Occupancy Tax	34.1%
Mixed Beverage Tax	21.8%

**Coronavirus Relief Funds (CRF)**

	Jun-20
Percentage of Cities that Received Coronavirus Relief Funds	25.7%
CRF directly from US Treasury Department	16.4%
CRF from County	29.8%
CRF by application to TX Division of Emergency Management	53.7%

**Cities that Increased Utility or User Fees**

	Current Year											Projected
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Jun-20
Solid Waste Fees	22.8%	24.8%	22.2%	23.1%	20.7%	19.1%	15.8%	16.7%	19.2%	20.5%	20.7%	16.5%
Water Fees	32.1%	35.5%	30.2%	27.3%	32.3%	33.1%	34.2%	34.5%	30.5%	24.4%	27.9%	23.4%
Wastewater Fees	26.0%	32.3%	26.3%	25.1%	24.7%	24.5%	27.3%	25.3%	25.2%	20.6%	24.8%	21.4%
One or more utility fee	43.7%	47.2%	44.0%	41.2%	59.2%	57.9%	64.6%	68.4%	42.5%	49.7%	69.3%	61.0%
Raised User Fees	-	-	-	-	-	-	-	-	-	-	14.5%	8.7%
Impose New User Fees	-	-	-	-	-	-	-	-	-	-	10.2%	6.8%

**Average Amount of Utility Fee Increase**

	Current Year											Projected
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Jun-20
Solid Waste	8.5%	6.9%	4.9%	7.8%	4.7%	4.3%	5.7%	9.1%	5.5%	5.0%	6.6%	5.5%
Water	8.9%	11.4%	7.0%	10.8%	9.4%	9.5%	10.2%	9.1%	7.9%	6.7%	6.9%	6.0%
Wastewater	10.4%	10.8%	9.7%	6.1%	7.7%	7.4%	10.4%	5.0%	9.2%	8.5%	9.8%	7.3%

**Cities that Increased User Fees**

	Current Year	Projected
	2020	Jun-20
Building Permits	6.5%	3.1%
Impact Fees	3.3%	0.9%
Other Development Related Fees	3.5%	2.2%
Park Fees	2.9%	1.8%
Swimming Pool Fees	1.9%	1.3%
Animal Control Fees	2.1%	1.8%
EMS Fees	1.6%	1.4%
Health and Sanitation Fees	2.5%	0.9%
Short-Term Rental Permit Fees	2.2%	0.5%
Occupational License Fees	1.4%	0.7%
Street Fees	1.2%	0.7%
Public Safety Fees (Other than EMS)	1.9%	0.3%
Other User Fees	5.9%	2.5%

**Cost-Saving Measures in Previous Fiscal Year**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Hiring freeze	17.4%	17.9%	16.0%	7.6%	4.4%	3.8%	2.9%	3.2%	4.9%	2.9%	2.1%
Wage freeze	19.1%	23.8%	16.0%	5.9%	4.2%	3.4%	3.5%	4.5%	2.9%	2.6%	1.6%
Reduced services	8.5%	6.7%	8.0%	3.2%	2.6%	1.3%	2.5%	2.1%	2.0%	1.3%	2.0%
Eliminated services	4.3%	2.9%	3.0%	1.7%	1.5%	1.3%	0.6%	0.8%	1.3%	2.0%	1.6%
Reduced salaries	0.9%	1.7%	2.0%	1.3%	0.9%	0.4%	0.4%	0.4%	0.2%	0.0%	0.0%
Laid off employees	10.2%	10.7%	10.0%	4.5%	3.8%	3.0%	1.4%	3.2%	3.1%	1.9%	1.2%
Postponed capital spending	49.2%	52.4%	43.0%	36.9%	29.7%	36.0%	28.7%	26.4%	24.4%	22.0%	22.2%

**Cost-Saving Measures In Current Fiscal Year**

	Jun-20
Hiring freeze	25.4%
Wage freeze	15.6%
Reduced services	18.8%
Eliminated services	5.1%
Reduced salaries	1.2%
Laid off employees	3.4%
Postponed capital spending	26.2%

**Cost-Saving Measures Projected Next Fiscal Year**

	Jun-20
Hiring freeze	18.4%
Wage freeze	18.2%
Reduced services	6.6%
Eliminated services	3.5%
Reduced salaries	1.0%
Laid off employees	3.1%
Postponed capital spending	32.1%

**If city's revenues to remain constant or diminish, what will cities do? Ranked from '1' to '11', with '1' being the most likely action and 11 the least likely**

	1	2	3	4	5	6	7	8	9	10	11
Hiring Freeze	17.3%	19.0%	15.0%	11.5%	4.4%	6.6%	9.3%	6.6%	3.5%	3.5%	3.1%
Lay-offs	1.3%	0.0%	4.0%	4.0%	5.8%	4.4%	9.8%	16.5%	27.2%	20.1%	6.7%
Wage Reduction	0.5%	1.8%	2.6%	8.4%	9.3%	7.6%	17.4%	19.6%	18.3%	10.7%	3.6%
Increase user fees	7.2%	7.7%	12.6%	13.1%	18.9%	16.2%	9.9%	6.7%	5.8%	1.8%	0.0%
Wage Freeze	10.1%	18.5%	13.2%	13.2%	10.1%	5.3%	7.9%	9.2%	7.2%	4.8%	1.3%
Raise property taxes	7.6%	7.1%	10.2%	8.4%	13.8%	11.1%	8.9%	8.0%	5.7%	10.6%	8.4%
Reduce services	1.8%	7.1%	9.7%	16.9%	12.9%	21.3%	12.0%	10.2%	3.6%	4.0%	0.4%
Eliminate services	0.9%	3.1%	6.6%	8.0%	9.3%	11.1%	16.4%	15.6%	16.9%	9.8%	2.2%
Postpone or defer capital improvements	36.5%	26.5%	14.1%	9.7%	5.3%	5.7%	2.6%	2.2%	3.8%	1.7%	0.4%
Reduce or eliminate expenditures or right-of-way contributions to TxDot	22.3%	8.8%	7.4%	5.6%	7.4%	6.9%	2.8%	4.1%	5.6%	25.1%	3.7%
Other	17.4%	2.9%	8.7%	2.9%	4.3%	5.8%	3.6%	0.7%	1.5%	6.5%	45.6%