



TOWN OF FAIRFAX

STAFF REPORT

April 15, 2020

TO: Mayor and Town Council

FROM: Garrett Toy, Town Manager

SUBJECT: Authorize the Mayor to write a letter to our state representatives requesting the State “back-fill” the temporary reduction of sales tax revenue to municipalities caused by the Governor’s small business sales tax deferral program.

RECOMMENDATION

Authorize the Mayor to write a letter to the Governor and our state representatives requesting the State “back-fill” the temporary reduction of sales tax revenue to municipalities caused by the Governor’s small business sales tax deferral program.

DISCUSSION

On April 2nd, Governor Newsom announced that the State will allow small businesses to defer sales and use taxes of up to \$50,000 for 12 months. Small businesses with less than \$5,000,000 in taxable annual sales are eligible to participate. In essence, this is an interest-free bridge loan to small businesses to provide them with cash flow relief during the COVID-19 crisis. We are very supportive of the Governor’s efforts to assist small businesses to remain viable. It is also important to note that while some payments are deferred, all the taxes remain due and would be fully paid, although at a later date.

While the State has yet to lay out all the program details, the Administration estimates that cities/towns would collectively experience a temporary reduction of sales tax revenue by approximately \$375 million. In Fairfax, we estimate most of our sales tax generators would be eligible for the Governor’s program. We conservatively estimate that upwards of \$1 million in local sales tax revenue could be deferred by the program. Sales tax represents approximately 14% of total General Fund revenues. The Town relies on sales tax revenue to fund its operations. For cash flow purposes, the Town would need to dip into reserves to make up for the temporary revenue loss. This would be in addition to anticipated decreases to Town revenue streams due to COVID-19.

Given the Administration’s effort to help businesses remain viable, it would seem reasonable that the State should do the same for communities. The State could “back-fill” the sale tax reduction to communities and, in essence, provide a similar bridge loan to communities. The State would then be repaid over the 12-month deferral period. The League of California Cities is currently gathering data on the potential impacts of the program on communities statewide.

FISCAL IMPACT

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AGENDA ITEM # 2