Bay Area Public Services in the Era of COVID-19

Lessons from an Era of Austerity
Authors

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**IFPTE Local 21** represents more than 11,000 public workers in the Bay Area, including more than 5,600 employees of the City and County of San Francisco. Local 21 represents a highly skilled and diverse workforce comprised mostly of people of color. It includes architects, engineers, scientists, planners, analysts, health care professionals, IT workers, and advocates who perform professional and technical service work in city departments focused on housing, the environment, healthcare, transit systems, public utilities, parks and other critical infrastructure.
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Executive Summary

The full economic impacts of the COVID-19 pandemic on municipalities in the Bay Area is still unknown but could be significant, depending on the impacts of both the public health and economic crises. Decisions made today will determine both the depth and the length of these crises, including decisions made by local, county and state elected officials. While the economic shock looks less like the 2008 financial crisis and much closer to the impact of a natural disaster, it is vital we learn after the lessons of the last economic crisis to ensure a swifter economic recovery.

Local Public Services have still not recovered from 2008 Austerity Measures:

- Bay Area cities and counties – the City and County of San Francisco, the City of Oakland, the City of San Jose, Alameda County, Contra Costa County and Santa Clara County – shed 17,500 public service jobs during the 2008 recession. Collectively, these communities are currently below pre-2008 staffing to population ratios by nearly 7%.
- In the City of Oakland, Building Inspections have plummeted leading to a dramatic increase in tenant habitability complaints.
- In San Jose, out of 22 City departments, more than half have seen declines in staffing over the past 10 years that have not been restored, and the City now has the lowest ratio of staff per 1,000 residents of any major California city.
- In Alameda County the ratio of staff per monthly Public Assistance service need is 42% lower today than it was in 2006.

Public Sector Cuts Arguably Prolonged the 2008 Recession:

- 2.3 million Californians work for State and Local Government, and at least one local government agency is among the top 10 largest employers in every Bay Area county.
- During the 2008 recession, 45% of public sector job losses nationally occurred in California.
- It is estimated that losses in aggregate consumer demand from reductions in state and local government employment cost the nation 2.3 million jobs following the 2008 recession—half of which come from the private sector.

Austerity Cuts Following 2008 Recession Led to Persistent Recruitment and Retention Problems:

- Wage stagnation and benefit cuts following 2008 Recession left many bay area governments facing recruitment and retention problems.
- When the city of San Jose began pursuing substantial pension cuts, it’s staff vacancy rate more than doubled.
- The vacancy rate for budgeted civilian positions in the city of Oakland peaked at almost 20% in 2019.
- As of 2018, 1,836 positions were vacant in Contra Costa County, including 947 in Health Services.
2008 Austerity was Not Offset by New Revenues, but Reduced Service Delivery still Generated Robust Reserves that Can Minimize need for Near Term Cuts in the Era of COVID 19:

- In the recovery that followed the 2008 Recession, California’s GDP grew at nearly twice the rate of local government revenues.
- Even as federal funding support began to decline after 2011, large bay area cities brought only two revenue measures to the ballot in 2012.
- Bay Area local governments today hold a combined $3.6 billion dollars in rainy day reserves to address the near-term impact of COVID-19, a level of emergency relief not available during the 2008 Great Recession.

Equitable Tax Measures can help Local Governments Build Resilience into their Financial Models:

- After 2008, attempts at progressive revenue measures came too little and too late to restore or expand services, and contribute to a lack of budget resilience that makes these same services vulnerable to today’s economic disruptions.
- Schools and Communities First (SCF)—on The November 2020 Ballot, would close a loophole that exempts many large corporations from contributing property tax revenues on which local governments rely.
- SCF could help Bay Area cities and counties capture an additional $4.2 billion in revenue in FY-2021-2022 for public health, housing, public infrastructure, education, public transit and other services—and more than $27 billion over the next 10 years.

Ultimately, Bay Area governments are better positioned to protect existing levels of public service and employment during COVID 19 than in past recessions, and forthcoming revenue measures could enable them to contain the fiscal fallout from COVID-19, meet the near-term public service needs tied to the pandemic, and help to expedite California’s recovery.
Introduction

The impact of the response to the COVID-19 pandemic on municipalities in the Bay Area is unknown at this time but could be significant, depending upon both the length and depth of the public health crisis. In the same moment that many agencies are facing economic uncertainty, over 400,000 local government workers in the Bay Area are on the front lines of battling a public health crisis. This includes not only trained public health professionals and first responders, but also those who keep the water running, pick up trash, provide transit service, and ensure that our infrastructure is sound. In addition to these essential services, thousands of local government workers have been deployed as Disaster Service Workers. Many government workers are now providing childcare for first responders, distributing food to school children and seniors, running public health hotlines and testing sites, and providing services to the homeless.

While we are witnessing firsthand the value and the purpose of our local governments and the heroism of those who have devoted their careers to public service, government agencies entered this crisis after over a decade of persistent understaffing and under investment. After 2008, the dominant strategy among local government leadership was to balance budgets via layoffs, furloughs and cuts to employee benefits on the promise that services would be restored once the economy improved. Yet that’s not what happened.

Staffing cuts were never fully restored, and cuts to employee benefits and pay undermined efforts to recruit and retain workers during the recovery period.

As we face the prospect of another economic downturn, layoffs and staffing cuts at local agencies could create a cycle of revenue loss as thousands of workers cut back on spending, creating a further drag on our economy. For now, many agencies have built significant reserves to weather the initial shock, but as we move forward, policy makers must understand the consequences of how local agencies managed past downturns to inform its COVID-19 response.

Understanding the Coronavirus Economic Shock

The impact of the COVID-19 response on our economy is going to be different than that of the Great Recession or the Dot-Com bust. As Jason Bram and Richard Deitz of the Federal Reserve Bank of New York recently wrote, “the Great Recession was driven by economic and financial imbalances, while the current situation results from a non-economic shock.”¹ The authors go on to explain that looking toward the non-economic shock experienced by the economies of Louisiana’s and Puerto Rico’s economies after Hurricane Katrina and Hurricane Maria as more instructive. When applying this lens, the unemployment claims and sector specific impact of COVID-19 are much more analogous to the experience of a hurricane—only one experienced nationwide. There is however one major and positive difference — there is no destruction or loss of infrastructure due to the pandemic. Moody’s Investors Service also makes the same

distinction, saying "Unlike previous economic downturns, this shock has its roots outside the economy ... [and] is driven by public health policy measures that are aimed at limiting the scale of human suffering from to the spread of the disease."² Moody’s too acknowledges the qualitative differences between our current moment and past business cycle downturns. Importantly, with respect to unemployment claims they note that, “[a] closer look at these early labor market indicators reveals that a large proportion of the layoffs are temporary. [Figure 1]³

In California, on March 17, 2020 Governor Gavin Newsom issued an Executive Order suspended — retroactive to March 4th through "the end of this emergency" — the notice provisions for any employer ordering a mass layoff, relocation or termination at a covered business when the closure was caused by unforeseeable business circumstances related to COVID-19.⁴ Meaning, the unprecedented nationwide jobless claims have been amplified, due to the non-economic shock or near-immediate suspension of economic activity and will likely rebound more quickly than in past downturns once the economy is reopened.

The Response to the Great Recession: The Hard Lesson of Austerity
Today, Bay Area communities are facing an economic moment that is significantly different from anything that has been experienced in more than a generation. Even if there was evidence that the strategies employed in 2008 had worked, applying the economy-driven recession approach to our present non-economic shock moment could have dramatic and destabilizing effects on public services at the exact moment when they are needed most.

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Staffing Cuts That Never Healed
As the recession began to impact local agency budgets after 2008, one of the most drastic strategies used by local agencies to balance budgets was layoffs and eliminating budgeted positions. While the intention at the outset was often to achieve a return to normalcy once revenues began to regain strength, it is now apparent just how drastic and durable staffing cuts became.

Not only did staffing levels never recover, service deficits during the years when cuts were made are still impacting communities a decade later [Figure 25].

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5 Employee Data Includes City and County of San Francisco, City of Oakland, City of San Jose, Alameda County, Contra Costa County and Santa Clara Counties. Sources of Employee Data: Comprehensive Annual Financial Reports, Sources of Population Data: U.S. Census Bureau.
Using one metric as an example, building inspections plummeted in the City of Oakland after staffing levels decreased in 2011 and 2012, leading to a dramatic increase in tenant habitability complaints. At the same time that the housing crisis was sweeping Oakland, tenants had little recourse to stop landlord negligence [Figure 3^6].

Between 2009 and 2012, the City of San Jose laid off over 330 people, in addition to eliminating hundreds of vacant positions as staff retired or otherwise separated. At present, out of 22 City departments, more than half have seen declines in staffing over the past 10 years that have not been restored. Staffing in critical community-facing departments, such as housing, economic development and fire have decreased between 3%-19%, while some departments, such as Information Technology have seen staffing decreases as high as 40%. Today, the City still has the lowest ratio of staff per 1,000 residents out of any major California city.\(^7\)

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^6 Data Source: Building inspection and full-time equivalent staff data are tracked annually in City of Oakland Comprehensive Annual Financial Reports, tenant habitability complaints found through the City of Oakland Complaint Database.

In the case of our county governments, cuts to staffing occurred at the same moment that many residents had greater need for social safety net programs. Between 2006 to 2019, the average monthly rate of services provided by Alameda County Public Assistance Staff rose by 80% while staffing increased a total of 5% over the same time period. As a result, the ratio of staff per monthly service need is 42% lower than it was in 2006.

For county staff, this means difficult workloads and decreasing job quality [Figure 3\textsuperscript{8}]. For seniors and recipients of MediCal, CalWORKS, CalFresh, and other aid programs, low staffing ratios make necessary benefits difficult to access. At a time when unemployment is increasing even more dramatically and abruptly than in 2008, this should serve as an especially relevant cautionary tale.

\textsuperscript{8} Data Source: Comprehensive Annual Financial Reports, Alameda County: Key Operating Indicators and Full-Time Equivalent Employees by Function
In all, local government, including Counties, Cities, and Special Districts were forced to do more with less. From 2007, to point of the deepest cuts to public services, local government employment experienced a nearly six and a half percent reduction, shedding some 17,500 jobs – from 271,000 jobs to 254,000 jobs – while the Bay Area’s population increased modestly, by 50,500 residents. All told, over the decade from 2007, Bay Area population grew seven and a half percent or just shy of half a million residents, while public services failed to keep pace, local government employment only increased by less than two percent or by 5,000 workers. The policies of austerity resulted in direct impacts to the communities who are most in need of service.

**Threats to Employee Benefits Undercut Recruitment and Retention**

Along with cuts to staffing came stagnating wages and reductions to employee benefits—in particular, public employee pensions. For decades, a stable pension had been key to the recruitment strategies of local governments, where salaries are often not competitive with the private sector.⁹ As local agencies attempted to restore service levels in the later years of the recovery period, stagnating wages and declining benefit quality frustrated attempts to improve staffing and service of levels.

Today, thousands of budgeted jobs remained persistently vacant due to recruitment difficulties, especially in highly technical and skilled professions. Using some of the more extreme examples, the vacancy rate for civilian positions in the city of Oakland peaked at almost 20% in 2019. In Contra Costa County as of 2018, 1,836 positions were vacant, including 947 in Health Services [Figure 4].

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In San Jose, where local leaders pushed one of the most draconian forms of pension reform with Measure B of 2012, a wave of retirements and resignations destabilized the city’s emergency response systems and have likely contributed to a persistent and growing vacancy rate [Figure 5].

**Layoffs, Furloughs and other Cuts Prolonged the Recession**

Cuts to local government employment not only had direct service impacts, but they also indirectly impacted services by prolonging the recession. Nationwide, state and local government work comprises 13% of total employment and state and local tax revenues comprise 9% of total GDP. In California, over 2.3 million people work in state and local government. In every Bay Area county, at least one local government agency is among the top 10 largest employers. In San Francisco County, the top three largest employers are all state and local public agencies, collectively employing close to 78,000 people. Even in Santa Clara County—the center of the global technology industry—the third largest employer, after Google and Apple, is the county government.

Layoffs, furloughs, or reduction in spending by local public agencies not only immediately impact service provision, but also send ripple effects through the entire economy as millions of public employees cut back spending.

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12 City and County of San Francisco Comprehensive Annual Financial Report, 2019.

There is strong evidence to suggest that local government austerity drags down the economy because this is exactly what happened when federal funds of 2009 began to dry up in 2010 and 2011 [Figure 6\textsuperscript{14}]. As private sector employment began its slow recovery after 2009, state and local employment dropped, dragging down total employment growth and also slowing growth in the private sector. One analysis found that, without state and local austerity after the Great Recession, there would be 2.3 million more jobs in the U.S. today, half of them in the private sector due to the boost in aggregate demand. Of the state and local government job losses that took place during the Great Recession, a staggering 45% of them occurred in California, meaning that cuts in state and local government likely had an outsized role in slowing employment growth. \textsuperscript{15}

\textsuperscript{14} Source: https://cper.berkeley.edu/wp-content/journal/CPERjournal208.pdf

\textsuperscript{15} https://cper.berkeley.edu/wp-content/journal/CPERjournal208.pdf
In 2008, Revenue was not Part of the Solution
One of the most common criticisms of the longest period of economic growth in modern history was that growth was not distributed equitably in our local communities. As the economy recovered after 2008, local governments were slow to consider progressive tax and other revenue measures to offset the effects of austerity measures, and to achieve necessary expansion of services and infrastructure.

While local government revenues did grow, they still lagged behind growth in total GDP [Figure 7]. As a result, the safety net that had already been weakened substantially was never made whole.

Many local agencies did not bring revenue measures to the ballot until far into the recovery period, missing opportunities in crucial election years when the economy was already gaining steam [Figure 817].

The reluctance to make revenue part of the conversation is most stark in the Bay Area’s large population centers of San Francisco, Oakland, and San Jose. Even as federal funding support began to decline after 2011, large cities brought only two revenue measures to the ballot in 2012.

17 Author’s analysis of Ballotpedia data, https://ballotpedia.org/
Leading a Regional Recovery and Creating more Resilient Public Services

As both the some of the bay area’s largest employers and the providers of essential public services, local government can addressing the immediate needs of communities impacted by the COVID-19 pandemic, as well as position region for an economic recovery, by:

• Sustaining public service delivery throughout the crisis, by utilizing reserve balances to protect staffing and service levels in the near term.
• Fully staffing and resourcing public services to meet community service needs and demands.
• Enacting reforms that can build more resilience into the municipal funding model.

Sustaining Public Service Delivery
In the wake of the Great Recession, public agencies enacted broad service cuts and reductions. Public employees made sacrifices, accepting furloughs, pay cuts, increased workloads and lower pension benefits in order to minimize the negative impact on service levels. These sacrifices contributed to more than a decade’s worth of structural surpluses for municipalities across the bay area—allowing them to build significant budget reserves for the next downturn. The good news is that even as COVID-19 related mitigation measures have shut down local economies and strained public resources municipalities and agencies are far better positioned to prevent reductions in services than they were in 2008.

Reserve Levels Compared to Historical Revenue Volatility
An analysis of historical revenue volatility for major Bay Area agencies alongside each agency’s current reserve levels shows that – this time around – our major cities and counties are well positioned to face the economic consequences of the COVID-19 response [Figure 9][18]. The ability for an agency to meet historical general fund revenue volatility – as experienced during the last two downturns – with its currently available resources, we can reasonably assess the General Fund readiness of a city or county to meet the impending budget challenges. In all, the agencies surveyed, hold a combined $3.6 billion dollars in rainy day reserves and fund balances to address the impact of this economic disruption, a level of emergency relief not available to them during the 2008 Great Recession.

[a] Note: SF and Alameda County Unassigned Fund Balance includes restricted/committed reserve funds dedicated for General Fund use.
Revenue volatility: We based scoring for this measure on an analysis of prior revenue volatility. We looked at the greatest one-year revenue declines for each surveyed agency, from 2000 to 2018, and scored each agency on whether they were more than approximately one standard deviation above or below the average.

Coverage by reserves: We scored this factor by taking the greatest one-year revenue decline in revenue volatility and assessed the coverage of the revenue loss by each agency’s available budgetary balances.

<table>
<thead>
<tr>
<th>Location</th>
<th>Revenue (USD)</th>
<th>Volatility (%)</th>
<th>Coverage (%)</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda County</td>
<td>$870,125,000</td>
<td>-2.49%</td>
<td>17.7%</td>
<td>Strong</td>
</tr>
<tr>
<td>Reserves: $154,648,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contra Costa County</td>
<td>$1,669,483,000</td>
<td>-5.11%</td>
<td>35%</td>
<td>Strong</td>
</tr>
<tr>
<td>Reserves: $542,032,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Oakland</td>
<td>$840,434,000</td>
<td>-0.58%</td>
<td>14.07%</td>
<td>Strong</td>
</tr>
<tr>
<td>Reserves: $118,242,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Santa Clara County</td>
<td>$3,235,599,000</td>
<td>-2.94%</td>
<td>19.81%</td>
<td>Strong</td>
</tr>
<tr>
<td>Reserves: $640,958,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of San Jose</td>
<td>$1,068,193,000</td>
<td>-11.04%</td>
<td>13.47%</td>
<td>Strong</td>
</tr>
<tr>
<td>Reserves: $143,868,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City and County of San Francisco</td>
<td>$5,890,221,000</td>
<td>-2.9%</td>
<td>33.78%</td>
<td>Strong</td>
</tr>
<tr>
<td>Reserves: $1,990,000,000</td>
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</tbody>
</table>
**Fully Staffed and Resourced Public Services**
Recent federal stimulus packages have included employment protections aimed at providing stability for our economy and for working people. Recipients of federal loans are required to maintain 90% of pre-pandemic employment levels, to respect the right of their employees to form a union, and to avoid offshoring jobs or enriching shareholders while receiving federal support. Cash assistance to local governments, with the exception only of airports, has not included similar protections for public sector workers. Over the near term, leadership of local agencies can match and exceed the same standards and utilize existing federal support and structural reserves to drive our region’s recovery by fully maintaining existing staffing levels, protecting the rights of employees in the workplace and reducing costly outsourcing and privatization.

**Building a More Resilient Fiscal Model for Local Government**
Austerity is often the product of short-term political considerations and structural limitations on the financing of public services. The mitigation measures associated with COVID-19 Pandemic exposed the need for a more resilient fiscal model.

Addressing inequities in California’s current property tax system—which exempts corporations from the levies paid by residential homeowners is one tool that could provide local governments with a more resilient funding model.

In fiscal year 2021-2022 alone, it is estimated that closing the corporate property tax loophole will recapture $11.4 billion in needed revenue to support the state’s local governments and schools.  

For Bay Area cities and counties, an additional $4.2 billion in revenue would be available to fund public health, housing services, public infrastructure, education, public transit and other services.

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If Schools and Communities First had passed following the Great Recession, Bay Area agencies would be better positioned today to meet the public health demand of COVID-19 and to address the significant structural inequalities that have been exacerbated by the pandemic.

**Over the past ten years, Schools and Communities First could have recaptured $101.4 billion in revenues for local services**

<table>
<thead>
<tr>
<th>Mid Growth Scenario (millions)</th>
<th>Estimated Revenue Generated by SCF FY2021-2022</th>
<th>Estimated Cumulative Total Revenue Not Captured FY2011-12 to FY2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>$652.1</td>
<td>$5,797.8</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>$384.4</td>
<td>$3,417.7</td>
</tr>
<tr>
<td>San Francisco</td>
<td>$733.2</td>
<td>$6,518.9</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>$1,216.7</td>
<td>$10,817.7</td>
</tr>
<tr>
<td>Solano</td>
<td>$72.7</td>
<td>$646.4</td>
</tr>
<tr>
<td><strong>California Statewide Total</strong></td>
<td><strong>$11,401.3</strong></td>
<td><strong>$101,368.9</strong></td>
</tr>
</tbody>
</table>

Applying the methodology used by Jennifer Ito, Justin Scoggins, and Manuel Pastor, five Bay Area Counties (Alameda, Contra Costa, San Francisco, Santa Clara, and Solano) could have captured an estimated $26.9 - $27.5 billion in revenue cumulatively over FY2011-12 to FY2021-22. Across the state of California, local agencies could have recaptured $101.4 billion in revenues for local programs.

While federal support and structural reserves accumulated during the last recession will be needed to maintain public services and position our communities for recovery, a broader reform of California’s tax system could allow public agencies to build the fiscal resilience they’ll need to manage future downturns and to meet the demands of emerging challenges facing local governments across California—including homelessness, housing affordability and the significant threat of climate change to our public infrastructure.
Conclusion

As we confront the uncertain impacts on public budgets and the economy resulting from the response to the COVID-19 pandemic, we must heed the lessons of previous economic and non-economic shocks. Public services and public institutions have still not recovered from the cuts to critical services that were endured during the 2008 recession.

Sustaining levels of service delivery and public employment will soften duration and depth of any economic impacts caused by our COVID-19 response and could help to expedite a recovery. In addition to maintaining levels of service and staffing, policy makers should consider options to build more resilience into the funding model for municipal government.

Only such resilience will allow for the necessary investments to be made in our underserved communities and aging infrastructure.