California’s Fiscal Crisis
The Fiscal Conditions of Cities

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The Economy is Recovering
But major structural reforms are unavoidable

California was hit especially hard
✓ Housing: construction / real estate
✓ Exports: goods / tourism / licenses
✓ Business Spending – especially IT

California is leading in recovery
✓ Homebuilding subdued but improved
✓ Employment growing (but weaker lately)
✓ Business investment, exports, etc.

Local Budgets
✓ Taxable sales up but regional variation
✓ Property tax growth is flat – still declining in some areas
✓ Short term band-aids are gone
✓ Pension/OPEB problems are huge and cannot be ignored
  2012 reform package is very helpful … but more is needed
✓ Redevelopment dissolution could not have come at a worse time.
  Not just the revenue loss … uncertainty & workload.

Fear of more state actions: realignment, more shifts?
Staff & councils are overwhelmed
Some key players believe the recovery will solve it (wrong!)
Keep in mind …

- City revenue patterns are related to economic activity – but do not move in tandem.
- Cities vary: economy, governance, service choices, service responsibilities.
- Legal catastrophe issues usually re: land-use policy decisions & have little/nothing to do with fiscal conditions. (e.g., Mammoth Lakes, Half Moon Bay, Desert Hot Springs, etc.)
- Vallejo, Stockton, San Bernardino crises were driven largely by major policy choices.

Pitfalls in Seriously Troubled Cities

- Unsustainable decline in core revenues
- Hit especially hard by the recession
- Over-reliance on land development revenues
- Over-reliance on redevelopment revenues
- Risky financing schemes
- Unsustainable & intractable employee compensation levels especially public safety pension & retiree healthcare
- Ceding of management and policy choices to others

Steering Away from the Precipice

- Courageous, Collaborative, Competent
- Elected Leaders
- Management Staff
- Stakeholders (Labor Leaders, Creditors)
- or …. toxic relations, denial, fear/ineptitude.