The Fiscal Road Ahead for California Cities 2015 and Beyond

Municipal Revenues in Moderate Recovery
General Revenues - Cities

Source: Computations by Michael Coleman from data from CA State Controller reports (revenues), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)
Municipal Revenues in Moderate Recovery

Property Tax Revenues - Cities

Source: Computations by Michael Coleman from data from CA State Board of Equalization (revenues), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)

Sales Tax Collections

Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)
Municipal Revenues in Moderate Recovery
Local 1% Sales Tax Revenue as a Percent of Personal Income

Consumer spending growth is in:
- Housing
- Healthcare
- Food
- Entertainment
- Education

The population is aging
- Spending on taxable items declines with age

Tax growth is concentrating in distribution centers
- Major amounts kicked-back to corporations - not to public services

Some taxable goods being replaced by non-taxed digital equivalents:
- Computer software
- Music
- Movies
- Games
- Books

Source: California State Board of Equalization (Sales Tax), US Dept of Commerce Bureau of Economic Analysis (California Personal Income)
The Cost of Doing Business
Infrastructure maintenance, replacement, and improvement is underfunded

Transportation Funding at a Cross-Roads

Declining Transportation Funding
On-System Construction Actual and Projected Allocations

NOTE: STP augmentation included in "Other Capacity Increasing".

Source: Colorado Department of Transportation
Value of Gas Tax in 2014

What Are the Funding Shortfalls?

<table>
<thead>
<tr>
<th>Transportation Asset</th>
<th>10 Year Needs (2014 $B)</th>
<th>Funding</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pavements</td>
<td>$72.7</td>
<td>$16.6</td>
<td>$(56.1)</td>
</tr>
<tr>
<td>Essential Components</td>
<td>$31.0</td>
<td>$10.1</td>
<td>$(20.9)</td>
</tr>
<tr>
<td>Bridges</td>
<td>$4.3</td>
<td>$3.0</td>
<td>$(1.3)</td>
</tr>
<tr>
<td>Totals</td>
<td>$108.0</td>
<td>$29.7</td>
<td>$(78.3)</td>
</tr>
</tbody>
</table>
Why is 66 Critical?

PCI

$2-4/sy
$15-20/sy
$30-40/sy
$70-100/sy

Existing Funding ($1.66b/year)
Unsustainable Promises to Employees are Coming Home

Pension, retiree health care obligations are underfunded, costs are increasing.

The Cost of Doing Business

CalPERS Payments on the Rise

Average Employer Contribution Payments

Percentage of Payroll

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Safety (police, fire) plans</th>
<th>Miscellaneous plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>2015-16</td>
<td>35%</td>
<td>20%</td>
</tr>
<tr>
<td>2016-17</td>
<td>40%</td>
<td>25%</td>
</tr>
<tr>
<td>2017-18</td>
<td>45%</td>
<td>30%</td>
</tr>
<tr>
<td>2018-19</td>
<td>50%</td>
<td>35%</td>
</tr>
<tr>
<td>2019-20</td>
<td>55%</td>
<td>40%</td>
</tr>
<tr>
<td>2020-21</td>
<td>60%</td>
<td>45%</td>
</tr>
</tbody>
</table>
Employer Contribution Forecasts Have Changed

The Cost of Doing Business

CalPERS Payments on the Rise

Projected CalPERS Employer Contribution Payments

Example City #1

Rates up half again or double since 2009

Source: Bartel Associates
Projected CalPERS Employer Contribution Payments

Example City #2

The Cost of Doing Business
CalPERS Payments on the Rise

Source: Bartel Associates

The Cost of Doing Business
Retiree Health Care Costs & other OPEB*

huge unfunded liabilities for many agencies

- Number of retirees continues to rise
- Retirees living longer
- Healthcare costs continue to rise

Alameda County Cities 2013 Task Force Study
- OPEB liabilities are **often unfunded**
- Unfunded liabilities are **7% to 140% of General Fund**
  - Among the 14 Alameda County cities
- OPEB costs increased 45% over 5 years (2008-2013)

*Other Post Employment Obligations
The Cost of Doing Business:
Retiree Health Care Costs & other OPEB*

Alameda County Cities Unfunded OPEB Liability
Percent of General Fund 6/30/2013

<table>
<thead>
<tr>
<th>City</th>
<th>Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union City</td>
<td>18%</td>
</tr>
<tr>
<td>San Leandro</td>
<td>21%</td>
</tr>
<tr>
<td>Piedmont</td>
<td>52%</td>
</tr>
<tr>
<td>Pleasanton</td>
<td>105%</td>
</tr>
<tr>
<td>Oakland</td>
<td>138%</td>
</tr>
<tr>
<td>Livermore</td>
<td>131%</td>
</tr>
<tr>
<td>Alameda</td>
<td>140%</td>
</tr>
<tr>
<td>Fremont</td>
<td>68%</td>
</tr>
<tr>
<td>Hayward</td>
<td>59%</td>
</tr>
<tr>
<td>Berkeley</td>
<td>18%</td>
</tr>
<tr>
<td>Emeryville</td>
<td>15%</td>
</tr>
<tr>
<td>Newark</td>
<td>13%</td>
</tr>
<tr>
<td>Dublin</td>
<td>9%</td>
</tr>
<tr>
<td>Albany</td>
<td>7%</td>
</tr>
</tbody>
</table>

Solutions?
✓ Pre-fund OPEB liabilities
✓ Adjust benefits (retirement age, benefit cap, etc)
✓ Transition to defined contribution plans
✓ Buy out employee benefits
✓ Explore use of the Affordable Care Act

The Fiscal Road Ahead for California Cities
2015 and Beyond

Looking for Solutions
Looking For Solutions
Going to the Local Voters

- Record 268 local tax and bond measures
- 113 School bonds totaling $11.7 Billion
  - 90 pass = $9.2 Bil.

Local Revenue Measures November 2014

<table>
<thead>
<tr>
<th>Measure</th>
<th>Total</th>
<th>Pass</th>
<th>Passing%</th>
</tr>
</thead>
<tbody>
<tr>
<td>City General Tax (Majority Vote)</td>
<td>88</td>
<td>61</td>
<td>69%</td>
</tr>
<tr>
<td>County General Tax (Majority Vote)</td>
<td>6</td>
<td>2</td>
<td>33%</td>
</tr>
<tr>
<td>City Special Tax or G.O. bond (2/3 Vote)</td>
<td>23</td>
<td>14</td>
<td>61%</td>
</tr>
<tr>
<td>County Spec. Tax, G.O. bond (2/3 Vote)</td>
<td>9</td>
<td>4</td>
<td>44%</td>
</tr>
<tr>
<td>Special District 2/3</td>
<td>21</td>
<td>10</td>
<td>48%</td>
</tr>
<tr>
<td>School Parcel Tax 2/3</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>School Bond 2/3</td>
<td>1</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>School Bond 55%</td>
<td>112</td>
<td>90</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>268</strong></td>
<td><strong>189</strong></td>
<td><strong>71%</strong></td>
</tr>
</tbody>
</table>
Looking For Solutions
Going to the Local Voters

Looking For Solutions
Sales Tax: Expanding the Base

Recent proposals:
✓ 2009-10 Governor's Proposed Budget
✓ 2012 Think Long Committee
✓ AB 1963 (Huber 2012)
✓ AB 2540 (Gatto 2012)
Looking For Solutions
Sales Tax Reform: Expanding the Base

Digital Downloads

- Items are taxed in California when sold as tangible product. e.g., computer software, music, movies, games, books, etc.
- ~$100 million lost revenue & growing.

Recent proposal: AB1956 (Calderon 2008) BOE to report on digital property sales and draft a regulation to make digital property subject to sales and use tax.

Looking For Solutions
Sales Tax

What is the location of the sales transaction (the situs)?

- Seller's location? Location of product receipt? Product location?
- California currently uses “origin sourcing,” the situs is the retailer’s place of business where negotiations take place.

Origin sourcing often causes the concentration of tax revenue in one location

- far in excess of service costs at the office or warehouse location, and
- economic activity, service impacts also occur elsewhere (i.e., where product is used)

To lure jobs and tax revenues, some cities have entered into rebate agreements with corporations.

- 20% to 30% of total local taxes paid statewide are now rebated back to corporations rather than funding public services.

This is not an issue in over the counter sales.
Looking For Solutions
Sales Tax

Local 1% Sales Taxes
retained for public services

rebated to corporations

Nearly $2 Billion

- 20% to 30% of total local taxes paid statewide are now rebated back to corporations rather than funding public services.

Possible Solution
Strictly limit or prevent new sales tax rebate agreements:
- Eliminate loopholes that allow rebates where there is no net new economic benefit among California communities.

Possible Solution
Redefine sourcing rules to situs of receipt:
- Does not change over the counter sales.
- Allocates remote sales to receipt (user's location)
  - Broader distribution among all cities.
  - Closer distribution to overall economic activity / service impact.
  - Could phase-in and/or split source (origin/receipt).
- Reduces incentive for sales tax rebate agreements.
- Returns as much as $1 billion back to city general funds.
Looking For Solutions
Commercial Property Tax Reform

Problem:
- Commercial property “change of ownership” rules
  - encourage holding of property rather than development
  - create “barrier to entry” for new business
  - Like properties taxed vastly differently, unfairly
  - Commercial property paying shrinking part of the tax role

Possible Solutions
- Redefine “change of ownership”
- Require periodic reassessment of non-residential property... perhaps land only