

# **“Show Met the Money!” A City Finance Update**



League of California Cities  
Mayor/Council/Exec Forum  
San Diego, California  
May 28, 2009



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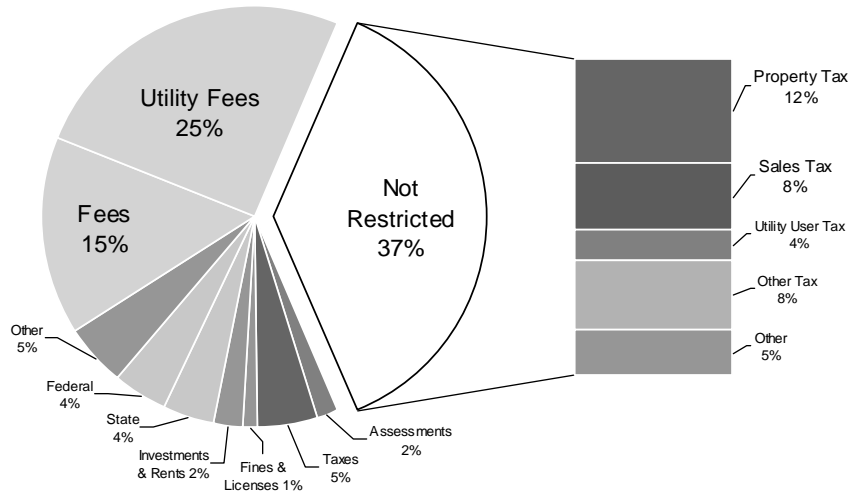
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*Michael Coleman is the Fiscal Policy Advisor for the League of Calif Cities.  
He does not solicit or accept contracts with individual local agencies.*

## California City Revenues

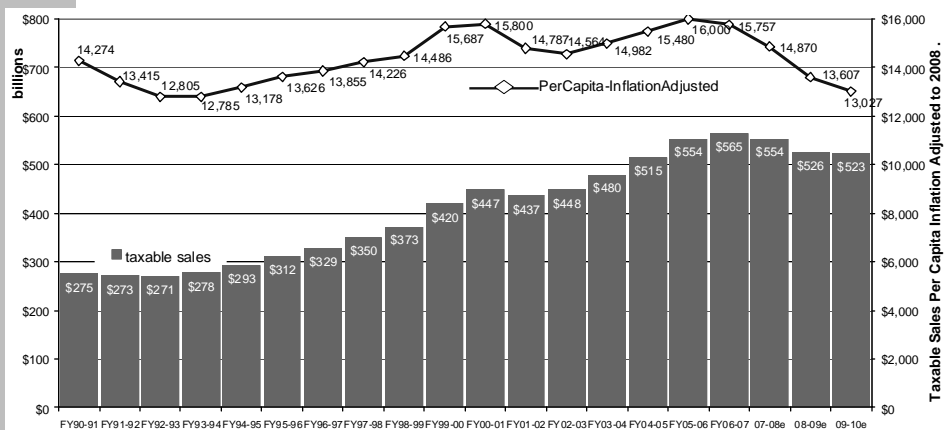


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Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Gustine City, Loyalton, San Diego, Taft, and Tulelake.  
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## California Taxable Sales



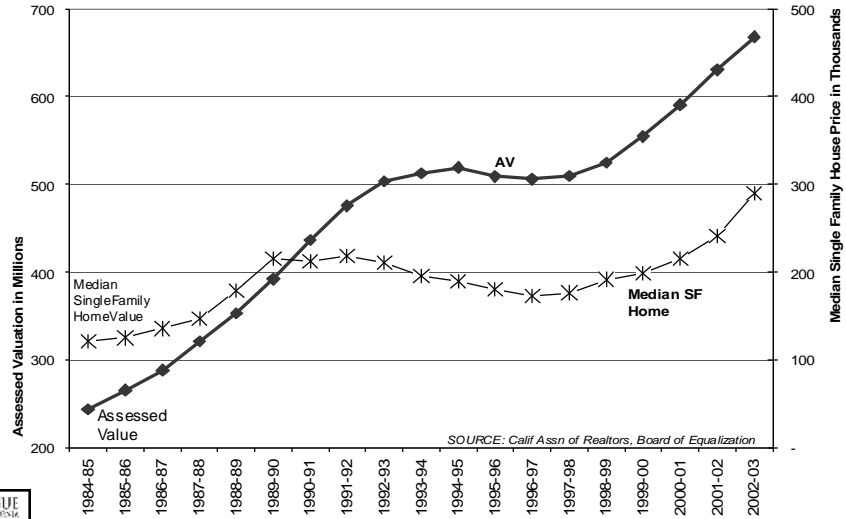
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## Property Tax Effects Lag a Deflating Housing Bubble

Los Angeles Area AV vs Housing Price

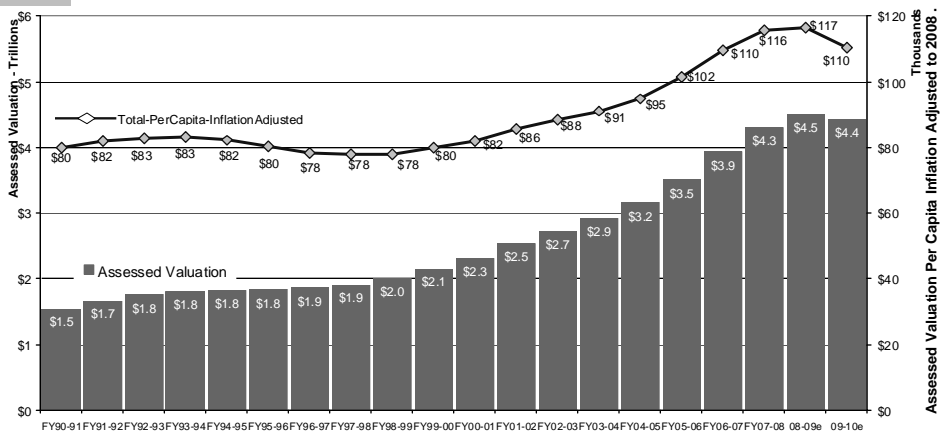


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## Assessed Valuation of Property



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## California Municipal Fiscal Outlook

- Economic downturn bottoms out later in 2009 – descent is slowing.
- Taxable sales will rebound first – some improvement in FY2009-10.
- Property Tax – revenue recovery slowed by lingering effects of downturn and delayed effects of recovery – better in FY2010-11.
- Overall lackluster revenue growth thereafter.
- High pension other retiree benefit costs on the horizon.



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## State Budget Issues for Cities



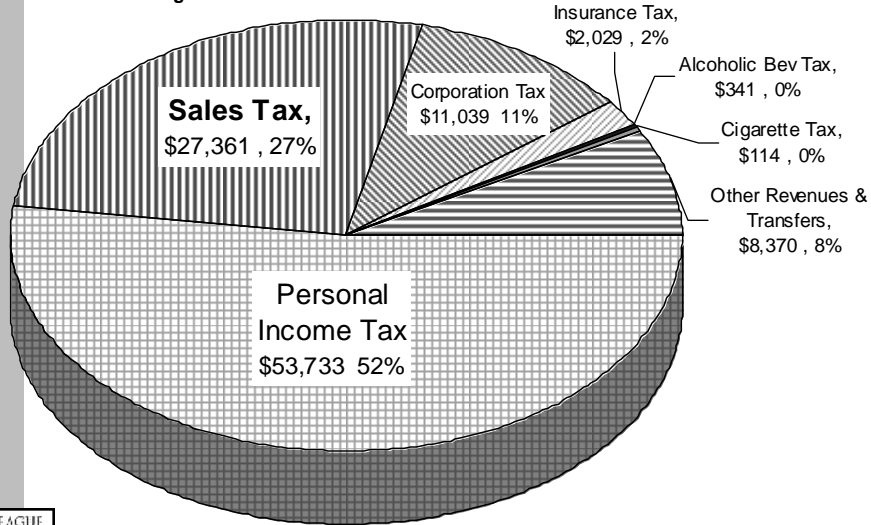
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# Calif State General Fund Revenues

FY2008-09 Budget



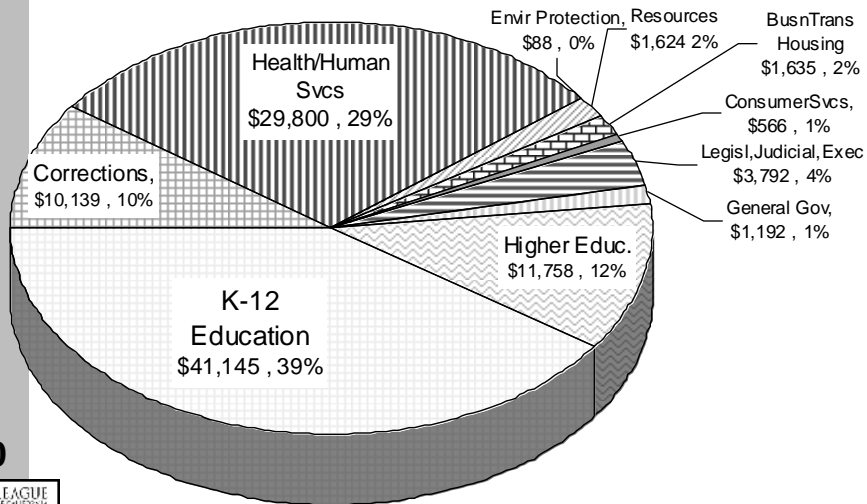
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# Calif State General Fund Spending

FY2008-09 Budget



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## Declining Revenues ...

### The LAO General Fund Revenue Forecast

(Dollars in Millions)

Revenue Source	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Personal Income Tax	\$54,289	\$50,265	\$46,339	\$47,958	\$50,064	\$53,066	\$56,071
Sales and Use Tax	26,613	25,381	26,100	27,540	29,320	31,205	32,965
Corporation Tax	11,994	12,023	9,102	8,472	9,140	9,757	10,230
Other revenues and transfers	9,753	5,580	4,794	5,723	6,868	7,234	7,567
<b>Total Revenues and Transfers</b>	<b>\$102,649</b>	<b>\$93,248</b>	<b>\$86,335</b>	<b>\$89,693</b>	<b>\$95,392</b>	<b>\$101,262</b>	<b>\$106,833</b>
<b>Percentage Change</b>	<b>7.1%</b>	<b>-9.2%</b>	<b>-7.4%</b>	<b>3.9%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>5.5%</b>

Approved Budget      \$ 103,027    \$ 101,991

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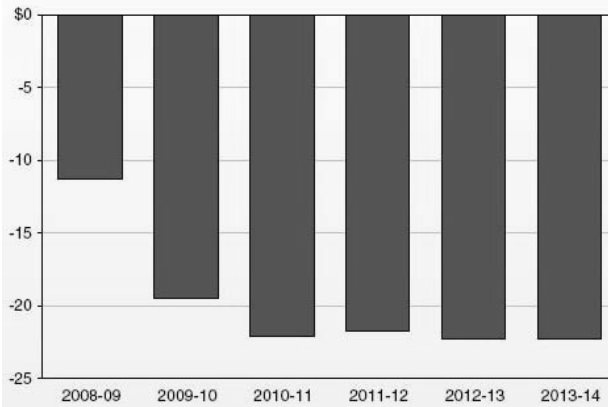


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## Declining Revenues ...

### Huge Operating Shortfalls Projected Throughout Forecast Period

General Fund (In Billions)



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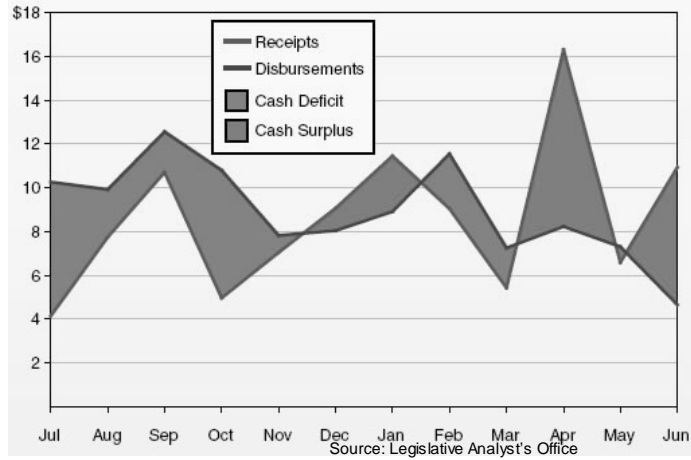


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## State Cash Flow Woes

Will Available Cash Be Insufficient to Make Regular Payments?

2007-08 (In Billions)



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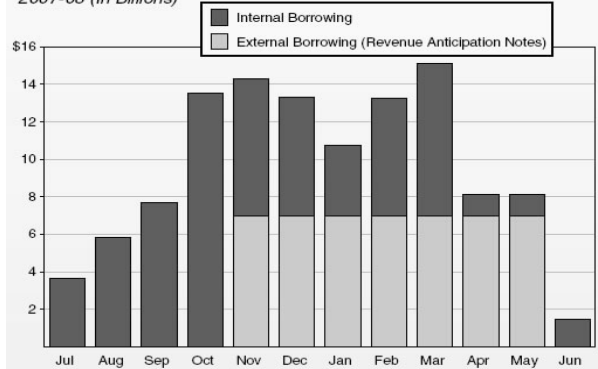
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## State Cash Flow Woes

Will Available Cash Be Insufficient to Make Regular Payments?

Sources of Borrowing to Address Accumulated Monthly Cash Deficits

2007-08 (In Billions)



**Double Whammy**

- ✓ Weakening revenues
- ✓ Limited access to credit markets

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## Adopted FY2009-10 Budget & FY2008-09 Budget Fix

<i>(in millions)</i>	2008-09	2009-10	2YearTotal
<b>Revenue Increases</b>	\$ 1,534	\$ 10,980	\$ 12,514
<b>Expenditure Savings</b>	\$ 6,765	\$ 8,595	\$ 15,360
<b>New Budgetary Borrowing</b>	\$ 234	\$ 5,095	\$ 5,329
<b>Total Solutions</b>	\$ 8,533	\$ 24,670	\$ 33,202
<b>Federal Revenue (Stimulus Package)</b>	\$ 2,825	\$ 5,701	\$ 8,527
<b>Total Solutions</b>	\$ 11,358	\$ 30,371	\$ 41,729



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Provides a  
**\$1.3B Reserve**  
in FY2009-10

## Adopted FY2009-10 Budget & FY2008-09 Budget Fix

<i>(in millions)</i>	2008-09	2009-10	2YearTotal
<b>Expenditure Savings</b>			
Reduce Prop 98 K-14 Education	\$ 5,775	\$ 2,647	\$ 8,422
Reduce Higher Education	\$ 132	\$ 756	\$ 888
Various health & social service reductions	\$ 131	\$ 1,518	\$ 1,649
Eliminate state funding to local transit	\$ 254	\$ 407	\$ 661
Senior Citizen's Property Tax Deferral	\$ 7	\$ 32	\$ 39
Redirect Prop 10		\$ 608	\$ 608
Redirect Prop 63		\$ 227	\$ 227
Various criminal justice savings	\$ 107	\$ 335	\$ 442
Shift Tribal \$ to Gen Fund		\$ 101	\$ 101
Defer Mandate reimbursements		\$ 91	\$ 91
Furlough state workers & employee costs	\$ 333	\$ 834	\$ 1,167
Other reductions	\$ 27	\$ 639	\$ 666
Reduce Corrections & Rehab (Governor's Veto)		\$ 400	\$ 400
<b>Total Solutions</b>	\$ 6,765	\$ 8,595	\$ 15,360
Shift Publ Transp Acct \$ to school transp	\$ 619	\$ 272	\$ 891

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## Adopted FY2009-10 Budget & FY2008-09 Budget Fix

<i>(in millions)</i>	2008-09	2009-10	2YearTotal
<b>Revenue Increases</b>			
Increase sales tax by 1% for three years*	\$ 1,203	\$ 4,553	\$ 5,756
Increase personal income tax rates by 0.25%		\$ 3,658	\$ 3,658
Reduce PIT dependent credit		\$ 1,440	\$ 1,440
Vehicle License Fee Increase from 0.65% to 1%	\$ 242	\$ 1,185	\$ 1,427
Vehicle License Fee 0.15% increase	\$ 104	\$ 508	\$ 611
Hiring and Retention Credits	\$ (15)	\$ (363)	\$ (378)
<b>Total Solutions</b>	<b>\$ 1,534</b>	<b>\$ 10,981</b>	<b>\$ 12,514</b>
<del>Gas Tax increase \$.12/gallon (Feb 12 Big6)</del>	<del>\$ 250</del>	<del>\$ 1,812</del>	<del>\$ 2,062</del>
<del>Expand sales tax to some services (Gov Prop.)</del>	<del>\$ 272</del>	<del>\$ 1,111</del>	<del>\$ 1,383</del>
<del>Impose oil severance tax (Gov Proposed)</del>	<del>\$ 348</del>	<del>\$ 836</del>	<del>\$ 1,184</del>
<del>Raise alcohol tax by a nickel a drink (Gov Prop.)</del>	<del>\$ 244</del>	<del>\$ 585</del>	<del>\$ 829</del>

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<b>Total Solutions</b>	<b>\$ 1,534</b>	<b>\$ 10,981</b>	<b>\$ 12,514</b>
<b>Budgetary Borrowing</b>			
Lottery		\$ 5,001	\$ 5,001
Borrowing from Internal Special Funds	\$ 234	\$ 94	\$ 328
<b>Total Solutions</b>	<b>\$ 234</b>	<b>\$ 5,095</b>	<b>\$ 5,329</b>
<b>RAWS</b>	<b>\$ 5,918</b>		

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# New State Taxes

Feb 2009 Budget Fix

	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
<b>SalesTax 1%</b>	4/1/08 \$ 1.203	\$ 4.533			ends	
<b>PIT 0.25% Increase</b>		For Tax Year 2009 \$ 3.658				ends
<b>DepTax CreditRedux</b>		\$ 1.440				ends
<b>VLF 0.35 GenFund</b>	5/19/09 \$ 0.264	\$ 1.213				ends
<b>VLF 0.15 PublSafety</b>	\$ 0.111	\$ 0.508				ends

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Taxes end after FY10-11 because Prop1A (May 19, 2009) failed

# Tax Breaks / Economic Stimulus

Feb 2009 Budget Fix

- **Single Sales Factor Apportionment**
  - Instead of current double-weighted system (50% sales, 25% payroll, 25% property), businesses would be taxed based solely on their sales.
  - Starting in tax year 2011
  - \$700m growing to \$1.5 billion
- **Film Production Credit**
  - Starting tax year 2011 for 5 years
  - \$100m per year
- **Small Business Hiring Credit**
  - For 2009 and 2010 tax years
  - \$400m over two years



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## Solutions in the Feb 2009 State Budget Fix **Economic ~~Stimulus~~ Unharnessing**

- ✓ Public-Private-Partnerships for state transp projects until 2017
- ✓ Design-build authority on 20 state and 10 redevlpmt projects
- ✓ CEQA exemption & permit streamlining for Prop1B projects
- ✓ CEQA exemption for sale of state surplus property
- ✓ Repeals labor compliance / union only requirements from bond meas & design build laws
- ✓ Relaxes air quality regulations for heavy duty off-road vehicles
- ✓ Modifies prevailing wage rules– regional surveys
- ✓ Greater flexibility in alternative work schedules



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## State Budget Fallout for California Municipalities



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## Essentials of Proposition 1A of 2004

Constitutionally prohibits the state from:

- Reducing the local sales tax rate or altering its method of allocation.
  - Exception: interstate compact, e.g., for streamlined sales tax / remote sales.
- Decreasing VLF revenue from the 0.65% rate without providing replacement funding to cities and counties.
- Shifting property taxes from cities counties or special districts.  
Except:
  - Beginning FY08-09, may borrow up to 8% of local prop tax revenues (currently about \$1.3Bill) under certain conditions.
  - Legislature may reallocate among cities, counties and special districts with a 2/3 vote of both houses of the legislature.
- Strengthens prohibitions against unfunded state mandates.



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## Essentials of Proposition 1A of 2004

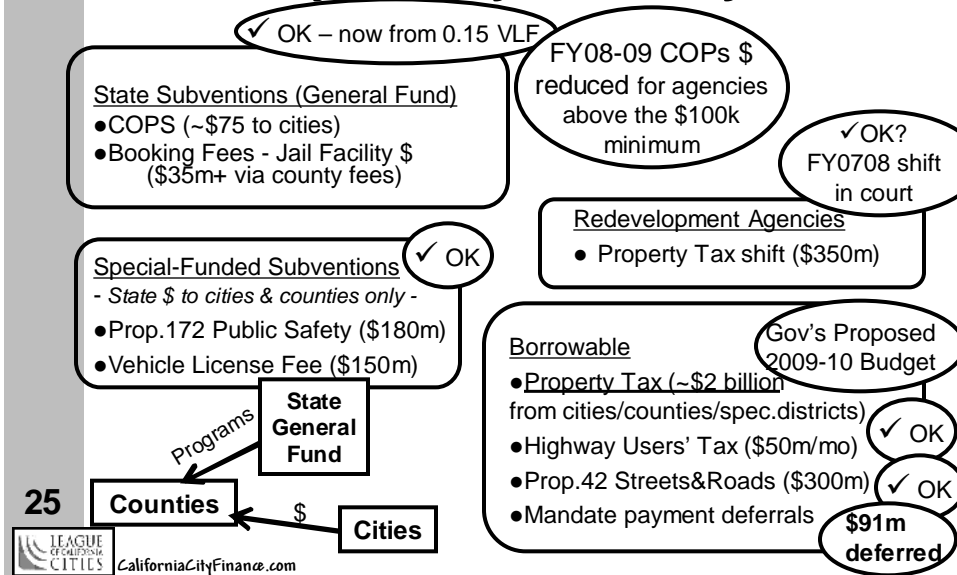
A property tax “loan” from local government?

- Beginning FY08-09;
- 8% of the property tax revenues within each county (currently about \$2 Billion statewide total);
- Governor must declare “fiscal hardship;”
- Legislature must enact urgency statute by 2/3 vote;
- the funds must be repaid within three years;
- any previous borrowing under this clause must be repaid
- not more than twice in ten years.



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## Summary of City \$ in Play



## Resources ...

- “Municipal Finance Quick Reference”  
Institute for Local Government [www.cacities.org](http://www.cacities.org)
- “Cal Facts: California's Economy and Budget in Perspective.” Legislative Analyst's Office. [www.lao.ca.gov](http://www.lao.ca.gov)
- “Primer on California City Finance,”  
*Western City Magazine* March 2005. [CaliforniaCityFinance.com](http://CaliforniaCityFinance.com)
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