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State Budget Update



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State of the State

- ✓ Prop30 temporary sales tax ended 1/1/2017
...but state tax revenues hold steady
- ✓ Operating budget debt progress
...but large unfunded employee retirement costs remain
- ✓ State revenues down from previous budgets, estimates
...but still growing moderately



Unmet needs:

- ❖ transportation ❖ water
- ❖ other infrastructure
- ❖ poverty ❖ housing
- ❖ etc.

Uncertainties/risks:

- ❖ health care (ACA)
- ❖ federal funding
- ❖ pension costs and funding
- ❖ natural disasters.

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Governor's Proposed Budget 2017



Revenues down from June 2016 Budget Act estimates

- ✓ FY2016-17 will end \$1.6 billion in deficit
 - after chewing through budgeted \$1.6 billion surplus
- ✓ Future annual gaps of \$1-2 billion absent corrective action
- ✓ Governor's proposed corrective actions:
 - Adjust Prop98 calculations for lower revenues ... \$1.7 billion
 - Recapture \$400 million affordable housing set-aside and \$300 million for state building modernization
 - Constrain spending

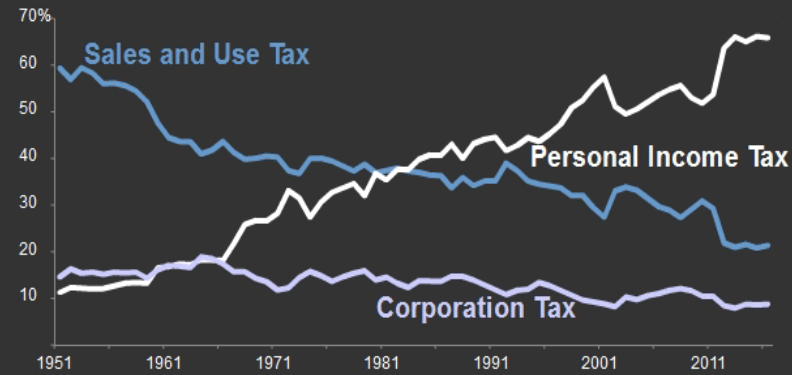


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State Budget: The Big Three Revenues

HISTORICAL COMPOSITION OF GENERAL FUND REVENUE

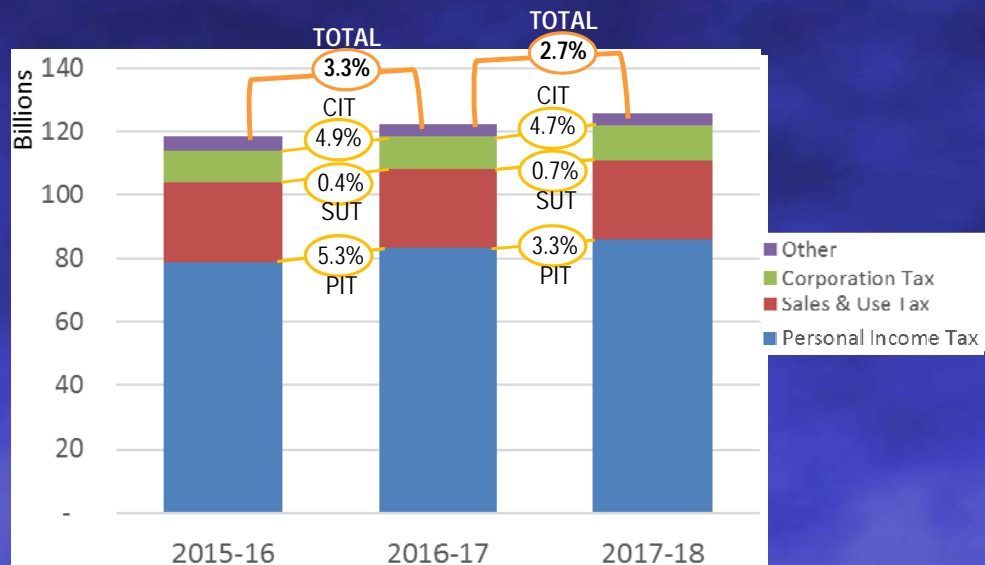
All General Fund Revenues (Excluding Transfers)



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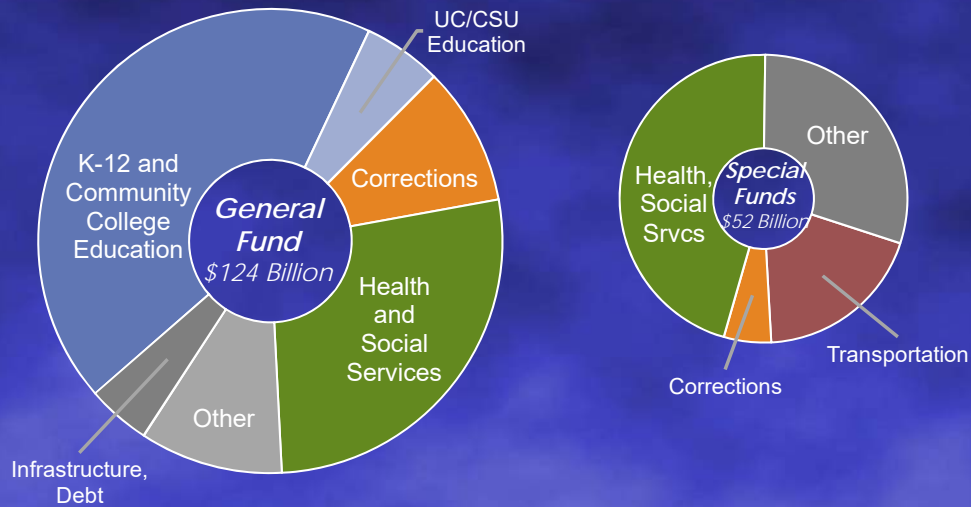
State Revenues Still Projected to Grow

General Fund – Dept of Finance Jan2017 estimates



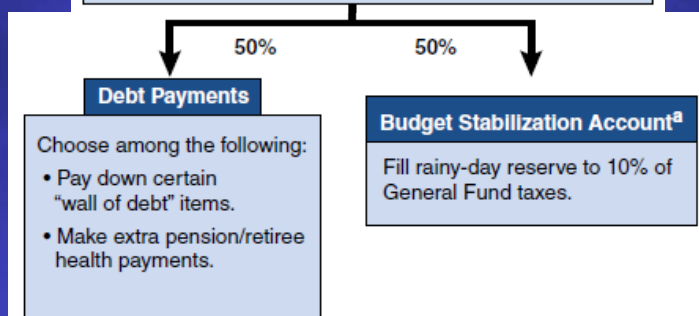
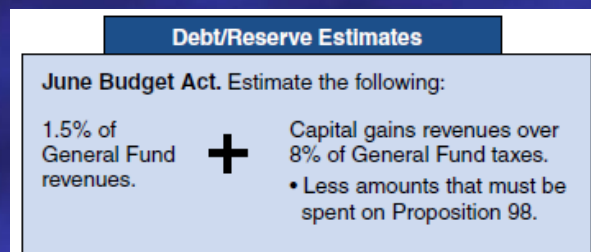
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State General & Special Funds Spending 2017-18



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Proposition 2* Rainy Day Fund & Debt Reduction



^a Upon budget emergency declaration by Governor and majority votes of both houses of the Legislature, deposits may be suspended or reduced.

Source: LAO

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Debts and Liabilities Eligible for Accelerated Payments Under Prop2

Dollars in Millions	Outstanding Amount Start of 2017-18	Proposed PayDown 2017-18
Budgetary Borrowing		
Repay Loans from Special Funds	\$ 1,365	\$ 252
Settle-up Underfunding of Prop98	1,026	400
Repay Transportation Loans	706	235
State Retirement Liabilities		
State Retiree Health	74,103	100
State Employee Pensions	49,592	0
Teacher Pensions	72,626	0
Judges Pensions	3,279	0
Deferred Payments to CalPERS	627	0
University of California Retirement Liabilities		
UC Employee Pensions	15,141	169
UC Retiree Health	21,087	0
Total	\$ 239,552	\$ 1,156



Source: Governor's Budget Summary 2017 Fig INT-02

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Governor's Proposed Budget Would End 2017-18 with \$9.4 Billion Reserve

Dollars in Millions	2016-17	2017-18
Prior Year Fund Balance	\$ 5,023	\$ 1,027
Revenues and Transfers	118,765	124,027
Expenditures	122,761	122,520
Ending Fund Balance	1,027	2,534
Encumbrances	980	980
SFEU balance	47	1,554
Reserves		
SFEU balance	47	1,554
BSA balance	6,713	7,869
Total Reserves	\$ 6,760	\$ 9,423



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Bottom Lines for Local Budgets: *Road Funds*

Highway Users Tax (HUTA)

- ✓ New FY2016-17 estimates are 4.2% *lower* than May 2016 numbers
7.2% down from FY2015-16 actuals
- ✓ FY2017-18 estimates 8.5% higher than new FY2016-17
Slightly (0.7%) above FY2015-16 actuals
- You can **use these for budgeting** (*see your city/county numbers in the report*)

Proposed New Transportation Funding

- ☐ Governor's proposal would add \$206 million
to Local Streets & Roads funding ...about 15% more
- ☐ SB1/AB1 Beall/Frazier would add \$2.2 Billion ... ~160% more



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Bottom Lines for Local Budgets

Vehicle License Fees (VLF)

... **gone** (as of 2011) ... **but ...**

Property-Tax-in-Lieu-of-VLF continues ... (constitutionally protected)

- ✓ budget prior year amount plus assessed valuation growth

COPS / SLESA Law Enforcement Grants

Funded by our former VLF, protected in realignment by Prop30

- ✓ Base amount (\$100,000 minimum) plus "growth amount"
- ✓ For FY2017-18, budget FY2016-17 actuals

AB109 / Prop30 Law Enforcement Grants

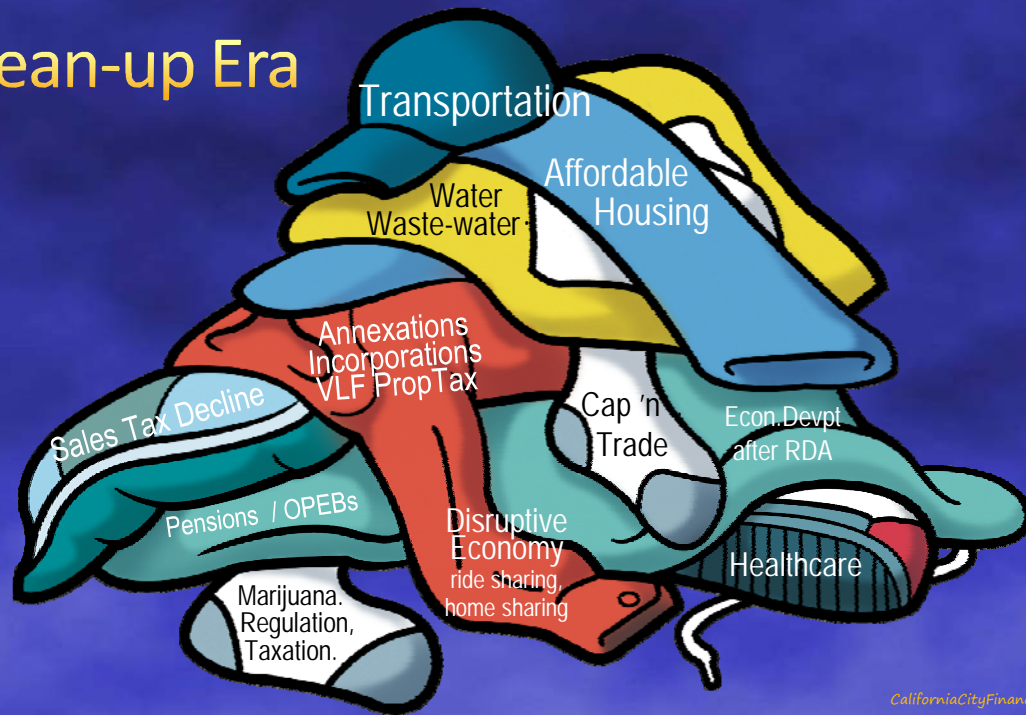
Nothing in Governor's proposed budget for FY2017-18 (*budget zero*)



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The Clean-up Era



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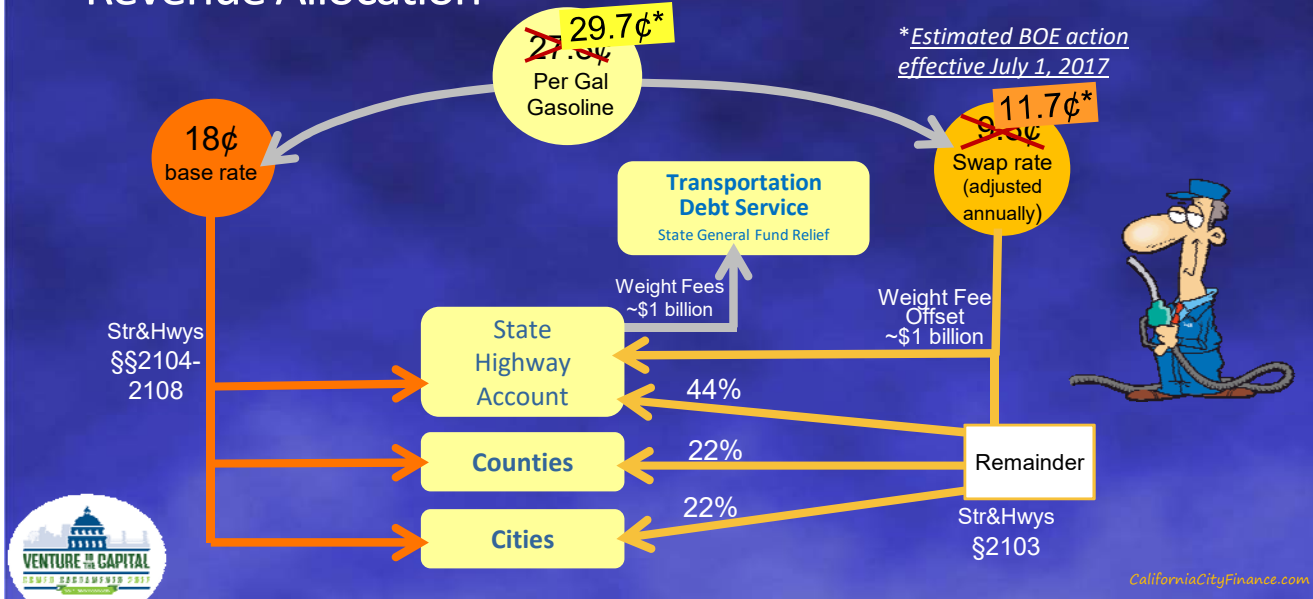
H.U.T.A. Headaches The Fuel Tax Swap of 2010



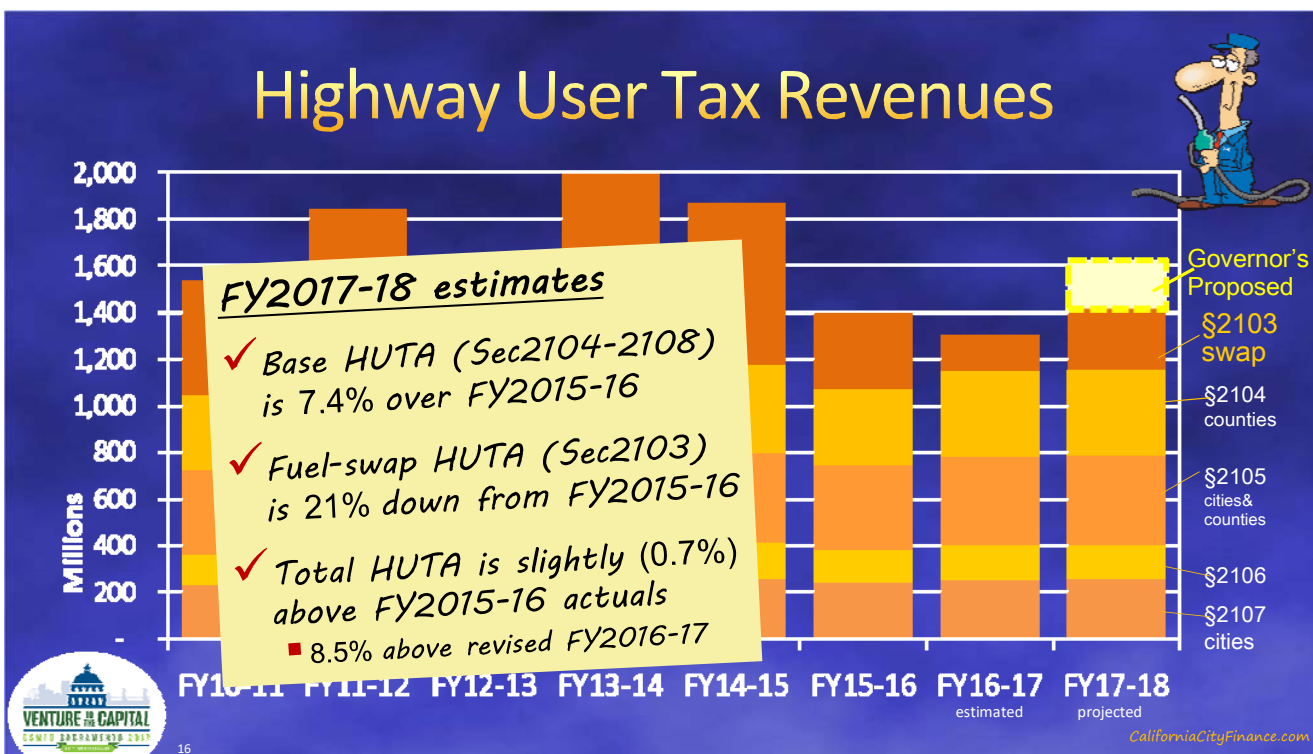
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Highway User Tax Account "HUTA" Revenue Allocation

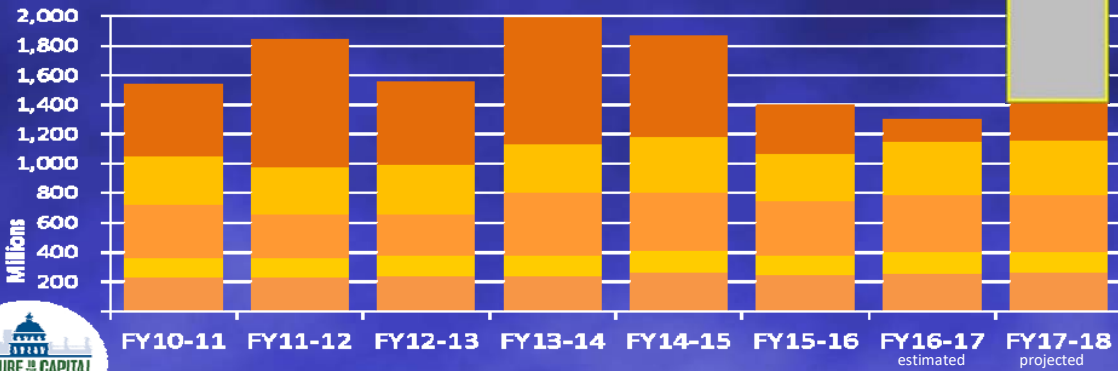


Highway User Tax Revenues



Highway User Tax Revenues

Fix Our
Roads
Proposed



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Transportation Funding in California: it's time for a new vehicle



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Transportation Funding in California

User Charges

Federal Fuel Taxes

State Fuel Taxes

Vehicle Registration Fees

Vehicle Weight Fees

Tolls

Cap-n-Trade Funds

Public Transit Fares

General Support

Dedicated Sales Taxes
incl. "self help"

Local ¼% T.D.A. Sales Tax

Benefit Assessments and Mello-Roos Taxes

Local General Funds
(incl. G.O. Bond Debt Service)

Developer Fees and Exactions

Dedicated Parcel Taxes

~~State General Fund~~

~~Redevelopment Tax Increment~~



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Roadmap to Consensus The Fix-Our-Roads Coalition Proposal

Restore Lost Revenues

Truck weight fees
Restore to transportation over 5 yrs to \$1 billion/yr

Price-based gas tax
Reset rate to 17.3 cents +\$900 million/year

Repay loans to transportation from General Fund

New Revenues

Gas tax
Increase by 12¢ to \$1.8B/yr ...and index

Diesel tax
Increase by 11¢ to \$300M/yr ...& index

Diesel sales tax
1.75% to 5.25% ...\$300M/yr

Road access fee
\$65/yr ... \$2B/yr

Zero emission vehicle fee
\$100/yr ... 10M/yr

Cap and Trade
\$500M



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Roadmap to Consensus

Reforms/Other Provisions

- ✓ Sensible CEQA reforms
- ✓ Office of Inspector General
- ✓ Reduce duplicative state/fed rules
- ✓ Increase Caltrans encroachment permit threshold
- ✓ Enact Advanced Mitigation Program
- ✓ Constitutionally protect existing and new revenues for transportation
- ✓ Eliminate sunset on authorization of Public Private Partnerships
- ✓ Provide spending transparency and accountability
- ✓ Require measureable performance targets
- ✓ **Require cities and counties to adopt a maintenance of effort**
- ✓ Require CTC allocation of SHOPP support costs
- ✓ Provide Caltrans w flexibility re contracting out



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Have You Gotten Your
Check Up?
Know Your
Financial Condition



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You Need the Financial Health Diagnostic



- **Validate** areas in which your city is *fiscally healthy*
- **Identify problems**, areas to *improve*
- **Act to remedy** problems *before* they get worse or unmanageable
- **Avoid being blind-sided** by problems
- **Add credibility** to your fiscal evaluation
- **Help others** (labor associations, taxpayers and other interested parties) **understand** your financial position



⇒ Get it at www.CaliforniaCityFinance.com

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The California Municipal Financial Health Diagnostic



- ❖ Get to the primary indicators
 - useful & essential
 - ✓ Leave out extraneous / secondary
 - ✓ Add in overlooked & underappreciated factors
- ❖ Drill down to the real numbers
- ❖ Allow for nuance / clarification / differences
 - ✓ Reduce invalid conclusions and comparisons
- ❖ Constructive, thoughtful approach





The California Municipal Financial Health Diagnostic

City of		Fund:
The California Municipal Fiscal Health Diagnostic		
Financial Distress Checklist		
Measures	1. The city has recurring general fund operating deficits.	
	2. General fund reserves are decreasing over multiple consecutive years.	
	3. General fund current liabilities (including short-term debt and accounts payable within 60 days) are increasing. Cash and short-term investments are decreasing.	
	4. General fund fixed costs, salaries and benefits are increasing over multiple years at a rate faster than recurring revenue growth.	
	5. The general fund is subsidizing other enterprises or special funds.	
Practices and Conditions	6. The city council's authority to make changes is constrained by charter, contract, or law. (e.g. binding arbitration, minimum spending, minimum staffing or compensation formulas, etc.)	
	7. The general fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.	
	8. The general fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.	
	9. General fund pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarially funded.	
	10. General fund debt service payments have been "backloaded" into future years.	
	11. Ongoing general fund operating costs are being funded with temporary development revenues.	
	12. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	
	13. Public service levels are far below standards needed in this community.	
For detailed indicators related to these points see the Financial Health Indicators .		



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Into the Weeds on Marijuana Regulation and Taxation after Proposition 64



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Proposition 64: The Adult Use of Marijuana Act (AUMA)

- Legalized nonmedical use of marijuana
 - 21+ may possess, process, transport, purchase, obtain, or give away
 - 28.5 grams of non-concentrated non-medical marijuana, or
 - 8 grams of concentrated marijuana products
 - Cultivation of six (6) marijuana plants per residence for personal use
- Creates state regulatory, licensing system
- Allows local governments to prohibit, regulate, tax



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Local Government Regulation



- Cities & counties may “reasonably regulate” but not prohibit personal indoor cultivation of up to six(6) marijuana plants w/in a private residence.
- Cities/counties may regulate or prohibit marijuana businesses
 - may not prohibit use of public roads for deliveries in another jurisdiction
- State standards are minimum standards.



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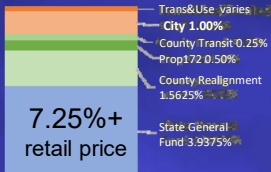
Taxes and Fees on Marijuana under Proposition 64



Apply to non-medical (recreational)

Apply to medical

Sales and Use Tax



Medical cannabis
exempt from Sales & Use Tax
effective November 9, 2016

State Marijuana Excise Tax

15%
gross receipts
of retail sale

Effective January 1, 2018

State Cultivation Taxes

\$9.25/oz flowers
\$2.75/oz leaves

City* Marijuana Excise Tax

XX%
gross receipts
or other basis

Effective on enactment

(not a sales tax)

City* Marijuana Business Regulatory Fee if enacted

To pay for regulation.
Limited to cost recovery.

City* Fines

use: unrestricted



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Local Taxes and Bonds in California November 2016

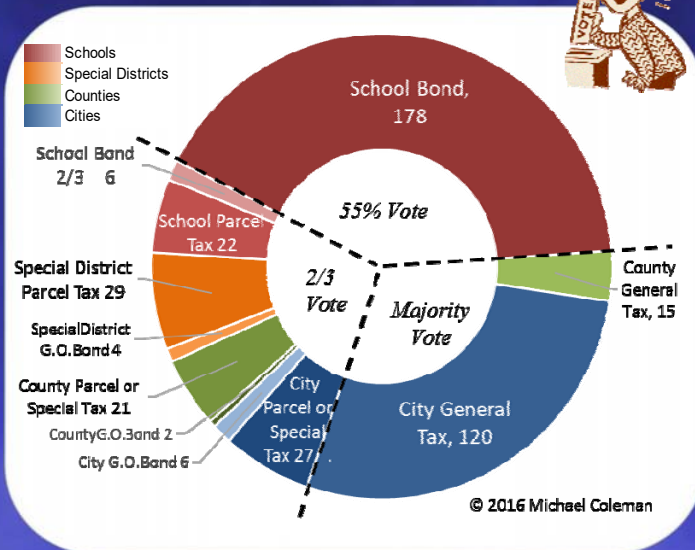


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Local Tax and Bond Measures

November 2016



- Record 650 measures
 - including 430 local tax and bond measures
- 184 school bonds totaling \$25.3 Billion
- 135 city / county majority vote general purpose taxes
- 117 two-thirds vote bonds, special taxes, parcel taxes
 - Incl. 12 non-school G.O. bonds \$7.3 billion

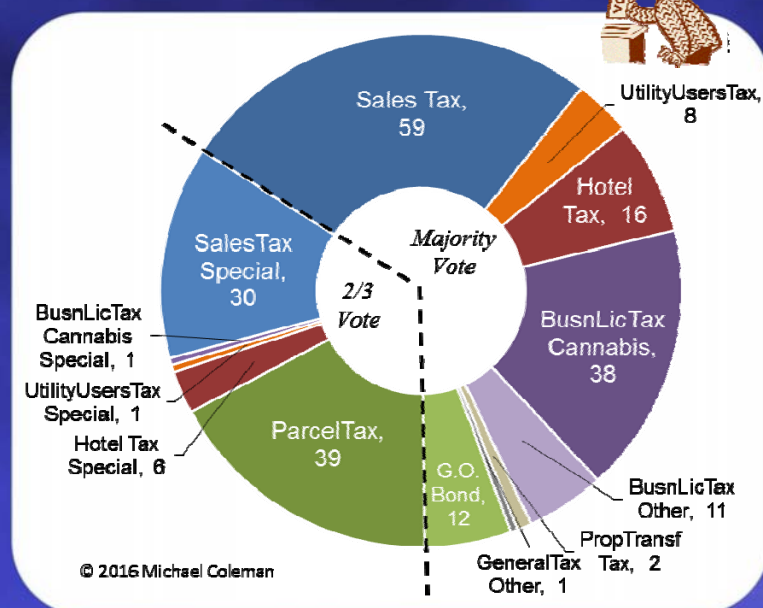


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Local Tax and Bond Measures

November 2016

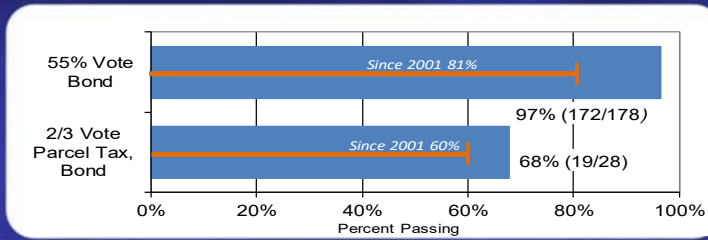


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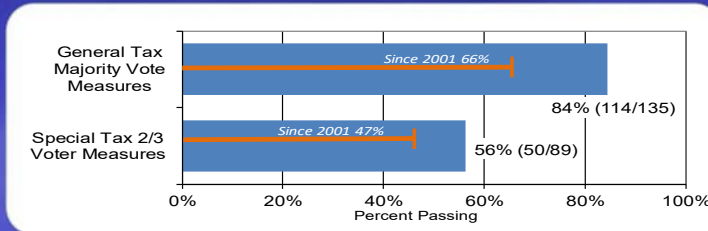
School Tax and Bond Measures

November 2016



City, County, Special Distr Taxes, Bonds

November 2016

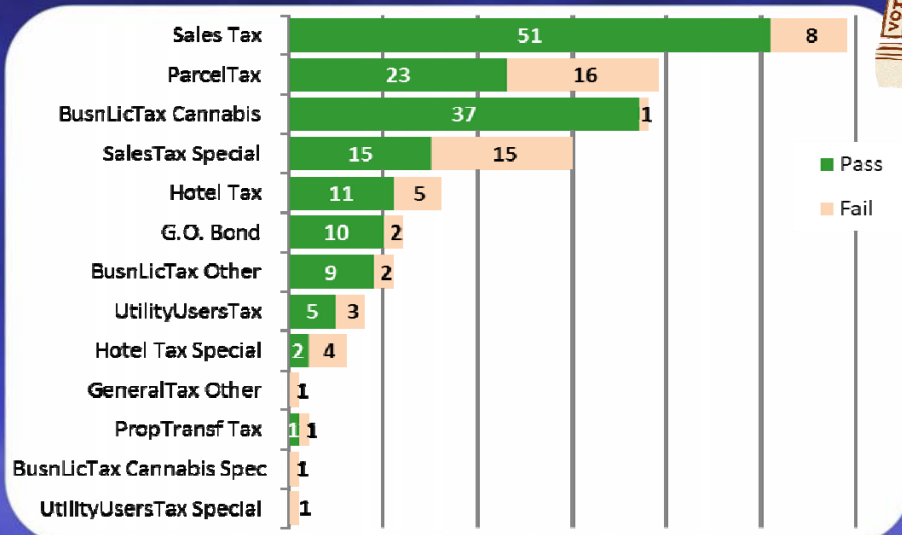


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City, County, Special Distr Taxes, Bonds

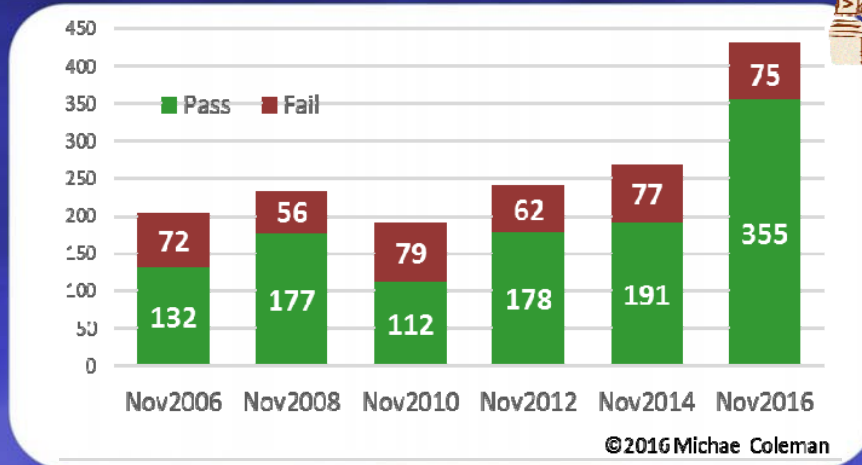
November 2016



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California Local Tax and Bond Measures Gubernatorial and Presidential Elections



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Local Tax and Bond Measures Why So Many?



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