

Change in the Air: A California Local Government Finance Update

Michael Coleman

coleman@muniwest.com

530.758.3952

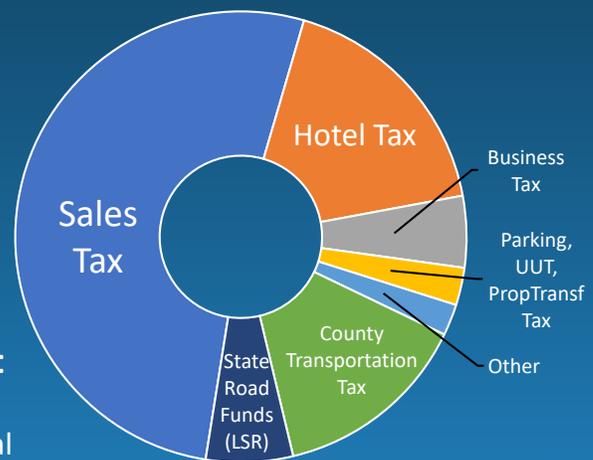
CaliforniaCityFinance.com

The California Local Government Finance Almanac



City Revenue Impacts – COVID-19

- ✓ Financial impact estimating is a squirrel:
 - Moving, clearer upfront, less tangible the farther away we are.
 - Expect more frequent financial updates than in the past.
- ✓ Each of these things is not like the others:
 - Your situation is unique. Most impacts depend on the unique character of *your* local economic base.



League of CA Cities COVID-19 Impact Study



Source: League of California Cities April 2020

Sales Tax Twists and Turns

90 day vendor payment deferral: 1st Qtr 2020

- Returns for Qtr1 due ~~April 30~~ **July 31**.
- Qtr2 returns still due July 31.
- Interest free if less than \$1 million on the return
- ✓ August disbursements show bump in \$ from those who deferred.



90 day vendor payment deferral: 2nd Qtr 2020

- Qtr2 returns still due July 31 but payments may be deferred to Oct 31 without penalty. Disbursements in November.

Sales Tax Twists and Turns

12 month payment plan

- Small business taxpayers with <\$5 million taxable annual sales
- Up to \$50,000 of liability from Qtr1 and Qtr2 2020 returns
- Must be paid-in-full by July 31, 2021



Sales Tax Twists and Turns

CDTFA* change in advance methodology

- Within each quarter, advance months boosted, settle-up month reduced

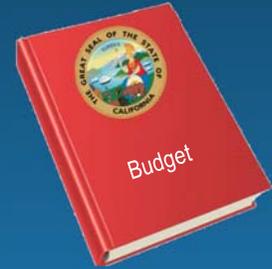
AB147 (Burke) Wayfair Collections

- Baked in with other collections – cannot be clearly distinguished
- Improved out of state collections – allocated through “pool” system
- Improved collections of Transactions and Use Tax (add-on rates)
 - Allocated direct to product user/recipient location
 - Also improved collection of in-state online TUT



California's Budget

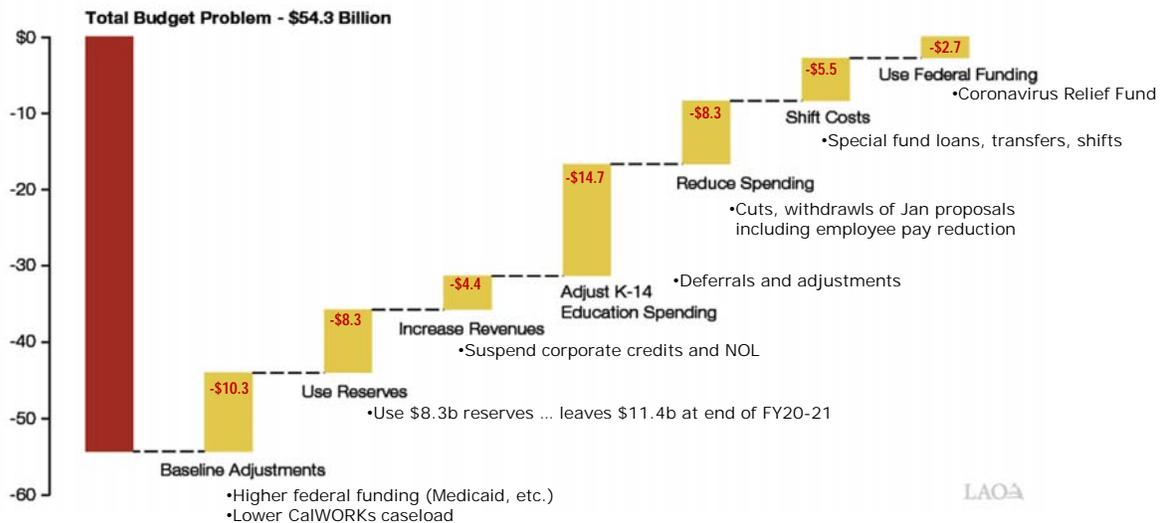
- January 2020 Governor's Proposed Budget: \$5.9 "surplus"
- May 2020 Governor's May Revision: \$54 billion shortfall
 - from January proposed budget
 - ✓ \$41 billion lower revenues
 - -\$9B in CY2019-20 ... -\$32B in BY2020-21
 - -\$33B Persn Inc Tax, -\$10B Sales Tax, -\$5B Corp Tax
 - ✓ \$ 7 billion caseload increases
 - health & human services
 - ✓ \$ 6 billion other costs,
 - mostly COVID-19



California's 2020-21 Budget

How the Budget Addresses a \$54.3 Billion Budget Problem

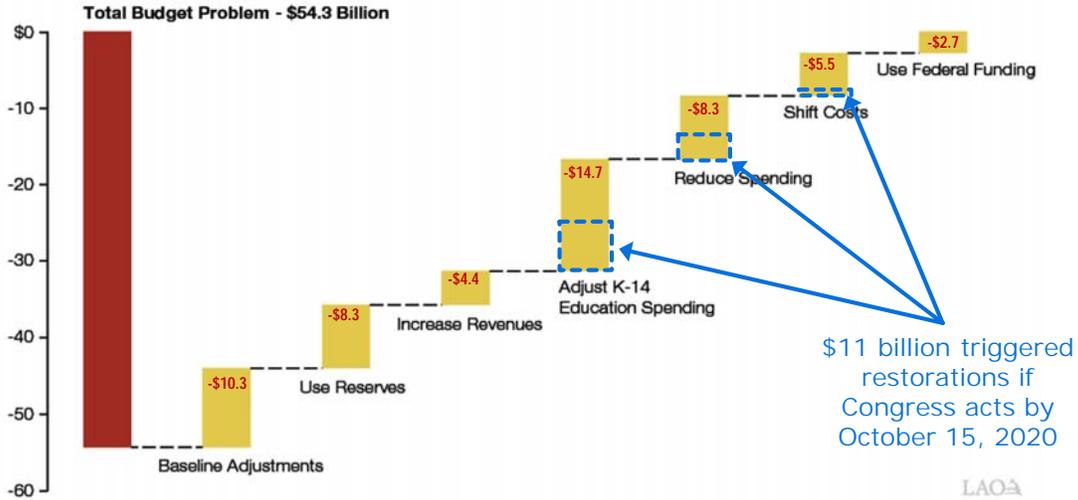
(In Billions)



California's 2020-21 Budget

How the Budget Addresses a \$54.3 Billion Budget Problem

(In Billions)



Local Streets and Roads Revenues



Local \$ to HUTA

Str&Hwy2103
Previously price-based
Gasoline Excise Tax
reset to @17.3¢ on 7/1/19

inflation adjusted starting 7/1/2020

Str&Hwy2104-2108
Base rate
Gasoline Excise Tax
18¢

inflation adjusted starting 7/1/2020

Local \$ to RMRA & grants

Gasoline Excise Tax
+12¢

inflation adjusted starting 7/1/2020

Transportation Improvement Fee
\$25 to \$175/year
depending on auto value

inflation adjusted starting 7/1/2020

Diesel Excise Tax
increase by 20¢/gal

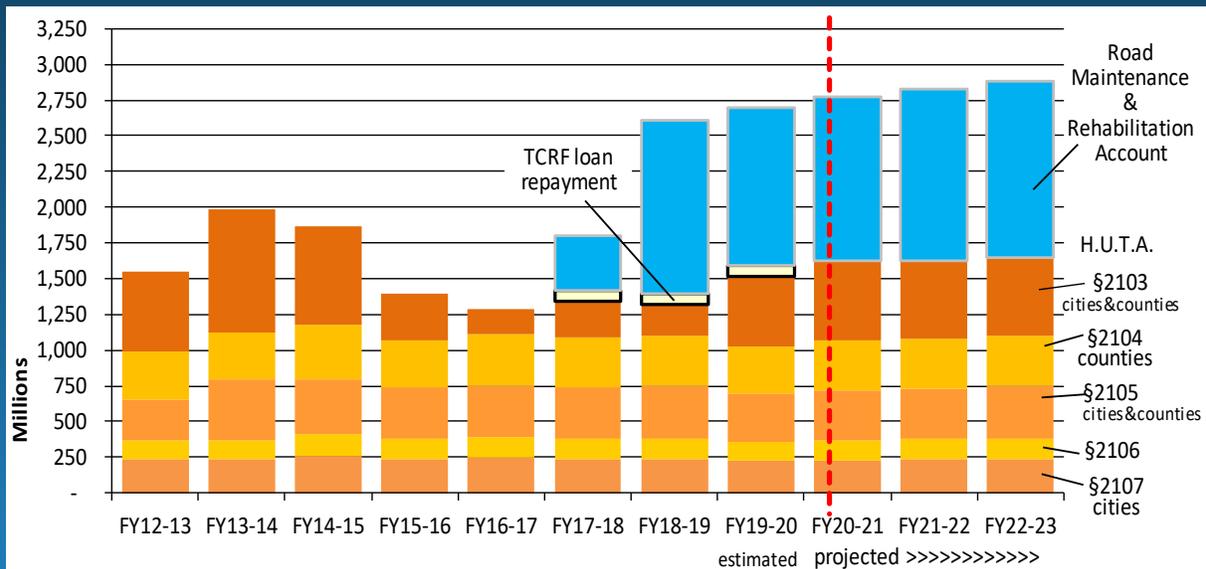
inflation adjusted starting 7/1/2020

effective 7/1/2020
ZEV Registration Fee
\$100/yr on 2020 models / later

Fuel Consumption



Local Streets and Roads \$ to Cities and Counties



Local Streets and Roads Revenues Key Points



- ❖ FY2019-20 revenues down from prior estimates due to COVID-19 drop in fuel consumption ...
- ❖ ... but due to tax rate increases ...
 - ✓ FY2019-20 revenues are still up 3.3% over FY2018-19.
 - ✓ FY2020-21 projected to increase 2.7% over FY2019-20.

Wildfire mitigation funding

COVID19 workers comp, family leave

Housing

Broadband

Utility User Taxes – Prepaid phone cards

Police accountability, public records, etc

Scooters (“Shared Mobility Devices”)



Important Legislation

Legislation



SB 1441 (McGuire) Local Prepaid Mobile Telephony Services Collection Act.

Extends until January 1, 2026, the CDTFA* administered program that collects local governments' Utility User Taxes from retail sales of prepaid wireless telecommunication products and services.

*League, CSAC:
signature requested*

*California Department of Tax and Fee Administration

Legislation



SB 1351 (Beall) Transportation improvement fee: revenue bonds.

Authorizes up to \$5 million of revenue bonds to be repaid by the state's portion of the Transportation Improvement Fee (TIF) which was established under SB1 (2017).

*League, CSAC:
no position*

- ❖ Author took League/CSAC requested amendments to ensure protection of city and county SB1 allocations.

Legislation



SB 1447 (Bradford) Small Business Tax Credit: Income Tax, Sales Tax

Allows personal income, corporate income tax credit for 2020 not to exceed one \$100,000 per small business employer. Also allows credit against qualified sales taxes (January 1, 2021 to April 30, 2026). Total cumulative credits may not exceed \$100 million.

✓ Signed by Governor

- ❖ Separate legislation includes backfill funding to hold cities and counties harmless.

Important Court Decisions



- ✓ Franchise Fees
- ✓ Tolls, Other Charges for use of Gov't Property
- ✓ Citizen Initiatives that Raise Taxes

Franchise Fees



- *Jacks v. City of Santa Barbara (2017 Calif Supreme Court)*: city's franchise fee on Southern California Edison was not a tax requiring voter approval. However, fees for use of government property must prove some reasonable relationship to the value of the rights the franchise confers.
- *Zolly v. Oakland*: appellate court in March 2020 found a lack of a relationship between the fees and the solid waste franchise rights.
- ❖ **California Constitution (Proposition 26)**: Charges for use of government property do not require cost justification that fees for services, benefits or regulatory programs do.

Tolls, other Charges for Use of Government Property



- *Howard Jarvis Taxpayers Association v. Bay Area Toll Authority*. S.F. Court of Appeal found \$3 toll increase approved in 2018 was not a tax, but a charge for use of government property, not subject to cost of service limit.
- ❖ Decision includes a lengthy footnote disagreeing with *Zolly** saying *Zolly* erred to apply the cost-of-service standard to a charge for use of property.

*March 2020 SF Court of Appeal, *Zolly v Oakland*.

Voter Thresholds for Citizen Initiative Tax Increases



- California Constitution [Prop13(1978), Prop 218(1996)] requires 2/3 voter approval for a special tax.
 - *City and County of San Francisco v. All Persons Interested in the Matter of Proposition C* tests if this applies to citizen initiatives.
 - S.F. Court of Appeals: *Special taxes do not require two-thirds voter approval if proposed by initiative.*
- ❖ California Supreme Court denied review 9/9/2020.



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