Local Tax Revenues

Recent Effects, Future Trends

City Manager’s Conference
California State and Local Economic, Fiscal Outlook
February 2022
Clients include cities, counties, and special districts

99% client retention rate

Services:

• Sales Tax & Transaction Use Tax
• Property Tax
• Economic Development
  • ARPA Assistance
• Cannabis Management
• Tax and Fee Administration
  • Business License
  • TOT & Short-term Rental
  • Utility User & Franchise Fee Tax
Property Tax Forecasting For FY 2022-23

- Unlike 2021-22, the CA CPI per Proposition 13 will be **2%** for 2022-23
- Watch property sales...
  - Most counties saw double digit SFR median sale price growth in 2021
- Los values to be restored under Prop 8 difficult to quantify, fewer in #
  - Additional values may be added FY 2022-23
- New construction completions in 2021 need to be considered
Property Tax Forecasting For FY 2022-23

- Successful appeals may result in mid-year reductions
- Office vacancies and pandemic retail effects may be realized in 2022-23 and/or 2023-24.
- Supplemental allocations in 2021-22 higher than in previous years.
  - May not be sustainable unless prices continue to increase.
- VLF in Lieu increases by citywide change in value between tax years.
Valuations Under Appeal

Comparison of Value Under Appeal By County
2019-20 to 2020-21, as a percentage of total taxable value

- Alameda
- Contra Costa
- Los Angeles
- Orange
- Riverside
- Sacramento
- San Bernardino
- San Diego
- San Mateo
- Santa Clara
- Solano
- Ventura

% of Value with Appeals Filed 2019-20
% of Value with Appeals Filed 2020-21

Powerful Solutions, Proven Results

HdL® Coren & Cone
Appeal Considerations

- 2021 appeals were due past November; many still being processed
- Likely 2 years before appeals heard in significant numbers
- Mostly Prop 8 type
  - Reviewed annually, lost value restored over time
  - Office buildings, hospitality, large commercial already filed
  - Residential/bedroom communities - no/very limited losses
- Appeal reductions pooled countywide
  - All agencies share in hit to property tax revenues
Nov. 2021
Occupancy Avg. 63%:
- 22% growth YTD over 2020
- Still 19% below YTD 2019 levels

ADR $163 per night
- Up 39% over 2020
- Under 2019 levels just 1%

Source: Visit California/STR
* Gateway Regions – LA, Orange, San Diego and Bay Area counties
Lodging revenues down 50% in 2020; hotels TOT hit the hardest

Short-term rentals (STRs) also felt impact, suffering a 22% decline
  - People more comfortable staying at home rental property

STRs - quicker recovery in bookings and a growth rate

Business travel slow to rebound, but...
  - Leisure travel increase 10-15% in 2021-22 fiscal year; up again in 2022-23
Recovery of Business License Tax Revenues

- 2020 - Business license revenues declined
  - Unemployment skyrocketed; gross receipts fell

- Remote business operations
  - Working from home 100% or hybrid
  - Commercial property vacancies – office space, small manufacturing

- Apportionment argument in play
  - Most businesses operated out of a brick-and-mortar location within municipality
    - All gross receipts calculated from that location
  - Remote working - required some revenues collected agency where employee is located.
  - Seeking fair and equitable reporting
  - Could impact current and future year BL tax collections
Cannabis Revenues

- Growth a combination of:
  - More local permits
  - Product demand
  - ‘Essential’ operations

- Looking ahead...
  - Compliance phases
  - Tax plateau, decline?
  - $13.6m in Gov’s budget
    - Unified licensing
    - Data warehouse
    - Tax reform
Sales Tax - Three Years

Statewide Place of Sale vs. Pools

- Place of Sale
- Pools

Pandemic Onset
# Three Year Comps – Business Groups

<table>
<thead>
<tr>
<th>Business Group</th>
<th>CY 2019</th>
<th>CY 2020</th>
<th>CY 2021 Est</th>
<th>Chg. CY 21 vs CY 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Consumer Goods</td>
<td>$1,414M</td>
<td>$1,160M</td>
<td>$1,475M</td>
<td>$60M 4%</td>
</tr>
<tr>
<td>Business And Industry</td>
<td>$1,052M</td>
<td>$1,110M</td>
<td>$1,351M</td>
<td>$300M 28%</td>
</tr>
<tr>
<td>Autos And Transportation</td>
<td>$1,129M</td>
<td>$1,085M</td>
<td>$1,316M</td>
<td>$188M 17%</td>
</tr>
<tr>
<td>Restaurants And Hotels</td>
<td>$982M</td>
<td>$679M</td>
<td>$901M</td>
<td>-$80M -8%</td>
</tr>
<tr>
<td>Building And Construction</td>
<td>$604M</td>
<td>$633M</td>
<td>$714M</td>
<td>$111M 18%</td>
</tr>
<tr>
<td>Fuel And Service Stations</td>
<td>$642M</td>
<td>$458M</td>
<td>$648M</td>
<td>$5M 1%</td>
</tr>
<tr>
<td>Food And Drugs</td>
<td>$366M</td>
<td>$405M</td>
<td>$414M</td>
<td>$49M 13%</td>
</tr>
<tr>
<td>Point of Sale</td>
<td>$6,188M</td>
<td>$5,530M</td>
<td>$6,820M</td>
<td>$632M 10%</td>
</tr>
<tr>
<td>Pools</td>
<td>$1,124M</td>
<td>$1,484M</td>
<td>$1,601M</td>
<td>$477M 42%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,312M</strong></td>
<td><strong>$7,014M</strong></td>
<td><strong>$8,421M</strong></td>
<td><strong>$1,109M 15%</strong></td>
</tr>
</tbody>
</table>
Regional Recovery Varies

Recovery at or beyond 2019 levels
Progress underway, still below 2019 levels
Fulfillment Centers

Place-of-Sale direct allocations to local agencies

4Q19 – 3Q20: Growth corresponds to increased local tax collections related to AB 147 and Marketplace Facilitators as well as Pandemic induced behavior shifts

4Q20: Continued Pandemic induced behavior shifts to online shopping

1Q21 - 3Q21: Shifts of local tax reporting due to changes in business structure. Partial allocations shift from indirect to direct reporting.
Autos: National Auto Sales (units)

- **January 2021**: 16.6
- **April 2021**: 17.7
- **July 2021**: 16.99
- **October 2021**: 12.44

**Increases**
- **April 2021**: Largest
- **July 2021**: Largest

**Decreases**
- **October 2021**: Largest

**Source**: TradingEconomics.com | Autodata Corporation
## Autos: What is happening...

### 3Q-2021
- National Sales Volumes down ~13%
- CA Local Tax up > 15%

### Price
- National Prices up >17% in 3Q21
  - New Car +~10%
  - Used Car +~26%

### Trend
- Strong demand + Luxury purchases
- Supply constrained but slowly improving
County Pools: Performance

2Q19: Implementation of AB 147
Starts (Wayfair); remote sellers

4Q19 – 3Q20: AB 147
Marketplace facilitator portion begins

1Q21: Shifts of local tax
reporting due to changes in
business structure. Partial
allocations shift from indirect to
direct reporting.

2Q21 – 3Q21: Growth slows due
to prior year peaks
Marketplace Facilitators

FY 2019-20 (State Fiscal Year)

- 38 Retailers Registered as marketplace facilitators
  - Reported $925 million in tax due (not just local tax, partial year)

- 32 Taxpayers registered in addition to retail operations
  - Tax revenue is unknown (combined with other retail operations)

- Allocations to jurisdictions and county pools vary by company
Economic Indicators: Dashboard

- CA Back to Normal Index: 89%
- Inflation: 7%
- Unemployment: 6.9%
- Personal Savings: 7%
- CA Small Business Closures: 30%
- eCommerce Spending 2021: Up 19%
- YoY Gas Prices: ↑ (about 41%)
CA Gas Prices

$2.78 per gallon as of May 2020

$4.60 per gallon as of Dec. 2021

GASOLINE FORECAST

Highest Daily Average Gas Price, Select Cities, 2022

<table>
<thead>
<tr>
<th>City</th>
<th>Highest Daily Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>$3.75 - $4.15</td>
</tr>
<tr>
<td>Boston</td>
<td>$3.95 - $4.25</td>
</tr>
<tr>
<td>Chicago</td>
<td>$4.35 - $4.75</td>
</tr>
<tr>
<td>Cleveland</td>
<td>$3.95 - $4.25</td>
</tr>
<tr>
<td>Dallas/Ft. Worth</td>
<td>$3.60 - $3.95</td>
</tr>
<tr>
<td>Denver</td>
<td>$3.95 - $4.30</td>
</tr>
<tr>
<td>Detroit</td>
<td>$3.85 - $4.20</td>
</tr>
<tr>
<td>Houston</td>
<td>$3.50 - $3.75</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$4.95 - $5.45</td>
</tr>
<tr>
<td>Miami</td>
<td>$3.85 - $4.15</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>$3.75 - $4.15</td>
</tr>
<tr>
<td>New York City</td>
<td>$4.05 - $4.45</td>
</tr>
<tr>
<td>Orlando</td>
<td>$3.80 - $4.15</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>$4.05 - $4.30</td>
</tr>
<tr>
<td>Phoenix</td>
<td>$4.25 - $4.55</td>
</tr>
<tr>
<td>Sacramento</td>
<td>$4.95 - $5.25</td>
</tr>
<tr>
<td>San Francisco</td>
<td>$5.25 - $5.65</td>
</tr>
<tr>
<td>Seattle</td>
<td>$4.35 - $4.60</td>
</tr>
<tr>
<td>St. Louis</td>
<td>$3.60 - $3.95</td>
</tr>
<tr>
<td>Tampa</td>
<td>$3.75 - $4.05</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>$3.95 - $4.25</td>
</tr>
</tbody>
</table>

Prices represent possible peak average daily gas price by city for select U.S. cities.
CA Domestic Air Travel

Low mark 4/10/20 -92%
### Actions taken by restaurants in recent months, as a result of being understaffed

<table>
<thead>
<tr>
<th>Action taken</th>
<th>All Restaurants</th>
<th>Fullservice Restaurants</th>
<th>Limited-service Restaurants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce hours of operation on days that it is open</td>
<td>65%</td>
<td>64%</td>
<td>67%</td>
</tr>
<tr>
<td>Reduce number of items on the menu</td>
<td>44%</td>
<td>54%</td>
<td>35%</td>
</tr>
<tr>
<td>Close on days that it would normally be open</td>
<td>44%</td>
<td>50%</td>
<td>37%</td>
</tr>
<tr>
<td>Reduce seating capacity</td>
<td>40%</td>
<td>51%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: National Restaurant Association. November 2021 survey of 3,000 operators
Base: Restaurants that currently do not have enough employees to support customer demand
Additional Inflation Consideration

Prices are growing faster than sales...

**California Local Tax**

- CPI data from the CA DOF
- Forecasted years 2021 and 2022 estimated at 6.6% and 3% respectively
- Local tax growth based on Hdl December 2021 forecast
## HdL Statewide Trend Quarterly Outlook

<table>
<thead>
<tr>
<th></th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
<th>4Q20</th>
<th>1Q21</th>
<th>2Q21</th>
<th>3Q21</th>
<th>4Q21</th>
<th>1Q22</th>
<th>2Q22</th>
<th>3Q22</th>
<th>4Q22</th>
<th>1Q23</th>
<th>2Q23</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Change YoY</td>
<td>-0.3%</td>
<td>-15.9%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>11.1%</td>
<td>38.3%</td>
<td>18.2%</td>
<td>14.9%</td>
<td>10.0%</td>
<td>4.1%</td>
<td>3.8%</td>
<td>4.2%</td>
<td>3.4%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

### Forecasted Periods

- 3Q17
- 4Q17
- 1Q18
- 2Q18
- 3Q18
- 4Q18
- 1Q19
- 2Q19
- 3Q19
- 4Q19
- 1Q20
- 2Q20
- 3Q20
- 4Q20
- 1Q21
- 2Q21
- 3Q21
- 4Q21
- 1Q22
- 2Q22
- 3Q22
- 4Q22
- 1Q23
- 2Q23

### Millions

- $0
- $500
- $1,000
- $1,500
- $2,000
- $2,500
- $3,000

The graph shows the forecasted periods from 3Q17 to 2Q23, with projected values in millions.
### Expectations

- Property Taxes – Steady improvement in current and next years
- Occupancy Taxes - Strong demand to travel, also staycations within CA
  - Current and subsequent years building back to prior revenue levels
- Sales Taxes – Recapture of lost $ from COVID extends into current year
  - FY 2022-23 slowed growth; above FY 18-19 pre-pandemic levels

### Influencers

- Pandemic ebbs and flows
- Higher cost of labor and goods
- Employment recovery uneven
- Fed Funds rate increases 2022
- Shifting back to experiences/services
- *Each City’s future tax revenues function of local tax base, pace of recovery*
Thanks Much...Hopefully Time For Questions!

When your holiday has been cancelled by the coronavirus but don't want to give up the dream...