Key Local Tax Revenues Post-Pandemic

Trends & Outlook

Cal Cities Municipal Finance Institute
December 2022
What is happening with local tax revenues?

- Property Tax
- Hotel Tax (TOT)
- Sales Tax
- BLT
- UUT
- Cannabis
- RPTT
- Others...
Property tax – 2021 unprecedented!

- CY2021 = double digit SFR median sale price growth

- CA CPI per Proposition 13 = max of 2%
  - 2022-23 & 2023-24

- Prop 8 restored values fewer in #
  - additional values may be added FY 2022-23
  - 2021 new construction completions

- Supplemental allocations in CY2021 very high
Property tax outlook

- **Headwinds**
  - interest rates - lending
  - cooling real estate market
  - prices & volume declining
  - lower local revenues
  - rate of growth decreasing

- Office vacancies/pandemic retail effects realized in 2022-23 and/or 2023-24
California travel-related recovery

- 2022 tourism spending likely $137.8B, 95% of the 2019 amount
- 2022 domestic travel-related spending recovering to 104% of 2019 & international spending recovering to 58%
- Total travel-related spending expected to reach pre-COVID levels in 2023

- **Overall in 2022...**
  - leisure travel (person trips) recover to 93% of 2019 volume
  - business-related travel will recover to 79%

Source: Visit California; STR; Tourism Economics
State hotel trends - 2021

California Summary: Occupancy

2022 Projection

- Occupancy 68%
  - 16% growth over 2021
  - 7% below 2019 levels

- ADR $187 per night
  - Up 21% over 2021
  - Up 12% over 2019

Source: Visit California; STR; Tourism Economics
Sales tax performance & pressures

- FY 2021-22 local tax receipts grew >15.3% - huge rebound year
  - Inflation & volume

- Headwinds
  - Interest rates, weakening demand, inflation, fuel pricing
  - Consumers: saving less, spending savings, using credit.
  - Continued shift back to non-taxable services
### Statewide sales tax annual outlook

<table>
<thead>
<tr>
<th>% Change YoY</th>
<th>FY15/16</th>
<th>FY16/17</th>
<th>FY17/18</th>
<th>FY18/19</th>
<th>FY19/20</th>
<th>FY20/21</th>
<th>FY21/22</th>
<th>FY22/23</th>
<th>FY23/24</th>
<th>FY24/25</th>
<th>FY25/26</th>
<th>FY26/27</th>
<th>FY27/28</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.2%</td>
<td>2.7%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>-1.9%</td>
<td>11.2%</td>
<td>15.3%</td>
<td>4.1%</td>
<td>0.7%</td>
<td>2.9%</td>
<td>3.3%</td>
<td>3.4%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

| Millions     | 3.2%    | 2.7%    | 5.6%    | 4.5%    | -1.9%   | 11.2%   | 15.3%   | 4.1%    | 0.7%    | 2.9%    | 3.3%    | 3.4%    | 3.4%    |

- FY15/16
- FY16/17
- FY17/18
- FY18/19
- FY19/20
- FY20/21
- FY21/22
- FY22/23
- FY23/24
- FY24/25
- FY25/26
- FY26/27
- FY27/28
## 3-year comparison

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Consumer Goods</td>
<td>$1,233 M</td>
<td>$1,342 M</td>
<td>$1,522 M</td>
<td>$289 M 23%</td>
</tr>
<tr>
<td>Business &amp; Industry</td>
<td>$1,065 M</td>
<td>$1,253 M</td>
<td>$1,426 M</td>
<td>$361 M 34%</td>
</tr>
<tr>
<td>Autos &amp; Transportation</td>
<td>$1,065 M</td>
<td>$1,256 M</td>
<td>$1,419 M</td>
<td>$354 M 33%</td>
</tr>
<tr>
<td>Restaurant &amp; Hotels</td>
<td>$839 M</td>
<td>$761 M</td>
<td>$1,046 M</td>
<td>$208 M 25%</td>
</tr>
<tr>
<td>Fuel &amp; Service Stations</td>
<td>$574 M</td>
<td>$538 M</td>
<td>$804 M</td>
<td>$230 M 40%</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>$607 M</td>
<td>$688 M</td>
<td>$751 M</td>
<td>$144 M 24%</td>
</tr>
<tr>
<td>Food &amp; Drugs</td>
<td>$382 M</td>
<td>$411 M</td>
<td>$419 M</td>
<td>$37 M 10%</td>
</tr>
<tr>
<td>Point of Sale</td>
<td>$5,777 M</td>
<td>$6,262 M</td>
<td>$7,400 M</td>
<td>$1,623 M 28%</td>
</tr>
<tr>
<td>Pools</td>
<td>$1,269 M</td>
<td>$1,573 M</td>
<td>$1,634 M</td>
<td>$365 M 29%</td>
</tr>
<tr>
<td>Total</td>
<td>$7,046 M</td>
<td>$7,835 M</td>
<td>$9,034 M</td>
<td>$1,988 M 28%</td>
</tr>
</tbody>
</table>

Surge included Wayfair AB147 implementation as of April 2019
## County pools (indirect)

<table>
<thead>
<tr>
<th>Major Industry Groups</th>
<th>FY 2012-13</th>
<th>FY 2018-19</th>
<th>FY 2020-21</th>
<th>FY 2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autos And Transportation</td>
<td>12.2%</td>
<td>11.5%</td>
<td>9.3%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Building And Construction</td>
<td>9.4%</td>
<td>8.1%</td>
<td>6.4%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Business And Industry</td>
<td>53.3%</td>
<td>44.2%</td>
<td>31.4%</td>
<td>33.9%</td>
</tr>
<tr>
<td>Food And Drugs</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Fuel And Service Stations</td>
<td>1.3%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>General Consumer Goods</td>
<td><strong>22.6%</strong></td>
<td><strong>33.3%</strong></td>
<td><strong>47.7%</strong></td>
<td><strong>41.4%</strong></td>
</tr>
<tr>
<td>Restaurants And Hotels</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Transfers &amp; Unidentified</td>
<td>0.7%</td>
<td>1.9%</td>
<td>4.1%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Grand Total</td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
We talk a lot about online retail sales…
Fulfillment centers

Place-of-Sale direct allocations to local agencies

4Q19 – 3Q20: Growth from AB 147 and Marketplace Facilitators, as well as pandemic behavior shifts

4Q20: Continued pandemic-related online spending

1Q21 - 4Q21: Taxpayer business structure modifications result in partial allocations shifting from indirect to direct reporting,

1Q22+: New baseline
**Pulling it all together**

<table>
<thead>
<tr>
<th><strong>Expectations</strong></th>
<th><strong>Influencers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes – steady two-year growth – but not like 2021, lower revenues</td>
<td>Pandemic ebbs and flows</td>
</tr>
<tr>
<td>Hotel Taxes - strong demand to travel, also staycations within CA</td>
<td>Higher cost of labor and goods</td>
</tr>
</tbody>
</table>
  - Current and subsequent years building back to prior revenue levels | Employment recovery uneven |
| Sales Taxes – rebound leveling off | Fed Funds rate increases 2022 |
  - FY 2022-23 slowed growth; above FY 2018-19 pre-pandemic levels | Shifting back to experiences/services |
  - Each Agency’s future tax revenues are a function of local tax base, pace of recovery |