

Financial Responsibilities and City Revenues

January 22-23, 2026 in Sacramento



Michael Coleman, Fiscal Policy Advisor, League of California Cities,
CaliforniaCityFinance.com

Christine Turner, City Manager, City of Morgan Hill

... with guest **Ben Triffo**, Legislative Advocate, League of California Cities

Workshop Outline	
Day One: Thurs.	1. Financial Administration: Your role as council member
	2. The Ins and Outs of City Funds: Taxes, Fees and Other Major Revenues
	3. Budgets and budget processes
	4. Financial reporting and auditing
	Q&A
Day Two: Friday	5. Diagnosing financial health
	6. Milestones in municipal finance: a brief history, the state-local relationship
	7. Pensions and OPEBs
	8. Financial Policies
	9. Legislative Update and Outlook
	10. Capital financing
	11. Top tips, closing charges, and Q&A

Resources:

- Chapter 1 and glossary from The California Municipal Revenue Sources Handbook Fifth Edition.
https://www.californiacityfinance.com/MayorCouncil/Ch1plus2019_p.pdf
- Governing Guide to Financial Literacy V 1 & 2: <http://www.governing.com/papers/A-Public-Official-s-Guide-to-Financial-Literacy.html>
and <http://www.governing.com/papers/A-Guide-to-Managing-Your-Jurisdiction-s-Financial-Health-1500.html>
- "Six Things to Know When Issuing Municipal Bonds," Municipal Securities Rulemaking Standards Board.
<https://www.msrb.org/sites/default/files/MSRBSixThingstoKnow.pdf>
- Public Engagement in Budgeting, ILG http://www.ca-ilg.org/sites/main/files/file-attachments/community_budget_5.5.14.pdf
- California Legislative Analyst's Office, "CalFacts" <https://lao.ca.gov/reports/2024/4942/CalFacts-2024-120224.pdf>
- Multari, Coleman, Hampian and Statler: Guide to Local Government Finance in California, Solano Press 2019
- The California Local Government Finance Almanac <http://californiacityfinance.com/>
- Government Finance Officers Association (GFOA) <http://www.gfoa.org/>

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Financial Responsibilities and City Revenues

for Mayors and Council Members

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Overview

- Financial Administration: Your Role as Council Member
- Ins and Outs of City Funds: Taxes and Major Revenues
- The Budget and Budget Process
- Financial Reporting and Auditing
- Diagnosing Financial Health
- State-Local Relationship, Milestones
- Pensions and OPEBs
- Financial Policies
- Legislative Update
- Top Tips



Financial Administration and Your Fiduciary Role

Christina Turner

- The Fiduciary Role of Mayors and Councilmembers
- Roles of Key Staff



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Financial Administration and Your Fiduciary Role

The Fiduciary Role of Mayors and Councilmembers

Oversight

- ✓ Budget Review/Approval
- ✓ Public Contracts
- ✓ Labor Relations



Sound financial policies

- ✓ Setting parameters
- ✓ Ensure long- and short-term financial awareness



Fiscal & Service Impacts of Decisions

- ✓ Setting precedents and unintended consequences



Roles of Key Staff

City Manager

- ✓ Budget Preparation
- ✓ \$ Recommendations
- ✓ Fiscal Policy Recommendations
- ✓ Year-round Admin.

Finance

- ✓ Systems Admin.
- ✓ Internal Controls
- ✓ Auditing and Financial Reporting
- ✓ Annual Comprehensive Financial Report (ACFR)

Dept. Heads / Staff

- ✓ Budget proposals
- ✓ Tracking and reporting



Public Procurement

- Not designed to achieve speed, rather provide a fair and competitive process
- Locally adopted ordinances or policies for supplies and services
- State law provides public works project requirements
- Council should avoid:
 - o Vouching for business
 - o Receipt of gifts from would-be vendor
 - o Campaign contributions from would-be vendors
 - o Gift of public funds
- Council should:
 - o Establish purchasing ordinance/policy
 - o Direct administrative staff to carry out the process
 - o Approve final agreements



Example: Morgan Hill

Amount	Method	Authority
\$10,000 or less	Informal Bid	City Manager → Department Heads
\$10,000 to \$25,000	Informal Bid	City Manager → Purchasing Officer (Finance Director)
\$25,000 to \$75,000	Competitive Bid	City Manager
\$75,000 or more	Competitive Bid	City Council

Council Oversight: Quarterly report on all contracts approved within City Manager authority, with amount, purpose, and contractor

The Ins and Outs of City Funds

Michael Coleman

- Taxes, Fees and the rest
- Local Property Taxes
- Local Sales Taxes



Cities Vary ... and so do their finances

- ✓ Geography: proximity, climate, terrain, access
- ✓ Community Character / Vision: Land use
Bedroom? Industrial? Tourist? Rural? etc.
- ✓ Size – urban / rural
- ✓ Governance / service responsibilities
full-service city - vs.- not full service

❖ *Statewide generalizations often mask trends among sub-groups*



The Mechanics of Government Revenue

Who pays?
visitors, residents,
businesses, etc.

What rate /
base?

\$per gallon, % per price,
depreciated value, etc.

How's it
allocated?

situs;
pooled/population,
etc.

Who collects?
& enforces
payment?

What is the \$
used for?
general, water,
roads, parks etc.

Who decides?

- o Statewide voters / Constitution
- o State law / Legislature
- o Local voters
- o Local law / City Council



Taxes

- ✓ Charges which pay for public services and facilities that provide general benefits. No need for a direct relationship between a taxpayer's benefit and the tax paid.
- ✓ Cities may impose any tax not otherwise prohibited by state law. (Gov Code § 37100.5)
- ✓ The state has reserved a number of taxes for its own purposes including:
 - cigarette taxes, alcohol taxes, personal income taxes.
- ✓ General & Special
 - **General Tax** - revenues may be used for any purpose.
 - Majority voter approval required for new or increased local tax
 - **Special Tax** - revenues must be used for a specific purpose.
 - 2/3 voter approval required for new or increased local tax
 - Parcel tax - requires 2/3 vote



Fees and the Rest

California Constitution per
Prop218(1996, Prop26(2010), etc.

Any levy, charge or exaction of any kind imposed by a California government, is a **tax** except:

- **User Fees and Assessments:** for a privilege/benefit, service/product
Planning permits, development fees, parking permits, user fees, copying fees, recreation classes, etc.
- **Regulatory Fees:** regulation, permits, inspections
Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, taxicab, peddlers, catering trucks, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; police background checks; pet licenses; bicycle licenses.
- **Rents:** charge for entrance, use or rental of government property
Facility/room rental fees, room rental fees, equipment rental fees, on and off-street parking, tolls, franchise, park entrance, museum admission, zoo admission, tipping fees, golf green fees, etc
- **Penalties** for illegal activity, fines and forfeitures, etc.
Parking fines, late payment fees, interest charges and other charges for violation of the law.
- **A payment that is not imposed** by government
Includes payments made pursuant to a voluntary contract or other agreement that are not otherwise "imposed" by a government's power to coerce.



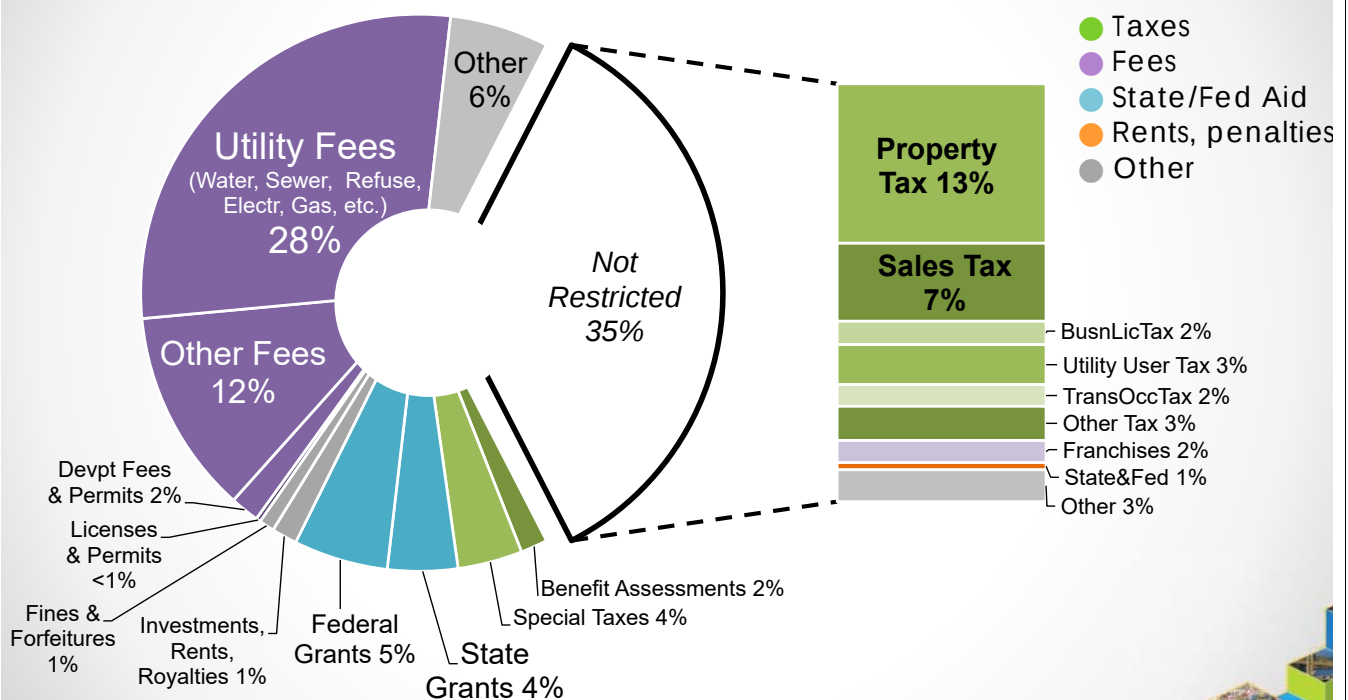
Taxes and Fees/etc. Approval Requirements (California Constitution)



	TAX- General	TAX- Parcel or Special (earmarked)	G.O.BOND (w/tax)	Fee / fine / rent
City / County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board.*
Special District	n/a	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board.*
K-14 School	n/a	Two-thirds voter approval (parcel tax)	55% voter approval*	Majority of the governing board.*

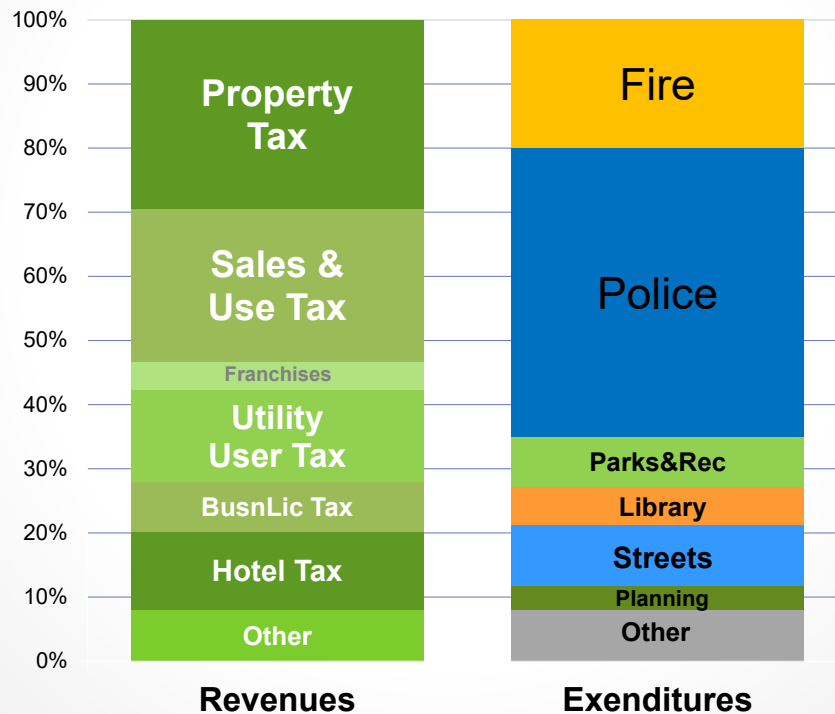


California City Revenues



Discretionary Revenues and Spending

Typical Full Service City



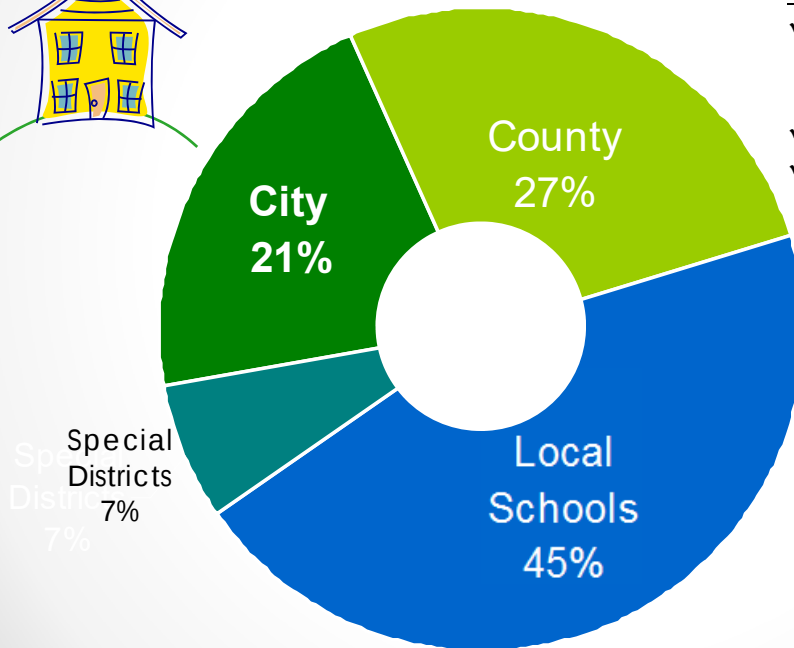
Source: Coleman Advisory Services computations from State Controller reports

Property Tax



- ✓ An *ad valorem* tax imposed on real property and tangible personal property
- ✓ Maximum 1% rate (Article XIII A) of assessed value, plus voter approved rates to fund debt
- ✓ Assessed value capped at 1975-76 base year plus CPI or 2%/year, whichever is less
- ✓ Property that declines in value is reassessed to the lower market value.
- ✓ Reassessed to current full value upon change in ownership (with certain exemptions)
- ✓ Allocation: shared among cities, counties and school districts according to state law.

Where Your Property Tax Goes



Shares Vary!

- ✓ Non-Full service cities: portion of city shares go to special districts (e.g. fire)
- ✓ Pre-prop13 tax rates
- ✓ Everyone gets Prop-Tax In Lieu of VLF shares – except new cities since 2004.

Typical homeowner in a full service city not in a redevelopment area.

Includes Property Tax in-lieu of VLF.

Source: Coleman Advisory Services computations from Board of Equalization and State Controller data.



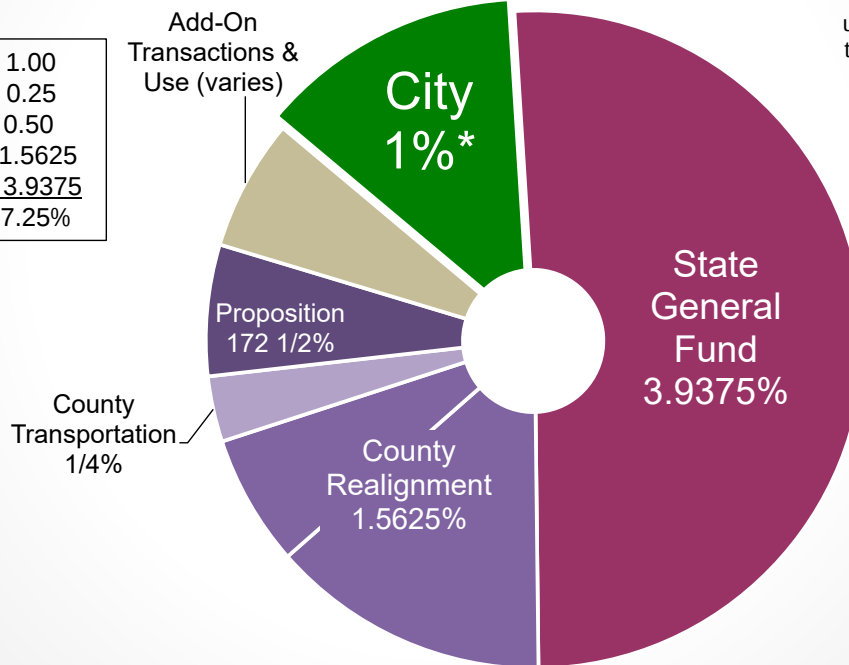
Sales and Use Tax

- ✓ **Sales Tax:** imposed on the total retail price of any tangible personal property
- ✓ **Use Tax:** imposed on the purchaser for transactions in which the sales tax is not collected.



Where Your Sales Tax Goes

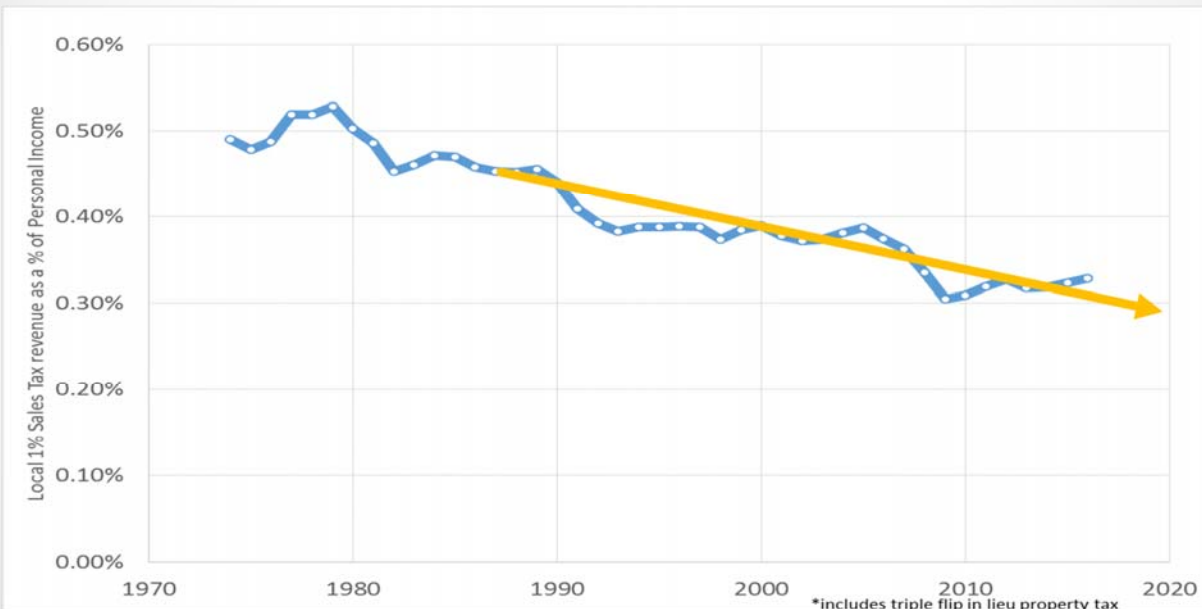
City*	1.00
Co Transp	0.25
Prop172	0.50
Co Realign	1.5625
State GF	3.9375
Total Base	7.25%



* For taxable sales in unincorporated areas, the local 1% rate goes to the county.



Sales Tax Collections as a percent of statewide personal income



Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)



Budgets and Budget Processes

Christina Turner

- What *is* a budget?
- What is *in* a budget?
- What is a “fund?”
- Capital Improvement Program (CIP)
- Budget process



What is a Budget?

Budgets and Budget Processes

- What: A financial plan projecting revenues and expenditures for a defined period of time (usually 1-2 years)
- Types: Operating and Capital

Your budget should:

- Reflect the community's priorities
- Good estimates of revenues/expenses by Fund
- Anchored to Long Term Forecasts (~5 years)
- Provide actual revenue/expense history to gauge accuracy of forecasts!





What is in a Budget?

- A **summary or discussion** of revenues, expenses, and current economic conditions
- History of **actual** revenues and expenses
- Projected **revenues by type/source**
- Estimates of proposed **expenditures by function** (typically by Department)
- Separate budgets for each and every **Fund**
- Capital Budget – tied to CIP



What is a “Fund”?

- A **fund** is a self-balancing set of accounts for all financial transactions of specific activities.
- Most agency budgets include the following types of separate **“funds”**:
 - General Fund
 - Enterprise Fund(s)
 - Special Revenue Fund(s)
 - Capital Project Fund(s)
 - Others: debt service, trust, agency, internal service, special assessment





Budget Alternatives

Terms:

- Typical: One Fiscal Year (July 1 – June 30)
- Biennial Budget (two fiscal years)

Types:

- Operating
- Capital

Budget Formats:

- Line Item
- Performance
- Program
- Zero Based



Capital Improvement Program (CIP)

- For infrastructure or capital investment
- Revenues come from a variety of sources:
 - Impact fees, restricted taxes, grants, enterprise operations, general fund
- Subject to State Law--bidding process and prevailing wages
- Capital Improvement Program should look forward five years, preferably ten





CIP – Policy & Guidelines

Policy:

- Statement of plans for capital projects
- Specific goals
 - e.g., PCI for roads
- Use of resources

Guidelines:

- preserve an existing asset?
- mitigate health or safety problem?
- mandated by State or Feds?
- contribute to City's economic health?
- available funding for capital plus ongoing operations & maintenance?



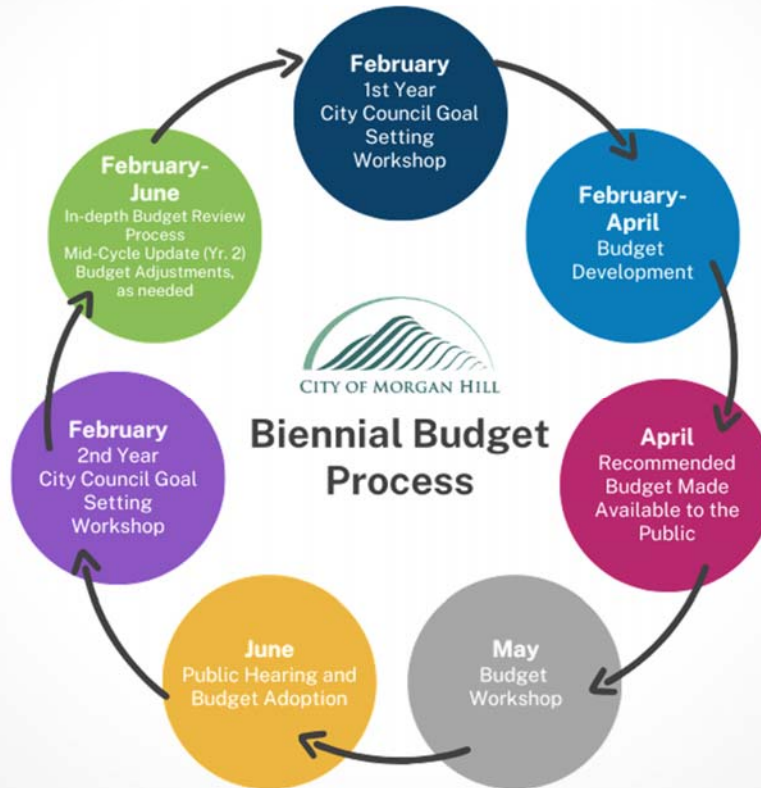
Budget Process

- A budget takes months to prepare
- Performance standards or measures help ensure investment meets desired outcomes
- Your budget calendar and review process should be meaningful
- Your process should allow for needed input at the appropriate times
- Each agency does it differently!





Biennial Budget Process



Financial Reporting and Auditing



Christina Turner

- The Annual Comprehensive Financial Report (ACFR)
- Letter of Transmittal
- Independent Auditor's Report
- Management Discussion and Analysis
- Financial Statements and Notes
- Supplementary and Statistical Information





Annual Comprehensive Financial Report (The ACFR)

Letter of Transmittal

Independent Auditor's Report

Management Discussion and Analysis

Basic Financial Statements and Note Disclosures

Supplementary Information and Statistical Section



Management's Discussion and Analysis (MD&A)

- Narrative overview of Basic Financial Statements
 - Explains components
 - Highlights year-over-year changes
 - Analysis of individual funds
- What to look for:
 - Changes in net position
 - Capital assets vs. unrestricted net position
 - Underlying reasons...One-time occurrences or a trend?
 - Changes in fund balance
 - The change itself is less important than the explanation
 - Analysis of the General Fund





Basic Financial Statements

Government-wide

This is the agency-wide roll-up

Governmental Funds

- General Fund
- Special revenue funds
e.g., impact fee funds

Proprietary Funds

- Enterprise funds
e.g., utilities, etc.

Note: Fiduciary Funds (trust funds, redevelopment dissolution funds, etc.) are a separate component and do not roll-up into the government-wide financial statements.

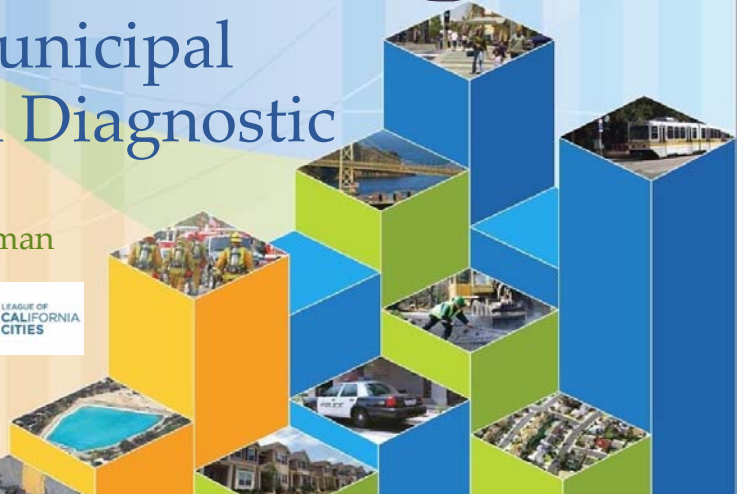


Diagnosing Municipal Financial Health

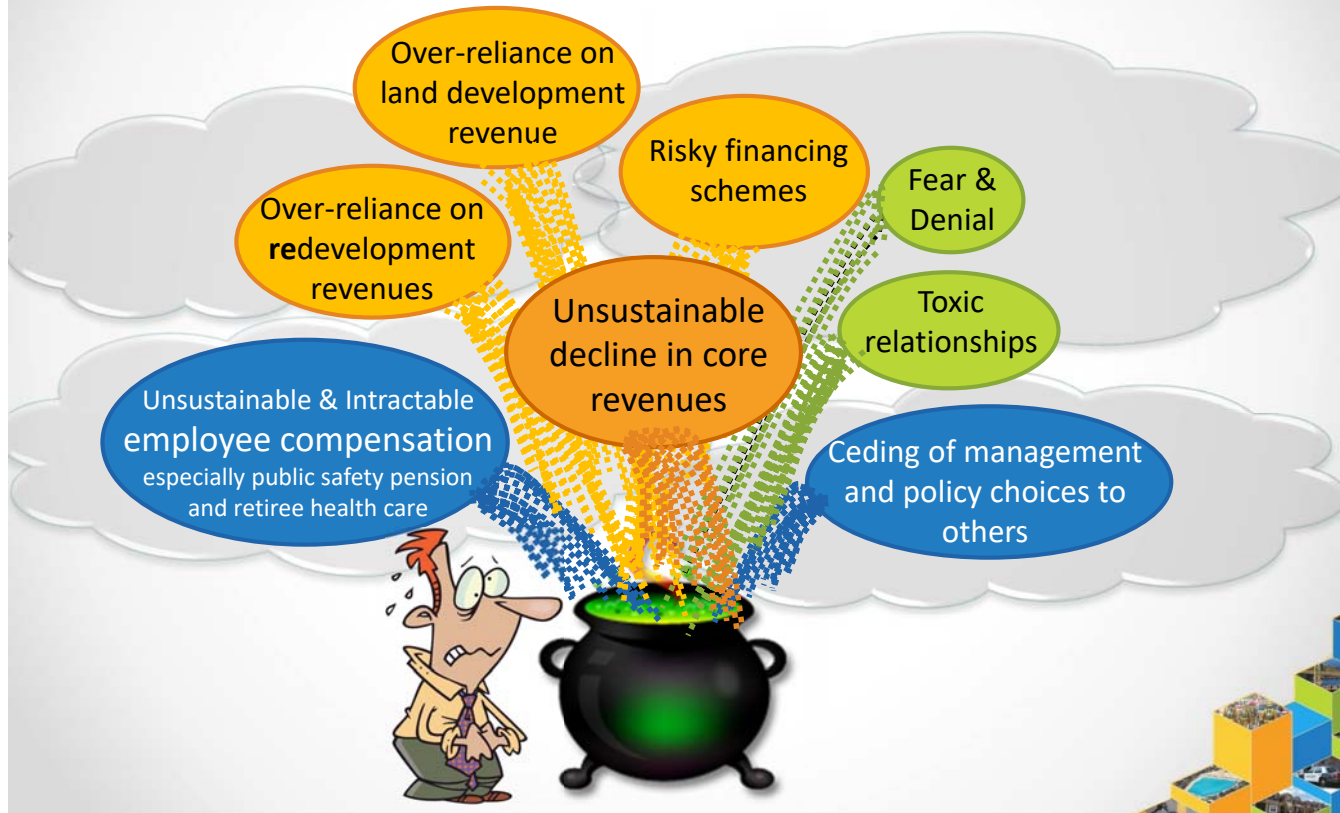
Introducing:

The League of California Cities'
California Municipal
Financial Health Diagnostic

Michael Coleman



Bad Brew in Troubled Cities



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

Our Approach

Diagnosing Financial Health



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

Diagnosing Financial Health



City of

Fund:

The California Municipal Fiscal Health Diagnostic Financial Distress Checklist

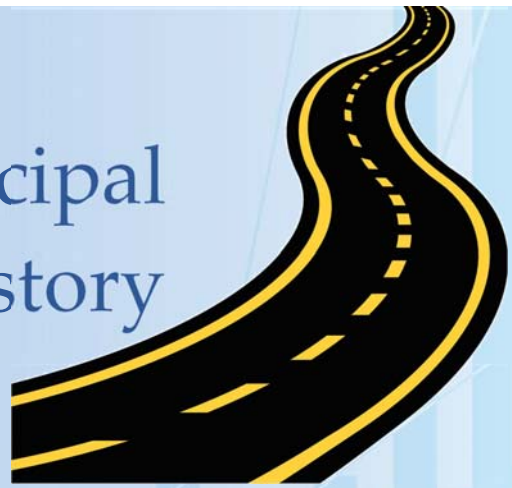
Measures	1. The city has recurring general fund operating deficits.	
	2. General fund reserves are decreasing over multiple consecutive years.	
	3. General fund current liabilities (including short-term debt and accounts payable within 60 days) are increasing. Cash and short-term investments are decreasing.	
	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**.



Milestones in Municipal Finance: A Brief History

Michael Coleman



Milestones in Municipal Finance History

Proposition 13 (1978) nuts & bolts

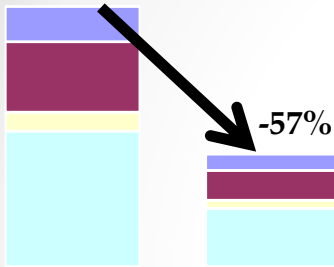


- 1. One percent rate cap.** Property tax rates capped at 1% of full market value
- 2. Assessment rollback** of property values for tax purposes to 1975-76 levels
- 3. Assessment growth capped** at 2% of property value (or CPI)
 - o reassessment at full market value only upon change of ownership
- 4. Special taxes** (local) require 2/3 voter approval
- 5. State tax increases require 2/3 vote of Legislature**
- 6. Authority for allocating property tax revenues transferred to the state**

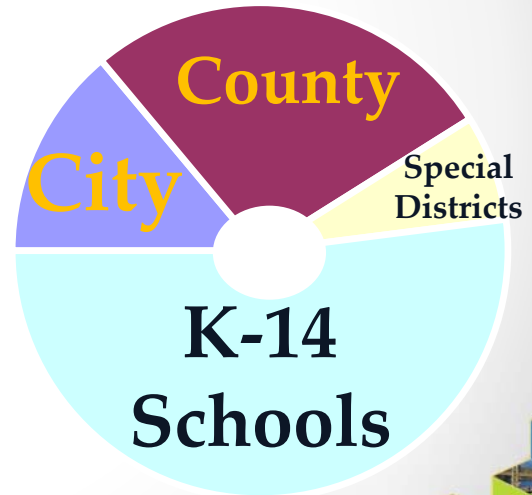




Proposition 13 (1978) revenue impacts

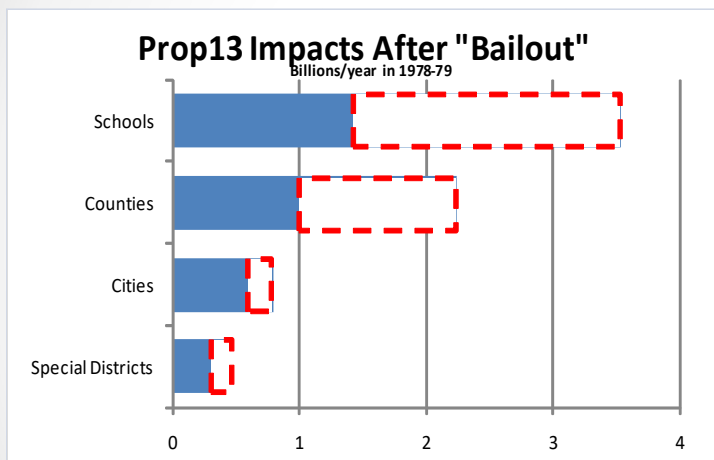


57%
reduction



The AB8 (1979) Bailout

Shifting Local Property Tax to Cushion Impacts of Prop13



State General Fund

Schools

**Cities, Counties,
Special Districts**

Property Tax



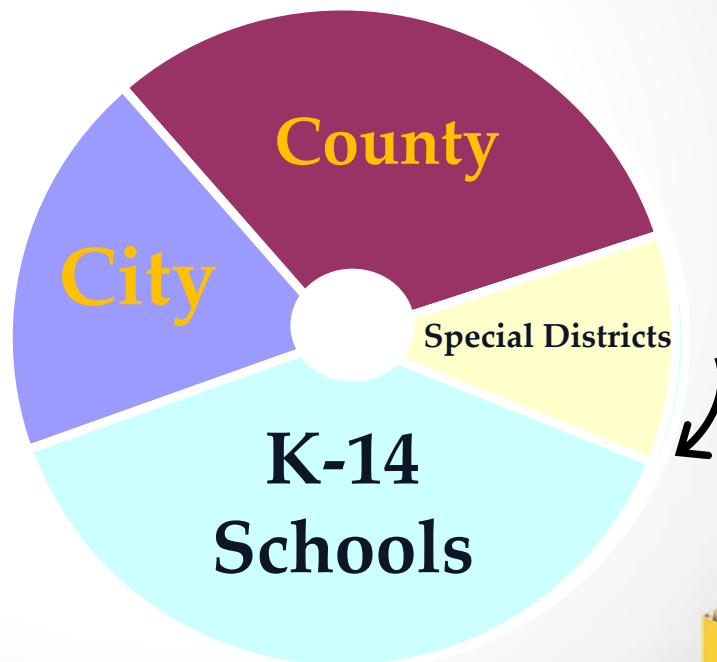


Proposition 13 (1978) revenue impacts

The AB8 "Bailout":

State legislature

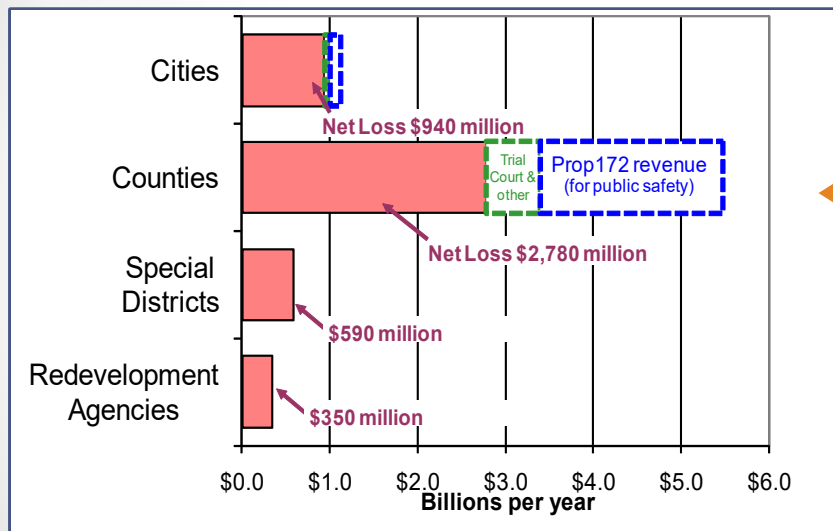
- increased non-school shares,
- reduced school shares,
- paid more state general fund to schools.



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E.R.A.F.(1992): Shifting Local Property Tax to Save the State General Fund



State General Fund

Reduced general fund support

Cities, Counties,
Special Districts

Property Tax

Schools

[23]

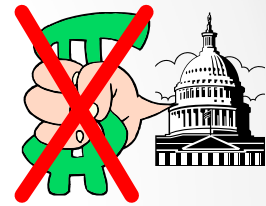


Local Revenue Protection: Prop1A('04), Prop1A('06), Prop22('10)

Constitutional Protection for:

1. Property taxes: cities, counties, special districts

Protection includes Property Tax in lieu of VLF (VLF swap)
May reallocate among cities, counties, special districts
with a 2/3 vote of both houses



2. Local sales tax rate, method of allocation

Exception: interstate compact or federal law

3. VLF 0.65% rate to cities and counties ... unless replaced

VLF may not be diverted to reimburse a state mandate

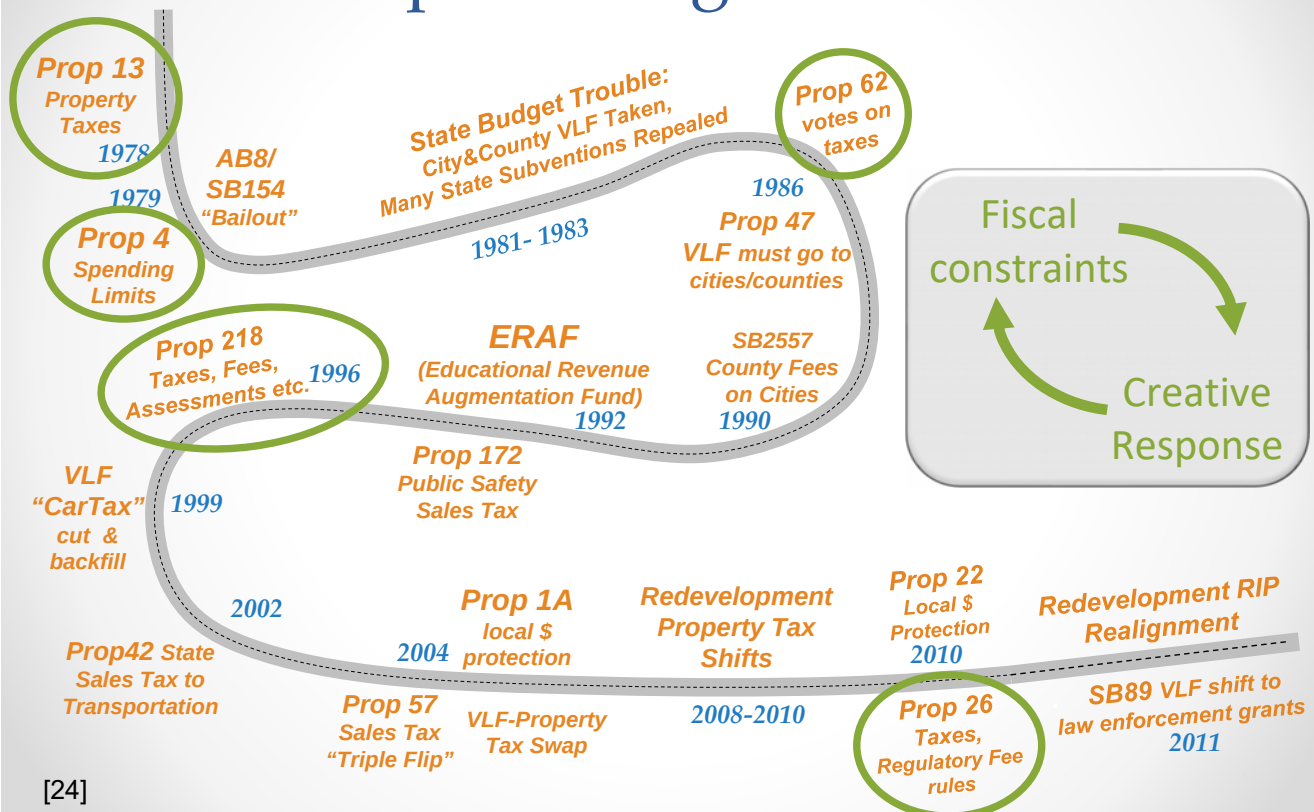
4. Transportation Funds to locals – no taking, delay or borrowing

5. Prohibitions against unfunded state mandates strengthened

6. Redevelopment Tax Increment - may not be diverted for other purposes

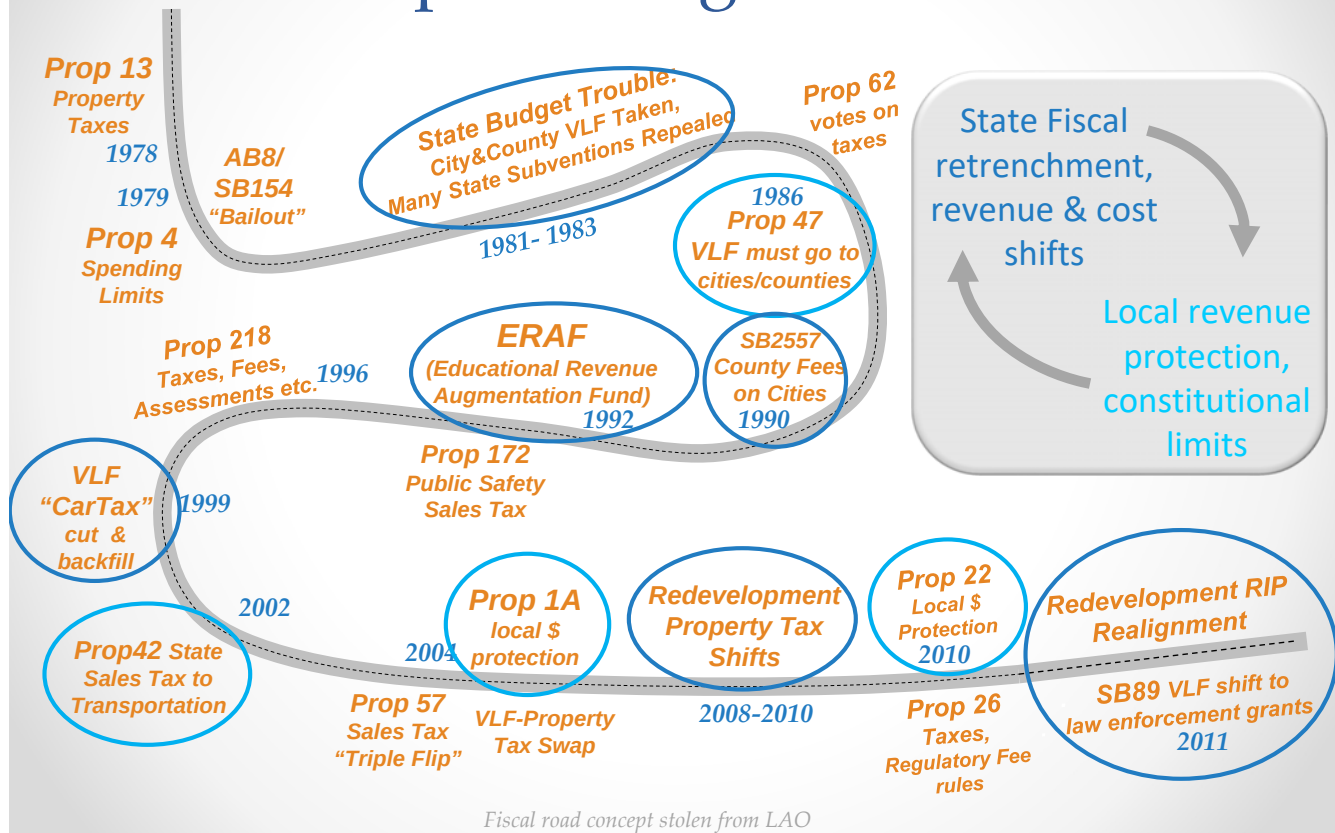


The State-Local Fiscal Relationship: A Rough Road



The State-Local Fiscal Relationship: A Rough Road

Milestones in Municipal Finance History



Pensions and Other Post-Employment Benefits (OPEB)

Christina Turner

- Pension Funding
- Employer Contribution Rates
What Happened?
- GASB changes
- Other Post Employment Benefits (OPEB)





Retirement Plans

1. Defined Contribution

- Employees (and/or employers) contribute a fixed amount or a percentage of pay in an account that is intended to fund retirement

2. Defined Benefit

- Employee benefits are computed using a formula that considers several factors, such as length of employment and salary history



Pension Funding

Defined Benefit Plans are funded from:

1. Contributions from employers
 - Variable based on a variety of factors
2. Contributions from employees
 - Fixed based on pension formula
3. CalPERS investment earnings





Employer Contribution

Two components

o Normal cost

- Annual cost of future benefit for current employees
- Expressed as a percentage of pay

o Payment on unfunded accrued liability (UAL)

- Required when plan liabilities exceed plan assets
- Expressed as a dollar amount



Employer Contribution (Cont'd)

Many factors cause the employer rate to change, including...

o CalPERS investment earnings

o Benefit changes

- Formula changes applied retroactively

o Changes in actuarial assumptions

- Economic, such as the rate of investment return
- Demographic, such as mortality rates
- Other experience

o Pay increases exceeding assumptions





Employer Contribution (Cont'd)

Actuarial Valuation Reports

- o Take into account participant data (active, transferred/terminated, retired and beneficiaries) and changes in assumptions
- o Provide a snapshot in time of the Plan's assets and liabilities (usually as of June 30th) and funded status
- o Determines the required contributions for upcoming fiscal year
- o Highlight changes from previous year's valuations
- o Risk analysis

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Employer Contribution (Cont'd)

For the City of Morgan Hill Misc. Plan (Does not reflect cost-share)

	Fiscal Year 2023-24	Fiscal Year 2024-25
Normal Cost Contribution as a Percentage of Payroll		
Total Normal Cost	20.15%	19.58%
Employee Contribution ¹	7.84%	7.80%
Employer Normal Cost ²	12.31%	11.78%
Projected Annual Payroll for Contribution Year	\$16,386,705	\$18,455,872
Estimated Employer Contributions Based On Projected Payroll		
Total Normal Cost	\$3,301,921	\$3,613,660
Offset Due to Employee Contributions	1,284,718	1,439,558
Employer Normal Cost	2,017,203	2,174,102
Unfunded Liability Contribution	3,073,625	3,828,005
% of Projected Payroll (illustrative only)	18.76%	20.74%
Estimated Total Employer Contribution	\$5,090,828	\$6,002,107
% of Projected Payroll (illustrative only)	31.07%	32.52%

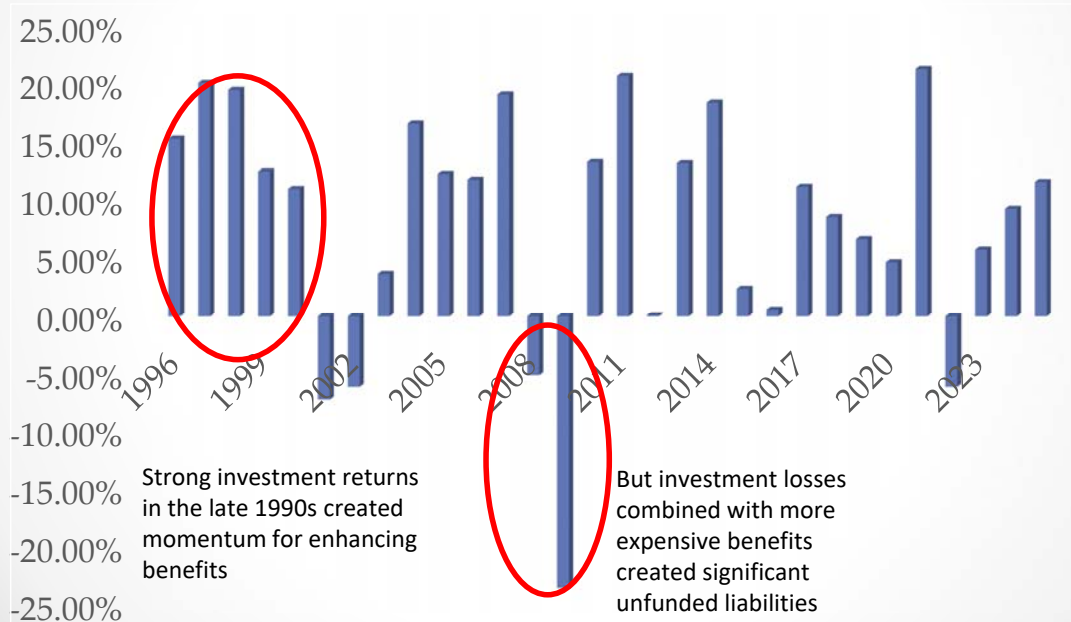
Funded Status

	June 30, 2021	June 30, 2022
1. Present Value of Benefits	\$158,704,184	\$172,312,773
2. Entry Age Accrued Liability	133,868,077	144,537,370
3. Market Value of Assets (MVA)	110,117,841	102,050,429
4. Unfunded Accrued Liability (UAL) [(2) - (3)]	\$23,750,236	\$42,486,941
5. Funded Ratio [(3) / (2)]	82.3%	70.6%

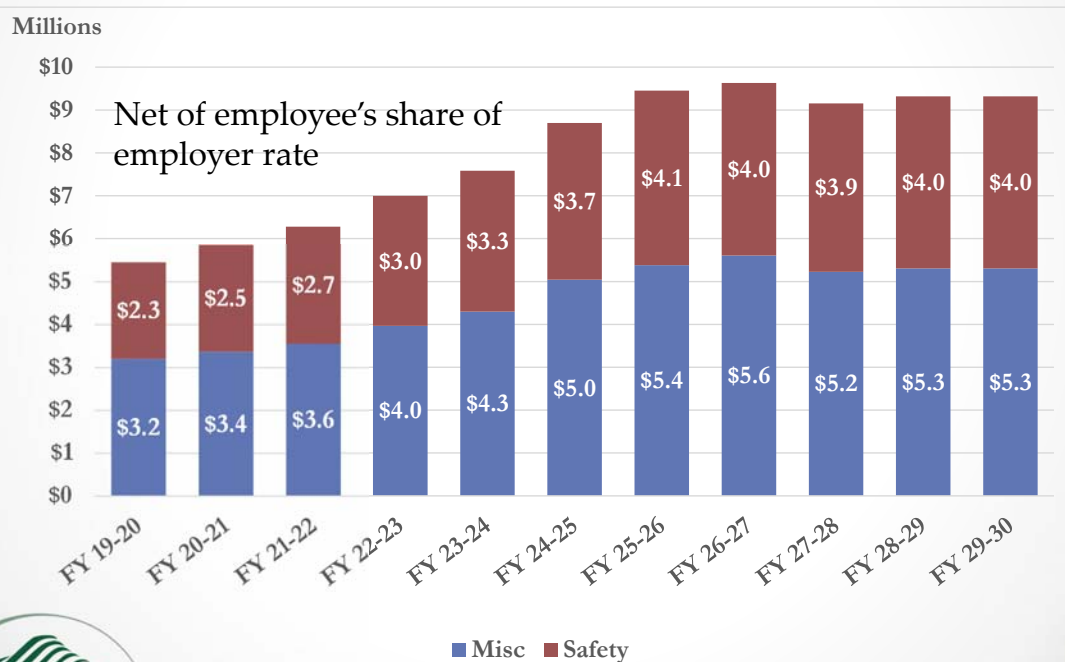


What Happened?

CalPERS Investment Returns

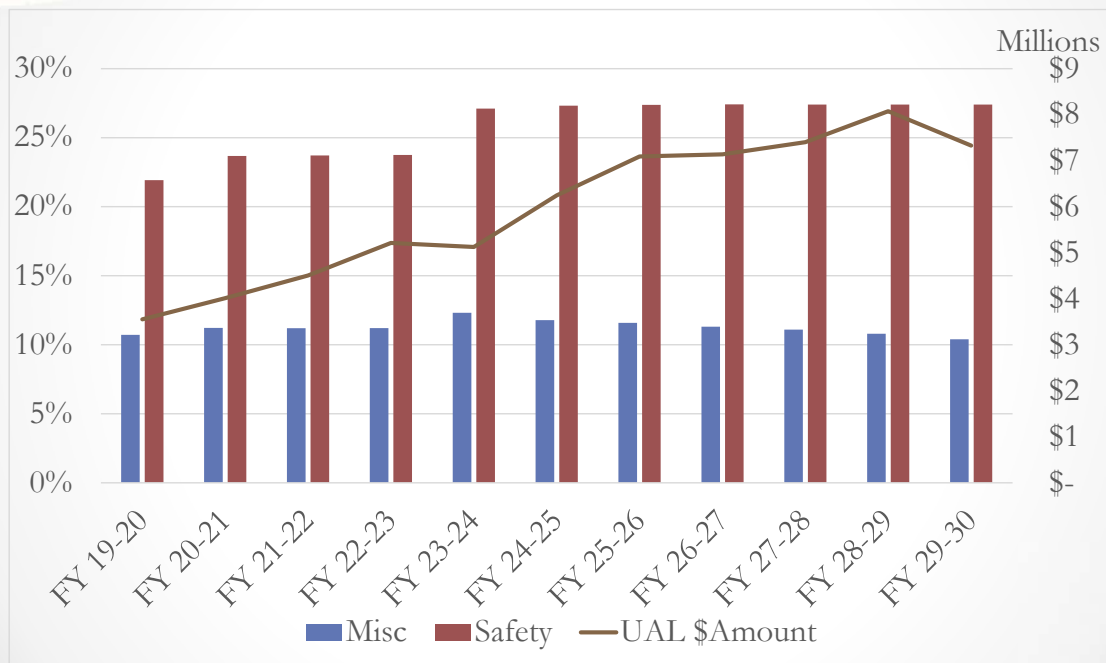


The Cost of Doing Business CalPERS Payments on the Rise





Contribution Rates



Does not include employee cost sharing



Response

- Some cities implemented new tiers (different retirement formulas)
- Public Employees' Pension Reform Act (PEPRA)
 - Required new tiers for new employees
- Pension obligation bonds- not recommended
- Section 115 Trusts
 - Can only be used for pension costs
- Cost Sharing: Employee sharing in employer contribution rate



Other Post-Employment Benefits (OPEB)

- Retiree benefits other than pension; can include life insurance, medical insurance, etc.
- Largely under-the-radar until GASB 45
 - Difference between Actuarial Required Contribution (ARC) and actual contribution on balance sheet
 - No requirement to fund, but creates visibility
- GASB 75 (effective fiscal year 2017-18)
 - Similar to GASB 68 for pensions
 - Liability needs to be portrayed in the financial statements (full accrual)



Other Post-Employment Benefits (OPEB) (cont'd)

- Significant liability for many cities
- Cost continuing to increase
 - More retirees
 - Retirees living longer
 - Increasing healthcare costs



Financial Policies: The Foundation of Fiscal Health



Christina Turner

- Plans versus Policies
- Topics for Financial Policies
- Policy versus Practice: Make 'em Work
- Policies and Financial Ratings
- The Importance of Evaluating Long Term Financial Health



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Financial Policies



Plans versus Policies

- Plans can change over time
(like ... as soon as the ink is dry)
- Policies, however,...
 - o Act as your “north star,” guiding your actions
 - o Make tough decisions easier by formalizing values and procedures before a crisis hits
 - o You could decide to do something else
 - o Bottom line... good policies always give you a starting point



Financial Policy Topics

- Balanced Budget
- User Fees & Cost Recovery
- Enterprise Funds: To subsidize or not?
- Fund Balance & Reserves
- Budget Amendments
- Budget Carryover
- Revenue Earmarking
- Capital Financing & Debt Management
- Financial Reporting
- Investments
- Purchasing, bidding, contracting
- Travel guidelines
- Credit Card Use



Formal Policies

Put financial policies in writing so that they:

- Can outlive the crisis ... or prepare you for one
- Promote stability and continuity
- Create efficiency through standardization
- Save you debt service costs
- Don't rely on an individual to interpret best practices
- Help with your ACFR process and reduce audit findings





Crucial Point: Policy versus Practice

- Policy should include specific objective but not detailed steps in meeting that objective
- Make policy brief and concise.
 - Example: “User fees should be reviewed and adjusted at least annually to avoid sharp changes.”
- Include “how to” steps in administrative procedure, if necessary.
- Leave exact steps of review/adjustment to staff.



Long-Term Financial Planning

Combines **financial forecasting** with **financial strategizing** to identify **future challenges** and **opportunities**, fiscal imbalances, and strategies to secure **financial sustainability**.

Why?

- Respond to a financial crisis
- Bring financial perspective to planning
- Stimulate long-term thinking
- Stimulate “big picture” thinking
- Address a particular issue or proposal
- Impose discipline
- Demonstrate good fiscal management to all stake holders



2025 Legislative Year In Review



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Short-Term Rentals

SB 346 (Durazo) Local agencies: transient occupancy taxes: short-term rental facilitator.

This measure would require short-term rental facilitators, at the request of a city, to provide the property address of a short-term rental listing to a city, and would provide cities audit authority for transient occupancy taxes collected and remitted by short-term rental facilitators.

Property tax

SB 710 (Blakespear) Property taxation: active solar energy systems: extension

This measure would extend existing property tax exemptions for solar panels and storage for homes and businesses until January 1, 2027.

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Transactions and use taxes

AB 761 (Addis) Monterey-Salinas Transit District: sales and special taxes.

SB 63 (Wiener) San Francisco Bay Area: local revenue measure: public transit funding.

SB 333 (Laird) Transactions and use taxes: San Luis Obispo Council of Governments.



A couple problems solved along the way...

AB 698 (Wicks) Local taxation: real property transfers.

This measure would require charter cities, when proposing to place a property transfer tax on the ballot, to first conduct an analysis of the effect of the proposed tax on the production of affordable housing and market-rate housing units, as well as property tax revenues. This analysis would be required to be posted on the city's website and included in the ballot materials provided to voters.

Status: Amendments secured to remove the requirement to mail the analysis with the ballot materials. **Senate Rules Committee.**

SB 789 (Menjivar) Vacancy tax: commercial real property

This measure would have established a statewide vacancy tax on commercial real estate of \$5 per square foot.

Status: Amended to a study bill and dead.

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What's on Deck for 2026?

- New Tax Exemptions (always)
- Property Transfer Tax Reform
- Transactions and Use Tax Reform
- *Rogers v. City of Redlands* Fix
- Ballot Initiatives

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Looking Ahead



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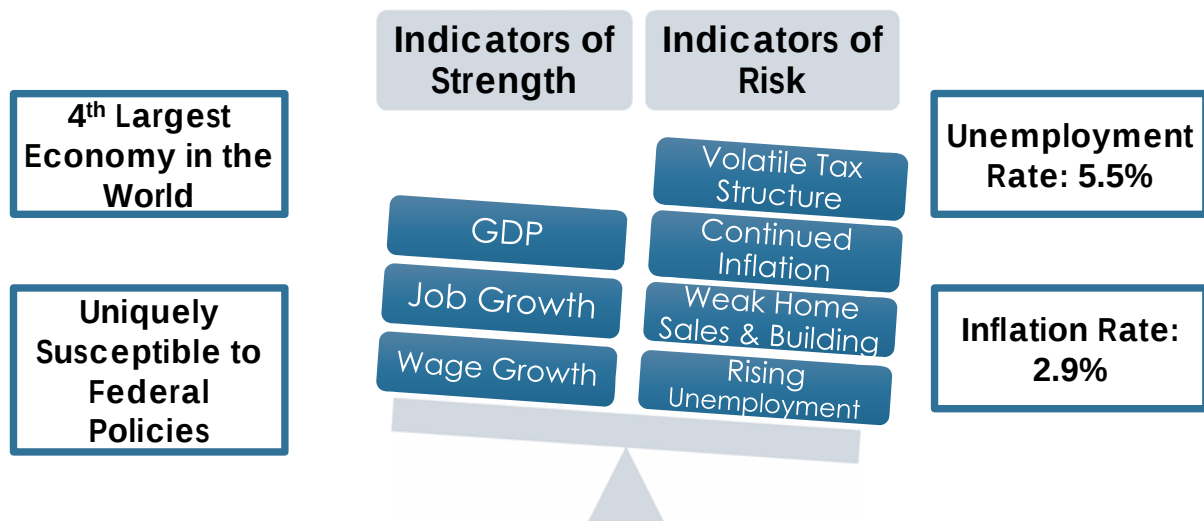
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California's Economic Snapshot



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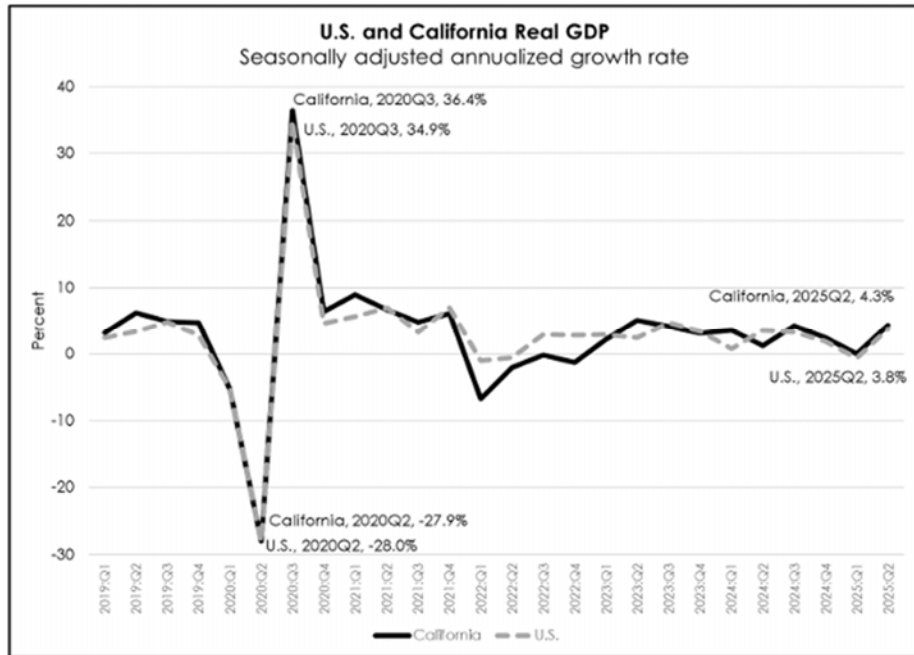
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GDP Has Been Inconsistent



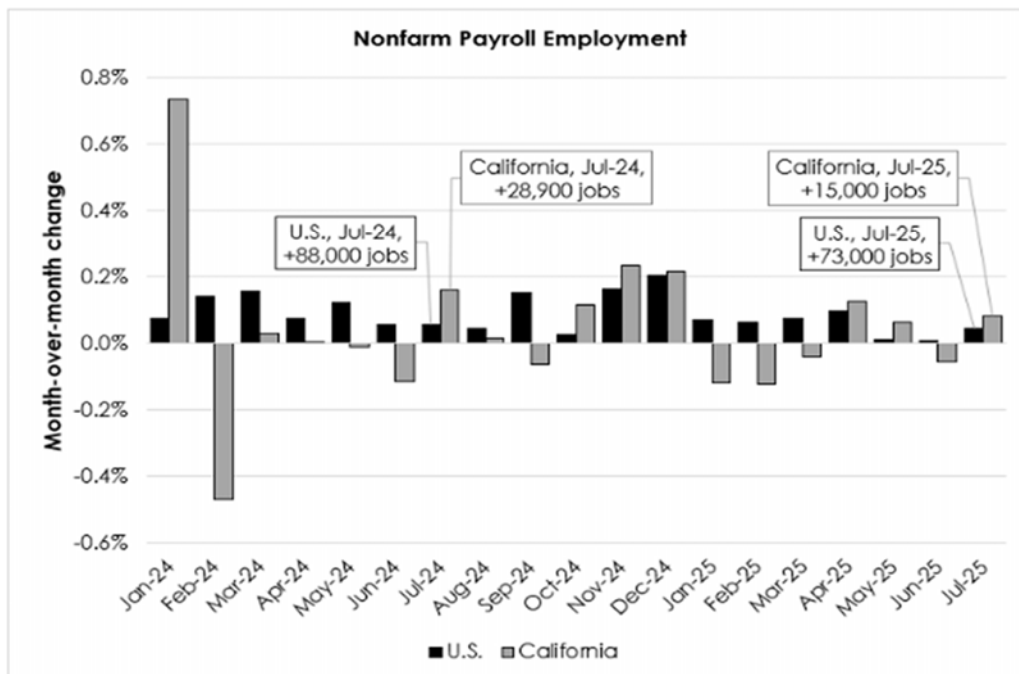
Source: California Department of Finance, Finance Bulletin (October 2025)

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California's Unemployment is Up



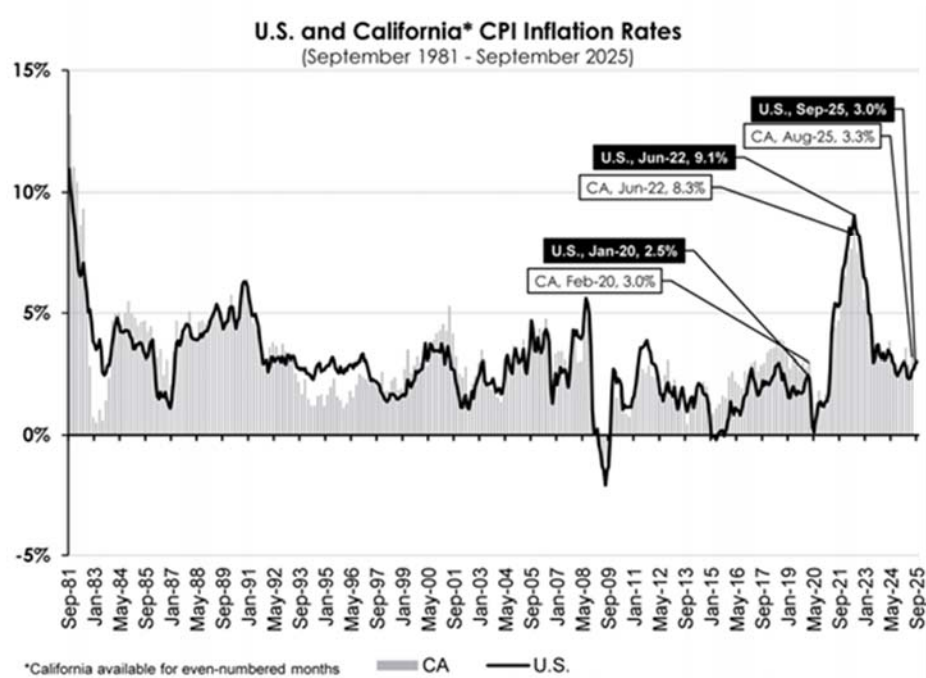
Source: California Department of Finance, Finance Bulletin (August 2025)

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Inflation is Accelerating



Source: California Department of Finance, Finance Bulletin (November 2025)

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Capital Financing

- Methods of Financing
- Types of Bonds





Methods of Financing

Methods	Pros	Cons
Pay-as-you-go	• Future funds are not tied up in servicing debt payments • Interest savings put to other projects • Greater budget transparency • Avoid risk of default	• Long wait time for new infrastructure • Large projects may exhaust agency's entire budget • Inflation risk
Debt Financing (Bonds)	• Infrastructure is delivered when needed • Spreads cost over useful life of asset • Increases capacity to invest • Beneficiaries pay for projects	• Potentially high borrowing rate • Debt payments limit future budget flexibility • Generations forced to service debt requirements
Public Private Partnerships (P3)	• Risk transfer • External funding • Lower operating costs, and higher revenues • Improved user experience • Accelerated project delivery	• Loss of operational control • Changes in scope or performance standards • Non-transferable risks (changes in laws, 3rd party governmental agencies etc.)



Types of Municipal Bonds

- General obligation bonds
 - o IOU issued by governmental entity to finance large projects
 - o Backed by property tax revenue, to repay bonds over 20–30-year period
 - o Can increase property tax to repay but requires 2/3rd voter approval
 - o Generally done to acquire or improve real property
 - o Example: parks, roads, school facilities etc.
- Revenue bonds
 - o Issued to acquire, construct or expand public projects
 - o Backed by fees or charges and paid from income generated by the facility or related service
 - o Example: Water/Wastewater infrastructure financing

Top Tips

Michael Coleman



Top Tips for Financial Management

1. Obtain **key documents**:

- ❖ Annual Operating Budget
- ❖ Capital Improvement Program
- ❖ Annual Comprehensive Financial Report (ACFR)
- ❖ Long Range Financial Plan
- ❖ Interim Financial Reports
- ❖ Investment Reports



2. Develop and Use **Financial Policies**.

3. Know the difference between a “one-time” solution versus a “defer” solution versus a “sustainable” solution

- ✓ One-time solutions fix a current problem, but not an on-going one.
- ✓ Deferrals “put-off” a problem by fixing a one time problem but create as much or more added costs in future years.
- ✓ A sustainable solution fixes an on-going budget problem now and into the future.

Top Tips for Financial Management

4. Ask hard questions about programs:

- 1) What is the purpose of this program? Why is it needed?
- 2) What are the specific intended outcomes of this program?
- 3) What are the measurable objectives?
- 4) What are the cost components: personnel, contracts, supplies, equipment, etc.?
- 5) How will the costs of this program change in the future?
- 6) What are the alternative service delivery approaches?
- 7) Where will the money come from to pay for this?
- 8) What are the consequences of not doing this program?



5. Avoid unsustainable budget practices including:

- Exhaust the reserves
- Freeze vacant positions
- Make across the board cuts
- Defer equipment purchases
- Defer essential maintenance
- Long-term formula driven spending
- Defer pension or capital funding contributions
- Eliminate training
- Borrow from other funds
- Ignore the small cuts



Resources

- ✓ Michael Coleman, The California Municipal Revenue Sources Handbook.
- ✓ Coleman, Hampian, Multari, & Statler, Guide to Local Government Finance in California. Solano Press.
- ✓ *Government Finance Officers Association GFOA.com*
- ✓ *The California Municipal Finance Almanac*
www.CaliforniaCityFinance.com

