CITY OF OAKLAND
BUDGET ADVISORY COMMISSION

Notice is hereby given that a **special meeting** of the City of Oakland Budget Advisory Commission (BAC) is scheduled for **<u>Wednesday, February 19th, 2020</u>** at **<u>6:00 pm</u>** in **Hearing Room 2, City Hall, 2nd Floor**, at 1 Frank Ogawa Plaza.

<u>Commission Members</u>:
Jay Ashford, Ken Benson, Carrie Crespo-Dixon, Ed Gerber, Travis George, Geoffrey Johnson, Vincent Leung, Kasheica McKinney, Ali Nadeem, Caitlin Prendiville, Sarah Price, Darin Ranahan, Brenda Roberts, Michael Silk, Marchon Tatmon

<u>City's Representative(s)</u>:
Bradley Johnson, Jose Segura, Nicole Remiker – *Finance Department*

<u>Meeting Agenda:</u>

1. Administrative Matters [5 minutes]
    - Welcome & Attendance

2. Discussion of the February 5th, 2020 City of Oakland's Special Finance & Management Committee Meeting: Special Finance Study Session – A Finance Department Overview. See attached materials. [15 minutes]

3. Discussion of 2020 Ad-Hoc Committees' Areas of Focus and Timing [20 minutes]

4. BAC Self-Survey: Results & Feedback [20 minutes]

5. Informational presentation and discussion on the initiated constitutional amendment on California's November 2020 ballot:

    (17-0055, Amdt.#1) Requires Certain Commercial and Industrial Real Property to be Taxed Based on Fair-Market Value. Dedicates Portion of Any Increased Revenue to Education and Local Services. Initiative Constitutional Amendment

    Guest speakers *include Schools and Communities First Initiative* campaign representative Jahmese Myres, and Bradley Johnson, City of Oakland Principal Budget Analyst. [45 minutes]

6. Open Forum

7. Adjournment

City of Oakland

Finance and Management Committee

Finance Workshop

February 5, 2020

Agenda

1. Finance Department Overview
2. Current Economic Environment
3. Debt and Investment
4. Pension and Other Post-Employment Benefits (OPEB) Obligations
5. Financial and Reserve Policies
6. Revenues

1. Finance Department Overview

Finance Department

- The primary **mission** of the Finance Department is to:
  - Safeguard the City's assets;
  - Provide comprehensive financial services for the City;
  - Provide timely and accurate financial reports;
  - Maintain integrity of information in the City's financial systems and monitor internal controls;
  - Develop a balanced and fiscally responsible budget;
  - Process payroll and payments;
  - Collects, records and reports City revenues;
  - Procure materials, supplies, and services for City departments;
  - Manage the City's investments;
  - Issue and restructure the City's and Successor Redevelopment Agency's bond issues and debt; and
  - Preserve strong credit ratings and investor relations

Finance Department – Executive Management

Adam Benson
Finance Director

- Over 15 years of public and private sector experience
- Former Budget Administrator and Finance Manager at the City of Oakland
- BS from George Washington University and MPA from University of Pennsylvania
- 3 years at the City

Jason Wong
Finance Manager

- Over 20 years of public and private sector experience
- Previously worked as investment banker at RBC Capital Markets, Merrill Lynch and Goldman Sachs
- Bachelor of Science in Finance and Accounting from San Francisco State University
- 1 year at the City

Lisa Agustin
Budget Administrator

- Over 15 years of public and sector experience
- Previously worked at BART, SFPUC and SF Office of Economic and Workforce Development
- BA from UCLA and MBA from UC Davis
- 2 months at the City

Steve Walsh
Controller

- 32 years of public and private sector experience
- BA from Haverford College and MPA from Princeton University
- 2 years at the City

Margaret O'Brien
Revenue & Tax Administrator

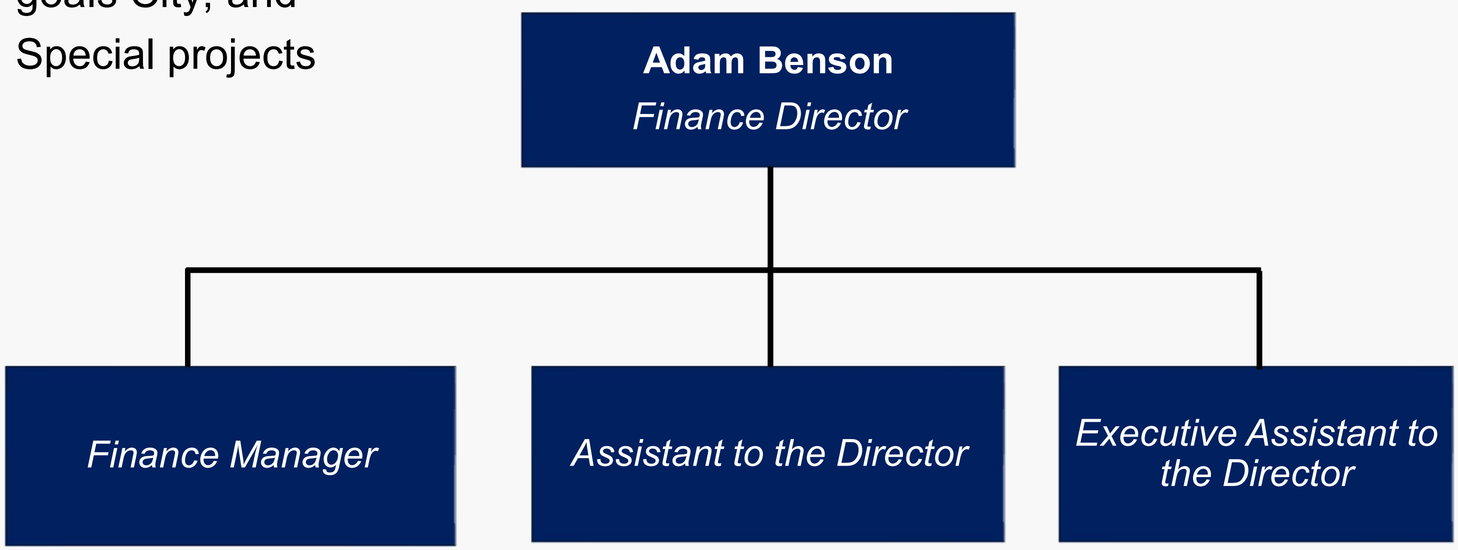
- Over 25 years of public and private sector experience
- Experience with public works, public and private contracting.
- MA- Organizational Leadership at Gonzaga and MBA from CSUDH
- 6.5 years at the City

David Jones
Treasury Administrator

- Over 25 years of finance experience
- Previously worked as an investment banker with Charles Bell and Wells Fargo
- Bachelor of Arts in Finance from Michigan State University
- 21 years at the City

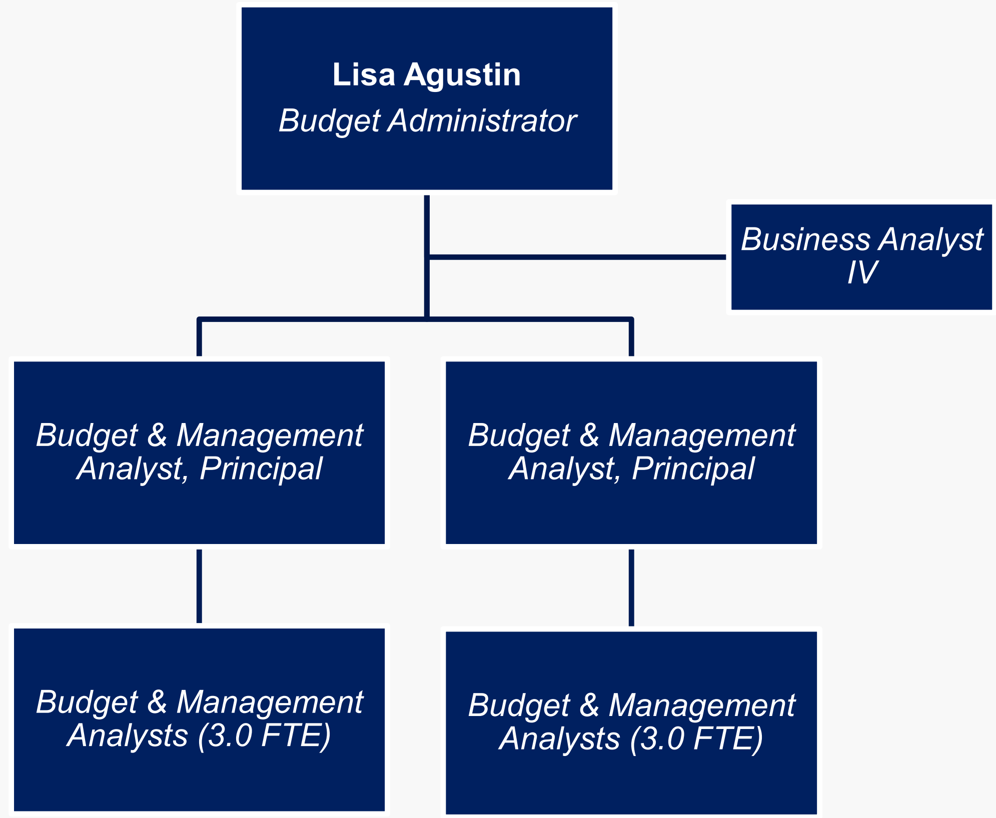
Administration

- Administration's primary responsibility is managing the Department's general operations to ensure efficient and effective service delivery
- Also, this bureau supports the Director of Finance with:
  - Budget preparation;
  - Hiring and personnel;
  - Labor negotiations;
  - Reviewing and coordinating all agenda reports for the Finance Department;
  - Development of sound fiscal policies;
  - Development of strategic plans to meet the short-term and long-term financial goals City; and
  - Special projects



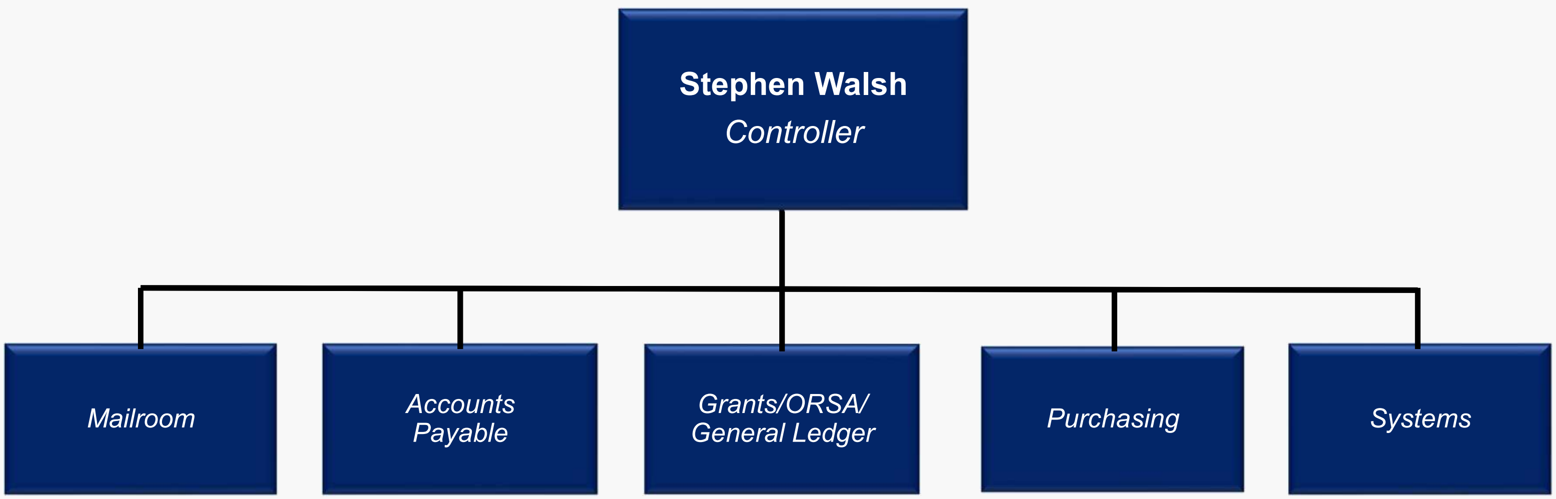
Budget Bureau

- The Budget Bureau is responsible for:
  - Administering the development and management of a balanced and fiscally responsible budget;
  - Acting as the City's central fiscal strategic management resource;
  - Performing in-depth analysis of revenues and expenditures; and
  - Providing thorough legislative analysis to the City Administrator and elected officials



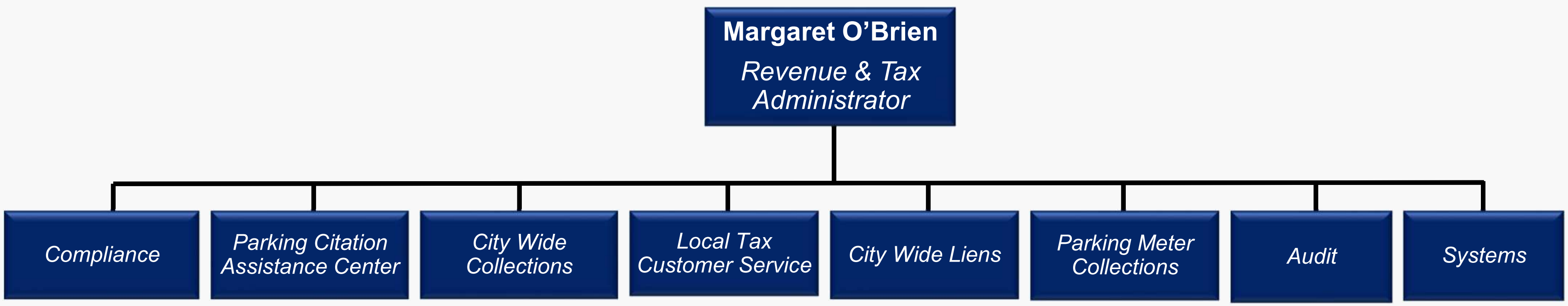
Controller Bureau

- This bureau is responsible for financial reporting, audits, and safeguarding the assets of the City. This includes:
  - Timely and accurate financial information and reports to the City Administrator, the Mayor and City Council, state and federal agencies and the public;
  - Maintaining the integrity of information in the City's financial management systems; and
  - Designing and monitoring of internal controls.
  - Citywide services for procure-to-pay, accounting, grant monitoring, financial systems, inter-departmental and outgoing United States mail.



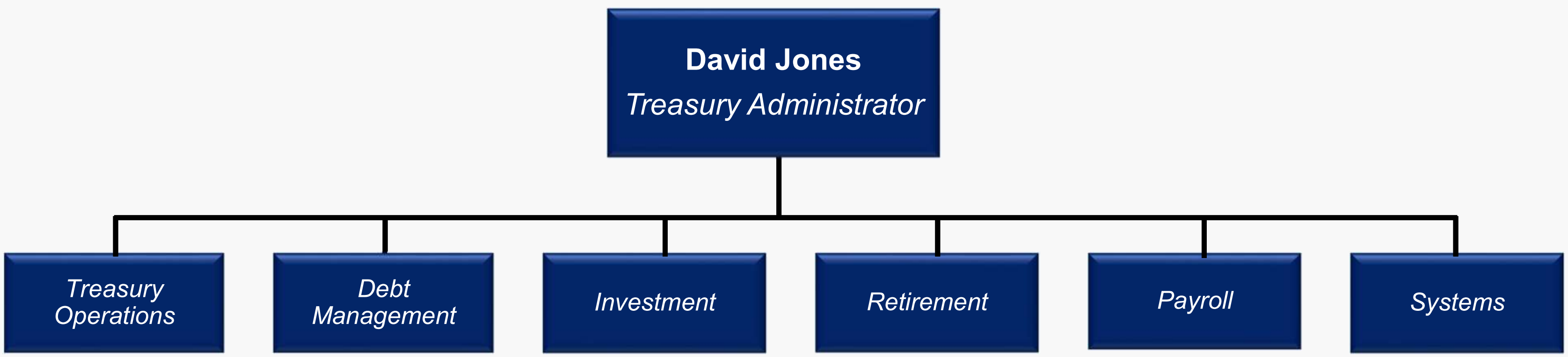
Revenue Management Bureau

- This Bureau collects, records and reports on City revenues.
  - Deposits City-wide collections;
  - Enforces and monitors compliance with the provisions of City ordinances and complies with the State of California reporting requirements, pertaining to the following taxes:
    - Business License
    - Parking
    - Utility Consumption
    - Real Estate Transfer
    - Transient Occupancy
    - Sales and Use
    - Cannabis
    - Mandatory Garbage
  - Identifies and brings into compliance non-registered and delinquent tax accounts; and
  - Manages and collects all revenues derived from the City's parking meters and citations



Treasury Bureau

- The mission of the Treasury Bureau is to promote the conditions for fiscal prosperity and stability in Oakland and comprised of three different units:
  - **Treasury Unit:** Receive and deposit timely City and Successor Agency funds; manages all banking functions; oversees the day to day investment portfolios for the City and Successor Agency; and manages all of the City and Successor Agency debt issuance and management
  - **Retirement Unit:** Manages all the City's retirement matters, including all aspects of the City's legacy pension fund (PFRS) as well as key functions related to CalPERS
  - **Payroll Unit:** Serves as the central repository for all payroll related information; processes citywide payments for over 4,000 employees; maintains and upgrades HR/payroll systems, while implementing changes in accordance to federal regulations.



2. Current Economic Environment

Next Downturn is Now Closer Than the End of the Last One

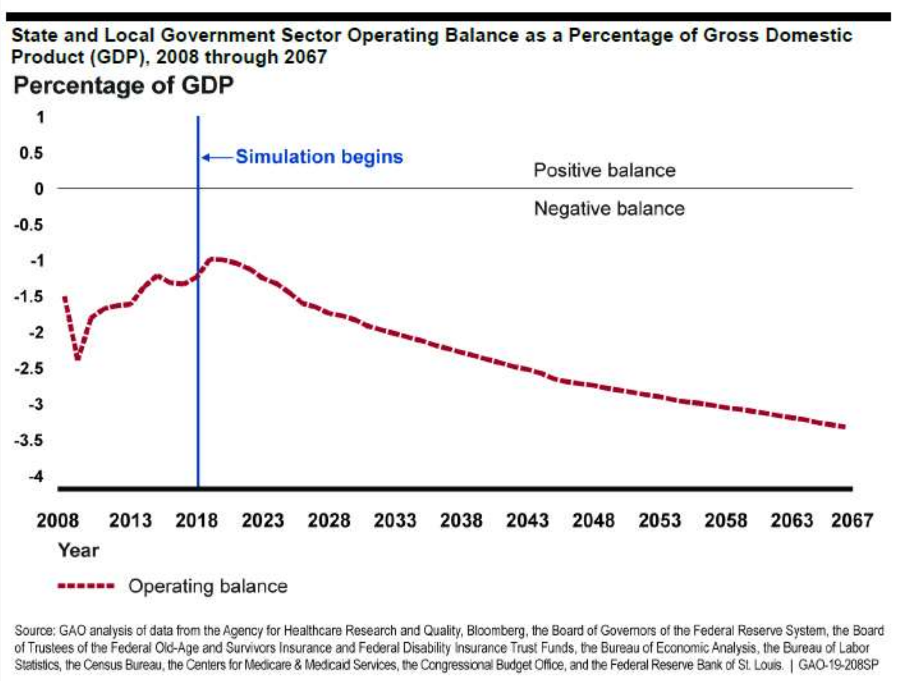
- As of February 2020, we are more than ten years into the expansion phase of the current business cycle, starting after the recession bottomed out in June 2009: **128 months and counting**
- Average 1945-2009 (prior 11 cycles): **58.4 months**
- Average 1854-2009 (prior 33 cycles): **38.7 months**
- Range for all prior recessions since 1854: **10 to 120 months**

Last Five Expansion Phases (trough to peak)	Duration
November 2001 – December 2007	73 months
March 1991 – March 2001	120 months
November 1982 – July 1990	92 months
July 1980 – July 1981	12 months
March 1975 – January 1980	58 months

Source: National Bureau of Economic Research (NBER)

Structural Fiscal Challenges Persist

- Public sector fiscal challenges are not just cyclical, and few public employers will simply grow their way out of such pressures
- The U.S. Government Accountability Office (GAO) has developed a simulation model for the state and local sector as an entirety, projecting significant fiscal gaps absent corrective action, due largely to:
  - Flat revenues as % of GDP
  - Healthcare and retiree costs rising faster than the overall economy
- GAO calculated that closing the structural fiscal gap would require action equivalent to a 14.7% reduction in state and local government recurring expenditures every year



Source: United States Government Accountability Office, "State and Local Governments' Fiscal Outlook: December 2018 Update"

Pent-up Demands Have Surfaced

- **From the workforce**, *to make up for containment and concessions during the downturn as the labor market has since heated up*
- **From the public, operating departments, and elected officials** *to restore and enhance services*
- **To address deferred and growing infrastructure needs**
- **To meet changing IT demands** *(mobility, access) and opportunities*

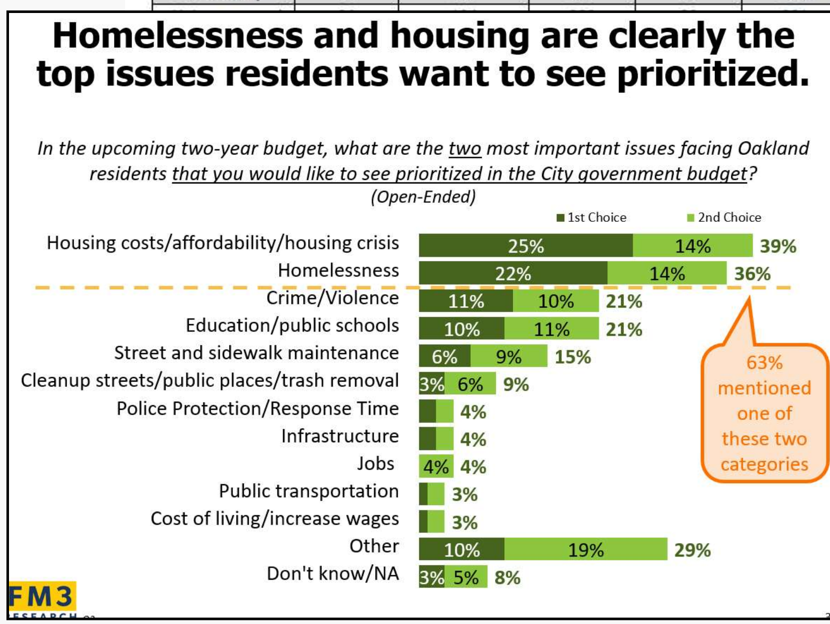
Managing competing expectations and goals from operating departments, labor, Councils/Boards, and the public – while positioning for long-term fiscal stability – is a major challenge and concern for public sector finance officers in this period of recovery and growth

Other Challenges?

- Homelessness
  - 47% increase in Oakland's homeless population between 2017 and 2019. Oakland's per capita homeless rate is higher than San Francisco and Berkeley per 2019 point in time survey
- Affordable and Safe Housing
- Streets and Sidewalks Infrastructure
- Illegal Dumping
- Public Safety

FIGURE 9. TOTAL NUMBER OF PERSONS EXPERIENCING HOMELESSNESS BY JURISDICTION AND SHELTER STATUS

	2017			2019		
Jurisdiction	Sheltered	Unsheltered	Total	Sheltered	Unsheltered	Total
Alameda	94	110	204	99	132	231
Albany	0	66	66	0	35	35
Berkeley	308	664	972	295	813	1,108
Dublin	0	21	21	0	8	8
Emeryville	0	29	29	0	178	178
Fremont	197	282	479	123	485	608
Hayward	84	313	397	115	372	487
Livermore	102	141	243	85	179	264
Newark	42	28	70	30	59	89
Oakland	859	1,902	2,761	861	3,210	4,071
Piedmont	0	0	0	0	0	0
Pleasanton	0	18	18	0	70	70
San Leandro	54	55	109	74	344	418
Union City	0	40	40	0	106	106
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	349
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8,022



Source: http://everyonehome.org/wp-content/uploads/2019/07/2019_HIRDReport_Alameda_FinalDraft_8.15.19.pdf

Discussion

- *Preparing for an economic downturn*
- *Balancing competing needs with limited resources*
- *Strategies for improving service-levels and delivery*

3. Debt and Investment

Debt Issuance & Management

- The City's Treasury Bureau is responsible for issuing and managing debt for the City and Oakland Redevelopment Successor Agency (ORSA)
- Debt issuance includes:
  - New money bonds or other debt to finance capital improvements and equipment purchases
  - Notes to finance annual cash flow requirements
  - Refinance outstanding debt at lower costs
- Debt management includes:
  - Budgeting, collecting revenue and paying for debt service
  - Ensuring compliance with Federal, State and local legislation
  - Ensuring adherence with financing agreements and industry standards
  - Maintaining relationships with market participants such as investors, lenders and rating agencies

Debt Portfolio

- $1.1 billion: total outstanding debt as of 1/1/2020
  - City: $820.3 million; ORSA: $285.4 million
- **Most of the City's debt is serviced with dedicated tax/revenue sources**
- General fund support debt includes, tax and revenue anticipation notes and lease revenue bonds
- Remaining voter approved, City GO bond authorization:
  - Measure DD (2002): $35.8 million; Measure KK (2016): $482.1 million

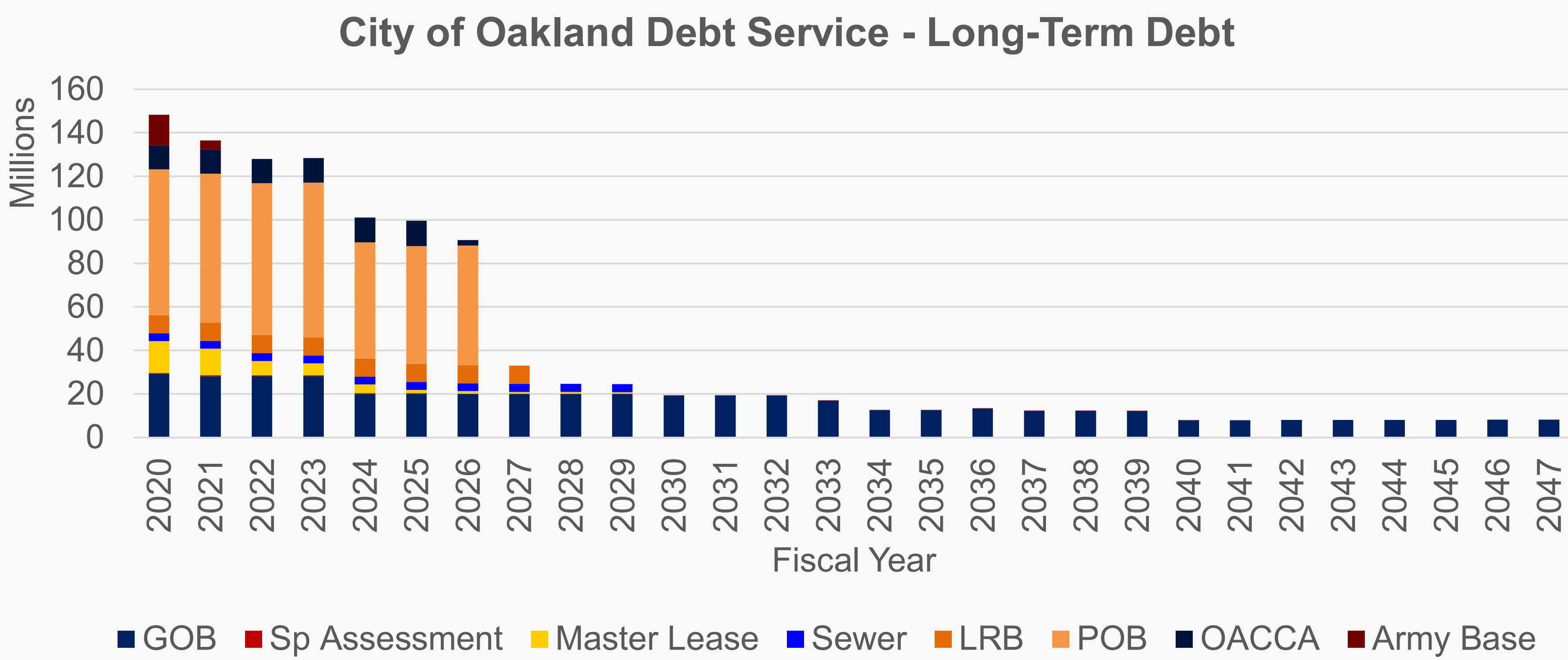
Outstanding Debt as of 1/1/2020

Type	Par Outstanding ($Millions)	Primary Security	Purpose	Current Credit Ratings		
				Moody's	S&P	Fitch
General Obligation Bonds	301.655	Ad Valorem Property Tax	Capital Improvements	Aa2	AA	AA- [5]
Pension Obligation Bonds	222.556	Property Tax Override	PFRS Obligations	Aa3	AA	A+
Tax & Revenue Anticipation Notes	97.255	General Fund [2]	CalPERS Fiscal Year UAL Prefunding		-	
OACCA Lease Revenue Bonds [1]	60.368	General Fund	Coliseum & Arena	Aa3	-	Aa3
Lease Revenue Bonds	49.180	General Fund	Administration Buildings	Aa3	AA-	-
Master Lease Agreements	45.363	Leased Equipment	Vehicles, IT Systems & Other		-	
Sewer Revenue Bonds	28.260	Sewer Revenues	Sewer System	-	AA	AA+
Former Oakland Army Base Loan	12.750	Grant Revenues	ACTC Grant Cash Flow Financing		-	
Special Assessment Bonds	2.940	Assessment District Levies	District Capital Improvements		-	
City Total:	820.327					
ORSA Tax Allocation Bonds	285.420	RPTTF Revenues [3,4]	Project Area Redevelopment & Housing	-	AA- [6]	-
City & ORSA Total:	1,105.747					

[1] Shows only City's obligation of 50%; [2] Paid from fringe rates charged on all positions by Fund and supported by all City revenue; [3] Formerly tax increment revenues;
[4] RPTTF Revenues from ROPS enforceable obligations (prior to residual RPTTF payment which is divided 75% to GPF and 25% to AHTF); [5] Issuer default rating; [6] RPTTF Pledge

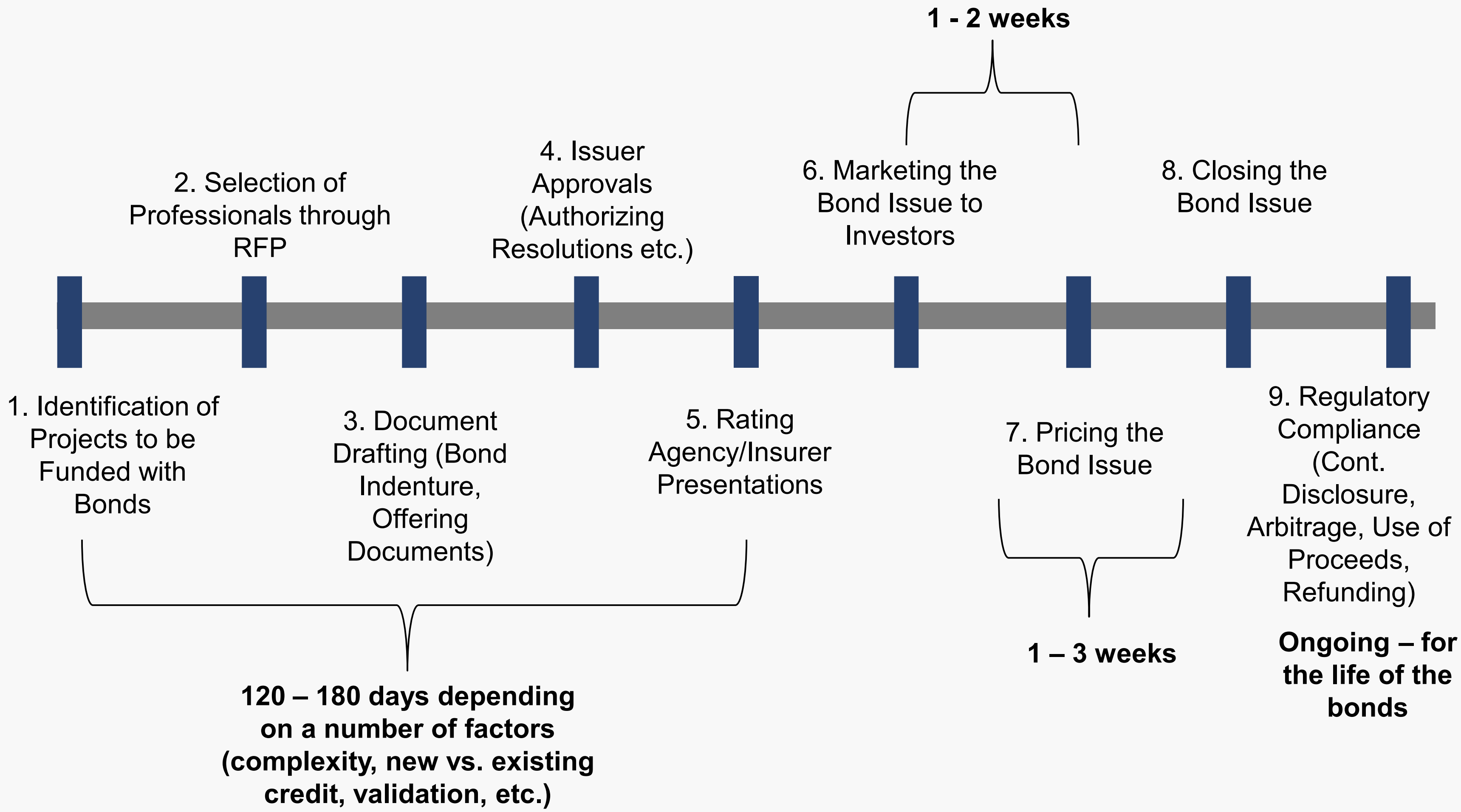
Aggregate Debt Service

- Nearly 80% of the City's outstanding debt will retire within the next 10 years
- This does not include the City's other long-term liability burdens such as pension and other post-employment benefits (OPEB)



Typical Bond Issuance Timeline

Bond Issuance Cycle (Minimum 5 months Process)



Credit Ratings

- Credit ratings provide an independent assessment of an issuer's credit risk derived from a systemic, uniform guide to creditworthiness, similar to your FICO consumer credit score
- Issuers should expect to pay investors higher interest rates on lower-rated debt
- City's Credit Rating: Aa2/AA/AA-
- The City's ratings are at their highest levels in City history
  - Upgraded from S&P in 2017 and Fitch in 2018

CREDIT RATING SCALES
LONG-TERM RATINGS

	MOODY'S	STANDARD & POOR'S	FITCH	RATINGS MAP
INVESTMENT GRADE	Aaa	AAA	AAA	High Grade
	Aa1	AA+	AA+	
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
NON-INVESTMENT GRADE	Ba1	BB+	BB+	Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC	Substantial Risks
	Caa2	CCC		Extremely Speculative
	Caa3	CCC-		Default
	Ca	CC		
		D	DDD	
			DD	
			D	

Rating Agency Reports

Excerpt from Most Recent GO Ratings

Rating Agency	Type	Rating	Action
S&P	GO	AA/Stable	Affirmed
Moody's	GO	Aa2/Stable	New Issue

Credit Challenges

- Long term budgetary challenges including pension and health care costs
- Above average debt, pension, and OPEB obligations

- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2017, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very weak debt and contingent liability profile

Source: City of Oakland, CA Update to Credit Analysis; Moody's Investor Service dated April 19, 2018
Oakland, California; Appropriations; General Obligation; S&P Global Ratings dated April 20, 2018

Fitch Ratings January 2019 Report on:
How Prepared Are California Credits For The Next Recession?

City Ratings and Assessments

City / County	Issuer Default Rating	Revenue Framework	Expenditure Framework	Long-Term Liabilities
Alameda County	AAA	a	aaa	aa
Hayward	AA+	a	aa	aa
San Francisco (City/County)	AA+	aa	aa	aa
San Jose	AA+	a	a	aa
Oakland	**AA-**	**a**	**a**	**a**

Revenue Framework	**aaa**	**aa**	**a**
Growth Prospects for Revenues Without Revenue-Raising Measures	Strong Growth in line with or above the level of U.S. economic performance	Solid Growth below U.S. economic performance but above the level of inflation	Slow Growth in line with the level of inflation
Expenditure Framework	**aaa**	**aa**	**a**
Natural Pace of Spending Growth Relative to Expected Revenue Growth (Based on Current Spending Profile)	Slower to equal	In line with to marginally above	Above
Long-Term Liabilities	**aaa**	**aa**	**a**
Combined Burden of Debt and Unfunded Pension Liabilities in Relation to Resource Base	Low Liabilities less than 10% of personal income	Moderate Liabilities less than 20% of personal income	Elevated but still in the moderate range Liabilities less than 40% of personal income

Source: How Prepared Are California Credits for the Next Recession? Fitch Ratings Report dated January 18, 2019

How Decisions Impact Ratings

REVENUES	FY 2018-19 Year End Actuals	FY 2019-20 Adopted Budget	FY 2020-21 Adopted Budget
Property Tax	$199,963,825	$215,020,345	$228,358,716
Sales Tax	62,259,745	59,950,990	61,637,435
Business License Tax	99,733,123	99,673,792	103,221,291
Utility Consumption Tax	49,598,702	55,161,000	56,815,600
Real Estate Transfer Tax	104,904,997	82,873,970	85,376,169
Transient Occupancy Tax	26,109,595	27,796,271	28,923,900
Parking Tax	11,053,353	11,461,012	11,804,842
Licenses & Permits	1,782,532	2,947,904	2,974,473
Fines & Penalties	21,197,853	19,788,846	19,824,299
Interest Income	1,102,021	1,210,069	1,210,069
Service Charges	64,568,856	67,234,926	69,476,398
Grants & Subsidies	1,983,302	119,435	119,435
Miscellaneous	2,107,821	968,064	968,064
Interfund Transfers	3,578,734	6,806,233	5,100,000
Subtotal Revenues	$649,944,458	$651,012,857	$675,810,691
Transfers from Fund Balance	**1,233,659**	**4,114,375**	**8,735,428**
Total Revenues	**$651,178,117**	**$655,127,232**	**$684,546,119**

Municipal Interest Rates

- The Municipal Market Data (MMD) index is the AAA benchmark for tax-exempt interest rates
- The City's bonds will price at a spread to the MMD index, similar to your home mortgage priced at a spread to the 10-year U.S. Treasury yield

AAA vs. AA Pricing

- The pricing differential between a AAA vs AA rated bond is approximately 0.19% in lower interest rates per year
- On a $100 million financing over 30 years, the saving would result in:
  - $115,000 in annual interest cost
  - $3.4 million total interest cost

Based on AAA MMD Scale as of 1/14/2020		Based on AA MMD Scale as of 1/14/2020		Pricing Differential AAA vs AA	
True Interest Cost (TIC)	1.762%	True Interest Cost (TIC)	1.952%	True Interest Cost (TIC)	(0.190%)
Total Interest	$29,093,728	Total Interest	$32,534,241	Total Interest	($3,440,514)
Total Debt Service	$129,093,728	Total Debt Service	$132,534,241	Total Debt Service	($3,440,514)
Avg Annual Debt Service	$4,303,124	Avg Annual Debt Service	$4,417,808	Avg Annual Debt Service	($114,684)

Disclosure

- Municipal securities issuers and their officials can be liable for violations of the antifraud provisions of the federal securities laws:
  - Section 17(a)(2) and (3) of the Securities Act of 1933 (negligence standard)
  - Section 10(b) of the Securities Exchange Act of 1934 (based on actual intent or recklessness)
- Antifraud provisions make it unlawful, in connection with the offer, purchase, or sale of securities, to:
  - Make any untrue statement of a material fact;
  - Omit to state a material fact; and
  - Engage in any act, practice, or course of business which would operate as a fraud or deceit upon any person
- When do the antifraud provisions apply?
  - Official statements
  - Continuing disclosures (post issuance)
  - Informal disclosures
- Note: Violations of the antifraud provisions may occur even though there is no intent to defraud

Continuing Disclosure (Post Issuance)

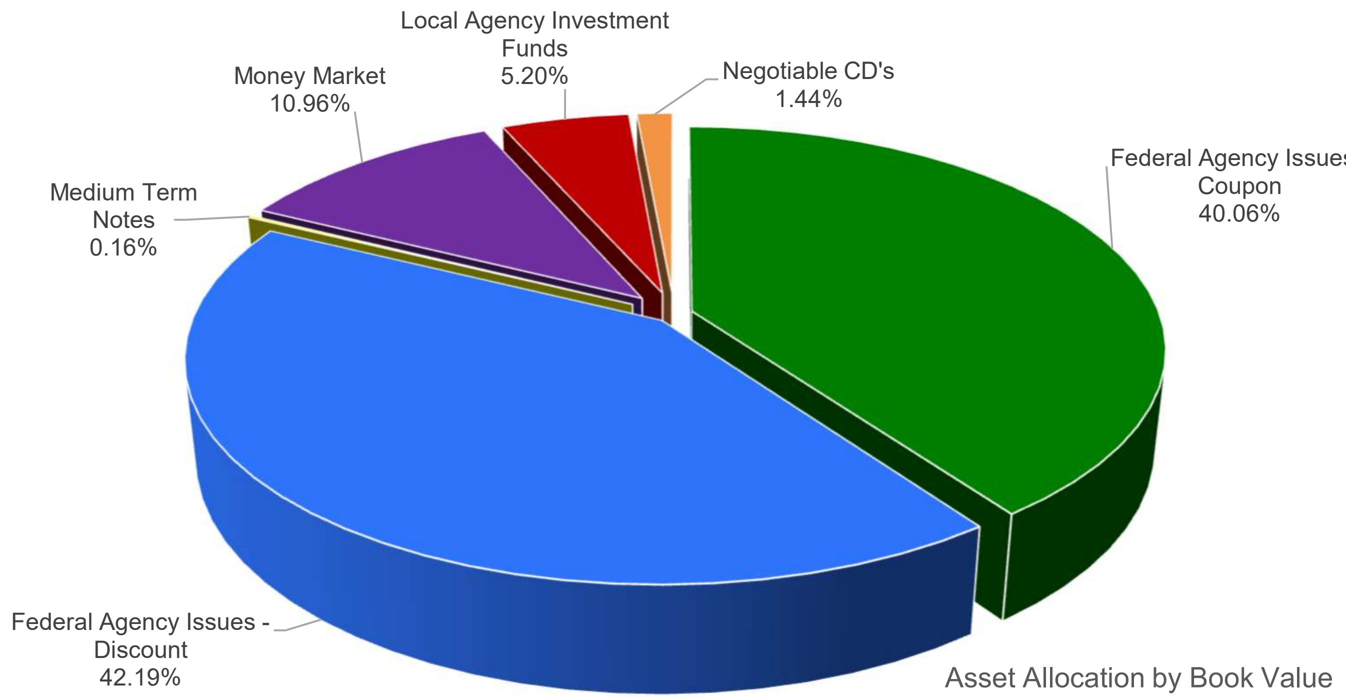
- Under the Securities Exchange Act of 1934 Rule 15c2-12, the City agrees to provide to the Municipal Securities Rulemaking Board (MSRB) through its website Electronic Municipal Market Access (EMMA):
  - Certain financial information on an annual basis; and
  - In a timely manner not in excess of ten (10) business days after the occurrence of the certain specific events, such as, but not limited to:
    - Principal and interest payment delinquencies;
    - Non-payment related defaults;
    - Modifications to rights of the owners of the bonds
    - Optional or unscheduled bond calls;
    - Defeasances;
    - Rating changes;
    - Adverse tax opinions or events affecting the tax-exempt status of the bonds;
    - Unscheduled draws on debt services reserves or credit enhancement;
    - Substitution of credit or liquidity providers
- Good adequate disclosure is essential. Communicate with others involved in reviewing or monitoring disclosures

Investment Portfolio

- Manages the day-to-day investment portfolios totaling approximately $1.25 billion which include the City, Oakland Successor Redevelopment Agency (ORSA) and Port of Oakland's Investment Portfolios. Also, prudently invests bond proceeds/project funds pursuant to bond indenture.
- Daily Cash Funding
  - Achieve adequately balances/needs for all City, ORSA and Port of Oakland Accounts
    - Ensure liquidity and all City's obligations are met daily
- Portfolio Investing
  - Prudent investing of public funds
    - Actively developing short/long term investing strategy
    - Performing market research to efficiently manage the portfolios for safety, liquidity and yield
- Compliance
  - Ensure compliance with current State statutes governing the investment practices of local governments, and City's Investment Polices to avoid regulation actions and penalties

Portfolio Composition & Characteristics

- Portfolio Size – $1.25 Billion as of December 2019
- Daily Liquidity – 16.10%
- 180 Day Liquidity – 51.96%
- Days to Maturity – 276 Days
- Effective rate of return for December 2019 – 1.85%



Permitted Investments

Permitted Investment Types	Maximum Investment	Maximum Maturity
U.S. Treasury Bills, Notes & Bonds[1]	20%	5 years
Federal Agencies	No Maximum	5 years
Bankers Acceptance	40%	180 days
Commercial Paper	25%	270 days
Asset-Backed Commercial Paper	25%	270 days
Local Government Investment Pools	20%	N/A
Medium Term Notes	30%	5 years
Negotiable CDs	30%	5 years
Repurchase Agreements	No Maximum	360 days
Reverse Repurchase Agreements [2]	20%	92 days
Money Market Mutual Funds	20%	N/A
Certificates of Deposit[3]	Prudent Person Standard Applies	360 days
Local Agency Investment Fund	$75 Million	N/A
Local City / Agency Bonds	No Maximum	5 years
State of California Bonds or any other of the United States Registered State Bonds, Treasury Notes or Warrants	No Maximum	5 years
Other Local Agency Bonds	No Maximum	5 years
Secured Obligations and Agreements	20%	2 years
Deposits – Private Placement [4]	30%	N/A
Obligations of Supranational Institutions	30%	5 years

[1] Investment in U.S. Treasury securities requires approval of the City Council under the Nuclear-Free Ordinance.
[2] The sum of reverse repurchase agreements and securities lending agreements should not exceed 20% of the portfolio.
[3] For deposits over $250,000, the Certificate of Deposit must be collateralized.
[4] Sunsets on January 1, 2021.

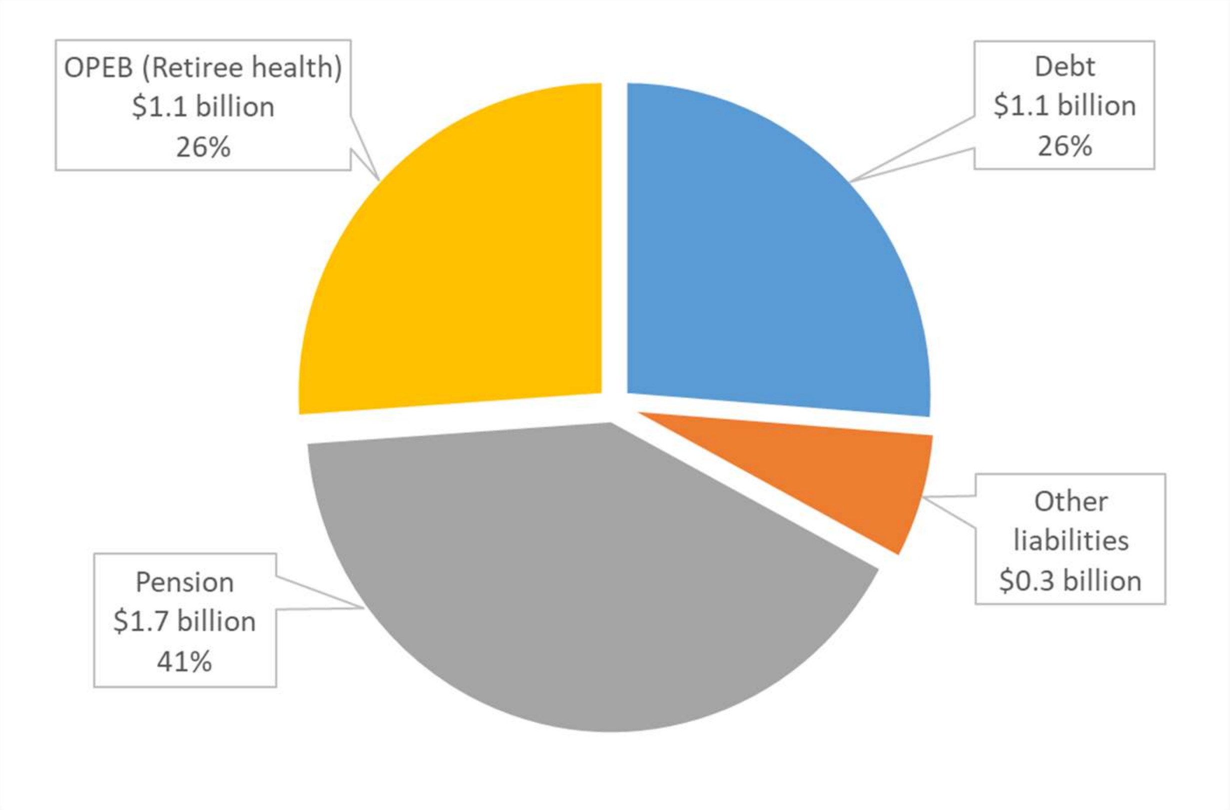
Discussion

- *Debt financing vs Pay-Go for capital projects*
- *Strategies to maintain strong credit ratings*
- *Investing in U.S. Treasury bonds*

4. Pension and Other Post-Employment Benefits (OPEB) Obligations

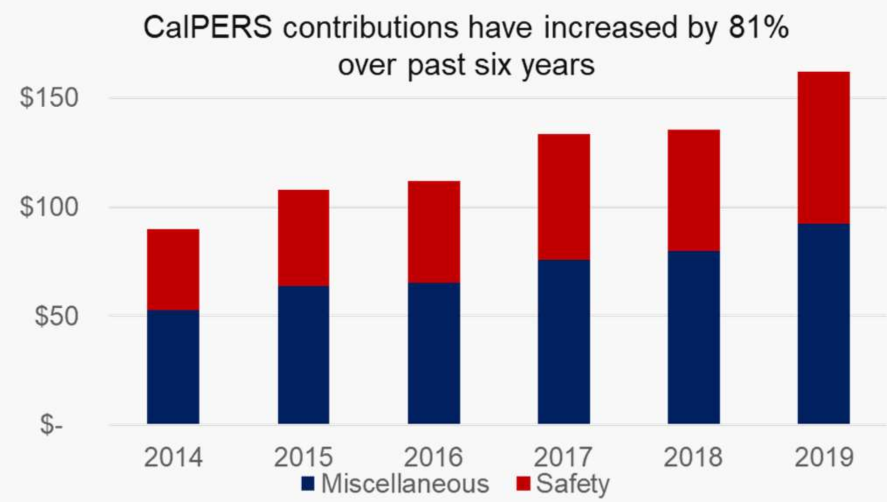
City of Oakland Liabilities

- The City has over $4.2 billion of liabilities
- Pension and OPEB obligations represent approximately 67% of what we owe, resulting in a negative net position
- These liabilities are driving our finances over the long-term and the City's financial health is directly connected to the actions Council takes with regard to these benefits



Pension Plans

- City has three defined benefit plans:
  - Oakland Police and Fire Retirement System (PFRS)
    - Legacy plan supported by a dedicated revenue source (Tax Override Revenue)
- CalPERS Safety Plan
- CalPERS Miscellaneous Plan



Plan	Actuarial Accrued Liability	Market Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio based on Market Value	Valuation Date
PFRS	$647.30	$376.00	$299.80	58.1%	7/1/2018
PERS - Safety	2,176.71	1,370.87	805.83	63.0%	6/30/2018
PERS - Misc	2,824.72	1,885.19	939.53	66.7%	6/30/2018

Oakland Police and Fire Retirement System (PFRS)

- The Oakland Police and Fire Retirement System (PFRS) is a closed defined benefit plan established by the City of Oakland's Charter.
- PFRS is governed by a board of seven trustees. PFRS covers the City's sworn police and fire employees hired prior to July 1, 1976. PFRS was closed to new members on June 30, 1976. As of September 30, 2019, PFRS had 797 retired members and no active members.

PFRS Membership as of September 30, 2019			
Membership	POLICE	FIRE	TOTAL
Retiree	347	199	546
Beneficiary	127	124	251
Total Membership	474	323	797

- The City Council levied the Tax Override at a rate of 0.1575% of property assessed value
- PFRS funded ratio is 58.1% as of July 1, 2018

CalPERS Pension

- Oakland participates in the CalPERS pension system. City employees hired prior to 6/8/2012, are eligible to retire as early as age 50 (Safety) or age 55 (Miscellaneous) without a reduced service benefit.
- The Public Employees' Pension Reform Act (PEPRA) – an act of the state legislature – required all public employees hired after 1/1/2013 to participate in a new tier with a reduced benefit multiplier.
- Oakland does not participate in Social Security.

	Effective Date	City of Oakland Safety Plan	City of Oakland Miscellaneous Plan
Tier 1	Pre-6/8/2012 Hires	3.0% at age 50; 12 month of highest salary	2.7% at age 55; 12 months FAS
Tier 2	6/8/2012 – 12/31/2012	3.0% at age 55; 36 months FAS	2.5% at age 55; 36 months FAS
Tier 3 (PEPRA)	Post-1/1/2013 Hires	2.0% at age 57; 36 months FAS	2.0% at age 62; 36 months FAS

FAS = Final Average Salary

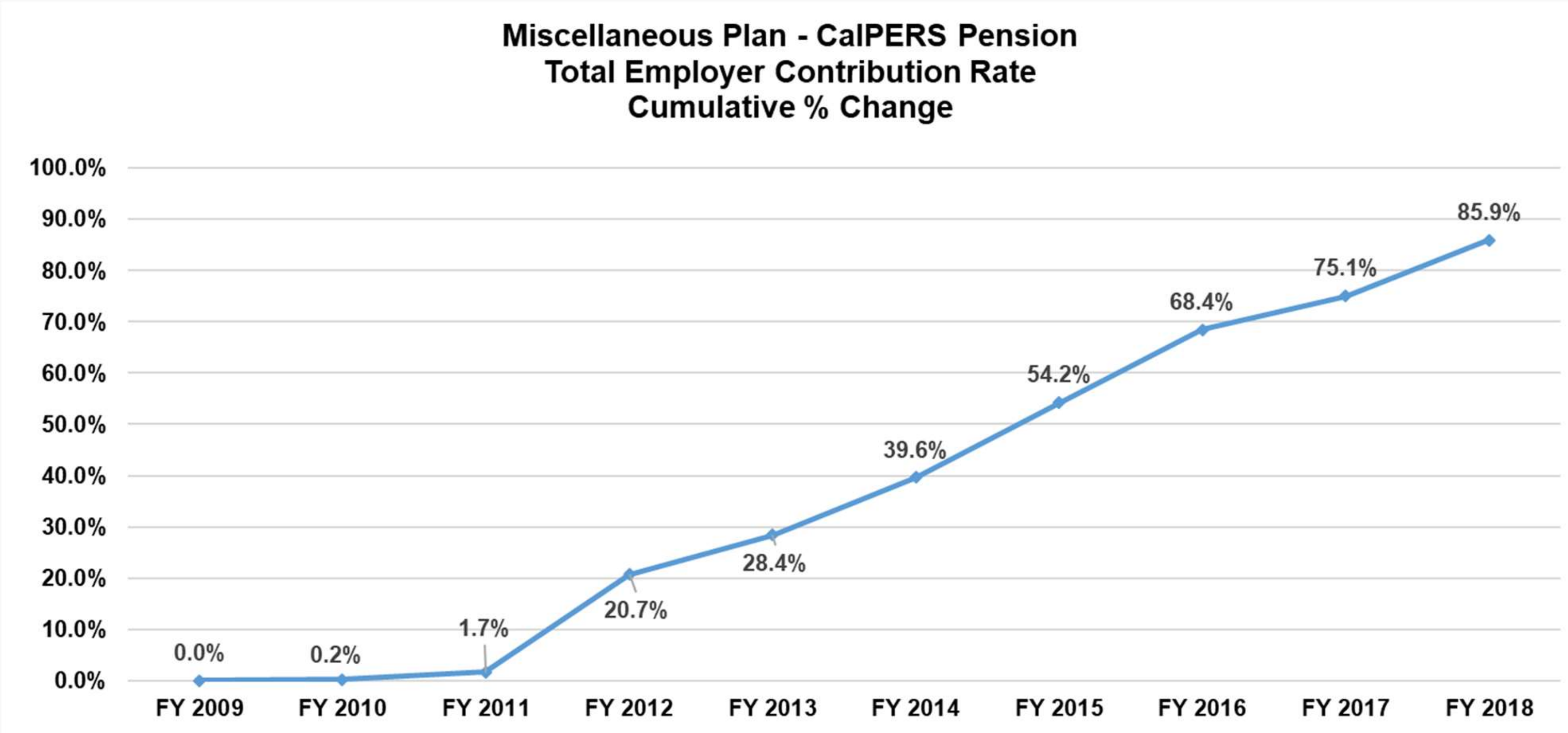
Source: Miscellaneous Plan of the City of Oakland, Annual Valuation Report as of June 30, 2018

Pension Costs Squeeze Available Resources

Historical Perspective: City Contribution to PERS as a % of Payroll

- Over the 10-year period from FY 2008-09 to FY 2017-18, the City's total pension contribution for Miscellaneous members increased by an average of **7.1% per year**, for a cumulative increase of **85.9%**.

FY 2009 = 19.55%	FY 2018 = 36.35%	FY 2020 = 42.23%

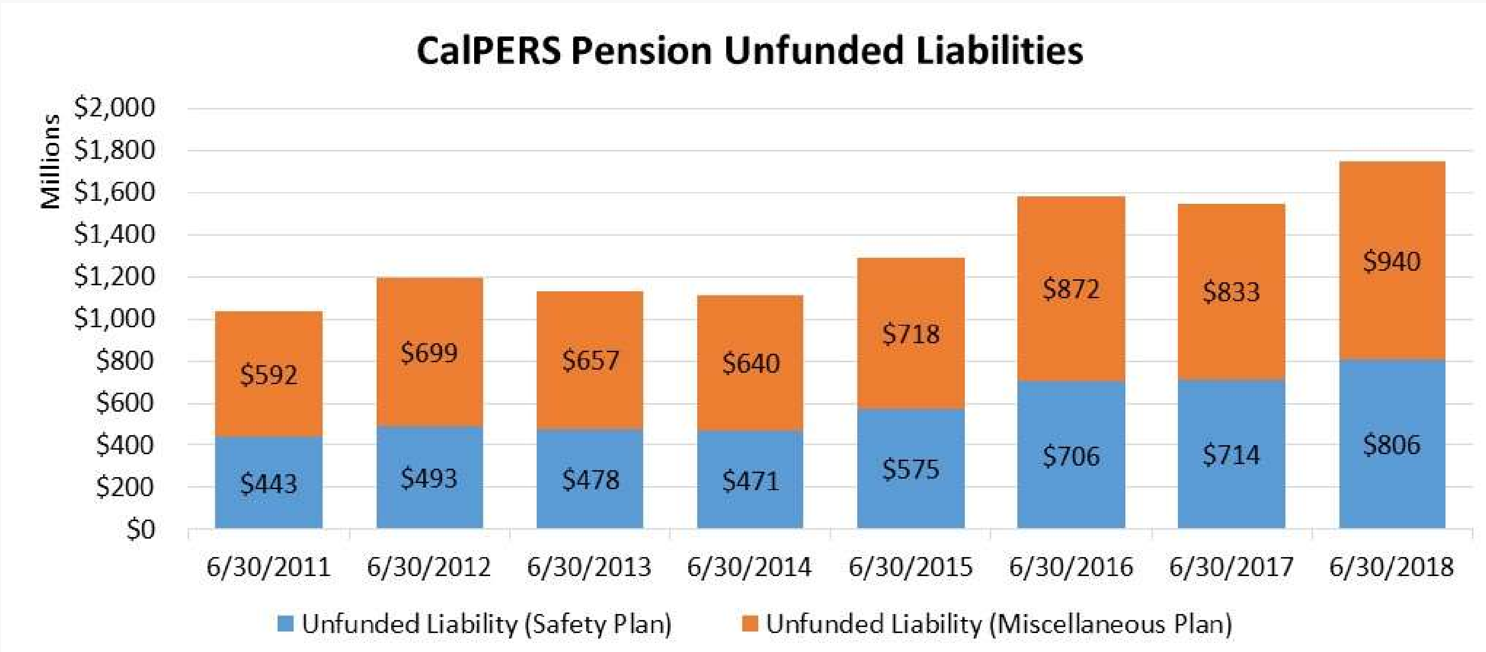


Source: Miscellaneous Plan of the City of Oakland, CalPERS Annual Valuation Reports FY 2009-2018

CalPERS Pension Unfunded Liabilities

Limited Options For Public Employers

- Local governments have few options to deal with pension cost:
  1. Contribute more (and reduce or eliminate other services); or
  2. Expect higher than assumed investment returns (6.70% for FY 2018-19), **despite CalPERS already forecasting that they will not meet the discount rate (7.00%) over the next 10 years**.
- As shown in the chart below, across its two defined-benefit CalPERS pension plans, the City had more than **$1.745 billion** in unfunded liabilities.

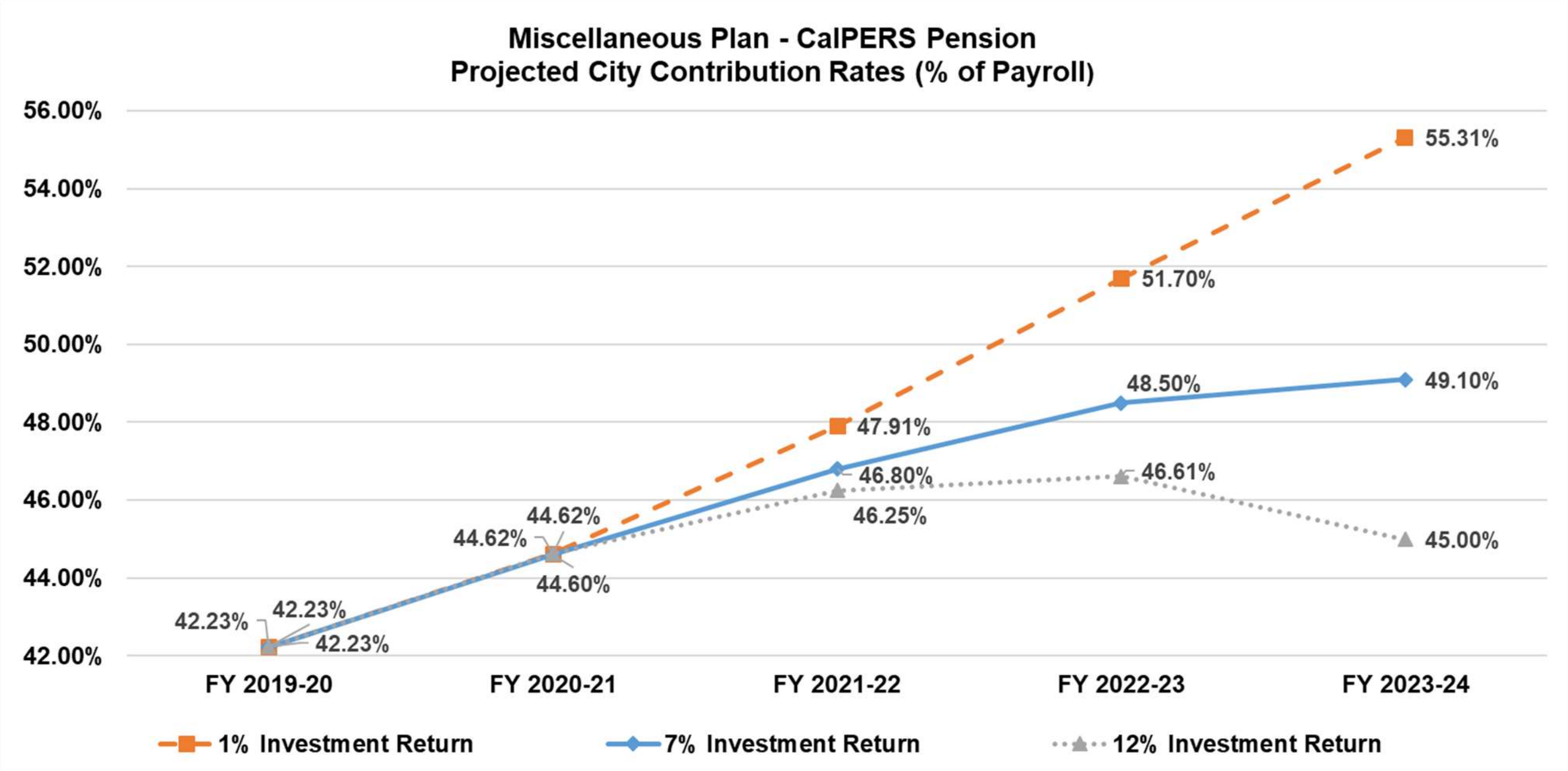


Source: CalPERS Actuarial Reports, Miscellaneous and Safety Plans, June 30, 2018

CalPERS Projections

Employer Contribution Rates on the Rise

- The graph below is the projected employer contributions rate as a percentage of payroll from the City's most recent CalPERS pension actuarial report for Miscellaneous employees (July 2019).
- **<u>Significant downside risk that are outside the City's control.</u>**



Source: Miscellaneous Plan of the City of Oakland, Annual Valuation Report as of June 30, 2018 (pages 5 and 22)

Pension Funding History

- Over the past eight years, the market value of assets have increased 38.6% from $2.3 billion in FY 2011 to $3.3 billion in FY 2018
- However, the unfunded liability increased 68.7% due to changes in the actuarial assumptions such as the discount rate. This reduced the funded ratio from 69.4% in FY 2011 to 65.1% in FY 2018

City of Oakland – Safety Plan

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$ 1,357,816,142	$ 915,113,586	$ 442,702,556	67.4%	$ 130,530,316
06/30/12	1,398,098,675	905,555,632	492,543,043	64.8%	118,924,175
06/30/13	1,487,554,559	1,009,460,115	478,094,444	67.9%	116,889,443
06/30/14	1,639,891,284	1,169,019,374	470,871,910	71.3%	116,485,068
06/30/15	1,754,078,714	1,179,020,200	575,058,514	67.2%	132,109,808
06/30/16	1,872,472,345	1,166,391,681	706,080,664	62.3%	144,655,510
06/30/17	1,997,661,954	1,283,385,686	714,276,268	64.2%	149,391,376
06/30/18	2,176,705,475	1,370,874,540	805,830,935	63.0%	152,187,205

City of Oakland – Miscellaneous Plan

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$ 2,025,140,791	$ 1,433,446,834	$ 591,693,957	70.8%	$ 194,123,412
06/30/12	2,080,205,749	1,380,840,100	699,365,649	66.4%	184,568,347
06/30/13	2,153,399,419	1,496,650,907	656,748,512	69.5%	183,384,391
06/30/14	2,341,202,493	1,701,426,635	639,775,858	72.7%	194,720,748
06/30/15	2,409,031,753	1,691,228,930	717,802,823	70.2%	200,577,831
06/30/16	2,519,676,541	1,647,526,747	872,149,794	65.4%	213,967,422
06/30/17	2,616,012,657	1,783,380,244	832,632,413	68.2%	220,104,450
06/30/18	2,824,719,522	1,885,192,567	939,526,955	66.7%	229,406,591

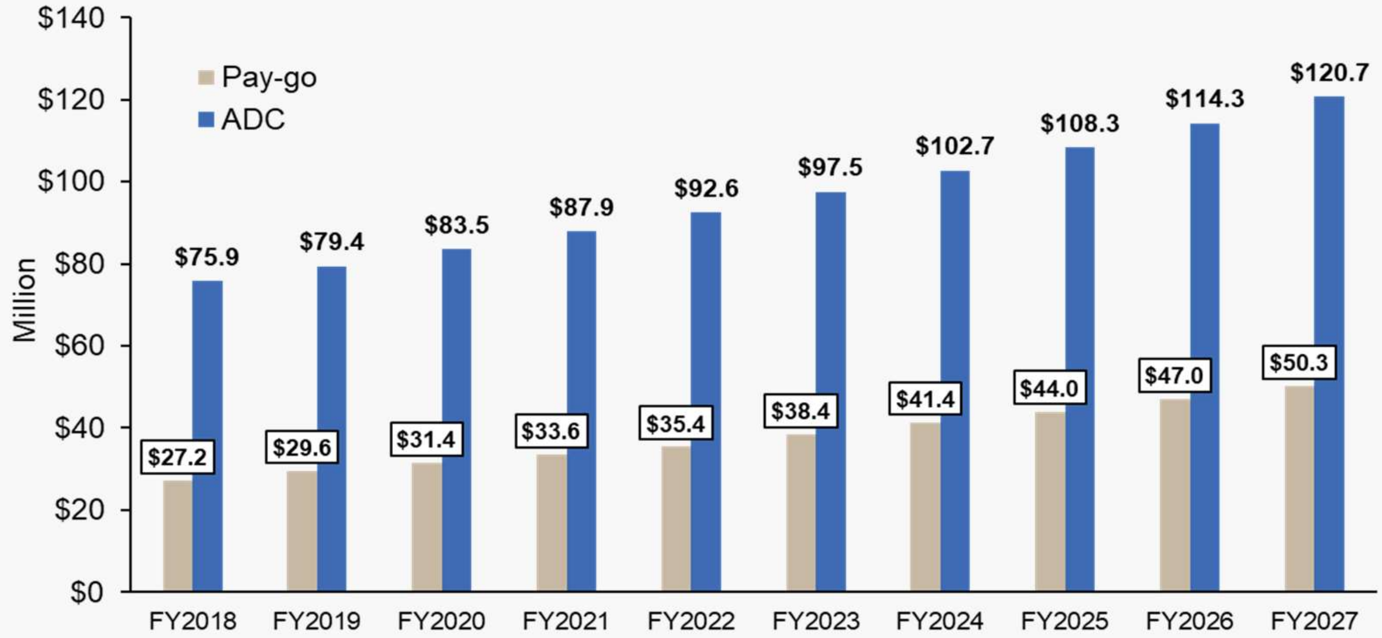
Other Post-Employment Benefits (OPEB)

- City retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service
- In 2014, the City began to partially pre-fund the annual required contribution to the California Employer's Retiree Benefit Trust (CERBT)
- The City's single-employer defined benefit retiree health plan allows eligible retirees and their dependents to receive employer-paid medical insurance benefits through CalPERS.
- The medical insurance reimbursement is not to exceed the Kaiser-HMO family plan rate.
- The Postretirement Health Plan also includes dental and vison benefits and reimbursement of Medicare Part B monthly insurance premium

Other Post-Employment Benefits (OPEB)

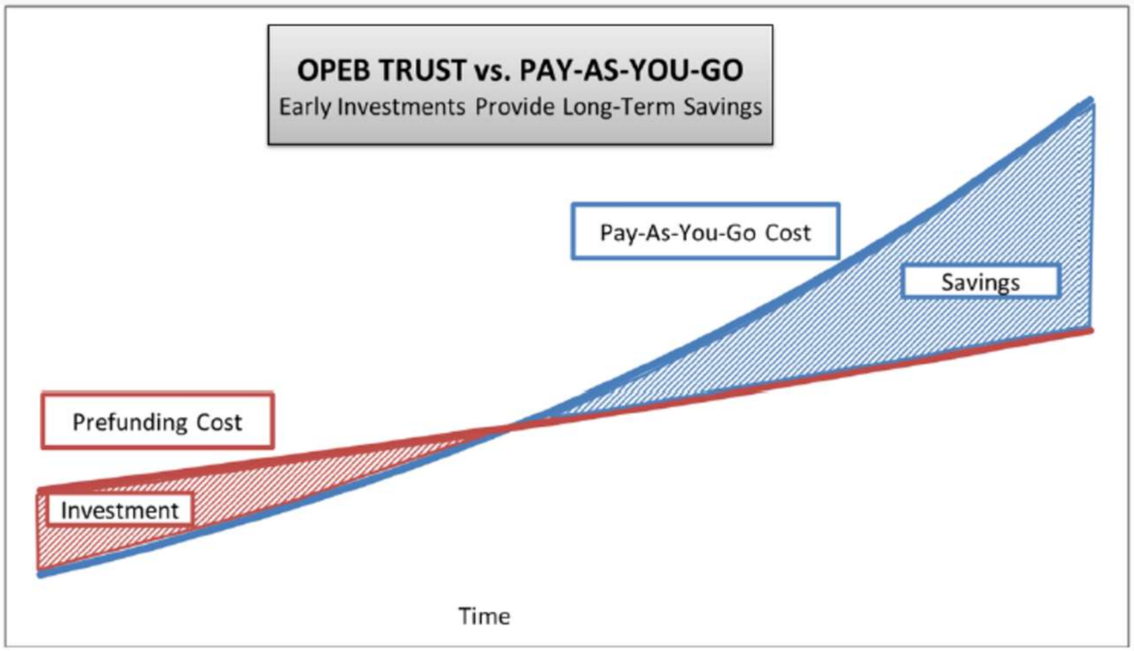
- The City has one plan for all employees and retirees
- The Actuarially Determined Contribution (ADC) represents the amount needed to fund benefits over time. If the contributions are not fully paid, interest accrues on the unpaid portion at the plan's expected long-term rate of return
- Rapid and continued growth in costs is anticipated for pay-go costs alone. Liabilities and future costs will also grow to degree that pay-go funding falls short of full actuarial funding

Pay-Go v. ADC Projections, FY2019-20 to FY2026-27
(Does not include impact of new funding policy)



Other Post-Employment Benefits Funding Policy

- On February 26, 2019, the City Council adopted Resolution No. 87551 C.M.S. establishing the Other Post-Employment Benefits Funding Policy providing for on-going pre-funding contributions of 2.5% of payroll (~$10 million annually). These amounts are in addition to the City's pay-as-you-go requirements and are intended to support the sustainability of the City's retiree medical program
- The OPEB Funding Policy created the California Employer's Retiree Benefit Trust (CERBT). The CERBT currently has a balance of $29.2 million
- Over the long-term, funding the Actuarially Determined Contribution allows the City to harness investment returns for prefunded amounts to pay a portion of future OPEB benefits – generating long-term savings and moderating future budget pressures.
- The policy is expected to increase the City's funded ratio for the explicit subsidy component of OPEB liability to approximately 75% funded within 20 years and to obtain full funding in less than 25 years



Pension vs. OPEBs (part 1)

Attribute	Pensions	OPEBs
Eligibility and benefit levels	Established by State law	Established by City policy and MOUs
Contribution amounts	Rates set by CalPERS based on actuarial studies	OPEB policy provides guidance but City has broad discretion to determine funding amounts
Contribution sources	For post-2013 hires, employees pay half of “normal cost,” City pays other half plus payments towards liabilities not adequately funded in prior years	City pays all costs—no employee contributions

Pension vs. OPEBs (part 2)

Attribute	Pensions	OPEBs
Funding model	City and employee contributions are intended to pre-fund future pension payments	City has traditionally funded costs of benefits from current resources ("pay-go") and has begun prefunding only in past few years
Funding levels	69% for Miscellaneous, 65% for Safety	2%
Chief cost drivers	Investment returns, changes in actuarial assumptions, mortality	Health care inflation, changes in actuarial assumptions, mortality
Comparisons to peers	Post-2013 hires have similar benefits and contribution requirements statewide.	Eligibility requirements, benefit levels, and 100% employer funding are more favorable to employees than most peer jurisdictions. Liability levels are correspondingly higher as well.

Discussion

- *Strategies to address the growing pension and OPEB obligations*
- *Plan funding goals and objectives*
- *Evaluate the long-term financial impact of near-term decisions*
- *Impact of market conditions on pension/OPEB funding ratios and actuarial required contribution*

5. Financial Policies and Reserves

Financial Policies Overview

Financial policies are central to a strategic, long-term approach to financial management. Some of the most powerful arguments in favor of adopting formal, written financial policies include their ability to help governments:…

- Institutionalize good financial management practices
- Define a shared understanding of how the organization will develop its financial practices and manage its resources
- Promote long-term and strategic thinking
- Manage risks to financial condition

- Government Finance Officers Association (GFOA) Best Practice Advisory

Oakland's Current Financial Policies

- Consolidated Fiscal Policy (CFP)
  - Budget Practices
  - Reserve Funds
  - Budget Process
- Investment Policy
- Debt Policy
- Other Post-Employment Benefits (OPEB) Funding Policy

CFP – Budget Practices

Rationale: A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means… a government [should] maintain a balance between operating expenditures and operating revenues over the long term, [which] is referred to as structural balance.

- GFOA: Recommended Budget Practices

- Balanced Budgets
  - Propose and adopt a balanced budget that limits appropriations to estimated revenues and available fund balance
  - Balanced at the individual fund Level
  - Amendments to the Budget shall maintain a balanced budget
- Administrative Discretion Budget Modifications
  - Carryforwards of Appropriations from one Fiscal Year to the Next
  - Material Alterations to the Budget
  - Transfers between Accounts

CFP – Budget Practices (cont.)

Practice: A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.
Rationale: By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

- GFOA: Recommended Budget Practices

- One-Time and Volatile Revenues
  - May be waived by Resolution
  - Excess Real Estate Transfer Tax (RETT):
    - Limited to 15% of GPF Tax Revenues
      - ✓ Amounts in Excess are One-Time
      - ✓ 25% → Unfunded liabilities
      - ✓ 25% → Vital Services Stabilization (Rainy Day) Fund
  - Other One-Time Revenues
    - Restricted for Use on One-Time Expenditures

CFP – Reserves

- Emergency Reserve
  - Equal to 7.5% of GPF Adopted Expenditures ($48.83 million)
  - May be appropriated for fiscal emergencies
  - Reserve Held as Fund Balance
- Vital Services Stabilization (Rainy Day) Fund
  - Funded by Excess RETT
  - Can be used when GPF revenues fall, or to prevent significant service reductions
  - Target value of 15% of GPF Revenues (current value $19.81 million or 2.9% of GPF Revenues)
- CIP Reserve
  - Funded from One-Time Revenues when not otherwise used
  - May be appropriated for unexpected emergencies, major capital maintenance, and repair costs
  - Currently unfunded

Reserves: Best Practices & Comparisons

Local Comparison: Reserve Goals
Oakland – Emergency Reserve: 7.5%; Vital Services Fund: 15% of GPF Revs

City of Berkeley	City & County of San Francisco	City of Emeryville
• 9.2% Stability • 7.5% Catastrophic	• 10% Combined Stabilization and Rainy Day	• 25% Stabilization • 25% Rainy Day

Appropriate Fund Balance Level: Typically no less than 60 days or two months (about 16.5%-16.7%) of operating expenditures for the general fund

- Municipal Research and Services Center

Fund Balance vs. Reserves

- Most of the City's fund balances are restricted
- As of June 30, 2019, the City had $118.2 million of unassigned General Fund balance:
  - $48.8 million set aside to meet the CFP mandated 7.5% required reserve
  - Includes other non-GPF funds that are restricted in use such as KCOB, AHTF, SSBT, Self-Sustaining Fund, etc.
  - Many of these fund balances are appropriated against in FY 2019-20

Fund balances for all the major and nonmajor governmental funds as of June 30, 2019, were distributed as follows (in thousands):

	General	Federal/State Grant Fund	LMIHF[1]	Municipal Capital Improvement	Other Special Revenue	Other Governmental Funds	Total
Restricted for:							
Capital projects	$ —	$ 9,071	$ 1,557	$ 129,410	$ —	$ 15,476	$ 155,514
Pension obligations annuity	57,436	—	—	—	—	—	57,436
Pension obligations PFRS	182,811	—	—	—	—	—	182,811
Debt service	—	—	—	—	—	17,065	17,065
Property held for sale	—	—	30,677	131,980	—	—	162,657
Housing projects	—	—	30,212	—	—	—	30,212
Total restricted	240,247	9,071	62,446	261,390	—	32,541	605,695
Committed for:							
Vital services	14,648	—	—	—	—	—	14,648
Library, Kids First and museum trust	—	—	—	—	25,279	1,669	26,948
Total committed	14,648	—	—	—	25,279	1,669	41,596
Assigned for:							
Capital projects	44,362	—	—	—	158,413	2,557	205,332
Encumbrances	9,596	—	—	—	—	—	9,596
Total assigned	53,958	—	—	—	158,413	2,557	214,928
Unassigned	118,242	—	—	—	—	—	118,242
Total	**$ 427,095**	**$ 9,071**	**$ 62,446**	**$ 261,390**	**$ 183,692**	**$ 36,767**	**$ 980,461**

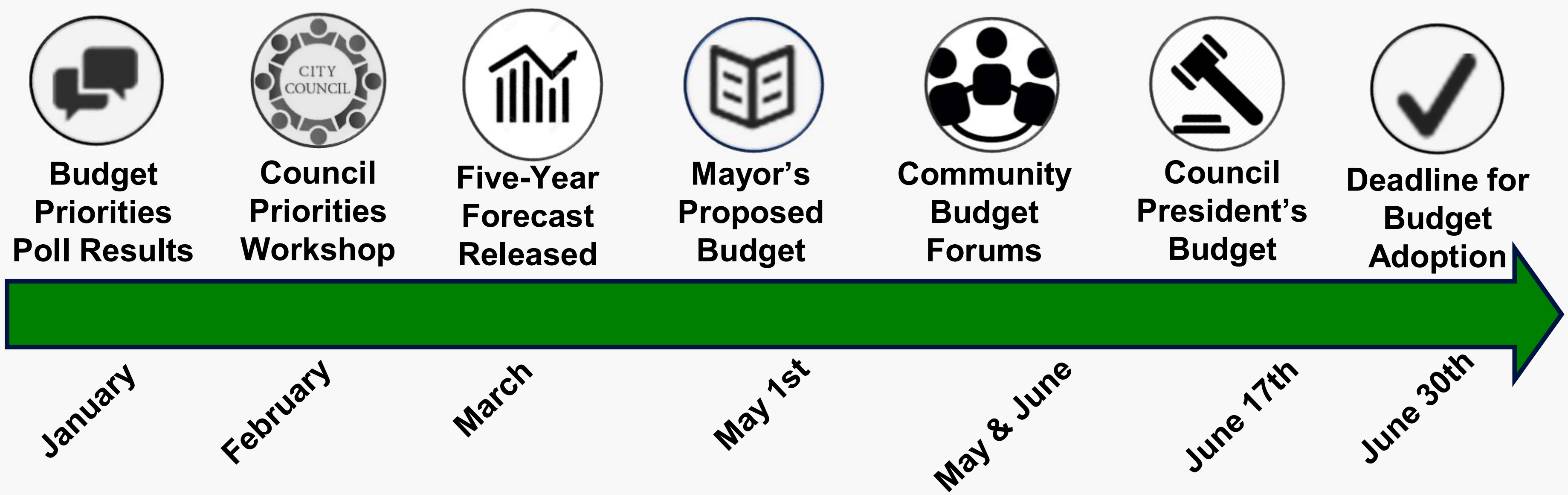
[1] Low and Moderate Income Housing Asset Fund

CFP – Budget Process

Practice: A government should publish a comprehensive budget calendar that specifies when budget tasks are to be completed and that identifies timelines for those tasks

Rationale: Stakeholders need to be aware of when key budget tasks, events, and decisions will occur so they have an opportunity to plan and to participate in the process.

- GFOA: Recommended Budget Practices



Financial Planning – a.k.a. Budgeting

- Budget Principles & Overview
  - Key financial planning tool
  - Approved revenue and spending plan that authorizes a municipality to use public dollars to provide services
  - Budgets are by definition an estimate
  - Informed by the City’s priorities, goals, and values
- Institutionalized and adheres to numerous best practices in our budget process
- Public engagement is a strength
  - Scientific poll of residents
  - Community forums
  - Presentations at public meetings
  - Budget ambassadors program

Budgets: Existing Best Practice Elements

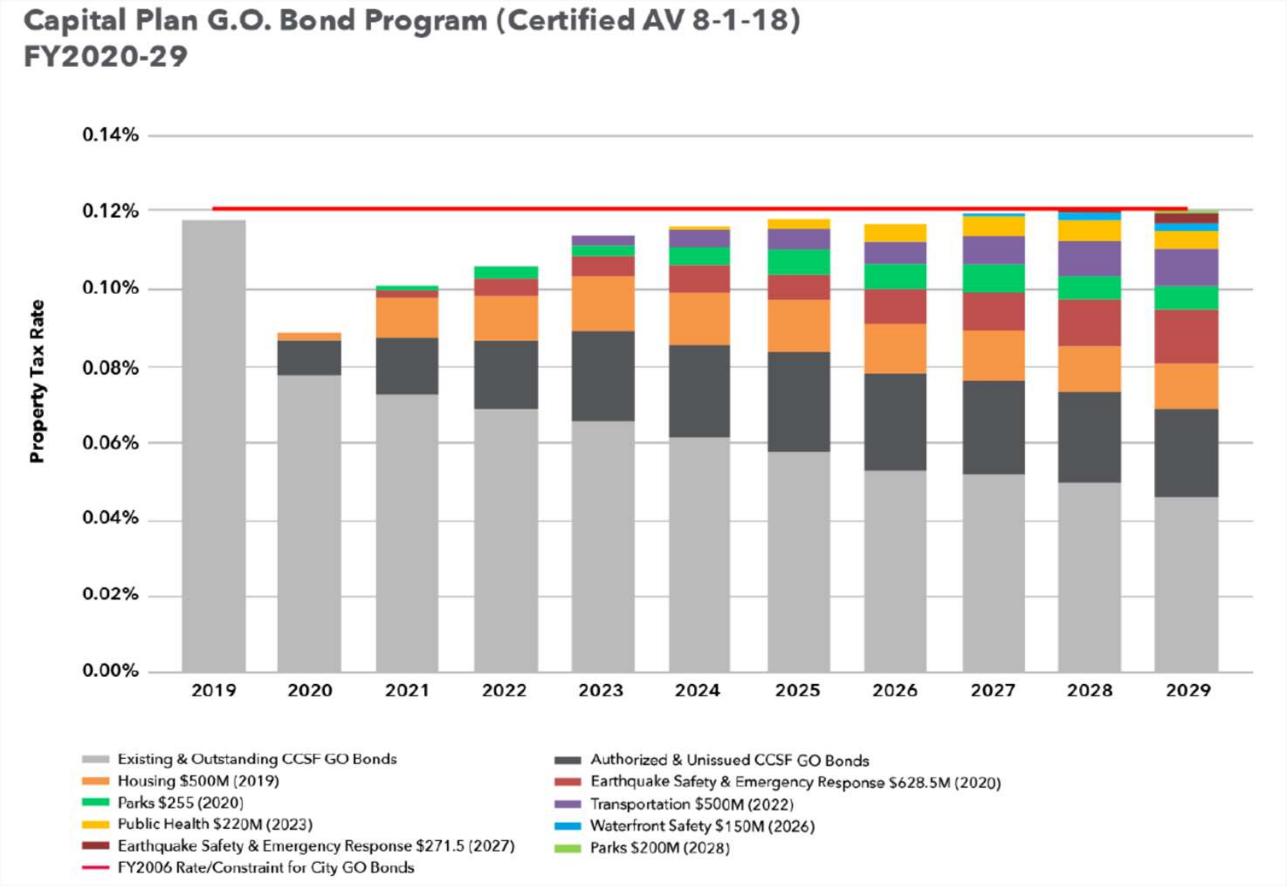
Best Practice Element	Existing Element
Assess Community Needs, Priorities, Challenges, and Opportunities	Budget Priorities Poll, Community Forums, Outreach Efforts
Adopt Financial Policies	Consolidated Fiscal Policy (CFP)
Develop a Process for Preparing and Adopting a Budget	Budget Calendar – CFP Timelines
Develop and Disseminate Broad Goals	Mayor & Council Goals & Values
Make Choices Necessary to Adopt a Budget	Timely Adoption of Balanced Budgets
Monitor, Measure, and Evaluate Financial Condition	R&E Reports

Budgets & Policy: Practice Improvements

- Prioritization of Expenditures and New Initiatives
- Multi-Year Planning & Policy Development in advance of the two-year budget
  - Utilize Off-Year (Midcycle) of the Biennial Budget Cycle to develop and vet new service and program
- Improve Long-Range Financial Planning and align financial capacity with long-term service objectives
- Utilize Capital Improvement Program Prioritization Process to align with City's current policies and values to reflect citywide priorities of:
  - Equity
  - Economy
  - Improvement
  - Health and Safety
  - Environment
  - Collaboration
  - Existing Conditions
  - Required Work
  - Shovel Ready
- Simplification of Budgeting Practices and Formulas
- Flexibility – Avoid Restricting Revenues and Other Sources Funds
  - Budgetary formulas
  - Earmarked special funds
  - Minimum spending requirements

City and County of San Francisco Capital Planning Program

- The City and County of San Francisco has a Capital Plan G.O. Bond Program that constraints G.O. Bonds property tax rates to 2006 levels
- The Capital Planning Program coordinates resources to restore, improve and build San Francisco's public infrastructure by replacing existing and aging assets with new and more efficient projects over time as old debt is retired and/or the property tax base expands



Discussion

- *Adequacy of financial policies*
  - *Reserves*
  - *Use of Excess RETT*
  - *Use of One-Time Revenues*
  - *OPEB Funding Policy*

6. Revenues

General Purpose Fund, Property & Local Taxes

- Oakland is a Charter City. This affords the City broader assessment powers than a General Law City, as well as taxation power, so long as we maintain compliance with Proposition 218, California Constitution Article XIIIC, § 2 and the City of Oakland Charter.

- As such the City assess a variety of local taxes:
  - Business Tax - OMC Chapter 5, Section 5.04
  - Parking Tax - OMC Chapter 4, Section 4.16
  - Real Estate Transfer Tax - OMC Chapter 4, Section 4.20
  - Transient Occupancy Tax - OMC Chapter 4, Section 4.24
  - Utility Transfer Tax - OMC Chapter 4, Section 4.28

- City's General Purpose Fund receives revenue from
  - Property Taxes
  - Sales Tax

Revenue Management Best Practices

- Develop Policy on the use of one-time revenues
- Long-Range Planning
- Agreed upon Forecasting Policy

Develop Policy on The Use of One-Time Revenues

- “A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

Rationale: By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

- GFOA: Recommended Budget Practices

- A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

Rationale: Unpredictable revenue sources cannot be relied on as to the level of revenue they will generate. Particularly with major revenue sources, it is important to consider how significant variation in revenue receipts will affect the government’s financial outlook and ability to operate programs in the current and future budget periods.”

- GFOA: Recommended Budget Practices

Long-Range Planning

> The purpose of the financial forecast is to evaluate current and future fiscal conditions to guide policy and programmatic decisions. A financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions.
>
> *- GFOA: Recommended Budget Practices*

- A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions and that develops appropriate strategies to achieve its goals.
- The forecasting of sharp turns in national, state, or local economies is problematic. As a result, actual outcomes may be different from projections, particularly for revenue streams *dependent upon consumption and income*.
- Analyze Tax & Fee Exemptions: A government should periodically estimate the impacts and potential foregone revenue as a result of policies that exempt from payment, provide discounts and credits, or otherwise favor particular categories of taxpayers or service users.

Business Tax

Business Tax

- The City has approximately 22 different categories* of business that are taxed at a variety of different rates.
- Businesses are required to pay taxes annually by no later than March 1.
- The basis typically used for calculating the tax is the previous year's gross receipts or payroll.
- Business taxes are not typically considered a volatile revenue category; however, these taxes are subject to flattening or decreasing during times of economic contraction.
- Business taxes are one area where the City will experience increased revenue as it increases collection efficiencies.
- The Revenue Management Bureau deployed new, more efficient local tax software in late November 2016. The software provided:
  - Ability to renew and pay taxes online.
  - Ability to pay using e-check
  - Ability to open or close a business online.

* Most Bay Area cities have similar Business Tax categories/classifications.

Business Tax Rates

Oakland and Nearby Cities Tax Rates *

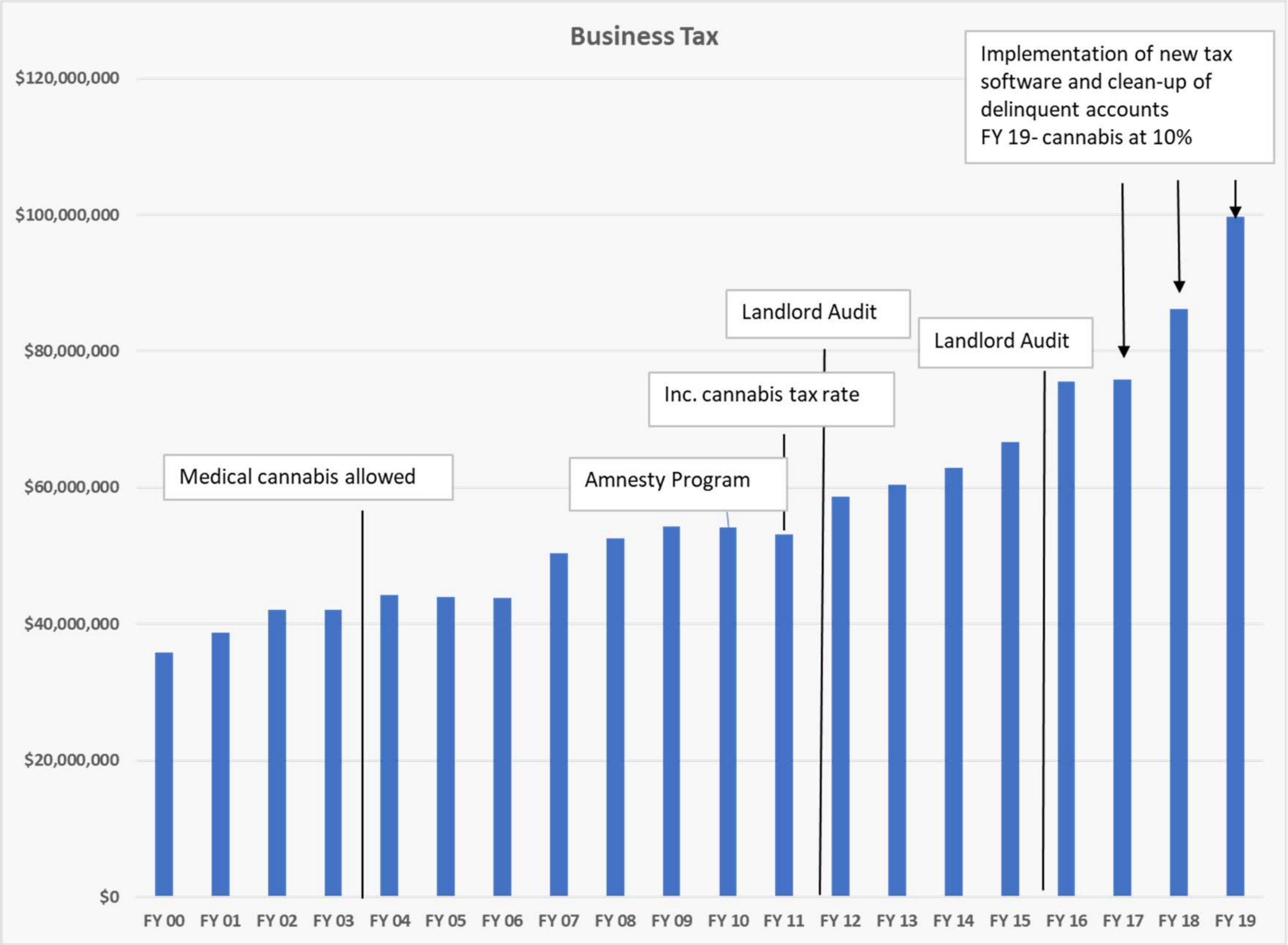
Jurisdiction	Primary Tax Structure	Tax Rate	
		Minimum	Maximum
Oakland	Gross Receipts	$0.60 / $1,000	$13.95 / $1,000
Berkeley	Gross Receipts	$1.20 / $1,000	$28.80 / $1,000
Emeryville	Gross Receipts	$0.10 / $1,000	$0.10 / $1,000
Hayward	Fixed / Gross Receipts	$16.00	$373.35 + $0.11 / $1,000
San Francisco	Tiered Gross Receipts	$0.75 / $1,000	$6.50 / $1,000
San Leandro	Flat Tax Rate & Per Employee	$141.50 and $42.50 per Employee	$709.20 and $106.50 per Employee

* Excluding cannabis

City of Oakland 2019 Business Tax Facts

- 52,090 active accounts
- 4,730 accounts generated 80% of 2019 tax revenues
  - Top Categories*:
    - Professional Services
    - Commercial Rental Property
    - Residential Rental Property
- 2,194 accounts closed for a loss of $4.36 million ongoing revenue
- 3,469 accounts opened for expected FY 2020 revenue aggregate of $4.94 million (one-time and ongoing)
- OMC § 5.04.430, Five-Year Commercial/Industrial Exemption:
  - All new buildings and those buildings on which major renovations are completed after July 1, 1981 will be eligible for a five-year exemption
  - The reduced tax of $1.80 per $1,000 of gross receipts applies during the five-year exemption. The tax rate of $13.95 per $1,000 gross receipts applies following the expiration of the five-year period

Business Tax



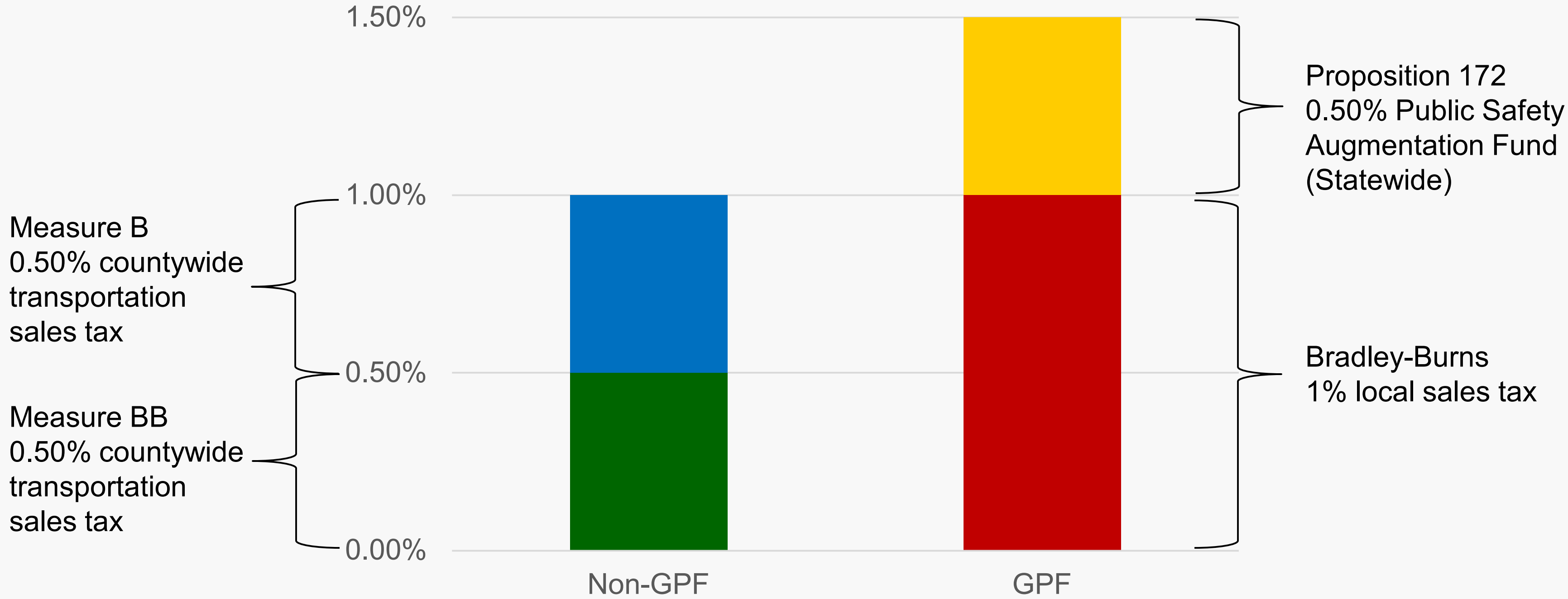
Business Revenue Statistics

Business Category	Tax Revenues	% of Total Revenue	Number of Businesses
M - RESIDENTIAL RENTAL PROPERTY	$20,249,898	24.10%	24,640
F - PROFESSIONAL/SEMI-PROFESSIONAL	$19,660,723	23.40%	8,327
N - COMMERCIAL RENTAL PROPERTY	$13,702,529	16.31%	3,469
H - CONTRACTORS	$7,536,183	8.97%	5,483
E- BUSINESS/PERSONAL SVCS	$5,825,357	6.93%	7,698
A - RETAIL SALES	$4,770,442	5.68%	5,229
G - RECREATION/ENTERTAINMENT	$3,849,177	4.58%	506
D - WHOLESALE SALES	$2,875,159	3.42%	764
I - MANUFACTURING	$1,029,701	1.23%	848
U - UTILITY COMPANIES	$890,383	1.06%	174
K - ADMIN HEADQUARTERS	$886,352	1.06%	109
C - AUTOMOBILE SALES	$869,159	1.03%	115
B - GROCERS	$590,577	0.70%	327
T - MEDIA FIRMS	$579,073	0.69%	67
Other	$655,248	0.78%	2,214
Grand Total(Excluding Cannabis)	**$84,013,361**	**100.00%**	**59,970**

Sales Tax

Sales Tax

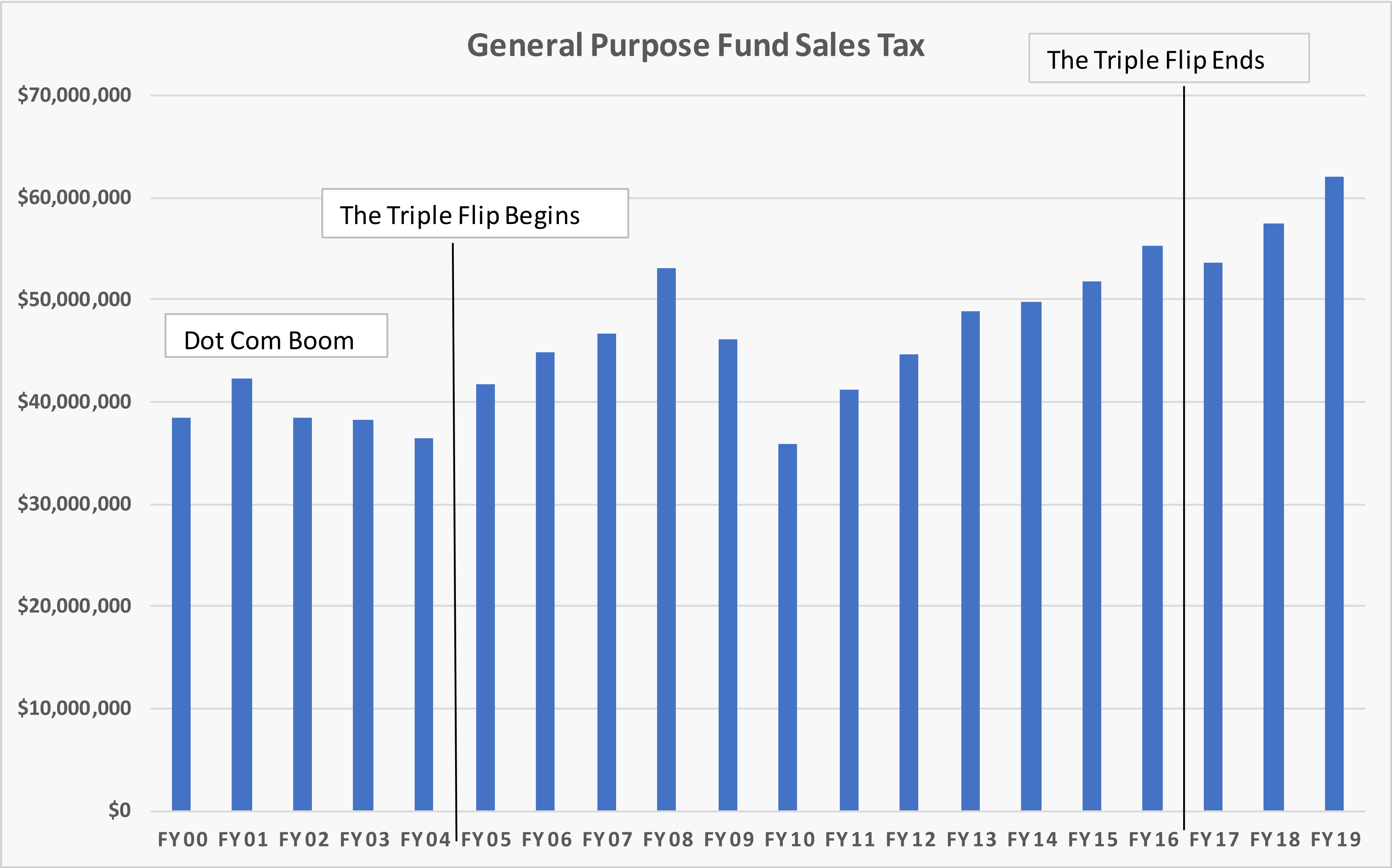
- Oakland's sales tax is 9.25%*
- The City receives sales taxes from four different main categories:



- Transaction and Use Tax (TUT) rate - Combined local TUT rate can only be 2%. To exceed 2%, waiver must be obtained at the State level.

* Sales tax rate for Bay Area cities: Albany (9.75%); Berkeley (9.25%), Emeryville (9.25%), San Francisco (8.50%) and San Leandro (9.75%)

Sales Tax


General Purpose Fund Sales Tax
The Triple Flip Ends
The Triple Flip Begins
Dot Com Boom
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19

Sales Tax

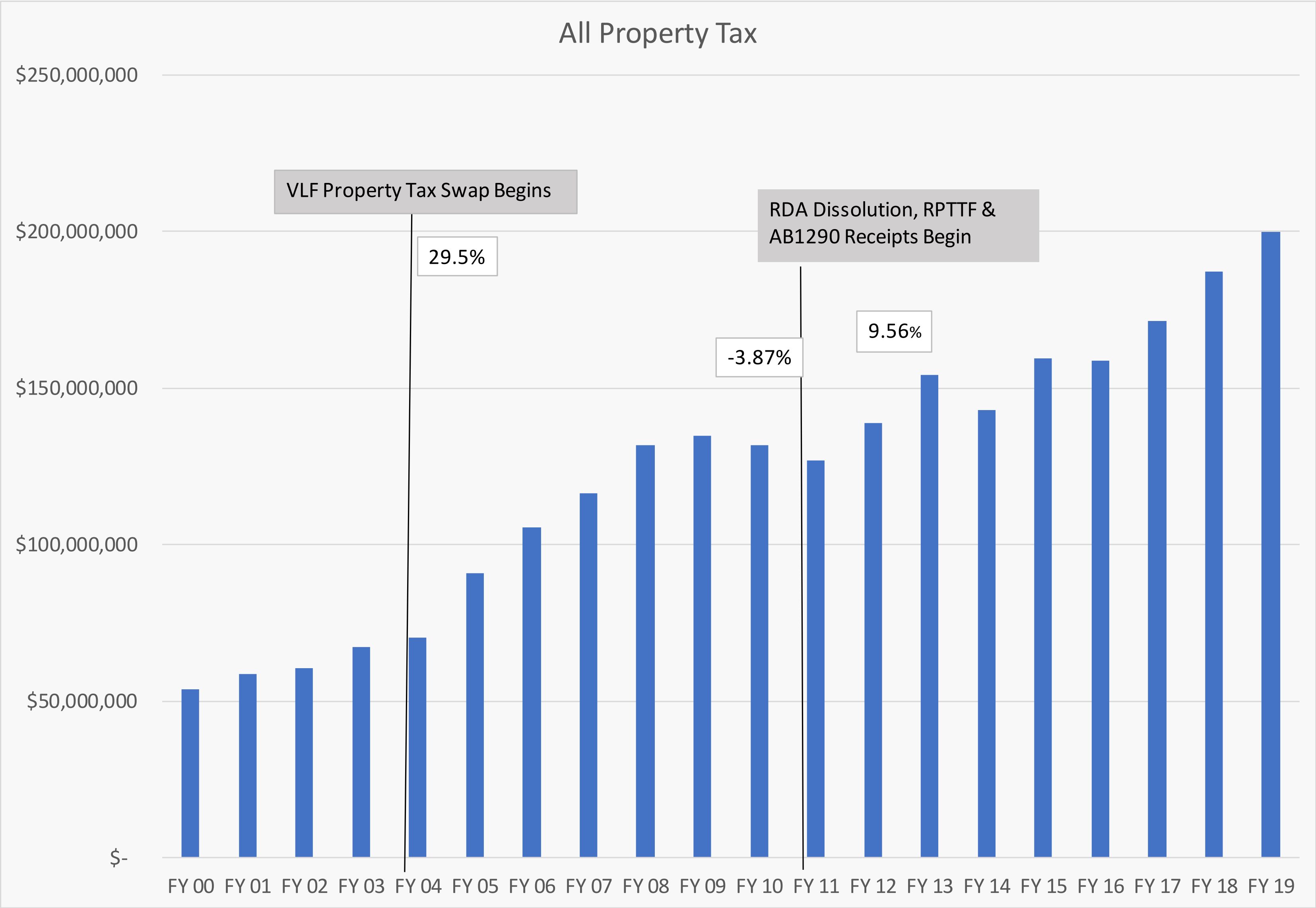
Sales Tax	2014-15	2015-16	Growth Rate	2016-17	Growth Rate	2017-18	Growth Rate	2018-19	Growth Rate
Auto & Transportation	$8.95	$9.34	4.36%	$9.03	-3.30%	$8.61	-4.70%	$9.48	10.10%
Business & Industry	$5.58	$5.78	3.58%	$6.17	6.70%	$6.28	1.80%	$7.77	23.70%
General Customer Goods	$6.60	$5.87	-11.06%	$5.55	-5.50%	$5.35	-3.60%	$5.99	12.00%
Restaurants & Hotels	$8.56	$9.94	16.12%	$10.01	0.70%	$10.50	4.90%	$11.20	6.70%
Building & Construction	$4.57	$4.75	3.94%	$5.14	8.20%	$5.45	6.00%	$6.14	12.70%
Food & Drugs	$4.40	$4.90	11.36%	$5.11	4.30%	$4.96	-2.90%	$5.64	13.70%
Fuel & Service Stations	$6.32	$5.03	-20.41%	$5.68	12.90%	$5.82	2.50%	$7.68	32.00%

Property Tax

Major Different Property Tax Categories

- Current Secured
- Current Unsecured
- Current Unitary
- Prior Secured
- Prior Unsecured
- Secured Supplemental Assessment
- Aircraft In-Lieu
- Vehicle License Fee (VLF) - Property Tax Swap
- Redevelopment RPTTF
- AB 1290 St

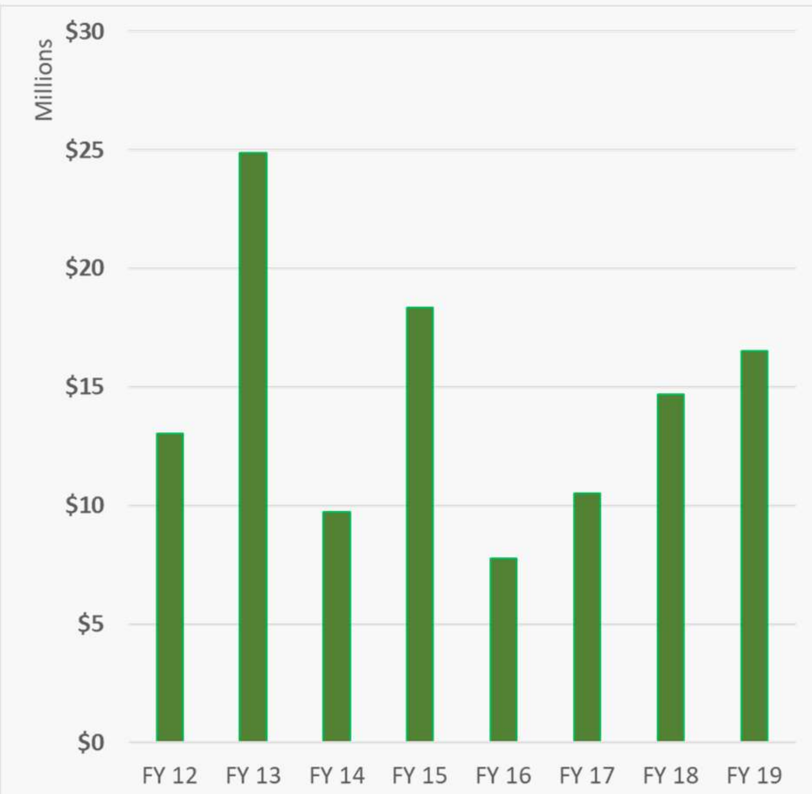
Property Tax



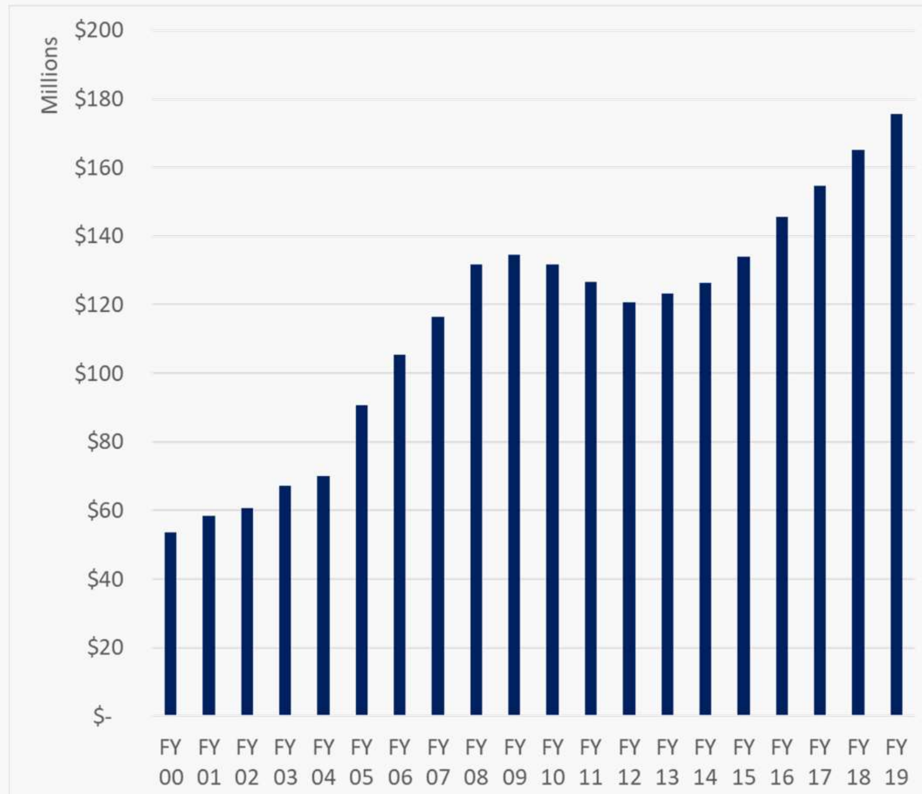
Property Tax

- Redevelopment Property Tax Trust Fund- A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

Redevelopment RPTTF (Includes 2013 1x)



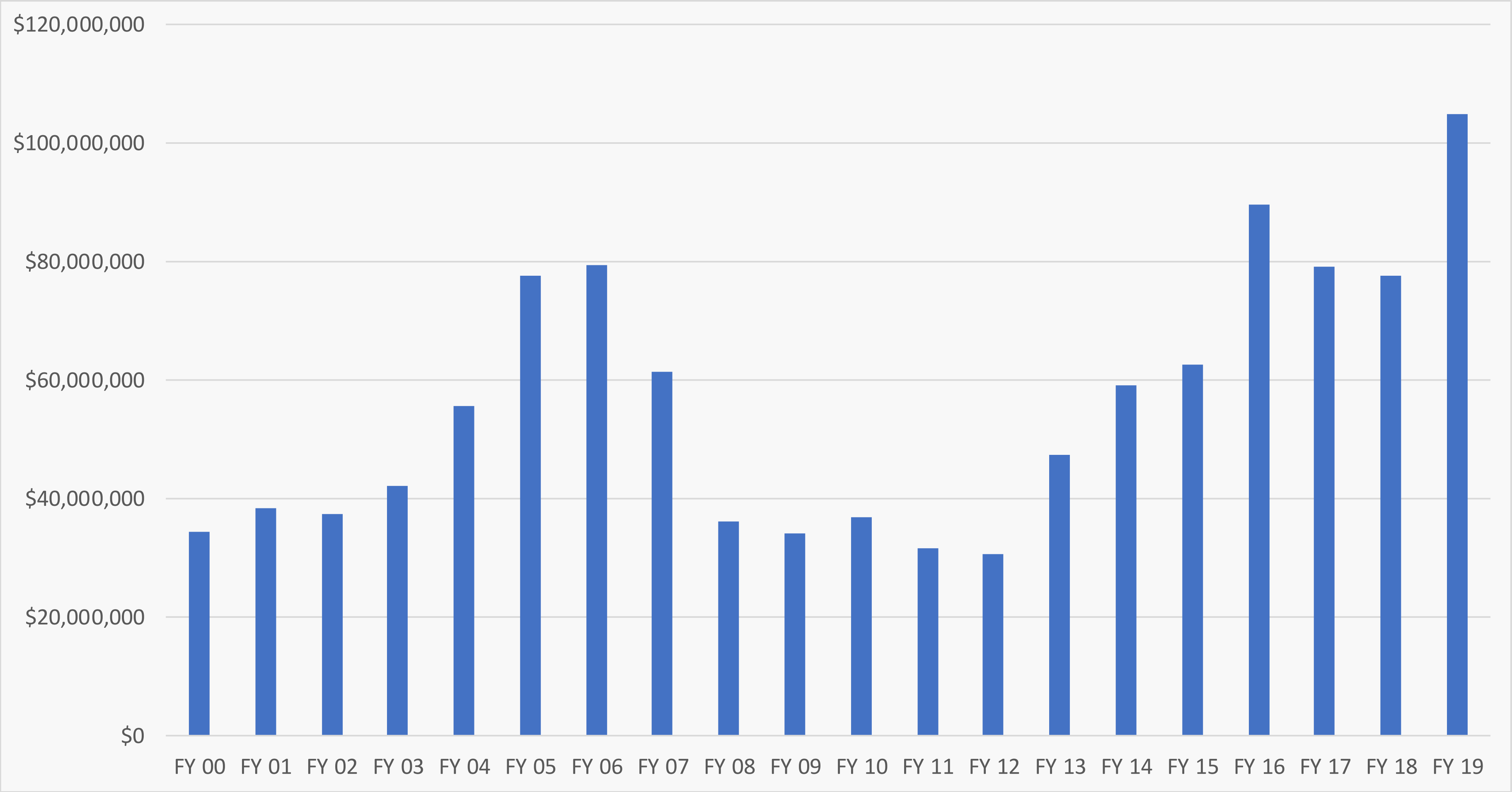
Property Tax Net of RPTTF



Real Estate Transfer Tax

Real Estate Transfer Tax

- A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.



Real Estate Transfer Tax

- In the first 6 months of FY 2019-20, real estate transfer transactions have increased but overall total gross sales have decreased.

	July - Dec FY 2019		July - Dec FY 2020		Year-over-Year	
Range	Gross Sales	Volume	Gross Sales	Volume	Gross Sales	Volume
Less Than $300K	$33,756,000	200	$30,545,500	192	-9.51%	-4.00%
$301K - $2.00 MM	$1,753,335,136	2,139	$1,859,835,536	2,229	6.07%	4.21%
$2.01 MM - $5.00 MM	$248,927,500	88	$217,446,500	77	-12.65%	-12.50%
$5.01 MM - $10.00 MM	$162,773,500	23	$91,445,500	13	-43.82%	-43.48%
$10.01 MM - $50.00 MM	$333,017,000	17	$473,624,000	19	42.22%	11.76%
$50.01 MM - $100.00 MM	$122,900,000	2	$142,650,000	2	16.07%	0.00%
Over $100.01 MM	$429,542,500	2	$175,000,000	1	-59.26%	-50.00%
Total	**$3,084,251,636**	**2,471**	**$2,990,547,036**	**2,533**	**-3.04%**	**2.51%**

	July - Dec FY 2019	FY 2020
Total Tax Revenue Calculated at Current Marginal Rate:	$57,199,643	$54,076,289
		-5.46%

Discussion

- *Revenue stability / volatility*
- *Business cycle considerations*
- *Revenue forecasting*
- *Key tax categories*
- *Full cost recovery targets*

About the California Schools and Local Communities Funding Act of 2020

Official summary from the office of the California Attorney General:

"Increases funding for K-12 public schools, community colleges, and local governments by requiring that commercial and industrial real property be taxed based on current market value. Exempts from this change: residential properties; agricultural properties; and owners of commercial and industrial properties with combined value of $3 million or less."

Key benefits of the ballot measure:

1 Reassessment of Commercial/Industrial Property Only:

The reassessment of only commercial and industrial property to fair market value is the cornerstone of the initiative. Reassessments will be conducted on a regular, ongoing basis, and are estimated to generate as much as $12 billion annually in new revenues when fully implemented, not including small business exemptions outlined below.

2 Residential Properties and Agricultural Land are Exempt:

No residential properties will be reassessed, whether rental residential (apartments and rental homes), homeowner or condominium owner, or mobile home. It exempts all agricultural land from reassessment used for producing commercial commodities or for agricultural production. It also exempts open space, so that farmland which is held without production would also be exempt. Mixed-use property is to be assessed based on proportion of commercial to residential footage. Our measure allows the legislature to exempt the commercial portion of mixed-use properties if the properties are predominantly residential (75% or more).

3 Education Share:

40% of the revenue goes to schools, with 89% of this dedicated to K-12 and 11% for Community Colleges.

New School Revenues Over Prop 98:
New revenues will be pooled statewide and deposited into the Local School and Community College Property Tax Fund to ensure that the local schools and community colleges portion of new revenues is considered additional to all other funding, over and above the Proposition 98 guarantee.

New School Revenues to Advance Equity:
The school share of new revenues will be allocated to advance social equity according to the local control funding formulas for all schools, which provide additional funding for districts with large populations of low-income students, English-learners, and foster youth.

Basic Aid School Districts:
In order to assure that all school districts benefit from this reform, Basic Aid School Districts (which receive sufficient local property tax revenue to meet their target funding level under state law) will receive as much as they would have under current law and at least $100 per unit of average daily attendance in addition from the new revenues. Similarly, community college districts shall receive no less than $100 per enrolled full-time equivalent student.

4

New Revenues for Local Government:

60% of the new revenues go to cities, counties and special districts and will be allocated in the same manner as property tax revenues are currently allocated, with no changes in the proportions between local government entities. Like all property taxes, revenues will be spent at local government discretion, for parks, libraries, public safety, capital outlay, health and social services.

5

Expenditure Transparency:

Public disclosure is required by all entities (i.e., local education agencies, community colleges, counties, cities and counties, cities and special districts) on an annual basis as to how new revenues from this measure are spent. The measure mandates that public disclosures be widely available to the public and written in a manner that is easily understood.

6

Expanded Small Business Relief:

The new measure contains modified and expanded provisions to protect small businesses:

Exemption for small properties:

Properties with a market value of $3 million or less will be exempted from reassessment, unless the property owner holds a direct or indirect interest in other properties in the state which together have a cumulative total market value of over $3 million, in which case, all properties will be reassessed. Small property owners will claim this exemption annually through a certification filed with their County Assessor under penalty of perjury.

7

Business Personal Property Tax on Equipment and Fixtures:

An exemption is to be provided from the Business Personal Property Tax on up to $500,000 of fixtures and equipment for all businesses. This exemption helps the vast majority of businesses that lease but do not own their property. It will take most small businesses off the business personal property tax rolls and provide financial relief from a nuisance tax.

8

Expanded Phase-In and Assessor Provisions:

Since the system has not been changed in 40 years, a transition period will be necessary. The measure creates a Property Tax Administration Task Force comprised of County Assessors, the Board of Equalization and others to work with the Legislature to implement a phase-in timetable to develop plans for implementation. It calls for start-up costs to be advanced by the Legislature to County Assessors and full compensation from revenues generated by the measure of administrative costs, including costs of the Assessors' Offices, to implement the new system. It provides for statewide oversight by the Board of Equalization. It also directs the Legislature to consult with Assessors to develop a phase-in approach that begins in the 2022-23 fiscal year, and extends over 2 or more years, allowing for reasonable workload, including an expedited process for hearing appeals. The phase-in period also applies to property owners to provide them a reasonable timeframe within which to pay any increase in taxes. After the initial reassessment is completed, all commercial and industrial property will be periodically reassessed no less frequently than every 3 years as determined by the Legislature.

October 17, 2019
Initiative 19-0008 (Amdt. #1)

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

INCREASES FUNDING FOR PUBLIC SCHOOLS, COMMUNITY COLLEGES, AND LOCAL GOVERNMENT SERVICES BY CHANGING TAX ASSESSMENT OF COMMERCIAL AND INDUSTRIAL PROPERTY. INITIATIVE CONSTITUTIONAL AMENDMENT.

Increases funding for K-12 public schools, community colleges, and local governments by requiring that commercial and industrial real property be taxed based on current market value. Exempts from this change: residential properties; agricultural properties; and owners of commercial and industrial properties with combined value of $3 million or less.

Increased education funding will supplement existing school funding guarantees. Exempts small businesses from personal property tax; for other businesses, exempts $500,000 worth of personal property.

Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: Net increase in annual property tax revenues of $7.5 billion to $12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining $6.5 billion to $11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).

SECTION 1. Title

This measure shall be known as "The California Schools and Local Communities Funding Act of 2020."

SEC. 2. Findings

(a) California is the fifth largest economy in the world, but if we don't invest in our future, we'll fall behind. To grow our economy and provide a better quality of life now, and for future generations of Californians, we need to do a better job of investing in our schools, community colleges, and local communities, and do more to encourage small businesses and start-ups.

(b) Our competitiveness begins with making children and their education a priority. Decades of cuts and underfunding have undermined California schools. A recent national study ranked the performance of California schools in the bottom half of all states. The top ranked states spend thousands of dollars more per student than California.

(c) California's funding shortfall has direct consequences for our kids: we're dead last in the nation in teacher-to-student ratios, last in guidance counselor to student ratios, and last in librarian-to-student ratios.

(d) The quality of life in our local communities is also critical to our economic future. It depends on streets that are safe and clean, emergency services we can count on, parks and recreation programs that keep our youth off the streets, and roads that are well maintained. Our cities, counties and local agencies are on the front line facing the consequences of the lack of affordable housing and increasing homelessness as well as worsening risks from wildfires and other disasters.

(e) Property taxes on commercial and industrial properties are a principal source of funding for our schools and local communities. While virtually every other state assesses commercial and industrial property based on its fair market value, California allows commercial and industrial property taxes to go many years, even decades, without reassessment. This unusual system is prone to abusive tax avoidance schemes, diverts funds away from schools and local communities, contributes to the shortage of affordable housing, distorts business competition, and disadvantages business start-ups.

(f) California's under-assessment of commercial and industrial properties is a growing problem. Large investors and corporations, many of whom are from other states and countries, are using a variety of schemes to get around the law and buy and sell properties without being reassessed, costing our schools and local communities billions of dollars.

(g) A recent study by the University of Southern California has found that under-assessed commercial and industrial property allows owners to avoid over $11 billion in local property taxes each year that should be going to support our schools and local communities.

(h) California's unusual commercial and industrial property tax system contributes to California's affordable housing crisis. Studies by the Legislative Analyst Office and the University of California have demonstrated that California's property tax system incentivizes owners to hold idle vacant and under-utilized commercial and industrial property. A reformed system, that assesses all properties based on their fair market value, would create a powerful new incentive to build new housing.

(i) Every commercial and industrial property owner benefits from local schools and services like public safety and infrastructure. It is unfair and anti-competitive that the property tax system forces some businesses to pay higher property taxes to support our schools and local communities while their competitors pay much lower property taxes because their properties are assessed far below their fair market value.

(j) California's unusual property tax system not only distorts competition, it discourages business investments. Under the current system, businesses that invest in improving their properties trigger reassessment and higher property taxes. But businesses that don't invest in improving their properties continue to enjoy the low cost of under assessment.

(k) A study done at the University of California demonstrates that reassessing commercial property will have a net positive benefit on jobs and the California economy.

(l) If we reformed California's under-assessment problem on business properties, California would still rank among the lowest states for business property taxes in the nation because of the California Constitution's provisions related to the 1% limitation on property tax rates.

(m) Thriving small businesses and start-ups are essential to California's economy now and for our future. The property tax on equipment and fixtures discourages new start-ups, small businesses and larger businesses from making new productive investments. By requiring under-assessed large properties to be assessed at fair market value, small businesses can be fully exempted from the property tax on equipment and fixtures and the tax can be substantially reduced for other businesses, removing this disincentive without harm to funding for our schools and local communities.

(n) Reassessing under-assessed commercial and industrial property in California would primarily impact a small number of properties owned by the largest corporations and wealthiest investors. Almost 80% of the tax benefits of the under-assessment allowed by the current system go to just 8% of the properties.

(o) The benefits to our schools, local communities and economy resulting from ending the under-assessment of commercial and industrial property can be achieved while protecting small businesses through exemptions and deferrals of reassessment and at the same time encouraging small businesses by creating a more level playing field and by eliminating the property tax on business equipment and fixtures.

(p) Reforming commercial and industrial property assessments to fair market value will result in a fairer system for our schools, our local communities and our businesses. All businesses will compete on a level playing field, generating billions of dollars in additional support for our schools and local communities.

SEC. 3. Purpose and Intent.

It is the intent of the People of the State of California to do all of the following in this measure:

(a) Preserve in every way Proposition 13's protections for homeowners and for residential rental properties. This measure only affects the assessment of taxable commercial and industrial property.

(b) Provide for increased and stable revenues for schools, cities, counties and other local agencies by requiring under-assessed commercial and industrial properties to be assessed based on their fair market value.

(c) Distribute the new revenues resulting from this measure to schools and local communities, not to the State.

(d) Ensure that the portion of any new revenues going to local schools and community colleges as a result of this measure is treated as new revenues that are in addition to all other funding for schools and community colleges, including Proposition 98.

(e) Guarantee every school district and community college will receive additional funding from this measure and that funds going to schools and community colleges are allocated in a manner that is consistent with local control funding formulas intended to advance equity.

(f) Ensure that any new revenues going to cities, counties, and special districts as a result of this measure will be allocated in the same manner as other property tax revenues, consistent with prior ballot measures approved by voters, to improve the quality of life in local communities in all parts of California.

(g) Make certain there is complete public transparency by requiring schools, community colleges, cities, counties, and special districts to publicly disclose the new revenues they receive and how those revenues are spent in a manner that is widely available and easily understood.

(h) Be very clear that this measure only applies to taxable commercial and industrial real property by including provisions stating that:
   1) All residential property is exempt so homeowners and renters will not be affected in any way by this measure.
   2) This measure makes no change to existing laws affecting the taxation or preservation of agricultural land.

(i) Make no change to Proposition 13's constitutional provisions relating to the 1% limitation on property tax rates for all taxable real property so local property taxes on commercial and industrial property will continue to be among the lowest in the country after this measure is approved by voters.

(j) Ensure stability for owners of small business properties by providing an exclusion for small commercial and industrial real property owners. The intent of this provision is to provide an exclusion that applies only to the true owners of small businesses and that large property owners shall be prevented from using the exclusion for their own benefit.

(k) Defer reassessments for properties in which small businesses account for 50% or more of the occupied space until the 2025-2026 lien date to provide those small business tenants additional time to choose the leasing option that works for them, recognizing that the impact of this measure will be different for each property, depending on how close the current assessment is to the fair market value and whether or not it qualifies for the small property exclusion for properties with a fair market value of $3 million or less.

(l) Encourage new and existing businesses to make new investments by eliminating the business tangible personal property tax on equipment and fixtures for small businesses and providing a $500,000 per year exemption for all other businesses. The Legislature may not reduce this exemption, but it may increase it.

(m) Provide greater equity in the taxation of commercial and industrial properties by assessing all of them based on their actual fair market value just like start-ups and new commercial and industrial properties that already are being assessed based on their actual fair market value. The intent is for all businesses to compete on a more level playing field and make sure all businesses are paying their share to support the schools and local communities from which they benefit.

(n) Require the Legislature, after conferring with a Task Force on Property Tax Administration, to provide by statute for the phase-in of reassessments of under-assessed commercial and industrial real properties so that county assessors may effectively implement the new law. Such phase-in will begin with the lien date for the 2022-23 fiscal year and occur over several years. Affected owners shall only be obligated to pay the taxes based on the new assessed value beginning with the lien date for the fiscal year when the assessor has completed the reassessment.

(o) Require the Legislature to ensure that the phase-in provisions provide affected owners of under-assessed commercial and industrial real properties reasonable time to pay any increase in their tax obligations resulting from this measure.

(p) Provide for the recovery of actual direct administrative costs incurred by counties to effectively implement the new law.

(q) Ensure that the General Fund and other funds of the State are held harmless by reimbursing the State for reductions in tax revenue caused by the deductibility of the property tax.

(r) Maintain the Board of Equalization's oversight over the property tax system to assure the public that assessments of commercial and industrial real property in every county are equitable and uniform as required by this measure, and to further ensure that the Board of Equalization provides statewide assistance as necessary to support the efficient implementation of this measure within all 58 counties.

SEC. 4. Section 8.7 of Article XVI of the California Constitution is added to read:

SEC. 8.7. (a) The Local School and Community College Property Tax Fund is hereby created in the State Treasury, to be held in trust, and is continuously appropriated for the support of local education agencies as that term is defined in section 421 of the Education Code as that statute read on January 1, 2020, and for the support of community college districts. The moneys deposited in the Local School and Community College Property Tax Fund shall be held in trust for schools, and shall be distributed as follows:

(1) Eleven percent (11%) of the moneys shall be allocated by the Board of Governors of the California Community Colleges to community college districts in proportion to the funding calculated for each district pursuant to the distribution formulas operative in statute as of January 1, 2020, or any successor statute, provided that property tax revenues calculated pursuant to section 84751 of the Education Code, or any successor statute, that exceed the total funding calculated for a district pursuant to the then-operative distribution formulas shall be subtracted from that district's proportionate share of the Local School and Community College Property Tax Fund.

(2) Eighty-nine percent (89%) of the moneys shall be allocated by the Superintendent of Public Instruction to school districts, charter schools and county offices of education as follows:

(A) To school districts and charter schools, in proportion to each school district's or charter school's total funding calculated pursuant to subdivisions (a)-(i), inclusive, of section 42238.02 of the Education Code, as those provisions read on July 1, 2019. Any school district or charter school that qualifies as a "basic aid school district" or "excess tax entity" under subdivision (o) of that section shall have subtracted from its proportionate share of the Local School and Community College Property Tax Fund the amount by which the sum calculated in subdivision (j) of that section exceeds the amount calculated pursuant to subdivisions (a)-(i), inclusive, as each of those provisions read on July 1, 2019.

(B) To county offices of education, in proportion to each office's total funding calculated pursuant to section 2574 of the Education Code as that section read on July 1, 2019.

(3) Notwithstanding the above, no school district or charter school shall receive from the Local School and Community College Property Tax Fund less than $100 per unit of average daily attendance, adjusted annually upward or downward by the same percentage that the Local School and Community College Property Tax Fund grew or declined from the previous year, and no community college district shall receive from the Local School and Community College

Property Tax Fund less than $100 per enrolled full time equivalent student, adjusted annually upward or downward by the same percentage that the Local School and Community College Property Tax Fund grew or declined from the previous year.

(b) Except as provided in paragraph (2) of subdivision (d) of Section 8.6 of this Article, notwithstanding any other law, the moneys deposited in the Local School and Community College Property Tax Fund shall not be subject to appropriation, reversion, or transfer by the Legislature, the Governor, the Director of Finance, or the Controller for any purpose other than those specified in this section, nor shall these revenues be loaned to the General Fund or any other fund of the State or any local government fund.

(c) Moneys allocated to local education agencies, as that term is defined in section 421 of the Education Code as that statute read on January 1, 2020, and to community college districts from the Local School and Community College Property Tax Fund shall supplement, and shall not replace, other funding for education. Funds deposited into or allocated from the Local School and Community College Property Tax Fund shall not be part of "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes" for purposes of paragraphs (2) and (3) of subdivision (b) of Section 8 of this Article or for purposes of Section 21 of this Article. Except as provided in subdivision (c) of Section 8.6 of this Article, revenues generated by Section 2.5 of Article XIII A shall not be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B for purposes of paragraph (1) of subdivision (b) of Section 8 of this Article, nor shall they be considered in the determination of per capita General Fund revenues for purposes of subdivisions (b) and (e) of Section 8 of this Article.

(d) Except as provided in subdivision (c) of Section 8.6 of this Article, revenues generated by Section 2.5 of Article XIII A shall not be deemed to be General Fund proceeds of taxes that may be appropriated pursuant to Article XIII B for purposes of Section 20 or Section 21 of this Article.

SEC. 5. Section 8.6 of Article XVI of the California Constitution is added to read:

SEC. 8.6. (a) The Legislature shall provide by statute a methodology, based on historical experience, for determining the additional revenue generated in each county each fiscal year as a result of the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application of Section 2.5 of Article XIII A. The determination as to the amount of additional revenue in each county shall be transmitted to the county auditor annually for use for the calculations required by this section.

(b) After transferring the necessary funds pursuant to subdivisions (c), (d) and (e) and subparagraph (B) of paragraph (1) of this subdivision, all additional revenue resulting from the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application of Section 2.5 of Article XIII A shall be allocated and transferred by the county auditor as follows:

(1) (A) First, to the Local School and Community College Property Tax Fund created pursuant to Section 8.7 of this Article, in an amount equal to the school entities' share of property taxes as determined pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, as that chapter read on January 1, 2020.

(B) Prior to making the transfer pursuant to subparagraph (A) of this subdivision, the county auditor shall subtract an amount equal to the county's share of the increase in appropriations of State General Fund proceeds of taxes for the support of school districts and community college districts pursuant to Section 8 of Article XVI due to the revenue loss resulting from the exemptions provided by Section 3.1 of Article XIII, as determined by the Director of Finance. The county's share of additional State General Fund appropriations shall be transferred by the county auditor to the General Fund prior to the allocation specified in subparagraph (A) of this subdivision. The amount determined by the Director of Finance pursuant to this subparagraph shall for each fiscal year be apportioned by county in proportion to the revenue loss resulting from the exemptions provided by Section 3.1 of Article XIII.

(2) Second, among cities, counties, and special districts pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, as that chapter read on January 1, 2020.

(c) The Franchise Tax Board shall determine the reduction to the General Fund and any other affected state fund of revenues derived from the taxes imposed by the Personal Income Tax Law (Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code) and the Corporation Tax Law (Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code), as those laws read on January 1, 2020, due to the deduction of any net increase in property taxes resulting from the implementation of Section 2.5 of Article XIII A and subdivision (a) of Section 3.1 of Article XIII. The amount of reduction as determined by the Franchise Tax Board shall be transferred by the county auditor to the General Fund and any other affected state fund prior to the allocation specified in subdivision (b). For purposes of making the determinations required by Section 8, 20 and 21 of this Article, the amount transferred to the General Fund pursuant to this subdivision shall be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B and General Fund proceeds of taxes appropriated pursuant to Article XIII B, and shall be included in the calculation of per capita General Fund revenues. The amount transferred pursuant to this subdivision shall for each fiscal year be apportioned among the counties in proportion to each county's contribution to the total additional revenue resulting from the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application Section 2.5 of Article XIII A determined for all counties.

(d) (1) Each county or city and county shall be annually compensated for the actual direct administrative costs of implementing Section 2.5 of Article XIII A and Section 3.1 of Article XIII as identified by the board of supervisors of the county or city and county consistent with statutes identifying those costs. The Legislature shall determine by statute what constitutes actual direct administrative costs for purposes of this subdivision. Such costs shall at a minimum include the costs of assessment, assessment appeals, legal counsel, tax allocation and distribution, and auditing and enforcement of the provisions of Section 3.1 of Article XIII and Section 2.5 of Article XIII A. It is the intent of this subdivision to provide full adequate funding to counties to cover all costs associated with implementation of the Act.

(2) The Legislature shall determine by statute the initial start-up costs necessary for each county or city and county and the Board of Equalization to implement the Act and shall appropriate State General Fund monies to pay for such startup costs until sufficient funds are available to pay for all ongoing costs to implement the Act, at which time the statute shall provide for the State General Fund to be reimbursed.

(e) Each county or city and county shall annually be reimbursed for actual refunds of property taxes paid in the prior fiscal year as a result of corrections to assessments made pursuant to Section 2.5 of Article XIII A. The amount reimbursed pursuant to this subdivision shall for each fiscal year be subtracted from each county's contribution to the total additional revenue resulting from the application of Section 2.5 of Article XIII A as a result of the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A.

(f) All local education agencies, community colleges, counties, cities and counties, cities, and special districts that receive funds from the revenues generated by Section 2.5 of Article XIII A shall publicly disclose for each fiscal year, including in their annual budgets, the amount of property tax revenues they received for that fiscal year as the result of Section 2.5 of Article XIII A and how those revenues were spent. Such disclosure shall be made so that it is widely available to the public and written so as to be easily understood.

SEC. 6. Section 2.5 of Article XIII A of the California Constitution is added to read:

SEC. 2.5. (a) (1) Notwithstanding Section 2 of this Article, for the lien date for the 2022-23 fiscal year and each lien date thereafter, the "full cash value" of commercial and industrial real property that is not otherwise exempt under the Constitution is the fair market value of such real property as of that date as determined by the county assessor of the county in which such real property is located, except as provided by the Legislature pursuant to subdivision (b).
(2) Paragraph (1) of this subdivision shall not apply to residential property as defined in this section, whether it is occupied by a homeowner or a renter. Residential property as defined in this section shall be assessed as required by Section 2 of this Article. Paragraph (1) of this subdivision shall also not apply to real property used for commercial agricultural production as defined in this section. Real property used for commercial agricultural production as defined in this section shall be assessed as required by Section 2 of this Article.

(b) The Legislature shall establish a Task Force on Property Tax Administration immediately after this section is enacted, including a county assessor or designee, a Board of Equalization member or designee, a proponent of this Act or designee, a taxpayer representative, and a member of the Legislature or designee. The Task Force shall publicly convene immediately upon its creation to examine and recommend to the Legislature all statutory and regulatory changes necessary for the equitable implementation of this measure consistent with its purpose and intent. The Legislature, after conferring with the Task Force, shall provide by statute for the phase-in of the reassessment of commercial and industrial real property as required by paragraph (1) of subdivision (a). Any such phase-in shall provide for reassessment of a percentage of all commercial and industrial real properties within each county commencing with the lien date for the 2022-23 fiscal year and extending over two or more lien dates each fiscal year thereafter, in order to ensure a reasonable workload and implementation period for county assessors, including provision for processing and timing of assessment appeals. An owner shall first be obligated to pay the taxes based on the new assessed value beginning with the lien date for the fiscal year when the county assessor has completed the reassessment. The phase-in also shall provide taxpayers whose property has been reassessed a reasonable timeframe within which to pay any increase in taxes. After the initial reassessment of commercial and industrial real property pursuant to this subdivision, such commercial and industrial real property shall be periodically reassessed no less frequently than every three years as determined by the Legislature. Notwithstanding existing statutes, the Legislature shall, in consultation with county assessors, develop a process for hearing appeals resulting from the reassessment of properties pursuant to this section that is consistent with the following:

(1) The process shall not include automatic acceptance of the applicant's opinion of values within a given time-frame.

(2) The process shall impose on the taxpayer the burden of proof that the property was not properly valued.

(3) The process shall require the taxpayer to provide evidence relevant to any appeal in the initial application before the local assessment appeals board.

(4) The process shall ensure that decisions by local administrative hearing bodies such as assessment appeals boards, if subject to judicial review, are subject only to de novo judicial review on issues of law, while issues of fact, including valuation, shall be reviewed under the substantial evidence standard.

(c) For purposes of this section:

(1) "Commercial and industrial real property" means any real property that is used as commercial or industrial property, or is vacant land not zoned for residential use and not used for commercial agricultural production. For purposes of this paragraph, vacant land shall not include real property that is used or protected for open space, a park, or the equivalent designation for land essentially free of structures, natural in character to provide opportunities for recreation and education, and intended to preserve scenic, cultural, or historic values.

(2) "Mixed-use real property" means real property on which both residential and commercial or industrial uses are permitted.

(3) "Real property used for commercial agricultural production" means land that is used for producing commercial agricultural commodities.

(4)(A) "Residential property" shall include real property used as residential property, including both single-family and multi-unit structures, and the land on which those structures are constructed or placed.

(B) The Legislature shall provide by statute that any property zoned as commercial or industrial but used as long-term residential property shall be classified as residential for purposes of paragraph (2) of subdivision (a). For mixed-use real property, the Legislature shall ensure only that portion of the property that is used for commercial and industrial purposes shall be subject to reassessment as required by paragraph (1) of subdivision (a). The Legislature shall also define and provide by statute that limited commercial uses of residential property, such as home offices, home-based businesses or short-term rentals, shall be classified as residential for purposes of paragraph (2) of subdivision (a). The Legislature may provide for an exclusion from reassessment for the commercial share of mixed use property provided seventy-five percent (75%) or more of the property by square footage or value is residential.

(d) (1) Subject to paragraph (2) of this subdivision, upon reassessment pursuant to subdivisions (a) and (b) , each commercial and industrial real property with a fair market value of three million dollars ($3,000,000) or less shall not be subject to reassessment pursuant to paragraph (1) of subdivision (a) and shall be assessed as required by Section 2 of this Article. The amount specified in this paragraph shall be adjusted for inflation every two years commencing January 1, 2025, as determined by the State Board of Equalization. The State Board of Equalization shall calculate the adjustment separately for each county taking into consideration differences in average commercial and industrial market values among counties.
(2) Notwithstanding paragraph (1) of this subdivision, real property that would otherwise comply with the exclusion set forth in paragraph (1) of this subdivision shall be subject to reassessment pursuant to paragraph (1) of subdivision (a) if any of the direct or indirect beneficial owners of such real property own a direct or indirect beneficial ownership interest(s) in other commercial and/or industrial real property located in the State, which such real property in the aggregate (including the subject property) has a fair market value in excess of three million dollars ($3,000,000). The amount specified in this paragraph shall be adjusted for inflation every two years commencing January 1, 2025, as determined by the State Board of Equalization.
(3) All determinations of fair market value under this subdivision shall be determined by the county assessor of the county in which the property is located, and such determinations by the county assessor shall be conclusive and subject only to judicial review for abuse of discretion.
(4) In order to be eligible for the exclusion provided by paragraph (1) of this subdivision, the owner of the real property shall make a claim and certify annually to the county assessor under penalty of perjury that the conditions required by paragraphs (1) and (2) of this subdivision for exemption from reassessment have been met and shall be subject to audit by the county or the State as to that certification. The Board of Equalization shall have the authority to conduct any audits on behalf of the State.
(5) Any real property excluded from reassessment under paragraph (1) of this subdivision shall only be excluded from reassessment so long as it meets the conditions imposed by paragraphs (1) and (2) of this subdivision. If there is any change in the direct or indirect beneficial ownership of such real property, a new claim and certification must be made to the county assessor.

(6) Any appeals by taxpayers who are found not to be excluded from reassessment pursuant to paragraph (1) of this subdivision shall be subject to the process for hearing appeals as provided in subdivision (b).

(e) (1) Provided fifty percent (50%) or more of the occupied square footage of a commercial or industrial real property is occupied by a small business as defined in paragraph (4) of this subdivision, the provisions of paragraph (1) of subdivision (a) shall not take effect prior to the lien date for the 2025-26 fiscal year; provided, however, that if the Legislature establishes by statute pursuant to subdivision (b) that a real property qualified under this paragraph shall be reassessed on a lien date subsequent to the 2025-26 fiscal year, then such property shall be reassessed commencing on that subsequent lien date.

(2) In order to be eligible for the deferral provided by paragraph (1) of this subdivision, the owner of the property shall make a claim and certify annually to the county assessor under penalty of perjury that the conditions required by paragraph (1) of this subdivision for deferral from reassessment have been met and shall be subject to audit by the county or the Board of Equalization as to that certification.

(3) Any real property for which reassessment is deferred under paragraph (1) of this subdivision shall only be eligible for deferral so long as it meets the conditions imposed by paragraph (1) of this subdivision and if there is any change in the direct or indirect beneficial ownership of such real property, a new claim and certification must be made to the county assessor. Upon termination of the deferral, the property shall be subject to paragraph (1) of subdivision (a).

(4) For purposes of this subdivision, the term small business shall include only those businesses which meet all of the following conditions:

(A) The business has fewer than 50 annual full-time equivalent employees.

(B) The business is independently owned and operated such that the business ownership interests, management and operation are not subject to control, restriction, modification or limitation by an outside source, individual or another business.

(C) The business owns real property located in California.

(f) For purposes of this section the failure in any year to claim, in a manner required by the laws in effect at the time the claim is required to be made, an exclusion or classification which reduces or defers an assessment or reassessment shall be deemed a waiver of the exclusion or classification for that year.

(g) Using the methodology prescribed by the Legislature pursuant to subdivision (a) of Section 8.6 of Article XVI, the percentage change in gross taxable assessed valuation within a city, county, or a city and county used to calculate an entity's vehicle license fee adjustment amount pursuant to Section 97.70 of the Revenue and Taxation Code shall not include the additional assessed valuation that results from the application of this section.

(h) Notwithstanding Section 16 of Article XVI or any other law, the additional assessed valuation that results from the application of this section shall not be factored into to any division of taxes or calculation of growth for treatment as tax increment and shall not be diverted in any manner whatsoever.

SEC. 7. Section 3.1 of Article XIII of the California Constitution is added to read:

SEC. 3.1. (a) (1) For each taxpayer paying the tax on tangible personal property, including business equipment and fixtures, used for business purposes, either of the following shall apply:
(A) (i) For a taxpayer that is a small business, as defined in paragraph (4) of subdivision (e) of Section 2.5 of Article XIII A, all tangible personal property owned and used for business purposes is exempt from taxation.
(ii) A taxpayer shall make a claim and certify annually to the county assessor under penalty of perjury that the condition required by this subparagraph for exemption has been met and such claim shall be subject to audit by the county or the state as to that certification.
(B) Except for a taxpayer subject to subparagraph (A) of paragraph (1) of this subdivision, an amount of up to five hundred thousand dollars ($500,000) of combined tangible personal property and fixtures, per taxpayer, is exempt from taxation.
(2) Aircraft and vessels shall not be subject to this exemption.
(3) The Legislature shall not lower the exemption amounts provided by this subdivision or change their application, but may increase the exemption amount specified in subparagraph (B) of paragraph (1) of this subdivision consistent with the authority enumerated in Section 2 of this Article.

(b) The Legislature shall provide by statute that all related entities, including but not limited to any subsidiaries, holding companies, or parent corporations, are considered one "taxpayer" for the purposes of this section.

SEC. 8. Section 16 of Article XIII B of the California Constitution is added to read:

SEC. 16. (a) For purposes of this article, "proceeds of taxes" shall not include the additional revenues generated by Section 2.5 of Article XIII A.

(b) For purposes of this article, appropriations subject to limitation of each entity of government shall not include appropriations of the additional revenues collected as a result of the implementation of Section 2.5 of Article XIII A.

SEC. 9. Effective Date.

This measure shall become operative on January 1, 2022, except that subdivision (a) of Section 3.1 of Article XIII shall become operative on January 1, 2024, and subdivision (d) of Section 8.6 of Article XVI and subdivision (b) of Section 2.5 of Article XIII A shall become operative immediately upon passage of this measure.

SEC. 10. Severability

The provisions of this Act are severable. If any portion, section, subdivision, paragraph, clause, sentence, phrase, word, or application of this Act is for any reason held to be invalid by a decision of any court of competent jurisdiction, that decision shall not affect the validity of the remaining portions of this Act. The People of the State of California hereby declare that they would have adopted this Act and each and every portion, section, subdivision, paragraph, clause, sentence, phrase, word, and application not declared invalid or unconstitutional without regard to whether any portion of this Act or application thereof would be subsequently declared invalid. Notwithstanding the foregoing, Section 7 of this Act is non-severable from Section 6 of this Act.

SEC. 11. Liberal Construction

This Act shall be liberally construed in order to effectuate it purposes as articulated in Section 3 of this Act.

Draft City of Oakland Budget Advisory Commission sample resolution of support: Schools and Local Communities Funding Act of 2020

Whereas, for the last four decades, cities and counties in California have experienced underinvestment and devastating cuts to critical services and infrastructure that residents rely on;

Whereas, the lack of adequate local funding is the result of an inequitable tax system in which corporations and wealthy investors do not pay their fair share in property taxes;

Whereas, loopholes in California's property tax system allow a fraction of major commercial and industrial properties to avoid regular reassessment;

Whereas, these loopholes and tax schemes result in millions of dollars going to corporations and wealthy investors rather than to local communities for essential services;

Whereas the property tax is one of the few discretionary sources of revenue for cities and counties;

Whereas, experts estimate that the *California Schools and Local Communities Funding Act* reclaims $12 billion in property tax revenue every year by closing loopholes in California's property tax system;

Whereas the *California Schools and Local Communities Funding Act* does not affect property taxes for homeowners or renters because the initiative exempts all residential property;

Whereas, allocation of revenues to cities, counties and special districts will follow current property tax allocation;

Whereas, the measure will provide billions in locally-controlled property tax funding yearly for cities, counties, and special districts;

Whereas, academic researchers at the University of Southern California (USC) have identified that the vast majority of reclaimed revenue will come from a fraction of large commercial and industrial properties;

Whereas, USC research shows that a majority of commercial owners already pay close to market value, making the current system inequitable among businesses, benefitting large owners who have held land for a long period;

Whereas, the current failure to close the commercial property loophole has led to poor land use and inflated land values, particularly affecting the ability to provide adequate high-density housing;

Whereas, the measure incentivizes the development of residential units and provides more funding for communities to invest in affordable housing;

Whereas, the measure provides new tax incentives to spur new investment in small businesses by eliminating the business personal property tax on equipment for California's small businesses;

Whereas, the measure also exempts all small business owners whose property is worth $3 million or less;

Whereas, the measure levels the playing field for businesses that already pay their fair share in our communities;

Whereas, the *California Schools and Local Communities Funding Act of 2020* is expected to be on the November 2020 ballot;

Therefore, be it Resolved, that the City of Oakland Budget Advisory Commission endorses the *California Schools and Local Communities Funding Act of 2020* for a ballot measure in November 2020.