

City of San José

**Retirement Solutions
Stakeholder Working Group**

Identifying Revenue for UAL Payments

December 14, 2020

Presenter:

Jim Shannon, Budget Director

Developing the Budget

\$77.6 million
shortfall for
2020-2021

Determine the Base Budget

- Estimate revenues from all existing sources
- Estimate the cost to deliver services previously approved by the City Council
- The difference between estimated revenues and expenditures in the General Fund represents the City's surplus or **shortfall**

Develop the Proposed Budget

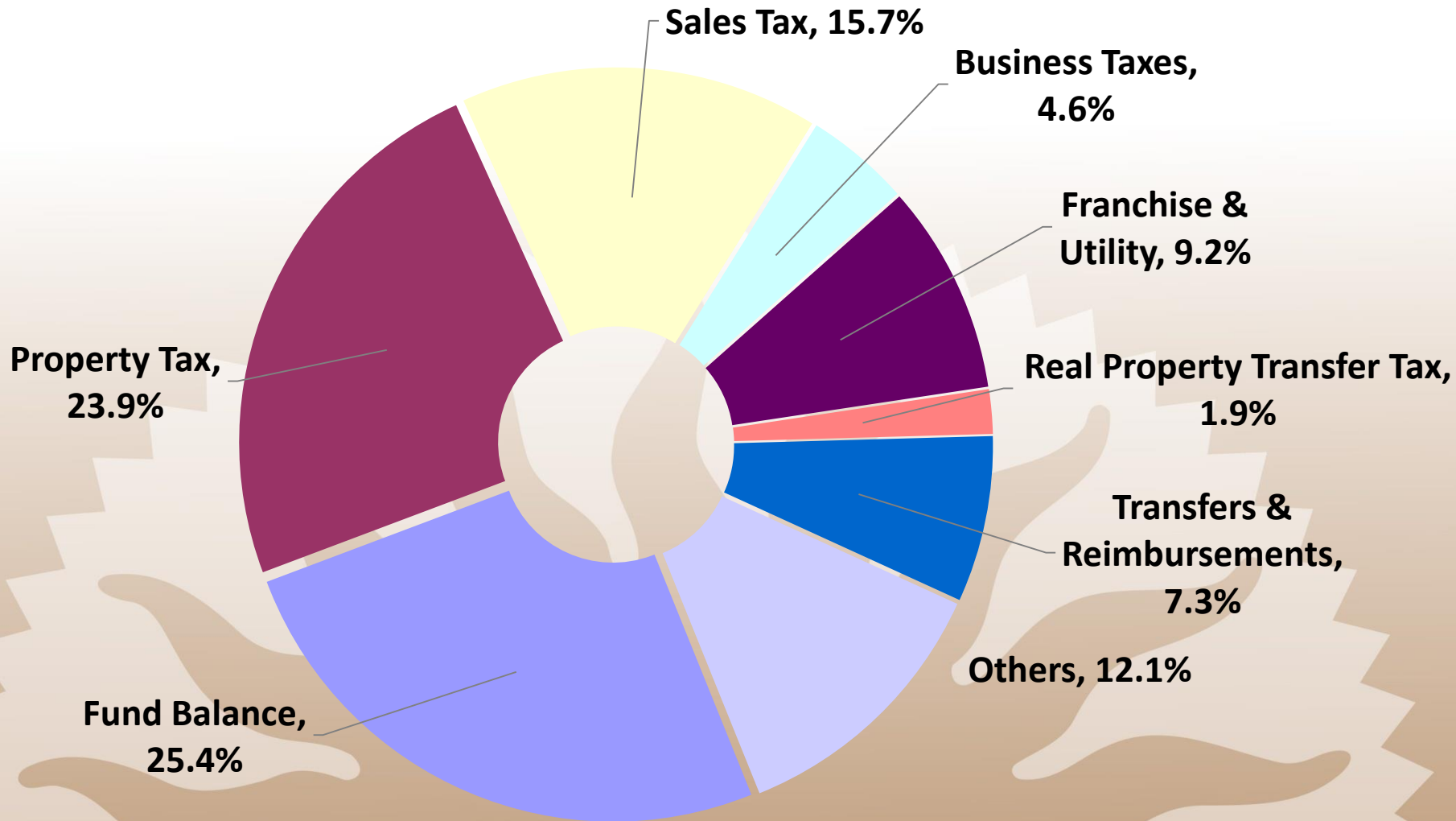
- City Council approves the Mayor's March Budget Message, which gives direction to the City Manager on how to balance the budget
- The City Manager's Proposed Budget recommends a suite of changes that either allocates all of the surplus or resolves all of the shortfall

Adopt the Budget

- City Council modifies and approves the Proposed Budget with approval of the Mayor's June Budget Message

2020-2021 Adopted Budget

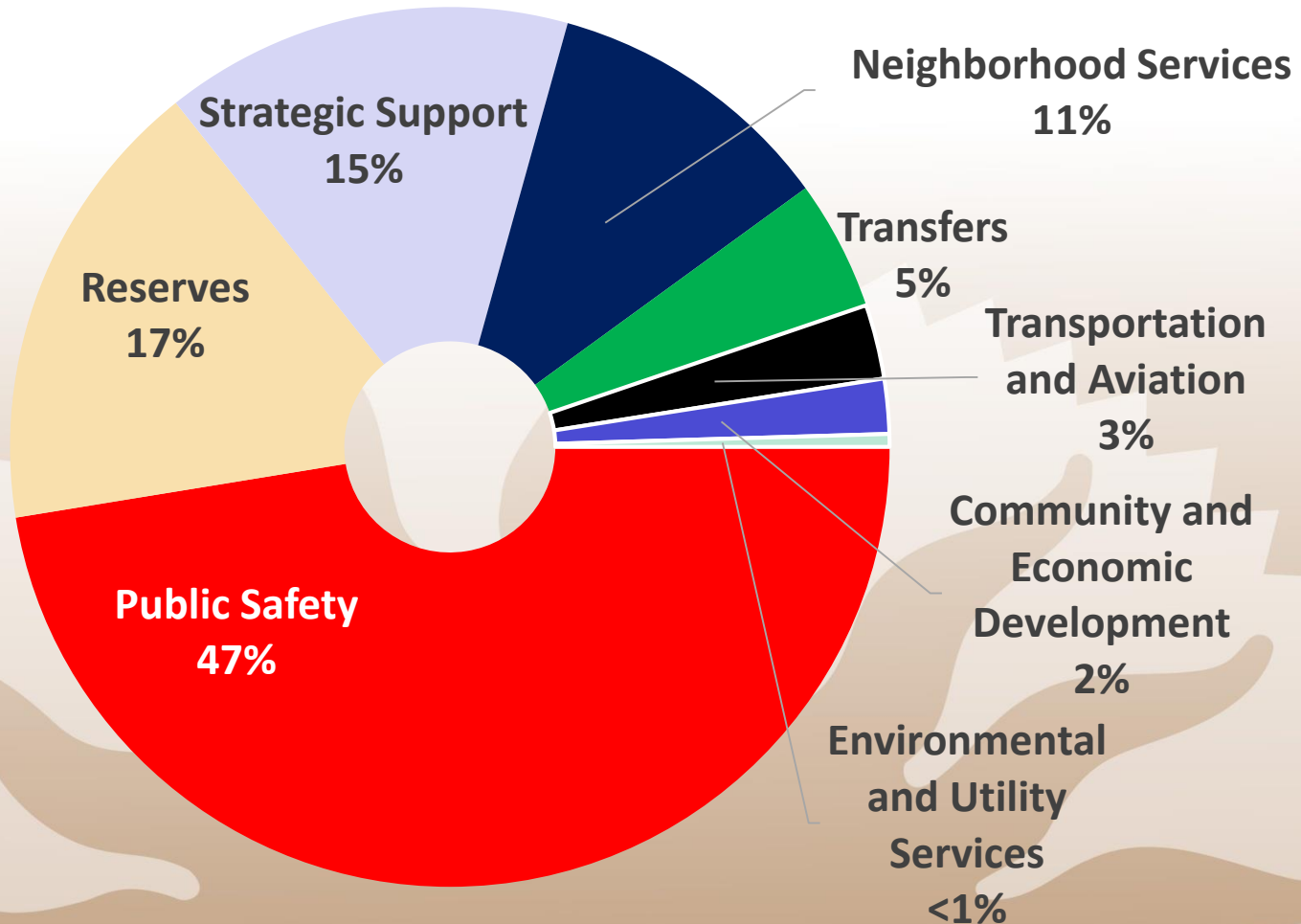
General Fund Sources



Total General Fund Sources: \$1,547,689,229

2020-2021 Adopted Budget

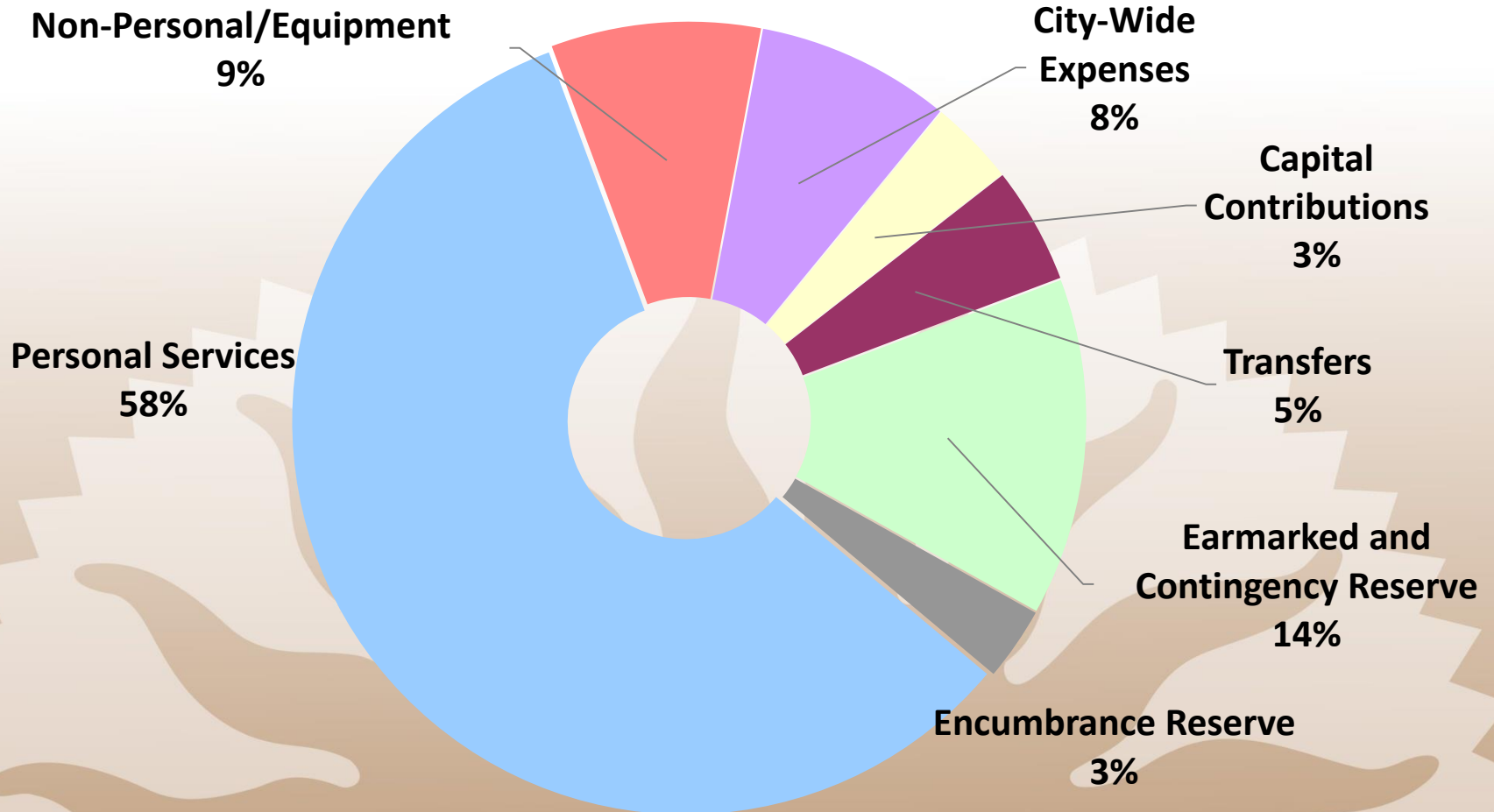
General Fund Uses by CSA



Total General Fund Uses: \$1,547,689,299

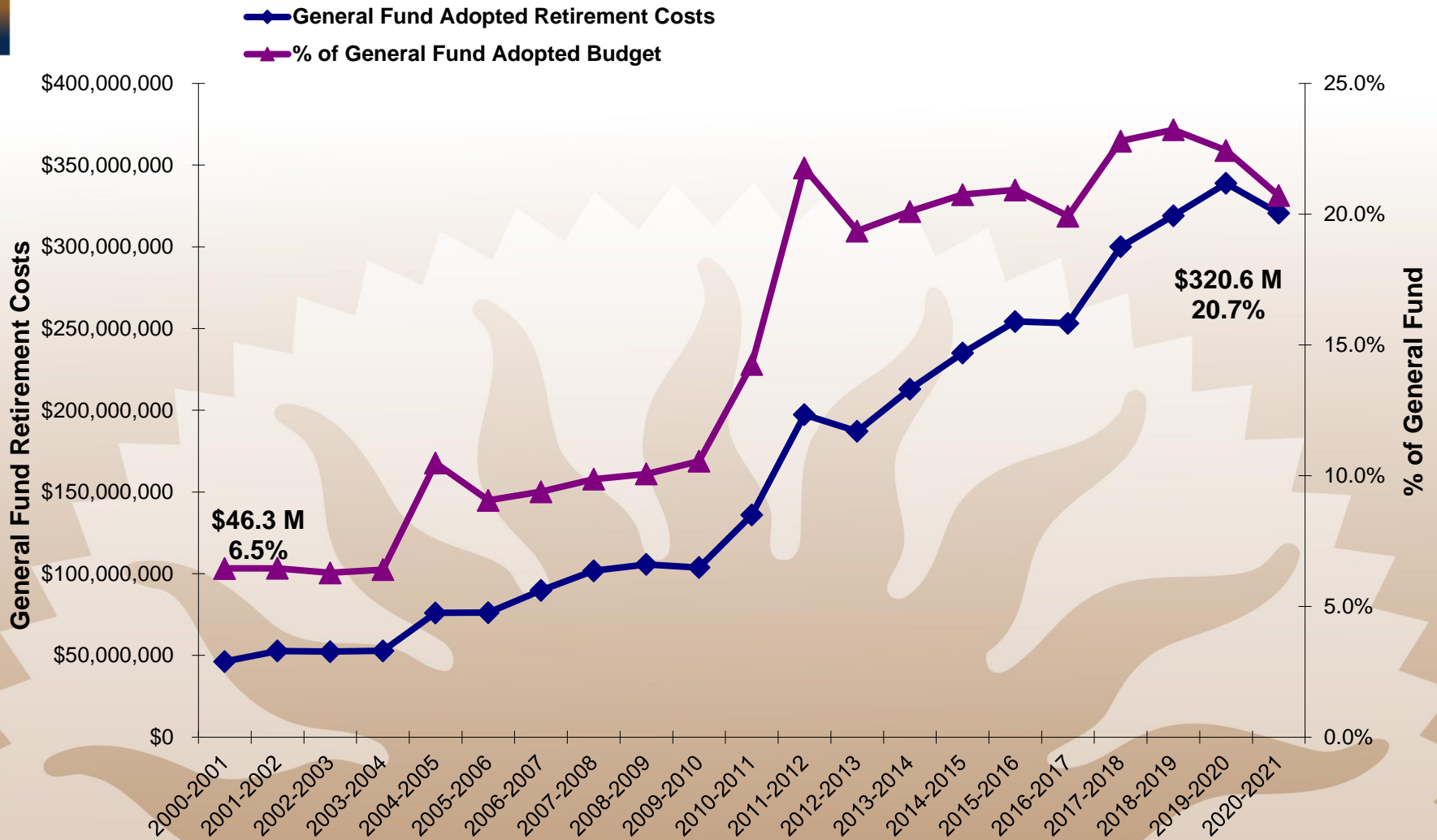
2020-2021 Adopted Budget

General Fund Uses by Expense Type



Total General Fund Uses: \$1,547,689,299

Escalating Retirement Costs in the General Fund



2020-2021 Adopted Budget

General Fund Retirement Contributions

Retirement Contribution Component	Police and Fire (\$ Millions)	Federated (\$ Millions)	Total (\$ Millions)
Tier 1 Pension (Normal Cost)	51.2	12.9	64.1
Tier 2	10.2	7.5	17.7
Unfunded Actuarial Liability	136.7	67.5	204.2
Retiree Healthcare	25.0	9.6	34.6
Total	223.1	97.5	320.6

Identifying Revenue to Pay the UAL

Earmarking an existing revenue to pay the UAL does not help

- All existing General Fund revenue sources are factored into the Base Budget
- In effect, all General Fund sources pay a piece of the UAL

For example, the City's Cannabis Tax generates approximately \$17 million per year.

If the City Council directed that all revenues from the Cannabis Tax be allocated to pay a portion of the \$204 million UAL, the total amount paid by the General Fund would remain unchanged.

The Cannabis Tax would “pay” \$17 million of the UAL, with the remaining \$187 million split between all other revenue sources

Identifying Revenue to Pay the UAL

A new revenue source would be needed to free up General Fund capacity

- New revenue dedicated to pay UAL
- New revenue to General Fund that is unrestricted

Example 1. If voters approved a new parcel tax that raised \$50 million per year that was dedicated to the UAL, then \$50 million of existing General Fund resources could be freed up to pay for additional services or programs. (67% voter threshold)

Example 2. If voters approved a new general purpose parcel tax that raised \$50 million per year, then \$50 million of existing General Fund resources could be freed up to pay for additional services or programs. (50% +1 voter threshold)

Identifying Revenue to Pay the UAL

- In California, most new revenue sources must be approved by the voters
- Taxes dedicated to a specific purpose require a two-thirds threshold
- Taxes that are unrestricted in their use only require a 50% +1 majority
- Jurisdictions can also charge a fee for services, but there must be a direct link from the fee to the provided service; the fee cannot be greater than the cost of the service

Examples

Cities outside CA:

City	Tax	Annual Amount	% of contribution
Springfield, MO	Sales Tax (.75%)	\$33.6M (2018)	84%
Jacksonville, FL	Sales Tax (.5%)	\$83.6M (2017)	32%

Agencies within CA:

City	Tax	Annual Amount	% of contribution
Santa Clara County	Property Tax (.0388%)	\$99M (2011)	32%
San Fernando	Property Tax (.24%)	\$4.630M (2020 projected)	100%