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California Cities Seek Record Tax Hikes as Boom Passes By.

California's booming, yet many of its cities aren't feeling it.

From Yreka, near the Oregon border, to El Centro, just north of Mexico, more than 80 local governments are asking voters next month to approve sales-tax increases, the most on record. While some aim to boost spending on roads or other projects, most measures would just provide extra cash. In Ridgecrest, Fairfax, and Fountain Valley, officials say the revenue would eliminate budget deficits or prevent cuts to police and fire departments.

The governments' revenues aren't keeping up with rising expenses, including for employee pensions, despite the thriving technology industry, home-price gains and rapid economic growth in much of the state. That's due in part to the landmark property-tax limits California voters approved almost four decades ago that have prevented municipalities from reaping windfalls as the housing market rebounded from last decade's crash.

"Like a lot of mid-sized communities in California, we are struggling with staffing our essential services," said Brent Weaver, vice mayor of Redding, which is seeking an increase in the sales tax so it can hire more police. "We have been really struggling the last several years trying to grow our economy."

The proposals are timed to coincide with the presidential election, which will increase voter turnout in a state divided between the Democrat-heavy coast and the less-populous Republican interior. On Nov. 8, Californians will decide 427 local measures authorizing taxes and bond issues, almost twice the 240 on ballots four years ago, according to a report by Michael Coleman, the fiscal policy adviser for the League of California Cities.

California's local governments have turned increasingly to sales taxes since the passage of Proposition 13 in 1978 capped how much they can raise from homeowners. At the same time, services — which have helped drive the economy — generally aren't taxed. Another impediment: the state in 2012 dissolved redevelopment agencies that cities had previously used to finance infrastructure projects.

The lingering financial pressure stands in contrast to the overall state, whose government has seen once chronic deficits disappear as the economy revived. California's gross domestic product grew by 4.1 percent in 2015, more than any other state but Oregon, which expanded at the same pace, according to the U.S. Bureau of Economic Analysis.

Welcoming the fiscal turnaround, investors have pushed the yield on California's 10-year bonds to just 0.22 percentage point more than top-rated debt, down from as much as 0.67 percentage point in 2013, according to data compiled by Bloomberg.

Localities "can't fully enjoy the benefits of economic growth because they're limited in one of their major sources of revenue," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6.3 billion of investments. "They're feeling a certain pinch."

Los Angeles County, Orange County, San Francisco and 60 other cities are among the local governments pushing for higher sales taxes, according to a report by the California Taxpayers Association. Nine cities are seeking the cash for a specific function, which require the approval of two-thirds of the electorate. The rest need support of a majority because the money isn't being tied to a particular goal. Some campaigns say the effect on taxpayers will be softened because the state's sales tax will decline by 0.25 percentage points in January, when a temporary increase is set to expire.

Retirement costs are a major reason for rising expenses. Among the cities with tax-increase measures, almost four dozen are expected to see double-digit percentage jumps in their annual pension bills by 2020, according to data compiled by Marc Joffe, research director at the California Policy Center, a nonprofit that has criticized public pensions. That's assuming the state's investments return 7.5 percent annually, a target it hasn't hit in the past two years.

In Redding, pension bills are just one of the burdens facing the community with 92,000 residents more than 200 miles north of San Francisco. Its retirement contributions are slated to rise by almost 55 percent to $25.5 million by fiscal 2019-2020.

The city has reduced its police force to about 98 officers from more than 120 before the recession, said Weaver, the vice mayor. That has led to an increase in emergency call response times, he said. If voters sign off, the additional proceeds would be used to hire 33 officers and 10 firefighters, he said.

For Colusa, a farming community of about 6,000 residents 100 miles to the south, a sales-tax increase could help stave off insolvency. The city has drawn down its savings, said Randy Dunn, fire chief and interim city manager, and employment costs are rising. Federal grants are disappearing, as well as revenue tied to Indian casinos. Its projected 2020 pension contribution will rise 62 percent to $636,000.

"At this rate, we're going to deplete reserves," he said. "In about four years, we're looking at a serious possibility of a bankruptcy."

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