

An Overview of Local Government Finance



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A Taxonomy of Local Governments

Cities



- general purpose
- provide essential frontline municipal services tailored to the unique needs of their communities
- are funded mostly by locally enacted revenues
- provide land use planning and control

Counties



- Hybrid local/state
 - state/federal social service & health programs (CalWORKS, foster care, IHSS, etc.)
 - countywide local services (jails, courts, elections, indigent aid, etc.)
 - “city” services to unincorp. areas
- More mandates, less discretionary \$

Special Districts



- “dependent” / “independent”
- enterprise (water, irrigation, sanitation) /not (parks & rec, mosquito abatement, fire)
- many get a cut of the property tax

Redevelopment Agencies



- Guide urban community development, economic development; remove blight; improve quality of life for the total community; enhance value and return
- Property tax increment financing
- Flexible tool – can be used well / not

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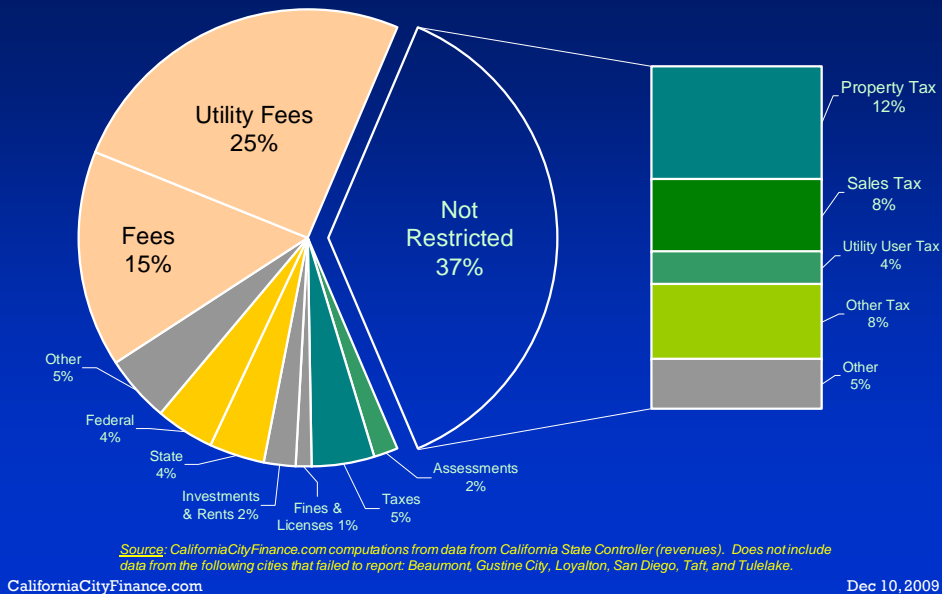
Cities Vary and so do their finances

- Geography: proximity, climate, terrain, access
- Community Character / Vision: Land use
Bedroom? Industrial? Tourist? Rural? etc.
- Size – urban / rural
- Governance – full service / not
- ❖ Statewide generalizations often mask trends among sub-groups

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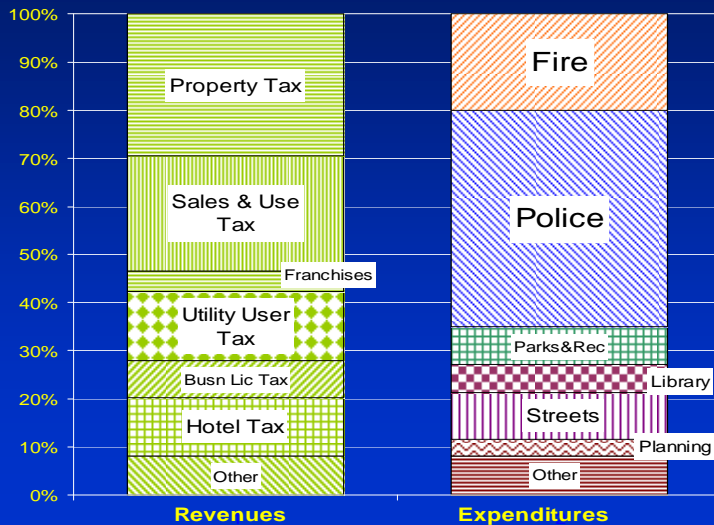
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California City Revenues



Discretionary Revenues and Spending

Typical Full Service City

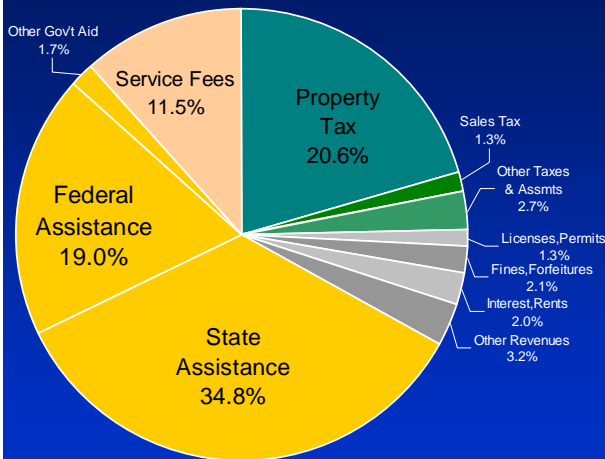


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Source: Coleman Advisory Services computations from State Controller reports

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California County Revenues



Counties are hybrid local/state

- > state/federal programs: Aid to families (CalWORKS), food stamps, foster care, In-Home Support Services (IHSS), alcohol & drug treatment.
- > countywide services: jails, courts, elections, property tax collection & allocation.
- > "city" services to unincorporated areas

Counties have

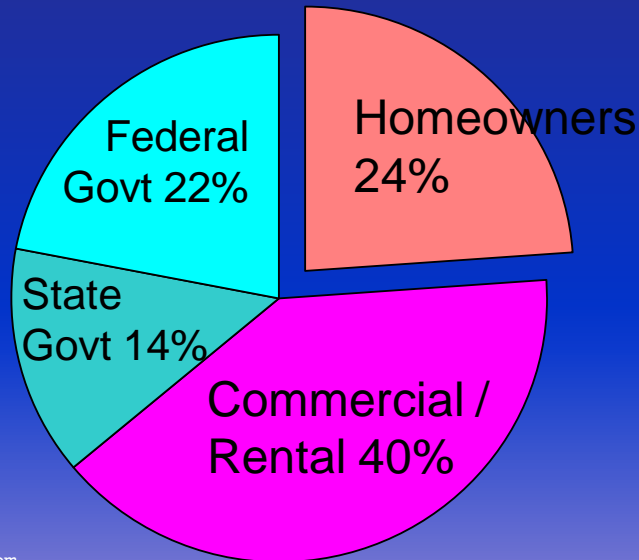
- more mandates,
- less discretionary \$, and
- are more vulnerable to state budgetary action.

Source: CaliforniaCityFinance.com computations from data from California State Controller.

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Proposition 13 \$ Winners



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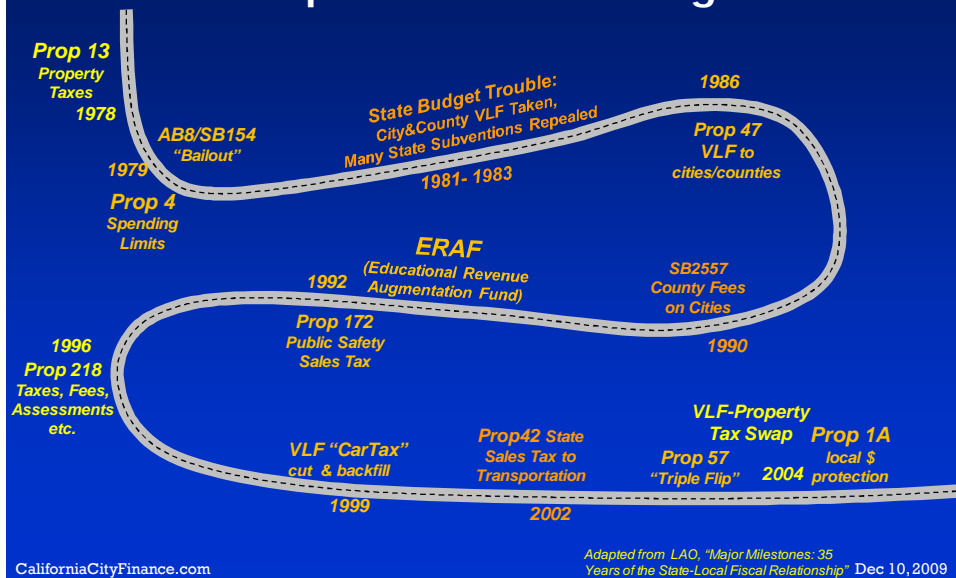
In the Wake of Proposition 13 ...

- 1980's State fiscal retrenchment
 - VLF taken for state general fund 1981-84
 - State aid repealed:
 - Highway carriers Uniform Business Tax
 - Liquor License Fees
 - Financial Aid to Local Agencies (bank in-lieu)
 - Business Inventory Exemption Reimbursements
- Local government fiscal innovation:
 - Fees, new taxes, JPAs, consolidations, redevelopment
- Progeny of Proposition 13:
 - 1986 Proposition 62 • 1996 Proposition 218
- ERAF property tax shifts from cities, counties, special districts beginning 1991-94

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The State-Local Relationship Since Proposition 13: A Rough Road



Taxes

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

Property Tax

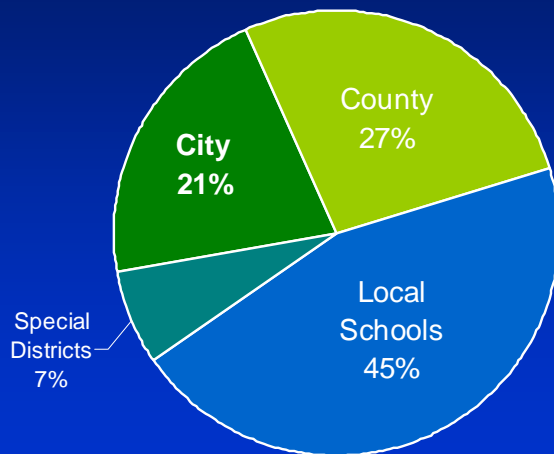
- ✓ An *ad valorem* tax imposed on real property and tangible personal property
- ✓ Maximum 1% rate (Article XIII A) of assessed value, plus voter approved rates to fund debt
- ✓ Assessed value capped at 1975-76 base year plus CPI or 2%/year
- ✓ Property that declines in value is reassessed to the lower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

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Where Your Property Tax Goes

Typical city resident



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

*Includes Property
Tax in-lieu of VLF.*

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

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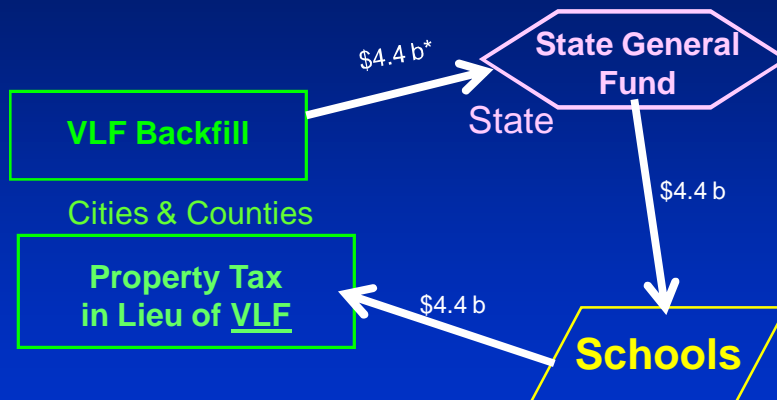
The Vehicle License Fee: The Former Car Property Tax

- ✓ 1935 Statewide uniform VLF adopted
- ✓ 1948-2004 tax rate is 2%
- ✓ 1998 VLF “offset” (effectively a tax cut) begins
Includes “trigger” to put rate back up if state finds it cannot afford the backfill to cities and counties.
- ✓ 2003 Gov. Gray Davis pulls the trigger sending VLF from 0.65% back up to 2%
- ✓ Nov 2003. Recall. Schwarzenegger returns VLF to 0.65%, punching \$4 billion cost into the budget.
- ✓ 2004 VLF – Property Tax swap. Backfill and trigger eliminated. Property tax protected by Prop1A (Nov’04).

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The VLF-PropTax Swap Vehicle License Fee for Property Tax



*in FY2004-05

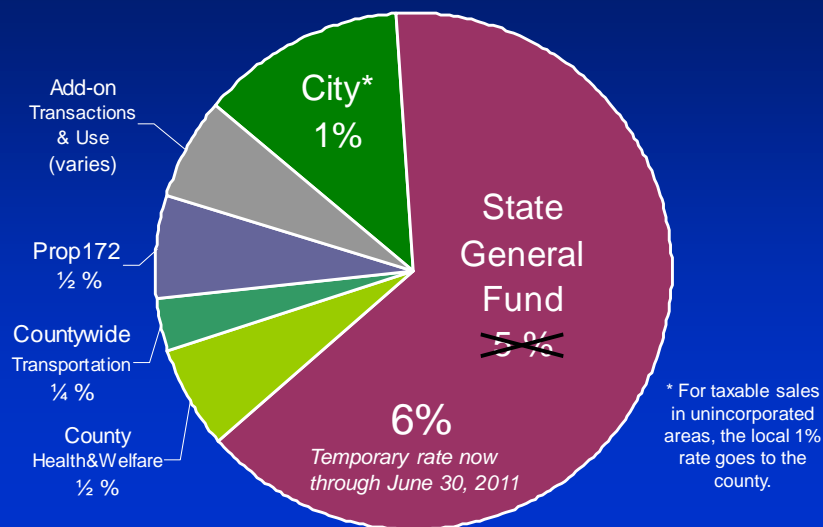
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Sales and Use Tax

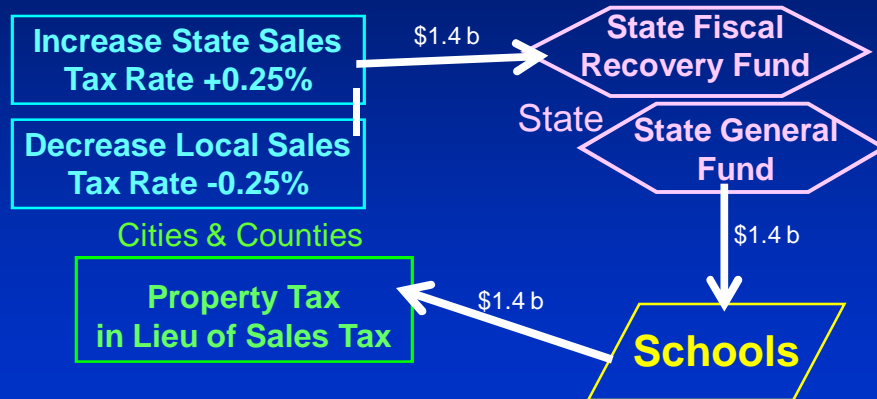
- ✓ **Sales Tax:** imposed on the total retail price of any tangible personal property
- ✓ **Use Tax:** imposed on the purchaser for transactions in which the sales tax is not collected.

Where Your Sales Tax Goes



The Triple Flip

sales tax for property tax



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Other Locally Adopted Taxes

- ✓ Business License Tax
- ✓ Utility User's Tax
- ✓ Transient Occupancy (Hotel) Tax
- ✓ Documentary Transfer Tax / Real Property Transfer Tax
- ✓ Parking Tax
- ✓ Admissions Tax

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Fees & Charges

- A voluntary charge imposed on an individual for a service or facility provided directly to that individual. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.
- Cities have the general authority to impose fees (i.e., charges, rates) under the city's police powers*
- Specific procedures in state law for fee & rate adoption.
- "Property related" fees - special rules under Prop 218.
- Examples: water service, sewer service connection, building permit, recreation class, development impact fees.

*as defined by Article XI, Sec. 7 and Article XIII B, Sec. 8 of the California Constitution.

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Assessments

- ✓ Levied to pay for **facilities** or **services** that provide **special benefit** to **private property**: e.g., lighting & landscaping, vector abatement, development infrastructure.
- ✓ Imposed by cities, counties, some special districts
- ✓ Authorized by **state law or charter city ordinance**
- ✓ Imposed on the **property tax roll**
- ✓ Fund only **special benefit**, so usually require a general fund contribution
- ✓ Property-owner election required
- ✓ Can support debt for capital projects and/or pay maintenance/operating costs.

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Intergovernmental Subventions

Money granted to support or aid some cause, institution or undertaking

State Assistance

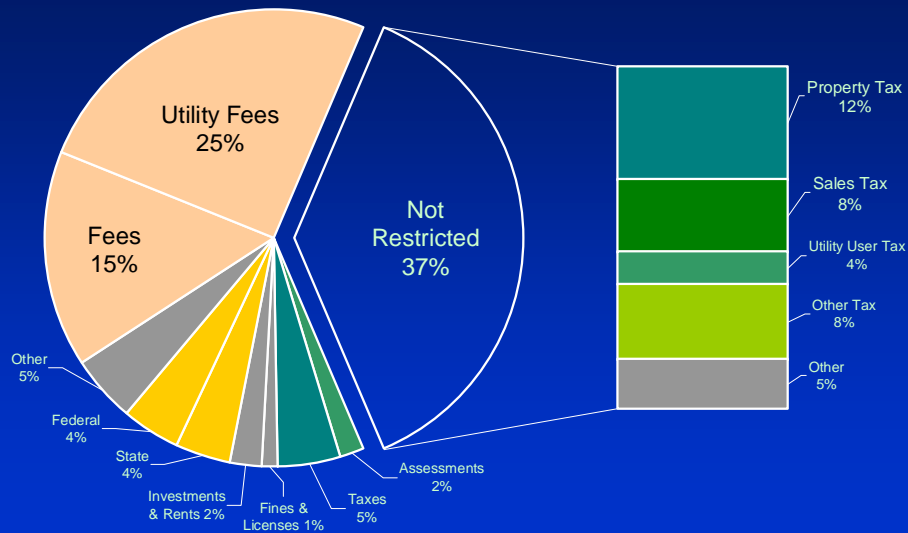
- ✓ Local Revenue Fund to county health & welfare programs
 - 75% of 0.65% VLF = \$1.6 billion
 - ½% state sales tax = \$2.7 billion
- ✓ Motor Vehicle In-Lieu (MVLf) \$150m remainder of VLF to cities
A state tax distributed to cities & counties in-lieu of property taxation of autos.
- ✓ Proposition 172 Public Safety Sales Tax \$2.7 billion
Voter approved ½% to mitigate the public safety effects of the ERAF property tax shifts on cities & counties. 95%+ to counties.
- ✓ State Reimbursements for Local Tax Relief
 - Homeowners Property Tax Relief . . . \$445m
 - Senior's tax deferral & rent assistance . . . ~~\$200m~~
 - Williamson Act agriculture contracts . . . ~~\$38m~~
- ✓ Grants
 - Highway Users Tax (Gas Tax) . . . \$600m cities, \$300m counties
 - Sales Tax on Gasoline (Prop42) . . . \$300m cities, \$300m counties
 - COPS, Juvenile Justice & CalEMA . . . \$500m cities & counties
 - Other

Federal Grants

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Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Gustine City, Loyalton, San Diego, Taft, and Tulelake.

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The Biggest Problems With California Local Government Finance

1. Instability and risk in discretionary funding.
2. Unsustainable employee compensation levels – especially retirement benefits.
3. Some revenue rules out of sync with changing service demands: narrow sales tax base, per gallon gas tax, changing telecom industry versus UUTs.
4. Fragmentation of local finance and governance among overlapping governments.
5. Disconnect between service costs and revenues in urban development (the “fiscalization of land use”).

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Municipal Revenues



Copies available through
CaliforniaCityFinance.com

Recommended resources:

[The California Municipal Revenue Sources Handbook, 2008 edition](#) by Michael Coleman. League of California Cities. 2008

[Understanding the Basics of City and County Revenue](#) by Charles Summerell. Institute for Local Government. 2008*

[Cal Facts. California's Economy and Budget in Perspective – State and Local Finances.](#) Legisl Analyst's Office 2006*

[A Primer on California City Finance](#) by Michael Coleman. *Western City*. Mar 2005*

* available on-line at CaliforniaCityFinance.com

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