A (Very Brief) Overview of California Municipal Finance

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A Field Guide to Local Governments

Cities
✓ general purpose
✓ essential frontline services tailored to 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, etc.)
✓ and not (parks & rec, mosquito abatement, hospital, fire)
✓ many get a cut of the property tax
Cities Vary  Counties Vary
Special Districts Vary
... and so do their finances

- Geography: proximity, climate, terrain, access
- Community Character / Vision: Land use
- Size – urban / rural
- Governance / service responsibilities
  full service city - vs.- not full service
- Counties – amount of urban devpmt in unincorporatia
  - Statewide generalizations often mask trends among sub-groups

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

- **User Fees:** for a privilege/benefit, service/product
  - Planning permits, street closure permits, parking permits, user fees, copying fees

- **Regulatory Fees:** regulation, permits, inspections
  - Permits for regulated commercial activities (e.g., dance hall, bingo, card room, peddlers, catering trucks, massage parlor, firearm dealers, etc.); fire, health, police background checks; pet licenses; bicycle licenses.

- **Rents:** charge for entrance, use or rental of government property
  - Facility/room rental fees, room rental fees, equipment rental fees, on and off-street parking, tolls, franchise, park entrance, museum admission, zoo admission, tipping fees, golf green fees, etc.

- **Penalties for illegal activity, etc.**
  - Parking fines, late payment fees, interest charges and other charges for violation of the law.

- **Charges imposed as a condition of property development**
  - Construction permits, development impact fees, etc.

- **Assessments and property related fees** imposed per Cal Const Article XIII D. (Prop218)

- **A payment that is not “imposed by a local government”**
  - Includes payments made pursuant to a voluntary contract or other agreement that are not otherwise “imposed” by a government’s power to coerce.

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### Taxes and Fees/etc. Approval Requirements

<table>
<thead>
<tr>
<th></th>
<th>TAX- General</th>
<th>TAX- Parcel or Special (earmarked)</th>
<th>G.O.BOND (w/tax)</th>
<th>Fee / fine / rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>City / County</td>
<td>Majority voter approval</td>
<td>Two-thirds voter approval</td>
<td>Two-thirds voter approval</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>Special District</td>
<td>n/a</td>
<td>Two-thirds voter approval</td>
<td>Two-thirds voter approval</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>K-14 School</td>
<td>n/a</td>
<td>Two-thirds voter approval (parcel tax)</td>
<td>55% voter approval*</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>State</td>
<td>For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature ...or approval of majority of statewide voters.</td>
<td>Statewide majority voter approval</td>
<td>Majority of each house.</td>
<td></td>
</tr>
</tbody>
</table>
California City Revenues

- Taxes
- Fees
- State/Fed Aid
- Rents, penalties
- Other

Not Restricted 35%

Property Tax 13%
Sales Tax 7%
- BusnLicTax 2%
- Utility User Tax 3%
- TransOccTax 2%
- Other Tax 3%
- Franchises 2%
- State&Fed 1%
- Other 3%

Revenue Sources:
- Property Tax 13%
- Sales Tax 7%
- Franchises 2%
- State&Fed 1%
- Other 3%

Benefits of Revenues:
- Benefit Assessments 2%
- Special Taxes 2%
- Investments, Rents, Royalties 1%
- Federal Grants 5%
- State Grants 4%

Revenues Expenditures

Fire
- Property Tax
- Sales & Use Tax
- Franchises
- Utility User Tax
- BusnLic Tax
- Hotel Tax
- Other

Police
- Parks&Rec
- Library
- Streets
- Planning
- Other

Typical Full Service City

Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues).
March 12, 2015

Source: Coleman Advisory Services computations from State Controller reports
March 12, 2015
Counties are hybrid local/state

- 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.

Property Tax

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

*Typical city resident*

- **City**: 27%
- **County**: 27%
- **Local Schools**: 45%
- **Special Districts**: 7%

**Shares Vary!**
- Non-Full service cities: portion of city shares go to special districts (e.g. fire)
- Pre-prop13 tax rates

*Includes Property Tax in-lieu of VLF.*

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

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**Where Your Sales Tax Goes**

- **State General Fund**: 4.1875%
- **County Realignment**: 1.5625%
- **County Transportation**: 1.5%
- **Prop172 Law Enfrcmt**: 1.5%
- **Add-On Transactions & Use**: (varies)
- **City**: 1%*

*Local 1% rate includes 1/4% Triple Flip reimbursement.*

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

**Prop30**: 1%

**State General Fund**: 4.1875%

**Prop30**: 1%

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**County Transportation**: 1.5%

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**Add-On Transactions & Use**: (varies)

**City**: 1%*

* * Local 1% rate includes 1/4% Triple Flip reimbursement.

**State General Fund effective 1/1/2013 expires 12/31/2016**
Sales Tax Collections

Revenues per capita inflation adjusted

Consumer spending growth is in:
- Housing
- Healthcare
- Food
- Entertainment
- Education

The population is aging
- Spending on taxable items declines with age
- Tax growth is concentrating in distribution centers
- Major amounts kicked-back to corporations - not to public services

Some taxable goods being replaced by non-taxed digital equivalents:
- Computer software
- Music
- Movies
- Games
- Books

Local 1% Sales Tax Revenue as a Percent of Personal Income

Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)
20% to 30% of total local taxes paid statewide are now rebated back to corporations rather than funding public services.

Defining Situs
Where Does the Sale Take Place in Remote Sales?
What is the location of the sales transaction (the situs)?
- Seller’s location? Location of product receipt? Product location?
- California currently uses “origin sourcing,” the situs is the retailer’s place of business where negotiations take place.

Origin sourcing often => concentration of tax revenue
- far in excess of service costs at the office or warehouse location
- economic activity, service impacts also occur elsewhere (i.e., where product is used)

To lure jobs and tax revenues, some cities have entered into rebate agreements with corporations.
**Services Commonly Taxed in Other States**  
**... But Not California**

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Texas</th>
<th>Florida</th>
<th>Utah</th>
<th>#States*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional sports (34), amusement parks (34), cultural events (29), circus/fairs (33), bowling alleys (26)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>26-34</td>
</tr>
<tr>
<td>Private club memberships, golf</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>23</td>
</tr>
<tr>
<td>Health clubs</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Marina services</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>15</td>
</tr>
<tr>
<td>Laundry / dry cleaning</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>21</td>
</tr>
<tr>
<td>Garment, shoe repair or alteration</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>19</td>
</tr>
<tr>
<td>Automobile repair (20), washing (19), rustproofing (24)</td>
<td>-</td>
<td>X</td>
<td>X</td>
<td>19-24</td>
</tr>
<tr>
<td>Appliance (incl TV) repair (23), installation (22)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>22-23</td>
</tr>
<tr>
<td>Carpet / upholstery cleaning</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Remodeling – Labor</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>14</td>
</tr>
<tr>
<td>Exterminating</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>19</td>
</tr>
<tr>
<td>Landscaping / lawncare</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Swimming pool cleaning</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Digital downloads</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>23</td>
</tr>
</tbody>
</table>

*Source: Mazerov “Expanding Sales Taxation of Services: Options and Issues, Center on Budget and Policy Priorities*

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**The State-Local Fiscal Relationship: A Rough Road**

- **Prop 13**: Property Taxes 1978
- **Prop 4**: Spending Limits 1979
- **AB8/ SB154**: “Bailout” 1996
- **Prop 218**: Taxes, Fees, Assessments etc. 1996
- **ERAF**: Educational Revenue Augmentation Fund 1992
- **Prop 172**: Public Safety Sales Tax 1999
- **Prop 42**: State Sales Tax to Transportation 2002
- **Prop 57**: Sales Tax “Triple Flip” 2004
- **Prop 1A**: Local $ protection 2004
- **VLF-Property Tax Shift**: 2008-2010
- **Prop 22**: Local $ Protection 2010
- **Prop 26**: Taxes, Regulatory Fee rules 2011
- **Redevelopment RIP Realignment**: 2011
- **SB89 VLF shift to law enforcement grants**: 2011

*Fiscal road concept stolen from LAO*

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*CaliforniaCityFinance.com*  
March 12, 2015
The State-Local Fiscal Relationship: A Rough Road

- Prop 13 Property Taxes
  - 1978
  - 1979
- Prop 4 Spending Limits
- Prop 218 Taxes, Fees, Assessments etc
  - 1996
- ERAF (Educational Revenue Augmentation Fund)
  - 1992
- Prop 1A Public Safety Sales Tax
- Prop 1A Local $ protection
- Prop 62 votes on taxes
- 1986 Prop 47 VLF must go to cities/counties
- 1981-1983 State Budget Trouble: City&County VLF Taken Many State Subventions Repealed
- Prop 57 Sales Tax “Triple Flip”
- Prop 57 VLF-Property Tax Swap
- Prop 22 Local $ Protection 2010
- Prop 26 Taxes, Regulatory Fee rules
- SB2557 County Fees on Cities 1990
- VLF Property Tax Swap
- Cut & backfill
- Prop 42 State Sales Tax to Transportation
- AB8/ SB154 “Bailout”
- 1999 VLF “CarTax”
- 1999 VLF must go to cities/counties
- 1990 2002
- 2002 2006
- 2020-2021
- Fiscal year 2014-15
- Fiscal year 2015-16
- Fiscal year 2016-17
- Fiscal year 2017-18
- Fiscal year 2018-19
- Fiscal year 2019-20
- Fiscal year 2020-21

State Fiscal retrenchment, revenue & cost shifts
Local revenue protection, constitutional limits

The Cost of Doing Business
CalPERS Payments on the Rise

Average Employer Contribution Payments
Percentage of Payroll

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>VLF</td>
<td>30%</td>
<td>35%</td>
<td>40%</td>
<td>45%</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Miscellaneous plans</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>
The Cost of Doing Business

CalPERS Payments on the Rise

Projected CalPERS Employer Contribution Payments

Source: Bartel Associates

Rates up half again or double since 2009
The Cost of Doing Business:
Retiree Health Care Costs & other OPEB*
Alameda County Cities Unfunded OPEB Liability Percent of
General Fund 6/30/2013

<table>
<thead>
<tr>
<th>City</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union City</td>
<td>18%</td>
</tr>
<tr>
<td>San Leandro</td>
<td>21%</td>
</tr>
<tr>
<td>Piedmont</td>
<td>7%</td>
</tr>
<tr>
<td>Pleasanton</td>
<td>52%</td>
</tr>
<tr>
<td>Oakland</td>
<td>105%</td>
</tr>
<tr>
<td>Livermore</td>
<td>118%</td>
</tr>
<tr>
<td>Alameda</td>
<td>131%</td>
</tr>
<tr>
<td>Fremont</td>
<td>140%</td>
</tr>
<tr>
<td>Hayward</td>
<td>68%</td>
</tr>
<tr>
<td>Berkeley</td>
<td>59%</td>
</tr>
<tr>
<td>Emeryville</td>
<td>15%</td>
</tr>
<tr>
<td>Newark</td>
<td>13%</td>
</tr>
<tr>
<td>Dublin</td>
<td>9%</td>
</tr>
<tr>
<td>Albany</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Other Post Employment Obligations

- Number of retirees continues to rise
- Retirees living longer
- Healthcare costs continue to rise

Are Incorporations and Annexations Extinct?
Are Incorporations and Annexations Extinct?

Pernicious Effects of the VLF-Property Tax Swap of 2004
The VLF-Property Tax Swap of 2004

- State General Fund
  - $4.4 b
  - $4.4 b
  - $4.4 b

VLF Backfill
Cities & Counties
Property Tax in Lieu of VLF
Schools

* in FY2004-05

The Lack of VLF Replacement Makes New Cities Fiscally Unviable

City of Jurupa Valley General Fund

- VLF "Bump" Declines to zero over 5 yrs
- AB1602 to zero over 5 yrs w/AB1602 VLF patch
- Actual (after SB89 shift)

If incorporated before 2004 swap
Swapped w/PropTax in 2004
w/AB1602 VLF patch assumed in incorp process

Millions

0.0
5.0
10.0
15.0
20.0
25.0
30.0

City of Jurupa Valley General Fund

Denied PropTax in lieu of VLF that all other cities get
The Lack of VLF Replacement Makes many Annexations Fiscally Unviable

Annexation of Inhabited Area example

If incorporated before 2004 swap

Swapped for prop-tax in 2004

VLF

Property Tax

Sales Tax

Other

VLF

Property Tax

Sales Tax

Other

VLF AB1602 Special

Property Tax

Sales Tax

Other

Actually (after SB89 shift)

$0.0

$0.2

$0.4

$0.6

$0.8

$1.0

$1.2

$1.4

$1.6

$1.8

Millions

Denied PropTax

VLF in lieu of prop-tax

that all other areas of city get

CaliforniaCityFinance.com

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