The Budget – Much More than Accounting

- Financial Plan
- Reflects policies and priorities
- Lays out *how* services are to be provided
- Operating vs Capital expenses
- On-going vs One-time revenues & expenses
- Set-aside revenues when costs obligated
California Local Gov’t Spending
What we spend money for...

✔ Personnel / Human Resources
  - Salaries / wages
  - Health Benefits
  - Retirement Benefits
  - Other Post Employment Benefits

✔ Non-Personnel
  - Supplies / Materials / Equipment
  - Contract Services

✔ Capital / Debt

Types of Funds

✔ General Fund is used to account for money which is not required legally or by sound financial management to be accounted for in another fund.

✔ Enterprise Funds are used to account for self supporting activities which provide services on a user-charge basis. Examples: water, garbage, parking, golf, marina.

✔ Special Revenue Funds are used to account for activities paid for by taxes or other designated revenue sources which have specific limitations on use according to law. Example: gas tax.

✔ Other Funds: Internal Service Funds, Trust Funds, Reserve Funds

Where the money comes from determines how it can be spent.
A Field Guide to 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 enterprise (parks & rec, mosquito abatement, 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
• Counties – amount of urban development in unincorporatia
• Governance / Service Responsibilities
  • full service / not

❖ Statewide generalizations often mask trends among sub-groups
**The Mechanics of Government Revenue**

**Who pays?**
- Visitors, residents, businesses, etc.

**What rate / base?**
- $per gallon, % per price, depreciated value, etc.

**Who decides?**
- Statewide voters / Constitution
- State law / Legislature
- Local voters
- Local law / City Council

**How's it allocated?**
- Situs; pooled/population, etc.

**Who collects? & enforces payment?**

**What is the $ used for?**
- General, water, roads, parks etc.

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**Taxes vs Fees vs The Rest**

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

- **User Fees and Assessments:** for a privilege/benefit, service/product
  - Planning permits, development fees, parking permits, user fees, copying fees, recreation classes, etc.

- **Regulatory Fees:** regulation, permits, inspections
  - Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, taxicab, peddlers, catering trucks, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; 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, fines and forfeitures, etc.
  - Parking fines, late payment fees, interest charges and other charges for violation of the law.

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

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.

Statewide majority voter approval

Majority of each house.
### California’s Tax Revenue Structure

<table>
<thead>
<tr>
<th>STATE</th>
<th>LOCAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income $55.3B</td>
<td>70% to local schools and counties, for state programs provided locally</td>
</tr>
<tr>
<td>Corporate $9.5B</td>
<td>$10.3B Sales &amp; Use, locally imposed, collected by state, allocated to counties for specified purposes</td>
</tr>
<tr>
<td>Other state</td>
<td></td>
</tr>
<tr>
<td>Sales and Use $31.5B</td>
<td>Property Tax $49B, much allocated to local for roads/transportation</td>
</tr>
<tr>
<td>VehLicFee(Tax) $2.1B</td>
<td></td>
</tr>
</tbody>
</table>

Motor Veh Fuel $5.6B

~37% offsets costs for schools

Not shown: user fees, franchises and other misc revenues

### California City Revenues

- **Utility Fees** (Water, Sewer, Refuse, Elect, Gas, etc.) 28%
- **Other Fees** 12%
- **Devpt Fees & Permits** 2%
- **Licenses & Permits** <1%
- **Fines & Forfeitures** 1%
- **Investments, Rents, Royalties** 1%
- **Federal Grants** 5%
- **State Grants** 4%
- **Benefit Assessments** 2%
- **Special Taxes** 4%
- **Not Restricted** 35%
- **Other** 6%

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

Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Hawthorne, Imperial, La Habra, Lindsay, Placerville, Stockton, Taft, and Westmorland.
The Ins and Outs of State & Local Funds

Typical Full Service City

Discretionary Revenues and Spending

Revenues

| Source: Coleman Advisory Services computations from State Controller reports |
| Property Tax | Fire |
| Sales & Use Tax | Police |
| Franchises | Parks&Rec |
| Utility User Tax | Library |
| BusnLic Tax | Streets |
| Hotel Tax | Planning |
| Other | Other |

Expenditures

| Property Tax | Sales & Use Tax | Franchises |
| Sales Tax | Other Tax | Licenses,Permits |
| Fines,Forfeitures | Interest,Reits | Other Revenues |
| Service Fees | 11.5% | 1.3% |
| Other Gov't Aid | 1.7% | 0.0% |

California County Revenues

| Service Fees | Property Tax | Federal Assistance | State Assistance |
| 11.5% | 20.6% | 19.0% | 34.8% |

Counts are hybrid local/state

- countywide services: jails, courts, elections, property tax collection & allocation.
- “city” services to unincorporated areas

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

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

- An \textit{ad valorem} tax imposed on real property and tangible personal property
- Maximum 1\% rate (Article XIIIA) 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 and school districts according to state law.

Where Your Property Tax Goes

\textbf{Typical city resident}

\textbf{Shares Vary!}

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

\textbf{Includes Property Tax in-lieu of VLF.}

\textbf{Typical homeowner in a full service city not in a redevelopment area.}

\begin{itemize}
  \item City 27\%
  \item County
  \item Local Schools 45\%
  \item Special Districts 7\%
\end{itemize}

\textbf{Source:} Coleman Advisory Services computations from Board of Equalization and State Controller data.
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

Full rate 2014 (ignoring “Triple Flip”)

- State General Fund 4.1875%
- County Realignmt 1.5625%
- County Transpnt 1/4%
- Prop172 Law Enfcmt 1/2%
- Prop30 0.25
- City 1% *

* Local 1% rate includes 1/4% Triple Flip reimbursement.
** 1/4% Proposition 30 state sales tax effective 1/1/2013 expires 12/31/2016

* Add-On Transactions & Use (varies)
California City Revenues

- Utility Fees (Water, Sewer, Refuse, Electr, Gas, etc.): 28%
- Other Fees: 12%
- Property Tax: 13%
- Sales Tax: 7%
- Other, Not Restricted: 35%
- Other: 6%
- Federal Grants: 5%
- State Grants: 4%
- Benefit Assessments: 2%
- Special Taxes: 4%
- Licenses & Permits: <1%
- Devpt Fees & Permits: 2%
- Variation, Rents, Royalties: 1%
- Fines & Forfeitures: 1%
- Franchises: 2%
- State & Fed: 1%
- Other: 3%
- BusnLicTax: 2%
- Utility User Tax: 3%
- TransOccTax: 2%
- Other Tax: 3%
- State & Fed: 1%
- Other: 3%

Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Hawthorne, Imperial, La Habra, Lindsay, Placerville, Stockton, Taft, and Westmorland.

How We Got Here: the State-Local Relationship
Proposition 13 (1978) nuts & bolts

1. **One percent rate cap.** Property tax rates capped at 1% of full market value
2. **Assessment rollback** of property values for tax purposes to 1975-76 levels
3. **Assessment growth capped** at 2% of property value (or CPI)
   - reassessment at full market value only upon change of ownership
4. **Special taxes** (local) require 2/3 voter approval
5. **State tax increases require 2/3 vote of Legislature**
6. **Authority for allocating property tax revenues transferred to the state**

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Proposition 13 Winners

- **Homeowners** 24%
- **Commercial / Rental** 40%
- **Federal Govt** 22%
- **State Govt** 14%
The AB8 (1979) Bailout
Shifting Local Property Tax to Cushion Impacts of Prop13

Initial Prop13 Impacts

State General Fund

Cities, Counties, Special Districts

Property Tax

Prop13 Impacts After "Bailout"

State General Fund

Cities, Counties, Special Districts

Property Tax
California Property Tax

The AB8 “Bailout”:
State legislature
- increased non-school shares,
- reduced school shares,
- paid more state general fund to schools.

K-14 Schools
City
County
Special Districts

- **Cities**: Net Loss $0.4 billion
- **Counties**: Net Loss $2.789 billion
- **Special Districts**: $1.8 billion
- **Redevelopment Agencies**: $0.316 billion

**State General Fund**

**Cities, Counties, Special Districts**

**Schools**

**Property Tax**

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

- **Prop 13**: Property Taxes 1978
- **Prop 4**: Spending Limits 1979
- **AB/B/SB 154**: “Bailout” 1980
- **1981-1983**: ERAF (Educational Revenue Augmentation Fund)
- **Prop 47**: VLF must go to cities/counties 1986
- **SB 2557**: County Fees on Cities 1990
- **Prop 172**: Public Safety Sales Tax 1992
- **1993-1996**: Prop 218 Taxes, Fees, Assessments etc.
- **1999**: VLF “CarTax” cut & backfill
- **2000**: Prop 42 State Sales Tax to Transportation
- **2001**: Prop 57 “Triple Flip”
- **2003**: Prop 47 State GenFund Proposition
- **2004**: Prop 1A local $ protection
- **2008**: Prop 22 End of Redevelopment
- **2010**: ABX Prop 26
- **2011**: End of Redevelopment
- **2012**: Prop 30

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**The State Local $ Relationship**

**In the Wake of Prop 13...**

- **State fiscal retrenchment**
- **VLF ⇒ State GenFund 1981-84**
- **State aid repealed**:
  - Highway Carriers Unif Busn Tax
  - Liquor License Fees
  - Bank in Lieu (FALA)
  - Busn Inventory Exemption Reimb
- **Local govt fiscal innovation**
- **ERAF property tax shifts**
  - from cities, counties, special districts beginning 1991-94
- **Progeny of Proposition 13**
  - 1986 Proposition 62
  - 1996 Proposition 218