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

✔ 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.

✔ 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.

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

Where the money comes from determines how it can be spent.
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 & control

Counties
- Hybrid local/state
  - state/federal health & social services (CalWORKS, foster care, IHSS, etc.)
  - countywide local services (jails, courts, elections, indigent aid, etc.)
  - "city" services to unincorporated 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

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 development in unincorporated

- 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

How’s it allocated?
situs; pooled/population, etc.

What is the $ used for?
general, water, roads, parks etc.

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

Who collects? & enforces payment?

Who pays?

What rate / base?

How’s it allocated?

What is the $ used for?

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
Fees and the Rest

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, etc.
  - 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
(California Constitution)

<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</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 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.

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**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
- Reassessed to current full value upon change in ownership (with certain exemptions)
- Property that declines in value is reassessed to the lower market value.
- Allocation: shared among cities, counties and school districts according to state law.
**Where Your Property Tax Goes**

Typical city resident

- **City** 21%
- **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.**

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

Source: CaliforniaCityFinance.com

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**Where Your Sales Tax Goes**

- **City** 1%*
- **Prop30**
- **State General Fund** 4.1875%
- **County Realignment** 1.5625%
- **County Transportation** 1/4%
- **Prop172 Law Enfrctmt** 1/2%
- **Add-On Transactions & Use** (varies)

* Local 1% rate includes 1/4% Triple Flip reimbursement. For taxable sales in unincorporated areas, the local 1% rate goes to the county.

** Proposition 30 state sales tax effective 1/1/2013 expires 12/31/2016**

Source: CaliforniaCityFinance.com
Sales Tax Collections

Revenues per capita inflation adjusted

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

Source: California State Board of Equalization (Sales Tax), US Dept of Commerce Bureau of Economic Analysis (California Personal Income)
Local 1% Sales Tax Revenue as a Percent of Personal Income

- 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
- Consumer spending growth is in:
  - Housing
  - Healthcare
  - Food
  - Entertainment
  - Education
- Some taxable goods being replaced by non-taxed digital equivalents:
  - computer software
  - music
  - movies
  - games
  - books

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

The State Local $ Relationship

The AB8 (1979) Bailout
Shifting Local Property Tax to Cushion Impacts of Prop13

Prop13 Impacts After "Bailout" starting in 1979-80

- State General Fund
- Cities, Counties, Special Districts
- property tax
- Schools

CaliforniaCityFinance.com
California Property Tax

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