Financial Responsibilities and City Revenues for Mayors and Council Members

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League of Calif Cities

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City Manager
Vacaville

Overview

- Financial Administration: Your Role as a Council Member
- Ins and Outs of City Funds: Taxes and Major Revenues
- The Budget and Budget Process
- Financial Planning
- Break!
- Diagnosing Financial Health
- Milestones in Calif Municipal Finance
- Hot Topic: Pensions and OPEBs
- Financial Policies
- Top Tips
- Questions ( & Answers )
The Fiduciary Role of Mayors and Councilmembers

- Oversight
  - Budget Review/Approval
  - Public Contracts
  - Labor Relations
- Sound financial policies
  - Setting parameters
  - Ensure long and short term financial awareness
- Fiscal & Service Impacts of Decisions
  - Setting precedents and unintended consequences

Functions Within a Typical Finance Department

- Accounting / Financial Reporting
- Budget / Financial Planning
  *Sometimes in City Managers’ Office*
- Accounts Payable
- Treasury / Investments
- Payroll
- Banking / Cash Management
- Capital Financing / Debt Administration
- Revenue Administration
- Purchasing
Financial Administration

- Sound Policies and Procedures
  - Internal Controls
  - Separation of Duties
  - Fraud Prevention
- Audits
  - Informal Internal Audits
  - Independent Outside Audit
    - Annual Financial Statements
  - Transportation Funding
  - Single-Audit / Federal Grants

Cities 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

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

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

Who pays?
- visitors, residents, businesses, etc.

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

Who collects? & enforces payment?

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

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

The Ins and Outs of State & Local Funds

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
Fees and 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** by 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>Type</th>
<th><strong>TAX-General</strong></th>
<th><strong>TAX-Parcel or Special (earmarked)</strong></th>
<th><strong>G.O.BOND (w/tax)</strong></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>
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<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>
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<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’s Tax Revenue Structure

**STATE**
- Personal Income $60.8B
- Corporate $8.5B
- Other state
- Sales&Use $34.3B
- VehLicFee(Tax) $1.9B
- Motor Veh Fuel $7.2B

**LOCAL**
- 70% to local schools and counties, for state programs provided locally
- Locally imposed sales taxes - collected by state BOE, - allocated to cities & counties
- Property Tax $51.3B
- Local Sales Tax, TrUT $11.6B
- $2B to locals for roads/transportation
- $16B offsets state costs for schools
- Locally imposed, collected & spent

*Not shown: user fees, franchises and other misc revenues*

The Ins and Outs of State & Local Funds

California City Revenues

- **Taxes**
  - general benefits/services
  - general - majority vote
  - special (earmarked) - 2/3
- **Fees**
  - user fees
  - regulatory fees
- **State/Federal Aid**
- **Rents, penalties**
- **Other**

*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.*
Discretionary Revenues and Spending

Typical Full Service City

Source: Coleman Advisory Services computations from State Controller reports

Revenues

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

Expenditures

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

California County Revenues

- State Grants & Aid 32%
- Federal Grants & Aid 20%
- Service Fees 15%
- Licenses, Permits 1%
- Property Tax 22%
- Sales Tax 1%
- Other Taxes 4%
- Fines, Forfeitures 2%
- Interest, Rents 1%
- Other 2%

Counties are hybrid local/state

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

Source: CaliforniaCityFinance.com computations from data from California State Controller.
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 and school districts according to state law.

Where Your Property Tax Goes

Shares Vary!

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

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.
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

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>City*</td>
<td>1.00</td>
</tr>
<tr>
<td>Co Transp</td>
<td>0.25</td>
</tr>
<tr>
<td>Prop 172</td>
<td>0.50</td>
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<tr>
<td>Co Realign</td>
<td>1.5625</td>
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<tr>
<td>State GF</td>
<td>3.9375</td>
</tr>
<tr>
<td>Prop 30</td>
<td>0.25</td>
</tr>
<tr>
<td><strong>Total Base</strong></td>
<td><strong>7.50%</strong></td>
</tr>
</tbody>
</table>

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

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

** 1/4% Proposition 30 state sales tax effective 1/1/2013 expires 12/31/2016.
Sales Tax Collections

Revenues per capita inflation adjusted

Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations

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

The City Budget

- Represents jurisdiction’s legal spending authority
- Organizational workplan expressed in dollars and staffing levels
- The budget and financial plan
  - allocates limited available resources
  - to the provisions of programs, services and projects
  - consistent with community priorities.
  - without adversely impacting future Councils’ ability to do the same.
The City Budget
Alternative Budgeting

• Annual Budget – Typical Fiscal Year July – June
  o Baseline Budget
  o Zero-Based Budget

• Biennial Budget
  o Two one-year budgets approved concurrently
  o A “true” two-year budget – 24-month appropriations
  o Rolling two-year budget – two year plan adopted annually

• Program is typical but some use...
  o Performance, Outcome – Based Budgets

Typical Capital Improvement Budget

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<tr>
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<tr>
<td>ONGOING ANNUAL PROJECTS</td>
<td>30002 – 30003</td>
<td>$290,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$1,200,000</td>
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<td>WATER METER REPLACEMENT</td>
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<td>100,000</td>
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<td>WATER VALVE CAMPAIGN</td>
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<td>WATER TECHNOLOGY REPLACEMENT</td>
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<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
<td>175,000</td>
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<td>GROUNDWATER MANAGEMENT PLAN</td>
<td>300002 / 300005</td>
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<td>100,000</td>
<td>100,000</td>
<td>0</td>
<td>0</td>
<td>1,460,566</td>
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<td>WEST SIDE TANK AND PUMP STATION PROJECT</td>
<td>30002 / 300001</td>
<td>$1,250,000</td>
<td>$100,000</td>
<td>$9,615,000</td>
<td>$8,500,000</td>
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<td>$0</td>
<td>$14,465,022</td>
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<td>ATLANTIC STREET 24 IN WATER REHABILITATION</td>
<td>300003 / 100001</td>
<td>$2,300,000</td>
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<td>$0</td>
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<td>CONNECT ON THE ANALYSIS STUDY</td>
<td>300003 / 110003</td>
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<td>COOL ROLLO ROAD EROSION CONTROL WATER PIPE</td>
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<td>WATER TREATMENT PLANT RIVER AND PONDING TANK</td>
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<td>$0</td>
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<td>WATER TREATMENT PLANT – FILTERED WATER CHANNEL AND CLEANWELL</td>
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<td>$170,000</td>
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<td>$800,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$800,000</td>
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<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$5,663,770</strong></td>
<td><strong>$2,395,150</strong></td>
<td><strong>$7,088,000</strong></td>
<td><strong>$7,163,000</strong></td>
<td><strong>$666,090</strong></td>
<td><strong>$660,000</strong></td>
<td><strong>$23,709,020</strong></td>
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Project Specific CIP

CAPITAL IMPROVEMENT PROJECT BUDGET

CLASSIFICATION OF PROJECT: WATER
PROJECT NUMBER: 30002 / 030065
ORIGINAL APPROPRIATION DATE: Jan-95
PROJECT TITLE: GROUNDWATER MANAGEMENT PLAN
TENTATIVE COMPLETION DATE: Jun-15

DESCRIPTION:
Implement and maintain an SE 1998 compliant Groundwater Management Plan required to maintain future California state grant funding eligibility and implement elements of the Groundwater Management Plan with other agencies.

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<td>Labor</td>
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<td>0</td>
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<td>Architectural/Engineering Services</td>
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<td>Site Acquisition &amp; Preparation</td>
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<td>180,000</td>
<td>180,000</td>
<td>180,000</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>241,516</td>
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<tr>
<td>Other</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>970</td>
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<td><strong>TOTAL</strong></td>
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<td><strong>$180,000</strong></td>
<td><strong>$180,000</strong></td>
<td><strong>$180,000</strong></td>
<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
<td><strong>$1,809,415</strong></td>
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</tbody>
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<table>
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<tr>
<td>Water Construction Fund</td>
<td>$768,698</td>
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<td>0</td>
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<td>$768,698</td>
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<tr>
<td>State of California Revenue</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>250,000</td>
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<tr>
<td>Other Agencies Revenue</td>
<td>310,756</td>
<td>125,000</td>
<td>125,000</td>
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<td>0</td>
<td>0</td>
<td>665,756</td>
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<tr>
<td>Water Operations Fund</td>
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<td>0</td>
<td>0</td>
<td>150,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$1,329,415</strong></td>
<td><strong>$180,000</strong></td>
<td><strong>$180,000</strong></td>
<td><strong>$180,000</strong></td>
<td><strong>$0</strong></td>
<td><strong>$0</strong></td>
<td><strong>$1,809,415</strong></td>
</tr>
</tbody>
</table>

The Budget Process

J A S O N D J F M A M J

BUDGET DEVELOPMENT

Staff = Build Baseline > Dept. Proposals > Recommendations => Proposed Budget.

Goals Budget Priorities
Workshop Long-Range Planning
Workshop Budget Proposals
BUDGET ADOPTION

BUDGET MONITORING

Q1 Year-End
Q2 Mid-Year
Q3
What is Long-Term Financial Planning?

Combines financial forecasting with financial strategizing to identify future challenges and opportunities, fiscal imbalances, and strategies to secure financial sustainability.

Why?
- Respond to a financial crisis
- Bring financial perspective to planning
- Stimulate long-term thinking
- Stimulate “big picture” thinking
- Address a particular issue or proposal
- Impose discipline
- Demonstrate good fiscal management

The World is Changing

- Economic changes to the tax base
  - Sales Tax, Telecommunications taxes
- Changes in population, demographics
  - Aging population, new services
- Economic changes to expenditure base
  - Cost of gasoline, water!
- State/federal deficits
  - Services shifted to local governments
- Deteriorating capital infrastructure
Steps in Long-Term Planning Process

- Review/Develop financial policies
- Analysis of fiscal environment
  - Current economic situation
  - Unfunded capital projects
  - Future liabilities
- Research/Trend analysis
- Document assumptions

Financial Planning  Sample Five-Year Forecast

<table>
<thead>
<tr>
<th>$ Million</th>
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<tr>
<td>-20</td>
</tr>
<tr>
<td>-10</td>
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<tr>
<td>0</td>
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<tr>
<td>10</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>40</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>60</td>
</tr>
</tbody>
</table>

Expenditures  Revenues  Fund Balance
Bad Brew in Troubled Cities

- Over-reliance on land development revenue
- Over-reliance on redevelopment revenues
- Unsustainable & Intractable employee compensation, especially public safety pension and retiree health care
- Unsustainable & Intractable Decline in Core Revenues
- Risky financing schemes
- Ceding of management and policy choices to others
- Fear & Denial
- Toxic relationships

Steering Away from the Precipice

- Elected Leaders
- Management Staff
- Stakeholders (Labor Leaders, Creditors)

or .... toxic relations, denial, fear/ineptitude.
Defining Municipal Financial Health

Solvency

1. **cash solvency** - ability to meet immediate financial obligations; i.e. over next 30 or 60 days (accts payable, payroll).
2. **budgetary solvency** - ability to meet all financial obligations during a budget year.
3. **long-run solvency** – ability to meet all financial obligations into the future.
4. **service-level solvency** – ability to provide the desired level of services for the general health and welfare of the community.

You Need the Financial Health Diagnostic

- **Validate** areas in which your city is *fiscally healthy*
- **Identify problems**, areas to *improve*
- **Act to remedy** problems *before* they get worse or unmanageable
- **Avoid being blind-sided** by problems
- **Add credibility** to your fiscal evaluation
- **Help others** (labor associations, taxpayers and other interested parties) **understand** your financial position
Difficulties in Assessing Municipal Financial Health

- Published data are not complete or timely.
- Do we know what the numbers mean? Are they enough to draw conclusions?
- Comparisons are often false.
- Requires analysis, forecasting, context, legal
  - it’s not just an accounting or statistical exercise
  - history doesn’t tell you enough about the future

Our Approach

California Municipal Financial Health Diagnostic:
- Get to the primary indicators - useful & essential
  - Leave out extraneous / secondary
  - Add in overlooked & underappreciated factors
- Drill down to the real numbers
- Allow for nuance / clarification / differences
  - Reduce invalid conclusions and comparisons
- Constructive, thoughtful approach
### How We Got Here: the State-Local Relationship

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#### California Municipal Fiscal Health Diagnostic

<table>
<thead>
<tr>
<th>City of San Francisco Fund:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Distress Checklist</strong></td>
<td></td>
</tr>
<tr>
<td>1. The city has recurring general fund operating deficits.</td>
<td></td>
</tr>
<tr>
<td>2. General fund reserves are decreasing over multiple consecutive years.</td>
<td></td>
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<tr>
<td>3. General fund current liabilities (including short-term debt and accounts payable within 90 days) are increasing. Cash and short-term investments are decreasing.</td>
<td></td>
</tr>
<tr>
<td>4. General fund fixed costs, salaries and benefits are increasing over multiple years at a rate above the rate of regular property tax growth.</td>
<td></td>
</tr>
<tr>
<td>5. The general fund is subsidizing other enterprises or special funds.</td>
<td></td>
</tr>
<tr>
<td>6. The city council’s authority to make changes is constrained by charter, contract, or law. (e.g. binding arbitration, minimum spending, minimum staffing or compensation formulas, etc.)</td>
<td></td>
</tr>
<tr>
<td>7. The general fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.</td>
<td></td>
</tr>
<tr>
<td>8. The general fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.</td>
<td></td>
</tr>
<tr>
<td>9. General fund pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarially funded.</td>
<td></td>
</tr>
<tr>
<td>10. General fund debt service payments have been “backloaded” into future years.</td>
<td></td>
</tr>
<tr>
<td>11. Ongoing general fund operating costs are being funded with temporary development revenues.</td>
<td></td>
</tr>
<tr>
<td>12. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller’s Financial Transactions Report)</td>
<td></td>
</tr>
<tr>
<td>13. Public service levels are far below standards needed in this community.</td>
<td></td>
</tr>
</tbody>
</table>

For detailed indicators related to these points, see the Financial Health Indicators
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**
**Proposition 13 (1978)**

Revenue Impacts

- **57% reduction**

- **K-14 Schools**

- **City**

- **County**

- **Special Districts**

---

**The AB8 (1979) Bailout**

Shifting Local Property Tax to Cushion Impacts of Prop13

Initial Prop13 Impacts

- Schools
- Counties
- Cities
- Special Districts

State General Fund

Cities, Counties, Special Districts

Property Tax

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

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

Milestones in Municipal Finance History

Milestones in Municipal Finance History

Local Revenue Protection: Prop1A(‘04), Prop1A(‘06), Prop22(‘10)

Constitutional Protection for:
1. Property taxes: cities, counties, special districts
   Protection includes Property Tax in lieu of VLF (VLF swap)
   May reallocate among cities, counties, special districts with a 2/3 vote of both houses
2. Local sales tax rate, method of allocation
   Exception: interstate compact or federal law
3. VLF 0.65% rate to cities and counties ... unless replaced
   VLF may not be diverted to reimburse a state mandate
4. Transportation Funds to locals – no taking, delay or borrowing
5. Prohibitions against unfunded state mandates strengthened
6. Redevelopment Tax Increment - may not be diverted for other purposes
The State-Local Fiscal Relationship: A Rough Road

Milestones in Municipal Finance History

Prop 13 Property Taxes, 1978
AB8/ SB154 "Bailout", 1979
Prop 4 Spending Limits, 1981-1983
Prop 218 Taxes, Fees, Assessments etc., 1996
VLF “CarTax” cut & backfill, 1999
Prop 1A local $ protection, 2004
Prop 172 Public Safety Sales Tax, 2002
Prop 47 VLF must go to cities/counties, 1986
ERAF (Educational Revenue Augmentation Fund), 1992
SB2557 County Fees on Cities, 1990
Prop 42 State Sales Tax to Transportation, 2008-2010
Prop 62 votes on taxes, 2011
Prop 57 “Triple Flip” VLF-Property Tax Swap, 2002
Prop 22 Local $ Protection, 2010
Redevelopment Property Tax Shifts, 2008-2010
Prop 26 Taxes, Regulatory Fee rules, 2011
Redevelopment RIP Realignment SB89 VLF shift to law enforcement grants

A Burning Issue in Municipal Finance: Public Pensions
The Cost of Doing Business
CalPERS Payments on the Rise

Average Employer Contribution Payments
Percentage of Payroll


- Safety (police, fire) plans
- Miscellaneous plans

Projected CalPERS Employer Contribution Payments

Example City #1

Source: Bartel Associates
Projected CalPERS Employer Contribution Payments

Example City #1

Rate up half again or double since 2009

Source: Bartel Associates

The Cost of Doing Business
CalPERS Payments on the Rise

Projected CalPERS Employer Contribution Payments

Example City #2

Source: Bartel Associates

Public Pensions and OPEBs
The Cost of Doing Business
CalPERS Payments on the Rise

Employer Contribution Forecasts Have Changed

Safety (Police and Fire) Plan

MISCELLANEOUS Plan

Source: City of Woodland
The Cost of Doing Business

Retiree Health Care Costs & other OPEB*

- huge unfunded liabilities for many agencies

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

Alameda County Cities 2013 Task Force Study
- OPEB liabilities are often unfunded
- Unfunded liabilities are 7% to 140% of General Fund
- Among the 14 Alameda County cities
- OPEB* costs increased 45% over 5 years (2008-2013)

Alameda County Cities Unfunded OPEB Liability

Percent of General Fund 6/30/2013

Solutions?
- Pre-fund OPEB liabilities
- Adjust benefits (retirement age, benefit cap, etc)
- Transition to defined contribution plans
- Buy out employee benefits
- Explore use of the Affordable Care Act
Good Practices

Financial Policies: The Foundation of Fiscal Health
Plans versus Policies

- Plans change over time as actual results replace assumptions (like ... as soon as the ink is dry)

- Policies
  - are your “north star,” guiding plans and actions.
  - make tough decisions easier by formalizing values and procedures before the crisis hits.
  - You might do something else ... but policies give you a starting point.

Examples of Financial Policies

- Balanced Budget
- User Fees & Cost Recovery
- Enterprise Funds: Do they pay their way or does the General Fund subsidize them?
- Fund Balance & Reserves
- Budget Amendments
- Budget Carryover
- Revenue Earmarking
- Capital Financing & Debt Management: When do you use it? What level?
- Financial Reporting
- Investments
- Purchasing, bidding, contracting
- Travel guidelines
Formal vs. Informal Policies

- Formal policies outlive creators and promote stability and continuity
- Formal policies create efficiency through standardization of responses
- Bond-rating agencies look favorably on formal policies
- Formal policies don’t rely on an individual to interpret best practices

Crucial Point: Policy versus Practice

- Policy should include specific objective but not detailed steps in meeting that objective.
- Make policy brief and concise.
  - Example: “User fees should be reviewed and adjusted at least annually to avoid sharp changes.”
- Include “how to” steps in administrative procedure, if necessary.
- Leave exact steps of review/adjustment to staff.
## Do Financial Policies Work?

### Fund Balance Survey: 1996

<table>
<thead>
<tr>
<th>City</th>
<th>Policy?</th>
<th>Description</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arroyo Grande</td>
<td>No</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Atascadero</td>
<td>No</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Pismo Beach</td>
<td>No</td>
<td></td>
<td>-14%</td>
</tr>
<tr>
<td>Grover Beach</td>
<td>Yes</td>
<td>20% of operating</td>
<td>20%</td>
</tr>
<tr>
<td>Morro Bay</td>
<td>Yes</td>
<td>27.5% of operating</td>
<td>15%</td>
</tr>
<tr>
<td>Paso Robles</td>
<td>Yes</td>
<td>15% of operating</td>
<td>13%</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>Yes</td>
<td>20% of operating</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Bill Statler, Admin Services Director, City of San Luis Obispo

### Fund Balance Survey: 2007

<table>
<thead>
<tr>
<th>City</th>
<th>Policy?</th>
<th>Description</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arroyo Grande</td>
<td>Yes</td>
<td>20% of operating</td>
<td>20%</td>
</tr>
<tr>
<td>Atascadero</td>
<td>Yes</td>
<td>Narrative Assessment</td>
<td>44%</td>
</tr>
<tr>
<td>Pismo Beach</td>
<td>Yes</td>
<td>15% of operating</td>
<td>15%</td>
</tr>
<tr>
<td>Grover Beach</td>
<td>Yes</td>
<td>20% of operating</td>
<td>23%</td>
</tr>
<tr>
<td>Morro Bay</td>
<td>Yes</td>
<td>27.5% of operating</td>
<td>14%</td>
</tr>
<tr>
<td>Paso Robles</td>
<td>Yes</td>
<td>15% of operating</td>
<td>39%</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>Yes</td>
<td>20% of operating</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Bill Statler, Admin Services Director, City of San Luis Obispo
Fitch Rating Agency on Policies

**Very Significant**
- Fund balance policy
- Debt affordability policy

**Significant**
- Pay-as-you-go capital financing
- Multi-year forecasting
- Quarterly reporting
- Quick debt retirement

**Influential**
- Contingency plans.
- Non-recurring revenue policy.
- Depreciation of fixed assets (GASB 34).
- 5 Year CIP integrating operating cost impacts.
- GFOA budgeting award.

Conclusion: Financial Management Today

- Fiscal management challenges will continue to be a top priority
- Most all policy decisions and Council actions have budgetary / financial planning implications
- Continuous process - plan > monitor > adjust
- On-going learning
  - Community economic indicators
  - City budget details
  - State / local fiscal reform - Vigilance & advocacy
Top Tips for Elected Officials re Financial Management

1. Obtain key documents:
   - Annual Operating Budget
   - Capital Improvement Program
   - Comprehensive Annual Financial Report (CAFR)
   - Long Range Financial Plan
   - Interim Financial Reports
   - Investment Reports

2. Develop and Use Financial Policies.

3. Know the difference between a “one-time” solution versus a “defer” solution versus a “sustainable” solution
   - One-time solutions fix a current problem, but not an on-going one.
   - Deferrals “put-off” a problem by fixing a one time problem but create as much or more added costs in future years.
   - A sustainable solution fixes an on-going budget problem now and into the future.

4. Ask hard questions about programs:
   1. What is the purpose of this program? Why is it needed?
   2. What are the specific intended outcomes of this program?
   3. What are the measurable objectives?
   4. What are the cost components: personnel, contracts, supplies, equipment, etc.?
   5. How will the costs of this program change in the future?
   6. What are the alternative service delivery approaches?
   7. Where will the money come from to pay for this?
   8. What are the consequences of not doing this program?

5. Avoid unsustainable budget practices including:
   - Exhaust the reserves
   - Freeze vacant positions
   - Make across the board cuts
   - Defer equipment purchases
   - Defer essential maintenance
   - Long-term formula driven spending
   - Defer pension or capital funding contributions
   - Eliminate training
   - Borrow from other funds
   - Ignore the small cuts
Resources

- League of California Cities
  - City Advocate Weekly
  - Regional Managers
  - League Alerts
  - Conferences/Seminars
- Institute for Local Government (ILC)
- Government Finance Officers Association GFOA.com
- The California Municipal Finance Almanac
  - www.CaliforniaCityFinance.com