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
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 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.
# 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 (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>
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</table>

**State**

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.

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**California City Revenues**

- **Taxes**
  - general benefits / services
  - general v special
  - 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

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.

Revenues

Expenditures
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.

Where Your Sales Tax Goes

Add-On Transactions & Use (varies)

City 1%*

City 1%*

Prop30**

State General Fund 4.1875%

Proposition 172 1/2%

County Realignment 1.5625%

County Transportation 1/4%

Co Realign 1.5625

Prop30 0.25

Total Base 7.50%

* 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

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

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

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)

*Includes triple dip in 1982 property tax
Local 1% Sales Tax Revenue as a Percent of Personal Income

The population is aging
✓ spending on taxable items declines with age

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

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

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
  - VLF Backfill
    - Cities & Counties
      - Property Tax in Lieu of VLF
      - $4.4 b
  - Schools
    - $4.4 b

* 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
  - Swapped for PropTax in 2004
  - AB1602
    - VLF
      - AB1602
        - Special
          - Other
            - Franchise Fees
              - Licenses/Permits
                - SalesTax
                  - Property Tax

- Millions

- If incorporated before 2004 swap w/AB1602 VLF patch (assumed in incorp process)
- Actual (after SB89 shift)
The Lack of VLF Replacement Makes Many Annexations Fiscally Unviable

Cost and Revenue Impacts of New Development: The “Fiscalization of Land-Use”
### Theoretical Comparison of Annual Costs and Revenues from Different Development Proposals - 5 acre parcel

<table>
<thead>
<tr>
<th>Property Size (acres)</th>
<th>Single-family Residential</th>
<th>Multi-family Residential</th>
<th>Industrial</th>
<th>Retail</th>
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<td>5</td>
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<td>Residential Units</td>
<td></td>
<td></td>
<td>95</td>
<td>n/a</td>
</tr>
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<td>Residential Cost per DU</td>
<td>400,000</td>
<td>180,000</td>
<td>n/a</td>
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<td>Retail Square footage per acre</td>
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<td>Property Value</td>
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1. Enterprise services such as water, sewer, and garbage are not included. These services are funded by user fees, such that costs equate to revenues.
2. Property values assume $400,000 per single family home, $180,000 per multi-family unit, $200/sf for retail, $700,000 per acre for industrial.
3. City property tax share differs from city to city depending on (among other things) the service responsibility of the city and the pre-Prop13 property tax rate.
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Budget Impacts of Land Development

Typical Full-Service California City Without a Utility User Tax

Enhanced Infrastructure Financing Districts (EIFDs)   SB628 (Beall, Wolk 2014)

- **Use:** public facilities and “projects of communitywide significance” including:
  - Highways, bridges, streets, parking, transit
  - Sewage treatment, water reclamation
  - Solid waste transfer & disposal
  - Wastewater collection & treatment
  - Flood control levees, dams, canals
  - Parks, recreation, open space, libraries
  - Brownfields restoration
  - Affordable housing
  - Child care
  - Transit priority projects
  - “Sustainable Community Strategy” projects
  - Industrial structures for private use
Enhanced Infrastructure Financing Districts (EIFDs)  SB628 (Beall, Wolk 2014)

- **Use:** public facilities and “projects of communitywide significance”
- Property tax increment of city* <= primary revenue
- Property tax increment of partner agencies (but NOT schools) e.g. county, special districts
- May combine with fees, assessments, grants, etc.
- Polanco Act Powers (for toxic remediation)
- Debt issuance -- **55% approval** of voters in district
- Must have Redevelopment Agency “Finding of Completion,” compliance with State Controller audit findings, conclusion of any outstanding legal issues.

**Resources**

- League of California Cities
- City Advocate Weekly  Regional Managers
- League Alerts  Conferences / Seminars

- Institute for Local Government (ILC)


- The California Municipal Finance Almanac
  - [www.CaliforniaCityFinance.com](http://www.CaliforniaCityFinance.com)