



## **Financial Responsibilities and City Revenues Workshop**

# THE CALIFORNIA MUNICIPAL REVENUE SOURCES HANDBOOK

# 2014

Edition



## THE CALIFORNIA MUNICIPAL REVENUE SOURCES HANDBOOK

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### **League of California Cities**

1400 K Street, Suite 400  
Sacramento, CA 95814  
(916) 658-8200  
[www.cacities.org](http://www.cacities.org)

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# MILESTONES IN MUNICIPAL REVENUES: A Historical Perspective

## Chapter 1



The backdrop of any discussion of municipal revenues must be the state-local relationship and the provisions of the California Constitution that govern the relationship. This relationship has evolved over time, marked in recent decades by several landmark constitutional amendments. Consequently, today's municipal revenue landscape is not the same as your grandmother's or even your mother's.

In California's early years of statehood, local government authority was strictly controlled by the state government, and local affairs were the frequent subject of meddling by the Legislature. California governors and legislators often displayed a deep distrust of local affairs, while local officials sought more latitude in municipal policy and public services.

# Chapter 1: Milestones in Municipal Revenues

## ■ The 1879 California Constitution

Thirty years after California's admission to the union, the second (and current) California Constitution was adopted by the Constitutional Convention during a turbulent period in the state's political history. That adoption created, for the first time, substantial and meaningful home rule for California's local governments. The 1879 Constitution included five provisions limiting the power of the Legislature to interfere with the affairs of cities and vested in cities extensive powers of self-government. This Constitution prohibited the state from imposing a tax for local purposes, but enabled the state to authorize local governments to impose them.

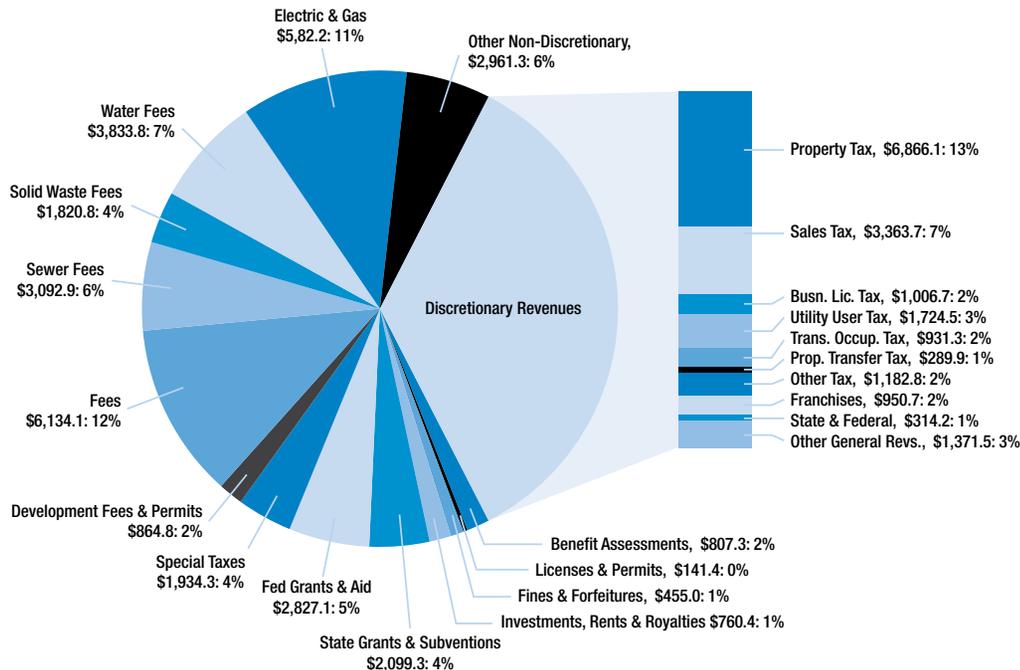
Over the next several decades, local taxation authority was expanded to general law cities. In 1903, in a case upholding the city of Los Angeles' business license tax, the California Supreme Court stated unequivocally that local taxation is a municipal affair under article XI, §5 of the California Constitution. Later, in 1982, the Legislature conferred on general law cities by statute the authority to adopt any tax that could be adopted by a charter city.

A 1910 ballot measure known as the "Separation of Sources Act" made the property tax a local government revenue source and established the principle of separate revenue sources for state and local governments. The property tax was ideally suited to fund critical local general services such as law enforcement, jails, fire protection, parks, libraries, schools, hospitals and public health. This concept of the property tax as the largest, most durable and essential source of local government funding would stand for 68 years, until Proposition 13 drastically altered California local government finance.

In 1914, the California Constitution was amended to provide charter cities with the authority to "make and enforce laws and regulations in respect to municipal affairs, subject only to the restrictions and limitations provided in their several charters." It established the power of charter cities to adopt their own laws with respect to municipal affairs, including flexibility in organizational and program design, latitude to regulate certain activities and the authority to determine spending levels and priorities. But local authority in municipal affairs remained subject to state pre-emption as to matters of statewide concern. In the event of a conflict between a charter city law and state law, the court must decide whether the state law prevails (because it is a matter of statewide concern) or the local law prevails (because it is a municipal affair). Thus, the dynamic interpretation of "matters of statewide concern" and "municipal affairs" controls the scope of home rule.

## California City Revenues

FY2010-11 (excluding the City and County of San Francisco)



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

## ■ Statewide Concerns and Municipal Affairs

Although cities achieved greater local fiscal authority to determine service levels and levy local taxes and charges, state fiscal rules and constraints have often dominated. In 1935, the state pre-empted the local taxation of motor vehicles as real property and established a statewide uniform value-based tax on motor vehicles, known as the “motor vehicle in-lieu tax” or Vehicle License Fee (VLF), which it then allocated to cities and counties based on their share of county population.

In 1955, the Legislature passed the Bradley-Burns Uniform Sales and Use Tax Act, pre-empting then-existing local sales taxes and providing for a uniform, statewide system of sales taxation and collection. The Bradley-Burns Act authorized cities to adopt local sales and use tax rates up to 1 percent of taxable sales transacted in their jurisdictions to be administered and allocated by the state. The amounts of revenue remained intact, and the use of those revenues remained at local discretion.

These changes attempted to strike a balance between accommodating the needs of the modern industrial economy for uniform practices and procedures with California’s continuing commitment to meaningful local control of local government finance. They also attempted to address the important issues of taxpayer ease, uniformity and simplicity, but had the accompanying effect of centralizing fiscal authority with the Legislature and Governor while constraining local fiscal authority.

Through both Democratic and Republican administrations in the 1950s and 1960s, federal and state policy initiatives meant additional money and additional incentives, but also additional mandates for municipalities. In 1972, the Legislature responded to the vocal concern of local government over the costs of state mandates by passing SB 90 (Chapter 1406), requiring the reimbursement of costs to local agencies for state mandated programs. The following year, the Legislature required cost estimates of all legislation having a financial impact on local government. In 1979, mandated reimbursement, as required in SB 90, was added to Article XIII B of the California Constitution as a part of Proposition 4. The obligation to reimburse was further strengthened by Proposition 1A in 2004.

## ■ Property Tax Limits and Voter Approval of Special Taxes: Proposition 13 (1978)

In 1978, a simple majority of California voters approved Proposition 13, seeking property-taxpayer relief and uniformity, but with far-reaching consequences, some unintended. Proposition 13 reduced property tax revenues by more than half and effectively abolished any local control with regard to the property tax. Local governments still have wide latitude on the spending of the remaining revenues they receive, but the allocation of the tax is controlled by the state Legislature. Occasional proposals by the Legislative Analyst or individual policymakers to delegate more authority over property tax allocation to local governments tend to be met with resistance from local officials who fear the local conflicts and power struggles that would ensue in nearly any discussion of revenue reallocation.

### Six Provisions of Proposition 13 Affecting Local Finance

- 1. One percent rate cap.** Proposition 13 capped, with limited exceptions, property tax rates at 1 percent of full cash value at the time of acquisition. Prior to Proposition 13, local jurisdictions independently established their tax rates and the total property tax rate was the composite of the individual rates.
- 2. Assessment rollback.** Proposition 13 rolled back property values as determined for tax purposes to their FY1975–76 level.
- 3. Reassessment upon change in ownership.** Proposition 13 replaced the practice of annually reassessing property at full cash value with a system based on cost at acquisition. Under Proposition 13, property is assessed at market value for tax purposes only when it changes ownership. Subsequent annual values are limited to this “base year” amount plus an annual growth factor of 2 percent or CPI, whichever is less.
- 4. Responsibility for allocating property tax transferred to the state.** Proposition 13 gave state lawmakers responsibility for allocating property tax revenues among local jurisdictions. Prior to Proposition 13, jurisdictions established their tax rates independently and their property tax revenues depended on the rate levied and the value of the property located within the boundaries of the jurisdiction.
- 5. Voter approval for special taxes.** Proposition 13 requires two-thirds voter approval for taxes raised by local governments for a designated (“special”) purpose.
- 6. Taxes imposed by the Legislature require a two-thirds vote of the Legislature.**

# Chapter 1: Milestones in Municipal Revenues

Prior to Proposition 13, effective total property tax rates varied, but averaged about 2.5 percent of market value. The 1 percent limitation and the rollback to FY1975–76 assessed values resulted in an immediate 57 percent reduction in property tax revenues statewide.

In FY1979–80, the Legislature used its authority to allocate property tax revenues to cushion the fiscal impact of Proposition 13 on local governments. In what is often called the “bailout,” the state was able to shift about \$2.7 billion of annual ongoing financial resources to local governments in part because of the state’s \$5 billion surplus (about 40 percent of annual revenues) and the \$1 billion-plus annual revenue boost it received from higher personal income taxes due to

lower taxpayer deductions for property taxes. As a result, city property tax losses from Proposition 13 were about 28 percent less than they might have been.

In addition to the bailout, the Legislature established a system for allocating property taxes. In what was intended as a permanent resolution to the issue of how to distribute significantly reduced property tax revenues, this solution, AB 8, reduced school shares of property tax revenues and gave cities counties and special districts greater shares. In return, the state assumed a larger financial responsibility for K-14 schools. The state also increased its share of costs for a number of social service and health programs operated by

counties.

Effects of Proposition 13	Trends in California Municipal Finance
<ul style="list-style-type: none"> <li>■ Lowered tax burden for elderly and low-income homeowners (proportionate to income)</li> <li>■ Disparate treatment of similarly situated properties</li> <li>■ Disconnect between service costs and revenues deters balanced planning</li> <li>■ Local agency property tax revenues cut by nearly 60 percent</li> <li>■ Tax rates and shares out of sync with service demands</li> <li>■ Greater reliance on state General Fund for county and school spending</li> <li>■ Greater reliance in cities and counties on user fees and local taxes</li> </ul>	<ul style="list-style-type: none"> <li>■ Decline in predictable discretionary funding for key services</li> <li>■ Sales tax revenues decreasing in service-oriented economy</li> <li>■ Population growth increasing service demands</li> <li>■ Public safety and homeland security costs increasing</li> <li>■ Infrastructure cracking under neglect</li> <li>■ New technologies leading to new infrastructure demands</li> <li>■ Environmental degradation (air and water pollution) requiring expensive mitigation</li> <li>■ Continued fragmentation of local finance among overlapping agencies</li> </ul>

Despite these efforts to cushion its impact, Proposition 13 dealt a major blow to local fiscal autonomy. As the California Supreme Court noted in a 1991 decision upholding AB 8's property tax apportionment system, Proposition 13 "prevails over the preexisting taxing power" of cities. In a 1994 ruling upholding the state's shift of property tax revenues from local governments (the infamous ERAF shift), the court noted that the taxing powers of local governments are "derived from the Constitution upon authorization by the Legislature." The state was handed the authority to determine each local agency's share within the 1 percent umbrella for all taxing agencies. There is no local authority to reallocate property tax revenue among local agencies (even those providing "city" services such as fire, parks or libraries). Thus, where once a community could devote more or less property tax revenue to fire services versus libraries versus schools, now all communities are constrained by taxing decisions made by leaders of a generation ago when California was a very different place socially, economically and politically.

By capping the property tax rate at 1 percent, Proposition 13 denied even local voters the authority to impose a higher property tax. The only exception to the 1 percent cap in Proposition 13 was for indebtedness approved prior to July, 1, 1978. This effectively repealed the authority of a local agency to, with two-thirds voter approval, levy a rate to repay bonded indebtedness, authority which was established in the 1879 California Constitution. In 1986, California voters altered that aspect of Proposition 13 with the passage of Proposition 46, restoring the authority of local agencies, with two-thirds voter approval, approve a property tax rate override to repay bonded indebtedness issued for the acquisition or improvement of real property.

## ■ The Gann Limit

Following up on their success at limiting taxes, taxpayer advocates in 1979 convinced California voters to approve a measure aimed at limiting government spending. Conceived by tax activist Paul Gann, Proposition 4 set tax expenditure limits on the state and local governments based on the proceeds they received from taxes in FY1978–79, increasing with changes in population and inflation. In any year, an agency may not appropriate tax proceeds in excess of this

limit unless an override, lasting a maximum of four years, is approved by a majority of voters. In 1990, voters approved Proposition 111, which, among other things, altered the spending limit, making the limit more accommodating of local revenue growth.

## ■ The 1980s: State Fiscal Retrenchment, Local Fiscal Innovation

In the years following Proposition 13, local governments faced substantially constrained revenues both from reduced property tax revenues but also from substantial reductions in state and federal aid. The state, after shifting resources to cushion the local impact of Proposition 13 found itself at times in fiscal trouble and repealed various state aid programs and even shifted local revenues to state coffers. Over the fiscal years 1981–82, 1982–83, and 1983–84, the state shifted more than \$700 million of Vehicle License Fee (VLF) revenues from cities, revenue that had never before gone to the state General Fund.<sup>1</sup> During these years, the state also repealed an assortment of local aid subventions including: the Highway Carriers Uniform Business Tax, Liquor License Fees, Financial Aid to Local Agencies (bank in-lieu subvention), and Business Inventory Exemption Reimbursements. Most of these payments had been put in place to reimburse locals for the state establishing a uniform statewide tax in lieu of local taxes or the state exempting some category of taxpayers.

Local governments responded by increasing various fees to recover full costs and eliminate subsidies. They sought out ways to raise existing taxes such as business licenses and hotel taxes. Many adopted new taxes such as utility user taxes, admission and parking taxes. With statutory authorization from the Legislature, they adopted new forms of assessments to provide needed funds for such things as streets, parks, lighting and landscaping.

## ■ The Courts Weaken Local Fiscal Authority

Meanwhile local control over fiscal matters continued to weaken. Proposition 13 had shifted the power to allocate what had been the number one source of discretionary local revenue, property taxes, to the state Legislature. Subsequent court decisions further weakened local fiscal autonomy. In 1991, the California Supreme Court gave

the state wider latitude to define a “matter of statewide concern” at the expense of home rule authority in fiscal affairs. In *California Federal Savings & Loan v. Los Angeles*, the court acknowledged that local taxation is generally a municipal affair, but declared the state’s system of taxation of financial institutions to be a matter of statewide concern. The court concluded that the conflicting charter city measure ceased to be a municipal affair and the Legislature was not prohibited by the Constitution from addressing the statewide dimensions of its own enactments. Assuming that financial institutions should be subject to a limited amount of taxation, the state decided that permitting local governments to receive a portion of these revenues through local taxation would interfere with the state’s ability to raise revenues for its own purposes.

### ■ Majority Vote for Taxes in General Law Cities and Counties: Proposition 62 (1986)

Reacting to the various forms of new local taxes and increases in fees in the wake of Proposition 13, the Howard Jarvis Taxpayers Association and other taxpayer groups responded with several follow-up initiatives. Proposition 62, a statutory initiative, passed in November 1986, restating the super-majority vote requirement for special taxes, imposing a majority vote requirement for general taxes, and prohibiting the imposition of taxes on the transfer of real estate. For nearly a decade, the applicability of Proposition 62 remained uncertain in the face of various court cases. Most provisions were eventually superseded by Proposition 218 in 1996.

### ■ E.R.A.F.: Educational Revenue Augmentation Funds

The most dramatic example of the shift of power from local governments to the state is the Legislature’s use of local property tax to balance the state’s budget troubles beginning in the early 1990s.

Despite major changes in local priorities and needs, the apportionment formulas for property taxes had remained largely unchanged since AB 8. In 1978, neither the pundits nor the authors of Proposition 13 envisioned the state Legislature using the power to allocate local property tax revenue given to it by Proposition 13 as

a means to take local tax revenues to meet its own financial needs. But in 1992, facing a serious state General Fund deficit, the state Legislature turned to these powers as a remedy.

To meet its obligations to fund education at specified levels under the Proposition 98 educational funding formulas, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to “educational revenue augmentation funds” (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools.

In FY2011–12, the annual impact of the ERAF shift was a shortstopping of some \$7.3 billion from cities, counties, special districts and the citizens those entities serve. Counties have borne some 74 percent of this shift; cities have borne 16 percent.

The state has provided some funding to local governments that it is considered by most to be mitigation of ERAF. However, the vast majority of these funds are earmarked for particular purposes. Moreover, a relatively small portion of these funds has gone to cities. In 1992, California voters approved Proposition 172, which provided sales tax funding for police, fire and other public safety programs. See Section 6.05 of Chapter Six. In FY2011–12, Proposition 172 funds provided only \$2.5 billion annually to local government, leaving a \$4.8 billion net ERAF gap. Considering all state subventions that the Legislative Analyst defines as “ERAF mitigation,” the net ERAF impact on cities was nearly \$800 Million in FY2011–12.<sup>2</sup>

As a part of the budget agreement that put Proposition 1A of 2004 on the ballot to protect city revenues from additional shifts and state takeaways, cities, counties and special districts agreed to contribute an additional \$1.3 billion per year in FY2004–05 and FY2005–06. Although these ERAF III shifts ended in FY2006–07, the original ongoing shifts that began in FY1992–94 have not been reduced.<sup>3</sup>

### ■ Voting on Taxes, Assessments and Property Related Fees: Proposition 218 (1996)

In November, 1996, California voters approved Proposition 218, expanding restrictions on local government revenue-raising by adding Article XIIC and XIID to the California Constitution. The measure allows voters to repeal or reduce taxes, assessments, fees, and charges through the initiative process; reiterates the requirement for voter approval for both “special taxes” and “general taxes;” and imposes procedural and substantive limitations on benefit assessments imposed on real property and on certain types of fees.

Proposition 218:

- Establishes a clear constitutional standard distinguishing locally imposed general taxes from special taxes and imposing a majority voter requirement for general taxes (which had already existed for general law cities under Proposition 62) and a supermajority requirement for special taxes (which had already existed under Proposition 13);<sup>4</sup>
- Provides citizens with the power to repeal taxes, assessments, fees and charges that are subject to Proposition 218;
- Establishes a formal balloting procedure for the adoption of benefit assessments imposed on property;
- Requires a distinction between special benefits and general benefits with regard to assessments and prohibits the funding of general benefits from property assessments;
- Requires the assessment of public property within an assessment district;
- Places the burden of proof for demonstrating special benefit on the local agency imposing the property assessment; and
- Establishes a new category of fees called “property-related fees” and requires new approval procedures and substantive provisions for those fees.

### ■ Constitutional Protection of Local Revenues: Proposition 1A (2004) and Proposition (2010)

Reacting to continued state shifts of local property tax revenues, the deterioration of local control of fiscal matters and the substantial limitations imposed by Proposition 218, the League of California Cities, the California State Association of Counties (CSAC) and the California Special Districts Association (CSDA) crafted a local revenue protection initiative and garnered enough signatures to qualify the proposition for the November 2004 ballot. Governor Arnold Schwarzenegger, who had recently taken office in the November 2005 recall of Gray Davis, immediately signaled his opposition to the measure but a willingness to support a new mutually crafted local revenue protection measure as a part of a larger state-local fiscal restructuring package to include local contributions to assist the state budget problem over two years.

With the active involvement of Legislative leadership, the Schwarzenegger Administration, the League, CSAC and CSDA worked on an alternative to Proposition 65 that became Proposition 1A. The Legislature placed the measure on the November ballot. As part of the 2004 state-local agreement, the state shifted \$1.3 billion of local property tax revenues in FY2004–05 and again in FY2005–06 (the so-called ERAF III). In addition, the state General Fund backfill to cities and counties for state cuts of the Vehicle License Fee was eliminated and instead cities and counties were given additional annual property tax revenues See Section 6.01 of Chapter Six. Finally, local government associations agreed to abandon support of Proposition 65 and the Governor agreed to actively support Proposition 1A.

In November 2004, the voters of California approved Proposition 1A with an unprecedented 84 percent of the yes vote, Constitutionally protecting major city revenues from additional shifts to the state and strengthening local government’s ability to get reimbursement for unfunded mandates. In 2010, voters passed another measure to protect local government finances. Proposition 22 prohibits the state

## Chapter 1: Milestones in Municipal Revenues

from borrowing, delaying or taking certain funds allocated to local governments and eliminated a provision of Proposition 1A allowing the state to borrow a limited amount of property tax revenue under certain conditions. Together, these measures:

- Strengthen prohibitions against unfunded state mandates by requiring the state to suspend state mandates in any year the Legislature does not fully fund those laws.<sup>5</sup>
- Expands the definition of state mandate to include transfer of responsibility of a program for which the state previously had full or partial responsibility.
- Prohibit the state from:
  - Reducing the local Bradley-Burns Uniform Sales and Use Tax rate or altering its method of allocation. Exception to comply with federal law or an interstate compact;
  - Decreasing VLF revenue from the 0.65 percent rate without providing replacement funding to cities and counties;
  - Shifting property taxes from cities, counties or special districts;
  - Failing to reimburse to cities and counties for the 0.25 percent local sales tax shifted under the triple flip; and
  - Borrowing, delaying or taking motor vehicle fuel tax allocations, gasoline sales tax allocations, public transportation account funds or redevelopment agency property tax increment.

**Sales and Use Tax Rate and Allocation Method.** Generally revenue from the 1 percent Bradley-Burns Local Sales and Use Tax is allocated to the city in which the sale occurs, or, if in an unincorporated area, the county. Proposition 1A prohibits the Legislature from reducing the local sales tax rate, or changing the method of allocation of local sales tax revenues. Proposition 1A permits the Legislature to change the method of allocation in order to comply with federal law or an interstate compact.

**Local Transactions and Use Tax Authority.** Proposition 1A prohibits the state from restricting the authority of a local government to impose a transactions and use tax pursuant to Revenue and Taxation code Section 7251 or altering the method of allocation of these tax revenues.

**Local Sales Tax Reduction Under the Proposition 57 Triple Flip.** In March 2004, California voters approved Proposition 57, the California Economic Recovery Bond Act. Legislative provisions implementing Proposition 57 provide for a swapping of 0.25 cent to be used by the state to repay the bonds effective July 1, 2004. The so called “triple flip” comprises:

1. Reducing the Bradley-Burns Local Sales and Use Tax Rate by 0.25 percent and 0.25 percent to the state’s sales tax rate to fund fiscal recovery bond repayment;
2. Repayment to cities and counties with additional local property tax previously allocated to local schools; and
3. Repayment to local schools with state General Fund.

Proposition 1A prohibits the Legislature from extending this reduction in local authority to impose the full Bradley-Burns Sales and use tax rate beyond the period necessary to repay the Proposition 57 bonds. In addition, it constitutionally protects the reimbursement to cities and counties under the triple flip. The Proposition 57 Sales Tax Triple Flip ends when the economic recovery bonds are fully paid, which is expected in 2016.

**Vehicle License Fee.** Proposition 1A requires the Legislature to provide replacement revenue to cities and counties if it reduces the VLF rate below 0.65 percent. California Constitution Article XI §15 requires that VLF revenue be allocated to cities and counties. The state may charge for administrative costs (DMV, Controller) and the Legislature retains the power to change state law allocating the VLF among cities and counties. See Section 6.01 for more on the VLF.

**Property Tax.** Proposition 1A prohibits the Legislature from reducing the share of property tax revenues going to the cities, county and special districts in any county, and shifting those shares to the schools or any other non-local government function. However, the Legislature may alter the allocation of property taxes among cities, counties and special districts within a county with two-thirds approval in each house. Proposition 1A also contained provisions allowing the state to borrow up to 8 percent of city, county and special district property tax revenues in one year under specific conditions. The Legislature invoked this option as a part of the 2009 Budget Act. The loan, used to finance annual operations in FY2009–10 was fully repaid with interest according to law in June 2013. Proposition 22 (2010) prevented this from occurring again by eliminating this property tax loan option. See Section 2.01 for more on the property tax.

Proposition 1A did not provide local governments with any new revenue nor reduce or alter the ERAF I and II shifts.

### ■ Refining the Definition of “Tax”: Proposition 26 (2010)

In November, 2010, California voters passed Proposition 26, which added a definition of “tax” to the California Constitution. The new provisions state that a government-imposed charge, levy or exaction of any kind is a tax unless it falls into one of seven express exceptions. The effect of the measure was to particularly tighten the definition of regulatory fees and certain assessments.

### ■ The Great Recession and the Dissolution of Redevelopment

Despite the substantial protections provided to local governments by Propositions 1A and 22, threats to local finances continued. Local budgets struggled from the impacts of the great recession, mounting costs of pensions and unfunded public employee retiree health benefits. Three large cities, unable to balance their budgets without violating legal payment obligations and unable to garner sufficient concessions from labor and other creditors, entered into bankruptcy proceedings. Others cut public services to unprecedented low levels.

Meanwhile, the State Budget Act of 2011 included a major realignment of corrections and law enforcement programs to counties with potential crime impacts in local communities. Counties sought assurances that adequate funding would also be provided. In late “gut-and-amend” legislation, all remaining city VLF funds were shifted to pay for state law enforcement grants to locals that had previously been funded by the state general fund. This wiped out allocations to new cities and annexations that had compensated for a flaw in the 2004 VLF-Property Tax swap.

With the 2011 Budget Act, Governor Jerry Brown also signed into law two bills aimed at extracting revenues from Redevelopment Agencies help remedy the State’s ongoing budget deficit. The legislation provided that each redevelopment agency must agree to make substantial annual payments to aid the state or dissolve as of October 1, 2011.

On December 29, 2011, the California Supreme Court upheld the constitutionality of dissolution of redevelopment while striking down the payment scheme. Approximately 400 redevelopment agencies dissolved on February 1, 2012, with the assets and liabilities transferred to Successor Agencies and Successor Housing Agencies.

But in November 2012, the state's fiscal woes took a major turn for the better. Following substantial cuts in state programs, voters approved Proposition 30 temporarily increasing state sales and income tax rates. The state budget was more easily balanced and the Legislature began fully paying down over \$30 billion in accumulated budgetary debt.

### ■ The Road Ahead for California Local Finance

Local revenues are now more stable and protected than ever before. Substantial constitutional limits have been placed on the Legislature's ability to take or shift local revenues. The state's fiscal condition has improved thanks to major program reductions in many areas, an infusion of temporary taxes that will pay off a mountain of accumulated budgetary debt, and a gradually improving economy.

But major risks and uncertainties persist. While Proposition 30 has seemingly provided a reprieve for as many as seven years, the state continues to struggle with the funding of corrections, health care, education, public employee benefits and major infrastructure. Substantial unbudgeted liabilities loom in teacher and state employee retirement systems. The state's long term budgetary balance remains cloudy.

The finances of local agencies face similar challenges. Many local agencies are grappling with major unbudgeted liabilities in the areas of post employment benefits (especially healthcare) — pension plan cost increases due to lower investment earnings, greater longevity and unsustainable benefit levels previously granted especially in the areas of police and fire. Local public works systems face major improvement needs in many areas.

Threats to the ability of communities to finance local services through locally levied taxes and other sources of revenue are likely to continue. Local governments will continue to grapple with evolving local public service needs and a local revenue portfolio that fluctuates with economic and socio/technical changes. Rather than make necessary effective reforms, the Legislature usually chooses expedient, ineffective "band-aid" remedies to serious local finance issues.

While local revenues are returning on the heels of a slowly recovering economy, public employee pensions and retiree health care costs are outpacing this revenue growth. The specter of more municipal insolvencies or bankruptcies persists. Municipal fiscal sustainability is a critical issue.

As always, skilled finance and management is essential to move forward through this. This handbook is designed to help you find your way.

### For More Information:

*Proposition 218 Implementation Guide*, 2007 Edition, League of California Cities, 2007 Edition. [www.cacities.org/resource\\_files/newCybrary/2007/legalresource/26003.PROP%20218%20final.pdf](http://www.cacities.org/resource_files/newCybrary/2007/legalresource/26003.PROP%20218%20final.pdf).

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### Endnotes.

- 1 Subsequently, in 1986, the voters approved Proposition 47 which requires that VLF revenues be allocated to local governments.
- 2 Cities not including the city and county of San Francisco.
- 3 Subsequent to the transfer of these funds, they are reallocated within each county back to cities and counties to compensate for the state's repeal of the VLF backfill in 2004 and the temporary one-quarter cent sales tax shift to support the state deficit reduction bonds. However, this mechanism does not alter the existence or real effect of the ERAF I and II shifts.
- 4 In 1982, the state Supreme Court decided *City and County of San Francisco v. Farrell*, which defined the term special tax as any tax earmarked for a specific purpose. Under Proposition 13, a special tax requires the approval of two-thirds of voters.
- 5 Proposition 1A does not apply to mandates affecting local schools or mandates related to employee relations and collective bargaining.

# TAXES

## Chapter 2



A tax is a monetary imposition by a government on persons or property for the purpose of raising revenue to support the purposes of the government.<sup>1</sup> In contrast to an assessment or a fee, a tax need not be levied in proportion to specific benefit to a person or property. Fees or charges will be considered taxes to the extent they exceed the reasonable cost of the service, commodity or facility for which they are imposed.

California cities do not have an inherent power to tax. Charter cities are given the power to tax pursuant to Article XI, §5 of the California Constitution and may levy taxes for municipal purposes without specific authorization from the Legislature. As authorized in state statute, a general law city, with certain exceptions, may levy any tax that a charter city may levy.<sup>2</sup> State law may set certain limits and procedures and may exempt certain activities from taxes levied by general law cities. These laws apply to charter cities in matters that the courts have determined are of statewide concern.

*"The nation should have a tax system that looks like someone designed it on purpose."*

— WILLIAM SIMON

## ■ General and Special Taxes

The passage of Proposition 13 in 1978 created a distinction between “general” and “special” taxes. Proposition 218, in 1996, further defined and established procedures for general taxes.<sup>3</sup>

- A *general tax* is a tax imposed for general governmental purposes, the proceeds of which are deposited into the General Fund. A majority vote of the electorate (those voting on the measure) is required to impose, extend or increase any general tax.
  - An election on a general tax must be consolidated with a regularly scheduled general election of city council members, except in cases of emergency declared by a unanimous vote of the city council.<sup>4</sup>
  - Single-purpose special districts (“special purpose districts”) may not impose general taxes.

	General Tax	Special Tax
<b>Use of Revenues</b>	<ul style="list-style-type: none"> <li>■ Unrestricted</li> </ul>	<ul style="list-style-type: none"> <li>■ Specific purpose</li> </ul>
<b>Governing Body Approval</b>	<ul style="list-style-type: none"> <li>■ General law cities: two-thirds</li> <li>■ Charter cities: Majority</li> <li>■ Counties: two-thirds</li> <li>■ Transactions and Use Taxes: two-thirds See Section 2.03 of this chapter.</li> </ul>	<ul style="list-style-type: none"> <li>■ Majority</li> </ul>
<b>Voter Approval</b>	<ul style="list-style-type: none"> <li>■ Majority</li> </ul>	<ul style="list-style-type: none"> <li>■ Two-thirds</li> </ul>
<b>Other Rules</b>	<ul style="list-style-type: none"> <li>■ A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.</li> </ul>	<ul style="list-style-type: none"> <li>■ Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including: 1) the tax rate; 2) the amounts of revenues collected and expended and 3) the status of any project funded by the special tax.<sup>5</sup></li> </ul>

- A *special tax* is a tax that is collected and earmarked for a specific purpose and deposited either into a separate account or the General Fund. A two-thirds vote of the electorate is required to impose, extend or increase any special tax.

## ■ Proposition 26: Defining a Tax By What it is Not

California voters approved Proposition 26 in November, 2010, placing new rules into the California Constitution stating that a government-imposed charge, levy or exaction of any kind is a tax unless it falls into one of seven express exceptions.

1. *A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.*

**Specific Benefit Exception** examples include fees for planning permits, restricted neighborhood parking permits, and entertainment and street closure permits.

2. *A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.*

**Government Service or Product Exception** examples include user fees for parks and recreation classes, utilities (other than those covered under #7), public records copying fees, DUI emergency response fees, emergency medical and ambulance transport service fees.

- A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.*

**Permits and Inspections Exception** examples include health and safety permits, building licenses, police background checks, pet licenses, bicycle licenses and permits for regulated commercial activities (such as massage establishments, card rooms, taxicabs and tow-truck operators).

For exceptions 1 through 3, the fee imposed must not exceed the agency's reasonable costs.

- A charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property.*

**Local Government Property Exception** examples include facility room rentals; equipment rentals; park, museum and zoo entrance fees, golf greens fees, on and off-street parking, and tolls.

- A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.*

**Penalty for Illegal Activity Exception** examples include parking fines, code enforcement fees and penalties, late payment fees, interest charges and other charges for violation of the law.

- A charge imposed as a condition of property development.*

**Property Development Exception** examples planning fees, building permit fees, construction and grading permits, development impact fees, fees imposed by California Environmental Quality Act mitigation requirements, and Quimby Act and park mitigation fees.

- Assessments and property related fees imposed in accordance with the provisions of Article XIII D. (Proposition 218).*

**Proposition 218 Exception** examples include assessments on real property for special benefit conferred, fees imposed upon a parcel or a person as an incident of property ownership, and fees for a property related service such as many retail water and sewer fees.

### ■ When is a Tax Imposed, Increased or Extended?

Under Proposition 218, no local government may impose, extend or increase any general tax until such tax is submitted to the electorate and approved.<sup>6</sup>

A tax is “imposed” when the local tax ordinance is adopted, and each time a tax is collected.<sup>7</sup> “Extend” means a decision by an agency to extend the stated effective period for the tax or fee or charge, including amendment or removal of a sunset provision or expiration date.<sup>8</sup>

A tax is “increased” when an agency either 1) increases the rate used to calculate the tax; or 2) revises the methodology by which the tax is calculated if that revision results in an increased amount being levied on any person or parcel.<sup>9</sup> A tax is not “increased” if 1) it is imposed at a rate no higher than the maximum rate previously approved, or 2) it is adjusted in accordance with a schedule of adjustments, including a clearly defined formula for inflation that was adopted prior to November 6, 1996.<sup>10</sup> However, a tax which is calculated by using a percentage is “increased” when it is adjusted for inflation even if the voters approve the tax.<sup>11</sup>



*“The power of taxing people and their property is essential to the very existence of government.”*

— JAMES MADISON,  
U.S. PRESIDENT

## ■ Additional Aspects of Municipal Taxation in California

- A local tax can be reduced or repealed by initiative unless it supports bonded debt. Many taxes can be imposed or increased by initiative as well.
- Certain types of local taxes are specifically pre-empted by state law. These include taxes on: cigarettes, alcohol and personal income.<sup>12</sup>
- State law provides various additional procedural requirements for the enactment of some taxes depending on the type of tax.
- If a local agency wants to collect a previously approved tax at a rate lower than was authorized by the voters, the agency should make it very clear in its official actions that the rate is being “suspended” for a certain period of time and not being permanently lowered. An agency that collects a previously approved tax at a rate lower than was authorized by the voters without a statement clarifying the intent and purpose of the suspension may trigger a Proposition 218 vote requirement when it begins collecting the tax at the previously approved rate.<sup>13</sup>

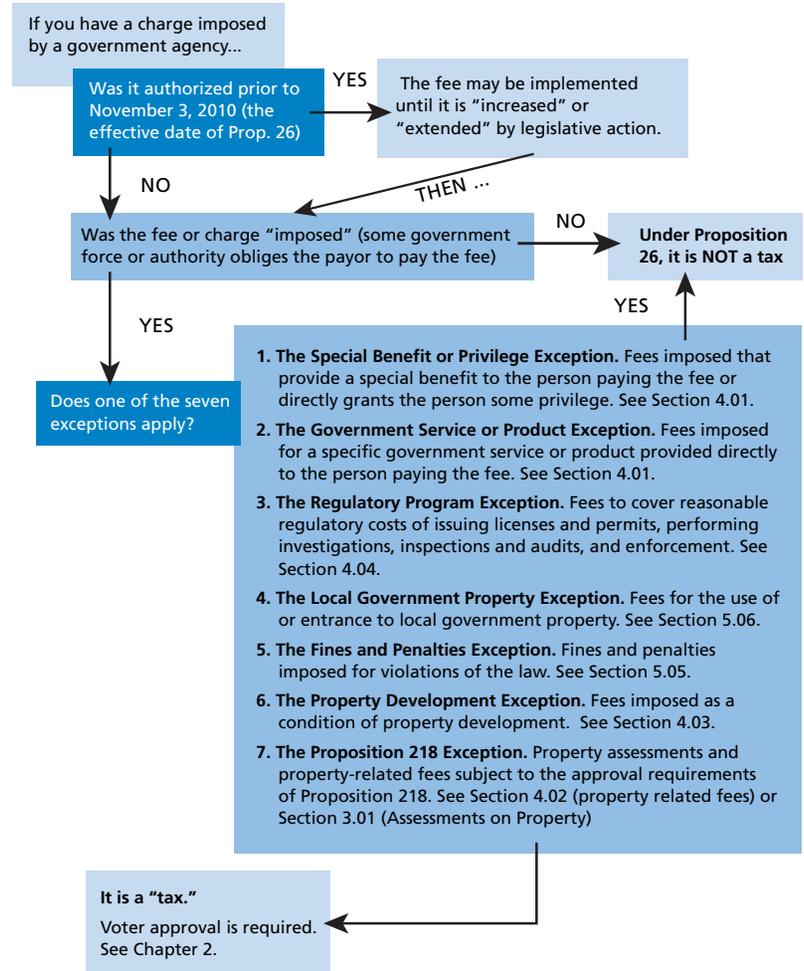
### For More Information:

*Proposition 218 Implementation Guide*, League of California Cities, 2007 Edition.

*California Municipal Law Handbook*, Chapter V, League of California Cities.

*Proposition 26 Implementation Guide*, League of California Cities, 2011 Edition. [www.cacities.org/Prop26Guide](http://www.cacities.org/Prop26Guide).

## Applying Proposition 26



# BENEFIT ASSESSMENTS

## Chapter 3



Benefit assessments (also called “special assessments”) are levied to pay for specifically identified public improvements or services that specially benefit the properties or businesses subject to the assessment.

A number of state laws permit the imposition of assessments for various purposes. General law cities may impose an assessment under one or more of these laws, following the procedures and limitations set forth in that law. Charter cities may also use state laws, but often choose to enact and proceed under their own assessment laws. Local assessment laws adopted by charter cities are typically drafted to incorporate one or more of the statewide laws, but may include revisions to the incorporated law streamlining procedures or permitting the financing of additional improvements or services.<sup>1</sup> Generally, such local laws must comply with California Constitution Article XVI, Section 19.

## ■ Assessments Versus Fees and Taxes

The key distinction between a benefit assessment and other types of revenue measures, such as fees and taxes, is that an assessment is based upon the special benefit that a property (or business) will derive from the improvement or service provided by the assessment.

Benefit assessments may also be distinguished from “nuisance abatement assessments,” which are legally a form of regulatory fee (see Chapter Four, Section 4.04) or other “assessments” which are in the nature of a fine or penalty (see Chapter Five, Section 5.05).

## ■ Proposition 218

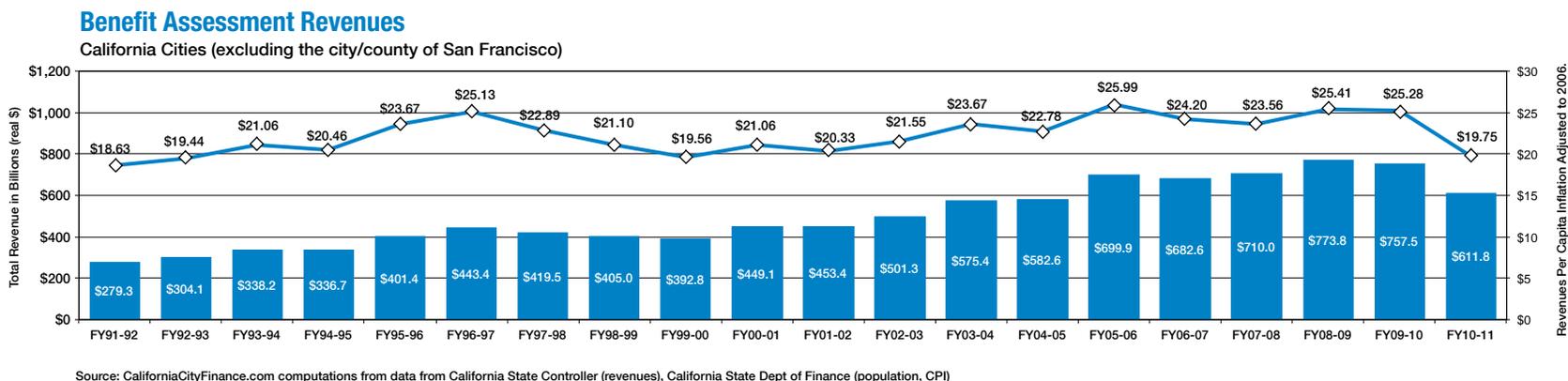
Proposition 218 (California Constitution Article XIID), passed by the voters on November 5, 1996, affects most special assessments imposed since the passage of the act that are imposed on real property, in five principal ways:

1. Subjects assessments to repeal or reduction by initiative unless they have been bonded, triggering the protection of the federal Constitutional contract clause;

2. Establishes procedural requirements for the levy of assessments, including the requirement for majority property owner approval by a mail ballot process;
3. Requires the local agency to separate the general benefits from the special benefits conferred on a parcel, and to only assess for the special benefit;
4. Forbids the use of assessments on private property to fund the portion of the special benefit of a project or program which accrues to public agency property and can be argued to limit the general rule of intergovernmental tax immunity to allow assessment of government property; and
5. Shifts the burden of proof in legal actions to contest the validity of an assessment to the assessing government.

## ■ Use of Initiatives to Reduce or Repeal Assessments

Proposition 218 provides that the initiative power may be used to reduce or repeal any local tax, assessment, fee or charge.<sup>2</sup>



# FEES, CHARGES AND RATES

## Chapter 4



*A fee may not exceed the estimated reasonable cost of providing the service or facility for which the fee is charged.*

*Thanks to Betsy Strauss, Dan Hentschke and Michael Colantuono for their contributions to this chapter.*

Fees comprise a broad category of locally imposed revenues generally intended to recover all or a portion of a government's costs for providing a service or access to public property, or for mitigating the impacts of the fee payer's activities on the community. A fee may not exceed the estimated reasonable cost of providing the service or facility for which the fee is charged. Fees are sometimes called charges and are often called rates in the context of utility services. The term "fee" is used in this chapter.

The list of fees is extensive, and includes: user fees, such as park admission fees or fees charged for recreation programs; enterprise service fees, such as water, sewer or refuse collection fees; regulatory fees, such as plan check fees, inspection fees, permit application fees and other fees imposed on regulated activities; and mitigation fees, such as those imposed to off set impacts resulting from new development. Fees in one category may have attributes of fees in another. Certain fees imposed for a property-related service are subject to specific procedural and substantive requirements of Proposition 218.

Generally speaking there are two broad categories of fees and charges: user fees and regulatory fees. User fees are charged for the use of a public service or program such as fees charged for recreation programs or public document retrieval. User fees for property-related services are referred to as property-related fees.

Regulatory fees are charged either to pay for the cost of a government program which regulates the activities of the fee payers or to mitigate the impact of the fee payer's activities on the community. A development impact fee is a common regulatory fee which imposes a charge to defray the cost of the development on a public facility such as streets or schools.

All user fees and regulatory fees are subject to the same limitation: The amount of the fee may not exceed the "estimated reasonable cost" of the providing the service, facility or program or (as in the case of regulatory fees) of mitigating the impact of the fee payer's activity." Estimated reasonable cost" may include reasonable administrative expenses and overhead. Revenues collected in excess of the service cost may be categorized as "taxes," which require voter approval.<sup>1</sup>

Regulatory fees must be reasonable, fair and equitable in nature and proportionately representative of the costs incurred by the regulatory agency for administrative enforcement and related adjudicatory activities.

The distinction between fees and taxes is frequently blurred, especially in the media and common discussion, but generally fees are imposed in return for a benefit conferred or privilege granted, while taxes are simply intended to collect revenue (see Chapter Two for taxes). The legal distinction is important, however, because adoption procedures and other rules vary depending on the proper classification of the revenue. Fees must also be distinguished from assessments, which are levied strictly based on "special benefit" conferred, and fines, which are collected because of a violation of a law (see Chapter Three for assessments).

Although they are often called "fees," charges for the use of public facilities such as for off-street parking, marina berth rates and facility rental are paid for the use of public property and are more similar to rent. Fees for the use of public property are considered rent, and are generally set at the discretion of the public agency and are not subject to the requirement that revenues not exceed the costs of service. See Chapter Five, Section 5.06.

### ■ Proposition 26: Defining a Tax By What it is Not

Proposition 26, approved by the voters on November 2, 2010, provides further distinctions among these categories of revenues. The constitutional measure stipulates that a government-imposed charge, levy or exaction of any kind is a tax unless it falls into one of seven express exceptions.

1. *A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.*

**Specific Benefit Exception** examples include fees for planning permits, restricted neighborhood parking permits, and entertainment and street closure permits.

2. *A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.*

**Government Service or Product Exception** examples include user fees for parks and recreation classes, utilities (other than those covered under #7), public records copying fees, DUI emergency response fees, emergency medical and ambulance transport service fees.

3. *A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.*

**Permits and Inspections Exception** examples include health and safety permits, building licenses, police background checks, pet licenses, bicycle licenses and permits for regulated commercial activities (such as massage establishments, card rooms, taxicabs and tow-truck operators).

For exceptions 1 through 3, the fee imposed must not exceed the agency's reasonable costs.

4. *A charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property.*

**Local Government Property Exception** examples include facility room rentals; equipment rentals; park, museum and zoo entrance fees, golf greens fees, on and off-street parking, and tolls.

5. *A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.*

**Penalty for Illegal Activity Exception** examples include parking fines, code enforcement fees and penalties, late payment fees, interest charges and other charges for violation of the law.

6. *A charge imposed as a condition of property development.*

Property Development Exception examples planning fees, building permit fees, construction and grading permits, development impact fees, fees imposed by California Environmental Quality Act mitigation requirements, and Quimby Act and park mitigation fees.

7. *Assessments and property related fees imposed in accordance with the provisions of Article XIII D. (Proposition 218).*

**Proposition 218 Exception** examples include assessments on real property for special benefit conferred, fees imposed upon a parcel or a person as an incident of property ownership, and fees for a property related service such as many retail water and sewer fees.

Fees enacted prior to November 3, 2010 are unaffected by Proposition 26 until they are extended or increased. That is, even if a fee enacted prior to November 3, 2010 does not fit within any of the tax exceptions under Proposition 26, it may nonetheless be valid provided that the legislation authorizing it is not amended so as to extend or increase the fee.

Laws governing fees vary based on the particular type of fee imposed. It is extremely important to discuss any new fee, or increase or adjustment of any existing fee with the city attorney or agency counsel. In this manual, the categories of revenues are organized as follows:

Revenue Category		See	
Fees	User Fees	Utility Rates	Section 4.01
		Service and Program Fees	Section 4.01
		Property-Related Fees	Section 4.02
	Regulatory Fees	Development Impact Fees	Section 4.03
		Regulatory Program Fees	Section 4.04
Rents	Franchises	Chapter Five, Section 5.01-5.03	
	Facility Use Fees	Chapter Five, Section 5.06	
Fines, Penalties		Chapter Five, Section 5.05	
Assessments		Chapter Three	
Taxes		Chapter Two	

**For More Information:**

*The California Municipal Law Handbook*, 2007, League of California Cities.

*Proposition 218 Implementation Guide*, 2007, League of California Cities.

*Proposition 26 Implementation Guide*, 2011, League of California Cities, [www.cacities.org/Prop26Guide](http://www.cacities.org/Prop26Guide).

## Admissions Tax

Tax is imposed on the consumer for the privilege of attending a show, performance, display or exhibition. See Chapter 2, Section 2.08.

## Advance Refunding

When restructuring or retiring outstanding bonds, the refunding is an “advance refunding” if the outstanding bonds will not be paid off until later than 90 days after sufficient funds have been deposited with a trustee. Generally, federal law limits advance refundings to one occurrence. See also “current refunding.”

## Ad Valorem Tax

A tax assessed based on the dollar value of an item or activity. Typical examples are property and sales taxes. Ad valorem taxes contrast with per-unit taxes, such as alcoholic beverage and cigarette taxes, which are assessed at a fixed dollar per unit purchased.

## Appropriation

A legal authorization granted by the city council to expend monies, and incur obligations for specific purposes.

## Appropriations Limit

A maximum amount of revenues that may be appropriated by a government agency determined under California Constitution Article XIII B and implementing legislation. See Chapter 10.

## Appropriations Subject to Limit

Revenues defined as “proceeds of taxes” under California Constitution Article XIII B and implementing legislation. See Chapter 10.

## Arbitrage

A technique used to take advantage of price differences in separate markets. This is accomplished by either by selling debt instruments at a low interest rate and investing the proceeds at a higher rate or by purchasing securities, negotiable instruments or currencies in one market for immediate sale in another market at a better price.

## Assessed Valuation

The value of real property for the purpose of taxation. See page 14, Section 2.01.

## Assessment District

Not a separate governmental entity, but rather a defined area of land which will be benefited by the acquisition, construction or maintenance of a public improvement.

## BANs

See bond anticipation notes.

## Benefit Assessment

Charges levied on parcels to pay for public improvements or services provided within a pre-determined district or area according to the benefit the parcel receives from the improvement or services.

## Benefit Assessment Act of 1982

The 1982 Act lets cities, counties and special districts finance a variety of improvements. The Act requires majority voter approval if the proposed assessment area has 12 or more registered voters. If less than 12, the owners of at least 60 percent of the land in the assessment area must give written consent to the assessment.

## Benefit Assessment Bonds

Bonds levied by cities, counties and special districts to acquire or construct public improvements which convey a special benefit to a defined group of properties.

## Block Grant

Federal grant allocated according to pre-determined formulas and for use within a pre-approved broad functional area such as the CDBG (Community Development Block Grant).

## Bond Anticipation Notes (BANs)

BANs are short-term borrowings by a public entity appropriate to obtain financing for a project for which bonds are authorized but not yet issued. BANs permit the issuance of debt in increments as work on a project progresses and before some or all of the bond proceeds are available.

## Bond Resolution

A legal order or contract by a governmental unit to authorize a bond issue. A bond resolution carefully details the rights of the bondholders and the obligations of the issuer.

## Bonds

A certificate of debt issued by an entity, guaranteeing payment of the original investment, plus interest, by a specified future date.

## Broughton Act

Restricts city collection of franchise payments to 2 percent of the franchise's gross annual receipts arising from use of the franchise.

## Business Improvement District

A public-private partnership in which businesses in a defined area pay special taxes, fees and/or assessments to fund public facility improvements and programs in the area. See section 3.02.

## Business License Tax

A type of excise tax imposed on businesses for the privilege of conducting business within the city. The tax is most commonly based on gross receipts or levied at a flat rate.

## California State Board of Equalization (BOE)

California state agency responsible for the collection and administration of the state's sales and use, alcohol, tobacco, and other taxes. In addition, the BOE determines the assessed value of certain properties and oversees property tax assessment practices of county assessors.

## California State Controller

The Controller is the chief fiscal officer of the state and is elected every four years. The Controller is responsible to: account and disburse all state funds; determine the legality and accuracy of claims against the state; pay the state's bills; audit and process all personnel and state payroll transactions; audit various state and local government programs; administer the Unclaimed Property Law; and inform the public of financial transactions of city, county and district governments.

## Capital Improvement Program (CIP)

Annual appropriations in the city's budget for capital improvement projects such as street or park improvements, building construction, and various kinds of major facility maintenance.

## **Capital Outlay**

Expenditures which result in the acquisition of, or addition to fixed assets.

## **Categorical Grant**

Grant typically allocated either to qualifying applicants according to a formula or to applicants competing for project grants through an application process. Categorical grants are the most common form of federal aid.

## **Certificates of Participation (C.O.P.)**

Debt instrument, commonly called C.O.P., that provides long-term financing through a lease (with an option to purchase) or through an installment agreement.

## **Charter City**

Charter cities have authority over "municipal affairs," trumping state law governing the same topic. In contrast, general law city is a city that has not adopted a charter and is therefore bound by the state's general laws, even with respect to municipal affairs.

## **Citizens Option for Public Safety (COPS)**

A state subvention for local law enforcement initiated in 1996. See section 6.04.

## **Community Facilities District (CFD)**

See Mello-Roos Community Facilities District.

## **Community Rehabilitation District Law of 1985**

Allows cities and counties to fund the renovation and repair (but not maintenance) of an existing structure.

## **Concessions**

Revenues received from concessionaires for privilege of operating a concession on city property.

## **Construction/Development Tax**

Excise tax imposed on the privilege or activity of development and/or the availability or use of municipal services. See section 2.10.

## **Consumer price Index (CPI)**

A statistical description of price levels provided by the U. S. Department of Labor. The change in this index from year to year is used to measure the cost of living and economic inflation.

## **COPS**

See Citizens Option for Public Safety.

## **C.O.P.**

See certificates of participation.

## **County Assessor**

An elected official whose main duty is to set values on real property for the purpose of taxation within the county. The Assessor is responsible for the creation and maintenance of assessor parcels from final subdivisions, parcel maps, lot line adjustments, record of survey, deeds and miscellaneous documents.

## **County Auditor-Controller**

The chief accounting officer of the county established to provide various accounting and property tax administration services to the county and other local governments within the county. The Auditor Controller is responsible for budget control, disbursements and receipts, financial reporting, and for audits of certain agencies within the county. Auditor-Controllers are nonpartisan elected officials serving four year terms, except in four counties with appointed officers: San Francisco, Santa Clara, Los Angeles, and San Diego.

## **County Treasurer-Tax Collector**

Administers the billing, collection, and reporting of property tax revenues and conducts Tax Defaulted Property Sales for real property tax delinquencies remaining after five years. Treasurer-Tax Collectors are nonpartisan elected officials serving four-year terms except in three counties with appointed officers: Los Angeles, Sacramento, and Santa Clara.

## **Countywide/Statewide Pools**

A system used to allocate local sales and use tax payments that cannot be identified with a specific place of sale or use in California. Local tax reported to the pools is distributed to the local jurisdictions in proportion to taxable sales.

## **Current Refunding**

When restructuring or retiring outstanding bonds, if bonds are paid off within 90 days of depositing either cash on hand or refunding bond proceeds, the refunding is a "current refunding." See also "advance refunding."

## **Debt Financing**

Issuance of bonds and other debt instruments to finance municipal improvements and services.

## **Debt Instrument**

Written pledge to repay debt such as bills, notes and bonds.

## **Debt Service**

Payment of principal and interest on long-term indebtedness.

## **Dedication**

The donation "dedication" of certain lands (or money) to specific public uses as a requirement for the approval of a development project. The dedications are typically justified as an offset to the future impact the development will have on existing infrastructure. Also called an "exaction." See section 4.03.

## **Development Impact Fees**

Fees placed on the development of land or conditions required for the approval of a development project such as the donation "dedication" or "exaction" of certain lands (or money) to specific public uses. The fees are typically justified as an offset to the future impact that development will have on existing infrastructure. See section 4.03.

## **D.I.V.C.A.**

"The Digital Infrastructure and Video Competition Act of 2006" [AB 2987 (Nunez/Levine)] effectively replaced locally issued franchise agreements for video service with a system of state-issued franchises subject to certain limited locally imposed conditions and requiring franchise fees to be paid to local agencies where services are provided. See section 5.01.

## **Documentary Transfer Tax**

Tax imposed on documents recorded in the transfer of ownership in real estate as distinguished from a Real Property Transfer Tax which may only be imposed by charter cities. See section 2.07.

## **Encumbrance**

An anticipated expenditure committed for the payment of goods and services not yet received or paid for.

## Earmarked funds

Funds that have been tagged or “earmarked” for a specific purpose.

## ERAF: Educational Revenue Augmentation Fund

Accounts established by the state Legislature to receive shifts of property tax revenues from cities, counties, special districts, and redevelopment agencies. The additional ERAF property tax revenues to schools enable the state general fund to reduce support from the state general fund, thereby saving the state billions of dollars annually.

## Exactions

See dedications.

## Excise Tax

Tax placed on a person for a voluntary act, making the tax avoidable. Includes sales and use tax, business license tax, transient occupancy tax, utility users tax, etc. Phrase “excise tax” is most commonly used to refer to a parcel tax.

## Exemption

The exclusion from the tax base of certain types of transactions or objects. For example, federally-owned land is exempted from property tax.

## Expenditure

The actual payment for goods and services.

## Fee

A charge to the consumer for the cost of providing a particular service. California government fees may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.

## Forfeiture

See fines, forfeitures and penalties.

## Fines, Forfeitures and Penalties

Revenues received and/or bail monies forfeited upon conviction of a misdemeanor or municipal infraction.

## Fiscal Year

The period designated by the city for the beginning and ending of financial transactions. Nearly all city fiscal years begin on July 1 and end June 30 of the following year.

## Franchise Act of 1937

Like the Broughton Act, restricts franchise collections to 2 percent of gross annual receipts, but includes a minimum fee of 1/2 percent of gross annual receipts for electric franchises or 1 percent of gross annual receipts for gas or water franchises operating within the city limits.

## Franchises

Fee paid to a municipality from a franchisee for “rental” or “toll” for the use of city streets and rights-of-way.

## Functional Revenue

Revenues that can be associated with and allocated to one or more expenditure function and which meet one of the following criteria: 1) the revenue is generated from direct services, such as revenues from fees or charges; 2) the revenue is associated with a specific service by external requirements, such as grant conditions, bond sale agreements, or statutory or charter requirements.

## Fund

Accounting entity with a set of self-balancing revenue and expenditure accounts used to record the financial affairs of a governmental organization.

## Fund Balance

Difference between the assets (revenues and other resources) and liabilities (expenditures incurred or committed to) of a particular fund.

## Full Faith and Credit

Pledge by issuer of general obligation bonds to bondholders that issuer guarantees “all available funds” be used to pay bondholders should the project go into default.

## Full Service City

A city that is financially responsible for the major categories of municipal services including police, fire, planning and parks services.

## GANs

See grant anticipation notes.

## Gann Initiative

See Appropriations Limit and Chapter 10.

## Gann Limit

See and Chapter 10.

## Gasoline Tax

See Motor Vehicle Fuel Tax.

## General Fund

Fund used to account for all financial resources except those required to be accounted for in another fund (e.g., enterprise or grant funds). Usually, the General Fund is the largest fund in a municipality.

## General Law City

A city that has not adopted a charter and is therefore bound by the state’s general laws, even with respect to municipal affairs. In contrast, charter cities have authority over “municipal affairs,” trumping state law governing the same topic. See also “charter city.”

## General Obligation (G.O.) Bonds

Bonds issued through a governmental entity which have the legal authority to levy a tax on real and personal property located within the governmental boundaries at any rate necessary to collect enough money each year to pay for principal and interest due.

## General Revenue

Those revenues that cannot be associated with a specific expenditure, such as property taxes (other than voter approved indebtedness), sales tax, and business license tax

## General Revenue Sharing Program

Federal program established in 1972 to share federal monies with state and local governments. The program was extended in 1976 and again in 1980, but was ended in 1986.

## General Tax

A tax imposed for general governmental purposes, the proceeds of which are deposited into the general fund. A majority vote of the electorate is required to impose, extend or increase any general tax. See also “special tax.”

## **GO Bonds**

See general obligation bonds.

## **Grant Anticipation Notes (GANs)**

GANs are short-term borrowings of a public entity to eliminate cash flow deficits in anticipation of the receipt of a federal or state grant or loan. By issuing GANs, the public entity is better prepared to pay all project costs, particularly up-front processing and managerial costs.

## **Grants**

Contributions of cash or other assets from another governmental agency to be used or expended for a specified purpose, activity or facility.

## **Highway Users Tax**

See Motor Vehicle Fuel Tax.

## **Homeowner's Property Tax Relief**

Revenue from the state to offset city loss of property tax for state-imposed \$7,000 per dwelling homeowner exemption.

## **Improvement Bond Act of 1915**

Act which lets cities, counties, and "public" districts issue assessment bonds and bond anticipation notes. The 1915 Act does not authorize assessments.

## **Investment Earnings**

Revenue earned from the investment of idle public funds.

## **Joint Powers Authority**

The Joint Exercise of Powers Act authorizes local public agencies to exercise common powers and to form joint powers authorities (JPAs) for purpose of jointly receiving or providing specific services.

## **JPA**

See joint powers authority.

## **Landscaping and Lighting Act of 1972**

The 1972 Act lets cities, counties and special districts levy assessments for land purchase and the construction, operation, and maintenance of parks, landscaping, lighting, traffic signals and graffiti abatement.

## **Lease Revenue Bonds**

Bonds similar to certificates of participation and used for the same types of projects with main exceptions that: 1) lessor must be either a governmental entity with the power to issue revenue bonds or a nonprofit corporation that issues bonds on behalf of a political subdivision; and 2) the bonds constitute a direct debt of the lessor.

## **Levy**

(Verb) To impose taxes, special assessments or service charges for the support of governmental activities; (noun) the total amount of taxes, and/or special assessments and/or service charges imposed by a governmental agency.

## **Library Services Special Tax**

Special tax for providing public library facilities and services.

## **Licenses and Permits**

Charge designed to reimburse city for costs of regulating activities being licensed, such as licensing of animals, bicycles, etc.

## **Lien**

A claim on assets, especially property, for the payment of taxes or utility service charges.

## **Limited Obligation Bonds**

Similar to general obligation bonds except that security for the issuance is limited exactly to the revenues pledged in the bond statement and not to the full faith and credit of the city.

## **Liquidity**

The ability to convert a security into cash promptly with minimum risk of principal.

## **LAIF**

Local Agency Investment Fund. A special fund in the state treasury. Local governments may deposit in this fund through the state treasurer for investment purposes. See section 5.07.

## **Maintenance of Effort (MOE)**

A requirement, often as a condition of an intergovernmental subvention or supplemental tax, to maintain a level of spending at a certain level. Maintenance of Effort requirements are intended to prevent or limit the use of the additional revenues to supplant existing revenues such that the new revenues result in an increase in the level of program spending and services.

## **Marks-Roos Bonds**

Bonds authorized by the Marks-Roos Local Bond Pooling Act of 1985 which provide local agencies with extremely flexible financing powers through participation in joint powers authorities.

## **Market-Based Pricing**

Recent trend in pricing public services which uses the marketplace to regulate individual consumer behaviors consistent with overall societal goals by including the true cost of the service on society.

## **Mello-Roos Bonds**

Bonds allowing cities, counties, school districts and special districts to finance certain public capital facilities and services, especially in developing areas and areas undergoing rehabilitation. Property owners in the Mello-Roos district pay an annual special tax which is included on the property tax bill.

## **Mello-Roos Community Facilities Tax**

Special non ad valorem tax imposed to finance public capital facilities and services in connection with new development. See Chapter Two section 2.11.

## **Mello-Roos Community Facilities District**

A distinct entity of government for the purpose of imposing and collecting the Mello-Roos Community Facilities Tax. The governing body and the boundaries of the district may be the same as for the city. See section 2.11.

## **Motor Vehicle Fuel Tax.**

18 cent per gallon tax on fuel used to propel a motor vehicle or aircraft. Use of tax is limited to research, planning, construction, improvement, maintenance, and operation of public streets and highways or public mass transit guideways. Also called Highway Users Tax and Motor Vehicle Fuel Tax.

## Motor Vehicle License Fee (VLF)

VLF is fee for privilege of operating vehicle on public streets. VLF is levied annually at 2 percent of the market value of motor vehicles and is imposed by the state “in lieu” of local property taxes. VLF is also called Motor Vehicle in-Lieu Tax.

## Municipal Improvement Act of 1913

1913 Act allowing cities, counties, and special districts to fund everything included in the 1911 Act plus power and public transit facilities; assessments can be levied before construction begins.

## Off-Highway Motor Vehicle License Fee

Fee imposed for the issuance or renewal of identification for every off-highway motor vehicle.

## Nexus

In general, a minimum threshold of connection necessary within a taxing jurisdiction to allow taxing authority over out-of-state individuals or businesses. Requirement of Government Code Sections 66000 et seq. that there be a reasonable connection “nexus” between required development impact fees and the development project in question.

## Ordinance

A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, it has the full force and effect of law within the boundaries of the municipality to which it applies.

## Parcel Tax

Special non ad valorem tax on parcels of property generally based on either a flat per-parcel rate or a variable rate depending on the size, use and/or number of units on the parcel.

## Parking Tax

General tax imposed on occupant of off-street parking space for privilege of renting the space within the city. See section 2.09.

## “Pay As You Use”

Concept that debt financing enables the public entity to spread the cost of a capital project over time, as the project is being utilized.

## “Pay As You Go”

Concept of paying for capital projects when the initial cost is incurred, rather than over time through the use of debt financing.

## Penalties

See fines, forfeitures and penalties.

## Police and Fire Special Tax

Special tax on parcels of property in support of police and/or fire protection services.

## Portfolio

The collection of securities held by an individual or institution.

## Possessory Interest

Taxable private ownership of interests in tax-exempt public property.

## Property Related Fee

A levy imposed on a parcel or upon a person as an incident of property ownership for property-related service.

## Property Tax

An ad valorem tax imposed on real property (land and permanently attached improvements) and tangible personal property (movable property).

## Property Tax In Lieu of VLF

Property tax shares and revenues allocated to cities and counties beginning in FY 2004–05 as compensation for Vehicle License Fee (VLF) revenues previously allocated to cities and counties by the State. Referred to in statute as “Vehicle License Fee Adjustment Amounts.” See section 2.01, page 19.

## Property Tax Increment

See Tax Increment Financing.

## Proposition 1A (2004)

Voter approved state constitutional amendment protecting most major city county and special district revenues from reduction or shifting by the state Legislature. See Chapter 1, page 7.

## Proposition 1A (2006)

Voter approved state constitutional amendment protecting the local allocation of state transportation sales tax revenues under Proposition 42 from reduction or shifting by the state Legislature. See section 6.03, page 114.

## Proposition 4 (1979)

Also called the Gann Initiative, this initiative, now Article XIII B of the state Constitution, was drafted to be a companion measure to Proposition 13, California Constitution Article XIII A. Article XIII B limits growth in government spending to changes in population and inflation. See Chapter 10.

## Proposition 8 (1978)

An amendment to Proposition 13, passed in November 1978 to allow Assessors to recognize declines in value for property tax purposes. Revenue & Taxation Code §51 requires the Assessor to annually enroll either a property’s Proposition 13 base year value factored for inflation, or its market value as of January 1st, whichever is less. See section 2.01, page 17.

## Proposition 13 (1978)

Article XIII A of the California Constitution, commonly known as Proposition 13, which limits the maximum annual increase of any ad valorem tax on real property to 1 percent of the full cash value of such property.

## Proposition 26 (2010)

A voter approved amendment to articles VIII A and XIII C of the California Constitution defining the term “tax” to mean all government imposed charges, levies or exactions are taxes except for seven specified exceptions. Any locally imposed charge that falls outside of the exceptions is a tax and requires voter approval.

## Proposition 30 (2011)

Voters approved temporary increases in the state personal income tax and sales tax. Proposition 30 also provides certain guarantees of funding to counties for programs realigned from the state.

## Proposition 42 (2002)

Voter approved measure that directs the Legislature to allocate revenues derived from the taxable sales of gasoline to certain transportation programs including to cities and counties. See section 6.03.

## **Proposition 62 (1986)**

A 1986 proposition which, among other things, implemented a majority vote requirement for general taxes. This portion of Proposition 62 was later ruled unconstitutional.

## **Proposition 98 (1990)**

This measure establishes a minimum level of funding for public schools and community colleges and provides that any state revenues in excess of the appropriations limit be spent on schools.

## **Proposition 111 (1994)**

Voter approved measure that increased the state Motor Vehicle Fuel Tax by 9 cents per gallon and made certain adjustments to the spending limits under Proposition 4 (1979). See section 6.02 regarding the Motor Vehicle Fuel Tax and Chapter 10 regarding Proposition 4 spending limits.

## **Proposition 172 (1993)**

A 1993 measure which places a one-half cent sales tax for local public safety in the constitution effective January 1, 1994. The tax is imposed by the state and distributed to cities and counties.

## **Proposition 218 (1996)**

A voter approved state Constitutional amendment, self-titled "Right to Vote on Taxes Act" expanded restrictions on local government revenue-raising, allowing the voters to repeal or reduce taxes, assessments, fees, and charges through the initiative process; reiterating the requirement for voter approval for both "special taxes" and "general taxes," and imposing procedural and substantive limitations on assessments of real property and on certain types of fees.

## **Principal**

"Face" or "par value" of an instrument. It does not include accrued interest.

## **Rating**

The designation used by investors' services to rate the quality of a security's creditworthiness.

## **Real Property**

Land and permanently attached improvements.

## **Real Property Transfer Tax**

Tax imposed on the transfer of ownership in real estate. Typically imposed instead of a Documentary Transfer Tax. Only Charter cities may impose a Real Property Transfer Tax. See Chapter Two Section 2.07.

## **Reimbursement for State Mandated Costs**

Article XIII B, Section 6 of the California Constitution which requires the state to reimburse local agencies for the cost of state-imposed programs. Process is commonly called "SB 90" after its original 1972 legislation.

## **Regulatory Fee**

A charge imposed on a regulated action to pay for the cost of public programs or facilities necessary to regulate a business or other activity or mitigate the impacts of the fee payer on the community. A regulatory fee does not include a charge on a property or a property owner solely due to property ownership.

## **Rents**

Revenues received through the rental of public properties to private parties such as convention space and library facilities.

## **Resolution**

A special or temporary order of a legislative body requiring less formality than an ordinance.

## **Revenue**

Annual income received by the city.

## **Revenue Bonds**

Bonds issued to acquire, construct or expand public projects for which fees or admissions are charged. Bonds are repaid solely from the income generated by use of that project.

## **Rough Proportionality Test**

Specific determination by the city for a specific development project that the dedication to be required is related both in nature and extent to the development's impact. (*Dolan v. City of Tigard* (1994) 94 D.A.R. 8803).

## **Royalties**

Revenues received from private companies for privilege of extracting natural resources from city property. Also revenues from bets placed at horse racing tracks that are located within the city, currently set by statute at one third of one percent.

## **Sales Tax**

A tax imposed on the total retail price of any tangible personal property. See also "use tax." See section 2.02.

## **SB 90**

Reimbursement process for state mandated costs, named after its original 1972 legislation.

## **SB 1977**

1992 bill (Government Code, Section 54945.6 as amended) requiring local officials to mail notice of new and increased benefit assessments and to hold public hearings prior to imposing benefit assessments.

## **Secured Property**

As the property tax is guaranteed by placing a lien on the real property, secured property is that real property in which the value of the lien on the real property and personal property located thereon is sufficient to assure payment of the tax.

## **Secured Roll**

That property tax list containing all assessed property secured by land subject to local taxation.

## **Securities**

Investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

## **Service Charges**

Charges imposed to support services to individuals or to cover the cost of providing such services. The fees charged are limited to the cost of providing the service or regulation required (plus overhead).

## **Short-Term Financing Methods**

Techniques used for many purposes, such as meeting anticipated cash flow deficits, interim financing of a project, and project implementation. Using these techniques involves issuance of short-term notes. Voter approval is not required.

**Special Tax**

A tax that is collected and earmarked for a special purpose and deposited into a separate account. A two-thirds vote of the electorate is required to impose, extend or increase any special tax. See also "general tax."

**Standby Charge**

A compulsory charge levied upon real property to defray in whole or in part the expense of providing, operating or maintaining public improvements. The charge is "exacted for the benefit which accrues to property by virtue of having water [or other public improvement] available to it, even though the water might not be used at the present time." Proposition 218 classifies standby charges as "assessments" which must be imposed in compliance with Section 4.25 of California Constitution Article XIID.

**Street Lighting Act of 1919**

Act authorizing cities to fund the maintenance and operation of street lighting.

**Subvention**

Subsidy or financial support received from county, state or federal government. The state and county currently levy certain taxes that are "subvened" to cities, including motor vehicle license fees, state mandated costs and motor vehicle fuel tax.

**Supplemental Law Enforcement Services Fund**

County level fund to contain moneys from the Citizens Option for Public Safety state subvention for local law enforcement initiated in 1996. See section 6.04.

**Supplemental Property Tax**

In the event a property changes ownership, the county collects a supplemental property tax assessment in the current tax year by determining a supplemental value. In future tax periods, the property carries the full cash value.

**Tangible Personal Property**

Movable property.

**Tax**

Compulsory charge levied by a government for the purpose of financing services performed for the common benefit.

**Tax Allocation Bonds**

Bonds issued by redevelopment agencies to revitalize blighted and economically depressed areas of the community and to promote economic growth.

**Tax Base**

The objects or transactions to which a tax is applied (e.g. parcels of property, retail sales, etc.). State law or local ordinances define the tax base and the objects or transactions exempted from taxation.

**Tax Equity Allocation (TEA)**

Supplemental property tax allocations shifted to certain "no and low property tax cities" from counties. TEA is also used in reference to other supplemental allocations of Vehicle License Fee (VLF) revenues provided to certain no and low property tax cities. These VLF-TEA allocations now flow to those cities as a part of Property Tax in lieu of VLF payments.

**Tax and Revenue Anticipation Notes (TRANs)**

TRANs are short-term borrowings by a public entity to meet cash flow needs in the general fund and other unrestricted funds of a public entity. TRANs are issued before expected receipt of taxes and other revenues during the same fiscal year.

**Tax Increment Financing**

A tax incentive designed to attract business investment by dedicating to the project area the new property tax revenues generated by redevelopment. The increase in revenues (increment) is used to finance development-related costs in that district.

**Tax Rate**

The amount of tax applied to the tax base. The rate may flat, incremental or a percentage of the tax base, or any other reasonable method.

**Teeter Plan**

Enacted in 1949, an alternative method for allocating delinquent property tax revenues, authorized by Revenue and Taxation Code section 4701, in which in which the county Auditor allocates property tax revenues based on the total amount of property taxes billed, but not yet collected. The county government then collects and keeps the delinquency, penalty and interest payments.

**Traffic Safety Fund**

All fines and forfeitures received as a result of arrests by city officers for Vehicle Code violations must be deposited in a special city "Traffic Safety Fund" to be used for traffic control devices; maintenance of equipment and supplies for traffic law enforcement and traffic accident prevention; the maintenance, improvement or construction of public streets, bridges or culverts; and the compensation of school crossing guards who are not regular full-time members of the police department.

**TRANs**

See tax and revenue anticipation notes.

**Transactions and Use Tax**

Also, known as an "add-on local sales tax," a tax imposed on the total retail price of any tangible personal property and the use or storage of such property when sales tax is not paid. See section 2.03.

**Transient Occupancy Tax**

Tax levied by cities on persons staying 30 days or less in a room(s) in a hotel, inn, motel, tourist home, non-membership campground or other lodging facility. Also called Transient Lodging Tax or Hotel Tax. See section 2.06.

**Triple Flip**

A mechanism used to repay state fiscal recovery bonds pursuant to Proposition 57 of 2004. Under the Triple Flip, the local sales and use tax rate is reduced from 1.00 percent to 0.75 percent with the 0.25 percent diverted to repay state fiscal recovery bonds. Cities and counties are reimbursed for the lost revenue from a shift of property tax revenue. See section 2.02 page 26.

**Tideland Revenue**

Revenues granted by the state for use of city tideland in production of oil, gas and other hydrocarbons.

**Transportation Tax**

Special tax imposed by counties for county transportation needs. Typically collected with the sales and use tax, some cities receive a portion of the transportation tax usually in .25 percent tax rate increments.

## **Unsecured Property**

As the property tax is guaranteed by placing a lien on the real property, unsecured property is that real property in which the value of the lien is not sufficient to assure payment of the property tax.

## **Use Tax**

A tax imposed on the use or storage of tangible personal property when sales tax is not paid. See also "sales tax." See section 2.02.

## **User Fee**

Fees charged for the use of a public service or program such as for recreation programs or public document retrieval. User fees for property-related services are referred to as property-related fees. See Chapter 4.

## **Utility Connection Fee**

Utility connection fees or capacity fees are imposed on the basis of a voluntary decision to connect to a utility system or to acquire the right to use additional capacity. See Chapter 4.

## **Utility Rate**

A category of user fee paid by the user of utility services. See Chapter 4.

## **Utility Users Tax**

Tax imposed on the consumer (residential and/or commercial) of any combination of electric, gas, cable television, water, and telephone services. See Chapter 2, Section 2.05.

## **Vehicle Parking District Law of 1943**

The 1943 Act lets cities and counties purchase land for parking structures, construct and maintain parking lots, and pay for related planning.

## **VLF**

See Motor Vehicle License Fee.

## **VLF — Property Tax Swap**

The trade of most city and county Vehicle License Fee revenue for additional property tax share and revenue. See section 2.01, page 19 and Section 6.01, page 103.

## **Vehicle Registration Fees**

See Vehicle Registration Taxes, Section 2.13 of Chapter Two.

## **Vehicle Registration Taxes**

A special tax on vehicle registration imposed countywide for specific purposes authorized in state law. See section 2.13 of Chapter Two.

## **Voter Approved Property Tax for Indebtedness**

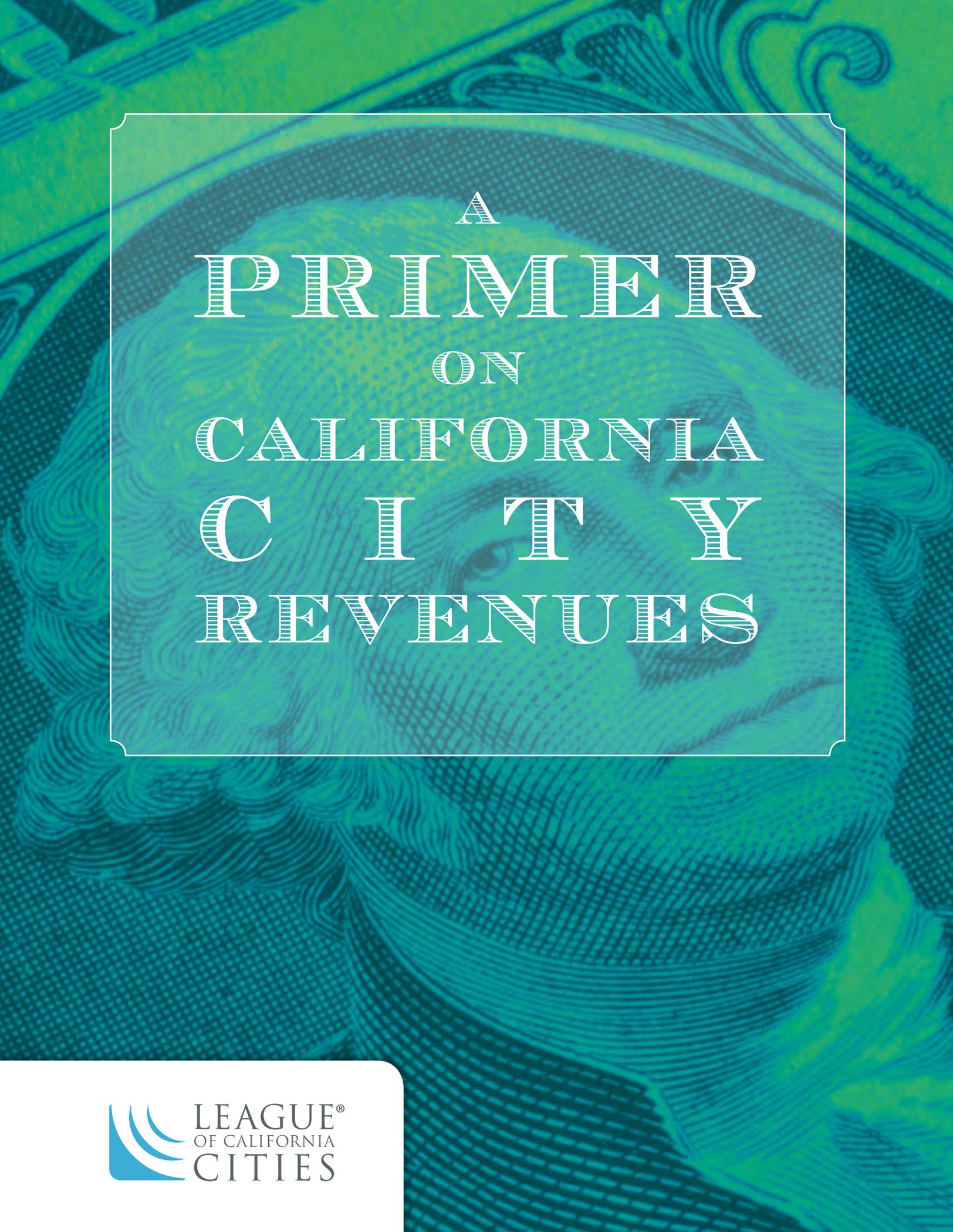
Includes ad valorem property taxes levied in addition to the 1 percent rate for voter approved debt, approved prior to July 1, 1978 or after July 1, 1986.

## **Williamson Act and Open Space Subvention**

State subvention to foster preservation of open-space by lowering cost of property tax.

## **Yield**

The total amount of revenue a government expects to receive from a tax, determined by multiplying the tax rate by the tax base. Also, the annual rate of return on an investment, expressed as a percentage of the investment.



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REVENUES

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## Publication Staff

### Editor

Jude Hudson, Hudson + Associates  
(916) 978-9877; jude@surewest.net

### Managing Editor

Norman Coppinger  
(916) 658-8277; email: ncoppinger@cacities.org

### Advertising Sales Manager

Pam Maxwell-Blodgett  
(916) 658-8256; email: maxwellp@cacities.org

### Design

Taber Creative Group

### Advertising Design

ImagePoint Design

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color treatment, Taber Creative Group

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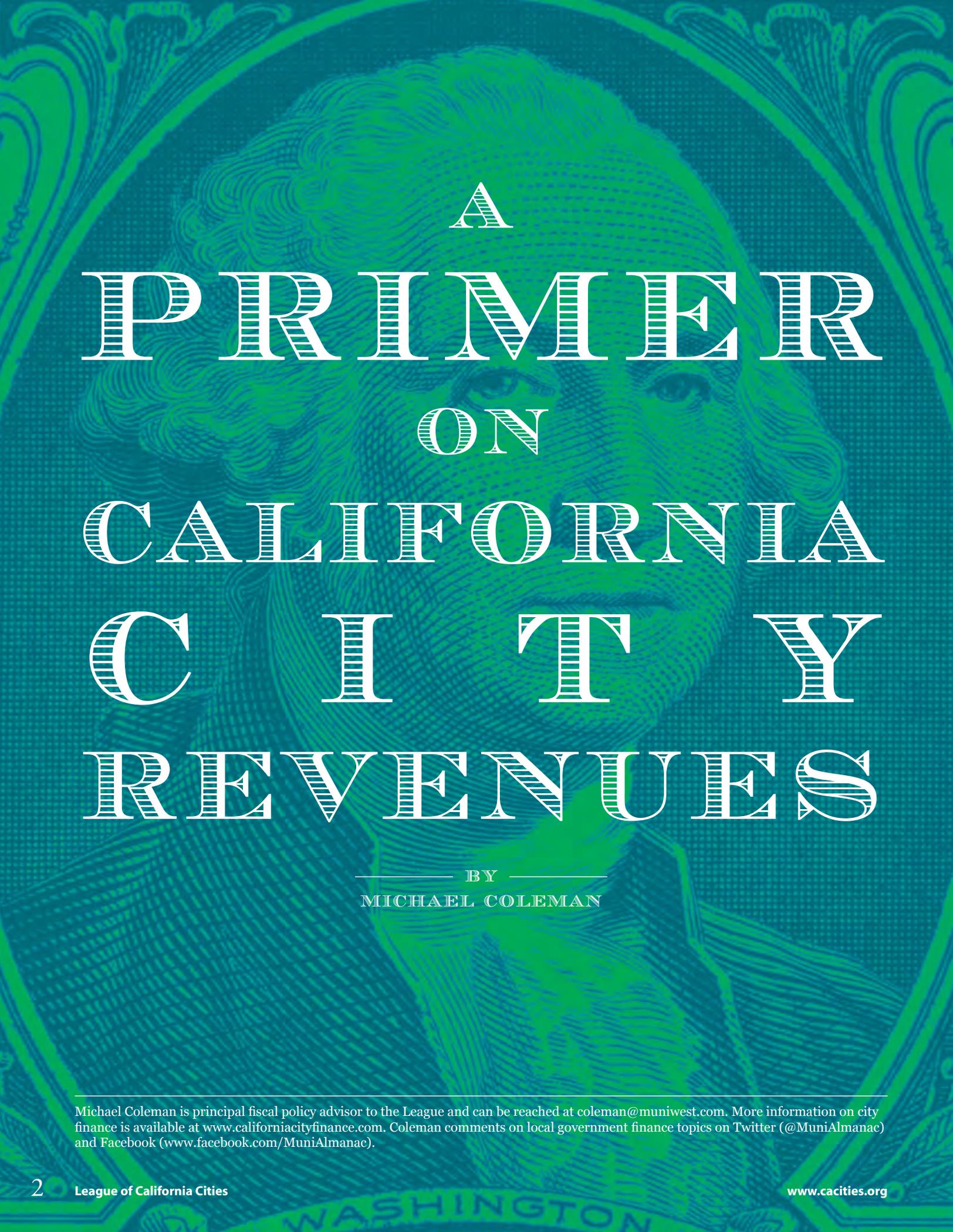
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A  
PRIMER  
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CALIFORNIA  
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REVENUES

— BY —  
MICHAEL COLEMAN

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Michael Coleman is principal fiscal policy advisor to the League and can be reached at [coleman@muniwest.com](mailto:coleman@muniwest.com). More information on city finance is available at [www.californiacityfinance.com](http://www.californiacityfinance.com). Coleman comments on local government finance topics on Twitter (@MuniAlmanac) and Facebook ([www.facebook.com/MuniAlmanac](http://www.facebook.com/MuniAlmanac)).

# REVENUE BASICS

You don't have to scratch any local government issue very deeply to find the question of money: What's this going to cost? What are we going to get for that price? Is this project worth it?

How does your city pay its bills? What does the future hold for city service costs and funding? Though every city is different — each with its own needs, local economy, expectations, protocols, responsibilities and finances — some essential elements of city revenues and spending are common to cities throughout California.

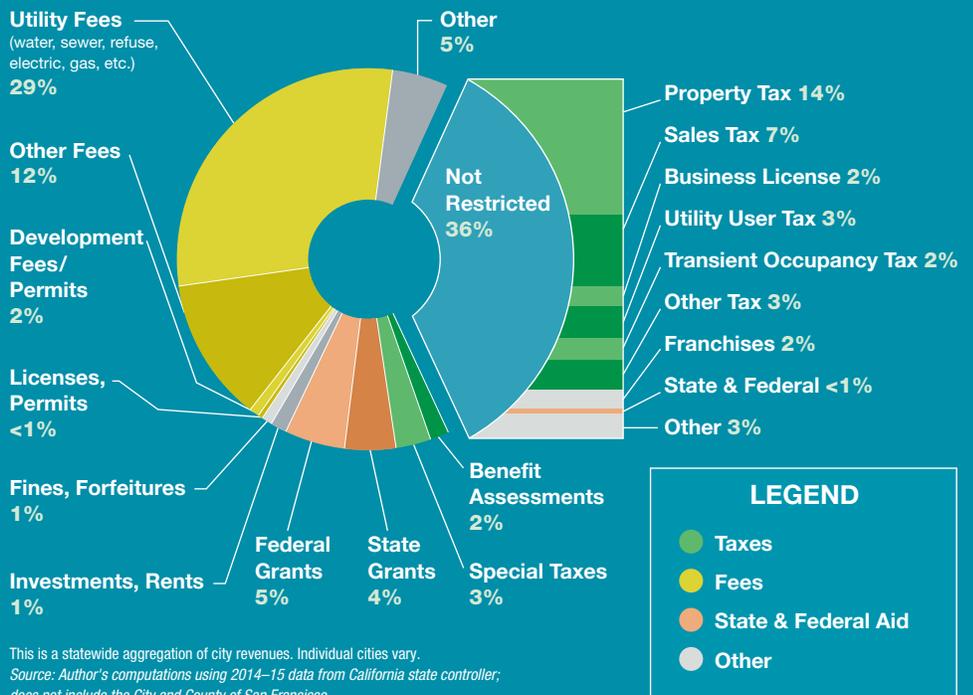
## AN OVERVIEW OF CITY REVENUE SOURCES

Revenue, the bread and butter of city budgets, comes from a variety of sources. Some revenue is restricted by law to certain uses; some revenue is payment from customers for a specific service. Other revenue requires voter approval for rate increases. Still other revenue comes from state and federal agencies, almost all of it with strings attached.

The California Constitution and state law provide some specific distinctions among municipal revenue sources.

*continued*

## CALIFORNIA CITY REVENUES



## TAXES

A tax is a charge for public services and facilities. There need not be a direct relationship between the services and facilities used by an individual taxpayer and the tax paid. Cities may impose any tax not otherwise prohibited by state law (Gov't. Code Section 37100.5). The state prohibits local governments from taxing certain items, including cigarettes, alcohol and personal income; the state taxes these for its own purposes.

The California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose. A majority of voters must approve a new general tax, its increase or extension in the same election in which city council members are elected. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax, its increase or extension.

## Overview of General Tax and Special Tax Requirements

	GENERAL TAX	SPECIAL TAX
<b>Use of Revenues</b>	Unrestricted	Specific purpose
<b>Governing Body Approval Required</b>	<ul style="list-style-type: none"> <li>• General-law cities: two-thirds approval is required.</li> <li>• Charter cities: majority approval is required.</li> <li>• Transactions and use taxes: two-thirds approval is required.</li> </ul>	Majority
<b>Voter Approval Required</b>	Majority	Two-thirds
<b>Other Rules</b>	A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including the tax rate, the amounts of revenues collected and expended and the status of any project funded by the special tax.

## Local Tax and Revenue Limitations: Proposition 13 and Its Siblings

Local officials have limited choices in governing, managing their finances and raising revenues to provide services needed by their communities. Voters have placed restrictions as well as protections in the state Constitution. The Legislature has acted in various ways both to support and provide and to limit and withdraw financial powers and resources from cities, counties and special districts.

Significant limitations on local revenue-raising include:

- Property taxes may not be increased except with a two-thirds vote to fund a general obligation bond (most local school bonds can now be passed with 55 percent voter approval);
- The Legislature controls the allocation of local property tax among the county, cities, special districts and school districts within each county;
- Voter approval is required to enact, increase or extend any type of local tax;
- Assessments to pay for public facilities that benefit real property require property-owner approval;
- Fees for services and the use of local agency facilities may not exceed the reasonable cost of providing those services and facilities; and
- Fees for services such as water, sewer and trash collection are subject to property-owner majority protest.

## FEES, CHARGES AND ASSESSMENTS

A fee is a charge imposed on an individual for a service that the person chooses to receive. A fee may not exceed the estimated reasonable cost of providing the particular service or product for which the fee is charged, plus overhead. Examples of city fees include water service, sewer service connection, building permits, recreational classes and development impact fees.

Cities have the general authority to impose fees (as charges and rates) under the cities' police powers granted by the state Constitution (Article XI, Sections 7 and 9).

State law sets specific procedures for fee and rate adoption. Proposition 218 provides special rules for property-related fees used to fund property-related services.

Special benefit assessments are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services. The state Constitution requires

continued on page 6

A FEE MAY NOT EXCEED THE ESTIMATED REASONABLE COST OF PROVIDING THE PARTICULAR SERVICE OR PRODUCT FOR WHICH THE FEE IS CHARGED, PLUS OVERHEAD.

property-owner approval to impose a benefit assessment. Other locally raised revenues include licenses and permits; franchises and rents; royalties and concessions, fines, forfeitures and penalties; and investment earnings.

### INTERGOVERNMENTAL REVENUE

Cities also receive revenue from other government agencies, principally the state and federal governments. These revenues include general or categorical support monies called subventions, as well as grants for specific projects and reimbursements for the costs of some state mandates. Intergovernmental revenues provide 10 percent of city revenues statewide.

### OTHER CITY REVENUES

Other sources of revenue to cities include rents, franchises, concessions and royalties; investment earnings; revenue from the sale of property; proceeds from debt financing; revenues from licenses and permits; and fines and penalties. Each type of revenue has legal limitations on what may be charged and collected as well as how the money may be spent.

### PUTTING MONEY IN ITS PROPER PLACE

The law restricts many types of city revenues to certain uses. As explained earlier, a special tax is levied for a specific program. Some subventions are designated by law for specific activities. Fees are charged for specific services, and

fee revenue may fund only those services and related expenses. To comply with these laws and standards, finance departments segregate revenues and expenditures into separate accounts or funds. The three most important types of city funds are special revenue funds, enterprise funds and the General Fund.

Special revenue funds are used to account for activities paid for by taxes or other designated revenue sources that have specific limitations on use according to law. For example, the state levies gasoline taxes and allocates some of these funds to cities and counties. A local government deposits gasoline tax revenue in a special fund and spends the money for streets and road-related programs, according to law.

## Local Revenue Protections

The Legislature has enacted many complicated changes in state and local revenues over the past 30 years, which at times have had significant negative fiscal impacts on city budgets. In response, local governments and their allies drafted — and voters approved — state constitutional protections limiting many of these actions. At times, these protections have resulted in the Legislature undertaking even more complex maneuvers in efforts to solve the financial problems and protect the interests of the state budget.

In response to actions of the Legislature and the deterioration of local control of fiscal matters, local governments placed on the ballot and voters approved Proposition 1A in 2004 and Prop. 22 in 2010. Together, these measures prohibit the state from:

- Enacting most local government mandates without fully funding the costs (the definition of a state mandate includes the transfer of responsibility for a program for which the state was previously fully or partially responsible);

Enterprise funds are used to account for self-supporting activities that provide services on a user-charge basis. For example, many cities provide water treatment and distribution services to their residents. Users of these services pay utility fees, which the city deposits in a water enterprise fund. Expenditures for water services are charged to this fund.

The General Fund is used to account for money that is not required legally or by sound financial management to be accounted for in another fund. Major sources of city General Fund revenue include sales and use tax, property tax and locally adopted business license tax, hotel tax and utility user taxes.

- Reducing the local portion of the sales and use tax rate or altering its method of allocation, except to comply with federal law or an interstate compact;
- Reducing the combined share of property tax revenues going to the cities, county and special districts in any county; and
- Borrowing, delaying or taking motor vehicle fuel tax allocations, gasoline sales tax allocations or public transportation account funds.

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# MAJOR CITY REVENUES

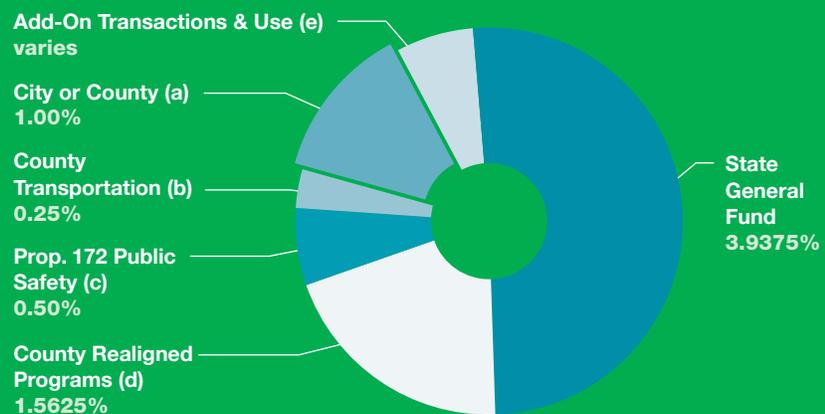
## MAJOR CITY REVENUES

**Sales and Use Tax.** The sales tax an individual pays on a purchase is collected by the state Board of Equalization and includes a state sales tax, the locally levied Bradley-Burns sales tax and several other components. The sales tax is imposed on the total retail price of any tangible personal property. State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity and water delivered through pipes, prescription medicines, agricultural feed, seeds, fertilizer and sales to the federal government. A use tax is imposed on the purchaser for transactions in which the sales tax is not collected.

Sales and use tax revenue received by cities is general purpose revenue and is deposited into a city's General Fund.

*continued*

## SALES TAX: HOW MUCH GOES TO YOUR CITY?



- The local 1 percent rate is allocated based on a "point of sale" or "situs" of the sales transaction. The local rate goes to the city or unincorporated county area where the transaction occurs.
- The 0.25 percent rate for county transportation programs is allocated to the county in which the transaction occurs.
- Proposition 172 of 1993 established a 0.5 percent state sales tax to fund public safety programs (sheriff, police, fire, district attorney, etc.) to mitigate the impacts on those programs of state shifts of property tax revenues.
- In 1991 the California Legislature enacted a realignment of state and county programs, assigning various health and welfare program responsibilities to counties and providing funding for those programs including a 0.5 percent portion of the state-imposed sales and use tax rate. In 2011 the California Legislature enacted another realignment of state and county programs, assigning various corrections and rehabilitation program responsibilities to counties and providing funding for those programs, including a 1.0625 percent portion of the state-imposed sales and use tax rate.
- Some counties and some cities have imposed additional "transactions and use" tax rates, which may total no more than 2 percent in counties other than Los Angeles, Contra Costa and Alameda. In Los Angeles, Contra Costa and Alameda counties, the maximum combined additional rate is 2.5 percent.

Although cities vary widely, sales and use tax revenue provides on average 30 percent of city general purpose revenue — and often as much as 45 percent.

Cities and counties may impose additional transaction and use taxes in increments of 0.125 percent with two-thirds city council approval and majority voter approval for a general tax; a special tax requires two-thirds voter approval. The combined rate of the city and county transaction and use taxes is capped at 2 percent in most counties.

**Property Tax.** The property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. State law provides a variety of exemptions to the property tax, including most government-owned property; nonprofit, educational, religious, hospital, charitable and cemetery properties; the first \$7,000 of an owner-occupied home; business inventories; household furnishings and personal effects; timber; motor vehicles, freight and passenger vessels; and crops and orchards for the first four years. California Constitution Article XIII A (Proposition 13) limits the property tax to a maximum 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is the base year value plus the value of any improvements, plus annual inflation capped at 2 percent per year. The base year value is the value at the most recent sale or the 1975–76 market value. Property that declines in market value may be temporarily reassessed at the lower value. Property is reassessed to current full value upon change in ownership (with certain exemptions). Property tax revenue is collected by counties and allocated according to state law among cities, counties, school districts and special districts.

The share of property tax revenue allocated to a city varies depending on a variety of factors, including:

- The service responsibilities of the city (for example, in a city where fire services are provided by a special district, the city receives a lower share, with a portion of the property tax revenues going instead to the special district); and

- The historic (1978) tax rates of the city in relation to other local taxing entities. City property tax revenues are also affected by local property values.

**Property Tax in Lieu of Vehicle License Fee (VLF).** The VLF is a tax imposed by the state on the ownership of a registered vehicle in place of taxing vehicles. Cities receive additional property tax to replace VLF revenue that was cut when the state permanently reduced the VLF in 2004. This property tax in lieu of VLF grows with the change from the prior year in gross assessed valuation of taxable property in the jurisdiction. Property tax in lieu of VLF allocations is in addition to other property tax apportionments.

Property tax revenue (including property tax in lieu of VLF) accounts for more than one-third of general revenue for the average full-service city. For cities that do not fund fire service, property tax revenue represents on average 25 percent of general revenue.

**Business License Tax.** Most cities in California levy a business license tax. Tax rates are determined by each city, which collects the taxes. Business license taxes are most commonly based on gross receipts or levied at a flat rate but are sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of factors. In all cases, cities have adopted their tax as a general tax. On average, the business license tax provides about 3 percent of city general revenue and often as much as 6 percent. For businesses that operate in more than one city, state or county, cities can impose a business license tax on only that portion of the business transacted in that city.

**Transient Occupancy Tax (TOT) or “Hotel Bed” Tax.** More than 400 cities in California impose TOT on people staying for 30 days or less in a hotel, inn or other lodging facility. Rates range from

## Responsibilities Differ Among Cities — and Consequently, So Do Budgets

Comparing revenues and expenditures of different cities can be difficult because cities vary according to the needs of their constituents, the nature of the local economy and the city’s service and financial responsibilities. Less than 25 percent of California cities are full-service cities, responsible for funding all of the major city General Fund-supported services such as police, fire, library, parks and recreation and planning. In about three out of 10 California communities, a special district provides fire services with property tax revenue that would otherwise go to the city. In six out of 10 California cities, another public agency provides and funds library services.

Allocations of property taxes among local agencies vary from place to place due to differences in the service responsibilities among agencies serving different areas and differences in the tax rates enacted by those agencies prior to Prop. 13, which passed in 1978. Full-service cities generally receive higher shares than those that do not provide the complete range of municipal services. For example, in a city where fire services are provided by a special district, the city gets a lower share, and a portion of the property tax revenues goes instead to the special district.

Property tax revenues among jurisdictions are also, of course, dramatically affected by differences in the assessed value of properties.

3.5 to 15 percent of the lodging cost. In nearly all cases, cities have adopted these as general taxes, but some cities make a point of budgeting the funds for tourism or business development-related programs. Among cities that impose a TOT, it provides 7 percent on average of a city's general revenues and often as much as 17 percent.

**Utility User Tax (UUT).** More than 150 cities (collectively representing a majority of the state's population) impose a utility user tax. UUT rates vary from 1 to 11 percent and are levied on the users of various utilities, which may include telephone, electricity, gas, water and cable television. For cities that impose the UUT, it provides an average of 15 percent of general revenue and often as much as 22 percent.

*continued*

SALES AND USE TAX REVENUE  
PROVIDES ON AVERAGE  
30 PERCENT OF CITY  
GENERAL PURPOSE REVENUE –  
AND OFTEN AS MUCH AS  
45 PERCENT.

## Piper Jaffray is committed to California municipal finance

For more information, contact the following representatives from our California public finance team:

**Mark Adler**  
Managing Director  
310 297-6010  
mark.j.adler@pjc.com

**Tom Innis**  
Managing Director  
415 616-1635  
thomas.p.innis@pjc.com

**Katie Koster**  
Managing Director  
949 494-6110  
katherine.a.koster@pjc.com

**Dennis McGuire**  
Managing Director  
916 361-6520  
dennis.j.mcguire@pjc.com

**Russell Reyes**  
Managing Director  
310 297-6014  
russell.c.reyes@pjc.com

**Victor Ume-Ukeje**  
Managing Director  
415 616-1662  
victor.e.ume-ukeje@pjc.com

**Tony Rapista**  
Vice President  
310 297-6031  
anthony.l.rapista@pjc.com

California municipal finance banking offices are located in Los Angeles, Orange County, Sacramento and San Francisco.

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**Parcel Tax.** This is a special non-value-based tax on property, generally based on either a flat per-parcel rate or a variable rate depending on the size, use or number of units on the parcel. Parcel taxes require two-thirds voter approval and are imposed for a variety of purposes, including police and fire services, parks, libraries and open space protection. Parcel taxes provide less than 1 percent of city revenues statewide.

**Rents, Royalties and Concessions.**

Examples of revenues generated through the use of city property include royalties from natural resources taken from city property, the sale of advertising in city publications, payments from concessionaires operating on city property, facility rentals, entry charges, on- and off-street parking charges and even golf fees.

**Franchises.** In lieu of rent, franchise fees are collected from refuse collectors, cable television companies and utilities for the use of city streets. Some franchise charges are limited by statute.

**Fines, Forfeitures and Penalties.** Cities receive a share of fines and bail forfeitures from misdemeanors and infractions committed within city boundaries. State law determines the distribution and use of state-imposed fines and forfeitures, but cities determine penalties for violations of their municipal codes.

**Service Charges and Fees.** Cities have authority to impose fees, charges and rates for services and facilities they provide, such as plan checking or recreation classes. Use of these revenues is limited to paying for the service for which the fees are collected, but may include overhead, capital improvements and debt service.

Regulatory fees pay for the cost of issuing licenses and permits, performing investigations, inspections and audits and the administrative enforcement of these activities. Examples include a fee to pay for the cost of processing pesticide license

applications or a fee to inspect restaurants for health and safety compliance.

City utilities and enterprises supported by service fees constitute a substantial portion of most city budgets. These include water, sewer, electricity and solid waste services. In some cities, a public or private agency other than the city provides and funds these services.

**AND THERE'S MORE**

City budgets can be bewildering. Myriad laws and limitations make city funding a very complicated subject. Understanding the essentials of city finance is critical for any city decision-maker. Elected officials find their job is made easier when they are able to explain the basic elements of municipal finance to their constituents. ■

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**Trends in California City Finance**

- State and federal aid to California cities is declining, down from 21 percent of a city's budget in 1974-75 to less than 10 percent today. Nearly all state and federal aid today is earmarked for specific purposes;
- The sales tax base is declining relative to population and inflation growth, due to the gradual shift toward a service-oriented economy;
- Voter-approved provisions in the state Constitution limit the types, approval procedures and use of local taxes, fees and other charges;
- State population growth is higher in cities than in unincorporated areas;
- Cities must respond to residents' demand for a greater array of services that bring with them additional costs and new challenges (high tech, cable, transit, pollution control, etc.);
- Spending on police and fire services is up largely due to employee pension and retiree health-care costs; and
- Infrastructure improvements and maintenance are lagging.

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# Understanding the Basics of Municipal Revenues in California: Cities, Counties and Special Districts

2016 Update



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# OVERVIEW

Each one of California's 39 million residents lives within the boundaries of one of the state's 58 counties. Nearly 33 million people also live in one of California's 482 cities.<sup>i</sup> Californians are also served by 2,156 independent special districts.

Counties, cities and special districts provide a vast array of municipal services to residents and businesses. These services include public safety (police, fire and emergency services), parks and recreation, roads, flood protection, sewers, water, electricity, refuse disposal, recycling and other utilities. Counties have an additional role as a provider for many state-mandated services, such as foster care, public health care, jails, criminal justice and elections.<sup>ii</sup>

These municipal local governments rely on a variety of revenues to pay for the services and facilities they provide. The amount and composition of revenues:

- Differ between cities, counties and special districts largely because of differences in responsibilities; and
- Vary among cities, among counties and among special districts depending in part on differences in governance responsibilities.

There is a complex web of legal rules for collecting and using the variety of revenues available to municipal governments in California. These rules derive from the state constitution, state statute and court cases further interpreting those laws.

This guide provides an overview of the sources of county, city and special district revenues in California. It is an introduction to a complex topic. You can find further information in the resources listed on the last page.

## How To Use This Information

These materials are not technical or legal advice. You should consult technical experts, attorneys and/or relevant regulatory authorities for up-to-date information and advice on specific situations.

# CITY REVENUES IN CALIFORNIA

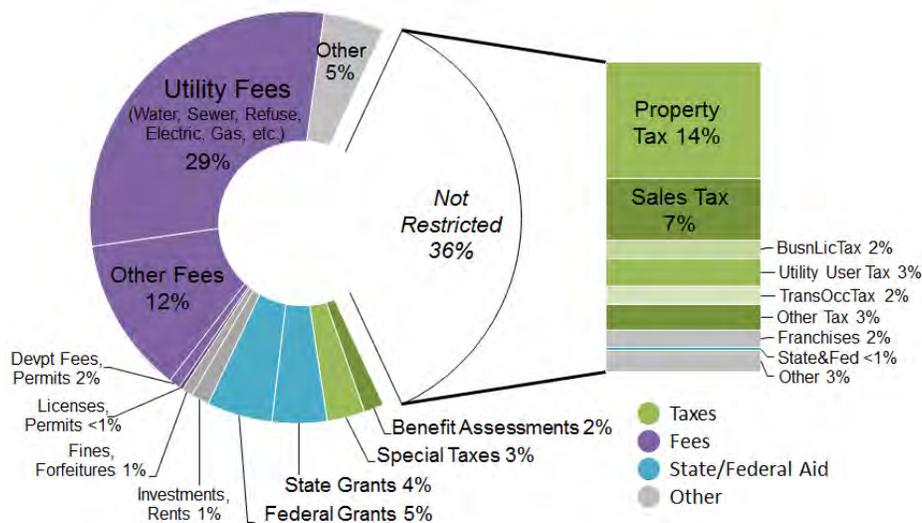
Incorporated cities (including those that refer to themselves as “towns”) are responsible for a broad array of essential frontline services tailored to the needs of their communities. These include:

- Law enforcement and crime prevention,
- Fire suppression and prevention, natural disaster planning and response, emergency medical response and transport,
- Land use planning and zoning, building safety,
- Local parks and open spaces, recreation,
- Water supply, treatment and delivery,
- Sewage collection, treatment and disposal,
- Storm water collection and drainage,
- Solid waste collection, recycling and disposal,
- Local streets, sidewalks, bikeways, street lighting and traffic controls, and
- Public transit.

Cities that are responsible for providing all or most of these functions are called “full service” - the services can be provided in-house or contracted through a private entity or another public agency. In other cities, some of these functions are the financial responsibility of other local agencies such as the county or special districts. For example, in about thirty percent of California cities, a special district provides and funds fire services. In sixty percent, library services are provided and funded by another public agency such as the county or a special district.

The mix of service responsibilities and local choice regarding service levels affects the amount and composition of revenues of each city.

California City Revenues



This is a statewide mash-up of city revenues. Individual cities vary.  
 Source: Author's computations from data from California State Controller 2014-15.  
 Does not include the City/County of San Francisco.

# COUNTY REVENUES IN CALIFORNIA

California counties are responsible for three general areas of municipal services: 1) delegated state and federal programs, 2) countywide public services and 3) essential frontline services for residents not receiving those services from a city or special district, often in unincorporated areas (outside city boundaries).

In unincorporated areas, counties provide the essential frontline services that cities provide that are not provided by a special district. These can include police protection (through a county sheriff), roads, planning and building safety.

Counties also provide public services to all county residents, whether they live in or outside of cities. These countywide functions include:

- Public assistance (notably welfare programs and aid to the indigent),
- Public health services (including mental health and drug/alcohol services),
- Local elections,
- Local corrections, detention and probation facilities and programs (including juvenile detention), and
- Property tax collection and allocation for all local agencies, including school districts.

Funding from the federal and state government, primarily for health and human services, is the largest source of county revenues. Property taxes and sales and use taxes are the primary funding sources for many county services that do not have a dedicated state or federal funding source.

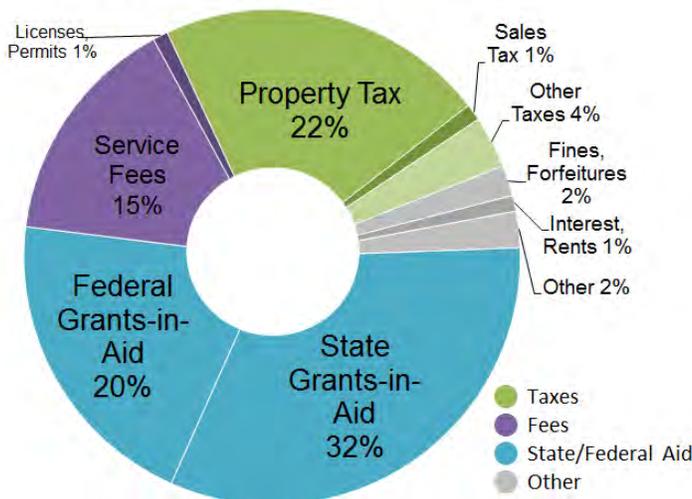
## General and Functional Revenues

Municipal revenues may be viewed as falling into two broad categories: general revenues and functional revenues.

**General revenues** can be used for any legitimate public purpose. General purpose taxes, especially property and sales taxes, account for most general city revenues statewide.

**Functional revenues** are restricted by law to a particular use. These include funds derived from fees or rates that the local agency charges for public services, including municipal utilities such as water, sewer, and garbage collection, airports, marinas, harbors and water ports. Functional revenues also include most state or federal grants as they are usually restricted for particular programs.

California County Revenues



Source: Author's computations from data from California State Controller 2014-15. Includes the County/City of San Francisco.

# SPECIAL DISTRICT REVENUES IN CALIFORNIA

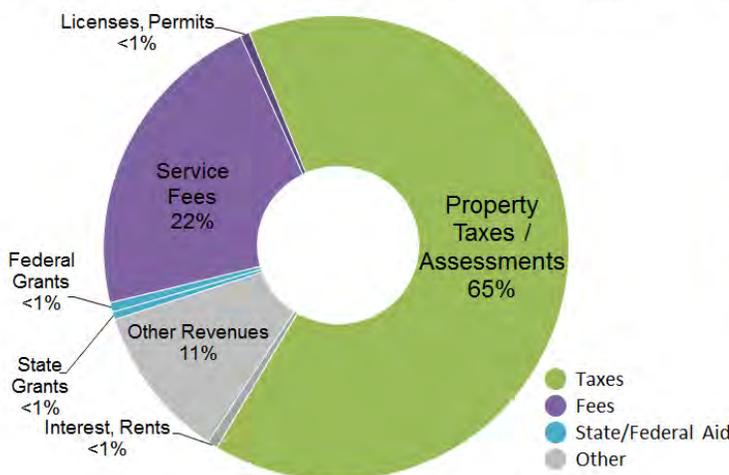
Most special districts provide one or a few municipal services to a particular geographic area. These include both enterprise and non-enterprise services. Enterprise services are funded primarily through charging a fee for service. For example, water and irrigation districts charge utility rates and fees from consumers of those services. Non-enterprise services generally do not lend themselves to fees and are primarily funded by property taxes, with relatively small amounts of fee and state and federal grant revenue. Library and fire protection services are examples of non-enterprise services.

Other districts are multifunction, providing a number of municipal services. Community services districts (CSDs) can provide as many as 32 different types of services, approximating the scope of some cities. Multifunction districts have both enterprise and non-enterprise elements and may, like cities or counties, use an array of different revenue sources.

## Types of Special Districts

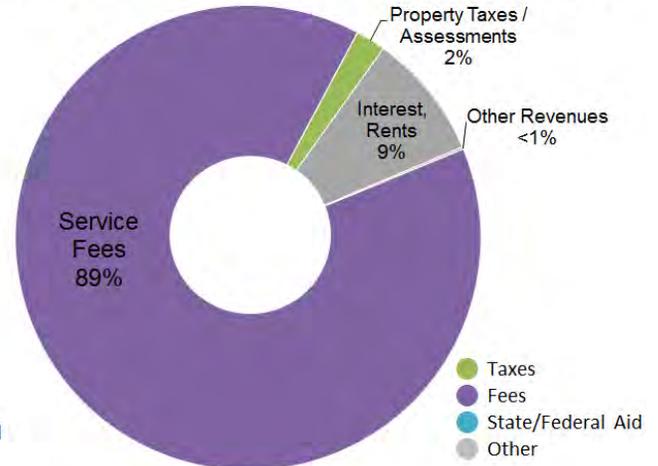
- Air Quality Management / Air Pollution Districts
- Airport Districts
- Cemetery Districts
- Community Services Districts
- Flood/Drainage Districts
- Fire Districts
- Harbor Districts
- Healthcare Districts
- Irrigation Districts
- Library Districts
- Memorial Districts
- Municipal / Resort Improvement Districts
- Open Space Districts
- Parks and Recreation Districts
- Police Protection / Ambulance Districts
- Public Utility Districts
- Reclamation Districts
- Resource Conservation Districts
- Sanitary Districts
- Waste Management Districts
- Water Districts

California Special District Revenues  
Typical District (fire) Providing Non-Enterprise Services



Source: Author's computations from data from California State Controller 2014-15.

California Special District Revenues  
Typical District (water) Providing Enterprise Services



Source: Author's computations from data from California State Controller 2014-15.

# THE STATE LEGISLATURE, LOCAL GOVERNMENTS AND THE VOTERS

The options available to local officials in governing, managing their finances and raising revenues to provide services needed by their communities are limited. Voters have placed restrictions as well as protections in the state constitution. The state's voters and the California Legislature have acted in various ways, to support and provide, and to limit and withdraw financial powers and resources from cities, counties and special districts.

Some of the most significant limitations on the local revenue-raising include:

- Property taxes may not be increased except with a two-thirds vote to fund a general obligation bond.
- The allocation of local property tax among a county, and cities, special districts and school districts within each county is controlled by the Legislature.
- Voter approval is required prior to enacting, increasing or extending any type of local tax.
- Assessments to pay for public facilities that benefit real property require property owner approval.
- Fees for the use of local agency facilities and for services may not exceed the reasonable cost of providing those facilities and services.
- Fees for services such as water, sewer and trash collection are subject to property owner majority protest.

The Legislature has enacted many complicated changes in state and local revenues over the past 30 years. Voters have approved state constitutional protections limiting many of these actions at times followed by even more complicated maneuvers by the Legislature in efforts to solve the financial troubles and interests of the state budget.

Reacting to actions of the Legislature and the deterioration of local control of fiscal matters, local government interests placed on the ballot, and voters approved, Proposition 1A in 2004 and Proposition 22 in 2010. Together, these measures prohibit the state from:

- Enacting most local government mandates without fully funding their costs. The definition of state mandate includes a transfer of responsibility or funding of a program for which the state previously had full or partial responsibility.
- Reducing the local portion of the sales and use tax rate or altering its method of allocation, except to comply with federal law or an interstate compact.
- Reducing the combined share of property tax revenues going to the county as well as cities and special districts in a county.
- Borrowing, delaying or taking motor vehicle fuel tax allocations, gasoline sales tax allocations, or public transportation account funds.

# TAXES

According to the California Constitution, every local agency charge is a “tax,” unless it falls into a list of specified exceptions:<sup>iii</sup>

- User fees for a specific benefit, privilege, service or product provided to the payor. Items include: fees for parks and recreation classes, some utilities, public records copying fees, DUI emergency response fees, emergency medical and ambulance transport service fees.
- Regulatory fees for reasonable regulatory costs of issuing licenses and permits, and performing inspections and enforcement such as health and safety permits, building permits, police background checks, pet licenses, bicycle licenses and permits for regulated commercial activities.
- Rental fees imposed for entrance to or use of government property. These include: facility room rentals, equipment rentals, park, museum and zoo entrance fees, golf greens fees, on and off-street parking and tolls.
- Fines or penalties such as parking fines, code enforcement fees and penalties, late payment fees, interest charges and other charges for violation of the law.
- A charge imposed as a condition of property development such as building permit fees, construction and grading permits, development impact fees and fees for California Environmental Quality Act requirements.
- Benefit assessments and property related fees imposed in accordance with the provisions of Article XIII D (Proposition 218) such as a lighting and landscape assessment and fees for property related services such as many retail water and sewer fees.<sup>iv</sup>

In contrast to an assessment or a fee, a tax need not be levied in proportion to specific benefit to a person or property. Tax revenues are an important source of funding for both county and city services and for many special districts. In addition to local taxes, counties rely significantly on tax dollars allocated from the state and federal governments.

	TAX- General	TAX- Parcel or Special (earmarked)	G.O. BOND (w/tax)	Fee / fine / rent
City / County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*
Special District	n/a	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*
K-14 School	n/a	Two-thirds voter approval (parcel tax)	55% voter approval**	Majority of the governing board*
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.		Statewide majority voter approval	Majority of each house
* Additional procedures apply for property related fees.				
** Per Proposition 39 (2000), maximum tax rate limits and other conditions apply for a 55% threshold school bond or threshold is two-thirds.				

Counties and cities may impose a variety of taxes. Taxes fall into one of two categories: general or special.

A general tax is imposed to raise general-purpose revenues. Counties and cities may use revenues from a general tax for any lawful public purpose. A majority of voters must approve the decision to impose, increase or extend a general tax. A general tax may only be submitted for voter approval at an election for city council or board of supervisors unless a unanimous vote of the governing board declares an emergency.

A special tax is a tax imposed for a specific purpose. For example, a city may increase the sales and use tax by adding a special use tax for public safety, the acquisition of open space or transportation projects. All taxes imposed by special districts are considered special taxes. Since the tax is for a specific purpose, the revenues may only be used for that purpose. Two-thirds of voters must agree to enact, increase or extend a special tax.

## County Property Tax Administration

### County Assessor.

The assessor sets values on property and produces an annual property tax assessment roll.

### County Auditor-Controller.

The auditor-controller receives the assessed values from the assessor and calculates the amount of property tax due.

### County Treasurer-Tax Collector.

The treasurer-tax collector administers the billing, collection, and reporting of property tax revenues levied annually throughout California for not only the county, but also cities, schools and special districts.

	General Tax	Special Tax
Use of Revenues	Unrestricted	Specific purpose
Governing Body Approval	<ul style="list-style-type: none"> <li>Counties and general law cities: two-thirds</li> <li>Charter cities: majority</li> <li>Transactions and use taxes: two-thirds</li> <li>Special districts may not adopt general taxes.</li> </ul>	Majority
Voter Approval	Majority	Two-thirds
Other Rules	A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including: 1) the tax rate; 2) the amounts of revenues collected and expended; and 3) the status of any project funded by the special tax.

# PROPERTY TAXES

All counties and cities in California receive property tax revenues. Many special districts do too. For all counties and most cities and non-enterprise special districts, property taxes are the largest source of discretionary revenues.

## How Property Taxes Are Calculated in California

The property tax is imposed on “real property” (land and permanently attached improvements such as buildings) and tangible personal property (movable property such as boats, aircraft and business equipment).

The maximum tax rate permitted on real property for general purposes is one percent of the property’s assessed value plus voter approved rates to fund indebtedness (general obligation bonds, requiring two-thirds voter approval).

The tax rate is applied to the assessed value (AV) of the property. The assessed value of real property is the “full cash value” of the property in 1975-76 or at change of ownership, whichever is more recent, adjusted annually by the change in the Consumer Price Index (CPI), not to exceed an annual increase of two percent. The value of new construction is additional. If a property changes hands, then the assessed value becomes the full cash value upon change in ownership.

If a property’s market value falls below its factored base year value, it may be temporarily reassessed to its lower actual value but in future years may be reassessed at the lesser of its actual value or its factored base year value. This can result in increases of more than two percent as a property’s actual value returns to its earlier value, as when the housing market rebounds from a slump.

## Property Tax Revenue Distribution

Counties allocate property taxes to the county as well as cities, special districts and school districts within the county according to state law. Allocations among local agencies vary from place to place due to differences in the service responsibilities among agencies serving different areas and differences in the tax rates enacted by those agencies prior to Proposition 13 in 1978. Full-service cities generally receive higher shares than those that do not provide the complete range of municipal services. For example, in a city where fire services are provided by a special district, the city will get a lower share, with a portion of the property tax revenues going instead to the special district.

Property tax revenues among local governments are, of course, also dramatically affected by differences in the assessed value of properties among jurisdictions. A ten percent share in a community of average property values will result in less revenue than in a similar size wealthy bedroom community, or a community that also has a sizable business/industrial area.

### **Property Tax in Lieu of Vehicle License Fee**

In addition to their regular apportionment of property taxes, cities and counties receive property tax revenues in lieu of Vehicle License Fees (VLF). In 2004, the Legislature permanently reduced the VLF rate from two percent to 0.65 percent and compensated cities and counties for their revenue loss with a like amount of property taxes, dollar-for-dollar. Each agency's property tax in lieu of VLF allocation increases annually in proportion to the growth in gross assessed valuation in that city or county.

### **What is "ERAF?"**

The property tax revenues received by school districts in each county include amounts from the county "Educational Revenue Augmentation Fund" (ERAF) created by the California Legislature in 1991 as a way to reduce state general fund spending on schools. These funds receive some property tax that was previously allocated to counties, cities and special districts.

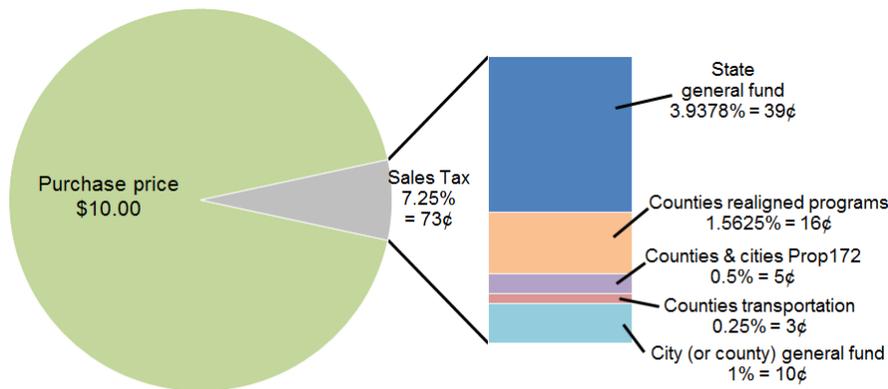
Since 2004, California's Constitution has prohibited the Legislature from increasing the amount of property tax shifted from counties, cities and special districts to ERAF or similar schemes. The state Constitution requires a two-thirds vote of the Legislature to change the allocation of property tax among the county, cities and special districts within a county.

# SALES AND USE TAXES

Consumers are familiar with the experience of going to a store, buying something and having an amount added for sales tax. Services are generally exempt from the sales tax as well as certain items, like most groceries and medicine. The sales tax is assessed as a percentage of the amount purchased.

The “base” statewide sales tax rate of 7.25 percent includes amounts to:

- The state general fund (3.9375 percent),<sup>v</sup>
- County realignment programs (state health/ welfare and corrections / law enforcement programs shifted from the state, 1.5625 percent),
- Supplemental local law enforcement grants (0.50 percent),<sup>vi</sup>
- Transportation programs in the county where the transaction occurs (0.25 percent), and
- The city where the transaction occurs (1.00 percent).<sup>vii</sup> If the transaction occurs in an unincorporated area, the 1.00 percent amount goes to the county.



*Rates effective January 1, 2017 after the expiration of the 0.25% Proposition 30 temporary rate.*

*In addition to the base, statewide rate of 7.25 percent, local voters may authorize additional “transactions and use tax” rates. These additional rates raise the total effective rate to as much as 9.75% in some locations.*

Cities, counties and countywide transportation agencies may impose sales tax rates to be added on to the “base” statewide sales and use tax rate. The add-on rates are actually “transactions and use taxes” and are allocated to the jurisdiction where the taxed product is received or registered (as in the case of a motor vehicle purchase). Over 120 cities have enacted transaction and use taxes of up to one percent, most commonly with majority voter approval for general purposes. Many counties and county transportation agencies have enacted rates, most commonly with two-thirds vote for specific purposes. Under current state law, the maximum combination of transactions and use tax rates in any location may not exceed two percent.<sup>viii</sup>

## State Sales and Use Tax Administration

The State Board of Equalization collects local sales and use tax revenues from the retailer and sends revenue from local rates and allocations back to cities and counties. In addition to administering the sales and use tax system, the State Board of Equalization collects and allocates other state taxes including fuel, tobacco and alcohol taxes.

## The “Use Tax” Part of the Sales and Use Tax

California’s sales tax has a relative called the “use tax.” While the sales tax is imposed on the seller, the use tax is imposed on the purchaser and at the same rate as the sales tax. The most common example of use tax is for the purchase of goods from an out-of-state retailer for use in California.

Out-of-state retailers doing business in California are required to report to the State Board of Equalization the jurisdiction to which sold items are delivered. If the retailer has a physical presence (nexus) in California, they must collect use tax when goods are delivered to purchasers in this state. If the seller does not collect and remit the use tax, the purchaser is legally obligated to report and pay.

### **Business License Tax (BLT)**

Most cities and a few counties have enacted business license taxes. Business license tax rates are set individually by each city and county most commonly based on gross receipts (overall business revenue) or levied at a flat rate, but may be based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of factors.

If a business operates in more than one city, a city may only tax that portion of the business's activities conducted within the city. In most cases, business license taxes are not imposed for regulatory purposes (as the term "license" might imply) but to raise revenues for general municipal purposes (i.e. a tax). If imposed as a fee to pay for the cost of regulating the business, the fee may not exceed the reasonable cost of regulating the business. (See "regulatory fees.")

### **Transient Occupancy Tax (TOT) or Hotel Bed Tax**

Most cities and some counties impose a transient occupancy tax or hotel bed tax on persons staying thirty days or less in hotels, motels and similar lodgings, including mobile homes. A county may impose a transient occupancy taxes only in the county area outside city limits. Typically, the lodging provider collects the tax from guests and turns the funds over to the county or city.

Transient occupancy taxes are imposed by most cities and counties and range from three and a half percent to 15 percent. For cities with a transient occupancy tax, it provides seven percent of general revenues on average, and as much as 17 percent in some cities. Any increase or extension of a local tax requires voter approval.

### **Utility User Tax (UUT)**

Many cities impose utility user taxes on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including mobile phone and long distance), sanitation and cable television. Counties may levy utility user taxes in county area outside city limits. Any increase or extension of a local tax requires voter approval.

Utility companies usually collect utility user's taxes from their customers as part of their regular billing procedures and remit the funds collected to the city or county which imposed the tax.

Over 150 cities and a few counties levy utility user rates varying from one to 11 percent. For those jurisdictions with utility user taxes, it provides an average of 15 percent of general revenue and often as much as 22 percent.

### **Parcel Tax**

A parcel tax is a special tax on a parcel – or unit – of real property. Unlike the property tax, a parcel tax may not be based on the value of property. Instead, parcel taxes are generally based on a flat per-parcel rate.

A parcel tax may be enacted, increased or extended by a city, county, special district or school district only with two-thirds voter approval, even for general purposes.

### **Documentary Transfer Taxes and Property Transfer Taxes**

A documentary transfer tax is a tax imposed on the transfer of interests in real estate. Counties tax at a rate of 55 cents per \$500 of the property's value. Cities may impose the tax at up to one half of that amount, which is credited to the payment of the county tax. The Constitution allows charter cities<sup>ix</sup> to

enact a property transfer tax, with voter approval, on the value of real estate that is sold. In these cases, the entire county documentary transfer tax rate goes to the county. All cities and counties in California have documentary transfer taxes or property transfer taxes.

### **Other Taxes**

A city or county may impose other types of taxes within the limitations of and if not prohibited by state law. These include: admissions taxes, parking taxes, construction/development taxes, local vehicle registration taxes.

# SERVICE CHARGES, ASSESSMENTS AND FEES

## Utility Rates

Utility rates are fees for utility services charged to users who pay for special district, county or city provided water, sewer, electric or other utility services. Utility rates cover some or all of the cost of providing the service, which may include operations, maintenance, overhead, capital improvements and debt service.

Utility rates for water, sewer services and certain other utilities belong to a special category of fees called a “property-related fees.” A local government must follow certain specific procedures to impose, extend or increase a property-related fee.

To impose a property-related fee, the agency must first hold a public hearing. At the hearing, a majority of affected property owners can prevent the fee’s adoption by filing written protests. If a majority of affected property owners do not protest the fee and the fees pays for sewer, water or refuse collection, then an election is not required and the governing body may approve the fee. Other property-related fees require approval, either of two-thirds of the electorate residing in the affected area or of a majority of the owners of the property who would pay the fee.

## Benefit Assessments

Assessments are charges by cities, counties or special districts on real property to pay for public facilities or services within an area which benefit either real property or businesses. A common type of assessment is one used to pay for landscaping and lighting in a neighborhood. The amount of the assessment must reflect the special benefit to the property that results from the improvements. Assessments on property are typically collected through the owner’s annual property tax bill.

A local government must follow certain specific procedures to impose benefit assessments. When a local agency considers an assessment, a majority of property owners may defeat the assessment in a public hearing procedure. If the proposed assessment is not defeated in a public hearing procedure, then a majority of the property owners subject to the charge must approve the assessment by a mailed ballot. The property owners’ votes are weighted according to how much their property will be charged.

## User Fees

A city, county or special district may impose fees, charges and rates for services and facilities it provides. Examples include fees for checking plans for new construction or for recreation classes. The amount of a fee may not exceed the cost of providing the service or granting a benefit or privilege. This cost may include overhead, capital improvements and debt service.

## Regulatory Fees

Regulatory fees pay for the cost of issuing licenses and permits, performing investigations, inspections and audits and the administrative enforcement of these activities. Examples include a fee to pay for the cost of processing pesticide license applications or a fee to inspect restaurants for health and safety compliance.

## Development Impact Fees

Development impact fees are imposed on new construction (like new houses, apartments, shopping centers or industrial plants). They pay for improvements and facilities required to serve new development and to reduce the impacts of new development on a community.

Development impact fees (also known as “AB 1600 fees” after legislation adopted that governs such fees) pay for community amenities such as streets, sewers, parks and schools. They may not be used for day-to-day operating expenses.

The ordinance or resolution establishing the fee must explain the connection between the development project and fee. For example, a library impact fee must be connected to the demand for library services created by the construction of the development project.

The amount of the fee must not exceed the cost of providing the service or improvement that the fee pays for.

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## Local Debt Financing Tools

Local governments borrow money to pay for land, facilities and equipment that may require more funding than current revenues provide. Not a revenue source, but a way to leverage the timing of revenues, debt financing methods are important tools in government finance. Local governments may issue bonds and other debt instruments to finance improvements and services. These loans are paid off through taxes, assessments or fees. A variety of debt financing tools are available:

- **General Obligation Bonds.** General obligation bonds are essentially IOUs issued by public entities to finance large projects. General obligation bonds are backed by property tax revenue, which is used to repay the bond over a twenty- to thirty-year period. Increasing the property tax to repay the debt requires two-thirds voter approval and may only be done to acquire or improve real property.
- **Lease-Purchase Agreements.** In a lease-purchase agreement, sometimes called “certificates of participation,” the agency leases an asset for a period of years with the option to purchase the land or improvement at the end of the lease. The amount of the lease is equivalent to the principal and interest that would be paid if the transaction were financed as a loan.
- **Benefit Assessment and Special Tax Financing.** Benefit assessment financing is supported by benefit assessments on the property to fund acquisition of property and improvement of infrastructure and additional facilities of benefit to the property that is charged. Similarly special taxes, such as Mello-Roos taxes, may be financed with bonds to provide public improvements.
- **Revenue Bonds.** Revenue bonds are issued to acquire, construct or expand public projects for which fees, charges or admissions are charged. Because the debt service is paid from income generated by the facility or related service, such debt is considered self-liquidating and generally does not constitute debt of the issuer, subject to constitutional debt limitations.
- **Tax Allocation (Tax Increment).** Tax allocation bonds (sometimes referred to as tax-increment financing) are issued by Enhanced Infrastructure Financing Districts or Community Revitalization and Investment Authorities and repaid from the growth in property tax revenue (i.e., tax increment) and other designated revenues over a certain period, largely as a result of the funded projects in the area.

# REVENUES FROM OTHER GOVERNMENT AGENCIES

Counties, cities and many special districts also receive revenues from the state and federal government. For example, over half of county revenues statewide come from state and federal sources. This reflects the role of counties in implementing state policy and programs for health and human services.

## **Gas Tax or Highway Users Tax**

The state imposes per gallon tax on gasoline of 27.8 cents as of July 1, 2016. These funds are apportioned to cities and counties, primarily on the basis of their populations. Local gas tax revenues must be spent on research, planning, construction, improvement and maintenance of public streets, highways and mass transit. The federal government's 18.4 cents per gallon rate pays primarily for federal highways with some local grants.

## **Motor Vehicle License Fee (VLF)**

The Motor Vehicle License Fee is a state imposed and collected tax on ownership of a registered vehicle. Counties receive vehicle license fee revenues to fund certain health, social service and public safety programs that were realigned to counties in 1991 and 2011.

## **State Public Safety Sales Tax**

Proposition 172, a ballot measure approved in 1993, imposed a one-half percent state sales tax to be used for local public safety activities. The state distributes Proposition 172 revenues to each county based on its proportionate share of statewide taxable sales. Many cities receive a share of those funds based on losses to the state's ERAF property tax diversions.

## **State Mandate Reimbursement**

The state constitution requires the Legislature to reimburse local governments for their costs to implement a state-mandated new program or higher level of service in an existing program. The Constitution requires the Legislature to suspend most state mandates in any year in which full funding is not provided for that mandate. The Commission on State Mandates determines the level of reimbursement in response to a claim for reimbursement filed by a local agency. The process typically takes several years during which time, local governments must spend money to comply with the mandate.

## **Federal and State Grants and Aid**

The federal and state governments provide a wide variety of funds to counties, and a more limited set to cities and special districts. Federal and state grants comprise a large proportion of county revenues because of the many programs and responsibilities counties carry out on behalf of the federal and state governments. These funds are almost entirely restricted to specified uses. Examples include certain health, mental health, social and child welfare services.

Categorical grants support a defined program area. Categorical grants typically go to local agencies that either meet predetermined funding criteria or compete for project funding through an application process.

Block grants provide funding to a broad functional area. For example, federal Community Development Block Grant (CDBG) funds support local housing and economic development activities.

## RENT FOR USE OF PUBLIC PROPERTY

### Rents, Royalties and Concessions

Another way cities and counties and some special districts pay for public services is to charge rent for use of the public's property. An example is royalties from natural resources taken from land the public owns. Others include selling advertisements in publications or on buses, as well as, receiving a percentage of net profits from concessionaires operating on public property.

### Franchise Fees

Franchise fees are a form of rent for use of public streets and roadways. Examples of businesses that pay franchise fees include trash collectors, cable television companies, electric utilities and oil and natural gas pipeline companies. Federal and state law limits the amount of some franchise fees (for example, video and cable television franchise fees). Franchise fees for provision of video services (like television programming) are limited and administered by the state.

## FINES, FORFEITURES AND PENALTIES

Violations of the law often result in a fine of some kind. Fines, forfeitures and penalties may be imposed for many reasons. Typical examples include traffic violations, court fines, penalties and interest on late or unpaid taxes.

- State law determines the distribution of fines and bail forfeitures imposed by the state.
- State law apportions revenues for parking violations and surcharges between issuing agencies and the counties.
- A city or county may impose fines, forfeitures and penalties for civil violation of local ordinances.
- Bail for local code violations charged criminally is established by the local courts with input from the city or county.

### Maintenance of Effort Requirements (MOE)

When cities and counties receive funding for programs from the state or federal government, such funding may come with strings attached. A common condition is that the city or county commit to a certain level of funding. This commitment is called "maintenance of effort."

Local agencies also receive reimbursement for revenue lost as a result of some tax exemptions and reductions. An example includes the homeowners' property tax exemption, which eliminates the property tax on a small portion of the assessed valuation of owner-occupied residential property.

# OTHER REVENUES

There are other local government revenues, comparatively minor in amounts. These include interest earned on investments, sales of surplus property and gifts.

## ACKNOWLEDGEMENTS

Special thanks to Michael Coleman whose expertise contributed to the 2016 update of this publication. Michael Coleman is a leading expert on California local government revenues, spending and financing. He is the creator of CaliforniaCityFinance.com, the California Local Government Finance Almanac, an online resource of data, analyses and articles on California municipal finance and budgeting.

The Institute also appreciates the contributions from the staff of the California Special Districts Association, the California State Association of Counties and the League of California Cities for their contributions and suggestions to this revised document.

## ENDNOTES

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<sup>i</sup> California Department of Finance, Demographic Research Unit [www.dof.ca.gov/Forecasting/Demographics/Estimates/](http://www.dof.ca.gov/Forecasting/Demographics/Estimates/)

<sup>ii</sup> Cal. Const. art. XI, § 1(a). *See also* Cal. Gov't Code § 23002 ("The several existing counties of the State and such other counties as are hereafter organized are legal subdivisions of the State."). *People ex rel. Younger v. County of El Dorado*, 5 Cal. 3d 480, 491, 96 Cal. Rptr. 557 (1971)

<sup>iii</sup> Cal. Const. art XIII, section 1(e)

<sup>iv</sup> A complete discussion of this list of seven exceptions can be found in the *Proposition 26 Implementation Guide* published by the League of California Cities.

<sup>v</sup> Proposition 30 imposed an additional state general fund sales tax of 0.25 percent from 2013 through 2016, for a total base rate of 7.5% during that time.

<sup>vi</sup> See "State Public Safety Sales Tax" under "Revenues From Other Government Agencies."

<sup>vii</sup> In some cities, by historic agreement, the city collects less than 1.00 percent, with the difference allocated to the county. For example, in San Mateo county each city receives 0.95% of transaction within its jurisdiction and 0.05% goes to the county general fund. For a full list of local sales tax rates see Table 23A of the California State Board of Equalization Annual Report.

<http://www.boe.ca.gov/annual/table23a.htm>

<sup>viii</sup> Except in the counties of Los Angeles, Alameda and Contra Costa where the maximum is 2.5 percent. Revenue and Tax Code §7251 et seq.

<sup>ix</sup> For more information on Charter Cities see [www.cacities.org/chartercities](http://www.cacities.org/chartercities)

## Resources for Further Information

Coleman, Michael. *California Municipal Revenue Sources Handbook*, League of California Cities 2014.

Multari, Michael, Michael Coleman, Kenneth Hampian, Bill Statler. *Guide to Local Government Finance in California*, Solano Press Books, 2012.

California Legislative Analyst's Office. [www.lao.ca.gov](http://www.lao.ca.gov)

"California Local Government Finance Almanac: Data, Statistics, Analyses on California City, County and Special District Finance." [www.californiacityfinance.com](http://www.californiacityfinance.com)

"Financial Management for Elected Officials." Institute for Local Government. [www.ca-ilg.org/post/financialmanagement](http://www.ca-ilg.org/post/financialmanagement)

"Learn About Cities." League of California Cities. [www.cacities.org/Resources/Learn-About-Cities](http://www.cacities.org/Resources/Learn-About-Cities)

"What Do Counties Do?" California State Association of Counties. [www.csac.counties.org/californias-counties](http://www.csac.counties.org/californias-counties)

"What are Special Districts and What Do They do?" California Special Districts Association. [www.csda.net/special-districts/](http://www.csda.net/special-districts/)



## ABOUT THE INSTITUTE FOR LOCAL GOVERNMENT

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1400 K Street, Suite 205  
Sacramento, CA 95814

# PUBLIC ENGAGEMENT IN BUDGETING

*Budgeting is one of the most important decisions local agencies make.*

## Why involve the Public in Budgeting?

- The annual budget is typically the strongest statement of the local agency’s priorities for the community. As such, it is important that the community is involved in the development of this document.
- Meaningful public involvement can help residents understand the hard choices that budgeting entails, and assist policy-makers in better understanding the programs and services residents value most.
- Increased public understanding about local agency budgets, including revenues, expenses and challenges can lead to greater support for budgetary decisions as well as for measures to increase effective use of local revenues.
- Transparency about the local agency finances and the budget decision-making process promotes public trust and confidence in the agency’s stewardship of taxpayer dollars.
- The International County/City Management Association considers resident participation a core competency for successful public managers.
- The budgeting process allocates scarce taxpayer dollars to services, programs and facilities that play a key role in determining the community’s quality of life.

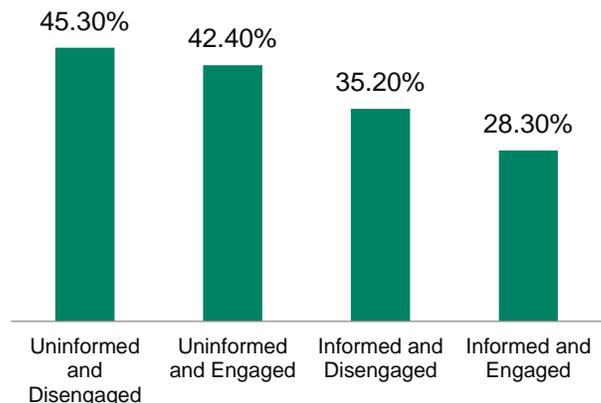
## What Is “Public Engagement?”

Public engagement works to increase the extent to which residents become more informed about local issues and participate more effectively in local decision making. Approaches include:

- Public information
- Public consultation
- Public deliberation
- Sustained public problem solving

► **More information:** [www.ca-ilg.org/document/what-public-engagement](http://www.ca-ilg.org/document/what-public-engagement)

## Probability: Belief that Sales Tax Rate is "Too High" When People Are:



Source: Center for California Studies, *Civic Engagement and Local Fiscal Attitudes: 2013 Survey of Californians*

## Choosing the Right Approach Means Asking the Right Questions

- What type of input do staff and officials want from the public relating to budget decisions—a vision, an expression of broad community values, new ideas or choices among options, or ranked or unranked sets of ideas or preferences?
- How will the public's preferences and/or ideas be considered in final budget decision-making?
- Is the goal solely a one-time process or also to build an ongoing local agency and community capacity for public engagement?
- In terms of the desired participation, is the goal to hear:
  - From a broad cross-section of community?
  - From those with present direct interest in the subject, including stakeholders or stakeholder groups?
  - Or a combination of both of these groups?
- What time period as well as financial and staff resources can be devoted to the effort?
- Is broader community understanding and support for the ultimate budget decisions the goal? How important is that goal?
- Is the local agency (elected and staff) clear about its public engagement commitment, goals, and process. Is there clear communication between elected officials and staff?
- How comfortable are policy-makers with public involvement in budget decisions? Are they willing to strongly consider community opinion, even if it means reducing spending elsewhere in the budget?

### Using Consultants Successfully

*Local agencies sometimes find it helpful to get assistance from public engagement consultants.*

► **More information:**

[www.ca-ilq.org/PEConsultantTips](http://www.ca-ilq.org/PEConsultantTips)

## Tools to Consider

Once the purposes for engaging the public are clear, the task becomes selecting the approaches that best fit the goals. Often using more than one tool will secure the broadest participation.

**Surveys:** These provide a snapshot of public opinion at any given time; methods can include online, phone, mail, or in person (for example, using instant polling devices).

**When to use:** *When seeking input on budget balancing choices or strategies.*

**Online Forums (Social Media):** Technological platforms that allow for a virtual exchange of information and preferences.

**When to use:** *To gather input from a large number of people, on their schedule, from their home or office.*

### Advisory Boards, Commissions and Committees

**Advisory Boards, Commissions and Committees:** Community members, typically representing interests, groups, areas of expertise or geographic areas are selected to provide input on budget goals, issues, priorities and decisions.

**When to use:** *When seeking to create a conduit for information between communities and local agency.*

**Workshops:** Opportunities for information sharing, discussion and feedback on budget goals and issues.

**When to use:** *Can give a significant number of community participants an opportunity to grapple with budget issues.*

**Deliberative Forum:** Similar to a workshop, but usually involves more information sharing and increased time for participant dialogue.

**When to use:** *When budget development is contentious and more in-depth and informed public input is desired.*

**Participatory Budgeting:** Allocation of a portion of revenues for local agency projects and programs by residents, utilizing an extensive nomination, community forum and voting process.

**When to use:** *When seeking to develop extensive community involvement in budget choices, particularly when there are significant differences of opinion in the community about spending new tax dollars or one-time funds, where community trust is low and/or where there are "new" revenues to allocate.*

## Communication and Engagement

Information and outreach are essential components of any public engagement strategy:

- **Budget and Financial Information.** For the public’s input to be helpful, it must reflect the realities of the agency’s fiscal situation. This requires that the public have appropriate and accessible information about both the budget process and the public agency’s finances.
- **Process Information.** Another component of the communications strategy is sharing information about the budget decision-making process and the opportunities residents have to participate in discussions and share their thoughts.
- **Inclusive Education and Outreach Strategies.** For decision-makers to hear from an informed and representative cross-section of the community, the agency must use education and outreach strategies that reflect the diverse ways that community members receive information.
- **Feedback Loops.** It is important that residents understand how their input influenced the ultimate budget. This could be accomplished through a community newsletter, a section of the budget narrative, or social media tools

► **More information:** [www.ca-ilg.org/EffectivePE-Strategic-Communication](http://www.ca-ilg.org/EffectivePE-Strategic-Communication)

## One Strategy: Start with Goals

The Government Finance Officers Association (GFOA), the leading professional organization for public agency finance professionals, recommends that the budget process be tied to goals. Such goals can define what a community wants to preserve or what it wants to move toward (something GFOA calls the “preferred future state of the community”).

The budget process is a tool to realizing those goals, involving the allocation of resources to fund local agency services, programs and facilities which are a key part of the strategy for accomplishing the goals. Such goals also help decision-makers and the community set priorities for allocating limited resources.

Such goal setting can occur as part of the budget process or a separate strategic planning process. It is often helpful to begin the goal-setting process several months in advance of the annual budget process, so that the budget will reflect the key priorities of the city council and community.

**Goal Setting Question Example:** What are the most important things for the city/county/school/special district to focus on over the next five years?

## A Strategy for Sustaining Public Engagement

A Working Group on Legal Frameworks for Public Participation has produced a model local ordinance for public participation as a tool for local agencies to use in committing to inclusive and authentic public participation in local agency decision-making processes.

► **More information:** [www.ca-ilg.org/post/new-strategy-sustaining-public-engagement](http://www.ca-ilg.org/post/new-strategy-sustaining-public-engagement)

### Engage the Full Spectrum of Your Population

*You may want to consider that participation in public engagement efforts more fully reflect community*

*“The mission of the budget process is to help decision-makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.” [emphasis added]*

*—National Advisory Council on State and Local Budgeting*

## For Additional Information

- *A Local Official's Guide to Public Engagement in Budgeting*  
[www.ca-ilg.org/engaging-public-budgeting](http://www.ca-ilg.org/engaging-public-budgeting)
- *Effective Public Engagement through Strategic Communication*  
[www.ca-ilg.org/EffectivePE-Strategic-Communication](http://www.ca-ilg.org/EffectivePE-Strategic-Communication)
- *Broadening Participation*  
[www.ca-ilg.org/broadening-participation](http://www.ca-ilg.org/broadening-participation)
- *Transparency Strategies*  
[www.ca-ilg.org/transparency-strategies](http://www.ca-ilg.org/transparency-strategies)
- *Public Engagement Key Questions for Local Officials*  
[www.ca-ilg.org/PublicEngagementKeyQuestions](http://www.ca-ilg.org/PublicEngagementKeyQuestions)
- *GFOA, Best Practices in Budgeting, Principle 1*  
[www.gfoa.org/services/nacslb/introprinciples.htm#l](http://www.gfoa.org/services/nacslb/introprinciples.htm#l)
- *GFOA Resource: Best Practices in Budgeting*  
[www.gfoa.org/services/nacslb/](http://www.gfoa.org/services/nacslb/)
- *Information on Local Agency Finance*  
<http://www.ca-ilg.org/Budgeting-finance>
- *Evaluating Public Engagement Activities*  
[www.ca-ilg.org/measuring-public-engagement-success](http://www.ca-ilg.org/measuring-public-engagement-success)
- *ICMA Resource: Practices for Effective Local Government Management*  
<http://webapps.icma.org/credentialing/Practices.pdf>



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The Institute's current program areas include:

- Local Government Basics
- Public Engagement
- Ethics and Transparency
- Sustainability
- Collaboration and Partnerships

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Institute for Local Government  
1400 K Street, Suite 205  
Sacramento, CA 95814  
(916) 658-8208