What Planners Need to Know About City Finance *Today*

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Cities Vary  
... and so do their finances

- Geography: proximity, climate, terrain, access
- Community Character / Vision: Land use  
- Size – urban / rural
- Governance / service responsibilities  
  full service city - vs.- *not* full service city

- Statewide generalizations often mask trends among sub-groups
Taxes

✓ Charges which pay for public services, facilities that provide general benefits. No need for direct relationship between a taxpayer’s benefit and tax paid.
✓ Cities may impose any tax not otherwise prohibited by state law. (Gov Code § 37100.5)
✓ The state has reserved some taxes for its own purposes including: cigarette taxes, alcohol taxes, personal income taxes.
✓ General & Special
  □ General Tax - revenues may be used for any purpose.
    Majority voter approval required for new or increased local tax
  □ Special Taxes - revenues must be used for a specific purpose.
    2/3 voter approval required for new or increased local tax
    Parcel tax - requires 2/3 vote

Any levy, charge or exaction of any kind imposed by a local government, is a tax except:
✓ User Fees: for a privilege/benefit, service/product *
  Planning permits, street closure permits, parking permits, user fees, copying fees, recreation
✓ Regulatory Fees: regulation, permits, inspections *
  Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; pet licenses
✓ Rents: charge for entrance, use or rental of government property
  Facility/room rental, equipment rental, on/off-street parking, tolls, franchise, park/zoo/museum admission, tipping fees, golf fees, etc
✓ Penalties for illegal activity, etc.
  Parking fines, late payment fees, interest charges and other charges for violation of the law.
✓ Charges imposed as a condition of property development
  Construction permits, development impact fees, etc.
✓ Assessments and property related fees imposed per Cal Const Article XIII D. (Prop218)
✓ A payment for a payment that is not “imposed by a local government”
  Includes payments made by voluntary contract/ agreement not otherwise “imposed” by a government.

* Fee may not exceed reasonable costs.
* Service/product/benefit may not be provided to those not charged.
### Taxes and Fees/etc. Approval Requirements

*(California Constitution)*

<table>
<thead>
<tr>
<th></th>
<th>TAX- General</th>
<th>TAX- Parcel or Special (earmarked)</th>
<th>G.O.BOND (w/tax)</th>
<th>Fee / fine / rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>City / County</td>
<td>Majority voter approval</td>
<td>Two-thirds voter approval</td>
<td>Two-thirds voter approval</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>Special District</td>
<td>n/a</td>
<td>Two-thirds voter approval</td>
<td>Two-thirds voter approval</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>K-14 School</td>
<td>n/a</td>
<td>Two-thirds voter approval (parcel tax)</td>
<td>55% voter approval*</td>
<td>Majority of the governing board.*</td>
</tr>
<tr>
<td>State</td>
<td>For any law that will increase taxes of any taxpayer, two-thirds of each house of the Legislature ...or majority of statewide voters.</td>
<td>Statewide majority voter approval</td>
<td>Majority of each house.</td>
<td></td>
</tr>
</tbody>
</table>

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### California City Revenues

- **Taxes**
- **Fees**
- **State/Fed Aid**
- **Rents, penalties**
- **Other**

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*Source: Author’s computations from California State Controller 2014-15 data. Does not include the City/County of San Francisco.*
Typical Full Service City

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

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

Counties are hybrid local/state
- *state/federal programs:* Aid to families (CalWORKS), food stamps, foster care, In-Home Support Services (IHSS), alcohol & drug treatment
- *countywide services:* jails, courts, elections, property tax collection & allocation
- *“city” services to unincorporated areas*

Counties have
- more mandates,
- less discretionary $, and
- are more vulnerable to state budgetary action
Property Tax

- An **ad valorem** tax imposed on real property and tangible personal property
- Maximum 1% rate (Article XIII A) of assessed value, plus voter approved rates to fund debt
- Assessed value capped at 1975-76 base year plus CPI or 2%/year, whichever is less
- Property that declines in value is reassessed to the lower market value
- Reassessed to current full value upon change in ownership (with certain exemptions)
- Allocation: shared among cities, counties and school districts according to state law.

Where Your Property Tax Goes

Typical city resident

- **City** 21%
- **County** 27%
- **Local Schools** 45%
- **Special Districts** 7%

**Shares Vary!**
- Non-full service cities: portions of city shares go to special districts (e.g. fire)
- Pre-Prop 13 tax rates

*Source:* Author's computations from Board of Equalization and State Controller data.

Typical homeowner in a full service city not in a redevelopment area.
* For taxable sales in unincorporated areas, the local 1% rate goes to the county.

**Where Your Sales Tax Goes**

City* 1%
State General Fund 3.9375%
County Realignment 1.5625%
County Transportation 0.25%
Proposition 172 1/2%
Add-On Transactions & Use (varies)

City* 1%
County TDA 0.25%
Proposition 172 0.50%
County Realignment 1.5625%
State General Fund 3.9375%
Total base rate 7.25%

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

**Sales Tax Collections**

Revenues per capita inflation adjusted

Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)
Are Incorporations and Annexations Extinct?

Pernicious Effects of the VLF-Property Tax Swap of 2004

The VLF-Property Tax Swap of 2004

VLF (Backfill) → State General Fund

Cities & Counties

Property Tax in Lieu of VLF → Schools

$4.4 b* → $4.4 b → $4.4 b

* in FY2004-05
Vehicle License Fee $ Allocation
Prior to 2004

Existing City

$ VLF (based on population)

Annexation

Vehicle License Fee $ Allocation
with Property Tax–VLF Swap of 2004

Existing City

Property Tax in lieu of VLF

No Property Tax in lieu of VLF

$ VLF

Annexation
Vehicle License Fee $ Allocation

**AB1602** (Laird) 2006

- Property Tax in lieu of VLF

Special VLF: $50/per resident in annexed area

**SB89 (2011)** Eliminated All City VLF

( Diverted to state law enforcement grants )
The Lack of VLF Replacement Makes Many Annexations Fiscally Unviable

AB213 (Reyes)
Restores Property-Tax-in-lieu-of-VLF for annexations

The Lack of VLF Replacement Makes New Cities Fiscally Unviable

AB818 (Cooley)
Would establish Property-Tax-in-lieu-of-VLF for new cities
## Cost and Revenue Impacts of New Development: The “Fiscalization of Land-Use”

Theoretical Comparison of Annual Costs and Revenues from Different Development Proposals - 5 acre parcel

<table>
<thead>
<tr>
<th>City A</th>
<th>Full Service - no UUT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single-family Residential</td>
</tr>
<tr>
<td>Property Size (acres)</td>
<td>5</td>
</tr>
<tr>
<td>Residential Units</td>
<td>20</td>
</tr>
<tr>
<td>Residential Cost per DU</td>
<td>400,000</td>
</tr>
<tr>
<td>Retail Square footage per acre</td>
<td>0/acre</td>
</tr>
<tr>
<td>Property Value</td>
<td>$2,800,000</td>
</tr>
<tr>
<td>Property Tax AB8 share of 1%</td>
<td>16.3%</td>
</tr>
<tr>
<td>CITY EXPENDITURES</td>
<td></td>
</tr>
<tr>
<td>Police Department</td>
<td>$10,080</td>
</tr>
<tr>
<td>Fire Department</td>
<td>$3,600</td>
</tr>
<tr>
<td>Public Works</td>
<td>$1,700</td>
</tr>
<tr>
<td>Planning &amp; Community Development</td>
<td>$1,000</td>
</tr>
<tr>
<td>Parks &amp; Community Services</td>
<td>$2,240</td>
</tr>
<tr>
<td>Library</td>
<td>$1,680</td>
</tr>
<tr>
<td>General Government</td>
<td>$2,680</td>
</tr>
<tr>
<td>TOTAL EXPENDITURES</td>
<td>$24,980</td>
</tr>
</tbody>
</table>

1. Enterprise services such as water, sewer, and garbage are not included. These services are funded by user fees, such that costs equate to revenues.
2. Property values assume $400,000 per single family home, $180,000 per multi-family unit, $200/sf for retail, $700,000 per acre for industrial.
3. City property tax share differs from city to city depending on (among other things) the service responsibility of the city and the pre-Prop13 property tax rate.
4. Retail assumes 10,000 sqft retail per acre with taxable sales of $200 per sq ft, 75% is "new sales." Residential assumes 4%/yr resale of sf, 2% for mf.
### CITY EXPENDITURES

<table>
<thead>
<tr>
<th>Department</th>
<th>Single-family</th>
<th>Multi-family</th>
<th>Industrial</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police Department</td>
<td>10,080</td>
<td>47,880</td>
<td>5,544</td>
<td>15,750</td>
</tr>
<tr>
<td>Fire Department</td>
<td>5,600</td>
<td>26,600</td>
<td>3,718</td>
<td>10,563</td>
</tr>
<tr>
<td>Public Works</td>
<td>1,700</td>
<td>7,600</td>
<td>1,870</td>
<td>5,313</td>
</tr>
<tr>
<td>Planning &amp; Community Devlpmt</td>
<td>1,000</td>
<td>4,750</td>
<td>1,100</td>
<td>3,125</td>
</tr>
<tr>
<td>Parks &amp; Community Services</td>
<td>2,240</td>
<td>10,640</td>
<td>370</td>
<td>1,050</td>
</tr>
<tr>
<td>Library</td>
<td>1,680</td>
<td>7,980</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>General Government</td>
<td>2,680</td>
<td>12,635</td>
<td>1,518</td>
<td>4,313</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td>$24,980</td>
<td>$118,085</td>
<td>$14,120</td>
<td>$40,113</td>
</tr>
</tbody>
</table>

1. Enterprise services such as water, sewer, and garbage are not included. These services are funded by user fees, such that costs equal to revenues.
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### CITY REVENUES

<table>
<thead>
<tr>
<th>Source</th>
<th>Single-family</th>
<th>Multi-family</th>
<th>Industrial</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax Revenue</td>
<td>13,040</td>
<td>27,873</td>
<td>1,575</td>
<td>4,300</td>
</tr>
<tr>
<td>Property Tax Rev (InLieu of VLF)</td>
<td>13,000</td>
<td>27,800</td>
<td>1,575</td>
<td>4,300</td>
</tr>
<tr>
<td>Sales Tax Revenue</td>
<td>7,280</td>
<td>17,050</td>
<td>825</td>
<td>2,050</td>
</tr>
<tr>
<td>Business License Tax</td>
<td>n/a</td>
<td>5,500</td>
<td>5,500</td>
<td>5,500</td>
</tr>
<tr>
<td>Franchise fees</td>
<td>340</td>
<td>1,015</td>
<td>1,275</td>
<td>1,063</td>
</tr>
<tr>
<td>State Subventions &amp; other revs</td>
<td>2,268</td>
<td>23,877</td>
<td>128</td>
<td>367</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$26,528</td>
<td>$103,610</td>
<td>$14,183</td>
<td>$110,229</td>
</tr>
</tbody>
</table>

per unit  $1,548  $ (14,475)  $64  $70,117

```
<table>
<thead>
<tr>
<th>City</th>
<th>Full Service - no UUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET 1,548</td>
<td>(14,475)</td>
</tr>
<tr>
<td>per unit</td>
<td>$77</td>
</tr>
</tbody>
</table>
```