What Planners Need to Know About City Finance Today

Michael Coleman
coleman@muniwest.com
530.758.3952

City Finance Principles

- 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 fees, etc.

✓ 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 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.

California Constitution per Prop218(1996), Prop26(2010), etc.
## 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>

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

## California City Revenues

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

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
- Hotel Tax
- Franchise
- Utility User Tax
- BusnLic Tax

Expenditures

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

**Source:** Coleman Advisory Services computations from State Controller reports

**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

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

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**Where Your Property Tax Goes**

Typical city resident

- Includes Property Tax in-lieu of VLF
- 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-Prop13 tax rates

**Source:** Author’s computations from Board of Equalization and State Controller data.
Where Your Sales Tax Goes

- City* 1%
- State General Fund 3.9375%
- County Realignment 1.5625%
- Proposition 172 1/2%
- County Transportation 1/4%
- Add-On Transactions & Use (varies)

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

- City* 1.0000
- County TDA 0.2500
- Proposition 172 0.5000
- County Realignment 1.5625
- State General Fund 3.9375
- Total base rate 7.25%

Speaking of Tax Measures
March 2020 Local Fiscal Measures
Measures on Ballots

239 tax & bond measures

March 2020 Local Fiscal Measures
Measures on Ballots: City, County and Special Districts
Majority-vote general tax
Open, inclusive citizen engagement: budget/financial plans
Compare with your neighbors
Pick one – avoid same-ballot pile-on
Get good advice: legal, polling, prep, campaign
Critically Needed Transportation Funding Arrives: SB1: The Road Repair and Accountability Act of 2017

The Road Repair and Accountability Act of 2017

Source: Governor’s Proposed 2018-19 Budget Summary Figure INT-06
Unsustainable / intractable employee compensation esp. public safety pension, retiree health care

Risky financing schemes

Over-reliance on land development revenue

Over-reliance on redevelopment revenues

Unsustainable / intractable employee compensation

Unsustainable decline in core revenues

Ceding of management and policy choices to others

Fear and Denial

Toxic Relationships
NEW EDITION - NOW AVAILABLE

An essential resource for anyone involved in local government finance in California.

Up-to-date information on local fees, taxes, charges and intergovernmental revenue for local governments including laws, court decisions, state tax rates and allocation formulas.

- Data and charts
- Relevant history and issues
- Legal references
- Definitions of terms
- Capital financing and cost recovery
- Detailed guidance for calculating a Gann Appropriations Limit

https://www.cacities.org/publications