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**To:** City Finance Officers, CPAs and Other Interested Parties

**From:** The California Committee on Municipal Accounting

**Subject:** **CCMA WHITE PAPER:** Classification of Typical California City Revenues Under GASB No. 34

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 in June of 1999, which established new financial reporting requirements for state and local governments throughout the United States. These new requirements were developed to enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors.

Under GASB Statement No. 34, the revenues of the local government are divided into two major classifications: program revenues and general revenues. This white paper provides guidance to California cities and promotes consistency by suggesting which typical revenue sources are program revenues and which are general revenues.

The California Committee on Municipal Accounting is comprised of representatives of the California Society of Certified Public Accountants and the League of California Cities. The primary purpose of CCMA is to serve the public interest by providing guidance to promote the highest degree of sound financial administration and ensuring the fullest cooperation between city officials and members of the independent accounting profession.

*Created by the  
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**CLASSIFICATION OF TYPICAL CALIFORNIA CITY REVENUES  
UNDER GASB NO. 34**

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(a joint committee comprised of representatives of the *League of California Cities* and  
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# CLASSIFICATION OF TYPICAL CALIFORNIA REVENUES AS REQUIRED BY GASB NO. 34

## Background

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 in June of 1999, which established new financial reporting requirements for state and local governments throughout the United States. When implemented, it will provide new information and will restructure much of the information that governments have presented in the past. These new requirements were developed to enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, recognizes these groups as the primary intended users of governmental financial reports and establishes financial reporting objectives to meet their information needs.

GASB Statement No. 34 divides the basic financial statements for a local government into two major sections, government-wide financial statements and fund financial statements. In the government-wide financial statements, the revenues of the local government are divided into two major classifications: program revenues and general revenues. The purpose of this document is to provide guidance to California cities and to promote consistency by suggesting which typical revenue sources are program revenues and which are general revenues for presentation within the statement of activities in the government-wide financial statements. The specific revenue sources identified in this document are the same revenue sources identified in the CCMA White Paper, *Application of the Revenue Recognition Criteria set forth in GASB No. 33 to Revenue Sources Significant to California Cities*. The schedule provided later in this White Paper also indicates for each revenue source the typical program title to which individual program revenues would be assigned, the GASB 33 classification and whether net assets arising from this revenue source would be restricted or unrestricted.

## Discussion of Revenue Categories

### General Revenues

Paragraph 52 of GASB Statement No. 34 states that all revenues are general revenues unless they are required to be reported as program revenues. It further states that all taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax. All other nontax revenues that do not meet the criteria to be reported as program revenues should be reported as general revenues.

### Program Revenues

Paragraph 48 of GASB Statement No. 34 states that program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, if restricted for a specific program or programs. These revenues reduce the net cost of the function to be financed from the government's general revenues.

Paragraph 47 GASB Statement No. 34 identifies the following financing sources that would be classified as program revenues:

- Those who purchase, use or directly benefit from the goods or services of the program. (This group may extend beyond the boundaries of the reporting government’s taxpayers or citizenry.)
- Parties *outside* the reporting government’s citizenry, if restricted to a specific program or programs. (This group includes other governments and nongovernmental entities or individuals.)

Paragraphs 48 through 50 state that the statement of activities should separate program revenues into three categories: (1) charges for services, (2) program-specific operating grants and contributions, and (3) program-specific capital grants and contributions. This paper will cover the separation of program revenues into these three categories (see accompanying Exhibit A).

Exhibit A of this paper details the types of revenues and segregates those revenues between general and program revenues. It gives the revenue description, the revenue program, the classification for GASB No. 33, and the classification for the statement of net assets.

### **Position Regarding Tax Increment Revenues**

Paragraph 52 of GASB Statement No. 34 states that “all taxes, even those that are levied for a specific purpose, are general revenues.” Paragraph 47 of GASB Statement No 34 states that money received from a reporting government’s taxpayers are “always a general revenue, even if restricted to a specific program.” Since tax increment received by a redevelopment agency represents money received from the reporting government’s taxpayers, tax increment is classified as a general revenue, even though it is restricted.

Taxes are classified as program revenues only if they represent the sharing of another government’s taxes. However, tax increment is allocated to the redevelopment agency in accordance with Section 33670(b) of the Health and Safety Code. Tax increment is governed and regulated by state law, but it does not represent a state revenue that is being shared with the local jurisdiction. Neither does tax increment represent a sharing from the county. The county is merely an agent for the various taxing jurisdictions for which the county is providing assessment, collection, and allocation services rendered on behalf of those jurisdictions.

Tax increment should also not be considered to be a sharing from the county, city, and special districts that give up the rights to future property tax increases associated with increases in assessed valuation after the establishment of the redevelopment agency project area. Any resulting loss in future property tax revenue caused by the formation of the redevelopment agency does not represent a decision by the city, the county, or the special districts to share their revenue with the agency, but rather is a consequence of the allocation rules set forth in state law addressing the distribution of the basic property tax dollar. The creation of the tax increment revenue stream for the redevelopment agency is a result of action initiated by the local redevelopment agency to establish its primary revenue source. It does not represent a sharing from the other taxing jurisdictions. Prior to AB 1290, the other taxing jurisdictions could

“object” to the formation of the project area. However, these “objections” generally resulted only in the negotiation of passthrough agreements and the eventual formation of the project area. AB 1290 somewhat changed this process by eliminating the negotiation process and instead substituting specific statutory passthrough percentages in the Health and Safety Code.

Furthermore, under GASB Statements No. 33 and 34, a government (such as a school district) sharing revenue would have to gross up its revenues to include the amount of “shared” revenue that (in this case) is never received, with a corresponding expense (functionally classified as *redevelopment*) for its “sharing” with the redevelopment agency. It would be misleading for these other jurisdictions to show the redevelopment agency’s allocation of tax increment as a part of their tax revenues with a corresponding expense for the amount “shared” with the agency. This would be further compounded by the fact that any amounts disbursed by the redevelopment agency **back** to the county, city and special districts for passthrough obligations would in effect be *not shared* and would need to be *eliminated* from the initial grossing-up process. This would complicate the determination of the net shared amounts (the amount that the county, city, or special district would have received had there been no redevelopment agency, but net of any passthrough obligations).

Technically speaking, redevelopment agencies do not have taxing authority. However, in the post Proposition 13 era, no unit of local government in California has the authority to impose or increase property taxes. Taxes are set at one percent of assessed valuation and distributed in accordance with AB 8 formulas. In Section 33670(b) of the Health and Safety Code, property taxes are considered to be *allocated to* the redevelopment agency in the same sense that they are *allocated to* the county, city, and special districts in Section 33670(a). The amount of property tax allocated to each entity (including the redevelopment agency) should be considered to be that entity’s revenue.

Since tax increment is classified as a general revenue, *interest earned* on tax increment funds should also be classified as a general revenue.

GASB Statement No. 34 requires that all *interest expense* associated with general long-term liabilities should be classified on a line separate from the various program expenses, except in those rare occasions when the related borrowing is essential for the creation or continuing existence of a program. This is meant to be applied narrowly, such as for money borrowed to finance program loans that are made to program participants. Accordingly, it is not recommended that interest expense be reported as a program expense for the redevelopment program. Redevelopment interest should be reported along with all other interest associated with general long-term liabilities on a separate line in the statement of activities.

The minimal amounts reported as program *revenue* for the redevelopment program will be consistent with the minimal amounts reported as program *expense* for the redevelopment program. In the statement of activities, redevelopment program *expenses* will **exclude** all of the following:

- Interest expense—GASB Statement No. 34 provides interest to be reported as a program expense in only the very narrowest of situations.

- Principal payments —this is not an expense, but a reduction of the liabilities on the statement of net assets.
- Capital project expenditures—these are capitalized, not expensed in the statement of activities.
- Infrastructure expenditures—these are also capitalized, not expensed in the statement of activities.
- Loan program disbursements—these are recorded as assets, not expenses.

Redevelopment program expenses will normally be limited to very minor amounts: salaries and benefits, consultant fees, administrative expenses, grants, and maintenance expenses.

### Investment Income

Revenues that result from the investment of general revenues are generally considered to be general revenues. Revenues that result from the investment of program revenues are generally considered to be program revenues, if they are legally restricted for that program. Other forms of investment income that are legally restricted for specific programs or uses are generally considered to be program revenues. For example, interest earned on bond proceeds held for capital projects are capital-related program revenues only if the interest earned thereon is also so restricted. Interest earned on debt service reserves that have a legally restricted use (for example, must be applied toward the next debt service payment) are program revenues (operating contributions and grants).

### Charges for Services

GASB's exposure draft of its omnibus statement to amend certain provisions of GASB Statement No. 34 clarifies that receiving a benefit is not necessarily a requirement for a revenue to be considered to be a charge for services. The proposed pronouncement states that charges for services are those revenues that are generated by or derived directly from a specific program. For example, although the payors of fines and forfeitures do not receive a direct benefit in return for their payment, fines and forfeitures are considered to be a charge for services because they are derived directly from a specific program. *Charges for services* are classified as revenues of the program that **generated** those revenues. *Grants and contributions* are classified as revenues of the program to which their use is **restricted**.

### Rental Income

Rental income generated by a specific function would be program revenue. For example, an integral part of certain community service programs includes making a community center available to the community on a rental basis. These amounts would be considered to be program revenue. On the other hand, some cities rent out unused portions of their civic center. Those amounts would generally be considered to be general revenue.

## Business Licenses

Some cities use a **business license tax** to finance governmental operations by imposing a **tax** on the gross receipts of the businesses in the community. In many cases, the amount collected is significantly greater than the cost to monitor, control, and regulate businesses in the community, and also significantly greater than the “value” of the privilege granted to that business to operate in the community. For these cities, this tax functions more as a revenue generating device for the city than a pure regulatory function and therefore, such revenues should be considered to be *general revenues*. On the other hand, **business license fees** are **charges for services** (and therefore *program revenues*) if they represent amounts collected to monitor, control, and regulate businesses in the community, are generated by this regulatory function, intended to cover the cost of performing that function, and represent payments received in exchange for the granting of the privilege for that business to operate in the community.

### Exhibit A

The accompanying Exhibit A provides suggested classifications for the typical major revenues of a California city. This is general guidance with respect to this issue and the facts and circumstances in a given situation might warrant a different classification.

## GASB 34 CLASSIFICATION OF TYPICAL REVENUES FOR A CALIFORNIA CITY

Type of Revenue	Revenue Description	Program	GASB 33 Classification	Classification in Statement of Net Assets
<b>GENERAL REVENUES:</b>				
Property tax	Unrestricted local tax subject to certain state limitations	N/A	Imposed Nonexchange	Unrestricted
Tax increment	Restricted local tax subject to certain state limitations	N/A	Imposed Nonexchange	Restricted
Interest earned on general revenues	Interest earned on general revenues are also general	N/A	Exchange	Unrestricted
Interest earned on tax increment funds	Interest earned on general revenues are also general	N/A	Exchange	Restricted
Sales tax	Unrestricted shared state tax	N/A	Shared (Voluntary Nonexchange)	Unrestricted
Transient occupancy tax	Unrestricted local tax imposed on merchant sales	N/A	Derived tax	Unrestricted
Franchise tax	Unrestricted local tax	N/A	Derived tax	Unrestricted
Business license tax (nonregulatory)	Essentially a local tax on business activity	N/A	Derived tax	Unrestricted
Motor vehicle in lieu	Unrestricted shared state revenues	N/A	Imposed Nonexchange	Unrestricted
Rental income	Rental income not generated by program activity	N/A	Exchange	Unrestricted
Local taxes added to tax rolls	Restricted locally imposed taxes are general revenues	N/A	Imposed Nonexchange	Restricted
Real property transfer tax	Unrestricted local tax assessed on property sales	N/A	Derived tax	Unrestricted
Unrestricted state subventions	Unrestricted shared state revenue	N/A	Shared (Voluntary Nonexchange)	Unrestricted
Utility users tax	Unrestricted local tax	N/A	Derived tax	Unrestricted
Gaming (casino) revenues	Unrestricted local tax	N/A	Derived tax	Unrestricted
Paramutual betting taxes	Unrestricted local tax	N/A	Derived tax	Unrestricted
Admissions taxes	Unrestricted local tax	N/A	Derived tax	Unrestricted
Sales of capital assets	Revenue generated by the local government	N/A	Exchange	Unrestricted



Settlements	Revenue generated by legal activity	N/A	Exchange	Unrestricted
Insurance proceeds	Unrestricted revenue generated locally	N/A	Exchange	Unrestricted
Type of				Classification
<u>Revenue</u>	<u>Revenue Description</u>	<u>Program</u>	<u>GASB 33</u>	<u>in Statement</u>
<b>PROGRAM REVENUES:</b>				<u>of Net Assets</u>
Charges for services:				
Business license fee (regulatory)	Charges to applicants for privileges provided	General	Exchange	Unrestricted
Building permits	Charges to applicants for privileges provided	Community Development	Exchange	Unrestricted
Development processing fees	Charges to applicants for privileges provided	Community Development	Exchange	Unrestricted
Animal licenses	Charges to applicants for privileges provided	Health	Exchange	Unrestricted
Plan check fees	Charges to others for services provided	Community Development	Exchange	Unrestricted
Service related special assessments	Charges to others for services provided	Varies	Exchange	Restricted
Lighting and landscape assessments	Charges to others for services provided	Community Development	Exchange	Restricted
Utility service fees	Charges to others for services provided	Public Utilities	Exchange	Unrestricted
Fines and forfeitures	Generated by and derived from a specific program	Public Safety	Exchange	Unrestricted
Other service charges	Charges to others for services provided	Varies	Exchange	Unrestricted
Connection fees	Charges to others for services provided	Public Utilities	Exchange	Restricted
Administrative fees	Charges to others for services provided	General	Exchange	Unrestricted
Recreation fees	Fees generated by a specific program	Culture and Recreation	Exchange	Unrestricted
Community center rents, etc.	Rents generated by and derived from a program	Culture and Recreation	Exchange	Unrestricted
Operating contributions and grants:				
Gas tax	Restricted shared state revenue (Q&A 134)	Transportation	Government Mandated	Restricted
Prop. 172 Sales Tax	Restricted shared state revenue (Q&A 122)	Public Safety	Shared (Voluntary Nonexchange)	Restricted
Transportation Add-ons to Sales Tax	Restricted county-imposed transportation add-on	Transportation	Shared (Voluntary Nonexchange)	Restricted
AB 2766 subventions	Restricted shared state revenue	Health	Imposed Nonexchange	Restricted
Asset forfeitures (narcotic seizures)	Restricted shared state and federal confiscations	Public Safety	Imposed Nonexchange	Restricted

Grants (not capital only grants)	Program restricted revenue not limited to capital uses	Varies	Voluntary Non-exchange	Restricted
Interest earned on program revenues	Program revenue if legally restricted for that program	Varies	Exchange	Restricted
Restricted state subventions	State contributions restricted to specific functions	Varies	Government Mandated	Restricted
Type of Revenue	<u>Revenue Description</u>	<u>Program</u>	<u>GASB 33 Classification</u>	<u>Classification in Statement of Net Assets</u>
Capital contributions and grants:				
Assessments for capital purposes	Restricted capital contributions from property owners	Varies	Imposed Nonexchange	Restricted
Capital grants	Grant funds to be spent only on capital expenditures	Varies	Voluntary Non-exchange	Restricted
Interest restricted on capital revenues	If legally restricted for capital purposes	Varies	Exchange	Restricted
Contributions for capital purposes	If restricted by donor for capital expenditures	Varies	Voluntary Non-exchange	Restricted
Developer contributions	Amounts imposed on developers for project impacts	Varies	Imposed Nonexchange	Restricted
Interest on bond proceeds	Program revenue if legally restricted for capital outlays	Varies	Exchange	Restricted