Public Works Officers Institute ❖ March 24, 2022

What Today's Public Works Professionals Need to Know About Finance

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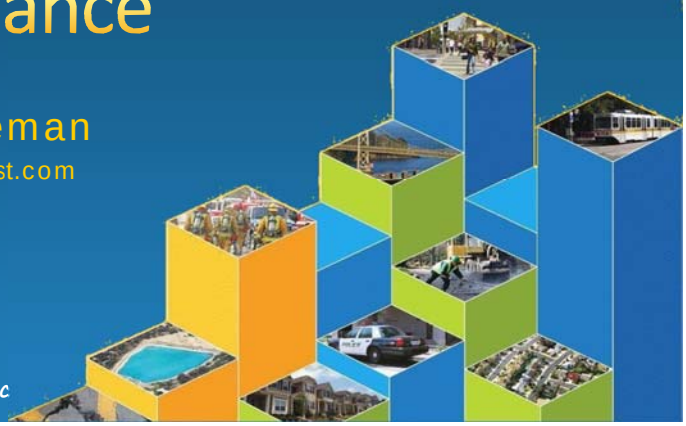


CaliforniaCityFinance.com
The California Local Government Finance Almanac

Cities Vary … Counties Vary … Special Districts Vary
… and so do their finances

- ✓ Geography: proximity, climate, terrain, access
- ✓ Community Character / Vision: Land use
  Bedroom? Industrial? Tourist? Rural? etc.
- ✓ Size – urban / rural
- ✓ Governance / service responsibilities
  full service city - vs.- *not* full service city
- ✓ Counties – amount of urban development in unincorporatia

❖ 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 a number of taxes for its own purposes including:
  cigarette taxes, alcohol taxes, personal income taxes.
- ✓ General & Special
  - ❑ **General Tax** - revenues may be used for any purpose.
    Majority voter approval required for new or increased local tax
  - ❑ **Special Tax** - 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

Fees and the Rest

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

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 classes, etc.
- ✓ Regulatory Fees: regulation, permits, inspections *
  Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, taxicab, peddlers, catering trucks, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; pet licenses; bicycle 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.

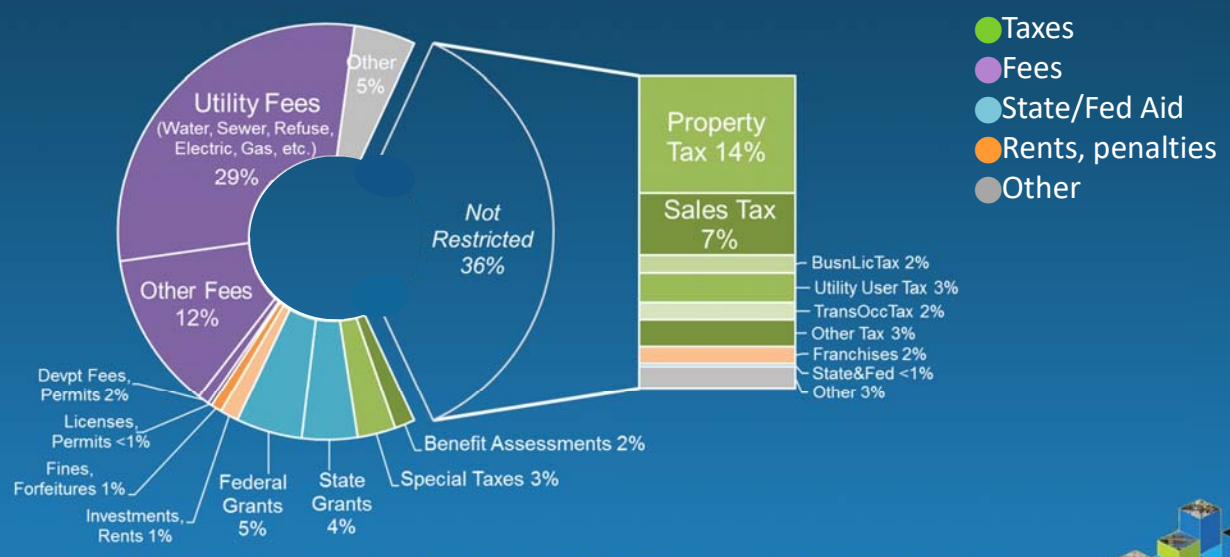
*Fee may not exceed reasonable costs.
◆Service/product/benefit may not be provided to those not charged.

Taxes and Fees/etc. Approval Requirements

(California Constitution)

	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 taxes of any taxpayer, two-thirds of each house of the Legislature …or majority of statewide voters.		Statewide majority voter approval	Majority of each house.

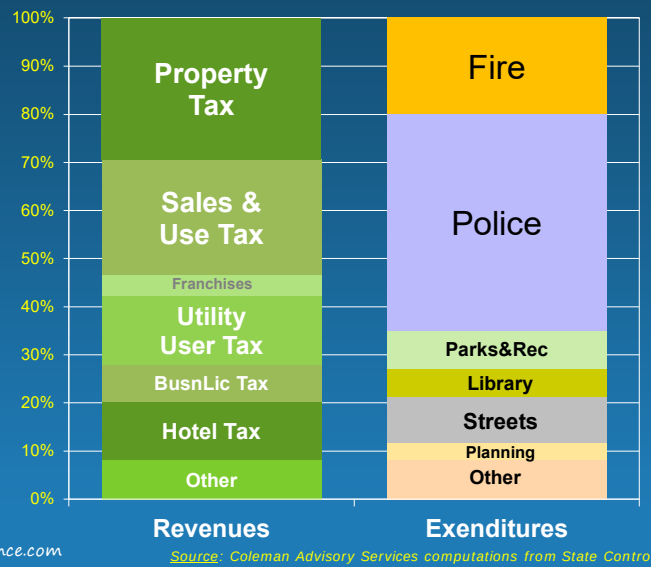
California City Revenues



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

Discretionary Revenues and Spending

Typical Full Service City



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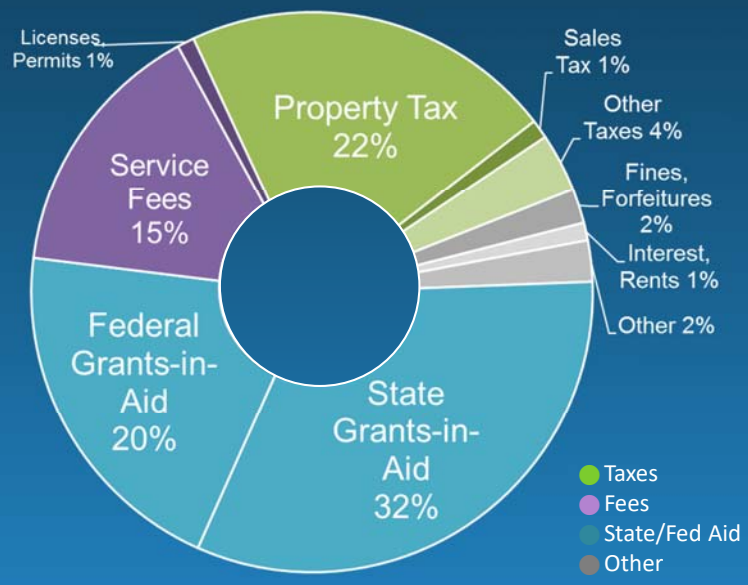
Source: Coleman Advisory Services computations from State Controller reports

March 24, 2020

California County Revenues



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.

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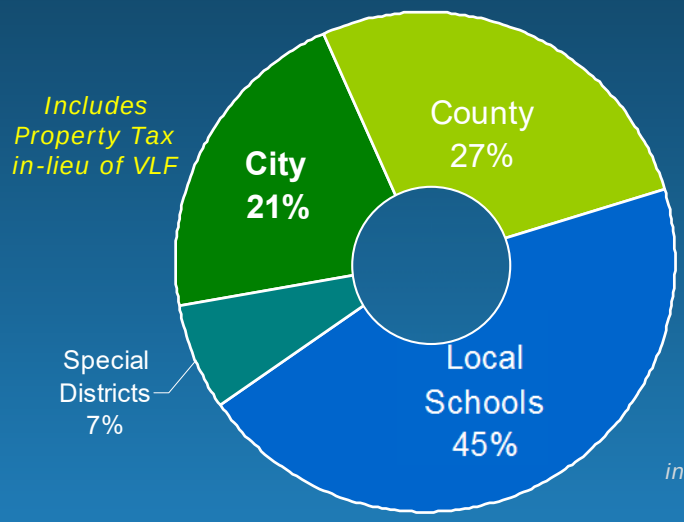
Property Tax

- ✓ An *ad valorem* tax imposed on real property and tangible personal property
- ✓ Maximum 1% rate (Article XIIIA) 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



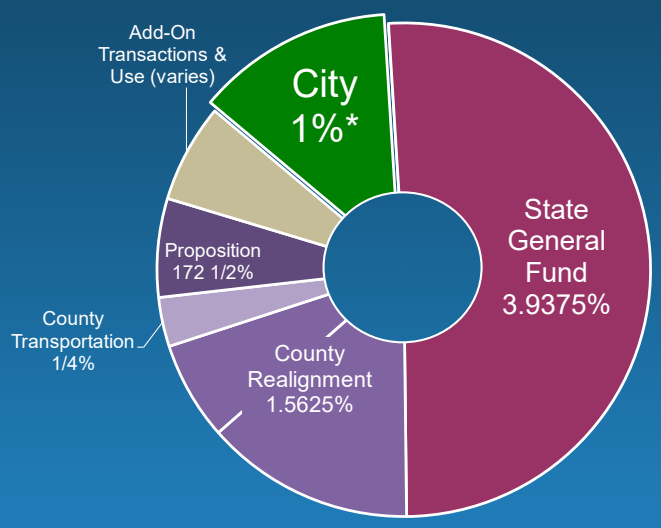
Shares Vary!

- ✓ *Non-full service cities: portions of city shares go to special districts (e.g. fire)*
- ✓ *Pre-Prop13 tax rates*

Typical homeowner in a full service city not in a redevelopment area.

Source: Coleman Advisory Services computations from Board of Equalization and State Controller data.

Where Your Sales Tax Goes



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%

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

Local Streets and Roads Revenues

Local Streets and Roads Revenues

Local $ to HUTA

Str&Hwy2103
Previously price-based
Gasoline Excise Tax
reset to @17.3¢ on 7/1/19
Now 18.7 ¢
inflation adjusted annually July 1

Str&Hwy2104-2108
Base rate
Gasoline Excise Tax 18¢
Now 19.4 ¢
inflation adjusted annually July 1

Local $ to RMRA & grants

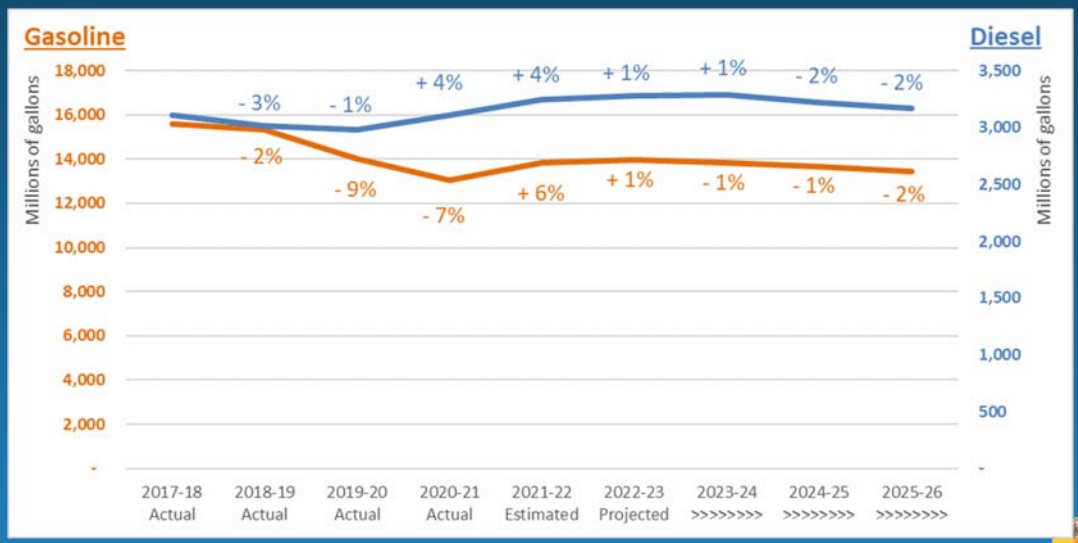
Gasoline Excise Tax +12¢
Now 13.0 ¢
inflation adjusted annually July 1

Diesel Excise Tax
+20¢/gal
Now 22.0 ¢
inflation adjusted annually July 1

Transportation Improvement Fee
$25 to $175/year
depending on auto value
Now $27-192
inflation adjusted annually January 1

inflation adjusted annually July 1
ZEV Registration Fee
$100/yr on 2020 models / later

Fuel Consumption



Fuel and Registration Tax Increases

Calif. Gasoline Excise Tax
per gallon

Effective Date	Total
July 1, 2019	$ 0.473
July 1, 2020	$ 0.505
July 1, 2021	$ 0.511
July 1, 2022 est	$ 0.541

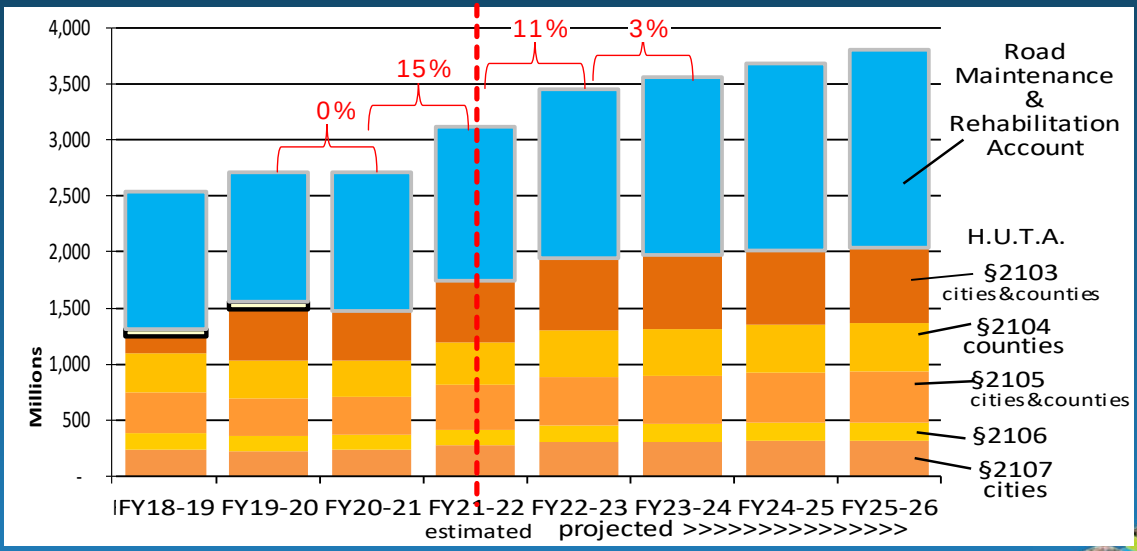
Calif. Diesel Excise Tax
per gallon

Effective Date	Total
July 1, 2019	$ 0.360
July 1, 2020	$ 0.385
July 1, 2021	$ 0.389
July 1, 2022 est	$ 0.411

Vehicle Registration Tax
(Transportation Improvement Fee)

Vehicle Value	Jan 2018	Jan 2020	Jan 2021	Jan 2022
0 - $4,999	$ 25	$ 27	$ 27	$ 28
$5,000 - $24,999	$ 52	$ 54	$ 55	$ 56
$25,000 - $34,999	$ 105	$ 107	$ 110	$ 112
$35,000 - $59,999	$ 157	$ 161	$ 165	$ 168
$60,000 & over	$ 183	$ 188	$ 192	$ 196

Local Streets and Roads $ to Cities and Counties



American Rescue Plan Act (ARPA) of 2021

ARPA State and Local Fiscal Relief Funds (SLFRF)
Use of Funds – the Four Categories

A. to respond to the public health emergency or negative economic impacts associated with the COVID19 emergency
   assist households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality

B. to support essential workers
   premium pay to eligible workers

C. to backfill a reduction in revenue since 2018-19

D. for water, sewer (incl. wastewater), or broadband infrastructure.

Revenue Loss: Big Improvements in the Final Rule!

1. "Standard Allowance" revenue loss option of $10 million (for full performance period)
   - Must choose $10m standard allowance OR calculation … one-time irrevocable choice
2. May calculate revenue loss on **fiscal year** or calendar year.
3. Must exclude tax changes (cuts or increases) adopted after January 6, 2022 from the revenue calculation.
4. May exclude tax changes (cuts and increases) adopted prior to Jan 6, but since "the beginning of the public health emergency" January 27, 2020.
   - If you choose to exclude, must exclude ALL tax changes.
5. May exclude or include utilities.
6. Must still
   - include state intergovernmental revenue, such as HUTA/RMRA road funds,
   - calculate revenue loss in aggregate,
   - use FY2018-19 as the base year.

Eligible Uses of Section "C" Qualified SLFRF

Once qualified as revenue loss, Category C funds may be expended on …

"Government services" that directly provide services or aid to citizens

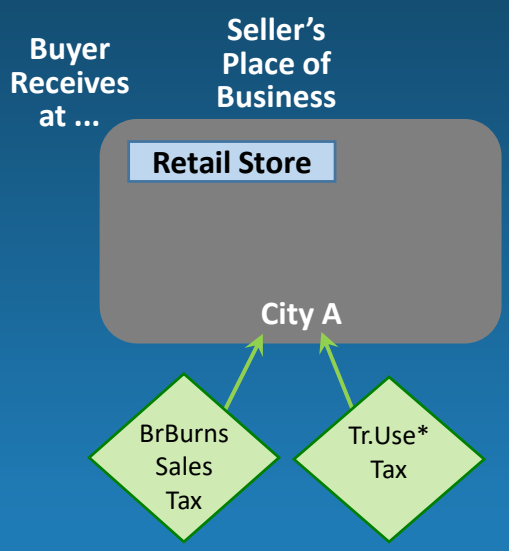
Limitations:

1. To cover costs incurred March 3, 2021-December 31, 2024;
2. Must be obligated by Dec 31, 2024, expended by Dec 31, 2026;
3. May not spend funds on pension deposits;
4. May not be used to replenish rainy day funds, financial reserves, etc.;
5. May not be used for debt obligations;
6. May not be used as non-Federal Match for other Federal Programs.

Change in Sales Taxes

- ✓ *South Dakota v. Wayfair (SCOTUS 2018):* States can require Sellers with significant business within a state to collect/remit taxes, despite not having physical presence in the state.
  - Large uptick of Use Tax (Sales Tax) from out-of-state purchase beginning in spring 2019
  - Also uptick in Transactions & Use Tax (add-on sales tax) including from instate transactions
- ✓ Pandemic hit certain sectors hard (e.g. restaurants, hospitality)
- ✓ Pandemic accelerated growth in online retail

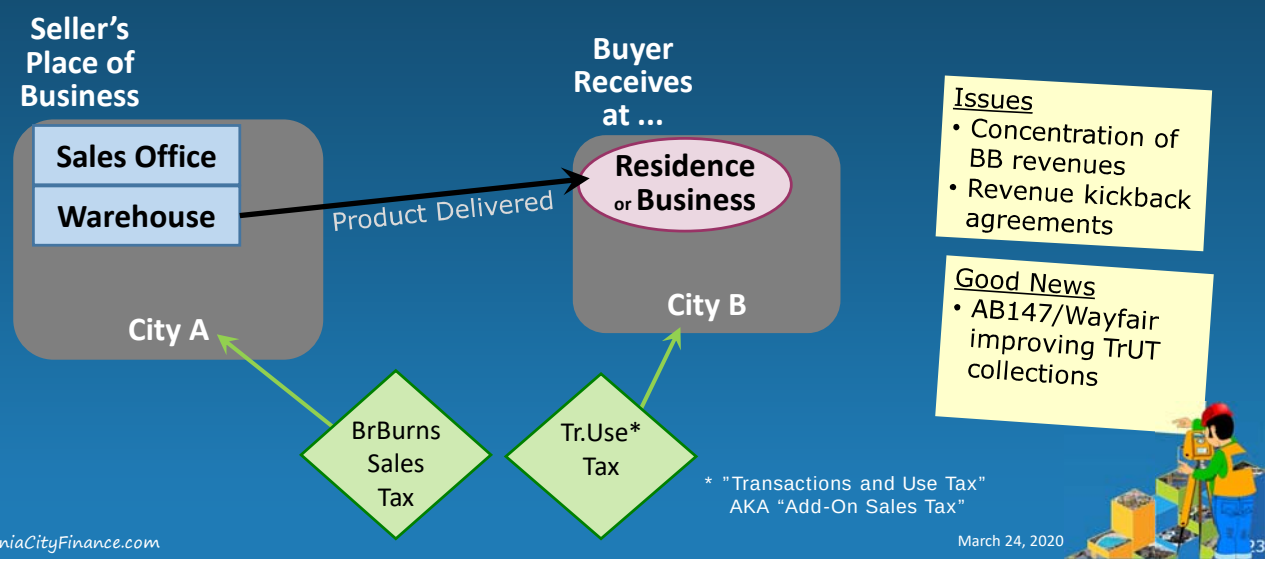
Over the Counter Sale



* "Transactions and Use Tax"
AKA "Add-On Sales Tax"

Remote (Online) Sale

Seller with *In-State* Presence

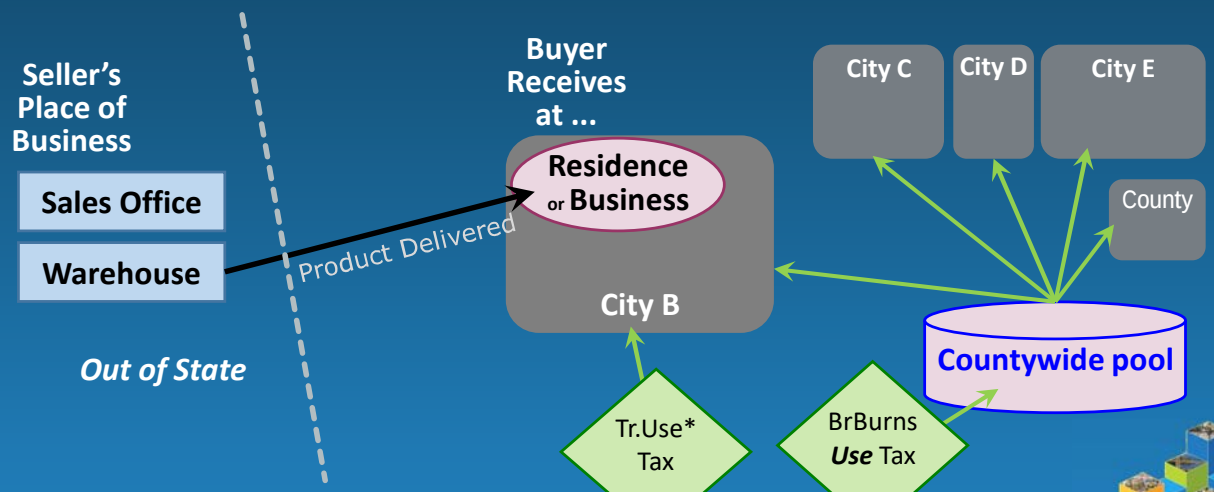


Issues
- Concentration of BB revenues
- Revenue kickback agreements

Good News
- AB147/Wayfair improving TrUT collections

Remote (Online) Sale

Seller with *Out-of-State* Presence

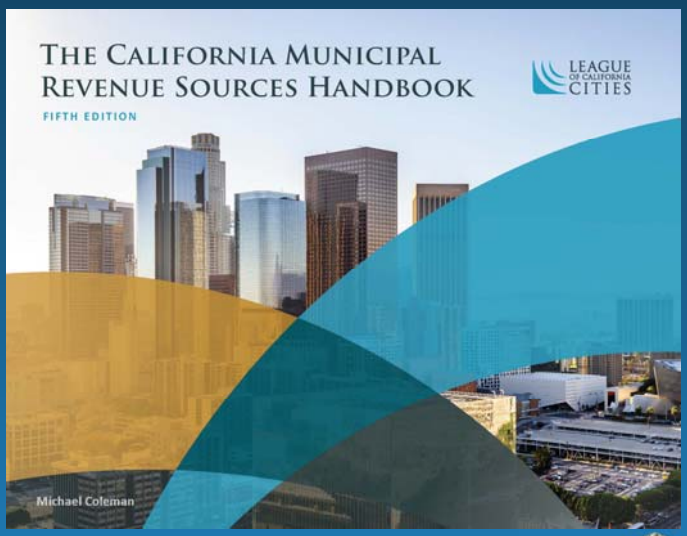


NEW EDITION - NOW AVAILABLE

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



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