Surveying the Landscape of City Finance
What Public Works Pros Need to Know
Local Streets and Roads Revenues

- **Gasoline Excise Tax**
  - Previously price-based
  - Reset to 17.3¢ on 7/1/19
  - Inflation-adjusted starting 7/1/2020
  - Str&Hwy2103

- **Transportation Improvement Fee**
  - $25 to $175/year depending on auto value
  - Inflation adjusted starting 7/1/2020

- **Diesel Excise Tax**
  - Increase by 20¢/gal
  - Str&Hwy2104-2108

- **ZEV Registration Fee**
  - $100/yr on 2020 models / later
  - Effective 7/1/2020

- **Local $ to HUTA**
  - Str&Hwy2104-2108

- **Local $ to RMRA & grants**
  - Base rate

Fuel and Registration Tax Increases

- **Gasoline Excise Tax**
  - 47.3¢ ➔ 50.5¢

- **Transportation Improvement Fee**
  - July 1, 2020: 6.76%

- **Diesel Excise Tax**
  - 36.0¢ ➔ 38.5¢

- **Plus new ZEV Registration Fee**
  - $100/yr on 2020 models / later
  - Inflation adjusted starting 7/1/2020
**Property Tax Revenue Outlook**

- Prop13 CPI for 2021 is 1.036% 😊
- Property Tax revenue growth likely to hold steady ... minimal impacts from COVID19
Pandemic Impacts – California Cities
Including the City and County of San Francisco
California Travel Spending Forecast

Source: Tourism Economics, Sept. 25 Forecast

California State Sales & Use Tax Revenues (Includes state general fund and realignment rates)

Source: California Department of Finance.
California Sales & Use Tax Collections

Source: California Department of Tax and Fee Administration data.
1st quarter = Jan-Feb-Mar, 2nd quarter = Apr-May-Jun, 3rd quarter = Jul-Aug-Sep

Regions Affected Differently
Percentage Change in 2020 from Quarter 2019

Source: California Department of Tax and Fee Administration data.
1st quarter = Jan-Feb-Mar, 2nd quarter = Apr-May-Jun, 3rd quarter = Jul-Aug-Sep
Over the Counter Sale

Buyer Receives at ...
Seller’s Place of Business

Retail Store

City A

BrBurns Sales Tax
Tr.Use* Tax

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

Remote (Online) Sale
Seller with *In-State* Presence

Seller’s Place of Business

Sales Office
Warehouse
City A

Product Delivered

Buyer Receives at ...
Residence or Business
City B

BrBurns Sales Tax
Tr.Use* Tax

* "Transactions and Use Tax"
AKA "Add-On Sales Tax"
Remote (Online) Sale

Seller with \textit{In-State} Presence

\begin{itemize}
  \item Seller’s Place of Business
  \begin{itemize}
    \item Sales Office
    \item Warehouse
  \end{itemize}
  \hspace{1cm} City A

  \item Buyer Receives at ...
  \begin{itemize}
    \item Residence or Business
  \end{itemize}
  \hspace{1cm} City B

  \item Issues
  \begin{itemize}
    \item Concentration of BB revenues
    \item Revenue kickback agreements
  \end{itemize}

  \item Good News
  \begin{itemize}
    \item AB147/Wayfair improving TrUT collections
  \end{itemize}

  \item *“Transactions and Use Tax” AKA “Add-On Sales Tax”
\end{itemize}

\vspace{1cm}

Remote (Online) Sale

Seller with \textit{Out-of-State} Presence

\begin{itemize}
  \item Seller’s Place of Business
  \begin{itemize}
    \item Sales Office
    \item Warehouse
  \end{itemize}
  \hspace{1cm} Out of State

  \item Buyer Receives at ...
  \begin{itemize}
    \item Residence or Business
  \end{itemize}
  \hspace{1cm} City B

  \item City C
  \item City D
  \item City E

  \item Countywide pool

  \item Out of State

  \item Issues
  \begin{itemize}
    \item Concentration of BB revenues
    \item Revenue kickback agreements
  \end{itemize}

  \item Good News
  \begin{itemize}
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  \end{itemize}

  \item *“Transactions and Use Tax” AKA “Add-On Sales Tax”
\end{itemize}
YOU NEED THIS

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CaliforniaCityFinance.com
The California Local Government Finance Almanac

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.

Local Tax and Bond Measure Results
Local Tax & Bond Measures
November 2020

City General Tax (Majority Vote) 132 109 83%
County General Tax (Majority Vote) 8 8 100%
City Special Tax or G.O. bond (2/3 Vote) 14 6 43%
County Spec. Tax, G.O. bond (2/3 Vote) 8 5 63%
Special District 25 13 52%
School Parcel Tax 2/3 13 10 77%
School Bond 55% 60 48 80%
Total 260 199 77%
Local Tax & Bond Measure Results November 2020

Sales Tax: 61 (Pass), 10 (Fail)
School Bonds 55%: 48 (Pass), 12 (Fail)
City/Spd ParcelTax 2/3: 14 (Pass), 16 (Fail)
Cannabis Tax: 24 (Pass), 2 (Fail)
Lodging Tax (TOT): 14 (Pass), 4 (Fail)
School Parcel Tax 2/3: 10 (Pass), 3 (Fail)
Utility Users Tax: 6 (Pass), 5 (Fail)
Sales Tax 2/3: 4 (Pass), 4 (Fail)
Busn Lic Tax - Other: 6 (Pass), 1 (Fail)
Property Transfer Tax: 5 (Pass), 1 (Fail)
G. O. Bond 2/3: 4 (Pass), 1 (Fail)
Lodging Tax (TOT) 2/3: 1 (Pass), 1 (Fail)
Utility Transfer: 1 (Pass), 1 (Fail)
Admissions Tax 2/3: 1 (Pass), 1 (Fail)
Cannabis Tax 2/3: 1 (Pass), 1 (Fail)

Local Tax & Bond Measure Results November 2020

Gubernatorial & Presidential Elections

Pass Fail
204 233 191 240 268 430 386 260
72 56 112 62 77 355 313 61
65% 76% 59% 74% 71% 83% 79% 77%
132 177 178 191 199
59% 74%
Local Tax & Bond Measure Results November 2020

Sales Taxes

Cannabis Taxes

Hotel Taxes

Utility User Taxes

Parcel Taxes and GO Bonds

Local Tax & Bond Measure Results November 2020

School Bonds

School Parcel Taxes
Local Tax Measures – Best Practices

✓ 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

Important Court Decisions
✓ Franchise Fees
✓ Tolls, Other Charges for use of Gov’t Property
Franchise Fees

- **Jacks v. City of Santa Barbara (2017 Calif Supreme Court):** City’s franchise fee on Southern California Edison was not a tax requiring voter approval. However, fees for use of government property must prove some reasonable relationship to the value of the rights the franchise confers.

- **Zolly v. Oakland:** Appellate court in March 2020 found a lack of a relationship between the fees and the solid waste franchise rights.

- **California Constitution (Proposition 26):** Charges for use of government property do not require cost justification that fees for services, benefits or regulatory programs do.

Tolls, other Charges for Use of Government Property

- **Howard Jarvis Taxpayers Association v. Bay Area Toll Authority.** S.F. Court of Appeal found $3 toll increase approved in 2018 was not a tax, but a charge for use of government property, not subject to cost of service limit.

- Decision includes a lengthy footnote disagreeing with Zolly* saying Zolly erred to apply the cost-of-service standard to a charge for use of property.

*March 2020 SF Court of Appeal, Zolly v Oakland.
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- Definitions of terms
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- Detailed guidance for calculating a Gann Appropriations Limit

https://www.cacities.org/publications

Cities Vary ... Counties Vary ... Special Districts 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
- Counties – amount of urban development in unincorporated

- 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

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

✓ Regulatory Fees: regulation, permits, inspections
   Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, taxi, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; pet licenses; big game licenses

✓ Rents: charge for entrance, use or rental of government property
   Facility/room rental fees, room rental fees, equipment rental fees, on and off-street parking, tolls, franchise, park entrance, museum admission, zoo admission, tipping fees, golf green 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.
### 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**: 14%
- **Fees**: 7%
- **State/Fed Aid**: 20%
- **Rents, penalties**: 12%
- **Other**: 5%

**Property Tax**: 14%

**Sales Tax**: 7%

**Utility Fees**
- Water, Sewer, Refuse, Electric, Gas, etc. 20%

**Other Fees**
- Other 5%

**Not Restricted**
- 36%

**Benefit Assessments**
- 2%

**Special Taxes**
- 3%

**Federal Grants**
- 5%

**State Grants**
- 4%

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

CaliforniaCityFinance.com

March 19, 2021
Where Your Sales Tax Goes

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

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>City*</td>
<td>1.0000</td>
</tr>
<tr>
<td>County TDA</td>
<td>0.2500</td>
</tr>
<tr>
<td>Proposition 172</td>
<td>0.5000</td>
</tr>
<tr>
<td>County Realignment</td>
<td>1.5625</td>
</tr>
<tr>
<td>State General Fund</td>
<td>3.9375</td>
</tr>
<tr>
<td><strong>Total base rate</strong></td>
<td><strong>7.25%</strong></td>
</tr>
</tbody>
</table>

NEW EDITION - NOW AVAILABLE

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