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

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California City Finance.com
The California Local Government Finance Almanac

Federal Budget & Economic Uncertainty
Natural Disasters Fire/Flood/etc.
Wireless Attacks on Local Control, Revenue
Transportation Funding
Homelessness
Sales Tax Concentration and Erosion
Attacks on Public Contracting
Pensions O.P.E.B.
Wastewater Funding
Cannabis
Housing Affordability
Tax/Fee Authority Threats
Consensus Economic Outlook

Growth Slowing
✓ Slow growth in U.S. GDP
✓ Flattening of stock prices
✓ Strong wage growth in 2018 & 2019, slower after
✓ Slow job growth
✓ Very low unemployment
✓ Trade disputes creating uncertainty

Housing Market Cooling
✓ Steady construction activity
✓ Rising supply of homes
✓ Tighter mortgage lending standards
✓ Higher interest rates
✓ Slower growth in home prices

Good Budget Management

Identify on-going versus temporary net revenues
Consider workload expenditure increases including wage/benefit costs of existing programs

On-going commitments
Limit on-going program increases to ongoing revenues

Proper uses of temporary revenues
• Build reserves – prepare for downturn
• Pay down debts – reduce future interest costs
• Infrastructure and deferred maintenance – reduce future costs, economic stimulus, address service needs
Use of Discretionary Resources

New Spending:
- One-Time / Temporary $5.1
- On-going $2.7

$20.5 billion

Build Reserves* $3.0
Reduce Debts & Liabilities* $9.7

Excludes K-14 Education, reserves and debt required by Calif Constitution and added costs to maintain existing policies.

Major Discretionary General Fund Spending Proposals in the Governor's Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>One-Time Temporary</th>
<th>Ongoing Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-day kindergarten, including facilities</td>
<td>$750</td>
<td>--</td>
</tr>
<tr>
<td>Child care facilities, workforce education</td>
<td>500</td>
<td>--</td>
</tr>
<tr>
<td>School districts’ pension costs</td>
<td>350</td>
<td>--</td>
</tr>
<tr>
<td>UC augmentations</td>
<td>153</td>
<td>$240</td>
</tr>
<tr>
<td>CSU augmentations CSU</td>
<td>264</td>
<td>300</td>
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<tr>
<td>Other education proposals</td>
<td>32</td>
<td>258</td>
</tr>
<tr>
<td><strong>Health and Human Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalWORKs grants increase 13.1%</td>
<td>--</td>
<td>348</td>
</tr>
<tr>
<td>IHSS continue 7% service hour restoration</td>
<td>--</td>
<td>342</td>
</tr>
<tr>
<td>Revise county IHSS share of costs</td>
<td>--</td>
<td>242</td>
</tr>
<tr>
<td>End using Prop56 to offset Medi-Cal costs</td>
<td>--</td>
<td>218</td>
</tr>
<tr>
<td>Medi-Cal to all adults (immigration status)</td>
<td>--</td>
<td>134</td>
</tr>
<tr>
<td>Other health proposals</td>
<td>77</td>
<td>34</td>
</tr>
<tr>
<td>Other human services proposals</td>
<td>148</td>
<td>219</td>
</tr>
<tr>
<td><strong>Housing and Homelessness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local gov’t housing production grants</td>
<td>750</td>
<td>--</td>
</tr>
<tr>
<td>Initiatives to address homelessness</td>
<td>600</td>
<td>36</td>
</tr>
<tr>
<td>Expand Mixed-Income Loan Program</td>
<td>500</td>
<td>--</td>
</tr>
<tr>
<td><strong>Disaster-Related</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waive counties’ share of debris removal costs from recent wildfires</td>
<td>$155</td>
<td>--</td>
</tr>
<tr>
<td>OES augmentations</td>
<td>146</td>
<td>$36</td>
</tr>
<tr>
<td>CalFire augmentations</td>
<td>18</td>
<td>87</td>
</tr>
<tr>
<td><strong>Criminal Justice</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Judicial Branch augmentations</td>
<td>155</td>
<td>56</td>
</tr>
<tr>
<td>CDCR augmentations</td>
<td>44</td>
<td>53</td>
</tr>
<tr>
<td>Other criminal justice proposals</td>
<td>16</td>
<td>117</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred maintenance various</td>
<td>134</td>
<td>--</td>
</tr>
<tr>
<td>Other proposals</td>
<td>339</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total Programmatic Spending</strong></td>
<td>$5,132</td>
<td>$2,718</td>
</tr>
</tbody>
</table>

Excludes K-14 Education, reserves and debt required by Calif Constitution and added costs to maintain existing policies.
A recession in 2019-20 could result in a ~$70 billion loss and ~$40 billion budget deficit over three years.

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

- Geography: proximity, climate, terrain, access
- 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

✓ 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>

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

California City Revenues

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
- Utility User Tax
- Hotel Tax
- Other

Expenditures

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

California County Revenues

- Property Tax 22%
- Service Fees 15%
- Federal Grants-in-Aid 20%
- State Grants-in-Aid 32%
- Sales Tax 1%
- Other Taxes 4%
- Fines, Forfeitures 2%
- Interest, Rents 1%
- Other 2%

- 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.
Where Your Property Tax Goes

Typical city resident

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

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

*Includes Property Tax in-lieu of VLF*

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.
Critically Needed Transportation Funding Arrives:
**SB1: The Road Repair and Accountability Act of 2017**

**Gas Excise Tax**
- **(HUTA) base rate**
- **Effective Jan 1, 2018**
- **Transportation Improvement Fee**
  - $25 to $175/year depending on auto value
  - **$1.6 billion/year**

**Gasoline Excise Tax**
- Increase by 12¢
- **$1.8 billion/year**
- **Effective July 1, 2019**
- **Price-based Gas Tax reset rate @17.3¢**
- **Now 11.7¢ @7/1/17**
- **+$1.1 billion/year**
- **Inflation adjusted starting 7/1/2020**

**Diesel Excise Tax**
- Increase by 20¢/gal
- **$730 million/year**
- **Effective Nov 1, 2017**

**Diesel Sales Tax**
- +4.00% to 5.75%
- **+$300 million/year**
- **Effective Nov 1, 2017**

**State GF Loans Repaid**
- **$706 million one time incl. $225 million to TCRF**
- **Beginning 2017-18 over 3 yrs**

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

**Local $ to HUTA**

**Local $ to RMRA & grants**

**Local $ to TCRF**

**Inflation adjusted starting 7/1/2020**
Local Streets and Roads Revenues

RMRA (SB1)

Game Over for New Cities and Annexations?
Pernicious Effects of the VLF-Property Tax Swap of 2004
The VLF-Property Tax Swap of 2004

- VLF (Backfill)
- Property Tax in Lieu of VLF
- State General Fund
- Cities & Counties
- $4.4 b
- Schools
- $4.4 b
- $4.4 b

* in FY2004-05

Vehicle License Fee $ Allocation Prior to 2004

- $ VLF (based on population)
- Annexation
- Existing City

CaliforniaCityFinance.com
April 4, 2019
Vehicle License Fee $ Allocation

**April 4, 2019**

CaliforniaCityFinance.com

**Existing City**

$ VLF

**Property Tax in lieu of VLF**

**No Property Tax in lieu of VLF**

**Annexation**

$ VLF

**AB1602 (Laird) 2006**

Special VLF: $50/per resident in annexed area

**April 4, 2019**

CaliforniaCityFinance.com
Vehicle License Fee $ Allocation
SB89 (2011) Eliminated All City VLF
(Diverted to state law enforcement grants)

Property Tax in lieu of VLF

Existing City

Annexation

The Lack of VLF Replacement Makes Many Annexations Fiscally Unviable

[Graph showing the impact of annexation and the lack of VLF replacement]

Denied Property Tax in Lieu of VLF that all other areas of city get
Vehicle License Fee $ Allocation

AB213 (Reyes)

Existing City

Property Tax in lieu of VLF

Annexation

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 decline in core revenues

Fear and Denial

Toxic Relationships

Ceding of management and policy choices to others