

Surveying the Landscape of City Finance

What Public Works Pros Need to Know

League of California Cities
Public Works Officer Institute
March 19, 2021

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CaliforniaCityFinance.com
The California Local Government Finance Almanac

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Utility
Rates

Property
Tax

Sales
Tax

Hotel
Occupancy
Taxes

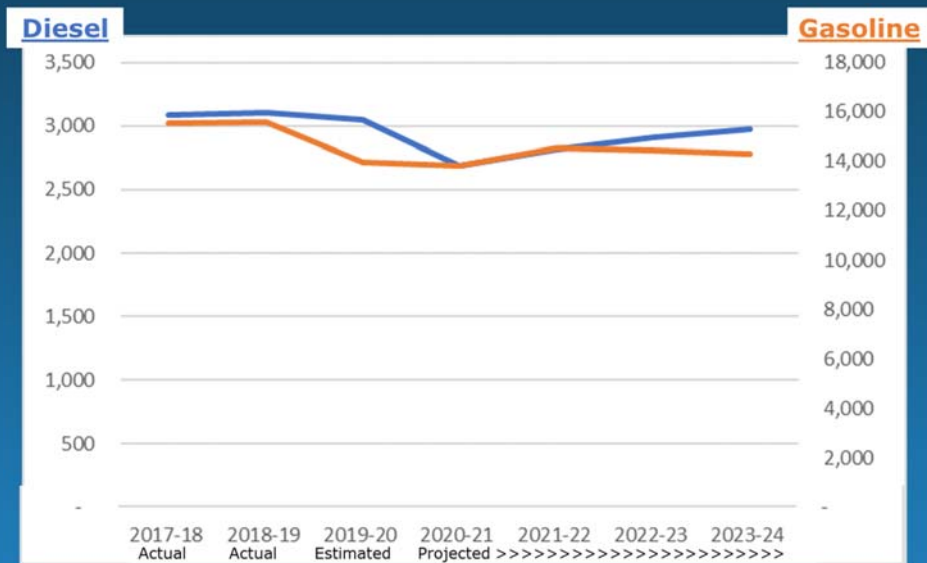
State
Road
Funds

State
COVID Recovery
Revenue

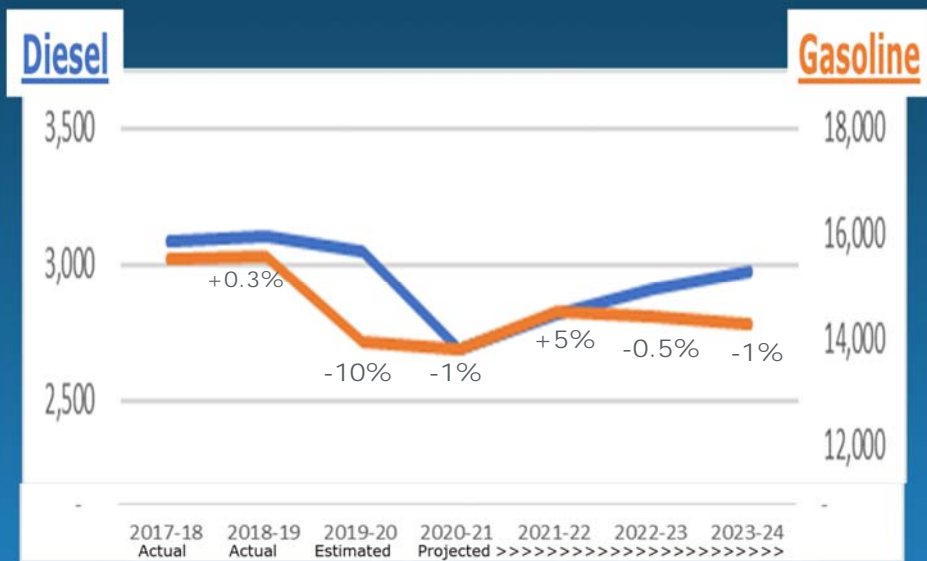
Federal
COVID Recovery
Revenue

2

Fuel Consumption



Fuel Consumption



Local Streets and Roads Revenues

Local \$ to
HUTA

Str&Hwy2103
Previously price-based
Gasoline Excise Tax
reset to @17.3¢ on 7/1/19

inflation adjusted
starting 7/1/2020

Str&Hwy2104-2108
Base rate
Gasoline
Excise Tax
18¢

inflation adjusted
starting 7/1/2020

Local \$ to
RMRA &
grants

Gasoline
Excise Tax
+12¢

inflation adjusted
starting 7/1/2020

Transportation
Improvement Fee
\$25 to \$175/year
depending on auto value

inflation adjusted
starting 7/1/2020

Diesel
Excise Tax
increase by
20¢/gal

inflation adjusted
starting 7/1/2020

effective
7/1/2020
ZEV Registration Fee
\$100/yr on 2020 models / later



Fuel and Registration Tax Increases

July 1, 2020: 6.76%

Gasoline
Excise Tax

47.3¢ → 50.5¢

Transportation
Improvement Fee

| Vehicle Value | Jan 1, 2018 | July 1, 2020 |
|---------------------|-------------|--------------|
| 0 - \$4,999 | \$ 25 | \$ 27 |
| \$5,000 - \$24,999 | \$ 52 | \$ 54 |
| \$25,000 - \$34,999 | \$ 105 | \$ 107 |
| \$35,000 - \$59,999 | \$ 157 | \$ 161 |
| \$60,000 & over | \$ 183 | \$ 188 |

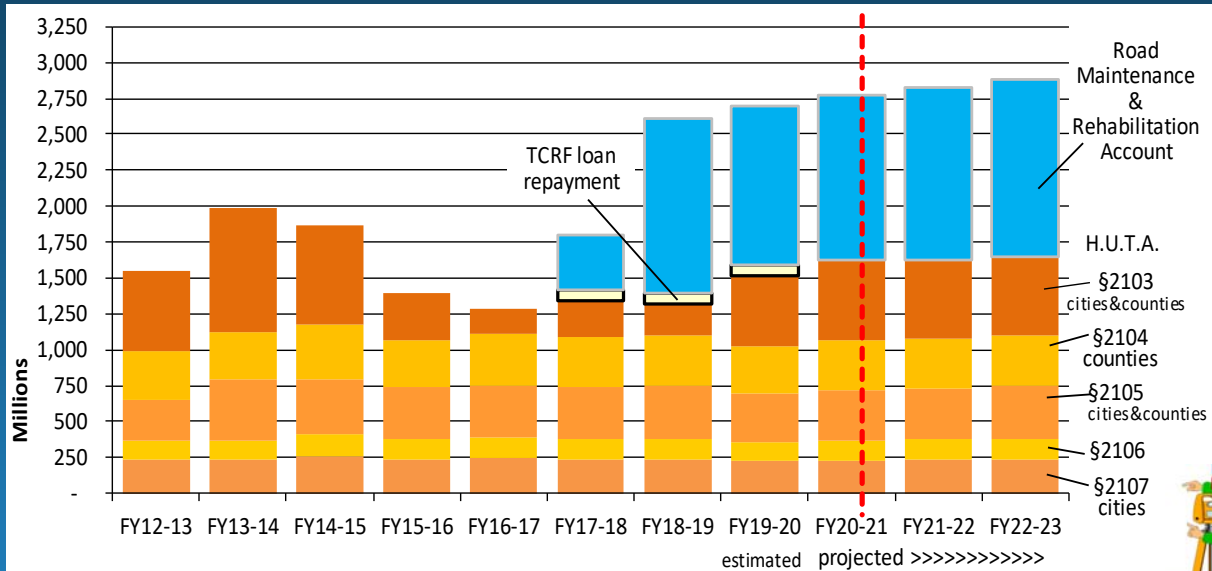
Plus new ZEV
Registration Fee
\$100/yr on 2020 models / later

Diesel
Excise Tax

36.0¢ → 38.5¢



Local Streets and Roads \$ to Cities and Counties



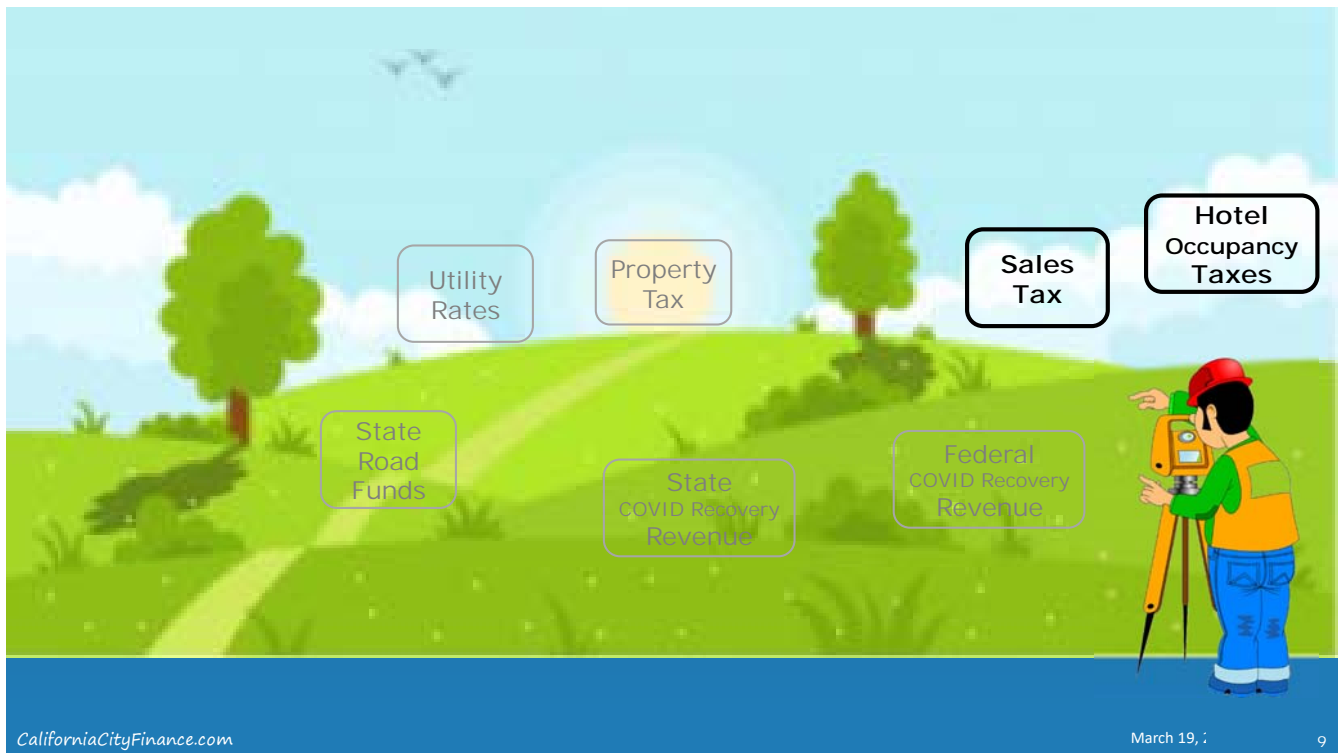
Property Tax Revenue Outlook

- ✓ Prop13 CPI for 2021 is 1.036% ☹️
- ✓ Property Tax revenue growth likely to hold steady ... minimal impacts from COVID19

Utility Rates

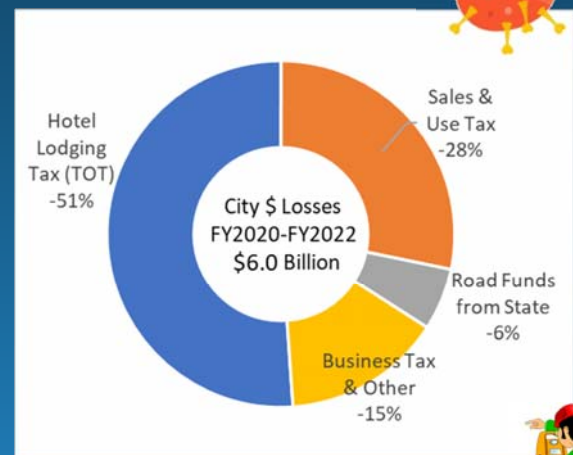
State Road Funds

Hotel Occupancy Taxes



Pandemic Impacts – California Cities

Including the City and County of San Francisco



California Travel Spending Forecast



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



California Sales & Use Tax Collections

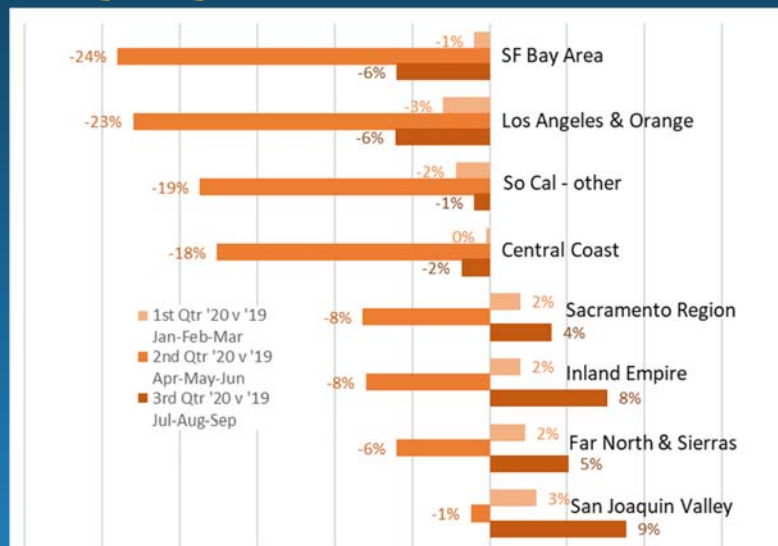


Source: California Department of Tax and Fee Administration.



Regions Affected Differently

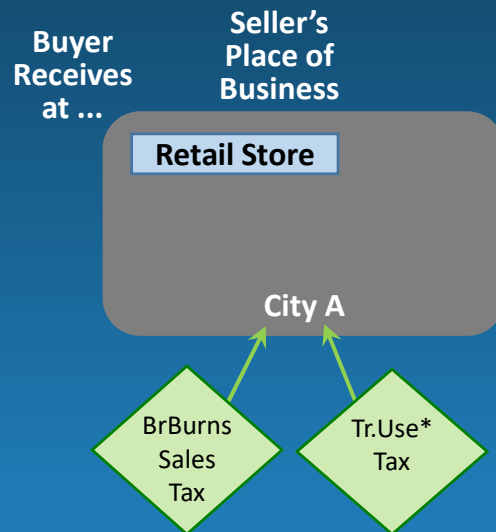
Percentage Change in 2020 from Quarter 2019



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



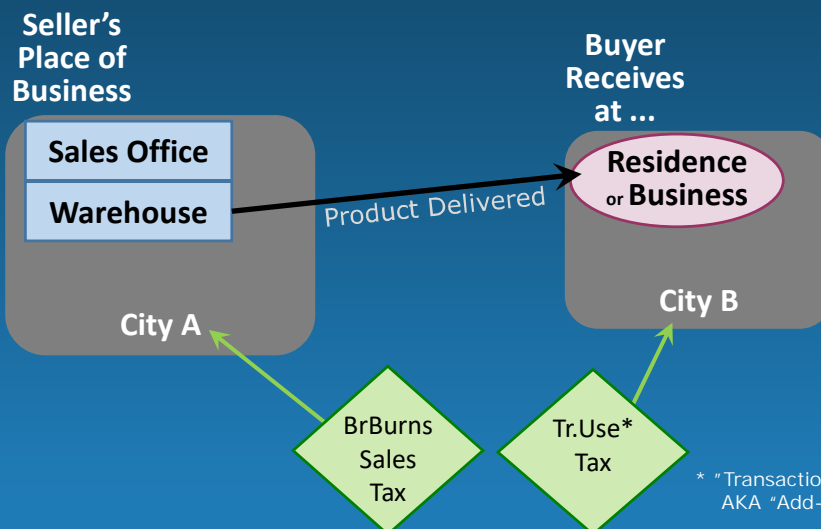
Over the Counter Sale



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



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



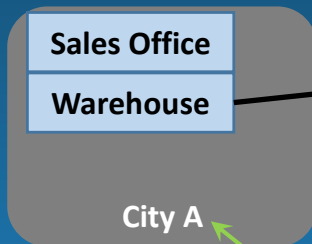
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Remote (Online) Sale

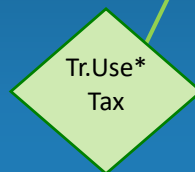
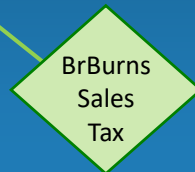
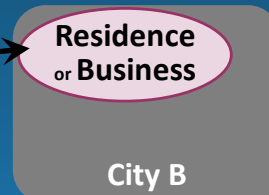
Seller with *In-State* Presence

Seller's
Place of
Business



Product Delivered

Buyer
Receives
at ...



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

Issues

- Concentration of BB revenues
- Revenue kickback agreements

Good News

- AB147/Wayfair improving TrUT collections

Remote (Online) Sale

Seller with Out-of-State Presence

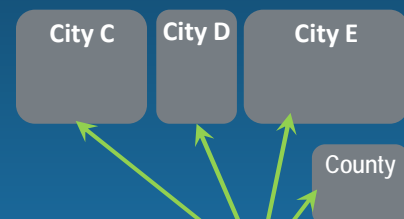
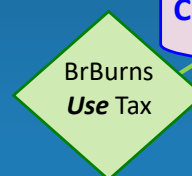
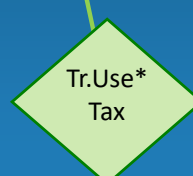
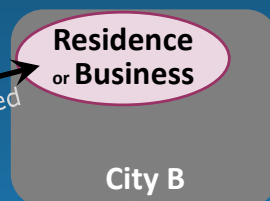
Seller's
Place of
Business



Out of State

Product Delivered

Buyer
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Finance Almanac**

YOU NEED THIS



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

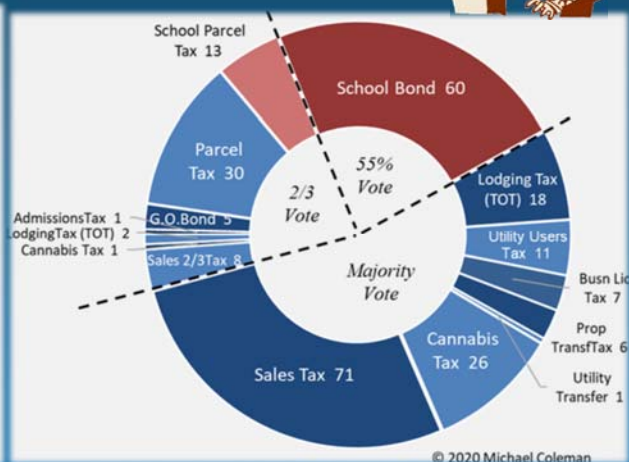
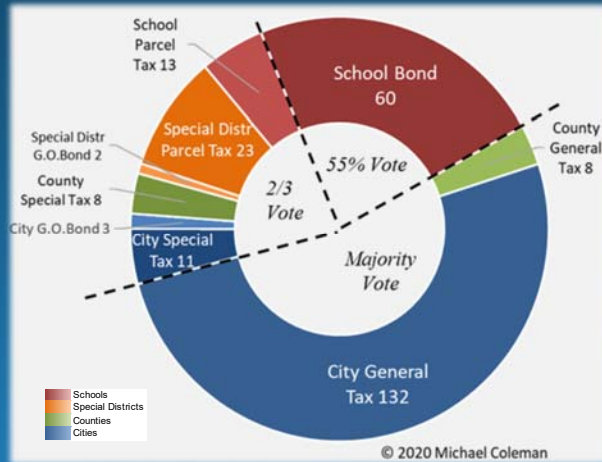
Up-to-date information on local fees, taxes, charges and
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including laws, court decisions, state tax rates and
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Local Tax and Bond Measure Results



Local Tax & Bond Measures November 2020

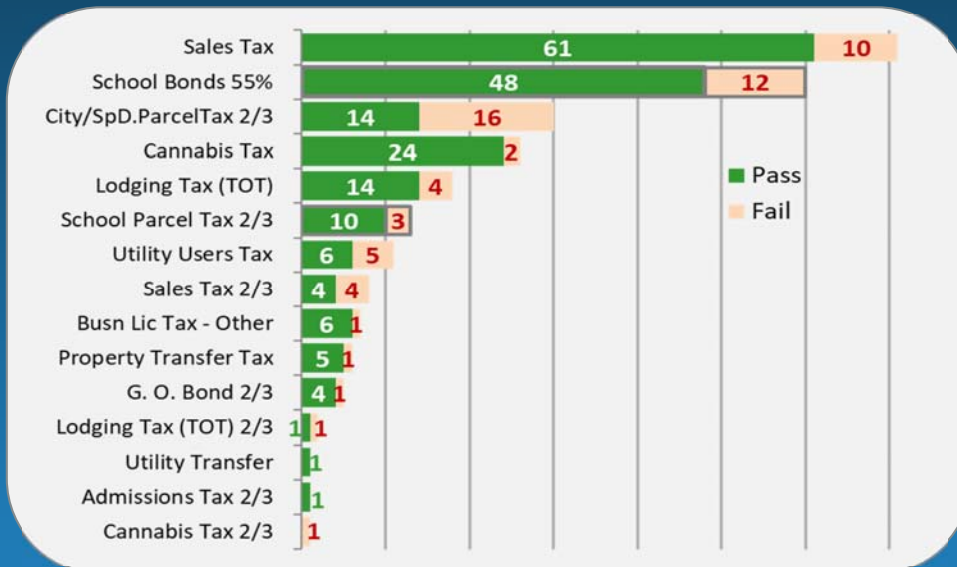


Local Tax & Bond Measure Results November 2020

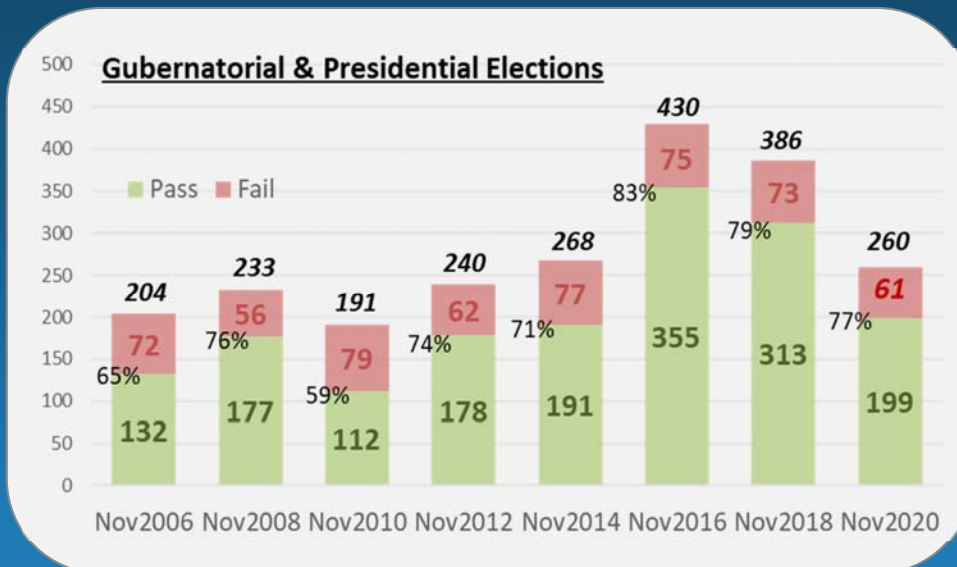


| | Total | Pass | Passing% |
|--|------------|------------|------------|
| City General Tax (Majority Vote) | 132 | 109 | 83% |
| County General Tax (Majority Vote) | 8 | 8 | 100% |
| City Special Tax or G.O. bond (2/3 Vote) | 14 | 6 | 43% |
| County Spec. Tax, G.O. bond (2/3 Vote) | 8 | 5 | 63% |
|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

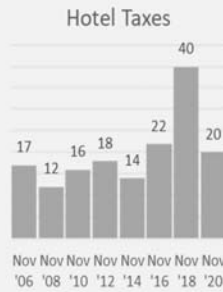
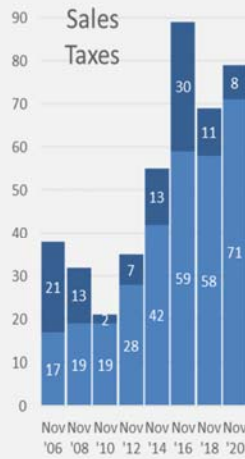
Local Tax & Bond Measure Results November 2020



Local Tax & Bond Measure Results November 2020



Local Tax & Bond Measure Results November 2020



Local Tax & Bond Measure Results November 2020



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, benefit 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.

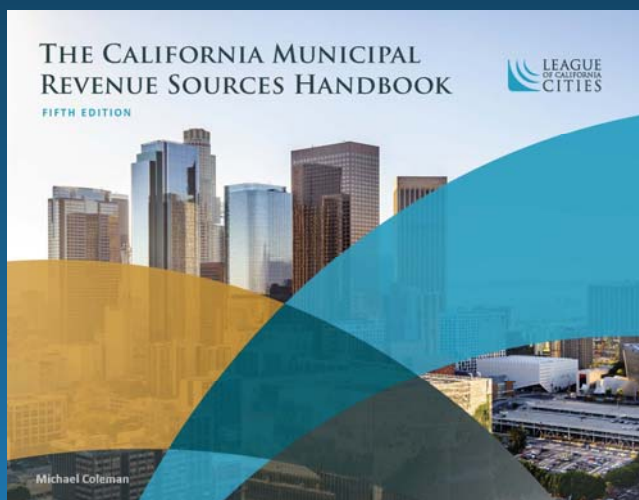
*March 2020 SF Court of Appeal, *Zolly v Oakland*.

NEW EDITION - NOW AVAILABLE

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- ✓ Data and charts
- ✓ Relevant history and issues
- ✓ Legal references
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- ✓ Capital financing and cost recovery
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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 unincorporated areas

❖ Statewide generalizations often mask trends among sub-groups

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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
- ✓ **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; bicycles
- ✓ **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.

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



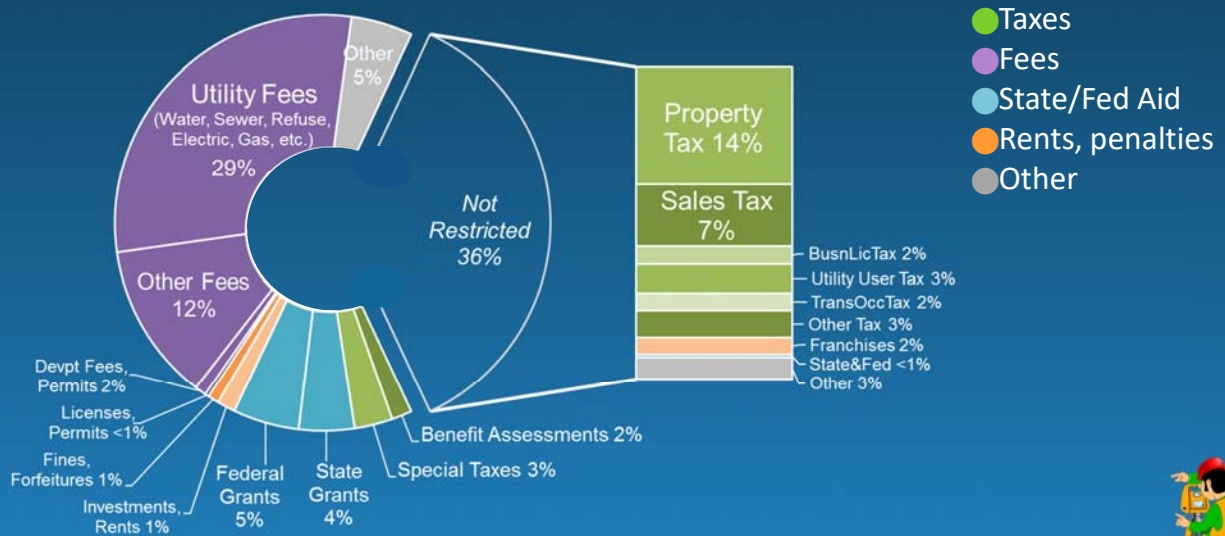
Taxes and Fees/etc. Approval Requirements

(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

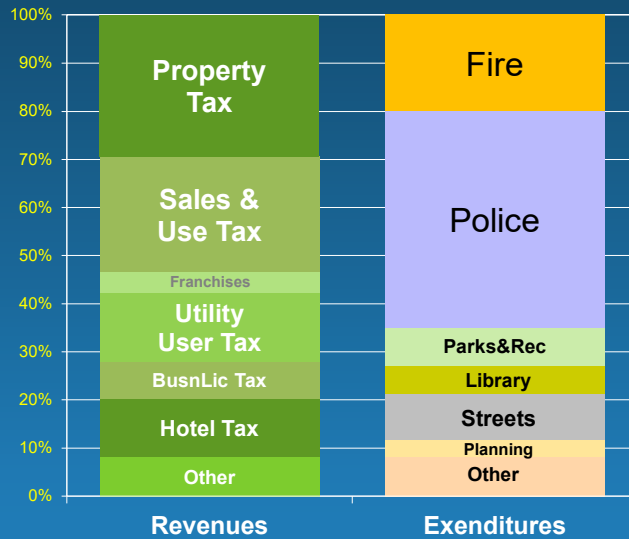


Source: Author's computations from California State Controller 2014-15 data. Does not include the City/County of San Francisco.



Discretionary Revenues and Spending

Typical Full Service City



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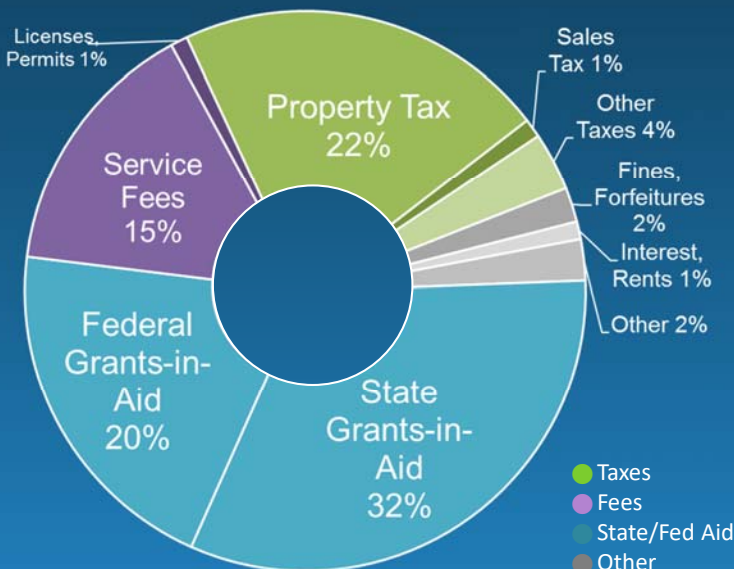
Source: Coleman Advisory Services computations from State Controller reports

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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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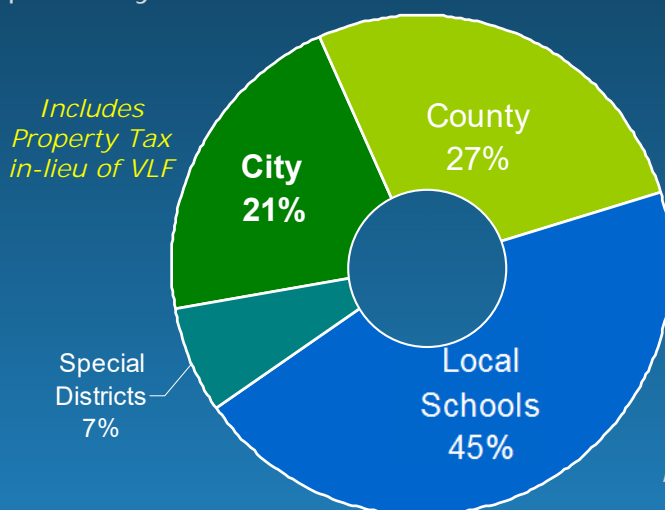
Property Tax

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



Where Your Property Tax Goes

Typical city resident



Shares Vary!

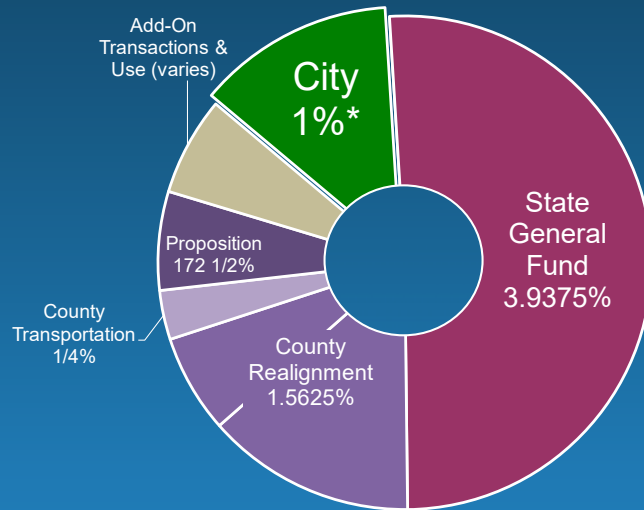
- ✓ Non-full service cities: portions of city shares go to special districts (e.g. fire)
- ✓ Pre-Prop13 tax rates

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.



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