

# City Finance 101: A Voyage Into the Strange World of California Municipal Finance

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Michael Coleman  
Fiscal Policy Advisor  
League of Calif Cities  
530.758.3952  
coleman@muni1.com  
www.californiacityfinance.com

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## Cities 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 – full service / not
- ❖ Statewide generalizations often mask trends among sub-groups

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# The Mechanics of Government Revenue



Who pays?  
visitors, residents,  
businesses, etc.

What rate / base?  
\$per gallon, % per price,  
depreciated value, etc

Who collects?  
& enforces  
payment?

How's it  
allocated?  
situs;  
pooled/population,  
etc.

What is the \$  
used for?  
general, water,  
roads, parks etc.

Who decides?

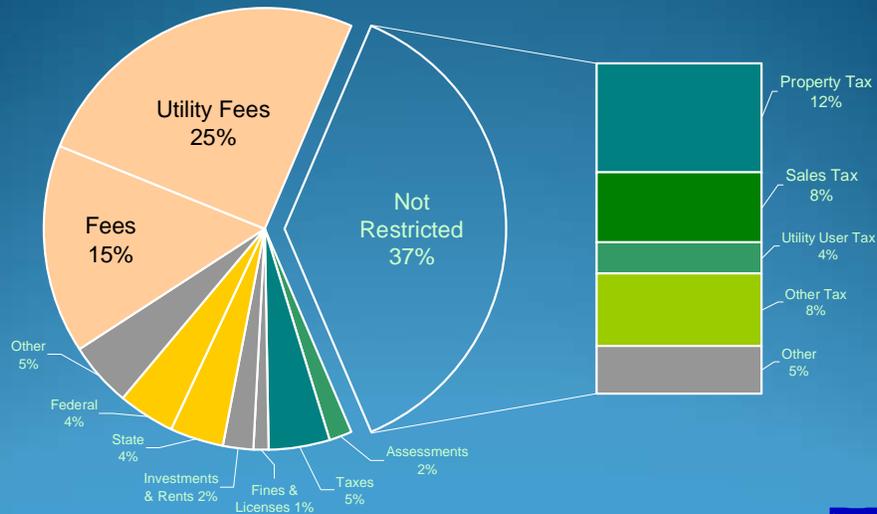
- o Statewide voters / Constitution
- o State law / Legislature
- o Local voters
- o Local law / City Council

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# California City Revenues



Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include \$19B from the 41 cities that failed to report: Beaumont, Gustine City, Loyalton, San Diego, Taft, and Tulare.

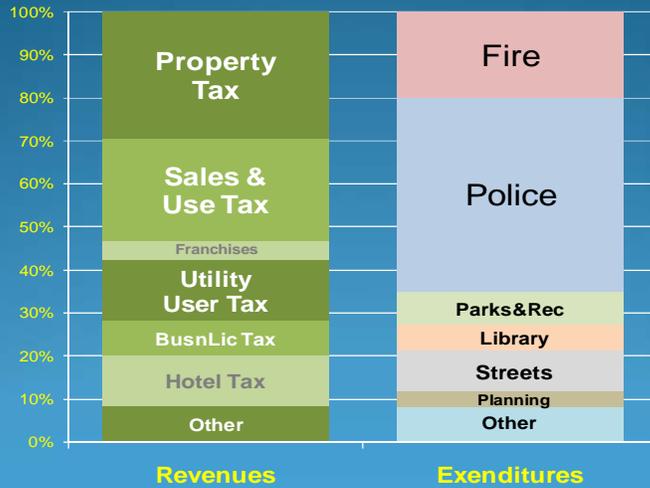
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# Discretionary Revenues and Spending

Typical Full Service City



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# Taxes

- ✓ Charges which pay for public services and facilities that provide general benefits. No need for a direct relationship between a taxpayer's benefit and the 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 Taxes - 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

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# Taxes and Fees Approval Requirements

	Fee	Tax
City or County	Majority of the city council or board of supervisors.	Two-thirds voter approval for a special tax (earmarked), majority voter approval for a general tax.
State	Majority of each house of the Legislature and Governor's approval.	<i>For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature and Governor's approval ...or approval of majority of statewide voters.</i>

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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.

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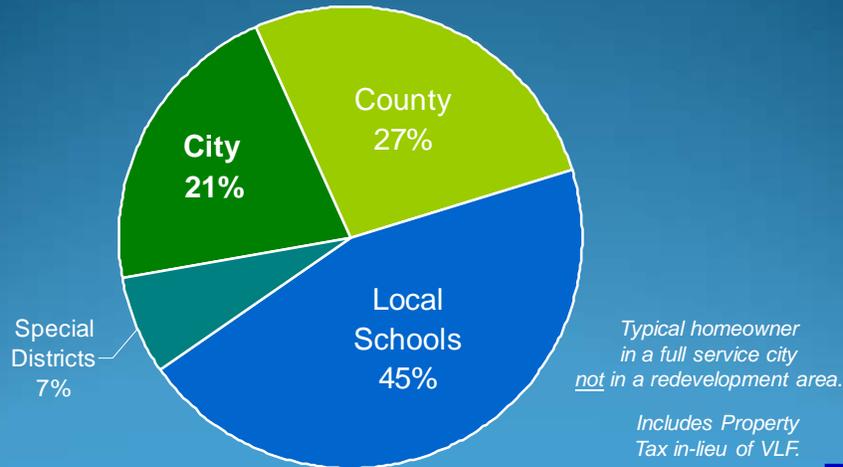
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# Where Your Property Tax Goes

Typical city resident



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

*Includes Property Tax in-lieu of VLF.*

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

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# Sales and Use Tax

- ✓ **Sales Tax:** imposed on the total retail price of any tangible personal property
- ✓ **Use Tax:** imposed on the purchaser for transactions in which the sales tax is not collected.

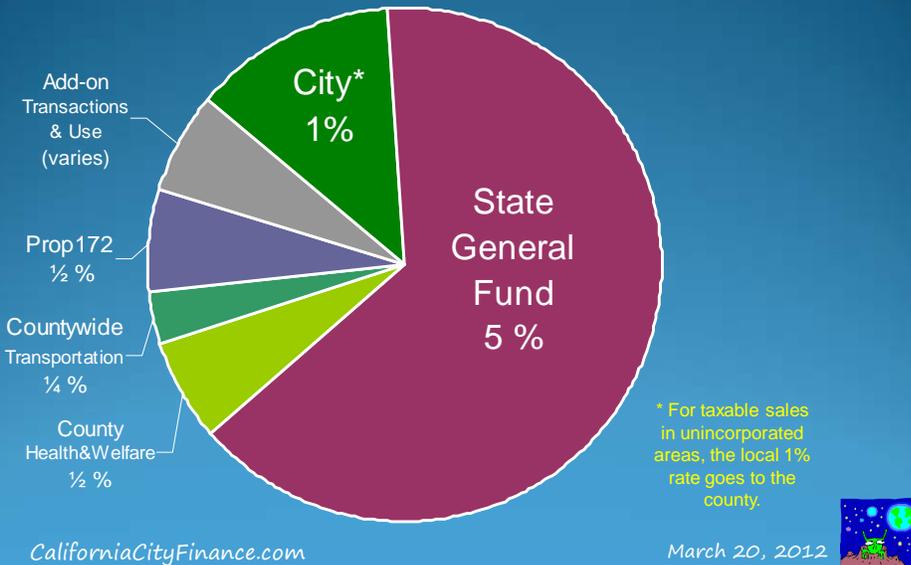
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## Where Your Sales Tax Goes



## Other Locally Adopted Taxes

- ✓ Business License Tax
- ✓ Utility User's Tax
- ✓ Transient Occupancy (Hotel) Tax
- ✓ Documentary Transfer Tax / Real Property Transfer Tax
- ✓ Parking Tax
- ✓ Admissions Tax

# Locally Adopted Revenues other than taxes

## ✓ Fees

- A charge imposed on an individual for a service or benefit provided directly to that individual.
  - ◆ User Fees
  - ◆ Property Related Fees
  - ◆ Regulatory Fees
  - ◆ Development Fees

## ✓ Assessments

## ✓ Licenses and Permits

## ✓ Franchises

## ✓ Rents, Royalties & Concessions

## ✓ Fines, Forfeitures & Penalties

### Fees

- ❖ Cities have the authority to impose fees under the police powers given to cities in Calif. constitution.
- ❖ A fee may not exceed the estimated reasonable cost for which the fee is charged.
- ❖ Specific limits and procedures in the state constitution and state law for fee & rate adoption.

## Intergovernmental Subventions

- ◆ Hwy User Tax
- ◆ Law Enfrcmt Grants (COPS)
- ◆ CDBG
- ◆ VLF\*

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# Surveying the Lunar Landscape



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# What's the Problem?

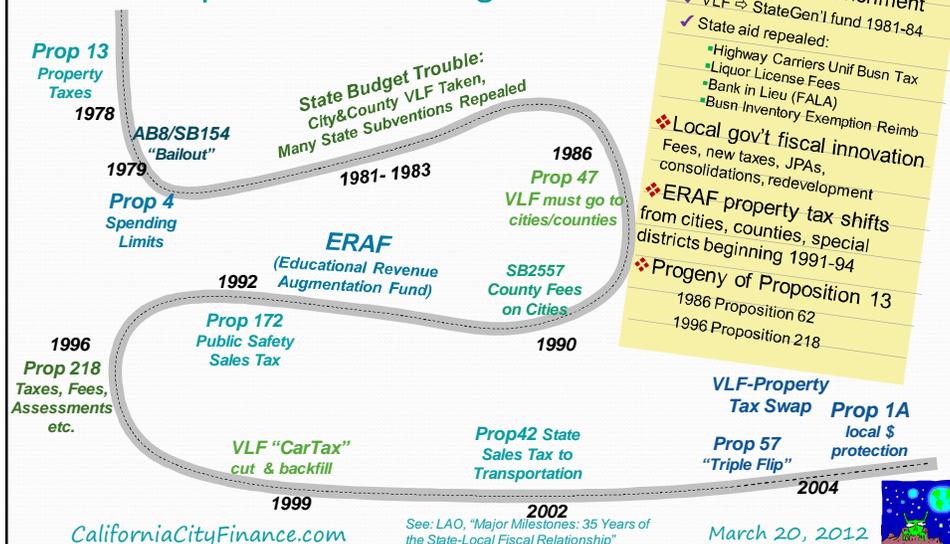
1. Tax structures out of step with changing society. Revenue growth is not sustainable:
  - sales tax, • hotel tax, • gas tax
2. Fragmentation of local finance and governance among overlapping governments
  - inefficient resource allocation
  - added pressure for higher taxes
  - lack of local flexibility / choice.
3. Risk / uncertainty of state actions
4. Disconnect between service costs and revenues in urban development
  - provides insufficient (or excess) \$ to fund public services
  - deters to balanced planning – community needs

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## The State-Local Relationship Since Proposition 13: A Rough Road



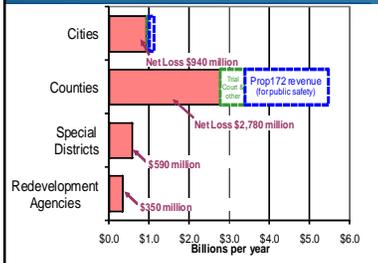
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See: LAO, "Major Milestones: 35 Years of the State-Local Fiscal Relationship"

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## E.R.A.F.(1992): Shifting Local Property Tax to Save the State General Fund



State General Fund

Cities, Counties, Special Districts

Property Tax

Schools

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### Theoretical Comparison of Annual Costs and Revenues from Different Development Proposals - 5 acre parcel

	City A Full Service - no UUT			
	Single-family Residential	Multi-family Residential	Industrial	Retail
Property Size (acres)	5	5	5	5
Residential Units	20	95	n/a	n/a
Residential Cost per DU	400,000	180,000	n/a	n/a
Retail Square footage per acre	n/a	n/a	n/a	10,000
Property Value <sup>2</sup>	8,000,000	17,100,000	3,500,000	10,000,000
Property Tax AB8 share of 1%	16.3%	16.3%	16.3%	16.3%
<b>CITY REVENUES</b>				
Property Tax Revenue	13,040	27,873	5,705	16,300
Property Tax Rev (In Lieu of VLF)	3,600	7,695	1,575	4,500
Sales Tax Revenue <sup>3</sup>	7,280	37,050	-	82,500
Business License Tax	-	5,500	5,500	5,500
Franchise Fees <sup>7</sup>	340	1,615	1,275	1,063
State Subventions & other revs <sup>4</sup>	2,268	23,877	128	367
<b>TOTAL REVENUES</b>	<b>\$ 26,528</b>	<b>\$ 103,610</b>	<b>\$ 14,183</b>	<b>\$ 110,229</b>

- Enterprise services such as water, sewer, and garbage are not included. These services are funded by user fees, such that costs equate to revenues.
- Property values assume \$400,000 per single family home, \$180,000 per multi-family unit, \$200/sf for retail, \$700,000 per acre for industrial.
- City property tax share differs from city to city depending on (among other things) the service responsibility of the city and the pre-Prop13 property tax rate.
- Retail assumes 10,000 sqft retail per acre with taxable sales of \$200 per sq ft, 75% is "new sales." Residential assumes 4%/yr resale of sf, 2% for m.

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<b>CITY EXPENDITURES</b>				
Police Department	10,080	47,880	5,544	15,750
Fire Department	5,600	26,600	3,718	10,563
Public Works	1,700	7,600	1,870	5,313
Planning & Community Dvlpmt	1,000	4,750	1,100	3,125
Parks & Community Services	2,240	10,640	370	1,050
Library	1,680	7,980	n/a	n/a
General Government	2,680	12,635	1,518	4,313
<b>TOTAL EXPENDITURES</b>	<b>\$ 24,980</b>	<b>\$ 118,085</b>	<b>\$ 14,120</b>	<b>\$ 40,113</b>
<b>NET</b>	<b>\$ 1,548</b>	<b>\$ (14,475)</b>	<b>\$ 64</b>	<b>\$ 70,117</b>
	<b>per unit \$ 77</b>	<b>\$ (152)</b>		

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## Budget Impacts of Land Development

Typical Full-Service California City Without a Utility User Tax



## Circumstances & #s Vary!

- ☞ Tax rates and shares vary
- ☞ Service responsibilities, levels, standards and impacts vary
- ☞ Projects vary

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## How did it Get this Way? Costs ≠ Revenues in Urban Development

- ✓ It's been "this way" for a long time
- ✓ Antiquated/frozen property tax allocations (AB 8) no longer reflect today's service delivery needs.
- ✓ Mid/Low cost housing usually doesn't pay for service costs.
- ✓ Per capita revenues (directly support residential services) have been lost
- ✓ The decline of city revenue options and property tax has left cities seeking other revenues
  - sales tax, utility taxes and fees

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