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 unincorporation

❖ 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 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

---

**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; bi

- **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.
# 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</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

- **Taxes**
- **Fees**
- **State/Fed Aid**
- **Rents, penalties**
- **Other**

Source: Author's computations from California State Controller 2014-15 data. Does not include the City/County of San Francisco.
March 29, 2018

California City Finance.com

Source: Coleman Advisory Services computations from State Controller reports

Counts 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
**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**

- **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

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

[CaliforniaCityFinance.com](http://CaliforniaCityFinance.com)
**Where Your Sales Tax Goes**

- **City**: 1%
- **County**: Realignment 1.5625%
- **County Transportation**: 1/4%
- **Proposition 172**: 1/2%
- **State General Fund**: 3.9375%
- **Add-On Transactions & Use (varies)**

<table>
<thead>
<tr>
<th>Source (Revenues per capita inflation adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City*</td>
</tr>
<tr>
<td>County TDA</td>
</tr>
<tr>
<td>Proposition 172</td>
</tr>
<tr>
<td>County Realignment</td>
</tr>
<tr>
<td>State General Fund</td>
</tr>
<tr>
<td><strong>Total base rate</strong></td>
</tr>
<tr>
<td>1.00</td>
</tr>
<tr>
<td>0.25</td>
</tr>
<tr>
<td>0.50</td>
</tr>
<tr>
<td>1.5625</td>
</tr>
<tr>
<td>3.9375</td>
</tr>
<tr>
<td>7.25%</td>
</tr>
</tbody>
</table>

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

**Sales Tax Collections**

Source: [California State Board of Equalization (Sales Tax)](https://www.boe.ca.gov/sales_tax), [CA Dept of Finance (Population)](https://www.finance.ca.gov), [CA Dept of Industrial Relations (CPI)](https://www.dir.ca.gov)}
Are Incorporations and Annexations Extinct?

Pernicious Effects of the VLF-Property Tax Swap of 2004

VLF (Backfill)

$4.4\text{ b}^*$

Cities & Counties

Property Tax in Lieu of VLF

$4.4\text{ b}

Schools

The VLF-Property Tax Swap of 2004

* in FY2004-05
Vehicle License Fee $ Allocation
Prior to 2004

$ VLF (based on population)

Annexation

Existing City

Vehicle License Fee $ Allocation
with Property Tax–VLF Swap
of 2004

Property Tax in lieu of VLF

No Property Tax in lieu of VLF

$ VLF

Annexation

Existing City
Vehicle License Fee $ Allocation

**AB1602 (Laird) 2006**

- Property Tax in lieu of VLF
- Special VLF: $50/per resident in annexed area

**Vehicle License Fee $ Allocation**

**SB89 (2011) Eliminated All City VLF**

(Diverted to state law enforcement grants)
The Lack of VLF Replacement Makes Many Annexations Fiscally Unviable

**AB2268 (Reyes)**
Restores Property-Tax-in-lieu-of-VLF for annexations

**Property Tax in lieu of VLF**

If annexed before 2004 VLF swap
After swap and after SB89 (2011)

The Lack of VLF Replacement Makes New Cities Fiscally Unviable

**AB24912 (Cooley)**
Would establish Property-Tax-in-lieu-of-VLF for new cities
**Cost and Revenue Impacts of New Development: The “Fiscalization of Land-Use”**

---

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

<table>
<thead>
<tr>
<th>City A</th>
<th>Full Service - no UUT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Residential</td>
</tr>
<tr>
<td>Property Size (acres)</td>
<td>5</td>
</tr>
<tr>
<td>Residential Units</td>
<td>20</td>
</tr>
<tr>
<td>Residential Cost per DU</td>
<td>$400,000</td>
</tr>
<tr>
<td>Retail Square footage per acre</td>
<td>n/a</td>
</tr>
<tr>
<td>Property Value</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Property Tax AB8 share of 1%</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

**CITY REVENUES**

<table>
<thead>
<tr>
<th></th>
<th>Residential</th>
<th>Multi-family</th>
<th>Industrial</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax Revenue</td>
<td>$13,040</td>
<td>$27,873</td>
<td>$5,705</td>
<td>$16,300</td>
</tr>
<tr>
<td>Property Tax Rev (In Lieu of VLF)</td>
<td>$3,600</td>
<td>$7,695</td>
<td>$1,575</td>
<td>$4,500</td>
</tr>
<tr>
<td>Sales Tax Revenue</td>
<td>$7,280</td>
<td>$37,050</td>
<td>$82,500</td>
<td>$1,063</td>
</tr>
<tr>
<td>Business License Tax</td>
<td>$5,500</td>
<td>$5,500</td>
<td>$5,500</td>
<td>$5,500</td>
</tr>
<tr>
<td>Franchise Fees</td>
<td>$340</td>
<td>$1,615</td>
<td>$1,275</td>
<td>$1,063</td>
</tr>
<tr>
<td>State Subventions &amp; other revs</td>
<td>$2,268</td>
<td>$5,877</td>
<td>$128</td>
<td>$207</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td><strong>$26,528</strong></td>
<td><strong>$103,610</strong></td>
<td><strong>$14,183</strong></td>
<td><strong>$110,229</strong></td>
</tr>
</tbody>
</table>

1. Enterprise services such as water, sewer, and garbage are not included. These services are funded by user fees, such that costs equate to revenues.
2. 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.
3. 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.
4. Retail assumes 10,000 sq ft retail per acre with taxable sales of $200 per sq ft, 75% is "new sales." Residential assumes 4%/yr resale of 2% for ref.

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

<table>
<thead>
<tr>
<th>Key A: Full Service - no UUT</th>
<th>Single-family Residential</th>
<th>Multi-family Residential</th>
<th>Industrial</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Size (acres)</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Residential Units</td>
<td>20</td>
<td>95</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Residential Cost per DU</td>
<td>$400,000</td>
<td>$180,000</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Retail Square footage per acre</td>
<td>n/a</td>
<td>n/a</td>
<td>10,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Property Value</td>
<td>$8,000,000</td>
<td>$17,100,000</td>
<td>$3,500,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Property Tax AB8 share of 1%</td>
<td>16.3%</td>
<td>16.3%</td>
<td>16.3%</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

**CITY EXPENDITURES**

<table>
<thead>
<tr>
<th>Department</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police Department</td>
<td>$10,080</td>
<td>$47,880</td>
<td>$5,544</td>
<td>$15,750</td>
</tr>
<tr>
<td>Fire Department</td>
<td>$5,600</td>
<td>$26,600</td>
<td>$3,718</td>
<td>$10,563</td>
</tr>
<tr>
<td>Public Works</td>
<td>$1,700</td>
<td>$7,600</td>
<td>$1,870</td>
<td>$5,313</td>
</tr>
<tr>
<td>Planning &amp; Community Devlpnt</td>
<td>$1,000</td>
<td>$2,500</td>
<td>$1,100</td>
<td>$1,725</td>
</tr>
<tr>
<td>Parks &amp; Community Services</td>
<td>$1,290</td>
<td>$10,640</td>
<td>$370</td>
<td>$1,050</td>
</tr>
<tr>
<td>Library</td>
<td>$1,680</td>
<td>$7,980</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>General Government</td>
<td>$2,680</td>
<td>$12,635</td>
<td>$1,518</td>
<td>$4,315</td>
</tr>
</tbody>
</table>

**TOTAL EXPENDITURES** $24,980 | $118,085 | $14,120 | $40,113

**NET**

<table>
<thead>
<tr>
<th></th>
<th>$1,548</th>
<th>$(14,475)</th>
<th>$64</th>
<th>$70,117</th>
</tr>
</thead>
<tbody>
<tr>
<td>per unit</td>
<td>$77</td>
<td>$(152)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Budget Impacts of Land Development

Typical Full-Service California City Without a Utility User Tax
Bad Brew in Troubled Cities

Over-reliance on land development revenue
Over-reliance on redevelopment revenues
Unsustainable / intractable employee compensation esp. public safety pension, retiree health care
Unsustainable decline in core revenues
Risky financing schemes
Fear and Denial
Toxic Relationships
Ceding of management and policy choices to others

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

**SB 1 Restored Lost Purchasing Power for the Gas Tax**

![Graph showing the restored purchasing power of the gas tax](Image)

*Source: Governor's Proposed 2018-19 Budget Summary, Figure INT-06*

---

Local Streets and Roads Revenues

**RMRA (SB1)**

![Bar chart showing local streets and roads revenues](Image)

*Source: CaliforniaCityFinance.com*