What Planners Need to Know About City Finance Today

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Cities 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

❖ 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 some 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

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

✓ 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.

*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)

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

**Not Restricted 36%**

- **Utility Fees** (Water, Sewer, Refuse, Electric, Gas, etc.) 20%
- **Other Fees** 12%
- **Other** 5%
- **Property Tax** 14%
- **Sales Tax** 7%
- **Benefit Assessments** 2%
- **Special Taxes** 3%
- **State Grants** 4%
- **Federal Grants** 5%
- **Imports, Rents** 1%
- **Investments** 1%
- **Fines, Forfeitures** 1%
- **Licenses, Permits** <1%
- **Devel Fees, permits** 2%

**State/Fed Aid**

- 2%
- 1%
- 3%
- 1%
- 1%
- 2%

**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 XIIIA) 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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**Where Your Property Tax Goes**

Typical city resident

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

*Includes Property Tax in-lieu of VLF*

**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:* Author's computations from Board of Equalization and State Controller data.

CaliforniaCityFinance.com
* For taxable sales in unincorporated areas, the local 1% rate goes to the county.
Are Incorporations and Annexations Extinct?

Pernicious Effects of the VLF-Property Tax Swap of 2004

The VLF-Property Tax Swap of 2004

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

* 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

$ 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

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

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

<table>
<thead>
<tr>
<th>If annexed before 2004 VLF swap</th>
<th>After swap and after SB89 (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>Property Tax</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>Sales Tax</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
</tr>
</tbody>
</table>

#### AB213 (Reyes)
Restores Property-Tax-in-lieu-of-VLF for annexations

### The Lack of VLF Replacement Makes New Cities Fiscally Unviable

#### AB818 (Cooley)
Would establish Property-Tax-in-lieu-of-VLF for new cities

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[Diagram and charts illustrating the financial impacts of VLF and annexations, with annotations explaining the implications of AB213 and AB818.]
# Cost and Revenue Impacts of New Development: The “Fiscalization of Land-Use”

## Table: Theoretical Comparison of Annual Costs and Revenues from Different Development Proposals

<table>
<thead>
<tr>
<th>Key A</th>
<th>Full Service - no UUT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single-family 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>
<tr>
<td>CITY EXPENDITURES</td>
<td></td>
</tr>
<tr>
<td>Police Department</td>
<td>$10,080</td>
</tr>
<tr>
<td>Fire Department</td>
<td>$3,600</td>
</tr>
<tr>
<td>Public Works</td>
<td>$1,500</td>
</tr>
<tr>
<td>Planning &amp; Community Development</td>
<td>$1,000</td>
</tr>
<tr>
<td>Parks &amp; Community Services</td>
<td>$2,200</td>
</tr>
<tr>
<td>Library</td>
<td>$1,800</td>
</tr>
<tr>
<td>General Government</td>
<td>$2,680</td>
</tr>
<tr>
<td>TOTAL EXPENDITURES</td>
<td>$24,980</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 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 mf.
Theoretical Comparison of Annual Costs and Revenues from Different Development Proposals - 5 acre parcel

<table>
<thead>
<tr>
<th>Property Size (acres)</th>
<th>Single-family Residential</th>
<th>Multi-family Residential</th>
<th>Industrial</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Units</td>
<td>200</td>
<td>250</td>
<td>100</td>
<td>250</td>
</tr>
<tr>
<td>Retail Square footage per acre</td>
<td>400</td>
<td>300</td>
<td>100</td>
<td>200</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>
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<td>16.3%</td>
</tr>
<tr>
<td>TOTAL EXPENDITURES</td>
<td>$24,980</td>
<td>$118,085</td>
<td>$14,120</td>
<td>$40,113</td>
</tr>
</tbody>
</table>

CITY REVENUES

| Property Tax Revenue | $13,040                    | $27,873                 | $2,705     | $12,000 |
| Property Tax Rev (InLieu of VLF) | $3,605                  | $7,695                  | $1,775     | $4,300 |
| Sales Tax Revenue    | $7,280                    | $17,090                 | $3,605     | $8,500  |
| Business License Tax | $5,500                    | $5,500                  | $5,500     | $5,500  |
| Franchise Fees       | $240                      | $1,615                  | $1,275     | $1,063  |
| State Subventions & other revs | $2,268                   | $23,877                 | $128       | $367    |
| TOTAL REVENUES       | $26,528                   | $103,610                | $14,183    | $110,229 |

NET per unit $1,548 | $(14,475)$ | $64 | $70,117

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Budget Impacts of Land Development

Typical Full-Service California City Without a Utility User Tax