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

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Transportation Funding
Affordable Housing
Parks / Water Bond
Cap and Trade Program Renewal
Property Tax-VLF for New Cities

Cannabis
Pensions
Fire/Flood/etc.
Federal Budget Uncertainty
Sales Tax Erosion
Attacks on Public Contracting
Wireless Attacks on Local Control
The State of the State

- State tax revenues hold steady
  …but a downturn will come
- Operating budget debt nearly erased
  …but large unfunded employee retirement costs remain
- Reserves at over $10 billion
  historic high
- State prepays CalPERS $6 billion
State of the State

Uncertainties/risks:
- Federal tax act
- Federal renewal of some programs
- Effects on Medicaid, health care
- Emergency response, disaster relief costs and federal assistance
- Cannabis revenues

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 unincorporatia
  - 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 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
   imposted 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
  general benefits / services - majority vote special (earmarked) - 2/3 vote
- Fees
  user fees, regulatory fees
- State/Federal Aid
- Rents, penalties
- Other

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

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>0%</td>
</tr>
<tr>
<td>Sales &amp; Use Tax</td>
<td>22%</td>
</tr>
<tr>
<td>Franchises</td>
<td>5%</td>
</tr>
<tr>
<td>Utility User Tax</td>
<td>4%</td>
</tr>
<tr>
<td>BusnLic Tax</td>
<td>2%</td>
</tr>
<tr>
<td>Hotel Tax</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
</tr>
</tbody>
</table>

### California County Revenues

- **Property Tax:** 32%
- **State Grants-in-Aid:** 20%
- **Federal Grants-in-Aid:** 15%
- **Service Fees:** 10%
- **Sales:** 5%
- **State/Fed Aid:** 2%
- **Other:** 1%

**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

- Includes Property Tax in-lieu of VLF
- 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

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.

CaliforniaCityFinance.com

March 29, 2018

Where Your Sales Tax Goes

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

City* 1.00
County TDA 0.25
Proposition 172 0.50
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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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

Source: Governor’s Proposed 2018-19 Budget Summary Figure INT-06

SB 1 Restored Lost Purchasing Power for the Gas Tax

Local Streets and Roads Revenues

Source: Governor’s Proposed 2018-19 Budget Summary Figure INT-06

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**Bottom Lines for Local Budgets**
Continuously Appropriated Funds

**Highway Users Tax (HUTA)**
- FY2017-18 estimates (as of January 2018)
  - Base HUTA (Sec 2104-2107) up 1.7% from 2016-17
  - Variable Rate HUTA (Sec 2103) up 50% from 2016-17
  - Combined HUTA growth in FY2017-18 over 2016-17 = 8.3%
- FY2018-19 HUTA to grow 17% over FY2017-18

**Road Maintenance and Rehab Funding (RMRA) from SB1**
- Money began flowing in February

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**Road Repair and Accountability Act Revenues**

- **Price-based Gas Tax**
  - Reset rate @ 17.3¢
  - Now 11.7¢ @ 7/1/17
  - +$1.1 billion/year
  - Inflation adjusted starting 7/1/2020

- **Gas Excise Tax (HUTA) base rate**
  - Beginning 2017-18 over 3 yrs
  - State GF Loans Repaid
  - $706 million one time incl. $225 m to HUTA

- **Transportation Improvement Fee**
  - $25 to $175/year depending on auto value
  - +$1.6 billion/year
  - Inflation adjusted starting 7/1/2020

- **Diesel Excise Tax**
  - Increase by 20¢/gal
  - +$730 million/year
  - Inflation adjusted starting 7/1/2020

- **Diesel Sales Tax**
  - 4.00% to 5.75%
  - +$300 million/year

- **ZEV Registration Fee**
  - $100/yr on 2020 models / later
Road Repair and Accountability Act of 2017
Uses of Funds: RMRA

Road maintenance and rehabilitation
Road safety projects

- Railroad grade separations
- Traffic control devices
- Complete Street components (active transportation, pedestrian, bicycle safety, transit, drainage)
- State or federal program match

To the extent possible: redux GHG, advanced technologies, resiliency to climate change, complete street components

Maintenance of Effort
- Must maintain additional spending for street, road purposes
  - May make-up a spending shortfall in the following year

Project List
- Project list, adopted by resolution in public meeting, to CTC by May 1 for 2018-19
- CTC reviews for content but does not “approve” projects
- Failure to submit list => monthly funding forfeited ... but 90 day “grace period”
- No need to amend list if things change

Spending Report
- Annual report of project expenditures to CTC
Game Over for New Cities and Annexations?
Pernicious Effects of the VLF-Property Tax Swap of 2004

VLF (Backfill)
Cities & Counties

Property Tax in Lieu of VLF

State General Fund

Schools

$4.4 b*

* in FY2004-05
Vehicle License Fee $ Allocation

Prior to 2004

Existing City

$ VLF (based on population)

Annexation

$ VLF

Based on population

Property Tax in lieu of VLF

No Property Tax in lieu of VLF

Existing City

with Property Tax–VLF Swap of 2004
**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

- If incorporated before 2004 VLF swap
- If annexed AFTER 2004 VLF swap

Vehicle License Fee $ Allocation

AB2268 (Reyes)

- Property Tax in lieu of VLF