Public Works Officers Institute  ❖  April 4, 2019

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

Michael Coleman
Fiscal Policy Advisor
League of California Cities / CSMFO
coleman@muniwest.com
530.758.3952

CaliforniaCityFinance.com
The California Local Government Finance Almanac
Consensus Economic Outlook

Growth Slowing
✓ Slow growth in U.S. GDP
✓ Flattening of stock prices
✓ Strong wage growth in 2018 & 2019, slower after
✓ Slow job growth
✓ Very low unemployment
✓ Trade disputes creating uncertainty

Housing Market Cooling
✓ Steady construction activity
✓ Rising supply of homes
✓ Tighter mortgage lending standards
✓ Higher interest rates
✓ Slower growth in home prices

Good Budget Management

Identify on-going versus temporary net revenues
Consider workload expenditure increases including wage/benefit costs of existing programs

On-going commitments
Limit on-going program increases to ongoing revenues

Proper uses of temporary revenues
- Build reserves – prepare for downturn
- Pay down debts – reduce future interest costs
- Infrastructure and deferred maintenance – reduce future costs, economic stimulus, address service needs
Use of Discretionary Resources

New Spending:
- One-Time / Temporary: $5.1 billion
- On-going: $2.7 billion

Build Reserves*: $3.0 billion
Reduce Debts & Liabilities*: $9.7 billion

Total Programmatic Spending: $5,132 billion
On-going: $2,718 billion

Major Discretionary General Fund Spending Proposals in the Governor’s Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>One-Time Temporary</th>
<th>Ongoing Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-day kindergarten, including facilities</td>
<td>$750</td>
<td>--</td>
</tr>
<tr>
<td>Child care facilities, workforce education</td>
<td>500</td>
<td>--</td>
</tr>
<tr>
<td>School districts’ pension costs</td>
<td>350</td>
<td>--</td>
</tr>
<tr>
<td>UC augmentations</td>
<td>153</td>
<td>$240</td>
</tr>
<tr>
<td>CSU augmentations CSU</td>
<td>264</td>
<td>300</td>
</tr>
<tr>
<td>Other education proposals</td>
<td>32</td>
<td>258</td>
</tr>
<tr>
<td><strong>Health and Human Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalWORKs grants increase 13.1%</td>
<td>--</td>
<td>348</td>
</tr>
<tr>
<td>IHSS continue 7% service hour restoration</td>
<td>--</td>
<td>342</td>
</tr>
<tr>
<td>Revise county IHSS share of costs</td>
<td>--</td>
<td>242</td>
</tr>
<tr>
<td>End using Prop56 to offset Medi-Cal costs</td>
<td>--</td>
<td>218</td>
</tr>
<tr>
<td>Medi-Cal to all adults (immigration status)</td>
<td>--</td>
<td>134</td>
</tr>
<tr>
<td>Other health proposals</td>
<td>77</td>
<td>34</td>
</tr>
<tr>
<td>Other human services proposals</td>
<td>148</td>
<td>219</td>
</tr>
<tr>
<td><strong>Housing and Homelessness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local gov’t housing production grants</td>
<td>750</td>
<td>--</td>
</tr>
<tr>
<td>Initiatives to address homelessness</td>
<td>600</td>
<td>36</td>
</tr>
<tr>
<td>Expand Mixed-Income Loan Program</td>
<td>500</td>
<td>--</td>
</tr>
</tbody>
</table>

Disaster-Related
- Waive counties’ share of debris removal costs from recent wildfires: $155
- OES augmentations: 146
- CalFire augmentations: 18

Criminal Justice
- Judicial Branch augmentations: 155
- CDCR augmentations: 44
- Other criminal justice proposals: 16

Other
- Deferred maintenance various: 134
- Other proposals: 339

Total Programmatic Spending: $5,132
On-going: $2,718
Excludes K-14 Education, reserves and debt required by Calif Constitution and added costs to maintain existing policies.
Recession Scenario: $70 billion loss over 3 years

A recession in 2019-20 could result in a ~$70 billion loss and ~$40 billion budget deficit over three years.

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 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

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, taxicab, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; pet licenses; bicycle

✓ 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.

California Constitution per Prop218(1996, Prop26(2010), etc.
## 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></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>
</tr>
</tbody>
</table>

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

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## California City Revenues

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

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

**County Revenues**

- Property Tax 22%
- Federal Grants-in-Aid 20%
- State Grants-in-Aid 32%
- Service Fees 15%
- Sales Tax 1%
- Other Taxes 4%
- Licenses, Permits 1%

**State/Fed Aid**

- State/Fed Aid
- Other

**Taxes**

- Taxes
- Fees
- State/Fed Aid
- Other

Source: Author’s computations from California State Controller 2014-15 data. Includes the City/County of San Francisco.

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Where Your Property Tax Goes

Typical city resident

- City: 21%
- Local Schools: 45%
- County: 27%
- 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: Coleman Advisory Services computations from Board of Equalization and State Controller data.

Where Your Sales Tax Goes

City: 1%

State General Fund: 3.9375%

County Realignment: 1.5625%

Proposition 172: 1.0000

County Transportation: 0.2500

*Add-On Transactions & Use (varies)*

Total base rate: 7.25%

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

Source: CaliforniaCityFinance.com
Gas Excise Tax (HUTA) base rate
- Effective Nov 1, 2017
- Inflation adjusted starting 7/1/2020
- Local $ to HUTA

Price-based Gas Tax reset rate
- Effective July 1, 2019
- @17.3¢
- Now 11.7¢ @ 7/1/17
- +$1.1 billion/year
- Inflation adjusted starting 7/1/2020

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

Gasoline Excise Tax
- Increase by 12¢
- +$1.8 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
- Inflation adjusted starting 7/1/2020

ZEV Registration Fee
- $100/yr on 2020 models / later
- Inflation adjusted 7/1/2021

Local $ to TCRF

State GF Loans Repaid
- $706 million one time incl. $225m to TCRF

Beginning 2017-18 over 3 yrs

CaliforniaCityFinance.com
Pernicious Effects of the VLF-Property Tax Swap of 2004
The VLF-Property Tax Swap of 2004

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

*in FY2004-05*

Vehicle License Fee $ Allocation

Prior to 2004

- $ VLF (based on population)
- Existing City
- Annexation
- $ VLF Based on population

CaliforniaCityFinance.com
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Vehicle License Fee $ Allocation

with Property Tax – VLF Swap of 2004

Existing City

Property Tax in lieu of VLF

$ VLF

Annexation

No Property Tax in lieu of VLF

$ VLF

Existing City

$ VLF

AB1602 (Laird) 2006

Property Tax in lieu of VLF

$ VLF

Annexation

Special VLF: $50/per resident in annexed area

Existing City

$ VLF
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

Denied Property-Tax-in-Lieu-of-VLF that all other areas of city get
Vehicle License Fee $ Allocation
AB213 (Reyes)

Existing City

Property Tax in lieu of VLF

Property Tax in lieu of VLF

Annexation

Unsustainable / intractable employee compensation esp. public safety pension, retiree health care

Risky financing schemes

Over-reliance on land development revenue

Over-reliance on redevelopment revenues

Unsustainable / intractable employee compensation

Unsustainable decline in core revenues

Fear and Denial

Toxic Relationships

Ceding of management and policy choices to others

Bad Brew in Troubled Cities