Surveying the Landscape of City Finance
What Public Works Pros Need to Know

Utility Rates
Property Tax
Sales Tax
Hotel Occupancy Taxes
State Road Funds
State COVID Recovery Revenue
Federal COVID Recovery Revenue
Fuel Consumption

![Fuel Consumption Chart](CaliforniaCityFinance.com)

March 19, 2021

CaliforniaCityFinance.com

March 19, 2021
Local Streets and Roads Revenues

- **Gasoline Excise Tax**
  - Previously price-based
  - Reset to @17.3¢ on 7/1/19
  - Inflation adjusted starting 7/1/2020
- **Transportation Improvement Fee**
  - $25 to $175/year depending on auto value
  - Inflation adjusted starting 7/1/2020
- **Diesel Excise Tax**
  - Increase by 20¢/gal
  - Inflation adjusted starting 7/1/2020
- **ZEV Registration Fee**
  - $100/yr on 2020 models / later
  - Effective 7/1/2020

Fuel and Registration Tax Increases

July 1, 2020: **6.76%**

- **Gasoline Excise Tax**
  - 47.3¢  →  50.5¢
- **Transportation Improvement Fee**
  - 
  - **Diesel Excise Tax**
  - 36.0¢  →  38.5¢
  - Plus new ZEV Registration Fee
    - $100/yr on 2020 models / later
Local Streets and Roads $ to Cities and Counties

Property Tax Revenue Outlook

- Prop13 CPI for 2021 is 1.036% 😊
- Property Tax revenue growth likely to hold steady ... minimal impacts from COVID19
Pandemic Impacts – California Cities
Including the City and County of San Francisco

<table>
<thead>
<tr>
<th>Millions</th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-$500</td>
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<td></td>
</tr>
<tr>
<td>-$1,000</td>
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<td>-$1,500</td>
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</tr>
<tr>
<td>-$3,000</td>
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<td></td>
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</tr>
<tr>
<td>-$3,500</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Hotel Lodging Tax (TOT) -51%
- Sales & Use Tax -28%
- Business Tax & Other -15%
- Road Funds from State -6%
- Other -15%

City & County FY2020-FY2022 $6.0 Billion
California Travel Spending Forecast

Source: Tourism Economics, Sept. 25 Forecast

California State Sales & Use Tax Revenues
(Includes state general fund and realignment rates)

Source: California Department of Finance.
California Sales & Use Tax Collections

Source: California Department of Tax and Fee Administration data.

- 1st quarter = Jan-Feb-Mar, 2nd quarter = Apr-May-Jun, 3rd quarter = Jul-Aug-Sep

Regions Affected Differently
Percentage Change in 2020 from Quarter 2019

Source: California Department of Tax and Fee Administration data.
- 1st quarter = Jan-Feb-Mar, 2nd quarter = Apr-May-Jun, 3rd quarter = Jul-Aug-Sep
Over the Counter Sale

City A

Buyer Receives at ... Seller’s Place of Business

Retail Store

BrBurns Sales Tax

Tr.Use* Tax

* “Transactions and Use Tax” AKA “Add-On Sales Tax”

Remote (Online) Sale

Seller with In-State Presence

City A

Sales Office

Warehouse

City B

Buyer Receives at ...

Residence or Business

BrBurns Sales Tax

Tr.Use* Tax

* “Transactions and Use Tax” AKA “Add-On Sales Tax”
Remote (Online) Sale
Seller with *In-State* Presence

- **Seller’s Place of Business**
  - Sales Office
  - Warehouse

- **Buyer Receives at**
  - Residence or Business

- **Issues**
  - Concentration of BB revenues
  - Revenue kickback agreements

* "Transactions and Use Tax" AKA "Add-On Sales Tax"

Remote (Online) Sale
Seller with *Out-of-State* Presence

- **Seller’s Place of Business**
  - Sales Office
  - Warehouse

- **Buyer Receives at**
  - Residence or Business

- **Out of State**

- **Issues**
  - Countywide pool

- **City A**
- **City B**
- **City C**
- **City D**
- **City E**
- **County**

- **Good News**
  - AB147/Wayfair improving TrUT collections

- **Tr.Use* Tax**
- **BrBurns Use Tax**

* "Transactions and Use Tax" AKA "Add-On Sales Tax"
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CaliforniaCityFinance.com
The California Local Government Finance Almanac

An essential resource for anyone involved in local government finance in California.
Up-to-date information on local fees, taxes, charges and intergovernmental revenue for local governments including laws, court decisions, state tax rates and allocation formulas.

Local Tax and Bond Measure Results
## Local Tax & Bond Measures November 2020

<table>
<thead>
<tr>
<th>Measure Description</th>
<th>Total</th>
<th>Pass</th>
<th>Passing%</th>
</tr>
</thead>
<tbody>
<tr>
<td>City General Tax (Majority Vote)</td>
<td>132</td>
<td>109</td>
<td>83%</td>
</tr>
<tr>
<td>County General Tax (Majority Vote)</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>City Special Tax or G.O. bond (2/3 Vote)</td>
<td>14</td>
<td>6</td>
<td>43%</td>
</tr>
<tr>
<td>County Spec. Tax, G.O. bond (2/3 Vote)</td>
<td>8</td>
<td>5</td>
<td>63%</td>
</tr>
<tr>
<td>Special District</td>
<td>25</td>
<td>13</td>
<td>52%</td>
</tr>
<tr>
<td>School Parcel Tax 2/3</td>
<td>13</td>
<td>10</td>
<td>77%</td>
</tr>
<tr>
<td>School Bond 55%</td>
<td>60</td>
<td>48</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>260</td>
<td>199</td>
<td>77%</td>
</tr>
</tbody>
</table>
Local Tax Measures – Best Practices

- Majority-vote general tax
- Open, inclusive citizen engagement: budget/financial plans
- Compare with your neighbors
- Pick one – avoid same-ballot pile-on
- Get good advice: legal, polling, prep, campaign

Important Court Decisions

- Franchise Fees
- Tolls, Other Charges for use of Gov’t Property
Franchise Fees

- **Jacks v. City of Santa Barbara (2017 Calif Supreme Court):** City’s franchise fee on Southern California Edison was not a tax requiring voter approval. However, fees for use of government property must prove some reasonable relationship to the value of the rights the franchise confers.

- **Zolly v. Oakland:** Appellate court in March 2020 found a lack of a relationship between the fees and the solid waste franchise rights.

- **California Constitution (Proposition 26):** Charges for use of government property do not require cost justification that fees for services, benefits or regulatory programs do.

Tolls, other Charges for Use of Government Property

- **Howard Jarvis Taxpayers Association v. Bay Area Toll Authority.** S.F. Court of Appeal found $3 toll increase approved in 2018 was not a tax, but a charge for use of government property, not subject to cost of service limit.

- Decision includes a lengthy footnote disagreeing with Zolly* saying Zolly erred to apply the cost-of-service standard to a charge for use of property.

*March 2020 SF Court of Appeal, Zolly v Oakland.
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- Legal references
- Definitions of terms
- Capital financing and cost recovery
- Detailed guidance for calculating a Gann Appropriations Limit

https://www.cacities.org/publications

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 unincorporated

- 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, taxi, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; pet licenses; bike...

✓ 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.
# 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>

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**

**Utility Fees** (Water, Sewer, Refuse, Electric, Gas, etc.) 20%

**Other Fees** 12%

**Not Restricted 36%**

**Property Tax 14%**

**Sales Tax 7%**

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

- **Property Tax**: 22%
- **Sales Tax**: 1%
- **Service Fees**: 15%
- **Federal Grants-in-Aid**: 20%
- **State Grants-in-Aid**: 32%
- **Other**: 4%

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

**Factors**:
- **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 are Hybrid Local/State

- More mandates.
- Less discretionary funds.
- More vulnerable to state budgetary action.

California County Finance.com
Property Tax

- An ad valorem tax imposed on real property and tangible personal property
- Maximum 1% rate (Article XllIA) 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.
For taxable sales in unincorporated areas, the local 1% rate goes to the county.

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>City*</td>
<td>1.0000</td>
</tr>
<tr>
<td>County TDA</td>
<td>0.2500</td>
</tr>
<tr>
<td>Proposition 172</td>
<td>0.5000</td>
</tr>
<tr>
<td>County Realignment</td>
<td>1.5625</td>
</tr>
<tr>
<td>State General Fund</td>
<td>3.9375</td>
</tr>
<tr>
<td><strong>Total base rate</strong></td>
<td><strong>7.25%</strong></td>
</tr>
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