

California City Finance Primer and Update

Orange County Elected Officials Boot Camp
Irvine, CA ❖ February 15, 2013



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League of California Cities ❖ Calif Society of Municipal Finance Officers

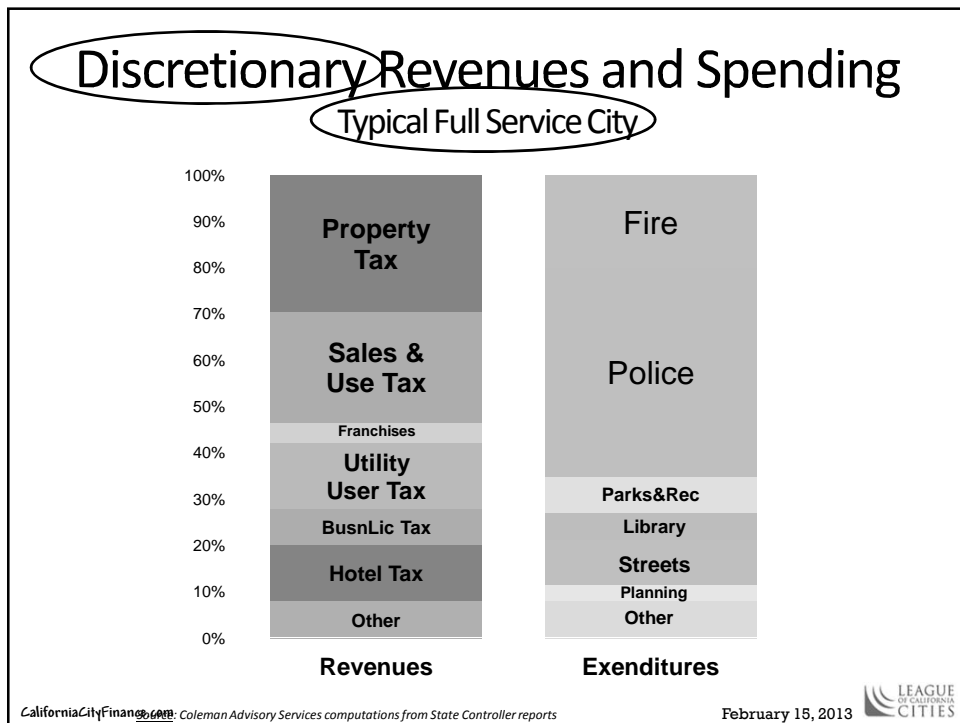
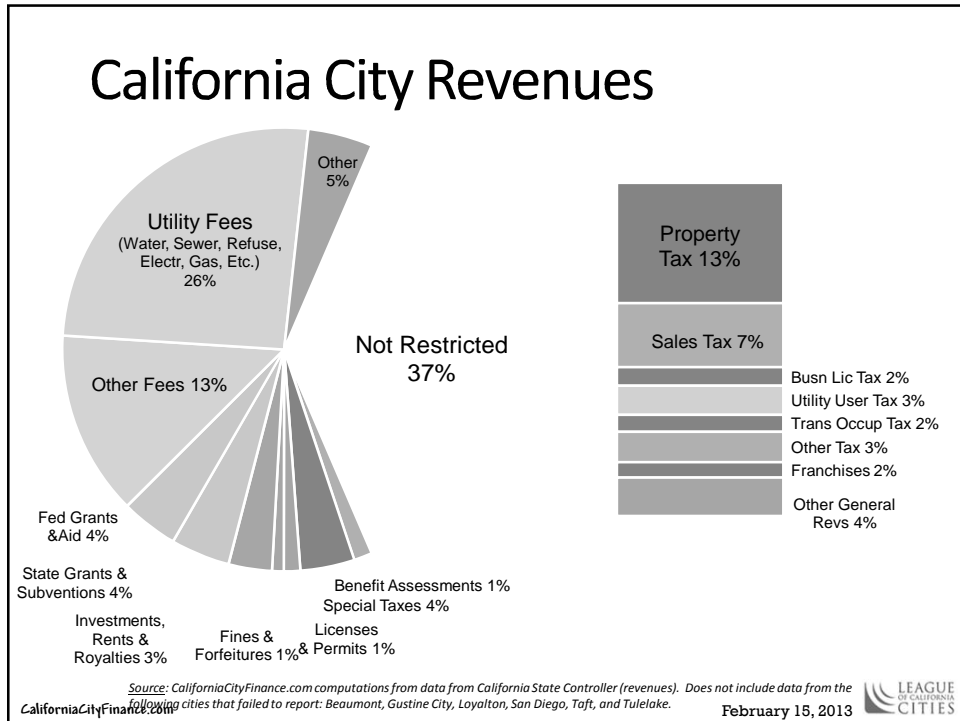
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CaliforniaCityFinance.com The California Local Government Finance Almanac

Cities Vary

... and so do their finances .

- Geography: proximity, climate, terrain, access
 - Community Character / Vision: Land use
Bedroom? Industrial? Tourist? Rural? etc.
 - Size – urban / rural
 - Governance / service responsibilities
full service city - vs.- not full service
 - Counties – amount of urban devpmt in unincorporated areas
- ❖ Statewide generalizations often mask trends among sub-groups



City Taxes & Other Revenues

Any levy, charge or exaction of any kind imposed by a local government, is a **tax** except: (Proposition 26 of 2010)

- **User Fees: for a privilege/benefit, service/product**
Planning permits, street closure permits, parking permits, user fees, copying fees, recreation classes, etc.
- **Regulatory Fees: regulation, permits, inspections**
Permits for regulated commercial activities (e.g., dance hall, bingo, card room, check cashing, taxicab, peddlers, catering trucks, massage parlor, firearm dealers, etc.); fire, health, environmental, safety permits; police background checks; pet licenses; bicycle licenses.
- **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 pursuant to a voluntary contract or other agreement that are not otherwise "imposed" by a government's power to coerce.

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Taxes


- ✓ Charges which pay for public services and facilities that provide general benefits. No need for a direct relationship between a taxpayer's benefit and the 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

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Taxes and Fees/etc. Approval Requirements (California Constitution)




	Tax	Fee / fine / rent / etc.
City or County	Two-thirds voter approval for a special tax (earmarked) or parcel tax. Majority voter approval for a general tax.	Majority of the city council or board of supervisors. *
Special District	Two-thirds voter approval for a special tax or parcel tax.	Majority of the governing board. *
K-14 Schools	Two-thirds voter approval for a special tax or parcel tax.	Majority of the governing board.
State	<i>For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature and Governor approval ...or approval of majority of statewide voters.</i>	Majority of each house of the Legislature and Governor's approval.

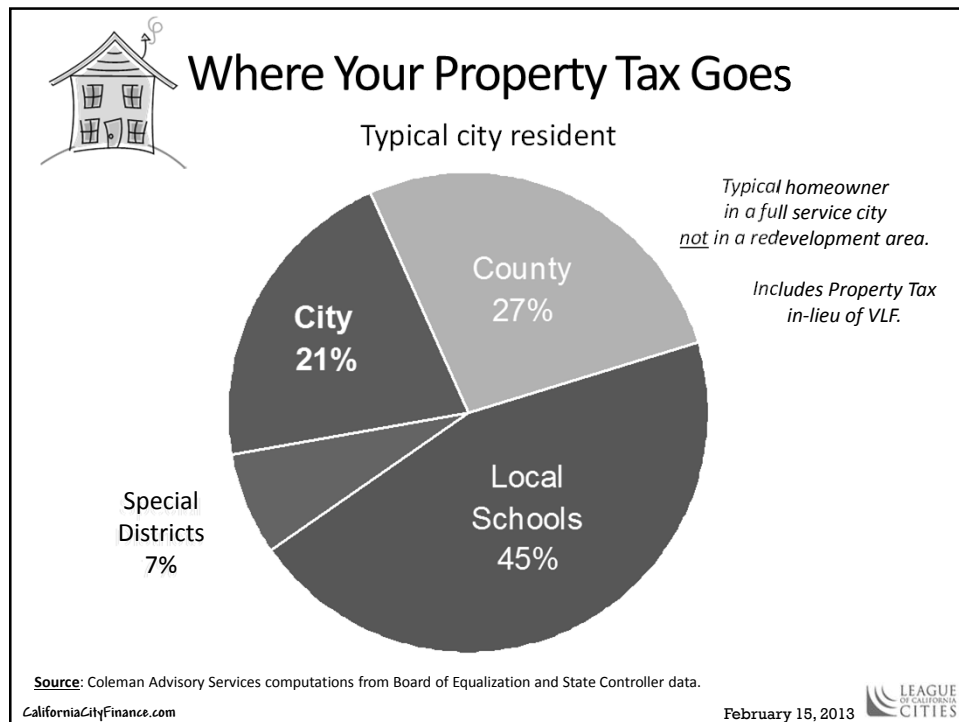
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*additional procedural requirements for property-related fees
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Property Tax

- ✓ 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.

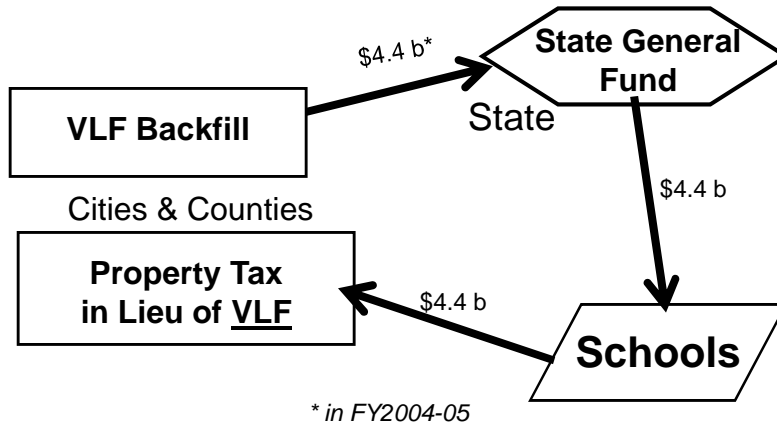
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The Vehicle License Fee: The Former Car Property Tax

- ✓ 1935 Statewide uniform VLF adopted
replacing local property tax on motor vehicles
- ✓ 1948-2004 tax rate is 2%
- ✓ 1998 VLF "offset" (effectively a tax cut) begins
Includes "trigger" to put rate back up if state finds it can't afford backfill to cities/counties.
- ✓ 2003 Gov. Gray Davis pulls the trigger sending VLF from 0.65% back up to 2%
- ✓ Nov 2003. Recall. Schwarzenegger returns VLF to 0.65%,
punching \$4 billion cost into the budget
- ✓ 2004 VLF – Property Tax swap. Backfill and trigger eliminated. Property tax protected by Prop1A (Nov'04).
- ✓ 2011. Legislature takes all remaining city VLF to fund local law enforcement grant previously funded by state general fund.
 - ✓ However ... property tax in lieu of VLF from swap is unaffected and protected.

The VLF-Property Tax Swap Vehicle License Fee for Property Tax



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Sales and Use Tax

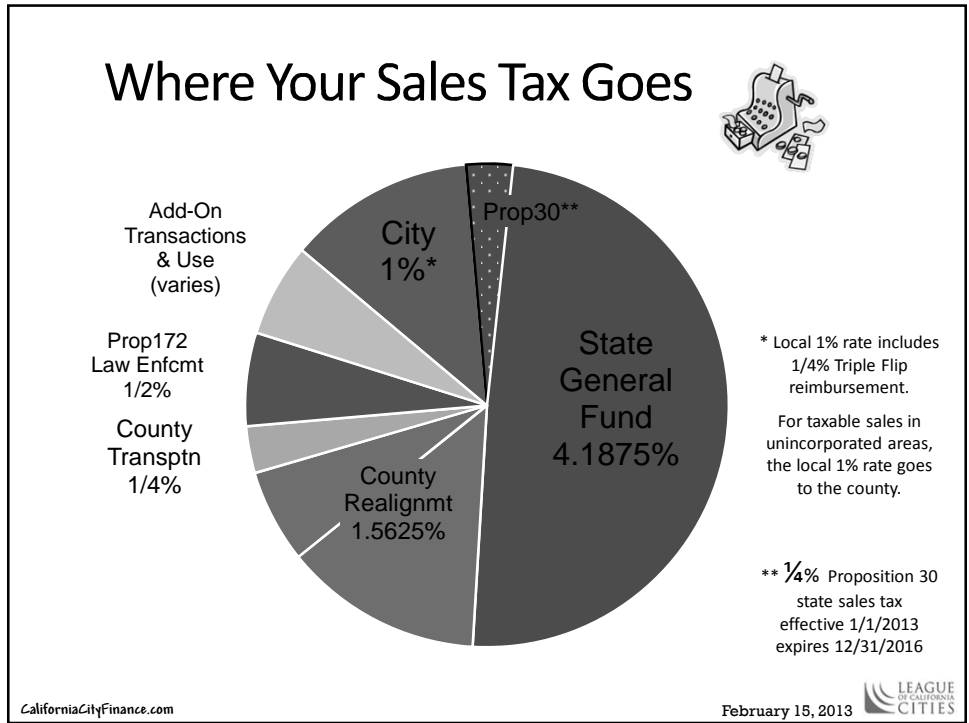


- ✓ **Sales Tax:** imposed on the total retail price of any tangible personal property
- ✓ **Use Tax:** imposed on the purchaser for transactions in which the sales tax is not collected.

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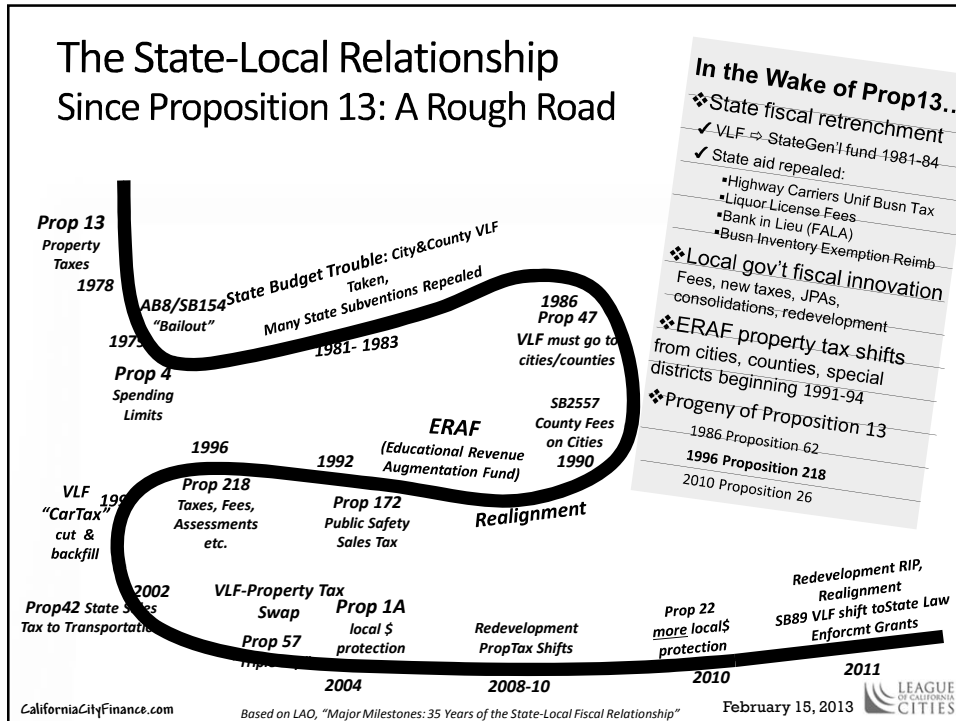


Local Revenue Protection: Prop1A('04), Prop1A('06), Prop22('10)

Constitutional Protection for:

- 1. Property taxes: cities, counties, special districts**
Protection includes Property Tax in lieu of VLF (VLF swap)
May reallocate among cities, counties, special districts with a 2/3 vote of both houses
- 2. Local sales tax rate, method of allocation**
Exception: interstate compact or federal law
- 3. VLF 0.65% rate to cities and counties ... unless replaced**
VLF may not be diverted to reimburse a state mandate
- 4. Transportation Funds to locals – no taking, delay or borrowing**
- 5. Redevelopment Tax Increment - may not be diverted for other purposes**
- 6. Prohibitions against unfunded state mandates strengthened**

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Governor's 2013-14 Proposed Budget Budget Gap Closed

- Estimates FY2012-13 end w/ ~\$167m operating surplus.
- FY 2013-14 proposed budget ...
 - Increased funding for K-12 schools and higher education
 - Expansion of Medi-cal related to Federal health care reform
 - Recent significant cuts maintained: ♦ CalWORKs ♦ Child Care & Devpt
 - Pays down \$4.2 billion in budget related debt
 - ♦ Including \$1.8 billion owed to schools
 - ♦ Pay down budget debt from current \$28 billion to \$5 billion by 2016-17
 - \$1 billion reserve



Governor's 2013-14 Proposed Budget **Budget Gap Closed**

- Risks ...
 - ◆ Federal actions, including the pending sequester;
 - ◆ Uncertain economic recovery;
 - ◆ Legal actions by the federal government which could blocks cuts; and
 - ◆ Increased healthcare costs under the Affordable Care Act (ACA)
 - ◆ Redevelopment savings? estimates revised down by ~1/3
 - GF savings = \$2.1 billion in FY12-13, \$1.1 billion FY13-14
(revised from \$3.2b FY12-13 and \$1.6b FY13-14 in 2012 Budget Act)
- By 2016-17 “wall of debt” mostly paid down but ...
 - ◆ Minimal reserve
 - ◆ Large unfunded costs looming for retiree health care, teacher pensions

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Governor's 2013-14 Proposed Budget **Budget Gap Closed**

- Enterprise Zone reforms (but not elimination)
- COPs program – funded at current year levels – no change
- Law Enforcement – Local Assistance Grants increased from \$20million
 - ◆ FY12-13: \$24 million FY13-14: \$27.5 million
- Local Government Mandate Suspension
 - ◆ Again defers payments owed for pre 2004 mandates
 - ◆ Again suspends most mandates to avoid payments
- Prop 39 requires half of new revenues (~\$450 million in FY13-14) go to energy efficiency programs. Governor: send funds to a special fund for local schools.

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Current Legislative Fiscal Issues

. for Cities

- Redevelopment dissolution issues
- New Tax Increment Financing Economic Development tool
- Incorporations and Annexations – fiscal viability
 - ◆ Re: VLF shift (SB89 2011) and the VLF / Property Tax Swap
- Supermajority Vote Requirements – reduce 2/3 to 55%?
 - ◆ Parcel taxes / Special taxes / G.O. bonds ◆ Schools, libraries, transpnt, general?
- Local Sales Tax allocation
 - ◆ effects of online sale warehouses ◆ City/seller sales tax sharing agreements
- Realignment: County impacts, city impacts
- Pension Reform – AB340, AB197 www.cacities.org/pensions
- Cap & Trade – new revenues from auctions to be used to reduce GHG emissions & **mitigate effects on disadvantaged communities.**

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Current Legislative Fiscal Issues

. for Cities

development dissolution fall-out – AB1484 - Lawsuit

- Next Generation of Financing (post-RDA)
 - economic development, affordable housing, smart growth
 - SB 214 (Wolk) improved Infrastructure Financing District tool. VETOED
 - SB 1156 (Steinberg), revised version of redevelopment. VETOED
- Law enforcement grants incl COPS, booking fees funded (via VLF shift)
- City VLF remains eliminated - SB89 of 2011
 - Annexations and new incorporations and are fiscally unviable
 - League of Calif Cities lawsuit – superior court decision any day now
- Realignment: County impacts, city impacts
- SB1186 (Steinberg 2012) Disability Access.
 - Increase disability access law compliance & reduce unwarranted litigation.
 - **Requires cities to collect \$1 “fee” with renewal of business license.**
- Pension Reform – AB340, AB197 www.cacities.org/pensions
- Cap & Trade – new revenues from auctions to be used to reduce GHG emissions & **mitigate effects on disadvantaged communities.**

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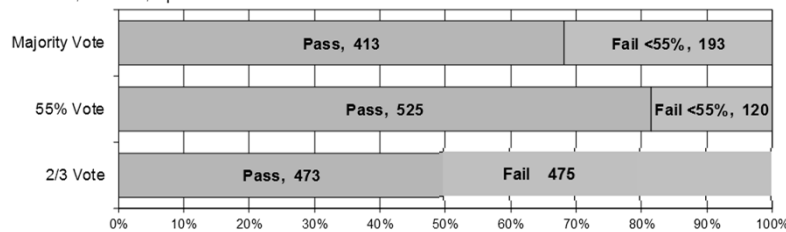


	TAX- General	TAX- Parcel or Special (earmarked)	G.O.BOND (w/tax)
City/County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval
Special Dist.	n/a	Two-thirds voter approval	Two-thirds voter approval
K-14 Schools	n/a	Two-thirds voter approval (parcel tax)	55% voter approval*
State	For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature and Governor approval ...or approval of majority of statewide voters.		Statewide majority voter approval



Local Tax Measures: Passage Rates

Cities, Counties, Special Districts and K-14 Schools
2001 through November 2012



"Fail 55%+" = measure received over 55% yes votes but did not achieve the 2/3 approval needed to pass.
 "Fail<55%" = measure received less than 55% yes votes.
 ~Michael Coleman CaliforniaCityFinance.com



Local Tax Measures: November 2012

