

# How Do We Pay For Government Services?

## A. WHAT STUDENTS WILL LEARN IN UNIT FIVE

**S**tudents will understand the revenue sources and expenditure patterns for local government operations. Students will be able to:

- Construct the appropriate pie or bar graphs, given typical city and county revenue and expenditure figures.
- Describe the components of the state sales tax and explain why it is not uniform throughout the state's 58 counties.
- Identify tax revenues that remain with local governments, and those that go to the state of California.
- List and describe the sources of revenue other than taxes that help finance local government services.
- Describe the differences in the relationship between the state and local governments before and after the passage of Proposition 13 in 1978.
- Cite the components of school financing, including Average Daily Attendance (ADA), Proposition 98, developer fees,

the lottery and categorical funding, and be able to define each component.

- Compare and contrast school finance sources with those of other local government agencies.

## B. ADDITIONAL STUDENT ACTIVITIES

1. Have your students contact the city or county finance department to obtain a copy of this year's budget. Have students compare revenues and expenditures with the typical expenditure graphs in Unit V on pages 62, 63, 64 and 66. What explains the differences, if any? You may wish to invite your city's finance director or staff to class to explain the budget process.
2. Students, prior to seeing actual percentages, should construct a pie or bar graph for expending city revenues, based on their consideration of what services are most important for a city to perform. If there are differences, and there usually are, then what explains these differences? What services do

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teenagers typically downplay? Which are most important to them?

3. Have students survey the community or their local immediate area and determine which businesses generate the most sales tax. What percentage of the community's budget is generated from sales taxes? How do communities encourage more business activity in order to develop greater sales tax revenue? Is your area friendly to business? Why or why not? A guest speaker from the chamber of commerce might give a community-wide perspective.
4. Have the students obtain a list of the license and permit fees for their community, as well as fees in the surrounding area. Have there been dramatic increases, in the recent past, to accommodate reductions in state revenues? How does the fee structure compare with neighboring communities? If there are differences, why?
5. Students could keep track of all newspaper or news magazine stories dealing with taxes, particularly at the local level. A montage could be constructed, with stories categorized under proper tax-type headings.
6. Students could construct a series of pie graphs showing revenue and expenditures for their local city and county, and then make comparisons of spending and revenue patterns with one or more close-by communities. Any differences should then be analyzed.

### C. UNIT FIVE DISCUSSION QUESTIONS

**Question 1.** When communities face financial shortfalls, is it better to raise taxes (required two-thirds vote makes this

method difficult) and fees for services, or to reduce the level and extent of services provided by the community? Explain your choice.

#### **Possible student response**

*Answers will vary. However, most cities have been increasing permit and license fees as well as fines in recent years. Many cities have also been reducing services by not filling vacancies in the employment force created by resignations and retirements. Some communities are reducing their work forces by layoffs.*

**Question 2.** Why have many communities begun to rely more heavily on revenue generation on sales taxes rather than property taxes, which have historically been the major revenue source?

#### **Possible student response**

*Proposition 13, enacted by voters in California in 1978, effectively reduced the revenue from property taxes by 50 percent, and limited increases to 2 percent per year for properties held on or before 1975. By severely restricting the revenues available from property taxes, and requiring a two-thirds majority for new property taxes, it forced cities to rely more heavily on sales and other type taxes. Sales tax revenue can be enhanced by increasing the number of commercial sources and outlets in a community. This has led to competition among local agencies for attracting retailers to their locales.*

**Question 3.** What are the connections that exist between the operation of automobiles and the financing of local governments?

#### **Possible student response**

*a. Fines for moving violations which occur within a city's limits are returned proportionally to the city. The state general*

*fund keeps 50 percent of the fines to defray the cost of operating the courts. Cities keep all monies generated from parking violations.*

- b. *Cities are returned a large portion of the motor vehicle license fees collected annually by the state. These are “in lieu” fees, replacing personal property taxes formerly collected by cities. Cities also receive 39 percent of gasoline taxes collected by the state on gasoline purchased within the city.*

#### D. INTERDISCIPLINARY ACTIVITIES

Unit V allows the opportunity for:

- math classes to create graphs and charts on city, county or department-by-department expenditures, and to make comparisons with previous years. Students could show percentage increases by departments.
- science students to create area maps based on decibel noise levels from the community’s general plan; they could also plot earthquake faults, if any, and other areas of potential community hazards.

#### E. CHECK FOR UNDERSTANDING

Unit Five: How Do We Pay For Government Services?

*Answer Key to Questions on Page 76*

1. What is “real” property?

**Land and buildings**

2. What does it mean to “assess” a property?

**To assign a taxable value to it**

3. Under Proposition 13, by what number

do you divide the sales price of a house to determine its maximum property tax?

**Divide by 100**

4. Once you have purchased your home, how much can the county raise your property tax each year?

**Two percent**

5. Why have local governments become more dependent on state taxes since 1978?

**Because Proposition 13 took control of local property taxes away from local governments**

6. Name the three most important state-collected taxes.

**The sales tax, income tax and corporation tax**

7. How did Proposition 13 make it difficult for governments to adopt new taxes?

**It requires a two-thirds majority vote.**

8. What is an “ad valorem” tax?

**Tax on the value of property**

9. Name something on which you do NOT pay sales tax in California.

**Groceries, prescriptions and some services**

10. Why does where you buy a car or TV matter to local government?

**Because the location of the sale determines which local government gets the local share of the sales tax**

11. Why do you pay a higher sales

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tax rate in San Francisco than in Palm Springs?

**San Francisco has adopted a higher local optional sales tax.**

12. Why do local governments charge businesses a fee to issue a business license?

**Because commercial activities benefit from government services, such as streets and police**

13. What is the general rule that limits how much local government can charge in fees?

**Fees should not exceed the true cost of the service.**

14. If you own a car, you pay a motor vehicle “in lieu” fee. In lieu of what?

**A tax on personal property that used to be collected**

15. Why do local governments receive about 39 percent of the state gasoline tax collected at the pump?

**So they can build and maintain local streets**

16. What were the two government functions controlled by Proposition 13 and Proposition 4?

**Taxing and spending**

17. Why do utilities pay a franchise tax to local governments?

**For exclusive rights to their business and use of public rights of way**

18. What proportion of California’s cities

operate their own water utilities?

**About one-third**

19. What must opponents do to defeat a proposed benefit assessment district?

**File written protests from a majority of the affected property owners**

20. Where does most of the funding for California public schools come from?

**From the state general fund**

21. Of every dollar spent on public education in California, how much comes from the California Lottery?

**Between 2 and 3 percent**

22. Why was Proposition 98 important to public schools?

**It guarantees schools a percentage of the state’s budget.**