



Understanding the Basics of County and City Revenues (Footnoted Version)

Counties and cities do many things to improve the quality of life for everyone in California. Each one of California's 38 million residents lives within the boundaries of one of the state's 58 counties. Over 31 million people – more than 80 percent – live in one of California's 478 cities.¹

Counties and cities share similar roles in providing a vast array of municipal services to residents. These services include public safety (police, fire and emergency services), land use planning, parks and recreation, social services, and the justice system. Those local governments also provide important facilities, including roads, flood protection, sewers, water, solid waste disposal and other utilities. Counties have an additional role as a delivery channel for many state services, such as foster care, public health care, jails and elections.²

How do counties and cities pay for such services and facilities? The short answer is they rely on a variety of revenues. The actual mix varies between counties and cities, based on the roles they play in our system of government. The combination and level of revenues also varies from county to county and city to city.

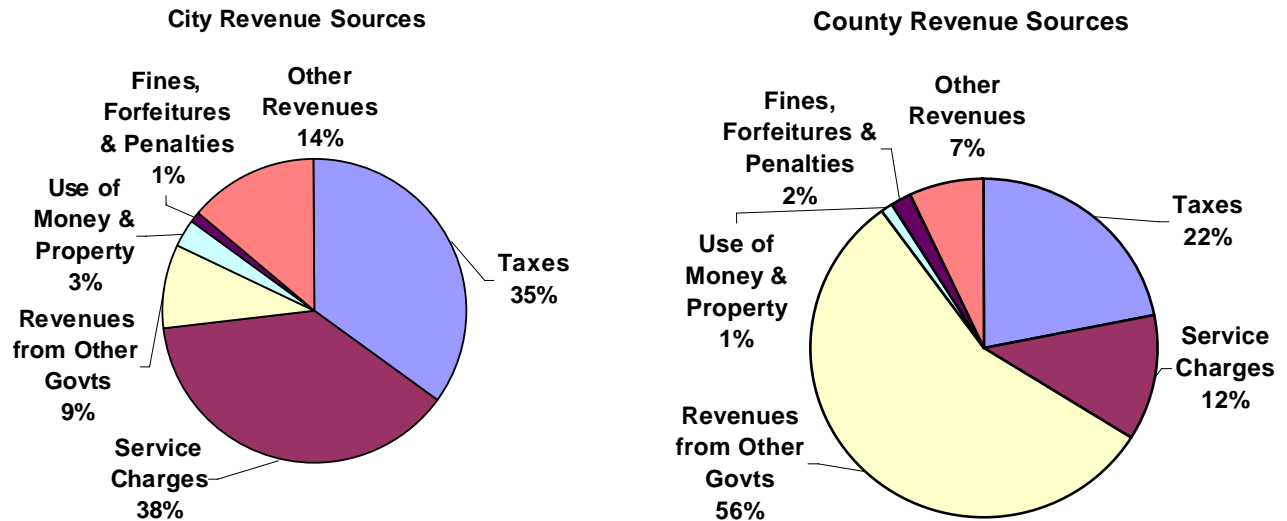
This pamphlet provides a basic overview of the sources of county and city revenues.

How to Use This Information

California state and local finance is a very complex subject. This pamphlet is intended only as a general overview. For specific questions on public finance topics, the Institute for Local Government recommends that readers consult with a public finance attorney or other expert. This pamphlet is not intended as legal advice.

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The Big Picture: City and County Revenues Statewide



Source: State Controller’s Office, *Cities Annual Report* and *Counties Annual Report* (2004-05). City revenues do not include the City and County of San Francisco. The *Annual Reports* are prepared by the State Controller’s Office from information provided by cities and counties each year. These charts reflect way that the State Controller’s Office organizes the information it receives, not the way they are presented in this pamphlet.

Key City Revenue Streams

Service fees and charges for city utilities such as water, sewer and garbage collection are the largest source of city revenues, but use of these funds is limited to covering the cost of providing these services. Major sources of city revenue for day-to-day operations and services come from sales and use tax, property tax, business license tax (a tax on businesses in the city, usually measured by gross receipts), transient occupancy (or hotel bed) tax and utility user tax.³

Key County Revenue Streams

Revenues from the federal and state government are the largest source of funding for health and human services. Property taxes, sales and use taxes, vehicle license fees (collected by the Department of Motor Vehicles on annual car registration bills) are the primary funding sources for many county services that don’t have a dedicated state or federal funding source.⁴

The State-Local Fiscal Relationship since 1978

Over the past 30 years, substantial restrictions have been placed on the ability of cities and counties to control their major fiscal resources. They relied on these revenues to fund police and other law enforcement services, fire protection, parks, libraries, schools, hospitals and public health.⁵ This timeline summarizes the milestones in the decline in local control over local finances and efforts to restore stability in local budgets.

1978

Proposition 13

- Sets the general-purpose property tax rate at 1 percent of assessed value, cutting local property taxes by more than half
- Transfers control over property tax allocation to the state
- Restricts the purposes for which government obligation bonds can be issued
- Requires two-thirds voter approval for special taxes (see page 5)
- Requires two-thirds legislative approval for new state taxes

1986

Proposition 62

- Requires majority voter approval for general taxes in most cities and counties⁶
- Prohibits local transaction taxes or sales taxes on the sale of real property within a typical city, county, or district

1992

Education Revenue Augmentation Fund (ERAF)

- In response to a severe budget deficit, the state met its legal obligation to fund schools by diverting specified amounts of local property taxes into an “Education Revenue Augmentation Fund” or **ERAF** in each county. ERAF funds are then transferred to local school entities.
- Although intended as a temporary measure, the tax shift remains in effect.

- In fiscal year 2007-08 the tax shift is estimated to cost cities, counties and special districts more than \$7 billion.⁷

1996

Proposition 218

- Requires two-thirds voter approval for special taxes
- Requires majority voter approval for general taxes
- Requires parcel taxes to be enacted as special tax
- Imposes new procedural and substantive requirements for benefit assessments
- Imposes new procedural and substantive requirements for certain types of fees and charges including water and sewer rates
- Allows taxes, assessments, and fees to be reduced by voter initiative

2004

Vehicle License Fee - Property Tax Swap

As part of the negotiations surrounding a state budget deficit, cities and counties agreed to exchange state general fund revenues they received to offset vehicle license fee reductions for a like amount of property tax revenues from ERAF. The exchange was part of a larger agreement to secure state support for a fiscal reform ballot measure, Proposition 1A (see below).⁸

Proposition 1A

Proposition 1A was a ballot measure approved by voters in November 2004. The measure was sponsored by a coalition of local agencies and others to protect against future reduction or diversion of property tax and sales tax and strengthen the state's obligation to reimburse local governments for state-mandated programs. The measure protects local sales tax and vehicle license fees, and allows the state in future years to borrow, but not simply take, local property tax.⁹

Taxes

Tax revenues are an important source of funding for both county and city services. In addition to local taxes, counties rely significantly on tax dollars allocated from the state and federal governments.

Counties and cities may impose a variety of taxes. Taxes fall into one of two categories: **general** or **special**.¹⁰

Counties and cities may use revenues from a **general tax** for any legitimate public purpose. A majority of voters must approve the decision to impose, increase, or extend a general tax.¹¹ A general tax may only be submitted for voter approval at an election for city council or board of supervisors.¹²

A **special tax** is a tax imposed for a specific purpose.¹³ For example, a city might increase the sales tax by adding a use tax for the acquisition of open space or for transportation projects, but that special tax may only be used for its express purpose. The basic sales tax to which it is added, however, remains a general sales tax, divided between state and local governments and the local share may be used for any lawful purpose of the local government which receives the tax (typically, the city in which the sale takes place, or the county if the sale takes place outside a city).

Two-thirds of voters must agree to adopt, increase, or extend a special tax.¹⁴ A special tax does not need to be any particular type of tax.

√ **Property Tax**

How the Tax is Calculated

The property tax is a tax on certain kinds of property. It is based on the value of the property.¹⁵

The property tax is a state tax administered by counties. Counties and cities do not impose and cannot increase the property tax except as described below. Taxable property includes “real property” (land and the buildings that are on it), as well as things like boats, aircraft and business equipment.¹⁶

Under Proposition 13, the maximum tax rate permitted on real property for general purposes is one percent of the property's assessed value.¹⁷ For property that has been owned prior to 1978-79, the starting point is what the property was worth in 1975-76. There is an annual adjustment for inflation which cannot exceed two percent per year.¹⁸

The one percent maximum rate can be increased to pay for the acquisition or improvement of real property if the voters approve such an increase by a two-thirds

margin.¹⁹ The maximum rate cannot be increased to cover operating expenses, even with voter approval.

If a property changes hands, then the assessed value becomes what the buyer paid for the property.²⁰ This value (for the purpose of taxation) then can increase at the lower of inflation or two percent per year.²¹ Changes in assessed value above the two percent limit are also allowed for the market value of improvements.

Something Interesting to Know: Roles and Responsibilities

County Assessor. The **assessor** sets values on property and produces an annual property tax assessment roll.

County Auditor-Controller. The **auditor-controller** receives the assessed values from the assessor and calculates the amount of property tax due.

County Treasurer-Tax Collector. The **treasurer-tax collector** administers the billing, collection, and reporting of property tax revenues levied annually throughout California for not only the county, but also cities, schools, and special districts.

Sample Property Tax Calculation

2006 Purchase Price	\$ 300,000
2006 Property Tax Obligation (1%)	\$ 3,000
2007 Increase in Property Value (2%--limitation under Proposition 13)	\$ 6,000
2007 Property Value	\$ 306,000
2007 Property Tax Obligation (1%)	\$ 3,060
<p><i>Note that other kinds of governmental charges (for example, benefit assessments, school bonds, ambulance services, etc.) are included on the bill that includes property tax bills, which will raise the amount higher than the one percent base tax rate.</i></p>	

Property that declines in value may be reassessed downward.²² County assessors have procedures for requesting a downward adjustment in value which would result in a reduction in the property tax.

How are Property Tax Revenues Distributed?

Proposition 13 transferred the authority to determine where property tax revenues go to the Legislature. Generally, property taxes are allocated within a county based upon the historical share of the property tax received by local agencies prior to Proposition 13. However, those allocations have changed over the years; the most significant change being the ERAF property tax shift. Proposition 1A restricts the Legislature to following certain procedures before allocating property tax from counties, cities, and special districts to schools; and before changing the allocations between counties, cities, and special districts.

√ Sales and Use Tax

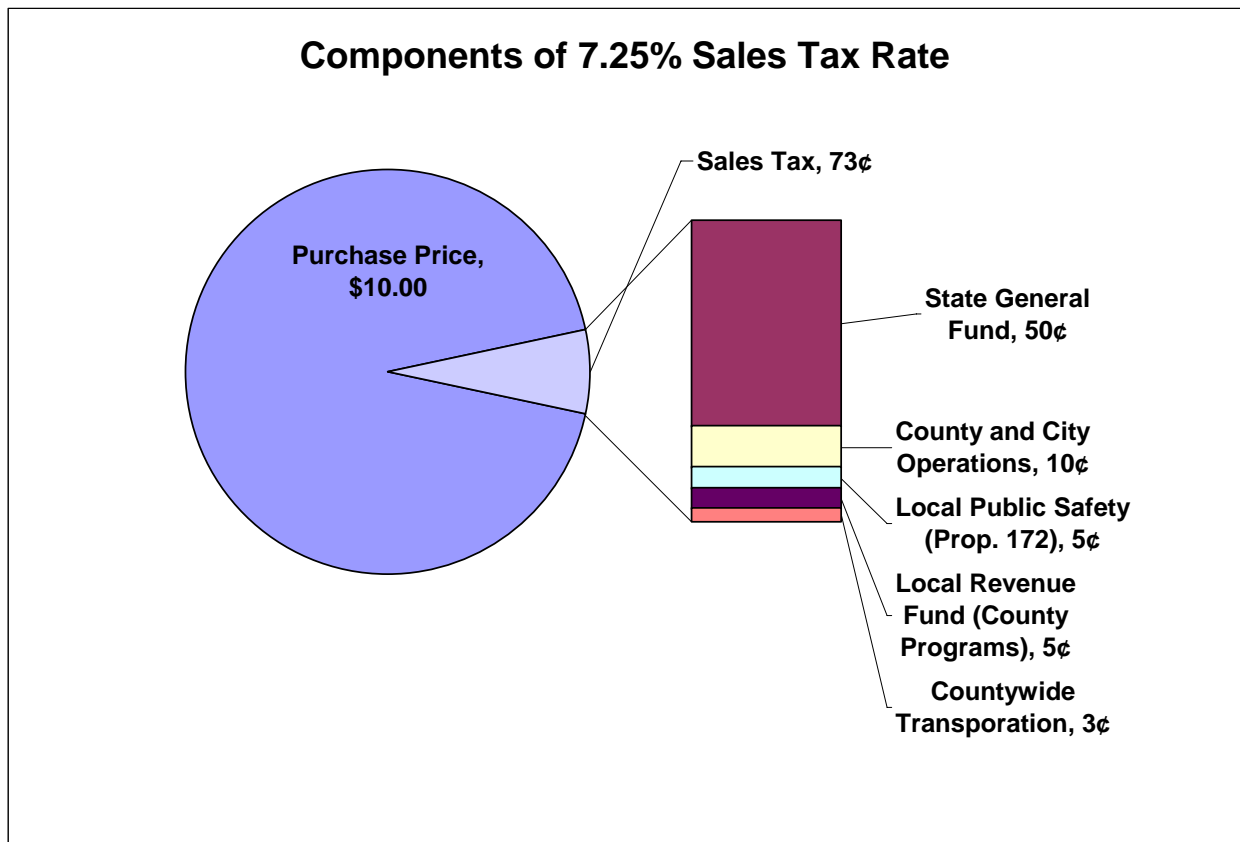
Consumers are familiar with the experience of going to a store, buying something, and then having an amount added for sales tax.

The sales tax is actually imposed on retailers for the privilege of selling tangible personal property in California.²³ Services are exempt from the sales tax as well as certain items, like most groceries and medicine.²⁴ Retailers typically pass this tax along to the consumer. The sales tax is assessed as a percentage of the amount purchased.

Something Interesting to Know: Use Taxes

The sales tax has a relative called the “use tax.” The use tax is imposed on purchasers whenever sales tax does not apply, such as for goods purchased out of state which will be used in California.²⁵

The “base” sales tax rate of 7.25 percent has a number of components. For example, the state imposes a basic sales tax rate of 6.25 percent.²⁶ This means if you bought an item for ten dollars and the cash register receipt shows 73 cents for sales tax, then about 60 cents of that sales tax goes to the state—50 cents to the state general fund. Some of those funds come back to local governments (5 cents for counties to fund health social service and mental health programs and 5 cents for counties and cities to fund public safety services).²⁷ A fourth component exists in certain counties and cities which have increased the use tax rate to fund programs such as transportation, criminal justice facilities, and the acquisition of open space.



In addition to the base, statewide rate of 7.25 percent, local voters may authorize additional sales and use taxes (technically known as “transactions and use taxes” because they have certain, technical differences from other sales taxes). These measures add a certain amount—like a cent or a fraction of a cent—to the sales tax rate.

Locally, counties may impose a sales and use tax up to 1.25 percent.²⁸ Cities may impose a sales and use tax at the rate of up to one percent.²⁹ Payment of the city sales tax is credited against payment of the county sales tax, which simply means you don’t have to pay twice for the local share – only once.³⁰ Cities keep all of the local sales tax collected within the city, counties keep the local sales tax collected outside city boundaries.

In addition to the base, statewide rate of 7.25 percent, local voters may authorize additional sales and use taxes (technically known as “transactions and use taxes” because they have certain, technical differences from other sales taxes). These measures add a certain amount—like a cent or a fraction of a cent—to the sales tax rate.³¹ The combined rate of the additional taxes may not exceed two percent.³² This has occurred in many areas of the state, and for this reason, most residents pay a sales tax rate that is 7.75 percent or higher.

Something Interesting to Know

Sales Tax for Public Safety

Proposition 172, a ballot measure approved in 1993, placed a one-half percent sales tax in the California Constitution to be used only for local public safety activities.³³ The state distributes Proposition 172 revenues to each county based on its proportionate share of statewide taxable sales. In many counties, cities also receive a share of those funds. Their share is based on property tax losses resulting from the state's diversion of property taxes away from local government in the mid-1990s to satisfy the state's constitutional obligation to fund schools.³⁴

Sales Tax and the Internet

California collects sales tax only on sales where the seller has a physical presence in the state. Many Internet, telephone and mail-order sellers do not have such a presence. Purchasers of taxable items from such out of state sources must pay the use tax, but as a practical matter this obligation is difficult to enforce.

Thus, in many cases, the purchase of a tangible item through the Internet, telephone or mail-order will not result in payment of sales tax. Unpaid state and local sales and use tax from Internet, telephone and mail-order sales currently exceeds \$1 billion per year and is expected to grow substantially as Internet commerce evolves.

√ **Business License Tax**

Cities may impose business license taxes on persons or entities doing business within the city.³⁵ Majority voter approval is necessary to impose or increase this tax unless revenue from the taxes will be set aside for a specific purpose.³⁶

Business license taxes are most commonly based on a business' overall revenues (a concept known as "gross receipts") They are also sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of space occupied by the business, or a combination of factors.³⁷

- Cities set their own tax rates.
- If a business operates in more than one city, a city may only tax that portion of the business's activities conducted within the city.³⁸
- In most cases, business license taxes are not levied for regulatory purposes (as the term "license" might imply) but to raise revenues for general municipal purposes. If a city regulates certain types of businesses, the fee imposed to pay for the cost of regulation may not exceed the reasonable cost of regulating the business.

√ **Transient Occupancy Tax (TOT) or Hotel Bed Tax**

Visitors to an area also pay local taxes. Such taxes help support public services and facilities that make an area a good destination for business or vacation travel.

A key form of visitor tax is called the **transient occupancy tax** (often known by the acronym “TOT”) or hotel bed tax. Counties and cities may tax persons staying 30 days or less in hotels, motels and similar lodgings, including mobile homes.³⁹ Typically, the lodging provider collects the tax from guests and turns the funds over to the county or city.

Counties may charge transient occupancy taxes on individuals staying in hotels and other lodgings in the county area outside city limits, while cities charge the tax on individuals staying within city limits.⁴⁰

Cities and counties may set their own TOT rates. Voter approval is necessary to impose or increase this tax.

√ **Utility User Tax (UUT)**

Cities may impose a tax on utilities such as gas, electricity, telephone, water and cable television.⁴¹ Counties may impose a utility user tax on the consumption of electricity, gas, water, sewer, telephone, telegraph, and cable television services in county areas outside city boundaries.⁴² One hundred and fifty cities and four counties (Alameda, Los Angeles, Sacramento and San Francisco) levy utility user taxes; most residents and businesses in the state pay UUT.⁴³

Utility companies usually collect utility user's taxes from their customers as part of their regular billing procedures. They send the funds collected to the city or county which imposed the tax.⁴⁴

Cities and counties may set their own UUT rates. Majority voter approval is necessary to impose or increase this tax.

√ **Parcel Tax**

A parcel tax is a special tax on a parcel – or unit - of real property. Unlike the property tax, a parcel tax is not based on the value of property. Instead, parcel taxes are generally based on a flat per-parcel rate. Parcel taxes require two-thirds voter approval and are imposed for any number of purposes, including funding police and fire services, neighborhood improvement and revitalization, and open space protection.⁴⁵

√ **Documentary Transfer Tax**

A documentary transfer tax is a tax imposed on the transfer of interests in real estate. Counties may tax at a rate of 55 cents per \$500 of the property value. Cities may impose

the tax at up to one half of that amount, which is credited to the payment of the county tax.⁴⁶ Majority voter approval is necessary to impose or increase this tax.

√ **Property Transfer Tax (Charter Cities)**

Some charter cities have enacted a property transfer tax on the value of real estate that is sold. They set their own rates.⁴⁷ Majority voter approval is necessary to impose or increase this tax. For more information about charter cities, see www.cacities.org/chartercities.

Service Charges, Assessments and Fees

√ **Utility Rates**

Utility rates are fees for utility services charged to users who pay for county or city-provided water, sewer, and electric or other utility services.⁴⁸ Utility rates cover some or all of the cost of providing the service, which may include operations, maintenance, overhead, capital improvements and debt service.⁴⁹

√ **Benefit Assessments.**

Assessments are charges on real property or businesses to pay for facilities or services within an area which benefit real property or businesses. A common type of assessment is one used to pay for landscaping and lighting in a neighborhood. The amount of the assessment must reflect the benefit to the property or business that results from the improvements.⁵⁰ Assessments on property are typically collected through the owner's annual property tax bill.

√ **User Fees**

A city or county may impose fees, charges and rates for services and facilities it provides.⁵¹ Examples include fees for checking plans for new construction or for recreation classes. The amount of a fee may not exceed the cost of providing the service. This cost may include overhead, capital improvements and debt service.⁵² Indeed, federal grant rules require local agencies to allocate overhead and indirect costs to all their programs and services, so that federally funded programs do not pay more than their proportionate share of these costs.

√ **Regulatory Fees**

Regulatory fees pay for the cost of public programs or facilities necessary to regulate a business or other activity or mitigate the impacts of the fee payer on the community. Examples include a fee to pay for the cost of administering the licensing of pesticide

applications or a fee to inspect restaurants for health and safety compliance.⁵³ While cities and counties impose regulatory fees, the state does, too. So, for example, the state imposes a regulatory fee on makers of paint containing lead to fund health care programs that address lead poisoning.⁵⁴

√ **Development Impact Fees**

Development impact fees are imposed on new construction (like new houses, apartments, shopping centers, or industrial plants). They pay for improvements and facilities required to serve new development and to reduce the impacts of new development on a community.⁵⁵

- Development impact fees pay for community amenities such as streets, sewers, parks and schools. They may not be used for day-to-day operating expenses.⁵⁶
- The ordinance or resolution establishing the fee must explain the connection between the development project and fee.⁵⁷ Thus a library impact fee must be connected to the demand for library services created by the construction of a new neighborhood. New development cannot be asked to pay for a new library a community needs or wants for other reasons.
- The amount of the fee must not exceed the cost of providing the service or improvement that the fee pays for.⁵⁸

Revenues from Other Government Agencies

Revenues from other governments fall into two main categories:

- 1) State-administered revenues
- 2) Grants

Over half of county revenues statewide come from state and federal sources. This reflects the role of counties in implementing state policy and programs for health and human services.

√ **Gas Tax**

The state imposes an 18-cent per gallon tax on gasoline (the federal government taxes gasoline, too). These funds are apportioned to cities and counties, primarily on the basis of their populations, and local gas tax receipts must be spent on research, planning, construction, improvement and maintenance of public streets, highways, and mass transit.⁵⁹

√ **Motor Vehicle License Fee**

The Motor Vehicle License Fee (VLF) is a tax on ownership of a registered vehicle. All revenue from vehicle license fees must be distributed to counties and cities.⁶⁰ About

three-quarters of VLF revenues fund county health and welfare programs. At one time, VLF was a major revenue source for cities. However, with the “Vehicle License Fee - Property Tax Swap” in 2004, VLF now contributes only about one percent of general revenues to the average city budget.⁶¹

Subventions

Subventions are a type of financial support provided by one level of government to another. The state levies certain taxes that are provided to counties and cities. The motor vehicle license fee and the motor vehicle fuel tax are examples. Most subventions are restricted to particular programs (for example, gas tax receipts can only be used for streets and transportation). Some can be spent as a county or city’s leaders think best (such as vehicle license fees).

Local agencies also receive reimbursement for revenue lost as a result of various tax exemptions and reductions. Examples include the homeowners’ property tax exemption, which eliminates the property tax on a small portion of the assessed valuation of owner-occupied residential property.

√ **Health and Welfare Realignment**

Counties receive funds from a dedicated statewide sales tax and a portion of motor vehicle license fees which support county-operated social services, health, public health and mental health programs and services. These funds are referred to as the **Realignment Allocation**.

In 1991, the state shifted (“realigned”) responsibility for funding a large portion of health and social services programs to counties in exchange for allowing increased administrative flexibility in those programs. The state only funds part of the programs’ cost; counties must provide a share of funding.⁶²

Something Interesting to Know: Maintenance of Effort Requirements

When cities and counties receive funding for programs from the state or federal government, such funding may come with strings attached. A common condition is that the city or county commit to a certain level of funding. This commitment is called **maintenance of effort** or MOE. Realignment revenues come with a maintenance of effort requirement.

Federal and State Grants to Counties

Federal and state grants comprise a large proportion of county revenues. These funds are largely restricted to particular uses. Examples include specific human services, such as

grants for health, mental health, social and child welfare services and related administration. Grants typically do not pay for the full cost of a program; recipient agencies typically pay a share of these costs with funding from local sources.⁶³

Something Interesting to Know

About Grant Funding

- ❑ **Categorical grants** support a defined program area. Categorical grants typically go to local agencies that meet predetermined funding criteria or compete for project funding through an application process.
- ❑ **Block grants** provide funding to a broad functional area. For example, federal Community Development Block Grant (CDBG) funds support local housing and economic development activities.⁶⁴

State and Federal Mandates

State and Federal laws sometimes direct counties and cities to provide particular programs or services. The legal requirement, or **mandate**, to provide these programs or services does not always come with adequate state or Federal funding to support it. Legislative requirements to provide programs or services without such support are called **unfunded mandates**.

California's constitution generally prohibits unfunded mandates. Counties and cities may file claims for reimbursement of certain state mandated costs. However, the process typically takes several years. During that time, cities and counties are spending money to comply with the mandate.⁶⁵

California voters tried to tighten up the system in 2004, with the passage of Proposition 1A. This measure required the state to suspend state mandates in any year when the Legislature does not provide full funding.

Rent for Use of Public Property Including Streets

√ **Earnings on Investments**

Counties and cities earn interest on investments. State law specifies what kinds of investments are okay.⁶⁶ Charter cities have more investment flexibility.

√ **Rents, Royalties and Concessions**

Another way cities and counties pay for public services is to charge rent for use of the public's property. An example is royalties from natural resources taken from land the

public owns. Others include selling advertisements in publications or receiving a percentage of net profits from concessionaires operating on public property.⁶⁷

√ **Franchise Fees**

Another revenue source is **franchise fees**. Franchise fees are a form of rent for use of public streets and roadways.⁶⁸ Examples of businesses that pay franchise fees include trash collectors, cable television companies, electric utilities and oil and natural gas pipeline companies. Federal and state law limits the amount of some franchise fees (for example, video and cable television franchise fees).⁶⁹ Franchise fees for provision of video services (like television programming) are overseen by the state.⁷⁰

Fines, Forfeitures and Penalties

Violations of the law often result in a fine of some kind.

Fines, forfeitures, and penalties may be imposed for many reasons. Typical examples include traffic violations, court fines and penalties and interest on late or unpaid taxes.

- State law determines the distribution of fines and bail forfeitures imposed by the state.⁷¹
- State law apportions revenues for parking violations and surcharges between issuing agencies and the counties.⁷²
- A city or county may impose fines, forfeitures and penalties for civil violation of local ordinances.
- Bail for local code violations is established by the local courts with input from the city or county.

Other Revenues

There are a number of other city and county revenues. One example is the sale of surplus property. These are a very small part of the revenue story for most cities and counties.

Resources for Further Information

California Local Government Finance Almanac: Data, statistics, analyses on California City and County Finance (www.californiacityfinance.com/)

What Do Counties Do?, California State Association of Counties
(<http://www.csac.counties.org/default.asp?id=2>)

Financial Management for Elected Officials, Institute for Local Government (www.ca-ilg.org/financeguide)

All About Cities, League of California Cities
(<http://www.cacities.org/index.jsp?zone=locc&previewStory=3162>)

Legislative Analyst's Office, Local Government Section
(www.lao.ca.gov/laoapp/main.aspx?type=3&CatID=8)

Public Involvement in the Revenue Process

Taxes

Voters have an important say on taxes. For **general taxes**, a majority of voters voting in an election is needed to impose, increase, or extend a general tax.⁷³ A general tax is one which may be used for any lawful city or county purpose.

Special taxes are those that fund a specific purpose. Two-thirds of voters voting in an election must agree to adopt, increase, or extend a special tax.⁷⁴

Assessments

Assessments are charges on land collected through the property tax bill. Assessments pay for public improvements or services within a specific area (known as a “district”). A majority of the property owners subject to the charge must approve the assessment in a mailed ballot. The owners’ votes are weighted according to how much their property will be charged.⁷⁵ This means those who would pay more have a bigger say in whether the assessment is approved because they will pay a larger portion of the assessment.

Property-Related Fees

Another kind of charge which requires public participation is known as **property-related fees**.⁷⁶ These include user fees or charges for property-related services. They do not include most of the fees local governments charge, because those charges are typically imposed only on people who request a service and not on everyone who owns or uses property.

To impose a property-related fee, the agency must first hold a public hearing. At the hearing, a majority of affected property owners can prevent the fee’s adoption by filing written protests.⁷⁷ A successful majority protest is rare because it is difficult to get a majority of property owners to participate in a protest proceeding. Even protests which do not meet the legally required 50 percent of all property owners get the attention of elected officials and can lead to revisions in fee proposals.

If a majority of affected property owners do not protest the fee, and the fee pays for sewer, water, or refuse collection, then the fee is approved. No other process is required.

For other property-related fees, however, an election comes next. The agency imposing the fee has a choice between asking the voters generally to approve the fee or only the owners of the property who would pay the fee. If the agency asks the voters for their input, then approval of the fee requires a two-thirds vote. If the agency asks just the affected property owners to vote, then approval requires a majority vote.⁷⁸

Other Revenues

With few exceptions, virtually all other revenues, such as planning permit application fees, parking meter rates, recreation facility use charges or fines and penalties, require appropriate notice and opportunities for public comment.

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¹ See California Department of Finance, www.dof.ca.gov/HTML/DEMOGRAP/ReportsPapers/Estimates/E5/E5-06/E-5text2.php.

² See Cal. Const. art. XI, § 1(a). See also Cal. Gov't Code § 23002 (“The several existing counties of the State and such other counties as are hereafter organized are legal subdivisions of the State.”). *People ex rel.*

Younger v. County of El Dorado, 5 Cal. 3d 480, 491, 96 Cal. Rptr. 557 (1971) (counties have also been declared public corporations or quasi-corporations).

³ Michael Coleman, *A Primer of California City Finance*, *Western City* (March 2005) (www.californiacityfinance.com).

⁴ County of Los Angeles, *Annual Report 2006-2007*, 10 (<http://cao.lacounty.gov/pdf/Annl%20Rpt%2006-07.pdf>).

⁵ Michael Coleman and Michael G. Colantuono, *The Origin and Devolution of Local Revenue Authority*, *Western City* (June 2003) (www.californiacityfinance.com).

⁶ See Cal. Gov't Code §§ 53720 and following.

⁷ Michael Coleman, *Fact Sheet: The ERAF Property Tax Shift* (rev. May 2007) (www.californiacityfinance.com).

⁸ Michael Coleman, *The VLF for Property Tax Swap of 2004* (rev. October 2006) (www.californiacityfinance.com).

⁹ See Michael Coleman, *Proposition 1A Facts* (December, 2004) (www.californiacityfinance.com).

¹⁰ See generally Cal. Const. arts. XIII A, XIII C and XIII D.

¹¹ Cal. Const. art. XIII C, § 2(b).

¹² Cal. Gov't Code § 53724.

¹³ See Cal. Const. art. XIII C, § 1(d).

¹⁴ Cal. Const. art. XIII C, § 2(d).

¹⁵ *Douglas Aircraft Co. v. Johnson*, 13 Cal. 2d 545, 550 (1939). See Cal. Const., arts. XIII and XIII A; §§ 1 and following.

¹⁶ Cal. Rev. & Tax. Code §§ 5301 and following.

¹⁷ Cal. Const. art. XIII A, § 1.

¹⁸ Cal. Const. art. XIII A, § 2.

¹⁹ Cal. Const. art. XIII A, § 1(b).

²⁰ *Id.*

²¹ Cal. Const. art. XIII A, § 2.

²² *Id.*

²³ Cal. Rev. & Tax. Code § 7202(h)(1).

²⁴ Cal. Rev. & Tax. Code § 6359; see also State Board of Equalization, *Tax Tips for Grocery Stores* (January 2007) (www.boe.ca.gov/pdf/pub31.pdf).

²⁵ Cal. Rev. & Tax. Code § 7202(h)(1).

²⁶ State Board of Equalization, *Tax Information for City and County Officials* (May 2006) (www.boe.ca.gov/pdf/pub28.pdf).

²⁷ Cal. Const. art. XIII, § 35.

²⁸ Cal. Rev. & Tax. Code § 7202(a).

²⁹ Cal. Rev. & Tax. Code § 7202(h)(1).

³⁰ Cal. Rev. & Tax. Code § 7202(h).

³¹ State Board of Equalization, *Tax Information for City and County Officials* (May 2006) (www.boe.ca.gov/pdf/pub28.pdf).

³² Cal. Rev. & Tax. Code § 7251.1.

³³ Cal. Const. art. XIII, § 35.

³⁴ Cal. Gov't Code § 30054. See Michael Coleman, *Proposition 172 Facts: A Primer on the Public Safety Augmentation Fund* (October 2006) (www.californiacityfinance.com).

³⁵ Cal. Gov't Code § 37101 (general law cities); Cal. Const. art. XI, § 5 (charter cities); See also Cal. Bus. & Prof. Code §§ 16000 and following; *Cooper v. Michael*, 257 Cal. App. 2d 176 (1967) (counties lack authority to impose business license taxes).

³⁶ Cal. Const. art. XIII C, § 2(b).

³⁷ League of California Cities, *Municipal Revenue Sources Handbook* (2001).

³⁸ The apportionment must be based on a measure which "fairly reflects that proportion of the taxed activity which is actually carried on within the taxing jurisdiction." *City of Los Angeles v. Shell Oil Co.*, 4 Cal. 3d 108, 124 (1971). The measure of the license fee must be based on events occurring wholly within the city (for example, gross receipts from intra-city sales or storage) or the ratio of in-city to out-of-city business

activities. *General Motors Corp. v. City of Los Angeles*, 5 Cal. 3d 229, 242-43 (1971). *Accord City of San Jose v. Ruthroff & Englekirk Engineers, Inc.*, 131 Cal. App. 3d 462 (1982).

³⁹ See Cal. Rev. & Tax. Code §§ 7280 and following.

⁴⁰ *Id.*

⁴¹ Charter cities may impose a utility users' tax under their home rule authority. See Cal. Const. art. XI, § 5. General law cities may levy any tax which may be levied by a charter city. Cal. Gov't Code § 37100.5; *Fenton v. City of Delano*, 162 Cal. App. 3d 400 (1984) (upholding general law city utility users tax). See also Michael Coleman, *Utility User Tax Facts* (rev. May 2006) (www.californiacityfinance.com).

⁴² Cal. Rev. & Tax. Code § 7284.2.

⁴³ Michael Coleman, *Utility User Tax Facts* (rev. May 2006) (www.californiacityfinance.com).

⁴⁴ An agency requiring another entity to collect its utility users' tax must compensate that entity for the cost of doing so. See *Edgemont Community Services District v. City of Moreno Valley*, 36 Cal. App. 4th 1157 (1995).

⁴⁵ See Cal. Const. art. XIID, §3.

⁴⁶ Cal. Rev. & Tax. Code § 11911(b).

⁴⁷ See for example *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993).

⁴⁸ Cal. Const. art. XI, § 7 and art. XI, § 9; Cal. Health & Safety Code §§ 5471-5473; Cal. Gov't Code § 54344.

⁴⁹ A fee may not exceed the estimated reasonable cost of providing the service or facility for which the fee is charged. A fee which does exceed such cost may be considered a special tax. *Carlsbad Municipal Water District v. QLC Corp.*, 2 Cal. App. 4th 479, 485 (1992); *City of Dublin v. County of Alameda*, 14 Cal. App. 4th 264, 281 (1993). See Cal. Gov't Code § 50076. In addition, fees, charges and rates must be reasonable, fair and equitable in nature and proportionately representative of the costs incurred by the regulatory agency. *Associated Homebuilders of the Greater East Bay v. City of Livermore*, 56 Cal. 2d 847 (1961); *United Business Commission v. City of San Diego*, 91 Cal. App. 3d 156, 165 (1979).

⁵⁰ The key to an assessment is the requirement it be levied in proportion to the special benefits received from the improvements. *Anaheim Sugar Co. v. County of Orange*, 181 Cal. 212 (1919). A special assessment involves four features: (1) a special assessment is generally levied only upon land; (2) a special assessment typically is not a personal liability of the person assessed; (3) a special assessment is based wholly on special benefits received; and (4) a special assessment is specific both as to time and locality. *Northwestern Co. v. State Board of Equalization*, 73 Cal. App. 2d 548 (1946).

⁵¹ A city or county has the authority to impose fees, charges and rates under its police power. Cal. Const. art. XI, § 7.

⁵² In fixing the fee, it is proper and reasonable to take into account not only the expense merely of direct regulation, but all the incidental consequences that may be likely to subject the public to cost. *United Business Commission v. City of San Diego*, 91 Cal. App. 3d 156, 165 (1979) (quoting *County of Plumas v. Wheeler*, 149 Cal. 758 (1906)).

⁵³ Cal. Const. art. XI, § 7. *County of Plumas v. Wheeler*, 149 Cal. 758 (1906) (A city or county has the authority to impose fees, charges and rates under its police power. As long as the local enactments are not in conflict with general laws, the power to impose valid regulatory fees is not dependent on any legislatively authorized taxing power, but exists pursuant to the direct grant of police power.)

⁵⁴ Cal. Health & Safety Code §§ 105275 and following; *Sinclair Paint Co. v. Board of Equalization*, 15 Cal. 4th 866 (1997).

⁵⁵ Cal. Gov't Code § 66010.

⁵⁶ Cal. Gov't Code §§ 66000-66025. The first several sections of this chapter of the Government Code are often referred to as "A.B. 1600" after the statute which first adopted them. Thus, development impact fees are sometimes called "A.B. 1600 fees."

⁵⁷ Cal. Gov't Code § 66001.

⁵⁸ Development fees must be adopted pursuant to Cal. Gov't Code §§ 66000 and following. They are intended to mitigate the impacts of development, and must not exceed the cost of providing the services or facilities necessitated by the development; proceeds from development fees must be spent on such services or facilities.

⁵⁹ Cal. Const. art. XIX, § 1.

⁶⁰ Cal. Const. art. XI, § 15.

⁶¹ Michael Coleman, *A Primer of California City Finance, Western City* (March 2005) (www.californiacityfinance.com).

⁶² State Controller's Office, *Counties Annual Report* (2004-05) (www.sco.ca.gov/ard/local/locprep/counties/reports/0405counties.pdf).

⁶³ County of Los Angeles, *Annual Report 2006-2007*, 10 (<http://cao.lacounty.gov/pdf/Ann1%20Rpt%2006-07.pdf>).

⁶⁴ See 24 C.F.R. §§ 570 and following.

⁶⁵ Legislative Analyst's Office, *Improving the Mandate Process* (March 14, 2007).

⁶⁶ Cal. Gov't Code §§ 53600 and following.

⁶⁷ Cal. Const. art. XI, § 7 (giving cities and counties reasonable exercise of police power).

⁶⁸ *San Francisco Oakland Terminal Railways v. Alameda County*, 66 Cal. App. 77, 82, (1924).

⁶⁹ Cal. Pub. Util. Code §§ 5800 and following. See *California Municipal Law Handbook*, § 5.1.25 (2007).

⁷⁰ Cal. Pub. Util. Code §§ 5800 and following.

⁷¹ See generally Cal. Penal Code §§ 1463, 1463.001, 1463.002. Counties receive the amount specified in Cal. Penal Code § 1463.002, with the remainder going solely to the city. See Cal. Penal Code § 1463.001(b)(3).

⁷² See Cal. Veh. Code § 40200.3.

⁷³ Cal. Const. art. XIII C, § 2(b).

⁷⁴ Cal. Const. art. XIII C, § 2(d).

⁷⁵ Cal. Const. art. XIII D, § 4.

⁷⁶ Proposition 218 creates a special sub-set of fees and charges. It does so by using the term fee or charge to mean a "levy . . . imposed on a parcel or upon a person as an incident of property ownership . . . for property-related service." See Cal. Const. art. XIII D, § 2(e). The California Supreme Court has construed this term narrowly to include only fees which cannot be avoided other than by selling property (See *Apartment Association of Los Angeles County, Inc. v. City of Los Angeles*, 24 Cal. 4th 830 (2001)) and water, sewer and some solid waste service fees (*Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th. 205 (2006)).

⁷⁷ Cal. Const. art. XIII D, § 6(a).

⁷⁸ Fees which are imposed as an incident of property ownership or property related service (except for sewer, water and refuse collection services) require a majority vote of property owners or, at the public agency's option, a two-thirds vote of the general electorate. Cal. Const. art. XIII D, § 6(c).