

CalCities Fire Chiefs ❖ December 14, 2023

What Today's Fire Chiefs Need to Know About Municipal Finance

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The California Local Government Finance Almanac



Cities Vary ... Counties Vary ... Special Districts 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 city

❖ 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



Everything is a Tax Except ...

California Constitution per Prop26

Any levy, charge or exaction of any kind imposed by a California government, is a **tax** except:

- 1&2. A charge imposed for a **specific benefit, privilege, service or product, granted directly to the payor** that is **not provided to those not charged...**
 - User Fees
 3. A charge imposed for the **reasonable regulatory costs for issuing licenses and permits, performing investigations, inspections, and audits ... and the enforcement and adjudication thereof.**
 - Regulatory Fees
 4. A charge imposed for **entrance to, use of, purchase, rental, or lease of local government property.**
 - Rents
 5. A **fine, penalty, or other monetary charge** imposed as a result of a **violation of law.**
 - Penalties
 6. A charge imposed as a **condition of property development.**
 - Development Fees
 7. **Assessments and property-related fees** imposed in accordance with ...**Article XIII D.**
 - Property-related Fees
- A charge not "imposed"



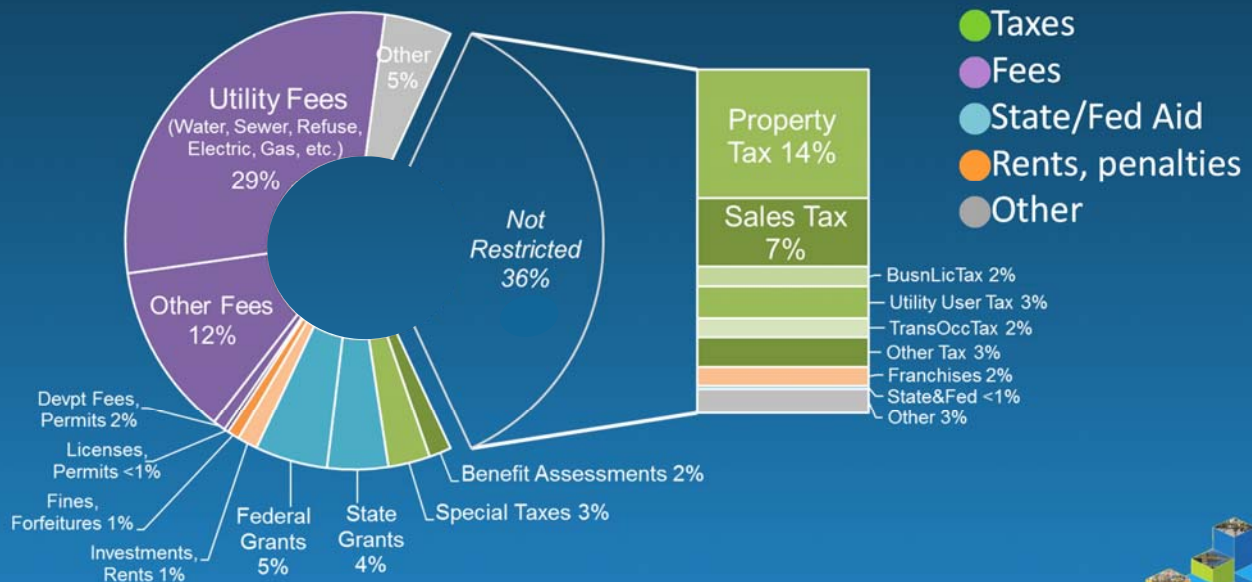
Taxes and Fees/etc. Approval Requirements

(California Constitution)

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



California City Revenues

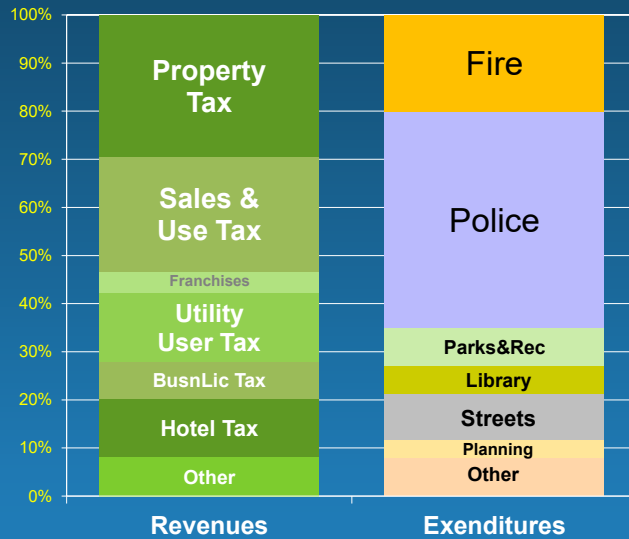


Source: Author's computations from California State Controller data. Does not include the City/County of San Francisco.



Discretionary Revenues and Spending

Typical Full Service City

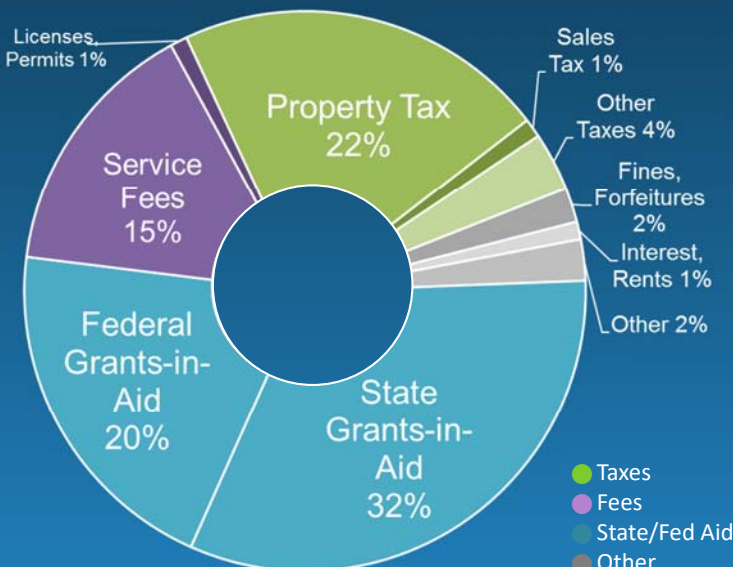


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Source: Coleman Advisory Services computations from State Controller reports

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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

Counties have

- more mandates,
- less discretionary \$, and
- are more vulnerable to state budgetary action

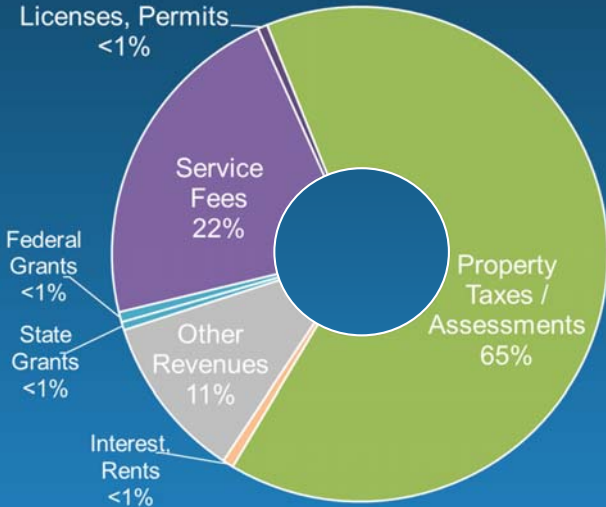
Source: Author's computations from California State Controller 2014-15 data. Includes the City/County of San Francisco.

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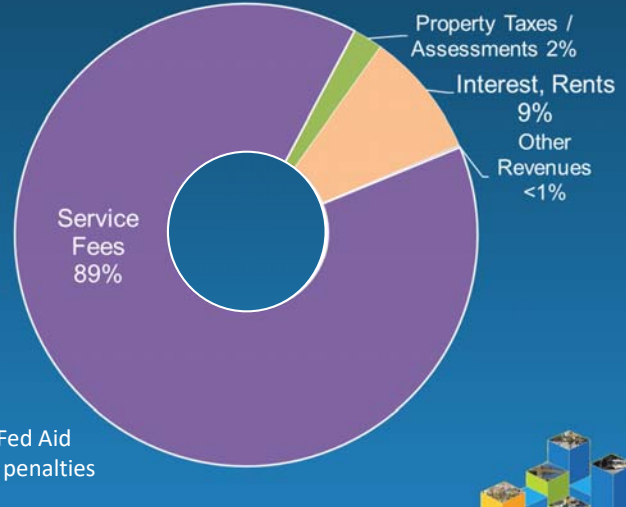
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California Special District Revenues

Typical Non-Enterprise District
(e.g., fire, parks, library)



Typical Enterprise District
(e.g., water, sanitation)



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

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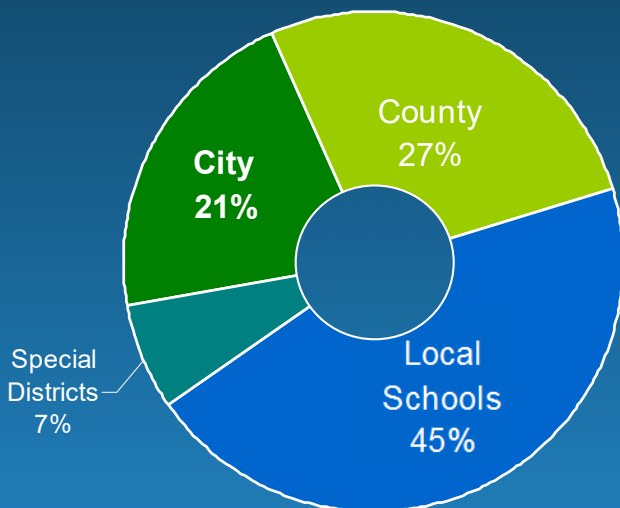
Source: Author's computations from California State Controller data.

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Where Your Property Tax Goes

Typical city resident



Shares Vary!

- ✓ Non-Full service cities: portion of city shares go to special districts (e.g. fire)
- ✓ Pre-prop13 tax rates
- ✓ Every city, county gets Prop-Tax In Lieu of VLF.

Includes Property Tax in-lieu of VLF.

Typical homeowner in a full service city not in a redevelopment area.

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Source: Author's computations from Board of Equalization and State Controller data.

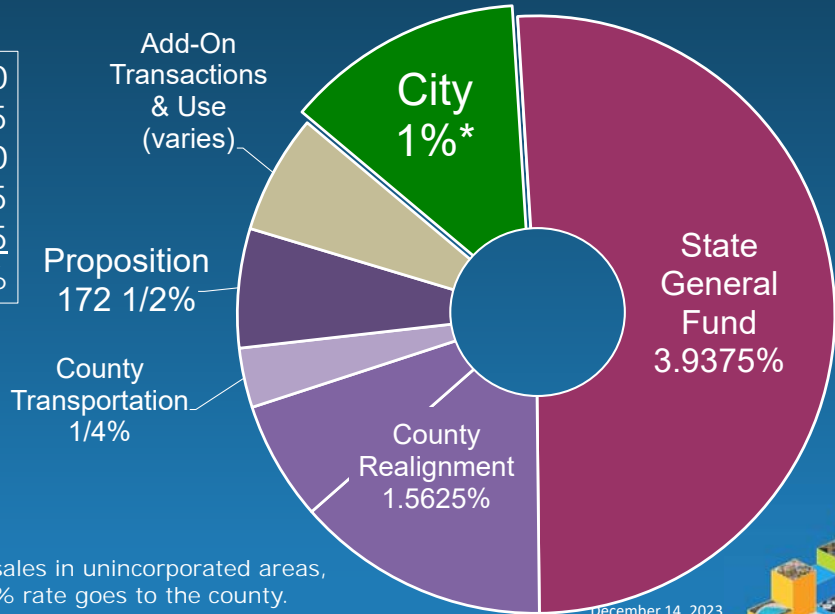
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Where Your Sales Tax Goes

City*	1.00
Co Transp	0.25
Prop172	0.50
Co Realign	1.5625
State GF	3.9375
Total Base	7.25 %



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

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Initiative #21-0042A1

Huge Threat to Public Services

Draconian, Impractical Ballot Initiative Headed to the November 2024 Ballot

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Draconian, Impractical Ballot Initiative – November 2024

Initiative #21-0042A1: Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment

Chokes local tax authority. Requires:

- Requires voter approval for taxes applied to territory that is annexed
- Requires sunset date on all new taxes
- General tax ballot label must say “for general government use”
- Repeals *Upland* exception for initiative special taxes
- Local tax advisory measures are prohibited (the Measure A/B approach).



Draconian, Impractical Ballot Initiative – November 2024

Initiative #21-0042A1: Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment

Restricts local fee authority

- Fees by limiting limited “actual cost” of providing the product or service for which the fee is charged. “Actual cost” is defined as the “minimum amount necessary.”
- Fees - including for use of government property - must be “reasonable to the payor”
- Repeals fee for “special benefit” exception to Prop 26 “tax” definition
- Fees must be adopted by legislative body by ordinance, not staff or a commission
- Changes legal standard from “preponderance of the evidence” to “clear and convincing evidence” to prove a fee or charge is not a tax and does not exceed “actual cost.”



Draconian, Impractical Ballot Initiative – November 2024

Initiative #21-0042A1: Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment

Also ...

- Fines require “adjudicatory process”
- No VMT tax or fee as condition of development or occupancy
- Retroactive window: taxes, fees approved after Jan 1, 2022 will sunset in Dec 2025 if not readopted in compliance with the initiative
 - At least \$2 billion of taxes approved in 2022-2024 must be re-adopted in 2025
 - New ballot language, new sunsets, new voter thresholds
 - \$ Billions of fees must be readopted to comply in 2025



A Brief Look at the California Municipal Financial Health Diagnostic Tool



Bad Brew in Troubled Cities



Defining Municipal Financial Health



Solvency

1. **cash solvency** - ability to meet immediate financial obligations; i.e. over next 30 or 60 days (accts payable, payroll).
2. **budgetary solvency** - ability to meet all financial obligations during a budget year.
3. **long-run solvency** – ability to meet all financial obligations into the future.
4. **service-level solvency** – ability to provide the desired level of services for the general health and welfare of the community.

Difficulties in Assessing Municipal Financial Health



- Published data are not complete or timely.
- Do we know what the numbers mean? Are they enough to draw conclusions?
- Comparisons are often false.
- Requires analysis, forecasting, context, legal
 - ◆ *it's not just an accounting or statistical exercise*
 - ◆ *history doesn't tell you enough about the future*

You Need a Financial Health Diagnostic



- **Validate** areas in which your city is *fiscally healthy*
- **Identify problems**, areas to *improve*
- **Act to remedy** problems *before* they get worse or unmanageable
- **Avoid being blind-sided** by problems
- **Add credibility** to your fiscal evaluation
- **Help others** (labor associations, taxpayers and other interested parties) **understand** your financial position

Our Approach



California Municipal Financial Health Diagnostic:

- ❖ Get to the primary indicators
 - useful & essential
 - ✓ Leave out extraneous / secondary
 - ✓ Add in overlooked & underappreciated factors
- ❖ Drill down to the real numbers
- ❖ Allow for nuance / clarification / differences
 - ✓ Reduce invalid conclusions and comparisons
- ❖ Constructive, thoughtful approach

The California Municipal Financial Health Diagnostic



Financial Health Indicators - Summary Checklist

	Measures	Practices and Conditions
	1. Net Operating deficit / surplus. There are no recurring general fund operating deficits. General revenues are sufficient to meet the net general revenue demand of programs.	
	2. Fund balance. Reserves are sufficient over multiple consecutive years and in compliance with adopted policy.	
	3. Capital Asset Condition. The city is keeping pace with the aging of its capital assets.	
	4. Liquidity. Cash and short-term investments are sufficient to cover current liabilities (including short-term debt and accounts payable within 60 days).	
	5. Fixed costs & labor costs. Fixed costs (including debt service and other contractual obligations), salaries and benefits are stable or decreasing over multiple years relative to reasonably expected revenue growth.	
	6. General fund subsidies of other funds. Any general fund subsidies other enterprises or special funds are sustainable and in compliance with adopted policy.	
	7. Constraints on budgetary discretion. The city council's authority to make budget changes is not excessively constrained by charter, contract, or law.	
	8. Balancing the budget with temporary funds. The use of reserves, selling assets, deferring asset maintenance to balance the general fund has been limited, prudent and in compliance with adopted policy.	
	9. Balancing the budget with borrowing. The use of short-term borrowing, internal borrowing or transfers from special funds to balance the general fund has been limited, prudent and in compliance with adopted policy.	
	10. Balancing the budget by deferring employee compensation costs. Pension liabilities and other non-salary benefits have been determined, disclosed and actuarially funded in compliance with adopted policy.	
	11. Balancing the budget with backloaded debt service payments. Debt service payments have not been "backloaded" into future years.	
	12. Funding operating costs with non-recurring revenues. Ongoing operating costs are being funded with ongoing rather than temporary revenues (e.g., from development, etc.)	
	13. Timeliness and accuracy of financial reports. Financial Reports are being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	
	14. Service level solvency. Public service levels meet the standards and needs in this community.	

The Importance of Good Financial Policies

Use of temporary funds

Reserves, fund balance

Short-term borrowing

Interfund transfers

Payment of Employee comp costs (pension, OPEB)

Payment of Unfunded Liabilities

Pay-as-you-go financing

Debt management and affordability

Long Range Financial Planning



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Essential Element of Financial Strength: Multi-Year Budget Forecasting

Financial

- ✓ Improves understanding of major revenue and expense budget drivers
- ✓ Identifies structural budget issues

Strategic

- ✓ Promotes long-term view
- ✓ Informs policy decisions e.g. impact on reserves, budget sustainability



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