New Mayor & Councilmember Academy

Financial Responsibilities and City Revenues

January 25 & 26, 2024

As trustees of the city, elected officials and city managers have special and serious obligations to safeguard the fiscal assets of the public. Delve into essential aspects of municipal finance that every city councilmember should know. Learn how cities have gotten into financial trouble and the right questions to ask to know if yours is healthy. Gain insight into major trends, challenges ahead and possible reforms. Obtain essential skills to keep your city budget strong through tough economic times. Determine best practices in financial reporting and identify important questions to ask when building the city budget. Get your questions answered from peers and experts.

Michael Coleman, Fiscal Policy Advisor, League of California Cities, CaliforniaCityFinance.com

Christine Turner, City Manager, City of Morgan Hill

Workshop Outline
1. Financial Administration: Your role as council member
2. The Ins and Outs of City Funds: Taxes, Fees and Other Major Revenues
3. Budgets and budget processes
4. Financial reporting and auditing
5. Diagnosing financial health
6. Milestones in municipal finance: a brief history, the state-local relationship
7. Pensions and OPEBs
8. Financial Policies
9. Capital financing
10. Top tips, closing charges, and Q&A

Course Materials - attached

This file:

1. Power point presentation slides.
2. Chapter 1, 2.0 and glossary from The California Municipal Revenue Sources Handbook Fifth Edition

Also Recommended

1. Governing Guide to Financial Literacy V 1 & 2: http://www.governing.com/papers/A-Public-Official-s-Guide-to-Financial-Literacy.html and http://www.governing.com/papers/A-Guide-to-Managing-Your-Jurisdiction-s-Financial-Health-1500.html
2. "Six Things to Know When Issuing Municipal Bonds," Municipal Securities Rulemaking Standards Board. https://www.msrb.org/sites/default/files/MSRBSixThingstoKnow.pdf
3. Public Engagement in Budgeting, ILG http://www.ca-ilg.org/sites/main/files/file-attachments/community_budget_5.5.14.pdf
4. California Legislative Analyst's Office, "CalFacts" https://lao.ca.gov/reports/2018/3905/calfacts-2018.pdf
5. Multari, Coleman, Hampian and Statler: Guide to Local Government Finance in California, Solano Press 2019
6. The California Local Government Finance Almanac http://californiacityfinance.com/
7. Government Finance Officers Association (GFOA) http://www.gfoa.org/

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2024 New Mayors and Council Members Academy
January 25-26, 2024 ❖ Monterey

Financial Responsibilities and City Revenues

for Mayors and Council Members

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Overview

- Financial Administration: Your Role as Council Member
- Ins and Outs of City Funds: Taxes and Major Revenues
- The Budget and Budget Process
- Financial Reporting and Auditing

- Diagnosing Financial Health
- State-Local Relationship, Milestones
- Pensions and OPEBs
- Financial Policies
- Top Tips

Financial Administration and Your Fiduciary Role

Christina Turner

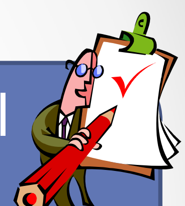
- The Fiduciary Role of Mayors and Councilmembers
- Roles of Key Staff

The Fiduciary Role of Mayors and Councilmembers

Oversight

- ✓ Budget Review/Approval
- ✓ Public Contracts
- ✓ Labor Relations

Sound financial policies



- ✓ Setting parameters
- ✓ Ensure long- and short-term financial awareness

Fiscal & Service Impacts of Decisions

- ✓ Setting precedents and unintended consequences

Roles of Key Staff

City Manager
- ✓ Budget Preparation
- ✓ $ Recommendations
- ✓ Fiscal Policy Recommendations
- ✓ Year-round Admin.

Finance
- ✓ Systems Admin.
- ✓ Reporting of Expenses and Revenues
- ✓ Auditing
- ✓ Annual Comprehensive Financial Report (ACFR)

Dept. Heads / Staff
- ✓ Budget proposals
- ✓ Tracking and reporting

Public Procurement

- Not designed to achieve speed, rather provide a fair and competitive process
- Locally adopted ordinances or policies for supplies and services
- State law provides public works project requirements

- Council should avoid:
  - Vouching for business
  - Receipt of gifts from would-be vendor
  - Campaign contributions from would-be vendors
  - Gift of public funds

- Council should:
  - Establish purchasing ordinance/policy
  - Direct administrative staff to carry out the process
  - Approve final agreements

Example: Morgan Hill

Amount	Method	Authority
$10,000 or less	Informal Bid	City Manager → Department Heads
$10,000 to $25,000	Informal Bid	City Manager → Purchasing Officer (Finance Director)
$25,000 to $60,000	Competitive Bid	City Manager
$60,000 or more	Competitive Bid	City Council

Council Oversight: Quarterly report on all contracts approved within City Manager authority, with amount, purpose, and contractor

The Ins and Outs of City Funds

Michael Coleman

- Taxes, Fees
  and the rest
- Local Property Taxes
- Local Sales Taxes

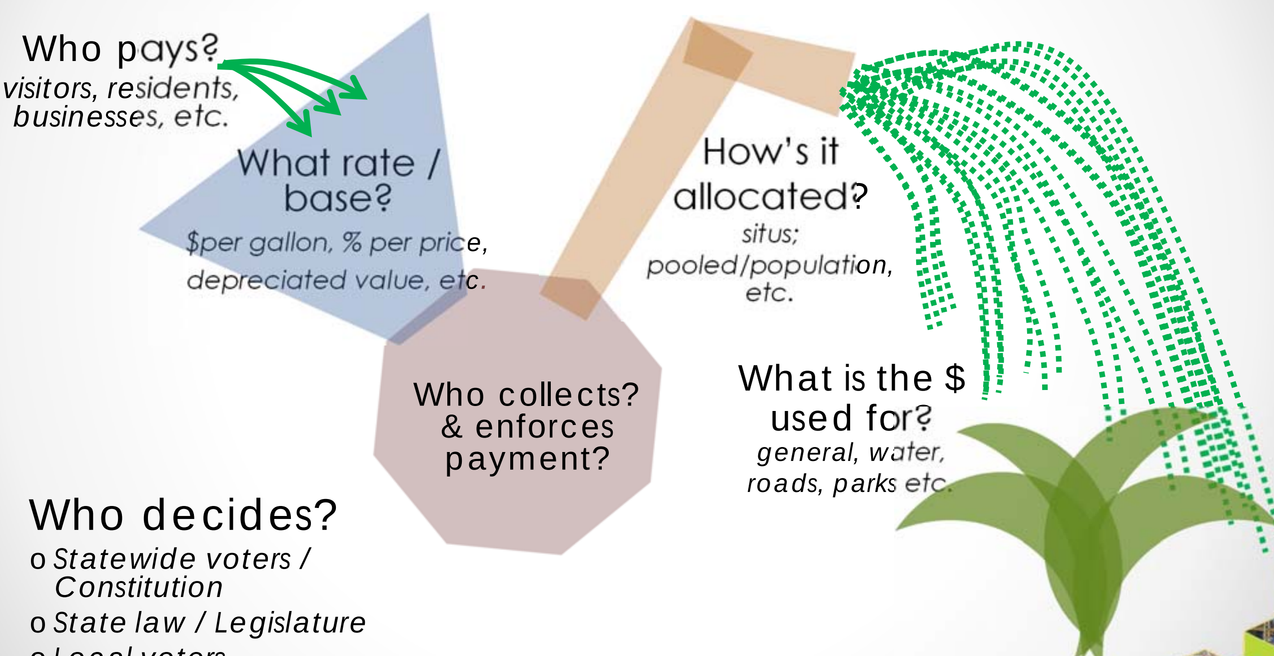
LEAGUE OF CALIFORNIA CITIES

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

❖*Statewide generalizations often mask trends among sub-groups*

The Mechanics of Government Revenue



Who decides?
- o *Statewide voters / Constitution*
- o *State law / Legislature*
- o *Local voters*
- o *Local law / City Council*

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 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

The Ins and Outs of State & Local Funds

Fees and the Rest

California Constitution per Prop218(1996, Prop26(2010), etc.

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

- User Fees and Assessments: for a privilege/benefit, service/product

  Planning permits, development fees, 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, fines and forfeitures, etc.

  Parking fines, late payment fees, interest charges and other charges for violation of the law.
- A payment that is not *imposed* by government

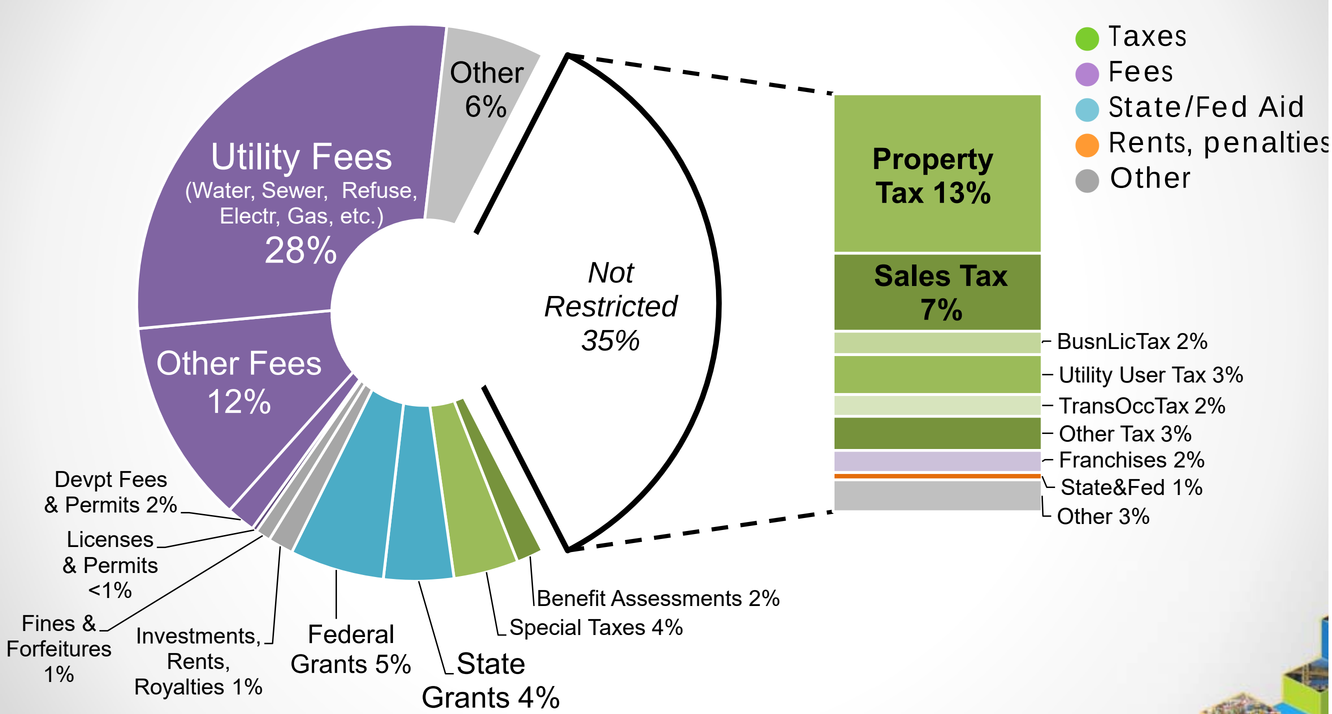
  Includes payments made pursuant to a voluntary contract or other agreement that are not otherwise "imposed" by a government's power to coerce.

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.*

The Ins and Outs of State & Local Funds

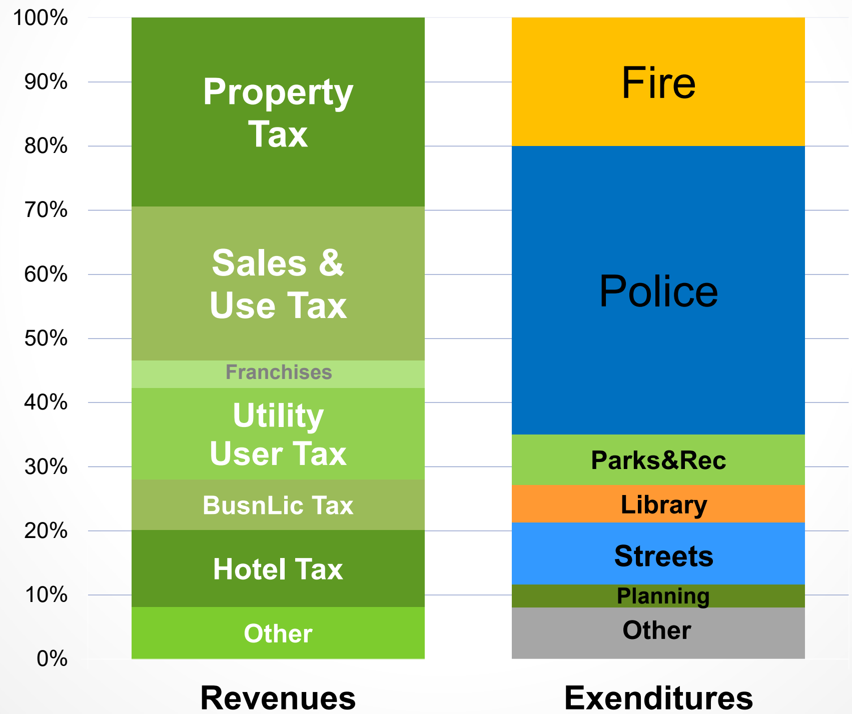
California City Revenues



Source: CaliforniaCityFinance.com computations from data from California State Controller (revenues). Does not include data from the following cities that failed to report: Beaumont, Hawthorne, Imperial, La Habra, Lindsay, Placerville, Stockton, Taft, and Westmorland.

Discretionary Revenues and Spending

Typical Full Service City

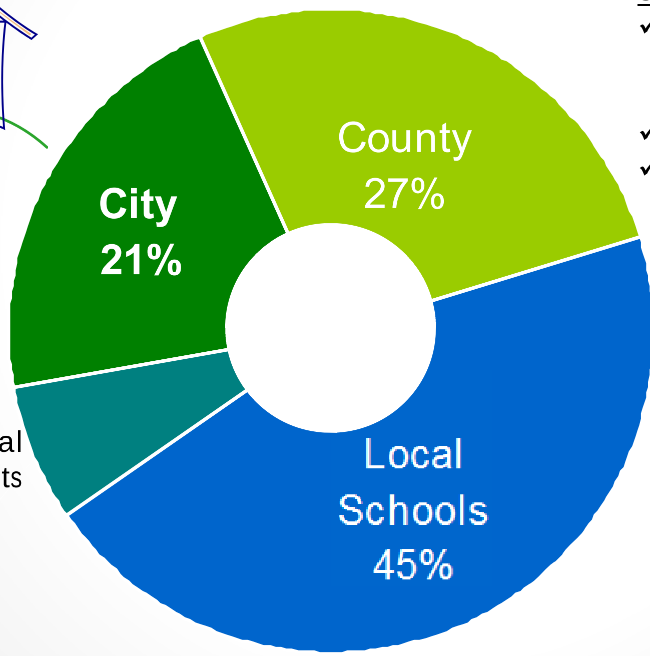


Source: Coleman Advisory Services computations from State Controller reports

Property Tax

- ✓ An *ad valorem* tax imposed on real property and tangible personal property
- ✓ Maximum 1% rate (Article XIIIA) 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



Shares Vary!

- ✓ *Non-Full service cities: portion of city shares go to special districts (e.g. fire)*
- ✓ *Pre-prop13 tax rates*
- ✓ *Everyone gets Prop-Tax In Lieu of VLF shares – except new cities since 2004.*

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

Includes Property Tax in-lieu of VLF.

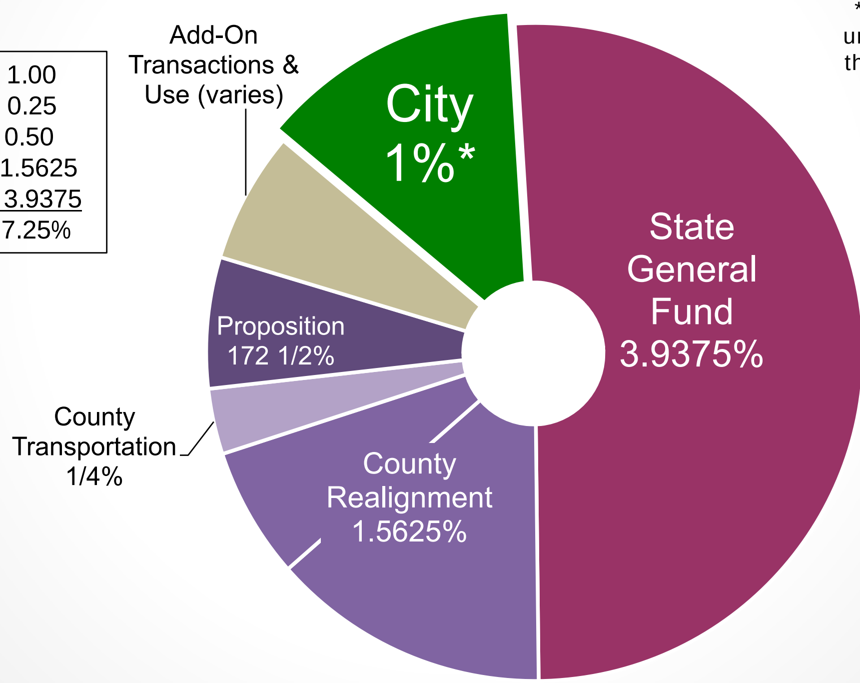
Source: Coleman Advisory Services computations from Board of Equalization and State Controller data.

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.

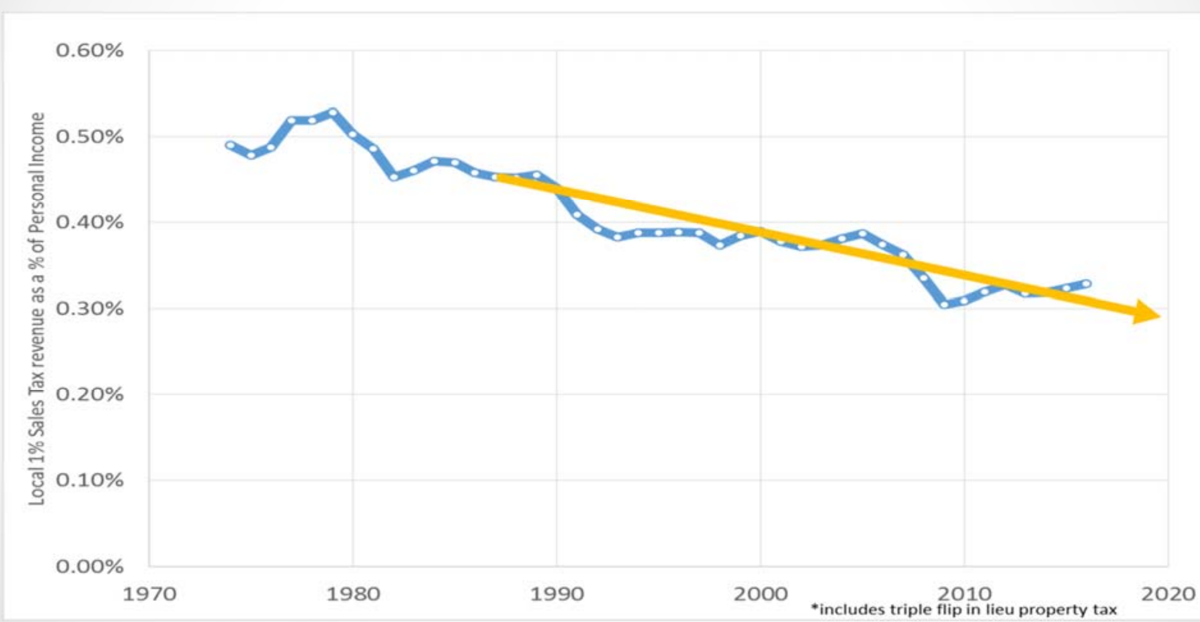
Where Your Sales Tax Goes

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.

Sales Tax Collections
as a percent of statewide personal income



Source: California State Board of Equalization (Sales Tax), CA Dept of Finance (Population), CA Dept of Industrial Relations (CPI)

Budgets and Budget Processes

Christina Turner

- What *is* a budget?
- What is *in* a budget?
- What is a “fund?”
- Capital Improvement Program (CIP)
- Budget process

What ***is*** a Budget?

- What: A financial plan projecting revenues and expenditures for a defined period of time (usually 1-2 years)
- Types: Operating and Capital

Your budget should:

- Reflect the community’s priorities
- Good estimates of revenues/expenses by Fund
- Anchored to Long Term Forecasts (~5 years)
- Provide actual revenue/expense history to gauge accuracy of forecasts!

What is *in* a Budget?

- A ***summary or discussion*** of revenues, expenses, and current economic conditions
- History of ***actual*** revenues and expenses
- Projected ***revenues by type/source***
- Estimates of proposed ***expenditures by function*** (typically by Department)
- Separate budgets for each and every ***Fund***
- Capital Budget – tied to CIP

Budgets and Budget Processes

What *is* a "Fund"?

- A ***fund*** is a self-balancing set of accounts for all financial transactions of specific activities.

- Most agency budgets include the following types of separate ***"funds"***:

  -General Fund

  -Enterprise Fund(s)

  -Special Revenue Fund(s)

  -Capital Project Fund(s)

  -Others: debt service, trust, agency, internal service, special assessment

Budget Alternatives

Terms:

- Typical: One Fiscal Year (July 1 – June 30)
- Biennial Budget (two fiscal years)

Types:

- Operating
- Capital

Budget Formats:

- Line Item
- Performance
- Program
- Zero Based

Budgets and Budget Processes

Capital Improvement Program (CIP)

- For infrastructure or capital investment
- Revenues come from a variety of sources:
  - Impact fees, restricted taxes, grants, enterprise operations
- Subject to State Law--bidding process and prevailing wages
- Capital Improvement Program should look forward five years, preferably ten

CIP – Policy & Guidelines

Policy:

- Statement of plans for capital projects
- Specific goals
  - e.g., PCI for roads
- Use of resources

Guidelines:

- preserve an existing asset?
- mitigate health or safety problem?
- mandated by State or Feds?
- contribute to City's economic health?
- available funding for capital plus ongoing operations & maintenance?

Budget Process

- A budget takes months to prepare
- Performance standards or measures help ensure investment meets desired outcomes
- Your budget calendar and review process *should be meaningful*
- Your process should allow for needed input at the appropriate times
- Each agency does it differently!

Biennial Budget Process

January
1st Year
City Council Goal Setting Workshop

February – April
Budget Development

April
Recommended Budget Made Available to the Public

May
Budget Workshop

June
Public Hearing and Budget Adoption

January
2nd Year
City Council Goal Setting Workshop

February – June
In-depth Budget Review Process
Mid-Cycle Update (Yr. 2)
Budget Adjustments, as needed

Long-Term Financial Planning

Combines **financial forecasting** with **financial strategizing** to identify **future challenges** and **opportunities**, fiscal imbalances, and strategies to secure **financial sustainability**.

Why?

- Respond to a financial crisis
- Bring financial perspective to planning
- Stimulate long-term thinking
- Stimulate “big picture” thinking
- Address a particular issue or proposal
- Impose discipline
- Demonstrate good fiscal management to all stake holders

Financial Reporting and Auditing

Christina Turner

- The Annual Comprehensive Financial Report (ACFR)
- Letter of Transmittal
- Independent Auditor's Report
- Management Discussion and Analysis
- Financial Statements and Notes
- Supplementary and Statistical Information

Annual Comprehensive Financial Report (The ACFR)

- Letter of Transmittal
- Independent Auditor's Report
- Management Discussion and Analysis
- Basic Financial Statements and Note Disclosures
- Supplementary Information and Statistical Section

Management's Discussion and Analysis (MD&A)

- Narrative overview of Basic Financial Statements
  - o Explains components
  - o Highlights year-over-year changes
  - o Analysis of individual funds
- What to look for:
  - o Changes in net position
    - Capital assets vs. unrestricted net position
    - Underlying reasons...One-time occurrences or a trend?
  - o Changes in fund balance
    - The change itself is less important than the explanation
  - o Analysis of the General Fund

Basic Financial Statements

Government-wide
This is the agency-wide roll-up

Governmental Funds
- General Fund
- Special revenue funds

e.g., impact fee funds

Proprietary Funds
- Enterprise funds

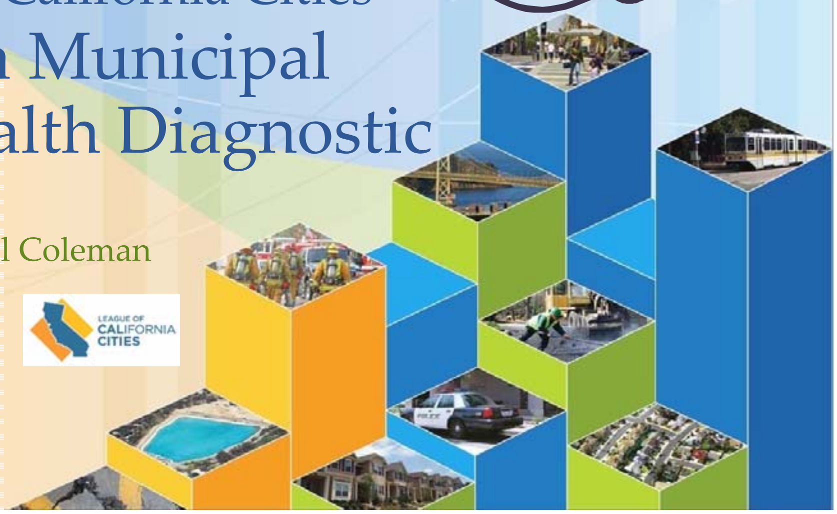
e.g., utilities, etc.

Note: Fiduciary Funds (trust funds, redevelopment dissolution funds, etc.) are a separate component and do not roll-up into the government-wide financial statements.

Diagnosing Municipal Financial Health

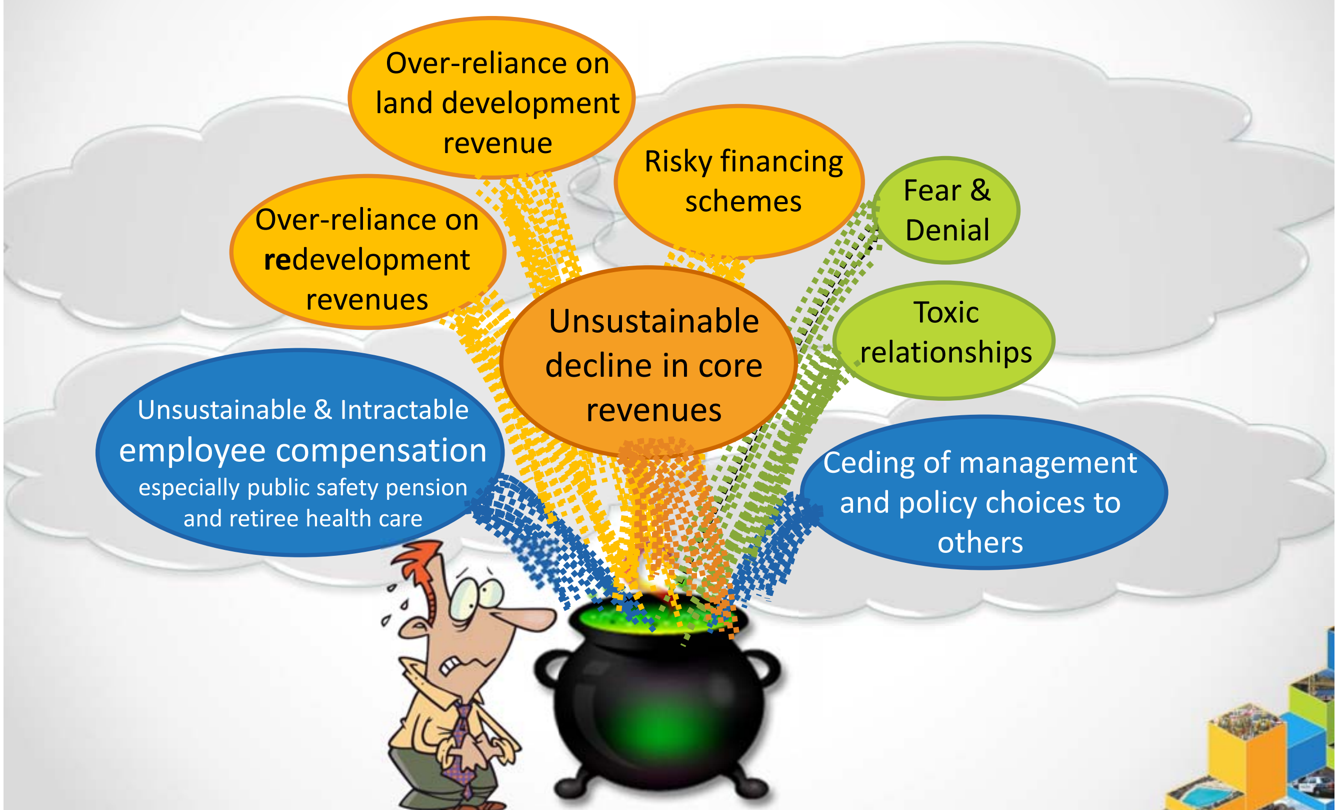
Introducing:

The League of California Cities’ California Municipal Financial Health Diagnostic



Michael Coleman

Bad Brew in Troubled Cities



Our Approach

California Municipal Financial Health Diagnostic:

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

The California Municipal Financial Health Diagnostic

Diagnosing Financial Health

City of **Fund:**

The California Municipal Fiscal Health Diagnostic

Financial Distress Checklist

Measures	1. The city has recurring general fund operating deficits.	
Measures	2. General fund reserves are decreasing over multiple consecutive years.	
Measures	3. General fund current liabilities (including short-term debt and accounts payable within 60 days) are increasing. Cash and short-term investments are decreasing.	
Measures	4. General fund fixed costs, salaries and benefits are increasing over multiple years at a rate faster than recurring revenue growth.	
Measures	5. The general fund is subsidizing other enterprises or special funds.	
Practices and Conditions	6. The city council's authority to make changes is constrained by charter, contract, or law. (e.g. binding arbitration, minimum spending, minimum staffing or compensation formulas, etc.)	
Practices and Conditions	7. The general fund budget has been balanced repeatedly with reserves, selling assets, deferring asset maintenance.	
Practices and Conditions	8. The general fund budget has been balanced repeatedly with short-term borrowing, internal borrowing or transfers from special funds.	
Practices and Conditions	9. General fund pension liabilities, post-employment or other non-salary benefits have been repeatedly deferred or costs have not been determined, disclosed or actuarially funded.	
Practices and Conditions	10. General fund debt service payments have been "backloaded" into future years.	
Practices and Conditions	11. Ongoing general fund operating costs are being funded with temporary development revenues.	
Practices and Conditions	12. Financial Reports are not being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	
Practices and Conditions	13. Public service levels are far below standards needed in this community.	

For detailed indicators related to these points see the ***Financial Health Indicators*** *.*

Milestones in Municipal Finance: A Brief History

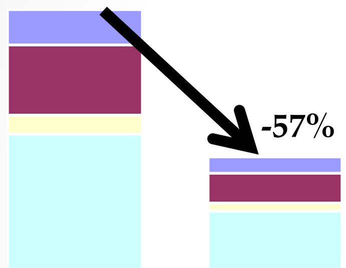
Michael Coleman

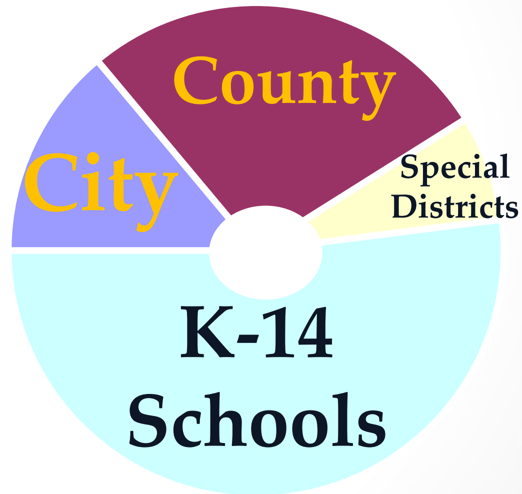
LEAGUE OF CALIFORNIA CITIES

Proposition 13 (1978) nuts & bolts

1. **One percent rate cap.** Property tax rates capped at 1% of full market value
2. **Assessment rollback** of property values for tax purposes to 1975-76 levels
3. **Assessment growth capped** at 2% of property value (or CPI)
   - reassessment at full market value only upon change of ownership
4. **Special taxes** (local) require 2/3 voter approval
5. **State tax increases require 2/3 vote of Legislature**
6. **Authority for allocating property tax revenues transferred to the state**

Proposition 13 (1978) revenue impacts



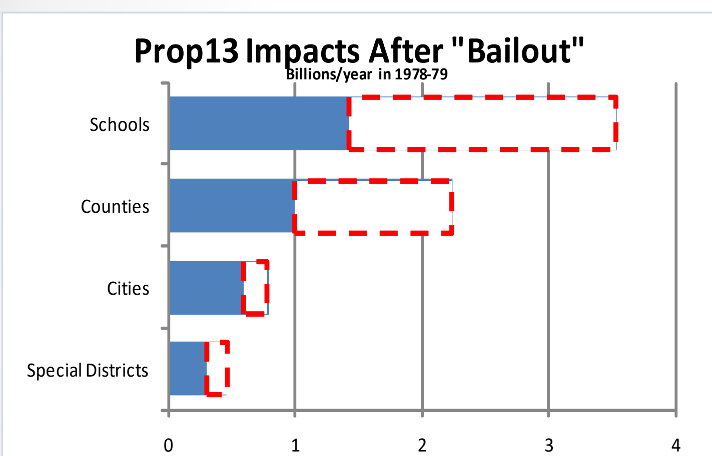


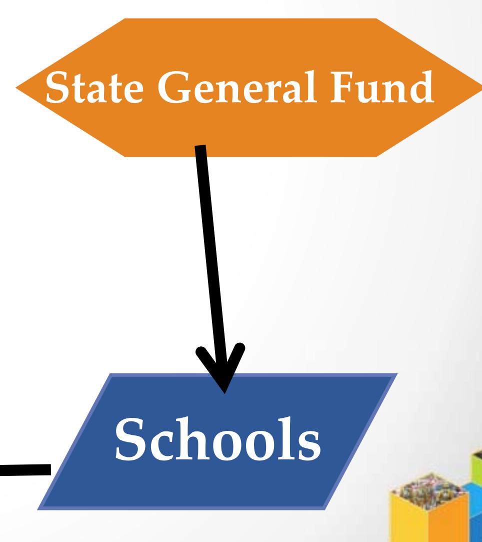
57% reduction

Milestones in Municipal Finance History

The AB8 (1979) Bailout

Shifting Local Property Tax to Cushion Impacts of Prop13



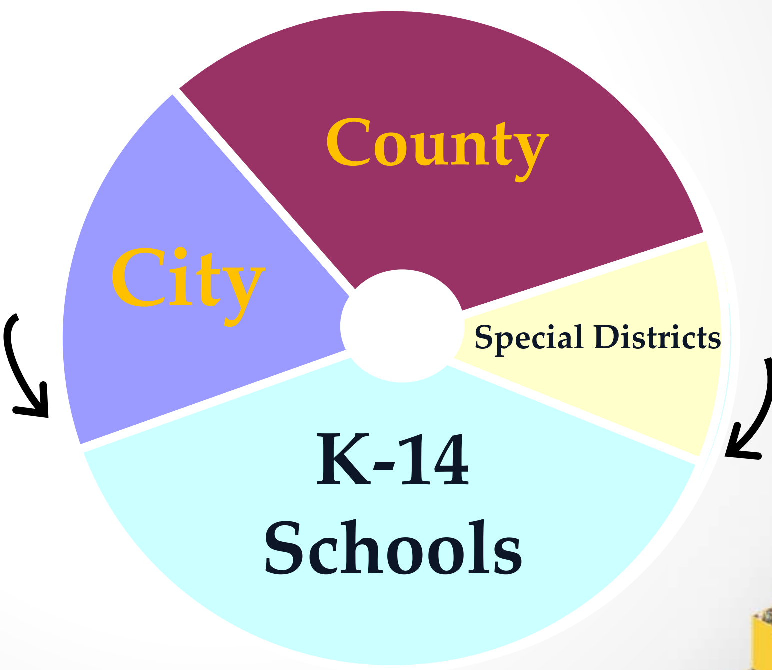


Proposition 13 (1978) revenue impacts

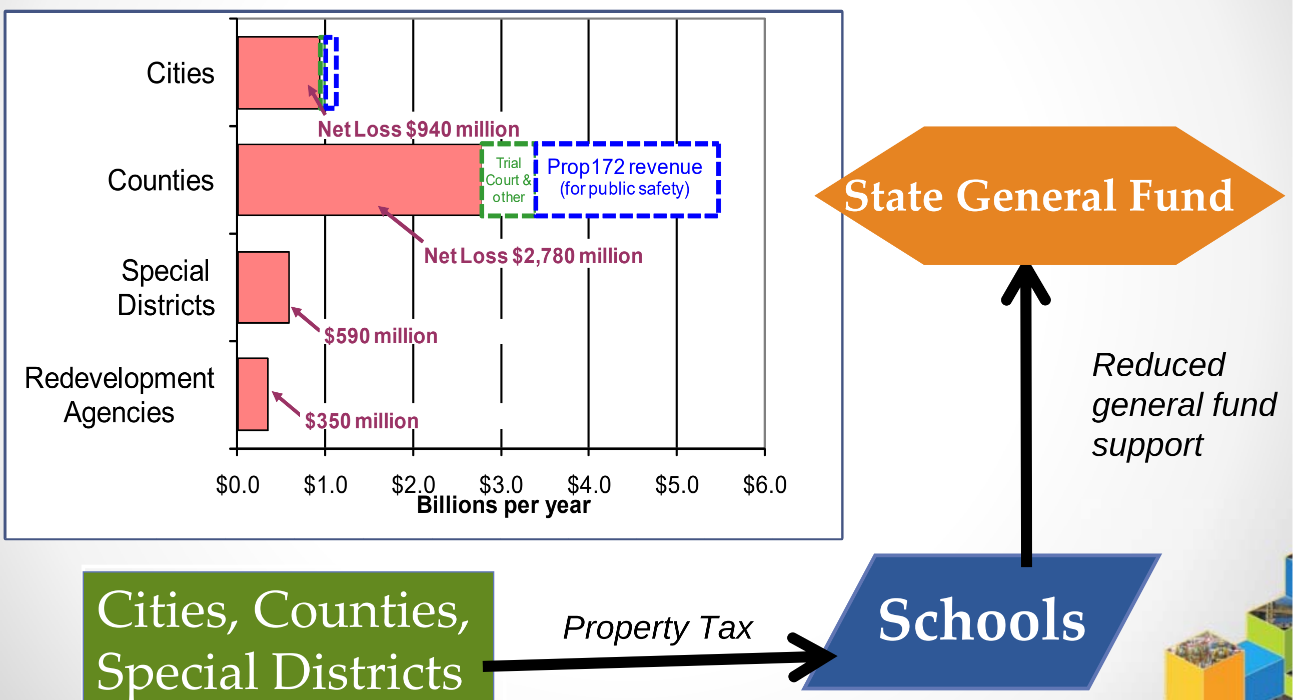
The AB8 "Bailout":

State legislature

- increased non-school shares,
- reduced school shares,
- paid more state general fund to schools.



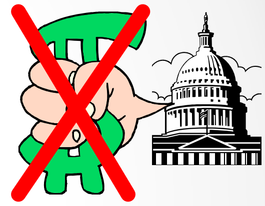
E.R.A.F.(1992): Shifting Local Property Tax to Save the State General Fund



Local Revenue Protection:

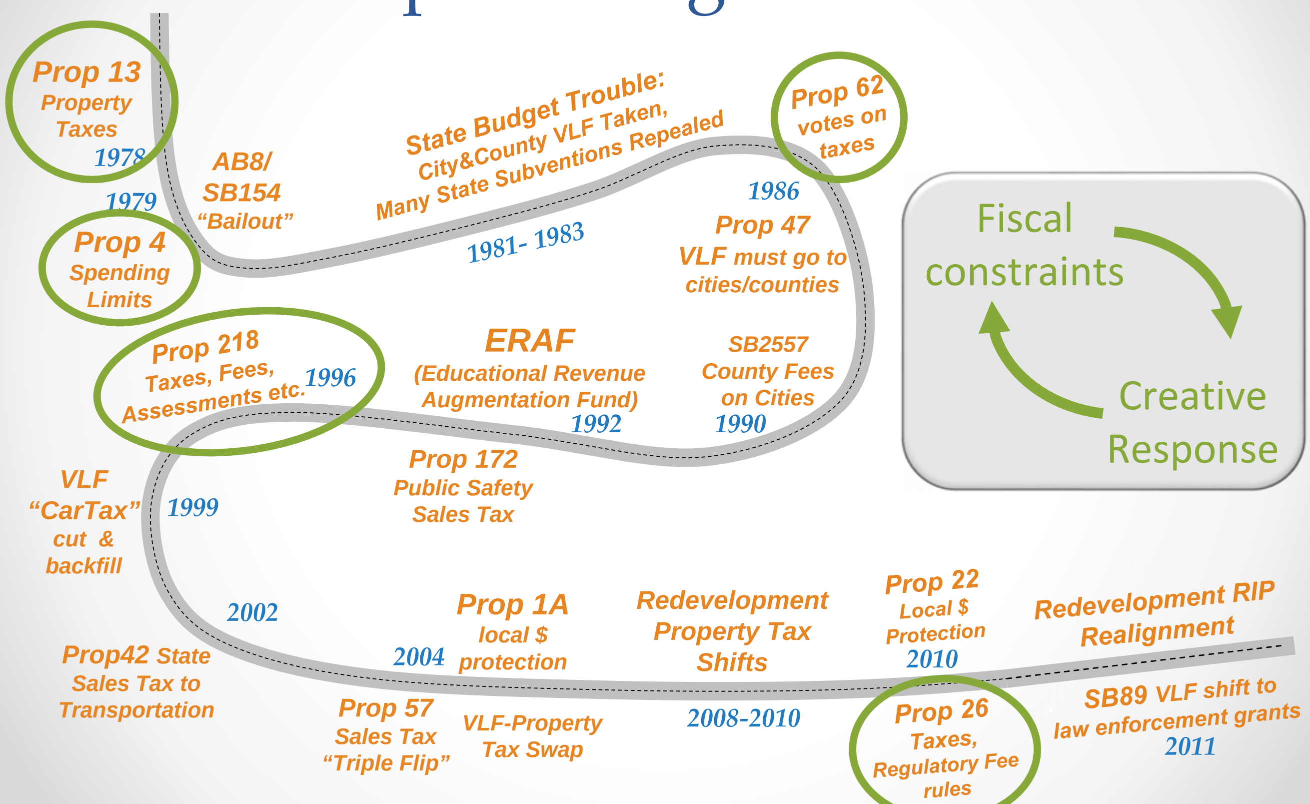
Prop1A('04), Prop1A('06), Prop22('10)

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. **Prohibitions against unfunded state mandates strengthened**
6. **Redevelopment Tax Increment - may not be diverted for other purposes**

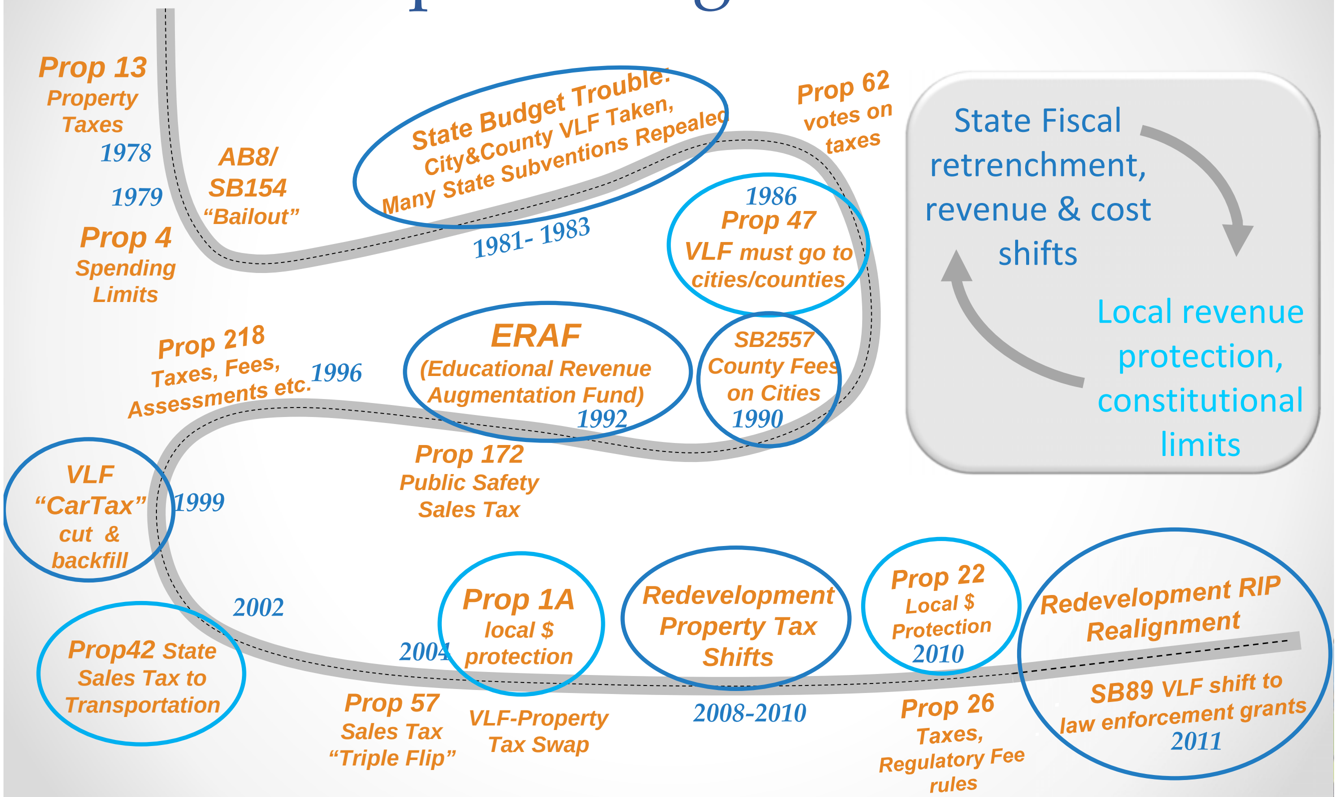
The State-Local Fiscal Relationship: A Rough Road



Fiscal road concept stolen from LAO

The State-Local Fiscal Relationship: A Rough Road

Milestones in Municipal Finance History



Fiscal road concept stolen from LAO

Pensions and Other Post-Employment Benefits (OPEB)

Christina Turner

- Pension Funding
- Employer Contribution Rates
  What Happened?
- GASB changes
- Other Post Employment Benefits (OPEB)

LEAGUE OF CALIFORNIA CITIES

Retirement Plans

1. Defined Contribution
   - Employees (and/or employers) contribute a fixed amount or a percentage of pay in an account that is intended to fund retirement
2. Defined Benefit
   - Employee benefits are computed using a formula that considers several factors, such as length of employment and salary history

Pension Funding

Defined Benefit Plans are funded from:

1. Contributions from employers
   - Variable based on a variety of factors
2. Contributions from employees
   - Fixed based on pension formula
3. CalPERS investment earnings

Employer Contribution

Two components

- Normal cost
  - Annual cost of future benefit for current employees
  - Expressed as a percentage of pay
- Payment on unfunded accrued liability (UAL)
  - Required when plan liabilities exceed plan assets
  - Expressed as a dollar amount

Employer Contribution (Cont'd)

Many factors cause the employer rate to change, including…

- CalPERS investment earnings
- Benefit changes
  - Formula changes applied retroactively
- Changes in actuarial assumptions
  - Economic, such as the rate of investment return
  - Demographic, such as mortality rates
  - Other experience
    - Pay increases exceeding assumptions

Employer Contribution (Cont'd)

Actuarial Valuation Reports

- Take into account participant data (active, transferred/terminated, retired and beneficiaries) and changes in assumptions
- Provide a snapshot in time of the Plan's assets and liabilities (usually as of June 30th) and funded status
- Determines the required contributions for upcoming fiscal year
- Highlight changes from previous year's valuations
- Risk analysis

Employer Contribution (Cont'd)

For the City of Morgan Hill Misc. Plan (Does not reflect cost-share)

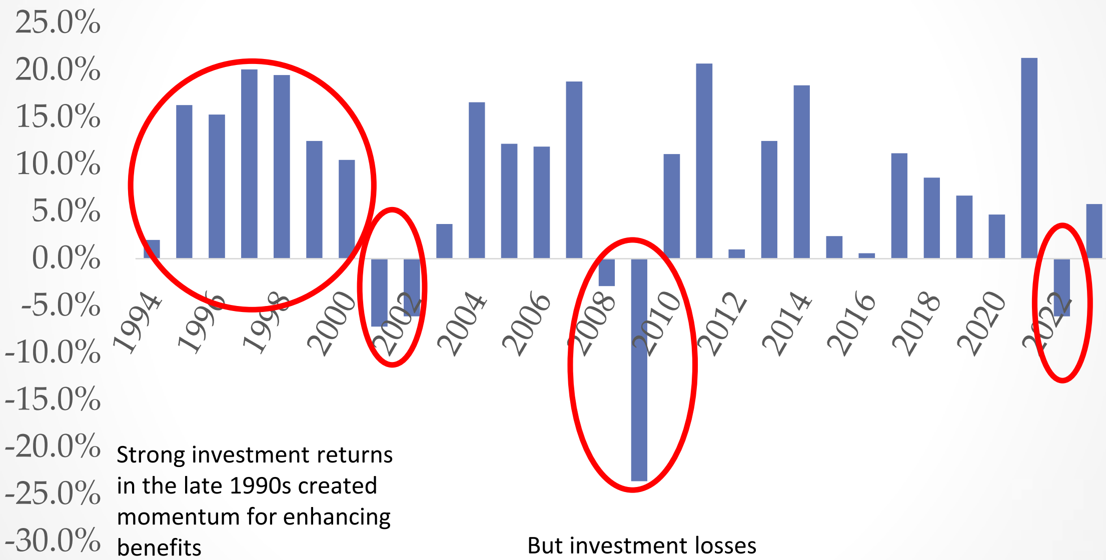
	Fiscal Year 2023-24	Fiscal Year 2024-25
Normal Cost Contribution as a Percentage of Payroll		
Total Normal Cost	20.15%	19.58%
Employee Contribution[1]	7.84%	7.80%
Employer Normal Cost[2]	12.31%	11.78%
Projected Annual Payroll for Contribution Year	$16,386,705	$18,455,872
Estimated Employer Contributions Based On Projected Payroll		
Total Normal Cost	$3,301,921	$3,613,660
Offset Due to Employee Contributions	1,284,718	1,439,558
Employer Normal Cost	2,017,203	2,174,102
Unfunded Liability Contribution	3,073,625	3,828,005
% of Projected Payroll (illustrative only)	18.76%	20.74%
Estimated Total Employer Contribution	$5,090,828	$6,002,107
% of Projected Payroll (illustrative only)	31.07%	32.52%

Funded Status

	June 30, 2021	June 30, 2022
1. Present Value of Benefits	$158,704,184	$172,312,773
2. Entry Age Accrued Liability	133,868,077	144,537,370
3. Market Value of Assets (MVA)	110,117,841	102,050,429
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$23,750,236	$42,486,941
5. Funded Ratio [(3) / (2)]	82.3%	70.6%

What Happened?

CalPERS Investment Returns

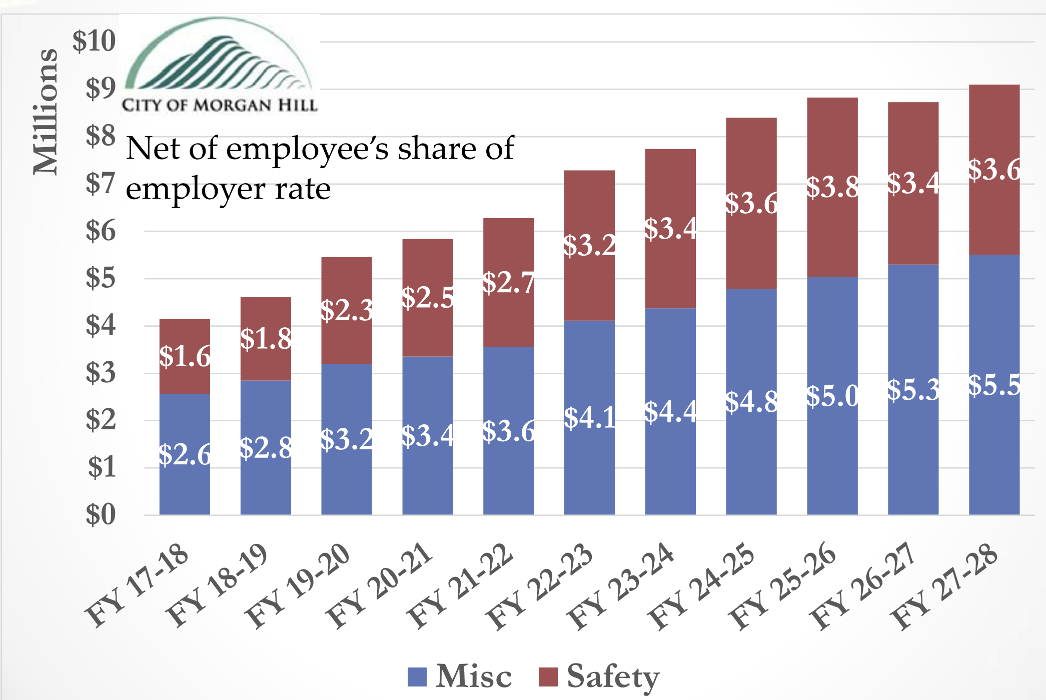


Strong investment returns in the late 1990s created momentum for enhancing benefits

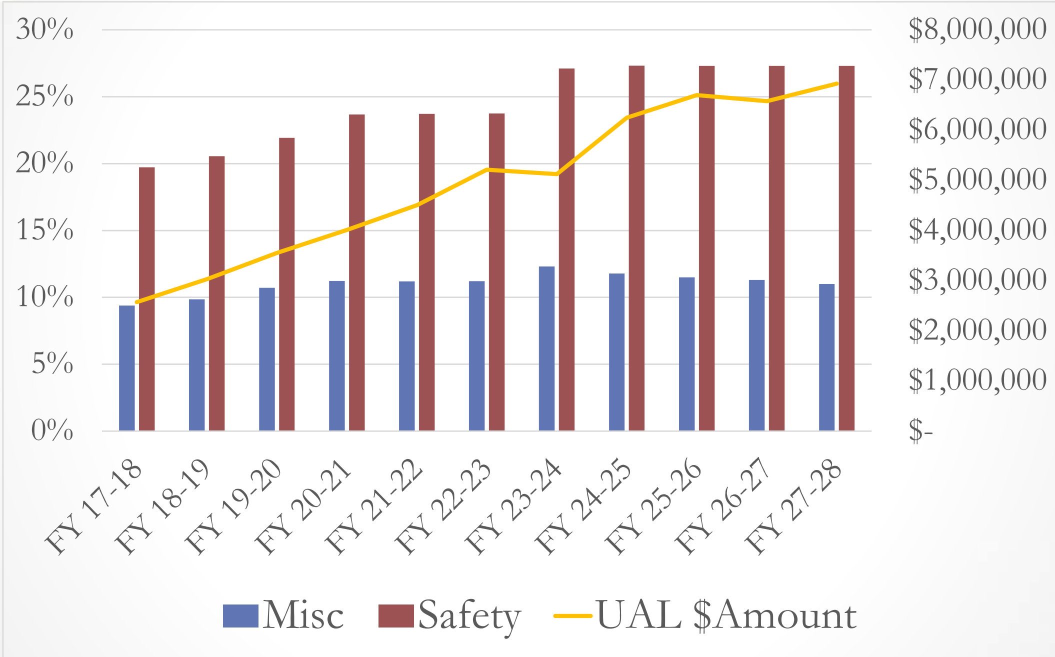
But investment losses combined with more expensive benefits created significant unfunded liabilities

The Cost of Doing Business

CalPERS Payments on the Rise



Contribution Rates



Does not include employee cost sharing

Response

- Some cities implemented new tiers (different retirement formulas)
- Public Employees' Pension Reform Act (PEPRA)
  - Required new tiers for new employees
- Pension obligation bonds- not recommended
- Section 115 Trusts
  - Can only be used for pension costs
- Cost Sharing: Employee sharing in employer contribution rate

Other Post-Employment Benefits (OPEB)

- Retiree benefits other than pension; can include life insurance, medical insurance, etc.
- Largely under-the-radar until GASB 45
  - Difference between Actuarial Required Contribution (ARC) and actual contribution on balance sheet
  - No requirement to fund, but creates visibility
- GASB 75 (effective fiscal year 2017-18)
  - Similar to GASB 68 for pensions
  - Liability needs to be portrayed in the financial statements (full accrual)

Other Post-Employment Benefits (OPEB) (cont'd)

- Significant liability for many cities
- Cost continuing to increase
  - More retirees
  - Retirees living longer
  - Increasing healthcare costs

Financial Policies: The Foundation of Fiscal Health

Christina Turner

- Plans versus Policies
- Topics for Financial Policies
- Policy versus Practice: Make 'em Work
- Policies and Financial Ratings
- The Importance of Evaluating Long Term Financial Health

Plans versus Policies

- Plans can change over time
  (like … as soon as the ink is dry)
- Policies, however,…
  - Act as your "north star," guiding your actions
  - Make tough decisions easier by formalizing values and procedures before a crisis hits
  - You could decide to do something else
  - Bottom line… good policies always give you a starting point

Financial Policy Topics

- Balanced Budget
- User Fees & Cost Recovery
- Enterprise Funds: To subsidize or not?
- Fund Balance & Reserves
- Budget Amendments
- Budget Carryover
- Revenue Earmarking
- Capital Financing & Debt Management
- Financial Reporting
- Investments
- Purchasing, bidding, contracting
- Travel guidelines
- Credit Card Use

Formal Policies

Put financial policies in writing so that they:

- Can outlive the crisis … or prepare you for one
- Promote stability and continuity
- Create efficiency through standardization
- Save you debt service costs
- Don't rely on an individual to interpret best practices
- Help with your ACFR process and reduce audit findings

Crucial Point: Policy versus Practice

- Policy should include <u>specific objective</u> but not detailed steps in meeting that objective
- Make policy <u>brief and concise</u>.
  - o Example: "User fees should be reviewed and adjusted at least annually to avoid sharp changes."
- Include "how to" steps in <u>administrative procedure</u>, if necessary.
- Leave exact steps of review/adjustment to staff.

Capital Financing

- Methods of Financing
- Types of Bonds

LEAGUE OF CALIFORNIA CITIES

Methods of Financing

Methods	Pros	Cons
Pay-as-you-go	• Future funds are not tied up in servicing debt payments • Interest savings put to other projects • Greater budget transparency • Avoid risk of default	• Long wait time for new infrastructure • Large projects may exhaust agency's entire budget • Inflation risk
Debt Financing (Bonds)	• Infrastructure is delivered when needed • Spreads cost over useful life of asset • Increases capacity to invest • Beneficiaries pay for projects	• Potentially high borrowing rate • Debt payments limit future budget flexibility • Generations forced to service debt requirements
Public Private Partnerships (P3)	• Risk transfer • External funding • Lower operating costs, and higher revenues • Improved user experience • Accelerated project delivery	• Loss of operational control • Changes in scope or performance standards • Non-transferable risks (changes in laws, 3rd party governmental agencies etc.)

Types of Municipal Bonds

- General obligation bonds
  - IOU issued by governmental entity to finance large projects
  - Backed by property tax revenue, to repay bonds over 20–30-year period
  - Can increase property tax to repay but requires 2/3rd voter approval
  - Generally done to acquire or improve real property
  - Example: parks, roads, school facilities etc.

- Revenue bonds
  - Issued to acquire, construct or expand public projects
  - Backed by fees or charges and paid from income generated by the facility or related service
  - Example: Water/Wastewater infrastructure financing

Top Tips

Michael Coleman

Top Tips for Financial Management

1. Obtain **key documents**:
   - Annual Operating Budget
   - Capital Improvement Program
   - Annual Comprehensive Financial Report (ACFR)
   - Long Range Financial Plan
   - Interim Financial Reports
   - Investment Reports

2. Develop and Use **Financial Policies**.

3. Know the difference between a "one-time" solution versus a "defer" solution versus a "sustainable" solution
   - ✓ One-time solutions fix a current problem, but not an on-going one.
   - ✓ Deferrals "put-off" a problem by fixing a one time problem but create as much or more added costs in future years.
   - ✓ A sustainable solution fixes an on-going budget problem now and into the future.

Top Tips for Financial Management

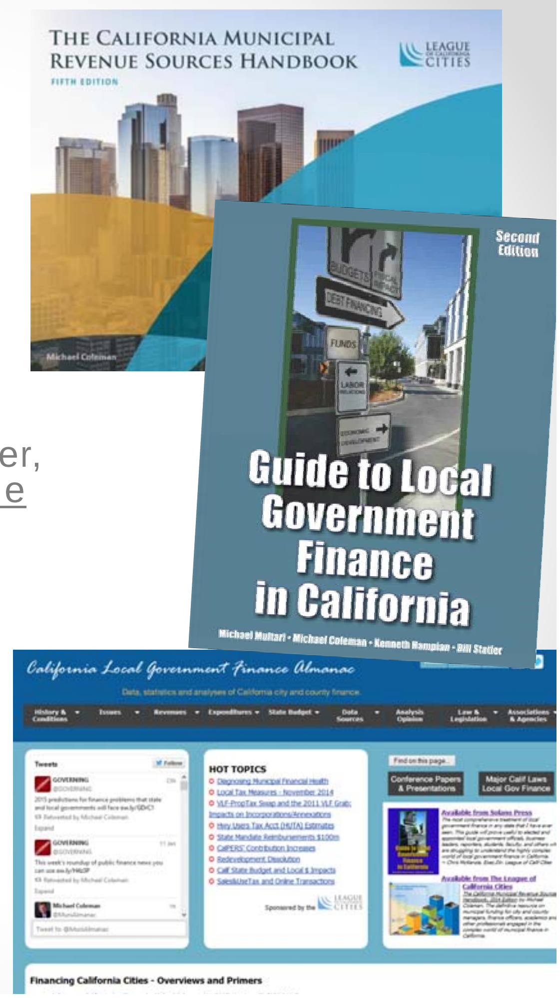
4. **Ask hard questions** about programs:

1) What is the purpose of this program? Why is it needed?
2) What are the specific intended outcomes of this program?
3) What are the measurable objectives?
4) What are the cost components: personnel, contracts, supplies, equipment, etc.?
5) How will the costs of this program change in the future?
6) What are the alternative service delivery approaches?
7) Where will the money come from to pay for this?
8) What are the consequences of not doing this program?

5. Avoid unsustainable budget practices including:

- Exhaust the reserves
- Freeze vacant positions
- Make across the board cuts
- Defer equipment purchases
- Defer essential maintenance
- Long-term formula driven spending
- Defer pension or capital funding contributions
- Eliminate training
- Borrow from other funds
- Ignore the small cuts

Resources



- ✓ Michael Coleman, <u>The California Municipal Revenue Sources Handbook</u>, 2019 Edition.
- ✓ Coleman, Hampian, Multari, & Statler, <u>Guide to Local Government Finance in California</u>. Solano Press.
- ✓ *Government Finance Officers Association GFOA.com*
- ✓ *The California Municipal Finance Almanac*
  www.CaliforniaCityFinance.com

The California Municipal Revenue Sources Handbook

FIFTH EDITION

LEAGUE OF CALIFORNIA CITIES

Michael Coleman

Excerpts from ...

THE CALIFORNIA MUNICIPAL REVENUE SOURCES HANDBOOK, FIFTH EDITION

Michael Coleman

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CHAPTER 1

MILESTONES IN MUNICIPAL REVENUES:

A Historical Perspective

The backdrop of any discussion of municipal revenues must be the state-local relationship and the provisions of the California Constitution that govern the relationship. This relationship has evolved over time, marked in recent decades by several landmark constitutional amendments. Consequently, today's municipal revenue landscape is not the same as your grandmother's or even your mother's.

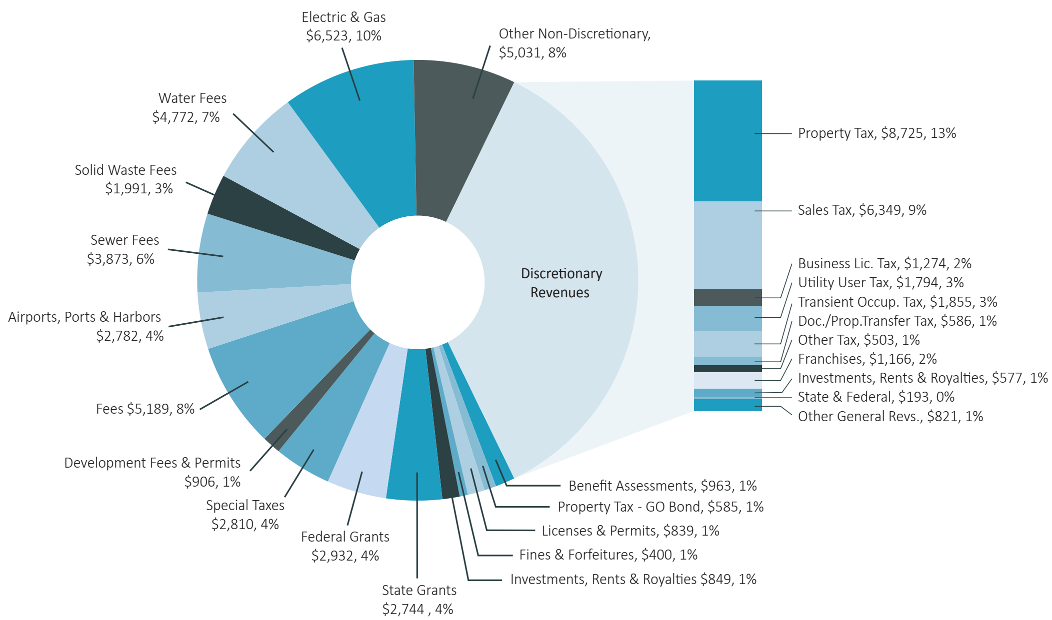
In California's early years of statehood, local government authority was strictly controlled by the state government, and local affairs were the frequent subject of meddling by the Legislature. California governors and legislators often displayed a deep distrust of local affairs, while local officials sought more latitude in municipal policy and public services.

The 1879 California Constitution

Thirty years after California's admission to the union, the second (and current) California Constitution was adopted by the Constitutional Convention during a turbulent period in the state's political history. That adoption created, for the first time, substantial and meaningful home rule for California's local governments. The 1879 Constitution included five provisions limiting the power of the Legislature to interfere with the affairs of cities and vested in cities extensive powers of self-government. This Constitution prohibited the state from imposing a tax for local purposes, but enabled the state to authorize local governments to impose them.

California City Revenues

FY 2016–17 (excluding the city and county of San Francisco)



Source: Author's computations of data reported to California State Controller.

Over the next several decades, local taxation authority was expanded to general law cities. In 1903, in a case upholding the City of Los Angeles' business license tax, the California Supreme Court stated unequivocally that local taxation is a municipal affair under article XI, §5 of the California Constitution. Later, in 1982, the Legislature conferred on general law cities by statute the authority to adopt any tax that could be adopted by a charter city.

A 1910 ballot measure known as the "Separation of Sources Act" made the property tax a local government revenue source and established the principle of separate revenue sources for state and local governments. The property tax was ideally suited to fund critical local general services such as law enforcement, jails, fire protection, parks, libraries, schools, hospitals and public health. This concept of the property tax as the largest, most durable and essential source of local government funding would stand for 68 years, until Proposition 13 drastically altered California local government finance.

In 1914, the California Constitution was amended to provide charter cities with the authority to "make and enforce laws and regulations in respect to municipal affairs, subject only to the restrictions and limitations provided in their several charters." It established the power of charter cities to adopt their own laws with respect to municipal affairs, including flexibility in organizational and program design, latitude to regulate certain activities and the authority to determine spending levels and priorities. But local authority in municipal affairs remained subject to state pre-emption as to matters of statewide concern. In the event of a conflict between a charter city law and state law, the court must decide whether the state law prevails (because it is a matter of statewide concern) or the local law prevails (because it is a municipal affair). Thus, the dynamic interpretation of "matters of statewide concern" and "municipal affairs" controls the scope of home rule.

Statewide Concerns and Municipal Affairs

Although cities achieved greater local fiscal authority to determine service levels and levy local taxes and charges, state fiscal rules and constraints have often dominated. In 1935, the state pre-empted the local taxation of motor vehicles as real property and established a statewide uniform value-based tax on motor vehicles, known as the "motor vehicle in-lieu tax" or Vehicle License Fee (VLF), which it then allocated to cities and counties based on their share of county population.

In 1955, the Legislature passed the Bradley-Burns Uniform Sales and Use Tax Act, pre-empting then-existing local sales taxes and providing for a uniform, statewide system of sales taxation and collection. The Bradley-Burns Act authorized cities to adopt local sales and use tax rates up to 1 percent of taxable sales transacted in their jurisdictions to be administered and allocated by the state. The amounts of revenue remained intact, and the use of those revenues remained at local discretion.

These changes attempted to strike a balance between accommodating the needs of the modern industrial economy for uniform practices and procedures with California's continuing commitment to meaningful local control of local government finance. They also attempted to address the important issues of taxpayer ease, uniformity and simplicity, but had the accompanying effect of centralizing fiscal authority with the Legislature and Governor while constraining local fiscal authority.

Through both Democratic and Republican administrations in the 1950s and 1960s, federal and state policy initiatives meant additional money and additional incentives, but also additional mandates for municipalities. In 1972, the Legislature responded to the vocal concern of local government over the costs of state mandates by passing SB 90 (Chapter 1406, Statutes of 1972), requiring the reimbursement of costs to local agencies for state-mandated programs. The following year, the Legislature required cost estimates of all legislation having a financial impact on local government. In 1979, mandated reimbursement, as required in SB 90, was added to Article XIII B of the California Constitution as a part of Proposition 4. The obligation to reimburse was further strengthened by Proposition 1A in 2004.

Property Tax Limits and Voter Approval of Special Taxes: Proposition 13 (1978)

In 1978, a simple majority of California voters approved Proposition 13, seeking property-tax relief and uniformity, but with far-reaching consequences, some unintended. Proposition 13 reduced property tax revenues by more than half and effectively abolished any local control with regard to the property tax. Local governments still have wide latitude on the spending of the remaining revenues they receive, but the allocation of the tax is controlled by the Legislature. Occasional proposals by the Legislative Analyst or individual policymakers to delegate more authority over property tax allocation to local governments tend to be met with resistance from local officials who fear the local conflicts and power struggles that would ensue in nearly any discussion of revenue reallocation.

Six Provisions of Proposition 13 Affecting Local Finance

1. **One percent rate cap.** Proposition 13 capped, with limited exceptions, property tax rates at 1 percent of full cash value at the time of acquisition. Prior to Proposition 13, local jurisdictions independently established their tax rates and the total property tax rate was the composite of the individual rates.
2. **Assessment rollback.** Proposition 13 rolled back property values as determined for tax purposes to their FY 1975–76 level.
3. **Reassessment upon change in ownership.** Proposition 13 replaced the practice of annually reassessing property at full cash value with a system based on cost at acquisition. Under Proposition 13, property is assessed at market value for tax purposes only when it changes ownership. Subsequent annual values are limited to this "base year" amount plus an annual growth factor of 2 percent or Consumer Price Index (CPI), whichever is less.
4. **Responsibility for allocating property tax transferred to the state.** Proposition 13 gave state lawmakers responsibility for allocating property tax revenues among local jurisdictions. Prior to Proposition 13, jurisdictions established their tax rates independently and their property tax revenues depended on the rate levied and the value of the property located within the boundaries of the jurisdiction.
5. **Voter approval for special taxes.** Proposition 13 requires two-thirds voter approval for taxes raised by local governments for a designated "special" purpose.
6. **Taxes imposed by the Legislature require a two-thirds vote of the Legislature.**

Prior to Proposition 13, effective total property tax rates varied, but averaged about 2.5 percent of market value. The 1 percent limitation and the rollback to FY 1975–76 assessed values resulted in an immediate 57 percent reduction in property tax revenues statewide.

In FY 1979–80, the Legislature used its authority to allocate property tax revenues to cushion the fiscal impact of Proposition 13 on local governments. In what is often called the "bailout," the state was able to shift about $2.7 billion of annual ongoing financial resources to local governments in part because of the state's $5 billion surplus (about 40 percent of annual revenues) and the $1 billion-plus annual revenue boost it received from higher personal income taxes due to lower taxpayer deductions for property taxes. As a result, city property tax losses from Proposition 13 were about 28 percent less than they might have been.

In addition to the bailout, the Legislature established a system for allocating property taxes. In what was intended as a permanent resolution to the issue of how to distribute significantly reduced property tax revenues, this solution, AB 8 (Chapter 282, Statutes of 1979), reduced school shares of property tax revenues and gave cities, counties and special districts greater shares. In return, the state assumed a larger financial responsibility for K-14 schools. The state also increased its share of costs for a number of social service and health programs operated by counties.

Effects of Proposition 13	Trends in California Municipal Finance
• Lowered tax burden for elderly and low-income homeowners (proportionate to income) • Disparate treatment of similarly situated properties • Disconnect between service costs and revenues deters balanced planning • Local agency property tax revenues cut by nearly 60 percent • Tax rates and shares out of sync with service demands • Greater reliance on state General Fund for county and school spending • Cities and counties increased reliance on fees and local taxes	• Decline in predictable discretionary funding for key services • Sales tax revenues decreasing in service-oriented economy • Population growth increasing service demands • Public safety and homeland security costs increasing • Infrastructure cracking under neglect • New technologies leading to new infrastructure demands • Environmental degradation (air and water pollution) requiring expensive mitigation • Continued fragmentation of local finance among overlapping agencies

Despite these efforts to cushion its impact, Proposition 13 dealt a major blow to local fiscal autonomy. As the California Supreme Court noted in its 1991 decision upholding AB 8's property tax apportionment system, Proposition 13 "prevails over the preexisting taxing power" of cities. In a 1994 ruling upholding the state's shift of property tax revenues from local governments (the infamous educational revenue augmentation funds (ERAF) shift), the court noted that the taxing powers of local governments are "derived from the Constitution upon authorization by the Legislature." The state was handed the authority to determine each local agency's share within the 1 percent umbrella for all taxing agencies. There is no local authority to reallocate property tax revenue among local agencies (even those providing "city" services such as fire, parks or libraries). Thus, where once a community could devote more or less property tax revenue to fire services versus libraries versus schools, now all communities are constrained by taxing decisions made by leaders of a generation ago, when California was a very different place socially, economically and politically.

By capping the property tax rate at 1 percent, Proposition 13 denied even local voters the authority to impose a higher property tax. The only exception to the 1 percent cap in Proposition 13 was for indebtedness approved prior to July 1, 1978. This effectively repealed the authority of a local agency to, with two-thirds voter approval, levy a rate to repay bonded indebtedness, authority which was established in the 1879 California Constitution. In 1986, California voters altered that aspect of Proposition 13 with the passage of Proposition 46, restoring the authority of local agencies, with two-thirds voter approval, to enact a property tax rate override to repay bonded indebtedness issued for the acquisition or improvement of real property.

The Gann Limit

Following up on their success at limiting taxes, taxpayer advocates in 1979 convinced California voters to approve a measure aimed at limiting government spending. Conceived by tax activist Paul Gann, Proposition 4 set tax expenditure limits on the state and local governments based on the proceeds they received from taxes in FY 1978–79, increasing with changes in population and inflation. In any year, an agency may not appropriate tax proceeds in excess of this limit unless an override, lasting a maximum of four years, is approved by a majority of voters. In 1990, voters approved Proposition 111, which, among other things, altered the spending limit, making the limit more accommodating of local revenue growth.

The 1980s: State Fiscal Retrenchment, Local Fiscal Innovation

In the years following Proposition 13, local governments faced substantially constrained revenues both from reduced property tax revenues but also from substantial reductions in state and federal aid. The state, after shifting resources to cushion the local impact of Proposition 13, found itself at times in fiscal trouble and repealed various state aid programs and even shifted local revenues to state coffers. Over the fiscal years 1981–82, 1982–83 and 1983–84, the state shifted more than $700 million of VLF revenues from cities, revenue that had never before gone to the state General Fund.[1] During these years, the state also repealed an assortment of local aid subventions including: the Highway Carriers Uniform Business Tax, Liquor License Fees, Financial Aid to Local Agencies (bank in-lieu subvention) and Business Inventory Exemption Reimbursements. Most of these payments had been put in place to reimburse local governments for the state establishing a uniform statewide tax in lieu of local taxes or the state exempting some category of taxpayers.

Local governments responded by increasing various fees to recover full costs and eliminate subsidies. They sought out ways to raise existing taxes such as business licenses and hotel taxes. Many adopted new taxes such as utility user taxes, admission and parking taxes. With statutory authorization from the Legislature, they adopted new forms of assessments to provide needed funds for such things as streets, parks, lighting and landscaping.

The Courts Weaken Local Fiscal Authority

Meanwhile, local control over fiscal matters continued to weaken. Proposition 13 had shifted the power to allocate what had been the number one source of discretionary local revenue, property taxes, to the Legislature. Subsequent court decisions further weakened local fiscal autonomy. In 1991, the California Supreme Court gave the state wider latitude to define a "matter of statewide concern" at the expense of home rule authority in fiscal affairs. In *California Federal Savings & Loan v. Los Angeles*, the court acknowledged that local taxation is generally a municipal affair, but declared the state's system of taxation of financial institutions to be a matter of statewide concern. The court concluded that the conflicting charter city measure ceased to be a municipal affair and the Legislature was not prohibited by the Constitution from addressing the statewide dimensions of its own enactments. Assuming that financial institutions should be subject to a limited amount of taxation, the state decided that permitting local governments to receive a portion of these revenues through local taxation would interfere with the state's ability to raise revenues for its own purposes.

Majority Vote for Taxes in General Law Cities and Counties: Proposition 62 (1986)

Reacting to the various forms of new local taxes and increases in fees in the wake of Proposition 13, the Howard Jarvis Taxpayers Association and other taxpayer groups responded with several follow-up initiatives. Proposition 62, a statutory initiative, passed in November 1986, restating the super-majority vote requirement for special taxes, imposing a majority vote requirement for general taxes, and prohibiting the imposition of taxes on the transfer of real estate. For nearly a decade, the applicability of Proposition 62 remained uncertain in the face of various court cases. Most provisions were eventually superseded by Proposition 218 in 1996.

Educational Revenue Augmentation Funds

The most dramatic example of the shift of power from local governments to the state is the Legislature's use of local property tax to balance the state's budget troubles beginning in the early 1990s.

Despite major changes in local priorities and needs, the apportionment formulas for property taxes had remained largely unchanged since AB 8. In 1978, neither the pundits nor the authors of Proposition 13 envisioned the Legislature using the power to allocate local property tax revenue given to it by Proposition 13 as a means to take local tax revenues to meet its own financial needs. But in 1992, facing a serious state General Fund deficit, the state Legislature turned to these powers as a remedy.

To meet its obligations to fund education at specified levels under the Proposition 98 educational funding formulas, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to educational revenue augmentation funds (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools.

In FY 2011–12, the annual impact of the ERAF shift was a shortstopping of some $7.3 billion from cities, counties, special districts and the citizens those entities serve. Counties have borne some 74 percent of this shift; cities have borne 16 percent.

The state has provided some funding to local governments that is considered by most to be mitigation of ERAF. However, the vast majority of these funds are earmarked for particular purposes. Moreover, a relatively small portion of these funds has gone to cities. In 1992, California voters approved Proposition 172, which provided sales tax funding for police, fire and other public safety programs. (See section 6.05 of Chapter 6.) In FY 2011–12, Proposition 172 funds provided only $2.5 billion annually to local government, leaving a $4.8 billion net ERAF gap. Considering all state subventions that the Legislative Analyst defines as "ERAF mitigation," the net ERAF impact on cities was nearly $900 million in FY 2017-18.[2]

As a part of the budget agreement that put Proposition 1A of 2004 on the ballot to protect city revenues from additional shifts and state takeaways, cities, counties and special districts agreed to contribute an additional $1.3 billion per year in FY 2004–05 and FY 2005–06. Although these ERAF III shifts ended in FY 2006–07, the original ongoing shifts that began in fiscal years 1992–94 have not been reduced.[3]

Voting on Taxes, Assessments and Property Related Fees: Proposition 218 (1996)

In November 1996, California voters approved Proposition 218, expanding restrictions on local government revenue raising by adding Article XIII C and Article XIII D to the California Constitution. The measure allows voters to repeal or reduce taxes, assessments, fees and charges through the initiative process; reiterates the requirement for voter approval for both "special taxes" and "general taxes;" and imposes procedural and substantive limitations on benefit assessments imposed on real property and on certain types of fees.

Proposition 218:

- Establishes a clear constitutional standard distinguishing locally imposed general taxes from special taxes and imposing a majority voter requirement for general taxes (which had already existed for general law cities under Proposition 62) and a supermajority requirement for special taxes (which had already existed under Proposition 13);[4]
- Provides citizens with the power to repeal taxes, assessments, fees and charges that are subject to Proposition 218;
- Establishes a formal balloting procedure for the adoption of benefit assessments imposed on property;
- Requires a distinction between special benefits and general benefits with regard to assessments and prohibits the funding of general benefits from property assessments;
- Requires the assessment of public property within an assessment district;
- Places the burden of proof for demonstrating special benefit on the local agency imposing the property assessment; and
- Establishes a new category of fees called "property-related fees" and requires new approval procedures and substantive provisions for those fees.

Constitutional Protection of Local Revenues: Proposition 1A (2004) and Proposition 22 (2010)

Reacting to continued state shifts of local property tax revenues, the deterioration of local control of fiscal matters and the substantial limitations imposed by Proposition 218, the League of California Cities, the California State Association of Counties (CSAC) and the California Special Districts Association (CSDA) crafted a local revenue protection initiative, Proposition 65, and garnered enough signatures to qualify the proposition for the November 2004 ballot. Gov. Arnold Schwarzenegger, who had recently taken office in the November 2003 recall of Gov. Gray Davis, immediately signaled his opposition to the measure but a willingness to support a new mutually crafted local revenue protection measure as a part of a larger state-local fiscal restructuring package to include local contributions to assist the state budget problem over two years.

With the active involvement of legislative leadership, the Schwarzenegger Administration, the League, CSAC and CSDA worked on an alternative to Proposition 65 that became Proposition 1A. The Legislature placed the measure on the November 2004 ballot. As part of the 2004 state-local agreement, the state shifted $1.3 billion of local property tax revenues in FY 2004–05 and again in FY 2005–06 (known as ERAF III). In addition, the state General Fund backfill to cities and counties for state cuts of the VLF was eliminated and instead cities and counties were given additional annual property tax revenues. See section 6.01 of Chapter 6. Finally, local government associations agreed to abandon support of Proposition 65 and Governor Schwarzenegger agreed to actively support Proposition 1A.

In November 2004, the voters of California approved Proposition 1A with an unprecedented 84 percent of the yes vote, constitutionally protecting major city revenues from additional shifts to the state and strengthening local governments' ability to get reimbursement for unfunded mandates. In 2010, voters passed another measure to protect local government finances. Proposition 22 prohibits the state from borrowing, delaying or taking certain funds allocated to local governments and eliminated a provision of Proposition 1A allowing the state to borrow a limited amount of property tax revenue under certain conditions. Together, these measures:

- Strengthen prohibitions against unfunded state mandates by requiring the state to suspend state mandates in any year the Legislature does not fully fund those laws.[5]
- Expands the definition of state mandate to include transfer of responsibility of a program for which the state previously had full or partial responsibility.
- Prohibits the state from:
  - Reducing the local Bradley-Burns Uniform Sales and Use Tax rate or altering its method of allocation. Exception to comply with federal law or an interstate compact;
  - Decreasing VLF revenue from the 0.65 percent rate without providing replacement funding to cities and counties;
  - Shifting property taxes from cities, counties or special districts;
  - Failing to reimburse cities and counties for the 0.25 percent local sales tax shifted under the Proposition 57 Sales Tax Triple Flip; and
  - Borrowing, delaying or taking motor vehicle fuel tax allocations, gasoline sales tax allocations, public transportation account funds or redevelopment agency property tax increment.

Sales and Use Tax Rate and Allocation Method. Generally, revenue from the 1 percent Bradley-Burns Local Sales and Use Tax is allocated to the city in which the sale occurs, or, if in an unincorporated area, the county. Proposition 1A prohibits the Legislature from reducing the local sales tax rate or changing the method of allocation of local sales tax revenues. Proposition 1A permits the Legislature to change the method of allocation in order to comply with federal law or an inter-state compact.

Local Transactions and Use Tax Authority. Proposition 1A prohibits the state from restricting the authority of a local government to impose transactions and use taxes pursuant to Revenue and Taxation code §7251 or altering the method of allocation of these tax revenues.

Local Sales Tax Reduction Under the Proposition 57 Triple Flip. In March 2004, California voters approved Proposition 57, the California Economic Recovery Bond Act. Legislative provisions implementing Proposition 57 authorized the state to reduce local sales tax and replace it with a state special fund sales tax to repay the bonds effective July 1, 2004. The so called "triple flip":

1. Reduced the Bradley-Burns Local Sales and Use Tax Rate by one-quarter cent and simultaneously increased the state's sales tax rate by one-quarter cent to fund fiscal recovery bond repayment;
2. Repaid to cities and counties with additional local property tax previously allocated to local schools; and
3. Repaid to local schools with state General Fund.

Proposition 1A prohibits the Legislature from extending this reduction in local authority to impose the full Bradley-Burns Sales and use tax rate beyond the period necessary to repay the Proposition 57 bonds. The Proposition 57 Sales Tax Triple Flip ended when the economic recovery bonds were fully paid in 2016.

Vehicle License Fee. Proposition 1A requires the Legislature to provide replacement revenue to cities and counties if it reduces the VLF rate below 0.65 percent. California Constitution Article XI §15 requires that VLF revenue be allocated to cities and counties. The state may charge for administrative costs (DMV, Controller) and the Legislature retains the power to change state law allocating the VLF among cities and counties. See section 6.01 for more on the VLF.

Property Tax. Proposition 1A prohibits the Legislature from reducing the share of property tax revenues going to cities, counties and special districts, and shifting those shares to the schools or any other non-local government function. However, the Legislature may alter the allocation of property taxes among cities, counties and special districts with two-thirds approval in each house. Proposition 1A also contained provisions allowing the state to borrow up to 8 percent of city, county and special district property tax revenues in one year under specific conditions. The Legislature invoked this option as a part of the 2009 Budget Act. The loan, used to finance annual operations in FY 2009–10 was fully repaid with interest according to law in June 2013. Proposition 22 (2010) prevented this from occurring again by eliminating this property tax loan option. See section 2.01 for more on the property tax.

Proposition 1A did not provide local governments with any new revenue nor reduce or alter the ERAF I and II shifts.

Refining the Definition of "Tax" Proposition 26 (2010)

In November 2010, California voters passed Proposition 26, which added a definition of "tax" to the California Constitution. The new provisions state that a government-imposed charge, levy or exaction of any kind is a tax unless it falls into one of seven express exceptions. The effect of the measure was to particularly tighten the definition of regulatory fees and certain assessments.

The Great Recession and the Dissolution of Redevelopment

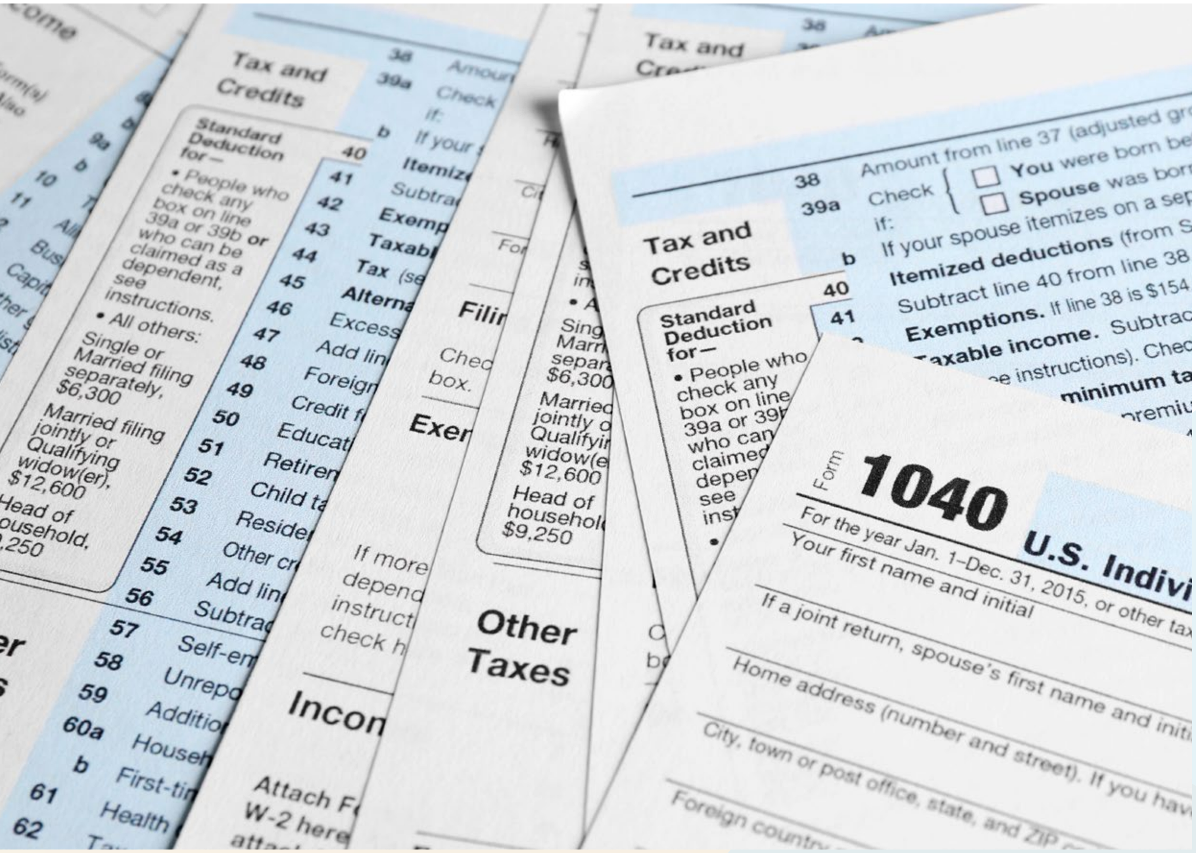
Despite the substantial protections provided to local governments by Propositions 1A and 22, threats to local finances continued. Local budgets struggled from the impacts of the great recession, mounting costs of pensions and unfunded public employee retiree health benefits. Three large cities, unable to balance their budgets without violating legal payment obligations and unable to garner sufficient concessions from labor and other creditors, entered into bankruptcy proceedings. Others cut public services to unprecedented low levels.

Meanwhile, the State Budget Act of 2011 included a major realignment of corrections and law enforcement programs to counties with potential crime impacts in local communities. Counties sought assurances that adequate funding would also be provided. In last minute "gut-and-amend" legislation, all remaining city VLF funds were shifted to pay for state law enforcement grants to locals that had previously been funded by the state general fund. This wiped out allocations to new cities and annexations that had compensated for a flaw in the 2004 VLF-Property Tax swap.

With the 2011 Budget Act, Gov. Jerry Brown also signed into law two bills aimed at extracting revenues from redevelopment agencies to help remedy the state's ongoing budget deficit. The legislation provided that each redevelopment agency must agree to make substantial annual payments to aid the state or dissolve as of October 1, 2011.

On December 29, 2011, the California Supreme Court upheld the constitutionality of dissolution of redevelopment while striking down the payment scheme. Approximately 400 redevelopment agencies dissolved on February 1, 2012, with the assets and liabilities transferred to successor agencies and successor housing agencies.

CHAPTER 2



TAXES

A tax is a monetary imposition by a government on persons or property for the purpose of raising revenue to support the purposes of the government.[1] In contrast to an assessment or a fee, a tax need not be levied in proportion to specific benefit to a person or property. Fees or charges will be considered taxes to the extent they exceed the reasonable cost of the service, commodity or facility for which they are imposed.

California cities do not have an inherent power to tax. Charter cities are given the power to tax pursuant to Article XI, §5 of the California Constitution and may levy taxes for municipal purposes without specific authorization from the Legislature. As authorized in state statute, a general law city, with certain exceptions, may levy any tax that a charter city may levy.[2] State law may set certain limits and procedures and may exempt certain activities from taxes levied by general law cities. These laws apply to charter cities in matters that the courts have determined are of statewide concern.

"The nation should have a tax system that looks like someone designed it on purpose."

— WILLIAM SIMON

General and Special Taxes

The passage of Proposition 13 in 1978 created a distinction between "general" and "special" taxes. Proposition 218, in 1996, further defined and established procedures for general taxes.[3]

- A *general tax* is a tax imposed for general governmental purposes, the proceeds of which are deposited into the General Fund. A majority vote of the electorate (those voting on the measure) is required to impose, extend or increase any general tax.
  - » An election on a general tax must be consolidated with a regularly scheduled general election of city council members, except in cases of emergency, declared by a unanimous vote of the city council.[4]
  - » Single-purpose special districts (special purpose districts) may not impose general taxes.

	General Tax	Special Tax
Use of Revenues	• Unrestricted	• Specific purpose
Governing Body Approval	• General law cities: two-thirds • Charter cities: majority • Counties: two-thirds • Transactions and Use Taxes: two-thirds See section 2.03 of this chapter.	• Majority
Voter Approval	• Majority	• Two-thirds
Other Rules	• A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	• Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including: 1) the tax rate; 2) the amounts of revenues collected and expended and 3) the status of any project funded by the special tax.[5]

- A *special tax* is a tax that is collected and earmarked for a specific purpose and deposited either into a separate account or the General Fund. A two-thirds vote of the electorate is required to impose, extend or increase any special tax.

Proposition 26: Defining a Tax By What it is Not

California voters approved Proposition 26 in November 2010, placing new rules into the California Constitution stating that a government-imposed charge, levy or exaction of any kind is a tax unless it falls into one of seven express exceptions.

1. *A charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.*

   Specific Benefit Exception examples include fees for planning permits, restricted neighborhood parking permits and entertainment and street closure permits.

2. *A charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.*

   Government Service or Product Exception examples include user fees for parks and recreation classes, utilities (other than those covered under number 7), public records copying fees, DUI emergency response fees and emergency medical and ambulance transport service fees.

3. *A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders and the administrative enforcement and adjudication thereof.*

Permits and Inspections Exception examples include health and safety permits, building licenses, police background checks, pet licenses, bicycle licenses and permits for regulated commercial activities (such as massage establishments, card rooms, taxicabs and tow-truck operators).

For exceptions 1 through 3, the fee imposed must not exceed the agency's reasonable costs.

4. *A charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property.*

Local Government Property Exception examples include facility room rentals; equipment rentals; park, museum and zoo entrance fees; golf greens fees; on and off-street parking; and tolls.

5. *A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.*

Penalty for Illegal Activity Exception examples include parking fines, code enforcement fees and penalties, late payment fees, interest charges and other charges for violation of the law.

6. *A charge imposed as a condition of property development.*

Property Development Exception examples include planning fees, building permit fees, construction and grading permits, development impact fees, fees imposed by California Environmental Quality Act mitigation requirements and Quimby Act and park mitigation fees.

7. *Assessments and property-related fees imposed in accordance with the provisions of Article XIII D (Proposition 218).*

Proposition 218 Exception examples include assessments on real property for special benefit conferred, fees imposed upon a parcel or a person as an incident of property ownership, and fees for a property related service such as many retail water and sewer fees.

When is a Tax Imposed, Increased or Extended?

Under Proposition 218, no local government may impose, extend or increase any general tax until such tax is submitted to the electorate and approved.[6]

A tax is *"imposed"* when the local tax ordinance is adopted, and each time a tax is collected.[7] *"Extend"* means a decision by an agency to extend the stated effective period for the tax or fee or charge, including amendment or removal of a sunset provision or expiration date.[8]

A tax is *"increased"* when an agency either 1) increases the rate used to calculate the tax, or 2) revises the methodology by which the tax is calculated if that revision results in an increased amount being levied on any person or parcel.[9] A tax is not *"increased"* if 1) it is imposed at a rate no higher than the maximum rate previously approved, or 2) it is adjusted in accordance with a schedule of adjustments, including a clearly defined formula for inflation that was adopted prior to November 6, 1996.[10] However, a tax which is calculated by using a percentage is *"increased"* when it is adjusted for inflation even if the voters approve the tax.[11]

Additional Aspects of Municipal Taxation in California

- A local tax can be reduced or repealed by initiative unless it supports bonded debt. Many taxes can be imposed or increased by initiative as well.
- Certain types of local taxes are specifically pre-empted by state law. These include taxes on cigarettes, alcohol and personal income.[12]
- State law provides various additional procedural requirements for the enactment of some taxes depending on the type of tax.
- If a local agency wants to collect a previously approved tax at a rate lower than was authorized by the voters, the agency should make it very clear in its official actions that the rate is being "suspended" for a certain period of time and not being permanently lowered. An agency that collects a previously approved tax at a rate lower than was authorized by the voters without a statement clarifying the intent and purpose of the suspension may trigger a Proposition 218 vote requirement when it begins collecting the tax at the previously approved rate.[13]

"The power of taxing people and their property is essential to the very existence of government."

— JAMES MADISON, U.S. PRESIDENT

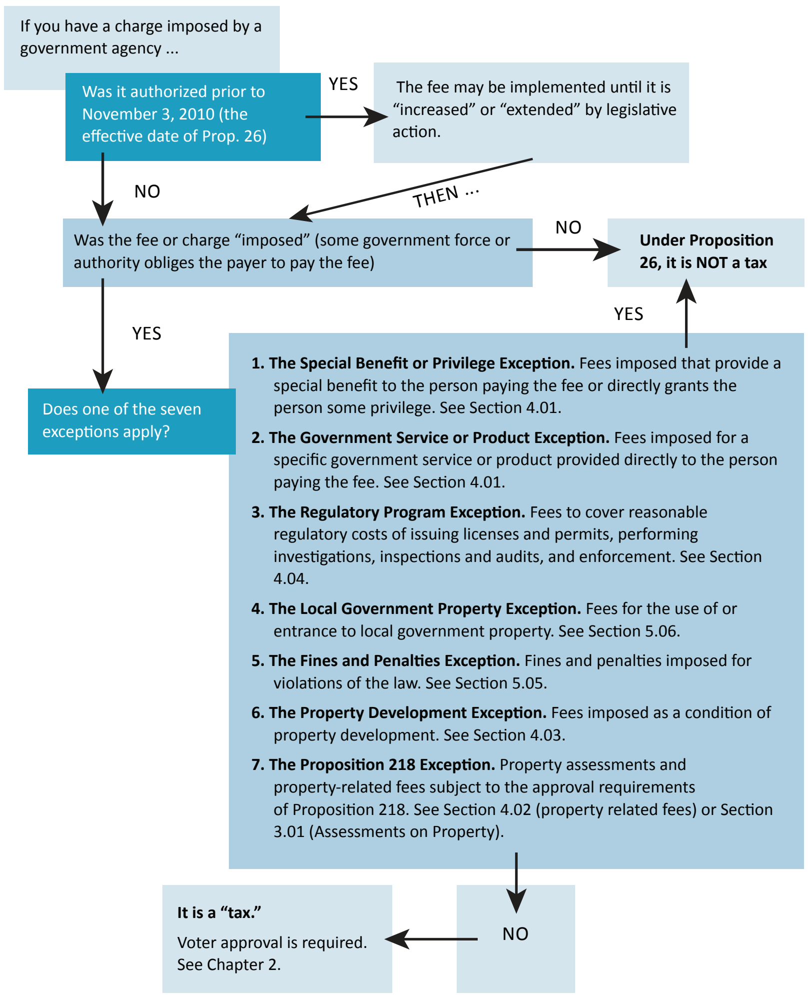
For More Information:

Proposition 218 Implementation Guide, League of California Cities, 2007 Edition.

California Municipal Law Handbook, Chapter V, League of California Cities.

Proposition 26 Implementation Guide, League of California Cities, 2011 Edition. **www.cacities.org/Prop26Guide.**

Applying Proposition 26



Endnotes

1 *People V. McCreery*, 34 Cal. 432 (1868).

2 Government Code §37100.5.

3 California Constitution Article XIII A, California Constitution Article XIII C.

4 California Constitution Article XIII C §2, Government Code §53724.

5 Government Code §§50075.1-50075.5.

6 Cal. Const., art. XIII C, §2(b).

7 *Howard Jarvis Taxpayers Association v. City of La Habra* (2001) 25 Cal. 4th 809, 824.

8 Government Code, §53750(e).

9 "Methodology" has been defined as "a mathematical equation for calculating taxes that is officially sanctioned by a local taxing entity." *A.B. Cellular v. City of Los Angeles* (2007) 150 Cal. App. 4th 747.

10 California Constitution Article XIII C, §2(b) and (d); Government Code §53750(h)(2)(A).

11 Government Code §53739.

12 Revenue and Tax Code §17041.5.

13 *A.B. Cellular v. City of Los Angeles* (2007) 150 Cal. App. 4th 747.

14 California Constitution Article XIII, Section 19.

15 Revenue and Taxation Code, §100.

16 California Constitution Article XIII §11, California Constitution Article XIII.

17 California Constitution Article XIII §3(k), Revenue and Tax Code §218, Government Code §§16120-16123, California Constitution Article XIII §25.

18 Government Code §51200 et seq., Government Code §16140 et seq., Revenue and Tax Code §421.

19 California Constitution Article XIII §3, Revenue and Tax Code §205.1.

20 California Constitution Article XIII A §2, Revenue and Tax Code §69.5, Proposition 20 (1986), Proposition 90 (1988), Proposition 110 (1990).

21 Proposition 50 (1986), Proposition 171 (1993), Proposition 1 (1998).

22 California Constitution Article XIII A §2, Proposition 3 (1982).

23 California Constitution Article XIII A §2, Revenue and Tax Code §63.1, Proposition 58 (1986), Proposition 194 (1996).

24 California Constitution Article XIII A §2, Proposition 31 (1984).

25 California Constitution Article XIII A §2, Proposition 177 (1994).

26 California Constitution Article XIII A §2, Proposition 7 (1980).

27 California Constitution Article XIII A §2, Proposition 127 (1990).

28 California Constitution Article XIII A §2, Proposition 1 (1998).

29 Proposition 50 (1986), Proposition 171 (1993), Proposition 1 (1998).

30 *County of Orange v. Bezaire*, 117 Cal. App. 4th 121 (2004).

31 Named after the bill which implemented the first version of this system in 1979 but amended many times since then.

32 SB 2557 (Maddy) Statutes of 1990. California Revenue and Tax Code §95.3& §97.75.

33 The annual CCPI is determined by the California State Board of Equalization. Revenue and Taxation Code §51.

34 Health and Safety Code §33670.

35 Health and Safety Code §33607.5.

36 Cal. Const. art XIII A §1(b)(1).

37 *Carman v. Alvord* 31 Cal.3d 318 (1982).

38 Those are: the county of Santa Clara and the cities of: Albany, Bell, Beverly Hills, Cloverdale, Coalinga, Compton, El Monte, Eureka, Fairfax, Glendora, Huntington Beach, Huntington Park, Lynwood, Maywood, Monrovia, Montebello, Monterey Park, Oakland, Oxnard, Rialto, Richmond, San Anselmo, San Fernando, San Gabriel, and Watsonville.

39 *Howard Jarvis Taxpayers Association v. County of Orange (City of Huntington Beach)* 110 Cal. App. 4th 1375 110 Cal. App. 4th 1375 (2003).

40 California State Board of Equalization (BOE) administered sales and use taxes until July 2017.

41 California Constitution Article XIII §25.5(a)(2)(A).

42 California Constitution Article XIII §25.5(a)(6).

43 California Constitution Article XIII §25.5(a)(5).

44 *South Dakota v. Wayfair*, 138 S.Ct. 2080 (2018)

45 *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992)

46 Revenue and Taxation Code § 6203.

47 Revenue and Taxation Code § 7262

48 Revenue and Tax Code §7204.3.

49 *South Dakota v. Wayfair,* 138 S.Ct. 2080 (2018)

50 Revenue and Taxation Code § 7262

51 Revenue and Taxation Code

52 Uniquely and confusingly, Los Angeles County's Measure H Homeless 0.25 percent tax stipulates that is will not be imposed in the cities of Compton, Long Beach, Lynwood, Pico Rivera, Santa Monica, and South Gate because doing so would cause the rate in those cities to exceed the 10.25 percent maximum tax rate allowed under the law in Los Angeles County. If and when an existing tax in one of these cities expires, the Measure H tax will be imposed in that city immediately. The total combined rate in City of Santa Fe Springs is 10.50 percent, the highest rate in the state, exceeding the maximum rate of 10.25 percent in Los Angeles County as authorized by Revenue and Taxation Code section 7286.27.

53 Yuba County's 0.5 percent Measure K rate, approved in November 2018 is currently subject to legal challenge.

54 Revenue and Tax. Code §17041.5.

55 Revenue and Tax Code §7284.1(a), Business and Professional Code §16000(b).

56 Revenue and Tax Code §23182, California Constitution Article XIII §27, 28.

57 Busn and Prof Code §16000(b).

58 Government Code §37001.5.

59 Government Code §37001.7.

60 Attorney General opinion 94-1204.

61 Government Code §50026.

62 Figures in the table on the following page are inflation adjusted to 2006.

63 Charter cities: California Constitution Article XI §5; General Law cities: Government Code §37100.5.

64 Revenue and Tax Code §7284.2.

65 42 U.S.Constitution §§4251 et seq.

66 IRS Notice 2006-50.

67 Revenue Bulletin 2007-5 Section 10.

68 4 U.S.Constitution §§116 et seq.

69 *Verizon Wireless v. Los Angeles*, No. B185373, *AB Cellular LA, LLC dba AT&T Wireless v. City of Los Angeles*, 150 Cal. App. 4th 747 (2007).

70 Government Code §53750(h).

71 Revenue and Tax Code §§11921-11930.

72 Revenue and Tax Code §11911 et seq. Transactions that are subject to these taxes in these charter cities are then subject to a county documentary transfer tax rate of $1.10 per $1,000 of real property value.

73 *Centex Real Estate Corp. v. Vallejo*, 19 Cal. App. 4th 1358, 24 Cal. Rptr. 2d 48 (1993).

74 59 Cal. Const. art XIII D.

75 Vehicle Code §2710(a).

76 Vehicle Code §9250.7(a)(1).

77 Vehicle Code §9250.7(a)(2).

78 Vehicle Code §9250.7(g) provides the requirements for approval by the board of supervisors of the county, by a two-thirds vote, and a majority of the cities having a majority of the incorporated population within the county. The tax approval procedures are provided in California Constitution Article XIII C and Government Code §53724. Under current law, both apply.

79 Government Code §6589.20.

80 Government Code §35089.220(e) states "'countywide transportation planning agency' means the congestion management agency created pursuant to Chapter 2.6 (commencing with §65088) or the agency designated pursuant to §66531 to submit the county transportation plan."

81 Government Code §6589.20.

82 Regional transportation plan adopted pursuant to Government Code §65080.

83 Streets and Highways Code §2551(a).

84 Created pursuant to Division 12 (commencing with Section 130000) of the Public Utilities Code or council of governments formed pursuant to Chapter 5 (commencing with Section 6500) of Division 7 of Title 1 of the Government Code. The Metropolitan Transportation Commission functions as the service authority for the counties of Santa Clara, San Mateo, Alameda, Contra Costa, Marin, Solano, Sonoma, Napa, and the city and county of San Francisco. The Sacramento Area Council of Governments functions as the service authority for the counties of Sacramento, Yolo, Yuba, Sutter, and San Joaquin.

85 Streets and Highways Code §2555.

86 Vehicle Code §9250.10.

But in November 2012, the state's fiscal woes took a major turn for the better. Following substantial cuts in state programs, voters approved Proposition 30, temporarily increasing state sales and income tax rates. The state budget was more easily balanced and the Legislature began fully paying down over $30 billion in accumulated budgetary debt. In 2016, voters approved Proposition 55 to extend Prop 30 through 2030.

The Road Ahead for California Local Finance

Local revenues are now more stable and protected than ever before. Substantial constitutional limits have been placed on the Legislature's ability to take or shift local revenues. The state's fiscal condition has improved thanks to major program reductions in many areas, an infusion of temporary taxes that will pay off a mountain of accumulated budgetary debt and a gradually improving economy.

But major risks and uncertainties persist. While Proposition 30 and Proposition 55 have seemingly provided a reprieve, the state continues to struggle with the funding of corrections, health care, education, public employee benefits and major infrastructure. Substantial unbudgeted liabilities loom in teacher and state employee retirement systems. The state's long term budgetary balance remains cloudy.

The finances of local agencies face similar challenges. Many local agencies are grappling with major unbudgeted liabilities in the areas of post employment benefits (especially healthcare) — pension plan cost increases due to lower investment earnings, greater longevity and unsustainable benefit levels previously granted, especially in the areas of police and fire. Local public works systems face major improvement needs in many areas.

Threats to the ability of communities to finance local services through locally levied taxes and other sources of revenue are likely to continue. Local governments will continue to grapple with evolving local public service needs and a local revenue portfolio that fluctuates with economic and socio/technical changes. Rather than make necessary effective reforms, the Legislature usually chooses expedient, ineffective "band-aid" remedies to serious local finance issues.

While local revenues are returning on the heels of a slowly recovering economy, public employee pensions and retiree health care costs are outpacing this revenue growth. The specter of a recession in the next decade also foreshadows more municipal insolvencies. Municipal fiscal sustainability is a critical issue.

As always, skilled finance and management is essential to move forward through this. This handbook is designed to help you find your way.

For More Information:

Financing California Cities - Overviews and Primers. http://www.californiacityfinance.com/#FINCITIES

Proposition 26 and 218 Implementation Guide. League of California Cities. May 2017. http://www.cacities.org/Prop218andProp26

Proposition 218 Implementation Guide for Special Districts. Kelly Salt. California Special Districts Association. 2013. https://www.waterboards.ca.gov/waterrights/water_issues/programs/drought/pricing/docs/csda_guide_proposition_218.pdf

Current Developments Under Propositions 13, 62, & 218 by Michael G. Colantuono. http://www.cllaw.us/papers-library/#Finance

California Municipal Law Handbook, Chapter V., League of California Cities.

Proposition 26 and Proposition 218 Implementation Guide, League of California Cities, 2019 Edition.

Guide to Local Government Finance in California, Second Edition, Multari, Michael, Michael Coleman, Kenneth Hampian, and Bill Statler, Solano Press Books, 2017.

Endnotes

1 Subsequently, in 1986, the voters approved Proposition 47 which requires that VLF revenues be allocated to local governments.

2 Cities not including the city and county of San Francisco.

3 Subsequent to the transfer of these funds, they are reallocated within each county back to cities and counties to compensate for the state's repeal of the VLF backfill in 2004 and the temporary one-quarter cent sales tax shift to support the state deficit reduction bonds. However, this mechanism does not alter the existence or real effect of the ERAF I and II shifts.

4 In 1982, the State Supreme Court decided *City and County of San Francisco v. Farrell*, which defined the term special tax as any tax earmarked for a specific purpose. Under Proposition 13, a special tax requires the approval of two-thirds of voters.

5 Proposition 1A does not apply to mandates affecting local schools or mandates related to employee relations and collective bargaining.

Admissions Tax
A tax is imposed on the consumer for the privilege of attending a show, performance, display or exhibition. See Section 2.08.

Advance Refunding
When restructuring or retiring outstanding bonds, the refunding is an "advance refunding" if the outstanding bonds will not be paid off until later than 90 days after sufficient funds have been deposited with a trustee. Generally, federal law limits advance refundings to one occurrence. See also "current refunding."

Ad Valorem Tax
A tax assessed based on the dollar value of an item or activity. Typical examples are property and sales taxes. Ad valorem taxes contrast with per-unit taxes, such as alcoholic beverage and cigarette taxes, which are assessed at a fixed dollar per unit purchased.

Appropriation
A legal authorization granted by the city council to expend monies, and incur obligations for specific purposes.

Appropriations Limit
A maximum amount of revenues that may be appropriated by a government agency determined under California Constitution Article XIII B and implementing legislation. See Chapter 10.

Appropriations Subject to Limit
Revenues defined as "proceeds of taxes" under California Constitution Article XIII B and implementing legislation. See Chapter 10.

Arbitrage
A technique used to take advantage of price differences in separate markets. This is accomplished by either by selling debt instruments at a low interest rate and investing the proceeds at a higher rate or by purchasing securities, negotiable instruments or currencies in one market for immediate sale in another market at a better price.

Assessed Valuation
The value of real property for the purpose of taxation. See Section 2.01.

Assessment District
Not a separate governmental entity, but rather a defined area of land which will be benefited by the acquisition, construction or maintenance of a public improvement.

Banker's Acceptance
A highly liquid and safe money market instrument created to facilitate international trade transactions whereby the risk of trade transaction is transferred to the bank which "accepts" the obligation to pay the investor. Local agencies in California may invest up to forty percent of their portfolio in this type of security for a term of 180 days or less.

BANs
See bond anticipation notes.

Benefit Assessment
Charges levied on parcels to pay for public improvements or services provided within a pre-determined district or area according to the benefit the parcel receives from the improvement or services.

Benefit Assessment Act of 1982
The 1982 Act allows cities, counties and special districts to finance a variety of improvements. The act requires majority voter approval if the proposed assessment area has 12 or more registered voters. If fewer than 12, the owners of at least 60 percent of the land in the assessment area must give written consent to the assessment.

Benefit Assessment Bonds
Bonds levied by cities, counties and special districts to acquire or construct public improvements which convey a special benefit to a defined group of properties.

Block Grant
Federal grant allocated according to predetermined formulas and for use within a pre-approved broad functional area such as the CDBG (Community Development Block Grant).

Bond Anticipation Notes (BANs)
BANs are short-term borrowings by a public entity appropriate to obtain financing for a project for which bonds are authorized but not yet issued. BANs permit the issuance of debt in increments as work on a project progresses and before some or all of the bond proceeds are available.

Bond Resolution
A legal order or contract by a governmental unit to authorize a bond issue. A bond resolution carefully details the rights of the bondholders and the obligations of the issuer.

Bonds
A certificate of debt issued by an entity, guaranteeing payment of the original investment, plus interest, by a specified future date.

Broughton Act
Restricts city collection of franchise payments to 2 percent of the franchise's gross annual receipts arising from use of the franchise.

Business Improvement District
A public-private partnership in which businesses in a defined area pay special taxes, fees and/or assessments to fund public facility improvements and programs in the area. See Section 3.02.

Business Operations Tax
Commonly called a "Business License Tax," a type of excise tax imposed on businesses for the privilege of conducting business within the city. The tax is most commonly based on gross receipts or levied at a flat rate.

California State Board of Equalization (BOE)
California state agency responsible for the collection and administration of the state's alcohol and insurance taxes. In addition, the BOE assesses the value of railroad and utility properties for the purpose of property taxation and provides oversight of property tax assessment practices. In 2017, many BOE tax administration responsibilities were transferred to a new Department of Tax and Fee Administration and to an independent Office of Tax Appeals.

California Department of Tax and Fee Administration (CDTFA)
California state agency within the Governor's Administration, created by the Taxpayer Transparency and Fairness Act of 2017, responsible for the collection, administration and distribution of sales, transactions and use, timber yield, tobacco, cannabis, motor vehicle fuel, jet fuel, prepaid mobile telephony and other taxes, as well as various state environmental and occupational health fees and surcharges.

California State Controller
The Controller is the chief fiscal officer of the state and is elected every four years. The Controller is responsible to: account and disburse all state funds; determine the legality and accuracy of claims against the state; pay the state's bills; audit and process all personnel and state payroll transactions; audit various state and local government programs; administer the Unclaimed Property Law; and inform the public of financial transactions of city, county and district governments.

Capital Improvement Program (CIP)
Annual appropriations in the city's budget for capital improvement projects such as street or park improvements, building construction, and various kinds of major facility maintenance.

Capital Outlay
Expenditures which result in the acquisition of, or addition to, fixed assets.

Categorical Grant
Grant typically allocated either to qualifying applicants according to a formula or to applicants competing for project grants through an application process. Categorical grants are the most common form of federal aid.

Certificates of Participation (C.O.P.)
Debt instrument, commonly called C.O.P., that provides long-term financing through a lease (with an option to purchase) or through an installment agreement.

Charter City
Charter cities have authority over "municipal affairs," trumping state law governing the same topic. In contrast, a general law city is a city that has not adopted a charter and is therefore bound by the state's general laws, even with respect to municipal affairs.

Citizens Option for Public Safety (COPS)
A state subvention for local law enforcement initiated in 1996. See Section 6.03.

Community Facilities District (CFD)
See Mello-Roos Community Facilities District.

Community Rehabilitation District Law of 1985
Allows cities and counties to fund the renovation and repair (but not maintenance) of an existing structure.

Concessions
Revenues received from concessionaires for privilege of operating a concession on city property.

Construction/Development Tax
Excise tax imposed on the privilege or activity of development and/or the availability or use of municipal services. See section 2.10.

Consumer Price Index (CPI)
A statistical description of price levels provided by the U. S. Department of Labor. The change in this index from year to year is used to measure the cost of living and economic inflation.

COPS
See Citizens Option for Public Safety.

C.O.P.
See certificates of participation.

County Assessor
An elected official whose main duty is to set values on real property for the purpose of taxation within the county. The Assessor is responsible for the creation and maintenance of assessor parcels from final subdivisions, parcel maps, lot line adjustments, record of survey, deeds and miscellaneous documents.

County Auditor-Controller
The chief accounting officer of the county established to provide various accounting and property tax administration services to the county and other local governments within the county. The Auditor Controller is responsible for budget control, disbursements and receipts, financial reporting and for audits of certain agencies within the county. Auditor-Controllers are nonpartisan elected officials serving four year terms, except in four counties with appointed officers: San Francisco, Santa Clara, Los Angeles and San Diego.

County Treasurer-Tax Collector
Administers the billing, collection and reporting of property tax revenues and conducts Tax Defaulted Property Sales for real property tax delinquencies remaining after five years. Treasurer-Tax Collectors are nonpartisan elected officials serving four-year terms except in three counties with appointed officers: Los Angeles, Sacramento and Santa Clara.

Countywide/Statewide Pools
A system used to allocate local sales and use tax payments that cannot be identified with a specific place of sale or use in California. Local tax reported to the pools is distributed to the local jurisdictions in proportion to taxable sales.

Current Refunding
When restructuring or retiring outstanding bonds, if bonds are paid off within 90 days of depositing either cash on hand or refunding bond proceeds, the refunding is a "current refunding." See also "advance refunding."

Debt Financing
Issuance of bonds and other debt instruments to finance municipal improvements and services.

Debt Instrument
Written pledge to repay debt such as bills, notes and bonds.

Debt Service
Payment of principal and interest on long-term indebtedness.

Dedication
The donation "dedication" of certain lands (or money) to specific public uses as a requirement for the approval of a development project. The dedications are typically justified as an offset to the future impact the development will have on existing infrastructure. Also called an "exaction." See section 4.03.

Development Impact Fees
Fees placed on the development of land or conditions required for the approval of a development project such as the donation "dedication" or "exaction" of certain lands (or money) to specific public uses. The fees are typically justified as an offset to the future impact that development will have on existing infrastructure. See Section 4.03.

D.I.V.C.A.
"The Digital Infrastructure and Video Competition Act of 2006" [AB 2987 (Nunez/Levine)] effectively replaced locally issued franchise agreements for video service with a system of state-issued franchises subject to certain limited, locally imposed conditions and requiring franchise fees to be paid to local agencies where services are provided. See Section 5.01.

Documentary Transfer Tax
Tax imposed on documents recorded in the transfer of ownership in real estate as distinguished from a Real Property Transfer Tax which may only be imposed by charter cities. See section 2.07.

Encumbrance
An anticipated expenditure committed for the payment of goods and services not yet received or paid for.

Earmarked funds
Funds that have been tagged or "earmarked" for a specific purpose.

ERAF: Educational Revenue Augmentation Fund
Accounts established by the state Legislature to receive shifts of property tax revenues from cities, counties, special districts and redevelopment agencies. The additional ERAF property tax revenues to schools enable the state to reduce support from the state general fund, thereby saving the state billions of dollars annually.

Exactions
See dedications.

Excise Tax
Tax placed on a person for a voluntary act, making the tax avoidable. Includes sales and use tax, business operations tax, transient occupancy tax, utility users tax, etc. Phrase "excise tax" is most commonly used to refer to a parcel tax.

Exemption
The exclusion from the tax base of certain types of transactions or objects. For example, federally-owned land is exempted from property tax.

Expenditure
The actual payment for goods and services.

Fee
A charge to the consumer for the cost of providing a particular service. California government fees may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.

Forfeiture
See fines, forfeitures and penalties.

Fines, Forfeitures and Penalties
Revenues received and/or bail monies forfeited upon conviction of a misdemeanor or municipal infraction.

Fiscal Year
The period designated by the city for the beginning and ending of financial transactions. Nearly all city fiscal years begin on July 1 and end June 30 of the following year.

Franchise Act of 1937
Like the Broughton Act, restricts franchise collections to 2 percent of gross annual receipts, but includes a minimum fee of one-half percent of gross annual receipts for electric franchises or 1 percent of gross annual receipts for gas or water franchises operating within the city limits.

Franchises
Fee paid to a municipality from a franchisee for "rental" or "toll" for the use of city streets and rights-of-way.

Functional Revenue
Revenues that can be associated with and allocated to one or more expenditure functions and which meet one of the following criteria: 1) the revenue is generated from direct services, such as revenues from fees or charges; 2) the revenue is associated with a specific service by external requirements, such as grant conditions, bond sale agreements or statutory or charter requirements.

Fund
Accounting entity with a set of self-balancing revenue and expenditure accounts used to record the financial affairs of a governmental organization.

Fund Balance
Difference between the assets (revenues and other resources) and liabilities (expenditures incurred or committed to) of a particular fund.

Full Faith and Credit
Pledge by issuer of general obligation bonds to bondholders that issuer guarantees "all available funds" be used to pay bondholders should the project go into default.

Full Service City
A city that is financially responsible for the major categories of municipal services including police, fire, planning and parks services.

GANs
See grant anticipation notes.

Gann Initiative
See Appropriations Limit and Chapter 10.

Gann Limit
See Chapter 10.

Gasoline Tax
See Motor Vehicle Fuel Tax.

General Fund
Fund used to account for all financial resources except those required to be accounted for in another fund (e.g., enterprise or grant funds). Usually, the General Fund is the largest fund in a municipality.

General Law City
A city that has not adopted a charter and is therefore bound by the state's general laws, even with respect to municipal affairs. In contrast, charter cities have authority over "municipal affairs," trumping state law governing the same topic. See also "charter city."

General Obligation (GO) Bonds
Bonds issued through a governmental entity which has the legal authority to levy a tax on real and personal property located within the governmental boundaries at any rate necessary to collect enough money each year to pay for principal and interest due.

General Revenue
Those revenues that cannot be associated with a specific expenditure, such as property tax (other than voter approved indebtedness), sales tax and business operations tax.

General Revenue Sharing Program
Federal program established in 1972 to share federal monies with state and local governments. The program was extended in 1976 and again in 1980, but was ended in 1986.

General Tax
A tax imposed for general governmental purposes, the proceeds of which are deposited into the general fund. A majority vote of the electorate is required to impose, extend or increase any general tax. See also "special tax."

G.O. Bonds
See general obligation bonds.

Grant Anticipation Notes (GANs)
GANs are short-term borrowings of a public entity to eliminate cash flow deficits in anticipation of the receipt of a federal or state grant or loan. By issuing GANs, the public entity is better prepared to pay all project costs, particularly up front processing and managerial costs.

Grants
Contributions of cash or other assets from another governmental agency to be used or expended for a specified purpose, activity or facility.

Highway Users Tax Account (HUTA)
State transportation revenues from motor vehicle fuel taxes allocated to state and local governments by formula. See Section 6.02 of Chapter 6.

Homeowner's Property Tax Relief Reimbursement
Revenue from the state to offset city loss of property tax for state-imposed $7,000 per dwelling homeowner exemption.

Improvement Bond Act of 1915
Act which allows cities, counties, and "public" districts to issue assessment bonds and bond anticipation notes. The 1915 Act does not authorize assessments.

Investment Earnings
Revenue earned from the investment of idle public funds.

Joint Powers Authority
The Joint Exercise of Powers Act authorizes local public agencies to exercise common powers and to form joint powers authorities (JPAs) for the purpose of jointly receiving or providing specific services.

JPA
See joint powers authority.

Landscaping and Lighting Act of 1972
The 1972 Act allows cities, counties and special districts to levy assessments for land purchase and the construction, operation, and maintenance of parks, landscaping, lighting, traffic signals and graffiti abatement.

Lease Revenue Bonds
Bonds similar to certificates of participation and used for the same types of projects with main exceptions that: 1) lessor must be either a governmental entity with the power to issue revenue bonds or a nonprofit corporation that issues bonds on behalf of a political subdivision; and 2) the bonds constitute a direct debt of the lessor.

Levy
(Verb) To impose taxes, special assessments or service charges for the support of governmental activities; (noun) the total amount of taxes, and/or special assessments and/or service charges imposed by a governmental agency.

Library Services Special Tax
Special tax for providing public library facilities and services.

Licenses and Permits
Charge designed to reimburse city for costs of regulating activities being licensed, such as licensing of animals, bicycles, etc.

Lien
A claim on assets, especially property, for the payment of taxes or utility service charges.

Limited Obligation Bonds
Similar to general obligation bonds except that security for the issuance is limited exactly to the revenues pledged in the bond statement and not to the full faith and credit of the city.

Liquidity
The ability to convert a security into cash promptly with minimum risk of principal.

Local Agency Investment Fund (LAIF)
A special fund in the state treasury. Local governments may deposit in this fund through the state treasurer for investment purposes. See Section 5.07.

Maintenance of Effort (MOE)
A requirement, often as a condition of an intergovernmental subvention or supplemental tax, to maintain a level of spending at a certain level. Maintenance of Effort requirements are intended to prevent or limit the use of the additional revenues to supplant existing revenues such that the new revenues result in an increase in the level of program spending and services.

Marks-Roos Bonds
Bonds authorized by the Marks-Roos Local Bond Pooling Act of 1985 which provide local agencies with extremely flexible financing powers through participation in joint powers authorities.

Market-Based Pricing
Recent trend in pricing public services which uses the marketplace to regulate individual consumer behaviors consistent with overall societal goals by including the true cost of the service on society.

Mello-Roos Bonds
Bonds allowing cities, counties, school districts and special districts to finance certain public capital facilities and services, especially in developing areas and areas undergoing rehabilitation. Property owners in the Mello-Roos district pay an annual special tax which is included on the property tax bill.

Mello-Roos Community Facilities Tax
Special non ad valorem tax imposed to finance public capital facilities and services in connection with new development. See Section 2.11.

Mello-Roos Community Facilities District
A distinct entity of government for the purpose of imposing and collecting the Mello-Roos Community Facilities Tax. The governing body and the boundaries of the district may be the same as for the city. See Chapter 2, Section 2.11.

Motor Vehicle Fuel Tax
An excise tax, applied per gallon, on fuel used to propel a motor vehicle or aircraft. Use of tax is limited to research, planning, construction, improvement, maintenance and operation of public streets and highways or public mass transit guideways. Also called Highway Users Tax.

Motor Vehicle License Fee (VLF)
VLF is a fee for the privilege of operating a vehicle on public streets. VLF is levied annually at 2 percent of the market value of motor vehicles and is imposed by the state "in lieu" of local property taxes. VLF is also called Motor Vehicle in-Lieu Tax.

Municipal Improvement Act of 1913
The 1913 Act allowing cities, counties and special districts to fund everything included in the 1911 Act plus power and public transit facilities; assessments can be levied before construction begins.

Off-Highway Motor Vehicle License Fee
Fee imposed for the issuance or renewal of identification for every off-highway motor vehicle.

Nexus
In general, a minimum threshold of connection necessary within a taxing jurisdiction to allow taxing authority over out-of-state individuals or businesses. Requirement of Government Code Sections 66000 et seq. that there be a reasonable connection "nexus" between required development impact fees and the development project in question.

Ordinance
A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, it has the full force and effect of law within the boundaries of the municipality to which it applies.

Parcel Tax
Special non ad valorem tax on parcels of property generally based on either a flat per-parcel rate or a variable rate depending on the size, use and/or number of units on the parcel.

Parking Tax
General tax imposed on occupant of off-street parking space for the privilege of renting the space within the city. See Section 2.09.

"Pay As You Use"
Concept that debt financing enables the public entity to spread the cost of a capital project over time, as the project is being utilized.

"Pay As You Go"
Concept of paying for capital projects when the initial cost is incurred, rather than over time through the use of debt financing.

Penalties
See fines, forfeitures and penalties.

Police and Fire Special Tax
Special tax on parcels of property in support of police and/or fire protection services.

Portfolio
The collection of securities held by an individual or institution.

Possessory Interest
Taxable private ownership of interests in tax-exempt public property.

Property-Related Fee
A levy imposed on a parcel or upon a person as an incident of property ownership for property-related service.

Property Tax
An ad valorem tax imposed on real property (land and permanently attached improvements) and tangible personal property (movable property).

Property Tax In Lieu of VLF
Property tax shares and revenues allocated to cities and counties beginning in FY 2004–05 as compensation for Vehicle License Fee (VLF) revenues, previously allocated to cities and counties by the State. Referred to in statute as "Vehicle License Fee Adjustment Amounts." See Section 2.01.

Property Tax Increment
See Tax Increment Financing.

Proposition 1A (2004)
Voter-approved state constitutional amendment protecting most major city, county and special district revenues from reduction or shifting by the state Legislature. See Chapter 1.

Proposition 1A (2006)
Voter-approved state constitutional amendment protecting the local allocation of state transportation sales tax revenues under Proposition 42 from reduction or shifting by the state Legislature. See Section 6.03.

Proposition 4 (1979)
Also called the Gann Initiative, this initiative, now Article XIII B of the state Constitution, was drafted to be a companion measure to Proposition 13, California Constitution Article XIII A. Article XIII B limits growth in government spending to changes in population and inflation. See Chapter 10.

Proposition 8 (1978)
An amendment to Proposition 13, passed in November 1978 to allow Assessors to recognize declines in value for property tax purposes. Revenue & Taxation Code §51 requires the Assessor to annually enroll either a property's Proposition 13 base year value factored for inflation, or its market value as of January, whichever is less. See Section 2.01.

Proposition 13 (1978)
Article XIII A of the California Constitution, commonly known as Proposition 13, which limits the maximum annual increase of any ad valorem tax on real property to 1 percent of the full cash value of such property.

Proposition 26 (2010)
A voter-approved amendment to articles VIII A and XIII C of the California Constitution defining the term "tax" to mean all government imposed charges, levies or exactions except for seven specified exceptions. Any locally imposed charge that falls outside of the exceptions is a tax and requires voter approval.

Proposition 30 (2011)
Voters approved temporary increases in the state personal income tax and sales tax. Proposition 30 also provides certain guarantees of funding to counties for programs realigned from the state.

Proposition 42 (2002)
Voter-approved measure that directs the Legislature to allocate revenues derived from the taxable sales of gasoline to certain transportation programs including to cities and counties. See Section 6.03.

Proposition 62 (1986)
A 1986 proposition which, among other things, implemented a majority vote requirement for general taxes. This portion of Proposition 62 was later ruled unconstitutional.

Proposition 98 (1990)
This measure establishes a minimum level of funding for public schools and community colleges and provides that any state revenues in excess of the appropriations limit be spent on schools.

Proposition 111 (1994)
Voter-approved measure that increased the state Motor Vehicle Fuel Tax by 9 cents per gallon and made certain adjustments to the spending limits under Proposition 4 (1979). See Section 6.02 regarding the Motor Vehicle Fuel Tax and Chapter 10 regarding Proposition 4 spending limits.

Proposition 172 (1993)
A 1993 measure which places a one-half cent sales tax for local public safety in the constitution, effective January 1, 1994. The tax is imposed by the state and distributed to cities and counties.

Proposition 218 (1996)
A voter-approved state Constitutional amendment, self-titled "Right to Vote on Taxes Act" expanded restrictions on local government revenue-raising, allowing the voters to repeal or reduce taxes, assessments, fees and charges through the initiative process; reiterating the requirement for voter approval for both "special taxes" and "general taxes," and imposing procedural and substantive limitations on assessments of real property and on certain types of fees.

Principal
"Face" or "par value" of an instrument. It does not include accrued interest.

Rating
The designation used by investors' services to rate the quality of a security's creditworthiness.

Real Property
Land and permanently attached improvements.

Real Property Transfer Tax
Tax imposed on the transfer of ownership in real estate. Typically imposed instead of a Documentary Transfer Tax. Only Charter cities may impose a Real Property Transfer Tax. See Chapter 2, Section 2.07.

Reimbursement for State Mandated Costs
Article XIII B, Section 6 of the California Constitution which requires the state to reimburse local agencies for the cost of state-imposed programs. Process is commonly called "SB 90" after its original 1972 legislation.

Regulatory Fee
A charge imposed on a regulated action to 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. A regulatory fee does not include a charge on a property or a property owner solely due to property ownership.

Rents
Revenues received through the rental of public properties to private parties such as convention space and library facilities.

Resolution
A special or temporary order of a legislative body requiring less formality than an ordinance.

Revenue
Annual income received by the city.

Revenue Bonds
Bonds issued to acquire, construct or expand public projects for which fees or admissions are charged. Bonds are repaid solely from the income generated by use of that project.

Road Maintenance and Rehabilitation Account (RMRA)
Certain state tax revenues for local streets and roads and other transportation uses are allocated through RMRA from the Road Repair and Accountability Act of 2017 (SB1 Beall). See Section 6.02 of Chapter 6.

Rough Proportionality Test
Specific determination by the city for a specific development project that the dedication to be required is related both in nature and extent to the development's impact (*Dolan v. City of Tigard* (1994) 94 D.A.R. 8803).

Royalties
Revenues received from private companies for privilege of extracting natural resources from city property. Also revenues from bets placed at horse racing tracks that are located within the city, currently set by statute at one third of 1 percent.

Sales Tax
A tax imposed on the total retail price of any tangible personal property. See also "use tax." See section 2.02.

SB 90
Reimbursement process for state mandated costs, named after its original 1972 legislation.

SB 1977
1992 bill (Government Code, Section 54945.6 as amended) requiring local officials to mail notice of new and increased benefit assessments and to hold public hearings prior to imposing benefit assessments.

Secured Property
As the property tax is guaranteed by placing a lien on the real property, secured property is that real property in which the value of the lien on the real property and personal property located thereon is sufficient to assure payment of the tax.

Secured Roll
That property tax list containing all assessed property secured by land subject to local taxation.

Securities
Investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

Service Charges
Charges imposed to support services to individuals or to cover the cost of providing such services. The fees charged are limited to the cost of providing the service or regulation required (plus overhead).

Short-Term Financing Methods
Techniques used for many purposes, such as meeting anticipated cash flow deficits, interim financing of a project and project implementation. Using these techniques involves issuance of short-term notes. Voter approval is not required.

Special Tax
A tax that is collected and earmarked for a special purpose and deposited into a separate account. A two-thirds vote of the electorate is required to impose, extend or increase any special tax. See also "general tax."

Standby Charge
A compulsory charge levied upon real property to defray in whole or in part the expense of providing, operating or maintaining public improvements. The charge is "exacted for the benefit which accrues to property by virtue of having water [or other public improvement] available to it, even though the water might not be used at the present time." Proposition 218 classifies standby charges as "assessments" which must be imposed in compliance with Section 4.25 of California Constitution Article XIII D.

Street Lighting Act of 1919
Act authorizing cities to fund the maintenance and operation of street lighting.

Subvention
Subsidy or financial support received from county, state or federal government. The state and county currently levy certain taxes that are "subvened" to cities, including motor vehicle license fees, state mandated costs and motor vehicle fuel tax.

Supplemental Law Enforcement Services Fund
County level fund to contain monies from the Citizens Option for Public Safety state subvention for local law enforcement initiated in 1996. See Section 6.04.

Supplemental Property Tax
In the event a property changes ownership, the county collects a supplemental property tax assessment in the current tax year by determining a supplemental value. In future tax periods, the property carries the full cash value.

Tangible Personal Property
Movable property.

Tax
Compulsory charge levied by a government for the purpose of financing services performed for the common benefit.

Tax Allocation Bonds
Bonds issued by redevelopment agencies to revitalize blighted and economically depressed areas of the community and to promote economic growth.

Tax Base
The objects or transactions to which a tax is applied (e.g., parcels of property, retail sales, etc.). State law or local ordinances define the tax base and the objects or transactions exempted from taxation.

Tax Equity Allocation (TEA)
Supplemental property tax allocations shifted to certain “no and low property tax cities” from counties. TEA is also used in reference to other supplemental allocations of Vehicle License Fee (VLF) revenues provided to certain no and low property tax cities. These VLF-TEA allocations now flow to those cities as a part of Property Tax in lieu of VLF payments.

Tax and Revenue Anticipation Notes (TRANs)
TRANs are short-term borrowings by a public entity to meet cash flow needs in the general fund and other unrestricted funds of a public entity. TRANs are issued before expected receipt of taxes and other revenues during the same fiscal year.

Tax Increment Financing
A tax incentive designed to attract business investment by dedicating to the project area the new property tax revenues generated by redevelopment. The increase in revenues (increment) is used to finance development-related costs in that district.

Tax Rate
The amount of tax applied to the tax base. The rate may be flat, incremental or a percentage of the tax base, or any other reasonable method.

Teeter Plan
Enacted in 1949, an alternative method for allocating delinquent property tax revenues, authorized by Revenue and Taxation Code section 4701, in which the county Auditor allocates property tax revenues based on the total amount of property taxes billed, but not yet collected. The county government then collects and keeps the delinquency, penalty and interest payments.

Traffic Congestion Relief Program (TCRP)
Revenues from state sales taxes on vehicle fuels dedicated to transportation purposes by Proposition 42 (2002) and allocated to state and local governments. See Section 6.02 of Chapter 6.

Traffic Safety Fund
All fines and forfeitures received as a result of arrests by city officers for Vehicle Code violations must be deposited in a special city “Traffic Safety Fund” to be used for traffic control devices; maintenance of equipment and supplies for traffic law enforcement and traffic accident prevention; the maintenance, improvement or construction of public streets, bridges or culverts; and the compensation of school crossing guards who are not regular full-time members of the police department.

TRANs
See tax and revenue anticipation notes.

Transactions and Use Tax
Also, known as an “add-on local sales tax,” a tax imposed on the total retail price of any tangible personal property and the use or storage of such property when sales tax is not paid. See Section 2.03.

Transient Occupancy Tax
Tax levied by cities on persons staying 30 days or less in a room(s) in a hotel, inn, motel, tourist home, non-membership campground or other lodging facility. Also called Transient Lodging Tax or Hotel Tax. See Section 2.06.

Transportation Improvement Fee
State tax on motor vehicle registrations adopted under the Road Repair and Accountability Act of 2017 (SB1 Beall). See Section 6.02 of Chapter 6.

Triple Flip
A mechanism used to repay state fiscal recovery bonds pursuant to Proposition 57 of 2004. Under the Triple Flip, the local sales and use tax rate was reduced from 1.00 percent to 0.75 percent with the 0.25 percent diverted to repay state fiscal recovery bonds. Cities and counties were reimbursed for the lost revenue from a shift of property tax revenue.

Tideland Revenue
Revenues granted by the state for use of city tideland in production of oil, gas and other hydrocarbons.

Transportation Tax
Special tax imposed by counties for county transportation needs. Typically collected with the sales and use tax, some cities receive a portion of the transportation tax usually in .25 percent tax rate increments.

Unsecured Property
As the property tax is guaranteed by placing a lien on the real property, unsecured property is that real property in which the value of the lien is not sufficient to assure payment of the property tax.

Use Tax
A tax imposed on the use or storage of tangible personal property when sales tax is not paid. See also “sales tax.” See Section 2.02.

User Fee
Fees charged for the use of a public service or program such as for recreation programs or public document retrieval. User fees for property-related services are referred to as property-related fees. See Chapter 4.

Utility Connection Fee
Utility connection fees or capacity fees are imposed on the basis of a voluntary decision to connect to a utility system or to acquire the right to use additional capacity. See Chapter 4.

Utility Rate
A category of user fee paid by the user of utility services. See Chapter 4.

Utility Users Tax
Tax imposed on the consumer (residential and/or commercial) of any combination of electric, gas, cable television, water and telephone services. See Section 2.05.

Vehicle Parking District Law of 1943
The 1943 Act allows cities and counties to purchase land for parking structures, construct and maintain parking lots and pay for related planning.

VLF
See Motor Vehicle License Fee.

VLF — Property Tax Swap
The trade of most city and county Vehicle License Fee revenue for additional property tax share and revenue. See Section 2.01 and Section 6.01.

Vehicle Registration Fees
See Vehicle Registration Taxes, Chapter 2, Section 2.13.

Vehicle Registration Taxes
A special tax on vehicle registration imposed countywide for specific purposes authorized in state law. See Chapter 2, Section 2.13.

Voter Approved Property Tax for Indebtedness
Includes ad valorem property taxes levied in addition to the 1 percent rate for voter approved debt, approved prior to July 1, 1978 or after July 1, 1986.

Williamson Act and Open Space Subvention
State subvention to foster preservation of open-space by lowering cost of property tax.

Yield
The total amount of revenue a government expects to receive from a tax, determined by multiplying the tax rate by the tax base. Also, the annual rate of return on an investment, expressed as a percentage of the investment.