Special Workshop Meeting
A G E N D A

IMPERIAL BEACH CITY COUNCIL

MARCH 14, 2012 – 6:00 P.M.

Community Room (Behind City Hall)
825 Imperial Beach Boulevard
Imperial Beach, CA 91932

THE CITY COUNCIL ALSO SITS AS THE CITY OF IMPERIAL BEACH HOUSING AUTHORITY, PLANNING COMMISSION, PUBLIC FINANCING AUTHORITY, AND THE IMPERIAL BEACH REDEVELOPMENT AGENCY SUCCESSOR AGENCY

CALL TO ORDER BY MAYOR

ROLL CALL BY CITY CLERK

PUBLIC COMMENT - *Each person wishing to address the City Council regarding items not on the posted agenda may do so at this time. In accordance with State law, Council may not take action on an item not scheduled on the agenda. If appropriate, the item will be referred to the City Manager or placed on a future agenda.*

REPORTS

1. **DISCUSSION ON LONG-TERM VISION AND ACTIONS TO STIMULATE LOCAL ECONOMY AND PROVIDE FOR PUBLIC IMPROVEMENTS. (0100-10)**
2. **BUDGET UPDATE. (0100-10 & 0330-30)**

ADJOURNMENT

/s/
Jacqueline M. Hald, MMC
City Clerk

The City of Imperial Beach is endeavoring to be in total compliance with the Americans with Disabilities Act (ADA). If you require assistance or auxiliary aids in order to participate at City Council meetings, please contact the City Clerk's Office at (619) 423-8301, as far in advance of the meeting as possible.

Any writings or documents provided to a majority of the City Council/Housing Authority/Planning Commission/Public Financing Authority/Imperial Beach Redevelopment Agency Successor Agency regarding any item on this agenda will be made available for public inspection in the office of the City Clerk located at 825 Imperial Beach Blvd., Imperial Beach, CA 91932 during normal business hours.

City of Imperial Beach, California

OFFICE OF THE CITY MANAGER

825 Imperial Beach Blvd., Imperial Beach, CA 91932 Tel: (619) 423-8303 Fax: (619) 628-1395

TO: City Council

FROM: Gary Brown GB

SUBJECT: 03/14/12 Council Workshop – Discussion on long-term vision and actions to stimulate local economy and provide for public improvements

DATE: March 13, 2012

At your workshop of 02/18/12 you requested another workshop to discuss your longer-term vision and actions other than traditional redevelopment to stimulate the local economy and provide for public improvements such as streets, sidewalks, and parks. (Attached is the memo of 02/07/12 that posed questions for your consideration.)

In addition to your long-term vision, we'd like to up-date you on the city's budget and receive comments about proposed actions.

Some factors to consider:

1. The Sheriff's contract and the impact of a new Rancho San Diego station are still being negotiated.
2. Discussions are underway with the Port for Public Safety and Tidelands services. Though the Port appears to be taking a more restricted approach, we are cautiously optimistic that the Port will provide equitable reimbursement for adequate services.
3. We can't count on redevelopment paying-off its loan from the city. This will cost the city approximately $325,000/year and the loan principal in $3.7 million.
4. On Tuesday, March 13th CalPERS decided to reduce its projected rate of return from 7.75% to 7.5%. This will increase the city's pension costs by approximately $120,000/year, but we're refining the estimate for the workshop on Wednesday.

Staff will seek Council's concurrence, not official action, to proceed with steps to retain fiscal health such as:

1. Specific service reductions
2. Ways to increase revenue
3. Incentive for employees to leave
4. Payment package for employees laid-off

Also attached for your consideration is a memo about public's voting on ways to increase revenues.

Attachments:

1. Memo re: 02/08/12 Council Workshop: Life After Redevelopment
2. Memo about public's voting on ways to increase revenue

City of Imperial Beach, California

OFFICE OF THE CITY MANAGER

825 Imperial Beach Blvd., Imperial Beach, CA 91932 Tel: (619) 423-8303 Fax: (619) 628-1395

TO: City Council

FROM: Gary Brown

SUBJECT: 02/8/12 Council Workshop: Life After Redevelopment

DATE: February 7, 2012

We propose that Council first receive a presentation from Mr. McGrane on the financial impact of the dissolution of the redevelopment agency and then have a discussion about Council's vision and goals for the city in light of greatly reduced funds for services.

As you can tell from the staff report and resolution previously sent to you, Item 1 for the special meeting on Wednesday, February 8, we believe it is very likely that lay-offs will be necessary and the resolution initiates the process according to our personnel rules. I want to work closely with staff — people represented by unions and those who are not — to return to Council with options that will probably involve eliminating positions, lay-offs, service reductions, and suggested revenue increases. Our goal is to make adjustments for the fiscal year starting on July 1, 2012.
There are several questions that we hope will be resolved, but we'll probably have to plan for a budget based on conditions that may change. These include:

1. Agreement on providing services to the Port
   We plan on receiving funds sufficient to maintain current services, but the Port just started discussions last month.

2. The Sheriff's Contract
   A different cost allocation method plus staff reductions could yield significant savings, approximately $300,000, but a shift of Sheriff's staff to a new Rancho San Diego station could increase costs by over $900,000. (Chief Clark is meeting with Sheriff's staff this week to discuss the challenges presented by the new station.)

3. The property tax allocated to the City will be reduced by an unknown amount due to a successful lawsuit initiated by educational institutions.

4. The Recognized Obligation Payment Schedule (ROPS)
   The County Auditor- Controller has until July 1st to review the ROPS. We hope this audit will be completed and have the ROPS approved sooner by

the Oversight Board (OB), but we don't know how this process will work. (Finance Directors will meet with the County soon to discuss the process.) The ROPS is important because it lays out all the redevelopment projects and expenses we'll incur in winding down the agency such as completing street renovations, the shopping center, and housing development.

For now, we're assuming our ROPS is correct and will be certified by the Auditor-Controller.

5. CalPERS pension costs
   The projected cost increases for July 1, 2012 to June 30, 2013 are not large, but beyond that they may be much higher if CalPERS reduces its current 7.75% assumed rate of return on investments.

6. Redevelopment funds not only paid directly for projects, but they also paid the city for administrative support and management services, many of which won't be needed as projects are completed or wound down. This will affect the city's general fund.

   With the above information, we've got to plan for large funding and service reductions as well as new revenues and other new ways to improve life in Imperial Beach

All of the above suggests many questions that Council may wish to address. There are short term questions related to balancing the budget and completing redevelopment and housing projects. On balancing the budget, as previously mentioned we'll return to Council with options for your consideration. On projects, we'll work to finish projects and activities outlines in the Enforceable Obligation Payment Schedule (EOPS) and the Recognized Obligation Payment Schedule (ROPS). We'll probably need to work closely with the Oversight Board and the County Auditor-Controller.

Beyond the preoccupation with winding down redevelopment and balancing the budget, Council may wish to discuss topics such as:

1. What is your vision for the city or specific areas like the Bayfront, Palm Avenue, and Seacoast Drive? (By the way, we're working with consultants on the computer-generated illustrations of build-out on Seacoast Drive.)
2. What new or different tools can we use to stimulate economic development — Marketing, special districts, zoning, code enforcement, public-private partnerships, processing of and responsiveness to development proposals?
3. How can we foster partnerships with businesses, non-governmental organizations and other public organizations to enhance the community?
4. Do you want to ask voters for some form of tax increase?
5. What fees, franchise fees, and other service charges might you consider for the long run?
6. What do you see as core functions of city government?
7. What functions should we discontinue or reduce?

ATTACHMENT 2

MEMORANDUM

TO: Honorable Mayor and Members of the City Council
City Manager Gary Brown

FROM: Jennifer M. Lyon, City Attorney
Lisa A. Foster, Deputy City Attorney

DATE: March 12, 2012

SUBJECT: Options for Increasing City Revenue

Our office was asked to provide information to the City regarding alternative revenue sources and processes for enacting them, in response to the recent dissolution of the City's Redevelopment Agency and the associated loss of tax increment funding. The options discussed in this memorandum are various forms of taxes that require placement of a ballot measure before the City's voters to be enacted or increased. A brief discussion of the process for implementing these taxes follows the discussion of particular taxes. Additional revenue sources such as user fees and grants, which do not require a public vote, are discussed in a publication from the Institute for Local Government entitled "County and City Revenues" which is attached to this memorandum.

1. Categories of Taxes

a. Utility User Tax

A Utility Users Tax ("UUT") is a tax on gas, electricity, cable television and water service provided to residents of the City. It is based on the concept that each city must provide public access to allow utility companies to provide services to a customer. Some of these costs are reimbursed through a franchise fee and many are not. A UUT is a percentage of the applicable bill for services, which is paid to the City and collected by the utility. The courts have upheld the right of general law cities to impose a UUT. Fenton v. City of Delano (1984) 162 Cal. App. 3d 400.

The imposition of a UUT requires a majority vote of the people under both Propositions 62 and 218. Proposition 62 (Gov't Code § 53750) sets up procedural requirements in the state statutes and Proposition 218 (Cal. Const. art. XIIIC) establishes companion procedures in the Constitution.

One of the challenges related to the establishment of a UUT is identifying the types of utilities that can properly be taxed. A UUT must be carefully crafted to avoid technologies that are exempt from taxation under federal law. One such law is the

Internet Tax Freedom Act (ITFA), which placed a moratorium on taxation of "Internet access" which is in place until at least 2014. Another subject that has been controversial, and the subject of numerous lawsuits in California, is the imposition of the UUT on telephone service. The issue in these lawsuits is mobility of cellular phone use, and potential lack of a "nexus" between the use of the devices and the jurisdiction. A federal law passed in 2000 was intended to resolve the issues with taxing cellular telephone service, allowing state and local governments to tax cellular telephone airtime as long as the customer has a billing address in the city. UUT ordinances are drafted based on the status of the law at the time the ordinance is approved, but telecommunications laws are subject to change, and the covered services in UUT ordinances can often become the subject of a dispute because of changes to the law after they are enacted.

A UUT can also present collection and enforcement challenges, particularly in industries that have been deregulated, such as telephone and electricity services. In the telephone industry, for instance, over 600 companies are licensed by the CPUC, and these companies are constantly merging, acquiring other companies, and changing names. This presents practical problems for city tax administrators and auditors trying to impose and collect a UUT.

b. Parcel Tax

A parcel tax is a tax on the privilege of consuming municipal services. The justification for the tax can be based on a variety of existing facilities and services, or new facilities that are being financed through the imposition of a special parcel tax (such as a new police or fire station). A parcel tax is usually structured as an annual tax that is based on either a flat per-parcel rate or a rate that varies based on other factors such as parcel size, use or other physical attributes other than value. Heckendorn v. City of San Marino (1986) 42 Cal.3d 481.

Parcel taxes cannot be based upon the value of the property. Cal. Const. art. XIIIA, § 1; City of Oakland v. Digre (1988) 205 Cal. App. 3d 99. Further, Section 3 of Article XIIID limits the types of taxes that can be imposed upon a parcel of property to two categories: 1) the ad valorem property tax imposed based on the value of property pursuant to Article XIII and Article XIIIA; and 2) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIIIA. This means that a parcel tax may only be imposed as a special tax, subject to a two-thirds vote. Nielson v. City of California City (2006) 133 Cal. App. 4th 1296.

c. **Transient Occupancy Tax**

Cities and counties may tax persons staying 30 days or less in hotels, motels, and similar lodgings, known as a transient occupancy tax ("TOT"). Revenue and Tax Code §§ 7280-7283.51. These taxes can be structured as a flat rate per night or a percentage of room rents. The hotel guests owe the tax, and the hotel has a legal duty to collect and transmit the funds from the guests who owe them to the local agency.

The City of Imperial Beach currently has a TOT of 10%, which is set forth in Chapter 3.24 of the Municipal Code. A listing of TOT rates by California city compiled in March 2011 by the League of California Cities (www.californiacityfinance.com) shows that the TOT rates in California range from zero to 15%, with 10% being the most frequently used TOT rate.

State law does not require TOT to be used for any particular purpose. Therefore, if the City sought to increase its TOT rate, the increase could be structured as a general tax, for general fund purposes, or as a special tax, for one or more specific purposes. The public vote required to increase the TOT would be a majority vote for a general tax, or a 2/3 vote for a special tax, as discussed in more detail below.

An issue that has arisen with regard to TOT in recent years is whether online travel companies are not properly remitting the full amount of TOT that they collect from hotel guests to the local taxing agencies (because online travel companies remit TOT based on the discount rate they pay for rooms, rather than the "marked up" rate they charge to the customers). This issue remains unsettled as a matter of law, with lawsuits filed in over 20 states, and varying results. Some of the court decisions have been based on the specific wording of the ordinance in question. The City of Anaheim lost its multimillion dollar TOT lawsuit against online travel companies at the trial court level in 2010, and that case is still on appeal.

d. **Sales Tax**

A sales tax is a tax imposed for the privilege of selling tangible personal property at retail. Revenue & Tax Code § 7202(h)(1). A city can impose its own sales tax rate (in addition to the base rate imposed by the state) which cannot exceed one percent. Revenue & Tax Code § 7202(h)(1). All proceeds of the local sales tax are kept by the city. In addition to the one percent local sales tax, cities can impose local "transactions and use" taxes (which are similar to sales taxes, but authorized under a different state law). The total amount of sales and transaction and use taxes that may be collected locally cannot exceed two percent. Revenue & Tax Code § 7251.1.

All local sales taxes must be paid to the general fund, or if imposed for the purpose of repaying bonds (per Gov't Code sections 50665.1-50670.4), into a special fund for that purpose. Local transactions and use taxes can be imposed either for general or specific purposes. If for general purposes, they must be approved by a majority of the voters. If for specific purposes, they are special taxes, as discussed below, and must be approved by 2/3 of the voters. If approved as a special tax, the ordinance must include an expenditure plan describing the specific projects for which the revenues from the tax may be expended. Revenue &Tax Code § 7285.91.

e. **Special or General Tax**

Proposition 218 specifically applies to all California cities, and sets forth the approval requirements for taxes, based on whether they are "general" or "special" taxes. Cal. Const. XIII C § 1(b); Art. XIII D, § 2(a). Proposition 218 defines a "general tax" as any tax imposed for general government purposes. Cal. Const. Art. XIII C § 1(a). A general tax, under Proposition 218, requires a majority vote of the people. Similar provisions are found in the Government Code under Proposition 62. Gov't Code § 53750 *et. seq.* Additionally, Proposition 62 imposes voting requirements for the City Council when the adding a measure to the ballot, usually requiring a two-thirds vote of the full council.

Proposition 218 defines a "special tax" as any tax imposed for specific purposes, including taxes imposed for specific purposes that are placed into a general fund. Cal. Const. Art XIII C §1(d). A special tax with an identified purpose requires a two-thirds vote of the people. Howard Jarvis Taxpayers Association v. City of Roseville (2003) 106 Cal.App.4th 1178.

2. Procedural Requirements for a General Tax Measure

Under Proposition 218, no local government may impose or increase any general tax until the electorate has approved the tax. Cal. Const. Art. XIII C, § 2(b). The imposition or increase of a general tax requires a majority vote of the electorate voting in an election on the tax.

A two-thirds vote of all members (four votes) of the City Council is required to place a general tax on the ballot under Proposition 62 (such as a general purpose TOT or UUT). Gov't Code § 537724(b). In order for a general tax to be placed before the voters, the City Council is required to schedule the matter to "be consolidated with a regularly scheduled general election for members of the governing body." However, a city council may set a different election date if they declare a fiscal emergency by unanimous vote of the governing body. Cal. Const. Art. XIII C § 2(b). Proposition 218 provides no definition of the term "emergency" which justifies the calling of the special election. However, the calling of an "emergency" would be a legislative act to which the courts tend give great deference. Crown Motors v. City of Redding (1991) 232 Cal.App.3d 173, 179.

Proposition 218 gives no specific guidance on the procedure by which the votes are taken, calling the election and calling the emergency. If a sales tax is considered, there is separate legislation that creates a two-thirds voting requirement to call an election on a transaction and use tax. (Revenue & Tax Code § 7285.9. However, for all other general taxes, the Government Code, under Proposition 62, is the main guiding legislation. Gov't Code § 537724.

3. Procedural Requirements for a Special Tax

Under the Constitution, the City may not impose or increase any special tax until the tax has been submitted to the electorate and approved by a two-thirds vote. Cal. Const.

Art. XIII C § 2(b). There are no timing restrictions on elections to approve special taxes. They may be placed on the ballot at a special election.

If the Council is considering approving a special parcel tax, a two-thirds vote of the City Council is required before placing the matter before the voters. The parcel tax must be collected on the County property tax bill. The parcel tax legislation must conform with the collection procedures of the County Tax Collector. It also can be charged against certain categories of property (*i.e.* residential rate, commercial rate and multiple family residential rate). An example of a parcel tax was the county fire fee approved at the November 2008 election.

4. **Mailed Ballot Elections**

The Elections Code allows for elections to approve taxes under Article XIII C to be held by mailed ballot. Elections Code section 4000(c)(8). The Legislature treats these mailed ballot procedures as an "election." Mailed ballot elections must be held on certain dates. Elections Code section 1500 establishes those dates as follows:

(a) The first Tuesday after the first Monday in May of each year.
(b) The first Tuesday after the first Monday in March of each even-numbered year.
(c) The last Tuesday in August of each year.

Under Proposition 218, the required election dates deal with non-emergency general tax measures, as discussed above. A non-emergency general tax election is required to be called on a date when council or mayoral positions are on the same ballot. There are no election date limitations on when a fiscal emergency is called. Further, there are no restrictions on when a special tax is placed before the voters requiring two-thirds vote. While there are no specific cases or attorney general opinions that this office is aware of on this issue, it is likely that, after the declaration of an emergency, a general tax measure could be placed on one of the required mailed ballot dates. Also, a special tax measure could be placed on a mailed ballot date based on the authority of the Elections Code.

Conclusion

The purpose of this memo is to provide some general guidance regarding various revenue mechanisms and procedures for establishing them under the California Constitution and various election and revenue laws of the State of California. To supplement the information in this memorandum, I have attached a helpful article from the Institute for Local Government entitled "County and City Revenues" which covers additional revenue generating mechanisms such as user fees and grants.

I hope that this information has been helpful.

UNDERSTANDING THE BASICS OF

COUNTY and CITY REVENUES

For Personal Use Only. Not for Distribution.

Institute for Local Government

Generous Support for this Publication Provided by:

MuniFinancial

Prepared by
Charles Summerell, Institute Staff

Special thanks to the following individuals whose time and effort contributed to this publication:

Dan Carrigg, Legislative Director, League of California Cities

Michael G. Colantuono, Colantuono & Levin, P.C.

Michael Coleman, Coleman Advisory Services

Jean Kinney Hurst, Legislative Representative, California State Association of Counties

Zane Johnson, Director of Finance and Administrative Services, City of Tracy

Pat Leary, Assistant Chief Administrative Officer, Yolo County

Richard A. Milligan, Deputy City Attorney, City of Riverside

Joseph W. Pannone, Aleshire & Wynder, LLP

Joe Saccio, Deputy Director, Administrative Services Department, City of Palo Alto

Bill Statler, Director of Finance & Information Technology, City of San Luis Obispo

Betsy Strauss, Special Counsel, League of California Cities

Christine M. Vuletich, Director of Finance, City of South Lake Tahoe

Brent Wallace, Executive Director, County Administrative Officers Association of California

All final decisions about the content, tone and formatting of this publication were made by the Institute for Local Government.

For Personal Use Only. Not for Distribution.

UNDERSTANDING THE BASICS OF COUNTY AND CITY REVENUES
© 2008 by The Institute for Local Government
1400 K Street, Suite 301
Sacramento, CA 95814
(916) 658-8208 • FAX (916) 444-7535 • www.ca-ilg.org

UNDERSTANDING THE BASICS OF

COUNTY and CITY REVENUES

Introduction 1

Taxes 5

Service Charges, Assessments and Fees 11

Revenues from Other Government Agencies 13

Rent for Use of Public Property Including Streets 15

Fines, Forfeitures and Penalties 15

Other Revenues 16

Public Involvement in the Revenue Process 17

For Personal Use Only. Not for Distribution.

For Personal Use Only. Not for Distribution.

Introduction

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

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

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

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

How to Use This Information

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

Looking for Footnotes?
A fully footnoted version of this pamphlet is available online at www.ca-ilg.org/revenuebasics.

For Personal Use Only. Not for Distribution.

KEY CITY REVENUE STREAMS

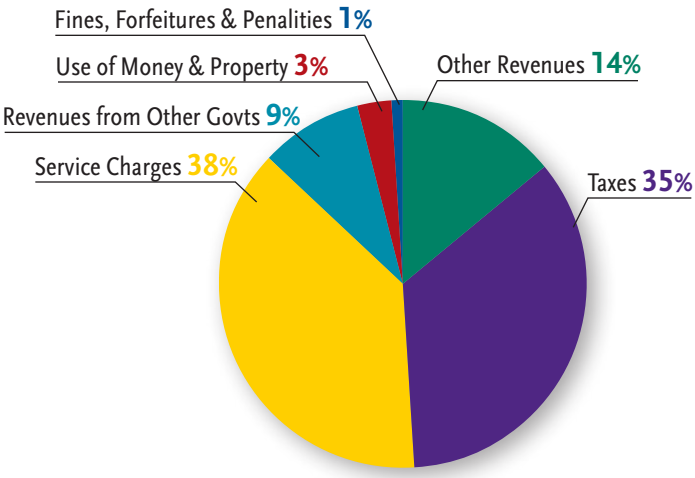
Service fees and charges for city utilities such as water, sewer and garbage collection are the largest source of city revenues, but use of these funds is limited to covering the cost of providing these services. Major sources of city revenue for day-to-day operations and services come from sales and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

KEY COUNTY REVENUE STREAMS

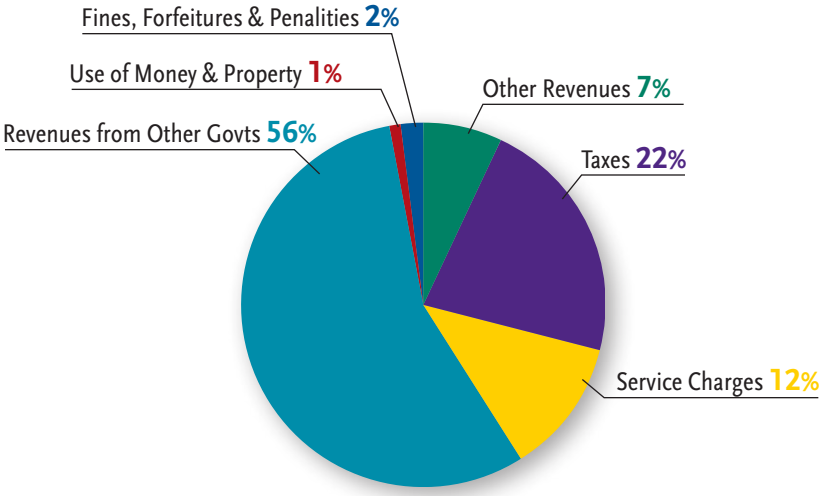
Revenues from the federal and state government are the largest source of funding for health and human services. Property taxes, sales and use taxes, vehicle license fees (collected by the Department of Motor Vehicles on annual car registration bills) are the primary funding sources for many county services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

The Big Picture: City and County Revenues Statewide

CITY REVENUE SOURCES



COUNTY REVENUE SOURCES



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

For Personal Use Only. Not for Distribution.

The State-Local Fiscal Relationship since 1978

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

1978
Proposition 13

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

1986
Proposition 62

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

1992
Education Revenue Augmentation Fund (ERAF)

- In response to a severe budget deficit, the state met its legal obligation to fund schools by diverting specified amounts of local property taxes into an "Education Revenue Augmentation Fund" or ERAF in each county. ERAF funds are then transferred to local school entities.
- Although intended as a temporary measure, the tax shift remains in effect.
- In fiscal year 2007–08 the tax shift is estimated to cost cities, counties and special districts more than $7 billion.

1996
Proposition 218

- Requires two-thirds voter approval for special taxes
- Requires majority voter approval for general taxes
- Requires parcel taxes to be enacted as special tax

For Personal Use Only. Not for Distribution.

- Imposes new procedural and substantive requirements for benefit assessments
- Imposes new procedural and substantive requirements for certain types of fees and charges including water and sewer rates
- Allows taxes, assessments, and fees to be reduced by voter initiative

2004

Vehicle License Fee – Property Tax Swap

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

Proposition 1A

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

For Personal Use Only. Not for Distribution.

SOMETHING INTERESTING TO KNOW: ROLES AND RESPONSIBILITIES

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

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

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

Taxes

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

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

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

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

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

Property Tax

How the Tax is Calculated

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

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

For Personal Use Only. Not for Distribution.

Sample Property Tax Calculation

2006 Purchase Price	$	300,000
2006 Property Tax Obligation (1%)	$	3,000
2007 Increase in Property Value (2%—limitation under Proposition 13)	$	6,000
2007 Property Value	$	306,000
2007 Property Tax Obligation (1%)	$	3,060

Note that other kinds of governmental charges (for example, benefit assessments, school bonds, ambulance services, etc.) are included on the bill that includes property tax bills, which will raise the amount higher than the one percent base tax rate.

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

The one percent maximum rate can be increased to pay for the acquisition or improvement of real property if the voters approve such an increase by a two-thirds margin. The maximum rate cannot be increased to cover operating expenses, even with voter approval.

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

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

How are Property Tax Revenues Distributed?

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

For Personal Use Only. Not for Distribution.

SOMETHING INTERESTING TO KNOW: USE TAXES

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

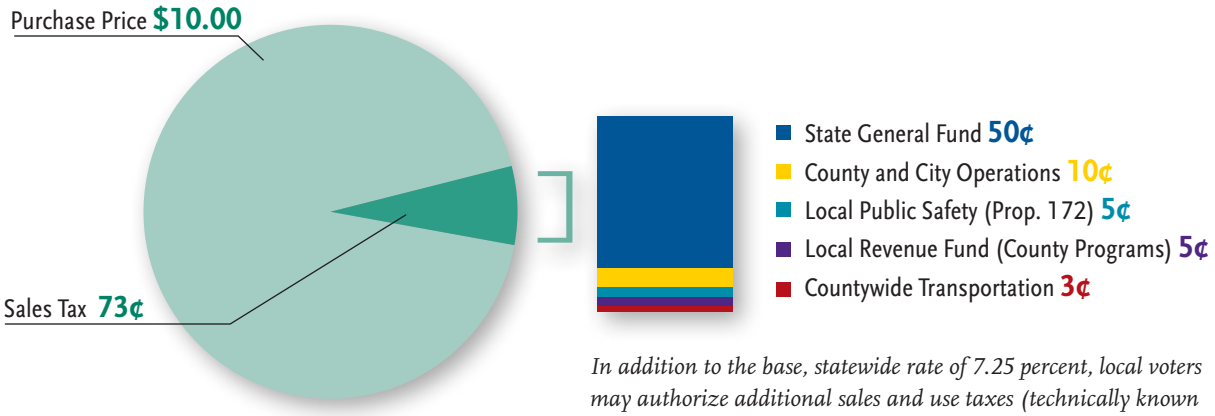
Sales and Use Tax

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

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

The "base" sales tax rate of 7.25 percent has a number of components. For example, the state imposes a basic sales tax rate of 6.25 percent. This means if you bought an item for ten dollars and the cash register receipt shows 73 cents for sales tax, then about 60 cents of that sales tax goes to the state — 50 cents to the state general fund. About 10 cents come back to local governments (5 cents for counties to fund health social service and mental health programs and 5 cents for counties and cities to fund public safety services). A fourth component exists in certain counties and cities which have increased the use tax rate to fund programs such as transportation, criminal justice facilities, and the acquisition of open space.

COMPONENTS OF 7.25% SALES TAX RATE



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

For Personal Use Only. Not for Distribution.

SOMETHING INTERESTING TO KNOW: SALES TAX FOR PUBLIC SAFETY

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

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

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

Business License Tax

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

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

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

For Personal Use Only. Not for Distribution.

businesses, the fee imposed to pay for the cost of regulation may not exceed the reasonable cost of regulating the business.

Transient Occupancy Tax (TOT) or Hotel Bed Tax

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

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

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

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

Utility User Tax (UUT)

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

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

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

SOMETHING INTERESTING TO KNOW: SALES TAX AND THE INTERNET

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

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

For Personal Use Only. Not for Distribution.

Parcel Tax

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

Documentary Transfer Tax

A documentary transfer tax is a tax imposed on the transfer of interests in real estate. Counties may tax at a rate of 55 cents per $500 of the property value. Cities may impose the tax at up to one half of that amount, which is credited to the payment of the county tax. Majority voter approval is necessary to impose or increase this tax.

Property Transfer Tax (Charter Cities)

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

For Personal Use Only. Not for Distribution.

Service Charges, Assessments and Fees

Utility Rates

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

Benefit Assessments

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

User Fees

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

Regulatory Fees

Regulatory fees pay for the cost of public programs or facilities necessary to regulate a business or other activity or mitigate the impacts of the fee payer on the community. Examples include a fee to pay for the cost of administering the licensing of pesticide applications or a fee to inspect restaurants for health and safety compliance. While cities and counties impose regulatory fees, the state does, too. So, for example, the state imposes a regulatory fee on makers of paint containing lead to fund health care programs that address lead poisoning.

Development Impact Fees

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

For Personal Use Only. Not for Distribution.

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

For Personal Use Only. Not for Distribution.

Revenues from Other Government Agencies

Revenues from other governments fall into two main categories:

1) State-administered revenues

2) Grants

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

Gas Tax

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

Motor Vehicle License Fee

The Motor Vehicle License Fee (VLF) is a tax on ownership of a registered vehicle. All revenue from vehicle license fees must be distributed to counties and cities. About three-quarters of VLF revenues fund county health and welfare programs. At one time, VLF was a major revenue source for cities. However, with the "Vehicle License Fee — Property Tax Swap" in 2004, VLF now contributes only about one percent of general revenues to the average city budget.

Health and Welfare Realignment

Counties receive funds from a dedicated statewide sales tax and a portion of motor vehicle license fees which support county-operated social services, health, public health and mental health programs and services.

SUBVENTIONS

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

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

For Personal Use Only. Not for Distribution.

SOMETHING INTERESTING TO KNOW

Maintenance of Effort Requirements

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

Grant Funding

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

These funds are referred to as the **Realignment Allocation**.

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

Federal and State Grants to Counties

Federal and state grants comprise a large proportion of county revenues. These funds are largely restricted to particular uses. Examples include specific human services, such as grants for health, mental health, social and child welfare services and related administration. Grants typically do not pay for the full cost of a program; recipient agencies typically pay a share of these costs with funding from local sources.

State and Federal Mandates

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

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

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

For Personal Use Only. Not for Distribution.

Rent for Use of Public Property Including Streets

Earnings on Investments

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

Rents, Royalties and Concessions

Another way cities and counties pay for public services is to charge rent for use of the public's property. An example is royalties from natural resources taken from land the public owns. Others include selling advertisements in publications or receiving a percentage of net profits from concessionaires operating on public property.

Franchise Fees

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

Fines, Forfeitures and Penalties

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

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

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

For Personal Use Only. Not for Distribution.

Other Revenues

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

Resources for Further Information

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

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

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

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

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

For Personal Use Only. Not for Distribution.

Public Involvement in the Revenue Process

Taxes

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

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

Assessments

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

Property-Related Fees

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

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

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

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

For Personal Use Only. Not for Distribution.

Other Revenues

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

For Personal Use Only. Not for Distribution.

For Personal Use Only. Not for Distribution.

ABOUT THE INSTITUTE FOR LOCAL GOVERNMENT

The Institute for Local Government is the nonprofit research affiliate of the League of California Cities and the California State Association of Counties. Its mission is to serve as a source of independent research and information for California's communities and their leaders.

The Institute's current program areas include:

- Climate Change
- Collaborative Governance Initiative
- Communities for Healthy Kids
- Fiscal Stewardship
- Healthy Communities
- Land Use and Housing
- Public Service Ethics

INSTITUTE FOR LOCAL GOVERNMENT

1400 K Street, Suite 301
Sacramento, California 95814
Telephone: 916.658.8208 Fax: 916.444.7535
www.ca-ilg.org

For Personal Use Only. Not for Distribution.

For additional copies of this publication, contact CityBooks at (916) 658-8257 or visit www.cacities.org/store.

SKU: 776 Price: $10