

# Local Government Finance in California

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# Types

California has four main kinds of local agencies:

- Counties
- Cities
- Schools
- Special Districts

# Types

There are also a number of other kinds of agencies representing local interests, including:

- Joint Powers Authorities
- Councils of Governments

# Counties

- 58 in total
- Counties provide a variety of important county-wide welfare and social services. Those include services relating to health and welfare and the criminal justice system. In these respects, counties are part of a statewide system that delivers certain kinds of programs and services to Californians.
- Counties also provide municipal services (recreation and park, fire protection, law enforcement, water, etc.) and regulatory services for unincorporated areas (planning, zoning, permitting, licensing, etc.)

# Cities

- California has nearly 500 cities.
- Within city boundaries, cities have responsibility for such services as police and fire, animal control, parks, public works, water, waste water, solid waste, and library.
- Cities also have authority to adopt regulations that promote the public good within city limits. These include regulations relating to land use and building code enforcement.

# School Districts

- There are over 1,000 school districts.
- School districts are responsible for educating children from kindergarten through high school.
- Some school districts also provide pre-school services.
- Unlike some other states, in California public schools and cities/counties have separately elected governing bodies.

# Special Districts

- Special districts are public agencies created to provide one or more specific services to a community, such as water service, sewer service, parks, fire protection and others. California has nearly 3,300 special districts.
- **Dependent Special Districts**
  - Sometimes the governing board of either a city or county will also serve as decision-makers for a special district. These kinds of special districts are called “dependent special districts.” About one third of special districts are dependent.
- **Independent Special Districts**
  - Other special districts operate under a locally elected, independent boards of directors, which oversees district functions. These kinds of special districts are called “independent special districts.” About two thirds of special districts are independent.

# Why So Special?

- Most special districts perform a single function, such as water service, parks and recreation, fire protection, pest abatement or cemetery management.
- Other districts have multiple functions, such as community service districts. Some special districts provide services for residents in both cities and counties, while others provide services only for residents who live outside city boundaries in the unincorporated areas.



# Why So Special?

- In California, cities must be located in one county, and city boundaries may not cross county lines. On the other hand, special districts may cross city and county boundaries.
- For example, the Metropolitan Water District of Southern California serves residents in six different counties and most of the cities within those counties.

# Why So Special?

- Special districts generate revenue from several sources including property taxes, special assessments, and fees.
- “Enterprise” special districts provide more specific services and are primarily funded by fees for those services.
- “Non-Enterprise” special districts provide more general governmental services and are funded primarily from property taxes.

# JPA's

- Local agencies will sometimes enter into agreements to exercise shared powers to provide more effective or efficient government services or to solve a service delivery problem.
- One common form of joint powers authority is one that serves as a form of insurance company for local agencies. Through the joint powers agreement, these agencies pool their resources to promote activities to reduce risk and pool their assets to pay claims against member entities (for example, workers compensation claims).
- Joint powers authorities typically have their own board of directors (typically public officials appointed by each participating public entity), their own policy development system, and their own management structure.

# COGs

- A council of government is a particular form of joint powers authority created to engage in certain policy-making activities. The exact combination of duties varies from region to region.
- The two most prevalent duties are:
  - 1. Planning-related activities relating to affordable housing and
  - 2. Transportation on a regional level.
- Some councils of government cover one county; others cover multiple counties.

# Property Tax

- Imposed on “real property” (land) and “tangible personal property” (boats, aircraft, business equipment).
- Maximum tax rate for general purposes is 1% of the assessed value + voter approved rates (2/3rds vote) to fund bond indebtedness.

# Property Tax

- Collected and allocated by each county.
- The property taxes are allocated to the different local agencies.
- Special districts created after the passage of Prop 13 have no claim to the 1% property tax.
- Some property taxes called parcel taxes are generally based on uniform rates, whether it be by a flat rate per parcel or a dollar amount per square foot of the parcel.

# Other Taxes

- Sales and Use Taxes – Base statewide rate of 7.25%. Cities and counties can add to this base rate. The additional rates added to the base can't exceed 2% (Unless approved by Legislature).
- Utility User Tax – Taxes on consumption of utility services (electricity, gas, water, cell phone, cable, etc.)
- Transient Occupancy Tax (TOT) – Taxes on hotel stays. Range is 3.5% to 15%.

# Fees/Assessments

- Utility Rates – Water, Electricity, etc.
- Benefit Assessments – Landscaping, Road Maintenance, etc.
- Regulatory Fees – Recording fees, licenses, permitting
- Fines – Parking Tickets



# Bonds

- General Obligation (G.O) Bonds
- Revenue Bonds
- Tax Increment Financing (TIF) Bonds
- Other sources of short-term borrowing exist but are limited.

# Redevelopment Agencies (RDAs)

- Founded in 1945, RDAs used to be a major tool for economic development and affordable housing.
- RDAs used Tax Increment Financing to finance projects.
- RDAs were required to set-aside 20% of funding for low and moderate incoming housing projects.
- At the time of dissolution, over 400 RDAs statewide were diverting over \$5.6 billion in property taxes annually.

# RDA Dissolution

- In 2011, due to a State budget shortfall, RDAs were dissolved by AB X1 26 (Dissolution) and AB X1 27 (Voluntary RDA Program).
- Stakeholders sued the State. AB X1 26 was upheld, but AB X1 27 was overturned.
- Result was RDAs were dissolved.
- AB X1 26 established the dissolution process, including successor agencies.
- RDAs were criticized for multiple reasons.

# New RDA Type Tools

- Enhanced Infrastructure Financing Districts (EIFDs)
- Community Revitalization and Investment Authorities (CRIAs)
- Affordable Housing Authorities (AHAs)
- Climate Resilience Districts (CRAs)
- EIFDs and CRIAs have been amended multiple times to ease formation and make them more useful.
- Only EIFDs have been created at the local level.

# Local Finance Restrictions

- Proposition 13 (1978) – Ad valorem is capped at 1% of assessed value.
- Proposition 62 (1986) – Required a vote on local taxes.
- Proposition 218 (1996) – Placed further limitations on raising taxes, assessment, property-related fees (Exceptions for water/sewer). “Cannot exceed cost of service.”
- Proposition 26 (2010) - Expanded the definitions of local taxes and tax increases that require voter approval.

# ERAF

- Educational Revenue Augmentation Fund.
- Prop 98 requires the state to provide a minimum amount of its budget on education.
- More than 40% of the State General Fund is generally spent on education.
- Created in 1992 was a way to reduce the state's Prop 98 (1988) education spending guarantee.
- ERAF shifted property taxes from cities, counties and special districts to schools.

# VLF Swap

- In 2004, the State reduced the Vehicle License Fee (VLF) from a rate of 2% to 0.65%.
- To backfill the loss in VLF revenue to cities and counties, the state compensated them with property taxes.
- Also in 2004, voters amended the Constitution to prohibit the State from shifting local taxes to the State, like ERAF.

# New or Increased Taxes/Fees

	TAX- General	TAX- Parcel or Special (earmarked)	G.O. BOND (w/tax)	Fee / fine / rent
City / County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*
Special District	n/a	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*
K-14 School	n/a	Two-thirds voter approval (parcel tax)	55% voter approval**	Majority of the governing board*
State	For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature - or approval of majority of statewide voters.		Statewide majority voter approval	Majority of each house
<p>* Additional procedures apply for property related fees.</p> <p>** Per Proposition 39 (2000), maximum tax rate limits and other conditions apply for a 55% threshold school bond or threshold is two-thirds.</p>				



# Tax Use

	General Tax	Special Tax
Use of Revenues	Unrestricted	Specific purpose
Governing Body Approval	<ul style="list-style-type: none"> <li>• Counties and general law cities: two-thirds</li> <li>• Charter cities: majority</li> <li>• Transactions and use taxes: two-thirds</li> <li>• Special districts may not adopt general taxes.</li> </ul>	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.