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Local Government Revenue Systems: Understanding How Municipal Government is Funded



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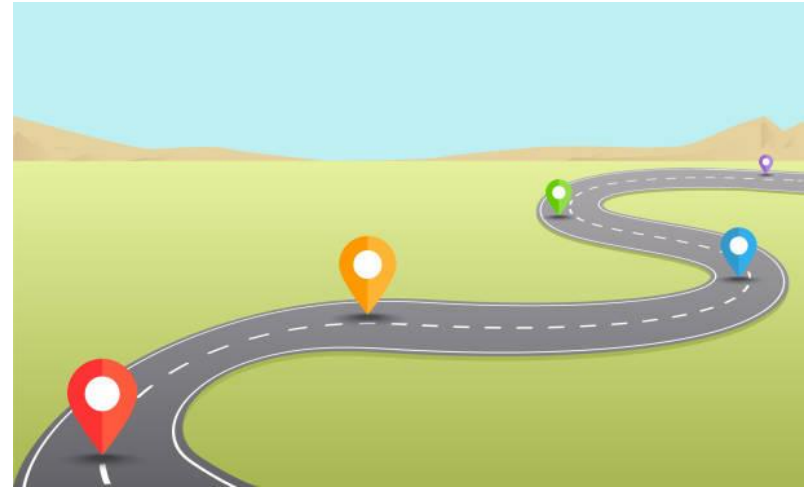
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Road Map

1. Introduction
 2. Local Government Revenue Sources
 3. Ebb and Flow of Government Funding
 4. Q & A
- Break**
5. Funding Options
 6. The Allocation of Funds
 7. Q & A



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Arlington's FY 2022 Budget Explained with Lego Bricks



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Poll



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Introduction



Funding Local Government



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Local Government Revenue Sources

- From providing police and fire protection to maintaining sewage systems and building parks—everything local governments do must be funded
- Increased public expectations and growing infrastructure needs have made it difficult for many cities to fund services
- Taxes are an essential revenue source, but there are others Property tax limitations and uses have led to the “fiscalization of land use”

Did you know?

Tax revenue from new businesses helps our community.

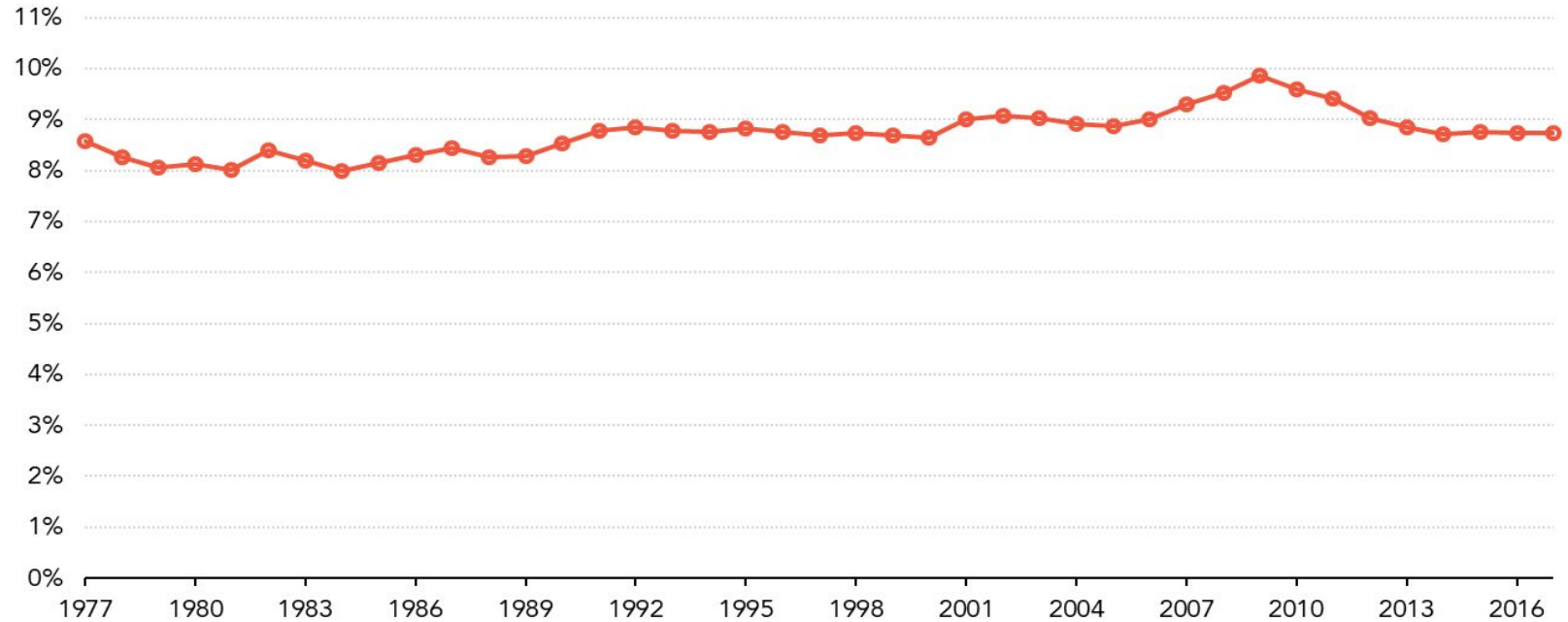


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FIGURE 3

Total Local Government General Revenue Share of national GDP, fiscal years 1977–2017



Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"



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Local Municipal Services



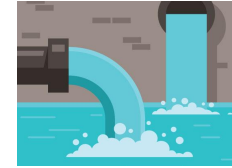
Police



Fire



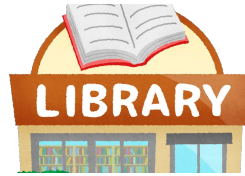
Road Repair



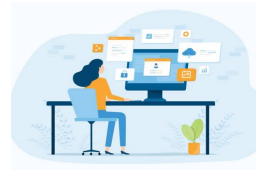
Water and Sewer



Planning & Development



Library



Admin Services



Parks and Rec



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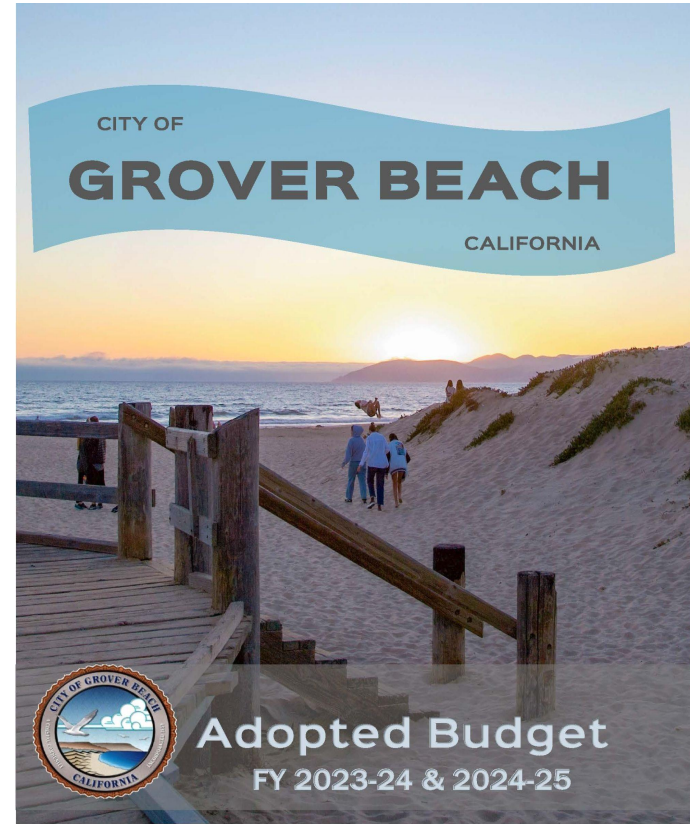
More Than Just Numbers

- Revenues and expenditures = sources and uses for a budget
- Budgets are more than numbers as they tell story of linking priorities to resources
- Today's session will explain **how** local government is funded and **what** funding is used for
- Broader policy discussion on service need and merits outside session scope
- Councils set expectations and approve budgets



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Local Government Revenue Sources



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Property Taxes

- Key source of funding for local governments that exists in several forms
 - Annual tax on assessed property value, Real estate transfer tax, Rental income tax, Land value tax
- Four types of property subject to taxes
 - Land, Land improvements, Personal property, Intangible property
- Revenue generated from property taxes varies significantly across California and the nation
- One of the largest revenue sources in most local governments yet most funding goes to schools



Source: San Luis Obispo County

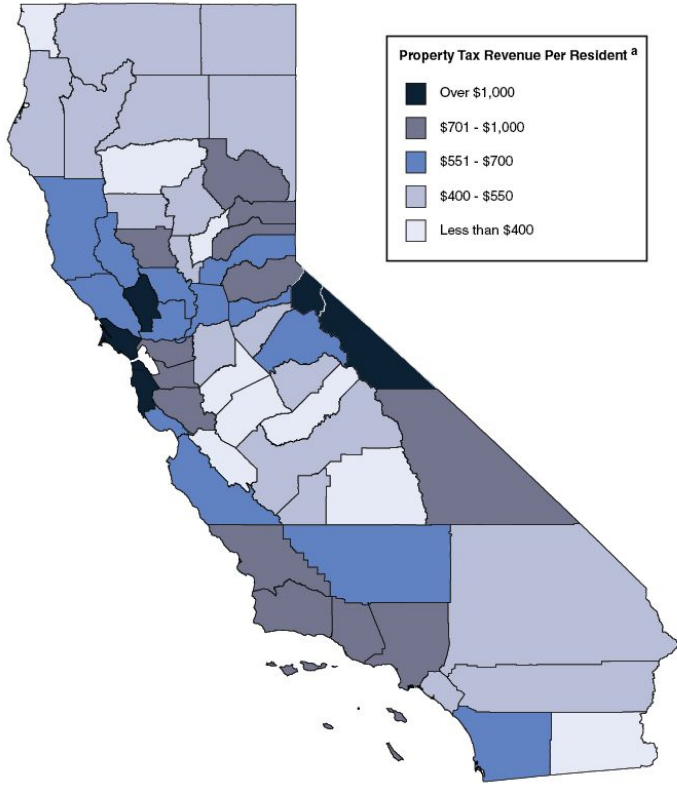


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Local Governments' 1 Percent Tax Revenue Varies Widely

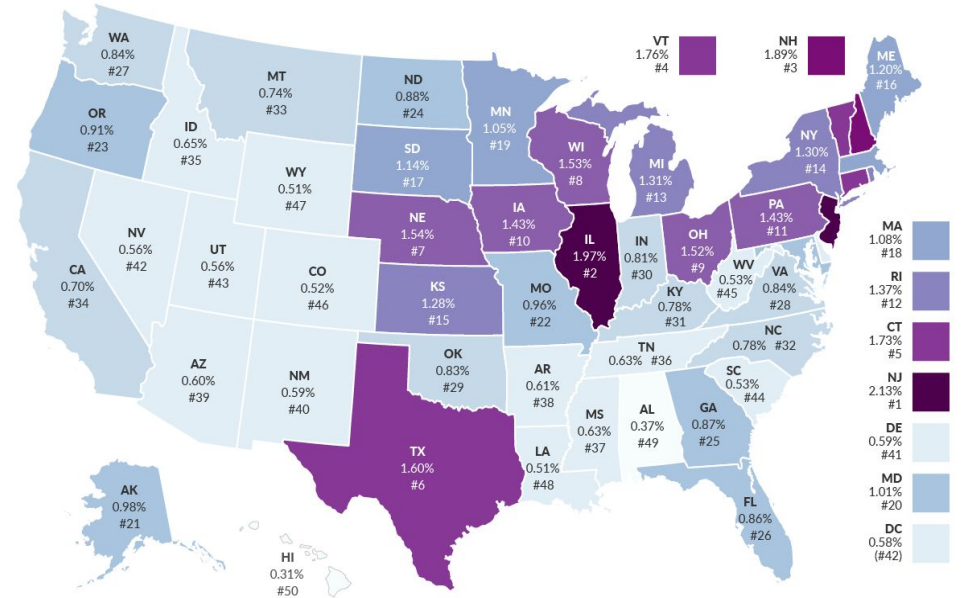
Per-Resident Property Tax Revenue For Counties, Cities, and Special Districts



^a Reflects LAO estimates for per-resident combined total property tax revenue for the county and the cities and special districts within the county. Estimates exclude redevelopment debt payments. Estimates assume all redevelopment debts are paid with property tax revenue from the 1 percent tax.

How High Are Property Taxes in Your State?

Property Taxes Paid as a Percentage of Owner-Occupied Housing Value, 2019



Note: The figures in this table are mean effective property tax rates on owner-occupied housing (total real taxes paid/total home value). As a result, the data exclude property taxes paid by businesses, renters, and others. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Sources: U.S. Census Bureau, "2019 American Community Survey"; Tax Foundation calculations.

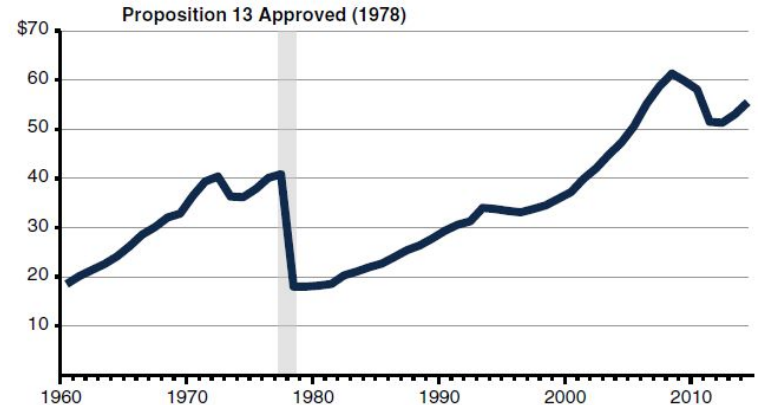


Property Taxes Over Time

- Decline in property tax revenue following the passage of Proposition 13 in 1978
- In response, the State Legislature passed the Community Facilities District Act in 1982
 - As a result, localities could create special “Mello-Roos” districts and impose a parcel tax that is not based on property value
 - This method has been one tool to offset lost revenue and/or produce new revenue

Figure 1
Local Government Revenue Dropped Immediately After Proposition 13

Local Government Annual Property Tax Revenue (In Billions, 2014-15 Dollars)



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Sales Taxes

- Another important revenue source for local governments which also varies across the state
- The state sales tax rate is 7.25% though cities and counties can increase it within their jurisdiction
 - Total sales tax rates in cities range from 7.25% to 10.75%
 - Legislation needed to go above 9.25%
- Sales tax applies to many consumer goods and services, while others are exempt
-



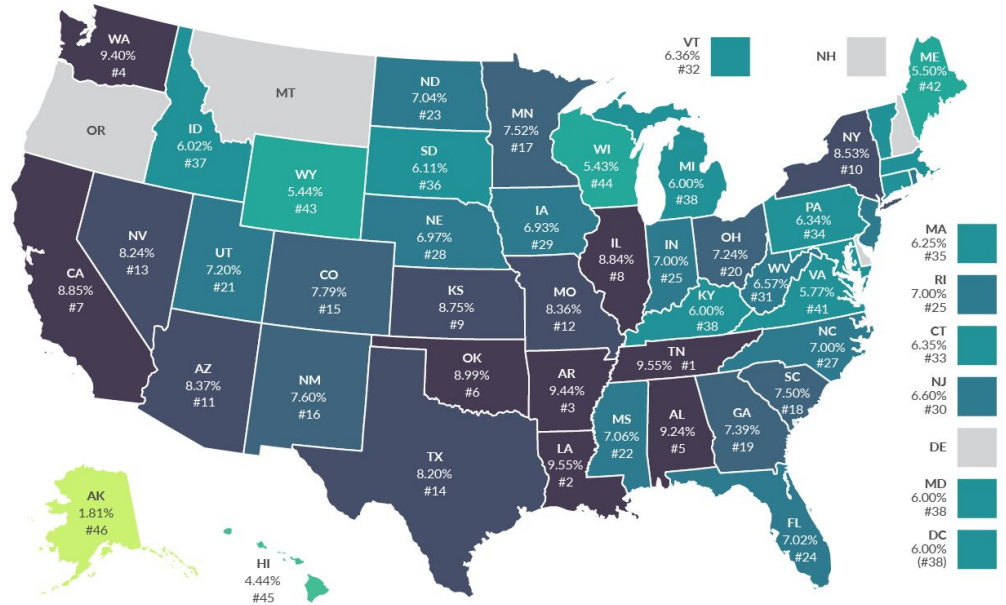
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How High are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, July 2023



Combined State & Average Local Sales Tax Rates



Notes: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in Hawaii, New Mexico and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Sources: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites

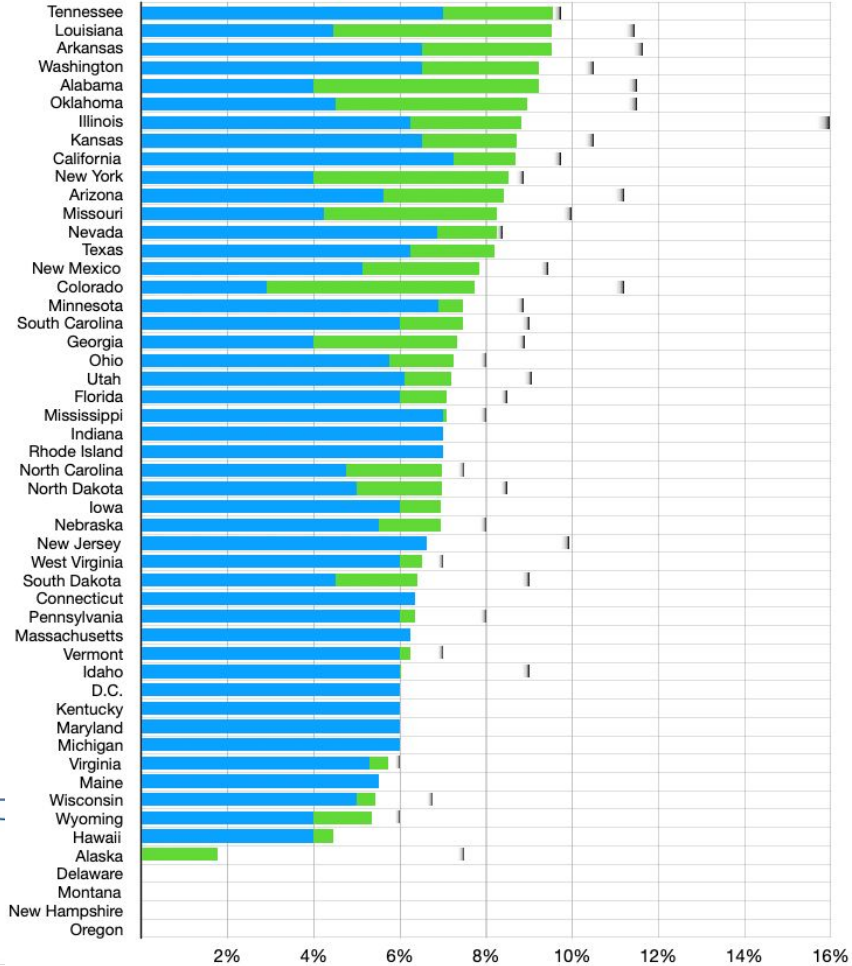


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State Sales Taxes

(2021)

■ State Sales Tax Rate ■ Avg. Local Sales Tax Rate ■ Max State + Local Sales Tax Rate



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Sales Taxes

- Hotel Taxes
- Cannabis Taxes
- Franchise Fees
- Service Charges
- Property Use Fees
- Permits and Licenses
- Other Fees and Fines



THIS CERTIFICATE MUST BE POSTED AT PLACE OF BUSINESS

CITY OF LOS ANGELES TAX REGISTRATION CERTIFICATE
THIS CERTIFICATE IS GOOD UNTIL SUSPENDED OR CANCELLED


ACCOUNT NO.	FUND/CLASS	DESCRIPTION	ISSUED:	STARTED	STATUS
0002716684-0001-2	L188	Contractor	1/6/2014	12/3/2013	Active

BUSINESS TAX

*****AUTO**5-DIGIT 90036
 TWENTY FOUR CONSTRUCTION & REMODELING INC
 5455 WILSHIRE BLVD STE 1110
 LOS ANGELES CA 90036-4238

I
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O

5455 WILSHIRE BLVD #1110
 LOS ANGELES, CA 90036-4238



ISSUED BY:
Antoinette D. Cristofani
 DIRECTOR OF FINANCE

ISSUED FOR TAX COMPLIANCE PURPOSES ONLY
 NOT A LICENSE, PERMIT, OR LAND USE AUTHORIZATION

FORM 2000 (REV. 01/13) NOTIFY THE OFFICE OF FINANCE IN WRITING OF ANY CHANGE IN OWNERSHIP OR ADDRESS - Office of Finance, P.O. Box 53200, Los Angeles CA 90053-0200
 IMPORTANT - READ REVERSE SIDE



Intergovernmental Transfers

- Some revenue for municipalities that comes from the state and federal government
 - Community Development Block Grants
 - Housing Programs
 - Gas Tax
- Declining amount over time until COVID pandemic
- CARES Act and ARPA funds provided direct one-time funding to local governments



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Ebb and Flow in Local Government Funding



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Ebb and Flow in Local Government Funding

- While property tax, charges/ fees, sales tax, and transfers are the primary revenue sources of government funding, the revenue composition fluctuates over time but remains fairly stable
- Prop 13 initially significantly reduced property tax revenue for local government but has been [partially] offset by other revenue and by rising property values
- Federal funding has recently increased with support/relief related to the pandemic, but had been declining
- Unfunded mandates from State (e.g. organic food waste)

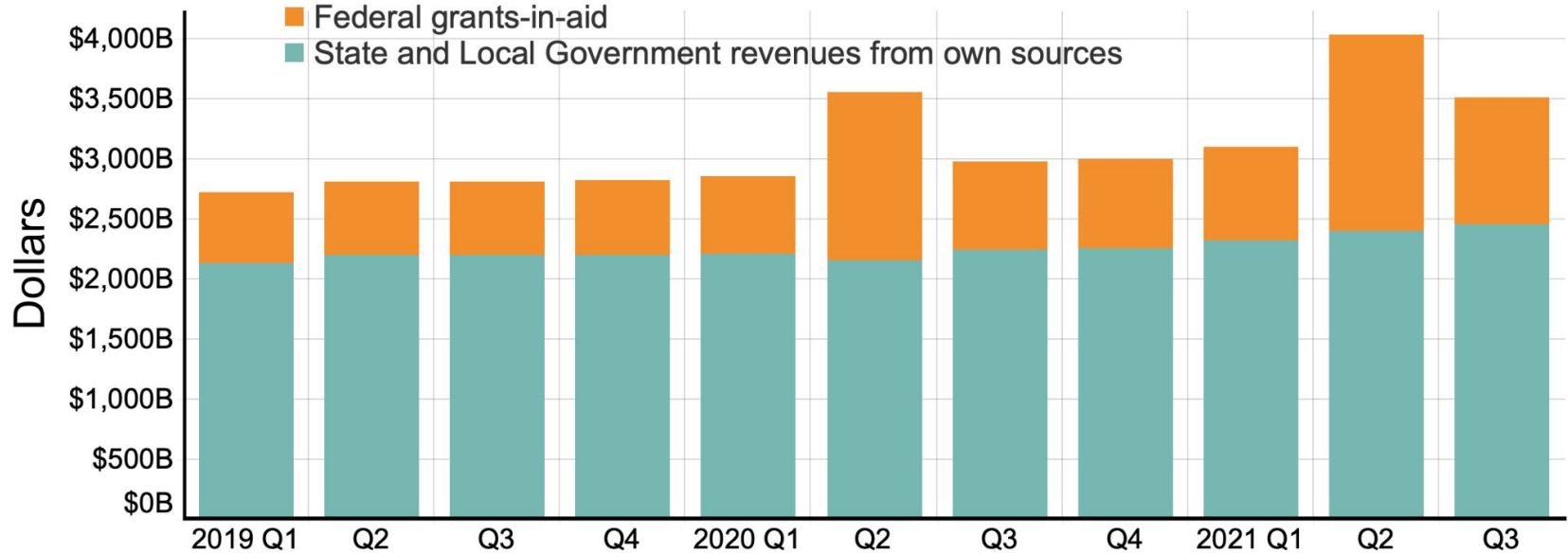


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STATE AND LOCAL GOVERNMENT REVENUE

2019-2021



Note: State and local revenue from own sources is defined as total current receipts minus federal grants in aid

Source: Bureau of Economic Analysis

EconoFact econofact.org

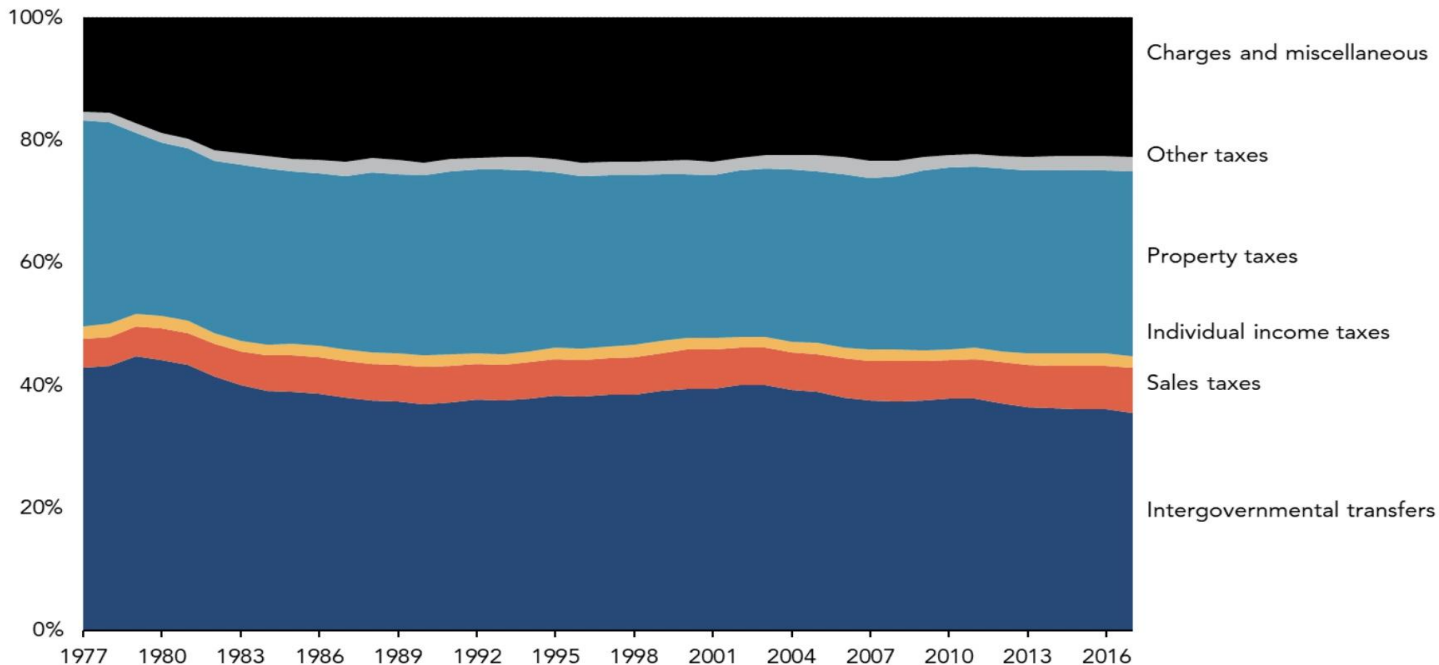


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FIGURE 2

Breakdown of Local Government General Revenue by category, fiscal years 1977–2017



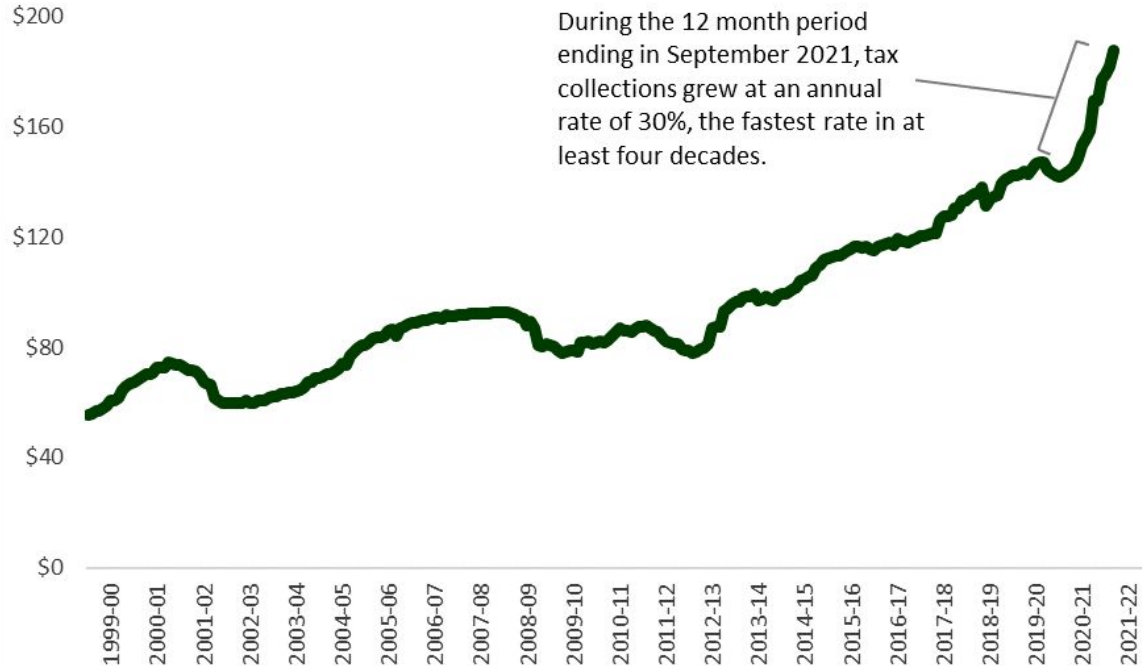
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Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"

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Rapid Rise in Revenue Collections In Recent Months

Rolling 12-Month Total Collections from Income, Sales, and Corporation Taxes
In Billions



Source: <https://lao.ca.gov/LAOEconTax/article/Detail/712>



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Figure 2

LAO Revenue Outlook

Total Revenue Excluding Federal Cost Recovery (In Billions)

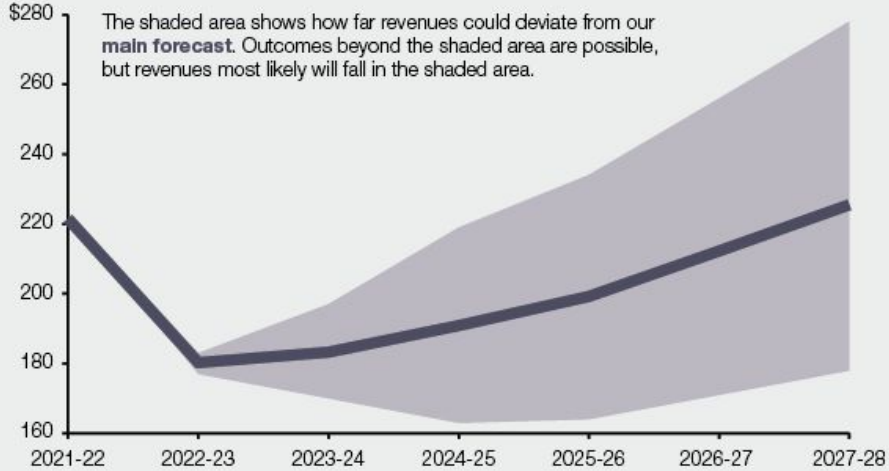
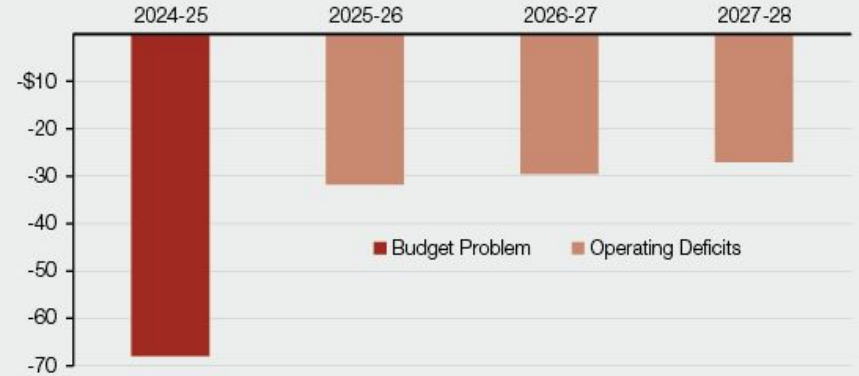


Figure 4

State Faces Serious Budget Problem in 2024-25, and Significant Operating Deficits in Future Years

(In Billions)



LAOA



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Questions?



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10 Minute Break!

Stretch & Hydrate



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Funding Options



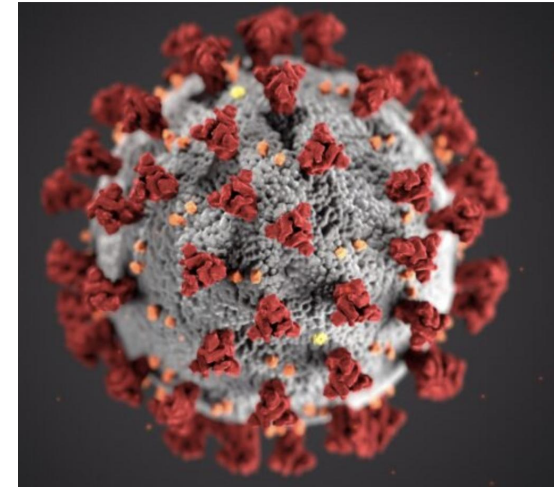
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Exploring Funding Options

- Taxes, charges, fees, and transfers serve as reliable revenue sources for local governments
- However, additional funding is often needed in response to various situations:
 - Decreasing revenue
 - Disasters/unforeseen events
 - New projects and initiatives
 - Legislative changes
 - Rising costs



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Funding Options

- Special taxing districts
- Bond measures
- Grants
 - State, federal, other
- Federal payments
 - CARES Act
 - ARPA funding
 - HUD programs

The screenshot shows the U.S. Department of the Treasury website. At the top, it says "An official website of the United States Government" and "U.S. DEPARTMENT OF THE TREASURY". The navigation menu includes "ABOUT TREASURY", "POLICY ISSUES" (highlighted), "DATA", "SERVICES", and "NEWS". A search bar is on the right. Below the menu, a green banner reads "We can do this. Find COVID-19 vaccines near you. Visit Vaccines.gov." The breadcrumb trail is "HOME > POLICY ISSUES > COVID19 ECONOMIC RELIEF". The main heading is "Covid-19 Economic Relief". Below this are two blue boxes: "Assistance for American Families & Workers" and "Assistance for Small Businesses", each with a "LEARN MORE" button. On the right, a vertical list of buttons includes: "ABOUT THE ARP ACT", "ABOUT THE CARES ACT", "BEWARE COVID-19 SCAMS", "COVID-19 SCREENING TOOL", "PERSONAL FINANCE RESOURCES", "TREASURY COVID-19 WORKPLACE SAFETY PLAN", and "RECEIVE UPDATES".



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Taxes (Revenue Measures)

General tax is any tax levied to fund general government purposes and which goes into the local government entity's general fund. General taxes imposed by local governments must be approved by voters and, moreover, they must be put before voters during regularly scheduled general elections. General taxes require approval from a **simple majority of voters—50 percent + one vote.**

Special tax is any tax levied for a specific purpose. Special taxes imposed by local governments require a **two-thirds (66.67 percent) supermajority vote** at the ballot box for approval.

Source: https://ballotpedia.org/Laws_governing_local_ballot_measures_in_California#General_and_special_taxes



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Types of Taxes

Taxes that appear before voters include:

- **Parcel taxes:** a type of property tax based on units of property rather than assessed value
- **Sales taxes:** a percentage of the sale of goods and services
- **Business taxes:** a percentage of profits, a business license fee, a levy based on the size of a commercial or retail facility, or any other tax levied on businesses
- **Transient Occupancy Tax (TOT):** a percentage of hotel, motel, and other short-term lodging charges
- **Utility taxes:** a fee imposed on water, electric, sewer, or other public utilities
- **Vehicle registration fees:** a fee imposed on vehicle registration that surpasses the cost of processing and administering the registration

Source: https://ballotpedia.org/Laws_governing_local_ballot_measures_in_California#General_and_special_taxes



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Municipal Bonds

Municipal Bonds

A bond is a loan. There are many types of municipal bonds, but they have only one purpose – to borrow money. It involves a promise to pay money, with interest, on a specified date.

- **General Obligation Bonds**

- State general obligation bonds enjoy the “full faith and credit” of California. “Full faith and credit” expresses the commitment of the issuer to repay the bonds from all legally available funds. GO bonds issued by local governments, such as schools, are often only payable from the local issuer’s property taxes.

- **Revenue Bonds**

- To repay investors, revenue bonds rely on monies derived from the sale of commodities (such as water) or from the use of facilities (such as airports).



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Exploring Funding Options

	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
* Additional procedures apply for property related fees. ** Per Proposition 39 (2000), maximum tax rate limits and other conditions apply for a 55% threshold school bond or threshold is two-thirds.				

Source: Institute for Local Government: https://www.ca-ilg.org/sites/main/files/file-attachments/basics_of_municipal_revenue_2016.pdf



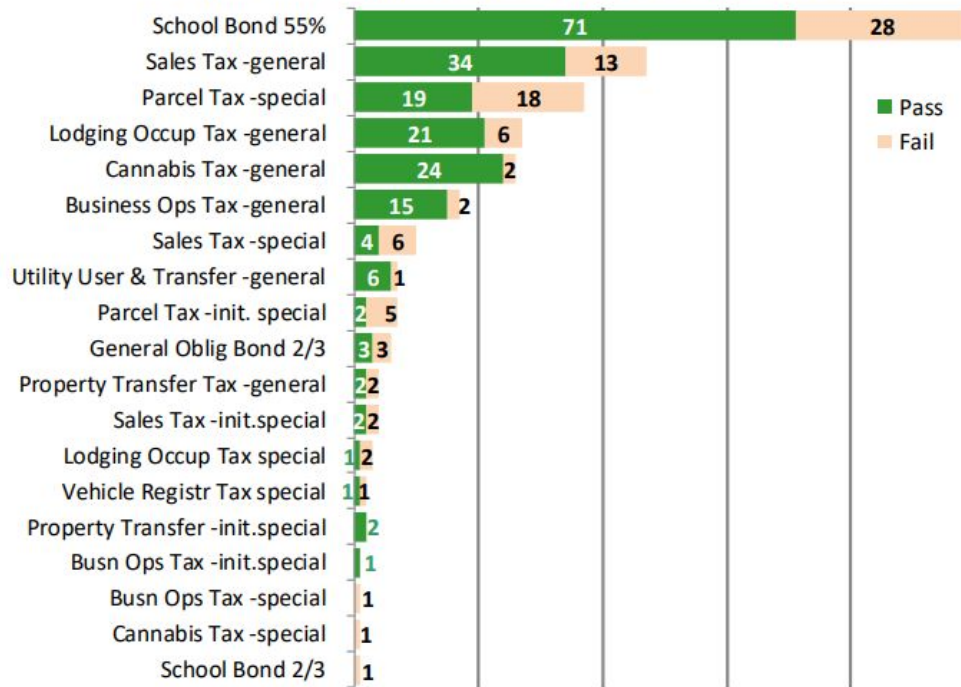
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Ballot Measure Results

Passing and Failing Measures by Type November 2022



Includes city, county, special district and school measures
A "general tax" requires majority approval, a "special tax" requires 2/3 approval, an "initiative special tax" requires majority approval.



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Upcoming Nov 2024 Statewide Initiatives

- **ACA 1**
 - Lowers voter threshold for infrastructure and affordable housing bonds in local governments from 2/3 to 55% similar to schools
- **ACA 13**
 - Requires statewide initiatives that increase voter approval requirements (e.g. increase threshold to 2/3) to also pass by the same threshold
- **Taxpayer Protection and Government Accountability Act**
 - Sponsored by California Business Roundtable
 - Requires all local government taxes and fees be approved by 2/3 vote and invalidates measures approved since January 2022 with lower threshold
 - California Supreme Court decision in June on constitutionality of measure



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Local Government Fund Types



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Local Government Fund Types

- **Enterprise Funds**
 - Self-supporting funds with revenue required to be used for specific uses
 - Examples: Water, wastewater, parking
- **Capital Project Funds**
 - Dedicated for funding capital projects
 - Examples: Streets, utilities, parks, public Facilities



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Local Government Fund Types

- **Special Revenue Funds**
 - Funds accounting for dedicated revenues often from grants
 - Examples: Housing, Community Development, Environmental Programs
- **Internal Service Funds**
 - Funds for services that support other services or organizational needs
 - Examples: Information Technology, Equipment Replacement, General Liability Insurance



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General Fund

- Primary fund for most governmental services
- Funded by general tax revenues like property and sales tax
- Significant percentage of most city budgets particularly for public safety functions
- Examples:
 - Police
 - Fire
 - Parks and Recreation
 - Administration (City Mgr, HR, Finance)
 - Economic Development
 - Streets and Park Maintenance



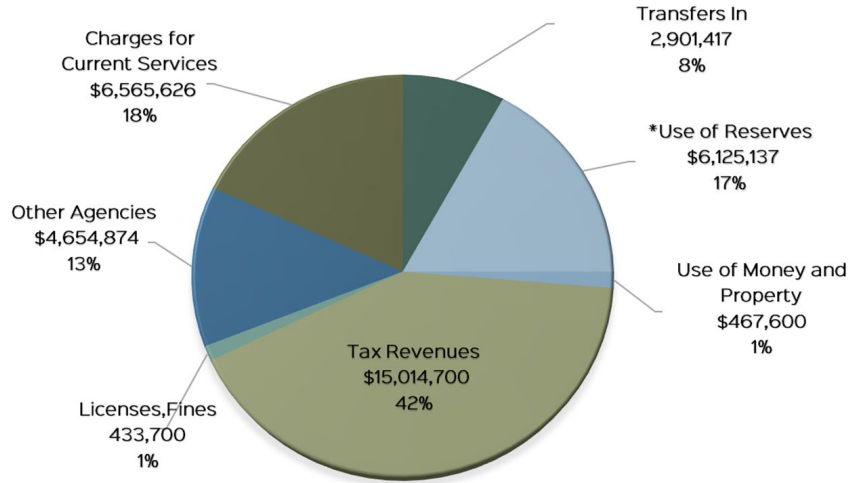
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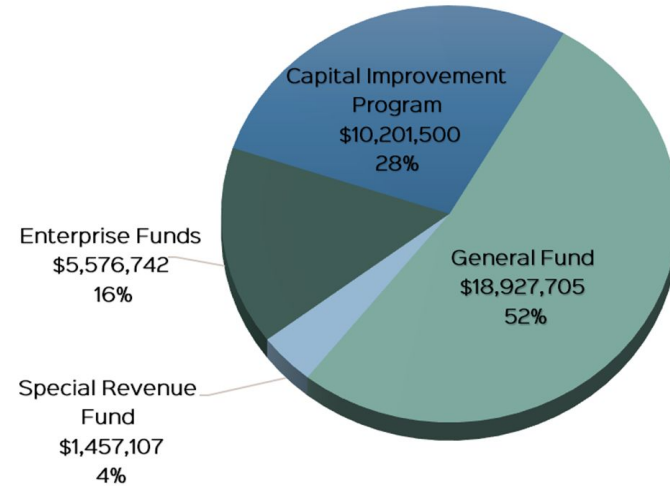


Budget Example

City of Grover Beach FY 2023-24 All Funds Revenues



City of Grover Beach FY 2023-24 All Funds Expenditures



*Includes Measure K-14 bonds that were issued in prior years and used to fund current street projects.



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Budget Example

GF Expenditure	Amount	%
Police	\$7.21 M	38.1%
Non-Departmental*	4.61 M	24.4%
Public Works	1.55 M	8.2%
Capital Improvement Plan	1.49 M	7.9%
City Manager's Office	1.45 M	7.7%
Community Development	1.24 M	6.5%
Administrative Services	.71 M	3.7%
Parks and Recreation	.57 M	3.0%
Transfers Out	.1 M	0.5%
TOTAL EXPENDITURES	\$18.93 M	100%

General Fund Revenue	Amount	%
Sales Tax	\$6.14 M	32%
Property Tax	5.61 M	30%
Cannabis Tax	1.33 M	7%
Transient Occupancy Tax	.9 M	5%
Franchise Fees	.74 M	4%
Charges for Current Services	.98 M	5%
Other	.98 M	5%
ARPA (one-time)	.93 M	5%
Transfers In	.74 M	4%
Licenses & Permits	.39 M	2%
Use of Money and Property	.34 M	2%
Other Taxes	.3 M	2%
Use of Reserves	-.44 M	-2%
TOTAL REVENUES	\$18.93 M	100%

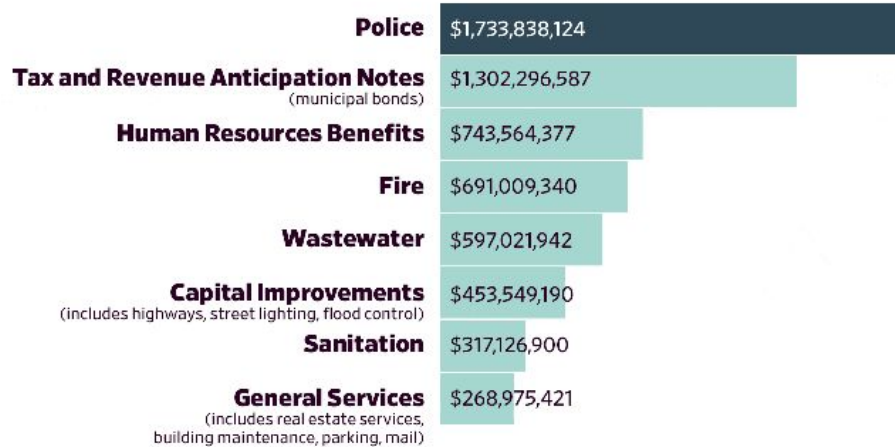


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Budget Example

What Los Angeles Spends on Policing, Compared to Everything Else



Note: Total city budget is \$10.71 billion. This chart focuses on the larger buckets of spending; other items include cultural affairs and transportation. Importantly, education spending in Los Angeles largely falls to the state.

Source: LA City Open Budget

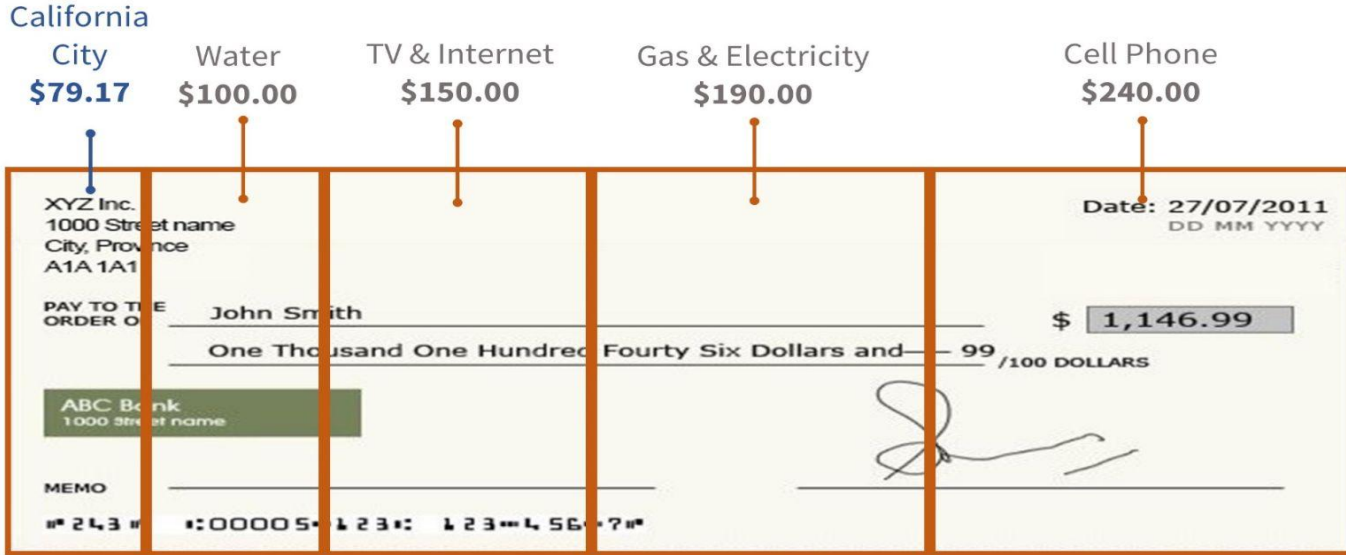


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So, How Much Do City Services Cost?

Approximate Amounts



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Questions?



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Thank You!



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