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## PROPERTY TAX

**The property tax is based upon the value of real and tangible personal property.**

Key things to know

- Property tax revenue is collected by counties and allocated according to state law within the county to cities, counties, special districts and school districts.
- The tax rate is constitutionally limited to 1 percent of the property's assessed value, plus rates imposed to fund indebtedness approved by voters prior to 1978.
- For the purpose of taxation, appraised real property values are limited to 1975-76 "full cash value" plus an annual adjustment for inflation not to exceed 2 percent.
- Property is reassessed at current full cash value upon a change in ownership.
- Property that declines in value may be reassessed.
- Cities may not increase the property tax, nor impose additional property tax, transaction tax or sales tax on the sale of real property.

## SALES AND USE TAX

**The sales tax is imposed on retailers for the privilege of selling tangible personal property in California. A use tax is imposed on purchasers whenever sales tax does not apply, such as for goods purchased out of state for use in California.**

Key things to know

- The state sales tax rate is 6.25 percent. This includes one-quarter of one percent that is dedicated to repayment of the fiscal recovery bond issued in 2004.
- Counties may impose a sales and use tax at the rate of 1.25 percent. Cities may impose a sales and use tax at the rate of 1 percent. Payment of the city sales tax is credited against payment of the county sales tax. The .25 percent remaining in the county rate is dedicated to transportation. While the fiscal recovery bond is outstanding, one-quarter of one percent of the city/county sales tax has been suspended. Cities and counties receive additional property tax in an amount equal to the sales tax loss.
- One-half of one percent of the state sales tax rate is allocated to counties for use by the county and distribution to counties and cities for public safety. (Proposition 172).
- Cities and counties may impose additional transaction and use taxes in increments of one-quarter of one percent if the ordinance proposing the tax is approved by a two-thirds vote of the governing body before it is submitted to the voters.
- A city may impose more than one transaction and use tax for specified purposes. One might be for a general purpose; a second might be for a special purpose. The combined rate of these transaction and use taxes may not exceed 2 percent.

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## BUSINESS LICENSE TAX

**Business license taxes can be imposed on persons or entities doing business within the city.**

Key things to know

- Business license taxes are most commonly based on gross receipts or levied at a flat rate, but are sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of factors.
- Rates are set at each city's discretion but may not be discriminatory or confiscatory.
- In the event a business operates in more than one city, a city may only tax that portion of the business conducted within its incorporated boundaries.

## UTILITY USER'S TAX

**Utility user's taxes can be imposed on the consumer (residential or commercial) of any combination of electric, gas, cable television, water, telephone and other utility services.**

Key things to know

- Utility user's taxes are usually collected by the utility as part of its regular billing procedure and then remitted to the city.

## TRANSIENT OCCUPANCY (BED) TAX

**A transient occupancy tax is imposed on persons staying 30 days or less in a hotel, inn, or other lodging facility.**

Key things to know

- Most cities use transient occupancy tax revenues for general purposes, but some budget a portion of them for tourism, business development or related purposes.
- Although collected by the hotel operator, the tax is imposed on the guest.

# REGULATORY AND USER FEES

## REGULATORY FEES

**Regulatory fees are imposed to pay for the cost of programs or facilities that a business or other activity requires. Examples include a fee to pay for the cost of administering the licensing of massage parlors, or a fee to fund graffiti removal from businesses that do not maintain their property free of graffiti.**

Key things to know

- Regulatory fees are charged to ensure that those benefiting from an activity pay their fair share of costs related to their activity. Costs may include issuance of a license or permit, investigation, inspection, administration, and maintenance of a system of supervision and enforcement.
- Regulatory fees are charged to fund programs or facilities that reduce negative impacts of an activity or business on the community.

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## DEVELOPMENT IMPACT FEES

**Development impact fees are imposed to pay for improvements and facilities required to serve new development or otherwise reduce the impacts of new development on a community.**

Key things to know

- Development impact fees cover one-time capital improvements and community amenities. Procedure for imposing, accounting for, and using development impact fees is regulated by state statute.
- The ordinance or resolution establishing the fee must explain the connection (nexus) between the development project and fee.
- The amount of the fee must not exceed the cost of providing the service or improvement for which the fee is imposed.

## USER FEES

**Cities have authority to impose fees, charges and rates for services and facilities they provide. Use of these revenues is limited to paying for the service for which the fees are collected. Examples include plan checking fees or recreation classes.**

Key things to know

- The fee amount may not exceed the cost of providing the service but may include overhead, capital improvements and debt service.

## PROPERTY-RELATED FEES

**Property-related fees are charges imposed on a parcel or a person as an incident of property ownership.**

Key things to know

- Property-related fees include user fees or charges for public services having a direct relationship to property ownership.
- A written protest by a majority of owners who will pay the fee, submitted at a public hearing, will prevent imposition of the fee.
- Fee approval requires a majority vote of the property owners of the property subject to the fee, or at the option of the agency, a two-thirds vote of the electorate in the area subject to the fee.

# UTILITY RATES

**Utility rates are charged to users of city-provided water service, sewer service, and electric service or other utilities.**

Key things to know

- Utility rates cover the cost of providing the service, which may include operations, overhead, capital improvements and debt service.

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# ASSESSMENTS

**Assessments are charges on real property or businesses levied to pay for facilities or services within a predetermined area according to the benefit to real property or businesses resulting from the improvements.**

Key things to know

- Benefit assessments are a common financing tool.
- Assessment approval requires a majority vote of the owners of the properties subject to the assessments with the votes weighted according to the assessment amount of each property.
- State law authorizes bond financing for some assessment districts.
- Property-owner approval is required to impose benefit assessments.

# RENT FOR USE OF CITY PROPERTY

## RENTS, ROYALTIES AND CONCESSIONS

**Cities may receive revenue through rental or use of city property. For example, cities may collect royalties from natural resources taken from city property, sell advertisements in city publications or receive a percentage of net profits from concessionaires operating on city property.**

Key things to know

- The First Amendment limits cities' ability to control advertising content.
- State law limits the maximum term of many types of leases.

## FRANCHISE FEES

**Franchise fees are collected in lieu of rent for use of city streets.**

Key things to know

- Examples of businesses that pay franchise fees include refuse collectors, cable television companies, electricutilities and oil and natural gas pipelines. The amount of some franchise fees are limited by statute *(for example, cable television franchise fees)*.
- Telephone companies and railroads are exempt from local franchise fees.

# FINES, FORFEITURES AND PENALTIES

**Cities receive a share of fines collected and bail moneys forfeited following conviction of a misdemeanor or infraction committed within city boundaries.**

Key things to know

- State law determines the distribution of state-imposed fines and bail forfeitures.
- Cities determine bail amounts for violations of their municipal codes.
- Cities may establish and retain civil penalties for municipal code violations.
- Restrictions may apply to use of funds received from motor vehicle code violations.

TURN TO REVERSE SIDE TO CONTINUE

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## 2. STATE-ADMINISTERED REVENUE SOURCES

### MOTOR VEHICLE LICENSE FEE (MOTOR VEHICLE IN-LIEU TAX)

**The Motor Vehicle License Fee (VLF) is a tax on ownership of a registered vehicle. The tax rate is 0.65 percent of the value of a vehicle paid by owners to the Department of Motor Vehicles.**

Key things to know

- VLF is constitutionally dedicated to cities and counties.
- The Constitution guarantees that the VLF at the 0.65 percent rate goes to counties and cities. State statute specifies the allocation among cities and counties.
- In addition to revenues from the 0.65 percent VLF rate paid by vehicle owners, cities and counties receive additional property tax equal to the difference between revenues from the VLF at the 2 percent rate and the VLF at the 0.65 percent rate.
- After fiscal year 2004-05, the property tax in lieu of VLF for each city and county increases annually in proportion to the growth in gross assessed valuation in that jurisdiction from the prior year.
- City VLF revenues may be used for any purpose.

### GASOLINE TAX (HIGHWAY USERS TAX, MOTOR VEHICLE FUEL LICENSE TAX)

**The gasoline tax is an 18-cent per gallon tax on fuel used to propel a motor vehicle or aircraft.**

Key things to know

- Use of gasoline tax revenue is restricted to research, planning, construction, improvement, maintenance, and operation of public streets and highways or public mass transit guideways.

## 3. INTERGOVERNMENTAL GRANTS

**Cities may receive grant funding from other public agencies. The federal and state governments have been significant sources of support in the past, but their contribution to city revenues has declined.**

Key things to know

- "Categorical" grants support a defined program area. They are typically allocated either to applicants whomeet predetermined funding criteria or to applicants who 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.

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## 4. EXPENDITURES

**Revenues that are not designated for a specific expenditure go into a fund called the general fund. General fund revenues include proceeds from property taxes, sales taxes and other revenues that may be used for discretionary purposes. In most cases revenues from special taxes, fees and other limited purpose revenue sources must be deposited special funds associated with their particular purpose.**

### PUBLIC PURPOSE

**All expenditures of public funds, regardless of their source, must be for a public purpose of the agency making the expenditure.**

Key things to know

- An incidental benefit to an individual does not make a "public" purpose a "private" purpose.

### GIFT OF PUBLIC FUNDS

**A city may not make a gift of public funds. This means that a city may not spend public funds to benefit a private person or business.**

Key things to know

- Certain expenditures that benefit private entities – such as expenditures for affordable housing – are not considered to be gifts of public funds because of the community benefit of the project being funded.

### DEBT LIMIT

**Cities may not incur indebtedness or liability for any purpose in a given year that exceeds the income and revenue they expect to receive that year, without a two-thirds vote of the electorate. This prohibition prevents the pledge of general fund revenues beyond the year in which that revenue is received.**

Key things to know

- The debt limit does not apply to revenue bonds or other obligations that are paid from a special fund rather than from general revenues.
- An exception applies when not more than one year's revenue is pledged. *Example: a lease-purchase agreement when agreement does not create an immediate indebtedness for the entire amount of the debt, but instead limits the liability to each installment as it falls due.*

### APPROPRIATIONS LIMIT

**Local agencies are subject to annual spending limits.**

Key things to know

- Annual appropriations subject to limitation may not exceed an appropriations limit based on a calculated limit for fiscal year 1978-79, adjusted annually for population and cost of living increases.
- The limit applies only to tax revenues. The limit does not apply to proceeds from regulatory licenses, user charges, user fees, and assessments to the extent that these revenue sources do not exceed the costs reasonably borne in providing the product or service for which the license, charge, fee or assessment is imposed.

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# Municipal Finance Quick Reference

**KEY THINGS TO KNOW ABOUT:**

1. Local Revenues
2. State-Administered Revenue Sources
3. Intergovernmental Grants
4. Expenditures

## 1. LOCAL REVENUES

### TAXES

**All cities have the power to impose a variety of taxes. All taxes are either general or special taxes. Special taxes must be used for the specific purpose for which they are imposed.**

Key things to know

- Cities may impose any type of tax not preempted by state law.
- Cities may not tax cigarettes, alcohol or personal income.
- A new or increased general tax requires approval by a majority of voters.
- A new or increased special tax requires approval by two-thirds of voters.
- General taxes and special taxes may be reduced or repealed by initiative.
- Special tax revenues must be accounted for in a separate fund. The city must prepare an annual report that includes (1) the special tax rate; (2) revenues collected and expended and (3) the status of any project funded by the special tax.

OPEN NEXT TWO FOLDS TO INSIDE PANELS TO CONTINUE

## GLOSSARY

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

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

**Bonds.** A certificate of debt issued by an entity, guaranteeing payment of the original investment, plus interest, by a specified future date. Interest on bonds issued by a local agency is exempt from state personal income taxes.

**General Fund.** Fund used to account for all financial resources except those required to be accounted for in another fund.

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

**Subvention.** Financial support provided by another level of government. The state levies certain taxes that are "subvened" to cities, including motor vehicle license fees and the motor vehicle fuel tax. Local agencies also receive reimbursement for revenue lost as a result of various tax exemptions and reductions, like the homeowners' property tax exemption.

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