

**AGENDA  
CITY OF RANCHO PALOS VERDES  
NOTICE OF MEETING OF THE FINANCE ADVISORY COMMITTEE  
DECEMBER 5, 2012  
COMMUNITY ROOM  
30940 HAWTHORNE BOULEVARD  
RANCHO PALOS VERDES**

**7:00 PM      CALL TO ORDER**

1. Roll Call
2. Approval of Agenda
3. Public Comments (This section of the agenda is for audience comments for items **NOT** on the agenda.)
4. Oral Updates Regarding Past & Future Committee Assignments
5. Statement of Fiscal Health (draft statement to be provided by Subcommittee)
6. Analysis of City Revenues and Expenditures
7. Approval of Draft Minutes for the meeting conducted October 24, 2012
8. Adjournment

*American with Disabilities Act:* In compliance with the Americans with Disabilities Act of 1990, if you require a disability-related modification or accommodation to attend or participate in this meeting, including auxiliary aids or services, please call the City Clerk's Office at 310 544-5208 at least 48 hours prior to the meeting.

*NOTE:* Staff reports are available for inspection at City Hall, 30940 Hawthorne Boulevard during regular business hours, 7:30 A.M. to 5:30 P.M. Monday – Thursday and 7:30 A.M. to 4:30 P.M. on Friday. Materials related to an item on this Agenda submitted to the Committee after distribution of the agenda packet are available for public inspection in the Finance Department at 30940 Hawthorne Boulevard, Rancho Palos Verdes during regular business hours.

Written materials, including emails, submitted to the City are public records and may be posted on the City's website. Accordingly, you may wish to omit personal information from your oral presentation or written materials as it may become part of the public record regarding an agenda item.

Materials related to an item on this Agenda submitted to the Finance Advisory Committee after distribution of the agenda packet are available for public inspection at the front counter of the lobby of the City Hall Administration Building at 30940 Hawthorne Boulevard, Rancho Palos Verdes during normal business hours.

You can also view the agenda and staff reports at the City's website [www.palosverdes.com/RPV](http://www.palosverdes.com/RPV).

**BLANK PAGE**



## **MEMORANDUM**

**TO: HONORABLE CHAIR & MEMBERS OF THE FINANCE  
ADVISORY COMMITTEE**

**FROM: KATHRYN DOWNS, DEPUTY DIRECTOR OF FINANCE  
& INFORMATION TECHNOLOGY**

**DATE: DECEMBER 5, 2012**

**SUBJECT: ANALYSIS OF REVENUES AND EXPENDITURES**

**REVIEWED: DENNIS McLEAN, DIRECTOR OF FINANCE &  
INFORMATION TECHNOLOGY**

### **RECOMMENDATION**

Review the revenue information provided herein as the first part of the Committee's analysis of methods of generating revenues for the City, efficiency improvements and expenditure reductions and offer any comments and recommendations to the City Council.

### **BACKGROUND**

The City Council approved 2012-13 Work Plan for the Finance Advisory Committee (FAC) includes a task to analyze various methods of generating revenues for the City, efficiency improvements and expenditure reductions. This staff report with attachments serves as the first installment of information to be provided to the FAC. Attachment A includes information regarding what revenue sources are legally allowable for California cities, as well as which of those sources are received by the City. Staff expects that the second installment of information for this assignment, expenditures and service levels, will be provided to the Committee at a meeting in January 2013.

### **DISCUSSION**

The City strives to maintain a balanced operating budget, which means that spending does not exceed resources. Finance & Information Technology Staff annually prepares a Five-Year Financial Model (Model). By extrapolating the existing spending plan and estimating resources for the next five years, Staff uses the Model as a tool to recommend adjustments to the structural budget and Capital Improvement Plan (CIP).

Staff has identified the following known revenue challenges for the next five years.

## ANALYSIS OF REVENUES AND EXPENDITURES

December 5, 2012

Page 2 of 3

1. The storm drain user fee will sunset in 2016, leaving no dedicated funding source for maintenance and repairs. To continue the current level of maintenance and repair, the General Fund will need to backfill this program with at least \$1.3 million annually beginning in FY16-17.
2. After FY12-13, the next anticipated arterial pavement rehabilitation project will not be funded until FY16-17 due to limited dedicated funding sources. If the City needs to construct a project before FY16-17, the General Fund will need to backfill any funding shortfall. Arterial pavement projects average about \$2 million.
3. Considering the age of the City's sewer system, Staff anticipates that the City will need to augment maintenance and projects in the future. Sewer infrastructure repair projects would need to be funded from the General Fund or the CIP Reserve
4. Although the transient occupancy tax revenue is used to fund the CIP Reserve (about \$3.2 million annually), the growth of this revenue source appears to be leveling off and is subject to volatility with economic conditions.
5. Previously, an accumulated Habitat Restoration fund balance has subsidized the City's expenditure related to management of the open space preserve. Beginning in FY13-14, the General Fund contribution will likely grow from \$90,000 annually to about \$140,000 annually.
6. Total grant revenue received from federal, state and county agencies has decreased from an average of \$2.2 million annually from FY06-07 through FY09-10, to an average of about \$0.5 million annually from FY10-11 through FY12-13.

Staff has also identified the following expenditure challenges for the next five years.

1. Construction of the San Ramon Canyon Stabilization project is a top priority of the City Council, and currently has an estimated cost of about \$19.4 million. The City has secured a state grant for about \$9.4 million. The FAC and the City Council will be reviewing funding options over the next several months, which may include the City's first issuance of debt.
2. Storm drain projects identified with the master plan update in 2005 remain unfunded. The total estimated cost of these projects is \$9.4 million.
3. Additional mitigation projects are needed to slow the progress of the City's active landslide. These projects include additional dewatering wells and drainage projects. Dewatering wells may cost about \$75,000 each, and the Altamira Canyon drainage project is expected to cost more than several million dollars.
4. The Abalone Cove Landslide Abatement District (ACLAD) has identified capital projects totaling about \$185,000 annually over the next several years.
5. The City's public buildings (e.g. Ladera Linda, City Hall, Hesse Park, and Ryan Park) are aged and will need to be updated or reconstructed in the coming years. There is no dedicated funding source, and the City's building replacement fund has an estimated fund balance of about \$827,000.
6. Projects with estimated costs totaling \$6.7 million have been identified for the City to improve its compliance with the Americans with Disabilities Act. Funding of only about \$350,000 has been identified.
7. Additional unfunded capital projects ranging between \$63.7 million and \$94.6 million with varying levels of priority were identified in the City's 2012 Five-Year Capital Improvement Plan.

## **ANALYSIS OF REVENUES AND EXPENDITURES**

December 5, 2012

Page 3 of 3

8. Staff expects that the updates to the Pavement Management Plan and the Storm Drain Master Plan will identify additional unfunded projects.

Due to the challenges outlined above, Staff recommends that an overall analysis of the City's revenues and expenditures be performed. The analysis will help to determine if the budget can be structurally balanced in the future through expenditure restructuring, new or increased revenue sources, or a combination of both.

In addition to Staff's summary of California Municipal Revenue Sources, a "Primer on California City Finance" prepared by the League of California Cities is included with this report (see Attachment B). Finally, a wealth of information about California city revenues can be found at the California Local Government Finance Almanac webpage at <http://www.californiacityfinance.com/>. The webpage was developed by Michael Coleman, principal fiscal policy advisor to the League of California Cities and the California Society of Municipal Finance Officers.

**BLANK PAGE**

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Property Tax	Yes	\$ 6,237,300	No	Ad valorem tax imposed by the state on real property (1% of assessed value), administered by the County, and allocated to various agencies including the City. City share was set with allocation formula based on local agencies' average property tax revenue for 1975-1977.	California Constitution Article XIII and XIII A; Revenue and Tax Code §§95, 97.
Property Tax in lieu of Vehicle License Fees	Yes	\$ 3,714,000	No	Replacement of state-shared Vehicle License Fees with additional shares of property tax.	California Constitution Article XIII and XIII A; Revenue and Tax Code §§95, 97.
Property Tax in lieu of Sales Tax	Yes	\$ 558,260	No	Replacement of 1/4 of the 1% Bradley-Burns sales tax with additional shares of property tax.	California Constitution Article XIII and XIII A; Revenue and Tax Code §§95, 97.
Sales & Use Tax	Yes	\$ 1,516,800	No	Tax imposed on total retail price of any tangible personal property and the use or storage of such property when sales tax is not paid. Tax is administered by the state. Prior to 2004, the City received the basic 1% Bradley-Burns rate. In 2004, the state reduced the City allocation by 1/4 and replaced it with additional shares of property tax.	California Constitution Article XIII §§25.5(a)(2), 29; Revenue and Tax Code §7200.
Transactions & Use Tax	No	N/A	N/A	Locally levied rate added to the combined state & local sales tax rate.	General purpose requires majority vote of voters, special purpose requires 2/3 vote.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Business License Tax	Yes	\$ 695,000	No	Locally levied tax imposed for the privilege of conducting business within the City. Rates vary by business type and include both flat tax amounts and tax amounts based upon business gross receipts.	Municipal Code Chapter 5.04 (1974). General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Utility Users Tax	Yes	\$ 2,415,000	No	Locally levied tax imposed on the consumption of utility services. The RPV tax is 3% of electricity, gas, water, and telephone charges.	Municipal Code Chapter 3.30 (1993). General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Transient Occupancy Tax	Yes	\$ 3,211,074	No	Locally levied tax imposed on occupants for privilege of occupying rooms in a hotel or similar for 30 days or less. The RPV tax is 10% of the room charge.	Municipal Code Chapter 3.16 (1973). General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Documentary Transfer Tax	Yes	\$ 210,000	No	Tax imposed on documents recorded in the transfer of ownership in real estate. Levied by the county at a rate of \$1.10 per \$1,000 of value transferred. City levy is 50% of the county rate, which is credited against the amount of the county tax due.	Authority to levy: Revenue and Tax Code §11911-11929. Municipal Code Chapter 3.12 (1973). General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Real Property Transfer Tax	No	N/A	N/A	Tax imposed on the purchaser of real property based upon the value of the property.	Only available to charter cities. General purpose requires majority vote of voters, special purpose requires 2/3 vote.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Golf Tax	Yes	\$ 409,000	No	Tax imposed on the user of a golf course within the City. Tax is 10% of golf fee paid. Government owned golf courses are exempted (i.e. county owned Los Verdes Golf Course).	Municipal Code Chapter 3.40 (1993). General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Admissions Tax	No	N/A	N/A	Tax on the consumer for the privilege of attending a show, performance, display or exhibition. Tax is included in the price of the ticket, collected by seller, and remitted to city.	General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Parking Tax	No	N/A	N/A	Tax imposed on occupant of off-street parking space for privilege of renting the space within the city. Collected by owner/operator of paid parking facility and remitted to city.	General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Construction/Development Tax	Yes	\$ -	Yes	Excise tax imposed on the privilege or activity of development and/or the availability or use of municipal services. Rate for 2013 is \$1,798 per bedroom with a maximum of \$3,596 for residential buildings, and \$1.09 per sq. ft. for commercial buildings.	Municipal Code Chapter 3.20 (1974). General purpose requires majority vote of voters, special purpose requires 2/3 vote.
Mello-Roos Community Facilities Tax	No	N/A	N/A	Special non ad valorem tax imposed by a local agency to finance public capital facilities and services in connection with new development.	Two-thirds vote of registered voters required.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Parcel Tax	No	N/A	N/A	Special non ad valorem tax on parcels of property generally based on either a flat per-parcel rate or a variable rate depending on size, use and/or number of units on the parcel.	Two-thirds vote of registered voters required.
Proposition C Sales Tax	Yes	\$ 489,000	Yes	Half-cent sales tax partially (20%) distributed to cities on a per-capita basis.	Los Angeles County voter approved measure of 1990.
Proposition A Sales Tax	Yes	\$ 646,200	Yes	Half-cent sales tax partially (25%) distributed to cities on a per-capita basis.	Los Angeles County voter approved measure of 1980.
Measure R Sales Tax	Yes	\$ 364,600	Yes	Half-cent sales tax partially (15%) distributed to cities.	Los Angeles County voter approved measure of 2008.
Benefit Assessments on Property	Yes	\$ 699,900	Yes	A charge levied on real property for a local public improvement or service that specifically benefits the property. FY12-13 1972 Act rates range from \$3.77 to \$41.33 per single family parcel, with the majority at \$15.92.	Varies based upon type of assessment. Typically majority mail ballot vote of property owners. In 1992, the City established a benefit assessment district for street landscaping and lighting using 1972 Act procedures (Resolution No. 92-85). In 1995, the City approved the transfer of street lighting assessments from the County (Resolution No. 95-9), which were originally imposed using 1911 Act procedures (ad valorem tax).
Benefit Assessments on Businesses or Persons	No	N/A	N/A	Assessments imposed in connection with some business improvement districts are levied upon businesses.	Two-thirds vote of businesses to be assessed.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
User and Enterprise Fees	Yes	\$ 106,900	No	Fee paid to a municipality by a person to receive a particular public service (e.g. utility services, photocopy fees, recreation events). The City's revenue includes the Abalone Cove Sewer District user fee.	User fees must be adopted by resolution of the governing board with majority vote. Utility fees must be adopted by ordinance of the governing board with 2/3 vote. Resolution No. 2010-77 for user fees and Municipal Code Chapter 13.06 (2001) for the Abalone Cove sewer user fee.
Property-Related Fees	Yes	\$ 1,303,000	Yes	A levy imposed on a parcel or upon a person as an incident of property ownership for property-related service.	Majority mail ballot vote of property owners, or by 2/3 vote of the registered voters. Municipal Code Chapter 3.44 (2005) for storm drain user fee.
Development Impact Fees, Dedications & Exactions	Yes	\$ -	Yes	Dedications of property or fees to compensate for new demands on public resources resulting from development of land, and imposed as a condition of development approval.	Municipal Code Chapters 16.20 (1975) for the Quimby Parkland Dedication Fee and 17.11 (1997) for the Affordable Housing In-Lieu Fee.
Regulatory Fees	Yes	\$ 1,784,300	No	Charge imposed on a regulated action to pay for public services necessary to regulate the activity or mitigate the impacts of the fee payer on the community.	Majority vote of governing body. Resolution No. 2010-77.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Cable & Video Franchises	Yes	\$ 651,000	No	Payment from a cable or video franchisee as "rent" or "toll" for the use of the municipality right of way. City's franchise agreement with Cox Cable expires October 2015. Upon expiration, City will continue to receive 3% franchise fee through the state franchise agreement.	Prior to 2008, majority vote of governing body. As of 2008, granted by state. City may request a 1% add-on fee to the cable user bill through the state franchise agreement. This fee can only be used for capital expenditures related to Public, Educational & Government Access (PEG).
Solid Waste Franchises	Yes	\$ 953,800	No	Payment from a solid waste management franchisee as "rent" or "toll" for the use of the municipality right of way. The City has also imposed recycling fees and AB939 fees on waste haulers.	Franchise fees are imposed by a majority vote of governing body. AB939 fees are authorized by the California Integrated Waste Management Act of 1989.
Electric, Gas, Water & Oil Franchises	Yes	\$ 711,000	No	Payment from a franchisee as "rent" or "toll" for the use of the municipality right of way.	Majority vote of governing body.
Licenses & Permits	Yes	\$ 178,100	No	Issued to regulate activities within a local jurisdiction.	Majority vote of governing body. Resolution No. 2010-77.
Fines, Forfeitures & Penalties	Yes	\$ 200,200	No	Revenues received and/or bail monies forfeited upon conviction of a misdemeanor or municipal infraction.	Court fines are set by California Uniform Bail and Penalty Schedule. Majority vote of governing body for parking fines (Municipal Code Chapter 10.32) and false alarm fines (Municipal Code Chapter 9.04).
Rents, Royalties & Concessions	Yes	\$ 578,000	No	Revenues from rental or use of city property and/or resources.	Majority vote of governing body.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Investment Earnings	Yes	\$ 146,830	Both	Revenue earned from the investment of idle public funds.	Majority vote of governing body to approve annual investment policy, which must meet minimum requirements of Government Code §53601.
Gifts	Yes	\$ 21,300	Both	Contributions to the City for a public purpose.	Government Code §37354.
Motor Vehicle License Fee	No	N/A	N/A	State imposed tax for the privilege of operating a vehicle on public streets. Prior to 2004, this revenue was shared with the City. In 2004, the state replaced roughly 2/3 of the revenue to the City with additional shares of property tax. Since 2004, the City's remaining allocation has been eliminated, as the distribution formula provides a baseline of revenue to other agencies leaving nothing to be distributed to the City.	California Constitution article XI §15 and Revenue and Tax Code §§10751 & 11005.
Air Quality Assessment	Yes	\$ 50,000	Yes	An assessment on the state Motor Vehicle Fee for air quality related activities distributed to cities on the basis of population.	California Health & Safety Code §44220-44247.
Motor Vehicle Fuel Tax	Yes	\$ 1,136,400	Yes	An 18-cent per gallon tax on fuel used to propel a motor vehicle. City receives state subvention for about 3 cents of this tax.	Tax authorized by California Constitution article XIX §1; Revenue & Tax Code §§7301-8404, 8601-9355; and Streets & Highways Code §§2104-2107.5.
Citizens Option for Public Safety (COPS)	Yes	\$ 100,000	Yes	Revenue granted from the state General Fund for supplemental public safety services.	Government Code §30061-30065.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Proposition 172 Public Safety Sales Tax	Yes	\$ 57,400	No	State voter approved half-cent sales and use tax as partial mitigation for Educational Revenue Augmentation Fund (ERAF) property tax shifts from cities and counties. Cities receive about 6% of the revenue.	California Constitution article XIII §35 and Government Code §30051.
Homeowners Property Tax Relief Reimbursement	Yes	\$ 52,500	No	Revenue to offset city loss of property tax for state imposed homeowner exemption of \$7,000 per dwelling.	California Constitution article XIII §3(k), Revenue and Tax Code §218, and Government Code §§16120-16123, 29100.6.
Williamson Act Subvention	No	N/A	N/A	State subvention to partially reimburse cities and counties for property tax losses under the Williamson Act which lowers the property tax on restricted open space land.	Government Code §16140.
State Mandate Reimbursement	Yes	\$ -	No	State reimbursement to cities and counties for the cost of programs and services mandated by the state.	California Constitution article XIIB §6 and Revenue and Tax Code §2201.
Federal Grants & Aid	Yes	\$ 572,500	Yes	Various annual and one-time awards from federal, state and county agencies vary from year to year.	Various for the granting agency.

**CALIFORNIA MUNICIPAL REVENUE SOURCES**

<b>Revenue Source</b>	<b>Received by RPV?</b>	<b>FY12-13 Original Budget</b>	<b>RPV Restricted?</b>	<b>Description</b>	<b>Authority</b>
Cost Recovery	Yes	\$ 125,000	No	In general, cost recovery applies to user fees (recovering the cost of providing a service), regulatory fees (e.g. building permits), and fines/penalties; which have been discussed above. The City's revenue presented here represents the administrative allowance received by the City to manage redevelopment dissolution.	California Health & Safety Code §34161.
Financing Capital Assets	No	N/A	N/A	One-time proceeds from the issuance and sale of municipal securities.	Various depending upon the method of debt financing.
<b>Subtotal Revenue from External Sources</b>		<b>\$ 29,894,364</b>			
Equipment Replacement Charges	N/A	\$ 568,600	N/A	N/A	N/A
Employee Benefits Charges	N/A	\$ 1,981,000	N/A	N/A	N/A
Public Works Overhead Charges to Special Funds	N/A	\$ 157,400	N/A	N/A	N/A
<b>Subtotal Inter-Fund Charges</b>		<b>\$ 2,707,000</b>			
<b>Grand Total Revenue Budget</b>		<b>\$ 32,601,364</b>			
Check Figure from Resolution 2012-43, Attachment A		\$ 32,601,364			

**BLANK PAGE**

# A Primer on CALIFORNIA CITY FINANCE



# A Primer on CALIFORNIA CITY FINANCE

by Michael Coleman

*You've been elected to the city council. You already know that the question of money arises for every local issue. So how does your city pay its bills? While every city is different — each with its own needs, local economy, expectations, protocols, responsibilities and finances — the essential elements of city revenues and spending are the same throughout California.*

## An Overview of City Revenue Sources

City officials may ask: What money does our city get and how is it spent? Revenue, the bread and butter of city budgets, comes from a variety of sources. Some is restricted to certain uses by law. Some revenue is payment for a specific service by customers. Other revenue requires voter approval for rate increases. Still other revenue comes from state and federal agencies, and the city has no control over how much it receives. The California Constitution and state law provide some specific distinctions among municipal revenue sources.

### Taxes

A tax is a charge for public services and facilities. There need not be a direct relationship between the services and facilities used by an individual taxpayer and the tax paid. Cities may impose any tax not otherwise prohibited by state law (Gov't. Code section 37100.5). The state

## ABOUT THIS PRIMER

*Western City* first published "A Primer on California City Finance" in 2002. The passage of Proposition 1A by California voters in 2004 changed key elements of city financing by enhancing the level of control cities will be able to exercise over their property tax, sales tax and vehicle license fee revenues, and minimizing the possibility of state funding take-aways. This updated primer explains these changes, providing a fresh look at the revenue sources that a city budget comprises and the rules and requirements governing the use of these various funds.

prohibits local governments from taxing certain items, including cigarettes, alcohol and personal income; these are taxed by the state for its own purposes.

The California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose. A majority of voters must approve a new general tax, its increase or extension in the same election in which city council members are elected. Special

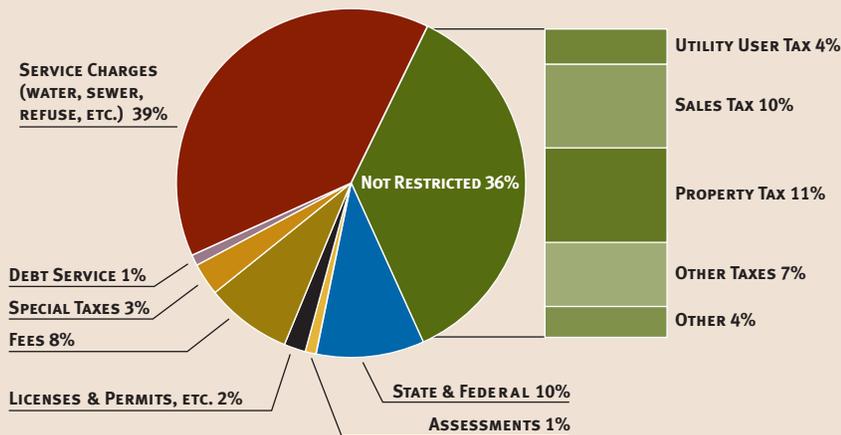
tax revenues must be used for a specific purpose, and two-thirds of voters must approve a new special tax, its increase or extension.

### Fees, Charges and Assessments

A fee is a charge imposed on an individual for a service that the person chooses to receive. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which

Michael Coleman is principal of Coleman Advisory Services and fiscal consultant to the League. He can be reached at <coleman@cal.net>. More information on city finance is available on Coleman's website at [www.californiacityfinance.com](http://www.californiacityfinance.com).

## TYPICAL CALIFORNIA CITY REVENUES\*



\* Based on total cities statewide

### Other City Revenues

Other sources of revenue to cities include rents, concessions and royalties; investment earnings; revenue from the sale of property; proceeds from debt financing; revenues from licenses and permits; and fines and penalties. Each type of revenue has legal limitations on what may be charged and collected as well as how the money may be spent.

### Putting Money in Its Proper Place

The law restricts many types of city revenues to certain uses. As explained above, a special tax is levied for a specific program. Some subventions are designated by law for specific activities. Fees are charged for specific services, and fee revenue can fund only those services and related expenses. To comply with these laws and standards, finance departments segregate revenues and expenditures into separate accounts or funds. The three most important types of city funds are special revenue funds, enterprise funds and the general fund.

**Special revenue funds** are used to account for activities paid for by taxes or other designated revenue sources that have specific limitations on use according to law. For example, the state levies gas taxes and subvenes some of these funds to cities and counties. A local government deposits gas tax revenue in a special fund and spends the money for streets and road-related programs, according to law.

*continued*

the fee is charged, plus overhead. Examples of city fees include water service, sewer service connection, building permits, recreation classes and development impact fees.

Cities have the general authority to impose fees (charges and rates) under the cities' police powers granted by the state Constitution (Article XI, sections 7 and 9). There are specific procedures in state law for fee and rate adoption. Proposition 218 provides special rules for property-related fees used to fund property-related services.

Special benefit assessments are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services. The state Constitution requires property-owner approval to impose a benefit assessment. Other locally raised revenues include licenses and permits; franchises and rents; royalties and concessions, fines, forfeitures and penalties; and investment earnings.

### Intergovernmental Revenue

Cities also receive revenue from other government agencies, principally the state and federal governments. These revenues include general or categorical support monies called subventions, as well as grants for specific projects, and reimbursements for the costs of some state mandates. Intergovernmental revenues provide 10 percent of city revenues statewide.

## CITY RESPONSIBILITIES DIFFER

Comparing revenues and expenditures of different cities can be difficult because cities vary according to the needs of their constituents and the nature of the local economy, as well as the service and financial responsibilities of the city. Less than 25 percent of California cities are full-service cities, responsible for funding all of the major city general fund-supported services such as police, fire, library, parks and recreation, and planning. In about three out of 10 California communities, a special district provides fire services with property tax revenue that would otherwise go to the city. In six out of 10 cities, library services are provided and funded by another public agency. On the revenue side, these differences in financial responsibility among cities are generally reflected in the allocation of property tax revenue. Other city tax rates and allocations are unrelated to service responsibility.

## SALES TAX: HOW MUCH GOES TO YOUR CITY?

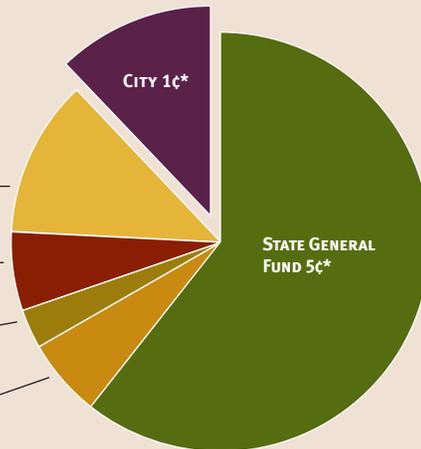
For each taxable dollar spent, sales tax is paid as follows:

**SPECIAL TRANSACTIONS & USE:**  
0-1¢ (VARIES)

**PUBLIC SAFETY (PROP. 172):** 1/2¢

**COUNTYWIDE TRANSPORTATION:** 1/4¢

**COUNTY HEALTH & WELFARE:** 1/2¢



\*Under Prop. 57, beginning in FY 2004–05, the local (city) sales tax rate is reduced by 0.25 percent and the state rate increased by 0.25 percent to repay state fiscal recovery bonds. Cities and counties are reimbursed dollar for dollar with additional property tax. This arrangement, known as the “triple flip,” will last about 10 years until the bonds are repaid.

### NOTES

1. California sales tax revenues are distributed based on the place (“situs”) where each sale occurs.
2. Cities receive about 6 percent and counties get 94 percent of Prop. 172 funds. The funds are restricted for public safety services such as police, fire, district attorney and jails.
3. The state sales tax rate is 6.25 percent, including 0.5 percent for county health and welfare programs, 0.5 percent for Prop. 172 and 0.25 percent for the Prop. 57 “triple flip.”
4. The city portion of sales tax goes to the county if the sales transaction occurs in an unincorporated area of the county.
5. Many counties and some cities add transaction and use rates ranging from 0.25 percent to 1.25 percent. These additional rates cause the total California sales tax to vary from 7.25 percent to 8.75 percent.
6. Some cities share a portion of their 1-cent rate with their county.

Source: California State Board of Equalization, Coleman Advisory Services

**Enterprise funds** are used to account for self-supporting activities that provide services on a user-charge basis. For example, many cities provide water treatment and distribution services to their residents. Users of these services pay utility fees, which the city deposits in a water enterprise fund. Expenditures for water services are charged to this fund.

**The general fund** is used to account for money that is not required legally or by sound financial management to be accounted for in another fund. Major sources of city general fund revenue include sales and use tax, property tax

and local taxes, including business license tax, hotel tax and utility user taxes.

### Major City Revenues

**Sales and Use Tax.** The sales tax an individual pays on a purchase is collected by the state Board of Equalization and includes a state sales tax, the locally levied Bradley-Burns sales tax and several other components. The *sales tax* is imposed on the total retail price of any tangible personal property. (State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption,

candy, bottled water, natural gas, electricity and water delivered through pipes, prescription medicines, agricultural feeds, seeds, fertilizers and sales to the federal government.) A *use tax* is imposed on the purchaser for transactions in which the sales tax is not collected. Sales and use tax revenue received by cities is general purpose revenue and is deposited into a city’s general fund. Although cities vary widely, on average, sales and use tax revenue provides 30 percent of city general purpose revenue and often as much as 45 percent.

Cities and counties may impose additional transaction and use taxes in increments of 0.25 percent with a two-thirds city council approval and majority voter approval. A city may impose more than one transaction and use tax: One might be for a general purpose; a second might be for a special purpose. The combined rate of the city and county transaction and use taxes may not exceed 2 percent.

**Property Tax.** The property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. (State law provides a variety of exemptions to the property tax, including most government-owned property; non-profit, educational, religious, hospital, charitable and cemetery properties; the first \$7,000 of an owner-occupied home; business inventories; household furnishings and personal effects; timber; motor vehicles, freight and passenger vessels; and crops and orchards for the first four years). California Constitution Article XIII A (Prop. 13) limits the property tax to a maximum 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is capped at 1975–76 base year plus inflation — or 2 percent per year. Property that declines in value may be reassessed at the lower market value. Property is reassessed to current full value upon change in ownership (with certain exemptions). Property tax revenue is collected by counties and allocated according to state law among cities, counties, school districts and special districts.

The share of property tax revenue allocated to a city varies depending on a variety of factors, including:

- The service responsibilities of the city (for example, if fire services are funded and provided by a fire district, then the district gets a portion that would otherwise go to the city);
- The presence of a redevelopment agency, which retains a portion of revenue growth; and
- The historic (1980) tax rates of the city in relation to other local taxing entities.

City property tax revenues are also affected by local property values.

**Business License Tax (BLT).** Most cities in California levy a business license tax. Tax rates are determined by each city, which collects the taxes. 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. In all cases, cities have adopted their tax as a general tax. On average, the business license tax provides about 3 percent of city general revenue and often as much as 6 percent. For businesses that operate in more than one city, state or county, cities can impose a business license tax on only that portion of the business transacted in that city.

**Transient Occupancy Tax (TOT).** Like the business license tax, a TOT may be levied by a city under the police powers granted to cities in the state Constitution. More than 380 cities in California impose TOT on people staying for 30 days or less in a hotel, inn or other lodging facility. Rates range from 4 to 15 percent of the lodging cost. In nearly all cases, cities have adopted these as general taxes, but some cities make a point of budgeting the funds for tourism or business development-related programs. Among cities that impose a TOT, it provides 7 percent of a city's general revenues on average and often as much as 17 percent.

*continued*

## THE EFFECTS OF PROPOSITION 13

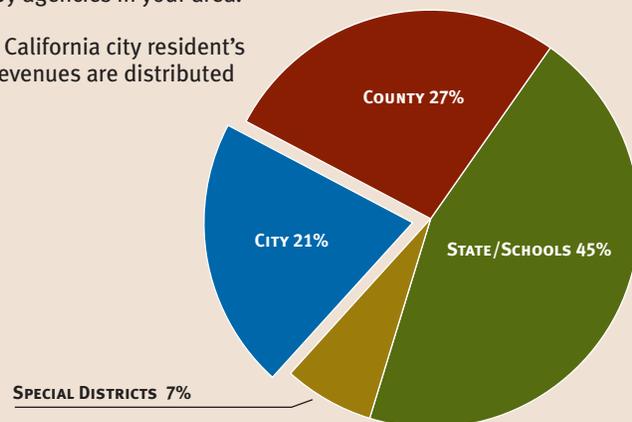
Proposition 13 produced the following results:

- Elderly and low-income homeowners' tax burden was decreased;
- Similarly situated properties are taxed differently;
- Local government property tax revenues were cut by 60 percent;
- Revenue windfalls from personal income tax produce \$1 billion for the state and \$1.6 billion for the federal government annually;
- Cities and counties raised user fees and local taxes;
- The authority to allocate local property tax shifted to the state (Prop. 1A now limits the state's authority);
- Counties and schools rely more heavily on the state general fund with a corresponding shift in power;
- Cities rely more heavily on other general revenues, including locally imposed taxes and the sales and use tax; and
- Tax rates/shares (from 1980) are now out of sync with service demands.

## PROPERTY TAX: HOW MUCH GOES TO YOUR CITY?

The allocation of property taxes to government agencies varies among different areas, depending on historic (pre-Prop. 13) property tax levels and which services are provided by agencies in your area.

On average, a California city resident's property tax revenues are distributed as follows:



### NOTES

1. This is the rate for the average city for properties not in a redevelopment area. Results vary depending on the extent of services provided by your city. Full-service cities may receive slightly more. Cities in which fire services are provided by a special district receive less, with the difference going to the fire district.
2. For properties in the unincorporated area of a county, the county gets a bigger share of the property tax, which would otherwise go to a city. If the area ever incorporates, some of the county share becomes the share for the new city.
3. City and county property tax shares include "property tax in lieu of Vehicle License Fee."
4. This does not include the temporary reimbursement for city sales tax with property tax for sales tax under the Prop. 57 "triple flip."

Source: California State Board of Equalization, Coleman Advisory Services

## THE FACTS ABOUT PROPOSITION 1A

In November 2004, California voters approved Prop. 1A, a ballot measure sponsored by the League and a broad coalition that included Governor Arnold Schwarzenegger, legislators, other local governments, and public safety, business and community organizations. This landmark amendment to the state Constitution was intended to restore predictability and stability to local government budgets. The measure:

1. Strengthens prohibitions against unfunded state mandates by requiring the state to suspend state mandates in any year the Legislature does not fully fund those laws;
2. Expands definition of state mandate to include transfer of responsibility of a program for which the state previously had full or partial responsibility; and
3. Prohibits the state from:
  - Reducing the local Bradley-Burns Uniform Sales & Use Tax rate or altering its method of allocation, except to comply with federal law or an interstate compact;
  - Decreasing Vehicle License Fee revenue from the 0.65 percent rate without providing replacement funding to cities and counties; and
  - Shifting property taxes from cities, counties or special districts, with the following exceptions:
    - a) The state may reallocate among cities, counties and special districts (but not schools or any other local entity) with a two-thirds vote of both houses of the Legislature.
    - b) Beginning in FY 2008–09, the state may borrow up to 8 percent of the property tax revenue within a county (currently about \$1.3 billion on a statewide basis) if:
      - The governor declares a “fiscal hardship”;
      - The Legislature enacts an urgency statute by a two-thirds vote;
      - The funds are repaid within three years;
      - The FY 2003–04 VLF backfill gap has been repaid;
      - Any previous borrowing of this kind has been repaid; *and*
      - The state has not borrowed from the revenues more than twice in 10 years.

**Utility User Tax (UUT).** More than 150 cities (collectively representing a majority of the state’s population) impose a utility user tax. UUT rates vary from 1 to 11 percent and are levied on the users of various utilities, which may include telephone, electric, gas, water and cable television. For cities that impose the UUT, it provides an average of 15 percent of general revenue and often as much as 22 percent.

**Vehicle License Fee (VLF).** The VLF is a tax imposed by the state on the ownership of a registered vehicle in place of taxing vehicles as personal property. Under California Constitution Article XI, section 15, VLF revenue (based upon a rate of 0.65 percent) must go to cities and counties. Since 1948, the VLF tax rate had been 2 percent. In 1998, the Legislature and governor began cutting the tax, backfilling the loss to cities and counties with a like amount of state general fund money. In 2004, the state reduced the rate to 0.65 percent and re-placed the state general fund backfill to cities and counties with additional property tax in lieu of VLF (see paragraph below). The VLF is collected by the state Department of Motor Vehicles (DMV). Most VLF revenue goes to fund county health and welfare programs (75 percent) and DMV administrative charges (14 percent). The allocation to cities is on the basis of population and provides about 1 percent of general revenues to the average city budget.

**Property Tax in Lieu of Vehicle License Fee.** In FY 2004–05, cities and counties began receiving additional property tax to replace VLF revenue that was cut when the state repealed the state general fund backfill for the reduction in the VLF. Beginning in FY 2005–06, this property tax in lieu of VLF grows with the change in gross assessed valuation of taxable property in the jurisdiction from the prior year. Property tax in lieu of VLF allocations are in addition to other property tax apportionments.

Property tax revenue (including property tax in lieu of VLF) accounts for more than one-third of general revenue for the average full-service city. For cities that do

not fund fire service, property tax revenue represents on average 25 percent of general revenue.

**Parcel Tax.** This is a special nonvalue-based tax on property, generally based on either a flat per-parcel rate or a variable rate depending on the size, use or number of units on the parcel. Parcel taxes require two-thirds voter approval and are imposed for a variety of purposes, including police and fire services, parks, libraries and open space protection. Parcel taxes provide less than 1 percent of city revenues statewide.

**Rents, Royalties and Concessions.** Examples of revenues generated through the use of city property include royalties from natural resources taken from city property, the sale of advertising in city publications, payments from concessionaires operating on city property, facility rentals, entry charges, on- and off-street parking charges and even golf fees.

**Franchises.** Franchise fees are collected in lieu of rent for use of city streets from refuse collectors, cable television companies and utilities. Some franchise charges are limited by statute.

**Fines, Forfeitures and Penalties.** Cities receive a share of fines and bail forfeitures from misdemeanors and infractions committed within city boundaries. State law determines the distribution and use

## TRENDS IN CALIFORNIA CITY FINANCE

The following list summarizes trends in California city finance.

- State and federal aid to California cities is declining, down from 21 percent of a city's budget in 1974–75 to 10 percent today.
- The sales tax base is declining, due to a shift toward a service-oriented economy and increasing Internet and catalog retail sales.
- Limitations on taxes and fees that cities can impose are driven by Prop. 13, Prop. 218 and other state laws.
- State population growth is higher in cities.
- Cities must respond to citizens' demand for a greater array of services that bring with them additional costs and new challenges (high tech, cable, transit, etc.).
- Public safety spending is up.
- Infrastructure improvements and maintenance are lagging.

of state-imposed fines and forfeitures, but cities determine penalties for violations of their municipal codes.

**Service Charges and Fees.** Cities have authority to impose fees, charges and rates for services and facilities they provide, such as plan checking or recreation classes. Use of these revenues is limited to paying for the service for which the fees are collected, but may include overhead, capital improvements and debt service.

City utilities and enterprises supported by service fees constitute a substantial portion of most city budgets. These include water, sewer, electricity and solid waste services. In some cities, a public or private agency other than the city provides and funds these services.

### Most Discretionary Dollars Go to Public Safety

In most cities, roughly two-thirds of the total city budget is either earmarked for specific purposes (such as special taxes, restricted state grants and debt obligations like bonds) or is fee revenue used to pay for services provided. In the typical full-service city, three out of five of these discretionary dollars are spent on police and fire services.

### ... And There's More

City budgets can be bewildering. Myriad laws and limitations make city funding a very complicated subject. Understanding the essentials of city finance is critical for any city decision-maker. Elected officials find their job is made easier when they are able to explain the basic elements of municipal finance to their constituents. ■

## FOR MORE INFORMATION

More information about city finance is available from these online sources:

- *California Local Government Finance Almanac*, [www.californiacityfinance.com](http://www.californiacityfinance.com)
- *Primer on California's Tax System*, Legislative Analyst's Office, [www.lao.ca.gov](http://www.lao.ca.gov)
- *The Fiscal Condition of California Cities*, Institute for Local Government, [www.ilsg.org](http://www.ilsg.org)

In addition, the following publications are available from CityBooks. To order, call (916) 658-8257 or visit [www.cacities.org/store](http://www.cacities.org/store).

- *Municipal Revenue Sources Handbook*, League of California Cities. \$25; Item No. 1031
- *Local Government Dollars & Sense* by Len Wood. \$30; Item No. 105

# AFTER PROPOSITION 1A: WHAT'S NEXT FOR CALIFORNIA CITY FINANCE?

California city officials and their partners in the LOCAL (“Leave Our Community Assets Local”) coalition should feel very proud of what they have accomplished in the past few years. Surprising many political pundits, they succeeded in building the grassroots organization and raising the funds needed to qualify a constitutional amendment for the statewide ballot. Then they ran a successful statewide campaign that resulted in passage of Proposition 1A by almost 84 percent — a truly remarkable achievement. As explained in this primer, the passage of Prop. 1A will end the practice of state take-aways of local funds needed to pay for local services.

But even as local officials give themselves a well-deserved pat on the back, now is not the time for complacency. If city officials have learned anything during the past 15 years, it's that they need to be constantly vigilant about state actions that can impact local decision-making. Sometimes proposed legislation is the source of concern. But impacts can also occur as a result of new ballot measures attempting to amend or contradict constitutional provisions that currently protect local funds.

What can local officials do? What can anyone do, if they care about local democracy?

A lot — much remains to be done. The League of California Cities is working hard to ensure that we maintain and build upon the activities that made Prop. 1A possible. All these activities depend upon the active involvement of League members, as well as labor, business and community groups who care about protecting local services.

## How You Can Help Protect Local Services

- **Become an advocate.** Your participation is critical as fiscal issues are debated in the state Capitol or when measures that could undermine local decision-making are placed on the statewide ballot.
- **Help to educate your legislators** on how your city would be impacted by legislative proposals. Contact your League regional representative to volunteer for this and other efforts. Find your regional rep's contact info online at [www.cacities.org/regionalrepresentative](http://www.cacities.org/regionalrepresentative).
- **Sign up for electronic League Action Alerts** that you receive whenever there's a pressing need for your legislator to hear directly from you. Visit the League's online Advocacy Center ([www.cacities.org/advocacy](http://www.cacities.org/advocacy)) to receive alerts that include sample letters you can write and send online, or talking points to use when you call your legislators. It's fast, it's easy — and it's effective!
- **Contribute to CITIPAC**, the League's political action committee. The League needs non-public funds to engage in ballot measure advocacy. Your dollars help make that possible. Learn how you can help by visiting [www.citipac.org](http://www.citipac.org).

**Learn More.** Stay abreast of proposals that would impact local services.

- Make regular visits to the League's website ([www.cacities.org](http://www.cacities.org)). You'll find information on issues affecting California cities and resources to help understand the issues. You can also find out how to get involved with League advocacy activities.
- Subscribe to *Priority Focus*, the League's weekly online newspaper ([www.cacities.org/priorityfocus](http://www.cacities.org/priorityfocus)) and *Western City*, the League's award-winning monthly magazine ([www.westerncity.com](http://www.westerncity.com)).
- If you're a city official, sign up for a League listserv. You'll be better connected with your colleagues in other cities and receive ([www.cacities.org/listserv](http://www.cacities.org/listserv)).

**MINUTES**  
**CITY OF RANCHO PALOS VERDES**  
**FINANCE ADVISORY COMMITTEE**

**OCTOBER 24, 2012**

Chair Wang called the meeting to order at approximately 7:06 p.m. in the Community Room at 30940 Hawthorne Boulevard for the purpose of conducting business pursuant to the Agenda.

Roll call was answered as follows:

PRESENT: de la Rosa, Ho, James, Vice-Chair O'Brien, Chair Wang  
ABSENT: Santarosa, Stillo

Also present was Deputy Director of Finance and Information Technology Downs and Senior Administrative Analyst Mills.

**APPROVAL OF AGENDA**

Member de la Rosa moved for approval of the agenda. Vice-Chair O'Brien seconded the motion. The agenda was approved unanimously by acclamation.

**PUBLIC COMMENTS**

None.

**STATEMENT OF FISCAL HEALTH AND REVIEW OF COMMUNITY PRESENTATION**

Staff delivered the draft Community Presentation, and Committee Members offered their comments.

The Committee discussed the Fiscal Health Statement and the data provided by Staff. Chair Wang suggested that a Subcommittee should draft a Statement and forward it to Staff for distribution to the entire Committee. Members Ho and James volunteered for the Subcommittee and gathered input from the other Members about the basic components of the draft Statement.

**APPROVAL OF DRAFT MINUTES FOR THE MEETING CONDUCTED  
AUGUST 22, 2012**

Vice-Chair O'Brien moved for approval of the minutes as presented. Member de la Rosa seconded the motion. The minutes were approved unanimously by acclamation.

**ADJOURNMENT**

Chair Wang ordered the meeting adjourned at approximately 8:18 p.m.

\_\_\_\_\_  
Willie Wang, Chair, Finance Advisory Committee

**ATTEST:**

\_\_\_\_\_  
Kathryn Downs, Recording Person

DRAFT