LEAGUE OF WOMEN VOTERS OF THE CLAREMONT AREA

LOCAL STUDY

CITY GENERAL FUND BUDGETS

April, 2011

INTRODUCTION

This Report presents a survey and comparison of General Fund budgets of six local communities, large and small, contract and "full service," in Los Angeles and San Bernardino counties. It examines sources of revenue and summarizes expenditures as expressed in the budget documents.

BACKGROUND

The State's financial problems have had a dire effect on our municipalities. The California League of Women Voters does have a State position on *State and Local Finances* (Adopted 1969, updated 1975, redone 1976, 1977, 1981 and 1995.) However, our local communities remain affected in different ways by financial downturns and the State's continued "take-aways" of local funds. The 12 communities represented by the League of Women Voters of the Claremont Area (LWV) have different issues to face regarding their budgets.

Many residents do not understand the complexity of municipal funding, the impact of State ballot initiatives, legislation, and budget initiatives. They also do not understand that some pockets of money are set aside as special funds that can only be used for specific purposes. During community Open Meetings about the budget every year, issues of General Fund usage and specific funds cause much confusion and sometimes unnecessary conflict. The League proposed to undertake a local study on local financing. The intent is to see where the resources come from and how each city uses them. How cities prioritize spending is important in understanding how funds are allocated in each City.

METHODOLOGY

This local study includes the General Fund budgets of 6 communities; both large and small cities, some in each county we cover, and compares their revenues, expenditures and demographics. We obtained 2010-2011 budgets and interviewed the City Manager or budget chief of each city. Our committee chose to cover Claremont, La Verne and

Pomona in Los Angeles County, and Montclair and Rancho Cucamonga in San Bernardino County. We also included Diamond Bar, an LA County city that operates almost entirely with contracts for services (little staff).

We studied their budgets in detail, considered their sources of income and how they spend their resources, and discussed their problems, approaches, solutions, and priorities. We thought we would learn a lot since each community is both different and similar and thought their budgets would show how the community sets priorities, spends funds, supports programs and generally operates.

The Local Study Committee thought it would meet a few times, gather information, publish a report and present results at League Unit Meetings. However, the committee found the material in budgets presented so differently city to city, we spent much more time than originally envisioned gathering and analyzing the data. The committee therefore decided to limit its focus to the General Fund of each city, the money the city council has control over and which can be spent in different ways for each city.

DESCRIPTION OF REVENUES

City revenues come from a variety of sources. Some revenues such as utility tax, assessment districts, business tax and a portion of property and sales taxes are generated locally. Other sources of revenue are sent to the State of California or to the pertinent county and sent back to the city at a later time. The City Treasurer receives the funds and distributes them to the appropriate fund.

Property Tax, at a rate of 1 percent of assessed value in 1975 or 1% of sales price of property sold post-Proposition 13, plus a permitted increase of 2% per year, is imposed on all real and tangible property (unless the property belongs to a non-profit entity such as a faith establishment, school or college.) The County Tax Collector receives it and remits a portion to the city. The amount of property tax returned to our survey cities ranges from 5 cents (Diamond Bar) to 23 cents (Pomona) on the dollar. Property tax bills also include voter-approved bonded indebtedness and levies. See property tax breakdowns for the survey cities in Appendix A and samples of property tax bills in Appendix B.

Utility Users Tax, at a rate determined by the applicable cities, is levied on utility bills within that city. All of the cities in our survey, except Diamond Bar and Rancho Cucamonga have this tax. City Councils implemented the Utility Users Tax (UUT) as a way of augmenting the General Fund after the losses due to Proposition 13.

Sales Tax at a current rate of 9.75% in LA County and 9.25% in San Bernardino County is levied on non-food retail goods sold within the city limits. The State Board of

Equalization collects and distributes it based on a county formula. One percent of the tax comes back to the city. So, for example, Sales Tax on a $30,000 car will generate $300 in local Sales Tax. The rest of the sales tax goes to the State General Fund, county mental health programs, countywide road maintenance and transit programs and, in LA County, voter approved funds for transportation projects.

Transient Occupancy Tax (TOT) is collected by the hotel/motel operators. It is imposed on guests in the hotel, as a manner of repayment for the temporary city services used while in the community. The rate varies from city to city – the Claremont rate is the highest at 12%. This includes a 2% assessment for the Claremont Tourism Business Improvement District which is not a City General Fund revenue.

Landscaping and Lighting District (LLD) Assessments provide funding to install, maintain and service public landscaping and lighting. Cities implemented these assessments as a way of paying for maintenance activities no longer "affordable" within the General Fund. The revenue to pay for those improvements comes from the collection of special assessments on the land benefiting from the improvements. Because LLD assessments are still not sufficient to cover maintenance expenses, cities supplement them with General Fund revenues.

Other locally collected taxes that support the General Fund are described in Appendix C. An explanation of Enterprise Funds is also included there.

ANALYSIS OF REVENUES

Property Tax per capita ranges from $64.18 in Montclair to $175.25 in Claremont. Differences can be due to property values, level of build-out, voter decisions to increase the city's tax burden, low property turnover, mix of residential and non-residential property, date of incorporation and percent of property off the tax rolls.

Sales Tax per capita ranges from $40.01 Diamond Bar to $302.04 in Montclair. This reveals the extent of active commercial (generally retail) property in a community.

Two of the 6 cities studied have no Utility Users Tax, which generates substantial funds in the 4 cities where it exists: $55.86 per capita in Montclair up to $115.14 per capita in Claremont.

Three of the 6 cities, La Verne, Pomona, and Rancho, used Reserve funds to bolster the General Fund in the 2010-2011 budget year. This is not unexpected given the recession.

PROPOSITION 13

Proposition 13, in 1978 completely changed the revenue picture for cities. Basically, it put the state legislature in control. Almost every year since, more changes have been made through legislation or through constitutional amendments approved by the voters through the initiative process.

Before Proposition 13, City Councils and County Boards of Supervisors set the property tax rates. Cities and counties received property tax money directly from the Assessor. After Proposition 13, the State was put in charge of allocating property tax proceeds based on the rate (1% of assessed valuation of the property) and base (1975-76 property valuation) as required by the Proposition. The amount of the assessed value, and therefore, the General Tax Levy is increased 2% per year unless the County Assessor determines otherwise. In a declining economy when home values are decreasing, the assessed value will still increase unless the homeowner files an appeal.

Within weeks of the June, 1978 passage of Proposition 13, the State legislature passed Senate Bill 154, known as the "bail-out" bill. This increased the State's role in delivering and financing local services and established a formula for the distribution of property tax revenues. Proposition 13 reduced local property taxes by about 57%, $7 billion state-wide, but SB 154 provided some backfill to local agencies for lost revenue.

Under SB 154 a local government's share of the property tax was based on the share of the property tax going to that local government before Proposition 13. This explains why some local governments receive a greater share of property tax distribution than others. The cities that had higher property tax rates and were "full service" received more than cities with lower property tax rates and those that contracted for services. These cities, including those not incorporated at the time of Proposition 13 and/or that have experienced significant growth since Proposition 13, are known as "no and low" property tax cities. In our survey, both Diamond Bar and Rancho Cucamonga fall into this category.

A year after approving SB 154, the State legislature passed AB 8 as a long-term response to the difficulty created by Proposition 13, specifically how to distribute local property taxes back to cities, counties and special districts. AB 8 shifted property tax revenue from school districts to counties, cities and special districts and then replaced schools' losses with State General Fund revenues. Since then there have been many changes made to local government financing. Some of these changes have resulted in "State Subventions" which are explained along with a more extensive treatment of Post-Proposition 13 financing of local government to be found in Appendix D.

How have cities responded to the revenue challenges?
California, in the early 1950's was the first state to statutorily provide economic development tools known as tax increment financing and Redevelopment Agencies. Since Proposition 13, these tools have been used extensively by cities to attract new businesses, particularly those that are high sales tax producers, such as Auto Dealerships and "Big Box" stores.

With extensive use of redevelopment came the **"fiscalization of land use,"** a phrase coined in 1986 by Dean Misczynski, adjunct fellow with the Public Policy Institute of California. The term recognized that local jurisdictions were making (and continue to make) land use decisions based on how much sales tax they would generate. It is important to remember that "fiscalization of land use" was not a consideration mid-twentieth-century and to keep in mind that any decisions made today could be dramatically impacted through action in the future by the state legislature or California voters.

In addition to economic development, cities have looked at other ways to financially support local services. Included in those options are Assessment Districts, Utility User Taxes, Developer exactions, User and Property-related fees, Mello-Roos, Parcel Tax, Business Improvement Districts and Transient Occupancy Tax. Since Proposition 13 and subsequent State raids on local funds, cities have been forced to rely on these less understood and arguably less equitable forms of taxation.

What does this all mean?

The short story is that local governments have not only had their revenues taken away by the State, they have also largely lost the ability to determine their own financial destinies.

Newer cities in this study, Rancho Cucamonga (incorporated in 1977) and Diamond Bar (incorporated in 1989) have per capita sales tax revenues of $120.20 and $40.01 respectively. The per capita property tax in Rancho Cucamonga is $103.15 and $143.88 in Diamond Bar. General Fund per capita expenditures for all services are $352 in Rancho Cucamonga and $529.15 in Diamond Bar. Both cities contract with their respective Counties for Police and Fire Services.

Contrast this to the older cities in our study: Claremont has per capita sales tax of $73.32, La Verne of $95.45, Montclair of $302.04 and Pomona of $74.53. Per capita property taxes in these cities are: Claremont $175.25, La Verne $127.75, Montclair $64.18 and Pomona $161.28. Claremont has the highest percentage of property off the tax rolls (educational institutions, houses of faith, nonprofits) at 15%. La Verne and

Rancho Cucamonga have the lowest levels of property off the tax roles at 3.7% and 3% respectively.

In the survey cities, neither Diamond Bar nor Rancho Cucamonga has a utility user's tax. Arguably, Claremont and Pomona have made up for a relatively low per capita sales tax with the utility user tax. Montclair, with the second highest per capita sales tax and lowest per capita property tax, may be relying on the utility tax to make up for lower property tax. La Verne, with the third highest per capita sales tax and fourth highest per capita property tax may use their utility tax to help support General Fund expenditures for the city's police and fire departments. While these observations are purely speculative, they point to the fact there is no clear relationship in the survey cities in the per capita revenues.

ANALYSIS OF EXPENDITURES

General Fund Expenditures range from a per capita low of $352 in Rancho Cucamonga to a high of $724.56 in La Verne. Is this because La Verne has its own police and fire departments and Rancho Cucamonga contracts for both services? Or, is this because La Verne is an older city and Rancho a newer one? What is also not known is whether there are substantial non-General Fund sources in the selected cities, whether certain services are paid for directly, whether some are paid fully or partially through property taxes, and/or if some are covered by the County.

Police General Fund expenditures per capita range from $91.09 in Diamond Bar to $274.73 in La Verne. Part 1 Crime rates range from 17/1000 population in Diamond Bar to 31/1000 in Pomona. There does not seem to be a relationship between crime rates and expenditures. While noting that correlation does not equate with cause, crime rates do seem to be correlated with demographics such as a younger median age and lower median income.

Administration General Fund expenditures per capita range from $42.21 in Pomona to $114.03 in Montclair. Higher costs may be related to benefits and/or the organization's structure and/or size.

Community Development General Fund expenditures per capita range from $11.32 in La Verne to $58.73 in Diamond Bar.

The number of full-time authorized positions (all funds) ranges from 50 employees in Diamond Bar, which contracts many of its services, to 574.75 in Pomona. The other large city, Rancho Cucamonga, has 393 full-time positions.

The percentage of General Fund in Reserves ranges from 3% (no policy) in Pomona to the 100% in Diamond Bar (current practice.)

FINDINGS

- Ever since the passage of Prop 13, the State has controlled a large % of local government revenues and thus local destinies.

- Elaborate backfill and bail out schemes enacted over the years have not made up for vast lost revenues and have complicated the financial picture.

- General Fund Comparisons are, at best, educated guesses. Each City has its own unique way of organizing its budget; the committee found it difficult to isolate specific numbers for comparison purposes.

- Residents in some cities pay for services such as trash pickup directly, or they pay for services such as fire protection on their property tax bill. Thus, the General Fund expenditures list does not reflect these service costs, making comparisons difficult at best.

- Cities do not always use identical classifications to categorize, describe, and bundle revenues and expenditures.

- Cities move money from one fund to another in order to cover basic services and facilities; the transfers are not always readily apparent.

- **The committee found no evidence of deliberate efforts to cloud transparency.** Reasons that it is difficult to sort out revenues and expenditures include the fact that over time each city has developed budget categories that fit its particular needs and overall structure. Also, the state's takeover and partial return of many taxes and fees (such as property taxes and vehicle license fees) plus the myriad grant sources cites use to make up for lost revenue muddy the picture.

- While it is not easy to make city-to-city comparisons, once interested residents do the work of studying and analyzing a given year's budget, they can follow revenues and expenditures from year to year and understand changes and patterns. Although General Fund expenditures reveal how cities choose to spend funds they have most control over, they do not necessarily reveal priorities because many revenue sources are earmarked for specific purposes. Example: A city might highly value bicycle transportation but if it pays for bike lanes with grant money, this expenditure (and this priority) is not reflected in the General Fund.

- Claremont is the only city that uses General Fund revenues to subsidize its county library. This reflects a priority.

- Montclair is unique in using some of its high sales tax revenue to help support its lower income population with health care and other social services. This reflects a priority.

- We note that Claremont's parks and open space at 1,788 acres, vastly exceeds that of other communities in our study where open space ranges from 141 acres to 420 acres. Most of Claremont's parks and open space is within the boundaries of the Wilderness Park. The purchase of the Wilderness Park can be traced back to the League's Local Study in the late 1970's that led to the land use position to take measures to protect Claremont's open space. Preserving open space is a priority in Claremont.

CONCLUSIONS

We are unable to draw any specific conclusions from our data except to say that the per capita revenues and expenditures in our survey cities are as different as the cities themselves.

Regardless, however, of whether a city is old or new, what County it is in or whether it is a full service or contract city, it is clear that property taxes *do not cover the cost of police services in any of our survey cities, let alone fire, parks, recreation, planning, engineering and human services.* It is equally clear that public safety services represent a significant portion of General Fund expenditures, most likely a reflection of the value that all communities place on feeling safe in their homes, schools and while conducting business in their cities.

Whether provided by city employees or through contract with other public agencies or the private sector, all cities provide essentially the same services. We also learned there is a good deal of variation in the ways cities are organized and therefore how their budgets are presented. While there is no right or wrong way to organize a city or present a budget, the variations did pose some challenges to those undertaking this study. We did the best we could to compare "apples to apples" but make no representation that we are 100% accurate in our efforts. Appendix E includes our comparative data and the explanatory notes.

In California, sales tax potential as a lucrative source of local revenue has often driven land use decisions instead of community appropriateness and local need. In some cases this causes cities to compete for "big box" retail establishments that serve more than the local community. Retail commercial land use is particularly evident along Foothill Boulevard in La Verne and Rancho Cucamonga. While Montclair clearly "wins" in the per capita sales tax category and has the lowest per capita property tax, does this mean that shopping plazas, auto dealerships and "big box" stores make one community more desirable, attractive or sustainable than another? We cannot determine with certainty whether this is evidence of "fiscalization of land use" decisions in these communities. We can say with some level of confidence that the availability of land and the size and shape of parcels are a major factor in attracting development. It is clear that per capita sales tax is, as one would expect, a reflection of city council decisions, what the community wants, and, indeed, the overall values of the community.