

FEBRUARY 26, 2020

Local Government Revenues and Impact Fees

PRESENTED TO:

Senate Governance and Finance Committee

Hon. Mike McGuire, Chair

Senate Housing Committee

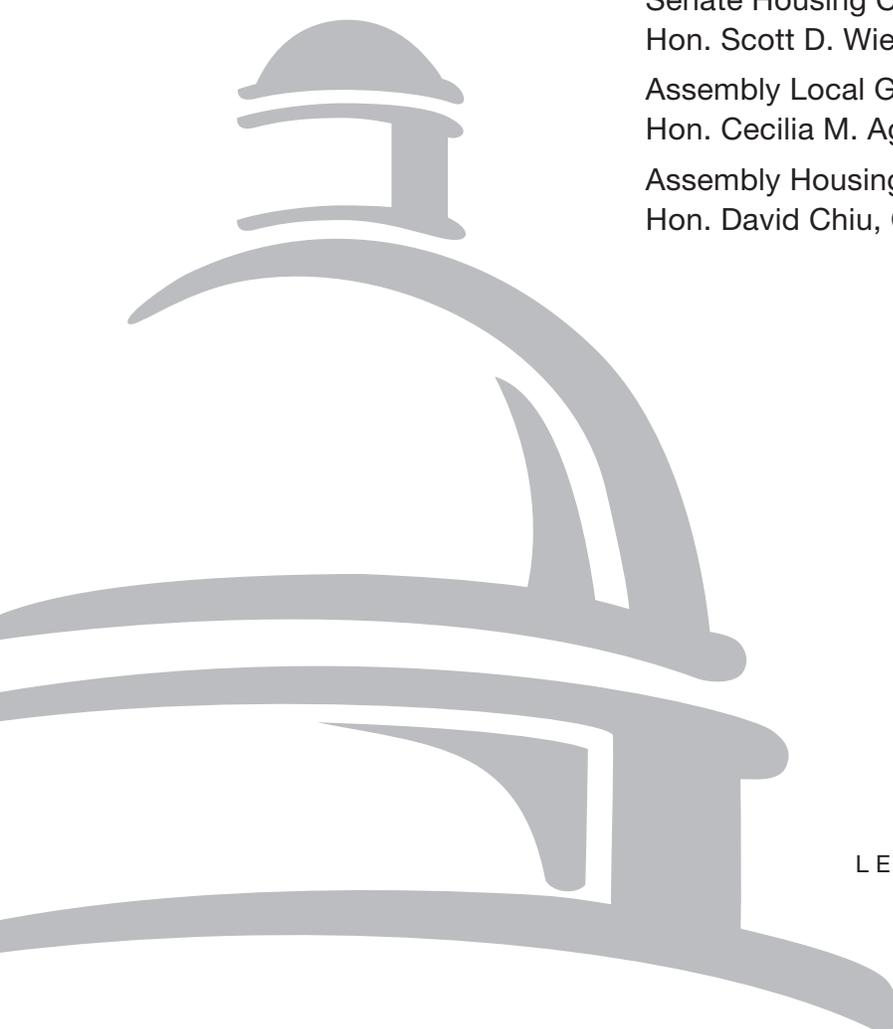
Hon. Scott D. Wiener, Chair

Assembly Local Government Committee

Hon. Cecilia M. Aguiar-Curry, Chair

Assembly Housing and Community Development

Hon. David Chiu, Chair



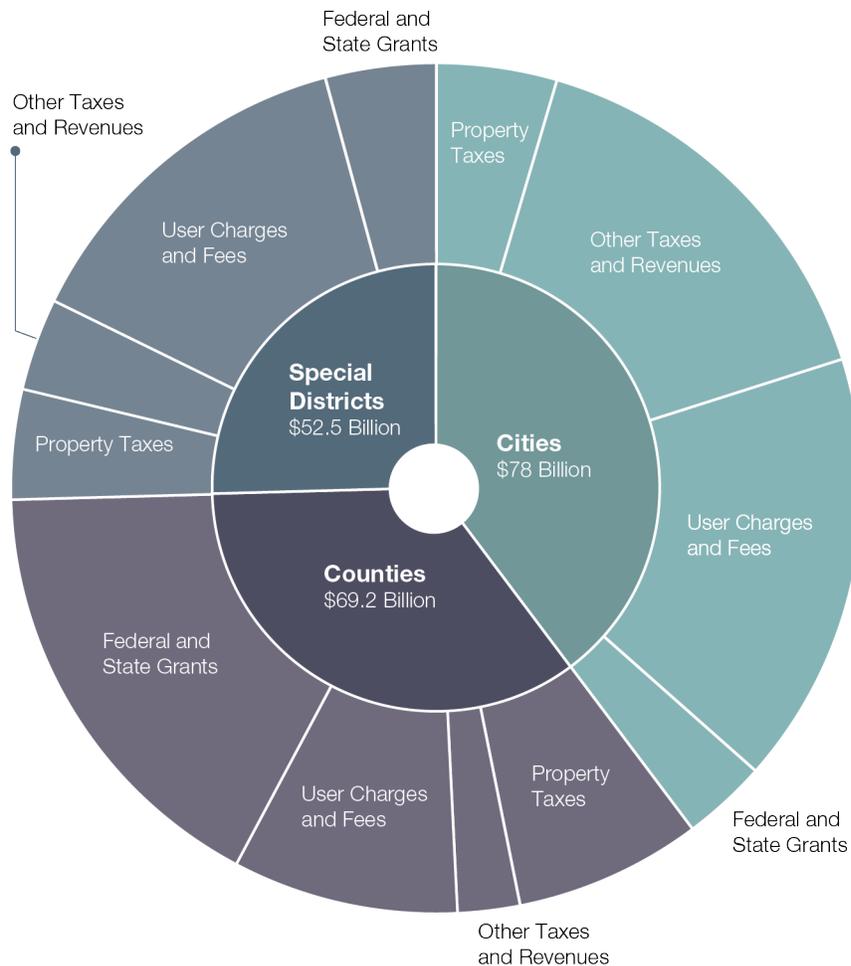
LEGISLATIVE ANALYST'S OFFICE

Local Government Basics

Role of Local Governments. Cities, counties, and special districts share the responsibility of providing municipal services—such as police, fire protection, sewer, water, parks, and libraries—to California residents. Counties, in addition to providing some municipal services, also provide countywide services, such as health and social services programs.

Main Revenue Sources. Local governments rely on four main revenue sources to provide services: federal and state grants, property taxes, user charges and fees, and other taxes and revenues.

2016-17



Local Government Basics

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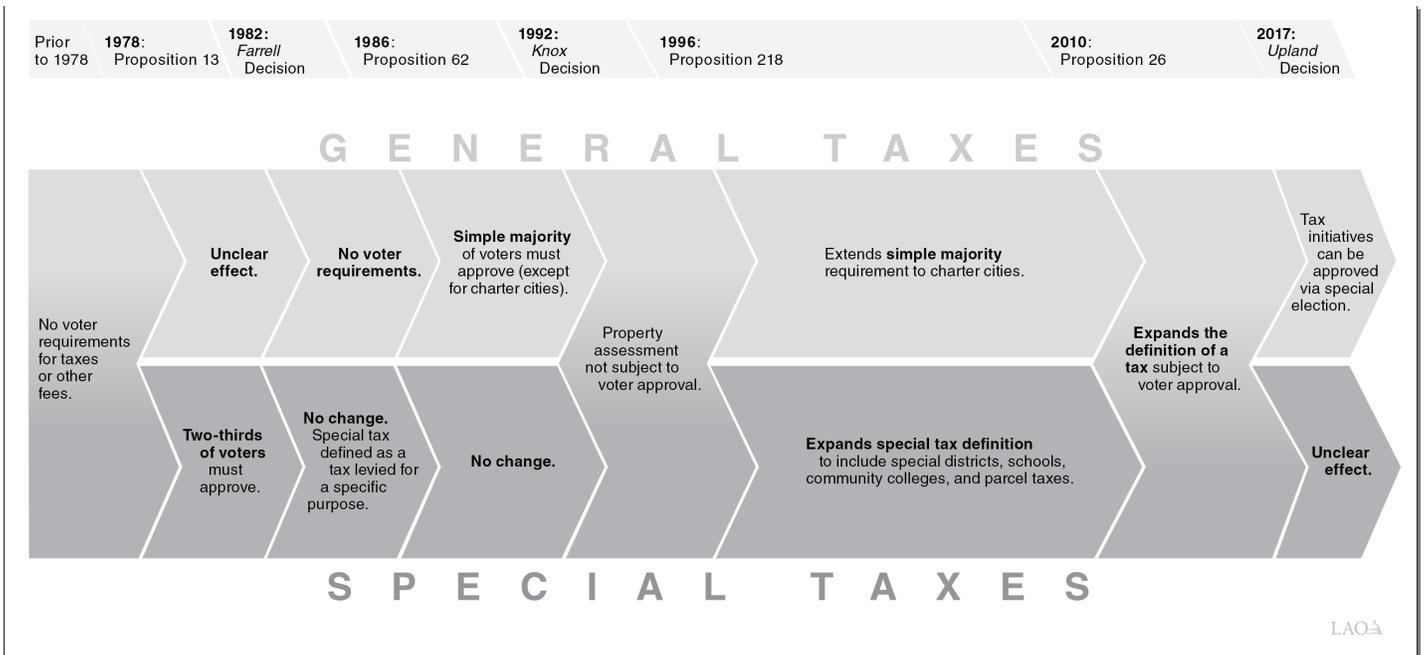
- Cities and special districts receive a significant share of their funding from various user charges and fees.
- Counties receive nearly half of their revenue from the state and federal government and must spend these funds for specific purposes.



Major Milestones in Development of Voter-Approval Requirements for Local Taxes

Cities and Counties Have Taxation Authority... The State Constitution limits, with narrow exceptions, the property tax rate to 1 percent. Outside of the property tax, cities and counties have authority to impose a broad range of taxes, including sales taxes, parcel taxes, utility taxes, hotel taxes, and business taxes.

...Limitations on Local Government Revenues. Local governments must obtain the approval of local voters to raise taxes. Local governments' voter-approval requirements vary based on several factors, including the type of local government raising the revenues, the revenue mechanism, and the use of the revenues. California's voter-approval requirements for local taxes have evolved over multiple decades.



Implications for Local Governments

- California's system of voter–approval requirements is complex.
- Voter requirements restrict local government revenue raising ability, bringing greater uncertainty to local government finance.
- Voter support of tax and bond measures is influenced by many factors, including location, revenue sources, use of the revenues, and election timing.
- Variation in voter–approval requirements results in variation in passage rates. Certain taxes, subject to a higher voter–approval threshold, pass less often despite receiving more yes votes.



Did Proposition 13 Increase Fees on Developers?

Local governments appear to be increasingly using impact fees to pay for the costs associated with new development.

- Impact fees are an alternative to property taxes.
- Impact fees do not require voter approval.
- California's impact fees are higher than many states.
- Impact fees increased in recent years.

