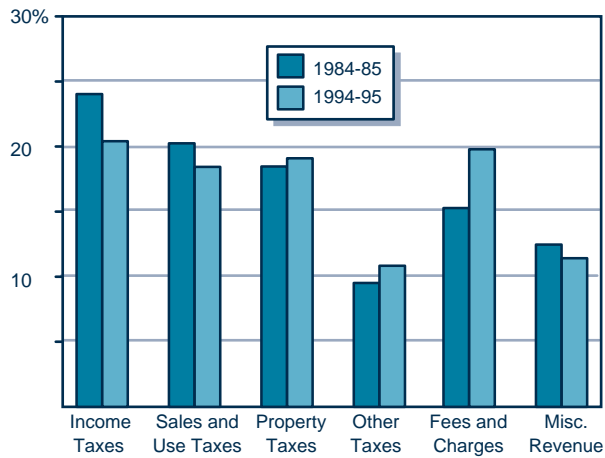


### California's State and Local Revenue Sources—No One Predominates

Share of Total Revenues by Source



- State and local governments fund their programs through a wide range of revenue sources.
- Considerable shifts have occurred in these revenue sources regarding their relative importance.
- Income taxes (personal and corporate), and sales and use taxes have declined as a percent of the total, while other taxes, fees, and charges have increased.



## California's Governments Rely on a Variety of Taxes

State Taxes	Current Rate	Comments/Description
<b>Personal Income</b>	Marginal rates of 1% to 9.3% (7% AMT <sup>d</sup> )	Married couples with gross incomes of \$21,246 or less need not file. The top rate applies to married couples? income in excess of \$67,346.
<b>Sales and Use</b>	6% <sup>b</sup>	Applies to final purchase price of tangible items, with exemptions for food and certain other items.
<b>Bank and Corporation</b>		
<i>General Corporations</i>	8.84% <sup>c</sup> (6.65% AMT)	Applies to net income earned by corporations doing business in California. For financial corporations, a portion of the tax is in lieu of certain local taxes.
<i>Financial Corporations</i>	10.84% (6.65% AMT plus adjustment factor)	
<b>Vehicle Fuel</b>	18¢ per gallon of gasoline or diesel fuel	Tax is collected from fuel distributors or wholesalers with equivalent taxes levied on other types of vehicle fuels.
<b>Alcohol and Cigarette</b>		Tax is collected from manufactures or distributors. Similar taxes are collected on sale of other tobacco products.
<i>Wine and beer</i>	20¢/gallon	
<i>Sparkling wine</i>	30¢/gallon	
<i>Spirits</i>	\$3.30/ gallon	
<i>Cigarettes</i>	87¢/pack	
<b>Estate<sup>d</sup></b>	0.8% to 16%	The estate tax is a "pick-up" tax to take advantage of the maximum state credit allowed against the federal estate tax, at no net cost to taxpayers.



## California's Governments Rely on a Variety of Taxes (continued)

State Taxes	Current Rate	Comments/Description
<b>Horse Racing License Fees</b>	0.4% to 2%	Fees/taxes are levied on amounts wagered. Rate is dependent on type of racing and bet, and where the wager is placed.
<b>Insurance</b>	2.35%	Insurers are subject to the gross premiums tax in lieu of all other taxes except property taxes and business license fees.
Local Taxes	Current Rate	Comments/Description
<b>Property</b>	1% (plus any rate necessary to cover voter-approved debt)	Tax is levied on assessed value (usually based on purchase price plus the value of improvements and a maximum annual inflation factor of 2%) of most real estate and various personal and business property.
<b>Local Sales and Transaction</b>	1.25% to 2.5%	Collected with state sales and use tax. Revenues go to cities, counties and special districts.
<b>Vehicle License Fees</b>	1.5%	Tax is applied to depreciated purchase price. It is collected by the state and distributed to cities and counties.
<b>Other Local</b>	Varies by jurisdiction	Types of taxes and rates vary by jurisdiction. Includes utility users tax, business license tax, and transient occupancy taxes.

<sup>a</sup> Alternative Minimum Tax.

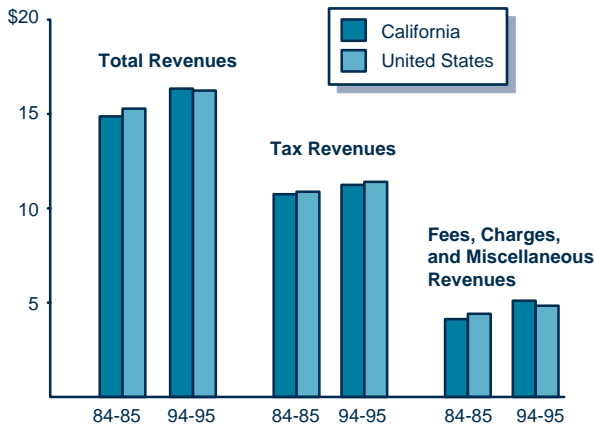
<sup>b</sup> Includes rates levied for state-local program realignment and local public safety.

<sup>c</sup> A 1.5 percent rate is levied on net income of Subchapter S corporations.

<sup>d</sup> Inheritance and gift taxes have been repealed but still apply to gifts and deaths prior to 1982.

## California's Revenue Burden Is Average Compared to Other States

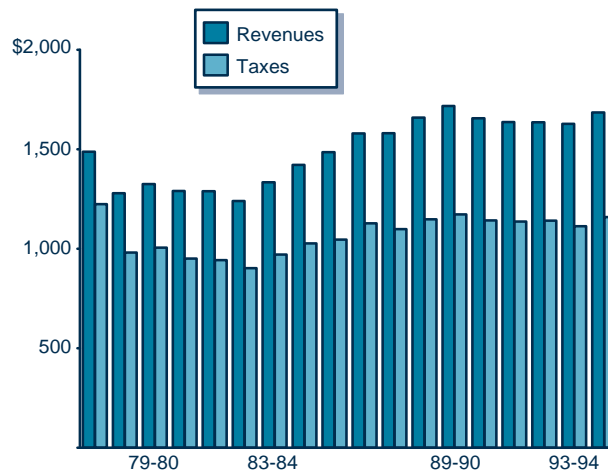
Amounts Per \$100 of Personal Income



- Over the last decade, California has remained an average state in terms of the levels of state and local revenues raised.
- For instance, in 1994-95 California ranked 25<sup>th</sup> among the states in terms of revenues as a percent of personal income.
- California is below average with respect to taxes and above average in terms of fees, charges, and miscellaneous revenues. The latter represents a shift over the last decade.

### Real Per Capita Revenues and Taxes— Also Not Much Change Recently

1977-78 Dollars



- After declining due to Proposition 13, real *per capita* total revenues (adjusted to remove the effects of inflation) now exceed their pre-Proposition 13 levels.
- These revenues dipped in the early-to-mid-1990s, but have recovered from that decline.
- Real per capita state and local *taxes* have been stable over the past few years, and are still below pre-Proposition 13 levels.



### Initiative Measures Limit State and Local Fiscal Flexibility

Measure/ Election	Major Provisions
<b>Proposition 13/</b> June 1978	<ul style="list-style-type: none"> <li>Limits general property tax rates to 1 percent. Limits increases in assessed value after a property is bought or constructed.</li> <li>Makes Legislature responsible for dividing property tax among local entities.</li> <li>Requires two-thirds vote for Legislature to increase taxes, and two-thirds voter approval of new local special taxes.</li> </ul>
<b>Proposition 4/</b> November 1979	<ul style="list-style-type: none"> <li>Generally limits spending by the state and local entities to prior-year amount, adjusted for population growth and inflation (now per capita personal income growth).</li> <li>Requires state to reimburse local entities for mandated costs.</li> </ul>
<b>Proposition 6/</b> June 1982	<ul style="list-style-type: none"> <li>Prohibits state gift and inheritance taxes except for "pickup" tax qualifying for federal tax credit.</li> </ul>
<b>Proposition 7/</b> June 1982	<ul style="list-style-type: none"> <li>Requires indexing of state personal income tax brackets for inflation.</li> </ul>
<b>Proposition 37/</b> November 1984	<ul style="list-style-type: none"> <li>Establishes state lottery and dedicates revenue to education.</li> <li>Places prohibition of casino gambling in State Constitution.</li> </ul>
<b>Proposition 62/</b> November 1986	<ul style="list-style-type: none"> <li>Requires approval of new local general taxes by two-thirds of the governing body and a majority of local voters (excludes charter cities).</li> </ul>



### Initiative Measures Limit State and Local Fiscal Flexibility (continued)

Measure/ Election	Major Provisions
<b>Proposition 98/</b> November 1988	<ul style="list-style-type: none"> <li>Establishes minimum state fund guarantee for K-12 schools and community colleges.</li> </ul>
<b>Proposition 99/</b> November 1988	<ul style="list-style-type: none"> <li>Imposes a \$ .25 per pack surtax on cigarettes and a comparable surtax on other tobacco products.</li> <li>Limits use of surtax revenue, primarily to augment health-related programs.</li> </ul>
<b>Proposition 162/</b> November 1992	<ul style="list-style-type: none"> <li>Limits the Legislature's authority over PERS and other public retirement systems, including their administrative costs and actuarial assumptions.</li> </ul>
<b>Proposition 163/</b> November 1992	<ul style="list-style-type: none"> <li>Repealed "snack tax" and prohibits any future sales tax on food items, including candy, snacks, and bottled water.</li> </ul>
<b>Proposition 172/</b> November 1992	<ul style="list-style-type: none"> <li>Imposes half-cent sales tax and dedicates the revenue to local public safety programs.</li> </ul>
<b>Proposition 218/</b> November 1996	<ul style="list-style-type: none"> <li>Limits authority of local governments to impose taxes and property-related assessments, fees, and charges.</li> <li>Requires majority of voters to approve increases in all general taxes, and reiterates that two-thirds must approve special taxes.</li> </ul>
<b>Proposition 10/</b> November 1998	<ul style="list-style-type: none"> <li>Imposes a \$ .50 per pack surtax on cigarettes, and higher surtax on other tobacco products.</li> <li>Limits use of revenues, primarily to augment early childhood development programs.</li> </ul>





### Approval Requirements for State and Local Revenues

State Level	Legislative Approval	Voter Approval
Taxes	2/3	None
General obligation bonds	2/3	Majority
Other debt <sup>a</sup>	Majority	None
Fees	Majority	None
Local Level	Governing Body Approval	Voter Approval
City or county "general" taxes (revenues used for unrestricted purposes)	2/3 (Majority for charter cities)	Majority
City or county "special" taxes (revenues used for specific purposes)	Majority	2/3
All school or special district taxes	Majority	2/3
General obligation bonds	Majority	2/3 <sup>b</sup>
Other debt <sup>a</sup>	Majority	None
Property assessments	Majority	Majority of affected property owners. Votes weighed by assessment liability
Property-related fees	Majority	2/3 of voters, or majority of affected property owners <sup>c</sup>
Fees —All other	Majority	None

<sup>a</sup> Includes revenue and lease payment bonds and certificates of participation.  
<sup>b</sup> Exception: Article XVI, Section 18 specifies that bonds used for repairing or replacing unsafe public school buildings can be approved by a majority of voters.  
<sup>c</sup> No vote required for gas, electric, water, sewer, refuse, or developer fees.





## Californians Are Served by Over 6,000 Local Entities

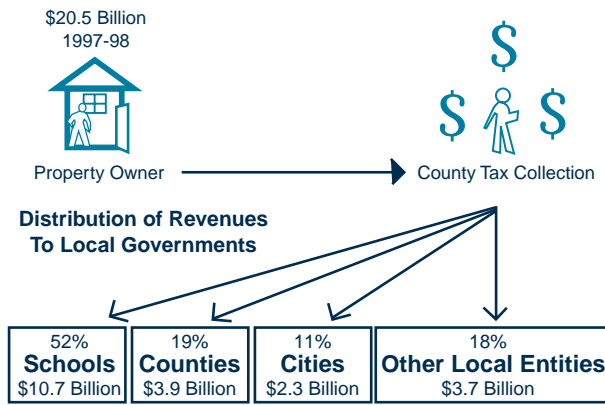
Counties	58
Cities	471
Special districts	4,816
K-12 school districts	999
Community college districts	71
<b>Total</b>	<b>6,415</b>

- Most Californians are governed by several overlapping local governments: a city, county, school, and community college district, *plus* one or more special districts. Special districts provide specialized services, such as firefighting, water delivery, or flood control.
- About 60 percent of special districts have independently elected boards. Other special districts are governed by a board of supervisors or (less frequently) a city council.
- Measured on a per capita basis, California tends to have fewer cities, counties, and special districts than other states.





### Property Taxes Are Distributed to Many Entities Within a County

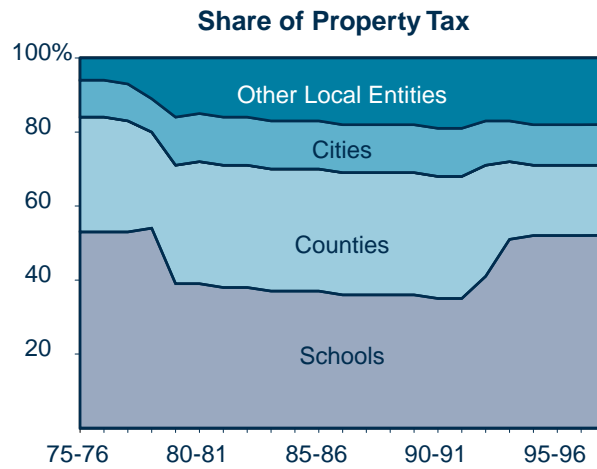


- Property taxes are collected by each county government. The revenues are then distributed to a variety of governments, including the county, cities, school districts, redevelopment agencies, and special districts.
- The property tax rate is limited to 1 percent by the Constitution, plus any additional rate necessary to pay for voter-approved debt. The average tax rate across the state in 1997-98 was 1.067 percent.
- Property tax revenues collected in a county can only be distributed to a governmental entity within that county.





### Schools Receive More Than Half of Property Taxes



- After the passage of Proposition 13 in 1978, the state increased its funding of schools by shifting property tax allocations from schools to other local entities. This reduced the local entities' revenue losses resulting from Proposition 13's limit on the property tax rate.
- In 1992 and 1993, the state shifted property tax allocations from cities, counties, redevelopment agencies, and special districts to schools in order to reduce state education costs. These property tax shifts continue to total over \$3 billion annually. As a result, schools have received more than half of total property tax revenues since 1993-94.





### How Much Property Taxes Do Counties and Cities Receive?

Large Counties (1996-97)	Per Capita Property Taxes	Large Cities (1995-96)	Per Capita Property Taxes
Los Angeles	\$126	Oakland	\$129
Contra Costa	99	Los Angeles	127
Alameda	99	Long Beach	122
Santa Clara	95	Sacramento	105
Sacramento	88	San Diego	94
San Diego	81	Fresno	81
San Bernardino	61	San Jose	61
Riverside	59	Anaheim	54
Orange	40	Santa Ana	49
<b>Statewide County Average</b>	<b>\$106</b>	<b>Statewide City Average</b>	<b>\$78</b>



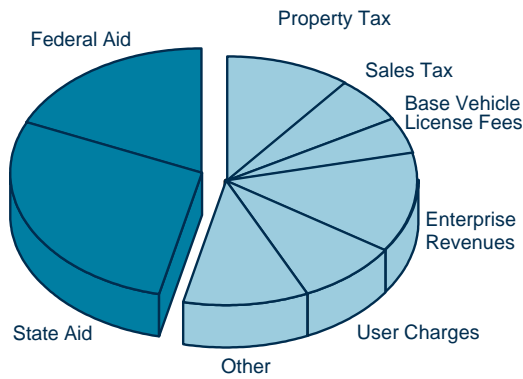
■ Four factors explain the large differences among property tax receipts. Cities and counties tend to receive more property taxes if they:

- Have many valuable buildings, manufacturing plants, and other developed property within their borders.
- Received a large share of countywide property taxes before Proposition 13.
- Provide many municipal services, instead of relying upon other local governments to provide some services.
- Have few large redevelopment projects within their borders.



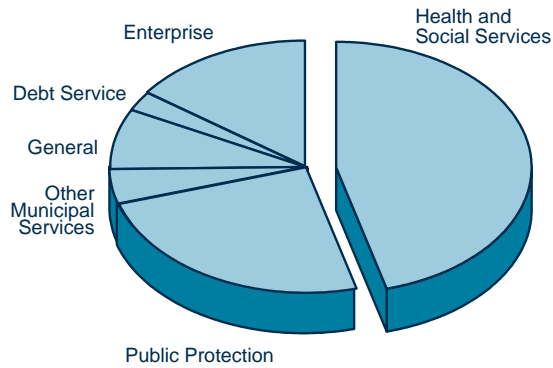
### An Overview of County Finance

#### Revenues



- California counties will receive and spend about \$35 billion in revenues in 1998-99. About half of county revenues come from state and federal aid, while about half of county spending is on various health and social services programs.

#### Expenditures



### Major County Programs—1998-99

Program	Policy Control	Funding <sup>a</sup>
CalWORKS	State/Federal	
Child Welfare Services	State/Federal	
General Assistance	State/Counties	
Indigent Health Care	Counties/State	
Mental Health	Counties/State/Federal	
Public Health	Counties/State	
Jails	Counties/State	
Probation	Counties/State	
Sheriff	Counties/State	
Trial Courts	State	
Libraries	Counties	
Parks/Recreation	Counties	
Roads	Counties	



<sup>a</sup>All funding distributions are LAO estimates.



## Major Changes in the State-County Relationship During Past Decade

Year Description

### Property Tax Shifts

1992 **Ongoing Revenue Shifts.** State shifted property taxes from and counties and other local entities to schools in order to reduce state education costs. Subsequently, these reduced county revenues have been substantially offset in the aggregate by various mechanisms, including funding for public safety (Proposition 172 sales tax revenues, COPS funding, and changes to trial court funding) and general assistance mandate relief.

### Health and Social Services

1991 **Realignment.** Shifted authority from the state to counties, and increased counties' share of costs, for many health and social services programs. Provided new revenue sources to counties to offset increased county costs.

1997 **Welfare Reform.** Provided counties with more flexibility regarding (1) delivery of welfare-to-work services and (2) recipient participation requirements. Provided fiscal incentives for counties to assist recipients in getting jobs.

### Trial Court Funding

1988 **Brown-Presley Act.** Increased state funding for county-operated trial courts, through the establishment of block grants.

1991 **Realignment.** Increased state funding of trial courts, as well as increased state revenues from court fines.

1997 **Spending Cap.** Placed cap on county expenditures for trial courts, resulting in future increases in state costs.

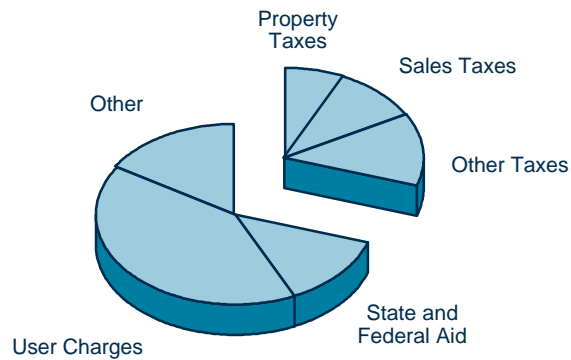
1998 **Reduced County Share.** Further reduced the required county contributions for trial court funding.





## An Overview of City Finance

1995-96 Revenues (excluding San Francisco)



- Older cities are more likely to provide a wide array of municipal services to their residents. Newly incorporated cities frequently depend on their county or special districts to provide (and pay for) fire, library, park and recreation, and water and sewer services.
- Statewide, cities spend about one-fourth of their budgets providing police, fire, and other public safety services.
- User charges (for electric, water, and other services) comprise over 40 percent of city revenues. These charges offset the cost of providing the service.

