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Local Government Revenues and Budgeting: Key Rules and Principles

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Goals of the Presentation

- Provide a brief overview of California's **local governments**
- Review the **key sources of revenue** for local governments
- Describe the rules that determine **local revenue-raising authority**
- Review the **local budgeting process** and highlight opportunities for **public input**



California Has Thousands of Local Governments



Local Jurisdictions = Cities, Counties, K-12 & CCC Districts, and Special Districts

- California's local governments include **58 counties, over 480 cities, more than 900 K-12 school districts, over 70 California Community College (CCC) districts, and 2,000+ independent special districts** (which provide specific services like fire protection and water delivery).
- This presentation focuses on **cities, counties, and K-12 districts** because Californians are most likely to interact with these jurisdictions.



In Contrast to Cities and Counties, K-12 Districts Are Closely Monitored



K-12 Districts Are Overseen by County Offices of Education (COEs)

- COE oversight is intended to help K-12 districts maintain sustainable spending and avoid insolvency.
- The COE **may disapprove a K-12 district budget** if the district fails to show that it can meet multiyear financial obligations.
- The COE **may intervene in a K-12 district's budgeting process in a number of ways**, including by assigning a fiscal adviser to help the district to develop a budget that can be approved.



City, County, and K-12 District Revenues Come From Multiple Sources

These include state and federal funds, local property taxes, and a broad range of locally adopted taxes (aside from the property tax) as well as non-tax charges, such as fees.

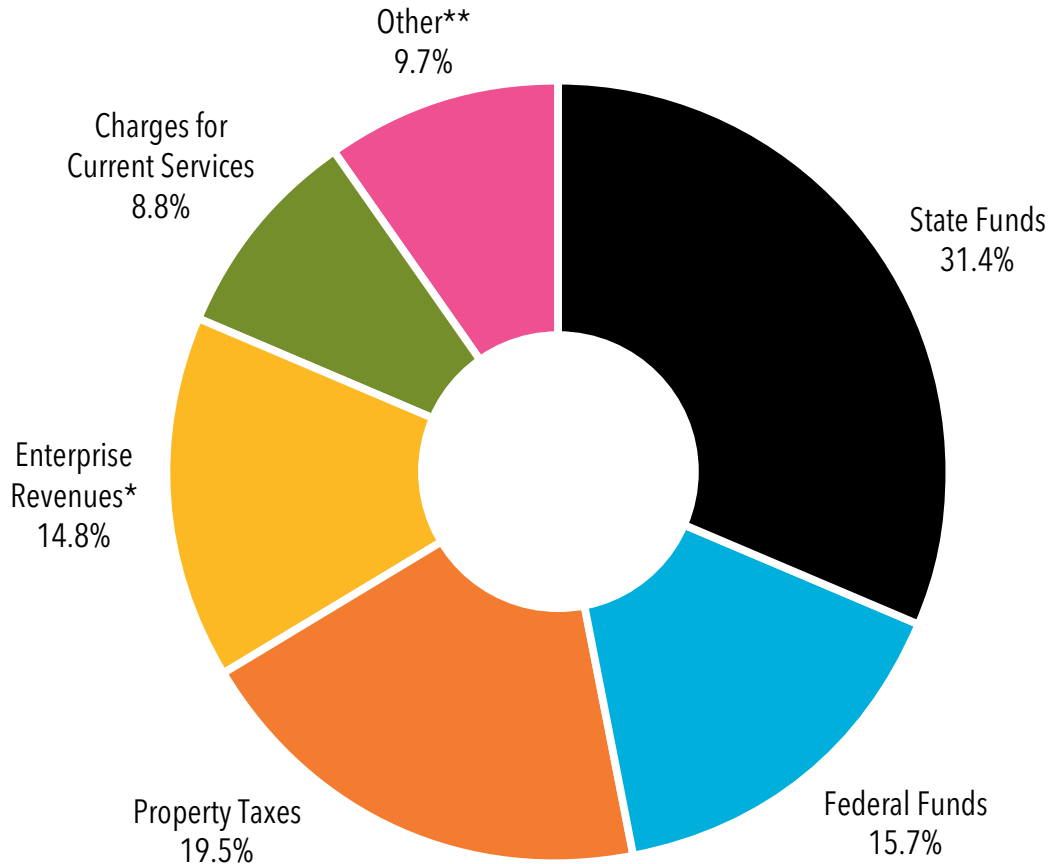


Sources of Revenue Vary in Importance Across Cities, Counties, and K-12 Districts

- **State funds** make up a substantial share of revenue for counties and K-12 districts.
- **Federal funds** make up a substantial share of revenue for counties.
- **Property taxes** are a key source of revenue for cities, counties, and K-12 districts.
- Cities rely much more on a **broad range of additional taxes** (such as the sales tax) **and non-tax charges** (such as utility fees) compared to counties and K-12 districts.



State and Federal Funds Combined Comprise Nearly Half of Total County Revenues, 2015-16



* Reflects revenues associated with business-type activities, such as airports and hospitals.

** Reflects a range of smaller revenue sources, including other taxes, fines, licenses, and permits.

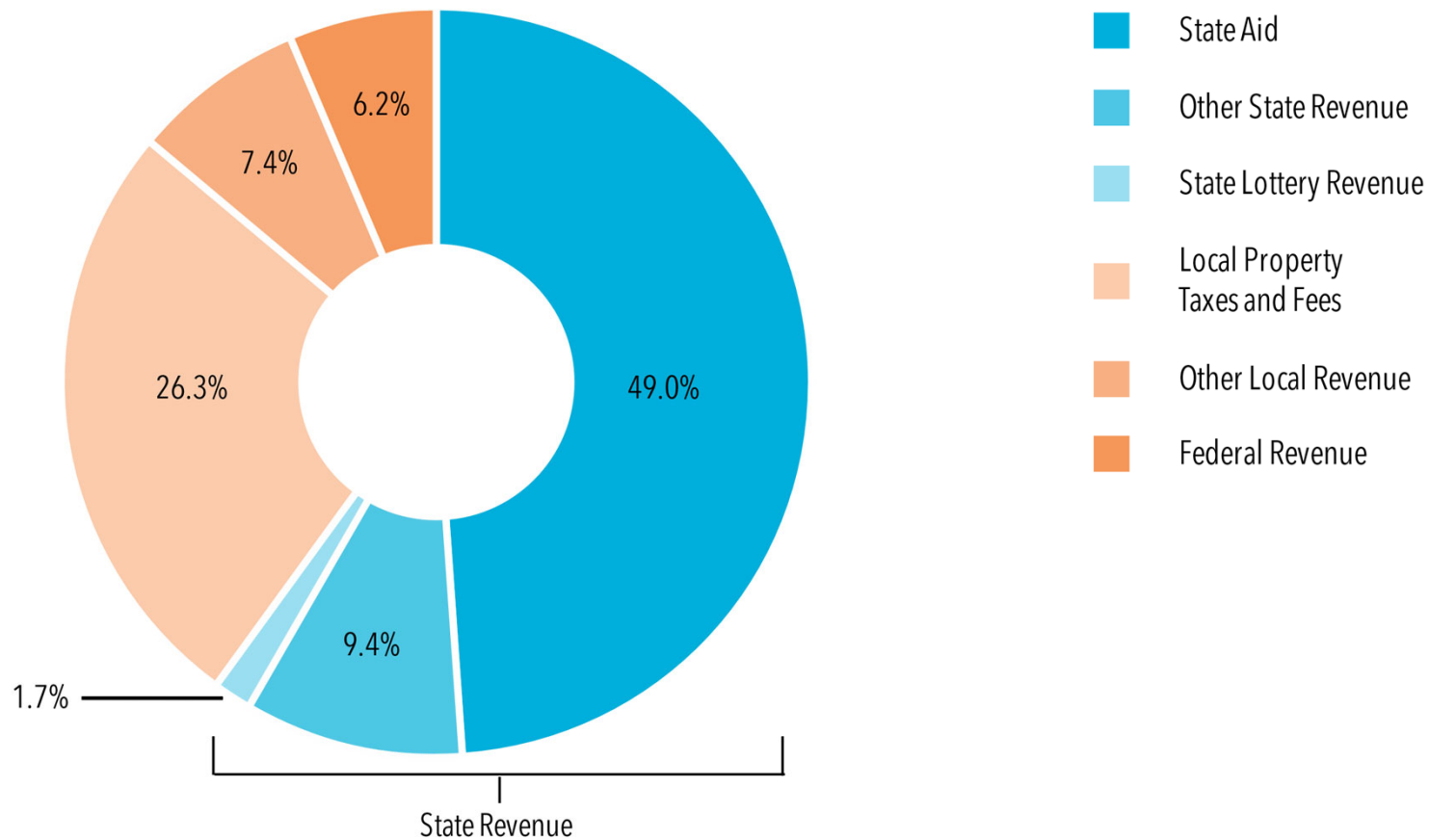
Note: Excludes the City and County of San Francisco. Percentages do not sum to 100 due to rounding.

Source: California State Controller's Office



The Majority of K-12 Education Funding Comes From the State

Revenues for K-12 School Districts and County Offices of Education, 2017-18



Note: Excludes capital project funds, debt service funds, and other financing sources not accounted for in school districts' and county offices of education's general funds.

Source: EdData



State Rules Determine How Cities, Counties, and K-12 Districts Can Raise Revenues

**Cities and counties have much broader
authority to raise taxes than do K-12 districts.**



Local Revenue-Raising Authority: The Rules

	Taxes (Except for Property Taxes)	Non-Tax Charges	Property Tax Rate Increase for Local Infrastructure Bonds***
Cities and Counties	<ul style="list-style-type: none"> ❖ General tax:* Simple majority approval of city or county voters ❖ Special tax:** 2/3 approval of city or county voters 	<ul style="list-style-type: none"> ❖ Voter approval not required 	<ul style="list-style-type: none"> ❖ 2/3 approval of city or county voters
K-12 School Districts	<ul style="list-style-type: none"> ❖ Parcel tax: 2/3 approval of K-12 district voters ❖ Sales tax for schools: 2/3 approval of county voters 	<ul style="list-style-type: none"> ❖ Voter approval not required 	<ul style="list-style-type: none"> ❖ 55% approval of K-12 district voters

* "General taxes" are unrestricted, meaning that they may be spent for any purpose at the discretion of a city council or county board of supervisors.

** "Special taxes" include both parcel taxes (whether levied by a city, a county, or a K-12 district) and taxes dedicated to a specific purpose or purposes.

*** Local governments cannot increase the property tax rate to raise revenues for services or general operating expenses. However, they may tax *parcels* of property to raise revenues for these purposes.



The Local Budget Process Determines How Revenues Are Allocated

Cities, counties, and K-12 districts are subject to varying state rules regarding how their budgets must be developed.

Still, there are some commonalities across jurisdictions.



When Does Budget Preparation Begin at the Local Level?

- Budget preparation **typically begins in the fall or winter** prior to the upcoming fiscal year (which runs from July 1 to the following June 30).
 - For example, for the 2020-21 fiscal year (which begins on July 1, 2020), budget preparation could begin in the fall of 2019 or the winter of 2020.
- Budget preparation **generally continues into the spring.**



Who Prepares the Local Budget?

- The **top executive** in the local government prepares the initial budget (also known as the “proposed” or “recommended” budget).
 - **Cities:** City manager or mayor (in strong-mayor cities) prepares the budget.
 - **Counties:** County manager prepares the budget (except in San Francisco, where the mayor is in charge).
 - **K-12 Districts:** District superintendent prepares the budget.



Are There Opportunities for Public Input as the Budget Is Being Developed?

- As the budget is being prepared, local governments may hold **budget workshops and/or formal meetings of the governing body** to discuss spending priorities and seek public input.
- The public **may also get involved in other ways**, such as by sharing their priorities directly with members of the governing body through letters, emails, and/or meetings.



When and How Does the Local Governing Body Adopt the Budget?

- The local governing body **must hold a public hearing** before the start of the new fiscal year to approve the annual spending plan.
- **Counties have two options:** They may **1)** adopt the budget by June 30 or **2)** approve an *interim* budget by June 30 and then formally adopt the budget by October 2.
- For all jurisdictions, **the local governing body may make any revisions** to the top executive's proposed budget that it deems advisable.



Local Budgets Are Typically Revised Throughout the Fiscal Year

- Local budgets are **reviewed and revised as new information becomes available**, such as updated revenue and spending projections or state funding decisions.
- This means:
 - Local budgets are never really “final” until after the fiscal year is over.
 - The public has multiple opportunities to engage with the local budget process and try to influence spending priorities.





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