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

- Federal Funds: 15.7%
- State Funds: 31.4%
- Property Taxes: 19.5%
- Enterprise Revenues*: 14.8%
- Charges for Current Services: 8.8%
- Other**: 9.7%

* 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

Note: Excludes capital project funds, debt service funds, and other financing sources not accounted for in school districts’ and county offices of educations’ 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

<table>
<thead>
<tr>
<th></th>
<th>Taxes (Except for Property Taxes)</th>
<th>Non-Tax Charges</th>
<th>Property Tax Rate Increase for Local Infrastructure Bonds***</th>
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</thead>
</table>
| Cities and Counties  | ❖ General tax:* Simple majority approval of city or county voters  
                     | ❖ Special tax:** 2/3 approval of city or county voters | ❖ Voter approval not required | ❖ 2/3 approval of city or county voters |
| K-12 School Districts| ❖ Parcel tax: 2/3 approval of K-12 district voters  
                     | ❖ Sales tax for schools: 2/3 approval of county voters | ❖ Voter approval not required | ❖ 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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