

# MUNICIPAL BUDGETING 101

INFORMATION FROM CALIFORNIACITYFINANCE.COM AND  
INSTITUTE FOR LOCAL GOVERNMENT

## **CITY REVENUES SOURCES LIMITED**

- Since the passage of Proposition 13 and Proposition 4 in the late 1970's, cities in California have been restricted in the kinds and amounts of revenue they can raise and spend
- The major sources of municipal revenue in Sutter Creek are property taxes, sales taxes and transit occupancy taxes (TOT). These revenues, unless otherwise allocated by the city, are the most important components of the city's general fund
- Those taxes, with the exception of TOT, are shared with the state and other local governments or special districts
- Other amendments to the state constitution, such as Proposition 218, have made it more difficult raise to certain kinds of taxes without voter or ratepayer approval

## **CITY REVENUE SOURCES (CONT.)**

- Additional sources of revenue that are generally unrestricted include business licenses, franchise fees, utility user tax (not in Sutter Creek), and state and federal subventions
- Cities also have other revenue sources that are restricted to specific uses – utility fees (sewer), development fees, and fines and forfeitures
- Revenues that go into the General Fund can be spent for any lawful city use
- Revenues that go into restricted funds must be spent for the designated purposes only
- Sewer fees in Sutter Creek are deposited in an enterprise fund. Enterprise funds are used to account for self-supporting activities that provide services on a user-charge basis. Fees charged should not exceed the cost of O&M and capital expenditures

# SALES TAX REVENUE

- Current sales tax in Sutter Creek is 7.75%
  - 6.00% - State
  - .25% - County (transportation)
  - 1.00% - Bradley-Burns (City)
  - .50% - special purposes (public safety)
  - Sutter Creek sales tax is below 57% of other jurisdictions in CA
  - Sacramento - 8.75%
  - Stockton – 9.00%

# PROPERTY TAX

- Value-based tax on real property
- Prop 13 limits to 1.00% of assessed value plus any voter-approved rates (school bonds, etc.)
- Limited to base value in assessed year plus annual inflation of 2.00%
- Property taxes are allocated by state law among counties, cities, schools and special districts
- Cities also receive property tax in lieu of VLF, which is designed to replace vehicle license fee revenue that was lost when the VLF was permanently reduced in 2004
- Sutter Creek shares property tax revenue with Sutter Creek Fire District

## TOT AND OTHER TAXES AND FEES

- Sutter Creek charges a 12.00% transient occupancy tax for stays of less than 30 days in hotels, BandBs, and other lodging. Explosion of Airbnb-type lodging has made this more difficult to enforce and collect
- Franchise fees from refuse and recycling operators, cable companies and utilities for use of streets and other city facilities. Important to keep these up-to-date
- A majority of the state's residents live in cities that collect a utility user tax for users of utilities such as telephone, electricity, gas, water and cable and internet. Sutter Creek does not have a UUT
- Sutter Creek charges \$174 for an annual business licenses. These licenses are required for businesses located and/or who do business in the city

# **CORE MUNICIPAL RESPONSIBILITIES (full-service city)**

- Public safety (police and fire\*)
- Water,\* sewer, refuse and recycling\*
- Streets and roads
- Parks and recreation
- Community development
- Municipal buildings and facilities
- Libraries\*
- Connectivity\*

# KEY BUDGETING CHALLENGES

- General fund growth does not keep up with the increase in costs of goods and services
- Without new development, rising costs of operating the city is spread out over a static base of taxpayers and residents
- State and federal aid to cities continues to decline from historic highs and most subventions are now earmarked for specific purposes
- Sales tax base is declining as state shifts to a more service-based economy
- Employee costs continue to grow, particularly with increased costs of healthcare and retirement
- Infrastructure improvements and maintenance are delayed as construction costs rise



# UNFORCED ERRORS AND LEARNING FROM THEM

- Be careful borrowing money
  - USDA bond – 1997
    - \$1.4 million to pay for \$818,00 in sewer improvements
    - By the time the bond is paid off the improvements will probably be near the end of useful life
  - Don't bet on new development to borrow money for infrastructure improvements
    - \$450,000 loan from ARSA (now \$570,000) – not built into any CIP and no way to pay for it, nothing to show for it.
  - Always try to get someone else to pay first for improvements that they need
    - EDA line replacement
    - \$1.1 million project
    - Only would have collected \$420,000 in connection fees

# UNFORECED ERRORS (CONT.)

- Always look a gift horse in the mouth
  - Eureka Mine
  - Knight Foundry
    - Indemnity clause
  - Historic grammar school
    - Make sure you can meet your responsibilities
- ARSA is a special case
  - Budget is outside of city control
  - Haven't been recouping unspent funds
  - Not run like an enterprise fund

## KEY TAKEAWAYS

- Remember core responsibilities first
- Solid financial footing begins with sound budgeting and a clear understanding of city's challenges and opportunities
- Don't overlook low-hanging fruit with revenue sources
- Look carefully at places to cut spending without impacting services
- Be open and transparent with community so it understands what the Council is doing with the budget and why