Occasional Papers

Local Budgets and Tax Policies in California and U.S. Cities: Surveys of City Officials

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Summary

This report compares and contrasts how city officials are confronting the challenges of local budget and tax policy in California and the rest of the United States. It offers a "snapshot in time" when city officials in California are coping with multiple fiscal issues: a sluggish economy that has yet to recover from the recession of 2001, multibillion dollar gaps between spending and revenues in the state budget, the latest round of tensions between state and local governments over the allocation of revenues and service responsibilities, and ballot measures that seek to remedy the fiscal situation. Throughout the United States, cities face fiscal challenges in the context of a federal budget deficit and of state and local finance systems constrained by declining intergovernmental revenues, long-term economic shifts, demographic changes, and political opposition to raising taxes. An analysis of city officials' opinions in California and the rest of the United States should be very informative to policymakers as they consider the future directions of local public finance. The opinions expressed in these surveys should help identify local fiscal issues, perceived needs, and possible solutions.

The results in the report are based on comprehensive surveys conducted from June to August 2004 by the National League of Cities, the League of California Cities, and the Public Policy Institute of California (PPIC). A direct mail survey was sent to city officials in all of California's 478 cities and to a random sample of 1,180 U.S. city officials outside of California. California city officials completed and returned a total of 241 surveys, a 50 percent response rate. U.S. city officials outside of California completed and returned a total of 372 surveys, a 32 percent response rate. These are the major findings from the surveys:

- Although facing numerous fiscal challenges, relatively few city officials say their city's fiscal conditions are in poor shape. However, California city officials are less likely than those in the rest of the United States to describe the city's fiscal conditions as excellent or good.

- A majority of city officials approve of how their city governments are handling budget and tax issues but disapprove of how their state legislatures are handling fiscal issues. A majority of city officials elsewhere in the United States also disapprove of the way their state governors handle fiscal issues. California goes the other way: A majority approve of Governor Schwarzenegger's handling of fiscal affairs.

- Most city officials say the federal budget deficit is at least somewhat of a problem for cities, and few city officials in California and elsewhere approve of the way President Bush and the U.S. Congress are handling budget and tax issues.

- City officials generally agree that their spending pressures are increasing over time. However, California city officials are much less likely than those elsewhere to say city government could spend less and still provide the same level of services.

- If spending cuts are needed, city officials are not inclined to support cuts in public safety programs or across-the-board cuts but most would favor cuts in general government. City officials in California are more inclined than others to be willing to make cuts in culture and leisure, social services, and streets and roads.

- If more revenues are needed, most city officials in the United States and in California say they would prefer to generate those revenues via user fees rather than through new taxes. They are most likely to favor new taxes to maintain spending for public safety and streets and roads, rather than social services, culture and leisure, and general government.

- Among the long-term trends affecting fiscal policy, city officials say intergovernmental challenges (unfunded mandates and cuts in aid) and political challenges (public pressure to limit taxes and lack of public trust in government) are of greatest concern. California city officials are more likely than others to express concern about federal and/or state preemption and special-interest pressures to limit taxes.

- Most city officials say that the system of public finance needs to be changed. Among U.S. city officials, the top two options for reform are a return to federal General Revenue Sharing and state authorization of local tax authority. The top two options for California city officials are taxing goods sold over the Internet and reducing supermajority vote requirements for increasing taxes and fees. Most California city officials believe that tax and spending limits are a bad idea, while the majority of city officials elsewhere see limits as a good idea.

- City officials see voters, businesses, and neighborhood groups as more likely to support than oppose fiscal reforms and see the state legislature and outside special interests groups as the groups most likely to oppose fiscal reform. Regarding governors, California once again bucks the trend: City officials in the U.S. say that their governors are likely to oppose fiscal reforms, but a majority of California city officials say that Governor Schwarzenegger is likely to support fiscal reforms.

Introduction

Local governments nationwide continue to confront fiscal challenges and new realities in budget and tax policy, even as a national economic recovery is underway. The federal budget deficit, along with sluggish economic growth in many of the nation's regions, translates into slow growth in local and state revenues, ongoing budget gaps between spending and tax revenues in many state budgets, and state-local tensions over state support for localities. Moreover, cities have new responsibilities, such as homeland security needs, that require additional resources. In California, the current fiscal constraints are compounded by a complicated system of state and local public finance developed since the imposition of Proposition 13 tax limitations, by longer-term economic and demographic changes, and by a political climate in which voters' distrust of government continues to shape fiscal policies.

To gauge the perceptions and preferences of city governments, the National League of Cities, the League of California Cities, and the Public Policy Institute of California sent a survey to city officials in all 478 California cities and to a random sample of 1,180 city officials outside of California. A total of 241 California questionnaires were returned from June to August 2004, for a 50 percent response rate; a total of 372 questionnaires were returned from U.S. city officials outside of California, for a 32 percent response rate. In the patterns of responses, the survey sought answers to the following questions:

- How do city officials perceive their city's fiscal conditions? How do city officials view local, state, and federal budget and tax policy?

- How much are spending pressures confronting city officials today? What types of spending cuts and revenue increases are most preferred? What types of services generate the most support for tax increases to maintain current funding?

- To what extent are fiscal reforms seen as a solution? What are city officials' perceptions of specific reform options? Which groups or individuals are seen as likely to support or oppose fiscal reforms?

- In what domains, if any, do California city officials responses vary dramatically from the responses of their counterparts in the rest of the United States?

- Do the city officials' responses outside of California vary across the Northeast, Midwest, South, and West and among small, medium, and large cities?

General Fiscal Perceptions

City Conditions

Although facing problems with budgets, spending, and revenues, few city officials in California and elsewhere say that their city faces a fiscal crisis. Nearly half of California city officials say that their cities' fiscal conditions are excellent (12%) or good (33%). City officials elsewhere are even more bullish: Six in 10 say they have excellent (22%) or good (40%) fiscal conditions. In California and elsewhere, relatively few city officials say that their city's fiscal conditions are poor (15% in California, 11% in the United States).

City officials in all regions of the country were more likely to report excellent or good fiscal conditions (65% in the South, 64% in the Northeast, 61% in the West, and 59% in the Midwest) than city officials in California (45%). City officials in California (12%) and elsewhere in the West (13%) were less likely than others to say their fiscal conditions are excellent. It is worth noting that officials in the Midwest (15%) were as likely as those in California (15%) to give their cities poor fiscal ratings.

Outside of California, city population size and ratings of a city's fiscal conditions were related. In cities of 100,000 or more, city officials were less likely to report excellent fiscal conditions (10%) than in cities with smaller populations (17% in cities under 10,000, 26% in cities between 10,000 and 49,999, and 23% in cities between 50,000 and 99,999). In California, the city's population size was unrelated to reports of city fiscal conditions.

Table 1
"How would you rate fiscal conditions in your city today?"

			Region			
	U.S.	**CA**	**Northeast**	**Midwest**	**South**	**West**
Excellent	22%	12%	25%	19%	27%	13%
Good	40	33	39	40	38	48
Fair	26	39	23	26	27	28
Poor	11	15	11	15	5	11
Don't know	1	1	2	0	3	0

Fiscal Approval Ratings

As another indication that city officials believe that their cities are coping with current fiscal circumstances, the vast majority of city officials in California (95%) and in the rest of the United States (84%) say they approve of the way that their city governments have handled budget and tax issues. Although this approval is highest in California and elsewhere in the West (91%), the percentages are high for all other regions as well (86% Midwest, 82% South, and 79% Northeast).

These high ratings stand in stark contrast to city officials' rating of state legislatures. City officials do not approve of the handling of budget and tax issues by state legislatures. In the rest of the United States, only 19 percent say they approve of the legislatures' handling of these matters—and that drops to 3 percent in California.

When it comes to the governor's handling of state budget and tax issues, California city officials go the other way: Only 33 percent of U.S. city officials say they approve of their governor's performance, but 56 percent of California city officials give Governor Arnold Schwarzenegger a thumbs up. Moreover, that rating is significantly higher than the ratings given governors in all other regions (39% West, 36% South, 32% Northeast, and 30% Midwest). This result is, of course, in the context of Governor Schwarzenegger's having reached agreement with city officials on ways to provide greater protection of local governments from future reductions in state funding.

Outside of California, officials in cities with a population of 100,000 or more are more likely to say they approve of the governor's handling of budget and tax issues (48%) than city officials in smaller cities (33% under 10,000, 33% for 10,000 to 49,999, and 26% for 50,000 to 99,999). City size makes no difference in ratings in California.

In California, only one in five city officials say that they approve of the way that the president is handling fiscal issues, compared with one in three officials elsewhere in the United States. City officials in the South and West give higher ratings to the president than in the Northeast and Midwest. City officials give the U.S. Congress even lower approval ratings on fiscal issues.

Table 2
"Do you approve or disapprove of the way that governments are handling budget and tax issues?"
(% responding "approve")

	U.S.	CA	Region Northeast	Midwest	South	West
Your city government	84%	95%	79%	86%	82%	91%
Governor	33	56	32	30	36	39
State Legislature	19	3	13	16	22	24
President Bush	31	20	23	28	36	37
U.S. Congress	15	9	13	18	12	13

Federal Budget Deficit

Since the economic recession of 2001, the federal government has run significant annual deficits. The Congressional Budget Office projects that the federal deficit for 2004 will be $477 billion. In our surveys, city officials are quite concerned about the size of the federal budget deficit and city dependence upon the federal government for funding city programs.

Nearly all city officials say that the federal budget deficit presents at least somewhat of a problem for them (86% in California, 82% elsewhere). City officials in California (33%) are less likely than city officials elsewhere (47%) to see the federal budget deficit as a big problem and particularly less likely than city officials elsewhere in the West (61%).

Outside of California, the perception that the federal deficit presents a big problem is greater in cities with a population of 100,000 or more (57%) and with a population between 50,000 and 99,999 (58%) than in less populated cities (10,000-49,999, 44%; less than 10,000, 45%). Again, there is no such correlation across cities of different population sizes in California.

Table 3
"How much do you think the federal deficit is a problem for cities?"

	U.S.	CA	Region Northeast	Midwest	South	West
Big problem	47%	33%	48%	45%	44%	61%
Somewhat of a problem	35	53	34	37	33	33
Not a problem	12	8	9	13	15	2
Don't know	6	6	9	5	8	4

Revenue and Spending Pressures

Spending Pressures

Although city officials remain upbeat about their local budgets, their cities confronted a variety of fiscal challenges as revenue collections slowed while spending pressures persisted. Moreover, cities are confronting a host of added commitments, such as local homeland security. Looking at the past five years, four in five city officials in the rest of the United States (81%) and California (85%) say their city's range of responsibilities has increased. Moreover, four in five expect their commitments to increase further over the next five years (82% in California, 81% elsewhere). No appreciable differences are evident by city size, region, or tax structure.

Despite city officials' perceptions of increasing commitments and responsibilities, the public's perception is often that, by cutting the waste in spending, their governments could spend less public money and maintain the same level of services. That is the opinion of many California residents, for example, in the PPIC Statewide Surveys. When asked if they think their city government could spend less and still maintain the same level of services, only one in three city officials in California think it would be possible. Although a slim majority of city officials elsewhere say they can spend less and still provide the same level of services, 41 percent say they cannot.

Table 4
"How has the range of your city's responsibilities and commitments changed over the past five years? How do you think those responsibilities and commitments will change over the next five years?"

	U.S. Cities	CA Cities
Increased in past five years	81%	85%
Increase in next five years	81	82

Table 5
"Do you think that your city government could spend less and still provide the same level of services?"

	U.S. Cities	CA Cities
Yes	52%	33%
No	41	66
Don't know	7	1

Spending Cuts

Which types of local spending cuts would be most acceptable, and which areas of the budget should be protected? For city government officials faced with fiscal constraints, the choices they make in this arena can have important consequences for their constituents. Even though city officials in California are more likely than others to believe that they cannot provide the same level of services with less money, they are more willing to make local spending cuts.

California city officials are more willing than those elsewhere in the United States to makes cuts in general government (74% to 58%), culture and leisure activities such as parks and recreation (70% to 46%), social services (67% to 37%), streets and roads (58% to 26%), and public safety (38% to 14%). However, they are less willing than those elsewhere to make across-the-board cuts (23% to 32%).

The greater willingness to cut spending among California city officials reflects a fiscal pattern that is consistent in the West. City officials in the West are more likely than city officials in other regions to say they would make cuts in general administration (70%), culture and leisure (67%), social services (48%), and streets and roads (39%). Similar to their California counterparts, city officials in the West are also less likely to be willing to make across-the-board cuts (24%) than their counterparts in the Northeast (36%), Midwest (35%), and South (30%).

Table 6
"If your city is faced with making future cuts in spending, would you make cuts in the following areas?"
(% saying "yes")

	U.S.	CA	Region			
			Northeast	Midwest	South	West
General government	58%	74%	46%	62%	55%	70%
Culture and leisure	46	70	36	46	41	67
Social services	37	67	34	37	35	48
Streets, roads	26	58	20	28	21	39
Public safety	14	38	11	19	12	11
Across-the-board	32	23	36	35	30	24

Note: See Appendix A for a detailed description of each category of expenditures.

Revenue Increases

Cities are also facing fiscal pressures from the sluggish economy and the slow growth or declines in tax revenues resulting from that. Their revenue streams can also be reduced by state and federal actions as those levels of government try to cope with their own budget pressures. What would city officials prefer to do if they had to increase local revenues? Once again, this is an important issue for city governments from a fiscal, economic, and political standpoint.

If their cities need general additional revenues to cover service needs, a large majority of city officials in California (82%) and the rest of the United States (73%) say they would prefer to raise or impose user fees. Relatively few express a willingness to raise taxes.

One in three city officials in California and elsewhere in the country would consider a sales tax increase. City officials elsewhere (37%) are more likely to say they would be willing to raise property tax rates than city officials in California (22%), perhaps reflecting the constraints on local property taxes in California under Proposition 13. California city officials (44%) are more willing to raise other taxes than city officials elsewhere in the nation (30%). Few city officials say they would consider a local income tax. It is important to note that there are regional variations in the ability to increase revenues—for instance, whether or not states in certain regions are likely to allow a local sales tax.

Regionally, city officials in the Northeast (52%) are more likely to say they would raise property tax rates than city officials in the Midwest (31%), South (34%) and West (41%). Northeastern city officials (14%) are less likely to say they would raise sales tax rates than city officials in the Midwest (32%), South (30%), and West (39%). Similar to trends in California, city officials elsewhere in the West (85%) are more willing to raise fee rates or impose new fees than city officials in other regions.

Table 7
"If your city needs to generate additional revenue in the future, would you be willing to raise tax and/or fee rates, or impose new taxes and/or fees to generate those revenues?"
(% saying "yes")

			Region			
	U.S.	**CA**	**Northeast**	**Midwest**	**South**	**West**
Property tax	37%	22%	52%	31%	34%	41%
Sales tax	30	35	14	32	30	39
Income tax	14	5	13	20	5	17
Other tax(es)	30	44	34	28	27	39
User fees	73	82	73	73	72	85

Notes: Levying local income taxes would have to first be authorized by the state government. See Appendix A for a detailed description of each category of revenues.

Budget Gaps

The spending and revenue pressures of the last several years are forcing many cities to deal with a structural deficit—that is, a persistent gap between expenditures and revenues. Because, in most states, cities are required by law to balance their budgets, these budget gaps must be covered through tax and fee rate increases, spending cuts, borrowing, or some combination of these alternatives.

Most city officials in California (69%) and elsewhere (61%) prefer to use a mix of spending cuts, tax increases, and fee increases when faced with a budget gap. Far fewer say that they prefer spending cuts alone (30% elsewhere, 19% in California), nor do many prefer tax increases alone, fee increases alone, or borrowing money to cover budget gaps. The responses of city officials outside of California are consistent across regions of the country and small, medium, and large cities.

A major issue for city officials is determining what warrants an increase in local taxes. A majority in California (72%) and elsewhere in the United States (76%) say they would consider raising taxes to maintain current funding for public safety. By a smaller majority, they would support raising local taxes for streets, roads, and transportation (60% in California, 58% elsewhere). Far fewer would be willing to raise taxes for culture and leisure activities (34% in California, 27% elsewhere), social services (25% in California, 29% elsewhere), or general government (20% California, 24% elsewhere). Outside of California, city officials in larger cities are less likely than those in smaller cities to favor raising taxes for streets, roads, and transportation. In California, city officials in larger cities are more likely than those in smaller cities to say they would raise taxes to maintain the current funding for social services.

Table 8
"Would you be willing to consider raising additional revenues via taxes in order to maintain current funding for the following local services in the future?"
(% saying "yes)

	U.S.	CA	Population <10,000	 10,000-49,999	 50,000-99,999	 >100,000
Public safety	76%	72%	71%	78%	79%	81%
Streets, roads, transportation	58	60	59	62	47	43
Social services	29	25	28	32	21	29
Culture and leisure activities	27	34	25	31	16	19
General government	24	20	22	30	7	19

Long-Term Trends

There are also major national trends that affect local fiscal conditions and that are outside the jurisdiction and control of city governments. In other words, these are circumstances that are not directly tied to local budgets and tax policies. Some of these long-term trends are shifts in the composition of the economy and the related effects for the tax system, demographic changes, ongoing changes in the intergovernmental system, and political challenges such as distrust in government.

Over the next five years, city officials in California and throughout the United States think that the largest challenges will come from changes in the intergovernmental system, including cuts in federal or state support for cities (88% in California, 81% elsewhere) and federal or state mandates (82% in California and 87% elsewhere). However, city officials in California are more likely to identify federal or state preemption of local authority as a large challenge (89% in California, 69% elsewhere). Their level of concern on this issue is closer to the level of concern of other city officials in the West (80%) than of those in the Northeast (64%), Midwest (69%), or South (67%). California city officials are also more likely to be concerned about devolution of responsibility to local governments (75% in California, 65% elsewhere).

Officials across the country believe that political challenges loom large on the horizon. Seven in ten think that public and voter pressure to limit taxation (77% in California, 69% elsewhere) and public perceptions of waste in government (75% in California, 73% elsewhere) pose significant challenges over the next five years. However, city officials in California are more concerned than their counterparts elsewhere about other political challenges. These include special interest pressure to limit taxation (69% to 46%), lack of public trust in government (70% to 60%), and lack of civic ties between government and the people (60% to 53%). California city officials are particularly more likely to see lack of civic ties as a problem than their counterparts elsewhere in the West (40%).

A majority of city officials in California and the rest of the country also see economic challenges and demographic changes as important concerns, particularly competition for economic growth among jurisdictions (70% in California and elsewhere) and increases in the aging population (69% in California, 67% elsewhere).

Table 9
"How large of a challenge do you consider each of the following trends and challenges for your city over the next five years?"
(% responding “somewhat” or “large”)

	U.S. Cities	CA Cities
Economic Shifts		
Increasing mobility of business, capital, and people	65%	58%
Pressures from industry groups with special needs	40	42
Shift from manufacturing to services economy	56	57
Competition for economic growth among jurisdictions	70	70
Demographic Changes		
Increase in aging population	67%	69%
Increase in school-age population	48	48
Increase in immigrant populations	51	52
Changing composition of households	47	39
Rapid growth, development, and “sprawl”	52	57
Changes in the Intergovernmental System		
Federal and/or state unfunded mandates	82%	82%
Federal and/or state preemption of local authority	69	89
Cuts/limits in state and/or federal support	81	87
Devolution of responsibility to local governments	65	75
Changes in federal and/or state tax systems	64	63
Political Challenges		
Public/voter pressure to limit taxation	69%	77%
Special interest pressure to limit taxation	46	69
Public perception that government is wasteful	73	75
Lack of civic ties between government and people	53	60
Lack of public trust in government	60	70

Options for Reform

Need for Change?

Most city officials claim that their city's financial conditions are sound today, but they are concerned about the spending pressures that they have been facing and the long-term issues that will present fiscal challenges. Do these pressures and issues indicate that the cities' system of public finance is in need of change? Three in four city officials in the United States (74%) and nearly nine in ten in California (87%) say yes. However, California city officials are considerably more likely to say that major changes are needed (56% in California, 22% elsewhere). Only 16 percent of city officials elsewhere and 9 percent in California say that no change is needed.

In cities outside of California, there are no appreciable differences by region, city size, or tax structure. However, support for major changes increases with population size in California. Fewer than half (44%) of city officials in cities under 10,000 in population say that major changes are needed, compared to 56 percent in cities with populations of 10,000 to 49,999, 61 percent in cities of 50,000 to 99,999, and 66 percent in cities over 100,000.

Table 10
"In general, does the system of public finance, which includes your city's finances, need to be changed?' ***If yes,*** **"Are major or minor changes needed?"**

	U.S. Cities	CA Cities
Yes, major changes	22%	56%
Yes, minor changes	52	31
No changes	16	9
Don't know	10	4

Reform Options

The surveys presented city officials with a variety of options for fiscal reform and asked them to indicate whether they think each option is a good or a bad idea. Property tax-related reforms include strengthening the property tax by reducing or eliminating limits on local property tax rates and assessments, taxing commercial property at higher rates than residential properties, or shifting to a land value tax, which would exclude the value of structures and improvements on the land. Options that relate to sales tax include taxing goods sold over the Internet and extending the sales tax to services. City officials were also asked about a local commuter income tax, which would tax incomes of nonresidents that commute into their cities. Other options included reducing or eliminating tax exemptions, reducing super-majority vote requirements for increasing local taxes and fees, establishing a federal program like the General Revenue Sharing program that existed from 1970-1986, and state authorization for use of additional tax sources by local governments.

The most-favored reform option for both California and other U.S. city officials is re-instituting some form of federal general revenue sharing (69% in California, 73% elsewhere). This is a reform that would provide both more federal resources and flexibility in local spending. California city officials are more likely than their counterparts elsewhere to support the options of taxing goods sold over the Internet (84% to 57%), reducing super-majority vote requirements (81% to 31%), reducing or eliminating tax exemptions (64% to 42%), extending sales taxes to services (64% to 37%), and strengthening the local property tax (60% to 40%). Two fiscal options with little support from California and other U.S. city officials are a commuter income tax (23% in California, 33% elsewhere) and a land value tax (27% in California, 27% elsewhere).

Table 11
Reform Options
(% responding "good idea")

	U.S. Cities	CA Cities
General revenue sharing	73%	69%
State authorize other tax sources	63	71
Tax goods sold over the Internet	57	84
Reduce/eliminate tax exemptions	42	64
Strengthen local property tax	40	60
Higher commercial property tax rates	39	42
Extend sales tax to services	37	64
Commuter income tax	33	23
Reduce super-majority vote requirement	31	81
Land value tax	27	27

Tax and Spending Limits

The local tax and spending limit is one type of fiscal reform that has been implemented in recent decades. These limits can constrain local governments' ability to implement other fiscal reforms—especially those that might generate tax revenues. For instance, Proposition 13 in California lowered property tax rates, placed limits on annual increases, and required a supermajority vote to pass special local taxes. Other states have local spending and tax limits, and many voters and special interest groups continue to support this type of fiscal reform. To what extent do city officials believe these limits are a good idea?

In light of the history of Proposition 13, it is noteworthy how much city officials in California differ from city officials elsewhere in attitudes toward tax and spending limits. The majority of California city officials (52%) say they think the limits are sometimes (30%) or always a bad idea (22%). In contrast, slightly more than half of city officials elsewhere (52%) think tax and expenditure limits are a good idea. Only one in three (37%) believes that these limits are sometimes (22%) or always (15%) a bad idea.

However, city officials in the West are slightly more negative than California officials and much more negative than officials in other regions. Sixty-three percent of officials in the West say that tax and spending limits are a bad idea, compared to 39 percent in the South, 36 percent in the Midwest, and 20 percent in the Northeast. These differences in attitude may be related to the fact that tax and expenditure limits are often imposed via voter initiatives, and referenda and such direct-democracy mechanisms are more common in Western states than elsewhere.

In the rest of the country, city officials in cities with populations of 100,000 or more (47%) and populations between 50,000 and 99,999 (49%) are more likely to say that tax and expenditure limits are a bad idea than city officials in cities of 10,000 (29%) and those with populations between 10,000 and 49,999 (40%).

Table 12
"In general, what do you think about tax and spending limits (for example, a property tax restriction or annual limits on revenue and spending levels)?"

			Region			
	U.S.	CA	Northeast	Midwest	South	West
Always a bad idea	15%	22%	11%	13%	18%	26%
Sometimes a bad idea	22	30	9	23	21	37
Sometimes a good idea	45	40	52	48	44	30
Always a good idea	7	2	16	7	4	2
Don't know	11	6	12	9	13	5

Sources of Opposition and Support

Whatever concerns they might have about voter distrust, seven in 10 city officials in California, and six in 10 city officials elsewhere, believe voters and neighborhood groups are among those most likely to support fiscal reforms. They believe support is also forthcoming from their colleagues in City Hall (78% in California, 70% elsewhere) and from businesses (65% in California, 60% elsewhere).

City officials also believe that their state governors are more likely to support than to oppose fiscal reform. However, California officials are much more likely to believe their governor will support reform (71% in California, 45% elsewhere). While much of this difference may have to do with Governor Arnold Schwarzenegger's considerable popularity, city officials elsewhere in the West are generally more likely (63%) than those in the Northeast (34%), Midwest (41%), and South (50%) to have that view of governors.

Who is seen as opposing fiscal reform? In California and elsewhere, the majority of city officials believe that special interests are more likely to oppose than support fiscal reforms (55% in California, 50% elsewhere). They believe the same of state legislatures, but the feeling is stronger in California (65%) than elsewhere (41%). Again, this reflects differences among regions. Fifty-seven percent of city officials in the West say that their state legislatures are likely to oppose fiscal reforms, compared to one in three city officials in the Northeast (32%), Midwest (35%), and South (35%).

Table 13
"Do you think the following groups are more likely to support or oppose fiscal reforms?"

	U.S. Cities	CA Cities
Business		
Oppose	25%	24%
Support	60	65
Don't know	15	11
Neighborhoods		
Oppose	22%	18%
Support	60	70
Don't know	18	12
Special Interests		
Oppose	50%	55%
Support	24	19
Don't know	26	26
Voters/Residents		
Oppose	25%	14%
Support	61	69
Don't know	14	17
Governor		
Oppose	29%	11%
Support	45	71
Don't know	26	18
State Legislature		
Oppose	41%	65%
Support	35	21
Don't know	24	14
City Hall		
Oppose	13%	8%
Support	70	78
Don't know	17	14

Appendix A. Survey Methodology

The results presented here are from the Future of Public Finance Survey conducted by the National League of Cities, League of California Cities, and the Public Policy Institute of California. Survey efforts were overseen by Chris Hoene, research manager at the National League of Cities. The findings in this report are based on a direct mail survey of city officials in all 478 cities in California and in 1,180 other cities in the rest of the United States, conducted from June to August 2004. Questionnaires were completed via an Internet survey protocol using secure passwords provided to each city or were returned to the National League of Cities, where they were compiled and coded. The survey data were analyzed at the Public Policy Institute of California and the National League of Cities.

California Survey

This survey was sent to city officials in all 478 cities in California. Most of the respondents (95%) were nonelected officials such as city managers. The number of usable responses totaled 241, for a response rate of 50 percent. The survey is representative of the responses of city officials in cities across California. The survey responses are closely comparable to the distribution of cities across the state by population size and region. The findings do not change significantly when we use statistical weighting to correct for a slight overrepresentation of cities of between 50,000 and 99,000 in population and a slight underrepresentation of cities of 10,000 or less.

Table 14

City population	% of 478 cities statewide	% of 241 survey responses
<10,000	26	22
10,000 - 49,999	44	43
50,000 - 99,999	18	22
>100,000	12	13

Table 15

Region	% of 478 cities statewide	% of 241 survey responses
Central Valley	19	21
San Francisco Bay Area	21	21
Los Angeles	19	19
Other Southern California	23	22
Other	18	17

National Survey

Using established sampling techniques, the survey was sent to a random sample of 1,180 U.S. cities. The survey was sent to elected officials, who were asked to direct the survey to the primary city staff member in charge of city finances. The number of usable responses was 372, for a response rate of 32 percent. The survey is not fully representative of the responses of city officials nationwide, although it does offer a good cross-section of responses from a large number of city officials. The preponderance of small cities in the national distribution of cities led to sampling techniques designed to ensure an adequate number of responses from larger cities. Because of the separation and oversampling of California cities for the purposes of this analysis, the number of responses from cities in the west is lower than it would be normally.

Table 15

Population size	Response Rate (%)	Region	Response Rate (%)
<10,000	32.5	Northeast	15.3
10,000 – 49,999	49.7	Midwest	40.3
50,000 – 99,999	11.8	South	30.4
>100,000	5.9	West	12.6

Throughout the report, we refer to cities of different population sizes—less than 10,000; 10,000 to 49,999; 50,000 to 99,999; and 100,000 or more. We also draw comparisons among regions defined by the U.S. Census—Northeast, Midwest, South, and West—which include cities in the following states:

Table 16

Northeast	Midwest	South	West
Connecticut	Illinois	Alabama	Alaska
Maine	Indiana	Arkansas	Arizona
Massachusetts	Iowa	Delaware	California
New Hampshire	Kansas	District of Columbia	Colorado
New Jersey	Michigan	Florida	Hawaii
New York	Minnesota	Georgia	Idaho
Pennsylvania	Missouri	Kentucky	Montana
Rhode Island	Nebraska	Louisiana	Nevada
Vermont	North Dakota	Maryland	New Mexico
	Ohio	Mississippi	Oregon
	South Dakota	North Carolina	Utah
	Wisconsin	Oklahoma	Washington
		South Carolina	Wyoming
		Tennessee	
		Texas	
		Virginia	
		West Virginia	

At various points in the paper, we refer to categories of expenditures and revenues. Expenditure categories include public safety (police, fire, emergency services), streets, roads, and transportation (as well as planning functions), social services (including human services and community development), culture and leisure activities (parks and recreation, libraries), and general government (administration, personnel). Revenue categories include local property tax, local sales taxes, income taxes (not levied locally; levying local incomes taxes would require state authorization), other taxes (including utility user's taxes, business taxes, and tourist-related taxes for lodging, restaurants, and amusements), and user fees.

Appendix B. Survey Questionnaire – National Sample

NATIONAL LEAGUE OF CITIES
LEAGUE OF CALIFORNIA CITIES
PUBLIC POLICY INSTITUTE OF CALIFORNIA
Future of Public Finance Survey

[Note: Responses from 372 U.S. city officials from June-August 2004]

1. How would you characterize your city in terms of **location within your region**? *(Circle one)*

   22% Central city   46% Suburban   32% Rural/Non-metropolitan

2. Which source of revenue makes up the **largest share** of your city budget? *(Circle one)*

   58% Property tax   20% Sales tax   8% Income tax   5% User fees/Charges
   3% State revenues   0% Federal revenues   6% Other______________________

3. Does your municipality have **fiscal responsibility/authority** over local schools/school districts? *(Circle one)*

   11%Yes   86% No   3% Don't know

4. Which source of revenue makes up the **second largest share** of your city budget? *(Circle one)*

   23% Property tax   20% Sales tax   6% Income tax   17% User fees/Charges
   21% State revenues   1% Federal revenues   12% Other ______________________

5. How would you rate **fiscal conditions** in your city today? *(Circle one per line)*

   22% Excellent   40% Good   26% Fair   11% Poor   1% Don't know

6. Would you consider yourself to be politically (regardless of whether city elections are partisan or nonpartisan)… *(Circle one)*

   2% Very liberal1   8% Somewhat liberal   32% Middle-of-the-road
   36% Somewhat conservative   11% Very conservative   1% Other

7. Do you think of yourself as closer to the Republican Party or Democratic Party (regardless of whether city elections are partisan or nonpartisan)? *(Circle one)*

   42% Republican Party   37% Democratic Party   20% Neither   1% Other/Don't know

8. Is your municipality currently constrained by a tax and/or spending limit (for example, a property tax restriction or annual limits on revenue and/or spending levels)? *(Circle one)*

   44% Yes   49% No   7% Don't know

SPENDING AND TAX PRESSURES

Over the past several years, many cities have experienced declining fiscal conditions. The following questions seek to gauge your views on how fiscal stress should be dealt with in your city.

9. How has the range of your city's responsibilities and commitments changed over the past five years? How do you think those responsibilities will change over the next five years? *(Circle one per line)*

A.Past 5 years?	81% Increased	4% Decreased	12% No change	3% Don't know
B.Next 5 years?	81% Increase	4% Decrease	8% No change	7% Don't know

10. How would you prefer to deal with situations when expenditures exceed revenues in your city? *(Circle one)*

30% Mostly through spending cuts 1% Mostly through tax increases
1% Mostly through fee increases 61% Mixture of spending cuts, tax increases, and fee increases
0% Borrow money to cover short-term shortfalls 7% Other____________ 1% Don't know

11. If your city is faced with making future cuts in spending, would you make cuts in the following areas? *(Circle one per line)*

	Yes	**No**	**Maybe**	**Don't know**
A. Public safety (police, fire, EMS)	14%	60%	20%	6%
B. Streets, roads, transportation and/or planning	26%	31%	36%	7%
C. Social services (human and/or community development)	37%	22%	33%	8%
D. Culture and leisure activities (parks, libraries)	46%	13%	34%	7%
E. General government (administration, personnel)	58%	12%	23%	7%
F. Across the board cuts	32%	28%	29%	11%

12. If your city needs to generate additional revenues in the future, would you be willing to raise tax and/or fee rates, or impose new taxes and/or fees to generate those revenues? *(Circle one per line)*

	Yes	**No**	**Maybe**	**NA**
A. Property tax	37%	30%	26%	7%
B. Sales tax	30%	24%	16%	30%
C. Income tax	14%	33%	12%	41%
D. Other tax(es)	30%	14%	35%	21%
E. User fees	73%	6%	17%	4%

13. Would you be willing to consider raising additional revenues via taxes **in order to maintain** current funding for the following local services in the future? *(Circle one per line)*

	Yes	No	Don't Know	NA
A. Public safety (police, fire, EMS)	76%	13%	8%	3%
B. Streets, roads, transportation and/or planning	58%	25%	14%	3%
C. Social/human services and/or community development	29%	45%	19%	7%
D. Culture and leisure activities (parks, libraries)	27%	50%	16%	7%
E. General government (administration, personnel)	24%	55%	15%	6%
F. K-12 education spending	20%	17%	7%	56%

14. Do you think that your city government could spend less and still provide the same level of services? *(Circle one)*

6% Yes, a lot less   46% Yes, a little less   41% No, could not spend less   7% Don't know

15. Do you approve or disapprove of the way that governments are handling budget and tax issues? *(Circle one per line)*

a. Your city government	84% Approve	13% Disapprove	3% Don't know
b. Your governor	33% Approve	59% Disapprove	12% Don't know
c. Your state legislature	19% Approve	75% Disapprove	6% Don't know
d. President George W. Bush	31% Approve	57% Disapprove	12% Don't know
e. The U.S. Congress	15% Approve	72% Disapprove	13% Don't know

16. In general, what do you think about tax and spending limits (for example, a property tax restriction or annual limits on revenue and spending levels)? *(Circle one)*

15% Always a bad idea   22% Sometimes a bad idea   45% Sometimes a good idea
7% Always a good idea   1% Don't know

17. When it comes to changing the way your city taxes and spends money, which approach do you most prefer? *(Circle one)*

51% Mayor and/or council should decide
0% State government (governor and/or state legislature) should decide
11% Voters should decide at the ballot box
35% City should engage in a large-scale citizen engagement process; then mayor and/or council make decision
1% Other________________________
2% Don't know

PRINCIPLES OF PUBLIC FINANCE

18. When making decisions about your city's finances, how important are the following principles of public finance? *(Circle one per line, on a scale from 1-not important to 4-very important)*

	Not Important			**Very Important**	**Don't know**
A. **Taxpayer equity:** a fair distribution of tax and revenue burdens	2%	3%	24%	68%	3%
B. **Intergovernmental equity:** fair distribution of revenues and responsibilities across levels of government and jurisdictions	3%	9%	35%	49%	4%
C. **Revenue Adequacy:** adequate revenues to meet service needs	1%	3%	29%	63%	4%
D. **Ease of Administration:** costs of revenue collection	4%	10%	45%	37%	4%
E. **Economic effects:** how budget and tax decisions impact the behavior of individuals and firms	1%	9%	37%	48%	5%
F. **Accountability:** the ability of residents to understand the system	2%	7%	31%	57%	3%
G. **Self-directed governance:** local authority and autonomy	3%	9%	29%	54%	5%
H. **Responsibility to the broader system:** the impact of budget decisions on other jurisdictions and levels of government	7%	15%	38%	29%	11%
I. **Other**______________________________	1%	2%	2%	6%	89%

19. Which of the following revenue sources do you think is **most fair** in terms of its ability to equitably distribute revenue and tax burdens? *(Circle one)*

18% Property tax   33% Sales tax   24% Income tax   17% User fees/charges   8% Don't know

20. Which of the following revenue sources do you think is the **most effective** at providing adequate revenues to meet needs in your city? *(Circle one)*

47% Property tax   25% Sales tax   13% Income tax   5% User fees/charges   10% Don't know

21. Which of the following revenue sources do you think has the **least negative** effect on economic behavior of individuals and firms in your city? *(Circle one)*

10% Property tax   31% Sales tax   17% Income tax   27% User fees/charges   15% Don't know

22. Which of the following revenue sources is **most desirable** to have in terms of local authority? *(Circle one)*

41% Property tax   24% Sales tax   11% Income tax   13% User fees/charges   11% Don't know

23. Taking this all into account (questions 29-33), which of the sources would you **rate the highest**? *(Circle one)*

38% Property tax   26% Sales tax   19% Income tax   8% User fees/charges   9% Don't know

TRENDS AND CHALLENGES

A number of trends and factors are impacting city fiscal conditions that are largely outside of city control. The questions below attempt to gauge your views on the challenges presented by these trends.

24. How large of a challenge to you consider each of the following **trends and challenges** for your city over the next 5 years? *(Circle one per line, on a scale from 1–Little or no challenge to 4-Very large challenge)*

	Little or no challenge	Somewhat of a challenge	Large challenge	Don't know
A. Increasing mobility of business, capital, and people	27%	61%	4%	8%
B. Increasing aging population	26%	64%	3%	10%
C. Federal and/or state unfunded mandates	11%	78%	4%	7%
D. Public/voter pressure to limit taxation	24%	67%	2%	7%
E. Increasing pressure from industry groups	53%	37%	3%	7%
F. Increasing school-age population	44%	41%	7%	8%
G. Federal and/or state preemption of local authority	23%	64%	5%	9%
H. Political pressure by special interest groups	47%	44%	2%	7%
I. Shift from manufacturing-to services-economy	36%	51%	5%	8%
J. Increasing immigrant populations	43%	47%	4%	6%
K. Cuts or limits in state and/or federal fiscal support	12%	78%	3%	7%
L. Public perceptions that government is wasteful	20%	71%	2%	7%
M. Competition for economic growth across jurisdictions	23%	66%	4%	7%
N. Changing composition of households	47%	43%	4%	6%
O. Devolution of responsibilities to local governments	27%	59%	6%	8%
P. Lack of strong civic ties between government/residents	40%	51%	2%	7%
Q. Lack of public trust in government	33%	58%	2%	7%
R. Rapid growth, development, and/or sprawl	40%	49%	3%	8%
S. Changes in federal and/or state tax systems	27%	60%	4%	9%

25. Of the trends and challenges listed in question 35, which **three** do you think will have the **largest fiscal and economic impact** on your city over the next five years? *(Enter the letters for the options listed in Question 35 in the blanks provided below. For example, "lack of public trust in government" would be entered as "Q.")*

44% C.   37% K.   18% R.

OPTIONS FOR REFORM

26. In general, does the system of public finance, which includes your city's finances, need to be changed? If yes, are major or minor changes needed? *(Circle one)*

22% Yes, major changes   52% Yes, minor changes   16% No, no changes   10% Don't know

Thinking about your city's finances, please indicate whether you think each of the following reform options is a good idea or a bad idea (regardless of whether you think each option is currently feasible).

27. Protecting and **strengthening the local property** tax by reducing or eliminating limits on property tax rates and assessments, and by minimizing impacts of future limits? *(Circle one)*

    40% Good idea   37% Bad idea   23% Don't know

28. Under the property tax, **taxing commercial properties at higher rates** than residential properties? *(Circle one)*

    39% Good idea   44% Bad idea1   7% Don't know

29. Utilizing a **Land Value Tax**—a tax on the value of land, excluding the value of structures and improvements on the land. It is similar to the property tax, but shifts the reliance to the value of land, rather than the value of buildings, in order to provide incentives (decrease disincentives) to improving the value of buildings? *(Circle one)*

    27% Good idea   35% Bad idea   38% Don't know

30. Taxing all **goods sold over the Internet**? *(Circle one)*

    57% Good idea   24% Bad idea   19% Don't know

31. **Extending sales taxes to services** not currently taxed, such as legal and accounting services, auto repairs, haircuts, etc.? *(Circle one)*

    37% Good idea   43% Bad idea   20% Don't know

32. Utilizing a **local commuter income tax**, taxing incomes of nonresidents that commute into your city and use city services? *(Circle one)*

    33% Good idea   44% Bad idea   23% Don't know

33. Broadening local tax bases by **reducing and eliminating tax exemptions** and abatements? *(Circle one)*

    42% Good idea   35% Bad idea   23% Don't know

34. **Reducing super-majority voter requirements** (more than 50%) for increases on local taxes and fees? *(Circle one)*

    31% Good idea   42% Bad idea   27% Don't know

35. The Federal Government should re-instate some form of **General Revenue Sharing** Program—providing federal funds to cities that are available for general use, or targeted for infrastructure investment? *(Circle one)*

    73% Good idea   12% Bad idea   6% Don't know

36. State governments should **authorize local governments to utilize other local tax sources** not already authorized to use (such as a local option sales or income tax, currently not available in many states)? *(Circle one)*

63% Good idea   18% Bad idea   19% Don't know

37. Would you be willing to **forego local tax revenue authority** in return for expanded revenue capacity (for example, by swapping local tax authority for a share/greater share of state revenues)? If yes, how much? *(Circle one)*

3% Yes, a lot   17% Yes, a fair amount   13% Yes, a little   51% No   16% Don't know

38. Do you think the following groups are more likely to **support** or **oppose** fiscal reforms? (*Circle one in each row*)

	Strongly Oppose	**Oppose**	**Strongly Support**	**Support**	**Don't Know**
A. Business community/Chamber of Commerce	7%	18%	45%	15%	15%
B. Neighborhood groups/Civic organizations	4%	18%	49%	11%	18%
C. Outside special interests	15%	35%	18%	6%	26%
D. Voters/residents	5%	20%	48%	13%	14%
E. Governor	9%	20%	35%	10%	26%
F. State legislature	12%	29%	29%	6%	24%
G. Colleagues in City Hall (Mayor and/or council)	2%	11%	50%	20%	17%
H. Other *(please list)*________________________	1%	1%	1%	1%	96%

39. As you may know, the federal government expects to run a deficit of approximately $500 billion dollars in 2005. How much do you think the federal deficit is a **problem for cities?**

47% Big problem   35% Somewhat of a problem   12% Not a problem   6% Don't know

Appendix C. Survey Questionnaire – California Sample

NATIONAL LEAGUE OF CITIES
LEAGUE OF CALIFORNIA CITIES
PUBLIC POLICY INSTITUTE OF CALIFORNIA
Future of Public Finance Survey

[Note: Responses from 241 CA city officials from June-August 2004]

1. How would you characterize your city in terms of **location within your region**? *(Circle one)*
   18% Central city   53% Suburban   29% Rural/non-metropolitan

2. Which source of revenue makes up the **largest share** of your city budget? *(Circle one)*

   25% Property tax   56% Sales tax   0% Income tax   5% User fees/charges   2% State revenues
   0% Federal revenues   12% Other ______________________

3. Which source of revenue makes up the **second largest share** of your city budget? *(Circle one)*

   36% Property tax   23% Sales tax   0% Income tax   11% User fees/charges   8% State revenues
   0% Federal revenues   22% Other _________________________

4. How would you rate **fiscal conditions** in your city today? *(Circle one per line)*

   12% Excellent   33% Good   39% Fair   5% Poor   1% Don't know

5. Would you consider yourself to be politically (regardless of whether city elections are partisan or nonpartisan)…*(Circle one)*

   3% Very liberal   18% Somewhat liberal   36% Middle-of the-road
   31% Somewhat conservative   7% Very conservative   5% Other

6. Do you think of yourself as closer to the Republican Party or Democratic Party (regardless of whether city elections are partisan or nonpartisan)? *(Circle one)*

   34% Republican Party   34% Democratic Party   21% Neither   11% Other/Don't know

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SPECIAL SECTION ON CALIFORNIA

7. As you may know, the California state government has an annual budget of around **100 billion** dollars and currently faces a **multi-billion** dollar gap between state spending and revenue, which has been called a structural deficit. How much do you think this deficit is a **problem for cities** in California? *(Circle one)*

   90% Big problem   8% Somewhat of a problem   0% Not a problem   2% Don't know

8. Governor Schwarzenegger proposed a budget plan for the next fiscal year that includes spending cuts in transportation and general government, defers spending increases for public education, bond financing, and local government property tax reductions for two years. In exchange for the local government property tax reductions, the governor has pledged support for a constitutional amendment to prevent future state reductions of local revenues. The plan includes no new taxes. In general, are you **satisfied or dissatisfied** with the governor's budget plan? *(Circle one)*

   65% Satisfied 29% Dissatisfied 6% Don't know

9. Do you think that **tax increases** should have been included in the governor's budget plan? *(Circle one)*
   59% Yes 28% No 13% Don't know

10. How concerned are you that the state's budget deficit will cause severe **cuts in funding for local government services** such as parks and recreation, police and public safety, and roads and transportation in your city? *(Circle one)*

    72% Very concerned 24% Somewhat concerned 3% Not very concerned
    1% Not at all concerned 0% Don't know

11. What if the state if it said it needed more money **in order to maintain** current funding for **local government services**—would you be willing to support higher taxes for this purpose? *(Circle one)*

    63%Yes 22% No 15% Don't know

12. A measure on the November ballot, the **Local Taxpayers and Public Safety Protection Act**, co-sponsored by the League of California Cities, would require voter approval for any state legislation that reduces local government revenue. This measure would permit local governments to suspend performance of state mandates if the state fails to reimburse local governments providing those services. How much do you think that this measure will help protect city governments from state actions that reduce city revenues? *(Circle one)*

    50% Great deal 38% A fair amount 8% Only a little 1% Not at all 3% Don't know

13. A companion measure to the **Local Taxpayers and Public Safety Protection Act,** co-sponsored by the League of California Cities and Governor Schwarzenegger, also may be on the November ballot. It would prevent the state legislature from reducing local property tax, sales tax and vehicle license fee revenues and provide for the suspension of state mandates that are not reimbursed by the state in a timely way. If this measure is approved by the Legislature and placed on the November ballot, how much do you think it will help protect city governments from state actions that reduce city revenues?

    47% Great deal 41% A fair amount 8% Only a little 1% Not at all 3% Don't know

SPENDING AND TAX PRESSURES

Over the past several years, many cities have experienced declining fiscal conditions. The following questions seek to gauge your views on how fiscal stress should be dealt with in your city.

14. How has the range of your city's responsibilities and commitments changed over the past five years? How do you think those responsibilities will change over the next five years? *(Circle one per line)*

A. Past 5 years?	85% Increased	5% Decreased	8% No change	2% Don't know
B. Next 5 years?	82% Increase	5% Decrease	7% No change	6% Don't know

15. How would you prefer to deal with situations when expenditures exceed revenues in your city? *(Circle one)*

19% Mostly through spending cuts
2% Mostly through tax increases
2% Mostly through fee increases
69% Mixture of spending cuts, tax increases, and fee increases
7% Borrow money to cover short-term shortfalls
0% Other______________________
1% Don't know

16. If your city is faced with making future cuts in spending, would you make cuts in the following areas? *(Circle one per line)*

		Yes	**No**	**Maybe**	**Don't know**
G.	Public safety (police, fire, EMS)	38%	25%	33%	4%
H.	Streets, roads, transportation and/or planning	58%	16%	22%	4%
I.	Social services (human and/or community development)	67%	8%	19%	6%
J.	Culture and leisure activities (parks, libraries)	70%	7%	17%	6%
K.	General government (administration, personnel)	74%	4%	17%	5%
L.	Across the board cuts	23%	37%	23%	17%

17. If your city needs to generate additional revenues in the future, would you be willing to raise tax and/or fee rates, or impose new taxes and/or fees to generate those revenues? *(Circle one per line)*

		Yes	**No**	**Maybe**	**NA**
A.	Property tax	22%	32%	13%	33%
B.	Sales tax	35%	23%	19%	23%
C.	Income Tax	5%	35%	8%	52%
D.	Other tax(es)	44%	13%	29%	14%
E.	User fees	82%	3%	10%	5%

18. Would you be willing to consider raising additional revenues via taxes **in order to maintain** current funding for the following local services in the future? *(Circle one per line)*

	Yes	No	Don't Know	NA
F. Public safety (police, fire, EMS)	72%	14%	7%	7%
G. Streets, roads, transportation and/or planning	60%	22%	11%	7%
H. Social/human services and/or community development	25%	46%	16%	13%
I. Culture and leisure activities (parks, libraries)	34%	42%	15%	9%
J. General government (administration, personnel)	20%	55%	15%	10%
F. K-12 education spending	14%	18%	5%	63%

19. Do you think that your city government could spend less and still provide the same level of services? *(Circle one)*

2% Yes, a lot less   31% Yes, a little less   66% No, could not spend less   1% Don't know

20. Do you approve or disapprove of the way that governments are handling budget and tax issues? *(Circle one per line)*

a. Your city government	95% Approve	3% Disapprove	2% Don't know
b. Your governor	56% Approve	33% Disapprove	11% Don't know
c. Your state legislature	3% Approve	92% Disapprove	5% Don't know
d. President George W. Bush	20% Approve	64% Disapprove	16% Don't know
e. The U.S. Congress	9% Approve	75% Disapprove	16% Don't know

21. In general, what do you think about tax and spending limits (for example, a property tax restriction or annual limits on revenue and spending levels)? *(Circle one)*

22% Always a bad idea   30% Sometimes a bad idea   40% Sometimes a good idea
2% Always a good idea   6% Don't know

22. To what extent do you agree with the following statements? *(Circle one per line)*

A. We need a more responsible public discussion in this country about government and taxes.

52% Strongly agree   43% Agree   3% Disagree   1% Strongly disagree   1% Don't know

B. Voters/residents want more services, but want to pay less.

50% Strongly agree   40% Agree   6% Disagree   1% Strongly disagree   3% Don't know

23. When it comes to changing the way your city taxes and spends money, which approach do you most prefer? *(Circle one)*

45% Mayor and/or council should decide
0% State government (governor and/or state legislature) should decide
10% Voters should decide at the ballot box
41% City should engage in a large-scale citizen engagement process; then mayor and/or council make decision
3% Other________________________
1% Don't know

PRINCIPLES OF PUBLIC FINANCE

24. When making decisions about your city's finances, how important are the following principles of public finance? *(Circle one per line, on a scale from 1-Not important to 4-Very important)*

	Not Important			Very Important	Don't know
A. **Taxpayer equity:** a fair distribution of tax and revenue burdens	2%	3%	35%	60%	0%
B. **Intergovernmental equity:** fair distribution of revenues and responsibilities across levels of government and jurisdictions	4%	14%	43%	37%	2%
C. **Revenue Adequacy:** adequate revenues to meet service needs	0%	2%	19%	76%	3%
D. **Ease of Administration:** costs of revenue collection	2%	14%	46%	35%	3%
E. **Economic effects:** how budget and tax decisions impact the behavior of individuals and firms	1%	8%	53%	35%	3%
F. **Accountability:** the ability of residents to understand the system	1%	4%	35%	58%	2%
G. **Self-directed governance:** local authority and autonomy	0%	3%	22%	71%	4%
H. **Responsibility to the broader system:** the impact of budget decisions on other jurisdictions and levels of government	3%	15%	48%	29%	5%
I. **Other**______________	1%	0%	2%	6%	91%

25. Which of the following revenue sources do you think is **most fair** in terms of its ability to equitably distribute revenue and tax burdens? *(Circle one)*

13% Property tax 23% Sales tax 27% Income tax 30% User fees/charges 7% Don't know

26. Which of the following revenue sources do you think is the **most effective** at providing adequate revenues to meet needs in your city? *(Circle one)*

36% Property tax 42% Sales tax 4% Income tax 10% User fees/charges 8% Don't know

27. Which of the following revenue sources do you think has the **least negative** effect on economic behavior of individuals and firms in your city? *(Circle one)*

17% Property tax 25% Sales tax 17% Income tax 32% User fees/charges 9% Don't know

28. Which of the following revenue sources is **most desirable** to have in terms of local authority? *(Circle one)*

42% Property tax 31% Sales tax 4% Income tax 16% User fees/charges 7% Don't know

29. Taking this all into account (questions 29-33), which of the sources would you **rate the highest**? *(Circle one)*

36% Property tax 41% Sales tax 6% Income tax 8% User fees/charges 9% Don't know

TRENDS AND CHALLENGES

A number of trends and factors are impacting city fiscal conditions that are largely outside of city control. The questions below attempt to gauge your views on the challenges presented by these trends.

30. How large of a challenge to you consider each of the following **trends and challenges** for your city over the next 5 years? *(Circle one per line, on a scale from 1–Little or no challenge to 4-Very large challenge)*

		Little or no challenge	Somewhat of a challenge	Large challenge	Don't Know
A.	Increasing mobility of business, capital and people	39%	53%	5%	3%
B.	Increasing aging population	29%	66%	3%	2%
C.	Federal and/or state unfunded mandates	15%	81%	1%	3%
D.	Public/voter pressure to limit taxation	19%	75%	2%	4%
E.	Increasing pressure from industry groups	54%	39%	3%	3%
F.	Increasing school-age population	49%	39%	9%	3%
G.	Federal and/or state preemption of local authority	8%	86%	3%	3%
H.	Political pressure by special interest groups	28%	67%	2%	3%
I.	Shift from manufacturing-to services-economy	40%	51%	6%	3%
J.	Increasing immigrant populations	45%	50%	2%	3%
K.	Cuts or limits in state and/or federal fiscal support	10%	86%	1%	3%
L.	Public perceptions that government is wasteful	22%	75%	0%	3%
M.	Competition for economic growth across jurisdictions	28%	68%	2%	2%
N.	Changing composition of households	58%	36%	3%	3%
O.	Devolution of responsibilities to local governments	22%	70%	5%	3%
P.	Lack of strong civic ties between government/residents	36%	59%	1%	4%
Q.	Lack of public trust in government	28%	70%	0%	2%
R.	Rapid growth, development, and/or sprawl	40%	56%	1%	3%
S.	Changes in federal and/or state tax systems	34%	55%	8%	3%

31. Of the trends and challenges listed in question 35, which **three** do you think will have the **largest fiscal and economic impact** on your city over the next five years? *(Enter the letters for the options listed in Question 35 in the blanks provided below. For example, "lack of public trust in government" would be entered as "Q.")*

45% G 43% K 30% C

OPTIONS FOR REFORM

32. In general, does the system of public finance, which includes your city's finances, need to be changed? *If yes,* are major or minor changes needed? *(Circle one)*

56% Yes, major changes 31% Yes, minor changes 9% No, no changes 4% Don't know

Thinking about your city's finances, please indicate whether you think each of the following reform options is a good idea or a bad idea (regardless of whether you think each option is currently feasible).

33. Protecting and **strengthening the local property** tax by reducing or eliminating limits on property tax rates and assessments and by minimizing impacts of future limits? *(Circle one)*

    60% Good idea   28% Bad idea   12% Don't know

34. Under the property tax, **taxing commercial properties at higher rates** than residential properties? *(Circle one)*

    42% Good idea   40% Bad idea   18% Don't know

35. Utilizing a **Land Value Tax**—a tax on the value of land, excluding the value of structures and improvements on the land. It is similar to the property tax, but shifts the reliance to the value of land, rather than the value of buildings, in order to provide incentives (decrease disincentives) to improving the value of buildings? *(Circle one)*

    27% Good idea   35% Bad idea   38% Don't know

36. Taxing all **goods sold over the Internet**? *(Circle one)*

    84% Good idea   9% Bad idea   7% Don't know

37. **Extending sales taxes to services** not currently taxed, such as legal and accounting services, auto repairs, haircuts, etc.? *(Circle one)*

    64% Good idea   26% Bad idea   10% Don't know

38. Utilizing a **local commuter income tax**, taxing incomes of nonresidents that commute into your city and use city services? *(Circle one)*

    23% Good idea   59% Bad idea   18% Don't know

39. Broadening local tax bases by **reducing and eliminating tax exemptions** and abatements? *(Circle one)*

    64% Good idea   17% Bad idea   19% Don't know

40. **Reducing super-majority voter requirements** (more than 50%) for increases on local taxes and fees? *(Circle one)*

    81% Good idea   14% Bad idea   5% Don't know

41. The federal government should reinstate some form of **General Revenue Sharing** program—providing federal funds to cities that are available for general use or targeted for infrastructure investment? *(Circle one*)

    69% Good idea   14% Bad idea   17% Don't know

42. State governments should **authorize local governments to utilize other local tax sources** not already authorized to use (such as a local option sales or income tax, currently not available in many states)? *(Circle one)*

71% Good idea   11% Bad idea   18% Don't know

43. Would you be willing to **forego local tax revenue authority** in return for expanded revenue capacity (for example, by swapping local tax authority for a share/greater share of state revenues)? If yes, how much? *(Circle one)*

3% Yes, a lot   11% Yes, a fair amount   11% Yes, a little   57% No   18% Don't know

44. Do you think the following groups are more likely to **support** or **oppose** fiscal reforms? (*Circle one in each row*)

	Strongly Oppose	**Oppose**	**Support**	**Strongly Support**	**Don't Know**
I. Business community/Chamber of Commerce	6%	18%	45%	20%	11%
J. Neighborhood groups/Civic organizations	2%	16%	57%	13%	12%
K. Outside special interests	13%	42%	16%	3%	26%
L. Voters/residents	2%	12%	57%	12%	17%
M. Governor	2%	9%	52%	19%	18%
N. State legislature	26%	39%	18%	3%	14%
O. Colleagues in City Hall (Mayor and/or council)	3%	5%	50%	28%	14%
P. Other *(please list)*________________________	1%	2%	0%	6%	91%

45. As you may know, the federal government expects to run a deficit of approximately $500 billion in 2005. How much do you think the federal deficit is a **problem for cities in California?**

33% Big problem   53% Somewhat of a problem   8% Not a problem   6% Don't know

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