

# **Perspectives on State and Local Finance in California: Surveys of City Officials and Residents**

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# Summary

This report presents an analysis of California city officials' and residents' responses to survey questions about state and local finance issues, conducted from July to August 2005 by the Public Policy Institute of California, the League of California Cities and the National League of Cities. A direct mail survey was sent to officials in all of California's 478 cities, and 153 were completed and returned, for a 32 percent response rate. We contrast these results with PPIC Statewide Surveys of 2,003 adults in May 2005, 2,004 adults in August 2005, and 2,004 adults in September 2005. The PPIC Statewide surveys of residents were made possible with funding from the James Irvine Foundation.

These surveys were conducted at a time when city officials and California residents are confronting important budgetary issues, such as the ongoing budget gap between spending and revenues, and a November special election ballot that contains several budgetary questions. These surveys were designed to elicit information about local and state issues and policy preferences. Among the most significant findings:

- Three in four city officials say the state's multi-billion dollar gap between state spending and revenues is a big problem for California cities. Sixty-six percent prefer to deal with the budget gap using a mix of spending cuts and tax increases. Residents also believe the budget gap is a problem but are less in agreement on what to do.
- Fewer than half of city officials approve of the way that the governor (49%) and state legislature (18%) are handling budget and tax issues. While 56 percent express overall satisfaction with the Governor's 2005-2006 budget plan, 58 percent said that it should have included tax increases. By comparison, a smaller percentage of residents approve of the governor's handling of the budget, and are more evenly divided in their opinions about his budget plan and tax increases.
- Most city officials (61%) would have preferred to wait until the regular 2006 elections rather than have a special election in 2005. But 62 percent support the concept of changing the state's school funding and state spending limits. Residents have similar views of the special election, but are less supportive of a spending limit initiative.
- Seventy-six percent of city officials say that the way that the government and legislature go about state spending is in need of major changes. Most of these officials would prefer that the governor and the legislature (78%) make these changes, rather than voters (15%). Voters also see the need for change. But 72 percent of them want to be in charge of that change.
- Seven in 10 city officials say that Proposition 13 has been mainly a bad thing for the state, and an identical number also oppose the two-thirds vote requirement for increasing revenues. In contrast, more voters view Proposition 13 as a good thing than view it as a bad thing (47% to 37%) and 56 percent support the two-thirds vote requirement.
- Sixty percent of city officials say their city's fiscal conditions are in excellent or good shape, and two in three think their cities will be better able to meet financial needs in the next fiscal year. Still, 68 percent say their city's responsibilities and commitments

have increased in the past year, and 69 percent expect this trend to continue in the next year.

- City officials are most likely to say the factors negatively impacting their budgets are the costs of employee health benefits (90%), pensions (89%), infrastructure needs (77%), and prices and inflation (76%). Those factors most likely to positively impact their budgets are the health of the local economy (59%) and the value of the city tax base (81%).
- The most common revenue actions taken by city officials in the past year are raising impact or development fees (54%), raising other fees (70%), and increasing the number of other fees or charges (52%). Few report an increase or decrease in taxes.
- When it comes to expenditures, city officials are most likely to report increasing public safety spending (76%), employee wages and benefits (62%), and infrastructure spending (60%). As for the size of the municipal work force, 37 percent say it increased and 27 percent say it decreased in the past year.
- Many city officials say that pension contributions have increased significantly in the past year (52%) and in the past five years (66%). Over the next five years, nine percent expect a significant increase and 65 percent expect some increase in pension costs.
- Fifty-four percent of city officials said their cities had unfunded pension obligations in the last fiscal year. Of this group, 77 percent say the obligations are larger than in prior year. They cite a number of factors as contributing to unfunded pension obligations, including economic and fiscal conditions (35%), benefit levels that are too high (33%), number of employees (22%), number of retirees (20%), municipal contributions that are too high (18%), and state and other contributions that are too low (13%). Seventeen percent said they are unsure of the reasons.

# Introduction

City governments in California face significant fiscal challenges, even as the national economy has improved and state and local governments have experienced rising tax revenues. Among the major challenges are a large federal budget deficit, and a continuing multi-billion dollar gap between spending and revenues in the state budget. As a result, city governments face uncertainties about their state and federal funding sources. In addition, city governments are increasingly aware of responsibilities that continue to require additional resources, such as homeland security needs and preparedness for natural disasters such as Hurricane Katrina. In California, fiscal challenges occur against the backdrop of a constrained system of public finance, the legacy of 1978's Proposition 13 local property tax limits, and many consequent initiatives and legislative adjustments since.

To better understand the perspectives of city government officials, the Public Policy Institute of California, the League of California Cities, and the National League of Cities sent a survey to city officials in all 478 California cities. A total of 153 questionnaires were returned from July to August 2005, a 32 percent response rate. The survey responses are closely comparable to the distribution of cities across the state by population and region (See Appendix A). Most of the responses are from non-elected senior staff such as city managers. The responses from city officials were analyzed for differences across cities of various population sizes, and across regions in the state. We also contrast the responses to the current survey to similar questions asked in a 2004 survey of city officials, and we compare the responses of city officials' to the responses of residents in PPIC Statewide Surveys of 2,003 adults in May 2005, 2,004 adults in August 2005, and 2,004 adults in September 2005. The responses of California residents interviewed in other recent surveys are included when appropriate. This year's survey of city officials provides answers to the following questions:

- What are the perceptions of city officials regarding the state's budget gap and its impacts? How do they rate the performance of the governor and legislature on fiscal issues, and how do they evaluate the governor's budget plan and the November special election?
- Do city officials believe there is a need for changes in state spending policy, and do they want the governor and legislature or the voters to make decisions on fiscal and government reforms? What are their perspectives on Proposition 13 and its impacts?
- How do city officials' responses to questions on state fiscal issues compare with residents' responses in the PPIC Statewide Surveys in spring, summer, and fall 2005?
- What are the city officials' perceptions of overall fiscal conditions and spending pressures in their cities? What factors are affecting city budgets? What revenue and spending actions have cities taken in the past year to deal with fiscal challenges?
- How do city officials' responses this year compare to their responses in 2004?
- To what extent are rising costs of employee pensions seen as a concern by city officials? Do they perceive a significant increase in recent years, and expect further increases? To what extent do they report unfunded pension obligations, and are these seen as a growing issue? What factors are seen as contributing to this trend?



# State Finance Issues

## The State's Budget Gap

The state government has had a multi-billion dollar gap between spending and revenues for several years. This gap has implications for city officials because of their dependence on state government as a revenue source. In this year's survey, we asked city officials to rate the severity of the state budget problem, to indicate their level of concern about its effects on local funding cuts, and to offer their preferred options for dealing with the state's budget gap.

Seventy-six percent of city officials say that the state deficit presents a big problem for California cities today; 90 percent said that it was a big problem in our 2004 survey. Responses this year were similar across cities of varying population sizes and in different regions.

Fifty-seven percent of city officials say they are very concerned that the state's budget deficit will result in funding cuts for local government services. By comparison, 72 percent of city officials said they were very concerned about cuts in 2004. While there has been a decline in city officials' worries about the deficit and its potential effects locally, their level of concern is still quite high.

Two in three city officials would prefer to deal with the state's budget gap through a mix of spending cuts and tax increases. One in four favors a solution that is based mostly on spending cuts, while fewer say they would prefer an approach based mostly on tax increases.

In the PPIC Statewide Survey of May 2005, 71 percent of residents said that the state's budget was a big problem for the people of California today. We did not ask a similar question regarding their level of concern about cuts in local government services. Residents were less likely than city officials to say that the state budget gap should be addressed with a mix of spending cuts and tax increases. They favored both mostly spending cuts and most tax increases more often, and they were more likely to approve of the state running a deficit.

**"How would you prefer to deal with the state's budget gap?"**

	<b>City Officials</b>	<b>Residents*</b>
<b>Mix of spending and tax increases</b>	66%	43%
<b>Mostly through spending cuts</b>	24	29
<b>Mostly through tax increases</b>	4	11
<b>Okay for the state to run a budget deficit</b>	1	7
<b>Other, don't know</b>	5	10

\*Resident responses from PPIC Statewide Survey in May 2005

## Approval Ratings on State Budget and Taxes

City officials' approval of Governor Arnold Schwarzenegger's handling of budget and tax issues is mixed. Forty-nine percent say they approve and 43 percent say they disapprove of his fiscal actions. His approval ratings with city officials were more positive a year ago, when 56 percent said they approved and 33 percent disapproved of his handling of the state budget and taxes.

City officials are more critical of the state legislature (73% disapprove, 18% approve) than they are of the governor. However, this level of disapproval has dropped markedly since the 2004 survey (92% disapproval, 3% approval).

Approval of the governor's handling of budget and tax issues varies somewhat by region. Six in ten (63%) city officials in the Los Angeles region say they approve of his handling of budget and tax issues, but support falls to 34 percent in the San Francisco Bay Area. Slim majorities of city officials in the Other Southern California (55%) and Central Valley (50%) regions say they approve of the governor's handling of budget and tax issues.

By comparison, the residents we surveyed in August concerning the state budget and taxes were more critical of Governor Schwarzenegger and less critical of the state legislature. One in three survey respondents approved of the governor's performance, while about one in four approved of the state legislature's performance.

**"Do you approve or disapprove of the way that the Governor is handling budget and tax issues?"**

	City Officials	Residents*
<b>Approve</b>	49%	33%
<b>Disapprove</b>	43	55
<b>Don't know</b>	8	12

\*Resident responses from PPIC Statewide Survey August 2005

**"Do you approve or disapprove of the way that the state legislature is handling budget and tax issues?"**

	City Officials	Residents*
<b>Approve</b>	18%	23%
<b>Disapprove</b>	73	62
<b>Don't know</b>	9	15

\*Resident responses from PPIC Statewide Survey August 2005

## The Governor's Budget Plan and the State Budget

Governor Schwarzenegger's budget plan for fiscal year 2005-2006 includes spending increases for K-12 education, but also proposals to withhold some additional education funding, as well as reductions in certain health and human services and general government expenditures. He has also proposed a redirection of the use of gas tax money to fund transportation projects. Fifty six percent of California city officials say they are satisfied and 35 percent say they are dissatisfied with this plan.

Southern California city officials are more likely to say they are satisfied with these proposals (67% in Los Angeles and 64% in Other Southern California) than those in the Central Valley (52%) or San Francisco Bay areas (49%). City officials in larger cities are more likely than those in smaller cities to say they are satisfied with this plan.

The governor's plan does not include tax increases. Despite these overall approval ratings for the budget plan, 58 percent of city officials say they also think that tax increases should have been included in the Governor's budget plan. San Francisco Bay Area (80%) city officials are more likely than their counterparts elsewhere to say that tax increases should have been included. City officials from smaller cities are more likely than others to say that tax increases should have been part of the governor's budget.

Among the state's residents, satisfaction with the governor's budget plan was decidedly mixed (44% satisfied, 47% dissatisfied), as was support for the idea that tax increases should have been a part of the plan (46% yes, 47% no) in our PPIC Statewide Survey in May.

### "In general, are you satisfied or dissatisfied with the Governor's Budget Plan?"

	City Officials	Residents*
<b>Satisfied</b>	56%	44%
<b>Dissatisfied</b>	35	47
<b>Don't know</b>	9	9

\*Resident responses from PPIC Statewide Survey May 2005

### "Do you think that tax increases should have been included in the Governor's budget plan?"

	City Officials	Residents*
<b>Yes</b>	58%	46%
<b>No</b>	30	47
<b>Don't know</b>	12	7

\*Resident responses from PPIC Statewide Survey May 2005.

## November Special Election

Governor Schwarzenegger has called for a special election in November in which voters will decide budget, education, and government reform measures. Sixty-one percent of city officials say that they think it would be better to wait until the scheduled election in 2006 to pose these issues to voters. Twenty-seven percent say they favor holding the special election. City officials in the San Francisco Bay (71%) and Other Southern California (64%) area are more likely than others to say it is better to wait until the scheduled election in 2006.

The governor has supported one special-election initiative that has as its goal a change in state minimum school funding requirements under Proposition 98. It also limits state spending to the prior year's total plus revenue growth, while continuing prior year spending if the new state budget is delayed. It also prohibits borrowing from state special funds and requires payment of local government mandates. After reading this description of the initiative, 62 percent of city officials say they would vote for this initiative, while 15 percent say they would vote no. Support for the school funding and state spending initiative among city officials is higher in the Central Valley (71%) and Los Angeles (71%) regions than elsewhere in the state.

California residents share city officials' lack of enthusiasm for holding a special election, which is evident in the PPIC Statewide Survey in May. Registered voters expressed less support for school funding and spending limits when read an identical statement in the PPIC Statewide Survey in May. When likely voters in our PPIC Statewide Survey in September were read the ballot language for Proposition 76 – the state spending and school funding limits initiative – 26 percent said they would vote yes, and 63 percent no. In the September survey, likely voters more often said the special election was a bad idea (53%) than a good idea (40%).

"...Do you think it is...?"

	City Officials	Residents*
<b>Better to have a special election</b>	27%	33%
<b>Better to wait until the scheduled election in 2006</b>	61	61
<b>Don't know</b>	12	4

\*Resident respondents from PPIC Statewide Survey in May 2005

"Would you vote yes or no on the school funding and state spending initiative?"

	City Officials	Voters*
<b>Yes</b>	62%	43%
<b>No</b>	15	38
<b>Don't know</b>	23	19

\*Registered voter respondents from PPIC Statewide Survey in May 2005

## State Fiscal Reform

City officials were also asked about their perceptions of the need for changes in the way the governor and legislature go about state spending, and whether decisions about long-term budget and governmental reforms should be made by voters or by the governor and legislature.

Three in four city officials (76%) say that major changes are needed in the way the governor and legislature go about spending, while 21 percent say that minor changes are needed. At least two in three city officials across all regions and among all population sizes say that major changes are needed in the way the governor and legislature go about state spending.

When asked who they think should make decisions about budget and government reforms, California city officials overwhelmingly point to the governor and legislature (78%), as opposed to voters (15%). Seven in ten city officials across all regions and population sizes say that the governor and legislature should make decisions about reforms.

California residents share the belief of city officials that some changes are needed in the way that the governor and legislature go about state spending. Residents are less likely than city officials to say that major changes are needed in the state government fiscal process. There is, however, a stronger divergence of opinion when it comes to the question of who should make the decisions, with residents overwhelmingly choosing the voters as the ones to make these changes.

**“Do you think the way the governor and legislature go about state spending in California is in need of...?”**

	City Officials	Residents*
<b>Major changes</b>	76%	59%
<b>Minor changes</b>	21	30
<b>Fine the way it is</b>	1	7
<b>Don't know</b>	2	4

\*Resident respondents from PPIC Statewide Survey May 2005

**“When it comes to making long-term budget and governmental reforms in California, which approach do you most prefer?”**

	All Cities	Residents*
<b>Voters make decisions</b>	15%	72%
<b>Governor and legislature make decisions</b>	78	25
<b>Don't know</b>	7	3

\*Resident respondents from PPIC Statewide Survey May 2005

## Proposition 13

Proposition 13, the citizens' initiative that capped local property tax and assessment rates in 1978, has had a significant role in state and local fiscal policy. Seven in 10 city officials say they think it has mostly turned out to be a "bad thing" for California. When asked about two specific features of Proposition 13, 70 percent of city officials oppose the two-thirds vote requirement for passing local special taxes, and 61 percent of city officials say that they oppose the feature that taxes homeowners differently based on when they purchased their home.

In sharp contrast, residents are more likely to say Proposition 13 has been a good thing than a bad thing for California (47% to 37%). Moreover, in the May PPIC Statewide Survey, a majority of residents said they favored the two-thirds vote requirement for passing local special taxes. However, residents agreed with city officials in opposition to the feature of Proposition 13 that taxes homeowners differently based on when they purchase their home.

**"Overall, do you feel that Proposition 13 turned out to be mostly a good thing or mostly a bad thing for cities in California?"**

	City Officials	Residents*
<b>Mostly a good thing</b>	20%	47%
<b>Mostly a bad thing</b>	70	37
<b>Other, don't know</b>	10	16

\*Resident respondents from PPIC Statewide Survey May 2005

**"Under Proposition 13, a two-thirds vote at the ballot box is required to pass any new local special taxes, such as a local sales tax to fund transportation projects. Do you favor or oppose this feature?"**

	City Officials	Residents*
<b>Favor</b>	28%	56%
<b>Oppose</b>	70	35
<b>Don't know</b>	2	9

\*Resident respondents from PPIC Statewide Survey May 2005

**"As a result of Proposition 13 and increases in home prices in California, a homeowner who recently purchased a home will pay much higher property taxes than a homeowner who purchased a similar home several years ago in the same neighborhood. Do you favor or oppose this feature?"**

	City Officials	Residents*
<b>Favor</b>	32%	38%
<b>Oppose</b>	61	55
<b>Don't know</b>	7	7

\*Resident respondents from PPIC Statewide Survey May 2005

# Local Finance Issues

## Overall Conditions

California state and local governments have confronted a variety of spending and revenue pressures since the 2001 recession. However, as the economy has recently improved somewhat, tax revenues have been improving. Today, six in ten city officials (60%) say that fiscal conditions are excellent (15%) or good (45%) and another 33 percent report fair conditions.

The percentage of city officials reporting that their city’s fiscal conditions are excellent or good (60%) has increased from this time last year (45%). Only six percent report that their city’s fiscal conditions are poor, compared to 15 percent in 2004.

City officials from larger cities, those with populations of more than 100,000 (75%) or populations between 50,000 and 99,999 (74%) are more likely to report that their fiscal conditions are excellent or good compared to smaller cities with populations between 10,000 to 49,999 (53%) and less than 10,000 (57%). City officials in the San Francisco Bay Area (56%) are less likely to report excellent or good fiscal conditions than city officials in the Central Valley (72%), Other Southern California (71%) and Los Angeles regions (65%).

When asked if their cities were better able to meet financial needs this fiscal year (2005) than the previous fiscal year (2004), nearly two in three city officials (64%) said that they were better able to meet needs. Similarly, two in three city officials (67%) predict that their cities will be better able to meet financial needs in FY 2006 than in FY 2005.

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

	City Officials
Excellent	15%
Good	45
Fair	33
Poor	6
Don't know	1

**"Overall, would you say that your city is/will be better able or less able to meet financial needs in FY 2005 than in FY 2004? In FY 2006 compared to FY 2005?"**

	FY 2005	FY 2006
Better Able	64%	67%
Less Able	36	33

## Spending Perceptions and Preferences

Although city officials are optimistic about their current fiscal situations, they also express concern that their cities are confronting increased responsibilities and commitments. Looking at the last year, 68 percent say that their city’s range of responsibilities has increased. Over the next year, 69 percent expect their city’s commitments to increase.

City officials in the Central Valley are more likely than others to say that their range of responsibilities has increased in the last year (80%), and will increase in the next year (80%). Los Angeles and San Francisco Bay area city officials are the least likely to predict increases in the next year (57% and 58% respectively).

When faced with situations where local expenditures exceed local revenues, city officials are equally likely to say they would opt for a mix of spending cuts and tax increases (44%) or spending cuts alone (46%) to deal with this hypothetical budget situation. San Francisco Bay Area city officials (64%) are more likely to prefer a mix of spending cuts and tax increases, while city officials in the Central Valley (61%) and Other Southern California areas (55%) are more likely to prefer spending cuts alone. Few city officials say that they prefer tax increases alone, while city officials in Los Angeles are more likely than others to say it is okay to run a deficit (26%). No notable differences in fiscal preferences are evident across cities of different population sizes.

**“How has the range of your city’s responsibilities and commitments changed over the past year? How do you think those responsibilities and commitments will change over the next year?”**

	City Officials
Increased in Past Year	68%
Increase in Next Year	69

**“How would you prefer to deal with situations when expenditures exceed revenues in your city?”**

	City Officials
Mix of spending cuts and tax increases	44%
Spending cuts	46
Tax increases	2
Okay to run deficit	8
Don’t know	0

## Factors Affecting City Budgets

A list of 18 factors that could affect municipal budgets was presented to city officials in the survey. They were asked to identify whether each factor had increased or decreased since the last fiscal year, and whether that factor had a positive effect or negative effect on their budget.

More than nine in ten city officials report that employee-related costs of pensions (94%) and health benefits (94%) have increased in the last year. A high percentage also report general price increases, including inflation and cost of living (85%), as well as rising employee wages and salaries (84%). Large percentages of California city officials also report increasing needs in the areas of infrastructure (88%) and public safety (75%).

Factors that effect city budgets most negatively are employee health benefits (90%) and pensions (89%), increases in infrastructure needs (77%), and rising prices, inflation and cost of living (76%), according to survey respondents. Many city officials also report that increases in employee wages and salaries (66%) and public safety needs (67%) have negative effects on their budgets.

But many local officials also report increases in the value of the local tax base (86%), and in the health of the local economy (62%). Eighty-one percent report the tax base increase as having a positive effect, and 59 percent say that improving health of the local economy has been positive. Sixty-four percent of city officials said that their city population has been increasing. However, they are split as to whether population increases are having a positive (22%) or negative (21%) impact, with the majority (57%) saying this population trend has no overall impact.

The only factor that a majority of city officials report as having decreased in the past year is the amount of state aid to cities (54%). The amount of state aid is described as having a negative impact by 57 percent of city officials. One third of city officials reported a decrease in federal aid and an identical percentage said this factor had a negative effect on their cities.

Some regional differences in city official responses are noteworthy. Those in the San Francisco Bay (60%) and Other Southern California (59%) areas are more likely to report that state aid has decreased than are city officials in the Central Valley (46%) and Los Angeles regions (30%). City officials in the Central Valley are more likely than others to say that public safety needs (96%), infrastructure needs (96%) and populations (100%) are increasing. Similarly, Central Valley city officials are more likely than others to say that public safety needs (88%) and population growth (35%) are negatively impacting their city budgets. Central Valley (75%) and Other Southern California (74%) city officials are more likely to say that the health of their local economies is increasing than are officials in the San Francisco Bay (50%) and Los Angeles regions (57%). City officials in the San Francisco Bay Area (36%) are more likely than others to report that the health of the local economy is negatively impacting their city budgets.

There are important trends across cities of different sizes with regard to their revenues and economic conditions. For example, city officials in larger cities are more likely than others to say that the value of the city tax base has increased. Moreover, city officials from the smallest cities are less likely than others to say that the health of their local economies has increased.

	<i>Change in Selected Factors</i>			<i>Impact of Selected Factors</i>		
	<b>Increased</b>	<b>No Change</b>	<b>Decreased</b>	<b>Positive</b>	<b>No Impact</b>	<b>Negative</b>
<b>Cost of employee health benefits</b>	94%	5%	1%	2%	8%	90%
<b>Cost of employee pensions</b>	94	5	1	1	10	89
<b>Infrastructure needs</b>	88	10	2	6	17	77
<b>Value of city tax base</b>	86	11	3	81	12	7
<b>Prices, inflation, cost of living</b>	85	14	1	3	21	76
<b>Employee wages and salaries</b>	84	15	1	7	27	66
<b>Public safety needs</b>	75	24	1	5	28	67
<b>Population (# of people in city)</b>	64	34	2	22	57	21
<b>Health of local economy</b>	62	34	4	59	24	17
<b>State environmental mandates</b>	51	45	4	2	48	50
<b>Human services needs</b>	47	49	4	4	50	46
<b>Federal environmental mandates</b>	40	57	3	0	54	46
<b>Education needs</b>	34	64	2	5	67	28
<b>State non-environmental mandates</b>	34	62	4	0	61	39
<b>Federal non-environ. mandates</b>	21	77	2	2	77	21
<b>Tax and spending limits</b>	18	78	4	3	71	26
<b>Amount of state aid</b>	14	32	54	16	27	57
<b>Amount of federal aid</b>	10	57	33	12	55	33

## Revenue Actions

City officials were asked to report whether various revenue actions, including changes in tax and fee rates, were taken in the past fiscal year. The most common revenue actions taken were to increase the number or the level of development or impact fees (54%), to increase the level of other fees or charges (70%) and to increase the number of other fees or charges (52%).

In contrast, most city officials report that their cities maintained sales tax rates (62%) and other taxes (61%), and 71 percent reported that they maintained the number of other taxes. Few report increases or decreases in the rates or numbers of any taxes in their cities.

Across regions of the state, Central Valley (72%) and San Francisco Bay Area city officials (61%) are more likely to report increases in impact and development fees than city officials in the Los Angeles (30%) and Other Southern California (44%) regions. Central Valley (76%) and San Francisco Bay Area (88%) city officials are also more likely to say that their cities increased the level of other fees and charges than city officials in the Los Angeles (48%) and Other Southern California (64%) regions.

Officials in cities of 100,000 or more population are more likely than others to say they took actions to increase their fee revenues. For instance, 84 percent report increases in the levels of other fees or charges, 74 percent of these city officials report increases in development and impact fees, and 68 percent report increases in the number of other fees and charges.

"Indicate whether your city has taken the listed actions..."

	Increased	Maintained	Decreased	Not Authorized
<b>Level of other fees or charges</b>	70%	30%	0%	0%
<b>Number/level of impact or development fees</b>	54	44	0	2
<b>Number of other fees or charges</b>	52	48	0	0
<b>Rates of other taxes</b>	15	61	0	24
<b>Sales tax rates</b>	10	62	1	27
<b>Number of other taxes</b>	6	71	0	23

## Expenditure Actions

City officials were also asked to report whether various expenditure actions were taken in the past fiscal year. The most common expenditure action taken by cities was to increase public safety spending (76%), followed by employee wages and benefits (62%), and infrastructure spending (60%). Nearly half of city officials also report that their cities increased productivity levels (49%) and the growth rate of annual operating spending (47%).

Approximately three in ten city officials said their cities increased city service levels across the board (32%), increased human services spending (32%), and engaged in additional contracting out for the provision of services (28%). While 37 percent of city officials report increases in the size of the municipal government’s workforce, 27 percent also report decreases.

Central Valley city officials (71%) are more likely to report increases in the growth rate of operating spending than those in the San Francisco Bay (32%), Los Angeles (35%), and Other Southern California (51%) regions. City officials from the Central Valley are also more likely to report increases in public safety spending (96%), compared to other regions (San Francisco Bay Area at 59%, Los Angeles at 83%, Other Southern California at 82%). San Francisco Bay Area city officials (53%) are more likely to report reductions in the city workforce than are city officials in the Central Valley (12%), Los Angeles region (33%), and Other Southern California (10%).

As for differences by size of population, city officials from cities with more than 100,000 in population are more likely than others (37%) to report reductions in the growth rate of annual operating spending (37%) and to report reductions in the city workforce (47%).

“Indicate whether your city has taken the listed actions...”

	Increased	Maintained	Decreased	Not Authorized
<b>Public safety spending</b>	76%	16%	8%	0%
<b>Employee wages/benefits</b>	62	36	2	0
<b>Infrastructure spending</b>	60	23	17	0
<b>Productivity levels</b>	49	49	2	0
<b>Growth rate of operating spending</b>	47	37	16	0
<b>Size of municipal workforce</b>	37	35	27	1
<b>City service levels</b>	32	53	15	0
<b>Human services spending</b>	32	42	11	15
<b>Contracting out for services</b>	28	68	3	1
<b>Number/scope of interlocal agreements</b>	21	71	2	6

## Pension Contributions

Some recent reports of economic and fiscal pressures in California cities have focused on rising employee-related costs, particularly for pensions for municipal employees. In this year’s survey, city officials in California were asked about their perspectives on annual pension contributions and their perceptions regarding the prospects for these contributions in coming years. Nine in ten city officials (94%) say that their city’s annual pension contributions have increased (42%) or increased significantly (52%) in the past year. Nearly all city officials (98%) report that city pension contributions have increased (32%) or increased significantly (66%) in the past five years. Three in four city officials think that city pension contributions will increase (65%) in the next five years, although only nine percent say they will increase significantly.

The perception that annual pension contributions have increased over time tends to increase with the population size of the city. Still, eight in 10 city officials even in the cities of less than 10,000 in population say that pension contributions have increased in the past year.

City officials in the Central Valley (88%) are more likely to say that annual pension contributions will increase or increase significantly over the next five years than are city officials in the San Francisco Bay (69%), Los Angeles (71%) and Other Southern California (62%) regions. Still, most city officials across regions believe that contributions will increase over time.

**“How have your city’s annual pension contributions changed over the past year? How have your city’s annual pension contributions changed over the past five years? How do you expect your city’s pension contributions to change over the next five years?”**

	Past Year	Past 5 Years	Next 5 Years
<b>Increase(d) significantly</b>	52%	66%	9%
<b>Increase(d)</b>	42	32	65
<b>No change</b>	5	2	14
<b>Decrease(d)</b>	1	0	10
<b>Decrease(d) significantly</b>	0	0	1
<b>Don’t know, not applicable</b>	0	0	1

## Unfunded Pension Obligations

About half of city officials (54%) report that their cities have unfunded pension obligations in the last fiscal year. City officials in the San Francisco Bay Area (69%) are more likely to report unfunded obligations than city officials in the Central Valley (40%), Los Angeles region (54%), and Other Southern California (54%).

Among those city officials that report unfunded pension obligations in the last fiscal year, 77 percent report that the unfunded obligations are larger than the previous fiscal year. No notable differences are evident across cities of different regions or population sizes.

When asked about the factors contributing to unfunded pension obligations, 35 percent of city officials point to declining economic and fiscal conditions. A similar number, 33 percent, also say that benefit levels are too high. One in five city officials says that unfunded obligations are driven by the number of employees (22%), and the number of retirees (20%). Fewer report that municipal contribution levels are too high (18%), or that state and other outside contributions are too low (13%). One in six says they are unsure of what contributes to unfunded pension obligations in their city.

**“In the last fiscal year, did your city have an unfunded pension obligation?”**

	City Officials
<b>Yes</b>	54%
<b>No</b>	44
<b>Don't know</b>	2

**“What are the factors that are contributing to unfunded pension obligations?” (check all that apply)\***

	City Officials
<b>Economic and fiscal conditions</b>	35%
<b>Benefit levels are too high</b>	33
<b>Number of employees</b>	22
<b>Number or retirees</b>	20
<b>Municipal contributions are too high</b>	18
<b>Other contributions (state/other) are too low</b>	13
<b>Don't know</b>	17

\*%'s will not add to 100% because respondents could select more than one option.

## Appendix A. City Officials' Survey Methodology

The results presented here are from the *Public Finance Survey* conducted by the Public Policy Institute of California, League of California Cities, and 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, conducted from July to August 2005.

Questionnaires were completed either online via an Internet survey protocol using secure passwords, or were returned by mail to the National League of Cities where they were compiled and coded. Most of the responses were from non-elected senior officials, such as city managers, who are on the city staff. A number of reminders were sent to respondents to return the surveys. The survey data were analyzed at the Public Policy Institute of California and the National League of Cities. The number of usable responses totaled 153, for a response rate of 32 percent. While the response rate was somewhat lower than in our previous surveys, the distribution across regions and different population sizes was similar, thus providing us with an opportunity to contrast the answers to survey questions that were repeated over time.

In analyzing the responses, we categorize cities by population size: less than 10,000; 10,000-49,999; 50,000-99,999; and 100,000 or more. We also compare cities across the major regions of the state. "Central Valley" includes cities in Butte, Colusa, El Dorado, Fresno, Glenn, Kern, Kings, Madera, Merced, Placer, Sacramento, San Joaquin, Shasta, Stanislaus, Sutter, Tehama, Tulare, Yolo, and Yuba Counties. "San Francisco Bay Area" includes cities in Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties. "Los Angeles" refers to cities in Los Angeles County, and "Other Southern California" includes cities in Orange, Riverside, San Bernardino, and San Diego Counties.

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 slight over-representation or under-representation of cities in population or region categories.

City population	% of 478 cities statewide	% of 153 survey responses
<10,000	26%	20%
10,000 - 49,999	44%	47%
50,000 - 99,999	18%	20%
>100,000	12%	13%

Region	% of 478 cities statewide	% of 153 survey responses
Central Valley	19%	16%
SF Bay Area	21%	25%
Los Angeles	19%	16%
Other Southern California	23%	27%
Other	18%	16%



# Appendix B. City Officials' Survey Questionnaire

PUBLIC POLICY INSTITUTE OF CALIFORNIA  
LEAGUE OF CALIFORNIA CITIES  
NATIONAL LEAGUE OF CITIES

## Public Finance Survey

**[Note: Responses from 153 city officials from July-August 2005]**

1. Name of your city or town: \_\_\_\_\_
2. Which source of revenue makes up the **largest share** of your municipal budget? (*Circle one*)
- 32% Property tax    50% Sales tax    3% User fees/charges    2% State revenues  
0% Federal revenues                      Other 13%
- 

### CITY FISCAL CONDITIONS

3. How would you rate **fiscal conditions** in your municipality today? (*Circle one*)
- 15% Excellent                      45% Good                      33% Fair                      6% Poor                      1% Don't know
4. Overall, would you say that your city is **better able** or **less able** to...  
(*circle one for parts "a." and "b."*)
- |   | Better<br><u>Able</u> | Less<br><u>Able</u> |
|---|-----------------------|---------------------|
| a. meet financial needs in FY 2005 than last year                 | 64%                   | 36%                 |
| b. address its financial needs in the next fiscal year (FY 2006)? | 67%                   | 33%                 |
5. How has the range of your municipality's **responsibilities and commitments** changed over the past year? How do you think those responsibilities will change over the next year? (*Circle one per line*)
- |               |               |              |               |               |
|---------------|---------------|--------------|---------------|---------------|
| A. Last year? | 68% Increased | 3% Decreased | 29% No change | 0% Don't know |
| B. Next year? | 69% Increase  | 2% Decrease  | 28% No change | 1% Don't know |
- 

### BUDGET AND TAX POLICY

6. Do you approve or disapprove of the way that governments are handling budget and tax issues?  
(*Circle one per line*)
- |                              |             |                |               |
|------------------------------|-------------|----------------|---------------|
| a. Your municipal government | 95% Approve | 5% Disapprove  | 0% Don't know |
| b. Your governor             | 49% Approve | 43% Disapprove | 8% Don't know |
| c. Your state legislature    | 18% Approve | 73% Disapprove | 9% Don't know |
| d. President George W. Bush  | 21% Approve | 63% Disapprove | 16% Don't     |

e. The U.S. Congress                      13% Approve                      71% Disapprove                      16% Don't

7. As you may know, the federal government expects to run a budget deficit of approximately \$500 billion dollars in FY 2005. How much do you think the **federal deficit is a problem for cities?** (*Circle one*)

31% Big problem                      59% Somewhat of a problem                      8% Not a problem                      2% Don't know

8. As you may know, the California state government has an annual budget of around **110 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*)

76% Big problem                      24% Somewhat of a problem                      0% Not a problem                      0% Don't know

9. How would you prefer to **deal with the state's budget gap?** (*Circle one*)

66% Mix of spending cuts and tax increases                      24% Mostly through spending cuts  
4% Mostly through tax increases                      1% Okay for the state to run a budget deficit  
5% Other, don't know

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

44% Mix of spending cuts and tax increases                      46% Mostly through spending cuts  
2% Mostly through tax increases                      8% Okay to run a deficit  
0% Don't know

11. Governor Schwarzenegger proposed a budget plan for the next fiscal year that includes the following: increasing K through 12 public education funding while withholding some funding in this area and reducing certain health and human services and general government spending. The plan includes no new taxes and leaves the sales tax on gasoline for transportation projects. In general, are you **satisfied or dissatisfied with the governor's budget plan?** (*Circle one*)

56% Satisfied                      35% Dissatisfied                      9% Don't know

12. Do you think that **tax increases** should have been included in the governor's budget plan? (*Circle one*)

58% Yes                      30% No                      12% Don't know

13. How concerned are you that the state's budget deficit will cause **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*)

57% Very concerned                      36% Somewhat concerned                      7% Not very concerned  
0% Not at all concerned                      0% Don't know

14. Governor Schwarzenegger is considering a **special election in fall 2005** to vote on budget, educational, and governmental reform measures. Do you think it is...? (*Circle one*)

27% Better to have a special election      61% Better to wait until scheduled election in 2006  
12% Don't know

15. The "**School Funding and State Spending**" initiative would change state minimum school funding requirements under Proposition 98, limit state spending to the prior year total plus revenue growth, and continue prior year spending if the new state budget is delayed. It would also prohibit state special funds borrowing and require payment of local government mandates. Would you vote yes or no? (*Circle one*)

62% Yes      15% No      23% Don't know

16. Do you think the way the governor and legislature go about **state spending** in California is in need of...? (*Circle one*)

76% Major changes      21% Minor changes      1% Fine the way it is      2% Don't know

17. In general, when it comes to making **long-term budget and governmental reforms** in California, which approach do you most prefer? (*Circle one*)

15% Having voters make decisions      78% Having the legislature and governor make decisions  
7% Don't know

18. As a result of Proposition 13 and increases in home prices in California, a homeowner who recently purchased a home will pay much higher property taxes than a homeowner who purchased a similar home several years ago in the same neighborhood. Do you favor or oppose this feature of Proposition 13? (*Circle one*)

32% Favor      61% Oppose      7% Don't know

19. Under Proposition 13, a two-thirds vote at the ballot box is required to pass any new local special taxes, such as a local sales tax to fund transportation projects. Do you favor or oppose this feature of Proposition 13? (*Circle one*)

28% Favor      70% Oppose      2% Don't know

20. Overall, do you feel that Proposition 13 turned out to be mostly a good thing or mostly a bad thing for cities in California? (*Circle one*)

20% Mostly a good thing      70% Mostly a bad thing      10% Don't know

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**FACTORS AFFECTING CITY BUDGETS**

21. **CHANGE AND THE IMPACT OF CHANGE ON BUDGETS' ABILITY TO MEET CITY NEEDS** – Please consider the ways the listed items have changed and the impact those changes have had on your budget. In **part (a)**, circle whether there has been an INCREASE, a DECREASE, or NO CHANGE from FY2004 to FY2005. In **part (b)**, circle the impact that change has had on your budget. Has the change had a POSITIVE impact (*increased revenues, decreased expenditures, etc.*), a NEGATIVE impact (*decreased revenues, increased expenditures, etc.*), or NO IMPACT?

FY2005	a. CHANGE in item from FY2004			b. IMPACT of change in		
	Increase	No change	Decrease	Positive	No impact	Negative
1. Value of city tax base.....	86	11	3	81	12	7
2. Amount of federal aid to city.....	10	57	33	12	55	33
3. Amount of state aid to city.....	14	32	54	16	27	57
4. Federal environmental mandates.....	40	57	3	0	54	46
5. Federal non-environ. mandates.....	21	77	2	2	77	21
6. State environmental mandates.....	51	45	4	2	48	50
7. State non-environ. mandates.....	34	62	4	0	61	39
8. Restrictiveness of state tax and expenditure limitations on cities.....	18	78	4	3	71	26
9. Public safety needs.....	75	24	1	5	28	67
10. Infrastructure needs.....	88	10	2	6	17	77
11. Human service needs.....	47	49	4	4	50	46
12. Education needs.....	34	64	2	5	67	28
13. Cost of employee pensions.....	94	5	1	1	10	89
14. Cost of employee health benefits.....	94	5	1	2	8	90
15. Employee wages and salaries.....	84	15	1	7	27	66
16. Prices, inflation, cost of living.....	85	14	1	3	21	76
17. Population ( <i>number of people in city</i> ).....	64	34	2	22	57	21
18. Health of local economy.....	62	34	4	59	24	17

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**MUNICIPAL PENSION OBLIGATIONS**

24. How have your city's annual **pension contributions** changed...

a) ...over the past year? (*Circle one*)

0% Decreased significantly	1% Decreased
42% Increased	52% Increased significantly
5% No change	0% Don't know

b) ...over the past five years? (*Circle one*)

0% Decreased significantly	0% Decreased
32% Increased	66% Increased significantly
2% No change	0% Don't know

25. How do you expect your city's pension costs/contributions to change over the next five years?

1% Decreased significantly	10% Decreased
65% Increased	9% Increased significantly
14% No change	1% Don't know

26. In the last fiscal year, did your city have an **unfunded pension obligation**? (*Circle one*)

54% Yes	44% No	2% Don't know
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a) If you answered “**yes,**” is the unfunded pension obligation larger than it was in the previous fiscal year? (*Circle one*)

77% Yes	15% No	8% Don't know
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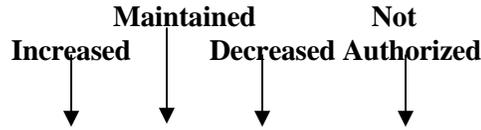
b) If your city currently has an unfunded pension obligation, what are the factors that are contributing to it? (*please rank-order the following factors from most important (1) to least important (X)*).

22%	Number of current employees
20%	Number of retirees
35%	Economic conditions and fiscal conditions
18%	Municipal contribution levels are too high
13%	Contribution levels from other governments (state/other) are too low
33%	Benefit levels are too high
17%	Not Applicable/Don't know

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**27. FISCAL ACTIONS**



**27a. Indicate whether your city has taken the listed actions**

a. Property tax rates ( <i>net effect</i> ) .....	3%	51%	1%	45%
b. Sales tax rates .....	10%	62%	1%	27%
c. Rates of other taxes ( <i>net effect</i> ) .....	15%	61%	0%	24%
d. Number of other taxes ( <i>net effect</i> ) ....	6%	71%	0%	23%
e. Tax base unrelated to growth (e.g., reduced tax credits, taxed previously untaxed items) .....	5%	64%	0%	31%

**27b. Indicate whether your city has taken the listed actions**

f. Number/level of impact or development fees ( <i>net effect</i> ) .....	54%	44%	0%	2%
g. Level of other fees or charges ( <i>net effect</i> ) .....	70%	30%	0%	0%
h. Number of other fees or charges ( <i>net effect</i> ) .....	52%	48%	0%	0%

**27c. Indicate whether your city has taken the listed actions**

i. Growth rate of operating spending .....	47%	37%	16%	0%
j. Actual infrastructure spending .....	60%	23%	17%	0%
k. Actual human services spending .....	32%	42%	11%	15%
l. Actual public safety spending .....	76%	16%	8%	0%
m. Size municipal gov't workforce .....	37%	35%	27%	1%
p. Contracting out of services .....	28%	68%	3%	1%
q. Productivity levels .....	49%	49%	2%	0%
r. Number/scope of inter-local agreements or other cost-sharing plans with other governments .....	21%	71%	2%	6%
s. City service levels .....	32%	53%	15%	0%
t. Employee wage/benefit levels .....	62%	36%	2%	0%

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**THANK YOU VERY MUCH FOR YOUR COOPERATION!!!**

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