

# **Local Budgets and Tax Policy in California: Surveys of City Officials and State Residents**

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# Summary

This report presents an analysis of the ways in which California city officials and state residents view current and future challenges confronting their local government budget and tax policies. The findings are based on large and representative surveys. The survey of city officials was conducted from June to August 2004 by the National League of Cities, the League of California Cities, and the Public Policy Institute of California, which sent a direct mail survey to city managers in all of California's 478 cities; a total of 241 surveys were completed and returned, for a 50 percent response rate. Two PPIC Statewide Surveys of adult residents were conducted from May 11<sup>th</sup> to 18<sup>th</sup> and from August 4<sup>th</sup> to 11<sup>th</sup>, 2004, and, respectively, included 2,001 and 2,002 respondents. In this report, we compare results from the city officials survey with those from the state residents surveys.

The surveys offer a “snapshot in time,” when city officials and state residents are coping with significant fiscal challenges in California—a sluggish economy that has yet to recover from the recession of 2001, unprecedented federal budget deficits, a multibillion dollar gap between state spending and revenues, and the latest round of fiscal tensions between state and local government policymakers over the allocation of state revenues and local service responsibilities. All of this is occurring today against a backdrop of California public finance that continues to be defined by Proposition 13, the local property tax limit initiative passed in 1978. As local, state, and federal policymakers contemplate the future of public finance, the opinions expressed in these California surveys should prove helpful in identifying local fiscal issues and perceived needs and the potential for changing fiscal policies through legislation or at the ballot box. Some of the findings and the conclusions we draw from them are presented below.

- Nearly all California city officials say that the state’s deficit is a big problem for cities and will cause severe cuts in funding for local government services. Most California residents also express concerns about the effects of state budget cuts.
- A majority of city officials approve of the handling of budget and tax issues by their city governments and by the governor, while they disapprove of the handling of budget and tax issues by the state legislature. Most Californians also approve of the fiscal performance of Governor Arnold Schwarzenegger, while a majority say they disapprove of the handling of budget and tax issues by the California Legislature.
- Most city officials approve of the governor’s budget plan, although many also think that the plan should have included tax increases. City officials say that they would be willing to support higher taxes if the state needs revenue to maintain funding for local government services. Half of California residents also are satisfied with the governor’s budget plan and, while a slight majority also say that tax increases should have been included, residents are sharply divided along partisan lines.
- A large majority of city officials say that they think both of the two local government-sponsored measures on the November ballot—Proposition 1A and Proposition 65—will help protect cities from state actions that reduce city revenues. California’s likely voters express strong approval for Proposition 1A in the August residents survey.

- Despite the fiscal difficulties of the last several years, most city officials say their city's fiscal conditions are in decent shape. If cuts in services are needed in the future, city officials would prefer to cut in areas other than public safety and transportation. If additional revenues are needed, most city officials say they would prefer to generate those revenues through user fees rather than by increasing local taxes.
- Among a number of trends affecting fiscal policy, city officials say that intergovernmental challenges (including federal and state preemptions, mandates, and cuts in aid) and political challenges (such as public pressure to limit taxes and lack of public trust in government) are of greatest concern to them.
- City officials say the two most important criteria they use in making fiscal policy are ensuring adequate revenues to meet needs and maintaining local authority. Assessing current revenue sources, city officials rate local sales and property taxes the highest overall in meeting these criteria.
- Most California city officials say that the system of public finance in which they are operating is in need of at least minor changes. Two options for reform that city officials think are particularly good ideas are taxing goods sold over the Internet and reducing super-majority vote requirements needed to increase local taxes and fees.
- The state legislature and outside special interest groups are identified by city officials as the groups most likely to oppose fiscal reform. They expect support for fiscal reforms from voters, neighborhood groups, and businesses.

# Introduction

Although the national economy has been recovering, local governments in California are confronting ongoing challenges in balancing local spending and tax revenues. Among the problems are sluggish economic growth that translates into slow growth in revenues, large federal budget deficits that result in unstable federal assistance for local and state government, a chronic gap between state spending and revenues in California's annual budget that results in political tensions over state support for localities, and the added responsibilities of homeland security that require additional local programs and the resources to pay for them. These fiscal constraints are occurring against the backdrop of a state and local system of public finance that is the legacy of Proposition 13 and the many initiatives and legislative adjustments that have occurred in the two and a half decades since its passage in 1978. These many revenue and expenditure challenges confront California's city governments with fiscal constraints, even after the economic recession has passed.

To gauge the current conditions 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 (see Appendix A). A total of 241 questionnaires were returned from June to August 2004, for a 50 percent response rate. The responses from city officials – mostly from city managers who were chosen because their position offers high knowledge of fiscal issues – were analyzed for differences across cities of various population sizes and regions in the state. The survey sought answers to the following questions:

- What are the specific perceptions of city officials regarding current local and state, fiscal conditions? How do city officials view budget and tax policy in the state, including measures that will appear on the November ballot?
- What are the specific tax and spending pressures that are confronting California cities today? How will city officials approach their revenue and expenditure decisions in the future?
- What do city officials consider to be some of their key principles and most important criteria for making local budget and tax decisions? How do city officials view current revenue sources in terms of these principles and criteria?
- To what extent are reforms needed to make the system of public finance more viable in the future? What are city officials' perceptions of various options for reform? Which individuals and groups are likely to support or oppose such reforms?

In addition, we compare the results of the survey of city officials to responses by state residents to similar questions posed in the PPIC Statewide Surveys in May and August 2004. We are most interested in the extent to which city officials and state residents view the local fiscal conditions in a similar fashion and have areas of agreement on the direction of local fiscal policies. Given the extent to which local and state fiscal policy are determined by voters at the ballot box in California, the opinions and policy preferences of Californians are crucial to understanding the range of constraints and opportunities for fiscal policy change.

NOTE: All tables in the report present the responses of city officials. Comparisons with state residents are confined to the narrative.





# California Budget and Tax Policy

## Coping with State and Federal Deficits

Since the economic recession of 2001, federal and state governments have experienced significant annual deficits. Moreover, budget deficits at the state level are predicted for the foreseeable future. For obvious reasons, the size of the state budget deficit and the dependence of cities on state government for intergovernmental transfers of revenues are of considerable concern to city officials in California.

Nearly all California city officials (98%) say that the state deficits present at least somewhat of a problem for cities. Nine in ten city officials (90%) say that it is a big problem for cities.

City officials are particularly concerned that the state's budget deficit will result in severe cuts in funding for local government services, with nearly all (96%) saying that they are very (72%) or somewhat (24%) concerned that the state's deficit will lead to such cuts. No appreciable differences in cities' concerns about cuts in local services are evident across city size or region of the state.

By comparison, the PPIC Statewide Survey in May finds that 78 percent of the state's adult residents are very concerned (38%) or somewhat concerned (40%) about the possibility of severe cuts in funding for local government services in their area. The proportion that is very concerned is greater in Los Angeles (44%) and the San Francisco Bay Area (42%) than in other regions of the state. Latinos are more likely than whites to be very concerned (48% to 34%), and concern about local government service cuts is higher among lower-income than higher-income residents. The results are similar in our August, with 74 percent of state residents saying that they are very concerned (35%) or somewhat concerned (39%) about the effects of spending cuts on their local government services.

**Table 1**  
**"How much do you think the deficit is a problem for cities in California?"**

	<b>California State Deficit</b>
<b>Big problem</b>	90%
<b>Somewhat of a problem</b>	8
<b>Not a problem</b>	0
<b>Don't know</b>	2

## Approval of Government Budget and Tax Policies

California city officials give themselves and their local colleagues high marks for their handling of local budget and tax issues. Perhaps to be expected, nearly all city officials (95%) say that they approve of the way that their city governments have handled budget and tax issues. However, a surprisingly solid majority (56%) of city officials also approve of the governor's handling of state budget and tax issues, compared to one-third (33%) who say that they disapprove. By contrast, city officials give their most negative assessment to the state legislature. Nine in ten city officials (92%) say that they disapprove of the state legislature's handling of budget and tax issues, while only 3 percent say that they approve.

City officials rate their city government's handling of budget and tax issues equally high across cities of different sizes and regions of the state. Following partisan lines, approval of the governor's handling of budget and tax issues is higher in the Central Valley (67%) and Other Southern California (59%) than in the San Francisco Bay Area (49%) and Los Angeles County (49%). City officials in all city population sizes and regions of the state say they disapprove of the state legislature's handling of budget and tax issues.

In the PPIC Statewide Survey of adult residents, Governor Arnold Schwarzenegger's handling of state budget and tax issues received positive ratings after the May budget revise (55% approve, 32% disapprove) and after the budget was approved in August (58% approve, 34% disapprove). By comparison, the California Legislature had lower ratings than the governor in May (32% approve, 53% disapprove) and August (35% approve, 53% disapprove).

**Table 2**

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

	Approve	Disapprove	Don't know
<b>Your city government</b>	95%	3%	2%
<b>Governor</b>	56	33	11
<b>State legislature</b>	3	92	5

## The Governor’s Budget Plan

Governor Schwarzenegger’s plan for the current fiscal year includes spending cuts in transportation and general government, defers spending increases for public education, and includes local government property tax reductions for two years and state bond financing. In exchange for local government property tax reductions, the governor has pledged support for a ballot measure that he and the legislature placed on the ballot – Proposition 1A – that would prevent future state reductions of local revenues. When asked if they are satisfied or dissatisfied with the governor’s budget plan, nearly two in three California city officials (65%) say that they are satisfied, compared to 29 percent who say they are dissatisfied.

City officials in larger cities are more likely to say they are satisfied with the governor’s budget plan (74% in cities with 50,000-99,999 in population, 75% in cities with more than 100,000 people) than city officials in smaller cities (61% in cities with 10,000-49,999, 55% in cities under 10,000). The governor’s plan does not include tax increases. Six in ten city officials (59%) say that they think tax increases should have been included in the governor’s budget plan. San Francisco Bay Area officials (77%) are much more likely than others to say that tax increases should have been included in the budget plan.

If the governor says that more revenue is needed in order to maintain funding for local services, 63 percent of California’s city officials say that they would support higher taxes for this purpose. San Francisco Bay Area officials (80%) are more likely than city officials in other regions of the state to say they would support higher taxes to protect local services.

How does the public evaluate the governor’s budget plan? A bare majority said that they were happy with the plan immediately after the May budget revise (50% satisfied, 41 % dissatisfied) and after the state budget was passed in August (52% satisfied, 40% dissatisfied). In May, a bare majority said that the governor’s budget plan should have included a tax increase (50% yes, 43% no), with a deep partisan divide on this issue 66% Democrats, 31% Republicans) and likely voters evenly split (49% yes, 46% no).

**Table 3**

**"Do you think that tax increases should have been included in the governor’s budget plan?"**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b>Yes</b>	59%	57%	77%	47%	57%
<b>No</b>	28	41	14	29	29
<b>Don't know</b>	13	2	9	24	14

## November 2004 Ballot Measures

Two measures addressing state-local fiscal issues will appear on the California ballot in November. One measure placed on the ballot by the governor and legislature – Proposition 1A, Californians to Protect Local Taxpayers and Public Safety – would prevent the state legislature from reducing local property tax, sales tax, and vehicle license fee revenues and provide for the automatic suspension of state mandates that are not reimbursed by the state in a timely way. The measure would allow the state to borrow revenues from local governments in a fiscal crisis, providing that the state has already repaid the local governments for previous borrowing.

Proposition 65 – the Local Taxpayers and Public Safety Protection Act – placed on the ballot through a citizens’ initiative process, would require voter approval for any state legislation that reduces local government revenue and permit local governments to suspend performance of state mandates if the state fails to reimburse local governments providing those services. Proposition 65 has been sponsored by a coalition of local governments, including the League of California Cities, the California State Association of Counties, and the California Special Districts Association. The coalition of local governments is now asking its local constituencies to support Proposition 1A, over Proposition 65, as a result of a compromise reached with Governor Schwarzenegger whereby the local governments would accept two years of property tax reductions in exchange for the governor’s support of Proposition 1A.

When asked how much they think these measures will help protect city governments from state actions that reduce city revenues, nine in ten California city officials say that both measure will help a great deal (47% on Proposition 1A and 50% on Proposition 65) or a fair amount (41% on Proposition 1A and 38% on Proposition 65). Support for both measures was consistent across cities of different sizes and in different regions of the state.

In the PPIC Statewide Survey in August, Proposition 1A found strong support among likely voters (60% yes, 25% no) across the political spectrum and state’s regions. In May, a similar proportion of all adults (64%) and likely voters (60%) said they would support a measure requiring voter approval for any state legislation that reduced local government services.

**Table 4**  
**"How much do you think [this ballot measure] will help protect city governments from state actions that reduce city revenues?"**

	<b>Proposition 1A</b>	<b>Proposition 65</b>
<b>A great deal</b>	47%	50%
<b>A fair amount</b>	41	38
<b>Only a little</b>	8	8
<b>Not at all</b>	1	1
<b>Don't know</b>	3	3

# Spending and Revenue Pressures

## City Fiscal Conditions

In the wake of the 2001 recession, California state and local governments confronted a variety of spending and revenue pressures as revenue collections slowed and spending needs increased. Despite the economic and fiscal difficulties of the past several years, the majority of California city officials say that their city’s fiscal conditions today are in decent shape. Nearly half (45%) say that fiscal conditions are excellent (12%) or good (33%) and another 39 percent report fair conditions. Only one in six (15%) say that their city’s fiscal conditions are poor.

City officials in the Los Angeles (57%) and Other Southern California (59%) regions are more likely than city officials in the Central Valley (39%) and San Francisco Bay Area (32%) to say that their fiscal conditions are excellent or good. One in five (20%) of the San Francisco Bay Area city officials say that their cities are facing poor fiscal conditions. There are no significant differences in city fiscal conditions by population size.

**Table 5**  
**"How would you rate fiscal conditions in your city today?"**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b>Excellent</b>	12%	10%	10%	13%	18%
<b>Good</b>	33	29	22	44	41
<b>Fair</b>	39	47	47	29	33
<b>Poor</b>	15	12	20	11	8
<b>Don't know</b>	1	2	1	3	0

## Local Spending Pressures

Despite their positive ratings of fiscal conditions, California city officials say that their cities are confronting increased responsibilities and commitments. Looking at the past five years, 85 percent say that their city’s range of responsibilities has increased. Over the next five years, 82 percent expect their city’s commitments to increase.

If future cuts in spending are needed, most California city officials say that they would prefer to make cuts in general administration (74%), culture and leisure activities such as parks and recreation (70%), and social services (67%). City officials are least likely to make cuts in public safety spending (38%) for police and fire services or to make across the board spending cuts that affect all service areas (23%). Overall, city officials in the Los Angeles region are less likely than city officials in other regions to make a variety of cuts – particularly in culture and leisure services, social services, and general government administration. Cities with populations greater than 100,000 (90%) are more likely to say they would cut general government services compared to cities in all other population categories (ranging from 63% to 75%).

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

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b>General government</b>	74%	82%	90%	61%	78%
<b>Culture and leisure</b>	70	73	73	53	77
<b>Social services</b>	67	77	75	53	69
<b>Streets, roads</b>	58	69	69	51	43
<b>Public safety</b>	38	47	49	27	31
<b>Across-the-board</b>	23	24	26	22	24

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

When asked if they think their city could spend less and still maintain the same level of services, one in three California city officials (33%) say yes. City officials in smaller cities, with less than 10,000 in population (20%) and between 10,000 and 49,999 in population (31%) are less likely to say they think they could make cuts and maintain services than city officials in cities with populations between 50,000 and 99,999 (44%) and cities over 100,000 in population (38%).

By comparison, the PPIC Statewide Survey in May found that 58 percent of state residents thought that their local governments could spend less and still provide the same level of services, while 34 percent thought they could not spend less and maintain local services.

## Local Revenue Pressures

California’s cities are also facing revenue pressures from a sluggish economy and the resulting slow growth or decline in tax revenues, as well as from state and federal reductions as those levels of government cope with budget pressures. In the future, if cities need to generate additional revenues to cover service needs, the overwhelming majority of California city officials say that they would prefer to raise or impose new user fees (82%) rather than raise property taxes (22%), sales taxes (35%), or other taxes (44%) or impose local income taxes (5%).

City officials in the Los Angeles (9%) and Other Southern California (16%) regions are less likely to say they would be willing to raise property tax rates than city officials in the Central Valley (28%) and San Francisco Bay Area (26%). Central Valley city officials (53%) are more than twice as likely as city officials in other regions of the state to say they would be willing to raise sales tax rates. City officials in the San Francisco Bay Area are more likely to say they would be willing to raise other forms of tax rates (59%). While a majority of city officials in all regions say they would be willing to raise or impose new user fees, Central Valley (90%) and San Francisco Bay Area (86%) city officials are more likely to say they would pursue this option. City officials in the smallest cities in the state (with populations of less than 10,000) are more likely to consider raising property tax rates (57%) and sales tax rates (39%) than their larger city counterparts.

In the PPIC Statewide Survey in May, a majority of adults (56%) and likely voters (54%) said they would increase their local sales tax in order to fund local government services such as parks, police, and roads, again with a strong partisan divide in support (65% Democrats, 44% Republicans).

**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”)**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
Property tax	22%	28%	26%	9%	16%
Sales tax	35	53	24	22	24
Income tax*	5	10	6	0	2
Other tax(es)	44	39	59	33	37
User fees	82	90	86	67	77

\* Levying local income taxes would have to first be authorized by the state government.

## Dealing with Revenue and Expenditure Gaps

The spending and revenue pressures of the last several years have placed many cities in the situation of dealing with substantial budget gaps between revenues and expenditures. Because cities are required by California state law to balance their budgets, these gaps must be covered through tax and fee increases, spending cuts, borrowing, or some combination of these policies. A large majority of California city officials say that when faced with expenditure-revenue gaps they prefer to use a mix of spending cuts and tax and fee increases (69%). Far fewer say that they prefer to use spending cuts (19%), tax increases (2%), or fee increases (2%) alone. Seven percent of city officials say that they would prefer to borrow money to cover short-term gaps between their revenues and expenditures.

While there are no similar questions on local fiscal policy, in a PPIC Statewide Survey in January, 2004, residents preferred to deal with the state's multibillion dollar deficit through a mix of spending cuts and tax increases (50%) rather than mostly spending cuts (28%), mostly tax increases (7%), or borrowing money and running a deficit (8%). However, Republicans favored mostly spending cuts over a mixture of spending cuts and tax increases (47% to 40%), while Democrats strongly favored the mix of spending cuts and tax increases over mostly spending cuts (63% to 16%).

A majority of city officials in California say they would consider raising taxes to maintain funding for public safety (72%) and streets, roads, and transportation (60%). One-third or less would be willing to raise taxes to maintain funding for culture and leisure activities (34%), social services (25%), or general government (20%). Three in four San Francisco Bay Area city officials (75%) say they would be willing to raise taxes to maintain streets, roads, and transportation compared to less than half (40%) of city officials in the Los Angeles region. Similarly, San Francisco Bay Area city officials (47%) are more likely than city officials in other regions to say they would be willing to raise taxes to maintain culture and leisure services. Larger cities are more likely than smaller cities to say they would raise taxes to maintain social services: one in three officials in cities between 50,000 and 99,999 in population (33%) and over 100,000 in population (31%) compared to 25 percent in cities between 10,000 and 49,999 in population and 14 percent in cities under 10,000 in population.

**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”)**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. Cal.
<b>Public safety</b>	72%	71%	80%	60%	73%
<b>Streets, roads, transportation</b>	60	57	75	40	59
<b>Culture and leisure activities</b>	34	29	47	29	26
<b>Social services</b>	25	20	29	24	22
<b>General government</b>	20	18	26	18	14



# Trends and Challenges

## Scope of Challenges for Cities

A number of trends and challenges are affecting city fiscal conditions that are largely outside of the jurisdiction and control of city governments. These trends include shifts in the composition of the economy and the related effects for the tax system, demographic changes in the population, structural changes in the intergovernmental system, and political challenges that make addressing the fiscal trends more difficult (see Table 9).

City officials think that the largest challenges over the next five years will come from five changes in the intergovernmental system, including federal or state preemption of local authority (89%), cuts in federal or state support for cities (88%), or federal or state unfunded mandates (83%). The mean (or average) percent across the five intergovernmental challenges listed in Table 9 is 79 percent.

City officials also feel that political challenges loom large on the horizon – the mean percent for the five political challenges is 70 percent. Three in four city officials think that public and voter pressure to limit taxation (77%) and public perceptions of waste in government (75%) pose significant challenges over the next five years.

Economic challenges (average or mean score of 57%) and demographic changes (average or mean score of 53%) are also concerns for many city officials, particularly competition for economic growth among jurisdictions (70%) and increases in the aging population (69%).

City officials in different regions similarly gauge the extent of intergovernmental challenges over the next five years. However, Central Valley (75%) and San Francisco Bay Area (75%) city officials are more likely to point to challenges from increases in the aging population than city officials in the Los Angeles (61%) and Other Southern California (58%) regions. City officials in the San Francisco Bay Area (73%) and Central Valley (65%) are also more likely to say that the lack of civic ties between government and state residents will pose a problem.

Central Valley city officials are consistently more likely to say that economic challenges will be a problem in the next five years, including competition for economic development among jurisdictions (77%), the shift away from a manufacturing-based economy (69%), and pressures from industries with special needs (57%). Three in four Central Valley (77%) city officials say that rapid growth, development, and “sprawl,” will present large problems for their cities over the next five years, compared to one in two city officials from the San Francisco Bay Area (47%), Los Angeles (48%), and Other Southern California (53%) regions.

City officials in larger cities are more likely than those in smaller cities to say that increases in school age and immigrant populations will be large problems over the next five years. More than half of city officials in cities over 100,000 in population (59%) and cities with populations between 50,000 and 99,999 (55%) say that an increase in the school-age population will be a large problem, compared to one in three officials (33%) in cities with populations below 10,000.

Similarly, two in three city officials (66%) in the largest cities (those with populations over 100,000) say that increases in the immigrant population will be a large problem, compared to about one in two city officials in all other population categories (ranging from 46-54%).

**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")**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b><i>Economic Shifts</i></b>					
Competition for economic growth among jurisdictions	70%	77%	67%	73%	69%
Increasing mobility of business, capital, and people	58	63	53	59	51
Shift from manufacturing to services economy	57	69	59	52	47
Pressures from industry groups with special needs	42	57	43	32	35
<b><i>Demographic Changes</i></b>					
Increase in aging population	69%	75%	75%	61%	58%
Rapid growth, development, and 'sprawl'	56	77	47	48	53
Increase in immigrant populations	53	57	49	57	55
Increase in school-age population	48	57	47	45	51
Changing composition of households	39	53	33	36	26
<b><i>Changes in the Intergovernmental System</i></b>					
Federal and/or state preemption of local authority	89%	90%	92%	86%	86%
Cuts/limits in state and/or federal support	88	92	82	91	86
Federal and/or state unfunded mandates	83	84	86	77	88
Devolution of responsibility to local governments	75	84	73	76	61
Changes in federal and/or state tax systems	62	61	63	71	53
<b><i>Political Challenges</i></b>					
Public/voter pressure to limit taxation	77%	80%	82%	73%	77%
Public perception that government is wasteful	75	78	75	77	73
Lack of public trust in government	70	73	75	66	69
Special interest pressure to limit taxation	69	69	73	64	69
Lack of civic ties between government and people	60	65	73	52	53

# Fiscal Principles and Current Revenues

## Public Finance Principles

When it comes to making fiscal policy decisions, city officials often base their decisions – explicitly or implicitly – on a number of criteria or principles. These principles include equity and fairness issues, such as ensuring a fair distribution of tax burdens among taxpayers (taxpayer equity) or ensuring a fair distribution of revenues and responsibilities among levels of government (intergovernmental equity). Providing enough revenues to meet city needs (revenue adequacy) and maintaining local authority (self-directed governance) are also key criteria. Some criteria have to do with administrative issues – for example, whether revenue sources are easy to administer and collect (ease of administration) and whether residents understand what the revenue source is and how it is used (accountability). Other principles relate to the broader system in which cities operate, such as how fiscal decisions affect the behavior of economic interests (economic effects) or other jurisdictions and levels of government.

In making decisions about their cities’ finances, seven in ten city officials say that revenue adequacy (76%) and self-directed governance (71%) are very important. More than half say that taxpayer equity (59%) and accountability (58%) are very important. More than three-fourths of California city officials say that all of the principles are either important or very important. There was little difference in responses across city sizes or regions of the state.

When asked if they would be willing to forego local tax revenue authority in return for expanded revenue capacity – for example, by swapping local tax authority for a greater share of state revenues – only 25 percent of city officials said they would be willing to do so (3% a lot, 11% a fair amount, 11% a little) while 57 percent said they would not and 18 percent were unsure.

**Table 10**  
**“When making decisions about your city’s finances, how important are the following principles?”**

	Very Important	Important
Revenue adequacy	76%	19%
Self-directed governance	71	22
Taxpayer equity	59	35
Accountability	58	35
Intergovernmental equity	37	43
Economic effects	35	53
Ease of administration	35	46
Responsibility to system	29	48

## Assessments of Revenue Sources

Taking into account a variety of factors in assessing the potential of local revenue sources – including fairness, effectiveness, least negative economic effects, and most desirable to have in terms of local authority – city officials are most likely to rate the local sales tax (41%) and property tax (36%) rather than user fees (8%) or income taxes (6%) as the most desirable overall.

In terms of which revenue source is most fair in the distribution of tax burdens, city officials point to user fees (30%) and the income tax (27%) over the sales tax (23%) and property tax (13%).

City officials also say that user fees (32%) have the least negative effect on the economic behavior of individuals and firms.

City officials say that the sales tax and property tax are more effective than user fees at providing adequate revenues to fund city services (42% sales tax, 36% property tax, 10% user fees) and more desirable in terms of local authority (31% sales tax, 42% property tax, 16% user fees).

San Francisco Bay Area city officials (55%) are more likely than city officials in the Central Valley (28%), Los Angeles (30%), or Other Southern California (37%) regions to say that the property tax is most effective in providing adequate revenues. Similarly, city officials in the Bay area (63%) are more likely than others to say that the property tax is most desirable overall.

**Table 11**  
**“Which of the following revenue sources do you think is ...”**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<i><b>Most fair</b></i>					
Property tax	13%	12%	10%	14%	16%
Sales tax	23	28	14	25	24
Income tax*	27	22	41	18	28
User fees	30	35	29	36	20
<i><b>Most effective in providing revenue</b></i>					
Property tax	36%	28%	55%	30%	37%
Sales tax	42	43	26	46	45
Income tax*	4	2	10	2	4
User fees	10	18	4	9	6
<i><b>Least negative in economic effects</b></i>					
Property tax	17%	20%	14%	14%	18%
Sales tax	25	35	24	21	22
Income tax*	17	8	18	25	12
User fees	32	33	37	25	39
<i><b>Most desirable for local authority</b></i>					
Property tax	42%	26%	39%	39%	43%
Sales tax	31	37	14	39	31
Income tax*	4	6	4	2	4
User fees	16	24	18	7	18
<i><b>Highest rated overall</b></i>					
Property tax	36%	24%	63%	30%	37%
Sales tax	41	51	22	41	43
Income tax*	6	6	4	5	8
User fees	8	16	4	9	4

\*Levying local income taxes would have to be authorized by the state government.

Note: Numbers add to less than 100 percent in each category; the remaining percentages are for the numbers of respondents saying “Don’t know” to each question.



# Options for Reform

## Need for Change?

Is the system of public finance in which cities operate in need of change? A large majority of California city officials (87%) say that the system is in need of major (56%) or minor (31%) changes. Fewer than one in ten (9%) say that no change is needed.

San Francisco Bay Area city officials (75%) are more likely than city officials in the Central Valley (51%), Los Angeles (48%), and Other Southern California (61%) regions to say major changes are needed. Support for major changes increases by population size. Fewer than half (44%) of city officials in cities under 10,000 in population point to a need for major changes, compared to 56 percent in cities with populations from 10,000-49,999, 61 percent in cities with 50,000-99,999, and 66 percent in cities with over 100,000 in population.

**Table 12**

**“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?”**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b>Yes, major changes</b>	56%	51%	75%	48%	61%
<b>Yes, minor changes</b>	31	31	20	39	28
<b>No changes</b>	9	18	4	9	4
<b>Don’t know</b>	4	0	1	4	7

## Specific Reform Options

City officials were presented with a variety of reform options and asked if they thought each reform was a good idea or a bad idea. Four in five city officials say that they think taxing goods sold over the Internet (84%) and reducing super-majority vote-requirements for passing local taxes (81%) are good ideas. Seven in ten also say that state authorization of the use of additional tax sources by local governments (71%) and re-establishment of a federal program like the General Revenue Sharing program that existed from 1970-1986 (69%) are good ideas. Three in five city officials support reducing or eliminating tax exemptions (64%), extending the sales tax to services (64%), and strengthening the local property tax (60%). Fewer than half support the ideas of taxing commercial properties at higher rates (42%), a land value tax (27%), or a commuter income tax (23%).

Officials in cities with less than 10,000 people are less likely to say that strengthening the local property tax, taxing goods sold on the Internet, and extending the sales tax to services are good ideas. Less than half support strengthening the local property tax (48%) and extending the sales tax to services (44%), compared to more than sixty percent of city officials who support these ideas in larger population centers. While a strong majority (69%) of city officials in smaller cities support taxing goods sold over the Internet, officials in larger cities are more likely to say this is a good idea (89%) in cities from 10,000-49,999, 87% in cities from 50,000-99,999, and 88% in cities over 100,000). San Francisco Bay Area city officials are more likely to say that strengthening the local property tax (78%) is a good idea, compared to 53 percent of Central Valley, 52 percent of Los Angeles, and 61 percent of Other Southern California city officials. The Bay area is also the only region where more than half of the city officials (55%) say that taxing commercial properties at a higher rate is a good idea.

**Table 13**  
**Reform Options**  
**(% responding “good idea”)**

	All Cities	Population			
		<10,000	10,000-49,999	50,000-99,999	>100,000
<b>Tax goods sold over the Internet</b>	84%	69%	89%	87%	88%
<b>Reduce super-majority vote requirement</b>	81	71	83	80	88
<b>State authorize other tax sources</b>	71	63	77	69	66
<b>General revenue sharing</b>	69	75	64	69	75
<b>Reduce/eliminate tax exemptions</b>	64	69	61	67	66
<b>Extend sales tax to services</b>	64	44	73	61	72
<b>Strengthen local property tax</b>	60	48	61	61	72
<b>Higher commercial property tax rates</b>	42	52	40	35	47
<b>Land value tax</b>	27	35	25	20	31
<b>Commuter income tax</b>	23	19	27	13	28



## Perceptions of Tax and Spending Limits

According to city officials, a number of barriers stand in the way of potential fiscal reform, including continued voter support for local tax and spending limits, tied to the perception noted earlier that their local governments can spend less and still provide the same level of services.

When asked about what they think about tax and spending limits, about half of California's city officials say that fiscal limits are always (22%) or sometimes (30%) a bad idea. Four in ten (42%) say that tax and spending limits are sometimes (40%) or always (2%) a good idea.

City officials in cities with more than 100,000 people (72%) are more likely than others to say that tax and spending limits are always (34%) or sometimes (38%) a bad idea. As for regional variations, San Francisco Bay Area city officials are more likely (67%) than others to say that these limits are always (28%) or sometimes (39%) a bad idea.

Nine in ten California city officials (92%) also say that they strongly agree (52%) or agree (40%) with the statement, "Voters and residents want more services but want to pay less." Similar percentages say that they strongly agree (52%) or agree (43%) with the statement, "We need a more responsible public discussion in this country about government and taxes." City officials' agreement with these statements was consistent across region and population size.

**Table 14**

**"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)?"**

	All Cities	Region			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b>Always a bad idea</b>	22%	18%	28%	13%	28%
<b>Sometimes a bad idea</b>	30	24	39	22	24
<b>Sometimes a good idea</b>	40	53	28	49	37
<b>Always a good idea</b>	2	2	0	7	2
<b>Don't know</b>	6	3	5	9	9

## Sources of Opposition and Support

Despite concern about the effects of voter distrust on government and of public support for tax limitation policies, city officials say that voters and neighborhood groups are more likely to support than oppose fiscal reforms. Seven in ten city officials say that neighborhood groups (70%) and voters and residents (69%) are more likely to support fiscal reforms. Other sources of support for fiscal reforms are city officials' colleagues in city hall (78%), Governor Schwarzenegger (70%), and the business community (65%). California city officials point to two groups as being most likely to oppose fiscal reforms – the state legislature (64%) and outside special interests (55%).

Central Valley city officials (65%) are more likely than city officials in other regions, particularly the Los Angeles region (43%), to say that fiscal reforms would be opposed by outside special interests, although only 16 percent of city officials in the Los Angeles region say that outside special interests are likely to support reforms (41% say that they don't know). City officials in the Los Angeles region (50%) are also less likely to expect support from the business community than city officials in the Other Southern California (71%), Central Valley (67%), and San Francisco Bay Area (67%) regions.

Table 15

“Do you think the following groups are more likely to support or oppose fiscal reforms?”

	All Cities	<u>Region</u>			
		Central Valley	SF Bay Area	Los Angeles	Other So. California
<b><i>Business</i></b>					
Oppose	24%	29%	24%	23%	20%
Support	65	67	67	50	71
Don't know	11	4	9	27	9
<b><i>Neighborhoods</i></b>					
Oppose	18%	24%	12%	9%	16%
Support	70	65	78	70	71
Don't know	12	11	10	21	13
<b><i>Special interests</i></b>					
Oppose	55%	65%	57%	43%	55%
Support	19	8	24	16	26
Don't know	26	27	19	41	19
<b><i>Voters/residents</i></b>					
Oppose	14%	20%	8%	7%	22%
Support	69	67	80	66	63
Don't know	17	13	12	27	15
<b><i>Governor</i></b>					
Oppose	11%	8%	14%	16%	4%
Support	71	79	67	61	75
Don't know	18	13	19	23	21
<b><i>State legislature</i></b>					
Oppose	64%	63%	61%	61%	57%
Support	22	26	24	16	28
Don't know	14	11	15	23	15
<b><i>City Hall</i></b>					
Oppose	8%	12%	2%	9%	8%
Support	78	77	86	66	75
Don't know	14	11	12	25	17



## Appendix A. Survey Methodology: City Officials

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, conducted from June to August 2004. Most of the respondents (95%) were nonelected officials such as city managers. 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. The number of usable responses totaled 241, for a response rate of 50 percent.

Throughout the report, we refer to cities of different population sizes— less than 10,000; 10,000-49,999; 50,000-99,999; and 100,000 or more. We also draw comparisons among cities in different 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. “SF 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 the mostly suburban regions of 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 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 16**

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 17**

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

At various points in the report, we refer to categories of expenditures and revenues. Expenditure categories include public safety (police, fire, and emergency services); streets, roads, and transportation (including 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 the local property tax, local sales taxes, income taxes (not levied locally), other taxes (including utility user's taxes, business taxes, and tourist-related taxes for lodging, restaurants, and amusements), and user fees.

## City Officials Survey Questionnaire

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

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

1. What **city office** do you hold? (*Circle one*)

3% Mayor      1% Council      1% Other elective office      95% Non-elective

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

18% Central city      53% Suburban      29% Rural/non-metropolitan

3. 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 \_\_\_\_\_

4. 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 \_\_\_\_\_

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

12% Excellent      33% Good      39% Fair      15% Poor      1% Don't know

6. 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

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*)

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

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### **SPECIAL SECTION ON CALIFORNIA**

8. As you may know, the California state government has an annual budget of around **100 billion** dollars and currently faces a **multibillion** 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

9. 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

10. 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

11. 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

12. What if the state 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

13. 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

14. 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.

15. 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

16. 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

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

	<b>Yes</b>	<b>No</b>	<b>Maybe</b>	<b>Don’t know</b>
A. Public safety (police, fire, EMS)	38%	25%	33%	4%
B. Streets, roads, transportation, and/or planning	58%	16%	22%	4%
C. Social services (human and/or community development)	67%	8%	19%	6%
D. Culture and leisure activities (parks, libraries)	70%	7%	17%	6%
E. General government (administration, personnel)	74%	4%	17%	5%
F. Across-the-board cuts	23%	37%	23%	17%

18. 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)*

	<b>Yes</b>	<b>No</b>	<b>Maybe</b>	<b>NA</b>
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%

19. 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)*

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

20. 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

21. 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

22. 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

23. 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

24. 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

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**PRINCIPLES OF PUBLIC FINANCE**

25. 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*)

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

26. 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

27. 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

28. 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

29. 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

30. Taking this all into account (questions 26-29), 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

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**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.

31. 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 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%	4%
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%

32. Of the trends and challenges listed in question 31, 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 31 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**

33. 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).

34. 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

35. 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

36. 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

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

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

38. **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

39. 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

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

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

41. **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

42. 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

43. 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

44. 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

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

	<b>Strongly Oppose</b>	<b>Oppose</b>	<b>Strongly Support</b>	<b>Support</b>	<b>Don't Know</b>
A. Business community/Chamber of Commerce	6%	18%	45%	20%	11%
B. Neighborhood groups/Civic organizations	2%	16%	57%	13%	12%
C. Outside special interests	13%	42%	16%	3%	26%
D. Voters/residents	2%	12%	57%	12%	17%
E. Governor	2%	9%	52%	19%	18%
F. State legislature	26%	39%	18%	3%	14%
G. Colleagues in city hall (mayor and/or council)	3%	5%	50%	28%	14%
H. Other ( <i>please list</i> ) _____	1%	2%	0%	6%	91%

## Appendix B. Survey Methodology: State Residents

The results of the state residents surveys are from the PPIC Statewide Survey *Special Survey on the California State Budget* series in collaboration with The James Irvine Foundation (May 2004) and the PPIC Statewide Survey *Californians and Their Government* series (August 2004), which are directed by Mark Baldassare, research director at the Public Policy Institute of California, with assistance in research and writing from Jonathan Cohen, associate survey director; Renatta DeFever, Eliana Kaimowitz, and Kristy Michaud, survey research associates; and Kimberly Curry, survey intern

The findings in this report are based on telephone surveys of 2,001 California adult residents interviewed between May 11 and May 18, 2004, and 2,002 California adult residents interviewed between August 4 and August 11, 2004. Interviewing took place on weekday nights and weekend days, using a computer-generated random sample of telephone numbers that ensured that both listed and unlisted telephone numbers were called. All telephone exchanges in California were eligible for calling. Telephone numbers in the survey sample were called up to ten times to increase the likelihood of reaching eligible households. Once a household was reached, an adult respondent (18 or older) was randomly chosen for interviewing by using the “last birthday method” to avoid biases in age and gender. Each interview took an average of 18 minutes to complete. Interviewing was conducted in English or Spanish.

We used recent U.S. Census and state figures to compare the demographic characteristics of the survey sample with characteristics of California’s adult population. The survey sample was closely comparable to the census and state figures. The survey data in this report were statistically weighted to account for any demographic differences.

The sampling error for the total sample of 2,001 adults in May and 2,002 adults in August is +/- 2 percent at the 95 percent confidence level. This means that 95 times out of 100, the results will be within 2 percentage points of what they would be if all adults in California were interviewed. The sampling error for subgroups is larger. The sampling error for the 1,540 registered voters in May and 1,595 registered voters in August is +/- 2.5 percent. The sampling error for the 993 likely voters in May and 1,117 likely voters in August is +/- 3 percent. Sampling error is just one type of error to which surveys are subject. Results may also be affected by factors such as question wording, question order, and survey timing.

Throughout the report, we refer to four geographic regions. “Central Valley” includes Butte, Colusa, Fresno, Glenn, Kern, Kings, Madera, Merced, Placer, Sacramento, San Joaquin, Shasta, Stanislaus, Sutter, Tehama, Tulare, Yolo, and Yuba Counties. “SF Bay Area” includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties. “Los Angeles” refers to Los Angeles County, and “Other Southern California” includes the mostly suburban regions of Orange, Riverside, San Bernardino, and San Diego Counties. These four regions were chosen for analysis because they are the major population centers of the state, accounting for approximately 90 percent of the state population.





**PPIC STATEWIDE SURVEY: SPECIAL SURVEY ON THE CALIFORNIA STATE BUDGET  
MAY 11 – MAY 18, 2004  
2,001 CALIFORNIA ADULT RESIDENTS; ENGLISH AND SPANISH  
MARGIN OF ERROR +/- 2% AT 95% CONFIDENCE LEVEL FOR TOTAL SAMPLE**

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[Note: Questions and responses on the state budget are presented below. The complete set of survey questions and responses for the PPIC May survey is available at [www.ppic.org](http://www.ppic.org)]

17. Governor Schwarzenegger proposed a budget plan for the next fiscal year that includes spending cuts in transportation, higher education, and general government; defers spending increases for K-12 public education; and uses local government property tax money and state bonds. The plan includes no new taxes. In general, are you satisfied or dissatisfied with the governor's budget plan?
- 50% satisfied
  - 41 dissatisfied
  - 9 don't know
18. Do you think that tax increases should have been included in the governor's budget plan?
- 50% yes
  - 43 no
  - 7 don't know
22. How concerned are you that the state's budget gap 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 local area – very concerned, somewhat concerned, not very concerned, or not at all concerned.
- 38% very concerned
  - 40 somewhat concerned
  - 14 not very concerned
  - 7 not at all concerned
  - 1 don't know
24. What if there were a measure on your local ballot to increase the local sales tax in order to fund local government services such as parks, police, and roads? Would you vote yes or no?
- 56% yes
  - 39 no
  - 5 don't know
25. What if there were a measure on your local ballot for new taxes on alcoholic beverages and cigarettes in order to fund local public health services? Would you vote yes or no?
- 77% yes
  - 22 no
  - 1 don't know

26. What if there were a measure on your local ballot to increase local property taxes in order to provide more funds for local public schools? Would you vote yes or no?
- 45% yes
  - 50 no
  - 5 don't know
27. In general, do you think that local government in your area could spend less and still provide the same level of services?
- 58% yes, could spend less (*ask q. 27a*)
  - 34 no, could not spend less
  - 8 don't know
- 27a. How much could local government cut its spending without reducing services? (*read list*)
- 24% under 10 percent
  - 41 10 percent to under 20 percent
  - 14 20 percent to under 30 percent
  - 9 30 percent or more
  - 12 don't know
28. How about lowering the two-thirds (67 percent) requirement for voters to pass local special taxes to a 55 percent majority vote – is this a good idea or a bad idea?
- 40% good idea
  - 51 bad idea
  - 9 don't know
29. Under Proposition 13, residential and commercial property taxes are both strictly limited. What do you think about having commercial properties taxed according to their current market value? Is this a good idea or a bad idea?
- 59% good idea
  - 34 bad idea
  - 7 don't know
- 33b. (*half sample*) How about requiring voter approval for any state legislation that reduces local government revenue? Would you vote yes or no?
- 64% yes
  - 29 no
  - 7 don't know
38. Do you approve or disapprove of the way that Governor Schwarzenegger is handling the issue of the state budget and taxes?
- 55% approve
  - 32 disapprove
  - 13 don't know
41. Do you approve or disapprove of the way that the California legislature is handling the issue of the state budget and taxes?
- 32% approve
  - 53 disapprove
  - 15 don't know

**PPIC STATEWIDE SURVEY: CALIFORNIANS AND THEIR GOVERNMENT**  
**AUGUST 4– AUGUST 11, 2004**  
**2,002 CALIFORNIA ADULT RESIDENTS; ENGLISH AND SPANISH**  
**MARGIN OF ERROR +/- 2% AT 95% CONFIDENCE LEVEL FOR TOTAL SAMPLE**

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[Note: Questions and responses on the state budget are presented below. The complete set of survey questions and responses for the PPIC August survey is available at [www.ppic.org](http://www.ppic.org)]

12. Proposition 1A on the November ballot is the “Protection of Local Government Revenues Legislative Constitutional Amendment.” This measure ensures local property tax and sales tax revenues remain with local government, which safeguards funding for public safety, health, libraries, parks, and other local services. These provisions can only be suspended if the governor declares a fiscal necessity and two-thirds of the legislature agrees. The fiscal impact would be higher local government revenues, possibly in the billions of dollars annually, and similar decreases in state resources. If the election were held today, would you vote yes or no on Proposition 1A? (*responses for likely voters only*)
- 60% yes
  - 25 no
  - 15 don’t know
13. Generally speaking, do you think it is a good idea or a bad idea to protect local government revenues, even if it means less funding for state programs? (*responses for likely voters only*)
- 63% good idea
  - 23 bad idea
  - 14 don’t know
14. Does knowing that Governor Arnold Schwarzenegger supports this state proposition make you more likely or less likely to support it or does it make no difference to you? (*responses for likely voters only*)
- 21% more likely
  - 13 less likely
  - 64 no difference
  - 2 don’t know
25. The state legislature and governor have approved a new state budget of around 105 billion dollars that closes the budget gap with spending cuts in transportation and general government, defers spending increases in K to 12 public education, and uses money from local government property taxes and state bonds. The plan includes no new taxes. In general, are you satisfied or dissatisfied with this budget?
- 52% satisfied
  - 40 dissatisfied
  - 8 don’t know

27. How concerned are you about the effects of spending cuts on your local government services – very concerned, somewhat concerned, not too concerned, or not at all concerned?

35% very concerned  
39 somewhat concerned  
16 not too concerned  
9 not at all concerned  
1 don't know

28. What if there were a measure on your local ballot to increase the local sales tax by one-half cent to pay for police and other local government services? Would you vote yes or no?

61% yes  
35 no  
4 don't know

41. Overall, do you approve or disapprove of the way that Governor Schwarzenegger is handling the issue of the state budget and taxes?

58% approve  
34 disapprove  
8 don't know

43. Overall, do you approve or disapprove of the way that the California legislature is handling the issue of the state budget and taxes?

35% approve  
53 disapprove  
12 don't know

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