

# **Perspectives on State and Local Finance: Surveys of City Officials in California and the U.S.**

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# Summary

This report presents an analysis of responses to recent surveys on state and local finance issues, taken by city officials in California and the rest of the U.S. These fiscal surveys were conducted at a time when city officials everywhere confront issues that involve not only their local financial and economic conditions, but also the tax and revenue decisions of their state legislatures, which have implications for municipal spending. In California, city officials face an improving revenue picture as the economy rebounds; however, California has an ongoing multi-billion dollar state budget gap between spending and revenues, and at the time of the survey, voters faced a November special election that included an initiative to limit state spending.

The findings reported here are based on two surveys: The *Public Finance Survey*, sent to California city officials, and the *City Fiscal Conditions Survey*, sent to city officials nationwide. The California survey was conducted from July to August 2005 by the Public Policy Institute of California, the League of California Cities, and the National League of Cities. It was a direct mail survey sent to city officials in all of California's 478 cities; a total of 153 surveys were completed and returned, for a 32 percent response rate.

We contrast this survey with the National League of Cities' annual *City Fiscal Conditions Survey*, conducted from June to August 2005. This survey was sent to city officials in every city with a population over 50,000 and to a random sample of officials in cities with a population under 50,000. In our analysis, the national responses exclude the California sample of the NLC survey. Excluding those responses, the NLC survey was sent to city officials in 895 cities; a total of 193 surveys were completed and returned, for a 22 percent response rate.

These surveys are designed to provide information to help to identify local issues and policy preferences. Among the most significant findings from the two surveys:

- Two in three city officials in the U.S. and California think their cities were better able to meet financial needs in FY2005 than in the previous fiscal year, and a similar percent think that their cities will be better able to meet financial needs in the next fiscal year. Still, 68 percent of California city officials 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.
- Large majorities of city officials in the U.S. and California say that the factors negatively impacting their budgets are employee costs (health benefits, pensions, and wages), infrastructure needs, public safety needs, and increasing prices/costs. The factors most likely to positively impact their budgets are the health of the local economy and the value of the city tax base.
- In the past year, the most common revenue actions taken by California city officials have been raising impact or development fees, raising the level of other fees or charges, and increasing the number of other fees or charges. City officials elsewhere in the U.S. also increased fees and charges, but to a lesser extent than those in

California. City officials outside of California are more likely to report increases in property tax rates; few report an increase or decrease in sales and other taxes.

- When it comes to expenditures, city officials in California and nationwide are most likely to report increases in the areas of public safety, employee wages and benefits, and infrastructure.
- Three in four California 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. With regard to budget and tax issues, fewer than half of California city officials approve of the way that the governor (49%) and the state legislature (18%) are handling things.
- Seventy-six percent of California city officials say that the way that the governor and legislature go about state spending is in need of major changes. In terms of making long-term budget changes and government reforms, most of these officials would prefer to rely on the governor and the legislature together (78%), rather than on voters (15%).
- Seven in 10 California city officials say that Proposition 13 has been mainly a bad thing for the state, and an identical number also oppose the Proposition 13 requirement of a two-thirds local vote to increase local revenues.
- Many city officials in California 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. California city officials say that factors contributing to underfunded or unfunded pension obligations include 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 are unsure of the reasons.

# Introduction

Even as the national economy shows signs of improvement, and state and local governments are once again experiencing rising tax revenues, city governments in California and across the U.S. face significant fiscal challenges. Among these challenges are a large federal budget deficit and ongoing gaps between spending and revenues in state and local budgets. As a result, city governments face uncertainties about their state and federal funding sources. In addition, city governments are increasingly aware of responsibilities that require additional resources, such as homeland security and preparedness for natural disasters such as Hurricane Katrina. In California, these fiscal challenges occur against the backdrop of a constrained system of public finance, the legacy of Proposition 13's local property tax limits, and the many initiatives and legislative adjustments that have occurred since Proposition 13's passage in 1978.

To better understand the perspective of city government officials in California, 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, for a 32 percent response rate. Most of the responses are from non-elected senior staff, such as city managers. The survey responses are closely comparable to the population and regional distribution of cities across the state.

We contrast the California city officials' survey to the National League of Cities' annual *City Fiscal Conditions Survey*, conducted from June to August 2005. The *City Fiscal Conditions Survey* was sent to city officials in every city in the U.S. with a population over 50,000 and to a random sample of officials in cities with a population under 50,000. The nationwide responses reported here exclude the California sample of the NLC survey. Excluding those responses, the NLC survey was sent to city officials in 895 cities; a total of 193 surveys were completed and returned, for a 22 percent response rate. Most of the responses are from non-elected senior staff in city finance and treasury departments. The surveys seek to answer to the following questions:

- What are city officials' perceptions of overall fiscal conditions? What factors affect city budgets and how have those factors changed in the last year? What revenue and spending actions have cities taken to deal with these fiscal challenges?
- Are there differences in the responses between California city officials and other U.S. city officials in their reports of overall conditions, city budget changes and their perceived effects, and revenue and expenditure actions?
- What are the responses of California city officials to issues such as local fiscal preferences, the state budget system, state fiscal reform, and Proposition 13?
- To what extent do California city officials note major increases in annual pension contributions over time, and what are their expectations for the next five years? What factors are seen as contributing to difficulties in funding pension obligations?



# A Comparison of U.S. and California Responses

## Overall Conditions

Since the 2001 recession, local governments in California and the rest of the U.S. have confronted a variety of spending and revenue pressures. Recently, as the economy has improved, tax revenues at the state and local levels have also increased, although some governments are facing structural deficits that result in a gap between spending and revenues.

When asked if their cities are better able to meet financial needs this fiscal year (2005) than the previous fiscal year (2004), three in five city officials in the U.S. (62%) and California (64%) say that they are better able to meet needs. City officials in California are as likely to say their cities are better able to meet financial needs in 2005 as city officials elsewhere in the West (59%). City officials in the South are more likely to say their cities are better able to meet financial needs in 2005 (70%) than city officials in other regions and California.

Looking toward the next fiscal year, two in three California city officials (67%) predict that their cities will be better able to meet financial needs in FY 2006 than in FY 2005; nationwide, this number is 59 percent. California city officials' optimism about FY 2006 exceeds that of city officials elsewhere in the West (50%) and is on par with the level of optimism expressed by city officials in the South (69%).

**“Overall, would you say that your city is better able or less able to meet financial needs in FY 2005 than last fiscal year?”**

	U.S. City Officials	CA City Officials
<b>Better Able</b>	62%	64%
<b>Less Able</b>	38	36

**“Overall, would you say that your city is better able or less able to meet financial needs in FY 2006 than this fiscal year?”**

	U.S. City Officials	CA City Officials
<b>Better Able</b>	59%	67%
<b>Less Able</b>	41	33

## City Budget Changes

The surveys presented city officials with a comprehensive list of factors that could affect municipal budgets. Officials were asked to identify whether each of the 18 factors had increased or decreased since the last fiscal year.

Large majorities of city officials across the U.S. and in California report that employee-related costs of pensions (80% U.S., 94% CA), health benefits (92% U.S., 94% CA), and wages and salaries (93% U.S., 84% CA) have increased in the last year.

Large percentages of city officials also report increasing needs in the areas of infrastructure (85% U.S., 88% CA) and public safety (85% U.S., 75% California).

Several economic factors are widely cited as having increased in the last year – prices, inflation, and cost of living (88% U.S., 85% CA), the value of the city tax base (86% U.S., 86% CA), and the health of the local economy (59% U.S., 62% CA).

Majorities of city officials in the U.S. (54%) and California (64%) report that their city populations increased in the last year.

City officials in California are more likely than city officials in the rest of the U.S. to say that pressures from federal and state mandates have increased in the last year, including federal environmental mandates (29% U.S., 40% CA), state environmental mandates (28% U.S., 51% CA), and other state mandates (24% U.S., 34% CA). Similarly, California city officials are more likely than other U.S. city officials to report decreases in state aid (34% U.S., 54% California) and federal aid (10% U.S., 33% CA) in the past year.

Some regional differences among city officials are noteworthy. California city officials are more likely than city officials elsewhere in the West to report decreases in state aid (54% CA, 28% West) and federal aid (33% CA, 22% West) in the past year. Nationwide, city officials in the Midwest are most likely to report decreases in state aid (58%) and federal aid (30%).

California city officials are also more likely than city officials in the rest of the West to report increases in environmental mandates in the past year at both the state (51% CA, 20% West) and federal (40% CA, 29% West) level. Here again, city officials in the Midwest are most likely to report a rise in environmental mandates at the state (43%) and federal level (44%).

Sixty four percent of California city officials say that city populations have increased in the past year, a finding similar across the Sun Belt (78% West and 64% South); these numbers are lower in the Midwest (37%) and Northeast (17%). City officials in the West (80%) and South (67%) are also more likely to report improving local economic conditions than city officials in the Midwest (50%) and Northeast (22%).

### City Budget Changes

	<u>U.S.</u>			<u>CA</u>		
	Increased	No Change	Decreased	Increased	No Change	Decreased
<b>Cost of employee health benefits</b>	92%	6%	2%	94%	5%	1%
<b>Cost of employee pensions</b>	80	20	0	94	5	1
<b>Infrastructure needs</b>	85	14	1	88	10	2
<b>Value of city tax base</b>	86	10	4	86	11	3
<b>Prices, inflation, cost of living</b>	88	12	-	85	14	1
<b>Employee wages and salaries</b>	93	6	1	84	15	1
<b>Public safety needs</b>	85	14	1	75	24	1
<b>Population (# of people in city)</b>	54	36	10	64	34	2
<b>Health of local economy</b>	59	32	9	62	34	4
<b>State environmental mandates</b>	28	71	1	51	45	4
<b>Human services needs</b>	56	43	1	47	49	4
<b>Federal environmental mandates</b>	29	70	1	40	57	3
<b>Education needs</b>	35	64	1	34	64	2
<b>Other state mandates</b>	24	75	1	34	62	4
<b>Other federal mandates</b>	15	84	1	21	77	2
<b>Tax and spending limits</b>	15	82	3	18	78	4
<b>Amount of state aid</b>	25	41	34	14	32	54
<b>Amount of federal aid</b>	26	46	28	10	57	33

## Perceived Effects of City Budget Changes

City officials were also asked whether the same 18 factors had a positive or negative effect on their budget.

Of the factors most negatively impacting city budgets, most officials across the U.S. and in California identified employee costs, including health benefits (91% U.S., 90% CA), pensions (75% U.S., 89% CA), and wages (86% U.S., 66% CA). Infrastructure (74% U.S., 77% CA), public safety (80% U.S., 67% CA), and rising prices (82% U.S., 76% CA) were also cited as having negative effects.

On the positive side, many local officials nationally and in California point to the increasing value of their city tax base (77% U.S., 81% CA) and the increasing health of their local economy (57% U.S., 59% CA).

Most city officials in the U.S. and California say their city populations increased in the last year, but they are divided as to whether population increases are having a positive impact (19% U.S., 22% CA) or negative one (28% U.S., 21% CA).

California city officials are more likely than city officials in the rest of the U.S. to cite negative budgetary effects from federal environmental mandates (32% U.S., 46% CA), state environmental mandates (29% U.S., 50% CA), other state mandates (26% U.S., 39% CA), and changes in state aid (39% U.S., 57% CA).

Similarly, California city officials are more likely than city officials elsewhere in the West to report negative effects from state environmental mandates (50% CA, 29% West), other state mandates (39% CA, 27% West), and changes in state aid (57% CA, 29% West).

As for other regional differences, city officials in the Midwest are most likely to report negative effects from state environmental mandates (43%), other state mandates (38%), and changes in state aid (64%). The impact of population increases also varies regionally, with city officials in the West (39%) and South (30%) more likely to report negative effects than those in the Midwest (21%) and Northeast (22%). In terms of local economic health, city officials in the West (69%) and South (65%) are more likely to report positive effects than those in the Midwest (51%) and Northeast (22%).

### Perceived Effects of City Budget Changes

	<u>U.S.</u>			<u>CA</u>		
	Positive	No Impact	Negative	Positive	No Impact	Negative
<b>Cost of employee health benefits</b>	3%	6%	91%	2%	8%	90%
<b>Cost of employee pensions</b>	2	23	75	1	10	89
<b>Infrastructure needs</b>	5	21	74	6	17	77
<b>Value of city tax base</b>	77	17	6	81	12	7
<b>Prices, inflation, cost of living</b>	4	14	82	3	21	76
<b>Employee wages and salaries</b>	3	11	86	7	27	66
<b>Public safety needs</b>	4	16	80	5	28	67
<b>Population (# of people in city)</b>	19	53	28	22	57	21
<b>Health of local economy</b>	57	27	16	59	24	17
<b>State environmental mandates</b>	1	70	29	2	48	50
<b>Human services needs</b>	4	45	51	4	50	46
<b>Federal environmental mandates</b>	1	67	32	0	54	46
<b>Education needs</b>	5	66	29	5	67	28
<b>Other state mandates</b>	1	73	26	0	61	39
<b>Other federal mandates</b>	0	72	18	2	77	21
<b>Tax and spending limits</b>	1	69	30	3	71	26
<b>Amount of state aid</b>	20	41	39	16	27	57
<b>Amount of federal aid</b>	21	48	31	12	55	33

## Revenue Actions

City officials reported whether various revenue actions, including changes in tax and fee rates, were taken in the past fiscal year. Across the nation, city officials are most likely to name increases in the level of fees or other charges (45%), the number of fees or other charges (29%), and property tax rates (29%) as the top revenue actions taken.

In contrast, city officials in California are more likely to say that their cities increased the number or level of development or impact fees (54% CA, 24% U.S.), the level of other fees or charges (70% CA, 45% U.S.), and the number of other fees or charges (52% CA, 29% U.S.). California cities' higher level of activity in the fees and charges arena may occur because California cities are not authorized, in most instances, to raise local property tax rates because of restrictions passed under Proposition 13 in 1978. Only three percent of California city officials report an increase in property tax rates in the past year, compared to 29 percent of city officials in the rest of the U.S.

By comparison, few city officials nationally or in California report that their cities increased the rates of local sales taxes (6% U.S., 10% CA) and other taxes (7% U.S., 15% CA), and few report that they increased the number of other taxes (5% U.S., 6% CA).

A regional comparison shows that California city officials are more likely to report increasing the number and/or level of impact and development fees (54%) than city officials elsewhere in the West (32%). Similarly, California city officials are also more likely than those in the West to report increasing the number of other fees and charges (52% CA, 32% West), and the level of other fees and charges (70% CA, 42% West). City officials in California are the least likely group in the country to report raising property tax rates. In the Northeast, where cities are generally more reliant on local property taxes, city officials are most likely to report increasing property tax rates (75%).

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

\*percents are for city officials responding "increased"

	U.S. City Officials	CA City Officials
<b>Level of other fees or charges</b>	45%	70%
<b>Number/level of impact or development fees</b>	24	54
<b>Number of other fees or charges</b>	29	52
<b>Other tax rates</b>	7	15
<b>Sales tax rates</b>	6	10
<b>Number of other taxes</b>	5	6
<b>Property tax rates</b>	29	3

## Expenditure Actions

City officials also reported on various expenditure actions taken in the past fiscal year. Across the nation and in California, the most common expenditures were in public safety (76% U.S., 76% CA), employee wages and benefits (65% U.S., 62% CA), and infrastructure (53% U.S., 60% CA).

Nearly half of all city officials also report that their cities increased productivity levels (43% U.S., 49% CA) and the growth rate of annual operating spending (46% U.S., 47% CA).

California city officials are more likely than city officials elsewhere to say that their cities increased city service levels across the board (19% U.S., 32% CA), while city officials nationwide are slightly more likely than those in California to report increases in human services spending (41% U.S., 32% CA). Thirty nine percent of U.S. city officials and 37 percent of California city officials report increases in the size of their municipal government workforce, but decreases were reported by 23 percent of U.S. city officials and 27 percent of California city officials.

Both in California and the West, city officials are more likely to report increases in infrastructure spending (60% CA, 61% West) than officials in other parts of the country. However, California city officials were less likely to report increases in human services than officials in the rest of the West (32% CA, 41% U.S.), who were the most likely of any region to report such increases. City officials in the West (59%) were also more likely to report increases in the size of the municipal workforce than city officials in California and elsewhere.

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

\*percents are for city officials responding “increased”

	U.S. City Officials	CA City Officials
<b>Public safety</b>	76%	76%
<b>Employee wages/benefits</b>	65	62
<b>Infrastructure</b>	53	60
<b>Productivity levels</b>	43	49
<b>Growth rate of operating</b>	46	47
<b>Size of municipal workforce</b>	39	37
<b>City service levels</b>	19	32
<b>Human services</b>	41	32
<b>Contracting out for services</b>	25	28
<b>Number/scope of interlocal agreements</b>	25	21

# California Responses

## Local Fiscal Perceptions and Preferences

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 as well. Today, six in 10 city officials say that fiscal conditions are excellent (15%) or good (45%), and another 33 percent report fair conditions. These responses show an increase over last year, when 45 percent reported that fiscal conditions were excellent or good. This year, only six percent report that their city's fiscal conditions are poor; in 2004, 15 percent did so.

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

	CA City Officials
<b>Excellent</b>	15%
<b>Good</b>	45
<b>Fair</b>	33
<b>Poor</b>	6
<b>Don't know</b>	1

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 responsibilities and commitments to increase.

**"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?"**

	CA City Officials
<b>Increased in Past Year</b>	68%
<b>Increase in Next Year</b>	69

When presented with a hypothetical situation in which local expenditures exceed local revenues, city officials are equally likely to say they would deal with it through a mix of spending cuts and tax increases (44%) or spending cuts alone (46%). Few city officials say that they prefer tax increases alone (2%), or that it is okay to run a deficit (8%).

## The State's Budget Situation

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 it.

Seventy-six percent of city officials say that the state deficit presents a big problem for California cities today; in 2004, 90 percent said that it was a big problem. 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. In 2004, 72 percent of city officials said they were very concerned about cuts. Although these responses show a decline in city officials' worries about the deficit, the 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.

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

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

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 approved and 33 percent disapproved of his handling of the state budget and taxes. However, this year city officials are even more critical of the state legislature (73% disapprove, 18% approve) than they are of the governor, but this level of disapproval has dropped markedly since the 2004 survey (92% disapproved, 3% approved).

## 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 budgetary 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; just 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%), rather than voters (15%). Seven in 10 city officials across all regions and population sizes say that the governor and legislature should make decisions about reforms. In other public opinion surveys that we have conducted, most California residents agree with city officials that changes in state spending practices are needed; however, residents prefer to rely on the voters, rather than the governor and legislature, when it comes to making long-term budgetary and governmental reforms.

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

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

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

	CA City Officials
Voters make decisions	15%
Governor and legislature make decisions	78
Don't know	7

## Proposition 13

Proposition 13, the citizens' initiative which capped local property tax and assessment rates in 1978, has played 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. Most oppose two specific features of Proposition 13: Seventy percent oppose the two-thirds vote requirement for passing local special taxes, and 61 percent oppose setting tax rates for homeowners based upon the purchase date of the 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 2005 PPIC Statewide Survey, a majority of residents said they favored the two-thirds vote requirement for passing local special taxes. However, residents were united with city officials in their opposition to setting tax rates for homeowners based upon the purchase date of the 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?"**

	CA City Officials
<b>Mostly a good thing</b>	20%
<b>Mostly a bad thing</b>	70
<b>Other, don't know</b>	10

**"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?"**

	CA City Officials
<b>Favor</b>	28%
<b>Oppose</b>	70
<b>Don't know</b>	2

**"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?"**

	CA City Officials
<b>Favor</b>	32%
<b>Oppose</b>	61
<b>Don't know</b>	7

## Pension Contributions

Some recent reports of economic and fiscal pressures in California cities have focused on rising employee-related costs, particularly for municipal employee pensions. In this 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 10 city officials (94%) say that their city’s annual pension contributions have either increased (42%) or increased significantly (52%) in the past year. Nearly all city officials (98%) report that city pension contributions have either increased (32%) or increased significantly (66%) in the past five years. Three in four city officials think that city pension contributions will increase in the next five years (65%), although only nine percent say they will increase significantly.

**“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?”**

CA City Officials	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

Among those city officials that report unfunded and under-funded pension obligations in the last fiscal year, 35 percent point to declining economic and fiscal conditions as a contributing factor. A similar number, 33 percent, 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.

## Appendix A. Survey Methodology – California

The results presented here are from the *Public Finance Survey* conducted by the Public Policy Institute of California, the League of California Cities, and the National League of Cities. It was a direct mail survey of city officials in all 478 cities in California, conducted from July to August 2005.

Questionnaires were completed in one of two ways: Through the Internet, using a survey protocol with secure passwords provided to each city, or by mail, using forms that were compiled and coded. Most of the responses were from non-elected city officials who are on senior staff, such as city managers. A number of reminders to return the surveys were sent. 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 this response rate was somewhat lower than that of our previous surveys, the distribution across regions and different population sizes was similar, which provided us with an opportunity to contrast the answers to survey questions that have been repeated over time.

The survey is representative of city officials across California. Their 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. Survey Methodology – U.S.

The results presented here are from the National League of Cities' annual *City Fiscal Conditions Survey*, a direct mail survey of city officials across the U.S., conducted from June to August 2005.

This survey was sent to officials in every U.S. city with a population over 50,000 and to a random sample of officials in cities with a population under 50,000. The responses reported here exclude the California sample of the NLC survey. Excluding those responses, the NLC survey was sent to city officials in 895 cities; a total of 193 surveys were completed and returned, for a 22 percent response rate. Questionnaires were completed either through an Internet survey protocol that provided secure passwords to each city or were returned by mail to the National League of Cities where they were compiled and coded. Most of the responses are from non-elected senior staff in city finance and treasury departments. A number of reminders were sent to return the surveys.

The response rate for the survey was somewhat low, and is over-representative of the larger cities and under-representative of the western states. Therefore, the responses to the survey may not be completely representative of cities outside of California nationwide. The findings do not change significantly when we use statistical weighting to correct for over-representation or under-representation of cities in population or region categories.

City population	% of 895 cities nationwide	% of 193 survey responses
<50,000	52%	34%
50,000 - 99,999	28	35
>100,000	20	31

  

Region	% of 895 cities nationwide	% of 193 survey responses
Northeast	10%	10%
Midwest	31	33
South	34	38
West	25	19

# Appendix C. Survey Questionnaire – California

## 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 | 13 Other             |
- 

### 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 know |
| e. The U.S. Congress         | 13 Approve  | 71 Disapprove | 16 Don't know |

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

**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?

	a. CHANGE in item from FY2004			b. IMPACT of change in FY2005		
	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-environmental mandates.....	21	77	2	2	77	21
6. State environmental mandates.....	51	45	4	2	48	50
7. State non-environmental 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
---------	--------	---------------

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
---------	--------	---------------

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 (7)*).

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**

	<b>Increased</b>	<b>Maintained</b>	<b>Decreased</b>	<b>Not Authorized</b>
	↓	↓	↓	↓
<b>27a. Indicate whether your city has taken the listed actions</b>				
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
<b>27b. Indicate whether your city has taken the listed actions</b>				
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
<b>27c. Indicate whether your city has taken the listed actions</b>				
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!!!**

# Appendix D. Survey Questionnaire – U.S.

## NATIONAL LEAGUE OF CITIES 2005 City Fiscal Conditions Survey

[Note: Responses from 193 city officials from June-August 2005]

### CITY FISCAL CONDITIONS

1. Overall, would you say that your city is **better able** or **less able** to...  
(circle one for parts “a.” and “b.”)

	<u>Better Able</u>	<u>Less Able</u>
a. meet financial needs in FY 2005 than last year	62%	38%
b. address its financial needs in the next fiscal year (FY 2006)?	59	41

### FACTORS AFFECTING CITY BUDGETS

2. **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?

	a. CHANGE in item from FY2004			b. IMPACT of change in FY2005		
	<u>Increase</u>	<u>No change</u>	<u>Decrease</u>	<u>Positive</u>	<u>No impact</u>	<u>Negative</u>
A. Value of city tax base .....	86%	10%	4%	77%	17%	6%
B. Amount of federal aid to city .....	26	46	28	21	48	31
C. Amount of state aid to city.....	25	41	34	20	41	39
D. Federal environmental mandates.....	29	70	1	1	67	32
E. Federal non-environ. mandates.....	15	84	1	0	82	18
F. State environmental mandates.....	28	71	1	1	70	29
G. State non-environ. mandates.....	24	75	1	1	73	26
H. Restrictiveness of state tax and expenditure limitations on cities.....	15	82	3	1	69	30
I. Public safety needs.....	85	14	1	4	16	80
J. Infrastructure needs.....	85	14	1	5	21	74
K. Human service needs.....	56	43	1	4	45	51
L. Education needs.....	35	64	1	5	66	29
M. Cost of employee pensions .....	80	20	0	2	23	75
N. Cost of employee health benefits.....	92	6	2	3	6	91
O. Employee wages and salaries.....	93	6	1	3	11	86
P. Prices, inflation, cost of living .....	88	12	0	4	14	82
Q. Population ( <i>number of people in city</i> ) .....	54	36	10	19	53	28
R. Health of local economy.....	59	32	9	57	27	16

**MUNICIPAL PENSION OBLIGATIONS**

3. If your city currently has an unfunded or underfunded pension obligation, what are the factors that are contributing to it? (please check all that apply).

- 17% Number of current employees
- 20 Number of retirees
- 27 Economic conditions and fiscal conditions
- 5 Municipal contribution levels are too high
- 4 Contribution levels from other governments (state/other) are too low
- 11 Benefit levels are too high
- 12 Other

**FISCAL ACTIONS**

4.

	<b>Maintained</b>		<b>Not</b>
	<b>Increased</b>	<b>Decreased</b>	<b>Authorized</b>
	↓	↓	↓

**4a. Indicate whether your city has taken the listed actions**

a. Property tax rates ( <i>net effect</i> ) .....	29%	56%	13%	2%
b. Sales tax rates.....	6	48	1	45
c. Rates of other taxes ( <i>net effect</i> ).....	7	84	2	7
d. Number of other taxes ( <i>net effect</i> ) ....	5	88	0	7

**4b. Indicate whether your city has taken the listed actions**

e. Number/level of impact or development fees ( <i>net effect</i> ) .....	24%	76%	0%	0%
f. Level of other fees or charges ( <i>net effect</i> ).....	45	54	1	0
g. Number of other fees or charges ( <i>net effect</i> ) .....	29	70	1	0

**4c. Indicate whether your city has taken the listed actions**

h. Growth rate of operating spending ...	46%	36%	18%	0%
i. Actual infrastructure spending.....	53	29	18	0
j. Actual human services spending .....	41	47	12	0
k. Actual public safety spending .....	76	19	5	0
l. Size municipal gov't workforce .....	39	38	23	0
m. Contracting out of services.....	25	71	4	0
n. Productivity levels.....	43	54	3	0
o. Number/scope of inter-local agreements or other cost-sharing plans with other governments .....	25	73	2	0
p. City service levels.....	19	72	9	0
q. Employee wage/benefit levels.....	65	30	5	0

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

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