Where Do Your Taxes Go?  
Municipal Finance 101

Lafayette has recently tried, unsuccessfully, to pass new taxes to pay for better roads and more police protection. That the City needs more revenue might come as a surprise to many because by just about any standard, Lafayette is a prosperous town. Most locals, however, know that Lafayette can’t afford more than two officers on duty during some shifts and that, although many of the neighborhood roads are failing, the City doesn’t have the money to fix them. In fact, the City’s funds aren’t even close to what’s required.

Practically speaking, what this means is that without new sources of funds, Lafayette’s residents will continue to receive the lowest per-capita police coverage in the County, and many neighborhood roads in Happy Valley, Reliez Valley, Burton Valley, Springhill Valley, and Hidden Valley will progressively worsen until they crumble to gravel.

This message is alarming, but what’s particularly troubling is that because Lafayette continues to flourish with new construction projects, the message is hard for people to believe and accept. We are in some ways our own worst enemy because, let’s face it, downtown Lafayette looks pretty great. The medians are well maintained and adorned with festive banners. The City’s “Restaurant Row” sees a new eatery open seemingly every month. The new Lafayette Library and Learning Center is rising mightily, albeit slowly, out of the ground. And rambunctious kids are skating fast on the new multi-sport rink out at the St. Mary’s Road Community Center.

How can this be? How can the City construct a new library when it can’t pay for more police? How can Lafayette build a hockey rink when it can’t afford to pave roads? Why did the City install that signal in front of the Lafayette Park Hotel when it can’t fill potholes? And why does the City offer poodle training classes but won’t fix the storm drains?

The main purpose of this issue of the Vistas is to explain, as best we can, the arcane world of municipal finance and how its restrictions fund some programs but allow other, perhaps more deserving programs and services, to suffer.

The nut of the problem is this: the City Council doesn’t have the ability to spend its revenue wherever and however it chooses. In fact, Lafayette’s City Council has discretionary control over just 30% of the total budget. This is because, in California, municipalities operate using “fund accounting” — a technical term meaning that City revenues go into and come out of individual “buckets” (funds). These are funds that have strings attached and can only be spent on specific programs. Thus, to more fully understand where Lafayette’s money goes, you must first understand where it comes from.

There are four major buckets of funds available for California’s cities:

**BUCKET #1: Special Revenue Funds** contain money that has specific legal restrictions on its use. For example, Lafayette receives gas taxes, but these funds can only be spent on streets and road-related programs (and, indeed, Lafayette does spend all of its $460,000 in annual gas tax revenue to fund street paving projects).

Likewise, Parkland Dedication Fees — amounts that developers pay when they build new residential units — are also restricted and can only be used for parks and recreation purposes. These were the funds that paid for the construction of the Buckeye baseball fields and funded most of the new multi-sport skating rink.

State and federal grants are also considered to be special revenues because they are most often restricted for a special purpose. For instance, about 80% of the recent Pleasant Hill Road pathway project was paid for by grants.

**BUCKET #2: Enterprise Funds** track money for activities that are supported by user fees. Lafayette’s recreation classes, for example, are entirely self supporting and not subsidized by other funding sources so — don’t worry — none of your tax dollars are being used to train your neighbor’s dog.

Another enterprise operation is Lafayette’s parking and code enforcement program. Money generated by parking meters and citations is used only to pay for city-wide code enforcement costs; the City saves any remaining amount for the purpose of acquiring additional parking for the downtown.

**BUCKET #3: Redevelopment Funds** can only be used to pay for projects that are located in the downtown redevelopment district such as the Lafayette Library and Learning Center and the Veterans Memorial Building. These funds cannot be used, under any circumstances, to pay for law enforcement or neighborhood road repair. The combination of a state grant and redevelopment funds, along with an incredible outpouring of generosity from local residents, allows Lafayette to offer a wide array of programs and services.}

(continued on page 2)
residents, businesses, and foundations, is covering the entire cost of the Lafayette Library and Learning Center. Not a single dime of General Fund money will be used to construct the new building. Please see the related article about redevelopment in this issue.

**BUCKET #4: The General Fund** consists of funds that the City Council actually has discretion over. The General Fund’s major sources include property tax, sales tax, vehicle license fees, hotel taxes, franchise fees, and other fees for service, all of which are discussed below. This year, General Fund revenues are expected to total $11.5M. The City Council, therefore, has control over less than a third of the City’s revenue and, of this amount, about 62% is spent on Police Services and public works, including road repair and maintenance. The remainder is allocated to planning, parks, rent for city offices, administration, and other smaller programs (such as publishing Vistas).

**Filling the General Fund Bucket**

Given that most funds received by the City are restricted in some way, let’s focus on the streams that pour into the General Fund because these are the monies that the City Council has discretion over and can most effectively use to solve the City’s ongoing problems.

**Property taxes** are the largest source for the General Fund, and the City expects to receive about $3.5M this year. While that may sound like a lot, it represents only about 6% of the total property taxes paid by local property owners. The other 94% goes to other State or local agencies such as BART, Caltrans, etc. You read that right: Lafayette receives only about $60 for every $1000 you pay in property taxes. Thus, though Lafayette’s property values are undeniably high, the combination of low average assessed values and a low share of property taxes received means that that City receives, on average, only about $350 per year from each property owner.

**Sales and use taxes**, more commonly referred to just as “sales taxes”, are something we’re all familiar with. In Lafayette, the sales tax rate for merchants is 8.25% but, of that amount, the City receives 1%. This means that when you spend $10 in Lafayette, the City receives just ten cents in sales tax. The rest goes to — you guessed it — the State, the County, and BART.

Although the amount for each transaction is small, it does add up, and this year the City expects to receive $2.8M in sales tax. This accounts for about 25% of all general fund revenue. Sales taxes flow to Lafayette only when the transaction takes place here. That’s why it is important that, whenever possible, you shop locally. You’re going to pay the tax anyway, why not keep it in Lafayette?

**Vehicle License Fees** (VLF) are taxes you pay to the State for the privilege of owning a vehicle. The formula describing how VLF flows back to cities has gotten complicated, but is generally based on population and amounts to roughly 4% of the total fee paid by car owners. This year, Lafayette’s VLF will total about $1.7M, thus making it the 3rd largest source of general fund revenue for the City.

**Fees for Service** are primarily planning fees and levied as part of the permit process that occurs when residents build on or make changes to their property. Although they are not run as enterprises, these fees are designed to fully recover the expenses of the Planning department as well as the Design Review and Planning Commissions. In fact, by law, the fees cannot be higher than the actual cost to deliver the services.

**Franchise Fees** are paid by utilities that need access to the City’s right-of-way in order to deliver their services. The City currently has franchise agreements with the cable, waste management, and power companies. We do not have agreements with the water and sewer utilities because they are publicly owned and not-for-profit organizations. The City will collect $1.1M in franchise fees this fiscal year.

**Transient Occupancy Taxes** (TOT) are otherwise known as hotel taxes. The City’s TOT rate is 9.5%, and Lafayette will receive over $350,000 this year from this revenue source. Note that the rate includes a recent 1.5% increase that was approved by voters just a couple of years ago for the purpose of installing the signal, median islands, and safety improvements in front of the Lafayette Park Hotel. Thus, though they are technically General Funds, it is hotel guests that are paying for those improvements. After those expenses are paid off (it should take about ten years), the additional TOT will flow entirely to the City’s General Fund, thus contributing another $2.2 million over the next 30 years.

Other general fund revenue includes investment earnings, rental of city property, and reimbursements.

**Finally: A Rainy Day Bucket**

Most financial experts suggest that, in case of an emergency, you need savings equal to three to six months worth of expenses. Lafayette’s longstanding policy has been to keep at least six months worth of expenses in its reserve account.

Not only does this reserve amount ensure that there is a significant buffer to fund unforeseen catastrophic events, such as emergency responses to a wildfire or earthquake, it also serves to bolster the City’s creditworthiness, which saves money when we issue bonds.

The City’s current reserves are $5.6M. In past years, when there was “left over” money not needed to meet the reserve target, the City Council has used the funds to pay for additional road repairs.

**Can We Get a Bigger Bucket?**

The municipal budgeting process can be confusing, and since most of us write large property tax checks twice a year we might find it difficult to believe that there isn’t enough money to fix roads or hire more police. So, what can be done? The City, of course, is constantly looking for opportunities to tighten its belt. Realistically speaking though, administrative costs are already relatively low: there are only 36 regular employees, over half of whose salaries are already paid by special, enterprise or redevelopment funds. The City could eliminate services such as landscaping medians, twinkle lights, and banners in the downtown, but, doing so may affect both sales tax and property values. And even if the City drained all of its parking funds and emergency reserve (which many would view as imprudent), it would add up to only 30% of what is necessary. Altogether, these actions would be mere drops in the bucket.
REDEVELOPMENT

What is Redevelopment?

Redevelopment is a tool that cities use to capture property tax dollars that would otherwise go to other agencies; no new taxes are levied. More than 400 California cities and counties have adopted local redevelopment plans, including 16 of the 19 cities in Contra Costa County. Project areas are specifically designated areas within a city — usually in the downtown area. Lafayette’s Redevelopment Agency was activated in 1996. The project area runs generally along Mt. Diablo Blvd. from the Veterans Memorial Building to Pleasant Hill Road.

How Does it Work?

The primary financial mechanism behind redevelopment is called “tax increment financing,” which is a fancy name for the redistribution of taxes paid by property owners within a project area. In the year a project area is established, the tax base for that area is frozen for all of the agencies funded by that area, (e.g., county, animal control, sanitary district, BART, etc.), including the city itself. Going forward, each of these agencies continues to get the same amount that they have always received, but not more. As property values increase, so do tax revenues. The increased amount, the difference between the base year and the current year taxes, go to the RDA.

To encourage the revitalization effort, State law requires that an RDA jump-start its projects by borrowing funds to complete the work. This guarantees that projects are built sooner rather than later. It also stimulates early tax increment increases: as new projects are built, the tax base increases and more funds come into the RDA.

Not all redevelopment funding is freely available for use by the RDA. In Lafayette’s case, ~30% is passed-through to other agencies to keep them “whole” (i.e. fire district, schools, etc.) Furthermore, according to State law, another 20% of RDA funds must be used to provide moderate or low income housing. Lafayette identified senior, low and moderate, income housing as a priority, and the Town Center apartments on Mt. Diablo Blvd. were the first project subsidized by the Lafayette Redevelopment Agency.

How Has Lafayette Spent Its Redevelopment Funding?

Because the agency is still relatively young, Lafayette has funded just a few projects using redevelopment money, but they have been effective in stimulating the revitalization of downtown.

The Lafayette Redevelopment Agency (LRDA) worked closely with the developers of Lafayette Town Center to get that project off the ground, and the LRDA partnered with the Cortese Development Co. for the rehabilitation of LaFiesta Square, by paying more than $100,000 for the rebuilding of Lafayette Circle. In an effort to preserve the City’s history, the LRDA spent about $800,000 to rebuild Lafayette Plaza, and more recently, the LRDA spent $8M to build the new Veterans Memorial Building at the west end of Mt. Diablo Blvd. This project has been universally hailed by the community, and has garnered State and national recognition as one of the most important new projects to benefit America’s veterans. Finally, the LRDA is now singularly focused on building the new Lafayette Library and Learning Center.

All these projects have been good for the downtown. Let’s not forget, however, that revenue received as part of an RDA agreement must be spent within the project area. Therefore, RDA revenue can’t be used to pave residential streets, unless they happen to fall within the project area, and it cannot under any circumstances be used to fund police services.
Lafayette was incorporated in 1968 as a “no property tax” city. This meant that, while other government agencies were levying property taxes at various rates, the City of Lafayette did not. The City’s municipal operations were very limited and funded mainly by sales taxes.

In 1978, the passage of Proposition 13 ordered that, despite the different and often high rates charged by many government agencies, all California property owners would from that point forward pay property taxes at the same rate: 1% of assessed value in annual property taxes.

In the wake of Prop. 13, seeking a mechanism by which the new (and lower) property tax receipts would be distributed among agencies, the California Legislature passed AB8 directing the State to return property taxes collected to agencies in the same proportion that they were collected prior to Prop. 13. Thus, since Lafayette had hitherto collected no property taxes, it continued to receive no property taxes — despite the fact that Lafayette’s residents were now all paying taxes at the same rate as all California property owners.

In 1988, due in large part to the persistence of then-Lafayette City Councilmember Richard Holmes, the State Legislature recognized that because certain California cities: (1) did not levy a property tax, (2) levied only a very low property tax, or (3) were not incorporated prior to the passage of Proposition 13, they were therefore not allocated a significant or “fair” share of the property taxes paid by residents.

The Legislature thus acted to gradually increase the share of property taxes diverted to these disadvantaged cities. Lafayette benefited from this legislation, and from the period 1988 to 1996 received an increasing proportion of the property taxes paid by its landowners. The City’s share has now stabilized, with Lafayette receiving about 6.2%. The remainder of the property tax proceeds are divided between the State, County, schools, and other special districts.

<table>
<thead>
<tr>
<th>Share of Property Taxes Received by Contra Costa Cities</th>
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<tbody>
<tr>
<td>Hercules*  . . . . . . . . . . . . 33.60%</td>
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<tr>
<td>Richmond*  . . . . . . . . . . . . 24.42%</td>
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<tr>
<td>El Cerrito*  . . . . . . . . . . . 18.56%</td>
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<tr>
<td>Martinez  . . . . . . . . . . . . 14.83%</td>
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<tr>
<td>Brentwood*  . . . . . . . . . . . . 11.04%</td>
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<tr>
<td>Antioch*  . . . . . . . . . . . . 10.18%</td>
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<tr>
<td>Pinole  . . . . . . . . . . . . 9.11%</td>
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<tr>
<td>Concord*  . . . . . . . . . . . . 9.00%</td>
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<tr>
<td>Walnut Creek*  . . . . . . . . . 8.73%</td>
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<tr>
<td>San Ramon*  . . . . . . . . . . . . 8.17%</td>
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<tr>
<td>Danville*  . . . . . . . . . . . . 7.53%</td>
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<tr>
<td>Orinda  . . . . . . . . . . . . 7.37%</td>
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<tr>
<td>Lafayette*  . . . . . . . . . . . 6.11%</td>
</tr>
<tr>
<td>Oakley*  . . . . . . . . . . . . 6.10%</td>
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<tr>
<td>Moraga  . . . . . . . . . . . . 5.30%</td>
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<tr>
<td>Pleasant Hill*  . . . . . . . . . . . . 5.08%</td>
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<tr>
<td>Clayton*  . . . . . . . . . . . . 4.27%</td>
</tr>
<tr>
<td>Pittsburg  . . . . . . . . . . . . 4.17%</td>
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<tr>
<td>San Pablo*  . . . . . . . . . . . . 1.51%</td>
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*Net of Redevelopment Tax Increment
Good Results for Downtown Survey

“I can’t deny the fact that you like me, right now, you like me!”
– Sally Field

The results of the City’s recent downtown survey are in and, while there’s definitely room for improvement, they’re pretty darned good!

Regular Vistas readers will recall that in our last issue we told you about how we have embarked upon a strategic planning process for downtown Lafayette. As part of this process, we sent a survey to every mailbox in town (for those who are counting, that’s about 11,000) and received 2,316 responses – about a 21% response rate – which is considered very good.

Here are some of the findings:

■ **You like downtown Lafayette.** 73% of respondents checked either “very satisfied” or “somewhat satisfied” when asked about the overall impression of downtown. Only 6% checked the “very dissatisfied” box.

■ **You really like the variety of stores, services, and restaurants.** 70% say they are somewhat or very satisfied with the choice of retail stores, 83% were similarly satisfied with the variety of restaurants, and a whopping 87% liked the availability of services (e.g., cleaners, auto repair, etc.).

■ **Traffic and parking, however, could be improved.** More than 50% of the respondents are “somewhat” or “very dissatisfied” with circulation issues in Lafayette. 88% would prefer less downtown traffic (Ed. Note: makes you wonder about the other 12%...), and 81% want more off-street parking spaces.

■ **You said we need more public places and parks in the downtown.** 70% of the respondents called for more parks and plazas and public places in downtown Lafayette.

There were many other preferences revealed by the survey. 83% said they’d like to see better architecture for the new buildings in town, and half of the people want to see more entertainment, cultural activities, and quality sit-down restaurants. Many of the written comments urged for the preservation of the Park Theater, aesthetic upgrades to the Happy Valley retail strip shopping center, and a more coherent downtown architectural theme. Complete survey results can be viewed on the City’s website at www.lovelafayette.org.

The City, working with its all-volunteer advisory council, will digest these results and incorporate them into the next phase of the planning. For those who want to participate, the next public meeting on the Downtown Strategic Plan will be on the evening of February 12, 2008. Mark your calendars! If you have further thoughts about how downtown Lafayette can be improved, please forward them to: AMerideth@lovelafayette.org.

**HELP PLAN THE FUTURE OF LAFAYETTE PARKS**

**Wed: Nov. 28 • 7:00 pm**
Lafayette Community Center

The Lafayette Parks, Trails & Recreation Commission has initiated a Citywide Parks Master Planning Process. A public workshop will be held to talk about park needs, opportunities, ideas, and concerns. All interested Lafayette residents are encouraged to attend, or to contact the Parks, Trails & Recreation Department with questions or comments.

A background report with detailed information about the City’s current park system and related goals, policies and standards is available online at www.ci.lafayette.ca.us, or can be reviewed in person at the Parks, Trails and Recreation Department.

**For more information contact:**
Jennifer Russell,
Parks, Trails and Recreation Director
925-284-2232 or jRussell@ci.lafayette.ca.us

**LEARN MORE ABOUT THE LAFAYETTE BUDGET**

The City has put together a short video highlighting key points about municipal funding in general and the Lafayette budget in particular. Check it out at: www.lovelafayette.org
Clubbin’ in Lafayette

In the last issue of Vistas, we asked people to send us information about clubs in Lafayette. Here is what we received:

- **Lafayette Juniors**
  For 53 years, the Lafayette Suburban Junior Women’s Club has been supporting Lafayette and the surrounding communities with a primary focus on helping seniors, women, and children. [www.lafayettejuniors.org](http://www.lafayettejuniors.org).

- **Rotary Clubs**
  Big-hearted Rotarians from two clubs serve Lafayette in little ways and the world in big ways. If you’re a morning person, try the Lamorinda Sunrise Club which meets Fridays at 7:00 am at Postino’s ([www.Lamorindasunrise.org](http://www.Lamorindasunrise.org)). For lunchgoers, the Lafayette Rotary meets Thursdays at Noon at Oakwood Athletic Club ([www.rotaryclublafayette.org](http://www.rotaryclublafayette.org)).

- **Suburban Woman’s Club of Lafayette**
  The Suburban Woman’s Club of Lafayette meets on the third Thursday of the month from Noon–2pm in the Lafayette Community Center, Elderberry Room. In addition to the luncheon meetings there are crafts, literary selections and fundraising. For more information: Jean Cappa: 283-2759 or Betty Higuera: 938-2030.

- **Town Hall Theatre Club**
  Club members will enjoy choice seats and an after-show talk-back with Contra Costa Times Book Club (and Theatre) Diva extraordinaire Lynn Carey. Membership is free and includes the group rate discount for tickets. Theater club performances are on Thursdays at 8pm. Call 925-283-1557 or email boxoffice@thtc.org with your name, phone number and email address.

- **Meditation Sangha**
  Infinite Smile Sangha is a non-profit organization that endeavors to integrate a relevant spirituality with 21st century living. Participants meet every Monday night: 7:30–9:00pm at 2940 Camino Diablo, Suite 200, Walnut Creek to meditate together followed by a Dharma talk led by Michael McAlister. [www.InfiniteSmile.org](http://www.InfiniteSmile.org).

- **Atheists and Freethinkers of Contra Costa County**
  On the fourth Tuesday of the month atheists, freethinkers, agnostics, and secular humanists meet for fellowship, action, learning and fun at the Lafayette Community Center, Elderberry Room at 7:30pm. Email: rgolden272@comcast.net or www.contracostaatheists.com.

- **Beachcombers**
  Beachcombers is a social and service organization for single adults between the ages of 40 and 60. Monthly events include movies, dinners, concerts, fairs, dances, and wine-tasting. [beachcombersocialsingles@yahoo.com](mailto:beachcombersocialsingles@yahoo.com) or Jerry Gulick: 510-799-2207; Mary Mayers: 510-758-7972 and Anne Lagache: 925-631-0183.

- **Lamorinda Moms Club**
  The LMC is a social and support club for families in the greater Lamorinda area. To be included in child and family centered activities such as playgroups, social events, and educational opportunities to strengthen your parenting skills, join online at [www.lamorindamomsclub.org](http://www.lamorindamomsclub.org) or call 925-941-4714.

- **Lafayette Service League**
  Formed by a small group of local women in 1981, the League’s purpose is to support service projects within the community. During the last 26 years they have raised $280,000 for local charities. Contact Nancy Whelan at 283-0923.