Final Report of

The Speaker's Commission on State & Local Government Finance

March 2000

Antonio R. Villaraigosa
Speaker of the Assembly

THE SPEAKER'S COMMISSION ON STATE AND LOCAL GOVERNMENT FINANCE

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TABLE OF CONTENTS

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A MESSAGE FROM THE SPEAKER

***By* The Honorable Antonio R. Villaraigosa**

At various times during the 20th Century, the government and people of California have sought to make changes in the fiscal management of the state. These efforts, some of which led to actual amendments to State statutes or the Constitution and others which did not, often reflected the political and economic climates of their respective times. Always they were earnest attempts to address such real issues as tax policy, home rule and governmental accountability.

So the struggles of the Speaker's Commission on State and Local Government Finance to identify appropriate and viable fiscal reform measures for California at the end of the century have plenty of precedent. The charge given to the Commission included a strong recommendation that it give due consideration to work done in the recent past by others–both to show respect for that work and the people who did it, and to avoid, to the extent possible, duplication of effort.

The fundamental issues do not seem to change. There has been a growing consensus that key aspects of the way California collects and apportions tax revenues are greatly flawed, if not downright dysfunctional. There is agreement that the current system has devalued the role and power of local government, that it promotes a bias in land use decision making that, to some, is hurting our economy, raising the cost of living and making it difficult for communities to evolve in a balanced manner, and that it promotes a lack of public trust in governmental institutions that has been hurtful to our democracy.

The extent to which this agreement exists and what steps should be taken, predictably, varies depending on one's perspective. As with any aspect of government, there are institutions and groups who either benefit from the status quo or who feel secure in its familiarity. There are branches of government that enjoy their enhanced powers and jurisdictions that have learned to take fiscal advantage of the rules, just as there are those who suffer both loss of authority and wealth. In short, there are winners and losers at present, and there will be winners and losers if reforms are implemented in the future.

The Speaker's Commission was created at the end of 1998 with a different dynamic in mind. Looking at what had happened to California's finances in the '90s, I perceived that there had been few winners and many losers. Every level of government had been underfinanced during the economic recession of early and mid-decade. Local jurisdictions had, for many years, been ceding authority to the State while facing the wrath of constituents who didn't understand why their city councils and boards of supervisors could not provide better services and infrastructure. They wondered why their communities suffered from too much traffic, too little housing and too few high-paying jobs. Even when the economy bounced back, many of the problems persisted, defying even the will of both people and public officials to solve them.

The big losers in California's game of fiscal roulette, I determined, have been its communities and its people. In a place with such a rich past, whose future holds so much promise, this is unacceptable. If California is going to "incentivize" the behavior of its governmental institutions, as its current fiscal policies are doing in an unintended, *de facto*, manner, perhaps some thought should be given to just which behavior deserved such incentives. How far this process should go is always going to be subject to debate, but even some of those who object to the government trying to manage fiscal matters accept the fact that a form of mismanagement has already been imposed by accident.

Consequently, I asked this commission to take on these difficult challenges and suggest how California could best address them. I asked it to be both creative and realistic, to be bold in its thinking while acknowledging the political context in which its proposals would be judged. I purposefully chose its membership from a broad spectrum of philosophical and professional backgrounds so that any consensus it reached would be meaningful to an equally broad spectrum of Californians in general.

The Commission met for a little more than a year, traveling all over the state, engaging in a dialogue with leaders, experts and everyday people. Its process was public and open, and its inquiry carried on with admirable integrity. Every imaginable aspect of the state's fiscal life was discussed. Every recommendation of a decade's worth of prior commissions, task forces and legislatures was examined.

This report to the Legislature is the product of that rigorous process. It includes recommendations on fiscal policy and governmental accountability, and the relationship of these crucial matters to the economy, the environment and social equity. Further, it acknowledges other issues that were not yet "ripe" for resolution, including the growing impact of Internet commerce on retail activity throughout the state and the nation.

When I formed the Commission, I challenged it to help us achieve fairness and balance in the way the various levels of government work with each other to benefit all the people of California. They took that challenge seriously and, I believe, delivered in a manner that will substantially advance the dialogue on fiscal reform a giant step in the Legislature and around the state.

What happens next is up to all of us. For far too long, those who believe the public is not sufficiently interested in the complexities of fiscal life to motivate politicians to deal with the problems have held sway. But as the direct relationship between our fiscal imbalances and every aspect of our economic vitality, environmental health and quality of life becomes more apparent, I believe the public will demand that we engage at last.

The bases for that engagement can be found in these pages, and in the work of others who have explored these issues over the years. I congratulate the members of the Commission and thank them for a job well done. Now it is time for the rest of us to roll up our sleeves and get to work on behalf of the people and the future of California. Ð

A MESSAGE FROM THE CHAIR

***By* David A. Abel**

As the Speaker of the California Assembly understood when he appointed this diverse Commission, it is time for the Legislature to change the rules that govern the way communities finance their local services. Local governments live with a fundamentally flawed fiscal arrangement. Communities are dependent on the whim of the State and lack a stable and predictable revenue stream. This dysfunctional and irrational state/local fiscal system, as many have called it, effectively deprives locally elected representatives and their constituents of the ability to be the architects of their own neighborhood and community futures.

In the unanimous opinion of the Commission, more than two decades of neglect and band-aid responses to the unintended consequences of Proposition 13 need to end quickly. We must shift gears and return to our long held tradition of community independence and authority if the California we treasure is to be passed along to future generations better than we found and have experienced it. The following report of our Commission's yearlong work elaborates on our findings and spells out our uncontested recommendations.

Unquestionably, the struggle between the state and its local communities has been a constant in our history. But over the last 20-plus years State government has exercised more and more control over the ability of citizens to influence the quantity and quality of public services close to home. As a consequence, California voters have lost the power at the local level to make critical decisions on the very public services that affect the health and well being of their neighborhoods and communities. In addition, the tax base for supporting those local services now is influenced by constitutionally embedded fiscal incentives that distort local growth and development policies. In particular, shopping centers, auto dealerships, hotels, and other commercial developments are enormously attractive to local officials because they produce abundant sales tax revenue for the local agency where they are sited. Sales tax is king for local governments today; and run down school facilities, exorbitant housing prices and the proliferation of strip malls and big box retailers are the price to this sovereign.

California's tradition of local control over community services lasted for most of the 20th century. How did such a long tradition of a strong local government change in such a short period of time? The trend toward State control began in the early 1970s and increased substantially after the passage of Proposition 13 in 1978. The landmark law placed limitations on the amount of property tax that could be levied and gave control of its distribution to the state. Without a clear understanding of the situation, voters accepted the need to limit the power of state and local government to levy taxes and handed control of the primary source of financing local services to the State.

This was the backdrop for the work of the Speakers Commission on State and Local Government Finance. This report is presented to the Speaker of the Assembly, the Legislature and the Governor as an approach to begin to solve the problem of rebalancing the power of local officials to provide local services and to change the fiscal incentives that will produce more rational growth and development policies. The commission brings to bear several guiding concepts that best summarize the objective of the Commission's recommendations:

• The local finance system should facilitate balanced state, regional and local conservation and development policies as well as finance local and regional services.

• In order to avoid dependence on one revenue source, local governments should derive their revenues from a diversity of sources, including property tax, sales tax and general-purpose state subventions.

• The finance base for local and regional services should be a constitutionally protected, stable, and reliable and be sufficient to assure basic services.

• There should be greater accountability and transparency of state and local government.

Two recommendations are central to these objectives. The first is to change the mix of revenues available for local services by increasing local reliance on the property tax and decreasing reliance on the sales tax. Second, the commission brings a new issue to the Legislature and the Governor. The commission believes that California's regions matter. The dialogue between the state and local governments usually leaves out the regional perspective. Although it is obvious to most citizens, businesses and economists who study the issue, California is made up of a group of economic and environmental regions each with it's own particular characteristics.

Although statewide policy is important to provide a context for local action it is essential that we begin to consider the ***regional*** context of local action. That is why the commission urges the Legislature, with the cooperation of the Governor to initiate a process for the development of state, regional and local growth and development policies and a governance structure that connects fiscal powers with roles and responsibilities. This process must acknowledge that: 1) regions are the generators of our economic growth, and our ability to compete in the global economy; 2) natural resources, whether wilderness, working farm and forestlands, or neighborhood parks and open space need not be sacrificed, if development operates under better rules of the game; and 3) low-income and working families must share in the opportunity for prosperity.

The Speaker has thoughtfully and proactively involved citizen leaders from throughout the state on this commission. We have responded with one voice and agree with his initial charge to us: "The impacts of `topsy-turvy fiscal policy on governance and quality of life' in this state need to be addressed. We sincerely hope we have made a contribution to the Legislature and Governor's motivation and ability to lead such an effort. And we stand ready to support these efforts in the weeks and months to come. Ð

GUIDING CONCEPTS

- The local finance system should facilitate balanced state, regional and local conservation and development policies as well as finance local and regional services.

- In order to avoid dependence on one revenue source, local governments should derive their revenues from a diversity of sources, including property tax, sales tax and general-purpose state subventions.

- The finance base for local and regional services should be a constitutionally protected, stable, and reliable and be sufficient to assure basic services.

- Increase the transparency of state and local government.

Commissioner John Perez, Commissioner Sunne Wright McPeak, Speaker Antonio Villaraigosa, Commissioner David Abel and Commissioner William Hauck.

Speaker's Commission meeting.

RECOMMENDATIONS

FISCAL REFORM

I. Program For Fiscal Reform In California

Goal: Revise the current fiscal incentives in local land use decisions and increase the amount of discretionary revenue available for community and countywide services.

Recommendation 1: The Swap

Within each county, the county and each city would swap a portion of their locally levied sales tax with the State for an equal amount of the property tax. The locally levied 1% sales tax rate would be reduced to .5% and the State rate would be raised by .5%. An equal amount of property tax would be shifted from K-14 entities (sources of these funds could come from ERAF, K-12 districts, community colleges, superintendents of schools, and/or county boards of education). The State, using the new revenue from the .5% of the sales tax, would backfill educational programs through the State aid system.

Recommendation 2: ERAF Settlement

Return $1 billion of property taxes to counties, cities and special districts from the Education Revenue Augmentation Fund (ERAF) in each county or other State sources over time in annual installments of not less than $100 million, provided that the growth in any year of per capita non-proposition 98 general fund revenue exceeds the statewide consumer price index for the prior year.

Recommendation 3: Permanent Vehicle License Fee Subvention

Existing law requires the State to replace the reduced fee revenue with other State resources. Create a Constitutional obligation on the part of the State to maintain the per capita subvention and replace the revenue lost due to the reduction in the Vehicle License Fee.

Recommendation 4: Permanent Countywide Sales Tax Authority

The existing .5% “transactions and use” taxing authority would be moved into the Constitution so that voters, upon their approval of this proposal, would have the assurance that the resultant revenues could not be used to supplant State spending. The allocation of those revenues would be based on local agreement. Ð

II. Program For Increased Governmental Accountability

Goal: Increase the transparency of government by introducing performance measures into State and local government decision-making and by clarifying the state/county relationship so that roles and responsibilities are clearly understood.

Recommendation 1: State & Local Performance Measures

Require all local agencies (including Redevelopment agencies) to develop (via a public process) performance measures for their community and a system for the community to evaluate their performance based on outcomes. The State should establish a similar system of performance measures to assist in the annual budget process as well as part of a continuing policy evaluation process.

Recommendation 2: State/County Service Compact

Adopt a "Compact Model" for the State/county relationship. A common, bilaterally written compact that would spell out roles, responsibilities, duties, work programs, finances, community outcomes, performance indicators, and evaluation systems would govern each State/county partnership service program within the confines of existing statutory obligations. For each State program where the county acts as an agent of the State, a compact would cover the program.

Recommendation 3: Revised County Budget Requirements

Encourage counties to implement county budgets that, to the extent feasible, distinguish the role of the county in providing countywide services from its "urban service" responsibilities for unincorporated areas of the county.

Recommendation 4: Property Tax Reporting Requirement

Require the county auditor or appropriate State agency to report annually the amount and relative share of the property tax revenues for each agency in a manner that facilitates understanding and comparability among cities and counties about how the property tax funds municipal services. It should indicate the rates levied by special districts providing services commonly provided by a full service city such as parks and recreation services, library services, fire services in a way which compares them to those levied by a full service city and should portray allocations for redevelopment, county, and educational jurisdictions. Ð

Carl Anthony of Urban Habitat and Speaker Antonio Villaraigosa

OTHER ISSUES

MERITING FURTHER RESEARCH & INVESTIGATION

OTHER ISSUES*

Issues of Continuing Concern For The Legislature & The Governor

I. Equity Analysis

Goal: Study, develop and implement systems, through State and federal executive action, for assuring that equity objectives, as well as environmental and economic objectives, are supported by proposals concerning State and local government finance and resource distribution. Public finance measures should reduce, rather than exacerbate, the gap between affluent and low-income Californians. Transportation finance should also be studied to identify methods to improve the stability of funding, including the current gas tax system.

A. <u>The Equity Issue</u>

In order for reforms in the local finance system to improve the imbalance in the financing of local services the equity issues must be addressed. Fiscal reforms should:

- Create incentives for the development and maintenance of communities and regions to improve living standards, economic vitality, environmental protection, and assessable, efficient and effective governance for all their residents and workers.

- Allocate public resources according to community need and correct imbalances in funding of local governments with respect to cities and counties with inadequate funding and “low social health” and low tax bases.

- Reduce the gap between the “haves” and the “have-nots” and avoid exacerbating the gaps between population sectors.

B. <u>Equity Implementation Measures</u>

Provide an “Equity Impact Assessment” of proposals for State/local finance reform.

II. The Structure Of Transportation Funding

The legislature and the governor should undertake a study of the most efficient and reasonable way in which to stabilize the revenue stream from the gas tax at its present rate.

*The Commission is not forwarding these as recommendations, but rather as issues meriting further research and investigation by the Governor and Legislature.

III. Regional Growth & Development Policy

Goal: Initiate a joint legislative and executive branch process for the development of State, regional and local growth and development policies and a governance structure that connects fiscal powers with roles and responsibilities. This process must recognize the importance of regions as economic forces and that preservation of environmental resources within those regions is essential to the well-being of the state as well as insuring that equity considerations are a central part of this process.

A. <u>Regional Growth Policies</u>

Adopt in State law a regional growth policy as the environmentally preferred alternative for local land use decisions. At a minimum, a statewide regional growth policy objective should be sustainable development characterized by the interrelationship of economic, environmental and equity issues. State development policy would include the following:

- Maintain a healthy economy by promoting higher value job opportunities for people in each region.

- Accommodate housing, in both quantity and affordability, within each region or sub region to match population and job growth.

- Encourage efficient land use (which includes promoting strategies such as higher densities around transit hubs to establish transit villages, mixed-income and mixed-use projects, walkable 24-hour communities, recycling of “brownfields” and “grayfields,” and “smart” conversion of closed military bases.

- Require local general plans, the development of which should include public involvement down to the neighborhood level, be linked to regional plans.

- Protect vital and valuable ecosystems and natural habitats.

- Conserve natural resources and preserve environmental assets.

- Protect and conserve prime and unique farmlands.

- Invest in infrastructure to ensure mobility and quality of life, especially in existing urban areas.

- Reduce dependency on single-occupant-vehicle trips.

- Reduce poverty and promote greater equity.

B. Dealing With Regional Problems On A Regional Basis

Concepts discussed by the Commission which could address these issues included:

• To reconfigure counties and delivery of regional services along regional lines.

• To establish a regional pool of resources that is allocated to local jurisdictions based on a formula that recognizes specific policy objectives. This approach envisions the state establishing a policy goal that each region is to strive to create (a) higher value job opportunities and (b) housing that accommodates all income levels, and that the jobs and housing be in proximity to each other. In achieving this policy goal, regions would be guided by "regional growth" principles. Regions would be required to develop performance standards and strategies to achieve the policy goal, design measures to track progress, and report progress annually to the residents of the region.

Features:

» Regional strategies developed with input from all potentially impacted sectors including social equity and environment.
» Pool funded from taxes raised within the region.
» State subvention funds to supplement the pool to achieve state policy goals.
» Regional governance structure clearly accountable to the voters of the region.
» Allocation rules clearly understandable to the voters. Ð

Joel Fox, Past President of the Howard Jarvis Taxpayers Association, and Speaker Antonio Villaraigosa

HISTORY

HISTORY

"Paradise Lost" And The Road To Reform

In September 1998, Assembly Speaker Antonio R. Villaraigosa announced his intention to appoint a commission to address the State and local fiscal relationship in California. He traveled to the annual "Civic Entrepreneurs Summit" sponsored by the James Irvine Foundation to do so, knowing that the gathering was the most appropriate venue available at which to launch a serious fiscal reform project.

The Civic Entrepreneur movement has, for several years, brought together activists from the public and private sectors, for profit and non-profit entities, business and community groups, environmental organizations, and planning groups. They bring a variety of perspectives to the effort, but they share a belief that the future greatness of California depends on our ability to address our economic, governmental and quality of life needs in a holistic manner. Unfettered by the political, ideological and professional constraints that sometimes color deliberations on fiscal issues, the Civic Entrepreneurs have been able to develop their movement apart from institutional policymakers and embrace the concept that fiscal reform must be at the heart of creating that future.

Civic Entrepreneurs, of course, have no corner on wisdom with regard to fiscal reform. Many of the ideas they have worked to bring into the public policy debate stem from the work of the California Constitutional Revision Commission. That entity, created by legislation passed and signed by Governor Pete Wilson in the early '90s, worked on a set of comprehensive recommendations for a complete overhaul of the State Constitution. Issues raised during the Revision Commission's process continue to surface in various contexts, the fiscal perhaps foremost among them.

Maps Of The Future Past

Another source of ideas and inspiration has been journalist Peter Schrag's landmark book, Paradise Lost. This volume chronicles the path of California's finances and quality of life in the post-Proposition 13 era. Yet another is economist Stephen Levy of the Center for Continuing Study of the California Economy in Palo Alto. Levy's 1998 report, "Land Use and the California Economy," commissioned by Californians and the Land, succinctly presents the issues that form the current fiscal reform/quality of life matrix. It proved to be a veritable road map for the Speaker's Commission's year-plus journey.

Levy's report laid out five principles: The need for regional perspectives, more efficient use of land, public infrastructure investment, fiscal reform and socio-economic equity. Significantly, Levy concluded, "…real solutions will only come

when residents and business, agriculture, community and environmental groups, and local and state political leaders reach beyond their individual agendas to embrace part of someone else's agenda." This additional principle strongly informed the work of the Speaker's Commission.

The confluence, then, of civic entrepreneurialism and fiscal reform centers on how the latter impacts both the economy and land use and infrastructure decision making. Certain aspects of this evolving paradigm had previously been explored by task forces appointed by Governor Wilson and former Speaker Willie Brown in the early '90s. These task forces fundamentally were charged with looking at regional governance issues.

The super-heated growth of the late '80s had fomented the "slow growth" movement and its accompanying anti-development sentiments rooted both in environmental and NIMBY ("not in my back yard") ethics. The first sightings of what we come to be called the "fiscalization of land use"– basing land use decisions on their revenue-generating potential–had appeared as neighboring municipalities fought over bringing shopping malls, auto malls and large discount retailers within their borders. The task forces ultimately lost their momentum when they failed to reach consensus on key issues and then were undermined by an economy that failed to support enough economic development activity to keep those issues hot in the fickle public policy arena. The problems did not go away, but the visceral political pressure to address them followed the economy downward.

A Revival Afoot

In the aftermath of past failed efforts to bring about reform, the Civic Entrepreneurs stepped into the breach and began massaging the issue matrix. Regional policy and business organizations commissioned studies and reports (including Levy's). Out of sight of the official policy establishment, economists, planners, environmentalists and business leaders began to find common ground and purpose. Fiscal reformers of long-standing took heed, as a comprehensive rationale for restructuring State and local finances began to emerge.

Then, as the '90s drew to a close, the economy heated up again, with real estate development activity following suit. Amidst the usual, and predictable, enthusiasms, ideological debates and building permit surges, came a renewal too of the old anti-development concerns. But this time, a new perspective was added to the agenda: the question of urban, and suburban, sprawl and its relationship to the state's fiscal structure, environment, lifestyles and economy.

Before Speaker Villaraigosa formed the Speaker's Commission, he considered the nature of the dialogue that was emerging on fiscal reform among such groups as the League of California Cities, the California

State Association of Counties, the Los Angeles County Economy and Efficiency Commission, San Diego Dialogue, the Bay Area Council, the Great Valley Center and the Sierra Business Council. It was the land use implications he chose to add to the mix of issues that had previously been discussed. His Commission would sift through the work that had already been done and concentrate on synthesizing ideas into proposals it felt could be viable in the legislative context. Ideally it would be the kind of comprehensive approach espoused in "Land Use and the California Economy" that had proven politically elusive in the past. In aspiring to viability, the Speaker asked the Commissioners to explore every option but lean toward revenue neutrality.

The Speaker named a bipartisan group of 35 representing a wide variety of opinions and interests. Currently sitting elected officials and active candidates for office were not included so as to circumscribe the active politicization of the discourse. But municipal and county government interests were represented both by their respective associations and by former elected officials from both jurisdictional levels. So were labor, education, business, environmental, taxpayer and community interests, among others. The binding link among them was the feeling that State and local government finances were in need of attention.

The Commission first convened on January 27, 1999, in the State Capitol. In order to encourage maximum public and institutional participation, it met monthly in locations all over the state. An informative Internet website was created to provide an ongoing resource for those interested in fiscal reform. Over the course of 14 meetings, the Commission met before hundreds and heard from dozens of witnesses and invited presenters. They reviewed every reform proposal made by a variety of entities over the past decade (including the Constitutional Revision Commission).

The Speaker's Commission ultimately was drawn toward a handful of issue areas: fiscal reform, governmental accountability, land use policy and regional cooperation. Where feasible, the Commissioners have endeavored to meld the issues. At all times, they have acknowledged their fundamental interrelatedness. And, responding to governmental and political realities, they have geared their recommendations to the "ripeness" of the issue and nature of the context in which they would be debated. Some issues and recommendations are ready to be debated as presented, while others exist more as concepts that require additional refinement as he debate evolves.

The Speaker's Commission concluded its formal process on February 23, 2000, in the State Capitol, where it had begun 13 months earlier. Like any such process of public deliberation might, the Commission process validated Mr. Levy's admonition that reform would not take place until interest groups step outside of their own confines. To a substantial degree, the good will the individual Commissioners brought to the project allowed them to do that. Nonetheless, the project showed that achieving fiscal reform in a larger policy context remains one of the great challenges of our era. Ð

Martha Davis of Californians and the Land and Speaker Antonio Villaraigosa

THE COMMISSIONERS

THE COMMISSIONERS

David Abel—Founder/Director of the Metropolitan Forum Project. He is an entrepreneur, business consultant and publisher of *The Planning Report* and *Metro Investment Report*. Mr. Abel is former Chair of the Los Angeles County Citizens' Economy & Efficiency Commission, as well as a steering committee member of the California Futures Network and the California Governance Consensus Project.

David Allgood—Southern California Director of the California League of Conservation Voters. Mr. Allgood is a boardmember of the Coalition for Clean Air and a veteran leader in the environmental community in Los Angeles.

Carl Anthony—President of the Urban Habitat Program in San Francisco. Mr. Anthony is a public policy expert and former faculty member at the University of California specializing in housing, transportation and the environment. He is an advocate of sustainable development and has worked with the Association of Bay Area Governments and the Trust for Public Land.

Luis Arteaga—Associate Director of the Latino Issues Forum in San Francisco. Mr. Arteaga is a public policy specialist in housing, urban development, transportation and health issues. He formerly worked with the Los Angeles County Department of Health Services.

Ed Avila—CEO of Los Angeles' Project Restore and Boardmember of MALDEF. Until recently an executive at Lockheed Martin IMS, Ed Avila was also a member and president of the Los Angeles Board of Public Works, administrator of the Los Angeles Community Redevelopment Agency and a Deputy Mayor of Los Angeles under the late Tom Bradley.

Ruben Barrales—Executive Director of Joint Venture: Silicon Valley Network since December 1998 and a former candidate for State Controller, Mr. Barrales is a former member of the San Mateo County Board of Supervisors.

Alan Bersin—Superintendent of Public Education for the San Diego Unified School District. Mr. Bersin is a former Visiting Professor of Law at the University of San Diego and U.S. Attorney.

Ed Blakely—At the time of his appointment, a Professor at the School of Policy, Planning and Development, University of Southern California. A former faculty member at the University of California, Berkeley, Professor Blakely was runner-up in the 1998 Oakland mayoral election.

Martha Davis—At the time of her appointment, Martha was Executive Director of Californians and The Land. Ms. Davis serves on the Boards of the Mono Lake Committee, the Bay Institute, the Sierra Nevada Alliance and the WateReuse Foundation. She is a member of the Manzanar National Historic Site Advisory Commission and is the former Executive Director of the Mono Lake Committee.

Amy Dean—Chief Executive Officer of the South Bay AFL-CIO Labor Council and founder of Working Partnerships USA. Ms. Dean is a former member of the California Economic Strategy Panel and Co-chair of the Interfaith Committee on Race, Religion & Social Justice in San Jose.

Robert Foster—Senior Vice President of Public Affairs at Southern California Edison. Mr. Foster is a member of the California State University Board of Trustees and the California Foundation on the Environment and Economy.

Joel Fox—Public affairs consultant based in the San Fernando Valley and President Emeritus of the Howard Jarvis Taxpayers Association. Mr. Fox was President of that organization until the end of 1998. In 1996, he was instrumental in the creation of the successful Proposition 218.

Linda Griego—Managing General Partner of her own business and former head of Rebuild Los Angeles. Ms. Griego is a member of the Federal Reserve Bank Board in San Francisco, former interim head of the Los Angeles Community Redevelopment Bank, a former Los Angeles Deputy Mayor under the late Tom Bradley and was a candidate for Mayor of Los Angeles in 1993.

Susan Hammer—Former Mayor of the City of San Jose and a member of the California State Board of Education. She is also a former member of the San Jose City Council.

Lee Harrington—President & CEO of the Los Angeles Economic Development Corporation and a former Senior V.P. at Southern California Gas Company. Mr. Harrington is a member of the Board of the Graziadio School of Business and Management at Pepperdine University.

William Hauck—President of the California Business Roundtable and former chair of the California Constitutional Revision Commission. Mr. Hauck is also President of the California State University Board of Trustees.

Gary Hunt—Executive VP of The Irvine Co. Mr. Hunt is a member of the Little Hoover Commission and the Board of the Beckman Foundation.

Norm King—Executive Dir. of the San Bernardino Assoc. of Governments. Mr. King is the former City Manager of Moreno Valley and Palm Springs.

Lily Lee—Manager of Public Affairs at Waste Management, Inc. in Sun Valley. Ms. Lee is a former mayoral aide to both Richard Riordan and the late Tom Bradley and is active in a variety of civic and environmental organizations.

John Maltbie—County Manager for San Mateo County. Mr. Maltbie has served as City Manager in Milpitas and Glendale, Arizona, as well as serving in various executive capacities for the County of Santa Clara.

Sunne Wright McPeak—President of the Bay Area Council. Ms. McPeak is a policy consultant and former Contra Costa County Supervisor.

Richard Morrison—Boardmember for the Sierra Business Council. Mr. Morrison is a former Senior Vice President at Bank of America and is active in a variety of environmental organizations. He is co-author of the landmark early '90s policy paper, "Beyond Sprawl."

Charles Nathanson—Executive Director of San Diego Dialogue at the University of California, San Diego. Mr. Nathanson is a former Sociology professor at that institution and a civic activist in the San Diego area.

Randy Parraz—Field Representative for the AFL-CIO in northern California. Based in Vallejo, Mr. Parraz is a member of the U.S. Hispanic Leadership Institute, the Labor Council for Latin American Advancement, and the State Bar.

John A. Pérez—Now with the State Labor Council, Mr. Perez is former Executive Dir. of the United Food and Commercial Workers Region 8 States Council. He is a Boardmember of the Los Angeles Economic Development Corporation, the Los Angeles Opportunities Industrial Center and the California League of Conservation Voters.

Tom Rankin—President of the American Federation of Labor – Council of Industrial Organizations (AFL-CIO) in California.

Jean Ross—Executive Director of the California Budget Project based in Sacramento. Ms. Ross has worked for the State Assembly as a consultant on fiscal issues and with the Service Employees International Union. She is a member of the California Governance Consensus Project and the Franchise Tax Board Advisory Committee.

Kevin Scott—Senior Policy Advisor for Strategies for Changing Times and a member of the California Citizens Budget Commission. Mr. Scott was formerly Deputy Director of the Los Angeles City Charter Reform Commission, a Vice President at Goldman Sachs, Executive Director of the California Commission on State Finance under former Treasurer Kathleen Brown, and a faculty member at the Harvard University Kennedy School of Government.

Dwight Stenbakken—Assistant Legislative Director for the League of California Cities. Mr. Stenbakken is a twenty-year veteran with the League with a focus on the relationship of California cities to State government.

Steven Szalay—Executive Director of the California State Association of Counties. Mr. Szalay was formerly the County Administrator of Alameda and Tuolumne Counties and served as a policy advisor to the California Constitutional Revision Commission.

Dean C. Tipps—Executive-Secretary-Treasurer, California State Council of the Service Employees International Union.

Chris Townsend—Public Affairs consultant based in Orange County. Mr. Townsend is a long time civic activist and former executive at Taco Bell, Inc.

Elaine Trevino—Economic development consultant and former Vice President of the Fresno County Economic Development Corporation. Ms. Trevino also is a former Community Development executive with Wells Fargo Bank and a member of the Central California Hispanic Chamber of Commerce and the Fresno County Welfare-to-Work Task Force.

Carol Whiteside—Executive Director of the Great Valley Center, former Mayor of Modesto and a former Assistant Secretary of Resources in the Wilson Administration.

Former Member

Ron Unz—Chairman of Wall Street Analysis, Inc. based in Palo Alto, Mr. Unz is on the Board of the Reason Foundation and is a former candidate for Governor and U.S. Senate. In 1998 he was co-sponsor of the successful Proposition 227, and in 2000, the unsuccessful Proposition 25. He resigned in September 1999 to run for U.S. Senate.

Informal Alternates

Irwin Musser (for Carl Anthony)
Robert Brownstein (for Amy Dean)
Barry Sedlik (for Robert Foster)
John Hunter (for Gary Hunt)
Terry Brennand (for Dean Tipps)

Speaker Antonio Villaraigosa

RECOMMENDATIONS

+ COMMENTARY

OTHER ISSUES

+ COMMENTARY

RECOMMENDATIONS + COMMENTARY

I. Program For Fiscal Reform In California

Goal: Revise the current fiscal incentives in local land use decisions and increase the amount of discretionary revenue available for community and countywide services.

Recommendation 1: Swap a portion of the locally levied sales tax for an equivalent amount of the property tax

Issues: One of the issues at the heart of the charge facing the Commission is the so-called "fiscalization of land use," the phenomenon whereby local governments are so motivated by the desire to increase sales tax revenues that they skew their land use decisions toward retail uses and away from housing, manufacturing and other uses that do not generate sales taxes to any significant degree. This phenomenon is credited with creating imbalances in community land uses, housing shortages in certain areas, long commutes for workers living in housing rich/job poor fringe-area suburbs, and fractured families in which working parents lose quality time with their children because of those long commutes.

Many who have studied the issue feel that the key turning point in the rise of "fiscalization" was Proposition 13's (1978) edict that property tax revenue distributions would henceforth be determined on the basis of State law. The legislature took this to mean that it could decide and it passed Assembly Bill 8 in 1979 to establish a formula for State distribution to cities and counties which has not changed since. This formula dramatically reduced the extent to which local governments depend on property taxes to fund local services and placed considerable emphasis on sales taxes. Since a firm 1% of the price of an item comes (in the form of a share of sales tax) to the local government in whose jurisdiction the sale occurs, local governments gained motivation to create more retailing opportunities. This quickly became just about the only form of revenue enhancement they could influence directly without going to the voters.

The Commission proposal looks to reduce the influence of sales taxes on land use decision making. It also looks to anticipate, at least in part, the growing and negative impact of electronic commerce (currently exempted from sales taxes by federal statute) on local retail sales tax receipts. The latter is estimated by some to have the potential to jeopardize many local governments' bond ratings in a matter of a few years.

As for the land use decisions, the swap clearly would not be a silver bullet. What it should do, however, is minimize or eliminate the enor-

mous bias the current system imposes in favor of retail uses. Some have concluded that, because long term trends suggest that other uses, especially housing, cause property values to rise at a slightly faster rate than retail, local jurisdictions will begin to prefer those uses to retail. This would remove the current disincentive to provide housing closer to existing job locations and allow communities to look at their own "big picture" when making these decisions. Over time–perhaps the same 20-year period it has taken for it to develop–the current imbalance could be at least partially redressed.

Among California's 52 counties and 470-plus cities, the swap would benefit the vast majority. But some cities have aggressively exploited current law to the benefit of their treasuries and residents. They and others may not have sufficient property tax within the city to make up for the loss of sales tax via the swap. In certain cases, this could be because redevelopment area tax increments or special districts divert significant property tax revenues. In general, the high sales tax cities are simply, and understandably, wary of a proposal that radically changes a formula they have employed to their advantage for two decades. The Commission has endeavored to protect their current fiscal position and encouraged them to look to growing property taxes in the future.

Objective: Neutralize the effects of the local sales tax on local land use decisions by reducing the reliance of local government on the sales tax and increasing its reliance on the property tax in order to create an increased fiscal incentive for balanced land use decision-making.

Proposal: Within each county, the county and each city would swap a portion of their locally levied sales tax with the State for an equal amount of the property tax. The locally levied 1% sales tax rate would be reduced to .5% and the State rate would be raised by .5%. An equal amount of property tax would be shifted from K-14 entities (sources of these funds could come from ERAF, K-12 districts, community colleges, superintendents of schools, and/or county boards of education). The State, using the new revenue from the .5% of the sales tax, would backfill educational programs through the State aid system.

Implementation: Hold each city and county harmless for the loss of the sales tax by substituting an equivalent amount of property tax. The property tax allocation for each city and county would work as follows:

a. The 1% property tax is currently levied countywide and allocated to agencies within the county by statute. Under this proposal the county and each city would be allocated the amount of property tax it received in the prior year, augmented with the amount of the sales tax that it lost in the swap. This action would have the effect of changing each city and county's share of the property tax since the relative shares of the property tax among the jurisdictions receiving

the tax would change. The city or county share would go up and the educational agencies' share would go down.

b. Each year thereafter, the city and the county would receive the amount they received in the prior year (the adjustment for the sales tax swap is now in the base property tax) *plus* a share of the property tax that is attributable to the growth in assessed value within their jurisdiction. The pro rata shares of the property tax of each jurisdiction would determine the share of the growth. This is consistent with existing law. For example, if a city received 15% of the property tax it would receive 15% of the growth.

c. The property tax would be shifted from educational agencies. The reduction in property tax going to these districts would be replaced with an equivalent amount in State aid. Within each county the K-12 school share of the property tax would be allocated on a per student basis. The "basic aid" districts (those school districts that receive a minor amount of State aid and receive most of their funding from the property tax) would be held harmless for the change from a situs-based property tax to one where the schools' share of the countywide property tax is distributed on a per student basis to school districts within the county.

Figure 1
Components of California's Overall Sales Tax Rate

Rate (%)	Purpose
6.00	State sales tax, consisting of:
5.00	State general fund
0.50	Local Revenue Fund—distributed to counties for health and welfare responsibilities
0.50	Public Safety Fund—distributed to counties, some cities
1.25	Bradley-Burns sales tax, consisting of:
1.00	Local sales tax—directed to general fund of jurisdiction where sale occurred
0.25	Local transportation tax—directed to county where sale occurred
Up to 1.25	Local special taxes, generally for transportation—optional, require voter approval, used in 24 counties and a few cities (Note: in most counties, maximum rate authorized is 1.50%)
7.25 to 8.50	Total rate

Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999

Figure 2

Cities With Highest & Lowest Sales Tax Revenues Per Capita, 1996

Ten Cities With Highest Revenues	Per Capita Sales Tax Revenues	Ten Cities With Lowest Revenues	Per Capita Sales Tax Revenues
Vernon	$56,891.84	Rolling Hills	$2.25
Industry	$30,130.96	Bradbury	$2.57
Sand City	$6,304.87	Tehama	$4.19
Colma	$4,400.14	Hidden Hills	$4.54
Irwindale	$2,002.12	Monte Sereno	$5.14
Santa Fe Springs	$1,172.58	Hillsborough	$5.31
Signal Hill	$841.73	Canyon Lake	$5.71
Commerce	$824.05	Atherton	$5.92
Emeryville	$799.93	La Habra Heights	$6.68
Brisbane	$515.94	Avenal	$9.71

Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999

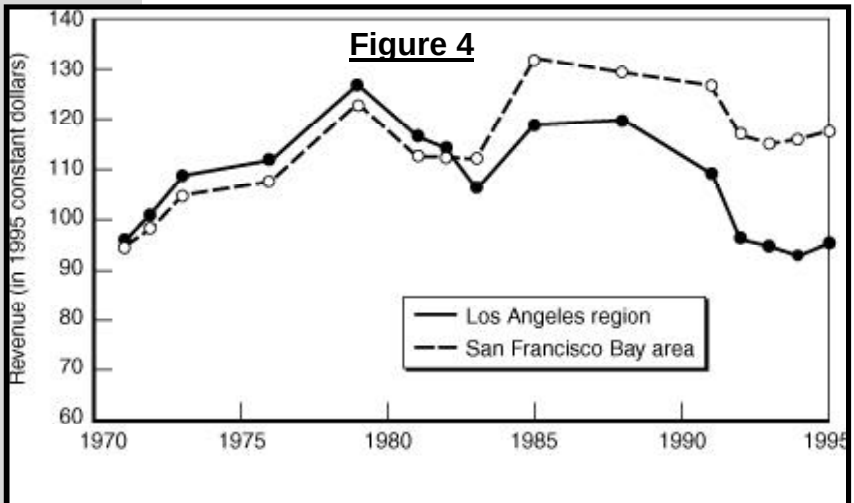
Figure 3

Changes In Real Per Capita Sales Tax Revenues Between 1970s & 1990s Among California Cities

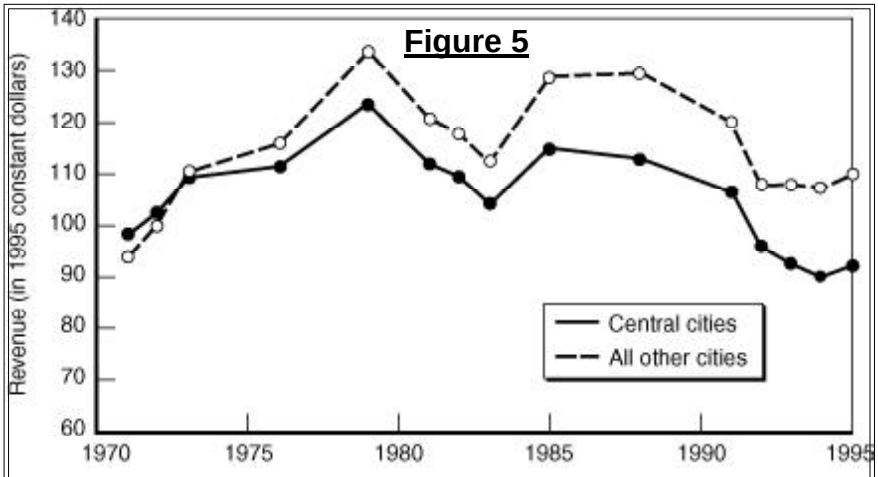
	1971-73 to 1981-83	1981-83 to 1991-93	1971-73 to 1991-93
No. of cities gaining	315	181	234
Median amount gained	$19.04	$14.59	$30.83
No. of cities losing	88	245	169
Median amount lost	$8.32	$17.93	$15.22

**NOTE: Revenues measured in constant 1995 dollars.

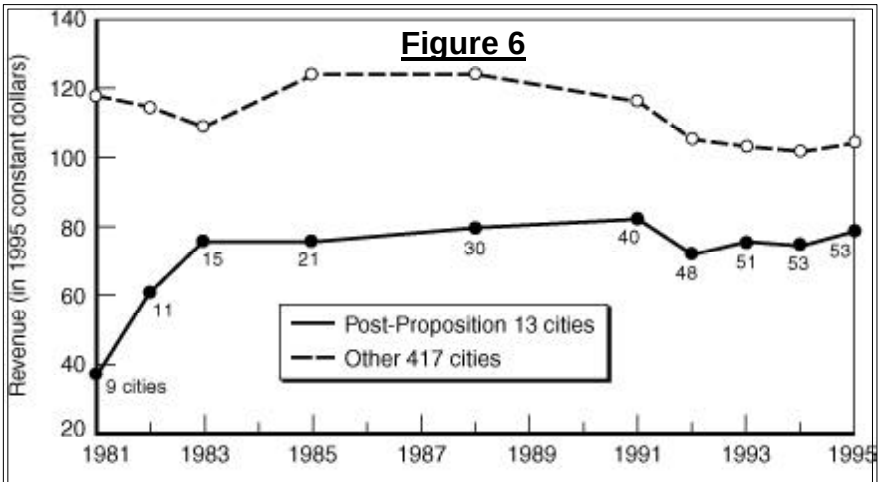
Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999



Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999



Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999



Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999

Recommendation 2: Settlement for the 1992-93 and 1993-94 Property tax shift

Issues: It hardly can be over-emphasized that cities and counties were not happy with the State's decision in the early '90s to balance its own recession-ravaged Budget by using property tax monies to make sure the State had enough money to finance public education to the level mandated by Proposition 98. Combining a massive multi-billion dollar shift with some selected raising of taxes, the legislature and governor severely disrupted local government finance in the name of balancing the State Budget. When the howls of protest quickly rose, the local governments were reminded sternly that the State had been "bailing them out" annually since the passage of Proposition 13 first shifted the property tax receipts to Sacramento and that it was their own responsibility to make sure they had revenues sufficient to cover expenses.

This proposal to repay to local jurisdictions what is reckoned to be the remainder of the ERAF shift is part of the rethinking of the State/local relationship undertaken by the Commission. The bottom line is to provide local governments, which have less revenue-raising flexibility than the State and fewer options in time of fiscal crisis, with resources adequate to provide the services constituents need. It would require some reexamination of the State Budget and it would require a willingness to reexamine roles. The question of how best to match resources and responsibilities among the various levels of government retained its currency throughout the Commission's life, fueling lengthy discussions in both the fiscal and governmental accountability issue areas.

Objective: Increase the amount of discretionary revenue for countywide and other local government services.

Proposal: Return $1 billion of property taxes to counties, cities and special districts from the Education Revenue Augmentation Fund (ERAF) in each county or other State sources over time in annual installments of not less than $100 million, provided that the growth in any year of per capita non-proposition 98 general fund revenue exceeds the statewide consumer price index for the prior year.

Recommendation 3: Place the existing Vehicle License Fee subvention in the State Constitution

Issues: When Governor Pete Wilson proposed in 1998 to gradually eliminate the Vehicle License Fee (essentially a "car tax" added to annual registration fees), a shock wave emanated through the local governments of California. For decades, the VLF had, by statute, provided substantial revenues to local governments. The proposal sprang to life with no formal acknowledgment that local jurisdictions would be hurt seriously if it were implemented.

The complex politics of passing a Budget with a 2/3 vote of the legislature ultimately led to a phaseout combined with a "backfill" from the State's General Fund to make local governments whole. The backfill methodology had served local governments well, if not altogether reliably, in dealing with property tax revenues after the passage of Proposition 13. However, the ERAF shift changed all that, proving to cities and counties that reliability counted for a lot. In other words, once bitten, twice shy.

The Commission was, from the beginning, acutely aware of the sensitivity surrounding this issue. The overriding theme was that if Capitol politicians wanted to cut taxes, fine, but doing so should not penalize local governments.

The implementation of this proposal would include a phase in as the VLF continues to be phased out (based on a formula tied to the size of the State Budget surplus). Additionally, a hold-harmless provision would be included so that no local agency lost funds during the transition. To the extent that cities and counties are held harmless for any loss of revenue from the VLF, only the growth in the new subvention would be subject to a new allocation.

Objective: Insure the continuance of the Vehicle License Fee (VLF) per capita subvention after the VLF has been reduced.

Proposal: Existing law requires the State to replace the reduced fee revenue with other State resources. Create a Constitutional obligation on the part of the State to maintain the per capita subvention and replace the revenue lost due to the reduction in the Vehicle License Fee.

Recommendation 4: Place the existing .5 per cent countywide sales tax authority in the State Constitution.

Issues: As with other issues in this section, "reliability" is the key word. The State has given to counties a certain amount of taxing authority (predicated upon the 2/3 approval of the voters) to meet local needs. While there has not been any specific indication that the governor or legislature might move to rescind this authority, there is nothing in law preventing them from doing so. County advocates, backed solidly by the entire Commission, recommend that this statutory authority be placed in the State Constitution to protect it from the fickle winds of politics.

Objective: Provide for a constitutionally protected revenue source for countywide and community services.

Proposal: The existing .5% "transactions and use" taxing authority would be moved into the Constitution so that voters, upon their approval of this proposal, would have the assurance that the resultant revenues could not be used to supplant State spending. The allocation of those revenues would be based on local agreement.

II. Program For Increased Governmental Accountability

Goal: Increase the transparency of government by introducing performance measures into State and local government decision-making and by clarifying the state/county relationship so that roles and responsibilities are clearly understood.

Recommendation 1: <u>Require the development of performance measures for State and local government</u>

<u>Issues</u>: The last quarter of the 20th Century has been the era of mistrust of government in California and all over the United States. Rooted both in ideology and real experience, the attitude that government does not, and cannot, spend taxpayer dollars wisely or efficiently has become all-pervasive. While this may not entirely be a new phenomenon, it has dominated the recent era. Proposition 13 grew directly from it, and a series of scandals and episodes of obvious mismanagement have kept the fires burning since the 1970s.

Consequently, the dialogue around fiscal reform came quickly to the subject of governmental accountability. The Commission believes, along with many others taking part in the discourse, that it would be neither prudent nor productive to ask the public to support major structural reforms of government finance without offering them more than just a vague promise that governance actually would improve. Those with hands-on government experience agree: providing the public with increased confidence in the performance of governmental entities is a fundamental necessity.

The shibboleth, “waste, fraud and abuse,” so often invoked during election campaigns and budget debates, grows tedious, but the inability to refute it is corrosive to the body politic.

Additionally, there is a desire for “transparency.” Simply put, those involved in government want the public to better understand what government is doing with regard to process, finance and policy. The Commission determined that requiring something akin to an annual business plan that would allow the public to compare an agency’s goals with its actual results would be a significant step in a positive direction. Of course the bureaucracy would not appreciate the extra work required to prepare performance measures and publish the equivalent of annual reports, but perhaps it would appreciate being appreciated at long last. Everything is a trade off.

<u>Objective</u>: Ensure that citizens are able to measure in a systematic way the efficiency and results (the “outcomes”) of the efforts of State and local agencies to provide services.

Proposal: Require all local agencies (including Redevelopment agencies) to develop (via a public process) performance measures for their community and a system for the community to evaluate their performance based on outcomes. The State should establish a similar system of performance measures to assist in the annual budget process as well as part of a continuing policy evaluation process.

Recommendation 2. Establish a new model for the State/county relationship

Issues: Over the course of the 1990s, several California counties experienced or flirted with outright bankruptcy. Faced with providing a myriad of State-mandated services and largely unable to raise revenues without outside help, counties have been whipsawed by the existing state/local fiscal relationship.

County advocates have proposed using the compact model as a way to ensure that counties have the resources they need to cover their obligations. Concerns that the compact could be used to "cut a deal" to reduce services when a county is faced with limited funds have been assuaged by the unequivocal statement that statutory obligations must be met. The point is to guarantee that the funds are their to pay for the services, not to cut the services to match the available funds. The compact model is intended to stabilize the situation and, to some degree, de-politicize it.

Objective: Clearly define the responsibilities of the State and the counties when the county is acting as an agent of the State.

Proposal: Adopt a "Compact Model" for the State/county relationship. A common, bilaterally written compact that would spell out roles, responsibilities, duties, work programs, finances, community outcomes, performance indicators, and evaluation systems would govern each State/county partnership service program within the confines of existing statutory obligations. For each State program where the county acts as an agent of the State, a compact would cover the program.

Recommendation 3: Revise the county budget requirements in order for the public to distinguish the various roles of county government

Issues: The quest for transparency motivates an effort to require counties to more clearly delineate how they are spending their money, especially in the context of providing municipal-style services in unincorporated areas.

Arguably, doing so will have several beneficial effects. First, it would help the public better understand exactly what the county was doing. Second, it would tell the public how much county money was going to pay for things other than State-mandated obligations. Third, it could provide the

basis for a rational debate on whether the county should be doing what it was doing at all.

Objective: Within county budgets, distinguish countywide services from “urban service” responsibilities undertaken for unincorporated areas of the county.

Proposal: Encourage counties to implement county budgets that, to the extent feasible, distinguish the role of the county in providing countywide services from its “urban service” responsibilities for unincorporated areas of the county.

Recommendation 4: Property tax allocation reporting requirement

Issues: With this additional measure recommended in the name of transparency, the Commission proposes to untangle at least some of the mystery surrounding government finance via full disclosure of how a portion of property tax revenues is being spent. Another concern fueling this particular proposal is a feeling among Commissioners and others that it is conceptually appropriate to more closely link property taxes with the well-being of the property from which they derive. Since local services benefit property as well as people, perhaps taxpayers would be more interested in how tax revenues are allocated if more information were available to them on the subject.

Objective: Increase public understanding of how the property tax finances municipal services.

Proposal: Require the county auditor or appropriate State agency to report annually the amount and relative share of the property tax revenues for each agency in a manner that facilitates understanding and comparability among cities and counties about how the property tax funds municipal services. It should indicate the rates levied by special districts providing services commonly provided by a full service city such as parks and recreation services, library services, fire services in a way which compares them to those levied by a full service city, and should portray allocations for redevelopment, county, and educational jurisdictions. Ð

OTHER ISSUES + COMMENTARY

Issues Of Continuing Concern For The Legislature And The Governor

I. Equity Analysis

Goal: Study, develop and implement systems, through State and federal executive action, for assuring that equity objectives, as well as environmental and economic objectives, are supported by proposals concerning State and local government finance and resource distribution. Public finance measures should reduce, rather than exacerbate, the gap between affluent and low-income Californians. Transportation finance should also be studied to identify methods to improve the stability of funding, including the current gas tax system.

A. The Equity Issue

Issues: The inequitable distribution of wealth within and between communities in California became an important aspect of the Commission's fiscal reform debate. Correctly identifying fiscal reform as a vehicle for increased fairness, economic justice advocates saw this process as an opportunity to raise the profile of their concerns.

After wrestling for months with more formal approaches to introduce economic justice directly into fiscal reforms, the Commission looked at the concept of employing an Equity Impact Assessment as part of the process of considering those reforms. Similar to the concept of an economic impact analysis conducted as an adjunct to an environmental review, the Assessment would indicate how a measure would impact existing equity conditions and, presumably, provide options to the decision makers for how to improve them. Here, the Commission spelled out the issues they felt were pertinent to such an analysis.

As with several of its proposals that were not in and of themselves fiscal reforms, the Commission determined that the best way to send this message to the legislature was to urge that it consider implementing the idea as part of its consideration of the Commission's package of recommendations.

Objective: Ensure that reforms in the State and local finance system deal with existing and future fiscal and social equity issues in the gathering of public revenues and the distribution of resources throughout the regions in the state.

Proposal: In order for reforms in the local finance system to improve the imbalance in the financing of local services the equity issues must be addressed. Fiscal reforms should:

- Create incentives for the development and maintenance of communities and regions to improve living standards, economic vitality, environmental protection, and assessable, efficient and effective governance for all their residents and workers.

- Allocate public resources according to community need and correct imbalances in funding of local governments with respect to cities and counties with inadequate funding and "low social health" and low tax bases.

- Reduce the gap between the "haves" and the "have-nots" and avoid exacerbating the gaps between population sectors.

B. Equity implementation measures

Issues: Pursuant to item III.1, the Commission here calls for an Equity Impact Assessment to be conducted on its own, and other, reform proposals.

Objective: Understand the impacts on low-income communities of the recommendations of the Speaker's Commission, other reform recommendations, and other State policies that affect the distribution of public resources.

Proposal: Provide an "Equity Impact Assessment" of proposals for State/ local finance reform.

II. The Structure Of Transportation Funding

Issues: Faced with a decline in gas tax revenues attributable to several factors (sunsetting tax measures mixed with improved fuel efficiency [prior to the rise in popularity of sport utility vehicles, at least]), the State and local jurisdictions will be confronted by the increasing unreliability of their primary home-grown funding source for transportation-related infrastructure improvements. Add to this the politically-inspired push to eliminate gas at-the-pump taxes altogether to "mitigate" the dramatic rise in gasoline prices in early 2000, and these revenues are more at-risk than they have been in years. Considering the substantial need (in the tens of billions of dollars) for transportation improvements identified by the Governor's Infrastructure Task Force and others, Commissioners felt this deserved additional attention from State officials and here urged them to provide it.

Objective: Understand the inability of the per gallon fuel tax system to finance future the states current and future transportation needs.

Proposal: The legislature and the governor should undertake a study of the most efficient and reasonable way in which to stabilize the revenue stream from the gas tax at its present rate.

III. Regional Growth & Development Policy

Goal: Initiate a joint legislative and executive branch process for the development of State, regional and local growth and development policies and a governance structure that connects fiscal powers with roles and responsibilities. This process must recognize the importance of regions as economic forces and that preservation of environmental resources within those regions is essential to the well-being of the state as well as insuring that equity considerations are a central part of this process.

A. Develop a set of regional and local "regional growth" policies to govern development

Issues: As noted elsewhere in this report, the Commission began its work just as the so-called "smart growth" movement was emerging as a matter for discussion on the national level. A basic precept of that movement–that there will be growth in population and urbanization and managing it in a manner that optimizes environmental protection and economic benefit,not stopping it, should be a societal goal–resonated with many Commissioners.

As part of the Commission's diligent effort to raise its response to the perceived problem of fiscalization of land use past the rudiments of fiscal reallocation, members grappled with the value and viability of regionalizing both decision making and revenue distribution. Early efforts included bold proposals that resembled a form of regional government for certain kinds of decision making. These raised some fundamental questions about how best to structure regional governance and how it should relate to existing jurisdictions. It even prompted one call for the dismantling of certain local jurisdictions as a way to transition to realistic regional governance with direct voter involvement in selecting representation.

As the debate wore on, it became clear that, while the concept of approaching growth policy simultaneously from a local and regional perspective contained considerable merit, there was not a consensus around how best to accomplish it. Neither was there consensus around the issue of how to use fiscal reform to incentivize better regional planning. Commissioners concluded that this would require a larger investment of State funds than anybody felt the State was likely to be willing to make at this time. Finally, a few Commissioners who agreed that some regional-

ized growth policy could be useful were nonetheless reluctant to support policies involving compulsion.

While some continue to insist that rigorous growth policy runs afoul of the American dream of home ownership and the popularity of automobiles, the Commission heard plenty of indications that an era may well be ending in California whether we like it or not. As suburban jurisdictions are stretched to their fiscal limits by out-migration from urban areas with too many jobs and not enough housing, negative impacts from traffic congestion to dirty air to broken families are exacerbated. Some officials predict a fiscal breaking point will be reached within 10-15 years, as both cities and quality of life collapse under the weight of jobs/housing imbalance, fiscalization and community dysfunction.

The Commission's ultimate recommendation in this area outlines a set of issues the State should consider including in revised statewide land use and environmental statutes.

Objective: Revise the local planning and land use decision-making process by instituting regional and State growth and development policies that embrace the three factors of sustainable development - Economy, Environment and Equity.

Proposal: Adopt in State law a regional growth policy as the environmentally preferred alternative for local land use decisions. At a minimum, a statewide regional growth policy objective should be sustainable development characterized by the interrelationship of economic, environmental and equity issues. State development policy would include the following:

- Maintain a healthy economy by promoting higher value job opportunities for people in each region.

- Accommodate housing, in both quantity and affordability, within each region or sub region to match population and job growth.

- Encourage efficient land use (which includes promoting strategies such as higher densities around transit hubs to establish transit villages, mixed-income and mixed-use projects, walkable 24-hour communities, recycling of "brownfields" and "grayfields," and "smart" conversion of closed military bases.)

- Require local general plans, the development of which should include public involvement down to the neighborhood level, be linked to regional plans.

- Protect vital and valuable ecosystems and natural habitats.

- Conserve natural resources and preserve environmental assets.

• Protect and conserve prime and unique farmlands.

• Invest in infrastructure to ensure mobility and quality of life, especially in existing urban areas.

• Reduce dependency on single-occupant-vehicle trips.

• Reduce poverty and promote greater equity.

B. Initiate a study on the feasibility of developing resources and governance structures to deal with regional problems on a regional basis.

Issues: As noted above, the Commission's attempt to fashion a growth policy recommendation was hindered by major questions about regional governance. Here it outlines some ideas for how the State might approach regional decision making as well as creating a pool of funds to support it.

Objective: The Commission believes that economic competition and demands for high quality of life require a regional approach, but lack of incentives and governance structures thwarts efforts at regional cooperation.

Proposal: Concepts discussed by the Commission which could address these issues included:

• To reconfigure counties and delivery of regional services along regional lines

• To establish a regional pool of resources that is allocated to local jurisdictions based on a formula that recognizes specific policy objectives. This approach envisions the state establishing a policy goal that each region is to strive to create (a) higher value job opportunities and (b) housing that accommodates all income levels, and that the jobs and housing be in proximity to each other. In achieving this policy goal, regions would be guided by "regional growth" principles. Regions would be required to develop performance standards and strategies to achieve the policy goal, design measures to track progress, and report progress annually to the residents of the region.

Features:
» Regional strategies developed with input from all potentially impacted sectors including social equity and environment.
» Pool funded from taxes raised within the region.
» State subvention funds to supplement the pool to achieve state policy goals.
» Regional governance structure clearly accountable to the voters of the region.
» Allocation rules clearly understandable to the voters.

IV. Other Issues: The Year of Talking Dangerously

"*Experience has two things to teach: the first is that we must correct a great deal; the second, that we must not correct too much.*"
– Delacroix, French writer, 1860.

Over the course of its work, the Commission's dialogue encompassed a wide variety of issues and proposals that did not make their way to the final agenda of action items. Some were presented in testimony, others suggested by Commissioners themselves. The following includes brief discussions of the most salient of those issues. (In parentheses are the name of the individual raising the issue and the meeting at which it was first discussed.)

1. The Split Roll

Commissioner Joel Fox, President Emeritus,
Howard Jarvis Taxpayers Association
Meeting 1

Long a matter of discussion relating to California's current property tax structure, dividing the property tax roll into two parts would permit different property tax rates to be applied to commercial properties and residential properties. This is one response to the phenomenon that has developed since the passage of Proposition 13 in 1978 in which tax revenues derived from commercial properties have failed to keep pace with the growth in the value of the property.

Commissioner Fox, President Emeritus of the Howard Jarvis Taxpayers Association, indicated that the Jarvis Taxpayers were prepared to consider the split roll as a remedy to the inequities faced by residential property owners (especially homeowners) in the current system. As the Commission's discussion went on through 1999, it became clear that their focus would be on the disposition and distribution of revenues, not on the method of collecting them. Thus, the split roll was not given priority as a reform recommendation. However, it remains an idea with potential currency.

2. Taxation Of E-Commerce

Hon. Robert Pinzler, City Councilmember, Redondo Beach/
President, Los Angeles County League of Cities
Meeting 2

At the time when Councilmember Pinzler warned the Commission that e-commerce will eventually take a big bite out of sales tax revenues, Internet sales had reached a modest level of about $3 billion during the 1998 holiday buying season. Mr. Pinzler noted that both Congress and the State Legislature have established "hands-off" policies when it comes to taxing Internet sales. Current legislation banning such taxation expires in 2001, and Pinzler urged that the underlying assumptions be reconsidered at that time.

Internet commerce, Pinzler asserted, has the potential to undermine our current concept of retailing. As it continues to grow, it will reduce situs-based sales tax receipts as well as those collected by the State. With such "big ticket" items as autos, major appliances, electronics, computers and clothing joining books and records as key Internet commodities, the impact could be felt sooner rather than later.

Over the course of 1999, a year marked by the explosion of electronic commerce, the so-called "dot-com" industry, and the increasingly familiar notion of going on line to purchase goods and services, the issue grew in the Commission's consciousness. One witness predicted that, if no remedial action were taken, e-commerce could undermine the bond ratings of many local jurisdictions within a matter of years.

By the time the Commission completed its process, members had concluded that this issue was fast becoming ripe for full consideration by lawmakers. One noted that the Commission's recommendations addressed the problems of the past. "Congress and the Legislature will have to come to grips with this matter in the near future," he said, "because it appears the sales tax is going to be under assault and e-commerce could undermine a key element of the revenue base of the State and every community in it." There was wide agreement that the State is the governmental entity best equipped to deal with the ephemeral aspects of location as they apply to e-commerce. Leaving it to local jurisdictions, they agreed, would guarantee that the problem will, in all likelihood, become unmanageable.

The Commission finally determined that taxation of e-commerce, like the split roll, is a question of how taxes are collected, not how they are distributed, and chose to leave the matter to Congress and the Legislature in 2001. But the marketplace fired another shot across the bow during holiday 1999: e-commerce grew some 400% in dollar value over 1998.

3. The Vote Threshold For Taxes And Bond Measures

Jacki Bacharach, former City Councilmember, Rancho Palos Verdes
Meeting 2

Local officials, educators and a variety of other issue advocates repeatedly mentioned the requirement of long standing that special purpose bonds and taxes achieve support from 2/3 of the voters in order to pass. Ms. Bacharach, a former local elected official, pointed to the requirement as one that has hindered municipalities' ability to provide adequate services since 1978. (In many people's minds, the 2/3 requirement and Proposition 13 are linked. Commissioner Fox was quick to remind everyone that the 2/3 vote requirement for general obligation bonds was placed in the State Constitution in 1879.)

The issue was taken seriously by a number of Commissioners, who explored potential revisions over the course of the year. The proposal that finally rose to the level of serious debate was one to reduce the threshold

for “special purpose taxes” from 2/3 to a simple majority while raising the threshold for “general taxes” from a majority to 2/3. The argument was made that voters would know exactly what special purpose tax revenues would be used for while general tax revenues go into local agencies’ general fund and may be used for any purpose. Taxpayer advocates appeared before the Commission to argue that the issue was not how the taxes were spent (the typical means of differentiating between “special purpose” and “general”) but rather how they were collected. By this reckoning, they said, the sales tax might be the only genuine general tax and changing the vote requirement could open a floodgate.

In the end, the Commission deferred the debate over the distinction of special and general taxes and left the vote requirements for school bonds to the ongoing debate over Proposition 26 on the March 2000 ballot. This measure, like a similar one in 1992, would have lowered the vote threshold on local school bonds from 2/3 to a simple majority with some special requirements placed on the bond measures. The narrow defeat of this Proposition may well have suspended the “reduce the threshold” movement for the time being.

4. Congestion Pricing

Commissioner Norm King, Executive Director,
San Bernardino Association of Governments
Meeting 3

As the Commission began to discuss how fiscal policy relates to land use decision making, urban and suburban sprawl and growth incentives, Commissioner Norm King, from the wide open spaces of San Bernardino County, asserted that growth management policies must take into consideration the sprawl-inducing effect of the direct and indirect subsidies society provides to the automobile. These subsidies, such as inexpensive fuel and parking, and free roads and highways, help to mask the cost of sprawl by making it easy and cheap for individuals to drive long distances to work.

Taking a page from transportation planners who view congestion pricing as an important emerging tool in the war on gridlock, the Commissioner argued that subsidizing long commutes and excessive use of the automobile counterbalanced efforts to promote mass transit and jobs/housing balance. Many agreed with him but were unable to reconcile the goal of fighting sprawl with the likelihood that the use of pricing measures to discourage auto usage would disproportionately penalize low and moderate income residents and workers. Well-to-do drivers might complain, but in the end they would be able to afford to pay the higher prices, be they in the form of fuel taxes, road usage taxes, parking fees or whatever. This issue area has achieve enough currency that some jurisdictions experiment with various aspects of it, but the Commission was not prepared to do battle over congestion pricing just yet.

5. Linking Education Funding To Results

Ron Crates, Superintendent, Redwood City School District
Meeting 3

An active education leader committed to improving public schools, Superintendent Ron Crates spent an afternoon with the Commission discussing the ramifications of fiscal and tax policy on public education. His bottom line was that the system needs additional funds and that the public is unlikely to be willing to provide them unless it can be tied to improved academic results.

Mr. Crates explained that the current system, with the State providing a substantial portion of the financial resources for local schools, had placed local school leadership in a serious bind. It, he said, has led to centralized control, disenfranchisement of the voters, lack of community engagement, and discouragement of entrepreneurial spirit and creativity.

The Superintendent's dialogue with the Commission highlighted the idea that, without additional money, reforms intended to provide more local control over schools would likely run afoul of fiscal limits. The pressures of trying to improve academic performance and pay teachers better make it difficult for stakeholders to identify and agree upon the shared interests required to achieve consensus on policy, he explained. Many on the Commission agreed. It was during this discussion that a concern that eventually would play a major role in the swap debate, the potential negative impact of fiscal reform on school funding, first arose.

In the end, Superintendent Crates did not have a "silver bullet" proposal to offer the Commission on how best to link funding to school performance. But his comments, and the issues he raised, would echo through the succeeding months as the Commission searched for answers to difficult questions.

6. Impediments To Housing Production

Richard Lyons, California Homebuilders Association/
William Serna, Bay Area Homebuilders Association
Meeting 3

Messrs. Lyons and Serna, both long time experts in the private sector housing production field, teamed to provide the Commission with their insights. They were the first building industry professionals to underscore the impression most Commissioners had that local governments' unstable funding bases were inhibiting housing production. They pointed out that the state is meeting less than 50% of its annual housing production needs and that too much of what is being built is being poorly sited due to economic and political obstacles.

Challenging another long-held assumption, Mr. Serna asserted that housing does a better job of paying its way than many think simply because housing

provides new customers for local retail establishments. He added that locales enjoying high sales tax growth would be ideal sites for additional housing because they could better afford to service it and they would benefit from the additional sales tax revenues the new residents would generate. Various Commissioners questioned aspects of this analysis, while acknowledging that there were locations for which it seemed appropriate.

This discussion raised the Commission's interest in placing housing production at the forefront of its policy prerogatives and ultimately helped to inform the debates over various of the reform recommendations on its agenda.

7. An Alternate Fiscal Reform Approach

Jack McGrory, former San Diego City Manager
Meeting 4

The former City Manager of San Diego had some provocative things to say when the Commission visited his home town. He was outspoken in advocating a simple approach to improve municipal finance: freeze current revenue levels and construct a formula to deal with distribution of revenue growth. This idea, while not explored in any detail, certainly related to reform concepts later discussed by the Commission.

Mr. McGrory was outspoken in his comments and provided insights that would prove useful and instructive for the duration. He asserted that the Passage of Proposition 218, requiring electoral ratification of property assessments, had led directly to the lowering of San Diego's bond rating. He said it cost the city $10 million and constituted a backdoor tax increase. He also described how the fiscalization of land use was impacting the area, citing situations in which San Diego had chosen retail uses over high-wage manufacturing uses and battled with neighboring jurisdictions over the opportunity to do so.

The discussion turned to growth policy and McGrory opined that the economy is the best manager of growth. He also foretold future Commission debates by suggesting such economic incentives as the regionalized allocation of property and sales taxes to spur better growth management and planning. His conclusion that the economic potential of California is largely untapped due to fiscal imbalances would go on to become one of the fundamental assumptions underlying the Commission's work.

8. Non-Deductibility Of Sales Taxes From Income Taxes

Hon. Steve Peace, State Senate, D-San Diego
Meeting 6

During the early months of 1999, San Diego-area State Senator Steve Peace organized a series of public hearings in locations around the

state to discuss fiscal reform. The Senate Budget Committee's Forum on State and Local Finance involved many participants from county and municipal government and the Senator emerged from the experience convinced that opinion leaders in California had developed an interest in having a serious discussion about the impact of Proposition 13 on the state's governance and finances.

Appearing before the Commission during its second visit to Sacramento, Senator Peace enunciated a number of strongly held opinions about fiscal reform issues. But one of the most provocative, and fundamental, was his assertion that California had done its residents and businesses an inadvertent disservice by focusing on sales taxes. He singled out the recently reduced Vehicle License Fee (VLF) as an example of doing exactly the wrong thing. He explained that, because the VLF was deductible from federal income taxes, it should have been left alone. Instead, he said, auto sales should be exempted from sales taxes, which are not deductible. This would provide the so-called tax relief offered by the VLF reduction along with bonus tax relief in the form of a continued deduction from federal income taxes. What has actually transpired has engendered a reduction in the deduction and only a modest cut in VLF for most car owners.

During a return appearance some months later, the Senator would elaborate on his position, offering the beginnings of an actual approach to tax reform reflecting the premise he unveiled here.

9. Infrastructure Investment Strategies

Hon. Phil Angelides, State Treasurer
Meeting 6

State Treasurer Phil Angelides threw down a gauntlet during his appearance before the Commission. Based on his conclusion that State infrastructure investment policy can and should be used as a tool for improving quality of life and addressing other issues, Mr. Angelides announced the release of his annual report on infrastructure investment and described some of the ways that smart growth concepts have been incorporated into the fiscal decision making process in his department.

The Treasurer's premise began with an explanation of why he thought the prosperity of the last several years has not reached into low income communities. He noted that the number of people living below the poverty line in California grew by 28% during the '90s. Mr. Angelides identified reinvestment in urban areas and more sustainable patterns of growth on the suburban fringe as key goals along side the more general goals of enhancing the economy and preserving the state's environment.

In line with his current thinking, Angelides has already begun changing certain State investment processes. The affordable housing finance process has been revised from a lottery to a prioritized system encom-

passing smart growth goals and support for economically disadvantaged communities. He said he has urged the State Infrastructure Investment Bank to follow suit in line with his feeling that California needs to move away from conventional views of infrastructure investment. The continuous addition and expansion of conventional facilities cannot be sustained. The Treasurer advocates the creation of credible regional plans as part of an overall statewide capital planning process.

10. Public Awareness Of Fiscal Issues

Mark Baldassare, Public Policy Institute of California
Meeting 6

Mark Baldassare, Senior Fellow and Survey Director at the Public Policy Institute of California, engendered a spirited discussion with his presentation on the current opinions of California voters on various aspects of govenrment and politics. His first round of research was conducted during the 1998 election cycle and during the first part of 1999. It also took place during the sustained economic boom of the late ‘90s.

His research indicates that many people are not paying much attention to government and politics. Remarkably, about half of those polled could not identify California’s new governor only a few weeks after he had been sworn in. In general, people showed an awareness of and concern for issues they felt impacted them regularly (education, traffic, growth, pollution) and did not register much interest in seemingly less visible issues such as fiscal reform.

It was noted, however, that those who did cite state and local government finance as an issue did so without being prompted by the polltakers. Some Commissioners suspected that it would have risen in recognition had its relationship to some of the more “popular” issues been explained during the polling process. Some of those polled had shown both disengagement on fiscal issues and an interest in learning more about their impact on problems at the local level.

Baldassare offered a summary of key issues and attitudes that had emerged from the focus group aspect of his work:

- California is a great place to live.
- There is a concern regarding schools, traffic and local issues.
- There is mistrust of elected officials.
- Few people understand how government functions.
- There is a reluctance to raise taxes.
- There is a reluctance to lower the 2/3 vote threshold.
- The state is unprepared for the growth it faces.
- There is a need and desire for strong leadership.

The group discussions indicated that people want to be more involved and connected, expressing a desire for more public outreach and community activism vehicles such as town forums. In general they want accountable and responsive government.

While most of these conclusions are unsurprising, the Commission found it sobering to be confronted by them based on real-world polling.

11. Environmental Tax Shift

Dr. Gary Wolff, Redefining Progress
Meeting 6

Redefining Progress, a San Francisco-based non-profit policy center with a strong environmental interest, came before the Commission to describe its aggressive proposal for tax reform. Dr. Gary Wolff related the proposal to the Commission's goals as he laid out an approach which raised taxes on resource use, waste, pollution and some land while reducing taxes on work, sales, profits and structures.

Wolff discussed increasing taxes on auto fuels and removing the sales tax exemptions on gas, electricity, water, steam and heat. He also talked about taxing the carbon content of fuels, water, solid waste, fertilizer, pesticide and lime. Finally, he mentioned taxing structures less and buildable land more. The taxes generally target commodities that are inexpensive to individuals but costly for society as a whole. The point of taxing buildable land was to discourage leaving property in the urban core unbuilt while sprawl eats up land on the fringe.

As with any taxation proposal the environmental tax shift provoked a lot of discussion. Wolff acknowledged that some will say the concepts are too complicated and countered by reminding everyone that it is difficult to be more complicated than the current system. To criticism that taxes on fuels tend to penalize the poor, Dr. Wolff noted that adjustments could be made to accommodate that issue. Several Commissioners noted that fuel taxes hit high mileage drivers hardest and the poor rarely count among them.

Another fundamental issue raised was the possibility that raising taxes in the manner specified would lead to a reduction in the use of the commodities being taxes, and thus to a reduction in revenues. Dr. Wolff noted that this theory also applies to work (the subject of income taxes) and, while taxes can discourage work, they do not do so significantly.

The environmental tax proposal brought to the surface some key tensions. For example, is raising revenue a higher priority than redirecting behavior, and can the latter be accomplished without harming the former? Redirecting Progress' premise is that raising taxes on certain essential commodities that are being used in a wasteful manner is more likely to raise revenues than

reduce the behavior employing the commodities. So society will receive a benefit (more revenues), but not all benefits.

On the other hand, raising taxes on unbuilt land requires a basic paradigm shift in the realm of property taxes. And, while it is likely to spur the development of vacant urban land, unless it is accompanied by adjustments that bias the tax toward urban land, it does not appear to be much of a disincentive to the development of vacant suburban or fringe land. It might spur additional urban development without appreciably discouraging suburban sprawl.

Finally, when it comes to taxes, the question of equity always raises its head: based on Redefining Progress' thinking, the current system provides substantial discounts to the middle class and wealthy in order to protect the poor. The poor should not be penalized in order to either change the behavior of the wealthy or to raise revenues from it. But the debate over these provocative ideas showed that there was little confidence this would be politically possible.

12. Real Estate Investment Trusts

Carolyn Woosley
Meeting 7

As part of her testimony covering a variety of points, Los Angeles public policy advocate Carolyn Woosley mentioned one of the vexing issues related to Proposition 13's impact on commercial property. She encouraged the Commission to look at the manner in which commercial property ownership trusts often obscure the point of transaction, thus eliminating reassessments that would trigger property tax increases. This has led to a major inequity between commercial and residential property in the tax system, the same inequity leading to calls for a split roll.

Pointing to a culprit that would be mentioned again at a later meeting, Ms. Woosley talked about real estate investment trusts (REITs). These trusts own property and, instead of selling title to the property, they trade in the shares of the trust. The shareholders can participate in the income and appreciation benefits of commercial property ownership while the taxable valuation languishes at the level existing when the REIT was formed. This is a phenomenon that is not difficult to understand (or object to) once it is confronted, but it tends to exist well below the public's daily radar.

Solutions could include the aforementioned split roll, which would raise the tax rate on commercial property substantially and partially compensate for the absence of reassessments. Another approach would be to legislatively designate how much turnover in trustee shares would constitute a transaction subject to reassessment. Testimony at later

meetings would go on to suggest that, contrary to common belief, many commercial property owners might not object to some kind of commercial property tax reform if they felt their investments were being properly served by the taxes they pay. In that sense the investors in REITs apparently do not think much differently than they do when they address these kinds of issues as individual taxpayers.

13. Incentivizing Manufacturing Uses

Commissioner Lee Harrington, President/CEO, L.A. EDC
& Commissioner John A. Pérez, former Exec. Dir. of United Food and Commercial Workers, Region 8
Meeting 7

Several times during the Commission's process, Commissioner Lee Harrington of the Los Angeles Economic Development Corporation brought up the shortage of industrial space in Southern California and related it to the fiscalization of land use. According to Harrington, the disincentives for much-needed industrial (warehouse, manufacturing and research and development) space are just as strong as those for housing because this kind of space rarely provides a local jurisdiction with noticeable sales tax revenues. Additionally, such space often carries with it a stigma, rightly or wrongly, that engenders community opposition to its development. Conversely, industrial space often plays host to businesses providing higher paying employment than that found in retail uses, and thus plays an important role in the economic health of a community.

During a lengthy discussion on how best to structure measures to address fiscalization, Harrington and Commissioner John Pérez raised the possibility that industrial uses should be part of the mix of uses receiving preferential treatment in Commission proposals. Their idea received favorable response but was not specifically included in any of the proposals subsequently adopted, as the Commission moved toward more generalized descriptions of what should be incentivized.

14. Redevelopment Reform

Councilmember Chris Norby, City of Fullerton
Meeting 8

Councilmember Norby, a leader in Municipal Officials for Redevelopment Reform, launched a frontal assault on the current state of the Community Redevelopment Act. Calling redevelopment areas "giant cash diversion machines to support private development," he alleged that many cities have created redevelopment areas of dubious merit which end up subsidizing suburban development without eliminating any real blight. He also characterized them as "a governmental drift from public welfare to corporate welfare."

Because redevelopment law diverts property taxes from within redevelopment zones into special funds, it is a device favored by municipalities

looking to retain some of the property tax revenues that have otherwise flowed to Sacramento since 1978. This also creates legal complexities that would impact any proposals that would change the distribution of property and sales taxes in California.

The Commission's discussion reflected a concern that redevelopment law is being abused in California and that it deserves some re-thinking. While redevelopment law reform was not a part of the Commission's original charge, Redevelopment Agencies later would be included among the agencies recommended for annual audits based on their receipt of property tax monies.

15. Special Districts

Commissioner Norm King
Meeting 8

Lurking behind many of the Commission's discussions were the thousands of special districts in the state of California, districts that provide services from fire protection to water to mosquito abatement. These districts have proliferated in the post-Proposition 13 era by providing local government a vehicle for raising revenues for specific purposes.

As part of a discussion of how revenues are allocated to cities and how equitably those cities provide services to their constituents, Commissioner Norm King of San Bernardino raised the possibility that the State could create an allocation formula and then supplement it for any jurisdiction needing revenue augmentation to achieve the minimum allocation under the formula. The formula he had in mind would include such State-allocated revenues as property tax, some sales tax and the remaining vehicle license fee. The allocation would take into account how services are currently funded and, significantly, those provided and funded by special districts.

In recent years there have been efforts made to review the need for and viability of special districts in the context of simplifying government. The number of these districts has risen to a point where they've become an interest group in and of themselves. Countering the basic issue of whether special districts add layers of government, supporters point to the potential advantages of decentralized provision of services and a specialization that conceivably improves service quality. Even as it acknowledged the role they play in the complicating State and local government finance, the Commission did not make special districts a major point of contention.

16. The Vote Thresholds On Special & General Taxes

Commissioner Norm King
Meeting 8

No issue enlivened conversation at the Commission's meetings like the question of whether current law requiring 2/3 voter approval for all special taxes and local general obligation bond measures should be

changed to allow passage by a majority vote. This would apply both to ballot measures voted on by the public and to legislative activities relating to taxes. Some advocates opine that it has created a tyranny of the minority over the majority, making it much more difficult to respond to fiscal fluctuations or fund infrastructure, educational and other government functions.

The two-thirds voter requirement to approve local bond measures has its roots in the Constitution of 1879. The 2/3 vote requirement for State taxes has its origin in Proposition 13, enacted in 1978. Prior to Proposition 13, vote requirements for local taxes were statutory and applied mainly to school-override property tax rates.

Commissioner King, recognizing the political landscape but feeling strongly that a change might be workable if it were surgically constructed, proposed that a seeming anomaly in the system be corrected. Current law allows so-called general taxes (whose revenues may be spent any way the collecting jurisdiction prefers) to be passed by a majority vote. At the same time, it requires that “special taxes” (wherein the purpose for which the revenue will be used is known to those voting on the tax) be approved by a two-thirds super-majority.

Mr. King proposed to reverse these requirements, allowing taxes whose revenues would be spent for specific purposes to be passed by a simple majority while general taxes would require two-thirds. The reasoning was straightforward: if the voters knew ahead of time how revenues would be used, they would feel less put-upon by the simple majority requirement. During the subsequent debate over whether this switch should become a formal Commission recommendation, taxpayer advocates argued that the real distinction between special and general taxes should not be how the money is spent but rather how it is collected. By that standard, they said, only the sales tax really qualifies as a general tax because everyone pays it.

Following a lengthy discussion, Mr. King’s suggestion was not included in the Commission’s final recommendations. It was recognized that the voters would be considering a change in the vote requirements for general obligation school bonds (the aforementioned Proposition 26) on March 7, 2000.

17. Vote Thresholds On General Obligation Bonds

Commissioner Norm King
Meeting 8

Another part of the discussion on voting thresholds related to General Obligation (GO) bonds. As part of a set of issues he placed before the Commission, Commissioner King suggested lowering the threshold for GO bonds from two-thirds to 60%. Taxpayer advocates persisted in their resistance to any attempt to lower the threshold, despite the extra protection afforded property owners by the 60% figure (as opposed to a simple majority).

The otherwise logical arguments for reducing the vote threshold will continue to face strong opposition among the public as long as they lack confidence that government is functioning efficiently and economically. The Commission's accountability recommendations address this reality. Perhaps after accountability measures are implemented and have a chance to function for a while, taxpayers will have a better understanding of how the system works and be more inclined to trust it with their hard-earned dollars.

18. Mileage-Based Auto User Fee

Commissioner Norm King
Meeting 8

Another of Commissioner King's suggestions sprang from his strong feeling that part of the state's infrastructure and sprawl problem is rooted in our willingness to subsidize the inefficient use of facilities and resources. A key example of this is government's typical response to traffic congestion: build more roadway capacity at great taxpayer expense.

Similar to the Redefining Progress organization, Mr. King proposed that high-mileage drivers contribute more to the funding of infrastructure by paying a higher registration fee per auto based on annual miles driven or, alternatively, via indexed gasoline taxes (with the rate tied to the number of gallons purchased). Some Commissioners raised objections similar to those raised to the Redefining Progress proposals relating to burdening low income drivers. Mr. King argued that these drivers could be gain relief via income tax breaks or other exemptions and that the vast majority of high-mileage drivers are middle or upper income people who live far from their workplace or people whose professions require a lot of driving. In the latter case, the tax laws already provide accommodation.

Provocative, and relevant to the growth policy aspects of the Commission's work, as this proposal was, the Commission did not feel it was pertinent to its central charge.

19. Regional Governance Structure

Commissioner Joel Fox
Meeting 8

As the debate over how to meld growth policy with regional decision making and some kind of reward system for regions or localities willing to engage in either or both wore on through the long, hot summer, Commissioner Joel Fox weighed in with some strong opinions on the subject. From his perspective as a long time taxpayer advocate, the challenge facing any effort to effectuate regional governance was finding ways to make it responsive and directly representative of voters. Too often, he said, existing regional bodies are made up of representatives of existing

governmental bodies and not of representatives directly elected for the purpose. Assigning such bodies, such as Councils of Government (COGs), the authority to oversee important planning and infrastructure decisions and the disbursement of revenues allocated on a regional basis as a result of some new arrangement was unacceptable to Mr. Fox.

The Commissioner suggested that one way to address the issue would be to acknowledge that the county form of government may have outlived its usefulness. He further suggested that the Commission discuss how county obligations could be turned over to newly created regional jurisdictions which could then also address the regional issues that had been on the Commission's collective mind since its inception. Some Commissioners felt there was merit to having such a discussion but also felt that such a profound change in governance structure went beyond the charge of this body.

20. Jobs/Housing Incentive Zones

Hon. Tom Torlakson, D-Martinez
Meeting 9

One of the Assembly's most ardent supporters of fiscal reform is Assemblymember Tom Torlakson, a former Contra Costa County Supervisor with considerable hands-on experience dealing with the ramifications of California's current tax and fiscal policy. As chair of the Assembly's Ad Hoc Jobs/Housing Balance Committee and an ex officio member of the Commission, Mr. Torlakson developed several proposal to address aspects of fiscal reform.

He enumerated five principles for fiscal reform:

- Mitigate against the fiscalization of land use.
- Stimulate smarter growth, including attention to regional jobs/housing balance.
- Increase long term economic development.
- Increase housing production.
- Increase local flexibility.

One of his policy proposals is the creation of "jobs/housing balance property zones," which he said would provide smart growth incentives while adding value to city budgets. Overall, the concept reflected some of the ideas discussed by the Commission in its deliberations over several proposals.

New property tax increases from balanced development would stay within the city, except for pass-throughs to special districts and counties. To address one of the current impediments to multi-family construction in urban areas, Mr. Torlakson suggested revising rules to allow for resolving construction defect litigation more expeditiously. He proposed streamlining CEQA regulations, revising zoning codes to allow for easier urban

in-fill and mixed-used development, and targeting extra transportation funding to these urban zones.

Mr. Torlakson suggested that, to qualify, projects would have to be providing needed housing or appropriate economic development for their region. He felt that such a program could eventually cost the State $500 million a year in tax incentives, but tying it to General Plan housing elements and actual housing production would carry great benefit and justify the expense.

21. Job Relocation Incentive Fund

Hon. Tom Torlakson, D-Martinez
Meeting 9

Another of Mr. Torlakson's proposals was to provide an incentive fund for the relocation of jobs to areas where adequate affordable housing exists or is soon to be built. This fund would cost $100 million annually for relocation costs and jobs/housing balance tax credits granted to businesses meeting the criteria.

This concept speaks directly to problems plaguing the San Francisco Bay Area, where job growth has far outpaced the supply of housing in recent years. The problem has reached crisis proportions and warped the definition of what constitutes affordable housing. When fully employed workers in burgeoning high-tech industries cannot obtain suitable housing within 75 miles of their workplace, it is not a typical shortage of affordable housing, but it is nonetheless a shortage.

Accepting the possibility that economics, local politics and unavailability of land could prevent the housing supply from catching up with demand in some regions, Torlakson proposed moving some of the jobs closer to the workers. It is a concept that meets with some acceptance among environmentalists in the smart growth movement because it promises to contribute to shorter commutes (and thus less congestion) and more balanced communities in areas once solely the province of sprawling housing tracts.

22. Cap Of ERAF Growth

Hon. Tom Torlakson, D-Martinez
Meeting 9

In addition to supporting the Commission's proposal to continue repaying the ERAF shift funds to cities and counties at a rate comparable to that established by the Governor and Legislature in fiscal year 1999, Mr. Torlakson proposed to cap the growth of the ERAF shift at fiscal year '99 levels. This would ensure that its growth would not further outstrip the statutory subvention.

23. VLF To Schools/Property Tax To Locals

David Doerr, California Taxpayers Association
Meeting 10

Respected consultant David Doerr offered a zero-sum approach to fiscal reform he felt would add rationality to the system without masking tax increases. He suggested a swap of a sort different than that proposed by the Commission: apply the Vehicle License Fee subvention provided by the State to local governments instead to public education and re-route property tax revenues from education to cities and counties. Like the Commission, his argument for a swap included the goal of more closely relating property tax revenues to the property upon which they're collected.

24. K-12 Per Pupil Funding

Bill Whiteneck
Meeting 10

Education consultant Bill Whiteneck, making his second appearance before the Commission, offered an adventurous proposal to augment the Commission's swap concept. He suggested eliminating the situs basis for K-12 distribution of property tax revenue growth and instead distribute on a per pupil basis. He added that school districts should be allowed to raise local revenue to augment what they received from the State.

Mr. Whiteneck's premise was that such a scenario would be simpler and more easily managed than the current education funding formula. Basic Aid districts would be held harmless. He also noted that the Serrano decision principles requiring roughly equal funding from district to district could be upheld by altering the funding formula to create an average within each county. None of these ideas would impact they way the State funded capital expenditures for schools.

25. Commercial Property Tax Reform

Hon. Steve Peace, D-San Diego
Meeting 13

Senator Steve Peace's return engagement before the Commission found him introducing a bold swap of a completely different sort: increase commercial property tax rates while significantly lowering sales tax rates. Harkening back to his earlier discussion of the burdens imposed by over-dependence on sales taxes, the Senator opined that commercial property owners would benefit in two ways from such a trade-off. They would presumably received better services and infrastructure support from local government, and would be able to deduct the added property taxes from the income taxes on their businesses. Additionally, everyone would presumably benefit from lower sales taxes, as they are widely understood to be the most regressive in the system.

Mr. Peace's proposal raised some important questions. First, he couched the proposal to raise the commercial property tax as not being a proposal for a split roll but did not have occasion to explain why. Perhaps he was referring to the potential for reforming the definition of commercial property transactions so as to more readily trigger reassessment and capture revenues reflective of appreciation in property values, an issue raised several times during the Commission's work. Another issue was the impact on income tax revenues of property owners taking advantage of the deductibility of property taxes. Ð

APPENDICES

APPENDIX A: COMMISSION MEETINGS

January 27, 1999
State Capitol, Sacramento

Guest speakers:
Hon. Antonio R. Villaraigosa, Speaker of the Assembly
Elizabeth Hill, Legislative Analyst
Fred Silva, Public Policy Institute of California
David Booher, California Governance Consensus Project
Burt McChesney, California Governance Consensus Project
Commissioner Gary Hunt, California Business Roundtable
Peter Schrag, author/journalist, Sacramento Bee

February 24, 1999
Southern California Association of Governments, Los Angeles

Guest speakers:
Mark Pisano, Southern California Association of Governments
Hon. David Myers, Palmdale City Council
Dean Misczynski, California Research Bureau, Sacramento
Rick Cole, City of Azusa
Hon. Gwen Norton Perry, City of Chino Hills
Fred Colantuono, Esq., Los Angeles
Keith Comrie, City of Los Angeles
Hon. Robert Pinzler, City of Redondo Beach
Barbara Zeidman, Fannie Mae, Los Angeles
Jacki Bachrach, Metropolitan Forum Project, Rancho Palos Verdes
Shirley Bailey, Rossmoor Community Services District
Hon. Pamela O'Connor, City of Santa Monica
Dan Wall, County of Los Angeles
Michael Jimenez, County of Los Angeles
Susan Williams Guerra, Metropolitan Forum Project, Los Angeles
Dan Silver, Endangered Habitats League, Los Angeles

March 24, 1999
James Irvine Foundation, San Francisco

Guest Speakers:
Nick Bollman, James Irvine Foundation
Michael Shires, Public Policy Institute of California
Marianne O'Malley, Legislative Analyst's Office, Sacramento
Commissioner Lee Harrington, L.A. Economic Development Corporation
Stephen Levy, Center for the Continuing Study of the California Economy
Commissioner Carl Anthony, Urban Habitat Program, San Francisco

Superintendent Ron Crates, Redwood City School District
Richard Lyons, California Homebuilders Association
William Cerna, Bay Area Homebuilders Association
Tim Frank, Sierra Club

April 28, 1999

San Diego Association of Governments, San Diego

Guest speakers:
Len Fabricatore, San Diego Association of Governments
Bill Whiteneck, Sacramento
John Mockler, Sacramento
Henry Hurley, San Diego Unified School District
Dr. Jerome Hunter, San Diego City College
Jack McGrory, Price Enterprises, San Diego
Joe Raguso, San Diego Regional Technology Association
Donald Cohen, Center on Policy Initiatives, San Diego

May 25, 1999

Lockheed-Martin Missiles and Space, Sunnyvale

Guest speakers:
Kathryn Strehl, Lockheed-Martin Missiles and Space
David Knapp, City of Los Gatos
Stephen Levy, Center for the Continuing Study of the California Economy

June 23, 1999

State Capitol, Sacramento

Guest speakers:
Commissioner Steve Szalay, State Controller's SMART Task Force
Commissioner William Hauck, Governor's Infrastructure Task Force
Hon. Steve Peace, California State Senate (D-El Cajon)
Hon. Phil Angelides, State Treasurer
Mark Baldassare, Public Policy Institute of California
Dr. Gary Wolff, Redefining Progress, San Francisco

July 28, 1999

Westwind Community Center, Ontario

Guest speakers:
Hon. Nell Soto, California State Assembly (D-Ontario)
Steve PonTell, La Jolla Institute, Claremont
Dr. Paul Lewis, Public Policy Institute of California
Carolyn Woosley, UCLA Community Scholars Program, Los Angeles
Don Driftmeier, Ontario Chamber of Commerce

August 25, 1999
California State University, Fullerton

Guest speakers:
Hon. Chris Norby, City of Fullerton
Bob Richardson, County of Orange
Jean Ashkam, League of Women Voters, Fullerton
Marie Whaling, Fullerton Committee of Correspondence

September 22, 1999
University of California, Berkeley

Guest speakers:
Hon. Tom Torlakson, California State Assembly (D-Martinez)
Ben Williams, Commission on Local Governance for the 21st Century, Sacramento

October 27, 1999
State Capitol, Sacramento

Guest speakers:
David Doerr, California Taxpayers Association, Sacramento
Jonathan Coupal, Howard Jarvis Taxpayers Association, Sacramento
Hon. John Longville, California State Assembly (D-Rialto)
Hon. Susan Golding, City of San Diego
Michael Coleman, League of California Cities, Sacramento

November 29, 1999
Burbank-Glendale-Pasadena Airport, Burbank

Guest speakers:
Dan Silver, Endangered Habitats League, Los Angeles
Jean Heinl, Californians United for Redevelopment, Los Angeles
Ken Farfsing, City of Signal Hill

December 7, 1999
Public Policy Institute of California, San Francisco

Guest speakers:
Michael Teitz, Public Policy Institute of California
Ken Farfsing, City of Signal Hill
Hon. Grace Hu, City of Cerritos
Arthur Gallucci, City of Cerritos
David Booher, California Council for Environmental and Economic Balance, Sacramento
Irwin Musser, Urban Habitat Program, San Francisco

January 5, 2000

State Capitol, Sacramento

Guest speakers:

Hon. Robert Hertzberg, California State Assembly (D-Van Nuys)
Hon. Antonio R. Villaraigosa, Speaker of the Assembly
Hon. John Longville, California State Assembly (D-Rialto)
Marianne O'Malley, Legislative Analyst's Office, Sacramento
Hon. Steve Peace, California State Senate (D-El Cajon)
Lenny Goldberg, California Tax Reform Association, Sacramento
Ken Farfsing, City of Signal Hill

February 23, 2000

State Capitol, Sacramento

Guest speakers:

Marianne O' Malley, Legislative Analyst's Office, Sacramento
Chris Hoene, Public Policy Institute of California
Commissioner William Hauck, Governor's Infrastructure Task Force
Hon. Antonio R. Villaraigosa, Speaker of the Assembly Ð

Figure 7
Property Tax Allocations

1	Property Tax Base			Current Allocations			Post 1/2-Cent Swap Allocations			
	2	3	4	5	6	7	8	9	10	11
Location	1997-98 Total Property Tax Revenue (2)	1997-98 Redevelopment Revenue (2,4)	1997-98 Total Allocatable Revenue	1997-98 Sales&Use tax Revenue (1)	1997-98 1% Property Tax Revenue (2,3)	1997-98 1% Property Tax Allocation %	1997-98 Sales & Use Tax Revenue	1997-98 1% Property Tax Revenue	1997-98 1% Property Tax Allocation %	Property Tax % Increase
Alameda	$877,382,000	$51,556,000	$825,826,000		$151,299,000	18.32%		$158,343,340	19.17%	0.85%
Unincorporated	$91,159,990	$0	$91,159,990	$14,088,680			$7,044,340			
Cities	$786,222,010	$51,556,000	$734,666,010	$177,084,554	$159,794,000	21.75%	$88,542,277	$248,336,277	33.80%	12.05%
Alpine	$2,193,000	$0	$2,193,000		$1,410,000	64.30%	$1,554,613	70.89%	6.59%	
Unincorporated				$289,226			$144,613			
Cities										
Amador	$22,887,000	$0	$22,887,000		$7,593,000	33.18%		$8,352,856	36.50%	3.32%
Unincorporated	$17,705,383	$0	$17,705,383	$1,519,712			$759,856			
Cities	$5,181,617	$0	$5,181,617	$1,272,486	$970,000	18.72%	$636,243	$1,606,243	31.00%	12.28%
Butte	$95,332,000	$9,544,000	$85,788,000		$13,100,000	15.27%		$14,677,871	17.11%	1.84%
Unincorporated	$52,899,727	$0	$52,899,727	$3,155,742			$1,577,871			
Cities	$42,432,273	$9,544,000	$32,888,273	$13,350,256	$5,352,000	16.27%	$6,675,128	$12,027,128	36.57%	20.30%
Calaveras	$28,851,000	$0	$28,851,000		$5,666,000	19.64%		$6,398,332	22.18%	2.54%
Unincorporated	$27,489,233	$0	$27,489,233	$1,464,664			$732,332			
Cities	$1,361,767	$0	$1,361,767	$452,340	$142,000	10.43%	$226,170	$368,170	27.04%	16.61%
Colusa	$16,579,000	$0	$16,579,000		$4,736,000	28.57%		$5,104,984	30.79%	2.23%
Unincorporated	$13,442,253	$0	$13,442,253	$737,968			$368,984			
Cities	$3,136,747	$0	$3,136,747	$1,182,195	$808,000	25.76%	$591,098	$1,399,098	44.60%	18.84%
Contra Costa	$703,148,000	$59,141,000	$644,007,000		$97,648,000	15.16%		$102,187,038	15.87%	0.70%
Unincorporated	$188,795,238	$6,097,260	$182,697,978	$9,078,075			$4,539,038			
Cities	$514,352,762	$53,043,740	$461,309,022	$87,196,617	$57,790,000	12.53%	$43,598,309	$101,388,309	21.98%	9.45%
Del Norte	$9,959,000	$558,000	$9,401,000		$1,896,000	20.17%		$2,229,921	23.72%	3.55%
Unincorporated	$8,133,515	$0	$8,133,515	$667,841			$333,921			
Cities	$1,825,485	$558,000	$1,267,485	$842,917	$99,000	7.81%	$421,459	$520,459	41.06%	33.25%
El Dorado	$109,403,000	$1,034,000	$108,369,000		$26,550,000	24.50%		$29,188,267	26.93%	2.43%
Unincorporated	$85,673,489	$0	$85,673,489	$5,276,534			$2,638,267			
Cities	$23,729,511	$1,034,000	$22,695,511	$5,213,495	$3,461,000	15.25%	$2,606,748	$6,067,748	26.74%	11.49%

Figure 7
Property Tax Allocations

Fresno	$322,196,000	$15,103,000	$307,093,000		$45,627,000	14.86%		$51,305,494	16.71%	1.85%
Unincorporated	$122,337,821	$4,501	$122,333,321	$11,356,988			$5,678,494			
Cities	$199,858,179	$15,098,499	$184,759,679	$58,294,368	$39,765,000	21.52%	$29,147,184	$68,912,184	37.30%	15.78%
Glenn	$14,588,000	$0	$14,588,000		$3,140,000	21.52%		$3,481,918	23.87%	2.34%
Unincorporated	$11,183,161	$0	$11,183,161	$683,835			$341,918			
Cities	$3,404,839	$0	$3,404,839	$1,211,326	$947,000	27.81%	$605,663	$1,552,663	45.60%	17.79%
Humboldt	$60,073,000	$3,820,000	$56,253,000		$12,215,000	21.71%		$13,401,847	23.82%	2.11%
Unincorporated	$36,782,698	$0	$36,782,698	$2,373,693			$1,186,847			
Cities	$23,290,302	$3,820,000	$19,470,302	$8,753,574	$1,847,000	9.49%	$4,376,787	$6,223,787	31.97%	22.48%
Imperial	$57,254,000	$5,198,000	$52,056,000		$12,867,000	24.72%		$13,549,565	26.03%	1.31%
Unincorporated	$32,634,780	$0	$32,634,780	$1,365,129			$682,565			
Cities	$24,619,220	$5,198,000	$19,421,220	$9,403,328	$4,751,000	24.46%	$4,701,664	$9,452,664	48.67%	24.21%
Inyo	$23,113,000	$0	$23,113,000		$6,941,000	30.03%		$7,314,045	31.64%	1.61%
Unincorporated	$20,824,813	$0	$20,824,813	$746,090			$373,045			
Cities	$2,288,187	$0	$2,288,187	$1,422,820	$277,000	12.11%	$711,410	$988,410	43.20%	31.09%
Kern	$386,799,000	$9,386,000	$377,413,000		$110,312,000	29.23%		$119,174,951	31.58%	2.35%
Unincorporated	$268,361,146	$0	$268,361,146	$17,725,902			$8,862,951			
Cities	$118,437,854	$9,386,000	$109,051,854	$40,079,147	$21,187,000	19.43%	$20,039,574	$41,226,574	37.80%	18.38%
Kings	$41,543,000	$2,844,000	$38,699,000		$10,760,000	27.80%		$11,362,635	29.36%	1.56%
Unincorporated	$19,587,525	$0	$19,587,525	$1,205,269			$602,635			
Cities	$21,955,476	$2,844,000	$19,111,476	$6,287,013	$2,688,000	14.06%	$3,143,507	$5,831,507	30.51%	16.45%
Lake	$33,733,000	$2,844,000	$30,889,000		$8,329,000	26.96%		$9,051,700	29.30%	2.34%
Unincorporated	$26,895,321	$0	$26,895,321	$1,445,400			$722,700			
Cities	$6,837,679	$503,000	$6,334,679	$1,799,848	$1,010,000	15.94%	$899,924	$1,909,924	30.15%	14.21%
Lassen	$14,484,000	$0	$14,484,000		$2,810,000	19.40%		$3,101,379	21.41%	2.01%
Unincorporated	$11,184,545	$0	$11,184,545	$582,757			$291,379			
Cities	$3,299,455	$0	$3,299,455	$1,250,973	$570,000	17.28%	$625,487	$1,195,487	36.23%	18.96%
Los Angeles	$5,141,993,000	$473,351,000	$4,668,642,000		$1,265,178,000	27.10%		$1,282,628,786	27.47%	0.37%
Unincorporated	$529,111,080	$1,655,782	$527,455,298	$34,901,571			$17,450,786			
Cities	$4,612,881,920	$471,695,218	$4,141,186,702	$846,145,485	$788,882,000	19.05%	$423,072,743	$1,211,954,743	29.27%	10.22%

Figure 7
Property Tax Allocations

Madera	$56,502,000	$2,085,000	$54,417,000		$8,953,000	16.45%		$10,596,119	19.47%	3.02%
Unincorporated	$44,399,272	$0	$44,399,272	$3,286,237			$1,643,119			
Cities	$12,102,728	$2,085,000	$10,017,728	$3,964,695	$1,558,000	15.55%	$1,982,348	$3,540,348	35.34%	19.79%
Marin	$250,369,000	$5,827,000	$244,542,000		$47,478,000	19.42%		$48,713,992	19.92%	0.51%
Unincorporated	$70,078,283	$557,498	$69,520,785	$2,471,984			$1,235,992			
Cities	$180,290,717	$5,269,502	$175,021,215	$29,545,005	$26,530,000	15.16%	$14,772,503	$41,302,503	23.60%	8.44%
Mariposa	$11,252,000	$0	$11,252,000		$2,920,000	25.95%		$3,537,711	31.44%	5.49%
Unincorporated				$1,235,422			$617,711			
Cities										
Mendocino	$50,640,000	$2,503,000	$48,137,000		$14,110,000	29.31%		$15,745,394	32.71%	3.40%
Unincorporated	$38,663,640	$0	$38,663,640	$3,270,788			$1,635,394			
Cities	$11,976,360	$2,503,000	$9,473,360	$4,840,696	$965,000	10.19%	$2,420,348	$3,385,348	35.74%	25.55%
Merced	$84,766,000	$4,224,000	$80,542,000		$19,598,000	24.33%		$21,276,672	26.42%	2.08%
Unincorporated	$46,333,096	$0	$46,333,096	$3,357,343			$1,678,672			
Cities	$38,432,904	$4,224,000	$34,208,904	$10,480,486	$5,517,000	16.13%	$5,240,243	$10,757,243	31.45%	15.32%
Modoc	$6,700,000	$0	$6,700,000		$1,809,000	27.00%		$1,878,795	28.04%	1.04%
Unincorporated	$5,912,080	$0	$5,912,080	$139,589			$69,795			
Cities	$787,920	$0	$787,920	$444,157	$227,000	28.81%	$222,079	$449,079	57.00%	28.19%
Mono	$19,322,000	$0	$19,322,000		$6,210,000	32.14%		$6,384,614	33.04%	0.90%
Unincorporated	$8,082,393	$0	$8,082,393	$349,228			$174,614			
Cities	$11,239,607	$0	$11,239,607	$1,185,700	$593,000	5.28%	$592,850	$1,185,850	10.55%	5.27%
Monterey	$227,368,000	$13,852,000	$213,516,000		$38,099,000	17.84%		$41,023,630	19.21%	1.37%
Unincorporated	$110,296,217	$623,534	$109,672,683	$5,849,259			$2,924,630			
Cities	$117,071,783	$13,228,466	$103,843,317	$31,540,764	$16,206,000	15.61%	$15,770,382	$31,976,382	30.79%	15.19%
Napa	$100,407,000	$1,704,000	$98,703,000		$22,506,000	22.80%		$23,986,352	24.30%	1.50%
Unincorporated	$49,038,779	$0	$49,038,779	$2,960,703			$1,480,352			
Cities	$51,368,221	$1,704,000	$49,664,221	$9,627,361	$9,375,000	18.88%	$4,813,681	$14,188,681	28.57%	9.69%
Nevada	$69,292,000	$461,000	$68,831,000		$10,732,000	15.59%		$12,031,940	17.48%	1.89%
Unincorporated	$45,316,968	$0	$45,316,968	$2,599,879			$1,299,940			
Cities	$23,975,032	$461,000	$23,514,032	$5,175,638	$4,399,000	18.71%	$2,587,819	$6,986,819	29.71%	11.01%

Figure 7
Property Tax Allocations

Orange	$1,824,782,000	$141,672,000	$1,683,110,000		$124,570,000	7.40%		$129,387,253	7.69%	0.29%
Unincorporated	$208,755,061	$10,932,828	$197,822,233	$9,634,506			$4,817,253			
Cities	$1,616,026,939	$130,739,172	$1,485,287,767	$350,923,235	$192,132,000	12.94%	$175,461,618	$367,593,618	24.75%	11.81%
Placer	$185,618,000	$2,391,000	$183,227,000		$37,955,000	20.71%		$41,914,565	22.88%	2.16%
Unincorporated	$97,486,574	$0	$97,486,574	$7,919,130			$3,959,565			
Cities	$88,131,426	$2,391,000	$85,740,426	$23,583,886	$11,929,000	13.91%	$11,791,943	$23,720,943	27.67%	13.75%
Plumas	$20,434,000	$0	$20,434,000		$4,548,000	22.26%		$5,304,225	25.96%	3.70%
Unincorporated	$19,735,157	$0	$19,735,157	$1,512,449			$756,225			
Cities	$698,843	$0	$698,843	$151,072	$144,000	20.61%	$75,536	$219,536	31.41%	10.81%
Riverside	$750,386,000	$149,232,000	$601,154,000		$107,043,000	17.81%		$114,527,958	19.05%	1.25%
Unincorporated	$204,330,108	$9,664,115	$194,665,993	$14,969,916			$7,484,958			
Cities	$546,055,892	$139,567,885	$406,488,007	$108,381,387	$49,659,000	12.22%	$54,190,694	$103,849,694	25.55%	13.33%
Sacramento	$545,330,000	$23,509,000	$521,821,000		$108,523,000	20.80%		$141,786,245	27.17%	6.37%
Unincorporated	$306,966,257	$935,141	$306,031,116	$66,526,489			$33,263,245			
Cities	$238,363,743	$22,573,859	$215,789,884	$62,731,150	$50,053,000	23.20%	$31,365,575	$81,418,575	37.73%	14.54%
San Benito	$28,185,000	$4,046,000	$24,139,000		$3,750,000	15.54%		$4,294,463	17.79%	2.26%
Unincorporated	$15,304,455	$0	$15,304,455	$1,088,925			$544,463			
Cities	$12,880,545	$4,046,000	$8,834,545	$2,541,955	$734,000	8.31%	$1,270,978	$2,004,978	22.69%	14.39%
San Bernardino	$757,783,000	$134,985,000	$622,798,000		$103,018,000	16.54%		$108,647,601	17.45%	0.90%
Unincorporated	$178,988,345	$2,012,356	$176,975,988	$11,259,201			$5,629,601			
Cities	$578,794,655	$132,972,644	$445,822,012	$133,265,216	$53,948,000	12.10%	$66,632,608	$120,580,608	27.05%	14.95%
San Diego	$1,528,744,000	$83,283,000	$1,445,461,000		$232,051,000	16.05%		$238,924,733	16.53%	0.48%
Unincorporated	$308,806,288	$559,412	$308,246,876	$13,747,466			$6,873,733			
Cities	$1,219,937,712	$82,723,588	$1,137,214,124	$270,418,379	$198,576,000	17.46%	$135,209,190	$333,785,190	29.35%	11.89%
San Francisco	$592,645,000	$33,436,000	$559,209,000		$364,850,000	65.24%		$420,483,036	75.19%	9.95%
Unincorporated				$111,266,071			$55,633,036			
Cities										
San Joaquin	$252,331,000	$7,941,000	$244,390,000		$57,395,000	23.49%		$62,065,411	25.40%	1.91%
Unincorporated	$85,540,209	$0	$85,540,209	$9,340,821			$4,670,411			
Cities	$166,790,791	$7,941,000	$158,849,791	$39,569,168	$28,202,000	17.75%	$19,784,584	$47,986,584	30.21%	12.45%

Figure 7
Property Tax Allocations

San Luis Obispo	$190,667,000	$1,288,000	$189,379,000		$49,208,000	25.98%		$51,177,263	27.02%	1.04%
Unincorporated	$109,290,324	$0	$109,290,324	$3,938,526			$1,969,263			
Cities	$81,376,676	$1,288,000	$80,088,676	$18,389,606	$13,228,000	16.52%	$9,194,803	$22,422,803	28.00%	11.48%
San Mateo	$628,739,000	$31,740,000	$596,999,000		$96,380,000	16.14%		$103,162,854	17.28%	1.14%
Unincorporated	$93,933,607	$0	$93,933,607	$13,565,708			$6,782,854			
Cities	$534,805,393	$31,740,000	$503,065,393	$96,582,881	$67,498,000	13.42%	$48,291,441	$115,789,441	23.02%	9.60%
Santa Barbara	$270,659,000	$10,042,000	$260,617,000		$54,599,000	20.95%		$58,835,885	22.58%	1.63%
Unincorporated	$148,835,384	$672,011	$148,163,373	$8,473,769			$4,236,885			
Cities	$121,823,616	$9,369,989	$112,453,627	$31,072,311	$13,607,000	12.10%	$15,536,156	$29,143,156	25.92%	13.82%
Santa Clara	$1,333,786,000	$147,638,000	$1,186,148,000		$170,061,000	14.34%		$171,887,231	14.49%	0.15%
Unincorporated	$92,831,506	$0	$92,831,506	$3,652,462			$1,826,231			
Cities	$1,240,954,494	$147,638,000	$1,093,316,494	$273,589,630	$123,739,000	11.32%	$136,794,815	$260,533,815	23.83%	12.51%
Santa Cruz	$161,321,000	$14,016,000	$147,305,000		$25,556,000	17.35%		$28,796,566	19.55%	2.20%
Unincorporated	$93,275,802	$6,932,117	$86,343,685	$6,481,131			$3,240,566			
Cities	$68,045,198	$7,083,883	$60,961,315	$16,705,110	$7,913,000	12.98%	$8,352,555	$16,265,555	26.68%	13.70%
Shasta	$84,056,000	$4,541,000	$79,515,000		$12,372,000	15.56%		$13,458,971	16.93%	1.37%
Unincorporated	$40,666,293	$0	$40,666,293	$2,173,942			$1,086,971			
Cities	$43,389,707	$4,541,000	$38,848,707	$14,075,273	$5,852,000	15.06%	$7,037,637	$12,889,637	33.18%	18.12%
Sierra	$3,681,000	$0	$3,681,000		$2,053,000	55.77%		$2,103,144	57.14%	1.36%
Unincorporated	$3,482,594	$0	$3,482,594	$100,288			$50,144			
Cities	$198,406	$0	$198,406	$63,849	$26,000	13.10%	$31,925	$57,925	29.19%	16.09%
Siskiyou	$24,474,000	$0	$24,474,000		$5,656,000	23.11%		$5,938,924	24.27%	1.16%
Unincorporated	$17,097,536	$0	$17,097,536	$565,847			$282,924			
Cities	$7,376,464	$0	$7,376,464	$2,815,054	$1,484,000	20.12%	$1,407,527	$2,891,527	39.20%	19.08%
Solano	$191,969,000	$33,399,000	$158,570,000		$35,398,000	22.32%		$36,072,524	22.75%	0.43%
Unincorporated	$23,708,172	$0	$23,708,172	$1,349,047			$674,524			
Cities	$168,260,829	$33,399,000	$134,861,829	$32,062,800	$26,753,000	19.84%	$16,031,400	$42,784,400	31.72%	11.89%
Sonoma	$298,068,000	$15,405,000	$282,663,000		$68,920,000	24.38%		$73,782,390	26.10%	1.72%
Unincorporated	$122,565,562	$1,120,637	$121,444,925	$9,724,780			$4,862,390			
Cities	$175,502,438	$14,284,363	$161,218,075	$42,005,237	$18,817,000	11.67%	$21,002,619	$39,819,619	24.70%	13.03%

Figure 7
Property Tax Allocations

Stanislaus	$185,146,000	$4,679,000	$180,467,000		$22,649,000	12.55%		$28,055,200	15.55%	3.00%
Unincorporated	$64,023,487	$988,743	$63,034,744	$10,812,399			$5,406,200			
Cities	$121,122,513	$3,690,257	$117,432,256	$30,149,548	$12,501,000	10.65%	$15,074,774	$27,575,774	23.48%	12.84%
Sutter	$40,767,000	$1,066,000	$39,701,000		$7,486,000	18.86%		$8,475,833	21.35%	2.49%
Unincorporated	$24,749,646	$0	$24,749,646	$1,979,665			$989,833			
Cities	$16,017,354	$1,066,000	$14,951,354	$5,558,494	$2,962,000	19.81%	$2,779,247	$5,741,247	38.40%	18.59%
Tehama	$25,881,000	$0	$25,881,000		$6,671,000	25.78%		$7,104,477	27.45%	1.67%
Unincorporated	$19,638,503	$0	$19,638,503	$866,954			$433,477			
Cities	$6,242,497	$0	$6,242,497	$2,999,813	$1,156,000	18.52%	$1,499,907	$2,655,907	42.55%	24.03%
Trinity	$6,815,000	$0	$6,815,000		$2,059,000	30.21%		$2,337,117	34.29%	4.08%
Unincorporated				$556,233			$278,117			
Cities										
Tulare	$140,391,000	$7,255,000	$133,136,000		$30,307,000	22.76%		$33,132,290	24.89%	2.12%
Unincorporated	$65,309,893	$925,252	$64,384,641	$5,650,580			$2,825,290			
Cities	$75,081,107	$6,329,748	$68,751,359	$21,858,998	$8,152,000	11.86%	$10,929,499	$19,081,499	27.75%	15.90%
Tuolumne	$33,867,000	$288,000	$33,579,000		$10,055,000	29.94%		$11,260,997	33.54%	3.59%
Unincorporated	$31,113,613	$0	$31,113,613	$2,411,993			$1,205,997			
Cities	$2,753,387	$288,000	$2,465,387	$1,542,641	$261,000	10.59%	$771,321	$1,032,321	41.87%	31.29%
Ventura	$474,947,000	$27,743,000	$447,204,000		$83,332,000	18.63%		$86,156,945	19.27%	0.63%
Unincorporated	$102,493,563	$76,210	$102,417,353	$5,649,890			$2,824,945			
Cities	$372,453,437	$27,666,790	$344,786,647	$67,187,088	$35,827,000	10.39%	$33,593,544	$69,420,544	20.13%	9.74%
Yolo	$86,212,000	$9,547,000	$76,665,000		$8,729,000	11.39%		$9,507,084	12.40%	1.01%
Unincorporated	$20,087,396	$0	$20,087,396	$1,556,167			$778,084			
Cities	$66,124,604	$9,547,000	$56,577,604	$16,425,931	$15,643,000	27.65%	$8,212,966	$23,855,966	42.17%	14.52%
Yuba	$22,459,000	$357,000	$22,102,000		$4,950,000	22.40%		$5,772,483	26.12%	3.72%
Unincorporated	$17,744,856	$0	$17,744,856	$1,644,965			$822,483			
Cities	$4,714,144	$357,000	$4,357,144	$1,710,154	$852,000	19.55%	$855,077	$1,707,077	39.18%	19.62%
Total	$19,528,271,000			$3,487,011,938	$5,746,695,000		$1,743,505,969	$7,483,156,629		

1) Source: 1997-98 Annual Report, State Board of Equalizaton.
(2) Source: 1997-98 Property Tax Revenues, State Board of Equalization memorandum.
(3) Revenue totals include both countywide and less than countywide revenues.
(4) Totals include those revenues allocated to Redevelopment Agencies, prior to pass-throughs.

Figure 8
Property Tax Sources for the Swap

County	Property Tax: Super. of Schools (S) 1997-98	Property Tax: Community Colleges (C) 1997-98	Property Tax: ERAF (E) 1997-98	Property Tax: K-12 (K) 1997-98	Property Tax: Total Education Property Tax 1997-98	Sales Tax: 1/2 Cent Sales Tax Transfer 1997-98	Sales Tax: Sales Tax Transfer as a % of Total Education Property Tax	Minimum Transfer Sources
Alameda	$5,383,000	$23,946,000	$207,222,000	$160,456,000	$397,007,000	$95,586,617	24.08%	S, C, E
Alpine			$169,000	$410,000	$579,000	$144,613	24.98%	E
Amador	$515,000		$2,206,000	$11,189,000	$13,910,000	$1,396,099	10.04%	S, E
Butte	$4,231,000	$6,653,000	$10,461,000	$40,119,000	$61,464,000	$8,252,998	13.43%	S, C
Calaveras	$308,000	$1,391,000	$3,348,000	$14,130,000	$19,177,000	$958,502	5.00%	S, C
Colusa	$251,000	$2,045,000	$1,740,000	$5,696,000	$9,732,000	$960,082	9.87%	S, C
Contra Costa	$10,605,000	$31,540,000	$105,925,000	$200,986,000	$349,056,000	$48,137,346	13.79%	S, C, E
Del Norte	$16,000		$1,438,000	$4,950,000	$6,404,000	$755,379	11.80%	S, E
El Dorado	$2,474,000	$5,745,000	$12,448,000	$32,696,000	$53,363,000	$5,245,015	9.83%	S, C
Fresno	$9,419,000	$16,346,000	$70,152,000	$98,259,000	$194,176,000	$34,825,678	17.94%	S, C, E
Glenn	$636,000	$1,266,000	$2,106,000	$5,820,000	$9,828,000	$947,581	9.64%	S, C
Humboldt	$827,000	$3,644,000	$11,493,000	$21,819,000	$37,783,000	$5,563,633	14.73%	S, C, E
Imperial	$968,000	$4,015,000	$7,461,000	$20,215,000	$32,659,000	$5,384,229	16.49%	S, C, E
Inyo	$1,168,000	$453,000	$1,815,000	$10,938,000	$14,374,000	$1,084,456	7.54%	S
Kern	$8,570,000	$25,978,000	$56,067,000	$135,408,000	$226,023,000	$28,902,525	12.79%	S, C
Kings	$1,064,000	$1,789,000	$9,394,000	$10,223,000	$22,470,000	$3,746,141	16.67%	S, C, E
Lake	$1,019,000	$2,439,000	$4,753,000	$11,069,000	$19,280,000	$1,622,624	8.42%	S, C
Lassen	$681,000	$1,402,000	$1,715,000	$6,587,000	$10,385,000	$916,866	8.83%	S, C
Los Angeles	$50,564,000	$133,307,000	$1,140,068,000	$904,739,000	$2,228,678,000	$440,523,499	19.77%	S, C, E
Madera	$3,103,000	$4,143,000	$8,771,000	$25,121,000	$41,138,000	$3,625,466	8.81%	S, C
Marin	$6,070,000	$17,587,000	$35,038,000	$83,564,000	$142,259,000	$16,008,495	11.25%	S, C
Mariposa	$197,000		$885,000	$6,566,000	$7,648,000	$617,711	8.08%	S, E
Mendocino	$2,040,000	$3,177,000	$7,674,000	$17,133,000	$30,024,000	$4,055,743	13.51%	S, C
Merced	$4,161,000	$4,456,000	$18,181,000	$25,361,000	$52,159,000	$6,918,914	13.27%	S, C
Modoc	$503,000	$72,000	$717,000	$2,982,000	$4,274,000	$291,874	6.83%	S
Mono	$387,000		$1,843,000	$5,688,000	$7,918,000	$767,464	9.69%	S, E
Monterey	$6,427,000	$14,915,000	$32,031,000	$86,046,000	$139,419,000	$18,695,013	13.41%	S, C, E
Napa	$2,967,000	$7,847,000	$12,591,000	$41,695,000	$65,100,000	$6,294,032	9.67%	S, C
Nevada	$1,558,000	$5,960,000	$7,966,000	$25,515,000	$40,999,000	$3,887,759	9.48%	S, C
Orange	$31,574,000	$144,501,000	$268,336,000	$712,393,000	$1,156,804,000	$180,278,872	15.58%	S, C, E
Placer	$7,213,000	$13,925,000	$23,073,000	$69,796,000	$114,007,000	$15,751,508	13.82%	S, C
Plumas	$26,000	$2,328,000	$1,611,000	$9,424,000	$13,389,000	$831,761	6.21%	S, C

Figure 8
Property Tax Sources for the Swap

Riverside	$22,869,000	$32,433,000	$101,026,000	$218,260,000	$374,588,000	$61,675,652	16.46%	S, C, E
Sacramento	$11,165,000	$16,812,000	$122,089,000	$124,789,000	$274,855,000	$64,628,820	23.51%	S, C, E
San Benito	$622,000	$2,047,000	$2,558,000	$12,556,000	$17,783,000	$1,815,440	10.21%	S, C
San Bernardino	$5,406,000	$32,050,000	$130,511,000	$189,495,000	$357,462,000	$72,262,209	20.22%	S, C, E
San Diego	$29,604,000	$105,520,000	$202,003,000	$621,137,000	$958,264,000	$142,082,922	14.83%	S, C, E
San Francisco		$8,078,000	$138,524,000	$43,054,000	$189,656,000	$55,633,036	29.33%	C, E
San Joaquin	$3,045,000	$9,002,000	$64,200,000	$65,648,000	$141,895,000	$24,454,995	17.23%	S, C, E
San Luis Obispo	$7,838,000	$13,235,000	$22,695,000	$75,733,000	$119,501,000	$11,164,066	9.34%	S, C
San Mateo	$21,530,000	$41,373,000	$83,780,000	$239,693,000	$386,376,000	$55,074,294	14.25%	S, C
Santa Barbara	$10,144,000	$14,752,000	$34,417,000	$102,049,000	$161,362,000	$19,773,041	12.25%	S, C
Santa Clara	$41,599,000	$90,323,000	$190,825,000	$499,913,000	$822,660,000	$138,621,046	16.85%	S, C, E
Santa Cruz	$4,105,000	$9,547,000	$21,332,000	$60,482,000	$95,466,000	$11,593,121	12.14%	S, C
Shasta	$2,287,000	$5,323,000	$13,211,000	$35,492,000	$56,313,000	$8,124,608	14.43%	S, C, E
Sierra	$43,000		$319,000	$872,000	$1,234,000	$82,038	6.65%	S, E
Siskiyou	$530,000	$1,939,000	$3,667,000	$10,205,000	$16,341,000	$1,690,451	10.34%	S, C
Solano	$2,900,000	$4,996,000	$37,119,000	$41,018,000	$86,033,000	$16,705,923	19.42%	S, C, E
Sonoma	$7,168,000	$17,538,000	$39,542,000	$111,880,000	$176,128,000	$25,865,008	14.69%	S, C, E
Stanislaus	$12,065,000	$14,270,000	$29,805,000	$82,311,000	$138,451,000	$20,480,973	14.79%	S, C
Sutter	$603,000	$3,203,000	$6,771,000	$15,244,000	$25,821,000	$3,769,080	14.60%	S, C
Tehama	$1,549,000	$1,556,000	$4,009,000	$10,047,000	$17,161,000	$1,933,384	11.27%	S, C
Trinity	$283,000	$749,000	$546,000	$2,857,000	$4,435,000	$278,117	6.27%	S
Tulare	$3,347,000	$7,870,000	$31,806,000	$42,888,000	$85,911,000	$13,754,789	16.01%	S, C, E
Tuolumne	$494,000	$2,377,000	$4,200,000	$14,293,000	$21,364,000	$1,977,317	9.26%	S, C
Ventura	$7,992,000	$23,881,000	$70,518,000	$146,392,000	$248,783,000	$36,418,488	14.64%	S, C, E
Yolo	$2,398,000	$4,281,000	$17,541,000	$25,626,000	$49,846,000	$8,991,049	18.04%	S, C, E
Yuba	$1,007,000	$1,514,000	$5,049,000	$6,990,000	$14,560,000	$1,677,559	11.52%	S, C
Statewide	**$365,518,000**	**$945,539,000**	**$3,446,761,000**	**$5,605,917,000**	**$10,363,735,000**	**$1,743,505,909**	**16.82%**	

Figure 9
Education Property Tax Pre- and Post-Swap

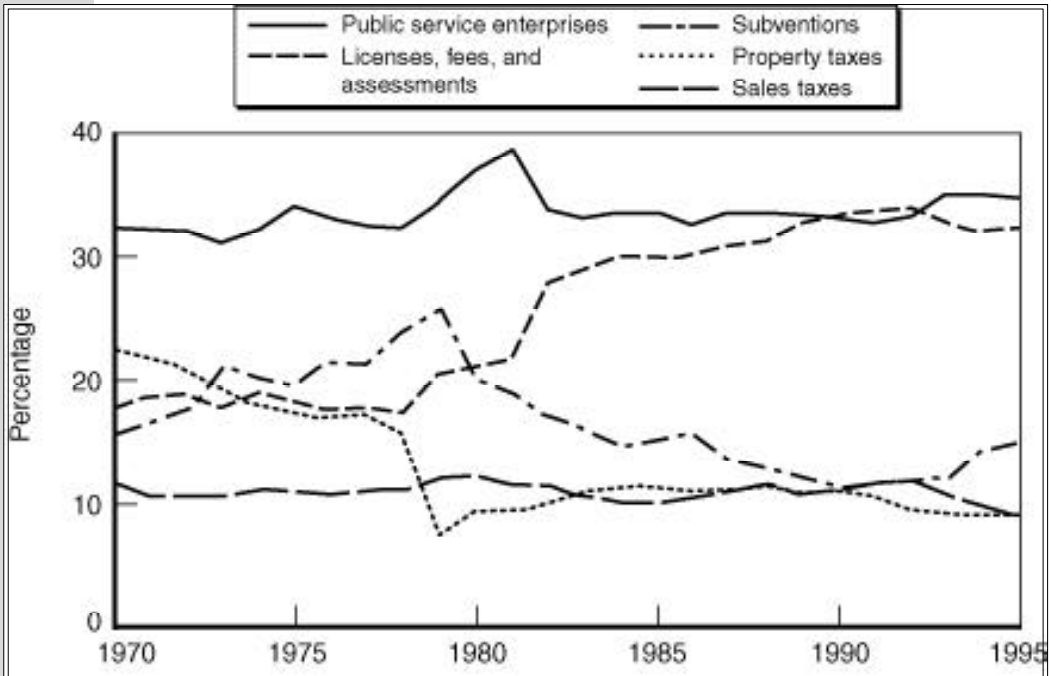
County	Current Property Tax		Sales Tax Transfer		New Property Tax	
	Allocation Percentage (#)	Total Education Property Tax 1997-98	1/2 Cent Sales Tax Transfer 1997-98	Sales Tax Transfer as a % of Total Education Property Tax	Allocation Percentage (#)	Total Education Property Tax 1997-98 Post Transfer
Alameda	48.07%	$397,007,000	$95,586,617	24.08%	36.50%	$301,420,383
Alpine	26.40%	$579,000	$144,613	24.98%	19.81%	$434,387
Amador	60.78%	$13,910,000	$1,396,099	10.04%	54.68%	$12,513,901
Butte	71.65%	$61,464,000	$8,252,998	13.43%	62.03%	$53,211,002
Calaveras	66.47%	$19,177,000	$958,502	5.00%	63.15%	$18,218,498
Colusa	58.70%	$9,732,000	$960,082	9.87%	52.91%	$8,771,919
Contra Costa	54.20%	$349,056,000	$48,137,346	13.79%	46.73%	$300,918,655
Del Norte	68.12%	$6,404,000	$755,379	11.80%	60.09%	$5,648,621
El Dorado	49.24%	$53,363,000	$5,245,015	9.83%	44.40%	$48,117,986
Fresno	63.23%	$194,176,000	$34,825,678	17.94%	51.89%	$159,350,322
Glenn	67.37%	$9,828,000	$947,581	9.64%	60.87%	$8,880,420
Humboldt	67.17%	$37,783,000	$5,563,633	14.73%	57.28%	$32,219,367
Imperial	62.74%	$32,659,000	$5,384,229	16.49%	52.40%	$27,274,772
Inyo	62.19%	$14,374,000	$1,084,456	7.54%	57.50%	$13,289,545
Kern	59.89%	$226,023,000	$28,902,525	12.79%	52.23%	$197,120,475
Kings	58.06%	$22,470,000	$3,746,141	16.67%	48.38%	$18,723,859
Lake	62.42%	$19,280,000	$1,622,624	8.42%	57.16%	$17,657,376
Lassen	71.70%	$10,385,000	$916,866	8.83%	65.37%	$9,468,135
Los Angeles	47.74%	$2,228,678,000	$440,523,499	19.77%	38.30%	$1,788,154,502
Madera	75.60%	$41,138,000	$3,625,466	8.81%	68.94%	$37,512,534
Marin	58.17%	$142,259,000	$16,008,495	11.25%	51.63%	$126,250,505
Mariposa	67.97%	$7,648,000	$617,711	8.08%	62.48%	$7,030,289
Mendocino	62.37%	$30,024,000	$4,055,743	13.51%	53.95%	$25,968,258
Merced	64.76%	$52,159,000	$6,918,914	13.27%	56.17%	$45,240,086
Modoc	63.79%	$4,274,000	$291,874	6.83%	59.43%	$3,982,127
Mono	40.98%	$7,918,000	$767,464	9.69%	37.01%	$7,150,536
Monterey	65.30%	$139,419,000	$18,695,013	13.41%	56.54%	$120,723,988
Napa	65.96%	$65,100,000	$6,294,032	9.67%	59.58%	$58,805,968
Nevada	59.56%	$40,999,000	$3,887,759	9.48%	53.92%	$37,111,242
Orange	68.73%	$1,156,804,000	$180,278,872	15.58%	58.02%	$976,525,128
Placer	62.22%	$114,007,000	$15,751,508	13.82%	53.63%	$98,255,493

Figure 9
Education Property Tax Pre- and Post-Swap

Plumas	65.52%	$13,389,000	$831,761	6.21%	61.45%	$12,557,240
Riverside	62.31%	$374,588,000	$61,675,652	16.46%	52.05%	$312,912,348
Sacramento	52.67%	$274,855,000	$64,628,820	23.51%	40.29%	$210,226,180
San Benito	73.67%	$17,783,000	$1,815,440	10.21%	66.15%	$15,967,560
San Bernardino	57.40%	$357,462,000	$72,262,209	20.22%	45.79%	$285,199,791
San Diego	66.29%	$958,264,000	$142,082,922	14.83%	56.47%	$816,181,079
San Francisco	33.92%	$189,656,000	$55,633,036	29.33%	23.97%	$134,022,965
San Joaquin	58.06%	$141,895,000	$24,454,995	17.23%	48.05%	$117,440,006
San Luis Obispo	63.10%	$119,501,000	$11,164,066	9.34%	57.21%	$108,336,934
San Mateo	64.72%	$386,376,000	$55,074,294	14.25%	55.49%	$331,301,706
Santa Barbara	61.92%	$161,362,000	$19,773,041	12.25%	54.33%	$141,588,960
Santa Clara	69.36%	$822,660,000	$138,621,046	16.85%	57.67%	$684,038,954
Santa Cruz	64.81%	$95,466,000	$11,593,121	12.14%	56.94%	$83,872,880
Shasta	70.82%	$56,313,000	$8,124,608	14.43%	60.60%	$48,188,393
Sierra	33.52%	$1,234,000	$82,038	6.65%	31.29%	$1,151,962
Siskiyou	66.77%	$16,341,000	$1,690,451	10.34%	59.86%	$14,650,549
Solano	54.26%	$86,033,000	$16,705,923	19.42%	43.72%	$69,327,077
Sonoma	62.31%	$176,128,000	$25,865,008	14.69%	53.16%	$150,262,993
Stanislaus	76.72%	$138,451,000	$20,480,973	14.79%	65.37%	$117,970,027
Sutter	65.04%	$25,821,000	$3,769,080	14.60%	55.55%	$22,051,921
Tehama	66.31%	$17,161,000	$1,933,384	11.27%	58.84%	$15,227,617
Trinity	65.08%	$4,435,000	$278,117	6.27%	61.00%	$4,156,884
Tulare	64.53%	$85,911,000	$13,754,789	16.01%	54.20%	$72,156,212
Tuolumne	63.62%	$21,364,000	$1,977,317	9.26%	57.73%	$19,386,683
Ventura	55.63%	$248,783,000	$36,418,488	14.64%	47.49%	$212,364,512
Yolo	65.02%	$49,846,000	$8,991,049	18.04%	53.29%	$40,854,951
Yuba	65.88%	$14,560,000	$1,677,559	11.52%	58.29%	$12,882,441
Statewide		**$10,363,735,000**	**$1,743,505,909**	**16.82%**		**$8,620,229,092**

Calculated based on total allocatable revenue (I.e., total countywide property tax revenues less redevelopment).
Each figure represents a weighted average of all county education allocation factors.

Figure 10



Source: Public Policy Institute of California,
California Cities and the Local Sales Tax, 1999

Figure 11

Number of Jurisdictions That Would Be Better or Worse Off Under a Statewide, Population-Based Distribution of the Local Sales Tax, 1994

Type of Jurisdiction	Number of Jurisdictions	Percent of Total Cities or Counties	Total Population of Such Jurisdictions	Percent of State Population
Cities that would be better off	240	51.1	13,539,375	39.6
Cities that would be worse off	209	44.5	12,893,360	40.7
Counties that would be better off	51	89.5	5,240,000	16.6
Counties that would be worse off	6	10.5	984,680	3.1

**NOTES: Population for counties refers to unincorporated areas only.
City and County of San Francisco is counted as a city.

Source: Public Policy Institute of California,
California Cities and the Local Sales Tax, 1999

Figure 12

Characteristics of Cities Gaining and Losing Revenues Under a Statewide, Population-Based Distribution of the Local Sales Tax

	Gaining Cities	Losing Cities
No. in Los Angeles area	108	69
No. in San Francisco Bay area	48	52
No. in Central Valley	57	32
No. in rest of state	48	56
No. urbanized	152	141
No. nonurbanized	100	63
No. central cities	9	27
Mean per capita income, 1989	$17,090	$17,854
Mean household size, 1990	3.0	2.6
Mean % black, 1990	4.3	3.4
Mean % Hispanic, 1990	28.5	19.9
Mean % senior citizens, 1990	11.0	13.0
% of own-source local revenue from sales taxes, 1993	18	28

Source: Public Policy Institute of California, *California Cities and the Local Sales Tax*, 1999

APPENDIX C: RELEVANT ARTICLES

Reform School: California and Its Local Governments

***By* Dean Misczynski, California Research Bureau**

Struggle between California (the State) and its cities, counties, and districts is a drop-dead constant. It achieved considerable intensity during the 1850's, and was a centerpiece in the framing of the state's 1879 Constitution. It flared during the Progressive 19-teens, during the depression, during the 1960's, reached a kind of apogee with 1978's Proposition 13, and has continued with some, possibly growing, bitterness since. Proposals for reform abound (from the cities and counties, of course, from legislators, from California's ignored Constitutional Revision Commission, from the foundation-funded California Governance Consensus Project, from the Legislative Analyst, from think tanks). More are coming. So far, none has had legs. This is partly because there are many terribly sacred cows in this corral. It may be partly because the subject is complex, techy, and jargony ("Realignment", ERAF, AB 8, and "Fiscalization" are prerequisite concepts), largely inaccessible to ordinary, well-adjusted people. It is partly because the conflict has several threads, which get unavoidably or perhaps intentionally interwoven and partly obscured in conversation. This essay foolishly attempts to identify main threads with which any local government finance reform proposal should deal, and against which proposals might be judged.

Seven Threads

I propose that there are seven main threads, and another handful of lesser, but by no means trivial, loose ends. The threads are:

(1) The Adequacy Issue. Local officials take it as unbearably obvious that they are starved for funds, compelled to cut local services beyond lean meat, and that the citizenry is consequently devastated.

This proposition appears to be less obvious to state legislators, and, ultimately more importantly, to many voters.

Analysis of data suggests that the truth is complex. Real spending (that is, adjusted for inflation) per person has stayed reasonably constant for most programs in most communities for more than a decade, and has increased for some programs. Parks and libraries are more likely to have gone down, police and sheriffs to have gone up. Spending data does not support the devastation hypothesis. Of course, the same real spending may not buy as much. Juvenile homicides cost more to prosecute than the juvenile crimes of yore. But this line of debate is inconveniently murky.

(2) The Shock Absorber Problem. California experiences business cycles, with lean years and fat years. Curiously, the state has nothing much in the way of a counter-cyclical policy. It spends with profligate energy in fat years and is invariably surprised and financially embarrassed in lean years. The idea of accumulating a cushioning reserve in the good times appears to be politically oxymoronic (dismissed as an "obscene surplus" in one of Jesse Unruh's less fortunate quips). California has few trigger operated automatic stabilizers that might increase revenues or decrease spending during recession. This would be only a curiosity to local governments were it not for the state's practice of using local governments as fiscal shock absorbers during lean years. The most important recent example occurred during the early 1990's recession, when the state diverted some $3 billion from local government budgets to the schools, thereby freeing up $3 billion of state money (this is known as the ERAF shift). The transfer helped the state balance its books, at the expense of unbalancing local ones.

It is hard to imagine serious state/local reform that did not include insulation or at least explicit understanding about how local revenues would be treated during recessions.

(3) The Fiscalization of Land Use. It is widely believed that our local government financing arrangements distort land use decision-making. In particular, shopping centers, auto dealerships, hotels, and other commercial developments are enormously attractive because they produce abundant sales tax revenue for the lucky local agency where they are sited. Housing, except perhaps for its very expensive varieties, is less blessed, and probably costs local agencies more in service costs than it returns in tax revenues. A troubling newer phenomenon is that industrial projects are seen as fiscal losers, with the result that too little land may be zoned for these job generating projects.

It is hard to imagine serious reform that did not improve this fiscal incentive system.

(4) The Evisceration of Home Rule. The first hundred years of the state/local struggle was about whether localities could govern their own affairs without interference by the Legislature. This was not idle angst. The early Legislature meddled unscrupulously in intimate city matters. It required cities to invest local funds in railroads, to pay individual contractors amounts determined by the state, to levy local taxes for state-specified purposes (Sacramento was required to levy a city tax to pay for a site for the State Horticultural Society). The Legislature created a state commission, empowered it to take over a city park in San Francisco, grade it, subdivide the land, sell the lots, and use the proceeds to build a city hall.

California's Constitution was repeatedly amended (beginning in 1879) to try to protect local self-government. Perhaps unfortunately,

California's courts have not been sympathetic with the Constitution's home rule fetish, and have approved evasions of most of these provisions.

Perhaps no one cares. Cities and counties mostly clamor for more money, not for more self-rule. Still, it seems worth raising the question as part of an examination of the state/local relationship.

(5) The County Problem. Counties suffer from inherent identity crises. They are partly regular local governments that provide regular local services, as if they were rural cities (some counties have ultraurban areas). They are partly camouflaged extensions of the state's bureaucracy, administering welfare, health, and other programs so precisely state-detailed that the county role is chiefly robotic.

This personality disorder causes tensions. The most important is about money. Counties argue that the state does not provide enough money to pay for the programs it requires counties to run. The state might reply that surely the counties should contribute to the upkeep of their own poor, ill, criminal, or otherwise troubled citizens. This tension compounds during recession, when the state is especially likely to underfund state/county programs. This creates fiscal back suction, drawing money that the county intended to use to provide local services back into the state/county programs. It understandably drives county supervisors wild.

(6) The Allocation Rules. Before Proposition 13, local governments set their own property tax rates, and counties collected the money and handed it out to other local agencies based on their rates. After Proposition 13, the property tax rate was constitutionally set at one percent of each parcel's value. To whom the resulting revenue should go was far from obvious. The Legislature, seeking wave avoidance, handed the money out based on each agency's share of local property tax in the three years before Proposition 13. It was a brilliant interim solution. Now, 21 years later, it is suspect, and the resulting money allocation seems more nearly random than thoughtful. It is surely time to at least think about whether some better arrangement could be devised (although localities that do well under the present rules would go volcanic).

(7) Local Tax Rate Autonomy. Arguably the central power of government is to tax and spend (not necessarily liberally). Autonomous local governments would have the power to set their own tax rates, and to decide to be a high tax/high service community or the opposite (or, occasionally, unfortunately, a high tax/low service community). California local governments largely lack this authority, at least for their most powerful local revenue engines, the property and sales tax. If one cares about having truly autonomous local governments, it is worth thinking about whether some increased ability to set their own property and sales tax rates is in order. Local vote requirements would be

constitutionally required, of course, although there is ongoing debate about whether majority or two/thirds is the right level.

This seems a low priority with local officials. They would far rather fight over the revenues from existing taxes, which is not surprising.

Other Strains

There are several other strains of local government reform that would show up on many people's short list. These include:

- Regions. Cities and counties are arguably too local and provincial in making decisions, especially about land use and economic development

- Redevelopment. Some studies question whether redevelopment is an effective use of public funds.

- Development financing. California has elaborate arrangements for financing highways, schools, water and sewer treat ment, parks, and environmental mitigation required because of new development. They are a persistent source of tension.

- Special districts. Understanding special districts is a little like decoding DNA. But to summarize: most, funded by service fees, are financially healthy (more money would be better, of course). Some have suffered (some libraries, some parks, for example). Their problems mostly fall under the Allocation Rules and Local Tax Autonomy headings. Ð

Property Tax Fairness Among Local Governments Means Consolidating Local Governance

***By* Michael J. Coleman**

One bill in the 1999 legislative session was sponsored by a city complaining that its share of the local property tax was unfairly low. The average share in other cities is much higher, the city argued, and it ought to be given more at the expense of the county. It might sound like this city has a case, but it's not so simple.

Michael J. Coleman is a consultant and researcher on California local government finance. He is chief consultant to the League of California Cities.

Many cities and counties argue their property tax shares are unfairly low compared to their neighbors. Some may be right. An important but unintended consequence of Proposition 13 was the shift of authority over the allocation of local property tax revenues from local governments to the state. Under the formula established by the Legislature following the passage of Proposition 13, local property tax shares depend on the relative pre-1979 tax rates of the county, city, special districts, and schools that serve a particular area. A city that provides fewer services or chose to keep its property tax rates low in the 1970s may now be stuck with a share that is unfairly low.

But not all cities should be receiving the same share of local property tax revenues. After all, city tax rates weren't the same before Proposition 13 when cities could control their own rates. There are reasons for the differences.

Apples & Oranges: City Service Responsibilities Differ

All cities are not created equally. The obvious size/population differences aside, cities differ in what they do - in the services for which they are financially responsible. This has nothing to do with whether a city chooses to contract out a service. It concerns financial responsibility: Does the city have to pay for the service?

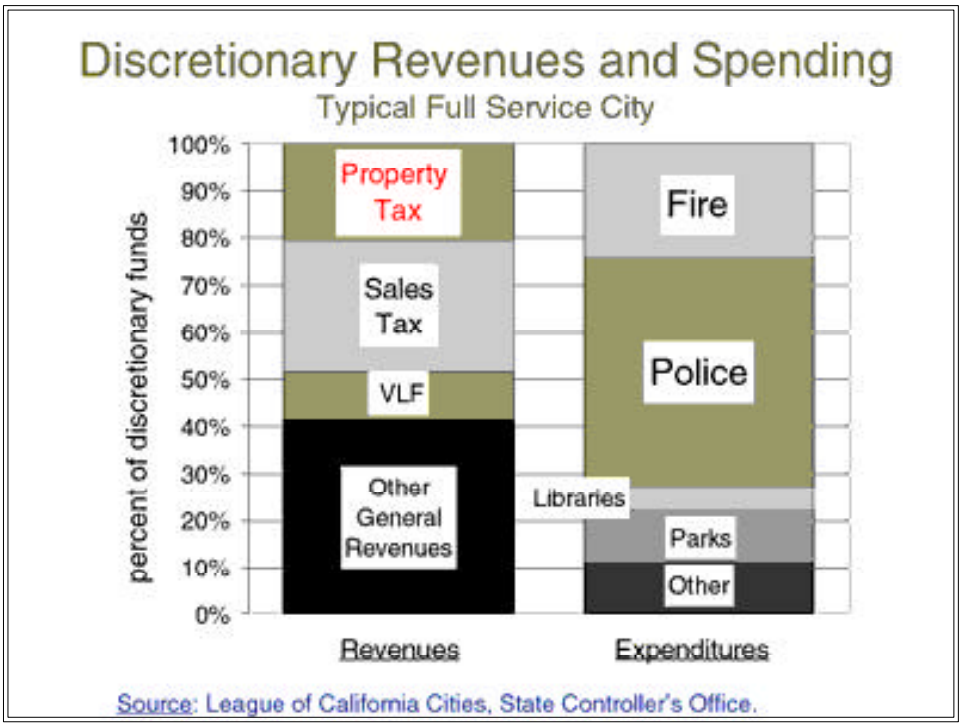
Some facts:

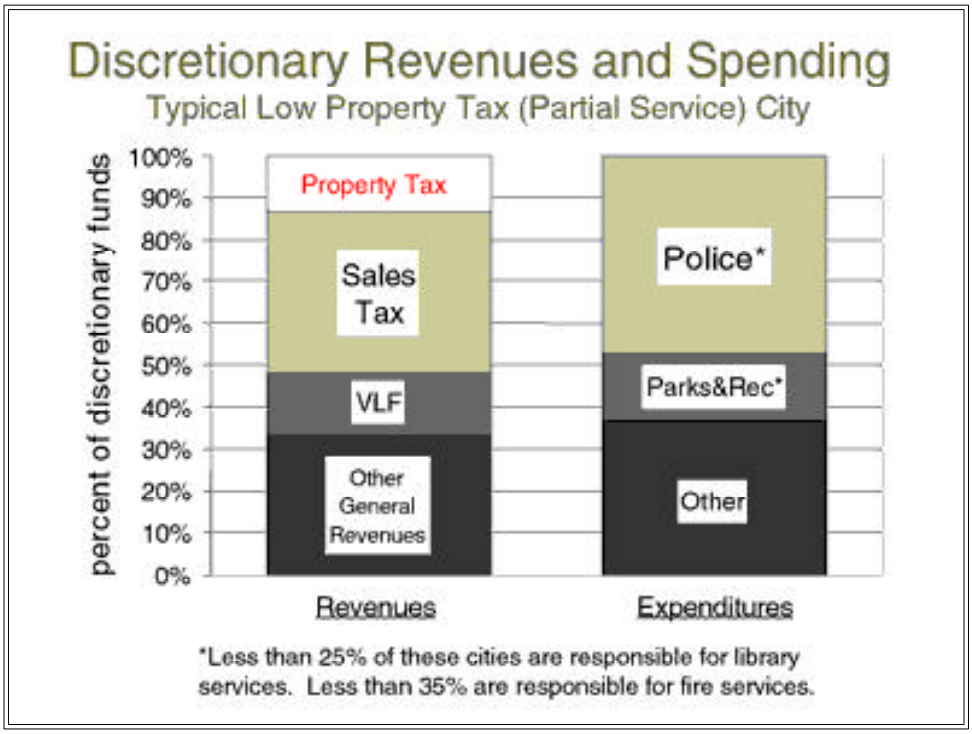
- Less than one-third of California cities are "full service"(1) (but they serve a majority of the state's population);
- 28% aren't responsible for fire (the service is provided by a special district);
- 63% aren't responsible for library (service provided by a district)

Fire and library are the most common non-enterprise(2) city services to have been shed to a special district by a city. In most full-service cities,

the cost of providing fire service alone eats up the entire property tax revenues of the city and more. So in a partial service city, one that's not responsible for fire service, any property tax revenue they get is essentially money ahead compared to their full service neighbor.

This difference in service responsibility is the most significant factor in explaining the differences among city property tax shares. Take this into account and many of the "disparities" disappear.





In Los Angeles County, the city of Covina gets less than 15 percent of the 1 percent property tax in its community. It is a full-service city, responsible for library, police, etc. - and fire protection. Across the county in Lakewood, a partial-service city, the Los Angeles Consolidated Fire Protection District gets 18 percent of the property tax share, just for providing fire service. Add to that the 6 percent Lakewood gets and 2 percent that goes to the Library District, and you have over 26 percent going to the same collection of services that get less than 15 percent in Covina.

"For all their good intentions, many local elected officials are hampered in their efforts to provide efficient, responsive local public services by a complex fragmentation of local services and finances."

The problem for most of these "partial-service" cities is not so much one of a lack of money or of inequity, it's a problem of a distorted financing system that doesn't encourage balanced land use planning, a system beset by fragmented local governance. The problem is not that rates differ. It's that they are based on a 20-plus-year-old snapshot. A side-effect of Proposition 13's tax limitation victory is that it took away local control of the rate, so communities can no longer affect their property tax revenues in response to differences in property values, service demands, and willingness to pay.

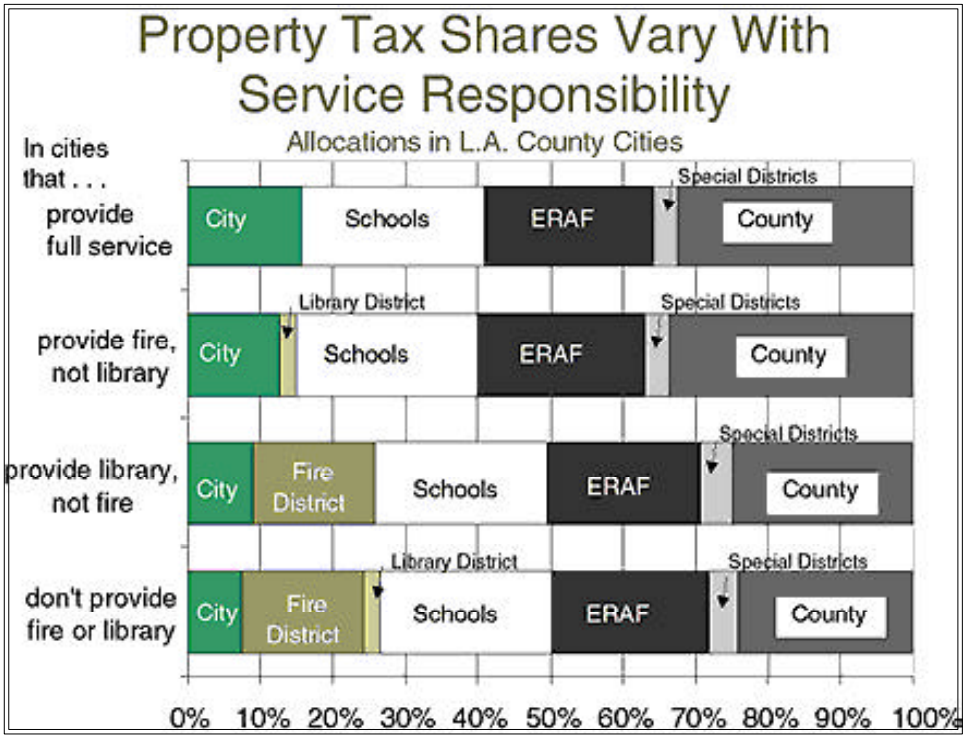
California's Balkans: Fragmented Local Government

For all their good intentions, many local elected officials are hampered in their efforts to provide efficient, responsive local public services by a complex fragmentation of local services and finances. In many communities numerous overlapping special districts split responsibilities with the city and county. Tax allocations may be out of step with current priorities, but no one has the local authority to change things.

Good local governance requires:

- Ability to set priorities across a broad spectrum of needs.
- Ability to coordinate programs for efficient service delivery.
- Ability to fund these programs adequately with revenues that are rationally tied to the program.
- Ability to change priorities, funding allocations, and service delivery methods as circumstances change.

California cities are generally well governed. But in many California localities, municipal public service responsibilities and finances are divided among dozens of independent local agencies. Property tax allocations are fixed, based on circumstance more than two decades old. Because of this fragmentation, the general purpose government—the city—is hampered in its policy choices as to priorities, funding and service delivery. Local government in these cases is less efficient, less responsive, less accessible and less accountable to its citizens than it could be.



As a result of this fragmentation, partial-service cities:

- Cannot reallocate resources in later years as the community changes, as new challenges arise, and as needs and priorities change.

- Face greater financial risk with a palette of revenues that are more sensitive to fluctuations in the economy (e.g. sales tax) as well as intergovernmental actions (e.g. vehicle license fees).

- Rely on revenues that are insensitive to changes in the community. That is, city revenues are less responsive to changing service costs from growth and change in the community.

- Lose authority to ensure that their residents are receiving equitable service levels from independent special districts relative to costs.

As a result, local finance and governance in these communities has become balkanized.

This fragmentation is a key contributor to the “fiscalization of land use” problem. Partial-service cities may not have as many responsibilities, but they face such a strange structure of revenues with their very low property tax shares. They are compelled to seek sales tax generators and to go after additional local taxes because they are the only ways they can cover the costs of new development, especially housing, office and manufacturing.

Property Tax Reform Is Essential To Improving Local Government Services

Reforming the local property tax is central to the reform of California's state and local governance system. To begin with, these reforms should:

1. Realign local government responsibilities and finances along rational lines and assign responsibility and accompanying property tax revenues for all local services to cities or counties. Cities and counties may delegate services to special districts under contract. Non-enterprise special districts are often the most efficient way to provide a local service, but they should do so under contract with a city or a county, not as an independent, inaccessible taxing entity. Consolidating local government finance and service responsibility into general purpose cities will improve accountability and local government responsiveness to changing needs.

"Current discussions of state and local government finance reform offer taxpayers an opportunity to get behind some long needed reform of government finance."

2. Shift a greater share of property taxes to cities by (a) returning the property tax shifts and bringing all cities up to a minimal property tax revenue base line (taking into account differences in service responsibility), and (b) increasing city and county property tax shares in exchange for subventions the state is paying to cities as backfill for the car-tax cut and a portion of local sales tax revenues.

A greater share of the property tax for cities and counties will provide a more balanced mix of revenues related to public service costs and encourage more efficient and sensible land-use decisions. This can be accomplished on a phased-in, dollar-for-dollar basis so as not to harm individual agencies. In the long run, this provides a more stable revenue stream for local communities and improves the incentives for balanced land-use development.

3. Provide constitutional protection for local taxes and fees from raids by the state government. This includes the property tax, sales tax, and other locally approved taxes. Taxpayers must be confident that locally voted revenues cannot be taken away by Sacramento.

Current discussions of state and local government finance reform offer taxpayers an opportunity to get behind some long-needed reform of government finance. Meaningful change must deal with the excessive fragmentation of local governance and property tax allocations. Improving the structure of local finance will improve the efficiency and effectiveness of our public services, our land-use planning, and our ability to make sensible decisions that respond to a changing society.

1. As used here, "full-service city" means a city that is financially responsible for the full set of basic tax-dependent municipal ser-

vices within its jurisdiction including police, fire, park & recreation, library, streets and land-use planning.

2. "Enterprise services" include public utilities that are largely fee for service, such as water, sewer, airports, ports, and refuse collection. **Ð**

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