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

HISTORY

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"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 nonprofit 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

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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.

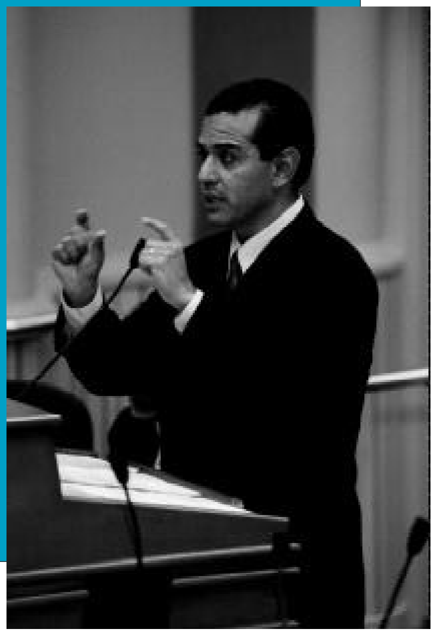
Carol Whiteside—Executive Director of the Great Valley Center, former Mayor of Modesto and a former Assistant Secretary of Resources in the Wilson Administration.

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

<u>Goal</u>: 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: <u>Swap a portion of the locally levied sales tax for an equivalent amount of the property tax</u>

<u>Issues</u>: 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 enormous 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

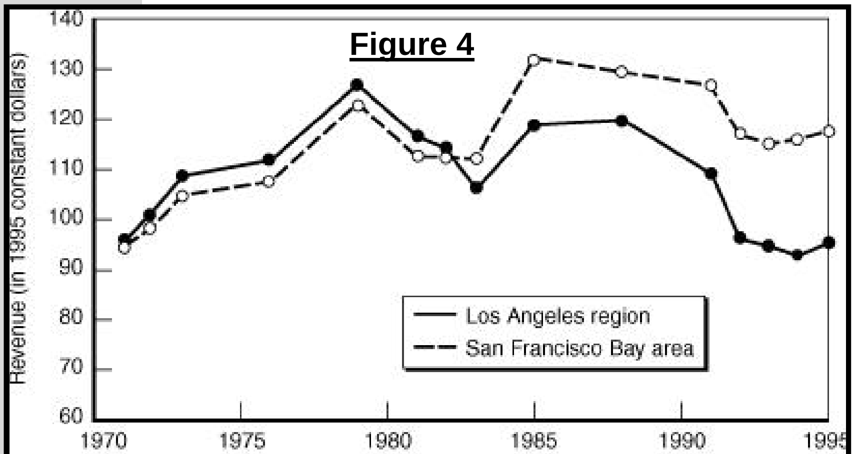
Figure 3

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

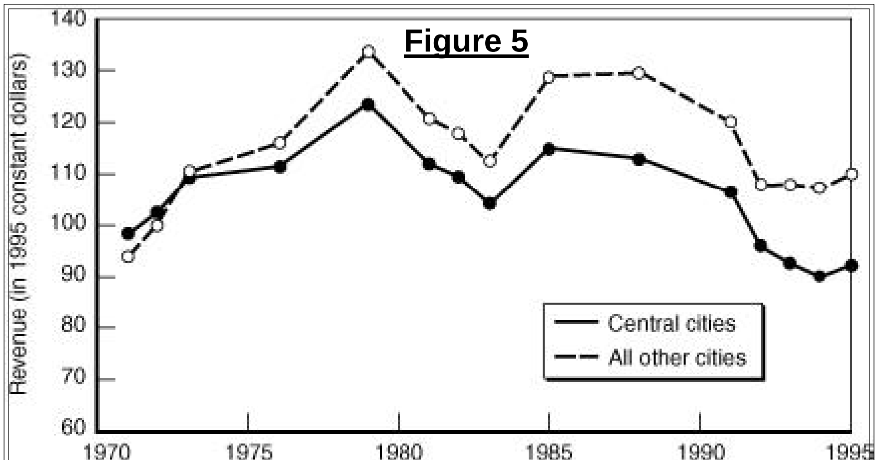
	1971-73 to 1981-83	1981-83 to 1991-93	1971-73 to 1991-93
No. of cities gaining	315	181	234
Median amount gained	$19.04	$14.59	$30.83
No. of cities losing	88	245	169
Median amount lost	$8.32	$17.93	$15.22

**NOTE: Revenues measured in constant 1995 dollars.

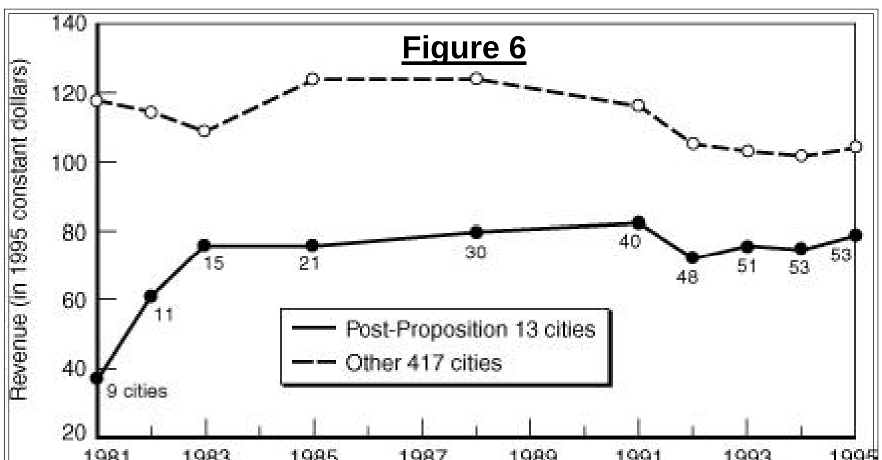
Source: Public Policy Institute of California,
California Cities and the Local Sales Tax, 1999



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 regionalized 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.