

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 achieved 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 government 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 taxed, 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 proposals 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 the 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 receive 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. ₤

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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-EI 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 Heintz, 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