

Tension & Ambiguity

*A Legislative Guide to Recent Efforts to Reform
California's State-Local Fiscal Relationship*

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Executive Summary

The modern story of the state-local fiscal relationship in California, despite its arcane status in the broader public policy debate, is one that begs to be told. This relationship affects the provision of services that government provides to its citizens. It also defines the power of the state relative to its local governments. Stakes are high because it defines some of the most fundamental of California governments' responsibilities to their citizens.

The state-local fiscal relationship is, by many accounts, out of balance. This lack of balance, observers argue, is creating fiscal, governance, and land use problems that must be addressed. Many leaders and thinkers across California propose a variety of solutions to the problems as they perceive them. In order to further the ongoing discussion, and in an attempt to provide helpful information, this paper provides a brief history of the issues and a summary of recent proposals that address the state-local fiscal relationship in California.

History

In 1978, California voters amended their Constitution by passing Proposition 13, which had two significant effects for local governments across the state. First, it immediately cut property taxes by about fifty percent, which helped taxpayers but drastically reduced – and forever limited – a significant source of local government revenue by eliminating governments' authority to adjust the property tax rate for local needs. Second, it gave the state government the power to allocate the remaining property tax revenues. In short, Proposition took away local government resources and power, and gave them to the state government.

Since then, numerous Propositions and other government actions have continued to erode local government resources. Declining federal grants, tax and expenditure limitations on local governments, continued population growth, economic recessions, and increasing program costs have all left local governments scrambling, at times desperately, for answers to their revenue demands.

When California's economy took a downturn in the early 1990's, the Legislature struggled with how to balance the state budget. Part of the response by the Legislature and Governor Wilson was to use its allocation power over property taxes, given to the state in 1978, to shift property tax revenues from cities, counties, and special districts to schools. These transfers, referred to as ERAF shifts, decreased the state's need to use its own General Fund money for schools and returned more of the responsibility for funding education back to the locals – a responsibility that was taken over in large part by the state as part of the state bailout to local governments following the passage of Proposition 13.

Recently, in light of large budget surpluses, and as the ranks of the Legislature have become filled with former representatives from local government, the Legislature has raised the question of returning these ERAF shifts to cities, counties, and special districts. Some legislators also address larger issues within the state-local fiscal relationship.

Problems and Solutions

Problems embedded in the state-local fiscal relationship cut across a broad set of public policy issues and pose a great challenge to California’s state and local leaders. Forming creative solutions to these problems – rooted in history, actions, and reactions, - will require careful study, analysis of all possible consequences, and probably a considerable amount of risk. The most basic question to ask is: what is the right balance of power and wealth between the state and its local governments? Following from this question is: how best do we divide the resources and the power to control them in order to provide optimal governance for California?

In the past decade, much has been written on the fiscal relationship between the state and its local governments, detailing problems and proposing a myriad of solutions. The property tax shifts of the early 1990’s fueled the fire of reform. Below is an abbreviated list of identified problems in the debate and the solutions that have been proposed by the eight most commonly cited reform proposals. For more detailed information about the problems and proposals listed below, see the body of the text and Appendices A and B.

Identified Problem	Proposed Solution
Local governments are fiscally constrained.	<ol style="list-style-type: none"> 1. Guarantee local government funding. 2. Reallocate the property tax. 3. Increase funding. 4. Reform ERAF.
Increased reliance on the sales tax skews local land use incentives.	<ol style="list-style-type: none"> 1. Swap property tax and sales tax at the local level. 2. Change sales tax from a point-of-sale to a per-capita allocation.
Misaligned government responsibilities result in a lack of government accountability – to itself and to its citizens.	<ol style="list-style-type: none"> 1. Realign responsibilities. 2. Improve accountability.
State mandates on local governments	<ol style="list-style-type: none"> 1. Process mandates claims in a timely manner. 2. Add local government representatives to the Commission on State Mandate.

Recent Legislative Action

In the 1999 and 2000 legislative session, legislators introduced over fifty ERAF relief bills. Several of these bills targeted relief to particular special districts. Other bills took a broader approach and sought to “cap” ERAF contributions by local governments.

Several bills introduced in the legislature in 2000 tackled the issue of broad reform in addition to providing relief from the ERAF shifts. These reform bills were all reduced to intent language and held up so that a joint legislative conference committee could collectively deliberate on all of the proposals.

This joint legislative conference committee used Assembly Speaker Villaraigosa’s AB 1396 as their vehicle to discuss all reform proposals and produce a solution for the Legislature. Broad

agreement existed on the basic problems and broad goals of reform, but disagreement remained on the magnitude of these problems and the appropriate action to take to remedy problems.

The committee adjourned and submitted as its product AB 1396, now authored by Assembly Member Aroner as Chair of the committee. Assembly Bill 1396 (Chapter 903, Statutes of 2000) was a relief bill devoid of any real reform. Assembly Bill 1396 provided \$212 million in one-time relief for cities, counties, and special districts: \$100 million based on population, \$100 million based on ERAF shift proportions, \$10 million to counties based on population, and \$2 million to independent recreation and park districts and independent library districts based on ERAF contributions. An important part of this legislation was the \$12 million appropriated to counties, parks, and libraries, because it was the first time the Governor and the Legislature formally recognized that counties and some districts suffered disproportionately from the property tax shifts compared with other local agencies.

While reform solutions were not enacted, several important things came out of the conference committee: participants recognized that the problems embedded in the state-local fiscal relationship would take time and substantial energy to solve. Also, conferees came away with the understanding that any reform would involve tough choices that would produce both winners and losers. Last, legislators acknowledged that solutions might need to be different for different types of jurisdictions (cities, counties, and special districts) because of the various ways historical actions affected them and their different roles as local governments. Conferees adjourned with an understanding that there was no “one-size fits all approach” to these tough problems.

The beginning of the 2001-2002 legislative session

In the recently ended case of *Sonoma County v. State of California*, regarding the county’s claim that the ERAF shifts constituted a state mandate and thus are reimbursable by the state, the appellate court reversed the lower court and decided in favor of the state. Sonoma County appealed to the California State Supreme Court, but the court announced on February 28, 2001 that it would not hear the matter, officially ending the dispute with a victory for the state.

There are also rumors of a possible statewide ballot initiative (Proposition) on the issue from local government associations. No one is sure what form an initiative to the voters would take or what its chances of success would be.

Finally, Legislators continue to pursue legislative remedies for ERAF relief as well as reform. Already this year, legislators have introduced sixteen ERAF related bills (See a list in Appendix D). In addition, Assembly Speaker Hertzberg has appointed a Commission on Regionalism to discuss, among other things, the state-local fiscal relationship. And, while the Governor again only allocates local government relief in his proposed January budget (\$250 million), and although the energy crisis casts a looming shadow over the robust economy, the state enjoys a healthy surplus. Hope remains that some type of broader legislative reform on the subject will come from this session.

Introduction

Surveying the history of the state-local fiscal relationship in California, one observer concludes that, “The evolution of public finance in California is the story of a shifting balance of power between the state and local governments.”¹ Throughout California’s history, the concentration of resources, and whether the state or local governments hold them, has produced dramatic shifts in governance.

Since the state’s beginning, Californians have exhibited a preference for home rule and local autonomy, exemplified by the Bear Flag Rebellion in 1846 and the instigators’ frustration with their far-off Mexican government. The California Constitution Revision Commission described the first thirty years of statehood as “marked with mistrust and meddling in the affairs of local communities by the California Legislature.”² Progressive Era legislation shifted wealth and power back to local governments, signaling the birth of home rule for local governments. It became a “self-evident truth that local governments had the authority to tax residents and to fund services with the revenue;”³ a “self-evident truth” until the 1970s when the pendulum of power and wealth began to swing back to the state government.

In what was the most fundamental change for local governance in the state since the Progressive Era, the voters amended the California Constitution by passing Proposition 13 in 1978.⁴ This amendment changed state-local relations in two significant ways. First, it immediately cut individual property taxes by about fifty percent. This cut helped taxpayers, but drastically reduced - and forever limited - a significant source of local revenue by eliminating governments’ authority to adjust the property tax rate for local needs. Second, it gave the state government the power to allocate the remaining property tax revenues. These fundamental changes weakened the autonomy of local governments and once again returned power to the state. In short, Proposition 13 took away local government resources and power, and gave them back to the state.

Almost twenty-five years later, the state government continues to wield great influence over local government. Numerous propositions and other government actions have continued to erode local government resources and power, which makes them unable to craft policy that is particular to their local needs. Local governments feel strapped for cash and caught between providing essential services to citizens and funding mandated programs. Many think that California’s local tax structure (which relies heavily on sales tax) is negatively affecting local land use practices. California’s large network of local governments⁵ with its complex tax allocation system also seems to not have kept up with the needs of its citizens. Many observers argue that the system is confusing and out of date. “The needs of California’s communities have evolved, but the structure of providing for their changing needs has not.”⁶

¹ Silva, Fred and Barbour, Elisa (1999). *The State-Local Fiscal Relationship in California: A Changing Balance of Power*. San Francisco, California: Public Policy Institute of California.

² California Constitution Revision Commission (1996). *Final Report and Recommendations to the Governor and the Legislature*.

³ Silva, Fred and Barbour, Elisa (1999). *The State-Local Fiscal Relationship in California: A Changing Balance of Power*. San Francisco: Public Policy Institute of California. Foreword by David W. Lyon, PPIC.

⁴ Article XIII A, California Constitution.

⁵ Including 58 counties, 475 cities, 3,800 special districts, and 1,100 school districts.

⁶ Swenson, Jennifer. (2001) Interview. Sacramento, California: Senate Committee on Local Government.

Since the passage of Proposition 13, interested parties have been suggesting reforms to California's state-local fiscal structure. Over the years, the state has studied this relationship through interim hearings and staff studies.⁷ In addition, commissions, policy research organizations, state analysts, and local government advocates have produced numerous reform proposals. All of them make recommendations for solving the myriad of problems embedded in this complex state-local fiscal relationship. However, major reform has been, and continues to be, elusive.

⁷ Examples include:

- Governor's Office, Office of Local Government Affairs. (1983). *New Partnership Task Force on State and Local Government: interim report*. Sacramento.
- California State Assembly Local Government Committee. (1990, October 16). *Interim Hearing on Alternatives for Reforming Local Government Finance*. Sacramento. Sam Farr, Chair.
- California State Legislature. (1994, January 26). *Joint Informational Hearing, "Restructuring the State-Local Relationship."* Assembly Local Government Committee and Assembly Select Committee on Restructuring Government.
- Governor's 1994-1995, 1995-1996, and 1996-1997 Budgets.
- California State Senate Fiscal Retreat. (1997, January 30-February 1). *"The Three 'Rs' of Local Government: Restructuring, Responsibility, Reality."* Sponsored by California Policy Seminar, University of California and Senate Budget and Fiscal Review Committee.
- California State Senate Committee on Local Government. (1999, September 21). *Property Tax Allocation, The Summary Report from the Interim Hearing of the Senate Committee on Local Government*. Sacramento: Richard Rainey, Chair.

History: *A Synopsis of California's State-Local Fiscal Relations*

The first crunch: 1978 and Proposition 13

With the passage of Proposition 13, and the movement of power and resources back toward the state, two very dramatic things occurred. First, Proposition 13 cut the property tax rate, which substantially and permanently decreased the tax base for local governments. Citizens called upon their local governments to function with less.

Second, Proposition 13 shifted power from local governments by placing the responsibility of property tax allocation into the hands of the state government. The state, guided by the voters, was given ultimate control in deciding how money was allocated to local governments. Proposition 13 effectively changed the local property tax into a state controlled tax. The courts have buttressed this state control with supporting decisions.⁸ Experts have commented that it is this shift in the allocation power of property taxes, and not just the overall decrease in tax revenues, that is the most fundamental change resulting from Proposition 13.

In 1978, a very significant change occurred with regards to the property tax. And by this I am not referring to the drop in property tax from about 2 1/2 percent to one percent statewide, or the shift to acquisition value-based assessment. Instead, I refer to the change in authority over the *allocation* of the tax, the shift of power from local communities to the state – a change that has had a far greater impact on governance in California than the rate reduction itself. In 1978, the locus of the debate over property tax shifted from local city councils and boards of supervisors' chambers to the state Capitol. Since 1978, California may be the only place in the United States where the topic of the allocation of property tax is discussed *more* at the state Capitol than in local communities.⁹

When Proposition 13 passed, and the Legislature found itself with the responsibility of allocating these scarce property tax revenues, it had three weeks to devise a plan. The result was SB 154 (Rodda).¹⁰ To address its new responsibility in the least disruptive way possible, the state allocated money to schools, cities, counties, and special districts based on each local jurisdiction's historical revenues and its previous local allocations. This allocation scheme, combined with a large bailout from the state in the form of block grants, minimized disruption in local government.¹¹ The state's coffers were sufficiently full and with the bailout, local governments were able to avoid significant cuts that first year.

⁸ *County of Los Angeles v. Sasaki* (1994) 23 Cal. App. 4th 1442., *County of Sonoma v. Commission on State Mandates, et al.*, (2000) 84 Cal. App. 4th 1264, and *San Miguel Consolidated Fire Protection Dist. v. Davis* (1994) 25 Cal. App. 4th 134.

⁹ O'Malley, Marianne. (1999, September 21). Comments from Senate Local Government Committee Hearing on Property Tax Allocation. Sacramento: Legislative Analyst's Office.

¹⁰ Chapter 292, Statutes of 1978. Senate Bill 154 was the final report of the Conference Committee on SB 154 (Members: Senators Rodda (Chair), Mills, and Campbell, Assemblymen McCarthy, Boatwright, and Priolo).

¹¹ "The formula (in SB 154) relied on the average percentage of all property tax revenues that each county's local agencies had collected in the three prior fiscal years... Additionally, SB 154 provided \$878 million from the State General Fund to local governments as block grants... Later, the Legislature supplied an additional \$37 million to help special districts with their unmet needs." (California State Senate Committee on Local Government. (1999,

The next year, AB 8 (L. Greene)¹² enacted a long-term property tax allocation system. In many ways, it solidified SB 154's temporary policies and practices. However, instead of providing annual bailouts to local governments through block grants (as SB 154 did), the state chose to shift property taxes from schools to cities, counties, and special districts. The state made up for the loss to schools with its General Fund. In this way, the state took over a much greater portion of California's responsibility for funding education. Local shares of property taxes for schools went from an average of 53% to 37% through AB 8.¹³ Because one of the responsibilities of counties is to administer programs for the state, the state was able to help counties significantly after Proposition 13 by assuming responsibilities for health and human services costs. Cities and special districts were also largely helped by the new state policies. Effectively, the state helped preserve most of the pre-Proposition 13 budgets for cities, counties, and special districts.¹⁴

Since the reduction in property tax revenue in 1978, numerous events in the 1980s continued to erode local government resources. Declining federal grants, tax and expenditure limitations (such as Proposition 4 - Gann spending limits), continued population growth, economic recessions, and increasing program costs that "outpaced local revenues and left local governments scrambling, at times desperately, for answers to their revenue demands."¹⁵

The next big hit: California's recession of the early 1990's and ERAF

When California's economy took a downturn in the early 1990s and experienced its most severe recession since the Great Depression, the Legislature struggled with how to balance the state budget. This recession, combined with tighter restrictions on lending in the wake of the savings and loan crisis, military base closures across the state, and the end of the Cold War spending on military procurement and research and development, made many fear that California faced an indefinite economic slowdown. In 1991, the state government faced a budget deficit of \$14 billion. The constitutional mandate (from Proposition 98) to fund education at guaranteed levels further increased the challenge of balancing the state budget. Part of the response by the Legislature and Governor Wilson in 1992, and then again in 1993, included shifting property tax revenues from cities, counties, and special districts to schools, undoing in large part what the state had done to provide bailout money to local governments in the aftermath of Proposition 13.

September 21). Property Tax Allocation, The Summary Report from the Interim Hearing of the Senate Committee on Local Government. Sacramento: Richard Rainey, Chair).

¹² Chapter 282, Statutes of 1979.

¹³ "AB 8 created a local property tax allocation scheme that allowed local agencies to benefit from the growth in property tax revenues produced by growth in assessed values. Instead of an annual bailout from the State General Fund, AB 8 shifted some of the school districts' property tax revenues to counties, cities, and special districts and then replaced the schools' losses with increased state subsidies. Before Proposition 13, schools received about 53% of all property tax revenues. By 1985-1986, their share was just 37%. This "AB 8" shift increased each local agency's share of the property tax by the amount of its SB 154 block grant, as reduced to hold down the state's cost." (California State Senate Committee on Local Government. (1999, September 21). Property Tax Allocation, The Summary Report from the Interim Hearing of the Senate Committee on Local Government. Sacramento: Richard Rainey, Chair.)

¹⁴ Specifically, "Cities received 83% of their SB 154 block grants, special districts received 95% of their block grants, and counties received the sum of the 1978-1979 block grant, plus an amount specified in AB 8 representing the reduction in the state's buy out of AFDC (county-run programs) minus a new state grant for county health services." Ibid.

¹⁵ California State Senate Committee on Local Government. (2000, February 25). Analysis of SB 1982 (Alpert). Sacramento.

These transfers decreased the state's need to use General Fund money for schools and returned more of the share for funding education back to local property taxes. In each county, these property taxes were deposited into a newly created countywide fund for schools, the "Educational Revenue Augmentation Fund," (ERAF). We refer to these shifts as the "ERAF shifts."

In those two years, the state required local governments to shift a total of \$4 billion of their property taxes to schools. In 1992, they shifted \$1.4 billion into ERAF, and in 1993, they shifted an additional \$2.6 billion.¹⁶ Counties benefited most from the state bailout in the late 70s, and, maybe because of this, were the hardest hit by the ERAF shifts. While individual figures vary across the state, more than two-thirds of ERAF came from counties. Instead of providing relief, the state, with its huge deficit, became a direct competitor with local governments for limited and precious public funds.

The property tax revenue shifts into ERAF helped to balance the budget and keep the state government solvent. In shifting funds from cities, counties, and special districts, the state recognized that it was seriously impacting local governments. Over the next several years, it helped to make up for the shifts by providing several types of mitigation measures. While not everyone agrees on the list, some of these measures (some implemented explicitly to mitigate the ERAF shifts, and others implemented for different reasons but with the same result) include:¹⁷

- A one-half cent state sales tax allocated to counties and cities for financing local public safety.¹⁸
- State funding for trial courts.¹⁹
- The Citizens' Option for Public Safety (COPS) program, which provided more money for police.²⁰
- Fines and forfeitures for cities²¹
- Reimbursement to cities for booking fees paid to counties²²
- Exceptions and outright exemptions from the ERAF shifts to several local government entities, primarily special districts.²³

¹⁶Chapters 699, 700, and 1369, Statutes of 1992 and Chapter 68, Statutes of 1993. See California's Revenue and Taxation Code Sections 97.2 and 97.3 for additional information.

¹⁷ Hill, Elizabeth G. (1999, February 2). Shifting Gears: Rethinking Property Tax Shift Relief. Sacramento, California: Legislative Analyst's Office, Policy Brief.

¹⁸ At first, this tax was temporary, then in November 1993, the voters passed Proposition 172, a constitutional amendment, permanently extending the program. These funds (worth almost \$2 billion per year), must be spent for public safety purposes. The funds do, however, indirectly free local government budgets, allowing them to spend money they already have for other purposes. (Hill, Elizabeth G. (2000, February 3). Reconsidering AB 8: Exploring Alternative Ways to Allocate Property Taxes. Sacramento, California: Legislative Analyst's Office, Policy Brief).

¹⁹ The state assumed growth in trial court costs over the 1994-1995 level, absorbed all trial cost in small counties, and reduced costs to other counties. Relief provides about \$768 million per year for local governments' general-purpose budgets. Ibid.

²⁰ This provides \$100 million statewide to cities and counties to augment law enforcement expenditures. This money is appropriated annually in the state budget. Ibid.

²¹ Cities receive a greater share of revenues from tickets issued for moving traffic violations. Funds may be used for general purposes. Relief probably exceeds \$62 million annually. Ibid.

²² Counties charge fees to cities, special districts, and schools to recover the costs of booking arrested persons into county jails (SB 2557, Maddy, 1990). Counties get about \$50 million a year in booking fees, mainly from cities. Source: Senate Local Government Committee. (1999, August 19). Analysis of SB 225 (Rainey). Sacramento, California.

It is important to note that local governments lost discretionary money with the ERAF shifts and generally received targeted relief funds. These measures, therefore, were not a dollar-for-dollar return because the money was earmarked for specific programs as determined by the state.

Where the history leaves us

Currently, the state is not in a recession. Instead, it is enjoying large budget surpluses. Many stakeholders believed the ERAF shifts were a function of the state's recession, and would cease when the state came out of its budget crunch. Yet, the state continues to shift property tax revenues to ERAF – a total of \$3.9 billion in 1999-2000. Mitigation measures now provide about \$2.4 billion yearly in relief to local governments, bringing the overall net shift to roughly \$1.5 billion. The vast majority of this relief is provided to cities and counties, with very little going to special districts.

In light of large budget surpluses, and as the ranks of the Legislature have become increasingly populated by former local government officials, the ERAF issue has become a hot topic in the Capitol. Many legislators are interested in returning the ERAF shifts, while others want to find a way to limit them. However, there is no widespread agreement about how to return these funds and many would like to couch the relatively recent ERAF issue into a larger discussion of more fundamental reform of the state-local fiscal relationship.

The ERAF issue has overshadowed reform questions in the past few years. However, as local governments continue to focus on ERAF, and as the Legislature responds with increasing numbers of ERAF exception and exemption bills as well as mitigation and relief measures, many continue to look for long term fiscal reform that would include, but not be limited to, the ERAF shifts.

²³ Examples include local hospital districts, flood control districts, transit districts, police protection districts, veterans memorial districts, fire protection districts, and certain water districts.

Problems: *A Description of the Major Issues*

The problems embedded in the state-local fiscal relationship cut across a broad set of public policy issues and pose a great challenge to California's state and local leaders. Forming creative solutions to these problems - rooted in history, actions, and reactions - will require careful study, analysis of all possible consequences, and probably a considerable amount of risk.

Most of the problems identified as part of the state-local fiscal relationship do not stand alone. Their inherent connection to one another and to other policy issues gives any one problem-solving action intended *and* unintended results. To assist in the monumental task of studying problems and solutions, and to help sort through these issues, it is helpful to develop an explanatory backdrop. Examining the broad overall issues in terms of power and wealth, and noting the interaction between the two, provides one such backdrop.

The most basic question to ask is: what is the right balance of power and wealth between the state and its local governments? Following from this question is: how best do we divide the resources and the power to control them in order to provide optimal governance for California? Many are dissatisfied with the current balance and with the division of responsibilities between the state and its local governments.

Power

While a strong and powerful state may not be innately problematic, the following metaphorical description of California's local government structure with respect to the state presents the current balance power in a decidedly negative light.

Home rule for local governments in California resembles a 'hollow sphere.' On the surface, California's local governments have many of the trappings of home rule, including constitutional standing, charter authority, flexible statutory authority, and a political tradition that honors local control. However, local officials lack the power to set their own property tax rates, face increasingly expensive entitlement programs, operate under both collective bargaining merit system limits, and must cope with state-mandated procedural requirements. Taken together, these factors erode the reality of local control, even though the surface image of home rule appears to be intact.²⁴

This metaphor of the "hollow sphere" makes an important judgement on the power of California's current local government structure. The metaphor presents this structure as insufficient because it is not backed up by the reality of a solid "core" of financial strength.

²⁴ Sokolow, Alvin D. and Detwiler, Peter M. (2000). "California," in Home Rule in America: A Fifty-State Handbook. Krane, Rigos & Hill, eds. Washington, D.C.:Congressional Quarterly Press.

Wealth

If the lack of fiscal independence - essentially the lack of wealth - for local governments is the missing “core” of home rule, as Al Sokolow suggests, then this independence is lacking on both sides of the accounting ledger: local officials lack discretion over both revenue and expenditures.

Revenues

The revenue side of the story is one largely of statewide propositions. In addition to reducing revenue, Proposition 13 also decreased the base and capped the property tax rate, taking away local governments’ ability to raise local dollars. Proposition 13 is the most dramatic example of local revenue loss, but is one of many.

Since Proposition 13, a long series of successful state ballot propositions and other government actions have limited local revenue streams.²⁵ For example, Proposition 62 (1986) declared (ultimately, after numerous court challenges) that majority voter approval was needed in all counties and general law cities in order to raise taxes – a right originally reserved for elected representatives of local government. Proposition 218 (1996), essentially strengthened Proposition 62 by placing these regulations into the state constitution, thus requiring charter cities (in addition to general law cities) to follow the same voter approval laws for taxes. In addition, Proposition 218 imposed tougher procedures for imposing local benefit assessments and fees.

Expenditures

On the expenditure side, the story is more diverse. State propositions, legislative action, the economy, and changing demographics have all contributed to a decline in local fiscal control.

Proposition 4 instituted Gann limits, which limit government spending of tax proceeds “to prior-year amount, adjusted for population and inflation.”²⁶ In addition, funds provided from the state to local governments come increasingly attached with requirements on how that money is spent. They come earmarked for certain purposes, and it is unlawful to spend this earmarked money in any way inconsistent with the law. Examples of this type of money include transportation funds given to local governments from the .5% sales tax from Proposition 111. Also, the Citizens’ Option for Public Safety (COPS) program provides \$100 million per year to local governments, but its use is earmarked specifically for additional law enforcement. Proposition 172 added yet another half-cent sales tax for law enforcement, and requires maintenance of effort on the part of local governments.²⁷ In another strings-attached stream of money, the state provides subventions to local governments from the vehicle license fees, but stipulates that part of this money be spent on program realignment.²⁸

²⁵ Cohen, Michael. (1997, December) “California Update.” Sacramento: Legislative Analyst’s Office.

²⁶ Ibid.

²⁷ In effect, the new taxes supplement local expenditures but don’t supplant them. If they were to replace other locally levied funds, money would be freed for other uses.

²⁸ Realignment shifted responsibilities for programs from the state to counties. It altered program cost-sharing ratios, and provided revenues for these programs with sales tax and vehicle license fee revenues. For more information, see the Legislative Analyst’s February 6, 2001 report on realignment. (Hill, Elizabeth. (2001, February 6). Realignment Revisited: An Evaluation of the 1991 Experiment in State-County Relations. Sacramento, California: Legislative Analyst’s Office, Policy Brief).

Complicating all these local government spending constraints is the fact that California's population continues to increase. The Legislative Analyst tells us, "For much of the prior two decades, California's population has grown at roughly twice the rate of the other forty-nine states."²⁹ This growth is expected to continue at unprecedented rates. The California Department of Finance estimates that by 2020, there will be 45.5 million people in the state.³⁰ As populations multiply across the state, local communities, especially counties, will need to provide more services for larger numbers of residents.³¹ This will affect the expenditure needs of local governments as much as any other single factor.

Discussed below are specific problems plaguing the state-local fiscal relationship. Depending on the level of detail that one wants, it is possible to add to this list indefinitely. The following is an attempt to highlight and explain the major concerns typically addressed in a way that makes sense. Embedded within the broad categories below, there are several sub-categories of problems. There are many possible ways to characterize these problems, and the set listed below is one of those. Please note that some cut across these artificially-derived division lines altogether, and because of this, all deserve to be discussed within the broader context used above.

Specific problems

Local governments are fiscally constrained.

Proposition 13 drastically reduced revenues, and the history of propositions and government action since then has left local governments with few ways to raise additional money. Fundamentally, there is less overall money in the system, making the funds still available more precious than ever.

There are few fully discretionary funds for local governments to raise or to spend. Some of the most important include the 1% Bradley-Burns sales tax, part of the vehicle license fee (VLF) subvention from the state, and the transient occupancy tax (the hotel tax). The Bradley-Burns sales tax is a particularly important local tax, and can comprise as much as 60% of city budgets, but it is inherently unstable and thus difficult to project with accuracy. The property tax, on the other hand, is a relatively stable tax and has proven to grow predictably over time. However, revenues have been permanently reduced through Proposition 13 and are subject to re-allocation by the state. These property tax allocations are based on the local formulas from before Proposition 13, but are now a quarter of a century old. As pointed out earlier, the needs and preferences of California's communities have changed, but the allocation system remains the same, sometimes locking communities out of their ability to change according to their newer needs and desires.

The institution of ERAF, while essentially taking back what the state had given local governments after Proposition 13 passed, has taken significant amounts of discretionary funds from counties, cities, and special districts, and left them even more strapped for cash. While the state has provided mitigation funds, they are earmarked for special purposes. This, in effect,

²⁹ Hill, Elizabeth G. (1998, December). Cal Facts. Sacramento, California: Legislative Analyst's Office.

³⁰ The population of California in 2001 is 34.4 million.

³¹ The population is also expected to change in its composition. It is becoming both older and younger, meaning that the population percentage that the young and the old represent will increase. On the natural, the young and old tend to utilize more government programs (schools, health services, etc...), creating more expected expenses for the local governments that provide these services to citizens.

negatively affects the bottom line, since local governments are constrained in their choice of how to spend this money, resulting in a less than dollar-for-dollar return of shifted ERAF funds.

In addition, local governments are concerned that in another economic slowdown, taxes sent to locals that are not constitutionally guaranteed (such as property tax, VLF taxes, and/or relief funds) face further cuts.

Another significant factor in the discussion of the erosion of property tax shares for local governments is the role of redevelopment agencies.³² While these agencies can be a worthy use of local government time and money, they are funded in part by growth in property taxes within their borders (tax increment financing) which freezes the property tax revenues available for other local governments. Ten years ago, these funds amounted to only 3.6% of total property taxes. Now this figure is up to 7.9% (and in some areas up to as much as 20%), affecting the total property tax available for uses in neighboring communities.³³

Increased reliance on local sales tax skews land use incentives.

As noted above, local governments rely heavily on their share of the sales tax, a discretionary tax, to provide significant amounts of local revenues, despite its sensitivity to the business cycle. Sales tax is generated by retail establishments, and many observers claim that the reliance on this type of tax for revenue provides incentives for local governments to chase sales tax, disproportionately favoring retail over other types of development. The result can be that a large amount of public money is spent luring retail. Further, because sales tax is point-of-sale based, its revenue generating power encourages local governments to actively compete with one another for retail establishments, often from neighboring communities. No overall regional or statewide economic gain is realized from this rivalry between local governments for sales tax revenues, and taxpayers lose the money used to attract retail as well as the time and energy of their public officials engaged in this fight.

Having lost property tax revenue, a major source of local discretionary income, and having little control over how to spend much of the State relief, local governments have turned increasingly to the local sales tax to backfill their discretionary coffers. The 1% Bradley-Burns local sales tax is distributed on a point of sale basis, meaning it is returned to the jurisdiction in which the sale took place. As jurisdictions have scrambled to replace lost revenue, observers note a trend toward favoring sales-tax-generating land uses, such as big-box retailers, at the expense of other uses such as housing and other non-retail development. In 1999, researchers at Public Policy

³² A redevelopment agency is a state-authorized program implemented by local governments to “eradicate blight.” Redevelopment agencies “finance themselves through tax-increment financing. This theory assumes that a revitalized project area will generate more property taxes than were being produced before redevelopment. The tax valuation of a project area prior to redevelopment activity is the ‘base’ number. As the redevelopment project improves the property, the increase in taxes beyond the ‘base’ is the redevelopment agency’s profit. As the redevelopment agency captures additional tax money generated within its borders, it takes not only money that would have gone to the city, but money that would normally have gone to other taxing agencies like school districts, special districts, counties, and the state. The state ‘back-fills’ the lost revenue to schools, but not to other entities. They are net losers to redevelopment.” (Hamilton, Joshua. (2000). *Creative Evasion: The Blighted Desert*. Keene, Barry, Editor. Berkeley, California: Institute of Governmental Studies.)

³³ For more information on this issue, see: Dardia, Michael. (1998, January). *Subsidizing Redevelopment in California*. San Francisco: Public Policy Institute of California.

Institute of California found that “retail land uses are preferred over residential and heavy industrial uses by a large margin.”³⁴

This phenomenon, often called the *fiscalization of land use*, has been cited as one of the reasons for the huge expansion of strip malls and big box retail establishments in California. As California experiences both rapid population growth and rapidly deteriorating infrastructure resources, local governments are largely responsible for facing these challenges, suggesting the need to plan properly and carefully for the future of California’s communities.

In another blow to land use planning in California, studies indicate that it actually costs more for local governments to provide local services (transportation, water, police services, etc.) for housing and other business uses than the additional property tax supplied by the new housing or business provides in return.³⁵ This, in effect, means that developing additional housing in many communities is a net drain on city coffers, creating negative incentives for these communities to develop housing (particularly low and moderate income housing), despite population increases and the powerful demand for housing in California.

If the overall decline in revenue (discussed earlier) was addressed to local governments’ satisfaction, these negative incentives for land use planning would probably be a non-issue. However, as local governments continue to scramble for revenues, the economic incentives to compete for scarce resources remain powerful and perhaps irresistible.

Misaligned government responsibilities result in a lack of government accountability.

The evolution of the local government financial structure has created a complex system of intergovernmental responsibilities. Propositions and state government actions have created complexities that often are not efficient or clear. This results in a lack of government accountability, both to itself and to its citizens.

Government is not accountable enough to itself.

The LAO best summarizes this problem.

California’s existing “system” of government clearly does not work together to achieve the public’s goals. Rather, in our system, the component parts have no common conception of mission, and often work at cross-purposes with each other. Local governments complain that state requirements interfere with their ability to satisfy local community needs. The state, in turn, issues more requirements to ensure that its service objectives are uniformly achieved. Governments compete amongst themselves to obtain larger shares of dwindling resources. Citizens observe declining levels and quality of service and find that they cannot hold any particular agency responsible. In short, we find that California’s existing “system” of government is dysfunctional.³⁶

³⁴ California State Senate Committee on Local Government (2000). Analysis of SB 2000 (Polanco). Sacramento.

³⁵ Leary, Patricia. California State Association of Counties. (2000). Study for AB 1396 Conference Committee.

³⁶ Hill, Elizabeth. (1993, February). Making Government Make Sense: A More Rational Structure for State and Local Government. Sacramento, California: Legislative Analyst’s Office, Policy Brief.

Another observer pointed out the same issue in a slightly different way in saying,

One source of confusion and frustration in California comes in sorting out the roles and responsibilities of different levels of government. The complexity of these roles and the misalignment of program responsibility and accountability often create inefficient and skewed incentives for governments to engage in cost-shifting and blaming. Many proposals have cited the need for program realignment between state and local entities.³⁷

Government is not accountable enough to its citizens.

Citizens and taxpayers want good government. They want their tax dollars to be spent wisely and effectively. They expect government to be an open process that promotes accountability. Because the tax allocation system is so complex, it is difficult for taxpayers to know how and where their tax dollars are being spent. This complexity is not in and of itself a problem when the public receives services that are acceptable to them and for a dollar amount that they consider reasonable. However, when government does not work as citizens feel it should, it is difficult to know who can address their concerns or who to hold accountable. One observer described the problem as such:

For an individual citizen, this confusion (over both program delivery and the property tax allocation system) means that it is very difficult if not impossible to decipher who is responsible when programs do not work as citizens hope or expect them to. Also, with the advent of Proposition 13, taxpayers no longer were able to tell from their property tax bill where their dollars were being spent. This leads to frustration, confusion, and a decreased faith by citizens in their government.³⁸

³⁷ Silva, Fred J. and Barbour, Elisa (1999). *The State-Local Fiscal Relationship in California: A Changing Balance of Power*. San Francisco: Public Policy Institute of California.

³⁸ *Ibid.*

State Mandates

Mandates³⁹ from the state to its local governments have always been controversial. Since California's inception, an independent spirit has largely characterized our society, culture, and government. Because of this, requirements from higher levels of government are often not taken with a high degree of enthusiasm. Local governments often raise the issue of state mandates, and while the state has enacted change, local governments are not satisfied. This particular issue gets to an important part of governments' relative fiscal stability. It is also embedded in concerns about the misalignment of government responsibility.

These days, when people talk about state mandates, they are usually referring to one of two things: either program mandates or process mandates. Both can cost money, and both create tension between different levels of government, but each affects cities, counties, and special districts to varying degrees and in different ways.

Counties are mainly concerned with *program* mandates. Since counties act as extensions of the state, if the state requires its counties to provide more public programs, counties must respond. Often, this results in less discretionary dollars for counties. Counties, cities, and special districts claim that the mandates placed on them, in addition to the other financial constraints faced by government, make it difficult to remain fiscally sound.

The other type of mandates regulates the *processes* by which local governments run. For example, the continued expansion and revision of the Brown Act since its enactment in 1953, which regulates virtually all public meetings, as well as the Public Records Act, which ensures access to government documents and restricts disclosure of specified files, exemplify the types of process mandates placed on local governments by the state. While these mandates might be annoying and frustrating to a government that feels it is capable of running itself without outside intervention, these often do not have the same fiscal effect as program mandates. For many local

³⁹ The term "state mandates" has at least three different meanings in practical use:

1. State-reimbursable legal mandates are "new programs or higher levels of services" enacted after 1975 and for which the state must reimburse local governments' costs.
2. Pre-1975 legal mandates are more prevalent and generally control how local governments operate. An example of this type of mandate is Welfare and Institutions Code Section 17000 et seq., which requires county officials to provide general relief assistance.
3. Practical mandates do not require compliance, but leave local officials with little choice. Maintenance-of-effort (MOE) requirements and matching fund requirements are examples of practical mandates.

Current law allows local agencies to obtain reimbursement of state-mandated costs in two ways. If the legislation creating the mandate contains an appropriation of funds for reimbursement of increased locals' costs, then a local agency may then file a claim with the State Controller for its share of these funds.

If the original legislation does not appropriate funds for the mandate, a local agency may file a "test claim" with the Commission on State Mandates (CSM). After a noticed public hearing process, the CSM makes a determination on the merits of the test claim, and if it finds that a reimbursable mandate exists, the CSM requests funding for the mandate from the Legislature in the form of a local government "claims bill." Once funds have been appropriated for the costs of a mandate, any local agency which feels it is entitled to reimbursement may file a claim with the State Controller. The annual Budget Act makes a General Fund appropriation to reimburse mandated costs. State officials generally pay local agencies through an annual claims process, and the amounts are subject to audit. Newly enacted legislative mandates are funded after review by the CSM and legislative approval in the annual local government claims bill.

governments, these types of mandates are much more about home rule and autonomy than about money.

If local autonomy and home rule are important goals, then trying to reform state mandates can be a worthy use of time and energy. Similarly, if the fiscal strength of local governments is strategically important to the state, then it provides a second, and stronger, reason to study the state mandates process.

Other Issues

In addition to the major issues discussed above, other problems exist. Among those commonly mentioned:

- Property tax allocation is based on outdated local priorities.
- Federal income tax liability is larger than it needs to be for Californians because California's current tax structure does not allow taxpayers to take advantage of as many federal tax breaks as possible.⁴⁰
- There is no local representation in the executive branch of state government.
- The current state tax structure results in unfair barriers to new business and development. This puts new businesses in an unfair position, creating less competition and therefore negatively affecting overall economic growth in the state.

⁴⁰ At the federal level, sales tax is not deductible, but property and income tax are.

Proposed Solutions: *A Discussion of Recent Reform Proposals*

Discussed below are the responses to the problems described in the previous section, using the eight most commonly cited state-local relationship reform proposals since ERAF.⁴¹ These proposals were submitted to legislators by commissions, policy research organizations, state analysts, and local government interests over the past several years. This section provides a general discussion of the proposed reforms. For a more in-depth description of each proposal and a chart comparing them, see Appendices A and B.

The reader will note the similarities between many of the proposals, despite the number of years and differing economic conditions between them. These recurring similarities are at least partially because many of the earlier proposals went largely unheeded by decision-makers in California. The Governor, the Legislature, local governments, and other stakeholders have long looked at these issues and considered reform, but the momentum to solve this perennial set of problems has been growing in the past few years. This is partially evidenced by the sheer numbers of proposals as well as the amount of legislation introduced on the subject.

The recent flurry of attention paid to this issue was probably fueled by the end of the recession, and perhaps by Governor Davis' message that went alongside his signature of AB 1661 (Torlakson, 1999). In his message, he apportioned relief funds from ERAF diversions, but directed the Legislature to look to more fundamental reform, promising no more relief without reform. Interestingly, since then, the Legislature has worked to come up with workable reform solutions, but without success, and, lacking fundamental change, two more relief measures have been enacted into law.

Regarding local governments' fiscal constraints

Each proposal cited contains recommendations for strengthening local governments' fiscal power. Although the proposals do this in a variety of ways, there are common themes.

⁴¹ The eight proposals include:

1. Hill, Elizabeth. (1993, February). Making Government Make Sense: A More Rational Structure for State and Local Government. Sacramento, California: Legislative Analyst's Office, Policy Brief.
2. California Constitution Revision Commission (1996). Final Report and Recommendations to the Governor and the Legislature.
3. Silva, Fred J. and Barbour, Elisa (1999). The State-Local Fiscal Relationship in California: A Changing Balance of Power. San Francisco, California: Public Policy Institute of California.
4. California State Controller Kathleen Connell (1999, September). State Municipal Advisory Reform Team. SMARTER. Sacramento: State of California, Office of the Controller.
5. California State Assembly Speaker's Commission on State and Local Government Finance. (2000, March). Final Report of the Speaker's Commission on State and Local Government Finance. Sacramento: Villaraigosa, Antonio R.
6. Hill, Elizabeth G. (2000, February 3). Reconsidering AB 8: Exploring Alternative Ways to Allocate Property Taxes. Sacramento, California: Legislative Analyst's Office, Policy Brief.
7. California State Association of Counties (CSAC) (2000, February 2). "A Dollars and Sense Plan for Local Government." Sacramento.
8. League of California Cities. (2000, January 12). Report of the League Special Task Force on Fiscal Reform.

Guarantee funding.

Several proposals suggest constitutionally guaranteeing current levels of local funding to protect local governments' already-existing revenues. The Speaker's Commission, the California State Association of Counties (CSAC) proposal, and the League of California Cities' proposal all contain recommendations to guarantee different types of revenues that local governments receive from the state.

Reallocate property tax.

Several proposals suggest allocating property taxes in a manner that would fit local collection and spending preferences and that would grant more local autonomy. Some of them, like the 1999 PPIC report, suggest that the state should allocate taxes differently to ensure that programs are adequately funded. The Constitutional Revision Commission recommends amending Proposition 13 and returning the power to allocate the property tax back to local governments. One LAO suggestion (the LAO's "Rethinking AB 8" proposal #2) would link local tax levels with local preferences, making local officials responsible for taxing decisions by decreasing the property tax to .9% of assessed value, and allowing local governments to decide if they wanted to raise the property tax rate back up to 1%. While this measure may leave even less money in the system overall, it would allow local governments, to a certain degree, the power to enact their particular taxing preferences.

Increase funding.

Several reports suggest ways to increase the overall amount of government funds available. The CSAC proposal recommends changing voter requirements for general and special taxes (which would make it easier to pass local bond measures).⁴² The LAO, in "Making Government Make Sense," suggests eliminating the minimum funding mandate for schools (Proposition 98), while their "Rethinking AB 8" proposal #4 presents an option of amending Proposition 13 to allow for a gradual increase or decrease in property tax rates. It also suggests an intricate switch of taxes between schools, other local governments, and the state. The goal would be to increase the wealth that stays in California by reducing federal government taxes and by amending Proposition 13 so that nonresidential property is taxed according to its market value as opposed to its assessed value.

Reform ERAF.

A handful of reports call for ERAF reform, ranging from a recommendation to cap ERAF diversions (SMARTER) to a \$1 billion total settlement (Speaker Villaraigosa's Commission) of the ERAF question, to a total return of ERAF: \$1.8 billion yearly to cities, counties, and special districts (CSAC, League of California Cities).

Regarding increased reliance on sales tax and the fiscalization of land useSwap property and sales taxes.

To address the skewed land use incentives caused by the current tax structure, a variety of proposals make suggestions using two main mechanisms. The first mechanism, recommended by the PPIC report, the LAO's "Making Government Make Sense," and considered by the

⁴² Interestingly, Proposition 39 passed in November 2000, lowering the vote threshold for local school bonds from two-thirds voter approval to fifty-five percent.

League of California Cities, would swap equal amounts of sales and property tax between local governments and the state. By decreasing local reliance on the sales tax, it is argued that this tool would reduce local government incentives to favor retail over other development.

In a related proposal, the Legislative Analyst's "Rethinking AB 8" proposal #3 would allocate 50% of all property taxes to fund municipal services. This would increase property taxes to cities and special districts. Since counties would only receive modest amounts of this municipal service money, the state would provide backfill to counties using the Bradley-Burns 1% sales tax and some revenues from vehicle license fees.

Move from a situs to a per capita sales tax allocation.

The second type of proposal (offered by SMARTER, CSAC, and the LAO's "Rethinking AB 8" proposal #4) would change the local sales tax from a point of sale to a population-based allocation. This would effectively make the sales tax a regional tax wherein neighboring communities would not have incentive to compete with one another for revenue and would be more willing to engage in regional planning.

Regarding misaligned government responsibilities and the resulting lack of accountability

Realign responsibilities.

Most of the proposals address the issue of realigning government responsibilities. A variety of reforms are suggested, but most fall within these basic themes:

- Returning control over programs to the lowest level of government appropriate while still addressing goals of continuity and uniformity among some services.
- Creating accountability through contracts and partnership relationships.
- Implementing a system of incentives and sanctions.

Improve accountability.

Four proposals address government's need to be more accountable to its citizens. Their suggestions include:

- Creating "community charters" for which both state and local governments would be responsible (California Constitutional Revision Commission).
- Linking local tax levels to match local preferences and making local officials responsible for taxing decisions (Rethinking AB 8 #2).
- Highlighting the different expenses between the various functions of county government, creating property tax reporting requirements, and simplifying property tax bills to show rates for different services provided (Speaker's Commission and Rethinking AB 8 #4).

Regarding the state mandates process

The League of California Cities and CSAC make specific suggestions for reforming the state mandates process. They are especially concerned with the timely processing of claims and with the appointment of local government representatives to the Commission on State Mandates.

The Legislative Response: *Recent Legislative Efforts at Reform*

In early 1999, State Senator Steve Peace, as Chair of the Senate Budget and Fiscal Review Committee, conducted a series of local finance forums around the state. Senator Peace's objective was to gather local leaders to discuss the issues surrounding the state-local fiscal relationship and to gather input about reform. He held hearings in Los Angeles, Placerville, Oakland, San Diego, San Bernardino, Merced, and Ukiah. These meetings were important because for the first time, state officials went out to formally listen to local leaders interested in fiscal reform.

Later in 1999, the Legislature passed and Governor Davis signed AB 1661 (Torlakson), a budget trailer bill that provided, for the first time since ERAF, direct and no-strings-attached fiscal relief to local governments. A total of \$150 million was distributed to cities, counties, and special districts - \$75 million was distributed to counties and cities on the basis of population, and \$75 million was returned based on relative ERAF contributions. In his message, the Governor stated that while he was glad to provide some relief, it was time for genuine reform.

Although I concur with the need to address the state-local fiscal relationship, AB 1661 presupposes that capping the ERAF and state assumptions of certain prospective administration costs incurred by these counties are appropriate solutions to reforming local government finance. I believe sustainable state and local government finances must be approached more broadly and comprehensively and not be restricted to examination of the property tax only.⁴³

Encouraged by the Governor's message, legislators' increasingly energetic interest in these issues, and the state's growing surplus, reformers' activity in 1999-2000 outpaced efforts in previous years. Legislation on this issue followed two tracks: ERAF relief legislation and broader reform legislation aimed at fixing structural issues between the state and local governments. A list of relevant legislation from the 1999-2000 legislative session is available in Appendix C.

ERAF relief legislation

In the 1999 and 2000 legislative session, over fifty ERAF relief bills were introduced. Several of these bills targeted relief to particular special districts. Other bills took a broader approach and sought to "cap" ERAF contributions by local governments. One bill, AB 1757 (Oller), called for a \$12 billion ERAF "refund."

One example of an ERAF bill is SB 2080, introduced by Senator Leslie as part of the Senate Republican reform package.⁴⁴ Senate Bill 2080 attempted to provide a one-time \$250 million base reduction of the amount of property taxes local jurisdictions transfer to their counties' Educational Revenue Augmentation Funds (ERAF). This bill died in the Senate Appropriations Committee.

⁴³ California Governor Gray Davis, signing message for AB 1661(Torlakson). July 12, 1999.

⁴⁴ The package also included SB 2048 (Leslie) and several budget items.

As a bill authored by the President pro Tempore of the Senate, Senator Burton's ERAF relief bill (SB 1637) met with greater success.⁴⁵ Senate Bill 1637 capped ERAF shifts from local governments at their 2000-2001 levels, phased in over three years. It made its way unanimously through the Legislature, but was ultimately vetoed by Governor Davis. In his veto message, the Governor reiterated that, "The state local fiscal relationship should be approached more broadly and comprehensively and not be restricted to examination of the property tax only." He also expressed concerns about the "substantial, ongoing General Fund costs that would increase dramatically over time."⁴⁶

Reform legislation

Several bills introduced in the legislature in 2000 tackled the issue of broad reform in addition to ERAF relief. Senator Alpert's SB 1982, and accompanying constitutional amendment, SCA 18, suggested several fundamental changes based on CSAC's recommendations. Specifically, SB 1982 would have:

- Changed the 1% Bradley-Burns local sales tax allocation from a situs based method to a combined situs, population, and equity based method.
- Allowed counties to tax countywide, not just in unincorporated areas.
- Required the state to pay for the schools' proportional cost of administering the property tax.
- Established a Secretary of Local Government Relations.
- Created state/county compacts to govern state programs run by counties.
- Eliminated the State Controller and Director of Finance as members of the Commission on State Mandates, reducing the members from seven to five.
- Provided for a local government representative to be appointed as an alternate to the Commission on State Mandates.
- Streamlined the mandate claims process.

From the Controller's SMARTER proposal came SB 2000 and SCA 17, authored by Senator Polanco. The bill would have changed the allocation method of the local sales tax from a situs basis to a combined situs and per capita basis. Specifically, SB 2000 would have allocated 90% of local sales tax revenue on a situs basis and 10% on a countywide per capita basis in the first year. In all subsequent years, each jurisdiction would receive a base amount equal to the first year's allocation, plus a per capita share of any growth. Senate Constitutional Amendment 17 would have made the accompanying amendments to the California Constitution.

Senate Bills 1982 and 2000, and SCAs 17 and 18, were all reduced to intent language and held up so that a joint legislative conference committee could collectively deliberate on all reform proposals.⁴⁷

⁴⁵ It was the first major ERAF bill to make it to the Governor's desk since AB 2797(Aguair), which was vetoed by Governor Wilson in 1996.

⁴⁶ Governor Davis' veto message, SB 1637 (Burton), September 28, 2000.

⁴⁷ SB 1982 and SB 2000 were held at the Assembly desk. SCA 17 went to the inactive file on the Senate floor and SCA 18 died in the Senate Constitutional Amendments Committee.

This joint legislative conference committee was composed of Assembly Members Dion Aroner (Chair), John Longville, and George Runner and Senators Steve Peace, Don Perata, and Charles Poochigian. The Committee used Assembly Speaker Villaraigosa's AB 1396 as their vehicle to discuss all reform proposals and come up with a solution. The conference committee met six times in May and June of 2000. They heard testimony from numerous perspectives on the perceived problems, the goals of reform, and suggested reform measures. At the first few meetings, the committee asked counties, cities, special districts, the state, business, and taxpayer interests to present their perspective on the problems inherent in the state-local relationship. Broad agreement existed on the basic problems and broad goals of reform, but disagreement remained on the magnitude of these problems and the appropriate action to take to remedy problems.

The committee submitted AB 1396 (Aroner, 2000)⁴⁸ as its product, which was a relief bill devoid of any real reform.⁴⁹ Modeled after Assembly Member Torlakson's AB 1661 (1999), AB 1396 provided \$212 million in one-time relief for cities, counties, and special districts that was divided in the following way: \$100 million based on population, \$100 million based on ERAF shift proportions, \$10 million to counties based on population, and \$2 million to independent recreation and park districts and independent library districts based on ERAF contributions. One important part of this legislation was the \$12 million appropriated to counties, parks, and libraries, because it was the first time the Governor and the Legislature formally recognized that counties and some districts suffered disproportionately from the property tax shifts compared with other local agencies.

While reform solutions were not enacted, several important things came out of the conference committee. First, participants recognized that the problems embedded in the state-local fiscal relationship would take time and substantial energy to solve. Second, conferees communicated that any reform would involve tough choices that would produce both winners and losers. Finally, legislators acknowledged that solutions might need to be different for different types of jurisdictions (cities, counties, and special districts) because of the various ways historical actions affected them and their different roles as local governments. Conferees adjourned with the understanding that there was no "one-size fits all approach" to these tough problems.

⁴⁸ Assembly Bill 1396 was introduced by Assembly Speaker Villaraigosa, but was later authored by Assembly Member Aroner, as Chair of the Conference Committee.

⁴⁹ Chapter 903, Statutes of 2000.

The beginning of the 2001-2002 legislative session

In the recently ended case of *Sonoma County v. State of California*, regarding the county's claim that the ERAF shifts constituted a state mandate and were thus reimbursable, the appellate court reversed the lower court and decided in favor of the state. The Court concluded,

The state is not obligated to reimburse local governments for the challenged change in allocation of property tax revenues among local entities. The reallocation of revenue resulting from the challenged legislation imposes no reimbursable cost on local governments and is neither a "new program" nor a "higher level of service" within the meaning of the Constitution. The Legislature is the proper forum to address those perceived inequalities and to seek fiscal relief.⁵⁰

Sonoma County appealed to the California State Supreme Court in the above matter. However, the court announced on February 28, 2001 that it would not hear the matter, officially ending the dispute with a victory for the state.

There are also rumors of a possible statewide ballot initiative (Proposition) on the issue from local government associations. No one is sure what form an initiative to the voters would take or what its chances of success would be.

Finally, many continue to pursue legislative remedies for ERAF relief as well as reform. Already this year, legislators have introduced sixteen ERAF relief bills (See a list in Appendix D). In addition, Assembly Speaker Hertzberg has appointed a Commission on Regionalism to discuss, among other things, the state-local fiscal relationship. And, while the Governor again only allocates local government relief in his proposed January budget (\$250 million), and although the energy crisis casts a looming shadow over the robust economy, the state enjoys a healthy surplus. Hope remains that some type of broader legislative reform on the subject will come from this session.

⁵⁰ *County of Sonoma v. Commission on State Mandates, et al*, 84 Cal. App. 4th 1264.

Appendix A:

Selected Reform Proposals of the Post-ERAF Era

The eight most commonly cited proposals for state-local fiscal reform since the enactment of ERAF in 1992 are described below in chronological order.

1. The Legislative Analyst, 1993. “Making Government Make Sense: A More Rational Structure for State and Local Government”⁵¹

One of the first reports to propose or suggest comprehensive reform in the state-county relationship came from the Legislative Analyst’s Office (LAO) in the May 1993 analysis of the Governor’s revised budget.

Buried under a \$14 billion deficit and the inevitability of a second and much larger ERAF action, the Legislature faced bleak economic times and tough questions about funding priorities and responsibilities. The LAO, charged with providing recommendations to the Legislature on budget related issues, responded in part with this proposal. In these recommendations, the LAO stated, “...California’s existing ‘system’ of government is dysfunctional,” and, “...fundamental reorganization of state and local government responsibilities is required.” The report cited the following as problems in the state-local relationship.

- Counterproductive Fiscal Incentives
- Inappropriate Assignment of Responsibilities
- Failure to Avoid Duplication and Realize Scale Economies
- Inappropriate Exercise of Administrative Oversight
- Unproductive Competition for Resources
- Lack of Accountability for Program Outcomes
- Erosion of Local Control

The LAO suggested that the “highest level of government should take over the income distribution programs, and therefore advised realigning program responsibilities. Specifically, the state would assume responsibility for mental health, public health, trial courts, and be given more control over schools, while local governments would take responsibility for incarceration, community based service programs, job training, and housing.

The LAO also believed that the use of multi-agency agreements and cooperation between different levels of government would be effective and beneficial. It suggested incentives and sanctions be built into the new system of local jurisdiction and responsibility.

In order to pay for the increased responsibilities local governments would bear, the LAO recommended the following changes to the tax structure:

⁵¹ Hill, Elizabeth. (1993, February). Making Government Make Sense: A More Rational Structure for State and Local Government. Sacramento, California: Legislative Analyst's Office, Policy Brief. http://lao.ca.gov/mgms_reprint_02-93.html

- Swap property tax from schools to cities and counties and transfer the Bradley-Burns Sales tax to the state.
- Re-determine each community's allocation of property taxes.
- Repeal earmarking of realignment and cigarette tax revenues.
- Amend Proposition 98 by eliminating the schools' minimum funding mandate.

2. The California Constitution Revision Commission, 1996. "Final Report and Recommendations to the Governor and the Legislature",⁵²

The Commission, convened by the Governor and the Legislature in 1994 to conduct a "fundamental review of California government,"⁵³ submitted its final recommendations in 1996. One of the major subjects tackled by the Commission was the state – local relationship.

The Commission recommended two broad reforms to help more clearly define responsibility and establish a larger amount of home rule for local government. First, it suggested amending Proposition 13 in order to return control of property tax rates and allocation of revenues back to local communities. Second, it recommended creating a state-local realignment plan that would establish citizen commissions to form new "community charters." These charters would allocate taxes according to individual local preferences. The charters would be adopted by the Legislature and reviewed every four years.

The Constitutional Revision Commission made the above proposals in combination with other major recommendations for a broad overhaul of state government. The entire package was offered to lawmakers in two bills in 1996: SCA 39 (Killea) and ACA 49 (Isenberg). Some observers believe that the Commission's recommendations for local government reform went largely unheeded by the Governor and the Legislature in part because they were combined with the Commission's broader, more controversial recommendations regarding unrelated issues. However, their state – local reform recommendations continue to generate discussion in the halls of the Capitol.

⁵² California Constitution Revision Commission (1996). Final Report and Recommendations to the Governor and the Legislature. <http://www.library.ca.gov/CCRC/>.

⁵³ Ibid.

3. **The Public Policy Institute of California, 1999. “The State-Local Fiscal Relationship in California: A Changing Balance of Power”⁵⁴**

The Public Policy Institute of California (PPIC) is a private, nonprofit organization specializing in research on economic, social, and political issues in California. Founded in July 1994, PPIC studies California and provides research used to inform effective policymaking. Providing a perspective that is largely void of political pressure, this report from PPIC discusses the historical evolution and constant shifting of power between the state and local governments.

In providing recommendations, this report specifically addressed the issue of local fiscal authority and acknowledged the inherent tension between the state’s desire to achieve equity and individual local governments’ goals in serving their own unique communities. The authors describe the situation this way:

The state could use its re-distributive power to allocate property taxes based on a standard of fiscal need, but it has not done so. Furthermore, the current allocation system, based on local tax liability before the enactment of Proposition 13, increasingly fails to reflect local preferences. Rather than using its power to devise a new system to match local needs or preferences, or some combination of the two, the state in recent years has exerted its power over the tax primarily for the purpose of maintaining its own fiscal health in a time of economic stress.⁵⁵

This critique accuses state government not only of neglecting to choose well between equity and individual preferences, it has also leveraged its relative power to compete with locals for these funds when the state’s General Fund ran low.

The report suggests ameliorating this problem by instituting a constitutional amendment to Proposition 13 and returning property tax allocation power back to local governments. The amount of school funding would still be essentially determined by the state, but within each county, remaining property tax allocation rates could be set by local officials and ratified by voters.

Another concern discussed in the report is the role of county government. In its current configuration, the report argues that counties are overburdened with program responsibilities but too low funded to effectively carry out these mandates. The authors suggest either restoring more decision-making and revenue-generating power to counties or distributing many of their responsibilities to the state and cities.

⁵⁴ Silva, Fred and Barbour, Elisa (1999). *The State-Local Fiscal Relationship in California: A Changing Balance of Power*. Public Policy Institute of California. San Francisco. www.ppic.org.

⁵⁵ Ibid.

4. **The State Controller Kathleen Connell’s State Municipal Advisory Reform Team, 1999. “SMART” and “SMARTER”⁵⁶**

State Controller Kathleen Connell called together leaders from across the state and formed SMART (State Municipal Advisory Reform Team) to “help local governments find money for unmet needs.” In her view,

The state’s economic good health and continued good fortune is threatened by a decades-long imbalance between state and local financing. The current system of municipal financing has resulted in the neglect and deterioration of public services and land use planning decisions that do not serve the public need.⁵⁷

The identified objectives of the team were as follows:

- Identify stable sources of local-government revenue that are not susceptible to preemption by state government
- Identify budgetary and auditing processes that will ensure the delivery of local government services and mitigate the expense of complying with State-mandated programs
- Recommend local government land-use policies that can promote long-term growth without jeopardizing local government finances.

In June 1999 the team released its first report, SMART. To further clarify its recommendations, it released its “enhanced report,” SMARTER in September 1999, which included the following recommendations to heal the state-local relationship.

- End gradually the “point-of-sale” distribution of local sales taxes and shift to a per-capita distribution within each county to address the fiscalization of land use.
- Cap ERAF contributions from local governments at \$3.2 billion annually.
- Eliminate unfunded state mandates to municipalities by ensuring payment before mandates become active.
- Incorporate bilateral compacts between the state and local entities that would define expectations and obligations for each entity’s responsibilities under the compact.

The Controller’s proposal was introduced as legislation by Senator Polanco in 2000 as SB 2000 and SCA 17. They were ultimately held by the Senate Local Government Committee so that a joint legislative conference committee could deliberate on all reform proposals submitted in 2000.

⁵⁶ California State Controller Kathleen Connell (1999, September). State Municipal Advisory Reform Team. SMARTER. Sacramento: State of California, Office of the Controller. www.sco.ca.gov

⁵⁷ Ibid.

5. The Speaker’s Commission on State and Local Government Finance, March 2000. “Final Report of the Speaker’s Commission on State and Local Government Finance”⁵⁸

This commission, created by Assembly Speaker Antonio Villaraigosa in 1998, was asked to recommend changes that would enhance community power over the financing and delivery of local services. The goals of the Commission included, “establishing a local finance system that would facilitate balanced state, regional and local conservation and development; avoiding dependency by local government on one revenue source, and enhancing the transparency of state and local government.”

The Commission made broad recommendations that equity issues should inform reform decisions. In his report message, the Speaker said, “When I formed the Commission, I challenged it to help us achieve fairness and balance in a way the various levels of government work with each other to benefit all the people of California.” He hoped to find a way in the new system to help reduce the gap between affluent and low-income Californians.

The Commission also acknowledged that in the current system winners and losers exist, and that any reform would also involve tough decisions that would also produce winners and losers. The Speaker put it this way:

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

The March, 2000 report of the Commission recommended the following:

- *Reform the state fiscal relationship by:*
 - Swapping a portion of the locally levied sales tax for an equivalent amount of the property tax.
 - Settling the property tax shift issue with \$1 billion total return to cities, counties, and special districts.
 - Constitutionally guaranteeing the existing VLF subvention and the existing half-cent countywide sales tax.
- *Increase government accountability by:*
 - Developing performance measures for state and local services.
 - Establishing a new model for the state-county relationship.
 - Revising the county budgeted requirements to distinguish the various roles of county government.
 - Instituting an annual reporting requirement for property tax allocation.

⁵⁸ Villaraigosa, Antonio R. (2000, March). Final Report of the Speaker’s Commission on State and Local Government Finance. www.speaker.metroforum.org

The Speaker intended to introduce his commission's recommendations in AB 1396. Instead, his bill was used as the vehicle for implementing the recommendations of the joint legislative conference committee regarding the state-local fiscal relationship.

6. The Legislative Analyst, February 2000. "Reconsidering AB 8: Exploring Alternative Ways to Allocate Property Taxes"⁵⁹

In February 2000, LAO issued a report for the state Legislature (from AB 676, Brewer),⁶⁰ setting forth a wide spectrum of proposals for property tax allocation reform. As a backdrop for her proposals, the Legislative Analyst pointed out what she felt were prerequisites for real reform. The conditions included:

- *An acceptance that no perfect solution exists*, and reform will come only with tradeoffs.
- *Focused attention on the solution*. (The LAO suggested the creation of a joint legislative committee to discuss and evaluate reform proposals).
- *State set-aside funds* are a necessary incentive to arrive at a solution.

Also, the Legislative Analyst discussed inherent tensions that make the system so difficult to change. These tensions are:

- *Property tax rate*: taxpayer stability versus local control
- *Property tax allocation*: local versus state control
- *Focus of government*: special purpose agencies versus general-purpose governments
- *Local finance reform*: reform versus fiscal stability

After taking these considerations and tensions into account, the LAO proposed five types of reform and analyzed them based on the tensions listed above. Below is a short accounting of each reform proposal.⁶¹

#1 Set uniform property tax rates

Each jurisdiction would be allocated a share of the property tax based on the services it provides. Based on a statewide standard for the cost of various municipal services, state statute would provide a fixed share of the property tax for each service. Under this approach local agencies, school districts, and special districts within each county would receive a set share of the property tax based on a statewide standard.

⁵⁹ Hill, Elizabeth G. (2000, February 3). Reconsidering AB8: Exploring Alternative Ways to Allocate Property Taxes. Sacramento: Legislative Analyst's Office, Policy Brief. www.lao.ca.gov.

⁶⁰ Chapter 94, Statutes of 1999.

⁶¹ Silva, Fred J. and Lewis Paul G. (2000, May 19). Changing the Order of Things: Six Proposals for Local Finance Reform. Prepared for the Conference on Local Finance Reform. Davis, California. Public Policy Institute of California.

#2 Provide local control over ERAF

Cities and counties would be given direct authority over the rate and allocation of a share of property tax. Under this approach, the state would lower the property tax rate from one percent of market value to .9 percent. The ERAF would be reduced by the property tax reduction. The state would backfill the school districts for the loss. Cities and counties would be authorized to “raise” the tax rate back to the 1- percent tax rate limit if they chose to do so.

#3 Set property taxes for municipal services and schools

The allocation of every property tax bill would be identical: half to local municipal services and half to schools. For the school share, the property taxes would be allocated from a countywide fund. The remaining property tax would be allocated to the city in which the property is located. The county would receive all of the non-school property tax in the unincorporated area. The county property tax funds could only be used for municipal services in the unincorporated area of the county. Cities or counties could elect to contract for the services of other local agencies such as special districts, the county, or redevelopment agencies. In effect, the city or the county would have complete control over the property tax dedicated for municipal services.

#4 Revise the tax burden

Under this alternative, four basic changes would be made in the mix of local revenues.

1. The state and local sales tax would be lowered.
2. Local governments would increase their share of the property tax by trading a portion of the Vehicle License Fee backfill.
3. Local governments would be allowed to raise the property tax over the current one- percent limit under a new limit.
4. Nonresidential property would be assessed at market value.

These changes would reduce the state’s reliance upon nondeductible taxes, provide a more balanced set of local government fiscal incentives for land-use decisions, give communities more control over the property tax rate and allocation, and reduce the barriers to entry for new businesses under an acquisition-based system.

#5 Making government make sense: realign state and local programs and finance

In 1993, the Legislative Analyst recommended a plan for reforming the state-local relationship. Under that plan, the responsibilities of state and local government would be realigned to improve program coordination. The guidelines for this realignment included maximizing the separation between state and local duties; transferring program responsibility for programs where uniformity is important; placing program funding and control at the same level of government; relying on financial incentives to promote intergovernmental coordination; and matching state goals for economic development with fiscal incentives for local communities.

7. The California State Association of Counties (CSAC), 2000. “A Dollars and Sense Plan for Local Government”⁶²

Representing county interests, CSAC, is a major stakeholder in the debate. All of California’s 58 counties belong to CSAC. Counties have three distinct service functions. First, they are a local extension of state government for providing programs and administering services where an overriding statewide interest prevails. Second, counties provide regional services such as tax collection, the district attorney, and jails to all county residents. Third, counties provide municipal services to residents living outside the limits of cities. Counties contribute the largest proportional share of funds to ERAF, and are therefore especially concerned with this issue. They are also interested in regional issues as a wider and more global government than cities. In their reform proposal, they recommended the following changes:

- Change the Bradley-Burns local sales tax allocation method from a situs method to a combined point of sale, population, and equity based method.
- Allow counties to tax countywide, not just in unincorporated areas.
- Require the State to pay the schools’ proportional cost of administering the property tax.
- Establish a Secretary of Local Government Relations.
- Create state/county compacts to govern state programs run by counties.
- Eliminate the State Controller and Director of Finance as members of the Commission on State Mandates, reducing the members from seven to five.
- Provide for a local government representative to be appointed as an alternate to the Commission on State Mandates.
- Streamline the mandate claims process.

Senator Alpert introduced these proposals as legislation in 2000 (SB 1982 and SCA 18). The bills were ultimately held in the Senate Local Government Committee so that a joint legislative conference committee could deliberate on all reform proposals submitted in 2000.

8. The League of California Cities, 2000. “Report of the League Special Task Force on Fiscal Reform”⁶³

The League of California Cities, representing another major stakeholder group in this issue, also adopted a plan. The League of California Cities represents all of California’s 475 cities. Cities are interested in the ways ERAF and state mandates have affected both local finances and local autonomy. The League’s board of directors approved the following reform proposal in 2000. The three recommendations of the proposal were as follows:

- Increase the allocation of the property tax to cities, counties, and special districts.
- Authorize cities to swap sales tax with property tax for future growth in these tax revenues.
- Provide constitutional protection against unfunded state mandates.

⁶² www.csac.counties.org

⁶³ www.cacities.org

Other Proposals

Throughout this recent time period, other groups discussed and many suggested reforms regarding the state-local fiscal relationship. A partial list includes:

- Business Higher Education Forum (1993)
- California Governance Consensus Project⁶⁴
- San Diego Association of Governments: A proposal for state-local fiscal reform⁶⁵
- Metropolitan Forum Project⁶⁶
- The League of Women Voters⁶⁷
- Commission on Local Governance for the 21st Century,⁶⁸ 1997

⁶⁴ This group worked in the late 1990's and disbanded when broad consensus was not reached.

⁶⁵ San Diego Association of Governments. (1998, March). A Proposal for State-Local Fiscal Reform in California. Proposed Constitutional Amendment: Local Taxpayer Protection and Fiscal Stability Act. San Diego, California.

⁶⁶ www.metroforum.org

⁶⁷ The League of Women Voters of California. (1998). The Road to Reforming Government in California. Sacramento, California.

⁶⁸ www.clg21.ca.gov

Appendix C:

Fiscal Reform and ERAF Legislation 1999-2000 Legislative Session

Bills Sent to the Governor

<u>Bill</u>	<u>Chapter</u>	<u>Topic</u>
AB 223 (Wiggins)	Chapter 34, Statutes of 1999	Excludes some fire districts from the ERAF shifts.
AB 349 (Torlakson)	Vetoed	Property tax revenue allocation: Teeter plan for five counties.
AB 417 (Floyd)	Chapter 464, Statutes of 1999	Excludes some special districts from the ERAF shifts.
AB 494 (Davis)	Chapter 824, Statutes of 1999	Shifts county property taxes to the San Diego library.
AB 676 (Brewer)	Chapter 94, Statutes of 1999	Directs the LAO to study property tax allocation alternatives.
AB 1036 (Wesson)	Chapter 602, Statutes of 2000	Extends the property tax administration loan program for counties.
AB 1396 (Aroner)	Chapter 903, Statutes of 2000	Allocates \$212 million to local governments for ERAF relief.
AB 1615 (Longville)	Chapter 604, Statutes of 2000	Addresses property tax apportionment in Riverside County.
AB 2219 (Battin)	Chapter 1076, Statutes of 2000	Makes cities whole for costs incurred in paying jail booking fees to other cities.
SB 161 (Monteith)	Vetoed	Directed the State to pay for all costs for the Pelosso and Sund murder cases.
SB 166 (Baca)	Chapter 45, Statutes of 1999	Authorizes the County of San Bernardino and the City of Chino Hills to an annual transfer of property taxes.
SB 225 (Rainey)	Chapter 1075, Statutes of 2000	Expands the eligibility of local agencies to receive state reimbursement of jail booking fees paid to counties.
SB 316 (Chesbro)	Vetoed	Revised the state-local cost sharing formula for homicide trials.
SB 1396 (Burton)	Chapter 611, Statutes of 2000	Returns excess ERAF revenues to local agencies in Marin County.
SB 1637	Vetoed	Capped the ERAF shifts over a three-year period.

Bills not sent to the Governor

AB 24(Maddox)	Capped ERAF at the 1998-1999 amount.
AB 24 (Runner)	Specified that bank in-lieu taxes be allocated to cities and counties rather than the General Fund.
AB 30 (Pescetti)	Appropriated \$100 million yearly for peace officer salaries currently paid from federal funds.
AB 112 (Florez)	Required the treasurer to establish a special fund to deposit tobacco settlement revenues and authorized local governments to assign or sell such revenues.
AB 115 (Maddox)	Eliminated the January 1, 2001 sunset date on the COPS program.
AB 165 (Knox)	Eliminated the January 1, 2001 sunset date on the COPS program.
AB 284 (Strom-Martin)	Specified additional regulations on the Teeter plan. The increased amount of property taxes allocated to schools would include increased ERAF allocations.
AB 304 (Wildman)	Specified as a trailer bill for reducing ERAF shifts.
AB 328 (Bates)	Allowed Orange County a reduction of ERAF contributions by \$610,000 yearly.
AB 333 (Papan)	Reduced ERAF for community services districts that provide police services which wholly supplant county law enforcement services within the district boundaries.
AB 550 (Torlakson)	Specified as a trailer bill for reducing ERAF shifts.
AB 915 (Dickerson)	Specified those counties without cities would be allocated VLF and motor vehicle fuel taxes currently allocated to cities according to a certain formula.
AB 1167 (Frusetta)	Eliminated ERAF shifts for veteran's memorial districts.
AB 1194 (Leonard)	Specified as a trailer bill for reducing ERAF shifts.
AB 1195 (Longville)	Reduced ERAF to 90% of the previous year's shift, for fiscal year 1999-2000 year only.
AB 1402 (Mazzoni)	Specified that the ERAF shifts shall be limited to the amount needed to fulfill state entitlement funding. In counties where the limit would be operative, the limit would reduce local property tax funding for special education and would trigger replacement with money from the General Fund.
AB 1757 (Oller)	Appropriated \$3 billion from the General fund, and would have committed the state to appropriating the balance of the total amount shifted to ERAF in future years.
AB 1806 (Pacheco)	Capped ERAF at the 1999-2000 amount.
AB 1821 (Mazzoni)	Limited the amount of funds that can be allocated by a county to ERAF.
AB 1867 (Papan)	Specified that Broadmoor Police District not be subject to ERAF shifts.
AB 1880 (Brewer)	Used ERAF moneys to establish a 15.5% floor for property tax allocations to county governments.
AB 2146 (Bates)	ERAF allocation for the city of Laguna Niguel.
AB 2549 (Strickland)	Stated intent to repeal state mandates when creating new state mandates.
AB 2624 (Cox)	Changed procedures for reimbursing state mandated costs.
AB 2658 (Baugh)	Raised the percentage of ERAF allocations in certain counties and capped the percentage that any county may be required shift to ERAF.
ACA 11 (Briggs)	Capped ERAF using a constitutional amendment.
ACA 17 (Leonard)	Reduced ERAF using a constitutional amendment.
ACA 23 (Torlakson)	Constitutionally protected local government revenues.

SB 165 (Rainey)	Stated intent to respond to the <i>Sonoma County</i> Decision if necessary.
SB 215 (Dunn)	Exempted single-county transit districts from ERAF.
SB 1581 (Escutia)	Prohibited a county from reducing a city's TEA allocation under certain conditions.
SB 1883 (Sher)	Required a county to reduce TEA payments to cities in Santa Clara County relative to tax increases and reductions.
SB 1919 (Chesbro)	Expanded the exclusion of fire districts from the ERAF shifts.
SB 1982 (Alpert)	CSAC's proposal for state-local fiscal reform.
SB 2000 (Polanco)	State Controller's SMARTER proposal for state-local fiscal reform.
SB 2024 (Lewis)	Limited the amount of the ERAF shifts to 40% of the current level.
SB 2048 (Leslie)	Allocated \$250 million for local public works.
SB 2080 (Leslie)	Allocated \$250 million for a baseline ERAF reduction.
SCA 6 (Rainey)	Constitutionally protected local government revenues.
SCA 17 (Polanco)	Constitutional amendment companion to SB 2000 (Polanco).
SCA 18 (Alpert)	Constitutional amendment companion to SB 1982 (Alpert).

Appendix D:

ERAF Legislation Introduced in 2001⁶⁹

Senate Bills

Broad:

SB 423 (Torlakson) ERAF return and city and county land use behavior

Limited:

SB 74 (Speier and McPherson) ERAF exemption – Library districts
 SB 92 (Torlakson and Figueroa) ERAF exemption – Fire districts
 SB 93 (Figueroa and Torlakson) ERAF exemption - Recreation and park districts
 SB 94 (Torlakson and Figueroa) ERAF exemption – Library districts
 SB 452 (Oller) ERAF exemption – County Service Areas –
 ambulance service
 SB 810 (Ackerman) ERAF exemption - Single County Transit Districts

Assembly Bills

Broad:

AB 1076 (Canciamilla) ERAF reform (spot)
 AB 1355 (Daucher) ERAF reform (reallocation)

ERAF Cap:

AB 3 (Ashburn) ERAF cap
 AB 100 (Simitian) ERAF cap
 AB 859 (Wiggins) ERAF cap

Limited:

AB 279 (Strom-Martin) ERAF exemption – Animal control departments
 AB 315 (Dutra and Thomas) ERAF exemption – Library districts
 AB 1034 (Florez) ERAF exemption – Fire districts
 AB 1544 (Bates) ERAF relief – Laguna Niguel Community Services
 District

⁶⁹ Source: California State Senate Committee on Local Government. (2001, March). Sacramento.

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