

Exploring Reform in California Governance and Finance

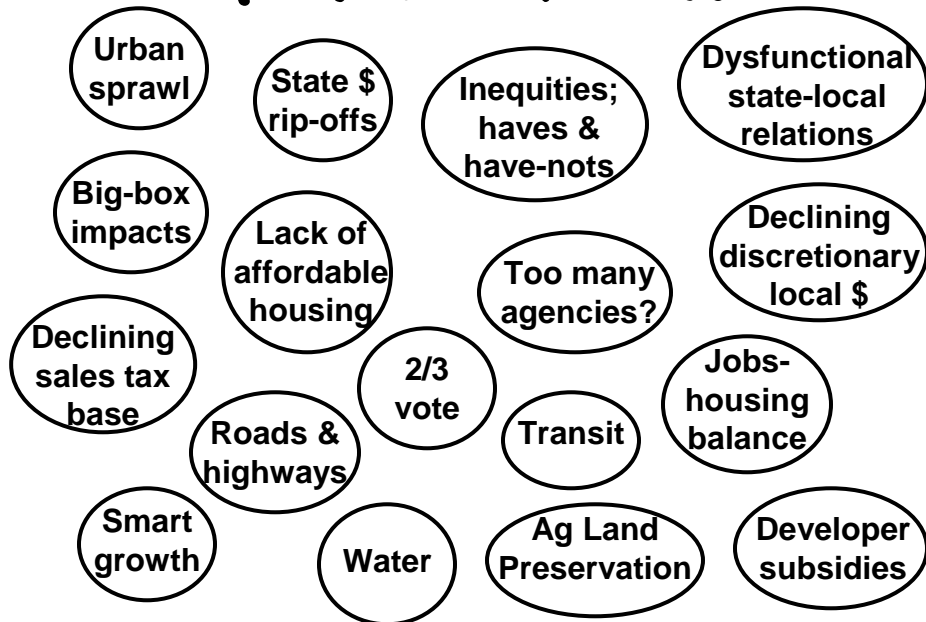
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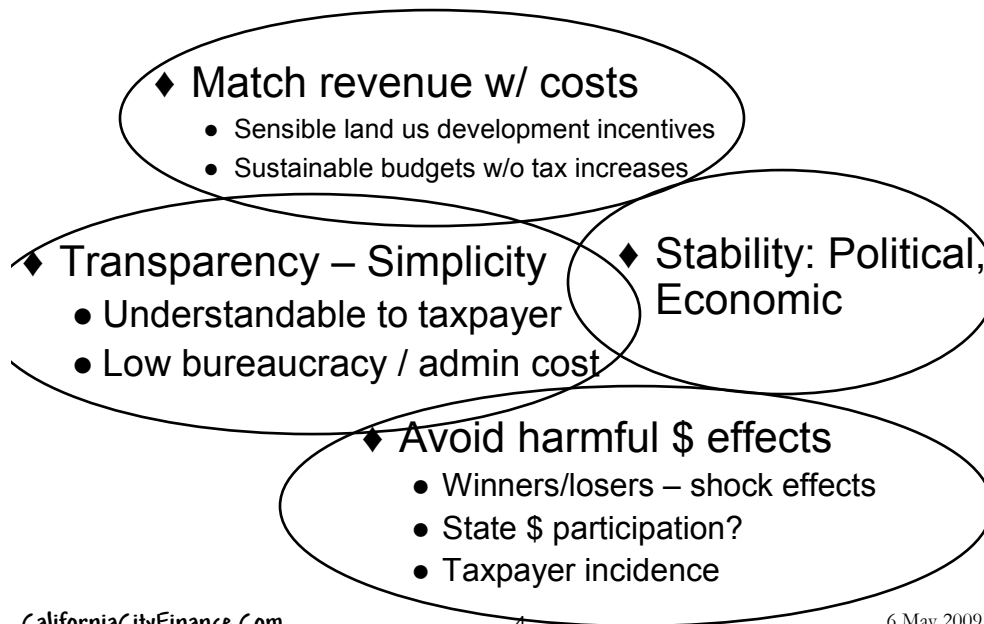


- ◆ Leg Analyst's Office "Making Gov't Make Sense" (1993)
- ◆ California Business - Higher Education Forum (1994)
- ◆ Calif Council for Environment and Economic Balance (1995)
- ◆ League of Calif Cities "Making Calif Gov'ts Work" (1995)
- ◆ California Business Roundtable (1995)
- ◆ Constitutional Revision Commission (1996)
- ◆ California Planning Roundtable (1997)
- ◆ SanDAG "Achieving Fiscal Reform" (1999)
- ◆ Redefining Progress "Greening the Golden State" (1999)
- ◆ California Governance Consensus Project (1999)
- ◆ Controller Connell's SMART / SMARTER (1999)
- ◆ PPIC (Silva, Barbour): *The State-Local Fiscal Relationship* (1999)
- ◆ Speaker's Commission on State & Local Finance (1/2000)
- ◆ Commission on Governance for the 21st Century (1/2000)
- ◆ Legislative Analyst: "Reconsidering AB8" (2000)
- ◆ Calif State Assoc of Counties Reform Task Force (2000)
- ◆ League of Calif Cities Fiscal Reform Task Force (2000)
- ◆ Calif Commission on Tax Policy in the New Economy (2003)
- ◆ Little Hoover Commission (2004)

Reform What?



Principles of Fiscal Reform

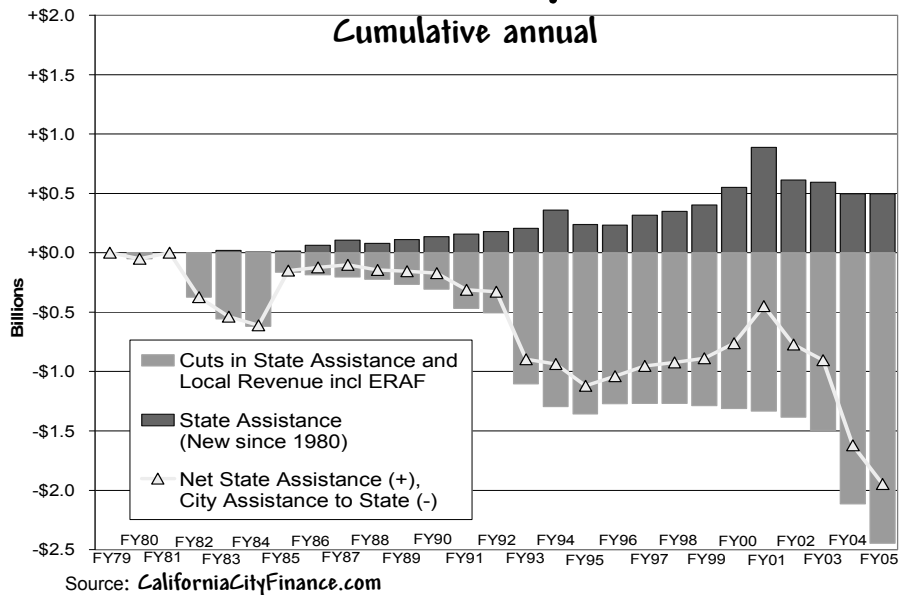


Cities Vary and so do their finances

- ◆ Geography: proximity, climate, terrain, access
- ◆ Community Character / Vision: Land use
Bedroom? Industrial? Tourist? Rural? etc.
- ◆ Size – urban / rural
- ◆ Governance – full service / not

- ❖ Statewide generalizations often mask trends among sub-groups

State Cuts of City Revenues



What's the Problem?

- ◆ Local revenue stability / protection
- ◆ Local revenue authority
- ◆ Fragmented/outdated property tax allocations
- ◆ Effect of social and technical changes on local revenues
- ◆ Soaring public employee pension obligations
- ◆ Disconnect between revenues and costs in urban development

Proposals have included . . .

- ◆ Constitutionally protect local revenues
 - ◆ Streamline the mandate funding process
 - ◆ Property tax return or ERAF freeze
 - ◆ Return control of property tax allocation to local gov't
 - ◆ Change commercial property tax assessment procedures or increase rates
 - ◆ Allow voters to increase property tax above 1%
 - ◆ Majority or 55% vote for local special taxes
 - ◆ Provide targeted development incentives
 - ◆ Sales tax reallocation on population basis
 - ◆ Swap of VLF or sales tax for property tax
- } Protect from Legislature
- } Prop 13 related
- } "Fiscalization of Land Use" concerns

Proposition 1A (Nov 2004)

Constitutionally prohibits the state from:

- ◆ Reducing the local sales tax rate or altering its method of allocation.
 - Exception: interstate compact or federal law, e.g., for streamlined sales tax / remote sales.
- ◆ Decreasing VLF revenue from the 0.65% rate without providing replacement \$ to cities & counties.
- ◆ Shifting property taxes from cities counties or special districts.
 - Legislature may reallocate among cities, counties and special districts with a 2/3 vote of both houses of the legislature.
 - May borrow up to 8% of non-school local prop tax revenues (currently about \$2 Billion) under certain conditions.
- ◆ Strengthens prohibitions against unfunded state mandates

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Reform on the Horizon ?

- ◆ Reduce 2/3 vote to 55%
 - State budget – state taxes (vote of legislature)
 - School parcel taxes, fire, police, transportation bonds (vote of the people)
- ◆ Sales & Use Tax expansion to services
- ◆ Commercial property tax reassessments
- ◆ State-county program realignment
- ◆ Electoral Reform – term limits, redistricting, unicameral Legislature, etc.
- ◆ Employee pension reform
- ◆ Affordable housing development incentives