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June 13, 2000

Hon. Bill Lockyer  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Tricia Knight  
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Section 9005 of the Elections Code, we have reviewed the proposed initiative entitled the "Home Rule, School Funding, and State/Local Fiscal Reform Initiative" (File No. SA 2000 RF 0022 AMDT. #1-S).

**MAJOR PROVISIONS**

This measure significantly changes the allocation of property tax revenues among local jurisdictions (cities, counties, special districts, and school districts). Pursuant to Article XIII A Section 1 (a) of the State Constitution, the basic property tax rate on real property is limited to 1 percent of its assessed value. These revenues, totaling more than \$20 billion annually, are allocated to the various local entities within the county in which a property is located. The amounts that each government receives are currently determined by a series of complex formulas contained in state law.

Under the state's education financing system, property tax dollars that go to school districts generally reduce required state school spending on a dollar-for-dollar basis. In order to reduce budget deficits in the early 1990s, the Legislature shifted property taxes

from nonschool local governments to schools (through a mechanism termed the Educational Revenue Augmentation Fund [ERAF]) and thereby reduced state spending obligations for schools.

The proposed measure simplifies the allocation of property taxes by allocating the revenues for two purposes:

- ***School Funds.*** Fifty percent of the revenues would be deposited into a countywide fund. Schools within the county would receive these funds. As under current law, the remainder of school funding would come from the state's General Fund.
- ***Municipal Service Funds.*** Fifty percent of the revenues would be allocated to the property's "municipal service provider." A property's municipal service provider would be defined as the city in which the property is located, or the county government if the property is located in an unincorporated area. Each municipal service provider would have a defined set of municipal responsibilities, such as police, fire, parks, and libraries. These municipal service providers could opt to allocate a portion of their property taxes to special districts.

In creating this new allocation, the depositing of funds into ERAF would be eliminated.

The proposed measure also directs the Legislature to oversee the transition to the new property tax allocation system over a 36-month period. As part of this responsibility, the Legislature is directed to shift an unspecified amount of sales taxes from cities to counties. The Legislature is prevented from removing any existing subventions, altering existing reimbursements of state mandates, or changing sales tax allocations without replacing lost local government funds with increased property tax revenues.

#### **FISCAL EFFECT**

The measure would not change the total amount of tax revenues collected by state and local governments combined. Many governments, however, would experience significant changes in the types and amounts of their tax revenues.

Currently, schools receive about 52 percent of property tax revenues statewide. The reduction to 50 percent of property tax revenues would correspondingly increase the required level of state spending on education by about \$400 million annually. School districts would experience no change in their overall funding levels as the result of this change.

The measure would also result in shifts of revenues among various local government entities in unknown, but likely significant, amounts. The amounts of these shifts in revenues, including the shifting of sales tax revenues from cities to counties, would depend on the decisions made by the Legislature during the transition period.

To the extent that cities and counties choose not to allocate property taxes to special districts currently receiving property tax revenues, these districts would experience a decrease in revenues.

#### SUMMARY

The measure would result in the following major fiscal impacts:

- Increased state costs for education of about \$400 million annually.
- Unknown, but likely significant, shifts in revenues among cities, counties, and special districts.

Sincerely,

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Elizabeth G. Hill  
Legislative Analyst

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B. Timothy Gage  
Director of Finance