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# Ten Events That Shaped California State-Local Fiscal Relations

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate and Assembly Select Committees on  
Improving State Government





## Number 1 1910 Separation of Sources Act

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- Sought to Resolve State-Local Friction and Promote Accountability**
  - Separate finances of state and local governments.
  - State would tax railroads, telegraph, and telephones.
  - Local government would tax property. Each local government would set its own tax rate.
  
- One of Nation's Strongest Actions to Promote Local Governance**
  - Established notion that the government that imposed a tax determined how it would be used.
  
- Importance Today**
  - Perception of local fiscal independence continues, despite conflicts with modern constitutional provisions and practice.



## Number 2 1930s New Deal

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### State Enlisted Counties to Administer Safety Net Programs

- Counties assumed new responsibilities.
- County property taxes used to pay for programs.

### Importance Today

- State and county responsibilities and finances inextricably linked.

<b>2007-08 County Revenues</b>	
<i>(In Millions)</i>	
Intergovernmental revenues	\$27,280
Property tax	11,374
Sales and others taxes	1,514
Charges and other	10,214
<b>Total</b>	<b>\$50,382</b>



## Number 3 1952 Proposition 18

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- Authorized Redevelopment Agencies to Pledge Property Tax Growth to Pay Debt Obligations**
- Redevelopment Agencies Not Required to Get:**
  - Local agency approval before redirecting property taxes.
  - Voter approval before issuing debt.
- Importance Today**
  - Use of redevelopment has grown as constraints on local revenues have increased.

<b>Redevelopment Share of Assessed Valuation 2007-08</b>	
<i>Selected Counties</i>	
<b>County</b>	<b>Percent of Assessed Valuation</b>
San Bernardino	31%
Riverside	26
Butte	20
Solano	20
Yolo	18
Statewide average	12



## Number 4 1972 SB 90

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- Set Maximum Local Property Tax Rates**
  - Homeowners expected tax bills to decline.
  
- Statutory Requirement to Pay for State-Mandated Local Programs**
  
- Created School “Revenue Limits”**
  - State aid supplements local property tax revenues to equalize school district resources.
  
- Importance Today**
  - Largely ended relationship between each school district’s property taxes and its overall resources.
  - Inextricably linked state and school finance.



## Number 5 1978 Proposition 13

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### **Major Changes to Property Tax**

- Set maximum tax rate at 1 percent.
- Assessed property based on its purchase price.
- Gave Legislature responsibility for allocating property tax.



### **New Two-Thirds Vote Requirements**

- Voter approval for new local special taxes.
- Legislative approval for new state taxes.



### **Importance Today**

- State has authority over allocation of primary local tax.
- Established different government approval requirements for (1) creating spending obligations and (2) raising taxes.



## Number 6 1979 AB 8



### State's "Proposition 13 Bailout"

- State assumed about \$1 billion of cost for county safety net programs.
- Shifted share of property taxes from schools to other local governments (backfilling schools).

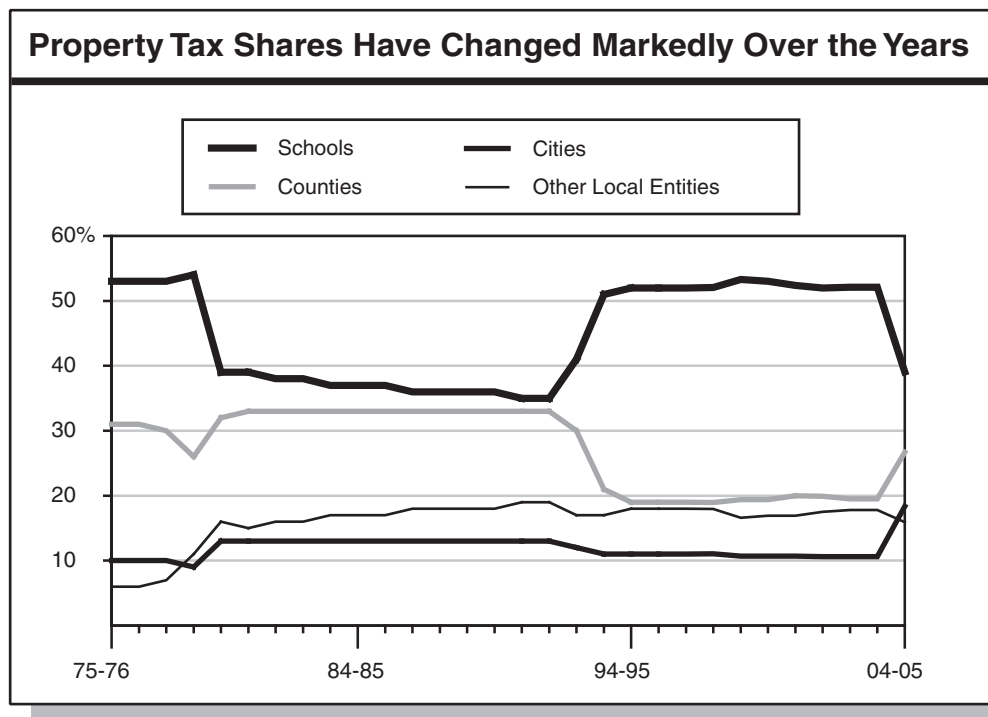


### Allocated Property Taxes Based on Each Local Government's Share of Revenues Prior to Proposition 13



### Importance Today

- Property taxation decisions of mid-1970s locked into place.
- State assumed greater financial responsibilities.





## **Number 7 1991 Realignment**

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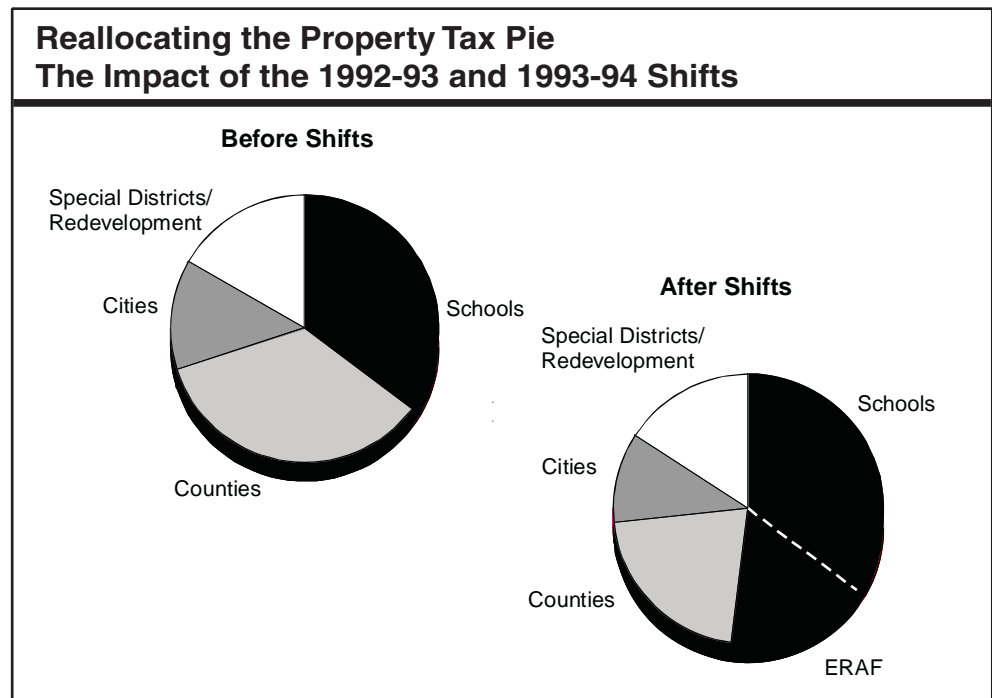
- Major Program Swap Between State and County**
- State Raised Taxes and Allocated Revenues to Counties to Administer Programs**
- Importance Today**
  - Example of fluidity of state-county program duties and potential to improve program outcomes by realigning program authority.





## Number 8 1992 and 1993 ERAF Shifts

- ✓ **Ongoing Shift of About One-Sixth of Property Tax to Schools**
  - Educational Revenue Augmentation Fund (ERAF).
- ✓ **Each Local Government's Shift Based Partly on Its AB 8 Benefits**
- ✓ **Fiscal Impact of ERAF Partly Offset by Proposition 172**
- ✓ **Importance Today**
  - State used authority over property tax allocation for state fiscal benefit. Continued debate about the "fairness" of agency ERAF amounts and Proposition 172 allocations.





## Number 9 2004 Triple Flip/Swap

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### **Different Reasons, Same Approach**

- State reduced local government tax revenues (vehicle license fee [VLF], sales tax).
- State replaced lost local revenues with ERAF funds, backfilling schools for reduced revenues.



### **Importance Today**

- Demonstrates fungibility of property tax and extent of state authority over local taxes.
- Further complicates property tax allocation system.



## **Number 10 2004 Proposition 1A**

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- Local Interest in Sealing Off Revenue Streams From State's Control**
- Reduced State Authority Over:**
  - Allocation of property tax.
  - Local sales tax rate and allocation.
  - VLF rate reductions.
- Expanded State Requirements Regarding Mandates**
- Importance Today**
  - Constrains state fiscal authority over local finance, but does not increase local authority.
  - Some increased attention to mandates.



## State-Local Relationship Today

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- ☑ **Local Authority Anticipated in Separation of Sources Act Not Evident**
  
- ☑ **Blurred Line Between State and Local Resources and Responsibilities**
  - Makes it difficult to know which level of government to hold accountable.
  - Leads to intergovernmental tension.