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Parole Realignment LAO Alternative Budget Package

LEGISLATIVE ANALYST'S OFFICE





Realignment Overview

- Three Financing Approaches**
 - Shift state General Fund revenues to counties
 - Impose new tax
 - Reallocate other tax revenues

- LAO Budget Package Reallocates:**
 - Water and waste district property taxes, \$188 million
 - Proposition 172 sales taxes, \$178 million
 - Department of Motor Vehicle (DMV) vehicle license fee (VLF) revenues, \$130 million
 - Other financing approaches and revenue mixes possible

- Goal—Give Counties:**
 - Fiscal flexibility and incentives to promote good outcomes
 - Revenues equal to what the state spends to supervise the offenders (\$483 million) and resources for transitional costs and incentives (\$12 million)



Property Tax Reallocation: Background

- ☑ **California's Second Largest Source of State-Local Revenues**
 - Legislature responsible for allocating property taxes
 - Current allocation laws reflect taxation decisions of the 1970s
 - Legislature directed special districts to shift to user fees

- ☑ **Water, Sewer, and Solid Waste Services:
Most Californians Served by a Branch of Their City or County**
 - Some served by independently elected special districts
 - State Controller calls these districts water and waste "enterprise special districts" because they operate like businesses

- ☑ **Water and Waste Services:
Primary Funding Source Is User Fees**
 - However, almost one-half of the state's 1,212 water and waste districts receive some property taxes
 - Property taxes typically represent less than 10 percent of these districts' operating costs
 - Property taxes can allow districts to charge lower user fees



Property Tax Reallocation: Proposal



Policy

- Use property tax revenues for broad-based public services
- Establish a local process for tax allocation decision making



Delegate to County Boards of Supervisors Authority to Reallocate Property Taxes From Water and Waste Districts to Parole Realignment

- Reallocate about one-half of statewide district property taxes (\$188 million of \$370 million)
- No county would shift more than 70 percent of countywide district property taxes
- Shifts from specific districts could vary significantly
- Voter-approved property taxes (taxes over the 1 percent rate) and property assessments are exempt from reallocation



Model Based on 1993 Tax Reallocation Experience in Santa Cruz



Proposition 172: Background

- Voters Amended Constitution in 1993 to:**
 - Create a one-half cent state sales tax for local public safety
 - Specify that the revenues shall be allocated according to statute

- Tax Will Raise \$3 billion in 2008-09**

- Current Proposition 172 Allocation**
 - Revenues collected by state and allocated to counties based on location of taxable sales
 - Counties transfer about 6 percent of revenues to cities that sustained property tax (ERAF) reductions in 1993



Proposition 172: Proposal

- Redirect 6 Percent of Total Statewide Proposition 172 Revenues to Statewide Parole Realignment Account**
- Allocate Remaining Proposition 172 Revenues to Counties Based on Taxable Sales (Similar to Current Law)**
- Cities Would Not Receive Proposition 172 Revenues**
 - Reduction of about 1 percent of city tax revenues
 - City revenue loss partially offset by closure of tax expenditures



DMV VLF: Background

- VLF Revenues Are Allocated to Cities and Counties After DMV Subtracts a Share to Pay for its Tax Collection Costs**
 - No perfect way to determine DMV's collection costs
 - Long standing methodology reflects DMV's budget total and amount of revenues collected by DMV

- VLF Rate Reduction: Cities and Counties Held Harmless**
 - State shifted property taxes from schools to cities and counties
 - State General Fund backfilled schools for their revenue losses

- VLF Rate Reduction: DMV Also Held Harmless**
 - DMV's revenues from VLF would have decreased from \$339 million to \$209 million (about one-third)
 - Statute allows DMV to calculate its share of VLF under the assumption that the VLF rate is still 2 percent
 - Cost to General Fund to hold DMV harmless, \$130 million



DMV VLF: Proposal

- Repeal Statute Allowing DMV to Calculate VLF Revenues Under the Assumption That VLF Rate Is Still 2 Percent**
- Use \$130 Million of DMV VLF for Parole Realignment**
- DMV May Increase Registration Fee by About \$4 per Vehicle to Offset Reduced VLF Revenues**
- DMV Would Return to Being a Fully User-Fee Financed Department**



Putting It Together

- Assign Each County a “Parole Funding Target” Based on the Size of its Population**
- Water and Waste District Property Taxes Serve as the First Source of Resources for Each County’s Parole Funding Target**
- Counties That Need Additional Resources to Reach Their Parole Funding Targets Receive Funds From the State Account (Proposition 172 Revenues and DMV VLF Revenues)**
- \$12 Million Additional Resources in Statewide Account Allocated:**
 - Initially, to all counties to offset transition costs
 - Later, to counties making greatest progress towards reducing recidivism and improving public safety

How Parole Realignment Financing Would Work			
<i>(Dollars in Millions)</i>			
	Hypothetical Counties^a		
	A	B	C
Parole Realignment Allocation	\$10.0	\$10.0	\$10.0
Funding Sources			
Water and waste district property taxes			
County totals	22.0	10.0	5.0
Amount allocated to PSRA ^b	10.0	7.0	3.5
Percent reallocated	45.0%	70.0%	70.0%
Support from SPSRA ^c	—	\$3.0	\$6.5

^a Counties have same population so their funding levels are identical.
^b The lesser of the amount needed for realignment funding (in this case, \$10 million) or 70 percent of total property taxes is deposited to each county’s Public Safety Realignment Account (PSRA).
^c State Public Safety Realignment Account, which consists of certain Proposition 172 funds and reallocated Department of Motor Vehicles vehicle license fee revenues.