

SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



FROM: Supervisor Buster

SUBMITTAL DATE: March 28, 2003

SUBJECT: Lobbying for State Property Tax Reform

RECOMMENDED MOTION:

That the Board direct the CEO and the County's Sacramento lobbyist to give the highest priority to legislation which would increase the County's share of property taxes in exchange for sales taxes and to consider joining with other low property tax counties, including Orange, San Bernardino, Ventura, and San Diego to pass such legislation.

BACKGROUND:

The share of the property tax that Riverside County receives is, at 12 cents out of every \$1 dollar, among the lowest in the State (see attached March 27th Los Angeles Times article). Property tax revenues are a much more reliable revenue source than sales taxes. Stable revenues are essential to the delivery of vital county services. As the fastest growing county, it is particularly important that Riverside gain more secure and growing revenues than the sales tax, which is mostly captured by cities anyway.

The transfer of property taxes from cities and counties to the schools in the early '90's left Riverside in an extremely vulnerable position to recessions and State budget cuts.

The statewide interest in fiscal restructuring because of the budget deficit provides the first real opportunity for Riverside County to improve revenue predictability over the long-term. This is a chance we shouldn't miss.

Riverside also has a natural alliance with most other large and growing Southern Californian counties on this issue (see attached chart comparing cents per dollar for various counties). If we actively work together, favorably results are within reach.

Riverside County ought to lead in this effort. We can allay fears better than any other county that affordable housing won't be built because of increasing dependence on property taxes. We can point out that Riverside County continues to build the most new affordable units and also has the greatest proportion of property taxes going to redevelopment, nearly 20 cents compared to an average of 8 cents for other counties, to invest in housing for the poor.

Bob Buster, Supervisor, 1st District

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Tax Reform Push Gains Momentum in Crisis

By JEAN O. PASCO
Times Staff Writer

As California struggles with a historic budget shortfall, a growing number of lawmakers are hoping the crisis finally nudges the Legislature into untangling a state tax system that they argue shortchanges many large counties, including Los Angeles, Orange and San Diego.

In past years, calls to reform the state's complex web of property and sales taxes, fees and other special assessments encountered strong opposition, mostly from Northern California where many local governments stood to lose revenue.

But this is not a normal year. With the state facing a shortfall of up to \$35 billion over the next 18 months, and counties expecting major cuts in state funding, tax reform is drawing support from Orange County republicans like Supervisor Chris Norby and Los Angeles Democrats like City Councilman-elect Antonio Villaraigosa.

"This [state budget] deficit requires us to think out of the box," said Villaraigosa, former speaker of the state Assembly. "This is not a Republican-versus-a-Democratic issue."

The calls for tax reform are loudest in Orange County — which is no surprise because, despite its affluence, the county has control over the smallest slice of property taxes in the state. For 20 years, Orange County Republican legislators introduced bills to change the inequity. None made it to a floor vote, but that might change with growing bipartisan support for reform.

"In crisis, sometimes there really are opportunities to hunker down and figure out what type of structure we want in this state," legislative analyst Elizabeth Hill said during a budget hearing in Santa Ana, declaring the system broken.

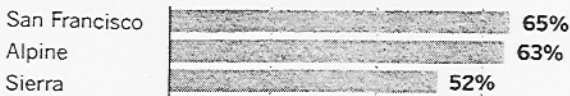
Gov. Gray Davis, in his State of the State speech, said he was committed to significant structural reform that would return stability to state and local financing. Six bills in Sacramento — four from Orange County sponsors — would loosen some of the strings that constrict local government spending.

"We believe the time has long past for reform," said Pat Leary, lobbyist for the California State Assn. of Counties in Sacramento. "But the difficulty always comes down to the fact that it's

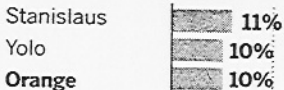
Slicing the property tax pie

Formulas establishing how property taxes are used to fund county government operations were set in 1979. The average share for California counties in 2001 was 19%.

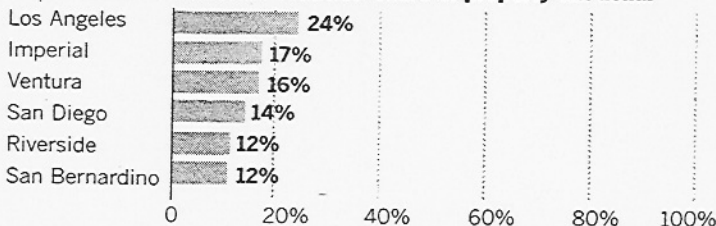
Counties with greatest share of property tax dollar



Counties with smallest share of property tax dollar



Other southern California counties' share of property tax dollar



Source: State Board of Equalization, 2000-01 annual report (most recent available)

Los Angeles Times

such a complex problem, it's hard to get your arms around."

Today, every dollar paid in property taxes is divvied up under a Byzantine formula crafted nearly a quarter-century ago. The share each county receives is based on the proportion of money spent in that county in 1979 for schools, health care and other government services.

It has provided a windfall to many Northern California counties, which, 24 years ago, generally spent more than Southern California counties.

In Los Angeles County, for example, 24 cents of every property tax dollar goes to the county to pay for programs the county administers. Schools receive 41 cents, 16 cents goes to the cities and the remaining 19 cents goes to other government agencies, including sanitation districts and community redevelopment.

The county and city of San Francisco, on the other hand, keep 65 cents of every property tax dollar. Twenty-nine cents goes to schools and 6 cents to other agencies. Because schools receive a guaranteed minimum each year, the state makes up the difference in counties such as San Francisco.

Norby said the system has created a skewed quest by counties and cities for sales taxes — the only tax base they can di-

rectly affect. Because local governments get 1 cent of the sales tax, the higher the retail sales, the more money for local projects — usually at the expense of new homes, office parks and manufacturing.

Retail is in such demand that more than \$300 million in tax incentives has been offered in the last decade across California to large retailers such as Costco and Wal-Mart.

"We need to end the shameless shakedown of cities by big-box retailers, auto dealers and NFL team owners for even-greater public handouts," Norby said at a Sacramento hearing this month on tax policy.

Norby, who spent 18 years on the Fullerton City Council, has been lobbying Sacramento for a plan in which government services and their funding would be directly linked. Local property taxes would be spent on services delivered and controlled locally.

In exchange, the state would take control of the 1-cent portion of the sales tax now going to local governments, as well as the 5 cents that goes to the state's general fund. All of the state's vehicle license fees also would go toward funding state responsibilities, including education.

Tax reform supporters hope their cause will be aided by a shifting environment in Sacra-

mento created by term limits. Of 80 Assembly members, for example, 50 were city council members or county supervisors who have experience grappling with the uncertainty of state funding.

"The political dynamics have never been in place the way they are now," said Joel Fox, former longtime president of the Howard Jarvis Taxpayers Assn. who is consulting with Norby. "I think we'll see that the best solution is the one that bubbles up from the bottom instead of coming from the top down."

Assemblyman John Campbell, a conservative Republican from Irvine, and Assemblyman Darrell Steinberg, a liberal Democrat from Sacramento, have joined together in sponsoring a bipartisan tax reform bill to give local governments more property taxes in exchange for the state taking back an equal amount of their share of the state sales tax.

The "Housing and Smart Growth" bill would create a "more balanced system of local government financing that would enable cities to grow in the way they choose," Steinberg said.

A bill by Assemblyman Lou Correa (D-Anaheim) has a different approach. He wants the state to take some of the property taxes now pooled to supplement education and shift that money to counties with the smallest share of property taxes. Thus, every county would be guaranteed control over at least 15.5% of its property taxes. Sen. Tom Torlakson (D-Antioch), who heads the Senate Local Government Committee, agreed that the Legislature is under pressure to restructure government as part of devising a balanced budget. He has a bill that would bar cities from offering tax subsidies to entice retailers from another city.

But whichever solution prevails cannot come on the backs of the state's poor, he said. He fears that, under proposals that would increase a county's share of property taxes, counties would have no incentive to build affordable housing, because high-end homes would bring in more property tax revenue.

The most crucial element of any new plan is something that often takes time to calculate: the list of winners and losers, or those cities and counties that would keep more money in the new scheme and those that would get less.