DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose

BILL NUMBER: SB 277
AUTHOR: P. Wiggins

BILL SUMMARY: Property Tax Revenue: Cordelia Fire Protection District

This bill, an urgency measure, would reduce by $58,310 the amount of property tax revenue shifted to the Educational Revenue Augmentation Fund (ERAF) by the Cordelia Fire Protection District (District) beginning in 2009-10. This amount would be adjusted each year thereafter. The bill also would require the Department of Finance to ensure this change does not correspondingly increase any other district's ERAF shift.

FISCAL SUMMARY

This bill would reduce the amount of property tax allocated to K-14 schools by $58,310 in 2009-10. Since Test 1 of Proposition 98 is expected to be in effect, these revenues will not be backfilled by the General Fund.

Although this bill has been flagged as a state mandate it is not reimbursable, since local officials have the authority to charge fees to pay for the level of service required by the bill.

COMMENTS

Finance opposes this bill for the following reason:

- We understand this bill is mainly prompted by the belief that the District's ERAF payment is too high because it has not been adjusted to account for the fact that territory once served by the District has been annexed by other jurisdictions. By not allowing the state to charge those other jurisdictions an ERAF amount proportionate to the amount that this District would be forgiven, however, this bill would result in proportionately higher Proposition 98 General Fund costs in years when Test 1 is not in effect.

Analyst/Principal	Date	Program Budget Manager	Date
(0761) C. Hill		Mark Hill	

Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved_______ Position Disapproved

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ANALYSIS

A. Programmatic Analysis

Under current law, county auditor-controllers allocate property taxes to counties, cities, special districts and schools according to a specified allocation system. In 1978 Proposition 13 limited local property tax revenues to one percent, and directed the Legislature to apportion the resulting revenues "according to law." One year later, the state formulated a funding plan, Chapter 282, Statutes of 1979, to provide local governments with the same percentage of property tax revenues that they received before Proposition 13. This is known as the "AB 8 bail-out." Under AB 8, the schools' local property tax revenues were shifted to cities, counties, and special districts and the state accepted the responsibility of compensating the schools commensurately for the shift. The state sustained this shift in financial responsibilities from 1978 to 1992. In addition to paying for the cities', counties', and special districts' school share of property tax revenues, the state assumed the responsibility for a greater portion of county health and welfare costs.

During the recession-fueled fiscal crises in 1992-93 and 1993-94, the Governor and the Legislature shifted a portion of the counties', cities', and special districts' property tax revenues back to the schools. This shift is based on the amount of property tax revenues reported by the local agencies to the State Controller's Office in their 1989-90 financial transactions reports. The state created an Educational Revenue Augmentation Fund (ERAF) in each county to accomplish this property tax shift back to the schools. Proposition 98 is funded by local property taxes (including the ERAF) and the state's General Fund. In most years the amount of property tax shifted to the ERAF reduces the state's Proposition 98 General Fund obligation on a dollar-for-dollar basis. This does not apply in years when Test I is in effect, however. Test 1 is expected to be in effect in 2009-10.

This bill, an urgency measure, would reduce by $58,310 the amount of property tax revenue shifted to the ERAF by the Cordelia Fire Protection District beginning in 2009-10. This amount would be adjusted each year thereafter. The bill also would require the Department of Finance to ensure this change does not correspondingly increase any other district's ERAF shift.

Discussion: According to the author's office, Solano County officials discovered that the District was receiving nearly half of its annual allocation of property taxes from areas that had been annexed into nearby cities and were no longer served by the District. Additionally, the District lost more revenue when the city of Fairfield cancelled its contract with the District to provide fire protection within part of the city. Therefore, Solano County and the District want the District's annual ERAF shifts reduced to reflect these revenue losses.

It is our understanding that the State Controller has not yet conducted a formal review of this issue. According to the author's office, a formal request has been made to the State Controller to review the District's claim.

B. Fiscal Analysis

This bill would reduce the amount of property tax allocated to K-14 schools by approximately $58,310 in 2009-10. Since Test 1 of Proposition 98 is expected to be in effect, these revenues will not be backfilled by the General Fund.

Although this bill has been flagged as a state mandate it is not reimbursable, since local officials have the authority to charge fees to pay for the level of service required by the bill.

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Section 17556(d) of the Government Code provides that the Commission on State Mandates shall not find a reimbursable mandate in a statute or executive order if the affected local agencies have the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program in the statute or executive order. In its April 1991 decision in *County of Fresno v. State of California*, 53 Cal 3d, 482, (1991), the State Supreme Court held that this Section is facially valid under Section 6 of Article XIII B of the California Constitution. The court reasoned that Article XIII B was not intended to "reach beyond taxation", i.e., the article requires reimbursement only for those expenses that are recoverable solely from tax revenues. Section 17556 of the Government Code authorizes the affected local entities to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service. Therefore, although this bill may result in additional costs to local government, those costs are not reimbursable because the affected local entities are authorized to charge fees to cover those costs.

	SO	(Fiscal Impact by Fiscal Year)							
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
6110/Dept of Educ	LA	Yes		-------------------- See Fiscal Analysis ---------------------					0001
6870/Comm College	LA	Yes		-------------------- See Fiscal Analysis ---------------------					0001