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Proposition 13, Ten Years Later

Joint Legislative Budget Committee

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CALIFORNIA LEGISLATURE
JOINT LEGISLATIVE BUDGET COMMITTEE
SENATOR WILLIAM CAMPBELL, CHAIRMAN

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**PROPOSITION 13,
TEN YEARS LATER**

A Report on the
**Joint Legislative Budget Committee's
Hearing of September 30, 1987**

JOHN VASCONCELLOS
Vice Chairman

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Joint Legislative
Budget Committee

VICE CHAIRMAN
JOHN VASCONCEL

ASSEMBLY

ART AGNOS
WILLIAM BAKER
ROBERT CAMPBELL
ROBERT C. FRAZEE
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PROPOSITION 13, TEN YEARS LATER

A report on the
Joint Legislative Budget Committee's
hearing of September 30, 1987

prepared November 4, 1987

INTRODUCTION

The Joint Legislative Budget Committee is one of two legislative Committees created by statute and funded by a separate line item in the annual Budget Act. The Committee was created in 1941 and has two principal duties. The first is to oversee the Office of the Legislative Analyst. The Analyst and her staff provide a valuable service to the Legislature, annually reviewing the Governor's Budget, publishing an analysis of the budget, and reviewing some 3500 pieces of legislation which have a fiscal impact.

The Committee's second duty is to review the implementation of the Budget by the Administration. The Committee is charged with approving all changes in expenditure plans and expenditures of other funds by the Administration which were not originally budgeted by the Legislature.

Soon after being elected Chairman of the Committee, Senator Campbell held discussions with the leadership of both houses to expand the duties of the Committee. When first elected to the Assembly in 1966, Senator Campbell felt the Legislature did a much better job of looking towards the future than it does today. In this vein, the Committee has begun to examine some of the long range policy issues which will be facing California as we enter the next millennium.

In order to better understand the future, the past must be understood and resolved. With this in mind, the Committee has held two hearings to anticipate budget problems facing California in the next century. This report focuses on the first of these: "Proposition 13, Ten Years Later."

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Proposition 13 was probably the single most significant change made in the way governments, at all levels, operate in California. This change has caused governments in California to reduce the size of their operations and to put off long term planning.

Ten years ago this coming June, the voters of California turned the fiscal system of their state upside down. The voters reduced a total of \$7 billion in annual 1978-79 dollars from governments in California. Since that time the state legislature has recast the funding formulas for almost all segments of government in California.

Proposition 13 was passed by the voters on June 6, 1978, placing a one-percent ceiling on property tax rates and stating that higher rates could not be imposed without a two-thirds majority of local voters. In addition, the initiative rolled back all property tax assessed values to their 1976 levels. Assessed values can be raised at a rate not to exceed two percent per year or the change in the Consumer Price Index, whichever is lower.

The tax revolt forced painful cuts in public services and, combined with a recession beginning in 1980 and federal aid reductions, led to a slash in the revenues available to once-flush California governments. Community colleges, parks, and libraries were singled out for serious spending and staff reductions; more recently, public health and welfare programs have been significantly reduced.

The effects of the financial distress have fallen unevenly on the state and local governments. The state was flush with its surplus and spent accordingly for the first three years. However, beginning in 1982 a recession and three years of deficit spending forced the state to impose a standby one-percent sales tax increase against the possibility of an unbalanced budget.

Today, nine and one-half years later, the committee was told that the mood of the voters seems to have changed. Has the so-called tax revolt stopped?

MOOD OF THE VOTERS

Proposition 13 was approved by an overwhelming 65% of the voters, and two years later they passed the Proposition 4 Gann spending limit by 74%. Both of these actions have been taken by the Legislature to mean that the voters were concerned about the high level of taxes. Mr. Mervin Field, with the Field Institute, confirms this assumption.

In a 1978 poll of Californians, Mr. Field found that 30% volunteered high taxes as one of the most pressing issues in the state or community. By 1987 this number had dropped to just five percent. Clearly the public's concerns about high taxes has declined to the point where it ranks behind such other issues as traffic congestion, aid for the homeless, and drug use.

The Committee also heard that the public perception of government size and trustworthiness has improved dramatically since 1978. In that year the public, by a 60 to 30 percent margin, preferred a smaller government. By the time of the Committee hearing this margin had changed to 49 to 42. While it cannot be definitely concluded that the public is willing to pay higher taxes for a larger government, it is quite clear that the public no longer considers taxes in the same light as it did in 1978, the year Prop 13 passed.

Despite these positive attitudes Mr. Field concluded that "right now the public is not ready to change Prop 13." Nevertheless, the Committee felt the time may have come to make some minor modifications to the rules governing local taxing authority.

IMPACT ON CALIFORNIA'S CITIES

The Committee learned that cities have taken advantage of their financial independence. After losing 51% of property taxes to Proposition 13, cities jacked up fees they charged the public and began to rely more heavily on the sales tax.

In 1978, the year Proposition 13 passed, 22% of cities' revenues were from property taxes. A year later this figure had declined to 11%. By the year 1985-86 this number was back up to 19% of total revenues.

The Proposition 4 Gann limit coupled with Proposition 13 is problematic for rapidly growing areas. The Committee learned of a locality where high tech industries are locating. There has been a big surge in property tax revenues but their Gann limit has not gone up accordingly because there has not been the growth in population. Problems like this have caused some areas to place serious limits on growth because they cannot use the revenues generated.

Eight cities have reached their Gann limits and have asked the voters for approval to exceed them. All of these requests were approved.

Before Proposition 13 many things now funded by fees were subsidized by the General Fund. After its passage most cities began charging fees for all services which were not directly related to the General Fund.

This has caused fees to increase at a rate greater than the cost of living. In Orange County, land development fees have increased 219% between 1975 and 1983; for capital facilities, fees have

increased 559%. Hourly fees are becoming more common, but there is often no basis for developing the hourly rate.

Property taxes are relatively stable in that those rates are fixed and the city or county can count on those funds. Fees, on the other hand, are dependent on the economic demand for the services offered.

Proposition 13 disempowered locally elected Board members from the control of revenues. Although it eliminated bonding capability, capital outlay bond acts may now be approved by a two-thirds vote, due to the adoption of Proposition 62. However, direct facility financing has continued. Major fee exactions are now in place for schools, transportation corridors, libraries, fire stations, and local transportation networks.

The use of these fees is limited, however, by Proposition 62, which requires that all fees in excess of actual costs must be approved by the voters. Because this amendment was passed last November there is little history to judge its effects.

IMPACT ON CALIFORNIA'S COUNTIES

California's 58 counties have fared poorly under the reductions in local taxing authority. With little sales tax revenues and limited ability to raise fees, counties never enjoyed the cities' independence from the state. Counties now must rely on state and federal aid to carry out their principal duties of operating the health, welfare and jail programs.

The 1980 recession and new federal priorities resulted in a drop in federal aid, however, and state support for public health and

welfare programs has been significantly reduced. This has forced painful cuts in the public services offered by the counties.

Prior to Proposition 13 county boards of supervisors had broad responsibilities and authority to make decisions and to finance them. The supervisors had to weigh the feelings of special interests, taxpayer watchdogs and constituents, and--if necessary--raise the tax revenue to finance their decisions.

Local government's ability to plan and finance long-range projects and to respond to emergent situation is severely limited by the fixed property tax revenue base created by Proposition 13. This forces local government to approach Sacramento continually for the solution to local problems and dilutes local elected official's responsibility and accountability to the public for these solutions. As recently as the 1987 Session the Legislature once again made an attempt to provide fiscal relief to the counties by passing SB 709 which provided for the "buy out" of the trial courts.

IMPACT ON CALIFORNIA'S PUBLIC SCHOOLS

Public schools have become even more dependent on state government than counties. The state pays the lion's share of local school costs and local property taxes formerly intended for schools have been reallocated to other local governments. This new scheme has left schools with virtually no ability to raise money and has given the state great say in how the local districts spend their funds.

Despite dire predictions, in the year after Proposition 13 schools received 91% of the funds they would have received had it not passed. Thus the schools did not "drop off into the Pacific Ocean

and life did not end." But they have not been able to provide the resources necessary to meet the needs of the students.

Most school boards have discretion over only 2 to 3 percent of their total budget to operate programs which are necessary for the local schools. This has led schools to become very adept at finding ways to raise monies for special programs outside of the normal revenue stream. Bingo and swap meets have been very successful, sometimes raising over \$4,000 per week. Generally this income is for extracurricular activities which district funds can no longer support.

Statewide, districts received 42% of their funding from the State prior to Proposition 13. Since 1978 this number has increased to 85 to 90%. This has caused school districts to be at the mercy of the Legislature and the Administration regardless of their community's desire to supplement the funds available for community schools. Schools need long term funding to plan adequately.

IMPACT ON CALIFORNIA'S BUSINESS COMMUNITY

"Businesses do not pay taxes, the consumer pays taxes." This idea helped the passage of Proposition 13 by promising lower prices as the result of lower corporate property tax rates. The fact that businesses traditionally hold their property longer than individuals was expected to reduce their share of the tax burden, but the effect of increased fees has been to negate that tax drop. This may be one reason that prices did not drop as expected.

Proposition 13 did not have a significant impact on the relative attractiveness of California vis-a-vis the rest of the country. The ratio of California's share of personal income versus the

country's personal income started to increase in 1973 and there was no dramatic shift after Proposition 13.

The impact of Proposition 13 on the state's economy was seriously distorted by the severe recession the country entered in 1980. For example, housing units were predicted to be 319,000 if Proposition 13 passed and 191,000 if it failed. In fact the actual number of permits issued in 1980 was 148,000.

The economic base in California grew faster than anticipated, which kept the property taxes for non-residential properties increasing faster than predicted, but in general commercial property turnovers remain slower than that of residential properties.

Proposition 13 induced less reliance on property taxes and greater reliance on other taxes, especially income and sales taxes, which are largely levied and collected by the State.

People will "vote with their feet" if given the opportunity. By permitting local governments some flexibility, some will offer a high level of services accompanied by high taxes, and some people will prefer to live there. Others will be more frugal, offering fewer services and lower taxes, and people will prefer to live there.

There is no agreement between various governments levying fees as to the costs which are eligible to be included in a given service charge. Some cities are forecasting a deficit on the horizon and using this as justification for higher fees now and accumulating surpluses.

Developer fees are an unstable source of income. City representatives asked what happens if there is a groundswell for slow growth. This message moves very rapidly throughout the financial

community, and the banks and financial institutions and those who are interested in investing money in Orange County are leery about the impact of these kinds of initiatives.

The Legislature chose to allocate the remaining property revenues by maintaining each jurisdiction's share of the property tax pie. In so doing the legislature rejected the alternative of apportioning property taxes proportional to assessed valuation. This appears to be in violation of another California Constitutional provision on tax situs. This matter is headed to the courts.

IMPACT ON CALIFORNIA'S POLICE AND FIRE SERVICES

For California's Police and Fire Service agencies, life after Proposition 13 has been difficult but not impossible. In part this is due to the statutory priority given to these agencies; Language included in SB 154 says "Funds distributed for this section shall be given first for police and fire programs in order not to jeopardize the health and safety of the community. The legislative body shall ensure that the level of police and fire protection programs actually provided in the 1977-78 fiscal year shall be continued."

Technology has played a great part in increasing the effectiveness of law enforcement. This has allowed agencies to do more with less personal resources. More civilians were used to replace sworn offices in administrative jobs.

According to the Attorney General Report "Crime and Delinquency in California," the number of law enforcement personnel increased by 10.3 percent statewide during the past five years. Law enforcement expenditures increased 62 percent in the same time period.

Fire Districts were funded 97.6 percent by Property taxes. Allowed to proceed with no state support the districts would have lost two-thirds of their revenue sources.

The creation of the Special District Augmentation Fund (SDAF) by AB 8 provided the permanent funding necessary for many--though not all--fire districts to maintain their 1987 levels of service. In Los Angeles County, bailouts totalling almost \$37 million helped Fire Protection Districts there increase their combined budgets from \$49,825,000 in 1977-78 to \$60,577,000 the next year. This increase came despite combined tax levy losses of over \$26 million.

But because SDAF revenues in many counties have not been stable, and because growth in this revenue source has not kept up with the growth in needs, service increases and equipment replacement programs were put on hold. Service has therefore declined.

Legislative solutions to addressing some of the problems with the SDAF have been patchwork and have not fulfilled any long term funding needs. To date no comprehensive legislation has provided a solution that would furnish fire districts with a stable source of revenue to address growth in service demand.

Fire districts need to be financially self-sufficient and not dependent upon seeking annual legislative remedies.

WHAT THE PROPONENTS SAY

Proposition 13 saved several million homes in California from foreclosure because people could not afford the previously burgeoning property taxes. Senior citizens on fixed incomes were now protected and did not have to sell or move to lesser quarters.

And young people and first-time home buyers found predictability in property taxes, allowing them to buy homes for their families that were within their budgets.

Recommended changes:

1. Special taxes for local uses be more clearly defined by the Legislature;
2. Homeowner's property tax exemption be changed to be a percentage, rather than an absolute number, of the actual market price;
3. All one-time fees charged not be made part of the base price of the building for subsequent annual tax levies.

WHAT THE FUTURE HOLDS

With all of these changes, it may now be time to develop one integrated, permanent solution to all levels of local governments. Instead of looking at cities, counties, schools and special districts separately, we need to concentrate on the overall picture; a review of the role and financing of local governments and their relationships to the state and to one another is in order.

Proposition 13 has also left a very visible legacy: public grounds, buildings, and other structures across the state have lost some of their luster as officials have cut back spending for maintenance and repairs. This fact was the focus of the Committee's second hearing. This report is available and is entitled: "California's Infrastructure Needs through the Year 2000."

SUMMARY

- A. Most local governments have found the means to live within their revenues, but have reduced some services to their constituents.
- B. The overall size of government in California has been reduced. The 25-year growth of state and local government has slowed dramatically but not reversed.
- C. Many cities have started using user fees as means to make up lost revenues. These fees are often applied inconsistently and without a basis for the amount charged. Many also have cost of living increases which have no basis.
- D. Local governments feel frustrated because they have lost the ability to locally raise the money necessary to address their needs. Proposition 13 not only removed the ability for local officials to make changes, but it also removed the responsibility for implementing that change. The ability of local governments to make their own resource allocation decisions was significantly reduced.
- E. There is a general consensus that some local fund raising capability should be granted to local governments. Whether this should just be for bonds or for general fund purposes was not distinguished. And whether the mechanism should be a vote of the Board or a vote of the people, a simple majority or two-thirds, a tax on property or some other taxing authority are issues which still need to be explored.
- F. Although it was not the subject of the hearing, there was general agreement that the Proposition 4 Gann limit is a more serious matter than Proposition 13, and should be modified.

- G. Proposition 13 provided a \$7 billion boost to the economy of California by reducing the tax burden. Businesses still consider California a strong marketplace but fees on local developers and reduced services are hurting.

- H. Proposition 13 has made local governments more dependent on state financial aid. Counties and school districts in particular are now vulnerable to the financial problems threatening state government.

POSSIBLE ACTIONS FOR LEGISLATIVE CONSIDERATION

While the Committee does not make any recommendations there was general agreement that:

Property taxes have declined as a major concern in people's minds and public perceptions of Government have improved dramatically. Experience shows that people will vote for tax increases if they are targeted for a specific purpose.

Due to the constraints of Proposition 4, many cities are limiting industrial growth because they cannot absorb the revenues generated and the businesses will be creating costs for which the city or county cannot afford to pay.

Local citizens no longer have a stake in local government. The homeowner and the general public have walked away from local government; they have lost interest because there isn't anything for them to be concerned about.

APPENDIX A

Proposition 13, Ten Years Later
Agenda

Wednesday, September 30, 1987

Irvine City Hall
17200 Jamboree Road
Irvine, California

10:00 a.m. to 4:00 p.m.

Mr. Paul Gann, Co-Author of Proposition 13
(Unable to attend)

Mr. Mervin Field, President, The Field Institute

Mr. Tom Wall, Vice Chairman, Irvine Chamber of Commerce

Mr. Phil Bettencourt, Orange Co. Building Industry Association

Dr. Craig Stubblebine, Economist, The Claremont Colleges

LUNCH

Dr. Larry Kimbell, Director, UCLA Business Forecasting Project

Chief Jim Bale, California Police Chiefs Association

Chief John Englund, L.A. County Fire Department

Dr. Stanley G. Oswalt, Former Superintendent, Rowland U.S.D.

Mr. Joe Duardo, California School Boards Association

Mr. Harry Hufford, Former Los Angeles Administrative Officer

Mr. Jim Harrington, League of California Cities

APPENDIX B

JOINT LEGISLATIVE BUDGET COMMITTEE HEARINGS
SEPTEMBER 30, 1987
IRVINE, CALIFORNIA

WITNESSES

MR. PAUL GANN: Mr. Paul Gann is the founder of The People's Advocate, and the co-author Proposition 13 with Howard Jarvis.

MR. MERVIN FIELD: Mr. Mervin Field is the President of Field Institute, a nonprofit, nonpartisan organization devoted to the study of public opinion and behavior on social and political issues. The California Poll, one of the services provided by the Field Institute, has operated continuously since 1947 as an independent, impartial, media-sponsored public opinion news service. The Field Institute is dedicated to encouraging the widest possible dissemination of social survey findings to the public and for the public benefit. The Institute receives its support from academic, governmental, media and private sources.

MR. PHILLIP BETTENCOURT: Mr. Phillip Bettencourt represents the Orange County Building Industry Association. He is the President of Preview Real Estate in Newport Beach.

MR. TOM WALL: Mr. Tom Wall is the Vice President of the Irvine Chamber of Commerce and the President/CEO of Pacifica West Properties in Newport Beach. His areas of specialization include project design, development and management; financial modeling and analysis; and long-range planning.

DR. CRAIG STUBBLEBINE: Dr. Craig Stubblebine is the Von Tobel Professor of Political Economy at Claremont McKenna College and the Claremont Graduate School. He has been affiliated with the Claremont Schools since 1966. He has authored a book on Reaganomics, and is a Founding Director of the National Tax Limitation Committee. He is also a former President of the Western Tax Association.

DR. LARRY J. KIMBELL: Dr. Larry Kimbell is the Director of the UCLA Business Forecasting Project and Professor of Business Economics at the John E. Anderson Graduate School of Management at UCLA. He co-authors the UCLA National Business Forecast and the UCLA California Business Forecast, each published quarterly. Professor Kimbell has been a consultant to a large number of private corporations and many government agencies, including the U.S. Department of Health and Human Services, the California Department of Finance and the Los Angeles Department of Water and Power.

CHIEF JIM BALE: Chief Jim Bale is the Chief of Police for the city of Whittier where he has held that position since 1967. Prior to coming to Whittier, he was the police chief for the city of Sierra Madre. Chief Bale is a member of the California Police Chiefs Association.

CHIEF JOHN ENGLUND: Chief John Englund is the Los Angeles County Forester and Fire Warden and the Fire Chief of the Consolidated Fire Protection Districts of Los Angeles. He has been affiliated with the Department for 32 years, and has risen through the ranks. Chief Englund is a member of the Seismic Safety Commission, the California Fire Chiefs Association and is the Region One Fire & Rescue Coordinator for the California Mutual Aid System. He is also President of the California Office of Emergency Services Fire & Rescue Service Advisory Committee and the Board of Directors of the Firescope Program, as well as the President of the Fire District Association of California.

DR. STANLEY G. OSWALT: Dr. Stanley Oswalt is the former Superintendent of the Rowland Unified School District, and has served as a school superintendent for over thirty years. He is a specialist in school finance and a professional consultant. Dr. Oswalt has presented seminars in school finance across the state for the past ten years. Dr. Oswalt is the state trustee for the West Covina School District.

MR. JOE A. DUARDO: Mr. Joe Duardo is the immediate past president of the California School Boards Association. He is presently a member of the school board for the South Whittier School District and has served as their president. Mr. Duardo is a retired engineer from the Xerox Corporation.

MR. HARRY HUFFORD: Mr. Harry Hufford is a former Chief Administrative Officer of Los Angeles County. He has held various administrative positions with the County in his thirty years of service, including the Director of Personnel. Mr. Hufford is presently the Chief Administrative Officer of the law firm of Gibson, Dunn and Crutcher in Los Angeles. He has been appointed by Governor Deukmejian to the New Partnership Task Force on State and Local Government.

MR. JIM HARRINGTON: Mr. Jim Harrington is a legislative representative/lobbyist for the League of California Cities. Prior to coming to the League, Mr. Harrington spent seven years with the consulting firm of Ralph Anderson and Associates where he was responsible for public finance practices. He has a background in local government with fifteen years experience in city and county government. The California League of Cities is a voluntary organization representing California's 444 cities.

T A B L E O F C O N T E N T S

Part Two

Appendix C: Oral or Written Testimony of Witnesses and Others

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THE MOOD OF CALIFORNIA VOTERS IN 1987
REGARDING TAXES AND GOVERNMENT SPENDING

Remarks of Mervin Field before the
Joint State Legislative Budget Committee Hearing
September 30, 1987

My presentation is based on the results of the continuing public opinion research program of The California Poll and The Field Institute -- an independent and nonpartisan organization.

Since 1947, we have conducted approximately 250 statewide surveys and issued more than 1,400 separate reports relating to the public's opinions, attitudes and behavior toward a variety of political, economic and social issues.

Today, I will focus specifically on some of those measurements we have made during the past ten years relating to the topics of taxes and government spending.

(The data presented today have been reported previously in our published California Poll and Field Institute reports which describe in detail the methodology used, sample sizes, sampling tolerances and other technical considerations.)

SUMMARY

THERE IS CONSIDERABLE OBJECTIVE SURVEY EVIDENCE SUGGESTING THAT THE CURRENT MOOD OF THE PUBLIC IN RESPECT TO TAXES AND GOVERNMENT SPENDING HAS CHANGED MARKEDLY SINCE 1977.

- 1. THE PUBLIC'S CONCERN ABOUT HIGH TAXES HAS ABATED SUBSTANTIALLY DURING THE PAST DECADE. TEN YEARS AGO IN OUR ANNUAL STUDY OF HOW THE PUBLIC VIEWS COMMUNITY AND STATE PROBLEMS "HIGH TAXES" AT 30% RANKED FIRST AS A VOLUNTEERED CATEGORY AMONG OTHER PROBLEMS. IN THE 1987 STUDY, HIGH TAXES AS A PROBLEM HAD DROPPED TO JUST 5%**

ANOTHER CONCERN RELATING TO A PERSON'S SENSE OF ECONOMIC WELL-BEING HAS ALSO DISSIPATED DURING THE PAST TEN YEARS. "INFLATION" WAS A HIGH-RANKING PROBLEM VOLUNTEERED BY 22% OF THE PUBLIC IN 1977 BUT THAT PROPORTION HAS DROPPED TO JUST 2% IN 1987.

TABLE 1

WHAT ARE THE MOST PRESSING PROBLEMS
FACING COMMUNITY/STATE?

| | <u>1987</u> | <u>1977</u> |
|---|-------------|-------------|
| | % | % |
| CRIME/LAW ENFORCEMENT | 19 | 28 |
| EDUCATION/THE SCHOOLS | 19 | 14 |
| DRUG USE | 17 | * |
| TRAFFIC CONGESTION/ROAD AND HIGHWAY REPAIR | 16 | 9 |
| POLLUTION/TOXICS | 15 | 15 |
| CARE FOR THE HOMELESS | 15 | 4 |
| UNEMPLOYMENT | 11 | 24 |
| HIGH TAXES | 5 | 30 |
| AVAILABLE, AFFORDABLE HOUSING | 4 | 11 |
| WELFARE SPENDING | 3 | 12 |
| INFLATION | 2 | 22 |

* Less than one-half of one percent.

2. **THERE HAS BEEN A MARKED CHANGE IN THE PREFERENCE OF THE CALIFORNIA PUBLIC IN RESPECT TO THEIR VIEWS ON THE SIZE OF GOVERNMENT. IN 1980, BY A 60% TO 30% RATIO, THE PUBLIC SAID THEY WANTED A SMALLER GOVERNMENT PROVIDING FEWER SERVICES, RATHER THAN A LARGER GOVERNMENT WITH MORE SERVICES. IN 1987 THAT DIVISION HAS DROPPED TO A 49% TO 42% RATIO.**

TABLE 2

**PREFERENCES ABOUT THE SIZE
OF GOVERNMENT**

| | <u>1987</u> % | <u>1980</u> % |
|---|-------------------------|-------------------------|
| PREFER SMALLER GOVERNMENT PROVIDING FEWER SERVICES | 49 | 60 |
| PREFER LARGER GOVERNMENT PROVIDING MORE SERVICES | 42 | 30 |
| NO OPINION | 9 | 10 |

3. **THERE IS A DECIDED WEAKENING IN SUPPORT FOR THE STATE'S GANN SPENDING LIMITATION MEASURE, WHICH VOTERS OVERWHELMINGLY APPROVED IN 1979 BY A 74% TO 26% MARGIN. THE 1987 SURVEY FINDS THAT JUST 49% OF THE PUBLIC NOW SUPPORTS KEEPING THE GANN LIMIT IN ITS PRESENT FORM, WHILE 40% FEEL IT SHOULD BE AMENDED TO PERMIT GREATER FLEXIBILITY IN STATE SPENDING.**

TABLE 3

GANN STATE SPENDING LIMITATION LAW

1979 VOTE

| | |
|---------------|------------|
| FAVOR | 74% |
| OPPOSE | 26 |

1987 OPINION

| | |
|-------------------|------------|
| KEEP LIMIT | 49% |
| AMEND LAW | 40 |
| NO OPINION | 11 |

4. **IN ANOTHER STATEWIDE CALIFORNIA POLL SURVEY TAKEN IN LATE JULY 1987, WE FOUND THAT BY A MARGIN OF 57% TO 38% VOTERS EXPRESSED THE BELIEF THAT IT WOULD BE BETTER TO GIVE THE PUBLIC SCHOOLS THE STATE'S CURRENT SURPLUS FUNDS THAN TO REBATE THE MONEY TO STATE INCOME TAXPAYERS.**

TABLE 4

**REBATE \$700 MILLION IN SURPLUS TO
TAXPAYERS OR GIVE MONEY TO SCHOOLS**

| | <u>STATEWIDE</u> |
|----------------------------|-------------------------|
| | % |
| GIVE TO SCHOOLS | 57 |
| REBATE TO TAXPAYERS | 38 |
| NO OPINION | 5 |

5. **IN OUR 1987 SURVEY, GREATER THAN SEVEN IN TEN CALIFORNIANS (71%) SAY THEY WOULD FAVOR LOCAL TAX INCREASES IF NEEDED FOR SUCH PURPOSES AS INCREASING THE NUMBER OF POLICE OR FIRE FIGHTERS, IMPROVING ROADS OR THE PUBLIC SCHOOLS, OR BUILDING NEW WATER OR SEWER LINES.**

TABLE 5

**OPINION OF LOCAL GOVERNMENT RAISING TAXES
FOR A SPECIFIC PURPOSE, SUCH AS POLICE, FIRE
ROADS, SCHOOLS OR SEWER LINES, IF NEEDED**

| | <u>STATEWIDE</u> |
|-------------------|-------------------------|
| | % |
| FAVOR | 71 |
| OPPOSE | 22 |
| NO OPINION | 7 |

6. CONTRIBUTING TO THIS MORE TOLERANT VIEW OF INCREASED GOVERNMENT SPENDING IS THE PERCEPTION THAT VARIOUS LEVELS OF STATE AND LOCAL GOVERNMENT ARE DOING A BETTER JOB IN MAKING EFFICIENT USE OF TAX DOLLARS. CURRENTLY, 46% OF THE PUBLIC RATE THEIR LOCAL CITY GOVERNMENT AS DOING AN EXCELLENT OR GOOD JOB IN EFFICIENTLY USING TAX DOLLARS, WHILE JUST 15% THINK THEY ARE DOING A POOR OR VERY POOR JOB. LOCAL COUNTY GOVERNMENTS ARE RATED MORE POSITIVELY THAN NEGATIVELY BY A 38% TO 18% MARGIN, WHILE THE STATE GOVERNMENT'S POSITIVE TO NEGATIVE RATINGS ARE 28% TO 23%. EACH OF THESE FINDINGS REPRESENTS SIGNIFICANT INCREASES IN THE PUBLIC'S POSITIVE ASSESSMENT OF HOW EACH LEVEL OF GOVERNMENT IS USING TAX DOLLARS.

TABLE 6

**JOB EACH LEVEL OF GOVERNMENT IS DOING
IN MAKING EFFICIENT USE OF TAX DOLLARS**

| | <u>1987</u> | <u>1980</u> |
|--------------------------------|-------------|-------------|
| | % | % |
| LOCAL CITY GOVERNMENT | | |
| EXCELLENT/GOOD | 46 | 29 |
| FAIR | 33 | 37 |
| POOR/VERY POOR | 15 | 25 |
| NO OPINION | 6 | 9 |
| LOCAL COUNTY GOVERNMENT | | |
| EXCELLENT/GOOD | 38 | 26 |
| FAIR | 38 | 38 |
| POOR/VERY POOR | 18 | 28 |
| NO OPINION | 6 | 8 |
| STATE GOVERNMENT | | |
| EXCELLENT/GOOD | 28 | 15 |
| FAIR | 45 | 42 |
| POOR/VERY POOR | 23 | 41 |
| NO OPINION | 4 | 2 |
| FEDERAL GOVERNMENT | | |
| EXCELLENT/GOOD | 12 | 5 |
| FAIR | 33 | 28 |
| POOR/VERY POOR | 55 | 66 |
| NO OPINION | * | 1 |

7. SINCE 1977 WE HAVE OBTAINED TRACKING MEASURES IN RESPECT TO HOW THE PUBLIC FEELS ABOUT A VARIETY OF STATE SPENDING CATEGORIES. EACH TIME WE ASK REPRESENTATIVE SAMPLES OF CALIFORNIA TAXPAYERS WHETHER THEY FAVORED INCREASING, HOLDING THE LINE OR CUTTING BACK ON SPECIFIC STATE SPENDING CATEGORIES.

IN OUR MOST RECENT SURVEY TAKEN THIS YEAR, SIX-TEEN DIFFERENT SPENDING CATEGORIES WERE INCLUDED. IN OUR 1987 CALIFORNIA OPINION INDEX REPORT ON TAXES AND GOVERNMENT SPENDING WE SHOWED THE YEAR BY YEAR RESULTS. TODAY, FOR THE SAKE OF BREVITY, I WILL SHOW JUST TWO MEASURES -- 1977 COMPARED TO 1987.

8. PLURALITIES FAVOR INCREASES IN TEN CATEGORIES

IN TEN OF SIXTEEN BUDGET CATEGORIES OUR 1987 SURVEY SHOWS A PLURALITY OF RESIDENTS FAVOR INCREASING THE AMOUNT THE STATE IS NOW SPENDING. THESE CATEGORIES INCLUDE LOCAL PUBLIC SCHOOLS (68%), PUBLIC ASSISTANCE TO THE ELDERLY AND DISABLED (67%), LAW ENFORCEMENT (60%), MENTAL HEALTH (57%), CORRECTIONS (STATE AND LOCAL PRISONS) (51%), HIGHER EDUCATION (51%), ENVIRONMENTAL REGULATIONS (50%), AND MEDICAL CARE PROGRAMS SUCH AS MEDI-CAL (48%).

WHEN COMPARED TO EARLIER MEASURES, THE CURRENT FINDINGS SUGGEST THAT THE PROPORTION WHO BELIEVE SPENDING SHOULD BE INCREASED FOR EACH CATEGORY IS AT OR NEAR THE HIGHEST LEVEL IT HAS EVER BEEN SINCE 1977, WHEN THESE QUESTIONS WERE FIRST POSED.

TABLE 7

**STATE SPENDING CATEGORIES WHERE
THERE IS PLURALITY OF SUPPORT FOR INCREASES**

| | <u>INCREASED</u> | <u>HELD THE SAME</u> | <u>CUT BACK</u> |
|---|-------------------------|-------------------------------------|----------------------------|
| LOCAL PUBLIC SCHOOLS (K-12) | | | |
| 1987 | 68% | 29 | 2 |
| 1977 | 43% | 45 | 8 |
| PUBLIC ASSISTANCE PROGRAMS TO THE ELDERLY AND DISABLED | | | |
| 1987 | 67% | 28 | 3 |
| 1980 | 66% | 29 | 3 |
| LAW ENFORCEMENT (POLICE PROTECTION) | | | |
| 1987 | 60% | 36 | 3 |
| 1977 | 55% | 39 | 4 |
| MENTAL HEALTH PROGRAMS | | | |
| 1987 | 57% | 36 | 5 |
| 1977 | 56% | 35 | 4 |

Note: The "no opinion" category represents the difference between the sum of the percentages and 100%.

TABLE 7

**STATE SPENDING CATEGORIES WHERE
THERE IS PLURALITY OF SUPPORT FOR INCREASES
(CONTINUED)**

| | <u>INCREASED</u> | <u>HELD THE SAME</u> | <u>CUT BACK</u> |
|---|-------------------------|-------------------------------------|----------------------------|
| CORRECTIONS (STATE AND LOCAL PRISONS) | | | |
| 1987 | 51% | 39 | 7 |
| 1977 | 30% | 49 | 13 |
| HIGHER EDUCATION SUCH AS UNIVERSITIES, STATE COLLEGES AND LOCAL COMMUNITY COLLEGES | | | |
| 1987 | 51% | 42 | 6 |
| 1977 | 28% | 57 | 12 |
| ENVIRONMENTAL REGULATIONS | | | |
| 1987 | 50% | 39 | 8 |
| 1977 | 31% | 53 | 12 |
| MEDICAL CARE PROGRAMS SUCH AS MEDI-CAL | | | |
| 1987 | 48% | 39 | 11 |
| 1977 | 31% | 48 | 16 |

9. INCREASE TWO NEW SPENDING CATEGORIES

VERY LARGE MAJORITIES -- 73% AND 66% RESPECTIVELY
-- FAVOR INCREASED SPENDING FOR AIDS RESEARCH AND
AID TO THE HOMELESS, TWO NEW SPENDING CATEGORIES
WHERE PUBLIC OPINION WAS MEASURED FOR THE FIRST
TIME IN 1987.

TABLE 8

**TWO OTHER STATE SPENDING AREAS
WHERE THERE ARE PLURALITIES OF SUPPORT**

| <u>1987</u> | <u>INCREASED</u> | <u>HELD THE SAME</u> | <u>CUT BACK</u> |
|------------------------|-------------------------|-------------------------------------|----------------------------|
| AIDS RESEARCH | 73% | 22 | 3 |
| AID TO HOMELESS | 66% | 25 | 6 |

(Not measured in prior years)

10. FOUR CATEGORIES WHERE PUBLIC DIVIDES BETWEEN INCREASED SPENDING AND HOLDING THE LINE

IN FOUR OF THE SIXTEEN CATEGORIES, THE STATEWIDE PUBLIC DIVIDES ALMOST EVENLY BETWEEN THOSE WHO FEEL SPENDING SHOULD BE INCREASED AND THOSE WHO FEEL IT SHOULD REMAIN ABOUT THE SAME. THESE INCLUDE SPENDING FOR PUBLIC TRANSPORTATION, STATE ROAD AND HIGHWAY BUILDING AND REPAIR, PUBLIC HOUSING, AND PUBLIC ASSISTANCE TO LOW INCOME FAMILIES WITH DEPENDENT CHILDREN.

THERE HAS BEEN GROWING SUPPORT FOR GREATER SPENDING FOR STATE ROAD AND HIGHWAY BUILDING AND REPAIR SINCE THE INSTITUTE FIRST BEGAN TRACKING THE ISSUE IN 1977. AT THAT TIME, JUST 16% FAVORED INCREASED SPENDING IN THIS AREA. AT PRESENT THE PROPORTION WHO FAVORS MORE SPENDING HAS RISEN TO 42%.

TABLE 9

SPENDING CATEGORIES WHERE PUBLIC
DIVIDES BETWEEN INCREASED SPENDING
AND HOLDING THE LINE

| | <u>INCREASED</u> | <u>HELD THE SAME</u> | <u>CUT BACK</u> |
|---|------------------|------------------------------|---------------------|
| PUBLIC TRANSPORTATION | | | |
| 1987 | 42% | 45 | 11 |
| 1977 | 54% | 32 | 11 |
| STATE ROAD AND HIGHWAY BUILDING AND REPAIR | | | |
| 1987 | 42% | 51 | 6 |
| 1977 | 16% | 65 | 16 |
| PUBLIC HOUSING | | | |
| 1987 | 41% | 41 | 15 |
| 1977 | 30% | 41 | 23 |
| PUBLIC ASSISTANCE PROGRAMS FOR LOW INCOME FAMILIES WITH DEPENDENT CHILDREN | | | |
| 1987 | 37% | 45 | 16 |
| 1977 | 27% | 47 | 23 |

11. TWO CATEGORIES WHERE PUBLIC FAVORS HOLDING THE LINE

LARGE PLURALITIES OF THE PUBLIC BELIEVE THAT STATE SPENDING FOR PARKS, RECREATION, FISH AND GAME, AS WELL AS THE REGULATION OF BUSINESS AND THE PROFESSIONS, SHOULD BE HELD AT CURRENT LEVELS. THESE FINDINGS ARE GENERALLY SIMILAR TO THOSE FOUND IN PREVIOUS YEARS.

TABLE 10

**SPENDING CATEGORIES WHERE
PUBLIC FAVORS HOLDING THE LINE**

| | <u>INCREASED</u> | <u>HELD THE SAME</u> | <u>CUT BACK</u> |
|--|-------------------------|-------------------------------------|----------------------------|
| PARKS AND RECREATIONAL FACILITIES, STATE PARKS, FISH AND GAME | | | |
| 1987 | 29% | 60 | 10 |
| 1977 | 25% | 64 | 10 |
| REGULATION OF BUSINESS AND THE PROFESSIONS | | | |
| 1987 | 16% | 55 | 23 |
| 1977 | 13% | 56 | 20 |

CHAIRMAN CAMPBELL: Our next witness will be Mr. Tom Wall, the Vice Chairman of the Irvine Chamber of Commerce.

We won't ask you to comment on the split roll, Tom.

MR. WALL: Thank you very much, Senator, and ladies and gentlemen.

I am representing here my Chamber of Commerce as the Vice Chairman of their Government Affairs Council. I'm also President of a real estate development company in the local area.

I've been asked to comment on the impact of Prop. 13 on the business community and perhaps more specifically on the development community, because we have seen a change in the way that taxes and fees are collected as a result of Proposition 13.

CHAIRMAN CAMPBELL: Let me further clarify the introduction for the audience, because as Mr. Wall has said, he's the Vice President of the Chamber of Commerce, but he's President and Chief Executive Officer of Pacifica West Properties in Newport Beach. His areas of specialization include project design, development and management, financial modeling and analysis, and long-range planning.

We've asked him to speak in both his capacities this morning. Please continue.

MR. WALL: Just for a moment, I'd like to take a look at Prop. 13 and summarize it for myself as much as anyone, and take a look at the business impact, and then I'd like to address specifically from the City of Irvine's point of view of what we think the impact of Prop. 13 has been.

Prop. 13 limited ad valorem taxation of real property to one percent of the assessed value except for voter-authorized general obligation bonds. The assessed value of property was limited to the 1975-1976 value adjusted for inflation, unless there's a change of ownership or remodeling. The assessed value may be increased not to exceed two percent, depending upon economic statistics or decreased due to damage, destruction or deflation.

Special taxes, the proceeds of which are earmarked for special programs, may be levied with the approval of two-thirds vote by the citizens.

Now, the impact on business, we feel, has been that since traditionally businesses hold their land longer, if you believe that premise, than individuals do, the impact has been a reduction in the tax rates or tax payments to cities for businesses because, as I say, traditionally they hold their land for a longer period of time. And for those businesses who had land in the city prior to 1978, and their business tax reduced, of course, without a change of ownership, they're not going to see an increase in property taxes.

So, on the one hand, since Proposition 13 served its purpose for reducing property tax values for individuals, it probably was a boon for the business community.

The Gann initiative, I'd like to mention it just for a minute, and just discuss the impact on business. We see in the Chamber the result of the Gann initiative has been that costs that were normally shared by all, that is businesses and individuals, have been shifted to business through the imposition of user fees and taxes. What's happened is that property taxes are relatively stable. They're a stable source of revenue for the community. When we reduced this property tax, it caused the cities to, in some way, scramble to find other sources of revenue to meet the obligations of the citizens to provide essential services.

We think that although business taxes, business property taxes, were reduced as a result of Proposition 13, other taxes have been imposed on the business community which are economically driven, as opposed to driven by the more stable areas like property taxes.

The effect of Prop. 13 on the City of Irvine specifically, the cumulative impact of Prop. 13 on city revenues, the City of Irvine has lost an estimated \$15.4 million in property tax revenue since the passage of Prop. 13 in June of 1978. This is based upon the continuation of this 27 cent property tax rate which was in effect in 1978.

As you know, just prior to the passage of Prop. 13, cities were reluctant to raise their property tax rate for fear that they would be accused of scrambling at the 11th hour to get an increase in property tax before the bill was passed.

Irvine was already the lowest property tax rate city in Orange County, with the exception of Yerba Linda, who had no property taxes. It was locked into this new rate as a result of Proposition 13.

The initial impact of Prop. 13 on the City of Irvine was the following: In May of 1978, the City staff projected a loss of \$1.3 million to \$1.7 million for fiscal year 1978 through 1979 if Prop. 13 were passed. We had a subsequent bailout as a result of State subvention, and that lessened the impact, but of course that \$7 billion, that magic \$7 billion, was virtually wiped out after the passage of Prop. 13.

CHAIRMAN CAMPBELL: Senator Beverly.

SENATOR BEVERLY: One question just for the record.

When was Irvine incorporated?

FROM THE AUDIENCE: In '71.

MR. WALL: As a chartered city.

Even with the bailout in fiscal year 1978-79, property tax revenues dropped from \$1.45 million in the prior fiscal year to 683,000, a decrease of \$773,000 or a 53 percent decrease.

General Fund revenues shifted away from property taxes to fees. Since the passage of Prop. 13, property tax revenues have been contributing increasingly less to the operation of the City. In the last decade, property tax revenues have dropped from their overall initial impact of about 15 percent of General Fund revenues to about 10 percent of General Fund revenues.

In June of 1978, the City imposed what's called a systems development charge, or SDC charge, to pay for the cost of services and infrastructure that was demanded by new development in the City. The SDC fee was imposed after several studies showed that the City was facing a long-term funding shortfall in capital financing if no new revenue sources were forthcoming.

In nine years, the SDC fee has raised \$23.1 million in revenue, and of course these fees can be used only for capital improvements.

Developer fees have increased as City service costs have risen. Since the passage of Prop. 13, the City has attempted to have service users pay directly for those services through the charging of fees.

Now, this is where we get into what the Chamber perceives and I personally perceive an imbalance in the way these fees are imposed.

Irvine is one of the fastest growing cities in the nation, and the City's budget is therefore sensitive to the rate of development because of our low property tax rate. Developer fees have increased to reflect the increasing costs of providing services.

And I might add here parenthetically that developers don't pay the fees, as you know. People pay fees. People pay taxes. Developers collect fees. What's happened is, we have a movement to impose fees on developers because developers, in some communities and in some instances, have developed a reputation of raping and pillaging the land.

But these fees are in fact passed on to tenants who lease space, to the people who buy homes. So the ultimate consumer individual reaches for his or her checkbook and pays for those fees.

Developer fees have increased to reflect the increasing need for City revenues. In the last three years, the City's hourly rate for developer fees has increased \$44 an hour to \$60 per hour. That is the processing fee the City charges for moving the plans through the plan check process, and that's an increase of 36 percent.

Development-related revenues, however, are unpredictable. Development-related revenue sources are very volatile and unstable, and they're dependent upon the developer. What happens here is, we see a ground swell for what's called a slow growth initiative, whereby 26 cities in the unincorporated area of Orange County are about to put their initiative on the ballot in June to slow the rate of growth of development.

Well, that message moves very rapidly throughout the financial community in this country. Although we have a boom economy in Orange County and L.A. County, the banks and financial institutions and those who are interested in investing money in Orange County are leery about the impact of those kind of initiatives.

The City cannot effectively plan for long-range capital improvements because developer-related revenues are very unpredictable. The SDC fee, approximately \$23 million, is simply collecting that money and holding it until such time as needed improvements are scheduled for initiation.

Property taxes, of course, are relatively stable in that those rates are fixed, and the City can count on those funds.

Because of all these factors, the City has been forced to reduce its services and raise new revenues, specifically this year. So we've seen that it's taken some time for the full impact of Prop. 13 has worked its way to the City funding and expenditure areas.

This year -- I'm sorry, the City faced a projected \$4.4 million shortfall this year, 1987-1988; \$2.5 million in cuts were made to City services. City staff was reduced 4 percent. We have a rather unusual hiring and firing policy, layoff policy, which I won't get into, but suffice it to say the City staff was reduced by 25 employees. \$1.9 million in new revenues were raised by a business license tax increase, a new utility users tax was imposed, and new landscape assessment districts were created. So, the preponderance of the fees generated are now in the area of the business community. And what's happened is that with slow growth initiatives, with pro-resident feeling and sentiment in Orange County, we're seeing that it's very easy for city councils and local officials to put the onus on the business community to pay, perhaps, more than I perceive to be their fair share of these new revenue increases.

CHAIRMAN CAMPBELL: Are you aware of the recent bill that the Governor just signed, the trial court bailout, where the State will take over trial courts? It includes a provision for no and low property tax cities, that no and low property tax cities will over a ten-year period get up to a total of 10 cents from local property taxes.

To Irvine, that's over 5 million a year.

MR. WALL: That's wonderful. We can use it, but I'm sure it'll be spent the way things are going now.

Let me talk about just for a moment the general implications and effects of Prop. 13. Shifting again from relatively stable funding to new sources, which are economically based -- that is, sales taxes and developer fees. We have shifted from taxes of general application to taxes of specific application. Property taxes affecting all residents, other taxes affecting targeted segments of the economy.

We've had a loss of local control, and I want to raise one issue in just a minute, and specifically the issue of school and community college funding.

We think that Prop. 13 has served its intended purpose, and that was to reduce the burden on the taxpayer, reduce the burden on the property owner. But we feel it's probably a zero-sum impact when you get right down to it.

Someone mentioned that people are willing to pay for services. I'm not sure that they are. My perception is that people think that when property taxes are reduced, oh boy, we're getting a windfall, when in fact, if we want quality services, we have to be able to pay for them. It's not going to come free.

The issue that I'd like to close on has to do with the impact on schools and community colleges. In the City of Irvine, we are very concerned about the contribution that community colleges and schools make. It's a national asset; it's a fundamental asset to this country.

Irvine Valley College, on which I'm a member of the Irvine College Development Council, is trying desperately to provide training for business. That is, the college reaches out to the community to provide training in needed areas for businesses within the community of Irvine.

The result of Prop. 13 was the shift of the tax base from local property to State General Fund. It disempowered locally elected board members in the control of revenues. It eliminated bonding capability, and now some of that has been returned to capital outlay.

In growth areas, the responsiveness of the State cannot be relied upon to meet the local demand. The Legislature became the school board, so we in effect have lost local control of our schools in some respects and State colleges in other respects to provide the kind of services that the community thinks are important in a vibrant and growing economic area. Particularly for community colleges, the governing structure was effectively wiped out. The strain on the system of local care was lost. And frankly, we see that as a serious negative effect of Prop. 13.

That concludes my comments on the behalf of the Chamber, and on behalf of myself as a local businessman. I'll be happy to answer any questions.

CHAIRMAN CAMPBELL: I have a couple of questions.

Have you done any surveys in Irvine to determine what impact developer fees have on the price of housing? What percentage would that represent as an increase in housing costs as a result of developer fees?

MR. WALL: The simple answer is I have not, because I'm not a residential builder. But I know that those fees are available, and I do know that that information is available. In fact, I can work with the Chamber and other developers --

CHAIRMAN CAMPBELL: Come to think of it, our next witness may get into that.

Mr. Wall, thank you very much. We appreciate your being here today.

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Second Printing

May 5, 1987

Mr. John Erskine
Executive Director
Building Industry Association of Southern California, Inc.
Orange County Region
2001 East Fourth Street, Suite 224
Santa Ana, California 92705

Subject: **Building Industry Association 1987 Land Development Fee Survey**

Dear John:

Enclosed is the final report of our county-wide survey of land development fees in Orange County, California.

We surveyed the fees now charged in all 26 cities and the County of Orange. We consulted with the joint Sanitation Districts of Orange County. Finally, we polled the county's school districts since all districts are now levying new construction taxes under legislation signed by the Governor September 9, 1986.

Charges Surveyed in this Study. More than 750 data entries were tallied. The 25 most common development fees for a new home subdivision within each jurisdiction are set forth in seven categories: - Environmental; Planning; Building; Engineering & Subdivision including both plan check and field inspection; Capital Facilities and Connections including any annexation charges; School Fees; and, Other Fees such as the final tract map checking fees charged by the County Surveyor.

Earlier Surveys Recalled. The Building Industry Association Chapter in Orange County has undertaken occasional development fee surveys since at least 1979. The last edition circulated to the public was in 1982. A 1985 edition of the survey was compiled but was not published.

Enclosed as **Appendix A** is the 1982 survey.

Other Trade Association Surveys Reviewed. We have relied on the methodology and formatting selections in the excellent fee survey published annually by the Construction Industry Federation of San Diego County, the CIF Annual Fee Survey. In fact, we recommend that the Orange County region make this annual update a chapter project, just as our colleagues in San Diego have done.

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Survey Methodology Reviewed. In doing our field work, we learned the hard way from the experience of the San Diego County researchers: There is no "one-stop shop" for development fees. Despite considerable familiarity with the local governments of Orange County, this "public" information about development fees and taxes is not so easy to obtain. We interviewed more than 100 public officials to compile our data. More than 3000 pages of documents were reviewed. The initial draft was then circulated to the city engineer, planning director and building official in each jurisdiction for confirmation (see Appendix "B"). A reminder letter was sent ten days later. Although not every city responded, the editorial review was invaluable from those who did reply. We appreciate their help.

Formatting Refined. We were determined to better the 1982 and 1985 editions of the survey by obtaining a record copy of the actual enabling legislation that actually authorized the fees or service charges. Rather than relying on a traditional mail or telephone survey, we made personal visits to all 26 cities and County offices. We called at the Planning, Public Works and Building Departments and asked for copy -- at our expense -- of the actual published schedule of charges and the enabling statute. When statutes were not available -- and most times they were not -- we visited the city clerk's office and searched city records for applicable ordinances or resolutions.

We found a number of courteous but unprepared staff members at the counter who more often than not, just did not have the tools at hand to answer our questions.

There were notable exceptions. The City of Irvine has published excellent work sheets for consumers on each and every development entitlement application and the appropriate fees.

The City of Yorba Linda staff was most helpful, courteous and attentive to our inquiry. The Fountain Valley City Manager maintains for public review a complete handbook of the legal basis for every fee. The County of Orange Environmental Management Agency even pitched-in to help pull the survey together.

We thank all the fine public officials who helped with this project.

A check list and guide is enclosed at Appendix C to help you do your own fee research and develop a fee strategy.

More Explicit Categories. One difficulty with earlier chapter surveys was that processing charges and facilities charges were co-mingled. This year, more categories were tallied and capital facilities and connection charges were segregated from engineering and subdivision processing fees.

Typical Subdivision Again Utilized. As was done in earlier survey editions, we wanted to know the cost for fees on a prototype 50-unit single family, detached subdivision on a 10-acre site with identical 1500 square foot homes. We did not, however, make direct agency-to-agency comparisons. There are simply too many variables to develop a meaningful "highest and lowest" fee determination. Instead, like our San Diego colleagues, we have provided a comprehensive catalog so that you

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can form your own conclusions about fee parity.

The attached **Appendix D** shows how the subdivision works and the other survey assumptions. We also provided worksheets from the County Environmental Management Agency to show how this test subdivision would be processed and what final fees and charges would be.

FINDINGS

1. Direct Facility Financing is a Major Trend. It should come as no surprise that land development fees have skyrocketed since California's tax limitation initiative, Proposition 13. Cities have felt strapped, unable to fulfill their traditional leadership role in financing public infrastructure. They have turned to the often vulnerable development community to make up the difference as traditional revenue sources have stagnated.

The biggest news in this taxing revolution, of course, has been the growth of direct facility exactions for public infrastructure. There is very little of the public in modern day in-tract public works. Sewer, water, storm drain, street, sidewalk and street light systems are all paid for in advance by the installing developer -- and ultimately by the new home consumer.

It is apparent that public agencies are not able to keep up their end of the traditional bargain for providing public facilities. They have no match for matching funds. Bonding capacity is curtailed. Only the Mello-Roos benefit assessment district law has permitted any considerable region-wide financing. The agency facilitates implementation. Home buyers still shoulder the cost, but over a more bearable time frame.

Since the last edition of this survey was published, facility financing fees are now in place in selected jurisdictions for schools, libraries, fire stations and even regional transportation corridors. We also found several generic system development charges.

2. Fees Are Increasing at a Rate Greater than COLA. Development fees are increasing at a rate greater than the general cost of living (COLA). There are no settled cost-of-living criteria for public agencies in raising fixed fees. The City of Tustin during the course of our survey, for instance, increased the fee for processing a zone change from \$250 to \$750, a substantial increase since the fee was last revised in 1981. The increase would appear to bear no particular relationship to the cost of living.

Although we made no exhaustive comparisons, the data we were given by public officials demonstrates that, in most jurisdictions, fees for services are going up faster than the cost of living.

There were exceptions. The City of Fullerton, for instance, couples some fees directly to an automatic cost-of-living inflator. The City of Laguna Beach ties annual storm water facility assessments to published cost indices.

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In some cities, San Juan Capistrano, for instance, the storm water drainage assessment automatic inflator rate is 10% annually for "the cost of living", even though the actual COLA has been well beneath that rate in recent years. A construction cost index has been included at Appendix E to again help you in evaluating fee parity.

Most adjustments greater than the cost of living have been occasioned by staff members recommending redefinitions of cost and new methods of casting the fees themselves.

We recommend that the Chapter urge public agencies to couple fees more closely to the actual published cost of doing business and agree upon generally accepted accounting principles for measuring the cost of services.

3. Hourly Rates Are Becoming More Common. More jurisdictions are turning to hourly rates to assess processing fees. The City of Irvine, for instance, has adopted a rate of \$60 per hour for planners to plan and for engineers to engineer development entitlements. The County of Orange utilizes an hourly schedule with fees ranging up to \$37 per hour. Most County of Orange planning functions are now also on an hourly basis with fees up to \$37 per hour. The City of Brea was considering a similar hourly formula for some fees when we went to press.

While such hourly rates are fairly common in engineering drawing plan check, we found increasing use of hourly rates in the checking of building plans and even planning land use entitlement processing.

Given strict accountability and the use of competitive rates, this is not an unhealthy trend for the industry. Please again consult Appendix C for guidance.

4. Accounting Practices Are Rarely Uniform in Public Agencies. We were not charged to make a study of the accounting practices of cities. We did, however, examine a number of sincerely written staff reports and cost studies on what "actual costs" were. The City of Irvine now insists upon \$60 an hour. So does the City of Santa Ana for some specialized engineering plan check. The City of Orange gets the same jobs done for \$35 per hour. All of these rates include payroll burden.

Obviously, no two agencies have identical overhead rates but neither, did we learn, do they have any published standards common to all agencies for determining such rates. We found no solid justification for the higher overhead rate utilized to reach \$60 an hour in Irvine and Santa Ana.

Lay people are at a loss to intelligently evaluate such numbers. That's unfortunate. We hope more cities find a common ground for their cost accounting practices so that we can all work with the same numbers.

5. Supporting Documents Are Often Inadequate. Unfortunately, most cities could not produce a supporting document that detailed all land development fees. When such documents did exist, they often had to first be compiled from dog-eared notebooks, and then verified for authenticity at the city clerk's office. Some were

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highly abbreviated bulletins that contained few working rules on actual computation applications. One south county water district even refused to release their fee schedule without a written request "on company letterhead."

And, as we said, the one-stop shop is the exception, not the rule.

We think public officials and the development community would be better served by distributing complete copies on demand -- and at a cost, if they like -- of the actual ordinances and resolutions establishing development fees.

6. Clerk Records valuable, but amended resolutions misleading. We found that the city clerk's office is an invaluable depository of the City Council's proceedings and laws as embodied in ordinances and resolutions.

What slowed down our research for you was an all too common city practice of amending resolutions rather than originating fresh documents. The researcher is then left with an arduous search through resolutions to find out if the fees in question are the most current. The City of Huntington Beach, for instance, had one fee resolution that was amended more than a dozen times.

Constantly amending resolutions makes the law almost unintelligible for outsiders. We don't blame the city clerks for this practice.

7. Statements of Actual Charges Were Not Common. Engineering plan check charges are typically on an hourly basis. Most developers are so relieved to get their plans through the plan check process that they seldom question the final numbers. We suspect they may have little informed basis anyway. In looking through sample map checking files we found that the itemized statement was the exception rather than the rule. Most billings were a lump sum without an hourly accounting of the billing employee's time, task, and hourly rate.

Hourly rates continue to edge upward. We think cities and other regulatory authorities should commit to providing itemized statements if they are not doing so already. It's good business, good public business.

8. Fees Add to the Cost of Housing. In May, 1986 testimony before the California Senate Select Committee on Planning for California's Growth (Senator Marian Bergeson, chairman), Ben Bartolotto of California's respected Construction Industry Research Board, provided important data on the impact of infrastructure fees on new housing.

Bartolotto compared 1975 with 1983 fee results to determine average fees charged for new single-family housing in selected Southern California jurisdictions. Here is what he learned:

-Excluding increases attributable to inflation, such fees have increased an average of 219% since 1975. Infrastructure fees have increased a whopping 559% since 1975;

-The 28 jurisdictions in the CIRB survey accounted for two-thirds of all

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single-family housing production in Southern California.

-The effective average fee charged is \$5,176 per dwelling unit. The sum of averages is \$7,724. The effective average is arrived at by discounting for jurisdictions that do not yet charge specific facility fees.

A cursory review of the CIRB analysis when compared with the Orange County data in this latest survey tells us:

-Most building in Orange County is occurring in jurisdictions that have facility and processing fees well in excess of the region's and the state's average charges;

-While major increases in our County have occurred for capital facility charges, our experience parallels the CIRB data that shows planning and zoning service fees and building permit fees are closer to following the historic rate of inflation.

9. Payment At Final Inspection Should be Requested. Builders and developers should be aware of the opportunity for payment of some fees at the time of final inspection or certificate of occupancy pursuant to AB-3314. Enclosed as **Appendix F**, is a bulletin recently distributed by your BIA Region staff; and, an Implementation Guide jointly prepared by the League of California Cities, the County Supervisors Association and the American Planning Association.

Builders should be aware that fees can still be collected earlier on in the development process if certain conditions are met by the collecting agency.

10. Most Expensive City for Processing. The City of Irvine charged more for processing entitlement requests and for evaluating and checking plans than did any other city in the county or the County government.

The City of Irvine utilizes a unitary billing system; i.e., all employees in a given function bill project hours at the same rate, regardless of the actual compensation paid those employees.

The County of Orange, by contrast, also utilizes hourly formulas but bills the time at the regulating employee's actual rate.

Our test case General Plan Amendment, for example, requires 100 billable hours to process. The application would cost \$3600 or \$72 per home in the County. The same event in the City of Irvine would be \$6000. That's \$120 per home, or nearly double the County charges.

Public improvement plan checking fees could cost as much as \$97 per hour in the city of San Clemente for utilization of outside plan checking supervisors.

11. Most Expensive Facility Fees. It looks as if the City of San Clemente regulating agencies charge more for the same fundamental infrastructure than in other cities. Such fees are easily more than \$15,000 per home in emerging so-called "back country" areas of the city. Consult the San Clemente schedule for details. Also,

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see the City of San Juan Capistrano schedule.

12. Relationship to Actual Cost Needs More Scrutiny. Although not an element of this particular engagement, we are intrigued by the relationship between revenues collected and the cost of provision of governmental services, particularly since the public agency budget season is now upon us.

Section 13 of the California Government Code at Section 54990, "Zoning and Permit Fees; Limitations," provides that fees for zoning variances, zoning changes, use permits, building inspections, building permits, processing of maps or planning services shall not exceed the estimated reasonable cost of providing the service for which the fee is charged (emphasis supplied).

There is an exception, of course. A question regarding the amount of the fee charged in excess of the estimated reasonable cost of providing the services or materials can be authorized by a popular vote of two-thirds of the electors voting on the issue.

It seems likely that processing charges are too high in some Orange County jurisdictions. How else, for example, can one explain that a single-family building permit in the County of Orange is \$447 while the same permit in the city of Buena Park is about \$1363 or \$1469 in Yorba Linda?

One explanation for such disparities is the penalty on subdivision housing exacted by the Uniform Building Code fee schedule. Under the provisions of the code's standard fee schedule, a plan check fee of 50% to 65% of the permit fee cost is assessed for each building permitted. The formula is reasonable enough when only one house is permitted and one plan check is performed. However, with subdivision tract work, the same basic set of plans is used for multiple editions of the same building. Only architectural adornments or plotting are changed.

The County of Orange has taken the leadership to recognize this inequity and has reduced charges for both plan check and inspection for multiple editions of the same building.

We urge the BIA to call on local cities to also consider such reforms.

13. The "Other" Orange County Is Also Making exactions. Local builders may find some comfort in knowing that they are not alone in being subject to heavy exactions. Some 76 Florida communities reportedly now impose at least one form of development impact fee. About one-half of the development projects now under way in central Florida are in Orange County. Orlando is the county seat.

The East Central Florida Regional Planning Council says that impact fees add about \$4550 to the cost of a new house.

Even law enforcement has been included among impact fees after a court challenge. As the fees there now stand, single-family homes pay about \$50 per unit, commercial space about \$140 per 1000 square feet and factory and warehouse space about \$8 per 1000 square feet.

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Other Orlando fees of interest to our members are for transportation impacts at \$1060 per home. Fire impact fees are based upon five different degrees of fire risk for the structure in question. Unincorporated Orange County, California developers now pay a fire facility fee of \$52 to \$346 per home.

We don't defend those fees just because they are used elsewhere. Any jurisdiction-by-jurisdiction analysis, however, should look at the entire revenue source spectrum including property, income, and sales taxes, the level of builder-installed capital facilities, and the bonding authority of regulating public agencies.

14. School Fees Are In Need of Reform. It goes without saying that school districts -- even with declining enrollments -- wasted little time in exacting new fees of \$1.50 per square foot of residential construction for new school facilities. When added to the exactions of other agencies, the cost of one building permit has now gone over \$10,000 in many jurisdictions.

Reforms are under way at this writing in Sacramento to limit such fees to the districts for which they were intended -- the fast growth districts with increasing, not decreasing enrollment.

Conclusion. The land development fee survey should be an annual project of the Building Industry Association. Keeping the BIA's fee library up-to-date will be an easier task with the computerized data base we are preparing with this study and with the reforms made in data gathering. We will be glad to help with errata sheets should our readers discover any gremlins among the numbers.

We also recommend a set of principles, **The Fair Share Principles**, if you will, to help guide agencies in setting and updating fees (see Appendix "G").

Finally, a research check list is included to help builders, developers and their consultants get the right numbers at city hall.

Very truly yours,

PREVIEW REAL ESTATE SERVICES



Philip Bettencourt
Consultant

PB/lt

**Orange County Region
Building Industry Association of Southern California
1987 Land Development Fee Survey**

THE FAIR SHARE PRINCIPLES

1. **Notice.** Provide sixty (60) days notice of the effective date of any fee increases
2. **Public Hearing.** Publish notice and hold hearing prior to consideration of fee increase along with mailed notice to any petitioning party pursuant to Section 54992 of the Government Code.
3. **Resolutions.** Do not amend enabling resolutions. Work for the inclusion of all development fees in one new, comprehensive resolution.
4. **Volume Adjustment.** Adopt reduced rates for subsequent plan check and inspection of identical buildings.
5. **Source Documents.** Insure that the actual fee authorization document with official Council signature is available for distribution by development services agency or city clerk upon request.
6. **Other Agencies.** Publish, and clearly display, contact list of any other known agency that may claim regulatory jurisdiction.
7. **Payment Timing.** Honor deferred payment rules under recent state legislation (AB-3314), Government Code Section 53077.5.
8. **Establish Specific Benefit Areas.** Assessment fees shall be within clearly defined boundaries for benefited properties and shall not be utilized to subsidize other tax-supported facilities or services. An adopted plan of works & implementation schedule shall be in place prior to collection of fees.
9. **Documents Kept Current.** Cost-of-living increases shall be documented in newly published schedules. No undisclosed, intermediate calculations shall be required to determine one's probable liability.
10. **School Fees.** School fees shall only be implemented with a school facilities master plan, adopted budget, and specific spending plans adopted after public hearing.

CALIFORNIA AND PROPOSITION 13

Remarks by Wm. Craig Stubblebine
Von Tobel Professor of Political Economy
Claremont McKenna College and Claremont Graduate School

before the
Joint Legislative Budget Committee
30 September 1987

Introduction

Let me begin by thanking the Joint Legislative Budget Committee for providing me with this opportunity to discuss "Proposition 13, Ten Years Later". As some may know, I have had the opportunity to participate in various aspects of the "constitutional tax/spending limitation" movement for some 15 years.

By one measure, the Committee's willingness to give attention to this subject today may be deemed somewhat premature. Various entities seem to be working up to a "ten-year retrospective" of Proposition 13 -- which would postpone such attention to next summer.

By another measure, the Committee's willingness is timely. The FRBSF Weekly Letter recently focused on "Prop. 13 Nine Years Later". Paul Gann has promised support for certain modifications in both Propositions 13 and 4. The State Superintendent of Public Instruction, Bill Honig, has promised to lead a fight to amend Prop 4.

I will not dwell long on the history. Prop 13 amended the California Constitution in June 1978 to provide specific limitations on local property taxes. Prop 4 amended the California Constitution in November 1979 to provide spending caps for (virtually) every unit of California state and local government. Their passage may be seen as the culmination of a "taxpayer revolt" building since the late 1960s when Los Angeles County Assessor Philip Watson sponsored the first of several unsuccessful "Watson" initiatives.

The central theme of this "revolt" was that elected representatives were approving more spending and more taxes than the body politic was prepared to tolerate. It reflects the central fiscal problem faced by any democratic society, that of finding a balance between private and public spending reasonably tolerable to the body politic. It reflects the conflict inherent in the fact that what people in the aggregate seek to spend through government far exceeds what people in the aggregate are prepared to finance through taxes.

The story is simply told. In the early 1960s, California state and local government taxes amounted to 11.3% of California State Personal Income (SPI). By 1978, this share had risen to 15.4% and the trend showed no sign of abating -- in spite of nearly universal pleas to state legislators to take action to stem the rising burden.

Somewhat ironically, given the focus of Prop 13, the burden of property taxes in 1978 substantially was the same as it had been 10 years earlier. By contrast, other state and local taxes had been rising dramatically, moving from 5.7% of SPI in 1961 to 9.2% in 1978.

In no small part, the effort to enact Prop 4 was prompted by a desire to avert even greater increases in income and sales taxes by a Legislature seeking to recover the tax revenues lost by the popular adoption of Prop 13. Based on the period 1981-85, this effort appears to have been successful: the share of SPI consumed by non-property taxes has floated in the 8-8.7% range. Meanwhile, the property tax share of SPI has floated in the 2.8-3% range.

These two propositions, both adopted by overwhelming majorities, differ in their affinities and procedures. Prop 13 has an affinity for the several Watson initiatives in imposing tax rate limitations and leaving to governments the right to spend whatever they can collect within those rates. Prop 4 has an affinity for then-Governor Reagan's ill-fated Prop 1 initiative of 1973 in imposing aggregate dollar taxing/spending limitations and leaving to governments the right to decide how to collect and spend their revenues within these limits. The central property tax rate limitation of Prop 13 is adjustable only by a new state-wide constitutional referendum; the spending limitations of Prop 4 are adjustable individually by the electorates of their respective governments.

Impact of Prop 13

One question which may be posed is whether Prop 13 has had the impacts anticipated at the time of its adoption. The answer, I think, clearly is "yes".

As anticipated, the share of state personal income going to property taxes has fallen in half, reflecting the maximum 1% property tax rate limitation.

Perhaps somewhat unexpectedly by some, the new share has been relatively stable, reflecting a continuing turnover of property -- and, therefore, continual replenishment of the property tax base. At the time, some had forecast a dramatic reduction in the property turnover rate which, in conjunction with

the maximum 2% annual reassessment limitation, would have led to a continuing decline in the ratio of assessed valuation to income.

As anticipated, longer-term property owners pay less, and shorter-term property owners pay more, of their incomes in property taxes -- reflecting both the reassessment of property to full market value on turnover and the maximum 2% annual reassessment limitation on continuously-held property.

At the time, it seemed reasonable that residential property would turn over more frequently than non-residential property, reflecting the longer life span of commercial, industrial, and agricultural ownership. Perhaps unanticipated is some indication that non-residential property is bearing an increasing share of the property tax burden.

As anticipated, Prop 13 induced a dramatic shift in fiscal responsibility away from local governments to the State, reflecting the State's relatively greater taxing flexibility and pressures on the State to "bail out" local governments in an effort to maintain the level of local governmental services. As anticipated, Prop 13 induced less reliance on property taxes and greater reliance on other taxes, especially income and sales taxes (largely levied and collected by the State), and on user fees. It would appear, for example, that school district dependency on local property taxes fell from 46% of total revenues in 1974 to 22% in 1985, with a commensurate increase in State funding of local school districts.

As anticipated, the proportion of voters favoring (further) reductions in government spending has declined and the proportion favoring additional spending has increased in the years since 1978. That is, there has been a shift in sentiment making further (deep) cuts unlikely to win approval by the electorate. This shift in proportions surely represents Prop 13's contribution to a more tolerable balance between private and public spending in California, at least as viewed by a majority of the body politic. Life goes on: fires are extinguished, criminals incarcerated, schools educate the young, and libraries remain open -- if, perhaps, less elaborately than before 1978.

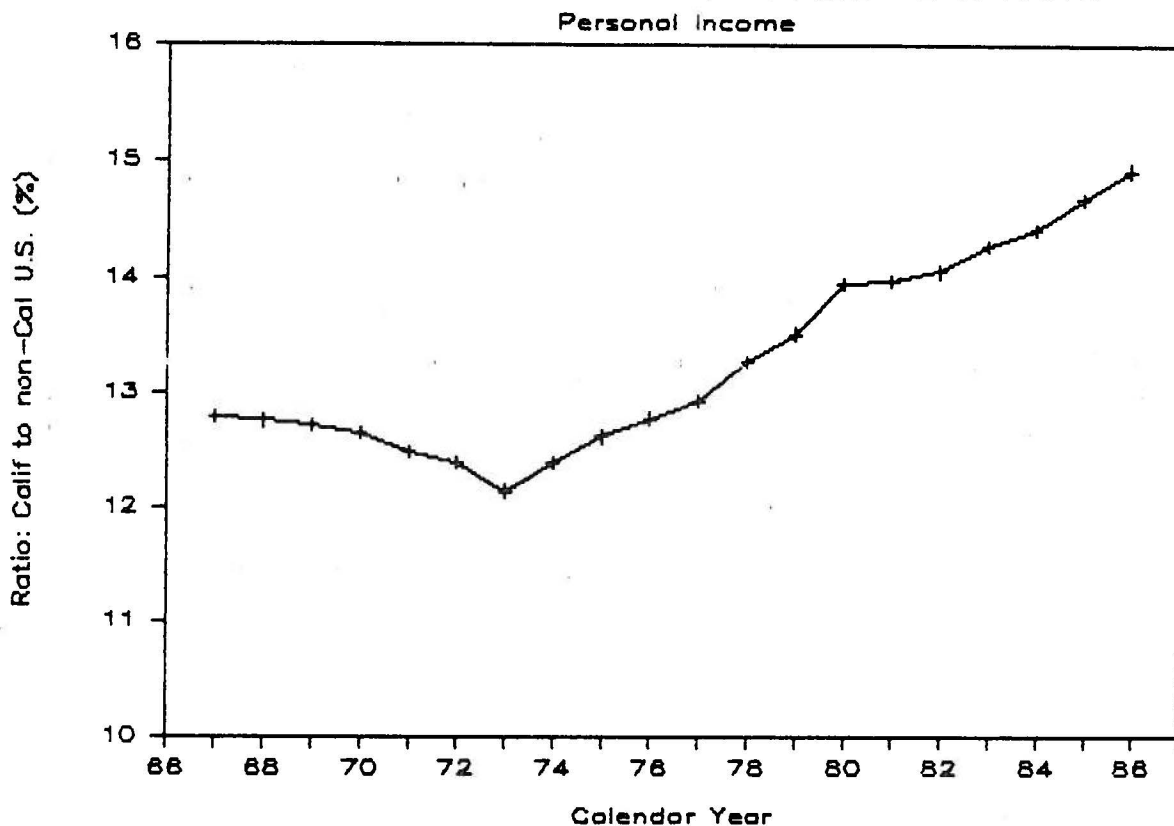
Prop 13 and the California economy

At the time, some proponents of Prop 13 had forecast that its adoption would strengthen significantly the California economy. It was argued that the lower property tax burden would make California differentially attractive as a place to work, live, and invest -- creating new jobs and rising incomes. Simultaneously, opponents had forecast that the lost property tax revenues would cripple government services, making California distinctly less attractive.

Shortly after its adoption, I wrote that "beyond the transitory effects, the impact of the Amendment on the aggregate California economy may turn out to be de minimis." The data seem consistent with this prediction -- or at least not inconsistent. Figure 1, below, depicts the ratio of California state personal income to U. S. state personal income exclusive of California.

FIGURE 1

CALIFORNIA VS UNITED STATES



Had Prop 13 had a significant impact on the relative attractiveness of California vis-a-vis the rest of the country, one would expect this ratio's trend line to have been displaced in the years after 13's adoption. It has not been. Indeed, it is 1973 which seems to mark the divide between this ratio's decline (before 1973) and its rise (after 1973). Others surely are better positioned than I to comment on what transpired in California and the United States in that period, some fifteen years ago, to reverse this trend. For present purposes, it suffices simply to note that no impact of Prop 13 is obviously discernible.

In any case, it must be remembered that the California electorate adopted, not one, but two amendments dealing with the burden of California

governments: Prop 13 in 1978 and Prop 4 in 1979. Any attempt to assess the impact of one must be prepared to disentangle the impact of the other.

Let me be clear that I am not suggesting here that Propositions 13 and 4 had no impact on life in California. I am suggesting that their impact is likely to be "distributional", rather than "aggregative". That is, the impacts have to do with the relative distribution between private and public spending, between those on relatively fixed incomes and those on relatively variable incomes, between those in some industries and those in other industries.

California without Prop 13

A second question which may be posed is what California would have looked like without Prop 13. Clearly, there is no obvious answer.

Equally clear, however, is the fact that the 1970s inflation had altered dramatically the relationship between property taxes and income for a significant portion of California residents. Those on relatively fixed incomes were faced with rising property taxes, reflecting the rising value of their property, and a falling standard of living.

Absent Prop 13, it seems to me likely that the Legislature would have acted to mitigate the property tax drain on fixed-income residents. The Legislature would have had several different approaches available to it. Which might have been chosen is a speculative exercise. However, I would have been surprised had any Legislative approach presided over the dramatic shift in fiscal responsibility noted above.

A somewhat different speculative exercise lies in asking whether, absent Prop 13, some variant on Prop 4 would have been adopted. The answer is, I think, "yes". The rising burden of income and sales taxation in California was meeting increasing resistance from the body politic. I also suspect that, had Prop 4 first been adopted, Prop 13 would not have been adopted. Put another way, had the California electorate enacted then-Governor Reagan's Prop 1 of 1973, little enthusiasm subsequently would have been generated also to enact Prop 13. Such are the ironies of political life.

Modifying Prop 13: Assessments

Paul Gann has indicated that he would support revision of Prop 13's assessed valuation base on "equity" grounds. From the outset, some have been bothered by the apparent "inequity" in having occupants of "identical" homes pay dramatically different property taxes. A simple example will illustrate.

Assume the 1975 value on each of two identical houses was \$60,000. Ten years go by and the houses remain identical except that House 1 has been sold in the tenth year for \$110,000, a compound annual growth rate of 6.5 percent. At the new cash value, House 1 owner pays \$1100 in property taxes. Meanwhile, House 2 now carries an assessed value of \$73,000, reflecting the maximum 2% annual reassessment rate, and its owner pays \$730 in property taxes.

Paul Gann's solution is to have all (residential) property assessed at its 1975 market value, adjusted for improvements which, themselves, would be assessed as if those improvements had been in place in 1975. Others presumably would favor annual reassessment of all property at its current full market value. Still others presumably would favor assessing residential property at 1975 market value and non-residential property at current market value.

Each of these approaches would deal with the apparent "inequity", but with very different implications for property values and for property tax revenues. The Gann approach would benefit current property owners by the capitalized stream of reduced future property taxes and would further restrict property tax revenues. Surely this would yield a declining share of state personal income going to property taxes over time and would produce further erosion of local control. The second approach, absent any downward adjustment in the 1% tax rate limitation, would harm current property owners by the capitalized stream of increased future property taxes and would produce a dramatic increase in local property tax revenues. The third approach would benefit residential property owners and harm non-residential owners, with aggregate property tax revenues falling somewhere between the first two.

However, no modification is necessary. The current system is without "inequity" -- at least in this dimension. Indeed, the one element of "genius" in Prop 13 is the 2% maximum annual reassessment coupled with reassessment to full market value on turnover. That this leads to very different property tax payments, depending on the date of last turnover, does not mean different burdens of ownership.

To see this, one merely has to answer the following question: if the property in the example above sold for \$110,000 when taxed at \$1100 per year, would it also sell for \$110,000 when taxed at \$730 per year? Surely, the answer is "no." The lower the rate at which property is taxed, the higher the price paid to acquire the property. Thus, adoption of the Gann approach merely would mean that new property owners would pay higher prices to acquire property and lower property taxes. Put another way, what people would save in lower property taxes they would lose in the higher mortgage payments necessary to finance the higher market values of property.

The drafters of Prop 13 had a choice to make. Property could be held forever at its (imputed) 1975 market, adjusted annually at a maximum 2% or property could be assessed at its current market value. If the first, 1978 property owners would be the beneficiaries for all time, capitalizing the lower property tax burden into the selling price of the property; new owners would share in none of these benefits. If the latter, a renewal of the unanticipated inflation of the 1970s again would distort the relationship between property tax and income.

In drafting Prop 13 to provide for reassessment to full market value on turnover, its authors on the one hand precluded 1978 property owners from full capitalization of the lower property tax burden implicit in the maximum 2% annual reassessment rate. To benefit from this reduction over time, 1978 property owners must continue their ownership of the property. On the other hand, its authors both assured new property owners of a known stream of property tax payments on which to base their purchase of property (by the 1%-2% provisions) and assured a continuing replenishment of the local property tax base (by the full market value reassessment provision). This I would regard as an inspired bit of drafting -- and not one to be modified.

Modifying Prop 13: Apportionment

A very different and very real Prop 13 problem has emerged from its legislative implementation. In the summer of 1978, the Legislature faced apportioning local property tax revenues "according to law". It chose to do so essentially by maintaining each jurisdiction's share of the property tax "pie". Thus, a city which had generated 10% of aggregate city property taxes before 1978 received 10% of the (reduced) city property tax pie after 1978 -- a "proportionate sharing of the burden" concept.

In doing so, the Legislature rejected the alternative of apportioning the city property tax pie proportional to assessed valuation. In consequence of this decision, the Legislature appears to have violated and to be violating another California constitutional provision on "tax situs". In essence, residents of cities which levied below average property taxes prior to adoption of Prop 13 now are subsidizing residents of cities which levied above average property taxes. There are millions of misapportioned dollars annually involved in the Legislature's unconstitutional implementation of Prop 13. This matter appears headed for the California courts -- unless the Legislature now chooses to adopt an apportionment formula consistent with all parts of the California constitution.

It should be understood clearly that rectification here involves no change in Prop 13 itself, only in its legislative or statutory implementation.

Modifying Prop 13: Local Control

There appears to be little enthusiasm to change the basic thrust of Prop 13 -- in spite of general enthusiasm for local control of local government and in spite of the subsequent adoption of the Prop 4 spending limits.

Prop 13 fundamentally altered the ability of local governments to seek a tolerable balance between their electorates' demands for local government services and their demands for lower taxes. Prior to 1978, the local property tax was the principal balancing vehicle. Communities, such as Claremont, seeking relatively elaborate local services routinely approved higher property tax rates. The wide spread between the lowest and highest property tax rate jurisdictions prior to 1978 provided eloquent testimony to the diversity among communities, both in the mix of taxable resources and in the level of government services sought by and provided to residents.

The time may come when a reassertion of local control is appropriate. Any one of a number of approaches may be taken. One would be the simple expedient of permitting local units of government to exceed the 1% rate limitation, with referendum approval by the relevant electorate, either by simple or qualified majorities. While this would diminish in no small degree the "security" of Prop 13, it also would revitalize the spirit of local government diversity.

Another would be, what I have called, "coordinated tax base sharing" (and what some may recognize as a variant of "power equalizing"), permitting a relative equalization of the prices of public services among fiscal jurisdictions and leaving to the electorate of each jurisdiction the freedom to determine the quantity of public services to purchase at these equalized prices. Equal prices would translate into unequal property tax burdens, with the Claremonters of the state bearing a higher burden proportional to the higher level of public services provided to them -- just as the equal prices of milk and clothing translate into unequal expenditures among households in response to differing tastes for privately purchased goods and services.

Still another would be permission for any local government, again with local referendum approval, to add a percentage income tax surcharge on returns filed by residents of the locality. As with the property tax, this could be introduced in conjunction with "coordinated tax base sharing".

This sampling of approaches is not meant to be inclusive. When, and if, the time comes, the full range of alternatives can be subjected to careful and full consideration. The point here is that modification of Prop 13 in this direction may be in order. By contrast, the modifications which have occupied attention to this point have little justification.

State "Bailouts"

One final issue perhaps deserves some consideration. In the aftermath of Prop 13's adoption, the State utilized its revenue sources to offset in part the lost local property tax revenues. Over time, these so-called "bail-out" monies have represented a decreasing share of local government revenues. On this ground, the case for their continuation has been deteriorating.

However, this issue is anything but simple. These bailout monies have come to be woven into the fabric of California governmental finances. In the aftermath of Prop 13's adoption, the State took on increased responsibility for local school financing and representing, itself, a form of "bailout" -- though one likely to be overlooked. The State currently is at its Prop 4 "Gann limit". Termination of the "bailouts" would not augment the State's ability to fund state-wide services. At the same time, their termination would leave local governments with room in their Gann limits. In consequence, termination of the bailout monies would lead either to lower State taxes (at the cost of lower local government services or higher local taxes) or to increased subventions by the State to local school districts (enhancing school finances at the cost of reduced county and city government services or higher county and city taxes).

Whether either result represents a wise exercise of Legislative power is beyond the scope of today's testimony.

Conclusion

The adoption of Prop 13 has generated significant and lasting changes. Certain of its attributes can be treated in relative isolation. Others must be treated in the context of the whole of intergovernmental fiscal relationships, including Prop 4. If Prop 13 came to be viewed as the only vehicle for mitigating the distorting effects of the 1970s inflation, it became so only because the Legislature found itself unable to enact a more constructive and less convulsing alternative. Such alternatives clearly were available. On balance, the loss of local control of local government should temper enthusiasm for the lower tax burden engendered by Prop 13. Whether ten years after is the time to reconstruct California's intergovernmental relationships remains to be seen.

Proposition 13: A Decade Later

A Presentation to the
Joint Legislative Budget Committee

by

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Director, UCLA Business Forecasting Project

and

Professor of Business Economics
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University of California, Los Angeles

City of Irvine Council Chambers
September 30, 1987

Proposition 13: A Decade Later

In May 1978, David Shulman, Robert M. Williams and I predicted that Proposition 13 would have a variety of impacts on the economy of the state of California. This is a brief review of how I perceive what actually happened compared with what we predicted.

(1) We predicted that the reduction of property taxes would raise the incomes of property owners and reduce the revenues of local governments, but that there would be a net loss to the state from the reduction of personal and corporate deductions on federal personal income and corporate tax returns. The Congressional Budget Office estimated that the direct effects of Proposition 13 on Federal government revenues would be gains of \$1.028 billion in federal fiscal year 1979 and \$1.311 billion in 1980. Indirect effects tended to reduce this effect, with estimates of gains of \$628 million and \$911 million for the two fiscal years, respectively.



I conclude that we were essentially correct that Proposition 13 cost California taxpayers as a result of higher federal taxes.

(2) We predicted that the substantial drop in tax revenues would not be offset by increased taxes from other sources, and that therefore there would be a sudden and substantial drop in state and local government employment. The timing of our estimated impacts were very seriously wrong. The large state surplus, in addition to cash buffers at the local government level, meant that there was a shift in taxes away from property taxes to previously collected state revenues in excess of amounts that were spent. Notice that this effect held only for a transition period.

We were very seriously wrong in our prediction that the unemployment rate would rise substantially (to 9.9 percent versus 6.6 percent without Proposition 13).

We were essentially correct that the employment in state and local governments would be substantially less than otherwise, even though we were wrong in the timing of the effect.

Chart 1 shows the actual level of employment in California by state and local governments compared with the trend projection that can be used as a rough guide to what might have taken place without Proposition 13. It is quite obvious that 1978 marks a decisive turning point in the rate of growth of employment by state and local governments.

Chart 1
Employment by S&L Governments
 Actual, 
 Trended, 
 (Thousands of Persons)

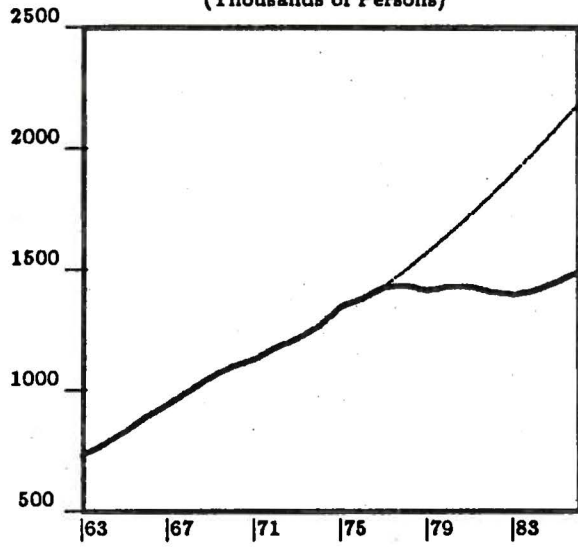
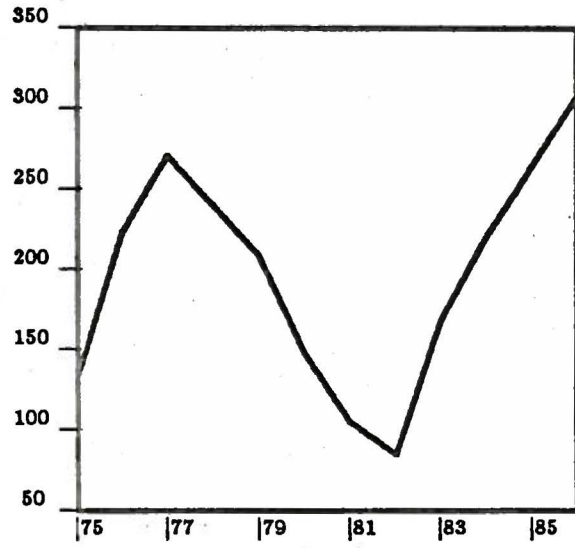


Chart 2
Building Permits for Residential Units
 (Thousands of Units)



(3) We predicted that residential building activity would receive a very strong stimulus from the passage of Proposition 13, since it concentrated tax relief on property taxes. We predicted that in 1980 permits would be issued for 319 thousand residential housing units if Proposition 13 passed, but only for 191 thousand units if Proposition 13 did not pass. The actual number of permits issued in 1980 was 148 thousand housing units, less than half of the optimistic total we predicted.

Our prediction was too optimistic but the logic of our argument persuades me that Proposition 13 was surely a benefit to property owners and would have been apparent in the residential building permit data had it not been for the surge in inflation and much higher interest rates that developed shortly after Proposition 13 passed (unrelated, of course).

We predicted that the impact on total California personal income would be significantly more positive than the comparable impact on total employment, since the sector receiving the direct benefits, namely, property ownership, is very capital intensive and the sector losing revenues, namely, the government sector, is relatively labor intensive. In that sense, we predicted that Proposition 13 was a choice for a substantially smaller government sector, with a larger private sector. I conclude that this prediction was essentially correct.

Two critical questions for today are: Is California government spending still too high, and is further institutional reform needed to hold it in check? Or, is government spending too low, and should the legislature be permitted more flexibility in making public choices?

Some voters are undoubtedly willing to see more expenditures to combat AIDS, provide more prisons, improve highways, raise educational standards and meet other perceived needs. Others will prefer to reduce taxes as a share of personal income, as the Gann limit tends to imply. Democracy is a never-ending search for the optimal balance of public and private sector activity. Proposition 13 was overwhelmingly approved by the electorate and I believe no majority today would vote to repeal it and subsequent fiscal initiatives entirely. There may be a growing consensus, however, that new flexibility is needed in making rational choices about public sector activities.

CHIEF BALE: Thank you. I appreciate that since this trip really doesn't pay all that much.

Honorable Chairman and members of the Joint Legislative Budget Committee, I have some prepared comments, and they're very brief. And my comments may raise more questions than they answer, but nonetheless, I'll do my very best.

My name is James F. Bale, and I am Chief of Police, City of Whittier. I've been in law enforcement for nearly 37 years; Chief in the City for 20, as Mr. Campbell has told you. Prior to that I served as Chief of Police for the City of Sierra Madre for nearly four years.

I thank you for the opportunity to testify before this committee. I hope my remarks will be helpful to you in your decision making process.

I was asked by Chief Gary Tatum of the Vacaville Police Department, who's the President of the California Police Chiefs Association, to testify on behalf of the Association. This notification came to me just last week, and while I solicited comments from some of my colleagues as to the effect of Proposition 13 on the operations of their departments, I received no replies, which leaves me in a rather precarious position of simply stating I guess they're all satisfied.

I represent a statewide association, and I have no statewide data to base my remarks on, so if they're a little general in nature, I hope you'll forgive that.

Going back nearly ten years to the passage of Proposition 13, the immediate effect on my own department was to lose five sworn positions and two nonsworn positions. That brought my authorized sworn personnel to 85. To date, we're still at that complement, ten years later. Whittier's a city of about 75,000 people.

CHAIRMAN CAMPBELL: Has the population increased during that time in the city?

CHIEF BALE: About 5,000-6,000. My best recollection is a number of agencies lost positions at that time. I'm reasonably certain that many of the agencies were able to replace some of those positions; some may have even increased the complement of sworn and nonsworn personnel since the passage of Proposition 13.

However, to measure the effect of Proposition 13 on law enforcement agencies solely on the basis of authorized strength, we may be taking entirely too narrow a view. While I realize that manpower is important in measuring the impact of Proposition 13 on police departments, perhaps it's prudent to measure the ability of police agencies to impact crime. That does not necessarily necessitate an increase in manpower; however, in some cases that may be appropriate.

It is also my impression that most police agencies in the State of California are very well managed and very innovative. I have had the opportunity to serve in departments in two other states, so I perhaps am somewhat qualified to make that comparison. I think they do it better in California.

Perhaps the passage of Prop. 13 may have caused some of us to become more innovative since about that time, we were experience increases in crime and other requests for police services. So, we found ourselves with fewer people and more things to do.

We also found that adding personnel to match the increased workload was not always a viable solution or alternative because of budgetary constraints. That meant that we in effect had to do more with less resources. It was not uncommon at that time, and there's still a carry-over to the present time, to find departments rearranging their organizations rather ingeniously at times to meet the varied needs of the delivery of law enforcement services to the people of our communities. In other words, we had to then and still do rearrange the parts within the department to respond to both crime and calls for services.

About 70 percent of what police departments do in communities is not crime-related. It's other kinds of services that we produce. So, you could say safely approximately 30-40 percent where they have catchers and investigators, and the rest of the time we're performing noncriminal kind of activities: taking care of the sick and needy, looking for lost persons, investigating traffic accidents, and doing things which are not truly criminal in nature.

CHAIRMAN CAMPBELL: Chief, as I recall, 911 came into existence in the last ten years really; hasn't it?

Has that increased the workload? Do you get a lot more calls that are un-police-related as a result of 911?

CHIEF BALE: Our experience has been that we do not. In fact, it's cleaned it up rather well once the people kind of got used to it, in that they put the emergency calls for service -- crimes in progress, injury traffic accidents, and a danger to

our citizens -- on the 911, and other things come in on business lines. So, it's really worked out quite well for us. We still have some slop over from one to the other, but people are pretty good at adopting to that.

In addition to our crime call for services, at the same time we had to then, and even more accentuated now, make an attempt to be proactive in meeting law enforcement needs. This would lie largely in the area of crime prevention.

Perhaps going back to before Prop. 13, and certainly including the past ten years that Prop. 13 has been in effect, technology has played a great part in increasing the effectiveness of law enforcement in the State of California. My empirical observations would lead me to believe that Proposition 13 has not negatively impacted the ability of agencies to reasonably avail themselves of current technology, which can in some cases preclude the need for additional personnel.

I think in looking back in the history of law enforcement for quite some period of time, our first attempt to better utilize sworn personnel, which are very expensive budget items, I might add, was to civilianize what positions we could. And then beyond civilianization of police agencies, technology seemed to step up and aid us even more.

If I seem to heavily stress the personnel aspect of law enforcement, I think it's with some justification. Personnel items are the most expensive items in any police budget, and an examination of typical budgets -- I guess there are always exceptions -- by in the typical police budget, anywhere from 80-90 percent of the total budget goes to the human element within law enforcement: salaries and benefits. The remainder to capital improvements and operational costs. So, when you're talking people, you're talking big dollars.

It's extremely difficult to judge the effect of Proposition 13 on police agencies in the State of California with any authority since there are so many factors to consider. And the beginning of Prop. 13 was just one factor. There were a whole lot of other social factors that enter into the changing style and needs for various amounts of law enforcement. One might examine, for example, staffing patterns within an agency.

By the way, there is no standard -- well, let me back track just a second. Police employees, the strength of a police department is based nationally through the FBI Uniform Crime Reports as the number of police personnel, that's sworn and civilian, for each 1,000 citizens. And that will vary all the way from .7 to 6.5 and perhaps even 7 in some cases, then of course everything in between. I would not be too far off if I were to tell you, for example, that in Los Angeles County, the number of police employees per 1,000 of population is about 2.5-2.6; the City of Los Angeles may run as high as 3.5, which I might add is extremely low for a large city. I believe Washington, D.C., has about 6.5.

So, there's no formula that tells you that if you X number of police personnel per 1,000 of population, all folks will live happily ever after. It depends on the type of community; it depends on its location with relationship to a large metropolitan area, for example. So, staffing patterns is a rather nebulous thing, and we all measure them, and either pat ourselves on the back or moan in despair, but there really is no great magic in terms of the number of police people that you have.

However, we do look at staffing patterns, levels of supervision of those field forces. Our support groups, scientific forensic science, fingerprinting experts, and so on, and response time in responding to emergency situations is one of the measurements that we do look at very closely. The degree of expertise in the area of crime analysis, which can often predict future crime events and trends. The degree to which an agency participates in crime prevention community relations activities and, certainly, crime rates, arrest rates, accident rates, and the ability of the agency to present prosecutable cases to the district attorneys offices.

Perhaps the most difficult element to identify is community overall acceptance of the level of law enforcement service that it receives from its law enforcement agency. Perhaps, and again there's nothing scientific about it, but perhaps this can be somewhat measured by the number of citizen complaints, observations by our supervisory personnel, the degree of involvement by the community with the law

enforcement agency in its crime prevention efforts. And these are just to measure a few.

Attorney General John Van De Camp has recently released a publication which comes out annually in the State. It's titled "Crime and Delinquency in California", and then for whatever year that happens to be. This is an excellent report, and while I won't take the time to cover each aspect of the report, I would draw your attention to several factors which may point to the effect of Prop. 13 on police departments in California.

Page 120 of that report states that law enforcement agency personnel increased by 10.3 percent from the years 1981 through 1986, and that would be maybe roughly half of the time that Prop. 13 has been in effect.

What I don't have available is the lost of personnel that may have occurred with the advent of Prop. 13 and when that took effect. The 10.3 percent increase may represent an increase in personnel, or it may have just brought the agencies back up to the strength that they experienced prior to the institution of Proposition 13.

Page 118 of that report states that law enforcement agency expenditures increased 62 percent during the same period. Once again, I don't have available to me any population increases that may have occurred which may have dramatically increased the need for more police services, or any decreases should they have a negative population count. So, I don't have any figures to show what the fluctuations might have been during that period.

During that same period, there was a reduction in the California Crime Index. That is, the number of Part 1 crimes that occurred. We measure Part 1 crimes; it's measured nationally so that everybody's playing off the same sheet of music. That is: murder, rape, robbery, aggravated assault, burglary, larceny, and added to that several years ago was the crime of arson.

We had decreases in the Crime Index, which would be those seven offenses that I listed, for 1981, '82 and '83, which obviously falls in the same ten-year period that we're looking at. 1984 remained relatively stable; however, there was an increase in the Crime Index in '85-86. We experienced a 7.5 statewide increase in crime. The five-

year period from 1981-1986 produced a 10.2 percent overall -- that five-year period -- produced a 10.2 percent decrease in reported offenses. During the same years, arrest rates went up slightly, about one percent or perhaps a little bit more.

There was a rather dramatic increase from 1977-1981. I don't have those figures with me today, but that's when the United States was experiencing a tremendous spiral of crime, and thank God it's leveled off during the '80s.

It looks like we're heading up again, so, we're going to have to reorganize.

CHAIRMAN CAMPBELL: What areas, Chief, are they mostly? It is burglary, robbery?

CHIEF BALE: Primarily in burglary, residential burglary. Perhaps through Neighborhood Watch was an extremely effective -- if you all don't belong to it, you must sign up for your Neighborhood Watch program before you leave today. It's one of the most effective crime prevention programs.

CHAIRMAN CAMPBELL: They won't be allowed out of the Council Chambers unless they do, Chief.

CHIEF BALE: Yes, residential burglary, and of course the last two years has seen a phenomenal, unexplainable increase in auto thefts, just epidemic proportions.

The figures cited are a small portion of Attorney General Van De Camp's overall report, but in fear of losing the thrust of this discussion in statistical analysis, I'll make no further reference to the report.

While I appreciate the opportunity to speak to you regarding the effects of Prop. 13, it would seem, in all fairness, one must look at the overall municipal budget, not just police budgets, but the overall municipal budget to more accurately begin a sense of impact, if any, that may have occurred. This seems necessary since budgets are set by city councils which may have found it necessary in some cases to take away from other city services to support the level of law enforcement they were experiencing prior to the passage of Prop. 13.

I feel safe in saying that most if not all communities place public safety, police and fire, highest on the list of public services

and probably made very impact to lessen the impact of Prop. 13 on police and fire. Again there are exceptions, but I think generally that's what they tried to do.

While I'm obviously only responsible for budgeting within the police department, I am in my community involved in the overall budgeting process for the City. And it seems to me that perhaps more, or at least as much, consideration might be given to Proposition 4, which impacts the ability of the City of expend funds it already has.

I do not propose or choose not to entertain any questions regarding Proposition 4 since our City Comptroller can barely explain to me.

CHAIRMAN CAMPBELL: Chief, that's the most honest statement by anybody before a committee. Everybody has difficulty understanding what the Gann limit is.

CHIEF BALE: The formulas are very difficult.

Perhaps a collateral issue involves the assistance given to cities by the State, sometimes referred to, and in my estimation rather obnoxiously, as bailout. I don't wish to belabor the term, but it seems to me that term connotes that a city has done something wrong or improper, or that it may even been a handout. And it seems to me those are our tax dollars which are sent to the State for supporting the State government and for safe keeping in the event the State does not need all of the money to execute its programs. It seems just and helpful to return at least some of those funds to the smaller units of government which do not have the ability to tax, or limited ability to raise funds from other sources.

Not having had the ability to survey California law enforcement agencies, in summary it's my feeling that Proposition 13 had a negative effect on law enforcement at the time of its inception, but has not proven to be devastating in its effect, overall effect, on law enforcement, at least at this time.

The people of the State of California spoke loudly and clearly in supporting Proposition 13. They wanted to reduce the amount of tax levied by the government on their property, and I fully support their position.

However, it may not have been altogether fair on the part of the public to expect a reduction in taxes and a continuation and in some cases increases in municipal services.

I thank you for the opportunity to testify before this important body, and I will be pleased to answer any questions that I may feel qualified to answer.

CHAIRMAN CAMPBELL: Any questions?

Chief Bale, thank you very much. You should understand that everybody wants to lower taxes and increase services. That's the historical mode of what people prefer to do.

CHIEF BALE: It's a nice trick if you can do it.

CHAIRMAN CAMPBELL: Yes.

Thank you, Chief, for coming down here today.

"PROPOSITION 13, TEN YEARS LATER"

PREPARED FOR JOINT LEGISLATIVE BUDGET COMMITTEE
SEPTEMBER 30, 1987

Information prepared for Fire Chief John Englund, representing the Consolidated Fire Protection District of Los Angeles County and the Fire Districts' Association of California, for presentation to the Joint Legislative Budget Committee.

I. INTRODUCTION

Pursuant to the Fire Protection District Law of 1961, fire districts were created for public health, safety, and welfare. The districts provide these services, which include but are not limited to:

- fire suppression
- paramedic services
- hazardous materials services
- disaster preparedness
- public education
- rescue services
- fire prevention

These services are all appropriate functions of a fire district.

Fire districts provide highly cost effective fire protection and other emergency services to large areas resulting in substantial savings to the public. Such savings are the result of a district's ability to provide service to its jurisdiction on a regional concept basis.

Currently, fire districts' revenue has not kept pace with population growth and service demand increases, thereby limiting fire districts' ability to maintain level of services without curtailments.

II. ANTICIPATED IMPACT OF PROPOSITION 13

In 1978 the Los Angeles County Fire Department prepared a plan, as did most taxing agencies in California, which was to be implemented in the event Proposition 13 passed. That plan provided for an approximate 2/3's reduction in Los Angeles County Fire Department operations.

At the time Proposition 13 passed, the L.A. County Fire Department was comprised of two legally separate entities: the Fire Protection Districts of L.A. County (special districts) and the Forester and Fire Warden (a County General Fund department). The anticipated budget impact was as follows.

Anticipated Budget Reduction. -

The Department analysis of Proposition 13 indicated that if passed, our budgets would be reduced from:

| | | |
|-----------|----------------------|-----------------------|
| Districts | -- From \$61,441,839 | To: 17,818,148 (-71%) |
| F&FW | -- From \$19,654,855 | To: 8,255,039 (-58%) |

Other fire districts had similar plans with similar effects.

Legislative action in the form of first year bailout and subsequent property tax redistribution prevented drastic reductions from occurring and mitigated much of the impact of Proposition 13.

III. LEGISLATIVE ASSISTANCE ("BAILOUT")

To assist local governments in dealing with Proposition 13, the Legislature enacted Senate Bill 154 (Chapter 292, Statutes of 1978) which, for one year only, provided block

grants of \$811,000,000 to ensure that local governments would not fall below 90% of their 1978 pre-Prop. 13 budgets. Special districts received \$125 million of these SB 154 block grants, which was proportionately distributed, based on each county's special districts' property tax loss in relation to statewide special districts' loss.

SB 154 mandated that fire and police programs in cities, counties, and special districts be given priority in the distribution of the appropriations.

"Funds distributed for this section shall be given first for police and fire programs in order not to jeopardize the health and safety of the community. The legislative body shall ensure that the level of police and fire protection programs actually provided in the 1977-78 fiscal year shall be continued in 1978-79." (SB 154, Chap, 292. Statutes of 1978)

SB 2212 (Chapter 332, Statutes of 1978) made technical changes to SB 154; however, it also appropriated an additional \$37 million to special districts.

This assistance considerably lessened the impact Proposition 13 would have had on the fire districts and other fire departments in the State, including the Fire Protection Districts of Los Angeles County. This is evidenced by a comparison of the property tax levy the Fire Protection Districts of L.A. County received in the last pre-Prop. 13 year of 1977-78 and the post-Prop. 13 year of 1978-79.

| <u>TAX LEVY</u> | | <u>BAILOUT</u> | <u>TOTAL</u> |
|-----------------|---------|----------------|--------------|
| \$49,825,094 | 1977-78 | -0- | \$49,825,094 |
| \$23,766,125 | 1978-79 | \$36,811,116 | \$60,577,241 |

Had the Fire Protection Districts of L.A. County not

received these bailout monies. their 1978-79 property tax revenue would have been 52% less than it was in 1977-78. Other fire districts experienced similar circumstances.

Legislative assistance came in another form in 1979, when the Legislature enacted AB 8 (Chapter 282, Statutes of 1979) which redistributed the property tax and created the Special District Augmentation Fund (SDAF) which was intended to provide a long-term solution to the funding problems of special districts. The State assumed responsibility for a larger portion of school district financing and made a share of the school district property tax revenue available for distribution to cities, counties, and special districts.

Distribution of these additional tax revenues to special districts through the SDAF was established in AB 8 (1979). The board of supervisors of each county was given complete discretion in the allocation of the SDAF monies.

Statewide, methods of distribution of SDAF monies vary. These methods are listed in order of their frequency of use by counties throughout the State; the number of counties using this method as of 1985 are in parenthesis.

Priorities (14) - (Board of supervisors determines which services are most important and allocates accordingly)

Need (9) - (Special districts' annual needs determine allocation)

Contribution (6) - (Return of full contribution to source)

Formula (6) - (A formula is adhered to for allocations)

Committees (5) - (Committee made up of district representatives to decide allocations)

Other or Unknown (18)

Controversies in several counties have occurred involving SDAF policies. some of which have resulted in litigation.

Some of the major policy disagreements are:

- Allocations are based on political circumstances, rather than actual need of fire districts.
- No allocation formula in existence which, in turn, necessitates staff time to protect or justify allocations and results in the inability to do any long-range fiscal planning.
- Emergency reserves retained annually exceed the 1% statutory limit.
- Distribution of SDAF monies to newly created special districts that do not contribute to the SDAF have reduced SDAF allocations to the remaining fire districts.
- Yearly unallocated emergency reserves which are never distributed to the special districts.

Four modifications to the SDAF have occurred since its inception:

AB 934 (1981) A district must be allocated a share of

the fund even if it receives revenue from assessments, charges, or special taxes.

SB 127 (1982) Up to 1% of the fund may be retained by the board of supervisors for administrative costs and 1% may be retained as an emergency fund for special districts.

AB 3469 (1984) The emergency fund could be utilized to make loans/grants or promote consolidation of districts if the allocating board of supervisors so chooses.

AB 1849 (1984) Independent districts' contributions to the SDAF were frozen at their 1983-84 levels, resulting in their growth being returned to the district rather than the SDAF, which should eventually lessen these districts' dependency on the SDAF.

Since its enactment, there have been several unsuccessful legislative attempts to modify or eliminate the SDAF. The legislative bailout to date has been a patchwork of solutions that have not fulfilled long-term funding needs. No comprehensive legislation to date has provided a solution that would furnish fire districts with a stable source of revenue to address growth and service demand needs.

IV. WHAT FIRE DISTRICTS MIGHT HAVE LOOKED LIKE IF PROPOSITION 13 HAD NOT PASSED

Based on our experience, it is reasonable to assume that situations similar to that of Los Angeles County would have occurred in other fire districts.

Prior to the passage of Proposition 13, property was reassessed every three to five years. The average assessed value growth in Los Angeles County was 12.58% per year from 1973 to 1977. After the implementation of Proposition 13, growth in assessed valuation slowed to an average of 10.6% per year.

In an attempt to estimate the financial profile of the Consolidated Fire Protection District had Proposition 13 not been enacted, we applied the pre-Proposition 13 four-year average assessed value growth rate of 12.58% (compounded) to arrive at a projected 1986-87 assessed value for the District, which could be compared to the actual 1986-87 District assessed value:

| | |
|------------------|------------------------|
| \$89,273,649,128 | Projected 1986-87 A.V. |
| \$76,059,274,616 | Actual 1986-87 A.V. |

The results show the projected assessed value growth to be 17.4% over the actual assessed value growth.

It could be reasonably assumed that this difference in growth is largely the result of Proposition 13's requirements:

- that property be reassessed only when ownership transfers, and
- a maximum 2% growth factor to be applied to the assessed valuation of properties if no transfer of ownership has occurred.

In the period 1978 to 1986, service demand factors increased as follows:

- Population served increased by 20.6% to 2.6 million.

- Total emergency responses increased by 26.8% to 152,072 incident responses.
- Paramedic/emergency medical responses increased by 67.17% to 120,361 responses.
- Housing units served increased by 16.5% to 834,316.
- Cities served increased 12.2% to 46.

Had Proposition 13 not passed and the Consolidated Fire Protection District's last levied tax rate of \$.7865 been imposed on the projected assessed value, District property tax revenue would have been approximately \$175.5 million based upon recognition of emergency service needs. The District's property tax revenue would have been modified to meet the District's needs which may have been lower than \$175.5 million but higher than the \$147.9 million budgeted for 1986-87. The District's property tax revenue, including Special District Augmentation Funds, for Fiscal Year 1986-87 equalled approximately \$122.9 million, -OR- 30% less than what it could have been had Proposition 13 not passed and 20.3% below minimum operating requirements of the 1986-87 Budget.

The Consolidated Fire Protection District's operating requirements include replacement or addition of emergency service assets such as fire stations and equipment and the addition of personnel necessary to fulfill its mission.

These various needs, identified above, are not addressed within the current revenue constraints but would have been addressed if Proposition 13 had not passed. Other fire districts have experienced similar or more adverse circumstances.

V. NEGATIVE FINANCIAL IMPACTS ON FIRE PROTECTION DISTRICTS
SINCE THE INCEPTION OF PROPOSITION 13

Business Inventory Exemption Subventions

Business inventory exemption (BIE) subventions were repealed in 1984-85 by the Legislature. Although some permanent funding was provided to replace these subventions, special districts were not treated the same as cities and counties. Counties received vehicle license fees and accelerated lien date revenues, while cities received a subvention and accelerated lien date revenues as replacement for their BIE subventions.

Accelerated lien date revenues or as they are also known, supplemental roll property taxes, were intended to compensate special districts for all of their BIE losses. They were, however, inadequate to fully reimburse losses for many fire districts. Some fire districts with little or no commercial/industrial property may not have been adversely impacted by the loss of business inventory exemption subventions and a few fire districts may even have enhanced their revenue as a result of the accelerated lien date revenues. Definitive information on such districts is presently not available.

In 1984-85 the State made a one-time-only statewide appropriation of \$10 million to compensate non-enterprise special districts for inadequate accelerated lien date revenues. In addition, a State loan was made to special districts which was to be repaid only if supplemental property taxes fully replaced the previous BIE subventions.

The Consolidated Fire Protection District of L.A. County received in 1983-84, \$8.1 million in BIE subventions and

would have continued to receive these funds annually had the business inventory exemption subventions not been repealed. Procedural accounting differences between the State and County prevented the District from recovering the entire \$8.1 million.

In 1984-85 the Consolidated Fire Protection District recovered \$6.6 million from a combination of \$2.3 million in supplemental roll property taxes, a State loan, and a State subvention.

Therefore, in 1984-85 the Consolidated Fire Protection District of Los Angeles County incurred a loss of only \$1.5 million. The decision rendered regarding the procedural accounting differences affected only Los Angeles County. It is uncertain how other fire districts were affected, but since the procedural accounting decision applied only to L.A. County, it can be safely assumed that their situation for 1984-85 was much better.

In 1985-86 the Consolidated Fire Protection District received \$2.2 million in supplemental roll property tax revenue against a BIE subvention loss which left us with a \$5.9 million shortfall.

For 1986-87 the Consolidated Fire Protection District's BIE subvention loss is estimated at \$5.9 million and a like amount for 1987-88.

Since the repeal of the BIE subvention in 1984-85 through 1986-87, the Consolidated Fire Protection District's losses exceed \$13.3 million!

BIE losses have been incurred by many fire districts. To date the fire districts have been unsuccessful in their legislative efforts to find a permanent funding replacement for the BIE subventions.

Special District Augmentation Fund Shortcomings

Due to the discretion given to boards of supervisors in AB 8, most fire districts receive less revenue than they contribute to their Special District Augmentation Fund (SDAF). Los Angeles County has been an exception as the Consolidated Fire Protection District has benefited from the Board of Supervisors allocations of the fund.

Fire districts in Sacramento and San Diego Counties have consolidated as a means of removing themselves from SDAF constraints to retain funds that they would have contributed. Fire districts believe that the ability to remove themselves from the SDAF constraints by consolidation is an incentive to consolidate.

Sacramento County has initiated litigation to retain the consolidated fire districts in SDAF to retain discretion over these funds. If the litigation by Sacramento County is successful, fire districts would again be subject to having fire protection funds redirected. Fire districts would view this as a disincentive to consolidation and may not proceed with beneficial consolidations.

Fair Labor Standards Act

Fire departments and fire districts throughout the State were impacted by the U.S. Supreme Court ruling on the Fair Labor Standards Act (FLSA). Imposing premium overtime pay has had, and continues to have, significant impact on fire district finances. For example, FLSA expenditures for 1986-87 will be approximately \$5 million for the Los Angeles County Fire Department.

Tax Levy Percentage Adjustment (Factor File)

In Fiscal Year 1984-85 the Los Angeles County Auditor-Controller established factor file rates, and tax levy revenues were distributed on that basis. The schools appealed to the Department of Finance and a decision was made by the Department of Finance which required the Auditor-Controller to change the factor file rates in favor of the schools. This change took place in 1985-86; however, it was retroactive to 1984-85.

That adjustment reduced the 1985-86 annual income of the Consolidated Fire Protection District by \$4 million and required a retroactive payment of \$4 million for Fiscal Year 1984-85 for a total impact of \$8 million.

Community Redevelopment Agency Losses

Fire districts' major funding source is property taxes, and the districts require their property tax growth in all areas of their districts to continue adequate levels of service. The Consolidated Fire Protection District receives 97.6% of their revenue from this source.

In Fiscal Year 1986-87, the Consolidated Fire Protection District's tax increment passed through to city community redevelopment agencies was estimated to be \$8.7 million.

In 1986-87 post-Montoya CRA projects accounted for 9% of the District's tax increment loss.

Pre-Montoya CRA project areas accounted for 91% of the tax increment loss in 1986-87.

Cumulative losses incurred by the Consolidated Fire Protection District due to the diversion of funds to CRA project areas since 1974-75 is estimated to be \$56.8 million. Other fire districts have also suffered losses, but detailed information is limited.

Revenue from growing areas in other parts of the Consolidated Fire Protection District is being used to support fire protection resources in CRA project areas that are not providing a pass-through of tax increments.

VI. MODIFICATIONS THAT SHOULD BE MADE TO THE PROPOSITION

Property taxes should finance property-related services. Public safety services should receive priority, which has certainly been the intent of post-Proposition 13 bail-out legislation.

SB 154 stated:

"(1) In distributing funds to districts which provide fire protection services, and any police protection district, county service area, or community services district which provides police protection services, exclusively, the governing body shall provide an amount sufficient to ensure that each district maintains the same level of protection as was actually provided during 1977-78."

This language was maintained in SB 2212.

VII. SHOULD THE STATE CONTINUE TO PROVIDE "BAILOUT" FOR LOCAL GOVERNMENTS?"

SB 154, SB 2212, and AB 8 cannot be viewed as permanent solutions to fire districts' funding problems, but rather as interim measures until a sound, permanent funding

solution can be found. Fire districts need to be fiscally self-sufficient and not dependent upon seeking annual legislative remedies.

- It is evident from discussions with fire districts throughout the State and from documentation provided in a publication from the office of Senator Milton Marks entitled Stepchild of Proposition 13 (January 25, 1985), that the Special District Augmentation Fund is not working appropriately and needs to be eliminated and replaced with a permanent, reliable, and stable revenue source.
- Provide legislation that would mandate Community Redevelopment Agencies, as funds become available, to pass-through tax increments to fire protection districts prior to incurring additional indebtedness.
- Legislative action to find a permanent funding replacement for the business inventory exemption subventions is required for a stable financial outlook for fire protection districts.
- Appropriate the balance remaining from the \$21.8 million appropriated by AB 1304 (Chapter 107, Statutes of 1985) to special districts for supplemental roll tax revenue shortfalls to replace BIE losses for Fiscal Years 1985-86 and 1986-87.
- Enact comprehensive fire service long-term funding legislation that would provide a reliable and stable revenue source, thereby eliminating the need for annual legislative action to fund the operation of local fire districts.

VIII. VIEWS FROM FIRE PROTECTION DISTRICTS STATEWIDE

I have received comments from fire districts and fire departments which I have included in some of the previous observations. Contributing counties were:

- Contra Costa County Fire District of Contra Costa County
- American River Fire Protection District of Sacramento County
- Orange County Fire Department of Orange County
- Menlo Park Fire Protection District of San Mateo County
- Ventura County Fire Protection District of Ventura County
- Los Angeles City Fire Department of Los Angeles County
- and also the Legislative Advocate representing the Fire Districts' Association of California.

A summary of their comments follows.

Summary of Comments

1. That the politics and the redirection of the SDAF have led the districts to believe that a phaseout of the SDAF and the return of all contributions to their source would provide some fiscal stability and enable the districts to better project their fiscal outlook each year.
2. That legislation is needed mandating all current and future CRA projects pass-through to fire districts, as agency funds become available, prior to incurring additional indebtedness.
3. That supplemental roll revenues were inadequate to fully replace BIE subvention losses; therefore, a

permanent revenue source to replace these losses must be provided.

4. Enact legislation to provide funding for the transition and operation of a volunteer fire district to a paid professional fire district.

IX. SUMMARY

The provision of fire protection, hazardous materials, and rescue services by fire districts has proven to be a highly efficient and effective form of rendering service. The regional concept of providing service allows for the most efficient placement of resources throughout a district's jurisdiction and allows for the optimum response regardless of jurisdictional boundaries.

Fire districts throughout the State of California have had to fight to protect their funding year after year.

- 1973 Statutes, Chapter 358, imposed a maximum tax rate limitation for local agencies.
- 1978, Proposition 13, imposed a maximum 1% property tax revenue limitation.
- 1979, Article 13B, Sections 1-11, imposed local government spending limitations.
- 1979 Statutes, Chapter 282, created the Special District Augmentation Fund which is allocated at the sole discretion of the Board of Supervisors of each county.

in analyzing the outcome of Proposition 13 as it relates to fire districts, it is important to understand what transpired before and after its passage. Prior to the passage of Proposition 13 most fire districts had an established property tax rate that was applied equally, according to value, to all properties. For example, the Consolidated Fire Protection District of Los Angeles County in 1977-78 levied a tax rate of \$.7865 throughout its jurisdiction. Fire districts were operating under tax limitation legislation at the time Proposition 13 was passed which prevented them from levying a tax rate higher than what was in place in 1972.

Legislation implementing Proposition 13 (AB 8, Chapter 282, 1979 Statutes) effected a redistribution of available property tax revenue in proportion to the amount of revenue previously received by a taxing agency in each geographic area known as a "tax rate area". This method of redistribution resulted in a varying distribution of property tax revenues for fire protection services in each tax rate area. For instance, the Consolidated Fire Protection District's current portion of the \$1 (or 1%) property tax rate varies from \$.09 to \$.50 while the District's average rate is approximately \$.17. Due to this varied rate, funding of fire protection services for similar occupancies in different tax rate areas is inequitable. This inequity is compounded when a transfer of ownership occurs and a property is reassessed to current market value.

This allocation method of the 1% maximum property tax revenue was appropriate for immediate implementation of Proposition 13, however, it is unsuitable as a

permanent funding solution for fire protection districts. I suggest that legislation be introduced giving priority to the funding of fire districts' needs through the reallocation of the property tax. This reallocation could be based on value, square footage, fire flow or some other equitable manner of funding.

Allocation of the SDAF by the Board of Supervisors, in many counties has resulted in fire districts receiving less revenue than they contribute to the SDAF. Legislative attempts to modify or eliminate the SDAF have been unsuccessful so far. The elimination of the SDAF in addition to a reallocation of the property tax would result in much more stable funding mechanism for fire districts statewide.

While responsibilities to protect life and property continue to grow, funding for fire districts is not keeping pace. Fire districts require a permanent legislative solution to ensure adequate funding of services as their responsibilities increase.

CHAIRMAN CAMPBELL: If we can begin again this afternoon, our next witness will be Dr. Stanley G. Oswald. Dr. Oswald is the former Superintendent of the Rowland Unified School District. He has served as a school superintendent for a number of years. He is a specialist in school finance and a professional consultant. He has presented seminars in school finance across the State for the past ten years, and he is presently the State trustee for the West Covina School District.

DR. OSWALT: Thank you, Senator Campbell, Senator Beverly, and members of the study group.

I was given five questions to respond to. I'd like to start with Number One: Did the Proposition have the impact you thought it would?

Very simply, no. I think every school administrator in California was warned that we'd drop off into the Pacific Ocean and that life would end if it passed, and of course, no one knew what the Legislature would do in advance. Sometimes we're not certain after it has acted.

Certainly in advance, we did not know that Senate Bill 154 would be passed, and that gave us back 91 percent of the funds we thought we would receive prior to the passage of Proposition 13.

School boards, I think, and service groups particularly, were very critical of school administrators for some period of time after the passage of Proposition 13 because they had been told stories of doom and gloom, and that did not take place.

One of the positive aspects in our school district -- and I would clarify that my remarks are my own, are limited to my own experience; I do not represent any association of superintendents or other

administrators -- the tax rate in our school district was significantly reduced, though by 1982-1983, many of us thought that the true impact of Proposition 13 had arrived. You'll recall that was the year in which we received no inflation allowance whatsoever. In 1983-84, Senate Bill 813 turned finances around again, and finance for schools has been much better since that time.

I think perhaps the most critical long-range impact of Proposition 13 on schools is currently being felt in school housing. There's no realistic way to adequately meet the needs in rapidly growing school districts for housing students. I know that you are being bombarded related to developer fees and the ability of local districts to impose those fees, but I would only caution you that some of us are only surviving because of that if we have major growth going on in our school districts.

I think the current State program of deferred maintenance was probably an outgrowth of Proposition 13. I would just comment that that one has also be under discussion. That is extremely valuable, in my judgment, in protecting State assets, your buildings that by and large you have funded in State-aided school districts.

The second question was: What might California school districts have looked like if Proposition 13 had not passed?

I think it's important to recognize that any answer is pure speculation. ~~Perhaps we would have had more school classrooms and teachers that might have lowered class size, since that continues to~~ be, I think, a major problem in California. Nationally, as you know, we still rank as one of the highest ratios in the United States.

I think we might have seen far better maintenance programs to protect State investments, because I think this continues to be a major problem in California.

We might have seen less money in restricted categoricals and more money for school boards to utilize in their own identified programs for either enrichment, or for vocational education, gifted education, or remedial education. Again, we can only speculate.

Question Number Three: What impact did the Proposition have on the school districts in California?

I think we really have to go behind Proposition 13, back to 1972-73, when Senate Bill 90 established revenue limits primarily for school districts. Those revenue limits were accidental and depended primarily on where districts were just prior to 1972-73. So, they were not fair in terms of their establishment; they were not corrected by the so-called Serrano compliance measures. They were not corrected by AB 65, and were locked in by Proposition 13 and all the following finance bills.

Certainly Proposition 13 changed the State educational system from a shared State and local financial system to a State controlled system. I think one could argue whether that's good or bad, and I know there are viewpoints on both sides.

My own belief is that there ought to be State defined measures as well as local options, and yet most local options are disappearing because, I think, most current studies show that most school districts today have only between 1½-3 percent of their total budgets for discretionary expenditures. There's no practical way today for a local board

of education to increase funding on an ongoing basis to any kind of program within their school district.

Districts are more and more limited to State established priorities. Either first so-called reform programs with quality indicators attached, such as the current legislation out of 813: How many students do we have in advanced English courses, advanced math, advanced science. The kind of quality indicators that Legislators have asked for and Bill Honig has placed into effect.

While I don't object to quality indicators, because I think as we receive more funds we have to be able to identify what's happening to that money, it is driving the kinds of instructional programs that district must place into effect because you only have funding for those programs.

The other side of that coin, of course, are compensatory programs, where money is designated to be spent in predetermined ways, whether that be federal funding, such as Title 1 from the federal government, or set by school improvement programs money from the State of California, those funds basically are restricted and restricted with guidelines followed by audits.

I think one of the very positive aspects of Prop. 13 has been that we have become very creative to help resolve the financial crunch. We have seen many private foundations created to assist school districts in funding either basic programs or special programs such as music, drama, et cetera.

We have seen a rather significant increase in the number of bingo operations. And while I don't believe school districts exist to run bingo parlors, let me assure you, if you make \$4,000 a week, that's

makes a tremendous difference in what you can offer high school students at a high school that's running the program.

Swap meets have become very popular. Again, you can make \$1200 a week; three persons can run it. That's a significant benefit to a high school.

CHAIRMAN CAMPBELL: Are there really some school districts making -- actually they're individual schools; aren't they?

DR. OSWALT: That is correct.

CHAIRMAN CAMPBELL: Like individual high schools, as I recall.

DR. OSWALT: I'm using Rowland High School. They started out with 4,000 a week. I think Diamond Bar High School does even better than that today. They've taken a lot of our customers.

CHAIRMAN CAMPBELL: What night of the week do you run your game?

DR. OSWALT: Monday nights.

CHAIRMAN CAMPBELL: They've got to improve dramatically until the NFL comes back on.

DR. OSWALT: That's true. That's a bingo game unto itself.

Swap meets, Nogales High School runs a \$1200 a week swap meet. They start lining up on Fridays, and you'll see 30 cars lined up so they can get coveted space the next day. They've even worked out a reservation system where they pay extra to get certain good slots. It's a wonderful program.

CHAIRMAN CAMPBELL: Who runs this?

DR. OSWALT: The band parents.

CHAIRMAN CAMPBELL: The band boosters?

DR. OSWALT: That's correct, and other support groups can have the program one week per month, and they run it the other three or four weeks.

CHAIRMAN CAMPBELL: In other words, it might be the football boosters one week or the basketball.

DR. OSWALT: That's correct. The band boosters are there for the first three weeks, and then other support groups of course can run in under their direction the fourth weekend or fifth weekend.

CHAIRMAN CAMPBELL: How did the band move in and get in such a number one position?

DR. OSWALT: Because we didn't have a good band, and they had to find a way to fund it so they could buy uniforms.

CHAIRMAN CAMPBELL: I meant, how did they get in ahead of the football boosters?

DR. OSWALT: Just out of need and creativity, I think. It's an interesting program. Not instructional necessarily, but certainly contributes to the instructional program.

I think another creative mechanism has been the use of certificates of participation. We don't like to talk about arbitrage, but it is there and very helpful. Developer fees --

CHAIRMAN CAMPBELL: Stan, I don't understand the term "certificate of participation". I understand "arbitrage", but I don't understand "certificate of participation." Is that what you called it?

DR. OSWALT: Yes. Certificates of participation are long-range anticipation notes. They can run up to seven years and are sold by school districts to be paid for out of any fund that's available to the district. They can be general fund; they can be general fees; they can

be money the district may have from site sales; from the using interest or even State-granted VEA funds which have been invested and we use the interest to pay off certificates of participation.

CHAIRMAN CAMPBELL: Do most school districts use certificates of participation?

DR. OSWALT: No, I would say only -- relatively few have used them. You have to have a means of repaying them over a period of time, but again, if you get the money up-front and can invest it, you can make more money on the investment than you pay on the interest rate.

It can be very helpful. I know one district where the business manager hopes to make his district something in excess of a million dollars over five years.

Developer fees, of course, have helped us tremendously in rapid growth areas, sharing in redevelopment income. I think school districts initially were very naive, and were not aware of their impact on cities or counties where redevelopment projects went in. We have learned that school districts can bring lawsuits; we can stop projects and receive income, and that has been one that's still widely under-used in California but is growing in its impact.

By the way, there are ways that school districts can participate and receive funding, and the counties cannot get hurt, because as it relates to a fire district, that money can be passed through to the extent they would have received the money.

School business partnerships, of course, have grown widely and we've got a great deal of help in those areas.

Fourth question: Is it time to make any modifications to the Proposition?

Yes, I believe so. I think there needs to be some way that local school boards can raise funding for both facility and general fund needs. I think there needs to be a voter approval method of more than 50 percent and less than 66-2/3. I think the low-wealth districts need to be able to raise as much as wealthy districts for each one cent on the tax dollar, which takes us back to the equalization in Serrano and so forth.

I think second, revenues should have a lot of time talking, and I do not have a solution, but equalize the tax burden on new and old home owners. Those tax differences can be as much as four times, as represented by my next door neighbor who just sold his home, versus mine purchased five years ago, and his rates versus mine. So, I have a personal interest in that one.

The last question: Should the State continue to provide bailout to local governments?

I very much appreciated the answer given a few minutes ago. I don't like the term "bailout". It connotes being saved, and my districts have not needed to be saved.

CHAIRMAN CAMPBELL: But Chief Bale had a surname problem with bailout also.

DR. OSWALT: If you define bailout in terms of current practice, i.e., a bankrupt school district, which I happen to work in today, as a protector of your State loan, then I think bailout is an appropriate term and with penalizes, I think it's appropriate to be certain you get your money back.

If it's to maintain programs, establish new programs, no, I do not think you should be in the bailout business in those arenas.

But I think the question really begs the issue: How can we reach agreement on the level of funding which will, in most ways, place a value on what we want? If we know what our funding level is to be, we can adjust the programs. California has learning problems that are unique to the rest of the United States. How do you compete on a fair basis, i.e., class size, support staff, instructional supplies and equipment, in the United States when we spend far less per pupil?

It's my feeling however, and it's interesting as I hear others testify, all of us want more money, but we want less restrictions, et cetera. I think that the problem that's faced -- I'll limit it to the public schools -- if you could establish some kind of formula so we knew what funding was in advance, when we tell our business community, as an example, that as of July, when we start preparing budgets and often even into September, that all of our income is predicated by the formula coming from the Legislature based upon the estimated number of students, who may or may not show up in September, they get a little scary in terms of how, then, do you run that kind of enterprise.

I think the difficulty we have in the public schools is knowing how much we will have at a given level of time, then we can -- I get carried away when we start talking about reducing budgets, but we know how to reduce budgets. We can provide education at any level, but I for one, as a long-term superintendent, having been a superintendent for 30 years out of my 39 years of education, I am tired of apologizing for an outstanding instructional program offered in California schools. And I recognize we have many, many critics. I recognize we do not have a perfect system. But we have an outstanding instructional program in

our public schools in California that's better today than it's ever been in our entire history. It's demonstrated by many, many measures.

I'm tired of apologizing for us. Tell us what you want, and stop asking for more with less, as for example, 1987-88. I think all of us have reduced income related to our expenditure patterns and are asked to continue to improve all quality indicators.

CHAIRMAN CAMPBELL: I have a couple questions, Stan.

You said you believe only 3 percent of your budget you really have for discretion. Was that the figure that you used?

DR. OSWALT: That's correct.

CHAIRMAN CAMPBELL: And I gather the State now puts up, what, about 90 percent of most school districts' costs?

DR. OSWALT: We would put them at about 88 percent; 85-90 percent.

CHAIRMAN CAMPBELL: Prior to 1978, the State's contribution was less than 50 percent; wasn't it?

DR. OSWALT: Statewide in our district, it was very different because, as you know, we were then, were and are a low-wealth school district. We have always received over 60 percent of our money from the State. But statewide it was somewhere in the neighborhood of 42 percent.

CHAIRMAN CAMPBELL: So, what you've had is a diminution of options at the local level for discretionary spending of money for discretionary programs?

DR. OSWALT: That's correct.

CHAIRMAN CAMPBELL: I guess I think the thing that concerned me most was when you said you really couldn't enhance any program that you

wanted to because you don't have the funds with which to do that, if you wanted to enhance a program or start something different.

DR. OSWALT: Let me use just one example, if I may.

Rowland has a very unique instrumental music program starting at the fourth grade level. It's served by two traveling music teachers in reconstructed school buses, where the bus pulls up, plugs into a thing, and there's an electric organ and air conditioner on the bus, and students come out, have instruction on the bus, and then return to the classroom. It keeps the school quiet; offers a ready classroom because we are overcrowded, and then they move to the next school.

Our Board of Education has looked at, asked for, a string instrument program so they can have orchestras. Orchestras are something that don't exist in public schools in California today, and yet orchestras were a part of all schools when I went to school in the Midwest, in the East, and even in the West at one time. Orchestras don't exist these days, and I think that's too bad. That's a skill that's a lifetime skill, and it's very different from, say, football.

CHAIRMAN CAMPBELL: Thank you very much. I appreciate your coming down here today. Try and get West Covina out of the hole.

DR. OSWALT: I will protect your dollars, believe me.

Thank you for the opportunity to testify.

CHAIRMAN CAMPBELL: Thank you.

Our next witness is Mr. Joe Duardo. Joe is the immediate past president of the California School Boards Association. He is also presently a member of the South Whittier School District and serves as their president. He is a retired engineer from the Xerox Corporation.

Joe, thank you for being with us today.

MR. DUARDO: Thank you. Good afternoon Senator Campbell, Senator Beverly, members of the study group.

As stated, I'm Joe Duardo, immediate past president of the California School Boards Association and a member of the South Whittier Elementary School District Board of Trustees for the past 13 years. I'm here today to represent the more than 6,000 local elected school board members in the State.

CSBA has a long established finance statement in our legislative platform calling for reinstatement of local tax levying authority for local governing boards. Since the passage of Proposition 13 and the demise of authority for local tax overrides, school districts have been at the mercy of the Legislature and the administration regardless of their community's desire to supplement the funds available for public schools.

In 1977, prior to the passage of Proposition 13, virtually every school district in Los Angeles County had revenues generated by local tax overrides. These revenues allowed local governing boards to better meet the unique needs of their local schools as identified priorities by the community. CSBA and local boards longed for the authority and opportunity to turn to their parents, local businessmen and women, and residents to give them the opportunity to make a decision

via the electoral process to provide additional dollars for our students.

CSBA urges this committee and the Legislature to consider legislation reauthorizing tax overrides with a majority requirement for school districts. We believe that this option would give schools the necessary tool to seek additional funding from their own local tax base.

Thank you very much for the opportunity to join you today. CSBA would welcome the opportunity to work with you to assure that any tax levying authority proposal would be developed in such a manner to prevent inequities and yet at the same time, give local communities an option for a new funding source.

Thank you. Those are my prepared comments.

CHAIRMAN CAMPBELL: I want to ask for some observations on your part because you're one of the few school board members, I think, left who has served pre-Prop. 13 and post-Prop. 13, and having a statewide understanding.

What have you seen in your district? What differences have you seen before and after 13?

MR. DUARDO: My service on the board predates Proposition 13, but it doesn't go so far back as when we had local tax overrides. So, I'm trying to compile from our district and from other districts in the area, with the help of L.A. County, something that I think can help and can be given as an addendum to this testimony.

However, I would like to comment on the present needs and what I can envision that might happen should we regain this authority. It's

certainly not a scientific calculation of data, but just knowing what I know about schools in our area.

I would echo Dr. Oswalt's sentiments. It's probably in the area of school facilities. We worked very closely with the Governor's Office and the Legislature last year to get a package passed, which was a bill with \$4 million, and it sounded like to may be closer to the total solution as we find it. That's not nearly the case. School-age population's growing at a rate of about 130,000 students per year, as opposed to 100,000 that we had been projecting.

There's a frustration on behalf of school districts in our area because of the fact that all the schools funded by the State program are already in effect locked up in the log jam of districts that have qualified and are in line for those funds and are preventing other districts from having any hope for qualifying.

In our area -- and also part of the school facilities issue that we discussed was the fact that he schools were built for a classroom of 30-40 years ago. The computer labs and interactive videos, some of the equipment that we would like to see in the classroom, we are thinking of converting the cafeteria/auditorium combination, we call it cafetoriums, into computer labs, and I think that is one area that I think the elementary district particularly would like to have additional facilities revenue for.

The high school, Whittier High School, is in bad shape and needs renovation. This comes at a time when our district is making cuts. They're making the cuts that they need to make, and they'll survive. The housing, again, is something that's put on the back burn-

er. I just don't see anything in the immediate future that would help us in that area.

CHAIRMAN CAMPBELL: Any questions?

Thank you very much. We appreciate your being here this afternoon.

HARRY HUFFORD

Mr. Chairman, Members of the Committee--

Thank you for asking me to appear before you to testify on the subject of Proposition 13 -- ten years later. As you indicated, my experience as the Chief Administrative Officer for Los Angeles County gave me a first hand perspective on the impact of Proposition 13. Beyond that, my education in Political Science and Public Administration, particularly under Professors John C. Bollens and Winston Crouch at UCLA, focused my career interest on local government and my professional attention on state and local government relationships.

Over the years since 1953 I have been well aware of the fundamental changes affecting the relationships between state and local governments in California.

Most of these changes directly affected school districts and county governments, whose function is to provide state services at the local level.

For structural reasons there have always been tensions between the state and the independent local government units which implement state mandates, particularly counties and school districts.

The emotional intensity of these relationships has shown itself in three areas.

- Program issues;
- Financial issues; and
- Political and interpersonal relationships between local and state government elected and appointed officials.

When I joined county government in 1953, state/county legislative relations seemed to focus on only a few areas. Welfare was a main issue because of the voter approved shift from county to state to county administration and the continuing fall-out from the Myrtle Williams/George McClain era. The other two main legislative issues of the day for counties were roads and highways and judicial staffing matters.

At the local level, during the 50's Los Angeles County was heavily focused on developing the governmental infrastructure to support the post war population growth.

The Board of Supervisors had broad responsibilities and the authority to make decisions and to finance them. The focus of this decision making was the annual budget process. In the forum of the public budget hearings, which could fill the Board rooms of that era, different points of view competed for priority. Independent professional staff advocated for the "good of the community and the jurisdiction as a whole." Special interest groups advocated for their constituents' unique program needs. Taxpayer watchdogs -- responding to the lightening rod of the property tax rate -- advocated for fiscal constraint. The Board of Supervisors had to weigh all of these competing interests and they had to raise the tax revenue to finance their decisions. The state had little knowledge of local governments as a whole and little involvement in their day to day operations or on their priority setting decisions.

In the 1960's and early 70's, with the New Frontier and War on Poverty initiatives in Washington, and with assessment reforms enacted in Sacramento, Los Angeles County first experienced inordinate growth in health and social services programs and then began to feel the brunt of property tax payer resistance to the local cost of

financing them. By the mid 1970's Los Angeles County government's two legislative objectives were established:

- home owner property tax relief; and
- substantial increased state funding for health, welfare and justice program mandates.

During this era, the counties' focus on these issues in Sacramento and the transition from a part time Legislature dependent on the Executive branch for information to a full time professionally staffed Legislature -- began to build a knowledge base in Sacramento of county program and finance issues. Drawing on that knowledge base, when the voters approved Proposition 13 and suddenly state government became fully responsible for financing all government in California, the state was able to respond in a three week period with SB154, and following that, with AB8. These immediate legislative solutions established the stability, direction and structure for the state to work with the schools, cities and counties to deal with the aftermath of Proposition 13 for the next several years. Additionally, local special districts became the new local government players at the state legislative level.

Each year since then, individual program and fiscal issues have been the focus of detailed attention and reform or revision. In program areas affecting counties, we saw Medi-Cal reform, the MIA transfer, jail

bonds, mental health funding, child abuse legislation, and, most recently, state funding of the courts.

In the strictly fiscal area, steps were taken to repeal the deflator, adjust vehicle license fee allocations, repeal the business inventory exemption subvention, re-allocate property tax revenues and re-establish the authority to issue general obligation bonds. Most recently, in this session you have created block grant funding to counties in addition to state financing of the courts, as previously mentioned.

There will continue to be tension between the state and local agencies over funding and program issues in education, health services, the homeless, etc. etc. But, I see this now as part of the process -- and that the issues that are debated are within a framework of legislative and policy history that permits resolution (not necessarily tidy) of the issues.

Having said this, what can I suggest to you for your further consideration?

There is an observation or two that might be made about the current structure:

- Today, local governments' ability to plan and finance long range projects and to respond to emergent situations is severely limited by the fixed property tax revenue base created by Proposition 13. This forces local government to continually go to Sacramento for the solution to local problems and dilutes local elected officials' responsibility and accountability to the public for these solutions.
- Second, competition for decisions at the local government level is largely limited to program special interest groups, environmentalists, local homeowner groups, property developers, and bargaining demands of government employees. There is no longer a "stake" in these decisions by the homeowner, the general business community and families. The Proposition 13 tax revolt has enforced fiscal constraints on local government budgets. In general, major policy decisions have largely shifted to Sacramento;
- The oversight of local government decision making rests with federal and state agencies,

the competition between internal groups, the media, and dissent between the elected officials -- as the RTD has learned the hard way;

- This raises the question of whether "benign neglect" by the general population is appropriate for such powerful institutions as the units of local government;
- Finally, the most recent events in Los Angeles in which a so called powerful state/county/city commission has not been able to compete economically with a city of 1000 -- suggests that even a theoretical examination of the structure and governance of those public agencies might be warranted.

In other words, I am suggesting that by focusing on the "trees" of local government program and fiscal issues, the state has brought us through the first ten year aftermath of Proposition 13. I would suggest that your agenda for the next ten years should be to focus on the "forest" -- that is, the role and financing of local purpose governments such as cities, counties, schools and special districts and their relationships to the state and to one another. This, of course, would be no easy matter.

It has always been my view that units of government ought to combine program, financial, operational and responsibility and political accountability in a single agency. This, however, is easier said than done. It has also been my experience that it's almost impossible to form or staff a group to study these issues, as each present stakeholder will negotiate mightily to ensure that the results of the study are not adverse to his organization's current self interest.

The several efforts which have been undertaken -- from Governor Brown's 1978 Citizen's Committee chaired by A. Alan Post to Governor Deukmejian's New Partnership Task Force -- have led to programmatic and fiscal reforms, but the underlying concept of the role, structure and financing of state and local government has not as yet been successfully addressed.

In addition to the suggestions made above, other issues to be examined should include:

- Governance and political accountability;
- Representativeness;
- Oversight;
- Incentives/Disincentives; and
- Stake-holding.

As you well know, only this year these issues have surfaced in both transportation planning and management in Los Angeles County and in the statewide organization of the community college system. I believe this will be the next set of issues to be faced in dealing with the continuing tensions between the state and local governments.

Thank you again for asking me to share my experiences and perspective with you.

CHAIRMAN CAMPBELL: Thank you.

Our next witness, from the League of California Cities, is Jim Harrington. Jim is a legislative representative for the League of California Cities. Prior to coming to the League, he spent seven years with the consulting firm of Ralph Anderson and Associates, where he was responsible for public finance practices. He has a background in local government with 15 years experience in city and county government. The California League of Cities is a voluntary organization representing California's 444 cities.

Is that correct?

MR. HARRINGTON: Yes, 444, and working on a few more this year, too.

CHAIRMAN CAMPBELL: Yes, I'm sure we are.

MR. HARRINGTON: This kind of a reunion for me. About 21 years ago, I went to work with Harry Hufford in L.A. County; my first job in the public sector.

CHAIRMAN CAMPBELL: Good training. You had a good training officer there.

MR. HUFFORD: He's a good man, and he's getting better and better.

MR. HARRINGTON: Then I was also with the City of Irvine for the first almost eight years that it was a city, so it's been kind of a reunion for me. I was the Director of Administrative Services/Finance Director for the City here, and lived through the pre and post-Prop. 13 era in this city.

My remarks, I'm very aware that I'm the last speaker and the pressure on time. So I'll keep it brief.

There's a couple of points that I want to talk about, and one is what's happened to property tax revenues before and after, and then the effects on cities.

First of all, I want to qualify a bit because I'm going to be generalizing about cities, and as soon as you generalize, whatever I say will probably not be true for any one of the 444 cities. So, as you know, cities do vary greatly, both in size and nature.

But just as a first item, what's happened to property tax revenues before and after Prop. 13, cities were probably less impacted relatively than others because they were less reliant on property taxes. If you look at the year before, 1977-78, and then the year after, cities on the average were 22 percent of their revenues were from property taxes. A year later, that is reduced to 11 percent. So basically they took a ten percent cut in their overall revenues.

Counties, on the other hand, were hit much more severely. Counties were -- about a third of their revenue base was on the average from property tax revenues.

One of the interesting things, though, that I've seen happen after Prop. 13 is there was an initial reaction in dealing with the problem. And a lot of this was living off of reserves, layoffs, and those things, but obviously there was still a cut.

But if you look at the trend over all, property tax revenues have grown, and in fact have grown faster than any other revenues that the cities have, to the point now where we're not quite recovered from where we were, but we're -- in 1985-86, property taxes had come back to 19 percent of the total revenues, compared to 22 percent before Prop. 13.

So, this raises some pretty good questions, I think, in terms of how does this occur with Prop. 13? The thing is, and the California Taxpayers Association pointed out in its study --

CHAIRMAN CAMPBELL: Do that for me again. I think I missed it. It was 22 --

MR. HARRINGTON: Before Prop. 13

CHAIRMAN CAMPBELL: -- and it's now 19?

MR. HARRINGTON: Yes.

CHAIRMAN CAMPBELL: And where did it drop to after the passage of Prop. 13?

MR. HARRINGTON: Immediately after it dropped to ten percent, so we've regained another 9 percent of our revenue base from property taxes.

CHAIRMAN CAMPBELL: Is that essentially because they're growing at a far greater rate than it was anticipated?

MR. HARRINGTON: Yes, exactly, and at a faster rate than other city revenues, because other city revenues, for example the gas tax, is relatively constant. It doesn't respond as much to inflation; it's a price per gallon rather than a percentage of the price of gasoline. If it were a percentage of the price of gasoline, then obviously it would have gone up dramatically.

But what it really says is that property tax revenues, not withstanding Prop. 13, have grown, in fact, faster than the inflation rate. The California Taxpayers Association did a study about a year ago, where they noted that in the period since Prop. 13, property tax revenues as a whole have averaged about 12 percent.

CHAIRMAN CAMPBELL: Per year?

MR. HARRINGTON: Yes, which is kind of -- it kind of flies in the face of conventional wisdom, and so the question is why? Why is this?

I think we need to look at what Prop. 13 does and what it doesn't do.

First, Prop. 13 does not restrict assessment of State assessed property. That is, property assessed by the State Board of Equalization is not subject to Prop. 13. And that amounts to about six percent of total assessed values statewide.

Secondly, Prop. 13 also did not restrict assessment of reassessment of personal property: boats, airplanes, cattle, that sort of thing. That's about 6.5 percent, so about 12.5 percent of the total assessed value is outside the limit.

The remaining portion, it's interesting to look at, when you look at the fact -- what most people remember is that it only goes up 2 percent per year under Prop. 13. But there's also the provision for reassessment to current market value when property turns over or it's newly constructed. And this is the driving factor.

It almost takes a chart to fully demonstrate it, but the years I was doing fiscal impact studies as a consultant, I did a lot of work in this area and I clearly demonstrated it, but what happens is, property turns over at whatever rate, let's say every five years. There's a catch-up that occurs whenever that property turns over, and you get the accumulative effect of five years of actual revenue growth. So, as soon as that property turns over, it goes from a low value to a high value. And if property turns over on regular cycles, then you're get-

ting every year a five-year catch-up, or a ten-year catch-up, whatever your turnover cycle is.

So over the long haul, other things equal, property turnover will cause property values to keep up with inflation.

Then the other factor is, as new development occurs, that comes on the market at full value. Which brings us to an interesting point, in that if you look at fire districts or others that have a lot of new development, cities, for example, that are growing rapidly, a lot of new construction, that value is coming on full cash value, today's value. Your inventory of existing property remains at a lower level until it turns over.

So, this is what really, I think, has caused the growth in revenues in actual rate.

One of the things that you need to look at, though, is not just Prop. 13, but also the cumulative effect of Prop. 13 and other limitation measures we had. Actually, almost ironically, Proposition 13 compounds the Proposition 4 problem. A case in point is a fire district in Placer County, south Placer County, right by Sacramento, where the high tech industry has been growing: Hewlett Packard and a lot of nonresidential growth, a lot of commercial and industrial growth has been occurring. That's all new development coming on value at full cash value.

That fire district has had a big surge in property tax revenues, but their problem is, their Gann limit has not gone up accordingly, because the Gann limit is only adjusted by population change and the CPI. So, all of this new development, commercial and industrial development, so they've shot way over their limits. They've had over-

rides and really can't use the money to build additional fire stations and staffing to provide for this new development.

Which brings us to the problem with Prop. 4 working together with Prop. 13. One tends to aggravate the other because if you're at your limit, you get new development and that new development is not residential development, it will drive you over the limit very rapidly.

So where are we now as a result of some of these things? One observation is, and I think Harry Hufford touched on this a little bit in terms of the competition question, it's a little different twist that I observe, and that is that it's now really a zero sum game, and you certainly saw that with the no and low property tax issue versus the counties. It's a one percent limit, a one percent rate, and all entities within that have to compete for that resource.

Statewide, cities -- you should know that cities get a small share. California Taxpayers Association reported that 13 cents of every dollar on the average goes to cities. The second largest is schools at 37 cents; counties get 33 cents; and special districts as a whole account for 17 cents of every dollar. But obviously, from city to city, area to area, those numbers vary.

But the important thing here is zero sum game. We're all competing for that same one percent levy, and this really shows itself not only in the noes and lows issue, but annexations where there's city takeover of territory or a special district expands, and there is to be a readjustment of property taxes correspondingly.

Some counties have adopted standard agreements on how those property tax revenues would be redistributed within the one percent. Others are left strictly to the negotiation point of view.

My observation is that it hasn't worked very well in general.

The same thing's true of incorporations, although there is in the statute a specific provision for how new cities, through property tax revenues, the basic rule of thumb is the dollars go to duties, so the property dollars are transferred from the agency giving up the service, usually the counties, to the city in proportion to that service, how it's financed by the property taxes. If a city takes over \$100,000 worth of police protection from the county, and 20 percent of that was financed by property taxes, then 20 percent of that 100,000 is transferred to the city. The dollars go with the duties.

In concept, that works pretty well. In practice, it has not worked very well. There's a lot of conflict over what the real costs are, what the transfer should be.

Certainly redevelopment continues to be a real bone of contention, again, because of this zero sum game. We're dealing with a limited amount.

Even in the area of new development, what we're finding now is counties, recognizing that new development coming on line at full cash value is very valuable in terms of revenue base, and we're finding urbanization of areas outside of cities that in past years in many counties you wouldn't see at all.

I mentioned before the interrelationship of the various control measures. Not only does Prop. 4 compound the situation, but cities and really all local government entities now -- there was a mention earlier in terms of the flexibility the cities have. Certainly we have a broader revenue base, but one of the things that we now find ourselves in after last year, is that we're basically in the same box as every-

body in that we, after Proposition 62 on the November ballot, we have to go to the voters with any increase or new tax, even in the areas of fees and charges.

This morning you heard how Prop. 13 has caused a shift towards fee and charges. What I would comment on is what's happened is, fees and charges before Prop. 13 were largely subsidized by the general fund. In other words, cities weren't really charging full cost for what it cost to provide a recreation program, or what have you.

The day after Prop. 13, for example, in this city, the council went to a policy that adult recreation programs shall pay for themselves. Before, recreation programs were subsidized by the general fund. So, I played in a local recreation football league, and my fee of \$2.25 dollars went to \$200 per team. That doesn't discourage us from playing, because per player it was only about five bucks, so it didn't really change that much. But those are the kinds of things that happened.

What we face now with all these things, Prop. 62 and the statutes, there is currently in the Government Code and the Rev. and Tax Code, a requirement that if a city levies a fee in excess of the cost, that needs a vote, too.

So basically what we've got is a referendum taxation and funding system, so that any new or increased tax, or even a fee, if it's ~~going to create revenue beyond the cost of the service provided,~~ requires a vote. That puts us in that much more of a box.

We have regained the general obligation bond authority, and there's been a mixed ability to do that. It's a two-thirds vote, still continuing to be a major challenge. About half of the cities that have

gone for general obligation bond issues have been successful; the other half have not. That's a very limited experience. They just got that authority last year.

I think in the long-term for cities, Proposition 4 will probably have the greatest impact unless it's changed. The biggest problem with cities is, they're typically where most of the urbanization is occurring, where the economic development is occurring. The Prop. 4 limit fails to recognize the impacts of economic development and growth. The adjustment factors from year to year are only for cost of living and for population increase, so a community like this one, that has had a lot of nonresidential development in the form of hotels, business and commercial development, there is no adjustment factor for that. That growth is beyond the CPI, obviously, because it's new additional growth.

So, an unforeseen result of Proposition 4 is that it really has become anti-economic development because it puts a real damper, and cities have begun to say to development, if they're at their Gann limit, "We would love to have you here, but we can't use the money you're going to generate, and you're going to generate more traffic, you're going to generate more police and those kinds of problems. You might either go elsewhere or we're going to have to have some other means of financing those services."

Those are basically my comments and observations. I'd be glad to respond to any questions you might have.

SENATOR BEVERLY: I asked earlier today about the success of such taxes as partial taxes, that sort of thing, on referendums.

MR. HARRINGTON: Yes, I wasn't anticipating that question, so I don't have the data with me.

My impression is, there was a limited attempt shortly after Prop. 13 to go to those. Some cities were successful. It's definitely not the prevailing practice by any means.

After Prop. 62 now, it would require a vote of either a majority if it's a general tax, or if it's for a specific purpose, require a two-thirds vote. So, it become rather difficult a task to do that.

SENATOR BEVERLY: Do you have any reason to disagree with the polling results given us by Marvin Field this morning?

MR. HARRINGTON: Unfortunately I came in just at the tail end of that.

SENATOR BEVERLY: He in general found in the last ten years an improvement in the confidence of the public in government at all levels, and two, that there was more readiness by the public to accept higher tax burdens for certain programs, education, police, fire, what have you.

MR. HARRINGTON: That would tend to be supported by some research that we did at the end of last year when we found, for example, the cities were at their Gann limit. When they went to the voters and asked for an override, they were essentially always successful. That's based on a very limited sample. There's only been eight override elections so far, but every one of those was successful unless it was tied to a special tax increase.

We have had successful tax elections as well, though. What has happened, though, my observation is that the voters will vote for them

if they're earmarked, which requires a two-thirds vote, which is kind of a double whammy.

SENATOR BEVERLY: For example, we've seen partial taxes levied for the purpose of paramedic services.

MR. HARRINGTON: Yes, after Prop. 13, there was fair success on those.

I think that raises some public policy concerns, though, in terms of the effects of earmarking revenues, because those seem to be the ones that are successful, and the more you earmark things, the less you have for general fund purposes.

So, for both general override purposes and tax measures, it's been very attractive to the voters to say: We pledge to use this money for transportation purposes, or police and fire, or those kinds of more attractive services. It's difficult to say: We're going to do it for maintaining sewers or less attractive programs.

SENATOR BEVERLY: One last question.

Is the League supporting any change now with reference to Prop. 13? Any legislation or proposals or policies?

MR. HARRINGTON: Not on 13. We are hoping to change Prop. 4 some.

CHAIRMAN CAMPBELL: Thank you very much, Mr. Harrington.

I'd like to thank everybody. Is there anybody who would like to say something who hasn't had an opportunity to testify? Joel.

Joel Fox is with the --

MR. FOX: California Tax Reduction Movement, which was started by Howard Jarvis.

Thanks for the opportunity, Senator Campbell

I don't have any prepared remarks. I didn't anticipate being here today. I just found out about it a couple of days ago.

I'm just going to make a couple of quick comments. I know it's the end of the day.

We think Proposition 13 has done a lot of what it was intended to do. First of all, as you mentioned a couple times, it saved some people's homes. They were being taxed out of their homes.

A couple of other notes. I noticed as Mr. Field was going through his numbers this morning, he said that back in 1978, that the tax problem was number one on people's minds. It's not any more. I think a lot of that is because Proposition 13 worked. He said that people think government, local government, is more efficient today than it was in 1978. I'd like to give some of that credit to Proposition 13. Some of the officials responded very well to the constraints put on them, and they made it work.

So, I think Proposition 13 deserves some credit for those things that happened, that he had shown in his polls. Not all that is negative.

Let me touch on just two other quick things, then I'll be off or answer some questions.

The situation with the fees and benefit assessments that have come up. Prop. 13, when it was first judged constitutional by the Supreme Court back in 1978, the Amador case, the Court recognized 13 was an interlocking package. It was not just property tax any more, but there were constraints put on raising other taxes so that wouldn't be a way to get around the mandates of 13, keeping taxes low, by raising other taxes.

I think a lot of that has occurred, fees and assessments. We're concerned about that. We don't want to restrict fees and assessments, but we think people should have a say if they're going to be burdened with these fees and assessments.

In fact, we are sponsoring a bill in the Legislature. It hasn't had any hearings yet. This will give people a majority vote say on some of these, not all of them, believe me, not all fees, just property-related.

CHAIRMAN CAMPBELL: What bill is that?

MR. FOX: It's ACA 27 in the Assembly. Ross Johnson has it. The Senate version is SCA 21, Ed Royce and Quentin Kopp are co-authors on it. It has not been heard yet in front of any committee.

SENATOR BEVERLY: The one we've been getting all the postcards on.

MR. FOX: Finally, the problem of the two homes, sitting side by side, paying two different property taxes, has been brought up. That is a concern of ours also.

A couple times it was mentioned that Paul Gann is looking for a change in that. My organization is also involved in that effort. ACA 51, again by Ross Johnson, is the initial -- how shall I put it --

we're just putting it out for debate. We see a problem and want it solved. ACA 51 in its initial form will not be its final form. We all realize that. We're going to go through the process. We want to hear from a lot of people. I myself am speaking to the California Assessors Association, the Board of Equalization in November. That's going to be the main topic of conversation. Then when the Legislature comes back in Session, we'll sit down and talk to Legislators. In fact, I was with Mr. Johnson yesterday in Sacramento, and we were talking about a bill that came up a couple years ago of Mr. Elder, solving the problem through the homeowner exemption, and that's something we just may go across the hall and talk to him about.

So, ACA 51 may not be its last form, but I just want you to know that we are concerned about that problem, too. We hear about it all the time. And we think that perhaps a solution can be reached if we all work together on it.

I'm going to just leave it there, and thanks for the opportunity of letting me come up and respond to some of the comments made.

CHAIRMAN CAMPBELL: There's no doubt that Proposition 13 did that for which it was intended. It did reduce property taxes. And it not only reduced, it stabilized them.

I think as Mr. Field said this morning, it took that issue from being the key issue in the state to one of kind of lackadaisical interest today. I think 5 percent of the people list that as an issue today, and it certainly accomplished in that regard.

My one concern is more philosophical than anything, and that's the thought that Mr. Hufford brought up, that I want to find some way to make the people at the local level more responsible and given them

some sort of authority to raise revenue, at the same time, taking responsibility for that, getting it off the back of the Legislature.

MR. FOX: As Mr. Hufford said, it's a real puzzle and it's hard to solve. I agree with him 100 percent. We've been looking at that, too.

Dr. Stubblebine had a few suggestions and we talked about them after he testified. ACA 51, in its initial form, when it was filed -- and it was filed during the budget battle and the rebate battle, so nothing was done with it, nothing has been done with it since it was filed at that point -- talked about subvention. I don't know if that's the answer in making up for some of the lost revenue.

We're concerned about local control also. We're going to look at that issue.

CHAIRMAN CAMPBELL: That's the one downside, in my judgment, with Prop. 13. It removed not only the ability to make change, but the responsibility for accepting that change.

That's one of the reasons people run for office, that in addition to their masochistic tendencies, and at the local level, they ought to have the opportunity to enjoy some of that masochism.

SENATOR BEVERLY: You and I were drafted.

CHAIRMAN CAMPBELL: Absolutely.

UNITED ORGANIZATIONS OF TAXPAYERS INC.

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Sept. 30, 198

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Joint Legislative Budget Committee,
William Campbell, Chairman

Honorable Chairman and members of the Legislature, on June 6, 1978, the people of California changed the taxing system of the state. Proposition 13, authored by Howard Jarvis and the UNITED ORGANIZATIONS OF TAXPAYERS, was overwhelmingly approved by the voters, and accordingly set three basic guidelines. First, Proposition 13 set limits on property taxes by changing the Ad Valorem System of appraisal to a new acquisition value system - with 1% used as the maximum assessment. Second, Proposition 13 required the Legislature to have a two-thirds vote in order to increase or change any state taxes. And, Proposition 13 specifically authorized the imposition of local special taxes, but with a two thirds vote of electors in cities, counties, and special districts. No new Ad Valorem taxes were allowed under Proposition 13.

What were the results of the new Constitutional Amendment Article XIII A? Several million homes in California were saved from foreclosure because people could not afford the previously burgeoning property taxes. Senior Citizens on fixed incomes were now protected and not forced to sell or move to lesser quarters. And, young people, and first time home buyers, found predictability in the property tax impounds, and thus they could realistically buy homes for their families that were within their budgets.

Other residual, long term economic benefits have resulted from Proposition 13. The movements of new companies to California, and the stimulus to the construction industry has resulted in over a million new jobs in California over the past 9 years. The new disposable income to California taxpayers has been recycled through the

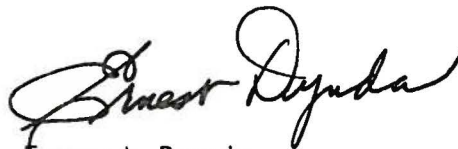
private sector providing job growth and new investments in businesses resulting in record sales and income taxes to state and local governments.

In order for us to continue the economic gains in California from the advent of Proposition 13, we recommend the following:

1. That no changes be made to Article 13A,
2. That special taxes for local uses be more clearly defined,
3. That the homeowners' property tax exemption, provided for in Article 13(3K) be changed to the use of a "percent" of sale (market) price - with qualified renter credits adjusted accordingly.
4. That fees for infrastructure on new construction be identified from regular building permit costs, and that these one time charges not be part of the base (sale price) of buildings for subsequent annual tax levies.

Action on items 3 and 4 (above) could be coordinated and solutions to the "tax on fee" escalation might be worked out in one tax reform package by legislation.

We stand ready to aid state and local governments in legislation that is both responsive to current needs, and consistent with the guide lines of PROPOSITION 13.



Ernest Dynda,
President

ED/cd
encl.



Delano Joint Union High School District

September 15, 1987

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Honorable William Campbell, Chairman
Joint Legislative Budget Committee
1100 J Street, Suite 522
Sacramento, CA 95814

Dear Mr. Campbell:

Thank you for the notification of the Prop. 13
(10 years later) hearings.

Since there is no room on the agenda for me to pre-
sent my views verbally, I will do so in this letter.

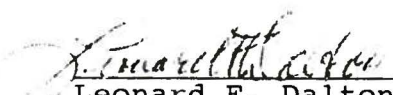
The overall impact of Prop. 13 does not bother me
as much as the continuing disregard for the in-
equities of locking districts into an unfair tax
base to support schools.

Two districts in Kern County receive \$600.-\$900.00
more per student to educate students than does
Delano Joint Union High School District. This
totals \$27,000. more per teacher. No one can truly
justify this unequal opportunity for a fair edu-
cation, but the Sacramento bureacrats continue to
state that, "we are only a little off the average".
All this means is that there are many districts
like ours where the students are being cheated.
Do you or any legislator have any idea what the
difference of \$27,000. per teacher means in the
quality of education to our students?

I'm not asking to take money away from Kern Union
High School District or Taft Union High School
District, but they could easily do without increases
in COLA's while we, of the "have nots" catch up.

I would be pleased to discuss this with you.

Sincerely,


Leonard F. Dalton, Superintendent

LFD:jc

cc: Board of Trustees



City of Westminster

CIVIC CENTER
8200 WESTMINSTER BOULEVARD
WESTMINSTER, CALIFORNIA 92683
714 CODE 898-3311

September 28, 1987

Elden F. Gillespie
Mayor

Joy L. Neugebauer
Mayor Pro Tem

Frank G. Fry, Jr.
Councilman

Anita Huseth
Councilwoman

Charles V. Smith
Councilman

Senator William Campbell
Chairman
Joint Legislative Budget Committee
1100 "J" Street, Suite 522
Sacramento, CA 95814

Dear Senator Campbell:

Thank you for the opportunity to comment on "Proposition 13 Ten Years Later" and "California's Infrastructure Needs in the Year 2000". I will begin by relating my thoughts on Proposition 13, and then address the infrastructure.

In general terms, Proposition 13 was the first of several significant actions that reduced revenue to local government. In one way or another, all of these actions have caused cities and counties to look to the State (who else has a surplus?) for financial assistance. As the needs become greater, the pleas for help will grow louder I assure you. I think you will also see local government (cities and counties) continue to eliminate--at an ever-increasing rate--non-essential services. This, in turn, will put a greater demand on similar services offered by the State. A recent incident in Westminster clearly illustrates this trend. A resident utilized the services of a local car wash and, in the process, the trim on his automobile was damaged. The car wash operator claimed that the chrome was damaged before the car was washed, and that nothing could be done. The resident then contacted the City asking for assistance. I had our staff contact the Orange County Office of Consumer Affairs only to find that due to budgetary considerations, the County no longer offered this service. Our City staff then checked the white pages of the phone book under "State offices" and found the phone number for Consumer Affairs in Los Angeles. This information was passed on to the resident and he, in turn, contacted the office, which had one more case to add to their workload which would otherwise have been handled by the County had sufficient funding been available to support the continued operation of the Consumer Affairs office. I am sure there are hundreds, possibly thousands, of similar circumstances that take place throughout the State on a weekly basis, and I am sure the number will continue to increase as revenue to local government continues to dwindle.

On the positive side, reduced revenue may also encourage local government to become more creative and energetic in its efforts to meet constituent expectations with fewer dollars. Much has been written regarding ways in which local government can streamline

its operation and continue to provide levels of service which are satisfactory to elected officials, residents and the business community. At some point, it may even be that reduced revenue will enable taxpayers to see that local and state government do have financial limitations and some of the services provided may have to be undertaken by taxpayers directly at their own expense, or provided by government and businesses working together.

In regard to infrastructure needs in the year 2000, which by the way, is only 12 years away, I believe local governments will soon reach the point where they will have great difficulty, not only in adding new services, but in repairing and replacing service that has been in existence for 20, 30, and in some cases more than 50 years. As the operator of a water utility, the City of Westminster is consistently reminded that water lines do not last forever. Recently, we seem to experience at least one water main break per month, and sometimes two or three, and this is in a city which is relatively new (30 years old) and has done its best to install quality lines to insure long life. In older cities throughout California and those which have not taken the time or spent the money to plan ahead, I am sure the cost of replacement in the future will be staggering. Since water is a vital utility, it will be provided to the millions of Californians and, if necessary, I am sure the State will be called upon to provide financial assistance.

Another one of our essential infrastructures--roadways--is in need of constant repair and rebuilding and, in this case, I believe the State is well aware of our financial situation since State funding has become more readily available over the years. However, we may be reaching a point where local funding with the current level of State financial assistance will not be able to handle increased traffic which, except for remote areas of the State, is becoming a critical problem. I can remember when--not too many years ago--there was very little to see when driving between Los Angeles and San Diego except open space. Now, when driving between these two areas, there is very little to see except urbanization! Unless something is done on a State-wide basis, which will require levels of funding only the State can provide, California will begin to have less and less appeal to the industries which have made our State so prosperous.

In summary, I believe that Proposition 13 and the infrastructure needs of the future will require that the State play a greater role in providing local government with the necessary financial resources to carry on.

Sincerely,



Elden F. Gillespie
Mayor

