

## The Proposition 172 ½ Cent Sales Tax:

### Background for League of California Cities 2005 Annual Conference Resolution #7

October 7, 2005

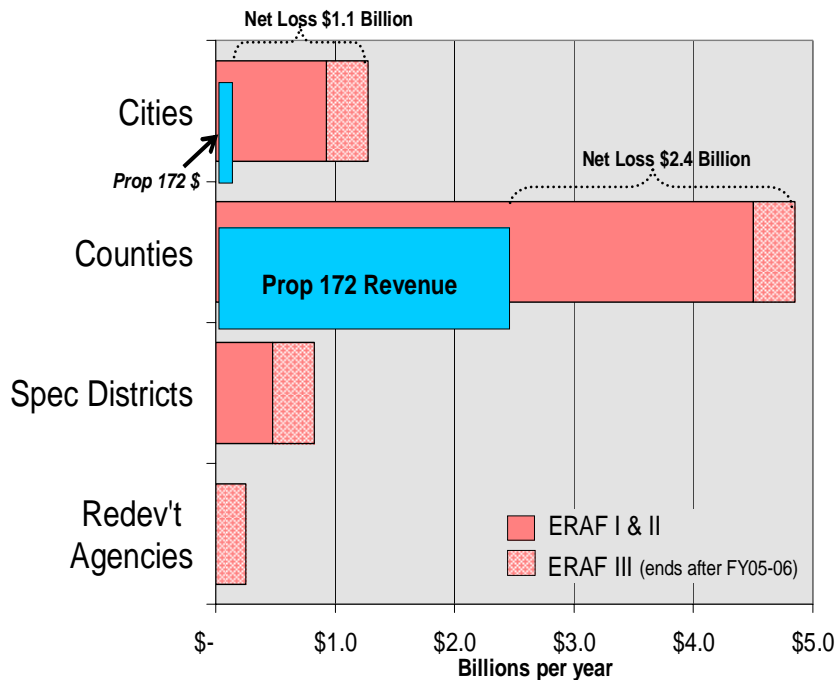
#### Background: A Sales Tax for Public Safety Born Out of ERAF

In 1992, to cushion the impact of the ERAF property tax shifts, the California Legislature adopted a ½ cent sales and use tax dedicated to local public safety including sheriff, police, fire, county district attorneys, and corrections. They then placed Proposition 172 on the ballot, asking the voters to make the local public safety sales and use tax permanent. Approved by 58% of the voters, the purpose of Proposition 172 is “to offset part of the ... county and city revenue losses” under the ERAF property tax shifts.<sup>1</sup> The intention was to mitigate the impacts of the ERAF property tax shifts on public safety services, specifically police, sheriffs, fire, district attorneys and corrections.

Mindful of the substantially larger proportion of ERAF paid statewide by counties than by cities or special districts, legislative leaders initially considered allocating all Proposition 172 proceeds to counties only. But they realized the success of Proposition 172 with the voters would be enhanced with the support of city officials, police and fire chiefs, police officers and city firefighters, so a portion was allocated to cities.

- The purpose of Proposition 172 was not necessarily to increase public safety funding, but to maintain public safety funding levels in spite of ERAF property tax shifts.
- Counties, the primary losers under ERAF, were the primary recipients of Proposition 172. (See Chart 1)

Chart 1: Net Loss E.R.A.F. & Prop172 FY05-06



#### Annual Impact in 2005-06

	ERAF	Prop172	Net
Cities	-1,275	149	-1,126
Counties	-4,852	2,445	-2,408
Spec Districts	-824	0	-824
Redev't Agencies	-250		-250
<b>TOTAL</b>	<b>-6,951</b>	<b>2,594</b>	<b>-4,357</b>

<sup>1</sup> Legislative Analyst's official analysis of Proposition 172 as presented to voters in the ballot pamphlet. See Page 4.

### Allocation of Proposition 172

Proposition 172, which added Section 35 to Article XIII of the state constitution, provides for a one half cent sales and use tax for local public safety services, but the allocation of that revenue is determined by statute.<sup>2</sup> Proposition 172 revenues are collected by the State Board of Equalization and apportioned to each county based on proportionate shares of statewide taxable sales. Each county is required to deposit this revenue in a Public Safety Augmentation Fund to be allocated by the County Auditor to the county and cities within the county essentially in proportion to their loss due to the 1993-94 Phase II ERAF property tax shifts.<sup>3</sup> Phase II of ERAF is based on each agency’s estimated receipt of property tax revenues under AB8 of 1980. Cities that received no property tax or that did not exist in 1980 are not affected by this phase of ERAF and consequently are ineligible for Proposition 172 revenues.

- Fire and police special districts receive no Proposition 172 funding because they are virtually exempt from ERAF.
- Proposition 172 funds go to many cities and some counties that don’t provide or fund fire service.<sup>4</sup> The purpose of Proposition 172 is to mitigate the impact of ERAF on public safety – but not just fire and regardless of what specific levels of service or responsibility a particular agency might have.
- Phase II ERAF did not affect cities that got no post-Proposition 13 AB8 benefit, such as no property tax cities or those that incorporated after 1980. These cities have substantially lower ERAF impacts than others. Consequently, they don’t get a share of Proposition 172.

Soon after the legislation implementing the local public safety half-cent sales tax was adopted in 1993, the law was amended to put eight counties under a special provision. These counties convinced the legislature that the standard Proposition 172 formula provided them with an unfairly low share of the revenue generated in their counties. So these counties thereafter received 95% of the Proposition 172 sales & use tax revenues generated within their jurisdictions with 5% allocated among the cities. These counties included: Fresno, Kings, Merced, San Bernardino, San Diego\*, San Joaquin, Solano, Yolo.<sup>5</sup>

In 1996, cities in the San Diego County sought to get out from this 95%/5% cap. Senator Steve Peace entered the fray and pulled together a solution that was reluctantly supported by the County of San Diego, the cities and the professional firefighters.<sup>6</sup> A new, special code section was adopted with allocation factors for San Diego County and cities that, according to the County of San Diego, were calculated to match the factors that would apply under the section that applies to most other counties.<sup>7</sup> The Proposition 172 allocations in San Diego County today effectively treat the county and cities the same as most others in the state.

Today, the allocation of Proposition 172 revenues in the County of San Diego to the county, to the cities, per capita and as a percentage of ERAF loss are remarkably close to the statewide average. Chart Two shows ERAF and Proposition 172 data for each San Diego city and the county. A summary and averages for county versus city allocations within counties is shown at the bottom of the chart.

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<sup>2</sup> Government Code Section 30051 et seq.

<sup>3</sup> Government Code Section 30054-30055 provides city allocation factors are to be based on losses under Revenue and Taxation Code Sec 97.3 (ERAF II) minus each city’s one-time benefit from a transportation planning and development account payment (considered an ERAF mitigation) limited to 50% of each city’s 1993-94 ERAF II loss. The 50% limitation was repealed in 1996.

<sup>4</sup> 72 cities and over 20 counties do not fund or provide fire protection services. In these jurisdictions the services are funded and provided by special districts. Fire protection services are completely exempt from ERAF II.

<sup>5</sup> Government Code Sec 30055(b). Alameda County has special provisions in Gov Code Sec 30055(c)

<sup>6</sup> Policy committee analyses of SB8 lists all these as supporters.

<sup>7</sup> This reduced the county’s share from 95% to 94.35% and adjusted the collective share to cities from 5% to 5.65%. The San Diego County Auditor estimated this change cost the county \$848,000 in 1996-97. In FY05-06 the effect is roughly \$1.5 million.

## Chart 2: San Diego County ERAF and Prop 172 Apportionments FY03-04

	ERAF Shift Amounts	Prop 172 Amounts	Prop 172 Statutory Allocation <sup>(1)</sup>	Prop172 % of ERAF	Net ERAF/ Prop172 % of GenRevs
<b>SAN DIEGO COUNTY</b>	237,975,997	197,670,393	94.3523743	83.1%	
CARLSBAD	5,581,239	750,583	0.3582694	13.4%	6.5%
CHULA VISTA	4,312,980	655,051	0.3126700	15.2%	7.0%
CORONADO	1,798,344	252,598	0.1205707	14.0%	7.5%
DEL MAR	412,229	55,891	0.0266781	13.6%	6.4%
EL CAJON	1,516,915	310,021	0.1479797	20.4%	4.0%
ENCINITAS	602,824	0 <sup>(2)</sup>	0.0000000	0.0%	1.3%
ESCONDIDO	2,594,292	602,187	0.2874369	23.2%	4.8%
IMPERIAL BEACH	611,305	113,853	0.0543447	18.6%	9.5%
LA MESA	1,061,400	216,869	0.1035164	20.4%	4.8%
LEMON GROVE	315,714	31,722	0.0151415	10.0%	3.4%
NATIONAL CITY	690,129	119,280	0.0569347	17.3%	2.8%
OCEANSIDE	6,543,090	1,457,089	0.6955004	22.3%	10.2%
POWAY	783,329	0 <sup>(2)</sup>	0.0000000	0.0%	3.6%
SAN DIEGO	41,032,053	6,668,695	3.1831131	16.3%	7.0%
SAN MARCOS	810,457	122,586	0.0585130	15.1%	2.9%
SANTEE	681,015	0 <sup>(2)</sup>	0.0000000	0.0%	3.9%
SOLANA BEACH	351,455	0 <sup>(2)</sup>	0.0000000	0.0%	4.2%
VISTA	2,280,225	475,480	0.2269571	20.9%	7.0%
37CITY TOTAL	71,978,994	11,831,906	5.6476257	16.4%	
SPECIAL DISTRICTS in sa	16,669,874				
COUNTY TOTAL	326,624,865	209,502,299			
<b>CALIFORNIA</b>	5,145,813,728	2,413,171,647			
COUNTIES	3,929,984,743	2,274,155,613	94.2%	57.9%	
CITIES	806,981,219	139,016,034	5.8%	17.2%	5.3%
SPECIAL DISTRICTS	408,847,766	0	0.0%		

(1) Gov Code Sec 30055(d) provides specific allocation formula for agencies in the County of San Diego.

(2) City incorporated after 1980 and is subject only to the Phase I ERAF shift ... not the Phase II ERAF shift.

(3) FY03-04 does not include ERAF III which applies to FY04-05 and FY05-06 only.

(4) "Prop172 % of ERAF" is the percentage of the agency's ERAF loss mitigated by Prop172.

(5) "Net ERAF/Prop172 % of GenRevs" is the net fiscal impact of ERAF and Prop 172 on the city's general revenues.

SOURCES: ERAF and Prop 172 figures from San Diego County Auditor. General revenue data from State Controller as reported by cities. Computations by ColemanAdvisory Services.

## **Proposition 172. Local Public Safety Protection and Improvement Act of 1992.**

### **Analysis by the Legislative Analyst**

#### **Background**

A sales tax is imposed on most goods purchased in California. This tax consists of statewide uniform sales taxes and optional local sales taxes.

*Uniform Sales Taxes.* These taxes include both state and local government components. The state sales tax rate is currently 6 percent. Since 1967, a statewide local sales tax of 1.25 percent also has been imposed in all counties. Thus, the uniform statewide sales tax rate is 7.25 percent. Under current law, the state rate will decrease by one-half percent on January 1, 1994, thus reducing the uniform rate by a similar amount.

*Optional Local Sales Taxes.* Counties also have the option of levying additional sales taxes, not to exceed 1.5 percent, to pay for local programs, such as transportation and education. At the present time, 21 of the state's 58 counties levy at least one of these optional taxes. As a result, the total sales tax rate varies from county to county, but averages approximately 8 percent statewide. Figure 1 shows the current total sales tax rate in each of California's counties.

#### **Proposal**

This measure places a one-half percent state sales tax rate in the state's Constitution, effective January 1, 1994. As a result, the state's portion of the sales tax rate would remain at its current 6 percent level.

The measure requires that the revenues from the additional one-half percent sales tax be used only for local public safety activities, which include police and sheriffs' departments, fire protection, county district attorneys, county probation, and county jail operations. The amendment adds to the Constitution a statement that declares that public safety is the first responsibility of local government, and that local government officials have an obligation to give priority to the provision of public safety services.

**The additional sales tax revenues resulting from this measure are intended to offset part of the \$2.3 billion in county and city revenue losses that resulted from adoption of the state's 1993-94 budget. Specifically, \$2.3 billion in annual property tax revenues were shifted from counties and cities to the schools, thereby reducing the state's funding obligations to public schools. [Emphasis added]** Revenue generated from this addition to the sales tax rate would be allocated to counties whose board of supervisors had adopted a resolution in support of this measure by August 1, 1993. Alternatively, if no resolution had been adopted, a county would receive the funds only if a majority of its voters approve this measure.

#### **Fiscal Effect**

For fiscal year 1993-94, passage of this measure is projected to generate approximately \$714 million in additional revenue for counties and cities. On a full-year basis (beginning in 1994-95), this measure raises approximately \$1.5 billion in revenue. **These annual revenues would offset, on a permanent basis, about 65 percent of the statewide property tax loss to counties and cities resulting from the 1993 state budget actions. [Emphasis added]**