

California Local Government Fiscal Reform

The problem, policy goals, policy questions and tensions

Local Gov't Fiscal Reform – The Problem:

1. Decline of predictable, discretionary funding for key city services including police, fire, libraries, parks, planning, streets and roads.
 - City revenues are not constitutionally secure, and this has led to historic losses of property taxes & state subventions
 - State legislature and governor have tended toward earmarking local funding and more local mandates.
 - Voters have imposed more historic limitations on local government revenue raising: Prop 13, Prop 62, Prop 218, etc.
 - This has increased conflicts with the state, counties and other governments.
 - Cities have become increasingly reliant on sales tax \$ for discretionary revenue. But the sales tax base may not have a strong future

2. Revenue instability and constraints hamper good governance - deter long term thinking, innovation, and regional cooperation.
 - Unable to predict revenue availability, city councils may defer infrastructure maintenance / development, community planning, regional cooperation, and investments that will produce long-term returns.
 - This fiscal dependence on state government decisions discourages innovative solutions to long-term community problems.
 - There are few political gains for legislators who invest in making local governments more financially stable over the long haul. Tendency to fund categorical programs.

3. Disconnect between service costs and revenues in urban development imperils city services and deters balanced planning.
 - Most non-retail development will not pay for itself, requiring subsidies from retail development. Economic development efforts affected because manufacturing and housing do not pay for themselves.
 - Property tax is most appropriate for local property-related services, but cities are unable to access sufficient amount and the frozen allocations (AB 8) no longer reflect service delivery responsibilities.

Local Gov't Fiscal Reform - Policy Goals & Considerations:

1. Increase “local control,” the ability of city governments to respond effectively and efficiently to municipal service priorities and needs of their residents (homeowners, businesses and civic institutions).
2. Consider tax deductibility. Restructure taxes to cause the federal government to shoulder a greater share of public service costs and provide tax relief and/or service improvements.
3. Provide balanced land use incentives. Improve the connection between government revenues and public services. Additional service demand resulting from growth should be accompanied by additional public revenues without the need for tax increases.
4. Provide additional fiscal resources to underfunded local governments.
5. Stabilize and protect local government finances from capricious actions by the state.
6. Improve the efficiency, effectiveness and responsiveness of local government by consolidating finances, roles and responsibilities. Increase the ability of cities to decide the allocation of municipal revenues, and how and what municipal services are provided.
7. Establish a local fiscal system that is sustainable, can respond to evolving economic conditions and local public service needs. Improve the long term stability of local government finance.
8. Enable and encourage intergovernmental cooperation, consolidation and improvement.
9. Provide a system of local governance and finance that is easier to understand and access for taxpayers/residents.
10. Recognize that California cities and their communities are diverse:
 - in service needs
 - in philosophy
 - in the structure of their finances
 - must allow for local flexibility and choice
 - a one size fits all solution will not work.

Local Gov't Fiscal Reform - Policy Questions & Tensions:

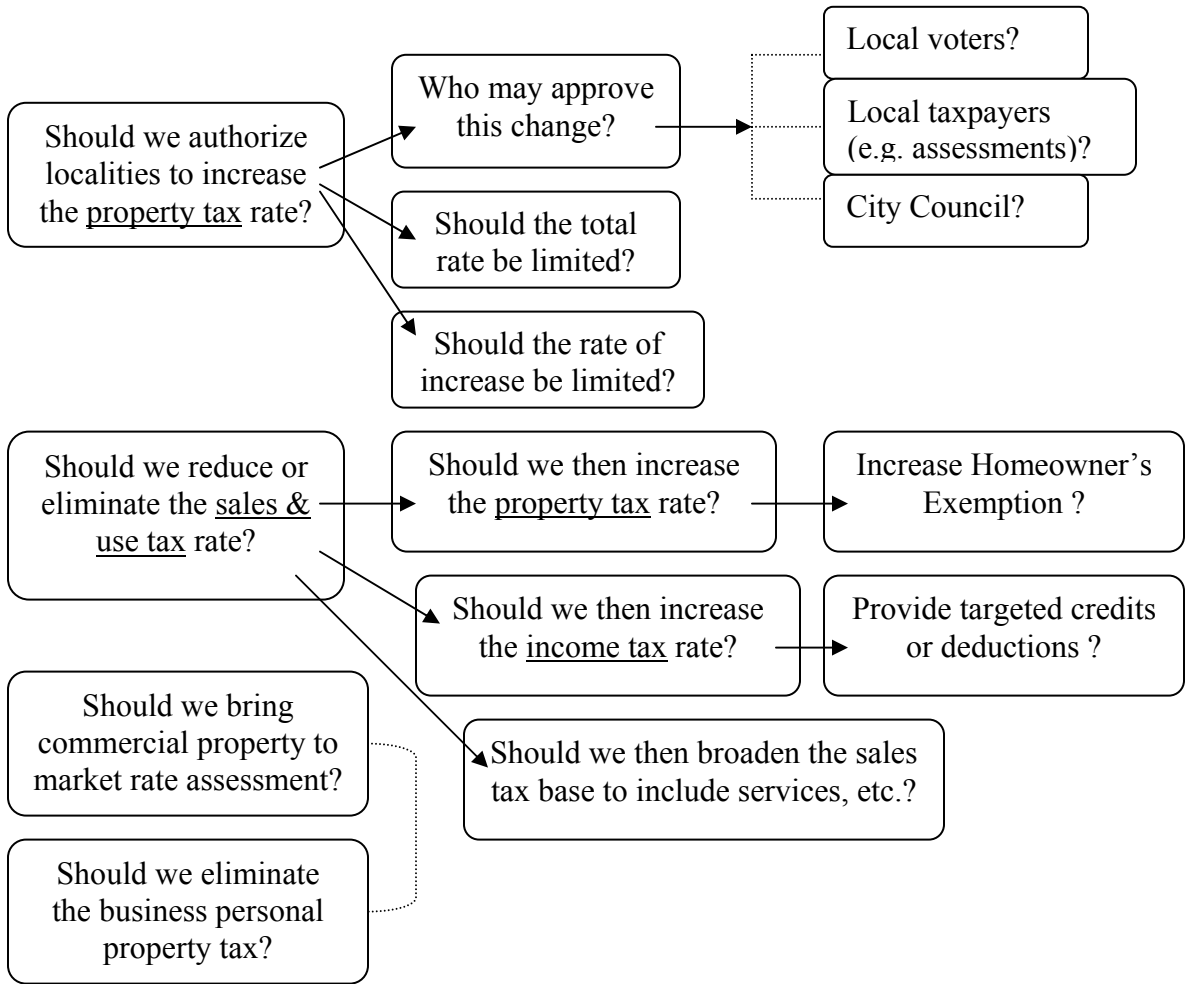
1. Local Tax Rates for the Current and Future Economy: deductibility, service oriented economy, remote sales, etc .
 - a. **Should we authorize localities to increase the property tax rate?**
 - i. **Who may approve this change? Local voters? Local taxpayers (e.g. assessments)? City Council?**
 - ii. **Should the total rate be limited? Should the rate of increase be limited?**
 - b. **Should we reduce or eliminate the sales & use tax rate? Should we then increase**
 - i. **Property tax rate?**
 - **Increase Homeowner's Exemption?**
 - ii. **Income tax rate?**
 - iii. **Sales & use tax base to include services, etc.?**
 - c. **Should we bring commercial property to market rate assessment?**
 - d. **Should we eliminate the business personal property tax?**
 - *Policy tension:*
 - Taxpayer protection (i.e. statewide constitutional limits) versus local control (i.e. local city council or local voter choice)
 - Local revenue stability (the devil we think we know) versus fiscal reform (possible \$ benefits, long term fiscal durability)
 - Taxpayer stability (the devil we think we know) versus fiscal reform (\$ benefits, long term stability of government finance)
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2. **Aligning Service Responsibilities with Revenues – the separation of sources.**
 - a. **Should local revenues go for local programs & services and state revenues for state programs & services?** The rate, base and allocation of state revenues should be determined by the state. Similarly, within reasonable constitutional limits, the rate and allocation of local revenues should be determined locally.
 - *Policy tensions:*
 - Local revenue stability (i.e. the devil we think we know) versus fiscal reform (long term fiscal improvement and durability)
 - Local control versus state control (who should make policy and resource allocation decisions regarding municipal programs?)

3. Municipal Tax Allocation and Governance

- a. **Who should determine how municipal services are provided (i.e. in-house, contract, JPA, etc.)?**
 - i. State
 - ii. LAFCo / other joint powers agency
 - iii. City
- b. **Who should determine municipal service priorities and allocate resources accordingly?**
 - i. State
 - ii. LAFCo / other joint powers agency
 - iii. City
- o *Policy tensions:*
 - General purpose versus special purpose governance (should special districts be insulated from policy choices among other municipal programs – or - should they be service providers only)
 - Local control versus state control (who should make policy and resource allocation decisions regarding municipal programs?)
 - Local revenue stability (i.e. the devil we think we know) versus fiscal reform (long term fiscal improvement and durability)

Local Government Fiscal Reform – Some Policy Questions

**Local Tax Rates for the Current and Future Economy:
deductibility, service oriented economy, remote sales, etc**



Aligning Service Responsibilities with Revenues – the separation of sources

Should local revenues be allocated to local programs & services and controlled by local governments and local voters?
Likewise, state revenues controlled by the state and allocated to programs & services that are the priority and responsibility of the state?

Municipal Tax Allocation and Governance

