

TO: City Council

FROM: James L. App, City Manager

SUBJECT: **Proposed Legislation: California Assembly Bill 1221**
"California Balanced Communities Act of 2003"

DATE: May 20, 2003

NEEDS: For the City Council to consider formal comment upon the Legislature's proposed "California Balanced Communities Act of 2003."

- FACTS:**
1. A Bill has been introduced by the California Assembly to restructure local government finance (Exhibit A).
 2. The Bill, AB 1221, proposes to exchange a portion of City sales tax for an equal amount of property tax.
 3. As proposed, ½ of the City's 1% sales tax would be retained by the State in exchange for an equal amount of property taxes above what is currently received.
 4. The Bill's authors, Assembly members D. Steinberg & J. Campbell, indicate that the Bill would "... create a more balanced system of local government financing ..." by taking away the "... disincentives currently associated with the building of homes."
 5. The Bill is opposed by the California League of Cities, but supported "in concept" by the California State Association of Counties (Exhibits B & C).
 6. A copy of the California Assembly Local Government Committee's Staff Analysis & Comments concerning the Bill is attached (Exhibit D).

**ANALYSIS &
CONCLUSION:**

Under current law, cities are allocated 1% of every retail purchase that takes place within their jurisdictional boundaries. Additionally, cities receive a portion of real property taxes paid on property within their jurisdictional boundaries – in Paso Robles, the City's current average share of property taxes is 17%.

Historically, cities have found that the small share of property tax received on residential property does not pay for services provided that benefit the property owner. On the other hand, retail sales typically pay far more than the cost to provide services to the business establishment. So, many cities work to attract retail uses as a means to pay for services that benefit residents and property owners.

On its surface, this bill would attempt to address this imbalance by alleviating the financial disincentive some cities associate with residential development. However, there are a number of important issues that must be addressed if the bill is to accomplish its presumed task:

- Local government revenue rates and allocations must be reliable, i.e., constitutionally protected from the State.
- Earlier shifts of property tax revenue taken away from local governments to the State must be restored.
- Conditions or restrictions on the use of property tax must be eliminated and avoided.

- Property tax sharing between Counties and Cities must be restructured to assure that revenues follow service demand.
- Cities with Redevelopment Agencies must not receive more or less than those without Redevelopment Agencies.
- Implementation should be staged over time to provide for recapture of economic and infrastructure investment made in retail development.

Restructure of government finance is needed. Whether this is a bill that will serve that need effectively requires much more study and attendance to the issues noted above. The Council may wish to articulate its concerns formally in either an “oppose unless amended” or “support in concept if amended” manner. A draft letter is attached for this purpose; it can be modified to suit either posture (Exhibit E).

POLICY

REFERENCE: Government Code Sections 6051, 6201, 7202, & 7203.

FISCAL

IMPACT: Theoretically none.

OPTIONS:

- A. Direct Issuance of a Letter Articulating the Council’s Posture Regarding AB1221.**
- B. Defer Action Pending Receipt of Further Information.**
- C. Amend, Modify or Reject the Options Above.**

ATTACHMENTS:

Exhibit A – Text of AB 1221
 Exhibit B – California League of Cities Opposition Letter
 Exhibit C – California Association of County’s Support Letter
 Exhibit D – California Assembly Local Gov’t Committee Staff Analysis & Comments
 Exhibit E – Draft Letter Regarding AB 1221

**ALL ATTACHMENTS TO THIS STAFF REPORT MAY NOT BE AVAILABLE
IN DIGITAL FORMAT FOR VIEWING ON-LINE.**

A hard-copy of the complete agenda packet, along with all staff reports, exhibits and attachments, is available for review in the City Clerk's Office.

**Packets are also available for loan from the City Library,
beginning on the Friday before each Council meeting.**