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Financing Parole Realignment: Questions and Answers

LEGISLATIVE ANALYST'S OFFICE





Water and Waste District Property Taxes

What Is a Waste or Water Enterprise Special District?

Most Californians receive water, refuse collection, and sewer services from a branch of their city or county. In some parts of the state, however, special districts provide these services. The State Controller's Office calls these districts water and waste "enterprise special districts" because they operate—and account for their finances—in a manner similar to a private business. Most waste and water districts have independently elected governing boards. Statewide, there are over 1,200 water and waste enterprise special districts.

How Are Water and Waste Services Financed in California?

Cities, counties, and enterprise special districts rely predominately on user fees to pay the costs of providing water and waste services.

Almost one-half of the water and waste districts, however, also receive some property tax revenues. Under current law in 2008-09, we estimate that these districts will receive about \$370 million in property taxes from the base 1 percent property tax rate (the tax rate levied on all property in California under Proposition 13). These property taxes represent a very small percent (less than one-half of one percent) of total water and waste district revenues. This amount represents less than one-half percent of total spending by water and waste districts.

How Do Water and Waste Districts Use Property Tax Revenues?

Water and waste districts that receive property taxes typically report that they use these revenues to offset some of the cost of providing services. As a result, these districts may charge slightly lower user fees for their services than cities, counties, and other special districts that do not receive property taxes to support water and waste services.

Where Are Water and Waste Enterprise Special Districts Located?

With the exception of San Francisco, every county in California has some water and waste districts. The allocation of property taxes to these districts, however, varies considerably as shown in *LAO Parole Realignment* on our Web site. To illustrate this variation, consider two counties



Water and Waste District Property Taxes

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with similar size populations: Orange and San Diego. As shown in the third column of the handout, we estimate that water and waste districts in Orange County receive over \$100 million of property taxes, while districts in San Diego County receive about one-tenth that sum.

Why Is There Wide Variation in Property Taxes for Water and Waste Services?

State laws governing the allocation of property taxes reflect local taxation decisions during the mid-1970s (the years before Proposition 13). Thus, if an enterprise special district levied a property tax rate during the 1970s, it continues to receive some property tax revenues today. Alternatively, if a community relied exclusively on user fees for these services before Proposition 13, it does not receive property taxes for this purpose today.

How Would LAO Parole Realignment Affect Water and Waste Districts?

The LAO parole realignment proposal would authorize each County Board of Supervisors to review the finances of water and waste special districts in its jurisdiction and weigh each district's reliance on property taxes. The County Board of Supervisors would determine the amount of property taxes reallocated from any single district. Statewide, counties would reallocate about one-half of these special district revenues property taxes to parole realignment, or \$188 million. No county, however, would reallocate more than 70 percent of countywide water and waste enterprise special district property taxes.

What Water and Waste District Property Taxes Would Be Excluded From Proposal?

Some water and waste districts also provide other services, such as fire protection and recreation. Property taxes used by water or waste districts for these other purposes are not included in the reallocation. In addition, any property tax revenues collected pursuant to a voter-approved measure (in excess of the 1 percent Proposition 13 rate) are not included in the reallocation.



Water and Waste District Property Taxes

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What Effect Would the Property Tax Reallocation Have on District Ability to Provide Services?

Water and waste districts that receive property taxes typically rely on these revenues for a very small percent of their operating revenues (commonly less than 2 percent; seldom more than 7 percent). If the County Board of Supervisors reallocated some of these property taxes to parole realignment, the water or waste district might need to reduce services or increase user charges.

Does Proposition 218 Limit District Ability to Increase User Charges?

Proposition 218 requires local governments to follow certain procedures when increasing “property-related fees.” (This term includes fees for property-related services, such as water delivery, but excludes fees related to property development). Under Proposition 218, any local government increasing a property-related fee must (1) set the rate at an amount that does not exceed the cost of providing the service and (2) provide public notice of the proposed fee increase. Local governments typically provide this notice along with the fee payers’ bill.

In most cases, Proposition 218 does not require local governments to obtain voter approval to increase a property-related fee. There are two situations, however, under which voter approval is required, specifically, if: (1) a majority of *all fee payers notified* send written protests to the district regarding the proposed fee increase within 45 days or (2) the fee is to be used for a service other than sewer, water, or refuse collection. If either of these situations applies, Proposition 218 requires the local government to obtain voter approval through *either* (1) a mail ballot proceeding requiring approval by a simple majority of those property owners returning ballots, or (2) a general election requiring approval by a two-thirds majority.

What Is Proposition 172?

In 1993, California voters established a statewide half-cent sales tax for support of local public safety activities. Proposition 172 was placed on the ballot by the Legislature and the Governor to partially replace prop-



City Proposition 172 Revenues

erty taxes permanently shifted from local agencies to school districts as part of the 1993–94 state budget agreement.

How Are Proposition 172 Revenues Distributed?

The Constitution gives the Legislature broad discretion to allocate Proposition 172. Under current law, resources from the half-cent sales tax (almost \$3 billion in 2008–09) are allocated to each county based on its share of statewide taxable sales. Counties, in turn, reallocate a small share of these revenues (typically about 6 percent) to cities in the county that sustained a 1993–94 property tax shift. (Cities that did not sustain a 1993–94 property tax shift do not receive a share of Proposition 172.) The amount of Proposition 172 that counties allocate to cities varies modestly throughout the state.

How Would the LAO Parole Realignment Proposal Affect Proposition 172 Revenues?

Under the LAO proposal, cities would not receive Proposition 172 sales tax revenues. Instead, 6 percent of total statewide Proposition 172 revenues—approximately the amount cities receive—would be deposited to an account to support parole realignment.

What Effect Would Proposition 172 Reallocation Have on City Finances and Programs?

Approximately \$178 million of Proposition 172 funds would be reallocated from cities. This reallocation likely would cause some city program reductions. We would expect the magnitude of these program reductions to be relatively small because (1) only about 1 percent of city tax revenues come from Proposition 172, and (2) cities have realized significant fiscal benefits in recent years due to strong growth in property taxes, city expansion of redevelopment activities, and the 2004 vehicle license fee for property tax swap.