

REMARKS BY THE LEGISLATIVE ANALYST TO THE INDEPENDENT CITIES  
ASSOCIATION'S TWENTY-FOURTH ANNUAL SEMINAR

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RANCHO BERNARDO, CALIFORNIA

I. INTRODUCTION

A. PURPOSE OF MY VISIT - TWOFOLD

1. FIRST, I WANT TO TELL YOU WHAT I KNOW ABOUT THREE SUBJECTS THAT EITHER ARE, OR SOON WILL BE, OF CONSIDERABLE INTEREST TO YOU. THOSE THREE SUBJECTS ARE:
  - a. THE OUTLOOK FOR THE STATE'S BUDGET.
  - b. THE PROSPECTS FOR LEGISLATION THAT WOULD ESTABLISH A NEW SYSTEM OF LOCAL GOVERNMENT FINANCING.
  - c. HOWARD JARVIS' LATEST INITIATIVE THAT HAS QUALIFIED FOR THE NOVEMBER BALLOT.
2. SECOND, I WANT TO LEARN WHAT'S ON YOUR MIND REGARDING THE NATURE OF THE PROSPECTS FOR MAKING CHANGES IN THE STATE'S RELATIONSHIP WITH CITIES--EVEN IF I HAVE TO FOLLOW YOU TO THE TENNIS COURTS OR THE SWIMMING POOL TO DO IT!

B. TRANSITION

II. THE OUTLOOK FOR THE STATE'S BUDGET

A. FROM A BUDGETARY STANDPOINT, 1984-85 IS SHAPING UP AS A  
VERY GOOD YEAR.

1. THE STATE'S ECONOMY SEEMS CERTAIN TO TURN IN A STRONG PERFORMANCE DURING THE BALANCE OF 1984, AND THE OUTLOOK FOR THE FIRST HALF OF 1985 IS GENERALLY POSITIVE.
2. AND AS THE ECONOMY GOES, SO GOES STATE REVENUES.



3. ONE WAY OF DEMONSTRATING JUST HOW BRIGHT THE REVENUE OUTLOOK IS, IS TO COMPARE THE AMOUNTS WE CAN EXPECT THE STATE TO TAKE IN NEXT YEAR WITH THE AMOUNTS THE STATE WOULD NEED TO CONTINUE THIS YEAR'S LEVEL OF SERVICES NEXT YEAR.
4. SUCH A COMPARISON:
  - a. TAKES ACCOUNT OF RISING DEMANDS FOR SERVICES UNDER THE VARIOUS ENTITLEMENT PROGRAMS,
  - b. THE AMOUNTS NEEDED TO OFFSET THE EFFECTS OF INFLATION ON THE PURCHASING POWER OF THIS YEAR'S BUDGET, PLUS
  - c. THE COST OF FULLY FUNDING SB 813--LAST YEAR'S LAND MARK SCHOOL REFORM BILL.
5. WHEN WE MAKE THIS COMPARISON, WE FIND THAT THE STATE WILL HAVE ABOUT \$1.75 BILLION MORE THAN IT WOULD NEED IN ORDER TO MAINTAIN CURRENT SERVICE LEVELS.
6. THIS \$1.75 BILLION, THEN, WOULD BE AVAILABLE FOR:
  - a. EXPANDING EXISTING PROGRAMS,
  - b. LAUNCHING NEW PROGRAMS, OR
  - c. CUTTING TAXES.

B. WHAT DOES THIS IMPLY FOR THE EXPENDITURE SIDE OF THE BUDGET?

1. IT MEANS THAT FOR THE FIRST TIME IN THREE YEARS, THE CHOICE FACING THE LEGISLATURE IS NOT BETWEEN RAISING TAXES AND CUTTING SERVICES.
2. IN FACT, WE CAN UNDOUBTEDLY EXPECT THERE TO BE INCREASES IN SERVICE LEVELS IN A NUMBER OF PROGRAM AREAS, AND LITTLE TALK OF TAX INCREASES.

3. IT ALSO MEANS THAT THE LEGISLATURE HAS THE FISCAL WHEREWITHAL TO PROVIDE THE FULL AMOUNT OF FISCAL RELIEF TO CITIES AND COUNTIES CALLED FOR BY AB 8 WITHOUT HAVING TO REDUCE STATE PROGRAMS. (THIS IS BY NO MEANS A PROMISE... JUST A STATEMENT OF FISCAL CAPABILITY.)

C. WHAT THE REVENUE OUTLOOK DOES NOT IMPLY

1. INTRODUCTION

- a. IF I WERE TO STOP HERE, I SUSPECT IT WOULD REENFORCE THE EFFECT OF THESE MAGNIFICENT SURROUNDINGS ON YOUR FRAME OF MIND.
- b. IT WOULD HAVE THE OPPOSITE EFFECT ON ME, HOWEVER, BECAUSE I WOULD FEEL GUILTY ABOUT DOING YOU A GREAT DISSERVICE.
- c. THIS IS BECAUSE THERE ARE A COUPLE OF OTHER VERY IMPORTANT CONSIDERATIONS THAT WE NEED TO KEEP IN MIND IN ASSESSING THE BUDGETARY PROSPECTS FOR 1984-85.
- d. SPECIFICALLY, IN ORDER TO UNDERSTAND THIS YEAR'S BUDGET CONTEXT, WE HAVE TO TAKE ACCOUNT OF TWO THINGS THAT FALL OUTSIDE OF FISCAL YEAR 1984-85.
  - (1) FIRST, WE NEED TO RECOGNIZE THE LINGERING EFFECTS OF THE LAST RECESSION ON THE STATE'S BUDGET.
  - (2) SECOND, WE NEED TO CONSIDER WHAT PATH THE ECONOMY IS LIKELY TO TAKE BEYOND THE BUDGET YEAR.
- e. WHEN WE DO THIS, WE WILL FIND THAT THERE IS NOT QUITE AS MUCH SLACK IN THE FISCAL ROPE AS ONE MIGHT THINK.

2. RECENT TRENDS.



- a. WHEN WE ADJUST SPENDING LEVELS IN RECENT YEARS TO REFLECT THE EROSION IN PURCHASING POWER THAT RESULTS FROM INFLATION, THE IMPACT OF THE LAST RECESSION BECOMES MUCH MORE EVIDENT THAN IF WE JUST COMPARE NOMINAL SPENDING LEVELS.
- b. SUCH AN ADJUSTMENT SHOWS THAT THREE YEARS OF RECESSION-INDUCED BUDGET CUTS HAVE TRIMMED STATE EXPENDITURES (IN INFLATION-ADJUSTED DOLLARS) BY 12 PERCENT.
  - (1) AS A RESULT, EXCLUDING THE BAIL-OUT MONEY THAT THE STATE PROVIDES TO LOCAL GOVERNMENTS AS AN OFFSET TO PROPOSITION 13-INDUCED REVENUE LOSSES, GENERAL FUND EXPENDITURES IN THE CURRENT FISCAL YEAR ARE ABOUT WHAT THEY WERE WHEN GOVERNOR REAGAN LEFT OFFICE AT THE END OF 1974.
  - (2) THIS, IN TURN, SUGGESTS THAT THE LEVEL OF SERVICES BEING PAID FOR BY THE STATE THROUGH ITS GENERAL FUND, IN REAL TERMS, IS ABOUT WHAT IT WAS NINE YEARS AGO.
  - (3) OVER THIS SAME NINE-YEAR PERIOD, THE NUMBER OF CALIFORNIANS HAS INCREASED BY 20 PERCENT.
- c. THIS IS SIGNIFICANT BECAUSE IT IS INDICATIVE OF THE PENT-UP DEMAND FOR SPENDING INCREASES THAT THE LEGISLATURE WILL HAVE TO DEAL WITH AS IT PUTS THIS YEAR'S BUDGET TOGETHER.

d. THESE PENT-UP DEMANDS ARE ESPECIALLY STRONG IN AREAS SUCH AS:

- (1) PUBLIC HEALTH;
- (2) MEDI-CAL;
- (3) STATE EMPLOYEE COMPENSATION;
- (4) COMMUNITY COLLEGES; AND
- (5) ELEMENTARY AND SECONDARY EDUCATION.

e. THUS, THE LEGACY OF THE LAST RECESSION IS A KEY FACTOR IN THE 1984-85 BUDGET PICTURE.

3. THE OUTLOOK BEYOND THE BUDGET YEAR.

a. AN EQUALLY IMPORTANT FACTOR IN UNDERSTANDING THE BUDGET PICTURE IS THE NEXT RECESSION--THE RECESSION THAT COULD EASILY BEGIN IN THE SECOND HALF OF 1985.

b. AS I INDICATED EARLIER, I GENERALLY SUBSCRIBE TO THE VIEW THAT 1984-85 WILL BE A GOOD YEAR FOR THE STATE'S ECONOMY... AND THEREFORE A GOOD YEAR FOR REVENUES.

c. BEYOND 1984-85, HOWEVER, I AM NOT NEARLY SO OPTIMISTIC--NOT BECAUSE OF WHAT IS LIKELY TO HAPPEN IN SACRAMENTO, BUT BECAUSE OF WHAT IS LIKELY NOT TO HAPPEN IN WASHINGTON.

d. TO BE OPTIMISTIC REGARDING THE PROSPECTS FOR 1985-86 AND 1986-87, YOU'VE GOT TO BELIEVE ONE OF TWO THINGS:

- (1) THAT FEDERAL BUDGET DEFICITS IN THE \$200-\$300 BILLION RANGE WILL NOT JEOPARDIZE THE ECONOMY'S WELL-BEING, OR
- (2) THAT THE PRESIDENT AND CONGRESS WILL ACT RESPONSIBLY TO BRING THE DEFICIT DOWN TO A SAFER LEVEL.



- e. MY LIMITED INSIGHTS INTO THE WORKINGS OF THE ECONOMY TELL ME THAT, WHILE WE MAY BE ABLE TO GET AWAY WITH A \$200 BILLION DEFICIT WHEN THE ECONOMY IS AT A LOW EBB, WE CAN'T STAND SUCH DEFICITS AS THE ECONOMY MOVES CLOSER TO FULL EMPLOYMENT.
- f. I SAY THIS BECAUSE I DON'T SEE THE COMBINATION OF DOMESTIC SAVINGS AND FOREIGN INVESTMENT PROVIDING ENOUGH CREDIT TO SATISFY BOTH THE FEDERAL GOVERNMENT AND THE PRIVATE ECONOMY AT TODAY'S INTEREST RATES.
- g. AND IT'S NOT HARD TO SEE WHO COMES OUT THE LOSER WHEN THESE DEMANDS COLLIDE.
  - (1) IT CERTAINLY ISN'T GOING TO BE THE BORROWER WHOSE DEMANDS FOR CREDIT INCREASES AS INTEREST RATES INCREASE, AND WHO NEVER COMES UP EMPTY-HANDED.
  - (2) NO, IT WILL BE THE HOMEBUYER, THE CAR BUYER, THE SMALL BUSINESSMAN THAT DOESN'T HAVE THE CASH FLOW TO SUPPORT HIS CAPITAL PURCHASES, AND EVERYBODY ELSE WHO CAN BE DRIVEN FROM THE MARKET BY HIGH INTEREST RATES.
- h. WHEN THAT HAPPENS, WE MAY VERY WELL FIND THE STATE'S REVENUES ON THE "DOWN" ESCALATOR.
- i. SO WHAT DOES ALL THAT HAVE TO DO WITH THE 1984-85 BUDGET?
- j. JUST THIS: (1) THAT THE STATE MUST HAVE A HEALTHY RESERVE--A RAINY DAY FUND--TO CUSHION THE BUDGET WHEN REVENUES TAKE A TURN FOR THE WORSE, AND (2) THIS RESERVE IS GONG TO TAKE UP A LOT OF SLACK IN THE FISCAL ROPE.

- k. I'VE RECOMMENDED THAT BETWEEN \$950 MILLION AND \$1.25 BILLION BE SET ASIDE IN SUCH A FUND.
- 1. TO PUT IT AS BLUNTLY AS I CAN, IF WE CHOOSE NOT TO BUILD UP A SIZABLE "RAINY DAY" FUND IN 1984-85, WHEN WE CAN AFFORD TO DO SO, WE PROBABLY WILL FIND OURSELVES IN 1985-86 OR 1986-87 IN MUCH THE SAME BIND WE WERE IN LAST YEAR AND THE YEAR BEFORE.

D. IMPLICATIONS FOR STATE AID TO CITIES

- 1. ALTHOUGH THE STATE IS IN THE BEST FISCAL POSITION IT HAS BEEN IN SINCE THE MID 1970s, THE SCRAMBLE FOR STATE DOLLARS IS AS FIERCE AS EVER.
- 2. UNFORTUNATELY FROM YOUR STANDPOINT, CITIES STAND A GOOD CHANCE OF FARING POORLY IN THE SCRAMBLE FOR FUNDS BECAUSE:
  - a. FIRST, THEY ARE PERCEIVED AS HAVING FAR MORE AUTHORITY TO RAISE REVENUE THAN COUNTIES OR OTHER CLAIMANTS ON THE STATE BUDGET.
  - b. SECOND, THEY HAVE FAR LESS RESPONSIBILITY THAN COUNTIES FOR ADMINISTERING STATE PROGRAMS, AND THEREFORE HAVE CONSIDERABLY GREATER FLEXIBILITY IN SPENDING LOCAL DOLLARS.
- 3. IN FACT, THERE SEEMS TO BE SOME SENTIMENT IN THE CAPITOL THAT ONE WAY TO RAISE THE MONEY NEEDED TO FUND PENDING LEGISLATIVE PROPOSALS WOULD BE TO HOLD SUBVENTIONS ALLOCATED TO CITIES AT THE CURRENT-YEAR LEVEL. THIS COULD FREE UP ABOUT \$330 MILLION FOR NEW STATE PROGRAMS.



### III. OUTLOOK FOR CHANGES IN THE STATE'S FISCAL RELATIONSHIP WITH CITIES

#### A. INTRODUCTION

1. I'M SURE WHAT YOU'RE MOST INTERESTED IN IS NOT ALL THIS BIG-PICTURE STUFF, BUT RATHER WHAT'S GOING TO HAPPEN TO STATE SUBVENTIONS AND OTHER CITY-SPECIFIC POLICY MATTERS.
2. THIS IS THE SUBJECT TO WHICH I NOW TURN.

#### B. BACKGROUND

1. BOTH THE GOVERNOR AND THE LEGISLATURE HAVE DESIGNATED 1984 AS THE YEAR IN WHICH A NEW SYSTEM OF FINANCING LOCAL GOVERNMENT IS TO BE DEVELOPED.
2. IT IS THE HOPE OF BOTH BRANCHES THAT THIS SYSTEM WILL RESULT IN STABLE AND PREDICTABLE FUNDING FOR CITIES AND COUNTIES ON A LONG-TERM BASIS.
3. AS YOU ALL KNOW, TWO KEY BILLS INTENDED TO PUT IN PLACE SUCH A SYSTEM ARE WINDING THEIR WAY THROUGH THE LEGISLATIVE PROCESS: ASSEMBLY BILL 2468 AND SENATE BILL 1300.
  - a. AB 2468 IS PRINCIPALLY AUTHORED BY ASSEMBLYMAN DOMINIC CORTESE, THE CHAIRMAN OF THE ASSEMBLY LOCAL GOVERNMENT COMMITTEE, ON BEHALF OF THE ASSEMBLY DEMOCRATS. IT CURRENTLY IS ON THE ASSEMBLY FLOOR AWAITING ACTION BY THE FULL ASSEMBLY.
  - b. SB 1300 IS PRINCIPALLY AUTHORED BY SENATOR MILTON MARKS, CHAIRMAN OF THE SENATE LOCAL GOVERNMENT COMMITTEE.
    - (1) THIS BILL REPRESENTS THE GOVERNOR'S PROPOSAL, ALTHOUGH IN ITS PRESENT FORM IT IS VERY DIFFERENT

FROM THE PROPOSAL THAT THE GOVERNOR PUT FORTH IN HIS BUDGET.

(2) IT CURRENTLY IS SCHEDULED TO BE HEARD IN THE SENATE FINANCE COMMITTEE ON MAY 14.

(3) I WILL BRIEFLY DESCRIBE WHAT THESE BILLS IN THEIR CURRENT FORMS, WOULD DO, PARTICULARLY WITH RESPECT TO CITIES.

(4) THEN I WILL DISCUSS WHAT THESE BILLS DON'T DO.

(5) I WANT TO EMPHASIZE, HOWEVER, THE CHANGING NATURE OF BOTH BILLS.

a. SB 1300, FOR EXAMPLE, HAS BEEN AMENDED SIX TIMES AND IT'S ONLY CLEARED ONE OF THE FOUR COMMITTEES THAT HAVE JURISDICTION OVER IT.

b. THE GENERAL CONSENSUS IN THE CAPITOL IS THAT THE "REAL VERSION" OF THE LOCAL GOVERNMENT REFORM MEASURE--THAT IS, THE FINAL VERSION--WILL BE WRITTEN IN CONFERENCE COMMITTEE, SO PLEASE BEAR IN MIND THAT WHAT I DESCRIBE TO YOU NOW IS ONLY A SNAPSHOT OF A LANDSCAPE THAT IS CHANGING.

C. COMPONENTS OF AB 2468 AND SB 1300

1. EFFECTIVE JULY 1, 1984:

a. BOTH MEASURES WOULD REPEAL THE AB 8 DEFLATOR.

b. BOTH MEASURES WOULD REPEAL THE PERSONAL PROPERTY TAX REIMBURSEMENT SUBVENTION.



- c. BOTH MEASURES WOULD PROVIDE FOR THE DISTRIBUTION OF THE SUPPLEMENTAL PROPERTY TAX AMONG ALL LOCAL AGENCIES--ONE YEAR EARLIER THAN CALLED FOR BY CURRENT LAW.
  - (1) THIS IS WORTH \$42 MILLION TO CITIES ON A STATEWIDE BASIS.
  - (2) HOWEVER, YOU MAY NOT SEE ANY OF THIS MONEY UNTIL 1985-86, DUE TO THE PROBLEMS COUNTY ASSESSORS ARE HAVING IN COLLECTING THE NEW TAX.
- d. BOTH MEASURES WOULD REALLOCATE THE STATE'S 18 3/4 PERCENT SHARE OF THE VEHICLE LICENSE FEE REVENUES (ESTIMATED TO BE WORTH \$210 MILLION IN 1984-85) AMONG COUNTIES AND "NO PROPERTY TAX CITIES."
  - (1) COUNTIES WOULD GET \$208 MILLION AND THE NO PROPERTY TAX CITIES WOULD GET \$2 MILLION.
  - (2) THE \$2 MILLION REPRESENTS THE AMOUNT NEEDED TO HOLD HARMLESS ANY REVENUE LOSS RESULTING FROM THE REPEAL OF THREE SMALL SUBVENTIONS, THOSE CITIES WHICH DID NOT GET ANY BAILOUT FUNDS BECAUSE THEY DID NOT LEVY A PROPERTY TAX PRIOR TO PROPOSITION 13.
- e. IN ADDITION, AB 2468 WOULD APPROPRIATE \$250 MILLION FOR A NEW GRANT PROGRAM. THESE GRANTS COULD BE USED TO FINANCE THE CONSTRUCTION OF LOCAL INFRASTRUCTURE AS WELL AS THE MAINTENANCE AND REPAIR OF EXISTING INFRASTRUCTURE.
- f. SB 1300, ON THE OTHER HAND, WOULD ESTABLISH A NEW SPECIAL SUPPLEMENTAL SUBVENTION FOR CITIES (AND MULTI-COUNTY

SPECIAL DISTRICTS) WHOSE LOSSES FROM REPEAL OF THE B I SUBVENTION EXCEED BY MORE THAN \$1 MILLION THE REVENUE RECEIVED FROM THE SUPPLEMENTAL PROPERTY TAX.

g. THAT'S THE GIST OF THE TWO PROPOSALS.

2. WHAT IS THE EFFECT OF THESE MEASURES ON CITIES?

a. THERE ARE TWO WAYS OF ASSESSING THE POTENTIAL EFFECT OF AB 2468 AND SB 1300 IN THEIR CURRENT FORMS.

(1) IN DOLLAR TERMS, AND

(2) IN TERMS OF THE EXTENT TO WHICH THE BILLS WOULD ACHIEVE THE GOALS OF FISCAL STABILITY AND FISCAL INDEPENDENCE.

b. IN DOLLAR TERMS

(1) RELATIVE TO THE "NORMAL" LEVEL OF STATE AID, WHICH I DEFINE AS YOUR FULL ALLOCATION OF THE V L F, CIGARETTE AND B I SUBVENTIONS WITHOUT ANY REDUCTIONS CAUSED BY THE DEFLATOR OR STATE BUDGET DECISIONS, CITIES WOULD LOSE \$28 MILLION IN REVENUE STATEWIDE UNDER AB 2468 IN THE FIRST YEAR (1984-85) AND \$70 MILLION ANNUALLY THEREAFTER. THIS DOES NOT REFLECT ANY GRANT MONEY THAT YOU MIGHT RECEIVE FOR INFRASTRUCTURE.

(2) UNDER SB 1300, CITIES WOULD ALSO LOSE \$28 MILLION THE FIRST YEAR (1984-85) AND \$70 MILLION ANNUALLY THEREAFTER, IF NO ALLOWANCE IS MADE FOR THE SPECIAL SUBVENTIONS.



(3) YOU SHOULD KEEP IN MIND, HOWEVER, THAT ABSENT ANY LEGISLATIVE ACTION, CITIES WOULD LOSE \$129 MILLION DUE TO THE WORKINGS OF THE DEFLATOR, WERE IT ALLOWED TO GO INTO EFFECT.

(4) OBVIOUSLY, THE INFRASTRUCTURE GRANTS IN AB 2468 WOULD REDUCE THE SIZE OF, OR PERHAPS EVEN MORE THAN OFFSET, THE CITIES' LOSSES.

(a) IT IS NOT CLEAR, HOWEVER, JUST HOW MUCH MONEY MIGHT GO TO INDIVIDUAL CITIES.

(b) THE GRANTS, ALTHOUGH EARMARKED FOR LOCAL INFRASTRUCTURE, WOULD NOT NECESSARILY GO TO LOCAL AGENCIES.

(i) STATE AGENCIES, SUCH AS CALTRANS, WOULD BE ELIGIBLE TO RECEIVE THESE FUNDS AS LONG AS THE MONEY WAS SPENT ON LOCAL INFRASTRUCTURE (SUCH AS BRIDGES).

(ii) THE DECISION AS TO WHO WOULD RECEIVE THESE FUNDS, AND HOW MUCH THEY WOULD GET, WOULD BE MADE BY A NEW STATE AGENCY.

(5) AS FOR THE SPECIAL SUPPLEMENTAL SUBVENTIONS, THEY WOULD ONLY GO TO CITIES WHICH CURRENTLY RECEIVE SUBSTANTIALLY MORE THAN \$1 MILLION IN PERSONAL PROPERTY TAX RELIEF SUBVENTIONS.

(a) OBVIOUSLY, YOU HAVE TO BE A PRETTY LARGE CITY IN ORDER TO GET MORE THAN \$1 MILLION IN B I.

(b) IN FACT, AMONG YOUR ASSOCIATION, THERE ARE ONLY TWO CITIES WHICH MIGHT BE ELIGIBLE FOR THESE SUBVENTIONS (LOS ANGELES AND LONG BEACH).

(c) HOWEVER, EVEN THESE TWO CITIES WOULD STILL LOSE UP TO \$1 MILLION, DUE TO THE WAY THE SUBVENTION IS TO BE CALCULATED.

c. EFFECT OF THE BILLS IN TERMS OF FISCAL STABILITY AND INDEPENDENCE

(1) WHAT WOULD THE BILLS ACCOMPLISH IN THIS REGARD?

(2) FROM MY PERSPECTIVE, NOT A GREAT DEAL.

D. CRITERIA FOR EVALUATING THE EFFECT OF REFORM LEGISLATION ON FISCAL STABILITY AND INDEPENDENCE.

1. DO THE BILLS INSULATE CITY BUDGETS MORE EFFECTIVELY FROM THE STATE'S BUDGET PROCESS?

a. AB 2468 CLEARLY DOES NOT DO THIS.

(1) IT WOULD HAVE THE CITIES GIVE UP THE BUSINESS INVENTORY SUBVENTION IN RETURN FOR INFRASTRUCTURE GRANTS.

(2) THESE GRANTS, LIKE THE B I, WOULD BE SUBJECT TO APPROPRIATION IN THE ANNUAL BUDGET ACT.

(3) UNLIKE THE B I, HOWEVER, ON THE OTHER HAND:

(a) THESE GRANTS WOULD NOT BE ALLOCATED USING A STATUTORY FORMULA.

(b) INSTEAD, LOCAL AGENCIES WOULD HAVE TO COMPETE AGAINST OTHER TYPES OF AGENCIES FOR INFRASTRUCTURE GRANTS.



2. DO THE BILLS ENHANCE THE CITIES' CONTROL OVER THEIR OWN DESTINY?

a. HERE, I AM NOT TALKING ABOUT PREDICTABILITY AND STABILITY.

(1) I DON'T BELIEVE SUCH THINGS CAN BE LEGISLATED.

(2) NO GOVERNMENTAL ENTITY'S REVENUES CAN EVER BE MORE STABLE THAN THE ECONOMY ON WHICH IT DEPENDS.

(3) AND IF ANYBODY HERE THINKS EITHER THE ECONOMISTS OR THE POLITICIANS IN WASHINGTON KNOW HOW TO ACHIEVE ECONOMIC STABILITY, I'VE GOT A BRIDGE YOU MIGHT BE INTERESTED IN BUYING REAL CHEAP.

b. WHAT I AM TALKING ABOUT ARE CHANGES THAT WOULD ALLOW A CITY TO ADAPT MORE EASILY TO CHANGES IN BOTH THE ECONOMY AND STATE LAW.

c. AGAIN, NEITHER AB 2468 OR SB 1300 HAS A GREAT DEAL TO OFFER HERE.

d. IN FACT, AB 2468 WOULD REDUCE CITIES' CONTROL OVER THEIR REVENUES BY SUBSTITUTING A CATEGORICAL GRANT FOR A SUBVENTION THAT CAN BE USED FOR ANY PURPOSE A CITY DESIRES.

e. SB 1300 WOULD ELIMINATE THE SUBVENTION ALTOGETHER.

f. WHAT KINDS OF PROPOSALS WOULD PROVIDE CITIES WITH GREATER ECONOMIC INDEPENDENCE? CHANGES WHICH PROVIDE YOU WITH NEW AUTHORITY TO RAISE REVENUES.

- (1) SPECIFICALLY, I BELIEVE LOCAL AGENCIES SHOULD HAVE BROAD AUTHORITY TO RAISE REVENUES IN ORDER TO FUND THINGS THAT HAVE A HIGH PRIORITY TO THEIR CITIZENS (EVEN IF THESE THINGS HAVE A LOW PRIORITY TO HOWARD JARVIS AND CITIZENS ELSEWHERE).
  - (2) THUS, I BELIEVE THE MORATORIUM ON PROPERTY TAX OVERRIDES TO FUND ACCRUED PENSION LIABILITIES SHOULD BE LIFTED, AS THIS ALSO DOESN'T SEEM TO BE A MATTER OF STATEWIDE CONCERN.
  - (3) IN ADDITION, YOUR ACCESS TO THE GENERAL OBLIGATION BOND MARKET SHOULD BE RESTORED.
    - (a) THE GOVERNOR PROPOSED RESTORING LOCAL GOVERNMENT'S ACCESS TO THE GENERAL OBLIGATION BOND MARKET IN HIS BUDGET, AND HE HAS SUPPORTED SENATOR AYALA'S SCA 23 WHICH WOULD DO THIS.
    - (b) HOWEVER, BOTH THIS BILL AND A SIMILAR BILL (ACA 55) BY ASSEMBLYMAN CORTESE, CURRENTLY ARE HOLED UP IN THE ASSEMBLY REVENUE AND TAXATION COMMITTEE, AND THEY DON'T APPEAR TO BE HEADED FOR THE GOVERNOR'S DESK AT ANY POINT IN THE NEAR FUTURE.
  - (4) FINALLY, YOU SHOULD HAVE AUTHORITY, PERHAPS WITHIN LIMITS, TO TAP THE SALES TAX OR INCOME TAX BASE.
3. DO THE BILLS INCREASE LOCAL AGENCIES' AUTHORITY TO DETERMINE THE BEST WAY TO ACHIEVE SPECIFIC OBJECTIVES SET BY THE STATE?



- a. THIS WOULD INVOLVE REMOVING UNNECESSARY PROGRAM REQUIREMENTS IN MANY AREAS AND ALLOWING LOCAL ENTITIES TO DETERMINE HOW STATE OBJECTIVES CAN BEST BE ACHIEVED.
- b. NEITHER BILL WOULD MOVE THE STATE IN THIS DIRECTION.
- 4. IN SUM, I SEE THESE BILLS AS PROVIDING CITIES WITH SOME TACTICAL ADVANTAGES (PARTICULARLY, REPEAL OF THE DEFLATOR), BUT NOT ANY STRATEGIC CHANGES.

#### IV. THE JARVIS INITIATIVE

##### A. INTRODUCTION

- 1. REGARDLESS OF WHAT CHANGES YOU OR I THINK MAY BE NECESSARY TO ENHANCE THE ABILITY OF CITIES TO CARRY OUT THEIR IMPORTANT ROLE IN OUR SYSTEM OF GOVERNMENT, THERE IS SOMEONE ELSE WHOSE OPINION MAY TURN OUT TO BE MORE INFLUENTIAL.
- 2. I AM REFERRING, OF COURSE, TO HOWARD JARVIS, WHO HAS DEMONSTRATED AN IMPRESSIVE ABILITY TO ACHIEVE THE KINDS OF CHANGES HE THINKS ARE IMPORTANT.
- 3. AS YOU KNOW, MR. JARVIS' PROPOSED "SAVE PROPOSITION 13" CONSTITUTIONAL AMENDMENT HAS QUALIFIED FOR THE NOVEMBER 1984 BALLOT.
- 4. I'D LIKE TO SPEND THE REST OF MY TIME SHARING WITH YOU WHAT MY STAFF HAS DETERMINED WOULD BE THE EFFECT OF MR. JARVIS' LATEST EFFORTS IF HE IS SUCCESSFUL IN SECURING VOTER APPROVAL FOR HIS LATEST INITIATIVE.
- 5. SPECIFICALLY, I WILL TRY TO EXPLAIN:

- a. WHAT MR. JARVIS IS TRYING TO ACCOMPLISH.
- b. THE POTENTIAL IMPACT OF THE MEASURE ON CITIES.
- c. THE LIKELY EFFECT OF THE MEASURE ON STATE AND LOCAL GOVERNMENT PROGRAMS AND FISCAL STABILITY.

B. JARVIS' INTENT

1. PROPOSITION 13 PROVIDED TAX RELIEF TO PROPERTY OWNERS IN THREE WAYS:

- a. IT LIMITED THE PROPERTY TAX RATE TO 1 PERCENT OF ASSESSED VALUE, ALTHOUGH IT PROVIDED AN EXCEPTION WHEREVER VOTER-APPROVED INDEBTEDNESS HAD TO BE PAID OFF.
- b. IT ROLLED BACK ASSESSED VALUATIONS TO THEIR 1975 LEVELS, AND GENERALLY LIMITED SUBSEQUENT INCREASES TO 2 PERCENT ANNUALLY, ALTHOUGH PROPERTY WHICH IS NEWLY CONSTRUCTED OR CHANGES OWNERSHIP IS ASSESSED AT FULL MARKET VALUE.
- c. TO PREVENT THE STATE AND LOCAL GOVERNMENTS FROM INCREASING OTHER TAXES, PROPOSITION 13 ALSO REQUIRES A TWO-THIRDS VOTE OF THE LEGISLATURE TO INCREASE STATE TAXES AND A TWO-THIRDS VOTE OF LOCAL VOTERS TO INCREASE LOCAL TAXES.

2. PROPOSITION 13 CONTAINS A GOOD DEAL OF AMBIGUOUS LANGUAGE.

- a. THE LEGISLATURE HAS NOT ALWAYS PROVIDED CLEAR POLICY GUIDANCE WHEN QUESTIONS ABOUT THE APPLICATION OF PROPOSITION 13'S RESTRICTIONS HAVE ARISEN.
- b. THIS HAS LEFT MANY IMPORTANT TAX POLICY QUESTIONS IN THE HANDS OF THE SUPREME COURT AND APPELLATE COURTS.



3. ASIDE FROM UPHOLDING PROPOSITION 13'S BASIC CONSTITUTIONALITY  
(AMADOR VALLEY HIGH SCHOOL DISTRICT VS. BOARD OF  
EQUALIZATION),  
THE COURTS IN MANY CASES HAVE APPROVED LOCAL AGENCIES'  
ATTEMPTS TO GENERATE REVENUE IN THE FACE OF THE APPARENT  
RESTRICTIONS CONTAINED IN PROPOSITION 13.
4. MR. JARVIS CLAIMS THAT THESE COURT DECISIONS ARE CONTRARY TO  
THE MEASURE'S INTENT AS WELL AS TO THE WILL OF THE PEOPLE,  
AND THAT "SAVE PROPOSITION 13" WILL ESTABLISH THE TAX RELIEF  
PROGRAM ORIGINALLY ENVISIONED BY THE ELECTORATE IN 1978.
5. IN ADDITION TO OVERTURNING THE MAJOR COURT DECISIONS THAT MR.  
JARVIS FINDS DISTASTEFUL, THE PROPOSED INITIATIVE WOULD PLACE  
MANY ADDITIONAL RESTRICTIONS ON THE TAXING POWERS OF  
GOVERNMENT--RESTRICTIONS THAT HAVE NOT BEEN THE SUBJECT OF  
LITIGATIONS.

C. MAJOR PROVISIONS OF THE MEASURE AND THEIR FISCAL IMPACT ON CITIES

1. OUR ANALYSIS OF THE "SAVE PROPOSITION 13" MEASURE IS STILL AT AN EARLY STAGE.

a. IT IS BASED ON A NUMBER OF ORAL OPINIONS THAT WE HAVE RECEIVED FROM LEGISLATIVE COUNSEL.

b. IN ADDITION, WE HAVEN'T GOTTEN TO THE BOTTOM OF A NUMBER OF THE ISSUES YET, BECAUSE JARVIS CONTAINS A LARGE NUMBER OF UNDEFINED TERMS, INCONSISTENCIES, AND COMPLEX CROSS-REFERENCES.

c. FINALLY, SEVERAL PROVISIONS WILL BE THE SUBJECT OF LITIGATION IF JARVIS PASSES, AND WHERE THE COURT WILL COME OUT WE DO NOT KNOW.

2. FOR DISCUSSION PURPOSES, WE HAVE DIVIDED THE PROVISIONS OF THE JARVIS MEASURE INTO FOUR CATEGORIES.

3. FIRST, THERE ARE PROVISIONS THAT SEEK TO LIMIT TAX RATES. TWO STAND OUT.

a. NON-AD VALOREM TAXES.

(1) PROPOSITION 13 LIMITS AD VALOREM TAXES TO 1 PERCENT OF ASSESSED VALUE.

(2) THE JARVIS INITIATIVE WOULD INCLUDE WITHIN THIS LIMIT ANY OTHER TAXES ON PROPERTY, OR TAXES BASED ON PROPERTY OWNERSHIP.

(3) AS A RESULT, THESE NON-AD VALOREM TAXES WOULD EFFECTIVELY BE ELIMINATED, INCLUDING PARCEL TAXES, FRONTAGE TAXES, AND GARDEN REFUSE CHARGES.



- (4) THERE ARE ENORMOUS DEFINITION PROBLEMS HERE.
  - (a) WHAT ARE NON-AD VALOREM PROPERTY TAXES, AND WHAT ARE THE ASSESSMENTS OR FEES WHICH WILL BE SUBJECT TO LESSER RESTRICTIONS?
  - (b) THIS ISSUE ALONE WILL KEEP LAWYERS WELL STOCKED IN VINTAGE BORDEAUX WINE FOR YEARS TO COME.

b. DEBT LEVIES EXCEEDING 1 PERCENT

- (1) PROPOSITION 13 PERMITS TAX RATES GREATER THAN 1 PERCENT TO SUPPORT VOTER-APPROVED DEBT.
- (2) IN CARMAN VS. ALVORD, THE SUPREME COURT PERMITTED THE USE OF SUCH LEVIES TO SUPPORT DEBT ASSOCIATED WITH VOTER-APPROVED PENSION PLANS.
- (3) THE JARVIS INITIATIVE WOULD LIMIT THE USE OF THE LEVIES EXCEEDING 1 PERCENT TO BONDED DEBT ONLY, THEREBY INVALIDATING ALL CHARGES CURRENTLY BEING USED TO FUND OTHER (NON-BONDED) TYPES OF DEBT.
- (4) CURRENT UTILIZATION.
  - (a) TWENTY-FOUR CITIES CURRENTLY USE DEBT LEVIES TO SUPPORT \$40 MILLION WORTH OF PENSION COSTS.
  - (b) SEVEN CITIES USE DEBT LEVIES TO SUPPORT NON-PENSION DEBT ASSOCIATED WITH PARAMEDICS, LEASE-PURCHASE CONTRACTS, AND LIBRARY OPERATION, TOTALING \$2 MILLION.
  - (c) ALL OF THESE LEVIES WOULD BE WIPED OUT.

(5) AMONG THE CITIES THAT WOULD BE BADLY HURT BY THIS PROVISION OF THE MEASURE ARE:

- (a) COMPTON, EL MONTE, HUNTINGTON PARK AND SAN FERNANDO.
- (b) COMPTON WOULD HAVE TO USE ONE-HALF OF ITS REMAINING PROPERTY TAX ALLOCATION TO SUPPORT ITS PENSION COSTS.

(6) THE REVENUES THAT COULD BE AFFECTED BY THIS PROVISION OF THE MEASURE IS CONSIDERABLY GREATER THAN \$42 MILLION.

- (a) THE CITY OF LOS ANGELES, ALONE, COULD LEVY UPWARDS OF \$375 MILLION TO SUPPORT ITS VOTER-APPROVED PENSION OBLIGATIONS.
- (b) AB 377 (ROOS), HOWEVER, PLACED A MORATORIUM ON NEW DEBT LEVIES UNTIL 1985-86.

4. SECOND, THERE ARE THE PROVISIONS OF "SAVE PROPOSITION 13" THAT INVOLVED INFLATIONARY ADJUSTMENTS TO ASSESSED VALUE.

- a. PROPOSITION 13 ROLLS BACK ASSESSED VALUES TO 1975 LEVELS AND PERMITS A 2 PERCENT INFLATIONARY ADJUSTMENT ANNUALLY.
- b. HOWEVER, IT DIDN'T SPECIFY WHEN ASSESSORS WERE SUPPOSED TO START MAKING THE ANNUAL ADJUSTMENT--IN 1976-77, THE YEAR AFTER THE ROLLBACK DATE, OR 1979-80, THE YEAR AFTER PROPOSITION 13'S EFFECTIVE DATE?
- c. IN A BILL IMPLEMENTING PROPOSITION 13, THE LEGISLATURE AUTHORIZED THE ADJUSTMENT BEGINNING IN 1976-77.



- d. AS A RESULT, 1978-79 ASSESSED VALUES WERE 6.12 PERCENT ABOVE THE 1975 BASE-YEAR VALUES.
  - e. IN 1982, TAXPAYERS SUED TO INVALIDATE THE ADJUSTMENTS MADE IN 1976-77, 1977-78 AND 1978-79, BUT IN THE BARRETT/ARMSTRONG CASE, THE APPELLATE COURT UPHELD THE LEGISLATURE'S DECISION.
  - f. THE JARVIS INITIATIVE WOULD OVERTURN THE BARRETT/ARMSTRONG DECISION, THEREBY INVALIDATING THE 2 PERCENT ADJUSTMENTS FOR THE THREE YEARS, AND REQUIRE REFUND OF THE TAXES RESULTING FROM THESE ADJUSTMENTS, INCLUDING INTEREST AT 13 PERCENT.
  - g. THE TOTAL COST OF THESE REFUNDS WOULD BE \$1,325 MILLION.
  - h. CITIES WOULD EXPERIENCE A ONE-TIME COST OF \$173 MILLION AND AN ONGOING REVENUE LOSS OF \$10 MILLION, STATEWIDE.
  - i. ONLY ABOUT ONE-HALF OF THE STATE'S PROPERTY OWNERS WOULD BE ENTITLED TO A REFUND.
    - (1) MOST OF THE OTHERS WOULD ACTUALLY HAVE TO PAY LARGER PROPERTY TAX BILLS, SINCE LOCAL AGENCIES WOULD BE REQUIRED TO INCREASE THEIR TAX RATES IN ORDER TO COVER THE COST OF SERVICING VOTER-APPROVED BONDED DEBT.
    - (2) IN FACT, OTHER TAXPAYERS WOULD PAY UP TO \$185 MILLION OF THE \$1.3 BILLION IN REFUNDS.
5. THIRD, OTHER PROVISIONS OF THE "SAVE PROPOSITION 13" MEASURE WOULD PLACE A VARIETY OF RESTRICTIONS ON ASSESSED VALUATION.

- a. THESE RESTRICTIONS WOULD:
    - (1) REDUCE THE ASSESSED VALUE OF NEW CONSTRUCTION,
    - (2) FORBID THE REASSESSMENT OF PROPERTY WHICH CHANGES OWNERSHIP AMONG EXTENDED FAMILY MEMBERS, AND
    - (3) REDUCE THE VALUE OF CERTAIN PROPERTIES WITH ENFORCEABLY RESTRICTED USES.
  - b. THEY WOULD ALSO RESULT IN A MAJOR REVENUE LOSS TO CITIES, BUT WE DON'T KNOW HOW BIG THE LOSS WOULD BE.
6. FINALLY, THE "SAVE PROPOSITION 13" INITIATIVE CONTAINS A NUMBER OF PROVISIONS THAT WOULD LIMIT BENEFIT ASSESSMENTS, FEES AND VARIOUS OTHER TAXES.
- a. THE IMPETUS FOR LIMITATIONS ON ASSESSMENTS, FEES, AND TAXES COMES PRIMARILY FROM TWO SUPREME COURT DECISIONS
  - b. THESE DECISIONS WERE HANDED DOWN IN THE CASES OF SAN FRANCISCO VS. FARRELL AND L.A. COUNTY TRANSPORTATION COMMISSION VS. RICHMOND.
    - (1) IN FARRELL, THE COURT RULED THAT A PAYROLL AND BUSINESS TAX INCREASE LEVIED BY THE CITY WAS NOT SUBJECT TO THE TWO-THIRDS VOTE REQUIREMENT SET FORTH IN PROPOSITION 13, BECAUSE IT WAS LEVIED FOR GENERAL REVENUE PURPOSES AND, HENCE, DID NOT CONSTITUTE A "SPECIAL TAX" SUBJECT TO LIMITATION UNDER PROPOSITION 13.
    - (2) IN RICHMOND, THE COURT HELD THAT COUNTY TRANSIT DISTRICTS MAY IMPOSE A ONE-HALF CENT OPTIONAL SALES TAX WITHOUT A TWO-THIRDS VOTE OF THE ELECTORATE.



- c. IN ADDITION, THE APPEALS COURTS HAVE HANDED DOWN SEVERAL OTHER DECISIONS WHICH EXCLUDE FEES AND BENEFIT ASSESSMENTS ON PROPERTY FROM THE RESTRICTIONS PLACED ON EITHER PROPERTY TAXES OR OTHER TAXES LEVIED BY LOCAL AGENCIES.
- d. THESE DECISIONS HAVE REALLY RILED JARVIS.
  - (1) HIS PROPOSAL WOULD OVERTURN BOTH THE RICHMOND AND FARRELL CASES RETROACTIVELY TO AUGUST 15, 1983.
  - (2) THE IMPACT OF THE PROPOSALS ON BENEFIT ASSESSMENTS AND FEES IS CONSIDERABLY MORE COMPLICATED AND REQUIRES SOME ELABORATION.
- e. JARVIS WOULD DIVIDE THE ENTIRE UNIVERSE OF CHARGES AND LEVIES IMPOSED ON CITIZENS OR PROPERTY INTO FOUR CLASSES--FINES, ASSESSMENTS, FEES AND TAXES.
  - (1) EVERY SINGLE CHARGE CURRENTLY MADE BY ANY GOVERNMENT ENTITY--FOR WHATEVER PURPOSE--WOULD BE PLACED INTO ONE OF THESE CATEGORIES, AND WOULD BE SUBJECT TO A TEST DESIGNED TO DETERMINE IF THE CHARGE HAD BEEN "VALIDLY IMPOSED."
  - (2) ANY CHARGE OR PORTION THEREOF WHICH FAILED THE TEST COULD BE INVALIDATED.
- f. AMONG THE CURRENT CHARGES THAT WOULD BE INVALIDATED BY THE MEASURE ARE:
  - (1) ANY ASSESSMENT ON LAND FOR CAPITAL IMPROVEMENTS WHICH DOES NOT SPECIFICALLY AND DIRECTLY BENEFIT

PROPERTY (FOR EXAMPLE, ASSESSMENTS THAT ARE LEVIED ON IMPROVEMENTS, THAT SUPPORT SERVICES, OR THAT PROVIDE ONLY INDIRECT BENEFITS TO PROPERTY).

(2) FEES USED TO SUPPORT EMPLOYEE PENSION COSTS, OR FEES THAT EXCEED THE DIRECT COST OF, OR BENEFITS FROM, THE SERVICE OR REGULATORY PROGRAM FOR WHICH THE FEES ARE CHARGED.

g. IN ADDITION, ON OR AFTER AUGUST 15, 1983, ANY NEW FEE OR ANY INCREASE IN AN EXISTING FEE THAT EXCEEDS THE INCREASE IN U.S. C P I FOR THE PRECEDING 12 MONTHS WOULD HAVE TO BE APPROVED BY A TWO-THIRDS VOTE OF THE LOCAL ELECTORATE.

D. POTENTIAL IMPACT OF THE JARVIS INITIATIVE

1. THE MEASURE WOULD HAVE ITS GREATEST EFFECT ON:

- a. BENEFIT ASSESSMENT DISTRICTS, AND
- b. MUNICIPAL ENTERPRISE ACTIVITIES.

2. AMONG THE ASSESSMENTS THAT WOULD BE INVALIDATED ARE:

- a. BENEFIT ASSESSMENTS TO SUPPORT FIRE PROTECTION DISTRICTS;
- b. ASSESSMENTS SUPPORTING MAINTENANCE AND OPERATION OF DRAINAGE, FLOOD CONTROL, AND LIGHTING UNDER THE 1982 BENEFIT ASSESSMENT ACT;
- c. STANDBY CHARGES FOR MOSQUITO ABATEMENT;
- d. CERTAIN CHARGES FOR SIDEWALK MAINTENANCE; AND
- e. ANY CHARGE UNDER THE 1911 IMPROVEMENT ACT WHICH IS LEVIED ON IMPROVEMENTS, SUPPORTS SERVICES, PROVIDES INDIRECT BENEFITS, OR EXCEEDS THE COST OF CAPITAL IMPROVEMENTS.



3. THE FEE RESTRICTIONS WOULD HAVE THE GREATEST IMPACT ON ENTERPRISE ACTIVITIES, SUCH AS MUNICIPAL UTILITIES, AIRPORTS, HARBORS, HOSPITALS, TRANSIT, AND WASTE DISPOSAL.
    - a. LOCAL AGENCIES WOULD BE REQUIRED TO GET A TWO-THIRDS VOTE EVERY TIME THEY WANT TO INCREASE FEES FASTER THAN THE C P I IS RISING.
    - b. CITIES WOULD HAVE THE SAME PROBLEM WITH MUSEUMS, PARKS AND RECREATION, LIBRARIES AND A MYRIAD OF OTHER FEE-SUPPORTED ACTIVITIES.
  4. THE IMPACT OF THESE RESTRICTIONS ON CITIES IS UNKNOWN BUT CERTAINLY MAJOR.
  5. ON AN ONGOING BASIS, THE MEASURE'S FEE PROVISIONS PROBABLY WILL HAVE A GREATER IMPACT THAN THE PROPERTY TAX PROVISIONS.
- E. WHAT ARE THE POLICY IMPLICATIONS OF THE JARVIS INITIATIVE?
1. IF THE VOTERS APPROVE THE CONSTITUTIONAL AMENDMENT, THEY WILL GET LOWER STATE AND LOCAL TAXES, AND LESS GOVERNMENT.
  2. THE MOST IMMEDIATE IMPACT, HOWEVER, WOULD BE THAT ALL BETS ON SB 1300 AND AB 2468 WOULD BE OFF.
    - a. WHATEVER THE NATURE OF THE STATE/LOCAL FINANCIAL RELATIONSHIP THAT EMERGES FROM THE LEGISLATURE IN 1984, IT WILL COLLAPSE INSTANTLY UNDER THE BURDEN OF \$1,325 BILLION IN MANDATORY PROPERTY TAX REFUNDS.
    - b. CITIES SHOULD NOT EXPECT THAT THE STATE WILL PICK UP THEIR SHARE OF THE BURDEN SINCE, UNDER CURRENT LAW, THE STATE WOULD HAVE TO ASSUME K-12 SCHOOL DISTRICTS' SHARE

OF THE REFUNDS AND THE REASSESSMENT LOSSES, AT A COST OF SOMETHING LIKE \$600 MILLION.

- c. THIS, PLUS THE COST OF ANY HELP GRANTED TO THE COUNTIES, WOULD MAKE IT DIFFICULT FOR THE STATE TO RESPOND EASILY TO THE CITIES' DEMANDS FOR FUNDS.

3. THE JARVIS INITIATIVE WOULD EXACERBATE INEQUITIES IN CONNECTION WITH THE PROPERTY TAX.

- a. THE PROPERTY TAX REFUNDS WILL BE PAID TO THOSE PROPERTY OWNERS WHO ALREADY RECEIVE THE LARGEST TAX BREAK FROM PROPOSITION 13--THOSE WHO HAVE HELD ONTO PROPERTY SINCE BEFORE 1978.
- b. THOSE TAXPAYERS WHO OWN NEW OR NEWLY ACQUIRED PROPERTY--AND THUS RECEIVE THE SMALLEST TAX BREAKS UNDER PROPOSITION 13--WOULD, IN MOST CASES, EXPERIENCE PROPERTY TAX INCREASES, BECAUSE OF INCREASED TAX RATES FOR VOTER-APPROVED DEBT SERVICE.

4. THE JARVIS INITIATIVE WOULD EFFECTIVELY DENY GOVERNMENT SERVICES TO CITIZENS WHO ARE WILLING PAY FOR THEM.

- a. AS A POLICY ANALYST, I CONSIDER THE RECENT EXPANSION IN THE USE OF ENTERPRISE AGENCIES AND USER FEES FOR SERVICES AS A POSITIVE DEVELOPMENT.
  - (1) THE USE OF FEES FOR SERVICES TENDS TO PROMOTE A BETTER ALLOCATION OF RESOURCES TO ENCOURAGE COMPETITION AND TO ESTABLISH BETTER INCENTIVES TO MINIMIZE COSTS.



(2) FURTHER, FEES FREE UP SCARCE TAX DOLLARS SO THEY CAN BE USED TO SUPPORT ACTIVITIES THAT PROVIDE INDIRECT AND GENERAL COMMUNITY BENEFITS, RATHER THAN DIRECT BENEFITS TO INDIVIDUALS, THEREBY REDUCING THE "FREE RIDER" PROBLEM.

b. THE INITIATIVE WOULD INVALIDATE MANY OF THESE FEES, AND WOULD EITHER REDUCE THE AVAILABILITY OF SERVICES TO INDIVIDUALS WHO ARE WILLING TO PAY FOR THEM, OR SHIFT THE BURDEN OF SUPPORT TO OTHER TAXPAYERS.

c. IN ADDITION, THE JARVIS INITIATIVE WOULD EFFECTIVELY ALLOW A MINORITY OF THE VOTERS IN A COMMUNITY TO PREVENT THE ESTABLISHMENT OF NEW SERVICES DESIRED BY THE MAJORITY, EVEN THOUGH THESE VOTERS WOULD NOT BE REQUIRED TO PAY FOR THE SERVICES IF THEY DIDN'T WANT THEM.

d. FINALLY, THE MEASURE WOULD PLACE UNREALISTIC RESTRAINTS ON MUNICIPALLY-OWNED GAS, ELECTRIC AND WATER AGENCIES, WHOSE COSTS CAN BE EXPECTED TO RISE FASTER THAN THE C P I. (VIRTUALLY EVERY RATE INCREASE WOULD HAVE TO BE SUBMITTED TO A VOTE SUBJECT TO A TWO-THIRDS VOTE.)

5. THE JARVIS INITIATIVE WOULD IMPAIR THE ABILITY OF GROWING COMMUNITIES TO SUPPORT NEEDED FACILITIES AND INFRASTRUCTURE.

a. BENEFIT ASSESSMENTS ARE A MAJOR SOURCE OF FUNDS FOR GROWING COMMUNITIES TO PROVIDE FOR STREETS, SEWERS, LIGHTS, SIDEWALKS, SCHOOL FACILITIES, FIRE AND POLICE PROTECTION, FLOOD CONTROL AND OTHER FACILITIES AND SERVICES NEEDED TO SUPPORT GROWTH.

- b. JARVIS WOULD LIMIT ASSESSMENTS TO SUPPORT OF CAPITAL IMPROVEMENTS PROVIDING DIRECT BENEFITS TO LAND; ASSESSMENTS WHICH SUPPORT SERVICES SUCH AS POLICE AND FIRE PROTECTION, OR CAPITAL IMPROVEMENTS THAT PROVIDE ONLY INDIRECT BENEFITS TO LAND, WOULD NOT BE PERMITTED.
- c. IN ORDER TO REPLACE THE REVENUE FROM SUCH ASSESSMENTS, THESE COMMUNITIES WOULD NEED TO ESTABLISH NEW FEES OR TAXES, WHICH THEMSELVES ARE SUBJECT TO LIMITATION.

V. CONCLUSION

- A. THE IRONY OF ALL THIS IS THAT, IN A YEAR IN WHICH THE FISCAL SIGNS ARE FAVORABLE AND THE DREADED DEFLATOR IS REPEALED, CITIES COULD GET HIT WITH SOMETHING THAT IS EVEN MORE DAMAGING TO THEIR TREASURIES.
- B. THIS JUST GOES TO PROVE WHAT THAT NOTED PHILOSOPHER, ROSEANNE ROSANNADANNA, WAS FOND OF SAYING:  
"IF IT ISN'T ONE THING, IT'S ANOTHER."

T H A N K   Y O U !