

LAO 
75
YEARS OF
SERVICE

Reconsidering AB 8



Presented to:

**California Association of Local Agency
Formation Commissions Conference**

Legislative Analyst's Office

Quick Background

➤ **Proposition 13 (1978)**

- Limited ad valorem property taxes to 1 percent of assessed value and directed the Legislature to allocate the revenues

➤ **AB 8**

- The Legislature's ultimate solution to distributing property tax revenues to thousands of local governments

Over Time, AB 8 Faced Increasing Criticism

➤ **Two primary criticisms:**

- Does not reflect modern needs and preferences
- Centralizes authority over revenues to Sacramento

➤ **Legislature described the system as “seriously flawed”**

- Directed the LAO to develop alternatives

Reconsidering AB 8

The Problems

➤ **Lack of Information Impedes Government Accountability**

- No entity-by-entity rates
- Formulas reflect preferences of the mid-1970s
- Reduced government accountability

The Problems

Continued...

➤ **Lack of Local Control**

- No (or limited) ability to raise or lower shares
- System susceptible to state-controlled revenue shifts
- Inability to shift revenues among priorities

The Problems

Continued...

➤ **Skewed Development Incentives**

- Fiscal incentives encourage retail over other uses
- Fiscal incentives encourage proliferation and misuse of redevelopment (somewhat less relevant today)

Tradeoffs To Consider

Continued...

- **Taxpayer Stability vs. Local Control**
- **Local vs. State Control**
- **Special Purpose Agencies vs. General Purpose Governments**
- **Reform vs. Fiscal Stability**

Alternatives

➤ **Set Uniform Rates**

- Assign a share for each service provided
- Each local government's share would reflect the services provided
- Local governments providing the same services would receive the same shares

Alternatives

Continued...

➤ **Divide Property Taxes Equally Between Municipal Services and Schools**

- Half of property tax revenues would be provided to the city (or county in unincorporated areas) to provide municipal services directly or through contracts
- Other half of property taxes would go to schools (on a countywide basis)

Alternatives

Continued...

➤ **Rebalance Tax Burden**

- Reduce sales taxes
- Increase city and county property tax revenues
- Increase local control over the property tax rate
- Assess nonresidential property at market value

Alternatives

Continued...

➤ **Making Government Make Sense**

- Comprehensive set of reforms:
 - Maximize separation between state and local duties
 - Transfer responsibility to level of government closest to the people
 - Focus state responsibility where uniformity is needed
 - Align program responsibility with funding responsibility
 - Use fiscal incentives to promote intergovernmental coordination
 - Match state goals for economic development with fiscal incentives facing local communities
- Vast majority of property taxes would be allocated to a single agency—the city or the county (in unincorporated areas)

Alternatives

Continued...

➤ **Give Local Control Over the Educational Revenue Augmentation Fund (ERAF)**

- Option would reduce overall rate to 0.9 percent, cutting ERAF in roughly half
- Cities (or cities and counties) could increase their rates up to the 1 percent maximum

Option less relevant today

(Vehicle License Fee swap, passed in 2004, redirected most of ERAF to cities and counties)

Comparing the Alternatives

Figure 4

Addressing Tax Allocation Problems: Comparison of Alternatives

Problem	I. Set Uniform Shares	II. Local Control Over ERAF	III. Property Taxes For Municipal Services And Schools	IV. Re-Balance Tax Burden	V. Making Government Make Sense
Limited accountability to taxpayers	✓	✓	✓✓✓	✓✓✓	✓✓✓
Lack of local control	—	✓✓	✓	✓✓✓	✓✓✓
Skewed development incentives	—	✓	✓✓✓	✓✓✓	✓✓✓
Barrier to new businesses	—	—	—	✓✓✓	—
Reliance on nondeductible taxes	—	—	—	✓✓	—
Inefficient intergovernmental program coordination	—	—	—	—	✓✓✓

Legend:
 — Does not address problem. ✓ Some improvement. ✓✓ Moderate improvement. ✓✓✓ Significant improvement.

Issues to Consider

- **No Perfect Solution**
- **Need for Focused Attention**
- **Set Aside Funds**

Questions?

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