

ASSISTANCE TO LOCAL GOVERNMENT

The Governor's Budget continues the state's commitment of working constructively with local governments to efficiently serve the people of California. Expenditures for Local Government assistance programs are included in the General Government Agency bullets.

PROPOSED BUDGET-BALANCING REDUCTIONS

- The Homeowners' Property Tax Relief Program (\$442.5 million) was exempted from the reductions because it is constitutionally required. The Program replaces property tax revenues local governments lose due to the Homeowners' Property Tax Exemption.
- The Governor's Budget proposes \$35 million in reductions to various non-Health and Human Services local government programs. For a complete listing, please reference the General Government Chapter. The major reductions in 2008-09 are described below:
 - \$23.8 million from the Citizens Option for Public Safety/Juvenile Justice Crime Prevention Act Program. This proposal, which does not require legislation, would reduce local law enforcement discretionary grant amounts by 10 percent. The funds are distributed on a population basis to police and sheriffs departments, and county district attorney offices.

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- \$3.9 million from the Subventions for Open Space (Williamson Act) Program. Legislation is proposed to reduce by 10 percent the reimbursement counties receive for property tax revenues lost as a result of assessing lands covered by Williamson Act contracts at a lower value.
- \$1.9 million from the Small/Rural Sheriffs Program. Legislation is proposed to reduce grants in 37 counties for discretionary law enforcement purposes from \$500,000 to \$450,000.

STATE-LOCAL FISCAL RELATIONSHIP

With the passage of Proposition 1A in 2004, local governments have a more stable funding relationship with the state, which can no longer shift costs, fail to reimburse mandates on a timely basis, or reallocate local revenues to benefit state priorities.

Local governments also have benefited from the Vehicle License Fee (VLF) “swap,” which allows them to retain additional property tax revenues to backfill the revenues they lost when the VLF was reduced from two percent to 0.65 percent. The backfill amount annually grows with the increase in secured roll property tax revenues, instead of the annual increase in VLF revenues. Because secured roll property tax revenues have increased significantly more than VLF revenues since 2004-05, we estimate the VLF swap has cumulatively allowed counties and cities to retain an additional \$2.7 billion in property tax revenues that otherwise would have been directed to K-14 schools.

LOCAL GOVERNMENT REVENUES

Local revenues are expected to show moderating, albeit positive growth in 2008-09. Due to the termination of ERAF III payments in 2006-07, the share of the property tax going to local governments has increased to approximately 66 percent. Historically, property taxes have been a very stable source of revenue for local governments, and local government property tax revenues grew quite significantly beginning in 2000-01. Given the current conditions in the real estate

LOCAL GOVERNMENT REVENUE SOURCES

The major sources of local government revenues are the property tax, the sales and use tax, the Vehicle License Fee, federal and state grants and subventions, and local taxes and fees.

market, however, property tax revenue growth is expected to moderate for the next several years, but positive year-to-year growth is anticipated for most areas of the state.

Statewide property tax revenues are expected to increase 9.3 percent in 2007-08, and by 7.1 percent in 2008-09. The projected growth translates to an additional \$3.4 billion for local governments in 2008-09, thereby increasing their total property tax revenues to approximately \$32 billion.

The moderating growth rate in 2008-09 is attributable to the decline in new and existing home sales in 2007, which could be as high as 40 percent when compared to 2006 sales volume. The decline in volume is tempered by retained growth in values that will impact the roll as properties are sold, and by moderate growth in new commercial construction. Because the roll for a fiscal year is determined by the values established on the preceding January 1 lien date (e.g. 2009-10 values are based on the January 1, 2009 lien date, which is based on 2008 market activity), the effects of reduced sales volumes and values on property tax receipts are lagged. Thus in 2009-10 we expect growth to be lower than 2008-09 as the market hits a low point in 2008.

The sales tax, local governments' other major source of discretionary revenue, also is expected to show modest growth in 2008-09. The sales tax should provide over \$ 4.5 billion for discretionary purposes, in addition to \$ 3 billion for public safety, \$ 3 billion for health programs, and \$1.5 billion for county transportation purposes. Vehicle license fees that provide partial funding for local health programs were up 2 percent in 2006-07 and are expected to show gains of 2.7 percent and 2.6 percent over the next two years.

**PROPERTY TAX
REVENUE GROWTH**

Property tax revenue growth is estimated at 9.3 percent in 2007-08, and 7.1 percent in 2008-09. This means an additional \$3.4 billion for local governments in 2008-09.