

# The Evolution of the State - Local \$ Relationship in California

Municipal Finance Institute  
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For more info visit the  
**California Local Government Finance Almanac**  
at [californiacityfinance.com](http://californiacityfinance.com)



## Early Foundations State-Local Finance in California

- 1879 - California State Constitution
  - Cities get powers of self government
  - State may not impose a tax for a local purpose
- 1896 - Municipal Affairs Doctrine
  - General laws apply except in municipal affairs
- 1900 - 1940 - Reform Era:
  - Professional city management
  - General Plans, Subdivision Map Act, etc.
- 1910 - Separation of Sources Act



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## Early Foundations State-Local Finance in California

- 1935 - Vehicle License Fee goes uniform statewide
  - New state VLF trumps taxation of autos as property
  - Revenue subvented to cities & counties
- 1955 - Uniform sales tax collection - Bradley Burns Sales & Use Tax
- 1970s - decline of federal aid to cities/counties



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## Proposition 13 - nuts & bolts

1. **One percent rate cap.** Property tax rates capped at 1% of full market value
2. **Assessment rollback** of property values for tax purposes to 1975-76 levels
3. **Assessment growth capped** at 2% of property value (or CPI)
  - reassessment at full market value only upon change of ownership
4. **Authority for allocating property tax revenues transferred to the state**
5. **Special taxes** (local) require 2/3 voter approval
6. **State tax increases require 2/3 vote of Legislature**

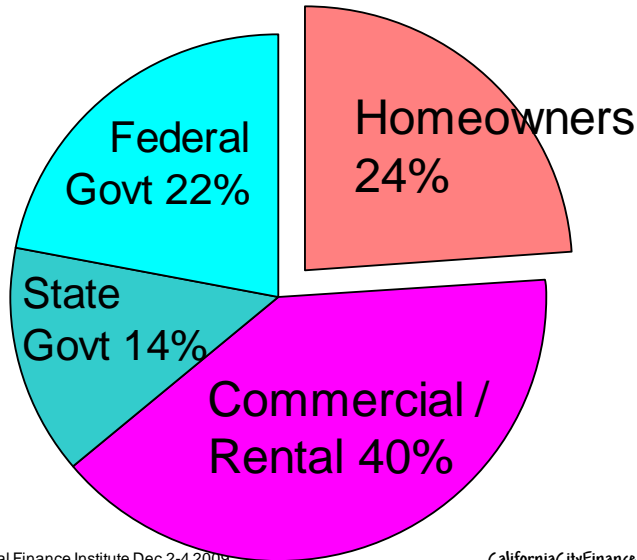


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## Proposition 13 \$ Winners



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## In the Wake of Proposition 13 ...

- 1980's State fiscal retrenchment
  - VLF taken for state general fund 1981-84
  - State aid repealed:
    - Highway carriers Uniform Business Tax
    - Liquor License Fees
    - Financial Aid to Local Agencies (bank in-lieu)
    - Business Inventory Exemption Reimbursements
- Local government fiscal innovation:
  - Fees, new taxes, JPAs, consolidations, redevelopment
- Progeny of Proposition 13:
  - 1986 Proposition 62      • 1996 Proposition 218
- ERAF property tax shifts from cities, counties, special districts beginning 1991-94



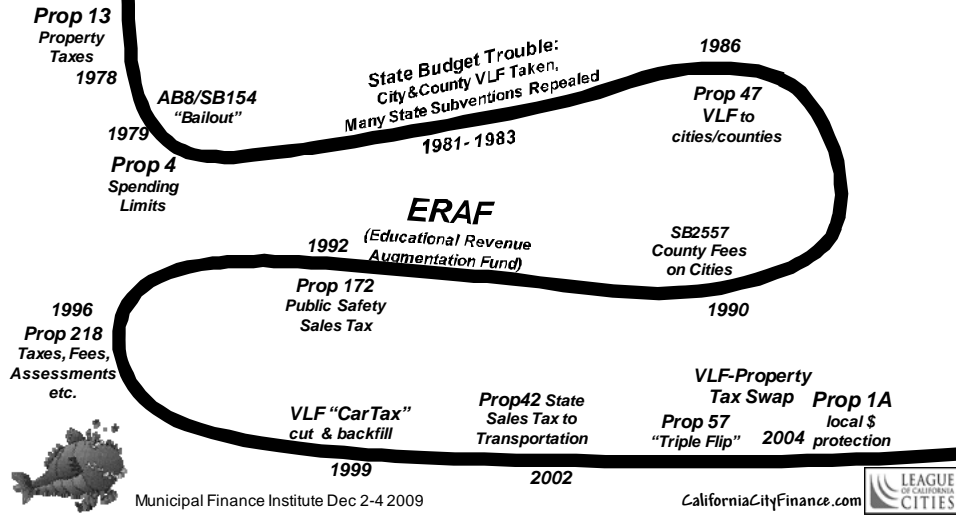
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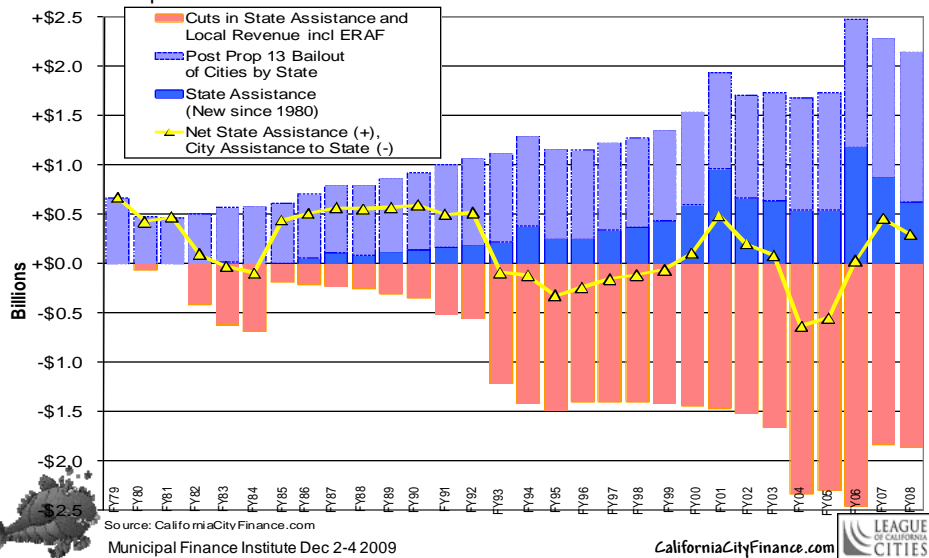
# The State-Local Relationship Since Proposition 13: A Rough Road

See: LAO, "Major Milestones: 35 Years of the State-Local Fiscal Relationship"

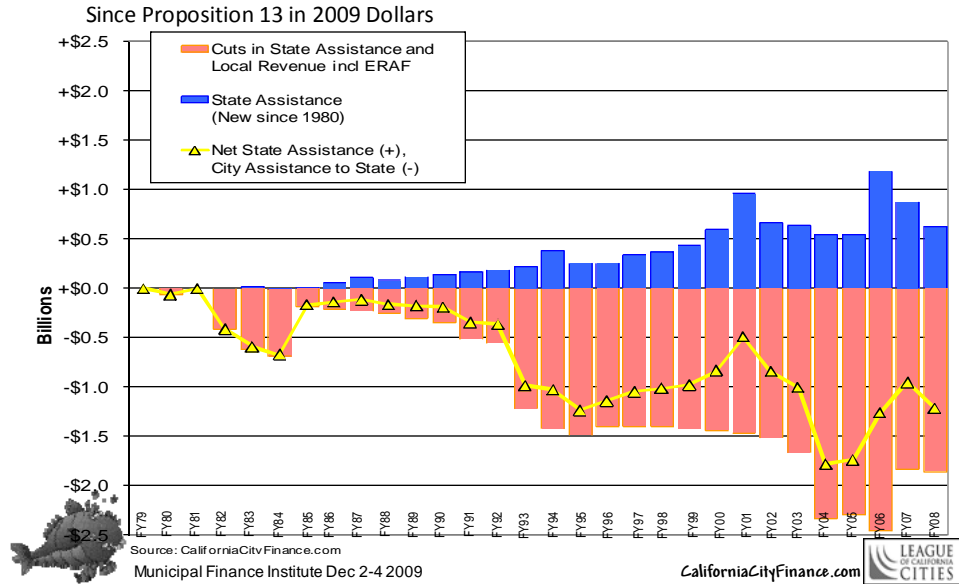


# State – City Gives & Takes

Since Proposition 13 in 2009 Dollars



# State – City Gives & Takes



## The Problems With California State and Local Government Finance are:

1. Instability and risk in discretionary funding.
2. Unsustainable employee compensation levels – especially retirement benefits.
3. Fragmentation of local finance and governance among overlapping governments.
4. Disconnect between service costs and revenues in urban development imperils city services and deters balanced planning.



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# Oh What a Web We Weave ...

ERAF, Property Tax In Lieu of VLF and the Triple Flip

