

# Agenda Report

**TO:** CITY COUNCIL **DATE:** June 22, 1998

**Attn:** Legislative Committee

**FROM:** Acting City Manager

**SUBJECT:** SUPPORT OF ASSEMBLY BILL 511: BANK AND CORPORATION TAXES

## RECOMMENDATION

It is recommended that the City Council adopt the attached resolution and authorize the Mayor to send a letter to the appropriate officials *supporting* Assembly Bill 511: Bank and Corporation Taxes.

## BACKGROUND

Banks and financial corporations doing business in California are subject to a tax known as the bank "in-lieu" tax in addition to the regular bank and corporation tax. The California Constitution requires, unless otherwise provided by the Legislature, that this tax on state and national banks be levied based on their net income and in lieu of personal property taxes and local business taxes, from which banks and financial corporations have been exempt since the enactment of the bank and corporation tax in the 1930s. The in-lieu tax rate is set annually and designed to be equivalent to the average amount general corporations pay annually in personal property taxes and local business taxes. The current rate is 2%.

Revenues from the in-lieu tax were originally intended to be subvned to local agencies to backfill revenue lost as a result of the state preempting the ability of localities to collect property and business taxes. However, these subventions were repealed in 1981 after being in effect for only two years. In 1982, the Legislature transferred a portion of the in-lieu tax proceeds to local governments, but this transfer only applied to income years ending in 1980 and 1981. Since then, these funds have been used to cover State expenses. Given the rebound of California's economy, bank in-lieu revenues are no longer needed in the State's budget. Therefore, these revenues can now be subvned to local governments once again.

Assembly bill 511 was introduced by Assembly Member Caldera on February 24, 1997 and has since become sponsored by Assembly Member Migden. The bill was passed in Committee on May 7, 1998 and has since been re-referred to the Committee on Senate Appropriations with a hearing date pending. After various amendments in the State Assembly and Senate, the bill would require that revenues from the bank in-lieu tax be deposited into the Financial Aid to Local Agencies Fund established for disbursement to all cities, cities and counties, and counties based on bank and financial corporation payroll proportions as determined by the Franchise Tax Board. The bill would also require banks and financial corporations in each city, city and county, and county to report payroll information semi-annually to the Franchise Tax Board. Finally, the bill

would require the Franchise Tax Board to notify the State Controller of the amount equal to the collected taxes attributable to the in-lieu tax. The Controller must then transfer that amount into the Fund for disbursement to localities.

**FISCAL IMPACT**

Assembly bill 511 identifies a two-prong disbursement formula for State bank in-lieu revenues. From the Franchise Tax Board, State revenue amounts identified for disbursement are as follows:

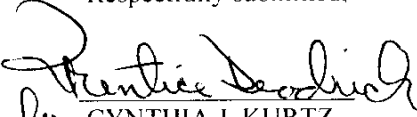
- Fiscal Year 1999 - \$80 million
- Fiscal Year 2000 – \$172 million
- Fiscal Year 2001 - \$178 million

Half of State bank in-lieu revenue funds available will be divided among each city, city and county, and unincorporated area of each county based on the proportion that the payroll of banks and financial corporations located within each city, city and county, and unincorporated area of each county bears in relation to the total payroll for all banks and financial corporations in the state of California. Currently, this information is not captured. If the bill is passed, every bank or financial corporation in each city, city and county, and unincorporated area of each county will report semi-annually to the Franchise Tax Board any information necessary to make this determination.

The other half of the State bank in-lieu revenue funds shall be divided among each city, city and county and unincorporated area of each county in the same proportion that the population of each city, city and county, and unincorporated area of each county bears to the total population of all residents in all cities, cities and counties, and unincorporated areas of counties in the state of California. The aforementioned proportion will be determined by the official population estimate publication prepared by the State Department of Finance.

According to the formula outlined in Assembly bill 511 that takes the City of Pasadena’s .004 proportion of the overall State population and multiplies it by the total revenue available for disbursement, Pasadena could expect to receive \$160,000 in Fiscal Year 1999, \$334,000 in Fiscal Year 2000 and \$356,000 in Fiscal Year 2001 based on its population proportions only. Given that bank payroll tax information is not currently available, it is estimated that those cities where there is a large concentration of financial institutions will see more revenue come in from this part of the formula.


Respectfully submitted,

  
for CYNTHIA J. KURTZ  
Acting City Manager

Prepared by:

  
CHANTEL ZEPEDA  
Management Analyst

Approved by:

  
JAY M. GOLDSTONE  
Director of Finance