

Agenda Report

TO: CITY COUNCIL **DATE:** June 22, 1998
Attn: Legislative Committee
FROM: Acting City Manager
SUBJECT: SUPPORT OF ASSEMBLY CONSTITUTIONAL AMENDMENT 42: LOCAL GOVERNMENT FINANCE

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 Constitutional Amendment 42: Local Government Finance.

BACKGROUND

Assembly Constitutional Amendment 42 was introduced by Assembly Member Aguiar on April 15, 1998 as an attempt prevent another shift of property taxes as occurred in fiscal years 1993 and 1994 in order to fund state programs and to prevent a future shift of sales tax or local general or special taxes.

Currently, the California Constitution does the following that would be affected by Assembly Constitutional Amendment 42 (ACA 42):

1. Requires that revenues derived from taxes imposed pursuant to the Vehicle License Fee Law or its successor be allocated to counties and cities in the manner provided by statute.
ACA 42 would modify this allocation requirement to instead require that these revenues be allocated to counties and cities in the manner prescribed by a specified statute as the statute read on January 1998. This measure would also specify that no amendment or repeal of the Vehicle License Fee Law, or its successor, may take effect for any fiscal year unless the Legislature has appropriated, prior to the beginning of that fiscal year, an amount of money for allocation to counties and cities during that fiscal year that fully offsets any reduction in the total amount of revenue that would otherwise have been allocated under the Vehicle License Fee Law.
2. Prohibits the Legislature from imposing a tax for a local purpose but authorizes the Legislature allows local governments to impose taxes.
ACA 42 would prohibit the Legislature from reducing the amount, or redirecting the allocation, of revenue that is derived from a local general or special tax.
3. Authorizes the Legislature to allow local agencies to enter into contracts to apportion between them the revenues derived from any local sales or use tax that is collected by the state on their behalf. Existing statutory law set forth in the Sales and Use Tax Law and the Bradley-Burns Uniform Sales and Use Tax Law, permits cities and counties to impose local sales and use taxes.
ACA 42 would delete authorization by the Legislature as a condition to a sales or use tax revenue apportionment contract among local agencies. ACA would also make the local taxing authority given to cities and counties under specified statutes a constitutional entitlement.

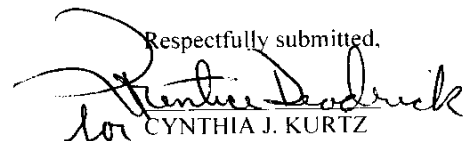
4. Requires that ad valorem property tax revenues be collected by the counties and allocated among the local jurisdictions within each county as provided by law.
ACA 42 would require, subject to specified exceptions, beginning in the 1999 fiscal year, that ad valorem property tax revenues be apportioned according to the law in effect on the operative date of this measure. The measure would also prohibit the Legislature from modifying the proportionate share of ad valorem property tax revenue.
5. Requires the state to reimburse local governments for the costs of a new program or increased level of service mandated by the state.
ACA 42 would state the intent of the aforementioned constitutional requirement.
6. Does not establish any requirements with respect to the accountability of local governments to their constituents with respect to fiscal matters.
ACA 42 would require each local government to design and conduct, in connection with each budget period, a process that provides the public with the opportunity to provide input into the development of public service goals and expenditure priorities for that budget period. The measure would also require each local government, after the close of each budget period, to issue a written report on its compliance with its public service goals and spending priorities for that period. Finally, this measure would require each local government to undergo a financial audit upon the conclusion of each budget period and to present the results of that audit at a public meeting.

Presently, ACA 42 is awaiting hearing dates in the Senate Revenue and Taxation Committee and the Senate Local Government Committee. If approved by two-thirds of the Senate and Assembly by July 1998, this Constitutional Amendment will appear on the November 1998 ballot.

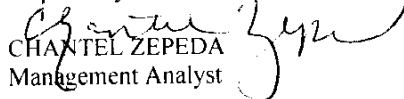
FISCAL IMPACT

In order to protect a total of **\$68.8 million, 61% of the General Fund** in major local government revenue sources for the City of Pasadena from future state encroachment, Assembly Constitutional Amendment 42 must be supported. The following major revenue sources would be ensured continued existence:

- **Sales Tax revenue - \$21.5 million in Fiscal Year 1998**
- **Utility User's Tax revenue - \$18.5 million in Fiscal Year 1998**
- **Property Tax revenue - \$16 million in Fiscal Year 1998**
- **Vehicle License Fee revenue - \$5.4 million in Fiscal Year 1998**
- **Transient Occupancy Tax revenue - \$4.2 million in Fiscal Year 1998**
- **Business License Tax revenue - \$3.2 million in Fiscal Year 1998**

Respectfully submitted,

 for CYNTHIA J. KURTZ
 Acting City Manager

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