

Date of Hearing: April 5, 2017

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 873 (Lackey) – As Introduced February 16, 2017

SUBJECT: Property taxes: TEA formula allocation: City of Palmdale.

SUMMARY: Prohibits a reduction in the City of Palmdale's property tax equity allocation as a result of the dissolution of a maintenance district. Specifically, **this bill:**

- 1) Prohibits, beginning with the 2018-19 fiscal year, the Los Angeles Auditor from reducing the amount of property tax revenue distributed to the City of Palmdale under the statutory tax equity allocation (TEA) formula if the City receives property tax revenues previously allocated to a maintenance or improvement district.
- 2) Requires the City of Palmdale to reimburse the Auditor for the actual and reasonable costs incurred by the Auditor to administer this bill.
- 3) Finds and declares that a special statute is necessary and that a general statute cannot be made applicable because of the unique circumstances facing the City of Palmdale in meeting established timelines in the dissolution and merger of its streetlight district and to simplify city accounting and to give the city maximum general fund budget flexibility.
- 4) Provides that no reimbursement is required because the bill provides for reimbursement to a local agency in the form of additional revenues that are sufficient in amount to fund the new duties that this bill imposes.

FISCAL EFFECT: This bill is keyed fiscal and contains a state mandated local program.

COMMENTS:

- 1) **Property Tax.** Proposition 13 (1978) established a single, countywide property tax rate of 1%. Proposition 13 cut statewide property tax revenue by 57% and removed local autonomy, shifting the power to allocate remaining property tax revenues from local governments to the Legislature. The Legislature established a methodology for allocating property tax revenues to counties, cities, special districts, and school districts based on each local agency's historical share of property tax revenues. In 1979, AB 8 (Greene) established the formula for the allocation of property taxes, using the historical share as a base and apportioning revenues from the change in assessed valuation among each local agency serving a particular property. Each local agency's share of property tax reflects the tax rate of each jurisdiction relative to the rates of other taxing agencies in the jurisdiction.

Approximately 30 cities that never levied a property tax before Proposition 13 are called no property-tax cities, and about 60 cities that levied only low property tax rates are known as low property-tax cities. The no/low cities were impacted differently by the restructuring of property tax allocation because AB 8 formulas are based on the historical share of property tax received by a city for the three years preceding the adoption of Proposition 13.

Therefore, the Legislature established a "tax equity allocation" (TEA) formula to provide no/low cities a minimum amount of property tax revenue to remedy the absence of property

tax revenue or low property tax revenue being used to determine future property tax allocation. Existing law requires county auditors to provide a TEA to increase the property tax shares of qualifying cities by shifting a portion of county property tax revenues to no/low cities. Existing law defines a qualifying city as a city that incorporated prior to June 5, 1987, and received less than 7% of property tax revenues collected within its jurisdiction. In most counties, these no/low cities now receive 7% of the property tax revenues generated within their city limits as a result of TEA.

Existing law prohibits property tax allocations for no/low cities from being reduced when they receive additional property tax revenues from other specified sources. A county auditor is prohibited from reducing TEA payments if a city receives additional property tax revenues as a result of a consolidation or merger of a special district into a city.

- 2) **Bill Summary.** The City of Palmdale is a no/low property city that is concerned that the dissolution of the Streetlight Maintenance Districts will impact their TEA payments. This bill prohibits the Los Angeles County Auditor from reducing the TEA payment to the City of Palmdale as a result of the City receiving property taxes previously allocated to a maintenance or improvement district. This bill also requires the City to reimburse the county auditor's costs related to administering the reallocation of property taxes as a result of this bill. This bill is sponsored by the City of Palmdale.
- 3) **City of Palmdale.** There are five Streetlight Maintenance Assessment Districts in the City of Palmdale that cover over 40,770 parcels. The streetlight maintenance assessment districts were formed under the provision of the Street Lighting Act of 1919 to serve as a financing mechanism to provide lighting maintenance services. Existing law authorizes local officials to levy benefit assessments on property owners to pay for those public improvements and services that specifically benefit their property. A benefit assessment is an involuntary charge that appears on a property owner's annual property tax bill. The amount of the assessment is directly related to the amount of the benefit their property receives. According to the City of Palmdale, only one of the five streetlight maintenance assessment districts receives ad valorem property tax. The total assessed amount for District 5 in the 2016-17 fiscal year was \$283,446. The other four districts are funded by benefit assessments.
- 4) **Author's Statement.** According to the author, "This bill allows the City of Palmdale the necessary flexibility and financing tool to assume operational and fiscal responsibilities of its streetlight maintenance district and become the district's successor entity. The bill simply reallocates property taxes already approved and collected, and it does not increase taxes. AB 873 will allow the City to maintain, operate and improve all streetlights in the future and make payments to all debts associated with the acquisition and improvements of streetlights. Such improvements include retrofitting to LED lights which would reduce energy usage by 67%."
- 5) **Prior Legislation.** AB 468 (Smyth), Chapter 319, Statutes of 2011, prohibited a reduction in the TEA payments to the City of Simi Valley as a result of the City serving as the successor agency of a dissolved maintenance district. This bill is substantially similar to AB 468.
- 6) **Arguments in Support.** According to the City of Palmdale, "AB 873 will allow streetlight maintenance district funds to be merged with the general purpose fund to give the City more

funding flexibility to support the acquisition of streetlights from SCE [Southern California Edison], and conversion of existing streetlights to energy efficient LED lights."

7) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

City of Palmdale [SPONSOR]
Los Angeles County Sheriff's Department

Opposition

None on file

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