

Date of Hearing: April 30, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 1112 (Wallis) – As Introduced February 20, 2025

SUBJECT: Tax Equity Allocation.

SUMMARY: Deletes a requirement that the Riverside County Auditor must reduce the actual amount of property taxes distributed to the City of Rancho Mirage by a specified amount.

Specifically, **this bill:**

- 1) Removes a requirement that the Riverside County Auditor shall reduce the actual amount of property taxes distributed to the City of Rancho Mirage by any amount of property tax revenues that has been exchanged between the City of Rancho Mirage and a community services district, the formation of which was initiated on or after March 6, 1997.
- 2) Provides that if the Commission on State Mandates determines that this bill contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made.

EXISTING LAW:

- 1) Defines “Qualifying city” to mean any city, unless otherwise excepted, that incorporated prior to June 5, 1987, and had an amount of property tax revenue allocated to it that is less than 7% of the amount of property tax revenue computed as specified [Revenue and Taxation Code (RTC) § 98]
- 2) Specifies that, in any fiscal year in which a qualifying city is to receive a property tax distribution, as specified, the auditor shall reduce the actual amount distributed to the qualifying city if certain circumstances apply (RTC § 98).
- 3) Requires that the Riverside County Auditor shall reduce the actual amount distributed to the City of Rancho Mirage by any amount of property tax revenues that has been exchanged between the City of Rancho Mirage and a community services district, the formation of which was initiated on or after March 6, 1997 (RTC § 98).

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

COMMENTS:

- 1) **Property Tax.** Article XIII of the California Constitution provides that all property is taxable at the same percentage of fair market value unless explicitly exempted by the Constitution or federal law. The Constitution limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, plus any to pay locally-authorized bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (for non-school entities).

Property taxes in California are collected by counties and allocated according to state law to cities, the county, special districts, former redevelopment agencies and school districts within

the county from which they are collected. Proposition 13 set a single, countywide rate of 1%, replacing the numerous individual tax rates set by the various taxing agencies. In what was intended as a permanent resolution to the issue of how to distribute property tax revenues, the Legislature passed AB 8 (L. Greene), Chapter 282, Statutes of 1979, which established the system of apportioning property tax revenue. Pursuant to this law, each county allocated revenues to local agencies based on their average property tax revenue in the three years preceding Fiscal Year 1978-79 (when Proposition 13 was adopted). Each year thereafter, counties have allocated property tax revenues according to 1) the property tax revenues allocated to each agency in the previous year; plus 2) a share of the growth in tax revenues resulting from increases in assessed value in the jurisdiction.

Approximately 30 cities which never levied property tax rates before Proposition 13 are called no-property tax cities. Other cities (approximately 60), levied low property tax rates and are known as low property-tax cities. Proposition 13 and its implementing legislation effectively froze property taxes at their existing levels. The Legislature requires counties to shift some of their own property tax revenues to these cities [AB 1197 (W. Brown), Chapter 944, Statutes of 1988]. AB 1197 specified that, in most counties, "no/low cities" get 7% of the property tax revenues generated within their city limits. This payment is called a "tax equity allocation" (TEA). AB 922 (Battin), Chapter 835, Statutes of 1997, adjusted the TEA formula in order to exempt Riverside County from having to make a TEA payment to the City of Rancho Mirage if the city forms a community services district to provide fire and library services, among other provisions.

- 2) **Rancho Mirage.** According to the City of Rancho Mirage's two-year budget document for Fiscal Years 2023-2024 and 2024-2025, the City withdrew from the Riverside City and County Library System and the Riverside County Structural Fire Tax System in 1991 and 1993 respectively. As a result of the withdrawal from both of the systems, additional property tax was received by both the City and the former Redevelopment Agency (RDA). The Rancho Mirage Community Services District (CSD) was created as a result of a joint effort by the City and Riverside County to transfer RDA tax increment to the City for the provision of both fire and library services. The CSD is a dependent district of the city and currently serves as a funding conduit for library and fire service.

The Senate Floor analysis for AB 922 detailed the circumstances that led to the provision that this bill would remove, stating, "Rancho Mirage had participated in the Riverside County library system, which was partially funded by allocations of the city's property tax and pass-throughs from its redevelopment agency. The city withdrew from the library system in 1991, and in creating a community services district to provide library services, using the same revenues which were allocated to the county library system. Under current law, this would (1) result in Rancho Mirage receiving more of the county's property tax funds, and (2) be in excess of the amount the city's redevelopment agency could pass-through to the district.

"This bill would adjust the TEA formula in such a way to exempt the County of Riverside from having to make a TEA payment to the City of Rancho Mirage if the city forms a community services district to provide fire and library services and if the transfer of the associated property taxes to the community services district causes the City of Rancho Mirage to fall below the 'no and low' property tax level. The interaction between 'no and low' property tax laws and the separation of specified services from the City of Rancho Mirage to a community services district could drop Rancho Mirage into 'no and low'

property tax status and require Riverside County to make a TEA payment to the city. This bill would protect the County of Riverside from losing property tax revenue and preclude the City of Rancho Mirage from receiving a financial windfall when the community services district relieves the city of its fire and library obligations.”

The City of Rancho Mirage estimates that, with the removal of the provision allowing the Riverside County Auditor to reduce the amount of property tax revenue transferred to the City, the City will regain approximately \$2 million dollars annually from the County.

- 3) **Bill Summary and Author’s Statement.** This bill removes a provision that requires the Riverside County Auditor to reduce Rancho Mirage’s TEA payment by the amount of any property tax revenues that have been exchanged between the City and a CSD formed at the request of the City. The City of Rancho Mirage is the sponsor of this bill.

According to the author, “The City of Rancho Mirage believes Section 98(f)(4) was added under the mistaken belief it would benefit the City; however, it has instead lowered our property tax allocation formula below the 7% minimum received by other qualifying cities. Removing this subsection will restore equity, strengthen the City’s ability to fund essential services, and correct a decades-old inequity.”

- 4) **Policy Consideration.** The reallocation of property tax revenues is a zero-sum game; every reallocation creates winners and losers. While this bill may provide additional funding to the City of Rancho Mirage, Riverside County could have less revenue to dedicate to the services it provides. Given that property taxes are a finite resource, the Committee may wish to consider the impact this bill may have on both the City of Rancho Mirage and Riverside County.
- 5) **Author Amendment.** The author has asked the Committee to accept amendments that would change the vote key from a majority vote to a 2/3rds vote. This bill would change the pro rata shares in which ad valorem property tax revenues are allocated among local agencies in a county, within the meaning of paragraph (3) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution, and thus would require for passage the approval of two-thirds of the membership of each house of the Legislature.
- 6) **Arguments in Support.** According to the City of Rancho Mirage, “In the mid-1990s, Rancho Mirage withdrew from Riverside County’s provision of fire and library services and sought to continue funding these services using property tax revenues and redevelopment agency pass-throughs. To facilitate this, the city worked with the County to form a County Service Area (CSA), which would later be transitioned into a city-governed financing structure – allowing these essential services to continue. However, concerns arose at the County level that this arrangement could increase the City’s calculated share of property tax under TEA and result in that was characterized as a potential ‘windfall’.

“To avoid this perceived risk, the County insisted on a legislative amendment to Revenue and Taxation Code Section 98. The resulting subsection (f)(4) applied only to Rancho Mirage and permanently excluded certain property tax revenues from being counted toward the City’s TEA formula. The City agreed to support this legislation at the time in good faith – believing it was a fair compromise to maintain local control without unduly affecting County

resources. What was not fully understood at the time was that the amendment would create a lasting disadvantage for Rancho Mirage relative to all other qualifying cities.

“Since the dissolution of redevelopment agencies (RDAs) in 2012, the financial arrangement that gave rise to Section 98(f)(4) no longer exist. The original property tax exchanges and pass-through structures that this section was intended to mitigate are obsolete. Yet, Rancho Mirage remains the only city still penalized by the carve-out ties to redevelopment-era finance mechanisms that the state has since dismantled.

“AB 1112 is a modest and appropriate cleanup bill. It aligns Revenue and Taxation Code Section 98 with California’s current post-redevelopment tax policy landscape. It does not ask for preferential treatment or a new benefit – only that Rancho Mirage be treated the same as every other qualifying city under TEA. Restoring the City’s eligibility for the full 7% allocation will strengthen our ability to deliver essential services such as public safety, parks, infrastructure, and community programming.

“The original intent of the TEA law was to provide equity for cities that were historically shortchanged by Proposition 13-era allocations. Rancho Mirage is precisely the kind of city this law was designed to protect. But a decades-old, now-obsolete exception has created an inequity that persist today.”

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

REGISTERED SUPPORT / OPPOSITION:

Support

City of Rancho Mirage [SPONSOR]

Opposition

None on file

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958