

Date of Hearing: June 15, 2016

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Susan Talamantes Eggman, Chair

SB 975 (Committee on Governance and Finance) – As Amended March 29, 2016

SENATE VOTE: 38-0

SUBJECT: Tax increment: property tax override rates.

SUMMARY: Prohibits property tax increment financing districts from diverting property tax revenues that are derived from a voter approved override property tax rate. Specifically, **this bill:**

- 1) Prohibits, notwithstanding any other law, for the purpose of any law authorizing the division of taxes levied upon taxable property (tax increment financing), revenues from voter-approved property tax rates outside the 1% limit on ad valorem property taxes (property tax override rates) from being divided into property tax increment revenues.
- 2) Prohibits, 1), above, from applying to the allocation of property taxes, pursuant to specified statutes which govern the dissolution of redevelopment agencies.

FISCAL EFFECT: None

COMMENTS:

- 1) **Bill Summary.** This bill prohibits property tax increment financing districts from diverting property tax revenues that are derived from a voter-approved override property tax rate.
- 2) **Author's Statement.** According to the author, "Simulating local economic development by building public projects financed with property tax increment revenues can be a sensible policy in many communities. However, this worthwhile policy should not rely upon the diversion of tax revenues that were never intended to be used for economic development purposes. Senate Bill 975 upholds the trust of California voters and taxpayers by ensuring that property tax revenues derived from voter approved override rates will be used for the purposes intended by the voters rather than for unrelated economic development projects."
- 3) **Property Tax Increment Financing Districts.** Public officials use tax increment financing districts to raise the capital they need to invest in public work projects, like public transit facilities, infill development, or clean water. This concept recognizes that expanded public structures can boost the value of nearby property. Higher property values produce higher property tax revenues. Property tax increment financing captures those property tax increment revenues. A tax increment financing district may issue bonds and use bond proceeds to finance project costs and repay bonds using the increased property tax revenues beyond the initial base amount of property tax revenues at the point the district was formed.

When appropriately used, redevelopment provided a financing mechanism for a variety of community development activities, including infill development, infrastructure development, economic development, military base reuse, and brownfield cleanup. Tax increment financing is also used by other tax increment financing districts, such as Infrastructure

Financing Districts (IFDs), Enhanced Infrastructure financing Districts (EIFDs), and Community Revitalization and Investment Authorities (CRIAs).

- 4) **Voter Approved Property Tax Override Rates.** Proposition 13 (1978) generally limited ad valorem property tax rates to 1%. The 1% limit on property tax rates does not apply to ad valorem property taxes or special assessments needed to pay the interest and redemption charges on indebtedness approved by voters before July 1, 1978. For example, in its 1982 decision in *Carman v. Alvord*, the California Supreme Court ruled that property tax rates outside the base 1% ad valorem rate (override rates) that are imposed to fund employee pension systems approved by the voters before July 1, 1978, are valid under Proposition 13. Subsequent amendments to the Constitution created additional exceptions to the 1% maximum rate, allowing local governments to levy override ad valorem property tax rates to pay for voter-approved general obligation bond indebtedness (Proposition 46 of 1986 and Proposition 39 of 2000).

The California Constitution prohibits redevelopment agencies (RDAs) from diverting revenues generated by property tax rates levied to finance bonds approved by voters after 1988 (Proposition 87, 1988). However, some revenues generated by property tax override rates that had been approved by voters before 1988 were divided into property tax increment revenues, allocated to RDAs, and used by RDAs for economic development projects that were unrelated to the purposes for which voters originally approved the tax. Comingling property tax increment revenues generated by the 1% maximum general property tax rate with property tax increment revenues generated by voter-approved override property taxes has complicated the process of winding down RDAs' affairs.

- 5) **Arguments in Support.** Supporters argue that this bill helps protect the intent and will of the voters to ensure that taxes are used for the purposes for which they were approved.
- 6) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

California Economic Summit
 California State Association of Counties
 City of Santa Monica
 Howard Jarvis Taxpayers Association
 League of California Cities
 Santa Clara County Board of Supervisors

Opposition

None on file.

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