LOCAL INCOME TAX MEASURE HITS WALL IN SENATE TAX PANEL

Two Democrats on the Senate Revenue and Taxation Committee on July 9 joined Republicans to put the brakes on legislation intensely pursued by the state firefighters’ union to authorize local income taxes for the first time in California.

As a compromise to avoid actually killing AB 1690 (Leno), the committee’s majority Democrats finally agreed to let an “intent” measure advance, while referring the subject matter to the Senate’s Select Committee on Fiscal Restructuring. As an intent bill, it would have no force in law, but the maneuver keeps this bill viable as a future vehicle for taxes. A new bill would require rule waivers – and Republican support – to gain a policy hearing.

Assembly Member Mark Leno said his proposal would be the first opportunity for localities to levy a progressive tax, as opposed to a sales tax that is considered regressive. “It is optional, a local insurance policy to be used if you need it,” he said. It would come in handy, he suggested, if opponents of the car tax succeed with an effort to repeal it with an initiative.

An amount equal to half the income tax revenue would be taken from local property tax revenue and put in a fund managed by a new local public safety finance agency. Since the income tax revenues would not be earmarked to a special fund, the bill calls for only majority-vote approval of local voters. If the income tax money were to go into the public safety fund, it would be considered a special tax and require two-thirds voter approval. Thus the shift would circumvent the constitutional vote requirements of Proposition 13.

The income tax would be up to 8 percent of annual state income tax liability if levied by a city, 2 percent if levied by a county or 10 percent if levied by a city and county.

If each city and county imposed the maximum allowable rate, up to $3.4 billion would be generated annually. The bill also would require cities and counties to transfer up to $1.7 billion in property tax revenues to public safety finance agencies.

“This is a bit of an end run around Prop. 13,” said Dominic DiMare of the California Chamber of Commerce. He suggested that the Legislature ought to consider requiring a two-thirds vote for general taxes and majority-vote approval for special taxes. He added that if enacted, AB 1690 would be challenged in the courts.

Debra Bowen and Dede Alpert, two veteran Democrats on the committee, said they hated to oppose legislation pushed so hard by the California Professional Firefighters. However, they prevailed on other Democrats on the committee to have the local income tax proposal considered in the framework of structural reform. The Senate’s select committee is expected to consider various proposals in August.

“You did a great job and made it hard for me,” Senator Bowen told the lobbyist for firefighters, Brian Hatch, who at one point pleaded with the committee to “please” approve the Assembly-passed bill. But she said this was the final policy hearing for the measure and the Senate has to serve...
Californians many years into the future. She expressed concern about the volatile nature of the income tax as a dependable revenue source for local government, and also wondered why another layer of bureaucracy would be needed. She also questioned why business property owners shouldn’t pay more taxes. “I have a whole lot of places to look” for fiscal restructuring.

“It’s not a ‘hell, no,’” Senator Bowen said, seeking to soften the blow on the firefighters’ union. She indicated that she was not shutting the door on their idea within the framework of an overall structural fiscal reform package that could be up for a vote before the Legislature quits for the year in September.

Ms. Bowen also said she was concerned that poor communities would be left out, because the income base isn’t there to be taxed, leaving cities with the type of have-and-have-not fiscal situations that resulted in the Serrano v. Priest court ruling against unequal school funding more than three decades ago.

Senator Alpert said she likes local officials to make local decisions but has been struggling with the Leno bill. She encouraged the motion to move it into a spot where it could be useful later, while the select committee includes the local income tax as an option in its deliberations.