

Chairman Morrison asked Board members to introduce themselves and their city managers/guests. City Managers and other guests in attendance were: La Mesa City Manager Sandra Kerl, Santee City Manager Keith Till, Encinitas City Manager Kerry Miller, Solana Beach Director of Finance Gavin Cohen, Linda Benham (daughter of Coronado Councilmember Phil Monroe) and Coronado Councilmember Frank Tierney, Carlsbad City Manager Ray Patchett, Escondido Interim City Manager Clay Phillips, El Cajon City Manager Bill Garrett, Director of Governmental Relations for the City of San Diego Andrew Poat, Chula Vista City Manager Dave Rowlands and Chief of Policy for Mayor Steve Padilla, Tom Oriola, and MTDB General Manager Tom Larwin.

PUBLIC COMMENT

Clive Richard, a San Diego resident, stated that the idea of equality is checking the strong and protecting the weak. He would like to see that balance in this region.

STATE-LOCAL GOVERNMENT FISCAL REFORM

Dave Rowlands (Chula Vista City Manager and Chair of the City/County Managers Association [CCMA]) opened the meeting with remarks on the discussions on state-local government fiscal reform during CCMA meetings over the past three months. City Managers were asked two questions: what do you like about the fiscal reform proposal, and how can the proposal be improved? The key replies to what the City Managers would like included a constitutional amendment to protect local cities from losing resources, holding all agencies harmless from revenue loss in the first year and having the opportunity to transfer revenues sources such as gas tax and vehicle license fees (VLFs) in exchange for property tax and sales tax. This would give cities more control over local revenue sources. The areas of improvement included more emphasis on housing; an outreach program to explain to schools, counties, and other cities why this makes sense; and removal of the "no new tax" principle. They also requested a model to mitigate the retail versus property tax revenues. Some cities believe that the gas tax should be mandated and kept for transportation. Cities now receive 11 times more money from retail than from housing. Balancing these revenues would have the following four benefits: it would help to reduce the need to chase retail uses, it would promote the need for regional cooperation for regional growth and redevelopment programs, it would shift the VLF to the state and provide more control over local revenues, and it would provide constitutional amendments to protect future revenue sources. There are three options to consider: (1) do nothing, (2) refer this matter back to the City/County Managers Association (CCMA) with comments and direction to continue the dialogue, and (3) seize the opportunity to take action to engage dialogue in Sacramento on fiscal reform.

Catherine Hill (League of California Cities) provided a summary of the League's perspective on this issue. Ms. Hill mentioned that there is a proposal in Sacramento to shift \$1.16 billion from local governments as part of the budget solution. This could be a two to three year shift or a permanent shift. The determination of where this money will be coming from would be left up to the local jurisdictions.

In the next week the League and the California State Association of Counties (CSAC) have determined that people need to be informed in two areas, that the money being requested by the cities to backfill the state budget should not be a permanent situation, and the amount of money being requested by the state is unacceptable. In return for the cities providing funding to the state, there would be a constitutional protection against this for the future. The League will be working toward getting the amounts reduced to something that is workable with local government. It is not willing to further discuss constitutional protection at this price. Constitutional protection and fiscal reform is coming in the way of Assembly Bill (AB) 1221 (Steinberg/Campbell). The League has talked with the authors on two important issues: constitutional protection and timing for a two-year bill.

Staff presented a proposal on Achieving State-Local Fiscal Reform in California that explained the issues and problems, SANDAG's proposal and a simulation for 2003-2030, and the next steps to take on this matter. There are two major issues: protect the stability of revenues through constitutional protection, and the fiscalization of land use. Local government use to receive a number of revenues and they have been taken away by the state. Local revenues still at risk are property tax, local sales tax (one cent), vehicle license fees, gas tax, and homeowners' (HO) exemption.

The fiscalization of land use has led to a distorted land use policy to pursue sales tax from retail development and to neglect other land uses, especially new housing. SANDAG's proposal would protect local revenues, not implement new taxes to achieve reform, have a "hold harmless" revenue exchange, and strengthen smart growth incentives. The current one cent sales tax would not be impacted. Local governments would give up VLFs, gas tax, and the rebate for HO exemption in exchange, dollar for dollar, for a larger share of the property and sales taxes. There would be an equal amount of money exchanged. Then, jurisdictions would receive revenues derived from growth from this new countywide tax base. The County would receive a share of the revenue based on the proportion it received in the base year (approximately 62 percent). The remainder of the growth in revenue (38 percent) would be distributed to cities on a per capita basis. This would reduce the fiscalization of land use so that cities would receive equal amounts of revenue from residential or retail. Some problems today in terms of housing supply result from the fiscalization of land use. The exchange of revenues connects local land use decisions to local revenue, and per capita allocation connects revenue to municipal services.

Staff reviewed the advantages and concerns of this proposal. The advantages include: constitutional protection, the existing 1 percent sales tax, connects local revenue to local decisions, discourages harmful competition, encourages balanced smart growth, and tax dollars raised locally stay local. The concerns were reduced revenue diversification, the removal of earmarking (gas tax), requires a constitutional amendment, the "no new tax" principle, and there may be insufficient incentives for housing.

Mayor Pro Tem Finnila (Carlsbad) stated that the benefit to occur from this effort would be a maintenance level of services for cities.

Deputy Mayor Houlihan (Encinitas) asked how the state would receive this proposal. *Staff replied that due to the current budget situation the issue is what the cities/county would get in return for their financial assistance. What we are proposing would help meet the state's goals to provide affordable housing and relieve traffic congestion. If we don't do something today, we will have more sprawl and expensive housing and will not be able to implement smart growth proposals.*

Mayor Pro Tem Monroe (Coronado) asked if staff would visit each jurisdiction and describe how this proposal would affect them. *Staff agreed to be available to meet with all jurisdictions, and have met with many already.*

Mayor Pro Tem Monroe asked if the Transient Occupancy Tax (TOT) would be exempt from this proposal. *Staff replied affirmatively.*

Mayor Cafagna (Poway) expressed a concern for those cities that are built out. *Staff indicated that cities with unchanging population levels will benefit from the countywide tax rate. There will also be more redevelopment activity. Today's distribution does not do that.*

Chair Morrison asked if the revenue exchange would increase the amount of sales and property tax that would go into the regional pot. *Staff answered that cities would receive the one cent as today and would receive a percentage of the growth in the new regionwide tax base.*

Mayor Madrid (La Mesa) asked about the impact of AB 1221. *Staff explained that the situs-allocated sales and use tax rate would be reduced from 1 percent to 0.5 percent. SANDAG's proposal would not change this current allocation.*

Councilmember Madaffer (City of San Diego) requested that staff be directed to work with the AB 1221 task force. He stated a concern with staff's proposal in that it is long term and it does not help with solving the current fiscal crisis.

Staff indicated that they will continue to work with the League, CSAC, and the AB 1221 task force as well as Assemblymember Steinberg and Senator Duchene.

City Manager Garrett (El Cajon) expressed concern that the proposal takes too long to help with the housing situation. He thought that cities will take whichever kind of development will provide the most revenue. He also felt that the gas tax should not be restricted.

Mayor Madrid (La Mesa) encouraged staff to talk with former State Senator Lucy Killea about the obstacles faced with earlier similar proposals.

Deputy Mayor Houlihan inquired about the housing/job balance. *Staff responded that jobs are a separate issue, though a goal is to locate jobs and housing in close proximity. It was noted that retail centers do not offer high-paying, middle-income jobs. Current land use policies encourage low-paying job growth.*

Councilmember Crawford (Del Mar) stated that it would be helpful to see how each jurisdiction and the county would fare under the SANDAG proposal. We need this information to be able to present it to the city councils and the public to garner support for it. *Staff offered to be available to make presentations to the various jurisdictions.*

Councilmember Kellejian (Solana Beach) suggested that the information mentioned by Councilmember Crawford should be transmitted to all of the cities and the County. He also asked for an explanation on the exchange of projected revenues for the County of San Diego. *Staff replied that the County is better off with the proposed reform, provided the VLF growth rate is*

adjusted for a one-time increase that accrued during fiscal year 1991. The proposal's calculations include this adjustment.

Councilmember Madaffer indicated that a measure related to constitutional protection for local government will be on the ballot in November 2004. He added that unless local jurisdictions can get guarantees that the contributions to the state are a one-time only occurrence, this measure will proceed. This is a major disconnect between the state and local government. He stated that if the Board doesn't get the constitutional amendment, the problem will get worse.

The meeting was adjourned at 11:59 a.m.

GARY L. GALLEGOS
Secretary