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Dan Walters: Redevelopment property tax shift is overdue

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One relatively tiny aspect of Gov. Arnold Schwarzenegger's latest proposal to close the state budget deficit is a \$228 million per year hit on local redevelopment agencies. It forces them to shift that much in property taxes to schools for three years so the state can spend that much less on education.

It's the latest incarnation of a game in which property taxes are shifted back and forth between local governments and schools to serve other ends.

The original version, adopted in the early 1990s, was called ERAF, short for Educational Revenue Augmentation Fund. Local governments were required to shift several billion dollars in property taxes to schools so the state could reduce its own level of school support.

Since then, the flow has been mostly the other way. Four years ago, for instance, property taxes were shifted from schools to local governments to make up for the latter's losses of revenue from the vehicle license fee or "car tax," which had been slashed by two-thirds, and the state increased aid to schools to fill the void.

A similar maneuver, known in Capitol circles as the "triple flip," shifted a portion of sales taxes from locals to the state so it could guarantee repayment of bonds that the state had issued to cover its budget deficits.

The locals got a bigger chunk of property taxes in compensation, and the state gave the schools more money to "backfill" loss of property taxes.

Although Capitol mavens keep track of these machinations, they're opaque and

confusing to the public – making it appear, for instance, that schools are getting much more financing than they truly receive.

Over the past five years, state spending on schools has jumped 46 percent, but overall per-pupil spending has been almost flat due to schools' property tax losses.

Predictably, local redevelopment agencies are howling about what they see as an arbitrary raid on their funds. On closer examination, however, Schwarzenegger's property tax shift makes a lot of sense.

Redevelopment agencies declare neighborhoods to be "blighted" and then use powers, including eminent domain seizure, to acquire land and repackage it for private developers, often with subsidies for projects.

Any increases in property taxes from redevelopment projects are retained by the agencies rather than shared with counties, schools and other local government entities.

The rub is that the state constitution requires that any losses of property taxes to schools must be backfilled from the state general fund, an indirect state subsidy for redevelopment estimated at \$2 billion a year. It's simply irrational that state funds should underwrite auto malls, big-box retailers and other projects that local officials favor.

Were the Legislature to adopt Schwarzenegger's proposal and shift \$228 million a year in redevelopment property taxes to schools, therefore, it would be no more than a small down payment on repayment of that massive, unjustifiable raid on the state treasury.

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