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# SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

2025 - 2026 Regular

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**Bill No:** AB 1112  
**Author:** Wallis  
**Version:** 5/5/25

**Hearing Date:** 7/16/25  
**Fiscal:** Yes  
**Consultant:** Peterson

## *TAX EQUITY ALLOCATION*

*No longer requires Riverside County to reduce the amount of property taxes distributed to the City of Rancho Mirage due to the creation of a community services district.*

### **Background**

**Property taxes.** 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).

Counties collect and allocate property taxes in California according to state law to cities, the county, special districts, former redevelopment agencies, and school districts within the county. Proposition 13 set a single, countywide rate of 1%, replacing the numerous individual tax rates set by the various taxing agencies. In what the Legislature intended as a permanent resolution to the issue of how to distribute property tax revenues post Proposition 13, the Legislature passed AB 8 (L. Greene, 1979). AB 8 required each county to allocate revenues to local agencies based on their average property tax revenue in the three years preceding Fiscal Year 1978-79 (the year voters adopted Proposition 13). 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 never levied property tax rates before Proposition 13, and 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. To compensate for the low levels of property tax revenue these cities receive, the Legislature requires counties to shift some of their own property tax revenues to these cities (AB 1197, W. Brown, 1988). AB 1197 specified that, in most counties, “no/low cities” get 7% of the property tax revenues generated within their city limits, known as a “tax equity allocation” (TEA).

**City of Rancho Mirage.** Rancho Mirage is a city of about 17,000 residents in Riverside County. The City incorporated in 1973. 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, the city received additional property tax revenue that previously went to the county. The City then formed the Rancho Mirage

Community Services District (CSD) to fund fire and library services. Shifting the property tax revenue to the CSD instead of the City would have made Rancho Mirage a no or low property tax city eligible for a TEA from the county. AB 922 (Battin, 1997) adjusted the TEA formula to exempt Riverside County from having to make a TEA payment to the City of Rancho Mirage due to the formation of the CSD.

To shift additional property tax revenue from the county to the city, Rancho Mirage wants to eliminate AB 922's requirements.

### **Proposed Law**

Assembly Bill 1112 removes a requirement that the Riverside County Auditor must reduce the actual amount of property taxes distributed to the City of Rancho Mirage by any amount of property tax revenues exchanged between the City of Rancho Mirage and a CSD formed on or after March 6, 1997.

### **Comments**

1. **Purpose of the 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."

2. **Zero-sum game.** 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.

3. **Two-thirds vote.** This bill would change the pro rata shares of ad valorem property tax revenues 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. This provision of the Constitution requires a 2/3 vote of the Legislature to change pro rate shares of ad valorem property tax revenues in a county.

4. **Mandate.** The California Constitution requires the state to reimburse local governments for the costs of new or expanded state mandated local programs. Because AB 1112 imposes new duties on local agencies, Legislative Counsel says it imposes a new state mandate. The measure states that if the Commission on State Mandates determines that the bill imposes a reimbursable mandate, then reimbursement must be made pursuant to existing statutory provisions.

### **Assembly Actions**

Assembly Local Government Committee:	10-0
Assembly Appropriations Committee:	15-0
Assembly Floor:	75-0

### **Support and Opposition** (7/11/25)

Support: City of Rancho Mirage (Sponsor)

Opposition: None Submitted

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