10-7-1994

Allocation of Sales Tax and Other Local Government Revenues: Developing Workable Incentives for Balanced Development

Assembly Committee on Local Government

ASSEMBLY LOCAL GOVERNMENT COMMITTEE

Summary of Proceedings

Interim Hearing on

ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES: DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT

State Capitol, Room 126
Sacramento

October 7, 1994

COMMITTEE MEMBERS

Mike Gotch, Chairman
Valerie Brown, Vice Chairman

Fred Aguiar
Debra Bowen
Sal Cannella
Robert Frazee
Tom Hannigan

Willard Murray
Grace Napolitano
Curt Pringle
Nao Takasugi

H-0528-A

SUMMARY OF PROCEEDINGS

"ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES: DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT"

Interim Hearing of the
Assembly Local Government Committee
Mike Gotch, Chairman

State Capitol, Room 126
Sacramento
October 7, 1994

TABLE OF CONTENTS

California Legislature
Assembly Committee on Local Government

MIKE GOTCH
CHAIRMAN

CONSULTANTS
RANDY PESTOR
BETTY T. YEE
KIT COLE
COMMITTEE SECRETARY
DIXIE PETTY

STATE CAPITOL
P.O. BOX 942849
SACRAMENTO, CA 94249-0001
PHONE (916) 445-6034

**ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES:
DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT
Friday, October 7, 1994, 9:00 a.m. to 1:00 p.m.
State Capitol, Room 126**

Agenda

I. Opening Statements (10 minutes)

- Assemblymember Mike Gotch, Chairman
- Assemblymember Valerie Brown, Vice Chairwoman

II. Description of AB 3505 (V. Brown) (10 minutes)

- Mr. Baxter Culver, Legislative Representative
  County of Sacramento

III. Providing A Context for Revenue Sharing (30 minutes)

- Dr. Alvin D. Sokolow, Public Policy Specialist
  Department of Applied Behavioral Sciences
  University of California, Davis

IV. Panel Discussions: Each of the participants in the panel discussions below will address the following:

- Under what context should a proposal such as AB 3505 be considered in order to create incentives for balanced development (i.e., incentives for achieving a balance in housing, commercial, industrial, and manufacturing development) and adequate financing for related infrastructure; and diversity and stabilization of local governments' revenue bases?
- Should this proposal only apply to new sources of sales tax revenue (e.g., pursuant to expanding the sales tax base to include taxing services)?
- Should this proposal be implemented for existing local sales tax revenue concurrently with revised allocations of other local revenues?

A. **Panel Discussion I: Local Government Fiscal and Planning Concerns** (60 minutes)

- Mr. Dan Wall, Legislative Representative
  CA State Association of Counties

- Mr. George Newell, Acting County Administrative Officer, County of Santa Clara

- Mr. Michael Scannell, County Administrative Officer
  County of Mendocino

- Mr. Kenneth Blackman, City Manager
  City of Santa Rosa

- Mr. John W. Stinson, Assistant City Manager
  City of Bakersfield

- Mr. Michael Bierman, City Manager
  City of Fresno

Remarks by Mr. David Elder, Former Chairman, Assembly Public Employment, Retirement, and Social Security Committee; Long Beach City Auditor's Office

B. **Panel Discussion II: Effects on CA's Business Climate (35 minutes)**

- Mr. Chris Micheli, General Counsel
  CA Manufacturers Association

- Mr. Steve Kroes, Director of Research
  CA Taxpayers Association

- Mr. Rex Hime, Chief Executive Officer
  CA Business Properties Association

C. **Panel Discussion III: Promoting Orderly Development and Protecting Resources** (35 minutes)

- Ms. Dana Smith, Assistant Executive Officer
  Orange County Local Agency Formation Commission and California Association of Local Agency Formation Commissions

- Mr. John Gamper, Director of Taxation and Land Use
  CA Farm Bureau Federation

- Mr. Larry Orman, Executive Director
  Greenbelt Alliance

D. **Panel Discussion IV: The Role of Housing Development in Promoting Balanced Development (35 minutes)**

- Mr. Larry Combs, County Administrative Officer
  County of Sutter

- Mr. Cliff Allenby, Legislative Advocate
  CA Building Industry Association

- Ms. Christine Minnehan, Advocate
  Western Center on Law and Poverty

V. **Response to Panel Discussions (15 minutes)**

- Dr. Alvin D. Sokolow

VI. **Closing Remarks (10 minutes)**

<u>1:00 P.M. HEARING ENDS</u>

ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES: DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT

Introduction

On Friday, October 7, 1994, the Assembly Local Government Committee held an interim hearing, "Allocation of Sales Tax and Other Local Government Revenues: Developing Workable Incentives for Balanced Development." Assembly Member Mike Gotch, Committee Chairman, presided over the hearing. Committee members Valerie Brown (Vice Chair), Fred Aguiar, Tom Hannigan, Willard Murray, and Nao Takasugi attended the hearing, held from 9:00 a.m. to about 1:15 p.m. in Room 126 of the State Capitol.

While interim hearings are informational in nature, witnesses at this hearing offered several recommendations for the Legislature and local governments to consider. This staff report summarizes the views presented by the witnesses. Although it attempts to accurately reflect what was said, any summary must inevitably omit some details. Additionally, some witnesses provided very brief testimony. Therefore, readers may wish to refer to the witnesses' own prepared statements and supporting documents which are reprinted as appendices in this report.

This report also contains the briefing paper prepared by the Committee staff prior to the hearing.

Witnesses

Baxter Culver, Legislative Representative
County of Sacramento

Dr. Alvin D. Sokolow, Public Policy Specialist
Department of Applied Behavioral Sciences
University of California Extension, Davis

George Newell, Acting County Administrative Officer
County of Santa Clara

Michael Scannell, County Administrative Officer
County of Mendocino

Dan Wall, Legislative Representative
CA State Association of Counties

John W. Stinson, Assistant City Manager
City of Bakersfield

Kenneth Blackman, City Manager
City of Santa Rosa

Michael Bierman, City Manager
City of Fresno
(unable to attend, but provided written comments)

Dave Elder, City Auditor's Office
City of Long Beach

Chris Micheli, General Counsel
CA Manufacturers Association

Steve Kroes, Director of Research
CA Taxpayers Association

Rex Hime, Chief Executive Officer
CA Business Properties Association

Dana Smith, Deputy Executive Officer, CA Association of Local Agency Formation Commissions and Assistant Executive Officer, Orange County Local Agency Formation Commission

John Gamper, Director of Taxation and Land Use
CA Farm Bureau Federation

Larry Orman, Executive Director
Greenbelt Alliance
(unable to attend, but provided written comments)

Larry Combs, County Administrative Officer
County of Sutter

Cliff Allenby, Legislative Advocate
CA Building Industry Association

Christine Minnehan, Advocate
Western Center on Law and Poverty

Opening Statement

Chairman Mike Gotch opened the Committee's hearing with a brief statement outlining the purpose of the hearing. He stated that two bills from the 1993-94 Regular Session prompted the need for this hearing: AB 3505 (V. Brown) and SB 1564 (Dills).

Chairman Gotch noted that both bills attempted to enact incentives for achieving balanced development, but fell short of any meaningful local government fiscal reform. Revising property tax allocation was the focus of SB 1564 for the purpose of providing cities in Los Angeles County with incentives to create jobs in industrial and commercial enterprises, while revising sales tax allocation was the focus of AB 3505 for the purpose of addressing the fiscalization of land use.

Chairman Gotch clarified that the hearing was not intended to serve as a policy committee hearing for these bills, but rather to examine the effect that local revenue allocations have on the ability of local governments to achieve balanced development and stabilize and diversify local revenue bases. He further stated that these two bills should be regarded as the "jumping off" point from which to begin to examine the need for local fiscal reform to achieve the aforementioned goals. **Chairman Gotch** advised that within that context, the witnesses have been asked to offer their observations and concerns over the approaches taken in these two bills and any recommendations for achieving balanced development.

What AB 3505 Attempted To Do

Baxter Culver described what AB 3505 was attempting to address. He noted that there are vast differences among local agencies to serve their constituents. According to **Mr. Culver**, to address this problem in light of the lack of appetite for new taxes meant "moving around" existing revenues.

Mr. Culver contended that sales tax producing projects approved by cities and counties do not generate any new or additional revenue, but merely attract retail dollars away from other areas. He stated that AB 3505 was not intended to create a "city versus county" issue, but rather, it was intended to provide a perilous solution to enable local governments to better serve their constituents.

Mr. Culver then briefly explained how allocation of the local Bradley-Burns sales tax revenues would occur under AB 3505, as follows: the sales tax revenue base for each local jurisdiction would be preserved, but the growth in the sales tax revenue would be distributed countywide to address the current imbalances among communities. He noted that sales tax revenues comprise 9.8% of cities' total revenue, and AB 3505 only focused on the growth in those revenues.

According to **Mr. Culver**, high sales tax communities bear high service costs, yet according to the state Controller's office, these communities actually spend less on police protection than other communities. **Mr. Culver** also noted the importance of AB 3505 in promoting economic growth.

Should revisions in the allocation of other local government revenues be considered for addressing the current imbalances in local communities' ability to provide adequate services? **Mr. Culver** believes this is not politically palatable.

Providing a Context for Revenue-Sharing

Alvin Sokolow, Ph.D., described the local disparities relating to sales tax accrual. There are disparities between cities and counties. For example, seven counties receive greater average per-capita sales tax revenues attributable to sales in their unincorporated areas than the cities within those counties. The remaining counties receive 50% of the average per-capita sales tax revenues of cities within those counties.

Dr. Sokolow cited greater disparities among cities. He observed the greatest disparities among smaller cities, most strikingly among adjacent communities in urban areas. For example, in Alameda County, average per-capita sales tax revenues for cities range from about $70 in Albany to over $400 in Emeryville.

To outline disparities indicated in 1992 data relating to the proportion of total general fund revenues that sales tax revenues comprise among cities, **Dr. Sokolow** noted that 27 cities reported sales tax revenue comprised over 50% of their general fund revenues, while 32 cities reported those revenues comprised less than 10% of their general fund revenues. **Dr. Sokolow** continued by stating that except for cities with a population of 10,000 persons or less, the range of disparities increased among cities from 1984-85 to 1991-92.

Dr. Sokolow then offered some general comments relating to the concept of revenue-sharing. While one may maintain that revenue-sharing on the basis of equal population shares may improve equity, **Dr. Sokolow** contended that it does not address the fiscalization of land use problem or capture the costs and benefits of commercial development in intergovernmental settings. He further asserted that in order to reduce the fiscalization of land use, interlocal coordination must be encouraged.

According to **Dr. Sokolow**, revenue-sharing provides an alternative to a more drastic reorganization of government. Yet he suggested that in a regional government setting, revenue-sharing can help local jurisdictions address problems. He further added that although revenue-sharing proposals may be enacted with the positive intention of improving equity, they may have the practical effect of reducing incentives for attracting new business. **Dr. Sokolow** further noted that absent a change in the overall structure and yield, no new revenues are created, thereby resulting in the movement of existing dollars.

What then are the pros and cons of AB 3505? **Dr. Sokolow** maintained that the population-based formula contained in that bill is simple and easy to apply statewide. However, he asserted that the formula is unfocused, and only indirectly addresses the fiscalization of land use. He indicated that the statewide application of the formula contained in AB 3505 is insensitive to local conditions.

Moreover, **Dr. Sokolow** supports allowing sales tax sharing agreements with respect to annexations and suggested that the sales tax allocation formula contained in AB 3505 may eliminate the possibility of negotiating such agreements in annexation proceedings. Also, **Dr. Sokolow** stated that quick changes in behavior may be anticipated relating to accepting development if the full sales tax increment is not allocated back to local jurisdictions on a situs basis.

Dr. Sokolow suggested that the experiences of other states may offer ways of adjusting the formula contained in AB 3505 to better address the fiscalization of land use. He cited Minneapolis as an example, where local communities experiencing growth keep 40% of new property tax revenues generated.

Are there alternatives to a statewide allocation formula based on population? **Dr. Sokolow** offered some suggestions. He advocated the development of a formula that is more sensitive to local circumstances. Because the fiscalization of land use may not be a countywide problem, a formula which addresses local conditions provides local officials with the ability to look at other problems (e.g., varying fiscal pressures on local communities). Additionally, **Dr. Sokolow** asserted that a localized process which provides for more negotiations among local governments is necessary (e.g., as in Fresno County). He maintained that a more localized process would result in the ability of local officials to focus on the impacts on proposed major commercial developments (e.g., regional shopping centers, auto malls) and respective jurisdictions to resolve problems associated with these impacts.

Dr. Sokolow also suggested linking AB 3505 to local planning in order to directly address the fiscalization of land use and facilitate negotiations among local jurisdictions. He cited, for example, the consideration of revenue allocations at the rezoning or permitting stage of the local planning process (e.g., whereby 50% of the revenues may be allocated to the local jurisdiction and the remaining 50% may be used to address the impacts of the development).

Dr. Sokolow concluded by stating that it is regrettable that the property tax no longer funds local services to the extent that it once did. He maintained that the sales tax was never meant to be equitable among local jurisdictions, but does reflect commercial development. Additionally, **Dr. Sokolow** asserted that the sales tax has statewide connotation.

Recognizing that the property tax is currently a state-controlled revenue source, **Dr. Sokolow** supports the Legislative Analyst in urging the return of property tax revenues to local governments, along with the discretion over how to use the yield.

In sum, **Dr. Sokolow** believes that revenue-sharing that implements local formulas and encourages local negotiations does address the fiscalization of land use.

Local Government Fiscal and Planning Experiences and Concerns

- **George Newell** described Santa Clara County's land use policy as progressive and rational where development is encouraged in cities, the conservative use of tax dollars for infrastructure is promoted, and regional economic development is emphasized. He cited Intel Corporation's pursuit of tax rebates from the city and county of Santa Clara for the expansion of its semiconductor factory and erection of an office building. According to **Mr. Newell**, Santa Clara County officials worked closely with city officials, and city officials were able to negotiate a sales tax clause with respect to Intel's tax rebates.

Furthermore, **Mr. Newell** cited the cooperation between the cities of Santa Clara and San Jose relating to the Valley Fair shopping center where the commercial entity does provide revenues for municipal services in those jurisdictions. However, **Mr. Newell** also cited his experience while serving as the County Administrative Officer for Santa Cruz County, where the city of Capitola's annexation of the 41st Avenue area for commercial development did not include residential areas, thereby leaving the county "holding the bag" to pay entirely for services to those residential areas.

- **Mike Scannell** described burgeoning caseloads in Mendocino County's criminal justice system and drug and alcohol treatment programs and declining revenues to fund these areas. He added that the recession and the loss of redevelopment property tax increment revenue to cities within the county have exacerbated the county's ability to provide services to all residents within the county, 67% of which reside in the unincorporated area. According to **Mr. Scannell**, the city of Ukiah's successful lure of WalMart represents a loss to Mendocino County. **Mr. Scannell** noted that sales tax revenue comprise about 40% of Mendocino County's total revenues.

  When **Chairman Gotch** inquired about one of the unintended consequences of AB 3505 --- specifically, increased residential development in the unincorporated areas --- **Mr. Scannell** replied that in Mendocino County, agriculture is a valuable resource that would be preserved in lieu of increased residential development. **Mr. Newell** replied by citing Santa Clara County's longstanding policy of promoting a jobs-housing balance.

- **Dan Wall** asserted that counties are holding a huge bag for funding services to all residents within counties. He maintained that the issue for counties is not to get more money, but to align revenues with service responsibilities. **Mr. Wall** also stated that the background paper prepared for this interim hearing indicates that local officials make development decisions consciously as a fundamental characteristic of home rule. However, according to **Mr. Wall**, debates over growth management and the need for better state planning have lacked focus on the issues of revenues and incentives for development.

Mr. Newell suggested that the state should not dictate formulas for local revenue distribution, but rather formulate a structure to force local officials to negotiate. **Chairman Gotch** maintained that county officials really desire good planning, addressing mitigation, and sharing revenues rather than wanting to make development decisions themselves.

Assembly Member Hannigan suggested that talking about local revenue distribution without talking about the underlying service delivery system ignores counties' needs and revenue inequities. He cited the seven cities in Solano County as an example of where growth has occurred, yet there has been revenue increases to fund county service delivery resulting from this growth.

- **John Stinson's** comments focused on the need to encourage development in cities and more efficient service delivery through consolidation and/or cooperation among local governmental entities. He indicated that the city of Bakersfield is a party to a joint powers agreement to provide fire protection to an unincorporated island covering one square mile in area. **Mr. Stinson** also noted increasing development of agricultural land in Kern County to accommodate the growth from the Los Angeles area. According to **Mr. Stinson**, Bakersfield currently is involved in litigation over the San Emidio new town development.

  When **Chairman Gotch** inquired about Bakersfield's assistance in funding the provision of county-delivered services, **Mr. Stinson** replied by indicating that city officials are beginning negotiations over tax sharing, recognizing that the annexation negotiation provisions contained under the Cortese-Knox Local Government Reorganization Act of 1985 are not favorable.

- **Ken Blackman** stated that the city of Santa Rosa serves as a strong commercial center for Sonoma County and that the costs of serving commercial development has increased. **Mr. Blackman** asserted that the state, counties, and cities do not have enough revenue to fund their programs and services, and counties and cities are merely fighting over "bones on the road." He emphasized the need to raise taxes and redirect property tax revenues back to cities.

  According to **Mr. Blackman**, Santa Rosa has enacted growth boundaries, inclusionary zoning, and an aggressive housing program. However, he continued by noting that property tax revenues generated are low because of the limitations enacted by Proposition 13.

  Mr. Blackman also suggested that the growth in personal services could be used as the basis for broadening the sales tax base. Furthermore, he indicated that telecommunications has had an impact on retail areas; for example, computer shopping has resulted in a shift in buying habits and has resulted in new "winners" and "losers."

<u>**Special Presentation by Mr. David Elder, Long Beach City Auditor's Office**</u>

David Elder offered some brief comments on the need for greater incentives in order for local jurisdictions to create jobs by siting manufacturers. **Mr. Elder's** main concern relates to the allocation of sales tax generated by manufacturers (<u>i.e.</u>, sales tax revenues should be allocated to jurisdictions where goods are made and sold).

According to **Mr. Elder**, the informal and potentially illegal "pooling" policies of the state Board of Equalization has resulted in the misallocation of about $220 million annually to county pools instead of to cities with manufacturers in their jurisdiction. **Mr. Elder** noted that monies in these county pools are allocated to cities and unincorporated areas in the county based on the pro-rata share of sales tax revenues received by each city and the unincorporated area of that county. He cited mail order sales, auto lease transactions, and sales of goods processed out of the state as examples of when sales taxes generated are allocated to county pools.

Clarifying that his comments were not intended to constitute an argument against county pools, **Mr. Elder** asserted that if a situs-based allocation of business-to-business sales and use taxes does not occur, local governments lack the incentive to pursue the location of industrial firms within their jurisdictions since they will not have the revenues to attract those firms (<u>e.g.</u>, sales tax rebates) or to pay for the increased costs of public services required for the proposed industrial development. **Mr. Elder** insisted that this allocation question must be resolved as the first step towards developing workable incentives for balanced development and before addressing any inequities that may remain among local jurisdictions.

Mr. Elder concluded his presentation with four specific recommendations offered by the Long Beach City Auditor's Office, as follows: 1) require full situs allocation of local sales and use tax revenue from manufacturers; 2) introduce legislation to specify that only mail order, private party car sales, and sales from merchants without a permanent location shall be placed in county pools; 3) eliminate the state Board of Equalization 1.31% administrative cost of collection percentage on all pooled revenues; and 4) specify that pool revenues be distributed based upon business-to-business transactions rather than retail sales.

<u>**Effects on the State's Business Climate**</u>

- **Chris Micheli** began his testimony by noting that the state Employment Development Department indicates that manufacturing jobs pay more than any other types of jobs --- generally ranging from $12 to $28 per hour. **Mr. Micheli** stated that NUUMI, California's only car manufacturer, pays its assembly line workers about $40,000 annually, with on-line managers earning just under $100,000 annually.

According to **Mr. Micheli**, each manufacturing job counts for another 2 or 2.5 jobs in secondary industries. He cites that as an example, the location of Packard Bell and its 3,000 jobs in Sacramento will result in a total of between 9,000 and 12,000 jobs inclusive of the new jobs that will be created by related secondary industries.

Mr. Micheli indicated that when a business seeks to expand or locate in a city, city officials do a cost-benefit analysis to determine if the business will create enough tax to offset city-provided services. According to **Mr. Micheli**, cities would no longer be discouraged to accept the location of businesses within their jurisdictions if they only will be receiving a fraction of the sales tax generated by those businesses as proposed by AB 3505.

On behalf of the California Manufacturers Association, **Mr. Micheli** recommended that the state Board of Equalization Regulation 1802 be amended to authorize the use tax for manufacturers, research and development firms, and other types of firms to be fully allocated on a situs basis. [Note: Regulation 1802 authorizes the allocation of those tax proceeds to county pools.]

Mr. Micheli concluded that cities would have a financial incentive to cite manufacturing if the use tax were allocated on a situs basis to ensure that the cities' revenues can meet increased service demands.

- **Steve Kroes** described AB 3505 as a punitive approach to reducing the fiscalization of land use that would remove some of the incentive for retail development. He recommended that rather than a punitive approach for addressing the fiscalization of land use, incentives for local jurisdictions to cite manufacturing and housing should be increased.

  Additionally, **Mr. Kroes** suggested that one way to provide a positive incentive for addressing the fiscalization of land use is to redirect the property tax revenues that have recently been shifted to school entities back to cities and counties. According to **Mr. Kroes**, this redirection would encourage other types of development, thus reducing the incentive to favor retail development.

  Mr. Kroes continued his testimony by addressing the issue of providing more revenue-raising authority to local governments. **Mr. Kroes'** remarks attempted to dispel the belief by some that Proposition 13 has created a fiscal straitjacket which has made local governments fall further and further behind in their efforts to keep pace with growth.

Acknowledging that recent local government financial difficulties are real, **Mr. Kroes** asserted that they are not necessarily the result of a long-term crisis and urged policymakers to avoid creating long-term solutions to problems that may be temporary in nature.

- **Rex Hime** advised the Committee members not to waste time on revenue redistribution, but rather focus on increasing incentives for local jurisdictions to accept housing development. He also advocated the return of previously shifted property tax revenue from school entities back to local governments.

  According to **Mr. Hime**, the International Council of Shopping Centers, which represents about 30,000 members, has indicated that shopping centers generated $3.3 billion in sales tax revenues in 1990, a figure that has remained constant. **Mr. Hime** continued by citing that the number of new shopping centers built annually has declined steadily since 1990. Consequently, he asserted that the sales tax redistribution proposed by AB 3505 offers no guarantee of a positive result and could be potentially harmful. He recognized the objective of AB 3505 to provide incentives for the acceptance of housing by local governments, but maintained that the rejection of housing has been fueled by the no-growth attitudes of local communities and the abuse of environmental protections that are too prevalent in California.

  Thus, **Mr. Hime** observed that a redistribution of sales tax revenue as proposed by AB 3505 is not needed, but suggested that if such a proposal were enacted, it must contain provisions for a growth or inflation factor to address commercial development projects "in the pipeline." **Mr. Hime** also expressed opposition to a "split" property tax roll.

  Chairman Gotch remarked by suggesting that recent reforms to the California Environmental Quality Act should provide incentives for more low-cost housing in in-fill projects. **Assembly Member Murray** observed that a "split" property tax roll obviously offers disincentives to the members of the California Business Properties Association via higher property taxes. **Mr. Hime** concluded by offering the Association's neutral position on same-day property tax assessment provisions.

<u>**Promoting Orderly Development and Protecting Resources**</u>

- **Dana Smith** began her testimony by summarizing the responsibilities of local agency formation commissions (LAFCOs). According to **Ms. Smith**, LAFCOs demand that future growth be efficient, compact, and responsive to local needs.

She continued by observing that the fiscal climate has changed dramatically, whereby annexations to cities which used to be encouraged because of cities' ability to offer higher levels of services and efficient extension of infrastructure are less attractive to cities in this post-Proposition 13 era when much of the incentive to entice urban development has been removed and service levels have remained flat.

Maintaining that LAFCOs are in a unique position to observe the adverse impacts on neighboring communities when cities or counties compete for and site commercial development solely for fiscal reasons, **Ms. Smith** identified three barriers to promoting orderly and balanced development. First, **Ms. Smith** observed that counties are generally cash poor and are using development to supplement revenue, often to the detriment of orderly growth. She cited the Otay Mesa East and Foothill Ranch developments in San Diego and Orange Counties, respectively, as examples of this phenomenon. Second, **Ms. Smith** noted that property tax negotiations pursuant to a proposed annexation are becoming more difficult, with counties increasingly demanding the inclusion of sales tax sharing agreements in those negotiations and cities viewing residential annexations as fiscally damaging. Third, **Ms. Smith** maintained that the revenue neutrality provisions under the Cortese-Knox Local Government Reorganization Act of 1985 has made future incorporations improbable. She cautioned that as California continues to grow and as long as counties have incentives to develop urban uses and communities, LAFCOs will experience difficulty in their efforts to discourage urban sprawl, encourage compact development, and preserve agricultural lands.

Ms. Smith then noted that sales tax sharing agreements are difficult to execute and presented four experiences of these types of agreements. Sales tax sharing agreements in Santa Cruz County have been unsuccessful, too complex, and determined to require voter approval. The sales tax sharing agreement between Butte County and the city of Chico has been successful. As part of the master property tax agreement, Fresno County includes sales tax revenue sharing. Orange County will require sales tax revenue sharing to be included in future property tax negotiations where significant commercial uses are involved.

In concluding her testimony, **Ms. Smith** offered several general comments. First, she urged the stabilization of funding for counties to get them out of competing for certain land uses. Second, she suggested that cities will encourage balanced development if there is more of a balance of property tax and sales tax revenue available to them. Third, **Ms. Smith** indicated that one of the positive elements of the sales tax distribution system proposed by AB 3505 is that cities would have an incentive to promote residential development and annexation of residential neighborhoods. Fourth, **Ms. Smith** asserted that in order to preserve existing agricultural lands, there must be greater rewards for reinvestment in aging downtown areas. She cited the 30% occupancy rate in downtown Santa Ana as a result of sprawling developments in southern Orange County. **Ms. Smith** also suggested that the adoption of statewide policies and goals for growth and infrastructure development would be a good start. Fifth, **Ms. Smith** noted that revenue sharing agreements generally affect only the new growth cities, thereby creating a further disparity between new cities and older sales tax-rich cities. **Ms. Smith** concluded her comments by concurring with **Dr. Sokolow's** observations about the need for revenue sharing arrangements to address local conditions.

- **John Gamper** provided a brief overview of the California Farm Bureau's perspective on how the state may address the fiscalization of land use and provide a more balanced approach to conservation and development issues. He asserted that the local government phenomenon of "cash-box zoning" has been well chronicled and that the recent shifts of property tax revenue from local governments to school entities to address the state budget crisis have run counter to nearly every fundamental objective of growth management.

  Citing a <u>Land Use and Environmental Forum</u> editorial, **Mr. Gamper** maintained that it is simply unrealistic to expect a city or most counties "not to use every effort to approve a sales tax-generating project, despite concerns about traffic, air quality, impact on existing retail, loss of agricultural land or open space, or other planning or environmental considerations." **Mr. Gamper** indicated that the California Farm Bureau members have long supported the allocation of a share of sales tax revenue to the jurisdiction where the taxable property will be used or where the purchaser resides. Consequently, the Farm Bureau would support a more equitable apportionment of local sales tax revenues.

  However, **Mr. Gamper** raised two questions about the sales tax allocation formula pursuant to AB 3505: First, does this proposal provide the most equitable formula without creating other growth management problems? And second, should AB 3505 be linked to other needed growth management reforms? With regard to the first question, **Mr. Gamper** expressed concerns over the fairness of the per-capita sales tax allocation formula proposed by AB 3505 to rural counties versus those counties with large population bases in their unincorporated areas. Although unable to offer an alternative, **Mr. Gamper** wanted to be sure that rural counties could benefit fiscally, but not at the expense of weakened farmland protection policies (<u>e.g.</u>, rural county approving a factory outlet mall with an adjacent residential subdivision to fund the county sheriff's department).

With regard to the latter question, **Mr. Gamper** expressed concerns that one set of irrational and inefficient money-driven land use planning problems would be traded for another. He maintained that AB 3505 would do very little to discourage undesirable growth in the unincorporated areas of counties and might actually encourage discontiguous residential developments there. Recognizing claims by county officials that the negative fiscal impacts of such developments should provide enough of a disincentive to pursue those developments, **Mr. Gamper** suggested that county officials still may be persuaded by big promises from local developers.

Mr. Gamper concluded his testimony by strongly recommending that reforms to the Cortese-Knox Act be included in AB 3505 as a way to actually implement the state's policy of efficient service provision and agricultural and open-space land preservation. He further suggested that this policy could be implemented by encouraging urban and suburban growth within municipalities and adopting new standards for LAFCOs to discourage the development of agricultural land unless the jurisdiction has demonstrated the efficient use of resources in existing incorporated areas.

Role of Housing Development in Promoting Balanced Development

- **Larry Combs** presented comments relating to the effects that state policies have had on the fiscalization of land use in Sutter County, a county which he described as having serious economic problems. He described Sutter County as one which has a current population of 73,144, an increase of 29% over the last ten years. **Mr. Combs** continued by noting that although Sutter County is primarily an agricultural county, it has a large urban area, specifically, Yuba City. Because of its proximity to Sacramento, the county has been under significant growth pressures and consequently, has experienced tremendous population growth.

  To respond to this growth, the county has approved housing development with retail development following. According to **Mr. Combs**, the county does not want housing, since each house results in $7,000 worth of services for which scarce county discretionary revenues are expended, an amount far exceeding the amount of revenue generated by that one house. He also cited the 30% welfare caseload associated with the county's unemployment rate.

  Mr. Combs noted that counties provide a range of criminal justice and health and welfare services to all residents, including those residing in cities, yet most of these services are mandated by the state. He further indicated that well over 80% of Sutter County's budget is comprised of restricted funds, leaving only about 17% of its budget discretionary. **Mr. Combs** stated that, sales tax revenues therefore become significant to the county's budget.

According to **Mr. Combs**, the per-capita sales tax revenue for Yuba City has increased close to 139% since the 1979-80 fiscal year, while the per-capita sales tax revenue for Sutter County has grown by 27%. He attributed this to the ability of Yuba City to annex property which generates large amounts of sales tax revenue. To avoid continuing large losses of revenues, Sutter County has terminated its master annexation property tax exchange agreement, resulting in county and Yuba City officials having to negotiate a separate agreement for each annexation. **Mr. Combs** reported that in several cases, county and city officials have been unable to reach an agreement quickly and gave an example of how a land use decision is driven by fiscal concerns.

Mr. Combs expressed frustration with inconsistent and conflicting state policies that have resulted in unintended consequences. He stated that the way in which cities and counties receive revenue used to pay for the services they provide is completely inimical to the state's desired goal of regional land use planning. **Mr. Combs** asserted that current state laws result in cities competing with one another and with counties for local revenue sources. He added that the property tax shifts from local governments to school entities to address the state's budget crisis over the last several years has exacerbated the competition for revenue among cities and counties, with these local governments now zealously seeking to protect their revenue sources and pursuing additional revenue sources through annexation, development incentives, and other means.

Mr. Combs regarded AB 3505 as a start for restructuring tax distribution to adequately address service cost increases resulting from growth. He maintained that AB 3505 provides growth in revenue directly tied to population growth in both cities and counties; encourages cities to annex residential areas in addition to revenue-generating businesses, and promotes a more regional perspective of land use and cooperation between local agencies instead of the current competition for revenue. **Mr. Combs** concluded his testimony by asserting that the state's tax structure and other policies must be reconfigured to link policy responsibility with related authority and funding, and that AB 3505 is a step in this direction.

Assembly Member Tom Hannigan suggested that the appropriate role for the state is to dictate standards and establish a mechanism for local governments to cooperatively resolve the questions relating to program and service responsibilities and funding.

- **Mr. Cliff Allenby** briefly presented some observations to the Committee. He began by noting that service levels depend on population density. He maintained that it is time for the Legislature and local governments to start having a rational dialogue about how basic government services will be funded. He further noted that the sales tax is a poor producer of revenue and has declined as a percentage of total economic activity. **Mr. Allenby** indicated that the state Board of Equalization has offices in Chicago and New York to collect sales taxes.

Regarding housing as a commodity, **Mr. Allenby** suggested examining the capacity of this commodity to provide for its fair share of services. He maintained that as growth steadies, the compensation for service costs declines, especially if revenues are generated from a tax that is limited. **Mr. Allenby** advocated that the cost of services be addressed by the generation of revenue from the "source", that is, the commodity necessitating the services. **Assembly Member Hannigan** suggested that schools not be funded by property tax revenues so that those revenues could more adequately fund municipal service costs resulting from growth (e.g., increased housing). **Mr. Allenby** concurred and concluded his comments by suggesting that with respect to the sales tax, the rate could be reduced and the base broadened.

- **Ms. Christine Minnehan** offered some brief observations on the role of housing in achieving balanced development. She began by citing the lack of discussion relating to revenue incentives for local jurisdictions to provide housing in forums addressing issues such as growth management and housing element reform, and added that the discussions comprising these forums have resulted in some change, but not change which has occurred quickly. **Ms. Minnehan** additionally pointed out that housing construction is a primary sign of economic recovery.

Ms. Minnehan maintained that AB 3505 represents the first step toward allocating resources to jurisdictions that provide housing. She continued by observing that Proposition 13 has made housing a revenue drain for local governments rather than a revenue producer. She also noted the role of housing in balancing development, since local land use decisions must include the provision of housing to attract manufacturing.

According to **Ms. Minnehan**, housing affordability is an important factor for business location. She stated that there are economic benefits to local jurisdictions in the housing development stage. **Ms. Minnehan** cited Money magazine's findings that 16 of the 20 highest housing cost areas are in California. She indicated that the annual demand for housing to accommodate all income levels is 300,000 units, yet only 16% of the housing needs for lower income earners have been met. She observed that there are no incentives for local governments to perform with respect to housing production, particularly affordable housing, and expressed support for revenue-sharing tied with housing element reform and other local housing programs and goals.

Ms. Minnehan acknowledged that the redistribution of sales tax revenue is not going to address the whole problem of the lack of housing. She also advocated reform of the property tax with protections for new homeowners and senior citizens. She suggested housing trust funds as possible fiscal sources, as well, for addressing the problem. **Ms. Minnehan** concluded her comments by asserting that AB 3505 has to be a piece of the solution.

Closing Remarks

- **Dr. Sokolow** was given an opportunity to provide some brief closing comments. He noted that the concept of equity relates to how the (sales tax revenue) "pie" is divided. In response to earlier suggestions about increasing the size of the pie (e.g., through broadening the sales tax base by taxing services) **Dr. Sokolow** suggested that increasing the pie relates to the concept of capacity. He maintained that increasing the size of the pie may make it easier to divide the pie, but equity problems remain unaddressed.

  According to **Dr. Sokolow**, even if the revenue structure is focused, it is necessary to link fiscal considerations and alternatives with land use and community sustainability. He maintained that local negotiations can address the externalities and provide local solutions.

  Dr. Sokolow concluded his remarks by noting that unlike the property tax, the sales tax was not meant to be a primary local revenue source originally, but rather, a statewide revenue source. He also noted that K-12 education is no longer a local function, with the state dictating standards for curriculum, personnel, and funding. He wholeheartedly recommended the return of property tax revenues from school entities to local governments, with discretion given to cities and counties on the use of those revenues.

- **Mr. John Crawley**, Mayor of Cerritos, was given an opportunity to offer some brief comments relating to AB 3505. He expressed concern over the reallocation of sales tax revenues pursuant to a per-capita-based formula. He noted that although retail developments create new jobs, cities incur expenses to serve those developments. **Mayor Crawley** concluded his comments by observing that the current sales tax distribution system works well for contract cities.

- **Chairman Gotch** provided some brief closing remarks and adjourned the hearing at approximately 1:15 p.m.

APPENDIX A

WRITTEN TESTIMONY OF
DR. ALVIN D. SOKOLOW

REVENUE SHARING AND OTHER FISCAL OPTIONS FOR CALIFORNIA CITIES AND COUNTIES

Outline of Comments to the Assembly Local Government Committee
Hearing on Local Government Finance Reform
October 7, 1994 126 State Capitol

Alvin D. Sokolow
Public Policy Specialist--Department of Applied Behavioral Sciences,
Cooperative Extension, University of California, Davis (916) 752-0979

I. Winners and Losers: A Review of Trends in the Distribution of the Sales Tax Among Cities and Counties (see attached report)

II. The Case for Revenue Sharing

a. Improve equity--equal population shares
b. Improve equity--even out the benefits and costs of commercial growth in the intergovernmental setting
c. Reduce fiscalization of land use--encourage interlocal coordination
d. Reduce pressures for fiscal concessions
e. Alternative to more drastic reorganization of local government
f. A possible negative--reducing local incentives for attracting new business
g. No new revevenues created, unless a chnage in overall structure and yield

III. Comments on AB 3505

a. A simple population-based formula, easily applied
b. But unfocused--insensitive to local conditions
c. Wipes out the possibility of negotiating sales tax agreements in annexations
d. Future effects
e. Adjustments to the formula

IV. Alternative Forms of Revenue Sharing of the Sales Tax (and other Revenue Sources)

a. A different formula, sensitive to local circumstances and locally applied*
b. Interlocal negotiations*

**A considerable portion of the unequal distribution of sales tax revenues occurs because of major commercial developments--regional malls, auto malls, factory outlet centers, etc. Focusing on the interlocal impacts, both benefits and costs, of such specific projects is one approach to creating a local formula or the conditions for negotiations. It gets directly at the fiscalization issue.*

---

c. Sharing other revenues

V. The Big Picture: Bring Back the Property Tax!

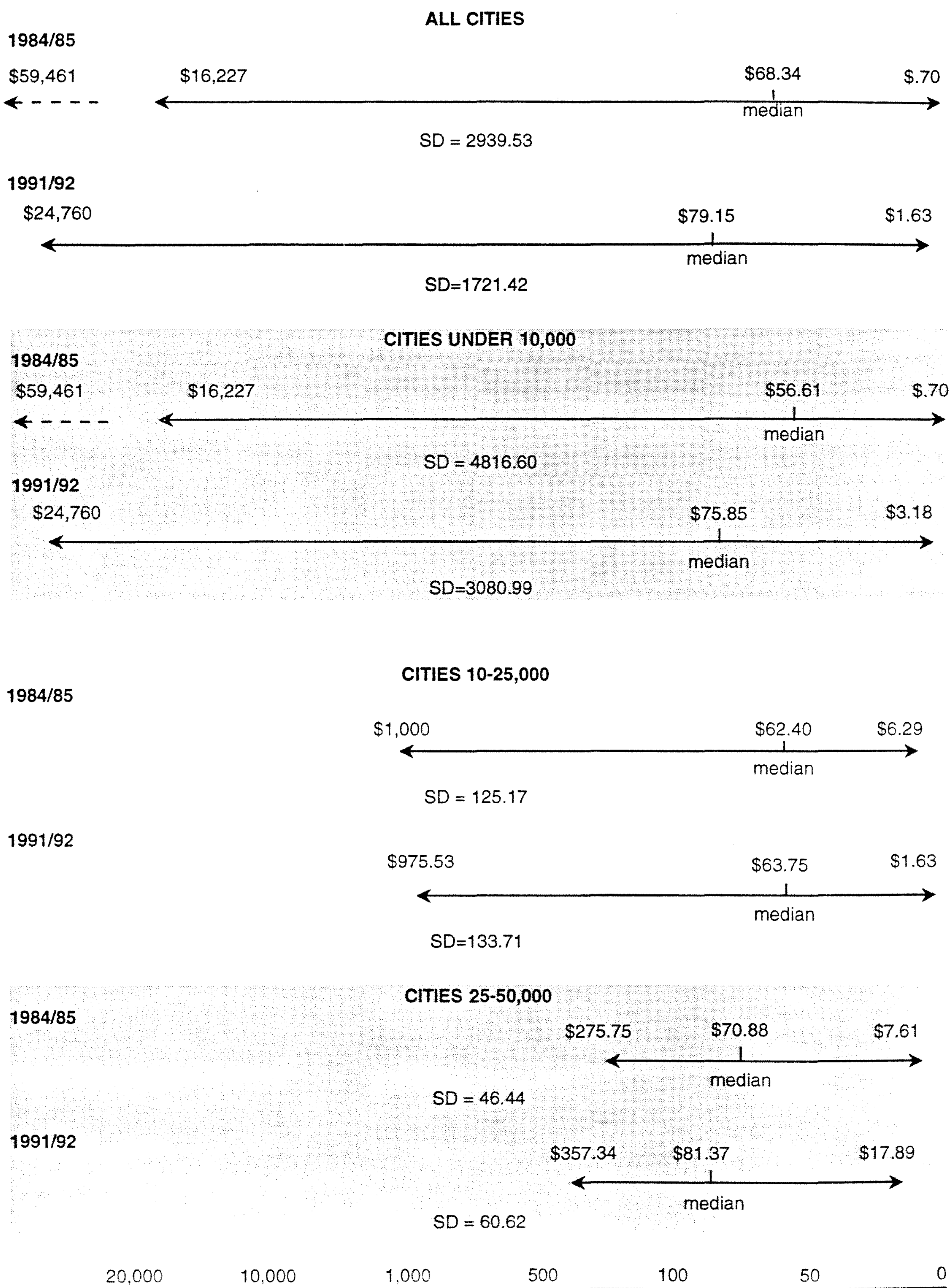
TRENDS IN THE DISTRIBUTION OF THE SALES TAX AMONG CALIFORNIA CITIES AND COUNTIES

Presented to the Assembly Local Government Committee
Hearing on Local Government Finance Reform
October 7, 1994

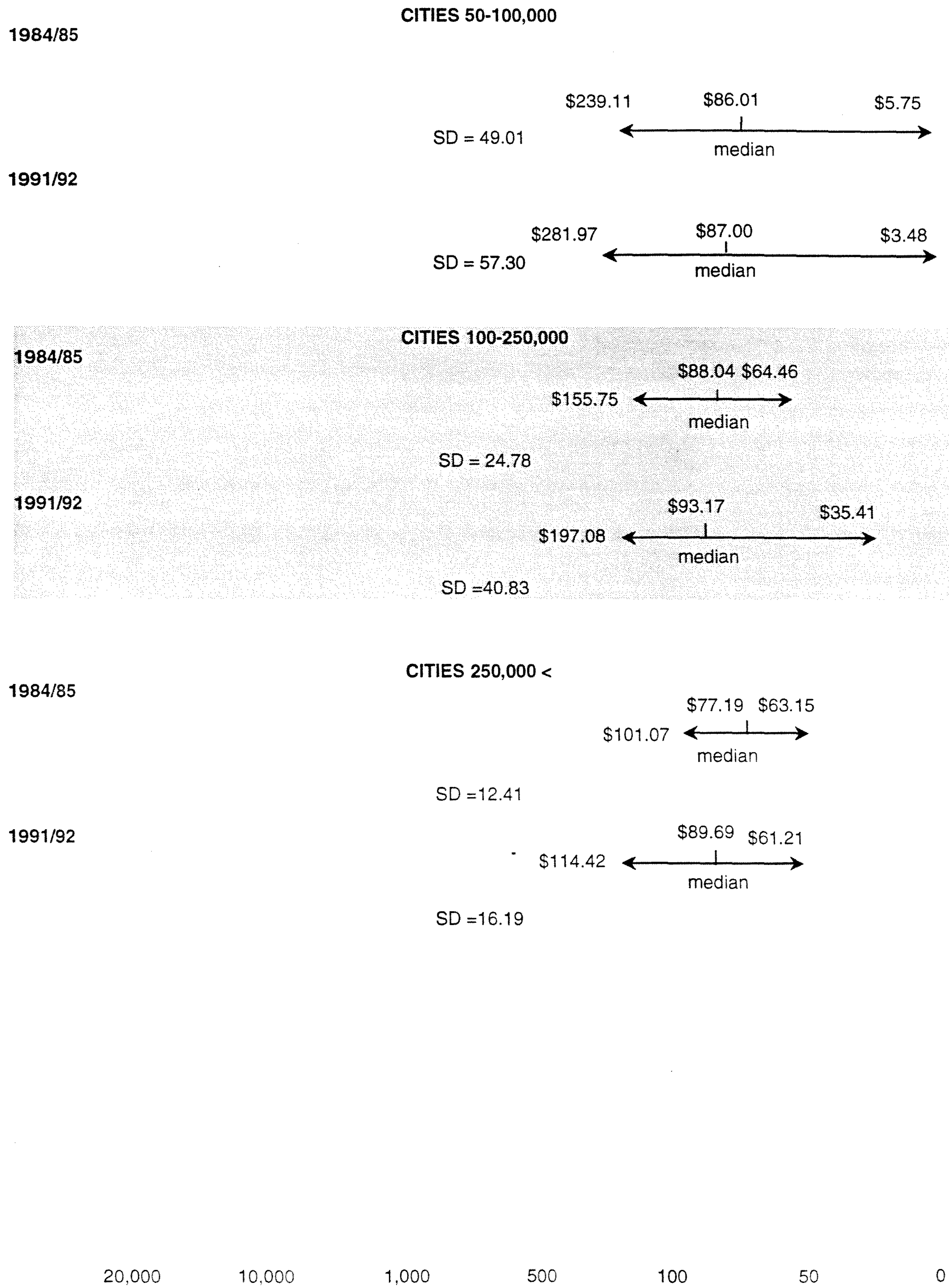
Alvin D. Sokolow and Jennifer Swenson
Department of Applied Behavioral Sciences, Cooperative Extension
University of California, Davis (916) 752-0979

Contents

Changes in Per Capita Sales Tax Distribution, 1984/85 to 1991/92



Changes in Per Capita Sales Tax Distribution, 1984/85 to 1991/92



Cities Under 10,000 - Ranked by Per Capita Sales Tax Revenues FY 1991/92

City	Per capita Sales Tax Revenue	County
VERNON	$24760.37	LOS ANGELES
INDUSTRY	$24726.73	LOS ANGELES
SIGNAL HILL	$11774.93	LOS ANGELES
SAND CITY	$5090.48	MONTEREY
COLMA	$3871.19	SAN MATEO
BRISBANE	$663.22	SAN MATEO
ANGELS	$607.48	CALAVERAS
EMERYVILLE	$481.50	ALAMEDA
CORTE MADERA	$395.60	MARIN
CARMEL-BY-THE-SEA	$370.33	MONTEREY
BISHOP	$347.68	INYO
SARATOGA	$334.87	SANTA CLARA
COLFAX	$266.51	PLACER
PLACERVILLE	$240.99	EL DORADO
SAUSALITO	$221.61	MARIN
SONORA	$215.95	TUOLUMNE
INDIAN WELLS	$214.89	RIVERSIDE
GRASS VALLEY	$208.78	NEVADA
SOLVANG	$207.07	SANTA BARBARA
DEL MAR	$201.47	SAN DIEGO
JACKSON	$197.32	AMADOR
SCOTTS VALLEY	$191.83	SANTA CRUZ
NEVADA CITY	$189.39	NEVADA
BIG BEAR LAKE	$187.50	SAN BERNARDINO
ROLLING HILLS ESTATES	$177.39	LOS ANGELES
MAMMOTH LAKES	$174.57	MONO
ST HELENA	$171.81	NAPA
YREKA CITY	$170.43	SISKIYOU
TAFT	$163.71	KERN
AVALON	$163.37	LOS ANGELES
LAKEPORT	$162.71	LAKE
MT SHASTA	$159.63	SISKIYOU
HEALDSBURG	$156.76	SONOMA
FORT BRAGG	$149.96	MENDOCINO
CORNING	$148.61	TEHAMA
SONOMA	$147.27	SONOMA
WILLITS	$140.65	MENDOCINO
WESTLAKE VILLAGE	$140.33	LOS ANGELES
COLUSA	$137.46	COLUSA
SEBASTOPOL	$135.27	SONOMA
ALTURAS	$125.15	MODOC
SUTTER CREEK	$124.58	AMADOR
PISMO BEACH	$124.29	SAN LUIS OBISPO
WILLIAMS	$124.10	COLUSA
ISLETON	$120.77	SACRAMENTO
ANDERSON	$117.32	SHASTA
RIO VISTA	$116.44	SOLANO
IMPERIAL	$115.35	IMPERIAL
FORT JONES	$114.41	SISKIYOU
TRINIDAD	$113.75	HUMBOLDT
CRESCENT CITY	$110.34	DEL NORTE

City	Per capita Sales Tax Revenue	County
GRIDLEY	$110.14	BUTTE
POINT ARENA	$105.67	MENDOCINO
OJAI	$103.69	VENTURA
BRENTWOOD	$100.20	CONTRA COSTA
WEED	$98.92	SISKIYOU
ORLAND	$94.29	GLENN
MORRO BAY	$93.48	SAN LUIS OBISPO
COTATI	$92.64	SONOMA
FOWLER	$91.64	FRESNO
WILLOWS	$89.36	GLENN
TULELAKE	$87.70	SISKIYOU
KING CITY	$86.02	MONTEREY
FORTUNA	$84.39	HUMBOLDT
KERMAN	$82.07	FRESNO
NEEDLES	$81.89	SAN BERNARDINO
FIREBAUGH	$80.52	FRESNO
HALF MOON BAY	$79.35	SAN MATEO
CALISTOGA	$79.01	NAPA
PLYMOUTH	$78.82	AMADOR
CHOWCHILLA	$78.78	MADERA
NEWMAN	$77.87	STANISLAUS
ESCALON	$73.84	SAN JOAQUIN
SAN JUAN BAUTISTA	$70.38	SAN BENITO
IRWINDALE	$70.35	LOS ANGELES
DEL REY OAKS	$70.14	MONTEREY
YOUNTVILLE	$70.02	NAPA
FERNDALE	$69.86	HUMBOLDT
TEHACHAPI	$69.69	KERN
COALINGA	$64.51	FRESNO
DUNSMUIR	$62.91	SISKIYOU
RIPON	$62.84	SAN JOAQUIN
CLOVERDALE	$61.99	SONOMA
SAN JOAQUIN	$59.10	FRESNO
PORTOLA	$58.31	PLUMAS
LINCOLN	$58.25	PLACER
AMADOR	$57.91	AMADOR
DOS PALOS	$53.80	MERCED
LATHROP	$52.36	SAN JOAQUIN
LOYALTON	$51.20	SIERRA
PATTERSON	$50.22	STANISLAUS
TIBURON	$49.69	MARIN
ETNA	$48.71	SISKIYOU
EXETER	$48.55	TULARE
KINGSBURG	$47.49	FRESNO
LINDSAY	$45.96	TULARE
LOOMIS	$45.25	PLACER
WOODSIDE	$45.05	SAN MATEO
BLUE LAKE	$43.69	HUMBOLDT
MENDOTA	$41.99	FRESNO
GUSTINE CITY	$41.83	MERCED
FAIRFAX	$41.37	MARIN
WESTMORLAND	$39.23	IMPERIAL
LIVINGSTON	$36.59	MERCED
HUGHSON	$36.46	STANISLAUS
HOLTVILLE	$32.81	IMPERIAL
ARVIN	$32.56	KERN

City	Per capita Sales Tax Revenue	County
DORRIS	$32.37	SISKIYOU
WOODLAKE	$31.46	TULARE
GONZALES	$30.59	MONTEREY
WATERFORD	$29.57	STANISLAUS
BELVEDERE	$28.98	MARIN
CLAYTON	$28.49	CONTRA COSTA
WINTERS	$28.31	YOLO
GREENFIELD	$28.19	MONTEREY
ADELANTO	$27.97	SAN BERNARDINO
WHEATLAND	$27.21	YUBA
LIVE OAK	$27.10	SUTTER
FARMERSVILLE	$25.81	TULARE
VILLA PARK	$25.07	ORANGE
HURON	$23.61	FRESNO
IONE	$22.28	AMADOR
GUADALUPE	$21.83	SANTA BARBARA
ROSS	$20.79	MARIN
PORTOLA VALLEY	$20.33	SAN MATEO
MONTAGUE	$20.31	SISKIYOU
ORANGE COVE	$18.95	FRESNO
RIO DELL	$17.70	HUMBOLDT
ATHERTON	$15.97	SAN MATEO
CALIFORNIA CITY	$13.91	KERN
PARLIER	$13.89	FRESNO
CALIPATRIA	$13.15	IMPERIAL
MCFARLAND	$11.91	KERN
MARICOPA	$10.82	KERN
BIGGS	$9.78	BUTTE
BUELLTON	$8.91	SANTA BARBARA
LOS ALTOS HILLS	$7.65	SANTA CLARA
LA HABRA HEIGHTS	$7.16	LOS ANGELES
BRADBURY	$6.65	LOS ANGELES
ROLLING HILLS	$5.19	LOS ANGELES
HIDDEN HILLS	$3.53	LOS ANGELES
MONTE SERENO	$3.18	SANTA CLARA
TEHAMA	$0.00	TEHAMA

Cities From 10,000 to 25,000 - Ranked by Per Capita Sales Tax Revenues FY 1991/92

City	Per capita Sales Tax Revenue	County
SANTA FE SPRINGS	$975.53	LOS ANGELES
COMMERCE	$889.44	LOS ANGELES
CAPITOLA	$333.17	SANTA CRUZ
PALM DESERT	$228.05	RIVERSIDE
OROVILLE	$189.60	BUTTE
EL SEGUNDO	$168.40	LOS ANGELES
RANCHO MIRAGE	$166.68	RIVERSIDE
LOS ALAMITOS	$161.99	ORANGE
AUBURN	$161.62	PLACER
BARSTOW	$150.91	SAN BERNARDINO
MARYSVILLE	$150.65	YUBA
SOUTH EL MONTE	$149.34	LOS ANGELES
SAN FERNANDO	$139.34	LOS ANGELES
UKIAH	$132.14	MENDOCINO
RED BLUFF	$129.68	TEHAMA
SOUTH LAKE TAHOE	$120.10	EL DORADO
OAKDALE	$116.56	STANISLAUS
CALEXICO	$114.14	IMPERIAL
EL PASO DE ROBLES	$111.12	SAN LUIS OBISPO
ARROYO GRANDE	$100.54	SAN LUIS OBISPO
LARKSPUR	$99.28	MARIN
SUSANVILLE	$98.18	LASSEN
BLYTHE	$97.25	RIVERSIDE
SOLANA BEACH	$95.45	SAN DIEGO
SELMA	$94.97	FRESNO
AGOURA HILLS	$90.91	LOS ANGELES
MILL VALLEY	$88.71	MARIN
LAGUNA BEACH	$87.94	ORANGE
ARCATA	$86.14	HUMBOLDT
ARTESIA	$85.04	LOS ANGELES
DIXON	$84.38	SOLANO
HERMOSA BEACH	$81.14	LOS ANGELES
PINOLE	$81.06	CONTRA COSTA
LAKE ELSINORE	$81.04	RIVERSIDE
LOS BANOS	$80.52	MERCED
PACIFIC GROVE	$79.24	MONTEREY
MILLBRAE	$75.96	SAN MATEO
LOMA LINDA	$75.78	SAN BERNARDINO
LAFAYETTE	$74.52	CONTRA COSTA
EL CERRITO	$74.44	CONTRA COSTA
ATASCADERO	$74.14	SAN LUIS OBISPO
LA PALMA	$73.34	ORANGE
HOLLISTER	$72.16	SAN BENITO
ALBANY	$70.28	ALAMEDA
CARPINTERIA	$68.66	SANTA BARBARA
BEAUMONT	$68.21	RIVERSIDE
REEDLEY	$64.62	FRESNO
BELMONT	$64.09	SAN MATEO
LA CANADA FLINTRIDGE	$63.40	LOS ANGELES
LEMON GROVE	$63.30	SAN DIEGO
DUARTE	$63.27	LOS ANGELES

City	Per capita Sales Tax Revenue	County
SAN ANSELMO	$62.78	MARIN
NORCO	$61.30	RIVERSIDE
CLEARLAKE	$61.23	LAKE
DELANO	$61.05	KERN
DINUBA	$58.47	TULARE
SANGER	$56.86	FRESNO
BRAWLEY	$56.46	IMPERIAL
ROCKLIN	$54.61	PLACER
BANNING	$54.33	RIVERSIDE
SOUTH PASADENA	$53.60	LOS ANGELES
LEMOORE	$53.44	KINGS
LOMITA	$52.35	LOS ANGELES
SHAFTER	$51.80	KERN
HAWAIIAN GARDENS	$51.32	LOS ANGELES
GROVER CITY	$49.77	SAN LUIS OBISPO
LA QUINTA	$48.78	RIVERSIDE
COACHELLA	$46.93	RIVERSIDE
FILLMORE	$45.75	VENTURA
TWENTYNINE PALMS	$45.65	SAN BERNARDINO
CORCORAN	$42.83	KINGS
GALT	$42.52	SACRAMENTO
MORAGA	$39.28	CONTRA COSTA
ATWATER	$37.34	MERCED
ORINDA	$34.75	CONTRA COSTA
DESERT HOT SPRINGS	$34.26	RIVERSIDE
SAN JACINTO	$34.07	RIVERSIDE
WASCO	$31.90	KERN
CUDAHY	$31.34	LOS ANGELES
PORT HUENEME	$28.80	VENTURA
SUISUN CITY	$25.62	SOLANO
SAN MARINO	$24.90	LOS ANGELES
RIVERBANK	$24.37	STANISLAUS
HERCULES	$24.26	CONTRA COSTA
GRAND TERRACE	$24.04	SAN BERNARDINO
CALIMESA	$20.63	RIVERSIDE
SOLEDAD	$15.97	MONTEREY
SIERRA MADRE	$15.86	LOS ANGELES
PIEDMONT	$12.76	ALAMEDA
PALOS VERDES ESTATES	$11.26	LOS ANGELES
EAST PALO ALTO	$11.09	SAN MATEO
AVENAL	$10.32	KINGS
CANYON LAKE	$6.61	RIVERSIDE
HILLSBOROUGH	$6.54	SAN MATEO
AMERICAN CANYON	$1.63	NAPA

Cities From 25,000 to 50,000 - Ranked by Per Capita Sales Tax Revenues FY 1991/92

City	Per capita Sales Tax Revenue	County
BEVERLY HILLS	$357.34	LOS ANGELES
MONTCLAIR	$282.55	SAN BERNARDINO
CULVER CITY	$255.30	LOS ANGELES
BREA	$242.90	ORANGE
DUBLIN	$210.39	ALAMEDA
BURLINGAME	$204.71	SAN MATEO
EUREKA	$198.17	HUMBOLDT
TEMECULA	$178.97	RIVERSIDE
WEST HOLLYWOOD	$174.49	LOS ANGELES
MENLO PARK	$171.39	SAN MATEO
SAN RAMON	$167.66	CONTRA COSTA
CHICO	$167.58	BUTTE
CUPERTINO	$159.17	SANTA CLARA
CAMPBELL	$154.64	SANTA CLARA
VICTORVILLE	$147.29	SAN BERNARDINO
SAN MARCOS	$144.18	SAN DIEGO
NEWARK	$143.58	ALAMEDA
MONTEREY	$143.17	MONTEREY
PLEASANT HILL	$138.99	CONTRA COSTA
SAN LUIS OBISPO	$137.41	SAN LUIS OBISPO
LOS GATOS	$135.23	SANTA CLARA
YUBA CITY	$134.67	SUTTER
SAN BRUNO	$132.00	SAN MATEO
COVINA	$130.53	LOS ANGELES
GILROY	$128.64	SANTA CLARA
WEST SACRAMENTO	$128.21	YOLO
SAN CARLOS	$124.77	SAN MATEO
MANHATTAN BEACH	$120.77	LOS ANGELES
PALM SPRINGS	$118.85	RIVERSIDE
MONROVIA	$118.78	LOS ANGELES
CATHEDRAL CITY	$110.98	RIVERSIDE
ARCADIA	$110.26	LOS ANGELES
PETALUMA	$109.47	SONOMA
WOODLAND	$103.27	YOLO
EL CENTRO	$102.55	IMPERIAL
COLTON	$101.25	SAN BERNARDINO
SAN JUAN CAPISTRANO	$99.45	ORANGE
HANFORD	$98.57	KINGS
MADERA	$97.74	MADERA
WATSONVILLE	$95.04	SANTA CRUZ
INDIO	$89.07	RIVERSIDE
FOSTER CITY	$88.51	SAN MATEO
BENICIA	$86.81	SOLANO
CYPRESS	$86.10	ORANGE
LA MIRADA	$85.18	LOS ANGELES
HEMET	$83.29	RIVERSIDE
PORTERVILLE	$82.60	TULARE
MORGAN HILL	$82.15	SANTA CLARA
MARTINEZ	$81.54	CONTRA COSTA
STANTON	$81.37	ORANGE
TURLOCK	$80.46	STANISLAUS

City	Per capita Sales Tax Revenue	County
LOS ALTOS	$77.09	SANTA CLARA
TULARE	$76.92	TULARE
DANVILLE	$75.53	CONTRA COSTA
SEASIDE	$74.39	MONTEREY
SAN PABLO	$73.39	CONTRA COSTA
RIDGECREST	$73.18	KERN
NOVATO	$72.02	MARIN
MANTECA	$69.08	SAN JOAQUIN
PERRIS	$67.04	RIVERSIDE
FOLSOM	$66.31	SACRAMENTO
SAN GABRIEL	$65.93	LOS ANGELES
PLACENTIA	$64.94	ORANGE
SAN DIMAS	$64.43	LOS ANGELES
CERES	$63.15	STANISLAUS
ROHNERT PARK	$61.43	SONOMA
CLAREMONT	$61.18	LOS ANGELES
POWAY	$58.87	SAN DIEGO
LAWNDALE	$58.70	LOS ANGELES
TRACY	$58.45	SAN JOAQUIN
SAN CLEMENTE	$58.38	ORANGE
GLENDORA	$57.83	LOS ANGELES
LA VERNE	$57.43	LOS ANGELES
PITTSBURG	$55.42	CONTRA COSTA
MALIBU	$53.67	LOS ANGELES
AZUSA	$53.23	LOS ANGELES
DAVIS	$51.96	YOLO
LOMPOC	$50.86	SANTA BARBARA
BELL	$50.35	LOS ANGELES
SEAL BEACH	$48.94	ORANGE
CORONADO	$46.33	SAN DIEGO
TEMPLE CITY	$45.97	LOS ANGELES
SANTA PAULA	$45.97	VENTURA
PARADISE	$43.82	BUTTE
LA PUENTE	$37.34	LOS ANGELES
LAGUNA HILLS	$34.66	ORANGE
CALABASAS	$34.21	LOS ANGELES
WALNUT	$33.16	LOS ANGELES
MOORPARK	$30.31	VENTURA
MAYWOOD	$29.02	LOS ANGELES
BELL GARDENS	$28.17	LOS ANGELES
PACIFICA	$23.18	SAN MATEO
MARINA	$21.54	MONTEREY
RANCHO PALOS VERDES	$20.87	LOS ANGELES
YUCCA VALLEY	$20.83	SAN BERNARDINO
HIGHLAND	$19.17	SAN BERNARDINO
IMPERIAL BEACH	$18.24	SAN DIEGO
MURRIETA	$17.89	RIVERSIDE

Cities From 50,000 to 100,000 - Ranked by Per Capita Sales Tax Revenues FY 1991/92

City	Per capita Sales Tax Revenue	County
CERRITOS	$281.97	LOS ANGELES
PALO ALTO	$260.81	SANTA CLARA
SANTA CLARA	$253.83	SANTA CLARA
COSTA MESA	$232.93	ORANGE
SAN RAFAEL	$198.47	MARIN
SAN LEANDRO	$190.04	ALAMEDA
PLEASANTON	$184.69	ALAMEDA
SANTA MONICA	$176.87	LOS ANGELES
MOUNTAIN VIEW	$173.48	SANTA CLARA
SOUTH SAN FRANCISCO	$169.45	SAN MATEO
TUSTIN	$167.68	ORANGE
WALNUT CREEK	$167.23	CONTRA COSTA
ROSEVILLE	$165.58	PLACER
NATIONAL CITY	$158.79	SAN DIEGO
CARSON	$157.59	LOS ANGELES
REDDING	$152.69	SHASTA
NEWPORT BEACH	$151.42	ORANGE
REDWOOD CITY	$140.75	SAN MATEO
EL CAJON	$139.20	SAN DIEGO
SANTA BARBARA	$135.85	SANTA BARBARA
SAN BUENAVENTURA	$135.81	VENTURA
SAN MATEO	$134.23	SAN MATEO
CARLSBAD	$132.85	SAN DIEGO
BURBANK	$128.96	LOS ANGELES
FOUNTAIN VALLEY	$128.19	ORANGE
SANTA MARIA	$128.18	SANTA BARBARA
MILPITAS	$126.70	SANTA CLARA
REDONDO BEACH	$119.99	LOS ANGELES
VISALIA	$119.30	TULARE
LA MESA	$117.34	SAN DIEGO
BUENA PARK	$116.55	ORANGE
GARDENA	$112.11	LOS ANGELES
MONTEBELLO	$111.87	LOS ANGELES
WESTMINSTER	$107.05	ORANGE
SANTA CRUZ	$102.76	SANTA CRUZ
LODI	$100.59	SAN JOAQUIN
CLOVIS	$99.20	FRESNO
FAIRFIELD	$96.71	SOLANO
RICHMOND	$90.47	CONTRA COSTA
CORONA	$89.31	RIVERSIDE
LAKEWOOD	$88.30	LOS ANGELES
NAPA	$88.05	NAPA
MERCED	$87.80	MERCED
DOWNEY	$86.21	LOS ANGELES
UPLAND	$85.67	SAN BERNARDINO
WHITTIER	$82.65	LOS ANGELES
WEST COVINA	$80.14	LOS ANGELES
CHINO	$78.85	SAN BERNARDINO
REDLANDS	$78.21	SAN BERNARDINO
LA HABRA	$77.65	ORANGE
LIVERMORE	$74.96	ALAMEDA

City	Per capita Sales Tax Revenue	County
ALHAMBRA	$73.81	LOS ANGELES
ENCINITAS	$71.29	SAN DIEGO
FONTANA	$70.83	SAN BERNARDINO
HAWTHORNE	$67.78	LOS ANGELES
PARAMOUNT	$67.58	LOS ANGELES
NORWALK	$67.12	LOS ANGELES
CAMARILLO	$65.55	VENTURA
ANTIOCH	$64.97	CONTRA COSTA
SANTEE	$64.19	SAN DIEGO
PALMDALE	$61.81	LOS ANGELES
VACAVILLE	$61.64	SOLANO
PICO RIVERA	$61.24	LOS ANGELES
BELLFLOWER	$58.14	LOS ANGELES
MONTEREY PARK	$57.84	LOS ANGELES
DALY CITY	$56.33	SAN MATEO
ALAMEDA	$55.44	ALAMEDA
HUNTINGTON PARK	$54.19	LOS ANGELES
ROSEMEAD	$52.81	LOS ANGELES
RIALTO	$50.06	SAN BERNARDINO
UNION CITY	$49.79	ALAMEDA
YORBA LINDA	$48.38	ORANGE
LAGUNA NIGUEL	$48.17	ORANGE
SOUTH GATE	$45.17	LOS ANGELES
COMPTON	$45.05	LOS ANGELES
VISTA	$44.88	SAN DIEGO
HESPERIA	$41.45	SAN BERNARDINO
DANA POINT	$39.68	ORANGE
DIAMOND BAR	$30.58	LOS ANGELES
BALDWIN PARK	$29.79	LOS ANGELES
LYNWOOD	$28.15	LOS ANGELES
YUCAIPA	$21.39	SAN BERNARDINO
APPLE VALLEY	$19.96	SAN BERNARDINO
LAKE FOREST	$17.78	ORANGE
CHINO HILLS	$3.48	SAN BERNARDINO

Cities From 100,000 to 250,000 - Ranked by Per Capita Sales Tax Revenues FY 1991/92

City	Per capita Sales Tax Revenue	County
IRVINE	$197.08	ORANGE
TORRANCE	$187.29	LOS ANGELES
HAYWARD	$170.71	ALAMEDA
SUNNYVALE	$167.92	SANTA CLARA
ORANGE	$160.57	ORANGE
SANTA ROSA	$152.72	SONOMA
PASADENA	$146.93	LOS ANGELES
CONCORD	$143.78	CONTRA COSTA
BAKERSFIELD	$140.59	KERN
ESCONDIDO	$131.88	SAN DIEGO
SAN BERNARDINO	$113.88	SAN BERNARDINO
THOUSAND OAKS	$112.15	VENTURA
BERKELEY	$111.27	ALAMEDA
ONTARIO	$108.76	SAN BERNARDINO
FULLERTON	$108.29	ORANGE
GLENDALE	$97.43	LOS ANGELES
SALINAS	$95.84	MONTEREY
RIVERSIDE	$94.36	RIVERSIDE
MODESTO	$93.17	STANISLAUS
FREMONT	$91.48	ALAMEDA
HUNTINGTON BEACH	$86.60	ORANGE
STOCKTON	$86.29	SAN JOAQUIN
EL MONTE	$85.09	LOS ANGELES
OXNARD	$83.58	VENTURA
CHULA VISTA	$82.38	SAN DIEGO
LANCASTER	$79.07	LOS ANGELES
GARDEN GROVE	$76.03	ORANGE
SANTA CLARITA	$71.49	LOS ANGELES
VALLEJO	$62.44	SOLANO
SIMI VALLEY	$61.85	VENTURA
INGLEWOOD	$58.76	LOS ANGELES
POMONA	$57.72	LOS ANGELES
RANCHO CUCAMONGA	$57.49	SAN BERNARDINO
MISSION VIEJO	$56.24	ORANGE
OCEANSIDE	$50.39	SAN DIEGO
MORENO VALLEY	$35.41	RIVERSIDE

Cities Over 250,000 - Ranked by Per Capita Sales Tax Revenues FY 1991/92

City	Per capita Sales Tax Revenue	County
SAN FRANCISCO	$114.42	SAN FRANCISCO
ANAHEIM	$110.51	ORANGE
SAN DIEGO	$99.84	SAN DIEGO
FRESNO	$96.60	FRESNO
SANTA ANA	$93.21	ORANGE
SAN JOSE	$89.69	SANTA CLARA
SACRAMENTO	$88.94	SACRAMENTO
LOS ANGELES	$75.53	LOS ANGELES
OAKLAND	$69.64	ALAMEDA
LONG BEACH	$61.21	LOS ANGELES

Counties Ranked by Per Capita
(Unincorporated area)
Sales Tax Revenue
FY 1991/92

Name	Per Capita Sales Tax	Total Sales Tax
SAN MATEO	$230.81	$13801957
ALPINE	$196.43	$234739
YOLO	$138.36	$1325862
NAPA	$125.84	$3056962
ORANGE	$114.00	$11709981
STANISLAUS	$102.43	$10121273
SACRAMENTO	$96.63	$64310319
SOLANO	$74.91	$1639557
MARIPOSA	$73.86	$1153713
PLACER	$73.15	$6369103
PLUMAS	$67.24	$1243634
ALAMEDA	$64.78	$13054052
FRESNO	$63.73	$10489412
COLUSA	$62.12	$575569
KERN	$62.00	$17074043
SAN BERNARDINO	$61.16	$15019249
MONO	$57.40	$307560
IMPERIAL	$56.71	$1488276
VENTURA Y	$53.67	$4813481
TUOLUMNE	$53.35	$2527442
SONOMA	$50.18	$8392929
SANTA BARBARA	$49.95	$7929501
CALAVERAS	$48.77	$1604612
NEVADA	$48.48	$3460396
CONTRA COSTA	$48.29	$7765324
MENDOCINO	$47.87	$2712116
INYO	$47.75	$727567
AMADOR	$47.37	$866861
SAN JOAQUIN	$47.30	$6010472
MONTEREY	$46.02	$4273025
SAN BENITO	$43.00	$699226
MADERA	$42.58	$2508173
GLENN	$42.06	$599164
LAKE	$41.87	$1560219
TRINITY	$40.46	$544907
SIERRA	$38.57	$93771
EL DORADO	$38.15	$4040193
LOS ANGELES	$37.27	$33136115
SUTTER	$37.16	$1262661
LASSEN	$36.63	$619558
KINGS	$36.28	$1247120
SANTA CRUZ	$35.68	$4663342
RIVERSIDE	$34.54	$12269864
SAN LUIS OBISPO	$34.07	$3122567
TULARE	$34.03	$4678791
MERCED	$33.57	$2442469
MARIN	$33.45	$2200199
BUTTE	$29.43	$3025252
SHASTA	$29.27	$2233855
HUMBOLDT	$28.60	$1855499
DEL NORTE	$24.40	$473008

Name	Per Capita Sales Tax	Total Sales Tax
SAN DIEGO	$23.74	$9970643
SANTA CLARA	$22.49	$2948976
YUBA	$22.18	$1034197
MODOC	$21.59	$146844
TEHAMA	$20.86	$694635
SISKIYOU	$19.69	$471761

APPENDIX B

WRITTEN TESTIMONY OF
DAN WALL

STATEMENT OF DAN WALL ON AB 3505
TO THE ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
October 7, 1994

In spite of all allegations that it will bring about the end of civilization as we know it, AB 3505 does only one thing. It gradually moves all cities and counties in California from the current point-of-sale or situs allocation of sales tax to an allocation on the basis of population. It accomplishes this by using the growth in sales tax revenues to finance the transition from situs to population so that all cities and counties are guaranteed the same amount of sales taxes that they received in the prior year plus some growth. All things considered, the method proposed in AB 3505 is the least painless way to change the current system.

Obviously, I absolutely believe that we need to change the current sales tax allocation or I would not be here today. The disparities among all the cities and counties receiving sales taxes is enormous and growing. The current allocation of sales tax rewards cities and counties which have relatively more retail outlets regardless of the demand for services. AB 3505 provides California with a sales tax distribution system which more closely matches sales tax revenues to service needs in cities and counties.

It is also clear that the situs allocation of sales tax greatly encourages cities to pursue commercial development over both industrial and residential development. This incentive is so strong that cities and counties actually attempt to "steal" sales tax generators from other localities. AB 3505 corrects this lopsided approach to development by bringing the incentive for retail/commercial development into line with the incentives for industrial and residential development and by greatly reducing the potential for sales tax raids.

One of the more astounding criticisms of AB 3505 is made by manufacturers who say that it creates a "disincentive to business expansion in California". No doubt these manufacturers are not the same ones who for years have observed that the situs allocation of sales taxes greatly favors commercial development over manufacturing. There is an extraordinary irony in this argument. Manufacturers are far and away the biggest losers in the local bidding wars for development under the current situs method of allocating sales tax. Look around your districts at the newest businesses. The vast majority of them are in the business of retail sales: Auto dealers and auto malls; shopping malls; so-called "big box" retailers; factory outlets; and fast food stores.

You cannot seriously believe that this is an appropriate, balanced long-term strategy for our state. We need more, higher paying jobs in manufacturing and we need more housing which is available and affordable for people in all income brackets. A state economy dominated by consumption and retailing cannot sustain our citizens for very long. Consumption must occur hand-in-hand with investment in production of capital goods which are not consumed and which ultimately create long-term, sustainable wealth.

This bill is about an issue that has been debated and bemoaned for over 25 years. Tax base sharing is not a new concept, nor is the Legislature's refusal to deal with it. We have had endless hearings on Restructuring and Realignment, Growth Management and Regional Government. Collectively they have not produced much in the way of tangible improvement. AB 3505 is an attempt to deal with something quite tangible and which is contributing to a dysfunctional system of financing government and a dysfunctional approach to economic development. The last four years ought to convince each and every one of you that the status quo is not the answer to any of our problems.

Yet, all of the opposition to AB 3505 can be reduced to an article of faith that the status quo is the best possible course into the future or a rationale to permit jurisdictions with the fattest slice of the sales tax to hold onto that slice no matter what the consequences are for other local jurisdictions or for the rest of the State.

AB 3505 is real movement in the right direction for serious problems in government finance and land use decision-making which will benefit all of California over the long-term. I also know that all change is painful, but AB 3505 clearly provides the most benefit with the least amount of pain, and so I urge the members of this Committee to recommend to the Assembly that this issue move forward in the 1995 session.

Thank you for your consideration.

APPENDIX C

WRITTEN TESTIMONY OF
JOHN W. STINSON

Presentation by John W. Stinson before the California Legislative Assembly Committee on Local Government regarding Allocation of Sales Tax and Other Local Government Revenues: Developing Workable Incentives for Balanced Development.

Friday, October 7, 1994, 9:00 a.m.

After reading Assembly Bill 3505, I am reminded of the man who tried to cure a sprained ankle by cutting off his leg. His ankle didn't hurt any more, but he could no longer stand up or walk. Similarly, this bill attempts to cure the problem, but in fact it creates more serious problems, particularly for cities.

With that said, I would like to focus on those issues which we should be addressing to encourage logical and efficient development and the efficient provision of public services.

Cities were created, historically, to provide for public safety and for economic purposes. They are centers of trade and commerce and they provide opportunities to buy and distribute goods and services. Cities are the economic engines of our state and our country. People and industry are attracted to cities for these reasons.

One way to address the fiscalization of land use is to encourage development to occur within cities. Most cities typically have, or strive to have, a balance of commercial, industrial and residential development. The distribution of sales tax from a situs to per capita basis will not solve the fiscalization of land use. It will simply change the rules of the game. Instead of desiring sales tax generating businesses, the focus will then shift to attracting residential development. We need~~s~~ to encourage a balance of commercial, industrial and residential development in communities to provide the necessary jobs/housing balance and to adequately fund required public services. It will be counterproductive if we encourage the development of residential bedroom communities as a result of the proposed change in sales tax distribution.

In order to make cities efficient and competitive, we should encourage development which is economical. This means they should be compact in order to provide public infrastructure (streets, water lines and sewers) in a cost effective manner. For example, it is more economical to have sewer service for an area provided by a single treatment plant rather than by several plants with differing collection and/or disposal systems. In addition, there should not be duplication of services caused by a crazy quilt of jurisdictions (cities, counties, and special districts) providing similar or overlapping services.

We need to focus on simplification of government and the provision of services. To that end, there should be incentives (or at least remove the current impediments) to consolidate governmental entities. Local Agency Formation Commissions should be encouraging annexation to cities of adjacent, inhabited lands.

In Bakersfield, we recently processed an inhabited annexation after fighting with LAFCO for over a year. This county area was a high crime area which was crossed by City Police on a regular basis. Residents in this area use nearby City parks and were illegally dumping refuse in adjacent City bins because the County does not require garbage collection. This area clearly was part of the City and received City services which they did not pay for. Because of bureaucracy at LAFCO and unreasonableness by some county officials regarding property tax allocation, this annexation was seriously threatened. County officials were concerned about losing revenues for social services. They did not understand the relationship between the City positively addressing neighborhood crime problems and their reduced social service costs.

Another example of service duplication is in our parks and recreation services. They are provided by both the City and a special recreation and park district. This results in two levels of service for City residents. LAFCO should encourage the consolidation of these entities instead of having the public supporting two administrative and governing bodies. These are additional costs which are not necessary.

AB3505 and other recent fiscal reforms focus on the zero sum equation of how we distribute revenues. This focus on winners and losers is counterproductive. We should, instead, make governments work better together through consolidation and cooperation. We don't have to take revenues from other entities if we make the best use of the resources we already have.

Local Government finances were changed drastically with the passage of Proposition 13. They continue to be changed by state actions into such an arcane system that the public has little or no idea where the money comes from or where it is spent for public services. There is little logic or common sense in the way we fund public services.

Common sense tells us that we should diversify our revenue sources. We should not put all of our eggs in one basket. We should have a mix of revenues. We should have stable revenues that we can depend and rely upon so we may plan for the future, such as property taxes, business licenses and vehicle license fees. We should also have revenues which provide incentives to take economic risks, such as sales taxes. And, we should have revenues that are flexible and represent the public's desired level of service, such as user fees and charges. It does not make good fiscal sense for local government to rely on a limited base of revenues. Diversity in revenues results in fiscal stability. Cities should have the ability to encourage economic growth and retention of businesses through local tax policies.

In conclusion, I would like to restate my major recommendations:

- We should encourage the development of cities in a centralized compact manner which discourages leap frog development, service duplication and provides the most economical provision of public infrastructure.

- We should encourage commercial, retail business, manufacturing and residential growth to occur within cities. This provides for necessary jobs and housing while providing the fiscal resources to provide public services. There should be a balance of commercial, retail business, manufacturing and residential uses within cities.

- We need to encourage consolidation and/or cooperation between governmental entities (Cities, Counties and Special Districts) and functions, where possible, to take advantage of economies of scale.

- We should provide a diversity of revenue streams, both stable (Property Tax, Business Licenses, Motor Vehicle Tax) and dynamic (Sales Tax, User Fees, etc.) which provide for basic services and respond to user demands. Cities should be able to make revenue choices based on local citizen desires and willingness to pay.

APPENDIX D

WRITTEN TESTIMONY OF
KENNETH BLACKMAN

October 7, 1994 Assembly Committee on Local Government Hearing
Allocation of Sales Tax and Other Local Government Revenues
Comments by Kenneth R. Blackman, City Manager, City of Santa Rosa

Introduction:

Members of the Assembly Committee on Local Government, on behalf of the City of Santa Rosa, I would like to thank you for the opportunity to provide input as to the impact of proposed legislation such as AB 3505, on the City of Santa Rosa. The City of Santa Rosa, located sixty miles north of San Francisco, is a community of 125,000 that serves as the primary commercial center for Sonoma County. As such, the City of Santa Rosa has a high level of commercial development and corresponding infrastructure to support the commercial sector of the City. Local sales taxes are the most significant revenue source providing the funding for commercial sector municipal services and that is the reason we voiced our concerns about AB 3505 when it was first proposed. I think we understand the underlying goals of AB 3505 and have come here to present some alternatives which we believe can achieve those goals. I have organized my comments by the pre-selected panel discussion topics as follows:

Under what context should a proposal such as AB 3505 be considered?

Why AB 3505 Was Proposed:
AB 3505 was proposed as a method of balancing incentives for land use decisions, along with an added benefit of stabilizing revenues. The proposal essentially involved converting local sales tax allocation from a situs-based to a per capita-based allocation.

Unintended and Undesirable Side Effects of AB 3505:
We believe the proposed legislation, as it was originally structured, would generate some unintended and undesirable side effects.

One effect would be a diversion of revenues away from agencies that provide municipal services to sales tax-generating businesses and giving those revenues to other local government agencies.

Another effect would be replacing an existing unbalanced land use planning condition with another. Incentives for commercial development would be eliminated and replaced by incentives favoring increased population density.

Sales Tax Revenues Are Important In Financing Local Government:
We believe AB 3505 needs to be viewed in context with the relative importance of sales tax revenues in financing local government.

Sales taxes represent one of the largest general government revenue sources financing the delivery of municipal services in California.

In Santa Rosa, approximately 1/3 of all general municipal service funding is provided by sales taxes.

These taxes are generated by a range of business types including light manufacturing, building materials wholesaling, restaurants, auto sales, newspaper sales, gasoline sales and other general retailing.

The sales tax revenues generated in the city are a result of a high level of commercial development and activity, requiring a correspondingly high level of municipal services.

In Santa Rosa it is estimated that over 1/2 of the cost of police services, over 1/3 of the cost of fire services and over 1/4 of the costs of road maintenance and infrastructure costs are related to sales tax-generating business activities.

We believe any discussion involving alteration of the method of distributing local sales tax revenues should give consideration to the fact that the costs of providing municipal services to sales tax-generating business are borne by the municipality where the business is located.

<u>A Continuation Of Funding Is Needed To Support Services To Existing Sales Tax-Generating Businesses:</u>
We suggest that any plan dealing with changing the formula for allocating local sales tax revenues should maintain the necessary level of funding for the provision of municipal services to the existing commercial infrastructure. This could be accomplished by continuing the current level of sales tax to local governments. Given that the costs of providing services to existing businesses increase with inflation, the base should be increased by an inflation factor such as the Consumer Price Index in order to maintain service levels to the existing commercial infrastructure.

<u>Concentrate Revenue Reallocation Strategies On New Incremental Revenue Sources:</u>
We suggest that discussion related to altering the formula for allocating sales tax revenues be focused on new, incremental revenue sources. Since new sales tax revenues are the result of new sales tax-generating businesses, we believe part of that discussion should recognize that new businesses require new incremental services and result in an increase in municipal costs.

<u>Revenue Sources To Fund Delivery Of Municipal Services For Incremental Development Are Not Adequate</u>:
Given that funding of municipal services for the existing infrastructure has been reduced by property tax shifts over the past several years, municipalities are not in a financial position to take on any additional service delivery requirements without offsetting revenues. In Santa Rosa, financial feasibility studies for new area mixed-use development plans are showing an inability for the city to fund

municipal service delivery from the current local government revenue structure. Traditional revenue sources such as property taxes are not sufficient to pay for extension of existing levels of municipal services to newly developed areas. Local sales tax is currently the only revenue source that makes new development financially feasible in Santa Rosa.

What other local revenue allocation schemes need to be reconsidered for the purpose of:

(1) Creating incentives for balanced development: (i.e., incentives for achieving a balance in residential, commercial, industrial, and manufacturing development) and adequate financing for related infrastructure?

2) Diversifying and stabilizing local governments' revenue bases?

We agree that the current allocation of local government revenues does not provide incentives for balanced development. In Santa Rosa, we have been struggling to promote balanced development in spite of the financial disincentives for land uses such as low-cost housing. Considering changes to the current allocation of local government revenues in order to promote balanced development is a valid approach. AB 3505 was proposed to promote this type of change by reallocating local sales taxes. We believe there are a number of possible alternatives to the AB 3505 per capita-based sales tax allocation, which could both create incentives for balanced development and stabilize local government's revenue bases. The alternatives identified below primarily concentrate on new, incremental revenues because existing revenues provide the funding for maintenance of existing infrastructure.

(1) Expand the Revenue Sources Under Discussion To Include Property Taxes And Public Safety Augmentation Sales Taxes:
One alternative is to expand the revenue sources under discussion to include incremental property taxes and public safety (Proposition 172) sales taxes that result from new development.

The current problem with incentives for balanced development is not that there is too much financial incentive for sales tax-generating development, but rather, there are not sufficient financial incentives to develop non-sales tax-generating land uses.

Property taxes allocated to municipalities are inadequate to pay for the services to newly developed land uses that do not produce additional revenues such as sales tax.

Public safety sales tax revenues are not allocated to the municipality providing safety services for new commercial development, but rather, are allocated on a formula related to the 1993-94 property tax shift.

By expanding the discussion to include these revenue sources a broader, more comprehensive reallocation plan could be developed. The allocation formulas for each of the revenue sources could be coordinated to achieve the desired incentives for balanced development. For example, incentives for low-cost housing could be enhanced by making the municipal share of property taxes high enough to offset the incremental costs of providing services and incremental public safety sales taxes could be used as replacement revenues to the agency giving up a share of property taxes.

Coordinating the distribution of these three revenue sources would help diversify and stabilize local government revenues by spreading the municipal service burden more rationally among the three revenue sources.

(2) Expand the Sales Tax Base To Include Services:
A second alternative is to expand the sales tax base to include services. This would:

Increase financial incentives to promote development of service-providing businesses.

Provide incremental revenues to pay for municipal services to new service industry businesses.

Provide new revenues generated from existing service businesses which could be used as a potential source for achieving other balanced development goals.

Provide for a reduction in the overall local sales tax rate in order to remain revenue-neutral.

Be consistent with trends in other states which have sales tax bases that include services, such as: New York, Connecticut, Massachusetts, New Mexico, Hawaii, Iowa, South Dakota, Texas and Wyoming.

Aid in balancing the incentive mix by increasing incentives for service sector commercial development.

Serve to diversify and stabilize revenues by broadening the sales tax base.

(3) Expand The Sales Tax Base To Include Food Sales:
A third alternative is to expand the sales tax base to include sale of food.

It is estimated that approximately 33% of food store sales are currently taxable in Sonoma County.

If the base were expanded to include food, food store-based sales tax revenues could be tripled and total sales tax revenues increased approximately 13%.

Since development of stores which sell food are a by-product of housing-based development, broadening the sales tax base to include food would provide revenues to finance additional municipal services related to housing.

This approach:

- Could be made revenue-neutral by lowering the overall local sales tax rate by approximately 10%.
- Would promote a balancing of development incentives in favor of housing.
- Would serve to diversify and stabilize revenues by broadening the sales tax base.

(4) Allow Local Government To Tax Financial Institutions:
A fourth alternative is to introduce legislation which would allow local government to tax financial institutions.

Financial institutions require a high level of municipal services such as police protection, but are exempt from local taxes.

By allowing the taxation of financial institutions, a new revenue source would be available to finance municipal service delivery required by new development.

This would serve to promote balanced development of new commercial areas by providing a financial incentive for non-retail-based business development.

This would diversify the revenue base.

(5) Reallocate Property Taxes And Sales Taxes With Schools:
A fifth alternative is to reallocate all incremental property taxes currently received by schools to municipalities and replace funding to schools with equal incremental sales tax funding.

A portion of new incremental sales taxes, equal to the property taxes shifted from the schools, could be redistributed by the state to the schools.

Municipalities would have a higher level of property tax revenues to offset the incremental costs of providing services to a broader spectrum of land uses.

This would serve to stabilize local government revenues by financing a larger proportion of municipal service delivery for new development with property taxes, which is a less volatile revenue source than sales taxes.

(6) Require Situs-Based Allocation Of Local Sales/Use Tax For Manufacturing Facilities:
A sixth alternative, which would promote development of manufacturing facilities, is to pass legislation to require the State Board of Equalization (SBE) to use situs-based allocation of local sales/use tax for manufacturing facilities.

The current practice has been to pool the sales/use tax, which does not provide the revenues to the municipality providing the services.

The SBE has been allocating, through pools, over $220 million dollars per year statewide, and over $3 million per year in Sonoma County, of local sales/use tax revenues from manufacturing businesses.

Situs-based allocation would provide an incentive to attract and retain manufacturing facilities because revenues would be available to pay for the delivery of municipal services.

Summary:

In summary, the City of Santa Rosa supports the goal to alter the financial incentives for new development in favor of balanced development. The current allocation structure of local government revenues does not provide the necessary funding to finance the delivery of municipal services for all types of land use. We believe we have identified a number of alternatives to the current allocation structure and to a per capita sales tax allocation plan as was included in AB 3505, which could achieve the goal of balanced development These alternatives include:

- Expand the revenue sources under discussion to include Property Taxes and Public Safety Augmentation sales taxes.
- Expand the sales tax base to include services and/or food sales.
- Allow local government to tax financial institutions.
- Reallocate incremental property taxes from schools and replace the funding to schools with incremental sales taxes.
- Require situs-based allocation of sales/use taxes related to manufacturing businesses.

APPENDIX E

WRITTEN TESTIMONY OF
MICHAEL BIERMAN

City of
FRESNO

Michael A. Bierman
City Manager

ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES: DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT

Friday, October 7, 1994, 9:00 a.m. to 1:00 p.m.

State Capitol, Room 126

STATEMENT OF MICHAEL A. BIERMAN, CITY MANAGER
CITY OF FRESNO, CALIFORNIA

2600 Fresno Street • Fresno, California 93721-3601 • 209-498-2782 • FAX 209-488-1015

The context that a proposal such as AB3505 should be considered would be in the larger discussion of available revenue sources. There simply isn't enough money to go around and slicing the pie smaller doesn't solve anything. In Fresno, under this legislation, the County would be the clear winner. The City uses an Urban Growth Model for annexations which evaluates the impact of development. Residential development costs the City money. Existing resources have to be stretched further because it doesn't cover its costs and there is no new revenue available to help. If the way sales tax is distributed is changed as described, the County would receive revenue for services they don't have to provide. Nice legislation if you can get it.

This brings us back to the main question of how to achieve balanced development? I would argue that the lack of balanced development is only a symptom of a larger problem; namely a lack of resources. This lack of resources applies to existing and new revenue sources. Due to the constraints of Prop 13 and the mood of the public, new revenue resources have not been an option. Measures are put on the ballot and, because most need a 2/3 majority, the measure doesn't make it; even if it passes by a simple majority. Politicians are understandably leery of tax increase talk. Since new revenue has not been an option and yet the services still need to be provided, we have evolved to strategies or legislation such as this, where we try to divide the pie even smaller. This is not going to solve the problem—it only prolongs it.

I would suggest that we fundamentally change how we allocate revenues and stop pitting jurisdictions against each other. Squabbling over revenue makes us all look ridiculous and doesn't get us anywhere. The irony is that we all want to do a good job serving the public, but no one wants to put aside their interests and make the hard decisions that are necessary. Simply put, everyone wants to go to heaven but no one wants to die.

As a starting point, I would suggest that we examine how other states allocate revenue. In Ohio, where I'm from, each public agency has its own revenue source. The State operates from income tax; schools run off of property tax; counties from sales tax; and the cities have an earnings tax which are used to provide services. The State does not try to take away or redistribute funds from these groups. This allows the public agencies to focus on their primary mission of serving the residents in their community. AB3505 will not help us to accomplish this mission.

APPENDIX F

WRITTEN TESTIMONY OF
DAVE ELDER

OFFICE OF THE CITY AUDITOR
City of Long Beach
333 W. Ocean Blvd.
Long Beach, CA 90802
Telephone: 310-570-6751
Telecopier: 310-570-6167

GARY L. BURROUGHS, CPA
City Auditor

October 13, 1994

Mike Gotch, Chairman
Assembly Committee on Local Government
State Capitol, Room 3120
Sacramento, CA 95814

Dear Chairman Gotch:

Thank you for allowing a representative from this office to testify before your Local Government Committee last Friday, October 7, on Developing Workable Incentives for Balanced Development.

As you will recall, our major concern expressed during the hearing was that manufacturing location incentives for local government are being jeopardized by the informal, and in our opinion, illegal "pooling" policies of the State Board of Equalization. Statewide, about 220 million dollars each year is being misallocated to county pools and away from host cities which have manufacturing in their jurisdiction. These pools are then distributed to cities and unincorporated areas in that county based on prorata retail sales taxes received by each city and the unincorporated area of that county.

Our testimony was not an argument against county pools, but rather a suggestion that pool distributions of business to business sales and use taxes are improper because the law states that such taxes be distributed on a situs or where the business is located basis. If this approach is not followed, local government will have little incentive to seek potential industrial firms because they will lack the money to offer location incentives such as sales tax rebates or pay for the increased costs of public services required for the proposed industrial development.

If the Legislature can correct the current misallocation of sales and use taxes for business to business transactions, California will have gone a long way toward "Developing Workable Incentives for Balanced Development." Once the misallocation question is resolved, the Legislature could then deal with what "real inequities" may then remain between cities and between counties and cities.

Specifically, this office recommended the following:

1. Require full situs allocation of local sales/use revenue from manufacturers. (Please note the attached listing of four specific classes of businesses where host local agencies are deprived of locally generated sales and use taxes.)

2. Introduce legislation to specify that only mail order, private party car sales and sales from merchants without a permanent location shall be placed in county pools. (These are the only transactions where the State Board of Equalization's argument for pooling on the basis of administrative convenience has validity.)

3. Eliminate the State Board of Equalization 1.31% administrative cost of collection percentage on all pooled revenues. (The State Board of Equalization does little work to obtain these revenues, and in the case of used auto sales, the Department of Motor Vehicles actually collects the use tax.)

4. Specify that pool revenues be distributed based upon business to business transactions rather than retail sales. (This method will reward cities and counties for creating much needed manufacturing jobs.)

I thank you again for allowing the office of the Long Beach City Auditor to present these suggestions to your committee for consideration.

Sincerely,

Gary L. Burroughs
City Auditor

GLB:DE/djw
Attachments
a:\pool

Regulation 1802. PLACE OF SALE FOR PURPOSES OF BRADLEY-BURNS UNIFORM LOCAL SALES AND USE TAXES.

References: Sections 6012.6, 6015, 6359, 6359.45, 7205, Revenue and Taxation Code.
Auctioneers, see Regulation 1565.
Vending Machine Operators, see Regulation 1574.

(a) IN GENERAL.

(1) RETAILERS HAVING ONE PLACE OF BUSINESS. For the purposes of the Bradley-Burns Uniform Local Sales and Use Tax Law, if a retailer has only one place of business in this state, all California retail sales of that retailer occur at that place of business unless the tangible personal property sold is delivered by the retailer or his or her agent to an out-of-state destination, or to a common carrier for delivery to an out-of-state destination.

(2) RETAILERS HAVING MORE THAN ONE PLACE OF BUSINESS. If a retailer has more than one place of business in this state which participate in the sale, the sale occurs at the place of business where the principal negotiations are carried on. If this place is the place where the order is taken, it is immaterial that the order must be forwarded elsewhere for acceptance, approval of credit, shipment, or billing. For the purposes of this regulation, an employee's activities will be attributed to the place of business out of which he or she works.

(3) PLACE OF PASSAGE OF TITLE IMMATERIAL. If title to the tangible personal property sold passes to the purchaser in California, it is immaterial that title passes to the purchaser at a place outside of the local taxing jurisdiction in which the retailer's place of business is located, or that the property sold is never within the local taxing jurisdiction in which the retailer's place of business is located.

(b) PLACE OF SALE IN SPECIFIC INSTANCES.

(1) VENDING MACHINE OPERATORS. The place of sale is the place at which the vending machine is located. If an operator purchases property under a resale certificate or from an out-of-state seller without payment of tax and the operator is the consumer of the property, for purposes of the use tax, the use occurs at the place where the vending machine is located.

(2) ITINERANT MERCHANTS. The place of sale with respect to sales made by sellers who have no permanent place of business and who sell from door to door for their own account shall be deemed to be in the county in which is located the seller's permanent address as shown on the seller's permit issued to him or her. If this address is in a county imposing sales and use taxes, sales tax applies with respect to all sales unless otherwise exempt. If this address is not in a county imposing sales and use taxes, he or she must collect the use tax with respect to property sold and delivered or shipped to customers located in a county imposing sales and use taxes.

Regulation 1802. (Contd.)

(3) RETAILERS UNDER SECTION 6015. Persons regarded by the Board as retailers under Section 6015(b) of the Revenue and Taxation Code are regarded as selling tangible personal property through salespersons, representatives, peddlers, canvassers or agents who operate under or obtain the property from them. The place of sale shall be deemed to be:

A. the business location of the retailer if the retailer has only one place of business in this state, exclusive of any door-to-door solicitations of orders, or

B. the business location of the retailer where the principal negotiations are carried on, exclusive of any door-to-door solicitations of orders, if more than one in-state place of business of the retailer participates in the sale,

The amendments to paragraph (b) (3) apply only to transactions entered into on or after July 1, 1990.

(4) AUCTIONEERS. The place of sale by an auctioneer is the place at which the auction is held.

(5) OUT-OF-STATE RETAILERS WHO MAINTAIN A STOCK OF TANGIBLE PERSONAL PROPERTY IN CALIFORNIA. Operative October 1, 1993, if an out-of-state retailer does not have a permanent place of business in this state other than a stock of tangible personal property, the place of sale is the city, county, or city and county from which delivery or shipment is made. Local tax collected by the Board for such sales will be distributed to that city, county, or city and county.

(6) FACTORY-BUILT SCHOOL BUILDINGS. The place of sale or purchase of a factory-built school building (relocatable classroom) as defined in paragraph (c)(4)(B) of Regulation 1521 (18 CCR 1521), Construction Contractors, is the place of business of the retailer of the factory-built school building regardless of whether sale of the building includes installation or whether the building is placed upon a permanent foundation.

History: Adopted March 27, 1956, effective April 1, 1956.
Amended and renumbered January 6, 1970, effective February 25, 1970.
Amended May 9, 1984, effective September 12, 1984. Subdivision (b)(1) completely revised.
Amended November 29, 1989, effective February 4, 1990. Minor corrections made to (a)(1), (a)(2) and (b)(2) for clarification purposes, completely revised (b)(3) and added subparagraphs A. and B. to (b)(3).
Amended June 5, 1991, effective August 18, 1991, Amended paragraph (b) to reference Regulation 1521(c)(4)(B) and to explain place of sale.
Amended August 1, 1991, effective August 30, 1991.
Amended pursuant to Chapter 85, Statutes of 1991, and Chapter 88, Statutes of 1991, to provide that a newspaper carrier is not a retailer. The retailer is the publisher or distributor for whom the carrier delivers the newspaper. Chapter 85, Stats. of 1991, was effective July 1, 1991; Chapter 88, Stats. of 1991, changed the effective date to July 15, 1991.
Amended May 26, 1993, effective October 1, 1993. Amended paragraph (b)(5) to be operative October 1, 1993, to provide that if an out-of-state retailer does not have a permanent place of business in this state other than a stock of merchandise, the place of sale is the city, county, or city and county from which delivery or shipment is made. Local tax collected for such sales will be distributed to that city, county, or city and county.

Regulation 1619. (Contd.)

Tax Exemption Cards from State Board of Equalization. Amended language describing the records a retailer is required to maintain to support claimed exempt sales when foreign consular official presents a Tax Exemption Card. Renumbers subdivision (c) to subdivision (b).

Amended Feburary 3, 1988, effective May 12, 1988. In subdivision (a), added provisions to provide that sales to certain persons identified by U.S. Department of State are exempt from tax.

Regulation 1620. INTERSTATE AND FOREIGN COMMERCE.

Reference: Sections 6006, 6008, 6009.1, 6352, 6366.2, 6368.5, 6387, 6396, Revenue and Taxation Code.

(a) SALES TAX.

(1) IN GENERAL. When a sale occurs in this state, the sales tax, if otherwise applicable, is not rendered inapplicable solely because the sale follows a movement of the property into this state from a point beyond its borders, or precedes a movement of the property from within this state to a point outside its borders. Such movements prevent application of the tax only when conditions exist under which the taxing of the sale, or the gross receipts derived therefrom, is prohibited by the United States Constitution or there exists a statutory exemption. If title to the property sold passes to the purchaser at a point outside this state, or if for any other reason the sale occurs outside this state, the sales tax does not apply, regardless of the extent of the retailer's participation in California in relation to the transaction. The retailer has the burden of proving facts establishing his right to exemption.

(2) SALES FOLLOWING MOVEMENT OF PROPERTY INTO STATE FROM POINT OUTSIDE STATE.

(A) From Other States—When Sales Tax Applies. Sales tax applies when the order for the property is sent by the purchaser to, or delivery of the property is made by, any local branch, office, outlet or other place of business of the retailer in this state, or agent or representative operating out of or having any connection with, such local branch, office, outlet or other place of business and the sale occurs in this state. The term "other place of business" as used herein includes the homes of district managers, service representatives, and other resident employees, who perform substantial services in relation to the retailer's functions in this state, particularly in relation to sales. It is immaterial that the contract of sale requires or contemplates that the goods will be shipped to the purchaser from a point outside the state. Participation in the transaction in any way by the local office, branch, outlet or other place of business is sufficient to sustain the tax.

(B) From Other States—When Sales Tax Does Not Apply. Sales tax does not apply when the order is sent by the purchaser directly to the retailer at a point outside this state, or to an agent of the retailer in this state, and the property is shipped to the purchaser, pursuant to the contract of sale, from a point outside this state directly to the purchaser in this state, or to the retailer's agent in this state for delivery to the purchaser in this state, provided there is no participation whatever in the transaction by any local branch, office, outlet or other place of business of

CALIFORNIA RETAILER WITH SHIPMENTS TO CUSTOMERS FROM OUT-OF-STATE LOCATIONS

Unisys is a retailer/manufacturer of computer hardware and software with sales offices/repair locations and manufacturing/warehousing locations in California. Multiple California cities were receiving very large amounts of local sales tax, until the State Board of Equalization (SBE) instructed Unisys' taxpayer to allocate all local sales tax to the countywide pools.

Many of the California cities with Unisys locations have alerted the SBE in writing numerous times informing the SBE that they are not receiving their share of the local sales tax allocations attributable to the instate Unisys operations.

The SBE has informed the cities, without investigating this account, that the cities are not entitled to receive any local sales tax allocations, and all local sales tax is being correctly allocated to the countywide and statewide pools.

Many other large corporations with extensive operations in California have been instructed by SBE staff to allocate local tax to the pools. This list includes but is not limited to:

3M Corporation
AT&T
Digitial Equipment Corporation
Dow Chemical
Eastman Kodak
E.I. Dupont
General Electric
IBM
Xerox Corporation

CALIFORNIA MALL RETAILER

Olan Mills is a company with over 60 retail mall locations in California selling family portraits to customers. The State Board of Equalization (SBE) is allocating all of the local sales tax to the countywide pools.

Although the portraits are photographed and paid for at the retail mall location, it is the SBE's legal staff opinion that since some photographs are shipped from Olan Mills' out-of-state photo processing plant directly to the customers while other photographs are picked up by the customer at the retail store location, the taxpayer should allocate the local sales tax to the countywide pools.

AUCTIONEER

Ross Dove is a company that conducts auctions in California cities. The State Board of Equalization (SBE) is allocating the local sales tax attributable to these sales transactions to the countywide pools.

Regulation 1802(b)(4) regarding auctioneers could not be more clear.

"The place of sale for auctioneers is the place in which the auction is held."

By virtue of the legal opinion of the SBE's own staff, the SBE is trying to say that the "place of sale" means the "county pools" not the "city" where the auction is held. Every other use of the wording "place of sale" in the regulations means the city.

LEASING TRANSACTIONS

For more than five years a California city has been receiving approximately $1 million per year of local sales tax for a bank location that processed automobile leasing transactions.

Last year the State Board of Equalization (SBE) started allocating this city's local sales tax to the countywide pools, while other cities are still receiving local sales tax allocations for leasing transactions that are not being allocated to countywide pools.

In this regard, it is our understanding that other California cities are receiving local tax from leasing companies located within their jurisdictions. Based on this understanding, the SBE's allocation of the cities local tax with regard to leasing companies to statewide or countywide pools is discriminatory and is causing the cities to forfeit revenue to which they are legally entitled. Clearly, the SBE's pool allocation policies are being applied in an inconsistent manner.

APPENDIX G

WRITTEN TESTIMONY OF
CHRIS MICHELI

California
Manufacturers
Association

Assembly Local Government Committee
Interim Hearing on Allocation of Sales Tax
October 7, 1994

Statement of Chris Micheli, General Counsel
California Manufacturers Association

Thank you for allowing the California Manufacturers Association (CMA) to participate in the subject hearing. The "fiscalization of land use" and its related causes are important issues to CMA and its members.

The California Manufacturers Association strongly opposed AB 3505 this year because we believe it would be disastrous for the California economy, it will generate a tremendous loss of jobs and it will eventually result in a severe decline in state and local tax revenue. This is due to the reasons stated below:

I. CREATES DISINCENTIVES TO BUSINESS EXPANSION IN CALIFORNIA

When a business attempts to expand or locate in a city, the city does a cost-benefit analysis to determine if the business will create enough tax revenue to offset city-provided services. Historically, businesses which create significant tax revenue were welcomed by many "pro-business" cities. Sales and use tax is a significant source of revenue to the cities. It represents approximately 25.5% of a city's general funds, according to the state controller's report for fiscal year 1991-92.

Under AB 3505, any city which allows a business to expand or locate within its boundaries will only get a fraction of the sales/use tax revenue generated by this business. Worse yet, a "pro-business" city most likely will get only 50% of that small fraction of revenue because it will participate in only one of two county revenue pools. Therefore, the city services provided will be much greater than the city's share of tax revenue.

Under this cost-benefit analysis, the city will be forced to oppose business growth. A responsible city would be financially better off with an unproductive land use policy rather than a business expansion policy that creates additional budget deficits. We recommend that a study be conducted to determine the effects of this bill on local fiscal and land use planning.

980 Ninth Street
Suite 2200
Sacramento CA
95814-2742
(916)441-5420
FAX(916)447-9401
FAX(916)441-5449

II. REWARDS THOSE CITIES AND COUNTIES WHICH ARE AND REMAIN ANTI-BUSINESS

The temporary "winners" will be those cities and counties which have been anti-business in the past. The bill rewards them with increased revenue. Further, these same cities and counties will be encouraged under the bill to continue their anti-business policy.

III. UNFAIR TO PRO-BUSINESS CITIES

The cities and counties which have based their fiscal and land use policies on current rules which support business expansion will be penalized. They will only be allowed to participate, along with other cities and the county, in 50% of any revenue growth.

Further, they must continue to provide public safety and other city services to businesses, but they will be deprived of the revenue which they expect and to which they are entitled. This inequity is compounded by the fact that the city's revenue will be redistributed to anti-business cities, but the cost of city-provided services will not be redistributed.

IV. HIGHER TAXES AND REDUCED SERVICES

This shift of tax revenue from pro-business cities will force the cities to raise taxes and/or reduce city services, both of which are extremely detrimental to business expansion or location in California.

V. NEGATIVE GROWTH EQUALS NEGATIVE REVENUE

Total sales and use tax revenue would have declined over the past few years if the tax rate had not been increased. This bill is very damaging to the economy and may cause a continuation of the recession. If this occurs, the very cities and counties which are currently "winners" under the bill will soon become big "losers." Worse yet, all the cities and counties would be losers.

In addition, it is likely that this bill will have an extremely adverse impact on California's municipal bond ratings and creditworthiness for the reasons described above.

VI. SHIFT OF TAX REVENUE MAY BE ILLEGAL

The local city portion of the sales/use tax is imposed by the cities. It is an offset against the local county portion of the tax. Pursuant to a contract between the city and the state, the state collects the city's tax for the city for a fee.

It may be illegal for the state to enact a law which takes the revenue from a city-imposed tax and redistributes it to the county and other cities within the county. We recommend that an opinion from the Attorney General be requested in order to avoid future litigation.

VII. RECOMMENDATION

We offer one suggestion to your committee which will help to alleviate one cause of the problem: the sales and use tax allocation method. CMA recommends that the allocation rules be modified so 100 percent of the local use tax paid by manufacturers, research & development facilities, wholesaler-distributors, lessors, etc., is allocated to the city where the business is located.

VIII. PROBLEM – THE USE TAX ALLOCATION METHOD

Many factors have caused cities to search for large sources of tax revenue. The biggest prize has been the major retail stores because of the large amount of sales tax they pay. Under the sales and use tax allocation rules, 100 percent of the local sales tax is allocated to the city where the retail store is located.

However, the use tax paid by manufacturers and others is treated differently in that it is being allocated to county and state pools. The city in which this type of business is located receives only a proportionate share of the pooled tax. Sometimes this share is less than the cost of the services provided by the city to the business.

Therefore, because sales tax is allocated by a "situs" method and use tax is allocated by a "pooling" method, the cities are forced for financial reasons to strongly prefer retail stores over manufacturers and others.

IX. ELIMINATE PREFERENCE FOR RETAIL STORES

If use tax were also allocated on a "situs" basis, then the cities would have a financial incentive to encourage the development and expansion of many different types of businesses. Each city could then choose the types of businesses it should have, not based purely on tax revenue, but instead based on what is overall best for the community.

Simply put, if all businesses paid substantial amounts of tax to the cities, the tax revenue would no longer be the cities' overriding consideration. Other important city land use and community issues would become more significant to the cities.

X. ENCOURAGE ECONOMIC DEVELOPMENT

An equally important result of the "situs" method is the creation of a financial incentive for cities to take a broad and balanced approach to economic development throughout the state. This is the type of incentive needed for California to prosper.

This approach to solving the "fiscalization" problem by increasing the supply of high and moderate level tax paying businesses, in order to meet the demand for city tax revenue, is preferable. The alternative approach of eliminating the financial incentive for the development of retail businesses would inadvertently eliminate the financial incentive for manufacturing businesses. This would result in a tax system in which cities are financially discouraged from allowing any type of business development because the services provided by the cities would be greater than the tax revenue they receive.

Thank you for the opportunity to present these remarks to your committee.

APPENDIX H

WRITTEN TESTIMONY OF
STEPHEN KROES

Cal-Tax
ESTABLISHED 1926

CALIFORNIA TAXPAYERS' ASSOCIATION
921 Eleventh Street Suite 800 • Sacramento, CA 95814 • (916) 441-0490 • (916) 441-1619 FAX

October 7, 1994

Testimony to Assembly Local Government Committee

Interim Hearing on
Allocation of Sales Tax and Other Local Government Revenues

Stephen Kroes
Director of Research
California Taxpayers' Association

Cal-Tax expressed opposition to AB 3505 primarily because of detrimental impacts the measure could have had on California's business climate.

- AB 3505 would reduce the fiscalization of land use by something punitive -- to take away some of the incentive for retail development. Rather than a punitive approach, we would prefer something positive, such as leaving the current retail incentive intact while creating additional incentives for other types of development.

- One way to provide a positive incentive could be a major shift of property tax revenues back to local governments. Cities now receive about 10% of all property tax revenues. If cities' share of property tax revenue were increased, other types of development would pay greater dividends to city governments, reducing the incentive to favor retail development.

Cal-Tax strenuously objected to the property tax shifts that occurred in recent state budgets. We remain strongly opposed to those shifts and advocate shifting the money back to local governments.

Other members of this panel are probably more knowledgeable on business climate issues than me, and therefore, I would like to bring a different perspective to this panel discussion.

In terms of putting this discussion into the larger context of local government finance, let me address the issue of providing additional revenue-raising authority to local governments. A number of legislators and local government advocates have advocated expansion of local taxing authority. Indeed, the briefing paper for this hearing included several references to local governments not keeping up with service demands, stating that "the overall fiscal outlook for local governments has not improved." There is a generally-held belief that Proposition 13 has created a fiscal straightjacket, making local governments fall further and further behind in their efforts to keep up with growth.

Cal-Tax has done extensive research on this subject, and I have included a few graphs with the materials I have brought today. The data show conclusions that are surprising to some in the policy community:

- The first graph shows that state and local governments in California are now a greater share of the economy than at the pre-Proposition 13 peak in the 1970s. As a percent of personal income, government now spends 10% more than in 1977-78.

- Focusing specifically on local governments, after the property tax reduction of Proposition 13, cities and counties, as a whole, have not only kept up with economic growth, but have exceeded growth in the economy. Before the recent reductions, caused by state revenue shifting and the recession, city and county taxes and fees grew 32% faster than growth in Californians' incomes over the post-Proposition 13 period.

- The previous graph included only taxes and fees, because we want to illustrated the growth in burden on local tax and fee payers. However, even if we include intergovernmental revenues, as in the final graph, cities and counties have either held constant or grown in relation to the economy.

Recent local government financial difficulties are real, but they are not necessarily the result of a long-term crisis. The share of income being paid to local governments has steadily increased since the early 1980s. However, recent state budget-balancing actions and the recession's influence on revenues have created crises for local governments. Nevertheless, we hope that policymakers will avoid creating long-term solutions to problems that may be temporary in nature.

We are wary of proposals to increase overall government revenues, because burdens on taxpayers and fee-payers have been increasing steadily since the early 1980s. If we thought Californians were getting a high-value return for our money, additional revenues would be less objectionable.

But we aren't getting what we pay for:

- Government pay scales are overly generous. For example, the U.S. Department of Labor surveyed major cities in California, comparing public pay to private sector pay for employees who do the same type of work. In the Sacramento area, the department found 62 of the 66 categories paid higher by government employers than private employers.

- The pay issue doesn't even count the cost of higher benefits, which are much more generous in the public sector. For example, the hottest trend in local government is granting "2% at 55" retirement formula, which adds 3% to 6% of payroll costs.

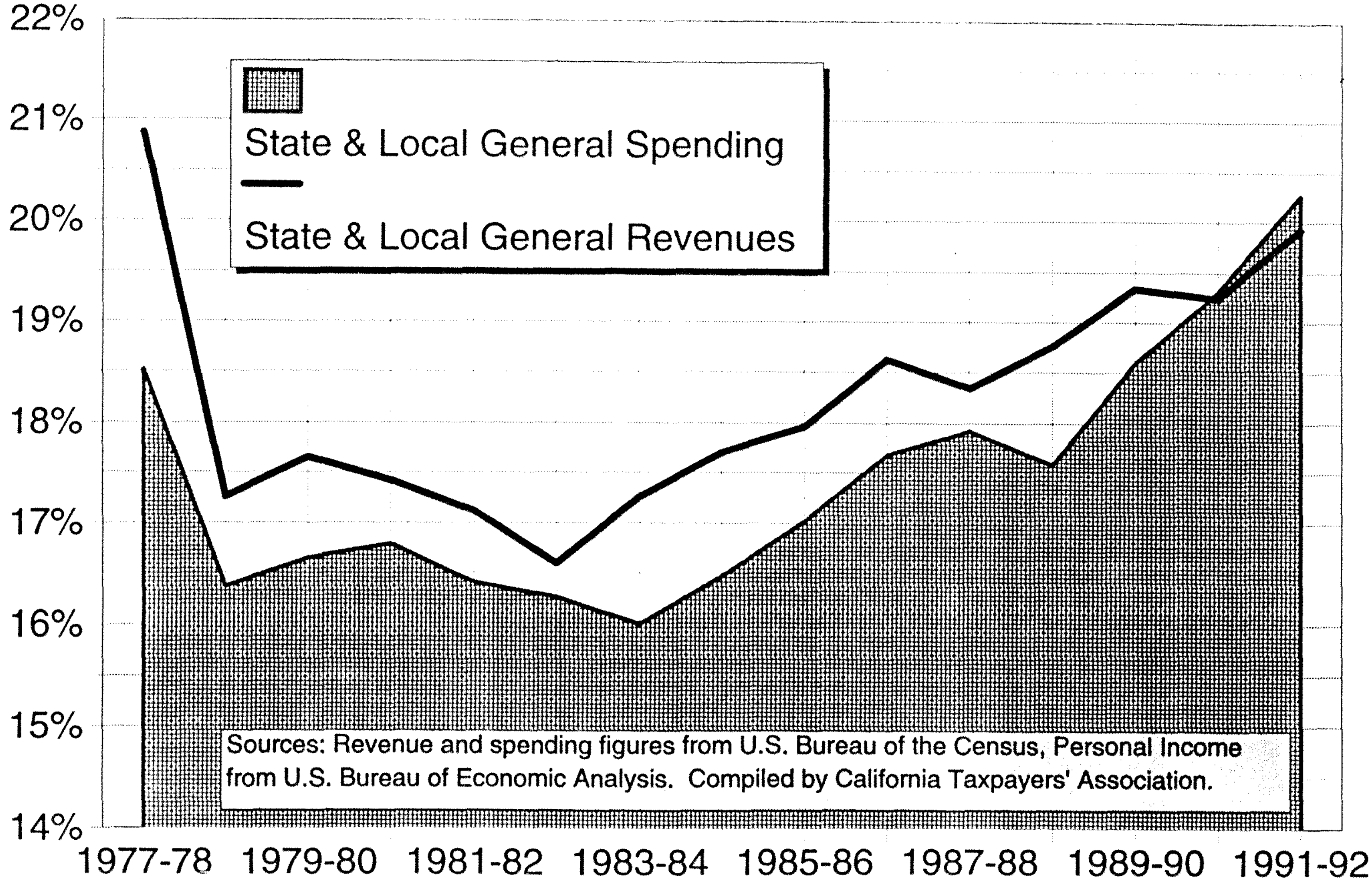
- State laws and local charters inhibit efforts to competitively contract for government services. Competition creates efficiency, even when the public employees win the competition.

- Prominent accounts of waste appear in the media often, such as this week's announcement by the federal government that they are pulling federal funding from the Los Angeles subway project until the local agency can prove that it can properly manage the money. This was in the wake of publicized accounts of wasteful spending by the local transit agency.

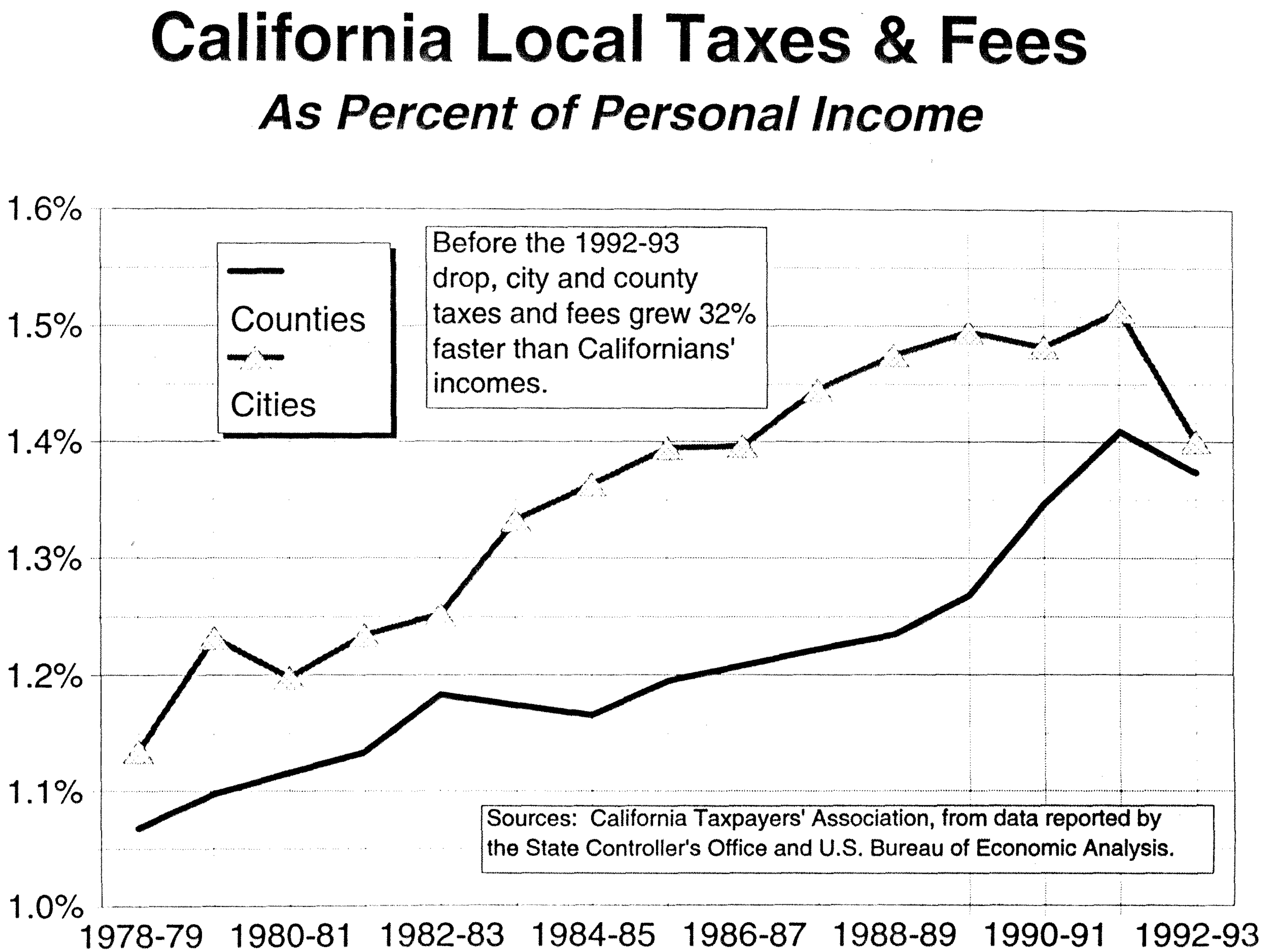
Please realize that Cal-Tax is not an anti-government organization. In fact, Cal-Tax was instrumental in fashioning portions of Proposition 111 which modified the Gann limit to avoid ratcheting down government's share of the economic pie.

State & Local Spending & Revenues

Percent of Personal Income

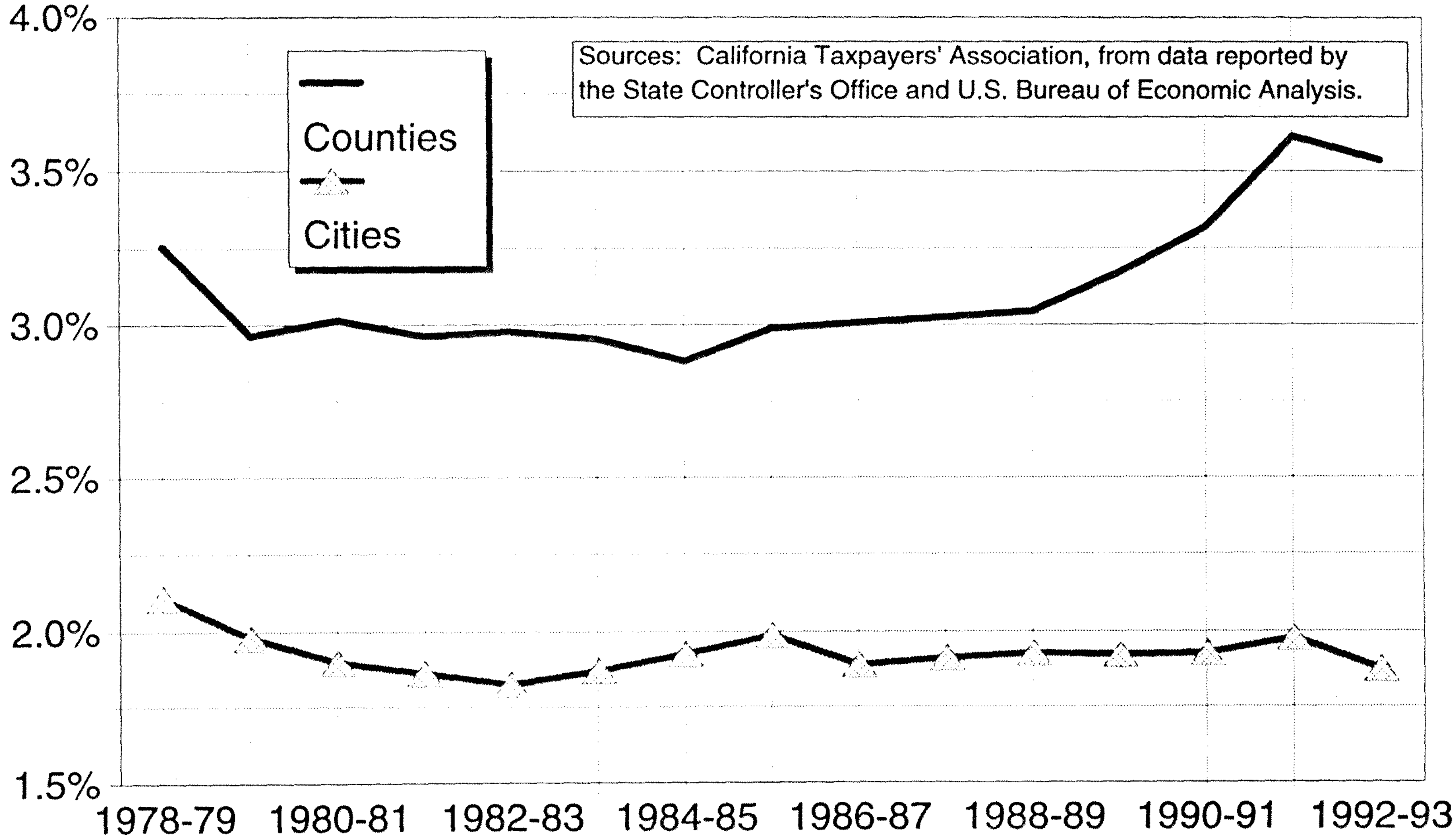


000075


California Local Taxes & Fees
As Percent of Personal Income
1.6%
1.5%
1.4%
1.3%
1.2%
1.1%
1.0%
Counties
Cities
Before the 1992-93 drop, city and county taxes and fees grew 32% faster than Californians' incomes.
Sources: California Taxpayers' Association, from data reported by the State Controller's Office and U.S. Bureau of Economic Analysis.
1978-79
1980-81
1982-83
1984-85
1986-87
1988-89
1990-91
1992-93

000076

Local Taxes, Fees, & Intergovernmental Revenues, Percent of Personal Income



000077

APPENDIX I

WRITTEN TESTIMONY OF
REX HIME

CALIFORNIA BUSINESS PROPERTIES ASSOCIATION 1121 L STREET, SUITE 809 SACRAMENTO, CALIFORNIA 95814 (916) 443-4676

TESTIMONY BEFORE THE ASSEMBLY LOCAL GOVERNMENT COMMITTEE
October 7, 1994
by
REX S. HIME, CEO
CALIFORNIA BUSINESS PROPERTIES ASSOCIATION

Mr. Chairman and Members of the Committee, I am Rex Hime of California Business Properties Association (CBPA). I would like to begin by thanking you for holding this hearing and by expressing my appreciation for the opportunity to provide input on the critical issues of local government revenue, incentives for balanced development and the allocation of sales tax revenues.

As you may recall, while CBPA applauded the earlier efforts to restore appropriate funding for local government and to once again support home building in California, we opposed AB 3505 unless amendments are taken which will resolve some basic economic and philosophical concerns. These concerns still remain.

We believe that through the introduction of AB 3505, Assemblymember Valerie Brown rightly attempted to provide a stable source of revenues to local governments. This was to be achieved by changing the current situs system of sales tax distribution to a two-pot system that would distribute increases in existing sales tax revenues to local governments based upon population and need.

It is important to note that sales tax revenues can be very much like the state law which established school construction fees on new development in that there are fluctuations in the amount of revenues achieved. One only has to ask the funding-starved school districts about the loss of projected revenues because of the downturn in home building.

Let me cite some statistics provided by the International Council of Shopping Centers (ICSC), which represents almost 30,000 members and is recognized as the information center for the industry. In 1990, $3.3 billion was generated in sales tax from shopping centers, a figure which has remained constant up to the present. Meanwhile, the number of new shopping centers built annually has declined steadily from 143 in 1990 to only 52 in 1993. There is no guarantee that such a redistribution proposal would do anything positive, while there is great potential for harm to be done.

Assemblymember Brown also targeted the need to provide incentives for the acceptance of housing by local governments. We believe, however, that the rejection of housing has been fueled by two factors, totally unrelated to the revenues generated from sales tax. First, the elitist no-growth, NIMBY attitude and abuse of environmental protections are far too prevalent in our state. Second, there are no incentives provided to accept housing - particularly since the redistribution of property tax revenues that occurred in 1993.

We believe that the question before this committee and the legislature should not be how do we redistribute the sales tax revenue; rather it should be what incentives can we provide to insure that much-needed affordable housing is permitted and built. To look at a system that is currently one of the few lights in what has been a dark economic period in our state and to think about extinguishing it is not smart, and California needs to think smart.

Furthermore, we believe some of the answer rests in providing to local government a more equitable portion of the property tax which currently goes to the state. Certainly no steps towards sales tax redistribution should occur until this glaring example of disincentives is removed.

I would like to again bring to the attention of this committee the proposal before Congress, known as the Tax Fairness for Main Street Business Act of 1994. The bill in the U.S. Senate, S 1825 authored by U.S. Senator Dale Bumpers (D-Arkansas), would simply authorize at the federal level a system to secure the sales taxes generated through phone, mail or computer sales from out of state vendors. The estimated amount that would be generated for California is a staggering $460 million. I am certain no one believes we should turn our back on such a potential windfall for our state. I believe that the State Legislature should do everything possible to encourage our members of Congress to adopt this legislation.

In addition, any part of a sales tax redistribution scheme as was contained in AB 3505 needs several actions to prevent the inadvertent rejection of new commercial retail and manufacturing development because of the proposed sales tax redistribution.

1) All existing agreements must be grandfathered.

2) There must be an inflation type factor built in to allow existing sites to receive a percentage of the increase before the new pot kicks in.

Most importantly, we must see language included in the bill that will prohibit any redistributed funds going from governments who accept growth to no-growth cities or counties. The rewarding of those who say "No!" by taking from those who say "Yes!" is both morally and economically incorrect. In times of economic stagnation, if there is ever to be a turn around, a revitalization of job creation and economic opportunity is not achieved by supplementing the revenues of local governments which have rejected housing and employment centers, while taking from those which have stepped into the batters' box in an effort to rebuild California.

The language in AB 3505 will result in just this inequity. This issue alone, unless addressed, would cause CBPA to be in total opposition to any such reform proposal.

We also believe the economic cost of this program has not been fully reviewed. Some have raised the specter that if sales tax distribution by situs is eliminated, in fact there would be a disincentive to approving commercial projects. We should be providing more incentives to encourage and support additional housing development rather than eliminating a perceived incentive to commercial development. Furthermore, others feel that what is needed is not some additional tinkering with the economic engine of local government, but rather a real review and overhaul of the current system similar to some of the restructuring proposed by the Governor in his 1994 proposed budget.

CBPA is the designated legislative advocate for the International Council of Shopping Centers (ICSC), the California chapters of the National Association of Industrial and Office Parks (NAIOP), the Commercial Industrial Development Association (CIDA), the Associated Builders and Contractors of California (ABC), the Society of Industrial and Office Realtors (SIOR) and the Industrial League of Orange County (ILOC).

These affiliations make CBPA the acknowledged voice of the commercial real estate industry in California, representing the largest commercial real estate consortium with almost 5,000 members.

Again, thank you for your willingness to tackle this important issue and for allowing a necessary debate on the issue to take place. We look forward to being active participants in any legislative effort to further study, review and assess this issue. Should you have any questions, please do not hesitate to contact me directly.

APPENDIX J

WRITTEN TESTIMONY OF
DANA SMITH

Assembly Local Government Committee
Interim Hearing
"Allocation of Sales Tax and Other Local Government Revenues: Developing Workable Incentives for Balanced Development"
October 4, 1994

Prepared Testimony by
Dana M. Smith
Deputy Executive Officer CALAFCO
Assistant Executive Officer, Orange LAFCO

1. LAFCO's responsibilities, as outlined by the legislature, are to assure that future growth is efficient, compact, and responsive to local needs.

   a. LAFCO is primarily a reactive agency, except for spheres/initiation of consolidations
   b. The fiscal climate has changed dramatically from the time LAFCOs were formed: annexations to cities were encouraged because cities generally could offer a higher level of service and infrastructure was effeciently extended.
   c. Proposition 13 has removed much of the incentive to entice urban development into cities or their spheres/ tax revenue and level of service has been flattened.
   d. LAFCOs are in the unique position to observe the adverse impacts on neighboring communities (traffic, incompatible uses, degradation of natural resources)when cities or counties compete for and site commercial development solely for fiscal reasons.

2. Barriers to promoting orderly and balanced development

   a. Counties are generally cash poor/ are using development to supplement revenue often to the detriment of orderly growth
      1. Otay Mesa East/ San Diego
      2. Foothill Ranch/ Orange
   b. Property tax negotiations are becoming more difficult
      1. Property tax alone is less important to the losing and gaining agencies
      2. Logical annexations are stalled due to the increasing demands of counties to include sales tax sharing in the property tax negotiations, and, by cities that view residential annexations as fiscally damaging.
         a. Laguna Hills
         b. County islands
         c. Montgomery annexation - example of LAFCOs ability to modify proposals

c. Revenue neutrality has made future incorporations improbable

    1. California will continue to grow/ and as long as there are incentives for counties to develop urban uses and communities, LAFCOs goals of assuring logical formations of public agencies, discouragement of urban sprawl, and preservation of agricultural lands will be difficult to achieve. We have addressed the problem of the cash poor county, but have not furthered the goals of discouraging urban sprawl and encouraging compact development.

3. Sales tax sharing agreements are difficult to execute and become less viable when the stakes are higher

a. Santa Cruz County - not successful, too complex and it was determined to require a vote.
b. Butte County/ City of Chico - successful
c. Fresno County - includes sales tax revenue sharing as part of the master property tax agreement
d. Orange County - the county will require sales tax revenue sharing included in future property tax negotiations where significant commercial uses are involved.

4. General Comments

a. There needs to be a method of stabilizing funding for counties that is not developement related
b. Cities must have the ability to increase the level of service and revenue commensurate with what the residents want and need. Balanced development will be encouraged if there is more of a balance of property tax and sales tax revenue available to the city.
c. Under the current system, a "well managed" city or county is one that minimizes residential use while maximizing retail uses. One positive element of the system proposed in AB 3505 is that there would be a greater reward for cities to promote residential development and annexation of residential neighborhoods.
d. To preserve existing agricultural lands there must be incentives for private interests to reinvest in the aging urban areas. (Example: downtown Santa Ana vs. sprawling developments of southern Orange County). Adoption of statewide policies and goals for development of infrastructure and growth would be good first step.
e. Revenue sharing agreements will generally affect only the new growth cities creating a further disparity between new cities and older sales tax rich cities.

APPENDIX K

WRITTEN TESTIMONY OF
JOHN GAMPER

First, does this proposal provide the most equitable formula without creating other growth management problems?

For example, is the per capita approach really fair to truly rural counties or does it favor those counties with large population bases in their unincorporated areas? Pardon my cynicism but I've learned to always consider the source when analyzing legislation; that is, first I try to figure out the direct benefits to the sponsor and then look to see to what degree the problem is being addressed.

I don't believe this formula is perfect but we are still undecided on how it might be improved. I am confident that there are ways to provide for rural counties with strong farmland protection policies because not every county supervisor wants to approve yet another factory outlet mall with an adjacent residential subdivision that may be five to ten miles from the nearest city services just to keep their sheriff's department funded. We just want to make sure that the measure doesn't do anything to encourage such idiotic behavior.

Clearly, A.B. 3505 has many politically desirable features: it is revenue neutral with respect to the existing sales tax base, and it does provide more equitable distribution within counties. Unfortunately, we don't think that it's politically feasible to solve the larger problem of the sales tax distribution between counties.

The second question we are trying to answer is whether this measure should be linked to other needed growth management reforms?

As noted above, we are concerned that we might be trading one set of irrational and inefficient money-driven land use planning problems for another. Specifically, A.B. 3505 would do very little to discourage undesirable growth in the unincorporated areas of counties and we fear it might actually encourage discontiguous residential developments in these areas. The proponents believe that the negative fiscal impacts of such developments on county governments should provide enough of a disincentive to discourage such developments. But we would prefer not to bet the farm that county officials won't be persuaded by big promises from their local developers.

Therefore, we strongly recommend that long-needed reform of the Cortese-Knox Act be included in this proposal to actually implement the state's policy to encourage the efficient provision of services and the preservation of agricultural and open-space lands. This policy could be implemented by encouraging urban and suburban growth where it rightfully belongs, within municipalities. In addition, new standards for local agency formation commissions must be adopted to discourage development of agricultural land unless the local jurisdictions have demonstrated efficient use of existing incorporated areas. Farm Bureau believes it is imperative that the legislature gets serious about encouraging in-fill growth and higher suburban densities in order to provide more efficient use of our land resources.

We look forward to working with Assembly Member Brown and the other members of this committee to hopefully resolve some of these perceived shortcomings. Finally, I think we would all like to see some computer modeling of likely outcomes based on specific population and revenue growth alternatives.

Thanks again for the opportunity to participate in today's hearing.

APPENDIX L

WRITTEN TESTIMONY OF
LARRY ORMAN

Testimony of Larry Orman, Executive Director, Greenbelt Alliance* Before Assembly Local Government Committee Hearing on Developing Incentives for Balanced Development

October 7, 1994

Introduction

California's disorganized taxing system, together with its lack of integrated growth management planning, is fueling continuous suburban sprawl throughout the state. Long the bane of the major urban regions of California, sprawl is now reaching serious proportions in the Central Valley, the last stronghold of large scale agriculture. This pattern of development not only destroys critically important open space, it leads to unworkable and hugely expensive transportation patterns, costly and unhealthy air pollution, and -- equally significant -- deterioration and disinvestment in major existing urban centers.

Several years of intensive legislative and consensus building efforts have not brought any success in resolving these issues. Crafting a workable plan for guiding growth in California requires commitment from the highest level of leadership in both the Legislature and the Administration -- a requirement that, so far, we have fallen short in meeting.

Yet the problems remain, if masked in their severity for now by the economic slowdown of the past several years. While it is unlikely that major growth management reform will have the political leadership to succeed in the next year or so, is there an opportunity to address the skewing that our tax and revenue system has created, in order to reach some of the same goals?

In general, I believe there is and that it is possible to adopt constructive reforms, especially in the arena of sales taxes. However, financial incentives and disincentives are complex and interrelated when it comes to land use decisions and just looking at one tax -- even though it is important -- will not be enough if we are to truly redirect our development patterns. Further, it is unlikely that changing taxes alone will have a significant, or at least desirable, effect on stopping sprawl. To accomplish that end, we must have the scale of growth management reform proposed in recent legislative sessions.

**Greenbelt Alliance is the Bay Area's citizen land conservation organization. Founded in 1958, the organization seeks to protect the Greenbelt of open lands in the nine counties and to improve the livability of the region's cities, through research and education, leadership building and advocacy. Greenbelt Alliance, 116 New Montgomery Suite 640, San Francisco CA 94105 (415)543-4291*

My comments therefore encourage redirecting our taxing incentives, but doing so only with the recognition that such actions will not by themselves be sufficient to resolve the broader problems of land conservation and development that we face. I address only the sales tax, although there are other fiscal issues -- most notably the desperate need we have to change the provisions of Prop. 13 and its related constraints -- that also need to be dealt with.

Why We Need to Change Our Sales Tax System

This committee and its Senate counterpart have made a compelling case of the land use effects of our tax system, leading in almost all cases to the conclusion that, taken as a whole, our tax system:

- Lures businesses out to "greenfield" sites in outer suburbs;
- Creates disincentives for providing housing, particularly that which is affordable to those of low and moderate income; and
- Rewards communities who aggressively offer attractive terms to large scale retail businesses

These effects are compounded by the dynamic of automobility, in which large new sites for business or retail are most attractive if they have ample parking and relatively easy freeway access. The result is a continuous leapfrogging of development opportunity outward, ever in search of the next new frontier; when the old site is congested or costly, there's always another community further out, willing to offer good terms for another round of the game.

California cannot afford -- literally not afford -- to keep encouraging this pattern of growth if it expects to be a prosperous state that is capable of retaining its talented workforce, investing properly in education of its citizens and conserving its ecological integrity.

Seven Guidelines for Sales Tax Reform

The current trend toward large scale retailing has recently become acute. Shopping centers have always been a factor in land use patterns, but in the last ten years very large scale, integrated retail facilities have burst onto the planning scene -- auto malls, outlet malls and now multi-use shopping/entertainment facilities. The earlier suburban office boom and its continuation over the past years are an additional factor to be dealt with.

The rapidity of the recent trends, however, have not been matched by action from the Legislature, at least not until Assemblywoman Brown's AB 3505 was introduced. What should such reform seek to accomplish? I offer these guidelines not as an expert on taxes and municipal finance, as I am not that, but rather as a long time participant in local land use planning debates who has an overview of the San Francisco Bay region -- a metropolitan area with 100 cities and nine counties:

1. <u>It is proper to rely upon the achievement of anti-sprawl growth management goals to justify significant changes in the method of allocating sales tax</u>. However, such goals should be clearly stated, in order to ensure that the changes will indeed have such effects.

Current legislation does not appear to provide such a framework of intent. As a result, it may not attract sufficient support and it may not provide a workable means to judge the desirability of its effects.

2. <u>The incentive to compete for new, large scale retailing -- which inherently favors low density sites at the developing edges of metropolitan areas -- must be reduced</u>.

Sales taxes are, in my opinion, the primary reason for such facilities' attractiveness to local governments. But to affect a local government, such tax benefits must be sharply lowered.

3. <u>The tax attractiveness of housing for people of average and below-average income must be increased</u>.

This is primarily an issue of property tax reform. However, a sharing arrangement of sales taxes may have a modest advantageous effect by providing more revenues that can be used to meet pressing community service needs, which in turn would help encourage approvals of needed housing.

4. <u>The move of business to locations ever further away from our major urban centers must be slowed and over time reversed</u>; to the extent that incentive of sales taxes makes a difference in the location of such facilities, it should be reduced.

Concern over whether communities will compete for business if there is significantly lowered sales tax advantage is misplaced because: a) the current pattern, while advantageous for some businesses seeking new sites to move to, imposes huge costs on all other businesses who remain within a particular region, by increasing costs of servicing ever more sprawl and by encouraging exodus of businesses from existing communities; and b) there are ample reasons for many communities to want major businesses in the face of slightly less sales tax, including jobs for community residents, property and other taxes, participation of businesses in civic life, and spin-off effects of business on other business wanting to locate within a community.

5. <u>The tax benefits of major facilities should be shared across the region that is their true market area</u>.

It is an extreme position to argue that a single community should receive the primary fiscal benefit for attracting a large scale facility. While there is no doubt that that community should gain taxes equal to its service costs, it is the existence of larger labor or consumer markets that makes the business sales, which are the basis of sales tax, possible in the first place -- to say nothing of regional infrastructure or the costs imposed on other communities housing workers or consumers who use such facilities. Encouraging municipal privateering when the integrity of the fleet (the communities of the region as a whole) is at stake borders on irresponsibility. While it may be complex to work out the specifics of tax sharing, the fact is that it takes whole *metropolitan regions to make economies work -- policies that reward whole regions will increase overall competitiveness.*

6. <u>Sales tax reform must not only reduce the incentives for more sprawl, it must also seek to improve the competitive advantage of central urban areas</u>.

Reducing the incentive for an outer community to become a major new center for business or retailing is important and even sufficient to justify reform of sales taxes. But if the reduced increment of sales tax is shared indiscriminately across a county or a region, then it may not achieve the broader goal which, in my view, is a balanced quality of life in communities <u>throughout</u> our metropolitan regions. One way to accomplish this is to provide an extra increment to communities whose rates of poverty or joblessness are high, or who are bearing a larger burden of social services or other unwanted social challenges.

7. <u>Finally, there needs to be some evidence of the impact of sales taxes on communities to ensure that reform of a certain percentage of such taxes will actually affect municipal behavior</u>.

Missing from the current debate, so far, is such information. Without that information, even the best goals will be simply guesses.

APPENDIX M

WRITTEN TESTIMONY OF
LARRY COMBS

STATEMENT BY LARRY T. COMBS

TESTIMONY BEFORE THE ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
REGARDING SALES TAX AND INCENTIVES
FOR BALANCED DEVELOPMENT

OCTOBER 7, 1994

My name is Larry Combs. I am the County Administrative Officer for the County of Sutter. I have served in that capacity for eleven years and, as a result have had the opportunity to witness the effects of the current policies of the State, which have led to what we refer to as "fiscalization of land use," on a small county with serious economic problems.

In my presentation today, I wish to bring three points to your attention:

1. The State government wants, and increasingly insists upon, comprehensive and coordinated areawide and regional land use planning. In the interest of brevity, I won't go into detail documenting this statement -- particularly since I believe every person in this room, every member of the Legislature, and the Governor would agree with it. In fact, the perceived failure of local governments to achieve true comprehensive planning has recently led to renewed calls by some state officials for regional planning agencies, regional governments, etc.

2. Given the State's desire for, and commitment to, comprehensive areawide/regional planning, it needs to be clearly understood

-- and emphasized -- that the local fiscal structure -- i.e., the ways in which cities and counties receive the revenue used to pay for the services they provide -- is completely inimical to the goal of regional planning. Current State laws result in cities competing with each other, and with counties, for local revenue sources. Too often, this competition involves and affects land use decisions; i.e., "The fiscalization of land use." As a footnote, I feel it is necessary to tell you that the State's ongoing budget crisis -- and the decision to deal with it by stripping cities and counties of revenue, has exacerbated this revenue competition. Cities and counties now zealously seek to protect their local revenue sources and seek additional sources through annexation, development incentives, etc. They would be crazy not to do so.

3. This conflict between what the State wants with respect to regional planning and how it makes cities and counties finance the services they provide, has several unintended, but nevertheless deleterious, consequences. Specifically: (a) local governments devote too much time and too many resources to intergovernmental disputes; (b) true comprehensive areawide planning remains more of a goal than a reality; and, (c) most seriously, developers, entrepreneurs, and private citizens are often caught in the middle while cities and counties fight about land use and annexation issues. The latter is, in my opinion, one of the reasons the business community finds it so

difficult to locate and operate in our State.

I would like to use Sutter County to illustrate the points I've made. To give some background, Sutter County is located directly to the north of Sacramento County. It has a current population of 73,144, an increase of 29% over the past ten years. As of June 1994, Sutter County had an unemployment rate of 14%. In the past ten years that rate has varied from 12% to 22%, and is usually in the top two or three highest unemployment rate counties in California.

I believe Sutter County is an excellent example because:

a. Although we are primarily an agricultural county, we have a large urban area -- Yuba City -- and have our share of the normal urban issues.

b. Due to our proximity to Sacramento, we're feeling significant growth pressure and have experienced significant population growth.

c. Our unemployment rate, as mentioned, is chronically one of the highest in the State. Consequently, there is a high demand for most County services: i.e., health, welfare, mental health, etc.

d. We have two cities -- Yuba City and Live Oak. Yuba City, which has a population of about 33,600, is the County seat, and the commercial/industrial center of the County. Live Oak is a poorer city of about 5,100 which, to a significant degree, serves as a "bedroom community" to Yuba City.

e. We enjoy generally excellent relations between the two cities and the County. Everyone makes an effort to cooperate, and we often undertake joint projects.

As you are aware, county services are generally not related to where a person lives. We provide the entire range of criminal justice services, from incarceration after arrest through trial and sentenced incarceration. We provide full health and welfare services to all residents. In Sutter County, we also provide libraries and a museum.

As you are also aware, most of what counties do is mandated by the State, and, in turn, most of the revenue received to perform these services is restricted. In other words, the monies must be used for certain programs. In Sutter County, 83% of our budget is restricted revenue which comes from State or federal sources or fees or grants related to specific services. Therefore, only 17% would even arguably be discretionary, and I have calculated that it is far less. However, even if one counts the entire 17%, that is only $11.8 million. Therefore, sales tax monies become very significant.

To provide you with some background on today's issue, sales tax revenues, fourteen years ago, in FY 1979-80, Yuba City's per capita sales tax revenue was $100.22. Live Oak, which has to provide essentially the same services to its citizens had a per capita figure of $25.45 -- approximately 25% of the amount received by Yuba City. This gap has grown wider in the intervening years. Yuba City's per capita sales tax revenue is now $133.46 (i.e. 33% higher) while Live Oak's is $21.04 (i.e. 18% lower). The primary reason for this increasing disparity is that Live Oak residents do much of their shopping in Yuba City. The sales tax gap is one of the reasons Yuba City can add law enforcement staff, while Live Oak can no longer afford 24 hour police protection.

In FY 1979-80, Sutter County received $1,020,811 in sales tax revenue from the unincorporated area. In FY 1993-94, we received $1,301,667; an increase of about $280,000 (27%) more than 14 years ago. During the same period, Yuba City's sales tax revenues increased from $1,877,725 to $4,483,613; an increase of about $2.6 million (139%). Factoring in population changes, the County's sales tax revenue per capita increased by 12.2% during this period, compared to the aforementioned 33% increase realized by Yuba City.

One of the reasons the City's sales tax revenue increased so dramatically was that it was able to annex various properties which generated large amounts of sales tax revenue. For example, one annexation which occurred in 1989 shifted $117,000 -- about 10% of Sutter County's total sales tax revenue -- to the City. Shortly thereafter, the County terminated its master annexation property tax exchange agreement with the City. This was done with considerable regret. But under the circumstances, the County could not afford to continue to lose these large amounts of revenue, particularly since we have to continue providing virtually all county services to the residents of annexed areas.

As a result, the City and County now negotiate a separate agreement for each annexation. There have been several instances in which we have been unable to reach an agreement quickly, and annexations -- and subsequent development -- have been delayed as a result. Citizens and developers often feel -- correctly -- that they are "caught in the middle" between the City and County. This does little to enhance government's credibility or the State's reputation as portrayed to industry which may be considering relocation or expansion.

As an example, a few years ago, a large nationally-known retail firm wanted to develop a large new facility on unincorporated territory adjacent to the City. The development was consistent with both the City and County General Plans, and should have proceeded quickly. The City, however, required the annexation of the property in question as a prerequisite to the provision of sewer service. The real issue, of course, was the City's understandable desire to obtain the sales tax revenue the development would generate. For the same reason, the County was reluctant to approve an annexation property tax exchange agreement. Eventually, the City changed the General Plan designation on a parcel of land already located in the City from "Industrial" to "Commercial," and allowed the retail firm to build its facility at this site. This is a clear example of a land use decision being driven by fiscal concerns.

I could cite other examples, but I think the above is sufficiently illustrative. As you know, these types of things have happened, and are happening, throughout the State. It's important to note that cities and counties are not doing anything wrong; in fact, they are behaving very rationally. We are simply reacting to inconsistent and conflictive State policies and laws. These policies and laws need to be reviewed and changed.

AB 3505 may be the beginning of the restructuring of tax distribution to adequately deal with cost increases resulting from population increases. It will accomplish the following:

1. It provides growth in revenue directly tied to growth in population to both cities and counties.

2. It will encourage cities to annex residential areas (and the resulting population increases) in addition to revenue generating businesses.

3. It would promote a more regional perspective of land use and cooperation between agencies instead of the current competition for revenue.

This is not the cure. The entire policy and tax structure of the State needs to be reconfigured to <u>link policy responsibility with related authority and funding</u> and this proposal is a step in that direction.

APPENDIX N

"ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES:
DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT"

BACKGROUND PAPER

California Legislature
Assembly Committee on
Local Government

MIKE GOTCH
CHAIRMAN

CONSULTANTS
RANDY PESTOR
BETTY T. YEE
KIT COLE
COMMITTEE SECRETARY
DIXIE PETTY

STATE CAPITOL
P.O BOX 942849
SACRAMENTO, CA 94249-0001
PHONE (916) 445-6034

ALLOCATION OF SALES TAX AND OTHER LOCAL GOVERNMENT REVENUES: DEVELOPING WORKABLE INCENTIVES FOR BALANCED DEVELOPMENT

A Briefing Paper

for the

Interim Hearing

of the

Assembly Committee on Local Government

October 7, 1994
State Capitol, Room 126
Sacramento, CA 95814

Printed on Recycled Paper

TABLE OF CONTENTS

INTRODUCTION

Which of these development options are attractive to the eyes of local government officials?

- **Milpitas, California** . . . the Great Mall of the Bay Area, California's largest discount shopping center spanning 1.5 million square feet opens on September 22, 1994, at the former Ford Motors assembly plant in Milpitas. The plant site was redeveloped at the cost of about $100 million and is expected to create between 3,000 and 5,000 new jobs. According to Milpitas officials, the mall will add another $7 million to the city's coffers.

- **Santa Clara, California** . . . Intel Corporation is seeking final approval by the end of September from the city and county of Santa Clara for permits and tax rebates totaling $4.8 million over a five-year period so it may double the size of its semiconductor factory in Santa Clara and erect an office building for engineers and designers. The expanded factory will yield employment for 100 technicians, each earning $30,000 to $35,000 annually. The office building will house 1,800 engineers and designers, each earning between $36,000 and $45,000 annually.

- **Any City, California** . . . At any time, Big Time Construction seeks building permits to erect 10 $100,000 homes within the city limits. These homes will generate property taxes totaling $10,000 annually; the city's share of those revenues would be about $900.

In response to local governments' scramble to compete for retail shopping malls and "big box" retail stores (e.g., Home Depot, Price Club, WalMart) that result in the generation of quick sales tax revenues for city and county coffers, Assembly Member Valerie Brown introduced AB 3505, which revises the method for allocating proceeds derived by the 1.25% local Bradley-Burns sales tax rate within each county. (See Appendix I for a copy of AB 3505, as amended April 6, 1994, and see Appendix II for a copy of the Assembly Local Government Committee analysis of AB 3505). Proponents of AB 3505 state that the bill was intended to discourage this destructive competition among local jurisdictions for retail outlets, provide a more balanced approach to development, and revise the allocation method for the local Bradley-Burns sales tax revenues to allow the allocation of those revenues to occur based on need.

Under current law, of the 1.25% local Bradley-Burns sales tax rate, proceeds from 0.25% of that rate are earmarked for transportation uses in each county. Revenues from the remaining 1% portion of the city-county rate are generally allocated back to cities within the county, or the county, depending on where the sale occurred (i.e., situs method of allocation). Under AB 3505, the amount allocated to each jurisdiction annually consists of a base amount (i.e., the total allocation received by that jurisdiction in the previous fiscal year) and a share of the growth in the amount of sales tax revenue collected countywide each year.

Of the growth amount, 50% is distributed to all cities within a county and to the county on an equal per-capita basis. [Note: The allocation to the county is based on the population in the unincorporated area.] The remaining 50% is also distributed on a per-capita basis, but only to those jurisdictions whose per-capita sales tax revenue is less than the countywide average. The difference in the amount between the countywide average and a jurisdiction's per-capita is the maximum amount that jurisdiction is eligible to receive. (See Appendix II for a copy of 1992-93 per-capita sales tax allocations by jurisdiction).

Additionally, Senator Ralph Dills introduced SB 1564 which was an attempt to address the lack of incentives for cities to attract and retain businesses. (See Appendix IV for a copy of SB 1564, as amended June 16, 1994, and see Appendix V for a copy of the Assembly Local Government Committee analysis of SB 1564.) This bill provided that in Los Angeles County only, 50% of the property tax revenue attributable to the assessment of a "qualified improvement" must be allocated to the city in which that improvement is located in the first five years after assessment. Under this bill, "qualified improvement" means a completed improvement of real property undertaken by a commercial or industrial enterprise that is not within a redevelopment project area for the purposes of expanding the number of employees of that enterprise within the city.

Although AB 3505 and SB 1564 revise the allocations of two different types of local revenues (i.e., Bradley-Burns sales tax and property tax, respectively), both of these bills highlight problems with current state and local tax policies which affect balanced development. In fact, according to the Legislative Analyst, "State and local tax policies are such that they cause retail to be favored over all other types of development. Cities are fighting to steal shopping centers from one another or from counties, but they have little incentive to do industrial development."

When AB 3505 and SB 1564 were before the Assembly Local Government Committee earlier this year, some members of the Committee raised concerns over the lack of a long-term proposal under which the provisions of those bills should be considered. The author of AB 3505 agreed to send that bill to interim study. Although SB 1564 failed passage in the Committee, Committee members expressed a desire to address the issues of concern relating to both bills in an interim study within a larger framework for pursuing comprehensive local government finance reform. This background paper identifies some of those issues and presents some policy questions for consideration.

ADDRESSING THE FISCALIZATION OF LAND USE . . . AGAIN

Observers note that since the passage of Proposition 13 in 1978 by voters statewide, local land use decisions have largely been driven by the need for additional revenues. Because of the 1% limitation placed on the local property tax rate pursuant to Proposition 13 and the resulting decline in property tax revenues for local governments, local officials have scrambled for other revenue sources. Cities have been competing among themselves and with counties for retail projects which generate sales tax revenues to relieve local budget pressures. Because the local Bradley-Burns portion of the sales tax is allocated to counties and cities on a situs basis, local officials may be encouraged to accept sales tax generating projects over factories or housing.

What are some of the concerns of this fiscalization of land use? They are numerous, but may be categorized as follows:

- Local governments driven by the need for more revenues may change their planning priorities.

- The overall fiscal outlook for local governments has not improved.

- California's economy may be adversely effected.

The Legislature previously devoted two interim hearings to addressing the fiscalization of land use. The Assembly and Senate Local Government Committees jointly held an interim hearing in November 1989, "Land Use and Local Revenue Sharing: Playing the Zero-Sum Game"; and the Senate Local Government Committee held an interim hearing in November 1990, "Paying for Growth: But at What Price?". The first hearing examined ways in which local governments share revenues and how these revenue-sharing arrangements affect land use decisions. The second hearing focused on the need for revenues to finance new public facilities because of growth and how the fiscalization of land use has inhibited the ability to raise revenues for this purpose.

The Assembly Local Government Committee will be looking at some of these issues again during its interim hearing on October 7, 1994. However, the Committee will be examining the fiscalization of land use using AB 3505 as a "jumping off point" for discussion relating to how one may approach providing a context for local revenue sharing in order to create incentives for balanced development and to achieve diversity and stabilization of local governments' revenue bases.

LOCAL GOVERNMENT FISCAL CONSIDERATIONS

Perhaps the biggest and most frustrating barrier to eliminating the counterproductive competition among local jurisdictions for sales tax dollars generated by retail outlets is the "zero-sum game" local governments must play. Specifically, for every dollar one local agency gains, another local agency loses. Therefore, any attempt to revise revenue allocations among local governments will be met with tremendous opposition from the financial "losers."

The zero-sum game is evident with respect to the proposals contained in AB 3505 and SB 1564. The intent of AB 3505 is to provide an allocation method for the amount of the growth in the local Bradley-Burns sales tax revenue based on need (i.e., population). And while counties, in addition to some cities, are winners under the per-capita based formula pursuant to AB 3505, it is at the expense of other cities. Additionally, the winners are not necessarily poor communities or fiscally distressed jurisdictions.

The intent of SB 1564 is to reward Los Angeles County cities, especially those that have experienced high numbers of lost jobs resulting from defense industry cutbacks, with improvements of real property undertaken by a commercial or industrial enterprise to expand the number of employees or jobs of that enterprise. The reward is a higher allocation of property tax revenues for the first five years after the qualified improvement is assessed. However, that reward is at the expense of reduced property tax revenue allocations to all other jurisdictions within the county, including the county.

Some observers note that the fiscalization of land use began with the limitations placed on property taxation enacted by Proposition 13 and has been exacerbated by the property tax shifts from local governments to school entities enacted as part of the state budget over the last several years (totaling about $3.9 billion). Consequently, they assert that the problem must include revision of the current property tax system, not just tinkering with sales tax revenue allocations.

Local officials also indicate that declining state and federal assistance (e.g., loss of federal revenue sharing funds, decreases in Community Development Block Grant revenues) have resulted in insufficient funds to finance local public improvements associated with growth. Consequently, local governments are seeking new sources of revenues to relieve their own general revenues which must meet competing local demands for services and programs.

Some observers also believe that the fiscalization of land use makes it more difficult to raise revenue from a broad base. The Senate Local Government Committee previously noted:

"In fact, California's legal and fiscal structure encourages local officials to pass the costs of new public works and new services onto builders and homebuyers, particularly through developer fees. Over time, wealthier communities may be able to attract additional investment and public capital more easily than poorer communities which may never be able to compete for the funds they need. This will lead to greater disparities between the haves and have-nots."

In their recent white paper "Revenue Distribution in Santa Clara County Cities", Sunnyvale city officials acknowledge that the desire on the part of many city governments to improve their financial position clearly has resulted in competition for sales tax oriented businesses, which may pose some significant questions of revenue equity. They assert that in order to understand the revenue equity issues, one must explore property taxes, sales taxes, the effects of special districts, redevelopment revenue, and other relevant local government revenues. They state, "Without a proper understanding of the complexity of revenue sources as well as government structures providing municipal services, changes can be made with significant unintended consequences, resulting in substantially greater inequities than under the present system."

Sunnyvale officials note that revenue restructuring and sharing at the city level have been considered in addressing four policy issues, as follows:

- To bring greater equity in funding city services statewide.
- To increase the likelihood that cities will comply with major state policy directions affecting urban California.
- To discourage inappropriate land use policies which seem driven by financial reward, often at the sacrifice of a region's quality of life.
- To regularize the relationship between state and local governments.

They caution that reviewing any specific source of revenue for addressing any of these issues is problematic, and only when sources of revenue can be reviewed in the aggregate can there be an understanding of the relative positions of various municipalities. They further caution that even when revenues are reviewed in the aggregate, one must keep in mind that cities are not alike with respect to their service needs and demands.

In addition to these complexities and difficulties with achieving "fair" revenue sharing, Sunnyvale officials maintain that local officials make development decisions consciously as a fundamental characteristic of home rule, knowing the positive and negative consequences fully. The City of Sunnyvale, which opposed AB 3505, states it has chosen to accept the negative effects of sales tax producing activities as well as the cost of providing municipal services to those businesses.

Policy Questions:

- Under what context should a proposal such as AB 3505 and SB 1564 be considered in order to create incentives for balanced development, adequate financing for related infrastructure, and diversity in, and stabilization of, local governments' revenue bases?

- Should revisions to local revenue allocations only apply to new "pots" of revenues (e.g., new sales tax revenue pursuant to expanding the sales tax base or increasing the rate, or new property tax revenue pursuant to revised allocation of the local shares of property tax revenue)?

- How should inequities in revenue and cost burdens among local governments be addressed? Should all local revenues be considered in the aggregate when examining revised allocations in order to address inequities and differing circumstances among local jurisdictions?

- How should the Legislature address the need for new local government revenue sources or more flexibility in existing revenue-raising authorities for local governments?

- Although the limitations on the property tax enacted by Proposition 13 will be difficult to revise, can meaningful local government fiscal restructuring ensure funding for local needs previously supported by the property tax prior to the enactment of Proposition 13?

- Is the Legislature clear about what it is attempting to address with local government fiscal restructuring? Is the purpose of fiscal restructuring to bring greater equity among local jurisdictions, ensure greater compliance with state policy directions, discourage inappropriate land use policies, a combination of these purposes, or some other purpose?

- How should the Legislature address the issue of "home rule" in its efforts to promote balanced development through restructuring local government finance?

- Should local government fiscal restructuring to promote balanced development be tied to a coordinated planning process?

EFFECTS ON THE STATE'S ECONOMY

According to county officials, some economists suggest that there are relatively fixed amounts of dollars available for retail sales within the various regions of the state; consequently, no appreciable economic growth occurs as a result of a new shopping mall. They believe that dollars are simply moved from one store to another and from one jurisdiction to the next.

The Great Mall in Milpitas was constructed pursuant to studies which apparently indicated that the Bay Area is under-retailed. However, recent San Francisco Chronicle research indicates that of the Bay Area's major shopping centers, 25 are regional shopping malls, 18 are discount-oriented centers, and 3 are outlet centers. (See Appendix VI for a map of the major shopping centers in the Bay Area.) Retail experts note that the Great Mall has already challenged nearby retail centers by attracting tenants away from those centers.

What are the costs and benefits of different types of development options for local governments? Some local officials believe that their aspirations to create jobs are not supported by the incentives which current tax policy creates. While job creation is a meritorious goal, local officials realize few tax benefits from approving job-creating projects and may look to retail projects to provide these benefits.

Some municipal finance officers maintain that retail development is the way to balance local budgets because unlike industrial and housing development, local governments incur fewer expenses and realize greater revenues. Milpitas city officials plan on financing street improvements around the Great Mall over the next few years with about 50% of the sales tax dollars generated by the mall. Some of the costs relating to industrial development may include, for example, costly chemical and hazardous substance matters and water services.

However, one might argue that industrial development benefits the state's economy over the long-term in other ways. Industrial development also generates property tax revenues for local governments and unlike retail development, tends to result in the creation of higher paying professional jobs rather than lower wage service jobs. On the other hand, some observers note that limitations under current law relating to the definition of "change of ownership" for the purpose of property tax assessment may be discouraging local jurisdictions from attracting and retaining industrial and manufacturing development. [Note: Current law prohibits property tax reassessment when a change of ownership occurs involving multiple purchasers of 50% or more of the outstanding stock.] Additionally, Santa Clara city officials indicate that the Intel expansion of its semiconductor factory is attractive because the city operates its own electric and water utility and is sure to profit from selling these utility services to Intel.

One also might argue that housing development also benefits the state's economy. While the property tax revenue yield to local governments resulting from housing development may be nominal and insufficient to cover the costs of municipal services to residents of the new housing (when compared with the amount of sales tax revenues generated by retail development), new home construction is generally considered by some to be a sign of better economic times in which construction creates jobs and contributes to the local and state economies.

Current tax policies encourage sales tax generating activities and discourage job producing projects. As one Intel executive notes, "Everyone wants to be the bedroom community with the Costco's but nobody wants to be the revenue generators with the industrial facilities. But if you don't have the wealth creator, who's going to go into the stores to spend?"

How do revisions to local revenue allocations create either incentives or disincentives for enhancing the state's business climate and the overall economy of the state? Proponents of AB 3505 maintain that by allocating the growth in the local Bradley-Burns sales tax revenue on a per-capita basis, the bill would insure that sales tax revenues for municipal purposes will be shared across jurisdictional boundaries and eliminate incentives for commercial growth at the expense of balanced community development, including jobs, housing, and industry.

However, opponents to AB 3505 believe the bill would make local jurisdictions reluctant to promote new business growth due to the costs associated with providing services and infrastructure to businesses, employees, suppliers, and customers. The California Manufacturers Association (CMA) notes that under this bill, any city which allows a business to expand or locate within its boundaries will only get a small portion of the sales and use tax revenue generated by that business, and worse yet, if that city is a "pro-business" city, it would hardly benefit from the allocation of the sales tax revenues beyond its base amount. Consequently, the city services provided will exceed the city's share of sales tax revenue.

CMA further asserts that AB 3505 rewards those cities and counties which have been, are, and remain anti-business, is unfair to pro-business cities, and likely will force pro-business cities to raise taxes or reduce city services. CMA offers an alternative solution which suggests that if cities have focused too much on retail businesses, then strong incentives must be created for the expansion of manufacturing businesses. According to CMA, "[e]limination of the incentives for retail and manufacturing business expansion only creates a disincentive to any business expansion. This, in turn, will have a disastrous effect on California's economy, generate severe job losses and a tremendous decline in sales/use, income and property taxes."

<u>Policy Questions</u>:

- **How should the Legislature proceed with providing incentives to encourage additional housing development?**

- How should the Legislature proceed with providing incentives to encourage industrial and manufacturing development? Are tax incentives or tax credits unfair to existing industries and manufacturers?

- What policy criteria and fiscal mechanisms are appropriate to promote additional housing development and industrial and manufacturing development?

- Should the Legislature revise the "change of ownership" provisions in its efforts to create incentives for local jurisdictions to attract and retain industrial and manufacturing development [e.g., similar to SB 413 (Kopp) from 1993, which was vetoed by the Governor]? Similarly, should the Legislature consider a local-option income tax or allocate a portion of the state's income tax revenues to local governments to promote the acceptance of industrial and manufacturing development?

- How should the Legislature treat no- or limited-growth and non-pro-business jurisdictions? How should "no- or limited-growth" be defined (e.g., no development of any kind occurring within a jurisdiction)?

- Should a local jurisdiction's ability to provide services and adequate infrastructure as a prerequisite for accepting certain types of development be subject to greater legislative involvement?

- Would local governments be more receptive to growth if there were a state strategy for managing growth that promotes more coordinated planning at the local level?

PROMOTING ORDERLY AND BALANCED DEVELOPMENT

The fiscalization of land use has affected local governments' thinking on how to plan their communities. As noted earlier, local land use decisions, especially in times of severe budgetary constraints, consider revenue potential and public service costs of a particular project. These considerations have raised questions about whether growth should occur only in cities and the need to preserve open space and agricultural land.

Furthermore, the scramble for retail centers has contributed to local desires for boundary changes as illustrated in the recent attempt to incorporate Citrus Heights in Sacramento County. However, incorporations which traditionally have been motivated by the desire for greater control over land use decisions and to discourage large-scale development in the unincorporated areas may no longer be a viable option because of the recently enacted "revenue neutrality" provision (SB 1559, Chapter 697, Statutes of 1992) added to the Cortese-Knox Local Government Reorganization Act of 1985.

This "revenue neutrality" provision requires that the amount of the property tax transfer from the county to the newly incorporated city be equal to the amount of the expenditures by the county for the service responsibilities transferred to the newly incorporated city. Since this provision does not consider the quality or the adequacy of the services which the county was providing to the area proposed to be incorporated, it creates a disincentive for incorporation insofar as the newly incorporated city not being able to realize revenues that will reflect the actual needs and costs for services it must provide.

Annexations also are becoming less attractive to some local governments. Before cities annex property, local officials must negotiate the exchange of property taxes among themselves within a 30-day period in accordance with procedures prescribed under current law. The Attorney General has opined that the Cortese-Knox Act does not require a city and county to reach an agreement for the exchange of property tax revenue, but it does compel them to negotiate. Consequently, counties have been able to block annexations by not agreeing to any property tax revenue exchange agreement, thereby resulting in ill relations between counties and cities.

Additionally, current law authorizes counties and other local agencies to adopt a master property tax transfer agreement under which all annexations to all cities within the county are treated the same or all annexations to a particular city are treated the same. While master agreements have provided uniformity for the orderly change of boundaries, some local agencies contend that they have not been responsive to specific community problems and needs. Also, some cities assert that counties are trying to include sales tax revenues in the property tax revenue negotiations, especially those cities which are more sales tax dependent than property tax dependent.

How can revisions in local revenue allocations affect the promotion of orderly and balanced development? Supporters of AB 3505 believe that allocating the growth in the local Bradley-Burns sales tax revenue on a per-capita basis provides positive incentives for sound land use decisions.

The Greenbelt Alliance notes that in the San Francisco Bay Area, "the competition for tax funding wreaks havoc not only on the productive open lands of the region's [g]reenbelt, but on the chances for long term economic sustainability among its cities. As long as individual local governments benefit from offering cheap land, tax abatements or other incentives in return for the revenue promised by large commercial facilities, the Bay Area -- and the other urban regions of this state -- will continue to be plagued by land use patterns that are inefficient for infrastructure, tend to isolate those in central urban areas, and push some local governments closer to bankruptcy while richly rewarding the few who win such competitions."

Housing advocates believe AB 3505 creates an incentive for local governments to meet the housing needs of their community. They further note an additional incentive for cities and counties to provide this housing in a more compact, high-density manner (to attract the population for determining sales tax revenue allocations), which is likely to make the housing more affordable.

However, other observers of this bill claim that new problems will arise resulting from revising the Bradley-Burns sales tax revenue allocation. For example, the California Business Properties Association believe that rather than eliminating a perceived incentive to commercial development, more incentives should be provided to encourage and support additional housing development. Furthermore, observers note that no-growth jurisdictions stand to benefit from this bill without having to plan for and cope with the costs of development.

Others fear AB 3505 will lead to increased residential development in the unincorporated areas, resulting in sprawl (especially because there is no link with improved planning procedures). Increased development in the unincorporated area could lead to the decline of farmlands and open space, increased auto dependency and air quality problems, diversion of revenues needed for infrastructure in older city neighborhoods or central city downtown areas, and an imbalance in the appropriate types of housing compared to the expected income levels of employees within the new development (i.e., jobs-housing balance).

Countering these fears, proponents of this bill claim that local jurisdictions do consider service and infrastructure costs when considering new developments. They maintain that the diversion of the growth in sales tax revenues will have minimal impact on cities with respect to servicing existing developments, and they further note that this revenue diversion will not result in adverse incentives for counties to plan large residential developments which must be serviced. In fact, they assert that the per-residential unit cost to provide services and infrastructure to that development far exceeds the amount of the per-capita sales tax allocation the county would receive under this bill.

Policy Questions:

- **Should the Legislature repeal the "revenue neutrality" provision for incorporations under the Cortese-Knox Act?**

- **Should the Legislature enact procedures for property tax revenue transfers so that local governments will not rely on negotiated transfers?**

- **Should the Legislature enact a statutory formula for allocating revenues based on services needed for the annexed territory when no agreement is reached pursuant to negotiations, or should another mechanism be enacted to address negotiations which do not result in an agreement?**

- **Should the Legislature provide new revenues or revenue-raising authority to local governments to address the counter-productive competition among local jurisdictions for sales tax producing projects?**

- **Should revisions to local revenue allocations be linked with current efforts to reform the housing element?**

- **How can revisions to local revenue allocations create incentives for local jurisdictions to meet various housing goals?**

- **Should growth occur only in cities?**

- **How can revisions in local revenue allocations promote balanced development, while at the same time preserve open space and agricultural land?**

NEXT STEPS FOR THE LEGISLATURE

As indicated by this background report, the Legislature must consider several important issues in its efforts to revise allocations of local revenues to achieve balanced development. First, the Legislature must identify and be clear about the purpose for examining local revenues and allocation alternatives.

Secondly, can the purpose be carried out by looking at individual sources of local revenues or must local revenues in the aggregate be examined? If the Legislature desires to address revenue and cost burden inequities and differing circumstances among local jurisdictions, it may wish to consider cooperative, multijurisdictional approaches for allocations of local revenues.

Thirdly, the Legislature must consider whether local government fiscal restructuring will occur with existing local revenues or in concert with the enactment of new or enhanced revenue-raising authority. Are respective interest groups willing to support the latter?

Other considerations for the Legislature may include the need for a state and multijurisdictional strategy for managing growth to guide development. This strategy also could identify ways of encouraging balanced development and ways to finance services and infrastructure.

Perhaps the greatest consideration for the Legislature is whether its members, along with local officials, believe the "status quo" is no longer in the best interest of the state or local governments, and can accept that any local government fiscal restructuring may have to result in revenue losses to some local jurisdictions if these other issues are not addressed.

AMENDED IN ASSEMBLY APRIL 6, 1994

CALIFORNIA LEGISLATURE—1993–94 REGULAR SESSION

ASSEMBLY BILL No. 3505

Introduced by Assembly Member Valerie Brown

February 25, 1994

An act to amend Section 29530 of, to amend the heading of Chapter 5 (commencing with Section 55700) of Part 2 of Division 2 of Title 5 of, to amend the heading of Article 1 (commencing with Section 55700) of Chapter 5 of Part 2 of Division 2 of Title 5 of, and to add Article 2 (commencing with Section 55720) and Article 3 (commencing with Section 55730) to Chapter 5 of Part 2 of Division 2 of Title 5 of, the Government Code, and to amend Section 7204 of, and to add Sections 7204.04, 7204.05, and 7204.06 to, the Revenue and Taxation Code, relating to local sales and use taxes.

- 14 -

LEGISLATIVE COUNSEL'S DIGEST

AB 3505, as amended, V. Brown. Local sales and use taxes: revenue allocation.

(1) Existing law authorizes a county board of supervisors, if the board so agrees by contract with the State Board of Equalization, to establish a local transportation fund in the county treasury. It provides that the county shall deposit in that fund all moneys transmitted to the county by the board that are derived from that portion of county taxes pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law at a rate in excess of 1%.

This bill would instead provide that the county shall deposit in a local transportation fund all moneys transmitted by the board that are attributable to county taxes pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law that represent the revenues generated by a 0.25% rate.

000119

(2) Existing law with respect to local governmental agencies provides for the apportionment between and among those agencies of revenues derived from taxes imposed pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law, where apportionment is necessary for equitable distribution of revenues in light of the establishment of new retail establishments within the jurisdictional boundaries of a given local agency.

This bill would additionally require that in the case of a newly incorporated city, the initial per capita allocation of revenue derived from taxes imposed pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law shall be equal to the per capita allocation of those revenues to unincorporated areas of the county in which the city is located.

This bill would, upon a change of organization pursuant to specified provisions, require that any city annexing territory receive a per capita allocation of revenue derived from taxes imposed pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law, with respect to that annexed territory, equal to the per capita allocation of revenue for the jurisdiction from which the territory was annexed.

This bill would authorize any county, city and county, and city, including a charter city, pursuant to a contract subject to the requirements of specified statutes to apportion between or among themselves the revenue derived from a sales and use tax collected for them by the state. It would also authorize a county, city and county, or city, including a charter city, to apportion that revenue between itself and a redevelopment agency located within that local jurisdiction. It would further provide that no imposition of any local sales or use tax, or substantially similar tax, and no method of apportionment of revenues derived from those taxes between or among local jurisdictions, shall be permitted except as authorized by statute.

(3) The existing Bradley-Burns Uniform Local Sales and Use Tax Law authorizes a county to impose local sales and use taxes, as provided, at a rate of 1¼%. It further requires that a county contract with the State Board of Equalization for the administration and collection of local sales and use taxes so

APPENDIX I

imposed, and requires the board to transmit collected taxes to local entities periodically as promptly as feasible, no less than twice in each calendar quarter.

This bill would additionally require in the case of counties experiencing positive or negative growth, as provided, with respect to local sales and use tax revenues, that the total amounts of those revenues collected within a county, with certain exceptions, be allocated to taxing jurisdictions, as defined, within a county in accordance with specified formulas.

(4) This bill would provide that it may be cited as the Sales Tax Stabilization and Equalization Act of 1994.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. This act may be cited as the Sales Tax Stabilization and Equalization Act of 1994.

SEC. 2. Section 29530 of the Government Code is amended to read:

29530. If the board of supervisors so agrees by contract with the State Board of Equalization, the board of supervisors shall establish a local transportation fund in the county treasury and shall deposit in the fund all revenues transmitted to the county by the State Board of Equalization under Section 7204 of the Revenue and Taxation Code, ~~which~~ *that* are attributable to taxes imposed by the county pursuant to Part 1.5 (commencing with Section 7200) of Division 2 of that code that represent the revenues generated by a 0.25 percent rate, less an allocation of the cost of the services of the State Board of Equalization in administering the sales and use tax ordinance related to the rate in excess of 1 percent and of the Director of Transportation and the Controller in administering the responsibilities assigned to him or her in Chapter 4 (commencing with Section 99200) of Part 11 of Division 10 of the Public Utilities Code.

Any interest or other income earned by investment or otherwise of the local transportation fund shall accrue to

and be a part of the fund.

SEC. 3. The heading of Chapter 5 (commencing with Section 55700) of Part 2 of Division 2 of Title 5 of the Government Code is amended to read:

CHAPTER 5. TAX SHARING, ALLOCATION, AND AUTHORIZATION

SEC. 4. The heading of Article 1 (commencing with Section 55700) of Chapter 5 of Part 2 of Division 2 of Title 5 of the Government Code is amended to read:

Article 1. Apportionment Adjustment for Bradley-Burns Revenues

SEC. 5. Article 2 (commencing with Section 55720) is added to Chapter 5 of Part 2 of Division 2 of Title 5 of the Government Code, to read:

Article 2. Bradley-Burns Revenue Allocation Upon Organizational Changes

55720. In the case of a newly incorporated city, the initial per capita allocation of revenue to that city shall be equal to the per capita allocation of revenue to unincorporated areas of the county.

55721. Upon a change of organization pursuant to Division 3 (commencing with Section 56000), any city annexing territory shall receive a per capita allocation of revenue with respect to the annexed territory equal to the per capita allocation of revenue for the jurisdiction from which the territory was annexed.

55722. For purposes of this article, "revenue" has the same meaning as that term is defined in Section 55702.

SEC. 6. Article 3 (commencing with Section 55730) is added to Chapter 5 of Part 2 of Division 2 of Title 5 of the Government Code, to read:

Article 3. Local Tax Imposition and Revenue Apportionment

55730. (a) Pursuant to a contract subject to the requirements of Sections 55705, 55706, and 55707, any county, city and county, and city, including a charter city, may apportion between or among them the revenue derived from a sales and use tax imposed by them and collected for them by the state. A county, city and county, or city, including a charter city, may also apportion that revenue between itself and a redevelopment agency located within that local jurisdiction.

(b) No imposition of any local sales or use tax, or substantially similar tax, and no method of apportionment of the revenues derived from those taxes between and among local jurisdictions, shall be permitted except as authorized by statute.

SEC. 7. Section 7204 of the Revenue and Taxation Code is amended to read:

7204. (a) All sales and use taxes collected by the State Board of Equalization pursuant to contract with any city, city and county, redevelopment agency, or county shall be transmitted by the board to that city, city and county, redevelopment agency, or county periodically as promptly as feasible. The transmittals required under this section shall be made at least twice in each calendar quarter.

(b) (1) Except as provided in paragraph (2), all revenue collected within a county pursuant to this part shall be allocated in accordance with Section 7204.04 if that county experienced positive growth in revenues as determined pursuant to subdivision (c), and in accordance with Section 7204.05 if that county experienced negative growth in revenues as determined pursuant to subdivision (c).

(2) This section and Sections 7204.04 and 7204.05 shall not apply with respect to incremental revenues to be allocated in accordance with a written agreement to a redevelopment agency, or to revenues to be deposited in a local transportation fund as described in Section 29530

of the Government Code. Revenues collected pursuant to this part, that may not be allocated with respect to any individual county, shall be allocated by the board in the same manner as other funds allocated by the board from an "unallocated statewide pool."

(c) For purposes of subdivision (b), a county experienced positive growth in revenues when the countywide sales and use tax revenue collected for the relevant quarter of the current calendar year equals or exceeds the countywide revenue collected with respect to the corresponding quarter in the prior calendar year. For purposes of subdivision (b), a county experienced negative growth in revenues when the countywide sales and use tax revenue collected for the relevant quarter of the current calendar year is less than the countywide sales and use tax revenues collected with respect to the corresponding quarter in the prior calendar year.

SEC. 8. Section 7204.04 is added to the Revenue and Taxation Code, to read:

7204.04. (a) For each county experiencing positive growth in revenues, as determined pursuant to subdivision (c) of Section 7204, the sales and use tax revenues collected within the county and available for allocation shall be allocated as follows:

(1) For the first calendar year for which this section is operative, each taxing jurisdiction shall receive each calendar quarter an amount equal to the actual amount of sales and use taxes ~~collected within~~ *allocated to* that jurisdiction during the corresponding quarter in the prior calendar year. For each calendar year thereafter, each taxing jurisdiction shall receive each calendar quarter an amount equal to the allocation received pursuant to this section or Section 7204.05 for the corresponding quarter in the prior calendar year.

(2) Unless otherwise required by paragraph ~~(4)~~ *(3)*, 50 percent of the remaining balance shall be distributed pursuant to subdivision (b) ~~.~~

~~(3) Unless otherwise required by paragraph (4),~~ *and* 50 percent of the remaining balance shall be distributed pursuant to subdivision (d).

~~(1) Where~~ *(3) In any calendar quarter in which no taxing jurisdiction in the county has either a positive difference for the calculation made pursuant to paragraph (4) of subdivision (c), or any remaining positive difference for that calculation after allocations made pursuant to subdivision (d) or (e), the entire remaining balance shall be distributed pursuant to subdivision (b). For any calendar quarter in which* the amount of the remaining balance would be exceeded by the reasonable and necessary costs of distributing that amount, that amount shall be carried forward for purposes of determining for the corresponding calendar quarter in the following year positive or negative growth in revenues as defined by subdivision (c) of Section 7204.

(b) The percentage of the remaining balance described in paragraph (2) of subdivision (a) shall be allocated on an equivalent per capita basis. For purposes of this subdivision, "equivalent per capita basis" means that the allocated per capita amount for each jurisdiction is equivalent.

(c) For each county subject to this section, the State Board of Equalization shall make the following determinations and calculations:

(1) Determine for each taxing jurisdiction within the county, the total amount allocated pursuant to paragraph (1) of subdivision (a) and subdivision (b).

(2) Divide the amount calculated pursuant to paragraph (1) by the population for the taxing jurisdiction.

(3) Divide the total amount of sales and use tax revenues collected in the incorporated and unincorporated area of the county by the total population of the taxing jurisdictions in the county.

(4) Subtract for each taxing jurisdiction, the amount calculated pursuant to paragraph (2) from the amount calculated in paragraph (3).

(d) The percentage of the remaining balance described in paragraph (3) of subdivision (a) shall be allocated as follows:

(1) As to any taxing jurisdiction that has a positive difference for the calculation made pursuant to paragraph (4) of subdivision (c), the allocation shall be in an amount equal to the product of the amount calculated pursuant to paragraph (4) of subdivision (c) and the taxing jurisdiction's population.

(2) If the amount identified in paragraph (3) of subdivision (a) is insufficient to make the allocations calculated pursuant to paragraph (1), the allocations shall ~~be reduced on a prorated basis to all taxing jurisdictions with positive differences for the calculation made pursuant to paragraph (1) of subdivision (c). The prorations shall be made as specified in~~ *be made to taxing jurisdictions that have positive differences for the calculation made pursuant to paragraph (4) of subdivision (c) in accordance with* subdivision (e).

(3) If, after allocations are made pursuant to paragraph (1), funds remain from the amount identified in paragraph (3) of subdivision (a), that balance shall be allocated so that all taxing jurisdictions receive an equivalent per capita allocation. For purposes of this paragraph, "equivalent per capita allocation" shall have the same meaning as "equivalent per capita basis" in subdivision (b).

(e) *(1)* For purposes of paragraph (2) of subdivision (d), ~~prorations~~ *allocations* shall be made pursuant to the following formula within each county:

~~(1)~~

(A) For all taxing jurisdictions that have positive differences for the calculation made pursuant to paragraph (4) of subdivision (c), calculate the total of those populations.

~~(2)~~

(B) Divide the population of each taxing jurisdiction *that has a positive difference for the calculation made pursuant to paragraph (4) of subdivision (c)* by the amount calculated pursuant to ~~paragraph (1)~~ *subparagraph (A)*.

~~(3)~~

(C) The amount allocated to each taxing jurisdiction

that has a positive difference for the calculation made pursuant to paragraph (4) of subdivision (c) shall be the product of the amount calculated pursuant to ~~paragraph (2)~~ *subparagraph (B)* and the amount calculated pursuant to paragraph (3) of subdivision (a).

(2) In no event shall any taxing jurisdiction receive in any calendar quarter an allocation pursuant to this subdivision that corresponds to a per capita amount in excess of the positive difference calculated with respect to that taxing jurisdiction pursuant to paragraph (4) of subdivision (c). Subject to the limit established by the preceding sentence, that portion of any allocation otherwise required by this subdivision that exceeds that limit shall be allocated on a per capita basis among the remaining taxing jurisdictions in the county that have a positive difference for the calculation made pursuant to paragraph (4) of subdivision (c).

SEC. 9. Section 7204.05 is added to the Revenue and Taxation Code, to read:

7204.05. (a) For each county experiencing negative growth in revenues, as determined pursuant to subdivision (c) of Section 7204, the sales and use taxes collected within the county shall be allocated to each taxing jurisdiction in the same total amount as in the prior year, less the amount calculated in subdivision (b).

(b) For purposes of subdivision (a), the State Board of Equalization shall do the following:

(1) Determine the difference between the total amount allocated to the taxing jurisdictions in the county in the corresponding quarter of the prior calendar year and the total amount collected in the current quarter.

(2) Divide the amount calculated pursuant to paragraph (1) by the total population of the taxing jurisdictions in the county.

(3) Multiply the amount calculated pursuant to paragraph (2) by the population of each taxing jurisdiction in the county.

SEC. 10. Section 7204.06 is added to the Revenue and Taxation Code, to read:

7204.06. For purposes of Sections 7204, 7204.04, and

7204.05:

(a) Population shall be determined according to the most recent annual estimate of the Population Research Unit in the Department of Finance. Upon the request of any city, county, or city and county, the research unit shall reestimate its population if the requesting entity has experienced an annexation subsequent to the last federal census. Reestimates shall be performed consistent with Section 2107.2 of the Streets and Highways Code.

(b) "Taxing jurisdiction" means any city, city and county, or county that has contracted with the State Board of Equalization pursuant to Section 7202. *In the case of a taxing jurisdiction that is a county, the jurisdiction shall include only the unincorporated portion of the county and any incorporated portion of the county that has not contracted with the State Board of Equalization pursuant to Section 7202.*

O

Date of Hearing: April 13, 1994

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Mike Gotch, Chair

AB 3505 (V. Brown) - As Amended: April 6, 1994

ASSEMBLY ACTIONS:

COMMITTEE L. GOV. VOTE>____ COMMITTEE W. & M. VOTE>____

SUBJECT: Enacts the Sales Tax Stabilization and Equalization Act of 1994.

DIGEST

Existing law, pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law, provides for a city-county sales and use tax rate at 1.25% which is applicable statewide. Of the 1.25% rate, revenues from 0.25% are earmarked for transportation uses in each county (i.e., county transportation rate). Revenues from the 1% portion of the city-county rate are generally allocated back to cities within the county, or the county, depending on where the sale occurred (i.e., situs method of allocation).

This bill enacts the Sales Tax Stabilization and Equalization Act of 1994, which revises the allocation of the revenues from the 1.25% Bradley-Burns uniform local sales and use tax rate, as follows:

1) Revenues from 0.25% of the rate must be allocated to the local transportation fund established in each county. [Note: This is similar to current law.]

2) Revenues from 1% of the rate generally must be allocated as follows:

   a) Each existing jurisdiction must receive each calendar quarter an amount equal to the actual amount of sales and use taxes allocated to that jurisdiction during the corresponding quarter in the prior calendar year.

   b) The remaining balance of revenues must be allocated, as follows:

      - 50% must be allocated on an equivalent per-capita basis, whereby each jurisdiction receives an equivalent per-capita amount. [Note: The population for each jurisdiction must be determined by the most recent annual estimate of the Population Research Unit in the state Department of Finance. The population used for a county must be the population of the unincorporated portion of that county.]

      - 50% must be allocated to jurisdictions that have a total sales tax allocation which is less than the average countywide per-capita sales tax allocation. The amount allocated to each jurisdiction would be the difference between that jurisdiction's per-capita allocation and

- continued -

the countywide per-capita allocation multiplied by the population of that jurisdiction.

c) If no jurisdiction has either a positive difference or any remaining positive difference pursuant to the calculations in b) above, the entire balance must be allocated on an equivalent per-capita basis.

d) Additionally, any funds remaining after the calculations in a) and b) above are made must be allocated so that all jurisdictions receive an equivalent per-capita allocation.

e) Decreases in the amount of countywide sales tax revenues would be deducted from each jurisdiction on a per-capita basis.

f) For a newly incorporated city, the initial sales tax allocation would be on a per-capita basis, which would be equal to the allocation of sales tax revenue in the unincorporated area of the county converted to a per-capita basis.

g) For any city annexing territory, the city would receive in addition to its sales tax base, an allocation for the population in the annexed area equal to the per-capita sales tax allocation in the unincorporated area.

FISCAL EFFECT

Potentially increased costs to the state Board of Equalization (BOE) to administer this act, which may be recovered from the sales tax proceeds.

COMMENTS

1) Addressing the Fiscalization of Land Use: Different Perspectives.

According to the author, this bill provides a more balanced approach to development and eliminates some of the incentives for destructive competition among local jurisdictions for retail outlets.

The California State Association of Counties (CSAC) asserts that "the 'fiscalization of land use' or 'cash box zoning' is a frenzied competition among local jurisdictions for retail outlets to the exclusion of more balanced and appropriate development. . . A number of economists have suggested that there are relatively fixed amounts of dollars available for retail sales within the various regions of the state, and no appreciable real economic growth occurs as a result of a new shopping mall. Dollars are simply moved from one store to another and from one jurisdiction to the next."

The League of California Cities contends that diverting the growth in sales tax revenues would diminish the fiscal incentive for local jurisdictions to accept commercial or industrial development.

- continued -

The Legislative Analyst's February 1993 issue paper "Making Government Make Sense" also acknowledges that the existing Bradley-Burns local sales tax "encourages cities and counties to make land use decisions that are not optimal from a regional perspective." For example, in order to gain the increased revenues generated by a retail operation, local governments will make siting decisions that result in increased traffic congestion and other problems for adjacent jurisdictions. Additionally, the Legislative Analyst observes that this fiscal incentive causes retail operations to be favored and approved over other types of nonresidential development which may be more appropriate from employment and community development perspectives.

To address this problem, the Legislative Analyst offers a reorganization model which includes elimination of the existing 1% Bradley-Burns sales tax rate to be replaced with a corresponding increase in the state sales tax rate. Local government revenue losses resulting from the elimination of the Bradley-Burns tax would be offset by increased property tax allocations.

Other observers note that the "fiscalization of land use" occurred with the limitations placed on property taxation enacted by Proposition 13 and has been exacerbated by the property tax shifts from local governments to school entities enacted in the last two state budgets, totaling about $3.9 billion. Consequently, these observers assert that the problem must be addressed by revising the current property tax system, not just by tinkering with sales tax revenue allocations in isolation of any comprehensive reform proposal.

Does AB 3505 constitute an appropriate response to the "fiscalization of land use"? Should this bill be considered within the larger context of local government finance reform?

According to the author, this bill represents a first step in achieving state-local fiscal restructuring and moves in the appropriate direction for addressing adverse land use incentives.

2) Constitutional Problems?

Article XIII, Section 29 of the California Constitution authorizes counties, cities and counties, and cities to enter into contracts to apportion among them revenue derived from any sales or use tax imposed by them and collected for them by the state. However, before any contract of this kind becomes operative, it must be authorized by a majority in each jurisdiction at a general or direct primary election.

Tax experts note that under AB 3505, sales tax revenues generated within one jurisdiction may be allocated to another jurisdiction. To avoid potential constitutional problems, they, instead, suggest revising the current allocation of the Bradley-Burns uniform sales and use tax proceeds by repealing the Bradley-Burns Uniform Local Sales and Use Tax Law and enacting a new countywide pooling mechanism.

Do the provisions contained in this bill violate the California Constitution?

- continued -

3) Effect on the State's Business Climate.

Proponents maintain that this bill would insure that sales tax revenues for municipal purposes will be shared across jurisdictional boundaries and eliminate incentives for commercial growth at the expense of balanced community development including jobs, housing, and industry.

Opponents believe this bill would make local jurisdictions reluctant to promote new business growth due to the costs associated with providing services and infrastructure to businesses, employees, suppliers, and customers. The California Manufacturers Association (CMA) notes that under this bill, any city which allows a business to expand or locate within its boundaries will only get a small portion of the sales and use tax revenue generated by that business, and worse yet, if that city is a "pro-business" city, it would hardly benefit from the allocation of the sales tax revenues beyond its base amount. Consequently, the city services provided will exceed the city's share of sales tax revenue.

CMA further asserts that this bill rewards those cities and counties which have been, are, and remain anti-business, is unfair to pro-business cities, and likely will force pro-business cities to raise taxes or reduce city services. CMA offers an alternative solution which suggests that if cities have focused too much on retail businesses, then strong incentives must be created for the expansion of manufacturing businesses. According to CMA, "[e]limination of the incentives for retail and manufacturing business expansion only creates a disincentive to any business expansion. This, in turn, will have a disastrous effect on California's economy, generate severe job losses and a tremendous decline in sales/use, income and property taxes."

Many opponents of this bill maintain that "[b]y penalizing business-based jurisdictions and rewarding bedroom-based jurisdictions, . . . cities and counties will regard sales/use tax generating industrial and commercial uses as Locally Undesirable Land Uses (LULUs)."

4) Potential Planning Considerations.

Supporters of this bill believe that allocating the growth in sales tax revenues on a per-capita basis provides positive incentives for appropriate land use planning decisions.

The Greenbelt Alliance notes that in the San Francisco Bay Area, "the competition for tax funding wreaks havoc not only on the productive open lands of the region's [g]reenbelt, but on the chances for long term economic sustainability among its cities. As long as individual local governments benefit from offering cheap land, tax abatements or other incentives in return for the revenue promised by large commercial facilities, the Bay Area -- and the other urban regions of this state -- will continue to be plagued by land use patterns that are inefficient for infrastructure, tend to isolate those in central urban areas, and push some local governments

- continued -

closer to bankruptcy while richly rewarding the few who win such competitions."

The California Building Industry Association (CBIA) states that too often, land use decisions are based on the revenue potential of a particular project rather than on the actual needs of the community. These decisions have put both industrial and residential development secondary to commercial development.

Housing advocates view this bill as creating an incentive for local governments to meet the housing needs of their community. They further note an additional incentive for cities and counties to provide this housing in a more compact, high-density manner (to attract the population for determining sales tax revenue allocations), which is likely to make the housing more affordable.

However, other observers of this bill claim that new problems will arise resulting from revising the Bradley-Burns sales tax revenues. For example, the California Business Properties Association believe that rather than eliminating a perceived incentive to commercial development, more incentives should be provided to encourage and support additional housing development.

Furthermore, observers note that no-growth jurisdictions stand to benefit from this bill without having to plan for and cope with the costs of development.

Still, others fear that this bill will lead to increased residential development in the unincorporated areas, resulting in sprawl. Increased development in the unincorporated area could lead to the decline of farmlands and open space, increased auto dependency and air quality problems, diversion of revenues needed for infrastructure in older city neighborhoods or central city downtown areas, and an imbalance in the appropriate types of housing compared to the expected income levels of employees within the new development (i.e., jobs-housing balance).

Countering these fears, proponents of this bill claim that local jurisdictions do consider service and infrastructure costs when considering new developments. They maintain that the diversion of the growth in sales tax revenues will have minimal impact on cities with respect to servicing existing developments, and they further note that this revenue diversion will not result in adverse incentives for counties to plan large residential developments which must be serviced. In fact, they assert that the per-residential unit cost to provide services and infrastructure to that development far exceeds the amount of the per-capita sales tax allocation the county would receive under this bill.

Should AB 3505 be considered in the context of a larger discussion that provides for new or increased revenues and state and regional planning?

- continued -

5) Potentially Disparate Effects.

The intent of AB 3505 is to provide for an allocation method of sales tax growth revenues based on need (i.e., population). However, the practical effect of this bill is increased allocation amounts in many cases to local jurisdictions with high levels of personal income or other non-fiscally distressed jurisdictions.

6) Counties and "Winner" Cities: Getting Something for Nothing?

Opponents of this bill acknowledge the fiscal plight of all local governments and suggest that instead of revising historical allocation formulas, efforts should be made to increase the amount of available revenues.

For example, if there is a desire to provide more funding for residential development, opponents suggest first reviewing the existing revenues derived from residential development (i.e., property tax revenues; and vehicle license fees, gas tax revenues, and cigarette tax revenues which are state subventions that were or are still apportioned to cities and counties on a per-capita basis). Historical funding sources then should be examined for potential increase so that residential development pays for itself. Opponents of this bill further believe that economic development must be encouraged to support population growth -- it makes no sense to discourage commercial development in order to encourage residential development.

City officials argue that diverting the growth in sales tax revenues assumes that some cities have a greater capacity to give up more revenue and to raise additional revenues. While the number of city revenue-raising mechanisms exceed that for counties, city officials note that many counties and some cities have yet to exercise any of the revenue-raising authorities available to them (e.g., utility users' tax, business license tax).

They further contend that cities' service costs also grow periodically and that this bill ignores the reality that these service costs are tied to existing development.

7) Other Potential Problems.

AB 3505 does not specify how commercial development projects "in the pipeline" will be treated for the purpose of allocating sales tax proceeds generated by those projects.

Additionally, several county tax managers have raised concerns over the difficulty in determining the population of annexed areas (e.g., area with no habitable structures).

The League of California Cities notes that this bill would place into question whether or not the sales tax was actually a local tax and set a precedent for potential reallocation of the growth in sales tax revenues in the annual state budget process.

- continued -

Several opponents of this bill urge further study of the need to reallocate the growth in sales tax revenues, noting that the per-capita allocation formula in AB 3505 creates at least as many inequities as may be perceived under the current allocation system.

SUPPORT

CA Building Industry Assoc.
CA Rural Legal Assistance Foundation
CA State Assoc. of Counties
City of Gustine
City Manager of Imperial Beach
Greenbelt Alliance
Counties of:
- Del Norte
- El Dorado
- Placer
- Sacramento
- Santa Barbara
- Solano
- Sonoma
- Ventura

OPPOSITION

CA Business Properties Assoc.
CA Contract Cities Assoc.
CA Manufacturers Assoc.
CA Retailers Assoc.
CA Taxpayers' Assoc.
Cities of:
- Alhambra
- Anaheim
- Arcadia
- Bellflower
- Bell Gardens
- Blythe
- Burlingame
- Camarillo
- Carlsbad
- Ceres
- Cerritos
- Chula Vista
- Commerce
- Cudahy
- Culver City
- El Cerrito
- El Monte
- Hawaiian Gardens
- Healdsburg
- Hesperia
- Industry
- Irvine
- Irwindale
- Laguna Hills
- Laguna Niguel
- La Mirada
- La Palma
- Lakewood
- Los Alamitos
- Menlo Park
- Merced
- Montebello
- Moreno Valley
- National City
- Norco
- Norwalk
- Oakdale
- Oakland

- continued -

SUPPORT

OPPOSITION

- Oxnard
- Pacific Grove
- Palm Desert
- Palmdale
- Palo Alto
- Paramount
- Pittsburg
- Pleasant Hill
- Poway
- Rancho Cucamonga
- Redondo Beach
- Rolling Hills Estates
- Rosemead
- San Marcos
- San Mateo
- San Rafael
- Santa Fe Springs
- Scotts Valley
- Signal Hill
- Simi Valley
- South Gate
- Sunnyvale
- Thousand Oaks
- Torrance
- Vernon
- Victorville
- Walnut Creek
- Westlake Village
- West Sacramento
- Woodlake
- Yorba Linda

League of CA Cities
Los Angeles Taxpayers Association
Mayor of Burbank
Oclassen Pharmaceuticals, Inc.
Santa Fe Springs Chamber of Commerce
and Industrial League, Inc.
Simi Valley Chamber of Commerce
State Board of Equalization
Town of Mammoth Lakes
Individual letters (1)

Legislative Analyst
March 14, 1994

1992-93 Per Capita Sales Tax Allocations By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Alameda	$102.45	Piedmont	$12.83
		Albany	52.67
		Alameda	54.06
		Oakland	66.62
		Union City	70.47
		Unincorporated Area	85.59
		Livermore	85.84
		Fremont	93.74
		Berkeley	100.36
		Newark	148.19
		Hayward	162.19
		San Leandro	186.31
		Pleasanton	208.70
		Dublin	214.02
		Emeryville	495.47
Alpine	$151.19	Unincorporated Area	151.19
Amador	$66.30	Ione	24.66
		Unincorporated Area	44.87
		Amador	52.07
		Plymouth	91.27
		Sutter Creek	143.02
		Jackson	205.76
Butte	$72.72	Biggs	14.16
		Unincorporated Area	27.43
		Paradise	41.94
		Gridley	118.50
		Chico	161.30
		Oroville	186.58
Calaveras	$44.13	Unincorporated Area	34.26
		Angels Camp	162.34
Colusa	$84.23	Unincorporated Area	60.94
		Colusa	104.00
		Williams	126.22
Contra Costa	$90.00	Hercules	25.63
		Clayton	29.48
		Orinda	38.12
		Moraga	40.06
		Unincorporated Area	49.67
		Antioch	64.46
		Pittsburg	64.81
		Lafayette	74.76
		Danville	74.78
		San Pablo	77.30
		Pinole	79.33
		El Cerrito	80.18
		Martinez	84.34
		Richmond	87.57
		Brentwood	93.99
		Pleasant Hill	136.52
		San Ramon	140.01
		Concord	146.82
		Walnut Creek	174.93
Del Norte	$50.85	Unincorporated Area	24.01
		Crescent City	111.77
El Dorado	$63.69	Unincorporated Area	37.06
		South Lake Tahoe	123.81
		Placerville	238.07

1992-93 Per Capita Sales Tax Allocations By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Fresno	$80.13	Parlier	13.64
		Orange Cove	22.08
		Huron	23.75
		Mendota	40.06
		San Joaquin	45.59
		Unincorporated Area	50.24
		Kingsburg	51.30
		Sanger	54.92
		Coalinga	61.00
		Reedley	61.13
		Firebaugh	75.40
		Kerman	83.45
		Fowler	89.46
		Fresno	95.85
		Selma	99.31
		Clovis	103.15
Glenn	$62.05	Unincorporated Area	43.62
		Willows	81.57
		Orland	88.31
Humboldt	$76.44	Rio Dell	22.27
		Unincorporated Area	26.92
		Blue Lake	34.81
		Ferndale	72.77
		Arcata	82.30
		Fortuna	94.65
		Trinidad	94.82
		Eureka	191.90
Imperial	$79.32	Calipatria	12.01
		Holtville	29.26
		Unincorporated Area	41.16
		Westmorland	41.51
		Brawley	58.01
		El Centro	111.82
		Imperial	123.38
		Calexico	125.13
Inyo	$105.92	Unincorporated Area	45.77
		Bishop	365.79
Kern	$77.94	Maricopa	10.07
		McFarland	12.81
		California City	14.51
		Arvin	33.28
		Wasco	36.18
		Shafter	54.92
		Unincorporated Area	55.17
		Delano	59.48
		Tehachapi	68.51
		Ridgecrest	70.40
		Bakersfield	125.90
		Taft	132.21
Kings	$56.77	Avenal	10.29
		Unincorporated Area	39.08
		Corcoran	42.43
		Lemoore	54.23
		Hanford	97.08
Lake	$55.16	Unincorporated Area	40.11
		Clearlake	58.49
		Lakeport	170.47
Lassen	$57.95	Unincorporated Area	35.22
		Susanville	87.23

Legislative Analyst
March 14, 1994

1992-93 Per Capita Sales Tax Allocations By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Los Angeles	$83.59	La Habra Heights	3.12
		Bradbury	4.19
		Hidden Hills	4.95
		Rolling Hills	6.02
		Palos Verdes Estates	12.32
		Sierra Madre	16.49
		Rancho Palos Verdes	19.36
		Lynwood	26.58
		Maywood	27.11
		San Marino	28.32
		Bell Gardens	30.30
		Walnut	32.13
		Unincorporated Area	32.82
		Cudahy	33.74
		Baldwin Park	34.81
		La Puente	40.43
		Diamond Bar	41.87
		Compton	43.48
		Bell	44.33
		Temple City	45.80
		Rosemead	50.05
		Hawaiian Gardens	50.81
		Lomita	52.29
		South Pasadena	53.41
		Huntington Park	54.23
		South Gate	55.91
		Pomona	57.63
		Lawndale	58.15
		Long Beach	58.95
		Glendora	59.01
		Monterey Park	59.18
		Inglewood	59.23
		Claremont	61.51
		La Verne	62.16
		Bellflower	63.29
		Norwalk	63.48
		Pico Rivera	63.99
		San Dimas	66.64
		La Canada Flintridge	69.34
		Los Angeles	74.07
		San Gabriel	75.03
		Palmdale	75.79
		Azusa	77.34
		Hermosa Beach	77.76
		Lancaster	77.97
		Paramount	79.21
		West Covina	79.55
		Hawthorne	80.54
		Duarte	82.55
		Whittier	82.99
		El Monte	84.63
		Calabasas	87.03
		Alhambra	89.09
		Downey	89.64
		Lakewood	89.90
		Agoura Hills	91.72
		La Mirada	91.97
		Artesia	92.03
		Santa Clarita	94.51

000134

1992-93 Per Capita Sales Tax Allocations
By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
		Glendale	97.59
		Arcadia	106.95
		Redondo Beach	111.47
		Montebello	113.69
		Gardena	116.09
		Malibu	118.34
		Monrovia	127.53
		Manhattan Beach	131.74
		Westlake Village	132.16
		Covina	137.11
		Burbank	145.13
		Pasadena	146.18
		South El Monte	149.63
		Carson	151.41
		West Hollywood	153.34
		San Fernando	157.14
		Avalon	158.22
		Rolling Hills Estates	173.20
		Santa Monica	181.43
		Torrance	198.46
		El Segundo	216.10
		Culver City	259.24
		Cerritos	288.31
		Beverly Hills	341.60
		Signal Hill	741.37
		Commerce	850.20
		Santa Fe Springs	988.98
		Irwindale	2,352.22
		Vernon	24,585.96
		Industry	25,823.24
Madera	$59.66	Unincorporated Area	40.36
		Chowchilla	75.43
		Madera	93.38
Marin	$102.90	Ross	16.47
		Belvedere	25.19
		Unincorporated Area	27.65
		Fairfax	40.73
		Tiburon	49.29
		San Anselmo	56.62
		Novato	88.96
		Mill Valley	92.82
		Larkspur	106.14
		San Rafael	189.90
		Sausalito	204.21
		Corte Madera	381.37
Mariposa	$76.73	Unincorporated Area	76.73
Mendocino	$75.97	Unincorporated Area	45.89
		Ukiah	133.69
		Point Arena	135.09
		Willits	137.73
		Fort Bragg	157.81
Merced	$55.65	Livingston	26.64
		Gustine	32.82
		Unincorporated Area	33.99
		Atwater	38.88
		Dos Palos	52.39
		Los Banos	76.88
		Merced	89.46

1992-93 Per Capita Sales Tax Allocations
By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Modoc	$64.91	Unincorporated Area	25.13
		Alturas	146.42
Mono	$121.73	Unincorporated Area	81.02
		Mammoth Lakes	186.99
Monterey	$78.11	Soledad	13.53
		Greenfield	23.33
		Marina	23.69
		Gonzales	31.57
		Unincorporated Area	44.89
		Seaside	70.18
		Pacific Grove	80.64
		Del Rey Oaks	81.68
		King City	88.17
		Salinas	96.86
		Monterey	149.13
		Carmel	365.98
		Sand City	4,728.42
Napa	$88.11	American Canyon	30.27
		Yountville	59.17
		Calistoga	71.40
		Napa	87.82
		Unincorporated Area	99.67
		St . Helena	185.16
Nevada	$72.43	Truckee	3.90
		Unincorporated Area	60.38
		Nevada City	185.85
		Grass Valley	231.47
Orange	$106.94	Villa Park	23.49
		Unincorporated Area	36.98
		Seal Beach	50.33
		Yorba Linda	55.50
		Dana Point	62.34
		San Clemente	63.46
		Placentia	63.86
		Laguna Niguel	67.77
		La Palma	69.69
		Lake Forest	70.95
		Mission Viejo	71.63
		Stanton	74.53
		Garden Grove	76.38
		La Habra	79.68
		Cypress	81.50
		Huntington Beach	85.77
		Laguna Beach	89.06
		Santa Ana	99.55
		Westminster	105.13
		Fullerton	105.56
		San Juan Capistrano	108.09
		Anaheim	109.40
		Buena Park	114.34
		Laguna Hills	132.86
		Fountain Valley	135.13
		Newport Beach	147.79
		Los Alamitos	159.03
		Orange	159.73
		Tustin	161.30
		Irvine	199.10
		Costa Mesa	231.44
		Brea	255.54

1992-93 Per Capita Sales Tax Allocations
By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Placer	$99.80	Loomis	40.10
		Lincoln	57.55
		Rocklin	67.84
		Unincorporated Area	72.45
		Auburn	129.90
		Roseville	162.97
		Colfax	221.21
Plumas	$71.70	Portola	62.17
		Unincorporated Area	72.84
Riverside	$71.48	Canyon Lake	8.92
		San Jacinto	30.56
		Unincorporated Area	32.09
		Calimesa	32.86
		Desert Hot Springs	38.28
		Moreno Valley	44.03
		Murrieta	46.61
		Coachella	47.83
		Banning	56.57
		La Quinta	57.60
		Norco	62.88
		Beaumont	68.25
		Blythe	81.97
		Hemet	82.38
		Perris	83.51
		Indio	88.03
		Riverside	92.96
		Lake Elsinore	92.98
		Corona	95.07
		Palm Springs	109.52
		Cathedral City	122.80
		Rancho Mirage	169.50
		Temecula	189.31
		Indian Wells	198.93
		Palm Desert	234.79
Sacramento	$91.94	Galt	42.01
		Folsom	76.92
		Sacramento	91.75
		Unincorporated Area	93.85
		Isleton	101.38
San Benito	$58.19	Unincorporated Area	43.31
		Hollister	68.58
		San Juan Bautista	74.16

1992-93 Per Capita Sales Tax Allocations
By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
San Bernardino	$73.19	Grand Terrace	18.88
		Highland	22.00
		Chino Hills	22.16
		Apple Valley	23.59
		Unincorporated Area	26.24
		Yucaipa	28.32
		Hesperia	40.34
		Twentynine Palms	44.43
		Rialto	47.50
		Adelanto	48.47
		Rancho Cucamonga	58.45
		Loma Linda	67.22
		Redlands	77.37
		Fontana	78.41
		Upland	81.24
		Yucca Valley	84.42
		Chino	90.65
		Needles	94.82
		San Bernardino	106.59
		Colton	110.17
		Ontario	119.90
		Victorville	139.00
		Barstow	152.11
		Big Bear Lake	193.76
		Montclair	272.14
San Diego	$82.35	Imperial Beach	18.66
		Unincorporated Area	24.32
		Vista	47.66
		Oceanside	52.16
		Coronado	59.87
		Santee	65.03
		Lemon Grove	65.09
		Poway	69.89
		Encinitas	71.18
		Chula Vista	78.37
		San Diego	92.70
		Solana Beach	96.44
		La Mesa	122.49
		San Marcos	133.52
		Carlsbad	136.85
		El Cajon	137.65
		Escondido	138.81
		Del Mar	161.76
		National City	167.01
San Francisco	$111.81	San Francisco	111.81
San Joaquin	$71.97	Lathrop	42.02
		Unincorporated Area	44.68
		Tracy	60.87
		Ripon	63.76
		Escalon	67.64
		Manteca	74.64
		Stockton	85.60
		Lodi	92.52

1992-93 Per Capita Sales Tax Allocations
By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
San Luis Obispo	$77.14	Unincorporated Area	32.48
		Grover City	45.81
		Atascadero	76.38
		Arroyo Grande	96.39
		Morro Bay	100.76
		El Paso de Robles	117.97
		Pismo Beach	127.84
		San Luis Obispo	143.11
San Mateo	$122.92	Hillsborough	8.52
		East Palo Alto	10.10
		Atherton	21.91
		Pacifica	23.97
		Portola Valley	26.44
		Woodside	43.14
		Daly City	57.00
		Belmont	61.03
		Millbrae	72.08
		Foster City	75.18
		Half Moon Bay	78.96
		San Mateo	130.48
		San Bruno	130.49
		San Carlos	138.37
		Redwood City	151.58
		South San Francisco	171.66
		Menlo Park	176.13
		Burlingame	193.83
		Unincorporated Area	203.16
		Brisbane	626.31
		Colma	3,800.23
Santa Barbara	$78.67	Guadalupe	19.75
		Unincorporated Area	41.58
		Lompoc	50.37
		Carpinteria	63.69
		Santa Maria	122.00
		Santa Barbara	126.94
		Buellton	141.39
		Solvang	160.70
Santa Clara	$118.37	Monte Sereno	2.95
		Los Altos Hills	8.36
		Unincorporated Area	22.33
		Saratoga	32.07
		Los Altos	71.31
		Morgan Hill	80.79
		San Jose	92.10
		Milpitas	129.53
		Gilroy	133.44
		Los Gatos	137.28
		Cupertino	163.25
		Sunnyvale	173.10
		Campbell	174.08
		Mountain View	185.41
		Palo Alto	245.09
		Santa Clara	259.19
Santa Cruz	$75.11	Unincorporated Area	35.08
		Watsonville	91.38
		Santa Cruz	95.17
		Scotts Valley	170.50
		Capitola	349.41

1992-93 Per Capita Sales Tax Allocations By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Shasta	$88.74	Unincorporated Area	29.83
		Anderson	107.85
		Redding	146.21
Sierra	$39.75	Unincorporated Area	35.09
		Loyalton	52.22
Siskiyou	$67.48	Unincorporated Area	19.70
		Montague	26.70
		Dorris	27.61
		Etna	49.79
		Dunsmuir	67.20
		Tulelake	70.61
		Fort Jones	79.87
		Weed	104.49
		Mount Shasta	157.42
		Yreka	177.73
Solano	$74.18	Suisun	25.42
		Vallejo	65.34
		Vacaville	70.08
		Benicia	74.50
		Unincorporated Area	74.89
		Dixon	80.21
		Fairfield	101.12
		Rio Vista	107.02
Sonoma	$92.85	Windsor	12.16
		Unincorporated Area	47.90
		Cloverdale	50.92
		Rohnert Park	88.44
		Cotati	105.34
		Petaluma	117.58
		Sebastopol	131.96
		Santa Rosa	143.19
		Sonoma	150.85
		Healdsburg	171.72
Stanislaus	$82.73	Riverbank	27.29
		Waterford	28.57
		Hughson	45.41
		Patterson	46.90
		Ceres	61.50
		Newman	65.60
		Unincorporated Area	80.04
		Turlock	82.09
		Modesto	93.53
		Oakdale	123.59
Sutter	$77.83	Live Oak	25.81
		Unincorporated Area	34.02
		Yuba City	134.34
Tehama	$61.21	Tehama	0.00
		Unincorporated Area	21.23
		Red Bluff	130.95
		Corning	141.59
Trinity	$43.93	Unincorporated Area	43.93

1992-93 Per Capita Sales Tax Allocations
By City and Unincorporated Area

County	Countywide Per Capita Sales Tax Allocation	City	1992-93 Per Capita Sales Tax Allocation
Tulare	$66.05	Farmersville	26.42
		Woodlake	28.81
		Unincorporated Area	34.82
		Lindsay	40.46
		Exeter	46.72
		Dinuba	60.78
		Tulare	77.38
		Porterville	90.05
		Visalia	113.62
Tuolumne	$66.82	Unincorporated Area	52.54
		Sonora	223.16
Ventura	$79.88	Port Hueneme	27.90
		Moorpark	33.79
		Fillmore	37.75
		Unincorporated Area	46.97
		Santa Paula	48.41
		Camarillo	65.11
		Simi Valley	65.92
		Oxnard	75.68
		Ojai	109.37
		Thousand Oaks	119.03
		San Buenaventura	132.71
Yolo	$97.00	Winters	29.16
		Unincorporated Area	49.64
		Davis	53.04
		Woodland	112.51
		West Sacramento	192.25
Yuba	$51.73	Wheatland	28.09
		Unincorporated Area	28.29
		Marysville	143.93

(c:\cat123\staxrank.wg2 from d:\dat123\cicoraw\art21a.wg2, Source: BOE)

AMENDED IN ASSEMBLY JUNE 16, 1994

AMENDED IN SENATE MAY 17, 1994

SENATE BILL **No. 1564**

Introduced by Senator Dills

February 18, 1994

An act to add Section 97.045 to the Revenue and Taxation Code, relating to local government finance.

LEGISLATIVE COUNSEL'S DIGEST

SB 1564, as amended, Dills. Property taxation: revenue allocations: cities: new or expanded businesses.

Existing law requires the county auditor, in each fiscal year, to allocate property tax revenues to local jurisdictions in accordance with specified formulas and procedures, and generally provides that each jurisdiction shall be allocated an amount equal to the total of the amount of revenue allocated to that jurisdiction in the prior fiscal year, subject to certain modifications, and that jurisdiction's portion of the annual tax increment, as defined.

This bill would require, in the County of Los Angeles, commencing with the 1995–96 fiscal year, that 50% of the property tax revenue attributable to the assessment of a qualified improvement, as defined, be allocated to the city in which that improvement is located *if that city is an electing city, as defined*, for the first 5 fiscal years for which that improvement is subject to assessment following its completion. This bill would also provide that these allocations shall not result in increased revenue apportionments to school districts and community college districts.

This bill would make legislative findings and declarations as to the necessity of a special statute.

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~

yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 97.045 is added to the Revenue and Taxation Code, to read:

97.045. (a) Notwithstanding any other provision of this chapter, in the County of Los Angeles, commencing with the 1995–96 fiscal year, 50 percent of the amount of property tax revenue that is attributable to the assessment of a qualified improvement shall be allocated to the city in which that improvement is located *if that city is an electing city*. For purposes of property tax revenue allocations for the immediately following fiscal year, the allocation required by the preceding sentence shall be deemed to be property tax revenue received by that city in the prior fiscal year.

(b) For the sixth fiscal year in which a qualified improvement is subject to assessment, the property tax revenue attributable to the assessment of that improvement shall be allocated to jurisdictions in the county as otherwise required under this chapter apart from subdivision (a). The allocations required by this subdivision shall, for purposes of property tax revenue allocations in the immediately following fiscal year, be deemed to be property tax revenues received by the recipient jurisdictions in the prior fiscal year.

(c) For purposes of this ~~section, "qualified~~ *section:*

(1) "Electing city" means a city, the governing body of which has adopted, with the approval of a majority of its membership, a resolution electing coverage under this section, and has transmitted official copies of that resolution to the board of supervisors and the auditor. An election as described in this paragraph shall be effective commencing with the first full fiscal year commencing after the official copies of the resolution have been transmitted as required in this paragraph.

(2) "Qualified improvement" means a completed improvement of real property that is ~~both~~ *all* of the following:

~~(1)~~

(A) Undertaken by a commercial or industrial enterprise for purposes of expanding the number of employees of that enterprise within a particular city.

~~(2)~~

(B) Subject to assessment as a completed improvement for the first time during the 1995–96 fiscal year or any fiscal year thereafter.

(C) Not located within a redevelopment project or project area as defined in Article 3 (commencing with Section 33320.1) of Chapter 4 of Part 1 of Division 24 of the Health and Safety Code.

(d) Notwithstanding any other provision of law, the Controller and the Superintendent of Public Instruction shall not, as a result of this section, apportion any amount to a school district or community college district, pursuant to Section 42238 or 84750 of the Education Code or any other provision of law, that is greater than the amount that would otherwise be apportioned thereunder to that district.

SEC. 2. The Legislature finds and declares that a special law is necessary and that a general law cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution because of the unique circumstances of the cities located in Los Angeles County. The facts constituting these circumstances are:

The federal government's decisions to close military installations and reduce spending for research and development of military equipment, and reductions in the aerospace industry, have severely and disproportionately reduced economic opportunities in the County of Los Angeles. Moreover, the current economic recession and the structure of the state's revenue and taxation laws have combined to create incentives for cities to attract land uses that generate retail sales tax revenues, as opposed to land uses for research and development and industrial purposes. Therefore, it is necessary to change those fiscal incentives with respect to the County of Los Angeles in order to encourage cities in that county to attract those land uses

that will best address that county's uniquely severe economic difficulties.

O

Date of Hearing: July 6, 1994

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Mike Gotch, Chair

SB 1564 (Dills) - As Amended: June 16, 1994

SENATE ACTIONS:

COMMITTEE L. GOV. VOTE 6-2 FLOOR VOTE 21-12

AASSEMBLY ACTIONS:

COMMITTEE L. GOV. VOTE> COMMITTEE W. & M. VOTE

SUBJECT: Revises property tax revenue allocations in Los Angeles County.

DIGEST

Existing law provides for the allocation of property tax revenues to local jurisdictions each fiscal year pursuant to specified formulas and procedures, and generally requires that the allocation to each jurisdiction be equal to the amount of property tax revenue allocated to it in the prior fiscal year, subject to certain adjustments (e.g., allocation of that jurisdiction's share of the annual tax increment).

This bill:

1) Provides that in Los Angeles County, commencing with the 1995-96 fiscal year, 50% of the amount of the property tax revenue that is attributable to the assessment of a "qualified improvement" must be allocated to the city in which that improvement is located, if that city is a "qualifying city."

2) Defines "qualified improvement" as a completed improvement of real property that is all of the following:

   a) Undertaken by a commercial or industrial enterprise for purposes of expanding the number of employees of that enterprise within a particular city.

   b) Subject to assessment as a completed improvement for the first time during the 1995-96 fiscal year or any fiscal year thereafter.

   c) Not located within a redevelopment project or project area.

3) Defines "electing city" as a city where the city council has adopted by a majority vote a resolution electing coverage under the provisions of this bill and has transmitted official copies of that resolution to the county board of supervisors and the county auditor. The city's election of

- continued -

coverage must be effective commencing with the first fiscal year commencing subsequent to the transmittal of the official copies of the resolution.

4) Provides that for the sixth year in which a qualified improvement is subject to assessment, the property tax revenue attributable to the assessment of that improvement must be allocated to jurisdictions in the county as otherwise required by current law, apart from the provisions under #1 above.

5) Specifies that the provisions in this bill must not result in increased revenue apportionments to school districts and community college districts.

6) Contains legislative findings and declarations relating to the need for special legislation.

FISCAL EFFECT

Potential state General Fund loss of an unknown amount to backfill school entities' reduced property tax revenue allocations pursuant to this bill. Additionally, this bill potentially creates a state-mandated local program because it requires the Los Angeles County auditor to modify its allocation of property tax revenues.

COMMENTS

1) Background.

Subsequent to the passage of Proposition 13 in 1978, the Legislature enacted AB 8 (L. Greene) Chapter 282, Statutes of 1979, which provided a permanent method of allocating the proceeds from the 1% property tax rate. The property tax system established by AB 8 ensured that in any fiscal year, a local government received property tax revenues in an amount equal to what it received in the prior fiscal year (i.e., base) and its share of the growth in revenue resulting from growth in assessed value within its boundaries (i.e., increment).

A city receives a share of the 1% property tax rate that is proportional to its share of local property tax revenues prior to the enactment of Proposition 13. The shares of the 1% rate received by cities statewide vary depending on each city's historical tax rate (e.g., older cities generally receive higher shares of the 1% rate, no- and low-property-tax cities had no or a low property tax rate prior to Proposition 13). Additionally, the 1992-93 and 1993-94 state budgets included a total shift of almost $3.9 billion in property tax revenues from local governments to school entities, thereby further varying the shares of property tax revenues a city may receive.

2) Promoting Economic Development.

According to the author, the purpose of this bill is to promote economic development within the cities of Los Angeles County, which have been hit

- continued -

hard by a sharp decline in defense spending and reductions in the aerospace industry.

Proponents maintain that the increase in property tax revenues provided by this bill enables cities to offer incentives to attract business and industry, and encourages cities to implement creative economic development programs and rehabiliate old properties. They further note that while only cities would benefit from the increase in property tax revenues in the first five years after the qualified improvement is assessed, all local agencies would benefit from the increase in property tax revenues thereafter.

Opponents of this bill observe that property tax allocation is a "zero-sum game," whereby if one entity gains a greater share of the property tax, all other entities lose a share equal to the amount of what that one entity gained. They further assert that if cities gain a greater share of the property tax revenues as provided by this bill, local revenue bases will exacerbate the erosion of local governments' revenue bases which have been adversely affected by the state's economic recession, declining federal aid, and recent state budget actions to shift property tax revenues to school entities.

3) Unintended Consequences.

While SB 1564 attempts to address the problem of a lack of incentives for cities to attract and retain businesses, it may foster several unintended consequences, as follows:

a) This bill focuses on the improvement of real property undertaken by a commercial or industrial enterprise to expand the number of employees or jobs of that enterprise.

   While the goal of job creation is meritorious, this bill does not address the corresponding need to ensure that affordable housing and adequate municipal services are available for attracting and retaining businesses and their employees.

   Opponents of this bill note that the reduction of local revenues to communities surrounding the location of the qualified improvement will limit the ability of local governments to maintain affordable housing and adequate municipal services.

   The California State Association of Counties further notes that in light of historical property tax allocation inequities and the recent property tax shifts enacted as part of the last two state budgets, this bill will increase pressure on county budgets to support state-required court, corrections, and health and human services programs and other essential services that are provided to all residents of the county, including city residents.

b) This bill specifies that a qualified improvement must not be located within a redevelopment project or project area.

- continued -

Even though this bill prohibits the location of a qualified improvement within a redevelopment project or project area, it does encourage new commercial or industrial improvements in newer cities which tend to have lower shares of property tax revenues or in those areas of a city which comprise a tax code area that receive lower shares of property tax revenues.

Is this bill intended to discourage new commercial or industrial improvements in older cities or in redevelopment project areas, thereby possibly encouraging suburban development?

c) This bill prohibits the property tax allocations required by this bill from resulting in increased state revenue apportionments to school districts and community college districts.

Just as property tax increment financing for redevelopment project areas freezes local shares of property tax revenues, resulting in the state General Fund backfilling schools for the amount of unrealized property tax revenues, this bill creates a similar state General Fund exposure since even with property tax revenue shortfalls locally, schools are guaranteed a minimum level of funding.

d) This bill applies only to Los Angeles County.

Does this bill set an untenable precedent for all counties?

4) <u>Short-Term Fix Versus Long-Term Reform</u>.

SB 1564 contains legislative findings and declarations relating to current incentives in the structure of the state's revenue and taxation laws for cities to attract land uses that generate retail sales tax revenues, as opposed to research and development and industrial purposes.

Some observers note that the "fiscalization of land use" occurred with the limitations placed on property taxation enacted by Proposition 13 and has been exacerbated by the property tax shifts from local governments to school entities enacted in the last two state budgets, totaling about $3.9 billion. Consequently, they assert that the problem must be addressed by revising the current property tax system and completely overhauling local government finance to ensure a diverse, yet balanced mix of local revenues to foster appropriate land use incentives . . . not by tinkering with existing revenue allocation formulas in isolation of these comprehensive reforms.

When this committee was scheduled to hear AB 3505 (V. Brown) on April 13, 1994, which revises the allocation of the growth of local sales tax revenues, the author of that bill stated her intent to further study this issue during the interim recess within the larger context of local government finance reform.

Should the subject of SB 1564 also be a part of the interim study?

- continued -

SUPPORT

Cities of:
- El Segundo
- Rolling Hills

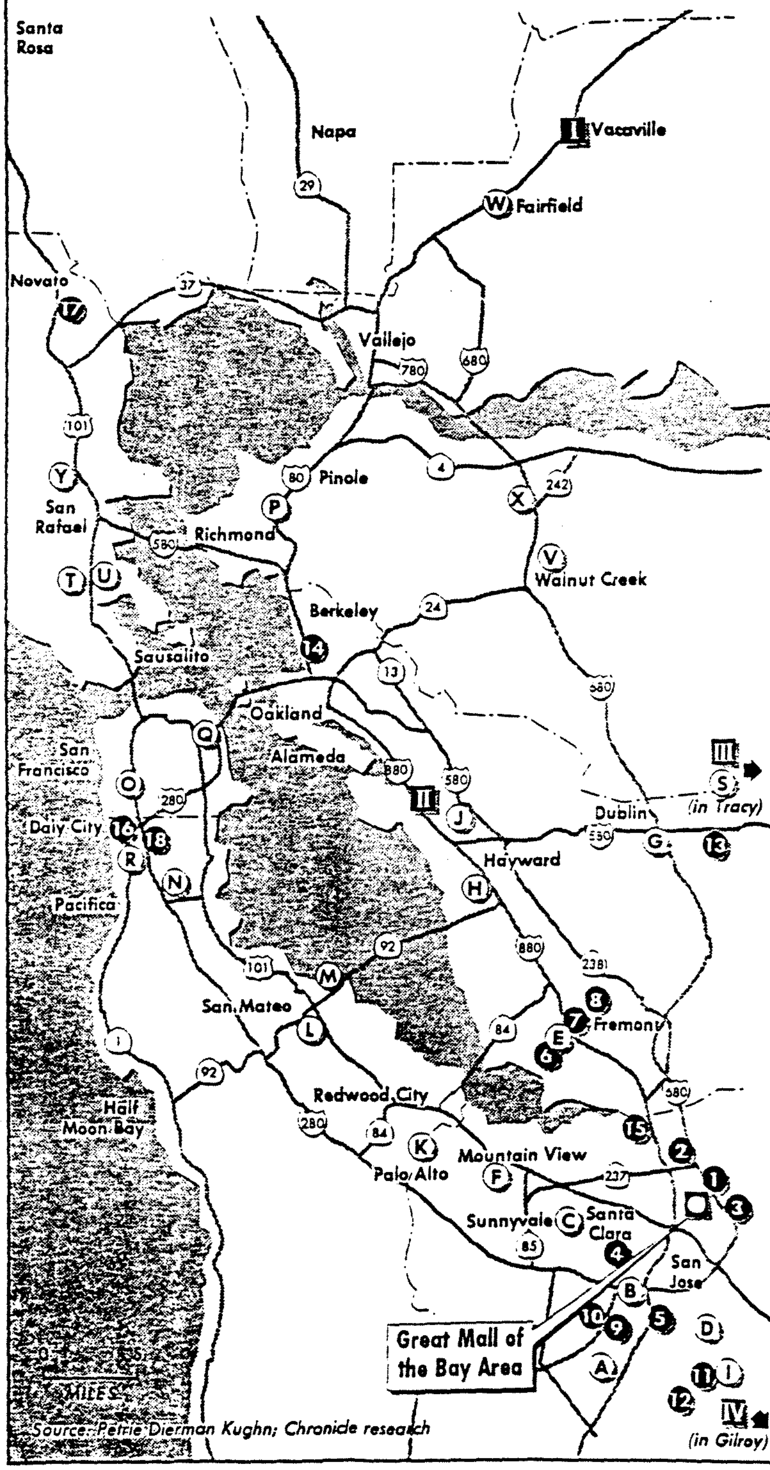
OPPOSITION

Assoc. of CA Water Agencies
CA State Assoc. of Counties
Counties of:
- San Diego
- San Luis Obispo

State Assoc. of County Auditors

Betty T. Yee
445-6034
6/17/94:algov

MAJOR BAY AREA SHOPPING CENTERS



Source: Petrie Dierman Kughn; Chronicle research

Outlet centers:

I. Factory Stores of America at Nut Tree
II. Marina Square
III. Tracy Outlet Center (opening November)
IV. Pacific West Outlet Center Outlets at Gilroy

Regional shopping malls:

A. Valley Fair
B. Eastridge Mall
C. Sunnyvale Town Center
D. Vallco Fashion Park
E. Newpark Mall
F. San Antonio Center
G. Stoneridge Mall
H. Southland Mall
I. Oakridge Mall
J. Bayfair Shopping Center
K. Stanford Shopping Center
L. Hillsdale Shopping Center
M. Fashion Island Shopping Center
N. Tanforan Park Shopping Center
O. Stonestown Galleria
P. Hilltop Mall
Q. San Francisco Shopping Centre
R. Serramonte Center
S. Tracy Mall
T. Corte Madera Town Center
U. The Village at Corte Madera
V. Broadway Plaza
W. Solano Mall
X. Sunvalley Mall
Y. Mall at Northgate

Discount-oriented centers:

1. Northwood Square
2. Milpitas Town Center
3. Capitol Square Mall
4. Mervyn's Plaza
5. Hamilton Plaza
6. Newpark Plaza
7. Mowry East Shopping Center
8. Fremont Hub
9. Westgate Mall
10. Westgate West
11. Cupertino Crossroads
12. Almaden Plaza
13. Rose Pavilion
14. Powell Street Plaza
15. McCarthy Ranch Marketplace
16. Westlake Shopping Center
17. Vintage Oaks Shopping Center
18. 280 Metro Center

SAN FRANCISCO CHRONICLE
SEPTEMBER 16, 1994

SOURCES

Abate, Tom. "Intel Fights For a Break to Expand: Chip Maker May Win But Tax Code Is Still Rigged Against Factory Projects", San Francisco Examiner, September 4, 1994.

Assembly Local Government Committee. Analysis of AB 3505 (V. Brown), As Amended April 6, 1994.

Assembly Local Government Committee. Analysis of SB 1564 (Dills), As Amended June 16, 1994.

City of Sunnyvale. Report to Mayor and Council: "Revenue Distribution in Santa Clara County Cities", November 23, 1993.

Power, Gavin. "Great Mall Built on High Hopes: Center a Sign of Confidence in Retail Scene", San Francisco Chronicle, September 16, 1994.

Senate Committee on Local Government. Interim Hearing Report: "Paying for Growth: But at What Price?", November 27, 1990.

Senate Committee on Local Government and Assembly Committee on Local Government. Summary Report from the Joint Interim Hearing: "Land Use and Local Revenue Sharing: Playing the Zero-Sum Game", November 17, 1989.

Ziegler, Timothy. "Milpitas Factory Transformed Into Big Discount Mall", San Francisco Chronicle, September 16, 1994.