11-27-1990

Interim Hearing on Paying for Growth: But at What Price?

Senate Committee on Local Government

CALIFORNIA LEGISLATURE

SENATE COMMITTEE ON LOCAL GOVERNMENT

SENATOR MARIAN BERGESON, CHAIRMAN

Interim Hearing on

PAYING FOR GROWTH: BUT AT WHAT PRICE?

November 27, 1990
Anaheim, California

543-S

California Legislature

Senate Committee on Local Government

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PAYING FOR GROWTH: BUT AT WHAT PRICE?

Summary Report From The Interim Hearing

of the

Senate Local Government Committee
Marian Bergeson, Chairman

November 27, 1990
Disneyland Hotel
Anaheim, California

PAYING FOR GROWTH: BUT AT WHAT PRICE?

On Tuesday, November 27, 1990, the Senate Local Government Committee held an interim hearing on the subject matter of Senator Dan McCorquodale's **Senate Bill 2391** and **Senate Constitutional Amendment 51**. These bills authorize the creation of two regional fiscal authorities in the Bay Area and in the Southern California region to raise revenue for new public facilities needed because of growth.

Senator Marian Bergeson, Chairman of the Senate Local Government Committee, presided over the half-day hearing. Two other Committee members also participated: Senator Ruben Ayala and Senator Charles Calderon. Also in attendance was Senator Dan McCorquodale, the author of the bills which prompted the hearing.

These Senators, and roughly 50 people in the audience, heard 10 witnesses discuss the policy choices facing the Legislature in helping local officials pay for growth. The hearing began at 1:30 p.m. in the Coronado Room of the Disneyland Hotel in Anaheim and concluded at 4:30 p.m.

This staff summary lists the witnesses who spoke, highlights their comments and recommendations, and reprints their written materials. Readers may wish to refer to these materials at the back of this report since any summary inevitably omits some information that may be of interest. In addition, this report includes the background staff report which was prepared for the hearing.

WITNESSES

Madelyn Glickfeld, President
MJG Inc.

Joe Bodovitz, President
Bay Vision 2020

Mark Pisano, Executive Director
Southern California Association of Governments

Ken Sulzer, Executive Director
San Diego Association of Governments

Dan Wall
Victor Pottorff
County Supervisors Association of California

Dwight Stenbakken
League of California Cities

David Booher
California Council for Environmental & Economic Balance

DeVere Anderson
Governmental Affairs Council

John Gamper
California Farm Bureau Federation

In addition, Victor Pottorff and Dan Wall presented Committee members with a copy of California Counties on the Fiscal Fault Line, a recently released publication of the California Counties Foundation.

LEGISLATORS' VIEWS

In announcing the hearing, **Senator Bergeson** declared that "we can't spend our way out of the growth management problem. Our voters have already passed more than $12 billion in statewide bonds for local public works in the last decade and still more dollars are needed. I think we have to find ways to make our money work smarter and fairer. That means linking new revenues with growth management. But I hope it also means avoiding new regional agencies."

After Senator Bergeson opened the Committee's hearing with a brief statement, **Senator McCorquodale** explained why he introduced Senate Bill 2391. He noted that we have no "workable ways to finance regional facilities needed to support growing populations in the manner that we'd like." SB 2391 tries to get "local agencies to make more regionally sensitive land use decisions through fiscal seduction." By authorizing new revenue sources for public works, the bill "offers up a quiver of carrots."

POLICY QUESTIONS

Madelyn Glickfeld opened the hearing by summarizing the findings from her recent statewide study of why cities and counties enact growth control measures and what the effects of those measures are on growth in general and on affordable housing. She noted that local growth control measures appear to be more of a response to regional growth, rather than to growth in that particular jurisdiction. In particular, Glickfeld's research found that infrastructure capacity is the most important reason why local governments enact growth control measures.

Surges in commercial and industrial growth also appear to trigger growth control measures more often than residential growth. Lastly, her data showed no relationship between growth control measures and the lack of affordable housing. Based on her research, she concluded there is "a need to address growth management planning and infrastructure financing issues in a coordinated way at a larger than local level."

Witnesses then responded to four policy questions Senator Bergeson raised in her opening remarks:

1. Because the debate on local finance has become interwoven with the debate on the fiscalization of land use, which part of the problem should the Legislature tackle next? Revenue allocation? State funding? More public works revenues? There was no unanimity among the witnesses on which part of the problem the Legislature should tackle next.

On behalf of counties, **Dan Wall** and **Victor Pottorff** said that counties would make better land use decisions if the Legislature provided an option to the "situs method" for allocating property and sales tax revenues. While counties need more money for programs and public works, new revenues will not be useful unless there is an evaluation of how and where county services are provided. **Pottorff** thought it might be more workable to focus on any reallocation of revenues within counties first. But the cities' representative, **Dwight Stenbakken**, countered that revenue allocation should "only be considered with new taxes or tax rates," not existing revenues.

In the San Diego region, **Ken Sulzer** noted that "the County's weaker financial position is probably the single most important reason for the fiscalization of land use and the shortfalls in paying for regional facilities." He suggested that the Legislature concentrate on county finances as a "keystone" to these other issues.

But representatives of the private sector took a different view. **David Booher** argued that greater public investment in infrastructure is "central to the continued economic competitiveness of California and therefore to the necessary growth in tax revenues to address the other critical problems state and local governments face." **DeVere Anderson** agreed that the "infrastructure funding problem needs to be solved." "We need to ensure a strong economy with continued creation of jobs, while at the same time enhancing our living environment."

2. To what extent does the Legislature need to provide funding for regional scale public works, as Senator McCorquodale's SB 2391 proposes? None of the witnesses disputed the need for regional revenues, but many disputed the need for regional government to allocate the money. Also, none of the witnesses recommended any new revenue sources, but many supported legislation to lower the voter approval requirement on general obligation bonds to a majority vote. Many witnesses also supported the need for state government to emphasize its own economic and environmental quality goals and to create incentives for local governments to achieve those goals.

DeVere Anderson recommended that the Legislature establish a bond pooling authority or a revolving loan fund authority to provide local financing based on an incentive program aimed at achieving the state's economic goals. But **Dwight Stenbakken** said the League of California Cities' preference is for the Legislature to give local governments the authority to raise revenues, rather than money itself. **John Gamper** stated that the Farm Bureau "opposes any effort to authorize taxing or statutory authority for any regional form of government without a two-thirds vote of the affected electorate."

Pottorff observed that progress is being made in the area of financing transportation. He noted that 80% of the state's population is already paying more sales taxes to finance local transportation projects. Despite this progress, **Mark Pisano** outlined the need to fill a $20 billion shortfall in transportation in the six-county SCAG region. He added that "simply adding money will not solve the problem." Pisano also argued that transportation expenditures must be linked with growth management. In the San Diego region, **Ken Sulzer** further described an $8 billion shortfall in unfunded facilities, half of which is needed for transportation.

Booher recommended that the Legislature and Governor focus next on "the crisis in the school facilities shortfall." But **Joe Bodovitz** cautioned Committee members against approaching growth management by single issue or "vertical government" and argued for integrating local land use planning with environmental quality goals and transportation.

3. If the Legislature provides authority for more revenue, should current residents share the price of growth with newcomers? Local government representatives generally argued that regional development fees (which newcomers pay) should be part of the overall mix of local fiscal options. But they acknowledged that they can become excessive and self-defeating.

Both **Booher** and **Anderson** outlined the inequities of developer fees, including disparities in the quality of life among communities based on which one can charge higher fees. Anderson called for further restricting "local government's ability to impose new fees upon the already overburdened new homebuyer." Booher suggested that a regional infrastructure finance plan could try to equalize public facilities standards and fees among jurisdictions within a region.

4. And, if so, to what extent should the Legislature direct how regions will plan for the growth the new revenue will pay for? All the witnesses spoke of the need to link planning and growth management with new revenues, but in different ways. **Madelyn Glickfeld** outlined three essential problems the Legislature should address in linking funding with growth management:

- How to plan what regional infrastructure to finance and how to set priorities for funding.
- How to ensure that state investments in infrastruc ture are complementary to, and not in conflict with, regional and local plans.
- How to reduce the local fiscal incentives for local fiscal zoning and land use border wars which may conflict with regional infrastructure plans.

Joe Bodovitz affirmed Glickfeld's remarks and added that any new legislation should merge the issues of how to plan and pay for growth. **Stenbakken** agreed, but added that the Legislature should build on existing local efforts like Bay Vision 2020 and should make existing programs work better before initiating new state policy. **Anderson** supported the suggested policy in the staff background paper of requiring the state to coordinate its own public works spending with state economic and environmental quality goals and called for incentives to encourage local governments to achieve state goals.

Booher specifically called for both the state and local governments to prepare capital facilities plans. The state capital facilities plan should reflect state growth and environmental goals and local facilities plans should be tied to general plans. He also recommended that receipt of state public works dollars be made contingent on preparation of these local facilities plans. **Stenbakken** agreed that local governments should prepare a "public facilities financing plan", but cautioned that any "preference" system should not try to link state programs and policies with unrelated funding sources.

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Presentation of

Madelyn Glickfeld,
President, MJG Inc.
Senior Researcher,
UCLA Extension, Public Policy Program

for

Senate Local Government Committee
Interim Hearing on the Subject Matter of SB 2391/SCA 51
"Paying for Growth: But At What Price?"

Tuesday, November 27, 1990
1:30 - 4:30 p.m.

Today, this Committee has convened to discuss California's approach to financing needed regional facilities that serve growth in more than one community, and more specifically, Senator McCorquodale's approach to this problem in SB 2391/SCA 51, known as the Regional Fiscal Authorities Act of 1990.

The staff background report for this hearing wisely notes that it is difficult to consider the issue of regional infrastructure financing independently, as it is intertwined with several other thorny problems that the state is facing. Since Proposition 13, the state and local governments are facing a shortage of funds for basic services and tremendous backlog of needed infrastructure for local, regional and state needs. Local governments have tried to make up a part of the deficit through selecting and encouraging land development projects with a positive local revenue stream, sometimes allowing that development to proceed without adequate local or regional infrastructure to support it. Your staff report calls this the "Fiscalization of Land Use," where local imperatives to plan land uses wisely and rationally, take a second seat to generating needed local revenues.

Many times, this fiscal imperative forces counties into competition with cities for urban growth, and causes "land use border wars" between neighboring jurisdictions. Sometimes revenue-generating developments are placed in unincorporated areas not served with urban infrastructure or on the border of a neighboring jurisdiction, so that the traffic and other effects of that development would fall into the neighboring, not the permitting jurisdiction that obtains the revenue.

This fiscalization of land use, and the resulting lack of adequacy infrastructure, combined with extremely rapid population, job and construction growth throughout the latter half of the 1980's, caused another local response, the desire to manage, control and sometimes completely stop growth and its unwanted side effects. Many times the efforts to manage growth are not focussed on the growth itself but the regional infrastructure that is necessary to serve it.

I, along with Dr. Ned Levine, my colleague at UCLA, have spent the last several years monitoring the enormous increase in enactment of local growth controls and management programs. I am here today to bring some of our pertinent findings to your attention, and discuss several issues that I think you need to consider as you are debating this bill and the issue of regional infrastructure financing.

At the end of 1988, we assisted the League of California Cities and the County Supervisors Association of California in designing a survey of all cities and counties to identify the types of growth control or management measures that they had enacted. Responses were received from all 58 counties and 87% of all cities. Then, with the financial assistance of the Lincoln Institute of Land Policy and others, we embarked on a detailed analysis of that survey data, in trying to understand the conditions under which local governments enact growth control or management measures, and the effects of these measures on growth in general and affordable housing production in particular. Our detailed findings are included in two documents[1] and are pending formal publication this year. While I cannot go into detail here some of our major findings are:

1. Enactment of local growth control or management measures in

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[1] Glickfeld, Madelyn, and Levine, Ned, "The Relationship Between Local Growth Controls and Production of Affordable Housing: A California Case Study", in Regulatory Impediments to the Development and Placement of Affordable Housing, Proceedings of a Hearing Before the Subcommittee on Policy Research and Insurance, Committee on Banking, Finance and Urban Affairs, House of Representatives, August 2, 1990, Serial No. 101-153, U.S. Government Printing Office, Washington D.C.; See also Glickfeld and Levine, "The New Land Use Regulation Revolution: Why California's Local Jurisdictions Enact Growth Control and Management Measures" (Draft) in Evaluating Local and State Growth Management Programs: What Can We Learn From Experience?, Proceedings of a Conference, The Lincoln Institute of Land Policy, Cambridge, Massachusetts, July 27, 1990

California has increased in the last few years at an accelerating rate. About 72% of all responding local jurisdictions reported that had at least one type of growth control or management measure enacted--71% of all cities and 77% of all counties. Measures have been enacted in virtually every region of the state, although jurisdictions with the most types of measures enacted tend to be concentrated along the central and southern coastal areas, and in the counties surrounding Sacramento County.

2. The vast majority of local growth management measures are enacted by local governments themselves, with less than 14% of all measures reported adopted through the initiative process.

3. We asked local governments if they had adopted or had pending any of fourteen specific types of growth control or management measures. No one type of measure is uniformly adopted by all local governments; no measure was adopted by more than 29% of jurisdictions. In fact, we identified six separate patterns or strategies of growth measures enactment. We called one of those patterns "Infrastructure Control", It included those jurisdictions that had adopted policies or ordinances requiring that developments demonstrate that adequate road, water or sewer capacity exists prior to receiving approval. 29.3% of all jurisdictions (129) have enacted such measures for residential projects, and 24.5% of jurisdictions (108) have enacted them for commercial or industrial projects. Jurisdictions with

residential adequate infrastructure controls also tend to enact this same approach for commercial/industrial projects.

4. We asked local jurisdiction administrators to tell us the reasons why they adopted particular kinds of measures. For those jurisdictions adopting measures to control residential growth, the four most frequent reasons given were, in order, " preserve the quality of life, reduce traffic, address sewer capacity limitations and address water capacity limitations. For those jurisdictions adopting measures to control commercial development the same four reasons were most frequently given, with traffic concerns outstripping general quality of life concerns. Thus infrastructure limitations are a main concern of local governments enacting growth measures.

5. There is no relationship between the rate of growth at the local level and the enactment of growth control measures; the jurisdictions enacting measures are not specifically responding to growth that they are receiving. However, there is a strong relationship over time between a surge in the level of non-residential construction activity on the state and regional level and the number of measures enacted in all local jurisdictions three years later. Thus, enactment of local growth control and management measures appear to be a local response to regional growth rather than growth in any particular city. In addition, the motivation for growth controls appears to come from surges in

commercial and industrial growth, not from residential growth.

6. Up to the point that we conducted our survey and compared levels of growth measure enactment to levels of construction activity, it does not appear that enactment of local growth measures has had a major effect in reducing the level of construction at the state, regional or county levels. This may be due to several factors, including the recency of enactment of many measures, the distributional effects of measures, the lack of intent of most measures to actually reduce growth, or some basic defect in their design.

7. No support was found for the hypothesis that growth controls are enacted in exclusively or predominantly white middle class communities. Jurisdictions which have passed more measures tend to have better educated but poorer populations. No significant relationship exists between the ethnicity of a jurisdiction's population and the propensity to enact growth controls.

8. Contrary to our expectations, there is some evidence to show that jurisdictions that have growth control or management measures are more "activist" jurisdictions that also affirmatively seek to plan for both growth and housing needs. First, jurisdictions that have current housing elements are more likely to also have growth management elements to their general plans than jurisdictions with obsolete housing elements. Second,

there appears to be a relationship between enactment of growth measures and enactment of various measures to stimulate the production of affordable housing. Jurisdictions with five or more growth measures enacted have significantly more active housing incentive programs then jurisdictions with one to four measures, and the latter have more incentives than jurisdictions with no growth control measures enacted.

9. On the other hand, while jurisdictions that have growth measures tend to take separate actions to encourage affordable housing, jurisdictions that restrain growth most strenuously through the imposition of set caps on housing unit permits generally do not exempt affordable housing projects from such caps; only twenty of forty-nine do give such exemptions.

10. Jurisdictions with growth controls do not produce a significantly lower proportion of their fair share of affordable housing than jurisdictions without growth controls. The sad fact is that all jurisdictions are doing an equally poor job at this, but enactment of growth measures is not one of the causative factors behind this poor record.

I think these findings are pertinent to your debate for several reasons. First, while there are lots of jurisdictions that are not adequately concerned about the adequacy of infrastructure, particularly regional infrastructure that they have no direct responsibility for, a significant minority of jurisdictions are trying to assure that developments do not occur without adequate infrastructure at some level. Second, the rate of growth has not been significantly affected, to date, by the enactment of growth measures. This indicates to me that either the measures that are enacted are largely not designed to curb overall growth, or that growth is being redistributed from enacting jurisdictions to non-enacting jurisdictions. Third, and perhaps most importantly, local growth controls are a response to statewide and regional growth, and the problems associated with that growth, including infrastructure. Fourth, infrastructure capacity is perhaps the most important reason why local governments are enacting growth control and management measures. All of these factors indicate a need to address growth management planning and infrastructure financing issues in a coordinated way and at a larger than local level.

Senator McCorquodale's bill represents a powerful approach to the infrastructure financing end of the problem that addresses almost all of the pertinent regional issues. However, while the financing authority is billed as a money raising and money distributing entity, it is, in reality also a regional planning agency, without really paying enough attention to how that planning gets done,the relationship between the authority and other agencies that do regional planning, insuring that the regional authorities are properly qualified and funded to do regional planning, and most importantly resolving land use and public works conflicts between individual public agencies within the region. In Section 54722.3 (b) the authority is given the discretion to enter into agreements with entities that specify land use practices that the local agency agrees to follow as a condition for receiving money. In Section 54722.5 (b), prior to levying development fees for transportation facilities, the authority must prepare a plan or study analyzing the traffic patterns likely to result from development and their impact on the regional transportation system. The plan needs to address both transit enhancements and changes to land use practices to offset the regional transportation impacts of expected new development. Similar requirements for planning are included in Section 54722.6 (b) authorizing water quality levies, and in Section 54722.8 (b) authorizing reallocation of property and sales tax. Strangely, no planning is required for the taxes it may levy under Article 7, for schools, open space, and housing near jobs.

It is my personal opinion that the State ought not back into regional planning and growth management in this way. We ought to decide the best way to manage growth that is larger than local. We desperately need to find a way to resolve land use border wars between local agencies and insure that infrastructure priority conflicts (my freeway or your rail project) and siting conflicts on key public works are resolved in a fair way. We need to use that kind of growth management plan to persuade the voters to support the kind of levies that are necessary to implement the plans with adequate and safe infrastructure. That in fact is the only way that voters have been willing to support recent countywide special gas and sales tax elections to finance transportation infrastructure. A countywide growth management plan is developed and the improvements to be financed are identified before the voters are asked to authorize funding.

So, while SB 2391/SCA 51 provides a good model for financing infrastructure, it does not really deal with the other three essential problems--(1) how to plan what regional infrastructure to finance and how to set priorities for funding, (2) how to insure that state investments in infrastructure are complementary to and not in conflict with regional and local plans and (3) how to reduce the local fiscal incentives for local fiscal zoning and land use border wars which may conflict with regional infrastructure plans. The issues addressed by SB 2391/SCA 51 are one piece of the puzzle. If the Legislature acts on this issue, it needs to do so in the context of the other pieces of the puzzle.

IF the legislature does address these other problems and needs a means to finance regional infrastructure, is SB 2391/SCA 51 the only way to go? Not necessarily. The legislature could explore ways to encourage more "voluntary regionalism" through joint powers agreements, compacts and other devices which allow cities, counties and other public agencies to join together to address particular needs that exceed local boundaries. These kinds of arrangements are probably more comfortable for local government to accept, since they are extensions of practices that have long been in effect and have recently been expanding. However, as the number of issues that require larger than local action increase, the transaction and time cost of creating these separate institutional arrangements increases, and the ability of local governments and others to sustain participation decreases. My own experience as a Coastal Commissioner sitting on several different regional boards makes me wonder how far we can get in continuing these ad hoc regional arrangements.

Bay Vision 2020

PROGRESS REPORT

July 1990

The Logo

The Commission's unusual logo is the work of one of the Bay Area's best graphic artists, Bob Bryant of Campbell.

The nine large dots represent the nine Bay Area counties. The sketched arrow indicates that the Commission's task is to point to courses of action for the region.

The arrow is also the answer to this question: Is it possible to connect the nine dots with four straight continuous lines without crossing any dot twice?

Most see the solution as being bound by a rectangle, but the arrow shows that the solution lies in going outside traditional boundaries, expanding thinking and seeking new directions.

Project Hits Halfway Mark

This is a mid-year progress report to the sponsors of Bay Vision 2020 — the local government conveners and the Regional Issues Forum, which was created by the Bay Area Council and the Greenbelt Alliance.

Halfway through its yearlong assignment, the Commission has:

- Met twice a month for full afternoon meetings, with an exceptionally high rate of interest and attendance;
- Heard presentations and held discussions on a broad range of regional issues (summarized below);
- Developed a general work plan in which the first part of the year is being used to develop a common base of knowledge and understanding about complex issues affecting the Bay Area, and in which the remainder of the year will be used in seeking Commission consensus on goals for the Bay Area and on ways to achieve them;
- Helped, through press coverage and public attendance at its meetings, to create a broader understanding on where current trends are leading the Bay Area and of both the possibilities and difficulties in choosing different directions.

Commission membership has remained unchanged from its appointment last December with one exception: The Rev. Ron Swisher of Richmond resigned because of a transfer to work in Sacramento and was replaced by the Rev. Chester Tollette, also of Richmond.

Commission Assembles Information, Insights, and Ideas

The Commission used the first part of the year primarily to assemble information and ideas from a broad array of authorities on regional issues, both in the Bay Area and nationally.

Emphasis is now shifting to Commission discussion of possible alternative futures for the Bay Area and ways to achieve them. These discussions will use the common base of information and understanding provided by the following speakers:

John T. Knox, former Assembly member from Richmond, former chairman of the Assembly Local Government Committee, and author of a number of bills on regional government in the late 1960s and 1970s.

Mr. Knox spoke of the difficulties in achieving sound regional government because of the perceived threat to local control. None of his regional government bills were passed, but the one that came closest would have combined a then-existing sewer agency, the Metropolitan Transportation Commission (MTC), the Bay Area Air Quality Management District (BAAQMD), and the Bay Conservation and Development Commission (BCDC). A real estate transfer tax was proposed to finance the new agency.

Mr. Knox said that the climate for regional governance has changed — problems of housing, transportation, etc., have worsened and the public understands this.

Lewis Butler, president of California Tomorrow.

Mr. Butler depicted California's population in the next 20 to 30 years: we will all be members of "minority" groups. In the past decade, the Asian, Black, and Hispanic population of the Bay Area increased by about 600,000 persons. It is forecast that by the year 2030, about 26 percent of Bay Area residents will be Asian, about 25 percent Hispanic, about 8 percent Black, and the remaining 41 percent non-Hispanic white.

The Commission must explore what these changes mean for the region. If whites continue to abandon the cities for suburbia, what will this mean for the inner cities, for job location, for housing prices, and for protection of open space?

Revan Tranter, executive director of the Association of Bay Area Governments (ABAG).

Mr. Tranter described ABAG's regional plan calling for city-centered growth. It worked reasonably well until Proposition 13 was passed in 1978, shifting revenue from property tax to sales tax. As a result, local interest in housing development took a back seat to the tremendous competition among local governments for sales tax revenue.

Although growth in the Bay Area is somewhat slower than in other parts of the state, the Bay Area is expected to grow by a half a million people in the 1990s. Mr Tranter said ABAG is on record as favoring a comprehensive

Commission Assembles... (cont'd)

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regional agency that would include MTC, BAAQMD, the San Francisco Regional Water Quality Control Board (SFRWQCB), ABAG, and BCDC.

Cities and counties do not welcome the prospect of regionalism, but they need to act before a design is imposed upon them by the state.

Angelo Siracusa, president of the Bay Area Council.

Mr. Siracusa said that the council, an organization of the region's larger businesses, has advocated regional thinking from the days of the unsuccessful proposal for a Golden Gate Authority of ports and airports. Growth and its impact on the quality of life in the region are of central importance to the business community.

He said that local governments are elected to act locally and we cannot expect them to cooperate voluntarily in a regional outlook.

The council's three key goals are: to reconcile land-use and transportation decision making, to bring housing closer to jobs, and to implement land-use planning at a regional level. The housing and commercial densities we have created ensure that transit will not work, resulting in long commutes, deteriorating air quality, and transportation problems, he added.

Michael McGill, executive director of the Bay Area Economic Forum (formed by ABAG and the Bay Area Council).

Mr. McGill said that without a regional transportation system to bring employees to their jobs and affordable housing within easy commute distance of employment, business will look elsewhere for opportunities.

The Bay Area cannot have a static economy. He said that continued economic growth is needed to make up for the typical 5-7 percent annual job loss common to metropolitan areas.

In rapidly-growing metropolitan areas in the nation, housing is built to serve areas where jobs are created, but in the Bay Area, jobs chase housing, leading to further sprawl into suburban and rural areas.

Neal Pierce, nationally-syndicated writer on urban and regional issues & author of a *Seattle Times* series on regional issues in the Puget Sound area.

Mr. Pierce said that California is not alone in the metropolitan-area growth crisis. Throughout the nation's metropolitan areas there is a headlong rush to the suburbs, leading to low housing densities, congestion, and loss of open space and prime agricultural land.

He described state land-use planning laws in Oregon, New Jersey, Florida, Maine, and Vermont, and multi-functioning governing devices such as those used by the Twin Cities Metro Council in Minnesota and Portland's Metro agency to help manage growth in those areas.

California, once a leader, has now fallen far behind many other states in its approach to land-use planning. He exhorted the Commission to develop a form tailored to the Bay Area, a new regional governance structure with an independent tax base capable of coordinating single-purpose agencies.

He said the state has a key role to play in making metropolitan restructuring possible — local government cannot do it on its own. He urged commissioners to seek commitments from the gubernatorial candidates to work for growth managment at the state level.

Carol Whiteside, mayor of Modesto and chairperson of the growth management committee of the League of California Cities.

Mayor Whiteside said that Modesto's population has tripled in the last 14 years, fueled principally by Bay Area workers who cannot afford to live any closer to their jobs. The average house costs $129,000 in Modesto, compared to more than double that in the Bay Area. At worst, Modesto is trading farm land for air pollution, congestion,

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Heyman Leads Study

Bay Vision 2020 has at its helm Mike Heyman, who for the past 10 years has been the chancellor of the University of California Berkeley.

As of July 1, he is stepping down as chancellor and beginning a year-long sabbatical, during which time Bay Vision 2020 will be his principal focus.

"Our goal is to help forge the partnerships and to devise the strategies needed to assure that the Bay Area will continue to be the special place it is now," said Chancellor Heyman.

A former professor of law and of city and regional planning, he was selected to head the study after several months of planning and discussions by a joint steering committee of Bay Vision Conveners and members of the Regional Issues Forum.

Chancellor Heyman has written numerous articles and papers in the areas of civil rights, constitutional law, land use planning, metropolitan government, housing, environmental law, and management and affirmative action.

Project Schedule

The Commission is to arrive at conclusions and recommendations by the end of 1990. Whatever consensus can be achieved in the Bay Area will be conveyed to the new Governor inaugurated in January 1991, and to the legislature that will convene then.

The Commission has scheduled meetings throughout the year for every second and fourth Monday of the month, from 2 pm to 6 pm.

The meetings, which are open to the public, are held in the MetroCenter Auditorium, 101 8th St. in Oakland.

Santa Clara County Supervisor Rod Diridon, currently the chair of MTC, will speak on July 9. At 4:30 pm the Bay Vision 2020 Conveners will join that meeting — the first time since installing the Commissioners in December.

Commission ... (cont'd)

higher housing costs, and a population with more ties to the Bay Area than to Modesto.

Rather than the traditional north-south traffic, Stanislaus County is faced with increasing east-west traffic problems due to commuters from the Bay Area. The Stanislaus County Association of Governments now considers itself part of the Bay Area and Mayor Whiteside challenged the commission to reconsider the geographic boundaries of the Bay Area.

Steve Thompson, director of the Assembly Office of Research (AOR) and **Todd Kaufman**, Principal Consultant at AOR.

Mr. Thompson and Mr. Kaufman summarized Assembly Speaker Willie Brown's AB 4242. This bill would establish a Regional Development and Infrastructure Agency in each of the seven most populated areas of the state, in order to help the state cope more adequately with anticipated growth.

The Bay Area region under AB 4242 would be basically the same as the Bay Area Air Quality Management District, i.e. the nine-county area, except for northwest Sonoma County and eastern Solano County. Each agency would have a 14-member governing board: three non-voting members appointed at the state level, six directly-elected members, and five members appointed by local government and single-purpose agencies.

Mr. Thompson and Mr. Kaufman said the agency would act as a unifying policy-making group for its region. Decisions with purely local impact would remain at the local level, but decisions affecting the region would be subject to the regional policies and to the regional board's capacity to enforce these policies.

They said the current bill has no provisions for revenue sharing or for new sources of funding for the regional board. It is anticipated that funds from the existing single-purpose agencies would be used. The bill would not replace local governments, but rather would take certain decisions related to land use which have regional impact and make those decisions subject to regional approval.

Lawrence D. Dahms, executive director of MTC.

Mr. Dahms said his agency is engaged in a giant balancing act among often-competing interests such as the demand for increased mobility versus air quality concerns. This need to balance is a result of the rapid population growth in the area.

MTC is looking to BV 2020 to assist in developing a plan to integrate transportation with many of the region's other concerns.

He said funding is a key determinant in transportation. To date, federal funding has been provided primarily for highway construction. Enabling that money to be directed toward transit would be a powerful policy incentive in shaping new transportation alternatives.

One of MTC's tasks is to improve air quality in the Bay Area to meet both state and federal standards. To accomplish this, vehicle miles traveled will probably have to be reduced by one-third of the projected mileage for 1997. MTC is developing a plan to achieve that objective. MTC also is working to achieve an integrated regional transportation system within constraints of ear-marked funding, dwindling financial resources, and a lack of policy direction as to where and how regional growth should be directed.

> "The fragmented nature of resource protection makes sound environmental management for the region difficult..."
>
> *—Scott Mc Creary*
> *Environmental Consultant to BV 2020*

Scott McCreary, consultant to BV 2020, lecturer in the Department of Landscape Architecture at U.C. Berkeley, and an environmental policy consultant.

Dr. McCreary addressed the topic of what the addition of one million people to the Bay Area will mean for the region's air, land, and water.

The fragmented nature of resource protection makes sound environmental management for the region difficult, he said. McCreary prepared a chart for the commission showing how different resources are regulated at the local, state, and national level. Regional, state, and federal regulations govern air quality and water quality, but land use decisions rest almost entirely with 106 local entities. Decisions about water supply and sewage treatment capacity may ultimately affect/limit the region's growth. Attainment of air quality standards mandated by both federal and state law could have significant impact on vehicle use in the region, he said.

Jane Pisano, president of The 2000 Partnership (the business and civic leaders who are the successors to the LA 2000 Committee).

Dr. Pisano said that LA 2000 was an 85-member board appointed by Los Angeles Mayor Tom Bradley to propose a strategic plan for that city in the year 2000. The group's report was completed in 1988. One conclusion was that the issues affecting Los Angeles cross city and county boundaries.

The 2000 Partnership thus reflects the broader participation of a five-county Los Angeles area, and it is charged with implementing the recommendations of LA 2000. Those recommendations include maintaining liveable neighborhoods, protecting environmental quality, encouraging opportunity for individual fulfillment, enhancing diversity as an enriching force, and ensuring the future of the city as a great crossroad.

The 2000 Partnership is recommending a strong regional governing mechanism to implement its vision for the Los Angeles basin; now, with the creation of Bay Vision 2020, there is a northern counterpart to these efforts.

Milton Feldstein, executive director of the Bay Area Air Quality Management District (BAAQMD).

Dr. Feldstein said the Air District is charged with implementing federal air quality standards and the tougher new state standards. Clean air standards are based on public health considerations, but have tremendous potential impact on land-use decisions, transportation, and the economy.

In 1982, a plan was prepared to meet

Commission Assembles Information, Insights and Ideas (cont'd)

Bay Vision 2020 Commissioners heard from a number of regional experts at their bi-weekly meetings.

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the federal standards by 1987. These standards were not met; and in fact the regulatory job is now even more difficult due to the more stringent state standards required by 1997. Feldstein said that most stationary pollution sources have been controlled and that further reductions must come through controls on mobile pollution sources. Costs of this reduction are uncertain, both in terms of dollars and in terms of changes in behavior. But to date, clean air standards have not driven business from the area.

James Guthrie, professor in the graduate school of education at U.C. Berkeley and founder of PACE (Policy Analysis for California Education).

Dr. Guthrie said that California public education is stuck "dead center" and that there is an absence of state level leadership. He cited "awesome growth" in student population as a major problem and explained that the school-age population is much more diverse than in the past. He said that up to 25 percent of youngsters come to school in no condition to learn — a situation made worse by the fact that California lags behind every industrial state in per student expenditures.

He commended the commission on its interest in education, and said that while educational reform is crucial, it involves state and national issues that cannot be addressed within a region.

Larry Orman, executive director of the Greenbelt Alliance.

Mr. Orman presented a workbook for the Commission entitled "Choosing a Future for the Bay Area Metropolis." He defined the term "region" as "a geographic area whose elements are interdependent to such a degree that they justify special actions to ensure the region's proper functioning." Key elements are the relationship of cities in a region, the location of boundaries for urban growth, commute patterns, mass transit opportunities, and the relationship of all these to density.

In evaluating alternatives for the region, he urged the commission to adopt a set of principles and goals for each which would evaluate the long term sustainability of the metropolitan region, funding for needed infrastructure, and whether or not the ecological resources of the region can support the proposed alternative. The powers necessary for a regional governance structure will vary depending upon the alternative selected, he said.

Richard LeGates, professor of urban studies at San Francisco State University.

Dr. LeGates prepared a report entitled "Regional Housing Issues" for the Commission. With the median home price in the region now at $260,000, housing affordability is a critical issue for the regional economy.

He said there is no one solution to the housing affordability problem and recommended that broad development standards be set and enforced regionally, with maximum discretion for local governments within the regional framework so long as they meet regional housing goals, including a regional fair-share housing policy for lower-income residents.

To support mass transit and to prevent suburban sprawl into prime agricultural lands and open space, housing densities in the current urban areas need to be increased, he said.

Special Meeting, March 12 - The Commission members used this meeting to discuss the information received thus far and to reflect on the work ahead. Some of the following ideas/comments were mentioned by several commissioners and some by one or two members:

- Growth in California will continue; the only question is how well we will plan to accommodate it.
- Sustainability should be the main characteristic of the future Bay Area economy. We are running out of healthy and productive land (and of healthy air and water). The automobile and fossil fuels will not be around in another 55 years.
- At the same time, we need a society with durability, resilience, a minimum of social tension, and no political or economic apartheid.
- We need to look beyond what is not working today and plan for 30 years; we need something more stable than a regional general plan that must be revised every five years like city and county general plans.
- The way we govern ourselves now is like having clothes for a child of five. When the child grows into adolescence the clothes no longer fit. We need to find new clothes.
- The problem today is lack of community, a sense of community identity. We elect people where we live, but that may not be where we work or shop or go for recreation.

Commission... (cont'd)

This leads to apathy because we do not think our vote counts for much.

- The Bay Area consists of a variety of racial and ethnic groups, and of people of different income levels. Regional concerns have to be made understandable to all these people. Too often, they have been ignored in the past, and they must be fully included in the future.
- The problem is not that local officials want only to protect their turf; it is that their constituents insist on it. We have governance by neighborhood veto. Just try to put a drug rehabilitation center into a neighborhood.
- We need to develop clear lines between urban communities, agriculture, and open space. It is essential to save agriculture in the Bay Area — crops grow here that cannot grow well elsewhere.
- Everyone talks about "quality of life," which includes safety among other things: so people flee cities and look for safety in smaller communities. Are we redefining "quality of life" to mean higher density neighborhoods? How will we define success in the future? Will it require owning a home and owning a car?
- Napa County worries that proposals for each area to accept a "fair share" of housing on a regionwide basis could threaten agriculture, and could, in effect, require rural areas to make up for the mistakes of the rest of the Bay Area.
- We need additional airports in the region, and airports should be managed as a unit.
- We cannot define the Bay Area as though it had a moat around it because growth will jump over the moat and ruin outlying areas.
- We cannot foresee all the problems of the next 30 years, so the question is: How can we best organize and manage both for the problems we can see now and for the new ones we cannot anticipate? One answer is that we need a comprehensive perspective that recognizes regional interdependence.
- We may all agree that the governmental structure in the Bay Area is not working well now. But we may find it extremely difficult to agree on a regional vision for the long-term future. Maybe we should work instead toward finding a means of better governance — what sort of government structure should there be? With what kind of governing board? Our main contributions could be to help set that kind of governmental structure in place — a structure capable of supporting a regional vision.

Dr. Richard Le Gates discusses Bay Area housing trends.

- Developers do not want to make their lives more complicated, and another layer of government sounds like more complications. But if there is to be governmental change, the new government should be more efficient and effective than what we have now.
- Maybe we do not need to create whole new structures, but instead should modify existing systems and bend them toward common purposes.
- The Coastal Commission should be considered as one model for regional governance; its members are appointed both from local government and from the general public, and it administers a process by which local governments plan for coastal protection and development within provisions of state law.
- People talk about a real estate transfer tax as a way of supporting a regional agency. But such a tax has also been proposed to fund programs for the homeless in San Francisco. And, adding to already-high housing prices, it will make it more difficult for people to afford housing.

Bay Vision 2020 Funding

Sponsors of the yearlong Bay Vision 2020 project adopted a budget of $600,000 and sought to fund the project in equal thirds from three constituencies: local government, foundations, and the business community. To date, approximately 89 percent of the financial support has been raised. Contributions have been received from the following:

Government- The Metropolitan Transportation Commission.

Foundations- Wallace Alexander Gerbode Foundation, Walter and Elise Haas Fund, William and Flora Hewlett Foundation, James Irvine Foundation, David and Lucile Packard Foundation, and San Francisco Foundation.

Business- Bank of America, Chevron, Clorox, IBM (in kind donation), Lockheed, Pacific Telesis, Pacific Gas and Electric, and Raychem.

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Commission Roster

The Bay Vision 2020 Commission consists of 32 members from all parts of the nine-county Bay Area. Its membership reflects the increasing racial and ethnic diversity of the Bay Area.

The Commission was established in December 1989 through the joint efforts of local government leaders and the Regional Issues Forum, established by the Bay Area Council and the Greenbelt Alliance.

Commission Chair is **Ira Michael Heyman**, Professor of Law, Boalt Hall, UC Berkeley. Vice-chairs are **A.W. Clausen**, chairman of the executive committee of the Bank of America, **Pamela W. Lloyd**, member of the San Francisco Bay Regional Water Quality Control Board and chair of the Marin Conservation Corps, and **Richard Rios**, executive director of the San Jose Development Corporation.

Other Commissioners are:

Gordon Chin, *executive director of the Chinese Community Housing Corp., San Francisco.*

Sara Conner, *former president of the Bay Area League of Women Voters*

Paul De Falco, Jr., *former regional director of the Environmental Protection Agency and president of the Bay Area League of Women Voters.*

Yvette del Prado, *superintendent of the Cupertino Union School District.*

Armando F. Flores, *superintendent of the Bellevue Union School District in Sonoma County.*

Ruben Garcia, *area vice president of Pacific Bell.*

Gloria S. Gee, *comptroller of Pacific Gas and Electric.*

Peter B. Giles, *president and chief executive officer of the Technology Center of Silicon Valley.*

David L. Goodman, *vice president of public affairs and marketing services for Clorox Corp., Oakland.*

S. Reid Gustafson, *president of the Northern California Division of Shea Homes.*

Mary Handel, *executive director of the Napa County Farm Bureau and the Napa Valley Grape Growers Association.*

Aileen C. Hernandez, *urban consultant, San Francisco.*

James C. Hormel, *president of Equidex, Inc., San Francisco.*

Melvin B. Lane, *chairman of the Lane Publishing Company, Menlo Park.*

Glenn H. Larnerd, *vice president, GPD, and site general manager of IBM.*

Lynette Jung Lee, *executive director of the East Bay Asian Development Corp., Oakland.*

Robert A. Mang, *president of the Greenbelt Alliance.*

J. David Martin, *president of the Martin Group, land developers, Emeryville.*

David L. Nichols, *former county manager of San Mateo County.*

Martin Paley, *management consultant, San Francisco.*

Robert H. Power, *chairman of the Nut Tree Partnership, Vacaville.*

David M. Reiser, *president of the Santa Clara and San Benito Central Labor Council.*

Martin J. Rosen, *president of the Trust for Public Land.*

Dwight C. Steele, *vice president of Save San Francisco Bay Association.*

Geraldine F. Steinberg, *president of Enshallah Developments and former Santa Clara County supervisor.*

Chester Tollette, *pastor of the Davis Chapel Christian Methodist Episcopal Church in Richmond.*

Scott F. Wylie, *director of communications for Raychem Corp.*

Beth Wyman, *former mayor and council member of Morgan Hill and grants coordinator for housing and community development for Santa Clara County.*

BAY VISION 2020

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July 1990
Progress Report

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS
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TESTIMONY OF

THE SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

BEFORE THE SENATE COMMITTEE ON LOCAL GOVERNMENT

SUBMITTED NOVEMBER 27, 1990

MADAM CHAIRMAN, MEMBERS OF THE COMMITTEE, THE SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS IS PLEASED TO HAVE THIS OPPORTUNITY TO SHARE WITH YOU A REGIONAL PERSPECTIVE ON THE COSTS ASSOCIATED WITH GROWTH. SCAG, AS THE METROPOLITAN PLANNING ORGANIZATION (MPO) FOR THE SIX SOUTHERN CALIFORNIA COUNTIES OF ORANGE, SAN BERNARDINO, VENTURA, RIVERSIDE, IMPERIAL AND LOS ANGELES, IS RESPONSIBLE FOR THE PREPARATION AND ADOPTION OF THE REGIONAL GROWTH MANAGEMENT PLAN (GMP), REGIONAL MOBILITY PLAN (RMP), REGIONAL HOUSING NEEDS ASSESSMENT (RHNA) AND WITH THE SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT, THE REGIONAL AIR QUALITY MANAGEMENT PLAN (AQMP).

THESE PLANS PROVIDE AN ASSESSMENT OF THE PROJECTED POPULATION GROWTH, THE COST OF CAPITAL IMPROVEMENTS IN INFRASTRUCTURE, HOUSING, AND ENVIRONMENTAL MITIGATION NECESSARY TO ACCOMMODATE THE INCREASE IN RESIDENTS. OUR TESTIMONY WILL BE BASED ON THE RMP AND GMP WHICH WERE ADOPTED ON FEBRUARY 2, 1989 AND THE AQMP ADOPTED ON FEBRUARY 17, 1989. DEVELOPMENT OF THE PLANS WAS COTERMINOUS IN RECOGNITION OF THE INTERRELATIONSHIP AND INTERDEPENDENCY BETWEEN LAND USE, TRANSPORTATION AND AIR QUALITY.

POPULATION IN THE SOUTHERN CALIFORNIA REGION COULD REACH 17.1 to 20.2 MILLION BY THE YEAR 2010. COMMENSURATE WITH THIS GROWTH IN RESIDENTS, THE NUMBER OF HOUSING UNITS COULD EQUAL 7.2 TO 8.1 MILLION AND JOBS TOTAL 8.7 TO 9.3 MILLION. WHILE THE POTENTIAL FOR EXPANDING THE REGION'S ECONOMIC DEVELOPMENT IS THE MOST TOUTED ADVANTAGE TO GROWTH, THERE ARE A NUMBER OF SIGNIFICANT IMPACTS ON THE EXISTING INFRASTRUCTURE WHICH REQUIRE CONSIDERATION.

SOUTHERN CALIFORNIA IS THE FASTEST GROWING REGION IN THE WORLD. AS MORE OF THE REGION'S INHABITANTS BEGIN TO EVALUATE THEIR OPTIONS FOR HOUSING AND EMPLOYMENT AND MOVE AWAY FROM THE METROPOLITAN CENTERS TO THE SUBREGIONS, THERE IS A GROWING PROBLEM WITH OUR ABILITY TO MEET THE DEMAND FOR SERVICES FROM LIMITED AND, OR DWINDLING RESOURCES. TRANSPORTATION, AIR QUALITY, WATER SUPPLY, WATER QUALITY, WASTEWATER TREATMENT, SOLID WASTE, HAZARDOUS WASTE, SCHOOLS, LAW ENFORCEMENT, FIRE PROTECTION, ENERGY, HEALTH CARE AND SOCIAL SERVICES, WHICH ARE ALL IMPORTANT ELEMENTS OF LOCAL AND REGIONAL DEVELOPMENT, ARE AFFECTED. FOR EXAMPLE:

THE RMP IS THE MOBILITY STRATEGY ADOPTED TO MEET AIR QUALITY STANDARDS AND MOBILITY GOALS. BETWEEN 1992 AND 2010 THE COST OF MAKING CAPITAL IMPROVEMENTS FOR HIGHWAY, TRANSIT, AND DEMAND MANAGEMENT HAS BEEN ESTIMATED AT $57.310 BILLION. $36 BILLION WOULD BE ACCESSIBLE FROM CURRENT REVENUES LEAVING A SHORTFALL OF $20 BILLION. HOWEVER, BY DEVELOPING AN INTEGRATED SOLUTION OF GROWTH MANAGEMENT, MANAGING THE SYSTEM, AND CHANGING THE MIX OF PROJECTS, THE COSTS WERE SUBSTANTIALLY REDUCED. SINCE THE PLAN WAS ADOPTED, WE HAVE HAD AN UNPRECEDENTED SET OF LOCAL AND STATE ACTIONS TAKEN TO DEAL WITH THE FISCAL DEFICIENCIES. FIVE OF THE SIX COUNTIES HAVE ADOPTED SALES TAX INCREASES FOR TRANSPORTATION. NEVERTHELESS, IN THE YEAR 2010, OPERATIONS AND MAINTENANCE COULD STILL HAVE A SHORTFALL OF $3.240 BILLION COMPARED TO THE $4.790 BILLION TOTAL COST AND $1.550 BILLION THAT WOULD BE AVAILABLE. A NUMBER OF SUGGESTIONS HAVE BEEN MADE FOR GENERATING ADDITIONAL REVENUES.

- MORNING AND EVENING PEAK-PERIOD TOLLS
- TRANSIT CORRIDOR BENEFIT ASSESSMENTS
- EMPLOYMENT PARKING FEES
- FAREBOX RECOVERY
- IMPOSE REGIONAL GAS TAX

THESE OPTIONS REPRESENT POTENTIAL CAPITAL FUNDS OF UP TO $20 BILLION AND $2 BILLION IN OPERATION AND MAINTENANCE REVENUES. WE ARE CURRENTLY EXAMINING PRICING AND MARKET SYSTEM APPROACHES AS WE LOOK AT A REVISION TO OUR AIR PLAN. WITH AS MUCH PROGRESS AS WE HAVE MADE, WE WILL STILL HAVE MORE FINANCING NEEDS. MOREOVER, IF WE DO NOT ACHIEVE GROWTH MANAGEMENT, WE COULD BE CONFRONTED WITH AN ADDITIONAL $20 BILLION SHORTFALL.

SCAG IS CONTINUING TO EXPLORE THE FINANCING TOOLS NEEDED TO CARRY OUT THE REGIONAL PLANS THAT WE ADOPTED. WE MUST COUPLE GROWTH MANAGEMENT WITH FACILITIES. SIMPLY ADDING MONEY WILL NOT SOLVE THE PROBLEM. GROWTH AND TRANSPORTATION EXPENDITURES MUST BE LINKED. SCAG'S TASK FORCE OF CITY MANAGERS AND COUNTY ADMINISTRATIVE OFFICERS IS EXAMINING THE UNIQUE PROVISIONS OF SB 2391, ALONG WITH THE PRICING OF DEMAND MANAGEMENT ASPECTS AND MARKET MECHANISMS OF THE MOBILITY AND AIR QUALITY PLANS. THERE IS A NEED FOR ADDITIONAL AUTHORITIES TO BE USED BY LOCAL GOVERNMENTS TO ADDRESS THE CONCERNS OF GROWTH AND IT'S COSTS. IT IS THE EXECUTIVE COMMITTEE'S OBJECTIVE TO PROVIDE INPUT TO THE LEGISLATURE THIS SESSION ON THE GROWTH MANAGEMENT AND FINANCING ISSUES THAT WE FACE.

THANK YOU.

MARK PISANO, EXECUTIVE DIRECTOR

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REMARKS BY MR. KEN SULZER

TO THE

SENATE COMMITTEE ON LOCAL GOVERNMENT

NOVEMBER 27, 1990

Madam Chairman, other distinguished members of the Senate Local Government Committee, ladies and gentlemen: my name is Ken Sulzer. I am the Executive Director of the San Diego Association of Governments.

On behalf of the SANDAG Board of Directors, I appreciate this opportunity to address you on the subject of paying for growth.

During the past four years the San Diego Association of Governments has tried to respond to two of the most important issues discussed in the Back ground Report prepared for your Committee's Interim Hearing. The two issues are: The "fiscalization of land use" and paying for regional public facilities and services.

We addressed these two issues first in our 1987 report entitled, "Regional Governmental Responsibilities and Revenues." The process we used to prepare that study is summarized in your Consultant's report.

That project was important in the San Diego region because, through SANDAG, the cities, for the first time, were directly involved in analyzing the county's fiscal position relative to their own.

We found, as you know, that the County is relatively worse off, fiscally, than the cities as a group.

Today, of course, that is a commonly held view throughout California. But it was not so widely believed in 1986 when we were preparing our study.

In the San Diego region, at least, the County's weaker financial position is probably the single most important reason for the fiscalization of land use and the shortfalls in paying for regional facilities.

Once the cities in our region were satisfied as to the facts of the County's situation, obtaining agreement on recommended actions was comparatively easy.

Several of the study's recommendations address ways to ameliorate the "fiscalization of land use." But, because the report has received wide circulation and review during the past few years, I won't take your time to describe them here.

However, as I mentioned before, the study's fundamental conclusion, that the County is in a relatively weaker financial position than the cities, also underscored the reason why we have shortfalls in paying for County-provided regional services.

Now, through our Regional Growth Management Program we are investigating the need for more money for regional services.

Attached to the written copies of my presentation is a memorandum listing the types of regional facilities under review at SANDAG and the amounts of the projected shortfalls identified to date.
Our Regional Revenues Advisory Committee is studying ways to refine these figures and pay for the agreed upon needs.

You can see that the table on page one of the memo lists some County-provided services -- services that also receive state funding.

Regional development impact fees might be recommended as one way to pay for at least part of our regional facilities needs.

The economic impact and the effects on housing affordability of imposing a regional fee are being analyzed now. The results of the analysis will be available in December.

Then, by arraying it along with the other sources that will be used to pay for regional facilities, the Committee will be able to make a judgment about the feasibility and usefulness of a regional development fee.

In conclusion, let me again state that, in the San Diego region, at least, we concluded that the County's relatively weaker fiscal position is the most important reason for the "fiscalization of land use" and one of the reasons why we are investigating the need for more money for regional public facilities.

Of course, none of this is news to you. But we believe our work in the San Diego region is good analytical evidence that your Committee's emphasis on this subject is correct; and that the Legislature should concentrate on County and local government funding as a keystone to these other important issues.

Thank you for this opportunity and your attention. SANDAG would be pleased to provide you with any information you might need for your deliberations.

ATTACHMENT

M E M O R A N D U M

September 6, 1990
(Revised 10/11/90)

To: Regional Revenues Advisory Committee
From: SANDAG Staff
Subject: Hypothetical Allocation of Unfunded Facility Costs between a Potential Regional Impact Fee and As Yet Unidentified Funding Sources

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As was suggested and agreed upon at the July 6, 1990, meeting of the Advisory Committee, SANDAG staff and Recht Hausrath & Associates have developed a potential allocation of unfunded facility costs between a hypothetical regional impact fee and as yet unidentified alternative general revenue sources (e.g., county-wide general obligation bond, charitable contributions, toll roads, etc.). The potential allocation table below is presented for discussion purposes. A brief description of how the allocation was made for each facility follows the table.

POTENTIAL FUNDING LEVEL ALLOCATIONS
FOR REGIONAL IMPACT FEES
AND OTHER FUNDING SOURCES
(Dollars in Millions)

Unfunded Facilities		Funding Shortfall	Alternative Levels Impact Fee Funding			Other Funding Sources
			(1)	(2)	(3)	
A.	Transportation	$4,000.0	$500.0	$1,000.0	$1,500.0	$2,500.0 - 3,500.0
B.	Justice Facilities	3,357.0	169.0	169.0	169.0	3,188.0
C.	Regional Parks/Open Space	274.7	274.7	274.7	274.7	0.0
D.	Health	224.0	106.0	106.0	106.0	118.0
E.	Libraries	155.0	0.0	0.0	0.0	155.0
F.	Animal Control	20.5	0.0	0.0	0.0	20.5
G.	Social Services	20.3	20.3	20.3	20.3	0.0
H.	Fire Protection	$ 14.8	0.0	0.0	0.0	$ 14.8
	Totals	$8,066.3	$1,070.0	$1,570.0	$2,070.0	$5,996.3 - 6,996.3

POTENTIAL FUNDING LEVEL ALLOCATION ASSUMPTIONS

Transportation

The unfunded portion of total transportation costs is $4.0 billion. It is composed of $2.225 billion for highways, $885 million for transit, and $890 million for regional arterials. The $4 billion shortfall takes into consideration the recently enacted gasoline tax increase and the half-cent sales tax. Legally, the entire $4 billion could be justified as a charge to new development; however, it is felt that funding the entire shortfall would be unreasonable. Therefore, for illustrative purposes, staff has included three alternative levels of potential impact fee funding for transportation ranging from $500 million to $1.5 billion.

Justice Facilities

The amount of the unfunded justice facilities costs assumed for impact fee funding ($169 million) is based on the following assumptions:

1. The half-cent sales tax is not upheld by the courts. The appeals court recently ruled in favor of the tax. However, the case might be heard by the California Supreme Court.
2. The $169 million allocated to a fee is based on new development paying for facilities at the existing level of service.

Regional Parks/Open Space

The unfunded amount identified for regional parks/open space ($274.7 million) is based on providing facilities for new development at existing levels of service.

Health

The unfunded costs for health facilities have been divided between facilities for new development ($106 million), identified for funding with a regional impact fee, and existing deficiencies ($118 million) which would require another funding source. The facility costs for new development are based on existing levels of service.

Libraries and Animal Control

The unfunded costs for libraries and animal control are allocated to the Other Funding Sources column. This allocation is proposed because of the more local nature of these facilities. There are eight separate library systems and six separate animal control systems. Although a regional fee could theoretically be calculated for these facilities, the fact that they are operated by a number of jurisdictions, and have varying levels of service, would make such a calculation, and the potential implementation of fees difficult.

Social Services

The cost of funding social services provided by the County of San Diego for new development ($20.3 million) was calculated based on the level of service currently provided. The cost of funding any existing deficiencies has not been determined.

Fire Protection

The cost of the new 800 megahertz communications system is allocated to the Other Funding Sources column. As described in Attachment 5 of the packet, this facility should not be funded with impact fees because of equity issues. The 800 megahertz system will completely replace the existing communications system. Therefore, it should be funded equally by both existing and new development.

Sacramento Bee

Counties facing dire fiscal straits, Wilson warned

By Thorne Gray
Bee Capitol Bureau

11-27-90

Gov.-elect Pete Wilson will confront the inevitable collapse of one or more county governments when he takes office in January unless he finds enough money to bail them out, according to a new study by the California Counties Foundation.

The 132-page report, being released this week at an annual gathering of county supervisors in Anaheim and obtained in advance by The Bee, is the latest and perhaps most complete analysis to date of the continuing fiscal crisis that confronts California's 58 counties.

The foundation is a research arm of the County Supervisors Association of California and is publicly and privately funded.

The new study calls, among other things, for transferring the cost of the courts and welfare administration to the state, giving the counties more taxing authority, closing tax loopholes and revising how counties and cities share their money.

Once the fiscal systems are reformed, the Legislature should approve a "balanced package of revenue increases" if needed, the study concludes.

Researchers Richard Simpson and Cary Jung conclud-

See COUNTIES, page A13

Counties: Tax revolt is coming home to roost

Continued from page A1

ed after personally touring 18 distressed counties and reviewing the rest that California counties are generally in their worst fiscal condition since 1982, and perhaps since 1934. "The tax revolt is coming home to roost," Simpson said in an interview. "It is naive to think that local governments can maintain the kinds of health care, law enforcement, education and other services the people want with these kinds of restrictions on them."

Simpson said the counties exist in general to deliver state services through the courts and jails, the welfare offices and the public health system, but the state has reduced the money they get while giving them more responsibilities.

Butte County has been teetering on the brink of bankruptcy, and others such as Yolo, Del Norte and Trinity are slipping, he said.

"Next year – by May or June or perhaps sooner – additional California counties may be in a Butte County condition," Simpson and Jung warned.

Unfortunately, the research pair said, needed fundamental reforms often cannot be put into place without voter approval, yet some counties will need emergency assistance long before the next statewide election in June 1992.

The state may have to bail out some counties in the meantime, they said.

Their report, "California Counties on the Fiscal Faultline," comes as state revenues are lagging behind previous projections because of the softening economy and rising oil prices.

Gov. Deukmejian and the Legislature already approved program cutbacks and raised some revenues to meet a $3.6 billion budget shortfall for the current fiscal year, but two weeks ago, Deukmejian said an additional $1 billion in cutbacks and savings is immediately needed.

The shortfall could translate into as much as a $4 billion gap between state expenditures and revenue in the 1991-92 fiscal year that begins July 1, when Wilson's first state budget will take effect.

"We are undoubtedly heading into the worst and most unprecedented fiscal situation the state has ever faced," Simpson said. "We need unprecedented solutions. We need to look at all the options."

County service levels are already suffering, Simpson said. For example, Alameda County's public hospital turns away as many as 250 emergencies a month and there is a 10-week wait for admission to Fresno County's juvenile hall.

Mendocino County went so far as to mortgage its courthouse to make ends meet, and other counties have imposed hiring freezes, layoffs, service reductions and other cost savings, Simpson said.

"The system is so strained you can't have efficiencies anymore," he said, noting that the state could provide prenatal care for pregnant women for nine months for $600, compared to $2,500 a day to care for one extremely premature baby.

Drug treatment for an addicted mother for nine months might cost the state $5,000, he said, but that should be compared to the $30,000 it costs to care for her drug-exposed baby for 20 days.

Simpson and Jung said that various initiatives have cost state and local governments a total of $150 billion since 1978. Proposition 13 alone cut counties' property-tax revenue in half and left them dependent on state government, they said.

CALIFORNIA COUNTIES ON THE FISCAL FAULT LINE

A Study of the Financial Condition of California Counties

by

Richard P. Simpson

and

Cary S. Jung

California Counties Foundation
1100 K Street, Suite 101
Sacramento, CA 95814
(916) 327-7500

November 1990

Copies of this report are available for $28.00 each (tax and postage included)

From: California Counties Foundation
1100 K Street, Suite 101
Sacramento, CA 95814

Summaries of this report are also available for $3.00 each (tax and postage included)
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League of California Cities
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California Cities Work Together

Sacramento, CA
November 27, 1990

TO: Chair and Members of the Senate Local Government Committee

FROM: Dwight R. Stenbakken, Legislative Director

RE: Outline of Testimony for Interim Legislative Hearing on "Regional Fiscal Authorities"

The following outline has been developed to provide the committee with written background for my testimony. The outline is directed at the questions which have been raised in the excellent staff background paper for the hearing. It is based on adopted League policy and further policy discussions which have taken place either in League policy committees or the Board of Directors.

Revenue Allocation

The first policy question raised in the background paper is undoubtedly the most difficult for the League. As noted, the League opposed the two measures introduced last session which expressly permitted "tax sharing" i.e., both property and sales tax among/between cities and counties. The League position has long been that a new method of tax allocation should only be considered with new taxes or tax rates. Implicit in this policy is that the allocation of taxes from the existing base should remain the same.

The basis for this "protectionary" position is as follows:

1) There is deep concern that the Legislature will only use the city revenue base to backfill state or state-mandated county programs and that cities will ultimately find themselves in the same fiscal dilemma that counties now face.

2) In cities with an unhealthy economic base, there is concern that the fiscal tools now available to build the healthy economic base will be lost. Having made this statement, a distinction has to be made between this concern and the blatant "cash-box" zoning which is the object of so much hostility from the many "students" of growth issues in California.

   There will likely always be the need for economic development in California communities. This may take the form of redevelopment for decaying urban centers; or, simply the policy of a community to have a healthy mix of industrial, commercial and residential properties. There will always be the need to have economic tools for this purpose. These tools should not be dismissed and done away with simply because there has been "abuse" through cash-box zoning or an inappropriate use of the redevelopment process.

The Legislature may wish to pursue legislation which expressly permits "tax sharing", however, it is unlikely the League would be able to change its position on this legislation. It is even more unlikely that the League would change its position on the "tax sharing" proposal if no other policy changes are made to the current revenue and tax policies of the state.

Finally, cities and counties are now, without any change in state law, negotiating a share of revenues when a proposal is made to annex territory to a city. While the process may not be as straightforward as some would wish, it is definitely occurring and there does not seem to be any impediment which cannot be overcome. The policy question on the rebound is: What will a change in law accomplish?

Property Assessment

The policy questions under this heading do not really lend themselves to a formal city response. Yes, we do and can support a stable revenue source for county programs. The lack of a stable funding source for counties is one main focal point of contention between cities and counties which results in all too much energy and resources devoted to nonproductive activity. There are several alternatives for that revenue option, many of which were on the bargaining table during the last budget debate. It is more appropriate for counties to indicate the preferential revenue(s).

It is also more appropriate for counties to indicate which county programs be administered entirely by the state.

On the Williamson Act funding question, it may be more appropriate to approach the "open space" and "Ag. Land Preservation" issue from another direction. The League discussed and concluded that there may be some merit in the "urban boundary" concept found in the Presley legislation of last year (SB 1332). This may be more effective and less costly than the increase in Williamson Act funding.

On the County Revenue Stabilization Act, we would defer to the county judgement on the appropriateness of this mechanization for the county fiscal dilemma.

Public Works Revenues

Policy discussions within the League would indicate support for the concept of the state coordinating its own public works spending with the state's economic and environmental goals.

The League removed its opposition from SB 1332 last session after the final set of amendments were made in the dying hours of the session. In that legislation was a provision to grant a preference to a community seeking funding from a state bond program if the community was meeting the state goals for the program. The provisions which make a preference system more acceptable is when it applies to future programs and it does not try to link significantly different programs, i.e., park bond money to an approved housing element.

Regional Fiscal Authorities

The League supports the reduction of voter approval for general obligation bonds to a majority vote. In our estimation, this would have a better chance of passage if the majority vote provision applied to public works/capital facilities.

The first preference of the League is for the Legislature to give local governments revenue raising authority, rather than simply revenues. There are several options available which have been outlined in the legislation and suggested in the staff analysis.

The policy preference of the League is to combine both the ability to raise revenues for capital facilities along with the responsibility for planning. This could be accomplished in one institution or the two separate institutions could be given the respective responsibilities and simply be linked through policy or legislation. This is more of a local decision which can better be made after examining the adaptability of existing institutions and the need to establish new institutions.

In response to the final question in this section, another question is in order: Does the state need a statewide growth policy? Simply integrating the current state programs and clearly laying out the goals of those programs may be all that is needed in a first, but decisive, step toward achieving greater state and local coordination/cooperation on urban development issues. Growth is so tremendously regionalized in terms of land use, economics, open space and politics that it will not lend itself to strong top-down solutions.

Regional Development Fees

Once again, the League tacitly supported the concept of "regional" fees when it removed opposition to SB 1332. At some point these fees become excessive and self-defeating, but must certainly be a part of the overall mix of local government fiscal options.

Conclusion

We hope this gives the committee at least a brief outline of the League's policy on some of these important questions. As with any policy on this huge and complex issue, perhaps more is left unsaid. The League will continue its policy discussions this year with a new standing Policy Committee on Governance. One of the tasks of the committee will be to further develop the growth management strategy adopted last year by the League. Many issues need to be further "flushed out" as the debate continues both in the League's membership and the Legislature.

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GROWTH MANAGEMENT STRATEGY

BACKGROUND

The tremendous growth which California is experiencing in its urban areas has produced a set of complex and interrelated public policy issues. The voters frequently express their increasing dissatisfaction with urban congestion and deteriorating public services.

Cities are no longer self-contained communities. The impacts related to growth in cities, as well as in the unincorporated territory, extend beyond political boundaries. The traditional concept of home rule has to be expanded to include issues beyond local borders which have an impact on local communities. Cities and counties need to do a better job of mitigating the regional effects of growth. In addition, the role of home rule must be expanded to authorize the participation of local government in regional decision-making.

The state, in partnership with local government, must seriously consider the modification of the governmental structure to give cities and counties authority to address the public's growing concern over the deterioration of the quality of life in California. Strong leadership is needed to accommodate these goals. Any legislation adopted on this issue must recognize the diversity of cities and acknowledge the need for flexibility.

The suggestions contained in this paper are intended to serve as policy positions to place before the Legislature, the Governor and local government in dealing with this most difficult public policy problem. The definition of growth management as used in this document is as follows:

> *Growth management is the mitigation of the impacts of growth in order to improve and maintain the quality of life in the community.*

ASSUMPTIONS AND GOALS

There are several assumptions which underlie the development of this policy document. These assumptions are outlined below.

1. **Local Approach** - Local governments (i.e., cities, counties and special districts) are the cornerstone in determining the structure of a planning process to address the growth problems of California. A local approach to regionalism does not necessarily mean a new layer of government. Each city should retain the option of choosing a growth management strategy which reflects the needs and preferences of the local community.

A governing structure developed locally will ensure the necessary grassroots and community support to make the policies and strategies adopted successful in meeting the challenges of growth in California.

2. **Solutions** - While all communities should seriously examine the development of their local communities and plan for its orderly growth, the most severe problems with growth in California are occurring in urban and urbanizing areas. It is recognized that the options outlined will not work for every community. In addition, communities which are essentially "built-out" may need to expand these strategies to address their unique needs.

3. **Authority** - Authority over land use decisions should remain at the local level. Improvements should be made in the current system to assist local governments in dealing with land use and environmental issues which transcend local boundaries.

4. **Areawide Cooperation** - An areawide (i.e., city-county/subregional) approach to land use decisions will assist local governments in resolving many of the current conflicts among local jurisdictions and will help to coordinate land use decisions. Neither cities nor the county should dominate or control an areawide organization. A meaningful opportunity for review of the plans of neighboring jurisdictions should be provided. Community service districts should be discouraged if an existing city can serve the area.

5. **Revenues** - Serious proposals to address growth problems in California should recognize the need to secure changes to the current revenue and taxation structure for the maintenance and rehabilitation of existing public facilities and to meet the demand for new public facilities from anticipated growth. New development should be required to pay its fair share of the costs of both existing and new public facilities.

6. **Inter-County/Regional Agency Cooperation** - Existing multi-county/regional planning agencies in California should be reexamined by the member local governments to determine if there are structural changes which can be made to improve the operation of these organizations and to develop effective growth management strategies. Central in this assumption is the need to establish a process for resolving disputes between or among these agencies.

7. **State's Role** - The State of California's role is to be responsive to local government needs. It must reassume responsibility for development of inter-regional infrastructure (i.e., water, transportation) and preservation of general benefit land uses (i.e., agriculture, open space). Local government must be given greater revenue authority and resources by the state to provide the facilities and services needed to accommodate growth.

8. Federal Role - The federal government must renew its commitment to provide funding for regional infrastructure (i.e., transportation, sewer, etc.), affordable housing and other social service and facility improvements. In addition, the federal government must financially assist local government in their efforts to meet the needs of immigrants.

9. Private Sector Role - The private sector must accept responsibility for its role in the management of growth in California. The private sector will be invited to join in a partnership with local governments in order to develop a consensus on the proper management of growth.

OPTIONS

The League's Growth Task Force presents the following organizational options for solving the growth-related problems now facing California.

Local Government Actions

Local governments need to develop more comprehensive, integrated and up-to-date plans, taking a multidisciplinary approach to address growth and the community's future. At a minimum, the following changes are needed:

1. General Plan - The General Plan should remain as a basic tool for land use planning. General Plans must take into account the cumulative impacts of local planning decisions on neighboring jurisdictions. It is the responsibility of local government to update all of the elements of a General Plan as necessary to keep current with growth. It is a goal to have this review take place at least once every five years. In this manner, the General Plan will function as a long-range forecast of growth in the community.

2. Public Facilities Financing Plan - A separate plan to identify all of the infrastructure needs of the community, revenue sources, methods of financing and an implementation schedule should be developed by all local governments.

3. Growth Management Plan - A separate growth management plan or a summation of the plans and policies related to growth, including defining level of service and performance standards for both facilities and services, should be prepared in order to address maintenance and improvement of the quality of life in each community.

Areawide Actions

Establish joint areawide authorities for development of a subregional growth management plan or an areawide urban development strategy based on the individual member jurisdictions' General Plans. The boundaries of this authority should be established locally based on the area of impact or benefit from growth. It may include only parts of a single county or multiple counties.

This areawide authority should be empowered to review development projects of regional significance to ensure that its interjurisdictional impacts are mitigated. Such mitigation may include the imposition of regional impact fees. This authority should also mediate interjurisdictional growth-related disputes. The areawide plan should include the following elements:

1. **Level of Service/Performance Standards** - Level of service and performance standards should be adopted for the subregion and methods for quantifying and measuring such standards should be developed to ensure areawide consistency.

2. **Public Facilities/Transportation Element** - A plan which identifies the public facility improvements needed to accommodate growth in the subregion should be prepared. This plan should encompass all types of transportation facilities, including airports, railroads and harbors, methods of better utilizing existing roadways, highways and transit services (i.e., transportation systems management measures), water supply and reclamation, sewage treatment, solid waste disposal facilities, schools and all other public facility needs.

3. **Affordable Housing** - The plan should address the affordable housing needs of the area in relation to the available job opportunities.

4. **Air Quality Element** - For each subregion within a non-attainment area, an air quality element should be prepared.

5. **Agricultural Land Preservation/Parks and Open Space** - The plan should include policies and methods for preserving productive agricultural lands and environmentally sensitive open space, as well as address the need for regional parks.

6. **Financing Element** - Methods and revenue sources for funding public facilities and services needed to accommodate growth within the area should be identified and included as an element of the plan. Fiscal capability should follow fiscal responsibility.

Regional Actions

Existing institutions for regional (i.e., inter-county) cooperation should be reexamined by the member local governments to identify structural improvements which can be made for better coordination and implementation of growth management strategies. The following approaches are offered for these regional agencies:

1. **Consolidation** - Existing regional agencies should be provided with the option to consolidate several single purpose agencies (i.e., COGs, RTPAs, Air Boards, etc.) into a comprehensive organization to deal with regional planning and growth management strategies.
   Consolidations for efficiency and better coordinated planning should take place with the authority of the organization determined by the member jurisdictions. The membership of a consolidated regional agency should be locally elected officials rather than a separately elected board.

2. **Federation** - Existing inter-county agencies should be permitted, as an alternative to consolidation, the authority to "federate" on issues of growth management. The authority to federate should apply only to planning activities and/or the resolution of conflicts between or among existing single purpose inter-county agencies. The federation can occur either on a permanent or ad-hoc basis, depending upon the appropriate organizational needs or growth problem. The federation would operate through agreement by the existing inter-county organizations, but the inter-county organizations would continue to be governed by their existing governing boards.

State Actions

The state needs to reassume its leadership role in facilitating the inevitable growth in California. At the same time, the state must assist local governments in their efforts to accommodate growth and mitigate its impacts on an area's quality of life. The state needs to form a partnership with local government and the private sector to accomplish this task. For example, the state should participate in the development of a growth management plan by an areawide authority. In particular, the state should consider the following options:

1. **Revenue Options** - The existing revenues distributed to local government must be increased in order to conduct the added planning requirements and to provide public facility and service improvements needed to accommodate growth. This can be accomplished either by increasing the amount of distribution of state revenues or authorizing fee and revenue options at the local level. New development should be required to pay its fair share of the costs of both existing and new public facilities.

2. **Existing State Plans and Policies** - The state should update its existing statewide plans and policies, including its water plan, inter-regional transportation plans, agricultural preservation and general benefit land use (i.e., parks and open space) policies, to ensure consistency and to properly plan for the needs and impacts of growth.

3. **State Facilities** - The state needs to recognize the growth-related impacts of new and expanded state facilities (including colleges, prisons, freeways, etc.) and must mitigate the impacts of its activities at the local level.

4. **State Plan** - The state should consolidate all of its policies and facility plans to ensure consistency and coordination of its decisions. This state plan should be coordinated with, rather than preempt, local growth management plans.

CONCLUSION

This policy document is intended to stimulate discussion at all levels of goverment in order to focus on the need to develop strategies for better management of growth in this state.

TESTIMONY OF THE
CALIFORNIA COUNCIL FOR ENVIRONMENTAL AND
ECONOMIC BALANCE

SENATE LOCAL GOVERNMENT COMMITTEE
Tuesday, November 27, 1990

TOWARD AN INFRASTRUCTURE FINANCE STRATEGY

Introduction

My name is David Booher. I'm representing the California Council for Environmental and Economic Balance today. The Council is an organization of business, labor and civic interests concerned with the future economic, social and environmental quality of life in California.

First, I would like to express the Council's appreciation for the opportunity to participate in your study and our commitment to continue working with you on these issues in the coming months.

I would also like to express my respect for your staffs' work on the hearing report. As someone who has read extensively on this issue, I believe your committee report is one of the more clear and succinct statements of the issue in all its complexities. For this reason I feel we can forego a discussion of the issue background.

Not Paying for Growth

My one complaint with the report is the title -- "Paying for Growth: But at What Price?" In my view, a more accurate statement of the issue would be "Not Paying for Growth: But at What Price?" It is clear that the structural inadequacy of our system for financing public facilities -- especially regional facilities -- has been with us for more than a decade. As early as 1980 I participated in a study by the California Planning Roundtable which documented and called attention to this problem. Since then the only real change has been the accelerated rate of the population growth. Just because we have failed as a state to plan for this growth has not prevented the growth from occurring. Instead we have experienced what many perceive as a decline in the quality of life and a decline in the productivity of our economy.

Part of the dilemma has been spotlighted recently by the dramatic decline in building construction. Much of our new revenues for infrastructure are being produced by developer fees. Now these have been greatly scale backed -- no development, no development fees. But population growth is not slowing down and will not slow down because the population growth is not composed of people who buy the expensive houses which generate the fees.

I think I can be most helpful to the Committee by explaining why we believe this problem is probably the most important issue facing the state, -- a problem whose resolution is at the center of the long term resolution of the government fiscal crisis -- and by offering our best thinking on a realistic strategy for addressing the problem.

The Importance of Public Investment in Infrastructure

Much has been written recently about this country's low savings rate and the critical importance of this phenomenon for our economic competitiveness and the fiscal stability of our governments. A large body of research has also documented that failure to invest in public capital facilities may be the governmental equivalent of an inadequate savings rate. This research shows conclusively that infrastructure capital (1) has a positive effect on productivity, (2) is complementary to and stimulative of private capital investment and (3) that infrastructure investment will spur private investment in plant and equipment. (References attached) Therefore we believe that addressing the problem of infrastructure investment is not only critical to enhancing the quality of life, it is also central to the continued economic competitiveness of California and therefore to the necessary growth in tax revenues to address the other critical problems state and local governments face.

In a very real sense the entire debate about "fiscalization of land use" is really misplaced because "fiscalization of land use" is merely a symptom of the underlying disparity between our population growth and our willingness to invest in the public facilities to help make the growing population more productive and tax revenues adequate. Trying to change the revenue distribution models in order to neutralize the significance of fiscal considerations on land use decisions will neither improve the land use decisions nor increase the total revenues that are available. The only effective way to mitigate the fiscal influence on land use decisions is to prepare and implement a land use plan and a capital facilities plan that supports that plan.

Likewise the reliance on development fees is profoundly misplaced. The only advantage of development fees is that they are politically easier to do than other methods of finance. In every other respect they are detrimental to the state's long term interest. They are unfair because they benefit the existing resident and penalize the new-comer. They reduce economic productivity because they increase the cost of locating private capital (i.e. new plants) and providing the necessary labor force (i.e. new homebuyers). They intensify social inequities and hence social tensions because they make affordable housing very difficult to provide and result in disparities of quality of life between communities according to who can charge the highest fees. And they are unrealiable.

When the inevitable building downturn occurs, we are left without the means to finance the capital facilities planned.

The one possible exception for regional revenue sharing which may make sense is regional sharing of fees. Numerous observers have commented on the disparity in quality of public facilities among communities based on the disparity in the ability of local governments to demand fees. This disparity often contributes to the "pushing" of new development greater distances from the urban core, to a social division between haves and have nots, and to inflated home values. Hence one issue for a regional infrastructure finance plan to address may be equalization of public facilities standards and fees among jurisdictions within the region.

To summarize, a strategy for public facilities investment is critical because:

1. Population growth will continue. Quality of life will diminish in the absence of investment in public facilities.

2. The productivity and competitiveness of our economy depends on adequate investment in public facilities.

3. Any long term solution to the crisis in state and local government finance will require this increased economic productivity, among other reforms.

4. Good land use planning requires an adequate investment in public facilities.

5. Disputes over revenue-sharing and inappropriate use of fees will largely disappear if a system for adequate facilities finance involving state, regional, and local entities, is developed.

Toward A Facilities Investment Plan

The Council started from a position of supporting a radical and comprehensive approach to this problem. For this reason we conceptually supported SB 2391 and SCA 51. We are also realistic. In the face of the other weighty problems on the Governor's and Legislature's plate for this session, we recognize that such a radical change may be improbable. The most important imperative is to get an effective program underway. In this sense it is likely more useful to develop incremental reforms that can be accomplished based upon the existing structure of government rather than waiting until a new structure, such as envisioned by SB 2391, can be designed.

It is important to realize that this problem has been slowly evolving over the past 20 years and it will not be corrected in one session of the Legislature. But we believe it is possible for the Legislature and Governor to accomplish several specific reforms which will begin the long process of providing the necessary public facilities investment to accommodate our growing population while protecting the quality of life and enhancing economic productivity.

In the previous session the Governor and Legislature began this process by convincing the voters to approve SCA 1. This measure takes capital facilities investment out of expenditure limits and increases investment in transportation facilities. While everyone recognizes that not even the $18 billion will be enough, it is a good beginning.

The next key step is to assure that reforms to the budget process include provisions that recognize the critical nature of public facilities investment to economic productivity and hence to growth in tax revenues. Much discussion is going on relative to restructuring of the budget process and new revenues. We believe that any restructuring will be incomplete if it does not address how the state will increase its commitment to investment in public facilities. The priority should be on those public facilities which will have the greatest positive impact on economic productivity, and hence tax revenue growth.

Third, the state should complete SB 1825, passed this year, by requiring the Governor to propose and the Legislature to adopt a capital facilities plan. This plan should include not only the facility needs and finance programs, but also proposals to improve the efficiency and capacity of facilities and proposals for pricing strategies and market incentives that increase the productivity of facilities. This plan should be integrated with state growth and environmental goals. Of course, to do that we need state growth and environmental goals. That leads to,

Fourth, the Governor should place a high priority on preparation of the Environmental Goals and Policies Report required by current law and the Legislature should support and adequately budget for this effort.

Fifth, local governments should be required to prepare and implement capital facilities investment plans which implement their adequate general plans in order to receive state capital facilities funds. These plans should be compatible with the state's overall plan for growth and capital facilities and with regional plans as they come into existence.

Sixth, local governments should be given the authority to approve property tax overrides for capital facilities purposes with a majority vote of the electorate, where the facility is consistent with the capital facilities plan. Ultimately, authority for development fees also should be contingent on a general plan and capital facilities investment plan.

Seventh, the Legislature should explore enabling legislation for local governments to form voluntary regional entities to plan and build regional infrastructure. Initially this might take the form of a financial incentive the state would provide in areas where local governments cooperated to create a regional entity, develop a regional plan consistent with state growth policies, and contributed local revenues to the regional plan. Incentives might include new revenue authority or state subventions. Regional entities might also enjoy fee authority, provided local fees are reduced commensurately. Ultimately one objective should be the equalization of fees across the region. If this concept of a regional authority seems radical, I call to your attention that the Legislature has already approved such a regional authority for the purpose of building toll roads in Orange County.

Finally, the Legislature and Governor should focus on the crisis in the school facilities shortfall. The $1.6 billion in bonds approved this year is already gone, even though they haven't yet been sold, and there is still a $5 billion backlog in needed facilities, a need that is growing. Enrollment growth has jumped from 160,000 per year to 200,000 per year. There is general agreement that education is essential both to quality of life and economic productivity. Hence we believe that school facilities is the next area of need that requires immediate and focused attention similar to that given to transportation in 1989.

While this list is long and intimidating, we believe it is doable. If accomplished it will begin the long road back to a responsible policy of investment in public facilities and result in dramatic improvement in many of the state's difficult problems. It will also send a message to the private sector that California is going to continue to be a good place to invest private capital.

We believe the capability and knowledge exists in the new Legislature and new Administration to begin this process. To recall the Talmud, "If not now when, if not us who?"

Thank you for your interest and consideration.

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How Filling Potholes Helps The Economy

By Carl T. Hall
Chronicle Staff Writer

San Francisco Chronicle
MONDAY, NOVEMBER 12, 1990

Forget the deficit. The real problem is potholes.

Americans complain bitterly about their taxes, even though the overall tax burden in the United States is smaller than that of any major industrialized country in the world. The reason for this seeming mystery may have to do with what Americans get for their tax money.

Compared with other countries, government in the United States provides fewer social services, spends more on interest payments and maintaining defense, and, perhaps most important, gives short shrift to productive investment likely to shore up the economy.

Rather than fret exclusively about the budget deficit and how programs are financed, many experts urge paying more heed to what the government actually spends.

"Cutting the deficit is an important item on the agenda," said Alicia Munnell, research director at the Federal Reserve Bank of Boston. "But even more important is what the government does with its money."

To Munnell and a growing chorus of other economists, this means getting back to basics — the condition of the nation's roads, bridges, airports, schools and waste-treatment facilities.

Such public assets, known collectively as the nation's "infrastructure," serve as a base on which most private economic activity takes place.

Factories and offices simply operate better if the roads are good, the trains run on time and the schools do their job. The big worry is that the United States is caught up in seemingly endless turmoil about the deficit while its infrastructure crumbles.

Potholes may seem a mere annoyance to most commuters; they are serious business in economic circles.

David Aschauer, an economist at Bates College in Lewiston, Maine, recently dug up a statistically significant link between growth in personal incomes and a state's highway capacity and pavement quality.

"A dollar spent on improving pavement quality probably would have a greater impact on people's incomes than a dollar spent on reducing the deficit," Aschauer said. "There has been a change in government spending priorities, and there's an economic cost associated with that."

Less on Infrastructure

During the past two decades, the United States has been paying comparatively less than other industrialized countries on its infrastructure and appears to be paying a price in lower productivity growth.

Japan, for example, returned an annual average 5.1 percent of its domestic output into shoring up public investment, after allowing for depreciation, between 1965 and 1985. Japan's economy enjoyed productivity increases during the period that averaged 3.1 percent a year. Germany had about a 2.5 percent rate of investment and 2.3 percent annual productivity gains.

The United States, by contrast, invested only 0.9 percent of gross domestic product on public infrastructure projects during this period. And productivity in the United States rose an anemic 0.8 percent a year — a far lower rate than in any other leading industrial country.

Investment is not all a matter of bricks and mortar. There is also a human side. Despite significant cost increases in some areas, the United States still spends less on domestic programs than do many competing economic powers. In Europe, for example, most countries offer free or heavily subsidized child care, higher education, train travel, health care and housing.

These subsidies are not without hidden costs. Air travel typically is more expensive in Europe than in the United States, for example. Many economists argue that, at least in the United States, private-sector solutions may be more effective than an expanded government.

Health Care

In the United States, 11.1 percent of the gross national product goes to health care, one of the highest percentages in the world. But health care is essentially not available — at least not without public subsidy — to 30 million uninsured Americans.

al subsidy for health care, is growing increasingly expensive without providing a corresponding benefit.

This is a concern not only to liberal Democrats on Capitol Hill but also to conservative economists on Wall Street upset at having to spend so much for so little in return.

"We have a very inefficient system," said Jim Solloway, chief economist at Argus Research in New York. "I don't mind paying more taxes if I think the money is being well spent. But in this case, I don't think we're getting the most for our dollars."

Another major difference between the United States and other countries is defense spending. Although all Americans presumably benefit from the Pentagon's protection, so do residents of allied countries who, in effect, get a U.S.-paid defense subsidy they can invest in their own economic well-being.

Interest on Debt

The fastest-growing spending category in the United States is interest on the national debt, which has nearly doubled during the past eight years. Interest now consumes about 16 cents of every federal budget dollar — nearly twice as much as all domestic programs combined.

Although a lot of the money is simply being transferred from one set of American pockets (taxpayers') to another (bondholders'), much of it also leaks out of the United States into the bank accounts of foreign lenders.

In any case, paying interest generates no direct benefit for the U.S. economy. In fact, the government's heavy borrowing is thought to be a major contributor to higher interest rates borne by private businesses and consumers.

Most other economically advanced countries either keep their budgets balanced or maintain adequate domestic savings to finance their own deficit-spending.

But economists say that although Washington policymakers are right to tackle the deficit, they are wrong if they assume that fixing the deficit is all they have to worry about in terms of government spending.

THE WALL STREET JOURNAL THURSDAY, OCTOBER 25, 1990

The Boomdocks

Distant Communities Promise Good Homes But Produce Malaise

Census Shows People Moving So Far From Jobs They Lack Time to Enjoy Life

Symptoms a Psychiatrist Sees

By RODNEY FERGUSON
And EUGENE CARLSON
Staff Reporters of THE WALL STREET JOURNAL

MORENO VALLEY, Calif.—Max Neiman scans this city from the highest of the Box Springs Mountains. He sees, in the valley below, row after row of small ranch houses—thousands of them—spread out in neat ellipses.

"Ten years ago, there was nothing here," says the University of California political scientist. "Zilch, zero."

Moreno Valley is the fastest-growing city in Riverside County, the fastest-growing county in California, according to the 1990 census. A decade ago, a mere 28,309 people lived here; the preliminary count is now 116,427, an increase of 311%.

But it's an odd city, with few parks, no skating rinks, not a single miniature golf course. Until this month, it didn't even have a hospital. Despite the population influx, the local Kiwanis club, which at one time had more than 50 members, has seen the number dwindle to around 18. Moreno Valley does have churches, about 60 of them. But the Rev. William Johnson of the United Methodist Church—"Pastor Bill," to his parishioners—estimates that 90% of Moreno Valley is unchurched.

Comings and Goings

The community is distinguished mainly by its tidy succession of one-story houses, and, of course, by the procession of young working couples heading off to their jobs in the morning and back home at night. Most residents have a long commute, and that takes its toll on families and life styles. The nearest major employment centers are Orange County, 45 miles to the west, and Los Angeles, 70 miles northwest. The drive to L.A. takes two hours on a good day, three when an accident ties up traffic on the Pomona Freeway.

"Welcome to the Levittown of the 1990s," says California planning analyst William Fulton.

Moreno Valley, though it is an incorporated city, is one of many fast-growing communities that are neither cities nor suburbs in the traditional sense. They lack the amenities of the city and the access to city pleasures that suburbs enjoy. Since they are out in the sticks and a product of growth, one might call them "Boomdocks."

People choose to live in such communities for one main reason: relatively affordable housing. Even though home prices in some areas have been falling recently, close-in houses remain out of reach of most buyers' incomes in places the 1990 census shows as hyper-growth areas.

But because of the time it takes to go back and forth to work, residents have precious little time in which to enjoy the homes they wanted so much to own. And with the stampede of newcomers straining services, life is hardly a bargain.

Price to Be Paid

"Taxes are rising, the quality of schools is deteriorating, services are not as good as they used to be and the [population] density is rising," says sociologist Douglas Massey, speaking of these towns generally. High and rising gasoline prices add to the cost of boomdock living.

Vincent Avila, a police officer, makes the 72-mile trip from Moreno Valley to his job in South Gate, just south of Los Angeles. When his regularly scheduled Tuesday court appearances keep him in South Gate past quitting time, he spends the night on a cot at the police station. And, depending on the court schedule, it might be Saturday before he next gets to see his wife and two children.

"You come out here and say, 'No way I would ever live out this far,' " Mr. Avila says. "[But] for me and my family, it's just a way to afford a house."

The Rev. Gerald DeLuney, parish priest of St. Christopher's Church in Moreno Valley, worries that "family life has been killed" by the commuting and the struggle to meet mortgage payments. He thinks the pressures on family life can only get worse. "The 21st century," he says, "is going to be rough."

Stressed-Out Commuters

For Karen Palmer, the rough part is already here.

Ms. Palmer is a financial manager at PacTel Corp. in San Francisco. But she lives 53 miles away in Antioch, a town of 61,000 that grew by 44% in the 1980s. She and her husband, John, moved there when their daughter, Kristen, who is now two years old, was a baby. They were seeking a nice house and the pleasures of suburban living.

But Ms. Palmer's long commute—up to two hours each way—has hurt her family, her health and her self-esteem.

A major worry is all the time she must be away from her daughter. "When she was little, I had this fear [that she wouldn't] recognize me," Ms. Palmer says. "She would be with a stranger nine, 10, 11 hours a day." These days, Ms. Palmer doesn't get to see her little girl in the morning before she leaves for work, but she thinks about her often during the day. "I'm so sensitive about my daughter."

Mr. Palmer, a computer-equipment salesman who has a 22-mile commute of his own, also has been under stress because he shares much of the responsibility for his daughter's care.

The Palmers have felt harried ever since they first moved to a condominium in another distant suburb—Concord—in 1983. Married now for 10 years, the couple started going to a marriage counselor five years ago. All the time Ms. Palmer has to be out of the house was one problem.

"There was a lot of anger, and we didn't realize it was there, a lot of resentment," Ms. Palmer says. "It had gotten to the point where . . . the word divorce was every other word. . . . We didn't realize where half the pressures were."

Residents of the San Francisco Bay Area fringe suburbs adapt as they can. The vans in the parking lot near the corner of Howard and Stuart Streets in San Francisco face out toward the bay as if on the starting line at Daytona. Independent operator Bill Wickman, who owns and drives one of the vans, arrives promptly at 4:05 each weekday afternoon to prepare for the 30-mile, 45-minute trip eastward to Contra Costa County. He bundles as many as 12 riders into his 1980 Dodge, charging each of them $70 a month for the service. At least it's cheaper than commuting by train.

Some of his commuters actually plan to move to even farther reaches of the boomdocks. Laura Tesch, for instance, is an employee-benefits specialist at Chevron Corp. She and her husband are moving from Contra Costa County northward to Fairfield, in Solano County, a 1½ hour trip each way. "It's a long day, but we really can't afford anything in Concord that's halfway decent," Mrs. Tesch says. The average home price in Contra Costa is $213,500, while houses in way-out Solano County average $180,000. In San Francisco, the average single-family house sells for more than $297,500.

Certain Symptoms

Psychiatrist Daniel Amen sees in the families he counsels physical and mental deterioration, including anxiety disorders, tension, chronic headaches and diarrhea.

Ms. Palmer, who is not one of his patients, attests to having some of the symptoms. She says she gets sick a lot and suf-

Please Turn to Page A10, Column 1

Growing Up

The 15 fastest growing counties in the United States.*

COUNTY	STATE	GROWTH 1980-88
Gwinnett	Georgia	94%
Williamson	Texas	67
Collier	Florida	61
Denton	Texas	60
Fort Bend	Texas	56
Collin	Texas	56
St. Lucie	Florida	56
Marion	Florida	55
Lee	Florida	51
Seminole	Florida	50
Clay	Florida	50
Riverside	California	49
San Bernardino	California	44
Cobb	Georgia	43
Brevard	Florida	42

*1988 Census Bureau estimated population of counties with a 1988 population over 100,000

fers "depression [about] the fact that I don't get to be with my family." She is often exhausted, and household chores pile up. She feels she has sacrificed a lot for the suburban dream: "It's not much of a life."

Some people have even less choice. Carmen Janega once lived and worked as a cleaning woman in DuPage County, a fast-growing suburb west of Chicago. She would like to move back, but it just isn't possible: She can't afford to.

DuPage, which saw its population increase by about 19% in the 1980s, is a community in which rapid growth and rising housing costs have forced many lower-income residents to move out, to the potential growth suburbs of tomorrow. DuPage and other so-called collar counties that ring Chicago have a problem: Teachers, police and many service workers with jobs there can't afford to live there.

Ms. Janega moved to Will County, Ill., where she works at a K mart store, when she wasn't able to find low-income housing in DuPage for herself and her two sons, Jimmy and Jeff. (Ms. Janega's late mother had also lived with the family.) Ms. Janega looked into federal rent supplements. But she was told the local housing office in DuPage takes applications but once a year, and then for just one day.

Housing advocacy groups say that DuPage County has done little to provide housing for low and medium-income workers and their families as the county economy has burgeoned. "Housing has gotten more and more expensive," says Bernard Kleina of the HOPE Fair Housing Center in the town of Lombard. "Their goal," he contends, "is to keep DuPage County both affluent and white."

Community officials deny having any such motives. Affordable housing is "literally impossible to create" in DuPage, says Jack Romine, executive director of the Naperville Area Chamber of Commerce in DuPage. Officials say housing runs about 30% more than it does where Ms. Janega now lives. In a high-cost area such as DuPage, which is home to such high-tech facilities as the Fermi National Accelerator Laboratory and the Argonne National Laboratory, "how do you go about subsidizing those land costs and those building costs?"

Ms. Janega is still looking for that balance. She knows that she can earn a better living than the $4.50 an hour she gets at K mart. She thinks she could easily find work in DuPage, but it's out of the question so long as she can't afford to live there. "To tell you the truth," she says, "nobody can help you."

In many boom areas around the country, the downside of growth is creating a backlash.

If prizes were given for the ugliest urban road in America, Florida's Dale Mabry Highway would be a blue-ribbon contender. Six lanes wide and straight as a Seminole arrow for much of its 21-mile length, Dale Mabry funnels commuters to and from the suburbs of northern Hillsborough County, on Florida's Gulf Coast, into the city of Tampa.

Seeing the Sites

Along its route are perched car dealers, strip malls and franchise restaurants—mile upon mile of unrelieved architectural tedium to test the sensibilities of drivers in the stop-and-go traffic.

Hillsborough County, economically diverse, makes up part of metropolitan Tampa-St. Petersburg. And it embodies the growth issues raised by Florida's bubbling demographic stew. In the 1980s, the county saw its population increase 30% to about 842,000, or roughly 150 new residents per square mile. Florida had the fastest growth in population density of any state in the 1980s, and Hillsborough County's was twice that of the state itself.

Accommodating this population surge has been a nightmare. An example: With an eye to the red-hot population growth rate, the county in 1986 approved a $336 million bond issue to build an enlarged waste-water system that would bring sewers to subdivisions springing up in remote corners of the county.

To everyone's surprise, however, population growth slowed sharply in the late 1980s. Now county residents must pay off the bonds with some of the highest water and sewer rates in the U.S. "Unless we can find some creative magic, I expect we'll be looking at $90 a month [for an average household] in 1995," says Michael McWeeny, Hillsborough County's public utilities director.

For most Hillsborough residents, the population problems are a daily irritant. "The problem with Hillsborough County is urban sprawl. We're becoming another Los Angeles," says Ed Turanchik, a Sierra Club activist who moved to Florida from Ohio three years ago and in September clobbered one of Tampa's best-known politicians in a county commission election.

Still, the frustration level remains below that of crowded California, where as many as 400,000 residents may now be leaving each year. Hillsborough County citizens may be complaining, but mostly they're staying put. Indeed, provisions of the toughest statewide planning act anywhere, Florida's Growth Management Act of 1985, are beginning to take hold. Permits for commercial and residential buildings no longer are issued unless adequate roads, utilities, police and fire protection are coming on line at the same time.

"The days of a developer buying 1,200 acres, waltzing in and getting permits and putting up 2,000 houses are gone," says Ron Rotella, executive director of Tampa's Westshore business district, Florida's largest commercial and office development.

"Growth has gotten to be a four-letter word," he says. "There's a sense out there that if we don't get control of growth, the quality of life will be ruined for everybody."

CALIFORNIA INCOME AND SPENDING
1979-2000
(1988$)

	Per Capita Income ($)	Total Personal Income ($ Billions)	Taxable Sales ($ Billions)
1979	16,758	389.7	209.6
1988	18,867	534.2	251.1
2000	22,388	780.2	355.9
		Average Annual Growth Rate (Percent)	
1979-88	1.3	3.6	2.0
1988-2000	1.4	3.2	2.9

Total Personal Income ($ Billions)
Alternative Productivity Assumptions

Productivity Gains	Total Income
Gains Similar to 1980's	730.2
Moderate Increase in Gains	780.2
Breakthrough in Gains	840.2

Source: Center for Continuing Study of the California Economy.

"PAYING FOR GROWTH; BUT AT WHAT PRICE?"

INTERIM HEARING OF THE SENATE LOCAL GOVERNMENT COMMITTEE
SENATOR MARIAN BERGESON, CHAIRMAN

NOVEMBER 27, 1990

TESTIMONY GIVEN BY DEVERE H. ANDERSON
GOVERNMENTAL AFFAIRS COUNCIL

HONORABLE MEMBERS OF THE SENATE COMMITTEE ON LOCAL GOVERNMENT

You should be complimented on your interest and concern regarding this most vital and important subject. I wish to compliment the staff on an exceptional and stimulating staff report. It is obvious that they have spent many hours of research and time in developing this information. I appreciate the opportunity to take a few moments and express some ideas as viewed from the Building Industry's perspective.

STATEMENT OF PROBLEM

First of all, the problem is not growth. Growth has not created the dilemma that we currently find ourselves in. Growth is fed by a strong State economy which creates jobs and economic opportunities for its citizens. We can all be very thankful that we have the sixth strongest economy in the world. We should be grateful that our State is creating approximately 200,000 new jobs each year. This condition provides outstanding economic benefits for all of the citizens of this State. People do not want to live where there are no jobs and where economic depression exists. Our primary concern must be for the continued economic growth of the State.

Statistics show that the annual rate of growth, within our State, has remained fairly static from the 1950's to our current time.

Decade	Average Annual Housing Units Constructed
1950-1959	206,476
1960-1969	199,340
1970-1979	215,677
1980-1989	206,590

The above information is surprising, but when we average out the lean years due to economic depressions and the good years due to a strong economy, we find that the average growth rate has been steady for the past 40 years. There has been very little change.

What has changed dramatically is the method of financing the required infrastructure to provide for the inevitable growth and the restrictions that have been placed upon our financing mechanisms. The passage of Proposition 13 reduced the amount of local government revenues to fund infrastructure needs service and eliminated the use of general obligation bonds to finance local public works. As a result, many local governments have either used more costly debt financing methods, passed the cost onto developers and homebuyers or simply deferred the needed repairs. As a result, there has been a serious deterioration of our public facilities and a reduction in the amount of new facilities being provided. This has overtaxed our transportation systems, our water systems, school systems and all of the other public facilities needed to support economic development. The result has been that in recent years citizens have demanded more and more growth restricted policies, erroneously thinking that those policies would solve the problem.

The real impact of growth restrictive policies, however, is to simply exacerbate and expand the extent of the problem. In recent years, many studies have been performed relating to the impacts of growth controls policies. Those studies have shown that housing prices rise dramatically (University of California at Davis, 1981 and 1986 Studies; University of California at Berkeley, 1980 Study). Growth controls cause metropolitan areas to be dispersed, leading to a lower standard of living caused by lower real incomes and increased commuting. At this Committee's own hearing in December 1988, testimony was given that a recent survey conducted by the Santa Clara Manufacturing Group cited housing costs and traffic congestion as the two top issues affecting the business climate in the Santa Clara Valley. In that same year the Southern California Association of Governments released a study that stated that traffic congestion costs the Los Angeles area commuters $5.8 billion annually in personal and business time delays. The bottom line is that ultimately, the economic growth of the community is adversely affected when a program of residential growth control is sustained over a long period of time.

The infrastructure funding problem needs to be solved. We need to insure a strong economy with continued creation of jobs, while at the same enhancing our living environment.

STATE LEGISLATURE'S RESPONSIBILITY

It is imperative that the State Legislature provide the leadership necessary to promote and continue to develop the State's economy. I compliment the Senate Local Government Committee for taking a very active role in providing that leadership. The legislature has already declared, and I am quoting from Section 52580 of the Health and Safety Code:

(1) "There exists a severe shortage of affordable housing, especially for persons and families of low and moderate income, and there is an immediate need to encourage local agencies to facilitate the production of new housing through provision of supplemental financial assistance, not only to develop new and adequate infrastructure but for the rehabilitation, maintenance, and improvement of existing public works essential to accommodate the growing housing needs of our population. Without a supply of affordable housing, this State will find it more difficult to attract and retain industry.

(2) The cost of new housing developments have been increasing, in part, because local agencies do not have a viable means to support the growing infrastructure housing needs. As a consequence, local agencies must require housing developers to assume, through new housing development fees, a significant share of the infrastructure costs, which forces the new home buyers to bear disproportionately increased costs. This not only

results in decreasing the relative affordability of the State's housing supply, but also causes vitally needed housing developments to be impeded, halted, or rendered infeasible despite the benefits to the public health, safety, and welfare.

(3) The State has the primary responsibility to assist local agencies through the creation of an incentive-oriented supplemental financing program for local infrastructure to provide the incentive to local agencies toward facilitating the production of an ample supply of affordable housing, necessary both for the well-being of our citizens and for a strong State economy.

(4) It is in the public interest and it will serve a public purpose for the Legislature to provide, through this part, a housing infrastructure incentive policy, and a concept with broad flexibility and local options, which will provide in cooperation with local agencies, greater encouragement to local agencies to expedite the process of approving needed housing developments. This will reassert the State's long-range priority commitment which reaffirms that stimulating affordable housing growth, economic prosperity, development, and environmental protection are Statewide public needs which are not mutually exclusive and are each vital to the balanced growth and development of this State."

Since affordable housing construction and economic development are State priorities, then the corollary must be that the State should assist local governments in providing the necessary underpinnings to support these activities.

For several years, the State Legislature and Governor's office have been grappling with this issue of infrastructure financing. In 1981, Senator Marks chaired a joint hearing between this Committee and the Assembly Housing and Community Development Committee, which considered the issue of financing of infrastructure for housing. In 1983, the Governor appointed an infrastructure task force to review California's infrastructure conditions. This task force issued a strong conclusion that California needed greatly increased infrastructure investment. In 1984, Senator Marks and Assemblyman Mike Roos, sponsored legislation which provided for "bond pooling" which allowed smaller local governments the opportunity to feasibly bond for need infrastructure improvements. Unfortunately, the bill was vetoed by the Governor. The Senate Local Government Committee has been in forefront in the last several years in conducting interim hearings and work shops throughout the State regarding this issue. The time has come to resolve the problem.

<u>RESPONSES TO POLICY QUESTIONS</u>

I would now like to respond to some of the policy questions put forth by the staff.

I believe, very strongly, that the legislature should require the State to coordinate its own public works spending with State economic and environmental quality goals. For some reason, it doesn't seem to me that there is enough emphasis placed upon the State's economic and environmental quality goals. The goals of the State ought to be the driving force behind all legislation. Every proposed statute ought to be geared toward the achievement of the State's goals. Therefore, any proposed solution to financing the required infrastructure should be with the idea of creating incentives for local governments to achieve the State's economic goals.

I believe, that the legislature should target State grants and loans to communities which share the State's economic and environmental quality goals. It has been our experience that communities respond better to the carrot than to the stick. The Governmental Affairs Council introduced a few years ago an "Infrastructure Incentive Bill", which rewarded those communities that promoted growth and economic development and ignored those communities which, through their policies, stifled growth and economic development. I believe, that this concept should be resurrected. There needs to be incentives created for the financing of infrastructure. In some cases, even tax incentives could be utilized to promote private investment for public infrastructure needs.

The legislature should give local officials more flexibility to use existing sources by reducing the voter approval requirement for general obligation bonds to a majority vote. It is my hope that the financing of regional infrastructure facilities can be accomplished without another layer of regional government. What we don't need is another layer of government. What we do need is a method of financing the required infrastructure. It seems that a State infrastructure bank could be established, which would provide loans to local agencies based upon an incentive program with the loans being repaid through incremental tax dollars or real estate transfer taxes.

The Building Industry feels very strongly about the issue of fees. Local governments are beginning to finance infrastructure needs that were previously financed by tax dollars through the imposition of new fees. This is one of the major reasons for the escalation of housing costs in the State (see Attachment A). Fees may solve the problem on a short term basis, but on a long term basis, they will have dramatic negative economic impacts. Already major industries are moving from the State because of the lack of affordable housing. New fees unduly burden the new homeowner and creates even further inequity in our financing structure. The new homeowner already pays four times the amount of taxes for the same size home as the existing homeowner who purchased his home prior to 1975. In 1975, just 15 years ago, the median priced home was just $35,000. Today the median priced home is approximately $150,000 and thus there is a great disparity in the amount of taxes paid by each homeowner. There is currently tremendous distortion in social equity and that distortion continues to expand as new fees are imposed. According to a National Association of Homebuilder's report in January of 1988, a $3,000 impact fee causes the homebuyer to pay an equivalent of $5,500 more to buy the house as a result of financing that fee through his mortgage. The imposition of fees creates to two major fairness questions; (1) the disproportionate burden on lower income households, and (2) the "double taxation" of new residents. At a time when only 13% of our citizens can afford the median priced home, we must not add to the cost by imposing new fees. If anything, limitations should be placed upon local governments ability to impose new fees. Imposition of new fees is regressive in nature and has long term negative impacts on the economic growth of the State.

RECOMMENDATIONS

In summary, I would recommend that the Legislature do the following:

1) **Pass legislation reducing voter approval requirement on general obligation bonds to a majority vote. Legislation such as ACA 2, SCA 2 or SCA 18 will all have a positive affect on continued economic growth.**

2) **Establish a bond pooling authority or a revolving loan fund authority to provide financing to local governments based upon an incentive program towards achievement of the State's economic goals.**

3) **If some type of new regional government is created, its authority must be tied to the achievement of State economic goals.**

4) **Pass legislation restricting further local government's ability to impose new fees upon the already overburden new homebuyer.**

5) Require the State to coordinate its own public works spending with State economic goals.

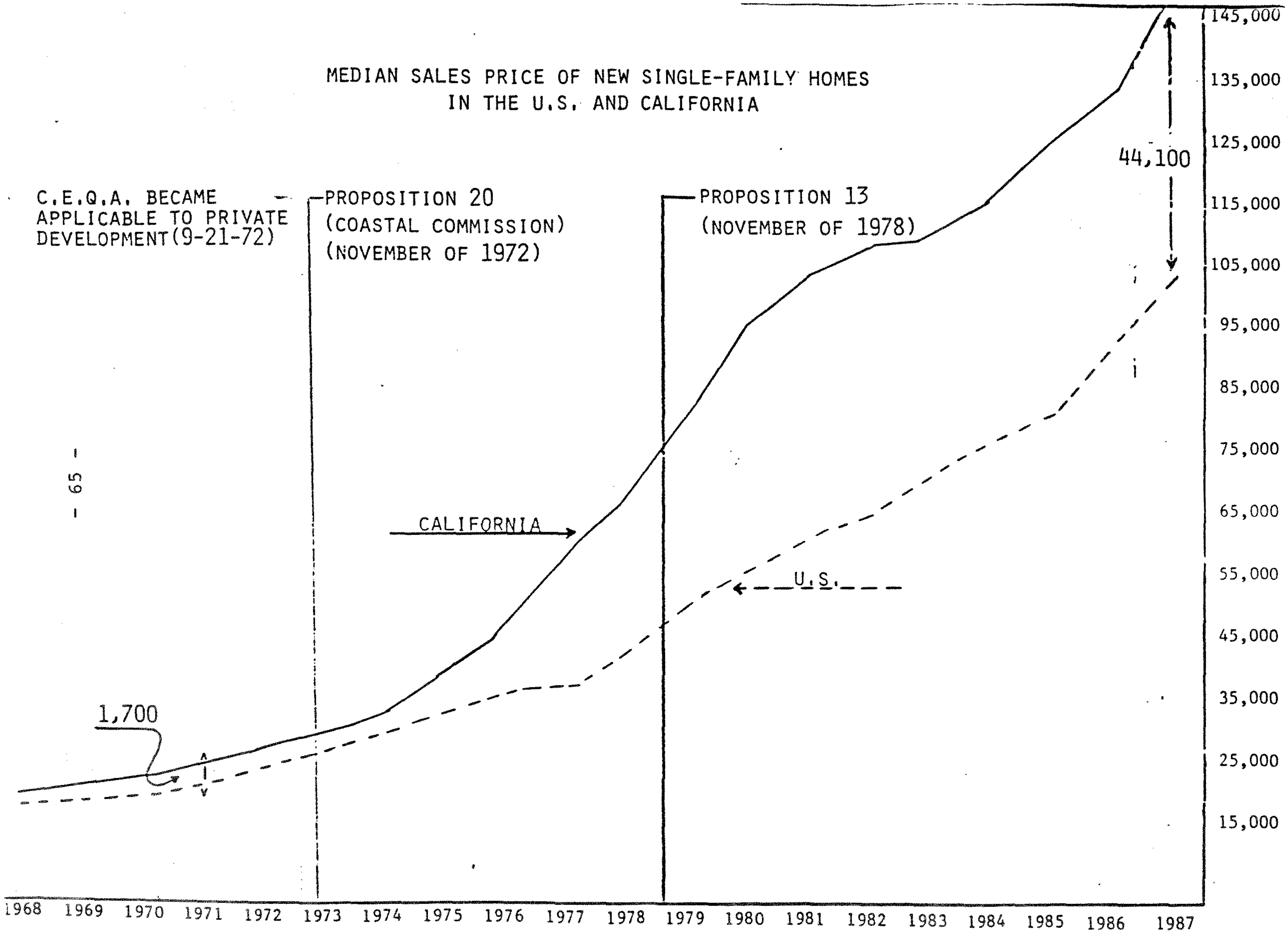
6) Provide incentives to local governments that assist in the achievement of the State's economic and environmental quality goals.

I thank you, again, for this opportunity to exchange ideas concerning this vital subject. Please be assured that the Governmental Affairs Council stands ready and willing to assist in helping to solve this issue.

Respectfully submitted,

DeVere H. Anderson

DeVere H. Anderson
Governmental Affairs Council



Source: N.A.R.,C.A.R.,U.S.Dept. of Census, California Dept. of Finance, Construction Industry Research Board

ATTACHMENT "A"

STATEMENT OF THE CALIFORNIA FARM BUREAU FEDERATION
ON REGIONAL GOVERNMENT AND FISCAL AUTHORITIES
TO THE
SENATE LOCAL GOVERNMENT COMMITTEE

NOVEMBER 27, 1990

Madam Chairman and members, my name is John Gamper, Director of Taxation and Land Use with the California Farm Bureau Federation. Farm Bureau is the state's largest voluntary, non-governmental farm organization with approximately 82,000 member families. We appreciate the opportunity to appear before you today to express our views on regional government and regional fiscal authorities.

As a result of the Legislature's increasing interest in growth management through regional government, Farm Bureau's House of Delegates, last December, debated the issue and adopted a significant change in our policy relative to this subject. Prior to last year's policy amendment, our organization was flatly anti-regional. The key policy statement read: "Planning and planning implementation must remain primarily a local function and not the prerogative of any regional entity." Compelled by some of the arguments made in various issue papers from this committee, the Senate's Select Committee on Planning for California's Growth and Urban Growth Policy Project, our new policy is less unequivocal and more open to compromise. It now reads:

> "Planning and planning implementation must remain primarily a local function. Where metropolitan areas cross county lines or where major transportation corridors inextricably link neighboring counties' patterns of growth, the concept of regional planning may be appropriate. However, we oppose any effort to authorize taxing or statutory authority for any regional form of government without a two-thirds vote of the affected electorate."

Although Farm Bureau may not have come as far as some of the "new regionalism" advocates would have liked, for an organization that is firmly rooted in the concept of local control, this constituted a major policy shift. Our grassroots leadership took this step because they were concerned about the lack of flexibility in our position. They also wanted to encourage cooperation and coordination between local jurisdictions in dealing with growth related issues, while specifically going on record in opposition to the creation of new governmental bureaucracies with new taxing and law-making authority without a substantial majority vote by the electorate.

Farmers and ranchers are not convinced that another layer of government is the answer to our land use and infrastructure problems, and we believe that a vast majority of their urban and suburban neighbors would agree. Close to home, this was made evident by voter rejection of the Sacramento City/County merger proposal on the November ballot. Realistically, proposals such as A.B. 4242 by Speaker Brown and S.B. 2391 by Senator McCorquodale are considered by farmers as being far too radical in their approach.

As a conservative organization, it is not surprising that we would prefer a more modest approach, or the so-called path of incrementalism as coined in the committee's November 1988 working paper on new regionalism entitled "Growth, Change and Response." We must respectfully but strongly disagree with those who contend that it would be harder to garner widespread public support for this more measured response as compared to one sweeping proposal that could "capture the public's imagination and gain political support." More specifically, we concur with the observations of Senator Presley, when he wrote to us earlier this year, in support of his S.B. 1332--the time is right for reasonable reforms that will:

- "build on existing institutions to better manage growth, rather than create new levels of government;
- safeguard the primary role of local elected officials in guiding the growth of their communities;
- rely on voluntary cooperation between communities, with a process to encourage joint action;
- provide fiscal incentives to communities which agree to plan and coordinate growth with their neighbors; and
- encourage regional agencies to coordinate their own plans for air quality, transportation, and housing."

I would also like to be more specific relative to our concerns about the more revolutionary approaches offered by A.B. 4242 and S.B. 2391. First and foremost we fear the loss of political accountability and local control. There is a very real concern that one of the ulterior motives of the proponents of new regional governments is to remove responsible governmental decision-makers out of reach of the electorate. Those rallying around the anti-NIMBY battle cry are a case-in-point. They are essentially saying, "we can't let local officials make these land use decisions on locally undesirable land uses (LULUs) because they can't stand up to the constituent pressure." The advocates representing the LULU's interest groups think they have found the solution: just create huge regional districts where individuals' concerns about their neighborhood, community or county can be squashed by the sheer weight of the geographical and population dynamics of the region, or as in the case of S.B. 2391 simply provide the alternative of having a non-elected board and make the decision-makers untouchable.

We still believe that in order to work well, essential land-use planning functions need to remain closest to the people who must live with the decisions. The foundation of our Planning and Zoning Law is public input. This is not just for window-dressing. Individual citizens should have valued input into what their community is going to be like.

There is also a very strong fear in our organization that political gamesmanship and/or powerful special interest groups will exert too much influence over the regional decision-making process. Farmers and ranchers are already considerably outnumbered in the best of circumstances and we are concerned about the fate of our rural areas should these all powerful regional boards turn their backs on agriculture.

With respect to new regional taxing authorities, the virtually all-encompassing new taxing authority as proposed by S.B. 2391 could have very serious consequences for our industry. The idea of new or higher taxes on income, real property, the sales and use of tangible personal property, in addition to proposed water consumption taxes and further increases in the per-gallon gas tax staggers the imagination. It is not surprising to us that the building and development community would embrace this concept because they would benefit in a variety of ways. Not only will they "broaden the base" and reduce the necessity for development fees to pay for growth-serving public works projects, there is also the added bonus of helping to tax food producers off their land and thus hastening its conversion to non-agricultural uses.

If we are going to do something positive and cost effective to slow the loss of some of the most productive farming regions in the world, then we need to create a better economic environment for farmers and ranchers. We need to provide encouragement and incentives for them to remain in the business of food production. We believe that measures such as S.B. 2391, S.C.A. 51, S.C.A. 2, A.C.A 2, and S.B. 2557 will take us in the opposite direction.

Before closing, I would like to comment briefly on S.B. 2557 since it was discussed in your briefing paper. We believe that the manner in which this bill became law represents the legislative process at its worst, unless, of course, you were on the winning side.

Now the cities and school districts and special districts are crying foul and they want S.B. 2557 repealed because they believe the criminal justice fees and property tax administration fees are too onerous. Well, we too, were stung by our confidence in the legislative process. The new authorization, which will take effect in January, allowing counties to impose business license and utility user taxes could have very serious consequences for farmers and ranchers. Allowing counties to essentially fund their state-mandated liabilities on the backs of their unincorporated area residents is quite frankly a public policy nightmare as far as Farm Bureau is concerned.

We can only hope that should county supervisors decide to impose these new taxes, they will use some common sense and not tax their farmers and ranchers into the open arms of the land speculators and developers.

I would like to add that we think it is outrageous for the League of Cities to advocate repealing the counties' new fee authority while contending, "but we support the counties' new taxing authority." They are essentially saying, let the counties' residents pick-up the tab for the mandated services, many of which are provided to their citizens, but don't ask the cities' residents to help. It is simply unfair and we sincerely hope that this committee agrees with our perspective.

In closing, I would like to stress that Farm Bureau wants very much to continue its participation in working toward the growth management and fiscal solutions that this state so desperately needs. Under the new leadership of Governor-elect Wilson, we are confident that the proper role of the state, regional, subregional and local governments in these critical areas will be sorted out. We remain committed to the consensus-building approach that is vital to resolving these issues.

California Legislature

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PAYING FOR GROWTH: BUT AT WHAT PRICE?

A Background Staff Report for the Interim Hearing

of the

Senate Local Government Committee
Marian Bergeson, Chairman

November 27, 1990
Disneyland Hotel
Anaheim, California

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PAYING FOR GROWTH: BUT AT WHAT PRICE?

During 1990, the Senate Local Government Committee followed 30 bills relating to growth management topics, including regional planning and organization, agricultural land conversion, affordable housing, general plans, and other development issues. Of the total, 10 died in committees or elsewhere, seven failed key votes, one was sent to interim study, and 12 passed the Legislature. Of those that passed, six were vetoed and six became law. The summary in **Appendix A** briefly describes the bills and their status.

The most controversial of these bills looked at new forms of regional governance and new planning requirements: Assembly Bill 4242 (W. Brown) and Senate Bill 1332 (Presley). Both bills failed passage in the Legislature. Critics charged that these bills neglected the fundamental issue of the "fiscalization of land use." They called for reform, but acknowleged there are no easy solutions.

Likewise, the Senate Local Government Committee defeated three bills because they failed to address the underlying problem of how to equitably pay for the public facilities that new growth spawns: Senate Bill 1771 (Davis), Assembly Bill 2460 (Hannigan), and Assembly Bill 4225 (Cannella).

To thoroughly explore these fiscal issues, the Senate Local Government Committee voted on May 9, 1990 to hear the subject matter of Senator Dan McCorquodale's **Senate Bill 2391** and **Senate Constitutional Amendment 51** in a special hearing during the Legislature's interim recess. These bills authorize the creation of two regional fiscal authorities in the nine-county Bay area and in the seven-county Southern California region to raise revenue for new public facilities needed because of growth.

In preparation for the hearing on Tuesday afternoon, November 27 in Anaheim, this background staff report discusses policy choices the Legislature has in reducing the problems associated with the fiscalization of land use. In particular, the paper looks at policy choices the Legislature has in creating regional fiscal authorities to finance regional facilities.

THE FISCALIZATION OF LAND USE: PROGRESS STILL NEEDED

Since the passage of Proposition 13, the Legislature has seen the competition for land uses that generate tax revenues accelerate in frequency and intensity. Local officials' land use decisions are increasingly driven by concerns for new revenues, leading to what some policy pundits call the "fiscalization of land use." While the competitors can be neighboring cities, most frequently the race is between a city and the county where it is located. These forces threaten to spin apart regional cooperation. They pit communities against one another in a struggle to approve only fiscally sound development and to shun land uses which do not produce sufficient revenue, such as affordable housing.

The fiscalization of land use also makes it more difficult to raise revenue from a broad base; that is, throughout an entire community. 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.

Constitutional limits on local tax rates, reassessments, and special taxes constrain local flexibility. State law which distributes sales tax and property tax revenues for new development on the basis of situs only intensifies the conflicts. Further, state law encourages redevelopment agencies' use of property tax increment revenue, city annexations of tax producing areas, and incorporation of suburban communities as new cities. These activities only accelerate the competition.

Committee history from 1988 to present. In response to these trends, the Senate Local Government Committee held a series of workshops throughout the state on growth management in 1988. The workshops culminated in a December 1988 interim hearing where Committee members found that the problems of public finance and public services extend beyond the boundaries of one community.

Legislation in 1989. To diminish the negative effects from the fiscalization of land use, the Chairmen of the Senate and Assembly Local Government Committees introduced a series of bills to remove obstacles in state law to local revenue sharing: Senate Bill 968 (Bergeson) and Senate Constitutional Amendment 19 (Bergeson) as well as Assembly Bill 2204 (Cortese), Assembly Bill 2205 (Cortese), Assembly Constitutional Amendment 38 (Cortese).

Interim hearing in 1989. Because of fierce opposition to these measures from cities, the two Local Government Committees held an interim hearing last fall. At the hearing, witnesses from both cities and counties responded that the real answer is to expand county revenue sources, not to reshuffle existing revenues. Others described the solution as the need for a fundamental restructuring of local finance.

City officials objected to sharing any revenues which could backfill for underfunded state programs counties must carry out. They also objected that counties stall or veto annexation proposals as a way to extract city revenues during the negotiations over property tax transfers.

No progress in 1990. This year the only new proposal to emerge on this specific subject died in its first committee (SB 2165, Boatwright, 1990). The bill proposed a mediation process for resolving disputes on the exchange of property tax revenues upon annexation. The author chose not to have it heard in the Senate Local Government Committee, primarily because cities and counties could not reach agreement on the issues.

The Legislature did give counties new general revenues this year through fees and taxes. In response to the state's own fiscal crisis, one measure permits counties to charge cities, special districts, and schools for property tax administration and booking prisoners. It also permits counties to levy business license and utility users taxes in unincorporated areas (SB 2557, Maddy, 1990). The other measure permits more counties to levy an additional sales tax for general purposes upon majority voter approval (AB 3670, Farr, 1990).

Unknown future. But cities strongly object to Senate Bill 2557, which they view as an unfair shift in their revenues to backfill for state budget cuts in county programs. The League of California Cities is expected to seek the repeal of this measure in the next legislative session. At the same time, the League continues to voice its support for a long-term revenue base for cities and counties. The debate on the fiscalization of land use has become interwoven with the debate on local finance, making the resolution of each problem even more complex.

Legislative history. To balance the fiscal pressures local governments face, the Legislature has taken remedial steps to place statewide bond issues before the voters to create public capital for local infrastructure. Voters approved $12 billion in state bonds for local public facilities between 1980-89 for schools, jails, parks, water facilities, housing, libraries, and transportation. Some policy experts caution that continued reliance on general obligation bonds is not sound fiscal policy since debt service must be paid from state general fund revenues. Six more items worth another $2.2 billion were voted on this November for comparable facilities, but voters approved only $800 million in school construction bonds. The defeat of these other measures makes the need to find ways to pay for public facilities even more critical.

The Legislature has also given local governments a variety of other financing tools to pay for public works, which will be briefly summarized later in the paper. But these tools are not as suitable for financing regional facilities which serve more than one community. In response, some counties are also looking at levying developer fees countywide. Three examples will also be summarized later in this paper.

But statewide bond issues and local financing options cannot fill all the projected demands. The disengagement of the state and federal governments from financing improvements that primarily benefit new development has left a significant gap. Paying for large, regional scale public works remains a major problem. Senate Bill 2391 and Senate Constitutional Amendment 51 seek to fill that gap.

THE FISCALIZATION OF LAND USE: POLICY CHOICES

To date, the Legislature has looked at the problem of reducing the fiscalization of land use, securing stable local revenues, and paying for growth as separate, unrelated issues. But there is heightened awareness that these topics are intertwined. A major challenge facing the Legislature is: what part of the problem to tackle next?

Some experts think that solving the underlying problems of local finance will make land use choices more fiscally neutral. Others think that any solution will be short-lived unless it links fiscal policy with incentives for better planning, like the new congestion management plans which make receipt of new gas tax dollars contingent on compliance with these plans. Still others think the Legislature should attempt to address several related issues throughout a region rather than focusing on only a specific topic. Policy choices and possible solutions to the underlying problem of the fiscalization of land use fall into four categories:

- Revenue allocation
- Property assessment
- State funding
- Revenues for public works

<u>Revenue allocation</u>. Public finance has become a zero-sum game. For every dollar one agency gains, another loses. This political and fiscal equation makes it hard for local agencies to reduce their battles for the revenues that result from development. When the Legislature implemented Proposition 13, it chose the "situs method" to allocate property tax revenues. Revenues accrue only to those communities where development occurs. Similarly, sales tax revenues are also allocated by the situs method. The revenue stays where the sale occurs, not where the consumer lives or works.

While other states, notably Minnesota, encourage tax base sharing, fiscal cooperation is very difficult in California. Sharing **sales tax bases** requires majority voter approval in both communities; a constitutional restriction that has prevented the practice since 1968. Senator Marian Bergeson and Assemblyman Dominic Cortese tried to remove this restriction in 1989, but cities resisted their attempts.

Sharing **sales tax rates** is possible, but more complicated. Sharing **sales tax revenues** is "extra-legal," state statutes neither permit not prohibit the practice. The problems and solutions to this "zero-sum game" became the subject of the Senate Local Government Committee's interim hearing last fall.

<u>**POLICY QUESTIONS**</u>: SHOULD THE LEGISLATURE CONTINUE TO RELY ON THE SITUS METHOD OF ALLOCATING PROPERTY TAX REVENUES?

SHOULD THE LEGISLATURE TRY AGAIN TO EASE THE CONSTITUTIONAL AND STATUTORY RESTRICTIONS WHICH PREVENT CITIES AND COUNTIES FROM SHARING THEIR SALES TAX REVENUES?

SHOULD THE LEGISLATURE ALLOW CITIES, COUNTIES, AND SPECIAL DISTRICTS TO NEGOTIATE THE EXCHANGE OF REVENUES IN ADDITION TO THE PROPERTY TAX WHEN THEY DISCUSS ANNEXATIONS AND INCORPORATIONS?

<u>**Property assessment**</u>. All four features of Proposition 13 influence the relationship between land use choices and fiscal decisions:

- Cutting property assessments to their 1975 levels.
- Restricting reassessments.
- Limiting property tax rates to 1% of cash value.
- Requiring 2/3 voter approval of special taxes.

The first two items directly influence land use decisions. Rolling back property values to their 1975 levels not only cut property tax revenues, it also lowered landowners' holding costs. Undeveloped land no longer carries an assessed value that approximates its development potential. Eliminating periodic reassessments and restricting new assessments to just ownership changes and new construction encourages local officials to permit development to generate new revenues. There are three major lawsuits which challenge the underlying constitutionality of Proposition 13's assessment rules. If these challenges succeed, the Governor and the Legislature will have to devise a new property tax allocation scheme. Both the **Senate Commission on Property Tax Equity and Revenue** and the **Assembly Select Committee on Property Tax and Local Government Finance** are thinking about the Legislature's policy options if these challenges are successful.

<u>State funding</u>. The fiscal problems facing counties, particularly rural counties is well known. With many expenditure decisions beyond their control, counties continue to face deteriorating conditions. Butte County came perilously close to declaring bankruptcy this year before the Legislature provided temporary relief. Other counties may not be far behind.

At the Senate Local Government Committee's interim hearing in 1989, local officials told Committee members that finding a stable revenue source for counties would do much to alleviate the competition between counties and other local governments for scarce revenues. But given the legacy of California's tax revolt movement, it is unlikely that the voters and the Legislature will easily assign a new revenue stream to counties to support their programs. Plus, the state may want any new revenues to solve its own budget problems.

Other experts believe that a further realignment of counties' fiscal and program responsibilities is also necessary, particularly for social welfare services. If past history is a reliable indicator, then this alternative will also require two to three years of concentrated legislative leadership and executive cooperation.

In the meantime, there are three ways the Legislature can alleviate some of the counties' fiscal woes while a longer-term solution is worked out:

- Increase Williamson Act subventions to compensate counties for revenues foregone from lower property taxes landowners pay on certain agricultural lands. This year, Senate Bill 2363 (Nielsen) proposed a $24 million increase in these subventions, but the bill died in the Senate Appropriations Committee.

- Fully fund the 1987 County Revenue Stabilization Act which protects counties from having to spend more of their own revenue on four state-mandated health and welfare programs.

- Fully fund all new state mandates or streamline the state's reimbursement process for paying local officials these costs.

<u>POLICY QUESTIONS</u>: SHOULD THE LEGISLATURE PROVIDE COUNTIES WITH A STABLE REVENUE SOURCE? IF SO, WHICH ONE?

SHOULD THE LEGISLATURE TAKE OVER THE FINANCING AND ADMINISTRATION OF MORE COUNTY PROGRAMS?

SHOULD THE LEGISLATURE INCREASE WILLIAMSON ACT SUBVENTIONS?

SHOULD THE LEGISLATURE FULLY FUND THE COUNTY REVENUE STABILIZATION ACT?

SHOULD THE LEGISLATURE CREATE RELIEF FROM UNFUNDED MANDATES?

Public works revenues. The Legislature has responded to the growing need for infrastructure or public works dollars primarily by proposing statewide bond issues and by expanding the tools available to local officials. But how to pay for public works projects that serve more than community or an entire region remains a major problem. The next two sections of the paper will discuss the problems with existing revenue options and what others are available to local officials.

Until recently, the state's own role in funding local infrastructure has been largely ignored. This year the Legislature required the Director of Finance to project the state's capital outlay needs for the next 10 years and update it annually (SB 1825, Beverly, 1990). But there still is no coordination among state spending on public works, the state's own economic development and environmental quality goals, and local land use policies. Some policy experts think the Legislature should target future spending to emphasize the state's own economic and environmental quality goals and make the most effective use of limited public works dollars.

POLICY QUESTIONS: SHOULD THE LEGISLATURE REQUIRE THE STATE TO COORDINATE ITS OWN PUBLIC WORKS SPENDING WITH STATE ECONOMIC AND ENVIRONMENTAL QUALITY GOALS?

SHOULD THE LEGISLATURE TARGET STATE GRANTS AND LOANS TO COMMUNITIES WHICH SHARE THE STATE'S ECONOMIC AND ENVIRONMENTAL QUALITY GOALS?

PAYING FOR GROWTH IN CALIFORNIA: WHAT'S NEXT?

Since the late 1970s the Legislature has been faced with increasing demands for funding public works, but diminished revenues. In response, it has repeatedly chosen to expand the authority of local officials to raise their own capital for public facilities. Key examples include:

- Special taxes in Mello-Roos community facilities districts for a variety of public facilities with 2/3 voter approval (SB 2001, Mello, 1982).

- Restoration of local general obligation bond authority with 2/3 voter approval (ACA 55, Cortese, 1984).

- Authorization for local bond pooling to lower debt issuance costs (SB 17, Marks, 1985).

- Special tax authority for school districts (AB 1440, Hannigan, 1987), for libraries (AB 4290, Bronzan, 1988), for hospital districts (AB 3596, Hauser, 1988), and for park districts (AB 4158, N. Waters, 1990).

- Authorization for school districts to impose developer fees on residential and commercial development up to a maximum amount to pay for school facilities (AB 2926, Stirling, 1986).

- Procedures for levying developer fees (AB 1600, Cortese, 1987).

- Authorization for counties to create separate authorities to levy an additional 1 cent sales tax for transportation purposes upon majority approval (SB 142, Deddeh, 1987).

- Authorization for the counties of Humboldt, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Joaquin, and Ventura to create separate authorities to impose a one-half cent sales tax to finance justice facilities upon majority voter approval (AB 2505, Stirling, 1987; SB 2745, Garamendi, 1988; and AB 1067, Hauser, 1989).

- Authorization for counties to create separate authorities to levy an additional one-half cent sales tax for general purposes upon majority voter approval (AB 999, Farr, 1987 and AB 3670, Farr, 1990).

- Authorization for cities and counties to create infrastructure financing districts to finance public facilities of "communitywide" significance with property tax increment revenue (SB 308, Seymour, 1990).

Using these tools, local officials pay for **neighborhood** scale facilities (developer fees, assessments, and special taxes) and **community** scale facilities (assessments, special taxes, and bonds). But funding for **regional** scale public works like sewers, schools, highways, and parks remains a major fiscal and policy problem.

General obligation bonds are an appropriate funding source for regional facilities serving more than one community, but require 2/3 voter approval which is often difficult to obtain. The 2/3 voter approval requirement also impedes the use of Mello-Roos bonds and special taxes in already developed areas, but they have been used in undeveloped areas. While assessment bonds require no vote and are a popular tool, the assessments must directly benefit the properties in the district. But regional facilities provide more general benefits to a specific property, making the "benefit" test harder to pass. Failure in court to show benefit means the assessment becomes a tax subject to voter approval.

A cloud still hangs over local use of sales tax revenues for public facilities with majority voter approval, despite the Court of Appeal's recent validation of San Diego County's one-half cent sales tax for justice facilities. Many tax experts contend that these taxes are special taxes, which require a 2/3 vote.

Countywide developer fees, which require no vote, are an option that several counties are pursuing (Stanislaus, San Diego, and Yolo). But to meet the legal requirements of a reasonable relationship between the fee and the facilities, developer fees can only pay for new development's share of a region's needs at existing service levels. Paying for existing deficiences that new growth causes must be financed through other means.

While there is general agreement that all these financing tools are insufficient to meet the growing demand for public facilities, there is little consensus about what to do about it. Only a few legislative measures have been proposed in recent years. The most far-reaching bill focused on more revenue to finance one type of facility: transportation (SCA 1, Garamendi, 1989). In June 1990, voters approved this constitutional amendment to raise gas tax revenues and to link the receipt of these monies with preparation of local Congestion Management Plans (AB 471, Katz, 1989).

This year the Legislature extended the authorization of a one-half cent sales tax to all counties for general purposes in AB 3670, but it rebuffed efforts to reduce the 2/3 vote requirement for general obligation bonds to a majority vote (SCA 2, Leonard, 1989 and ACA 2, O'Connell, 1989). Senator Dan McCorquodale also proposed new regional revenues to pay for regional facilities in his SB 2391 and SCA 51.

PAYING FOR GROWTH: REGIONAL REVENUES & REGIONAL AUTHORITIES

What role the Legislature should play in paying for regional growth begs two other questions: who should pay and how much growth should they pay for? To answer these questions involves linking regional revenues with growth management. They are like two horses hitched to the same wagon guided by new state policies. Neither one can move forward without the other. The wagon of regional cooperation keeps the horses steady and prevents them from overreaching the other. Unhitching them risks continuing the fiscal disparities between communities and the poor planning decisions that often result. More local growth control measures to restrict development in response to regional growth, environmental, and traffic concerns are also likely.

Taxes, assessments, and fees. To pay for regional facilities the Legislature could reallocate existing revenues or continue its policy of giving local officials new revenue options. These new options fall into three broad categories: taxes, assessments, and fees. Landowners or individuals pay **taxes** without regard to the benefit they receive usually to pay off long-term debt. Elections are usually required. Besides the property tax, examples include parcel taxes, sales taxes, motor vehicle fuel taxes, and vehicle license taxes. Another viable example is real estate transfer taxes which the Court of Appeal recently upheld as a valid general tax that does not require a 2/3 vote (Cohn v. City of Oakland, 223 Cal.App.3d 261).

Revenues from a **special tax** are restricted or dedicated to a special use, whereas revenues from a **general tax** are not restricted and flow into the agency's general fund. Landowners pay **assessments** in direct proportion to benefit usually to pay off long-term debt. Elections are usually not required. Individuals pay **fees** or charges also in proportion to benefit, but the fees cannot exceed the cost of providing the service or facility for which the fee is charged. Examples include developer fees, standby charges, connection fees, and capacity charges. Elections are not required.

Prosperity, environmental quality, and equity. One way for the Legislature to evaluate financing options is to measure them against the goals of promoting sustained economic prosperity, protecting and improving environmental quality, and ensuring social equity.

Depending on market conditions, a region's reliance on higher taxes, higher assessments, or increased fees could dampen the ability of its communities to attract new businesses, retain existing ones, and provide affordable housing for its labor force. Communities could lose their competitive advantage or fall further behind relative to other regions, thus hindering **economic prosperity**. To protect their investment, local officials also need funds to pay for the operation and maintenance of the new facilities, which many taxes and fees cannot finance.

The ability of new development to pay its "fair share" compared with the entire community can place revenue gain above **environmental quality** when deciding land uses. Going for the easy, "quick buck" with developer fees can lead to land use decisions which promote development on undeveloped agricultural land in outlying areas, thereby precluding efficient mass transit and degrading air quality.

Any shifting of costs from current residents to new residents can also distort **social equity**. It can also lead to windfalls for current residents and wipeouts for new residents. Current residents can reap a windfall because they are assured of adequate capacity in new facilities they may use without paying for it, like roads. New residents often pay not only for the new facilities, but also may help pay off the debt for existing facilities.

Past legislative hearings and common sense tell us that most growth management problems are larger than just a single county or city. The fiscalization of land use has made the financing of regional scale public works more difficult. Merely pumping new revenues into regions will achieve little without some form of regional cooperation to plan for growth and coordinate financial investments in public works that is consistent with state policy. The creation of regional fiscal authorities consisting of more than one county could help address these problems, while also sustaining economic prosperity, protecting the environment, and more equitably spreading the costs of regional public works among the region's existing and future taxpayers.

The success of any new regional structure depends on the resolution of several policy choices involving the role of state policies in guiding local land use decisions as well as the size of the regions, how they are governed, and what role they play in managing the region's growth. Any region must be inclusive enough in size, representational enough in governance, and powerful enough in duties to balance the conflicting growth desires of local communities in ways that benefit the region as whole. Such a framework should be responsive to problems with impacts that are larger than a single county or city, but it should sustain the power of local governments to control purely local problems.

Included in this paper are two models for responding to the problem of financing regional facilities. One model proposes new multi-county fiscal authorities with new revenue sources, but without any significant planning responsibilities or link to state policies (SB 2391, McCorquodale, 1990). The other one builds on counties as a region and looks at countywide developer fees.

<u>**Regional fiscal authorities**</u>. Senate Bill 2391, the Regional Fiscal Authorities Act of 1990, introduces new possibilities for regional action by creating two new regional fiscal authorities to finance public works. Its provisions are contingent on passage of Senate Consitutional Amendment 51. SB 2391 gives each authority the power to levy a motor vehicle fuel tax, a regional water quality fee, a regional property tax, and a 5% surcharge on state income taxes, all with majority voter approval. The bill also gives each authority the power to levy regional development fees and to reallocate property and sales tax revenues. The bill is summarized in **Appendix B**.

The California Constitution requires local governments to levy special taxes by a 2/3 vote. SCA 51 amends the Constitution to give these authorities the power to levy taxes the Legislature authorizes for public facilities by majority vote.

A regional fiscal authority can exist in the nine-county San Francisco Bay region (Counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma) and in the seven-county Southern California region (Counties of Imperial, Los Angeles, Orange, San Bernardino, San Diego, Riverside, and Ventura). Other counties could join these authorities if the authority's board and a majority of the area's voters agree.

These authorities can be formed either by city councils and boards of supervisors which represent a majority of the region's population or by petitions signed by 5% of the region's voters. Formation by petition requires majority voter approval. The governing body can be either appointed or directly elected. An appointed board consists of one representative appointed by each county board of supervisors and each city selection committee in the region. A directly elected governing board has nine members who are elected from districts.

<u>**POLICY QUESTIONS**</u>: SHOULD THE LEGISLATURE GIVE LOCAL OFFICIALS MORE FLEXIBILITY TO USE EXISTING SOURCES, SUCH AS BY REDUCING THE VOTER APPROVAL REQUIREMENT FOR GENERAL OBLIGATION BONDS TO MAJORITY VOTER APPROVAL?

SHOULD THE LEGISLATURE GIVE LOCAL OFFICIALS NEW FUNDING SOURCES? IF SO, FOR WHAT TYPES OF FACILITIES?

SHOULD THE LEGISLATURE CREATE REGIONAL FISCAL AUTHORITIES TO PAY FOR REGIONAL FACILITIES? IF SO, SHOULD THE LEGISLATURE SET UP THESE AUTHORITIES BEFORE IT HAS CREATED A STATEWIDE GROWTH MANAGEMENT PROGRAM?

<u>Regional development fees</u>. At least three counties are either levying or considering regional or countywide developer fees to finance regional facilities: Stanislaus, San Diego, and Yolo. Each county's motivation for levying county-wide developer fees and the process for doing it differ as much as the counties themselves. But each one shares the view that new growth should pay for itself.

<u>Stanislaus County</u>. Several years ago the City of Turlock decided to negotiate with the County about the developments it was approving in the City's sphere of influence, which the City considered to be substandard. The City also objected to the County's adoption of a general plan amendment to permit commercial development in unincorporated areas. In 1987 the City and County signed a mutual support agreement which acknowledged that reaching a consensus on how to balance land use and fiscal policies is in the best interest of both agencies.

The County agreed to prohibit all development within the City's sphere of influence. In exchange, the City agreed to transfer an amount equal to 4.2% of its sales tax revenue to the County from its general fund. For this fiscal year, the City estimates that it will transfer $100,000 to the County under this formula. Also, the City agreed to collect its share of a County facilities fee. This fee is in addition to a citywide fee Turlock imposes on new development.

Spurred on by the success of this agreement, the County initiated comparable negotiations with the remaining eight cities. Although there are now separate agreements with each city, the terms of each one are comparable. None of the other cities transfer any of their revenues to the County, unlike the agreement with the City of Turlock. But each city does collect the County's public facilities fee which is levied on new development. In return, the County agreed to amend its general plan to limit development in the cities' spheres of influence primarily to agricultural uses.

Prior to executing agreements with its cities, the County hired consultants to forecast countywide population and employment growth to the year 2010. Based on these numbers, the County prepared a 20-year capital facilities plan. The County then hired a consultant, Recht Hausrath and Associates to design a countywide fee program to pay for $526 million in facilities needed to accommodate new development. In March 1990, the County of Stanislaus adopted a countywide public facilities fee program to "implement the goals and objectives of the County General Plan and to mitigate impacts caused by new development within the County." This marks the first time a California county has imposed developer fees within a city.

To justify the new fee, Stanislaus County followed the ground rules set by Assembly Bill 1600 (Cortese, 1987). When local agencies impose or increase fees as a condition of approval of a development project, they must justify the fees based on procedures in state law. Key to the procedures is the local determination that there is a reasonable relationship or "nexus" between the fee's use, the need for the public facility, and the type of development project on which the fee is imposed. Following these guidelines, new development can only pay for its share of projected needs, rather than total need. Also, the fees can only be charged for existing levels of service. If a higher level of service is desired, other funding sources must be sought to correct existing deficiencies.

The County's public facilities fee program consists of both a countywide fee and an unincorporated area fee. The consultant's study showed that roads is the most costly facility needed to serve new development at existing service levels, followed by jails and county-wide sheriff services. Other public facilities the fees will help fund include libraries, parks, and public health. To pay for these facilities, a flat fee is levied on both single family ($4,442 per unit) and multi-family residences ($2,929 per unit). The fee also applies to offices and retail use ($2,881), as well as small and large industrial uses based on square footage. Between March and June of this year, the County received a total of $632,700 from the fee program.

The development of this new fee program generally followed a harmonious course. Support from the Stanislaus County Board of Supervisors and the largest city (Modesto) also contributed to its success. Underlying this support was basic agreement among staff and elected officials that new development should pay for itself and that growth in cities places demands on underfunded county services. There is also an understanding that the County must contend with the constraints of relatively low property and sales tax revenues, but high caseloads for state mandated welfare and social service programs. Another reason for the successful launching of this program was the link between fiscal policy and planning. The County agreed not to develop in its cities' spheres of influence. Lastly, although opposition to the fee program surfaced from developers, it was reportedly mild.

Because Stanislaus County's fee program is less than a year old, its effectiveness is speculative. To date, there is no known litigation challenging it. But several observers question whether a county has the authority to exercise its police power within the corporate boundaries of a city, unless each city formally adopts the County's fee program by ordinance. In Stanislaus County, only the City of Modesto has taken this step. Supporters also have concerns that over time, this fee program might push business into neighboring counties.

One of the strongest proponents of the County's efforts was former County Supervisor Sal Cannella. When he was elected to the Assembly this year, Mr. Cannella introduced a bill giving the remaining 57 counties the ability to impose developer fees within cities (AB 4225, Cannella, 1990). The Senate Local Government Committee defeated this bill when it was heard in August. One concern voiced was that the bill mandated the cities to participate. Other opponents charged that the bill would make it even more difficult for families to find affordable housing, particularly for multi-family housing.

San Diego County. In 1987 the differing fiscal interests of San Diego County and its 18 cities led to a study the San Diego Association of Governments (SANDAG) sponsored which outlines regional revenues and responsibilities. Soon thereafter in 1988, voters in the County approved Proposition C, which calls for a regional planning and growth management board and a regional growth management plan. The SANDAG Board of Directors now serves as the regional board and has undertaken a major effort to prepare a Regional Facilities Plan with the help of the same consultant who assisted Stanislaus County, Recht Hausrath and Associates. SANDAG's staff and a technical advisory committee have conservatively forecast the need for $47.2 billion in capital and operating costs by 2010. This plan is proceeding on a separate course from the required Regional Growth Management Plan which SANDAG is also charged with preparing.

A few months ago, the SANDAG Board of Directors appointed a Regional Revenues Advisory Committee to direct the work of staff and the consultant. This eighteen-member Committee directed staff and the consultant to evaluate a regional development impact fee for eight types of facilities that have an estimated funding shortfall of $8 billion.

Of this amount, the Advisory Committee decided that $1.1 billion should be allocated to regional impact fees, leaving the balance to be paid for by other funding sources. The Committee concluded that using such fees to fund all the unfunded capital costs could potentially cause severe economic dislocation. The facilities for which unfunded needs have been identified are: transportation, justice facilities, regional parks/open space, health, libraries, animal control, social services, and fire protection districts. (These facilities are listed in the order of magnitude from the greatest funding shortfall to the least). An economic impact analysis of these fees is also underway.

Yolo County. Yolo County anticipates that new countywide fees will be levied in its four cities, beginning in January 1991. The County has directed the consulting firm of Williams Kuebelbeck to design the fee program. No decisions have been made about which facilities the fees will pay for nor how much they will be. A major factor motivating the County to initiate this proposal is the loss of revenues from annexations. The County has told the cities it will oppose future annexations unless they support the countywide fee.

POLICY QUESTIONS: DO LOCAL OFFICIALS NEED ADDITIONAL AUTHORITY TO LEVY DEVELOPER FEES? ON A COUNTYWIDE BASIS? ON A REGIONWIDE BASIS?

* * *

SOURCES AND CREDITS

Staff relied on the following written sources in preparing this report:

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Senate Local Government Committee and Assembly Local Government Committee. Land Use and Local Revenue Sharing: Playing the Zero-Sum Game. Sacramento. November 17, 1989.

Thomas P. Snyder and Michael A. Stegman. Paying for Growth: Using Development Fees to Finance Infrastructure. Washington D.C.: Urban Land Institute: 1986.

Leslie McFadden, consultant to the Senate Local Government Committee, wrote this paper with assistance from Peter Detwiler, also a consultant to the Committee.

APPENDIX A

California Legislature
- 90 -

Senate Committee on Local Government

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October 1, 1990

"THE FINAL SCORECARD"

GROWTH MANAGEMENT LEGISLATION IN 1990

During 1990, the Committee followed 30 bills relating to growth management topics. Other observers may have tracked more bills, depending on how they defined growth issues. Governor Deukmejian has now acted on all of the bills which the Legislature placed on his desk. Only six of the 30 growth management bills will become law.

What became of the 30 growth management bills?

- 10 died in committees or elsewhere.
- 7 failed key votes.
- 1 was assigned to interim study.
- 12 passed, but 6 were vetoed and 6 were signed.

REGIONAL PLANNING AND ORGANIZATION BILLS

Senate Bill 969 (Bergeson) restructures the Southern California Association of Governments to allow greater autonomy for county-level planning agreements. Status: Died in the Assembly Local Government Committee.

Senate Bill 1332 (Presley) enacts the Subregional Planning Act, allowing local officials to create new subregional agencies that will prepare plans and attract state grant funds. Status: Died on call on the Senate Floor on August 31.

Senate Bill 1770 (McCorquodale) creates the San Joaquin Valley Air Quality Management District in place of eight separate air pollution control districts. Status: Vetoed by the Governor.

Senate Bill 1850 (Torres) creates the Southern California Metropolitan Transportation Commission with the power to review general plans of six counties and the cities in them for consistency with the regional plan. Status: Failed in the Senate Transportation Committee on April 17.

Senate Bill 2113 (Doolittle) exempts three small cities from the proposed consolidation of Sacramento City-County. Status: Signed by the Governor, Chapter 490, Statutes of 1990.

Senate Bill 2391 and **Senate Constitutional Amendment 51** (McCorquodale) authorizes two new regional fiscal authorities which can levy new taxes and fees to pay for public works projects. Status: Senate Local Government Committee sent to Interim Study; hearing set for November 27 in Anaheim.

Assembly Bill 1512 (Farr) appropriates $6.1 million to the Governor's Office of Planning and Research to support matching grants for county and regional study groups. Status: Died in the Senate Appropriations Committee.

Assembly Bill 4235 (Farr) reorganizes the Office of Planning and Research into: (1) a Governor's Office of Research and (2) a Planning Agency responsible for a comprehensive state planning report. Status: Failed in the Assembly Ways and Means Committee on June 13.

Assembly Bill 4242 (W. Brown) creates seven regional development and infrastructure agencies to supersede LAFCOs, APCDs, regional water quality control boards, and regional transportation planning agencies. Status: Died in the Assembly Local Government Committee.

AGRICULTURAL LAND CONSERVATION

Senate Bill 2363 (Nielsen) revises and increases in two tiers the state subventions to counties for Williamson Act lands. Status: Died in the Senate Appropriations Committee.

Assembly Bill 655 (Jones) creates the Agricultural Land Conservation Bond Act if approved at a statewide election. Status: Died in the Senate Local Government Committee.

Assembly Bill 1979 (Areias) requires environmental impact reports for the conversion of agricultural land, based on either a local or statewide threshold. Status: Vetoed by the Governor.

AFFORDABLE HOUSING

Senate Bill 727 (L. Greene) requires cities and counties to examine jobs-housing balance issues in their general plans' housing elements. Status: Vetoed by the Governor.

Senate Bill 2011 (L. Greene) requires the approval of affordable housing under certain circumstances. Status: Signed by the Governor, Chapter 1439, Statutes of 1990.

Senate Bill 2274 (Bergeson) strengthens the review of local housing elements and the regional allocation of housing. Status: Signed by the Governor, Chapter 1440, Statutes of 1990.

Assembly Bill 2932 (Eastin) requires the Department of Housing and Community Development to prepare an advisory guidebook on jobs-housing balance issues. Status: Signed by the Governor, Chapter 843, Statutes of 1990.

GENERAL PLANS

Senate Bill 1225 (Boatwright) revises the requirements for cities and counties to refer their proposed general plan adoptions and amendments to each other. Status: Died in Conference Committee.

Assembly Bill 35 (Eastin) revises the contents of the circulation element, converting it into a transportation element. Status: Died in the Senate Appropriations Committee.

Assembly Bill 2203 (Cortese) requires cities and counties in nonattainment areas to adopt air quality elements in their general plans. Status: Died in the Senate Appropriations Committee.

Assembly Bill 2540 (Wright) improves city and county planning procedures for school sites, capital improvements, and CEQA review. Status: Vetoed by the Governor.

Assembly Bill 3297 (Bates) creates a Dependent Care Planning Grant Program within the Office of Planning and Research to encourage cities and counties to include dependent care issues within their general plans. Status: Failed on the Assembly Floor on June 13.

Assembly Bill 3429 (Clute) allows cities and counties to include school sites, recreation sites, and child day care facilities in their land use elements. Status: Failed in the Senate Local Government Committee on July 5.

Assembly Bill 3590 (Farr) defines and sets standards for geographic and land information systems. Status: Vetoed by the Governor.

OTHER PLANNING AND DEVELOPMENT TOPICS

Senate Bill 1288 (Beverly) extends the deadline for finishing airport comprehensive land use plans until January 1, 1992, in Los Angeles County only. Status: Signed by the Governor, Chapter 54, Statutes of 1990.

Senate Bill 1771 (Davis) allows cities and counties to deny general plan amendments and rezoning based on the lack of schools. Status: Failed in the Senate Local Government Committee on May 9.

Senate Bill 2798 (Beverly) exempts Los Angeles County from the airport land use planning law. Status: Vetoed by the Governor.

Assembly Bill 2460 (Hannigan) prohibits cities and counties from approving development unless they determine how key public works will be financed. Status: Failed in the Senate Local Government Committee on June 27.

Assembly Bill 3933 (Eaves) restricts land uses near current and former military airports. Status: Died on the Senate Inactive File.

Assembly Bill 4225 (Cannella) allows counties to charge countywide development fees. Status: Failed in the Senate Local Government Committee on August 8.

Assembly Bill 4265 (Clute) allows an airport land use commission to base a comprehensive land use plan on an "airport layout plan." Status: Signed by the Governor, Chapter 563, Statutes of 1990.

WHERE CAN I GET COPIES OF BILLS?

Some cities and counties subscribe to data services which can provide copies of bills and bill analyses. Your **city** may subscribe to "CITYLINK," a data service run by the League of California Cities. Your **county** may use "CSAC-LINC" offered through the County Supervisors Association of California. Check with your planning director, city manager, or county administrator for more information.

The local office of your State Senator or Assemblymember is probably equipped with a computer terminal which can print copies of bills and the analyses written by legislative committees. Contact their offices directly.

For copies of the veto message explaining the Governor's reasons for rejecting a bill, contact the legislator's office at the State Capitol.

Free, single copies of bills are available by writing to: Bill Room, State Capitol (Room B-32), Sacramento CA 95814.

APPENDIX B

SENATE LOCAL GOVERNMENT COMMITTEE
Senator Marian Bergeson, Chairman

VERSION:	04/16/90	S
SET:	First	B
HEARING:	05/09/90	
FISCAL:	No	2
CONSULTANT:	Detwiler	3
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Senate Bill 2391 - McCorquodale

Subject: Regional Fiscal Authorities

Background and Existing Law:

Unceasing population growth and the accompanying demand for public facilities leaves most California communities wondering how to pay for the public works that attract and keep new development. Developer fees and assessments pay for **neighborhood** scale public works. Redevelopment, Mello-Roos districts, and bond issues pay for **community** scale public works. But the disengagement of the state and federal governments from infrastructure financing has left a significant gap. There is no easy way to pay for **regional** scale public works.

Proposed Law:

Senate Bill 2391 authorizes the creation of two regional fiscal authorities to raise revenue to pay for new public improvements.

Regions. A regional fiscal authority can exist in the nine-county San Francisco Bay region and in the seven-county Southern California region. SB 2391 allows a county to secede from an authority if the board of supervisors and a majority of the county's voters agree. Another county or a portion of another county can join an authority if the authority's board and a majority of the area's voters agree.

Formation. SB 2391 provides two ways to form a regional fiscal authority. First, city councils and county boards of supervisors which represent a majority of the region's population can adopt resolutions. An election to seek majority voter approval is possible but not required. Second, petitions signed by 5% of the region's voters can trigger an election to form an authority. The formation requires majority voter approval.

The voters establish an authority's initial appropriations limit. Under SB 2391, all revenues are considered appropriations subject to limitation.

Governance. Members of a regional fiscal authority's governing board serve staggered four-year terms. Members receive $75 per meeting and SB 2391 limits the members to two paid meetings a month. An authority's administrative costs cannot exceed 5/100% of its total revenues.

An authority can have either an appointed or a directly elected governing board. An appointed board consists of one representative appointed by each county board of supervisors and each city selection committee in the region. SB 2391 does not allow alternate members. A directly elected governing board has nine members who are elected from districts. Under SB 2391, an appointed board can convert to a directly elected board either through board action or by voter initiative.

Transportation. A regional fiscal authority can levy a fuel tax in increments of 1 cent a gallon throughout its region with majority voter approval. The new revenues can only be used for:

- Construction, acquisition, or service costs of regional transportation systems.
- Construction, expansion, or maintenance of regionally important roads.
- Construction, expansion, or maintenance of local roads that serve regional needs from outside the local jurisdiction.
- Transportation bonds.

An authority cannot directly own or operate transportation facilities and services and must contract with other agencies. However, an authority can require local agencies to follow certain land use practices as a condition of receiving funds.

SB 2391 also allows an authority to levy a development fee to offset increased traffic from development. The fee cannot exceed the proportionate share of the "unfundable incremental traffic capacity" caused by new development. The authority must first prepare a plan which analyzes traffic patterns. The plan must include additions to public transportation systems and proposed land use changes. The authority's plan must be consistent with the plans of regional transportation planning agencies and air quality boards. The plan must estimate the costs of mitigating traffic increases and identify other revenue sources.

Water Quality. A regional fiscal authority can levy a water quality fee as a surcharge on local water and sewer fees, with majority voter approval. The authority can also levy a fee on new development. The revenues can only be used to acquire or finance water quality projects or facilities.

The authority must first prepare a plan which analyzes the impacts of new and existing development on water quality. The plan may identify water quality projects or facilities that cannot be efficiently financed because their effects extend beyond the boundaries of existing agencies. The plan must include cost estimates.

<u>Schools, Open Space, Housing Near Jobs</u>. A regional fiscal authority can levy a property tax with majority voter approval. An authority may levy a 5% surcharge on state income taxes with majority voter approval. An authority may allow taxpayers to count half of these taxes as a credit against their state income taxes.

The new revenues can only be used for:

- Construction, acquisition, or reconstruction of schools, community colleges, state universities, and University of California facilities.

- Acquisition of parks, open space, and regional recreation facilities.

- Financing local streets, sewers, storm drains, schools, water supply, or other local public works if the authority determines that the financing will encourage moderate cost housing near moderate income jobs or high density housing near rail transit stations.

<u>Property and Sales Tax Allocations</u>. A regional fiscal authority may reallocate up to half of the incremental property tax revenues. An authority may reallocate up to half of the incremental sales tax revenues which are "directly attributable to new development."

The authority must first prepare a plan which studies how the existing revenue allocation system affects land development decisions. If the authority determines that tax allocations encourages an imbalance between jobs and compatible housing and if the authority determines that a reallocation would improve this balance, the authority may reallocate property and sales tax revenues. The State Board of Equalization must develop rules governing the reallocation of property and sales tax revenues.

<u>Constitutional Amendment</u>. SB 2391 does not become effective unless the Legislature and the voters pass an unnamed Senate Constitutional Amendment.

Comments:

1. Regional needs, regional solutions. Legislative hearings and common sense tell us that most growth management problems are larger than just a single city or county. The fiscalization of land use decisions has complicated the financing of regional scale public works. With the state and federal governments unwilling or unable to pay for large projects and with individual communities trying to solve their own problems, no one is in charge of regional infrastructure. Regional problems require regional solutions. By creating regional fiscal authorities, SB 2391 introduces the possibility for regional action.

2. Dropping the other shoe. Legislative interest in growth management issues remains strong. When the Assembly Local Government Committee reviewed Speaker Brown's AB 4242 in April, local officials complained that consolidating regional regulatory agencies was insufficient. They said that the Legislature should not create regional governments unless it also solves the problem of financing regional public works. The Committee may wish to consider whether SB 2391 provides what local officials found missing in the Speaker's bill.

3. Which regions? SB 2391 focuses on just two parts of California: the Bay Area and Southern California. San Diego officials usually consider themselves separate from the six other Southern California counties. The Committee may wish to consider amending SB 2391 to allow a third regional fiscal authority in San Diego County. Further, the eight-county San Joaquin Valley is on the verge of massive urban development. Concerted attention to growth management issues will be needed if the Valley is to avoid the problems faced by other regions. The Committee may wish to consider allowing another regional fiscal authority in the San Joaquin Valley.

4. Constitutional changes. While SB 2391 does not name it, SCA 51 (McCorquodale) contains four constitutional changes that are needed before the bill can be effective. SCA 51 grants initiative powers to regional authorities. SCA 51 permits the Legislature to create regional authorities. SCA 51 allows regional authorities to levy taxes for capital improvements by majority vote. SCA 51 places regional authorities' capital expenditures outside the Gann appropriation limit. There are no plans for Committee review of SCA 51. The Committee may wish to consider whether it should act on SB 2391 without also reviewing SCA 51.

5. Improvements needed. SB 2391 requires several amendments to implement the author's intent:

- Interim convening authority. The bill requires an interim convening authority to hold a hearing but does not give this panel any other authority (page 5, lines 6-14). The Committee should either give the group a duty or drop this provision.

- Incompatible offices. If an authority has an appointed governing board, the members might be county supervisors or city councilmembers (page 5, lines 15-22). The common law doctrine of incompatible offices may prevent these local elected officials from serving. The Committee may want to expressly permit local officials to serve on the governing board.

- Filling vacancies. If an authority has an elected board, either the Governor or the remaining board members can appoint someone to fill a vacancy (page 6, line 38 to page 7, line 1). The Committee should set a deadline for the Governor to act so that the board does not usurp his or her power.

- No bonds. An authority can spend its transportation revenues to repay bonds (page 10, lines 15-18). However, SB 2391 does not allow an authority to issue any bonds. The Committee should insert this missing provision.

- Which plans? An authority must prepare its own plan before it can spend transportation revenues. The plans must be consistent with regional transportation and air quality plans (page 11, lines 7-10). The Committee should also require these plans to be consistent with the congestion management plans contained in AB 471 (Katz, 1989).

- Other plans. Before an authority can spend money on projects, it must prepare four plans or studies. Each of these requirements uses slightly different language. The Committee should enact a uniform procedure.

- Direct ownership. An authority cannot directly own the transportation facilities that it finances (page 10, lines 19-23). SB 2391 does not prohibit an authority from directly owning water quality facilities, schools, parks, open space, or housing near jobs. The Committee should apply the same prohibition to these other facilities.

- Tax credits. An authority may allow taxpayers to credit half of their regional income taxes against their state income taxes (page 12, lines 36-40). The Committee should decide whether a credit is appropriate, not leave state tax policy in the hands of regional officials.

- Local parks. An authority can finance regional recreational facilities but also pay for local parks and open space (page 13, lines 9-12). The Committee should restrict the authority to paying for regional needs and not local projects unless they are required because of regional growth.

- Gann limit. Public agencies' debt payments are outside their appropriations limits required by Article XIIIB of the California Constitution. SB 2391 requires all of an authority's expenditures to be counted within its Gann limit (page 14, lines 17-19). The Committee should make the bill conform to the Constitution.

- Administrative costs. An authority's administrative costs cannot exceed 5/100 of 1% (page 14, lines 34-36). That's $500 for every $1,000,000. The Committee should set this limit at 5%.

- Secession. A county can secede from an authority with the permission of the county supervisors (page 3, lines 3-7). The authority's governing board has no control. The Committee should require the authority's board, not the county board of supervisors, to approve a secession.

- Annexation. A portion of a county can annex to an authority without the permission of the local officials (page 15, lines 8-12). The Committee should require local officials to agree to an annexation.

Support and Opposition: (05/03/90)

Support: Unknown.

Opposition: Unknown.