

Coleman Advisory Services

TO: Chris McKenzie, Dwight Stenbakken, Dan Carrigg
FROM: Michael Coleman
SUBJECT: AB680 Mechanism and Fiscal Impacts
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C: David Jones, Frances Medema

There is widespread misunderstanding of the mechanics and fiscal effects of AB680. Regardless of the League's position on the bill, the advocacy will be more effective if it uses accurate figures based on realistic assumptions. My concern goes beyond any particular set of fiscal estimates, but to the general perceptions and pronouncements about the proposal, many of which seem based on misunderstandings.

1. The core of the current AB680 proposal is a reallocation of the **growth** of each city and counties local 1% Bradley Burns Sales and Use Tax as follows:
 - a. 1/3 of the growth on situs as under current law.
 - b. 1/3 of the growth on situs if the jurisdiction meets certain specified housing policy and "smart growth" goals as outlined in the bill.
 - c. 1/3 of the growth on a **share of population** basis within the **region**.
2. Because AB680 deals only with growth, no city or county would lose money relative to their existing revenue base. The loss to some cities would occur in that the city's future growth will be less than under current law (e.g. 4% annual growth rather than 5%).
3. If a city's sales and use tax revenue declines in a given year (i.e. from economic conditions regardless of this proposal), it would not have any "**growth**" to be segregated and contributed to the reallocation pool. However, the city would still receive a portion of the share-of-population allocation, thus making it better off fiscally than under current law.
4. If a city meets the housing/smart-growth requirements it will receive
 - a. its base year sales & use tax revenue, plus
 - b. 2/3 of its growth in sales & use tax revenue, plus
 - c. additional sales and use tax revenue depending on its regional share of population

In the Sacramento region, no city would receive less than 80% of its sales and use tax revenue growth, if the city meets the housing/smart-growth requirements. However, a city with high per-capita sales tax growth that does NOT meet the housing/smart-growth requirements might end up with as little as a 40% return of its sales tax and use tax revenue growth.

5. Compared to the current system, even the city which loses the most in dollar terms in future years would garner at least 98% of the sales and use tax revenue it would otherwise receive if it meets the housing/smart-growth requirements. Keep in mind this is 98% of a grown revenue, and represents an annual sales and use tax revenue gain of at least 3% to 4% per year.
6. These changes in allocation compound over time as a greater and greater portion each local agency's revenues are "growth over the base year" and thus are subject to segregation

mechanism. Each agency's revenue would still grow year to year (absent an economic downturn that would cause a decline even under the current system) but over time the gap between what a city would receive under current law, and what it would get under AB680 would grow (greater gain or greater loss).

7. But ... even after twenty years, the current hierarchy of sales and use tax revenue winners and looser would not change substantially. That is, Roseville, Placerville and West Sacramento (at over \$400 per resident) would still garner substantially more revenue than others, and Winters, Wheatland, Galt and Live Oak would still garner substantially less (at less than \$60 per resident). This is because AB680 really reallocates a very small portion of the local sales and use tax revenues in the region.
8. City's with the most to loose under this bill are not necessarily the current sales tax "winners," but those that are now relatively underserved by commercial (retail and other taxable sales land uses), and that plan to grow that sector of their communities at a pace greater than the regional commercial growth and greater than their own residential sector growth. For these cities, a portion of the revenue from this new development is subject to regional sharing. To compound this issue, the city most likely in this category, recently incorporated Elk Grove, is not a full service city (fire is provided by a special district) and consequently receives NO property tax revenue. This dubious hand of fiscal cards makes Elk Grove highly dependent on development that generates sales tax revenue and makes any sort of housing development a budgetary looser (service costs but not enough revenue) for the city general fund.
9. My studies indicate that a shift of 1/3 of the growth in sales tax is not enough to substantially alter the incentive to site retail and other sales tax generating land uses. Assuming a city meets its housing/smart-growth requirements under the bill, it would still garner a surplus of revenues over service costs from these land uses.
10. On the other hand, because the bill allocates the per-capita portion on regional share of population rather than on proportion of population growth, the proposal does not substantially improve the ability of housing development to pay its way. By allocating on regional share of population – existing population – each additional unit of housing does not garner as significant an increase from the per capita pot as would be the case if the allocation was made on where the growth in residential units occurs.
11. Since the Bradley Burns Act was signed in 1955, the state has had "control" of the local sales tax. This state law provides the underlying construct to this local revenue and the legislature has adopted numerous tax exemptions over the years. But this proposal would be unprecedented in that it ventures into the local general purpose revenue stream (sales tax is not earmarked and goes to the general fund) with a new set of requirements. The proposal violates the local control sensibilities of cities by shifting control over how a portion (albeit a small portion) of local government revenues is allocated to a combination of state law and a regional body.

I hope these points are helpful. Please don't hesitate to call if I can be of assistance.

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