

# Agenda Report

February 4, 2002

**TO:** City Council

**FROM:** City Manager

**SUBJECT:** Opposition to Assembly Bill 680 (Steinberg) – Reallocation of Sales Tax and State Revenue Sources

**RECOMMENDATION:**

It is recommended that the City Council:

- 1) oppose Assembly Bill 680 (AB 680) that would modify the method by which future sales tax revenue would be allocated within Sacramento County, and;
- 2) authorize the Mayor to send letters to the appropriate authorities stating Pasadena's position.

**BILL SUMMARY:**

AB 680 was introduced last year by State Assemblymember Darrell Steinberg of Sacramento and was co-sponsored by the City of Sacramento and Sacramento County. It reconfigures the allocation of sales taxes in the six-county Sacramento.

This year, AB 680 was amended to redistribute the growth portion of the 1% City share of sales tax revenue in the following manner: 1/3 based on situs/point of sale, 1/3 based on population and 1/3 based on "regional needs" including affordable housing, social services, infill development and purchase of open space.

Although this bill has no direct impact on the City of Pasadena, it is being considered a "pilot program" and could eventually be expanded throughout the State.

**BACKGROUND:**

The sponsors of AB 680 mounted a concerted effort to move the bill through the Assembly early this year. Although the bill has been strongly opposed by a number of cities in the Sacramento area and throughout the State, along with the League of California Cities, it has nevertheless passed the Assembly and will be soon heard by the Senate.

## **DISCUSSION:**

Supporters of the bill contend that it will encourage regional development planning and “smart growth.” The intent is to reduce competition for large-scale commercial developments that create benefits for one community at the expense of another. It is thought that reducing the sales tax benefits of such projects will make suburbs less hospitable thus compelling developers to redirect their investments into downtown Sacramento.

Detractors of the bill believe it will undercut the regionalism it purports to foster. Rather than eliminating the “winner/loser” scenarios, it will shift the balance to a different set of “winners and losers.” Considerable regional acrimony in the area is frequently cited in support of this argument.

Staff is most concerned with the resulting shift of local land use control to the state. Local elected leaders and taxpayers – not state politicians – should decide how the sales tax revenues are distributed. Local leaders know best the unique needs of their individual communities.

Additional concerns include:

- **Broader Application of AB 680** – While AB 680 only covers the cities and counties in the Sacramento County region at this time, history has often suggests that such State laws rapidly expanded to cover the balance of the State. AB 680 sets a bad precedent and should be opposed.
- **Preference for State Funds for Other Cities and Counties** – Staff is also troubled by the provisions in the bill that grant “bonuses and priorities” for several State sources of transportation, infrastructure and library funding to cities and counties in the Sacramento Region at the expense of cities and counties in all other parts of the state.
- **Punishing Smaller Communities** – The population portion of the formula in AB 680 punishes smaller communities that have a mixed land use of both business and housing. A healthy community provides a variety of business, commercial, retail and housing land usage. AB 680 awards fully 1/3 of the growth in future sales tax revenues solely on the basis of population. This will result in a substantial loss of sales tax revenue to smaller, built-out communities – even when their pattern of development is both appropriate and logical.

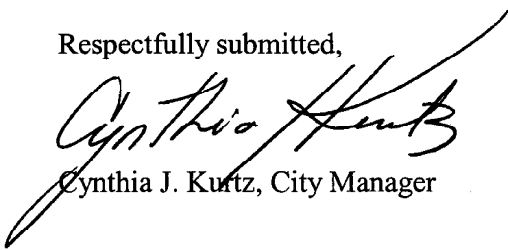
The fiscal impacts of this type of legislation are significant. The City’s 1% share of sales tax revenues is its largest revenue source. Revenues to local governments have been significantly reduced over the last decade and are again in jeopardy in the coming budget discussions. Further loss of sales tax revenue could be catastrophic in some cities. For example, the City of Roseville, just outside Sacramento, estimates that it initially could lose \$4 million per year if AB 680 is approved. By 2010, Roseville losses could total \$18 million.

There are better approaches to achieve the stated goals of this bill. In particular, the State should stop shifting and taking existing City sources of revenue and instead cap and return the ERAF portion of the City property tax revenue. This would recognize the value of housing in a community and would return a balance in City funding.

**FISCAL IMPACT:**

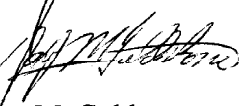
This bill has no direct impact on the City; however, it sets a precedence that could jeopardize the growth in future sales tax revenues for the City.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Cynthia Kutz", written in a cursive style.

Cynthia J. Kutz, City Manager

Prepared and Approved by:

A handwritten signature in black ink, appearing to read "Jay M. Goldstone", written in a cursive style.

Jay M. Goldstone  
Director of Finance