

Agenda Report

TO: CITY COUNCIL

DATE: July 20, 1999

Attn: Legislative Committee

FROM: City Manager

**SUBJECT: OPPOSITION OF VARIOUS SALES TAX EXEMPTION BILLS:
AB 1077 (CARDOZA) AND SENATE BILL 1210 (BACA)**

RECOMMENDATION

It is recommended that the City Council adopt the attached resolution and authorize the Mayor to send a letter to the appropriate officials opposing the following legislation:

1. Assembly Bill 1077 (Cardoza) *Sales Tax Exemption, Newspapers*; and
2. Senate Bill 1210 (Baca), *Sales and Use Taxes Exemption, Returnable and Non-Returnable Containers*.

BACKGROUND

The Sales and Use Tax Law imposes a tax on the gross receipts from the sale in this State of, or the storage, use, or other consumption of tangible personal property. However, there have been and currently are exemptions from this tax. For example, newspapers and periodicals were exempt from the sales tax between 1945 and 1991, at which time this exemption was repealed in response to the State's budget deficit. Current law provides for various exemptions from that tax, including an exemption for returnable and non-returnable containers under specified conditions. Current law also provides an exemption from the sales tax for the purchase of containers and pallets under certain circumstances. Non-returnable containers are exempt if sold empty to a buyer who fills the containers and sells the container and contents sold with the contents. The two bills identified in this report seek to further expand the allowable exemptions under current State Sales and Use Tax law.

Bill Impact and Status

1. Assembly Bill 1077 was introduced and authored by Assembly Member Cardoza and Speaker Villaraigosa on February 25, 1999. This bill exempts from sales or use tax any newspaper regularly issued at an interval of three months or less, together with any tangible personal property that becomes an ingredient or component part of that newspaper. This exemption applies to the sale of photographs reproduced one time only in a newspaper. The measure is currently in the Senate Revenue Taxation Committee. It was scheduled to be heard on June 17, 1999, but the Committee postponed the hearing. Assembly Bill 1077 restores the sales and use tax exemption for newspapers that was in effect prior to July 15, 1991.
2. Senate Bill 1210 was introduced and authored by Senator Joe Baca on February 26, 1999. Senate Bill 1210 exempts from the sales and use tax any containers used to hold food for consumption, regardless of whether the container is purchased by the seller of the food or an independent packer and regardless of whether the container is returnable or non-returnable. It is intended to apply to leases of returnable pallets and shipping containers used in agriculture. This bill would add an exemption for containers when sold or leased to persons who place food products for human consumption in the container for shipment, provided the food products will be sold, whether in the same container or not. The bill was last amended on July 7, 1999 at its second hearing in the Assembly Appropriations Committee. The bill was re-referred to the Committee, but a hearing date has not yet been set.

The League of California Cities opposes Assembly Bill 1077 and has not taken a position on the other bill.

FISCAL IMPACT

The City of Pasadena expects to receive \$23.5 million in fiscal year 2000 and \$24.2 million in fiscal year 2001 in Retail Sales Tax Revenue, approximately 20% of the total General Fund.

Preliminary analysis reveals that Assembly Bill 1077 represents a potential statewide local loss of \$15.7 million. The Board of Equalization estimates that this bill will result in annual state revenue losses of \$42.6 million. The Board is currently unable to provide an actual breakdown of how this would impact the respective cities. According to the Legislature, Senate Bill 1210 could mean local losses of \$284,000. Losses to specific cities are not available at this time.

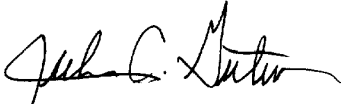
If adopted into law, the aforementioned bills threaten the loss of an undetermined amount of vital General Fund revenue and set a dangerous precedent for the future exemption of Sales and Use Taxable transactions. The City of Pasadena depends on its General Fund to support public safety, and general street maintenance programs that enhance the quality of life in Pasadena.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

Prepared by:



JULIE A. GUTIERREZ
Deputy Director of Finance

Approved by:



JAY M. GOLDSTONE
Director of Finance