STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**05/14/01**	Bill No:	**AB 680**
Tax:	**Bradley-Burns**	Author:	**Steinberg**
Board Position:		Related Bills:	**SB 1982, SCA 18, SB 2000, SCA 17 (1999-2000)**

BILL SUMMARY

Among its provisions, this bill would change the allocation method of the one percent local sales tax in El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba counties.

ANALYSIS

Current Law

The Bradley-Burns Uniform Local Sales and Use Tax Law (commencing with Section 7200 of the Revenue and Taxation Code) authorizes counties to impose a local sales and use tax. The rate of tax is fixed at 1¼ percent of the sales price of tangible personal property sold at retail in the county, or purchased outside the county for use in the county. All counties within California have adopted ordinances under the terms of the Bradley-Burns Law.

Under the Bradley-Burns Law, the ¼ percent tax rate is earmarked for county transportation purposes, and 1 percent may be used for general purposes. Cities are authorized to impose a sales and use tax rate of up to 1 percent, which is credited against the county rate so that the combined local tax rate under the Bradley-Burns Law does not exceed 1¼ percent.

The 1¼ percent tax is collected by the Board, primarily from remittances by retailers. The Board currently allocates the tax to cities and counties primarily based on the retailer's place of business (i.e., situs method of allocation).

Proposed Law

This bill would add Chapter 1.5 (commencing with Section 7215) to Part 1.5 of Division 2 of the Revenue and Taxation Code to provide for the trial and implementation of a regional local sales tax revenue allocation program. Specifically, this bill would make various findings and declarations, and would require that the Board segregate the one percent local sales tax revenues imposed in the greater Sacramento region, which would include the counties of El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba.

For the first calendar quarter of 2002, and each quarter thereafter, in lieu of the allocation procedures provided in current law for the one percent local sales tax

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revenue that is generated in cities and unincorporated areas of counties, the Board would be required to apportion the segregated revenues according to a calculation of the "base quarter revenue amount" for each jurisdiction. According to the bill, "base quarter revenue amount" is the amount of sales tax revenue that a county or city in the region received during the corresponding calendar quarter in 2001. Any remaining revenues would be allocated based on the proportion of each jurisdiction's population to the total population in the region. The Department of Finance would be required to determine the populations in each jurisdiction.

The remaining provisions of this bill would not impact the Board. This bill would become effective January 1, 2002

Background

"The fiscalization of land use" refers to the concept of examining land use decisions in the context of their revenue and expenditure consequences. Because Proposition 13 reduced the revenues that would be received from property taxes from any particular development (industrial, commercial, or residential), local jurisdictions began to pay even more attention to the fiscal outcomes of land use decisions, and those uses that generated revenues in addition to property taxes have been elevated in importance.

The decision by local governments to utilize land for retail sales in order to generate sales tax revenues is one example of the fiscalization of land use. Local governments have engaged in numerous activities to encourage retail activity in their jurisdiction, such as zoning excessively for retail, providing sales tax rebates to retailers who locate in their jurisdiction, waiving developer fees, and expediting the permit process.

This bill is intended to address, among other issues, the fierce competition that local entities are now facing in getting as much local (1.0%) sales and use tax revenue as they can.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the author in an effort to put jurisdictions in the Sacramento region on a "level playing field" in terms of per capita sales tax revenue, and enable the Sacramento region to increase power generation by doing smart growth planning and energy conservation. According to the author, this bill would allow all regional jurisdictions to benefit equally from future sales tax revenue growth, regardless of where growth occurs within the region, would allow jurisdictions to have more stability in their budget, and enable them to make planning decisions on a regional level.

2. **Some of the increased administrative costs could be paid by cities outside of the region.** The Board's central agency and some shared costs would increase as a result of this bill, and those costs are shared by all cities and counties statewide. Central agency costs are those costs incurred by the state's central service departments for activities that benefit all state departments, including the Board. Examples of these activities include the state controller issuing warrants and the state treasurer cashing warrants. Shared cost are defined as the costs of the

board's tax administration system that benefit the state, local governments, and STJs individually and jointly but cannot be separately identified as being directly incurred to support any entity. These are the Board's basic, or infrastructure, costs. However, the bill could be amended so that only the cities and counties in the region pay the increased costs.

3. **Suggested amendments.** As currently written, this bill does not contain base year provisions for new cities, newly annexed areas, or consolidated areas created after 2001. Base amounts would be determined by revenues received in the corresponding 2001 calendar quarter. Also, the new allocation method proposed by this bill does not include "use tax" revenues, which would be very difficult to segregate from sales tax revenues. Board staff have other technical concerns with the bill and will work with the author's office on suggested technical amendments as the bill moves through the Legislature.

4. **Related legislation.** This bill is similar to SB 1982 (Alpert) and SB 2000 (Polanco) from the previous session. In their original forms, those bills would have changed the local sales and use tax distribution method from the current situs-only basis (place of sale) to combinations of situs and population bases for each county and all cities within the county. The Legislature then created a conference committee centered around another bill, AB 1396 (Aroner, et al.), to address issues relating to local government finance in a comprehensive package. The authors stripped the original language in SB 1982 and SB 2000 in order to be a part of those discussions. As enacted AB 1396 (Chapter 903, Stats. 2000) simply appropriated $212 million for local fiscal relief.

   This bill is also similar to AB 3505 (V. Brown) from the 1993-94 Legislative Session. That bill, which the Board voted to oppose, would have provided a similar method to change the distribution of the local sales and use tax from the situs basis to a per capita basis for each county and all cities within the county. The Board was concerned with the "winners" and "losers" situation that the bill would have created. Assembly Bill 3505 failed to pass the Assembly Local Government Committee.

COST ESTIMATE

This bill would require the Board to account for an entirely new system of allocating local sales tax revenue for the Sacramento region. Revenue and Taxation Code Section 7204.3 provides that the Board shall charge jurisdictions for administrative costs and shall deduct the costs in equal amounts from the quarterly allocations. As noted in Comment 2, some of the additional costs would be borne by all cities and counties throughout the state.

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REVENUE ESTIMATE

This proposal would not impact the total amount of one-percent local sales and use tax revenue collected. However, some jurisdictions would receive more revenue under this proposal than they would have under the current method and others would receive less. As an indication of the amount of shift in one-percent local sales and use tax revenues between the jurisdictions in the greater Sacramento region, the attached table compares the actual 1999-2000 allocation with the proposed method.

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AB 680
Allocation of Local Sales and Use Taxes
Six-county "Greater Sacramento Region"
(amounts in dollars)

	1/1/01 Population	Jurisdictional Share	1998-99 Allocation	1999-2000 Allocation	Increase	Proposed Allocation of Increase	AB 680 Allocation 1999-2000	Difference From Actual 1999-2000
El Dorado County	125,800	6.318%	5,378,326	6,330,739	952,413	2,025,924	7,404,250	1,073,511
Placerville	9,900	0.497%	2,333,425	2,668,985	335,560	159,433	2,492,858	(176,127)
South Lake Tahoe	23,950	1.203%	3,059,181	3,464,987	405,806	385,699	3,444,880	(20,107)
County Total	159,650	8.019%	10,770,932	12,464,711	1,693,779	2,571,055	13,341,987	877,276
Placer County	101,600	5.103%	9,059,401	10,167,382	1,107,981	1,636,199	10,695,600	528,218
Auburn	12,500	0.628%	2,301,856	2,594,052	292,196	201,304	2,503,160	(90,892)
Colfax	1,540	0.077%	423,839	477,477	53,638	24,801	448,640	(28,837)
Lincoln	13,900	0.698%	614,722	736,038	121,316	223,850	838,572	102,534
Loomis	6,300	0.316%	536,722	946,125	409,403	101,457	638,179	(307,946)
Rocklin	38,650	1.941%	2,937,840	3,852,748	914,908	622,432	3,560,272	(292,476)
Roseville	83,000	4.169%	19,388,364	23,716,494	4,328,130	1,336,659	20,725,023	(2,991,471)
County Total	257,490	12.933%	35,262,744	42,490,316	7,227,572	4,146,702	39,409,446	(3,080,870)
Sacramento County	674,900	33.898%	71,188,321	80,295,002	9,106,681	10,868,808	82,057,129	1,762,127
Citrus Heights	86,800	4.360%	9,803,052	10,639,829	836,777	1,397,855	11,200,907	561,078
Folsom	57,200	2.873%	7,508,214	9,667,582	2,159,368	921,167	8,429,381	(1,238,201)
Galt	20,250	1.017%	703,307	845,310	142,003	326,113	1,029,420	184,110
Isleton	840	0.042%	89,425	108,514	19,089	13,528	102,953	(5,561)
Sacramento	418,700	21.030%	47,845,998	54,979,368	7,133,370	6,742,880	54,588,878	(390,490)
County Total	1,258,690	63.219%	137,138,317	156,535,605	19,397,288	20,270,351	157,408,668	873,063
Sutter County	30,150	1.514%	2,065,022	1,982,495	(82,527)	485,545	2,550,567	568,072
Live Oak	6,475	0.325%	91,067	114,495	23,428	104,275	195,342	80,847
Yuba City	44,300	2.225%	5,760,277	6,549,545	789,268	713,422	6,473,699	(75,846)
County Total	80,925	4.065%	7,916,366	8,646,535	730,169	1,303,242	9,219,608	573,073
Yolo County	22,150	1.113%	1,541,917	1,785,506	243,589	356,711	1,898,628	113,122
Davis	62,200	3.124%	3,816,561	4,219,306	402,745	1,001,689	4,818,250	598,944
West Sacramento	32,250	1.620%	8,254,053	9,269,388	1,015,335	519,364	8,773,417	(495,971)
Winters	6,250	0.314%	165,109	202,686	37,577	100,652	265,761	63,075
Woodland	50,600	2.541%	5,928,958	6,733,096	804,138	814,879	6,743,837	10,741
County Total	173,450	8.712%	19,706,598	22,209,982	2,503,384	2,793,295	22,499,893	289,911
Yuba County	46,300	2.325%	1,657,978	1,794,986	137,008	745,630	2,403,608	608,622
Marysville	12,200	0.613%	1,500,671	1,871,973	371,302	196,473	1,697,144	(174,829)
Wheatland	2,280	0.115%	85,251	88,216	2,965	36,718	121,969	33,753
County Total	60,780	3.053%	3,243,900	3,755,175	511,275	978,821	4,222,721	467,546
Grand Total	1,990,985	100.000%	214,038,857	246,102,324	32,063,467	32,063,467	246,102,324	-