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DEPARTMENT OF  
ADMINISTRATIVE SERVICES

BUDGET AND POLICY REVIEW

CITY OF SACRAMENTO  
CALIFORNIA

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April 9, 2001

Law and Legislation  
Sacramento, California

Honorable Members in Session:

**SUBJECT:** AB 680 – The Sacramento Regional Smart Growth – Smart  
Energy Act of 2001 (Steinberg)

**LOCATION:** Citywide

**RECOMMENDATION:**

This report recommends the Committee watch Assembly Bill (AB) 680 which seeks to influence local land use by redistributing City of Sacramento Sales Tax revenue and replacing the sales tax shortfall with Educational Revenue Augmentation Fund (ERAF).

Staff generally supports the bill but recommends that the bill be amended to include language ensuring ERAF funding to local jurisdictions to prevent the legislature from changing the terms. In addition, staff recommends that the bill include detailed language on how the four components will work.

**CONTACT PERSON:** Aaron B. Chong, Budget and Policy Review Office 264-  
6762

**FOR THE MEETING OF:** April 17, 2001

## **SUMMARY:**

On February 22, 2001, Assemblymember Darrell Steinberg introduced AB 680 which attempts to promote a regional approach to land use planning in the Sacramento region and to decrease local government's need to constantly generate more sales tax revenue. The bill proposes to put Sacramento regional jurisdictions, including the City of Sacramento, on a level playing field in terms of per capita sales tax revenue, hold jurisdictions harmless for benefitting under the current sales tax system by returning a portion of their ERAF money, and enable the Sacramento region to increase power generation by doing smart growth planning and energy conservation.

There are four components in the bill:

- End the Fiscalization of Land Use by Equalizing the Distribution of the Bradley-Burns Sales Tax
- Property Tax Return To Replace Sales Tax Loss
- Power Generation
- Open Space Acquisition

## **BACKGROUND INFORMATION:**

Under current state law, Bradley-Burns Uniform Local Sales and Use Tax Law, cities and counties are allocated 1% of the sales tax for every retail purchase that takes place within their jurisdictional boundary. Given the history of the state-local fiscal relationship, local jurisdictions rely heavily upon their ability to grow their sales tax dollars. Consequently, cities and counties within a given region are constantly looking for ways in which to bring more retail sales tax generators into their jurisdictional boundary.

The problem that the Sacramento region faces is the prospect of one million new residents within the next twenty years. The current site-based distribution of the Bradley-Burns sales tax has promoted competition among local jurisdictions for retail and commercial development.

On February 22, 2001, Assemblymember Darrell Steinberg introduced AB 680 – The Sacramento Regional Smart Growth – Smart Energy Act of 2001, which attempts to promote a regional approach to land use planning in the Sacramento region and to decrease local government's need to constantly generate more sales tax revenue.

The bill proposes to put Sacramento regional jurisdictions, including the City of Sacramento, on a level playing field in terms of per capita sales tax revenue, hold jurisdictions harmless for benefitting under the current sales tax system by returning a portion of their ERAF money for sales tax revenue they would lose under the formula, and enable the Sacramento region to increase power generation by doing smart growth planning and energy conservation.

First, according to the language in the bill, AB 680 would create a new system of population based sales tax sharing throughout the Sacramento region. This new system would change the current distribution of the tax from the point of sale (situs) to a population-based regional system. In other words, each city and each county within the region would receive sales tax revenue based on the number of people who live in their respective jurisdiction.

In operation, the sales tax revenue that is generated in cities and the unincorporated areas of the counties would be pooled and redistributed, on a quarterly basis, to each city and to each county for its unincorporated population only based on the relative population of the jurisdiction with the region.

Second, the bill would reallocate a portion of the property tax, which is currently allocated pursuant to AB 8 and ERAF, to insure that jurisdictions do not suffer any net loss of current revenue. For example, based on the attached table (ATTACHMENT "A") provided by the Assemblymember's office, the City of Sacramento generated \$47,845,998 in retail sales tax or \$118 sales tax per capita. The average per capita sales tax for the region as a whole is \$112. The City of Sacramento generated \$6 more per capita than the per capita average of the Sacramento region.

According to the chart, City of Sacramento has 406,000 residents. Under this proposed legislation, Sacramento would contribute \$2,436,000 to the regional sales tax sharing fund. In exchange, Sacramento would receive a permanent ERAF backfill of \$ 2,406,544, plus the annual property tax increase. The exchange of funds according to the bill would assure that the City's budget not be affected.

Staff has provided Attachment A, which provides an analysis of the various jurisdictions in the Sacramento region and how they would fare based on this bill.

Third, the bill proposes land use policies that provide incentives for the region to develop in a way that promotes smart growth through the generation of air quality emission credits.

Under federal law, the US Environmental Protection Agency (EPA) outlines a variety of options for recognizing and providing air quality emission credit for sustainable land use activities in the air quality planning process. There is a new EPA guideline that allows air quality credits to be earned by smart growth initiatives.

The Sacramento region is considering three proposed power plants. All of which will require new air quality credits. In order to build any of the three proposed power generation facilities, the region would need to find air quality emission credits. The bill proposes that smart long term land use policies provide that opportunity.

Lastly, the bill proposes to acquire regional open space for the region with the proceeds of the air quality credits to the builders of the regional power generation facilities.

## **CONCERNS:**

Even though the four components of the bill are all good ideas, staff has concerns with the current language proposed in the fact sheet.

Although providing incentives for smart growth policies and more importantly smart growth itself are good ideas, it is not clear to staff that adopting smart growth policies in a twenty year general plan can earn current day air quality improvements or even qualify for certificates. Nobody is yet certain what regional planning measures need to be undertaken in order to earn air quality credits. The Air Resources Board and the California Energy Commission are still in the process of running a full model of this proposed legislation. Further clarification is needed before the City can fully support the bill.

Also, given the State's past practice of promising to return ERAF monies, the City would lose its sales tax revenue generated by retail and possibly the ERAF revenue if the State begins to run budget deficits or if the legislature later changes the terms. The bill should include also language that ensures that the State legislature will not change these terms.

Lastly, the State shifted \$14.4 million of the City of Sacramento's property tax revenue to ERAF in fiscal year 2000-2001 alone. The annual tax loss increases each year with the growth in the City's assessed housing values. Staff is concerned with the loss of opportunity to regain the \$14.4 million of shifted ERAF revenue.

## **FINANCIAL CONSIDERATIONS:**

Although the intent of the bill is perceived to be revenue neutral, there is a possibility that the City's revenue stream could be damaged if the State decides not to distribute the ERAF monies as indicated in the bill.

If the bill were to be repealed in the future, the City could possibly struggle to reinstate retail based sales tax and other alternative revenue streams within a short time.

Finally, there is also a potential loss of opportunity to regain the \$14.4 million of shifted ERAF money.

## **ENVIRONMENTAL CONSIDERATION:**

Although, defiscalization of land use, providing a funding source for purchasing open space, providing smart growth and allowing local governments to earn air quality credits are all good ideas from a planning perspective, the bill falls short of addressing the how these four components are connected and can be achieved.

**ESBD CONSIDERATIONS:**

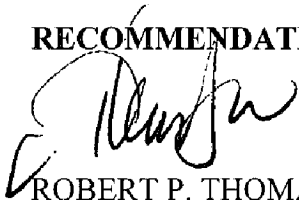
There are no ESBD considerations associated with this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'A. Chong', with a long horizontal flourish extending to the right.

Aaron B. Chong  
Budget and Policy Review Office

**RECOMMENDATION APPROVED:**

A handwritten signature in black ink, appearing to read 'R. Thomas', with a large, stylized initial 'R'.

ROBERT P. THOMAS  
City Manager

**Estimated impact of AB 680. Based upon 1998-99 sales tax figures and 2000 population counts.**

	Population	Sales Tax	Current Per Capita	Difference	Under AB 680 Sales Tax Benefit	Property Tax Backfill
<b><u>El Dorado</u></b>						
Placerville	9,325	\$ 2,333,425	\$ 250	\$ 138		\$ 1,289,773
South Lake Tahoe	23,000	\$ 3,059,181	\$ 133	\$ 21		\$ 485,025
El Dorado Unincorp.	120,600	\$ 5,378,326	\$ 45	\$ (67)	\$ 8,119,207	
<b>County Total</b>	152,925	\$ 10,770,932				
<b><u>Placer</u></b>						
Auburn	11,400	\$ 2,301,856	\$ 202	\$ 90		\$ 1,025,970
Colfax	1,500	\$ 423,839	\$ 283	\$ 171		\$ 255,959
Lincoln	9,675	\$ 614,722	\$ 64	\$ (48)	\$ 468,102	
Loomis	5,925	\$ 536,722	\$ 91	\$ (21)	\$ 126,403	
Rocklin	35,250	\$ 2,937,840	\$ 83	\$ (29)	\$ 1,007,334	
Roseville	74,200	\$ 19,388,364	\$ 261	\$ 149		\$ 11,083,912
Placer Unincorp.	96,400	\$ 9,059,401	\$ 94	\$ (18)	\$ 1,729,671	
<b>County Total</b>	234,350	\$ 35,262,744				
<b><u>Sacramento</u></b>						
Citrus Heights	89,200	\$ 9,803,052	\$ 110	\$ (2)	\$ 180,198	
Folsom	52,700	\$ 7,508,214	\$ 142	\$ 31		\$ 1,610,039
Galt	18,050	\$ 703,307	\$ 39	\$ (73)	\$ 1,316,846	
Isleton	850	\$ 89,425	\$ 105	\$ (7)	\$ 5,707	
Sacramento	406,000	\$ 47,845,998	\$ 118	\$ 6		\$ 2,406,544
Sacramento Unincorp.	642,700	\$ 71,188,321	\$ 111	\$ (1)	\$ 742,559	
<b>County Total</b>	1,209,500	\$ 137,138,317				
<b><u>Sutter</u></b>						
Live Oak	5,500	\$ 91,067	\$ 17	\$ (95)	\$ 524,492	
Yuba City	35,550	\$ 5,760,277	\$ 162	\$ 50		\$ 1,610,039
Sutter Unincorp.	36,800	\$ 2,065,022	\$ 56	\$ (56)	\$ 2,053,628	
<b>County Total</b>	77,850	\$ 7,916,366				
<b><u>Yolo</u></b>						
Davis	58,600	\$ 3,816,561	\$ 65	\$ (47)	\$ 2,741,942	
West Sacramento	31,000	\$ 8,254,053	\$ 266	\$ 154		\$ 4,784,538
Winters	5,525	\$ 165,109	\$ 30	\$ (82)	\$ 453,248	
Woodland	46,300	\$ 5,928,958	\$ 128	\$ 16		\$ 747,069
Yolo Unincorp.	21,450	\$ 1,541,917	\$ 72	\$ (40)	\$ 858,764	
<b>County Total</b>	162,875	\$ 19,706,598				

Attachment "A"

**Estimated impact of AB 680. Based upon 1998-99 sales tax figures and 2000 population counts.**

	Population	Sales Tax	Current Per Capita	Difference	Sales Tax Benefit	Property Tax Backfill
<b>Yuba</b>						
Marysville	12,250	\$ 1,500,671	\$ 123	\$ 11		\$ 129,653
Wheatland	1,980	\$ 85,251	\$ 43	\$ (69)	\$ 136,350	
Yuba Unincorp.	60,700	\$ 1,657,978	\$ 27	\$ (85)	\$ 5,135,556	
<b>County Total</b>	74,930	\$ 3,243,900				
<b>Regional Sales Tax Total</b>		\$ 214,038,857				
<b>Regional Population Total</b>		1,912,430				
<b>Regional Average Per Capita</b>		\$ 112				
<b>Total ERAF Cost</b>		\$ 25,600,007				
<b>Revenue Neutral Buyouts</b>		\$ 4,700,000				
	<b>Total</b>	<b>\$ 30,300,007</b>				