



**SACRAMENTO METROPOLITAN
CHAMBER OF COMMERCE**

AB 680 TASK FORCE

**REPORT OF
FINDINGS AND RECOMMENDATIONS**

January 23, 2002

Chair:

Flo DiBenedetto

Hunter, Richey, DiBenedetto, Eisenbeis, LLP
Vice Chair, Regional Policy
Sacramento Metro Chamber

AB 680 TASK FORCE

REPORT OF FINDINGS AND RECOMMENDATIONS

January 23, 2002

EXECUTIVE SUMMARY

The introduction of Assembly Bill 680 (Steinberg) has sharply focused the attention of our region's decision makers to investigate ways in which local governments might develop revenue sharing strategies to fund solutions to regional problems. In this regard, AB 680 is a landmark effort.

However, the AB 680 Task Force, authorized by the Sacramento Metropolitan Chamber of Commerce Board of Directors, cannot support AB 680 in its current form. While the Task Force agrees with several of the author's stated objectives, in our opinion, the bill contains fundamental procedural and substantive shortcomings that prevent us from recommending a support position.

The Task Force believes strongly that state legislation, for a variety of reasons, should serve to enable locally developed consensus with respect to regional goals and objectives, rather than forcing a state mandated approach upon local government. To summarize the Task Force's opinion: without shared values and a shared vision, local governments will not willingly share revenue.

Unfortunately, rather than fostering greater regional cooperation in the pursuit of regional solutions to regional problems, AB 680 has aggravated tension, increased mistrust and could potentially damage the spirit of cooperation among locally elected officials that many in the region have worked over the last several years to develop.

The Metro Chamber AB 680 Task Force respectfully encourages Assemblyman Steinberg to support a process to develop consensus-based solutions to our region's most pressing problems. The Task Force agrees with Mr. Steinberg that our region needs less talk and more action. However, in this case, given the fundamental importance of these issues, more talk is essential.

The following report provides background on the Task Force, AB 680, and provides a summary of the Task Force's findings and recommendations from over 20 hours of meetings.

NOTE TO THE AUTHOR

The Metro Chamber AB 680 Task Force wishes to thank Assemblyman Darrell Steinberg for his willingness to meet with the group to discuss the merits of AB 680. The Task Force also wishes to thank Mr. Steinberg and his staff for their willingness to engage

interests throughout the six-county Sacramento region in a dialogue concerning the future of our region and debate the choices we must make as we prepare to accommodate the needs of one million new residents in the next 20 years.

We believe Mr. Steinberg to be sincere in his commitment to the principals of his bill and the zeal with which he pursues his ideas. Whatever the outcome of AB 680, the Task Force and the Sacramento Metro Chamber look forward to working with Mr. Steinberg on developing and implementing thoughtful, collaborative solutions to our region's concerns and priorities.

BACKGROUND ON AB 680 TASK FORCE

At its December, 2001 meeting, the Sacramento Metro Chamber Board of Directors authorized the formation of a Task Force to review the issues surrounding Assembly Bill 680 with the intention of making a recommendation to the chamber's executive committee before the bill is considered again in the state Assembly.

The group met four times in January and met with 22 individuals, including representatives of the state legislature, local government, business organizations, academia, and community groups.

It is important to note, that of the four major organizations in the Sacramento region that deal with public policy and economic development issues, the Metro Chamber is the only one to formally take a position on AB 680.

Each of the Task Force members was selected because of their individual personal and professional experience. (Briefs on each of the Task Force members can be found at the end of this report.)

BACKGROUND ON AB 680

In January of last year, Assemblyman Darrell Steinberg (D-Sacramento) introduced Assembly Bill 680, a proposal that provides for a redistribution of retail sales tax within the six-county Sacramento region. Assemblyman Steinberg states the three primary goals of his bill are: (1) To reduce the effects of "the fiscalization of land use;" (2) Distribute tax revenues in a more equitable basis throughout the region; and (3) Encourage "smart growth" principles. In addition, the bill includes language that would provide the Sacramento region with priority on state transportation, infrastructure and housing funds.

The bill has been amended significantly from its original form. Previously, the bill distributed all current and future sales tax revenue based on population and obtained additional state funding for regional priorities. The current version of the bill only redistributes *growth* in sales tax revenue and redistributes it in the following manner: one third stays with the local entity in which the sale took place; one third is redistributed based on population; and one third will be returned to the local entity in which the sale

took place, if the entity meets certain criterion with respect to homeless services, affordable housing, open space and "smart growth" principles.

Since the bill's introduction, the Metro Chamber has not taken a position on the bill, but did agree to work with the author to foster dialogue on the issues surrounding the proposal. Since then, the Metro Chamber has convened elected officials on the Cap-to-Cap Trip, discussed the issue of regional cooperation while on the Study Mission in Denver and co-hosted three events with Valley Vision: a public forum in September, a Dec. 7 meeting with elected officials and a Jan. 18 public forum.

Support for the current version of AB 680 includes several local and statewide community groups dedicated to serving low-income populations. Several local governments support the bill, including the city of Sacramento, Sacramento County, the city of Citrus Heights, the city of Davis and the town of Loomis. Supporters state that the chase for tax revenue encourages local elected officials to approve "big box stores" rather than making "appropriate" land use decisions. They also claim the central city areas spend more in social service costs due to large low-income populations and therefore, should benefit from the "prosperity" of the suburban communities. Lastly, supporters site the need to encourage infill development as a hedge against "unbridled sprawl."

Opposition to the previous version of the bill includes the cities of Folsom, Roseville, Elk Grove, West Sacramento and Placer County, among others. Opponents site a variety of reasons for their position, however the prevailing thought is that retail sales tax is one of the few funding sources still primarily controlled by the local governments themselves. Local officials also express concern that the regional priorities included in the bill have not been agreed upon by the region as a whole and primarily reflect the "fair share" concerns of the city of Sacramento. In addition, many local officials state that they have made significant infrastructure investment decisions based on a future returns and object to any proposal to redistribute that revenue.

The SACOG Board of Directors met Dec. 13 to consider a position on the bill, but was unable to come to a formal position. The bill was opposed by a vote of 15-6. However, representatives from the city and county of Sacramento requested to employ SACOG's weighted voting system, which provides additional weight to the votes from these jurisdictions because of population size and requires 2/3 vote for approval. This vote was 15-12, which failed the 2/3 requirement.

SACOG developed an alternative to AB 680 that would fund regional priorities, including open space acquisition and affordable housing, using impact fees charged to "new growth," which would include new homes, resale homes and new commercial construction. Assemblyman Steinberg rejected this alternative, stating it did not meet his primary objectives of eliminating the "fiscalization of land use" and redistributing tax revenues on a more equitable basis.

The Assembly must approve the bill no later than Jan. 31 in order to be considered by the Senate. The bill may be heard in the Assembly Appropriations Committee Jan. 24.

FINDINGS AND OBSERVATIONS

PROCEDURAL CONCERNS

The Best Solutions are Consensus-Driven

For the last several years, the Sacramento Metro Chamber has made it its priority to foster dialogue among elected officials and community leaders from throughout the six-county Sacramento region. Metro Chamber programs such as the Cap-to-Cap Trip and the annual Study Mission help prioritize regional issues and develop and strengthen the personal relationships and trust necessary to address regional problems in a mutually beneficial way. The Metro Chamber strongly believes that the best solutions are those developed among locally elected officials and decision makers at the grassroots level, addressing common interests and mutual goals.

Our region can point to many of these successes, including the Sacramento Emergency Clean Air and Transportation program (SECAT), which utilizes transportation funds to pay for the retrofit of diesel engines. This program, which addresses a regional priority, was made possible via legislation authored by Mr. Steinberg, after local elected officials found it to be in their own mutual self-interest. Other instances of regional cooperation can be found in the Water Forum Agreement, the SACOG Transportation Roundtable, sales tax sharing agreements in Placer and Yolo counties, a revenue sharing agreement between the city of Folsom and Sacramento county over the Folsom Auto Mall and between the City of West Sacramento, Yolo County and Sacramento County to develop Raley Field. In addition, the SACOG Board is currently considering a project that will consolidate the general plans of individual jurisdictions to determine how the plans will affect neighboring communities and the region overall.

AB 680 is perceived as a top-down approach, imposed by the state of California, before our region's locally elected officials have had the opportunity to establish mutually beneficial priorities. While this process may be slow, the results of a locally-driven, consensus approach will prove to be longer lasting and less divisive.

State legislation should enable a locally developed plan, not implement state mandates. Attendees at the September forum co-sponsored by the Metro Chamber and Valley Vision raised this point. There, attendees spoke in favor of a process that would: assess the current status of a host of policy issues; identify gaps; develop regional goals; recommend implementation; and, lastly, develop enabling legislation, if necessary.

This process may well result in a recommendation for a regional sales tax sharing system. However, before the region's governments will be willing to agree to share local revenues, they must first come to an agreement concerning the region's mutual goals,

objectives and priorities. Without shared values and a shared vision, local jurisdictions will not willingly share revenues.

AB 680 Has Polarized the Region - Making Regional Cooperation Increasingly Difficult.

Perhaps the most distressing observation the Task Force made was the fact that, rather than fostering greater cooperation among locally elected officials, AB 680 threatens to set back the significant strides many have made to increase cooperation among elected officials across jurisdictional lines. As noted before, these relationships, which, after all, are fundamentally voluntary relationships, are based upon mutual trust and mutual self-interest.

A variety of circumstances have contributed to this situation. One fundamental fact is that the bill's author does not represent all of the affected jurisdictions. Given that many of these local governments disagree with major elements of the bill, as do their legislative representatives, many are obviously alarmed that the bill is being pursued in the legislature in spite of their objections.

Given that retail sales tax is indeed a significant element of the bottom line for cities and counties, and that many jurisdictions do not share in the fundamental policy goals of the bill, it is not hard to see why many local governments have come to view AB 680 as a threat to their budgets and a continued reduction of already dwindling local control.

Assemblyman Steinberg has continuously encouraged opponents to sign on to support AB 680 in an effort to help craft acceptable language. It is extremely difficult and runs counter to sound legislative advocacy for local representatives to sign on to legislation when they view the basic structure and premise of the bill as fundamentally flawed.

AB 680's Priorities Do Not Reflect a Consensus Determination of Regional Goals

Over the last several years, there has been increasing consensus on the major policy concerns affecting the Sacramento region. These concerns mainly focus on transportation and air quality. As a result, two consensus processes have been developed to outline shared goals and objectives: SACOG's Transportation Roundtable and the Sacramento Transportation and Air Quality Collaborative.

Out of these efforts, increasing attention has been focusing on land use patterns and open space preservation. SACOG is currently contemplating a study to address regional land use patterns by assembling the individual general plans of each of the region's local jurisdictions. Based on analysis of these plans, SACOG could then make recommendations to local jurisdictions how to fill in gaps or reduce negative impacts of land use decisions on local and regional infrastructure. In addition, many in the region are reviewing ways to assess and plan for the region's open space needs.

While there is increasing consensus that affordable housing is a significant challenge in the Sacramento region – particularly for low and very low income families -- little regional discussion has taken place regarding goals and objectives. Business and government should support a broad-based assessment of the region's affordable housing needs and recommend strategies to enhance housing opportunities for low income residents.

While the "value-added" elements of AB 680 address some of these priorities, the regional "needs" element of the bill does not. Instead, the third "third" portion of the reallocated revenue primarily reflects the concerns of the city and county of Sacramento about the "fair share" distribution of costs associated with homelessness and other social service expenses.

While Sacramento's "fair share" concerns may indeed merit regional tax sharing to offset disproportionate costs, no evidence or study was presented to the Task Force that analytically supports this element of the bill. Without a common pool of data with which to compare the relative burdens and per capita expenditure for social services among local jurisdictions, it is not good policy to propose redistribution of scarce local resources. Additionally, the provision of social services is primarily a state and county function. It makes little sense to link a key funding mechanism for municipal government to such issues.

Lastly, the bill fails to acknowledge the unique circumstances and priorities of individual cities and counties within the region. These differences must be viewed as an asset to the region, not a challenge to overcome.

SUBSTANTIVE CONCERNS

Local Government Finance is Broken -- Sales Tax is But One Part of the Problem

It cannot be denied, local governments are dependent upon locally generated sales tax revenue, indeed perhaps overly so. Due to legal and political changes in local government's relationship with the state of California, sales tax is one of the few sources of revenue still controlled by local officials. It is important to note that fully 83% of sales tax is already shared with the state of California and applied to state and local concerns.

One legacy of Proposition 13 is significant inequity in the portion of property tax retained by local jurisdictions. In essence, the Proposition rewarded jurisdictions that were substantially urbanized at the time of its passage. In the Sacramento region, some jurisdictions retain as much as five times the portion of local property tax as others. Even defenders of the Minneapolis-St. Paul model refer to "tax base" sharing, citing the benefits of more equity in local government revenues. While information was provided by proponents as to sales tax revenues by jurisdiction, no comparative per capita analysis of **all** forms of discretionary local revenue was provided, and the Task Force could not ascertain that any such study had been undertaken.

Moreover, given the recent downturn in the economy, continued uncertainty in the wake of the Sept. 11 terrorist attacks and considering California's current budget crisis, it is not hard to understand why local governments are unwilling to accept state legislation to redistribute local revenues.

There is No Consensus That AB 680 Will Solve the Bill's Stated Goals

Critics of the "fiscalization of land use" claim that sales tax sharing will stop local governments from competing with one another over big box retailers, auto malls and shopping malls. There is no consensus that regional sales tax sharing will solve this occurrence. Competition for such amenities does not occur among jurisdictions in the region, but takes place between neighboring jurisdictions. AB 680 is not required to establish local tax sharing agreements, since state law already allows individual counties to enter into sales tax sharing agreements among cities within its boundaries.

There is not complete consensus that regional tax-sharing model used by proponents of AB 680, Minneapolis-St. Paul, has significantly solved the problems they sought to address. Mary Gail Snyder, in a report entitled, "Opportunity for All - Growth, Equity and Land Use Planning for California's Future," noted, the property tax sharing system "had not had a substantial impact on the pattern of growth or overall inequities."

In addition, a report published by the California Association of Counties suggested that while regional sales tax sharing may have some benefits, its authors cautioned against looking only at sales tax, since property tax also affects land use decisions.

AB 680 Will Reduce Local Control of Policy and Finance

It is a fundamental element of representative government that local officials be held accountable to the people who elect them. Therefore, local control of land use decisions and fiscal policy is essential.

Over the last two decades, stable sources of funding has steadily eroded from city and county governments. AB 680 would continue to erode local governments' control of its finances. By the state establishing local priorities through AB 680, the state is inserting itself into local policy making and fiscal management.

RECOMMENDATIONS BEYOND AB 680

This Task Force has had a unique opportunity to hear a full spectrum of ideas on regional solutions to our region's pressing problems. The AB 680 Task Force believes the Chamber can and should assume a leadership role, along with our region's elected officials and other governmental, business and community organizations, in encouraging, facilitating and developing a consensus based strategy to define our region's shared goals and objectives and developing strategies to implement them. This type of broad-based effort is essential if our region is to effectively, and collaboratively, meet the challenges ahead as we prepare to welcome one million new residents in the next 20 years.

1. Begin A Regional "Visioning Process"

Establish a comprehensive visioning process to develop consensus on common values, goals, objectives and solutions. Such a process could be led by the Sacramento Metro Chamber, SACOG, Valley Vision, CSUS, UC Davis and other key community and stakeholder groups. A Visioning Process should include assessment and recommendations in a host of policy areas, including: Transportation, Land Use, Open Space, Air Quality, Economic Development, Affordable Housing, Education, Arts and Culture, Social Service Inequities, Local Government Finance, etc.

2. Summarize Where Consensus Already Exists, Identify Potential Revenue Sources

- a. Immediately begin a compendium of recent consensus processes, led by staff at CSUS and UC Davis, to determine regional goals and preferred strategies that have already been agreed upon by the region's varied stakeholders.
- b. Identify the sources of funds and method of financing most appropriate for regional revenue sharing.
- c. Propose a process for evaluating achievement of the goals and distributing the shared funds.

3. Internal Study Missions

Organize a series of Internal Study Missions to allow opportunities for local electeds to learn first-hand, about the successes, challenges and characteristics of other communities in the region.

4. Regional Pride

Develop strategies to foster a greater sense of regional pride. Our government and business leaders should focus more on the positive attributes of our region, rather than constantly emphasizing our problems.

APPENDIX 1: LIST OF PRESENTERS

(in alphabetical order)

Hon. Tom Cosgrove, Councilman, City of Lincoln

Hon. Dave Cox, 5th Assembly District

Hon. Roger Dickinson, Supervisor, County of Sacramento

Dr. Robert Fountain, Special Assistant for Regional Development, Office of the President, CSUS

Susan Frazier, President & CEO, Valley Vision

Michael Galane, Hewlett-Packard Co.

Wendy Gerig, President & CEO, Roseville Chamber of Commerce

Anthony Gonzalves, Gonzalves and Sons

Tim Hodson, Executive Director, Center for California Studies, CSUS

Bruce Houdescheldt, Director, Government Affairs, BIA of Superior California

Al Johnson, City Manager, City of Roseville

Hon. Dave Jones, Councilman, City of Sacramento

Brian Kittnering, ACORN, Sacramento Valley Residents for Smart Growth

Hon. Tim Leslie, 4th Assembly District

Betty Matsuoka, Deputy City Manager, City of Sacramento

Hon. Mike McGowan, Supervisor, Yolo County

Hon. Roger Niello, Supervisor, Sacramento County

Hon. Darrell Steinberg, 9th Assembly District

John Stoppelman, Immediate Past President, Elk Grove Chamber of Commerce

Hon. Helen Thomson, 8th Assembly District

Marty Tuttle, Executive Director, SACOG

Dan Walters, Sacramento Bee

Invited:

Bill Camp, Sacramento Central Labor Council

Hon. Heather Fargo, Mayor, City of Sacramento

Don Harris, Nehemiah Corp.

David Mogavero, Environmental Council of Sacramento

Henry Tingle, City Manager, City of Citrus Heights

APPENDIX 2: AB 680 TASK FORCE MEMBERS

Flo DiBenedetto - Chair

Ms. DiBenedetto serves on the Metro Chamber Board of Directors as Vice Chair, Regional Policy, the lead volunteer overseeing the chamber's policy and advocacy activities. She is a principal with the law firm Hunter, Richey, DiBenedetto, Eisenbeis, LLP.

Franklin Burris

Mr. Burris is a member of the Metro Chamber's Regulatory Affairs Committee, which oversees tax issues. He also serves as president of the North Sacramento Chamber of Commerce and was the chief of staff to Sacramento City Councilman, Rob Kerth. Mr. Burris is a Manager, Development Services with Taylor Properties and has a Master's degree in Public Administration with a certificate in local agency finance from USC.

John Hodgson

Mr. Hodgson serves as chair of the Metro Chamber Land Use/Natural Resources Committee and is former chair of the Capital Area Development Authority, which oversees the development of housing in Sacramento's downtown area. Mr. Hodgson is the principal of the Hodgson Co., specializing in real estate development and land use advocacy.

John Lambeth

Mr. Lambeth serves as a member of the Board of Directors of the Metro Chamber and as an advisor to the Downtown Sacramento Partnership. He is a former chair of the capital Area Committee and is currently chair of the Sacramento County Planning Commission. Mr. Lambeth is principal of the Law Offices of John A. Lambeth and president of Downtown Resources.

Sandy Smoley

Ms. Smoley serves as a member of the Metro Chamber Board of Directors and is a former Sacramento County supervisor and served as Secretary of Health and Human Services under former Gov. Pete Wilson. Ms. Smoley is the chairman and CEO of the Sandy Smoley Group, a consulting firm.

Frank Washington

Mr. Washington serves as a member of the Metro Chamber Board of Directors and is principal of Moon Shot Productions, a firm specializing in the purchase and sale of media companies.

Jim Williams

Mr. Williams serves as a member of the Board of Directors of The Sacramento Metro Chamber, SACTO and Valley Vision. He is a former supervisor representing Placer

County's 4th District where he was instrumental in having Placer County rejoin SACOG. Mr. Williams is a principal with the architectural firm, Williams + Paddon, Inc.