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**CITY OF SACRAMENTO
CALIFORNIA**

March 14, 1991

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Law and Legislation Committee
Sacramento, California

**SUBJECT: SB 29 (Boatwright), SB 1X (Boatwright),
SB 2X (Boatwright), and SB 5X (Deddeh) Relating to
Elimination of Sales and Use Tax Exemptions**

Honorable Members in Session:

SUMMARY

This report recommends that the Law and Legislation support SB 29 (Boatwright), SB 1X (Boatwright), SB 2X (Boatwright), and SB 5X (Deddeh), all of which would eliminate various exemptions from the sales and use tax.

BACKGROUND

The City's Legislative Advocate, Ken Emanuels, previously described to the Law and Legislation Committee proposed state legislation which would eliminate various exemptions from the sales and use tax. The end of these exemptions would result in additional sales tax revenue to the City of Sacramento. At the time the Committee first discussed these proposals, bills were not yet in print. The bills are now in print as SB 29, SB 1X, SB 2X, and SB 5X.

The attached memorandum prepared by the Director of Finance describes the exemptions to be eliminated and the potential fiscal impacts on the City of Sacramento.

The Director of Finance recommends support for all of these bills. She considers their provisions of great importance to the City.

**SUBJECT: SB 29 (Boatwright), SB 1X (Boatwright),
SB 2X (Boatwright), and SB 5X (Deddeh)
Relating to elimination of Sales and
Use Tax Exemptions**

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FINANCIAL DATA

The enactment of the bills eliminating sales and use tax exemptions would result in increased revenues to the City of Sacramento as described in the Director of Finance's memorandum.

POLICY CONSIDERATIONS

Support for these bills is consistent with the City's adopted legislative policy to support legislation which will provide revenue growth consistent with the inflationary cost increases in municipal government services and provide reimbursement to the City for the loss of revenue due to State and Federal exemptions for local taxes and the creation of other exemptions.

MBE/WBE

Not applicable.

RECOMMENDATION

It is recommended that the Law and Legislation Committee support SB 29, SB 1X, SB 2X (all Boatwright) and SB 5X (Deddeh) which would eliminate various exemptions from the sales and use taxes.

Respectfully submitted,

SHARON SIEDORF CARDENAS, City Attorney

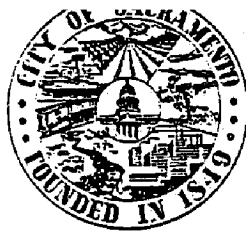


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Law and Legislation
March 29, 1991
All Districts



DEPARTMENT OF
FINANCE

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MEMORANDUM

TO: SHARON CARDENAS, City Attorney
KEN EMANUELS, Legislative Advocate

FROM: BETTY MASUOKA, Director of Finance

RE: Proposed Legislation Eliminating Various Sales Tax Exemptions

DIVISIONS:
ACCOUNTING
BUDGET
FINANCIAL SYSTEMS
REVENUE
RISK MANAGEMENT

The current legislative session has so far produced four bills which you have sent to the Department of Finance for comment. Due to the similarity of the bills, they will be analyzed together.

RECOMMENDATION: Given the dire fiscal condition being faced by state and local governments the city Department of Finance recommends support for these bills. The industries whose exemptions are being proposed for elimination do not appear to be emerging or at risk industries which warrant substantial tax advantages for purely economic development justifications.

EXISTING SALES TAX LAW imposes a tax on the sale or transfer of tangible personal property. The state sales tax rate is 4.75% and generally the local sales tax rate is 1.25%. In the county of Sacramento the local sales tax rate is 1.50% -- 0.25% is allocated to SACOG for transit support and the additional 0.25% allocated to the Transportation Authority as approved by local voters (Measure A).

There are a number of items which have been exempted from sales taxes for a variety of reasons such as to provide tax incentives to locate in the state, to make certain services more competitive, etc.

THESE BILLS remove the exemptions from various products which will subject them to sales tax. The specific exemptions being proposed are discussed below.

FISCAL IMPACT has not been specifically estimated for the City of Sacramento due to the unavailability of sales data of the various products under question. The City of Sacramento estimate is equal to 1% of the statewide local impact based on the loose correlation of our population base as compared to the statewide population base.

It should be noted that to the extent that the City of Sacramento is a purchaser of any of the subject items, our costs will increase. For example, the City Library spends approximately \$500,000 per year on newspapers and periodicals. A 6.5% tax would result in an additional cost of \$32,500.

On a statewide basis, it is estimated that 80% of the local sales taxes will go to cities and 20% to the counties. The County Supervisors Association of California (CSAC) position is that this new revenue to cities mitigates the impact of the property tax and booking fees and therefore the need to repeal SB 2557 is eliminated. City staff disagrees with this conclusion. (The CSAC article - attached - did not acknowledge that counties could use their share of the proposed tax revenues to reduce their new dependence on city fees.)

SB 1X (amended 1/22/91) Boatwright

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u>	<u>Sac City (1%)</u>
			<u>(\$ in Millions)</u>
- lease of motion pictures, including television, films, and tapes;	12-27	3-7	.02-.06
- the design, lease or sale of custom computer programs;	64	17	.14
- the sale, storage or use of catalogs, letters, circulars, brochures, and pamphlets consisting substantially of printed sales messages;	11	3	.02
- The sale, use or storage of aircraft sold or leased for use as common carriers or to foreign governments for use outside the state;	unk	unk	--
- the sale, use or storage of property sold to an aircraft manufacturer to be used in aircraft cited above;	unk	unk	--

CONTINUED
SB 1X (amended 1/22/91) Boatwright

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u>	<u>Sac City (1%) (\$ in millions)</u>
- the sale, use or storage of watercraft or components thereof, that is sold or leased for use in interstate or foreign commerce, in commercial deep sea fishing;	472	124	1.0
- the sale of tangible personal property to a common carrier;	unk	unk	--
- the sale of fuel to a water, air, or rail common carrier for immediate shipment outside the state;	112	30	.24
- the sale of reusable cargo shipping containers;	unk	unk	--
- eliminate exemption from the 2-cent per gallon excise tax on jet fuel for common carriers;	63	--	--
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Total Fiscal Effect:	734-749	176-180	1.4

Effective Date:

This is an urgency measure, however, the provisions would become operative on the first day of the calendar quarter commencing more than 90 days after the effective date.

Support

City of Concord
 City of Orinda
 League of California Cities

Opposition

(No specific opposition identified, but presumably affected industries would oppose.)

SB 2X - Boatwright (as introduced)

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u> (\$ in millions)	<u>Sac</u> <u>City (1%)</u>
- candy and confectionery items	100	26	0.21
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Total Fiscal Effect:	100	26	0.21

Effective Date:

This is an urgency measure, however, the provisions would become operative on the first day of the calendar quarter commencing more than 90 days after the effective date.

NOTE: The general food product exemption is not affected by this proposal.

Support

City of Concord
City of Orinda

Opposition

Girl Scout Council
Boy Scouts of America
Boys and Girls Clubs
Girls, INC
Camp Fire Boys and girls
California Taxpayers' Assoc

SB 5X - Deddeh (as introduced)

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u> (\$ in millions)	<u>Sac</u> <u>City (1%)</u>
- redefines exempted food products to exclude candy and confectionery, and snack foods;	200	52	0.42
- medicated chewing gum;	unk	unk	--
- newspapers;	49	13	0.10
- periodicals;	34	9	0.07
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Total Fiscal Effect:	283	74	0.59

Effective Date:

This is an urgency measure, however, the provisions would become operative on April 1, 1991.

CONTINUED
SB 5X - Deddeh (as introduced)

Support


State Department of Finance
League of CA Cities

Oppose

California Taxpayers Assoc
Girl Scouts of America
Boy Scouts of America
Camp Fire Boys and Girls
Alan Pacela (Quest Publ)
Western Candy Conference
Frito-Lay, Inc
Mission Foods
Copley Press, Inc
CA Chamber of Commerce
CA Newspaper Publishers Assoc

SB 29 - Boatwright (amended 1/18/91)

- Same as SB 1X -


BETTY MASUOKA
Director of Finance

cc: Walter J. Slipe
Jack Crist