

IN SEARCH OF SALES TAX DOLLARS

by Supervisor Linda Parks, April 2008

There are few sectors that are immune to the slowdown in the economy. In the public sector, the State is facing a \$16 billion shortfall possibly heading to \$20 billion before this budget year is over. The counties, which are tasked with providing many of the State of California's services, are having to cut back at a time when there are more people in dire need of assistance. At the same time, cities are grappling with a loss of sales tax revenue which is their largest source of discretionary funds.

Cities can use the money they receive from sales tax for a variety of operating and capital projects. For example, in Thousand Oaks sales taxes are used to fund everything from police officers to roads, and can help to fund a pool at Cal Lutheran University and a park for the Park District. For counties the largest source of discretionary funds comes from property taxes. In Ventura County, property taxes are used to fund programs such as services to veterans, the mentally ill, foster children, and the homeless. There are also special districts, such as School Districts, Fire Districts and Library Districts that receive their own designated share of local property taxes.

Property taxes are often a more predictable revenue source than sales taxes because sales taxes tend to fluctuate more with swings in the economy and externalities such as the loss of a local major retailer. Too much reliance on sales tax revenue can lead to unstable finances for local governments if they become too dependent on them to pay for basic government services.

The County of Ventura has long abandoned its role in the sales tax competition that pits cities against cities, and against counties in California. Unlike the rest of the counties in the State, Ventura County has discouraged development in its unincorporated area in order to protect the prime agricultural lands and the open space lands that separate our cities from each other. Unlike other counties where you can't tell where one city ends and another begins, keeping urban development out of the unincorporated land between the cities adds to residents' quality of life and makes Ventura County an enviable place to live and work.

Of course not having Ventura County approve Walmarts, Costcos and Home Depots in the unincorporated areas also aids the cities because they don't have to compete with the County for those sales tax dollars. As a result, Ventura County places almost last among counties in the State for the amount of sales tax dollars it takes in.

Yet the competition for sales tax dollars is still going strong in Ventura County. Known as the 'fiscalization of land use' or 'zoning for dollars,' cities vie for sales tax dollars by encouraging retailers to move to their jurisdictions so they can get more sales tax. The irony of zoning for dollars is that there is a point of saturation when new stores cannibalize the older stores' customer base because there are only so many customers in a

service area. The same is true with new shopping centers in one city taking from the customer base of a neighboring city. Offers of free public land, larger signs and buildings, exemptions from development fees and reduced parking requirements are common incentives used by cities to entice new retail businesses. These incentives however leave existing retailers who did not receive such bonuses at a distinct disadvantage. Add to that the greater competition the new retailers bring, and the effect can change the face of the retail sector in a city, with chain stores replacing smaller local stores.

The quest for sales tax dollars can impact land use and transportation. Some cities end up with more commercially zoned land for stores than for other land uses. When there is an imbalance of land in a city to accommodate both employers and housing it adds traffic to streets and highways and causes people to have longer commutes because workers cannot find housing in the same city they work. This is particularly pronounced in cities with high housing costs, which are typically beyond the reach of retail employees.

Currently, the City of Thousand Oaks is considered to be slightly jobs rich, having 33% more jobs than there are households in the city. However, when the more than 6 million square feet of non-residential development that is planned in the city is built, the city is projected to become considerably out of balance with 55% more jobs than households and tens of thousands of daily car trips added to city roads.

Several governmental organizations are studying and promoting revisions to the way taxes are allocated. However, any wholesale revision is years, if not decades away, and with a recession-like economy, the only debate of government finances we'll likely be hearing is the rumblings of State and local governments pointing fingers and trying to raise taxes.

Just as there is a point of saturation for how much retail a community can sustain, so is there a limit to how many tax dollars can be shifted between State and local government. Asking taxpayers to vote for more taxes at a time when the economy is sluggish is not very practical. Instead of seeking more tax dollars, we would be better off if government lived within its means, and established a level of service that is in line with the revenue it receives.