[ms-0398.012.002.007]

COUNTY OF SAN DIEGO
CHIEF ADMINISTRATIVE OFFICE
AGENDA ITEM

BOARD OF SUPERVISORS

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FIRST DISTRICT
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FOURTH DISTRICT
JOHN MACDONALD
FIFTH DISTRICT

DATE: August 3, 1993

TO: Board of Supervisors

SUBJECT: **TOBACCO TAX PROPOSAL**

SUMMARY:

ISSUE/REFERENCE:

Shall the Board of Supervisors seek to modify a proposal which would (a) increase the cigarette tax to offset recent property tax shifts, and (b) partially preempt local smoking ordinances?

RECOMMENDATION(S):
CHIEF ADMINISTRATIVE OFFICER:

Direct the Chief Administrative Officer and the Board's representatives to CSAC to seek modification of a pending cigarette tax proposal to require distribution of revenues based on situs in the event SCA 1 on the November ballot fails.

ADVISORY STATEMENT

None.

FISCAL IMPACT

None as a result of this action.

ALTERNATIVES

Take no position pending availability of specific language of proposal.

SUBJECT: TOBACCO TAX PROPOSAL

BACKGROUND:

The County of Los Angeles is pursuing a legislative proposal that would increase the cigarette tax by 15 cents per pack. This tax increase would generate $330 million annually ($300 million in the first year), which the proposal would direct to counties to partially offset and "equalize" the impacts of the recent property tax shift. In order to secure the cooperation of the tobacco lobby, proposal proponents have acceded to a request to include a provision preempting local smoking ordinances enacted after April 1993.

Equity Allocation

The proposal is structured in such a way as to view the SCA 1 sales tax increase on the November ballot, as well as the proposed cigarette tax increase, as offsets to this year's property tax shift. The proposal would seek to bring the "net" property tax loss -- when adjusted for the sales tax and cigarette tax revenue -- to an amount equal to less than 20% of total property tax revenue for the county prior to the shift.

- For example, the County of Los Angeles lost $681 million in property tax revenue as a result of the recent tax shift. If SCA 1 passes, the County's "net" property tax loss will be reduced to $300 million. In order to reduce Los Angeles County's "net" property tax loss to an amount equal to less than 20% of its pre-tax-shift amount, Los Angeles would have to receive $162 million (49%) of the $330 million in proposed new cigarette tax revenues. Its total "net" property tax loss would be about $137 million.

  Should SCA 1 on the November ballot fail, Los Angeles County's "net" property tax loss would be $667 million. The proposed cigarette tax revenue would reduce that loss to $505 million.

- San Diego County, for example, would not need an allocation of cigarette tax to bring its "net" property tax loss below the "20% loss threshold," assuming SCA 1 passes. Under the proposal, this County would receive a cigarette tax allocation of $9.1 million (2.7%). This would reduce our total "net" property tax loss to $3.5 million.

  Should SCA 1 on the November ballot fail, San Diego County's "net" property tax loss would be $121.6 million. With the offset from the proposed cigarette tax, that loss would be reduced to $112.5 million.

Local Smoking Ordinances

The proposal would apparently preempt local smoking ordinances enacted after April 1993. It would not preempt the County's smoking ordinance, or ordinances enacted by 17 of the region's 18 cities. It may preempt a cigarette vending machine ordinance enacted subsequent to April 1993 by the City of El Cajon.

SUBJECT: TOBACCO TAX PROPOSAL

Comments

This proposal is designed primarily as a vehicle to help offset equitably the loss of property tax. It reportedly has sufficient support in the Capitol to secure its passage when the Legislature reconvenes. The CSAC Board of Directors will take up the issue at an August 13 meeting, and a press conference to announce the various parties in support has already been scheduled for August 16.

It is quite important to note that the proposal assumes that SCA 1 will be approved by voters in November. Recall that the distribution of the FY 1993-94 property tax shift was predicated, in large part, on the amount of sales tax revenue which could be generated in each county to offset the impact of the property tax loss -- the greater the anticipated revenue, the larger the property tax transfer. The proposed distribution of cigarette tax revenues would be weighted to favor those counties experiencing the largest amounts of "net" property tax loss after receipt of increased sales tax revenues.

If SCA 1 fails to receive voter approval, the "equities" involved in allocating the proposed cigarette tax revenues change. Failure of SCA 1 would result in some counties -- notably San Diego, Orange, Santa Clara and San Mateo -- taking significantly disproportionate shares of the "net" property tax loss. But the distribution of the proposed cigarette tax revenue is the same whether or not the sales tax measure passes. Clearly, counties whose property tax shift amount was increased in anticipation of passage of SCA 1, and which are scheduled to receive a relatively small allocation of the proposed cigarette tax revenues as a direct result, would be seriously disadvantaged by the cigarette tax allocation formula if SCA 1 were to fail.

This report recommends that the Board direct the Chief Administrative Officer and the Board's representatives to CSAC to seek a modification to this proposal that would allocate revenues from the proposed increase in the cigarette tax by situs in the event that SCA 1 fails.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

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PROPOSED AMENDMENTS

CIGARETTE TAX PROPOSAL
(Anticipated to be amended into Calderon bill)

This proposal is intended to provide a contingency formula to govern the allocation of cigarette tax revenue resulting from the Los Angeles County proposal in the event that Proposition 172 fails to receive voter approval at the November special election. The current Los Angeles proposal assumes that Proposition 172 will be approved. If Proposition 172 fails, the equities which the cigarette tax proposal is intended to produce will be impossible without the amendments which follow.

SEC. 7. Section 30461.6 is added to the Revenue and Taxation Code, to read:

30461.6 (a) Notwithstanding Section 30461, the board shall transmit the revenue derived from the increase in the cigarette tax rate of eight and one-half mills ($0.0085) per cigarette imposed by Section 30101, on and after the effective date of the act adding this section, to the Treasurer to be deposited in the State Treasury in accordance with subsections (b) and (c).

(b) The revenue derived from seven and one-half mills ($0.0075) shall be deposited to the credit of the County Finance Augmentation Fund, which fund is hereby created. Notwithstanding section 13340 of the Government Code, the moneys in the fund are hereby continuously appropriated, without regard to fiscal years, to the Controller and shall be allocated to counties as follows:

Alameda	4.8388%
Amador	0.0262%
. . . .	. . . .
Yuba	0.3733%

(c) [same as proposed]

(d) [same as proposed]

(e) This section shall be effective only if Proposition 172 on the special election scheduled for November 2, 1993, is approved by voters.

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(b) The revenue derived from seven and one-half mills ($0.0075) shall be deposited to the credit of the County Finance Augmentation Fund, which fund is hereby created. Notwithstanding section 13340 of the Government Code, the moneys in the fund are hereby continuously appropriated, without regard to fiscal years, to the Controller and shall be allocated to counties on the basis of each county's pro rata share of the sales transactions upon which the tax was imposed.

(c) [same as originally proposed]

(d) [same as originally proposed]

(e) This section shall be effective only if Proposition 172 on the special election scheduled for November 2, 1993, fails to receive the approval of voters.

COUNTY	COL 1 PROPOSED "EQUITY" ALLOCATION	COL 2 ALLOCATION USING POPULATION	COL 3 DIFFERENCE COL 1 LESS COL 2	COL 4 PLAN THAT GIVES MOST TO CO.
ALAMEDA	16,167	13,995	2,172	LA PLAN
ALPINE	0	13	(13)	POPULATION
AMADOR	87	343	(256)	POPULATION
BUTTE	742	2,037	(1,295)	POPULATION
CALAVERAS	286	380	(94)	POPULATION
COLUSA	0	181	(181)	POPULATION
CONTRA COSTA	11,570	8,918	2,652	LA PLAN
DEL NORTE	79	294	(215)	POPULATION
EL DORADO	816	1,460	(644)	POPULATION
FRESNO	3,257	7,605	(4,348)	POPULATION
GLENN	0	275	(275)	POPULATION
HUMBOLDT	557	1,317	(760)	POPULATION
IMPERIAL	585	1,251	(666)	POPULATION
INYO	149	200	(51)	POPULATION
KERN	2,797	6,224	(3,427)	POPULATION
KINGS	264	1,146	(882)	POPULATION
LAKE	441	576	(135)	POPULATION
LASSEN	64	306	(242)	POPULATION
LOS ANGELES	162,578	96,836	65,742	LA PLAN
MADERA	247	1,036	(789)	POPULATION
MARIN	967	2,526	(1,559)	POPULATION
MARIPOSA	0	166	(166)	POPULATION
MENDOCINO	315	889	(574)	POPULATION
MERCED	2,722	1,994	728	LA PLAN
MODOC	79	108	(29)	POPULATION
MONO	197	111	86	LA PLAN
MONTEREY	1,290	3,907	(2,617)	POPULATION
NAPA	795	1,223	(428)	POPULATION
NEVEDA	880	891	(11)	POPULATION
ORANGE	8,815	26,770	(17,955)	POPULATION
PLACER	969	1,992	(1,023)	POPULATION
PLUMAS	56	221	(165)	POPULATION
RIVERSIDE	11,298	13,743	(2,445)	POPULATION
SACRAMENTO	14,336	11,712	2,624	LA PLAN
SAN BENITO	90	407	(317)	POPULATION
SAN BERNARDIN	12,373	16,310	(3,937)	POPULATION
SAN DIEGO	9,105	27,729	(18,624)	POPULATION
SAN FRANCISCO	22,945	7,765	15,180	LA PLAN
SAN JOAQUIN	10,752	5,349	5,403	LA PLAN
SAN LUIS OBISPO	1,857	2,365	(508)	POPULATION
SAN MATEO	2,097	7,141	(5,044)	POPULATION
SANTA BARBARA	1,868	4,039	(2,171)	POPULATION
SANTA CLARA	7,398	16,323	(8,925)	POPULATION
SANTA CRUZ	1,097	2,468	(1,371)	POPULATION
SHASTA	443	1,680	(1,237)	POPULATION
SIERRA	20	36	(16)	POPULATION
SISKIYOU	0	477	(477)	POPULATION
SOLANO	2,428	3,886	(1,458)	POPULATION
SONOMA	2,130	4,339	(2,209)	POPULATION
STANISLAUS	1,817	4,192	(2,375)	POPULATION
SUTTER	406	735	(329)	POPULATION
TEHAMA	0	562	(562)	POPULATION
TRINITY	51	143	(92)	POPULATION
TULARE	3,226	3,517	(291)	POPULATION
TUOLUMNE	252	551	(299)	POPULATION
VENTURA	4,663	7,320	(2,657)	POPULATION
YOLO	576	1,590	(1,014)	POPULATION
YUBA	1,247	651	596	LA PLAN
TOTAL	330,246	330,221		