# Sales and Property Tax Trends In Ventura County, 1987-1998

*An analysis of city and county trends*

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# 1. INTRODUCTION

In recent months, the question of sales and property tax revenues in Ventura County, California, and the impact of these revenue patterns on the county's local governments has become a major public-policy issue within the county. The latest round of discussion was stimulated by the Ventura City Council's decision in June, 2000, to withhold some $527,000 in sales-tax revenue from the county, thus breaking an informal agreement that had been in place since the 1950s. However, the impact of tax distribution formulas on the county government and on the county's 10 municipalities has been the subject of significant debate within the county for several years.

Both the county government and the cities were affected by the state's decision in 1992-93 and 1993-94 to change the allocation formula for property tax revenue. In addition, most cities along the Highway 101 corridor have aggressively pursued major retailers as a means of increasing their sales-tax base. The result has been not only a changing landscape along Highway 101, but a shifting pattern of sales-tax revenues in which some cities have been winners and others have been losers.

Ventura County is an attractive coastal county adjacent to Los Angeles that has traditionally been a center of agriculture and oil production. Although oil has declined in importance in recent years, the county remains an important agricultural center, with more than 100,000 acres in cultivation. Citrus and avocado are major crops; the county produces approximately half of all the lemons in the nation.

At the same time, Ventura County has experienced dramatic urban growth in recent decades, largely because of its proximity to Los Angeles. From a population of only 100,000 persons in 1950, the county has grown to more than 700,000 persons today. Unique among Southern California counties, Ventura has long pursued a policy of challenging growth inside city limits, restricting the number of incorporated cities, and retaining agricultural and open space land as "community separators". These long-standing policies were reaffirmed by the county's voters in the passage of the well-known "SOAR initiatives" in 1998, which created urban growth boundaries and agricultural preserves that cannot be changed without a vote.

As a result of these long-standing policies, the county today has a distinctive physical form and governmental organization. The county has only 10 cities, compared with 90 in Los Angeles County and more than 30 each in Orange and Riverside counties. More than 90% of the residents of the county live inside city boundaries, a stark constrast to most other California counties. No one city is dominant. Rather, four large cities (Ventura and Oxnard in the western, coastal part of the county, and Thousand Oaks and Simi Valley in the eastern, inland part of the county) have a population of between 100,000 and 160,000.

The remaining cities (Camarillo, Fillmore, Ojai, Moorpark, Port Hueneme, and Santa Paula) have populations of between 8,000 and 65,000 and they vary dramatically in character from agriculture to tourism to port-oriented to suburban.

This report is based on analysis of city and county revenue data contained in the California State Controller's Reports for the 11 fiscal years 1987-88 through 1997-98. It is confined exclusively to trends in property tax revenue and sales tax revenue.

The property tax revenue for the county government includes the Property Tax entries for "Countywide, Secured and Unsecured" and "Prior Year — Secured & Unsecured" but does not include "Less Than Countywide Funds — Secured and Unsecured," "Voter Approved Indebtedness," "Special District Augmentation," or "Penalties and Costs on Delinquent Taxes". The sales tax revenue is simply drawn from the "Sales and Use Taxes" entry.

For cities, the property tax total includes "Secured and Unsecured Property Tax," "Property Tax — Prior Year," and "Other Property Taxes," but does not include "Voter Approved Indebtedness Property Tax" or "Interest, Penalties, and Delinquent Taxes". Again, the sales tax revenue is drawn from the "Sales and Use Taxes" entry.

This report begins with a commentary by William Fulton, president of Solimar Research Group, that originally appeared in the *Ventura County Star*, and then moves on to an expanded analysis of trends.

## 2. COMMENTARY BY WILLIAM FULTON

*(Note: This analysis of the sales and property tax trends in the county first appeared in the Ventura County Star newspaper.)*

For the past few months, the biggest topic of conversation in local politics has been the tax "war" between the City of Ventura and the Ventura County government. This "war" was set off in June, when the Ventura City Council voted to halt the 45-year-old custom of allowing the county government to take about 3% of the sales-tax revenue to which the city is entitled.

In Ventura's case, the 3% totals about $500,000 this year — a small portion of the city's $15 million or so of sales-tax revenue per year, but enough to touch off one of the most acrimonious intramural tax revenue battles in recent memory. The county complained, fearing that other cities would follow suit — a series of events that could cost the county several million dollars a year. Ventura refused to budge, arguing (correctly) that the county has no legal right to the money. The county then upped the ante, threatening to cancel the ordinance that imposes the sales tax in the first place.

The two sides are negotiating now, and an agreement seems likely. But the whole tax war raised anew a lot of festering questions about what cities and counties do and how they're financed. This, in turn, renewed the debate over how local governments approach development, which is a driving force in how much local tax revenue both cities and counties have to pay for the services they are required by law to provide.

Given all the allegations and threats that have been bandied about, I thought it would be a good idea to look beyond the rhetoric and examine the actual financial statistics that underlie the tax war. To do so, I went back and looked at the sales and property tax revenue reported by the county and its 10 cities to the California State Controller for the 11 years from 1987 to 1998 (the last year for which the state-compiled statistics are currently available).

First, a little bit of background is in order about the difference between cities and counties. By law, counties are subdivisions of the state, and their main task is to provide health, welfare, and criminal justice services to everyone in the entire county. Cities, by contrast, are created by local citizens to provide themselves with urban services, such as police, fire, and trash collection.

In providing countywide mental health care, welfare relief, and related services, the county government must serve all the residents of the county, whether they live inside a city or in so-called "unincorporated" areas. By contrast, cities provide fire, police, and other services only to their own residents. If residents live outside of city boundaries —

as, for example, do the residents of Oak Park, Meiners Oaks, and Saticoy — they must look to the county government to provide the police, fire, and other local services that would otherwise be provided by a city government.

To provide their services, cities and counties must look to the same sources of revenue — principally the property tax, which is a tax on the assessed value of land and buildings, and the local sales tax, a 1% tax on retail transactions that is levied whenever a transaction takes place. Under Proposition 13, the rates on property taxes have been reduced to levels much lower than they were in the 1960s and '70s. Nevertheless, the amount of both kinds of revenue that is available is determined in large part by land-use decisions, because property tax is derived from all kinds of land development, while sales taxes are derived from retail establishments.

Over the past 10 years, we have seen a seemingly endless series of battles among our local governments over this tax revenue. Cities use redevelopment to capture property tax that would otherwise go to counties. Cities subsidize malls and other retail development in order to capture sales-tax revenue. Cities and the county fight over who should get sales tax revenue, and who should bear responsibility for social problems such as the homeless. What's going on?

The answer is twofold. First, we have seen the county lose a great deal of property tax revenue, mostly to the state and the school districts. And second, we have seen a dramatic shift in the retail spending patterns within the county — a change that has been extremely threatening to Ventura, traditionally the richest city in the county. The three charts presented along with this column help to tell this story.

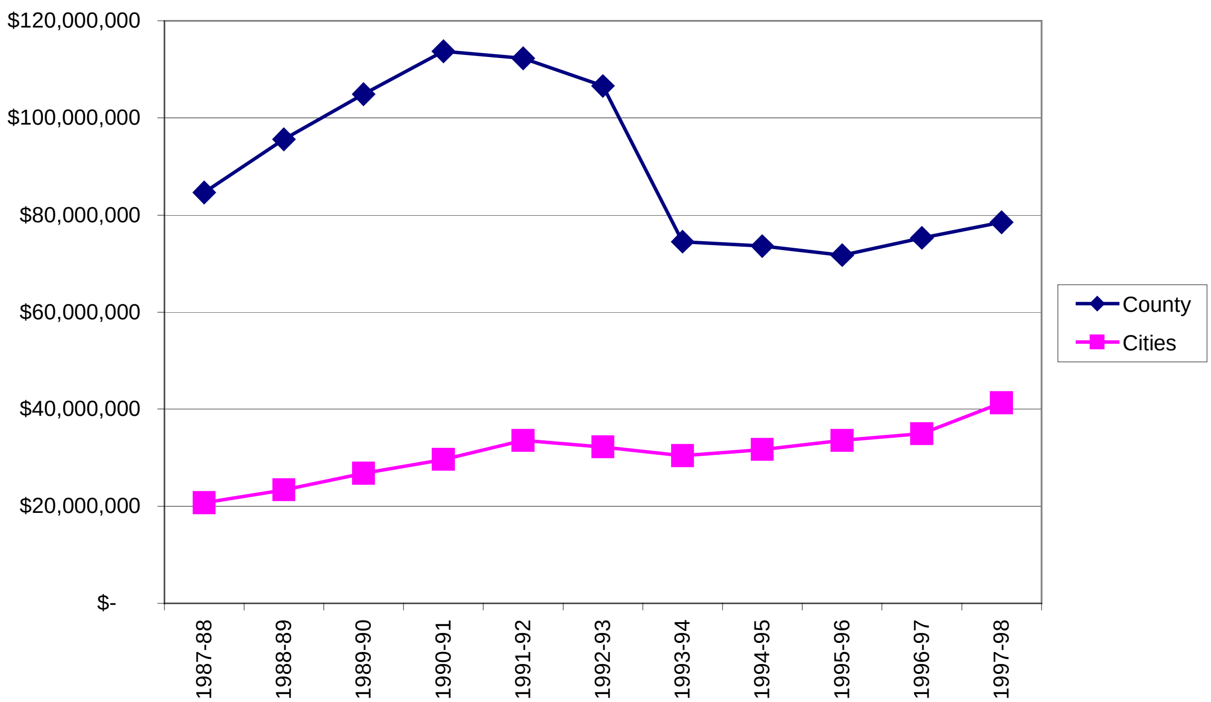
In her budget letter to her City Council, Ventura City Manager Donna Landeros argued that many of the financial problems that caused her to recommend the controversial sales-tax gambit dated back to the last recession (1992-94), when the state government took about 25% of all the property tax in the state away from cities and counties and gave it to school districts as a way of balancing the state's budget.

It's true that the shift of property tax revenues hit local governments hard. But in Ventura County, as elsewhere, this shift hit counties much worse than it hit cities — partly because counties are more dependent on property tax to begin with.

As Chart 1 reveals, the Ventura County government took a huge hit when the state initiated the property-tax shift, while the cities did not. In 1992, the county had property tax revenues of approximately $112 million. By the time the property tax shift was completed two years later, that figure had dropped to only $74 million — a cut of more than 30%.

By contrast, Ventura County's 10 cities did not suffer much at all from the property tax shift. In the aggregate, they suffered a cut of only about 10%, from $33 million to $30 million. Thanks to a growing economy, the cities recovered their lost property tax revenue by 1996, whereas the county's property-tax revenue is still not back to the level of the early 1990s.

**Chart 1:**
**Property Tax Revenue, Ventura County and Its Cities, 1987-1998**

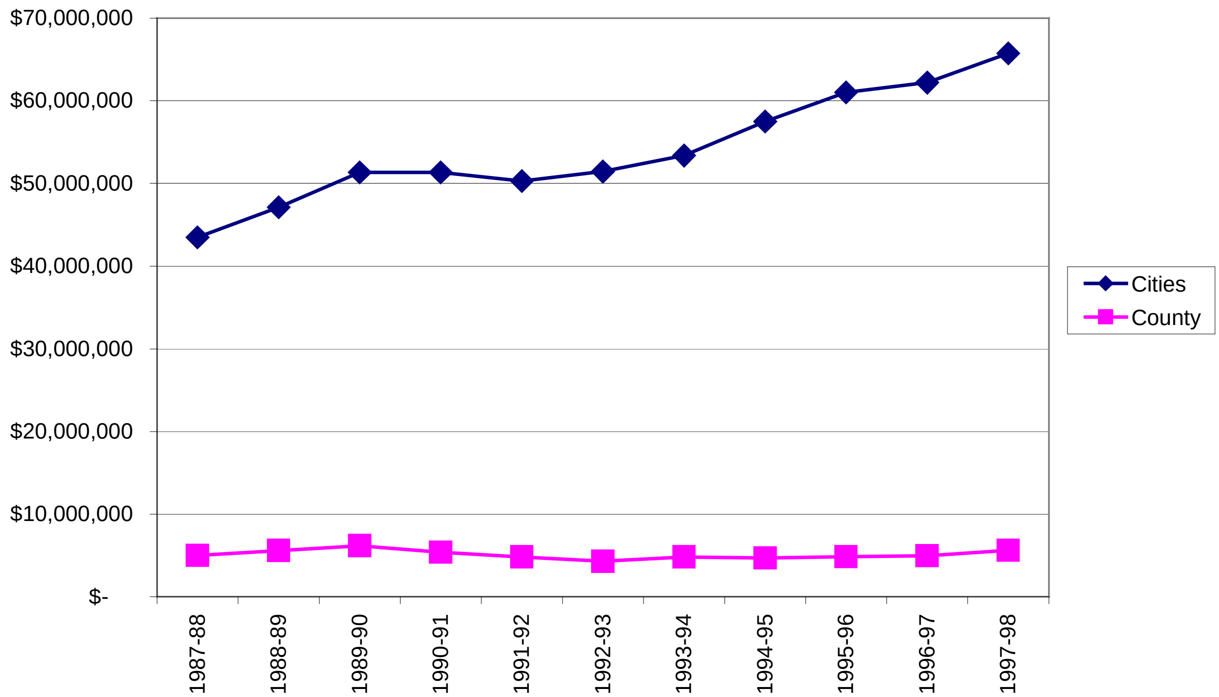



Unlike the county, the cities also made up a great deal of their loss coming out of the recession with increased sales tax revenues. Unlike the county — which runs largely on property tax revenue — the cities operate mostly on sales-tax revenue. As Chart 2 shows, Ventura County's 10 cities receive the overwhelming majority of sales-tax revenue in the county, and their share just keeps going up. In 1988, the cities received almost $50 million in sales-tax revenue, compared to only $5 million for the county. By 1998, the cities' share had gone up 46%, to $71 million, while the county's share had gone up only 12%, to $5.7 million.

In large part, this is because the cities and the county have long agreed to channel virtually all urban development (including retail stores) inside city boundaries. Indeed, this is part of the reason for the tradition of city sales-tax pass-throughs to the county —

to help make up for the fact that the county has lost revenue by not pursuing retail stores in unincorporated areas. In other counties, the county government has sought to increase its revenue by competing with the cities for retail development. But with the passage of

**Chart 2:**
**Sales Tax Revenue, Ventura County Government and Ventura County Cities, 1987-1998**




the SOAR initiatives and their urban growth boundaries, this strategy would be almost impossible for the Ventura County government to pursue.

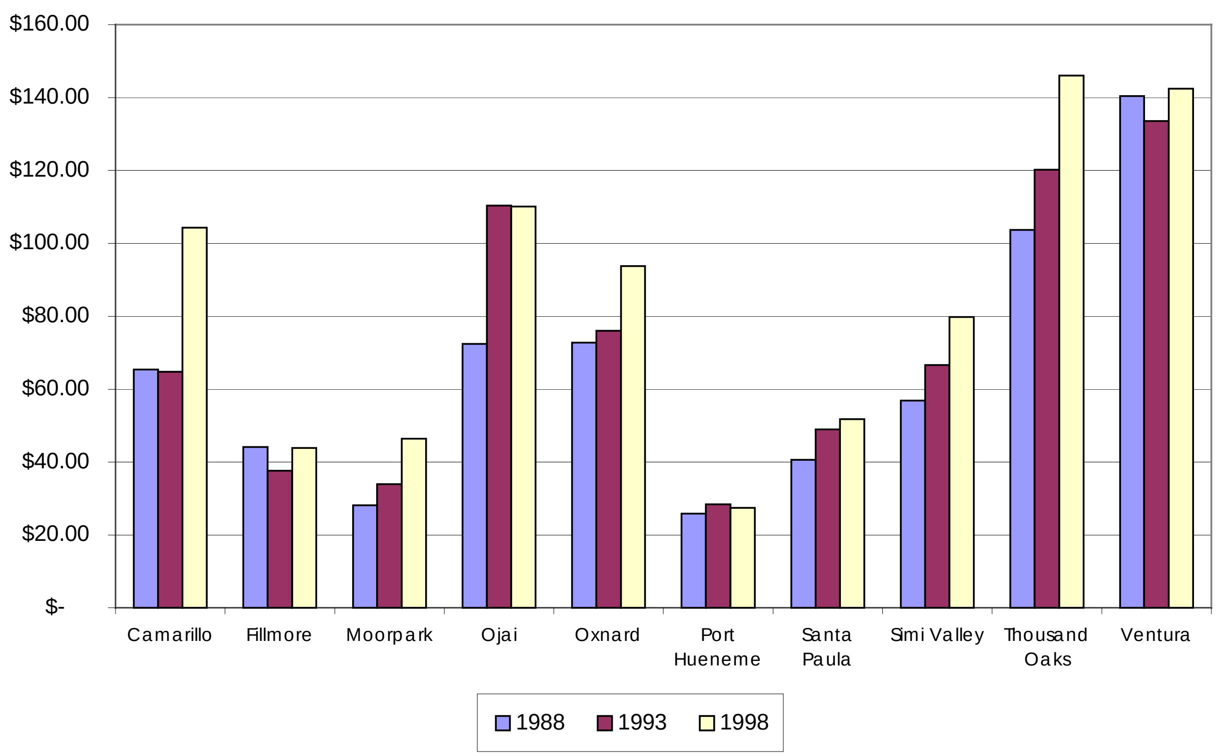
If they're just getting richer compared to the county, then why are the cities competing so ferociously with each other for sales-tax revenue? The answer here lies with the fact that, as the county has grown, its retailing patterns have shifted dramatically — and, in particular, retailing has decentralized out of Ventura. As the county seat and the historic center of business and finance in the county, Ventura was also historically the center of retailing as well. But in the last decade this has changed.

Chart 3 shows the per-capita sales-tax revenue for each city in the county over the last decade — specifically, for the years 1988, 1993, and 1998. If you look carefully, you'll see that a decade ago most cities did not have very strong sales-tax bases. In Simi Valley, for example, retailing generated only about $57 per resident in sales tax per year. In Camarillo, the figure was $65; in Oxnard, it was $72. Always an affluent city, Thousand Oaks did much better, at $103 in sales tax per resident. But no city in the county was nearly as rich as Ventura, which received $140 in sales tax per resident.

Since then, two important things have happened. First, the purchasing power of the East County cities has continued to grow, meaning more retailers have been attracted to Simi Valley and Thousand Oaks. And second, Camarillo and Oxnard made extremely aggressive efforts to attract (and in some cases subsidize) retailers along "Sales Tax Canyon" — the 101 corridor along the Oxnard Plain.

The results are obvious from looking at the chart. Oxnard, Thousand Oaks, Simi Valley, and especially Camarillo have dramatically increased their sales-tax revenue on a per-capita basis over the last decade. Most of the smaller cities, including Moorpark and Santa Paula, made some progress but still lag far behind. And Ventura's sales-tax per capita was stagnant. During the 11-year period from 1987 to 1998, Ventura's share of the county's sales-tax revenue dropped from 26% to 20%.

**Chart 3:**
**Per-Capital Sales Tax Revenue, 1988, 1993, 1998**




In general, these are good trends. Retail sales around the county — and, hence, sales-tax revenue — is far more evenly distributed among the cities than it was a decade ago, meaning more residents in more cities have more resources for city services. And even with these changes, the rich are still rich and the poor are still poor. Even with a dramatic increase in sales-tax revenue, Camarillo — at $100 in sales tax per resident — still stands only at the countywide average. And even after a decade of stagnation, Ventura — at

$140 per resident — is still rich, with a per-capita tax base that is triple that of Santa Paula and Moorpark, 50% higher than Camarillo and Oxnard, and equal to that of Thousand Oaks, a city with a far more affluent population.

But in local government these days, where you stand depends on where you sit. When you've been poor all of your life and all of a sudden you come into a little money, you feel really rich. That's how Camarillo feels these days, with all those outlet stores and Targets and so forth churning out the cash. And when you've been the richest kid on the block for as long as you can remember, it's easy to feel poor. That's how Ventura feels these days, even though it is still one of the two most tax-rich cities in the county.

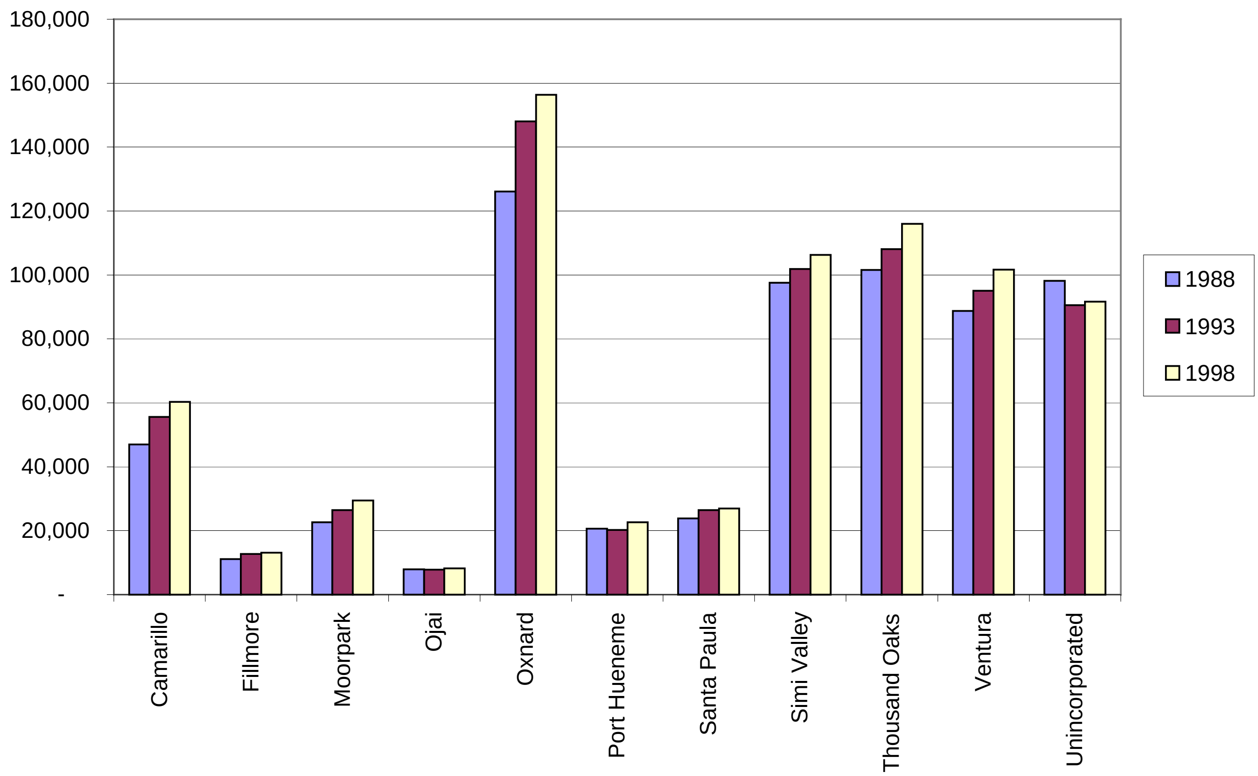
In a world where tax revenue is limited and fortunes can shift easily from one decade to the next, local governments will often feel that they have little choice but to fight with one another over money. So Ventura's tax war with the county isn't an anomaly. More likely it's a preview of business as usual in the years to come.

## 3. POPULATION TRENDS

In analyzing fiscal patterns for the Ventura County government and the 10 municipal governments within the county, we chose to focus on three specific years and the differences between them — 1988 (a year of prosperity), 1993 (a recession year and also the first year of the state-imposed property tax shift), and 1998 (again, a year of prosperity). We also chose to focus much of our analysis on *per-capita* revenue — that is, the amount of revenue each jurisdiction had available to it per resident.

Thus, Chart 1 describes population trends during these three years as estimated by the California Department of Finance Demographic Research Unit.

**Chart 1:**
**Population, 1988, 1993, 1998**

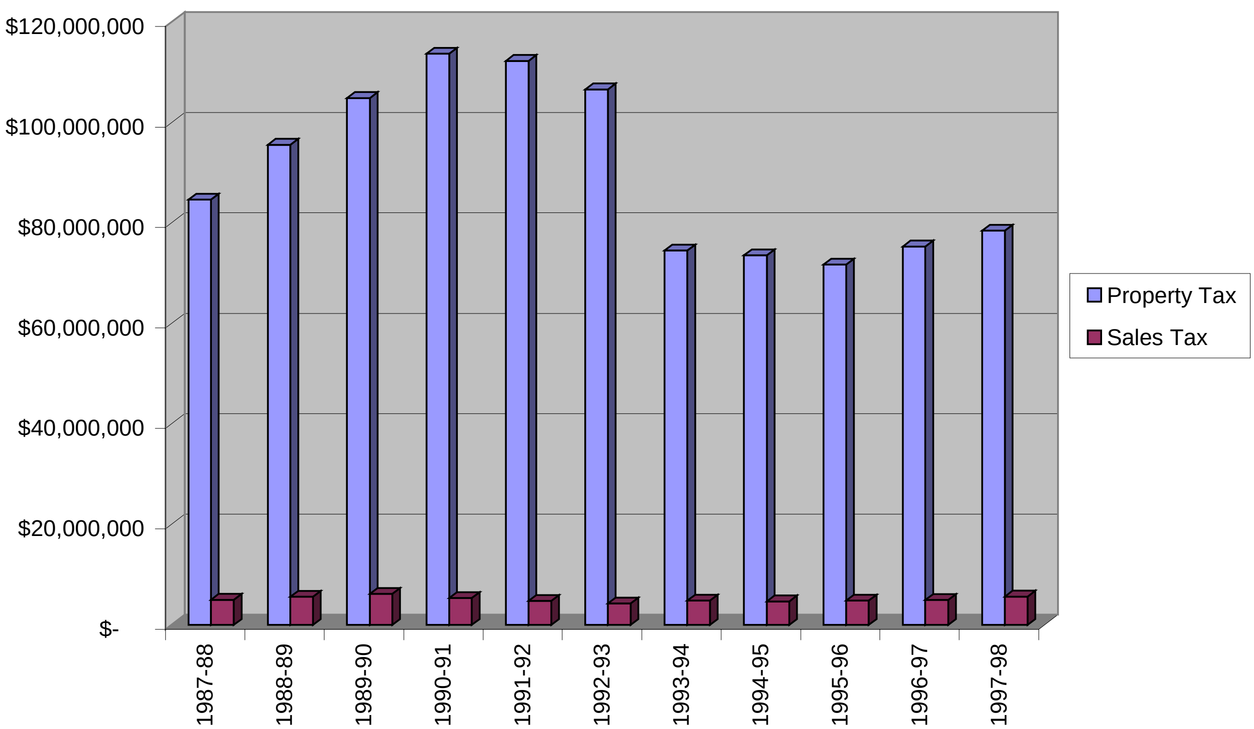



In general, most cities gained population during this period, though growth was greater during the 1988-93 period than during the 1993-98. During the 10-year period, Oxnard (already the largest city in the county), Camarillo, and Moorpark added the greatest population (between 24% and 30%). Among the other large cities, Thousand Oaks and Ventura grew by approximately 14%, while Simi Valley grew by only 9%. Among small cities, Fillmore added 18%, Santa Paula 13%, Port Hueneme 8%, and Ojai 4%. Population in the unincorporated area, already relatively small, dropped during this time.

## 4. TAX BASE OF CITIES AND COUNTIES

Although the cities and the county government both receive a share of property and sales tax revenue, their dependence on these revenue sources differs. In general, Ventura County's cities are far more dependent on sales tax, while the county government is far more dependent on property tax. In part, this is a reflection of the historical pattern of municipal incorporations in the county — especially during the 1960s, when Camarillo, Simi Valley, and Thousand Oaks all incorporated as cities without imposing an additional property tax on property owners.

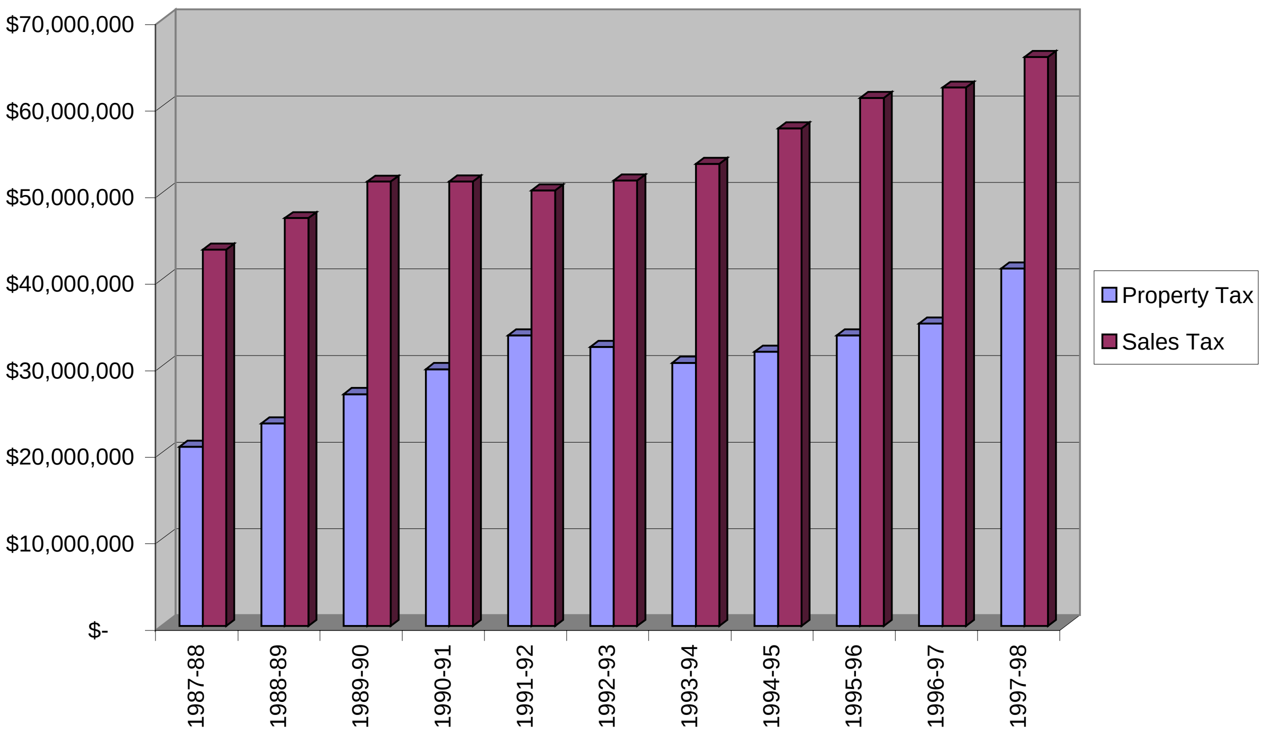
**Chart 2:**
**Property and Sales Tax Revenue,**
**Ventura County Government, 1987-1998**




As Chart 2 shows, the Ventura County government has always received many times more property tax revenue than sales tax revenue. In 1997-98, the county government received almost $80 million in property-tax revenue and only $5.7 million in sales-tax revenue.

As Chart 3 shows, Ventura County's cities have the opposite experience. They are far more dependent on sales-tax revenue than on property-tax revenue. In 1997-98, all the cities combined received $65 million in sales-tax revenue but only slightly more than $40 million in property-tax revenue.

**Chart 3:**
**Property and Sales Tax Revenue,**
**Ventura County Cities, 1987-1998**



## 5. PROPERTY TAX TRENDS

In Ventura County, as throughout California, counties are more dependent on property-tax revenue than cities. In general, approximately a third of all property-tax revenues flow to counties, whereas only 10-15% flow to cities. Within Ventura County, property-tax levels at the city level vary dramatically depending on whether the city imposed its own property tax prior to the passage of Proposition 13 in 1978. Older cities such as Oxnard and Ventura did impose such taxes and still receive a large amount of property tax. Cities such as Thousand Oaks, Camarillo, and Simi Valley, which were incorporated during the 1960s, never imposed a property tax. (During the early 1990s, however, they did begin to receive some property tax as a result of a change in the state's property-tax allocation formula that favored these so-called "no- and low-property tax cities".)

During the 1992-93 and 1993-94 fiscal years, the state government dramatically changed the formula for distributing property tax revenue. Approximately 25% of the state's property tax revenue was shifted from cities and counties to school districts as a way of relieving the state's fiscal responsibility for supporting school districts. This shift is commonly known as the creation of ERAF, or the "Educational Relief Augmentation Fund". As Chart 4 shows, ERAF hit the Ventura County government much harder than city governments.

Chart 4 reveals that the 10 cities lost only about 10% of their total property tax revenue (from $33 million to $30 million) as a result of the ERAF shift. They regained this 10% within two years and by 1998 had more than $40 million in property tax revenue. The county, by contrast, lost more than 30% of its property tax revenue (from $112 million to $74 million). In 1998, its total property tax revenue remained below what it had been 10 years before.

**Chart 4:**
**Property Tax Revenue, Ventura County and Its Cities, 1987-1998**

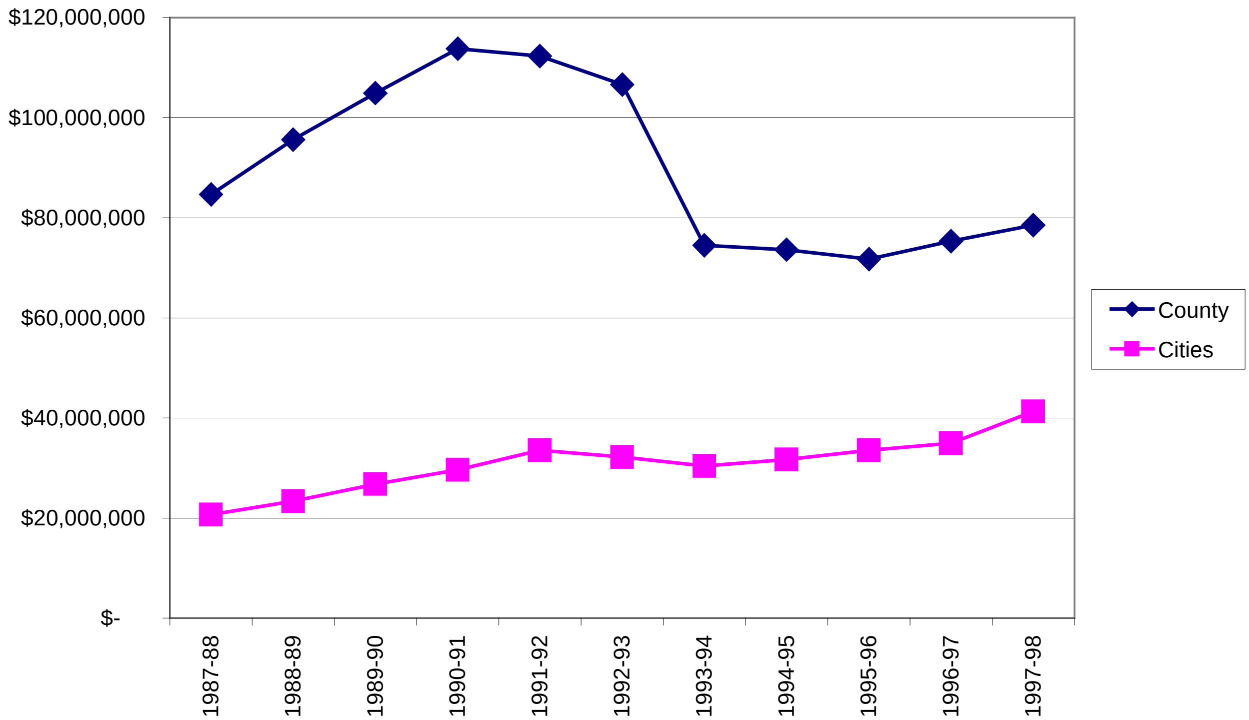


Chart 5 shows the distribution of property tax revenue among cities for the years 1988, 1993, and 1998. Historically, Ventura and Oxnard received most of the property tax revenue in the county that flowed to cities, and this pattern is unchanged. Note, however, that Camarillo, Simi Valley, and Thousand Oaks have all benefited substantially from the changed allocation formula favoring the "lows and nos" in the early 1990s

**Chart 5:**
**Total Property Tax Revenue Among Cities, 1988, 1993, 1998**

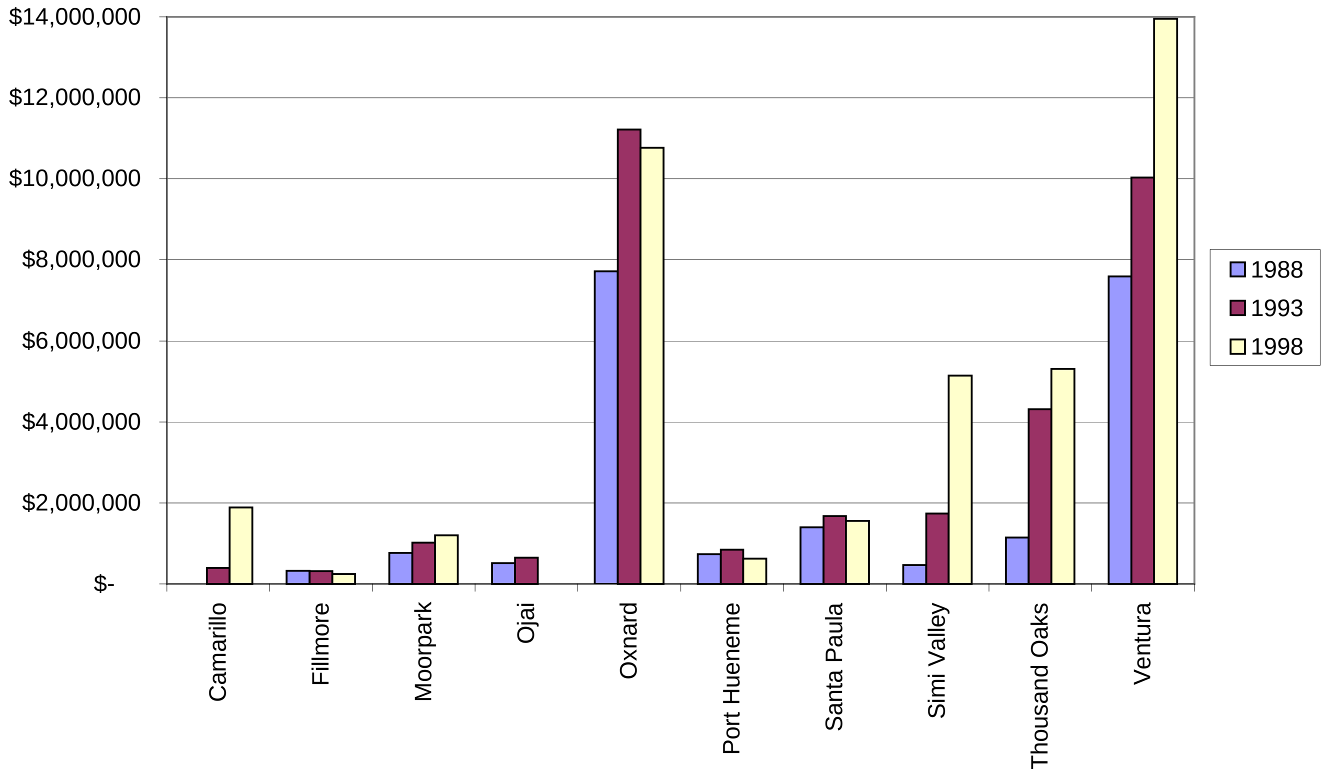
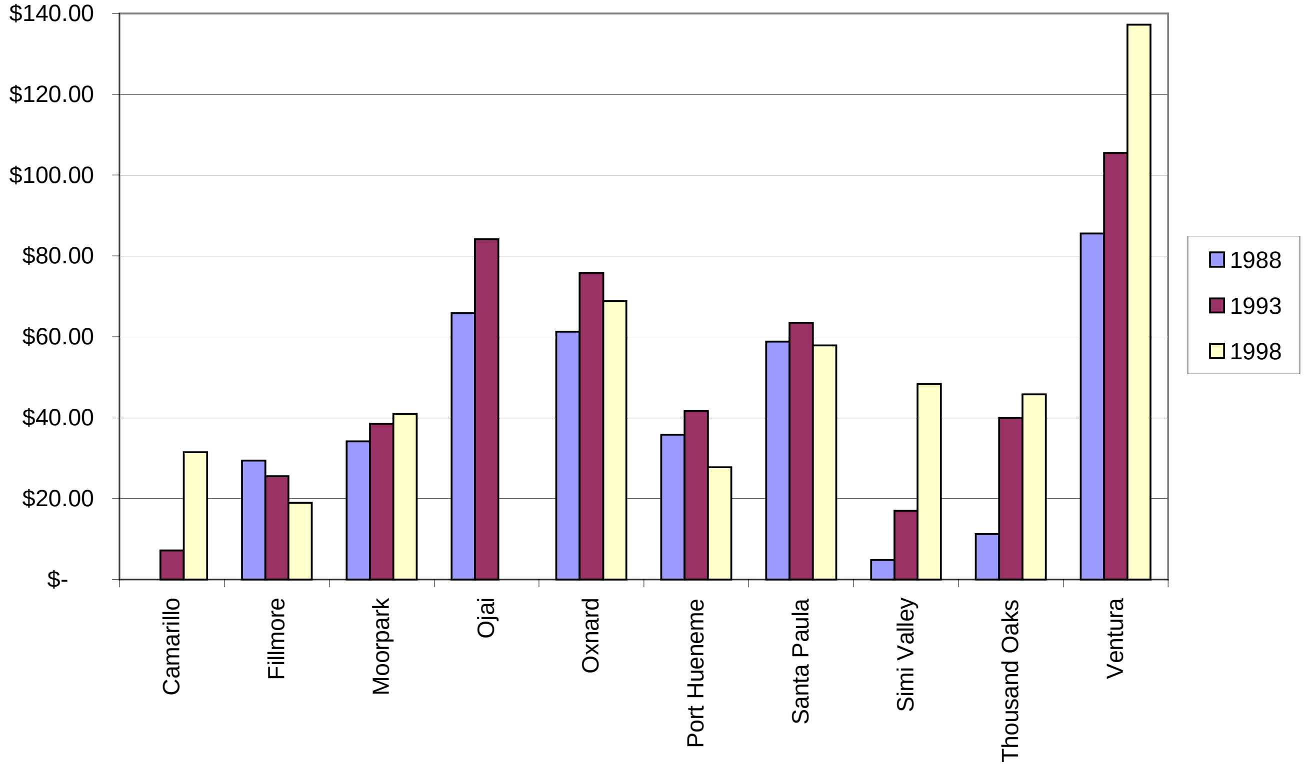


Chart 6 presents the same information — the total amount of property tax revenue each county received in 1988, 1993, and 1998 — but presents it on a per-capita basis. As this chart reveals, property-tax patterns have become more evenly distributed among the cities during the last decade. Ojai, Oxnard, and Santa Paula, which traditionally had high per-capita property-tax revenues, have stagnated; Fillmore has gone down. Camarillo, Simi Valley, and Thousand Oaks all have strong per-capita sales-tax revenues thanks to the allocation shift favoring the “lows and nos”. Ventura remains the countywide leader in per-capita property tax revenue and increased its lead during this period of time.

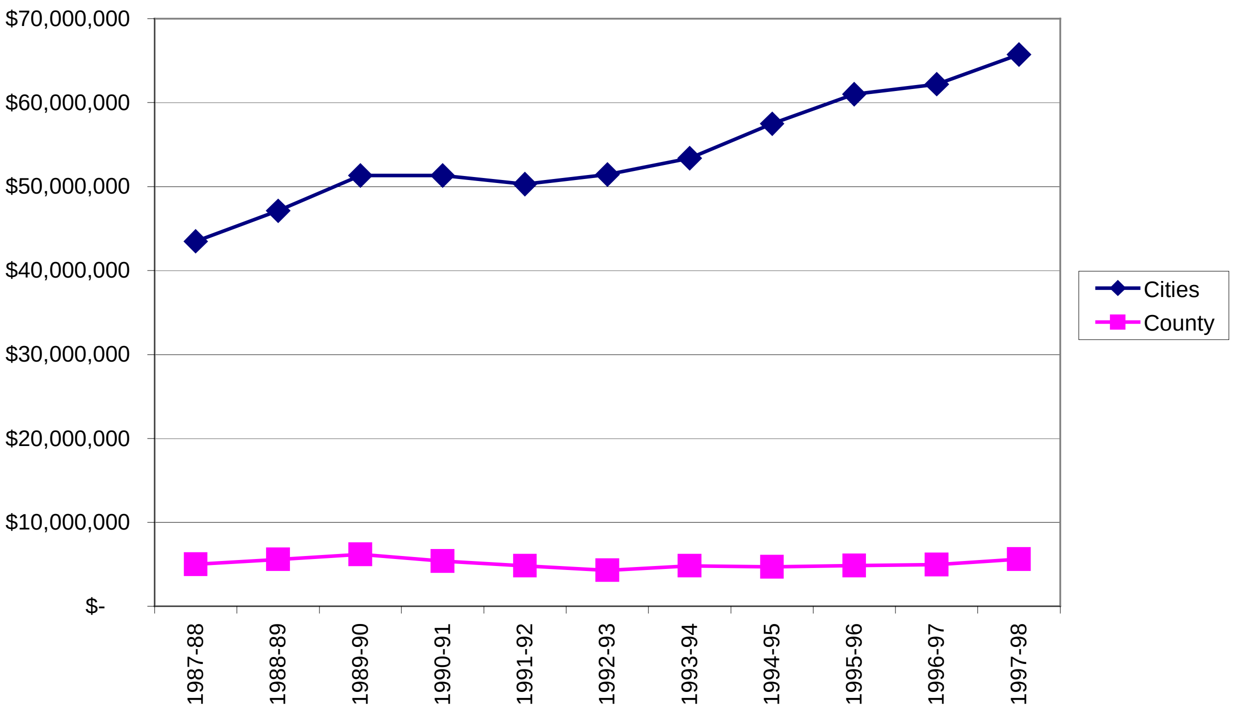
**Chart 6:**
**Per Capita Property Tax Revenue**
**Among Cities, 1988, 1993, 1998**



## 6. SALES TAX TRENDS

Because of the longstanding policy of both the county and its cities to direct urban development inside cities, most retail establishments are located inside cities. For this reason, cities get most of the local share of the property tax revenue.

**Chart 7:**
**Sales Tax Revenue, Ventura County Government and Ventura County Cities, 1987-1998**




As Chart 7 reveals, cities receive the vast majority of sales tax revenue in the county and their percentage has been going up, whereas the county government receives only a small percentage and that percentage is stagnating. Between 1987 and 1998, cities in Ventura County saw their total sales-tax revenue grew by more than half, from $43 million to over $65 million. By contrast, the county share grew by only 12%, from $5 million to $5.7 million.

Meanwhile, the distribution of sales tax revenue within the county has been changing as well. As Charts 8, 9, and 10 show, Ventura's share of the countywide sales tax dropped from 26% to 20% during this 10 year period. Camarillo's share grew substantially, while Simi Valley and Thousand Oaks saw their shares grow modestly.

**Chart 8:**
**Distribution of Sales Tax Revenue, 1987- 88**

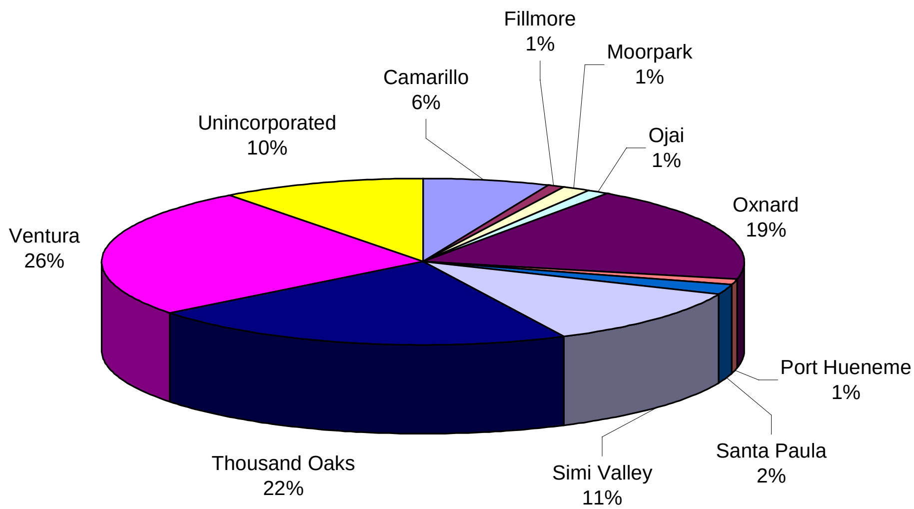



**Chart 9:**
**Distribution of Sales Tax Revenue, 1992-93**

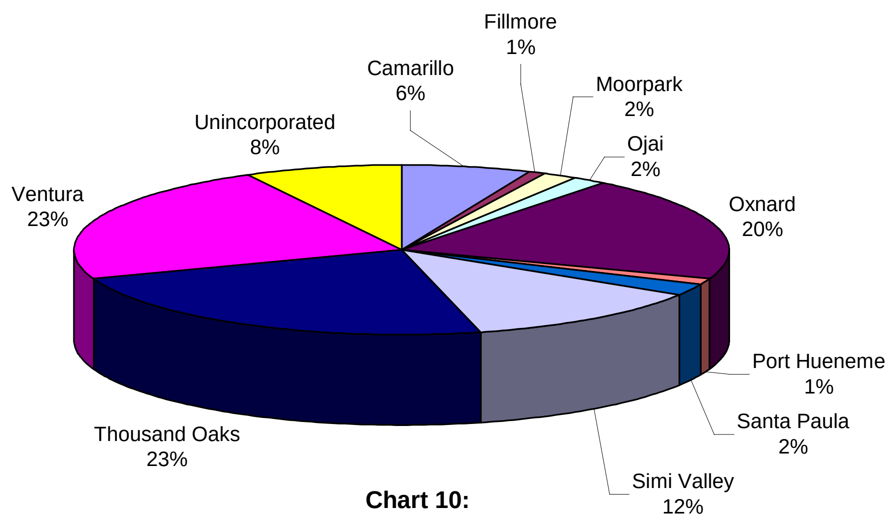
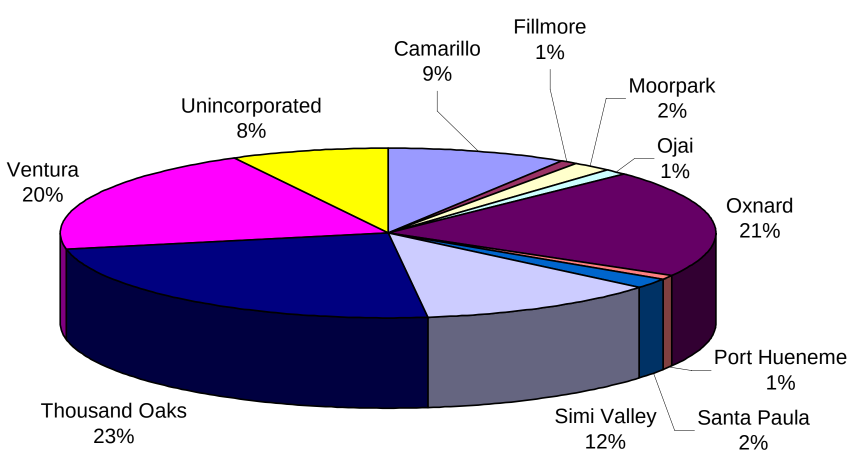



**Chart 10:**
**Distribution of Sales Tax Revenue, 1997-98**



At the same time, however, overall sales-tax revenue and per-capita sales tax revenue show a slightly different picture.

**Chart 11:**
**Total Sales Tax Revenue by City,**
**1988, 1993, and 1998**

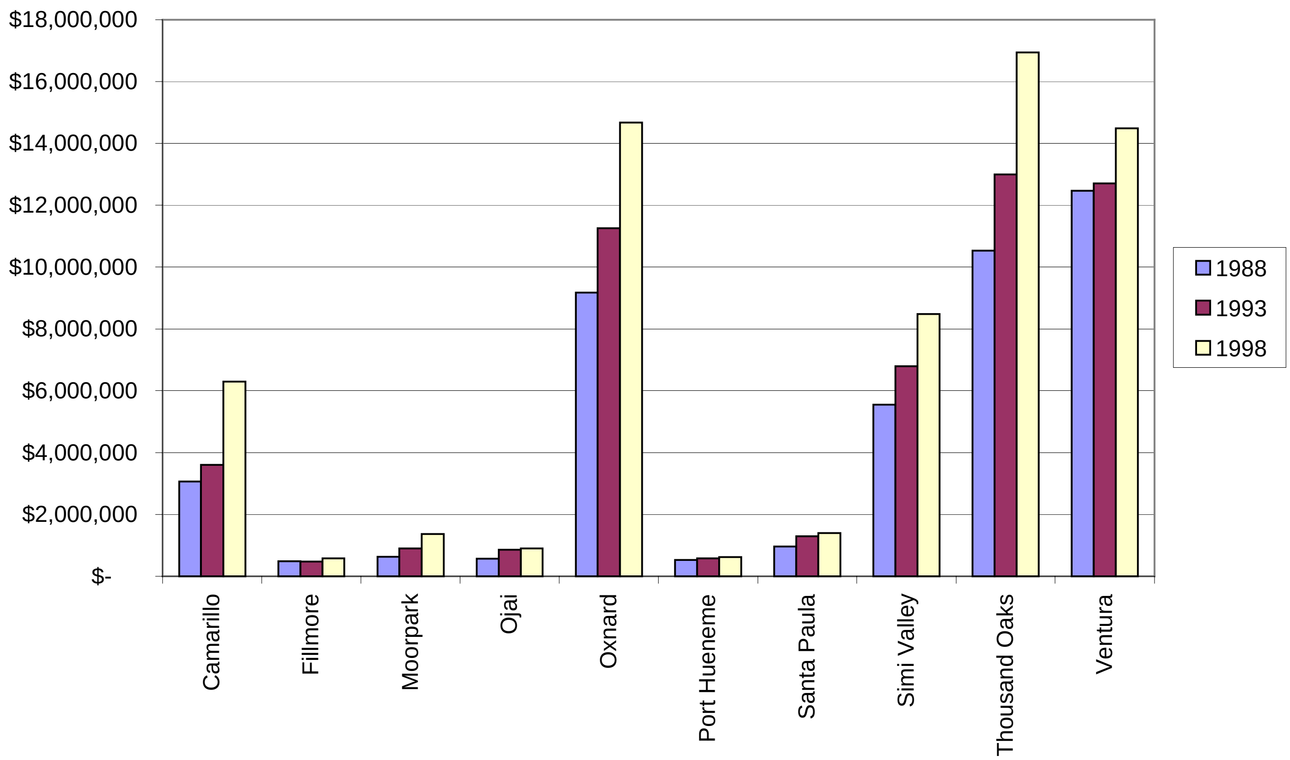
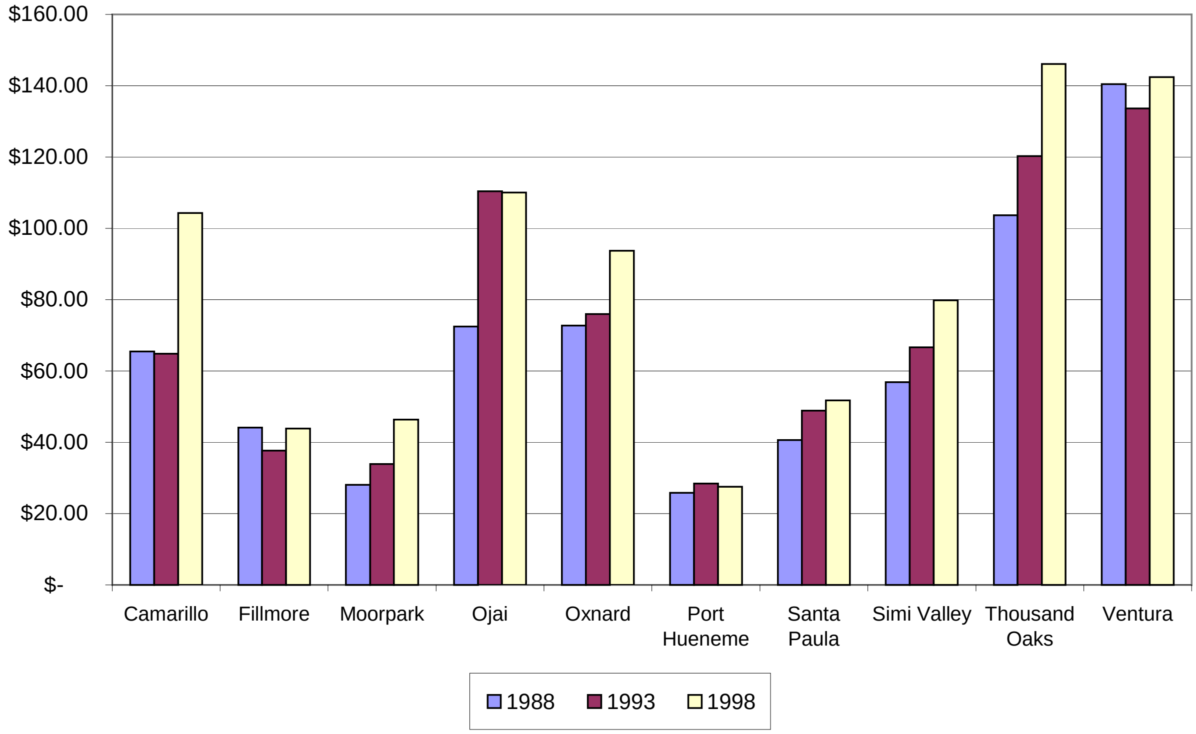



Chart 11 shows the total sales-tax revenue for each city for the three years 1988, 1993, and 1998. As this chart reveals, most of the sales-tax revenue in the county flows to Oxnard, Thousand Oaks, and Ventura, and this basic pattern has not changed in the last 10 years. It is true that Thousand Oaks and Oxnard have "caught up" to Ventura. Also, Camarillo and Simi Valley have greatly increased their sales-tax revenues as well.

Chart 12, meanwhile, shows the per-capita sales tax revenue, revealing a much more even pattern of tax-revenue distribution. Over the past decade, Thousand Oaks, Ojai, Camarillo, Oxnard, and Simi Valley all made significant strides toward increasing their per-capita sales-tax revenue. Camarillo showed the most impressive gains, rising from slightly more than $60 per resident to over $100 per resident in the 1993-98 period. Thousand Oaks moved past Ventura as the most sales-tax-rich city on a perr-capita basis, though both cities hovered around $140 per resident in 1997-98.

**Chart 12:**
**Per-Capita Sales Tax Revenue,**
**1988, 1993, 1998**

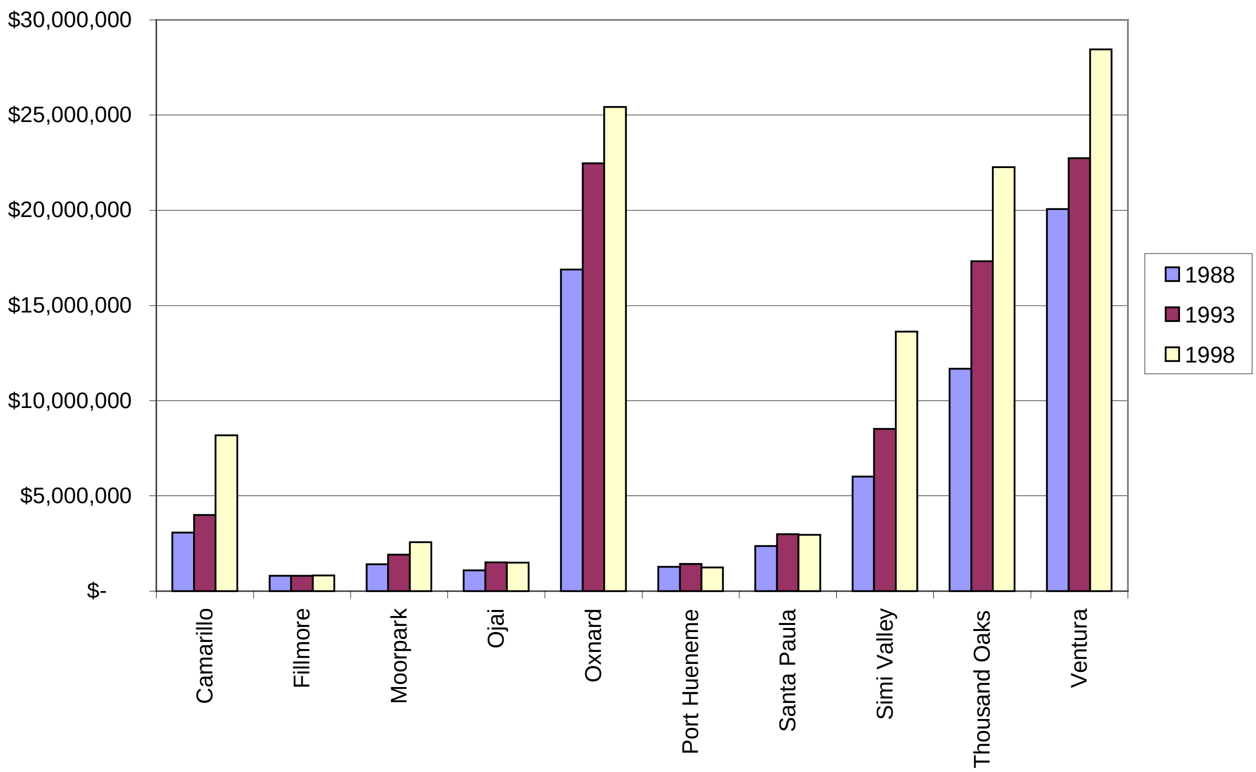


## 7. COMBINED FISCAL CAPACITY

One measurement of the Ventura County cities' overall tax base is the combined sales and property tax revenue they receive. This approach is far from perfect for several reasons, including the following: (1) cities cannot control their property-tax allocation, (2) different cities provide different levels of public services (for example, Thousand Oaks contracts with the county sheriff for police services while Ventura has its own police force), and (3) it does not take into account other general-fund tax sources such as transient-occupancy tax, which varies dramatically from city to city.

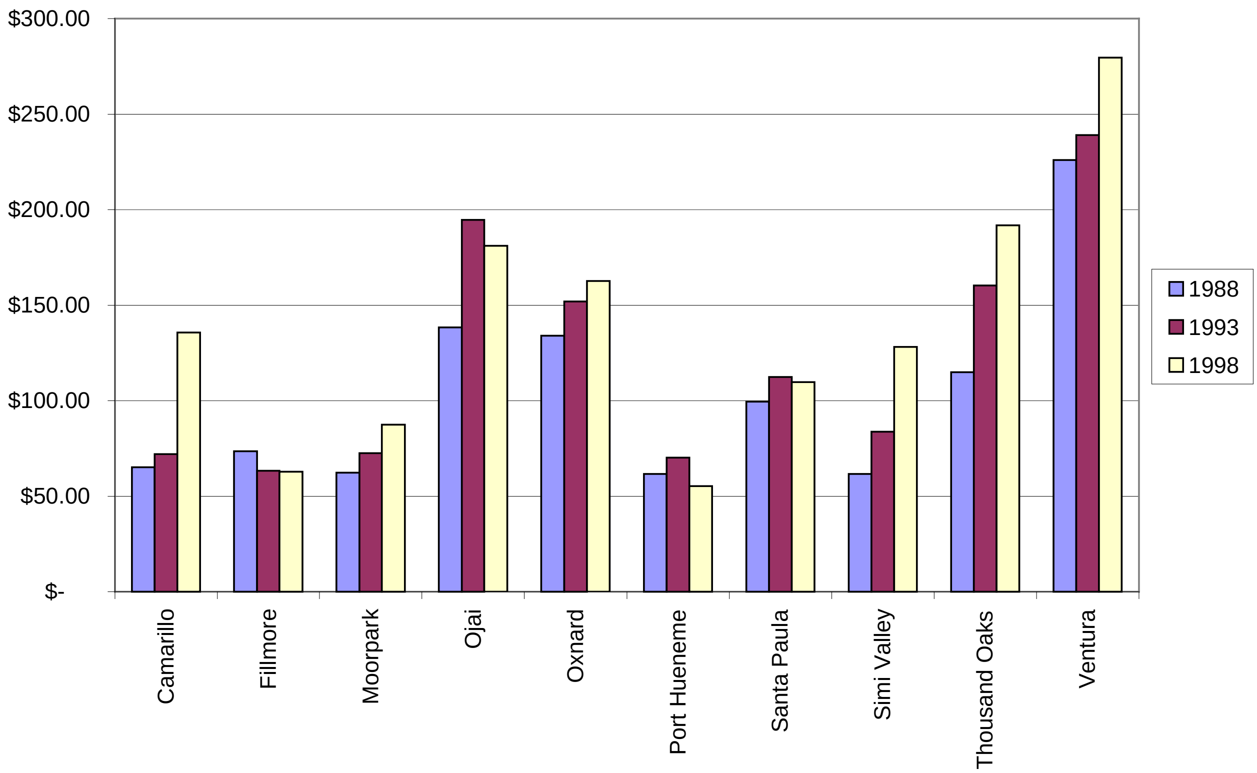
Nevertheless, calculating the combined sales and property tax revenue does help to assess the overall fiscal capacity of a city in an environment constrained by Proposition 13 and driven by competition for sales tax revenue. Chart 13 shows the overall total amount of combined sales and property tax revenue, by city, for 1988, 1993, and 1998. Not surprisingly, Oxnard, Thousand Oaks, and Ventura receive the lion's share of this revenue, while Simi Valley and Camarillo have increased their revenue considerably in the last decade.

**Chart 13:**
**Combined Sales & Property Tax Revenue**



As with sales-tax revenue, an examination of the *per-capita* combined sales and property tax revenue reveals which cities are tax-rich and which are not. Even on a per-capita basis, the large cities tend to have more fiscal capacity, whereas the small cities (except Ojai) do not. Again, Camarillo, Simi Valley, Oxnard, and Thousand Oaks all have made gains in the last decade, partly because of aggressive retail recruitment and partly because

**Chart 14:**
**Combined Sales & Property Tax Per Capita**




the favorable re-allocation of property tax for the "nos and lows" Nevertheless, even with the property tax reallocaiton and stagnant sales tax during the 1990s, Ventura remains the most tax-rich city in the county. Its combined sales and property tax per capita of $279 in 1997-98 was almost 50% higher than the figure for the next two cities, Thousand Oaks ($191) and Ojai ($184).