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FINANCING COASTAL ZONE PLAN IMPLEMENTATION

by

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This volume is one of a series of background reports prepared for the Coastal Zone Commission by the State and Regional Commissions' staffs, and by private consultants. This report summarizes the other background reports in the Government, Powers, and Funding series and the implications of other Plan elements for governing the coast.

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Government, Powers and Funding of California Coastal Zone
Management: An Overview

FINANCING COASTAL PLAN IMPLEMENTATION

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CHAPTER

FINANCING COASTAL PLAN IMPLEMENTATION

Introduction

The California Coastal Zone Conservation Act of 1972 mandates preparation of "a comprehensive, coordinated, enforceable plan" for conservation and management of the coastal zone. A specific component of the plan is to include "recommendations for the governmental policies and power required to implement the coastal zone plan." In order to implement the coastal zone plan, the responsible agency or agencies will require access to adequate financial resources. Several of the specific elements of the coastal plan identify financial needs for plan implementation; additional revenue requirements are implied in other elements.

The major purpose of this report is to estimate overall requirements for coastal plan implementation and to identify potential sources of financing. Other purposes include: identification of interjurisdictional revenue and expenditure problems related to coastal conservation and management, assessment of means by which state and local fiscal policies can contribute to coastal policies, and evaluation of vehicles for financing coastal-related activities.

The costs of implementing the coastal zone conservation plan will vary in accordance with coastal policies ultimately adopted by the legislature and its commitments to plan implementation, the nature of the planning and regulatory powers conferred upon a coastal agency, and the type of organizational and regulatory structure created to implement the plan.

Access to revenue sources and efficient use of available funds may in turn influence decisions on the powers and form of the agencies responsible for coastal management: organizational requirements implied by particular financing alternatives are indicated.

Since a final plan has not yet been adopted and the precise powers and organizational structure by which the plan will be implemented have not been fully formulated, estimates of costs and evaluation of revenue sources are based on certain assumptions.

1. Assumptions

a. Powers and Activities. For purposes of this section, it has been assumed that a successor agency or agencies to the coastal commissions will be similar to the existing commissions in their organization and powers. In addition, it has been assumed that either these agencies and/or other agencies, such as the Department of Parks and Recreation and the Department of Navigation and Ocean Development, will have powers to engage directly in coastal conservation and development activities, including acquisition of property, restoration and enhancement of coastal lands and waters, preservation of open space, maintenance of critical agricultural uses, and protection of marine life. In most cases, existing Federal, State, regional or local agencies appear to have the power to engage in these activities; in many cases, however, there is a lack of coordination and inadequate mechanisms for allocation of available funds to critical needs. In some cases no existing agency appears to have the authority to gain access to particular financial resources. Either the successor coastal agency or other agencies may be given such authority in the future.

To the extent that the powers and activities of a successor coastal agency differ from those assumed, the requirements of the agency will differ, but overall needs will be similar for plan implementation. If, for instance, the final plan calls for a state planning agency with power to review and approve local plans for coastal management, while leaving regulation of uses in the coastal zone to local government, some costs of planning and regulation will be shifted downward from the State to local governments. This approach will have a greater impact on the location of the costs than on their magnitude.

b. Organizational Structure. Access to financial resources and ability to implement an effective spending program for coastal purposes will be determined to some extent by the organization of responsibilities for plan implementation.

The successor coastal agency may be a State agency, like the existing coastal commissions, and funded by the legislature to carry out its responsibilities. Like other State agencies, its operational requirements would be funded from annual appropriations by the legislature and, by legislative approval, it could seek additional funds for specific projects from Federal grants, donations, contracts with other State agencies, bond issues or special appropriations. Such an agency might be designated by the legislature to allocate revenue to other agencies for coastal purposes or to coordinate the expenditures of other agencies. Under this alternative, the agency would be an integral part of State government, subject to normal budget procedures and direct gubernatorial and legislative oversight. Major programs, involving

acquisition of property or restoration activities, would be carried on by other agencies or by this agency through other parts of State government, such as the Division of Administrative Services.

A second alternative would involve the creation of a coastal authority or district, with semi-autonomous status with respect to State government. Such an agency would have direct access to specific sources of revenue, like a port authority or the University of California, have independent powers to acquire, own, manage and dispose of property, and operate relatively independent of State government, particularly with respect to the control of revenues and expenditures. It could also receive appropriations from the legislature, funds from other sources, or specific revenues earmarked for its use. It might also have the power to issue its own bonds. Examples of such agencies in other states include the New York Urban Development Corporation and the New Jersey Meadowlands Commission. Such an agency could have powers not presently possessed by most state agencies, such as the purchase of lands for re-sale or leasing, acquisition of development rights and easements and management and construction of revenue-producing facilities, such as housing and commercial recreation facilities.

Although each organizational structure would require a somewhat different approach to financing, basic requirements are likely to be similar and available resources will not be substantially different. For simplicity, it is assumed that one State agency is responsible for the kinds of activities necessary to implement a coastal plan on a statewide basis.

2. Approach

The approach of this report is to estimate levels of funding required for implementation of the coastal plan on the basis of different levels and types of effort which the State as a whole may undertake to achieve coastal objectives. Once the magnitude of costs has been identified, alternative sources for funding these costs are identified and evaluated for two broad categories of functions: (1) administrative functions, including planning, regulation and enforcement activities of an agency similar to the existing commissions; and (2) a major capital program of acquisition, development, conservation and restoration of coastal resources, a set of activities now dispersed among many agencies or not undertaken at all.

Problems of the impacts of taxation on coastal policies, inter-jurisdictional fiscal inequity in coastal management and conservation, and personal gains and losses from coastal management activities will be considered in a different report.

Levels of Funding Required to Carry out the Coastal Plan Policies

1. Administration, Planning, Regulation and Enforcement

Operational requirements of the successor coastal agency will depend primarily on its role and jurisdiction. The existing commissions have major planning responsibilities in an area defined as the coastal zone by the California Coastal Zone Conservation Act. That area is bounded by the three-mile seaward limit of the State's jurisdiction in ocean waters and the "highest elevation of the nearest coastal range" (with areas in Los Angeles and Orange County limited to a distance of five miles inland) from Mexico to Oregon. This area

contains 15 counties, over a hundred cities and much of the State's population and economic resources.

Permit review is presently exercised within a much smaller coastal strip, defined as the "permit area." This coastal strip consists of a 1,000-yard band of land inland from the mean high tide line and coastal waters and islands within three-miles seaward of the mean high tide. It represents a very small portion of the land area in the coastal zone and contains the critical coastline and foreshore.

Average annual expenditures of the current coastal commissions totals about \$2.5 million, including planning and regulation by permit review. This level of expenditure involves general policy planning and does not permit detailed planning for particular parts of the coast or coastal zone or for particular elements of coastal concern. Costs of the permit review process including project review and preliminary formulation of regulatory policy are estimated at about \$1.2 million annually on the average, with the remainder devoted to planning. These costs appear to represent the minimal possible level of effort required to carry out the purposes of Proposition 20; in fact, available funds fall short of needs for adequate planning and permit review.

Future costs of planning operations are not likely to vary according to the precise territorial jurisdiction of the successor agency, since planning problems and issues involved at the coastline do not respect any artificial boundaries. On the other hand, costs of permit review are related to the number of permits which must be processed and evaluated and these will vary in accordance with the size of the permit area. In general, however, costs of permit review appears to decline relative to the distance of a project from the coastline, at

least in urban areas, because of the less dramatic connection to coastal resources and issues. Costs of planning operations will be dependent chiefly on the kind and level of detail of planning to be undertaken by the successor agency. Total planning and regulatory costs will depend on the precise scope of activities of the coastal agency and the type of regulatory structure devised.

Table 1 presents very rough estimates of costs to be incurred at the state level for different types of planning and regulatory systems and for different territorial jurisdictions. As indicated, costs may range from a low of \$2.5 million, based on a combination of planning and permit review similar to that carried out today to a high of \$15 million plus, based on expanded areas of permit review or other forms of State regulation of land use and developments in the coastal zone and a more detailed and more intensive planning effort. Costs of permit review for the entire coastal zone are virtually impossible to estimate but it is known that the costs would be very high since a substantial amount of development activity occurs in the major metropolitan centers which are at least partially located in the coastal zone. On the other hand, costs of permit review are unlikely to vary substantially if the present permit area is expanded or contracted only slightly based upon the operating experience of the present commissions. Local plan review by state and regional coastal agencies would, on the other hand, require differing demands depending on the size of the area subject to plan review requirements since the number of agencies whose plans would be involved would increase as the jurisdiction expanded inland.

TABLE 1

Schematic Cost Implications of Different Planning and Regulatory Roles of the Successor State-Regional Coastal Agencies for Different Territorial Jurisdiction (Annualized Costs in 000's of 1973 Dollars)

Territorial Range	Alternative Roles			REGULATION	
	Policy Planning	PLANNING Review of Local Plans	Review of State Agency Plans & Programs	Permit Review	Detailed Planning & Zoning
Coastline (300+ ft. in-land + water)	\$1,500	\$1,800	\$2,000	\$1,000	\$1,500
Coastal strip (1,000 + yards)	\$2,000	\$2,300	\$2,500	\$1,200	\$3,000
Coastal strip plus coastal neighborhoods & critical inland area	\$2,000	\$2,300	\$2,500	\$1,500	\$4,000
Coastal Zone	\$2,500	\$3,000	\$3,500	\$10,000+	\$15,000+
Coastal zone plus projects & activities having critical impact	\$3,000	\$3,500	\$4,000	\$10,000+	\$15,000+
Coastal zone + all of major metropolitan areas located in the coastal zone or near it	\$3,000	\$3,800	\$4,000	\$10,000+	\$15,000

Notes:

- (1) Cost estimates are very rough, based on existing costs of the coastal commissions, and are only intended to indicate orders of magnitude. They reflect a judgment of future needs, e.g. twice the current planning effort.
- (2) Policy planning means the kind of planning now being carried on; review planning implies some form of certification process; detailed planning and zoning implies a type of land use and development regulation similar to that carried on at the local level today, involving establishment of regulations

TABLE 2

COMPARISON OF PLANNING AND REGULATORY COSTS
WITH CURRENT COSTS FOR ALTERNATIVE SYSTEMS

Existing Commissions Roles: Policy Planning for Coastal Zone and Permit Review for Coastal Strip (Basic Need)	\$3,700,000
Addition of role of plan review for local & state plans in strip & coastal neighborhoods & reduction of permit area to coastline	\$4,100,000
Addition of role of plan review for local and state agency plans in the entire coastal zone and permit review in the 1,000 yard strip & in coastal neigh- borhoods & critical in- land areas	\$5,000,000
Detailed planning and zoning for coastal strip, neighbor- hoods & critical inland areas as well as policy planning and plan review in coastal zone.	\$7,500,000

See text for elaboration

Source: Table 1

Certain types of regulatory systems, such as one similar to local zoning, would require much more detailed planning at the regional and State level in order to establish adequate regulations and to continually up-date them. Therefore, the costs of this type of regulation are combined with the costs of necessary planning support for it. These costs would vary directly with the size of the area involved.

Detailed planning for particular areas and substantive characteristics of the coastal zone would require a substantial increase in planning staff and effort at the state and regional levels and would in part involve an assumption of responsibility for planning initiative formerly residing at the local level but not necessarily being undertaken at the level. The size of the jurisdiction would have a direct effect on costs, unlike that likely from a general policy-planning approach.

In order to cover a range of realistic potential funding requirements for operations of a successor agency, four levels of funding requirements, representing different combinations of planning and regulatory roles are shown in Table 2. The first would represent essentially a continuation of the current functions of the coastal commissions and their staffs. It is estimated that about \$3.7 million would be required to provide adequate staffing for continuing planning, compared to existing funding at about \$2.5 million. The increase would represent a doubling of planning staff (because present pace and incompleteness cannot be sustained) and a small increase in permit review staff.

The second alternative would add to the responsibilities of the coastal commissions and staffs, the review of city and county plans within the coastal permit area for conformance with coastal policies

and review of State agency plans and programs which involve activities within or directly affecting the coastline. These responsibilities would require additional staff for plan review, as well as additional commission responsibilities for plan certification and approval. This alternative also assumes a reduction in the permit area to a small strip of land immediately adjacent to the coastline. This alternative is estimated to require funding of somewhat in excess of \$4 million annually.

The third alternative would involve an expansion of the permit area to include all of designated coastal neighborhoods (see Intensity of Development) and local and State plan review and certification in the entire coastal zone. Costs for adequate staffing and review are estimated at about \$5 million or about twice the current level of funding.

The fourth alternative would involve detailed planning and zoning for the 1,000 yard coastal strip, plus the remainder of coastal neighborhoods and critical inland areas chiefly in less developed counties, as well as local and State plan review in the coastal zone. This level of effort and type of structure is estimated to require funding at about \$7.5 million annually.

In summary, costs of coastal agency operations could range from \$3.7 to \$7.5 million annually under various alternative planning and regulatory structures. Funding requirements below or above these amounts would vary according to the commitment to an adequate planning effort on a continuing basis and enforcement of the coastal plan.

2. Costs of a Major Program of Coastal Management and Plan Implementation

In addition to planning and regulatory requirements, various elements prepared for the coastal plan contain policies which call for or imply the need for funding of new programs, activities, acquisitions, and research which will require funding if the coastal plan is to be implemented. Many of these funding requirements represent new costs which should be incurred by existing agencies or under current programs to carry out the policies of the plan. Others involve major new commitments of resources necessary to supplement the new role of the coastal commissions and may be administered either by the successor coastal agency or other State or local agencies.

There are a wide range of activities requiring new funding in accordance with these policies. Some involve only minor costs; others require major outlays. Due to the lack of data about precise funding requirements until actual programs are developed, it is not possible to make precise estimates for each or for the overall effort. It is possible, however, to establish the order of magnitude of requirements, based on programs requiring major capital outlays. The State Department of Parks and Recreation has estimated that at least \$1 billion will be required by 1980 to acquire sufficient coastal areas to meet recreational demand (Recreation Element). This is undoubtedly the single most costly item which would be included in a comprehensive program of plan implementation. If this amount were to be raised by means of a State bond issue with interest at 5 percent for 20 years, the annual cost to retire the bond would be about \$60 million. If funded out of annual State revenues between

1974 and 1980, the annual requirements would be in excess of \$175 million, assuming continuing inflation at a rate of at least 6 percent in development costs and annual increases in land costs of at least 10 percent.

On the basis of the last year's experience in permit review, an additional \$10-\$15 million annually is required to acquire lands proposed for development which should not be developed at all either because they threaten critical coastal resources, such as estuaries and other wildlife habitats, will destroy vistas or eliminate the scenic character of parts of the coastline, will result in intensities of development which cannot be supported consistent with coastal policies, (such as the many undeveloped subdivision lots) or present other problems which cannot be dealt with adequately through permit review, such as intolerable losses to property owners caused by refusal of permission to develop.

Additional costs are required to carry out research, demonstration projects, development of new techniques for accommodating varied coastal uses with minimal damage to valuable resources, improving access to coastal recreation areas, restoring damaged coastal environments, redeveloping and rehabilitating older coastal communities, and increasing the available supply of low and moderate income housing on the coast.

In general, it can be stated that the overall magnitude of funding requirements for at least the next twenty years will be in excess of \$100 million annually to implement the coastal plan, in addition to costs now being incurred by various State and local agencies in coastal-related programs. The largest proportion of these costs are

required for acquisition of areas for permanent public recreation use, preservation of wildlife sanctuaries, and preventing intense development of areas where such development conflicts with the objectives and policies of the coastal plan, all of which involve public acquisition of private land.

The value of all privately-held, undeveloped land in the immediate shoreline area (up to 1,000 yards) is not known but is estimated at about \$3 to \$6 billion if costs per acre range from \$10,000 to \$20,000 on the average.

Potential Means of Reducing Funding Requirements

Due to the high costs involved in a major program of coastal management and preservation, consideration has been given to means by which open space, coastal resources and essential coastal-dependent uses might be preserved short of public acquisition, ownership and management of most coastal lands. Some of these methods hold promise in specific situations of being able to achieve coastal objectives at a lower cost than public acquisition; in some cases public acquisition is only means of implementing coastal policies. To a large extent, a properly designed and workable regulatory system, as discussed in the section on powers, will reduce the need for public expenditures.

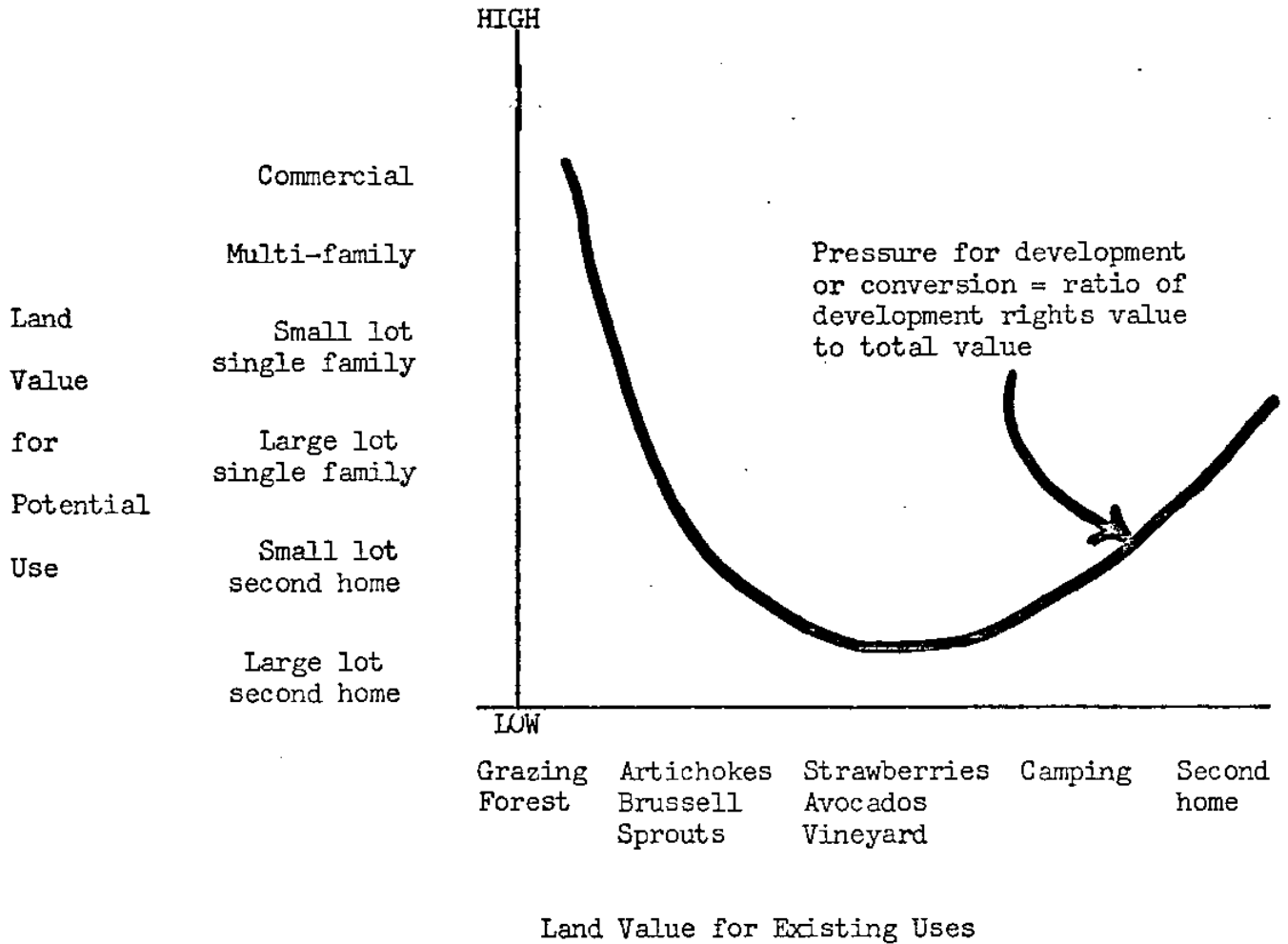
1. Purchase of Development Rights and Easements Rather than Fee Simple Interests in Land

One method by which costs of open space preservation and continuance of existing uses can sometimes be reduced is the purchase of interests in land which provide desired control without requiring full public ownership and management. Development rights and easement purchases

are described in a separate report on Powers. This report considers financial implications of their use.

In theory, development rights should represent only a portion of the total value of a particular piece of property. The portion of the value represented by development rights or speculative potential should vary according to land use regulations (including those which might be enforced by the coastal plan), the value to an investor of the existing use, the value to an investor of potential development permitted, and the tax implications to the owner of the sale of development rights. As a practical matter, in those areas where development pressure is great and existing uses offer a relatively low rate of return to the landowner compared to potential uses, development rights will represent much or most of the value of the property. This is most likely to occur in areas closest to existing urban development where the existing use is for low-intensity agriculture, such as grazing, field crops or marginal forest uses. Development rights will generally represent the least proportion of total value where there is little demand for a different, higher intensity use, and/or where there is a high-yield existing use. The following chart indicates how existing and potential uses may interact in the coastal zone to determine the relationship between total value and the value development rights.

CONCEPTUAL CHART.
 GENERALIZED TENDENCY FOR CONVERSION OF LAND TO URBAN USES



Source: Derived from Gruen & Gruen & Ass. & Sedway-Cooke, op. cit.

Previous studies indicate the cost of land which particular uses can support. Costs of \$500 per acre, for instance, begin to make cattle grazing economically infeasible and non-competitive with urban uses capable of supporting high land costs. With other crops, supportable land costs are greater, ranging from \$1,500 per acre for brussel sprouts, \$2,500 per acre for cauliflowers, \$3,500 per acre for artichokes, to \$4,000 per acre for strawberries and avocados.¹ Most urban or semi-urban uses command substantially higher prices, ranging from \$10,000 to \$50,000 per acre for second-home lots in many parts of the coast to over \$200,000 per acre for intensive urban development in major metropolitan areas.

In all areas where there is high accessibility to the coastal zone from major population centers, development rights are likely to exceed values for agricultural uses even at the highest limits. This is true of open land in large parts of San Mateo, Monterey, Ventura, Orange, Sonoma, Mendocino and Santa Barbara counties. There are, in fact, few areas of the coastal zone where land prices do not exceed \$500 per acre, the limit for grazing, due to speculation induced by perceived recreational subdivision potential. Only the absolute limits on demand seem to modify pressure for conversion of grazing land to urban uses.²

1 Gruen Gruen + Associates & Sedway-Cooke, Land Use Allocation System for the Coastal Zone, COAP, Appendix II, p. 230.

2 The evidence is that absolute demand is much less than might seem from attempts to subdivide. The rate of sales for second-home and retirement lots in the more remote areas is relatively low and the build-out rate for second-homes is less than one percent per year on outstanding lots.

The implication is that purchase of development rights, compared to purchase of fee simples, will not reduce acquisition costs substantially in those portions of the coast where development pressure is the most intense. In more remote areas, development pressures being less intense, the acquisition of development rights will be less expensive than acquisition of fee simple interests, so long as there is any viable, existing use. However, it is also in these areas that regulation of future development is most likely to be able to preserve important coastal resources and open space.

However, there is one advantage of acquisition of development rights (or easements of view or use) over complete public ownership. Public acquisition brings with it the necessary concomitants of public maintenance and management. To the extent that an existing use is profitable enough to support maintenance and is consistent with public policy, public acquisition of development rights could avoid the need for extensive public maintenance and management responsibilities. This may be important in the case of agricultural uses or in the case of open space operated privately for recreational purposes, including campgrounds, beaches and fishing or hunting grounds.

In these cases, by acquiring development rights rather than land, the state can reduce its necessary capital outlays, even if by only 25 to 30 percent, and can reduce prospective management costs. These savings may prove to be significant over a long period. Where agricultural uses produce relatively high rates of return, there may also be many farmers who would like to continue their present use of the land but either cannot afford the increasing taxes caused by increased market prices or want to realize at least part of the gain

in the value of their land. Although the Williamson Act is intended to protect agricultural uses from rising assessments (but not rising tax rates), it does not permit an agricultural landowner to receive any of the increased value of his land in cash. As a result many choose not to enter the preserve system. By a sale of his development rights the farmer can both realize a monetary gain and reduce his tax assessments, an alternative which many find quite attractive.

2. Purchase and Leaseback

An alternative to acquisition of development rights and to acquisition of land for permanent public use is a purchase and leaseback arrangement. This method, by which a public entity acquires a property and leases it for private uses acceptable to it, can also be used to protect agricultural uses, as well as to preserve, enhance or create desirable uses of the coastal zone. This approach has been used in the past by redevelopment agencies and port authorities at the local level where there is a need for flexibility to encourage desired uses of land. From the point of view of existing landowners, sale and leasebacks offer certain federal income tax advantages over outright sale or sale of development rights. Therefore, such arrangements may be more attractive to them and lower the costs to the public of preventing conversions to development.

This method requires a higher initial capital outlay by the State than purchase of development rights, but may cost the public less over time. Even in the case of agricultural uses, absorbable annual costs of land are likely to increase as a result of inflation in food prices. If a public agency finances acquisition from a long-term

bond issue, annual revenues from an agricultural lease will ultimately exceed annual debt service on the bond.

This method can also be used for (1) acquisition of undeveloped subdivision lots for resubdivision and leasing, (2) redevelopment of land in valuable shoreline areas for increased commercial recreation, (3) restoration of declining coastal communities, (4) banking land for future, coastal-dependent commercial, recreational and industrial uses, and (5) providing land for camping, parking and other ancillary coastal facilities.

The normal method for financing a purchase and leaseback or land-banking program is a revolving fund. A one-time fund is established to be used in acquiring properties. Revenues received from leasing the properties acquired are channeled back into the fund to cover costs of administration and other acquisitions. To the extent that a large portion of the leases finance the costs of acquisition over time, the revolving fund will be able to finance new activities and outlays each year. Annual appropriations can be made to cover deficits.

The revolving fund and revenues to be received from leases may also be used to provide the basis for issuance of revenue bonds to increase the amount of capital available initially to commence a program of acquisition. Through this mechanism the public can take advantage of the lower costs of borrowing money resulting from the tax-exempt status of interest on public agency debt. In turn there is a greater probability of the lease revenues being adequate to cover annual debt repayment.

There is in excess of 250,000 acres of undeveloped land in private hands in the 1,000 yard coastal strip, including about 50,000 acres

in agricultural use [COAP Plan, Table 1]. A program involving acquisition of from 5,000 to 10,000 acres, representing from two to four percent of the total and from 10 to 20 percent of the agricultural land would not be an unreasonable amount to begin a purchase-leaseback program intended to preserve the most critically threatened areas. If those most likely to be converted to developed uses are priced on the average at \$5,000 per acre, the initial capital outlay required would be from \$25 to \$50 million: if land costs averaged \$2,000 per acre, the requirements would be from \$10 to \$20 million.

If a revenue bond backed by a reserve fund of one-year's debt service or State guarantees were issued to support acquisition costs of \$20 million for 10,000 acres, the annual cost over 20 years would be about \$1.2 million to repay the debt. If this land were in turn leased at an average rental of \$100 per acre per year, the net deficit would be about \$200,000 plus the cost of administration.

This is the amount which would have to be appropriated by the legislature each year to replenish the revolving fund. The financial feasibility of such an operation would have to be worked out for different types of agricultural use and other open land uses on the basis of supportable rentals. Overall costs can be minimized to the extent that certain acquisitions include areas which could be developed for commercial recreational uses, with higher yields, generating revenues to support subsidized agricultural operations.

3. Dedications of Open Space and Access or In-Lieu Fees

Another means to reduce the cost of preserving open space and critical resource areas in the coastal zone is to require dedications of easements and lands by land developers during the process of

subdivision or development. This method, used for many years by cities and counties in order to ensure the availability of adequate parks and open space, can be very useful in those areas where there is substantial development pressure and where the coastal plan will permit relatively high intensity urban uses.

Since there may be a higher priority for acquisition of public access or open space in areas different from those being proposed for development by a particular owner, it may be desirable to establish a system whereby those permitted to develop can contribute cash in lieu of open space dedications to a revolving fund earmarked for acquisitions. This method has been used successfully by several cities to acquire park and recreational lands where they are most needed. Indirectly, this would also derive funds from residents in the urban coastal areas to finance recreational development in the more remote areas for their enjoyment as vacationers.

4. Development Rights Transfers

Transfer of development rights, discussed in the report on Powers, does not actually involve the expenditure of public monies directly. It attempts to avoid such expenditures by transferring the development potential of land from those areas in which development is undesirable to those in which it is. To the extent that it is successful, public funds do not have to be spent in preserving open space.

In many cases, however, to make this method work may require a fund which could be used to establish a market in development rights by buying and selling such rights throughout the coast. By this means an investor who wanted to build in a particular area could buy unused development rights in another area rather than engage in the cumbersome

process of land or development rights transfers.

It might be desirable to establish a small demonstration fund to experiment with this idea in order to determine whether coast-wide development rights transfers are feasible.

Alternative Sources of Revenues to Support Coastal Activities

Government derives its financial resources primarily from three sources: charges and fees for services, taxation, and grants or loans from other governments. In some cases, these sources are supplemented by revenues from the sale of government assets, such as mineral deposits or land. During preparation of the San Francisco Bay Plan, an extensive analysis of revenues to support activities similar to those of the Coastal Commissions was conducted.¹ Among the available categories of revenue, taxation accounts for the vast proportion of governmental revenues at all levels.

1. User Charges

While there is continuing interest in user charges to finance governmental expenditures, their use is often impractical, inequitable or undesirable. Use of such charges requires the existence of four conditions: (1) that the users or beneficiaries of a service be clearly identifiable, (2) that they receive a special benefit not accruing to the public at large, (3) that the cost of collection be reasonable, and (4) that imposition of the charge not discourage desired use or unfairly discriminate against those with limited resources.

¹ Baxter, McDonald and Company, "Powers: Sources of Funds," prepared for the San Francisco Bay Conservation and Development Commission, April, 1968.

User fees for open space preservation and recreation are generally not equitable or feasible. If fees high enough to cover costs are charged for use of most recreational facilities, they will inhibit use by low income persons. For many facilities, such as beaches and parks, collection is too costly. In the case of open space preservation and environmental protection, benefits are widespread, special beneficiaries are hard to identify, and benefits difficult to measure.

Thus, generally, user charges or sale of services do not provide a practical or equitable means to support most coastal management activities. This does not mean, however, that no special charges should be imposed where there are special, measurable benefits to a defined class of people or businesses or that systems of taxation should not take account of the general distribution of benefits from coastal expenditures. It does mean, however, that taxation will be necessary to provide adequate funds for a meaningful program of coastal management. Special charges may be utilized primarily for reasons of social equity rather than to raise adequate revenues.

2. Evaluating Revenue Sources Within the Context of the State Fiscal System

Existing revenues, with some exceptions, can be considered unavailable for new activities. Accordingly, the Governor's 1974-75 budget message requires revenue sources to be identified for each bill proposing new State activities costing in excess of \$1 million.

Proposed new taxes should be evaluated by reference to the State's existing fiscal system. Systems of taxation and revenue production are typically evaluated in terms of their yield, ease of collection, equity, and efficiency (where efficiency means non-distortive of economic decisions).

One of the most important criteria -- equity -- is difficult to evaluate for any single source of revenue without reference to the entire tax system and the nature of the expenditures to be made. A tax with regressive tendencies will not necessarily create a regressive fiscal system if progressive taxes are the primary source of revenue. On the other hand, even a very progressive tax will not have a fair impact if all the revenues are expended in satisfying the needs or desires of taxpayers with above-average ability to pay.

Presently, almost 75 percent of state general fund revenues (about \$4 billion) is derived from personal income taxes and retail sales and use taxes, each producing about equal amounts (34 percent). Bank and corporation income taxes provide the third largest source at 13 percent of total general fund revenues. These three taxes also have the highest elasticity, i.e. collections increase rapidly over time. When local government expenditures are taken into account, the property tax becomes the largest single source of revenue to all governments in the State. Total property tax collections, in excess of \$6.5 billion annually by all governments, exceed the combined yield of sales and personal income taxes. Due to the recent increase in the State sales tax rate to finance an increasing proportion of local school expenditures, this source will probably be the primary source of revenue to the state government in the next several years, outpacing income tax receipts, and will reduce local reliance on property taxes to some extent.

Generally, the sales tax is considered a regressive tax, although its regressivity is minimized by California's exclusion of food and medicine from the base and by the tendency of consumption to increase with income (at least at low rates of inflation). Economists disagree

substantially on whether or not the property tax is regressive in its overall impact. With the expanded homeowner's exemption and the new renter's credit against State income taxes, the property tax in California is probably not as regressive as in the past. However, the property tax does currently amount to a very large proportion of governmental revenues and has some very undesirable effects on development patterns, including causing development to occur in a manner contrary to local and State planning policy. These effects have required special legislation, such as the Williamson Act and Article XIII, Section 2.5 of the Constitution, to encourage continued agricultural use where development pressure increases values and to prevent excessive taxation of single-family homes susceptible to higher intensity development.

Ideally, coastal activities might be financed from an increase in income tax rates since it takes a very small increase to raise additional revenues, the income tax is generally considered progressive, and it is unlikely to have adverse affects on the economy or State policies. Generally, income tax rates are not changed to fund particular programs because it is difficult to match rates with desired yields and because the tax is so important in terms of general support for all State programs. Consideration can be given to special income tax surcharges for special purposes which would be levied over a limited period, however. Such surcharges have been used in the past by the Federal government to check inflation. Indirectly, voter approval of a bond issue may ultimately involve an increase in income tax rates to accomodate the effect on total State costs of government; whether this is the result depends on legislative policy with regard to revenue

production generally.

Due to the existing high rate and general regressivity of the sales tax, it is not considered an appropriate source to finance coastal activities. Some consideration is given to the use of a property tax where a very low rate could produce a high yield, because the property tax in some respects reaches an even broader base than the income tax, particularly with respect to business assets. However, at the present time, an increase in property taxes for any purpose is unlikely to be popular.

In general, revenue sources which are examined are fairly special taxes or other sources which have some link to coastal activities, can produce the needed amount of revenue equitably without adverse economic effects, and appear to be consistent with coastal policies. To the extent that regular existing revenue sources are to be used, there is little reason to specify any particular rate for coastal purposes.

3. The Coastal Zone as a Taxing Jurisdiction

Due to the geographical identity of the coast as a particular section of the State, financing a coastal management program from taxes within that territory has a certain initial appeal. One method would be to create a special taxing district or to levy taxes only within a specified area. This approach is similar in concept to the use of benefit charges or fees and requires identification of beneficiaries of coastal management as justification.

Various taxes can be levied within a sub-state area if so desired. A benefit theory of taxation would call for imposition of such a tax so as to charge the costs of a program to those who benefit. This is the underlying rationale for the creation of special districts.

Consideration has been given to three generalized areas which might be considered "benefit zones" of coastal programs for taxing purposes: (1) the immediate shoreline area, involving distances inland from the mean high tide line of from a few hundred feet to 1,000 or more yards, or alternatively an area defined in terms of access to or view of the water; (2) a coastal zone of variable width, defined topographically in a manner similar to the definition in the Coastal Conservation Act, intended to represent a geographical area intimately tied to the ocean and the shoreline and ecologically a part of the coastal environment, including the substantial population which has settled in the coastal plains, or coastal counties¹; (3) a coastal access zone, defined in terms of some distance to the shoreline (perhaps 30 miles or one hour) intended to include that population and area which tends to make primary use of the coast as a recreational resource and which generates significant demands on coastal resources in the consumption of energy, food, and land.

As indicated by Table 3, no reasonable system of taxes levied solely on population and businesses within the immediate shoreline area, is likely to produce adequate revenues for the functioning of a coastal agency, much less for a major acquisition program. Therefore while it may be desirable for reasons of equity or policy to levy special taxes on occupants or developments within this area revenue requirements demand a broader base.

More importantly, it is difficult to justify the imposition of taxes solely within this zone since users and beneficiaries of the coast clearly exceed the small number living or doing business here.

¹ Although the 15 coastal counties define a somewhat arbitrary area in terms of natural ecology and demographics, these jurisdictions might serve as a surrogate for a coastal zone to simplify taxation.

TABLE 3

Estimated Revenue Potential of Alternative "Coastal Benefit Zones"
for Selected Taxes and Other Sources

Annual Revenues in Thousands of Dollars (1972-73)

Taxing Jurisdiction

Source	Rate	State	%	Coastal Access Zone (Counties within one-hour of Coast)	Coastal Zone Counties excluding Bay Area	%	Coastal Strip (1000 yards)	
							Maximum	Minimum
Sales Tax	1%	617,000		483,175	396,474		23,000	8,000
Property Tax	1¢/\$100	5,960		4,720	3,790		225	75
Capital Gains Tax on Land	10%	min. 15,000 max. 90,000		12,600 74,100	9,400 55,200		730	250
Capital Gains Tax on Real Property	10%	min. 42,600 max. 250,000		35,100 206,000	26,100 153,300		2,030	690
Transient Occupancy Tax	1%	6,765		5,321	4,896		660	455
Property Transfer Tax	2¢/\$100	5,070		4,170	3,110		200	180
Personal Income Tax-Collections, 1971		1,132,505		952,043	731,634		45,000	17,000

Notes: (1) Since most financial data is not available for areas smaller than a county, it has been necessary to use county boundaries to define the "coastal access zone" and the "coastal zone." The Coastal Zone consists of 15 counties touching the coast in this table, including the city and county of San Francisco. The coastal access zone includes, in addition, the other 8 counties in the 9 county Bay Area, Lake, and San Benito counties, all of which are within an hour's drive of the coast.

(2) Estimates for the coastal strip are based on very limited data available on property transactions and hotel-motel tax receipts in this area. In some cases only a wide range of estimates is possible without a major research effort.

The second area — the coastal counties — would tend to include more of the direct beneficiaries of coastal management but the vagaries of topography would create substantial inequities in the tax burden among communities throughout the state. For instance, a resident of Los Angeles County living 30 miles from the coast in eastern L.A. County may have access as good as that of a resident of San Jose and yet would be paying a tax where the San Jose resident would pay none. Some cities, such as San Francisco, Santa Cruz and Santa Barbara would be wholly included. Others, such as San Bernardino, Oakland and San Jose would be excluded. While the concentration of population in this area along the California coastline would probably provide a base generating sufficient revenues at some reasonable tax rate, it would be difficult to justify the exclusion of other areas.

The third alternative for a sub-state taxing area would involve definition of an access area. If defined as a one-hour driving time such a zone would take most State residents who benefit significantly from coastal conservation. However, this area would contain over 80 percent of the state's population, economic activity and taxable resources. Given these facts a sub-state taxing scheme seems unnecessary and unduly cumbersome for purposes of achieving an equitable method of financing widespread benefits from coastal management.¹ It would certainly be very difficult to identify and define a fair and workable access zone.

1 In this context it should be noted that the State as a whole finances conservation and management of important inland areas, as well, including the state forests, Tahoe Basin planning and management, and many parks and recreational areas. These areas, like the coast, benefit both residents with immediate proximity and residents in the more distant major urban centers.

Considerations such as these support statewide financing of coastal management and conservation activities from taxes collected on a statewide basis and from other sources of revenue available to the State as a whole, rather than to a smaller area.

4. Earmarked Revenues versus Annual Appropriations

It is increasingly common, where a funding need is generated by a new activity or agency, to look for sources of revenue which can be earmarked for the desired purpose or agency. This approach is often useful or necessary in the case of new regional or local activities, either because no existing general purpose government has broad taxing powers within an appropriate jurisdiction or because benefits are expected to accrue to a small population. At the State and Federal level, earmarking of revenues for specific purposes is sometimes justified on the basis of a tangible relationship between the source and the object of expenditures, such as gas taxes for the highway trust fund and oil revenues for the land and water conservation fund. More often than not, the real reason for earmarking revenues for a specific purpose is to fund a long-term commitment or to free a particular function from the normal budget and appropriation process. Over time, this approach distorts the revenue system and limits flexibility in responding to new needs. It is least justifiable where program benefits are widespread and costs are variable over time.

The enactment of the California Coastal Zone Conservation Act by voter initiative and its expressed purposes encourage an approach to future financing of coastal management activities that

guarantees an adequate and fully-funded planning and implementation program. On the other hand, the act's provision for self-expiration indicates an expectation that the legislature will finance future activities in accordance with accepted principles and practices of public financing. Thus, the question of means to finance future coastal management is complicated by opposing tendencies and is further complicated by the special nature of coastal resources and by the long-term financial commitment required to protect and enhance the coastal environment and its recreational potential.

The general approach taken here is to evaluate revenue sources differently for two broad functional categories. On the one hand, operational requirements of a coastal agency related to planning, regulatory and enforcement activities are assumed to be financed by annual legislative appropriations from the general fund, like the requirements of other State agencies. It is anticipated that related financial requirements, such as assistance to local government in coastal planning and maintenance of coastal resources research and monitoring efforts, and program operations, the costs of which will vary over time, may be financed in the same manner. On the other hand, a major capital outlay program involving land acquisition, open space preservation, marine protection and resource enhancement implies a long-term commitment of large magnitude and requires either a major bond issue or earmarking of special revenues or both. In accordance with this distinction, the remainder of this report identifies revenue sources that could be used to cover the general magnitude of annual appropriations from the general fund likely to be required in the next five or seven years for coastal planning and management operations of the successor coastal agency and a different set of revenue sources

that might as well be earmarked solely for coastal acquisitions and similar capital outlays over the next 20 years.

Financing Planning, Regulation, Enforcement, and Administrative Activities; Assistance to Coastal Cities and Counties

Although the coastal agency's requirements will be small in terms of the total State budget, competition for funds requires some attention to sources of funding. The range of costs to be funded has been identified previously to be from \$3.7 to \$7.5 million annually. In addition, local governments will require increased revenues to carry out necessary local planning efforts as well as to improve maintenance of coastal recreational areas. The amount required is not known and is likely to vary among communities and from year to year. Revenue sources suggested for possible use include permit fees, a State transient occupancy tax, a State property transfer tax, a State land gains or real property gains tax, an oil shipment excise tax, and Federal grants under the Coastal Zone Management Act of 1972. Some of these sources could produce substantially more revenue than is required for the coastal agency, even at very low rates. Consideration is given to their use in assisting local governments in the coastal zone to improve coastal planning, environmental protection, and maintenance of coastal recreation facilities. Problems incurred by coastal cities and counties in bearing the costs of coastal beaches and parks used by residents from throughout the State are discussed in the Recreation Element.

1. Permit Fees

If a permit system similar to that which exist today continues in the future, permit review activities will have to be funded. Current costs are about \$1.2 million per year for both State and Regional permit review. Future costs in today's dollars could range from \$1 to 1.5 million depending on the size of the permit area. (See Table 1).

These expenses may be financed through the establishment of a permit review fee system. Use of permit fees to finance permit review has the advantage of flexibility. Fees can be revised rather easily as total costs vary.

The purpose of such a fee schedule is to recover for all the taxpayers of the State at least a portion of the costs regulating coastal development. Use of permit fees to finance regulation of coastal development is justified for two reasons: First, those building or developing in the immediate shoreline area generate the need for review and analysis; second, those who use or occupy the shoreline area and benefit from proper regulation and management should bear the costs of that regulation. Since permit fees will normally be borne by developers or passed along to occupants by developers, permit fees can be viewed as a tax on the special benefit of occupying the critical coastal resources represented by the land at or near the water's edge.

The costs of processing applications for permits are not difficult to determine given sufficient data upon which to base an estimate. Originally the Commission, being a new agency, did not have such information and adopted a fee schedule which did not recover the costs of review.

In this schedule, fees were levied according to procedural classification. That is, they were levied in accordance with whether or not a project is subject to administrative approval, is placed on the consent calendar, or goes to public hearing. The fees were \$25 for an administrative permit, \$50 for consent calendar permits, and \$250 for permits going to public hearing. Although the intention was that the fees bear some relationship to the costs of review, there was no attempt to relate charges to the value or nature of the project and the same

fee was levied regardless of whether the project involved a single-family home, a 200-unit condominium, an oil refinery or a shopping center.

The essential difficulty in designing a fee schedule is the balancing of the need to cover costs with fairness to applicants. The costs of processing permits do not necessarily vary with the size of the project. A multi-million dollar project might raise few coastal issues, thus allowing speedy permit processing, while a single-family residence in a scenic area might reflect lengthy and complex staff and Commission study. Were the single-family homeowner, in this case, faced to bear the entire administrative cost of processing the permit, the burden, in terms of the fee as a percentage of the total cost of the project would be unduly heavy, and would act as a regressive tax on smaller developments.

Analysis of current expenditures and revenues related to permit review activities indicates that the original permit fees covered only about 60 to 80 percent of expenditures attributable to Regional permit review, depending on the Region. In addition, no fees were charged for appeals to the State Commission, and public agencies pay no fees on their projects; as a result, total permit revenues covered only about one-third of total expenditures incurred in the permit function.

Although there is no statewide information on the characteristics of projects for which permit applications were filed under this schedule, very good information exists for the South Coast Region, which represents about 40 percent of all applications filed and 50 percent of the permit revenues.

TABLE #4

ESTIMATED PERMITS PROCESSED IN THE SOUTH COAST REGION,

MARCH 1, 1973 - FEBRUARY 28, 1974

Project Type	Number of Applications	Number of Units	Total Area (000's sq ft)	Average Size (sq ft)	Total Value (000's \$)
Commercial	235 (10.5%)	-	4,872.5	20,734	132,536.0
Industrial	83 (3.7%)	-	1,468.4	17,692	39,637.2
Single Family	914 (40.8%)	1,536	3,122.2	3,416	65,447.9
Multifamily	674 (30.1%)	15,704	10,595.3	15,720 (675/unit)	381,484.0
Public Utility	139 (6.2%)	-	614.7	4,422	143,263.0
Recreation	96 (4.3%)	-	510.2	5,315	28,111.2
Demolition	31 (1.4%)	-	153.8	4,961	473.2
Dredging	9 (0.4%)	-	NA	NA	49,391.3
Other	58 (2.6%)	-	716.3	12,350	30,453.2
TOTAL	2,239 (100%)	16,618	22,053.4		870,797.1

Source: Estimated from data on permits collected by Sea Grant Program, University of Southern California.

Table 4 presents an estimated breakdown of projects for which permit applications were received in the South Coast Region between March 1, 1973 and February 28, 1974. Although the breakdown is likely to be different in other regions, the use of the South Coast data presents a fairly good approximation which can be revised later.

During this period, permit revenues were about \$200,000 (see Table 7). It is estimated that costs of permit review at the Regional level were at least \$350,000. Appeals to the State Commission from this Region represent about 50 percent of total appeals and State permit review costs were about \$175,000. Therefore, total expenditures attributable to permit applications in this Region are estimated at about \$425,000. To finance this from permit fees would require more than doubling of permit revenues. The following table indicates the average fees paid for all categories of projects in the South Coast Region by type, size and value. As the table indicates, there was no reasonable correlation between the fees paid and project characteristics.

TABLE #5
 AVERAGE FEES PAID FOR PERMIT APPLICATIONS
 BY TYPE, SIZE AND VALUE OF PROJECTS
 SOUTH COAST REGION, MARCH 1, 1973 - FEBRUARY 28, 1974

Project Type	Average Fee per Project Application	Average Fee per 100 sq ft	Average Fee per \$1,000 of Construction Cost
Commercial	\$ 96	\$ 0.46	\$ 0.17
Industrial	111	0.63	0.23
Single-Family Residential	59	1.74 (\$35/unit)	0.82
Multifamily Residential	131	0.83 (\$6/unit)	0.23
Public Utility	87	1.98	0.08
Recreation	86	1.62	0.29
Demolition	45	0.90	0.29
Dredging	15	NA	0.03
Other	91	0.73	0.17
TOTAL	90	0.88	0.23

(NA = not available)

Source: A sample of projects in the South Coast Region for which data was collected by the Sea Grant Program, University of Southern California.

In addition, due to the fact that permit fees are levied in accordance with the category of permit review required, there is a substantial discrepancy between fees charged and values of projects even within specific types, as the following table indicates for the four major categories of projects. As a whole, relative to the value of work for which a permit is sought, the highest fee was paid for the least amount of value, since administrative permits are issued largely for minor repairs and improvements.

TABLE #6
 AVERAGE FEES PER \$1,000 OF VALUE
 FOR FOUR TYPES OF PROJECT BY TYPE OF PERMIT,
 SOUTH COAST REGION, MARCH 1, 1973 - FEBRUARY 28, 1974

	<u>Permit Type</u>		
	Administrative	Consent Calendar	Public Hearing
Single-Family Residential	\$ 1.57	\$ 0.83	\$ 1.43
Multifamily Residential	2.24	0.71	1.76
Commercial	2.40	0.71	2.07
Industrial	2.40	0.28	1.37

Source: Derived from a sample of building permits for which estimates of construction costs are available; collected by Sea Grant Program, University of Southern California.

Examination of detailed data on the values of projects for which permit applications are filed also indicates that there was a wide range of values of projects, even within categories, with homes ranging from

\$50,000 to over \$200,000 and commercial projects showing a similar range. This indicated the need for a permit fee schedule that bears some relationship to value. Although use of value as a base would tend toward greater equity, it is difficult to verify cost estimates supplied by project sponsors, particularly where there is an incentive to underestimate. This has been a problem with building permit fees. To the extent that size is a good proxy for value, which should be generally true at least in the case of new construction, a permit fee schedule based on size for the major project categories can achieve a fairer relationship between fees and values of projects or improvements for which applications are made. Size is far more susceptible of verification and can provide a suitable substitute in most cases.

Although estimates can only be made on the basis of the average project within each type, a fee schedule should provide for variations on the basis of size and the nature of improvements, particularly for residential projects. The nature of the permit (whether administrative, consent calendar, or public hearing) should not be a relevant factor. The purpose is to finance the review function equitably in accordance with the benefits obtained by the project sponsor or future occupants or users.

On the basis of the information received from the South Coast and 18 months experience with the original inadequate schedule, the Commission revised them in accordance with the criteria set out above. The revised schedule of fees maintains a fee of \$50 for a single family residence and increases it to \$50 for consent calendar items. Major developments under the new schedule must pay between \$250 to 2,500 - depending upon size and cost of development. Minor projects, those under \$1,000 may have the fee reduced to \$50.

From the South Coast information it appears at least in terms of revenue generated from multi-unit residential housing development the revision will increase revenues by over 100 percent.

Without complete examination of all the Regions' permit applications it is not possible to thoroughly forecast the potential revenues under revised fee schedules for the statewide permit operation. However, it is likely that at least the more urban Regions, which generate most of the applications for permits, will follow patterns similar to those in the South Coast and the revenue impacts will be about the same. The bulk of permit fees must be derived from residential permits if this function is to be self-financing, although higher average fees can be charged commercial and industrial developments.

On the basis of extrapolation from data on the South Coast, it is clear that a revised fee schedule could produce from \$1.2 to \$1.5 million annually on the basis of current permit trends. This would be adequate to cover the costs of permit review.

TABLE #7

CURRENT REVENUES, SOUTH COAST REGION, 1973

Based on Permit Applications from March 1, 1973 - February 28, 1974

Project Type	Current Revenues (1973) OOC's \$	Current Average Fee per Permit
Commercial	\$ 22.5	\$ 96
Industrial	9.2	111
Single-Family Residential	54.2	35
Multifamily Residential	88.2	131
Public Utility	12.1	87
Recreation	8.5	86
Demolition	1.4	45
Dredging	0.1	15
Other	5.3	91
TOTAL	\$201.6	\$ 90

Notes:

- (1) Current revenues are based on estimated collections between March 1, 1973 and February 28, 1974. Average fees are a composite of fees collected for various types of permits within each project type and are estimated on the basis of a large sample of all permits during the same period collected by Sea Grant, University of Southern California.
(cont. on following page)

2. Grants under the Coastal Zone Management Act of 1972

Although Federal matching grant programs should not ordinarily be considered as regular revenue for any State program, the federal Coastal Zone Management Act is unusual. Its apparent intent is to provide a source of revenues to finance on-going coastal management activities. The act provides for three types of grants to States.

The first type of grant authorized by the act is a "management program development grant" or "Section 305" grant. These grants are available to cover up to two-thirds of costs incurred in developing a coastal management program. The Coastal Zone Commission is receiving a \$720,000 grant for fiscal year 1973-74, to be expended by April 1974. This grant constitutes 10 percent of total appropriations, the maximum percentage which any state may receive. The act limits such grants to three consecutive years for any one State, and California's share will probably be expended by the time the legislature adopts a coastal plan.

Once the Secretary of Commerce, acting on the recommendations of the National Oceanic and Atmospheric Agency (NOAA), the administering agency, accepts a coastal management program developed and adopted by a State, the State agency responsible for coastal management becomes eligible for "Section 306" or "administrative" grants. These are intended to cover up to two-thirds of State expenditures in coastal management; each state is limited to a maximum of 10 percent of total appropriations. California's program is likely to qualify and California will be one of the first eligible states. There are a total of 34 eligible entities (30 states and 4 territories) under the act. California is the most populous (10 percent of U. S.) and has a long shoreline. At least in the near future it is reasonable to expect

that California would qualify for the maximum 10 percent of total available appropriations. Once other states develop coastal plans, there will be more competition.

The Section 306 grant program is authorized to be funded at a rate of \$30 million annually from fiscal year 1974 through 1977. There have been no appropriations because there are no eligible programs. Only \$2.1 million has been requested for FY 1975, based on anticipated requests from a few eligible entities, probably including the San Francisco Bay Conservation and Development Commission. The section would have to be reenacted in 1977 for later fiscal years.

The administrative grant program would probably be available to finance continuing planning and regulatory activities involved in implementation and refinement of the State's plan, as well as enforcement, and research and demonstration projects. Generally, the attitude of NOAA is that the Bureau of Outdoor Recreation's Land and Water Conservation Fund should be used for major capital outlays¹.

Since the grants must be matched with State or local funds, revenue will have to be found to provide the matching funds from other sources. If permit fees went into the State general fund and direct appropriations were made to finance planning and regulatory activities, such appropriations would probably qualify as matching funds. Thus, the permit fees would effectively serve this purpose.

If it can be assumed that the program will be fully funded at \$30 million annually at least through 1980, then California may be expected to receive up to \$3 million annually. When added to necessary matching funds of \$1.5 million from the State, this program would provide a total of \$4.5 million, a major portion, if not all, of the operating

¹ Conversation with Ms. Judy Penna, Office of State Affairs, NOAA.

costs of a coastal agency. If permit fees are revised to bring in about \$1,200,000 per year (three times the current level), the net cost to the State of matching funds would be only \$300,000 per year. More conservatively, California may only receive \$1.5 to \$2.0 million. Although the Federal grant program cannot be relied upon indefinitely, it might provide major funding for coastal agency operations during the rest of this decade.

3. New or Increased Taxes

Depending on the regularity and level of funding under the Coastal Zone Management Act and permit revenues, new revenue to support the planning and regulatory functions of a coastal agency, and ancillary functions, could range from \$500,000 to \$6 million a year. This section discusses taxes which could be used to raise part or all of this amount and to finance other coastal programs, particularly at the local level. Table 8 (see following page) presents estimated revenues derived from imposition of selected new taxes to finance the coastal planning and regulation and related purposes.

a. State Transient Occupancy Tax. This tax is equivalent to a sales tax on hotel and motel room rentals. It is presently levied by almost all counties and cities in the State; there is no State tax. The typical local rate is 5 percent, the maximum rate permitted under State law, except for chartered cities and counties.

The rationale for increasing the rate of this tax to finance coastal activities is found in the strong attraction of the coastal zone and activities located within it to tourists and State residents traveling for pleasure within the State. The tax is one means by which the benefits from coastal planning and management can be financed in part

TABLE #8

ESTIMATED REVENUES FROM NEW TAXES
TO SUPPORT A SUCCESSOR COASTAL AGENCY
(1972-73 Dollars)

Tax	Estimated Base (000's)	Illustrative Rate	Annual Revenues (000's)
State Transient Occupancy Tax	\$676,500	1 percent	\$ 6,765
State Property Transfer Tax	\$25,400,000	10¢/\$500	5,080
Oil Export-Import Tax	190,000,000 to 500,000,000 barrels	1¢/barrel	1,900-5,000
Property Tax	\$60,000,000	1¢/\$100	6,000
Cargo Value Excise Tax	\$10,000,000	0.1 percent	10,000

Note: The estimated base for the transient occupancy tax is estimated from collections by cities and counties during FY 1972-73 on the assumption of a 5 percent rate, which is used by almost all counties and cities. The base for the property transfer tax is estimated from collections by cities and counties during the same year, based on a fixed rate of 55¢ per \$500 in value of property transferred. Estimated receipts from a tax on petroleum exports and imports are based on shipments in the period January to June, 1973, and projections in the element on Water Transportation for imports in 1980.

by out-of-State visitors and by inland residents of the State who travel to coastal communities for vacations and weekends. About three-fourths of all hotel and motel tax revenues are earned in the coastal counties and over 85 percent of the State total is earned in counties within 30 miles of the coast. An increase of one percent in this tax, to equal

the rate of the statewide sales tax, is unlikely to diminish tourism in the State.

Opposition to such a tax is likely from the hotel industry and from counties and cities which presently have exclusive use of this source. In 1973, statewide receipts by counties and cities exceeded \$30 million. An attractive possibility would be to share the revenue from a statewide levy with coastal cities and counties to defray some of the local costs attributable to visitors to coastal attractions. The disadvantage of the current tax to coastal cities is that many tourists stay at inland hotels and motels and visit the coast during the day. Thus, cities receive revenues from the tax but do not necessarily bear the costs tourists impose for beach maintenance, police protection, and transportation (see Recreation Element).

A survey of visitors from out of State and of State residents taking pleasure trips in 1966 indicated that 76 percent of all out-of-State visitors traveled to coastal areas and that 14 percent visited coastal beaches. In addition, 85 percent of all resident pleasure trips were made to coastal areas, with trips to the beach representing the largest single category of day travel for pleasure (30 percent).

If half of statewide receipts were shared with local governments—at least \$3.4 million—this amount would exceed current collections by coastal cities. If the local share were divided 75 percent for coastal cities and 25 percent for coastal counties, city receipts would increase by almost 80 percent and county receipts by 40 percent. Actual distribution of funds should be based on need, as determined from submissions by the cities and counties each year with respect to expenditures incurred in providing for coastal recreation.

One advantage to local governments of a statewide levy is that there would be no impact on local revenues from the local tax. At present, neighboring localities cannot have very different rates lest tourists choose to stay in other communities.

b. State Property Transfer Tax. The property transfer tax is currently used exclusively by counties and cities under uniform State legislation. Where cities have enacted such a tax (and virtually all have), receipts are shared one-half with the county. Counties receive 100 percent of all collections in unincorporated areas and in cities where no tax has been enacted. The allowed rate is 55¢ per \$500 of equity transferred, or 11/100ths of 1 percent, a very low rate. Statewide, this tax generated \$27 million in 1972-73 from a revenue base of \$25 billion in values of property transferred. An additional 10¢ per \$500 (for a total rate of 65¢ per \$500) could generate \$5.0 million more. Such a small increase, indeed even a more substantial increase, is unlikely to have any effect on real estate transactions and would not reduce existing local receipts. The tax on the sale of a home worth \$50,000 would be only \$65 under the increased rate, an additional \$10. A statewide rate of 10¢ per \$500 would generate an adequate amount for coastal planning and permit functions and probably leave an additional amount available to finance other activities, so long as other sources of revenue were available.

As in the case of the transient occupancy tax, opposition to use of this tax by the State may be expected from cities and counties, since such use invades a revenue source previously committed to them. This opposition might be lessened if an additional increase were granted for local purposes or if some of the monies were transferred to localities to cover acquisition and development of local recreational facilities in the coastal zone.

A statewide property transfer tax is itself difficult to justify solely for coastal purposes, since there is no direct link between statewide property transfers and coastal concerns. It may be seen more appropriate as a source for financing open space preservation throughout the State, levied at a much higher rate, in which case a large portion would appropriately be allocated to coastal land acquisitions. If increased to \$1 per \$500 in transfers, the tax would generate an additional \$23 million a year. If 25 percent of this amount were used to finance coastal planning and management activities, such an arrangement would make almost \$6 million available for such purposes. The remainder could be used for open space and conservation planning and management in other parts of the State.

It is also conceivable to levy such a tax only within a coastal strip (such as 1,000 yards). As indicated before (see Table 3), such a tax would raise only about \$200,000 a year at a rate of 10¢ per \$500 if levied in the immediate shoreline area; however, an increase of 50¢ per \$500 would raise \$1 million. If the tax were levied only within some strip of coastal area, it would probably discourage property transfers, compared to other areas, possibly reducing speculation. However, the proper taxing area would be difficult to identify, enforcement would be costly, and there would probably be unexpected effects on the real estate market, such as increased use of leases, rather than sales, to market property. As indicated previously, levying of taxes only in a specific coastal area is unlikely to be desirable or feasible for a variety of reasons.

c. Oil Export-Import Tax. A potential source of revenue which would be well justified for coastal purposes is an excise tax on petroleum exports and imports. Maine apparently levies such a tax. A similar

tax has been suggested by Assemblyman Ken Cory, Chairman of the Joint Committee on the Public Domain. As proposed, a one-cent excise tax would be levied on every barrel of oil exported, imported, or produced in California. Revenues from the tax would be used for research and development on oil spill clean-up and for coastal land acquisition. It is estimated that the tax might produce \$6 million a year, if local production is included. The tax contemplated here would not cover locally produced oil which is not exported.

At the present time, it is estimated that over 500,000 barrels per day of crude oil and petroleum products are imported or exported into and from California ports. In the future, this amount is expected to increase to as much as 1,400,000 barrels per day. As a result, potential receipts from a one-cent-per-barrel tax are estimated to grow from \$1.9 to \$5 million by 1980. Additional amounts would be collected if local production consumed in California were taxed. This source would provide adequate funds for coastal planning and regulation, including research and development on oil spill prevention and clean-up. However, it is unlikely that this source would contribute significantly in the near future to coastal land acquisition, given the magnitude of the needs.

d. Property Tax. A statewide property tax, even at a very small rate, is unlikely to be used to fund agency operations unless the agency is to have independent funding authority. It is worth noting, however, that a statewide levy of only 1¢ per \$100 of assessed valuation would raise over \$6 million annually. This would cost a homeowner with a \$30,000 home only 58¢ a year. It is possible that the same voters who initiated and approved Proposition 20 might wish to use such a tax to finance coastal preservation activities. A tax of 10¢ per \$100, costing

the average homeowner less than \$5 per year, would generate over \$60 million per year, enough to begin a major program of acquisition.

e. Cargo Excise Tax. A total of about 25 million tons a year of cargo, excluding oil and other liquid cargo, moves through California ports, worth over \$10 million. A tax of 1/10 of 1 percent of the value of cargo imports and exports would raise \$10 million annually and more as shipments increased. However, more research would be required to determine the feasibility and desirability of such a tax.

Other sources, which could raise more revenue than is required for coastal planning and regulation, are discussed in the next section.

Financing a Major Acquisition, Conservation and Coastal Enhancement Program
to Implement the Coastal Plan

Requirements for acquisition of lands for coastal recreation, protection of critical environmental areas, and preservation of open space have been estimated to require annual revenues in excess of \$100 million for annual programs to fund State bond issues or for other purposes. If a bond issue were passed, it could be financed from future State revenues from various sources, including the personal income tax. The purpose of this section is to indicate other sources of revenue, related to coastal management actions, which might be appropriate to earmark for special programs, an annual capital outlay program or to repay a major bond issue. Due to the magnitude of the requirements there are few sources which will generate adequate revenues. Although different sources might be used for separate programs, all needs have been combined into a cumulative funding requirement for purposes of this analysis. In any event, the major need is for acquisition of recreational lands and development of recreational facilities, a function for which long-term financing is the most appropriate. Thus, the revenue sources analyzed should be considered as potential means to finance a large bond issue or to make large capital outlays over a period of about five years, as well as to support the annual costs of special programs, such as purchase-leaseback of agricultural lands.

The following revenue sources have been identified as alternative and cumulative means of financing a major acquisition and conservation program: tideland oil revenues, real property or land gains tax, coastal airport use tax, Federal grants, a statewide property tax, property

transfer tax, and an income tax surcharge. Potential yields from these sources, are estimated as follows based on current tax bases.

TABLE #9

ALTERNATIVE REVENUE SOURCES TO FUND A MAJOR PROGRAM OF COASTAL CONSERVATION, ACQUISITION, RESTORATION AND REDEVELOPMENT (1972-73 DOLLARS)

Source	Estimated Base	Illustrative Rate	Annual Revenues
Tideland oil revenues	n.a.	n.a.	\$50-\$200 million
Property gains tax	\$426 million to 2.5 billion	10%	\$43-\$250 million
Land gains tax	\$153 to \$900 million	10%	\$15-\$ 90 million
Coastal airport use tax	[45 million passengers]	\$1	\$ 45 million
State property tax	\$60 billion/ assessed valuation	10¢/\$100	\$ 60 million
State/income tax surcharge	\$2.5 billion income tax payments	5%	\$125 million
Federal Coastal Management Act grants for estuarine sanctuaries	-	-	n.a.
Land and water conservation fund	-	-	n.a.

1. Tideland Oil Revenues

Tideland oil revenues have the greatest potential yield and the most direct relationship to coastal preservation activities of all sources identified. The revenues are derived directly from coastal water and submerged lands, and should be considered to fund coastal protection. Since the coastal agency may have some role in regulating future off-shore oil production and development, there could be a potential conflict between its regulatory function and the desire for revenues to finance coastal protection. However, as indicated below, future revenues are likely to depend chiefly on the world-wide price of oil, rather than on new production, lessening the potential conflict. In addition, the link would be rather tenuous in any event between individual permit decisions and total revenues produced.

By way of its ownership of tidelands and submerged lands along the coast and to the three-mile limit, the State owns all mineral rights, including the substantial off-shore oil deposits off the Los Angeles, Ventura, Santa Barbara and Orange County coasts. Total reserves are unknown but are estimated at over 26 billion barrels. A portion of this would be within the three-mile limit. Presently the major source of revenues is the East Wilmington Field in Long Beach, which is producing almost 40 million barrels annually and is estimated to have remaining reserves in excess of one billion barrels. Revenues to the State from the East Wilmington Field are based on a "share of production" profits. Other revenues are derived from what is called "royalty crude" from other fields, where the State receives royalties and bid bonuses from the sale of leases; royalties are tagged

at the daily market price of crude oil. Although projection of future revenues to the State from tideland oil production is very difficult it can generally be stated that the revenues will vary according to the market price of crude oil, the rate of production, and the costs of extracting the least accessible oil over time. At the present time, State revenues are constrained by a ruling of the Cost of Living Council to the effect that prices in effect last year must be maintained. This ruling is presently subject to litigation between the State and the Cost of Living Council. The price received by the State for its oil averages about \$4.21 per barrel, under the CLC ruling. The average market price of crude oil has recently varied between \$10 and \$11 per barrel or more than twice the old price. It is generally expected, given the shortage of oil and the desire of the Federal government to increase American independence of foreign supplies, that the market price of crude oil will level off in the future at not less than \$8 per barrel. Some economists expect the price to be near \$10 and some expect the long-term price to come down to \$6. If the price does level off at \$8 or higher, there will be a potential increase in State revenues of over \$100 million annually just from existing production, at least for the next few years.

Table 10 presents trend projections by the State Lands Commission of State revenues, most of which are from oil royalties and Long Beach oil profits. Total revenues under these estimates are projected to drop from \$124 million in 1974 to \$87 million by 1977-78. These estimates are extremely conservative because of two assumptions: a constant average price of \$4.21 per barrel for oil and a decline in the production of existing fields and leases. There is considerable

TABLE #10

STATE LANDS COMMISSION PRINCIPAL REVENUES - FIVE-YEAR ESTIMATE

	1973-74	1974-75	1975-76	1976-77	1977-78
Oil and Gas Royalties					
State Lands ^a	\$22,000,000	\$23,000,000			
School Lands	15,000	15,000			
Long Beach (Chapter 138)	95,000,000	99,000,000	\$110,000,000 ^d	\$90,000,000 ^d	\$85,000,000 ^d
Long Beach - Tract 2	4,800,000	1,200,000			
Land Rentals - Total	1,081,000	1,184,000	1,229,000	1,288,000	1,342,000
Oil and Gas Surface	(225,000)	(225,000)	(225,000)	(225,000)	(225,000)
Geothermal Surface	(54,000)	(59,000)	(59,000)	(63,000)	(67,000)
Commercial & Recreational	(750,000)	(850,000)	(900,000)	(950,000)	(1,000,000)
Other Mineral	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
School Lands					
Commercial & Recreational	(20,000)	(15,000)	(10,000)	(10,000)	(10,000)
Extractive	(17,000)	(20,000)	(20,000)	(25,000)	(25,000)
Mineral Royalties					
State Lands					
Geothermal	2,000	10,000	12,000	14,000	16,000
Other	128,000	170,000	180,000	180,000	180,000
School Lands					
Geothermal	b/	b/	b/	b/	b/
Other	8,000	10,000	10,000	10,000	10,000
School Land - Sales	800,000	700,000	25,000	50,000	50,000
Miscellaneous	15,000	10,000	10,000	10,000	10,000
TOTALS	\$123,849,000	\$125,299,000	\$111,466,000	\$91,552,000	\$86,608,000

Notes: (a) Forecast is based on continuation of current Commission policy relative to offshore leasing and development and maintenance of present staff level with no changes in duties or responsibilities. Development of existing secondary recovery projects will continue in an orderly manner.

(b) Geothermal revenues held in suspense pending outcome of litigation.

(c) Represent sales to Parks & Recreation pursuant to statute.

(d) No attempt is made to further break down these estimates due to many current uncertainties in future oil pricing decisions.

TABLE #11

STATE LANDS COMMISSION DISTRIBUTION OF PRINCIPAL REVENUES,
FIVE-YEAR ESTIMATE

Distribution	1973-74	1974-75	1975-76	1976-77	1977-78
General Fund - Total	\$5,315,000*	\$3,867,000	\$3,302,000	\$3,435,000	\$3,543,000
Refunds and Commission Exp.	(4,037,000)	(2,642,000)	(2,750,000)	(2,850,000)	(2,950,000)
Sec. 6217.5 PRC - School Lands	(845,000)	(745,000)	(68,000)	(97,000)	(101,000)
Sec. 6217.6 PRC - Surface Rentals	(268,000)	(280,000)	(284,000)	(288,000)	(292,000)
Sec. 6217 PRC - Payments to Cities and Counties	(165,000)	(200,000)	(200,000)	(200,000)	(200,000)
California Water Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Central Valley Water Project Construction Fund	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Resources Agency - Sea Grant Matching Funds	-	500,000	500,000	500,000	500,000
Capital Outlay for Public Higher Education (COPHE)	88,534,000	90,932,000	77,664,000	57,617,000	52,565,000
TOTALS	\$123,849,000	\$125,299,000	\$111,466,000	\$91,552,000	\$86,608,000

* Includes appropriation for removal and conversion of La Janelle (Chapter 155/73).

doubt that either of these two assumptions is realistic. If the effective price per barrel doubles, as expected, oil revenues will actually increase by at least \$50 million per year from existing fields and leases. If a price at the level holds on a fairly long-term basis, one can anticipate constant or higher production from existing fields, as well as new offshore development, leasing and production. The State Lands Commission's projections assume that the Long Beach unit will decline in production at the rate of about 10 percent per year. Even if production continues to decline and the price increases to an average of \$8 per barrel, revenues will be about \$175 million in 1978-79 from the Long Beach unit alone, or \$105 million more than has been projected (Table 12). An additional \$20 million would be obtained from royalties on existing leases. If the price stabilizes at \$8 per barrel or above, more production is also likely. The Long Beach unit alone could probably continue at a rate of production of 40 million barrels a year for at least 25 years. At that rate and at an \$8 per barrel price, State revenues from that unit would be about \$240 million a year, an increase of almost \$150 million over current revenues. An additional \$50 to \$100 million annually might be gained from new leases. Therefore, it is reasonable to project an increase in tideland oil revenues to the State of from \$100 million to \$200 million per year. (Table 12)

Under current law, \$30 million annually is allocated to the support of the State Water Project and related expenditures (Table 11); these revenues will continue to be pledged for that purpose until the project is paid for. The major portion of the remaining funds are allocated to the Capital Outlay for Public Higher Education (COPHE)

TABLE 12

YIELD OF TIDELAND OIL REVENUES UNDER ALTERNATIVE PRICE AND PRODUCTION CONDITIONS FOR EXISTING FIELDS

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
<u>Alternative 1</u>							
Declining production from Long Beach Unit 000 barrels/year	39,000	39,150	37,850	36,020	33,390	30,620	27,290
Price Constant @\$4.21 average per barrel							
Gross Revenues =	164,190	164,822	159,349	151,644	140,572	128,910	114,891
Less:							
Costs of production	49,300	39,330	39,250	48,320	47,470	46,280	40,160
Local mining taxes (10%)	16,419	16,482	15,935	15,164	14,057	12,891	11,489
Net Revenues to State from Long Beach Unit	98,471	99,010	94,124	88,160	79,045	69,739	63,242
Plus: Other oil & gas revenues @ \$22 million/year	22,000	22,000	22,000	22,000	22,000	22,000	22,000
* = Net Revenues from Tideland Oil and Gas	120,471	121,010	116,124	110,160	101,045	91,739	85,242
<u>Alternative 2</u>							
Same as Alternative 1 with price @ \$8 per barrel							
Gross revenues from Long Beach	312,000	313,000	302,800	288,160	267,120	244,960	218,320
Less:							
Costs of production	49,300	49,330	49,290	48,320	47,470	46,280	40,160
Local mining taxes (10%)	31,200	31,300	30,280	28,816	26,712	24,496	21,832
* = Net revenues from Tideland Oil and Gas	271,500	272,500	263,230	251,024	232,938	214,184	196,328
<u>Alternative 3</u>							
Constant production from Long Beach Unit @ \$40 million barrels							
Price @ \$8 per barrel	320,000	320,000	320,000	320,000	320,000	320,000	320,000
Gross revenues from Long Beach Unit							
Less:							
Costs of production @ \$50 million	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Mining taxes (10%)	32,000	32,000	32,000	32,000	32,000	32,000	32,000
Net revenues from Long Beach Unit	238,000	238,000	238,000	238,000	238,000	238,000	238,000
Plus: other oil & gas revenues @	40,000	40,000	40,000	40,000	40,000	40,000	40,000

Continued from Table 12

* = Net revenues from Tideland oil and gas	278,000	278,000	278,000	278,000	278,000	278,000
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Notes:

- (1) Estimates of production from the Long Beach Unit used under Alternative 1 were provided by the City of Long Beach, Division of . Costs of production are from the same source. Local mining taxes are estimated at roughly 10% of gross revenues. The average price per barrel for crude oil during 1973 was \$4.21.
- (2) Under Alternative 2, only the price per barrel is changed. Eight dollars is estimated to be the most reasonable stable price during the next five years. The price is currently in excess of \$10 per barrel. Costs of production do not vary with price.
- (3) Under Alternative 3, production is held constant for the Long Beach Unit at current levels, which will require increased production from less accessible sources. Costs of production will probably be higher over the long-term but net estimates are available. For the five-year period, costs incurred at present are used as a basis for estimates.
- (4) Estimates of total revenues under all alternatives do not take account of potential increases resulting from new exploration and development of oil resources found in various parts of the coast. As a result the estimated revenues are conservative. A stable price at \$8 per barrel would undoubtedly encourage new exploration and production since it would be profitable to produce from the more inaccessible and more costly deposits. If new drilling occurs, additional revenues will be received both from bids on leases and from annual royalties.

Fund which receives all revenues after other distributions. Revenues which have been pledged to this fund have increased from \$22 million in 1967-68 to \$88 million in 1973-74. According to the projections by the State Lands Commission, the fund would receive \$90 million in 1974-75 but only \$53 million in 1977-78. However, if revenues increase as expected, the COPHE Fund would have revenues in excess of \$150 to \$200 million annually in the next five years. The establishment of this fund and channeling of revenues into it is a matter for annual legislative consideration. If adequate funds are provided for construction of higher education facilities, a pledge of some or all of the unanticipated increase in oil revenues to coastal conservation activities should be sought.

As of June 30, 1973 there was an accumulated surplus in the COPHE fund of \$132 million; however, only \$21 million of that surplus was unencumbered, the remainder having been allocated to authorized, unfunded projects. This surplus is available during the 1974-75 fiscal year for appropriation. The Governor's 1974-75 budget provided expenditures totaling approximately \$91 million on higher education capital outlays, including \$28.2 million for the University of California, \$32.8 million for the California State University and College system, \$19.9 million for a school for the blind, and \$10 million unallocated. The \$20 million surplus was carried over in the Governor's budget. The Budget Bill, after passage by the Legislature and vetos by the Governor, increased expenditures from the COPHE Fund by \$17.9 million, leaving a surplus of approximately \$2 million. Thus, \$118 million is allocated to higher education facilities, including the school for the blind, an unusual expenditure out of the fund. Five-year plans of California and C.S.U.C. systems project a need for \$640

million in unfunded capital projects over the next four years, an average of \$160 million per year and an increase of \$42 million over 1974-75 outlays.¹

If all of these projects were funded, much of the increased oil revenues would be required. It is not likely, given trends in enrollment, that all of these projects will be funded. Therefore, there is a strong possibility that coastal activities can be funded at needed levels without jeopardizing higher education in California and without posing a major conflict between supporters of each.

Other competition for oil revenues is beginning. In the 1974 Legislature, AB 1740 (Green) was passed by the Assembly and sent to the Senate. This bill would have allocated from \$1 to \$2 million a year from State lands revenues to manpower development. This would have been a new obligation, although a relatively minor one, on tideland revenues. The more serious competition for these revenues is presented by proposals to finance mass transit from oil revenues. AB 3410 (Detta) proposed to fund a three-year transit demonstration program to the extent of \$62.5 million, or about \$20 million per year, a major new demand on tideland revenues. In addition some have suggested financing the Bay Area Rapid Transportation District's deficit from tideland revenues, which would amount to over \$15 million annually. It appears doubtful that one rapid transit district in the State will receive these statewide revenues, but mass transit projects in general will pose a more serious threat. Other minor potential competition was presented by a bill (AB 1846) to create a fuel purchasing coordinating council and a proposal to finance an exhaustive inventory of State lands and mineral resources. These proposals, if legislated, would have probably

¹ Governor's budget for 1974-75.

required about \$2 million per year. However, all of the above bills failed to pass both houses and died in the Legislature.

In summary, there is substantial justification for allocation of tideland oil revenues to financing of major coastal conservation activities. Given the most liberal estimates of needs for higher education facilities, at least \$50 million annually should be available for coastal activities and it is probable that over \$100 million would be available, if the legislature assigned highest priority to coastal conservation (Table 13).

TABLE 13
REVENUES POTENTIALLY AVAILABLE FOR TIDELAND OIL
AND GAS TO SUPPORT COASTAL ACTIVITIES

Potential Oil & Gas Revenues	Maximum Revenue Potential	Probable Revenue	Minimum Revenue Potential
	\$280,000,000	\$200,000,000	\$150,000,000
<u>Demands:</u>			
Water projects funded	30,000,000	30,000,000	30,000,000
Miscellaneous funded	5,000,000	5,000,000	5,000,000
COPHE Fund at current levels	90,000,000	90,000,000	90,000,000
Transit - new	20,000,000	20,000,000	0
Other new miscellaneous	5,000,000	5,000,000	1,000,000
Total	150,000,000	150,000,000	126,000,000
Potential available for Coastal Activities	130,000,000	50,000,000	24,000,000

2. Property or land gains tax

A tax which is often suggested as a means of financing open space and conservation activities and to achieve greater equity in the tax system is a tax on gains made in land or real property sales. A substantial portion of the increase in land and property values is a result of public action and investment which makes development and occupancy of particular areas more attractive. Coastal regulation and management can be expected to increase the value of certain properties in the coast directly (and cause potential declines for others) and to enhance the desirability of living in California generally, since most of the population lives in or near the coastal zone. Recognition of these factors justifies the desire to recover some of the costs of public action from the resulting increments in value of land and property. Secondary purposes include discouragement of land speculation and reducing some of the inequities present in the current taxation of capital gains at favorable rates.

The pure form of this tax would apply to land only since most of the increased value attributable to public investments accrue to land. However, in and near the coastal zone existing developed properties will actually benefit more than undeveloped land to the extent that the latter is subject to new and stricter regulation. Also, open space preservation throughout California will enhance the value of existing developed properties. Therefore, it is reasonable to consider both a tax only on gains from the sale of land and a tax on gains from the sale of all real property.

Vermont initiated a land gains tax several years ago with the specific intention of discouraging short-term speculation in recreational and other open land. The tax is levied at progressive rates related to the length of the period for which the property is held and the proportion of gain to cost. The tax is not applicable to sales of land held for more than six years.

California currently taxes part of the gains from sales of real estate through State personal and corporate income taxes. However, capital gains (those realized after holding for more than one year) are taxed more favorably than other forms of income, the maximum effective rate ranging from 5.5 percent to 7.15 percent of the gain depending on the holding period. In addition, the Federal government levies a tax on such gains at a maximum rate of 25 percent. Gains from property used in business are fully taxable and gains from the sale of primary residences are generally not taxed.

Given the low rates of capital gains taxation, it is possible to contemplate a tax of 10 percent or so on gains realized from the sale of land or land and improvements in some area defined as a coastal taxing zone or in the State as a whole. Such a tax would be far easier to levy on a statewide basis and would have less distorting effects on market transactions. However, since it may be desirable to curb speculation solely within the coastal zone or parts of the coastal zone, levying of a higher tax in that area might be considered.

It is roughly estimated that a land gains tax levied within the 1,000 yard permit area along the coastline would generate only \$250,000 to \$750,000 per annum at a 10 percent rate; applied to land and improvements, the yield might range from \$700,000 to \$2 million per year. Most of the yield would be derived from sales within the urban areas, such as Los Angeles and San Diego. The tax might have some impact on curbing speculation. Levied on both land and improvements the maximum yield is probably no more than \$2-\$3 million, insufficient to fund a major acquisition program, although adequate for other programs. To the extent that the tax succeeded in dampening speculation and to

the extent that coastal regulations depressed gross values in the coastal zone, revenues would be less.

Levied on a statewide basis, it is estimated that a 10 percent tax on land gains only could yield from \$15 to \$90 million a year; if levied on land and improvements, the yield could range from \$40 to \$250 million a year. These magnitudes are adequate for major land acquisition and recreational development programs, a reasonable portion of which could be and should be allocated to coastal open space preservation and recreational development. Since over 85 percent of the State's population lives within one-hour's driving distance of the coast, it would not be unreasonable to allocate a minimum of 50 percent of total revenues for coastal activities. The amount available would on this basis range from \$20 to \$125 million a year if both land and improvements are taxed. This is unlikely to affect economic growth in California but would almost certainly discourage certain types of speculation. The effective tax on such gains, compounding Federal, State income and special taxes would never exceed 50 percent of the gain. In most cases the tax would be less.

3. Coastal Airport Use Tax

The three major airports: San Diego, Los Angeles and San Francisco, serving out-of-state visitors and having the highest number of annual passengers are all located in the coastal zone (including the Bay) and two are located in the 1,000 yard permit area. Other airports in the coastal zone are found in Santa Barbara, Del Norte, Alameda, Humboldt, Monterey, Ventura, Los Angeles and Orange counties. Airport expansion is continually taking place, often involving dredging and filling of shoreline areas or displacement of alternative uses. In addition, ..

the three major airports account for most out-of-State tourists to California's coastal areas.

Tax on passenger arrivals and departures to support coastal conservation can be justified by (1) the high percentage of out-of-State visitors who travel by air to the coast for pleasure purposes, (2) the displacement by airports of beneficial and more coastal-dependent uses in the coastal zone, and (3) airport use by State residents to reach favored coastal recreational areas. Passenger traffic at the three major airports alone is estimated to be over 42 million for 1973. An additional amount is handled by smaller airports.

In 1968 out-of-State visitor arrivals and departures at the three airports was estimated to be 5.8 million.¹ Today it is estimated at almost 10 million and is expected to reach 20 million by 1980. A tax of \$1 per arriving and departing passenger would raise from \$20 to \$40 million annually from out-of-State visitors alone and would provide a means for taxing out-of-State beneficiaries of coastal preservation. However, a tax only on interstate passengers is illegal as a discrimination against interstate commerce. There is adequate justification for taxing State resident air passengers as well since State residents benefit most directly from coastal conservation. A tax on all arriving and departing passengers of \$1 would raise from \$45 to \$75 million or more each year over the next decade, depending on the airports included. This would be a fairly progressive tax since most air travelers tend to have higher incomes than automobile, bus and rail passengers. Much of the tax would be borne by business and passed

1 Economic Research Associates, California Tourism Industry, 1968, Supplement Number One, Prepared for California State Office of Tourism and Visitor Services, September 16, 1969.

along to government or consumers in and outside the State since much air travel is for business purposes.

To improve equity, such a tax should probably be based on the air fare for a particular trip but data is not available which permits estimates of revenue potential. In addition, problems must be investigated regarding the airports to be included in order to avoid an unfair distribution of the tax burden. Some of the revenue might be used for other environmental programs.

Collection of the tax would be relatively cheap and simple, particularly if the tax were collected by airlines at the time tickets are sold or at the time passengers embark and disembark. Generally, it would be difficult to collect such a fee from visitors to the State except at the time of departure. The State cannot probably require airlines to collect disembarkation fees at the time of out-of-state ticket sales. However, due to the degree of airport passenger control, collection of the tax should not prove difficult.

4. Statewide Property Tax

Although the property tax has been increasingly unpopular in California and is considered by many to be a regressive tax, consideration of this source is warranted by the high and flexible yields it can produce, the fact that most of the State's property tax base is located in coastal counties and other counties within a reasonable distance of the shoreline, and by the large base over which the burden would be spread.

A statewide levy of only 10¢ per \$100 assessed valuation could produce \$60 million per year, with revenues rising at a rate of about 10% a year. Business would pay a substantial proportion of this

tax, including hotels, motels, industry, stores, but the largest share would be borne by occupants of single-family homes and apartments. The actual burden on each household would, however, be very small. A tax at this rate would cost a homeowner with a \$30,000 home only \$6 per year. Since Proposition 20 was a voter initiative, since California residents have indicated a strong concern over the fate of the coastal zone, and since all residents stand to benefit from coastal conservation, this tax could be a very reasonable means to finance a bond issue for coastal purposes.

The factors which make use of this tax unlikely, without a second voter initiative, are the recent attempts to lower overall property taxes and the possible necessity for a statewide property tax at much higher rates to finance public education.

5. Surcharge on the State Income Tax

The State income tax is generally considered the most progressive, and most elastic revenue source available to the State. There are two possible means by which an increase in State income taxes could be used to finance coastal activities: an increase in all rates or imposition of a special surcharge to finance coastal activities. The latter is preferred here because it is easier to project revenues from a surcharge and because a special surcharge for coastal activities can be devised to raise the necessary amount of revenue. A permanent surcharge would probably be less acceptable to the legislature than a one-time or limited duration levy.

A surcharge of 10% of net taxes due would generate at least \$125 million a year, probably increasing at 10% more each year. This would cost the average taxpayer about \$10 per year.

A one-time levy would raise enough to create a revolving fund for specialized coastal management activities, such as purchase and lease-back arrangements.

The one disadvantage of the income tax as a sole source, is that business income taxes make up a relatively small proportion of total collections. Only a portion of a multi-state businesses' net income is taxable in California. The property tax levy would probably reach a broader business tax base.

It is unlikely that the legislature will look favorably upon earmarking any portion of the income tax or increasing it over a long time for a special purpose such as coastal land acquisitions. However, it might be used both for coastal activities and other programs or a one-time levy could be used for special projects.

6. Statewide Property Transfer Tax

This tax has been discussed as a source of financing planning and regulatory functions. If the rate were high enough, it could also provide reasonable sums for an acquisition program. An increase in the current rate from 55¢ per \$500 to \$1 per \$500, a total rate of 2/10's of 1%, is quite conceivable without any substantial effects on land transactions, and would produce an additional \$22 to \$25 million per year. The same considerations previously discussed in connection with this tax apply here.

7. Federal Grants

Several Federal programs provide matching grants for acquisition of land and development or conservation activities which might be undertaken in the coastal zone; a list is found in the recreation elements.

One is Section 312 of the Coastal Management Act of 1972. Another is the Land and Water Conservation Fund.

Section 312 authorizes matching grants of up to 50% of total costs specifically for the creation and preservation of estuarine sanctuaries. The maximum allowable grant for each project is \$2,000,000. A total of \$6 million was authorized for Fiscal Year 1973-74 and \$4 million was appropriated. Additional authorizations and appropriations will be required if this program is to remain operational. Assuming a continuing appropriation of \$6 million, California could probably qualify for one or two major grants or several smaller ones for estuarine preservation, assuming that matching funds by the State were made available from other sources already discussed.

The Land and Water Conservation Fund Program is administered by the Department of the Interior, Bureau of Outdoor Recreation. The fund has its own source of financing in Federal oil leasing revenues and does not require annual Congressional appropriations. The program provides for up to 50% of approved acquisition and development projects by both State and local government. At present, the California Outdoor Recreation Resources Plan Act provides for the distribution of funds received from this program to State and local agencies. The distribution is as follows:

State Agencies

Department of Parks and Recreation	27.00%
Department of Fish and Game	13.50%
Department of Water Resources	2.25%
Department of Navigation and Ocean Development	<u>2.25%</u>
	45.00%

Local Agencies	45.00%
State Liaison Officer's Contingency Fund	10.00%
Total	100.00%

Over the past several years, California has received an average of about \$2.6 million per year out of a United States total in grants of \$50 million per year. With 10% of the nation's population, at least twice this amount should be expected.

Although this Federal grant program will continue to be an important source of revenue to finance public outdoor recreation projects in the State and could be made more important by increasing California's share of grants, it is unlikely to provide for any major increase in coastal acquisitions. Half of the funds will undoubtedly go to local government for local and regional projects, particularly given the expected demise of the Open Space Lands Program of the Department of Housing and Urban Development. However, if an additional \$5 million per year could be obtained from the Land and Water Conservation Fund, it might well be allocated to acquisition of coastal public recreation areas since the revenues are derived from coastal oil drilling. In addition, an increase in the fund's size should be sought in the form of an increased share of Federal oil royalties.

To-date H.U.D.'s open space lands program has been an important source for financing local park and recreational development. However, this source is considered unreliable for the future, due to the proposal to terminate the program and substitute community development revenue sharing.

* * * *

This report has demonstrated that there are a variety of feasible means for financing future coastal zone management activities in California. The determination of which is most appropriate, however, should be made when the form and extent of that management program emerges from forthcoming rounds of public discussion and Coastal Commission hearings.

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