

# **Is Steinberg Being Reckless?**

## **Mayor wants to double a ‘temporary’ sales-tax hike**

**By Craig Powell**  
**Inside City Hall**

If all you knew about the performance of Mayor Darrell Steinberg in office was what you read in the pages of The Sacramento Bee, two things would be apparent. First, you’d think Steinberg was that rarest of creatures: a politician incapable of making a misstep or a bad policy choice. Second, you’d be woefully ill-informed about the potential downside consequences of his policies—and some of the cynical political calculations behind them.

Since the June primary, the mayor has been a man on fire. His first salvo was to publicly press the City Council and city voters to support his campaign to double the “temporary” one-half-percent sales-tax hike known as Measure U, which was approved by voters six years ago as an emergency response to city service cuts in the Great Recession. He seems not to care that Measure U was sold to voters as a temporary tax designed to fill the coffers of a recession-battered city.

Neither the mayor nor The Bee bothers to point out that city revenues have fully recovered from the recession. City revenues have risen 16 percent over the past two years and were up 6 percent last year. The mayor and The Bee have also failed to mention that the city’s labor costs soared 8.5 percent last year on the heels of pricey new city union contracts and soaring pension costs. How pricey? Under the new police contract, officers with more than four years on the job were given 17 percent pay raises (not counting the impact such raises have on city pension costs), while average annual increases in the CPI were less than 1.3 percent over the past four years.

The city’s budget is out of control and facing substantial future deficits not because of any shortfall in city revenue but because of spiraling city salaries; unconstrained pension and retiree health care costs; a failure to implement city staff’s repeated advice over the years to transition out of reliance on the “temporary” Measure U sales-tax hike (which expires next March) by setting aside prudent reserves from its revenues; the diversion of city revenues from the demise of redevelopment to wasteful and misguided city venture-capital programs; the diversion of hotel taxes to subsidize a second white-elephant \$240 million expansion of Sacramento Convention Center, which already bleeds \$18 million of red ink annually; a unions-enforced refusal by Steinberg and the City Council to

outsource selected functions like convention center management, park maintenance and, yes, ambulance services, to lower-cost private-sector firms; and the mushrooming number of new programs launched in the past 18 months under Steinberg.

While the mayor promises to spend the \$100 million that a 1 percent sales-tax hike would generate (\$50 million from renewing the expiring Measure U tax hike and \$50 million from the doubling of it) on anti-poverty programs in low-income neighborhoods and building new affordable housing, the truth is that the mayor cannot lawfully make any binding promises on how the money would be spent. He'll be asking the City Council and voters to approve a "general tax" hike, which requires only a majority vote to pass, as opposed to a "special tax" hike, which requires a two-thirds-majority vote for approval. A general tax hike is one in which there can be no restrictions on how the city spends the money. And with the city bleeding red ink for all of the reasons listed above, it is a virtual mathematical certainty that, unless the city dramatically changes its current spending practices (and there are zero signs of that), the entirety of the tax increase will be eaten by escalating city expenses.

### **Taming the City's Pension Monster**

The city's annual pension contribution to CalPERS from its general fund is forecast to increase \$54 million by fiscal year 2024–25, up from \$75 million today to \$129 million in six years. The bill is likely to go even higher due to changes in CalPERS funding rules. And should the stock market experience a major reversal (not a matter of "if" but "when"), the city's pension bills will rocket up even more. It's not like the city is powerless to rein in its pension and retiree health care costs. The latter benefit can be phased out by the City Council any time it chooses to, by compelling high-income retirees (firefighters and police) to cover their own retiree health care costs not covered by Medicare and encouraging lower-income retirees to claim Affordable Care Act subsidies for which they're eligible.

Pension costs can be controlled, first, by controlling salary hikes, which determine pension-benefit payments. The city can also insist that all city employees pay one-half of all city pension costs, including half of the major cost of making up for unfunded pension obligations, a cost currently borne entirely by city taxpayers. Yes, it will require councilmembers to stand up to city unions that scream whenever such reforms are considered. But taxpayers should not be stuck with paying for well over half the cost of rich pension benefits that are far greater than most city taxpayers could ever dream of enjoying.

The city should also be fully prepared to implement further pension reforms in the event the California Supreme Court grants municipalities the flexibility to trim pension benefits prospectively (i.e., trimming benefits that accrue from services rendered by employees in the future), as many court observers expect it to.

### **A Removable Barrier**

If the City Council can summon the political will to trim labor costs (a huge “if” given the outsized influence city unions have on the council), there still remains one barrier to council’s reclaiming control over the budget: mandatory arbitration of labor disputes with the police and firefighters unions, the city’s two most powerful unions. Decades ago, when no one was paying much attention, city voters ill-advisedly approved a charter amendment, sponsored by the two unions, to remove the City Council’s ultimate authority over large chunks of the city budget.

Without mandatory arbitration, a city that reaches an impasse with one of its unions can, at the end of the day, choose to impose the terms of its “last, best and final” offer on the recalcitrant union, which preserves the council’s discretionary power to appropriate taxpayer money. But under mandatory arbitration, the council loses a great deal of control over the city treasury, and a third-party arbitrator wields the power to appropriate taxpayer funds. What’s more, under mandatory arbitration, the arbitrator is not allowed to negotiate a compromise settlement. Instead, the arbitrator can only approve the final offer of the city or the union.

If the council proposes a labor contract that reins in pension costs, it will likely be stuck trying to convince an arbitrator to go along with the cost cuts. Studies show that labor costs are almost always higher in cities subject to mandatory arbitration provisions in their city charters. Sacramento would be very well-served if the City Council this August were to place a measure on the November ballot removing the mandatory-arbitration provision from the city charter. The power to spend taxpayer money should belong exclusively to the voters and their elected representatives, not unelected labor arbitrators.

### **Increasing Sales Taxes Increases Poverty**

Traditional liberals consistently opposed hikes in regressive taxes. Since sales taxes aren’t based on a person’s ability to pay the tax or their income level,

sales taxes are considered the poster child of regressive taxes. They most hurt the poor (including the homeless), seniors on fixed incomes and working families with modest incomes. Such people typically have little to no discretionary income at the end of the month. A hike in the sales tax means they have less to eat and can drive less, buy fewer items of clothing for their kids and purchase fewer prescribed medications. The affluent have the discretionary income to absorb a sales-tax hike without sacrificing any of the necessities of life.

It is richly ironic that Steinberg is proposing to use the proceeds of a poverty-enhancing sales-tax hike to fund new anti-poverty programs in Sacramento's low-income neighborhoods. Given the abject failure of legions of state and federal anti-poverty programs to reduce poverty over the past 50 years, it's borderline lunacy to hurt Sacramento's poor with higher sales taxes to launch a new anti-poverty program that has almost no chance of relieving poverty.

### **Steinberg's Plan**

We've known since the day after Measure U was approved by voters in November 2012 that cynical (and insincere) councilmembers were planning to seek a renewal of Measure U before it expired in 2019. But we didn't catch wind of Steinberg's plan to seek a doubling of Measure U until about six months ago.

We assumed that Steinberg would do the prudent and fair thing and ask the City Council to submit to the voters a two-question ballot. The first question would ask, "Do you want to renew the expiring one-half-percent sales-tax hike?" The second would ask, "Do you want to double it?" That's the prudent and fair approach to take, because many voters may want to renew the expiring tax hike to avoid city budget cuts but may have zero interest in doubling the tax hike. The two questions empower voters to make the distinction between the two very different questions.

But the mayor is reportedly planning to seek council approval for just a single ballot question: "Do you want to double the expiring Measure U tax hike?" He wants to deny voters the option of approving a renewal of the one-half-percent tax hike without doubling the tax hike. In other words, he wants to coerce voters into doubling the tax hike or face the prospect of city budget cuts. He pretty clearly plans to run a campaign designed to scare the hell out of city voters that, if they don't double the tax hike, they'll face draconian, world-ending budget cuts. But if he really cared about avoiding the budget cuts and had respect for city voters, he'd offer them the choice of approving a renewal of the tax hike without doubling it, which a two-question ballot would do.

The mayor's hunger for ever-higher taxes is trumping his good judgment. Why is he doing it? Because, according to an individual familiar with the matter, his internal polling shows that he can get a majority of voters to buy into doubling the Measure U tax hike, but that offering voters the option of just renewing Measure U would undercut voter support for doubling it.

### **Will Firefighters Union Underwrite the Campaign?**

We've received reliable City Hall reports that Steinberg is counting on the firefighters union to fund the lion's share of the campaign to double the Measure U sales tax. Is that why he and the council decided to extend the term of the firefighters union contract until after the November election? Will the firefighters get their reward with a rich labor contract if the Measure U tax hike is doubled?

And what will happen to Councilmember Jeff Harris' longstanding effort to modify the firefighters' union contract to jettison the current requirement that ambulance workers be cross-qualified as firefighters, a needless rule that adds about \$14,000 per year to the salaries of city ambulance drivers? Will Steinberg walk away from his previous support for such a contract change in exchange for the firefighters' funding his tax measure?

Is it any wonder why voters these days are so cynical about the motives of politicians?

The only effective way of sending the mayor the message that you won't stand for being coerced at the ballot box is to vote no on doubling the sales-tax hike and force city politicians to do their jobs of responsibly managing city finances.

A wrinkle: The California Business Roundtable is trying to qualify a state ballot measure that would require all local tax increases to be approved by a two-thirds majority of voters. It would also require that local tax measures specify how the proceeds of the tax would be spent. If it qualifies for the ballot and is approved in November, any renewal—or doubling—of the Measure U tax hike would require a two-thirds vote of city voters to pass, throwing a major wrench into Steinberg's plans to raise taxes.

*Craig Powell is a retired attorney, businessman, community activist and president of Eye on Sacramento, a civic watchdog and policy group. He can be reached at [craig@eyeonsacramento.org](mailto:craig@eyeonsacramento.org) or (916) 718-3030.*