S. Ferry #41 BOS 11/7/2017

Prop 90 Rescission

Two weeks ago when this was heard, October 24, 2017, Lori Parlin stated that the sales tax would have to be accrued to $82,500 of taxable purchases. I think that was the major issue that you used to base your decision. I proceeded to start a thread on Nextdoor about this and one of the participants used that same number, $82,500. That number represents the total amount of taxable purchases that each Prop 90 recipient would have to spend. That's a lot of money and the number made sense and your decision made sense even though I was having serious concerns.

Thursday morning at 2:00AM I awoke with a start and said to myself, "that number is wrong." I thought back to the Spring of "62 where I was enrolled at San Jose State University and taking an Economics 101 Class. Yes, I was in school then. I remembered that in that class we learned about the "Gross Multiplier of Money (GMoM)." I have the feeling that I am not the only one who learned about this theorem. Following that lesson came a lesson on the "Velocity of Money (VoM)."

Here is how GMoM works and particularly in regards to Prop 90. A senior couple, Frank and Lily moves to El Dorado County and spends their new gotten wealth to buy a home (no sales tax there), then Frank takes Lily to dinner in Tahoe and there is the sales tax, then Lily buys George some new ski clothes, more sales tax, and then the stop at Jodar Winery on the way home and buy a couple of cases of wine for the new wine cellar, more sales tax, George needs a new car and picks out a Subaru or Mercedes Benz, or goes to Folsom and buys an Explorer (that tax accrues to the zip code from where it was paid). And the beat goes on. So far we have not reached the $82,500 but we have surpassed the $24,550 of tax that our new El Dorado County resident pays. Why is that important? Because the Sales tax is effected by the Gross Multiplier of Money. Every time George and Lily bought something the owner of the business received the money and they spent it, times five.

http://www.investopedia.com/exam-guide/cfa-level-1/macroeconomics/multiplier-effect.asp

The Formula looks like this: $24,550 (spent by Frank and Lily) then times .8=$19,640 that #2 spends, then $19,640 times .8 = $15,712.00 that #3 spends, then $15,712 times .8 = $12,569 that #4 spends and last we get to $12,569 times .8 = $10,056 that #5 spends which gives us a Grand Total of $82,527. The total that Lori Parlin's interpretation of the data for which the county was required to account.

The VoM then takes over with the increased income of each person who is in that supply chain. We are speaking of Income to the Providers of Goods and Services, not Tax Receipts to El Dorado County. The restauranteur has increased income, the supplier of fruits and veggies is next, then the clothing store that sells the ski wear and so on.

http://econbrowser.com/archives/2010/12/velocity_of_mon

These are common theories that are used by every economic expansion program that you know of. The Golden One Complex was not meant for basketball. Basketball and the complex were meant to expand the economy of the City of Sacramento and it has worked. EDC has a line item on its Elevate to El Dorado web site that says, **"THE COUNTY IS WILLING AND READY TO DISCUSS SALES OR PROPERTY TAX INCENTIVES ON A CASE-BY-CASE BASIS."** We are willing to do that because of the GMoM and the VoM. If that is not the reason then let's make known what the reason may be.

Mr. Ashton, I would suggest that you insert Page 16 in the 15 page report that was prepared by your staff and get them to confirm with a recognized Economics professional to help write Page 16. **Also, I would ask you to request of the BOS to cancel the Prop 90 ordinance change next Tuesday and put it off until the county has full knowledge of the power and impact of Prop 90 on its economic future.**

Thank you for taking your time with this issue.

Stephen J Ferry
El Dorado Hills

P. Richardson #41 BOS 11/7/2017