

City Managers Sales Tax Working Group Update

2022-2024 Working Group Leadership

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Working Group Membership

- 32** Regional Division Appointees
- 8** City Managers Department Appointees
- 7** Ex-Officio Members

Purpose

To convene a **diverse and representative** group of California city officials dedicated to examining local government sales tax issues and providing recommendations that:

- Equitably benefit California cities,
- Further fiscal sustainability, and,
- Strengthen the viability of the sales tax.

2023 Deliverables

Sales Tax Sharing Agreements

Prospective and targeted limits to sales tax sharing agreements to reduce competition for situs-based sales tax revenue between cities.



Changes to Sales Tax Sharing Agreements

All changes will be prospective in nature:

20-year cap on duration

50% cap on rebates to private businesses

Enhanced transparency and public review

Changes to county pool calculation

Prospective in nature

For all options outlined, the following applies:

- Any changes will not affect existing agreements.
- Existing agreements should not have the ability to be renewed in perpetuity – i.e., term extensions are prohibited.

Duration caps

Recommendation:

Institute a maximum duration of **20 years** for new sales tax sharing agreements.

Caps on percentages rebated to private businesses.

Recommendation:

Institute a rebate cap of an average of **50%** of sales tax generated by the private business, across the lifetime of the agreement.

Enhanced transparency and public review

Recommendation:

Require the state to create and maintain a **database and dashboard** of all Economic Development Subsidy Reports on a website.

Changes to county pool calculation

Recommendation:

Modify county pool calculations of the local Bradley Burns 1% sales tax to deduct sales tax rebated to a private business from pro-rata shares.

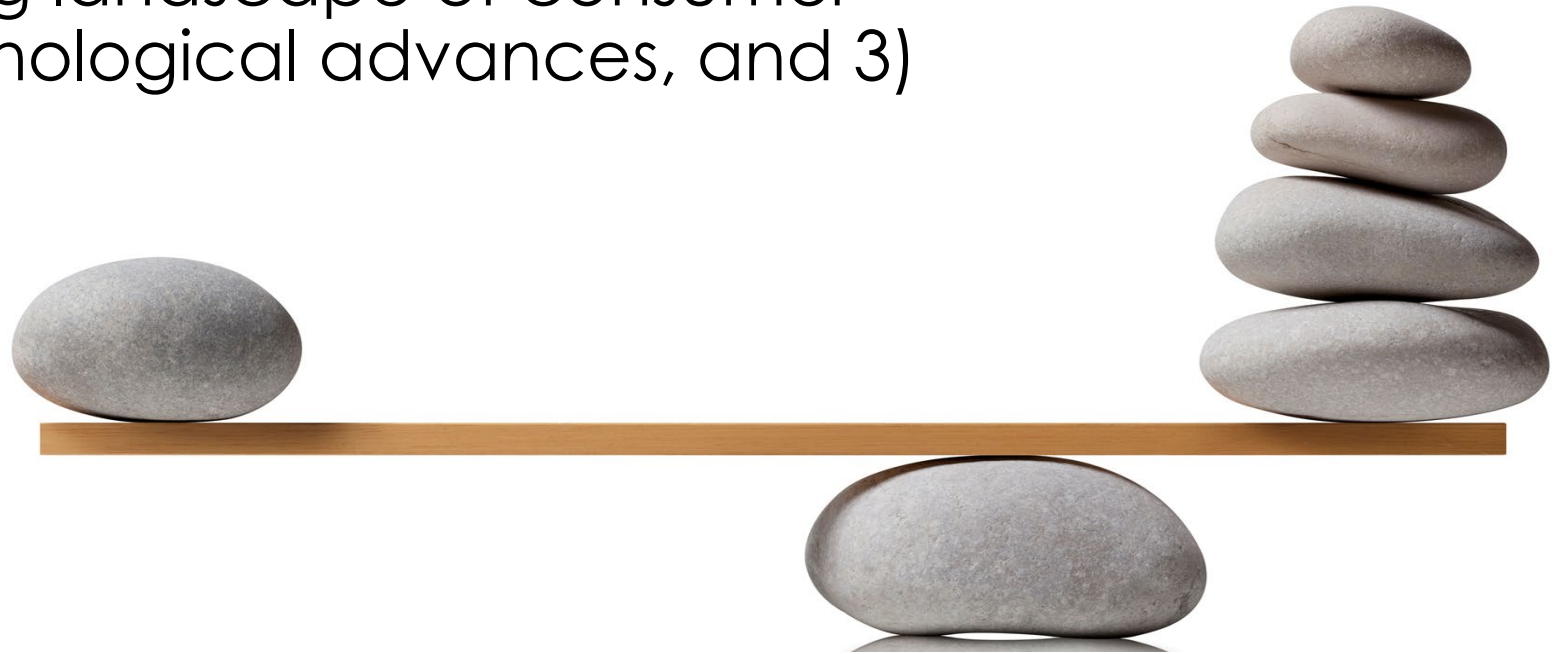
Status Quo			
	Direct allocations	Pro Rata Share	Pool Dollars
City A	\$ 100,000	15.2%	\$ 75,988
City B	\$ 40,000	6.1%	\$ 30,395
City C	\$ 500,000	76.0%	\$ 379,939
City D	\$ 12,000	1.8%	\$ 9,119
City E	\$ 6,000	0.9%	\$ 4,559
Total Direct Allocations	\$ 658,000		
Pool Amount	\$ 500,000		

Recommended Modification					
	Direct allocations	Rebated Amount	Direct Allocation Excluding Rebated Amount	Pro-Rata Share of Direct Allocation Excluding Rebated Amount	Pool Dollars
City A	\$ 100,000	\$ -	\$ 100,000	17.9%	\$ 89,606
City B	\$ 40,000	\$ -	\$ 40,000	7.2%	\$ 35,842
City C	\$ 500,000	\$ 100,000	\$ 400,000	71.7%	\$ 358,423
City D	\$ 12,000	\$ -	\$ 12,000	2.2%	\$ 10,753
City E	\$ 6,000	\$ -	\$ 6,000	1.1%	\$ 5,376
Total Direct Allocations	\$ 658,000		\$ 558,000		
Pool Amount	\$ 500,000				

Reconciliation of Cal Cities Policy and Guiding Principles

Equitable E-commerce Sales Tax Distribution

In January, the working group adopted a guiding definition of equitable e-commerce sales tax revenue distribution to contextualize equity within; 1) the evolving landscape of consumer preferences, 2) technological advances, and 3) the needs of cities.



Policy Change

To better reflect the progress of the working group and the emphasis on equity, the Cal Cities Board of Directors approved updating Cal Cities policy publication to replace the sentence, below, with the working groups' equity statement:

[Cal Cities Summary of Existing Policy and Guiding Principles](#)

The existing situs-based sales tax under the Bradley Burns 1% baseline should be preserved and protected. ~~Tax proceeds collected from internet sales should be allocated to the location where the product is received by the purchaser.~~

Equity Statement

The equitable allocation of remote revenues from e-commerce recognizes both sides of the transaction and their contribution to sales tax generation. Allocation of the Bradley Burns 1 percent local sales tax revenue from in-state online purchases should proportionately benefit those communities that provide the infrastructure and incentives that facilitate the transaction and delivery of those goods and those communities that are the destinations for the goods. The regional impacts to infrastructure, land use, environmental quality, and public health stemming from e-commerce as well as the financial dependence of communities on the resulting revenues must be recognized. Changes to consumer behavior, which consists of more online shopping, must also be considered as to the fiscal sustainability of all cities.

City officials should account for these factors in the evolving marketplace and continuously strive for prospective fair and equitable revenue sharing based on data, as available. City officials should also employ their best judgement to support policies that benefit the sustainability of all cities.

2024 Next Steps

Next Steps

1. **2024** recommendations.

- Identify and analyze the effects any reform recommendations on in-state Bradley Burns sales and use tax sourcing rules.
- *And then , if appropriate and necessary:*

2. Introduce legislation to carry out the working group's recommendations.

Questions & Comments

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