REVENUE AND TAXATION POLICY COMMITTEE
Thursday, March 27, 2025
10:00 a.m. - 2:00 p.m.
Marriott Burbank Airport Hotel, Academy 3

AGENDA

I. Welcome and Introductions
Speakers: Chair Kevin Bash, Council Member, City of Norco
Vice Chair Neysa Fligor, Council Member, City of Los Altos

II. Public Comment

III. Predictability and Stability: How to Bring Development to Your Community *Informational*
Joint Panel with the Housing, Community, and Economic Development Policy Committee
Speakers: Skyler Wonnacott, Senior Director of Government Relations, CBPA
Rob Cord, Founding Partner, Advisors Real Estate Asset Services
Phil Tate, Senior VP of Development and Gov.t Affairs, Kilroy Realty Corporation

IV. GREEN Economic Development – Achieving Sustainability and Vitality in a Digital Economy
Speaker: Larry Kosmont, Chairman & CEO, Kosmont Companies *Informational*

V. City Managers Sales Tax Working Group Recommendation Discussion *Informational*
City Managers Sales Tax Working Group One-pager (*Attachment A)*
CDTFA Methodology (*Attachment B)*
CDTFA Data *(Attachment C)*

VI. Legislative Update *Informational*
Revenue and Taxation Hot Bills
Revenue and Taxation Priority Bills

VII. Adjourn

Next Meeting - Virtually: Thursday, June 12, 9:30 a.m. - 12:30 p.m.

Brown Act Reminder: The League of California Cities' Board of Directors has a policy of complying with the spirit of open meeting laws. Generally, off-agenda items may be taken up only if:
1) Two-thirds of the policy committee members find a need for immediate action exists and the need to take action came to the attention of the policy committee after the agenda was prepared (Note: If fewer than two-thirds of policy committee members are present, taking up an off-agenda item requires a unanimous vote); or
2) A majority of the policy committee finds an emergency (for example: work stoppage or disaster) exists.
A majority of a city council may not, consistent with the Brown Act, discuss specific substantive issues among themselves at League meetings. Any such discussion is subject to the Brown Act and must occur in a meeting that complies with its requirements.

Attachment A

City Managers Sales Tax Working Group

The City Managers Sales Tax Working Group has completed its work and reached a consensus on a policy recommendation regarding the allocation of Bradley-Burns sales and use tax revenues generated from e-commerce transactions.

History of the Working Group

The working group reviewed evolving trends, explored policy implications, and identified data to support Bradley-Burns sales tax reform discussions. The working group convened a diverse, dedicated, representative, and knowledgeable group of city officials to provide recommendations that equitably benefit cities across the state, further fiscal sustainability, and strengthen the viability of the sales tax.

The group also explored existing laws, regulations, and practices regarding tax sourcing rules, including state and national trends. Part of this work included the establishment of a sub-group to explore sales tax allocation models applied by other states, such as Texas' allocation by industry or Illinois' allocation via an "ABC" test.

Summary of Recommendations

One of the first items established and recommended by the working group was the adoption of a guiding definition of equitable e-commerce sales tax distribution. This definition contextualized equity within the evolving landscape of consumer preferences, technological advances, and the needs of cities. The Cal Cities Board of Directors approved this definition, which served as the lens by which the working group explored whether the existing sales and use tax system equitably distributes revenues and whether changes to the distribution are needed.

The working group also gave significant attention to sales tax rebate agreements and issues within the county pool allocation policy. This resulted in a suite of policy recommendations, approved by the Cal Cities Board of Directors, focused on how to preserve sales tax sharing agreements as an economic incentive tool while establishing parameters that reduce competition between cities and creating a fairer environment.

Consensus was formed around a prospective proposal that would split the Bradley-Burns Sales and use tax from e-commerce transactions equitably between origin/fulfillment and destination cities, with each city receiving 50% of the revenues. The group also recommended that there potentially be a plus or minus 10% for either city to allow for flexibility when negotiating with the Legislature. This split should be prospective and revenues generated under existing agreements should not be subject to the proposed split. Additionally, there should be a phase-in of five years, and use tax dollars in the county pools generated from out-of-state fulfillment should be allocated directly to the destination city.

ATTACHMENT B

Estimating Local Tax Allocations for Online Sales 50% Based on Place of Use

Reid Johnsen
CDTFA GIS and Data Services
5/7/2024

Executive Summary

- Purpose: Analyze impact of performing allocations for online sales based on 50% place-of-use (usually customer location) and 50% place-of-origin, using 3rd party credit/debit card data.

- Premise: Some online sellers allocate local tax to the locations of their warehouses or distribution centers. If 50% of local tax were instead allocated to the location of the purchaser, this tax revenue would be more widely distributed across the state.

- Issue: CDTFA staff does not have complete place-of-use data but can estimate reallocations using third party credit and debit card data.

- Result: Of 482 cities studied, 255 are projected to gain revenue, 105 are projected to lose revenue, and 123 lack sufficient data for a projection.

Current allocation method

- Sales tax transactions are generally allocated to the jurisdiction where the place of sale is located (usually a permitted place of business of the retailer).
  - Sales tax transactions require two elements: 1) participation by a California place of business of the retailer, **and** 2) sale occurs in CA. CDTFA form 401 Schedule C

- Use tax transactions are generally allocated to the countywide pool based on the place of use (presumably where the goods are delivered).
  - When **either** of the above conditions for a sales tax transaction are not met, the default is a use tax transaction. CDTFA form 401 Schedule B

Local tax (1%) allocation current method

		CDTFA Tax Return Data		
		City Local Tax Allocation (1%)	Pool Local Tax Allocation	Total Local Tax Allocation
City A	County Y	$ 1,000,000	$ 25,000	$ 1,025,000
City B	County Y	$ 3,000,000	$ 75,000	$ 3,075,000

Local tax (1%) allocation current method

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Schedule C Schedule B

City Taxable Sales	County Taxable Sales	Pool Taxable Sales	Pool Allocation %	Pool Allocation (1%)
$ 100,000,000	$ 400,000,000	$ 10,000,000	25%	$ 25,000
$ 300,000,000	$ 400,000,000	$ 10,000,000	75%	$ 75,000

Alternative allocation method

- In this study, 50% of local sales tax for online sales is allocated to the location of the customer's credit/debit card statement. Local sales tax from in-store transactions remain allocated to the location of the business.

- Online sales are defined as any sale processed by a credit/debit card terminal that is designated as "online" by a payment processor. These sales may include online purchases that are picked up in-store.

Estimating online sales tax allocations

- Using 3rd party credit/debit card transaction data, we can estimate the value of online purchases by residents of each city.

- We matched 3rd party data to CDTFA sales and use tax accounts for about 200 large retailers. These retailers comprised roughly 61% of CA online sales in 2021.

- 3rd party in-store sales are attributed to the location of the store, and online sales are attributed to the location of the customer's credit card statement.

- For those retailers, we recalculated city-level sales and countywide pools using 3rd party estimates of online and in-store sales in place of CDTFA return data.

Online sales estimation example

		City Local Tax Allocation 1% (CDTFA)	City Local Tax Allocation Without 50% of Online by 200 Retailers (CDTFA)	City Local Tax Allocation with 50% of Online by 200 Retailers (CDTFA + 3rd party)	New Pool Allocation	New Total Local Tax Allocation to City	Previous Total Local Tax Allocation to City	Percentage Change
City A	County Y	$1,000,000	$800,000	$1,100,000				
City B	County Y	$3,000,000	$2,000,000	$2,500,000				

Online sales estimation example

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City A	County Y	$1,000,000	$800,000	$1,100,000	$15,277	$1,115,277	$ 1,025,000	8.8%
City B	County Y	$3,000,000	$2,000,000	$2,500,000	$34,722	$2,534,722	$ 3,075,000	-17.6%

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Schedule C + 3rd party

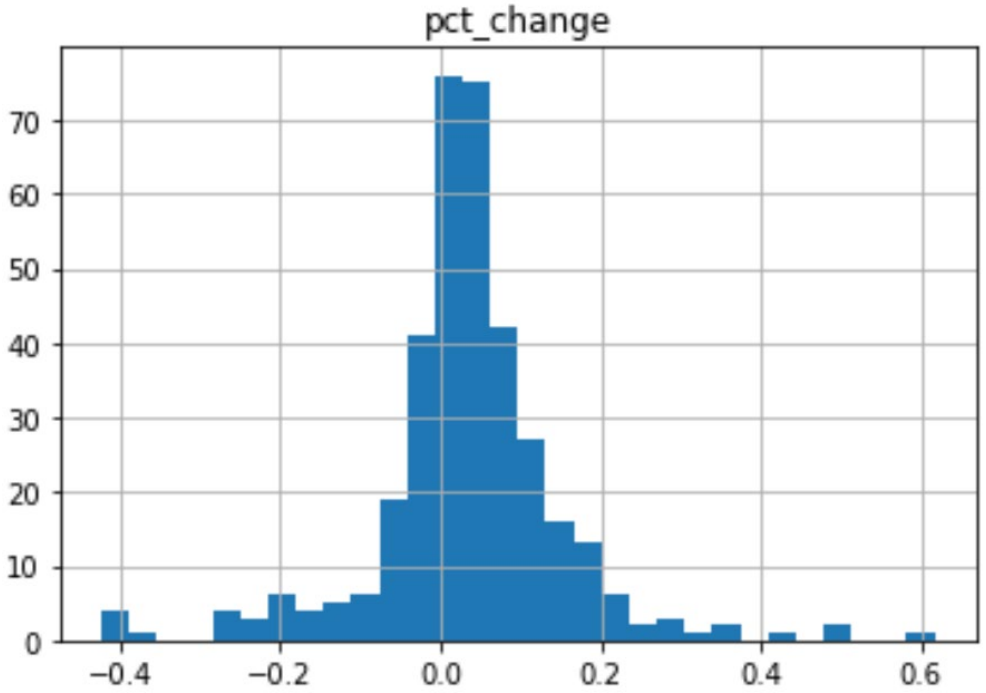
Schedule B

	City Taxable Sales with 200 Retailers (CDTFA + 3rd party)	County Taxable Sales	Pool Taxable Sales	Pool Allocation %	Pool Allocation (1%)
City A	$110,000,000	$360,000,000	$5,000,000	31%	$15,277
City B	$250,000,000	$360,000,000	$5,000,000	69%	$34,722

Total county taxable sales changes (.25%)

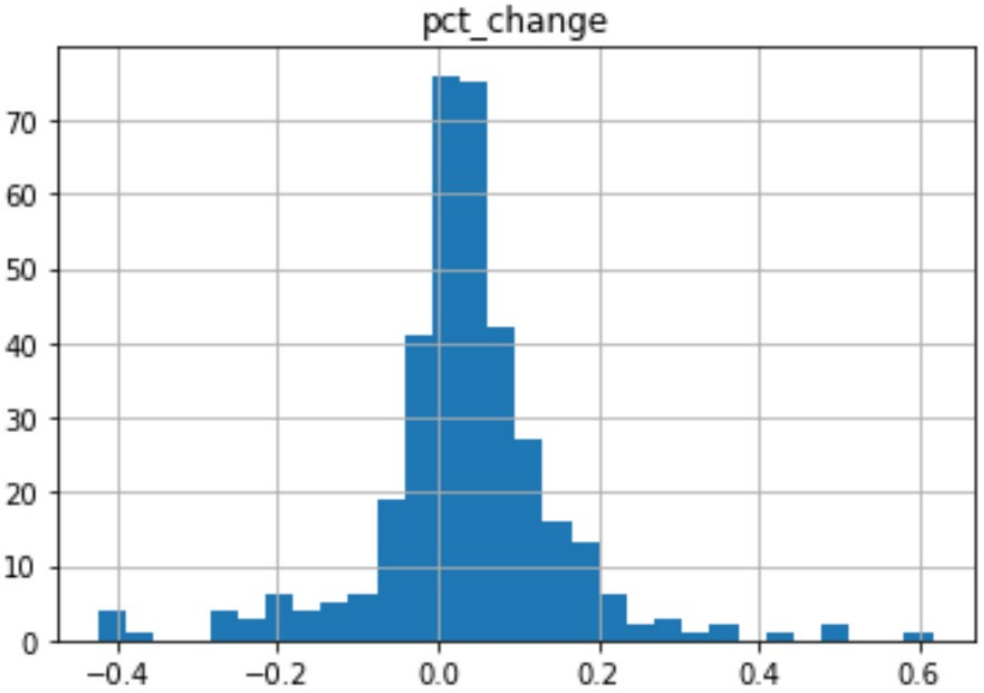
Results

- Small cities are more sensitive to measurement error, and in many cases 3rd party data is insufficient to accurately calculate impacts.
- Removing smaller cities (annual local tax < $2m) removes some of these inaccuracies.
- Among all 482 cities, 255 gained revenue and 105 lost revenue.

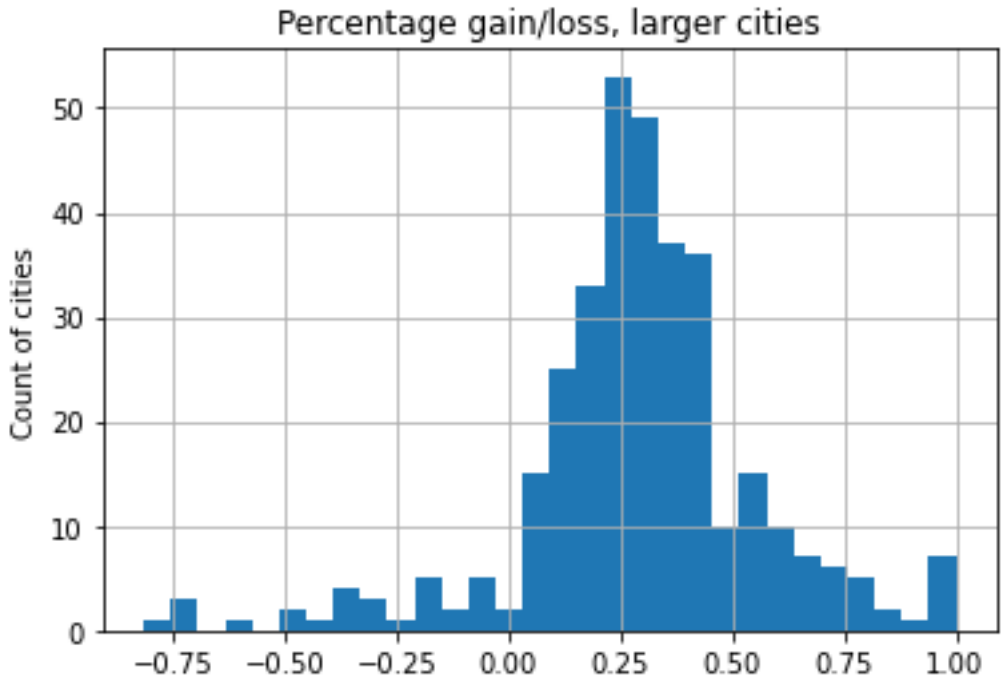


How does 50% reallocation compare to 100%?

50% reallocation



100% reallocation



Why do cities gain or lose?

Gain	Lose
• Cities that have relatively few storefronts gain the most on a percentage basis. • These are mostly rural and tend to be either high or low income. • Cities of all types show smaller gains.	• Cities with warehouses or distribution centers for online retailers. • Cities with retailers with a large percentage of online orders shipped to or delivered by store (home improvement).

Qualifying remarks

- 3rd party data were used for this analysis and estimate, but CDTFA is unable to validate the 3rd party data for completeness or accuracy.

- Small cities (in terms of 3rd party estimated retail sales) are omitted from this analysis due to insufficient information.

- Percentage changes in allocations are based on 2021 taxable sales as reported by taxpayers to CDTFA. Reported amounts may change due to late/amended returns, audits, reallocations, etc. and may not accurately represent current or future years.

- 3rd party data is at the zip code level, and aggregation to the city level is imperfect. Zip code borders do not always align with city borders (see appendix).

- 200 largest retailers might not be representative of all retailers.

- Estimate and analysis do not consider impacts on 0.25% local county tax.

Estimating sales with 3rd party data

- 3rd party dataset provides an estimate of in-person credit and debit card sales at the address of the seller.
- 3rd party dataset does not estimate cash or check sales, however a 2021 Federal Reserve study suggests that about 33% of in-store payments are cash or check.
- 3rd party dataset provides an estimate of online sales at the customer zip code level.
- We assume that online sales are 0% cash.
- For each zip code, the total 3rd party dataset sales by a retailer are given by

  total sales = online sales + (1.333 x in-store sales)

Accounting for non-taxable sales

- 3rd party dataset captures all sales, whether taxable or not.

- We account for non-taxable sales by scaling 3rd party dataset sales so that the total statewide sales by each retailer match taxable sales reported to CDTFA.

Example: Scaling party dataset

	3rd party statewide sales	CDTFA taxable sales	Non-taxable correction factor	3rd party sales in City A	Estimated taxable sales in City A
Retailer X	$ 1,000,000	$ 800,000	0.8		
Retailer Y	$ 2,000,000	$ 2,200,000	1.1		

Example: Scaling 3rd party dataset

	3rd party statewide sales	CDTFA taxable sales	Non-taxable correction factor	3rd party sales in City A	Estimated taxable sales in City A
Retailer X	$ 1,000,000	$ 800,000	0.8	$ 100,000	$ 80,000
Retailer Y	$ 2,000,000	$ 2,200,000	1.1	$ 200,000	$ 220,000

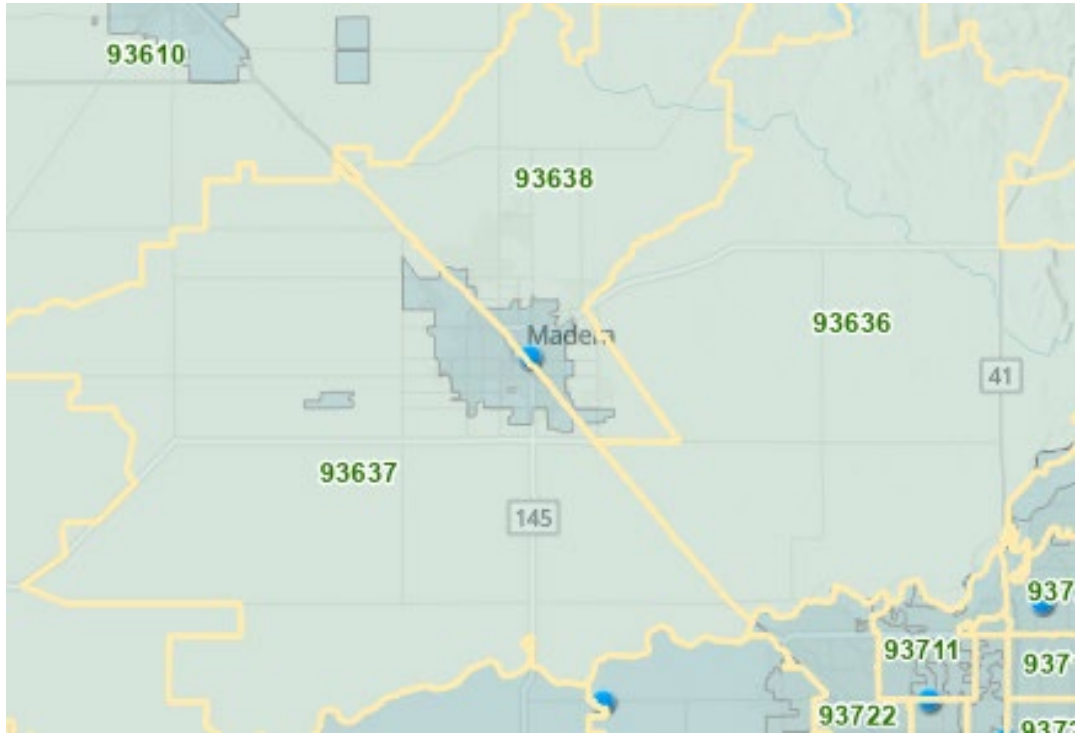
Example: Scaling party dataset

	3rd party statewide sales	CDTFA taxable sales	Non-taxable correction factor	3rd party sales in City A	Estimated taxable sales in City A
Retailer X	$ 1,000,000	$ 800,000	0.8	$ 100,000	$ 80,000
Retailer Y	$ 2,000,000	$ 2,200,000	1.1	$ 200,000	$ 220,000

Repeat for appx 200 large retailers and all cities

Assumption: The proportion of sales that are taxable by Retailer X in City A is the same as that by Retailer X in City B.

Appendix: zip code matching



All sales in 93637 and 93638 are attributed to Madera. 93636 is not included in the analysis.

All of Emeryville is located in 94608, but much of 94608 is located in Oakland