Municipal Finance Institute
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LEAGUE OF CALIFORNIA CITIES

Strengthening California Cities through Advocacy and Education

# Sales and Use Tax Reform; Cal Cities City Manager Sales Tax Working Group

# 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.

# Sales Tax Sharing Agreements:

Recommendations

# 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 |

# Recognizing Impacts

## An Equitable Lense

# Equitable E-commerce Sales Tax Distribution

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
3) The needs of cities.

# Cal Cities Policy Change

To reflect the progress of the working group, Cal Cities Board of Directors **approved** updating the Cal Cities existing policy to incorporate 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 major considerations of the equity statement include the following:

- The **equitable** allocation of sales tax 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.
- 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 must also be considered as to the **fiscal sustainability** of all cities.
- City officials should account for these factors in the evolving marketplace and strive for **prospective, fair, and equitable** revenue sharing based on data, as available.
- City officials should also employ their best judgment to support policies that **benefit** the **sustainability** of **all** cities.

# E-Commerce and Bradley Burns:

## Recommendations

# Defining E-Commerce

- <u>E-Commerce:</u>
  - An internet transaction, or other similar digital-electronic media, processed digitally and delivered to a consumer from a warehouse or fulfillment location.
  - This transaction may be fulfilled in-state or out-of-state and does not require human intervention.

# Defining E-Commerce

- Consumer:
  - A person or a group who intends to purchase goods or products primarily for personal, social, family, household and similar needs, who is not directly related to entrepreneurial or business activities.
- Warehouse/Fulfillment Location:
  - The location where a product or good is stored before it begins shipment to a consumer after an order is placed and is not a consumer-facing retail location.
  - Does not include B2B.

# Equitable split

- <u>Defining Parameters:</u>
  - A 50/50 split of Bradley Burns sales and use tax revenues generated from e-commerce transactions.
  - A plus or minus of 10% to allow for flexibility.
  - Prospective, revenues from existing sales tax sharing agreements not subject to split.
  - Five-year phase-in, post CDTFA implementation.
  - County pool use tax dollars redirected to destination city.

# What's Next?

# THANK YOU!

**Ben Triffo**
Legislative Affairs, Lobbyist
btriffo@calcities.org • 916-738-9062

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