Transaction & Use Tax
When considering a new tax

League of California Cities
Municipal Finance Institute

December 7, 2022
Introductions

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HdL Companies

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HdL Companies
About HdL

PROUD TO SERVE
CITIES, COUNTIES & SPECIAL DISTRICTS FOR 39+ YEARS

100% EMPLOYEE OWNED

TRIFECTA
Superior service
Increased revenue
Decreased costs

COMPLIANCE
HdL helps clients reduce risk by keeping current with ever-changing legislation

RESULTS
Average city growth rates are ~3%, HdL clients are 2x that!

500+ Municipal Clients

$3billion+ Recovered revenue

99.6% Avg. Client Retention
Transaction and Use Tax
District Tax
Add-on Tax

Legislative authority to tax - California Revenue and Taxation Code Section 7251 – 7279.6

7261(a) A provision imposing a tax for the privilege of selling tangible personal property at retail upon every retailer in the district at a rate of one-eighth of 1 percent, or a multiple thereof, of the gross receipts of the retailer from the sale of all tangible personal property sold by that person at retail in the district.
7285.9 - The governing body of any city may levy, increase, or extend a transactions and use tax for general purposes at a rate of 0.125 percent or a multiple thereof, if the ordinance proposing that tax is approved by a two-thirds vote of all members of that governing body and the tax is approved by a majority vote of the qualified voters of the city voting in an election on the issue.
GENERAL VS SPECIFIC TAX - Specific

7285.91 - ...for the purpose for which it is established,

The ordinance proposing that tax is approved by a two-thirds vote of all members of the governing body and is subsequently approved by a two-thirds vote of the qualified voters of the city voting in an election on the issue.
TRANSACTION & USE TAXES INFO

• Additional Local Taxes – Rev & Tax Code 7280-7298
• Rev & Tax Code 7270 - Administration

The district is required to contract with the CDTFA (California Department of Taxes and Fees Administration) to perform all functions in the administration and operation of the ordinance imposing the tax.
The combined rate of all taxes imposed in accordance with this part in any county **may not exceed 2 percent (above the base sales tax rate)**, except...
## CITY OF HERMOSA BEACH
### Breakdown of 9.5% Sales Tax Rate Effective October 1, 2017

<table>
<thead>
<tr>
<th>Fund/Commission</th>
<th>Current Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Fund</td>
<td>3.9375 %</td>
</tr>
<tr>
<td>City/County General Fund (Bradley-Burns)</td>
<td>1.0000 %</td>
</tr>
<tr>
<td>County Public Safety (Prop 172)</td>
<td>0.5000 %</td>
</tr>
<tr>
<td>County Realignment (Mental Health/Welfare/Public Safety)</td>
<td>1.5625 %</td>
</tr>
<tr>
<td>Countywide Transportation Fund</td>
<td>0.2500 %</td>
</tr>
<tr>
<td>Los Angeles County Transportation Commission (LACT)</td>
<td>0.5000 %</td>
</tr>
<tr>
<td>Los Angeles County Transportation Commission (LATC)</td>
<td>0.5000 %</td>
</tr>
<tr>
<td>Los Angeles County Metro Transportation Authority (LAMT)</td>
<td>0.5000 %</td>
</tr>
<tr>
<td>Los Angeles County Traffic Improvement Plan (LAMA)</td>
<td>0.5000 %</td>
</tr>
<tr>
<td>Los Angeles County Homeless Services Tax (LACH)</td>
<td>0.2500 %</td>
</tr>
<tr>
<td><strong>Total Rate</strong></td>
<td><strong>9.5000 %</strong></td>
</tr>
</tbody>
</table>

- **Current Sales Tax received:** 9.5000%
- **TUT increasing cap:** 1%
- **TUT applied against cap:** 1.25%
- **Leaves available for local TUT:** 0.75%
Approximately 95%+ of the state’s population live in one or more transactions and use tax district
WHO AND WHERE?

- 35 of 58 Counties
- 250 of 482 Cities
  - Northern - 112
  - Central - 64
  - Southern – 74
  - Coastal - 146
  - Central - 92
  - Mountains - 12
FUNCTIONAL DIFFERENCES TO BRADLEY-BURNS
ALL OTHER RETAILERS
FUNCTIONAL DIFFERENCES TO BRADLEY-BURNS VEHICLES, VESSELS, AIRCRAFT

BUYER PAYS TOTAL SALES TAX RATE WHERE VEHICLE WILL BE REGISTERED

Example:

1. Buyer lives in non-TUT city with total sales tax rate of 9.5%, purchases a vehicle from a car dealer in a city that has a total sales tax rate of 10.25%.

Buyer will only pay 9.5% sales tax to car dealer. Local 1% Bradley-Burns tax will be allocated to city where car dealer is located. No additional local taxes will be allocated.
FUNCTIONAL DIFFERENCES TO BRADLEY-BURNS VEHICLES, VESSELS, AIRCRAFT

BUYER PAYS TOTAL SALES TAX RATE WHERE VEHICLE WILL BE REGISTERED

Example:

2. Buyer lives in a city with TUT - total sales tax rate of 10.25% (assume 0.75% TUT), purchases a vehicle from a car dealer in a city that has a total sales tax rate of 9.5%

Buyer will pay 10.25% sales tax to car dealer. Local 1% Bradley-Burns tax will be allocated to city where car dealer is located. 0.75% TUT will be remitted to City where Buyer lives.
FUNCTIONAL DIFFERENCES TO BRADLEY-BURNS
BUILDING SUPPLIES, EQUIPMENT AND BULK FUEL

DELIVERIES INTO CITY
TUT tax collected

CITY WITH TUT

DELIVERIES OUT OF CITY
TUT tax NOT collected
Sales Tax applies when the goods are located in California at the time the sales occur. This includes a stock of goods held in a California warehouse, fulfillment center or retail stores.

Use Tax applies when title to the goods passes to the purchaser at a point outside of California. Goods that ship to a customer from outside the state are generally subject to use tax.
HOW DO “ADD ON” TAXES EFFECT BUYING?

- There is an impact, but too small to measure
- Consumers focus on base cost
- Hassle factor
- Alternative purchase options
ROAD TO SUCCESS

• Consider messaging around the need
• Consider outreach efforts with specific community groups
• Consider polling the community
  - Determine a desire for tax
  - Understanding priorities
• Consider community meetings
EXAMPLE
CALENDAR
OF EVENTS

Jan.–Feb.
Communicate with Council, Community, CDTFA, City Clerk, Fiscal Impacts

Mar.–Apr.
Community Feedback, Communication with CDTFA & City Clerk, Fiscal Impacts

May–June
City Council Approval with Fiscal Impacts, Communication with CDTFA, Clerk, Fiscal

July–Aug.
City Clerk Filing, County Registrar of Voters for Ballot

Sep.–Oct.
Communication with Voters, Community Groups, Employee Groups

November
ELECTION

City Council Approval with CDTFA, Community Fiscal Impacts, Communication with CDTFA, Clerk, Fiscal

Communicate with Council, Community, Fiscal Impacts, Communication with CDTFA, Clerk, Fiscal
Join the Conversation

• January 2018 – June 2018
  • More than 40 Community Meetings
  • Online Surveys – More than 1,000 completed
  • Community Polling
PASADENA’S REASONS NEEDS JUSTIFICATION

✔ General Fund structural deficit in 5 Year Forecast
✔ Continuous ‘cut mode’ since Great Recession
✔ Serious infrastructure needs without funding source
  • Fire Stations
  • Public Safety Radio System
  • Libraries
  • High Voltage Street Lighting System
Prioritized Services - Survey Results
Higher Priority

- Preserving 911 emergency response times and fire/paramedic services
- Keeping fire stations open and upgraded
- Addressing homelessness
- Repairing streets/roads
- Maintaining vital health services
- Supporting quality public neighborhood schools
- Continuing/improving local science, math and reading classroom programs
- Sustaining after school/summer youth programs
WHAT IS MEASURE Z?

Measure Z establishes a one-cent Transaction and Use Tax with revenues going directly to the City of Riverside. Measure Z was on the November 8, 2016 ballot and paid for critical unfunded City programs and services, such as public safety, prevention of homelessness, road maintenance and tree trimming, recreation and parks, and more.

RiversideCA.gov/MeasureZ
POLLING

After an exchange of information, the vote settles well above the majority vote threshold needed for passage.

*If there were an election today, do you think you would vote “yes” in favor of this measure or “no” to oppose it?*

<table>
<thead>
<tr>
<th></th>
<th>Initial Vote</th>
<th>Vote After Information</th>
<th>Vote After Opposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitely yes</td>
<td>33%</td>
<td>47%</td>
<td>40%</td>
</tr>
<tr>
<td>Probably yes</td>
<td>31%</td>
<td>23%</td>
<td>22%</td>
</tr>
<tr>
<td>Undecided, lean yes</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Undecided, lean no</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Probably no</td>
<td>9%</td>
<td>7%</td>
<td>11%</td>
</tr>
<tr>
<td>Definitely no</td>
<td>23%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Undecided</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
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**600 Interviews**

Conducted June 12 - 23, 2016

- 64% on Cellphones
- 91% in English
- Overall Margin of Error: +/- 4%

Riverside residents likely to vote in **NOVEMBER 2016 ELECTION**
### MEASURE Z STATUS

**MEASURE Z STATUS / CITY QUARTERLY REPORT**

For a detailed list on the status of the City’s Performance Report and Measure Z Funding Items, visit [RiversideCA.gov/Transparency/Results](http://RiversideCA.gov/Transparency/Results)

<table>
<thead>
<tr>
<th>Measure Z Funding Item</th>
<th>Measure</th>
<th>Target</th>
<th>Status</th>
</tr>
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<tbody>
<tr>
<td>General Fund Reserve</td>
<td>General Fund Reserve</td>
<td>PF 2017/18: 15%</td>
<td>No target required</td>
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**MEASURE Z SPENDING CONGUENCY**

<table>
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<tr>
<th>Measure Z Spending</th>
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<tr>
<td>Measure Z Spending</td>
<td>Measure Z Spending</td>
<td>PF 2017/18: 12 positions</td>
<td>No target required</td>
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**ADDITIONAL LEARN POLICE POSTIONS (PUBLIC SAFETY)**

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<td>PF 2017/18: 12 positions</td>
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**PUBLIC SAFETY PERFORMANCE REINFORCEMENT, PUBLIC SAFETY PERFORMANCE REINFORCEMENT (PUBLIC SAFETY)**

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<th>Status</th>
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<td>Measure Z Spending</td>
<td>PF 2017/18: 12 positions</td>
<td>No target required</td>
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**QUARTERLY UPDATES - 2ND QUARTER**

- Riverside Mayor’s Wards:
  - Ward 1: Mike Gardner
  - Ward 2: Andy Johnstone
  - Ward 3: Nick Aquadro
  - Ward 4: Chet Creager
  - City Manager: Paul Doiz
  - City Attorney: Fran O’Shea
  - City Clerk: Christine Gaffney

- Measure Z Spending:
  - General Fund Reserve: PF 2017/18: 15% | Target: PF 2017/18: 15% | Status: Implemented May 2017
  - Measure Z Spending: PF 2017/18: 12 positions | No target required | Measure Z spending begins in FY 2018/19

[RiversideCA.gov](http://RiversideCA.gov)
SUCCESS !?!?! 

• Approved tax measure will go into effect the first calendar quarter 110 days after the adoption of the ordinance
  – November 2022 approval
  – April 1, 2023 effective date
  – First monthly advances begin June 2023 – first full year FY 23-24
ADDITIONAL RESOURCES

- Judy Wong, CDTFA (916) 309-5868
- CDTFA Publication 44

The Lew Edwards Group  TBWB Strategies
Cerrell Associates Inc    Clifford Moss
FM 3
Thank you!

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