

Transaction & Use Tax

When considering a new tax

League of California
Cities
Municipal Finance
Institute

December 7,
2022

HdL[®] Companies



Introductions



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HdL Companies



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About HdL

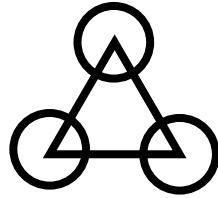
**PROUD
TO SERVE**

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 (TUT)

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.

GENERAL VS SPECIFIC TAX - General

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.

TRANSACTION & USE TAXES INFO

Rev & Tax Code 7251.1

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...



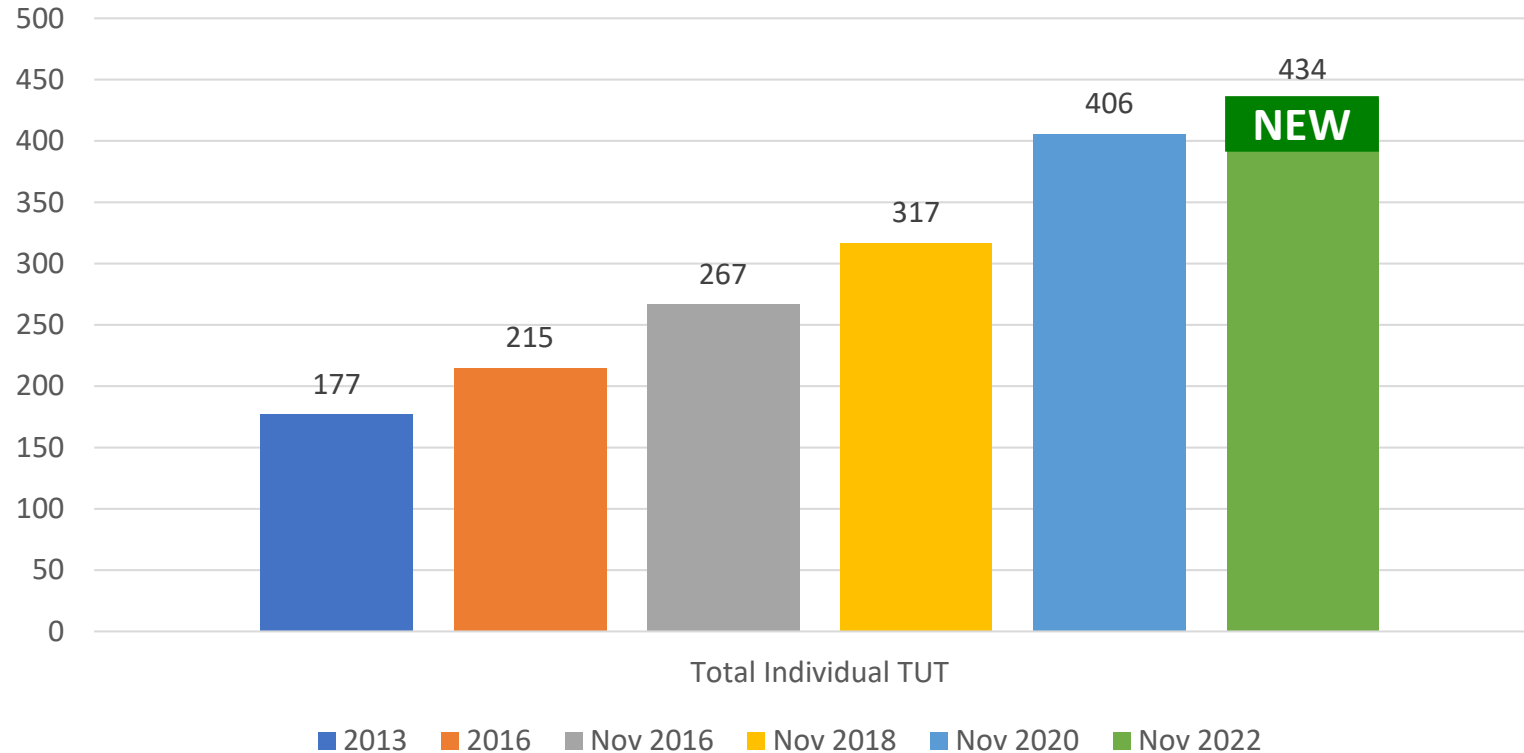
CITY OF HERMOSA BEACH

Breakdown of 9.5% Sales Tax Rate Effective October 1, 2017

| | | |
|--|-----------------|-----------------------------------|
| State General Fund | 3.9375 % | |
| City/County General Fund (Bradley-Burns) | 1.0000 % | → Current Sales Tax received |
| County Public Safety (Prop 172) | 0.5000 % | |
| County Realignment (Mental Health/Welfare/Public Safety) | 1.5625 % | |
| Countywide Transportation Fund | 0.2500 % | |
| Los Angeles County Transportation Commission (LACT) | 0.5000 % | → TUT increasing cap = 1% |
| Los Angeles County Transportation Commission (LATC) | 0.5000 % | |
| Los Angeles County Metro Transportation Authority (LAMT) | 0.5000 % | |
| Los Angeles County Traffic Improvement Plan (LAMA) | 0.5000 % | → TUT applied against cap = 1.25% |
| Los Angeles County Homeless Services Tax (LACH) | 0.2500 % | |
| Total Rate | 9.5000 % | |

↓
Leaves 0.75% available for local TUT

NUMBER OF TUT DISTRICTS ARE INCREASING



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



HdL 



SALES TAX VS USE TAX – BRADLEY-BURNS

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?

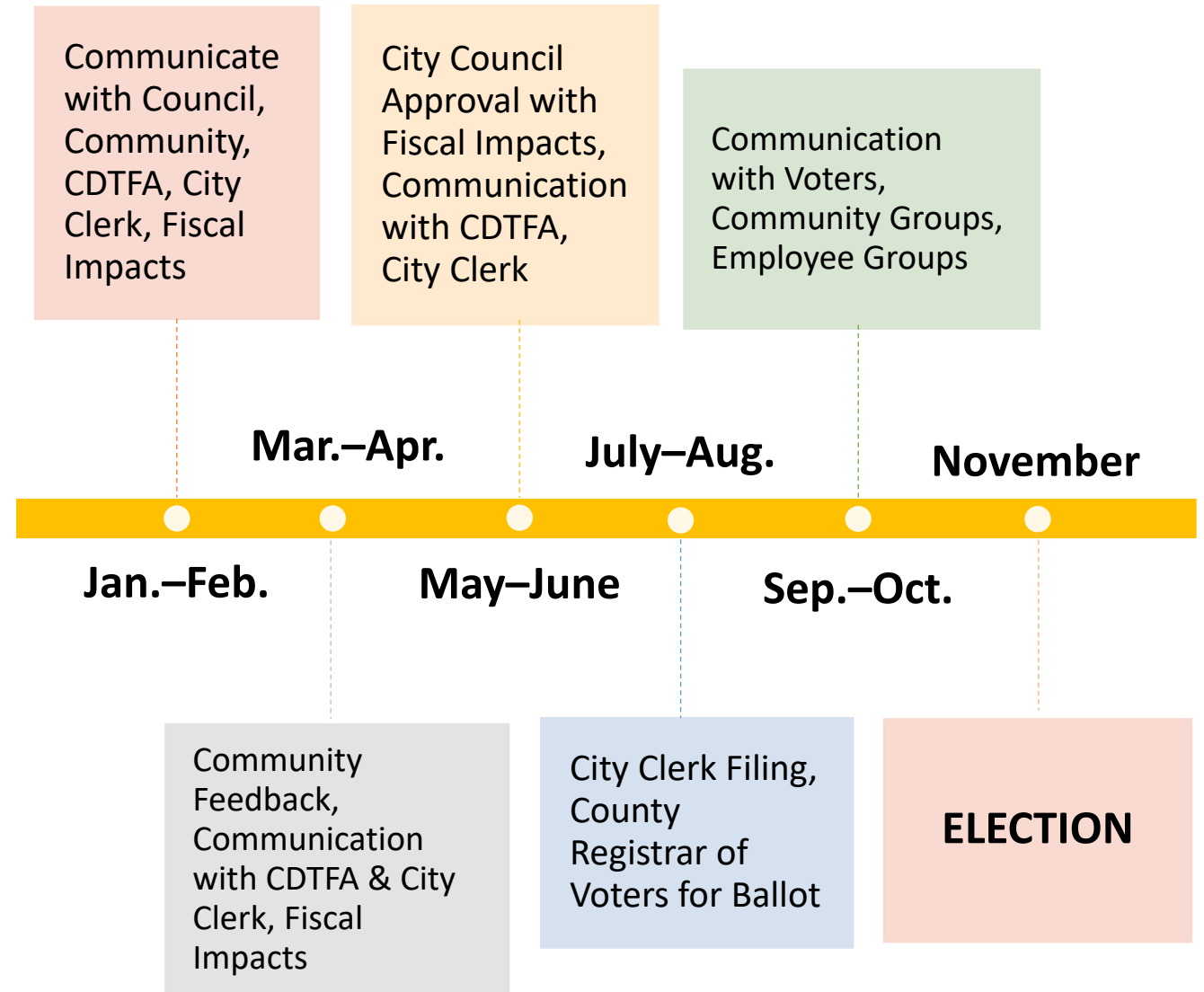
- There is an impact, but too small to measure
- Consumers focus on base cost
- Hassle factor
- Alternative purchase options



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





Join the Conversation

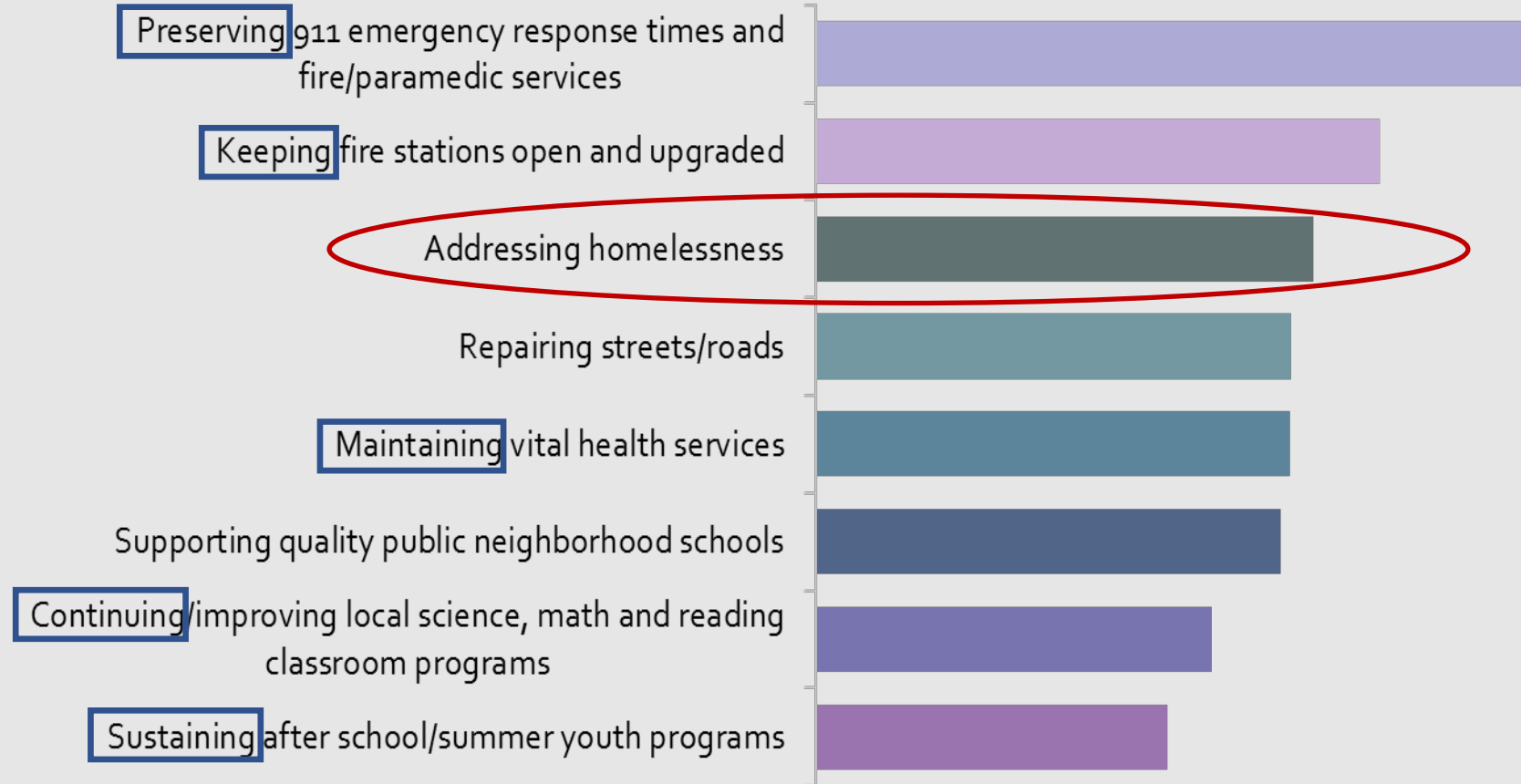
- January 2018 – June 2018
 - More than 40 Community Meetings
 - Online Surveys – More than 1,000 completed
 - Community Polling




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 →



MEASURE Z
WHAT IT'S ALL ABOUT

 **ELECTION DAY** | NOVEMBER 8, 2016

WHAT IS **MEASURE Z?**

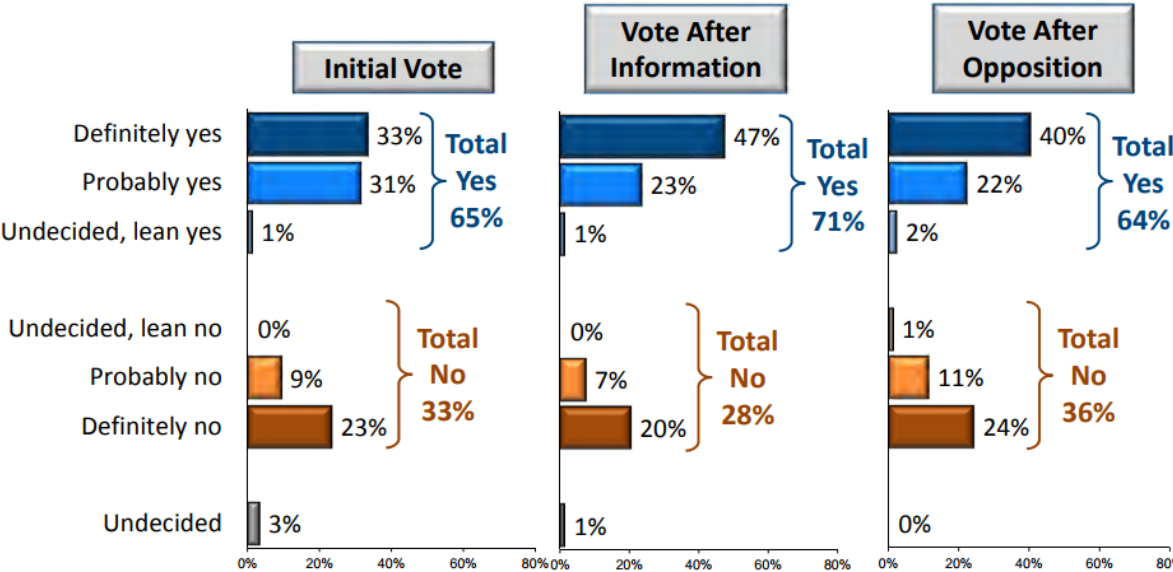
Measure Z establishes a **one-cent Transaction and Use Tax** with **revenues going directly to the City of Riverside**. Measure Z was on the **November 8, 2016 ballot** and paid for critical unfunded City programs and services, such as public safety, prevention of homelessness, road maintenance and tree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



Fairbank,
Marlin,
Mauldin,
Mori &
Associates
FMI

Q5/Q11/Q13.

28



Riverside residents likely to vote in
NOVEMBER 2016 ELECTION



600
Interviews

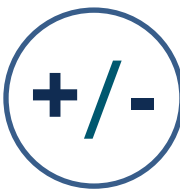
Conducted
June 12 - 23, 2016



64%
on Cellphones



91%
in English



4% Overall Margin
of Error



MEASURE Z STATUS / CITY QUARTERLY REPORT



**QUARTERLY
PERFORMANCE REPORT**
FISCAL YEAR 2017-2018

SECOND FISCAL QUARTER
OCTOBER - DECEMBER 2017

Mayor
Rusty Bailey

Ward 1
Mike Gardner

Ward 2
Andy Melendrez

Ward 3
Mike Soubroux

Ward 4
Chuck Conder

Ward 5
Chris Mac Arthur








Ward 6
Jim Perry

City Manager
John A. Russo

City Attorney
Gary Geuss

City Clerk
Colleen Nicol



| MEASURE Z STATUS | | | |
|---|--|--|---|
| Measure Z Funding Items | Measure | Target | Status |
|  20% General Fund Reserve (Financial Discipline/Responsibility) | General Fund Reserve level | FY 2017/18: 15% FYs 2018/19 - 2020/21: 20% (Also a part of city-wide program) | General Fund reserves are expected to meet 20% in FY 2017/18 |
|  Payoff of the Balloon \$32 million Pension Obligation Bond (Financial Discipline/Responsibility) | No measure required | No target required | Implemented May 2017 |
|  Funding for Workers Comp and General Liability (Financial Discipline/Responsibility) | Reserve level in the combined Liability Fund | 50% (In accordance with formal City policy) | Expect to meet 50% target by FY 2020/21 |
|  Measure Z Spending Contingency (Financial Discipline/Responsibility) | No measure required | Finance will track contingency spending | Per Council action of 12/19/17, the contingency will be used for construction of Archives at the new Main Library |
|  Additional Sworn Police Positions (Public Safety) | Number of sworn officers added | Year 2: Add 17 Officers Year 3: Add 16 Officers Year 4: Add 14 Officers Year 5: Add 13 Officers (Also a part of city-wide program) | 14 of 17 officers for Year 2 hired; recruitment continues |
|  Public Safety Non-Sworn Positions and Recruitment Costs (Public Safety) | Number of positions filled during the year | FY 2017/18: 12 positions | Nine positions filled; recruitment continues |
|  Police Officer Lateral Hire Incentives and Recruitment Costs (Public Safety) | Fiscal year spending and number of bonuses awarded | No target required | Measure Z funding begins in FY 2018/19 |

For a detailed list on the status of the City's Performance Report and Measure Z Funding Items, visit

[RiversideCA.gov/
Transparency/Results](https://RiversideCA.gov/Transparency/Results)

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
Cerrell Associates Inc
FM 3

TBWB Strategies
Clifford Moss





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Brea | Fresno | Pleasanton

Thank you!