



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: 6/7/2012

Report Type: Staff/Discussion

Title: Sales Tax Information and Election Procedures

Report ID: 2012-00541

Location: Citywide

Recommendation: Receive and file.

Contact: Mark Prestwich, Special Projects Manager, (916) 808-5380, City Manager's Office

Presenter: Mark Prestwich, Special Projects Manager, (916) 808-5380, City Manager's Office

Department: City Manager

Division:

Dept ID:

Attachments:

- 1-Description/Analysis
 - 2-Background
 - 3-General Transaction Taxes
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City Attorney Review

Approved as to Form
Matthew Ruyak
5/31/2012 3:50:21 PM

Approvals/Acknowledgements

Department Director or Designee: Max Fernandez - 5/31/2012 8:49:03 AM

Description/Analysis

Issue: On May 22, 2012, the City Council received an informational briefing on results of a telephone survey that assessed community support for a variety of potential revenue measures. The results suggested a general purpose transaction (sales) and use tax measure to be the most electorally viable option of the measures tested, with support tracking approximately 20 percent above the required majority vote threshold. This report provides additional background on the sales and use tax, election procedures, schedule, and options for community engagement.

Policy Considerations: General purpose tax measures provide revenue for general governmental purposes and require majority voter approval.

Environmental Considerations: Not applicable

Sustainability: Not applicable

Commission/Committee Action: Not applicable

Rationale for Recommendation: This is a receive and file report.

Financial Considerations: California state law authorizes cities to seek voter approval of transaction taxes in multiples of 0.25 percent so long as the combined transaction taxes do not exceed two percent. General purpose sales tax revenues may be used for any general fund purpose including police, fire and parks services. Using fiscal year 2013 budget estimates, a general purpose transaction and use tax of 0.25 percent levied on sales in the City of Sacramento would generate approximately \$15.7 million, while a tax rate of 0.50 percent would generate approximately \$31.4 million annually if approved.

Emerging Small Business Development (ESBD): Not applicable

BACKGROUND

On May 22, 2012, the City Council received an informational briefing on results of a City-commissioned telephone survey. California-based public opinion research firm Fairbank, Maslin, Maullin, Metz and Associates (FM3) conducted the survey which assessed community support for a variety of potential revenue measures.

The telephone survey of 800 likely November 2012 voters was conducted between April 22 and April 25. While strong majorities of voters appear willing to support all of the nine potential measures tested, survey results suggested a general purpose sales and use tax measure was the most electorally viable option of the different measures considered. Support for the 0.25 percent (quarter cent) general-purpose sales and use tax exceeded the majority vote threshold by 21 percentage points (71 percent “yes”) and the 0.50 percent (half cent) general-purpose sales and use tax exceeded the same vote threshold by 18 percentage points (68 percent “yes”). The survey’s margin of sampling error for one-half of the sample was +/- 4.9 percent.

The purpose of this report is to provide additional background on the sales and use tax, election procedures, schedule, and options for additional community engagement. Should the City Council want to consider placing a measure on the November 2012 ballot, Staff will return on June 26 with a report and draft ordinance.

Sales and Use Tax

Sales tax revenues are a primary source of funding for key general fund supported services including fire, police and parks services. Under the California Sales and Use Tax Law, the sale of tangible personal property is subject to sales or use tax unless exempt or otherwise excluded. When the sales tax applies, the use tax does not apply, and the opposite is true. The sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state of California and is measured by the retailer’s gross receipts. Use tax is imposed on the purchaser of tangible personal property from any retailer not required to pay sales tax to the state, for storage, use, or other consumption in this state and is measured by the sales price of the property purchased. However, if an out-of-state retailer is engaged in business in California, it is required to register with the Board of Equalization and collect the use tax from the purchaser at the time of making the sale.

The statewide sales and use tax rate in California is 7.25 percent. Most of the proceeds from the sales and use tax are earmarked to the State of California as noted in Table 1 below. The “Bradley-Burns Uniform Sales and Use Tax” law provides a local tax allocation of 1 percent. Sales tax from the Bradley Burns levy is allocated to the jurisdiction where the sale was negotiated or order taken. The City’s General Fund

receives 0.75 percent, and 0.25 percent is allocated to the County's transportation fund. In addition, the City receives 0.25 percent in revenue that is backfilled to local agencies with property tax revenue from the County Education Revenue Augmentation Fund (ERAF). In other words, a \$100 purchase producing \$7.25 in sales tax will provide the City's General Fund with \$1.00 in sales tax revenue and 25 cents to the County's transportation fund. The remaining \$6.25 is allocated to the State.

Table 1. Itemization of Base State Sales Tax

Rate	Jurisdiction	Purpose	Authority
3.69%	State	Goes to State's General Fund	Revenue and Taxation Code Sections 6051, 6201
0.25%	State	Goes to State's General Fund	Revenue and Taxation Code Sections 6051.3, 6201.3 (Inoperative 1/1/01 – 12/31/01)
0.25%	State (Directed to City)	Goes to State's Fiscal Recovery Fund, to pay off Economic Recovery Bonds (2004)	Revenue and Taxation Code Sections 6051.5, 6201.5 (Operative 7/1/04)
0.50%	State	Goes to Local Public Safety Fund to support local criminal justice activities (1993)	Section 35, Article XIII, State Constitution
0.50%	State	Goes to Local Revenue Fund to support local health and social services programs (1991 Realignment)	Revenue and Taxation Code Sections 6051.2, 6201.2
1.0625%	State	Goes to Local Revenue Fund 2011	Revenue and Taxation Code Sections 6051.15 and 6201.15
1.00%	Local	0.25% Goes to county transportation funds	Revenue and Taxation Code Section 7203.1 (Operative 7/1/04)
		0.75% Goes to city or county operations	
Total:			
7.25%	State/Local	Total Statewide Base Sales and Use Tax Rate	

Motor Vehicle Sales. Pursuant to the Bradley-Burns Uniform Sales and Use Tax Law, the City typically receives the local allocation of sales tax revenue related to vehicle sales and leases occurring within the City limits. In 2008, the City and County of Sacramento entered into a sales tax sharing agreement that requires sharing of the Bradley-Burns related sales tax revenues derived from vehicle sales above a base revenue figure established for the fiscal year 2007/08.

With respect to a potential transaction tax, sellers and lessors of vehicles are required to apply and collect transaction taxes based on where a vehicle is registered. Therefore, regardless of where a City of Sacramento resident purchases a vehicle in California, the

transaction tax revenue from the transaction will be allocated to the City of Sacramento’s General Fund.

Transaction and Use Tax Districts. In January 2004, the State Legislature permitted cities to seek voter approval of additional sales and use taxes referred to as “transaction taxes” in multiples of 0.25 percent. With the exception of Los Angeles County, the combined transaction taxes may not exceed two percent for a total rate not to exceed 9.25 percent. Transaction taxes are generally allocated to the “district” where the goods are delivered or placed into use.

In California, there are more than 100 cities and counties with “general” and “special” transaction and use taxes. According to the Institute for Local Government, most California residents pay a sales tax rate that is 7.75 percent or higher. Attachment 3 lists cities with “general” transaction and use taxes approved since 2008. Several of the general transaction and use taxes include sunset provisions. Table 2 below summarizes the amount of general transaction and use tax figures in 73 California cities.

Table 2. General Transaction and Use Taxes in California Cities

Tax Increment	Number of Cities
0.25 %	11
0.50 %	45
0.75 %	4
1.00 %	13

Sales Tax Rates in California. The sales and use tax rate in the City of Sacramento is currently 7.75 percent. The additional 0.50 percent tax above the base rate relates to a transaction and use tax of 0.50 percent that is dedicated to transportation improvements in Sacramento County. Table 3 below identifies the sales and use tax rates in various large California cities. Sales tax rates in California’s largest cities range from 7.25 percent to 8.75 percent.

Table 3. Sales and Use Tax Rates in California’s largest 10 Cities (Sorted High to Low)

Largest 10 Cities	Base	Transaction and Use Taxes					Total
		Transportation & Transit	Public Finance Authority	Library	Zoo	General Purpose	
Long Beach	7.25	1.50					8.75 %
Los Angeles	7.25	1.50					8.75 %
Oakland	7.25	1.50					8.75 %
San Francisco	7.25	1.00	0.25				8.50 %
San Jose	7.25	1.00					8.25 %
Fresno	7.25	0.50		0.125	0.10		7.975%
Anaheim	7.25	0.50					7.75 %
Sacramento	7.25	0.50					7.75 %

San Diego	7.25	0.50					7.75 %
Bakersfield	7.25						7.25 %

Sales tax rates in Sacramento region cities range from 7.25 percent to 8.00 percent as noted in Table 4 below. Three of the six regional cities listed have general purpose transaction and use taxes ranging from 0.50 percent to 0.75 percent.

Table 4. Sales and Use Tax Rates in Sacramento Region Cities (Sorted High to Low)

Regional Cities	Base	Transaction and Use Taxes					Total
		Transportation & Transit	Public Finance Authority	Library	Zoo	General Purpose	
Woodland	7.25					0.75	8.00 %
Davis	7.25					0.50	7.75 %
Elk Grove	7.25	0.50					7.75 %
Folsom	7.25	0.50					7.75 %
Sacramento	7.25	0.50					7.75 %
West Sacramento	7.25					0.50	7.75 %
Roseville	7.25						7.25 %

Sacramento Sales Tax Revenue. The City's past sales tax revenue figures provide insight into possible revenue that may be derived from a general purpose transaction and use tax. Cities with measures on a November ballot typically make the effective date of a tax April 1 of the following year. Therefore, revenue is typically not received by the City until the following July.

Table 5. City of Sacramento Sales Tax Revenue History

Fiscal Year (Ended June 30 th)	Actual (Millions)	Value of additional 0.25% (Millions)	Value of additional 0.50% (Millions)
2003	\$58.2	\$14.6	\$29.1
2004	\$62.1	\$15.5	\$31.1
2005	\$65.9	\$16.5	\$33.0
2006	\$67.5	\$16.9	\$33.8
2007	\$69.5	\$17.4	\$34.8
2008	\$66.3	\$16.6	\$33.2
2009	\$60.6	\$15.2	\$30.3
2010	\$56.3	\$14.1	\$28.2
2011	\$58.1	\$14.5	\$29.1
2012 (Amended)	\$58.8	\$14.7	\$29.4
2013 (Proposed)	\$62.8	\$15.7	\$31.4

Election Procedures

The City Council must approve a measure by ordinance (including a section conditioning its effect upon subsequent voter approval) for inclusion on the November 2012 ballot no later than July 24. The City Clerk must prepare a resolution by July 31 calling the measure to the ballot and authorizing other administrative matters. Additional procedures are outlined below.

Submission of Ballot Arguments. Arguments for and against the measure must be submitted to the City Clerk by August 8. Arguments may not exceed three hundred words and cannot be signed by more than five persons.

Council Preparation of Argument in Support of Measure. Under Elections Code section 9282, a ballot argument may be authored by the City Council or any members of the council authorized by the body, or any individual voter who is eligible to vote on the measure, or a bona fide association of citizens, or any combination of voters and associations.

Impartial Analysis. The City Attorney will prepare an impartial analysis of the measure, not to exceed 500 words in length, showing the effect of the measure on existing law and the operation of the measure. The impartial analysis will need to be filed with the City Clerk by August 8.

Options for Public Engagement

The City can provide educational materials about a ballot measure to the public and has done so in years past with other ballot measures. In 2010, for example, the City created an informational web page summarizing information about a ballot measure. The web page included a “frequently asked questions” document, text of the proposed measure, the City Attorney’s Impartial Analysis, and arguments for and against.

Additionally, community workshops can be held to facilitate understanding of any proposed measure between today and Election Day. Should the City Council have an interest in public engagement before July 17, staff recommends conducting two community workshops on Wednesday, June 27 and Thursday, June 28 between 6:00 p.m. and 7:30 p.m. Additional informational workshops can be planned between August and November.

Recommended Schedule

June 26	Draft Ordinance Reviewed by the City Council
June 27	Community Workshop (Optional)
June 28	Community Workshop (Optional)
July 17	City Council Approves Ordinance (conditioned upon subsequent voter approval) for inclusion on ballot
July 24	City Council Approves Resolution placing question on the ballot and authorizing the City Clerk to conduct various administrative matters.
August 3	Notice of Measure Published in Daily Recorder
August 8	Deadline to file City Attorney's Impartial Analysis
August 8	Deadline to file Primary Arguments with City Clerk
August 15	Deadline to file Rebuttal Arguments with City Clerk
October 15	Last day to register to vote for November election
November 6	Election Day

General Purpose Transaction and Use Taxes in California Cities Adopted Since 2008



City	Tax Rate	Effective Date	Sunset (if any)
City of Delano	1.00	4/1/2008	10 years
City of Hollister	1.00	4/1/2008	5 years
City of Trinidad	0.75	7/1/2008	
City of Seaside	1.00	7/1/2008	
City of South Gate	1.00	10/1/2008	
City of Pacific Grove	1.00	10/1/2008	
City of Pismo Beach	0.50	10/1/2008	6 years
City of Arcata	0.75	4/1/2009	
City of Eureka	0.25	4/1/2009	
City of Arvin	1.00	4/1/2009	
City of El Monte	0.50	4/1/2009	5 years
City of Pico Rivera	1.00	4/1/2009	
City of La Habra	0.50	4/1/2009	20 years
City of Galt	0.50	4/1/2009	
City of La Mesa	0.75	4/1/2009	20 years
City of Campbell	0.25	4/1/2009	
City of Oxnard	0.50	4/1/2009	20 years
City of Port Hueneme	0.50	4/1/2009	
City of Gustine	0.50	4/1/2010	
City of San Mateo	0.25	4/1/2010	8 years
City of Calexico	0.50	10/1/2010	20 years
City of Cathedral City	1.00	10/1/2010	5 years
City of Cotati	0.50	10/1/2010	5 years
City of Rohnert Park	0.50	10/1/2010	5 years
City of Woodland	0.25	10/1/2010	4 years
City of San Leandro	0.25	4/1/2011	7 years
Union City	0.50	4/1/2011	4 years
City of Concord	0.50	4/1/2011	5 years
City of El Cerrito	0.50	4/1/2011	7 years
City of Santa Monica	0.50	4/1/2011	
City of South El Monte	0.50	4/1/2011	
City of Novato	0.50	4/1/2011	5 years
City of Marina	1.00	4/1/2011	5 years
City of Tracy	0.50	4/1/2011	5 years
City of Santa Rosa	0.25	4/1/2011	8 years
City of Wheatland	0.50	4/1/2011	10 years
City of Fairfax	0.50	4/1/2012	5 years
City of Palm Springs	1.00	4/1/2012	25 years
City of Vallejo	1.00	4/1/2012	10 years
City of Oakdale	0.50	4/1/2012	3 years