

League of California Cities Sales Tax Summary

Everything (well, almost) you need to know about sales tax but were afraid to ask

Have you ever wondered what happens with the sales tax you pay at a retail counter or online? What can cities do with that money? If you are a newly elected official, you may have asked these questions — and more — while navigating your city’s budget development process.

For most cities, sales tax revenues are the base of a healthy pyramid of municipal revenue, alongside property taxes and other local taxes. Here are 10 things you should know about California’s sales and use tax to be an informed steward of local fiscal resources.

1. Sales tax: A tale as old as 1933!

California voters approved the first sales tax in 1933. Over the past 90 years, sales taxation, collection, and allocation have undergone several transformations along a winding journey of tinkering, exemptions, and evolving state bureaucracy. These changes have had a profound impact on local government revenues.

There is one constant though. A sales tax is the tax that retailers add to the price of most goods sold in California. The tax base for the sales tax is the retail or rental price of tangible personal property — any physical asset that is readily movable and not permanently attached to real property. Sales tax applies to a transaction if the seller’s registered place of business in California participates in the sale and the goods are passed to the customer within this state.

Sales tax is administered and distributed by the state but includes both state and local levies. After 1933, California cities began to impose their own sales taxes. These taxes and their collection methods varied greatly, so in response, the state Legislature passed the Bradley-Burns Uniform Local Sales and Use Tax Law in 1955.

2. Bradley-Burns?

The Bradley-Burns Uniform Sales and Use Tax Act is a uniform, statewide system of sales taxation and collection that allows cities to adopt local sales and use tax rates up to 1% of taxable sales in their jurisdictions. Although the state collection and distribution give this the appearance of a revenue-sharing arrangement, the Bradley-Burns is a locally levied tax with local discretion to use those revenues.

Today, all cities and counties in California impose a Bradley-Burns Uniform Local Sales and Use Tax. The basic Bradley-Burns rate is a general tax, meaning its uses are unrestricted and can be used for general government purposes. General taxes must go into a city’s general fund. Other revenues or funding sources are required to be in separate funds, such as special taxes or grant funding. Usually, a general fund is a municipality’s largest fund.

On average, the local sales tax provides around 30% of a city’s general purpose revenues. However, local sales taxes are among the most volatile types of taxes from year to year

depending on the nature of the local economic conditions and amounts vary widely among cities. In some cities, the sales tax provides as much as 75% of general fund revenues; in a few cities, it is less than 5%.

3. What is the “use” part of the sales and use tax?

California’s use tax complements the sales tax. The use tax is imposed on the storage, use, or other consumption of property purchased from a retailer in cases where the sales tax is not collected. Use tax is commonly paid on goods purchased out-of-state, long-term lease payments, private vehicle transactions, and construction contractors. Unlike the sales tax, use taxes are generally allocated to the place of use. State law provides various special allocation procedures for use taxes collected on certain products.

4. We’re all swimming in a pool

California uses a countywide pool system to allocate local sales and use tax payments that cannot be identified with a specific place of sale or use. The formula for determining the amount owed to each municipality within a county is based on the proportion of each city’s taxable sales to the county as a whole. Generally, a city generating 4% of all taxable sales in a county receives 4% of the pool.

The largest components of the pools include private vehicle sales, use tax paid by construction contractors, merchandise shipped directly to consumers, permit holders who operate in more than one local jurisdiction, and use tax on purchases not tied to a retail facility, such as research and development.

5. Voter-approved restrictions and protections

Like many policy areas that experience large pendulum swings over time, the past few decades saw several significant changes to how local revenues are restricted and protected. In 1996, voters expanded restrictions on local government revenue raising through Proposition 218. The measure allows voters to repeal or reduce taxes, assessments, fees, and charges. It also reiterates the requirement for voter approval for special taxes and general taxes and imposes limitations on certain assessments and fees.

In 2004, voters approved Proposition 1A, constitutionally protecting major city revenues from additional shifts to the state and strengthening local governments’ ability to get reimbursement for unfunded state-mandated programs. Voters passed another measure to protect local government finances in 2010. Proposition 22 prohibits the state from borrowing, delaying, or taking certain funds allocated to local governments.

Collectively, these measures prohibit the state from reducing the local sales and use tax rate or altering its allocation method.

6. A guide to the state’s alphabet soup

Correctly recalling the state administrative agencies that share in the assessment, collection, distribution, and general oversight of taxes and fees can be challenging, even for

seasoned lawmakers! The most relevant state administrative agencies for local officials are the Board of Equalization (BOE), the California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals (OTA).

The BOE was responsible for property tax assessments, state-administered fees, and other taxes, such as sales, use, and transaction taxes. In 2017, lawmakers reduced its functions to core responsibilities primarily related to property tax. Various other tax administration duties were transferred to the newly formed CDTFA and OTA. The OTA hears appeals from California taxpayers regarding various taxes and fees administered by the CDTFA and the Franchise Tax Board (FTB).

The CDTFA administers California’s sales, use, and transaction taxes. The agency collects revenues, enforces compliance, and allocates revenues among local jurisdictions and the state. The CDTFA is often confused with FTB, which is responsible for collecting state personal income taxes and corporate taxes. Those revenue sources are exclusive to the state.

California Sales and Use Tax Allocation

		Brick/Mortar	Automobile	On-line Sale ²	
purchaser receives at		store	store	home/business	home/business
seller		store	store	office: out-of-state	office
product		store	store	Fulfillment center: out-of-state	Fulfillment center: in-state
Rate					
City¹	1.00	city of store location	city of store location	Countywide pool	City location of fulfillment center²
County TDA	0.25	county of store location	county of store location	county of use (receipt)	County location of fulfillment center
Transactions Tax -city (see section 2.03)	varies	city of store location	city of use (registration)	city of use (receipt)	city of use (receipt)
Transactions Tax -county (see section 2.03)	varies	county of store location	county of use (registration)	county of use (receipt)	county of use (receipt)
State General Fund	3.94	State	State	State	State
State County Realignment	1.56	State (then reallocated)	State (then reallocated)	State (then reallocated)	State (then reallocated)
State Proposition 172 (See Section 6.05)	0.50	State (then reallocated)	State (then reallocated)	State (then reallocated)	State (then reallocated)

(1) county if transaction is in unincorporated area

(2) Online sale allocation exceptions include: a) if product is picked up then location of pick-up (countywide pool); b) if product shipped FOB from out of state then location of delivery (countywide pool); c) if product from out of state and over \$500k in value then location of delivery (jurisdiction).

7. Follow the money

Generally, revenue from the Bradley-Burns Local Sales and Use Tax is allocated to the city where the sale occurs or the county for unincorporated areas. However, when the consumer, the seller, and the taxable good are in different locations — such as for an online purchase — the allocations are trickier. Understanding these nuances is important though.

Changes in consumer behavior, such as increased online shopping throughout the COVID-19 pandemic and the slow return to brick-and-mortar retail sales, drove shifts in sales tax allocations, which has affected city budgets statewide.

8. Every rule has an exemption

Contrary to popular belief, California has the narrowest sales tax base in the country. Although the overall sales tax rate is higher than most states, California has the smallest pool of taxable goods. Services commonly taxed in other states — but not in California — include dry cleaning, automobile or appliance repair, extermination services, lawn care, swimming pool cleaning, and digital downloads.

Sales tax also does not apply to the sale of real property, such as land and buildings. The state continues to narrow the base of goods that are taxed with additional exemptions. For example, cities cannot collect tax on most groceries, utilities, museums, public art, manufactured housing, and custom computer programs, just to name a few!

9. Detailed Description of the Sales and Use Tax Rate

Rate	Jurisdiction	Purpose	Authority
3.6875%	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)
0.50%	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
1.25%	Local	0.25% Goes to county transportation funds 1.00% Goes to city or county operations	Revenue and Taxation Code Sections 7202 and 7203
Total:			
7.25%	State/Local	Total Statewide Base Sales and Use Tax Rate	

District Taxes

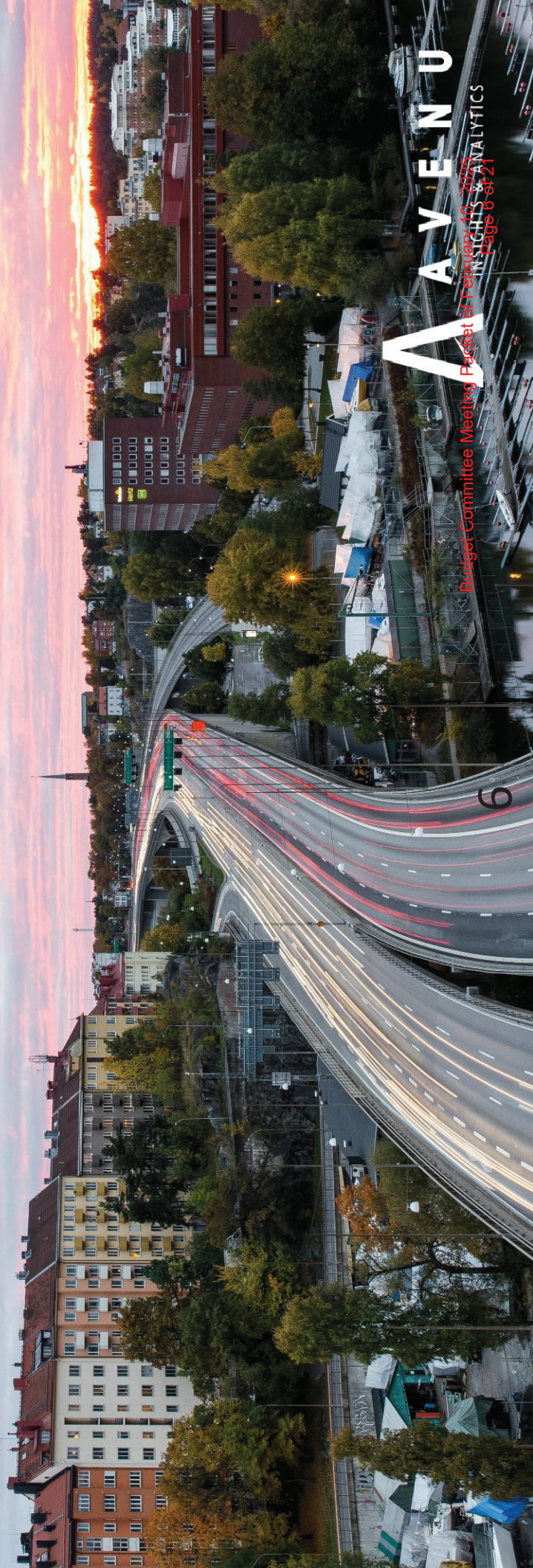
Rate	Jurisdiction	Purpose	Authority
Varies	District	Counties, cities and towns in California may impose one or more district taxes. Those district tax rates range from 0.10% to 1.50%. Taxes collected shall be transmitted to the districts.	Revenue and Taxation Code Section 7261



City of Sebastopol Sales Tax Overview



Sales Tax Performance & Comparisons



Recent Statewide Sales Tax Trends

- Overall statewide sales tax has been flat or negative for 2023 and the first three quarters of 2024
- Statewide, sales tax from retail purchases has declined due to a shift from taxable goods towards more non-taxable services and a ‘hangover’ from cumulative levels of high inflation
- Statewide, sales tax from restaurants and markets has now stabilized in low single digit growth
- Statewide, sales tax from service stations (gasoline) declined due to higher than normal prices in 2022
- Statewide, Construction and B2B sales tax declined as economy cooled with higher than normal interest rates

Sebastopol - Recent Cash Performance

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SEBASTOPOLE

Sales Tax Net Cash Receipts: Two Advances Plus Clean-Up Payment

	% CHANGE BY MONTH ENDED QUARTER												MOST RECENT FOUR QUARTERS TOTAL			
	May-22	Aug-22	Nov-22	Feb-23	May-23	Aug-23	July-22 thru	Aug-23	July-23 thru	Aug-24	2024Q2	2024Q3	2024Q4	\$ Chg	% Chg.	
	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	2023Q2	2023Q3	2023Q4	2024Q1	24Q2	2024Q2				
LAST YEAR CASH RECEIVED >	0.6%	3.3%	-7.5%	-5.7%	-1.5%	-3.6%	47,346,801	45,131,020	45,131,020	26,472,965	26,472,965	26,472,965	26,472,965	-2,215,781	-4.7	
THIS YEAR CASH RECEIVED>	-1.5%	4.5%	-15.4%	1.6%	-2.7%	-0.7%	26,564,183	26,564,183	26,564,183	15,214,699	15,214,699	15,214,699	15,214,699	-91,219	-0.3	
CALENDAR SALES QUARTER>	-2.1%	-28.6%	-9.2%	-5.1%	-3.5%	-4.6%	16,135,077	16,135,077	16,135,077	9,851,686	9,851,686	9,851,686	9,851,686	-245,091	-2.5	
1 SANTA ROSA	-3.4%	-0.5%	-4.0%	-4.1%	2.4%	-3.7%	5,850,544	5,850,544	5,850,544	5,823,558	5,823,558	5,823,558	5,823,558	-26,986	-0.5	
2 SONOMA COUNTY	-8.4%	0.5%	-1.0%	-7.5%	4.2%	3.0%	5,648,841	5,648,841	5,648,841	3,906,128	3,906,128	3,906,128	3,906,128	-151,802	-3.9	
3 PETALUMA	-4.6%	0.7%	-11.6%	-5.2%	-4.6%	-7.9%	2,888,337	2,888,337	2,888,337	2,794,147	2,794,147	2,794,147	2,794,147	-94,190	-3.3	
4 ROHNERT PARK	-0.6%	11.3%	-5.7%	-7.8%	-4.2%	2.2%	2,255,774	2,255,774	2,255,774	1,196,253	1,196,253	1,196,253	1,196,253	34,370	3.0	
5 HEALDSBURG	-1.0%	-7.3%	0.2%	-2.4%	-3.2%	-7.5%	1,161,884	1,161,884	1,161,884	587,198,731	587,198,731	587,198,731	587,198,731	-22,193,647	-3.8	
6 WINDSOR	-7.1%	-6.4%	-6.2%	-8.0%	12.2%	-5.5%	447,204,095	447,204,095	447,204,095	385,954,179	385,954,179	385,954,179	385,954,179	-61,249,916	-13.7	
7 SONOMA	13.7%	0.1%	10.0%	-5.6%	8.3%	-0.6%	225,548,261	225,548,261	225,548,261	225,413,061	225,413,061	225,413,061	225,413,061	-395,795	-0.2	
8 COTATI	0.0%	6.8%	-2.9%	-6.8%	2.7%	-7.3%	220,413,061	220,413,061	220,413,061	197,910,874	197,910,874	197,910,874	197,910,874	-7,383,015	-3.7	
9 SEBASTOPOLE	13.4%	-5.3%	-19.2%	-13.0%	-13.2%	-15.7%	121,609,254	121,609,254	121,609,254	117,415,153	117,415,153	117,415,153	117,415,153	-4,194,101	-3.4	
10 CLOVERDALE	-1.4%	0.0%	-4.0%	-4.3%	2.9%	0.6%	9,510,809,121	9,510,809,121	9,510,809,121	9,376,883,707	9,376,883,707	9,376,883,707	9,376,883,707	-133,925,414	-1.4	
SANTA CLARA CO TOTAL	3.5%	-2.3%	-11.2%	-0.8%	-0.1%	1.7%										
ALAMEDA CO TOTAL	3.9%	-4.1%	-6.8%	-8.2%	1.0%	-0.2%										
CONTRA COSTA CO TOTAL	-1.3%	-2.9%	-8.7%	-4.1%	-1.4%	-2.9%										
SAN MATEO CO TOTAL																
SAN FRANCISCO CO TOTAL																
SONOMA CO TOTAL																
MUNI/AVENU STATEWIDE	-0.2%	-1.0%	-3.2%	-2.6%	0.7%	-1.7%										

Sales Tax Categories and Segments

Five Main Categories for Local Business Sales Tax

- Food: Includes Restaurants and Food Markets
- Retail: Includes Apparel, Furniture, Drug Stores, etc.
- Transportation: Includes Gas Stations, Auto Repair
- Construction: Includes both Wholesale & Retail Construction
- Business to Business (B2B): Sales Not to Consumer

Other Non-Local Sales Tax

- County Pool*: Includes sales/use tax coming in from outside state such as certain ecommerce, construction, B2B, 3rd party vehicle sales.

*County Pool Allocation Background – Use Tax Coming in from out of state businesses is collected for all transactions countywide and then distributed to cities based on a formula of city sales tax receipts for the quarter as a percentage of the sales tax receipts for all jurisdictions within county. Sebastopol typically ~ 2% of county pool.

Sebastopol – Sales Tax Drivers (all sources)

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Primary Drivers

- Restaurants: 22%
- Retail: 16%
- County Pool/Internet/Non-Local: 15%
- Food Markets: 14%
- Gas Stations: 11%
- Construction: 8%

Others

- Auto Repair: 5%
- Food Processing/Liquor Markets: 4%
- B2B: 2%
- Misc: 1%

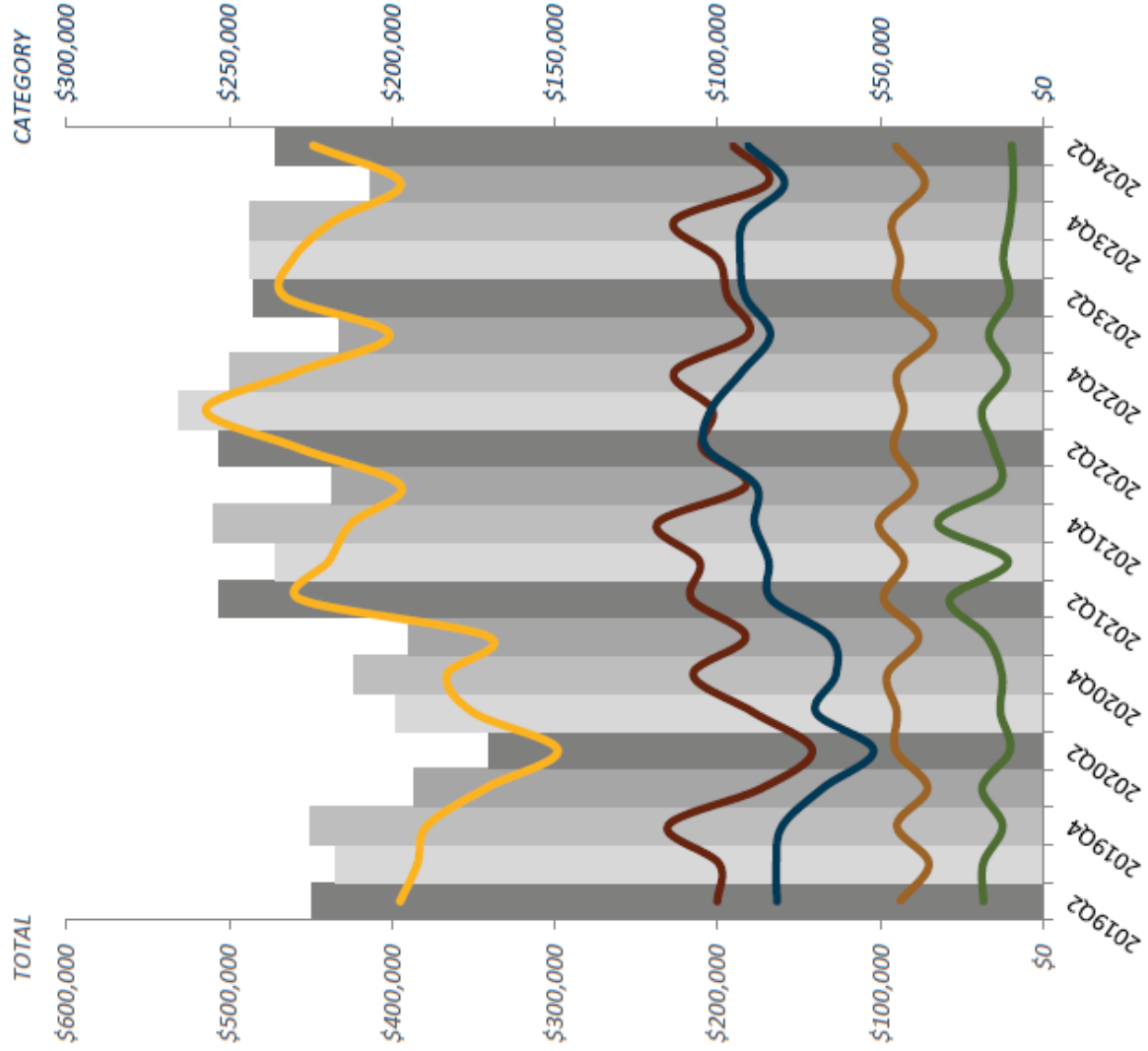
Sebastopol 1% Sales Tax Performance

	YE 2019Q2	YE 2020Q2	YE 2021Q2	YE 2022Q2	YE 2023Q2	YE 2024Q2
Total Receipts	\$2,040,457	\$1,819,927	\$2,129,151	\$2,282,002	\$2,255,774	\$2,198,864
Net Pools/Admin/Adj	\$250,704	\$208,668	\$411,991	\$357,010	\$307,698	\$339,469
Local Businesses	\$1,789,754	\$1,611,258	\$1,717,160	\$1,924,992	\$1,948,076	\$1,859,396
General Retail	\$404,500	\$372,393	\$396,147	\$420,406	\$402,770	\$393,613
Food Products	\$839,005	\$701,914	\$757,135	\$858,372	\$920,804	\$870,208
Restaurants	438,168	348,543	397,177	484,872	495,987	490,899
Food Markets	288,167	290,746	282,156	286,416	332,450	305,538
Transportation	\$298,021	\$282,153	\$282,922	\$365,000	\$370,397	\$355,415
Auto Parts/Repair	79,975	78,706	83,731	96,784	100,739	103,623
Service Stations	207,381	186,337	180,448	243,240	238,370	238,777
Construction	\$156,595	\$161,230	\$180,448	\$179,135	\$166,335	\$172,377
Business To Business	\$67,824	\$60,235	\$72,200	\$72,289	\$57,464	\$41,753
Miscellaneous	\$23,808	\$33,333	\$28,308	\$29,790	\$30,305	\$26,029

- **Restaurants generate ~ 26% of Local Business Sales Tax (22% Total)**
- **Retail generates ~ 21% of Local Business Sales Tax (18% Total)**
- **Food Markets generate ~ 16% of Local Business Sales Tax (14% Total)**
- **Service Stations generate ~ 13% of Local Business Sales Tax (11% Total)**

Top 4 Business Segments Above Generate 76% of Local Business Sales Tax

Sebastopol – Q2 2024 Economic Performance



TOTAL	2024Q2	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
	\$471,553	-2.7%	-\$13,294	-4.5%	-\$87,968

GENERAL RETAIL	2024Q2	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
	\$95,464	-1.6%	-\$1,532	-2.3%	-\$9,157
% of 2024Q2 Total:		20.2%			

FOOD PRODUCTS	2024Q2	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
	\$224,247	-3.8%	-\$8,748	-5.5%	-\$50,595
% of Total:		47.6%			

TRANSPORTATION	2024Q2	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
	\$90,875	-0.8%	-\$694	-4.0%	-\$14,983
% of Total:		19.3%			

CONSTRUCTION	2024Q2	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
	\$45,499	1.4%	\$648	3.6%	\$6,041
% of Total:		9.6%			

BUSINESS TO BUSINESS	2024Q2	QoQ %Δ	QoQ \$Δ	YoY %Δ	YoY \$Δ
	\$9,730	-7.4%	-\$779	-27.3%	-\$15,711
% of Total:		2.1%			

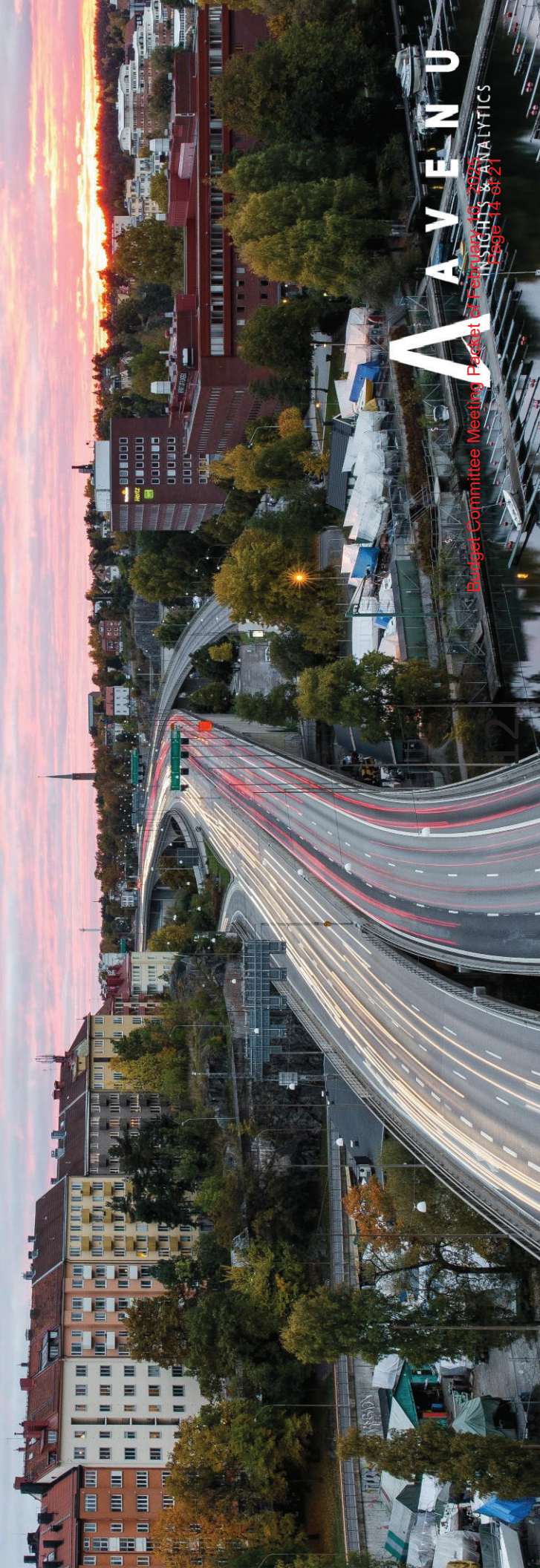
QoQ = 24Q2 / 23Q2 YoY = YE 24Q2 / YE 23Q2

Recent County Pool Performance

	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	Quarter Over Quarter
Total County Pool	5,180,256	5,023,262	5,226,817	4,963,963	4,689,411	4,874,287	5,137,828	-1.7%
Jurisdiction Share	100,424	91,205	96,070	98,401	87,161	100,687	91,859	-4.4%
Jurisdiction % of Total	1.9%	1.8%	1.8%	2.0%	1.9%	2.1%	1.8%	

The County Pool is used by the state for taxable transactions that do not have a California based point of sale location. These are considered ‘use tax’ and include certain ecommerce transactions, third party used car sales, and construction materials & B2B goods coming in from out of state.

Sales Tax Future?



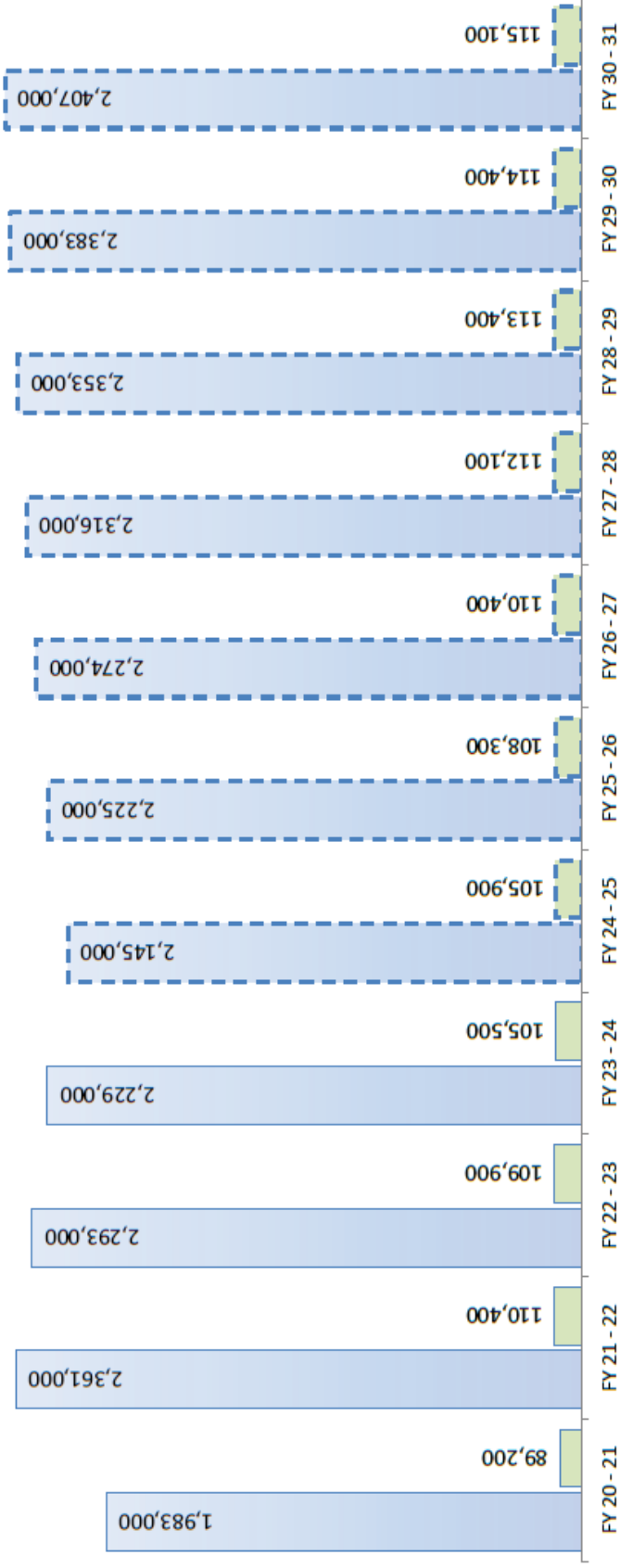
Sebastopol 1% Sales Tax Forecast

City of Sebastopol Sales & Use Tax Forecast Summary

Accrual through May Clean-up

	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30	FY 30 - 31
Bradley Burns	2,229,000	2,145,000	2,225,000	2,274,000	2,316,000	2,353,000	2,383,000	2,407,000
Cash Projection	105,500	105,900	108,300	110,400	112,100	113,400	114,400	115,100
Percent Change	-2.8%	-3.8%	3.7%	2.2%	1.8%	1.6%	1.3%	1.0%

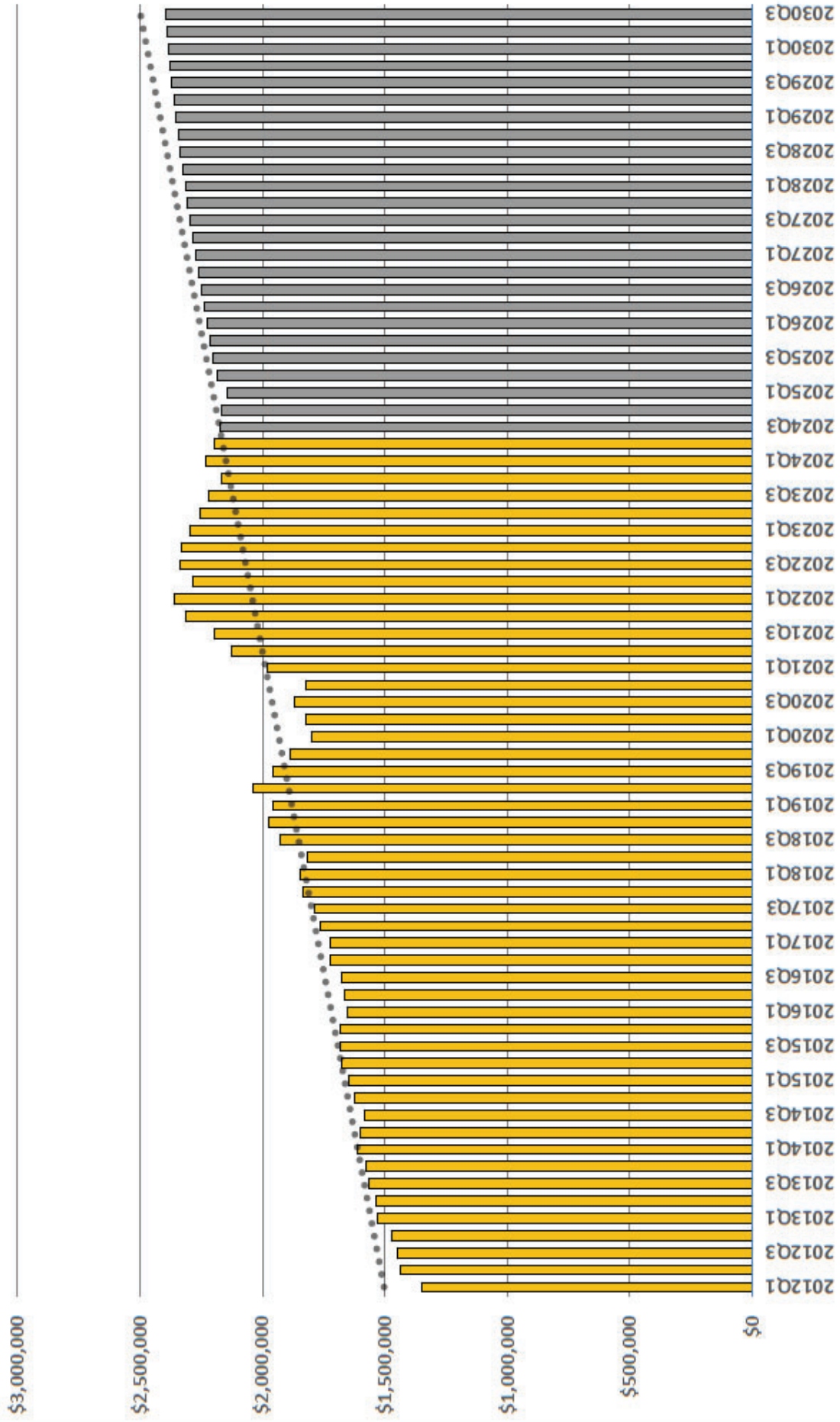
	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30	FY 30 - 31
Prop 172	1,983,000	2,229,000	2,145,000	2,225,000	2,274,000	2,316,000	2,353,000	2,383,000
Cash Projection	89,200	109,900	105,900	108,300	110,400	112,100	113,400	114,400
Percent Change	-4.0%	0.4%	2.3%	1.9%	1.5%	1.2%	0.9%	0.6%



Sebastopol 1% Sales Tax History & Forecast

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City of Sebastopol Annual Sales Tax Revenue

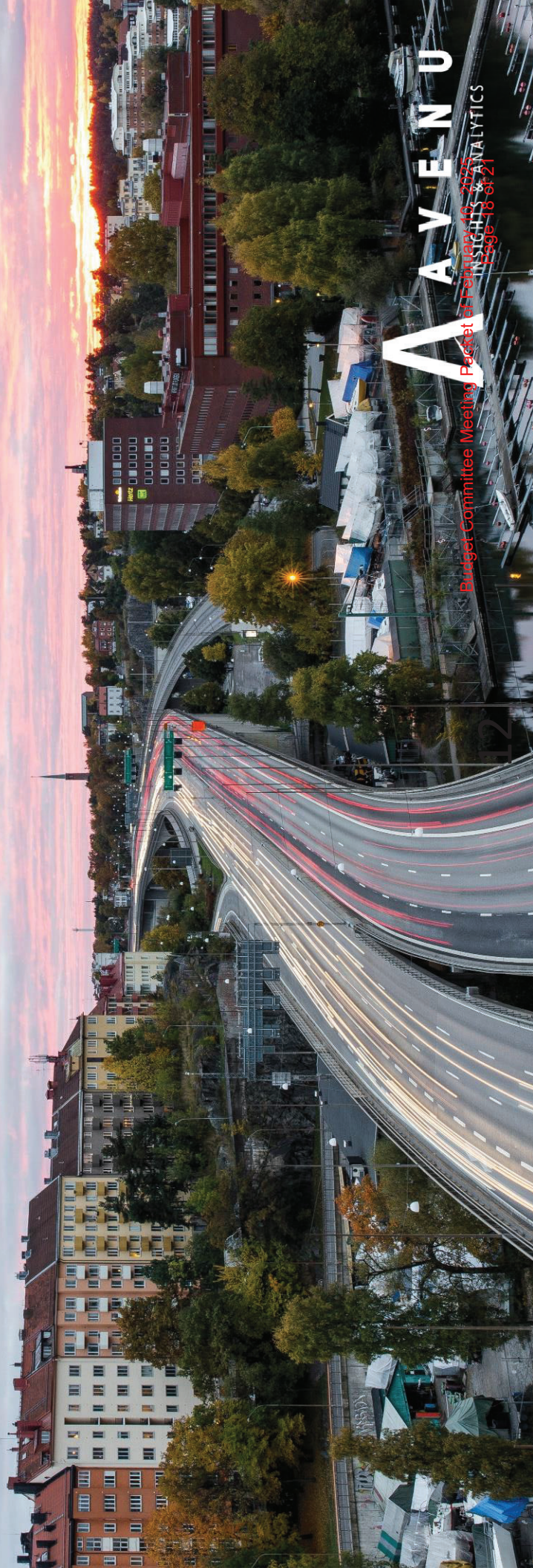


Sales Tax Forecast – Overcast...

- **Uncertainty Remains in Economy**
- **National Economy** – Inflation rates have been coming down closer to Federal Reserve’s desired inflation rate of 2%. Unemployment has been creeping up slowly per the ‘Soft Landing’ scenario. However, inflation remains a bit ‘sticky’ and the uncertainty of potential inflationary federal policies have led the Federal Reserve to pause its rate reductions.
- **California** – Population shifts appear to be ending, but growth rates project to be slower than in the past. Statewide costs remain high for housing, energy, and other essentials. High costs erode some of the consumer capacity for taxable sales.
- **After Four Years of Turbulence Related to the Pandemic, When will we Reach the ‘New Normal’?**

Local Voter Approved District 'Add-On' Taxes

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Agenda Item Number 8 Additional Local Voter Approved Sales Tax

- **Add-On District Sales Taxes:** Sebastopol has two existing voter approved sales tax – one for .25% and one for .5%. An additional .5% will be implemented starting on April 1, 2025. Thus, the City has been receiving .75% in additional sales tax, which will go up to 1.25% shortly.
- **Allocation Regulations** – District Sales Taxes are allocated to where the good is delivered. There is no county pool. Sales taxes for vehicle purchases go to the location where the vehicle is registered (see summary next page)

Summary of Sales Tax Allocation Differences

- **Bradley Burns 1%: Point of Sale or ‘Cash Register’ Location**
- **Add-on District Taxes: Point of Destination or Where Good is Shipped**

Transaction Types	Bradley Burns 1% Local Sales/Use Tax	Transactions & Use Tax (aka District Tax)
Retail, Restaurants, Service Stations	Point of sale is the cash register.	Point of destination is the cash register as well so these transactions will be very similar between the two taxes.
Car Sales	Only receives revenue from purchases from dealerships physically located in the City. Sales tax goes to city where vehicle is <u>purchased</u> .	Receives district tax revenue on all car purchases of every City resident and business regardless of the location of where they purchase the vehicle. Sales tax goes to the location where the vehicle is <u>registered</u> .
Construction and B2B Sales	Your city receives when point of sale is in the city regardless of where product is shipped.	Construction materials that generate local Bradley Burns sales tax that are shipped out of your city would not generate district tax. On the other hand, district tax will be captured from construction materials shipped into your city.
Countywide Pools	Ecommerce, Construction and B2B transactions coming from out of state, and Third party vehicle sales are all allocated into countywide pools then sales tax is distributed countywide by formula (city's percentage of countywide sales tax receipts).	There are no pool allocations for District Taxes and the City would receive 100% of tax on these types of transactions that are delivered into the City.

Sebastopol .5% Sales Tax Forecast

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Sebastopol Increase 1/2% Sales & Use Tax Forecast Summary

Accrual through May Clean-up

	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30	FY 30 - 31
Voter Approved	1,540,000	1,506,000	1,562,000	1,599,000	1,633,000	1,664,000	1,691,000	1,715,000
Cash Projection								
Percent Change	-3.5%	-2.2%	3.7%	2.4%	2.1%	1.9%	1.6%	1.4%

