



Agenda Report

Fullerton City Council

MEETING DATE: JULY 2, 2024

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: ERIC J. LEVITT, CITY MANAGER

PREPARED BY: ERIC J. LEVITT, CITY MANAGER
ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: TRANSACTIONS AND USE TAX INFORMATION

SUMMARY

Two City Council members requested agendaizing a transactions and use tax discussion.

PROPOSED MOTION

Motion based on City Council direction.

ALTERNATIVE OPTIONS

- Request staff to bring back a Resolution for consideration to place general purpose Transactions and Use tax on November Ballot.
- Request staff to bring back a Resolution for consideration to place special purpose Transactions and Use tax on November Ballot.
- Receive and file and take no further action at this time.
- Request a Resolution for some other revenue measure previously discussed by the City Council or defer discussion to a later date.

STAFF RECOMMENDATION

Staff seeks direction from City Council.

CITY MANAGER RECOMMENDATIONS

The City Manager seeks direction from City Council. This item is based on a request at the June 4th City Council meeting. Any ballot measure of any type would require the City pay for that portion of the ballot as well as providing educational (only) material.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability
- Public Safety
- Infrastructure and City Assets

FISCAL IMPACT

No direct impact from the Proposed Motion. Future fiscal impact may vary based on City Council direction.

DISCUSSION

On June 4, 2024, City Council directed staff to bring back information on a Transactions and Use Tax.

A Transactions and Use Tax (sometimes referred to as an Add-On Sales Tax) differs from Sales and Use Tax (sometimes referred to as the Bradley Burns Tax). For ease of differentiating between the two, the Transactions and Use Tax will be referred to as Transactions Tax while the Sales and Use Tax will be referred to as Sales Tax.

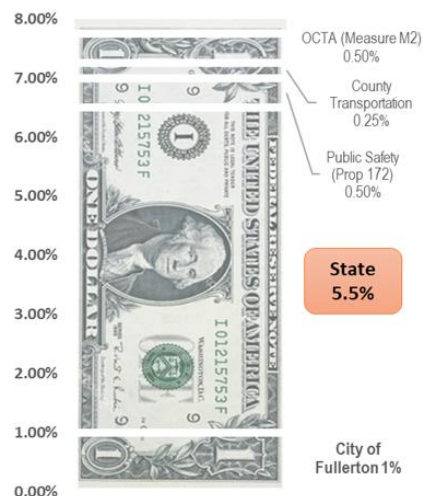
It is important to note that neither Sales Tax nor Transactions Tax is levied on necessities such as medication, groceries (non-prepared), rent, etc.

Of the City's current 7.75% Sales Tax Rate, the City directly receives about \$0.13 for every dollar of sales tax collected.



Sales Tax – Where Do Your Sales Taxes Go?

Public Entity	Sales Tax %	\$1 in Sales Tax Collected
State General Fund	5.50%	\$0.71
County Public Safety (Prop 172)	0.50%	\$0.06
City of Fullerton (Bradley Burns)	1.00%	\$0.13
County – Local Transportation	0.25%	\$0.03
Orange County - OCTA (Measure M2)	0.50%	\$0.06
Total Sales Tax Rate	7.75%	\$1.00



If the voters were to approve a Transactions Tax, the City would receive 100% of the transactions and use tax collected. The example below presents the additional direct revenue the City would receive with a 1% Transactions Tax.

		Direct City of Fullerton Tax Revenue
Cost of Taxable Good or Service	\$100	
<i>Sales Tax Allocation:</i>		
State of California General Fund	5.50%	-
Orange County Public Safety (Prop 172)	0.50%	-
City of Fullerton (Bradley Burns)	1.00%	\$1
Orange County - Local Transportation	0.25%	-
Orange County Transportation Authority	0.50%	-
Sales Tax Rate	7.75%	-
Transactions Tax Rate	1.00%	\$1
City Sales and Transactions Tax Revenue	8.75%	\$2

Online Sales:

Cities that have a Transactions Tax benefit from Internet Sales that are delivered to an address within the City.

Point of Sale Located in California: Sales Tax on Internet Sales goes to the California city where the point of sale (distribution center) is located so if a Fullerton resident or business orders goods online and has the item delivered to their residence in Fullerton, the City of Fullerton would not receive any Sales Tax unless the point of sale (distribution center) is located within Fullerton.

Point of Sale Located Out of State: Sales Tax on Internet Sales goes to the Orange County Pool when the point of sale (distribution center) is located outside of the State of California so if a Fullerton resident or business orders goods online and has the item delivered to an address in Fullerton, the City of Fullerton would not directly receive Sales Tax revenue. The Sales Tax Revenue from this transaction would be remitted to the Orange County Pool and the City of Fullerton would receive its proportionate share of the Orange County Pooled Internet Sales Tax Revenue based on the City of Fullerton's pro-rata cash receipts for the quarter.

With a Transactions Tax, the City would receive 100% of the 1% Transactions Tax Rate on purchases made online where goods are delivered to an address in Fullerton regardless of the Point of Sale location.

Auto Sales:

Cities that have a Transactions Tax benefit from used or new Auto Sales when the vehicle is registered in the City. The City of Fullerton receives 1% of the 7.75% Sales Tax on vehicles purchased at a dealership located in the City of Fullerton regardless of where the purchaser registers the vehicle.

If the City of Fullerton had a Transactions Tax, the City would receive both the 1% of the 7.75% Sales Tax for vehicles purchased at a dealership (point of sale) located in the City of Fullerton and would receive 100% of a 1% Transactions Tax. If a vehicle is purchased outside of the City of Fullerton, with a Transactions Tax, the City of Fullerton would receive the Transactions Tax but not the Bradley Burns Sales Tax. See example below:

		Direct City of Fullerton Tax Revenue			Direct City of Fullerton Tax Revenue
Dealership is in the City of Fullerton	\$ 25,000		Dealership is <u>NOT</u> in the City of Fullerton	\$ 25,000	
<i>Sales Tax Allocation:</i>			<i>Sales Tax Allocation:</i>		
State of California General Fund	5.50%	-	State of California General Fund	5.50%	-
Orange County Public Safety (Prop 172)	0.50%	-	Orange County Public Safety (Prop 172)	0.50%	-
City of Fullerton (Bradley Burns)	1.00%	\$250	City of Fullerton (Bradley Burns)	1.00%	\$0
Orange County - Local Transportation	0.25%	-	Orange County - Local Transportation	0.25%	-
Orange County Transportation Authority	0.50%	-	Orange County Transportation Authority	0.50%	-
Sales Tax Rate	7.75%		Sales Tax Rate	7.75%	-
Transactions Tax Rate	1.00%	\$250	Transactions Tax Rate	1.00%	\$250
Total City Revenue	8.75%	\$500	Total City Revenue		\$250

To place a local tax measure on the ballot, either four-fifths or majority City Council approval is required depending on the ballot measure. Once on the ballot, either a 50% + 1 or 67% (2/3) majority vote is required.

A Transactions Tax can be for a general or special purpose. The voting requirements differ. When approving a ballot measure, City Council may determine how the transactions tax revenues will be used, either for general purpose or for special purpose.

- General Purpose – General purpose transactions tax revenues would be applied to the General Fund with City Council determination of budget priority each budget cycle.

General Purpose Transactions Tax requires 67% (2/3) vote of the City Council to place a general purpose transactions tax on the ballot and requires 50%+1 majority local

voter approval. It is required to be placed on a General Election ballot unless the City takes certain actions.

- OR -

- Special Purpose – With a special purpose transactions tax, City Council may determine how the 1% Transactions and Use Tax is applied. Examples of special purpose categories are: Police and/or Fire, Roads, Water Treatment, etc.

Special Purpose Transactions Tax requires majority vote of City Council to place a special purpose transactions tax on the ballot and requires a two-thirds (or 67%) majority local voter approval. It can be placed on a ballot outside of a general election, but the City is responsible for all costs.

A 1% Transactions Tax is projected to generate approximately \$30 million annually which is about the same amount of the City's allocation of the 7.75% Sales (Bradley-Burns) Tax. A ½ of 1% transactions tax is projected to generate approximately \$15 million annually.

1% Transactions Tax Impact

Tax by Category	City of Fullerton Sales and Transactions Tax Revenue
Sales and Use (Bradley Burns) Tax (FY2024-25)	\$30,500,000
1% Transactions and Use Tax	\$30,200,000
Total Sales and Transactions Tax Revenue	\$60,700,000

According to California City Finance, since 2019, 76% (126 of 165 ballots) of cities in California have successfully passed a general purpose transactions tax measure. 42% (15 of 36 ballots) have successfully passed a special purpose transactions tax.

Attachments:

- Attachment 1 – Transactions and Use Tax Presentation
- Attachment 2 – General Fund Five Year Forecast