City of Novato: Citizen's Finance Advisory Committee & Economic Development Commission

Sales Tax & Measure C Overview

March 9, 2022

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Ken Nordhoff

Mr. Nordhoff has over 25 years of local government experience in various leadership roles, including Administrative Services Director, Assistant City Manager and more recently as City Manager in San Rafael and Walnut Creek. During his tenures, he was responsible for a broad range of budget, financial management and long range fiscal planning functions. His experience includes strategic planning and economic development, plus serving on various regional JPA Boards. Prior to his local government service, he spent several years in the private sector as a Certified Public Accountant conducting municipal audits. As an active member of the League of California Cities, he is a former City Manager's Department Officer, recipient of the prestigious John H. Nail award and has served on the Revenue and Taxation Policy Committee. He holds a Bachelor's degree from California State Polytechnic University, Pomona in Accounting.

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About HdL Companies

Founded in 1983 by two former City Managers

190 employees

CA offices in Brea, San Dimas, Fresno & Pleasanton

Serving over 400 local governments in California

100% Employee-owned – everyone has a stake

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ABOUT HdL Companies

- Clients include cities, counties, and special districts
- 99% client retention rate
- Services:
  - *Sales Tax & Transaction Use Tax*
  - *Property Tax*
  - *Economic Development*
  - *Cannabis Management*
  - *Tax and Fee Administration*
    - *Business License*
    - *TOT & Short-term Rental*
    - *Utility User & Franchise Fee Tax*

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Fundamentals & Recent Trends

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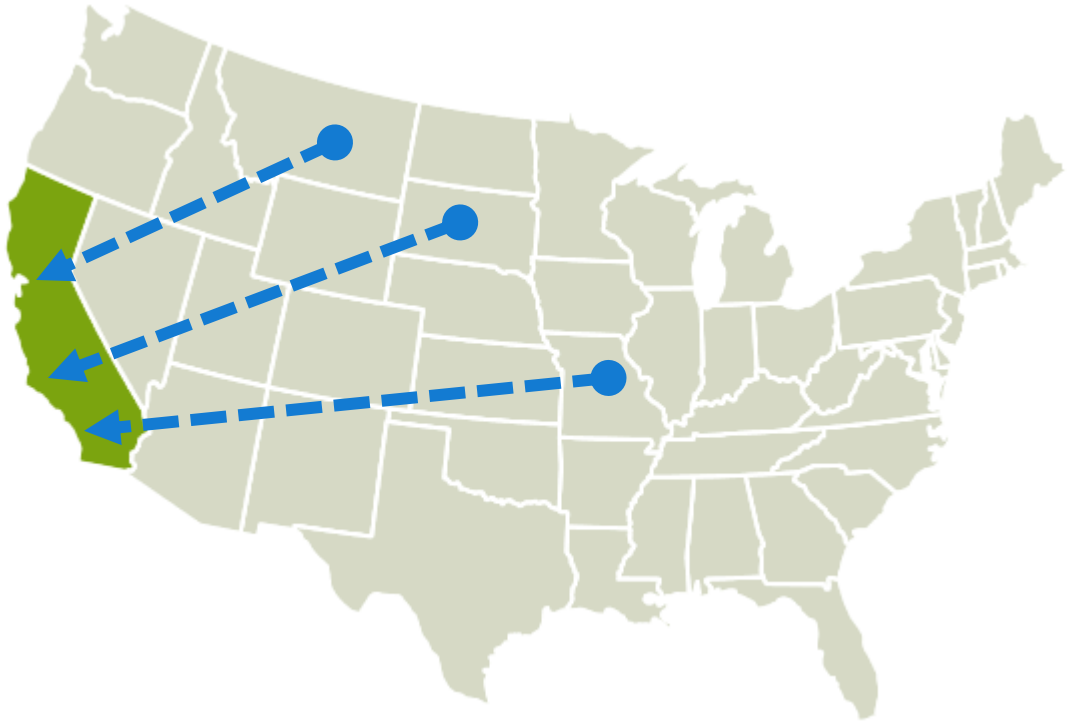
Sales Tax vs. Use Tax: Bradley-Burns

Sales Tax applies when goods are located in state at the time 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 purchaser at a point outside of California. Goods shipments from outside the state are generally subject to use tax.



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Allocation Of Bradley-Burns 1% Tax

Sales Tax

- ***PLACE OF SALE*** (where the sale/order was placed or negotiated)
- **Allocated directly to local jurisdiction**
- If out of state retailer has no permanent place of business in CA other than a stock of tangible personal property, then local tax distributed to jurisdiction **where the inventory is located at the time of sale**
- Allocated indirectly if seller not required to hold a seller's permit

Use Tax

- ***PLACE OF USE***
- **Allocated indirectly through the countywide use tax pool system**
- Limited circumstances where local use tax can be allocated directly.

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District (*Transaction*) Tax vs. Sales Tax

District Taxes follow the merchandise. Generally…

- Distributed to the district (city) where the goods are delivered (and presumably used)
- Local merchants shipping products out of district do not generate transaction tax

EXAMPLE:

SALES TAX
Allocated to city where the dealership is located.

DISTRICT TAX
Allocated to city where the vehicle is registered.

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Statewide Sales Tax Rate

State General Fund	3.9375%
County Realignment	1.5625%
Prop. 172 Public Safety	0.5000%
Bradley-Burns Uniform Tax	1.2500%
Local General Fund	1.00%
Countywide Transportation	0.25%
Total Base Rate	**7.2500%**
Statewide Transactions Tax Cap	2.0000%
Except in Alameda, Contra Costa , LA, Monterey, San Mateo, Santa Clara, Santa Cruz and Sonoma counties*	
Total Rate	**9.2500%**

* Various CA Legislative bills authorized additional transactions tax rate authority for specific counties and cities which does not count against the 2% cap.

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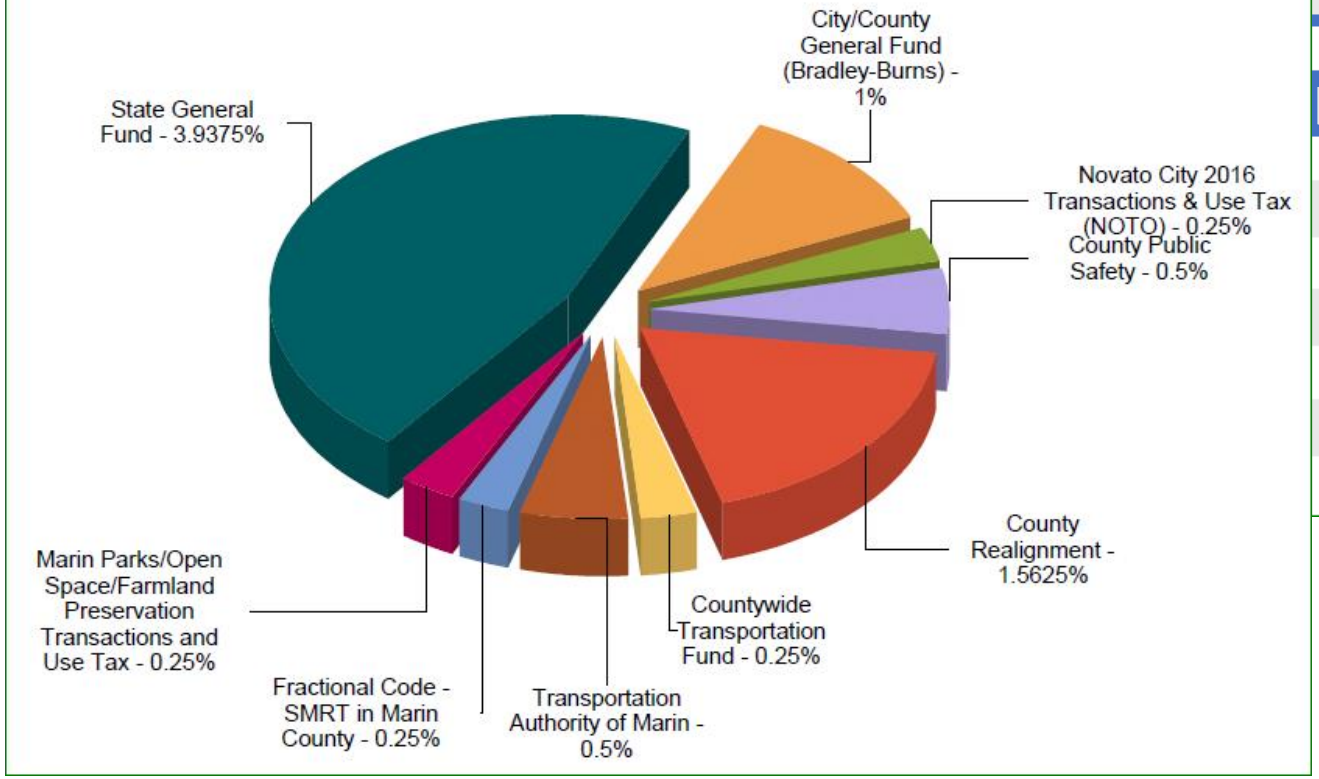
Novato Tax Rate Breakdown

BREAKDOWN OF 8.50% TAX RATE



State General Fund	3.9375%
City/County General Fund (Bradley-Burns)	1.0000%
Novato City 2016 Transactions & Use Tax (NOTO)	0.2500%
County Public Safety (Prop 172)	0.5000%
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%
Countywide Transportation Fund	0.2500%
Transportation Authority of Marin (TAM)	0.5000%
Fractional Code - SMRT in Marin County (SMRT)	0.2500%
Marin Parks/Open Space/Farmland Preservation Transactions and Use Tax (MPSF)	0.2500%
Total Rate	**8.5000%**

Important Reminder: Bradley-Burns 1% and Transactions & Use Tax (like Measure C) allocated differently because of Revenue & Taxation law.

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Marin Agencies – Sales Tax Rates

Marin County Rate:

- Applies to all agencies without local transaction tax
- Every city pays TAM, SMART, MPOS

Cities/Towns listed have voter approved measure in place

- San Rafael at State cap of 9.25%

MARIN COUNTY	8.250%
San Rafael	9.250%
Corte Madera	9.000%
Fairfax	9.000%
Larkspur	9.000%
San Anselmo	8.750%
Sausalito	8.750%
Novato	8.500%

Transactions Tax Rates:

- Can approve in increments of 0.125%
- Remaining cap space could be used by city/town or countywide (e.g. county, transportation agency)
- Novato has 0.75% cap space

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Federal Economic Response – COVID crisis

Multiple stimulus and relief packages to sustain/maintain the economy

- Families First Coronavirus Response Act (FFCRA) – March 2020
- CARES Act – with Payroll Protection Program (PPP) – March 2020
- $900 billion attached to the Omnibus Budget Bill – December 2020
- American Rescue Plan Act (ARPA) – March 2021

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Trickle Down Effect

- #1 = Additional $600/week unemployment payments, later extended but reduced to $400/week
- #2 = $1,200/per person, $500/child cash payments
- #3 = Mortgage forbearance for 6+ months
- #4 = Additional $600/per person
- #5 = Additional $1,400/per person in ARPA being distributed

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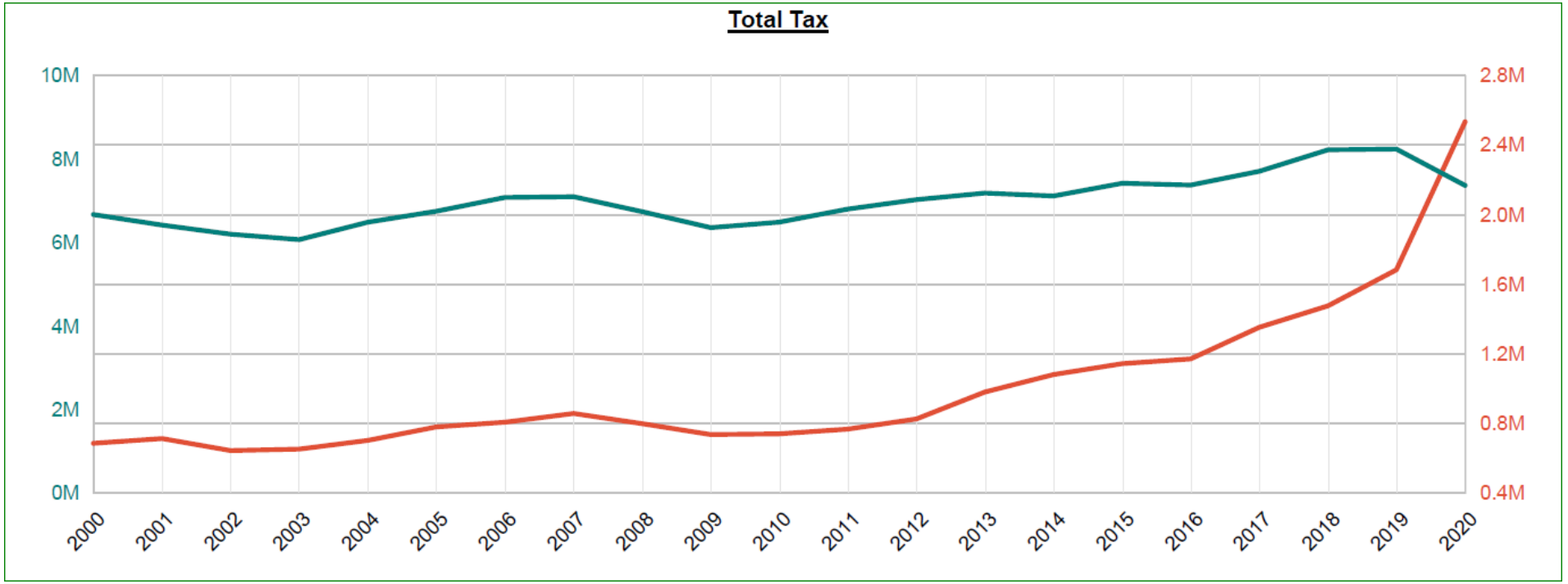
Pools vs. Point of Sales Growth – Novato

Calendar Year Trends – Past Two Decades



2000:
Pool 9%

2020:
Pool 26%

Points of Interest

SEPT 2012 – AB 155
OOS Retailer

APR 2019 – AB 147
OOS Online Retailers

OCT 2019 – AB 147
w/Marketplace Facilitators

MAR 2020 – COVID
Pandemic & Shelter-In-Place

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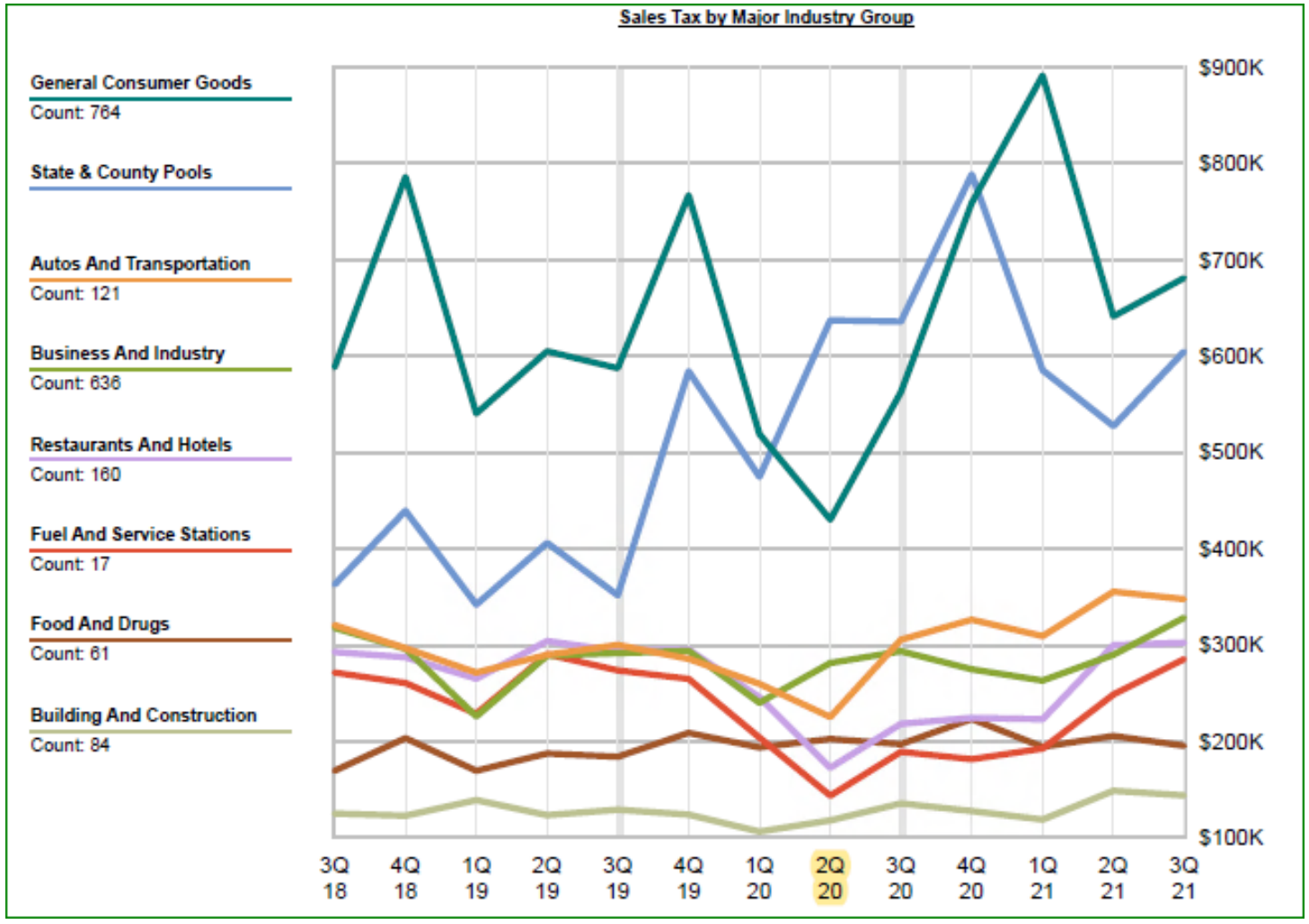
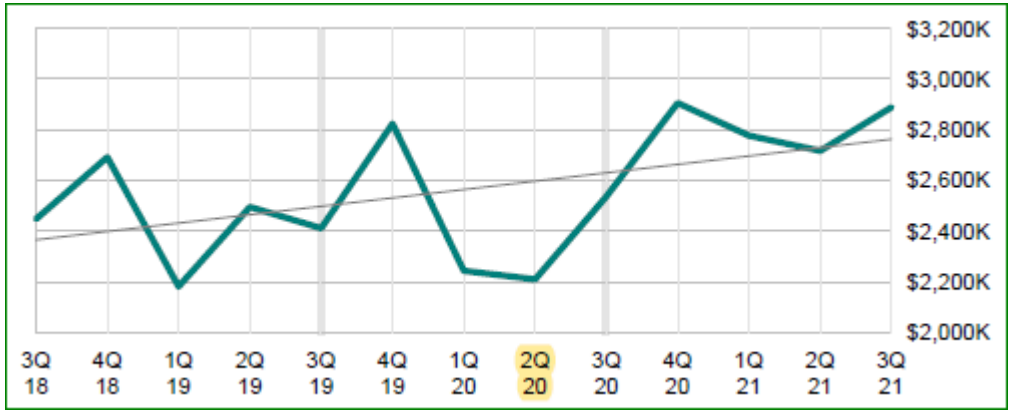
Sales Tax - 13 Quarter Trend

FY 2020-21 - $10.98m



COMBINED TOTAL FOR NOVATO



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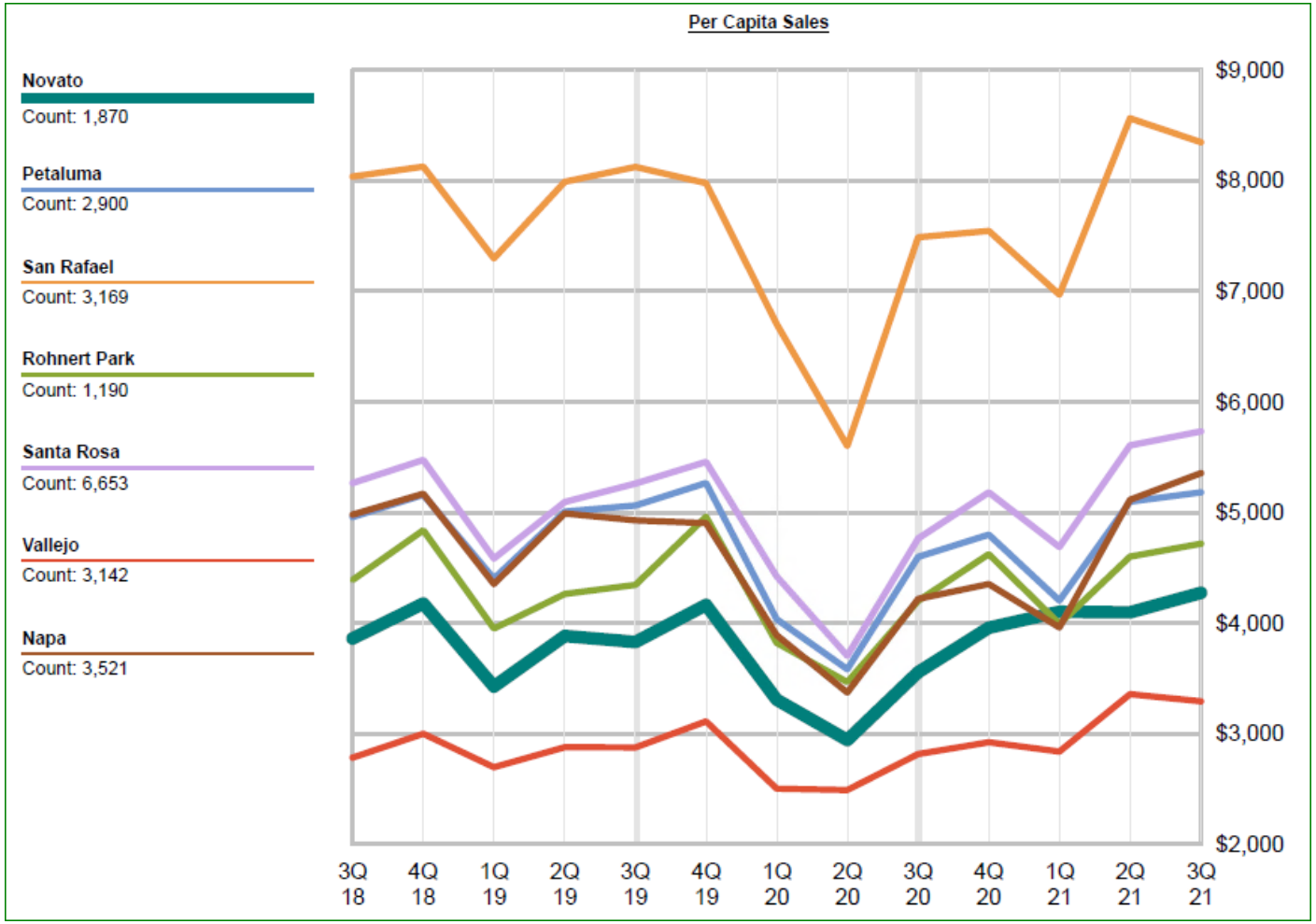
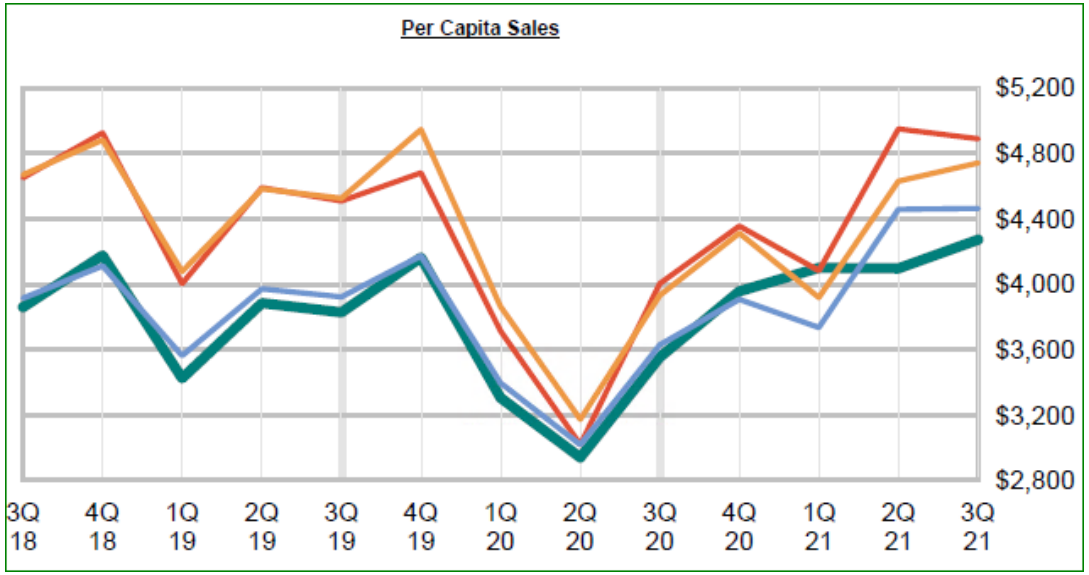
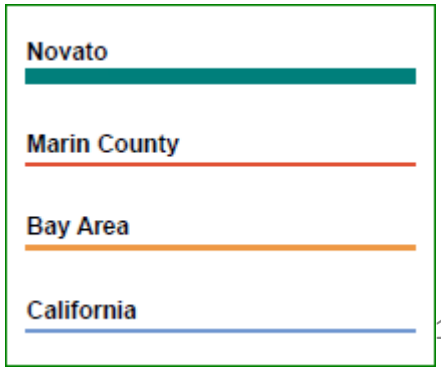
Per Capita Sales Tax Comps







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Geo Area Results – Sales Tax

Geographic Area	Count	Current Year FY 2020-21	% Chg.	% of Ttl.	Prior Year FY 2019-20
0002 - East Grant	89	202,920	8.8%	2.4%	186,568
0003 - West Grant	59	93,117	2.2%	1.1%	91,144
0004 - Redwood Boulevard Area	64	424,811	1.9%	5.1%	417,033
0006 - Vintage Oaks Mall Area	64	2,874,467	19.5%	34.2%	2,405,611
0008 - Downtown Novato BID	324	1,229,022	4.5%	14.6%	1,175,903
Totals For Listed Geo Areas	600	4,824,337	12.8%	57.4%	4,276,259
Totals For All Outlets	1,878	8,405,752	9.9%	100.0%	7,647,327

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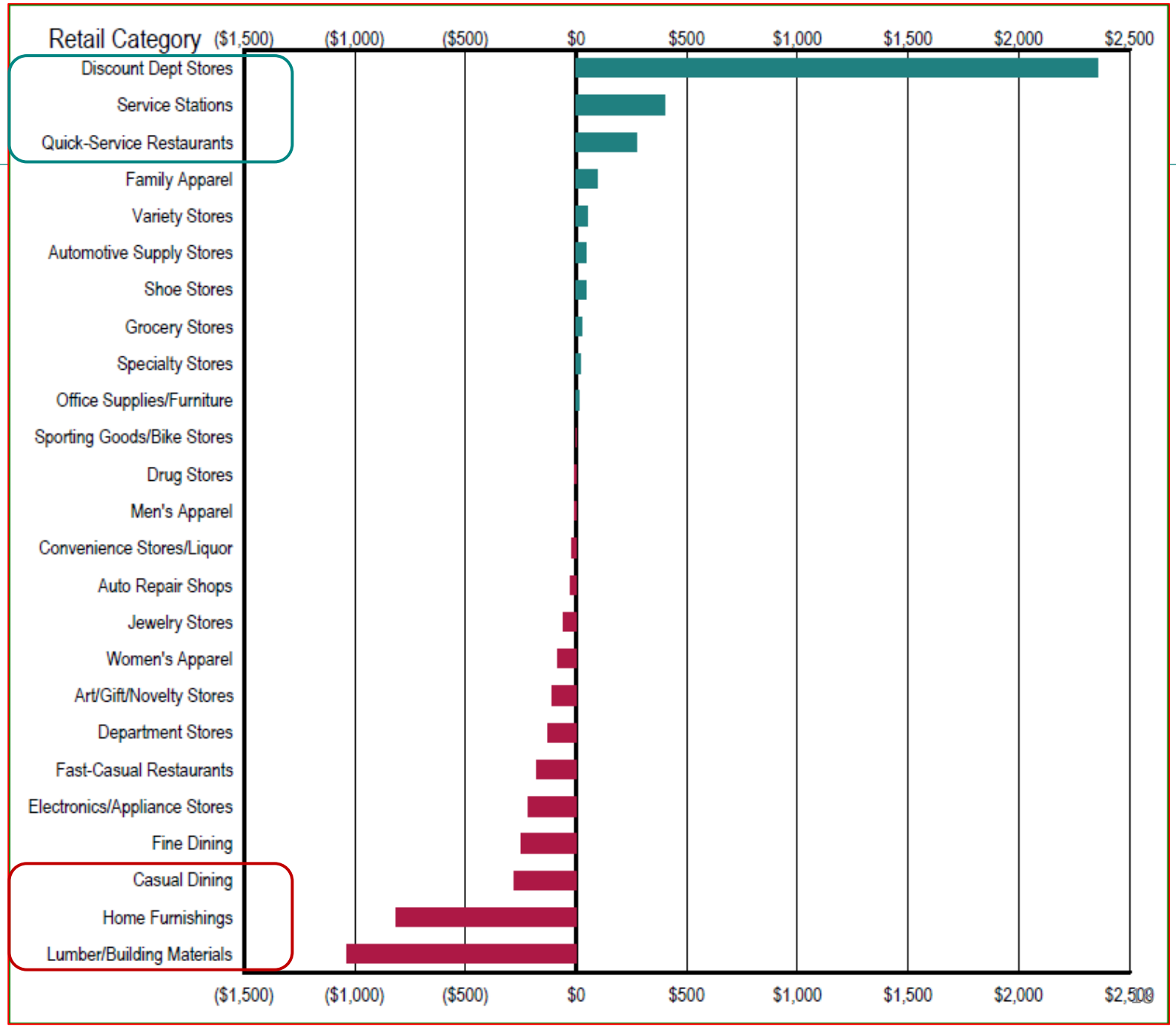
Surplus & Gaps

Gap Closure Focuses:

- Community demographics (e.g. household incomes)
- Market area (housing, employment, access to work force)
- Trade area (residents and non-residents)
- Consumer demand
- City policies, priorities and land use



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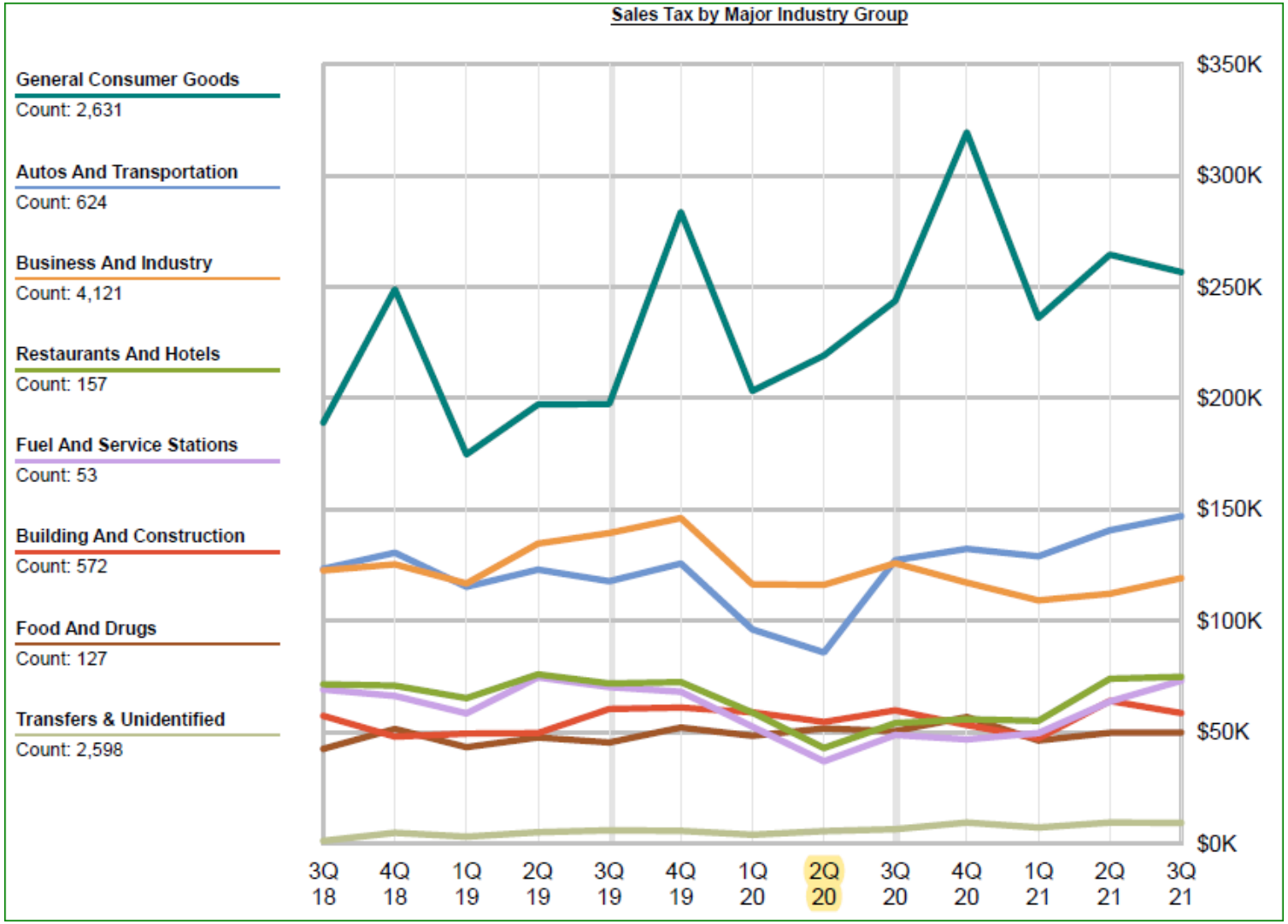
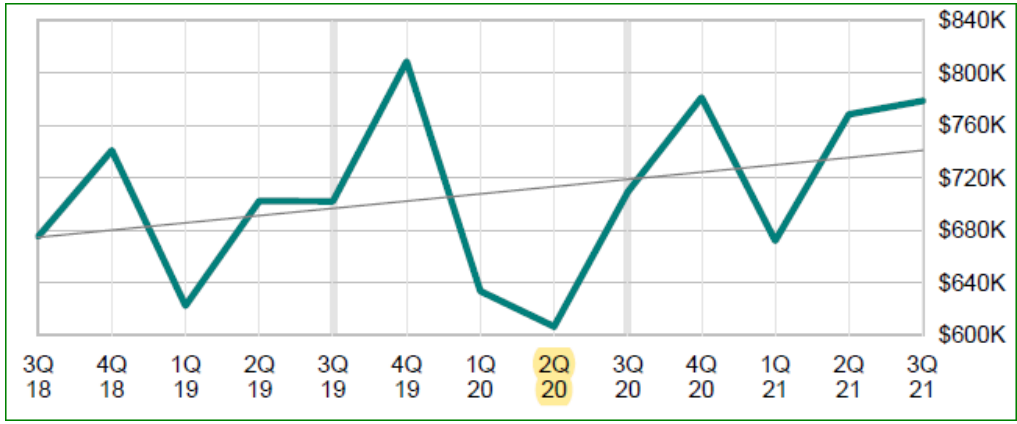
Measure C - 13 Quarter Trend

FY 2020-21 - $2.97m



COMBINED TOTAL FOR NOVATO



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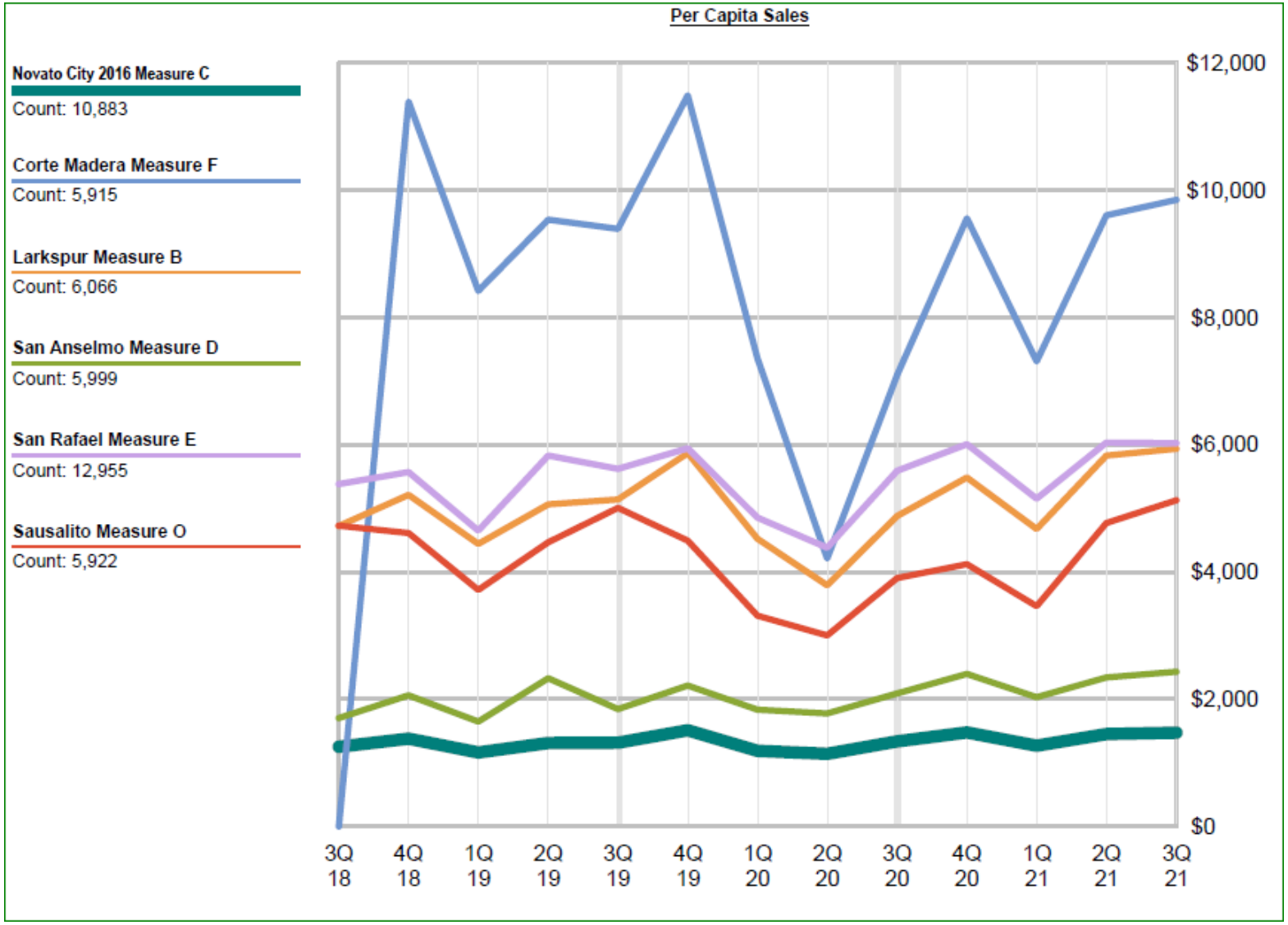
Per Capita Measure C Comps



District Tax Rates Notes:

- Corte Madera Measure F 0.75% replaced Measure B 0.50% 4Q18
- Larkspur and San Rafael 0.75%
  - All agencies increased from 0.50% in prior years
- San Anselmo & Sausalito 0.50%
- Novato 0.25%

Agency	3q21 Value 0.50% Rate
Corte Madera	6,565
Sausalito	5,128
San Rafael	4,017
Larkspur	3,957
Novato	2,946
San Anselmo	2,433

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FY 20-21 Tax Comparisons

How Does Measure "C" 0.25% Rate Compare to Sales Tax 1% Rate?

Industry Group	Sales Tax Fiscal Year 2020-2021	Measure C Fiscal Year 2020-2021	Ratio of "C" to Sales Tax
Auto-Transportation (AT)	$ 1,296,241	$ 530,796	41%
Building + Other (BC)	$ 531,724	$ 224,486	42%
Business-Industry (BI)	$ 1,122,610	$ 465,332	41%
Food-Drugs (FD)	$ 843,752	$ 203,239	24%
Fuel-Service Stations (FSS)	$ 820,508	$ 210,448	26%
General Consumer Goods (GCG)	$ 2,858,806	$ 1,096,822	38%
Restaurants-Hotels (RH)	$ 967,409	$ 239,681	25%
County Pool Allocation	$ 2,543,382	$ -	0%
Totals	$ 10,984,432	$ 2,970,804	**27%**

Key Differences:

- Measure C generates 27% of annual sales taxes
  - Very limited AT, BC, BI merchants in City
  - Residents also buy vehicles elsewhere; adds to "C" revenues
  - Delivery of building materials good for "C"
- "Pool" allocation is 2nd highest sales tax generator
  - Online sales from out of state companies
  - "C" captures 55% in GCG, 24% BI, **10% AT**

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Closing Thoughts:

- Pandemic Recovery Extends into FY 2021-22
  - *Fuel prices, shift back to more dining out*
- Uncertainties could impact consumer behavior:
  - *Feds Funds Rate increases*
  - *Inflation*
  - *Supply Chains, Parts Availabilities*
  - *Ukraine War*
  - *New COVID variants*
  - *Household Savings & Debt*
  - *Employee shortages (e.g. hospitality sector)*

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Thank you!

QUESTIONS?

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