



# SALES & USE TAX PERFORMANCE REPORT

Presented to:  
The Office of the County Executive

Presented by:  
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ATTACHMENT VI

## **INTRODUCTION**

MBIA MuniServices Company (MMC) provides sales and use tax audit, information and consulting services to over 160 municipalities in California. MMC serves many municipalities throughout the Sacramento Valley, and is considered an expert in local sales and use tax law, policy, and the economic development aspect of sales tax. MMC received a request to provide an overview of sales tax performance in the Sacramento Valley region. Of particular interest are the questions of “where is sales tax growing/declining” and “which geographical areas are experiencing sales tax growth”. This report addresses those key questions as well as provides consultant’s recommendations on growing the County’s sales tax revenues.

## **BACKGROUND**

Sales tax in California applies to the purchase price of tangible personal property at the ‘end-user’ level of the transaction that is subject to the California Sales and Use Tax regulations. Items such as food, services, and many other items are exempt from sales taxes. Sales tax collections are the sole responsibility of the retailer, while use tax is the responsibility of the buyer. Both sales and use tax have the same tax rate and the same tax application; however, the set of rules governing local use tax allocation are somewhat different and more confusing than for sales tax allocation. For the purposes of this report, reference to sales tax also includes its companion use tax where applicable. One final note to the report is the reference to Core Sacramento County (“the Core”) represents the unincorporated county factoring out the incorporation of Citrus Heights, Elk Grove and Rancho Cordova. We use the Core to provide ‘apples-to-apples’ comparisons.

### What Drives Sales Tax?

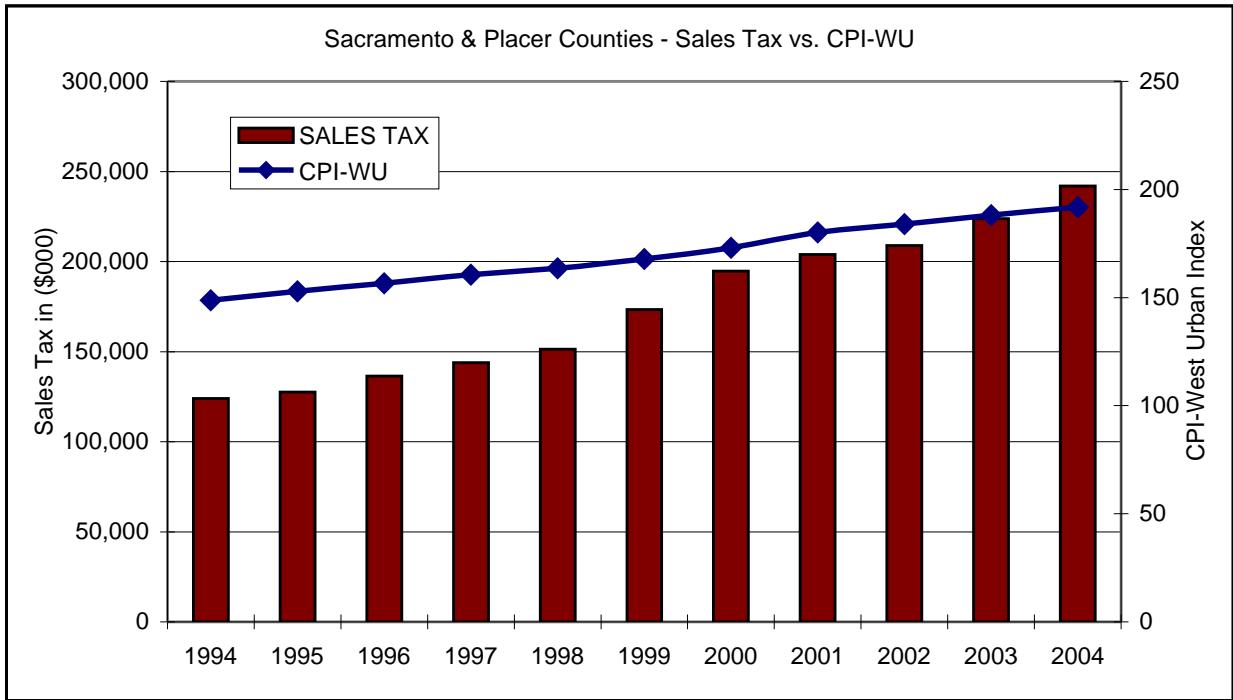
- Population Growth
- Inflation or the cost of goods sold
- Employment and Wages
- New Retail and other Point of Sale Business Development
- Existing Business Expansion
- Economic Base x Tax Structure

### Population Growth

Regional population growth in the region over the past 5 years has increased approximately 14%. While regional sales tax growth over the same five-year period increased approximately 38%, sales tax from the core Sacramento County only increased 2%. One important consideration is the relative age of the population. Relatively older populations are spending a majority of disposable income on non-taxable services; whereas, relatively younger populations are spending more on goods. Please see a later chart on the breakdown of consumer spending on services versus tangible goods.

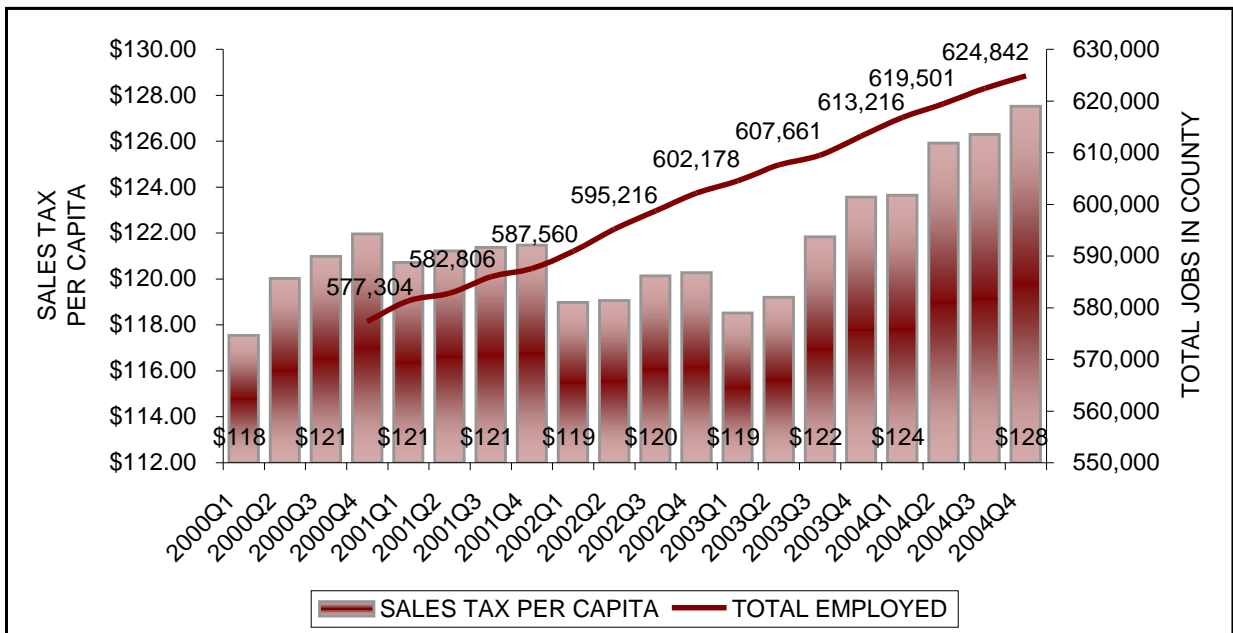
### Inflation

Another factor impacting sales tax growth is the general rate of inflation pushing prices up therefore sales tax. CPI is expected to increase in the 3 to 4% range over the next two years. This should bode well for sales tax growth.



Employment and Wages

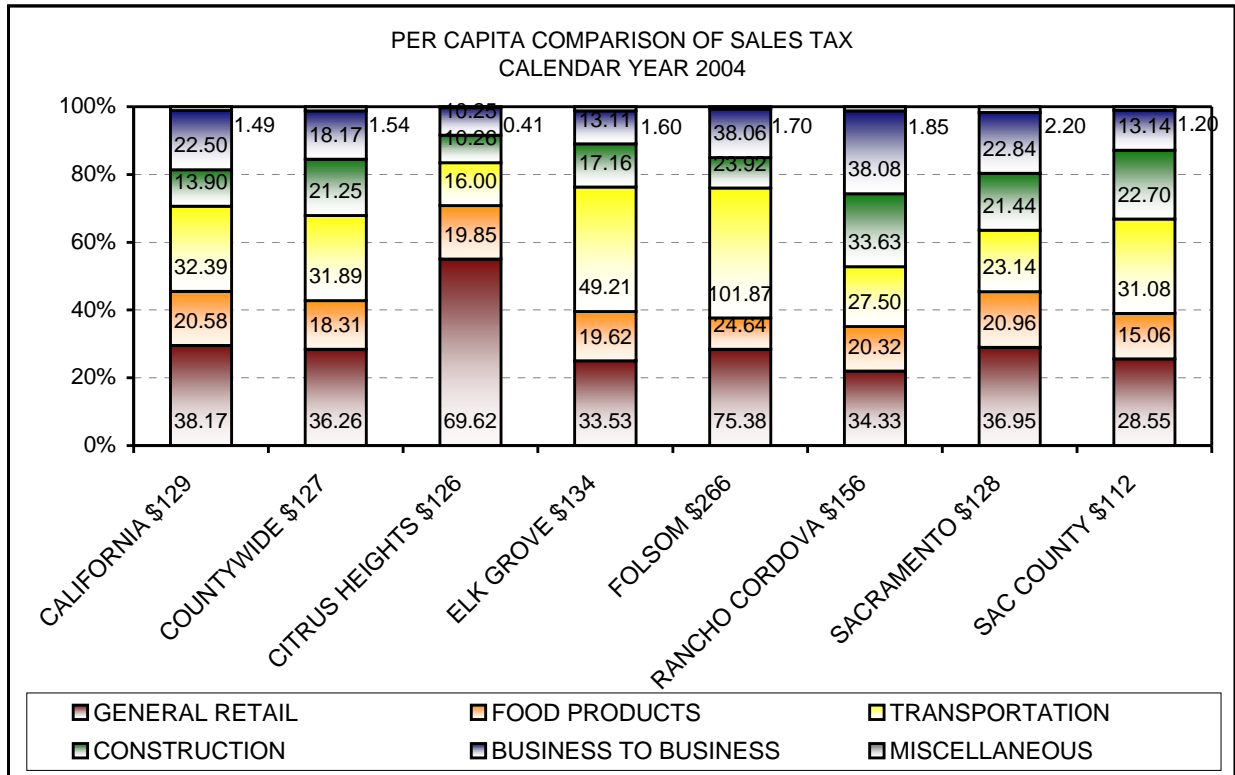
There is strong correlation between the number of jobs in a region and the growth in sales tax. A balanced economic development strategy is foster job growth while at the same time building a sales and use tax economic base that will grow to keep pace with service costs.



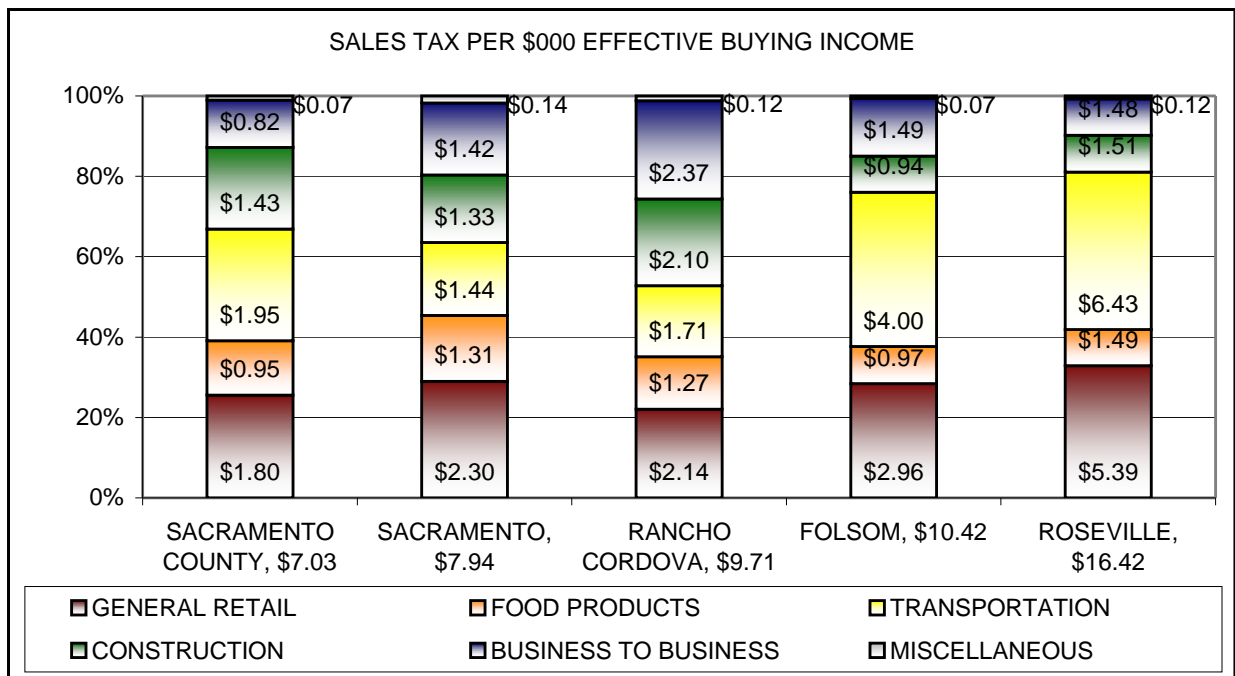
Retail Development and Other Point of Sale/Use Business Attraction

One of the key items that significantly increase sales taxes is the addition of new businesses. As population, jobs and other free-market growth occurs, taxable sales increase with strong correlation. Absent new and balanced development, sales tax will typically grow along with basic economic forces; however, said growth may only keep pace with rising services costs.

Two significant measures of how well a municipality is capturing sales tax from its own economic base is to measure the sales tax per capita and sales tax per effective buying income. The following charts demonstrate that Sacramento County is not capturing its fair share from its population or its fair share from the disposable income of the region.



Following is chart showing how each jurisdiction's sales tax economic base is capturing Effective Buying Income (EBI). EBI is a measurement of disposable income and a better indicator of where sales tax leakage is occurring. EBI is from the Sales and Marketing Management Magazine's annual survey on buying power.



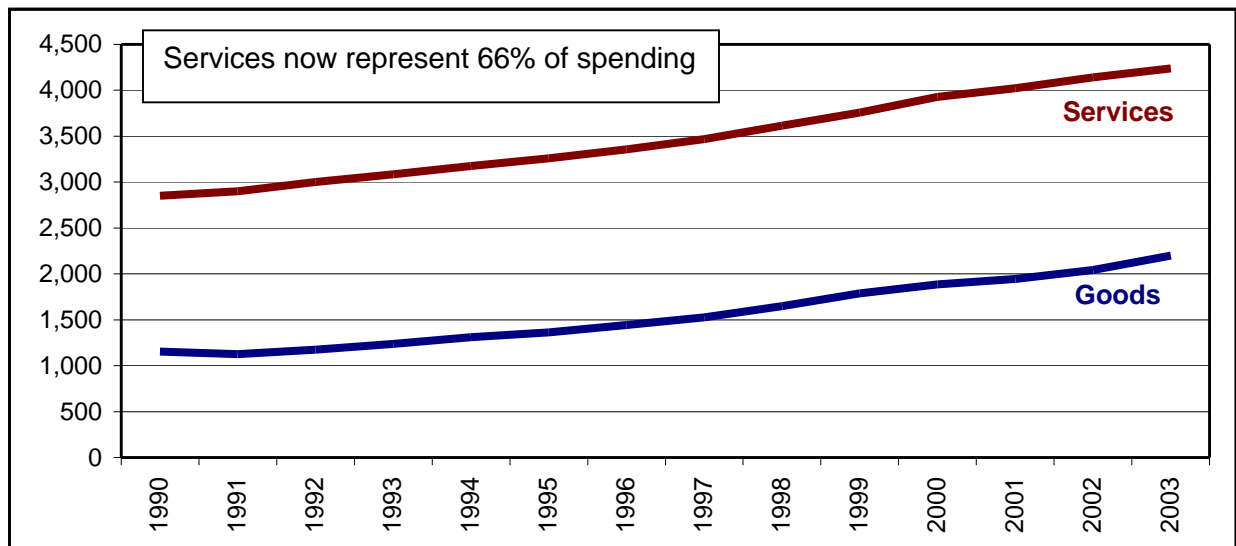
### Business Expansion

Another method of sales tax growth is for businesses to expand. Expansion in existing locations grows proportionately to the expansion of square footage. Expansion of markets for existing businesses may also increase sales tax. The underlying demographics must support any business expansion. Later in this report discusses specific strategies to focus on business attraction and expansion.

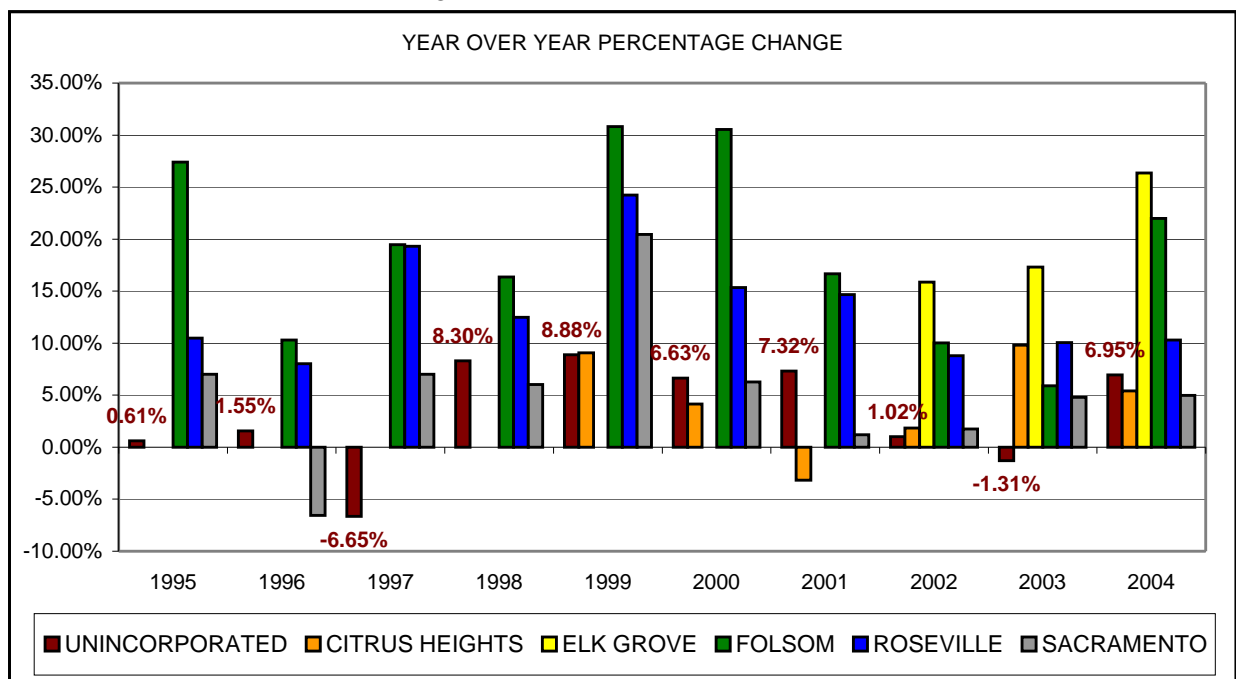
### Economic Base (Goods or Services)

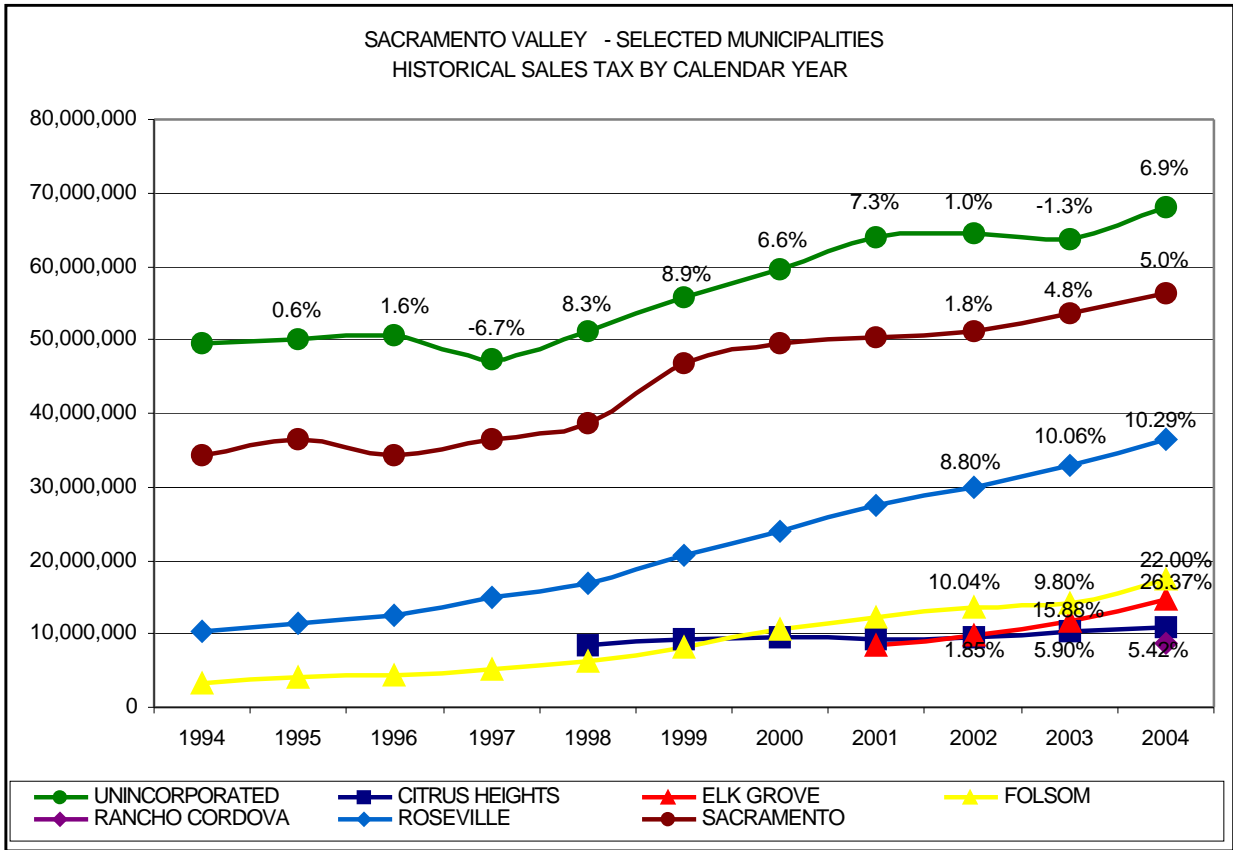
California's sales tax applies only to tangible personal property as defined in the California Revenue & Taxation Code regulations. Services are NOT subject to sales taxes in California. This is an important consideration given that 66% of National spending is for services. As mentioned earlier, this also is significant to relative age of population.

Source: Department of Commerce, Bureau of Economic Analysis.



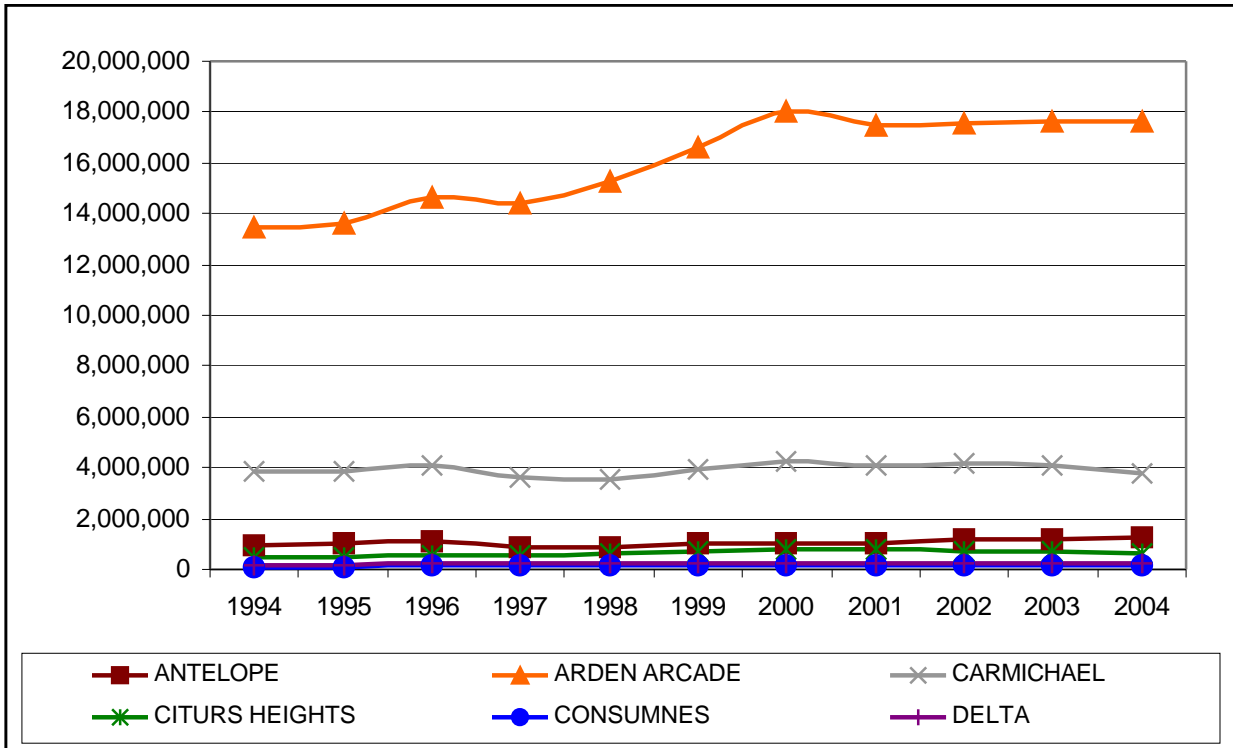
### Where is Sales Tax Growth Occurring?

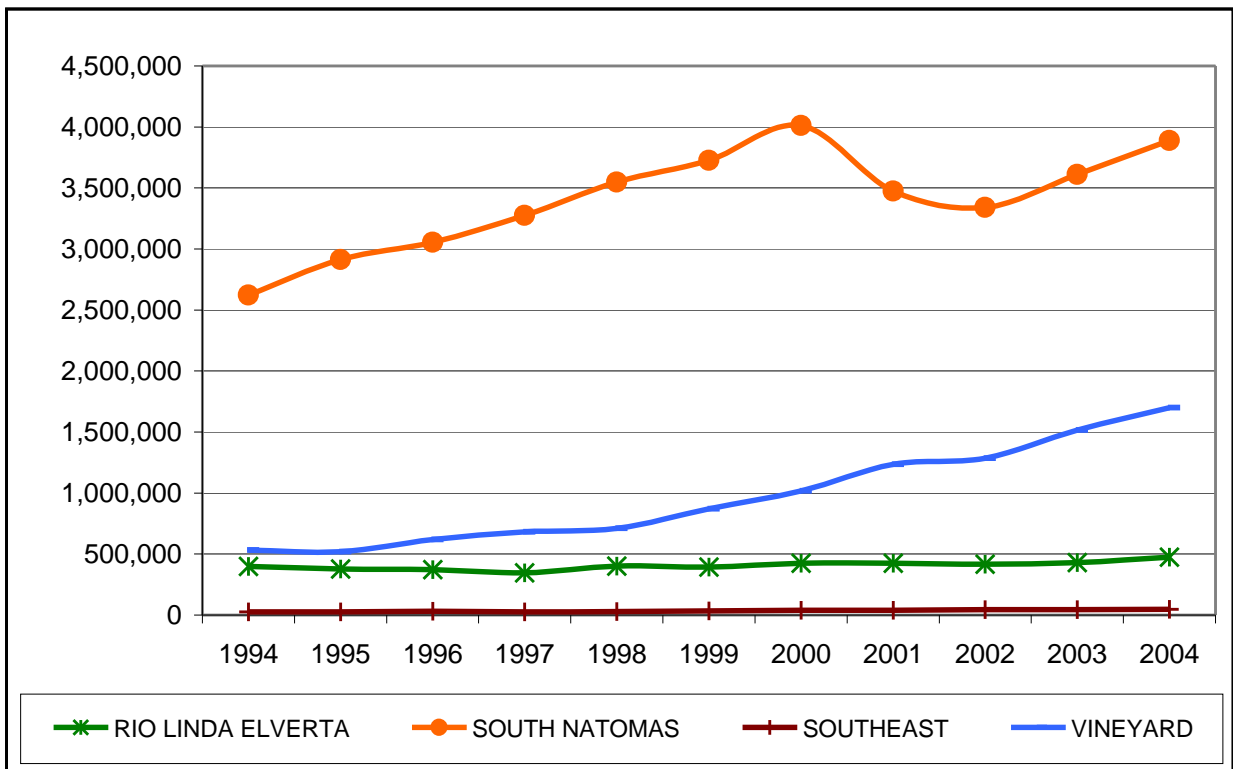
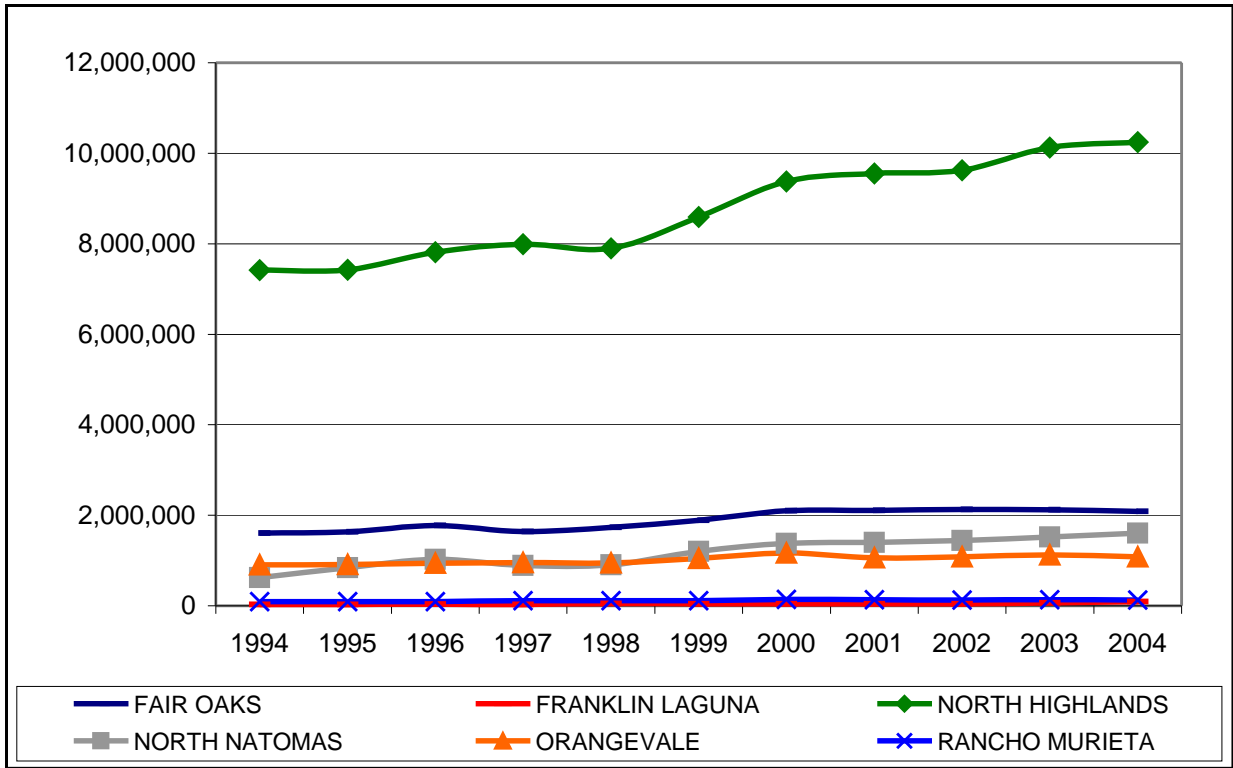


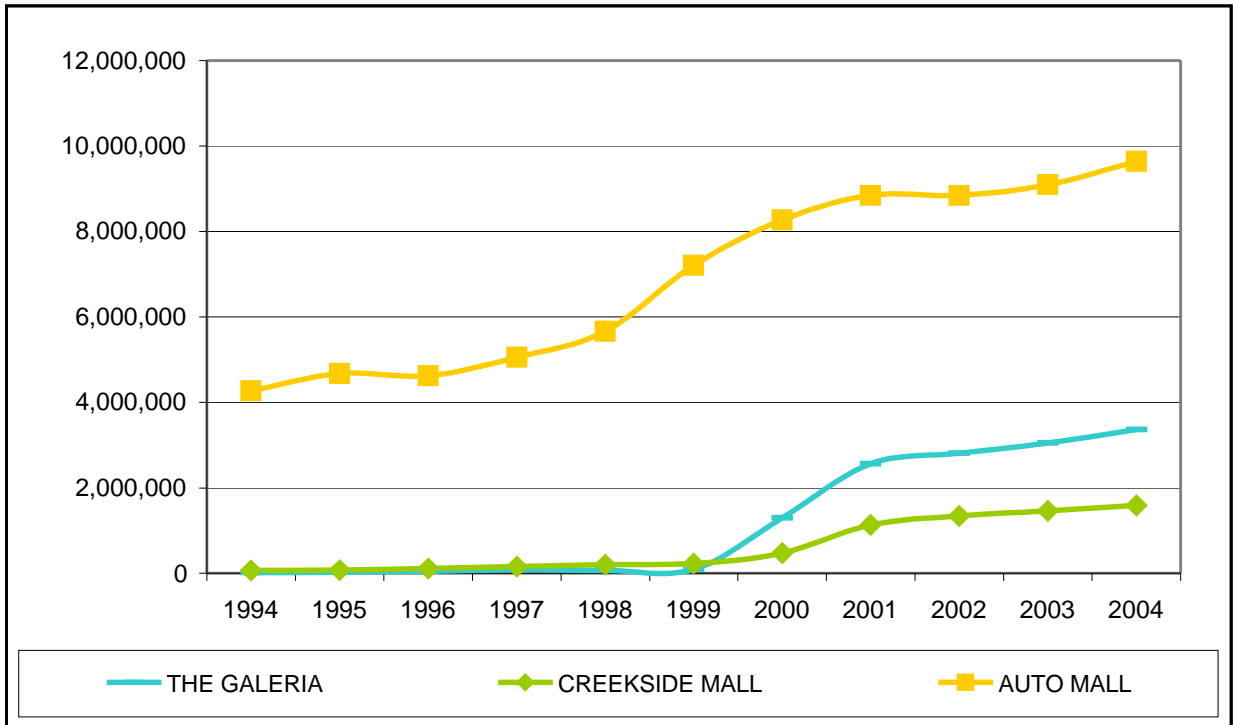


#### Other Areas of Growth

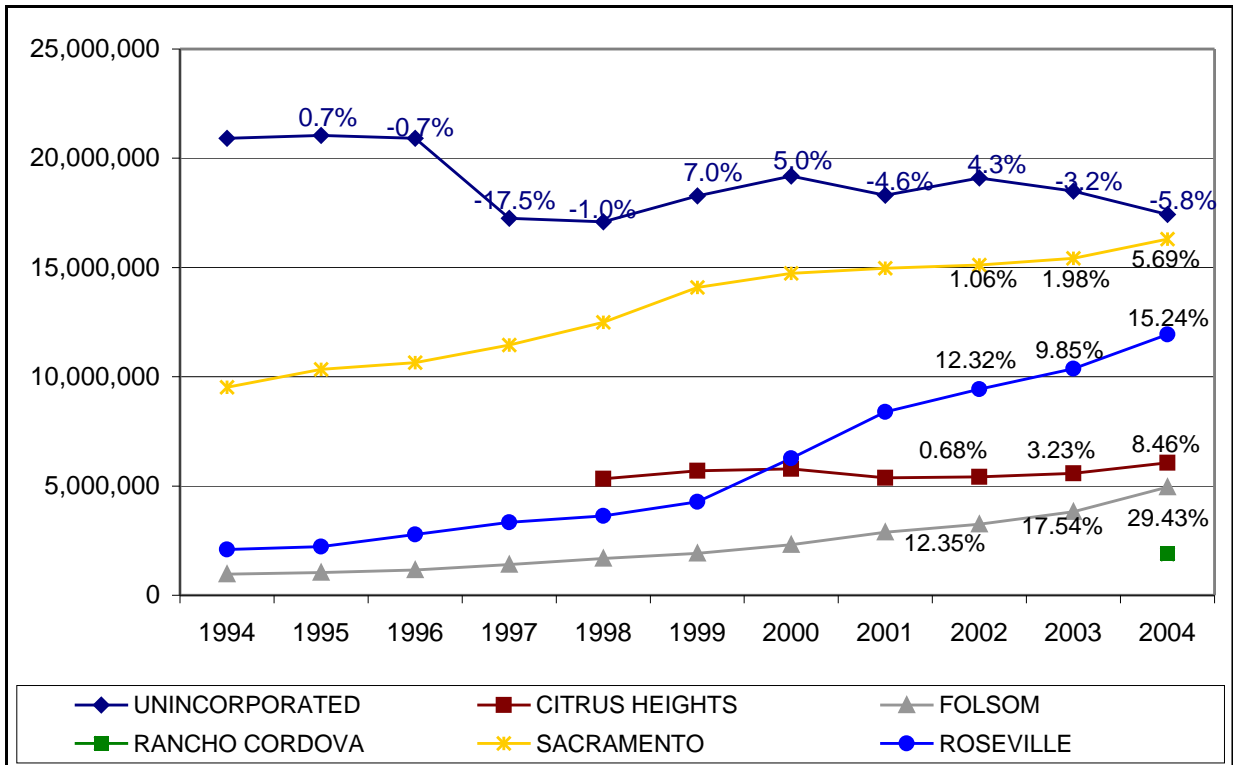
The following chart depicts the sales tax by specific geographical subset areas within the Sacramento Valley.





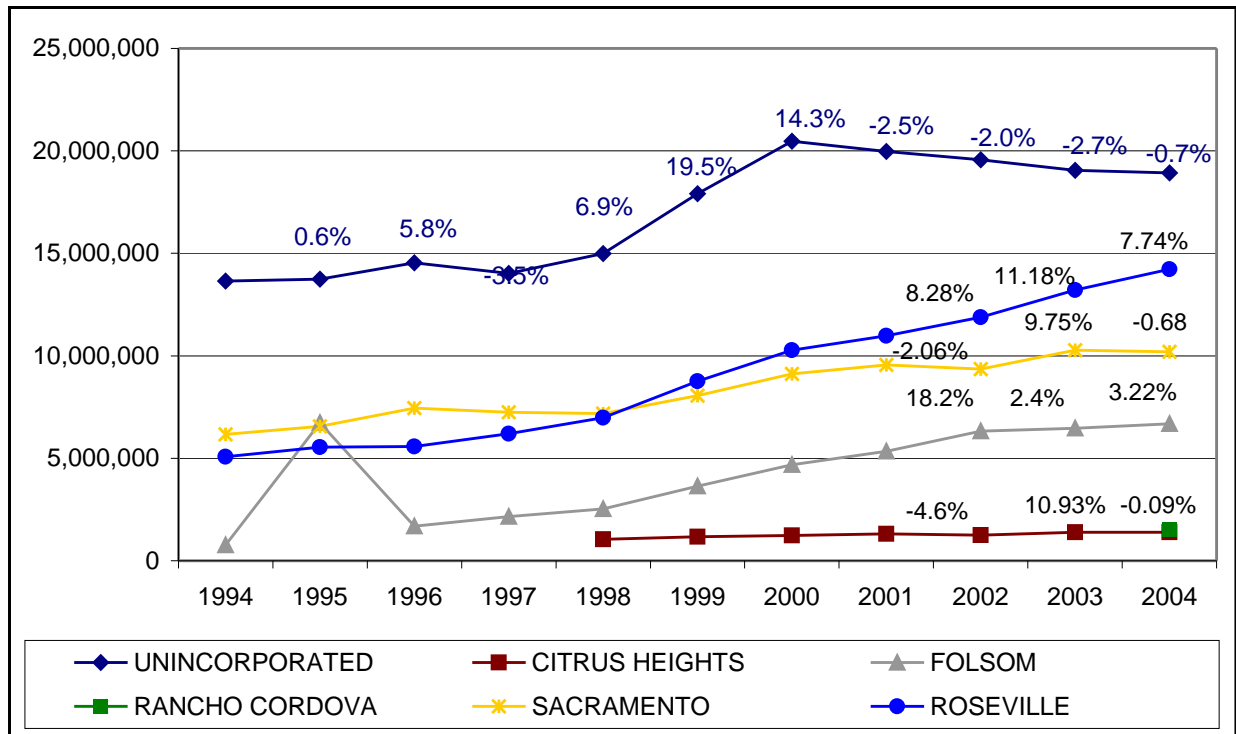


Comparison of Sales Tax Performance by General Retail Economic Category

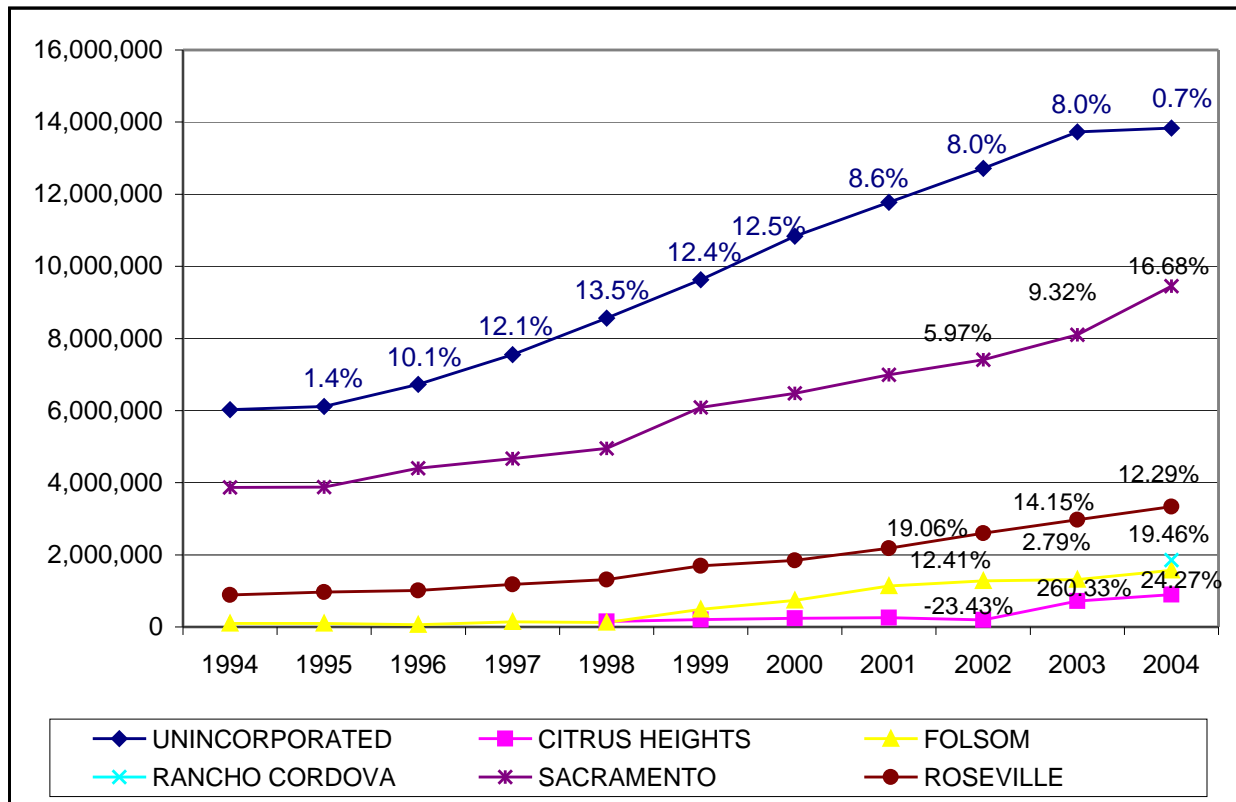




Comparison of Sales Tax Performance by Transportation Economic Category



Comparison of Sales Tax Performance by Construction Economic Category



## Strategies to Enhance Sales Tax

### Urban Development

#### Multi-Level “Big-Box”

#### Housing and Retail Mix – Need Both

#### Consistent zoning and comprehensive plan

- Reduce time and expense for developers

#### Make land-use decisions early

- What is acceptable and not acceptable in advance?

#### Zoning code reflect a balance of desired uses that will yield direct positive revenue to County

#### Loans to small businesses

- CDBG
- ED Corporation to match funds?
- SBA 504 loans for building purchases
- Loans and Grants for start-ups
- Priority of CIP in strategic business districts

#### Façade Improvements

- Grants and Loans may be available

#### Marketing Assistance

- Create BIDs to provide marketing assistance to retail districts
- Unique directional signage to promote area
- Market County as retail hub
- Join ICSC with County’s demographics and potential sites available when you attend these meetings

#### Centralized Retail Management

- Work with property owners and business associations
- Work with business owners

#### Red Teams

- Essential component to retention and attraction
- Establish Permit Assistance Team of key county decision makers
- Establish Retail attraction team
  - Training
  - Action plan
  - Coordination of efforts

#### Other Ideas

- Know surrounding retail competition
- Determine available retail sites and actively market them
- Establish retail/business watch communities

### Multi-Channel Distribution

- Multi-Channel distribution is the use of several channels to promote, market, advertise and sell goods and services in today's economy. Many retailers are losing sales to more convenient catalog and Internet sales sites without the necessary infrastructure to compete. Use of a BID or other mechanism to assist County retailers to compete in a rapidly changing economy can greatly assist business development and retain important sales tax revenues.