

# Budget Engagement Commission

City of Arts & Innovation

## TO: HONORABLE COMMISSIONERS

DATE: APRIL 19, 2017

FROM: FINANCE DEPARTMENT

WARDS: ALL

## SUBJECT: MEASURE Z REVENUE ESTIMATES

#### ISSUES:

The issue for the Budget Engagement Commission (BEC) is to receive information on Measure Z revenue estimates.

#### **RECOMMENDATION:**

That the BEC review Measure Z revenue estimates and determine if changes to the revenue assumptions should be applied to the five-year spending recommendations made to the City Council.

## BACKGROUND:

Measure Z, is a 1% transactions tax approved by the residents of the City of Riverside on November 8, 2016 and was effective as of April 1, 2017. According to preliminary projections from the City's sales tax consultant, HdL, revenue estimates for FY 2016/17 and FY 2017/18 are \$10 million and \$51.6 million respectively. The City Council adopted these revenue estimates in December 2016.

## DISCUSSION:

Measure Z is a one-cent "Distract Tax" imposed under the Transaction and Use Tax Law (transaction tax). The tax is applied slightly different from a "Local Tax" under the Bradley-Burns Uniform Sales and Use Tax Law (sales tax).

Generally, a one-cent transactions tax will generate similar amounts of revenue to a one-cent sales tax on sale of general consumer goods, restaurants, service stations and other merchandise picked up or consumed at a store. Differences will occur in what Riverside receives from the sales of autos, building/construction supplies and business-to-business sales, as the transaction tax is only levied against purchases by City residents and businesses rather than sales of merchandise sold to out-of-city buyers that are registered or delivered to outside of the City.

## <u>Local Tax</u>

"Local Tax" is the general term for sales and use taxes imposed under the Bradley-Burns Uniform

Sales and Use Tax Law. The tax is generally allocated to the jurisdiction where the sale is negotiated or the order taken.

The basic statewide sales and use tax rate is 7.25% and is divided as follows:

- 6.00% State
- 1.00% Local Jurisdiction (City or county of place of sale or use)
- 0.25% Local Transportation Fund (County of place of sale or use)

The City's Bradley-Burns 1.00% local jurisdiction sales tax revenues are estimated to be \$63.1 million in FY 2016-17 and approximately \$65.6 million in FY 2017-18.

#### District Tax

"District Taxes" are imposed locally under the Transactions and Use Tax Law. The tax rate in various cities and counties may be higher than 7.25% depending on the district taxes that apply there. In general, the district tax follows the merchandise. The tax is distributed to the district where goods are delivered and presumably used. However, there is an exception for sales or leases of vehicles, vessels and aircraft. Generally, the district tax for these sales is distributed to the district the district based on the address where the vehicle, vessel, or aircraft is registered.

The City's Measure Z 1.00% transaction and use revenues are estimated to be \$10 million in FY 2016-17 and approximately \$51.6 million in FY 2017-18.

#### Updated Sales Tax Projections

In the near future, the City will meet with HdL to update Measure Z revenue projections, if necessary. HdL's estimates are based on past audit research and analysis of companies reporting sales in Riverside, per capita averages, and review of other jurisdictions levying a transaction tax that have similar baskets of goods to Riverside. Future projections will become more accurate once the City receives 18-24 months of Measure Z revenues.

During the First Quarter Financial Update to the City Council, staff lowered the City's Bradley-Burns 1.00% local sales tax revenue estimates from an increase of 5.9% (FY 2016/17) and 5.5% (FY 2017/18) to 4.5% (FY 2016/17) and 4% (FY 2017/18). In June 2017, during the Mid-Cycle Budget Update, staff may recommended additional changes to the estimated sales tax growth based on changes in the economy at that time.

#### FISCAL IMPACT:

There is no fiscal impact associated with the discussion on Measure Z revenue estimates.

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Attachments:

- 1. Preliminary HdL Revenue Estimates
- 2. City's 25-Year Sales Tax History
- 3. Presentation