

Sales Tax, Measure K, Prop 172

County of San Mateo

Board of Supervisors Meeting

March 19, 2024

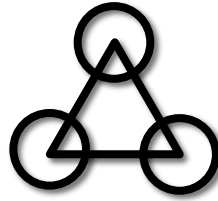
About HdL

**PROUD
TO SERVE**

CITIES, COUNTIES &
SPECIAL DISTRICTS
FOR

40+ YEARS

**100%
EMPLOYEE
OWNED**



TRIFECTA

Superior service
Increased revenue
Decreased costs



COMPLIANCE

HdL helps clients reduce risk
by keeping current with
ever-changing legislation



RESULTS

Average city growth
rates are ~3%,
HdL clients are 2x that!

500+

Municipal
Clients

\$3billion+

Recovered
revenue

99.6%

Avg. Client
Retention

What is Sales Tax...



Sales tax is imposed on ALL sales of tangible personal property in California

- Tax only levied once: when purchased or used by the ultimate consumer
- Retailer buys at wholesale and pays no tax
 - Files resale permit with supplier

What is NOT taxed...



- Property – Land and Buildings
- Utilities – Gas, Electricity and Water sold in bulk or through pipes
- Merchandise Sold to the Federal Government
- Food Sold for Home Consumption
- Prescription Medicine
- Goods transmitted electronically
(*Music, Books, Movies, Computer Software, etc.*)

And Lot's More: CDTFA

Publication 61

is 26 pages long with small print

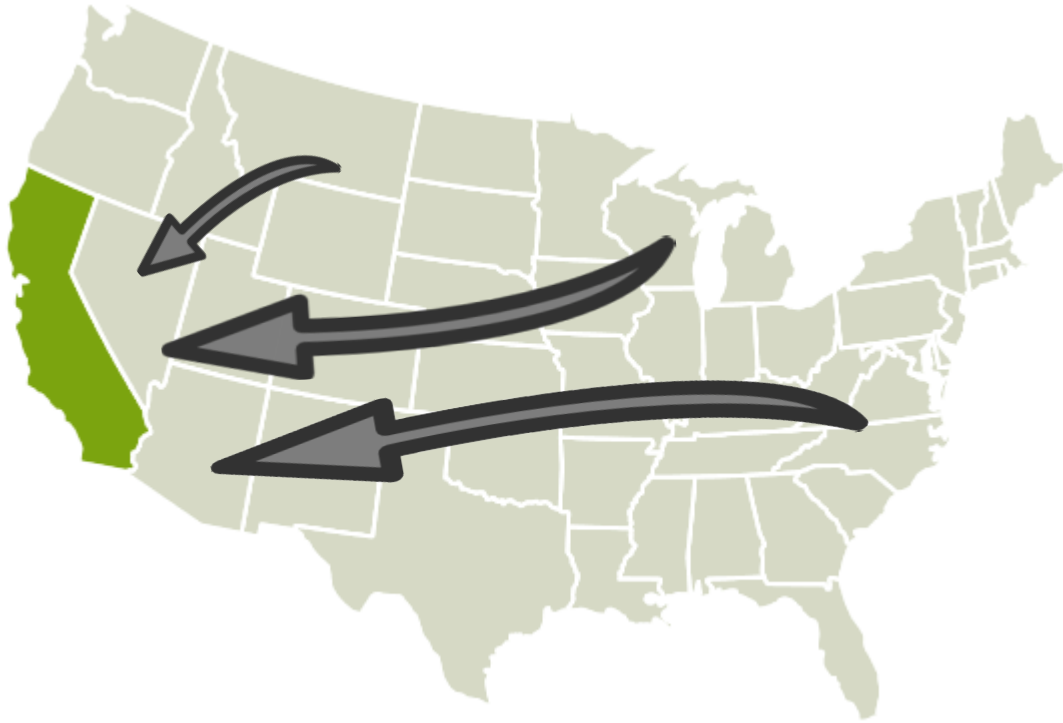
Limitation Opportunities Every Year....

New Bills: 2024 Leg Cycle:

- **AB 2061** – exempt zero emission public transportation ferries
- **AB 2274** – tax holiday exemption, first weekend of August for school shopping

What is 'Use Tax'...

- Charged on goods sold to California customers from out-of-state retailers
- Collected but a local place of sale limited to each county



HOW IS USE TAX DISTRIBUTED?

First – allocated into the county pool where the goods were delivered

Second – distributed from the pool to all county agencies, based on their pro-rata share of sales tax for that quarter.

Tax Rate Breakdown:



SAN MATEO COUNTY UNINCORPORATED

Breakdown of 9.375% Sales Tax Rate Effective July 1, 2021

State General Fund	3.9375%	
City/County General Fund (Bradley-Burns)	1.0000%	General Fund
County Public Safety (Prop 172)	0.5000%	
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%	Restricted Use
Countywide Transportation Fund	0.2500%	
San Mateo County Measure K (SMGT)	0.5000%	
San Mateo County Measure W (SMTD)	0.5000%	
San Mateo County Measure RR (JPBT)	0.1250%	
San Mateo County Transit District - Prop A (SMCT)	0.5000%	
San Mateo County Transportation Authority - Measure A (SMTA)	0.5000%	Countywide and regional voter approved TUTs total 2.125% of tax rate; 1.50% applied against statewide cap of 2%.
Total Rate	9.3750%	Special legislation – allowed to exceed cap*

**0.50% District Tax Cap Space left
for San Mateo Co. Uninc Area**

*** Rate above 9.25% cap:** AB 1613 Transportation Tax Measure W and SB 797 PCJPB (Caltrain) Measure RR – rates are recipients of special legislation that allowed these countywide tax rates to not count against statewide TUT 2% cap.

San Mateo Agencies – Sales Tax Rates

SAN MATEO COUNTY 9.375%

City of Belmont 9.875%
City of Brisbane 9.875%
City of Burlingame 9.625%
City of Daly City 9.875%
City of East Palo Alto 9.875%
City of Pacifica 9.875%
City of Redwood City
9.875%
City of San Bruno 9.875%
City of San Mateo 9.625%
City of South San Francisco
9.875%

San Mateo County Rate:

- Applies to all agencies within County without a local transactions tax (TUT)
- All agencies pay TUTs - A, K, W, RR, etc.

Cities listed approved local TUTs

- Eight at 9.875% rates have no cap room
- Burlingame, City of San Mateo 0.25% left
- Cities not listed have 0.50% cap space

Transactions Tax Rates:

- State law allows approval in increments of 0.125%
- Currently, County agencies can't consider an additional countywide transactions tax without new legislative authority

Local (1%) Sales and Use Tax Allocation

DIRECT ALLOCATION (JURISDICTION)

- Generally, Sales Tax
- Retailers hold a sellers permit with registered places of business (sub-outlets)
- City receives full 1% value
 - Examples – auto dealers, general merchandise retailers, big box stores, restaurants, gas stations, grocers, drug stores, etc.

INDIRECT ALLOCATION (POOLS)

- Traditionally, Use Tax
- Allocated through countywide pools based on place of use
- Increased last 4 years due to growth in online sales & addition of marketplace facilitators
- Pool \$ distributed to all jurisdictions within each county based on their pro-rata share of 'place of sale' revenues



County of San Mateo received 11 cents for each \$1 paid into San Mateo Pool

San Mateo Co Uninc. Sales Tax Results

<u>Major Industry Group</u>	<u>Count</u>	<u>4 Qtrs Ending</u> <u>3Q23</u>	<u>4 Qtrs Ending</u> <u>3Q22</u>	<u>\$ Change</u>	<u>% Change</u>
Autos and Transportation	148	6,280,548	5,881,894	398,654	6.8%
Fuel and Service Stations	37	5,342,234	5,486,476	(144,242)	-2.6%
State and County Pools	-	4,900,927	5,153,024	(252,097)	-4.9%
Restaurants and Hotels	291	4,589,021	3,672,037	916,983	25.0%
Business and Industry	487	967,359	949,961	17,398	1.8%
General Consumer Goods	570	962,452	864,792	97,660	11.3%
Food and Drugs	53	861,922	898,991	(37,069)	-4.1%
Building and Construction	66	451,194	433,946	17,248	4.0%
Transfers & Unidentified	45	19,030	12,599	6,431	51.0%
Total	1,697	24,374,687	23,353,721	1,020,966	4.4%

Pools Decrease: Ecommerce steady, yet taxpayer reporting changes reduced out of state inventory fulfillment

Uninc. Area Sales Tax - Larger Sectors

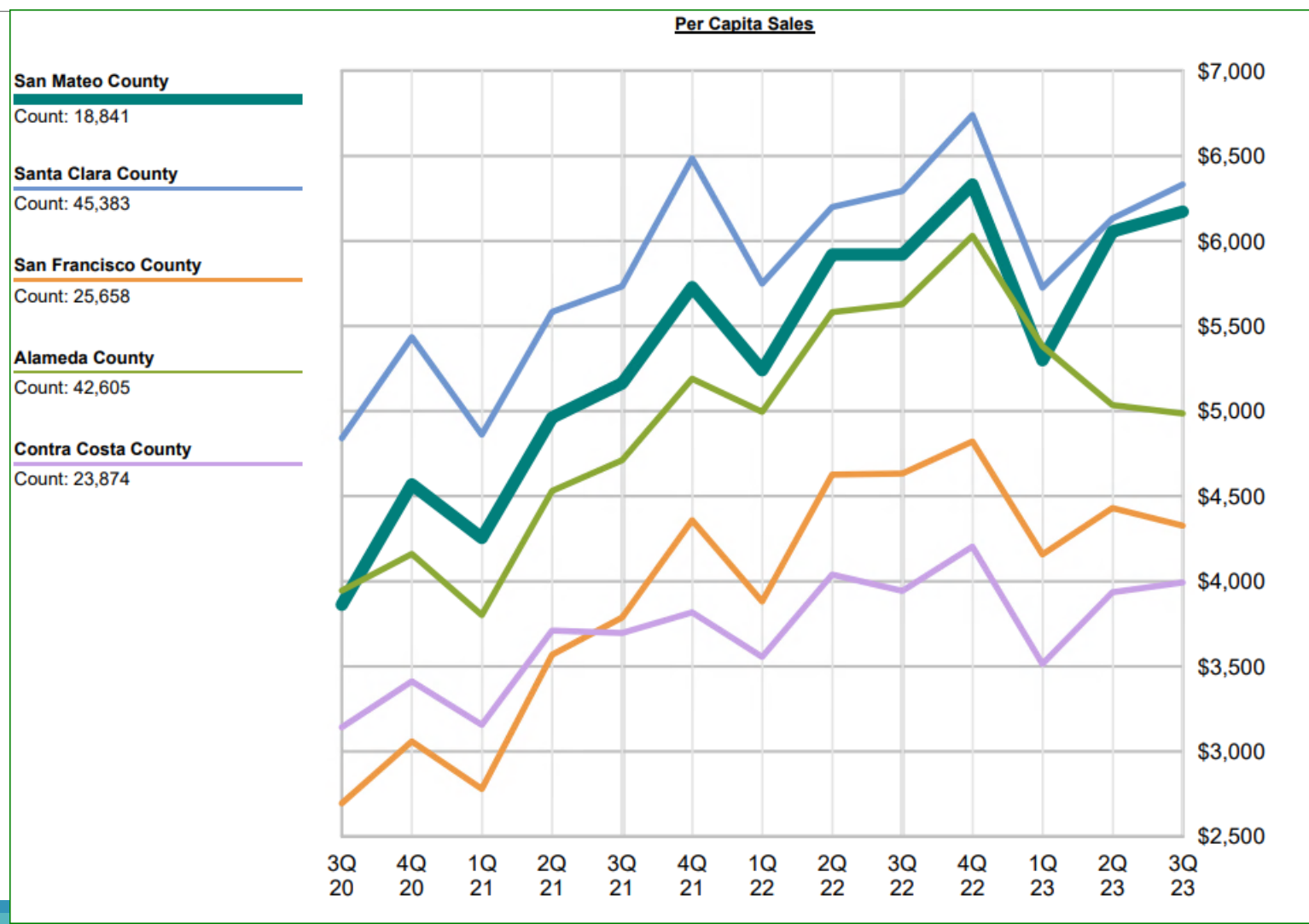
What contributed to 4.4% growth?

- Inflation: baked into cost of many products, taxable goods
- Preponderance of gain tied to SFO operations:
 - More passengers = > car rentals, more patrons at airport restaurants
 - Steady investment in aircraft equipment
 - Petroleum segment is jet fuel demand on the rise
- Service Stations: Gasoline prices soared in 2022

Top Performing Sectors:

	22Q4-23Q3	21Q4-22Q3	% Chg
<u>Business Type Description (Count)</u>			
Transportation/Rentals (33)	5,049,923	4,783,790	5.6%
Petroleum Prod/Equipment (14)	4,214,126	4,162,732	1.2%
Casual Dining (124)	2,538,723	2,130,688	19.2%
Service Stations (19)	1,064,188	1,266,310	-16.0%
Aircraft Sales & Service (11)	918,985	858,915	7.0%

Regional Per Capita Sales Tax Trends



Transaction and Use Taxes

Follows the goods to consumer/where goods are delivered, no matter where they come from

Assembly Bill 147 – Regulations on Out-of-State Online Retailers requiring them to collect and remit sales & use tax from all transactions.

- ✓ California's implementation of Supreme Court's decision in *South Dakota v. Wayfair*
- ✓ Effective October 1, 2019
- ✓ While many large internet retailers were already collecting, still a dramatic positive impact for agencies

Measure K: 0.50% rate, extended Measure A 20 years, 4/1/2013 to 3/31/3043, general purpose

- Prop A: 0.50% rate, effective 7/1/1982, no sunset date. SMCTD (SamTrans) transit purposes
- Measure A: 0.50% rate, 25 year extension, effective 1/1/2009, sunsets 12/31/2033. SMCTA transportation purposes
- Measure W: 0.50% rate, effective 7/1/2019, sunsets 6/30/2049. SMCTA, SMCTD transportation purposes
- Measure RR: 0.125% rate, effective 7/1/2021, sunsets 6/30/2051. JPB Caltrain purposes

Measure K Recent Results

<u>Major Industry Group</u>	<u>Count</u>	<u>4 Qtrs Ending 3Q23</u>	<u>4 Qtrs Ending 3Q22</u>	<u>\$ Change</u>	<u>% Change</u>
General Consumer Goods	8,977	29,229,942	29,684,905	(454,964)	-1.5%
Business and Industry	15,261	23,697,907	25,369,112	(1,671,205)	-6.6%
Autos and Transportation	2,758	18,850,278	18,091,401	758,878	4.2%
Restaurants and Hotels	2,154	14,801,288	13,291,640	1,509,648	11.4%
Building and Construction	2,196	12,661,270	12,195,068	466,202	3.8%
Fuel and Service Stations	226	10,690,699	11,183,856	(493,157)	-4.4%
Food and Drugs	608	4,923,998	4,858,517	65,481	1.3%
Transfers & Unidentified	6,615	1,653,576	1,417,188	236,387	16.7%
State and County Pools	-	0	0	0	-N/A-
Total	38,795	116,508,958	116,091,688	417,270	0.4%

Measure K - Larger Sectors

Key findings from 0.4% growth?

Broader base – countywide taxpayers

- Residents bought new cars and trucks
- Ecommerce/online spending stayed strong (general merchandise)
- Patronage hearty at dining in and drive thru restaurants
 - Customers kept paying more for less
- Contractors were busy
- Smaller investment in medical equipment
- Building suppliers and service stations: Price drops

Top Performing Sectors:

Business Type Description (Count)	AGENCY		
	22Q4-23Q3	21Q4-22Q3	Change
New Motor Vehicle Dealers (675)	10,058,059	9,373,735	7.3%
Medical/Biotech (840)	7,733,977	8,636,987	-10.5%
General Merchandise (131)	6,220,136	5,946,446	4.6%
Building Materials (323)	6,192,342	6,406,041	-3.3%
Casual Dining (789)	6,052,776	5,273,045	14.8%
Service Stations (127)	5,969,795	6,520,667	-8.4%
Discount Dept Stores (8)	5,952,219	5,961,446	-0.2%
Petroleum Prod/Equipment (79)	4,677,629	4,625,133	1.1%
Contractors (1587)	4,582,831	3,988,493	14.9%
Quick-Service Restaurants (642)	3,386,091	3,100,520	9.2%

Why the focus on Prop 172?

For Counties
Larger financial
impact than
Bradley-Burns

HdL SANTA CLARA COUNTY UNINCORP. PUBLIC SAFETY 1/2 CENT (PROPOSITION 172) - TREND ANALYSIS

	2019-20	2020-21	2021-22	2022-23	2023-24
County Pro-rata Factor	0.064182	0.064152	0.065759	0.061441 [†]	0.060694 [†]
% Change from Prior Year	0.774%	-0.047%	2.505%	-6.566%	-1.216%
Gross County Allocation	\$230,017,141	\$258,596,494	\$301,535,609	\$297,283,997 [†]	\$294,987,385 [†]
% Change from Prior Year	-1.899%	12.425%	16.605%	-1.410%	-0.773%
Statewide Public Safety Revenues	\$3,598,977,307	\$4,001,640,102	\$4,696,359,948	\$4,838,527,962 [†]	\$4,860,239,645 [†]
% Change from Prior Year	-1.612%	11.188%	17.361%	3.027%	0.449%

HdL SAN MATEO COUNTY PUBLIC SAFETY 1/2 CENT (PROPOSITION 172) - TREND ANALYSIS

	2019-20	2020-21	2021-22	2022-23	2023-24
County Pro-rata Factor	0.024832	0.024958	0.022569	0.022653 [†]	0.023127 [†]
% Change from Prior Year	0.828%	0.507%	-9.572%	0.372%	2.092%
Gross County Allocation	\$88,967,424	\$97,143,693	\$106,113,497	\$109,607,174 [†]	\$112,402,762 [†]
% Change from Prior Year	-0.228%	9.190%	9.234%	3.292%	2.551%
Statewide Public Safety Revenues	\$3,598,977,307	\$4,001,640,102	\$4,696,359,948	\$4,838,527,963 [†]	\$4,860,239,645 [†]
% Change from Prior Year	-1.612%	11.188%	17.361%	3.027%	0.449%

Prop 172 Tax History

- **1978** – Voter pass Prop 13 limiting the amount of property tax revenue to schools and local government
- **1992** – State Legislature and Governor Wilson, facing budget deficits, instructed County Auditors to shift the allocation of local property tax revenues from local government to ‘educational revenue augmentation funds (ERAFs) – allowing the State’s General Fund to reduce support of schools
- **1993** - Proposition 172 Imposed 0.50% for public safety (Police, Fire, Sheriff, DA) to replace confiscation of ERAF property tax revenues. Codified a prior sales tax increase for public safety, so from the State’s portion and effectively no change to statewide rate.

Credit: www.CaliforniaCityFinance.com/Prop172Facts.pdf

County Monthly Cash Flow Summary

FY 2022-23		
<u>Month</u>	<u>Factor</u>	<u>Amount</u>
September	0.022653	8,342,972
October	0.022653	8,679,296
November	0.022653	10,444,428
December	0.022653	8,834,596
January	0.022653	8,532,140
February	0.022653	11,252,716
March	0.022653	7,718,567
April	0.023089	7,753,788
May	0.023089	9,862,302
June	0.023089	8,413,774
July	0.023089	11,079,481
August	0.023052	8,301,920
Total		\$109,215,981

- Usually months when the quarterly tax returns are due – see the largest allocations
- Can also be impacted by large monthly tax remitters and the economic trends they experience
- Many counties will disburse to cities the following month

Allocations to Cities

Agency Name	Factor	2021-22	2022-23	2023-24
Atherton	0.0010400	110,358	113,585	113,434
Belmont	0.0014700	155,987	160,547	160,335
Brisbane	0.0004400	46,690	48,055	47,991
Burlingame	0.0018600	197,371	203,142	202,873
Colma	0.0000000	0	0	0
Daly City	0.0070200	744,917	766,696	765,680
East Palo Alto	0.0000000	0	0	0
Foster City	0.0000000	0	0	0
Half Moon Bay	0.0002700	28,651	29,488	29,449
Hillsborough	0.0015800	167,659	172,561	172,333
Menlo Park	0.0026000	275,895	283,962	283,585
Millbrae	0.0011200	118,847	122,322	122,160
Pacifica	0.0032200	341,685	351,675	351,209
Portola Valley	0.0001700	18,039	18,567	18,542
Redwood City	0.0091100	966,694	994,958	993,639
San Bruno	0.0014600	154,926	159,455	159,244
San Carlos	0.0019200	203,738	209,695	209,417
San Mateo	0.0035400	375,642	386,625	386,112
South San Francisco	0.0046100	489,183	503,486	502,818
Woodside	0.0002600	27,590	28,396	28,359
County Share	0.9583100	101,689,625	104,662,767	104,524,064
County All	1.0000000	106,113,497	109,215,981	109,071,244

- By law, most counties keep 95% - distribute 5%
- Allocation of 5% based on each city's revenue shifted to ERAF back in 1993-94
- 9 counties with unique allocation formulas:
Alameda, Fresno, Kings, Merced, San Bernardino, San Diego, San Joaquin, Solano, Yolo

Trends, Considerations and Outlook



3rd Quarter 2023 Statewide Sales Tax Results

Major Industry Group	3Q 2023
Autos & Transportation	-2.6%
Building & Construction	-2.6%
Business & Industry	3.7%
Food & Drugs	-2.6%
Fuel & Service Stations	-7.8%
General Consumer Goods	-2.7%
Restaurants & Hotels	2.6%
Pools	-3.0%
Total	-1.5%

Region	3Q 2023
Far North	-3.1%
Bay Area	-3.0%
Southern California	-1.6%
Sacramento Region	-1.5%
San Joaquin Valley	-0.4%
Central Coast	0.0%
Sierras	2.8%

4q23 Topline Results

Holiday Sales Data just received March 13

<u>4q23 Topline Results</u>	<u>Estimated</u>	<u>Received</u>	<u>\$ Variance</u>	<u>% Variance</u>
Sales Tax	\$8.14 m	\$8.54 m	\$0.40 m	4.9%
Measure K	\$30.23 m	\$30.37 m	\$0.15 m	0.5%

Sales Tax Variance Highlights:

- *San Mateo Pool rose 5%; County share higher as ecommerce holiday shopping was up*
- *Many restaurants (SFO based) reported better totals*
- *Slightly lower returns filed by jet fuel sellers, transportation rental companies*

Forecast Considerations

Inflation
& Prices

Supply
Chain

Credit
Card Debt

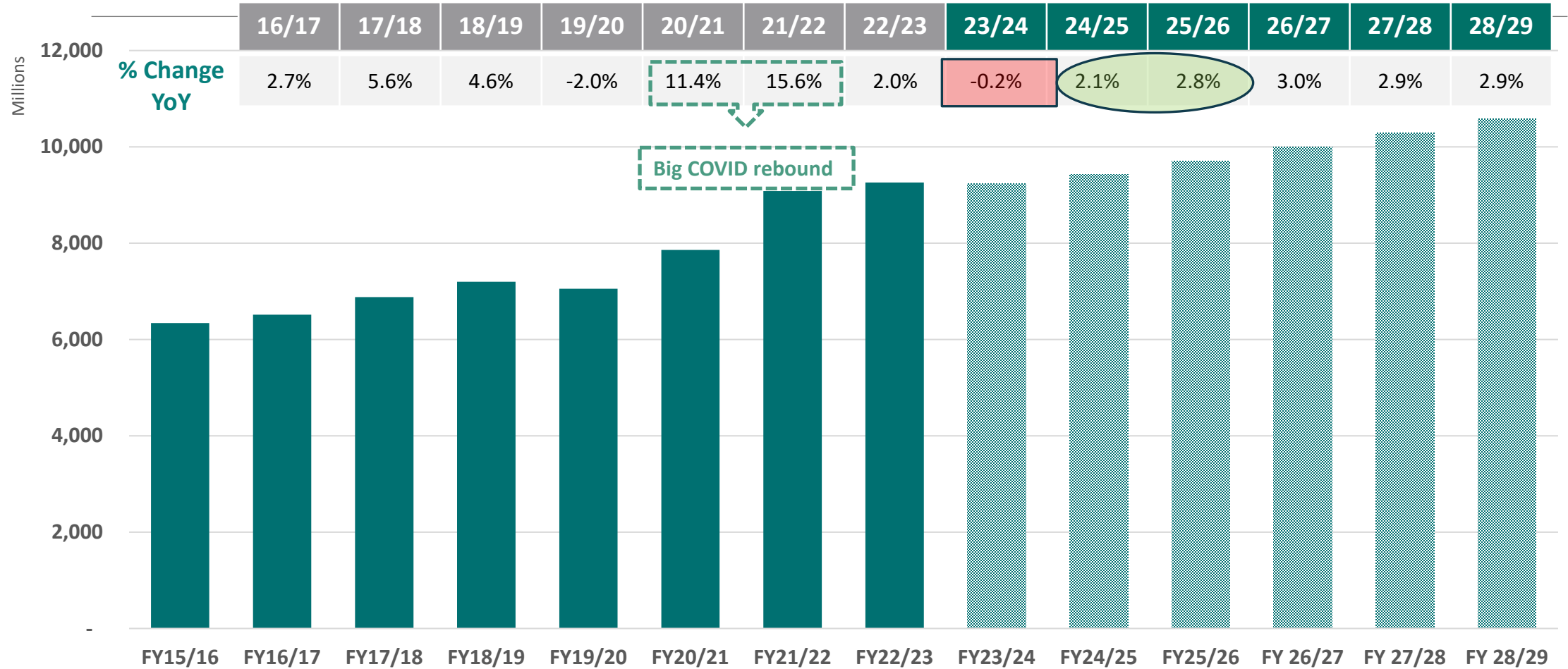
Interest
Rates

Gas Prices

Savings
Trends

Consumer
Spending

HdL Statewide Trend – Annual Outlook (FY)



Economic Outlook Summary

- **FY 2023-24 headline** is ‘economic uncertainty’ –
 - Statewide sales taxes down slightly with slow expansion in outer years
- Recession still not expected
- Inflation improving – price drops to follow?
- Federal Reserve Rate decreases expected; now in latter part of 2024?
- World events influencing outlooks
- Unemployment #s still favorable; tech losses influence spending on some taxable goods
- Cost pressures
 - (e.g. new minimum wage law AB1228 for fast food restaurants effective 4/1/2024)
- Stock market, consumer confidence ebb and flow
- **Sales taxes specific:**
 - General retail – brick and mortar now has 5 consecutive quarters of decline
 - Autos – EV and luxury market has cooled
 - Large scale construction and permitting activity paused as project costs escalated
 - **Not keeping up with cost of public services**

Sales Tax & Measure K Summary

<u>HdL Forecasts:</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>		<u>FY 2024-25</u>	
	<u>Act</u>	<u>Est</u>	<u>% Chg</u>	<u>Est</u>	<u>% Chg</u>
Sales Tax	\$34.5 m	\$33.8 m	-1.9%	\$34.7 m	2.6%
Measure K	\$117.9 m	\$116.3 m	-1.4%	\$118.5 m	1.9%
Combined Total	\$152.3 m	\$150.1 m	-1.5%	\$153.2 m	2.1%

Outlook

- **Uninc. Area Sales Taxes**
 - **FY 2023-24** – B2B lower, had one time payments in prior year; fuel and auto prices decline; changes in taxpayer filing and negative audit correction cause pool allocations to fall
- **Measure K Transactions Taxes**
 - **FY 2023-24** - same explanations for B2B, fuel and autos

Ken Nordhoff, Principal
knordhoff@hdlcompanies.com

888.861.0220

www.hdlcompanies.com

Brea | Fresno | Pleasanton

Thank you!

HdL  **Companies**
40 Years of Growing Revenue