



Staff Report

TO: City Council
FROM: Jennifer Ustation, Finance Director
DATE: March 18, 2025
SUBJECT: Sales Tax Working Group Update and Recommended Next Steps for Fiscal Sustainability Planning

Description The purpose of this report is to update the City Council on the latest developments regarding the League of California Cities (Cal Cities) Sales Tax Working Group and the potential fiscal impacts of proposed changes to the Bradley-Burns Sales Tax allocation, particularly regarding e-commerce sales tax distribution. Given the potential revenue implications for the City of Beaumont, this report also outlines recommended next steps, including engaging a consultant to assist with fiscal sustainability planning and public education efforts.

Background and Analysis:

In 2022, the Cal Cities Revenue and Taxation Committee formed the Sales Tax Working Group to develop policies for e-commerce sales tax in response to a 2021 proposed Cal Cities Conference Resolution to shift Bradley Burns 1% Sales Tax from point-of-sale to 100% destination for E-Commerce transactions. The purpose of the Working Group is stated below:

“To convene a diverse and representative group of California city officials dedicated to examining local government sales tax issues and providing recommendations that:

- Equitable benefit to California cities
- Further Fiscal Sustainability; and,
- Strengthen the viability of the sales tax”

The CalCities Sales Tax Working Group has been evaluating changes to how e-commerce sales tax is allocated among cities. Currently, sales tax from online purchases is heavily weighted toward warehouse and fulfillment center locations, such as Beaumont. However, recent policy recommendations finalized in 2024, aim to redistribute a portion of these revenues to the jurisdictions where goods are delivered (destination-based taxation).

Proposed Changes to Sales Tax Allocation

In June 2024, the Working Group completed their recommendations for e-commerce Bradley 1% Sales Tax. The CalCities Board is expected to consider this proposal in 2025. The Working Group has proposed the following adjustments to the current sales tax structure:

- In-State E-Commerce Sales Tax Allocation:
 - Sales tax would be split 50% to the point-of-sale city and 50% to the destination city instead of being fully allocated based on point-of-sale location.
 - A plus/minus 10% adjustment could be considered during legislative drafting.
 - Would allow for a five-year* phase in to achieve proposed ratio split
- *Five-year phase in period would begin after CDTFA determines that it can make the appropriate changes to account for splitting the e-commerce taxes.
- Out-of-State E-Commerce Sales Tax Allocation:
 - Sales tax from out-of-state transactions would be allocated 100% to the destination city, instead of being pooled at the county level.
 - This marks a shift from current policy, which distributes these funds based on countywide taxable sales ratios.
- Sales Tax Rebate & Sharing Agreements:
 - Future sales tax sharing agreements would be capped at an average* of 50% of tax revenue generated over the lifetime of the agreement.
- *Provides for greater flexibility for economic incentives.
 - Agreements would be limited to a maximum of 20 years, with no term extensions allowed.
- Other Policies Approved
 - Cities must now report all sales tax-sharing agreements to a centralized location (CDTFA).
 - Modify county pool calculations of the local Bradley Burns 1% sales tax to deduct sales tax rebated to a private business from pro-rata shares.

Potential Financial Impact to Beaumont

Sales tax is Beaumont's largest revenue source, and these proposed changes could significantly impact the City's financial outlook.

- If implemented, Beaumont could experience a notable reduction in sales tax revenue, particularly if the 50/50 split policy is adopted for in-state e-commerce transactions.

- While exact figures are still being analyzed, cities with a high concentration of distribution centers could see a revenue decline of 25% or more under the proposed framework.
- The modification to out-of-state e-commerce tax allocation could result in additional shifts in revenue distribution, with impacts dependent on consumer purchasing patterns and statewide implementation.

Timeline:

- Starting April 30, 2025, reporting sales tax rebate agreements to centralized repository (CDTFA).
- Possible bill in 2025/2026 on tax rebate policies (50% average with 20-year term) – limited impact on City as this change only limits future extension option from City’s existing rebate program.
- CalCities Board consideration of in state e-commerce recommendations in 2025, currently doing educational updates to CalCities members.
- Potential for State bill or ballot measure for 2026 – this is likely a constitutional amendment.

Next Steps and Need for Proactive Planning

Given the uncertainty and potential revenue risks, it is critical for the City of Beaumont to take proactive steps to:

1. Assess the Financial Impacts – Conduct a detailed analysis of potential revenue losses under different policy scenarios.
2. Develop Policy & Revenue Strategies – Identify opportunities for revenue diversification and potential ballot measures to sustain fiscal stability.
3. Engage with State & Regional Policymakers – Participate in advocacy efforts to ensure that Beaumont’s interests are represented in legislative discussions.
4. Educate & Engage the Public – Provide residents and businesses with transparent information about potential changes and gather feedback.
5. Support Economic Development Planning – Ensure that Beaumont remains competitive in attracting and retaining businesses despite changes to tax structures.

City staff recommends hiring a consultant to assist in determining the City’s options for revenue strategies for sustainability. This would include a three-phase consulting effort to assist the City of Beaumont in researching, educating, and engaging the public on revenue and fiscal sustainability issues. The consultant will focus on analyzing the City’s financial landscape, conducting public outreach, and, if needed, supporting legally permissible informational efforts should a revenue measure advance to the ballot. City

staff recommends starting with Phase 1 – Research, followed by a report back to City Council. City Council could then direct staff on whether or not to continue with the additional phases.

The phased approach is provided below:

Phase I – Research (60-90 Days)

- Conduct a political and financial assessment to evaluate revenue challenges and fiscal sustainability.
- Identify key community stakeholders for engagement efforts.
- Collaborate with City Department Heads to analyze city revenues, services, and infrastructure needs to build a public education narrative.
- Develop a decision matrix outlining potential revenue-generating options for City leadership.

Phase II – Outreach (6-9 Months)

- Develop a public information campaign to educate residents on fiscal issues in compliance with legal requirements.
- Create digital and print materials, including:
 - Presentations, FAQs, fact sheets, and talking points.
 - Social media content, newsletters, and informational videos.
 - Press releases and community mailers.
- Conduct community meetings and town halls (optional), engaging civic and neighborhood groups.
- Design and distribute a community survey to gather public input.
- Attend City Council meetings to provide updates and reports.
- Optional: Assist the City in soliciting bids for public opinion polling.

Phase III – Post Referral (If a Revenue Measure is Placed on the Ballot)

- Provide legally permissible informational materials, including fact sheets, mailers, and presentations.
- Respond to public inquiries within legal constraints.
- Complete all post-referral materials within 30 days of City Council action.

Budget & Timeline

- Phase I: \$5,500 per month for up to three months.
- Phase II: \$5,500 per month for six to nine months (\$7,500 per month if town halls are included).
- Phase III: \$5,500 per month for one month, if applicable.
- Public opinion polling, printing, and mailing costs are optional and billed separately.

The consultant's work will help position Beaumont to respond effectively to potential legislative changes and protect its long-term financial stability.

Fiscal Impact:

The City of Beaumont will see a loss in sales tax from e-commerce with a change in the sales tax allocation policy. The amount Beaumont's sales tax will decrease is unknown; however, based on a quick analysis of FY24 actuals points to a potential estimated decrease of \$9.4m.

The estimated cost to prepare this report is \$250.

Recommended Action:

Receive and file the update on the Sales Tax Working Group; and
Discuss and give direction to staff on engaging a consultant to assist in determining the City's options for revenue strategies for sustainability.