

“We are a welcoming, active and business-friendly rural foothill community built on California's rich gold rush history.”



City Manager's Report

August 26, 2025 City Council Meeting

Prepared by: Dave Warren, Assistant City Manager/Director of Finance

Item #: 12.5

Subject: Receive a presentation regarding the League of California Cities City Managers Sales Tax Working Group's recommended sales tax reforms, and consider approving a letter of support for the e-commerce sales tax reforms to the League of California Cities Board of Directors, and authorize the Mayor to execute the same.

Recommendation:

Receive a presentation regarding the League of California Cities City Managers Working Group recommended sales tax reforms, and approve a letter of support for e-commerce sales tax reform to the League of California Cities Board of Directors, and authorize the Mayor to execute the same.

Purpose:

To educate the City Council and the Public about proposed reforms to sales tax and consider approving a letter of support to the League of California Cities Board of Directors for e-commerce sales tax reforms.

Strategic Plan Strategies:

Fiscal Stability /Sustainability: 2) Strategy – Increase Revenues

Background:

League of California Cities City Managers Sales Tax Working Group was established in 2017 and made initial recommendations in 2018. Staff was appointed to the Working Group when it was reconvened in 2022. The Working Group was comprised of forty-seven members including thirty-two Regional Division Appointees, eight City Manager Department Appointees, and seven Ex-Officio Members. The Committee Chairs were as follows:

- Leyne Milsten, Assistant City Manager, City of Sacramento
- Clara Miramontes, City Manager, City of Perris
- John Gillison, City Manager, City of Rancho Cucamonga and Past President of the League of California Cities City Managers Department

The Working Group met eighteen times between 2022 and 2024, and there were several subcommittee meetings focused on specific sales tax subject matters including the sales tax treatment of large construction projects, sales tax sharing agreements, and e-commerce (online) sales tax. The Working Group made recommendations for sales tax reform in 2023 and 2024.

Tonight, staff will present the Working Group's recommendations for sales tax reforms and respectfully requests that the City Council approve a letter of support for e-commerce sales tax reforms to be sent to the League of California Cities Board of Directors and authorize the Mayor to execute the same.

Discussion:

The Bradley Burns sales tax is 1.00 percentage point of the overall 8.25% sales tax, which generates approximately \$6,249,799 annually, and represents 56.48% of total General Fund revenues. Online sales tax has steadily become a larger portion of the City's sales tax portfolio primarily due to the convenience of online shopping and some goods not being available at local brick and mortar stores. For example, between 2012 and 2024 e-commerce sales grew by 584.4% in California.

Currently, sales tax from out of state fulfillment centers and sales tax from California fulfillment centers owned and operated by third party vendors are deposited into the County Pool and allocated on a weighted average basis of Bradley Burns sales tax generated by the City of Placerville, City of South Lake Tahoe, and the unincorporated area of El Dorado County. The City of Placerville generates approximately 19% of El Dorado County's overall sales tax and receives approximately 19% of the overall sales tax from out of state fulfillment centers and sales tax from California fulfillment centers owned and operated by a third party. In contrast, agencies that have California fulfillment centers located in their jurisdiction receive the entire 1.00% Bradley Burns sales tax regardless of where the goods are shipped in California.

The Working Group has recommended that the sales tax from California fulfillment centers transition from a "point of sale" allocation to a "destination" based allocation whereby approximately half of the 1.00% sales tax would be allocated to the jurisdiction where a California fulfillment center is located and the other half would be allocated to the jurisdiction where the goods are being shipped to. The proposed change would be on a prospective basis and phased in over five years with a plus or minus variance of 10% to allow for flexibility. In this scenario, the County Pool dollars would be redirected to the destination City. Existing sales tax sharing agreements would not be subject to the split.

The California Department of Tax and Fee Administration (CDTFA) performed a data modeling study of the proposed 50%/50% split destination based sales tax allocation last year. The study captured California's 200 largest online retailers or 61% of online sales and 483 cities were studied. Of the 483 cities studied, 255 are projected to gain revenue, 105 cities are projected to lose revenue, and 123 cities lack sufficient data, and the 50%/50% split would have a neutral or minimal change in revenue. In a nutshell, cities that have few storefronts gain the most, primarily rural cities, and that tend to be either high or low-income. Cities with mixed incomes have smaller gains. Cities with warehouses/distribution centers and/or with retailers with a large percentage of online orders shipped to or delivered by store tend to lose from the 50%/50% split. The Study results showed that the City of Placerville would experience a 10% to 25% gain in sales tax from the proposed 50%/50% split.

The League of California Cities Revenue and Tax Policy Committee will be considering the City Managers Sales Tax Working Group's proposed e-commerce reform when they meet in January or February of 2026. Staff is aware that some California cities with fulfillment centers have submitted letters of opposition to the League of California Cities Board of Directors. Due to the closure of several brick and mortar business locally and the significant growth in online sales, many of which come from California fulfillment center, staff highly recommends that the City Council approve the attached letter of support for the City Managers Sales Tax Working Group's proposed e-commerce reform and authorize the Mayor to execute the same.

Ultimately, the proposed e-commerce reform will most likely require state legislation or a voter approved State Constitutional Amendment. Staff will continue to monitor this and provide the City Council with updates as pertinent information becomes available.

Options:

1. Approve the letter of support as presented.
2. Approve the letter of support with revisions.
3. Direct staff to take other actions.
4. Take no action.

Environmental:

Tonight's action is not directly applicable.

Cost:

There is no direct cost associated with tonight's action.

Budget Impact:

There is no direct budget impact associated with tonight's action. However, if the proposed 50%/50% split destination based online sales tax reforms were approved, the City could potentially receive approximately 10% to 25% more sales tax which equates to approximately \$624,980 to \$1,562,450 in more sales tax revenue annually.



M. Cleve Morris, City Manager



Dave Warren, Assistant City Manager/
Director of Finance

Attachments:

- A. HDL Brick & Mortar vs. Online Sales Tax Graph as of December 31, 2024
- B. HDL (sales) Tax Allocation Guidelines for Local Sales and Use Tax
- C. Sales Tax Reform Presentation
- D. Letter of Support