



April 17, 2024

The Honorable Steve Glazer
Chair, Senate Revenue and Taxation Committee
State Capitol, Room 407
Sacramento, CA 95814

RE: SB 1494 (Glazer) Local agencies: Sales and Use Tax: retailers.
Notice of OPPOSE (02/16/24)

Dear Chair Glazer,

The League of California Cities (Cal Cities) must respectfully **oppose** your bill SB 1494, which would, as of January 1, 2024, prohibit a city from entering a sales tax rebate agreement with a retailer. As of January 1, 2030, the bill would make all existing sales tax rebate agreements void and unenforceable.

SB 1494 is similar, yet more expansive, to SB 531, which would have prospectively banned sales tax rebate agreements between a retailer and a local agency involving Bradley-Burns Sales and Use Taxes. In 2019, Governor Newsom vetoed SB 531, and in his veto message he noted that:

“Current use of these tax agreements are limited but also an important local tool that captures additional economic activity, particularly in rural and inland California cities that continue to face significant economic challenges like high unemployment rates...Therefore, completely removing these tax options from local decision makers is the wrong approach.”

Beginning in 2022, Cal Cities convened a diverse and representative group of California city managers, City Managers Sales Tax Working Group (working group), dedicated to examining local government sales tax issues and to provide recommendations that equitably benefit California cities, further fiscal sustainability, and strengthen the viability of the sales tax. As part of this working group, members discussed a path forward to place guardrails around sales tax rebate agreements without implementing a statewide prohibition. Although working group members hold a variety of perspectives and experiences regarding the merits or flaws of sales tax rebate agreements, the working group ultimately focused on how to preserve sales tax rebate agreements as an economic incentive tool while establishing parameters that reduce competition and create a fairer environment.

The working group unanimously approved recommendations that would place a cap on the duration of the agreements and the percentage of sales tax that can be rebated, provide enhanced transparency and public review, and make equitable changes to county pool calculations. It was agreed that all recommendations would



be prospective in nature. These recommendations were later unanimously approved by Cal Cities' Board of Directors.

SB 1494 seeks to not only prohibit new agreements but also retroactively voids existing agreements, conflicting with Cal Cities' policy.

Reforms around sales tax rebate agreements are needed, and in fact, welcomed by Cal Cities' membership. This is why recent proposals were approved unanimously by our Board of Directors. However, a much larger issue persists. Many sales tax rebate agreements exist because of California's method of allocating sales tax revenues from e-commerce sales. In fact, Cal Cities and our working group are having ongoing conversations on a potential split of the Bradley-Burns 1% between cities where transactions take place and/or are fulfilled and the cities where customers live. These difficult conversations are being approached through a lens of equity, that looks to recognize both sides of a transaction and their contribution to sales tax revenues.

While we respect your commitment to local taxation issues, and support efforts to increase transparency in this space, Cal Cities believes SB 1494 is the wrong approach. Rather, we respectfully insist that we be provided the time needed to holistically address how sales tax is allocated in California and develop a consensus recommendation of an equitable split of e-commerce sales tax revenues across cities.

For these reasons, Cal Cities respectfully **opposes** SB 1494. If you have any questions, do not hesitate to contact me at btriffo@calcities.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "B. Triffo", with a long horizontal line extending to the right.

Ben Triffo
Legislative Affairs, Lobbyist

cc: Members, Senate Revenue and Taxation Committee
Colin Grinnell, Chief Consultant, Senate Revenue and Taxation Committee
Ryan Eisberg, Policy Consultant, Republican Caucus
Kayla Williams, Policy Consultant, Republican Caucus