

Sales & Use Tax – 1% Local Sales Tax Portion

Description

California Sales and Use tax is imposed on the total retail price of tangible personal property. Sales Tax is imposed on every retailer for the privilege of selling tangible personal property. Use Tax is the complement of Sales Tax and is imposed on the purchaser, usually for goods purchased out-of-state for use in California. The total Sales Tax rate in San Francisco is 8.50 percent and is allocated to state and local entities, as shown in the Tax Rate & Allocation section below. Revenue and other data in this briefing pertain to the 1.00 percent¹ Local Sales Tax portion of the 8.50 percent total Sales and Use Tax rate, unless otherwise noted.

Size of Local Sales Tax (1% Local Portion Only)²

FY 2007-08: Budget \$111.55 million or approximately 3.96% of General Fund resources.

FY 2006-07: Actual \$107.81 million or approximately 4.0% of General Fund resources.

FY 2005-06: Actual \$103.07 million or approximately 4.1% of General Fund resources.

FY 2004-05: Actual \$94.69 million or approximately 4.0% of General Fund resources.

FY 2003-04: Actual \$120.64 million, or approximately 5.5% of General Fund resources.

Revenue Base

Sales & Use Tax revenues is generated from six major business groups, plus a County and State Pool category that captures select countywide activity.³ Revenues from the six business groups represented approximately 86 percent of total Sales & Use Tax revenues in calendar year 2007, with approximately 14 percent derived from County and State Pool activities.

Major Categories	% of Total
General Retail	33%
Food Products	25%
Transportation	8%
Construction	5%
Business to Business	13%
Miscellaneous	1%
County & State Pool	14%
Total	100%

¹ Beginning FY 2004-05, General Fund local portion is 1.00% less the 0.25% shifted by the State pursuant to the Triple Flip. The ¼ percent of the one percent local sales tax rate is dedicated to the State and is used to pay voter-approved debt service pertaining to the \$15 billion of bonds authorized under the California Economic Recovery Bond Act (Proposition 57), which voters approved in March 2004.

² Resources are defined as operating revenues and transfers in.

³ County pool sales activity includes the sale of used cars between private parties as well as large or specialized equipment purchased from an out-of-area manufacturer, but which is put into 'use' in San Francisco.

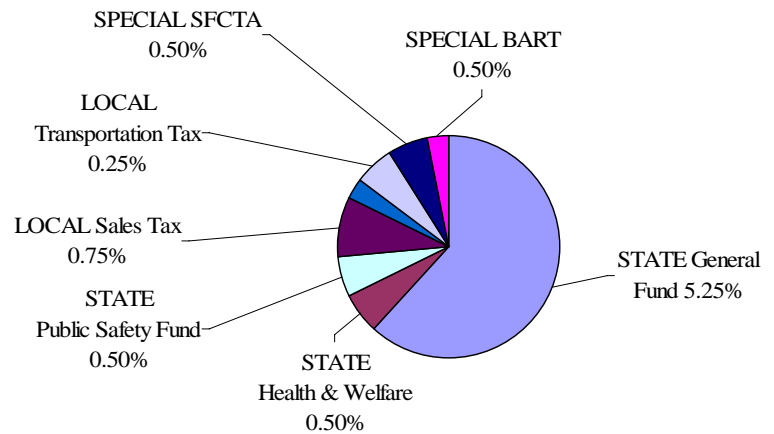
Collection Method & Issues

Businesses collecting sales and use taxes periodically remit the amount collected to the Board of Equalization (BOE) of the State of California. The 1 percent Local Sales Tax is paid to the City and County of San Francisco in monthly installments as described below.

To compensate for the lag time between the sales period and the time the tax is remitted to the City, each quarter the BOE advances 90 percent of the net sales tax collections for the same quarter of the prior year. The quarterly advances are paid in 3 monthly installments, and a “clean-up” payment that reconciles the advances to the actual sales tax receipts for the period is issued in late March, June, September and December.

Tax Rate & Allocation

San Francisco's Sales Tax Rate	
State Sales Tax	6.25%
State General Fund	5.00%
<i>Plus Triple Flip</i>	0.25%
Local Revenue Fund (to counties for health & welfare)	0.50%
Public Safety Fund (to counties & cities)	0.50%
Local Sales Tax	1.00%
Local Sales Tax (to San Francisco's General Fund)	1.00%
<i>Less Triple Flip</i>	-0.25%
Local Transportation Tax (TDA)	0.25%
Special District Sales Tax¹	1.25%
SF County Transportation Authority	0.50%
Bay Area Rapid Transit (BART)	0.50%
SF Public Financing Authority (Schools)	0.25%
TOTAL Sales Tax Rate	8.50%



The statewide Sales and Use Tax rate is 7.25 percent, but the rate in a given jurisdiction may be higher depending on Special District taxes. San Francisco's Sales and Use Tax rate of 8.5 percent is on the upper end of the tax rate spectrum, as compared to the 10 largest cities in California and neighboring jurisdictions.⁴ The table on the next page summarizes Sales and Use Tax rates effective July 1, 2008 in the ten largest cities in California as well as San Francisco's neighboring cities.

⁴ SB 566 was signed into law Governor Davis on October 8, 2003. SB 566 authorized a combined city and county transactions and use tax rate up to 2.00% - i.e. Special District Sales Taxes. Currently San Francisco has 1.25% in Special District Sales Taxes leaving unused authorization of 0.75%. The authority to impose special transactions and use taxes was initially provided to counties and countywide special districts in 1969. The first voter-approved district tax was the San Francisco Bay Area Rapid Transit District to finance construction of the BART system.

10 Largest California Cities	Population[1]	Tax Rate [2]	Neighboring Cities	Tax Rate [2]
Oakland	420,183	8.750%	Oakland	8.750%
San Francisco	824,525	8.500%	Berkeley	8.750%
Los Angeles	4,045,873	8.250%	Emeryville	8.750%
San Jose	989,496	8.250%	Fremont	8.750%
Long Beach	492,642	8.250%	San Francisco	8.500%
Fresno	486,171	7.975%	San Mateo	8.250%
San Diego	1,336,865	7.750%	San Jose	8.250%
Sacramento	475,743	7.750%	South San Francisco	8.250%
Santa Ana	353,184	7.750%	Millbrae	8.250%
Anaheim	346,823	7.750%	Marin City	7.750%
Average (Mean) of 10 Largest Cities		8.098%	Average (Mean) of Neighboring Cities	8.425%
Median of Largest Cities		8.113%	Median of Neighboring Cities	8.375%

Sources

[1] State of California, Department of Finance, January 2008 Cities and Counties Ranked by Size.

[2] California Board of Equalization Tax Rates for Cities and Counties effective 7/1/08.

Accounting Information – General Fund

Index Code 995031, Sub-object 12110 in Fund 1G AGF AAA

Historical Information: Legislative History, Rate Changes & Exemptions

Cities and counties administered local sales tax ordinances with varying tax rates and exemptions until 1955 when the California Legislature passed the Bradley-Burns Uniform Local Sales and Use Tax Law. This law laid the groundwork for a sales tax system that authorizes the State Board of Equalization to collect all sales and use taxes and distribute the 1.00 percent local share to cities and counties. Since 1974, the Sales Tax rate in San Francisco has increased eight times from 6.50 percent to the current rate of 8.50 percent.

In November 2001, the California Department of Finance determined that the State's General Fund reserves would be less than three percent of General Fund revenues, which triggered a 0.25 percent increase in the State General Fund portion of the tax rate, effective January 1, 2002. If reserves exceed three percent of General Fund revenues, this same legislation triggers a 0.25 percent reduction in the State General Fund portion of the sales tax rate. Various exemptions have been granted that removed the tax liability for certain businesses, such as nonprofit organizations, various types of property, and certain food and medical services.

Trends & Projections

Fiscal Year	Annual Growth			
	Total GF Revenue	\$ Change	% Change	
FY 1985-86	\$ 70.80			
FY 1986-87	\$ 73.35	\$ 2.55	3.6%	
FY 1987-88	\$ 77.04	\$ 3.69	5.0%	
FY 1988-89	\$ 83.54	\$ 6.50	8.4%	
FY 1989-90	\$ 84.53	\$ 0.99	1.2%	
FY 1990-91	\$ 89.49	\$ 4.96	5.9%	
FY 1991-92	\$ 83.38	\$ (6.11)	(6.8%)	
FY 1992-93	\$ 83.96	\$ 0.58	0.7%	
FY 1993-94	\$ 84.71	\$ 0.75	0.9%	
FY 1994-95	\$ 92.11	\$ 7.40	8.7%	
FY 1995-96	\$ 102.99	\$ 10.88	11.8%	
FY 1996-97	\$ 108.10	\$ 5.11	5.0%	
FY 1997-98	\$ 112.95	\$ 4.85	4.5%	
FY 1998-99	\$ 116.76	\$ 3.81	3.4%	
FY 1999-00	\$ 133.40	\$ 16.64	14.2%	
FY 2000-01	\$ 138.28	\$ 4.89	3.7%	
FY 2001-02	\$ 116.83	\$ (21.45)	(15.5%)	
FY 2002-03	\$ 115.58	\$ (1.25)	(1.1%)	
FY 2003-04	\$ 120.64	\$ 5.06	4.4%	
FY 2004-05	\$ 118.29	\$ (2.35)	(2.0%)	
FY 2005-06	\$ 136.84	\$ 18.55	15.7%	
FY 2006-07	\$ 143.45	\$ 6.61	4.8%	
Budget FY 2007-08	\$ 148.64	\$ 5.18	3.6%	

Sales & Use Tax revenues are cyclical and have exhibited weakness over the last few years. The table above illustrates total Sales & Use Tax revenue (including Triple Flip revenue) based on fiscal year sales activity since FY 1985-86. Sales Tax revenues dropped 15.5 percent in FY 2001-02 from the FY 2000-01 peak of \$138.3 million. The economic downturn, and specifically the meltdown in the dot-com and technology sector, the post-September 11th spending decline, and the loss of tourism and business travel, put significant downward pressure on Sales & Use Tax revenue for several years after the FY 2000-01 peak. Revenue has grown since FY 2005-06 due to the general economic recovery and, more recently, assisted by foreign tourists with relatively higher purchasing power given the weak dollar.

The table on the next page shows the quarterly activity trends over the last several quarters -- illustrating quarter-over-quarter comparisons. For example, the 4th Quarter of 2007 (October through December) showed an increase of 5.2 percent as compared to the same period in 2006. The trend in the early 2000s was that San Francisco was harder hit than the 9 County Bay Area and the statewide averages. Receipts were generally up in the City, Bay Area, and State during 2004, 2005, and 2006, although for much of that period, San Francisco lagged behind the State. In 2007, the Bay Area outperformed the State, and San Francisco outperformed the Bay Area, with average year to year gains of over 5 percent per quarter.

Fiscal Year	Calendar Quarter	9 County		
		San Francisco	Bay Area	California
FY 2007-08	4 th Quarter 2007	+5.2%	+1.5%	0.0%
	3 rd Quarter 2007	+5.1%	+1.1%	-2.8%
FY 2006-07	2 nd Quarter 2007	+5.2%	+2.6%	+0.7%
	1 st Quarter 2007	+12.5%	+4.8%	+2.7%
	4 th Quarter 2006	+3.0%	+1.6%	-0.1%
	3 rd Quarter 2006	-0.5%	+0.1%	+0.9%
FY 2005-06	2 nd Quarter 2006	+7.5%	+5.9%	+5.5%
	1 st Quarter 2006	+1.7%	+5.8%	+5.9%
	4 th Quarter 2005*	+7.60%, 3.8%	+5.10%, 0.8%	+6.14%, 1.9%
	3 rd Quarter 2005*	+18.9%, 3.7%	+17.0%, 5.2%	+16.0%, n/a%
FY 2004-05	2 nd Quarter 2005**	+6.4%; -0.2%	6.7%, n/a	+9.3%, -2.2%
	1 st Quarter 2005*	+5.1%; -0.6%	2.4%	4.9%
	4 th Quarter 2004*	+6.3%; +1.6%	7.7%	11.4%
	3 rd Quarter 2004	+0.8%	1.7%	4.9%
FY 2003-04	2 nd Quarter 2004	+8.4%	6.6%	7.7%
	1 st Quarter 2004*	+8.2%; +3.0%	8.0%	10.2%
	4 th Quarter 2003*	+2.7%; -0.8%	2.8%	4.2%
	3 rd Quarter 2003	-1.6%	-1.4%	2.5%
FY 2002-03	2 nd Quarter 2003	-3.3%	-2.3%	5.0%
	1 st Quarter 2003	-2.0%	-3.0%	4.6%
	4 th Quarter 2002	-1.7%	-4.4%	0.8%
	3 rd Quarter 2002	-5.0%	-3.1%	3.1%
FY 2001-02	2 nd Quarter 2002	-9.7%	-8.4%	-1.3%
	1 st Quarter 2002	-17.8%	-12.7%	-3.7%
	4 th Quarter 2001	-17.0%	-13.5%	-2.0%
	3 rd Quarter 2001	-20.3%	-11.5%	-1.2%
FY 2000-01	2 nd Quarter 2001	-8.7%	-5.0%	0.0%

Notes: * Reflects SF growth adjusted for material prior quarter re-allocations from CA BOE.

First % reflects change in cash receipts; second % is estimated underlying sales activity.

** Reflects SF growth adjusted for material prior quarter re-allocations and Tax Amnesty.

2nd Quarter 2005 up significantly due to a one-time, statewide tax amnesty program.

Source: MuniServices.

Sensitivities

Sales tax is a dynamic revenue source that responds quickly to changing economic conditions. Sales tax revenue grows with inflation and generally expands through business retention and development. Sales tax revenue in San Francisco is impacted by employment, tourism, business travel, consumer confidence, and inflation. More recently with the voter passage of Proposition 57, local Sales Tax revenues have also been impacted by State revenue shifts.

Compared to the State average, San Francisco's sales tax base is more dependent on general retail spending, which tends to be volatile in downturns. The percentage of Sales Tax derived from food products (including restaurants and convention food services) is nearly double the state average, and is affected by food and wage costs. The percentage derived from transportation (including sales of vehicles and fuel) in San Francisco is less than half the State average, and has recently been influenced by the rising cost of fuel.

Related & Other Revenue Impact

In addition to the 1.00 percent local sales tax discussed above and allocated to the City's General Fund, San Francisco also benefits from other components of the Sales & Use Tax, including:

- the State's Public Safety Fund (i.e. Prop 172),
- the State's Local Revenue Fund (Health & Welfare Realignment),
- the Local Transportation Tax (e.g. TDA, Muni),
- the Special District-San Francisco County Transportation Authority (e.g. MTC, Muni through Proposition B),
- the Special District-BART (a portion goes to Muni), and
- the Special District-San Francisco Public Financing Authority (Community College & School District).