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**CITY OF SACRAMENTO  
CALIFORNIA**

March 14, 1991

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Law and Legislation Committee  
Sacramento, California

**SUBJECT: SB 29 (Boatwright), SB 1X (Boatwright),  
SB 2X (Boatwright), and SB 5X (Deddeh) Relating to  
Elimination of Sales and Use Tax Exemptions**

Honorable Members in Session:

**SUMMARY**

This report recommends that the Law and Legislation support SB 29 (Boatwright), SB 1X (Boatwright), SB 2X (Boatwright), and SB 5X (Deddeh), all of which would eliminate various exemptions from the sales and use tax.

**BACKGROUND**

The City's Legislative Advocate, Ken Emanuels, previously described to the Law and Legislation Committee proposed state legislation which would eliminate various exemptions from the sales and use tax. The end of these exemptions would result in additional sales tax revenue to the City of Sacramento. At the time the Committee first discussed these proposals, bills were not yet in print. The bills are now in print as SB 29, SB 1X, SB 2X, and SB 5X.

The attached memorandum prepared by the Director of Finance describes the exemptions to be eliminated and the potential fiscal impacts on the City of Sacramento.

The Director of Finance recommends support for all of these bills. She considers their provisions of great importance to the City.

**SUBJECT: SB 29 (Boatwright), SB 1X (Boatwright),  
SB 2X (Boatwright), and SB 5X (Deddeh)  
Relating to elimination of Sales and  
Use Tax Exemptions**

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**FINANCIAL DATA**

The enactment of the bills eliminating sales and use tax exemptions would result in increased revenues to the City of Sacramento as described in the Director of Finance's memorandum.

**POLICY CONSIDERATIONS**

Support for these bills is consistent with the City's adopted legislative policy to support legislation which will provide revenue growth consistent with the inflationary cost increases in municipal government services and provide reimbursement to the City for the loss of revenue due to State and Federal exemptions for local taxes and the creation of other exemptions.

**MBE/WBE**

Not applicable.

**RECOMMENDATION**

It is recommended that the Law and Legislation Committee support SB 29, SB 1X, SB 2X (all Boatwright) and SB 5X (Deddeh) which would eliminate various exemptions from the sales and use taxes.

Respectfully submitted,

SHARON SIEDORF CARDENAS, City Attorney



DIANE B. BALTER  
Deputy City Attorney

Contact Person to  
Answer Questions:

Betty Masuoka, Finance Director  
49-5736

Law and Legislation  
March 29, 1991  
All Districts



DEPARTMENT OF  
FINANCE

BETTY MASUOKA  
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**MEMORANDUM**

**TO:** SHARON CARDENAS, City Attorney  
KEN EMANUELS, Legislative Advocate

**FROM:** BETTY MASUOKA, Director of Finance

**RE:** Proposed Legislation Eliminating Various Sales Tax Exemptions

DIVISIONS:  
ACCOUNTING  
BUDGET  
FINANCIAL SYSTEMS  
REVENUE  
RISK MANAGEMENT

The current legislative session has so far produced four bills which you have sent to the Department of Finance for comment. Due to the similarity of the bills, they will be analyzed together.

**RECOMMENDATION:** Given the dire fiscal condition being faced by state and local governments the city Department of Finance recommends support for these bills. The industries whose exemptions are being proposed for elimination do not appear to be emerging or at risk industries which warrant substantial tax advantages for purely economic development justifications.

**EXISTING SALES TAX LAW** imposes a tax on the sale or transfer of tangible personal property. The state sales tax rate is 4.75% and generally the local sales tax rate is 1.25%. In the county of Sacramento the local sales tax rate is 1.50% -- 0.25% is allocated to SACOG for transit support and the additional 0.25% allocated to the Transportation Authority as approved by local voters (Measure A).

There are a number of items which have been exempted from sales taxes for a variety of reasons such as to provide tax incentives to locate in the state, to make certain services more competitive, etc.

**THESE BILLS** remove the exemptions from various products which will subject them to sales tax. The specific exemptions being proposed are discussed below.

FISCAL IMPACT has not been specifically estimated for the City of Sacramento due to the unavailability of sales data of the various products under question. The City of Sacramento estimate is equal to 1% of the statewide local impact based on the loose correlation of our population base as compared to the statewide population base.

It should be noted that to the extent that the City of Sacramento is a purchaser of any of the subject items, our costs will increase. For example, the City Library spends approximately \$500,000 per year on newspapers and periodicals. A 6.5% tax would result in an additional cost of \$32,500.

On a statewide basis, it is estimated that 80% of the local sales taxes will go to cities and 20% to the counties. The County Supervisors Association of California (CSAC) position is that this new revenue to cities mitigates the impact of the property tax and booking fees and therefore the need to repeal SB 2557 is eliminated. City staff disagrees with this conclusion. (The CSAC article - attached - did not acknowledge that counties could use their share of the proposed tax revenues to reduce their new dependence on city fees.)

SB 1X (amended 1/22/91) Boatwright

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u>	<u>Sac City (1%)</u>
			<u>(\$ in Millions)</u>
- lease of motion pictures, including television, films, and tapes;	12-27	3-7	.02-.06
- the design, lease or sale of custom computer programs;	64	17	.14
- the sale, storage or use of catalogs, letters, circulars, brochures, and pamphlets consisting substantially of printed sales messages;	11	3	.02
- The sale, use or storage of aircraft sold or leased for use as common carriers or to foreign governments for use outside the state;	unk	unk	--
- the sale, use or storage of property sold to an aircraft manufacturer to be used in aircraft cited above;	unk	unk	--

CONTINUED  
SB 1X (amended 1/22/91) Boatwright

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u>	<u>Sac City (1%) (\$ in millions)</u>
- the sale, use or storage of watercraft or components thereof, that is sold or leased for use in interstate or foreign commerce, in commercial deep sea fishing;	472	124	1.0
- the sale of tangible personal property to a common carrier;	unk	unk	--
- the sale of fuel to a water, air, or rail common carrier for immediate shipment outside the state;	112	30	.24
- the sale of reusable cargo shipping containers;	unk	unk	--
- eliminate exemption from the 2-cent per gallon excise tax on jet fuel for common carriers;	63	--	--
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<b>Total Fiscal Effect:</b>	734-749	176-180	1.4

**Effective Date:**

This is an urgency measure, however, the provisions would become operative on the first day of the calendar quarter commencing more than 90 days after the effective date.

**Support**

City of Concord  
 City of Orinda  
 League of California Cities

**Opposition**

(No specific opposition identified, but presumably affected industries would oppose.)

SB 2X - Boatwright (as introduced)

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u> (\$ in millions)	<u>Sac</u> <u>City (1%)</u>
- candy and confectionery items	100	26	0.21
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<b>Total Fiscal Effect:</b>	100	26	0.21

**Effective Date:**

This is an urgency measure, however, the provisions would become operative on the first day of the calendar quarter commencing more than 90 days after the effective date.

NOTE: The general food product exemption is not affected by this proposal.

**Support**

City of Concord  
City of Orinda

**Opposition**

Girl Scout Council  
Boy Scouts of America  
Boys and Girls Clubs  
Girls, INC  
Camp Fire Boys and girls  
California Taxpayers' Assoc

SB 5X - Deddeh (as introduced)

<u>Proposed Exemptions to be eliminated</u>	<u>State</u>	<u>Local</u> (\$ in millions)	<u>Sac</u> <u>City (1%)</u>
- redefines exempted food products to exclude candy and confectionery, and snack foods;	200	52	0.42
- medicated chewing gum;	unk	unk	--
- newspapers;	49	13	0.10
- periodicals;	34	9	0.07
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<b>Total Fiscal Effect:</b>	283	74	0.59

**Effective Date:**

This is an urgency measure, however, the provisions would become operative on April 1, 1991.

CONTINUED  
SB 5X - Deddeh (as introduced)

**Support**


State Department of Finance  
League of CA Cities

**Oppose**

California Taxpayers Assoc  
Girl Scouts of America  
Boy Scouts of America  
Camp Fire Boys and Girls  
Alan Pacela (Quest Publ)  
Western Candy Conference  
Frito-Lay, Inc  
Mission Foods  
Copley Press, Inc  
CA Chamber of Commerce  
CA Newspaper Publishers Assoc

SB 29 - Boatwright (amended 1/18/91)

- Same as SB 1X -

  
BETTY MASUOKA  
Director of Finance

cc: Walter J. Slipe  
Jack Crist