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Assembly
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TOM DALY
ASSEMBLYMEMBER, SIXTY-NINTH DISTRICT

COMMITTEES
CHAIR: INSURANCE
TRANSPORTATION
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VETERANS AFFAIRS

March 3, 2017

Assemblymember Al Muratsuchi
Chair, Joint Legislative Audit Committee
State Capitol Building, Room 2179
Sacramento, California 94249

Dear Chairman Muratsuchi:

We respectfully request that the Joint Legislative Audit Committee approve an audit of the Board of Equalization's assessment and distribution of the Local Transportation Fund (LTF) sales and use tax imposed under the Bradley-Burns Uniform Sales and Use Tax Law. The LTF was originally instituted as part of the Transportation Development Act in 1971, directing revenues from 0.25 cent sales and use tax primarily for public transportation purposes. Each County Board of Supervisors was required to create the fund for their respective county (most counties did in 1972).

The revenues for the LTF are allocated to each county based on the amount of sales that occur in each county. Traditionally, LTF receipts have kept pace with sales tax revenues from other local transportation sales taxes (transactions and use tax, also known as district taxes) for transportation purposes. However, since 2013, those growth rates have not been consistent.

This has dramatically impacted the ability to provide consistent transit services in various parts of the State. These trends have been specifically observed in Orange and San Diego Counties.

This audit would provide information about the assessment and distribution of the LTF, including how various exemptions and exclusions may be impacting the distribution of the funds. Specifically, with the imposition of the internet sales tax in 2012, it appears that differences in how those taxes are sourced have shifted the point-of-sale for many purchases, impacting the LTF availability in various counties, although actual sales have not changed. In addition, trends are pointing to increased investment in non-taxable goods, further impacting the availability of revenues from sales taxes.

This audit would also help analyze the future trends for the LTF, and how various exemptions, exclusions and sales tax trends are impacting available transit funding

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throughout the state. With increased emphasis on developing transit to meet climate change goals and more demand for frequent transit service as land use changes, it is imperative that a more stable, secure source of revenues for transit operations is provided for transit agencies statewide.

To address these issues, this audit should seek to answer the following:

- Please describe the laws associated with the collection and distribution of the Bradley-Burns 0.25 cent Local Transportation Fund (LTF).
- Please describe the laws associated with the collection, assessment and distribution of internet-based sales, including those assessed under the Bradley-Burns 0.25 cent LTF sales tax.
- What are the exceptions and exclusions to the Bradley-Burns 0.25 cent LTF rule that the tax is assessed at the countywide place of sale or use? Have any of these exceptions or exclusions significantly impacted LTF revenues in specific areas of the state? Which areas? Is this impacting the original legislative intent of the LTF?
- How is the Bradley-Burns LTF sales tax assessed on internet sales? Do the rules differ between in-state and out-of-state sales? How do California assessment rules compare to those in other states?
- Have increased internet sales benefitted certain areas of the state more than other? Which areas are most impacted by this trend? Why? Is it due to the location of warehouse distribution centers, which serve as the point of sale for internet purchases?
- How does the assessment of internet sales tax under the Bradley-Burns LTF compare to other sales taxes within the state? What controls are in place to ensure the collection of internet sales taxes?
- What impact on the funding of transit service, as the primary recipient of funding from the Bradley-Burns LTF revenues, can be expected if internet sales increase within the state?
- Are there other issues impacting the availability of transit funding from the Bradley-Burns LTF beyond increased internet sales?

- What are the projected future trends for internet sales versus sales at retail locations? What are the trends projected for taxable goods and services versus non-taxable goods and services?
- Are there statutory changes that can be made to address the changing distribution of LTF, including exploring the "point of sale" for internet sales to be sourced to the destination of the purchaser?

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in blue ink that reads "Tom Daly". The signature is written in a cursive style with a horizontal line underneath it.

Assemblymember Tom Daly, AD 69

A handwritten signature in blue ink that reads "Todd Gloria". The signature is written in a cursive style with a horizontal line underneath it.

Assemblymember Todd Gloria, AD 78