

South Bay Cities Council of Governments
General Assembly
February, 2016

*Practical Local Lessons and
Opportunities with New Technologies*

Tom Bakaly, City Manager
Hermosa Beach

New Technologies

The Innovator's Dilemma

Sustaining:

Well Known Technologies

Successive Improvements

Disruptive:

Still Lack Refinement

Known to a Limited Public

Might Not Have Proven Application

Does Change, Shared or New = Disruptive?



Shared Economy

April Rinne – Sharing Economy Guide

Shared Economy: Why?

Economics

Environment

Community

Convenience

Do's

Put City @ Center

Get Educated

Citizen Advisory Board

Don'ts

Flat-Out Ban

Consumer Protection

Assume it is Temporary

3 Key Issues for Local Jurisdictions

State Sales Tax Needs Restructuring

Local Sales Tax and Fees Needs Restructuring

Local Jurisdictions Need To Understand:

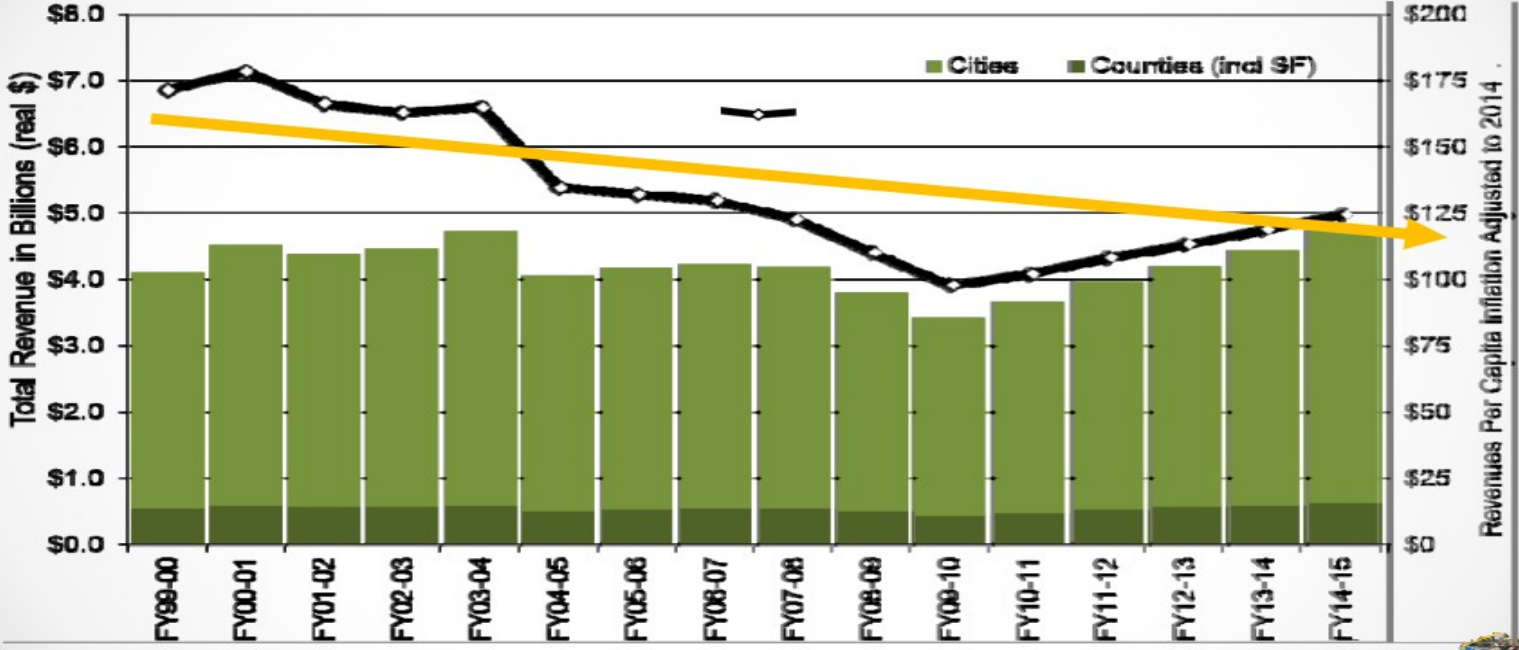
New Economy Impacts

Solutions & Options

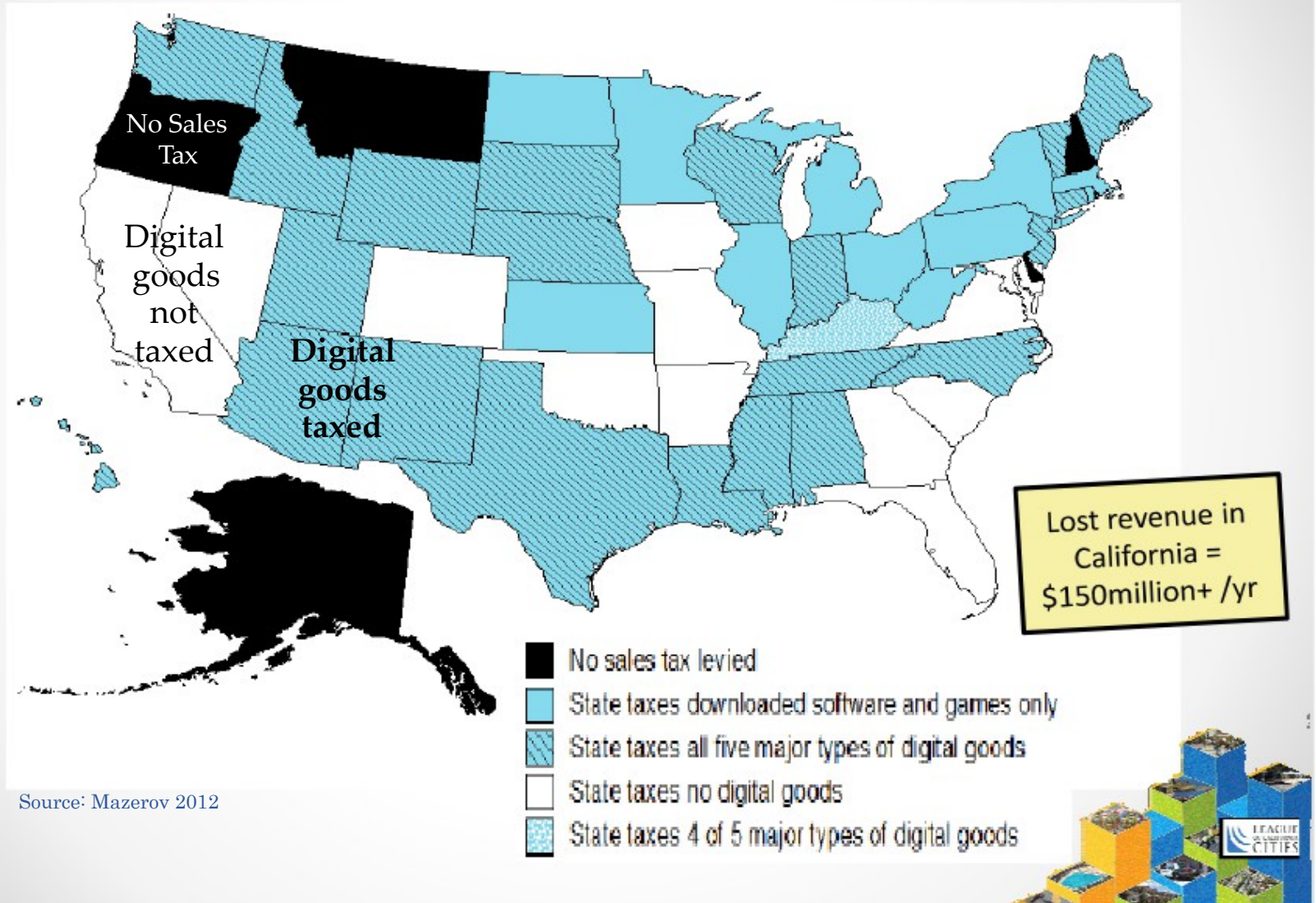
Shift from a Centralized, Regulatory Mindset

Power of Engaging the Citizens

California Sales Tax Landscape



Taxation of Digital Sales in the States (2012)



Lost Revenue to California From Not Applying the Sales Tax to ...

	\$millions/yr	State 7.5%	Local 1%
Digital goods (books, music, games, movies and software)		\$ 130	\$ 18
Recreation and entertainment: professional sports, amusement parks, cultural events, circus / fairs, bowling alleys, video, billiards, marina services, health clubs, private club memberships.		\$ 1,920	\$ 256
Maintenance and repair: carpet and upholstery cleaning; extermination; landscaping/yard care; swimming pool maintenance / cleaning; building repair/remodeling, automobile repair; appliance repair/installation; garment/ shoe repair/alteration, laundry/dry cleaning.		\$ 2,585	\$ 345
Candy, snacks, bottled water exemption –eliminate		\$ 1,160	\$ 155
Custom computer program exemption – eliminate		\$ 375	\$ 50



Reality Check



"These figures are very upsetting. Don't you have something a little less accurate?"

“Situs Matters”

Where Does the Sale Take Place in Remote Sales?

What is the location of the sales transaction (the situs)?

- Seller’s location? Location of product receipt? Product location?
- California currently uses “origin sourcing,” the situs is the retailer’s place of business where negotiations take place.

Origin sourcing often => concentration of tax revenue

- far in excess of service costs at the office or warehouse location
- economic activity, service impacts also occur elsewhere (i.e., where product is used)



Some Remedies for Our Sales Tax Sickness

1. Apply sales and use tax to

- digital goods
- recreation/entertainment
- maintenance & repair
- candy, snack, bottled water
- custom computer programs

→ *Option*: Offset tax broadening with rate reduction or personal income tax credit or deduction

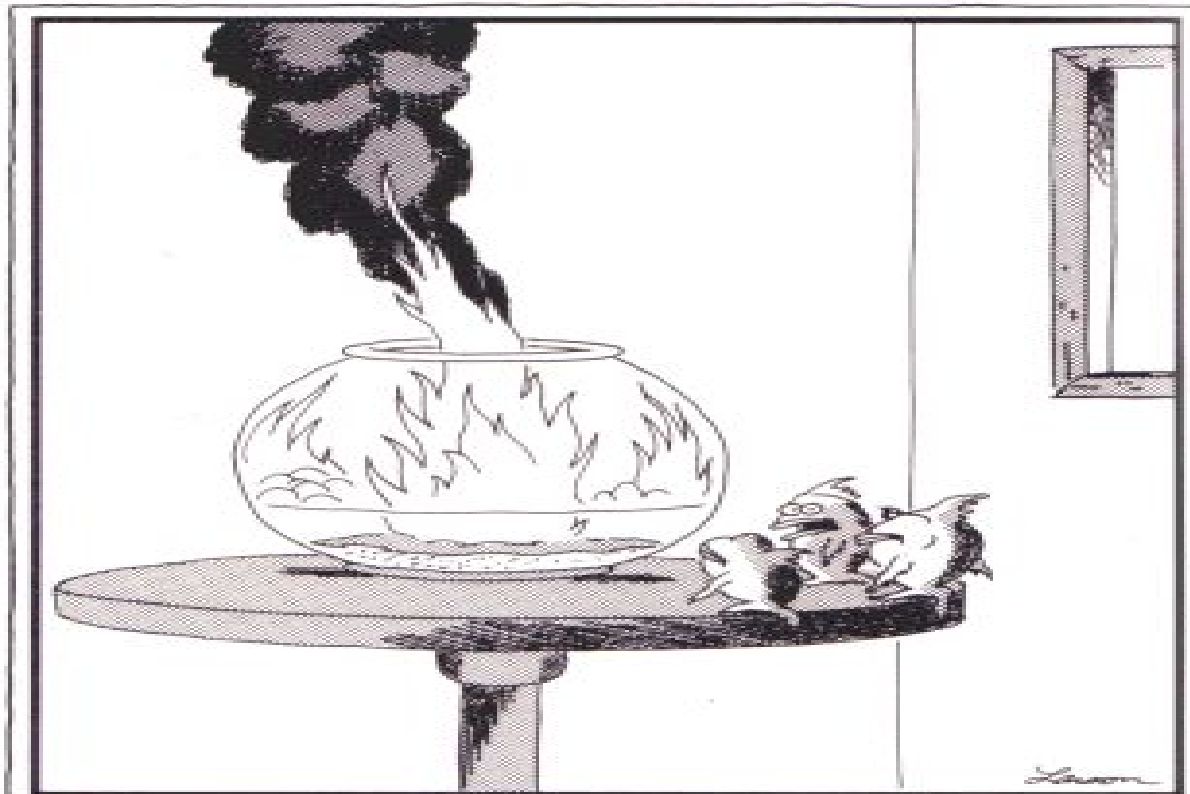
2. Eliminate or strictly limit **new rebate agreements SB 533**

3. **Redefine sourcing rules to destination (receipt) \$1B - GF**

4. Reduce the county pools, send **use tax pool** revenues to jurisdiction of destination (receipt)



California Sales Tax Landscape



"Well, thank God we all made it out in time. ... "Course, now we're equally screwed."

California Sales Tax Landscape

Local Perspective

Admirable Efforts – Need to Pursue Short Term

Beware of Unintended Consequences

No “Magic Bullet”

Redistribution can be ugly

Changing the Rules Mid-Game

Winners/Losers when Rules Change

Also Time for a Mindset Change

Learn Lessons from others

Incremental steps to reach long-term goal

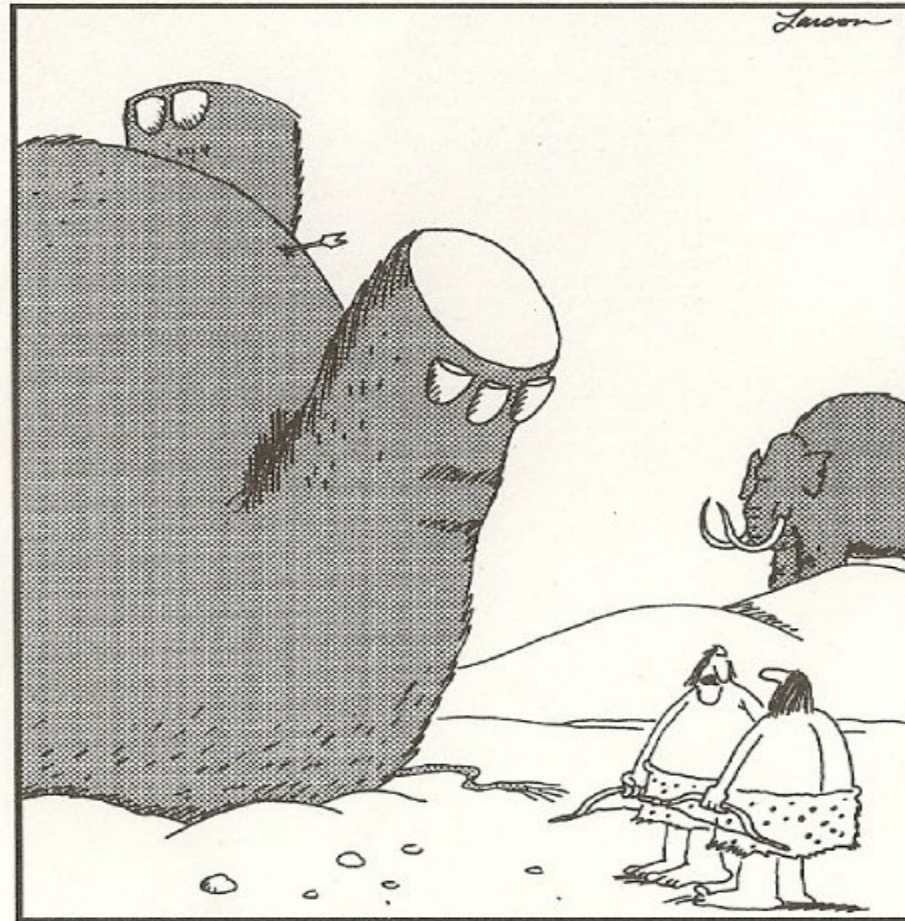


Hermosa Beach Practical Lessons

Top 5 Sales Tax Producers

- 1) Lumber Company
- 2) Grocery Store
- 3) Internet Technology Company
- 4) Gas Station & Mini Mart
- 5) Pharmacy

Hermosa Beach Practical Lessons



“We should write that spot down.”

Hermosa Beach Practical Lessons

New Technologies

UBER

Short-Term Vacation Rentals

Undersea Fiber Optic Cable Expansion

Renewable Energy Opportunities

Hermosa Beach Practical Lessons

UBER

Airport Ride – Nicer Car, Cheaper Fare, Arrive Faster

\$175,000 Franchise Fees for Taxi – Restricted Uber Access

Pro Taxi “Playing Field Leveling” Legislation – Sacramento 2016

Regional Collaboration

Reciprocity for ADA Vehicles

Orange County Taxi Administration Program

Lessons Learned(ing):

Alternate Fee Structure Needed, Revenue Decrease?

Balance fee/revenue with expense of impacts

Hermosa Beach Practical Lessons

Short-Term Vacation Rentals

Residential Zones Limited to Residential Uses

210 Short-Term Vacation Rentals are on AirBnB

Administrative fine of \$100, not Criminal

Hermosa has a Goal to be More Family Friendly

AirBnB may be a Cheaper Option for Multiple Rooms

Coastal Commission wants more Lodging Access

Quality of Life of full-time residents impacted

Lessons Learned(ing):

Community Decision Tool – Values & Trade-Offs

Engage Citizens to Collaborate & Achieve Balance

Match or Limit Impacts with Revenues Received

Hermosa Beach Practical Lessons

Undersea Fiber Optic Cable

First Landing 2001 - \$1.9M & \$300K per year

Some Residents hardly noticed construction

Second Landing 2017 - \$2.1M & up to \$300K

Limited Construction Impacts

Active Citizen Group Urged City to do more

Hermosa known as place to do cable business

Lessons Learned

Use what is unique to you

Match Revenues with Impacts - Coastal

Hermosa Beach Practical Lessons

Renewable Electricity

Community Choice Aggregation

COG/County Program

Solar Innovations – Partnership with Schools

Economic Development Opportunities

Tool For Assessing Return on Investment

Lessons Learned(ing):

Keep Decisions about Renewables Local

Understand Trade-offs

Take-a-ways and What's Next?

Practical Steps – Collaborate Regionally, Initiate Locally

Mind Set – Change is Inevitable – Resist or Embrace?

What Business are we in?

What are we good at?

What will Citizens Tolerate? Let's Engage Trade-off Discussions

Are we going to Regulate New Technology or Help Shape It?

Are we going to encourage digital companies?

Are we using old centralized tools in a new decentralized age

Match Revenues with Impacts and be willing to Change

Be Willing to be a Test or Pilot

Stay Nimble in your General Plan (If Possible)