SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

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Author:	Hurtado	**Tax Levy:**	No
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Consultant:	Grinnell		

BRADLEY-BURNS UNIFORM LOCAL SALES AND USE TAX LAW

Prohibits a person from paying compensation to a consultant with respect to a tax sharing agreement that exceeds either 5% of total revenues or $250,000.

Background

Sales and use tax. State law imposes the sales tax on every retailer "engaged in business in this state" that sells tangible personal property, requiring them to register with the California Department of Fee & Tax Administration (CDTFA) and remit the taxes collected from purchasers to CDTFA. Sales tax applies whenever there is a retail sale. The current sales and use tax rate is 7.25%, as noted in the table below. Additionally, cities, counties, and specified special districts may increase the sales and use tax rate that applies in its jurisdiction, also known as district, or transactions and use, taxes.

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes
1.0625%	Local Revenue Fund (2011 Realignment)	Local governments to fund local public safety services
0.50%	State (1991 Realignment)	Local governments to fund health and welfare programs
0.50%	State (Proposition 172 - 1993)	Local governments to fund public safety services
1.25%	Local (City/County) 1.00% City and County 0.25% County	City and county general operations. (Bradley-Burns) Dedicated to county transportation purposes
7.25%	**Total Statewide Rate**	

CDTFA collects sales taxes from retailers, deposits the state share in the General Fund, and then allocates the local share of the Bradley-Burns sales tax and any district tax to the appropriate jurisdiction. Unless the purchaser pays the sales tax to the retailer, they are liable for the use tax, which the law imposes on any person consuming tangible personal property in the state. The use tax is assessed at the same rate as the sales tax and must be remitted on or before the last day of the month following the quarterly period in which the purchase was made.

The Bradley-Burns Uniform Sales Tax Act allows all local agencies to apply their own sales and use tax on the same base of tangible personal property. This tax rate is currently fixed at 1.25% of the sales price of tangible personal property sold at retail in the local jurisdiction or purchased outside the jurisdiction for use within the jurisdiction. Cities and counties use this 1% tax to support general operations, while the remaining 0.25% is used for county transportation purposes. In California, all cities and counties impose Bradley-Burns local taxes.

Bradley-Burns law specifies the "place of sale" for purposes of the local sales tax. Bradley-Burns sales taxes are allocated to the place of business of the retailer, unless the property sold is delivered by the retailer, or his or her agent, to an out-of-state destination or to a common carrier for delivery to an out-of-state destination, in which case no tax is collected. CDTFA must consider specific characteristics of the retailer to correctly determine the "place of sale," and therefore correctly allocate the local share of Bradley-Burns sales tax:

- For a retailer that has *one location in the state*, that location is determined to be the place of sale for all of its sales. CDTFA does so even if title to sold property passed from seller to buyer outside of the jurisdiction of the seller, or if the property never entered the jurisdiction of the seller. For example, CDTFA would determine that all local taxes attributable to a furniture store in the City of Sacramento would be sourced to that city, regardless of where the store delivered furniture to the buyer.
- For a retailer that has *more than one location in the state*, CDTFA determines the location based on the location where principal negotiations occurred. In the above example, if a retailer has more than one location, CDTFA considers the place of business the location where the retailer takes the order, regardless of whether they subsequently forward it to another location for delivery. For example, if a resident of the City of Davis called a furniture store in Sacramento to order a lamp, which the store shipped to Davis from its Vacaville location, CDTFA would consider Sacramento the place of business for purposes of allocating the local tax.
- For a retailer that has *no location in the state, but has a stock of property in the state from which it fills orders*, CDTFA considers the place of sale as the location from which the property is shipped. If a resident of the City of Davis ordered a lamp from an internet retailer that did not have a retail location in the state but filled the order from its Vacaville warehouse, CDTFA would consider Vacaville the place of sale.

Kickback agreements. Allocating Bradley-Burns sales taxes at the place of sale leads to competition among cities and counties to attract land uses that generate local revenues. While the Legislature has limited local agencies in some ways, the current system gives large retailers a powerful negotiating tool. Some local agencies have entered into agreements, known as sales tax "kickbacks," where the retailer agrees to source all its statewide or regionwide sales into one California office or distribution center within the local agency's borders, resulting in potentially significant increases in that local agency's Bradley-Burns sales tax revenues. The city then returns, or "kicks back," some share of the sales tax revenues to the retailer that would have flowed to other local agencies but for the agreement. Generally, the retailer then agrees to specified economic development outcomes, such as tangible investment, maintenance of employment levels, and payment of specified wages, in exchange for the sales tax kickback.

For example, imagine a manufacturer with production and sales offices located throughout the state. This manufacturer could decide to restructure by consolidating all statewide sales into one California office. This sales office, as the place of principal negotiation, could then serve as the

retailer's "place of sale" for Bradley-Burns purposes on all California sales, or sales to residents located in a particular region. Before deciding where to locate its one sales office, the manufacturer could negotiate with several cities to see which is willing to rebate the largest percentage of any new Bradley-Burns revenues.

These agreements vary in terms of (1) the level of rebate, (2) how long the retailer receives the benefit, (3) the types of jobs or services the retailer must provide in return, and (4) how long the retailer must promise to stay in the jurisdiction. Some agreements offer over half of the Bradley-Burns revenue generated by the facility, for periods of time ranging from one year to 30 years.

Both the California State Auditor and the Legislative Analyst's Office (LAO) have issued reports questioning the statewide benefits of economic development incentives local agencies offer to retailers for locating in their jurisdiction.[1] In recent years, Bradley-Burns tax sharing agreements have come under renewed scrutiny. Many cities have reportedly offered large companies more than half of their new revenues in such negotiations in hopes of attracting jobs and economic development to their regions.

According to an article published in *Bloomberg Tax*:

> "Bloomberg Tax investigations into some of the agreements found that Apple has received $107.7 million from its hometown Cupertino, eBay Inc. has received more than $97 million from its home base of San Jose, Walmart.com has received more than $15 million from San Bruno tied to an e-commerce office, Best Buy Co. Inc. has received $49.3 million from Dinuba tied to a warehouse, and Williams-Sonoma Inc. has received $58.7 million from Shafter tied to a call center."[2]

Critics contend that the biggest losers are the many local agencies throughout California that previously received Bradley-Burns taxes from the retailer's sales. In recent years, the Legislature has considered, but not enacted, the following measures:

- SCA 20 (Glazer, 2018): Would have amended the California Constitution's current prohibition on the Legislature's ability to reallocate Bradley-Burns sales tax revenues to provide that the retail sale of tangible personal property transacted online is consummated at the point of delivery. The bill died on the Senate Appropriations Committee's Suspense File.
- SB 531 (Glazer, 2019): Would have prohibited a local agency from entering into any agreement that results in a rebate of Bradley-Burns local tax revenues to a retailer in exchange for that retailer locating within that agency's jurisdiction. Governor Newsom vetoed the bill.
- SB 792 (Glazer, 2022): Would have required specified retailers to include with their sales tax returns a schedule that reports the gross receipts from sales of property for each local jurisdiction where it was shipped or delivered to a purchaser in that jurisdiction. Governor Newsom vetoed the bill.
- SB 1494 (Glazer, 2024): Would have prohibited a local agency from entering into, renewing, or extending sales and use tax rebate agreements with retailers in exchange for

[1] https://information.auditor.ca.gov/pdfs/reports/2017-106.pdf and https://lao.ca.gov/Publications/Detail/1540
[2] Laura Mahoney, "*California Cities Agree to Rein in Apple-Like Tax Windfalls*." Bloomberg Tax Report, August 17, 2023.

locating in their jurisdiction, and void agreements entered into before that date on January 1, 2030. The bill died on the Senate Floor.

AB 2854 (Irwin). On November 15, 2023, the Assembly Revenue & Taxation Committee held an informational hearing on the topic of Bradley-Burns revenues and the impacts of rebate agreements. The hearing featured presentations from CDTFA, LAO, and Michael Colantuono, a distinguished attorney who has represented local agencies on related matters. Additionally, the hearing featured a panel of municipal leaders from Fresno, Simi Valley, and Placentia, as well as public comment from representatives of various other California cities.

Following the hearing, the Legislature enacted AB 2854 (Irwin, 2024), which required local agencies to publish specified information on tax sharing agreements and provide it to CDTFA. AB 2854 sought to generate additional public information about agreements between local agencies and retailers to refund Bradley-Burns sales taxes. Under AB 2854, local agencies must send agreements to CDTFA or pay a penalty by April 30, 2025, and each April 30th thereafter. The bill also directed CDTFA to publish the agreements on its website, which can be found here: https://cdtfa.ca.gov/dataportal/dataset.htm?url=RevenueTaxSharingAgreementReportedByJurisdictions

Consultant compensation. One aspect of the controversy behind these tax-sharing agreements is the compensation that consultants receive for helping broker the agreement between the city and the retailer. *Bloomberg Tax* published a series of articles looking at the details of these agreements. For example, in the City of Dinuba's deal with Best Buy:

> "…the city keeps 40% of annual tax proceeds, Best Buy gets half and the tax lawyer who brokered the agreement and several others around the state, Robert E. Cendejas, gets the remaining 10%...Best Buy isn't required to do anything for its money; the only expectation is that it retain at least 285 jobs at the warehouse. Since 2016, Dinuba's total sales tax revenue has increased from $4.9 million a year to a peak of $30.8 million in 2020, with most of that increase coming from Best Buy as e-commerce took off during the Covid pandemic."

Cendejas brokered many similar agreements in jurisdictions across the state.[3] The compensation paid to Cendejas was the subject of an ethics investigation by the Fair Political Practices Commission (FPPC). Despite earning over $8 million from the Dinuba deal, FPPC did not find sufficient evidence of any wrongdoing.

The City of Shafter wants to limit the compensation that outside consultants can receive from tax sharing agreements

Proposed Law

Senate Bill 1172 prohibits a person from paying compensation to a consultant with respect to a tax sharing agreement that exceeds either 5% of total revenues or $250,000. SB 1172 also provides that a consultant cannot receive compensation more than three years after the effective date or completion of the project phase that directly benefits from the agreement, whichever occurs first. The measure does not apply to local agency staff directly employed by a

[3] Laura Mahoney, "*Lawyer Reaping Millions Over Decades as a Cut of Tax Incentives*," Bloomberg Tax Report, May 8, 2019.

jurisdiction executing the agreement, or technical consultants providing non-compensated advisory services.

The bill applies to tax sharing agreements entered into on or after January 1, 2027, defines several terms, and applies its provisions to charter cities.

State Revenue Impact

No estimate.

Comments

1. Purpose of the bill. According to the author, "SB 1172 is about protecting the integrity of taxpayer dollars and ensuring they are used for their intended purpose, investing back into communities. Local tax-sharing agreements can play an important role in attracting business, but when those agreements lack clear guardrails, they can unintentionally divert public funds away from essential services. In some cases, consultant compensation is tied directly to the amount of tax revenue rebated, creating incentives that prioritize larger or longer revenue diversions rather than sustainable, community-focused outcomes. This is especially significant for small and rural communities, where limited tax bases mean fewer resources for public safety, infrastructure, and long-term economic stability. Without transparency and accountability, these communities are at greater risk of losing critical funding with little visibility into how decisions are made."

2. What's the problem? According to a brief filed by CDTFA and several cities, the City of Shafter entered into a tax sharing agreement with Cooperative Sourcing LLC in 2008 for a term of 20 years, subsequently extended to December 31, 2036.[4] Under the agreement, the City pays Cooperative Sourcing 75% of the tax attributable to the agreement. Cooperative Sourcing sends 50% of that amount to William Sonoma Inc. and its subsidiaries in exchange for setting up its sales office for all California sales in Shafter. Pursuant to a separate agreement entered into in 2002, Shafter agreed to send 5% of the net sales amount from any business that designates Shafter as its taxable point of sale to Robert Cendejas, which the City increased to 20% in 2005; however, this agreement ended after 2023. In total, 50% of revenue went to William Sonoma, 25% to Cooperative Sourcing, and 5% to Cendejas. Shafter entered into these agreements voluntarily with the goal of furthering the City's economic development; if it wants to pay consultants less, it is free to do so when negotiating future agreements. With that said, SB 1172 hopefully ensures that broker/consultants do not excessively enrich themselves under agreements that can endure for years if not decades.

3. Public loss, private gain. Tax-sharing agreements divert public tax dollars to private entities; in their absence, those tax dollars flow to other local agencies to support public services. In agreements that provide compensation to the broker/consultant, one individual can make millions of dollars from a single agreement. Those resources could have gone towards hiring more firefighters, expanding services to individuals experiencing homelessness, or other public services. These agreements have been scrutinized by LAO, the State Auditor, and even the New York Times,[5] but no reform effort beyond AB 2854's disclosure requirements has yet been enacted. While SB 1172 would limit consultant compensation, it does not affect the ability of

[4] https://aboutblaw.com/Z0W
[5] New York Times Editorial Board, "A Very Modern Waste of Money," May 2, 2019. https://www.nytimes.com/2019/05/02/opinion/california-sales-tax.html

specific local agencies to funnel limitless shares of otherwise public revenues to some of the world's largest retailers.

4. Only future contracts. SB 1172 only applies to agreements entered into after the bill's effective date of January 1, 2027. As a result, it would not affect compensation paid to consultants under existing agreements.

5. Double-referred. The Senate Rules Committee has ordered a double referral of SB 1172. The Committee on Local Government approved the bill by a vote of 6 to 0 on April 15th. The Committee on Revenue and Taxation is hearing the measure as the Committee of second reference.

6. Technical. To ensure clarity, committee staff recommends amending SB 1172 to strike the reference to "person," in subdivision (b) and instead use "local agency."

Support and Opposition (4/16/26)

Support: City of Shafter
League of California Cities

Opposition: None received.

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