SENATE THIRD READING
SB 1172 (Hurtado)
As Amended July 1, 2026
Majority vote

SUMMARY

Prohibits a local agency from paying certain amounts of compensation to a consultant with respect to tax sharing agreements, as specified.

Major Provisions

1) Defines the following terms:

    a) "Consultant" to mean a person or a business that provides services, including, but not limited to, legal, lobbying, or financial services, for facilitating, negotiating, and advising on a tax sharing agreement.

    b) "Local agency" to mean a city, county, city and county, or special district.

    c) "Tax sharing agreement" to mean any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax under the Bradley-Burns Uniform Sales Tax Law to any person for any purpose. "Tax sharing agreement" shall not include an agreement between a local agency and a consultant to identify and recover tax revenues that have been incorrectly allocated and distributed to another local agency."

2) Specifies that a local agency shall not pay compensation to a consultant with respect to a specific tax sharing agreement that exceeds the lower of the following:

    a) 5% of the total tax revenues shared pursuant to the tax sharing agreement.

    b) $250,000.

3) Provides that a consultant shall not receive compensation from proceeds of a tax sharing agreement more than three years after the effective date, or completion of the project phase that directly benefits from the agreement, whichever occurs first.

4) Specifies that this bill shall not apply to the following:

    a) Local agency staff directly employed by the jurisdiction executing the agreement.

    b) Technical consultants providing noncompensated advisory services.

5) Provides that this bill only applies to tax sharing agreements entered into on or after January 1, 2027.

COMMENTS

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%. 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.

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.

Bradley-Burns. 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 1% of this 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 as follows:

1) 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.

2) 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.

3) 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.

*Economic Development Incentives***.** Counties and cities engage in a wide variety of economic development activities to build their tax bases. Local officials can use various tactics to influence where, when, and how the private sector invests capital and improves real property, including:

1) Regulatory tools, including general plans, zoning, and subdivision standards.

2) Direct spending, including building public works projects like dams, water systems, sewers, levees, and roads, as well as grants and loans, and site preparation.

3) Tax policies, including lower rates on local taxes (such as sales taxes or property taxes) for selected taxpayers and tax abatements where officials return the revenues to the taxpayers.

Local officials sometimes use their economic development powers to induce businesses to relocate to their communities. State law bans cities and counties from subsidizing the relocation of big box retailers and auto malls within the same market area [SB 114 (Torlakson), Chapter 781, Statutes of 2003]. State law also prohibits a local agency from entering into an agreement that would result in the payment, transfer, diversion, or rebate of Bradley-Burns local tax proceeds to a retailer if the agreement results in a reduction of revenue that is received by another local agency when the retailer continues to maintain a physical presence and location within that other local agency [SB 533 (Pan), Chapter 717, Statutes of 2015].

Economic development incentives local agencies offer range 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. For example, the City of Fresno has recently entered into long-term agreements with Amazon, Nordstrom, and the Gap, and the City of Dinuba has done the same with Best Buy.

According to the Author
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."

"SB 1172 addresses this problem by establishing reasonable limits and transparency requirements that ensure public funds are protected and decisions are made in the open. The bill does not eliminate tax-sharing agreements, but it reinforces their purpose by aligning incentives with genuine economic development and requiring clear disclosure of how taxpayer dollars are used. By putting these safeguards in place, SB 1172 strengthens public trust and ensures that economic development tools support, rather than undermine, the long-term health of California's communities, particularly those that can least afford to lose scarce public resources."

Arguments in Support
According to the City of Shafter, the sponsors of this bill, "These tax-sharing agreements are arrangements under which a local agency agrees to rebate, refund, or otherwise share a portion of locally generated tax revenues with a private entity.

"Concerns have grown over the proliferation of local tax-sharing agreements. Some agreements involve excessive consultant compensation or rebate structures that divert revenues away from public purposes.

"This bill would establish guardrails on consultant compensation in local tax-sharing agreements. The City of Shafter believes that limiting the duration and amount of revenue-based payments would promote transparency and accountability, aligning incentives with genuine economic development. The compensation cap is to ensure that no more excess consultant fees are paid by local jurisdictions, nor are they to be paid for an overly lengthy period of time.

"Exempted from this bill are public agency staff members and any technical consultants who are not paid for their advisory services. This ensures that those individuals employed by the local agency, and who are acting in the public interest, can complete the necessary tasks for their local agency employer."

Arguments in Opposition
According to Neumo, opposed to a previous version of this bill, "Neumo appreciates the stated intent of SB 1172 to promote fairness, transparency, and public accountability in tax sharing agreements. Local tax sharing agreements that rebate, divert, or transfer future sales tax revenues as part of an economic development arrangement raise policy questions that the Legislature may appropriately examine. However, as currently drafted, SB 1172 is broader than that purpose. The bill defines "tax sharing agreement" to include any agreement that results, directly or indirectly, in the payment, transfer, diversion, or rebate of Bradley-Burns sales and use tax revenue to any person for any purpose. That definition could inadvertently sweep in ordinary agreements between local agencies and revenue consultants who help identify and recover tax revenues that were legally owed to one jurisdiction but mistakenly allocated to another.

"That work is fundamentally different from a tax sharing agreement. A tax sharing agreement typically involves a negotiated arrangement to share future tax proceeds. By contrast, misallocation and reallocation petition work is a corrective process used to ensure that existing sales and use tax revenues are allocated to the local agency legally entitled to receive them under California law. These agreements do not create a new incentive, rebate, diversion, or negotiated split of future revenue. They simply help local governments recover revenues that were incorrectly distributed."

FISCAL COMMENTS

None.

VOTES

SENATE FLOOR: 36-0-4
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Ochoa Bogh, Padilla, Pérez, Reyes, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Alvarado-Gil, Grove, Jones, Niello

ASM LOCAL GOVERNMENT: 10-0-0
YES: Carrillo, Ta, Alanis, Pacheco, Fong, Ransom, Blanca Rubio, Stefani, Ward, Wilson

ASM REVENUE AND TAXATION: 7-0-0
YES: Gipson, Sanchez, Carrillo, DeMaio, McKinnor, Quirk-Silva, Michelle Rodriguez

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