

Lower fuel prices cause havoc with tax revenue

John Lindt 11:02 p.m. PST January 28, 2015

(Photo: AP)

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Those lower gas and diesel prices we are enjoying are great for consumer pocketbooks, including the good people of Tulare. But in a city where 22 percent of all sales tax revenues come from fuel sales, a 40 percent to 50 percent drop in fuel prices is having an effect on the city of Tulare's budget.



Tulare finance chief Darlene Thompson reports the city sales tax increases this past year have been great — exceeding budget expectations by \$500,000 as of June 30, 2014.

But in a budget message to be delivered to the Tulare City Council on Jan. 30, Thompson says a 40 percent drop in fuel prices means the "city sales tax budget could be some \$650,000 lower" than estimated in the 2014-2015 city budget. That budget anticipated around \$14.2 million in sales tax revenue.

Motor City

Tulare is "Motor City" with a dependence on petroleum sales that is much bigger by percentage than many cities because it is a Highway 99 town with several truck stops and scores of gasoline vendors.

More than that, Tulare is also home base for seven trucking companies — such as Knight Transportation — with big fleets. Add to that the fact Tulare is a milk production capital of the United States with a gaggle of trucks filling up daily to both fetch and ship milk far and wide.

By contrast, right next door, the city of Visalia's gasoline sales make up about 10 percent of its sales tax revenues, says city Finance Director Eric Frost.

With \$27 million in its sales tax fund, almost double what Tulare has to support city services, Visalia expects a \$500,000 to \$600,00 hit from lower fuel prices — figuring it at a 50 percent decline in price says Frost. That's a big number but smaller by percentage than Tulare.

Gasoline is selling for \$2 a gallon today at one Tulare station compared to around \$4 last spring.

Trend is not your friend

But beyond gas, there are plenty of other reasons to worry about future sales tax says Frost, pointing to trends all California cities might want to heed.

This past week at the Visalia City Council retreat, Frost pointed out that the city enjoyed a "nice bump" in sales tax revenue after the recession — up around 8 percent annually.

"But now that has slowed to a 2 to 3 percent growth," he says.

In Visalia, sales tax represents 46 percent of the General Fund's revenues.

Since the recession, sales tax revenue to the city has improved. In 2007, before the recession, that figure was \$23.3

million.

Since the rebound, it has climbed to \$26.8 million as of 2014.

Visalia collects 67 percent more than its per capita share as shoppers come to town to trade for soft goods on Mooney and buy at the new car dealerships.

Still, significant trends are pointing downward besides those lower gasoline sales.

They include increased per capita spending in California on items and services that are not taxable like healthcare and the Cloud.

The Cloud is taking the place of computer-related hardware sales we use to buy at the local store, for example.

"The two big trends that cause us concern is that internet sales have grown from 2 percent to 12 percent of all sales with the trend likely accelerating" Frost says. "There continues to be an exemption for internet sales.

"Secondly, expenditures on items and services that are taxable have gone from 50 percent to 30 percent of all spending."

Frost's presentation adds that "millions of Americans are abandoning stores faster than retailers expected" — a trend that does not sound good for Mooney retail.

On top of all this, some cities like Dinuba have forged sales tax agreements to capture, for example, all Best Buy Electronics Internet sales at their distribution center location, something the League of Cities suggests the legislature might want to ban.

What is the bottom line?

Frost's report says reduced sales tax revenues will lead to policy choices as some communities decide they need new revenue options.

This may lead some cities to propose new taxes, likely a general tax that requires only a simple majority.

Such measures pass in California elections about two thirds of the time.

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