LEAGUE® OF CALIFORNIA CITIES

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PROTECT LOCAL AUTHORITY AND REVENUE

As of the 2010 Census, California cities are home to approximately 31 million of the State's 38 million population. Our cities are expected to receive the majority of the projected 10 million increase in the State's population over the next 10 years. Preparing for this sizable population increase while simultaneously working to provide critical community services to current residents during the national economic downturn is a significant challenge for California cities. Meeting this challenge will require considerable coordination between governments at the federal and local levels, and we look forward to working with you to safeguard existing local authority that is needed to respond quickly and effectively to the demanding fiscal obstacles we face. Through this authority California cities can continue to organize revenue generation and development strategies that are capable of producing strong future economic growth.

Several legislative items were introduced in the 112th Congress that would severely impact local revenue raising authority and set dangerous federal precedents for aiding extremely profitable private sector entities. These items are outlined below.

- **Online Travel Companies are Evading Local Tax Obligations**: Online Travel Companies (OTCs) are currently working to advance a troubling legislative advocacy campaign. They seek federal support to avoid paying local taxes for the rental of hotel rooms. OTCs are asking Congress to support the illegal business practices of circumventing taxes owed to local governments that would divert approximately $200-$300 million annually from California cities.

  OTCs, formally represented by the Interactive Travel Services Association, are discount travel companies (Expedia, Orbitz, Priceline, Travelocity and Hotels.com) that purchase rooms from hotels at wholesale rates and then rent the rooms to consumers online or through a telephone reservation at a higher retail rate. Under California law, OTCs are then required to pay a local tax on the higher rate of the room rental to the city in which the hotel is located. However, OTCs are instead ignoring California law and remitting taxes based on only the wholesale rate of the room.

  OTCs have tried to convince Congress that they are not obligated to pay the tax on the full room rental rate. They continue to seek congressional support for language in federal legislation that would exempt them from paying past, current and future taxes owed to local governments on the rental of hotel rooms. While these attempts have so far been unsuccessful, OTCs are now moving to mobilize consumers in supporting their tax avoidance with inaccurate claims. As this scheme advances, California cities want to set the record straight on hotel taxes and refute the claims alleged by OTCs:

- California local governments are authorized to collect hotel taxes, also called transient occupancy taxes, under California state law and local ordinances. Where OTCs have failed to remit necessary taxes state and local governments are pursuing administrative and judicial action to recover taxes that consumers have already paid to the OTCs.
- For nearly 40 years hotel taxes have been collected from consumers on the retail price they pay for the rental of hotel rooms. These amounts are owed regardless of whether or not the room is rented in person, via telephone or on the internet.
- Hotel taxes are a critical source of local government revenue, levied by over 400 California cities at an average rate of 10%. In California these taxes account for $1.4 billion annually in revenue that is traditionally utilized by local governments to provide basic services including police, fire, road maintenance, parks, libraries and community planning.

- **Digital Goods and Services Tax Fairness Act**: While the intent of this bill is designed to prevent "multiple and discriminatory taxation" of digital goods and services, the way the bill is written would actually bar cities from imposing sales tax on the full retail price of both physical and digital goods and services sold by online intermediaries.

- **Wireless Tax Fairness Act**: For several years Congress has introduced legislation which would impose a five-year moratorium on state and local taxes on mobile services and the providers of mobile services that were levied beyond generally imposed rates. This legislation would remove a much needed local government revenue source during a time of great fiscal crisis for California's cities, solely to benefit an industry whose subscribership has grown by 158 percent and whose revenues have increased by 124 percent since 2000. In addition to imposing an undue financial burden on California local governments, this legislation would undermine the efforts of a number of cities in California that are working to update and simplify their tax ordinances to assure technology-neutrality. These cities are working directly with voters to modernize these ordinances, which voters are approving as required under California law.