



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

DRAFT

Date:	08/22/14	Bill No:	Senate Bill 33
Tax Program:	Transactions and Use	Author:	Wolk
Sponsor:	County of Sonoma	Code Sections:	RTC 7300 & 7301
Related Bills:	AB 1324 (Skinner) AB 2119 (Ch. 148, Stone)	Effective Date:	01/01/15

BILL SUMMARY

This bill authorizes the County of Sonoma and any city within the county to impose a general-purpose transactions and use tax (district tax) and authorizes the County of Sonoma, any city within the county or the Sonoma County Transportation Authority to impose a special-purpose district tax that, in combination with all district taxes imposed within the county, may exceed the existing 2% rate limitation.

ANALYSIS

CURRENT LAW

The State Board of Equalization (BOE) administers locally-imposed sales and use taxes under the Bradley-Burns Uniform Local Sales and Use Tax Law and under the Transactions and Use Tax Law. By law, cities and counties contract with the BOE to administer the ordinances imposing the local and district taxes.

The **Bradley-Burns Uniform Local Sales and Use Tax Law**¹ authorizes cities and counties to impose local sales and use tax. This tax rate is fixed at 1% 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. Of this 1%, cities and counties use 0.75% to support general operations. The remaining 0.25% is designated by statute for county transportation purposes, but restricted to road maintenance or the operation of transit systems. The counties receive the 0.25% tax for transportation purposes regardless of whether the sale occurs in a city or in the unincorporated area of a county. In California, all cities and counties impose Bradley-Burns local taxes at the uniform rate of 1%.

The **Transactions and Use Tax Law**² and the statutes imposing additional local taxes³ authorize cities and counties to impose transactions and use (district) taxes under specified conditions. Counties may impose district taxes for general purposes and special purposes at a rate of 0.125%⁴, or multiples of 0.125%, if the ordinance imposing the tax is approved by the required percentage of voters in the county. Cities also may impose district taxes for general purposes and special purposes at a rate of 0.125%, or multiples of 0.125%, if the ordinance imposing the tax is approved by the required percentage of voters in the city. Under these laws, the combined district tax rate imposed within any local jurisdiction cannot exceed 2%⁵ (with the exception of the

¹ Part 1.5 of Division 2 of the Revenue and Taxation Code (RTC), commencing with Section 7200.

² Part 1.6 of Division 2 of the RTC, commencing with Section 7251.

³ Part 1.7 of Division 2 of the RTC, commencing with Section 7280.

⁴ Through specific authority, SB 1187 (Ch. 285, Stats. 2001, Costa) authorizes Fresno County to impose a 0.10% district tax for zoological purposes

⁵ RTC Section 7251.1.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.

counties of Alameda, Contra Costa, and Los Angeles⁶).

Section 7291⁷ extends Alameda County's authority, and grants Contra Costa County the authority, to impose a district tax for countywide transportation programs at a capped rate of 0.50%, which, in combination with other district taxes, would exceed the 2% limitation established in existing law, if all of the following conditions are met:

- (1) the county adopts an ordinance proposing the district tax by any applicable voting requirements;
- (2) the ordinance proposing the tax is submitted to the electorate and is approved by two-thirds of the voters voting on the ordinance; and,
- (3) the district tax conforms to the Transactions and Use Tax Law.

If the ordinance is not approved by the electorate by December 31, 2020, Section 7291 will be repealed as of that same date.

PROPOSED LAW

This bill authorizes the County of Sonoma and any city within the county to impose a general-purpose district tax, and authorizes the County of Sonoma and any city within the county and the Sonoma County Transportation Authority to impose a special-purpose district tax, that, in combination with all district taxes imposed, would exceed the 2% limitation established in Section 7251.1, by up to 0.5%, if all of the following requirements are met:

- The County of Sonoma or a city within the county or the Sonoma County Transportation Authority adopts an ordinance proposing a district tax by any applicable voting approval requirement.
- The ordinance proposing the district tax is submitted to the electorate of the adopting County of Sonoma or a city within the county or the Sonoma County Transportation Authority, as applicable, and is approved by the voters voting on the ordinance in accordance with Article XIII C of the California Constitution. The election on the ordinance proposing the district tax may occur on or after November 4, 2014.
- The district tax conforms to the Transactions and Use Tax Law, Part 1.6, other than Section 7251.1.

If enacted, the bill takes effect on January 1, 2015. If an ordinance proposing a district tax is not approved by the electorate by January 1, 2022, the bill's provisions will be repealed as of that same date.

DISTRICT TAXES CURRENTLY ADMINISTERED BY THE BOE

As of April 1, 2014, there are 178 local jurisdictions (city, county, and special purpose entity) imposing a district tax for general or specific purposes. Of the 178 jurisdictions,⁸ 44 are county-imposed taxes, including taxes imposed by county transportation

⁶ Exceptions authorized through AB 210 (Ch. 194, Stats. 2013, Wieckowski) for Alameda County and Contra Costa County and SB 314 (Ch. 785, Stats. 2003, Murray) for the Los Angeles Metropolitan Transportation Authority.

⁷ AB 210 (Ch. 194, Stats. 2013, Wieckowski)

⁸ Currently, all district taxes are levied exclusively within the borders of either a county or an incorporated city (with the exception of the Bay Area Rapid Transit District, which is comprised of Alameda, Contra Costa, and San Francisco counties, and the Sonoma-Marin Rail Transit District). For purposes of calculating the 178 jurisdictions, the Bay Area Rapid Transit District and the Sonoma-Marin Rail Transit District are counted as one (county) jurisdiction, even though they are comprised of three counties and two counties, respectively.

authorities, and 134 are city-imposed taxes.

District taxes increase the tax rate within a city or county because the district tax rate is added to the combined state and local (Bradley-Burns local tax) tax rate of 7.5%. As stated above, subject to certain exceptions the maximum combined rate of all district taxes imposed in any county cannot exceed 2%. The city district taxes count against the 2% maximum. Accordingly, if a city imposes a 0.5% district tax, the county in which it is located can impose district taxes not to exceed a combined rate of 1.5%.

Currently, the district tax rates vary from 0.10% to 1%. The combined state, local and district tax rates range from 7.5 to 10%, ranging from jurisdictions with no district taxes to the cities of La Mirada, Pico Rivera, and South Gate located in Los Angeles County which are subject to the specific exception discussed above. A listing of the district taxes, rates, and effective dates is available on the BOE's website: <http://www.boe.ca.gov/pdf/boe105.pdf>.

COMMENTS

- 1. Sponsor and Purpose.** The County of Sonoma is sponsoring this bill in an effort to provide additional funding for essential services such as transportation and road maintenance programs, library services, and other county and city services.
- 2. Current district taxes levied within the County of Sonoma and within the cities in Sonoma County.** Currently, Sonoma County has eleven district taxes imposed within its borders—three county-wide taxes and eight city-wide taxes. The Sonoma County Transportation Authority, Sonoma County Agricultural Preservation & Open Space District, and Sonoma-Marín Area Rail Transportation Authority each levy 0.25% for a total county-wide tax rate of 0.75%. Thus, the total state, local and district tax rate imposed within the unincorporated area, as well as within the cities that do not impose a district tax, of Sonoma County is 8.25%.

Three cities impose a 0.5% district tax (Healdsburg, Rohnert Park, and Sonoma), while Santa Rosa and Sebastopol each impose two citywide district taxes totaling 0.50% and 0.75%, respectively. Thus, the combined district tax rates in these cities are 1.25% and 1.5%, respectively, and the total state, local and district tax rate in these cities are 8.75% and 9%, respectively. Operative October 1, 2014, the City of Cotati's existing 0.5% district tax will increase to 1%. The combined district tax rate in the City of Cotati will be 1.75%, and the total state, local and district tax rate in that city will be 9.25%, leaving Sonoma County 0.25% shy of the 2% limit.

The following provides a listing of district taxes imposed within Sonoma County:

Jurisdiction	District Name/General or Special Purpose	Rate
County	Sonoma County Transportation Authority (Special)	0.25%
County	Sonoma-Marín Rail Transportation Authority (Special)	0.25%
County	Sonoma County Agricultural Preservation & Open District (Special)	0.25%
City	Cotati Transactions and Use Tax (General)	1.00% ⁹
City	Healdsburg Transactions and Use Tax (General)	0.50%

⁹ Voters in the City of Cotati approved an increase to their existing district tax rate from 0.5% to 1%, operative October 1, 2014.

Jurisdiction	District Name/General or Special Purpose	Rate
City	Rohnert Park Transactions and Use Tax (General)	0.50%
City	Santa Rosa Public Safety Transactions and Use Tax (Special)	0.25%
City	Santa Rosa 2010 Transactions and Use Tax (General)	0.25%
City	Sebastopol Community Transactions and Use Tax (General)	0.25%
City	Sebastopol Increase in the Community Transactions and Use Tax (General)	0.50%
City	Sonoma Transactions and Use Tax (General)	0.50%

3. Proposed Sonoma County district tax measures. On August 5, 2014, the Sonoma County Board of Supervisors voted to place a 0.125% district tax measure on the November 4, 2014, General Election ballot. The tax revenues would be used exclusively to fund library operations, programs, acquisitions, and construction within the county. In addition, the Sonoma County Board of Supervisors voted to postpone a 0.25% district tax measure until the March 2015 special election. This measure would propose to dedicate a portion of the tax revenues to support countywide road improvements.

4. Sonoma would be the fourth county to gain authority to exceed the 2% limit. The counties of Alameda, Contra Costa, and Los Angeles previously were granted an exception to the 2% limitation.

5. Other California counties at or near the 2% limit. Alameda has reached the 2% limit with its three 0.5% county-wide taxes (1.5%) and three city-wide taxes (Albany and Union City (0.5%) and San Leandro (0.25%)). Because Albany and Union City each impose a 0.5% tax, Alameda County has reached the 2% limit. San Mateo County has also reached the 2% limit with its three 0.5% county-wide taxes (1.5%) and two city-wide taxes (Half Moon Bay (0.5%) and San Mateo (0.25%)). Because Half Moon Bay imposes a 0.5% tax, San Mateo County has reached the 2% limit.

While San Diego County only levies one 0.5% district tax, five cities impose their own. National City's 1% rate leaves San Diego County 0.5% shy of the 2% limit.

Similarly, Fresno County and Marin County have cities within their county that have enacted city-wide taxes pushing them close to the 2% limit. Fresno County levies three county-wide taxes at rates of 0.125%, 0.5%, and 0.10%, for a total county-wide tax rate of 0.725%. Fresno County has four cities which impose their own district tax. The City of Huron's 1% rate leaves Fresno County 0.275% shy of the 2% limit. Marin County also levies three county-wide taxes for a total county-wide tax rate of 1%. The City of San Rafael's 0.75% rate leaves Marin County 0.25% shy of the 2% limit.

6. Related legislation. AB 1324 (Skinner) authorizes the City of El Cerrito to impose a general-purpose district tax that, in combination with all district taxes imposed, may exceed the existing 2% rate limitation. AB 2119 (Ch. 148, Stats. 2014, Stone) authorizes an unincorporated area of a county to levy, increase, or extend a transactions and use tax within its boundaries if approved by the required number of voters voting within those boundaries.

COST ESTIMATE

This bill does not increase administrative costs to the BOE because it only authorizes the County of Sonoma and any city in the county or Sonoma County Transportation Authority to impose a tax. However, if the county's, city's or the Sonoma County Transportation Authority's voters approve the tax, the county, city, or the Sonoma County Transportation Authority would be required to contract with the BOE and pay for its preparation costs, as well as ongoing costs of BOE's services to administer the ordinance.

Based on the BOE's experience with similar city- or county-imposed taxes, the one-time preparatory costs typically range from \$12,000 to \$138,000. Preparatory costs are the actual costs to update publications and returns, perform programming for data processing, develop instructions for both BOE staff and taxpayers, and notify taxpayers. Preparatory costs also include necessary costs from other state agencies (e.g., California Department of Motor Vehicles costs to train staff and program computers). Various factors may impact the BOE's preparatory costs. For example, the BOE mails a special notice to taxpayers in the affected county, including adjacent areas. If a county borders jurisdictions that have a large number of seller's permits, the BOE's mailing costs could be substantially higher.

In addition, because of certain fixed costs, the preparatory costs can vary depending on the number of new district taxes implemented at the same time. For example, the cost of updating a publication and return to add four new taxes in four separate districts is similar to the cost to add one new tax in one district. However, because the four new districts could share the costs, the per-district cost would be less than if only one district added a new tax. Thus, the preparatory costs can vary depending on the number of district taxes being implemented at the same time.

The County of Sonoma has three district taxes imposed at a rate of 0.25% in each district. For fiscal year (FY) 2013-14, the BOE's estimated administrative costs are \$487,100 for the Sonoma County Transportation Authority and \$489,200 for the Sonoma County Agricultural Preservation & Open Space District. The 0.25% Sonoma-Marin Rail Transportation Authority tax is levied in two counties. For FY 2013-14, the BOE's combined estimated costs to administer this 0.25% tax is \$736,100. Of the \$736,100 combined cost, we estimate Sonoma's portion to be similar to the estimated costs to administer the County's other 0.25% district taxes.

Cities in Sonoma County that levy a district tax are Cotati, Healdsburg, Rohnert Park Santa Rosa, Sebastopol, and Sonoma. For FY 2013-14, the BOE's estimated administrative costs are: \$10,200 for the City of Cotati, \$16,000 for the City of Healdsburg, \$41,300 for the City of Rohnert Park, and \$11,600 for the City of Sonoma.

The City of Santa Rosa has two district taxes imposed at a rate of 0.25% in each district. For FY 2013-14, the BOE's estimated administrative costs are: \$183,500 for the City of Santa Rosa Public Safety Transactions and Use Tax and \$199,900 for the City of Santa Rosa 2010 Transactions and Use Tax. The City of Sebastopol also has two district taxes imposed at rates of 0.5% and 0.25%. For FY 2013-14, the BOE's estimated administrative costs are: \$13,800 for the City of Sebastopol Community Transactions and Use Tax and \$7,000 for City of Sebastopol Increase in the Community Transactions and Use Tax.

REVENUE ESTIMATE**BACKGROUND, METHODOLOGY, AND ASSUMPTIONS**

For FY 2011-12, the County of Sonoma's taxable sales totaled \$1,819 million. We assume that Sonoma County's taxable sales follow a pattern similar to the Department of Finance's (DOF) *2014 May Revision* forecast of overall statewide taxable sales. DOF's May Revision revenue forecast assumes that taxable sales increased by 6.5% in FY 2012-13. The DOF further projects that taxable sales will increase by 4.3% in FY 2013-14, by 6.5% in FY 2014-15, and by 5.1% in FY 2015-16.

Based on DOF's forecast, we estimate the Sonoma County's taxable sales to be \$2,151 million for FY 2014-15, and \$2,261 million for FY 2015-16.

These estimates also take into account the impacts of a reduction in household disposable income caused by the imposition of the tax by assuming a dollar-for-dollar decline in taxable spending.

REVENUE SUMMARY

This bill authorizes the County of Sonoma and any city or specified special district within Sonoma County to impose a district tax, that, in combination with all district taxes imposed, may exceed the existing 2% rate limitation by up to 0.5%. However, the bill does not specify a tax rate. The most common district tax rates are in increments of 0.25%. The following table projects revenue impacts for two possible tax rates: 0.25% and 0.5%. For example, at a tax rate of 0.25%, revenues would increase by \$5.5 million in FY 2015-16, the first complete fiscal year in which the tax rate would be in effect.

Fiscal Year	Estimated Revenue Impacts¹⁰	
	(\$ Millions)	
	Rates	
	0.25%	0.50%
2014-15 (Quarter-Year Impacts)	\$1.3	\$2.5
2015-16	\$5.5	\$10.6

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¹⁰ These estimates are adjusted for reduction in household disposable income caused by the district tax increase. We do this by assuming a dollar-for-dollar decline in taxable spending.

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