STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

DRAFT

Date Amended:	**01/17/08**	Bill No:	**AB 1646**
Tax:	**Transactions and Use**	Author:	**DeSaulnier**
Related Bills:			

BILL SUMMARY

This bill would authorize counties, subject to two-thirds approval of the voters, to impose a transactions and use tax at a rate in 0.25 percent increments and not to exceed a maximum tax rate of 1 percent, for county health purposes.

SUMMARY OF AMENDMENTS

Since the previous analysis, this bill was amended to address Board staff's administrative issues and now provides: (1) that the ordinance shall comply with Part 1.6 of the Transactions and Use Tax Law, and (2) the tax is not subject to the 2 percent rate limitation under Section 7251.1.

ANALYSIS

CURRENT LAW

The State Board of Equalization (Board) administers local sales and use taxes under the Bradley-Burns Uniform Local Sales and Use Tax Law and under the Transactions and Use Tax Law, which are divisions of the Revenue and Taxation Code.

The **Bradley-Burns Uniform Local Sales and Use Tax Law** (commencing with Section 7200 of the Revenue and Taxation Code), authorizes cities and counties to impose a local sales and use tax. The rate of tax is fixed at 1.25 percent 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. However, beginning July 1, 2004, and continuing through the "revenue exchange period" (also known as the "Triple Flip"), Section 7203.1 temporarily suspends the authority of a county or a city to impose a tax under Sections 7202 and 7203, and instead provides that the applicable rate is the following: 1) in the case of a county, 1 percent; and 2) in the case of a city, 0.75 percent or less. "Revenue exchange period" means the period on or after July 1, 2004, and continuing until the Department of Finance notifies the Board, pursuant to Section 99006 of the Government Code, that the $15 billion Economic Recovery Bonds have been repaid or that there is sufficient revenues to satisfy the state's bond obligations.

Of the 1 percent, cities and counties use the 0.75 percent to support general operations. The remaining 0.25 percent is designated by statute for county transportation purposes and may by used only for road maintenance or the operation of transit systems. The counties receive the 0.25 percent tax for transportation purposes regardless of whether the sale occurs in a city or in the unincorporated area of a county.

The **Transactions and Use Tax Law** (commencing with Section 7251 of the Revenue and Taxation Code) authorizes cities and counties to impose transactions and use taxes (hereinafter referred to as district taxes) under specified conditions. **Section 7285** authorizes a county to impose a district tax for general purposes at a rate of 0.25 percent, or multiple thereof, if the ordinance proposing the tax is approved by a two-

thirds vote of the board of supervisors and a majority vote of the qualified voters of the county. **Section 7285.5** authorizes a county to impose a district tax for special purposes at a rate of 0.25 percent, or multiple thereof, if the ordinance proposing the tax is approved by a two-thirds vote of the board of supervisors and a two-thirds vote of the qualified voters of the county.

Counties can also impose a district tax for library purposes. **Section 7286.59** authorizes a county to impose a district tax at a rate of 0.125 or 0.25 percent for a period not to exceed 16 years, if the ordinance proposing the tax is approved by the board of supervisors and a two-thirds vote of the qualified voters of the county. The revenues collected from the tax are to be used exclusively for funding public library construction, acquisition, programs, and operations within the county.

The combined rate of all district taxes imposed in any county cannot exceed 2 percent.

Cities and counties are required to contract with the Board to perform all functions in the administration and operations of the ordinances imposing the Bradley-Burns local taxes and the district taxes.

PROPOSED LAW

This bill would add Chapter 4 (commencing with Section 7292) to Part 1.7 of the Transactions and Use Tax Law to authorize counties, subject to two-thirds approval of the local electorate, or by any otherwise applicable voter approval requirement, to impose a transactions and use tax at a tax rate in 0.25 percent increments and not to exceed a maximum rate of 1 percent. This bill specifies that the revenues derived from the tax are to be allocated by the county for the purposes of carrying out the core functions of the local health department. Those functions consist of the following:

1) Disease surveillance, the active and passive tracking of diseases and conditions, as well as disease trends.
2) Disease investigation, the determination of disease characteristics, extent, and risk to the community.
3) Disease containment, the activity required to limit the spread of a disease and minimize the morbidity and mortality associated with that disease.
4) Disease prevention, using all available means to educate and otherwise keep a disease from impacting a community.
5) Data systems support, the maintenance of registries, reporting systems, and analytical capacity.
6) Disease and emergency preparedness capacity, to maintain the necessary infrastructure including training and exercise for all naturally occurring and manmade disasters and emergencies of public health import.
7) Chronic conditions.
8) Health status monitoring.
9) Environmental and health impact analysis.
10) Twenty-four hours per day, seven days per week (24/7) response capacity.

This bill would provide that the tax ordinance must comply with Part 1.6 of the Transactions and Use Tax Law, and be operative on the first day of the first calendar quarter commencing more than 110 days after adoption of the ordinance.

This bill would also provide that the tax is not subject to the 2 percent rate limitation in Section 7251.1.

This bill also contains legislative findings and declarations regarding local public health departments.

IN GENERAL

Cities and counties may impose a district tax for general or specific purposes. These taxes can be imposed either directly by the city or county or through a special purpose entity established by the city or county. Counties can also establish a transportation authority to impose district taxes under the Public Utilities Code.

Beginning April 1, 2008, there will be 91 local jurisdictions (city, county, and special purpose entity) imposing a district tax for general or specific purposes. Of the 91 jurisdictions, 36 are county-imposed taxes and 55 are city-imposed taxes.

As stated previously, the combined rate of all district taxes imposed in any county shall not exceed 2 percent. District taxes increase the tax rate within a city or county by adding the district tax rate to the combined state and local (Bradley-Burns local tax) tax rate of 7.25 percent. Generally, district tax rates are imposed at a rate of 0.25 percent or 0.25 percent increments up to the 2 percent limit. Currently, the district tax rates vary from 0.10 percent to 1 percent. The combined state, local, and district tax rates range from 7.375 percent to 8.75 percent.

Listed below are the various combined state, local, and district tax rates and number of local jurisdictions imposing those rates:

Rate	Counties	Cities
7.25	32	0
7.375	3	0
7.50	0	0
7.75	15	20
7.875	0	3
7.975	1	0
8.00	1	7
8.25	4	14
8.275	0	1
8.475	0	1
8.50	1	3
8.75	1	6

Some cities and counties have more than one district tax in effect, while others have none. A listing of the district taxes, rates, and effective dates is available on the Board's website: www.boe.ca.gov/sutax/pdf/districtratelist.pdf. Because the combined rate of all district taxes imposed within a county cannot exceed 2 percent, the current maximum combined state, local, and district tax rate is 9.25 percent.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the Health Officers Association of California. The purpose is to enable counties to raise additional revenues for purposes of funding local public health efforts.

2. **The January 17, 2008 amendments** address Board staff's administrative issues and now (1) provide that the district tax ordinance shall conform to Part 1.6 of the Transactions and Use Tax Law, and (2) clarify that the proposed district tax is not subject to the rate limitation provisions under Section 7251.1 of the Transactions and Use Tax Law.

3. **Counties are authorized to impose district taxes at a rate of 0.25 percent, or multiples of 0.25 percent, for special purposes.** Under the Transactions and Use Tax Law, Section 7285.5, counties are authorized to impose taxes for special purposes at a rate of 0.25 percent, or multiples of a 0.25 percent, subject to two-thirds voter approval. Section 7285.5 also requires that the ordinance imposing the tax include an expenditure plan describing the specific projects for which the revenues from the tax may be used. However, any tax imposed under the Transactions and Use Tax Law, including Section 7285.5, is subject to the two percent rate limitation under Section 7251.1.

   This bill would authorize a county to impose a district tax at 0.25 percent increments, not to exceed 1 percent. The proposed tax would not be subject to the 2 percent rate limitation. Thus, under the provisions of this bill, the maximum combined state, local, and district tax rate, subject to approval by the voters, could reach 10.25 percent.

COST ESTIMATE

This bill does not increase administrative costs to the Board because it only authorizes counties to impose a tax. However, if a county adopted an ordinance, the county would be required to contract with the Board to perform all functions related to the ordinance, and pay to the Board its costs of preparation to administer the ordinance as well as the costs for the Board's services in actually administering the ordinance. As a point of perspective, the Board's estimated 2007-08 administrative costs assessed to the existing county special taxing jurisdictions range from $18,000 (Inyo County) to $2.6 million (Orange County), with the highest administrative costs of $6.1 million assessed to Los Angeles County Transportation Commission. The estimated assessments were determined based on the current costing model.

REVENUE ESTIMATE

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

This bill would add Chapter 4 (commencing with Section 7292) to Part 1.7 of the Transactions and Use Tax Law to authorize counties, subject to two-thirds approval of the local electorate, or by any otherwise applicable voter approval requirement, to impose a transactions and use tax at a tax rate in 0.25 percent increments and not to exceed a maximum rate of 1 percent. This bill specifies that the revenues derived from the tax are to be allocated by the county for the purposes of carrying out the core functions of the local health department.

In fiscal year 2006-07, statewide revenue derived from 0.25 percent local county transportation tax amounted to $1.42 billion. Over the last few years statewide sales and use tax revenue has increased moderately at a rate of 2.5 percent a year. The 0.25 percent county transportation revenue is expected to grow to $1.5 billion in fiscal year 2008-09.

REVENUE SUMMARY

If all of the counties in the state imposed a transactions and use tax for specified public health purposes, the annual gain in revenue would be:

Rate	Revenue
0.25 %	$ 1.5 billion
0.50 %	$ 3.0 billion

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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 Board's formal position.