



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

Date Amended:	<b>05/01/03</b>	Bill No:	<b>SB 402</b>
Tax:	<b>Transactions and Use</b>	Author:	<b>Florez</b>
Board Position:		Related Bills:	<b>SB 566 (Scott) SCA 2 (Torlakson) SCA 11 (Alarcon) AB 1412 (Wolk) ACA 7 (Dutra) ACA 9 (Levine) ACA 14 (Steinberg/Campbell) ACA 15 (Wiggins)</b>

**BILL SUMMARY**

This bill would authorize the City of Coalinga and the City of Huron, with the approval of two-thirds of the voters of the respective cities, to each levy a transactions and use tax at a rate of not less than 0.25 percent, but not to exceed 0.50 percent, for recreation and park services by the Coalinga-Huron Recreation and Park District within the boundaries of the cities of Coalinga and Huron.

**Summary of Amendments**

Since the previous analysis, this bill was amended to 1) delete the Cambria Community Service District from the proposed tax provisions, and 2) require the governing board of each respective city by majority vote to put the issue to the voters, and 3) limit the boundaries of the tax to the Coalinga-Huron Recreation and Park District within the boundaries of the cities of Coalinga and Huron.

**ANALYSIS**

**Current Law**

The **Bradley-Burns Uniform Local Sales and Use Tax Law** (commencing with Section 7200 of the Revenue and Taxation Code) authorizes counties to impose a local sales and use tax. The tax rate is fixed at 1.25 percent of the sales price of tangible personal property sold at retail in the county, or purchased outside the county for use in the county. All counties and cities within California have adopted ordinances under the terms of the Bradley-Burns Law and levy the 1.25 percent local tax.

Under the Bradley-Burns Law, the 0.25 percent tax rate is earmarked for county transportation purposes, and 1 percent may be used for city and county general purposes. Cities are also authorized to impose a local sales and use tax rate of up to 1 percent, which is credited against the county rate so that the combined local tax rate under the Bradley-Burns Law does not exceed 1.25 percent.

Under the **Transactions and Use Tax Law** (commencing with Section 7251 of the

*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*

Revenue and Taxation Code), counties are additionally authorized to impose a transactions and use tax at a rate of 0.25 percent, or multiple thereof, if the ordinance imposing that tax is approved by the voters. Under all sections of the Transactions and Use Tax Law, the maximum allowable combined rate of transactions and use taxes levied in any county may not exceed 1.50 percent, with the exception of the City and County of San Francisco and the County of San Mateo, whose combined rates may not exceed 1.75 and 2 percent, respectively.

Section 7285 of the Transactions and Use Tax Law additionally allows counties to levy a transactions and use tax at a rate of 0.25 percent, or multiple thereof, for general purposes with the approval of a majority of the voters. Section 7285.5 permits the board of supervisors of any county to levy a transactions and use tax at a rate of 0.25 percent, or multiple thereof, for specific purposes with the approval of two-thirds of the voters.

Section 7288.1 also allows counties to establish a Local Public Finance Authority to adopt an ordinance to impose a transactions and use tax at a rate of 0.25 percent, or multiple thereof, for purposes of funding drug abuse prevention, crime prevention, health care services, and public education upon two-thirds voter approval. Finally, Section 7286.59 allows counties to levy a transactions and use tax at a rate of 0.125 or 0.25 percent for purposes of funding public libraries, upon two-thirds voter approval.

As previously stated, Sections 7285, 7285.5, 7286.59, and 7288.1, authorize counties to levy transactions and use taxes under specified conditions. There is no such authority for cities to impose these taxes. Any city desiring to impose a transactions and use tax must seek special enabling legislation from the California legislature.

The following cities, through specific legislation, have received authorization to impose a transactions and use tax: Avalon, Calexico, Clearlake, Clovis, Davis, Fort Bragg, Fresno (and its sphere of influence), Lakeport, Madera, North Lake Tahoe (within boundaries established in legislation), Placerville, Point Arena, Redding, Salinas, Sebastopol, Town of Truckee, Ukiah, Visalia, West Sacramento, Willits, Woodland, and the Town of Yucca Valley. However, only the cities of Avalon, Calexico, Clearlake, Clovis, Placerville, Sebastopol, the Town of Truckee, West Sacramento, and Woodland are imposing a tax. The City of Fresno and its sphere of influence had imposed a tax for the period 7/1/93 through 3/21/96, however, this tax ceased to be operative, as it was declared unconstitutional in *Howard Jarvis Taxpayers' Association v. Fresno Metropolitan Projects Authority* (1995) 40 Cal.App.4th 1359, mod.(1996) 41 Cal.App.4th 1523a.

The Board performs all functions in the administration and operations of the tax ordinances under the Bradley-Burns Uniform Local Sales and Use Tax and the Transactions and Use Tax Law. All local jurisdictions imposing these local taxes are required to contract with the Board for administration of such taxes.

### **Proposed Law**

This bill would add Chapter 3.61 (commencing with Section 7290.1) to Part 1.7 of Division 2 of the Revenue and Taxation Code to authorize the City of Coalinga and the

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City of Huron to each levy a transactions and use tax at a rate not less than 0.25 percent, but not to exceed 0.50 percent, upon majority approval of the governing board of each city and subsequent two-thirds approval of the voters of each city. The net revenues derived from the proposed taxes would be used exclusively for recreation and park services within the boundaries of the respective cities by the Coalinga-Huron Recreation and Park District.

The taxes would be levied pursuant to existing law regarding transactions and use taxes (Part 1.6, commencing with Section 7251). This bill also includes findings and declarations that a special law is necessary because of the uniquely difficult fiscal pressures being experienced by the Coalinga-Huron Recreation and Park District, the City of Coalinga, and the City of Huron in providing essential park and recreation services.

### In General

Currently, there are 40 special tax districts that impose transactions and use taxes within their respective borders. Additionally, there are 22 cities that have gained authorization to impose transactions and use taxes, 10 of which gained authorization during the 2002 legislative year. To date, only 9 cities [Avalon, Calexico, Clearlake, Clovis, Placerville, Sebastopol, the Town of Truckee, West Sacramento, and Woodland] have received voter approval and are imposing a tax within their city limits.

### COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the Coalinga-Huron Recreation and Park District to raise additional revenues to provide essential park and recreation services by the district within the boundaries of the cities of Coalinga and Huron.
2. **Key amendments.** The **April 3 amendments** authorized the Cambria Community Services District to impose a transactions and use tax at a rate of not less than 1/4 percent, but not to exceed 1/2 percent, subject to two-thirds voter approval. The **April 24 amendments** deleted the Cambria Community Services District from the bill. This version also provided that the Coalinga-Huron Recreation and Park District, with the approval of a majority of the governing board of the park district, and with the approval of two-thirds of the voters of the park district, the City of Coalinga, and the City of Huron, could impose the tax within the boundaries of the City of Coalinga and the City of Huron. The **May 1 amendments** authorize the City of Coalinga and City of Huron, with a majority approval of the governing board of each city, and with the approval of two-thirds of the voters in the respective cities, to each levy a transactions and use tax at a rate of at least 0.25 percent, but not to exceed 0.50 percent, for recreation and park services by the Coalinga-Huron Recreation and Park District within the boundaries of the City of Coalinga and the City of Huron.
3. **Suggested amendment to restrict transactions and use tax to a rate of 0.25 or 0.50 percent.** This bill would authorize the City of Coalinga and the City of Huron to

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each levy a transactions and use tax at a rate not less than 0.25 percent but not to exceed 0.50 percent. The Transactions and Use Tax Law authorizes counties to impose a tax in increments of 0.25 percent. The reasoning behind the 0.25 percent increments is that it is easier for retailers to administer and collect the tax in even 0.25 percent increments.

Currently, there are 40 special districts that impose a transactions and use tax. Of these 40 districts, 34 impose a tax at a rate of 0.25 or 0.50 percent, five impose a tax at a rate of 0.125 percent, and one (City of Clovis) imposes a tax at a rate of 0.30 percent. Since this bill proposes a rate of at least 0.25 percent, but not to exceed 0.50 percent, the Board suggests that, for ease of administration, the bill be amended to restrict the tax to a rate of 0.25 or 0.50 percent.

4. **The tax rate imposed by cities and special districts limits the total transactions and use tax rate imposed within the county.** As stated previously, the Transactions and Use Tax Law limits the total rate of transactions and use taxes imposed within a county. The maximum allowable rate is 1.50 percent, except in the City and County of San Francisco and the County of San Mateo, which through special legislation, may not exceed 1.75 and 2 percent, respectively. As such, any transactions and use tax imposed by a city or special district counts against this 1.50 percent cap, and limits the total rate of tax imposed within the county.

The City of Coalinga, City of Huron, and the Coalinga-Huron Recreation and Park District are located in Fresno County. The Coalinga-Huron Recreation and Park District includes the entire city limits of Coalinga and Huron and also includes approximately 500,000 acres within the unincorporated area of Fresno County. Currently, there are three transactions and use taxes imposed within Fresno County. Those taxes are: the Fresno County Transportation Authority tax at a rate of 0.50 percent, the Fresno County Public Library tax at a rate of 0.125 percent, and the City of Clovis Public Safety tax at a rate of 0.30 percent. The total state and local tax rate throughout Fresno County, excluding the City of Clovis, is 7.875 percent. The total state and local tax rate in the City of Clovis is 8.175 percent. Therefore, because of the 1.50 percent cap, the remaining maximum rate of tax that Fresno County can impose is 0.575 percent.

5. **The Board's administrative costs would exceed the cap, resulting in the General Fund subsidizing this tax.** The Board's total administrative costs are driven by the workload involved in processing returns and payments, and are relatively fixed. Revenue and Taxation Code Section 7273 requires the Board to cap administrative costs based on the lesser of the ratio during the first full year the tax is in effect, or a predetermined amount based on the tax rate and applied to the revenues generated in the taxing jurisdiction. The maximum administrative costs for a district imposing a transactions and use tax rate of one-quarter of 1 percent is capped at 3 percent of the revenue generated, and for a district imposing a transactions and use tax rate of one-half of 1 percent is capped at 1.5 percent of the revenue generated.

Based on the projected revenues (see Revenue Estimate), if the City of Coalinga and the City of Huron were to each impose this tax, it is expected that the administrative costs would exceed the cap. This means that the General Fund must

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make up the difference between the costs incurred by the Board and the amount the Board is permitted to charge.

There are several local taxing jurisdictions, where the administrative costs exceed the cap. The Board's 2002-03 estimated base assessment of administrative costs to special taxing jurisdictions range between \$11,000 (City of Avalon Municipal Hospital and Clinic) and \$6.5 million (Los Angeles County Transportation Commission).

As previously stated, because the Board is limited in the amount it may charge special taxing jurisdictions, any shortfall that results from actual administrative costs exceeding the amount the Board may charge would impact the General Fund. For 2002-03, it is estimated that the General Fund will absorb approximately \$1.1 million as a result of the cap limitations on administrative cost recovery. However, this estimate could change when the actual revenues are known.

- 6. Related Legislation. SB 566 (Scott)** would provide that, with respect to Los Angeles County, the combined rate of transactions and use taxes may not exceed 2 percent. **AB 1412 (Wolk)** would authorize the cities of American Canyon, Benicia, Beverly Hills, Calistoga, Capitola, Colton, Culver City, Fairfield, Fontana, King City, Los Angeles, Malibu, Monterey, Napa, Pacific Grove, Rialto, Rio Vista, Rohnert Park, San Bernardino, San Fernando, Sand City, Santa Cruz, Santa Monica, Santa Rosa, Scott's Valley, Soledad, St. Helena, Suisun City, Vacaville, Vallejo, West Hollywood, Winters, and Yountville, subject to either a two-thirds or majority voter approval, depending on how the revenues will be spent, to levy a transactions and use tax at a rate of 0.25 or 0.50 percent. This bill would also authorize the City of Petaluma, subject to either two-thirds or majority voter approval, depending on how the revenues will be spent, to levy a transactions and use tax at a rate of 0.25, 0.50, 0.75, or 1 percent.

Six bills introduced in 2003 would place on the ballot a constitutional amendment to change the voter approval requirement for special taxes. **SCA 2 (Torlakson)** would constitutionally authorize counties, cities and counties, local transportation agencies, and regional transportation agencies, with the approval of a majority of the voters in the jurisdiction, to impose a transactions and use tax to be used exclusively for funding transportation projects and services and related smart growth planning. **SCA 11 (Alarcon)** would constitutionally authorize local governments, with the approval of a majority of the voters, to impose, extend, or increase a special tax or to incur indebtedness in the form of general obligation bonds to fund infrastructure projects, including construction of affordable housing for very low, low, and moderate income, transportation enhancement activities, acquisition of land for open-space use, and other general infrastructure needs.

**ACA 7 (Dutra)** would constitutionally authorize local transportation agencies and regional transportation agencies, with the approval of 55 percent of the voters in the jurisdiction, to impose a transactions and use tax for a period of 20 to 30 years, as specified, at a rate of 0.50 percent to be used exclusively for transportation purposes. **ACA 9 (Levine)** would constitutionally authorize a city, county, or special district to impose a qualified special tax, as defined, to fund capital infrastructure construction projects, with the approval of a majority of the voters. **ACA 14 (Steinberg/Campbell)** would constitutionally authorize a local government, with the

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approval of 55 percent of the voters, to impose a special tax to fund local infrastructure projects, including general infrastructure, construction of emergency shelters and affordable housing, conservation of agricultural and open-space land, and neighborhood enhancement activities.

## **COST ESTIMATE**

This bill does not increase administrative costs to the Board because it only authorizes the cities of Coalinga and Huron to each impose a tax. However, if the voters approved the ordinance imposing the tax, the cities would be required to contract with the Board to perform functions related to the ordinance, and reimburse the Board for its preparation costs to administer the ordinance as well as the ongoing costs for the Board's services in actually administering the ordinance.

Based on the Board's experience with similar special-purpose taxes, it is estimated that the one-time preparatory costs could range between \$15,000 and \$40,000. This one-time preparatory cost is not subject to the cap restriction under Revenue and Taxation Code Section 7273. However, the ongoing administrative costs are subject to the cap.

For the cities of Coalinga and Huron combined, the estimated ongoing assessed administrative costs could not exceed \$5,514 for the 1/4 percent rate ( $\$183,800^1 \times 3\%$ ), and \$5,513 for the 1/2 percent rate ( $\$367,500 \times 1.5\%$ ) {see Comment 5}. As noted in Comment 5, if the cities of Coalinga and Huron were to impose this tax, it is expected that the administrative costs would exceed the cap and, therefore, increase the costs absorbed by the General Fund.

## **REVENUE ESTIMATE**

### **Background, Methodology, and Assumptions**

Taxable sales in the cities of Coalinga and Huron in the 2001 calendar year were a combined \$73.5 million.

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<sup>1</sup> See Revenue Estimate

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### Revenue Summary

A transactions and use tax within the City of Coalinga and the City of Huron would raise the following amounts annually:

<u>Rate</u>	<u>Revenue</u>
1/4%	\$ 183,800
1/2 %	\$ 367,500

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**Attachment 1**  
**California Sales, Transactions and Use Tax Rates by County**  
**Effective 01/01/03**

<b>01 Alameda</b>	
State	6.00
Local	1.25
ACTA#	0.50
ACTI#	0.50
BART	0.50
	<hr/>
	8.25

<b>02 Alpine</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>03 Amador</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>04 Butte</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>05 Calaveras</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>06 Colusa</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>07 Contra Costa</b>	
State	6.00
Local	1.25
CCTA	0.50
BART	0.50
	<hr/>
	8.25

<b>08 Del Norte</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>09 El Dorado</b>	
State	6.00
Local	1.25
PLPS*	0.25
	<hr/>
	7.50

<b>10 Fresno</b>	
State	6.00
Local	1.25
FCTA	0.50
FCPL	0.125
CCPS*	0.30
	<hr/>
	8.175

<b>11 Glenn</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>12 Humboldt</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>13 Imperial</b>	
State	6.00
Local	1.25
IMTA	0.50
CXHD*	0.50
	<hr/>
	8.25

<b>14 Inyo</b>	
State	6.00
Local	1.25
INRC	0.50
	<hr/>
	7.75

<b>15 Kern</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>16 Kings</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>17 Lake</b>	
State	6.00
Local	1.25
CLPS*	0.50
	<hr/>
	7.75

<b>18 Lassen</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>19 Los Angeles</b>	
State	6.00
Local	1.25
LATC	0.50
LACT	0.50
AMHC*	0.50
	<hr/>
	8.25

<b>20 Madera</b>	
State	6.00
Local	1.25
MCTA	0.50
	<hr/>
	7.75

<b>21 Marin</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>22 Mariposa</b>	
State	6.00
Local	1.25
MCHA	0.50
	<hr/>
	7.75

<b>23 Mendocino</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>24 Merced</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>25 Modoc</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>26 Mono</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>27 Monterey</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>28 Napa</b>	
State	6.00
Local	1.25
NCFP	0.50
	<hr/>
	7.75

<b>29 Nevada</b>	
State	6.00
Local	1.25
NVPL	0.125
TRSR*	0.50
	<hr/>
	7.875

<b>30 Orange</b>	
State	6.00
Local	1.25
OCTA	0.50
	<hr/>
	7.75

<b>31 Placer</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

<b>32 Plumas</b>	
State	6.00
Local	1.25
	<hr/>
	7.25

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**California Sales, Transactions and Use Tax Rates by County**  
**Effective 01/01/03**

<b>33 Riverside</b>	
State	6.00
Local	1.25
RCTC	0.50
	<u>7.75</u>

<b>34 Sacramento</b>	
State	6.00
Local	1.25
STAT	0.50
	<u>7.75</u>

<b>35 San Benito</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>36 San Bernardino</b>	
State	6.00
Local	1.25
SBER	0.50
	<u>7.75</u>

<b>37 San Diego</b>	
State	6.00
Local	1.25
SDTC	0.50
	<u>7.75</u>

<b>38 San Francisco</b>	
State	6.00
Local	1.25
SFTA	0.50
SFPF	0.25
BART	0.50
	<u>8.50</u>

<b>39 San Joaquin</b>	
State	6.00
Local	1.25
SJTA	0.50
	<u>7.75</u>

<b>40 San Luis Obispo</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>41 San Mateo</b>	
State	6.00
Local	1.25
SMTA	0.50
SMCT	0.50
	<u>8.25</u>

<b>42 Santa Barbara</b>	
State	6.00
Local	1.25
SBAB	0.50
	<u>7.75</u>

<b>43 Santa Clara</b>	
State	6.00
Local	1.25
SCCT	0.50
SCGF	0.50
	<u>8.25</u>

<b>44 Santa Cruz</b>	
State	6.00
Local	1.25
SCMT	0.50
SZPL	0.25
	<u>8.00</u>

<b>45 Shasta</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>46 Sierra</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>47 Siskiyou</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>48 Solano</b>	
State	6.00
Local	1.25
SLPL	0.125
	<u>7.375</u>

<b>49 Sonoma</b>	
State	6.00
Local	1.25
SCOS	0.25
SEGR	0.25
	<u>7.75</u>

<b>50 Stanislaus</b>	
State	6.00
Local	1.25
STCL	0.125
	<u>7.375</u>

<b>51 Sutter</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>52 Tehama</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>53 Trinity</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>54 Tulare</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>55 Tuolumne</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>56 Ventura</b>	
State	6.00
Local	1.25
	<u>7.25</u>

<b>57 Yolo</b>	
State	6.00
Local	1.25
WOGT*	0.50
WSTU	0.50
	<u>8.25</u>

<b>58 Yuba</b>	
State	6.00
Local	1.25
	<u>7.25</u>

#ACTA expired 3/31/02 and ACTI became operative 4/1/02. The tax rate remained unchanged at 8.25%.  
The tax in this district is not imposed throughout the county; it is a citywide tax. The county total includes the citywide district tax.