STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**06/16/03**	Bill No:	**SB 566**
Tax:	**Transactions and Use**	Author:	**Scott**
Board Position:		Related Bills:	**SB 402 (Florez)** **SCA 2 (Torlakson)** **AB 1412 (Wolk)** **ACA 7 (Dutra)** **ACA 9 (Levine)** **ACA 14 (Steinberg)** **ACA 15 (Wiggins)**

BILL SUMMARY

This bill would provide that the combined rate of transactions and use taxes imposed in the County of Los Angeles may not exceed 2 percent, instead of the current 1.5 percent.

Summary of Amendments

Since the previous analysis, this bill was amended to add intent language providing that the 0.50 percent increase to the combined rate of transactions and use taxes in Los Angeles County be used exclusively to fund public safety projects and trauma centers.

ANALYSIS

Current Law

The **Bradley-Burns Uniform Local Sales and Use Tax Law** (Part 1.5, Division 2 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** (Parts 1.6 and 1.7, Division 2 of the Revenue and Taxation Code), counties are 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.

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Under the Transactions and Use Tax Law, the **current maximum allowable combined rate of transactions and use taxes levied in any county including the County of Los Angeles 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 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.

Additionally, 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. Section 7288.1 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.

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 [*Howard Jarvis Taxpayers' Association* v. *Fresno Metropolitan Projects Authority* (1995)].

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

Proposed Law

This bill would amend Section 7251.2 of the Revenue and Taxation Code to provide that the combined rate of transactions and use taxes imposed in Los Angeles County may not exceed a combined rate that is greater by 0.50 percent than the maximum combined rate allowed by Section 7251.1, which provides that the combined rate of all taxes imposed in any county may not exceed 1.50 percent. This bill would also amend

Section 7251.1 of the Revenue and Taxation Code to make a technical nonsubstantive change.

This bill also makes findings and declarations that a special law is necessary because of the uniquely difficult fiscal pressures being experienced by the County of Los Angeles in providing essential services and funding for county programs and operations.

This bill contains intent language providing that the provisions of this bill are to allow the County of Los Angeles to impose a transactions and use tax for the exclusive purpose of funding public safety projects and trauma centers.

In General

Currently, the Los Angeles County Transportation Commission imposes two transactions and use taxes for a total countywide transactions and use tax rate of 1 percent. The combined state and local tax rate throughout Los Angeles County, with the exception of the City of Avalon, is 8.25 percent. The City of Avalon in Los Angeles County imposes a 0.50 percent (1/2 percent) transactions and use tax, for a total combined state and local tax rate within the City of Avalon of 8.75 percent. Because the City of Avalon imposes a 0.50 percent (1/2 percent) tax and the Los Angeles County Transportation Commission imposes a countywide 1 percent tax, Los Angeles County has reached the maximum allowable rate of 1.50 percent and, therefore, is prohibited from imposing any additional countywide transactions and use taxes.

There are only two counties (City and County of San Francisco and County of San Mateo) that have, through enabling legislation, increased the maximum combined transactions and use tax rate thresholds for their areas. Senate Bill 482 (Chapter 369, Stats. 1991), among other things, provided that: (1) the combined transactions and use tax rate in the County of San Mateo shall not exceed 0.50 percent in excess of the maximum rate otherwise allowed under Section 7251.1, and the revenues derived from the tax are allocated for the support of public elementary and secondary education in the county; and (2) the combined transactions and use tax rate in the City and County of San Francisco shall not exceed 0.25 percent in excess of the maximum rate otherwise allowed under Section 7251.1. [Maximum combined transactions and use tax rate was 1 percent, subsequently increased to 1.50 percent (Assembly Bill 1930, Chapter 1024, Stats. 1991)].

Subsequently, Senate Bill 509 (Chapter 73, Stats. 1993) was passed and, among other things, increased the maximum combined transactions and use tax rate for the City and County of San Francisco by 0.25 percent, in excess of the 1.50 percent limitation under Section 7251.1.

Currently, there are two transactions and use taxes imposed in San Mateo County for a total county-wide transactions and use tax rate of 1 percent. The total state and local tax rate throughout San Mateo County is 8.25 percent. There are three transactions and use taxes imposed in the City and County of San Francisco for a total countywide transactions and use tax rate of 1.25 percent. The total state and local tax rate throughout the City and County of San Francisco is 8.50 percent.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the County of Los Angeles Sheriff's Department to raise additional revenues to fund public safety programs.

2. **Key amendments.** The **June 16, 2003 amendments** added intent language providing that the increase to the maximum combined rate limitation in Los Angeles County from 1.5 percent to 2 percent be used to fund public safety projects and trauma centers. The **May 6, 2003 amendments** addressed technical concerns raised in the previous Board staff analysis. These amendments: (1) deleted the reference "in a district, as defined in Section 7252" from Section 7251.1; (2) moved the provisions that increased the maximum combined rate in Los Angeles County from the newly created Section 7251.5 to the existing Section 7251; and (3) deleted provisions that provided an alternative to Sections 7285 and 7285.5, whereby a countywide transactions and use tax could be levied pursuant to a county initiative for general purposes or special purposes, as long as certain requirements were met.

3. **A maximum combined transactions and use tax rate of 2 percent for all counties would provide uniformity.** This bill increases the combined transactions and use tax rate for Los Angeles County to 2 percent. As stated previously, Los Angeles County has reached the maximum combined rate limitation of 1.5 percent under Section 7251.1. If this bill becomes law, other counties more than likely will seek legislation to increase the maximum combined transactions and use tax rate for their areas.

   Currently, there are 24 counties (Alameda, Contra Costa, Fresno, Imperial, Inyo, Los Angeles, Madera, Mariposa, Napa, Nevada, Orange, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, and Stanislaus) for which one or more transactions and use taxes are being imposed countywide. Also, there are 3 counties (El Dorado, Lake, and Yolo) for which no countywide transactions and use tax is being imposed, but where a city in the county is imposing a transactions and use tax.

   As previously stated, there are 22 cities, through specific legislation, that have gained authorization to impose transactions and use taxes. However, only 9 cities (Avalon, Calexico, Clearlake, Clovis, Placerville, Sebastopol, the Town of Truckee, West Sacramento, and Woodland) have received voter approval and are actually imposing a tax. Additionally, the tax rate imposed by a city counts against the 1.50 percent rate limitation under Section 7251.1.

   Therefore, since several counties have more than one transactions and use taxes being imposed within their areas, many cities are attempting to gain authorization to levy transactions and use taxes within their areas, and San Francisco and San Mateo counties already are authorized by statute to have a maximum allowable combined rate of 1.75 percent and 2 percent, respectively, in their areas, the Legislature may wish to consider extending an increase in the maximum combined transactions and use tax rate to 2 percent for all counties.

4. **Related Legislation.** Six bills introduced in 2003 would place on the ballot a constitutional amendment to change the voter approval requirement for special taxes. **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 projects, with the approval of a majority of its voters. **ACA 14 (Steinberg)** would constitutionally authorize local governments, with the 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 improvements. **ACA 15 (Wiggins)** would constitutionally authorize local governments, with the approval of a majority of the voters, to impose a special tax to fund local public safety departments, as defined.

   SCA 2 (Torlakson) would constitutionally authorize counties, cities and counties, local transportation authorities, 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 a special tax or to incur indebtedness in the form of general obligation bonds to fund infrastructure projects, including construction of affordable housing for persons of very low, low, and moderate income, transportation enhancement activities, acquisition of land for open-space use, and other general infrastructure needs.

   Additionally, two bills introduced in 2003 would authorize cities to impose a transactions and use tax. **SB 402 (Florez)** would authorize the City of Coalinga and the City of Huron, with the approval of two-thirds of the voters, to levy a transactions and use tax at a rate not less 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. **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.

COST ESTIMATE

This bill only authorizes the County of Los Angeles to levy an additional transactions and use tax, and would not increase administrative costs. However, if the voters approved the county initiative imposing the tax, the authority imposing the tax 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.

REVENUE ESTIMATE

Taxable sales in Los Angeles County during fiscal year 2001-02 amounted to $107.2 billion.

A transactions and use tax in Los Angeles County would raise the following amounts annually:

Rate	Revenue
¼ %	$ 268 million
½ %	$ 536 million

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

01	Alameda
State	6.00
Local	1.25
ACTA#	0.50
ACTI#	0.50
BART	0.50
	8.25

02	Alpine
State	6.00
Local	1.25
	7.25

03	Amador
State	6.00
Local	1.25
	7.25

04	Butte
State	6.00
Local	1.25
	7.25

05	Calaveras
State	6.00
Local	1.25
	7.25

06	Colusa
State	6.00
Local	1.25
	7.25

07	Contra Costa
State	6.00
Local	1.25
CCTA	0.50
BART	0.50
	8.25

08	Del Norte
State	6.00
Local	1.25
	7.25

09	El Dorado
State	6.00
Local	1.25
PLPS*	0.25
	7.50

10	Fresno
State	6.00
Local	1.25
FCTA	0.50
FCPL	0.125
CCPS*	0.30
	8.175

11	Glenn
State	6.00
Local	1.25
	7.25

12	Humboldt
State	6.00
Local	1.25
	7.25

13	Imperial
State	6.00
Local	1.25
IMTA	0.50
CXHD*	0.50
	8.25

14	Inyo
State	6.00
Local	1.25
INRC	0.50
	7.75

15	Kern
State	6.00
Local	1.25
	7.25

16	Kings
State	6.00
Local	1.25
	7.25

17	Lake
State	6.00
Local	1.25
CLPS*	0.50
	7.75

18	Lassen
State	6.00
Local	1.25
	7.25

19	Los Angeles
State	6.00
Local	1.25
LATC	0.50
LACT	0.50
AMHC*	0.50
	8.25

20	Madera
State	6.00
Local	1.25
MCTA	0.50
	7.75

21	Marin
State	6.00
Local	1.25
	7.25

22	Mariposa
State	6.00
Local	1.25
MCHA	0.50
	7.75

23	Mendocino
State	6.00
Local	1.25
	7.25

24	Merced
State	6.00
Local	1.25
	7.25

25	Modoc
State	6.00
Local	1.25
	7.25

26	Mono
State	6.00
Local	1.25
	7.25

27	Monterey
State	6.00
Local	1.25
	7.25

28	Napa
State	6.00
Local	1.25
NCFP	0.50
	7.75

29	Nevada
State	6.00
Local	1.25
NVPL	0.125
TRSR*	0.50
	7.875

30	Orange
State	6.00
Local	1.25
OCTA	0.50
	7.75

31	Placer
State	6.00
Local	1.25
	7.25

32	Plumas
State	6.00
Local	1.25
	7.25

Attachment 1

California Sales, Transactions and Use Tax Rates by County

Effective 01/01/03

33	Riverside
State	6.00
Local	1.25
RCTC	0.50
	7.75

34	Sacramento
State	6.00
Local	1.25
STAT	0.50
	7.75

35	San Benito
State	6.00
Local	1.25
	7.25

36	San Bernardino
State	6.00
Local	1.25
SBER	0.50
	7.75

37	San Diego
State	6.00
Local	1.25
SDTC	0.50
	7.75

38	San Francisco
State	6.00
Local	1.25
SFTA	0.50
SFPF	0.25
BART	0.50
	8.50

39	San Joaquin
State	6.00
Local	1.25
SJTA	0.50
	7.75

40	San Luis Obispo
State	6.00
Local	1.25
	7.25

41	San Mateo
State	6.00
Local	1.25
SMTA	0.50
SMCT	0.50
	8.25

42	Santa Barbara
State	6.00
Local	1.25
SBAB	0.50
	7.75

43	Santa Clara
State	6.00
Local	1.25
SCCT	0.50
SCGF	0.50
	8.25

44	Santa Cruz
State	6.00
Local	1.25
SCMT	0.50
SZPL	0.25
	8.00

45	Shasta
State	6.00
Local	1.25
	7.25

46	Sierra
State	6.00
Local	1.25
	7.25

47	Siskiyou
State	6.00
Local	1.25
	7.25

48	Solano
State	6.00
Local	1.25
SLPL	0.125
	7.375

49	Sonoma
State	6.00
Local	1.25
SCOS	0.25
SEGR*	0.125
	7.625

50	Stanislaus
State	6.00
Local	1.25
STCL	0.125
	7.375

51	Sutter
State	6.00
Local	1.25
	7.25

52	Tehama
State	6.00
Local	1.25
	7.25

53	Trinity
State	6.00
Local	1.25
	7.25

54	Tulare
State	6.00
Local	1.25
	7.25

55	Tuolumne
State	6.00
Local	1.25
	7.25

56	Ventura
State	6.00
Local	1.25
	7.25

57	Yolo
State	6.00
Local	1.25
WOGT*	0.50
WSTU*	0.50
	7.75

58	Yuba
State	6.00
Local	1.25
	7.25

*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.