



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

Date Amended:	Enrolled	Bill No:	SB 685
Tax:	Transactions and Use	Author:	Costa
Board Position:	Neutral	Related Bills:	AB 1123 (AR&T) SB 1187 (Costa)

BILL SUMMARY

This bill would authorize the Fresno County Transportation Authority, subject to 2/3rds voter approval, to levy a transactions and use tax at a rate of 1/2 percent for an additional 30 years to finance regional transportation improvements.

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 rate of tax is fixed at 1 1/4 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 within California have adopted ordinances under the terms of the Bradley-Burns Law and levy the 1 1/4 percent local tax.

Under this Bradley-Burns Uniform Local Sales and Use Tax Law, the 1/4 percent tax rate is earmarked for county transportation purposes, and 1 percent may be used for general purposes. Cities are authorized to impose a 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 1/4 percent.

Under the existing Transactions and Use Tax Law (commencing with Section 7251 of the Revenue and Taxation Code), counties are additionally authorized to impose a transactions and use tax rate of 1/4 percent, or multiple thereof, if the ordinance imposing that tax is approved by the voters. Under this law, the maximum allowable rate of transactions and use taxes levied by any district may not exceed 1 1/2 percent, with the exception of San Francisco and San Mateo, whose combined rates may not exceed 1 3/4 and 2 percent, respectively.

Section 7285 of the Transactions and Use Tax Law additionally allows counties to levy a transactions and use tax rate of 1/4 percent, or multiple thereof, for general purposes with the approval of a majority of the voters. Section 7285.5 permits a county to form a special purpose authority which may levy a transactions and use tax at the rate of either 1/4 or 1/2 percent, with majority voter approval. Section 7288.1 also allows counties to establish a Local Public Finance Authority to adopt an ordinance to impose a

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transactions and use tax rate of 1/4 or 1/2 percent for purposes of funding drug abuse prevention, crime prevention, health care services, and public education upon majority voter approval. (Board legal staff have taken the position that a special purpose authority may only impose a transactions and use tax if the authority meets the requirements of the section but obtains approval of two-thirds votes rather than a majority vote of the qualified electors of the authority.) Finally, Section 7286.59 allows counties to levy a transactions and use tax rate of 1/8 or 1/4 percent for purposes of funding public libraries, upon two-thirds voter approval.

Fresno county currently imposes two transactions and use taxes. The Fresno County Transportation Authority imposes a 1/2 percent transactions and use tax to finance highway improvements and local transportation. This tax became effective July 1, 1987 and will expire June 30, 2007. The authority will terminate two years after the tax is last collected and existing law will be repealed at that time.

The county also imposes the Fresno County Public Library Transactions and Use Tax at a rate of 1/8 percent, effective April 1, 1999. The city of Clovis, in Fresno county, imposes the City of Clovis Public Safety Transactions and Use Tax at a rate of 0.30 percent, applicable only within the city limits. (The city of Fresno also imposed the Fresno Metropolitan Projects Authority at a rate of 0.10% from July 1, 1993 until March 20, 1996, when it was declared unconstitutional unconstitutional in *Howard Jarvis Taxpayers' Association v. Fresno Metropolitan Projects Authority* (1995) 40 Cal.App.4th 1359, mod.(1996) 41 Cal.App.4th 1523a.) Therefore, the current state and local tax rate in Fresno county is 7.625 percent. The tax rate in Clovis is 7.925 percent.

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

Proposed Law

This bill would add and repeal Chapter 7252.10 of the Revenue and Taxation Code to authorize the Fresno County Transportation Authority to continue to impose a transactions and use tax rate of 1/2 percent, subject to two-thirds voter approval, for an additional 30 years. The tax imposed shall be levied pursuant to existing law regarding transactions and use taxes (Part 1.6, commencing with Section 7251). This bill also amends various sections of the Public Utilities Code necessary to revise the Fresno County Transportation Authority.

In General

Many special districts in California impose an additional tax that is administered by the Board. These taxes are commonly referred to as transactions and use taxes. In Sacramento County, for example, a transactions and use tax of 1/2 percent is levied by the Sacramento County Transportation Authority for purposes of funding transportation projects. The first special tax district of this sort was created in 1970 when voters

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approved the San Francisco Bay Area Rapid Transit District to pay for bonds and notes issued for construction of the BART system. The tax rate in these special taxing districts varies from district to district. Currently, the County of Stanislaus imposes the lowest transactions and use tax rate of 1/8 of one percent. San Francisco City and County has the highest transactions and use tax rate of 1 1/4 percent. The remaining districts impose rates in between these ranges. In addition, due to the past two fiscal years' budget surpluses and the next fiscal year's projected surplus in the General Fund, an automatic trigger in Sections 6051.3 and 6201.3 of the Revenue and Taxation Code decreased the state sales tax rate by the 1/4 percent effective 01-01-01. Accordingly, the minimum state and local combined sales and use tax rate is 7%. The various combined state and local tax rates and taxing jurisdictions levying those rates (as of 1/1/01) is shown on the attached schedule.

COMMENTS

1. **Sponsor and purpose of the bill.** This bill is sponsored by the author in an effort to renew Fresno County's transactions and use tax.
2. **It may not be cost effective for some districts to impose a transactions and use tax.** The Board's total administrative costs are driven by the workload involved in processing returns, and are relatively fixed. The cost of administering these taxes is not related to the revenue generated by the tax. However, the ratio of such costs to the amount of revenue generated by a tax varies widely. Therefore, if the tax rate or volume is very low, the ratio will be high. Revenue and Taxation Code Section 7273, as amended by Chapter 890, Statutes of 1998 (AB 836, Sweeney, et al.) and again by Chapter 865, Statutes of 1999 (SB 1302, Rev & Tax Committee) 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 1/2 percent is capped at 1.5 percent of the revenue generated. If Fresno County were to impose this tax, it is expected that the administrative costs would continue to be assessed at the capped limit of 1.5 percent of revenue generated.

In some local taxing jurisdictions, administrative costs do exceed the cap. As a point of perspective, the Board's estimated 2000-01 administrative costs assessments to the existing special taxing jurisdictions range between \$3,000 (City of Avalon Municipal Hospital and Clinic) and \$7.1 million (Los Angeles Transportation Commission). Because the Board is limited in the amount it may charge special taxing jurisdictions, any shortfall that results from actual costs exceeding the amount the Board may charge would impact the General Fund. For 2000-01 the State General Fund is absorbing an estimated \$1.6 million as a result of the cap limitations on administrative cost recovery. Included in this amount is \$128,000 for the existing Fresno County Transportation Authority.

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3. **Related Legislation.** Assembly Bill 1123 (Ch. 251, AR&T) amended Sections 7285, 7285.5, and 7288.3 of the Revenue and Taxation Code, related to transactions and use taxes, to (1) clarify that an ordinance, not a resolution, is necessary for the adoption of the tax; (2) clarify that Section 7285 authorizes counties to levy a transactions and use tax for general purposes; (3) delete the necessity of forming an authority to levy a district tax for special purposes; (4) require two-thirds voter approval of a special-purpose tax; and (5) clarify that transactions and use taxes may be levied in multiples of $\frac{1}{4}$ percent.

Senate Bill 1187 (Costa) would authorize Fresno County to establish a special purpose authority for the support of zoos, zoological facilities, and related zoological purposes in Fresno County and may impose a transactions and use tax of 0.10 percent, subject to two-thirds voter approval, to fund those purposes.

COST ESTIMATE

If the county passed the ordinance, it would be required to continue contracting with the Board to perform functions related to the ordinance, and would continue reimbursing the Board for its administrative costs. Based on the Board's current contract with Fresno County to administer the $\frac{1}{2}$ percent tax, it is estimated that the ongoing administrative costs would continue at the amount capped of approximately \$583,500 (\$38.9 million x 1.5%). As stated in Comment 2, for 2000-01 the State General Fund is absorbing an estimated \$1.6 million as a result of the cap limitations on administrative cost recovery. This includes \$128,000 for the existing Fresno County Transportation Authority.

REVENUE ESTIMATE

The transactions and use tax currently levied by the Fresno County Transportation Authority is due to end June 30, 2007. This bill would extend that tax for another 30 years. The revenues derive from this tax for the last five fiscal years were as follows:

<u>Year</u>	<u>Revenue</u>
1999-00	\$38.9 million
1998-99	35.3 million
1997-98	33.3 million
1996-97	32.2 million
1995-96	31.4 million

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ATTACHMENT 1
California Sales and Use Tax Rates by County
 Effective January 1, 2001

01 Alameda	
State	5.75%
Local	1.25%
ACTA	0.50%
BART	0.50%
Total	8.00%

02 Alpine	
State	5.75%
Local	1.25%
Total	7.00%

03 Amador	
State	5.75%
Local	1.25%
Total	7.00%

04 Butte	
State	5.75%
Local	1.25%
Total	7.00%

05 Calaveras	
State	5.75%
Local	1.25%
Total	7.00%

06 Colusa	
State	5.75%
Local	1.25%
Total	7.00%

07 Contra Costa	
State	5.75%
Local	1.25%
CCTA	0.50%
BART	0.50%
Total	8.00%

08 Del Norte	
State	5.75%
Local	1.25%
Total	7.00%

09 El Dorado	
State	5.75%
Local	1.25%
PLPS*	0.25%
Total	7.25%

10 Fresno	
State	5.75%
Local	1.25%
FCTA	0.50%
FCPL	0.125%
CCPS*	0.300%
Total	7.925%

11 Glenn	
State	5.75%
Local	1.25%
Total	7.00%

12 Humboldt	
State	5.75%
Local	1.25%
Total	7.00%

13 Imperial	
State	5.75%
Local	1.25%
CXHD*	0.50%
IMTA	0.50%
Total	8.00%

14 Inyo	
State	5.75%
Local	1.25%
INRC	0.50%
Total	7.50%

15 Kern	
State	5.75%
Local	1.25%
Total	7.00%

16 Kings	
State	5.75%
Local	1.25%
Total	7.00%

17 Lake	
State	5.75%
Local	1.25%
CLPS*	0.50%
Total	7.50%

18 Lassen	
State	5.75%
Local	1.25%
Total	7.00%

19 Los Angeles	
State	5.75%
Local	1.25%
LATC	0.50%
LACT	0.50%
AMHC*	0.50%
Total	8.50%

20 Madera	
State	5.75%
Local	1.25%
MCTA	0.50%
Total	7.50%

21 Marin	
State	5.75%
Local	1.25%
Total	7.00%

22 Mariposa	
State	5.75%
Local	1.25%
MCHA	0.50%
Total	7.50%

23 Mendocino	
State	5.75%
Local	1.25%
Total	7.00%

24 Merced	
State	5.75%
Local	1.25%
Total	7.00%

25 Modoc	
State	5.75%
Local	1.25%
Total	7.00%

26 Mono	
State	5.75%
Local	1.25%
Total	7.00%

27 Monterey	
State	5.75%
Local	1.25%
Total	7.00%

28 Napa	
State	5.75%
Local	1.25%
NCFP	0.50%
Total	7.50%

29 Nevada	
State	5.75%
Local	1.25%
TRSR*	0.50%
NVPL	0.125%
Total	7.625%

30 Orange	
State	5.75%
Local	1.25%
OCTA	0.50%
Total	7.50%

31 Placer	
State	5.75%
Local	1.25%
Total	7.00%

32 Plumas	
State	5.75%
Local	1.25%
Total	7.00%

33 Riverside	State 5.75%	Local 1.25%	RCTC 0.50%	Total 7.50%		
34 Sacramento	State 5.75%	Local 1.25%	STAT 0.50%	Total 7.50%		
35 San Benito	State 5.75%	Local 1.25%		Total 7.00%		
36 San Bernardino	State 5.75%	Local 1.25%	SBER 0.50%	Total 7.50%		
37 San Diego	State 5.75%	Local 1.25%	SDTC 0.50%	Total 7.50%		
38 San Francisco	State 5.75%	Local 1.25%	SFPF 0.25%	SFTA 0.50%	BART 0.50%	Total 8.25%
39 San Joaquin	State 5.75%	Local 1.25%	SJTA 0.50%	Total 7.50%		
40 San Luis Obispo	State 5.75%	Local 1.25%		Total 7.00%		
41 San Mateo	State 5.75%	Local 1.25%	SMTA 0.50%	SMCT 0.50%	Total 8.00%	
42 Santa Barbara	State 5.75%	Local 1.25%	SBAB 0.50%	Total 7.50%		
43 Santa Clara	State 5.75%	Local 1.25%	SCCT 0.50%	SCGF 0.50%	Total 8.00%	
44 Santa Cruz	State 5.75%	Local 1.25%	SCMT 0.50%	SZPL 0.25%	Total 7.75%	
45 Shasta	State 5.75%	Local 1.25%		Total 7.00%		
46 Sierra	State 5.75%	Local 1.25%		Total 7.00%		
47 Siskiyou	State 5.75%	Local 1.25%		Total 7.00%		
48 Solano	State 5.75%	Local 1.25%	SLPL 0.125%	Total 7.125%		
49 Sonoma	State 5.75%	Local 1.25%	SCOS 0.25%	Total 7.25%		
50 Stanislaus	State 5.75%	Local 1.25%	STCL 0.125%	Total 7.125%		
51 Sutter	State 5.75%	Local 1.25%		Total 7.00%		
52 Tehama	State 5.75%	Local 1.25%		Total 7.00%		
53 Trinity	State 5.75%	Local 1.25%		Total 7.00%		
54 Tulare	State 5.75%	Local 1.25%		Total 7.00%		
55 Tuolumne	State 5.75%	Local 1.25%		Total 7.00%		
56 Ventura	State 5.75%	Local 1.25%		Total 7.00%		
57 Yolo	State 5.75%	Local 1.25%	WOGT*	0.50%	Total 7.50%	
58 Yuba	State 5.75%	Local 1.25%		Total 7.00%		

* The tax rate in these districts are not imposed throughout the entire county, and when combined with county-wide tax rates, these districts have a higher total tax rate. The total tax rate displayed for these counties includes the district-only rate.