



# STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	<b>05/20/04</b>	Bill No:	<b>AB 2585</b>
Tax:	<b>Sales and Use Taxes</b>	Author:	<b>Parra</b>
Board Position:		Related Bills:	

## BILL SUMMARY

This bill would, among other things, require the California Research Bureau (CRB), in conjunction with the Board of Equalization (BOE) and the Franchise Tax Board (FTB), by December 31, 2004, to calculate the state tax revenues attributable to Kings County for the fiscal year 2003-04. This bill would also require the CRB, in conjunction with the BOE and the FTB, by December 31, 2007, and December 31 for each following year, to calculate the state tax revenues attributable to Kings County for the preceding fiscal year.

### Summary of Amendments

Since the previous analysis, this bill was amended to: (1) require the CRB, instead of the Legislative Analyst's Office (LAO), in conjunction with the BOE and the FTB, to calculate the state tax revenues attributable to Kings County, as specified; (2) specify that after the calculation has been made, the Legislature would determine whether state funding should be provided to the San Joaquin Valley Unified Air Pollution Control District (District); and (3) delete the Joint Strike Fighter Impact Zone Account, and instead provide that any state funding should go directly to the District.

## ANALYSIS

### Current Law

The Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), provides that a sales tax is imposed on retailers for the privilege of selling tangible personal property at retail. The use tax is imposed upon the storage, use, or other consumption of tangible personal property purchased from a retailer. Either the sales tax or the use tax applies with respect to all sales or purchases of tangible personal property, unless specifically exempted or excluded from the tax.

Currently, the state portion of the sales and use tax rate is 6 percent. However, beginning July 1, 2004, the state sales and use tax rate will increase by 0.25 percent, from 6 to 6.25 percent. The revenues from the 0.25 percent state sales and use tax rate increase are to be deposited into the Fiscal Recovery Fund and dedicated to the repayment of the budget deficit bonds.

The components of the state sales and use tax rate of 6 percent are as follows:

- 4.75 percent state sales and use tax is allocated to the state's General Fund which is dedicated for state general purposes (Sections 6051 and 6201 of the Revenue and Taxation Code);
- 0.25 percent is an additional state sales and use tax allocated to the state's General Fund which is dedicated for state general purposes (Sections 6051.3 And 6201.3 of the Revenue and Taxation Code);

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- 0.50 percent state tax is allocated to the Local Revenue Fund which is dedicated to local governments to fund health and welfare programs (Sections 6051.2 and 6201.2 of the Revenue and Taxation Code);
- 0.50 percent state tax is allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Section 35 of Article XIII of the California Constitution).

### **Proposed Law**

This bill would add Section 40608 to the Health and Safety Code to require the CRB, in conjunction with the BOE and the FTB, by December 31, 2004, to calculate the state tax revenues attributable to the Joint Strike Fighter Impact Zone for the base fiscal year. This bill would also require the CRB, in conjunction with the BOE and the FTB, by December 31, 2007, and December 31 of each following year, to calculate the state tax revenues attributable to the Joint Strike Fighter Impact Zone for the preceding fiscal year.

This bill provides the following definitions:

- “Joint Strike Fighter Impact Zone” means Kings County;
- “Base fiscal year” means the 2003-04 fiscal year;
- “State tax revenues” includes revenues derived from the imposition of taxes under the Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), the Personal Income Tax Law (Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code), and the Corporation Tax Law (Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code).

This bill would also state the Legislature’s intent to encourage the United States Navy to select Lemoore Naval Air Station (located in Kings County) as the Navy’s West Coast Operations Center to house the F-35 Joint Strike Fighter. It is estimated that as many as 10,000 new jobs will be generated in and around the site selected to house the F-35 Joint Strike Fighter, as well as increase economic activity by an estimated \$1 billion.

This bill would also do the following:

- Provide that the District may develop and adopt by regulation, no later than January 1, 2008, a program to offset or mitigate the increased emissions of air contaminants as a result of the housing of the F-35 Joint Strike Fighter at Lemoore Naval Air Station;
- Provide that the Legislature, for the 2007-08 fiscal year, and each fiscal year thereafter, shall determine whether state funding should be provided in an amount based on the calculations of the state tax revenues attributable to Kings County to the District, for use in mitigating any increase in emissions of air contaminants that may result if the Lemoore Naval Air Station is chosen to be the West Coast Operations Center to house the F-35 Joint Strike Fighter.

**COMMENTS**

1. **Sponsor and purpose.** This bill is sponsored by the author in an effort to generate more jobs in Kings County, as well as generate more economic activity.
2. **The May 20, 2004 amendments** would do the following: (1) require the CRB, instead of the LAO, in conjunction with the BOE and the FTB, to calculate the state tax revenues attributable to Kings County; (2) specify that after the calculation has been made, the Legislature would determine whether state funding should be provided to the District; and (3) delete the Joint Strike Fighter Impact Zone Account, and instead provide that any state funding should go directly to the District.
3. **The Board staff does not see a problem in complying with the provisions of this bill.** This bill requires the LAO, in conjunction with the BOE, by December 31, 2004, to calculate the state sales and use tax revenues for Kings County during the fiscal year 2003-04, and then on December 31, 2007, and each December 31 thereafter for the prior fiscal year. The Board staff does not see a problem in calculating the state sales and use tax revenues for the prior fiscal year by each December 31<sup>st</sup>.
4. **Definition of state tax revenues.** This bill defines the term “state tax revenues” to include revenues derived from taxes imposed under the Sales and Use Tax Law (Part 1 of Division 2 of the Revenue and Taxation Code (R&T Code)). The following is a breakdown of the sales and use tax rates imposed under Part 1 of Division 2 of the R&T Code:

Rate	State – Type of Fund	Part 1, Div. 2 of R&T Code
4.75 %	General Fund	6051, 6201
0.25 %	General Fund	6051.3, 6201.3
0.50 %	Local Revenue Fund	6051.2, 6201.2
<u>Operative July 1, 2004</u> 0.25 %	Fiscal Recovery Fund	6051.5, 6201.5

Does the Legislature want the calculations based on revenues credited to the Local Revenue Fund and used for local government purposes? Does the Legislature want the calculations based on revenues credited to the Fiscal Recovery Fund and used for the repayment of the 2003-04 budget deficit bonds?

**COST ESTIMATE**

Costs associated with this bill would be insignificant. The BOE would only be required to provide the LAO with information regarding the state sales and use tax revenues attributable to Kings County for the fiscal year 2003-04, and for the fiscal year 2007-08 and each fiscal year thereafter.

**REVENUE ESTIMATE**

This bill would not impact the state's revenues.

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