

Date of Hearing: June 17, 2026

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

SB 762 (Arreguín) – As Amended June 10, 2026

SENATE VOTE: 29-10

SUBJECT: Transactions and use taxes: various jurisdictions.

SUMMARY: Authorizes various cities and counties to impose a transactions and use tax (TUT) that exceeds the 2% statutory limitation. Specifically, **this bill:**

- 1) Allows the City of Hercules, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 2) Allows Santa Barbara County to impose a TUT for general or specific purposes to support countywide programs at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 3) Allows the City of Carpinteria, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .25% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 4) Allows the City of Santa Maria, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 5) Allows the City of Palo Alto, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 6) Allows the City of Los Altos, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 7) Allows the City of Santa Rosa, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 8) Allows the City of Rohnert Park, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .75% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 9) Allows the Town of Los Gatos, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.

- 10) Allows the City of Pacifica, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 11) Allows the City of San Gabriel, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 12) Allows the City of San Pablo, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 13) Allows Santa Cruz County to impose a TUT for general or specific purposes to support countywide programs at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 14) Requires that all the following requirements be met for each authorization to exceed the 2% cap outlined above:
 - a) The city council or board of supervisors to adopt an ordinance proposing the TUT by the applicable voting requirement.
 - b) The ordinance proposing the TUT is submitted to the electorate and is approved by the voters voting on the ordinance by the applicable voting approval requirement in accordance with the California Constitution.
 - c) The TUT conforms to the TUT Law.
- 15) Specifies that a TUT imposed for all the above authorizations to exceed the 2% cap shall not be considered for purposes of the 2% combined rate limitation.
- 16) Specifies for all the above authorizations to exceed the 2% cap, that if, as of December 31, 2031 (except Santa Cruz County which is December 31, 2030), an ordinance proposing a TUT has not been approved in the respective city or county, the provisions of this bill related to that city or county shall be repealed.
- 17) Contains an urgency clause.
- 18) Finds and declares that a special statute is necessary and that a general statute cannot be made applicable because of the unique fiscal circumstances of the jurisdictions authorized to impose a tax pursuant to this bill.

FISCAL EFFECT: None.

COMMENTS:

- 1) **Bill Summary and Author's Statement.** This bill allows various cities and counties to impose a TUT that exceeds the 2% statutory limitation, as specified. The Cities of Hercules, Los Altos, Pacifica, San Pablo, and the Town of Los Gatos are the sponsors of this bill.

According to the Author, “Cities and counties across California are experiencing growing fiscal pressures driven by rising service demands, aging infrastructure and health and public safety obligations. SB 762 establishes a limited and legally sound process that enables eligible local governments to seek voter approval for transactions and use tax rates above the current statutory cap. By requiring local voter authorization, the bill preserves accountability and transparency while providing communities with greater flexibility to address their unique fiscal circumstances. The measure recognizes that local governments face varying financial challenges and that voters should have the opportunity to decide whether additional revenue tools are appropriate for their communities.”

- 2) **Sales and Use Taxes.** State law imposes the sales tax on every retailer “engaged in business in this state” that sells tangible personal property, and requires them to register with the California Department of Tax and Fee Administration (CDTFA), as well as collect the appropriate tax at purchase and remit the amount to CDTFA. Sales tax applies whenever a retail sale occurs, which is generally any sale other than one for resale in the regular course of business. The current rate is 7.25% as shown in the table below.

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes
1.0625%	Local Revenue Fund (2011 Realignment)	Local governments to fund local public safety services
0.50%	State (1991 Realignment)	Local governments to fund health and welfare programs
0.50%	State (Proposition 172 - 1993)	Local governments to fund public safety services
1.25%	Local (City/County) 1.00% City and County 0.25% County	City and county general operations Dedicated to county transportation purposes
7.25%	Total Statewide Rate	

Unless the purchaser pays the sales tax to the retailer, he or she is liable for the use tax, which the law imposes on any person consuming tangible personal property in the state. The use tax is the same rate as the sales tax, and also like the sales tax, must be remitted on or before the last day of the month following the quarterly period in which the person made the purchase.

- 3) **Transactions and Use Taxes.** The California Constitution states that taxes levied by local governments are either general taxes, subject to majority approval of its voters, or special taxes, subject to 2/3 vote (Article XIII C). Proposition 13 (1978) required a 2/3 vote of each house of the Legislature for state tax increases, and a 2/3 vote for local special taxes. Proposition 62 (1986) prohibited local agencies from imposing general taxes without

majority approval of local voters, and a 2/3 vote for special taxes. Proposition 218 (1996) extended those vote thresholds to charter cities, and limited local agencies' powers to levy new assessments, fees, and taxes. Local agencies generally propose to increase taxes by adopting an ordinance or a resolution at a public hearing.

State law allows cities, counties, and specified special districts to increase the sales and use tax applicable in their jurisdiction, also known as district taxes or TUTs. Generally, the combined TUT tax rate imposed within a local jurisdiction cannot exceed 2%. To determine whether a county has reached this rate limitation, all countywide taxes and the highest combined rate imposed by a city within the county are counted towards the county's rate limit. For example, if a county imposes three 0.5% countywide taxes and two cities within the county each impose a 0.5% tax, the combined rate in those two cities would be 2%. In such a circumstance, the two cities could not impose another TUT, and the county could not impose another countywide TUT, absent special authority to exceed the rate limitation.

Prior to 2003, cities lacked the ability to place TUTs before their voters without first obtaining approval by the Legislature to bring an ordinance before the city council, and, if approved at the council level, to the voters. This was remedied by SB 566 (Scott), Chapter 709, Statutes of 2003, which imposed the uniform 2% countywide cap.

AB 464 (Mullin) of 2015 would have increased the maximum combined rate of all TUTs that may be levied by authorized entities within a county from 2% to 3%. This bill was vetoed by Governor Brown stating, "This bill would raise, on a blanket basis, the limit on local transactions and use tax for all counties and cities from two percent to three percent. Although I have approved raising the limit for individual counties, I am reluctant to approve this measure in view of all the taxes being discussed and proposed for the 2016 ballot."

As of April 1, 2026, local agencies impose 486 district taxes for general or special purposes: 408 imposed citywide, 72 imposed countywide, and six imposed in unincorporated county areas. Generally, local agencies impose these taxes throughout the entire area of a single county, the entire unincorporated area within a single county, or a single incorporated city. However, three transportation operators in the Bay Area have regional district taxes:

- a) The Bay Area Rapid Transit (BART) District, which covers Alameda, Contra Costa, and San Francisco counties.
 - b) The Peninsula Corridor Joint Powers Board (CalTrain), which covers San Francisco, San Mateo, and Santa Clara counties.
 - c) The Sonoma-Marin Rail Transit District, which includes Sonoma and Marin counties.
- 4) **Related Legislation.** AB 1919 (Pellerin) specifies that special taxes may be imposed through the initiative process in the Santa Cruz Metropolitan Transit District (SC Metro) and establishes procedures for the placement of a retail TUT ordinance on the ballot for the consideration of SC Metro voters. This bill is currently pending in the Senate Rules Committee.

AB 2484 (Alvarez) authorizes the San Diego Metropolitan Transit System (MTS) to impose

a TUT that exceeds the 2% statutory limitation, and specifies that the TUT may be imposed by a qualified voter initiative. This bill is currently pending in the Senate Rules Committee.

SB 1078 (Laird) allows the Santa Cruz County to impose a TUT, by ordinance, of up to 0.5% even if it exceeds the 2% cap. This bill is currently pending in this committee.

SB 1408 (Arreguin) authorizes, until January 1, 2045, the Contra Costa Transportation Authority to impose a TUT for the support of countywide transportation programs at up to 1% even if it exceeds the combined countywide rate limit of 2%. This bill is currently pending in this committee.

- 5) **Previous Legislation.** AB 618 (Stone) of 2019 would have permitted the Cities of Emeryville (Alameda County) and Scotts Valley (Santa Cruz County) to impose a tax of up to 0.25% that exceeds the 2% cap. AB 618 was vetoed with a message that stated, “The Cities of Emeryville and Scotts Valley have not yet reached the statewide cap of 2 percent, making it unclear why additional tax authority is needed.”

AB 723 (Quirk), Chapter 747, Statutes of 2019, provided that neither the tax imposed by BART nor the tax imposed by the Alameda County Transportation Commission counts against the 2% cap and made a similar change in Santa Cruz County.

SB 1349 (Glazer), Chapter 369, Statutes of 2020, permitted Contra Costa County, and cities within Contra Costa County, additional legal flexibility to impose local TUTs.

AB 2453 (Bennett), Chapter 286, Statutes of 2022, authorized the Ventura County Transportation Commission to impose a TUT of no more than 0.5% that does not count against the cap in Ventura County.

AB 1256 (Wood), Chapter 572, Statutes of 2023, authorized Humboldt County to impose a TUT of up to 1% that exceeds the 2% statutory limitation.

AB 1385 (Garcia), Chapter 578, Statutes of 2023, raised the maximum TUT that RCTC may impose, from 1% to 1.5%.

AB 1679 (Santiago), Chapter 731, Statutes of 2023, authorizes Los Angeles County to impose a TUT of up to .5% that exceeds the 2% statutory limitation, as specified.

SB 335 (Cortese), Chapter 391, Statutes of 2023, allows the Santa Clara County Board of Supervisors to propose a TUT of up to .625% in Santa Clara County that exceeds the 2% cap and shifted the authority to impose a TUT for countywide transportation purposes in Ventura County that exceeds the 2% cap from the Ventura County Transportation Commission to the County.

SB 862 (Laird), Chapter 296, Statutes of 2023, authorized the board of directors of the Santa Cruz Metropolitan Transit District to impose a retail TUT of up to .5% after January 1, 2024, that is excluded from the 2% combined rate limit, if certain conditions are met.

SB 904 (Dodd), Chapter 866, Statutes of 2024, specified that special taxes may be imposed through the initiative process in the Sonoma-Marín Area Rail Transit District, among other

provisions.

AB 2431 (Mathis) of 2024 would have authorized a city, county, or city and county to impose a TUT at an unspecified rate that exceeds the 2% statutory limitation if certain conditions are met. This bill died in the Assembly Local Government Committee.

AB 2443 (Carrillo), Chapter 961, Statutes of 2024, authorized the cities of Lancaster, Palmdale, and Victorville to impose a transaction and use tax (TUT) that exceeds the 2% statutory limitation.

AB 3259 (Wilson), Chapter 852, Statutes of 2024, allowed the cities of Campbell and Pinole, the Solano County Board of Supervisors and a city council in Solano County to impose a TUT, by ordinance or voter initiative, of up to 0.5% even if it exceeds the 2% cap. This bill is currently pending on the Senate Floor.

AB 761 (Addis), Chapter 706, Statutes of 2025, made changes to Monterey-Salinas Transit District's authority to impose a TUT.

SB 63 (Wiener), Chapter 740, Statutes of 2025, established the Public Transit Revenue Measure District including Alameda, Contra Costa, Santa Clara, and San Mateo Counties and the City and County of San Francisco, and specified that special taxes may be imposed through the initiative process in that district, among other provisions.

SB 333 (Laird), Chapter 750, Statutes of 2025, allowed the San Luis Obispo Council of Governments to impose a TUT by ordinance of up to 1% even if it exceeds the 2% cap.

SB 512 (Pérez) of 2025, would have specified that voters of a district may impose TUTs for transportation purposes by a citizen's initiative. SB 512 was vetoed by Governor Newsom. In his veto message, the Governor wrote, "This bill reaffirms that jurisdictions may use the initiative process to impose transactions and use taxes for transportation purposes. The courts have consistently and repeatedly affirmed this existing authority; therefore, this bill is unnecessary."

AB 1768 (Bryan), Chapter 11, Statutes of 2026, allowed Los Angeles and Contra Costa Counties to impose TUT that exceeds the 2% statutory limitation.

- 6) **Arguments in Support.** According to the City of Hercules, the sponsor of this bill, "SB 762 is a thoughtful and balanced measure that recognizes the growing fiscal pressures facing local governments throughout California while preserving the fundamental principal of local voter control. Importantly, the bill does not impose any tax increase. Rather, it simply authorizes local jurisdictions to place a locally determined measure before their own voters for consideration pursuant to existing constitutional voter approval requirements.

"Like many California cities, Hercules is confronting mounting structural fiscal pressures driven by inflationary cost increases, aging infrastructure, deferred maintenance obligations, rising public safety costs, and growing community needs. The City is currently facing a significant structural fiscal imbalance despite implementing meaningful corrective actions, including holding vacant positions, reducing non-essential spending, and pursuing operational efficiencies across departments.

“At the same time, the City continues to experience increasing pressure on essential municipal services and infrastructure systems. Budget constraints have impacted core public safety and administrative operations, while continued reliance on reserves to sustain ongoing services is not sustainable over the long term. Without additional local fiscal flexibility, cities like Hercules will face increasingly difficult decisions involving service reductions, delayed infrastructure investments, and diminished emergency response capacity.

“SB 762 provides a responsible local solution to these challenges. This bill would allow Hercules voters – not the State, and not the City alone – to determine whether additional locally controlled revenue is necessary to preserve public safety services, maintain infrastructure, strengthen economic resilience, and support long-term fiscal sustainability within the community.

“Importantly, this measure also reduces pressure on the State to backfill growing fiscal challenges in the future. Rather than seeking ongoing state financial assistance, Hercules is simply requesting the authority to allow local residents to determine whether they wish to invest in maintaining the quality of life and public services they rely upon every day.

“California’s long-term economic success depends upon financially stable local governments that can continue delivering essential public services, maintaining infrastructure, supporting economic development, and responding to evolving community needs. SB 762 acknowledges the unique fiscal circumstances facing local jurisdictions and provides a measured, voter-driven pathway for communities to address those realities locally.”

- 7) **Arguments in Opposition.** According to the California Taxpayers Association and the Howard Jarvis Taxpayers Association, “...The transactions and use tax is a regressive tax that has the most harmful impact on low-income residents because it makes it more expensive for these taxpayers to purchase everyday necessities. Inflation has increased the cost of most goods, which in turn increases the sales tax that is imposed as a percentage of the retail price. Adding to the cost of living with a sales tax increase would harm Californians and disproportionately impact the state’s most vulnerable residents.

“...Businesses engaged in manufacturing and research-and-development activities face a significant sales and use tax burden in California. Under existing law, when a business purchases manufacturing or R&D equipment, the purchase is subject to a one-time local sales tax of 1.25 percent plus any additional voter-approved transactions and use taxes. Taxing business inputs increases overall production costs for everyday goods produced in California. Authorizing various cities in the Bay Area to exceed the 2 percent transactions and use tax cap would increase the cost of doing business for critical industries and companies, including the biotech R&D company that is the city’s largest employer.

“...Unlike the federal government, which receives an exemption for all state and local sales taxes, purchases made by municipal and state agencies are subject to state and local sales taxes. Increasing the local sales tax would increase costs for purchases made by cities and counties, public school districts, and universities operating in the city.

“...In 1953, the Senate Committee on State and Local Taxation recommended that California adopt a uniform state and local sales tax with a rate cap. The committee reported that with a

cap, the local sales tax would have a ‘minimum adverse’ impact on taxpayers. The committee noted the following principles to consider when adopting sales tax changes: “[Local sales and use taxes] may and frequently do place unduly heavy compliance costs upon retailers”; and “Local business taxes levied under various ordinances and at different rates may produce artificial and unfair discrimination between retailers in the jurisdictions.” The cap has served the state well and should not be circumvented.”

- 8) **Double-Referral.** This bill is double-referred to the Revenue and Taxation Committee, where it passed on 4-2 vote on June 8, 2026.

REGISTERED SUPPORT / OPPOSITION:

Support

The City of Hercules [SPONSOR]
 City of Los Altos [SPONSOR]
 City of Pacifica [SPONSOR]
 City of San Pablo [SPONSOR]
 Town of Los Gatos [SPONSOR]
 Association of Intermediate Employees
 City of Palo Alto
 City of Rohnert Park
 City of Santa Rosa
 City of Watsonville
 Central California Alliance for Health
 Community Action Board of Santa Cruz County, Inc.
 Dientes Community Dental
 Encompass Community Services
 Housing Authority of the County of Santa Cruz
 Los Altos Police Officers’ Association
 Operating Engineers, Local 3
 Pacifica Police Officers Association
 Palo Alto Community Initiative 2026
 San Pablo Police Chief, Brian Bubar
 San Pablo Police Employees Association
 San Pablo Police Employees Association, Management Unit
 Santa Barbara County
 Santa Cruz County
 Service Employees Union International (SEIU) California
 Teamsters California
 Teamsters Local Union No. 856

Opposition

Alameda County Taxpayers’ Association
 California Taxpayers Association
 Contra Costa Taxpayers Association
 Howard Jarvis Taxpayers Association

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