

Date of Hearing: March 27, 2019

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 618 (Mark Stone) – As Amended March 13, 2019

SUBJECT: Transactions and use taxes: City of Scotts Valley.

SUMMARY: Allows the City of Scotts Valley to adopt an ordinance proposing the imposition of a transactions and use tax that exceeds the 2% statutory limitation. Specifically, **this bill:**

- 1) Allows the City of Scotts Valley to impose a transactions and use tax at a rate not to exceed 0.25% for general or specific purposes that, in combination with all other transactions and use taxes, exceeds the 2% cap established by existing law, if all of the following conditions are met:
 - a) The city adopts an ordinance proposing the transactions and use tax by any applicable voting requirements;
 - b) The ordinance proposing the transactions and use tax is approved by the voters voting on the ordinance in accordance with California Constitution Article XIII C; and,
 - c) The transactions and use tax conforms to the Transactions and Use Tax Law, as specified.
- 2) Finds and declares that a special law is necessary because of the unique fiscal pressures on the City of Scotts Valley.

FISCAL EFFECT: None

COMMENTS:

- 1) **Transactions and Use Taxes.** Existing law authorizes cities and counties to impose transactions and use taxes in 0.125% increments, in addition to the state's 7.25% sales tax, provided that the combined rate in the county does not exceed 2%. Transactions and use taxes are taxes imposed on the total retail price of any tangible personal property and the use or storage of such property when sales tax is not paid. These types of taxes may be levied as general taxes (majority vote required), which are unrestricted, or special taxes (two-thirds vote required), which are restricted for a specified use.

Prior to 2003, cities lacked the ability to place transactions and use taxes 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. SB 566 also contained provisions to increase a county's transactions and use tax cap because of the possibility that certain counties were going to run out of room under their caps, if cities within those counties approved transactions and use taxes.

As of April 1, 2018, 269 local agencies impose their own transactions and use taxes: four of 58 county-imposed taxes are general purpose taxes and 54 are special purpose taxes, with 35 dedicated for transportation purposes. Of the 211 city-imposed taxes, 174 are general purpose and 37 are special purpose.

Because of the interaction between city-imposed and county-imposed transactions and use taxes, the concern that counties will run into the 2% cap still applies today. Currently, a number of cities and counties have reached the 2% limit, including the County of Los Angeles, which has a countywide tax rate of 9.5%. As of October 1, 2018, 16 of the cities within Los Angeles County have a tax of 10% or more. Presently, the City of Scotts Valley in Santa Cruz County has a tax rate of 9%. The Legislature has granted several exemptions to the 2% cap in recent years.

- 2) **Bill Summary.** This bill provides an exemption to the City of Scotts Valley from the 2% transactions and use tax combined rate cap that is currently in statute. This bill authorizes the City to adopt an ordinance to propose the imposition of a transactions and use tax for general or specific purposes at a rate of no more than 0.25%, and with the appropriate voter approval pursuant to the California Constitution, which requires a majority vote for transaction and use taxes for general purposes and a two-thirds vote for specific purposes.

The author is the sponsor of this bill.

- 3) **Author's Statement.** According to the author, "Like many cities throughout our state, the City of Scotts Valley has limited resources with which to manage a wide range of services. Allowing the city to take to voters the option to raise their transaction and use tax rate gives them the best opportunity to provide the services their residents expect."
- 4) **Arguments in Support.** None on file.
- 5) **Arguments in Opposition.** Opponents argue that, "Despite the fact that AB 618 abides by existing voter approval requirements set forth in the California Constitution, HJTA must oppose this bill as we have opposed other similar tax authorization bills over the last decade. Sales taxes are especially regressive and tend to disproportionately increase expenses for low income residents. Considering that 70% of the nation's economic output hinges on the buying and selling of consumer goods, communities should be mindful of the economic impact of asking the Legislature to approve even more taxes. This is especially true in Scotts Valley, which already has a sales tax rate of nine percent. To put that figure in perspective, this city is already in the top 20% of the 1,785 local California jurisdictions that levy sales taxes. Authorizing new taxes that will likely be used to pay down unfunded pension liabilities rather than providing new services, is a poor rationale for further regressive taxation."
- 6) **Double-Referral.** This bill is double-referred to the Revenue and Taxation Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

California Taxpayers Association
Howard Jarvis Taxpayers Association

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958