

Date of Hearing: May 1, 2023

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Jacqui Irwin, Chair

AB 1256 (Wood) – As Amended March 23, 2023

Majority vote.

SUBJECT: Transactions and use taxes: County of Humboldt

SUMMARY: Authorizes the Humboldt County Board of Supervisors to impose a transactions and use tax (TUT) for the support of countywide transportation programs and general services at a rate of no more than 1% that would, in combination with other TUTs, exceed the combined rate limit of 2%, as specified. Specifically, **this bill:**

- 1) Provides that, notwithstanding any other law, the Humboldt County Board of Supervisors may impose a TUT for the support of countywide transportation programs and general services at a rate of no more than 1% that would, in combination with all taxes imposed in accordance with the TUT Law, exceed the combined 2% cap, if all the following conditions are met:
 - a) The Humboldt County Board of Supervisors adopts an ordinance proposing the TUT by any applicable voting approval requirement;
 - b) The ordinance proposing the TUT is submitted to the electorate and is approved by the voters voting on the ordinance in accordance with Article XIII C of the California Constitution; and,
 - c) The TUT conforms to the TUT Law, other than the 2% combined rate limit.
- 2) Provides that, notwithstanding existing law, a TUT rate imposed pursuant to this bill shall not be considered for purposes of the combined 2% rate limitation.
- 3) Provides that if an ordinance proposing a TUT authorized by this bill is not approved, this statutory authorization shall be repealed on January 1, 2027.
- 4) Finds and declares that a special statute is necessary and that a general statute cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution because of the critical needs of the transportation infrastructure and general services within the County of Humboldt.

EXISTING LAW:

- 1) Authorizes various local governmental entities, subject to certain limitations and approval requirements, to levy a TUT for general purposes, in accordance with the procedures and requirements set forth in the TUT Law. (Revenue and Taxation Code (R&TC) Section 7251 *et seq.*)

- 2) Provides that the combined rate of all taxes imposed in accordance with the TUT Law in any county may not exceed 2%. (R&TC Section 7251.1)

FISCAL EFFECT: This bill would not impact state revenues.

COMMENTS:

- 1) The author has provided the following statement in support of this bill:

AB 1256 would authorize the Humboldt County Board of Supervisors to impose a transactions and use tax for the support of countywide transportation programs at a rate of no more than 1% that would, in combination with other transactions and use taxes, exceed the combined rate limit of 2%, if the voters approve the ordinance proposing the tax. As Humboldt County recovers from recent natural disasters, this bill is needed to provide the opportunity to propose a roads tax for the purpose of building and maintaining safe roads.

- 2) This bill is sponsored by the Humboldt County Board of Supervisors, which notes:

Over the past several years, local leaders and residents have recognized that locally controlled sources of funding are essential for long-term fiscal sustainability. The county wishes to preserve its flexibility to augment or expand local sales tax funding options to address our safety and infrastructure needs.

The City of Eureka has already reached the maximum rate allowable under current code, and without AB 1256, it would not be possible to expand these critical local funding sources in our region. For these reasons, we thank you for authoring this important bill and fully support its passage.

- 3) This bill is opposed by the California Taxpayers Association, which notes:

California has the highest state-level sales and use tax rate in the country, and several cities in California, including Eureka, have even higher rates. The sales and use tax is a regressive tax that has the greatest impact on low-income residents because it makes it more expensive for these taxpayers to purchase everyday necessities. Inflation has increased the cost of everyday goods, which in turn increases the sales tax that is imposed as a percentage of the retail price. Adding even more to the cost of living with a sales tax increase would harm Californians, and will disproportionately impact the state's most vulnerable residents.

- 4) Committee Staff Comments:

- a) *What would this bill do?* This bill would authorize Humboldt County to impose a TUT for countywide transportation programs and general services at a rate of no more than 1% that, in combination with other TUTs, would exceed the combined rate limit of 2%. The County would first have to adopt an ordinance proposing the tax and the ordinance would need to be approved by the voters, subject to applicable voter approval requirements. Finally, this bill would repeal this authorization on January 1, 2027, if an ordinance proposing the tax has not been approved by that date.

- b) *Need for this bill:* The author's office notes that this bill is needed because the City of Eureka in Humboldt County has already reached its TUT limit. The author goes on to note:

State law limits local taxes to 2% above the state base rate of 7.25%. Eureka represents more than 50% of sales tax revenue produced in Humboldt County, so any revenue measure would have to include them if the sales tax increase would produce significant revenue for roads.

- c) *A well-established precedent:* It should be noted that the Legislature has, on numerous occasions, granted specific statutory authority to exceed the general 2% rate limitation. Specifically, such authority has been granted to the Counties of Alameda, Contra Costa, Los Angeles, Monterey, San Francisco, San Mateo, Santa Clara, Sonoma, and Ventura and the cities of Alameda, Berkeley, El Cerrito, and Santa Fe Springs.
- d) *A less than perfect tax:* The sales tax has been widely criticized as a regressive exaction that most heavily impacts those least able to pay. For example, a survey by the Nevada Legislative Counsel Bureau long ago concluded that in the case of a retail sales tax with food exempt, "the lowest income group would experience the highest ratio of tax to income" [Survey of Sales Taxes Applicable to Nevada 59 (Bull. No. 3, May, 1948).] Others, however, contend that a degree of progressivity is provided via the various exemptions built into most state sales tax laws (i.e., for certain necessities of life such as food, housing, and medical care). California already has a relatively high sales tax rate. High rates arguably promote non-compliance and encourage out-of-state purchases, placing California retailers at a competitive disadvantage. High rates also risk impacting consumer decision-making, which runs counter to widely accepted principles of sound tax policy.
- e) *Double referral:* This bill was double referred with the Assembly Committee on Local Government, which passed this bill on April 19, 2023, by a vote of 5 to 2. For additional discussion of this bill's provisions, please refer to the analysis prepared by the Assembly Committee on Local Government.

REGISTERED SUPPORT / OPPOSITION:

Support

Humboldt County Board of Supervisors (Sponsor)

Opposition

California Taxpayers Association
Howard Jarvis Taxpayers Association

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