
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

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Tax Levy: No
Fiscal: No

LOCAL TRANSPORTATION AUTHORITY AND IMPROVEMENT ACT: SACRAMENTO TRANSPORTATION AUTHORITY

Adds authority for STA to enact a tax and expenditure plan in a portion of the county, and also allows STA to issue bonds to finance the costs of high-occupancy toll (HOT) lanes.

Background

Special taxes. The California Constitution states that taxes levied by local governments are either general taxes, subject to majority approval of their voters, or special taxes, subject to a 2/3 vote (Article XIII C), which the state or local agencies use for specified purposes. Proposition 13 (1978) required a 2/3 vote of each house of the Legislature for state tax increases, and a 2/3 vote of local voters 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.

Upland. In 2017, the California Supreme Court entered a decision in *California Cannabis Coalition v. City of Upland*, (3 Cal. 5th 1047), which held that Article XIII C, Section Two, subdivision (b)'s requirement that general taxes be submitted to the electorate at a regularly scheduled general election, where members of the local governing board are subject to election, did not apply to taxes proposed by voter initiative. Groups seeking to impose special taxes by majority vote by initiative soon argued that, if the *Upland* Court held that the general election requirement in subdivision (b) did not apply to initiatives, then neither did the 2/3 vote requirement for special taxes in subdivision (d). Voters in several jurisdictions have imposed special taxes by majority-vote initiative, and thus far, no court has invalidated them.

While Section 11 of Article II of the California Constitution provides that initiative powers may be exercised by the electors of each city or county, no similar constitutional authority exists for electors in special districts to exercise initiative powers. However, the Elections Code states that special districts can exercise initiative power so long as the district provides a procedure for elections, among other requirements, generally meaning that it has an independently elected, not appointed, governing board.

Sales and use tax. State law imposes the sales tax on every retailer "engaged in business in this state" that sells tangible personal property, requires them to register with the California Department of Tax and Fee Administration (CDTFA), and remit taxes collected from purchasers to CDTFA. Sales tax applies whenever there is a retail sale. The current sales and use tax rate is

7.25%. Additionally, cities, counties, and specified special districts may increase the sales and use tax, also known as district or transactions and use taxes (TUT).

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	

CDTFA collects sales taxes from retailers, deposits the state share in the General Fund, and then allocates the local share of the Bradley-Burns sales tax and any district tax to the appropriate jurisdiction. Unless the purchaser pays the sales tax to the retailer, they are liable for the use tax, which the law imposes on any person consuming tangible personal property in the state. The use tax is assessed at the same rate as the sales tax and must be remitted on or before the last day of the month following the quarterly period in which the purchase was made.

District Taxes. State law allows cities, counties, and specified special districts to increase the sales and use tax applicable in their jurisdiction, also known as district or transactions and use taxes. As of April 1, 2025, local agencies impose 478 district taxes for general or special purposes, including 350 imposed citywide, 71 imposed countywide, and six imposed in unincorporated county areas. Generally, local agencies impose these taxes throughout one entire jurisdiction, such as a single county, an unincorporated area within a single county, or an incorporated city. However, three transportation operators in the Bay Area have regional district taxes:

- The Bay Area Rapid Transit District, which covers Alameda, Contra Costa, and San Francisco;
- The Peninsula Corridor Joint Powers Board, which covers San Francisco, San Mateo, and Santa Clara counties; and
- The Sonoma-Marin Rail Transit (SMART) District, which includes Sonoma and Marin counties.

AB 1413 (Gloria, 2019). Before 2019, cities, counties, and special districts could only apply taxes evenly across their jurisdictions and could not choose to exclude the residents of some parts of their jurisdictions from being subject to a tax or from receiving services paid for by that tax. In that year, the Legislature enacted AB 1413 (Gloria), which authorized local transportation authorities in Placer, Solano, and San Diego counties to levy district taxes in a portion of their jurisdictions, with voter approval, subject to specific requirements. AB 1413

contained different limitations on each entity's authority to apply taxes to portions of their jurisdictions:

- The Placer County Transportation Authority could only exclude the Tahoe Basin, which is not part of its jurisdiction.
- The Solano County Transportation Improvement Agency could only impose its tax in the following areas:
 - The Cities of Benicia and Vallejo.
 - The Cities of Benicia and Vallejo and the entire unincorporated area of the County of Solano.
 - The Cities of Fairfield and Suisun.
 - The Cities of Fairfield and Suisun and the entire unincorporated area of the County of Solano.

AB 1413 did not geographically limit the North County Transit District, the Metropolitan Transportation System, or the San Diego Area Association of Governments' authority to impose a tax in only some portion of their jurisdictions. However, it contained specific provisions requiring construction contracts.

Sacramento Regional Transit District. The Sacramento Regional Transit District (RT) serves the cities of Sacramento, Citrus Heights, Elk Grove, Folsom, and Rancho Cordova by operating over 82 bus routes, 43 miles of light rail serving 53 light rail stations, and paratransit services all within a 440-square-mile service area throughout Sacramento County. RT is governed by an 11-member governing board, composed of four members of the Sacramento City Council, three members of the Sacramento County Board of Supervisors, and one member each from the cities of Citrus Heights, Elk Grove, Folsom, and Rancho Cordova. RT's boundaries include the unincorporated area of Sacramento County within the urban services boundary, as well as any city that chooses to annex to the district. The cities of Galt and Isleton have not annexed to RT.

The Sacramento Regional Transit District currently has the authority to impose a district tax at a rate of $\frac{1}{8}$ th of 1%, or a multiple thereof, but only in the City of Sacramento and the unincorporated territory of the County of Sacramento. The RT Board must approve the tax by a $\frac{2}{3}$ vote of its governing board.

In 2023, the Legislature allowed RT to impose a district tax that applies in a portion of the incorporated and unincorporated territory (AB 1052, McCarthy) if:

- The RT board determines the portion of the area before the electors vote.
- The incorporated areas of each city and contiguous cities within the district are either wholly included or wholly excluded from that portion.
- The entire unincorporated area of the district is either wholly included within that portion or wholly excluded from that portion.
- The revenues derived from the tax are spent within, or for the benefit of, the portion of the area of the district to which the tax applies, and are spent only on allowable transportation and transit infrastructure and services.
- Any revenues derived from the tax supplement, and not supplant, other transportation revenues available to the portion of the area of the board to which the tax applies.

Neither of the jurisdictions authorized by AB 1413 and AB 1052 to impose a tax within a portion of their jurisdictions has yet imposed such a tax.

Sacramento Transportation Authority (STA). STA was created in 1988 when Sacramento County voters approved Measure A, a 0.5% sales tax for transportation improvements. STA's board consists of 16 members: five from the Sacramento County Board of Supervisors, five Sacramento City Councilmembers, two Elk Grove City Councilmembers, one from the city councils of Citrus Heights, Folsom, and Rancho Cordova, and one combined seat from the Galt and Isleton City Councils.

STA administers funding provided by Measure A, which has provided local transportation funding to reduce traffic congestion; improve air quality; maintain and strengthen the county's road and transportation systems; enhance Sacramento County's ability to secure state and federal funding by providing local matching funds; preserve unique, natural amenities; and preserve agricultural land.

In 2022, electors in Sacramento County submitted as a citizen's initiative petition Measure A, the Sacramento County Transportation, Maintenance, Safety and Congestion Relief Act of 2022, which would have imposed a district tax measure of an additional 1/2-cent for transportation purposes for 40 years. Measure A would have generated roughly \$213 million annually for transportation and transit projects. Measure A included an expenditure plan, which identified projects and programs that would be funded from the measure. Even though considered a majority-vote special tax enacted by initiative at the time, it failed passage 55% to 44%.

Seeking similar authority as ABs 1419 and 1052, the Sacramento Transportation Authority wants to exclude parts of Sacramento County from a tax election, among other changes.

Proposed Law

Assembly Bill 1223 adds authority for STA to enact a tax and expenditure plan in a portion of the county, and also allows STA to issue bonds to finance the costs of high-occupancy toll lanes.

Taxes. AB 1223 provides that STA may impose a tax and corresponding expenditure plan in a geographic area that comprises less than the total area of Sacramento County, including its incorporated cities, under the following circumstances:

- 2/3 of STA's total governing board adopts the ordinance and expenditure plan.
- The ordinance is subject to voter approval by the electors in the area to which the tax applies.
- All subsequent governing board decisions and actions related to implementation of a tax that applies in less than a total of the county, including amending the expenditure plan, can only be done by a vote of a majority of those members representing the city or cities subject to the tax, if any, and all members appointed from the board of supervisors.
- The governing board determines the area in which the tax applies before the electors vote on the measure. If the TUT only applies to a portion of the county, all of the following shall apply:
 - The incorporated area of cities is either wholly included or wholly excluded from the tax.

- The unincorporated area of the county is either wholly included or wholly excluded from the tax.
- The tax applies in at least the incorporated area from two cities, or the incorporated area from one city and the unincorporated area from the county.
- Tax revenues are spent within, or for the benefit of, the portion of the county to which the tax applies.
- Tax revenues supplement, and do not supplant, other transportation revenues available to the portion of the county to which the tax applies.
- The board of supervisors and the city councils representing both a majority of the cities included within the area subject to the tax, and a majority of the population residing in the unincorporated areas subject to the tax, approve the expenditure plan.

The bill applies the above provisions regarding the tax and expenditure plan to any ordinance and expenditure plan applicable to a portion of the county, including the authority to issue bonds.

Bonds. AB 1223 authorizes STA to issue bonds to finance the costs of HOT lanes or other toll facilities within Sacramento County when approved by the California Transportation Commission. STA may pledge toll revenue or any other funds lawfully available to repay the bonds. STA must enter into an agreement with the Capital Area Regional Tolling Authority (CARTA) regarding the application of toll revenue to repay the bonds. CARTA's board must review and approve a toll facility expenditure plan.

STA may issue the bonds under a resolution it adopts by 2/3 vote of its board, which must state the bond's maximum principal amount of the bonds, maximum term, and rate of interest, not to exceed the maximum rate permitted by law. AB 1223 stipulates that any bond sold under this authorization shall not constitute a debt or liability of the state, and must contain a statement on the face of the bonds to that effect.

The bill also expands potential expenditures to include construction, modernization, and improvement of infrastructure that supports infill or transit-oriented development, in areas nominated by local government and included in regionally adopted plans that advance state greenhouse gas emissions reduction objectives. STA can allocate up to 5% of revenues for a water, storm water, wastewater, or other utility-related facility, if that facility is combined with a project that includes a transportation facility.

The measure states that the current definition of "district" in the Transactions and Use Tax Law does not preclude STA from imposing a tax in an area less than its jurisdiction. The bill also defines several terms and makes legislative findings and declarations supporting its purposes.

State Revenue Impact

No estimate.

Comments

1. **Purpose of the bill.** According to the author, "AB 1223 gives communities in Sacramento County the ability to take control of their transportation future. Currently, the Sacramento Transportation Authority (STA) can only propose sales tax measures for the entire county, even when just one part of the county is ready to move forward. This bill changes that. It gives the

Authority the flexibility to propose transportation funding measures in specific areas, and ensures that revenue stays in the communities that vote for it. This district focused bill is about making government more responsive. It allows local leaders and residents to make transportation investments that reflect their priorities, whether that's safer streets, better bike and pedestrian infrastructure, or projects that reduce traffic and improve air quality. AB 1223 also updates STA's authority so it can support more modern solutions, like shared mobility, reducing environmental impact, and transit-oriented development. These are the kinds of projects that help us meet sustainability goals while improving everyday quality of life."

2. Pick and choose. Generally, local agencies serve all of the citizens within their jurisdictions equally, to whom they are accountable when electing the public officials who lead the local agency. Cities, counties, and special districts apply taxes evenly across their jurisdictions and seek to ensure all their citizens have equal access to public services. While consistent with two previous precedents, AB 1223 departs from this principle to allow STA to impose a district tax in some places, but not others. However, 2/3 voter approval can be difficult to obtain in some areas, especially when including citizens in some jurisdictions who may not want to pay an additional tax to fund a specific project or improvement that benefits a different portion of Sacramento County. The measure contains additional requirements that are not included in previous bills intended to strengthen local control, specifically to provide that only board members representing jurisdictions subject to the tax as well as the county board of supervisors can participate in tax-related decision making, and each city council in the proposed tax area and the county board of supervisors must approve the expenditure plan. While the bill also states that revenues must be spent within, or for the benefit of, the portion of the county to which the tax applies, are there practical ways STA can ensure residents in untaxed areas do not get a free ride on buses, trains, or other regional infrastructure funded by residents and businesses in taxed areas? The Committee may wish to consider amending AB 1223 to provide that if STA chooses to exclude jurisdictions from the tax, it cannot spend revenues for the benefit of those areas.

3. Competitive advantage. Retailers collect the sales tax portion of the district tax from consumers when making a sale, remit the amount to CDTFA, which in turn distributes proceeds back to the local agency where the retailer makes the sale. Cities, counties, and special districts with district taxes therefore charge higher rates at the cash register. Higher tax rates can nudge consumers toward jurisdictions without district taxes for more expensive items like cars, or when a business buys items in bulk. For example, if the City of Sacramento were subject to STA's tax, but not the City of Folsom, consumers in the market for a new vehicle would have an incentive to buy at the Folsom Lake Automall instead of Downtown or Florin Road. AB 1223 allows voters to approve a higher district tax rate in some areas of a county and some cities, but not others, which will enhance the competitive advantage retailers have in parts of the jurisdiction that STA excludes because it doesn't think voters in that area will vote for the tax.

4. There be dragons. Voters in several cities and counties, including San Francisco, have recently imposed special taxes by initiative, requiring only a majority vote under *Upland*. However, Elections Code §9300 states that special districts can exercise initiative power so long as the district provides a procedure for elections, among other requirements, generally meaning that it has an independently elected, not appointed, governing board. In recent years, the Legislature extended special district initiative powers under the Elections Code to voters in the Los Angeles County Affordable Housing Solutions Agency when it created the agency in 2022 (SB 679, Kamlager), SMART last year (SB 904, Dodd), and is considering doing so for the Transportation Revenue District in the San Francisco Bay Area this year (SB 63, Wiener). AB 1223 does not provide a similar exemption for STA should they want to propose a tax by

initiative, as they did in 2022. However, the Madera County Transportation Authority became the first special district without a clear exception from the Elections Code to approve a special tax as a majority vote initiative in November 2024. Even if STA is not bound by the Elections Code, what happens if electors submit a measure that differs from AB 1223's requirements? What happens if electors submit more than one initiative, or one that includes jurisdictions excluded by STA's board under AB 1223?

5. Who's who? In *Upland*, the California Supreme Court distinguished between government-imposed special taxes subject to a 2/3 vote under Article XIIC and ones imposed by voters by majority vote under Article IV's initiative power. Should a tax be proposed by initiative, AB 1223 stretches this distinction by first having STA's board approve an ordinance and expenditure plan, then requiring the county board of supervisors and city council of each subject to the tax approves the expenditure plan, all before electors come forward and propose a tax by initiative. While voters ultimately must approve any tax, is it truly a voter initiative when several local agency governing boards approved its contents before voters decide?

6. Double referred. The Senate Committee on Transportation approved AB 1223 by a vote of 11 to 3 on June 24th. The Committee on Revenue & Taxation is considering the measure as the Committee of second reference.

7. Related legislation. Recently amended in the Assembly, SB 512 (Perez) authorize the voters of any district that has authority to impose a transactions and use tax for transportation purposes to impose a retail transactions and use tax by an initiative measure. The measure states that it is declaratory of existing law. The measure is currently pending in the Assembly Elections Committee.

Assembly Actions

Assembly Local Government Committee:	7-1
Assembly Transportation Committee:	12-4
Assembly Appropriations Committee:	52-15

Support and Opposition (7/3/25)

Support: Sacramento County
Sacramento Regional Transit District
Sacramento Transportation Authority

Opposition: Howard Jarvis Taxpayers Association

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