SENATE COMMITTEE ON LOCAL GOVERNMENT
Senator María Elena Durazo, Chair
2025 - 2026 Regular

Bill No:	AB 736	**Hearing Date:**	6/25/26
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Version:	6/22/26	**Consultant:**	Peterson

TRANSFER TAXES: LIMITATION

Limits the maximum documentary transfer tax rates local jurisdictions can collect.

Background

Local government finance after Proposition 13. A series of propositions have drastically cut into local revenue sources, requiring local governments to look elsewhere to fund services that the public demands. First, Proposition 13 (1978) capped property tax rates at 1% of assessed value (which only changes upon new construction or when ownership changes) and required 2/3 voter approval for special taxes. As a result, local governments turned to general taxes to avoid the higher voter threshold. When Proposition 62 (1986) required majority voter approval of general taxes, local agencies imposed assessments that were more closely tied to the benefit that an individual property owner receives. Subsequently, Proposition 218 (1996) required voter approval of parcel taxes, assessments, and property-related fees.

In response to the reduction in property tax revenues from Proposition 13 and the difficulty of raising taxes, local agencies have turned to other sources of funds for general operations, including sales taxes, transient occupancy taxes, also known as hotel taxes, and documentary transfer taxes. Commercial enterprises generate sales tax and hotel tax revenue, and simultaneously pay property taxes and demand relatively few services (such as public safety or parks). Residential developments, by contrast, do not directly generate sales or hotel tax revenue, and the new residents demand a wider variety of more intensive services. As a result, cities and counties face a disincentive to approve housing because of the higher net fiscal cost of residential development, particularly if they have the option to instead permit commercial development that may produce net fiscal benefits, also known as the fiscalization of land use.

Charter Cities. The California Constitution allows cities and counties that adopt charters to control their own "municipal affairs," and makes these laws supreme over "all laws inconsistent therewith." This municipal affairs doctrine grants charter cities broad authority to enact laws governing local matters, including the power to tax for local purposes. In all other matters, charter cities must follow the general, statewide laws.

However, the Constitution does not define "municipal affairs," so the courts determine whether a topic is a municipal affair or an issue of statewide concern. In *California Fed. Savings & Loan Assn. v. City of Los Angeles (1991)* 54 Cal.3d 1, 17, the California Supreme Court first laid out an analytical framework to determine whether the state's or the charter city's authority prevails:

- First, a court must determine whether the city ordinance at issue regulates an activity that can be characterized as a "municipal affair."

- Second, the court must satisfy itself that the case presents an actual conflict between local and state law.
- Third, the court must decide whether the state law addresses a matter of "statewide concern."
- Finally, the court must determine whether the law is "reasonably related to ... resolution" of that concern and "narrowly tailored" to avoid unnecessary interference in local governance.
- If the Court finds that the subject of the state statute is one of statewide concern and that the statute is reasonably related to its resolution, then the conflicting charter city measure ceases to be a "municipal affair" and the Legislature is not prohibited from addressing the statewide dimension by its own tailored enactments.

Documentary transfer taxes. Cities and counties can enact taxes on documents that serve to transfer real property, known as a documentary transfer tax (DTT). In counties, the rate is $1.10 for each $1,000 of assessed value. All of California's 58 counties apply the tax. General law cities within a county that impose a DTT can impose their own DTT equal to half of the rate of the county and applies as a credit against the county rate, meaning both the city rate and the county rate are $0.55 for each $1,000 of assessed value, adding up to a total of $1.10 per $1,000 of assessed value.

Courts have generally considered taxation to be a municipal affair, meaning that charter cities can impose their own DTT not subject to the limits for counties and general law cities. If they do so at a higher rate than the non-charter rate, the city DTT rate does not serve as a credit against the county rate. 27 charter cities have their own DTT rate. The highest rate in the state is 6% of assessed value on properties valued at $25 million or more in San Francisco. Some charter city DTTs are general taxes, while others are special taxes. Cities like San Jose have DTTs with both a special tax and a general tax component.

Measure ULA. In 2022, 58% of voters in the City of Los Angeles voted to enact Measure ULA, which increased DTT rates in the city. Under Measure ULA, the rate is:

- 0.45% for properties with values up to $5.4 million;
- 4.45% for properties between $5.4 million and $10.6 million; and
- 5.95% for properties over $10.6 million.

The Los Angeles Housing Department Dashboard shows that Measure ULA has generated more than $1.2 billion since it went into effect. Measure ULA revenues go into a special fund for affordable housing projects and provide resources to tenants at risk of homelessness.

An April 2025 University of California, Los Angeles (UCLA) study titled, *The Unintended Consequences of Measure ULA*, analyzed the effect that Measure ULA has had on real estate transactions in the city. The study found that:

> "In summary, we believe a fair reading of the evidence should give cause for concern. Measure ULA is plausibly reducing a small but disproportionately important segment of real estate transactions. These transactions — the trade in more expensive non-single family property — are pivotal for increasing our housing supply, and for repurposing many spaces that the new economy has rendered obsolete. These transactions also drive growth in the property tax base,

> which means they have strong fiscal implications for not just the City of L.A. but also the other governments (the county, the school district, and various special districts) that rely on revenue from property in the City of L.A. Not least, discouraging these transactions also reduces ULA's own revenue."[1]

While other studies have found similar effects, some researchers have raised concerns over these studies' methodology. For example, a group of researchers released a report called, *Major Research Flaws Undermine Authors' Bold Claims: Unpacking the Debate on Measure ULA*, which suggested that methodological issues may have overestimated any negative impacts on multifamily housing production and underestimated the benefits of the additional revenue for homelessness prevention and affordable housing programs. [2]

Due to concerns over the effect that Measure ULA has had on the real estate market, the author wants to limit the DTT rates that charter cities can impose on real estate transactions.

Proposed Law

Assembly Bill 736 limits local agencies' authority to collect documentary transfer taxes. Specifically, AB 736 allows charter cities that have rates of 1.5% or less to continue to collect transfer taxes at their current rates. Charter cities with rates between 1.5% and 3% as of June 30, 2026, can continue to collect transfer taxes if imposed as general taxes, but must reduce or eliminate special taxes to 1.5%.

These limitations do not apply to any transfer taxes on a single-family housing property with values of $5.4 million or more.

The measure also prohibits a local jurisdiction from levying a transfer tax on the first sale of single-family housing property occurring within five years of one or more housing units on the property being destroyed or made uninhabitable by a natural disaster.

The measure makes findings and declarations to further its purposes, and defines its terms.

Comments

1. Purpose of the bill. According to the author, "AB 736 is the product of extensive negotiations over the past two years to address the issue of high transfer taxes and their unintended consequences. Over the past few years, studies have shown that high transfer taxes such as Measure ULA in Los Angeles have played a role in disincentivizing the sale of existing property and even the development of new housing in a time when it is needed most. In addition, the Local Taxpayer Protection Act to Save Proposition 13 (TPA) represents a grave threat to transfer taxes and the ability for local governments to fund themselves at a whole. AB 736 tackles this issue head-on by taking a balanced approach to reforming transfer taxes and offers a practical solution to the TPA. This bill caps transfer taxes at 1.5% but allows cities with existing general taxes to keep their existing amount or be capped at 3% whichever is lower. It also allows single-family homes that sold for more than $5.4 million to be charged a higher transfer tax rate preserving the intent of transfer taxes like Measure ULA. These commonsense reforms address

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[1] https://lewis.ucla.edu/research/the-unintended-consequences-of-measure-ula/
[2] https://www.oxy.edu/sites/default/files/Research-Flaws-Undermine-Bold-Claims-Sept-2025_4.pdf

the unintended consequences of high transfer taxes while still ensuring critical revenue flows to where it is needed most."

2. Leave us be. While state law limits the DTT rates that counties and general law cities can impose, charter cities are not similarly limited because the California Constitution allows cities that adopt charters to control their own municipal affairs. Up to this point, courts have generally considered taxation to be a core municipal function. 27 charter cities have relied on this authority to impose their own DTTs above the rate for counties and general law cities. While some charter cities come out unscathed because their rates do not exceed AB 736's limitations, AB 736 upends voter-approved tax measures in cities that do not fall under the limit. The findings in AB 736 claim this is necessary due to the regional effects these tax rates have on the real estate market. If the courts agree that AB 736's provisions apply to charter cities, these charter cities will be forced to disregard the decisions of their electorate and collect less DTT revenue. The Committee may wish to consider whether the state should overrule these local decisions.

3. Who and how much? There are 27 charter cities that would be subject to AB 736:

Charter cities with DTT rates of 1.5% or less	**Charter cities with general DTT rates between 1.5%-3%**	**Charter cities with general DTT rates over 3%**	**Charter cities with special DTT rates over 1.5%**
Alameda	Berkeley	Culver City	Los Angeles
Albany	Emeryville	San Francisco	Santa Monica
El Cerrito	Oakland		San Jose
Hayward	Richmond		Santa Cruz
Mountain View	San Jose		
Palo Alto			
Petaluma			
Piedmont			
Pomona			
Redondo Beach			
Riverside			
Sacramento			
San Leandro			
San Mateo			
San Rafael			
Santa Rosa			
Vallejo			

The cities with DTT rates of 1.5% or less would not have to take any action under AB 736. Similarly, the cities with general DTT tax rates between 1.5% and 3% would not have to take any action under AB 736 if those rates were in place as of June 30, 2026. However, cities with general DTT rates over 3% would have to adjust their rates to fall below the 3% threshold. Cities with special DTT rates over 1.5% would have to eliminate or reduce rates to fall below the 1.5% threshold. Exactly how much these affected cities stand to lose by reducing their rates would depend on the number of real estate transactions that take place, their respective values, whether transactions qualify for AB 736's exemptions, and any changes in real estate market activity due to the new rates.

4. Sure, but will it work? AB 736 identifies the rates it would like charter cities to charge, but it does not enumerate the specific steps these cities must take to adjust these voter-approved rates. Voters have already approved the imposition and collection of DTTs at these rates. It is unclear whether AB 736 provides sufficient authority for a local agency to take actions in violation of a voter-approved charter tax. This lack of clarity could subject these cities to litigation.

5. If not this, then what? Up until voters approved Proposition 13, local agencies relied on property taxes to fund core government and services. Once Proposition 13 limited future property tax increases, local agencies turned to other taxes and fees to fund their services, including DTTs. AB 736 limits the ways local agencies can use DTTs to cover their costs, meaning local agencies would have to find other revenue sources or decrease the services they offer.

6. Coming soon. In 2025, the Howard Jarvis Taxpayers Association, along with other business and taxpayer organizations, submitted an initiative they called the "Local Taxpayer Protection Act" to the Secretary of State to gather signatures. In April 2026, the Secretary of State announced the initiative had received enough signatures to qualify for the November 2026 ballot. The measure would make various changes to local tax measures, including to prohibit a local government, or their electorate, from imposing most taxes on property, including DTTs that exceed the current rates for counties and general law cities. This measure would amend the constitution to apply those same limits to charter cities. Since the initiative amends the Constitution, and AB 736 makes statutory changes, the initiative's changes, if voters approve them in November, would override AB 736.

7. Charter city. The California Constitution allows cities that adopt charters to control their own "municipal affairs." In all other matters, charter cities must follow the general, statewide laws. Because the Constitution does not define municipal affairs, the courts determine whether a topic is a municipal affair or whether it is an issue of statewide concern. AB 736 says that its statutory provisions apply to charter cities and includes findings explaining that the crisis of housing availability and affordability is a matter of statewide concern, and that higher transfer tax rates can depress real estate activity and have economic impacts on a regional scale.

8. Mandate. The California Constitution requires the state to reimburse local governments for the costs of new or expanded state mandated local programs. Because AB 736 imposes new duties on local governments, Legislative Counsel says it imposes a new state mandate. The measure states that if the Commission on State Mandates determines that the bill imposes a reimbursable mandate, then reimbursement must be made pursuant to existing statutory provisions.

9. Gut and amend. As introduced and approved by the Assembly, AB 736 contained provisions enacting the Affordable Housing Bond Act of 2026 to place a $10 billion housing bond on the June 2, 2026, primary election ballot. Amendments taken in the Senate deleted the initial contents of AB 736 and inserted the current language relating to DTTs.

Assembly Actions

Prior votes not relevant to the current version of the bill.

Support and Opposition (6/24/2026)

Support: Brian Barnacle - Petaluma City Council Member
Chris Ricci - Modesto City Councilmember
Jed Leano - Claremont City Councilmember
Lucas Ramirez - City of Mountain View Councilmember
Rebecca Saltzman - El Cerrito Councilmember
Thomas Wong - Monterey Park Councilmember
Zach Hilton - City of Gilroy Councilmember
A Step to Freedom
Abundant Housing LA
Affordable La: Mend It, Don't End It Coalition
American Institute of Architects, Los Angeles Chapter
California Apartment Association
California Building Industry Association
California Community Foundation
California Conference of Carpenters
California Council for Affordable Housing (CCAH)
California Yimby
Central City Association of Los Angeles
Circulate Planning & Policy
Council of Infill Builders
Daylight
Dignitymoves
Downtown Los Angeles for All
East Bay Yimby
Eastside Housing for All
Elysian Housing
Everybody's Long Beach
Faith and Housing Coalition
Greenbelt Alliance
Grow the Richmond
House Sacramento
Housing Action Coalition
Livable Communities Initiative
Los Angeles Area Chamber of Commerce
Los Angeles Business Council
Los Angeles New Liberals
Mountain View Yimby
Napa-solano for Everyone
New Economics for Women
Northern Neighbors
Peninsula for Everyone
Praxis Development Group
San Jose Yimby
San Mateo Forward
Santa Cruz Yimby
Santa Rosa Yimby
Sf Yimby
Sloco Yimby

South Bay Yimby
Strong Towns Poway & Rb
Student Homes Coalition
USC
Valley Industry & Commerce Association
Ventura County Yimby
Western States Carpenters
Yes! in Redwood City
Yimby Action
Yimby Los Angeles
Yimby Monterey Peninsula

Opposition: California Association of Realtors
Howard Jarvis Taxpayers Association (HJTA)
Supportive Housing Alliance

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