Bill No:	AB 761	**Hearing Date:**	7/9/25
Author:	Addis	**Tax Levy:**	No
Version:	4/30/25	**Fiscal:**	No
Consultant:	Grinnell		

MONTEREY-SALINAS TRANSIT DISTRICT: SALES AND SPECIAL TAXES

Allows the Monterey-Salinas Transit District to impose a district tax in excess of the 2% countywide cap; modifies the District's procedure for placing a measure that imposes the tax on the ballot.

Background

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.

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. The California Constitution states that taxes levied by local governments are either general taxes or special taxes. General taxes are levied to fund general governmental purposes, without being imposed for any specific purpose, and are subject to majority approval by voters. Special taxes are subject to a 2/3 vote approval by voters. 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 the majority approval of local voters or 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 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.

State law caps the total rate for district or transactions and use taxes in any county to 2%. The cap applies countywide, so if one agency imposes a district tax, it may limit the ability of another agency in the same county to impose an additional district tax. For example, if city *x* (located in county *a*) imposes a 1% district tax, then county *a* could not impose an additional county-wide district tax of 1.5% because, now, city *x* would be subject to district taxes of 2.5%, which is above the 2% cap. Therefore, county *a* could only enact an additional district tax of up to 1%. Anything greater would exceed the 2% cap.

The Legislature has enacted several exceptions to the 2% cap, including in the cities of Alameda, Berkeley, Emeryville, and Santa Fe Springs; as well as Alameda, Contra Costa, Humboldt, Los Angeles, and Santa Clara counties, among others. Last year, the Legislature enacted 2% cap exemptions for Solano County, any of its cities, and the Cities of Pinole and Campbell (AB 3259, Wilson); as well as for the Cities of Lancaster, Palmdale, and Victorville (AB 2443, J. Carrillo).

Monterey Salinas Transit (MST) District. In 2009, the Legislature enacted AB 644 (Caballero), which enacted the Monterey-Salinas Transit District Act, which, among other provisions, dissolved the Monterey-Salinas Transit Joint Powers Agency and created the Monterey-Salinas Transit District. The district is governed by a board of directors, which consists of one member of each of its member agencies, which are the Cities of Carmel-by-the-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside, Soledad and the County of Monterey. The District serves 430,823 people across 163 square miles primarily with bus service. In 2019, MST carried roughly 4.5 million riders. After the pandemic, ridership has slowly returned, with approximately 3 million riders in 2024.

AB 644 precluded the District from imposing a tax unless it obtains the concurrence of a majority of the member jurisdictions represented on the board of directors. The District used this authority to place a measure before voters to impose a countywide tax of 0.125%, which voters approved as Measure Q in 2014, which started in 2015, and is set to expire on January 1, 2030.

The Transportation Agency for Monterey County imposes another district tax for transportation purposes of 0.375% that applies countywide, which the Legislature previously exempted from the 2% cap (SB 705, Hill, 2015). Monterey County imposes a 1% district tax, which applies only in the unincorporated area. Several Monterey County cities impose district taxes as well, with the City of Greenfield imposing two that total 1.75%, and three others (Carmel-by-the-Sea, Pacific Grove, and Sand City) imposing 1.5% rates. As a result, only .125% of room exists under the cap in Greenfield, even though there is 0.825% of room in the unincorporated area.

The District wants to extend and expand its district tax to fund its transportation programs, as well as revise the process for imposing the tax.

Proposed Law

Assembly Bill 761 makes two changes to existing law:

- First, it sunsets on January 1, 2026, the District's current procedure for placing a ballot measure to impose a tax before voters, which requires concurrence of a majority of its member jurisdictions, instead requiring a 2/3 vote of its governing board to do so.
- Second, it allows the District to impose a tax of no more than 0.25% that exceeds the 2% cap.

The measure includes standard provisions for measures authorizing district taxes that exceed the 2% cap, and sunsets its authority on January 1, 2035.

State Revenue Impact

No estimate.

Comments

1. Purpose of the bill. According to the author, "AB 761 would provide local communities the opportunity to strengthen transportation programs that serve veterans, seniors, and individuals with disabilities while advancing sustainable transit options for the region. Improving accessible transportation is key to reducing emissions, easing traffic congestion, and driving the Central Coast's growth."

2. Too high? California's sales and use tax rate is high compared to other states, especially when incorporating locally imposed district taxes. Tax experts generally agree that sales and use taxes are regressive, meaning the tax incidence falls more heavily on low-income individuals than on high-income individuals, because those of lesser means generally spend a greater percentage of their income on taxable sales, even if California exempts many necessities such as food and prescription medication. AB 761 could lead to a 9.875% tax rate in the City of Greenfield and a 9.5% rate countywide. While local voters must approve any tax, the Committee may wish to consider whether AB 761 allows for rates that are too high.

3. Existing cap. SB 566 (Scott, 2003) imposed the uniform 2% cap for both cities and counties in response to a multitude of jurisdiction-specific bills seeking to authorize district taxes. The cap set an upper limit on the local rate, since, as noted above, California's sales and use tax rate

is very high. In 2015, AB 464 (Mullin) attempted to raise the cap to 3%, however, Governor Brown vetoed the bill, 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."

4. Special legislation. The California Constitution prohibits special legislation when a general law can apply (Section 16 of Article IV). AB 761 contains findings and declarations explaining the need for legislation that applies only to transaction and use taxes imposed within the County of Monterey.

5. Incoming! The Senate Transportation Committee approved AB 761 by a vote of 11 to 3 on June 25th. The Senate Revenue and Taxation Committee is hearing the measure as the committee of second reference.

Assembly Actions

Assembly Local Government Committee:	8-2
Assembly Revenue & Taxation Committee:	5-2
Assembly Floor:	56-14

Support and Opposition (7/3/25)

Support: Monterey-Salinas Transit District (Sponsor)
County of Monterey
Transportation Agency for Monterey County

Opposition: California Taxpayers Association
Howard Jarvis Taxpayers Association

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