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## SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

2025 - 2026 Regular

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**Bill No:** SB 1078  
**Author:** Laird  
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**Hearing Date:** 3/18/26  
**Fiscal:** No  
**Consultant:** Peterson

### *TRANSACTIONS AND USE TAXES: COUNTY OF SANTA CRUZ*

*Allows the County of Santa Cruz to impose a district tax, by ordinance, of up to 0.5% even if it exceeds the 2% cap.*

### 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, and requires them to register with the California Department of Tax and Fee Administration (CDTFA), as well as collect and remit appropriate tax at purchase and remit the amount to CDTFA. Sales tax applies whenever a retail sale occurs, which is generally any sale other than one for resale in the regular course of business. The current rate is 7.25% as shown in the table below.

<b>Rate</b>	<b>Jurisdiction</b>	<b>Purpose/Authority</b>
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)	City and county general operations
	1.00% City and County 0.25% County	Dedicated to county transportation purposes
<b>7.25%</b>	<b>Total Statewide Rate</b>	

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 the same rate as the sales tax, and like the sales tax, must be remitted on or before the last day of the month following the quarterly period in which the person made the purchase. 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.

**District taxes.** The California Constitution states that taxes levied by local governments are either general taxes, subject to majority approval of its voters, or special taxes, subject to 2/3 vote (Article XIII C). Proposition 13 (1978) required a 2/3 vote of each house of the Legislature for state tax increases, and 2/3 vote for local special taxes. Proposition 62 (1986) prohibited local agencies from imposing general taxes without the 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. Local agencies generally propose to increase taxes by enacting an ordinance or adopting 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 January 1, 2026, local agencies impose 484 district taxes for general or special purposes: 407 imposed citywide, 71 imposed countywide, and 6 imposed in unincorporated county areas. Generally, local agencies impose these taxes throughout the entire area of a single county, the entire unincorporated area within a single county, or a single incorporated city. However, three transportation operators in the Bay Area have regional district taxes:

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

State law caps the total tax rate for any county district tax at 2%. The cap applies countywide, so if one agency imposes a district tax, it may limit the ability of another agency in the same jurisdiction to impose a district tax if there is no remaining room under 2% cap. For example, if city X imposes a 1% tax in county A, county A in which city X is located could not impose an additional district tax above 1%. The Legislature has enacted numerous exceptions to the countywide 2% cap as outlined in the table below.

<b>Counties</b>	<b>Cities</b>	<b>Other</b>
Alameda	Alameda	Peninsula Corridor Joint Powers Board San Luis Obispo Council of Governments
Contra Costa	Berkeley	
Humboldt	Campbell	
Los Angeles	El Cerrito	
Monterey	Lancaster	
San Mateo	Palmdale	
Santa Clara	Pinole	
Solano	Santa Fe Springs	
Sonoma	Solano County cities	
Ventura	Victorville	

**County of Santa Cruz.** Santa Cruz is a county of over 250,000 residents on the central coast. There are three countywide district taxes that combined add a total of 1.25% to the statewide rate of 7.25%. State law excludes one of the 0.5% countywide taxes from the 2% cap, meaning countywide taxes make up 0.75% of the 2% cap. The Cities of Capitola, Santa Cruz, Scotts Valley, and Watsonville all impose taxes that add up to 1.25%, meaning the County of Santa

Cruz cannot add on an additional countywide tax. As a result, the highest tax rate in Santa Cruz County is 9.75%.

Citing the need to address the loss of federal funding for health programs and services, the County of Santa Cruz wants the authority to place an additional district tax measure above the 2% cap on the November 2026 ballot.

### **Proposed Law**

Senate Bill 1078 allows the County of Santa Cruz to impose a district tax, by ordinance, of up to 0.5% even if it exceeds the 2% cap when combined with other district taxes imposed by local agencies.

The Board of Supervisors must adopt an ordinance proposing the tax, submit the ordinance to the electorate for approval, and be approved by voters. The tax must also conform to state district tax law.

The bill repeals the authority for the County of Santa Cruz to impose a tax in excess of the cap on January 1, 2031.

### **Comments**

1. Purpose of the bill. According to the author, “With the severe and ongoing federal cuts to critical health care and other essential programs, cities, counties and communities across the state are struggling to maintain access to safety net services, including urgent health care, food assistance, housing and other essential services. Santa Cruz County seeks a solution to generate their own revenue to ensure county residents will continue to be able to access needed services. Senate Bill 1078 provides Santa Cruz voters an opportunity to backfill cuts and fund programs by authorizing Santa Cruz County to exceed the statutory cap on local taxes and seek voter approval of a ballot measure later this year. Without the ability to generate their own revenue, Santa Cruz County residents will lose access to the essential services that they rely on.”

2. Too high? While the state sales and use tax rate decreased from 7.5% to 7.25% on January 1, 2017, 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. SB 1078 could lead to a 10.25% tax rate if the county imposes the maximum tax rate allowed under the bill. While local voters must approve any tax, the Committee may wish to consider whether SB 1078 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. Upland. On August 28, 2017, the California Supreme Court entered a decision in *California Cannabis Coalition v. City of Upland*, 3 Cal. 5<sup>th</sup> 924, 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. As discussed in the Senate Governance and Finance Committee’s March 7, 2018, joint oversight hearing, “*Uproar over Upland? Assessing the California Supreme Court’s Decision*,” groups seeking to impose special taxes by majority vote by initiative argued if the Court held 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). At least seven such taxes imposed by voters in various local agencies across the state have been approved, and no court thus far has invalidated them. With that said, SB 1078’s authority to exceed the 2% cap is granted solely to the Santa Cruz County Board of Supervisors, so would not apply to an initiative seeking to impose a special tax by majority vote.

5. Related legislation. The Legislature is considering similar measures for other jurisdictions, including:

- AB 1768 (Bryan) allows the County of Los Angeles to impose a district tax, by ordinance, of up to 0.5% even if it exceeds the 2% cap when combined with other district taxes imposed by local agencies. The measure is currently pending in the Assembly Committee on Local Government.
- AB 1919 (Pellerin) allows voters of the Santa Cruz Metropolitan Transit District to submit district taxes via initiative. The measure is currently pending in the Assembly Committee on Rules.
- AB 2484 (Alvarez) allows voters of the San Diego Metropolitan Transit System to submit district taxes via initiative. The measure is currently pending in the Assembly Committee on Rules.
- SB 762 (Arreguín), which this Committee approved on a 5-2 vote at its January 14, 2026, hearing, allows the City of Hercules to impose a district tax, by ordinance, of up to 1% even if it exceeds the 2% cap when combined with other district taxes imposed by local agencies. The measure is currently pending on the Assembly Desk.

6. Urgency. As an urgency statute, SB 1078 must be approved by 2/3 vote of each house of the Legislature. Regular legislation takes effect on the January 1 following its passage, but urgency bills take effect as soon as they are passed, signed, and chaptered.

7. Special legislation. The California Constitution prohibits special legislation when a general law can apply (Section 16 of Article IV). SB 1078 contains findings and declarations explaining the need for legislation that applies only to transaction and use taxes imposed within the County of Santa Cruz.

8. Coming and going. The Senate Rules Committee has ordered a double referral of SB 1078: first to the Senate Committee on Local Government to hear issues related to local government powers, and second to the Senate Committee on Revenue and Taxation.

**Support and Opposition** (3/13/2026)

Support: County of Santa Cruz (Sponsor)  
Central California Alliance for Health  
Encompass Community Services

Opposition: California Taxpayers Association

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