
SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair
2025 - 2026 Regular

Bill No: SB 1078
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Tax Levy: No
Fiscal: No

TRANSACTIONS AND USE TAXES: COUNTY OF SANTA CRUZ

Allows the County of Santa Cruz to impose a district tax 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, requiring them to register with the California Department of Fee & Tax Administration (CDTFA) and remit the 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% as noted in the table below. 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 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 January 1, 2026, local jurisdictions impose a combined 484 district taxes for general or special purposes. Of the 484 district taxes, 71 are imposed countywide, six are imposed in county unincorporated areas, and 407 are imposed citywide. Generally, local agencies impose these taxes across an entire jurisdiction, such as a single county, an unincorporated area within a 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, city *x* would now 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 generally enacts exceptions to the 2% cap annually. In 2024, the Legislature enacted 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). Last year, the Legislature enacted similar exemptions for the San Luis Obispo Council of Governments (SB 333, Laird) and the Monterey-Salinas Transit District (AB 761, Addis). According to CDTFA, the Legislature has approved 25 bills granting local governments specific authority to impose district taxes that exceed the 2% cap.

Santa Cruz County. Santa Cruz is a county of over 250,000 residents on the central coast. Santa Cruz County has three countywide district taxes: a 0.5% tax for the County Transportation Commission, another 0.5% for the Metropolitan Transit District, and a 0.25% rate for libraries; however, the Legislature provided that the Transportation Commission tax does not count toward the cap (AB 723, Quirk, 2020). In November 2018, voters in unincorporated Santa Cruz County approved Measure G, which imposed an additional 0.5% general tax only in the unincorporated area, using an authority created by the Legislature for the first time (AB 2119, Stone, 2014), which became effective on April 1, 2019. Santa Cruz County voters approved another 0.5% general tax applicable in the unincorporated area, which took effect July 1, 2024.

Each of Santa Cruz County's four incorporated cities – Capitola, Santa Cruz, Scotts Valley, and Watsonville – has imposed district taxes, with the latter three having rates 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 currently 9.75%.

Santa Cruz County wants to ask its voters to approve an additional district tax which requires an exemption from the 2% cap.

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 it to the electorate for approval, and have it approved by voters according to the appropriate Constitutional voter approval threshold. Other than the 2% cap, the tax must otherwise conform to 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.

State Revenue Impact

No estimate.

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? 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. This is 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 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. 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.

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

6. Hello friend. The Senate Rules Committee ordered a double referral of SB 1078. The Committee on Local Government approved SB 1078 by a vote of 5 to 2 on March 18th. The Committee on Revenue & Taxation is hearing the measure as the Committee of second reference.

7. 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.

The Committee and the Senate approved SB 762 (Arreguín) in January, which 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.

8. Technical. Committee staff recommends moving the measure's sunset provision from Section One of the bill to a new adjacent code section.

Support and Opposition (4/3/26)

Support: Central California Alliance for Health
 City of Watsonville
 County of Santa Cruz
 Dientes Community Dental
 Encompass Community Services
 Housing Authority of the County of Santa Cruz
 Housing Santa Cruz County
 Salud Para La Gente
 Santa Cruz County Board of Supervisors
 Santa Cruz County Office of Education

Opposition: California Taxpayers Association
Howard Jarvis Taxpayers Association

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