

THIRD READING

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Bill No: SB 1078  
Author: Laird (D), et al.  
Introduced: 2/13/26  
Vote: 27 - Urgency

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SENATE LOCAL GOVERNMENT COMMITTEE: 5-2, 3/18/26  
AYES: Durazo, Arreguín, Ashby, Cervantes, Laird  
NOES: Choi, Seyarto

SENATE REVENUE AND TAXATION COMMITTEE: 4-1, 4/8/26  
AYES: McNerney, Ashby, Becker, Grayson  
NOES: Alvarado-Gil

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**SUBJECT:** Transactions and use taxes: County of Santa Cruz

**SOURCE:** County of Santa Cruz

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**DIGEST:** This bill 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.

**ANALYSIS:**

Existing law:

- 1) Imposes the sales tax on every retailer engaged in business in this state that sells tangible personal property, and requires them to remit taxes collected from purchasers to the California Department of Tax and Fee Administration (CDTFA).
- 2) Applies whenever a retail sale is made, which is basically any sale other than one for resale in the regular course of business.
- 3) Provides that unless the person pays the sales tax to the retailer, he or she is liable for the use tax, which is imposed on any person consuming tangible personal property in the state. The use tax rate is the same rate as the sales tax

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

- 4) Levies the sales and use tax at a current rate of 7.25%.
- 5) 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 (California Constitution, Article XIII C).
- 6) Allows cities, counties, and specified special districts, including the San Francisco Bay Area Rapid Transit District (BART) and the Contra Costa County Transportation Authority, to increase the sales and use tax applied within their jurisdictions, also known as district or transactions and use taxes, for either specific or general purposes pursuant to the California Constitution's voter approval requirements.
- 7) Allows counties to impose a district tax solely in the unincorporated area of a county (AB 2119, Stone, Chapter 148, Statutes of 2014).
- 8) Caps the maximum district tax rate at 2% within a county; however, allows exceptions from the cap for the Cities of El Cerrito and Santa Fe Springs, Contra Costa County, Humboldt County, San Mateo County, Sonoma County (and any city in Sonoma County), the Transportation Agency for Monterey County, and the Los Angeles Metropolitan Transportation Authority, among others.
- 9) Provides that BART's district tax does not count toward the 2% cap (AB 723, Quirk, Chapter 747, Statutes of 2019).

This bill:

- 1) 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.
- 2) Requires the Santa Cruz County Board of Supervisors to adopt an ordinance proposing the tax, submit the ordinance to the electorate for approval, and be approved by voters.
- 3) Requires the tax to conform to state district tax law.
- 4) Sunsets the authority for the County of Santa Cruz to impose a tax in excess of the cap on January 1, 2031.

## Background

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%.

## Comments

*Purpose of this 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.”

*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 Legislature may wish to consider whether SB 1078 allows for rates that are too high.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: No Local: No

**SUPPORT:** (Verified 4/9/26)

County of Santa Cruz (Source)  
Central California Alliance for Health

City of Watsonville  
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 Office of Education

**OPPOSITION:** (Verified 4/9/26)

California Taxpayers Association  
Howard Jarvis Taxpayers Association

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4/10/26 12:30:55

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