

Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

SB 359 (Niello) – As Amended June 26, 2025

Policy Committee: Revenue and Taxation

Vote: 7 - 0

Urgency: No

State Mandated Local Program: No

Reimbursable: No

SUMMARY:

This bill adds a county that owns and operates a local transit system to the list of local government entities exempt from tax under the Diesel Fuel Tax Law and Use Fuel Tax Law.

FISCAL EFFECT:

- 1) Total annual revenue loss of approximately \$572,000 (special funds), with a \$462,000 loss in diesel fuel tax revenues, \$93,000 loss in use fuel tax revenues from buses using compressed natural gas (CNG), and \$17,000 loss in use fuel tax revenues from buses using liquefied petroleum gas (LPG).
- 2) Absorbable costs to the Department of Tax and Fee Administration (CDTFA) to license additional counties as exempt bus operations, update published information, and answer inquiries.

COMMENTS:

- 1) **Purpose.** According to the author, several counties run their own transit systems, but, “Due to a lack of clarity in current law, these counties are required to pay taxes on transit fuel that other public transit operators are exempt from.” The author continues:

However, CDTFA has never collected this tax from any county public transit, until recently when Placer County was ordered to pay this seemingly new tax. This is an inconsistency that results in unfair treatment of some county public transits. These counties have never budgeted for this tax because historically, they haven’t had to pay it. For small, rural counties in particular, an unexpected cost can significantly affect local transit budgets and services.

This bill is sponsored by the Placer County Board of Supervisors and supported by local government and transit associations.

- 2) **Fuel Taxes.** Existing law imposes a number of excise taxes on motor vehicle fuels, including diesel and specified alternative fuels (such as CNG and LPG) when used to propel vehicles on public roads and highways. The current diesel and use fuel tax rates are \$0.454 per gallon and \$0.180 per gallon, respectively.

The 1968 Mills-Hayes Act (Act) exempted certain bus operations from fuel taxes, including a transit district, transit authority, or local city transit system. In a 2006 memorandum, the State Board of Equalization (BOE), which administered fuel taxes prior to the creation of CDTFA, directly addressed whether a county-run transit system qualified as an exempt bus operation. The memorandum cites a letter from one of the Act's authors urging Governor Ronald Reagan to sign the bill, in which the author describes the purpose of the legislation as assisting transit systems in metropolitan areas of California and providing property tax relief to property owners whose tax dollars "had been tapped to subsidize metropolitan transit." Thus, BOE staff determined the Legislature intended to reduce the amount of fuel taxes paid by specific bus operators only, concluding, "Taxpayer does not qualify as an exempt bus operation under section 60039, subdivision (a)(1), because it is a county, not a transit district, transit authority, or a city." This bill includes a county as an exempt bus operation.

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