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UNFINISHED BUSINESS

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Bill No: SB 359  
Author: Niello (R)  
Amended: 6/26/25 in Assembly  
Vote: 21

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SENATE REVENUE AND TAXATION COMMITTEE: 5-0, 5/14/25  
AYES: McNerney, Valladares, Ashby, Grayson, Umberg

SENATE APPROPRIATIONS COMMITTEE: 6-0, 5/23/25  
AYES: Caballero, Seyarto, Cabaldon, Grayson, Richardson, Wahab  
NO VOTE RECORDED: Dahle

SENATE FLOOR: 38-0, 5/29/25  
AYES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear,  
Cabaldon, Caballero, Cervantes, Choi, Cortese, Dahle, Durazo, Gonzalez,  
Grayson, Grove, Hurtado, Jones, Laird, McGuire, McNerney, Menjivar, Niello,  
Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas,  
Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener  
NO VOTE RECORDED: Limón, Reyes

ASSEMBLY FLOOR: 78-0, 9/8/25 - See last page for vote

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**SUBJECT:** Use Fuel Tax Law: Diesel Fuel Tax Law: exempt bus operation

**SOURCE:** Placer County Board of Supervisors

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**DIGEST:** This bill adds counties into the definition of exempt bus operator in the Diesel Fuel and Use Fuel Tax Laws.

*Assembly Amendments* of 6/26/25 (1) replace a reference from the Board of Equalization (BOE) with the California Department of Tax and Fee Administration (CDTFA), and (2) make a grammatical changes.

**ANALYSIS:**

Existing law:

- 1) Enacts the Diesel Fuel Tax Law, which imposes a tax on diesel suppliers of \$0.454 per gallon, that applies whenever:
  - a) Fuel is removed from a refinery;
  - b) Fuel enters the state for use in California;
  - c) Fuel is sold or removed in California to an unregistered person; or
  - d) Fuel is sold or removed in California to a blender.
- 2) Sets forth several exemptions from the Diesel Fuel Tax for “exempt bus operators,” which includes:
  - a) Any passenger stage corporation subject to the jurisdiction of the California Public Utilities Commission when the motor vehicles of the passenger stage corporation are exclusively operated in urban or suburban areas or between cities in close proximity.
  - b) Any common carrier of passengers operating exclusively on any line or lines within the limits of a single city between fixed termini or over a regular route, 98% of whose operations, as measured by total route mileage operated, are exclusively within the limits of a single city.
  - c) Any school district, community college district, or county superintendent of schools owning, leasing, or operating buses for the purpose of transporting pupils to and from school and for other school or college activities involving pupils.
  - d) Any private entity providing transportation services for the transportation of people under contract or agreement, except general franchise agreements, with a public agency authorized to provide public transportation services.
  - e) Any transit district, transit authority, or city owning and operating a local transit system itself or through a wholly owned nonprofit corporation is also exempt from the tax, which leaves out county-run systems. However, any county-run system could avoid the tax by contracting with any of the exempt entities set forth above.

- 3) Enacts the Use Fuel Tax, which applies to users of specified alternative fuels, including alcohol fuels, liquefied petroleum gas, compressed or liquefied natural gas, as well as kerosene, distillate, and stove oil, among others.
- 4) Imposes different tax rates for each of the above fuels.
- 5) Provides that the Use Fuel Tax does not apply when a different fuel tax does.
- 6) Exempts the same bus operators from the Use Fuel Tax as the Diesel Fuel Tax.
- 7) Enacts Taxpayer Transparency and Fairness Act of 2017, which created the CDTFA, and shifted all of BOE's statutory tax administration functions to CDTFA (AB 102, Committee on Budget, Chapter 16, Statutes of 2017).

This bill:

- 1) Adds counties into the definition of exempt bus operator in the Diesel Fuel and Use Fuel Tax Laws.
- 2) Provides that its provisions become operative on the first day of the first calendar quarter commencing more than 90 days after this bill's effective date.
- 3) Replace a reference from BOE to CDTFA.
- 4) Make a grammatical change.
- 5) Provides that it takes effect immediately as a tax levy.

**Background:**

When the Legislature established the current list of exemptions, it excluded county-run systems. Recently, CDTFA audited Placer County, asserting that the County should have paid diesel and use fuel taxes, even though it is a public agency offering public transportation services, and would be exempt if it were a city, had collaborated with other public agencies under a joint exercise of powers agreement, or had contracted with a private operator.

It seems odd that county systems were not included in an exemption from a tax which applies to all other public entities and specified private operators. However, in 2006, when an unnamed county asserted they were eligible for the exemption to the Board of Equalization, which administered the tax at the time, BOE responded that the exclusion of counties from the exemption was indeed intentional. Senator Jim Mills, who authored the 1968 Mills-Hayes Act which enacted the exemptions, wrote to then Governor Ronald Reagan in support of the bill, arguing that the

exemption would benefit taxpayers who would have to pay increased property taxes due to the fuel tax obligation (at the time, property tax rates were determined when public agencies established annual budgets). The BOE response notes that in 1968, the only transit operations in the state were located in cities.

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

According to the Assembly Appropriations Committee:

- 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).
- 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.

**SUPPORT:** (Verified 9/3/25)

Placer County Board of Supervisors (Source)  
California Association for Coordinated Transportation  
California Transit Association  
Rural County Representatives of California

**OPPOSITION:** (Verified 9/3/25)

None received

**ARGUMENTS IN SUPPORT:** According to the author, “SB 359 establishes clear guidelines for the California Department of Tax and Fee Administration (CDTFA), confirming that the existing tax exemptions for fuels—like diesel and compressed natural gas (CNG)—used by public transit operators also apply to counties that operate their own transit services directly. Several counties in California run their own transit systems through county departments such as public works or community development. These are not independent transit authorities, but they perform the same public service. 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. However, CDTFA has never collected this tax from any country 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 country 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. SB 359 amends Sections 60039 and 8655 of the Revenue and Taxation Code to explicitly include county-run transit systems in the fuel tax exemption—aligning the law with its intent and ensuring all public transit services are treated equitably. This adjustment in the code will not result in a loss of revenue for the state because this tax has never been collected by the state. This is about fairness, clarity, and protecting essential transit services in our counties.”

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lowenthal, Macedo, McKinnor, Muratsuchi, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Lee, Nguyen

Prepared by: Colin Grinnell / REV. & TAX. / (916) 651-4117  
9/8/25 19:42:24

\*\*\*\* END \*\*\*\*