
THIRD READING

Bill No: SB 762
Author: Arreguín (D)
Amended: 1/5/26
Vote: 21

SENATE LOCAL GOVERNMENT COMMITTEE: 5-2, 1/14/26

AYES: Durazo, Arreguín, Cabaldon, Laird, Wiener

NOES: Choi, Seyarto

SENATE REVENUE AND TAXATION COMMITTEE: 4-1, 1/14/26

AYES: McNerney, Ashby, Grayson, Umberg

NOES: Valladares

SUBJECT: Transactions and use tax: City of Hercules

SOURCE: City of Hercules

DIGEST: This bill allows the City of Hercules to impose a district tax, by ordinance or voter initiative, of up to 1% 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 City of Hercules to impose a district tax, by ordinance or voter initiative, of up to 1% above the 2% cap when combined with other district taxes imposed by local agencies in Contra Costa County.
- 2) Requires the Hercules City Council to adopt an ordinance proposing the tax unless it's proposed by voter initiative.
- 3) States that the ordinance must be submitted to the electorate for approval and be approved by voters according to the appropriate Constitutional voter approval threshold.

- 4) Requires the tax to otherwise conform to state district tax law, except for the 2% cap.

Background

Located on the coast of San Pablo Bay in Contra Costa County, the City of Hercules has a population of 26,016 according to the 2020 U.S. Census. The City has imposed a 0.5% district tax since January 1, 2012, which, when combined with the three other 0.5% district taxes imposed in Contra Costa County (BART, Contra Costa County Transportation Authority, and Contra Costa County), results in a 9.25% rate in the City. Currently, the City can impose another district tax of 0.5% without legislation because BART's rate does not count towards the cap.

Comment

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, 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. While below the highest rate in the state (the cities of Lancaster and Palmdale in Los Angeles County currently impose 11.25% rates), the rate could reach 10.25% in the City of Hercules should voters fully utilize SB 762's authority. Additionally, the City can currently impose a 0.5% tax without a legislative exemption from the cap.

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

SUPPORT: (Verified 1/15/26)

City of Hercules (source)

OPPOSITION: (Verified 1/15/26)

None received

ARGUMENTS IN SUPPORT: According to the author, “SB 762 provides the City of Hercules residents with a limited opportunity to vote on local tax measures. The increase in revenue would support the protection and maintenance of essential city services- such as faster 911 response times and improved park infrastructure - while achieving long-term financial stability and economic development.”

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***** END *****