

SENATE THIRD READING

SB 762 (Arreguín)

As Amended June 10, 2026

2/3 vote. Urgency

SUMMARY

Authorizes various cities and counties to impose a transactions and use tax (TUT) that exceeds the 2% statutory limitation.

Major Provisions

- 1) Allows the City of Hercules, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 2) Allows Santa Barbara County to impose a TUT for general or specific purposes to support countywide programs at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 3) Allows the City of Carpinteria, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .25% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 4) Allows the City of Santa Maria, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 5) Allows the City of Palo Alto, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 6) Allows the City of Los Altos, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 7) Allows the City of Santa Rosa, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 8) Allows the City of Rohnert Park, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .75% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 9) Allows the Town of Los Gatos, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.

- 10) Allows the City of Pacifica, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 11) Allows the City of San Gabriel, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than 1% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 12) Allows the City of San Pablo, by ordinance, to impose a TUT for general or specific purposes at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 13) Allows Santa Cruz County to impose a TUT for general or specific purposes to support countywide programs at a rate of no more than .5% that would, in combination with all TUTs imposed, exceed the 2% limit established in existing law.
- 14) Requires that all the following requirements be met for each authorization to exceed the 2% cap outlined above:
 - a) The city council or board of supervisors to adopt an ordinance proposing the TUT by the applicable voting requirement.
 - b) The ordinance proposing the TUT is submitted to the electorate and is approved by the voters voting on the ordinance by the applicable voting approval requirement in accordance with the California Constitution.
 - c) The TUT conforms to the TUT Law.
- 15) Specifies that a TUT imposed for all the above authorizations to exceed the 2% cap shall not be considered for purposes of the 2% combined rate limitation.
- 16) Specifies for all the above authorizations to exceed the 2% cap, that if, as of December 31, 2031 (except Santa Cruz County which is December 31, 2030), an ordinance proposing a TUT has not been approved in the respective city or county, the provisions of this bill related to that city or county shall be repealed.
- 17) Contains an urgency clause.

COMMENTS

- 1) *Sales and Use Taxes.* State law imposes the sales tax on every retailer "engaged in business in this state" that sells tangible personal property, and requires them to register with the California Department of Tax and Fee Administration (CDTFA), as well as collect the appropriate tax at purchase and remit the amount to CDTFA. Sales tax applies whenever a retail sale occurs, which is generally any sale other than one for resale in the regular course of business. The current rate is 7.25%

Unless the purchaser pays the sales tax to the retailer, he or she is liable for the use tax, which the law imposes on any person consuming tangible personal property in the state. The use tax is the same rate as the sales tax, and also like the sales tax, must be remitted on or

before the last day of the month following the quarterly period in which the person made the purchase.

- 2) *Transactions and Use Taxes.* The California Constitution 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 (Article XIII C). 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, and 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 taxes or TUTs. Generally, the combined TUT tax rate imposed within a local jurisdiction cannot exceed 2%. To determine whether a county has reached this rate limitation, all countywide taxes and the highest combined rate imposed by a city within the county are counted towards the county's rate limit. For example, if a county imposes three 0.5% countywide taxes and two cities within the county each impose a 0.5% tax, the combined rate in those two cities would be 2%. In such a circumstance, the two cities could not impose another TUT, and the county could not impose another countywide TUT, absent special authority to exceed the rate limitation.

Prior to 2003, cities lacked the ability to place TUTs before their voters without first obtaining approval by the Legislature to bring an ordinance before the city council, and, if approved at the council level, to the voters. This was remedied by SB 566 (Scott), Chapter 709, Statutes of 2003, which imposed the uniform 2% countywide cap.

- 3) AB 464 (Mullin) of 2015 would have increased the maximum combined rate of all TUTs that may be levied by authorized entities within a county from 2% to 3%. This bill was vetoed by Governor Brown stating, "This bill would raise, on a blanket basis, the limit on local transactions and use tax for all counties and cities from 2% to 3%. 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."

As of April 1, 2026, local agencies impose 486 district taxes for general or special purposes: 408 imposed citywide, 72 imposed countywide, and six imposed in unincorporated county areas. Generally, local agencies impose these taxes throughout the entire area of a single county, the entire unincorporated area within a single county, or a single incorporated city. However, three transportation operators in the Bay Area have regional district taxes:

- a) The Bay Area Rapid Transit (BART) District, which covers Alameda, Contra Costa, and San Francisco counties.
- b) The Peninsula Corridor Joint Powers Board (CalTrain), which covers San Francisco, San Mateo, and Santa Clara counties.
- c) The Sonoma-Marín Rail Transit District, which includes Sonoma and Marin counties.

According to the Author

"Cities and counties across California are experiencing growing fiscal pressures driven by rising service demands, aging infrastructure and health and public safety obligations. SB 762 establishes a limited and legally sound process that enables eligible local governments to seek voter approval for transactions and use tax rates above the current statutory cap. By requiring local voter authorization, the bill preserves accountability and transparency while providing communities with greater flexibility to address their unique fiscal circumstances. The measure recognizes that local governments face varying financial challenges and that voters should have the opportunity to decide whether additional revenue tools are appropriate for their communities."

Arguments in Support

According to the City of Hercules, the sponsor of this bill, "SB 762 is a thoughtful and balanced measure that recognizes the growing fiscal pressures facing local governments throughout California while preserving the fundamental principal of local voter control. Importantly, the bill does not impose any tax increase. Rather, it simply authorizes local jurisdictions to place a locally determined measure before their own voters for consideration pursuant to existing constitutional voter approval requirements."

"Like many California cities, Hercules is confronting mounting structural fiscal pressures driven by inflationary cost increases, aging infrastructure, deferred maintenance obligations, rising public safety costs, and growing community needs. The City is currently facing a significant structural fiscal imbalance despite implementing meaningful corrective actions, including holding vacant positions, reducing non-essential spending, and pursuing operational efficiencies across departments."

"At the same time, the City continues to experience increasing pressure on essential municipal services and infrastructure systems. Budget constraints have impacted core public safety and administrative operations, while continued reliance on reserves to sustain ongoing services is not sustainable over the long term. Without additional local fiscal flexibility, cities like Hercules will face increasingly difficult decisions involving service reductions, delayed infrastructure investments, and diminished emergency response capacity."

"SB 762 provides a responsible local solution to these challenges. This bill would allow Hercules voters – not the State, and not the City alone – to determine whether additional locally controlled revenue is necessary to preserve public safety services, maintain infrastructure, strengthen economic resilience, and support long-term fiscal sustainability within the community."

"Importantly, this measure also reduces pressure on the State to backfill growing fiscal challenges in the future. Rather than seeking ongoing state financial assistance, Hercules is simply requesting the authority to allow local residents to determine whether they wish to invest in maintaining the quality of life and public services they rely upon every day."

"California's long-term economic success depends upon financially stable local governments that can continue delivering essential public services, maintaining infrastructure, supporting economic development, and responding to evolving community needs. SB 762 acknowledges the unique fiscal circumstances facing local jurisdictions and provides a measured, voter-driven pathway for communities to address those realities locally."

Arguments in Opposition

According to the California Taxpayers Association and the Howard Jarvis Taxpayers Association, "...The transactions and use tax is a regressive tax that has the most harmful impact on low-income residents because it makes it more expensive for these taxpayers to purchase everyday necessities. Inflation has increased the cost of most goods, which in turn increases the sales tax that is imposed as a percentage of the retail price. Adding to the cost of living with a sales tax increase would harm Californians and disproportionately impact the state's most vulnerable residents. "

"...Businesses engaged in manufacturing and research-and-development activities face a significant sales and use tax burden in California. Under existing law, when a business purchases manufacturing or R&D equipment, the purchase is subject to a one-time local sales tax of 1.25% plus any additional voter-approved transactions and use taxes. Taxing business inputs increases overall production costs for everyday goods produced in California. Authorizing various cities in the Bay Area to exceed the 2% transactions and use tax cap would increase the cost of doing business for critical industries and companies, including the biotech R&D company that is the city's largest employer. "

"...Unlike the federal government, which receives an exemption for all state and local sales taxes, purchases made by municipal and state agencies are subject to state and local sales taxes. Increasing the local sales tax would increase costs for purchases made by cities and counties, public school districts, and universities operating in the city. "

"...In 1953, the Senate Committee on State and Local Taxation recommended that California adopt a uniform state and local sales tax with a rate cap. The committee reported that with a cap, the local sales tax would have a 'minimum adverse' impact on taxpayers. The committee noted the following principles to consider when adopting sales tax changes: "[Local sales and use taxes] may and frequently do place unduly heavy compliance costs upon retailers"; and "Local business taxes levied under various ordinances and at different rates may produce artificial and unfair discrimination between retailers in the jurisdictions." The cap has served the state well and should not be circumvented."

FISCAL COMMENTS

None.

VOTES

SENATE FLOOR: 29-10-1

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener

NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares

ABS, ABST OR NV: Cervantes

ASM REVENUE AND TAXATION: 4-2-1

YES: Gipson, Carrillo, McKinnor, Quirk-Silva

NO: Sanchez, DeMaio

ABS, ABST OR NV: Michelle Rodriguez

ASM LOCAL GOVERNMENT: 8-1-1

YES: Carrillo, Pacheco, Fong, Ransom, Blanca Rubio, Stefani, Ward, Wilson

NO: Ta

ABS, ABST OR NV: Alanis

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