

Date of Hearing: April 9, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 761 (Addis) – As Amended March 28, 2025

SUBJECT: Monterey-Salinas Transit District: sales and special taxes.

SUMMARY: Makes changes to Monterey-Salinas Transit District's (MST's) authority to impose a transactions and use tax (TUT). Specifically, **this bill:**

- 1) Provides that a ballot measure to impose sales or special taxes shall not be submitted to the voters of MST under its existing authority to impose sales or special taxes on or after January 1, 2026.
- 2) Specifies that MST, upon affirmative vote of at least two-thirds of the board of directors, may submit to the voters of the district a measure proposing a retail TUT ordinance in accordance with TUT law.
- 3) Provides that MST may impose a TUT for the support of its transportation services at a rate of no more than .25% that would, in combination with all taxes imposed, exceed the 2% cap established by law if all of the following requirements are met:
 - a) MST adopts an ordinance proposing the TUT by an affirmative vote of at least two-thirds of the board of directors.
 - b) The ordinance proposing the TUT is submitted to the electorate and is approved by the voters voting on the ordinance in accordance with constitutional requirements, as specified.
 - c) The TUT conforms to TUT Law.
- 4) Specifies that the tax rate authorized pursuant to 3), above, shall not be considered for the purposes of the combined rate limit established by law.
- 5) Provides that if, as of January 1, 2035, an ordinance proposing a TUT is not approved pursuant to 3), above, this authority shall be repealed as of that same date.

FISCAL EFFECT: None.

COMMENTS:

- 1) **Monterey-Salinas Transit District.** MST was created by AB 644 (Caballero), Chapter 460, Statutes of 2009 and was formed on July 1, 2010. According to MST it succeeded the Monterey-Salinas Transit Joint Powers Agency formed in 1981 when the City of Salinas joined the Monterey Peninsula Transit Joint Powers Agency which was formed in 1972. Current members of the district are the Cities of Carmel-by-the-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside, Soledad and the County of Monterey. A board of directors with a representative from each member jurisdiction governs the agency and appoints the general manager. MST serves a population of over 400,000 and has a service area of 163 square miles and primarily

provides bus services throughout Monterey County.

MST currently imposes a countywide .125% TUT that is set to expire in 2030. Measure Q was adopted by voters on November 4, 2014. According to MST the TUT is intended to provide transit funding for senior citizens, veterans, and people with disabilities, which raises approximately \$7 million per year. The measure required annual performance and financial audits as well as a citizen oversight committee. Currently, in order for MST to place a tax measure on the ballot, it must receive concurrence from a majority of the member jurisdictions represented on its board of directors.

- 2) **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% as shown in the table below.

Rate	Jurisdiction	Purpose/Authority
3.9375%	State (General Fund)	State general purposes
1.0625%	Local Revenue Fund (2011 Realignment)	Local governments to fund local public safety services
0.50%	State (1991 Realignment)	Local governments to fund health and welfare programs
0.50%	State (Proposition 172 - 1993)	Local governments to fund public safety services
1.25%	Local (City/County) 1.00% City and County 0.25% County	City and county general operations Dedicated to county transportation purposes
7.25%	Total Statewide Rate	

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.

- 3) **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.

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 two percent to three percent. 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."

State law allows cities, counties, and specified special districts to increase the sales and use tax applicable in their jurisdiction, also known as district or transactions and use taxes. As of April 1, 2025, local agencies impose 478 district taxes for general or special purposes: 401 imposed citywide, 71 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.
 - b) The Peninsula Corridor Joint Powers Board (CalTrain), which covers San Francisco, San Mateo, and Santa Clara counties.
 - c) The Sonoma-Marin Rail Transit District, which includes Sonoma and Marin counties.
- 4) **Monterey County TUTs.** According to CDTFA data, as of April 1, 2025, Monterey County has 21 TUTs levied within its borders, including two countywide taxes, eighteen citywide taxes, and one tax only imposed in unincorporated areas. The .125% countywide tax rate imposed by MST is set to expire in 2030. Monterey County imposes a countywide tax of .375% and a 1% tax imposed only in the unincorporated areas. The highest citywide tax imposed is in the City of Greenfield for 1.75%. Subject to voter approval, enactment of this

bill would allow MST to impose a countywide TUT rate of .25% which, combined with other current TUTs, could exceed the 2% cap.

- 5) **Bill Summary and Author's Statement.** This bill revises and recasts MST's authority to impose a TUT. This bill also authorizes MST to impose a TUT for the support of countywide transportation programs and general services at a rate of no more than .25% that would, in combination with all taxes imposed, exceed the 2% cap established by law, if specified conditions are met. This bill provides that if an ordinance proposing a TUT that would exceed the cap is not approved, the provisions in this bill shall be repealed on January 1, 2027. MST is the sponsor of this bill.

According to the author, "AB 761 would provide local communities the opportunity to strengthen transportation programs that serve veterans, seniors, and individuals with disabilities while advancing sustainable transit options for the region. Improving accessible transportation is key to reducing emissions, easing traffic congestion, and driving the Central Coast's growth."

- 6) **Policy Consideration.** California's sales tax rate is currently at 7.25%, which is high compared to other states, especially when incorporating locally imposed TUTs. Some tax experts argue that sales and use taxes are regressive, meaning that the tax incidence falls more heavily on low-income individuals than high-income individuals because those of lesser means generally spend a greater percentage of their income on taxable sales, instead of intangible products or services which are not taxed. With this bill, the sales tax rate could grow as high as 9.75% in the City of Greenfield. While any increase would have to be approved by the voters, the Committee may wish to consider whether AB 761 allows for rates that are too high.

- 7) **Technical Amendment.** The Committee may wish to make the following technical amendment to fix an incorrect cross-reference:

- a) Government Code § 106060(c) Notwithstanding any other law, the district may impose a transactions and use tax pursuant to Chapter 3.95 (commencing with Section ~~7003.5~~ **7300.5**) of Part 1.7 of Division 2 of the Revenue and Taxation Code.

Due to time constraints, this amendment should be adopted in the Assembly Revenue and Taxation Committee.

- 8) **Related Legislation.** SB 333 (Laird) allows the San Luis Obispo Council of Governments to impose a district tax by ordinance of up to 1% even if it exceeds the 2% cap. This bill is currently in the Senate Committee on Revenue and Taxation.
- 9) **Previous Legislation.** AB 618 (Stone) of 2019 would have permitted the Cities of Emeryville (Alameda County) and Scotts Valley (Santa Cruz County) to impose a tax of up to 0.25% that exceeds the 2% cap. 9.75AB 618 was vetoed with a message that stated, "The Cities of Emeryville and Scotts Valley have not yet reached the statewide cap of 2 percent, making it unclear why additional tax authority is needed."

AB 723 (Quirk), Chapter 747, Statutes of 2019, provided that neither the tax imposed by BART nor the tax imposed by the Alameda County Transportation Commission counts against the 2% cap, and made a similar change in Santa Cruz County.

SB 1349 (Glazer), Chapter 369, Statutes of 2020, permitted Contra Costa County, and cities within Contra Costa County, additional legal flexibility to impose local TUTs.

AB 2453 (Bennett), Chapter 286, Statutes of 2022, authorized the Ventura County Transportation Commission to impose a TUT of no more than 0.5% that does not count against the cap in Ventura County.

AB 1256 (Wood), Chapter 572, Statutes of 2023, authorized Humboldt County to impose a TUT of up to 1% that exceeds the 2% statutory limitation.

AB 1385 (Garcia), Chapter 578, Statutes of 2023, raised the maximum TUT that RCTC may impose, from 1% to 1.5%.

AB 1679 (Santiago), Chapter 731, Statutes of 2023, authorizes Los Angeles County to impose a TUT of up to .5% that exceeds the 2% statutory limitation, as specified.

SB 335 (Cortese), Chapter 391, Statutes of 2023, allows the Santa Clara County Board of Supervisors to propose a TUT of up to .625% in Santa Clara County that exceeds the 2% cap and shifted the authority to impose a TUT for countywide transportation purposes in Ventura County that exceeds the 2% cap from the Ventura County Transportation Commission to the County.

SB 862 (Laird), Chapter 296, Statutes of 2023, authorized the board of directors of the Santa Cruz Metropolitan Transit District to impose a retail TUT of up to .5% after January 1, 2024, that is excluded from the 2% combined rate limit, if certain conditions are met.

AB 2431 (Mathis) of 2024 would have authorized a city, county, or city and county to impose a TUT at an unspecified rate that exceeds the 2% statutory limitation if certain conditions are met. This bill died in the Assembly Local Government Committee.

AB 2443 (Carrillo), Chapter 961, Statutes of 2024, authorized the cities of Lancaster, Palmdale, and Victorville to impose a transaction and use tax (TUT) that exceeds the 2% statutory limitation.

AB 3259 (Wilson), Chapter 852, Statutes of 2024, allowed the cities of Campbell and Pinole, the Solano County Board of Supervisors and a city council in Solano County to impose a TUT, by ordinance or voter initiative, of up to 0.5% even if it exceeds the 2% cap. This bill is currently pending on the Senate Floor.

- 10) **Arguments in Support.** According to the sponsors, MTS, this bill would, “....authorize MST to go to the voters of Monterey County to extend its current countywide 1/8-cent sales tax, as well as authorize an additional 1/8-cent to support MST’s services, for a maximum of 1/4-cent.”

“On November 4, 2014, the voters of Monterey County approved the first-ever countywide sales tax measure for public transit - the Monterey-Salinas Transit Local Transit Funding for Senior Citizens, Veterans and People with Disabilities sales tax (Measure Q), which generates approximately \$7 million per year. Measure Q will expire in 2030 unless a new

measure is placed before the voters and secures the approval of two-thirds of the voters.

“Measure Q funds some vital services for veterans, seniors, and persons with disabilities in Monterey County. Five unique bus routes were designed to serve these very populations and are funded with Measure Q revenue. Additionally, a taxi voucher program for same-day trips was designed so these vulnerable individuals only pay \$3 for a \$20 trip, with Measure Q funding the balance of the taxi trip. Most significantly, Measure Q helps support Americans with Disabilities Act (ADA) required door-to-door paratransit service for individuals with physical and cognitive disabilities. A number of other Measure Q-funded services help veterans, seniors, and persons with disabilities maintain their independence.

“MST recently conducted polling of likely voters in Monterey County and found that MST services are very popular with voters, with strong support for renewing Measure Q, with 75 percent (75%) of likely voters supportive of the Measure Q’s extension.”

- 11) **Arguments in Opposition.** According to the California Taxpayers Association and the Howard Jarvis Taxpayers Association, “The sales and use tax is a regressive tax that has the greatest 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 will disproportionately impact the state’s most vulnerable residents.

“Within the past four years, the California Legislature has authorized 12 local governments to enact sales taxes that exceed the 2 percent transactions and use tax cap. Cumulatively, these exemptions to the cap have impacted more than 15 million California residents, making the state less affordable for low- and medium-income families.

“...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 percent plus any additional voter-approved transactions and use taxes. Taxing business inputs increases overall production costs for everyday goods produced in California. Authorizing Monterey County to exceed the 2 percent transactions and use tax cap would increase the cost of doing business for critical industries in the area.

“...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 county.

“...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.”

12) **Double-Referral.** This bill is double-referred to the Assembly Committee on Revenue and Taxation.

REGISTERED SUPPORT / OPPOSITION:

Support

Monterey-Salinas Transit District [SPONSOR]
Transportation Agency for Monterey County

Opposition

California Taxpayers Association
Howard Jarvis Taxpayers Association

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958