



policy matters

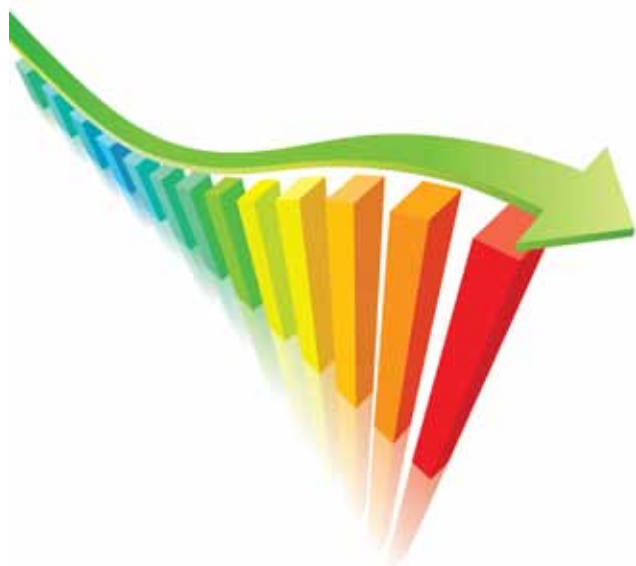
california senate

OFFICE OF RESEARCH

SALES TAX ADD-ONS: A NEW TREND IN LOCAL GOVERNMENT FINANCE

As California's fiscal crisis persists, local governments (cities and counties) increasingly are turning to their local taxing powers to raise revenue. A recent trend in one of these revenue-raising powers has been the adoption of local "sales tax add-ons."

Under current law, voters in a city or county may approve additional sales taxes within the boundaries of a specified geographic area, district, or jurisdiction. And when voters approve such an additional tax, that taxed area becomes known as a special taxing jurisdiction (STJ).



Sales Tax Add-Ons Continue to Climb in California Communities

California now has 132 "special taxing jurisdictions" generating more than \$3.7 billion in local government revenue, a figure tax experts predict will grow in the years ahead.

Sales tax add-ons may be levied for general or specific purposes by a city or county. Specific purposes include a range of targeted uses, such as police and fire services, street improvements, parks, hospitals, and libraries.

California currently has 132 STJs, which overall generate more than \$3.7 billion in revenue for local governments around the state. Of California's STJs, 93 are city-imposed sales tax add-ons and 39 are county-imposed sales tax add-ons. Most of the city sales tax add-ons are designated for the broader category of "general purposes," whereas the sales tax add-ons in counties tend to be approved for "special purposes," a narrower category that might, for example, include funding for transportation authorities.

Where the Sales Tax Add-Ons Came From

In 1969, the California Transactions and Use Tax Law authorized the adoption of local transactions and use tax add-ons to the combined state and local sales tax rate. Over the last few decades, this tax law has been amended several times to provide various cities, counties, special districts, and countywide authorities the authorization to adopt these tax add-ons.

Prior to 2003, sales tax add-ons in California were usually for a specific countywide need, most commonly transportation. But since a 2003 change in the law, general purpose STJs in cities and some counties have become more frequent.

This law (California Senate Bill 566, Scott, Chapter 709, Statutes of 2003) provided cities with the same authority as counties to impose local sales tax add-ons for general or specific purposes, subject to voter approval. The measure also raised the maximum combined rate for these taxes from 1.5 percent to 2 percent. Thus, after the passage of Senate Bill 566, local sales tax add-ons could be approved in cities as well as counties according to the following conditions:

- > Sales tax add-ons may be imposed at a rate of 0.25 percent (or a multiple thereof), and the maximum combined rate of such taxes in any county may not exceed 2 percent.
- > The ordinance proposing the tax must be approved by a two-thirds vote of all members of the jurisdiction's governing body.

- > A *general* purpose tax must be approved by a majority of the city's or county's voters.
- > A *specific* purpose tax must be approved by two-thirds of the city's or county's voters.

Before enactment of Senate Bill 566 in 2003, cities were required to get legislative approval to place an STJ before their governing body and voters. But once this bill eliminated that requirement, sales tax add-ons in cities for general purposes increased significantly. In fact, since 2005, the number of special taxing jurisdictions in California's cities has nearly tripled, as illustrated in the chart pictured at right.

The Trend Continues

In the November 8, 2011, election, eight cities and one county asked their voters to consider new sales tax add-ons. Five of the eight cities and the county approved the new taxes, which become effective April 1, 2012. The five city STJs that passed will increase—or in one case extend—local sales taxes for general purposes. This continues the trend: about 60 percent of general-purpose (majority vote) local sales tax add-ons are being approved by voters.

This trend of passing sales tax add-ons is likely to continue, if not accelerate.

California Assembly Bill 686 (Huffman, Chapter 176, Statutes of 2011), which became effective January 1, 2012, allows cities and counties to propose sales tax add-ons in 0.125 percent increments instead of the previous 0.25 percent increments. (One section of state law already authorizes

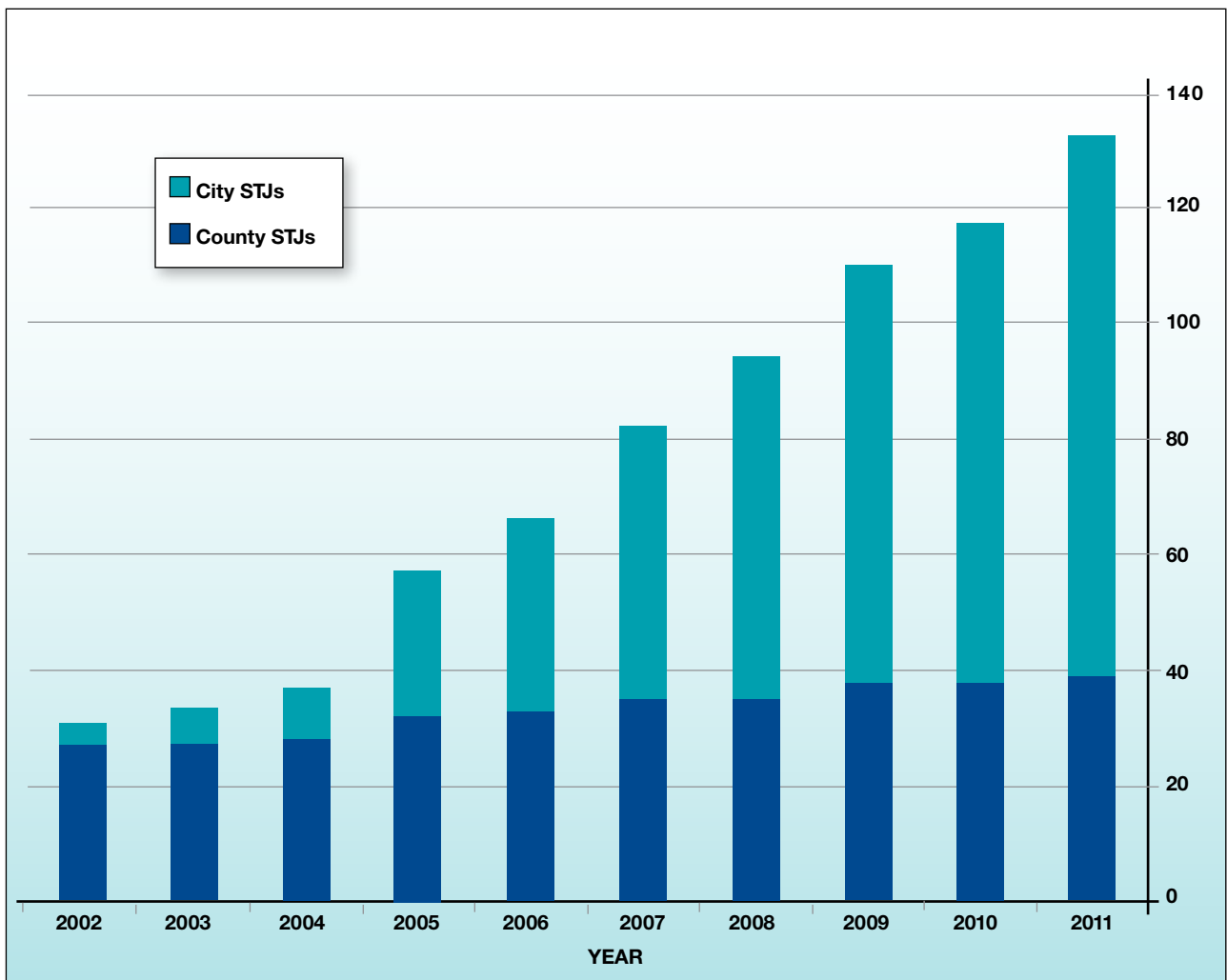
counties to impose a tax at a rate of 0.125 percent or 0.25 percent, but only for library purposes.) By allowing these tax add-ons in smaller increments, voters are more likely to approve them.

California Assembly Bill 686 gives cities and counties the flexibility to raise more

revenue for their local services. Given this change in the law and the increasing pressure on local governments to find new ways to raise revenue, cities and counties are more likely to turn to local sales tax add-ons as a revenue-raising tool in the coming years.

Special Taxing Jurisdictions (STJs)

Growth Over the Last Decade in California Cities and Counties



Special taxing jurisdictions nearly tripled from 2005 to 2011 in California cities.

Written by Meg Svoboda. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. It was established by the Senate Rules Committee in 1969. For more information and copies of this report, please visit www.sen.ca.gov/sor or call **(916) 651-1500**.