County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE
713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
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DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

June 26, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

RECOMMENDATION TO SUPPORT A 50 PERCENT REDUCTION IN CALIFORNIA SALES TAX ON GASOLINE PURCHASES (CONTINUED FROM THE JUNE 7, 2006 BOARD MEETING)

At the meeting held on Wednesday, June 7, 2006, the Board continued this item to budget deliberations which are set to begin on June 26, 2006, and requested that my office report on the status of **AB 2621 (Strickland)**.

As amended on May 9, 2006, AB 2621 would provide a complete exemption from the sales and use tax on the sale or purchase of gasoline. Since this is a total exemption, its cost would be double the estimated $100.9 million revenue loss to the County from a 50 percent tax reduction proposed in the Board motion. The impact of the Board motion is explained in the attached June 2, 2006 Board memo. AB 2621 would reduce State and local government sales tax revenues which help to pay for essential County health and human services, public safety activities, and transportation. The bill does not provide an appropriation to reimburse local governments for these revenue losses although it does declare legislative intent to provide reimbursement pursuant to a subsequent bill which has not yet been introduced. The County has not taken a position on AB 2621.

Our Sacramento advocates report that the deadlines have passed to hear bills in policy committees (April 28, 2006), in fiscal committees (May 26, 2006), and to pass bills in the house of origin (June 2, 2006). While AB 2621 is technically active on the suspense file of the Assembly Revenue and Taxation Committee, Senate Concurrent Resolution No. 1, which adopted the Joint Rules of the Senate and Assembly, requires approval of

the Committee on Rules and a two-thirds vote of the membership of the house to suspend any deadline, which would allow AB 2621 to continue through the legislative process.

DEJ:GK
MAL:JF:MR:cc

Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Department of Public Works

Attachment

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June 2, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

RECOMMENDATION TO SUPPORT A 50 PERCENT REDUCTION IN CALIFORNIA SALES TAX ON GASOLINE PURCHASES (ITEM NO. 5, AGENDA OF JUNE 7, 2006)

Item No. 5 is a recommendation by Supervisor Knabe to support a 50 percent reduction in California sales tax on gasoline purchases, and direct the Chief Administrative Officer to send correspondence to the Los Angeles County Delegation of State Senators and Assembly Members and Governor Schwarzenegger urging support and early enactment of legislation to reduce the sales tax on gasoline purchases in the State by 50 percent.

The California Sales and Use Tax Law imposes a tax on retailers related to sale of tangible personal property in the State. Retailers generally impose the sales tax on the retail price of the tangible property and collect reimbursement of the tax from the purchaser. The price for a gallon of gasoline paid at the pump includes the fixed State and Federal excise taxes, along with the State and local sales tax. The State has imposed the sales tax on the retail price of gasoline since 1971. In addition, the State also imposes the sales tax to the retail price of other tangible property such as alcoholic beverages, cigarettes and tobacco products which already include the State and Federal excise taxes.

A 50 percent reduction in the sales tax would provide some relief to Californians from the surging gasoline prices. However, a reduction sales taxes applied to gasoline, would result in a significant reduction of revenue to the State, counties, and other local jurisdictions.

There are a number of taxes in California that are generally regarded as sales taxes. The sales tax rate is six percent (6%) for State General Fund purposes, and it includes one-half percent (0.5%) for the Local Public Safety Fund (Proposition 172), one-half percent (0.5%) for the Local Revenue Fund (Realignment Program). In addition, the sales tax rate includes a one-quarter percent (0.25%) for the State's Fiscal Recovery Fund, and one percent (1%) for locally imposed sales tax, also known as the Bradley Burns tax, for city/county transportation uses.

Since sales tax revenues directly support essential government services, such as health and human services, public safety and transportation, this proposal would affect the following County programs:

Realignment. This program is funded by a dedicated sales tax, and vehicle license fee, revenues which are allocated directly to counties for important health, mental health, and social services programs. This program has been in place since 1991 and has been a dependable funding source for counties to provide services. If this proposal is approved, health and human services programs could lose an estimated $115 million annually statewide. The impact to the County is estimated to be $37.9 million.

Public Safety. Proposition 172 is funded by dedicated sales tax revenue to support local public safety functions in counties and cities. This measure was approved by California voters in 1993 to partially mitigate the State's transfer of property tax revenues from counties and cities to the schools. If this proposal is approved, public safety programs could lose an estimated $115 million annually statewide. The impact to the County is estimated to be $29 million.

Transportation. In 2002, California voters approved Proposition 42 by almost 70 percent, which dedicated the State sales tax revenues on gasoline to fund specified State and local transportation projects, such as public transportation, road repairs, transit and safety improvements, and congestion relief. On February 5, 2002, on a recommendation from the Department of Public Works (DPW), your Board unanimously voted to support Proposition 42 which appeared on the March 5, 2002 ballot.

In Fiscal Years 2003-04 and 2004-05, the Governor diverted more than $2.5 billion in gasoline sales tax revenue in order to address the State General Fund deficit. According to DPW, this resulted in a reduction of more than $45 million in Proposition 42 revenue that would have been used by DPW to fund the maintenance of the local road system in the unincorporated County areas. DPW and other local agencies had to delay or stop many critical safety improvements, congestion relief projects, road repairs and other transportation needs, which worsened the condition of the already deteriorated County roads.

DPW indicates that delaying repairs will increase the road repair cost in the future by as much as four to six times as traffic continues to increase and the roads continue to

deteriorate. DPW indicates that reports show that the average driver in Los Angeles County spends $689 in vehicle repair costs per year due to the poor condition of the roads. DPW further indicates that the 2005 January and February storms took a heavy toll on roadways throughout the County with damage estimates in excess of $90 million in unincorporated areas alone. It is expected that only one half of this amount will be reimbursed under Federal and State disaster assistance programs. Therefore, Proposition 42 revenue is needed to fund the remaining balance, which would be jeopardized by this reduction.

DPW indicates that while this motion is intended to address public concern over high gasoline prices, it would adversely impact the motoring public by taking away revenues dedicated for transportation purposes. DPW estimates that the County will lose $34 million and the cities within Los Angeles County will lose about $51 million in revenues derived from sales tax on gasoline if the Legislature were to adopt this proposal.

To our knowledge, there are no bills or budget proposals that specifically recommend a 50 percent reduction in the California sales tax on the purchase of gasoline. However, AB 2621 (Strickland), as amended on May 9, 2006, would provide a sales and use tax exemption for the sale or purchase of gasoline. While AB 2621 does not provide for an appropriation to reimburse local governments for the tax revenue losses as a result of this measure, the bill declares the intent of the Legislature to provide reimbursement pursuant to a subsequent bill. The County has not taken a position on AB 2621.

While there is no current Board policy to support proposals that reduce the sales tax on gasoline, or to reduce any other State taxes, a reduction in revenues, with no backfill will reduce funds for critical services for which the County has historically advocated. **Therefore, support of this proposal is a matter for Board policy determination.**

DEJ:GK
MAL:EW:MR:cc

c: Executive Officer, Board of Supervisors
County Counsel
Department of Public Works