



July 1, 2025

Hon. Rob Bonta  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Anabel Renteria  
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative regarding local taxes (A.G. File No. 25-0005, Amendment #1).

## BACKGROUND

***Charter Cities and Other Local Governments in California.*** California is composed of a large network of local governments. These include counties, cities, special districts, and school districts. The State Constitution allows for city (and county) local affairs to be governed under either the general laws of the state or under a charter adopted by local voters. Charter cities generally have authority to adopt their own local laws which generally supersede state law. Charter cities (and counties) are still subject to the U.S. Constitution, federal laws, the California Constitution, and state laws regarding matters of statewide concern. Of California's 483 cities, about one-quarter are charter cities.

***Documentary Transfer Tax.*** Long-standing state law permits California's 58 counties to impose and collect a tax on the transfer of ownership in real estate. This is known as a documentary transfer tax. The tax is limited to 55 cents per \$500 in property sale (or 0.11 percent). A city can opt to impose a documentary transfer tax of half that rate (that is, 27.5 cents per \$500) when the property sale is within its boundaries. In those cases, the county and city each receives 27.5 cents per \$500. Counties and cities can use revenues from documentary transfer taxes for any governmental purpose. All counties in California, except for one, impose a documentary transfer tax. (This one county is San Francisco, which instead imposes the tax discussed in the next paragraph.)

  
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***Charter City-Only Transfer Taxes.*** Court decisions in the early 1990s determined charter cities could impose their own transfer tax on the sale of real property. Charter cities can set their own transfer tax rate. They are not limited to the statutory rate for documentary transfer taxes. This type of tax is not named in statute so we refer to it as the “charter city-only transfer tax.” Pursuant to state law, if a charter city chooses to adopt its own transfer tax, the county retains all the revenue from the documentary transfer tax (that is, the entire 55 cents per \$500). The charter city gets anything from its own transfer tax rate above the 55 cents per \$500. As of January 2025, 26 charter cities (including San Francisco, which operates as both a charter city and a county) have established their own transfer tax. In most cases, these charter cities use the resulting revenues for general municipal purposes. In two charter cities (Los Angeles and Santa Monica), voters recently also have approved a transfer tax with revenues designated for specified purposes. The specifically-designated transfer taxes are on top of a “base” general-purpose transfer tax in those two cities.

***Vote Thresholds for Local Taxes.*** State law permits local governments to impose various other types of taxes with local voter approval. These include property-related taxes (such as taxes on parcels of property) and nonproperty-related taxes (such as a tax on hotel stays). Tax increases can be put before local voters by residents (though a citizen initiative) or the local government (such as city council or board of supervisors). Under current law, local tax increases that are designated for specific purposes require two-thirds of local voters to approve them. These are called special taxes. Recent court decisions, however, have allowed voter-proposed special taxes to be approved with a majority vote.

## PROPOSAL

***Limits Charter City-Only Transfer Taxes.*** The measure would limit charter city-only transfer taxes to the current statutory rate for documentary transfer taxes (that is, 27.5 cents per \$500). Specifically, the measure would invalidate all existing charter city-only transfer taxes exceeding the current statutory rate on December 31, two years following enactment of the measure by statewide voters. This includes those transfer taxes used by charter cities for general purposes as well as those designated for specified purposes. The measure also would prohibit charter cities from imposing any *new* charter city-only transfer taxes that exceed 27.5 cents per \$500. The measure would continue to allow counties and cities to impose and split documentary transfer taxes consistent with current law.

***Vote Threshold for Special Taxes.*** The measure also would require special taxes to receive a two-thirds vote for approval, regardless of whether the tax was put before voters through a citizen initiative or the local government. Existing *property-related* special taxes that were approved by less than two-thirds of voters would be invalidated. Such local measures would be invalidated on December 31, two years following enactment of the measure by statewide voters. Voters could reauthorize such taxes (or impose new ones) in the future, but only with a two-thirds vote. However, charter cities could not reauthorize charter city-only transfer taxes.

## FISCAL EFFECTS

***Lower Revenues for Local Governments.*** The measure would result in the annual loss of up to a couple of billion dollars in existing revenues to local governments. This loss in revenue is made up of a few components, including:

- Primarily the limitation on transfer taxes charter cities could impose.
- A number of local jurisdictions (representing four types of local governments—city, county, special district, and school district) collectively losing roughly \$300 million annually from the invalidation of existing property-related (parcel) taxes that were approved with less than a two-thirds vote.

Additionally, in future years, the measure could result in lower revenues to local governments than otherwise would be collected. This is because the measure would make it harder for local governments to increase or approve new taxes (due to a higher voting requirement) and would permit fewer types of taxes for local governments to adopt. The actual revenue impact is unknown and would depend on future decisions by local governments and voters.

Finally, the measure could result in some charter cities experiencing some increase in property transactions. Given a limitation on transfer tax rates, property transactions would be somewhat less expensive, which could increase sales. An increase in property sales could increase local property tax revenue over time.

***Summary of Fiscal Effects.*** We estimate that this measure would have the following major fiscal effects:

- Annual loss of revenues to local governments totaling up to a couple of billion dollars, predominantly affecting certain charter cities.
- Potential future reduction in what local governments would otherwise collect in revenues due to a higher vote threshold for certain taxes, limits on tax rates, and fewer types of taxes that local governments can adopt.

Sincerely,

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for Gabriel Petek  
Legislative Analyst

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for Joe Stephenshaw  
Director of Finance