California State Association of Counties
1100 K Street, Suite 101
Sacramento, CA 95814
(916) 327-7500

Rural County Representatives of California
1215 K Street, Suite 1650
Sacramento, CA 95814
(916) 447-4806

Urban Counties of California
1100 K Street, Suite 101
Sacramento, CA 95814
(916) 327-7531

May 15, 2019

The Honorable Gavin Newsom
Governor, State of California
State Capitol
Sacramento, CA 95814

Re: Local Impacts of Proposed Sales and Use Tax Exemption for Diapers and Menstrual Products

Dear Governor Newsom:

On behalf of the California State Association of Counties (CSAC), the Rural County Representatives of California (RCRC), and the Urban Counties of California (UCC), we write to respectfully request that you include funding in the 2019-20 state budget to backfill counties for losses associated with the proposed sales and use tax exemptions for diapers and menstrual products. While we acknowledge the important policy considerations associated with the exemptions, the revenue loss to counties will directly reduce funding for programs serving many of the same women and families the exemptions are designed to assist.

As you are aware, counties receive funding from components of the state sales and use tax rate, in addition to the local Bradley-Burns rate and local transactions and use taxes, as follows:

State Rate:	3.9375%	State General Fund
	1.0625%	2011 Realignment (Local Revenue Fund 2011)
	0.50%	1991 Realignment (Local Revenue Fund)
	0.50%	Proposition 172 (Local Public Safety Fund)
	1.25%	Bradley-Burns Local Rate (1.0%) and County Transportation (0.25%)
	7.25%	Total State Rate

Of course, total sales and use tax rates vary by jurisdiction due to locally approved transactions and use taxes that are added onto the base state rate outlined above.

The estimated local revenue losses associated with the diaper and menstrual product exemptions are around $21.5 million for 2019-20 and $41 million for the following year, a considerable loss for local public assistance, health care, behavioral health, human services, public safety, and other vital local services. As proposed, the exemptions do not contemplate the complex financial relationships that exist between the state and counties on many policy fronts and the partnership that the state and counties share to provide services to the most vulnerable.

When counties partnered with the state on 2011 realignment, we worked hard to ensure that the framework for the realignment of nearly $6 billion in programs and services from the state to counties incorporated fair constitutional protections for revenue predictability and stability, program certainty and flexibility, and a balanced approach to fiscal risk. Those constitutional protections – enshrined in the constitution via the enactment of Proposition 30 in 2012 – were the cornerstone of counties' support for 2011 realignment. Proposition 30 contains language to ensure that the revenues dedicated to 2011 realignment (relevant here, 1.0625% of the state sales and use tax rate) were protected as those statutes existed on July 1, 2011. As a result, counties assert that the state is obligated to backfill revenue losses associated with sales and use tax exemptions for 2011 realignment.

The backfill for losses related to the parts of the sales tax, while not constitutionally obligated, are nevertheless similar in purpose. Counties have obligations to the state and to their own communities that they rely on the revenue from the sales tax to fund. While the state is working to decide the best way to use its record revenues to both provide services and prepare for the inevitable economic downturn, three-fourths of counties are struggling with the even more vexing decisions of how to continue delivering services and preparing for the next recession but without even having returned to pre-recession revenue levels, when measured per capita in real dollars. The state budget's spectacular emergence from the Great Recession is matched only by the failure of most county budgets do the same, so the decision to reduce a tax that affects counties to a greater degree than it affects the state, without recognizing the effect on local programs or on many of the state's own programs, is troubling.

The state certainly has the authority to determine the appropriate investment of state funds; however, in this instance, the proposed exemption also imposes a considerable revenue loss to local governments. As a result, we respectfully urge you to consider backfilling local revenue losses associated with the proposed diaper and menstrual product sales and use tax exemptions. Please reach out if we can provide additional assistance.

Sincerely,

Geoff Neill	Paul A. Smith	Jean Kinney Hurst
Legislative Representative	Vice President, Government Affairs	Legislative Representative
CSAC	RCRC	UCC

cc: The Honorable Holly Mitchell, Chair, Senate Budget and Fiscal Review Committee
Members and Consultants, Senate Budget and Fiscal Review Committee
The Honorable Phil Ting, Chair, Assembly Budget Committee
Members and Consultants, Assembly Budget Committee
Keely Bosler, Director, Department of Finance
Chris Woods, Chief Fiscal Policy Advisor, Office of the Senate President pro Tempore
Jason Sisney, Budget Director, Office of the Assembly Speaker