

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: April 19, 2021

TO: Honorable Members of the Rules, Elections & Intergovernmental Relations Committee

FROM: Sharon M. Tso *KEK for*
Chief Legislative Analyst

Council File No: 21-0002-S72
Assignment No: 21-04-0277

SUBJECT: Resolution (Krekorian – O’Farrell) to support AB 1163 (Nazarian)

CLA RECOMMENDATION: Adopt the attached Resolution (Krekorian – O’Farrell) to include in the City’s 2021-2022 State Legislative Program, SUPPORT for AB 1163 (Nazarian), which would repeal statewide prohibition of local soda taxes.

SUMMARY

On March 17, 2021, the Resolution (Krekorian – O’Farrell) was introduced and states that in June 2018, the California legislature signed into law a bill that prohibits California cities from implementing new taxes on grocery items, including soda and other sugary drinks. AB 1163 (Nazarian), which is currently pending in the State legislature, would repeal the prohibition of grocery taxes. Research on sugary drink taxes shows that these taxes can help lower the consumption of sugary drinks and generate revenue for local governments that can be invested to improve local health equity conditions. The Resolution advises that this is beneficial for the health of city residents as evidence links the consumption of sugary drinks to the risk of diabetes and other metabolic dysfunction, heart disease, stroke, and tooth decay.

The Resolution recommends support for AB 1163 (Nazarian), which would remove statewide preemption of local soda taxes.

BACKGROUND

While the California Constitution authorizes a city to levy local taxes for local purposes, this is subject to statewide preemption. In June 2018, Governor Brown signed into law AB 1838, a controversial bill that banned California cities and counties from creating new taxes on grocery items, including soda and other sugary drinks, through 2030. The prohibition, which was applied retroactively from January 2018, allowed existing taxes that were already in place to continue. Before 2018, four California cities, Albany, Berkeley, San Francisco, and Oakland, were already levying excise taxes on sugary drinks.

AB 1838 was approved as a compromise in exchange for removing the “Tax Fairness, Transparency, And Accountability Act of 2018,” an American Beverage Association-funded ballot initiative that would have made it harder to raise local and state taxes of all kinds. The initiative, sponsored by the California Business Roundtable, would have raised the voter threshold for any tax increases by local government to two-thirds. An analysis by the Legislative Analyst’s Office

in Sacramento found that roughly half of the tax measures enacted by local voters since 2012 would not have passed if they required a two-thirds vote under the initiative.

The negative health consequences of sugary beverages in children and adults are well documented. According to the World Health Organization, sugary beverages are associated with excess weight and obesity, putting people at greater risk of developing type 2 diabetes, high blood pressure, asthma, sleep disorders, liver disease, and tooth decay. Moreover, low-income communities and communities of color have been and continue to be disproportionately affected by these health conditions. Although taxation of sugary drinks is not the cure to obesity and obesity-related illnesses, reducing consumption is believed to be an effective tool to improve the health of a population.

Taxation of sugary drinks has become increasingly common in recent years as a tool to discourage consumption and generate revenue for local health programs. The City of Berkeley, in March 2015, became the first city in the United States to impose such a tax at the rate of one cent per fluid ounce. Berkeley levies the tax on the distribution of sugary drinks, including soda, energy, sports, fruit-flavored drinks, sweetened water, coffee, tea, and syrups used to make sugary drinks. A 2017 study by Oakland-based Public Health Institute and the University of North Carolina found that the tax prompted a ten percent drop in citywide soda consumption during the first year of its existence while driving up sales of healthier drinks like water and milk. Additionally, a 2016 University of California Berkeley study showed a 21 percent drop in sugary beverage consumption in low-income neighborhoods.

DEPARTMENTS NOTIFIED

None

BILL STATUS

02/18/21	Introduced
03/04/21	Referred to Committee on Revenue and Taxation
03/12/21	Coauthors revised



Valentina Diba
Analyst

Attachments: 1. Resolution (Krekorian – O’Farrell)

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, current law authorizes counties, cities, and other local agencies to impose various taxes and fees in connection with activity within those jurisdictions; and

WHEREAS, in June 2018, the California Legislature banned any new food and beverage taxes until 2031, prohibiting local governments from levying such taxes; and

WHEREAS, AB 1163 (Nazarian), currently pending in the State legislature, would repeal the prohibition on the imposition, increase, levy and collection, or enforcement by a local agency of any tax, fee, or other assessment on groceries; and

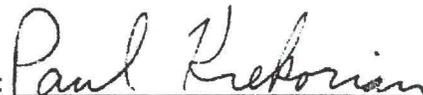
WHEREAS, this is beneficial to the health of city residents as evidence links the consumption of sugary drinks to the risk of diabetes and other metabolic dysfunction, heart disease, stroke, and tooth decay; and

WHEREAS, research on sugary drink taxes shows that these taxes can help lower the consumption of sugary drinks as well as generate revenue for local governments that can be invested to improve local health equity conditions; and

WHEREAS, studies on the taxation of sugary drinks have estimated a significant return on investment in health care savings, and in terms of tax revenue, data from the City of Berkeley shows a seven percent growth in food sector employment and a 15 percent growth in sales tax revenue following the implementation of a sugary drink tax in the city; and

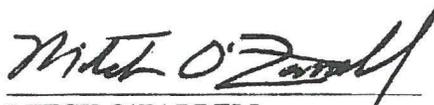
NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2021-22 State Legislative Program SUPPORT for AB 1163 (Nazarian), which would remove statewide preemption of local soda taxes.

PRESENTED BY:

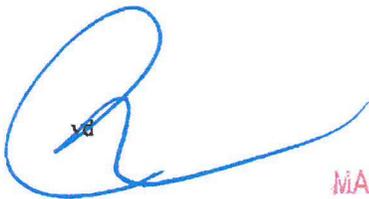


PAUL KREKORIAN
Councilmember, 2nd District

SECONDED BY:



MITCH O'FARRELL
Councilmember, 13th District



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