

## Revenue and Taxation Policy Committee - Friday, January 18, 2019

### *SUMMARY:*

All 7 policy committees came together for a broad overview of all policy areas and an overview of Governor Newsome's new budget. We heard from Ana Matosantos, the Governor's newly appointed Cabinet Secretary. She provided a high level overview of the new budget.

The Governor's budget can be summarized with two major themes: 1) reduce debt and 2) build reserves (rainy day fund). The League projects that this budget would produce a net loss of about \$40B if the State heads into a recession in 2019-2020.

### **State Legislative Update**

Tax Increment Restoration – There are two bills, SB 5 (Beall) and AB 11 (Chiu) that are attempting to introduce some tax increment tools, similar to redevelopment. AB 11 is much closer to the redevelopment that was most recently dissolved. The League believes it is unlikely that AB 11 will receive much traction but will support any bill that brings additional tax increment financing to cities.

Update on AB 147 (Burke) Wayfair Implementation<sup>1</sup> (online sales tax) – AB 147 proposes to address several problems to smooth the implementation of the *Wayfair* case. The proposal includes clarifying tax collection, closing loopholes, and simplifying the threshold criteria in order to decrease the impact to small businesses. The League expects the proposal to result in increased sales tax revenue for local agencies and a leveling of the playing field for brick and mortar retailers.

**ACTION** – R&T COMMITTEE APPROVED THE LEAGUE'S ANALYSIS AND POSITION

Reintroduction of Annexation and Incorporation Measures – In 2019, the League will sponsor a bill, AB 213 (Reyes), to address the fiscal viability of new incorporations and annexations of inhabited areas. The "property tax in lieu of VLF taking" has made many annexations unviable and had severely impacted small cities.

CAL FIRE Pension Case Update – The option to buy 5 years airtime was removed with PEPRA reform. The Firefighter's union appealed this change on the grounds that it was a vested right and that the "future benefit" was not reopened or negotiated by its members. This appeal is in the courts and should be decided within about 90 days.

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<sup>1</sup> US Supreme Court holding of *South Dakota v Wayfair, Inc.* In June of 2018, addressed a longstanding and growing problem associated with the rapid growth of online sales. The Court upheld South Carolina's statute that imposed collections duties on any retailer that was doing either more than \$100K or 200 separate transactions into the state.

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### City Manager Working Group Legislative Recommendations (related to use tax):

1. *Tightening laws on future tax agreements.* Sales tax rebate agreements involving online retailers should be prohibited going forward AND any agreement that intend to lure retailers from one community to another should also be prohibited.
2. *Allocating use tax from county pools to full destination allocations.* Revenue should be allocated to where the use occurs or where the purchaser resides (the destination) and not throughout the entire county. The threshold for direct allocation of use tax from construction projects should be reduced from \$5 million to \$100K.
3. *Request/require CDTFA<sup>2</sup> analysis on impacts of sales tax destination shifts.*

**ACTION** – COMMITTEE APPROVED THE CITY MANAGER WORKING GROUP’S RECOMMENDATIONS

Adoption of 2019 Work Program (attached) was briefly discussed and presented

**ACTION** – COMMITTEE ADOPTED THE 2019 WORK PROGRAM

*Next meeting is Friday, March 29 in Costa Mesa*

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<sup>2</sup> California Department of Tax and Fee Administration