

**REVENUE AND TAXATION POLICY COMMITTEE
HIGHLIGHTS**

Friday, June 14, 2019

Sacramento Convention Center, 1400 J Street, Rm. 204, Sacramento

ATTENDANCE

Members: Jeff Slowey (Chair), Olivia Valentine (V. Chair), Paul Arevalo, Deborah Baird, Robert Biery, Michael Brownrigg, Nancy Carroll, Rolando Charvel, Marita Dorenbecher, Ryan Dunn, Juan Garza, John Gillison, Barbara Halliday, Brian Johnson, Mina Layba, Eric Levitt, Joseph Muller, Paul Navazio, Stephanie Nguyen, Patrick O'Rourke, Michael Perciful, Marcus Pimentel, James Purtee, Laura Rocha, Robert Samario, David Sander, David Sheasby, Niroop Srivatsa, Karen Stepper, Fred Strong, Evelyn Tseng, Jim Vanderpool, Joe Vinatieri, Bertral Washington, Maya Williams, David Wilson, Edward Wilson, Jim Zervis

League Partners: Rob Braulik, Tracy Vesely

Staff: Dan Carrigg

I. State Budget and General Briefing

Jeff Slowey, Chair, League Revenue and Taxation Policy Committee, gave a brief introduction to the General Briefing Session. After his welcome, he introduced League President Jan Arbuckle, Council Member, Grass Valley, who welcomed everyone to the third round of policy committee meetings of the year. President Arbuckle thanked everyone for making the trip to Sacramento for policy committees and expressed her appreciation for their attendance. President Arbuckle then shared that she has visited all of the League's 16 regional divisions and shared how much she has enjoyed visiting the various divisions. President Arbuckle closed by reiterating the importance of policy committees and expressing that the League is strongest when we focus on our common interests.

President Arbuckle then introduced Carolyn Coleman, League Executive Director. Ms. Coleman thanked President Arbuckle for all of the hard work she dedicates to her role. She also briefly mentioned the success of the recent Joint Disaster Summit that brought together local government and the Governor to discuss disaster response in the state. Ms. Coleman went onto acknowledge the League partners in the room and thank League staff for all of their hard work. She concluded by reminding everyone that while we have already done so much to protect the interests of cities this legislative session, there is still much work to be done.

Ms. Coleman then introduced Dan Carrigg, League Deputy Executive Director and Legislative Director. The rest of the briefing was presented by the League's legislative team. Mr. Carrigg began giving a brief overview of the budget and highlighted how Governor Newsom has heeded the advice of Governor Brown regarding budget spending.

Mr. Carrigg then introduced the League's fiscal advisor, Michael Coleman, to walk everyone through the State Budget update. Mr. Coleman's [State Budget Update](#) included how the State is going to spend the \$20.8 Billion surplus and pay down debts while growing its reserves. He also went onto explain how the impact of the sales tax exemption of diapers and menstrual products will have on local revenues. Mr. Coleman handed the meeting back over to Mr. Carrigg where he then introduced the League's lobbyists to discuss their respective issue areas.

Jason Rhine, League Assistant Legislative Director, focused on the housing affordability and availability challenges throughout the state. Mr. Rhine highlighted several bills including SB 330,

SB 13, AB 1279, and AB 1763. Mr. Rhine encouraged policy committee members to speak to their legislator about SB 330 and to look at the [SB 330 Action Alert](#). SB 330 would, among other things, declare a statewide housing crisis and for a five-year period and freeze nearly all project related fees once a developer submits a “preliminary” application. (For more information, please visit the [League’s Action Center](#).) Mr. Rhine also briefly discussed the unprecedented amount of dollars to housing and homelessness. The [Housing and Homelessness Update Document](#) mentions several existing funding opportunities including SB 2 planning grant dollars. While the Housing and Homelessness Budget Trailer bill had not yet been released, Mr. Rhine stated that the League has been working closely with the Governor’s office and Legislators on the trailer bill language.

Dane Hutchings, Director, Government Affairs at Renne Public Policy Group (RPPG), is currently on contract with the League representing the League on issues related to governance, transparency, and labor relations. Mr. Hutchings began by discussing the political realities in Sacramento surrounding employee relations legislation and then briefly discussed several bills regarding worker compensation and elections. Mr. Hutchings highlighted SB 266, which would require cities to directly pay retirees compensation that has been deemed “disallowed.” This would result in an unconstitutional gift of public funds and would lead to a significant increase in costs for some cities. Mr. Hutchings also highlighted several bills in the workers’ compensation space, including SB 542, AB 932, and AB 1400, which would expand the scope of workers’ compensation and ultimately lead to increased costs for local agencies. More details can be found in the [Workers’ Compensation Document](#). While Governor Brown held the line on worker’s compensation, we will have to wait and see where Governor Newsom will land on workers’ compensation bills this year.

Charles Harvey, League Legislative Representative, gave an update on various public safety related issues including cannabis, drones, and police use of force. Mr. Harvey discussed AB 392 (Weber), the reintroduction of a police use-of-force bill from last year, which the League opposed. AB 392 was amended and a large number of law enforcement groups now no longer oppose the bill. More information can be found in the [Police Use of Force Document](#). On the topic of cannabis, Mr. Harvey discussed AB 1356 (Ting). Under this bill, if more than 50 percent of the voters of a local jurisdiction voted in favor of Proposition 64, these local jurisdictions would be required to adopt a local licensing structure for retail commercial cannabis activity. More specifically, the bill requires these cities to issue a minimum of one retail cannabis license for every four liquor licenses. AB 1356 was moved to the inactive file and is dead for the year.

Derek Dolfie, League Legislative Representative, highlighted evolving environmental and community services issues. The issue of improving the quality of drinking water in California continues this year with several proposals spanning from an increased safe drinking water tax to general fund allocations. There is currently a deal struck that does not involve a tax but the deal is not finalized. Another major issue is organic waste diversion and the regulations that will implement a 50% reduction target coming out this summer. Mr. Dolfie also discussed the various bills and proposals that have been introduced because of the recent wildfires. This includes the issue of utility liability and the recommendation out of the [Governor’s Strike Force Report](#). The discussion is ongoing and the League will continue to work closely with the Governor’s office and Legislators on the language. More details regarding disaster and emergency response can be found in the [Disasters and Emergency Response Document](#). Mr. Dolfie also touched on issues such as homelessness and a master plan on aging.

Rony Berdugo, League Legislative Representative, discussed transportation, communications, and public works. Mr. Berdugo began by discussing the proposal to link SB 1 transportation

dollars with housing production. The proposal was met with hostility by many legislators and will not be included in the budget this year. Mr. Berdugo then described AB 516 (Chiu). This measure would eliminate the ability for cities and law enforcement to adequately enforce state and local vehicle violations. This bill is still moving through the legislative process and Mr. Berdugo encouraged policy committee members to speak to their legislator about the bill. More information can be found in the linked [AB 516 Action Alert](#). (For more information, please visit the [League's Action Center](#).) Next, he discussed the FCC small cell order and how the League and others have attempted to push back against this in the courts and on the federal level. Finally, Mr. Berdugo discussed two bills related to scooters that have been tabled for the year, seismic safety legislation, the 911 fee budget trailer bill, and AB 1699 (Levine), which would prohibit a mobile internet service provider from impairing or degrading the lawful internet traffic of public safety agencies during a state of emergency.

Lastly, Dan Carrigg briefly discussed issues related to revenue and taxation. Mr. Carrigg touched on AB 147 (Burke) being signed into law. This measure implements the Wayfair decision in California and increases revenue for local governments. It is also anticipated that revenues collected through the implementation of AB 147 will be higher than what was initially expected. Mr. Carrigg went on to discuss SB 5, an important economic development bill. SB 5 would reinvest the state into tax increment financing. A renewed investment would greatly improve opportunities for economic development and provide a great opportunity for the state to work with locals to accomplish shared state and local goals. Mr. Carrigg encouraged policy committee members that are with cities who have not yet submitted a support letter, to do so as soon as they can. (For more information, please visit the [League's Action Center](#).)

II. Special Presentation

Lisa Middleton, Palm Springs Council Member, Recent CalPERS Board Appointee

Lisa Middleton, Palm Springs Councilmember, briefed committee members of both the Revenue and Taxation Committee and the Governance, Transparency, and Labor Relations Committee on her recent appointment to the CalPERS Board, wherein she will serve as the Board's local government representative. Ms. Middleton addressed committee members with a brief overview of her journey to becoming a CalPERS board appointee, citing Palm Spring's budget constraints caused by the city's growing unfunded pension liabilities as a contributing factor in pursuing the seat.

Ms. Middleton set the stage for the current issues regarding unfunded liabilities by summarizing the series of events that led the system to its current state. Following CalPERS' healthy investment boom in the 1990's, the Legislature passed SB 400 (1999), which drastically enhanced the retirement benefits for government employees and allowed for earlier retirement eligibility. The passage of SB 400 was soon followed by an unfortunate plummet in investments due to the dot.com bubble. Despite recovery efforts, unfunded liabilities quickly outpaced investment returns – a problem that has been exacerbated by events like the 2008 recession. Ms. Middleton emphasized that all parties – from the local level to the Legislature and the CalPERS administration – have contributed to the problem, and that it will take a collaborative effort from all to work through it.

Ms. Middleton then outlined the future changing landscape of the pension system, catalyzed by the enactment of the California Public Employees' Pension Reform Act (PEPRA) in 2012 which established a new tier of employees with less generous benefits (without modifying existing member benefits). Ms. Middleton emphasized that cities will not feel significant impacts of PEPRA for the next 10-15 years due to classic member benefit payouts. Because of this, the next 10-15 years will be challenging.

Looking forward, Ms. Middleton plans to improve communication and candor between local governments and CalPERS leadership by engaging in outreach tours across the state. She expressed her support for the CalPERS new Private Equity Model roll out and its potential to increase CalPERS returns and move away from asset-based fees to keep more money in the fund. In addition, she committed to working with the CalPERS Board to look into shifting their Board meetings schedule away from Tuesdays in order to better accommodate city officials.

Ms. Middleton concluded her presentation by outlining the key actions cities can do to help mitigate the effects of mounting unfunded pension liabilities: cities should be transparent about the rising costs and subsequent problems they face and make them known to the CalPERS Board and the Legislature; and an accurate actuarial report should be produced in order to have an explicit understanding of what the next 10-15 year arch will look like prior to the tangible effects of PEPR. Ms. Middleton made herself available [via email](#) should any committee member wish to contact her.

III. Welcome and Introductions

Chair Jeff Slowey welcomed committee members and began introductions of himself, Vice Chair Olivia Valentine, and League staff. This was followed by introductions of each committee member, which included their name, title, and city.

IV. Public Comment

No Public Comment.

V. Additional Discussion of State Budget

The League of California Cities' Deputy Executive Director and Legislative Director Dan Carrigg gave a presentation with the League's Fiscal Policy Consultant Michael Coleman on the finalization of the State's Budget. In looking at the entirety of the Budget, Mr. Coleman outlined its overall spending allocations. Despite having a surplus of nearly \$20 billion, much of the excess funds have been earmarked to pay down debts and pension obligations. Similar to years prior, many new expenditures in the Budget are structured as one-time allocations.

Mr. Carrigg and Mr. Coleman highlighted the components of the Budget beneficial to cities. Of note is a historic allocation of \$2.4 billion in new funding to address homelessness and housing needs throughout the state. Additionally, the Budget includes a new "deal" for funding of much needed water infrastructure which will come from a \$130 million from the Greenhouse Gas Reduction Fund (GGRF) in lieu of a state water tax. The Budget will also include over \$300 million for disaster preparedness to improve resiliency, education, and communications infrastructure.

Mr. Carrigg also noted that the Budget proposes to expand Medi-Cal coverage to young adult immigrants who are undocumented and living in California, and permits Covered California to provide subsidies to middle class residents, which will be funded by a new mandate that requires all Californians to possess health insurance or pay a fine. Additionally, the Budget outlines that the increase in tax revenue from tax conformity with the federal tax standard will be used to increase the pool of funds available for the state's [Earned Income Tax Credit \(EITC\) plan](#).

The League has written analyses of both the [State Budget](#) and the first round of [trailer bills](#).

VI. Legislative Update

AB 147 (Burke) Use taxes. Collection. Retailer engaged in business in this state. Marketplace facilitators. Mr. Coleman and Mr. Carrigg gave an update on the passage of AB 147 (Burke) which was signed by the Governor in late April. The measure will expand the collection of

millions in state sales and use taxes from out-of-state sales via the implementation the landmark US Supreme Court case [*South Dakota v. Wayfair, Inc.*](#), (2018).

Mr. Coleman briefed committee members on the history on California's implementation of the *Wayfair* holding which began in 2018 when the California Department of Tax and Fee Administration (CDTFA) imposed a \$100,000 or 200 separate transactions threshold collection requirement on retailers starting on April 1, 2019. Despite these conforming changes, many voiced their concern with the low transactions threshold and problems with the tracking and auditing of compliance in an attempt to collect local transaction and use taxes. The CDTFA reiterated that smoothing changes to the implementation framework would need to be codified in statute via the Legislature, highlighting the need for AB 147.

In brief, AB 147 raises the threshold collection requirement to apply only to retailers that have a cumulative sales price of goods exceeding \$500,000, which will be easier to implement, and prevent the erosion of "mom and pop" retailers that would have met the previous \$100k/200 threshold. In addition, AB 147 places collection requirements on "marketplace facilitators" (think Amazon) which will be fully active after a three year transitional period beginning October 1, 2019. Furthermore, the bill includes a provision requiring retailers that exceed the \$500k threshold to collect local district taxes, thus resolving the issue affecting local government revenues derived from collection of local transaction and use taxes.

Looking forward, Mr. Coleman presented the committee with some projective estimates on the collection of state and local tax revenue. Although the results look promising, Mr. Coleman iterated that tangible results will not be realized until the coming years.

Mr. Carrigg concluded the discussion of AB 147 by thanking committee members that participated in the "Sales Tax Working Groups" last year and applauded their continuous efforts in addressing a longstanding problem associated with the rapid growth of online sales, resulting in the under-collection of local sales and use tax revenues. The passage of this measure (virtually unanimous in the Legislature) brings California's use tax regime into the 21st century.

AB 818 (Cooley) Local government finance. Vehicle license fee adjustment amounts.

Mr. Carrigg gave an update to committee members regarding the status of Assembly Member Cooley's AB 818, which seeks to establish a financial remedy for the loss of Vehicle License Fee (VLF) revenue that was directed away from city incorporations from the passage of SB 89 in 2011.

Mr. Carrigg explained that AB 818 became a two-year bill at the behest of the Assembly Appropriations Committee, which means that it has been parked for the remainder of this session, with the potential to reemerge next year. AB 213 (Reyes), the companion measure to AB 818, has passed out of its house of origin and is making its way through the Senate's various policy committees.

Upcoming Ballot Initiatives – ACA 1 and Split Roll

Mr. Carrigg updated committee members on the progress of ACA 1 and its movement to the ballot box. ACA 1 proposes to reduce the local vote threshold for proposed local general obligation bonds or the enactment of local sales/parcel taxes from 2/3 to 55%. Because it is an ACA, the measure requires a supermajority approval in the legislature (no Governor signature required) before it can be added as a ballot measure in the next election cycle.

Mr. Carrigg noted that because ACA 1 would repeal Proposition 13's supermajority requirement, there may be some political ramifications if ACA 1 is included on the November 2020 ballot with the Split Roll initiative. The proponents of the Split Roll Initiative may urge legislators to either place it on the March primary ballot or hold off on its inclusion on the November ballot to avoid voter confusion.

SB 5 (Beall/McGuire/Portantino) Affordable Housing and Community Development Investment Program.

Mr. Carrigg gave the committee a progress report on SB 5, which creates a local-state partnership to provide up to \$2 billion annually to fund state-approved affordable housing, infrastructure, and economic development projects, with a portion of the funds stemming from reduced contributions to [Educational Revenue Augmentation Funds \(ERAF\)](#). SB 5 has garnered bipartisan support and is making its way through policy committees in the second house.

Housing Bills

Mr. Carrigg briefly touched on the progress of the Legislature's housing bills that the League is engaged on. Among bills mentioned was Scott Wiener's SB 50, which proposed sweeping changes to override local plans and increase height limitations and housing densities around existing rail and bus stations and allow up to four-plexes within single-family zones. SB 50 was held in the Senate Appropriations Committee as a two-year bill.

Another housing bill mentioned was Senator Skinner's SB 330, which declare a statewide housing crisis and for a five-year period, prohibit a city from imposing parking requirements near rail stops, and freeze nearly all project related fees once a developer submits a "preliminary" application. SB 330 is currently active and is in its second house's policy committees. Committee members are encouraged to send in a [letter](#) of opposition to this bill.

A comprehensive snapshot of the League's engagement on bills addressing housing and homelessness can be found [here](#).

AB 1717 and the Local Prepaid Mobile Telephony Services Collection Act

Mr. Carrigg, in tandem with committee member and League Partner Fran Mancia of MuniServices, briefed committee members on the effects of [AB 1717](#) from 2014, which established a collection mechanism through locally imposed Utility Users Taxes (UUT) from the retail sales of prepaid wireless telecommunication products. AB 1717's program provides revenue for 104 agencies throughout the state that is critical to the funding and maintenance of local services. The law has a sunset date which expires in December of 2019, and the League and MuniServices were working to find an author to extend the law. [SB 344](#) (McGuire) was amended in June 27 and provides a one-year short term extension to AB 1717's program. Cities are encouraged to send in their letters of support.

2019 Workers Compensation Legislation

Mr. Carrigg briefed committee members on the [number of bills](#) that seek to expand presumption provisions in workers compensation law. He explained that presumptions afforded to Public Safety and Law Enforcement personnel allow them to gain evidentiary privilege in proving industrial causation and that current legislation is seeking to expand the classification of employees eligible for presumptions. This can drive cost by creating staffing instability for public safety personnel that provide critical services to the public.

VII. Genevieve Jopanda, Chief of Staff, [Fiona Ma](#), State Treasurer

Genevieve Jopanda, Chief of Staff to State Treasurer Fiona Ma, briefed committee members on the Treasurer's priorities. Ms. Jopanda stated that assessing the State's housing crisis is one of Treasurer Ma's top priorities for the coming years. The Treasurer currently chairs the governing boards of the California Debt Limit Allocation Committee (CDLAC) and the California Tax Credit Allocation Committee (CTCAC), which serve as two of the State's primary mechanisms for stimulating the production of affordable housing. Recently, Treasurer Ma kicked off her "[housing tour](#)" where she plans to award over \$105 million in affordable housing tax credits to ten cities constructing affordable units. This tour follows her previous "general housing needs" listening road show in early January where she met with city officials to identify local challenges and development incentives.

In her discussion with committee members, Ms. Jopanda committed to relaying the concerns some had regarding the lack of regulation for track and trace provisions include in California's licensed cannabis regulatory scheme, which inhibits cities' ability to collect on taxes from cannabis transactions. Moving forward, Treasurer Ma plans to perform more outreach to local governments to hear and help address their challenges.

Next Meeting (tent.): Annual Conference, Long Beach, October 16

Staff will notify committee members after August 22nd if the policy committee will be meeting in October.