

**REVENUE & TAXATION POLICY COMMITTEE
HIGHLIGHTS**

Thursday, March 29, 2012

Doubletree Hotel, Harvest Room, Ontario, CA

ATTENDANCE

Members: Cisneros, Jose (Chair); Cox, Cheryl (V.Chair); Allion, Dennis; Andrews, Neal; Arevalo, Paul; Chang, Ling-Ling; Chankin, Deborah; Cobden, Michael; David, Fran; DesForges, Ken; Donlevy, Jr., John; Goldstone, Jay; Halliday, Barbara; Hawkesworth, Matthew; Henderson, Terry; Holloway, Marshall; Lane, Randon; Miller, Glenn; Miller, Scott; Navazio, Paul; Noll, Michael; Palmer, Aaron; Parisi, Laura; Ponce, Michael; Sander, David; Slowey, Jeff; Srivatsa, Niroop; Strong, Fred; Valentine, Olivia; Vesely, Tracy; Vinatieri, Joe; Voigts, Scott; Wooley, Robert

League Partners: Narayan, Brenda; Ovrom, Denise

Staff: Dan Carrigg, Legislative Director

I. Special Order of Business: Post Redevelopment & State Budget Update

A general briefing of all policy committee members was held prior to each committee meeting. League President Mike Kasperzak, Mayor of the City of Mountain View, opened the briefing by welcoming the participants and thanking them for their involvement. He then introduced League Executive Director Chris McKenzie.

Mr. McKenzie outlined the work and initial recommendations of the League's Task Force on Next Generation of Economic Tools. He stated that some progress has been made in cleaning up issues with AB X1 26, the redevelopment dissolution legislation, with the introduction and movement of AB 1585 (Perez); he also encouraged cities to support the bill in the Senate. The task force continues to review and consider options for establishing new tools that local agencies can use for infrastructure and economic development, including SB 214 (Wolk) related to infrastructure finance districts. Mr. McKenzie gave an update on pension reform, stating that the League has remained engaged in the issue and had recently met with all of the legislators working on the issue in the Capitol, but it remained uncertain what would emerge from the legislature. Finally, he mentioned that the League's lawsuit over the loss of city shares of vehicle license fees (VLF) through SB 89 will be heard in early May in Sacramento Superior Court.

Legislative Director Dan Carrigg and Fiscal Policy Advisor Michael Coleman then provided an update on the state budget.

Mr. Carrigg outlined the new dynamics affecting state budget process derived from Propositions 25 and 26. Prop. 25 lowered the vote threshold to approve a budget from two-thirds to a majority, and also require legislators to forfeit salary when they fail to pass a budget by, June 15, the Constitutional deadline. Mr. Carrigg explained that legislative leadership had filed a lawsuit against the state Controller over whether he had the authority –he exercised in 2011--to determine if a budget approved by the Legislature was balanced. He also said that Democratic legislators were balking at accepting the Governor's budget cuts, and the Governor's proposed tax measures would not fully offset the projected deficit. Prop. 26 had closed off the previously-used tactic of the legislature attempting to fund state programs with "regulatory fees." He cautioned city officials to remain watchful.

Mr. Coleman presented an outline of the state budget and current state deficit, including the different deficit projections by the Legislative Analyst Office and Department of Finance. He also explained the contents of the Governor's two tax proposals intended for the November

ballot, which seek to increase personal income tax and sales tax. He said taxing high income earners made forecasting expected state revenues difficult to predict.

<http://www.californiacityfinance.com/ConferenceMaterials.htm>

In addition, League Legislative Representative and Federal Liaison Jennifer Whiting, reported on the activities in Washington DC. She focused her comments on the federal transportation reauthorization bill and FY 2013 appropriations. The current SAFETEA-LU extension expires March 30, and Congress needed to act before then to extend the program provisions and the federal gas tax again while they continue to debate the longer-term solutions. During the policy committee meeting, Congress did approve a 90-day extension. Looking longer term, the Senate has approved a two-year bill, but the House is still in negotiations.

Ms. Whiting also encouraged city officials to contact their Congressional representatives about the importance of retaining funding for programs benefitting cities, like CDBG, in the FY 2013 appropriations process. She also encouraged cities to participate in the League's survey on the importance of federal funding for cities.

http://www.cacities.org/resource_files/30640.FederalUpdateMarch2012PolicyCommittees.pdf

Following the general briefing, each committee met for their respective meetings (individual committee agendas available at www.cacities.org/polcomm).

II. Welcome and Introductions

Chair Jose Cisneros welcomed the committee to Ontario and the committee members introduced themselves.

III. Public Comment

There was no public comment offered.

IV. Additional Discussion of State Budget

League staff Dan Carrigg led the discussion that continued the review of the state budget from the morning's joint committee briefing.

Committee members discussed and asked questions related to the ballot measures trying to qualify for the November elections, the Governor's reorganization plan, and the status of bills that have been introduced in past years. Mr. Carrigg, in response to the questions, offered the League will likely look at those initiatives that have qualified by mid-April and take them up for consideration at the June policy committee meetings. Specific to the Governor's tax measure, the League has not been asked by the Administration to take a position.

The Governor's reorganization plan offers a lot of changes but without realizing much savings. The Budget Subcommittees are picking apart those plans but the May Revise will give the best picture of what the next steps will be. Most other parties, including state departments, seem to be in the dark on many of the items.

Previous bills, like the Calderon transit occupancy tax (TOT) bill by Calderon is dead, but a non-California state court case seems to be moving the issue forward. The League is continuing to watch this and other use tax collection laws.

The committee also asked about legislation that would allow for a 55% voter threshold on local taxes, as well as having storm water permit fees exempted from Prop 218

requirements. The committee expressed frustration that many southern California cities will be hit with millions of dollars in clean up fees but without the means to raise local fees to cover those new costs.

Mr. Carrigg and Michael Coleman replied that the League always supports efforts to lower the vote threshold. The hurdle is that those measures require a two-thirds vote, which makes it a poor prospect in the divided legislature. Regarding the issues of storm water permits, the committee was referred to the bills authored by Senator Wright to make the fees more predictable so cities can plan better.

Michael Coleman offered that Senator Steinberg discussed the idea of lowering the threshold for local tax measures, along with a number of other ideas related to taxes.

V. Report: League Task Force on the Next Generation of Economic Development Tools

Mr. Carrigg reported on two areas of activities – clean-up of redevelopment dissolution and creating new tools for economic development. However, neither of these will be part of an effort to reinstate redevelopment as it was. The tools emerging will be for both long term and short term fixes.

First, SB 214 by Senator Wolk addresses infrastructure finance district. The idea has been around for a long time but has not been of much use. The League is working to make these more useful and to clarify that these IFDs exist as a separate entity, apart from the successor agencies. The League is working with the business community to create a broad coalition of support.

The task force is also looking at ideas from 2007, including a Lowenthal bill to allow the state to grant flexibility to use the school's share of the tax increment for certain state approved purposes. The task force is still working on these and other issues and will meet again on May 19.

In response to committee questions, Mr. Carrigg and Mr. Coleman clarified that the IFDs are different than a community services district because IFDs allow for tax increment financing and is defined separately in code. A community services district, however, is a type of special district with its own board. It could be captured under the umbrella of a "special financing district" whether it is a business assessment district, a business improvement district, and so on. Also, the IFD does not require a special vote to be formed, while a service district requires two-thirds vote for establishment.

The committee also reviewed two bills that Senator Steinberg is working on, which have just been amended. SB 1151 deals with the dissolving of assets as clean-up and SB 1156 looks at moving ahead. There is also a spot bill by Speaker Perez that may be put into play.

The committee brought up the idea of creating a national investment insurance fund for cities, with protections like the FDIC. They also commented that any bill that removes state interference with local recovery is necessary. The more self-reliant a city can be in the process, the better.

VI. State Legislative Update

Mr. Carrigg reported that there are about 20 bills addressing either the unwinding of redevelopment or creating new tools for economic development. While there are many others, none really require a big policy discussion. The hope is to get through the May Revise without any major surprises.

Discussions with Assembly Member Huber have started about sales taxes on services, but this requires a two-thirds vote, so not likely to make progress. There may or may not be an option to make this part of a larger deal between the Republicans and the Governor.

AB 1530, by Assembly Member Huffman, is trying to address incentives for clean manufacturing, which is yet to be defined. Mr. Carrigg asked for feedback that would help cities bring in a new company to an existing manufacturing plan by overcoming current hurdles or incentivizing new companies to move in.

The committee offered several suggestions. Those included establishing a cap and trade program, making changes to the regional water board regulations, and easing the ongoing CEQA requirements, especially for traffic mitigation.

Streamlining the pre-planning process for local governments is an option, but locals are burdened with regional air and water quality boards, the airport land use commission, and other regulatory bodies that all take their own time no matter how quickly the city moves. Concerns about the Coastal Commission were also expressed in the reach of their authority. Historic preservation requirements were cited as being too burdensome without offering a clear objective about why requirements are the way they are.

In response to a question about who would establish the clean manufacturing zones, Mr. Carrigg replied the vision is it would be locally established and determined. But coordination between state and locals would be helpful in reaching that goal.

The committee also stated that some fire districts were problematic, considering sprinklers, ventilation requirements. Timelines and the need to stop resetting the clock on deadlines when a new issue was raised were also discussed.

The committee asked about the proposal for property tax exemptions. Mr. Carrigg offered that manufacturing equipment – a big ticket item – receives sales tax exemptions but that's not just from the state share. It also impacts the local share. The state already exempts manufacturing and gives away the city share. The committee recognized that tax exemption should not be high on the list because it erodes revenues in the long run, which is not helpful. Things that prevent items getting to market should be the priority.

The committee offered that an advanced EIR-exemption for a similar business that already had an EIR would be helpful in saving time and money.

Regarding AB 1585 (Perez), the committee discussed the chances of the Governor signing the bill, in light of the importance of affordable housing being such a high priority for the Democrats. The Republicans recently proposed diverting those funds to close the budget gap, which may force the Governor to take a position.

Going back to manufacturing questions, Mr. Carrigg responded to a question about expediting timeframes and stated any local efforts to streamline also puts pressure on the

state. Given the budget challenges, committee members questioned how reasonable that would be.

The discussion closed with comments on AB 1050, the telecom surcharge bill, which may have some additional benefits from imposing a statewide UUT that would outweigh the risks. Mr. Carrigg also confirmed the League would be opposing the sidewalk maintenance bill, AB 2231 (Fuentes).

VII. Use Tax Subcommittee Update – Pending Federal Legislation

Mr. Carrigg reported on the changes in the federal landscape after California passed legislation, Assembly Bill 155. There are a number of federal court cases and the approach for a SSUTA has been offered, but the League has determined that won't work in California.

Current federal bills provide that you can be part of SSUTA, but even if you don't join you can still collect from remote sales. Of the two bills in play, the preferred bill is by Senator Michael Enzi (Wyoming). The other is by Congressman Womack (Arkansas).

Subcommittee members stated that a big challenge is defining the destination in the term "destination rate" to where a product is shipped. The state needs to have a uniform state sales tax but California exempts a number of products. If California tries to establish a uniform rate, it requires a two-thirds vote. They could create a lower rate with a majority vote, but would risk losing revenue. These and other issues will have to be resolved with the Board of Equalization.

The subcommittee's final report is mostly complete but needs some final revisions. There will be another conference call the week of April 9 before it goes to the Board for approval. (See handout.)

VIII. Review of California Forward Initiative: The Government Performance and Accountability Act

Chris McKenzie provided an overview of recent developments, most importantly that there may be a revised proposal to consider and that there was no urgency for the League to take a position at this time. He noted the Administrative Services committee already recommended delaying action until the June meeting

Fred Silva, Senior Fiscal Policy Advisor, and Mike Madrid, Campaign Manager, addressed the committee on the most recent developments and why they have returned to the League for discussion after the January meeting.

The campaign currently has 800,000 signatures and they plan to turn in just over 1.3 million next month. Opposition from the legislature, organized labor, and environmental groups has been received. They object on the grounds of this being the biggest shift in power to local government and it opens the door to evading environmental regulations.

In a lengthy discussion the committee expressed concerns related to loss of local control to counties, loss of revenue, greater state oversight requirements and regulation, lack of refinement in the required community strategic plans, and others that were previously shared at the January committee meetings.

Other members expressed that this measure might be the right step forward because progress, any progress, in improving the relationship between the state and local government was worthwhile. The values of transparency and accountability are promoted here, and that too is worthwhile.

Mr. Madrid clarified that a lot of current language likely would not be included in the final version and that the League would be part of the ongoing discussions, along with other concerned stakeholders. Specifically the community strategic plan would likely not move forward.

A motion was made to take NO ACTION at this time and table the issue until the June policy committee meeting. The motion carried unanimously via voice vote.

IX. Next Meeting: THURSDAY, June 14, 2012, Sacramento Convention Center
With no further business to address, the meeting with adjourned.