REVENUE & TAXATION POLICY COMMITTEE
HIGHLIGHTS
Thursday, June 14, 2012
Sacramento, CA

ATTENDANCE:
Members: Cisneros, Jose (Chair); Cox, Cheryl (V.Chair); Andrews, Neal; Barrows, Bruce; Biery, Robert; Chang, Ling-Ling; Cobden, Michael; David, Fran; Donlevy, Jr., John; Duncan, Glenn; Genereux, Gloriette; Gillison, John; Halliday, Barbara; Hawkesworth, Matthew; Lane, Randon; Lilligren, Timothy; Navazio, Paul; Nero, Alford; Noll, Michael; Palmer, Aaron; Parisi, Laura; Pastucha, Martin; Richardson, Sepi; Rodrigues, Paul; Sander, David; Siebert, Gordon; Slowey, Jeff; Songstad, Jr., Allan; Stepper, Karen; Strong, Fred; Vejvoda, Craig; Vesely, Tracy; Wadle, Dane; Waterman, Rich; Woolley, Robert

League Partners: Narayan, Brenda; Ovrom, Denise

Staff: Dan Carrigg, Legislative Representative

Special Order of Business: Post Redevelopment & State Budget Update
A general briefing with all of the present policy committee members was held before the individual committees met on their respective agendas.

League Executive Director Chris McKenzie welcomed the members to Sacramento and provided a status update on the pending FY 2012-13 state budget. At the time, there were nearly two dozen trailer bills pending, many of which included substantive policy changes but will not be reviewed by the germane legislative or fiscal committee.

Mr. McKenzie also reminded members that the Sacramento Superior Court was to review the League's case against the loss of city vehicle license fee (VLF) revenues in last year's budget, on the grounds the legislature acted unconstitutionally when those funds were channeled to state public safety grants. In regards to the November 2012 elections, none of the policy committees will be taking action on the ballot measures until after the July Board of Directors meeting, where there will be an in-depth discussion, including which committees may review which ballot measures at the Annual Conference this September.

Legislative Director Dan Carrigg spoke next and provided an overview of the redevelopment issues cities are still dealing with as new trailer bill language is being crafted. He recognized the challenges that cities are facing since the Department of Finance brought in dozens of new staff from various other departments with varying backgrounds in redevelopment agency issues. And in the wake of the California Redevelopment Association folding, the League has made every effort to fill in as best they can to cover the void left by the CRA and their efforts. Throughout the spring, the League and a working group of city attorneys has met frequently to provide advice and suggestions on how to help cities work through the ROPS process. There is still much work to be done to clarify the current unwinding through the RDA successor agencies and as new trailer bill language is being developed.

In terms of the legislature, there were several very good attempts to bring about a positive resolution for what remained of redevelopment projects for cities. This included AB 1585 by Speaker John A. Perez, SB 986 by Senator Dutton, and SB 1335 by Senator Pavley. Unfortunately, these have been largely unsuccessful because of roadblocks in the Senate.

As of Friday, June 15 there were still no details on the redevelopment trailer bill. The Department of Finance version that came out earlier this year was fraught with problems and created confusing terms.

The League's opposition efforts have had some effect. Assembly Members Joan Buchanan and Tony Atkins are closely reading city's letters to ensure they are making the best decisions possible.

Mr. Carrigg then addressed the current budget and the impact that Prop. 25, which reduced the vote threshold from two-thirds to a simple majority to approve the budget. Republican legislators are now excluded from the process. The budget is being put together behind the scenes between Democratic legislative leaders and the Governor's office. Another game-changer from Prop. 25 is that Legislators now take seriously the prospect of forfeiting salary if they fail to pass a budget by June 15; recent litigation, however, filed by legislative leadership against the State Controller, concluded that the Legislature retained the sole authority to determine the adopted budget was balanced.

Fiscal Policy Consultant Michael Coleman briefly outlined the key factors impacting the budget discussions and the challenge of balancing a budget based on revenues that may not be approved until four months later. The Legislature's response is to include trigger cuts to nearly all areas of government if the Governor's tax measure does not pass, with K-12 Education taking the biggest hit.

Legislative Representative Natasha Karl shared the next steps for pension reform efforts. She said rumors point to a much more expedited timeline than we had previously heard. Some kind of reform may happen as early as June or the first week of July. The League has not seen details of the actual package but understood that several reforms will incorporate the Gov.'s 12-Point Pension Reform Plan and offer additional reforms. Key areas that will likely look different than the Governor's plan include a hybrid plan as well as cost sharing provisions. All major reforms will apply to new employees and not apply to current employees. Timing and plan details are not certain. Ms. Karl said she hoped to see details soon so that they can be analyzed and shared with members.

Finally, Legislative Representative Jennifer Whiting gave the federal update on the challenges of enacting a transportation reauthorization bill and the work of the Congressional budget subcommittees. The transportation reauthorization discussions are progressing, but seem to have taken some steps backward last week. The current extension of SAFETEA-LU expires on June 30, 2012, and staff expects another extension to be required.

Cities received a bit of good news on the Appropriations front when the House of Representatives Housing and Transportation Appropriations Subcommittee passed legislation enhancing appropriations for HUD and CDGB programs. Staff reminded cities of the mandatory across the board budget cuts enacted in the Budget Control Act last year, effective in January 2013. While Congress will likely intervene before the cuts become effective, action is not expected until after the November election. Other positive news is that the Federal government is looking to loosen up regulatory requirements that are harmful or difficult for local agencies.

Staff briefed members on the Cap and Trade Revenue Auction proposal. Beginning this fall, the California Air Resources Board (ARB) will begin a multi-billion dollar cap and trade program as a key element in their greenhouse gas (GHG) reduction efforts to achieve 1990 emission levels by the year 2020. The Cap and Trade program establishes a hard cap of 85% on GHG industries including mining, oil and energy production, manufacturing plants, and transportation fuels. These industries will be allowed to trade (i.e. buy and sell) a portion of their allowance.

The first auction is scheduled on November 14th. After that, quarterly auctions will be held.
The first auction is expected to raise between $660 million and $2 billion dollars, with revenues potentially increasing to as high as $14 billion in future years. All of these revenues are to be used as mitigation fees to pass the "nexus" test. The Governor's budget already assumes $1 million in the FY 2012-13 budget, with half for mitigation efforts and half for investments in GHG reduction.

League staff sought feedback on two specific issues and then general comments, as outlined in the agenda packets. The committees held all discussion and debate during their individual committee meetings following the joint briefing.

I. Welcome and Introductions

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

II. Public Comment

There was no public comment offered.

III. Legislative Update

Since budget issues had been adequately covered in the prior briefing, the committee moved directly to the legislative portion of the agenda.

SB 186 Discussion: The Committee Chair indicated that staff had requested to add a discussion of SB 186 (Kehoe) to the agenda, to discuss pending amendments. The committee added the agenda item by a unanimous voice vote, and staff distributed a document summarizing the issue.

Dan Carrigg explained to the members that SB 186 was yet another remnant of the City of Bell scandal focusing on expanded authority for the Controller to audit local activities and another provision that aimed at providing "voluntary" assistance to cities in fiscal distress. The bill, sponsored by the State Controller, had stalled last year, but was now moving again. The League had an oppose position on the bill, but was concerned that the bill now had a very high likelihood—given the continued perception by legislators following the City of Bell scandal that more local transparency and oversight was necessary—of moving to the Governor and being signed.

League staff had developed amendments in an effort to mitigate our most significant concerns, but wanted to discuss the issue with the Committee, given the League's existing oppose position. The central question before the committee was if that if the League was successful in obtaining the amendments it could remove its opposition and go Neutral on the bill. The alternative was to remain in opposition and face uncertain prospects for a Governor's veto and potentially having to live with a more intrusive law.

League Legislative Representative Natasha Karl, who had been immersed in recent discussions with the Controller's office, explained the issues in more detail, including referencing the documents distributed to the committee, including a mock-up of language the League was seeking.

The committee had a lengthy discussion about the issues involved. At the core of the discussion was a debate on whether the League should retain its oppose position, or seek the amendments to limit the measure. Ultimately, a motion was made to pursue the amendments and, if successfully obtained, for the League to adopt a Neutral position on the bill. The motion carried by a heavy margin, with several members voting No.

Policy Discussion on Amazon Warehouse Location & Impact on Local Sales Tax Agreements: Dan Carrigg opened this discussion by explaining that this was an issue that the

League should try to get ahead of. Recent news reports had indicated that Amazon, the large internet retailer, had plans to build two large warehouses in California in the cities of Patterson and San Bernardino. Also reported in the press is that the cities were contemplating rebating a large share of the local portion of sales tax back to the retailer. One legislator had already indicated an interest in introducing legislation to ban such local sales tax agreements, and other legislators had mentioned the issue to League lobbyists.

But this matter really raised two issues for the League. First, was the idea of banning all local sales tax agreements. The second was the issue of how the concentration of Amazon's sales in a single location affected the League's prior work on use tax issues with federal legislation. The committee had recently approved policy for pending federal legislation that sales taxes collected from internet sales from remote sellers should be allocated to the location where the product was received by the purchaser. On the notion of banning agreements, staff suggested the focus could be perhaps narrowed to very large warehouses that ship products or some kind of cap be developed on the amounts that could be given away. After a lengthy discussion, the policy committee unanimously adopted a motion to support a policy that would allocate sales tax to the location where the product is received by the purchaser. The consensus was that this policy also tracked the principle of situs-based allocation. Dan Carrigg told the committee he would work on a proposal and bring back any concepts to the committee for review.

Discussion of SB 1151 and SB 1156 (Steinberg) Post-Redevelopment Legislation: Dan Carrigg briefed the committee on these two bills that have been designed to operate in tandem. Most of the focus of the discussion was around SB 1156 which proposed to establish a new authority that could operate based on the legal foundation of redevelopment law, but with many restrictions and conditions. Staff explained that the League had been attempting to work with author on the bill since early in the year in an effort to help devise a more workable tool that can be used by cities. Yet while the bill had been amended many times, there were still many problematic provisions. Staff explained that he was taking the bills to committee given it was the last policy committee meeting before the annual conference and the bills were now in the Assembly and headed toward their final policy committee meetings. After some discussion, the committee adopted a motion to oppose the measures, based upon the sentiment that they were not workable tools for cities.

IV. Cap and Trade Auction Proceeds Discussion

Committee members received an overview of the document at the joint briefing earlier in the meeting. The discussion was then focused on the specific areas of focus designed to elicit the city priorities for allocation of potential revenues that may be allocated from the proceeds of future auctions. In the end the committee made several motions:

The first motion was approved unanimously to reject a proposal that had been advanced in previous AB 2402 (Fuentes) to route all funds through the Strategic Growth Council and counties.

The second motion, adopted after a lengthy discussion, was to support the concept of allocating the auction revenues generated from transportation fuels for transportation purposes provided (i) the proceeds were distributed to benefit all areas of the state in a manner consistent with the consumption of these fuels, and (ii) the process included allocations to both regions and local agencies, (iii) to the extent that funds were allocated to regions, then any applicable subregions must retain authority to distribute their proportionate shares, and (iv) the committee's motion included a proposal to remove two of the principles,

(d) and (f), developed by a transportation stakeholder group included in the background document:

d. Use these transportation investments to provide the incentives and assistance that local governments need to make SB 375 work.

f. Invest in improved modeling and verification systems and use those to provide assurance that local strategies meet both GHG and cost effectiveness goals.

The concern expressed with the above two principles was that they would give momentum to making SB 375 mandatory on local agencies.

V. 2012 Pension Reform Update

Dwight Stenbakken, League Deputy Director, provided additional insight to the committee on the discussion in the Capitol on pensions, and responded to several questions raised by members.

VI. Next Meeting: Annual Conference, San Diego, September 5, 9:00 – 10:30 A.M.