2017 Legislative Year

- Dan Carrigg
League’s 2017 Priorities

• Increase funding for critical transportation and water infrastructure.
• Develop realistic responses to the homeless crisis.
• Improve the affordability of workforce housing and secure additional funds for affordable housing.
• Address public safety impacts of reduced sentencing laws, protect local priorities in the implementation of AUMA, and preserve city rights to deliver emergency medical services.

2017 Political Dynamics

❑ Surprise election of President Trump

❑ Divisions between Democrat-dominated legislature and President over immigration, health care, federal budget proposals and climate change.

❑ Return of 2/3rds Democrat “Supermajority” control. Democrats could, without Republican votes …
  • enact tax increases,
  • place items on the ballot, and
  • pass urgency measures.
2017 California Political Dynamics

As federal proposals stalled in the courts and Congress…

…California Democrats proclaimed they would demonstrate how they could lead:
  • Transportation package adopted in April.
  • Cap and Trade extension in July.
  • Housing package and Park/Water Bond in September.

Other Major Issues

• Local control battles: AB 1250 & SB 649
• Housing policy
• Cap and Trade
• Marijuana trailer bills
• Taxis & Transportation Network Companies (TNCs)
• Newest incorporated cities PropTaxVLF restored
• Increasing crime - lack of action
Local Control Under Threat

- AB 1250: Limit city/county contracting authority
- SB 649: Wireless companies dictate use of public property

League battled:
- Removed cities from AB 1250 on Assembly Floor
- Obtained veto on SB 649

Experience demonstrates again how vulnerable local authority can be—and fickle legislators can be— with dealing with proposals from powerful interests.

Also demonstrates strength of cities working together.

State Budget

- State tax revenues hold steady
  ...but a downturn will come
- Operating budget debt nearly erased
  ...but large unfunded employee retirement costs remain
- Reserves at over $10 billion, an historic high
- State prepays CalPERS $6 billion

Uncertainties/risks:
  - health care (ACA)
  - federal funding
  - pension costs and funding
  - natural disasters
State Revenues Still Growing
General Fund – Adopted Budget estimates

- General Fund: -1.5%
- Sales & Use Tax (SUT): -0.1%
- Personal Income Tax (PIT): 7.0%
- Corporation Income Tax (CIT): 6.7%

TOTAL: 2.7%

2015-16 2016-17 2017-18

$124 Billion

State General & Special Funds
Spending 2017-18

- General Fund
- UC/CSU Education
- K-12 and Community College Education
- Health and Social Services
- Corrections
- Infrastructure, Debt
- Other

Health, Social Srvcs
Special Funds $56 Billion

Other
Transportation
Corrections
Upon budget emergency declaration by Governor and majority votes of both houses of the legislature, deposits may be reduced.

Debt/Reserve Estimates

June Budget Act. Estimate the following:

1.5% of General Fund revenues. + Capital gains revenues over 8% of General Fund taxes.
• Less amounts that must be spent on Proposition 98.

50% Debt Payments
Choose among the following:
• Pay down certain “wall of debt” items.
• Make extra pension/reitre health payments.

50% Budget Stabilization Account
Fill rainy-day reserve to 10% of General Fund taxes.

Upon budget emergency declaration by Governor and majority votes of both houses of the legislature, deposits may be reduced.

Debts & Liabilities
Eligible for Accelerated Payments Under Prop2

<table>
<thead>
<tr>
<th>Outstanding Dollars in Millions</th>
<th>Proposed PayDown of 2017-18</th>
<th>PayDown of 2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary Borrowing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repay Loans from Special Funds</td>
<td>$ 1,365</td>
<td>$ 252</td>
</tr>
<tr>
<td>Settle-up Underfunding of Prop98</td>
<td>1,043</td>
<td>603</td>
</tr>
<tr>
<td>Repay Transportation Loans</td>
<td>706</td>
<td>235</td>
</tr>
<tr>
<td><strong>State Retirement Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Retiree Health</td>
<td>76,533</td>
<td>89</td>
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<tr>
<td>State Employee Pensions</td>
<td>59,578</td>
<td>427</td>
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<tr>
<td>Teacher Pensions</td>
<td>101,586</td>
<td>0</td>
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<tr>
<td>Judges Pensions</td>
<td>3,489</td>
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<tr>
<td>Deferred Payments to CalPERS</td>
<td>627</td>
<td>0</td>
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<tr>
<td><strong>University of California Retirement Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UC Employee Pensions</td>
<td>15,141</td>
<td>169</td>
</tr>
<tr>
<td>UC Retiree Health</td>
<td>21,860</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 281,928</td>
<td>$ 1,775</td>
</tr>
</tbody>
</table>

"Wall of Debt" nearly erased

Source: Governor’s Budget Summary 2017 Fig INT-02
## 2017-18 Ends With $10 Billion Reserve

<table>
<thead>
<tr>
<th>Dollars in Millions</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Year Fund Balance</td>
<td>$723</td>
</tr>
<tr>
<td>Revenues and Transfers</td>
<td>125,912</td>
</tr>
<tr>
<td>Expenditures</td>
<td>124,018</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>2,534</td>
</tr>
<tr>
<td>Encumbrances</td>
<td>980</td>
</tr>
<tr>
<td>SFEU balance</td>
<td>1,637</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td></td>
</tr>
<tr>
<td>SFEU balance</td>
<td>1,637</td>
</tr>
<tr>
<td>BSA balance</td>
<td>8,488</td>
</tr>
<tr>
<td><strong>Total Reserves</strong></td>
<td><strong>$10,125</strong></td>
</tr>
</tbody>
</table>

## State Budget Trailer Bills

- BOE mismanagement addressed by shifting responsibilities to new California Department of Tax and Fee Administration (CDTFA)
- League & Police Chiefs obtain amends protecting local control re: marijuana
- League protects small city economic development set-aside in state CDBG allocations

- Dan Carrigg
Critically Needed Transportation Funding Arrives:
SB1: The Road Repair and Accountability Act of 2017

- Michael Coleman

Transportation Funding in California

User Charges:
- Federal Fuel Taxes
- State Fuel Taxes
- Vehicle Registration Fees
- Vehicle Weight Fees
- Cap-n-Trade Funds
- Tolls
- Public Transit Fares

General Support:
- Dedicated Sales Taxes incl. "self help"
- Local ¼% T.D.A. Sales Tax
- Benefit Assessments and Mello-Roos Taxes
- Developer Fees and Exactions
- Dedicated Parcel Taxes
- Redevelopment Tax Increment
- Local General Funds (incl. G.O. Bond Debt Service)

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Local Streets and Roads Revenues

RMRA (SB1)

Road Repair and Accountability Act Revenues

Effective July 1, 2019

**Price-based Gas Tax**
reset rate @17.3¢
Now 11.7¢ @7/1/17
+$1.1 billion/year

**Gas Excise Tax (HUTA) base rate**
Beginning 2017-18 over 3 yrs
State GF Loans Repaid
$706 million one time incl. $225 m to HUTA

Effective Nov 1, 2017

**Transportation Improvement Fee**
$25 to $175/year depending on auto value
+$1.6 billion/year

Effective Jan 1, 2018

**Gasoline Excise Tax**
increase by 12¢
+$1.8 billion/year

Effective Nov 1, 2017

**Diesel Excise Tax**
increase by 20¢/gal
+$730 million/year

Effective Nov 1, 2017

**Diesel Sales Tax**
+4.00% to 5.75%
+$300 million/year

Effective July 1, 2020

**ZEV Registration Fee**
+$20m/yr
$100/yr on 2020 models/ later

**State GF Loans Repaid**
$706 million one time incl. $225 m to HUTA
Gas Excise Tax (HUTA) base rate

Price-based Gas Tax reset rate @17.3¢
Now 11.7¢ @7/1/17 +$1.1 billion/year

Gas Excise Tax (HUTA) base rate

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Diesel Excise Tax
increase by 20¢/gal
+$730 million/year

Diesel Sales Tax
+4.00% to 5.75%
+$300 million/year

ZEV Fee
+$20m/yr

Local Shares go to HUTA Hwy Users Tax Acct
Local Shares go to RMRA Road Maintenance and Rehab Acct

Road Repair and Accountability Act
Revenues

Gasoline Excise Tax

Transportation Improvement Fee

Diesel Excise Tax

Public Transportation Account

Trade Corridor Enhancement Account

State Highway Account

50% 50%
remainder
$350 m/yr transit
$250 m/yr congested corridors

Road Maintenance & Rehabilitation Account (RMRA)
Road Repair and Accountability Act of 2017
Uses of Funds: RMRA

- Road maintenance and rehabilitation
- Road safety projects

- Railroad grade separations
- Traffic control devices
- Complete Street components (active transportation, pedestrian, bicycle safety, transit, drainage)
- State or federal program match

To the extent possible: redux GHG, advanced technologies, resiliency to climate change, complete street components

RMRA Accountability Requirements

Maintenance of Effort
- Must maintain general fund spending for street, road, and highway purposes at no less than average of 2009-10, 2010-11, and 2011-12 years
  - Excludes one-time funds
  - May make-up a spending shortfall in the following year
- State Controller (SCO) is working with cities and counties to finalize MOE numbers
- SCO will audit for compliance
Project List
- Prior to receiving funds, must submit project list to CTC
- October 16 is due date for 2017-18
- CTC reviews for content but does not “approve” projects
- Failure to submit list => monthly funding forfeited
- No need to amend list if things change

Spending Report
- Annual report of project expenditures to CTC

Road Repair and Accountability Act
- **AB 135** League/CSAC sponsored clean up bill. Passed, signed.
- League and others working with state agencies on roll-out issues
- **ACA 5 (Frazier)** on June 2018 ballot. Constitutional protection to ensure new revenues will be used only for transportation purposes
- Several proposed ballot measures seek to repeal effort
Housing-2017 Session

- Over 130 bills introduced, most focused on local permitting and approval process
- League advocates for a "Housing Blueprint" including:
  - SB 2 (Atkins) $250 million /yr in ongoing funding
  - SB 3 (Beall) $4 billion housing bond
  - SB 540 (Roth) provides developers increased certainty, streamlining based upon more comprehensive up-front planning, environmental reviews. (League sponsored)

Other helpful bills become law:
- **AB 1505 (Bloom)** restores local authority to require inclusion of affordable units in new rental housing developments (Palmer fix)
- **AB 1598 (Mullin)** city/county may create affordable housing authority and dedicate property-tax increment, sales tax, other revenues to develop affordable housing
- **AB 73 (Chiu)** state financial incentives to agencies that adopt Housing Sustainability Districts approved for 10 years by state Dept of Housing and Community Development
Park/Water Bond

- Agreement on SB 5 (de León), a $4 billion park and water bond including:
  - $200,000 minimum per-city in park funding
  - $725 million for “park-poor” communities
  - $ for state parks, nature conservancies, climate and environmental programs, flood control, drought and drinking water projects, Salton Sea
- June 2018 ballot

Cap and Trade Extended

Bi-partisan package adopted in July:

- **AB 398 (E. Garcia)** extends program to 2030, with modifications
- **AB 617 (C. Garcia)** expands CARB/air district powers over stationary sources of emissions
- **ACA 1 (Mayes)** June ballot. Requires two-thirds vote of legislature to allocate cap-and-trade action proceeds after Jan. 1, 2024.
- **AB 109 & AB 134** allocate $1.5 billion in auction revenues
Disruptive Change: Taxis and TNC’s

- **AB 1069 (Low)** limits taxi licensing to jurisdictions with business address, or largest share of trips originate. League’s amendments permitting taxi licensing in top three jurisdictions where it operates were rejected. Takes effect in 2019.

- **SB 182 (Bradford)** limits business license of TNC drivers to jurisdiction where the driver lives. League opposed measure over lack of nexus to where business activity was occurring.

Newly Incorporated Cities
Restoration of PropTaxVLF

**Problem**

- State swept all remaining city VLF in 2011 (SB 89)
- There were special allocations to new cities after 2004 to remedy their exclusion from the VLF swap
- SB89 severely impacted four recently four newest cities: Eastvale, Wildomar, Menifee, Jurupa Valley.

**SB130** provides Property Tax in Lieu of VLF for these four newest cities. Policy precedent to address future incorporations and annexations.
Pension Issues-2017

- City manager pension working group, white paper
- Pension sustainability principles adopted (June)
- Member outreach: presentations, webpage
- Increased lobbying by city officials at CalPERS
  Next CalPERS meeting Dec 20
- Outreach to stakeholders and legislature
- Upcoming CA Supreme Court decision could provide additional local negotiation flexibility

2017 Summary

A year of significant progress for the League

- **Transportation** funding
- **Local authority**: protected contracting authority (AB 1250), control of public property (SB 649)
- **Affordable housing**: Secured additional $ while minimizing impacts of legislation that would undermine local authority
- **Park/Water bond**
Outlook for 2018

- Dan Carrigg

League Goals for 2018

- Address public safety concerns of California cities
- Ensure sustainability of public pension and retirement health benefits
- Protect existing transportation funding for local priorities
- Improve housing affordability and support additional resources to address the homeless crisis
Political Dynamics for 2018

- Gov Brown in final year - campaigns underway
- Sen. de León terms out, running for US Senate
- Toni Atkins will be new Senate ProTem
- Sexual harassment issues affecting some legislators
- Recall of Sen. Josh Newman, if successful, will affect Democrat supermajority control
- Continued tension over President’s policies
- Initiatives on June/November Ballot

Some things to expect:
- **Housing** (continued) including rent control, attempts to reduce local fees.
- **Water conservation, energy** policy
- **Devastating wildfires** of 2017: response
- **Telecom**: Efforts to craft more balanced bill
- **State budget uncertainty** due to possible congressional actions
- **Public pension liabilities**: Discussion, perhaps action
What’s Ahead in 2018

**Labor and Human Resources**
- Pension/OPEB sustainability and reform
- CalPERS divestment measures
- JPA unfunded pension liabilities
- Termination process for CalPERS agencies
- CalPERS litigation against defaulting agencies
- Workers comp: off duty claims, cumulative trauma and apportionment re race/gender
- Healthcare provider transparency (database)
- Prohibiting contracting for services: AB 1250

**Revenue and Taxation**
- Ballot measures affecting local taxes
- Incorporation and annexations
  - fix the PropTax in Lieu of VLF
- Federal tax reform effects
- Preparation for the next recession
- Tax structure reform?
- UUT on streaming services
- Marijuana taxation clean-up
- BOE-CDTFA transition
Qualified Ballot Measures 2018

June Ballot
- **ACA 5** - Const. protection for transportation funding.
- **ACA 1** - 2/3rds vote for post-2024 allocation of cap and trade revenue.
- **SB 5** - $4 billion park and water bond
- **ACA 17** - certification of votes prior to effective date of initiative measures.

November Ballot
- **SB 3** - $4 billion housing bond

Ballot Proposals Under Development

**On The Street – Gathering Signatures**
- Repeal recent transportation funding package (17-0033)
- Water bond $8.9 billion - Gerald Meral (17-0010)
- Realtor’s PropTax base transfer (No Limit for 55+, disabled) (17-0013)
- Increase Leg. Size/Neighborhood Legislatures. John Cox (17-002)
- Division of California into Three States. Tim Draper (17-0018)
- State Regulation of Kidney Dialysis (17-0014)

**Possible**
- Reducing Crime and Keeping CA Safe (17-0044)
- Authorizing local rent control (17041)
- $500 Homeowner, renter income tax credit. Jon Coupal (17-0032)
- Lead Paint Abatement, “Healthy Homes and Schools” (17-0049)
- Children’s Hospital Bond (17-0045)
- Prevention of Cruelty to Animals (17-0042)
- California Consumer Privacy Act (17-0039)
- 2/3rds votes for all local tax & fee measures. Lapsley. (17-0051/50)
- Others...