



Legislative and City Finance Update

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2017 Legislative Year

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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

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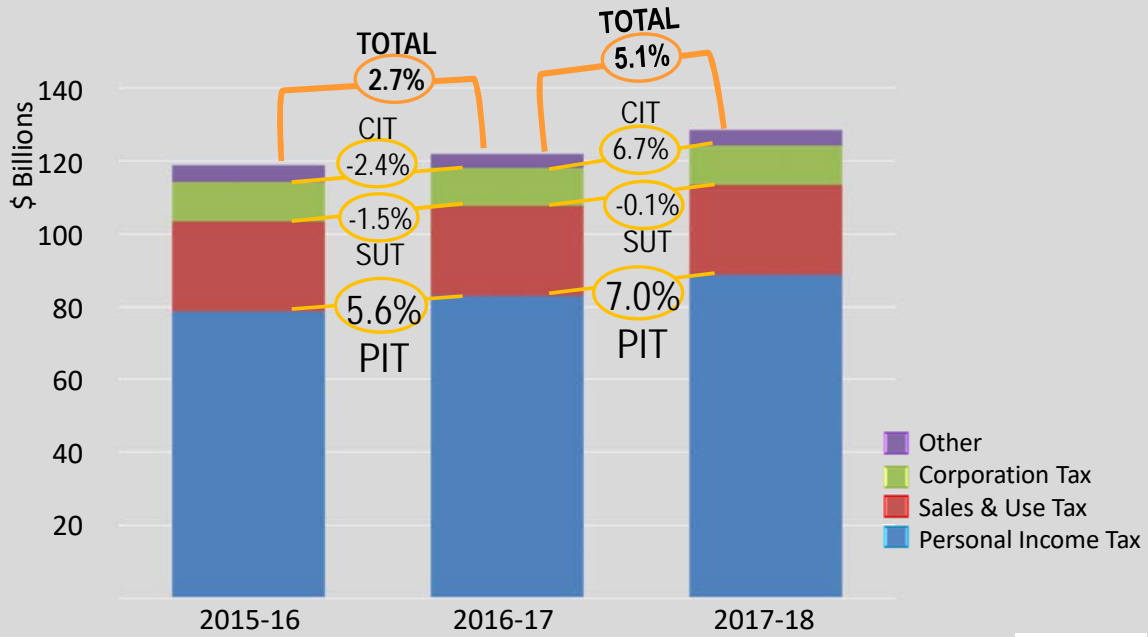
- ✓ State tax revenues hold steady
...but a downturn will come
- ✓ Operating budget debt nearly erased
...but large unfunded employee retirement costs remain
- ✓ Reserves at over \$10 billion, an historic high
- ✓ State prepays CalPERS \$6 billion

Uncertainties/risks:

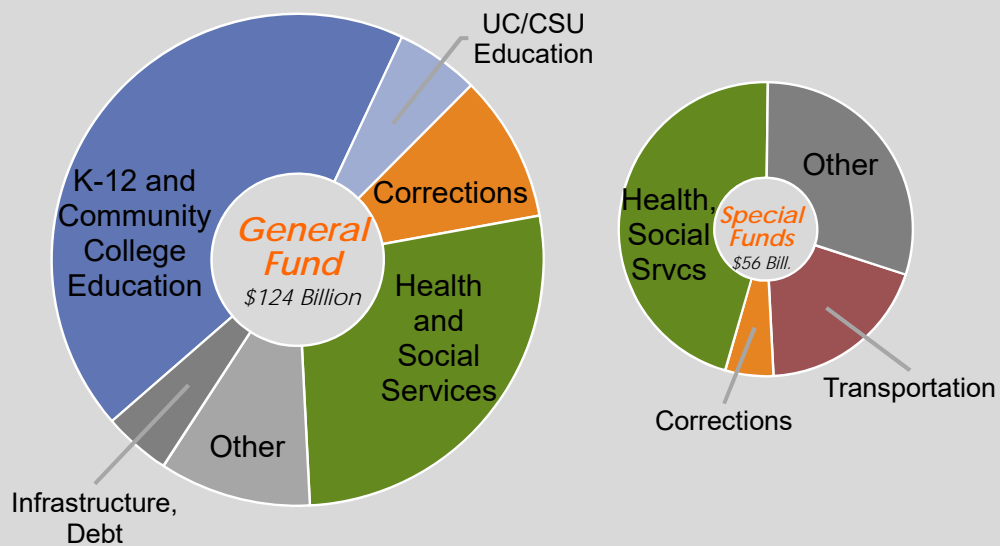
- ❖ *health care (ACA)*
- ❖ *federal funding*
- ❖ *pension costs and funding*
- ❖ *natural disasters*

State Revenues Still Growing

General Fund – Adopted Budget estimates



State General & Special Funds Spending 2017-18



Proposition 2 (2014) Rainy Day Fund & Debt Reduction



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%

50%

Debt Payments

Choose among the following:

- Pay down certain "wall of debt" items.
- Make extra pension/retiree health payments.

Budget Stabilization Account^a

Fill rainy-day reserve to 10% of General Fund taxes.

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

Source: LAO

Debts & Liabilities

Eligible for Accelerated Payments Under Prop2



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

"Wall of Debt" nearly erased

SB1

Source: Governor's Budget Summary 2017 Fig INT-02

2017-18 Ends With \$10 Billion Reserve



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



State Budget Trailer Bills

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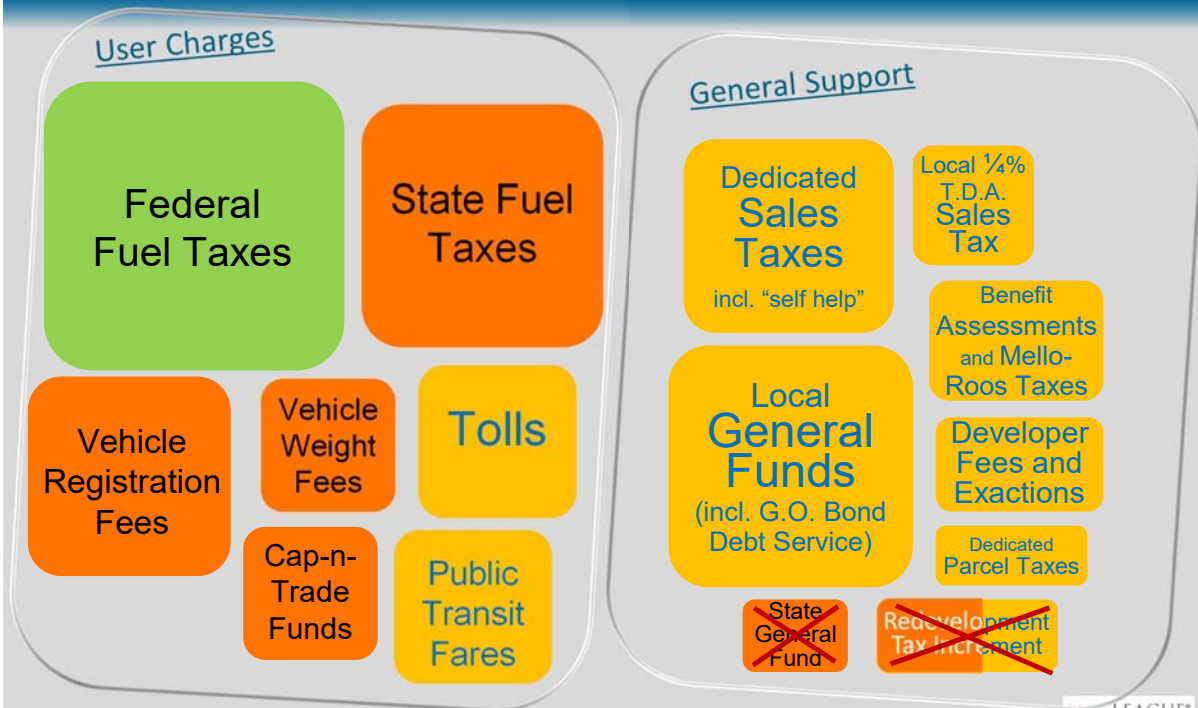
- ✓ BOE mismanagement addressed by shifting responsibilities to new California Department of Tax and Fee Administration (CDTFA)
- ✓ League & Police Chiefs obtain amends protecting local control re: marijuana
- ✓ League protects small city economic development set-aside in state CDBG allocations

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

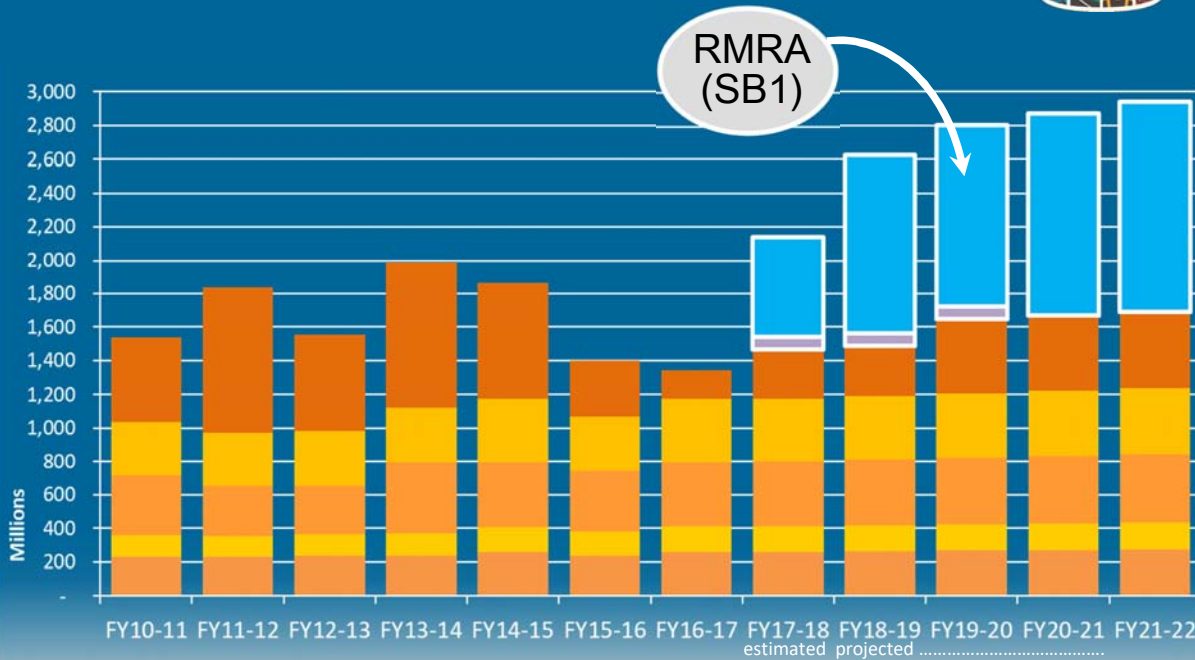
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Transportation Funding in California



Local Streets and Roads Revenues



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

inflation adjusted starting 7/1/2020

Effective Nov 1, 2017

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

inflation adjusted starting 7/1/2020

Effective Nov 1, 2017

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

inflation adjusted starting 7/1/2020

Gas Excise Tax (HUTA) base rate

inflation adjusted starting 7/1/2020

Effective Jan 1, 2018

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

inflation adjusted starting 7/1/2020

Effective Nov 1, 2017

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

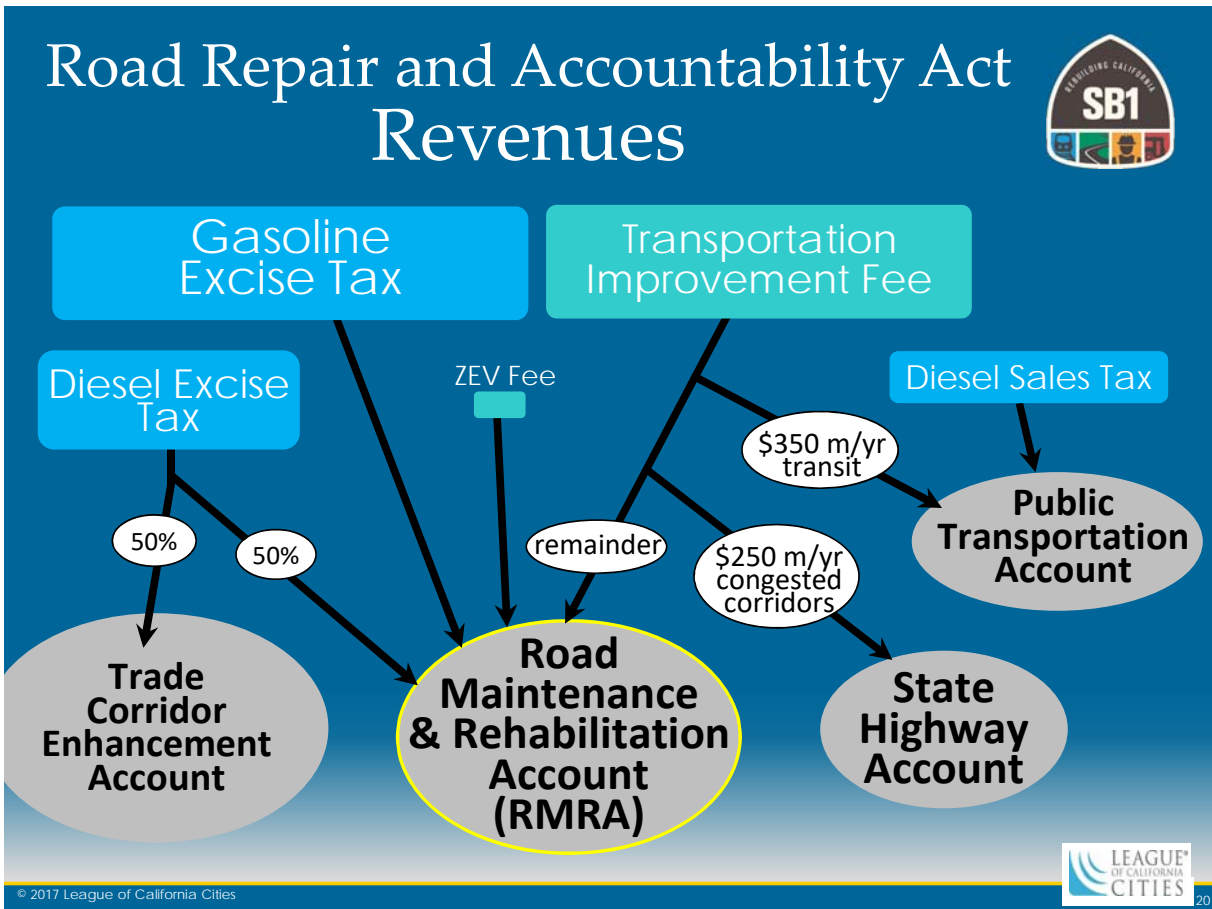
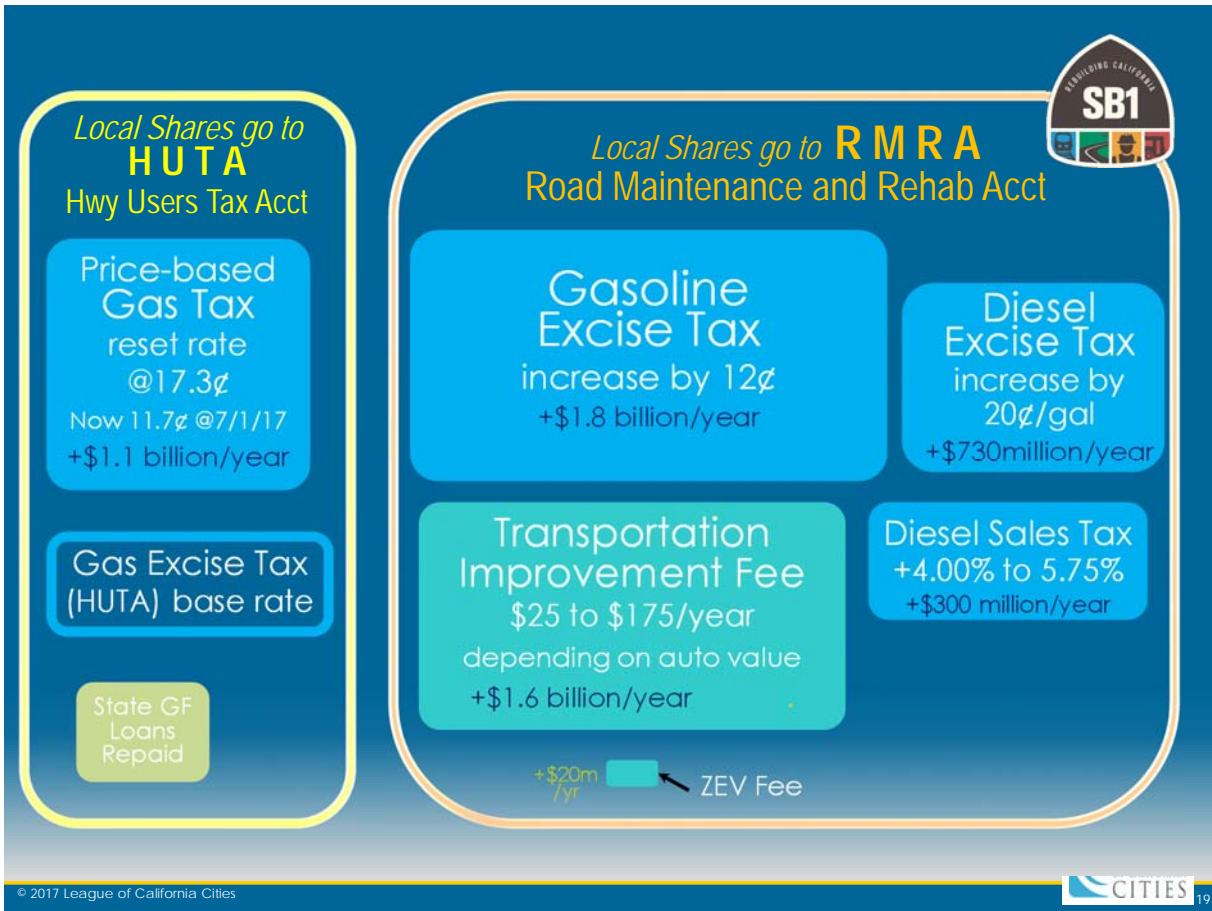
Beginning 2017-18 over 3 yrs

State GF Loans Repaid \$706 million *one time* incl. \$225 m to HUTA

inflation adj. 7/1/2021

Effective July 1, 2020
+\$20m /yr ZEV Registration Fee \$100/yr on 2020 models / later





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: reduce GHG, advanced technologies,
resiliency to climate change, complete street components

Road Repair and Accountability Act 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

Road Repair and Accountability Act RMRA Accountability Requirements



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

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- ✓ 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)

Housing-2017 Session

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

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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

Political Dynamics for 2018

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

What's Ahead in 2018

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 incomer 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...