CA Cities Advocate
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LEGISLATION AND POLICY AFFECTING CALIFORNIA CITIES

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IN THIS ISSUE:

House Passes Tax Reforms that Eliminate State and Local Tax Deductions and Tool to Fund Major Public Projects

Senate Finance Committee Passes its Tax Reform Proposal

The U.S. House of Representatives on Nov. 16 passed HR 1, the "Tax Cuts and Jobs Act" marking another milestone in the Republican effort to enact significant tax reform. The League of California Cities® joined the National League of Cities and other state municipal leagues in calling on Congress to reject this bill, which harms taxpayers, homeowners and the economy. The League also issued a statement on Nov. 9 with the California State Association of Counties, California Association for Local Economic Development, the California School Boards Association and the California Association of REALTORS® urging members of California's congressional delegation to reject the reforms. California is one of the states that would lose the most under HR 1. *For more, see Page 2.*

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City Voices Strong at CalPERS Board Meeting on Monday, Calling for Strategies to Address Retirement System Sustainability

CalPERS Board to Take Action at December Meeting

More than 50 city leaders traveled to Sacramento on Nov. 13 to call on the CalPERS Board of Administration to provide cities with more tools and flexibility to address the need for retirement system sustainability. Local agencies comprise approximately 40 percent of all CalPERS members. *For more, see Page 2.*

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Sen. Hertzberg Releases Implementation Information for his Stormwater Bill

Gov. Jerry Brown in October, signed League-supported SB 231 (Hertzberg), which adds "storm water" to the definition of "sewer" in Proposition 218. Sen. Sen. Hertzberg (D-Van Nuys) authored the bill to simplify financing projects for the collection of rainwater, clean up, and recycling.
For more, see Page 3.

‘SALT’ Continued from Page 1…

Known as SALT, the bill the House passed yesterday eliminates the State and Local Tax Deduction. For Californians, this deduction makes the cost of living more affordable. More than 6 million Californians in 2015 claimed SALT with the average deduction being approximately $18,000. Millions of Americans would be taxed twice under a SALT repeal. HR 1 also caps the local property tax deduction at $10,000 annually. Capping mortgage interest for newly purchased homes at $500,000 would destabilize the housing market by eliminating a key incentive for homeownership. Not only will these reforms raise taxes for millions of taxpayers in this state, but they also threaten economic growth.

The reforms eliminate the tax-exempt status for Private Activity Bonds (PABs), which serve as an important tool to help state and local governments finance major public projects. The implications of this change will affect construction of transportation and water infrastructure, affordable housing, schools, and public hospitals. The costs to finance these projects would increase by 25 to 35 percent. This would result in less private and public sector investments in communities throughout California.

Next Steps

The Senate Finance Committee on Nov. 16 also debated and passed its tax reform bill. The measure is expected to go to full Senate for action the week after Thanksgiving. The two versions would then move to a joint conference committee with the goal of sending President Trump a final bill prior to Christmas for his approval.

‘CalPERS’ Continued from Page 1…

City officials, representing mayors, council members, city managers, finance officers and public safety, testified during the meeting’s public comment period, each asking CalPERS to work collaboratively with all stakeholders. They all communicated the great need for viable options to address growing unfunded pension liabilities.

Although each city official shared their city’s specific story, they all communicated one uniform message — the “employer just paying more” option is no longer viable.

CalPERS retiree benefit payments are based on a shared responsibility between investment earnings, employer and employee contributions. Under current law, public employers make up for any financial shortfall when investments come up short, or assumptions such as life expectancy or economic inflation increases.

Since the Great Recession in 2008, employer contribution payments have soared, causing a crowd-out of essential public services, hiring freezes, layoffs and other strains on local budgets. Cities want greater flexibility such as the ability to modify benefits prospectively, the elimination of special pay as well as a temporary off ramp of COLA’s for high pension income earners until the pension fund is stable.

Another major driver in employer rates is the discount rate or assumed rate of return that CalPERS projects it will earn over a 60-year period. CalPERS lowered the discount rate to 7 percent, which is being phased in over three years. Discussions have begun to examine lowering this rate even further.

Every four years, CalPERS holds an Asset Liability Management workshop. Monday’s meeting included this workshop where the board received four candidate portfolios each having their own unique qualities to yield a target discount rate: 6.5 percent, 6.75 percent, 7 percent and 7.25 percent.

City officials supported the 7 percent option, which they felt struck a balance of fiscal responsibility for the fund against the ability to pay CalPERS payments.

The board will continue to solicit feedback from stakeholders and adopt its final decision when it meets Dec. 18–20.

'SB 231' Continued from Page 1…

In mid-October to provide guidance on how SB 231 will affect agencies, Sen. Hertzberg hosted a webinar. Now available online, the webinar covered the bill's provisions, implementation strategies and the risk of legislation from opponents.

Background

Under Prop.218 (1996), local governments must undertake a majority protest and two-thirds vote process in order to raise local property-related fees, except for sewer, water and trash rates. SB 231 seeks to simplify the process for cities and counties to raise fees to address storm water clean up, effective Jan. 1, 2018, by explicitly including storm water in the definition of "sewer."

Compliance with the state and federal requirements is costly, with local governments facing annual funding shortfalls. In 2015, the Public Policy Institute of California estimated the funding gap at approximately $500–800 million annually. Failure to comply with state and federal requirements can result in fines of up to $10,000 per contaminant per day. However, options available for cities to pay for such clean-up efforts are limited.

Due to potential litigation related to SB 231, cities should continue to consult their city attorney before taking action to raise storm water fees.

Call for Session Proposals Open for Mayors and Council Members Executive Forum

Proposals due Nov. 27

The League of California Cities® is currently soliciting session proposals for its 2018 Mayors & Council Members Executive Forum scheduled for June 27–29 at the Monterey Marriott and Monterey Convention Center. League members are interested in sessions that address the challenges that cities face and cutting-edge solutions at the local level.

Submit your session proposal online.

If you have any questions, please contact Jennifer Whiting.

League-Sponsored Bond Agency Issues $38 Million in Tax-Exempt Bonds for Affordable Housing in Sacramento

Some of the most significant benefits of League membership for cities since 1988 have flowed from the League's co-sponsorship of the California Statewide Communities Development Authority (CSCDA).

This program provides a variety of public agencies and developers access to low-cost, tax-exempt financing and economic development tools. CSCDA recently issued a total of issuance of $38,000,000 in tax-exempt multi-family affordable housing bonds for the Kensington Apartments in Sacramento.

About Kensington Apartments

Kensington Apartments is an acquisition and rehabilitation of 301 mixed income multi-family housing apartments by Kensington Apartments, LP. The project sponsor is Klein Financial Corporation. Kensington Apartments will continue to provide at least 61 affordable apartments to low-income residents in Sacramento.

CSCDA and Klein Financial Corporation partnered with Deutsche Bank to provide the $38 million in tax-exempt multi-family affordable housing bonds for Kensington Apartments. The project will undergo an extensive interior and exterior renovation ensuring that residents have an updated, safe, and affordable community to call home for years to come. The financing of Kensington Apartments will maintain the affordability of units for low-income tenants for 55 years.

Background

CSCDA is a joint powers authority created in 1988 and is sponsored by the League of California Cities® and the California State Association of Counties. It was created by cities and counties for cities and counties. More than 500 cities, counties and special districts are program participants in CSCDA, which serves as their conduit issuer and provides access to efficiently finance locally-approved projects. CSCDA has issued more than $50 billion in tax exempt bonds for projects that provide a public benefit by creating jobs, affordable housing, healthcare, infrastructure, schools and other fundamental services. Visit CSCDA's website for additional information on the ways in which CSCDA can help your city.
