I. Welcome and Introductions

II. Public Comment

III. (11:00 a.m.) Special Briefing: Impacts of Cal Fire Local 2881 v. California Public Employees’ Retirement System (Attachment A)
   - Jonathan Holtzman, Partner, Renne Public Law Group

IV. Budget Update (Attachment B)

V. Legislative Update (Attachment C)
   - Sales and Use Taxes – Update
     - AB 147 (Burke) Wayfair Implementation
     - SB 531 (Glazer) Sales Tax Agreements
     - Proposed Sales Tax Exemption Bills (Handout)
   - Tax Increment/Economic Development
     - SB 5 (Beall/McGuire) Tax Increment
     - AB 11 (Chiu) Redevelopment
     - SB 128 (Beall) EIFD (Plus Gov’s Opportunity Zone Proposal)
     - AB 1259 (Luz Rivas) CA New Markets Tax Credit
   - Local Revenue and Financing
     - ACA 1 (Aguilar-Curry) 55% Vote for Local Infrastructure and Affordable Housing
     - AB 213 (Reyes) City Annexation-Restoration of Funding and Incentives
     - AB 818 (Cooley) Financing of New City Incorporations
     - AB 1637 (Smith) Unclaimed property
     - SB 532 (Portantino) Former RDA Bonds: Affordable housing
     - Property Tax and the Welfare Exemption
   - Tax Reform
     - SB 522 (Hertzberg) Service tax spot
     - SCA 3 (Hill) and SCA 4 (Galgiani) Property tax: inheritance exclusion (Attachment E)

VI. Legislative Agenda (Attachment F)
   - SB 598 (Moorlach) Open Financial Statements and iXBLR
   - AB 485 (Medina) Local Economic Development Subsidies-Warehouses
   - AB 176 (Cervantes) and SB 162 (Galgiani) CAEAFTA 10-Year Extension
VII. Local Funding Opportunities (Attachment G)  
- SB 2 Atkins—Funding for Local Planning  
- Allocation of Housing Bonds  
- Cap and Trade  
- Park Bonds  
- SB 1 Allocations

Next Meeting: Friday, June 14, Sacramento Convention Center, Sacramento

Brown Act Reminder: The League of California Cities’ Board of Directors has a policy of complying with the spirit of open meeting laws. Generally, off-agenda items may be taken up only if:
1) Two-thirds of the policy committee members find a need for immediate action exists and the need to take action came to the attention of the policy committee after the agenda was prepared (Note: If fewer than two-thirds of policy committee members are present, taking up an off-agenda item requires a unanimous vote); or
2) A majority of the policy committee finds an emergency (for example: work stoppage or disaster) exists.
A majority of a city council may not, consistent with the Brown Act, discuss specific substantive issues among themselves at League meetings. Any such discussion is subject to the Brown Act and must occur in a meeting that complies with its requirements.

NOTE: Policy committee members should be aware that lunch is usually served at these meetings. The state’s Fair Political Practices Commission takes the position that the value of the lunch should be reported on city officials’ statement of economic interests form. Because of the service you provide at these meetings, the League takes the position that the value of the lunch should be reported as income (in return for your service to the committee) as opposed to a gift (note that this is not income for state or federal income tax purposes—just Political Reform Act reporting purposes). The League has been persistent, but unsuccessful, in attempting to change the FPPC’s mind about this interpretation. As such, we feel we need to let you know about the issue so you can determine your course of action.
If you would prefer not to have to report the value of the lunches as income, we will let you know the amount so you may reimburse the League. The lunches tend to run in the $30 to $45 range. To review a copy of the FPPC’s most recent letter on this issue, please go to www.caicitys.org/FPPCletter on the League’s Website.
California Supreme Court Finds Airtime Was Not a Vested Pension Benefit in Cal Fire Local 2881 v. CalPERS; Declines to Address the “California Rule” on Pension Modification

March 4, 2019

The California Supreme Court issued a unanimous decision today in Cal Fire Local 2881 v. California Public Employees’ Retirement System. The League filed an amicus brief in the case, and has been monitoring the case closely.

As the League anticipated, the Court found that employees enrolled as classic members of CalPERS did not have a “vested” right to purchase up to five years of service credit (commonly known as “airtime”) to add to their pension benefit, and therefore upheld the Legislature’s elimination of airtime as part of the Public Employees’ Pension Reform Act. The Court’s conclusion is consistent with the arguments the League made in its amicus brief.

“The League applauds today’s California Supreme Court decision upholding a key provision which amended the law governing the state’s public employee retirement system,” said Carolyn Coleman, executive director, League of California Cities. “While today’s decision lets stand reforms important to the fiscal health of the system, more work must be done to address the challenge of escalating pension costs for local governments. The League stands ready to partner with the Administration, Legislature and stakeholders to ensure a strong defined benefit retirement system for California’s public sector workers and retirees.”

In reaching its conclusion that airtime was not a vested pension benefit, the Court noted that there was no evidence to clearly demonstrate that the Legislature intended to create a vested right when it enacted the airtime statute. Furthermore, the Court found that airtime could not be considered to be vested as “deferred compensation” because it was not meaningfully tied to actual public service. It noted that the same amount of airtime was available to all employees who had completed the five years necessary to qualify to receive a pension in the first place.

Additionally, the Court explained that even if airtime was viewed as a contractual offer, there were two things employees had to do to accept the offer – (1) file a written election with the employee’s pension board and (2) make appropriate payments to the retirement system – and therefore the Legislature was entitled to revoke that offer for all employees, including plaintiffs, who had yet to make the written election and the payments.

Since the Court concluded the benefit was not vested, it had no occasion to address prior precedent now commonly referred to as the “California rule,” which provides that modifications to vested pension benefits must bear some material relation to the successful operation of a pension system and any resulting disadvantages to pensioners must be offset by comparable new advantages.

The League is working on a full analysis of the case, and more information on the case and its impact on cities will be forthcoming. In the meantime, you can access the opinion online.
Governor Newsom Unveils Proposed FY 2019-20 Budget
Additional Funding for Housing and Homeless, Transportation Funds Threatened

Gov. Gavin Newsom held a lengthy press conference this morning to unveil his first budget proposal, which includes $144 billion in General Funding spending and — combined with proposed special fund and bond proceed allocations — totals $209 billion. While maintaining he was being fiscally prudent — increasing the Rainy Day Reserve to $15.3 billion, paying down a total of $4.1 billion state pension liabilities, allocating an additional $700 million to a social safety net reserve and $2.3 billion in general reserves — he also proposed major spending augmentations in various areas, including:

- Allocating $500 million to expand childcare infrastructure;
- Increasing CalWORKs (welfare) payments by 25 percent;
- Spending a total of $80.7 billion on K-12 and Community Colleges, including $750 million to address barriers to full-day kindergarten;
- Augmenting funds to UC and CSU, and extending the free community college program to two years;
- Supplemental Cal Grants to assist college students with children;
- Doubling the state’s Earned Income Tax Credit for low income households;
- Expanding Medical to serve undocumented youth between 19-25; and
- Providing six months of paid parental leave.

Many of the above expenditures reflect a troubling economic undercurrent in California, despite its position as the world’s fifth largest economy. Demographic information reveals that since 2007, the median income for households with bachelor’s degrees has stayed relatively flat at $72,000, but average income for those with less education has declined from $42,000 to $35,000 in the same time period.

As he previewed in an announcement earlier this week, the Governor’s budget includes $415 million in funding for emergency preparedness and response. Of the $415 million, the Governor indicated he will propose a historic investment of $305 million in new emergency planning funding. The remaining $110 million is expected to be carried over from last year, and one-time funding repeated from last year’s appropriations.

Cities received additional housing-related investments, including $500 million to build homeless shelters, $500 million for affordable housing tax credits and $500 million for moderate housing production. When asked by reporters about restoring redevelopment, the Governor shied away from committing to reintroducing the tool, saying instead that affordable housing resources were being restored and that we should make Enhanced Infrastructure Finance Districts (EIFD) more useful by repealing the current 55 percent vote requirement associated with issuing debt, and pairing them with federal Opportunity Zone incentives.

Of paramount concern to cities is a policy proposal that would empower the Department of Housing and Community Development (HCD) with top-down authority to dictate local land use policies and penalize local communities if new state quotas are not met by stripping local transportation dollars and other vital revenue.

Detailed budget areas of importance to cities are outlined below.

**Housing, Community and Economic Development**
This budget is a mixed bag for local government in regards to housing. While historic levels of new funding are proposed to help address homelessness and affordable housing needs, the budget also includes possible statutory changes that would undermine local land use authority, limit the ability to impose impact fees and jeopardize local transportation revenues.

**RHNA Reforms, Production and Enforcement/Link to Transportation Funding**

The budget proposes to increase housing production long-term by “revamping” the Regional Housing Needs Assessment (RHNA) process. As part of this new process, HCD will use its new authority under Chapter 370, Statutes of 2017 (AB 72) and Chapter 958, Statutes of 2018 (686) to more actively oversee housing element implementation and take enforcement action on local governments as needed. Additionally, the Governor wants to explore the possibility of linking housing production to transportation funds and other applicable sources of funding (see transportation section for greater detail).

**Capping Local Impact Fees**

While the budget does not contain a direct proposal to limit or restrict local planning or impact fees, it does declare that these fees contribute substantially to the cost of development. Additionally, during the Governor’s press conference, he stated that impact fees are “out of control” and he is forming an impact fee task force. The Governor also said that he is considering “going to the ballot” to address the problem.

**Short-Term Planning and Performance Incentive Grants**

$750 million in one-time funding is proposed to increase housing production and provide technical assistance to local governments. HCD is directed to establish new higher short-term housing production goals at each income level for all jurisdictions. These include:

- $250 million (SB 2 funds) for technical assistance for local governments to develop plans that include but are not limited to: streamline housing approvals, complete California Environmental Quality Act (CEQA), improve permitting or rezone to increase density; and
- $500 million for grants to local governments that can be used for general purposes if they achieve unspecified milestones associated with enhanced planning and increased housing production.

**Funding for Housing Tax Credits and Moderate-Income Housing Production**

- $500 million General Fund one-time funding for the development of moderate-income housing. The California Housing Finance Agency will expand the existing Mixed-Income Loan Program that provides a lower subsidy than traditional state housing programs.
- $500 million, and up to $500 million annually thereafter, upon appropriation, for affordable housing tax credits as follows:
  - $300 million to the existing housing tax credit program that targets new construction projects that pair with the underutilized 4 percent federal tax credit program.
  - $200 million to a new program targeting housing projects for households earning between 60 and 80 percent of area median income.

**Accelerating Housing Bond Allocations**
The budget proposes to accelerate awards to qualifying projects from the $4 billion Veterans and Affordable Housing Bond Act of 2018.

Building on Excess State Property/No Local Approvals

The budget proposes to allow affordable housing developers to build demonstration projects on excess state property, which does not require local approvals, and use creative and streamlined construction processes. Developers, selected through a competitive process, will receive low-cost, long-term ground leases.

Changes to Enhanced Infrastructure Finance Districts

The budget proposes to expand Enhanced Infrastructure Financing Districts (EIFDs) authority by removing the 55 percent voter approval threshold to issue debt. The Governor believes that more cities and counties will form EIFDs if they have greater ability to raise capital. Additionally, the budget proposes to pair EIFDs with federal Opportunity Zones. The state will also conform to federal law and allow for deferred and reduced taxes on capital gains in Opportunity Zones for investments in green technology or affordable housing, and for exclusion of gains on such investments in Opportunity Zones held for 10 years or more.

Homelessness

$500 Million General Fund One-Time Funding for Homelessness

Last year $500 million in one-time funding was allocated to local jurisdictions to address emergency homelessness needs. This year’s proposed budget once again allocates $500 million in one-time funding for jurisdictions that site and build emergency shelters, navigation centers or supportive housing.

The proposed allocation of these funds is similar to the formula from last year’s budget:

- $200 million will be distributed by the Business, Consumer Services and Housing Agency (BCSH) through Continuums of Care to jurisdictions that establish joint regional plans. In order to receive the money, cities and counties must work together and collaborate to site and build emergency shelters, navigation centers or supportive housing;
- $100 million will be allocated to the 11 most populous cities in the state; and
- $200 million will be made available to jurisdictions that show progress in permitting new supportive housing units or constructing emergency shelters and navigation centers.

CEQA Streamlining for Homeless Shelters

The Administration will seek legislation to grant homeless shelters, navigation centers, and new supportive housing units the same streamlined environmental review recently given to sports stadiums. The expedited CEQA review will accelerate judicial review of challenges to an Environmental Impact Report.

Department of Transportation (Caltrans) Airspace for Emergency Shelters

The budget includes the development of a statewide policy for the use of Caltrans airspace, or land located in the state’s highway right-of-way, for emergency shelters, expanding on 2018
legislation that allowed for such spaces on up to 30 parcels in Oakland, San Jose, Los Angeles, San Diego, and Stockton.

**Assisting Homeless Individuals to Qualify for Federal Disability**

The budget proposes an annual appropriation of $25 million General Fund beginning in 2019-20 to continue the Housing and Disability Advocacy Program to assist homeless, disabled individuals with applying for the federal Supplemental Security Income disability benefit programs. Participating counties are required to match any state funds on a dollar-for-dollar basis.

**Whole Person Care Pilot Programs**

$100 million General Fund (one-time with multi-year spending authority) is allocated for Whole Person Care Pilot programs that provide housing services. These programs coordinate health, behavioral health (including mental health and substance use disorder services), and social services. This funding will be used to match county investments in health and housing services with a focus on the homeless mentally ill population.

**Accelerating Allocation of No Place Like Home Funds**

The budget proposes to accelerate awards to qualifying projects authorized by Proposition 2, authorizing a $2 billion bond to construct housing for the homeless mentally ill.

**Mental Health Workforce Investment**

$50 million General Fund is proposed for training opportunities for mental health practitioners.

**Job Creation**

$27 million in Greenhouse Gas Reduction Funds (GGRF) is proposed to increase job training and apprenticeship opportunities focused on disadvantaged communities.

- Pre-Apprenticeship Construction Partnerships — $10 million annually for 5 years to place approximately 3,000 disadvantaged workers in apprenticeships for a career in the trades by doubling the training capacity for each of the existing 14 regional hubs;
- Training Partnerships — $10 million annually for five years to place 2,000 disadvantaged workers into entry-level jobs and develop skills in climate and technology-related occupations through the expansion of existing partnerships;
- Worker Transition Fund — $5 million annually for five years to provide income replacement in conjunction with retraining for approximately 1,500 displaced workers resulting from climate policies or automation; and
- Technical Assistance and Program Administration — $2 million for 11 positions and contract resources at the California Workforce Development Board to support these programs.

**Transportation and Infrastructure**

While the Administration plans to release a five-year infrastructure plan later this year, the Governor’s proposed January budget includes $4.8 billion for transportation generated by SB 1
(Beall, Chapter 5, Statutes of 2017) in FY 2019–20, with funding distributed from the Road Maintenance and Rehabilitation Account to the following state and local programs:

Local Allocations:
- $1.2 billion for local streets and roads, including $600 million for cities and $600 million for counties;
- $458 million for local transit operations;
- $386 million for transit, commuter, and intercity rail;
- $200 million for the State-Local Partnership Program;
- $100 million for the Active Transportation Program;
- $36 million for Commuter Rail and Intercity Rail; and
- $25 million for Local Planning Grants.

State Allocations:
- $1.2 billion for maintenance of the state highway system known as the State Highway Operation and Protection Program;
- $400 million for bridges and culverts;
- $307 million for trade corridor enhancements; and
- $250 million for commuter corridors.

In addition to these allocations, the budget includes $2.4 billion to pay off the state’s budgetary debts, including the elimination of all outstanding loans from special funds and transportation accounts for the first time in over a decade.

It is important to note that the SB 1 allocations above do not represent all of the transportation tax revenue cities will receive. In fact, omitted from this summary are the existing revenue streams from the Highway Users Tax Account (HUTA), which are similar in amount to the SB 1 revenues. For the latest city transportation funding estimates, please visit www.californiacityfinance.com in the coming weeks.

**New Threat to SB 1 Funding**

Over the last two years, the passage and defense of SB 1 (Beall), the largest transportation infrastructure investment in state history, which dedicates all of the new revenue to transportation projects in every community across the state, required every resource available to the League and a coalition of transportation stakeholders in partnership with the Legislature and Administration. The voters rejected Proposition 6 and sent a strong signal that fixing potholes and making roads safer in their communities is a top priority. Therefore, it is very concerning to be faced just a couple of months later with a proposal that threatens promises made to the voters.

The Governor’s January budget states:

“Going forward, the state will strongly encourage jurisdictions to contribute to their fair share of the state’s housing supply by linking housing production to certain transportation funds and other applicable sources, if any. The Administration will convene discussions with stakeholders, including local governments, to assess the most equitable path forward in linking transportation funding and other potential local government economic development tools to make progress toward required production goals.”
The $54 billion transportation investment in SB 1 is a major accomplishment for state and local
governments, and while this investment will make significant improvements to transportation
across the state, it does not represent a windfall for state or local agencies. In fact, for the last
10 years, state and local governments have consistently identified massive backlogs and
funding shortfalls for the state and local transportation networks exceeding $50 and $70 billion
over 10 years, respectively.

As a result of SB 1, however, the unmet funding need for local streets and roads shrinks by
approximately $18 billion, while two-thirds of the network moves into a state of good repair.
Absent such investment, such shortfalls would have grown by $20 billion and over half of all
roads would have fallen into a state of disrepair. SB 1 will stabilize road conditions across the
state in the aggregate, while seeing significant improvement where such investments can be
maximized. Preserving these investments and the commitment made to the voters will continue
to be a top priority for the League.

**Addressing State Infrastructure Maintenance**

The budget includes one-time funds to address backlog of deferred state maintenance needs to
the following departments:

- $112 million — Department of Corrections and Rehabilitation;
- $45 million — Department of Parks and Recreation;
- $40 million — Judicial Branch;
- $35 million — Department of State Hospitals;
- $16 million — Department of General Services;
- $10 million — Department of Fish and Wildlife;
- $7 million — Network of California Fairs;
- $6 million — Department of Forestry and Fire Protection;
- $5 million — Department of Developmental Services;
- $5 million — California Military Department;
- $5 million — California Highway Patrol;
- $5 million — Department of Veterans’ Affairs;
- $5 million — State Special Schools;
- $3 million — Department of Motor Vehicles
- $3 million — Exposition Park;
- $3 million — Department of Food and Agriculture;
- $3 million — Housing and Community Development;
- $2 million — Employment Development Department;
- $2 million — Office of Emergency Services;
- $1 million — California Conservation Corps;
- $1 million — Hastings College of the Law;
- $1 million — Tahoe Conservancy;

**Emergency Preparedness and Response**

The Governor prioritized emergency preparedness and response in his brief tenure, as
evidenced by his early focus on the issues. In a press conference held early this week in Colfax,
the Governor unveiled two executive orders and $415 million in funding for emergency
preparation and response. Watch the 45-minute press conference and read the Governor’s press release for full coverage.

The January budget proposal lays out funding proposals for emergency preparedness and response as follows:

**Support for Affected Communities**

The budget proposes the following allocations for local communities affected by the devastating disasters in recent months:

- **Property tax backfill** — $31.3 million to backfill property tax losses for cities, counties and special districts:
  - $11.5 million to backfill entities in Butte, Lake, Los Angeles, Orange, Riverside, Shasta and Siskiyou counties for losses estimated to be incurred in 2019-20 as a result of the 2018 wildfires;
  - $16.1 million to backfill entities in Butte County for losses estimated to be incurred in 2020-21 and 2021-22 due to the 2018 Camp Fire; and
  - $3.6 million to backfill entities in Lake County for losses estimated to be incurred in 2019-20, 2020-21, and 2021-22 resulting from the wildfires in 2015, 2016, and 2017.

- **Debris removal** — $155.2 million for waiving local county share of costs for debris removal. This is an estimate, as the budget assumes a $2.5 billion estimate for debris removal costs for the Camp, Woolsey, and Hill fires and the federal government is expected to cover 75 percent of those costs; and

- **Backfill affected schools Prop. 98 funding.**

**Department of Forestry and Fire Protection (CAL FIRE)**

The Governor’s budget includes a total of $2.6 billion and 7,645.6 positions for CAL FIRE. Earlier this week, the Governor detailed the $415 million in appropriations specifically for emergency preparedness and response. Proposed appropriations are as follows:

- **Fire Prevention** — $213.6 million for fuel reduction projects through prescribed fire crews and grants for forest health projects, implementation of the recently enacted wildfire prevention and recovery legislative package, which streamlines regulatory barriers for fuel reduction projects, and disposal of illegal and dangerous fireworks. Of this, $200 million was agreed to as part of last year’s SB 901 compromise to appropriate $1 billion over five years;

- **Enhancing Aviation Resources** — $120.8 million General Fund to add aircraft with increased tactical capabilities to CAL FIRE’s aviation fleet to meet the challenges associated with more severe wildfire activity. This includes:
  - $11.4 million for the first year of operating C-130 air tankers that will be transferred from the U.S. Air Force; and
  - $109.4 million to continue replacement of CAL FIRE’s helicopters with new Blackhawk helicopters.

- **Expanding Firefighting Surge Capacity** — $64.4 million General Fund for fire protection capabilities to:
  - Add new 13 year-round fire engines to be located in the highest fire risk areas;
o Expand staffing for bulldozer operations during emergency wildfire events;
o Accelerate replacement of fire engines and mobile equipment as a result of wear and tear from the longer fire season; and
o Add five CAL FIRE/California Conservation Corps fire crews at Los Padres, Camarillo and Butte fire centers.

- Emergency Responder Services — $6.6 million to expand CAL FIRE’s health and wellness program and to provide medical and psychological services and peer support to firefighters; and
- Technology — $9.7 million to support incident commanders with data gathered via remote sensing technology, situational awareness software and satellite imagery, and 100 additional fire detection cameras that will be linked into the existing command centers to provide additional data on conditions.

**Office of Emergency Services**

California’s Office of Emergency Services (Cal OES) coordinates emergency readiness and response activities. This budget proposes an additional $172.3 million for the following activities:

- Mutual Aid — An additional $25 million in ongoing General Fund funding has been proposed for mutual aid to support existing Cal OES and local government prepositioning;
- 9-1-1 advancements — $60 million in one-time funding ($10 million in 2018-19 and $50 million in 2019-20) to upgrade the 9-1-1 system from analog to digital. This budget also assumes a 9-1-1 fee structure will take effect in 2020 to generate about $170 million annually. Imposing a fee would require a two-thirds vote of the Legislature;
- Broadband Communication and 9-1-1 — $1 million for emergency communications coordination and First Responder Network Authority broadband services;
- California Earthquake Early Warning — $16.3 million in one-time funding to complete a statewide earthquake early warning system;
- Public Education — $50 million for one-time to begin a comprehensive statewide education campaign on disaster preparedness and safety in high-risk areas and for local grants; and
- California Disaster Assistance Act (CDAA) — $20 million in one-time funding to repair or replace public real property damaged or destroyed by a disaster, and to reimburse local government for unspecified emergency activities in response to a state of emergency. Total CDAA funding is proposed to be $82.6 million in 2019-20.

**Additional Proposals**

- Public Safety Radios — Updates to radio systems used by first responders who often operate on different systems and relay messages through dispatchers:
  o $59.9 million over five years for a new California Interoperable Public Safety Radio System for Cal OES;
  o $2.9 million to the Department of Justice to replace radios;
  o $1.6 million to the Department of Fish and Wildlife to replace vehicle-mounted and handheld radios; and
  o $62.4 million to the California Highway Patrol (CHP) to replace radio systems in vehicles, $18 million to replace laptops and hand-held citation devices, and $9.5 million to replace information technology infrastructure.
Implement Wildfire Prevention and Recovery Legislation (SB 901, Dodd, 2018)—$20.5 million for the following purposes:
  - $9.2 million to the California Public Utilities Commission for wildfire cost recovery proceedings, wildfire mitigation plans, and oversight of utility compliance;
  - $7.9 million to the State Water Resources Control Board (SWRCB) and Department of Fish and Wildlife to review timber harvest plan exemptions and inspections, permits, and enforcement to improve forest health and vegetation management; and
  - $3.4 million from the Greenhouse Gas Reduction Fund to the Air Resources Board for air quality and smoke monitoring and modeling, as well as air district public education efforts on prescribed burns and other fuel reduction activities (see additional allocations in Cap and Trade section).

Related Activities and Executive Orders

The Governor also signed two executive orders earlier this week, the second and third of his short tenure.

- **Executive Order N-05-19** requires CAL FIRE, in coordination with other state agencies, to report to the Governor within 45 days with recommendations to prevent and mitigate wildfires, including deploying personnel and resources, policy changes for rapid fuels management, and a methodology to assess at-risk communities. When determining which communities are at greatest risk, this executive order requires CAL FIRE to consult with local stakeholders and to consider "socioeconomic factors and vulnerable populations that exacerbate the human toll of wildfires." Further, the executive order announces the new $50 million public education campaign described in the Cal OES section above; and
- **Executive Order N-04-19** requires the state to develop a new approach to procurement with the goal of deploying new innovative solutions to the state’s wildfire crisis by spring 2020. This executive order is intended to speed up the use of new technology for fire detection by the next fire season.

Earlier this week, the Governor signed a joint letter to President Trump, along with Washington Gov. Jay Inslee and Oregon Gov. Kate Brown, requesting partnership between state and federal governments on forest management.

Environmental Quality

Cap-and-Trade

Over the life of the Cap-and-Trade program, approximately $9.3 billion of revenues have been appropriated to numerous programs. This budget proposes a $956 million expenditure plan, which the Governor noted is approximately $400 million less than the previous fiscal year. The expenditure plan is outlined in the figure below.
Drinking Water

Because many of the small water systems in the state are unable to supply clean drinking water, the Governor proposes the following allocations for safe drinking water projects:

- **Safe Drinking Water Projects** — $168.5 million in Prop. 68 funds for SWRCB for technical assistance, grants and loans to public water systems in disadvantaged communities for infrastructure improvements to meet safe and affordable drinking water standards, including drinking water and wastewater treatment projects;

- **Emergency Water Supplies** — $10 million General Fund for SWRCB to address safe drinking water emergencies in disadvantaged communities, including interim alternate water supplies (bottled or hauled water) and emergency improvements or repairs to existing water systems, such as well rehabilitation or replacement, extension of service, consolidation projects, or treatment systems;

- **Technical Assistance** — $10 million General Fund for SWRCB to contract with, or provide grants to, provide services to a designated water system to achieve compliance with current drinking water standards. Technical assistance could also include the development of a community-based needs assessment and preparation of grant applications for capital projects; and

- **Safe and Affordable Drinking Water Fund** — Establish a new special fund, with a dedicated funding source from new water, fertilizer and dairy fees, to enable SWRCB to
provide communities, especially disadvantaged communities, access to safe and affordable drinking water. This proposal is consistent with SB 623 (Monning, 2017), which failed to pass the Legislature. Proposed funding of $4.9 million General Fund on a one-time basis for SWRCB and the Department of Food and Agriculture to begin implementation, including for fee collection systems, an annual implementation plan and a map of high-risk aquifers used as drinking water sources.

Additional Allocations

- Exide Lead Acid Battery Facility — $50 million is allocated on a one-time basis to accelerate cleanup of properties within a 1.7 mile radius of the Exide lead acid battery facility that operated in Vernon.

Community Services

The Governor proposed major new investments to provide support for children and families from cradle to career. Among his proposals are universal preschool for low-income four year olds, trauma screenings for children enrolled in Medi-Cal and additional measures to address poverty.

Child Care and Early Learning

$1.2 billion is proposed to increase child care and early education provider rates and increase the number of children served. Major proposals include:

- Universal Full-Day Kindergarten — $750 million General Fund to eligible school districts to construct or retrofit facilities and reduce barriers to providing full-day kindergarten;
- Universal Preschool — $124.9 million General Fund (with additional funding expected for the next two fiscal years) to fund 200,000 slots by 2021-22;
- Subsidized Child Care — $500 million in one-time General Fund to expand subsidized child care facilities and provide education to the child care workforce; and
- CalWORKs — $347.6 million to increase grants by 13.1 percent effective Oct. 1, 2019 to 50 percent of the federal poverty level. The maximum grant level for an assistance unit of three would increase from $785 to $888 per month.

Working Families Tax Credit

The Governor proposes to rename California’s version of the Earned Income Tax Credit the Working Families Tax Credit and double the size to $1 billion. It is proposed to provide a $500 tax credit for low-income families with children under the age of six, and expand to 400,000 additional full-time workers who earn $15 per hour. Funding for this tax credit is proposed to come from a “revenue neutral tax conformity package that will bring components of the state’s tax policies in line with the new federal law and remove burdens for small businesses.”

Child Savings Accounts

$50 million is proposed to establish new child savings account pilot projects funded by a one-time General Fund appropriation. The funding would support pilot projects to develop model
programs and partnerships with First 5 California, local First 5 Commissions, local government and philanthropy. Eligible uses of the accounts would be for college or vocational school tuition, room and board, books, supplies and equipment and mandatory fees.

**California Arts Council**

$10 million is allocated to the California Arts Council to expand grant programs for public access to the arts, arts education and cultural infrastructure. The budget also anticipates matching funds.

**Public Safety**

The budget provides and augments funding for several programs of interest to local agencies:

- $14.9 million General Fund to restore Commission on Peace Officer and Standards and Training to its historical budget level prior to the decline in fine and fee revenues;
- $20 million General Fund to make permanent a one-time augmentation included in the 2018 Budget Act for training on use of force and de-escalation and engaging with individuals experiencing a mental health crisis;
- $10 million ongoing General Fund for Cal OES to continue funding for the Human Trafficking Victim Assistance Program;
- $4.2 million General Fund to establish two regional task forces within the Department of Justice (DOJ) to address the statewide human trafficking epidemic by focusing on the worst sexual predators who are involved in human trafficking;
- $5.8 million in General Fund dollars on a limited-term basis for CHP to coordinate with DOJ in the creation of regional task forces aimed at reducing organized retail theft activities;
- $16.9 million for the administration of the Armed Prohibited Persons System (APPS), including:
  - $11.3 million to shift the existing APPS program from the Dealers’ Record of Sale Account to the General Fund; and
  - $5.6 million in General Fund to support increased APPS workload.
- $6.9 million to the Bureau of Firearms for Dealers’ Record of Sale Account to address increasing workload related to firearm sales.

**Corrections Realignment**

The Department of Finance estimates net General Fund savings of $78.5 million from Prop. 47 when comparing 2018-19 to 2013-14, an increase of $13.8 million over the estimated savings in 2017-18. The following amounts are provided for county realignment programs:

- $116.4 million to continue incentivizing counties to reduce the number of felony probationers sent to state prison; and
- $11.8 million for county probation departments to supervise the temporary increase in the average daily population of offenders on Post-Release Community Supervision.

**California Penal Code Review**

The California Penal Code has dramatically increased in size from about 234,000 words in 1965 to 1.2 million words in 2018. The budget includes $576,000 to begin an effort under the
California Law Revision Commission to simplify and rationalize criminal law and criminal procedures included in the Penal Code.

**Department of Corrections and Rehabilitation (CDCR)**

The budget proposes total funding of $12.6 billion ($12.3 billion in General Fund and $303 million in other funds) for CDCR in 2019-20. While the average daily adult inmate population for 2018-19 is now projected to increase from 126,890 to 128,334 (a 1.1 percent increase from Spring 2018 projections), current projections show a year-over-year downward trend by approximately 1,360 offenders between 2018-19 and 2019-20. Prop. 57, the Public Safety and Rehabilitation Act of 2016, is currently estimated to reduce the average daily adult inmate population by approximately 6,300 in 2019-20, growing to an inmate reduction of approximately 10,500 in 2021-22.

**Rehabilitation & Reentry**

$475.3 million General Fund is allocated to the Division of Rehabilitative Programs, and includes:
- $5.5 million for a package of programs specifically aimed at improving literacy rates among the offender population, including:
  - Diagnostic remedial reading program;
  - Computer-based learning;
  - English as a Second Language;
  - Teacher mentor program;
  - Literacy Coaches; and
  - Literacy Mentor Program.
- $2.5 million for an expanded tattoo removal program for the adult offender population. Based on the existing Prison Industry Authority program model, this funding could allow tattoos to be removed from approximately 4,400 additional offenders per year.

**Inmate Medical Care and Mental Health Services**

The budget dedicates $3.3 billion in General Fund to health care services programs, which provide access to mental health, medical and dental care for inmates.

**Juvenile Justice**

The Division of Juvenile Justice is projected to have a population of 759 young offenders in 2019-20 and focuses on providing rehabilitative programming designed for young offenders. The budget proposes to move youth correctional facilities from CDCR to a new department within the Health and Human Services Agency. $2 million is included in the budget to provide matching funds for a California Volunteers/AmeriCorps federal grant, which will support 40 half-time AmeriCorps members in organizations assisting youth released from the Division of Juvenile Justice.

**Statewide Issues and Various Departments**

**California Public Employee Retirement System (CalPERS) and Retiree Healthcare (OPEB)**
The state’s total unfunded CalPERS liability is $58.7 billion of an approximant $153 billion unfunded liability. The Governor’s budget proposal includes:

- $3 billion in additional payments to CalPERS, in addition to the minimum required contribution of $6.8 billion ($3.9 billion General Fund) required by statute. Unlike the $6 billion supplemental payment approved in FY 2017-18 (which by in large was a loan from the state’s Surplus Money Investment Fund), this $3 billion allocation is directly from the state’s General Fund — making it the largest direct pre-payment in California history. This payment is projected to save the state approximately $7.2 billion over 30 years.
- $390 million in Prop. 2 debt funding is proposed to pay down the General Fund’s share of the aforementioned FY 2017-18 $6 billion supplemental payment; and
- $2.3 billion for state retiree healthcare benefits representing a 1.7 percent of the total General Fund.

**Proposed Paid Family Leave Expansion and Taskforce**

Although no specific plan or proposed funding is allocated, the Administration announced its intention to expanding the Paid Family Leave Program from three months to six months.

The existing program allows workers to take up to six weeks of paid leave annually to care for a seriously ill family member or to bond with a newborn or newly adopted child, with wage replacement of up to 70 percent of salary based on income level. Each parent may take up to six weeks of paid family leave and, under California’s Disability Insurance Program, a birth mother may take an additional six weeks of leave to recover from childbirth.

A taskforce will be convened to consider different options to phase-in and expand the program to accommodate single parent households by allowing a close relative to be designated. The Administration will also consider changes as needed to expand existing worker protections and non-retaliation protections to incentivize workers to access these benefits.

**2020 Census**

The Administration is proposing an additional $50 million for census activities bringing the total to $140.3 million. A majority of this allocation will be distributed to counties who have the highest hard-to-count population, minority population outreach, public private partnerships and the creation of complete count committees across the state.

The 2020 Census is critical to California. Data collected is directly linked to representation in the U.S. House of Representatives as well federal dollars received for a wide array of state and local programs. Furthermore, California has the highest amount of hard-to-count population. Additionally, the budget includes $4 million for the California Housing and Population Sample Enumeration — a statewide survey that will identify barriers to a complete count and identify successful approaches in an effort to develop recommendations for the 2030 Census.

**Office of Digital Innovation**
The Governor announced the creation of the Office of Digital Innovation, which would be housed under the Government Operations Agency. The agency will have the authority to develop and enforce requirements for state departments to assess their service delivery models and underlying business processes. Initial start-up costs are projected at $36.2 million ($33.7 million General Fund) with $14.6 million ($9.6 million General Fund) in ongoing costs.

Next Steps

Following the release of the Governor’s budget, an analysis by the Legislative Analyst’s Office is expected shortly. The League will continue to examine the details of this budget proposal and provide additional information to cities as warranted.
March 12, 2019

To: Members of the Assembly

From: Dan Carrigg, Deputy Executive Director, Legislative Director

Re: AB 147 (Burke) Sales and Use Tax Collection
Notice of Support

The League of California Cities supports AB 147 (Burke), which proposes several changes to California law to implement the recent US Supreme Court holding of *South Dakota v. Wayfair, Inc.*, (2018).

AB 147 represents a measured approach to California’s implementation of the *Wayfair* decision, which addressed a longstanding problem associated with the rapid growth of online sales. Previous Court decisions were based on antiquated catalogue sales disputes that pre-dated the Internet and required retailers to have a physical nexus with each state prior to imposing an obligation on an out-of-state retailer to collect and remit applicable sales and use taxes from customers for remote sales.

In late December, the California Department of Tax and Fee Administration (CDTFA) issued an implementation memo to retailers. A major concern for cities was how the law would be interpreted on the collection of local transaction and use taxes. Should this issue be left unaddressed, the state, local agencies and retailers would face nightmarish complexities attempting to track and audit compliance for hundreds of district taxes. Moreover, tens of millions of local revenue would remain uncollected.

AB 147 will smooth the implementation of *Wayfair* and address issues identified by CDTFA:

1) Moving to a $500,000 across-the-board threshold makes the law easier to implement for retailers, and avoids some of the disputes about compliance impacts on “mom and pop” retailers associated with the South Dakota’s $100k/200-item threshold. While the $500k threshold is higher than the $100k/200 standard, the revenue losses are consider minor.

2) Requiring large retailers who sell items for third parties closes a major tax collection loophole.

3) Clarifying that local district taxes must be collected by any retailer meeting the $500k threshold avoids a nightmare of confusion for both retailers, CDTFA and local government and ensure collection of tens of millions in local revenue.

For these reasons the League supports AB 147. The League respectfully urges your “AYE” vote. Should you have any questions about the League’s position, please contact me at (916) 658-8222.
Assembly Floor Analysis

ASSEMBLY THIRD READING
AB 147 (Burke)
As Amended March 11, 2019
2/3 vote. Urgency

SUMMARY:
Modernizes California law consistent with the United States Supreme Court holding in *Wayfair*, which allows this state to impose a use tax collection duty on remote retailers with specified levels of economic activity in California, even though they do not have a physical presence here.

Major Provisions
1) Amends Revenue and Taxation Code (R&TC) Section 6203, which specifies those retailers obligated to collect and remit use tax by virtue of being a "retailer engaged in business in this state." These amendments:
   a) Add explicit "economic nexus" provisions authorized by the United States (U.S.) Supreme Court's decision in *South Dakota v. Wayfair, Inc.*, (2018) 585 U.S. . Specifically, beginning April 1, 2019, a "retailer engaged in business in this state" shall include any retailer that, in the preceding calendar year or the current calendar year, has a cumulative sales price from the sale of tangible personal property (TPP) for delivery in California that exceeds $500,000; and,
   b) Delete two retailer categories rendered obsolete by the addition of the "economic nexus" category described above.

2) Amends the Transactions and Use Tax (TUT) Law. Specifically, these amendments require any TUT ordinance adopted to have provisions defining "a retailer engaged in business in the district" to include any retailer that, in the preceding calendar year or the current calendar year, has a total cumulative sales price from the sale of TPP for delivery in this state that exceeds $500,000. Any such provision shall become operative on April 1, 2019.

3) Enacts the Marketplace Facilitator Act, which becomes operative on October 1, 2019.

4) Provides that a marketplace facilitator that is registered with the California Department of Tax and Fee Administration (CDTFA) or required to register and that facilitates a retail sale of TPP by a marketplace seller is the retailer selling or making the sale of the TPP sold through its marketplace for purposes of the Sales and Use Tax (SUT) Law.

5) Provides marketplace facilitators with various forms of relief in recognition of their new tax collection and remittance obligations.

6) Specifies that the amendments made to R&TC Section 6203 and the TUT Law shall not have any retroactive effect.

7) Takes immediate effect as an urgency measure.

COMMENTS:
This bill is designed to modernize California law consistent with the holding in *Wayfair*, which allows California to impose a use tax collection duty on retailers with specified levels of economic activity.
economic activity in California, even though they do not have a physical presence here. This bill also seeks to ensure that small businesses are not unduly burdened by the default expansion of the duty to collect use tax resulting from Wayfair's interaction with California's long-arm statute. Finally, this bill recognizes the realities of today's e-commerce economy by requiring marketplace facilitators (e.g., Amazon and eBay) to collect SUT on behalf of their third-party retailers. For those remote retailers that sell to California consumers exclusively through these platforms, this provision will alleviate the need to collect and remit SUT on their facilitated sales

According to the Author:
This bill establishes a comprehensive set of post-Wayfair use tax collection rules to promote marketplace fairness while balancing the needs of consumers, small businesses, local governments, and the state. It is long past time to bring California's use tax regime into the 21st century. It is also imperative that we provide meaningful relief to small retailers who, without this legislation, would be forced to register with CDTFA and collect taxes on their minimal sales into California. This bill reflects a thoughtful and balanced approach that seeks to close the use tax gap while recognizing that small businesses play a vital role in the economy.

Arguments in Support:
AB 147 establishes a comprehensive and more equitable set of post-Wayfair tax collection rules that make sense for consumers, small businesses, and the state.

Arguments in Opposition:
No opposition

FISCAL COMMENTS:
CDTFA estimates that this bill's marketplace facilitator provisions will result in state and local revenue gains of $309 million in Fiscal Year (FY) 2019-20 and $476 million in FY 2020-21. CDTFA estimates that this bill's threshold increase provisions will result in state and local revenue losses of $12 million in FY 2019-20 and $14 million in FY 2020-21.

VOTES:
ASM REVENUE AND TAXATION: 11-0-0
YES: Burke, Brough, Chu, Bloom, Mayes, Melendez, Mullin, Petrie-Norris, Quirk, Luz Rivas, Ting

ASM APPROPRIATIONS: 11-0-7
YES: Gonzalez, Bigelow, Bloom, Carrillo, Chau, Diep, Gabriel, Obermolte, Petrie-Norris, Quirk, Robert Rivas
ABS, ABST OR NV: Bonta, Brough, Calderon, Eggman, Fong, Eduardo Garcia, Maienschein

UPDATED:
VERSION: March 11, 2019
CONSULTANT: M. David Ruff / REV. & TAX. / (916) 319-2098 FN: 0000050
AB 531 (Glazer) Limiting Future Sales Tax Agreements

Senator Steve Glazer has introduced SB 531, a spot bill that states the following:

“It is the intent of the Legislature to enact legislation that would prohibit a local government from agreeing to offer economic incentives in an amount measured by local sales tax revenue to a private corporation in exchange for the corporation locating within the local government’s jurisdiction.”

Background: According to the author’s office, the intent of this legislation is to implement one of the recommendations of the League’s City Manager Sales Tax Working Group, that have been adopted by both the League’s Revenue and Taxation Committee and League Board:

Below is League policy (with the respective footnotes from our document):

- Further Limiting Rebate Agreements: The consensus of the Group was that:
  - Sales tax rebate agreements involving online retailers should be prohibited going forward. They are inappropriate because they have the effect of encouraging revenue to be shifted away from numerous communities and concentrated to the benefit of one.[1]
  - Any type of agreement that seeks to lure a retailer from one community to another within a market area should also be prohibited going forward. Existing law already prohibits such agreements for auto dealers and big box stores.[2]

Amend Section 53084.5 of the Government Code (that contains existing prohibitions on rebates of Bradley Burns sales taxes) to specifically prohibit: Future sales tax rebate agreements between local agencies and retailers involving any sales tax revenue from the sale of products that are ordered either online or by another means and delivered to purchasers in the territorial jurisdiction of another city or county.[1]

[1] Amend 53084 of the Government Code to prohibit agreements that involve the relocation of any retailer. (Section 53084 of the Government Code already prohibits the use of “any form of financial assistance” to a vehicle dealer (within 40 miles) and big box retailer (within 25 miles) which closes one location then open another within one year in a market area.

Next Steps: League staff will update the Committee on the status of this bill at the committee meeting. The Senator’s staff has requested Legislative Counsel to draft amendments to Section 53084.5 of the Government Code to reflect the League’s policy recommendation. League staff will review the draft to ensure that it matches League adopted policy. If it does, the League will support it.

[1] Amend Section 53084.5, of the Government Code (that contains existing prohibitions on rebates of Bradley Burns sales taxes) to specifically prohibit: Future sales tax rebate agreements between local agencies and retailers involving any sales tax revenue from the sale of products that are ordered either online or by another means and delivered to purchasers in the territorial jurisdiction of another city or county.[1]

[2] Amend 53084 of the Government Code to prohibit agreements that involve the relocation of any retailer. (Section 53084 of the Government Code already prohibits the use of “any form of financial assistance” to a vehicle dealer (within 40 miles) and big box retailer (within 25 miles) which closes one location then open another within one year in a market area.
Key Elements

- $200 million initially, ramps up to $2 billion annually by 2029. New allocations can be suspended when the Legislature uses the “Raining Day Fund” or suspends Prop. 98 school funding guarantee.
- Strong priorities for affordable housing.
- 30-year cap on annual funding allocations to support a plan. Anti-tenant displacement provisions.
- Opt-in: No taxing entities are forced to participate.
- Schools will be made whole. No impact to Prop 98.
- 12% rural city/county set aside for counties of less than 200K.
- Prevailing wage and skilled and trained workforce requirements.
- Strong state oversight.

Overview:

- The Program creates a state investment program support the development of affordable housing, reduce poverty and advance other state priorities financed, in part, by property tax increment. A city, county, or JPA, that has a financial commitment to a plan, is eligible for a portion of the school share of property tax if the plan that includes affordable housing. Eligible uses include:
  - Housing development plans that propose construction of affordable housing for households up to 120% area median income. At least 50 percent of program funds, and 50% of funding for each project funded shall be dedicated to affordable housing. A 30% inclusionary requirement applies for housing units constructed pursuant to the plan.
  - Transit-oriented development in priority locations that maximize density and transit use, and contribute to the reduction of vehicle miles traveled and greenhouse gas emissions.
  - Infill development and equity by rehabilitating, maintaining and improving existing infrastructure that supports infill development and appropriate reuse and redevelopment of previously developed, underutilized land that is presently served by transit, street, water, sewer, and other essential services, particularly in underserved areas, and to preserving cultural and historic resources.
  - Promoting strong neighborhoods through supporting of local community planning and engagement efforts to revitalize and restore neighborhoods, including repairing infrastructure and parks, rehabilitatting and building housing, promoting public-private partnerships, supporting small businesses and job growth for affected residents.
  - Protecting communities dealing with the effects of seal level rise.
  - Acquisition, construction or rehabilitation of land or property to support eligible uses.

State Oversight:

- Creates the Affordable Housing and Community Development Investment Committee which shall be comprised of the following:
  - The Chair of the Strategic Growth Council.
  - The Chair of the State Infrastructure and Economic Development Bank.
  - The Chair of California Workforce Investment Board.
  - Director of the California Housing and Community Development Department.
  - Two people appointed by the Speaker of the Assembly.
  - Two people appointed by the Senate Rules Committee.
  - One public member appointed by the Joint Legislative Budget Committee with expertise in education finance.
- The Committee shall review and approve or disapprove proposed projects. The Department of Housing and Community Development provides staffing and technical support to the committee.
- Each applicant that has received financing pursuant to the program for any fiscal year shall provide a report to the Committee. The Committee shall also provide an annual report to the Joint Legislative Budget Committee.

Pros:

- Up to $2 billion state investment in affordable housing and infrastructure; 50% of the funds are required to be spent on affordable housing; relies on post redevelopment tools; allows wide-range of agency participation.

Cons:

- Less flexibility than redevelopment agencies; less resources available for economic development.
Key Elements

• Annual unspecified state commitment: At the discretion of the State Controller.
• Opt-in: No taxing entities are forced to participate.
• Schools will be made whole. No impact to Prop 98.
• Creates an economic development tool with similar powers as the old redevelopment agencies.
• Extensive upfront planning and costs required before a city or county can form an agency and receive project funding from the state.

Overview:

• AB 11 allows a city or county, or two or more cities acting jointly, to form an Affordable Housing and Infrastructure Agency to fund projects such as infrastructure and affordable housing projects. 30% of tax increment must be deposited into low/moderate income housing fund. This bill includes enforcement provisions/fines regarding failure to timely use money for housing. The new agency can use an affected taxing entity's share of the property tax (special district etc.) if the affected taxing entity consents.

The Board of an Agency:

• One member appointed by the legislative body or the legislative bodies that adopted the resolution of intention.
• One member appointed by each affected taxing entity.
• Two public members, appointed by the board. These members cannot be an elected official or employee of any affected taxing entity.

Affordable Housing and Infrastructure Agencies must:

• Create a resolution of intention, which includes a preliminary project plan along with an extensive amount of other required actions and analysis before the Strategic Growth Council (SGC) may approve agency formation.
• An agency may not be formed if it will result in a negative state fiscal impact, to be determined by the State Controller, and must promote statewide greenhouse gas reduction goals.
• The SCG shall ensure that the projects proposed in the resolution of intention equitably represent rural, suburban, and urban communities, and that establishing the agency would not result in an inequitable geographic distribution of agencies throughout the state.
• Maintain detailed records of every action taken by that agency for a specified period of time.
• Submit an annual report and a final report of any audit undertaken by any other local, state, or federal government entity, to its governing body and to the State Controller and the Department of Housing and Community Development.
• Contract for an independent financial and performance audit every 2 years after the issuance of debt.
• Report the total number of housing units the agency assisted in creating or maintained.

Pros:

• Opt-in program that allows the state to reinvest in affordable housing and infrastructure; brings back a significant amount of flexibility, similar to redevelopment agencies; 30% of the funds must be spent on affordable housing.

Cons:

• Extensive upfront planning and analysis prior to agency approval and state funds being awarded; allows affected taxing entities that do not contribute property tax to have a seat on the governing board and oversee the creation of the redevelopment project plan; unspecified amount of state funding available to cities.
IN BRIEF

SCA 3 modifies the property tax inheritance exclusion law by requiring the child/grandchild that inherits the property to actually live in it as their primary residence in order to receive the property tax exclusion. **If one chooses to rent out the property – it would be reassessed to market value.**

THE PROBLEM

In general, when a property is transferred to a new owner, its assessed value is reset to its purchase price. The Legislature and voters, however, have created special rules for inherited properties that essentially allow children or grandchildren to inherit their parents or grandparents lower taxable property value. In 1986, voters approved Proposition 58 – a legislative constitutional amendment – which excludes certain property transfers between parents and children from reassessment. A decade later, Proposition 193 extended this exclusion to transfers between grandparents and grandchildren if the grandchildren’s parents are deceased. These exclusions apply to all inherited primary residences, regardless of value or income of the beneficiaries. They also apply to up to $1 million in aggregate value of all other types of inherited property, such as second homes or business properties.

The decision to create an inherited property exclusion has been consequential. According to a Legislative Analyst Office report in October of 2017 – “Hundreds of thousands of families have received tax relief under these rules. As a result, local government property tax collections have been reduced by a few billion dollars per year.”

Additionally, allowing children to inherit their parents’ lower property tax bill has exacerbated inequalities among owners of similar properties. It also has encouraged the conversion of many homes from owner-occupied primary residences to rentals.

BACKGROUND

Many Californians have benefited from these inheritance rules. There have been an estimated 650,000 inherited properties in CA in the past decade alone. Each year, between 60,000 and 80,000 inherited properties statewide are exempted from reassessment. This is around 1/10 of all properties transferred each year. Over the past decade, around 650,000 properties roughly 5% of all properties in CA – have passed between parents and their children without reassessment. The vast majority of these properties are single-family homes.

Many inherited properties have been owned for decades. Because of this, the tax break provided to children by allowing them to avoid reassessment often is large. For example, a typical home inherited in Los Angeles County during the past decade had been owned by the parents for nearly 30 years. For a home owned this long the inheritance exclusion reduces the child’s property tax bill by $3,000 to $4,000 per year.

The widespread use of the inheritance exclusion has a notable effect on property tax revenues. The LAO estimates that in 2015-16 parent-to-child exclusions reduced statewide property tax revenues by around $1.5 billion from what they would be in the absence of the exclusion. This is about 2.5% of total statewide property tax revenues.

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**Revenue.** This share is higher in some counties, such as Mendocino (9%), San Luis Obispo (7%), El Dorado (6%), Sonoma (6%), and Santa Barbara (5%).

It is likely the fiscal effect of this exclusion will only continue to grow in future years as California’s homeowners continue to age and the use of the inheritance exclusion increases.

Reports have demonstrated that in many municipalities there is significant variation among similar homeowners. In the Bay Area for example, properties worth $650,000 to $750,000 – property tax payments range from $2,000 to over $8,000 annually.

California is the only state to provide this tax break, which was designed to protect families from sharp tax increases on the death of a loved one. Without it, proponents argued at the time it passed, adult children could have faced potentially huge bills, making it financially prohibitive to live in their family homes. ²

The LAO notes that there is no comprehensive data on how many of these inherited homes are being used for rental incomes, but when they looked at property-level data from Los Angeles County, around 60% of the inherited homes were not claiming the homeowner’s property tax exemption—a tax break available on primary residences which is claimed by most homeowners – thus suggesting that the majority of inherited homes may be used as rentals and not the child/grandchild’s primary residence.

**THE SOLUTION**

SCA 3 would modify the property tax inheritance exclusion law (prospectively). If a child/grandchild inherits a property and wants to keep their parents'/grandparents’ assessed value for property taxes they would have to live in the home as their primary residence within 12 months of inheriting the property. This additional 12 months allows the child/grandchild to make arrangements and decide if they want to move into the home. If they decide to rent out the home it would be reassessed to market rate and the property taxes would be adjusted accordingly.

Proposition 58 (1986) was designed to keep a home in the family and allow children to benefit from the assessed value when parents die and not be immediately faced with an exorbitant property tax increase. However, local governments should not have to bear the brunt of this exclusion when those that inherit properties are renting them out for income. Those that benefit from a rental income from a property they inherited should have to pay their fair share of property taxes. Local police, fire, libraries, parks etc. are already financially struggling across the state and shouldn’t suffer unnecessarily more because of this inheritance exclusion law.

**SUPPORT**

FOR MORE INFORMATION

Meegen Murray – 651-4013 / Meegen.Murray@sen.ca.gov

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1. **SB 598 (Moorlach) Open Financial Statements and iXBRL**

**Bill Summary:**
Proposes a commission to develop materials and software that support the objective of requiring all state and local public agency financial reports and filings to be produced using iXBRL (inline eXtensible Business Reporting Language) to ensure these documents are machine readable, enable software to extract data, and are capable of creating reports to evaluate, compare and forecast.

**Bill Description:**
Establishes a state commission empowered to contract with vendors to build one or more iXBRL (inline eXtensible Business Reporting Language) taxonomies suitable for public agency financial filings, and creates an open-source software tool that enables a public agency to easily create iXBRL documents.

Dissolves the Commission and this requirement if the Commission fails to adopt a prototype iXBRL software and filing system for implementation by an undefined date.

Requires state and local public agencies to submit all required financial reporting documents in iXBRL format on and after an undefined date, should the Commission develop the software and filing system.

**Background:**
According to background information supplied by the author’s office, the intent of this measure is to change the format in which California public agencies develop and submit their Comprehensive Annual Financial Reports (CAFR) to the State Controller from current PDF (portable document format) to iXBRL (inline eXtensible Business Reporting Language) with the objective of ensuring these documents are machine readable through a web browser.

The author maintains that over 1,500 public entities prepare independently audited financial statements in PDF formats and submit them to the Controller, producing data that is difficult to extract and analyze. Advantages of preparing these documents in an iXBRL format include:
- Eliminating the need for local agencies to submit both a single audit reporting package and a financial transactions report to the Controller. A single iXBRL report would reduce workload and reduce the risk of the Controller receiving inconsistent data.
- Easing the identification of financially distressed local governments.
- Increasing liquidity in municipal bond markets.

Additional information provided by the author, including articles drafted by the Reason Foundation, reveals:
- On June 18, 2018, the Securities and Exchange Commission mandated the use of iXBRL for operating company financial statements and fund risk/return summary information.
• Local governments in Spain, Italy and Brazil currently are required to prepare their financial reporting documents in iXBRL formats.
• Florida recently approved HB 1073 in 2018 that includes a provision requiring Florida’s Chief Financial Officer to create a local government XBLR taxonomy with the goal of applying to all local government financial statements beginning in 2022.

**Fiscal Impact:**
The legislation anticipates a legislative appropriation (undefined amount) to support the work of the Commission. The bill also contains a state mandates disclaimer regarding potential future costs to local governments to conform to this new requirement.

There will be costs on local governments to comply with these new requirements including training staff, potentially purchasing updated equipment and hiring outside consultants.

**Existing League Policy:**
Potentially relevant League Revenue and Taxation policies include:

**Cities and the League**

**Preamble**
Inherent in these recommendations is the underlying principle that meaningful fiscal reform should allow each level of government to adequately finance its service responsibilities, with each being accountable to taxpayers for its own programs.

**Efficiency**
Cities and the League should continue to emphasize efficiency and effectiveness, encouraging and assisting cities to achieve the best possible use of city resources.

**Authority and Accountability**
Cities must locally achieve political authority and accountability for revenues raised and services provided. For accountability, revenues should be logically linked to traditional and emerging responsibilities. Cities must effectively communicate the good news about city programs and operations, as well as information concerning financial conditions and city responsibilities.

**State Mandates**
The state must provide full and prompt reimbursement to all local agencies for all state-mandated programs and/or infractions and losses associated with local revenue shifts.

Local agencies must be authorized to petition the Commission on State Mandates immediately after legislation is chaptered for determination of eligibility for reimbursement, and reserve the right to directly pursue court intervention without an administrative appeals process.

Reforms are needed in the mandate approval and reimbursement process.
The State should be prohibited from deferring mandate payments.

Unless specifically requested by a city, no new duties, responsibilities or obligations should be assigned to a city or cities under state realignment.

**Transparency** *(From Governance, Transparency and Labor Relations Jurisdiction)*

Public trust and confidence in government is essential to the vitality of a democratic system and is the reason ethics laws hold public officials to high standards.

Laws alone cannot foresee or prevent all actions that might diminish the public’s trust in governmental institutions. Transparency laws impose the minimum standards of conduct; to preserve public trust, public officials should aspire to conduct that exceeds minimum standards.

State revisions to laws governing local agency transparency and ethics should address material and documented inadequacies in those laws and have a reasonable relationship to resolving those problems.

In order to encourage and facilitate compliance with new transparency and ethics requirements, State laws should be internally consistent, avoid redundancy and be mindful of the practical challenges associated with implementation.

State officials and agencies should aspire to conform to the same level of transparency and ethical behavior as is imposed on local officials and agencies.

**Comments:**

1. The author’s objective of making state and local financial reports easier for the public, financial analysts, and others to scan, digest, compare and analyze is consistent with the League’s existing policies supporting public transparency. The challenge, however, will be developing a better understanding of the proposed iXBLR technology and resolving cost and timing issues.

2. This information already is widely available. Information from local financial reports are publically available via the State Controller’s Office, the California Debt and Investment Advisory Commission, and the Municipal Securities Rulemaking Board.

3. Several comprehensive articles submitted by the author as part of background materials supporting the conversion of public financial documents to iXBLR were drafted by the Reason Foundation. This foundation is a conservative non-profit think tank that produces a monthly magazine and produces investigative documentaries and other publications. While PDF documents can pose challenges for those that seek to use computer software to compare and analyze financial data, this data is already widely available. Clearly, a shift to machine readable state and local financial documents could facilitate the research efforts
of this foundation, universities, the press and other research organizations and individuals. It could also spur the development of commercial computer applications for various purposes.

4. The author maintains there can be some time and cost savings for local agencies associated with producing one iXBLR document. Such cost savings, however, would likely be marginal compared to costs associated with converting to a new reporting format. Additional local agency staffing costs could increase as more entities and individuals sift through data, perhaps triggering a greater volume of Public Records Act requests and dedicated staff time responding to assertions and conclusions by those attempting to interpret financial data.

5. Another state is already exploring the use of this technology. Florida passed a bill in 2018 that launched a similar effort to implement this requirement for local agencies by 2022. Rather than having California spend the extensive time and cost in a parallel effort, it may make more sense to let Florida first work through the issues.

Support-Opposition: (as of 03/21/201):
None Listed.

Staff Recommendation:
Discussion. There are a variety of issues to work through with this proposal, and some committee members may be as unfamiliar with the iXBLR format as League staff.
1. What do the committee members think of the concept of ultimately migrating state and local financial documents from PDF to machine readable formats? Given changes in technology, does this seem the likely direction?
2. Has anyone had experience with iXBLR?
3. What concerns do committee members have?
4. What are the suggested next steps?

Committee Recommendation:

2. **AB 485** (Medina) Local Economic Development Subsidies–Warehouses

Bill Summary:
Requires a local agency prior to approving any economic development subsidy for a warehouse distribution center to develop and provide to the public, including on its website, a written comprehensive and detailed analysis associated with the proposed subsidy, and a noticed public hearing on the matter. Should the subsidy be granted, the measure requires an annual, comprehensive and detailed report and a noticed public hearing on the report.

Bill Description:
1. Requires a local agency prior to approving any economic development subsidy (more than $100,000) for a warehouse distribution center to provide to the public, including on its website, a written comprehensive and detailed analysis associated with the proposed subsidy, and a noticed public hearing on the matter.

2. Requires a local agency to submit the above reports annually to the Governor's Office of Business and Economic Development, which shall make each report submitted available to the public and through its internet website.

3. Prohibits a local agency from signing a nondisclosure agreement regarding a warehouse distribution center within its jurisdiction as part of negotiations or in the contract for any economic development subsidy.

4. Requires a warehouse distribution center to provide a local agency any information necessary to comply with this section.

5. Requires the analysis to include:
   - The name and address of all corporations, including members of a commonly controlled group or members of a combined reporting group of which the corporation is a member, or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.
   - The name and address of all warehouse distribution centers that are the beneficiary of the economic development subsidy.
   - The start and end dates and schedule, if applicable, for the economic development subsidy.
   - A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.
   - A statement of the public purposes for the economic development subsidy.
   - The projected tax revenue to the local agency as a result of the economic development subsidy.
   - The estimated number of jobs created by the economic development subsidy, including job classifications and wage rates, broken down by full-time, part-time, and temporary positions.
   - The estimated number of independent contractors, including contract rates, funded by the economic development subsidy.
   - The estimated value of benefit packages, including health benefits, fringe benefits, and defined benefit pensions, for each job classification created by the economic development subsidy.
   - The estimated number of jobs for “disadvantaged workers” created by the economic development subsidy. “Disadvantaged workers” are defined as:
     - Unemployed for more than six month, but graduates with specified advanced degrees must have graduated more than 12 months prior.
     - Veteran separated from armed forces within prior 12 months.
     - Recipient of federal earned income tax credit in previous taxable year.
o Ex-felony offender.
o Cal-Works or General Assistance recipient.

- And; following regarding each warehouse distribution center that is the beneficiary of the economic development subsidy:
  o A description of the outreach, training, and hiring plans, including plans to hire disadvantaged workers.
o A description and total value of any state or federal subsidies applied for, or received by, the warehouse distribution center.
o A description of any accountability measures, including, but not limited to, clawbacks of subsidies, provided in the contract if the warehouse distribution center does not meet the goal outlined in the contract for subsidies.

Should the subsidy be granted, the measure requires an annual, comprehensive and detailed report and a noticed public hearing on the report. The report shall also contain the following information, if applicable:

- The net tax revenue accruing to the local agency as a result of the economic development subsidy.
- The net number of jobs created by the economic development subsidy, including job classifications and wage rates, broken down by full-time, part-time, and temporary positions.
- The number of independent contractors, including contract rates, funded by the economic development subsidy.
- The total value of benefit packages, including health benefits, fringe benefits, and defined benefit pensions, for each job classification created by the economic development subsidy.
- The net number of jobs for disadvantaged workers created by the economic development subsidy.
- The timeline for replacement of workers with automated systems.
- The amount of space being requested for future planned automation.
- All of the following regarding each warehouse distribution center that is the beneficiary of the economic development subsidy:
  o The amount spent on training, apprenticeship, or other skills development programs for employees.
  o The retention rate of employees broken down by full-time, part-time, and temporary positions, and if the turnover rate of employees exceeds 20 percent.
  o The number of employment arbitration agreements signed by employees and independent contractors, if any.

Background:
This bill is identical to AB 2853 (Medina) from last year that passed the Legislature, but was vetoed by Governor Brown, stating: “There is value in taxpayers knowing whether economic development incentives ultimately benefit their community. That is why I signed legislation in 2013 that required local agencies to provide information about the
expected and actual impacts of approved economic development subsidies. This bill, however, significantly expands current law and goes too far by adding reporting rules that will be overly burdensome to a single industry. It may actually hinder efforts to improve business opportunities in local communities, which is an outcome no one desires.

The law mentioned above by the Governor, was adopted by AB 562 (Williams) of 2013, and requires all local economic development subsidies after January 1, 2014, to have a basic analysis of its impacts and a public hearing prior to approval, followed by a report at five-year intervals. The required analysis must include:

✓ Recipient of the subsidy.
✓ Start and end dates.
✓ Total amount of the subsidy
✓ Statement of the purposes
✓ Projected tax revenue
✓ Estimated number of jobs, by category.

The League had lobbied in opposition to AB 562, and was able to secure changes—including having a five-year instead of an annual report—but still requested a veto, arguing that:

✓ These additional requirements would bog down local economic development efforts post-redevelopment.
✓ State government should refrain from micromanaging what's left of the local economic development process.
✓ The local government decision-making process is already highly-transparent, with many opportunities for public input.
✓ Local elected officials are accountable to their communities for their decisions at the next election, or even by recall.
✓ Adding more bureaucracy to struggling communities is not helpful.

According to the Legislature's Analysis of last year’s AB 2853, this measure is sponsored by the Labor Federation, out of a concern over subsidies being offered to Amazon in an effort to locate facilities in specific locations.

Fiscal Impact:
Governor Brown’s veto message on AB 2853 (above) speaks for itself. The extensive and exhaustive analysis and reporting requirements to be imposed by this measure on an economic subsidy associated with a warehouse distribution center are so onerous that it would eliminate this as an option for local agencies.

Existing League Policy:

Economic Development
(From Housing, Community, and Economic Development)

Job Creation, Retention and Expansion
The League supports legislation that will provide tangible and productive tools and incentives to support job creation and retention in housing-rich, jobs-poor communities, such as the awarding of direct grants to fund the development of infrastructure that results in the creation and retention of jobs; the elimination of matching dollar requirements for economic development and infrastructure state grants; the provision of grant funding for infrastructure planning and design and the creation of economic development strategies; and, allowing cities the maximum flexibility in the use of state funds toward local priorities that support job creation. The League also encourages the state to adopt policies and programs that establish a comprehensive solution to the infrastructure and jobs/housing needs of all communities within the state.

**Reduce Competition**
*(From Revenue and Taxation)*

Restrictions should be implemented and enforced to prohibit the enactment of agreements designed to circumvent the principle of situs-based sales and redirect or divert sales tax revenues from other communities, when the physical location of the affected businesses does not change.

*(From Recently Approved Recommendations of City Manager Working Group):* The consensus of the Group was that:

- Sales tax rebate agreements involving online retailers should be prohibited going forward. They are inappropriate because they have the effect of encouraging revenue to be shifted away from numerous communities and concentrated to the benefit of one.[1]
- Any type of agreement that seeks to lure a retailer from one community to another within a market area should also be prohibited going forward. Existing law already prohibits such agreements for auto dealers and big box stores.[2]

**Comments:**

1. The League has had extensive discussion over recent years involving the changing economy, erosion of brick-and-mortar locations and the rise of warehouse distribution centers. The core concern, however, was over sales tax agreements that were offered as a way to lure a retailer to locate a distribution warehouse—because the money being rebated was the result of sales delivered

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[1] Amend Section 53084.5, of the Government Code (that contains existing prohibitions on rebates of Bradley Burns sales taxes) to specifically prohibit: Future sales tax rebate agreements between local agencies and retailers involving any sales tax revenue from the sale of products that are ordered either online or by another means and delivered to purchasers in the territorial jurisdiction of another city or county.[1]

[2] Amend 53084, of the Government Code to prohibit agreements that involve the relocation of any retailer. (Section 53084, of the Government Code already prohibits the use of “any form of financial assistance” to a vehicle dealer (within 40 miles) and big box retailer (within 25 miles) which closes one location then open another within one year in a market area.
to customers in other communities. AB 2853 would instead effectively limit a local agency from offering economic development incentives with its own local resources as well.

2. When it comes to economic development incentives, there is a major difference between giving away another community’s revenues versus your own. Individual local agencies are accountable to their communities and know their own interests best. Further, any economic development subsidy already must be disclosed to the community in conformance with AB 562 of 2013.

3. The League’s concern with the impact of warehouse sales tax agreements can be addressed in working with Senator Glazer on his SB 531 to ban such agreements in the future. This measure, however, goes too far and sets a bad precedent that overly restricts the ability of an individual local agency to conduct economic development.

Support-Opposition: (as of 03/21/201):
Support: Labor Federation.
Opposition: Unknown

Staff Recommendation:
Oppose. This measure goes too far and sets a bad precedent that overly restricts the ability of an individual local agency to conduct economic development.

Committee Recommendation:

3. **AB 176** (Cervantes) and **SB 162** (Galgiani) CAEFTA 10-Year Extension

Bill Summary:
Would extend the existing California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) Program for another decade through January 1, 2031.

Bill Description:
Would extend the existing California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) Program for another decade to January 1, 2031. This program operated through the State Treasurer’s Office is authorized to award $100 million annually in sales tax rebates which affect both state and local shares.

Background:
In 2009, a budget deal came together quickly that included approval of SB 71(Padilla), which granted authority to the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) program to allocate up to $100 million in sales tax exclusions to certain manufacturers of various “green” products. At the time the League scrambled to oppose it because it gave away local shares of sales taxes in
addition to the state’s portions. Among the concerns we raised was that the effect of this tax credit would:

- Negatively impact communities with industries supplying components to the benefitting companies.
- Create disincentives to site future manufacturing.

Since then, CAEAFTA has allocated over $700 million in tax credits, of which approximately 55% ($385 million) was lost from local government revenues, according to a recent report by the Legislative Analyst Office. Of the amounts lost from local government resources, nearly half were from portions of the sales tax that the Legislature dedicated to county realignment, with the remainder of losses to local Bradley-Burns, Transaction and Use Taxes, and Public Safety Funds.

In the LAO’s analysis, which recommends the Legislature `not extend the program, it points out that most of the equipment that benefited from the sales tax exclusion under CAEAFTA would still benefit from the broader state manufacturer’s “partial” sales tax exclusion, effective July 1, 2014. The partial exclusion gives a tax break only with the portion of the sales tax that benefits the state General Fund—3.94 %-- and does not negatively affect local tax shares. Given that the partial manufacturer’s sales tax exclusion was recently extended to 2030, the LAO views the impact of extending CAEAFTA will be borne mostly by local government.

**Fiscal Impact:**
Based on the LAO’s analysis, a 10 year extension of the CAEAFTA program, at $100 million annually, will cost locals about $550 million between lost county realignment and local sales tax revenues.

**Existing League Policy:**
(From Revenue and Taxation)

…each level of government (should have the capacity) to adequately finance its service responsibilities, with each being accountable to taxpayers for its own programs.

**Additional Revenue**
Additional revenue is required in the state/local revenue structure. There is not enough money generated by the current system or allocated to the local level by the current system to meet the requirements of a growing population and deteriorating services and facilities.

**Comments:**
1. The LAO’s report makes a broader case for not extending the program, and conclude that, should it be extended most of the negative impact will be borne by local tax shares, since affected manufacturers could otherwise be eligible for the existing state partial exclusion.
2. Given the amount of local resources affected by this program, and that the affected manufacturers have access to the alternative partial exclusion, it is difficult to fathom a reason for not strongly opposing the extension of this program.

**Staff Recommendation:**
Oppose.

**Committee Recommendation:**
City Economic Development in 2019: Resources, Options and Prospects

Ten years ago, identifying the major economic development tools available for cities was simple: local redevelopment agencies and enterprise zones. Both are gone. Now city officials must sort through smaller puzzle pieces with a babble of new acronyms and programs when attempting to address their community’s needs. Still, resources are available for those with the patience and persistence to sort through the new tools and funding options.

Existing Funding Resources:

- **SB 1 Transportation Funding:** After 10 years of work, the League and other key stakeholders helped secure the largest augmentation in transportation funding in decades at $5.2 billion per year, including doubling the amount that cities receive to fix their streets and roads. In November, voters rejected Prop. 6 which attempted to repeal this funding source. City officials can now put these funds to work doing good projects in your community.

- **SB 2 Funding for Updating General, Specific and Community Plans:** Having updated plans is critical to both getting the community on board with your city’s development plans as well as reducing uncertainty for developers. The problem for many cities, however, is that planning efforts are costly and often take a back seat to public safety and other more urgent priorities. New ongoing funding is now available from SB 2 (Atkins) of 2017 to help communities update their plans and streamline future development including housing. The League is having a webinar on April 17 to help cities understand how to access these funds.

- **Prop 68 Park Funds:** Cities will receive a minimum $200,000 grants to improve local parks from Prop. 68, at $4 billion park and water bond approved in June, 2018. Some large cities will get increased amounts. Cities are also eligible to apply for over $1 billion in additional funding for parks, safe drinking water, recycling and flood protection.

- **Prop 1 Housing Funds:** With the elimination of redevelopment in 2011 and no state housing bond since 2006, Prop. 1, a $4 billion housing bond approved by voters in November 2018, represents the first infusion of new housing funds in nearly a decade. Governor Newsom has committed to expedite the allocation of these funds in 2019. Cities should be partnering now with local developers and non-profits and prepare to apply for funding to build affordable housing in your city.

- **Prop 2 and Emergency Homeless Housing Funds:** Pervasive homelessness undermines local efforts to improve quality of life and attract and retain jobs. Prop 2, approved by voters in November 2018, authorizes $2 billion to build up to 10,000 housing units with services for the homeless mentally ill. Governor Newsom has committed to expedite the allocation of these funds in 2019. The FY 2018-19 State budget approved $500 million for emergency shelters, and Governor Newsom’s proposed budget would double that amount. Make sure your city takes advantage of these funds to help people get off your streets. Doing so, will both assist those in need and improve your local business climate and economic development prospects.

- **Billions in Cap and Trade Funding:** City officials need to take advantage of the opportunities to access cap and trade funds. The state has adopted aggressive greenhouse gas reduction goals that are accompanied by a major funding source derived from private industry purchasing emissions from auctions conducted by the Air Resources Board. Billions in funding are annually available to fund a variety of local projects through the state Strategic Growth Council. Some
cities have been very creative and aggressive in pursuing these funds, but others are not paying sufficient attention to the opportunities. The League’s Institute for Local Government is focused on helping cities understand how to take advantage of the opportunities.

- **California Competes Tax Credits:** The California Competes Tax Credit is an income tax credit available to businesses that want to locate in California or stay and grow in California. Tax credit agreements will be negotiated by the Governor’s Office of Business Development (GO-Biz) and approved by a statutorily created California Competes Tax Credit Committee. $180 million is allocated for these credits in each fiscal year through 2022-23. City officials should become familiar with this program as they work to attract and retain high quality jobs.

- **Film Tax Credits:** The California Film Commission allocates $330 million in annual tax credits to attract and retain film production in the state. Additional incentives are provided to productions that film outside of Los Angeles. Ensure your community is positioned to be considered for future film production.

- **Federal New Market Tax Credits:** This existing federal program offers tax incentives to private investors to incentivize community development and economic growth in distressed communities.

- **Federal Opportunity Zones:** This new program authorized by the 2017 federal tax reform act provides investors relief from capital gains if they make up to 10-year investments in various low-income census tracts designated by the Governors of each state. Governor Newsom’s budget proposes to offer conforming state tax benefits for investments in green technology or affordable housing projects located in Enhanced infrastructure Finance Districts.

**New Tax Increment Tools**

The elimination of Redevelopment was devastating for many communities and the replacement tools approved by the Legislature and Governor Brown, while helpful in some instances, pale in comparison to the former tool. Still, it is worth the effort to learn about them; they offer opportunities for the creative:

**Enhanced Infrastructure Financing District (EIFD) law (beginning with Section 53398.50 of the California Government Code) is the most popular tool so far. It provides broad authority for local agencies to use tax increments to finance a wide variety of public infrastructure. Private projects can also be financed, including affordable housing, mixed-use development and sustainable development, industrial structures, and facilities to house consumer goods and services. No public vote is required to establish an authority, and though a 55 percent vote is required to issue bonds (which Governor Newsom has proposed in his budget to eliminate) other financing alternatives exist.

There are some benefits to EIFDs. Unlike former redevelopment, the EIFD imposes no geographic limitations on where it can be used and requires no blight findings. An EIFD can be used on a single street, in a neighborhood or throughout an entire city. It can also cross jurisdictional boundaries and involve multiple cities and a county. Property tax that cities receive from former redevelopment agencies and property tax received by cities in lieu of former Vehicle License Fee funds can be also dedicated to an EIFD and used with fewer legal restrictions than apply to city financing. Though a city can form an EIFD without participation from other local governments, the flexibility of this tool and the enhanced financial capacity created by partnerships will likely generate creative discussions among local agencies on how the tool can be used to fund common priorities. Recent changes allow sales tax to be used, but with many conditions and limitations.
Community Revitalization and Investment Authorities (CRIAs) law (beginning with Section 62000 of the California Government Code) gives these authorities all the former powers of redevelopment agencies—including eminent domain for redevelopment purposes. A CRIA focuses on assisting with the revitalization of poorer neighborhoods and former military bases. While similar to redevelopment, establishing a CRIA is more streamlined. Some restrictive accountability measures were included to ensure that the use of the CRIA remains consistent with community priorities—but these will likely need to be modified by the legislature to make it more useful. A 25 percent set-aside is included for affordable housing. Although an initial protest opportunity exists, no public vote is required to establish a CRIA, and bonds and other debt can be issued without a public vote after a CRIA is established.

Affordable Housing Authority (AHA) financing law (beginning with Section 62250 of the California Government Code) is a new statute that authorizes a city or county to create by resolution an affordable housing authority (coterminous with its boundaries) with various powers and to dedicate a portion of its property tax increment, sales tax and other revenues to develop affordable (up to 120 percent of area median income) housing. This is a very flexible law for cities seeking to establish an ongoing funding mechanism for affordable housing. An AHA may issue bonds; borrow; receive funds from and coordinate with other entities; remove hazardous substances; provide seismic retrofits; loan funds to owners and tenants to repair, improve or rehabilitate buildings in the plan area; and take other actions. The AHA has broad property acquisition and disposal authority. Creating an AHA or bond issuance does not require a public vote.

Annexation Development Plan (ADP) law (Section 99.3 of the California Revenue and Taxation Code) authorizes consenting local agencies (a city and/or a county or special district) to adopt tax-increment financing to improve or upgrade structures, roads, sewer or water facilities or other infrastructure as part of annexing a disadvantaged unincorporated community. An ADP can be implemented by a special district either formed for this purpose or incorporated into the duties of an existing special district. After the Local Agency Formation Commission (LAFCO) approves the annexation, the special district can issue debt without an additional vote.

Seaport Financing Districts (SPDs) law (Section 1710, Harbors and Navigation Code of California) establishes a financing tool for seaport infrastructure based on a modified form of the EIFD law.

Infrastructure and Revitalization Financing Districts for Former Military Bases (IRFDs) law (beginning with Section 53369 of the California Government Code) creates infrastructure and revitalization financing districts separate and apart from existing law that established infrastructure financing districts (IFDs), authorizes a military base reuse authority to form a district and allows these districts to finance a broader range of projects and facilities.

Key Funding Proposals in Governor Newsom’s Proposed Budget

Governor Newsom proposed additional funding for affordable housing programs, homelessness and community planning and development. The details of these proposals are currently being reviewed by the Legislature and some will likely be altered prior to the adoption of the final budget by July 1. They include:

- $500 million annually in low income housing tax credits.
- $500 million to the California Housing Finance Agency for moderate income housing production.
- $500 million for homeless emergency shelters and environmental streamlining for construction.
• $250 million for updating local plans to accommodate additional housing allocations, and $500 million in rewards for local agencies that achieve undefined “milestones.”
• Identifying Cal Trans property that can be used for homeless housing and allowing demonstration housing developments on excess state property.

Legislative Economic Development Proposals

The 2019 Legislative Session is just beginning and it is too early to predict outcomes but here are some bills, supported by the League, cities officials are encouraged to support and track:

• SB 5 (Beall/McGuire) seeks to restore a more robust and ongoing financing for community development, transit-oriented development, affordable housing and other priorities via a state approval process to enable the dedication of additional bondable property tax streams to assist local agencies with the financing of large community development projects.
• AB 11 (Chiu) Seeks to reestablish a community redevelopment tool.
• SB 128 (Beall) Removes the existing 55 percent vote requirement from EIFD bond issuance. May be a vehicle for additional changes.
• AB 1259 (Luz Rivas) Seeks to establish a California New Markets Tax Credit with the goal of attracting additional investments from the federal program to the state.
• ACA 1 (Aguiar-Curry) would reduce the local vote threshold for proposed local bonds and taxes to invest in infrastructure and affordable housing from 2/3rds to 55 percent.

Next Steps

City officials are encouraged to learn more about the funding opportunities and tools listed above that are either currently available, or may be available soon, and continue to support the League’s efforts to increase options and resources available for city community development.