



REVENUE AND TAXATION POLICY COMMITTEE HIGHLIGHTS

Thursday, January 23

Hyatt Regency, 1209 L Street, Regency E, Sacramento

ATTENDANCE

Members: Olivia Valentine (Chair); Lisa Middleton (V.Chair); Daniela Andrade; Paul Arevalo; Robert Biery; Charles Bourbeau; Michael Brownrigg; Benjamin Cantu; Jeremy Craig; Larry Cusack; Marita Dorenbecher; Ryan Dunn; Ronaldo Fierro; Juan Garza; John Gillison; Barbara Halliday; Lillian Harris-Neal; Brian Johnson; Mina Layba; Eric Levitt; Norma Martinez-Rubin; Russ Melton; Thomas Metz; Maureen Mulheren; Paul Navazio; Eric Nelson; Ian Oglesby; Laura Parisi; Michael Perciful; Mark Prestwich; Amanda Rigby; Doug Robertson; Sylvia Robles; Crystal Ruiz; David Sander; David Sheasby; Jeff Slowey; Fred Strong; Luis Uribe; Jim Vanderpool; Joe Vinatieri; Nick Walker; David Wilson; Ray Withy

League Partners: Tim Cromartie; Lisa Holmes

Staff: Nick Romo, Senior Fiscal & Policy Analyst

I. State Budget and General Briefing

On Thursday, Olivia Valentine, Chair, League Revenue and Taxation Policy Committee gave a brief introduction at the General Briefing Session. After her welcome, she introduced League President John Dunbar, Mayor, Yountville, who welcomed everyone and thanked them for their commitment to the policy committee process. President Dunbar then recognized his fellow officers in the room, and shared that they had met with legislators and the Governor's staff earlier that week. He emphasized the importance of League members contacting legislators when in Sacramento to make the most of everyone's time during their visit. President Dunbar explained that there is a lot of value in building relationships and advocating on legislation that could affect cities.

Turning to the budget, President Dunbar stated that he was excited to see money heading to cities. He is encouraged by the relationship between the League and the Governor and the open lines of communication that they share. President Dunbar closed by reiterating the importance of sharing the message of protecting local authority in meetings with legislators and continued participation in policy committees.

President Dunbar introduced Carolyn Coleman, League Executive Director. Ms. Coleman thanked President Dunbar for all of his hard work, and welcomed everyone to Sacramento. Ms. Coleman thanked everyone in attendance for their time engaging and building a strong voice for the League. She explained that the League would not be as effective if it were not for the collective efforts of the policy committee members. Ms. Coleman also acknowledged the League partners present and thanked League staff for all of their hard work. She concluded by introducing everyone to Melanie Perron, League Deputy Executive Director, Advocacy and Public Affairs.

The League's Fiscal Policy Advisor, Michael Coleman, walked everyone through the State Budget update, which included how the State plans to spend the \$5.9 billion

surplus and pay down debts while growing its reserves. He further explained how there is substantial funding in the budget to address housing and homelessness, natural resources and the environment, and fire protection. Mr. Coleman reminded everyone that this is only a budget proposal and is not final. There will be a May revision to this proposal, but this proposal is a good indication of where the Governor's budget is headed. The finalized budget will be voted on by the Legislature and signed by the Governor by the end of June.

Jason Rhine, Assistant Legislative Director, kicked off the legislative update by discussing issues related to housing, community, and economic development. Mr. Rhine emphasized that it is currently the second year of a two-year legislative session, and in addition to the two-year bills, there likely will be over a thousand new bills introduced this year. He emphasized that SB 50 is one of the biggest bills this year for housing, and despite recent amendments, the League remains oppose unless amended on this measure (this measure failed passage by the legislative deadline of January 31). Mr. Rhine then spoke about homelessness. He explained that this is the third year with significant money in the budget to address homelessness, with about \$1 billion in investment. Mr. Rhine explained that the League will continue to work with the Governor's office to address issues related to homelessness.

Bijan Mehryar, Legislative Representative, highlighted issues related to governance, transparency, and labor relations. He began by explaining that this year there will be a large focus on pensions as a component of cities overall fiscal sustainability. In relation to pensions, Mr. Mehryar highlighted SB 266, a two-year bill that may be acted upon this year to require cities to directly pay retirees disallowed retirement benefits using general fund dollars. Mr. Mehryar then discussed labor and workers compensation noting AB 418, which seeks to extend evidentiary privileges between union agents and a represented employee (this measure is a two-year bill currently on the Senate floor). He finished his update emphasizing he will continue to monitor issues related to elections and redistricting into 2020.

Charles Harvey, Legislative Representative, explained several evolving public safety issues. Mr. Harvey expressed that one of the big issues this year will be cannabis. He was happy to report that AB 1356 will not pass off the Assembly floor. Instead, a new bill related to model retail ordinances will be introduced. Mr. Harvey does expect to see a cannabis enforcement bill later this year, extending to cities the authority to impose civil fines and penalties against illicit cannabis operations. He is continuing to monitor issues related to cannabis taxation, including a recently introduced bill to lower excise taxes. Lastly, Mr. Harvey highlighted AB 1190, which the League supported regarding a framework for drone regulation. He explained this bill will be referred to three policy committees in the Senate, and he will continue working with cities in shaping drone policy this year.

Derek Dolfie, Legislative Representative, began his presentation by discussing environmental quality. He highlighted the League is working on issues related to utility initiated power shutoffs, grid hardening, and electrical undergrounding in conjunction with the Transportation, Communications, and Public Works, and Public Safety Policy Committees. Mr. Dolfie then turned to solid waste and recycling, thanking the cities in attendance who weighed in on SB 54 and AB 1080 related to the reduction of single-use plastic waste. He emphasized these bills are still moving through the legislative process, and there will be an updated action alert issued soon.

Mr. Dolfie then discussed community services. He mentioned the Governor issued an executive order last year creating a Master Plan for Aging and a stakeholder advisory committee. Mr. Dolfie highlighted Immediate Past President, Jan Arbuckle, Council Member, Grass Valley currently serves on this committee representing the local government perspective. Mr. Dolfie also added the Governor's budget proposal includes \$65.1 million for the creation of a "Parks for All Initiative," which seeks to expand access to parks, open spaces, and natural lands for all Californians.

Rony Berdugo, Legislative Representative and Federal Policy Liaison, gave a legislative update on transportation, communications, public works and federal issues. He began by reviewing the scooter legislation carried over from last year, AB 1286, which the League co-sponsored, and AB 1112, which the League opposes. Mr. Berdugo then turned to the active litigation that the League is in with the Federal Communications Commission. He explained the Transportation, Communications, and Public Works Policy Committee would get an update on this case later in the day. Mr. Berdugo also mentioned he has been working with the California Public Utilities Commission on closing the digital divide through broadband deployment. Mr. Berdugo finished his update by reviewing federal issues of importance to the League, including remote identification for drones, streamlining of the National Environmental Policy Act, and the recently approved federal budget.

Lastly, Nick Romo, Senior Fiscal Policy Analyst, highlighted issues related to revenue and taxation. He explained the Revenue and Taxation Policy Committee will continue to work with and monitor the activities of the California Department of Tax and Fee Administration as they have begun collecting sales and use taxes from out of state retailers following the passage of AB 147, regarding Wayfair v. South Dakota. In regards to annexation, Mr. Romo highlighted a two-year bill that the League supports, AB 213, currently in the Senate Appropriations Committee. He reiterated the League will continue to support annexations and incorporations into 2020. Mr. Romo closed his update by addressing the Governor's recent streamlining of Enhanced Infrastructure Financing Districts (EIFDs) by removing the 55 percent vote requirement. While helpful, EIFDs remain difficult for cities to initiate.

II. Welcome and Introductions

Chair Valentine and Vice-Chair Middleton provided welcoming remarks encouraging robust discussion and thanking each member of the committee for their participation. This year, we are welcoming several new committee members who join a roster of veteran members, many of which have served on the Committee for many years, providing key expertise and historical analysis.

To support the production of the Committee's work program, upon introducing themselves, the members of the committee were asked, "What is the most important issue to address?" The answers provided by the members of the committee were noted and later incorporated into the committee's work plan.

III. Special Joint Presentation to the Revenue and Taxation and Governance, Transparency and Labor Relations Policy Committee Members

Following the General Briefing for all policy committees, the Governance, Transparency and Labor Relations Committee and the Revenue and Taxation Committee received a special joint briefing from Marcie Frost, CalPERS CEO, on the [Priorities for the Future](#). The presentation included an overview of the pension system, which included how

contributions are made and split among members, employers and investment earnings. It also included an outlook to the future funded status and how the system got to where it is now. CEO Frost also highlighted the risk mitigation policy, which established a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets.

The presentation went on to highlight three key risk factors which include investment risk, climate risk and employer affordability. The acknowledgement that employer affordability is a key factor to a healthy fund is a welcomed perspective from CalPERS. The presentation closed by describing the tools available to employers to assist them in maintaining pension affordability including the new pension outlook tool.

IV. Overview of Parliamentary Procedures and Robert's Rules

The committee reviewed the procedures and Robert's Rules. Throughout the committee's work, staff and the city attorney's department representative are available to ensure proper following of the rules and procedures.

V. Committee Orientation League 2020 Strategic Priorities

The committee briefly reviewed the League's five strategic priorities. Specifically, the committee will spend significant effort working towards strategic priority number three related to fiscal sustainability. The abridged strategic priorities are as follows:

1. **Improve the supply and affordability of housing.** Provide cities with financial tools to increase construction of housing, particularly for vulnerable populations, reform state regulatory barriers, and ensure cities retain flexibility based on the size, geography, demographics, impact mitigation and land use needs of each community.
2. **Advocate for increased funding and resources to prevent homelessness and assist individuals experiencing homelessness.** Secure additional resources and flexibility to provide navigation assistance, emergency shelters and permanent supportive housing and strengthen partnerships with stakeholders to ensure mental health, substance abuse treatment, and wrap around services are available for adults and youth at risk of – or already experiencing –homelessness in our communities.
3. **Address cities' fiscal sustainability to deliver essential services and meet pension obligations.** Raise awareness among stakeholders about the fiscal challenges cities face and work collaboratively to secure new revenue tools and flexible prudent policies to ensure cities are able to provide essential services to their residents while maintaining their ability to meet pension obligations.
4. **Strengthen community and disaster preparedness, public safety, and resiliency.** Improve community resiliency to disasters and environmental threats, and strengthen infrastructure stability and control, through expanding partnerships, including state and federal agencies, and securing additional resources and support for climate change adaptation, planning, preparedness, response, recovery, and sustainability in our cities.
5. **Address public safety concerns of California cities.**
 - Reform recently enacted criminal justice laws — enacted by both statute and initiative —that have eroded public safety protections of California residents through the passage of the Police Chiefs/Grocer's-sponsored criminal justice reform measure eligible for the November 2020 state ballot, or by equivalent reforms achieved through legislative action.

- Protect public safety by reducing access to firearms by the mentally ill.
- Support additional tools and resources to address critical community challenges such as homelessness, mental health, domestic violence, drug rehabilitation, human trafficking and workforce development for ex-offender reentry.

VI. Public Comment

No public comment.

VII. Review of Existing Policy & Guiding Principles

Nick Romo, League Senior Fiscal & Policy Analyst, provided an in-depth review of the proposed changes to the guiding principles. The guiding principles document is updated every two years to reflect approved policy changes by the committee, the League Board, and in some instances, League membership via the General Resolution process. The proposed changes were approved UNANIMOUSLY.

VIII. Opportunity Zones with the Governor’s Office of Business and Economic Development (GO-Biz)

The committee welcomed the Governor’s Office of Business and Economic Development (GO-Biz) representatives. Maral Farsi, Deputy Director for Legislative Affairs, and Trelynd Bradley, Senior Business Development Specialist, provided an Opportunity Zone 101 overview, specific to local governments. The committee was urged to identify zones within their cities and set priorities for development at the local level to encourage projects supported by their community. For more information, please visit: <https://opzones.ca.gov/>.

IX. Implementation of Wayfair ([AB 147, Burke, 2019](#)) and Hot Topics at the California Department of Tax and Fee Administration

The committee was pleased to be joined by Nicolas Maduros, Director, California Department of Tax and Fee Administration. Director Maduros provided a timely update on the implementation of the recently passed AB 147 (Burke, 2019) which authorized collection of sales and use taxes from remote online sales following the decision made in *South Dakota v. Wayfair*. Notably, the recent enactment of the marketplace facilitator requirements, which compel large online marketplaces (ex: Amazon) to collect and remit sales taxes from online purchases, has resulted in robust collections and enforcement. As collection reports become available, League staff will communicate the figures to policy committee and general League membership.

On the issue of cannabis, Director Maduros highlighted ongoing issues related to illicit activity that require significant enforcement and audit actions. The committee shared substantial comments with the Director on the strategies that cities are deploying to crack down on illegal cannabis operations. In this space, ongoing state and local collaboration can be beneficial to ensuring state and local laws are properly enforced in favor of a safer, legal cannabis market.

X. Adoption of 2020 Work Program

After significant discussion about the 2020 work priorities of the Revenue and Taxation Committee, the following work program was adopted (33 Ayes; 1 Nay):

- Advocate for appropriate implementation of the *Wayfair* decision to expand collection of use tax from remote sales. Includes increasing knowledge and policy development

related to e-commerce with consideration for the impact of allocation changes on all cities.

- Monitor and engage on state budget developments, including proposals that may affect local government or provide funding opportunities.
- Support efforts to restore more robust forms of tax increment financing and additional economic development tools. Includes supporting sustainable revenue source(s) for affordable housing and addressing homelessness.
- Engage in tax reform discussions, including sales tax that may develop at the state level, using League policies as guidelines.
- The Vehicle License Fee and New Incorporations/Annexations: Continue to sponsor, advocate, and support legislation to address the fiscal viability of new incorporations and annexations of inhabited areas.
- Remain informed on developments associated with pending cases, and engage where necessary on legislation and administrative activity at CalPERS affecting pensions and other post-employment benefits. Includes exploring options for cities to address pension obligations.
- Remain on alert for proposals that could undermine local revenue, affect funding for infrastructure, or shift costs and responsibilities.
- Continue to monitor and protect vital local revenues including the transient occupancy tax, and utility user's tax.
- Remain informed and take action, where necessary, to prohibit additional state mandates funded or unfunded.
- Increase knowledge and policy development related to taxation of emerging technologies and industries, including the 'internet of things' and data sharing.
- Increase knowledge and policy development on cannabis compliance, technologies and revenues.
- Monitor issues associated with the California Department of Tax and Fee Administration.

XI. How High? Review of California's Cannabis Taxes

Seth Kerstein, Economist, from the Legislative Analyst's Office, provided an in-depth analysis of the current tax structure governing recreational cannabis markets. Detailed in his report, current state tax rates may be contributing to the stubborn strength of illicit cannabis operators, which may require a restructuring or lowering of state cannabis tax rates to bolster legal cannabis operations and collections. To date, state tax collections from recreational cannabis sales are lower than projected, which has resulted in new legislative and budget proposals to improve collections. The report provides several recommendations and considerations for the state as it considers changes to cannabis tax rates and structures. League advocacy staff will continue to monitor these proposals for any impacts on local governments. The full report can be found here: [How High? Adjusting California's Cannabis Taxes](#)

XII. Rev & Tax Issues in 2020 Session

Michael Coleman, Senior Fiscal Advisor, detailed the League's efforts to restore the fiscal incentives for new annexations and city incorporations. This legislative year, the League is supporting AB 213 (Reyes), which restores property tax incentives for past and future annexations. To support new city incorporations, the League continues to work with Assembly Member Cooley and Assembly Member Quirk to find a legislative or budget solution.

Next Meeting: Thursday, April 2, Sheraton Park Hotel, 1855 S Harbor Blvd, Anaheim