



**REVENUE & TAXATION POLICY COMMITTEE
HIGHLIGHTS
Thursday, February 10, 2022**

ATTENDANCE

Members: Norma Martinez-Ruben (Chair); Charles Bourbeau (V. Chair); Paul Akinjo; Tess Albin-Smith; Miguel Arias; Newell Arnerich; Ronald Bates; Russell Betts; Bob Biery; Mike Calderwood; Jorgel Chavez; Andrew Chou; Marc Donohue; Marita Dorenbecher; Grace Espindola; Daivd Gassaway; John Gillison; Barbara Halliday; Loella Haskew; Brian Johnson; Paolo Kespradit; Linda Krupa; Dawn LaBar; Mina Layba; Patricia Lock Dawson; Jesse Lopez; Russ Melton; Dennis Michael; Lisa Middleton; Brett Miller; Joe Muller; Marisela Nava; Robert Neuber; Sue Noack; Ian Oglesby; Margie Otto; Laura Parisi; Roberta Raper; Adam Raymond; Joel Rojas; Crystal Ruiz; Karin Schnaider; Erica Stewart; Luis Uribe; Hans Uslar; Olivia Valentine; Joe Vinatieri; Nicholas Walker; Holly Whatley

League Partners: Robert Braulik; Fran Mancía

Staff: Nicholas Romo, Legislative Affairs, Lobbyist; Jessica Sankus, Senior Legislative Analyst

I. Welcome and Introductions

President Cindy Silva, Mayor Pro Tem, Walnut Creek, welcomed everyone to the first policy committee meeting of the year and thanked members for their service to all California cities. She explained that policy committees are vitally important and directly connected to Cal Cities' core mission of advocating for the common interests of cities.

President Silva explained that while policy discussions can be lively and members may not always agree, Cal Cities derives its strength as a member-driven organization from this deliberative debate and recommendation process.

President Silva then introduced Carolyn Coleman, Cal Cities Executive Director, and CEO. Ms. Coleman welcomed committee members and thanked them for their service to their cities and Cal Cities. She explained that the policy committee process is central to Cal Cities advocacy, ensuring it is member-driven and represents the interests of cities across California.

Ms. Coleman thanked committee members again for serving on the committees and wished them a great meeting.

Chair Norma Martinez-Rubin (Pinole), and Vice Chair Charles Bourbeau (Atascadero) welcomed committee members and provided an introduction.

II. **Public Comment**

Chair Martinez Rubin asked if there was any public comment. There was no public comment.

III. **General Briefing**

In accordance with the customary practice of convening all policy committee members for a general briefing prior to the start of policy committee meetings, the Cal Cities advocacy team compiled a General Briefing Document, which includes the latest on legislative and budgetary matters affecting cities.

IV. **Cal Cities 2022 Action Agenda**

The committee was updated on the Cal Cities 2022 Action Agenda. Cal Cities staff discussed the virtual League Leaders workshop and explained the process by which these priorities are established. The Cal Cities 2022 Action Agenda is as follows:

- 1. Secure funding to increase the supply and affordability of housing and reform state housing laws to retain local authority.** Secure adequate and sustainable funding for cities to increase construction of housing at all income levels, particularly affordable housing and workforce housing. Reform state housing laws to ensure cities retain local decision-making to meet the needs of their communities.
- 2. Attain investments to strengthen and sustain critical infrastructure.** Advocate for policies that strengthen the conditions of local streets, highways, bridges, public transit, and broadband to improve workforce and economic development. Secure support for the modernization and expansion of the statewide water grid, including infrastructure, storage, and conveyance. Work with stakeholders to provide cities with access to the tools needed to ensure projects are delivered efficiently and cost-effectively to meet current and future needs.
- 3. Secure increased funding and resources to prevent homelessness and assist individuals experiencing homelessness.** Secure additional ongoing, flexible resources to provide navigation assistance, emergency shelters, and permanent supportive housing. Enhance city and county coordination and strengthen partnerships with stakeholders to ensure adequate wraparound services are available for adults and youth at risk of, or already experiencing, homelessness in our communities, and effectively address mental health and substance use disorders.
- 4. Strengthen disaster preparedness, resiliency, and recovery from climate change impacts through improved collaboration and resources.** Secure additional resources and support to mitigate the effects of climate change, including catastrophic wildfires, drought, and sea level rise. Promote collaboration with other city, state, and federal governments, to strengthen disaster preparedness, resiliency, and recovery.

V. Existing Policy and Guiding Principles

Cal Cities staff explained the importance of the guiding principles towards efficient advocacy operations. This document contains Cal Cities policies that reflect positions taken by the policy committee and the Cal Cities Board of Directors and is used as a reference tool for Cal Cities staff when reviewing legislation. Members were directed to their agenda packet to review proposed changes to the document.

Ultimately, a motion was made to approve the Existing Policy and Guiding Principles document as presented, which passed.

VI. State Legislative and Budget Review

Overview of 2022-23 Governor's Budget

Staff provided an overview of the Governor's proposed 2022-23 Budget. In total, the Governor's \$286.4 billion budget includes billions in new spending on what the Administration characterizes as California's biggest challenges including: COVID-19, climate change, homelessness, the cost of living, and keeping our streets safe. Staff reported that California's economy grew substantially in the past year, despite the ongoing pandemic, resulting in a projected \$45.7 billion surplus, of which almost \$21 billion is available for discretionary purposes. Given historic revenue growth, staff anticipates that the state appropriation limit ("Gann" limit) will be exceeded.

Additional details can be found in the attached PowerPoint slides. An analysis of the proposals included in the proposed 2022-23 Budget by policy area is included on the Cal Cities website.

Revenue and Taxation Legislative Update

Ahead of the February 18, 2022, deadline for state legislators to introduce legislation, Nick Romo provided a forecast for city officials. As the general economy rebounds, cities can expect legislators to pursue to new and expanded sales and property tax exemptions including for COVID-19 test kits and respirators. In response to the Governor's announced support for suspending the annual gas tax inflation, set for July 2022, Cal Cities advocacy remains focused on securing backfill funds to ensure cities do not experience losses in their local streets and roads account.

Cities should expect significant policy movement on cannabis laws including focus on state and local tax rates on cultivation, distribution, and over the counter sales.

Staff Policy Proposal: Supplemental Payments for Cities with Populations Impacted by Natural Disasters and Significant Economic Disruptions

Jessica Sankus presented a staff recommended proposal regarding researching solutions for future consideration regarding options for mitigating drastic revenue losses from state programs allocated in part by population (i.e., local streets and roads funding). Staff presented the various options studied and considered for

policy and statutory changes to address this matter, including the conclusion that policy and statutory changes may have many unknown variables or could result in unintended consequences of detriment to cities including sudden dramatic loss of streets and roads funding.

Staff recommended the committee support reaffirmation of existing Cal Cities policies which supports supplemental payments for affected cities in the annual state Budget Act to mitigate significant impacts to infrastructure funding due to recent natural disasters, significant economic disruptions, and pandemic-related census count issues

The committee unanimously supported the staff recommendation.

VII. Business Roundtable Ballot Measure Review

Nick Romo reviewed details of the "Taxpayer Protection and Government Accountability Act" sponsored by the California Business Roundtable to place of the November 2022 general election ballot. Summary details:

State taxes

- All new and increases in state taxes will require majority voter approval.
- Prohibits property tax "surcharge" (increase). Prohibits allocation of property tax to the state.

Local taxes

- New requirements for voter approval
 - When territory is annexed.
 - When existing tax is applied to a new service or product, for example utility user tax (UUT) to new service.
- New or increased taxes as of January 1, 2022, must sunset.

Fees and charges

- State and cities have burden of proving by "clear and convincing evidence" that a fee/charge is not a tax.
- A franchise fee for "entry to governmental property" must be "reasonable." The state and cities issue franchises to oil companies, utilities, gas companies, railroads, garbage companies, cable companies, and other corporations.
- Fees and charges for services and permits may not exceed the "actual cost" of providing the product or service for which the fee is charged. "Actual cost" is the "minimum amount necessary." Examples include planning services, excavation and encroachment permits, preparation of candidate statement, and permit parking.
- No fee or charge or exaction regulating vehicle miles traveled can be imposed as a condition of property development or occupancy.

Fines and penalties [administrative enforcement of state law and municipal codes]

- Requires voter approval of fines and penalties for corporations and property owners that violate state and local laws unless a new, undefined adjudicatory process is used to impose the fines and penalties. Examples include nuisance abatement, organic waste reduction requirements, and failure to maintain a vacant property.

Voters

- Local advisory measures are prohibited. No measure may appear on the same ballot that would indicate that the revenue from the general tax will, could, or should be used for a specific purpose.
- Overturns *Upland* decision so taxes proposed by this initiative are subject to the same rules as taxes placed on the ballot by a city council.
- Voters may not amend a City Charter to impose, extend, or increase a tax or fee.

In December 2021, the Cal Cities Board of Directors voted to oppose the proposed initiative. Cities that wish to join in opposition can access Cal Cities draft resolutions and letters along with fiscal and legal analyses. Please contact Nick Romo for more details.

VIII. City Managers Sales Tax Work Group Plan Briefing

Nick Romo and John Gillison, City Manager of Rancho Cucamonga, provided an overview of the previous efforts and actions regarding online sales tax revenues. This item follows member city direction at the Cal Cities 2021 Annual Conference, during which the General Assembly approved the General Resolutions Committee's recommendation that the Revenue and Taxation Policy Committee further discuss online sales tax reforms and support the convening of a city managers working group on the topic,

John Gillison outlined the City Managers' Department plan for reconvening a work group on sales tax reform which includes established guiding principles, proposed timelines, and a membership made up of two appointments from each of Cal Cities Regional Divisions and additional appointments made by the City Managers' Department to realize improved inclusivity.

The committee expressed concern regarding the size of the work group and suggested the meetings be led by a moderator and data driven decision making.

Committee members urged that there needs to be balance between warehouse cities and non-warehouse cities and a commitment to compromise. Committee members also strongly urged diversity on working group as many distribution centers are located in minority communities. Several other members noted that issues also exist in cities without retail and those voices should be present in the working group.

Additional details can be found in the attached committee PowerPoint slides.

IX. Adoption of 2022 Work Program

To establish the committee's 2022 work program, members completed a priority survey. Cal Cities staff tabulated the results that were presented for approval by Chair Norma Martinez-Rubin.

In addition to contributing to the action agenda, the Revenue and Taxation Policy Committee developed a work program to better understand and discuss the following issues:

- Sales and use tax distribution laws, regulations, and policy development.
- Economic recovery (COVID-19) and development Tools inclusive of support for small businesses.
- Infrastructure financing and examining related impacts of natural disasters such as wildfires and droughts.
- Funding for housing development and related city infrastructure.
- Funding for homelessness interventions (prevention and care).

X. Adjourn

Chair Martinez-Rubin thanked the committee for their hard work then adjourned the meeting.

Next Virtual Meeting: Thursday, April 28, 1:00 p.m. – 4:00 p.m.