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Re: **Update on CSAC's Top 2016 Legislative Priorities**

Background. The California State Legislature reconvened on Monday, January 4 and Governor Jerry Brown released his January 2016-17 State Budget Proposal shortly thereafter. The following is an update on three of CSAC's top priorities for the coming legislative session in the context of the state budget, ongoing special sessions and the upcoming election cycle.

Policy Considerations.

Governor's Revised MCO Fix Proposal

The Managed Care Organization (MCO) tax currently provides roughly \$1.1 billion for Medi-Cal services, including administrative funding for the Coordinated Care Initiative (\$130 million) and other critical health care services. The federal government informed California two years ago that the current MCO tax structure failed to comply with their regulations in that it does not apply to all health plans in the state.

In response, the Governor has called a special session on health care to focus the Legislature on passing a revised MCO fix. In his January budget proposal, the Governor introduced a revised three-year tiered MCO tax plan based on the type of health plan (commercial, closed-system [such as Kaiser], and Medi-Cal). Some plans, including local health plans, would fall under both the commercial and Medi-Cal tiers. To help most of the plans with the costs associated with the new proposed tax, the state is offering concurrent relief in the Gross Premiums Tax and Corporate Tax that some plans also pay.

The Governor's new proposal would raise about \$1.7 billion total, but after the tax policy changes are taken into account, would net the state about \$1.3 billion. This funding would be placed into a special fund and be used to fund current Medi-Cal activities, including parts of the Coordinated Care Initiative plus the full-year restoration of the 7 percent across-the-board cuts in In-Home Supportive Services hours (\$236 million). It may also be enough to fund increases for developmental services providers.

Despite the Governor's efforts to date, achieving the two-thirds vote necessary in the Legislature to provide the fix has remained elusive as it is framed as a "tax." The Special Session on Health Care

remains open, and at the time of this writing, the Administration has not yet reached a final deal with the health plans. The Legislature is expected to take up the proposal once it is finalized.

Transportation Funding

The Governor's 2016 January Budget Proposal continued to emphasize reinvesting in California's infrastructure, particularly in the transportation sector. This is a positive starting point for our efforts to secure new, robust and sustainable funding for local streets and roads in the Special Session on Transportation and Infrastructure Development still underway. The budget proposal included a reintroduction of the Governor's September 2015 transportation funding and reform package. Recall that proposal would spend an additional \$3.6 billion annually for ten-years on maintenance and rehabilitation of state and local transportation systems and investments in transit. The proposal also includes a number of reforms and accountability measures, including project delivery and environmental streamlining, innovative procurement methods, and reforms at Caltrans related to workload and hiring.

CSAC continues to work with a coalition of stakeholders to push for a larger transportation funding package. Under the Governor's transportation proposal, cities and counties would receive \$1.05 billion annually in new revenue. While this funding would certainly help local governments start to address significant maintenance and rehabilitation needs, it would not be enough to actually improve the overall condition of the local street and road system or reduce overall maintenance backlogs. Our analysis indicates counties and cities need closer to \$3 billion annually to bring the system into a "good" condition. Outside of the budget, Assembly Member Jim Frazier introduced a measure that would generate over \$7 billion annually and we understand that Senator Jim Beall is working on revisions to his existing \$4.5 billion funding plan. The Republican Caucuses in both houses also continue to promote their proposals, which aim to generate similar funding by relying on existing revenues, such as truck weight fees. Recall that truck weight fees are currently off-setting transportation bond debt service payments and, if diverted, would create an ongoing state general fund obligation.

For our part, CSAC continues to try to keep the pressure on the Legislature and Governor to pass a robust funding and reform solution in short order. There are a couple of current year issues that are assisting us in this effort. First, the Board of Equalization (BOE) is preparing to adjust the price-based excise tax rate, as required by the 2010 Fuel Tax Swap, which replaced the sales tax on gas with a variable rate excise tax. Based on early projections by the Department of Finance (DOF), the rate will likely go down by at least 2.2-cents, or the equivalent of \$330 million statewide, and as much as 3-cents or \$450 million. Counties receive 22% of the price-based excise tax revenue. This cut comes after a 6-cent reduction in FY 2015-16 and a 3-cent cut in FY 2014-15. CSAC is in the process of surveying all 58 counties to understand how these revenue reductions will impact local transportation projects, the ability to delivery basic public works services, and even staffing levels. We will use the results of this survey to inform every member of the Senate and Assembly about specific local impacts and urge their collective action to address the funding crisis now.

Second, in response to previous year cuts and in anticipation of the aforementioned BOE action, the California Transportation Commission (CTC) recently voted to deprogram (cut) \$754 million from the State Transportation Improvement Program (STIP) over the next five years. This action will impact every region in the State of California. In response to this, CSAC and our coalition partners are planning at least five press events over the next three weeks to highlight the specific regional project cuts and associated economic impacts. This effort will inform the media and communities that the Legislature and Governor can avoid these cuts by coming together on a bipartisan transportation package.

Stormwater/Water Conservation Initiative Update

On Monday, December 14, CSAC joined with the League of California Cities (League) and the Association of California Water Agencies (ACWA) in filing a proposed constitutional amendment with the Office of the Attorney General (AG). The measure would amend Article X of the California Constitution to create a new, optional funding system local agencies can use to finance stormwater management, flood control, sewer and water supply projects, set rates for customers to encourage conservation and reduce water and sewer bills for low-income customers. The ability to finance stormwater projects would assist local agencies in complying with the Federal Clean Water Act and the State Porter-Cologne Water Quality Control Act, thus avoiding potential fines and penalties. Any local agency that utilizes this optional funding method would be required to adhere to strict accountability, transparency, and ratepayer protections.

"The California Water Conservation, Flood Control and Stormwater Management Act of 2016" specifically authorizes local agencies at their discretion to:

- Set different levels of rates for customers to encourage conservation, prevent waste and discourage excessive use of water,
- Levy fees and charges, subject to ratepayer protest, for flood control and for management of stormwater to protect coastal waters, rivers, lakes and sources of drinking water from contamination, and
- Use fees and charges to reduce water and sewer fees and charges for low-income customers.

The accountability protections include detailed noticing and public hearing requirements, majority protest provisions, and assurances that ensure that all money must be spent for the local purpose for which the fee or charge was imposed and cannot be taken by state government.

Regarding process, CSAC and our coalition partners have submitted to the AG amendments to the original language in response to comments offered by other stakeholders. The proposed Constitutional amendment has been revised to reflect those comments. The changes made do not affect the overall intent of the proposal.

At the time of this writing, the Legislative Analyst Office (LAO)/Department of Finance (DOF) fiscal analysis is due any day now and the AG is expected to issue Title and Summary by Wednesday,

February 17. The coalition has met with both the LAO and DOF, and will be meeting with the AG in the near future. Meetings with the Administration and other stakeholders will continue throughout this process.

If we are successful in obtaining a positive Title and Summary, we will do more polling to determine public support. A decision to move forward with a ballot measure via the signature gathering or legislative process will likely not occur until early March and will be highly dependent upon the results of the polling. Any consideration by CSAC to expend funds for a campaign would require a significant coalition of other financial partners and a two-thirds vote of the CSAC board of directors.

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