



Government Finance & Administration
Policy Committee

125th CSAC Annual Meeting

Thursday, December 5, 2019 · 9:45 a.m. – 11:15 a.m.

San Francisco County, California

Supervisor Judy Morris, Trinity County, Chair
Supervisor Chuck Washington, Riverside County, Vice Chair

- 9:45 a.m. I. **Welcome and Introductions**
Supervisor Judy Morris, Trinity County, Chair
Supervisor Chuck Washington, Riverside County, Vice Chair
- 9:50 a.m. II. **Give or Take a Few Billion Dollars: How Will Tax Reform Affect Counties?**
The Honorable Malia Cohen, Chair, California Board of Equalization
Gayle Miller, Chief Deputy of Policy, Department of Finance (invited)
David Ruff, Chief Consultant, Assembly Revenue and Taxation Committee (invited)
Scott Graves, Director of Research, California Budget and Policy Center
- 10:40 a.m. III. **The Ever-Growing Presumption of Work-Related Injuries**
Josh Gauger, CSAC Legislative Representative
- 10:50 a.m. IV. **California Cannabis Authority: Where Regulation Meets Information**
Supervisor Estelle Fennell, Humboldt County, CCA Board President
Cara Martinson, CSAC Sr. Legislative Representative / CCA Executive Director
- 11:00 a.m. V. **ACTION ITEM: Year in Review and Government Finance & Administration 2020 Priorities**
Geoff Neill, CSAC Legislative Representative
Josh Gauger, CSAC Budget & Legislative Representative
Joe Krahn, Paragon Government Relations
- 11:15 a.m. VI. **Adjournment**

ATTACHMENTS

II. Give or Take a Few Billion Dollars: How Will Tax Reform Affect Counties?

Attachment OneMemo on Tax Reform
Attachment TwoLAO Fiscal Analysis of Split Roll Initiative
Attachment ThreeText of Split Roll Initiative
Attachment FourSB 522 (Hertzberg)

III. The Ever-Growing Presumption of Work-Related Injuries

Attachment FiveMemo on Workers' Compensation Presumptions

IV. California Cannabis Authority: Where Regulation Meets Information

Attachment SixMemo on CCA

V. ACTION ITEM: Year in Review and GF&A 2020 Priorities

Attachment SevenMemo on Priorities and Year in Review

Attachment One
Memo on Tax Reform



® November 20, 2019

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To: CSAC Government Finance and Administration Policy Committee

From: Geoff Neill, Legislative Representative

RE: Give or Take a Few Billion Dollars: How Will Tax Reform Affect Counties?

Recommendation. This is an informational item only. This serves as a brief review of various tax reform proposals and the context surrounding the issue.

Background. Taxes, after water, is perhaps the political subject Californians most enjoy arguing about. The state's dueling points of view are everywhere in evidence in its tax policy. California is easily caricatured as tax-friendly...but voters have repeatedly approved the most restrictive tax limitations in the country. The state has one of the highest sales tax rates in the country...but the narrowest base. Personal income tax rates are famously high...but only for those in the highest income brackets. The corporate income tax is one of the higher rates among states...but with innumerable credits, exemptions, and exclusions that bring the effective tax rate down considerably.

This complexity frequently leads to calls for an overhaul, though opinions about what reforms should be made differ considerably. Governor Newsom himself expressed an interest in reforming the tax system just after his election last year, noting at the same time that the issue is a particularly difficult one to solve, because, as he said, "everyone has a trophy on the wall".

Some legislators have also show interest in big changes to the tax system. They have introduced measures that would, among other things, reduce local vote thresholds for taxes to fund affordable housing and infrastructure (ACA 1), change the allocation of sales tax revenues from online purchases (ACA 13), and alter the property tax rules for inherited real estate (SCA 3 and SCA 4).

That interest in changing the rules for local property taxes will be addressed by voters next November even if legislators do not pass any of those measures, as proponents for a "split roll" have gathered enough signatures to put a constitutional amendment on the ballot. The same group is currently gathering signatures for an amended version of that measure (see Attachment Three). The split roll measure, long-discussed by advocates for increased funding for schools and local governments, would tax most commercial and industrial property at fair market value instead of the original purchase price plus an annual inflator, raising somewhere between \$7 billion and \$12 billion per year, according to the LAO (see Attachment Two).

Among legislation, none expresses a greater intent for reform than SB 522, by Senator Hertzberg (see Attachment Four). While the measure at the moment only expresses intent, that intent is far-reaching, proposing to align the tax system with "the realities of California's 21st

century economy”, while also reducing state budget volatility, more fairly apportioning taxes between goods and services, and meeting several other goals.

As the tax codes have gotten more complicated over the past several decades, the allocation of the revenues among different levels of government has as well. Traditionally, property taxes funded counties, schools, and other local agencies, personal and corporate income taxes funded the state, and sales and use taxes were split fairly simply (one cent to counties and cities and the rest to the state). But *Serrano v. Priest* (school funding), Proposition 13 (property taxes), Proposition 98 (school funding), the realignments of 1991 and 2011, and a bevy of other changes have made those divisions less clear than ever.

As a result, any change to the tax system affects county finances, and any attempt to completely overhaul the tax codes could have a dramatic effect. While it’s difficult to know when reform will muster the momentum necessary to pass, counties should be prepared to address changes to the tax system, whether complete or piecemeal.

Contacts. Please contact Geoff Neill (gneill@counties.org or (916) 650-8115) for additional information.

Attachment Two
LAO Fiscal Analysis of Split Roll Initiative



October 2, 2019

Hon. Xavier Becerra
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative (A.G. File No 19-0008, Amendment No. 1) related to taxation of commercial property.

Background

Local Governments Levy Taxes on Property Owners. California local governments—cities, counties, schools, and special districts—levy property taxes on property owners based on the value of their property. Taxed properties include real property—land and buildings—and business personal property—machinery, computers, and office equipment. Property taxes raise around \$65 billion annually for local governments, about \$2 billion of which is attributable to business personal property. Statewide, about 60 percent of property tax revenue is allocated to cities, counties, and special districts, while the remaining 40 percent is allocated to schools and community colleges.

Counties Administer the Property Tax. County assessors determine the taxable value of property, county tax collectors bill property owners, and county auditors distribute the revenue among local governments. Statewide, county spending for property tax administration exceeds \$600 million each year.

Property Taxes Are Based on a Property's Purchase Price. Each property owner's annual property tax bill is equal to the taxable value of their property multiplied by their property tax rate. Property tax rates are capped at 1 percent plus smaller voter-approved rates to finance local infrastructure. A property's taxable value generally is based on its purchase price. When a property is purchased, the county assessor assigns a value to the property—often its purchase price. Each year thereafter, the property's taxable value increases by 2 percent or the rate of inflation, whichever is lower. This process continues until the property is sold and again is taxed at its purchase price. In most years, the market value of most properties grows faster than 2 percent per year. As a result, under this system the taxable value of most properties is less than their market value.

California Taxes Individual Income and Corporate Profits. California levies a personal income tax (PIT) on the income of state residents, as well as the income of nonresidents derived from California sources. California also levies a corporation tax on the profits of corporations.

Property Owners Can Deduct Property Tax Payments From Taxable Income. State law allows property owners to deduct property tax payments from their taxable income for the purposes of calculating PIT and corporation tax payments. This reduces their tax bills.

State Constitution Governs State Spending on Schools and Community Colleges. The State Constitution requires the state to provide a minimum amount of annual funding for schools and community colleges, known as the “minimum guarantee.” The minimum guarantee tends to grow with the economy and number of students.

Proposal

Assess Commercial and Industrial Property at Market Value. The measure requires commercial and industrial properties, as well as vacant land not intended for housing, commercial agriculture, or protected open space to be taxed based on their market value, as opposed to their purchase price. A property’s market value is what it could be sold for today. The measure’s shift to market value assessment is phased in over a number of years beginning in 2022-23. For properties in which the majority of space is occupied by small businesses—defined as businesses that own California property and have 50 or fewer employees—the shift to market value taxation would not begin until 2025-26 or a later date set by the Legislature.

Properties owned by individuals or businesses whose property holdings in the state total less than \$3 million (adjusted for inflation biannually beginning in 2025) are exempt from market value taxation. These properties would continue to be taxed based on purchase price. Similarly, residential properties would continue to be taxed based on purchase price.

Exempt Lower Value Business Personal Property. The measure exempts from taxation the first \$500,000 in value of a business’s personal property. Additionally, the measure exempts from taxation all personal property of small businesses—as defined above.

Allocate New Revenues to Local Governments and Schools. The measure allocates most new revenue resulting from the measure to cities, counties, special districts, and schools. Before allocating funds to local governments, the measure requires a portion of the new revenues be allocated to (1) the state general fund to compensate for any reductions in PIT and corporation tax revenue resulting from the measure (as discussed below) and (2) counties to cover their costs of administering the measure. Of the remaining funds, roughly 60 percent is allocated to cities, counties, and special district, with each entity receiving an amount proportional to the share of property tax revenues in their county that they receive under existing law. The remaining roughly 40 percent would be allocated to schools and community colleges generally according to the same per-pupil formulas the state uses to distribute most other funding for these entities. This allocation would supplement the existing funds schools and community colleges receive under the state’s constitutional minimum funding requirement.

Fiscal Effect

Market Assessment Would Increase Property Tax Revenues. Upon full implementation, the measure’s shift of most commercial and industrial properties to market value assessment would increase annual property taxes paid for these properties by \$8 billion to \$12.5 billion in most

years. The amount of revenue raised in a given year would depend heavily on the strength of the state's real estate markets in that year. As a result, this new revenue stream would fluctuate more from year to year than property tax revenues have historically.

Business Personal Property Exemption Would Decrease Property Tax Revenues. The measure's new business personal property exemptions likely would reduce property tax revenues by several hundred million dollars per year.

Allocation of Net Increase in Property Tax Revenues. On net, the measure would increase statewide property tax revenue by \$7.5 billion to \$12 billion annually in most years. From this revenue, the measure first allocates funding to cover:

- ***Decreased Income Tax Revenues.*** By increasing property tax payments for commercial and industrial properties, the measure would decrease taxable personal and corporate income and, in turn, decrease state PIT and corporate tax revenues. This decrease in PIT and corporate tax revenues could be as much as several hundred million dollars annually.
- ***Increased County Costs for Property Tax Administration.*** The measure creates significant new administrative responsibilities for counties, particularly county assessors. These new responsibilities could increase county property tax administration costs by hundreds of millions of dollars per year ongoing.

Of the remaining \$6.5 billion to \$11.5 billion, roughly 60 percent would be allocated to cities, counties, and special districts and roughly 40 percent to schools and community colleges.

Short-Term General Fund Costs. Counties likely will incur administrative costs related to the measure before new revenue is available to cover their costs. The measure requires the state to provide loans to counties to cover these initial costs—possibly in the hundreds of millions of dollars—until new revenue is available, at which time the state loans would be repaid.

Summary of Fiscal Effects.

- Net increase in annual property tax revenues of \$7.5 billion to \$12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining \$6.5 billion to \$11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).

Sincerely,

Gabriel Petek
Legislative Analyst

Keely Martin Bosler
Director of Finance

Attachment Three
Text of Split Roll Initiative

(Additions in section 5 of this initiative are set forth in *italics and underline*)

Section 1. Title

This measure shall be known, and may be cited, as Full and Fair Funding: the Public School Progress, Prosperity, and Accountability Act of 2020.

Section 2. Findings and Declarations

The People of California find and declare all of the following:

- a) California has a moral, practical, and economic imperative to provide all public school and community college students with a high-quality education that prepares them for success in college, career, and civic life.
- b) Education is the heart of our democracy, the source of our innovation, the engine of our progress, and the foundation of our prosperity. Underfunding schools and community colleges shortchanges our students and our society.
- c) Public education plays a critical role in helping students reach their full potential. By providing the foundation for personal and professional success, public schools strengthen communities and bolster the economy. California should not rank near the bottom nationally in any area of significant investment, let alone education.
- d) Despite boasting the world's fifth-largest economy and the largest economy of any state, California sits near the bottom nationally in nearly every significant measure of school funding and staffing. California ranks 38th in per-pupil funding, 41st in the number of classroom aides per student, 45th in student-teacher ratio, 46th in student-principal ratio, 48th in student-counselor ratio, 48th in overall student-staff ratio, and 50th in student-librarian ratio.
- e) California's dismal school funding represents a steep drop from the early 1970s, when the state's public schools were the envy of the nation. In 1969–70, California per-pupil funding ranked in the top five nationally. After four decades of underinvestment, the state's per-pupil funding ranking stood at just 38th in 2018–19, with funding levels roughly 20 percent below the national average.
- f) If California supported schools at the national average, funding would increase by \$2,475 per pupil, or by \$61,875 for a classroom of 25 students. That money could be used to increase students' job prospects through expanded career and technical education, job training, computer instruction, courses in science, technology, engineering, and mathematics (STEM), and an improved curriculum, including the arts. These funds could also provide increased access to college and student supports such as class size reduction, additional counselors, nurses, and librarians, parent and community engagement, support for English learners, intervention programs, instructional support staff, college readiness, and more.
- g) As California's school funding has fallen relative to other states, so has its students' performance. In 2017, California's 8th graders ranked 42nd in mathematics, 38th in reading, 44th in sciences, and 39th in writing on the National Assessment of Educational Progress (NAEP). Those results closely track the state's low ranking in per-pupil funding, indicating that we, as Californians, expect our public schools to be funded at significantly higher levels than currently provided by the State of California.
- h) Substantial research points to a positive relationship between school funding and improved student outcomes, particularly for economically disadvantaged students.
- i) Further evidence suggests that, given sustained education funding increases over the course of their school careers, economically disadvantaged students can realize just as much success as their better-off peers.

j) California has a high-needs student population, with the greatest percentage of students living in poverty and the highest percentage of English learners of any state. In order to prepare our students for a society that is more complex and technological than ever before, California must invest at a level exceeding that of the typical state; instead, we lag behind most of the nation in school funding.

k) After deep cuts during the Great Recession, California's school funding only recently returned to 2008 levels, and still remains \$2,475 per pupil below the national average. Recent increases in school funding served primarily to restore programs and services lost during the recession and were sufficient neither to reverse four decades of underinvestment nor to provide the course offerings required for a comprehensive 21st century education that serves all students.

l) California's community colleges recently set targets to increase the number of students who acquire associate degrees, credentials or occupational certificates by 20 percent and to grow the number of community college students who transfer annually to a University of California or California State University campus by 35 percent. However, current funding levels with increasing enrollments present challenges to reaching those goals.

Section 3. Statement of Purpose

The purpose of this act is to do the following:

a) To secure additional funding for California's public schools so that local schools and community colleges can invest in new educational programs that will improve academic achievement among all students, keep students and staff safe and prepare students to compete for high-paying jobs, succeed in college and career, and meaningfully participate in this great state's civic life.

b) To reverse decades of underinvestment by the State of California in its public schools and community colleges, a disinvestment that has let per-pupil funding in elementary and secondary public schools plummet from top 10 nationally during the 1960s to 38th in per-pupil funding today. During those decades of disinvestment, California's public school teachers have faced increasing class sizes, which are some of the highest in the nation, and a continual drop in critical resources such as librarians, nurses, and counselors.

c) To raise funds for local public schools and community colleges and send those funds directly to local decisionmakers without interference from the Legislature or the state bureaucracy. Funds raised by this measure shall be distributed using California's equity-based funding formulas, which guarantee a fair distribution of funds to local schools and community colleges. All funds are subject to annual audit, and this measure requires public discussion of budgeting decisions and posting of expenditures on school and community college internet websites. This measure also limits the amount of funds that can be spent on administration in order to ensure that our children and community college students receive maximum benefit from this investment in their education. Funds raised by this measure are separate from the rest of the education budget, and from the annual Budget Act, so that these funds cannot be diverted by the Legislature for noneducation programs.

d) To increase funding to California's public schools, including public charter schools, to prepare students for college and career so that those students

may compete successfully in California's 21st century economy. That includes making schools safer, creating more STEM, computer science and computer programming courses, hiring and training the best and brightest people to teach our students, ensuring that students from all backgrounds achieve at high levels, and preparing young children who are entering school for the first time.

e) To increase funding to the California Community Colleges in order to provide more opportunity for students, including California's veterans, to transfer to four-year colleges and universities and to train students, including veterans, for high-paying jobs and careers, especially those jobs that require knowledge of science, technology, engineering, and mathematics.

f) To ensure that decisions on which programs and activities to fund are made in our local communities and not in Sacramento.

g) To ensure that funds from this additional investment are used appropriately by doing all of the following:

1) Requiring that spending decisions are made in open, public meetings, and that school districts, county offices of education, charter schools, and community college districts publicly disclose how this money is spent.

2) Limiting the amount that may be spent on administrative costs.

3) Requiring annual financial audits to verify that spending complies with this measure.

Section 4. Section 37 is added to Article XIII thereof, to read:

SEC. 37. (a) (1) The Investment in California's Public Schools and Community Colleges Fund is hereby established in the State Treasury. The Investment in California's Public Schools and Community Colleges Fund is a trust fund, and moneys deposited in that fund may be expended only for the purposes specified in this section. Moneys in the Investment in California's Public Schools and Community Colleges Fund are hereby continuously appropriated for the support of local educational agencies and community college districts as set forth in this section.

(2) Revenues received from the taxes imposed pursuant to this section shall be deposited in the Investment in California's Public Schools and Community Colleges Fund for allocation pursuant to this section.

(3) (A) Revenues deposited into the Investment in California's Public Schools and Community Colleges Fund are not General Fund revenues for any purpose set forth in this Constitution and are not General Fund proceeds of taxes for any purpose set forth in Section 8 or Section 21 of Article XVI.

(B) The appropriation of moneys in the Investment in California's Public Schools and Community Colleges Fund made pursuant to paragraph (1) is not an appropriation subject to limitation of the State or of an entity of local government for any purpose set forth in Article XIII B.

(C) The expenditure of moneys deposited into the Investment in California's Public Schools and Community Colleges Fund shall not be deemed to be part of "current expense of education," as defined in Section 41372 of the Education Code.

(b) (1) For purposes of this section, "local educational agency" means a charter school, school district, or county office of education.

(2) For purposes of this section, references to Sections 2574, 41372, 42238.02, and 84750.4 of the Education Code shall be to those sections as they read on July 1, 2019.

(c) (1) For each taxable year beginning on or after January 1, 2021, with regard to a taxpayer subject to the taxes imposed by Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code, in addition to any other taxes imposed under that part, including the tax imposed by Section 17043 of the Revenue and Taxation Code, additional taxes shall be imposed as follows:

(A) For that portion of taxable income that is over one million dollars (\$1,000,000), a tax of 2 percent.

(B) For that portion of taxable income that is over two million dollars (\$2,000,000), a tax of 3 percent.

(2) For purposes of applying Part 10.2 (commencing with Section 18401) of Division 2 of the Revenue and Taxation Code, the taxes imposed under this subdivision shall be treated as if imposed under Section 17041 of the Revenue and Taxation Code.

(3) The following shall not apply to the taxes imposed by this subdivision:

(A) Section 17039 of the Revenue and Taxation Code, relating to the allowance of credits.

(B) Section 17045 of the Revenue and Taxation Code, relating to joint returns.

(4) The revenues derived from the taxes imposed by this subdivision shall be deposited in the Investment in California's Public Schools and Community Colleges Fund.

(d) (1) (A) For each taxable year beginning on or after January 1, 2021, if a corporation subject to taxation under Section 23151 of the Revenue and Taxation Code has net receipts from all sources derived from, or attributable to, this State that are equal to or more than one million dollars (\$1,000,000), the tax imposed under that section shall be a tax according to or measured by net income for that taxable year at a rate that, with respect to net income above one million dollars (\$1,000,000), is 5 percent greater than is otherwise provided by that section, but not less than the minimum tax specified in Section 23153 of the Revenue and Taxation Code.

(B) A 5-percent tax rate increase shall be applied under Article 3 (commencing with Section 23181) of Chapter 2 of Part 11 of Division 2 of the Revenue and Taxation Code to those financial corporations that meet the net receipts threshold described in subparagraph (A).

(2) The additional revenues, net of refunds, derived from the tax rate increases imposed pursuant to paragraph (1) shall be deposited in the Investment in California's Public Schools and Community Colleges Fund.

(e) (1) For each taxable year beginning on or after January 1, 2021, if a corporation subject to taxation under Section 23802 of the Revenue and Taxation Code has net receipts from all sources derived from, or attributable to, this State that are equal to or more than one million dollars (\$1,000,000), the tax imposed under Section 23151 or 23501 of the Revenue and Taxation Code on net income above one million dollars (\$1,000,000) shall be imposed at a rate that is 3 percent

greater than the rate otherwise specified in Section 23802 of the Revenue and Taxation Code.

(2) The additional revenues, net of refunds, derived from the 3-percent tax rate increase imposed pursuant to paragraph (1) shall be deposited in the Investment in California's Public Schools and Community Colleges Fund.

(f) (1) Eighty-nine percent of the funds deposited in the Investment in California's Public Schools and Community Colleges Fund shall be allocated quarterly to local educational agencies by the Superintendent of Public Instruction as set forth in subdivision (g).

(2) Moneys received by a local educational agency pursuant to this section shall be expended only for one or more of the following purposes in order to prepare pupils for success in college, career, and civic life, and to close achievement gaps:

(A) To provide pupils with the skills and knowledge to succeed in postsecondary education and to successfully compete for jobs and careers in the 21st century economy, including, but not limited to, jobs and careers in fields dependent upon knowledge of science, technology, engineering, or mathematics.

(B) To improve the safety and security of school campuses to ensure the safety of pupils and school staff.

(C) To recruit and retain the highest quality teachers and school leaders.

(D) To reduce achievement gaps among pupils.

(E) To provide early learning services to pupils before they enter kindergarten.

(F) To provide education and training in computer science, programming, engineering, and technology to pupils.

(3) (A) Moneys received by a local educational agency pursuant to this section shall supplement, and not supplant, other moneys expended by a local educational agency for the purposes set forth in paragraph (2).

(B) Not more than 5 percent of the funds received by a local educational agency pursuant to this section may be used for the costs of administering the activities set forth in paragraph (2).

(g) (1) (A) Of the moneys described in paragraph (1) of subdivision (f), five hundred million dollars (\$500,000,000) shall be allocated annually to local educational agencies per unit of average daily attendance in grades 7 to 12, inclusive, to implement state computer science curriculum standards and to purchase computers and technological equipment to be used for instructional purposes.

(B) The amount described in subparagraph (A) shall be adjusted annually by the inflation factor described in paragraph (2) of subdivision (d) of Section 42238.02 of the Education Code.

(2) After the allocation described in paragraph (1), the moneys described in paragraph (1) of subdivision (f) shall be allocated to local educational agencies in proportion to the following local control funding formula amounts:

(A) For each school district and charter school, its total local control funding formula amount equal to the sum of the amounts determined in subdivisions (g) to (i), inclusive, of Section 42238.02 of the Education Code minus the greater of:

(i) Zero.

(ii) The amount by which the sum of its local revenues determined pursuant to paragraphs (1) to (8), inclusive, of subdivision (j) of Section 42238.02 of the Education Code exceeds its total local control funding formula amount as identified in subparagraph (A).

(B) For each county office of education, the amount calculated pursuant to Section 2574 of the Education Code.

(3) Notwithstanding paragraphs (1) and (2), of the moneys described in paragraph (1) of subdivision (f), a local educational agency in this State shall not receive less than five hundred dollars (\$500) per unit of average daily attendance in the prior fiscal year, adjusted annually by the lesser of the following:

(A) The annual percentage growth in the moneys deposited in the Investment in California's Public Schools and Community Colleges Fund.

(B) The annual inflation factor described in paragraph (2) of subdivision (d) of Section 42238.02 of the Education Code.

(h) (1) Eleven percent of the funds deposited in the Investment in California's Public Schools and Community Colleges Fund shall be allocated quarterly to community college districts by the Chancellor of the California Community Colleges in proportion to the funding amounts calculated pursuant to Section 84750.4 of the Education Code.

(2) Of the moneys described in paragraph (1), a community college district shall not receive less than five hundred dollars (\$500) per full-time equivalent student, adjusted annually by the lesser of either of the following:

(A) The annual percentage growth in the moneys deposited in the Investment in California's Public Schools and Community Colleges Fund.

(B) The cost-of-living adjustment for the California Community Colleges provided for by the Legislature for the applicable fiscal year.

(3) Moneys received by a community college district pursuant to this section shall be expended only for one or more of following purposes:

(A) Increasing the number and percentage of students, including veterans, who successfully transfer from a community college to a four-year college or university.

(B) Increasing the number and percentage of students, including veterans, who successfully complete training that prepares them for high-need and well-paying jobs and careers, including, but not limited to, jobs and careers in fields dependent upon knowledge of science, technology, engineering, or mathematics.

(C) To provide education and training in computer science, programming, engineering, and technology to students.

(4) (A) Moneys received by a community college district pursuant to this section shall supplement, and not supplant, other moneys expended by a community college district for the purposes set forth in paragraph (3).

(B) Not more than 5 percent of the funds received by a community college district pursuant to this section may be used for the costs of administering the activities set forth in paragraph (3).

(i) (1) The governing board or body of each local educational agency and community college district shall determine how the moneys allocated from the Investment in California's Public Schools and Community Colleges Fund are

spent in the schools or colleges within its jurisdiction, provided that both of the following occur:

(A) The spending determinations comply with subdivisions (f), (g), and (h).

(B) The governing board or body makes the spending determinations in an open session of a public meeting of the governing board or body.

(2) Each local educational agency and community college district shall annually publish on its internet website, or, if it does not have an internet website, otherwise make available to the public, an accounting of how much money was received from the Investment in California's Public Schools and Community Colleges Fund and how that money was spent in accordance with the purposes set forth in this section.

(3) The annual independent financial and compliance audit required of local educational agencies and community college districts shall, in addition to all other requirements of law, ascertain and verify whether the funds received from the Investment in California's Public Schools and Community Colleges Fund have been properly disbursed and expended as required by this section, including the requirements of paragraph (3) of subdivision (f) and paragraph (4) of subdivision (h).

Section 5. Section 9 of Article XIII B thereof is amended to read:

SEC. 9. "Appropriations subject to limitation" for each entity of government do not include:

(a) Appropriations for debt service.

(b) Appropriations required to comply with mandates of the courts or the federal government which, without discretion, require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

(c) Appropriations of any special district which existed on January 1, 1978, and which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12 1/2 cents per \$100 of assessed value; or the appropriations of any special district then existing or thereafter created by a vote of the people, which is totally funded by other than the proceeds of taxes.

(d) Appropriations for all qualified capital outlay projects, as defined by the Legislature.

(e) Appropriations of revenue which are derived from any of the following:

(1) That portion of the taxes imposed on motor vehicle fuels for use in motor vehicles upon public streets and highways at a rate of more than nine cents (\$0.09) per gallon.

(2) Sales and use taxes collected on that increment of the tax specified in paragraph (1).

(3) That portion of the weight fee imposed on commercial vehicles which exceeds the weight fee imposed on those vehicles on January 1, 1990.

(f) Appropriations made pursuant to Section 37 of Article XIII.

Attachment Four
SB 522 (Hertzberg)

Introduced by Senator Hertzberg

February 21, 2019

An act relating to taxation, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

SB 522, as introduced, Hertzberg. Taxation.

Existing law imposes various taxes, including sales and use taxes and income taxes.

This bill would make legislative findings regarding the need for further efforts to modernize and restructure the state's tax system and would state the intent of the Legislature to enact legislation that would accomplish specified purposes, including realigning the state's outdated tax code with the realities of California's 21st century economy.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. The Legislature finds and declares all of the
- 2 following:
- 3 (a) California's tax collections in recent years have been heavily
- 4 dependent on the income of its top earners. During the 2008
- 5 Recession, a 3.6-percent decline in California's economy resulted
- 6 in a 23-percent plunge in General Fund revenues. To begin to
- 7 address this, California enacted new constitutional requirements
- 8 for a rainy day fund and required new levels of budget reserves to

1 be maintained. Further efforts to modernize and restructure the
2 state's tax system are still needed.

3 (b) An underlying problem is that, while California's economy
4 has evolved, its tax system has failed to keep up with the times.
5 Over the past 60 years, California has moved from an agriculture-
6 and manufacturing-based economy to a service-based economy.
7 As a result, state tax revenues have become less reliant on revenues
8 derived from sales and use taxes on goods and more reliant on
9 revenues derived from personal income taxes. In 1950, sales and
10 use taxes comprised of 61 percent of state General Fund revenues;
11 today, it accounts for about 30 percent. Personal income taxes
12 accounted for 12 percent of the General Fund in 1950; today, it
13 accounts for almost 70 percent.

14 (c) The service industry is accounting for the largest sector of
15 economic growth and output with 82 percent of the state's private
16 gross domestic product in 2017.

17 (d) It is the intent of Legislature to enact legislation that would
18 accomplish all of the following:

19 (1) Realign the state's outdated tax code with the realities of
20 California's 21st century economy.

21 (2) Create steady revenue growth by aligning taxes with
22 economic growth.

23 (3) Reduce state budget volatility.

24 (4) Maintain California's progressivity in the tax code.

25 (5) Ensure that out-of-state corporations that do business in
26 California contribute their fair share to California's economy.

27 (6) Enact a service tax that would offset a portion of the
28 significant financial benefits provided to businesses under the new
29 federal income tax laws, but allow businesses to deduct from their
30 federal taxes the state sales and use tax imposed on the services
31 they use and, therefore, most businesses would still pay lower
32 taxes than before the federal tax law changes.

33 (7) Make changes that would more fairly apportion taxes
34 between goods and services and would produce more stable
35 revenues.

36 SEC. 2. This act is an urgency statute necessary for the
37 immediate preservation of the public peace, health, or safety within
38 the meaning of Article IV of the California Constitution and shall
39 go into immediate effect. The facts constituting the necessity are:

1 In order to enact changes to prevent California's economy from
2 another recession, it is necessary that this act take effect
3 immediately.

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Attachment Five
Memo on Workers' Compensation Presumptions



November 20, 2019

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To: CSAC Government Finance and Administration Policy Committee

From: Josh Gauger, Legislative Representative

RE: Workers' Compensation Presumptions – INFORMATIONAL

Recommendation. This is an informational item only. This serves as an update on recent legislation aimed at expanding workers' compensation "presumptions"—injuries or medical conditions that are statutorily presumed to be work-related.

Background. Existing law establishes a workers' compensation system that provides benefits to employees who suffers from an injury or illness that arises out of and in the course of employment, irrespective of fault. This system requires all employers to secure payment of benefits by either securing the consent of the Department of Industrial Relations to self-insure or by securing insurance against liability from an insurance company duly authorized by the state.

Decades of legislation has also created numerous statutory workers' compensation presumptions, which identify certain injuries or illnesses that are presumed to be job-related for certain classifications of employees. While technically rebuttable, these presumptions are a fundamental deviation, or carve-out, within the workers' compensation system. The compensation awarded for these injuries must include full hospital, surgical, medical treatment, disability indemnity, and death benefits, as provided by workers' compensation law. In short, these presumptions can be costly for county employers to dispute or settle.

Recent legislative interest in expanding injuries or conditions for which a connection with employment is presumed, but not proven, threatens the equilibrium of the workers' compensation system. By granting additional, costly benefits to workers for injuries that, in some cases, may not be job-related, these legislative efforts shift the burden of proof onto the employer and impact the financial solvency of the system.

Legislation introduced for the 2019-20 session that impacts workers' compensation presumptions includes, but is not limited to:

- AB 1400: As introduced, this bill would have granted certain non-firefighter employees of a fire department the right to a presumption that cancer is a work-related condition for purposes of making a workers' compensation claim. (CSAC removed opposition after substantial amendments—Governor signed)
- AB 932: Amends two provisions of law (one applicable to state firefighters, the other applicable to local government-employed firefighters) that limit "off-duty" workers' compensation coverage to injuries that occur within California, by clarifying that the "off-duty" coverage applies "within or outside of" the state. (CSAC is opposed unless amended—now a two-year bill)

- SB 416: Expands the classifications of peace officers that enjoy the benefit of presumptions that certain defined injuries and illnesses are automatically deemed work-related without need for the employee to prove the condition was caused by employment. (CSAC is opposed—now a two-year bill)
- SB 567: Creates a rebuttable presumption that several injuries are occupational if the injured worker provides direct patient care in an acute care hospital. (CSAC is opposed—now a two-year bill)
- SB 542: As enrolled, this bill creates a rebuttable presumption for specified peace officers that a diagnosis of post-traumatic stress disorder is occupational, and therefore covered by the workers' compensation system. (CSAC opposed—Governor signed)

Contacts. Please contact Josh Gauger (jgauger@counties.org or (916) 650-8129) for additional information.

Attachment Six
Memo on CCA

November 18, 2019

To: CSAC Government, Finance and Administration Committee
From: Cara Martinson, CSAC Senior Legislative Representative & CCA Executive Director

RE: California Cannabis Authority Overview

Background. The California Cannabis Authority (CCA) was established in beginning of 2018 with the passage of a Joint Powers Agreement by San Luis Obispo and Monterey counties. Since that time, CCA has grown to a total of six counties, including San Luis Obispo, Monterey, Humboldt, Mendocino, Yolo and Inyo, with more counties anticipated to join soon. The purpose of the organization is to develop and manage a statewide data platform that will gather, collect, and analyze cannabis information from a number of data sources into one dynamic resource, to help local governments ensure cannabis regulatory compliance in their community. CCA supports local government efforts to identify and eradicate the illicit cannabis market and ensure that licensed businesses are following all rules and regulations of the state and local governments.

The Need for Data. The data platform will aggregate data from multiple sources including the state's track and trace data, point of sale, taxation and socioeconomic data. By combining all of these data points, local governments will be provided with targeted and defensible information, ensuring that what is being reported and what is occurring truly coincide. The data platform can be used to ensure that adequate tax payments are being made; assist local law enforcement and code enforcement officers with accurate and defensible information; provide public health officials with product information, including product origin and product flow; and, inform community planning efforts by understanding locations, concentrations and potential past or future land use patterns. CCA's data platform provides local governments with a number of secure log-in connections to access clear, accurate and real-time data on cannabis activity within their jurisdiction. In addition, as more jurisdictions use this tool and the data platform is populated with data, CCA Members will have a broader picture of cannabis activity throughout the state and access to information outside of their jurisdiction as needed.

Connection Process. CCA is working with each individual CCA county to connect their local sources of information to the CCA data platform, in addition to other outside data sources. CCA is also in the process of negotiating the terms of an agreement with the state to directly connect to the state's track and trace system (METRC), and state sales tax data. CCA will work directly with businesses in your county to establish individual connections through either their 3rd Party Software provider, such as a point of sales or inventory system, or by manual upload.

Benefits to Cannabis Businesses. CCA is also working with interested financial institutions to help facilitate banking services to the cannabis industry. CCA will work with interested financial institutions and their prospective cannabis clients to provide accurate and cost-effective licensing and compliance information that ensures that the revenue generated from the client's commercial cannabis activity results from fully licensed and compliant activities. Consent from prospective cannabis clients must be obtained before information is shared with financial institutions that might wish to bank them.

Data Security. CCA will operate under a Memorandum of Understanding (MOU) with the state licensing agencies to ensure that all information that is confidential and not subject to the Public Records Act under Proposition 64 remains so. CCA will also sign confidentiality agreements before working with 3rd Party Vendors to ensure for secure data transmittal. Counties control user access, and only approved county employees will be issued a secure log-in connection through the CCA website. The data platform adheres to all federal security standards, including the Federal Risk and Authorization Management Program (FRAMP) process to conduct security assessments, authorizations and continuous monitoring of cloud services.

Fee. The CCA Board of Directors adopted a financing structure that includes a fee to be paid by each member county and participating entity that is based upon gross receipts within the jurisdiction. The fee was recently adjusted by the CCA Board of Directors at their June 2019 meeting, and is a charge of 25 basis points (.0025) on total sales within a jurisdiction. It is the decision of the member county to determine what source the fee will come from. CCA will only bill counties based on the data tracked in our system. Thus, if CCA is only tracking a portion of your applicant/licenses, CCA will only bill based on total sales tracked in our system. The basis point charge will go into effect when we are connected to your permit holders doing business in your county.

EXAMPLE OF CCA FEE STRUCTURE

County 4% gross receipts retail tax

County 1% gross receipts testing facility tax

Retail: Gross Receipts: Approximately \$1.5m, tax collected quarterly: \$60,000

Testing: Approximately \$1m tax collected quarterly: \$10,000

Total Gross Receipts: Approximately \$2.5 million quarterly

Quarterly CCA fee (based on 25 basis points of gross receipts): \$6,250

Governance & Timing The organization is governed by a Board of Directors comprised of one representative from each member county. Humboldt County Supervisor, Estelle Fennell is the current President of CCA. County Boards of Supervisors must pass a resolution to join the JPA, and adopt the JPA Agreement. In addition, jurisdictions must require cannabis businesses operating within their jurisdiction to provide specific information to the JPA. CCA is working concurrently with the state and member counties to connect systems. Before CCA can connect to individual permit holders in your county, notices from your county must be sent out. Once businesses are notified, CCA will work with your permit holders to connect through their 3rd Party Software Provider or through a manual submission process. The timing of notices is the decision of the member county.

Contact. Please contact Cara Martinson, CCA Executive Director at 916-526-7082 or cmartinson@cca.ca.gov. Or, visit our website, www.cca.ca.gov.

Attachment Seven
Memo on Priorities and Year in Review



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November 20, 2019

To: CSAC Government Finance and Administration Policy Committee

From: Geoff Neill, Legislative Representative
Josh Gauger, Budget and Legislative Analyst

Re: **ACTION ITEM: 2020 GFA Priorities and Year in Review**

Recommendation: Staff recommends the committee approve the priorities so staff can address anticipated priority issues in the GF&A policy area. The Association's overall state and federal policy priorities will be adopted by the Board of Directors in early 2019.

Proposed 2020 Government Finance and Administration Legislative Priorities

Promote County Interests in Tax Reform Efforts

As more interested parties call for tax reform, all for their own purposes, CSAC will promote county interests in those discussions. A measure to increase taxes on most commercial and industrial property has already qualified for the November 2020 ballot, other ballot measures are gathering signatures, the Governor has called for reforms to reduce state revenue volatility, and the Legislature has introduced multiple measures that would affect everything from local vote thresholds to the allocation of sales tax revenues. In the coming year, CSAC will:

- protect existing county revenues from being reduced;
- advocate that any new revenues be directed to counties as appropriate; and
- ensure that any new duties imposed on counties are adequately funded.

Resist Further Expansion of Workers' Compensation Presumptions

Recent legislative interest in expanding injuries or conditions for which a connection with employment is presumed, but not proven, threatens the equilibrium of the workers' compensation system. By granting additional, costly benefits to workers for injuries that, in some cases, may not be job-related, these legislative efforts shift the burden of proof onto the employer and impact the financial solvency of the system. To function correctly, the workers' compensation system relies on the contributions of employers and employees to roughly equal the amount paid out for injuries suffered on the job. To protect county employers, CSAC will:

- oppose efforts to create new presumptions and to expand existing presumptions to new employee classes without data-driven evidence that the existing system is unjust; and
- educate policy-makers about how the workers' compensation system works and how it already covers employee injuries and conditions that are job-related.

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Secure Funding for Elections, Redistricting, and Recent Special Elections

In the last two years, the state has provided funding for election equipment, which was badly needed in many counties and which the state used to incentivize counties moving to the vote center model. However, the state has not participated in the cost of election processes since ending reimbursement for election-related mandated programs and for special elections to legislative vacancies, both about ten years ago. The state still owes counties over \$50 million for providing those mandated programs, but continues to pass new mandates, including a bill last year increasing redistricting requirements. CSAC will:

- request reimbursement for all recent special elections to fill legislative vacancies;
- advocate that the state pay its share of election costs; and
- pursue funding for newly enacted mandates.

Protect County Realignment Funding

Through a series of realignments over the past forty years, the state has shifted program responsibility for a number of health, human service, and public safety programs to counties, along with revenue sources designed to generally pay for the cost of those services. However, threats to that funding frequently arise, most recently in the form of sales tax breaks. CSAC was able to secure partial reimbursement for those losses, and continues to pursue the rest of the foregone revenue, but more proposals will no doubt crop up over the course of the legislative session. CSAC will:

- protect revenues that pay for realigned county programs;
- educate policy-makers about the fiscal state of counties and the effects of further revenue erosion.

2019 Year in Review

Disaster Relief

In the aftermath of the devastating fires, CSAC worked closely with the Governor's Office and his Administration to facilitate direct relief to counties through budget allocations. The 2019-20 Budget includes nearly \$51 million in relief for local governments impacted by recent disasters. A significant amount of this funding will go directly to counties. That funding includes \$15 million for disaster impacted counties and an additional \$518,000 to backfill property taxes (this is in addition to \$31.3 million provided in AB 72 (Chapter 1, 2019)). The Budget also includes \$10 million to support communities impacted by the Camp Fire and \$2 million for the Butte County Fire Department, as well as \$21 million for local disaster and emergency preparedness plans. CSAC worked to obtain additional funding for statewide emergency response. This includes funding for public safety power shutdowns; ongoing funding for the state's mutual aid system; additional funds to build a statewide public safety radio system; funding for the final phase of the build-out for the California Earthquake Early Warning System; and funding to support disaster preparedness efforts. In addition, CSAC engaged outside counsel to represent all local governments in front of the Public Utilities Commission (CPUC) to ensure that local governments are adequately notified in the event of the Public Safety Power Shut-off.

Workers Compensation

This session brought several bills aiming to expand workers' compensation presumptions which would have considerable fiscal implications on counties. CSAC partnered with several local government partners to oppose these bills and advocacy efforts yielded considerable dividends. Of those bills, AB 932 (Low) proposed to grant workers' compensation benefits to firefighters and their dependents if the firefighters are injured, die, or are disabled by engaging in a fire suppression or rescue operation outside of California. AB 932 did not receive a hearing in Senate policy committee. As introduced, SB 542 (Stern) would have retroactively expanded workers' compensation presumptions for broad mental health conditions to peace officer personnel and volunteers. This bill was narrowed to provide a prospective post-traumatic stress disorder (PTSD) rebuttable presumption to certain peace officers until 2025. AB 1400 (Kamlager-Dove) would have extended cancer workers' compensation presumptions to all "fire service personnel" without defining what classifications this includes. In its current form, this measure instead directs the Occupational Safety and Health Standards Board and the Los Angeles County Board of Supervisors to conduct a study on the risk of exposure to carcinogenic materials by mechanics who repair and clean firefighting vehicles.

Sales Tax Backfill

Legislative proposals introduced would have exempted diapers and feminine hygiene products from sales taxes in perpetuity. The budget approved by the Governor included these sales tax exemptions, but with a sunset of only two years. CSAC successfully advocated for reimbursement of the 2011 realignment portion of the forgone revenue.

Voting Systems

The budget included \$87.3 million for counties to upgrade and replace voting systems and technology, in addition to the \$134.4 million included in last year's budget. The budget also included \$3.8 million for outreach and education in counties using the vote center model.

Supporting County Revenues

CSAC provided key support for several important bills that either enhance or protect county revenues. SB 5 (Beall, McGuire, and Portantino) makes hundreds of millions of dollars available to local agencies, primarily for affordable housing, as well as infrastructure and community development. Significant advocacy from CSAC and county partners ensured that the program did not reduce county funding, as early versions of the bill would have done. SB 268 (Weiner) increases voter education and ballot transparency by allowing local agencies to give more information about the tax impacts of local bond and parcel tax measures in the voter guide. AB 147 (Burke and McGuire) revises sales tax collection rules pursuant to the U.S. Supreme Court's decision in *South Dakota v. Wayfair, Inc.*, to ensure full and efficient collection and administration of sales and use taxes.

Protecting County Revenue and Operations

CSAC successfully pushed back against a number of controversial proposals regarding county governance, employee relations, and other operations. AB 1332 (Bonta) would have disallowed the state and local governments from contracting with companies who provide certain types of services to federal immigration agencies, conceivably affecting contracts for services ranging

from common computer software to probation day-reporting services. A budget item and SB 532 (Portantino) both proposed to allow redevelopment successor agencies to redirect property taxes away from counties, schools, and other local agencies to fund new redevelopment projects. The bill was considerably scaled back and the budget item was rejected by the Budget Conference Committee. AB 628 (Bonta) would have allowed an unlimited leave of absence not only for county employees experiencing harassment, but also county employees whose family members are, either with or without advance notice. AB 1640 (Boerner Horvath) would have required counties and other local agencies to report to the state how they intended to use any budget reserves or surpluses on a list of eight specific services, some of which are state or federal funding responsibilities. Finally, AB 849 (Bonta) would increase the outreach and transparency requirements associated with redistricting, including a minimum number of public hearings and minority language accommodations. Advocacy by CSAC and our local government partners narrowed this bill considerably to reduce the cost of the requirements.

Improvement of 2018 Employee Training Requirements

At the urging of public agencies and the business community, the Legislature fixed a glitch put in law by last year's SB 1343 (Chapter 956, 2018), which requires semiannual sexual harassment prevention training for nonsupervisory employees. Due to the way the deadlines were written, the bill inadvertently required some businesses and public agencies that were already training nonsupervisory employees to provide that training in consecutive years. SB 778 (Chapter 215, 2019) ensures that employers that were already offering compliant training are not required to provide training in consecutive years.

Census 2020 Outreach and Complete Count Efforts

As the national decennial 2020 census approaches, counties remain key stakeholders. The decennial census is one of the main factors that determine how hundreds of billions of dollars of federal assistance are distributed, including highway funding, Section 8 housing vouchers, and special education grants. A "complete count" is critically important. Last year, CSAC partnered with CalGovOps and the Legislature to ensure a sizeable allocation in the budget (\$90.3 million for state oversight and local implementation) was included for census outreach. This year, CSAC supported \$80 million in additional funding for Census 2020 outreach. This funding provides counties the resources needed to play the most appropriate role for their region.

Expenditures of Associations

AB 315 (C. Garcia) would restrict associations of local governments—but not of state, federal, trades, workers, for-profit corporations, or any other type of entity—from spending funds on anything other than lobbying the Legislature, lobbying Congress, or educational activities. This bill would prohibit CSAC from performing much of the work we have done on behalf of counties since we were created in 1894, creating punitive barriers to providing resources and support to California's counties. It would also require extra reporting from local government associations about their lobbying activities. Since AB 315 is not eligible to move until next year, CSAC will continue to educate legislators and the Administration about the work done by our organization as well as the critically important role counties play in the implementation of policies discussed in California's Capitol.

Tax Reform

Both the Governor and the Legislature—as well as the citizens of California, via initiative—have signaled their interest in major tax reform. These reforms are likely to include changes to the property tax and might also include some combination of the state’s other three major taxes: income, corporation, and sales taxes. Any changes to the property tax and the sales tax will have major effects on county finances and operations.

FAA Jet Fuel Tax Ruling

Representative Grace Napolitano (D-CA) has once again championed legislation that would overturn a 2014 ruling by the FAA that mandates that states and local governments spend the proceeds of *any* aviation-related tax for airport capital and operating costs *only*. The FAA ruling, if enforced, could result in the loss of \$250 million in annual grant funding for California airport projects, as well as the diversion of over \$70 million in state and local general sales taxes away from their intended purposes. CSAC strongly supports the Napolitano bill and has actively worked to promote the legislation on Capitol Hill.