



**REVENUE AND TAXATION POLICY COMMITTEE
HIGHLIGHTS
Friday, January 27, 2023**

ATTENDANCE

Members: Charles Bourbeau (Chair); Kuldip Thusu (Vice Chair); Tiffany Allen; Jack Balch; Kevin Bash; Liang Chao; Rolando Charvel; Luis Chavez; Jack Dilles; Marc Donohue; Felicia Galindo; John Gillison; Loella Haskew; Mike Hennawy; Paolo Kespradit; Mina Layba; Kendall Levan; Jennifer Long; Jessie Lopez; Rich Lozano; Norma Martinez-Rubin; Russ Melton; Brett Miller; Lisa Motoyama; Marisela Nava; Robert Neiuber; Sue Noack; Scott Ochoa; Nathan Olson; Laura Parisi; Steve Pendergrass; Chris Pimentel; Doug Robertson; Joel Rojas; Scott Sakakihara; David Sander; Kent Steffens; Fred Strong; Luis Uribe; Hans Uslar; Nicholas Walker; David Wilson; Jeff Wood

Cal Cities Partners: Reva Feldman; Ken Nordhoff

Staff: Nicolas Romo, Legislative Affairs, Lobbyist, nromo@calcities.org
Jessica Sankus, Senior Policy and Legislative Affairs Analyst, jsankus@calcities.org

I. Welcome and Introduction

President Ali Sajjad Taj, Council Member, Artesia, welcomed everyone to the first policy committee meeting of 2023 and thanked members for their services to all California cities. He explained that policy committees are vitally important and directly connected to Cal Cities' core mission of advocating for the common interests of cities.

President Taj 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 Taj 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 Charles Bourbeau (Council Member, Atascadero) and Vice Chair Kuldip Thusu (Council Member, Dinuba) welcomed committee members and provided an introduction.

II. Public Comment

Chair Bourbeau 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, Cal Cities staff provided a General Briefing of all policy areas, which includes the latest on legislative and budgetary matters affecting cities, as detailed below. The Advocacy team's complete analysis of the [Governor's proposed budget for 2023-24](#) and the [2023 Advocacy Priorities](#) are available on the Cal Cities' website.

- **Community Services:** The Governor's proposed 2023-24 budget maintains funding for homelessness and urges the Legislature to introduce new accountability measures for local governments, included in [AB 799](#) (Luz Rivas, 2023). In 2023, Cal Cities will focus on implementing the Community Assistance, Recovery and Empowerment (CARE) Act, modernizing the behavioral health system, addressing the substance use crisis, including fentanyl overdoses among young Californians, and securing ongoing funding for cities to address homelessness.
 - [Caroline Cirincione](#), Legislative Affairs, Lobbyist
- **Environmental Quality:** The Governor's proposed 2023-24 budget includes reductions in climate resiliency commitments, including programs for addressing extreme heat, community resilience, and coastal resilience. The \$180 million that Cal Cities secured in the 2022 Budget Act for the implementation of organic waste diversion (SB 1383, Lara, 2016), remains in the budget. Throughout 2023, Cal Cities will focus on implementing [SB 54](#), landmark single-use plastic legislation enacted in 2022.
 - [Nick Romo](#), Legislative Affairs, Lobbyist
- **Governance, Transparency, and Labor Relations:** Cal Cities is focused on modernizing the Brown Act and ensuring flexibility for local governments in hiring retired annuitants, while opposing legislation that could impact CalPERS returns, such as legislation to divestment from certain industries.
 - [Johnnie Pina](#), Legislative Affairs, Lobbyist
- **Housing, Community, and Economic Development:** The Governor's proposed 2023-24 budget reduces funding for housing programs, including the Dream For All Program, CalHome Program, and Accessory Dwelling Unit Program. Cal Cities will continue to monitor and advocate for sustainable funding for affordable housing, while also monitoring restrictions on local land use authority, changes to development fees, and potential changes to [SB 35](#) (Wiener, 2017), which requires local governments to streamline certain housing projects.
 - [Jason Rhine](#), Assistant Director, Legislative Affairs
- **Public Safety:** The Governor's proposed 2023-24 budget prioritizes addressing the substance use crisis with nearly \$100 million to respond to fentanyl use, while also planning to close several state prisons and related prison facilities. Cal Cities will continue to monitor issues such as initiatives to change Proposition 47, emergency

medical services efficiencies, emergency preparedness/response, and behavioral health.

- [Elisa Arcidiacono](#), *Legislative Affairs, Lobbyist*
- **Revenue and Taxation:** Cal Cities is committing to preserving existing local revenue streams and bolstering local fiscal sustainability. Cal Cities is strongly opposed to the [California Business Roundtable ballot measure](#) that would restrict new or increased taxes and jeopardize local fiscal sustainability and is actively monitoring introduced legislation that would create new tax exemption programs that would reduce local tax revenues.
 - [Jessica Sankus](#), *Senior Policy and Legislative Affairs Analyst*
- **Transportation, Communications, and Public Works:** Cal Cities is working with the California Air Resources Board to draft new language for its proposed Advanced Clean Fleets regulations, local and state transportation funding, broadband expansion, and recycled water.
 - [Damon Conklin](#), *Legislative Affairs, Lobbyist*

IV. **Cal Cities 2023 Advocacy Priorities**

The [2023 Advocacy Priorities](#) were presented to the committee. The Cal Cities 2023 Advocacy Priorities are as follows:

1. Protect and expand investments to prevent and reduce homelessness.
2. Increase the supply and affordability of housing while retaining local decision-making.
3. Improve public safety in California communities.
4. Safeguard essential local revenues and support fiscal sustainability.

V. **2023-24 State Legislative and Budget Review**

Cal Cities staff Jessica Sankus provided the committee with an update regarding [pending legislation](#) related to finance administration, taxation reform, revenue needs, and revenue sources.

- [AB 26 \(Fong\)](#) Personal Income Tax Law: exclusion: federal student loan debt relief plan. *Cal Cities Position: Watch.*
- [AB 39 \(Grayson\)](#) Digital financial asset market: regulatory oversight. *Cal Cities Position: Watch.*
- [AB 52 \(Grayson\)](#) Sales and Use Tax Law: manufacturing equipment: research and development equipment. *Cal Cities Position: Pending.*
- [AB 53 \(Fong\)](#) Motor Vehicle Fuel Tax Law: suspension of tax. *Cal Cities Position: Watch.*
- [AB 84 \(Ward\)](#) Property tax: welfare exemption: affordable housing. *Cal Cities Position: Watch.*
- [SB 1 \(Glazer\)](#) Personal Income Tax Law: exclusions: student loan forgiveness. *Cal Cities Position: Watch.*

Ahead of the February 17 deadline for legislators to introduce legislation, Jessica Sankus provided a forecast of key issues in the Revenue and Taxation policy portfolio for city officials.

Proposed 2023-24 State Budget

Cal Cities staff Jessica Sankus provided an overview of the Governor's proposed 2023-24 state budget. On the heels of an unprecedented budget surplus during development of the 2022 Budget Act, the state now forecasts a shortfall of \$22.5 billion in fiscal year 2023-24. The state assumes continued but slowing economic growth and stops short of assuming a recession in the near future. The Governor's proposed \$297 billion state budget for the 2023-24 fiscal year does not draw from the state's reserves to address the forecasted deficit. Instead, the budget is balanced with a combination of funding delays, shifts, and reductions. The Governor cites ongoing investments in the state's financial reserves and appropriating most of last year's historic surplus to one-time investments as the reason why the budget avoids deep reductions to ongoing programs.

Certain reductions to balance the budget are tied to an optimistic "trigger" that would restore funding for these programs in the 2024-25 Governor's Budget if sufficient funding is available at that time. Cal Cities is monitoring the effects of the Federal Reserve's recent monetary policy changes to address inflation nationally, the impacts of which may materialize also over long, extended periods of time. The state's fiscal and economic forecast will be updated in May when the Administration releases the revised budget proposal.

An analysis of the proposals included in the proposed 2023-24 state budget by policy area is included on the [Cal Cities website](#).

Cal Cities 2023-24 State Budget Requests

Cal Cities staff Jessica Sankus shared that Cal Cities is calling on Governor Newsom to appropriate \$3 billion in the 2023-24 state budget, and annually thereafter, to support cities' efforts to reduce homelessness and increase the supply of housing. Cal Cities is also urging the state to address the nearly \$1 billion backlog of state-mandated program costs owed to local governments. Finally, Cal Cities calls on the state and Legislature to safeguard local revenues and support local governments' fiscal sustainability in 2023-24 and beyond.

Cal Cities outlined the organization's state budget priorities in a letter sent to the Governor's Office in [December 2022](#).

Guest Speaker: Lourdes Morales, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

Chair Bourbeau introduced Lourdes Morales, a Principal Fiscal and Policy Analyst with the Legislative Analyst's Office (LAO). The LAO is the Legislature's nonpartisan fiscal policy advisory office. Lourdes' portfolio includes local government, housing, homelessness, state and local realignment, and state-mandated local programs. Lourdes provided the committee with an overview, analysis, and insight regarding the Governor's 2023-24 state budget.

The LAO describes the Governor's overall proposed budget-balancing solutions as prudent, particularly the decision to not use the state's reserves at this time, because the LAO estimates that there is a high probability that revenues will be lower at the time of the May Revision. The LAO recommends that the Legislature scrutinize the Governor's package of budget-balancing solutions (programs cut, paused, or delayed) and develop an alternative approach that is more conservative and includes more reductions across the multi-year period.

More information regarding the Legislative Analyst's Office's analysis of the Governor's 2023-24 state budget is [published on their website](#).

VI. California Business Roundtable Ballot Measure Update

Cal Cities staff Nicolas Romo provided the committee with an update regarding the status and fiscal impacts of the "Taxpayer Protection and Government Accountability Act," sponsored by the California Business Roundtable, a ballot measure that recently qualified for the 2024 November general election ballot.

The initiative adopts new and stricter rules for raising state and local taxes, fees, assessments, and fines/penalties, limits voter authority and accountability, and significantly jeopardizes public services. Any new or increased tax or fee adopted by the Legislature, a city council, or the local voters after January 1, 2022, would have to comply with the measure's Act's new rules.

Cal Cities, in addition to several other organizations, [announced strong opposition to the ballot measure on February 2, 2023](#).

VII. City Managers Sales Tax Working Group Update

Cal Cities staff Nicolas Romo and Jessica Sankus reminded the committee that the Sales Tax Working Group (working group) of the City Managers Department is convened to review evolving trends, explore policy implications, and identify additional data to support reform discussions. The working group convenes a diverse and representative group of California city officials dedicated to examining local government sales tax issues to provide recommendations that equitably benefit California cities, further fiscal sustainability, and strengthen the viability of the sales tax.

Throughout 2022, the working group explored existing law, regulations and practices regarding tax sourcing rules including state and national trends. The working group has given significant attention to reforming tax sourcing rules and tax rebate agreements. The working group has also identified additional issues within county pool allocation policy.

Given the growing consensus to develop recommendations on several matters, while more time is needed to support a robust discussion on broader tax sourcing rules, the working group has identified two phases for its work – short- and long-term actions. As

part of the first phase of the working group's work plan it has recommended a guiding definition of equitable e-commerce sales tax revenue distribution.

In January 2023, the working group adopted a guiding definition of equitable e-commerce sales tax revenue distribution for the Revenue and Taxation policy committee and Board of Directors consideration. This guiding definition contextualizes equity within the evolving landscape of consumer preferences, technological advances, and the needs of cities. The proposed framework is considered critical to forming recommendations that further fiscal sustainability and strengthen the viability of the sales tax.

Additionally, as part of the first phase of the working group's work plan it has identified and adopted changes related to the following topics to allow for more direct reporting of use taxes related to construction projects to jurisdictions where the construction activity is located:

Construction Jobsite Sub-Permit Allocations

Pursuant to Local Sales and Use Tax Regulation 1806, the jobsite is the place of sale for fixtures that a construction contractor purchases for resale and the place of use for the consumption of materials. Local tax generated by the sale or use of tangible personal property at construction sites is added to the countywide pool.

There are special allocation procedures for use taxes collected on certain products. Generally, these special allocation rules allow use tax revenue that would otherwise be shared via the countywide and statewide pools to be directly allocated to the jurisdiction of use. Existing California Department of Tax and Fee Administration policy provides that contractors who enter into contracts equal to or greater than \$5 million may elect to obtain a sub-permit for the jobsite.

Large Out-of-State Transactions

Pursuant to Local Sales and Use Tax Regulation 1802(d)(1), retailers shall report the local use tax for transactions of \$500,000 or more to the participating jurisdiction where the first functional use is made.

The policy recommendations took into consideration the conversations, feedback, and survey responses of the working group members conducted throughout 2022. The working group benefited from the research and guidance of Cal Cities partners HdL Companies and Avenu Insights and Analytics.

Proposed Changes Developed by the Working Group

The changes proposed by the group are as follows:

Construction Jobsite Sub-Permit Allocations

- *Require, rather than optionally permit, contractors to submit appropriate documentation for direct allocation when eligible.*
- *Lower the \$5 million threshold to \$1 million.*

Large Out-of-State Transactions

Lower the \$500,000 threshold to \$100,000.

VIII. Adoption of 2023 Policy Committee Work Plan

To establish the committee's 2023 work program, the members completed a priority survey. Cal Cities Staff tabulated the results that were presented for approval by Chair Bourbeau. In addition to contributing to the 2023 Advocacy Priorities, the Revenue and Taxation Policy Committee developed a work program to better understand, discuss, and act on the following issues:

- Infrastructure funding.
- Sales Tax – the Committee will receive regular updates from the Sales Tax Working Group, including a timeline of events and deliverables.
- Streamlining of state grant funding opportunities.
- The Committee will partner with the Governance, Transparency, and Labor Relations Policy Committee to take an active role in addressing unfunded pension liabilities.

IX. Adjourn

Chair Bourbeau thanked the committee for their hard work and engagement said some closing remarks. Chair Bourbeau then adjourned the meeting.