

**CONTENTS**

- LEGISLATIVE REVIEW / **CALIFORNIA SUMMER RECESS IS BETWEEN JULY 17 AND AUGUST 17**
- TRANSPORTATION TAXES; SPECIAL SESSION
- DOF CONFIRMS TRIPLE FLIP WIND DOWN IS EXPECTED TO BEGIN IN JULY
- MANDATE REIMBURSEMENTS (DOF "EXECUTIVE ORDER") / 2015-16 LIST OF SUSPENDED MANDATES
- BOE COMPLIANCE POLICY & PROCEDURES MANUAL; ELECTRONIC TRANSFER FUNDS FOR LOCAL GOVERNMENTS (CHAPTER 8)
- COLLECTION MECHANISM FOR PREPAID WIRELESS REVENUES (AB 1717); BOE BUSINESS TAXES COMMITTEE HEARING ON 9/16/15
- COLLECTING ON-LINE SALES REVENUES: REMOTE TRANSACTION PARITY ACT (HR 2775) & MARKETPLACE FAIRNESS (S. 698)
- CONCERN W/ INTERNET TAX FREEDOM ACT (S 431) & IMPLICATIONS FOR LOCAL VOTER-APPROVED TELECOMMUNICATION REVENUE
- CALIFORNIA CITY FINANCE ANALYSIS: USE OF AVIATION FUELS BY LOCALS/ FAA RE-RULING
- ENTRY LEVEL CABLE RATE INCREASES WILL BE ALLOWED WITHOUT LOCAL APPROVAL
- FEDERAL PROPOSALS

**LEGISLATIVE REVIEW****Sales Tax**

- Raises the cap on the local transactions and use tax from 2% to 3% above the statewide base rate (**AB 464/ Mullin**)
- Prohibits revenue sharing agreements causing loss to other locals; public notice requirements (**SB 533/Pan**)
- Broaden the tax base by imposing a sales tax on services; does not allow an increase sales tax on services for local voter-approved district taxes (**SB 8/ Hertzberg**)
- Sales tax exemption for energy or water efficient home appliances; includes local loss (**AB 88/ Gomez**)

**Post Redevelopment / Economic Development**

- Budget trailer bill on redevelopment dissolution opposed by many local governments' (**AB 113**) (*hearing cancelled*)
- Allows redevelopment successor agencies to spend proceeds from bonds issued by former redevelopment agencies in 2011 (**AB 974/ Bloom**)
- Enhanced Infrastructure Financing Districts; clarifying implementation requirements (**AB 313/ Atkins**)
- Allows locals to form Community Revitalization and Investment Authorities to administer economic development and affordable housing programs (**AB 2/ Alejo**)

**Hotel Taxes and Short Term Rentals**

- Advertiser of an online platform or Internet Web site must have property owner's permission (**SB 761/ Hall**)

**Local Governance**

- Prohibits a local from imposing a fine for a brown lawn during a state of emergency (**AB 1/ Brown**) (*chaptered*)
- Parking car share vehicles; local ordinance to set up mechanism for payment (**AB 1015/Bloom**)
- Requires a LAFCO to review a contract or agreement for new or extended fire service outside of an existing service area (**SB 239/ Hertzberg**)
- Private parking facilities; authorized uses included in ordinances (**AB 451/Bonilla**)
- Medical marijuana and regulating; allows counties to impose a tax (**AB 266/Bonta and SB 643/ McGuire**)
- Cap-and-Trade spending for 'disadvantaged and low-income communities' (**AB 156/Perea**)
- Automated license plate recognition systems/ requirements for local agencies for use of data (**SB 34/Hill**)
- FTB City Business Tax Program; data exchange, expand program to counties (**AB 279/ Dodd**)
- Relates to formulas for calculating VLF adjustments to include the assessed property valuation within inhabited territory annexed to cities (**AB 448/ Brown and SB 25/ Roth**)
- Extends time period for fiscal transaction reporting from 110 days to 7 months (**AB 341/ Achadjian**) (*chaptered*)
- Safe Neighborhood Parks, Rivers, and Coastal Protection Bond Act of 2016, \$2.45 billion bond on the 11/16 ballot (**SB 317/ De Leon**)

**CA TRANSPORTATION TAXES / SPECIAL SESSION**

- The Governor called a special session to enact permanent and sustainable funding to maintain and repair the state's transportation and critical infrastructure, improve the state's key trade corridors and complement local infrastructure efforts. Caltrans maintains 50,000 lane-miles of highway and nearly 13,000 state-owned bridges. The current fuel excise tax is sufficient to fund only \$2.3 billion of work leaving \$5.7 billion in unfunded repairs each year
- **SB 16 (Beall)** provides increase in various transportation related taxes to fund roads, bridge repairs and freight mobility at ports; among other provisions sets aside 5 percent of revenue to support counties that pass sales and use taxes to fund transportation projects after July 1, 2015; **SB 321 (Beall)** changes the method (to 4 years of historical data) used by the BOE to adjust the excise tax on fuel each year as part of the "gas tax swap"

**DOF CONFIRMED TRIPLE FLIP WIND DOWN EXPECTED TO BEGIN MID-JULY 2015; BONDS TO BE "DEFEASED"**

The DOF confirmed earlier in July they are expecting a "defeasance" date sometime later this month. At the time of print we are pending notice from the DOF. The below are the expected steps:

- BOE returning to 1%; DOF alerts the BOE. BOE then has **90 days** to return to the 1% local tax rate, but can only return to 1% on the **1st of the 1st month of a calendar quarter**; the earliest date the BOE can return to the 1% local tax rate then becomes **January 1, 2016**
- First 1% allocation: 1st advance portion of the **March 2016** payment
- Calculating the in-lieu of sales tax: The BOE will calculate the property tax in-lieu of sales tax in **January and May 2016** along with true ups and administrative fees covering **FY 2014-2015**
- Property tax in lieu revenues: Provided via the respective County as per current procedures for receipt of the property tax in lieu of sales tax process
- Final true-up: The State will need to make one final true-up after the end of the FY 2015-2016 (**June 2016**). This final true-up payment is planned to come from the **DOF** directly to cities and counties in **August 2016**

**MANDATE REIMBURSEMENTS (DOF "EXECUTIVE ORDER") / 2015-16 SUSPENDED MANDATES**

**Principle and Interest Payments:** While not directly as a result of the 2015-16 State Budget, the DOF sent an "executive order" to the State Controller for the reimbursement of costs incurred in complying with state unfunded mandates prior to 2004. The Controller issued payments for the principle owed (around June 22) and payment for the interest owed is expected by September 2015, after the Controller's office recalculates and verifies amounts estimated by DOF. Under Proposition 1A which MuniServices supported the State had until 2012-21 to pay the mandate reimbursements to cities prior to 2004 and the 2014 Budget included \$100 million repayment on the amounts owed (payments were made in August 2014). The 2014 Budget provided for additional repayments if revenues in the Governor's 2015 May Budget Revision exceed estimates. The May Revision determined that sufficient additional revenues were received to repay the entire remaining balance of reimbursements owed, approximately \$765 million including interest. Of the \$765 million, approximately 77 percent would be directed to counties, 22 percent (\$168 million) to cities and 1 percent to special districts. The "executive order" is on MuniServices' website at <http://www.muniservices.com/services/government-relations>. **Suspended Mandates:** The DOF on July 14 issued its list of 56 state mandates suspended in the FY 2015-16 Budget Act. The DOF letter is on MuniServices' website at <http://www.muniservices.com/services/government-relations>.

**BOE PROPOSED CHANGES TO COMPLIANCE POLICY & PROCEDURES MANUAL; ELECTRONIC TRANSFER FUNDS FOR LOCAL GOVERNMENTS**

**Comments are Due August 24, 2015:** The BOE on June 24 notified "interested parties" regarding a proposed addition to CPPM, Chapter 8 with respect to the ETF program. The proposed changes outline the process for a local government to participate. Currently, jurisdictions (cities, counties, and special taxing jurisdictions) have the option of receiving their local sales, transactions, and use tax payments by paper warrant or by EFT. Those jurisdictions choosing to receive a paper warrant will receive their warrant through the U.S. Postal Service. The BOE issue paper is posted on MuniServices' website at <http://www.muniservices.com/services/government-relations>. Interested party comments can be emailed to [CPPM.RevisionSuggestions@boe.ca.gov](mailto:CPPM.RevisionSuggestions@boe.ca.gov).

**CONCERN W/ PROPOSED INTERNET TAX FREEDOM ACT (S 431) & IMPLICATIONS FOR LOCAL VOTER-APPROVED TELECOMMUNICATION REVENUE**

A permanent Internet Tax Freedom Forever Act, as permanently written, would have a very significant adverse impact on cities' existing UUT on telecommunications. In 2007, the federal moratorium forbidding local and state taxes on Internet services was amended to also forbid such taxes on telecommunication services which are used to gain access to Internet services (in other words, broadband telecommunications). Today, wired and wireless broadband telecommunication networks are rapidly replacing the old public switched telecommunication network. Unless S 431 is amended, California UUT cities will suffer large losses of existing telecom UUT. A number of California cities are banding together to urgently request their two US Senators that S.431 be amended to include an exception for voter-approved excise taxes, like our UUTs. California is the only state with a voter-approval requirement and that has local excise taxes on telecommunications. Such an amendment would prevent a federal pre-emption or override of our state Constitutional requirement of voter-approved local taxes.

**COLLECTION MECHANISM FOR REVENUES FROM PREPAID WIRELESS (AB 1717 / BOE BUSINESS TAXES COMMITTEE HEARING ON 9/16/15)**

**The BOE Business Taxes Committee will consider proposed implementation language on September 16, 2015.** AB 1717 was enacted last year to solve a tax collection problem associated with prepaid wireless, which was by-passing our local UUT and certain state taxes and fees. Under the new statute, our local taxes will be collected by retail stores and online sellers, and remitted to the BOE, which will then remit the local tax to the UUT public agencies, as it does the sales tax. The wireless providers will directly remit the UUT on prepaid sales to the UUT public agencies. One of the areas of controversies surrounding AB 1717 was the BOE's estimated cost of implementation. Through our involvement, we were able to recommend a cost saving measure to the BOE, the Governor, and legislators, and this measure was recently accepted proposed "clean-up". AB 1717 will require implementation of the new tax collection measures on January 1, 2016. It is important for UUT cities to first verify that their UUT ordinances are valid and would apply to prepaid wireless services. [Note: A number of older UUT ordinances are in litigation over whether they could be applied to wireless due to an outdated reference to the federal excise tax.]

**REMOTE TRANSACTION PARITY ACT (HR 2775) & MARKETPLACE FAIRNESS (S. 698)**

There are multiple proposals before Congress that attempt to advance online sales tax collection. The current tax structure for online sales creates vast disparities between brick and mortar businesses and online retailers, and costs state and local governments an estimated \$23 billion per year in taxes owed on remote sales. HR 2775, The Remote Transactions Parity Act, is bipartisan legislation that would not impose a new tax, but would enable state and local governments to compel retailers to collect and remit sales taxes on online sales, which are already owed to them under current law. HR 2775 is similar to the proposed Federal Marketplace Fairness Act of 2015 (S. 698) that would permit states to require vendors with more than \$1 million in gross receipts from remote sales to collect sales tax on purchases made by state residents if the state adopts and implements specified simplification requirements. Both S. 698 and HR 2775 are supported by MuniServices, the National League of Cities, Governance Finance Officers Association, National Association of Counties, and the US Conference of Mayors. We share in concerns to an alternative proposal (by House Judiciary Committee Chairman Bob Goodlatte), the Online Sales Simplification Act that proposes an origin-based sourcing sales tax collection and remittance structure.

**USE OF AVIATION FUEL / FAA RULING AND IMPACT ON THE USE OF LOCAL REVENUES/ COST TO THE STATE'S GENERAL FUND**

A FAA re-interpretation of a ruling that requires states and locals to target jet fuel revenue for the benefit of airports, or lose revenues has a compliance requirement of 2017. The rule does NOT apply to taxes in effect on December 31, 1987 including the local Bradley Burns 1.25% rate or the 4.75% state general fund rate in effect at the time. However, several other state rates are affected as well as most local transactions and use tax rates. The revenues affected include about \$53 million of State revenues, including \$35 million allocated to local programs, and \$24 million of local revenue from local add-on rates. MuniServices representatives have been part of stakeholder meetings and asked to notify clients on this issue and to contact respective Congressional Representatives as appropriate and as soon as possible with concerns and impact. We encourage clients to refer to California City Finance at <http://californiacityfinance.com/FAA150701.pdf> for a broader analysis on the ruling.



**FCC CHANGE TO ALLOW BASIC CABLE RATE INCREASES WITHOUT LOCAL APPROVAL**

The FCC on June 2, 2015 adopted a rule that will allow cable companies to raise rates for basic cable without first seeking approval from local governments. Under the FCC's rule change, local franchise officials' authority over basic-cable rates is diminished. Cities and counties will be given a 90-day window to appeal and request an extension of their authority. ([www.fcc.gov](http://www.fcc.gov))

**FEDERAL PROPOSALS**

- Pre-empt state and local taxing authority to impose supposed 'discriminatory' taxes on automobile rentals and property related to renting automobiles (**H.R. 1528**)
- Digital Goods and Services Tax Fairness Act would reduce state and local revenues by pre-empting the taxation of purchases such as downloaded music, movies and online services (**S. 851 and H.R. 1643**)
- Wireless Telecommunications Tax and Fee Collection Fairness Act of 2015 would prohibit state and local taxing authorities from requiring an entity to collect or remit wireless use tax unless the entity collecting or remitting the tax receives monetary or other consideration from the wireless customer (**S. 1261 and H.R. 1087**)
- Wireless Tax Moratorium (no bill at this time)